

# SANTANDER US CAPITAL MARKETS LLC.

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

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June 2023

### INTRODUCTION

Regulation 1.55(k) of the Commodity Exchange Act (“CEA”) requires each Futures Commission Merchant (“FCM”), including Santander US Capital Markets LLC. (“SanCap” 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.

On February 6, 2023, Santander Investment Securities Inc. (“SIS”) merged into Amherst Pierpont Securities LLC (“APS”) APS changed its name to SanCap.

SanCap is an indirect 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 SanCap’s business operations, financial condition, or other factors that SanCap believes may be material to a customer’s decision to conduct business with SanCap.

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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, and email address.*

Santander US Capital Markets LLC  
437 Madison Ave, 6<sup>th</sup> Floor  
New York, NY 10022  
Phone Number: 212-872-0100  
(Refer to Contacts, below, for email addresses)

### Contacts:

- **Joseph Norton Walsh III**, Chief Executive Officer ([joseph.walsh@santander.us](mailto:joseph.walsh@santander.us)) (646-776-7800)
- **Richard Ryan Mullaney Jr.**, President ([ryan.mullaney@santander.us](mailto:ryan.mullaney@santander.us)) (312-224-9977)
- **Isaac Antonio Prada**, North America Head of Exchange Traded Derivatives ([iprada@santander.us](mailto:iprada@santander.us)) (212-583-4605)
- **Edward (Ted) Dole Hughes**, SanCap Head Pre-Post Trade ([ted.hughes@santander.us](mailto:ted.hughes@santander.us)) (646-776-7889)
- **Jason Lane**, Chief Compliance Officer ([Jason.Lane@santander.us](mailto:Jason.Lane@santander.us)) (212) 973-7655)
- **Michael John Santangelo**, Chief Financial Officer ([Michael.santangelo@santander.us](mailto:Michael.santangelo@santander.us)) (646-776-7767)
- **Paul N Vitale**, Managing Director-Finance, Financial and Operations Principal ([paul.vitale@santander.us](mailto:paul.vitale@santander.us)) (646-776-7769)
- **Donna Sheehan**, Business Development ([dsheehan@santander.us](mailto: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.*

### **Joseph Norton Walsh III** (437 Madison Ave, New York, NY 10022)

Joseph Walsh, Chief Executive Officer (“CEO”) of SanCap, has more than 30 years of experience focused on the fixed income capital markets. He was the CEO of APS prior to the merger with SIS. As President of predecessor Firm Amherst Securities, Mr. Walsh managed the business and operations from 2009 until the merger with Pierpont in 2014. He previously served as a Managing Director in the private equity business at Fortress Investment Group specializing in financial institutions. Mr. Walsh also served for 9 years as a Managing Director and Head of Mortgage and Asset-Backed Origination, Finance and Trading at RBS Greenwich Capital. Mr. Walsh holds the series 7, 24, 79 and 99 licenses.

### **Richard Ryan Mullaney Jr.** (200 East Broward Boulevard Suite 1260 Fort Lauderdale, FL 33301)

Ryan Mullaney, President of SanCap, directs the sales efforts across products at SanCap while directly managing the mortgage sales team. His career of more than 25 years has been focused on fixed income/capital market sales through numerous and varied economic cycles. Ryan was previously Managing Director and Regional Sales Manager at RBS Greenwich Capital and prior to that a Director at Merrill Lynch where he was responsible for the Midwest Bank & Thrift Group. Mr. Mullaney holds the series 7, 24, 79 and 99 licenses.

### **Isaac Antonio Prada** (437 Madison Avenue, New York, NY 10022)

Isaac Prada is Head of SanCap’s Exchange Traded Derivatives Division. Mr. Prada is responsible for monitoring SanCap’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. Mr. Prada is Series 3, 30 registered and Branch manager registered with the National Futures and holds a BA in Economics from Saint Edwards University in Austin, Texas.

**Edward (Ted) Dole Hughes** (437 Madison Avenue, New York, NY 10022)

Edward Hughes is the SanCap Head of Pre-Post Trade and is responsible for managing the Middle Office, Settlements, Margin, Cash and Operations Control functions for Fixed Income and Cash Equities products for the broker dealer. He has over 25 years of experience in the financial industry with a focus on Operations. Prior to APS he was a Director at UBS, managing various teams focused on funding, settlements, trades support and Middle Office. Mr. Hughes holds Series 7, 63, 99, and 27 licenses.

**Jason Lane** (437 Madison Avenue, New York, NY 10022)

Jason Lane is SanCap's Chief Compliance Officer ("CCO"). Mr. Lane is responsible for the Compliance Program. Prior to the APS/SIS merger, Mr. Lane was the SIS CCO, he 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.

**Michael John Santangelo** (437 Madison Ave, New York, NY 10022)

Michael Santangelo is the SanCap Chief Financial Officer ("CFO") and is responsible for managing the Firm's Finance group and liquidity. Mr. Santangelo is a Certified Public Accountant and registered as a Series 27 Financial and Operations Principal. Mr. Santangelo has over 30+ years of experience in the financial markets. Mr. Santangelo has extensive experience serving as a CFO of several Firms prior to joining Amherst Pierpont Securities, including CFO of CRT Capital Group LLC, Swiss Re Capital Markets Corp. and Swiss Re Financial Products Inc. Mr. Santangelo started his career in public accounting with PwC in its audit and assurance group in NY auditing several large broker-dealers.

**Paul N Vitale** (437 Madison Ave, New York, NY 10022)

Paul Vitale is SanCap Controller and Financial and Operations Principal. Mr. Vitale is responsible for all fixed income securities, repo and other trading activities accounting tasks, including books of original entry (i.e., general ledger), financial reporting and regulatory reporting preparation. Mr. Vitale has over 40 years of financial services experience, including serving as the Controller of APS since 2009, various senior management roles at Deutsche Bank for 10 years, management roles at JP Morgan Securities for 7 years and as a senior auditor at Peat, Marwick, Mitchell & Co. (KPMG) for over 4 years. Mr. Vitale holds the series 27 and 99 licenses.

**Donna Sheehan** (437 Madison Avenue, New York, NY 10022)

Donna Sheehan is responsible for business development for SanCap’s Exchange Traded Derivatives (ETD) group. She joined SIS in 2010 and has over 25 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 (“NFA”) and holds a MBA degree from Pace University.

(entity) Santander Holdings USA, Inc.

SanCap is an indirect, wholly owned subsidiary of Santander Capital Holdings LLC (“SCHL”). SCHL is a direct, wholly owned subsidiary of Santander Holdings USA, Inc. (“SHUSA”), and SanCap and SCHL’s other subsidiaries are indirect, wholly owned subsidiaries of SHUSA.

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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.*

SanCap provides execution and clearing services to its ultimate parent and sole client, Banco Santander, S.A. (“BSSA”). The client business of BSSA is cleared by SanCap 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 affiliates of the Firm.

The chart below summarizes the significant types of business activities/product lines in which SanCap’s FCM 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 May 31, 2023).

| <u>Activity/Product Line</u> | <u>As a % of Total Assets</u> | <u>As a % of Capital</u> |
|------------------------------|-------------------------------|--------------------------|
| Securitization Products      | 37.4%                         | 17.6%                    |
| Rates                        | 24.4%                         | 1.4%                     |
| Matched Book                 | 19.8%                         | 0.4%                     |
| Exchange Traded Derivatives  | 12.7%                         | 17.5%                    |
| Credit                       | 3.3%                          | 3.0%                     |
| Fixed and All Other Assets   | 1.9%                          | 20.7%                    |
| Equities                     | 0.4%                          | 0.9%                     |
| Securitization               | 0.1%                          | 13.6%                    |

|                |        |        |
|----------------|--------|--------|
| Excess Capital |        | 24.8%  |
|                | 100.0% | 100.0% |

#### 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.*

SanCap performs clearing services for the CME and ICE (“ICEUS”) exchanges on an undisclosed omnibus basis solely for its ultimate parent/sole customer, BSSA. SanCap does not engage in foreign futures activity. BSSA primarily provides clearing services to a broad range of financial institutions, asset managers, asset servicing Firm’s, corporations, and banks. SanCap also performs a de minimis amount of execution services.

SanCap’s Credit Risk Department reviews all depositories and custodians according to the Santander Group policy for reviewing and approving custodians (any margin collected by SanCap 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 SanCap’s Enterprise Risk Management Committee (“ERMC”) for the exposure generated by the custodial activity of the counterparty, and approval by the Global Network Management Department (“GNM”) of BSSA’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 ERMC, GNM and the Credit Risk Committee(s) of Head Office.

SanCap clears futures and options on futures on the CME and ICEUS. The offering spans across all asset classes including treasuries, currencies, interest rate, agricultural and metal products. SanCap 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. SanCap does not utilize carrying brokers.

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 SanCap Material Risk Program (“MRP”) establishes a comprehensive view of material risks for SanCap. 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 Managers (“Board”). 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 Type</b>        | <b>Risk Name</b>   | <b>Risk Event Description</b>   |
|-------------------------|--|---|
| <b>Compliance Risk</b>  | <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 SanCap) being fined and/or sanctioned, if the Firm can substantiate that an appropriate governing policy/procedure was in place.   |
|                         | <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 regards 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>Non-compliance with Banking Regulations</b>                                       | The risk of non-compliance with regulatory requirements (e.g., Volcker rule, Swap dealer, FATCA, EU Risk Retention Rule etc.) that are applicable to SanCap's products, services, and operations presents a material risk which could result in a negative financial impact due to regulatory fines or reduced client business opportunities and associated revenues.   |
| <b>Operational Risk</b> | <b>Manual Processing Errors</b>  | SanCap is exposed to the potential of incurring a material loss due to control breakdowns of manual processes.  |
|                         | <b>Vendor Risk</b>   | Risk of potential service disruptions, legal liability, negative impacts to business performance, financial and reputational risk, and potential regulatory enforcement because of the vendors' actions   |
|                         | <b>Technological Disruption Risk</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>Information Security and Cyber Risk</b>   | Information Security and Cyber risk can originate externally or internally. Failure to keep up with the emerging cyber threat landscape could lead to unauthorized access, disclosure of nonpublic information, loss of data, or business disruption resulting in a negative customer experience, operational inefficiencies, lost revenues, increased expenses, opportunity costs, reputational damage or regulatory sanctions.              |
|                         | <b>Internal Fraud</b>  | Risk of potential financial losses and reputational damage due to internal fraud as result of the unauthorized access to and/or misuse of material non-public information by an employee.   |
| <b>Strategic Risk</b>   | <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 SanCap's businesses, including: (i) causing a significant drop in issuances volume (which would impact Capital Markets activities); or (ii) government interventions and market volatility (with subsequent negative impacts on Markets activities).   |
| <b>Credit Risk</b>      | <b>Counterparty Default</b>  | The risk of financial loss should an obligor not be able or willing to fulfill its obligations to pay in accordance with the contractual terms of the obligation. Since internal risk ratings correspond to the probability of default, rating migration is a means to recognize potential default risk.  |

|                          |   |  |
|--------------------------|---|--|
| <b>Market Risk</b>       | <b>Exposure to losses due to Market Risk</b>  | Market risk is defined as the possibility of SanCap experiencing trading losses under stress situations due to factors that affect the overall performance of the financial markets in which the Firm is involved. Sources of market risk can include recessions, political turmoil, and changes in interest rates, natural disasters and terrorist attacks. SanCap takes risk as a principal in a broad range of fixed-income products, including residential and commercial mortgage-backed securities, asset-backed and other highly-structured finance transactions, U.S. Treasuries, Federal agency debentures, investment grade corporate securities and repo finance. SanCap's main activities are focused on fixed income, but it also engages in client facilitation activities in equities and FX spot.. |
| <b>Liquidity Risk</b>    | <b>Mortgage-Backed Securities ("MBS") Market Liquidity Risk given concentration</b> | The risk that a portfolio position cannot be closed at the market price due to lack of market depth, a reduction in market breadth, or any other market disruption, generating a financial loss. SanCap holds positions on Agency and Non-Agency MBS (less liquid) and may be subject to financial losses if the market is experiencing said constraints. The risk may be aggravated due to balance sheet concentrations.  |
| <b>Reputational Risk</b> | <b>Environmental Social and Governance Risk</b>                                     | The risk of failing to adequately address Environmental Social and Governance ("ESG") related topics during client onboarding, deal origination, and new business/product approval processes could have an adverse impact on SanCap's reputation and financial performance. Reputational damage stemming from associations with companies that do not demonstrate good corporate social responsibility with regards to ESG matters (i.e., transition risk) may also translate into potential financial losses.   |

*(ii) 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;*

SanCap does not yet have an internal rating since APS and SIS only completed their merger on February 6, 2023. The prior ratings for APS (5.3) and SIS (6.5) are equivalent to an IG rating. At May 31, 2023, leverage was low, as demonstrated by SanCap's 4% equity/assets ratio. Net capital at May 31, 2023 was 244% of the amount of net capital required. Liquidity was strong, with cash as 1% of assets and access to operating and subordinated loan facilities. 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. SanCap'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.

SanCap's FCM clears transactions solely for BSSA. The customer business of BSSA. clears with SanCap 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, SanCap does not accept funds (“30.7 customer funds”) from foreign futures and foreign options customers (“30.7 customers”); further, SanCap 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, BSSA, is its sole futures counterparty. SanCap requires BSSA to maintain balances in excess of the required amount, which effectively collateralizes its exposure to the Santander Group affiliate.

SanCap’s CME clearing membership includes OTC interest rate swaps. OTC IRS clearing services are limited to affiliate business

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

SanCap’s annual audited financial statements are available at the following link:

<https://www.santanderus.com/investors-shareholders/> CFTC Disclosures”; click on “Industry Links and Disclosures” 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.*

SanCap’s designated self-regulatory organization is the New York Mercantile Exchange (“NYMEX”) Inc. See CME’s website at the following link: <http://www.cmegroup.com>.

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

Following is a table showing BSSA’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                           |                   |

SanCap’s annual audited financial statements are available at the following link: <https://www.santanderus.com/annual-SanCap-notice/>

## 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.*

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

NFA/FCM related complaints for SanCap can be found at the following website: <http://www.nfa.futures.org/basicnet/>

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

## 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.*

SanCap maintains 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 residual interest. The accounts are separate from SanCap’s general operating account and solely hold customer funds. SanCap 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 SanCap 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 function related to 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 SanCap 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 SanCap 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 SanCap 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.*

SanCap's annual audited financial statements are available at the following link: <https://www.santanderus.com/annual-SanCap-notices/>

SanCap'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 May 31, 2023, was \$1,111,600,306 and \$1,111,600,306 , 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.*

SanCap does not engage in 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.*

The Firm’s sole customer, BSSA, represents 100% of the funds held for futures customers. The Firm does not engage in secured 30.7 or cleared swaps customer activity

*(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.*

SanCap’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.*

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

The last drawdown from the SHUSA credit facility was effected in May 2023 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.*

SanCap 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.*

SanCap has not written off as uncollectable any customer receivable balances for any futures customer during a twelve-month period ending May 31, 2023.

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>

Financial information regarding the futures commission merchant, including how the futures commission merchant invests and holds customer funds, may be obtained from the NFA:

<https://www.nfa.futures.org>

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.*

SanCap is a registered FCM with the Commodity Futures Trading Commission (“CFTC”) and is a member of the NFA. The Firm currently offers limited execution and clearing services for futures and options on financial and commodity products.

SanCap organizes its roles and responsibilities for risk management into a three lines of defense model described in the SanCap 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 (e.g., ERM, Credit, Market, Liquidity, Operational, Model and Compliance), General Counsel (“GC”), Legal 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; the department operates independently of any other area. Internal Audit provides independent assurance to the Board 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 (“RMP”) in accordance with CEA Regulation 1.11. The RMP 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 RMP 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 RMP.

The RMP 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, Affiliate and Margin Risks. The RMP contains policies to address each risk category.

Following is an overview of the policies that are included in the RMP.

**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. SanCap 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 CEA/CFTC regulations, and NFA, 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.

#### **AFFILIATE RISK**

The sole affiliate to which the Firm has a material risk exposure is its ultimate parent, BSSA, which is the Firm's sole futures client and its ultimate provider of liquidity. The credit condition of BSSA is assessed and reported on a quarterly basis in the Firm's CEA Regulation 1.11 Risk Exposure Report.

#### **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.

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

The Board and the ERM 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 delegates to the ERM 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 SHUSA Board of Directors independent of any other function. Internal Audit provides independent assurance to the SHUSA 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 CFO) is responsible for the integrity of the SanCap's financial reporting.