Sumitomo Mitsui Trust (UK) Limited
Pillar 3 Disclosures
September 2018

Introduction

The legislative framework, the Capital Requirements Directive IV (CRD IV), commonly referred to as Basel III, governs how much capital financial institutions must hold to protect their clients' assets in the event of an economic downturn, and was introduced by the European Union from the beginning of 2007. In the United Kingdom, this is being implemented by the financial regulator, the Financial Conduct Authority (FCA).

Sumitomo Mitsui Trust (UK) Limited (SMTUK), is subject to minimum capital requirements, and actively monitors risk factors that could impact on the firm and create potential losses that can arise as part of its day to day functioning. The aim of the risk management function within the firm is to identify and mitigate risk factors that impact on the specific business model that is carried out on behalf of all clients, and also with respect to the firm's own capital. SMTUK's aim is to ensure that clients' assets are protected by carefully choosing counterparts, and cautiously marshalling capital and assets under custody.
As part of the CRD, financial firms are required to disclose key pieces of information relating to their business, and their financial condition, such as capital, risk exposures and risk assessment processes. 'Pillar 3 complements the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2)'. Its aim is to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on a firm's capital, risk exposures and risk assessment processes. The disclosures are to be made to the market for the benefit of the market'.

Illustrative Example:

Capital Requirements Directive		
Pillar 1	Pillar 2	Pillar 3
Minimum Capital Requirements	Supervisory Review Process	Disclosure

The CRD consists of three pillars:

Pillar 1 - The minimum capital requirements of firms to cover credit, market and operational risk;

Pillar 2 - Designed to complement the existing Pillar 1 requirements by assessing the need to hold additional capital under a more risk based assessment; and

Pillar 3 - A set of disclosure requirements which enable the market to assess information on firm's risks, capital and risk management procedures.

1. Scope

The detailed assessment of the requirements under Pillars 1 and 2 are carried out within the firm's Internal Capital Adequacy Assessment Process (ICAAP). This document deals with the requirements laid down for Pillar 3 (Disclosure) and the information provided here is in accordance to the rules laid out in the FCA Handbook BIPRU Chapter 11. All figures within this document are correct as at 30th September 2018 unless stated otherwise. The FCA rules governing Pillar 3 disclosures provide that the Group may choose not to disclose information which is not material. The Group may also choose not to disclose information if it is proprietary or confidential, though it must state if any such items have been omitted (BIPRU 11.3.7).

1.1 Basis of disclosure

The FCA has laid out in its rules (specifically BIPRU 11.2.2) that firms should report on extended subgroups (or affiliates) known as significant subsidiaries if appropriate. SMTUK previously owned a subsidiary, SMT Fund Services (UK) Limited, but this company was wound up in 2016 so is no longer in existence. In July 2018, a nominee company was incorporated, SMT Nominees (UK) Limited. The sole purpose of this company is to register the fund of fund holdings and is a wholly owned subsidiary for SMTUK. As this company does not carry out any regulated activities, this report covers SMTUK only.

1.1a Frequency

The firm will make Pillar 3 disclosures annually, shortly after SMTUK accounts have been audited as at the Accounting Reference Date (ARD) of 30th September.

1.1b Format
The Pillar 3 Document is published on SMTUK's website.

1.1c Application
The information contained within the Pillar 3 disclosure has not been audited by any external party, and therefore does not constitute any form of financial statement and must not be relied on when carrying out any analysis on the firm.

1.2 Scope of Application
- Disclosed by Risk Management Officer and the Compliance Manager;
- Wholly owned subsidiary of Sumitomo Mitsui Trust Bank Limited , Tokyo;
- 125k IFPRU Limited License firm, Part 4A Permissions approved by FSA (predecessor to the FCA) on 01/12/2001, FCA number 149699;
- Due to the nature of the business, appropriate to use the standard approach for calculating risks; and
- No material impediments to the transfer of capital or repayment of liabilities.

The figures below represent the net assets of SMTUK Group and are accurate as at 30th September 2018:

Name of entity	Net Assets £million
Sumitomo Mitsui Trust (UK) Ltd	11.15

1.3 Disclosure Policy
SMTUK has a formal policy in place that assesses the appropriateness, verification and frequency of disclosures. The information disclosed in this report is accurate as of the end of September 2018, and future disclosures and updates will be made on this report where practicable, but not more frequently than annually.

1.4 Risk Management Objectives and Policies
SMTUK is part of the SuMi Trust Group's 'Global Asset Services' group. Global Asset Services (GAS) is the branded name of Sumi Trust's core business unit, providing an umbrella structure of services covering global custody, trustee, fund establishment and related services through a number of associated companies.

SMTUK's corporate headquarters are located at 155 Bishopsgate, London, EC2M 3XU has 67 employees and is divided into separate organisational elements to provide for effective management and segregation of duties.

SMTUK Governance

The Board of SMTUK has overall responsibility for business and strategy. The Board of SMTUK is committed to a robust control environment throughout the organisation, is accountable for risk and is responsible for oversight of the risk management process for SMTUK. The members of the Board meet on a quarterly basis and regularly reviews the key risks that SMTUK faces and by fully understanding each risk, the associated mitigating actions and overall control environment, the Board can be comfortable with the management of those risks.

In order to assist the Board of SMTUK in discharging its wider responsibilities, it has established an organisational structure which reflects the nature of the risks across the business. Responsibilities are then allocated to the various functions according to the 'three lines of defence' model as follows:

- Primary responsibility for managing risks rests with the business function (i.e. Client Relationship teams and Operational teams).
- Risk management and control functions (Risk and Compliance) are responsible for ensuring that the risk policies and practices are consistent with the risk appetite of the Board of SMTUK and are maintained on an ongoing basis.
- Audit functions have the tertiary responsibility for providing the Board of SMTUK with assurance that the business operates effectively in managing its risks.

The Board is also responsible for setting the structure, terms of reference and limits of authority of SMTUK's other committees. The Board receives a summary report, quarterly, from the Risk and Audit Committee, the CASS Committee and the Compliance Committee and if necessary the Board may request additional reports or meetings as deemed necessary.

2.0 Risk Management by Risk Category and Analysis

SMTUK's risk management focuses on the main areas of operational, credit and market risks. SMTUK has clear management objectives and policies to mitigate each category of risk. These include processes to identify, measure, monitor and manage and ultimately mitigate risk.

Operational risk

The foundation of SMTUK operational risk policy is the desire to:

- Protect the firm's staff and customers;
- Protect the firm's position and reputation as provider of high quality products and services;
- Protect and enhance the firm's shareholder value through lowering the levels of operational loss from both large events and smaller more frequent incidents, improving competitive advantage through working to improve the efficiency and effectiveness of procedures and controls, and increasing our ability to react to and manage operational incidents when they occur; and
- Meet all regulatory obligations.

For the purpose of this document, operational risk is defined as “the risk of financial loss or damage to reputation resulting from inadequate or failed internal processes, controls, people and systems or from external events, excluding market or credit risk events”.

Operational risk is inherent in all SMTUK activities, from client interface to the processing of client transactions and all the related internal supervisory activities. It can occur in any of the firm's business units and can result from errors, omissions, natural disasters and deliberate acts such as fraud. The definition of operational risk excludes business/strategic risk, and risks associated with trading, market, and liquidity and credit functions. Separate policy statements cover these areas.

As the firm has moved away from traditional banking and trading activities to more service-driven, fee-based activities that provide stable lower volatility income with higher return on capital employed, such as custody and asset administration, there is less market and credit risk and a higher concentration of operational risk.

SMTUK maintains a robust organizational and risk management framework whose key features currently include the following:

- The Chief Executive Officer of SMTUK has sole responsibility for Apportionment and Oversight and is the nominated FCA Approved Person in that regard.
- SMTUK's Board of Directors consists of five members (one Executive Director and four Non-Executive Directors). The Board meets at least four times a year and has formalised standing instructions.
- SMTUK has an Executive Committee that consists of the Chief Executive Officer, one Executive Manager, the Chief Operating Officer, the Head of Operations, the Financial Controller and Risk Management Officer, the Oversight and Compliance Manager, and the Operational Support Manager. This Committee meets monthly when the Board does not sit and is charged with managing the organisation in a sound, prudent and ethical manner in accordance with the strategic goals set by the Board of Directors. There is a formal terms of reference for this Committee which is reviewed regularly and updated as appropriate.
- The CASS Committee focuses on the firm's safekeeping and administration services in regard to the client asset and client money regulations. The CASS Committee is made up of the CEO, The CF10a, the Chief Operating Officer, the Oversight and Compliance Manager and other staff closely involved in the CASS processes undertaken by the firm. There is a formal terms of reference for this committee which is reviewed and updated if necessary annually.
- SMTUK has a Risk and Audit Committee who's members include the CEO, The Chief Operating Officer, a Non-Executive Director and the Risk Management Officer.
- Additionally, SMTUK have a Compliance Committee who's membership includes the CEO, a Non-Executive Director, the Chief Operating Officer and the Oversight and Compliance Manager. There is a formal terms of reference for this Committee which is reviewed regularly and updated as appropriate.
- As outlined, SMTUK also has an Operational Risk Committee that plays a key role (in addition to the above Committees) in the organisational and risk management framework.
- SMTUK's Risk Management Functions operate independently of operational areas.
- SMTUK has an Operational Risk Management Policy which has been approved by the Board of Directors.
- Operational Risk Management has responsibility for developing the operational risk management framework, monitoring the effectiveness of company-wide operational

risk management and consulting with business areas to assist in the identification of risk and establishment of appropriate controls.

- Documented procedures for each Department exist, which incorporate both operational procedures and prescribed internal controls.
- This Committee meets on a regular basis and receives reports of all operational exceptions, and any special reviews undertaken by Risk Management Function. The Committee then agrees remedial action plans, where appropriate, to amend controls and procedures to prevent those operational exceptions reoccurring. There is a formal terms of reference for this Committee which is updated on an annual basis.
- An Operational Risk Forum monitors each recommendation proposed after an operational incident and confirms when it has been completed to the satisfaction of the firm's senior management with the CEO having final sign-off to closure.
- Operational Risk assessments/registers are reviewed annually and map possible operational events (based on the Basel level 1 - 3 level event types) for each department and gives them a risk rating based on the likelihood of the event happening and the impact from both an inherent and residual basis. The final risk score for each identified event is considered and an overall operational risk amount is calculated for Pillar 2. Where gaps in control are identified within the annual risk assessments an action plan is put in place or a moderator note explains why no further action is currently planned. This could be because the risk is accepted by the firm against it's risk appetite.

The firm also maintains insurance against a number of major operational risks, but this is not included in any mitigating factors of operational risk areas.

Credit risk / Counterparty risk

Credit risk refers to the potential risk that arises from customers failing to meet their obligations as they fall due. SMTUK acts in an agency capacity for its Global Custody business and its main credit risk relate to the collection of custody revenue. These fees are collected regularly by SMTUK and it is therefore highly unlikely that there would be a build-up of significant levels of unpaid custody fees with any particular client. The Finance Department creates regular cash flow forecast and working cash flow projections which highlight any particular bill that is not repaid, and clients not paying are closely monitored and chased for payment. To this point there has been no client who has seriously underpaid or not credited SMTUK when requested to so by the Client Relationship team.

Counterparty risk is seen as the possibility that monies on deposit with other institutions are not able to be accessed. SMTUK now holds all its capital on deposit with the London Branch of its parent company, Sumitomo Mitsui Trust Bank Limited ('SMTB'). SMTB is rated as A1 as per Moodys long term credit ratings.

In June 2018, SMTUK obtained significant additional borrowing from SMTB which it has placed internally with them on deposit. This is in order to satisfy BIPRU 12 requirements so that funding is immediately accessible. This has the effect of reducing the liquidity risk but increases the impact on credit risk and is reflected in the reported figures.

Banking risk

SMTUK was released from its banking obligations in 2005; therefore risks relevant to the banking environment are not encountered.

Market risk

SMTUK's inherent market risk exposure has been low since the termination of its proprietary trading activities a number of years ago. Currently SMTUK's principal exposure to market risk will relate to the fact that a significant portion of SMTUK's revenue is received in non-base currency, but its expenditure base is predominantly Sterling. SMTUK has mitigated these risks through currency hedges and continues to operate an active FX management process, where these risks are mitigated to an acceptable tolerance level.

Reputational risk

SMTUK acknowledges the inherent reputational risks that every organisation is exposed to, in addition to the regulatory risks which all UK regulated firms face. SMTUK manages this risk through the work of its Compliance and Internal Audit Functions and through the organisational framework.

Insurance risk

No Insurance risk known.

Concentration risk

Concentration risk is seen as one of the most apposite risks the firm faces, given that its client base is relatively small and concentrated mainly in Japan. Approximately 70% of all business originates from the Asia Pacific region, and approximately 15% of business from one particular client. It is clear that this could create potential problems in one of two ways, either if the Japanese market took a downturn, or the loss of one major client. The firm is aware of this, and continually strive to expand the amount and jurisdiction of clients taken on, thus diluting the concentration effect of clients and jurisdictions on an ongoing basis.

Residual risk

Residual risk, as per the FCA definition, means the risk that credit risk mitigation techniques used by the Firm prove less effective than expected.
As SMTUK does not offer credit or employ credit mitigation techniques, this risk is not applicable.

Securitisation risk

The firm has no securitisation.

Business risk

The main business risk relates to obligations stemming from administration agreements with clients. The most pressing of these are:

- To provide reporting on a timely and regular basis.
- To carry out AML/KYC to the agreed level on new funds.
- Meeting obligations inherent in the custody agreement, including transmission of settlement, cash and corporate action instructions.

This is the basis of SMTUK's operation, and were these functions not able to be carried out, there is a risk that the business would not be profitable, or could start to lose clients, making the business non-viable. Currently the firm experiences stable costs, rising revenues, and good client retention.

Interest rate risk

Aside from its borrowings from the Group, SMTUK do not have any significant borrowing from the market therefore there should be no concomitant risk from a movement in interest rates.

Pension obligation risk

SMTUK provides a non-contributory pension scheme for its staff. This is operated on a contribution only basis, and therefore the performance of these pensions are dependant on the staff selection of their securities.

Any other risks identified

In the course of preparing this report, no other relevant risks were identified.

Methodology and assumptions

All of the assumptions made in this report are based on standardised modeling. SMTUK uses standardised regulatory models for capital adequacy and other calculations.

Stress and scenario tests applied

SMTUK uses the standard approach. It was felt that simulations relating to non-linear products and gapping of prices were not appropriate as the standard model is used throughout. There was no business-unit specific planning or stress testing as SMTUK operates a single custody unit

3.0 Capital Resources

SMTUK is wholly owned by Sumitomo Mitsui Trust Bank, Tokyo. The Company has £1.8m of ordinary share capital with the remaining resources invested in short term deposits with its parent company, Sumitomo Mitsui Trust Bank Limited.

Tier 1 Capital Resources £millions as of 30 September 2018

	SMTUK London
Gross	11.15
Deductions	-
Net	11.15

The Company doesn't have any Tier 2 or Tier 3 Capital as of 30 September 2018.

4.0 Capital Adequacy

SMTUK is categorized as a '125k IFPRU Limited Licence' firm. This means there is a base capital requirement to keep at least 125,000 Euros as a financial buffer, separate from any proprietary funds, in order to ensure that the firm will continue to operate should there be a downturn caused either by 1.) a financial downturn in the market or 2.) the loss of income from a major client.

The FCA further prescribe that the Company's Pillar 1 capital should be the higher of a) sum of market risk and credit risk or b) its Fixed Overhead requirement. Pillar 2 of the CRD is the 'challenge' stage, whereby the regulator investigates the Pillar 1 requirement, and then adjusts it to reflect the firm's specific circumstances. In 2017, the FCA completed their SREP review and have issued our Pillar 2 Individual Capital Guidance as 537% of Pillar 1 capital which is reported annually to the FCA against the firm's capital resources through its FSA019 return.

The firm's actual capital base is above the level required by the FCA and this is monitored and reported to the Board on a regular basis. As mentioned above, SMTUK confirms annually to the FCA that the amount of capital considered adequate for the nature, scale and complexity of the firm's activities is in line with its Internal Capital Adequacy Assessment Process (ICAAP).

5.0 Credit risk and dilution risk

The purpose of SMTUK's credit risk management policy is to ensure that the collection of custody revenue is done in a prompt and efficient manner. This involves completing regular reconciliations of fee income outstanding and chasing up with the relevant clients.

SMTUK uses a standardized approach following the revised COREP requirements issued by the European Banking Authority.

Ageing of fee income	
	SMTUK Group £millions
Overdue one month or less	Nil
Overdue > two months	Nil
Split of aged fee income Group and Third Party funds	
	SMTUK Group £millions
Group	Nil
Third Party	Nil
Split of aged fee income by fund domicile	
	SMTUK Group £millions
Japan	Nil
Europe	Nil
USA/Canada	Nil

6.0 Counterparty risk

The purpose of the counterparty risk management policy is to ensure a competitive low risk return on deposits held in various financial institutions.

SMTUK has a Corporate Treasury policy in place which only allows investment in institutions which are above investment grade. The minimum rating required is defined by Moodys Long term as A2. This is monitored by SMTUK Finance Department on a regular basis and if any institutions were to fall below this grade, the deposits would be removed as soon as is practicable.

SMTUK places all its working capital deposits with its parent company, Sumitomo Mitsui Trust Bank Limited. The rates are regularly monitored and compared to other financial institutions to ensure that they are competitive.

Note: The figures are as of 30 September 2018 but the credit ratings have been obtained based on the publication date of this report.

Split of cash - broken down by rating	
Moodys Rating	SMTUK Group £millions
A1	69.2
A2	-
None available	-
Total	69.2

Assigned risk weighting of 20%

Split of cash – broken down by maturity	
Maturity	SMTUK Group £millions
1 month or less	69.2
Between 1 and 3 months	-
Between 3 and 6 months	-

7.0 Market risk

The purpose of SMTUK's Market risk management policy is to ensure that foreign exchange fluctuations driven by the receipt of non base currency income is minimized. SMTUK conducts this through a hedge management policy.

SMTUK uses the prescribed calculation as per the European Banking Authority where net exposures in each currency are adjusted for currency forward contracts and the higher of the net long or net short position is used.

SMTUK £'000

						Sep-18					
	USD	JPY	EUR	NZD	AUD	CAD	NOK	ZAR	TRY	PLN	Total
Cash	262	63	68,489	1	1	0	0	0	1	0	68,818
Debtors	1,688	251	6,709	35	170	3	14	10	0	0	8,879
Other	-515	1	(8)	0	0	0	0	0	0	0	-521
Accruals	(14)	0	(74,858)	0	0	0	0	0	0	0	-74,872
	1,421	**315**	**333**	**36**	**171**	**4**	**14**	**10**	**1**	**0**	**2,304**
	Long	**Long**	**Long**	**Long**	**Long**	**Long**	**Long**	**Long**	**Long**	**Long**	
						Sep-18					
	USD	JPY	EUR	NZD	AUD	CAD	NOK	ZAR	TRY	PLN	Total
Cash	262	63	68,489	1	1	0	0	0	1	0	68,818
Debtors	1,688	251	6,709	35	170	3	14	10	0	0	8,879
Other	-515	1	-8	0	0	0	0	0	0	0	-521
Accruals	-14	0	-74,858	0	0	0	0	0	0	0	-74,872
FX Exposures	(1,227)	(486)	(468)	(102)	(516)	0	0	0	0	0	-2,798
	194	**-171**	**-135**	**-66**	**-345**	**4**	**14**	**10**	**1**	**0**	**-494**
	Long	**Short**	**Short**	**Short**	**Short**	**Long**	**Long**	**Long**	**Long**	**Long**	
			Sum of	Long	223						
			Sum of Short		*-716*	*This is the highest so take this as MR*					

As a 125K Limited Licence firm, SMTUK does not hold a trading book and hence no other market risk applies.

8.0 Exposure to interest rate risk in the non-trading book

Due to the nature of SMTUK's business and the fact that it does not hold a trading book, interest rate risk is not an identified concern.

9.0 Remuneration

In accordance with the FCA's Remuneration Code, as an IFPRU 125K Limited License firm the firm is subject to proportionality 'level 3' remuneration code requirements.. This means that whilst it applies all of the appropriate principles in the code, it does so with a level of proportionality, and dissaplies some of the requirements of the policy as a whole, specifically those relating to deferred and split payments; voiding and recovery.

The FCA defines Remuneration Code Staff (Code Staff") as senior management, risk takers, staff engaged in control functions, and any employee receiving total remuneration that takes them into the same remuneration level as the other code staff, and whose professional activities have an impact on the firms risk profile.

In total the firm has designated 9 staff as code staff throughout the year. This represents those people in the organization who are in 'Significant Influence Functions' – that is to say those staff that are registered with the FCA as their positions within the firm are considered 'significant functions' by the FCA. It was not felt appropriate to register additional 'risk-takers' as code staff, as the firm does not provide financial advice, carry out customer trading or carry out proprietary dealing.

Due to the size and nature of the firm, on a risk basis the firm has not set up a remuneration committee, and overall the level of pay of those in positions of significant influence is set with respect to average level of pay for staff in those positions industry wide, and increases in pay are incremental, taking in to account the RPI index. Overall the levels of remuneration do not take any member of staff over the threshold limits for Code Staff.

Any bonus payments are made strictly in line with the firm's management contribution i.e. profit after all operating expenses, liquidity requirements and ongoing expenses are taken into account.

The aggregate amount of remuneration paid to all code staff in the 12 months ending 30 September 2018 was GBP 927,951.

10.0 List of sources and attribution

https://www.handbook.fca.org.uk › handbook › BIPRU › 5.pdf