

## Key risks and mitigations

The Group is exposed to a variety of risks as a result of its business activities. As such, active and effective risk management is a core competence and we actively monitor the potential impact of current and emerging risks. The Group places significant focus on the integrity and good conduct of employees and the risk management framework is underpinned by a strong ethical culture. This section explains how we control and manage the risks in our business. It outlines key risks, how we mitigate them and our assessment of their potential impact on our business in the context of the current environment.

### Managing risk

The Board is accountable for risk and the oversight of the risk management process. It considers the most significant risks facing the Group and uses quantitative exposure measures, such as stress tests, where appropriate. Non-executive oversight of the risk management process is exercised through the Audit and Risk Committee with respect to standards of integrity, risk management and internal control.

It is the responsibility of all employees to uphold the control culture of Schroders and risk management is embedded within all areas of the business. Members of the GMC have risk management responsibility for their respective business areas and we expect individual behaviours to mirror the culture and core values of the Group.

The Chief Executive and GMC, as the principal executive committee with responsibility for the monitoring and reporting of risks and controls, regularly review the key risks facing the Group. The executive oversight of risk is delegated by the Chief Executive to the Chief Financial Officer. The Chief Financial Officer has responsibility for the risk and control framework of the Group and the independent monitoring and reporting of risks and controls is supported by the Group Head of Risk.

The Chief Financial Officer chairs the Group Risk Committee (GRC). This meets 10 times a year, and more frequently if required, and is attended by the heads of the control functions, being Group Risk, Compliance, Legal and Internal Audit, the Chief Operating Officer, the Head of Investment and senior managers from Distribution and Wealth Management. The GRC supports the Chief Financial Officer and the GMC in discharging their risk management responsibilities. The GRC reviews and monitors the adequacy and effectiveness of the Group's risk management framework, including relevant policies and limits. It also reviews trends and exceptions in the most significant risk exposures. The GRC and the Wealth Management Audit and Risk Committee receive reports in respect of risk from the Wealth Management Executive Committee.

### Lines of defence

The first line of defence against undesirable outcomes is the business function and the respective line managers, across Investment, Distribution, Wealth Management and Infrastructure. Business heads take the lead role with respect to identifying potential risks and implementing and maintaining appropriate controls.

Line management is supplemented by oversight functions, such as Group risk, compliance, finance, human resources, compliance, legal and governance, which constitute the second line of defence. The compliance monitoring programme reviews the effective operation of our processes in meeting regulatory requirements.

Group Internal Audit provides retrospective, independent assurance over the operation of controls and is the third line of defence. The internal audit programme includes reviews of risk management processes and recommendations to improve the control environment, supplemented by external assurance from the Group's auditors.

Schroders also maintains insurance cover.

### 2015 developments

The Group Risk operating model has been reviewed and we have further strengthened our risk framework.

We have continued to implement and embed our UK Conduct framework through the identification, mitigation and reporting of risks of poor client outcomes and other Conduct risks across our UK businesses. We have enhanced the

communications of our expectations of the behaviour of employees. The Employee Opinion Survey showed a high degree of employee alignment with, and support for, our culture and values. We are continuing to strengthen our management information and reporting in this key area and developing a proportionate application of the framework to our overseas businesses.

The Group's operational risk capabilities were enhanced by adding a risk library to our risk system, which links instances of operational risk across the firm and highlight areas requiring additional focus. In addition, the risk and control assessment (RCA) process was strengthened.

Recognising the increased incidence of cyber-crime within the industry, we conducted a review of our information security framework and continue to invest in this area. An Information Security Risk Oversight Committee was established, chaired by the Group Head of Risk, and both the first and second lines of defence were enhanced through the recruitment of specialists.

## **Key risks**

### **Reputational risk**

The reputation of Schroders is of paramount importance. Our reputation can be impacted by an adverse risk event arising from any of our key risks.

Reputational risk impacts Schroders' brand, reliability and relationship with clients and shareholders. This may arise from poor conduct or judgements, or from negative financial or operational events as a result of weaknesses in systems and controls.

Reputational risk may also arise from engaging in inappropriate client relationships or mandates which may have adverse implications for the Group.

High standards of conduct and a principled approach to regulatory compliance are integral to our culture and values. We consider key reputational risks when initiating changes in strategy or operating model.

In addition, we have a number of controls and frameworks to address other risks that could affect our reputation including: financial crime, investment risk and client take-on and product development.

### **Assessment of key risks**

The key risks outlined below have been assessed in light of the current environment, and are summarised in the following diagram. This year we have made the following change to the presentation of our key risks:

- International business risk has been renamed global business risk.
- A new category for the risk of insufficient capital has been included under market, credit, liquidity and capital risks.
- A new category for tax risk has been included under operational risks.

The horizontal axis shows whether the likelihood of the risk is stable or heightened, reflecting current conditions. The vertical axis shows the potential financial impact to the firm if that risk materialised. The Group undertakes additional work to address those risks that it considers to be potentially heightened, more costly or in excess of our risk appetite. Reputational risk is not included in the chart because this could arise as a result of other risk events occurring. In some areas we have seen increased levels of risk, which we continue to actively manage and an increase in financial impact. In particular, the outlook for markets remains uncertain and regulatory scrutiny is increasing.


**Business risks**

- 1. Investment performance risk
- 2. Product risk
- 3. Business concentration risk
- 4. Global business risk

**Market, credit, liquidity and capital risks**

- 5. Market risk
- 6. Credit risk
- 7. Liquidity risk
- 8. Risk of insufficient capital

**Operational risks**

- 9. Conduct and regulatory risk
- 10. Legal risk
- 11. Tax risk
- 12. Process risk
- 13. Fraud risk
- 14. Technology and information security risk
- 15. People and employment practices risk
- 16. Third party service provider risk

**Business risks**

Business risk can be influenced by both internal and external factors. A risk can materialise due to poor business execution or a failure to respond appropriately to internal or external factors.

Description of key risk	How we manage risk
<p><b>Investment performance risk</b> The management of investment performance risk is a core skill of the Group. This is the risk that portfolios will not meet their investment objectives or that there is a failure to deliver consistent and above-average performance</p>	<p>We have in place clearly defined investment processes designed to meet investment targets within stated risk parameters.</p> <p>The Group's Investment Risk Framework provides review and challenge of investment risks, independent of our fund managers, across all asset classes. Individual portfolio performance, valuations and risk profiles are monitored by fund managers and asset class heads on a regular basis, as well as by Pricing and Valuation Committees, Asset Class Risk Committees and the GMC.</p> <p>Recognising that products will not outperform all of the time, we offer clients a diversified product set.</p> <p>Key to investment performance is our ability to attract and retain talented people (see people and employment practices risk for further information).</p>

<p><b>Product risk</b></p> <p>Product risk arises from product or service viability and the risk that products or services do not meet their objectives and product and service complexity.</p> <p>Product risk can also arise from capacity constraints where the size of assets under management in a particular asset class or strategy makes it more difficult to trade efficiently in the market.</p>	<p>To manage product risk we conduct quantitative analysis on a product by product basis to confirm that products are performing to the expectation of our clients in accordance with our mandate. If the results do not meet our standards, we assess the qualitative aspects and, if appropriate, the product strategy is reassessed.</p> <p>Commercial viability and distribution channels are assessed by the Product Development Committee when they consider new fund proposals. New investment propositions and strategies are reviewed by the Product Strategy Committee.</p> <p>We monitor potential capacity constraints in funds on a regular basis. Mitigation may include closing products to new investment. The Product Development Committee considers the interests and needs of potential investors in our funds.</p>
<p><b>Business concentration risk</b></p> <p>Business concentration risk arises from concentration in a small number of distribution channels or products or when a small number of clients are concentrated in a specific product or market.</p> <p>Pressure on revenue margins continues to be a risk due to the rise of passive strategies, competition, transparency and regulatory change.</p>	<p>The broad range and scale of products and of distribution and investment channels that we have established mitigates our concentration risk and the dependency on any single sales channel.</p> <p>We aim to avoid client concentrations in any particular market or channel becoming excessive.</p> <p>We continue to offer competitive solutions for clients. We review the scalability of our business and continue to invest in infrastructure.</p>
<p><b>Global business risk</b></p> <p>Our business is broadly diversified by region. Whilst this mitigates our aggregate risk profile it introduces additional risks in terms of operating cross-border and in multiple environments as a result of business practices, customs and traditions.</p>	<p>We employ people with relevant expertise to manage our business and operations in accordance with local requirements as well as Group standards.</p> <p>New global markets are not accessed without appropriate due diligence.</p> <p>Local risk committees are established where appropriate and Compliance, Group Risk and other second line functions provide local oversight in all regions in which we operate. The GRC receives reports from line management regarding matters that give cause for concern and recommendations for appropriate remedial action.</p> <p>Our global operations are regularly reviewed by Group Internal Audit.</p>

## Market, credit and liquidity and capital risks

We face market, credit, liquidity and capital risks from movements in the financial markets in which we operate, arising from holding investments both as principal and agent.

Description of key risk	How we manage risk
<p><b>Market risk</b></p> <p>Operating capital, net revenue and expenses related to the Group's overseas subsidiaries are denominated in local currencies and are therefore subject to exchange rate risk.</p> <p>Market risk arises from market movements, which can cause a fall in the value of principal investments and a decline in the value of assets under management.</p>	<p>The Group Capital Committee, chaired by the Chief Financial Officer, regularly reviews all principal assets held for investment or seed capital purposes. The Group's seed capital investments are hedged in respect of market risk and currency risk where practical.</p> <p>We use forward foreign exchange contracts to mitigate transactional and investment exposure to currency movements.</p> <p>The Wealth Management Executive Committee monitors and manages market risk in the Group's banking businesses, which is primarily interest rate risk in the banking book.</p> <p>Our geographically-diversified, broad product range helps to mitigate market risk in a variety of market conditions and serves to diversify individual market dependencies. In addition, the Group's Investment Risk Framework provides review and challenge of market risks.</p>
<p><b>Credit risk</b></p> <p>We face credit risk as a result of counterparty exposure with respect to client and principal investment holdings including derivative exposures. The assets we manage are also exposed to counterparty risk.</p> <p>We also face credit risk through Wealth Management lending activities, in addition to client transactional counterparty risk.</p>	<p>We assess counterparty creditworthiness and set limits for both our principal and agency counterparties.</p> <p>We seek to diversify our exposure across different counterparties. The creditworthiness of counterparties and borrowers are monitored, as is usage against the relevant credit limits.</p> <p>In Wealth Management, we seek to mitigate credit risk within the lending activities, as appropriate, through collateralisation in the form of cash, portfolio investments or real estate. Credit risk is monitored and managed against limits and collateral.</p>
<p><b>Liquidity risk</b></p> <p>Liquidity risk is the risk that the Group or any of its subsidiaries cannot meet its contractual or payment obligations in a timely manner.</p> <p>Liquidity risk in relation to client portfolios may arise in difficult market conditions from the inability to sell the portfolio's underlying investments for full value, or at all. This could affect performance and also prevent cash or other assets from being readily available to meet redemptions or other obligations.</p>	<p>We maintain liquidity for our anticipated needs and regulatory requirements, taking account of the risks we face. The Group Capital Committee regularly reviews the Group's liquidity needs considering the current liquidity position, future cash flows, regulatory requirements and potential stress scenarios.</p> <p>Liquidity is also considered at a legal entity level with consideration of specific circumstances and regulatory requirements of each company. The Wealth Management Executive Committee monitors and manages liquidity risk in the Group's banking businesses.</p> <p>To mitigate this risk, we seek to match the liquidity of the underlying investments with the anticipated redemption requirements when we construct portfolios.</p> <p>We have established a process to assess and monitor the liquidity risk profile of funds on an ongoing basis. The process relies on a set of quantitative indicators which provide information on the evolution of the</p>

	<p>liquidity of funds over time and under various scenarios. This helps us to identify and investigate possible issues, and implement an appropriate plan of action as necessary.</p> <p>We also review products and portfolios on a regular basis to identify and manage possible capacity constraints.</p>
<p><b>Risk of insufficient capital</b>  The risk of insufficient capital would materialise if the Group was unable to support its strategic business objectives beyond its minimum regulatory capital requirements.</p>	<p>Maintaining a strong capital base is important to our business and is a core part of our strategy. We ensure each of our regulated subsidiaries, and the Group as a whole, meet their minimum regulatory capital requirements. The Group sets and maintains a prudent level of capital, that includes a buffer over the minimum regulatory capital requirement that allows us to effectively conduct our business in the markets in which we operate and to invest in new business opportunities that may arise. The Group Capital Committee supports the Chief Financial Officer in exercising responsibility for the management of the Group's capital.</p> <p>The Group performs a thorough assessment of the adequacy of its capital through the Internal Capital Adequacy Assessment Process (ICAAP). In addition, Wealth Management in London and the Channel Islands also perform an ICAAP.</p>

## Operational risks

Operational risk is inherent globally in all activities and processes we perform within the Group. To manage and mitigate these risks, the second line of defence provides oversight and challenge to the business through an operational risk framework. Tools to manage this include risk and control assessments, risk event management processes and new product approval processes. We manage risk events through identification, reporting and resolution with the aim of preventing risk events from recurring.

Description of key risk	How we manage risk
<p><b>Conduct and regulatory risk</b></p> <p>Conduct and regulatory risks include the risks identified below.</p> <p>The risks of client detriment arising from inappropriate conduct, conflicts management, practice or behaviour or failing to meet client needs, interests or expected outcomes.</p> <p>The risks of money laundering, bribery or market abuse shortcomings on the part of fund investors, clients or our employees.</p> <p>The risk of fines, penalties, censure or other sanctions arising from failure to identify or meet regulatory requirements.</p> <p>The risk that new regulations or changes to existing interpretations have a material effect on the Group's operations, risk profile or cost base.</p>	<p>We promote a strong compliance culture and we value good relationships with our regulators. Our Compliance function supports management in identifying our regulatory obligations and enabling these to be met through relevant training and procedures. Compliance with relevant regulatory requirements is monitored in accordance with a risk-based programme.</p> <p>Our approach to encouraging appropriate conduct and minimising the risk of client detriment is set out in our conduct risk framework, and is built on our culture and values, supported by appropriate governance and reporting. This includes:</p> <ul style="list-style-type: none"> <li>- A culture in which all employees are encouraged and supported to 'do the right thing';</li> <li>- A long-term approach to creating value and good outcomes for our clients, fund investors and shareholders;</li> <li>- A focus on suitability of advice and of discretionary management and on products that meet the needs of our clients and investors; and</li> <li>- Strong controls, governance, training and risk management processes.</li> </ul> <p>Risk based client take-on and review processes are among our key controls to address the risks of money laundering. Trading is subject to clear policies and to transaction surveillance processes, which are being increasingly enhanced. Financial crime oversight is provided by the Financial Crime Committee.</p> <p>Regulatory and legal change is monitored by the Compliance, Legal and Public Policy teams. Key regulatory and tax risks are identified below. We engage with our regulators where appropriate in relation to potential and planned changes.</p>
<p><b>Legal risk</b></p> <p>The risk that Schroders or its counterparties, clients or suppliers with whom we contract fail to meet their legal obligations, that Schroders takes on obligations that it did not intend to assume and the risk of legal proceedings and loss.</p> <p>The risk that client expectations and obligations with respect to our own and third</p>	<p>We rely on our employees, with support from our Legal function, to consider the obligations we assume across the Group and our compliance with them. Our policies and procedures across the Group are developed having regard to recognised legal risks.</p> <p>Confirmations are obtained from representatives around the Group that actual or potential disputes and claims have been brought promptly to the attention of the General Counsel. We have an escalation process for</p>

<p>party responsibilities under investment management and other agreements will not be met, with a revenue or contingent liability impact.</p>	<p>areas of identified material risk.</p>
<p><b>Tax risk</b> The risk that the Group or its managed funds face additional liabilities or penalties arising through non-compliance or failures in the tax return process.</p> <p>Tax risk may also arise through a failure to understand how the law applies in specific circumstances or where there exists inherent uncertainty as to how the relevant law will apply.</p>	<p>Our approach to managing tax risk is set out in our tax governance framework. This identifies key tax activities across the Group and defines responsibilities in respect of those activities.</p> <p>We have a dedicated Tax function that works with management and our advisers to monitor the tax compliance obligations of the Group. Local management, with support from our Tax function, is generally responsible for identifying and managing compliance obligations arising in respect of managed funds, with the assistance of third party service providers.</p> <p>Developments in taxation are monitored by the Tax function and local management. We engage with representative industry organisations and advisors to ensure we are kept abreast of relevant changes, impacting the Group, our managed funds and our clients.</p>
<p><b>Process risk</b> The risk of failure of significant business processes, including, for example, mandate compliance, client suitability checks and asset pricing.</p>	<p>Our key business processes have been identified and the risks assessed by first line of defence owners. Associated controls are assessed with regard to their design and performance.</p> <p>Business owners perform RCAs to determine the adequacy and effectiveness of key controls.</p> <p>Second line oversight and challenge is provided on the outputs of the RCAs. Significant risks and gaps are reported to the GRC and remediation plans are developed and agreed.</p>
<p><b>Fraud risk</b> Fraud could arise from either internal or external parties who attempt to defraud the firm or our clients by circumventing our processes and controls.</p>	<p>Policies and procedures are in place to manage fraud risk. Tailored risk assessments for fraud risk are conducted to identify potential risks and to ensure appropriate controls are in place.</p> <p>There is a specialist team in the second line of defence that provides challenge and oversight of the fraud risk framework.</p> <p>The Financial Crime Committee reports to the GRC.</p>
<p><b>Technology and information security risk</b> Technology and information security risk relates to the risk that our technology systems and support are inadequate or fail to adapt to changing requirements; that our systems are penetrated by third parties; and that data is held insecurely.</p>	<p>Schroders actively engages with industry peers and government intelligence services to understand and take action against potential cyber threats.</p> <p>A technology and information security strategy has been approved by the Board.</p> <p>Formal governance over information risks has been established across the three lines of defence through the information security risk oversight committee. The Group holds insurance to cover cyber risks including electronic computer crime, professional indemnity for breach of confidentiality, and network interruption for unavailability of IT services</p>



	<p>due to unauthorised access.</p> <p>A suite of policies and technical standards, including security awareness training, has been deployed across the Group</p>
<p><b>People and employment practices risk</b></p> <p>Talented employees may be targeted by competitors seeking to build their businesses.</p> <p>In addition, people and employment practices risk incorporates the risk that our employment practices do not comply with local legislation, such as equal opportunities, human rights or the safety and wellbeing of employees when at work.</p>	<p>We have competitive remuneration and retention plans, with appropriate deferred benefits targeted at key employees. We seek to build strength in depth through sustainable succession and development plans. We operate a global model, which reduces our reliance on single pools of talent. Clear objectives are set for employees and success is measured in an annual review process, allowing us to identify motivational development initiatives.</p> <p>We have policies and procedures in place to encourage diversity and to manage employment issues appropriately and handle them consistently, fairly and in compliance with local legislation.</p>
<p><b>Third party service provider risk</b></p> <p>We have a number of outsourced supplier relationships as part of our business model, particularly in respect of information technology, fund administration and transfer agency services.</p> <p>Third party service provider risk relates to the risk that suppliers may not be able to meet their agreed service level terms.</p>	<p>On an annual basis, the Audit and Risk Committee reviews all outsourced relationships covered by the Group policy, focusing on significant aspects such as service quality and risk management.</p> <p>Our outsourcing policy sets out key considerations when appointing and managing a third party service provider, including due diligence and regular reviews of providers' performance against agreed service levels. Exit plans are considered prior to appointment and provide a framework for transitioning business from one service provider to another should the quality fall below the agreed service level.</p>



15. FCA asset management competition market study

**Tax related risk/opportunities**

- A. OECD common tax reporting standard (CRS)
- B. OECD and EU initiatives and related actions on base erosion and profit shifting (BEPS)
- C. EU VAT changes
- D. EU Financial Transaction Tax (FTT)