

## **Towers Watson Limited ("TWL")**

### **MIFIDPRU Disclosure Statement for year ending 31 December 2022**

#### **1. Background**

The new Investment Firms Prudential Regulations ("IFPR") which came into force in January 2022, introduces new disclosure requirements for UK MiFID Investment Firms such as TWL. The rules apply to all Non-Small and Non-Interconnected firms ("Non-SNI firms") and to those 'Small and Non-Interconnected firms' ("SNI firms") who've issued 'Additional Tier 1' instruments.

The new Regulatory Disclosure requirements can be found in MIFIDPRU Chapter 8 of the Financial Conduct Authority ("FCA") Handbook.

#### **2. Scope of Applicability**

TWL is authorised under MiFID II as a MiFID Investment firm. TWL is also a Large Non-SNI (small and non-interconnected) firm for the purposes of the IFPR as it meets the following thresholds:

- the value of its on and off-balance sheet assets over the preceding 4-year period is a rolling average of more than £300m, or
- the value of its on and off-balance sheet assets over the preceding 4-year period is a rolling average of more than £100m (but less than £300m), and it has trading book business of over £150m, and/or derivatives business of over £100m

As such, TWL is required to publicly disclose the information in the MIFIDPRU Chapter 8 section of the FCA Handbook annually. The ensuing disclosure statement ("Disclosure") is thus intended to conform with the relevant disclosure requirements in place during the 2022 financial year. Unless otherwise stated, all figures quoted as part of this Disclosure are based on the audited accounts of TWL for the financial year ending 31 December 2022.

This Disclosure pertains exclusively to TWL and not to any other entity within the WTW group of companies<sup>1</sup>. This Disclosure is made on an individual rather than a consolidated basis.

#### **3. Risk management objectives and policies**

TWL's activities expose it to a number of risks including risk related to management of capital (own fund) requirements, liquidity and concentration. These risks are adequately monitored by the management of TWL.

The risk management objectives within TWL are to effectively identify, assess, respond and monitor the risks that affect its overall strategy, risk appetite and reputation. The TWL Enterprise Risk Management ("ERM") Framework and Policy establishes the standards, roles and responsibilities and accountabilities for managing risk in TWL.

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<sup>1</sup> For the purposes of this Disclosure, the term "WTW", "WTW group of companies" or "WTW group" shall include WTW PLC and any company directly or indirectly owned or controlled by WTW PLC.

### **3.1 Generic Risk Strategy**

Strategies to manage financial risk such as liquidity and concentration risk are no different to management of other risks in TWL.

TWL operates a “three lines of defence” model that distinguishes among three groups (or lines) involved in effective risk management. It is led by 1<sup>st</sup> line, the TWL Finance and WTW Finance functions to monitor balance sheet positions and with 2<sup>nd</sup> line, the ERM team offering support and 3<sup>rd</sup> line assurance to ensure TWL Board’s oversight on Financial Risk are adequate and effective.

### **3.2 Specific Risk Strategy**

Risk Strategy for managing financial risk is always evolving in line with WTW’s ERM strategy and maturity. In 2023, strategies for managing financially risks specifically in relation to capital requirements, liquidity and concentration are:

Capital requirement: Always maintain the own fund threshold requirement at a level prescribed in the MIFIDPRU rules handbook, supported by quarterly monitoring and early warning indicators. If a material change, as defined by MIFIDPRU 4.5.7 to projected relevant expected expenditure is anticipated, the capital requirement is updated accordingly.

Liquidity: Always maintain Liquid Asset threshold requirement at a level prescribed in the MIFIDPRU rule, supported by quarterly monitoring with early warning indicators. If a material change, as defined by MIFIDPRU 4.5.7 to projected relevant expected expenditure is anticipated, the liquidity requirement is updated accordingly.

Concentration risk: TWL continues to monitor all cash, bank/counterparty credit ratings, sources of income/client and trade debtor/ client credit concentration. Counterparty risk is actively monitored by WTW’s global Treasury team.

The focus is on “Monitoring” the current position and “identifying” any emerging risks summarised annually through the ICARA process. This is deemed proportionate in the current business context. “Reporting” of any issues arises through monitoring financial risk to the TWL’s Risk Committee.

### **3.3 Capital Requirement and Liquidity Risk Processes**

TWL is an integral part of WTW’s operating model which utilises WTW group functions to perform controls and execute parts of the process.

As part of a global organisation the day-to day ‘cash collection’ and monitoring is organised through the WTW’s Global Treasury team and TWL is part of this arrangement. This is an integral part of TWL’s operating model whereby all excess cash is swept daily into a facility arrangement with WTW Treasury companies. This deposit balance is due on demand but falls outside the definition of ‘liquid assets’.

TWL at all times meets its liquid asset requirement through a minimum cash balance not part of the sweep arrangement and trade debtors.

### 3.4 Financial Concentration Risk Processes

Management of financial concentration risk is managed as follows:

- Cash concentration: Excess cash of TWL is managed by WTW Treasury, which manage the credit and concentration risk in line with WTW policy;
- Trade debtors and client credit concentration: TWL's key customers are reviewed on a monthly basis by line of business. Exposure is spread over many counterparties and customers; and
- Sources of earnings/ client credit concentration: Terms of engagement are agreed with all clients. Management has a credit policy in place.

### 3.5 Financial Risk Controls

Each quarter, TWL's CFO reports the financial results including the cash position and Fixed Overhead Requirement against the available Capital and Liquidity requirement. As noted above, excess cash is managed by WTW Treasury, which manages the credit and concentration risk in line with WTW policy. exposure to credit risk is monitored on an on-going basis through the WTW Treasury function.

In addition, stress testing and reverse stress testing form part of the ICARA. The ERM team also facilitate scenario analysis and wind-down analysis which identify specific circumstances where capital or liquid assets held could fall below the capital and liquidity requirements.

Any issues or indication of capital requirement, liquidity or concentration risk worsening are reported to the TWL Board with appropriate management actions. All associated controls are subject to review between 1<sup>st</sup> and 2<sup>nd</sup> line functions as and if a material issue emerges it will be resolved in line with WTW's ERM strategy and maturity.

### 3.6 Harm Identified

Potential sources of material harm for client and firm have been identified as follows:

1. Clients could be impacted due to incorrect advice being given.
2. Clients could also be impacted by a cyber-attack (external) or accidental data loss (internal) via being exposed to fraudsters.
3. Parental failure which would impact the way TWL conducts business through shared corporate functions.

Current internal controls in place provide effective mitigation to reduce the risk within appetite, albeit the risk remains as the current geopolitical environment increases the chance for cyber-attack or market volatility.

### 3.7 Controls of harm

The key controls to protect the firm, client and market from harm are:

1. Adherence to Excellence framework to reduce the chance of incorrect advice being given.

2. Professional duties training and education in managing information security risk to reduce client impact in the event of data loss whether caused by internally or externally; and
3. Multiple controls on information security and data loss preventions in targeted process, specifically on generic process across multiple businesses.

The control framework supports the TWL Board to monitor this risk during quarterly meetings.

#### 4. Governance Arrangements

Governance enables the accountabilities and authorities to be clearly defined and allocated, supporting effective decision making by the appropriate forums.

Risk governance consists of the structures and processes through which TWL manages its risks.

The Risk Committee is authorised by the Board to assist it in its oversight of TWL's ERM arrangements and activities; reviewing and reporting to the Board whether the risk appetite is appropriate; and whether key risks are identified and managed.

TWL's Risk Committee comprises two Directors, one of whom is a non-Executive Director, and the other is CEO of TWL.

The Risk Committee is supported by regular attendees from leaders of Legal, HR, Compliance and Risk functions, who actively participate in discussions and issues raised in Risk Reports produced by the ERM team with inputs from all business areas in TWL.

The TWL Risk Committee is responsible for overseeing ERM matters across TWL specifically:

- Solvency: that the risk culture across the organisation is appropriate;
- Material Risks: ensures all material risks have been identified and managed within TWL's risk appetite; and
- Policies: that TWL's policies and initiatives are appropriate and adhered to.

##### 4.1 The Board of Directors and other Directorships held

The TWL Board of Directors as of 31 December 2022 is set out below:

Director	Position
Paul Morris	Chair/Non-Executive Director
John Ball	CEO/Executive Director
Mark Calnan	Executive Director
Charlotte Hodges	Executive Director

As of 31 December 2022, none of the directors held any directorships with organisations outside WTW which pursue predominantly commercial objectives.

The roles and responsibilities of the Chair and the CEO are clearly set out in the TWL Articles of Association and Adopting Resolution document and explained in section 4.2 Three lines of defence model.

The TWL Board members consists of 4 people (3 male and 1 female). WTW's Inclusion and Diversity (I&D) Policy is in place along with initiatives to promote the objectives and targets WTW and TWL aim to meet proportional to revenue growth over the near further. WTW want the makeup of workforce to reflect the varied markets we operate in. To achieve this, we are embedding Inclusion & Diversity principles into everything we do and continue to build an inclusive culture ensuring our colleagues feel valued and that they belong.

Among the 2023 priorities, TWL Board will see further embedding of our accountability approach for leadership and drive accountability by sharing data on 'diversity requirements for senior hires' with leaders. HR Director will inform the TWL Board via TWL Risk Committee and escalate a material I&D issue to the WTW Board including but not limited to issues around TWL board composition and remedial actions to address them.

#### 4.2 Three lines of defence model

Under the "three lines of defence" model outlined above, 1st line (business units) is responsible for adopting and maintaining appropriate systems and controls in order to manage the risk to their business. The 2nd line (such as Compliance and Risk functions) is responsible for designing the risk management processes, used by the 1st line to manage risks, and monitor the implementation of these processes. The 3rd line (Internal Audit) is responsible for providing independent assurance to the TWL Board over controls and risk management practices. The roles and responsibilities covering the three lines of defence have been clearly defined and detailed in TWL's framework of policies and procedures.

## 5. Own Funds

Table 1

Composition of regulatory own funds			
	Item	Amount (GBP thousands)	Source based on reference numbers/letters of the balance sheet in the audited financial statements
1	OWN FUNDS	244,896	
2	TIER 1 CAPITAL		
3	COMMON EQUITY TIER 1 CAPITAL		
4	Fully paid up capital instruments	120	A

5	Share premium	-	
6	Retained earnings	364,104	B
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	(119,328)	C
19	CET1: Other capital elements, deductions, and adjustments	-	
20	<b>ADDITIONAL TIER 1 CAPITAL</b>	-	
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	<b>TIER 2 CAPITAL</b>		
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	-	

## Notes

- A. This figure represents TWL's permanent, allotted, called up and fully paid ordinary share capital.
- B. Retained earnings is represented as profit and loss account in the audited balance sheet
- C. Deductions comprise the following:

Deduction components	£'000
Intangibles	35,629
Pension Asset	111,599
Pension Asset related deferred tax liability (*)	(27,900)
<b>TOTAL</b>	<b>119,328</b>

(\*) Included within provisions is the net deferred taxation liability of £5,150,000, which includes the related pension deferred tax liability of £27,900,000

**Table 2**

Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements				
<p>Columns should be kept fixed, unless the investment firm has the same accounting and regulatory scope of consolidation, in which case the volumes should be entered in column (a) only.</p> <p>Figures should be given in GBP thousands unless noted otherwise.</p>				
		A	B	C
		Balance sheet as in published/audited financial statements	Under regulatory scope of consolidation	Cross-reference to template OF1
		As at period end	As at period end	
<b>Assets</b> – Breakdown by asset classes according to the balance sheet in the audited financial statements				
1	Intangible assets	35,629	n/a	C
2	Tangible assets	20,120	n/a	

3	Investments	27,397	n/a	
4	Trade debtors	76,283	n/a	
5	Amounts owed to group undertakings	244,600	n/a	
6	Prepayment and accrued income	79,893	n/a	
7	Cash	28,934	n/a	
8	Pension Asset	111,599	n/a	C
xxx	<b>Total Assets</b>	<b>624,455</b>	n/a	
<b>Liabilities – Breakdown by liability classes according to the balance sheet in the audited financial statements</b>				
1	Trade Creditors	(8,721)	n/a	
2	Amounts owed to group undertakings	(51,785)	n/a	
3	Intercompany derivative-creditor	(34)	n/a	
4	Taxation and social security	(36,411)	n/a	
5	Corporation tax	(16,435)	n/a	
6	Accruals and deferred income	(118,398)	n/a	
7	Provisions	(28,447)	n/a	C
xxx	<b>Total Liabilities</b>	<b>(260,231)</b>	n/a	
<b>Shareholders' Equity</b>				
1	<b>Called-up share capital</b>	120	n/a	A
2	<b>Profit and loss account</b>	364,104	n/a	B
xxx	<b>Total Shareholders' equity</b>	<b>364,224</b>	n/a	

**Table 3**

**Own funds: main features of own instruments issued by the firm**



Called-up share capital is permanent, allotted, called up and fully paid ordinary share capital.

## 6. Own Funds requirements

The own funds requirement of a non-SNI MIFIDPRU investment firm is the highest of:

- (1) its permanent minimum capital requirement under MIFIDPRU 4.4;
- (2) its fixed overheads requirement under MIFIDPRU 4.5; or
- (3) its K-factor requirement under MIFIDPRU 4.6.

A table summarising TWL's Own Funds requirements at 31 December 2022 is set out below:

	Notes	Total (£'000 GBP)
Permanent Minimum Requirement	A	75
Fixed Overhead Requirement	B	107,103
K-Factor Requirements	C	37,471
Overall Minimum Own Funds Requirement higher of A,B or C		107,103

### A Permanent Minimum Requirement (PMR)

The PMR for TWL is £75,000.

### B Fixed Overhead Requirement (FOR)

The FOR is calculated as a quarter of total expenses from its most recently audited financial statements less allowable deductions as set out in MIFIDPRU 4.5.

### C K-factor Requirement (KFR)

The KFR is calculated based on the activities a firm undertakes under MIFIDPRU 4.6.

Based on the regulated activities that TWL undertakes, there is only one K-factor in scope K-AUM. The K-AUM co-efficient is calculated as 0.02% of the average AUM over the previous 15 months, excluding the most recent 3 months.

Through the ICARA process, TWL assessed no additional capital or liquidity was required.

## **7. Remuneration policies and practices**

### **Fixed and Variable remuneration**

All staff are eligible to receive both fixed and variable remuneration. Variable remuneration takes the form of five schemes:

- Short-Term incentive (“STI”) program
- Long-Term incentive (“LTI”) program
- Investment LTP
- Sales Plans
- Investment Firm Prudential Regime (“IFPR”) (see section on Material Risk Takers for further information).

All TWL employees are part of WTW’s global STI program which provides variable compensation. The percentages of variable compensation increase with level/seniority which provides the relevant proportion of fixed to variable compensation. All staff are also eligible for the LTI program which is an annual discretionary program designed for our most senior colleagues who make strategic contributions to the success of the business over time. The LTI program is intended to provide episodic awards and colleagues should not expect to receive an award every year.

The Investment LTP Scheme is open to senior associates and above within the Investments Line of Business (“LoB”). Invited participants are offered an opportunity to receive a percentage interest in an Allocation Pool (value is determined at the end of the performance period based on the achievement of predetermined financial metrics). Participation is through salary sacrifice, with each unit requiring salary sacrifice, in the current scheme of \$5,000 USD.

TWL also has several sales plans to provide an incentive to participants to generate new business leads. Such plans are open to Sales and Account Management colleagues.

Guaranteed variable remuneration is only awarded in very limited circumstances:

- I. Sign on / Buy-outs
- II. Retention
- III. Severance

Typically, any such awards will be subject to minimum performance requirements.

Early termination / severance arrangements are reviewed on a case-by-case basis and will not be awarded in instances where misconduct or conduct breaches have led to the termination. Further, such awards will take into account performance appraisals over a period of time and will not be designed in a way to reward continued poor performance. Any early termination payments in respect of Code Staff will be considered in consultation with Compliance to ensure compliance with the Code requirements.

### **Link between remuneration and performance**

TWL believes that this provides the right level of incentivisation, reflecting responsibility and seniority, without encouraging or incentivising excessive risk taking. All of the non-standard remuneration schemes in place have defined limits set to ensure this remains the case.

The performance of TWL, business line, geography and individual are taken into consideration when deciding variable pay which includes the possibility of no variable remuneration for poor individual performance or significant conduct rule breaches.

The STI Scheme (applicable to most colleagues) is linked to the annual appraisal process in which performance is assessed by line management based on a weighted scorecard of:

- four key metrics; Clients, Financials, People, Innovation / Operations; and
- a demonstration of the Willis Towers Watson values of; Client Focus, Teamwork, Integrity, Respect, Excellence.

All appraisals and incentive awards are subject to a moderation process which involves Compensation Managers and HR. Payments are in cash, with no deferred element, except for those colleagues who are identified as Material Risk Takers under the IFPR guidelines.

STI bonus pools and other incentive schemes are discretionary in nature and linked to WTW's performance.

### **Risk Adjustment of remuneration**

WTW's compensation programs are designed to minimise the potential risks that could result in a material adverse impact to its clients or TWL.

The WTW Global Compensation Committee considers, with the assistance compensation consultants, whether incentive arrangements encourage unnecessary or excessive risk that might have an adverse impact on TWL. Additional oversight is provided by the TWL Remuneration Committee, whose role is set out below under Governance Arrangement.

WTW is alert to the fact that remuneration arrangements can have an influence on staff behaviour. Potential risks can include:

- the risk that variable remuneration may encourage staff to behave in a manner which may be detrimental to the best interests of clients and take undesirable or irresponsible risks in the hope of generating more turnover or making more profit and thus increasing his/her individual variable remuneration.
- the risk that staff may be tempted to manipulate information with a view to making their measured performance look better.

To protect against such undesirable outcomes, the global arrangements for remuneration include the following:

- Typically limiting the variable remuneration under the Individual Bonus Plan to between 5% and 80% of base salary (the % level depending on level of seniority)
- Making the bonus discretionary and basing it on performance across four areas, only one of which is Financials (the other three being Clients/Innovation; People; Excellence). The level of bonus is also dependent on living the WTW core values and acting with integrity and in the best interests of clients.

- Having a system of hierarchical reviews of proposed bonus amounts, and Board Director oversight, so that the final decision is not in the hands of the immediate team.
- Executive incentive schemes take the form of the Long-Term Incentive Plans (LTIPs), in the form of shares which vest over a three-year period and the Investment LTIP (in the form of cash which does not vest until the end of a three-year period).

### Objectives of financial incentives

Remuneration arrangements and the incentive schemes that apply to TWL are straightforward. Importantly, the incentive schemes are designed to drive appropriate behaviours that meet TWL's and WTW's values. They are consistent with and promote sound and effective risk management and they encourage colleagues to act in the best interests of the WTW's clients.

### Governance Arrangements

TWL has established a Remuneration Committee ("RemCo") to ensure remuneration is applied in way which complies with statutory and regulatory requirements and promotes appropriate risk and capital management and is aligned to the purpose of TWL, its values and culture with a clear link to the successful delivery of the long-term strategy of TWL.

The composition of the RemCo consists of the following two members:

- John Ball – Chief Executive Officer/Director
- Paul Morris - Non-Executive Director

TWL also has a Remuneration Policy in place which is reviewed on an annual basis or as and when regulatory changes occur by the RemCo on behalf of the TWL Board. Any proposed changes will be carefully considered and will follow the governance process outlined below:

- RemCo review of any remuneration policy changes
- Raise proposed changes with the Risk Committee for awareness and input, plus further Control function review on the same basis
- Board oversight and ultimate sign off
- Periodic review of remuneration policy by Internal Audit as required.

### Material Risk Takers Remuneration

In identifying Material Risk Takers ("MRTs"), TWL has used the criteria set out in SYSC 19G.5.R of the FCA Handbook. The Firm has identified 19 MRTs of which 11 are Senior Management and 8 are other staff. The amount of remuneration paid out to all staff, including MRTs can be seen in the below tables:

Remuneration Type	TWL Senior Management	TWL Other MRT's	All TWL Employees
	(£GBP)	(£GBP)	(£GBP)

Total No. of colleagues	11	8	4,277
Fixed Remuneration	2,531,330	1,605,436	222,080,061
Variable Remuneration	2,977,434	3,638,372	71,503,652
<b>Total Remuneration</b>	<b>5,508,764</b>	<b>5,243,808</b>	<b>293,583,713</b>

Variable Remuneration Type (split)	TWL Senior Management (£GBP)	TWL Other MRT's (£GBP)	All TWL Employees (£GBP)
Cash	1,462,149	584,055	55,236,510
Cash (LTI)	485,897	2,325,364	7,357,868
Shares (LTI)	1,029,316	728,845	6,519,436
Shares (Other)	72	108	562,490
Sign On	0	0	548,089
Severance	0	0	1,279,259
<b>Total Variable Remuneration</b>	<b>2,977,434</b>	<b>3,638,372</b>	<b>71,503,652</b>

Guaranteed Variable Remuneration	TWL Senior Management (£GBP)	TWL Other MRT's (£GBP)	All TWL Employees (£GBP)
Total Guaranteed Variable Remuneration	0	0	123,432

Aggregate fixed and variable remuneration	Senior Management	Other MRTs
Fixed Compensation	2,531,330	1,605,436
Variable Compensation	2,977,434	3,638,372
Cash	2,977,362	3,638,264
Non- Cash	72	108
<b>Total</b>	<b>8,486,198</b>	<b>8,882,180</b>

### Deferred remuneration

The table below outlines the movement in the fair value of outstanding deferred remuneration for the year ending 31 December 2022:

Deferred Remuneration	TWL Senior Management	TWL Other MRT's	All TWL Employees
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	(£GBP)	(£GBP)	(£GBP)
Deferred compensation awarded during the year	1,515,213	3,054,209	13,877,304
Paid out during the year	860,620	3,774,183	12,547,554
Outstanding deferred compensation	3,438,594	7,984,554	42,992,736

### Sign-on and severance payments

The table below outlines the amount of severance payments made to TWL staff members. During the year ended 31 December 2022, there were no severance payments made in relation to MRTs:

Severance	TWL Senior Management (£GBP)	TWL Other MRT's (£GBP)	All TWL Employees (£GBP)
Total No. colleagues receiving severance payments	0	0	28
Total Severance Payments	0	0	1,279,259
Highest severance payment awarded to a single person	0	0	258,296

## 8. Investment Policy

As part of the strategy of WTW, TWL holds equity investments in other WTW entities for operational reasons.

The net book value of equities held in other WTW entities is £27,397 (£000) (cost £108,163 (£000) less provision for impairment (realised) £80,766 (£000)). The carrying value of these investments is deemed not less than the fair value. None of the equities are traded therefore no market price information is available.