



# MetLife Investment Management MIFIDPRU 8.1 Disclosure

November 2023

## Background

The purpose of this document is to set out the disclosure requirements of the Prudential Sourcebook for MiFID investment firms in relation to MIFIDPRU 8.1 disclosure requirements of MetLife Investment Management Limited (MIML) as of 31 December 2022.

The new UK Investment Firm Prudential Regime came into force on 1 January 2022. MIML is authorised and regulated by the UK Financial Conduct Authority (“FCA”) as an investment firm and as such is subject to the rules contained in the Prudential Sourcebook for MIFIDPRU Investment Firms.. As such, in respect of the MiFID business that MIML has permission to conduct, MIML is prudentially categorised as a Non SNI MIFIDPRU Investment firm.

The requirements are implemented by the FCA in its regulations through the Prudential Sourcebook for MIFIDPRU Investment firms The capital framework consists of the following:

- Own Funds (Capital) requirement (formerly Pillar 1) sets out the minimum capital amount that meets the capital resource need to carry out its regulated activities.

ICARA (MIFIDPRU 7.4 to 7.9) requires MIML to assess whether its own funds requirement is adequate overall to carry out its regulated activities. The company is required to consider this in its ICARA document which is subject to review and approval by the Directors. The firm must review this document within every 12 month period, or if there has been a change in the business operating model.

## Frequency and Scope

A firm may omit required disclosures where the information is regarded as proprietary or confidential. Proprietary information is regarded as any information which, if it were shared, would undermine MIML’s competitive position.

Information is considered to be confidential where obligations bind MIML to confidentiality with customers, suppliers and counterparties.

Disclosures are reviewed at least annually and, if appropriate, more frequently. Disclosures will be published as soon as practicable after the publication of the Annual Reports. and published on the firms website.

The information contained in this disclosure has not and is not required to be externally audited and does not constitute any form of financial statement.

## Risk Management Objectives and policies

MIML (the “Firm”) operates within the risk management framework of MetLife Investment Management LLC (“MIM”) and MetLife, Inc. (“MetLife” or the “Company”). The Company’s objective is to maintain a risk management framework that identifies, measures, manages, monitors and reports on all material and relevant risks. The techniques used take into account the nature, scale, and complexity of the risks to which we are exposed and in a manner that is adequate to support risk and strategic decisions, while providing a group- level perspective on risk, solvency and capital. Our risk framework is designed to be comprehensive, addressing all material risks, and is embedded within key business decision-making processes.

MetLife operates under the “Three Lines of Defence” model which can be summarised as follows:

### **First Line of Defence**

The first line of defence is comprised of the managers responsible for the Firm’s business units and departments who are primarily responsible for identifying, managing, measuring, mitigating and reporting on risks.

### **Second Line of Defence**

Risk oversight and monitoring is undertaken, among others, by Global Risk Management (“GRM”), including Corporate Ethics and Compliance (“CEC”), along with IT Risk and Security and provide effective strategic advisory, review and challenge services to the businesses.

### **The Third Line of Defence**

The third line of defence is Internal Audit (“IA”), providing independent assurance of the suitability and effectiveness of the Firm’s risk management framework, including management’s execution of its responsibilities to ensure an effective system of internal controls, risk management, and compliance is embedded throughout the Firm.

## **Risk Governance**

MetLife’s risk management framework is designed to address all material risks. The framework provides for an independent, dedicated risk management team led by the Company’s Chief Risk Officer (“CRO”) who reports directly to the Company’s CEO and is a member of MetLife’s Executive Group. The CRO is primarily responsible for maintaining and communicating the Company’s enterprise risk policies and for monitoring and analysing all material risks. GRM considers and monitors a full range of risks against the Company’s solvency, liquidity, earnings, business operations and reputation.

## **Principal Risks**

### **Operational**

Operational risk is the risk of loss or damage resulting from inadequate or failed internal processes, human error, system errors or external events. Operational risk is managed to acceptable levels through the combination of robust risk governance, strong systems and controls.

MetLife’s global operational risk management programs are designed to ensure operational risks are adequately identified and assessed so that material operational risk exposures are captured and managed most efficiently and effectively possible, leveraging the existing risk and control framework. MetLife’s Non- Financial Risk Committee oversees the Company’s operational risk management framework, which consists of individual operational risk management programs supported by functional units. The operational risk management programs primarily reside within GRM, IT Risk and Security, Finance and Global Procurement. These groups work closely to provide operational risk governance and support.

### **Credit**

Credit Risk, defined as the risk of potential losses arising from the failure of a counterparty to meet its financial obligations when due, is not a significant direct factor for MIML in its function as an investment manager. The main risk is the failure of a material third party provider, such as a custodian or trading partner. Third parties are subject to oversight as part of MIM’s and MetLife’s global risk platform.

### **Market**

Market Risk, defined as the risk of broad market fluctuations in the value of financial instruments, is not borne directly by MIML in its function as an asset manager. Market risk arises indirectly in that MIML’s income from investment management services could be negatively impacted by a decline in the value of assets under management. The market risk of our clients’ portfolios is regularly assessed by portfolio managers and the Firm’s Risk Officer and reported to the Board at least quarterly.

## Liquidity

Liquidity Risk is defined as the risk that the Firm does not have sufficient available funds to meet its obligations as they become due. MIML does not trade for its own account, and therefore does not have exposure to intra-day liquidity risk. Client money and assets are held separately. The Firm's other liquidity needs are assessed and funded as a subsidiary of a large global company.

## Other Risks

In addition to the projection of quantitative financial and risk metrics, MetLife considers qualitative factors to determine whether additional capital should be held to address the potential impact of less quantifiable risks and the risk of uncertainty in quantitative estimates.

The less quantifiable risk categories include model risk, reputational risk, strategic risk and regulatory risk. These risks are not explicitly measured by quantitative projection models.

## Model risk

MetLife uses models for business purposes, including but not limited to reserving, cash flow testing, pricing new business, and stress testing. There is a risk that these models are not fit for their intended purpose and could thus lead to inaccurate estimates which impact financial statements, risk management, or material business decisions. MetLife's model inventory is refreshed regularly to ensure all models are appropriately risk-managed for model risk according to the profile of the model. Critical, high, and medium risk models are required to have a formal model validation which provides additional assurance and reduces model risk to an acceptable level. MetLife has a formal Model Risk, EUC and Tool Policy that governs model risk and validation activities and which is supported by a dedicated team.

## Reputational risk

Reputational risk is a "second-order" / "by-product risk", i.e., it can arise as a result of business activities and the occurrence of other primary risk events. MetLife maintains Enterprise level policies to instil desired business practices and employee behaviour. All employees are expected to comply with such policies, and any exceptions are documented and approved as outlined in respective policies. Also, MetLife assesses the reputational impact resulting from operational risk events through its non-financial risk self-assessment process.

## Strategic risk

Strategic Risk may arise from many sources including, but not limited to, the acceptance of new business, the introduction or modification of products, strategic finance and risk management decisions, business process changes, complex transactions, acquisitions or divestitures and major capital expenditures. MetLife's strategic and business planning processes include extensive review within the key businesses. GRM plays an integral role in these processes and in assessing the impact strategic decisions may have on capital, solvency and liquidity. The Company's EC framework is used to allocate equity to the businesses and new products are evaluated for risk considerations before being launched. We optimize our risk and reward profile through robust strategic planning processes, pricing and underwriting strategies, risk management practices, mergers and acquisitions and product strategies, all of which directly contribute to balancing growth, profitability and prudent risk-taking. Decisions related to MIML strategy are made by the Firm's Board of Directors which also oversees and monitor this risk.

## Regulatory risk

MetLife's investments activities, insurance operations and brokerage businesses are subject to a wide variety of laws and regulations, many of which continue to evolve. MetLife follows regulatory rulemaking closely and takes proactive steps to ensure compliance with new laws and regulations thus managing regulatory risk. The Company assesses new regulatory requirements and develops plans to address them in advance of implementation timelines. MetLife reviews losses associated with regulatory fines and penalties as part of its Operational Risk Management framework. All such issues are assessed to ensure proper and timely remediation is taken.

## Business Risk

Business risk is defined as the possibility that the Firm will have lower than expected profits or losses due to the adverse impact of regulatory changes, market conditions, increased competition, the loss of key personnel, increased expenses or the loss of customers due to poor performance or other issues may arise due to increased expenses or the loss of customers due to poor performance or other issues. Business risk may arise where functions or processes unrelated to investment activities are not sufficiently resourced to support a successful investment process resulting from changes in management or the loss of key personnel. The Firm's Board of Directors oversees and monitors this risk.

## Calculation of Own Funds and Own Funds Requirement

The Company is authorised as a MIFIDPRU Firm by the FCA. For regulatory capital purposes, the Company is classified as a Non SNI firm and is required to calculate capital requirements under the criteria set out in the Prudential Sourcebook for MIFIDPRU investment firms.

As of 31 December 2022 the company's own funds was calculated as follows:

Capital Item	£000s
Tier 1 Capital – Fully paid up capital instruments	2,800
Tier 1 Capital – Retained earnings	9,896
<b>TOTAL TIER I CAPITAL before deductions</b>	<b>12,696</b>
Deductions from Tier I – intangible assets	(324)
Tier 1 Capital less deductions	12,372
Tier 2 Capital less deductions	0
Tier 3 Capital less deductions	0
<b>Total Own funds as at 31 December 2022 after deductions</b>	<b>12,372</b>

## Own Funds: reconciliation of regulatory own funds to the Balance Sheet in the audited financial statements (page 10)

<b>Assets</b>	
Fixed assets – intangible	324
Current assets	18,172
<b>TOTAL ASSETS</b>	<b>18,496</b>
Current liabilities	1,591
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>16,905</b>

## SHAREHOLDERS EQUITY

Share capital	2,800
Retained profits (audited as at 31 Dec 22)	9,896
Retained profits unaudited as at 31 Dec 22)	4,209
<b>TOTAL SHAREHOLDERS EQUITY</b>	<b>16,905</b>

As a non SNI firm the Company's Own funds requirement is the higher of the following:

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- Permanent Minimum capital requirement (£75,000)
  - Fixed Overhead Capital requirement (FOR)
  
  - K Factor requirement

**Own Funds Requirement (000's)****Higher of:**

<b>Permanent fixed capital requirement</b>	<b>£75</b>
<b>FOR</b>	<b>£708</b>
<b>K_factors</b>	<b>£927</b>

**Therefore the requirement as at 31 Dec 22 amounts to £927**

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The K-factor requirement is analysed as follows:

K-AUM	£922
K-DTF	£5

The company considered the overall adequacy of its own funds in the ICARA process and identified that it needs to hold additional funds of £258,000 to meet its requirement, bring the total to £1,185,000. In assessing this risk the company considered in detail of the risks and potential harms to the business and the capital required to deal with an orderly wind down of the business.

## Remuneration Disclosures

As of 31 December 2022, MIML is subject to the MIFIDPRU Remuneration Code. This section provides further information on our remuneration policy.

MIML's compensation falls within the global arrangements set by the Company, which applies to all subsidiaries. The compensation program is designed to:

- provide competitive total compensation opportunities that will attract, retain and motivate high-performing employees;
- align the Firm's compensation plans with its short-term and long-term business strategies;
- align the financial interests of the Firm's employees with those of its shareholders through stock-based incentives and stock ownership requirements; and
- reinforce the Firm's pay for performance culture by making a meaningful portion of total compensation variable and differentiating awards based on Firm and individual performance.

The Company uses a competitive total compensation structure that consists of base salary, annual incentive awards and stock-based long-term incentive award opportunities. The primary components of the Firm's regular executive compensation and benefits program play various strategic roles.

### MIFIDPRU Remuneration Code Staff

We have identified, and maintain a record of 'MIFIDPRU Remuneration Code Staff' or "Code Staff" – i.e. staff to whom the MIFIDPRU Remuneration Code applies. This includes senior management and members of staff whose actions may have a material impact on a firm's risk profile, known as a material risk taker under SYSC 19G.5.1 of the FCA handbook Remuneration Code.

MIML does not have a Remuneration Committee. The Directors are responsible for our remuneration policy including:

- Determining the framework and policy for remuneration and ensuring it does not encourage undue risk-taking.
- Agreeing to any major changes in remuneration structures.

When assessing individual performance, MIML uses a robust performance review process which includes qualitative criteria.

The FCA rules require certain firms to disclose aggregate information on remuneration in respect of its MIFIDPRU Remuneration Code Staff broken down by business area, senior management and other Code Staff, including "risk takers".

MIML has identified 6 Staff. The remuneration provided to employees that were categorised as Code Staff during 2022 was £1,685,159. It should be noted this data is only for staff based in the UK.