

SEI Investments (Europe) Limited  
Pillar 3 Disclosure

February 2012

## Overview

The European Union's Capital Requirements Directive ("CRD") has introduced a revised regulatory capital framework governing the amount and nature of capital that must be maintained by financial institutions. In the UK the directive has been implemented by the Financial Services Authority ("FSA") through the BIPRU sourcebook. The new framework consists of three 'pillars':

- Pillar 1 specifies the minimum amount of capital required to cover credit, market and operational risk
- Pillar 2 requires an assessment to be made of whether additional capital is required over and above that required in Pillar 1, and is specific to each firm.
- Pillar 3 introduces public disclosure designed to promote market discipline by providing market participants with key information on a firm's capital, risk exposures and risk assessment process.

## Scope

SEI Investments (Europe) Limited ("SIEL") was incorporated with limited liability in England and Wales on 30 April 1999 and is authorised and regulated by the FSA. SIEL is categorised as a €125k limited licence firm for capital purposes. SIEL is not subject to consolidated reporting requirements.

SIEL has the following regulatory permissions

- Advising on investments (except on pension transfers and pension opt outs)
- Agreeing to carry on a regulated activity
- Arranging (bringing about) deals in investments
- Arranging safeguarding and administration of assets
- Dealing in investments as agent
- Making arrangement with a view to transactions in investments
- Managing investments
- Safeguarding and administration of assets (without arranging)

## Business Planning and Risk Appetite

SIEL's business planning process is combined with its ultimate parent company's, SEI Investments Company ("SEI"), planning process. SEI plans one year in the future through a planning process that initially focuses on global business units and which then consolidates the business units forecasts and capital and resource requirements and allocates them on the basis of type of activity and geographic nexus to the legal entities comprising its corporate group. The SIEL planning process is determined by incorporating portions of the corporate plan specific to SIEL to generate a full year projection that is included in the quarterly board report. Any revenue or expense items

that are unique to SIEL and not part of the corporate plan, are reviewed individually and a one year forecast is determined by using historical data and adjusting for various factors and assumptions as deemed appropriate by management. The plan is reviewed by senior management during the quarterly board meetings. All business functions and senior management of both SEI and SIEL are involved in the planning process.

SIEL prepares a three year business plan for the sole purpose of its capital management process. The plan is prepared primarily using historical trends and rates and any other material information to predict future results. The Board of SIEL is ultimately responsible for the business planning, risk appetite and for the risk management process within SIEL. The Board of SIEL believes that the risk management process for SIEL is appropriate given its size and the nature of its business.

SIEL will tolerate a moderate degree of operational risk as determined by the operating committee. SIEL currently will tolerate only a moderate degree of operational risk, as is required in supporting the normal day to day operations of the business. The Board intend SIEL to enter a period of long term growth whilst avoiding unnecessary risk, including specifically:

- No proprietary trading
- No holding of investment positions for its own account unless absolutely necessary for business strategy reasons;
- Maintain adequate resources throughout the organisation to ensure effective process and controls are in place to mitigate and identify any potential risk; and
- No actions or activities that might give rise to a negative customer outcome or experience outside of agreed risk tolerance

SIEL also attempts to mitigate against financial loss through the use of professional indemnity insurance. This insurance ensures that if a claim is made against SIEL in the conduct of any professional services carried out by or on behalf of the Company, the insurer will indemnify all losses for which SIEL becomes legally obligated to pay. Professional services are defined as services rendered or which ought to have been rendered for or on behalf of a customer or client of the company for a fee, commission or other remuneration or consideration that inures to the benefit of the company.

## Risk Management Process

SIEL has an Operating Committee comprising of the senior managers within the business. During the risk management process, each member of the Operating Committee identifies those risks that pose a threat to the business operations of SIEL. These risks are logged onto a risk register. All risks are assessed as to the significance of the event and the likelihood of occurrence to determine the scale of the risk. These risks are assessed at regular intervals and the Board will be updated of any material changes at the quarterly Board Meetings. The risk management process is approved annually by the Board.

## Material Risks

SIEL has supplemented the risk management process defined above to meet the needs of the Internal Capital Adequacy Assessment Process (“ICAAP”). A process has been built to identify which risks are relevant for the ICAAP. Those risks were evaluated and the necessary procedures were used to enable appropriate quantification of these risks.

The risk register has been reviewed to determine which risks should be included in the ICAAP calculation on the basis of the appropriateness of capital as a strategy for the treatment of risks. Those risks that were rated high or extreme by the operating committee were reviewed for ICAAP purposes.

Each of the risks chosen for inclusion in the ICAAP analysis was classified into a specific risk category. Based on the risk category, it was determined which risks fall within the definition of Pillar 1 risks (Market, Credit or Operational Risk), and which should be defined as non-Pillar 1 risks.

The non-Pillar 1 risks were evaluated on the premise that additional capital would be considered a control measure at reducing SIEL’s exposure to that risk. Only those risks that capital would be an effective control measure would be included in the ICAAP calculation.

For each risk chosen to be included in the ICAAP calculation, a more detailed assessment of materiality was undertaken, based on the likelihood of a risk occurring within a one year horizon, and the financial impact of the risk occurring given the controls in place.

The following material risks have been identified by SIEL

- SIEL is developing a new business strategy to provide back office and custodial services to individual wealth advisors. This business is currently in the developmental stage and accounts for a material percentage of the total revenues generated by SIEL. There is a potential risk of continued market acceptance. There is a significant financial exposure associated with this line of business. SIEL has dedicated resources servicing this new business.
- SIEL has a significant relationship with three clients. These clients account for a material percentage of the total revenues generated by SIEL. There is significant financial and reputational exposure associated with these clients.
- SIEL is subject to potential operational errors due to nature of the business.
- SIEL revenues are earned as a percentage of the average assets under management which fluctuate due to volatility in the securities markets. A significant and prolonged market downturn would depress the revenues of SIEL. Additionally, most of the costs of SIEL are fixed in the form of personnel costs that if revenues were significantly reduced could result in lower margins or operating losses.

The Board can confirm that these risks are within SIEL’s risk appetite.

## Capital Requirement

The following table summarises the components of the Pillar 1 and Pillar 2 capital figures for comparative purposes:

|  | <b>Pillar 1<br/>Minimum<br/>Capital<br/>£'000's</b> | <b>ICAAP<br/>Pillar 2<br/>Capital<br/>£'000's</b> |
|--|---|---|
| (1) Credit Risk  | £889  |   |
| (2) Market Risk  | £645  |   |
| Operational Risk   | N/A   |   |
| (3) Fixed Overhead Requirement (FOR)                               | £5,931  |   |
| <b>Higher of (1) + (2) or (3)</b>                                  | <b>£5,931</b>                                       |   |
| <b>Base Capital Requirement (minimum capital floor)</b>            | <b>£110</b>   |   |
| <b>Pillar 1 Total</b>  | <b>£5,931</b>                                       |   |
| <br>   |   |   |
| <b>Individual Capital Guidance at 135% of Pillar 1 Requirement</b> | £8,007  |   |
| <br>   |   |   |
| Pillar 2 Risk 1 (Concentration)                                    |   | £1,286  |
| Pillar 2 Risk 2 (Economic)   |   | £426  |
| Pillar 2 Risk 3 (Product)  |   | £639  |
| Pillar 2 Risk 3 (Operational)                                      |   | £525  |
| <b>Current Pillar 2 Capital Requirement</b>                        |   | <b>£2,876</b>                                     |
| <br>   |   |   |
| <b>Total Capital Requirement</b>                                   |   | <b>£10,883</b>                                    |
| <br>   |   |   |
| <b>Total Capital (at 31 December)</b>                              |   | <b>£22,255</b>                                    |
| <br>   |   |   |
| <b>Surplus (Total Capital less Total Capital Requirement)</b>      |   | <b>£11,372</b>                                    |

## Management of the ICAAP

The approach of the firm to assessing the adequacy of its internal capital to support current and future activities is contained in the ICAAP. An assessment is made of the probability of occurrence and the potential impact, in order to arrive at a level of required capital, as relevant. SIEL stress tests future impact by considering SIEL's forecast for three years in order to address the worst case scenario.

SIEL's ICAAP is formally reviewed by the Board on an annual basis, but will be revised should there be any material changes to SIEL's business or risk profile.