Risk Management Disclosures for MIFIDPRU Investment Firms

April 2023

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1 Introduction

abrdn is a FTSE 100 investment company with a client-led growth strategy. abrdn operates across three vectors to reflect how we interact with our clients: Investments – a global asset management business serving institutional, wholesale and insurance clients; Adviser – providing platform technology and tools to UK wealth managers and financial advisers; and Personal – a personal wealth business offering tailored services to individuals in the UK. Through these three vectors abrdn has the full ecosystem of capabilities to enable our clients to be better investors.

This document fulfils the regulatory disclosure requirements of the Investment Firm Prudential Regime in relation to risk management as set out in MIFIDPRU 8.2 of the Financial Conduct Authority's Handbook.

These disclosures are not subject to audit and have been produced solely for the purpose of satisfying the regulatory disclosure requirements for the following MIFIDPRU investment firms in the abrdn group:

- **Investments vector**
  - abrdn Alternative Investments Limited
  - abrdn Investments Limited
  - Ignis Investment Services Limited
  - abrdn Capital Partners LLP
  - abrdn Alternative Funds Limited
  - abrdn Private Equity (Europe) Limited
  - abrdn Investment Management Limited
- **Adviser vector**
  - Elevate Portfolio Services Limited
  - Standard Life Savings Limited
- **Personal Wealth**
  - abrdn Capital Limited
  - Cumberland Place Financial Management Limited

In this document these firms are collectively referred to as "the MIFIDPRU investment firms."

Additional relevant information can be found in the abrdn group's annual report and accounts (ARA) for the year ended 31 December 2022 (ARA 2022), which is available on the abrdn corporate website at *www.abrdn.com/annualreport*.

2 Enterprise Risk Management Framework

2.1 Our approach to risk management

A clear and effective Enterprise Risk Management (ERM) Framework and a strong risk and compliance culture underpins our commitment to put clients and customers first and safeguard the interests of our shareholders. The abrdn plc Board has ultimate responsibility for risk management and oversees the effectiveness of our ERM Framework as detailed on page 83 of the ARA 2022. The ERM Framework operates across the MIFIDPRU investment firms.

The ERM Framework's effectiveness is subject to annual review as part of the assessment of the effectiveness of abrdn's systems of control. Further reviews, including internal audits, of elements of the ERM Framework are performed as required.

Governance arrangement details, including key directorships and skills held by members of the Board, the Board appointment process, the approach to Board composition, balance and diversity and meetings of the Risk and Capital Committee are set out in the ARA 2022 in the Board of Directors, Corporate governance statement and Directors' report sections.

Across abrdn there are a number of risk governance forums and structures that support risk oversight and risk management.

- **Board risk committees**

  Some of the MIFIDPRU investment firms' boards have dedicated risk committees with independent non-executive directors: abrdn Investments Ltd, abrdn Investment Management Ltd, Standard Life Savings Ltd and Elevate Portfolio Services Ltd.

  abrdn plc Board also has a non-executive Risk and Capital Committee which covers the abrdn group. Further information about the abrdn plc Board, its directors and its committees is provided in the ARA 2022.

- **Executive risk meetings**

  Risk and control meetings exist for each vector and at abrdn group level.

- **Business partnering**

  The Risk & Compliance function face-off to vectors and functions through a business partnering model.

Under the Senior Manager ad Certification Regime, there are also senior managers who have responsibilities in relation to the MIFIDPRU investment firms; these senior managers are published on the FCA's Financial Services Register for each of the MIFIDPRU investment firms.

2.2 Three lines of defence

abrdn operates 'three lines of defence' in the management of risk so that there are clearly defined roles and responsibilities:

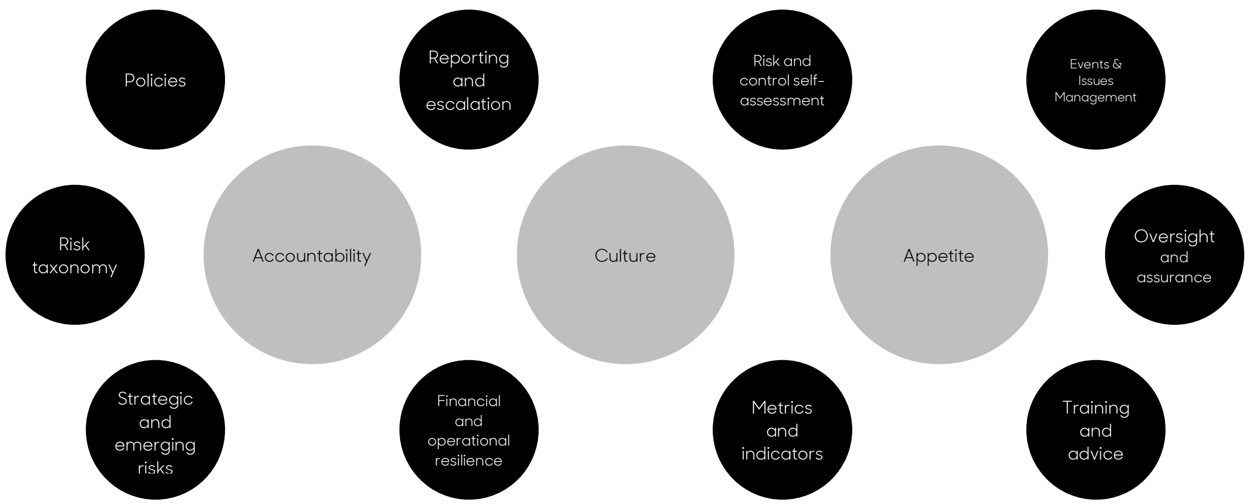
- **First line**: Day-to-day risk management, including identification and mitigation of risks and maintaining appropriate controls.
- **Second line**: Oversight is provided by the Risk & Compliance function, which reports to the Chief Risk Officer (who in turn reports to the Chief Executive Officer).

- **Third line**: The Internal Audit function, reporting to the Chief Internal Auditor, independently verifies our systems of control.

2.3 Overview

The ERM Framework underpins risk management throughout abrdn. The ERM Framework is continually evolving to meet the changing needs of the group and make sure it keeps pace with industry best practice and the risk profile of the business.

The ERM Framework is set out in the diagram below:



Each element of the ERM Framework is described below.

2.3.1 Culture

The development and ongoing support of a strong risk culture is at the core of the ERM Framework.

A strong risk and compliance culture is fundamental to how the business is managed. abrdn seeks to promote this throughout the business and encourage values and behaviours that steer how employees conduct their work and the decisions they make. The risk culture is founded on a clear and consistent risk strategy and is designed to support the delivery of strategic objectives.

Senior management frequently communicate the importance of a strong risk culture to reinforce these expected values and behaviours and to enhance employee understanding and knowledge of risk. For all colleagues there is an expectation that:

- They must act with integrity.
- They must act with due skill, care and diligence.
- They must be open and cooperative with the FCA, the PRA and other regulators.
- They must pay due regard to the interests of customers and treat them fairly.
- They must observe proper standards of market conduct.

2.3.2 Accountability

Clarity of accountability and responsibilities is critical to sound management and the efficient running of the business.

In addition to the three lines of defence (see section 2.2), in the UK there is a specific regime around accountability which is applied to the MIFIDPRU investment firms - the Senior Managers and Certification Regime (SMCR). SMCR has three main components:

- Senior Managers Regime
- Certification Regime
- Conduct rules

Together these components provide regulatory accountability for senior managers, enhanced vetting for certified persons who perform certain functions in the firm, and rules of conduct that apply to all non-ancillary staff members.

SMCR aims to ensure that the relevant senior managers have a clear view of their roles and responsibilities and can demonstrate that they have taken reasonable steps in the performance of these roles.

2.3.3 Appetite

The risk appetite framework defines a common framework to enable the abrdn plc Board, the Chief Executive Officer, and the Executive to communicate, understand and control the types and levels of risk that abrdn is willing to accept in pursuit of its strategy and business objectives. It provides a framework to ensure that risk decisions are taken at the appropriate level in the abrdn group.

Risk appetite statements are set by the abrdn plc Board and are monitored at an executive and board level.

Additional lower-level risk appetites may be set to support local areas or boards, including appetites set by the boards of the MIFIDPRU investment firms. Such risk appetites cannot be weaker than those set by the abrdn plc Board for the abrdn group but could be stronger or more specific to the characteristics of the firm if required.

The risk appetites are defined through a combination of:

- High-level risk principles.
- Risk appetite statements.
- Risk metrics measured against tolerances.

2.3.4 Policies

Policies are in place to manage the material risks that abrdn is exposed to as a financial services company. Risk policies are aimed at vector/functional management teams and capture the standards expected from each area to manage the key risks while being beneficial in running the business to deliver the strategy.

The framework contains governing principles that support abrdn's risk appetite framework by explaining its approach to managing risks in order to achieve objectives. Each risk policy is aligned to the governing principles which describe the approach abrdn takes to managing its risks. The policies document the standards that are required to be met with each policy having a Policy Owner who is supported by a Policy Implementation Manager.

2.3.5 Reporting and escalation

Regular reporting is produced by Risk & Compliance and the Chief Risk Officer for the risk committees/forums and relevant boards providing appropriate, timely and quality information so that they can discharge their responsibilities effectively.

2.3.6 Risk and Control Self-Assessment (RCSA)

The RCSA process is an integral part of the ERM Framework and is designed to integrate and co-ordinate risk identification and risk management efforts, and improve the understanding, control and oversight of operational and conduct risks.

Business objectives are identified along with relevant risks to achieving those objectives and the controls in place to mitigate the risks. All risks identified by RCSAs are maintained in abrdn's risk library. Risks are assessed using a matrix for impact and likelihood as well as gross and net scores to ascertain the impact of key controls. Assurance is provided through sign-offs by business managers, which are overseen and challenged by Risk & Compliance. The aim of the RCSA process is to evaluate and ensure that the primary controls within key processes are documented and subject to regular assessment by business owners. The RCSA process provides senior management with assurance over the effectiveness of the control environment across key business areas. The assessment includes a review of the adequacy of the design of the suite of controls and an assessment of the actual performance of those controls.

2.3.7 Events and issues management

Events and issues can occur in any part of the business, can significantly impact reputation and performance, and may cause client, partner, shareholder and/or employee harm, so must be identified quickly, understood and appropriately responded to. This is important for a number of reasons:

- Enables timely action to minimise the event's impact, preventing further harm to the clients, partners, shareholders and/or employees.
- Demonstrates abrdn's responsiveness to the concerns of clients, partners, shareholders and/or employees and maintains their trust where they are impacted.
- Provides clarity on the level of risk the business is exposed to, both at an individual (each risk event) and aggregate (across all risk events) level and whether this is within or outwith abrdn's risk appetite.
- Supports decision making on where to direct resources to remediate and mitigate control deficiencies.
- Supports the management of financial resources, helping to inform on threshold requirements and how financial resources are being utilised.

The logging and tracking of issues, events and actions is a critical activity to ensuring good risk discipline and a central system is maintained to support such activity.

2.3.8 Risk taxonomy

Risk taxonomy is a key component of the ERM Framework. The taxonomy provides a comprehensive, common set of risk categories that is used within abrdn; this supports clear management and oversight of risks throughout the business and across the three lines of defence. A comprehensive set of risk categories encourages those involved in risk identification to consider all types of risks that could affect abrdn's clients, the markets in which it operates and the group's objectives.

All risks are grouped under twelve principal risks:

Principal risk	Risk category
Process execution & trade error	Operational risks
People	
Technology	
Security & resilience	
Fraud & financial crime	
Change	
Third party risk management	
Financial management process	
Conduct	Conduct risks
Regulatory & legal	Regulatory & legal risks
Strategic	Strategic risks
Financial	Financial risks

Further detail on our principal risks can be found in the Risk Management section of the ARA 2022.

2.3.9 Oversight and assurance

Key controls are identified for each function as part of the RCSA approach (see section 2.3.6). Testing and monitoring of these controls is carried out on a risk prioritisation basis both by the business and by Risk & Compliance through a combination of testing and thematic reviews.

Assurance assessments are conducted in relation to compliance with key regulations. Risk appetites and risk assessments for key areas of regulatory focus help to drive the thematic and regular testing plans. The plans focus on compliance with specific regulations in relation to key processes within abrdn.

2.3.10 Strategic and emerging risks

Strategic risk management forms an integral part of the strategic planning process and is directly linked to the vision of the business. abrdn has an appetite for strategic risk that arises as a consequence of pursuing its chosen business objectives. abrdn will proactively identify and understand the strategic risks that the abrdn group is exposed to and the options available to manage them to inform strategy formation and business planning.

Considering the potential impacts of emerging strategic, operational and financial risks is a key part of the ERM Framework, and the ability to detect and adapt to changes in abrdn's environment may not only prevent problems arising but may also help abrdn identify new opportunities.

The ERM Framework has tools and processes to allow it to identify and recognise new and emerging issues and risks that may impact the risk profile of the business.

2.3.11 Financial and operational resilience

Financial resilience is managed through the abrdn Internal Capital Adequacy and Risk Assessment (ICARA) process. The ICARA is documented and approved by the Board at least annually and a set of ICARA triggers are in operation to identify whether elements of the ICARA need to be refreshed between formal annual reviews if there are material changes to abrdn's risk profile or the risk profile of the MIFIDPRU investment firms.

Operational resilience is the embedding of capabilities, processes, behaviours and systems which allows an organisation to continue to carry out its business in the face of disruption regardless of the source of the disruption. abrdn has also been developing its operational resilience to comply with regulation in respect of its important business services.

abrdn has contingency plans that cover key aspects of our operations. These plans support our recovery following various events ranging from computer system failure to total disruption to our offices/working environment.

abrdn's business continuity management helps to ensure that key services continue at pre-determined, acceptable levels should a disruptive event occur.

2.3.12 Metrics and indicators

Key risk indicators (KRIs) are an important component of the ERM Framework. Effective KRIs can identify potential issues before they materialize and can be used as a monitoring tool to provide a snapshot of current business exposure to a specific risk. In order to support the risk governance and risk management processes of abrdn, metrics have been defined to help monitor levels of risk and the quality of controls. KRIs form part of abrdn's reporting of risks to boards and other risk forums.

2.3.13 Training and advice

With effective training and advice abrdn can ensure that colleagues' behaviours and conduct adhere to abrdn policy and regulatory guidance; this supports the embedding of the ERM Framework.

A strong risk culture is reinforced through a training programme of face-to-face and e-learning modules. Mandatory training on risk policy is provided at regular intervals during the year and is monitored closely in terms of completion rates.

3 Risk categories and risk management

All MIFIDPRU investment firms are assessed for the potential for them to cause material harm:

- Harm to consumer
- Harm to market
- Harm to firm

In relation to harm to consumer, the nature of the MIFIDPRU investment firms means that it is necessary to consider harm in relation to:

- The management of clients' assets
- The handling of clients' orders
- The safeguarding and administration of clients' assets
- The holding of clients' money

Harm is a consequence of a risk event and the material risks which relate to the above fall into the following key categories:

- Operational risks
- Market and credit risks
- Liquidity risks

Each of the MIFIDPRU investment firms has exposure to such risks and we also consider, and manage, concentration risks across different types of exposure.

These key categories of risks are described further in the sections which follow.

3.1 Operational risks

The MIFIDPRU investment firms have the potential to cause material harm through failures in the operating environment. Operational risk is the risk of loss or adverse consequences for the business resulting from inadequate or failed internal processes, people or systems, or from external events.

The top level risks are set out in section 2.3.8 with more granular operational risks relating to the operation of the business (and the consequential harms caused) being assessed and managed.

The risk management objective is to minimise operational risks through robust processes and controls. We also put a strong emphasis on reducing risks that arise from complexity and from reliance on manual processes. Insurance policies are also held by abrdn to mitigate financial impacts should risk events occur. The MIFIDPRU investment firms also hold capital and liquidity to cover residual material risk exposures which could cause harm.

Investments vector MIFIDPRU investment firms

For MIFIDPRU investment firms within the Investments vector the key operational risks stemming from the business strategy which could result in harm include the interruption of the investment process, trading errors and mandate breaches, regulatory compliance, failure of third-parties, failures in client communications and data security. The harms which could be caused include:

- Negative impact on the value of clients' assets / portfolio performance.
- Clients are exposed to risk outwith their tolerance or appetite.
- Clients are exposed to investments not consistent with or unsuitable to their objectives.
- Clients are unable to access assets, cash or liquidity on agreed terms.
- Missed gains or actual losses for clients as new client money is not processed correctly or clients' instructions are not fulfilled.
- Clients are mis-sold a proposition at outset or during the lifecycle of proposition.
- Clients, regulators or relevant authorities are not provided with information on assets and transactions in a timely manner.
- Higher risk clients (such as long-standing or vulnerable clients) not treated fairly or appropriately identified for additional safeguards.
- Clients suffer fraud, data breach or identify theft.
- Clients are unable to value fund holdings or portfolios, or deal in funds as a consequence of unavailability of prices.
- Clients' assets and money are not appropriately safeguarded, segregated and/or identifiable.

Adviser vector MIFIDPRU investment firms

For MIFIDPRU investment firms within the Adviser vector the key operational risks stemming from the business strategy which could result in harm include trading errors, regulatory compliance, failure of third-parties and technology resilience. The harms which could be caused include:

- Clients are unable to access assets, cash or liquidity on agreed terms.
- Missed gains or actual losses for clients as investment/disinvestment or instructions are not fulfilled.
- Delay or inability of clients to receive distribution payment or cash from delayed settlement of redemptions.
- Clients are unable to value fund holdings/portfolios accurately.
- Clients are unable to gain access to customer services or self-service portals.
- Clients are unable to deal in abrdn funds with certainty or value holdings as a consequence of unavailability of pricing for abrdn funds.
- Clients, regulator or relevant authorities are not provided with information on assets and transactions in a timely manner.
- Clients' assets and money are not appropriately safeguarded, segregated and/or identifiable.
- Advisers are unable to receive adviser charge.

Personal Wealth MIFIDPRU investment firms

For MIFIDPRU investment firms within the Personal Wealth vector the key operational risks stemming from the business strategy which could result in harm include the provision of an unsuitable investment mandate to clients, failure of third-parties and failures in client communications. The harms which could be caused include:

- Negative impact on the value of assets / portfolio performance.
- Clients are exposed to risk outwith their tolerance or appetite.
- Clients are exposed to investments not consistent with or unsuitable to their objectives.
- Clients are unable to access assets, cash or liquidity on agreed terms.
- Missed gains or actual losses for clients as new client money is not processed correctly or clients' instructions are not fulfilled.
- Delay or inability of clients to receive distribution payment or cash from delayed settlement of redemptions.
- Clients, regulators or relevant authorities are not provided with information on assets and transactions in a timely manner.
- Clients are mis-sold a proposition at outset or during the lifecycle of proposition.
- Higher risk clients (such as long-standing or vulnerable clients) are not treated fairly or appropriately identified for additional safeguards.

Managing operational risk

The ERM Framework described in section 2 provides the tools used to manage operational risk with the following elements being particular pertinent:

- Culture - encouraging values and behaviours that steer how employees conduct their work and the decisions they make (see section 2.3.1).
- Accountability - clarity of accountability and responsibilities is critical to sound management and the efficient running of the business (see section 2.3.2).
- Appetite - a common framework to enable the abrdn plc Board, the Chief Executive Officer, and the Executive to communicate, understand and control the types and levels of risk that abrdn is willing to accept in pursuit of its strategy and business objectives (see section 2.3.3).
- Policies - captures the standards expected from vectors/functions to manage the key risks (including operational risks) while being beneficial in running the business to deliver the strategy (see section 2.3.4).
- Risk and Control Self-Assessment - designed to integrate and co-ordinate risk identification and risk management efforts, and improve the understanding, control and oversight of operational and conduct risks (see section 2.3.6).
- Events and issues management - events and issues can cause client, partner, shareholder and/or employee harm, so must be identified quickly, understood and appropriately responded to (see section 2.3.7).
- Operational resilience - the embedding of capabilities, processes, behaviours and systems which allows abrdn to continue to carry out its business in the face of disruption regardless of the source of the disruption (see section 2.3.11).

Third-parties

abrdn makes extensive use of the expertise and efficiencies provided by third-parties and hence failure of third-parties is a risk which is common to all the vectors. A Third-Party Risk Management Framework operates across the MIFIDPRU investment firms for the onboarding and managing of third-party relationships and inherent the risk exposures.

Through the application of the elements of the ERM Framework and robust processes and controls, the operational risks are reduced and hence the risk of harm is also reduced.

3.2 Market and credit risks

Market risk is the risk that arises from exposure to market movements, which could result in income, the value of financial assets and liabilities, or cash flows relating to these, fluctuating by differing amounts.

Credit risk is the risk of exposure to loss if a counterparty, issuer or borrower fails to perform its financial obligations, including failure to perform these obligations in a timely manner.

The MIFIDPRU investment firms are agency businesses which do not deal on their own accounts and as such the market and credit risks typically reside with clients through their portfolios and funds they invest in.

There are some exceptions to this in relation to risks which relate to the balance sheet exposures of the MIFIDPRU investment firms and occur as a result of the strategies adopted or are as a result of the normal course of business. The harms which potentially result as a consequence of these risks are harms to the MIFIDPRU investment firms rather than a direct harm to their clients.

Co-investment is normally a long-term arrangement where abrdn invests alongside a client. Hedging the risk from market-levels is usually not permissible as the intention is to bear risk alongside the client and is not the policy of abrdn; however, our policy is to hedge any related foreign exchange risk. The only MIFIDPRU investment firm exposed to this risk is abrdn Investment Management Ltd; other co-investment (and seeding of funds) is performed outwith the MIFID investment firms and there are overall limits and hedging requirements in place to manage the risks.

The counterparties that the MIFIDPRU investment firms hold cash and money market instruments with could default, resulting in loss. This risk is managed through the Treasury and Capital Management Policy which applies across the MIFIDPRU investment firms and ensures that abrdn only transacts with counterparties that are able to meet satisfactory credit standards and sets limits outlining the maximum acceptable exposure to a single counterparty to ensure diversification.

Financial debtors relate to accrued income, fee revenue due from clients and other financial debtors and these exposures result in credit risk for the MIFIDPRU investment firms. This risk is a result of business-as-usual activity and is managed through timely conversion of accrued revenue to invoice, monitoring of aged debt and escalation via client relationship teams, as required.

Subscription debtors arise when Adviser vector MIFIDPRU investment firms place an order with the trustees of a fund. The risk to the Adviser vector MIFIDPRU investment firms is that the client fails to settle the transaction and the firm has to cancel or reverse the purchase of units in the fund. Any movement in the fund price between placing the order and cancelling/reversing the order would normally be borne by the Adviser vector MIFIDPRU investment firms. This risk is a result of business-as-usual activity and is managed through established processes and controls.

Through the application of the controls outlined above, the market and credit risks are reduced and hence the risk of harm is also reduced.

3.3 Liquidity risks

Liquidity risk is the risk that a firm does not have access to liquid resources which are adequate, both in amount or quality, to ensure that they can meet all liabilities as they fall due. Liquid resources are held in the MIFIDPRU investment firms to meet contractual, business, and regulatory obligations both in a business-as-usual and in a combined market and idiosyncratic severe but plausible stress scenario.

A robust framework is in place to manage liquidity risk, designed to ensure that the MIFIDPRU investment firms are able to meet their liabilities as they fall due. The key steps of the framework are:

- Maintain a risk register of all material liquidity risks that could lead to harm.
- Identify and implement mitigation measures to reduce these risks.
- Stress the remaining liquidity risks to inform the amount of liquid assets the MIFIDPRU investment firms need to hold to meet regulatory requirements.
- Monitor liquid assets against risk appetites, over and above regulatory requirements.
- Conduct cash flow forecasting and maintain contingency funding plans.

Through the application of the controls outlined above, the liquidity risks are reduced and hence the risk of harm is also reduced.

3.4 Concentration risks

Whilst the MIFIDPRU investment firms do not deal on their own accounts, concentration risks can still exist and need to be managed.

- Earnings – the MIFIDPRU investment firms are all part of the wider abrdn group and as such earnings concentrations are managed at group level. abrdn has taken steps to diversify its earning across its Investments, Adviser and Personal vectors with the acquisition of Interactive Investor in 2022 being a significant step in delivering this change. Diversification of earnings is also supported through revenue models (ad valorem fee and subscription models), global client base, asset classes and products / services. We make use of contractual terms to mitigate earnings concentration risks where it is feasible to do so. The abrdn business planning and strategy processes support the management of earning diversification.
- Third-parties - the management of the associated concentration risks is set out in section 3.1.
- Client money - concentration risk relating to client money is managed through diversification of counterparties that the money is held with, in accordance with our Client Money Diversification Policy.

- Cash and money market instruments – the management of the associated concentration risks is set out in section 3.2.

Through the wider business strategy and the application of the controls outlined above, the concentration risks are reduced and hence the risk of harm is also reduced.