Morningstar Wealth Administration Limited

FRN 463566

MIFIDPRU 8 Disclosure

As at:

31 December 2022

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1 Introduction and Context

1.1 Firm Overview

Morningstar Wealth Administration Limited ("WAL" or "the Firm") is authorised and regulated by the Financial Conduct Authority ("FCA" or "the regulator") in the United Kingdom. WAL administers the Discretionary Platform Service which provides advisers and wealth managers with an online platform through which they can provide end-to-end discretionary investment management solutions to their clients. WAL is categorised as a MIFIDPRU investment firm as defined by the FCA and subject to the Prudential sourcebook for MIFID Investment Firms. As per MIFIDPRU 1.2, WAL is classified as a non-Small and Non-Interconnected ("Non-SNI") firm.

1.2 Basis of Disclosure

The Investment Firm Prudential Regime ("IFPR") was implemented by the FCA on 1 January 2022. The new regime requires MIFIDPRU investment firms to publicly publish disclosures as per the rules set out in MIFIDPRU 8.

The regulatory aim of the disclosure is to improve market transparency in relation to how the Firm is run.

This document has been prepared by WAL in accordance with the requirements of MIFIDPRU 8. Unless otherwise stated, all figures are as at the Firm's 31 December financial year-end.

1.3 Scope

The Firm has completed this disclosure on an individual basis, as per the rules in MIFIDPRU 8.1.7.

1.4 Frequency

The rules set out in MIFIDPRU 8.1.10R require that the information contained in this document is disclosed at least annually, on the date it publishes its annual financial statements. The Firm considers it appropriate to update the disclosure document more frequently during periods of significant material change to the Firm or business model.

1.5 Media and Location

The disclosure document is published on the Firm's website: https://morningstarwealthplatform.com/en-uk/legal-policies/

2 Governance

2.1 Organisation Structure

Morningstar Wealth Administration Limited is a firm based in London, UK. WAL is owned by the Parent Group Morningstar, Inc. which is based in Chicago, US. WAL also has a number of subsidiaries based in the UK and a regulated branch located in Dubai, UAE.

2.2 Governance Framework

The Board is the governing body of Morningstar Wealth Administration Limited, and has the ultimate management authority and responsibility of the Firm and its activities. The Board's main roles and responsibilities include:

a) Overseeing related risk management arrangements to ensure effectiveness of risk identification and management
b) Overseeing compliance with the applicable rules of the FCA and other organisations, as they apply to the Firm
c) considering the adequacy of the arrangements established to ensure compliance with the Rules and Guidance of the FCA and/or other regulatory bodies, as appropriate;
d) assessing the risk management strategy of the Firm and, where appropriate, ensuring that risks are adequately managed;
e) ensuring the compliance function is adequately resourced and has appropriate standing and independence within the Firm; and
f) considering other topics, as defined by the Board from time to time.

The Board meets on a quarterly basis, or more frequently as needed. As of 29 September 2023, the Board was comprised of:

Name	Title
Mark Sanderson	Managing Director, Wealth UK & Offshore
Chris Divito	Non-Executive Director

2.3 Directorships

Name	Title	Number of External Directorships
Mark Sanderson	Managing Director, Wealth UK & Offshore	
Chris Divito	Non-Executive Director	1

2.4 Committees

Risk and Regulatory Change Committee

The Firm established the Risk and Regulatory Change Committee to oversee each business area's assessment of its key risks and the controls in place to mitigate them, as well as the impact of new or emerging regulatory changes on the business' operations, risk profile and appetite. The Risk and Regulatory Change Committee meets on a quarterly basis.

Audit Committee

The Firm has not established an Audit Committee due to its size.

Risk Committee

The Firm does not have a designated Risk Committee, based on its exemption as per MIFIDPRU 7.1.4R.

2.5 Diversity

Morningstar is committed to protecting human rights in all aspects of its business and to providing an equitable and ethical workplace. The goal is to provide a workplace where every employee feels respected, valued, and comfortable. To preserve this atmosphere, Morningstar will not tolerate harassment or other abusive behaviour by anyone, including employees, board members, clients, vendors, suppliers, contractors, and consultants. To ensure modern slavery and other forms of abusive practices are absent from the business and supply chains, Morningstar is committed to implementing and enforcing effective systems and controls.

Morningstar is strongly committed to creating and preserving equal opportunity for all employees and applicants, in accordance with applicable law. All employment decisions, including recruitment, hiring, compensation, training, promotion, transfer, discipline, termination, and other personnel matters, are made without regard to race, colour ancestry, religion, sex, national origin, age, disability, protected veteran status, marital status, sexual orientation, genetic information, citizenship, gender identity and expression, parental status, or other legally protected characteristics or conduct.

Morningstar's strong commitment to equal opportunity requires a commitment from every employee and so Morningstar enshrines diversity and inclusion within its code of ethics, which is applicable to all employees, including employees of the Firm and members of the Board of Directors of each firm within the Morningstar group.

3 Risk Management

3.1 Risk Management Objective and Framework

The Firm's risk management policies and framework aim to provide reasonable assurance of the safeguarding of the assets and interests of all stakeholders, including the customers of the Group's operating businesses. The main aspects of WAL's risk management framework include:

- Risk governance, including:
  - setting risk tolerances;
  - establishing policies and procedures;
  - establishing a regional Risk and Regulatory Change committee; and
  - overseeing the risk management framework.
- Risk identification and assessment, including:
  - identifying the firm's key risks and emerging risks;
  - identifying business unit risk through tools such as risk and control self-assessments and regular meetings with business units;
  - reviewing new products and major changes; and
  - reviewing operating events and external events.
- Risk monitoring and measurement – quantifying and forecasting risks and monitoring against risk tolerance. This includes:
  - monitoring and investigating operating incidents, and recording them in a database of operating incidents;
  - establishing and monitoring key risk indicators in the context of the firm's risk tolerance; and
  - overseeing the Internal Capital and Risk Assessment process, including the quantification of regulatory capital requirements.
- Risk reporting – providing information and reports to functional and regional business management, boards, committees and regulators. This includes:
  - risk profile and risk register reporting; and
  - operating incident and breach reporting.

3.2 Risk Management Governance

The overall responsibility of the risk management policies within the Firm is held by the Board. Its duties and responsibilities are outlined in 2.2 above.

The Board meets on a quarterly basis, or more frequently as needed.

As well as the Board, the Firm also has in place a designated Risk and Regulatory Change Committee which also hold responsibility over the Firm's risk management framework. Its key duties and responsibilities include:

a) Overseeing departmental risk registers and ensuring key risks are highlighted to management and the Board;
b) Reviewing controls implemented to mitigate risks to determine their effectiveness; and
c) Noting the impact of new or emerging regulatory changes on the business' operations, risk profile and appetite.

The Risk and Regulatory Change Committee meets on a quarterly basis, or more frequently as needed.

3.3 Risk Appetite

The Firm defines "risk appetite" as the level of residual risk which the firm considers acceptable for any given risk. The Firm identifies its risks and categorises them both in terms of severity and whether they represent a material risk. These risks are then evaluated in regard to whether or not they are within the Firm's risk appetite, which the Firm has determined to be "Risk Averse".

Risks are subject to ongoing review and evaluation by both individual departments within the Firm and the Risk and Regulatory Change Committee, and key risks are highlighted for review by the Board.

3.4 Key Risks

Operational Risk

Operational Risk relates to the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. It includes legal and financial crime risks.

Operational risk can never be eliminated; however, to minimise the probability and impact of adverse operational events our risk management process includes specific reviews of the key risks identified via the Risk Register, the underlying internal control matrices and the effectiveness of the risk management process as a whole which is integral to the Firm's Risk Management Framework. This includes a range of policies and procedures carried out by all three lines of defence with the aim of enhancing operational controls and minimising errors.

The key operational risks assessed for the Firm are a consolidation of a number of more granular risks which are managed through the ongoing risk management activity of the Firm.

The risks assessed through this process include:

- Legal and Regulatory
- CASS
- Information Technology
- Change
- Processing
- Conduct of the business
- Outsourcing and material suppliers
- People
- Business Continuity
- Information Security
- Financial Crime.

Each is assessed within the risk matrices for each of the business units of the Firm. These are reported through the risk management framework and actions ascribed to all material residual risks.

Credit Risk

This represents the risk of loss through default by a counterparty and can include failure to recover debts, a default by the issuer of a market instrument (Issuer Risk) and/or a counterparty not fulfilling contractual obligations as a result of either short-term operational failures or its insolvency.

The Firm does not offer credit to clients and does not conduct any trading as principal. The significant majority of the fees which the Firm receives for its services are accrued daily and paid each month. Fee settlement is processed each month from accounts and funds directly operated by the Firm and, therefore, the Firm carries no aged debtor balances for unpaid fees.

The Firm arranges trades on behalf of its underlying investors in its role as Custodian. These trades are transacted through sub-custodians which, primarily, comprise FNZ and, via Morningstar Wealth International Limited, a sister company of the Firm, Northern Trust. When it executes trades, the Firm generates cash flows between the client money accounts which it manages and the sub-custodian for the respective assets being bought and sold. Because of its responsibilities under CASS 7 to maintain the client money resource against the requirement at all times, any delay in the settlement of the sell side of transactions by the sub-custodian would generate a funding gap on the client account which would have to be funded. This, and the risks associated with modelling cash flows with settlement days which might vary between system and sub-custodian, give rise to a counterparty risk and an associated credit risk exposure. To mitigate this risk, the Firm operates a Prudent Segregation policy to retain a balance within the client money account in accordance with the CASS rules.

Liquidity Risk

Liquidity Risk refers generally to the Firm's ability to:

- Operate within its defined tolerance for risk or cash buffer;
- Continue to pay its debts and other obligations as they fall due without incurring excessive cost in order to do so;
- Effect an orderly wind-down of its business should the need arise; and
- Realise its assets as may be required to fund the above.

To address these, the Firm maintains a liquidity risk management framework under which it:

- Holds current reserves in the form of cash or short-term deposits, as entirely liquid assets;
- Monitor the cash resources available daily and update cash forecasts on a quarterly basis;
- Plan and monitor forecast cash requirements, expenses and revenue trends;
- Model trading settlements to forecast cash settlement balances daily; and
- Test cash flows in severe adverse scenarios under the wind-down plan.

Regulatory Risk

This is the risk, ultimately, of the business having its authorisation withdrawn by the regulator or having certain conditions applied which adversely impact its ability to function on a day to day basis.

The business mitigates any such risks by effectively planning for any change to laws and regulations and having a comprehensive understanding of regulator expectations. This includes, but is not restricted to, ensuring regulatory returns are completed in a timely manner, having in place an adequate compliance programme, and providing training and education to staff in respect of products, regulations, and compliance or legal frameworks.

3.5 Effectiveness of the Firm's Risk Management Process

The Firm believe the risk management processes and controls are appropriate for the Firm based on the activities undertaken by the Firm but does note that further enhancements to these arrangements would be beneficial. The Board will review and endorse the risk management objective annually.

4 Own Funds

4.1 Composition of Regulatory Own Funds

WAL holds share capital and retained earnings as CET1 capital. As at the Firm's financial year end on 31 December 2022, the Firm complied with all capital requirements.

	Item	**Amount (GBP thousands)**	**Source based on reference numbers/letters of the balance sheet in the audited financial statements**
1	**OWN FUNDS**	**3,506**	Statement of Changes in Equity (Page 12)
2	**TIER 1 CAPITAL**	**5,061**	Statement of Changes in Equity (Page 12)
3	**COMMON EQUITY TIER 1 CAPITAL**	**5,061**	
4	Fully paid up capital instruments	2,150	Statement of Changes in Equity (Page 12)
5	Share premium	-	
6	Retained earnings	2,911	Statement of Changes in Equity (Page 12)
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	(1,555)	Note 8 (Page 24)
19	CET1: Other capital elements, deductions and adjustments	-	
20	**ADDITIONAL TIER 1 CAPITAL**	-	
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	**TIER 2 CAPITAL**	-	
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	-	

4.2 Reconciliation of Regulatory Own Funds to Balance Sheet in the Audited Financial Statements

The table below describes the reconciliation with own funds in the balance sheet as at 31 December 2022, where assets and liabilities have been identified by their respective classes. The information in the table below reflects the balance sheet in the audited financial statements.

		a) Balance sheet as in published/audited financial statements	b) Under regulatory scope of consolidation	c) Cross reference to template OF1
		As at period end 31 December 2022		
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements				
1	Investments in Subsidiaries	£1,554,500		11
2	Tangible Assets	£71,250		
3	Current Assets	£4,385,608		
	Total Assets	**£6,011,358**		
Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements				
1	Current Liabilities	£950,737		
	Total Liabilities	**£950,737**		
Shareholders' Equity				
1	Capital	£2,150,000		4
2	Retained Earnings	£2,910,621		6
	Total Shareholders' equity	**£5,060,621**		

4.3 Main Features of Own Instruments Issued by the Firm

Share Capital

- Share capital consists of fully paid ordinary shares of £1 each, with 2,150,000 shares in issuance as at 31 December 2022
- 100% of the called-up share capital is owned by the parent company, Morningstar Wealth Portfolio Services Limited
- 100% of total shareholder's equity is recognised as regulatory own funds capital
- Share capital and retained earnings have no specific terms and conditions attached to them

5 Own Funds Requirements

5.1 Own Funds Requirement

The Firm must at all times maintain its own funds to be at least equal to its own funds requirement. As per MIFIDPRU 4.3, the own funds requirement is the higher of the:

(i) Permanent Minimum Requirement (MIFIDPRU 4.4R)
(ii) Fixed Overhead Requirement (MIFIDPRU 4.5R)
(iii) K-Factor Requirement (MIFIDPRU 4.6R)

Own funds requirement as at 31/12/2023:

Own Funds Requirement		**GBP Thousands**
Permanent Minimum Requirement		£150,000
Fixed Overheads Requirements		£650,504
K-Factor Requirement	∑ K-AUM, K-CMH and K-ASA	£1,349,589
	∑ K-DTF and K-COH	£8,671
	∑ K-NPR, K-CMG, K-TCD and K-CON	-

The 'K-factor' approach is a new approach introduced by the IFPR to determine the minimum own funds requirements of an investment firm that is not an SNI. The aim of the K-factors is to provide a tailored and more appropriate method for setting a risk-based minimum own funds requirement for all types of investment firms compared to the CRR regime.

5.2 Approach to Assessing the Adequacy of Own Funds

One of the key aspects of the firm's approach to assessing the adequacy of own funds is the completion of the Internal Capital Adequacy and Risk Assessment (ICARA) process, which assists the Firm in identifying and mitigating potential harms the Firm is at risk of as a result of its activities. As part of the ICARA process, the Firm has conducted assessments of material harms on each of its key risks and conducts a full wind-down plan to ensure it maintains sufficient own funds to conduct an orderly wind-down without negatively impacting the security of client money or assets.

The adequacy of the ICARA process will be reviewed at least annually, or more frequently should there be any material changes to the Firm's risk profile or business strategy. In addition to the ICARA process, the Firm further ensures adequacy of own funds through internal monthly capital control.

6 Remuneration

6.1 Approach to Remuneration

The Firm's Remuneration Policy is applicable to all the staff of WAL, to the extent specified. SYSC 19G.1.24G provides that the term "staff" should be interpreted broadly to include, for example, employees of the firm itself, partners or members (in the case of partnership structures), employees of other entities in the group, employees of joint service companies, and secondees.

6.2 Remuneration Policy

The Firm's Remuneration Policy outlines the policies and processes of remuneration for all the Firm's staff. The policy aims to reflect the Firm's business philosophy of maintaining sound operational and regulatory systems and controls and a strong Compliance culture. The Remuneration Policy is reviewed by Compliance and the Board on an at least annual basis in order to ensure that the terms are in line with current regulatory requirements.

As the governing body, the Board must discharge effective oversight to enable the Firm's arrangements to strengthen prudent risk taking measures, ensure related conflicts of interest are managed and promote good conduct. Furthermore, the Board ensures prudential obligations, capital requirements, and liquidity management are considered accordingly when determining remuneration paid to employees.

It is the Firm's intention that its Remuneration Policy:

- Discourages risk-taking beyond the Firm's risk appetite;
- Discourages behaviours leading to misconduct and poor customer outcomes;
- Supports good behaviours and healthy firm culture; and
- Establishes and promotes sound and effective risk management practices.

6.3 Remuneration Governance

The Compensation Committee of the Firm's ultimate parent, Morningstar, Inc. is responsible for oversight of the Firm's remuneration policy and practices. In addition to the Compensation Committee, input regarding remuneration is also provided by the Board of Directors of the ultimate parent, Morningstar, Inc. and the Board of Directors of the Firm.

The Compensation Committee and the Board of Directors of Morningstar, Inc. are responsible for ensuring that proposed remuneration is in line with the Firm's performance, determined by comparison to both financial and non-financial criteria. The Board of Directors of the Firm are responsible for ensuring that the proposed remuneration is aligned with the Firm's risk approach and all applicable regulatory requirements.

6.4 Material Risk Takers

A material risk taker is defined in SYSC 19G.5.1R as a staff member at a non-SNI MIFIDPRU investment firm whose professional activities have a material impact (as described in SYSC 19G.5.3R) on the risk profile of the firm, or of the assets that a firm manages.

As required in SYSC 19G.5.2R, WAL assesses which members of its staff are material risk takers at least annually, or more frequently as required, including when staff leave or join the Firm. For the performance year 2022, the Firm identified four material risk takers.

6.5 Categorisation of Fixed and Variable Remuneration

WAL is required to make a clear distinction between the criteria for setting its fixed and variable remuneration within the Firm. The Firm operates a flexible Policy whereby remuneration is appropriately balanced and the fixed award is expected to be a higher proportion of the total Remuneration. Should an exception be identified where the variable component exceeds that of the fixed component, during a financial period, this exception should be highlighted and presented to the Board for review.

Fixed remuneration is set at an appropriate level which ensures that staff are not reliant on variable pay, and thus are not incentivised to take excessive risk.

Variable remuneration within the Firm may include cash and/or share-based bonuses provided by the below schemes:

- Investment Management Incentive Plan;
- Morningstar Global Bonus Pool;
- Sales Commission; and
- Equity (Restrict Stock and Morningstar Stock Units).

With the exception of the Morningstar Global Bonus Pool, which is available to all permanent employees, the schemes are subject to eligibility criteria based on role and business unit type. No Firm employees receive variable only remuneration awards.

Variable employee remuneration and similar incentives must not be solely, or predominantly, based on quantitative commercial criteria and must take into account appropriate qualitative criteria reflecting compliance with the applicable regulations, the fair treatment of clients, the quality of services provided to clients, and include sustainability and risk adjusted performance measures. As applicable, this criteria is set within each employee's objectives and includes financial and non-financial components.

Consequently, bonus funding and related payment to employees is dependent on several factors, notably overall firm and associated business line performance and then taking the employee's individual performance factors both quantitative and qualitative, accordingly into account.

On occasion, the Firm is permitted to make discretionary awards of variable remuneration to employees, including Material Risk Takers, potentially constituting sign on bonuses, retention awards, severance payments or buy out awards. Such awards must be subject to approval by the Morningstar's Talent and Culture team and the WAL Board and a suitable rationale must be documented.

6.6 Remuneration Adjustments

WAL policy permits the adjustment of variable remuneration to take account of specific, crystallised risk, or adverse performance outcomes, specifically those relating to misconduct, serious reputational damage, or significant financial loss. As necessary, the WAL Board would appoint the appropriate control function to investigate and determine if adjustments are necessary, potentially including clawbacks of variable remuneration awarded. Under Firm policy, the period for potential clawbacks is three years from payment.

Risk and Performance Adjustments

Assessment of WAL's remuneration arrangements is integral to the internal capital adequacy and risk assessment (ICARA) process. The ICARA is an ongoing assessment, formally documented annually that considers the key risks identified as applicable to the activities of the Firm and the potential impact these may have on WAL's prudential obligations. Remuneration, and the associated consideration that related structures may promote excessive risk taking, is specifically integrated into the ICARA process.

The allocation of variable remuneration takes into account all types of current and future risks, including non-financial risks, in accordance with the MIFIDPRU Remuneration Code. The related structures and processes would be adjusted accordingly, should the overall current and future risk appetite be potentially compromised by the established remuneration arrangements.

Risk and Performance Adjustments for Material Risk Takers

In order to comply with MIFIDPRU Remuneration Code, the Firm is required to have in place processes through which it can, if necessary, reduce the variable remuneration of a material risk taker. The Board reviews proposed remuneration awarded to Material

Risk Takers for the annual reporting period and determines whether any proposed increase in fixed remuneration and/or granting of variable remuneration, breaches policy requirements.

Should any potential breaches be identified, the WAL Board will escalate the concerns to Morningstar's Compensation Committee for immediate review. If WAL policy has been breached, the WAL Board will request a risk-based adjustment to the relevant Material Risk Taker's proposed remuneration award.

Severance payments may be made to material risk takers at the sole discretion of the Firm, and will be assessed strictly in line with the requirements of the MIFIDPRU Remuneration Code 11.8. WAL's Remuneration Policy states payment of such awards requires approval from Morningstar's People and Culture team and the WAL Board.

6.7 Quantitative Disclosures

Total amount of remuneration awarded to senior management, other material risk takers and other staff:

	Fixed remuneration	Variable remuneration
Senior Management	£536,974	£851,724
Other Material Risk Takers	-	-
Other staff	£792,385	£248,558
Total	£1,329,359	£1,100,282

The table above details the remuneration, split between fixed and variable, of the employees and material risk takers of the Firm. For the purposes of this disclosure, staff employed within the Morningstar group who are neither identified as material risk takers or as undertaking senior management functions for the Firm have been excluded.

The table above demonstrates a higher proportion of variable remuneration to fixed remuneration than is within the tolerance of the Firm. As noted in 6.5 the Firm is permitted to make discretionary awards of variable remuneration to employees, outside of the schemes identified. Discretionary awards made outside of the schemes identified in 6.5 during the performance period represented 48% of variable remuneration awarded to material risk takers.

There were no guaranteed variable remuneration awards made to Material Risk Takers in the performance period.

There were no severance payments awarded to Material Risk Takers in the performance period.