

# MFS International (U.K.) Limited

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## Pillar 3 Disclosure for the year ended 31<sup>st</sup> December 2018

### Introduction

The EU Capital Requirements Directive (CRD) introduced consistent capital adequacy standards and an associated supervisory framework in the EU. This framework consists of three pillars:

- Pillar 1 sets out minimum capital requirements for a firm;
- Pillar 2 sets out the Internal Capital Adequacy Process (ICAAP) through which a firm and the regulator satisfy themselves as to the adequacy of capital; and
- Pillar 3 requires disclosure of certain information about a firm's capital and risk assessment process.

The Pillar 3 disclosures in this document are made in respect of MFS International (U.K.) Limited ("MIL UK" or "the Company") in accordance with the Financial Conduct Authority's (the "FCA") "Prudential Sourcebook for Banks, Building Societies and Investment Firms" (BIPRU), specifically BIPRU 11.3.3R.

The Company will be making Pillar 3 disclosures at least annually, unless an interim update to the most recent ICAAP is issued in response to substantial changes in the nature of its operations, or material adverse market movements.

This disclosure will be published at [www.mfs.com](http://www.mfs.com)<sup>1</sup>.

The information contained herein has not been audited by the Company's external auditors, does not constitute any form of financial statement.

### Background

MIL UK is a Private Limited Company, incorporated in England and Wales. It is authorised and regulated by the Financial Conduct Authority and as such is subject to minimum regulatory capital requirements. The Company is categorised as a BIPRU €50k Limited Licence Firm by the FCA. The Company is not a member of a consolidated group for FCA reporting purposes.

MIL UK is a wholly-owned, indirect subsidiary of Massachusetts Financial Services Company ("MFS"), a US-based investment firm and fund manager.

### Risk Management Framework

Business strategy is determined by senior management of the MFS Group's US based parent, Massachusetts Financial Services Company ("MFS"). Risk appetite and the corresponding risk management framework are determined by the Board. Determination of how identified risks may be mitigated and arrangements to manage those risks are considered during this process.

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<sup>1</sup> Institutions & Consultants page of [www.mfs.com](http://www.mfs.com)

The governance framework of the firm deploys adequate and consistent policies, procedures and controls across its operations. This framework provides the infrastructure for managing risk. Key components of this framework include:

- MFS has in place a number of functional committees, which are responsible for the oversight of regulatory activities. These committees are comprised of MFS employees who have relevant subject matter expertise. Each committee attempts to resolve issues brought to its attention. MFS also maintains three supervisory committees, to which MFS' functional committees report relevant matters: the Internal Compliance Controls Committee (ICCC), the Enterprise Risk Committee and the Investment Management Committee.
- MIL UK's senior management and other personnel participate in, or are represented on, various committees, including the Policy Committee, Error Resolution Committee, Trade Oversight Committee, Privacy Committee, and AML Committee. Through participation in this committee infrastructure MIL UK can ensure that key requirements are achieved.
- The Company's risk appetite is set through the MFS group-wide risk appetite statement and an extensive series of policies. MFS' conservative risk appetite is reflected in a commitment to a comprehensive and robust policy framework that defines acceptable standards across many activities. The policy framework is governed by MFS' Committee Structure.
- The Board meets on a quarterly basis and discussions include risk and regulatory capital management of the Company. The Board's process is formally documented in the Company's ICAAP at least annually. In the event that the nature of the Company's operations change substantially, or material adverse market movements limit the usefulness of the information contained in the most recent ICAAP document, the Board may issue an interim update accordingly.

## Capital Resources

The Company's capital resource position, as at 31 December 2018, is summarised as follows:

	<b>£,000</b>
<i>Total tier 1 capital after deductions</i>	
Permanent share capital	1,996
Retained earnings plus OCI	<u>46,427</u>
<i>Total tier 2 capital after deductions</i>	-
<i>Total tier 3 capital</i>	-
<b>Total capital after deductions</b>	<b>48,423</b>

The Company's capital resources comprise Tier 1 capital only with no Tier 2 or Tier 3 capital.

## Capital Resources Requirement

The minimum capital to be held by the Company is the higher of the requirement calculated under Pillar 1 and Pillar 2.

## Pillar 1

Investment firms such as MIL UK are required to maintain a minimum level of capitalisation in accordance with Pillar 1 of the EU Capital Requirements Directive.

MIL UK's Pillar 1 capital requirement consists of a "variable capital requirement" calculated in accordance with GENPRU 2.1.45R (Calculation of the variable capital requirement for a BIPRU firm). The variable capital requirement for a BIPRU firm is the higher of (i) the sum of the Market and Credit Risk Requirement and (ii) the Fixed Overhead Requirement (FOR). As a BIPRU Limited Licence firm, MIL UK's variable capital requirement does not include an Operational Risk element.

As at 31 December 2018, MIL UK's variable capital requirement consisted of its Fixed Overhead Requirement of £8.4m.

### Credit Risk:

Credit risk is the risk of financial loss if a customer or counterparty fails to meet its contractual obligations. In calculating the Company's Credit Risk Requirements, the simplified approach has been adopted.

### Market Risk:

As MIL UK does not operate a trading book, its market risk is substantially limited to the impact of short term foreign exchange fluctuations on its non-Sterling denominated currency holdings and accounts receivable.

BIPRU 11.4 provides that firms may omit certain disclosures on the basis of materiality, to the extent their omission or misstatement would not change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions.

Detailed disclosure of Credit Risk and Market Risk has been excluded on the basis of materiality.

## Pillar 2

Pillar 2 requires the Company to consider whether it should hold additional capital against risk not covered in Pillar 1. This is implemented through the Internal Capital Adequacy Assessment Process (ICAAP). The Company's most recent ICAAP was approved by the Board on 13<sup>th</sup> December 2018.

Through the ICAAP, MIL UK senior management and the Board have undertaken an analysis of material risks typically faced by investment management firms to determine whether the Company is adequately capitalised to absorb the financial impact of such risks materialising.

The following risks were examined as part of the ICAAP process:

### Stress tested

Business risk  
Reputational risk

Keyman risk  
Legal & regulatory risk  
Operational risk  
Liquidity risk  
Interest rate risk

### Not stress tested

Credit risk  
Market risk  
Insurance risk

### Not applicable

Pension obligation risk  
Securitisation risk  
Residual risk

A number of specific risk scenarios were identified and modelled in the context of the risks outlined above. The projected financial impact of these risks materialising forms the basis for calculation of the Company's Pillar 2 Capital Requirement.

*Exclusions*

MIL UK does not rely on third party guarantors in relation to client receipts or settlements and as such, residual risk was excluded accordingly.

The Board believes that the current level of insurance coverage is adequate and is secured from strong, well-capitalised firms. On this basis, insurance risk has not been examined in the context of Pillar 2.

As MIL UK does not operate a defined benefit pension plan, or undertake any securitisation activities, pension obligation risk and securitisation risk have been excluded from this analysis.

The Board considers the current level of capitalisation sufficient to sustain the projected impact of the identified risks materialising.

**Remuneration Code Disclosure**

A copy of the Company's FCA Remuneration Code Disclosure document will be made available upon an appropriate request.

**MFS International (U.K.) Limited**

April 2019