LONDON TREASURY LIMITED

MIFIDPRU 8 Disclosure

2023

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1. INTRODUCTION

London Treasury Limited ('LTL') is a UK investment firm authorised and regulated by the Financial Conduct Authority ('FCA'), undertaking activities within the scope of the UK Markets in Financial Instruments Directive ('MIFID'). LTL is subject to the prudential requirements of the Investment Firms Prudential Regime ('IFPR'), which is contained within the MIFIDPRU Prudential Sourcebook for MIFID Investment Firms of the FCA Handbook.

LTL offers investment management and treasury management services specifically to UK Local Authorities. It is wholly owned by the Greater London Authority Holdings Limited which itself is wholly owned by the Greater London Authority ('GLA'); a statutory corporation established in 2000 under the Greater London Authority Act 1999. LTL operates on a cost recovery basis, with its net operating expenses covered from the investment management fees received from its client, the London Treasury Liquidity Fund LP ('LTLF'), for its regulated activities and from the GLA for the treasury management services it provides to the GLA and its functional bodies. The firm has de-minimis capital requirements as, under agreed terms, the GLA grants LTL access to its office resources including accommodation, hardware and software. The accounting of LTL is carried out on a non-consolidated basis. LTL is a private limited company, incorporated in England and Wales under number 11035820.

1.1. BASIS OF DISCLOSURE

Under the IFPR, a MIFIDPRU investment firm is required to publish disclosures on an individual firm basis in accordance with the rules set out in MIFIDPRU 8.

LTL is classified as a non-small and non-interconnected ('non-SNI') FCA investment firm and is subject to the standard requirements of MIFIDPRU. LTL is required to provide a level of detail in its disclosures that is appropriate to its size and internal organisation, and to the nature, scope, and complexity of its activities.

This MIFIDPRU 8 disclosure is published on an annual basis and is based on the financial position as at LTL's year end, 31 March. The disclosures are required to be published on the date of publication of the annual financial statements.

1.2. Validation and Approval

These disclosures have not been audited by LTL's external auditors, do not constitute any form of audited financial statement and have been produced solely for the purposes of the public disclosure requirements and are not used by management for any other purpose. These disclosures should not be relied upon in making assessments or judgements about LTL.

These disclosures have been subject to internal review and oversight as part of LTL's governance.

The included disclosures are:

- Risk Management Objectives & Policies
- Governance Arrangements
- Own Funds
- Own Funds Requirements
- Remuneration Arrangements

2. RISK MANAGEMENT OBJECTIVES AND POLICIES

2.1. Overview

The FCA requires that a regulated business takes reasonable care to organise and control its affairs responsibly and effectively with adequate risk management systems. To do this, LTL has implemented a Risk Management Framework (‘RMF’).

The RMF underpins the approach to risk and control across the organisation. The corporate governance and internal control arrangements are designed to mitigate and manage risks to a level acceptable to LTL. The Board considers risk management and an effective system of internal control to be vital to achieving the firm’s objectives and safeguarding the interests of both LTL and its clients. The RMF is approved by the Board. The implementation and operation of the RMF is the responsibility of the Executive Committee.

The RMF sets out the standards and requirements for risk management, risk oversight and risk assurance at LTL. The RMF aims to ensure that LTL manages and controls its risks effectively. It also informs, and is directed by, LTL’s business strategy to which risk management considerations are integral.

2.2. Three lines of defence

LTL operates a ‘three lines of defence’ governance model as described below. This ensures clarity over responsibility for risk management, risk oversight and risk assurance. It ensures segregation of duties between those who take on risk, those who oversee risk and those who provide assurance.

2.2.1. First line of defence

The heads of each department have day-to-day ownership and responsibility for the identification and management of risks and controls across the processes they operate. Staff responsibilities are clearly set with appropriate segregation of duties between departments. LTL seeks to employ experienced, skilled and knowledgeable individuals, and promotes a culture of continuing professional development.

2.2.2. Second line of defence

The Risk & Compliance function provides advice, support, oversight and independent assurance that risk management policies and procedures are operating effectively and efficiently and that risk exposures are managed within the risk appetite set by the Board. On at least an annual basis, the CRO assesses the effectiveness of the RMF and reports conclusions and any required actions to the Board.

2.2.3. Third line of defence

The Internal Audit function is responsible for the independent verification of the design and operation of the controls established by the first and second lines of defence. LTL's model for internal audit assurance is delivered through an outsourced model where all internal audit services are provided by Group Internal Audit, which is discharged by MOPAC, one of the GLA's functional bodies. The Internal Audit function provides the senior management and the Board with an independent assessment of the RMF effectiveness on a periodic basis.

2.3. Risk Appetite

The risk appetite statement defines the level and type of risk that LTL regards as appropriate and is prepared to accept in the pursuit, and achievement, of its strategic objectives and business strategy, taking into account the interests of its clients, shareholder and other stakeholders, as well as capital and other regulatory requirements. LTL's appetite for risk forms part of the basis against which business and financial decisions are taken. LTL has a fairly conservative appetite for risk and seeks to manage its risks through effective processes and controls.

LTL's Board determines the business strategy and risk appetite of the company, focussing on the main areas of operational and business risk, and having regard to relevant laws and regulatory requirements. The Board also has the ultimate responsibility for the development of appropriate strategies, systems, and controls for the management of risks within the business. LTL's approach to risk appetite, including the risk appetite statement and key risk indicators ('KRIs'), is subject to annual review and approval by the Board, and forms part of the annual ICARA review and approval process. However, the risk appetite statement and KRIs are updated where required between annual reviews to ensure their continued relevance following changes in underlying assumptions, such as market conditions, business structures and capacity. The Senior Management team meets on a regular basis to discuss key business issues, including current projections for profit, cash flow, regulatory capital management, business planning and risk management.

LTL's overall risk appetite is low.

2.4. Own Funds Requirements

LTL must at all times maintain own funds that are at least equal to its own funds requirement ('OFR'), The OFR for LTL is the highest of its:

- Permanent Minimum Requirement ('PMR')
- Fixed Overheads Requirement ('FOR'), and
- K-Factor Requirement ('KFR')

Based on its activities, the only K-Factor requirement applicable to LTL is the K-AuM, which is calculated on the basis of the assets under management (‘AUM’) of a MIFIDPRU investment firm in accordance with MIFIDPRU 4.7. The K-AuM is equal to 0.02% of a firm’s average AUM, calculated by:

- taking the total AUM as measured on the last business day of each of the previous 15 months,
- excluding the 3 most recent monthly values, and
- calculating the arithmetic mean of the remaining 12 monthly values.

LTL receives regular cash flow forecasts from the Limited Partners participating in LTLF and is therefore able to assess any impact a significant increase or reduction of AUM will have on its OFR.

2.5. Concentration Risk

Concentration risk may arise where LTL’s earnings are overly reliant on one or more large client relationships or the ongoing success of particular investment strategies. LTL’s earnings come from the investment management fees received from LTLF for its regulated activities and from the GLA for the treasury management services it provides. LTL is committed to increasing the number of Limited Partners participating in LTLF, thereby reducing the concentration risk of a significant Limited Partner on its investment management fee earnings. The Board has concluded that, whilst it is currently dependent on the earnings it receives from the GLA, the limited level of diversification of earnings does not represent an unacceptably high level of concentration risk.

In addition, concentration risk may arise if LTL’s own cash is overly exposed to one counterparty. The Finance team manages the cash positions, and the investment team monitors counterparty credit quality and exposures daily, with any exceptions immediately escalated to management. Overall, the diversification applied to LTL’s cash does not result in an excessive level of concentration risk.

2.6. Liquidity Risk

Liquidity risk could arise from LTL being unable to settle financial obligations when they fall due. LTL has a low appetite for liquidity risk.

LTL’s business model is not complex in relation to liquidity risk. In particular, the income and expenditure from its investment management activities is generally consistent from month-to-month and can be forecast with reasonable accuracy. LTL monitors liquidity risk through ongoing cash flow forecasting and oversight of its cash positions, which are typically held in approved liquid assets, including cash, units or shares in short-term regulated money market funds, short-term UK Government Treasury Bills and short-term deposits at UK credit institutions. In addition, stressed scenarios are periodically reviewed to ensure that sufficient resources are always maintained.

LTL maintains liquid resources which are adequate both in amount and quality to ensure that the FCA's Overall Financial Adequacy rule ('OFAR') is met and there are no significant risks that liabilities cannot be met in full as they fall due.

3. GOVERNANCE ARRANGEMENTS

As at 31 March 2023, LTL's Board of Directors (the 'Board') was composed of 3 members, including a Chair who is a Non-Executive Director, a Non-Executive Director and an Executive Director. A further Non-Executive Director joined the Board on 18 September 2023.

As of 31 March 2023, the number of directorships held by each member of the Board was as follows:

Name	Executive Directorships	Non-Executive Directorships	Total Directorships
Non-Executive Directors			
Ian Williams (Chair)	3	2	5
Nadege Genetay	1	2	3
Executive Directors			
Luke Webster	6	0	6

The Board is responsible for LTL's overall strategic aims and objectives, risk appetite and strategy and internal governance arrangements. It approves and oversees LTL's policy framework and policies and the business plan and has oversight of internal control systems and risk management processes. The Board is also responsible for ensuring the integrity of LTL's accounting and financial reporting systems, including financial and operational controls, ensuring compliance with the requirements of the regulatory system, assessing the adequacy of policies relating to the provision of services to clients, and providing oversight of LTL's Senior Management. The Board is also responsible for agreeing and approving LTL's ICARA. To fulfil its responsibilities, the Board meets on a quarterly basis.

There are three sub-committees of the Board, the Remuneration Committee, the Executive Committee and the Investment Committee. The Board has delegated certain functions to the following committees:

3.1. Remuneration Committee

This Remuneration Committee (the Committee) consists of the non-executive directors of LTL and the Chief Finance Officer of the GLA. It has delegated responsibility from the Board to provide oversight of LTL's recruitment and remuneration strategies and policies, to make recommendations to, and decisions on behalf of, the Board on the recruitment and remuneration of directors and employees of LTL.

The Committee has regard to the principles of good corporate governance, the FCA requirements, including the application of the Remuneration Code, and the Mayoral Decision-Making under the GLA Framework. The Committee maintains recruitment and remuneration practices that support the recruitment and retention of staff with the skills and experience necessary to support LTL's duties as an investment manager; to promote behaviours in line with LTL's purpose and values and appropriate risk-taking; to align the interests of employees with those of LTL's key stakeholders; and to promote its values as a responsible employer including its commitment to Equality, Diversity and Inclusion.

3.2. Executive Committee

The Executive Committee (Ex Co) has been convened since the 31 March 2023 year-end. It consists of the Senior Management team at LTL and is chaired by the Managing Director. It has delegated authority from the Board and its purpose is to provide oversight of the operational activities of LTL and act as the collective decision-making authority for all matters delegated to it by the Board.

The Ex Co reviews all areas of LTL's business activities and provides the Board with insight into the day-to-day operations. The Ex Co, through both formal and informal meetings, is also intended to ensure transparency of decision-making and facilitate information-sharing, open discussion and constructive challenge.

3.3. Investment Committee

The Investment Committee (IC) is a sub-committee of the Board. It is non-decision-making and provides challenge and advice as requested by LTL's investment team. The purpose of the IC is to challenge, scrutinise and provide advice concerning recommendations by the investment team in respect of investment activities, including the strategic asset allocation, the investment strategy and certain investment proposals. The IC has regard to the principles of good corporate governance and relevant FCA requirements.

3.4. Risk Committee

LTL does not have a risk committee and is not subject to the requirements under MIFIDPRU 7.3.1R to establish one.

3.5. Promoting Inclusion and Diversity

The Board recognises the importance of diversity in its membership and appointments are based on merit, measured against objective criteria and the skills and experience the individual can bring to the Board. LTL has adopted the GLA's Diversity and Inclusion arrangements, of which the objective is to promoted equality and fairness to everyone at the LTL.

As a subsidiary of the GLA, LTL follows its ultimate parent's drive to be an employer that represents the diversity found in London as a whole. Being a smaller firm in a larger institution, LTL does not have specific targets but is mindful that the makeup of LTL meets the wider GLA strategy.

4. OWN FUNDS

4.1. Composition of Regulatory Own Funds

LTL's own funds comprise exclusively CET 1 capital as per the following table:

	Item	Amount (GBP 000's)	Source Based on Reference Numbers of the Balance Sheet in the Audited Financial Statements
1	**OWN FUNDS**	**1,454**	
2	**TIER 1 CAPITAL**	**1,454**	
3	**COMMON EQUITY TIER 1 CAPITAL**	**1,454**	
4	Fully paid-up capital instruments	1,125	Note 11
5	Share premium		
6	Retained earnings	329	Note 12
7	Accumulated other comprehensive income		
8	Other reserves		
9	Adjustments to CET1 due to prudential filters		
10	Other funds		
11	(-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1		
19	CET1: Other capital elements, deductions and adjustments		
20	**ADDITIONAL TIER 1 CAPTIAL**		
21	Fully paid up, directly issued capital instruments		
22	Share premium		
23	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1		
24	Additional Tier 1: Other capital elements, deductions and adjustments		
25	**TIER 2 CAPITAL**		
26	Fully paid up, directly issued capital instruments		
27	Share premium		
28	(-) TOTAL DEDUCTIONS FROM TIER 2		
29	Tier 2: Other capital elements, deductions and adjustments		

4.2. Reconciliation of regulatory own funds to balance sheet in the audited financial statements

The table below describes the reconciliation with own funds in the balance sheet as at 31 March 2023 (audited), where assets and liabilities have been identified by their respective classes:

		Balance sheet as in published/audited financial statements
		As at period end
Assets – Breakdown by asset classes according to the balance sheet in the audited financial statements (GBP 000's)		
1	Trade and other receivables	491
2	Investments	1,077
3	Cash and cash equivalents	200
Total Assets		**1,768**
Liabilities – Breakdown by liability classes according to the balance sheet in the audited financial statements (GBP 000's)		
1	Trade and other payables	281
2	Tax payable	33
Total Liabilities		**314**
Shareholders' Equity (GBP 000's)		
1	Called up share capital	1,125
2	Retained Earnings	329
Total Shareholders' Equity		**1,454**
Own funds: main features of own instruments issued by the firm		
Issuer		LTL
Public or private placement		Private
Prudential classification		Common Equity Tier 1
Instrument type		Ordinary share
Amount recognised in regulatory capital (GBP 000's, as at most recent reporting date		1,125
Nominal amount of instrument		1,125
Accounting classification		Called up share capital
Original date of issuance		
Perpetual or dated		Perpetual

5. OWN FUNDS REQUIREMENT

As stated above, LTL must at all times maintain own funds that are at least equal to its OFR, which for LTL is the highest of its:

- Permanent Minimum Requirement ('PMR')
- Fixed Overheads Requirement ('FOR'), and
- K-Factor Requirement ('KFR')

Own Funds Requirements as at 31 March 2023	**GBP 000's**
Permanent Minimum Requirement	75
Fixed Overheads Requirement	437
K-Factor Requirement (K-AuM) *	683

* LTL has assessed the KFR and determined that the only K-Factor that is applicable to LTL's business is K-AuM.

6. MEETING THE OVERALL FINANCIAL ADEQUACY RULE

LTL is required to hold adequate financial resources to achieve two key outcomes:

- to enable it to remain financially viable throughout the economic cycle, with the ability to address any potential material harms that may result from LTL's ongoing activities (including both regulated activities and unregulated activities); and
- to enable it to conduct an orderly wind-down while minimising harm to consumers or to other market participants, and without threatening the integrity of the wider UK financial system.

LTL uses its ICARA process to identify whether it complies with the OFAR. The focus of the ICARA is on identifying and managing risks that may result in material harms, to ensure LTL has appropriate systems and controls in place to identify, monitor and, where proportionate, reduce all material potential harms that may result from the ongoing operation of its business or the winding down of its business and that it holds financial resources that are adequate for the business it undertakes.

The ICARA process includes an assessment of the levels of own funds and liquid assets LTL must hold to comply with the OFAR. Depending on the nature of the potential harms identified, the only realistic option to manage them and to comply with the OFAR may be for LTL to hold additional own funds or additional liquid assets above its OFR or basic liquid assets requirement. This is assessed and monitored by undertaking the ICARA process on an annual basis.

LTL is obliged to disclose its approach to assessing the adequacy of its own funds and liquid assets in accordance with the OFAR.

At a high-level, the ICARA process covers:

- business model planning and forecasting;
- identification, monitoring and mitigation of harms;
- stress testing;
- recovery actions and wind-down planning; and
- assessment of the adequacy of financial resources.

The ICARA process sets out LTL's assessment of risks and harms arising from ongoing business operations and in a wind down scenario. A key output of this assessment is the calculation of LTL's own funds threshold requirement ('OFTR') and liquid assets threshold requirement ('LATR'). These are the amounts of own funds and liquid assets LTL needs to hold to address any potential residual impacts and to comply with the OFAR.

The outcome of the ICARA is formally reviewed, challenged and approved by the Board on at least an annual basis, or more frequently in the event of material changes to the business or operating environment. LTL provides periodic information from the ICARA process to the FCA by completing various regulatory returns, including submission of the annual MIF007 ICARA questionnaire return.

LTL's ICARA process has demonstrated that it meets the OFAR and holds sufficient own funds and liquid assets even under stressed economic cycles. In particular, LTL's ICARA evidences:

- The ICARA has been subject to senior management and Board review and challenge;
- LTL meets the OFAR stipulated by the FCA's MIFIDPRU rules;
- LTL holds sufficient capital and liquidity to cover its own funds and liquid assets requirements;
- LTL holds own funds in excess of its OFTR;
- LTL holds liquid assets in excess of its LATR; and
- LTL also has adequate financial resources to wind the business down in an orderly manner.

7. REMUNERATION POLICY AND PRACTICES

7.1. Remuneration Governance

The Remuneration Committee operates under formal terms of reference and is responsible for providing oversight of LTL's recruitment and remuneration strategies and policies, and making recommendations to, and decisions on behalf of, the Board on the recruitment and remuneration of Directors and employees of LTL. The Committee is also responsible for setting and overseeing the implementation of the Remuneration Policy, including LTL's remuneration philosophy and remuneration principles.

The Committee regularly reviews the Remuneration Policy to ensure that it remains appropriate and to ensure that LTL's remuneration arrangements include measures to avoid or manage conflicts of interest, are consistent with LTL's risk profile and regulatory obligations and are in line with its cultural principles.

7.2. Remuneration Philosophy

LTL’s philosophy and approach to remuneration seeks to support its aims of delivering exemplary investment performance and treasury management services to its clients. All Directors and employees are expected to contribute positively to LTL, client outcomes, and to wider stakeholders.

7.3. Remuneration Principles

The objectives of LTL’s remuneration principles are to:

- promote sound and effective risk management in the long-term interests of LTL and its clients;
- limit risk-taking and avoid conflicts of interest;
- ensure alignment between risk and individual remuneration;
- support positive behaviours and a healthy firm culture;
- encourage responsible business conduct;
- discourage behaviour that can lead to misconduct and poor customer outcomes;
- align employee’s interests with the firm’s long-term strategy and objectives; and
- be gender neutral, in line with the Equality Act 2010.

All Directors and employees receive fixed remuneration in the form of base salary. LTL does not pay discretionary variable remuneration in any form.

Employees are assessed under LTL’s performance management process on an ongoing basis, with an annual performance assessment outcome being used as a contributing factor in the determination of remuneration.

7.4. Material risk takers

LTL defines its Material Risk Takers (‘MRTs’) in line with the definitions provided by SYSC 19G and associated guidance. Those MRTs are senior management, senior individuals within control functions, and individuals whose professional activities are deemed to have a material impact on LTL’s risk profile or the assets LTL manages.

As at 31 March 2023, LTL had 2 MRTs, including senior management, as identified in SYSC 19G.5.

7.5. Quantitative disclosures

For the financial year ended 31 March 2023, the total amount of remuneration awarded was £807,225, in the form of fixed remuneration only. LTL does not pay variable remuneration in any form.

As set out in the quantitative disclosure rules within MIFIDPRU 8.6.8R, LTL must categorise the remuneration information to be disclosed by senior management, other MRTs and other staff. The information must be aggregated for senior management and other material risk takers, where splitting the information between those two categories would lead to the disclosure of information about one or two people.

Where aggregation would still lead to the disclosure of information about one or two people, LTL is not required to comply with the obligation to disclose its remuneration split into categories for senior management, other MRTs and other staff.

Accordingly, LTL relies on the exemption contained in MIFIDPRU 8.6.8R(7) to prevent individual identification of a MRT, based on the limited number of MRTs within LTL.

LTL has not made any guaranteed variable remuneration awards during the financial year.

LTL has not awarded any severance payments during the financial year.

8. MEDIA AND LOCATION

This MIFIDPRU 8 Disclosure is published on our website at www.londontreasury.org and will be available from the Registered office on request.

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