

# Board Risk Committee Report



**Jonathan Moulds**  
Chair of the Board Risk Committee



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## Members and attendance

● Meeting attended      ○ Did not attend



**Jonathan Moulds**  
Chair of the Committee



**Wu Gang**  
Committee member



**Andrew Didham**  
Committee member



**Sally-Ann Hibberd**  
Committee member



**Susan Skerritt<sup>1</sup>**  
Committee member



<sup>1</sup> Appointed to the Committee on 10 November 2021.

## FY22 key focus areas

- Undertook a detailed evaluation of the risks and controls around the integration of tastytrade
- Continued to embed the operational risk framework, assisted by an ongoing upgrade in risk management tools. The operational risk strategy aligns with the business in FY23 with more focus on localised ownership of risk management across all entities
- Reviewed our Financial Crime Framework and associated controls
- Developed a strategy for the enhanced identification of clients displaying traits of vulnerability, together with support and intervention mechanisms
- Oversaw the implementation of the new IFPR in Europe and the UK, including preparatory work for the associated new Internal Capital and Risk Assessment (ICARA)
- Monitored closely the associated risks related to market volatility, people and business continuity relating to the war in Ukraine

Jonathan Moulds, Chair of the Board Risk Committee, gives his review of the Committee’s activities during the financial year.

### Chair’s overview

The Committee has continued to focus on providing oversight and advice to the Board in relation to our current and potential future risk exposures, including risks to the achievement of our strategy. The Committee’s agenda reflects the importance of reviewing the key actual and emerging risks faced by the business.

During the year, we have continued to demonstrate the robustness of our Risk Management Framework. Again, we have faced significant turmoil and heightened risks, including interest rate rises, geopolitical instability and the ongoing impact and after-effects of the global Covid-19 pandemic. We continue to adapt to changes in the regulatory landscape, ranging from the introduction of a Consumer Duty in the UK, to monitoring developments regarding Payment for Order Flow in the US. Our focus on good client outcomes, resilience and our control infrastructure means we have seen limited manifestation of risk, which would be considered out of keeping with the volume of business seen.

We have considered in detail the risks around the integration of tastytrade. This has included focusing on implementation of a new operational risk system to align and embed tastytrade into our Risk Management Framework.

The Risk function, headed by the Chief Risk Officer, seeks to ensure a holistic approach to risk management is embedded, including through clear linking of risk reporting to the key risks facing the business, through the Risk Taxonomy and Key Risk Indicators, in line with our Risk Appetite Statement and Risk Management Framework. The Committee reviews this framework on an annual and continuous basis.

The operational risk management systems continue to be developed and further embedded into the business,

with strong stakeholder engagement that encourages a culture of event reporting. The Operational Risk team has adapted its approach to assist and coach first-line functions in root-cause analysis relating to events, enabling improvements to design and implementation of controls. Operational risk reports are regularly provided to related management committees, such as the Executive Risk Committee and the Client Money and Assets Committee.

This year's annual Non-Executive Director Risk Workshop, as previously, provided active oversight of, and input into, our regulatory capital calculations, as set out in our ICAAP and ILAA. It also covered the stress testing of our risks, and our capital and liquidity held against those, as well as our reverse stress-test Recovery Plans.

The Compliance function, headed by the Chief Compliance Officer, has provided the Committee with regular reporting of second-line compliance assurance activity, details of regulatory change and the assessment of key financial crime controls, with a focus on the detection and prevention of market abuse.

Cyber threats remain a significant issue for the financial sector and the Committee continues to support the Chief Information Security Officer in ensuring we manage our risks appropriately. Ransomware attacks have been a particular hot topic across the industry, with trends indicating attacks on the increase. The Committee has sponsored focused work to be conducted during 2022 to test our technical, people and process cyber capabilities to ensure they work in unison.

Reporting from Internal Audit has focused on the ongoing state of the Risk Management Framework – particularly the development of the operational risk framework, as well as our current and potential risk exposures.

During the year, we held a joint meeting with the Audit Committee to review and discuss matters common to both Committees. This included review of the Risk Acceptance Policy and Procedure; our ICAAP, ILAA and Recovery Plans;

financial and regulatory capital forecasts; and privileged access management. All members of the Audit Committee and Board Risk Committee attended this meeting. It was agreed that this would take place on an annual basis going forward.

### Role of the Board Risk Committee

The Committee provides oversight and advice to the Board in relation to our current and potential future risk exposures and future risk strategy. This includes the determination of risk appetite and tolerance, considering the current and prospective macroeconomic and financial environment. Key responsibilities of the Committee, in addition to those noted above, include:

- Reviewing the design and implementation of our general Risk Management Policy and measurement strategies
- Considering and regularly reviewing our risk profile relative to current and future strategy and risk appetite, identifying any risk trends, material regulatory changes, concentrations or exposures and any requirement for policy change
- Carrying out a robust assessment of our emerging and principal risks
- Considering our ILAA, ICAAP (to be replaced with ICARA going forwards), and Recovery Plans
- Considering the scope and nature of the work undertaken by the Risk Management and the control functions in analysing, monitoring and reporting of risks forming part of our Risk Taxonomy
- Providing advice to the Remuneration Committee on the alignment of the Remuneration Policy to risk appetite and annually reviewing remuneration-related risks
- Recommending to the Board the appointment and, when and if appropriate, replacement of the Chief Risk Officer and Chief Compliance Officer.

The Terms of Reference for the Committee were last reviewed in May 2022 and are available on our website.

### Membership and attendance

The Committee is composed of five independent Non-Executive Directors.

The Terms of Reference require the Committee to meet at least four times a year and additionally as required. During the financial year the Committee met five times. As well as making decisions in its own right, the Committee makes recommendations to the Board and, where relevant, to other Board Committees. The business of the Committee is reported at the following Board meeting.

The Executive Directors, the Company Secretary, the Chief Risk Officer, Chief Compliance Officer and the Global Head of Internal Audit attend Committee meetings as standing attendees. Representatives from other areas of the business attend the Committee meetings by invitation, as required.

### How the Committee operates

To ensure the Committee discharges its responsibilities appropriately, an annual forward calendar, linked to the Committee's Terms of Reference, is approved by the Committee. The Company Secretary and the Chief Risk Officer assist the Chair of the Committee in drafting the agenda for each Committee meeting.

Following each Committee meeting, a formal report is made to the Board in which the Chair of the Committee describes the discussions and challenges from the Committee meeting, and has the opportunity to escalate any items and make recommendations to the Board as appropriate.

## Board Risk Committee Report continued

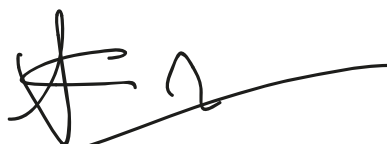
### Main activities during the financial year

During the year, the Committee's key activities included:

- Reviewing the Risk Appetite Statement, Risk Taxonomy, Risk Management Framework and Compliance Framework
- Considering current and emerging risks facing the business, including regulatory change, the Covid-19 pandemic and the Russia/Ukraine conflict
- Undertaking an evaluation of tastytrade's risk profile and associated integration with the Group's Risk Management Framework
- Reviewing the adequacy of our global insurance cover
- Reviewing Product Governance
- Reviewing our Financial Crime Framework
- Reviewing and challenging operational risk development
- Reviewing IT and cyber security in relation to the annual technology risk review
- Undertaking a formal annual compliance assessment of material breaches
- Reviewing a culture risk dashboard and report covering client outcomes, IT, regulatory outcomes, people outcomes and conduct more broadly
- Reviewing our capital and liquidity position including through the ICAAP, ILAA and the Recovery Plans
- Overseeing the implementation of the new IFPR in Europe and the UK, including preparatory work for ICARA
- Receiving reports from Internal Audit on the Risk Management Framework
- Developing a strategy for the enhanced identification of clients displaying traits of vulnerability, together with support and intervention mechanisms.

### Committee evaluation

During the year, an evaluation of the performance of the Committee was undertaken in line with the Committee's Terms of Reference. Further information of the evaluation of the Board and its Committees is given on page 70.



**Jonathan Moulds**  
Chair of the Board Risk Committee  
20 July 2022