Pillar 3 disclosures
Willis Towers Watson Securities Europe Limited
For the year ending 31st December 2018

Introduction

The Capital Requirements Directive IV and the associated Capital Requirements Regulations (**CRR**) (together, **CRDIV**) were implemented across Europe on 1st January 2014. CRD IV established a European regulatory capital framework governing the amount and nature of capital that investment firms must maintain, and introduced new requirements on remuneration.

In the UK, CRDIV has been implemented by IFPRU, the Prudential Sourcebook for Investment Firms. The new regulatory framework is based on three pillars:

- **Pillar 1** covers the calculation of risk weighted capital requirements for credit risk, market risk, and operational risk, as well as a Fixed Overheads Requirement.

- **Pillar 2** allows firms and supervisors to take a view on whether the firm should hold additional capital to cover Pillar 1 risks, or to cover other risks faced by the firm. This is achieved through the firm's Internal Capital Adequacy Assessment Process (**ICAAP**) and is subject to annual review.

- **Pillar 3** requires us to develop a set of disclosures which allow market participants to assess key information about our underlying risks, risk management controls and capital position.

This document fulfils the firm's disclosure requirement under Pillar 3. We update and publish our Pillar 3 disclosures in our statutory accounts. Should there need to be a material change to the contents of our disclosure, the Board of Directors would publish an interim Pillar 3 statement.

The firm

Willis Towers Watson Securities Europe Limited (**WTWSEL**, the **firm**) is incorporated in the UK and is authorised and regulated by the Financial Conduct Authority (**FCA**) to carry out certain regulated activities relating to corporate finance business. For the purposes of the FCA's prudential requirements, we are categorised as an IFPRU Limited Licence 50k firm, and are not a Significant IFPRU firm. We are supervised prudentially on a solo basis, that is, we are not part of a consolidation group.

The firm is a wholly owned subsidiary of Willis Faber Limited which in turn is ultimately owned by Willis Towers Watson, a NASDAQ-listed global advisory, broking and solutions company.

Capital Adequacy

As an IFPRU €50k limited licence firm we are required at all times to meet the following three ratios, the percentage relating to the firm's total risk exposure amount:

1. A Common Equity Tier 1 capital ratio of 4.5%
2. A Tier 1 capital ratio of 6%
3. A total capital ratio of 8%

The risk exposure amounts to which we are currently subject are credit risk, and the fixed overheads requirement (FOR) to the extent that it exceeds credit risk. We keep this under review, and in particular are aware that any non-sterling exposures will attract a position risk calculation. They are calculated as follows:

1. **Credit risk** – we use the standardised approach to credit risk and as such use the credit rating of each of the debtors on our balance sheet to determine their credit risk. Typically we apply a 1.6% or a 8% haircut on our debtors, depending on whether they are regulated entities and / or have a credit rating.
2. **Market risk** – we do not have any trading positions, and as such the only market risk to which we are exposed relates to the non-sterling balances on our balance sheet. These attract a 8% haircut.
3. **FOR** – our FOR is calculated as 25% of our fixed audited costs.

Our capital position is detailed in the table below. The figures are taken directly from the company's balance sheet as shown in the audited financial statements for the year ended 31st December 2018:

	Pillar 1 (£000)	**Pillar 2 (£000)**
Own funds base requirement	45	-
Credit & Market Risk	113	-
Foreign exchange Risk	-	-
Fixed Overhead Requirement	428	-
Pillar 1 total	428	-
Pillar 2 risk – default of parent company	-	-
Pillar 2 total	-	-
ICAAP Capital	**428**	
Current total capital	**501**	
Surplus	**73**	
Common Equity Tier 1 Capital ratio	**9%**	
Tier 1 Capital ratio	**9%**	
Total Capital ratio	**9%**	

Our capital consists of share capital and retained earnings.

Risk Management and Governance

Our Board of Directors is responsible for the overall management of the firm, and in particular it considers, approves and oversees the implementation of the firm's strategy, risk management processes, and internal governance, and ensures that there is an effective segregation of duties and robust conflicts management. Naturally, the firm's governance structure is in part shared with the wider Willis Towers Watson Group, for example the Group Audit Committee, the Internal Audit function, and the group risk function.

Our Board is comprised of four Directors who together represent a broad base of skills, knowledge and experience, including Capital Markets, Reinsurance and Finance.

The Board is able to demonstrate a proactive approach to risk management which is aligned to the firm's business activities and strategies. It has defined and put in place a Risk Appetite statement, reviewed frequently (or when a material change occurs), which sets out the firm's appetite for capital and liquidity risk. We use this analysis to inform our annual ICAAP review. We also use it to determine the impact of any new business activity, capital expenditure, new office, or significantly amended product or service, paying particular attention to our ability to continue to meet our own funds requirement. We would not progress with any of these initiatives if they did not fall within our stated risk appetite.

Risk exposures for the other categories of risk are monitored though the risk register process, in advance of each quarterly Board meeting, whereby the CEO goes through each risk with the Risk

Officer, and updates the risk register and Board accordingly. Key changes and observations are noted and commented on where appropriate in either or both of the CEO Report and Risk Report, both of which are presented to the WTWSEL Board. The Board prepares capital and liquidity projections to demonstrate current and future exposures, and presents these at each board meeting.

As part of our ICAAP process, we review our Pillar 1 capital set aside to meet our credit risk, market risk and fixed overhead requirement and compare this with any additional capital requirement identified for Pillar 2 purposes or if stress tests show any capital shortfalls. The higher of Pillar 1 and Pillar 2 is set aside as our internal capital requirement.

Set out below is a summary of our main risks:

Credit risk

Credit risk is the risk of loss arising from default by a counterparty on a balance due to the firm.

A significant proportion of the debtors on our balance sheet are inter-company positions, and in particular to our group services entity. Willis Towers Watson has a large and robust balance sheet, and as such we consider it unlikely that our inter-company debtors would default.

We retain our cash balances at a UK-based bank which is authorised by the Prudential Regulatory Authority and has a current Fitch credit rating of 'A+'. The bank account was opened in accordance with Group Treasury's on-boarding policy, and the bank's creditworthiness is centrally monitored on an ongoing basis.

Our remaining debtors are our clients, and broadly relate to fees that have been incurred but not yet invoiced / paid. We have a variety of client types; many of whom are regulated, some have a credit rating, and some are both or neither. We consider the creditworthiness of our clients on an ongoing basis, demonstrated by the fact that historically we have not had to write off any bad debts with respect to clients.

In accordance with the Pillar 1 requirements, we calculate either a 1.6% or 8% haircut on our debtors.

Market Risk

Market risk is the risk of losses related to on-and off-balance sheet positions arising from movements in market prices of assets, interest rates or exchange rates.

We earn fees in a number of different non-base currencies and are therefore subject to movements in foreign exchange rates. Our non-sterling balances have historically been relatively low. If, however, our foreign exchange risk became more significant we would offset this exposure by putting in place an intercompany loan swap with the Group Treasury function, fully mitigating this risk.

Liquidity Risk

Liquidity risk is the risk that the firm does not have sufficient financial resources to meet its obligations as they fall due and cannot secure additional resources.

We maintain a highly liquid position where liquid resources exceed the expected liabilities of the firm. The firm's liquid position is managed at group level, although we retain sufficient cash balances in a ring-fenced bank account in our own name to fund the expected cost of an orderly wind-down, should the need arise.

<u>Operational Risk</u>
Operational risk is the risk of loss to the firm resulting from inadequate or failed internal processes, people and systems, or from external events.

As a securities firm, we face a number of risks of an operational nature. The main ones are set out below:

- **Legal and Regulatory risk** – our legal and compliance responsibilities are identified and managed by a combination of the Board, Compliance Officer, Money Laundering Reporting Officer, Group Compliance, Group Counsel, and if needed external legal and regulatory advisers.
- **Key Person risk** – the risk of us not being able to attract and retain individuals of a high calibre is mitigated by having in place competitive remuneration packages and long-term incentive plans. As well, we aim to foster an attractive working environment, and to deal effectively with any staff issues or concerns.
- **Poor advice resulting in an Errors & Omissions (E&O) claim** – our recruitment process and training & competence processes help to ensure that we have high calibre employees, and that our advice is accurate and fit-for-purpose. Further, our standard engagement letters include extensive indemnification provisions, and provisions which limit the reliance that can be placed on our advice, and therefore limit the circumstances in which an E&O claim can be successfully brought against the firm.
- **Fraud and theft** – the firm has a strong control framework to minimise the chance of the firm being used as a vehicle for fraud, or being a victim of theft. Controls in place include background checks on all employees, an effective segregation of duties with respect to payments, and strong physical security controls.

An over-arching mitigating control with respect to all of our operational risks is the extensive group professional indemnity insurance policy in place.

<u>Business risk</u>
Business risk is defined as the risk to the Company arising from changes in its business, including the risk that the Company may not be able to carry out its business plan and its desired strategy.

Our business model focusses on the provision limited advisory and arranging activities relating to Insurance Linked Securities and other financial instruments, and limited corporate finance advice to professional clients. We do not propose to materially alter this in the short to medium-term. Rather, we expect that the firm will grow organically. Any decision to enter into new markets or to expand our service offering would only be made if the impact did not fall outside of our risk tolerances.

Remuneration disclosures
The aim of the Remuneration Code is to ensure that firms have risk-focused remuneration policies, which are consistent with and promote effective risk management and do not expose them to excessive risk. We are required to make certain disclosures about our remuneration structures; however, given the small size of the firm our disclosures have been limited to protect confidentiality requirements.

Under the FCA's Remuneration Code in SYSC 19.A, we are categorised as a Proportionality level 3 firm. This category allows us to apply the Code's requirements in a manner which is proportionate to the size, nature and complexity of our business (in some cases, we can disapply parts of the remuneration principles entirely).

Our remuneration structures are designed to ensure that they comply with the principles of the Remuneration Code which apply to us. All individuals are remunerated by way of a fixed annual salary, and may also be eligible to receive incentive-based remuneration. Inclusion in a particular incentive plan is dependent upon a number of eligibility criteria, such as the seniority of the individual. Annual cash bonus plans are entirely discretionary, and the amount that is paid out is typically linked to revenue and profitability of the firm and / or Group in the year in question. The size of the pay-out pool of the group's long-term incentive plans is ordinarily defined by a pre-determined formula, linked to certain financial metrics. When pay-out is in the form of a share award, the vesting period can differ. In exceptional circumstances, retention awards are offered to incentivise, typically senior, individuals to remain in the group's employment. Senior individuals may also be eligible for other share and cash-based awards. Decision-making authority with respect to the size of bonus pools (including whether adjustments should be made if the performance of the firm or wider group is weak or loss-making) and individual awards rests ultimately with WTW's CEO, with the support of the group Remuneration Committee and the senior management teams of each group entity.

We consider the maximum ratio between these fixed and variable components of remuneration to be appropriate.