

# SANTANDER INVESTMENT SECURITIES INC.

## DISCLOSURE DOCUMENTS REQUIRED UNDER COMMODITY EXCHANGE ACT REGULATION 1.55(k)

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DECEMBER 2021

### INTRODUCTION

Regulation 1.55(k) of the Commodity Exchange Act (“CEA”) requires each futures commission merchant (“FCM”), including Santander Investment Securities Inc. (“SIS” or “the Firm”), to provide the information contained in this document to a customer prior to the time the customer enters into an account agreement or deposits money or securities (“funds”) with the FCM.

SIS is a wholly-owned subsidiary of Santander Holdings USA, Inc.

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The information provided in this document will be updated annually or earlier in the event of material changes to SIS’s business operations, financial condition or other factors that SIS believes may be material to a customer’s decision to conduct business with SIS.

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### 1. CEA Regulation 1.55 (k)(1) – FCM Name and Address

*The futures commission merchant's name, address of its principal place of business, phone number, fax number, and email address.*

Santander Investment Securities Inc.  
45 East 53rd Street  
New York, NY 10022  
Phone Number: 212-350-3500  
Fax Number: 212-350-3449  
(refer to Contacts, below, for email addresses)

#### Contacts:

- Marco Antonio Achón, President and Chief Executive Officer (marco.achon@santander.us)  
(212-692-2511)
- Isaac Prada, North America Head of Exchange Traded Derivatives (iprada@santander.us)

(212-583-4605)

- Jason Lane, Chief Compliance Officer (jason.lane@santander.us) (917-754-0649)
- Felix Muñoz Elorza, Chief Financial Officer (felix.munoz@santander.us) (212-407-4594)
- Richard Ro, Chief Accounting Officer and Financial and Operations Principal (richard.ro@santander.us) (917-499-0296)
- Donna Sheehan, Business Development (dsheehan@santander.us) (212-583-4635)

## 2. CEA Regulation 1.55 (k)(2) – Biographies

*The name, title, business address, business background, areas of responsibility, and the nature of the duties of each person that is defined as a principal of the futures commission merchant pursuant to Regulation 3.1 of this chapter.*

Marco Antonio Achón

Marco Antonio Achón is SIS's President and Chief Executive Officer. Mr. Achón holds ultimate managerial responsibility for SIS's futures activities. Mr. Achón has been with Santander Group since 2005. From 2005 to 2007, Mr. Achón was Head of European Capital Markets; from 2007 to 2008, Global Head of Loan Markets; from 2008 to 2010, European Head of Credit Markets; from 2011 to 2014, European Head of Corporate and Investment Banking; and, from 2014 to 2017, Global Head of Financial Solutions & Advisory. Prior to Santander, Mr. Achón was Head of Debt Capital Markets and Loan Syndications for the Americas at BBVA Securities Inc.

Isaac Prada

Isaac Prada is Head of SIS's Exchange Traded Derivatives Division. Mr. Prada is responsible for monitoring SIS's futures activities and ensuring that the activities comply with U.S. laws and regulations. Mr. Prada has been with SIS since 2010. Prior to SIS, Mr. Prada was employed by Santander Group in Madrid where he served in various roles, including Global Head of Exchange Traded Derivatives Sales.

Jason Lane

Jason Lane is SIS's Chief Compliance Officer. Mr. Lane is responsible for SIS's Compliance Program and is responsible, along with Mr. Prada, for monitoring the futures activities of SIS and ensuring that its activities comply with U.S. laws and regulations. Mr. Lane joined the Firm in 2021. Prior to SIS, Mr. Lane served as the Head of Compliance, Conduct and Financial Crime, US and Chief Compliance Officer at NatWest Markets Securities Inc. ("NWMSI") from 2018 - 2021. Prior to becoming CCO, Mr. Lane was a Senior Counsel in the Legal Department of NWMSI from 2012 to 2018. Prior to joining NWMSI, Mr. Lane was counsel in the law firm of Bingham McCutchen where he was a member of the Securities Enforcement & Investigations Group. He received his JD from Seton Hall School of Law, his MBA in Finance from the Seton Hall Stillman School of Business, and a BA from University of Delaware.

Felix Muñoz Elorza

Felix Muñoz Elorza is SIS's Chief Financial Officer. In that role, Mr. Muñoz Elorza holds overall management responsibilities for SIS's accounting, regulatory reporting, and financial planning and analysis functions. Mr. Muñoz Elorza joined SIS in 2019 after ten years employment with Santander Bank, N.A., most recently serving as US Management Reporting Director. Prior to Santander Bank, Mr. Muñoz Elorza was employed from 2001 to 2009 by Santander Group in various finance-related roles. Mr. Muñoz Elorza is a FINRA registered Financial and Operations Principal.

Richard Ro

Richard Ro is SIS's Chief Accounting Officer and Financial and Operations Principal. Mr. Ro is responsible for all futures activities accounting tasks, including books of original entry (i.e., general ledger), financial reporting and regulatory reporting preparation. Mr. Ro rejoined SIS in 2021 after serving as Senior Manager at Ernst and Young for over five years. Mr. Ro has approximately twenty five years of financial services industry experience, including serving as Chief Financial Officer and Financial and Operations Principal at SIS between 2011 and 2015, various senior management roles at Barclays Capital Inc. for over ten years, and as an Assurance Supervisory Senior Auditor at Arthur Andersen LLC servicing broker-dealer, banking and wealth asset management clients for over four years.

Donna Sheehan

Donna Sheehan is responsible for business development for SIS's Exchange Traded Derivatives (ETD) group. She joined SIS in 2010 and has over twenty five years of experience in the futures industry, including previous tenures in the FCM divisions of Goldman Sachs, UBS and Barclays Capital. Mrs. Sheehan is Series 3 and 30 registered with the National Futures Association and holds a MBA degree from Pace University.

(entity) Santander Holdings USA, Inc.

Santander Holdings USA, Inc. is a holding company that directly owns 100% of SIS.

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All listed Contacts and individual Principals are located at 45 East 53<sup>rd</sup> Street, New York, NY 10022.

Santander Holdings USA, Inc. is headquartered at 75 State Street, Boston, MA 02109.

### **3. CEA Regulation 1.55 (k)(3) – Business Activities; Percent of Assets/Capital Per Activity**

*The significant types of business activities and product lines engaged in by the futures commission merchant, and the approximate percentage of the futures commission merchant's assets and capital that are used in each type of activity.*

SIS provides execution and clearing services to its ultimate parent and sole client, Banco Santander, S.A. The client business of Banco Santander, S.A. is cleared by SIS on an undisclosed basis. The house business is cleared in a separate account and is comprised of affiliates of the parent company. The Firm also clears over-the-counter interest rate swaps ("OTC IRS") for the house business.

The chart below summarizes the significant types of business activities/product lines in which SIS’s Futures Commission Merchant business is engaged, and the approximate percentage of the Firm’s assets and capital used in each type of activity (all values are as of October 31, 2021).

<u>Activity/Product Line</u>	<u>As a % of Total Assets</u>	<u>As a % of Capital</u>
Exchange Traded Derivatives	85.9%	30.3%
Equities	2.6%	10.6%
Securitization	1.1%	6.3%
Market Making	0.3%	0.9%
Fixed and All Other Assets	10.1%	1.5%
Excess Capital		50.5%
	<u>100.0%</u>	<u>100.0%</u>

#### **4. CEA Regulation 1.55 (k)(4) – Client Activity Type; Policies For Depositories/Custodians**

*The futures commission merchant's business on behalf of its customers, including types of customers, markets traded, international businesses, and clearinghouses and carrying brokers used, and the futures commission merchant's policies and procedures concerning the choice of bank depositories, custodians, and counterparties to permitted transactions under CEA Regulation 1.25.*

SIS performs clearing services on an undisclosed omnibus basis solely for its ultimate parent/sole customer, Banco Santander S.A. Banco Santander primarily provides clearing services to a broad range of financial institutions, asset managers, asset servicing firms, corporations and banks. SIS also performs a de minimis amount of execution services.

SIS’s Credit Risk Department reviews all depositories and custodians according to the Santander Group policy for reviewing and approving custodians (any margin collected by SIS related to its FCM and OTC business is deposited at a custodial bank). Consistent with Santander Group policy, the review includes a credit review of the proposed custodian following the Santander Group rating guidelines for financial institutions, approval of the potential exposure by SIS’s Executive Risk Committee (“ERC”) for the exposure generated by the custodial activity of the counterparty, and approval by the Global Network Management Department (“GNM”) of Banco Santander, S.A.’s Head Office. The custodians currently approved for the futures and options clearing activity of the FCM is JPMorgan Chase Bank, N.A, and BMO Harris Bank N.A. for the for the purpose of depositing the target residual interest amount of the firm (in compliance with CEA Regulation 1.20(d), the appropriate letter is on file). BMO Harris Bank N.A. is the approved custodian for the OTC interest rate swaps clearing activity of the FCM for the house business, and as previously mentioned it is also used for the purpose of depositing the target residual interest amount of the firm

Additional custodians could be requested in order to diversify custodial risk, reduce costs, or to replace a custodian no longer deemed creditworthy. In such an instance, Credit Risk would review the rating of the

proposed custodian and approve the potential risk via the ERC, GNM and the Credit Risk Committee(s) of Head Office.

SIS does not engage in foreign futures or foreign options activity, activity that would require a separate account or accounts to be established under CEA Regulation 30.7 to cover or satisfy its obligations to customers engaging in such activities.

GNM oversees the global exposure to custodians. Procedures established by GNM require it, in addition to the oversight of the rating review and Credit Risk approval, to coordinate all custodial approvals to ensure that selected custodians have the technical expertise to meet the needs of the business unit, that they segregate assets appropriately, that legal agreements are consistent, and that they avoid undue concentrations of exposure (which could occur if Santander units were to select custodians independent.

#### **5. Regulation 1.55 (k)(5) – Material Risks**

*The material risks, accompanied by an explanation of how such risks may be material to its customers, of entrusting funds to the futures commission merchant, including, without limitation, the nature of investments made by the futures commission merchant (including credit quality, weighted average maturity, and weighted average coupon); the futures commission merchant's creditworthiness, leverage, capital, liquidity, principal liabilities, balance sheet leverage and other lines of business; risks to the futures commission merchant created by its affiliates and their activities, including investment of customer funds in an affiliated entity; and any significant liabilities, contingent or otherwise, and material commitments.*

The SIS Material Risk Program (“MRP”) establishes a comprehensive view of material risks for SIS. It incorporates an annual bottom-up exercise supplemented by a top-down (executive) view to create a material risk inventory. MRP provides timely, clear, and comprehensive reporting of material risks (including risks that may emerge under stressful conditions) to executive management and the Firm’s Board of Directors. Further, MRP’s output has various applications, including risk appetite setting, strategic planning, and risk ownership and monitoring. Material risk inventory included herein are results of the MRP.

<b>Risk Level 1</b>	<b>Risk Level 2</b>	<b>Risk Name</b>	<b>Risk Event Description</b>
<b>Broker-Dealer Compliance</b>	N/A	<b>Non-Compliance with Broker-Dealer and Futures Commission Merchant Regulations</b>	Risk of regulatory fines as the result of having little to no compliance platform in place with respect to broker-dealer and futures commission merchant regulations. Additionally, non-compliance can result in individuals (not SIS) being fined and/or sanctioned, if the Firm can substantiate that an appropriate governing policy/procedure was in place.
<b>BSA/AML/OFAC</b>	N/A	<b>Non-Compliance with BSA/AML/OFAC Program Requirements</b>	The failure to have an adequate control environment in place to comply with BSA/AML/OFAC program requirements with regard to customer identification, due diligence, enhanced due diligence, beneficial ownership, suspicious activity monitoring, and employee training presents a material risk that could result in a negative financial impact due to regulatory fines or reduced client business opportunities and associated revenues.
<b>Execution, Delivery and Process Management</b>	<b>Monitoring and Reporting</b>	<b>Manual Processing Risk</b>	SIS is exposed to the potential of incurring a material loss due to control breakdowns of manual processes, which in turn could lead to losses exceeding \$1 million.
	<b>Vendors and Suppliers</b>	<b>Inadequate Third Party Service Provider Oversight</b>	Risk of potential service disruptions, legal liability, negative impacts to business performance, financial and reputational risk, and potential regulatory enforcement as a result of the Third Party's actions.
<b>Business Disruption and System Failures</b>	<b>Technology and Infrastructure Failure</b>	<b>Technology Failure and Business Disruption</b>	Risk of potential losses due to system failures and business disruptions, such as those involving: (i) Technology Obsolescence; (ii) Incident and Event Management; and/or (iii) Change Management.
		<b>Cyber Security Risk</b>	Risk of potential losses, due to a cyber-attack, driven by an ensuing shutdown of systems and/or application/network access.
		<b>Inadequate Access Management Controls</b>	Weaknesses in access management controls increase risk of damage or loss of information or systems. Lack of a robust access management program and attendant control may lead to operational risk losses through internal/external fraud, regulatory impact and/or negative customer experience.
<b>Competition and Industry Dynamics</b>	N/A	<b>Staffing Competency and Talent Gaps</b>	Failure to maintain appropriate staffing levels and/or personnel not possessing appropriate skills and/or abilities commensurate with their roles and responsibilities could lead to a reduction in budget achievement and have a potential material financial impact.
		<b>Political and Economic Instability</b>	Risk of financial losses due to negative effects of global political and economic instability. Such risk has potential impact to SIS's businesses, including: (i) causing a significant drop in issuances volume (which would impact capital markets activities); or (ii) government interventions (with subsequent negative impacts on markets).

<b>Customer Perception</b>	N/A	<b>Environmental Social and Governance Risk</b>	Failure to adequately address Environmental Social and Governance (“ESG”) risk-related issues in its client onboarding, transaction approval, reputational risk and new business/product approval processes could have a material impact on SIS’s reputation and the willingness of clients/customers to engage with the Firm. Reputational damage stemming from associations with companies that do not act responsibly towards the environment and society may also translate into potential financial losses and overall negative share price impact. If Santander were to fall behind its competition, it could be passed over and potentially lose clientele to more ESG-mature firms.
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*(i) the nature of investments made by FCM (including credit quality, weighted average maturity and weighted average coupon);*

Firm customer funds are invested in accordance with CEA Regulation 1.25(a) and 1.25(b) which require that funds be invested in high quality and liquid securities with a short-term duration.

*(ii) the futures commission merchant's creditworthiness, leverage, capital, liquidity, principal liabilities, balance sheet leverage and other lines of business;*

Applying the standard bank/broker rating model to SIS, its rating is evaluated as 6.6, which is equivalent to a S&P rating of BBB+. At October 31, 2021, leverage was low, as demonstrated by SIS’s 17% equity/assets ratio. Net capital at October 31, 2021 was 271% of the amount of net capital required. Liquidity was strong, with cash as 11% of assets and access to a subordinated loan facility. The Firm had no Level 3 assets (Level 3 assets are financial assets and liabilities that are considered to be the most illiquid and hardest to value).

Capital risk is the risk of holding insufficient capital resources in order to meet minimum regulatory requirements set forth in CEA Regulation 1.17. SIS’s Accounting Department performs daily calculations of moment-to-moment net capital, including computation of the regulatory minimum net capital requirement, to ensure the Firm maintains adequate capital levels at all times.

SIS’s FCM clears transactions solely for Banco Santander, S.A. The customer business of Banco Santander, S.A. clears with SIS on an undisclosed omnibus basis. Therefore, 100% of the total funds held for futures customers are attributed to this sole customer. With respect to CEA Regulation 30.7, SIS does not accept funds (“30.7 customer funds”) from foreign futures and foreign options customers (“30.7 customers”); further, SIS does not engage in cleared swaps customer activity.

*(iii) risks to the futures commission merchant created by its affiliates and their activities, including investment of customer funds in an affiliated entity;*

The Firm’s ultimate parent, Banco Santander S.A., is its sole futures counterparty. SIS requires Banco Santander S.A. to maintain balances in excess of the required amount (20% over the exchange required margin for OTC clearing), which effectively collateralizes its exposure to the Santander Group affiliate.

The Firm does not have any near-term plans to add any affiliated or third party clients. SIS’s CME clearing membership includes OTC interest rate swaps. OTC IRS clearing services are limited to affiliate business; at this time, SIS does not intend to provide OTC IRS clearing services to customers.

*(iv) any significant liabilities, contingent or otherwise, and material commitments.*

SIS's annual audited financial statements are available at the following link:

<https://www.futuros.gruposantander.com/clients/publicmarketinformation.do> (click on "Santander Investment Securities Inc. ("SIS") CFTC Disclosures"; click on "Documents" tab; open "CFTC - Audited Financial" tab)

## **6. Regulation 1.55 (k)(6) – Self Regulatory Information and FCM Financial Statements**

*The name of the futures commission merchant's designated self-regulatory organization and its Web site address and the location where the annual audited financial statements of the futures commission merchant is made available.*

SIS's designated self-regulatory organization is the Chicago Mercantile Exchange ("CME"). See CME's website at the following link: <http://www.cmegroup.com>

SIS is a direct member of the CME Group and ICE Exchange.

Following is a table showing Banco Santander, S.A.'s global futures exchange memberships:

<b>BANCO SANTANDER, S.A. - EXCHANGE ACCESS</b>		
<b>Europe</b>	<b>Americas</b>	<b>Asia-Pacific*</b>
ICE Futures Europe( formerly LIFFE and Euronext)	CME Group ( CME, CBOT, NYMEX and COMEX)	SFE (Australia)
EUREX (Germany)	ICE U.S.	HKFE (Hong Kong)
EURONEXT (Paris, Amsterdam, Brussels and Lisbon)	CBOE/OCC (indices and stocks)*	OSE (Japan Index)
Nasdaq Exchanges Nordic Markets	B3 (Brazil)	TSE (Japan FI)
MEFF (Spain)	MexDer (Mexico)	SGX (Singapore )
London Stock Exchange (IDEM)		
WSE (Warsaw)		
	* through UBS	

SIS's annual audited financial statements are available at the following link: <https://www.futuros.gruposantander.com/clients/publicmarketinformation.do> (click on "Santander Investment Securities Inc. ("SIS") CFTC Disclosures"; click on "Documents" tab; open "CFTC - Audited Financial" tab)

## **7. Regulation 1.55 (k)(7) – Material Complaints and Actions**

*Any material administrative, civil, enforcement, or criminal complaints or actions filed against the FCM where such complaints or actions have not concluded, and any enforcement complaints or actions filed against the FCM during the last three years.*

National Futures Association/FCM related complaints for SIS can be found at the following website: <http://www.nfa.futures.org/basicnet/>



FINRA-related complaints for SIS can be found at the following website: <http://brokercheck.finra.org>

There have not been any material administrative, civil, enforcement, or criminal complaints or actions filed against the FCM in the past three years.

## **8. Regulation 1.55 (k)(8) – Overview of Fund Segregation, and Collateral Management**

*A basic overview of customer fund segregation, futures commission merchant collateral management and investments, futures commission merchants, and joint futures commission merchant/broker dealers.*

SIS maintains several customer segregated funds accounts, by specific currency, at JPMorgan Chase Bank, N.A and one customer segregated USD account in BMO Harris Bank N.A. for the for the purpose of depositing the target residual interest amount of the firm. The accounts are separate from SIS's general operating account and solely hold customer funds. SIS funds are not deposited into the accounts unless funds are required to increase the residual interest amount. Such deposits must be approved by the Chief Financial Officer and/or the Financial and Operations Principal. Further, no fund transfers may be affected from the accounts to other SIS accounts unless funds are required to decrease the residual interest amount. Such transfers must be approved by the Chief Financial Officer and/or the Financial and Operations Principal.

The customer segregated funds accounts are managed by the Operations Department. The Accounting Department calculates the customer segregated funds requirement on a daily basis and ensures the segregated funds are in excess of the residual interest target amount. Accounting obtains and retains in its files for the period provided in CEA Regulation 1.31 (books and records regulations) a written acknowledgment from any depository holding customer funds that the depository has been informed that the funds belong to customers and are being held in accordance with regulatory requirements.

The physical movement (wiring) of funds is restricted to authorized personnel, with a “two-touch, create and approve” process that requires an input clerk and a reviewer/approver to release any payment.

Customer funds are permitted to be invested. However, CEA Regulations 1.25(a) and 1.25(b) require that customer funds be invested in high quality and liquid securities with a short term duration.

## **9. Regulation 1.55 (k)(9) – How To File a Complaint Against the FCM**

*Information on how a customer may obtain information regarding filing a complaint about the futures commission merchant with the Commission or with the firm's designated self-regulatory organization.*

The procedure for a customer to file a complaint about SIS with the CFTC is found at the website <http://www.cftc.gov/ConsumerProtection/FileaTiporComplaint/index.htm>

The procedure for a customer to file a complaint about SIS with CME, the Firm's designated self-regulatory organization, is found at the website <http://www.cmegroup.com/market-regulation/file-complaint.html> or by calling CME at 312-341-7970.

Although SIS is a registered broker dealer, it is important to note that the Securities Investor Protection Corporation (SIPC) does not cover funds that are deposited for trading futures and options on futures contracts for U.S. and foreign markets.

#### **10. Regulation 1.55 (k)(10) – Relevant Financial Data**

*(i) The futures commission merchant's total equity, regulatory capital, and net worth, all computed in accordance with U.S. Generally Accepted Accounting Principles and Regulation 1.17, as applicable.*

SIS's annual audited financial statements are available at the following link:

<https://www.futuros.gruposantander.com/clients/publicmarketinformation.do> (click on "Santander Investment Securities Inc. ("SIS") CFTC Disclosures"; click on "Documents" tab; open "CFTC - Audited Financial" tab)

SIS's total regulatory capital and net worth, computed in accordance with U.S. Generally Accepted Accounting Principles and CEA Regulation 1.17 is as follows: equity (net worth) and regulatory capital as of October 31, 2021 was \$551,935,831 and \$551,935,831, respectively.

*(ii) The dollar value of the futures commission merchant's proprietary margin requirements as a percentage of the aggregate margin requirement for futures customers, Cleared Swaps Customers, and 30.7 customers.*

SIS does not engage in proprietary trading, swap trading, or in transactions ("30.7 transactions") with foreign futures and foreign options customers ("30.7 customers"); therefore, there is no dollar value of proprietary margin requirements as a percentage of the aggregate margin requirement for futures customers, cleared swaps customers and 30.7 customers.

*(iii) The smallest number of futures customers, Cleared Swaps Customers, and 30.7 customers that comprise fifty percent of the futures commission merchant's total funds held for futures customers, Cleared Swaps Customers, and 30.7 customers, respectively.*

SIS does not engage in proprietary trading, swap trading, or in transactions ("30.7 transactions") with foreign futures and foreign options customers ("30.7 customers"); therefore, there is no dollar value of proprietary margin requirements as a percentage of the aggregate margin requirement for futures customers, cleared swaps customers and 30.7 customers.

*(iv) The aggregate notional value, by asset class, of all non-hedged, principal over-the-counter transactions into which the futures commission merchant has entered.*

SIS's FCM business does not enter into OTC transactions on a principal basis.

*(v) The amount, generic source and purpose of any committed unsecured lines of credit (or similar short-term funding) the futures commission merchant has obtained but not yet drawn upon.*

SIS does not have any unsecured bank lines of credit (or similar outstanding short-term funding). SIS maintains a committed subordinated revolving credit facility in the amount of \$750 million with its parent, Santander Holdings USA, Inc. Any amount advanced in accordance with this arrangement will be considered regulatory capital on the date drawn down, subject to SIS's 70% debt/equity ratio restriction. In addition, SIS also maintains a committed liquidity loan facility in the amount of \$4 billion with its parent, Santander Holdings USA, Inc.

The last drawdown from the SHUSA credit facility was effected in November 2021 and was immediately repaid.

*(vi) The aggregated amount of financing the futures commission merchant provides for customer transactions involving illiquid financial products for which it is difficult to obtain timely and accurate prices.*

SIS does not provide financing for customers transactions involving illiquid products.

*(vii) The percentage of futures customer, Cleared Swaps Customer, and 30.7 customer receivable balances that the futures commission merchant had to write-off as uncollectable during the past 12-month period, as compared to the current balance of funds held for futures customers, Cleared Swaps Customers, and 30.7 customers.*

SIS has not written off as uncollectable any customer receivable balances for any futures customer during a twelve month period ending October 31, 2021.

Additional financial information on all FCMs is available on the CFTC's website at the following address: <http://www.cftc.gov/MarketReports/FinancialDataforFCMs/index.htm>

The assets of the FCM are almost 100% related to futures and OTC IRS clearing activities. Give-up activity has no impact on customer balances or receivables.

## **11. Rule 1.55 (k)(11) – Summary of FCM's Risk Practices, Controls and Procedures**

*A summary of the futures commission merchant's current risk practices, controls and procedures.*

SIS is a registered Futures Commission Merchant with the Commodity Futures Trading Commission and is a member of the National Futures Association. The Firm currently offers limited execution and clearing services for futures and options on financial and commodity products.

SIS organizes its roles and responsibilities for risk management into a three lines of defense model described in the SIS Enterprise Risk Management ("ERM") Framework, with separately-defined and segregated responsibilities consistent with applicable regulations and guidance. The three lines of defense model includes the business "risk takers" as the first line of defense, the risk teams (including ERM, Credit, Market and Operational Risk and Compliance) as the second line of defense, and Internal Audit as the third line of defense.

*1<sup>st</sup> Line of Defense (“1<sup>st</sup> LoD”) – Risk Management* - Reporting to the CEO, 1<sup>st</sup> LoD units have responsibility for the primary management of the risks that emanate from their activities. 1<sup>st</sup> LoD units own, identify, measure, control, monitor and report all risks that are originated through activities such as business origination, development, marketing or distribution of products, client maintenance, or operational or technological processes supporting customer activity. 1LoD is responsible for establishing and maintaining procedures, processes and controls to manage relevant risks, and implementing corrective actions to address control deficiencies when they arise.

*2<sup>nd</sup> Line of Defense (“2<sup>nd</sup> LoD”) – Risk Control* - 2nd LoD is responsible for implementing and maintaining a Firm-wide risk management and compliance program to assess and manage risk of the FCM. 2LoD functions are comprised of Risk functions, Legal function, Compliance function and Financial Control.

*3<sup>rd</sup> Line of Defense (“3<sup>rd</sup> LoD”) – Risk Assurance* - 3<sup>rd</sup> LoD is the Internal Audit Department. Internal Audit reports to the Chief Audit Executive and to the Firm’s Board of Directors; the department operates independently of any other area. Internal Audit provides independent assurance to the Board of Directors and senior management and to SHUSA’s Board of Directors by assessing the quality and effectiveness of the processes and systems of internal control, risk management and risk governance, compliance with applicable regulations, and reliability and integrity of financial and operational information.

The Firm maintains a Risk Management Program in accordance with CEA Regulation 1.11. The Risk Management Program is based upon successful implementation of forward-looking risk management to strengthen the Firm’s resilience to shocks (whether originating internally or externally), thereby promoting a stable environment for business activities. The Risk Management Program successfully manages risks in that it establishes and maintains an organizational culture that embraces, by its actions, prudent risk-taking and integrates risk management processes within its day-to-day operations. The identification, assessment, control, monitoring, testing and reporting of risks across all risk types, together with the clear articulation and communication of risk appetite and limits, provide the foundation for the Risk Management Program.

The Risk Management Program covers Credit Risk (including Counterparty Credit Risk), Market Risk (including Currency Risk), Liquidity/Solvency Risk, Segregation Risk, Operational Risk (including Technology Risk), Model Risk, Reputational Risk, Strategic Risk, Compliance Risk and Legal Risk. The Risk Management Program contains policies to address each risk category.

Following is an overview of the policies that are included in the Risk Management Program.

**CREDIT RISK**

The Firm maintains policies and procedures covering intraday margin, credit limits and counterparty credit monitoring/reviews.

**MARKET RISK**

The Firm maintains policies and procedures for managing market risk through risk measures including Value-At-Risk, economic position and equity equivalent volume and defining operating limits.

#### **LIQUIDITY RISK**

The Firm maintains policies and procedures regarding liquidity/solvency risk, including limits, liquidity stress testing, liquidity buffer, liquidity horizon, stressed survival horizon (worst-case scenario), contingency funding, intraday liquidity risk/collateral management, operating limits, metrics and guidelines; all of the foregoing are utilized by the Firm to analyze, quantify and mitigate potential risks.

#### **CAPITAL RISK**

The Firm maintains policies and procedures to ensure accurate calculation of moment-to-moment net capital, including the computation of the regulatory minimum net capital requirement to ensure the Firm maintains at all times adequate capital levels.

#### **SEGREGATION RISK**

The Firm maintains policies and procedures to ensure customer funds are treated in accordance with maintenance, reporting and recordkeeping requirements. These procedures include the maintenance, monitoring and reporting of the Firms' residual interest deposited in segregation for the benefit of the Firm's customers. Related policies ensure compliance with CEA Regulation 1.25(a)(b) that require funds to be invested in high quality instruments taking into consideration the following risks: issuer credit risk, interest rate risk, market risk and liquidity risk. SIS does not have any investments with affiliates

#### **OPERATIONAL RISK**

The Firm maintains policies and procedures to ensure a controlled operational environment with a focus on employment practices and workplace safety, clients, products and business practices, as well as execution, delivery and process management.

#### **TECHNOLOGY RISK**

The Firm maintains policies and procedures that establish control requirements designed to protect the Firm as well as customer information from various threats to the security of the information and the systems that store and process such information.

#### **MODEL RISK**

The Firm maintains policies and procedures for managing model risk to ensure model monitoring standards are in line with industry best practices and regulatory expectations.

#### **REPUTATIONAL RISK**

The Firm maintains policies and procedures regarding reputational risk, including the monitoring of reputational risk limits.

#### **STRATEGIC RISK**

The Firm maintains policies and procedures regarding strategic risk, including the monitoring of financial results and strategic risk limits.

#### **LEGAL AND COMPLIANCE RISK**

The Firm maintains policies addressing record management requirements, onboarding of new clients and the documentation of transactions, among others. The activity of the FCM is monitored by the Compliance Department for compliance with Commodity Exchange Act/CFTC regulations, and National Futures Association, CME Group and ICE rules. The Firm's Compliance Program establishes a framework for a compliance risk management program that reasonably detects, escalates and addresses compliance matters consistent with regulatory expectations.

#### **FOREIGN CURRENCY RISK**

The Firm has minimal foreign currency risk as the Firm's policy is to promptly convert foreign currencies to be received into US dollars.

The Firm has established Risk Appetite Statements for each of the risk areas. Risk Appetite Statements define the aggregate levels and types of risk that the Firm is willing to accept in the pursuit of its strategic objectives. The Firm's Risk Appetite Statement ("RAS") is approved by the Firm's Board of Directors.

The Firm's RAS establishes high-level limits and standards for all key risk areas, as well as prohibitions on certain types of business activities or transactions.

The Firm's Executive Risk Committee ("ERC") is responsible for reviewing and recommending for approval the SIS Risk Appetite Framework ("RAF") and Risk Appetite Statement to the Firm's Board of Directors, including associated limits for primary metrics, thresholds, or triggers; it additionally oversees the alignment of SIS's Risk Appetite with such frameworks and the Firm's strategic, funding and capital plans.

The Firm's Board of Directors, CEO Executive Committee and the ERC are informed of any limit violations of primary and secondary risk appetite metrics. The Firm has established secondary and monitoring risk appetite metrics with corresponding threshold or triggers to further develop and refine/qualify primary metrics. The Board of Directors delegates to the ERC the management and approval of these limits. The Firm follows a RAF to establish and monitor its Risk Appetite Metrics. The Firm's Risk Appetite metrics are defined in the Risk Appetite Statement. At a minimum, the metrics and thresholds are annually reviewed.

The Firm has established three levels of risk management controls to manage and monitor risks associated with pre-trade margin and trade limits, monitoring of client and counterparty exposure, and trade cancellation. Further, the Firm has established several levels of risk management controls to manage and monitor risks associated with OTC IRS clearing and settlement.

Internal Audit reports to the Chief Audit Executive and to the Board of Directors independent of any other function. Internal Audit provides independent assurance to the Board of Directors and to Firm senior management by assessing the quality and effectiveness of the processes and systems of internal control,

risk management and risk governance, compliance with applicable regulations, and reliability and integrity of financial and operational information.

Financial Control (reporting to the Chief Financial Officer) is responsible for the integrity of the Firm's financial reporting.