

May 2018

UNDERSTANDING CUSTOMER FUNDS PROTECTION

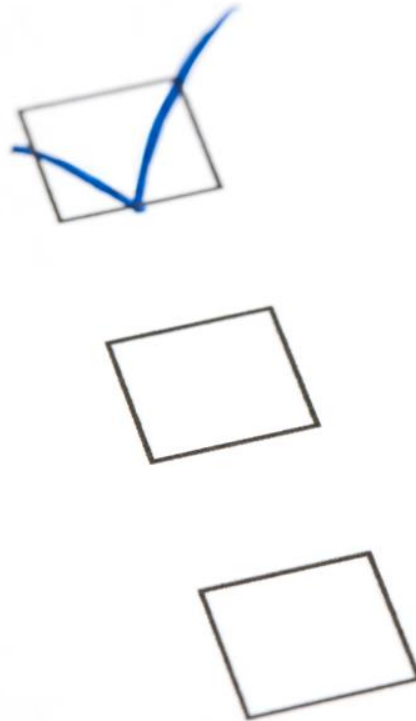
SOCIETE GENERALE INTERNATIONAL LIMITED



OVERVIEW

The foundation for protecting customer property when customer's trade is three-fold:

- Segregation
- Capital Requirements and Regulatory Reporting
- Controls, Audits and Inspections



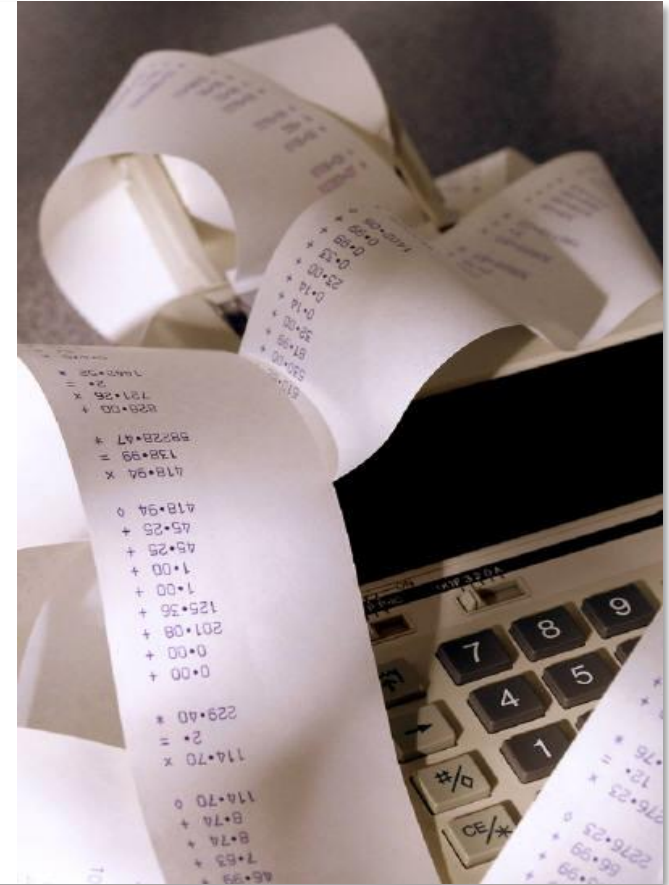
SEGREGATION

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Societe Generale International Limited (“SGIL”) is a wholly-owned UK subsidiary of Societe Generale incorporated in England and Wales with company number 5407520. SGIL is authorised and regulated by the UK Financial Conduct Authority (“FCA”).

As an FCA regulated entity, SGIL follows the rules set out in the FCA’s Client Assets Sourcebook (“CASS”) with respect to client assets.

The link to the FSA rulebook can be found here:
<https://www.handbook.fca.org.uk/handbook/CASS/>



SEGREGATION (CONT'D)

Subject to the terms of the customer agreement, SGIL may treat money received from the client in accordance with the FCA client money rules set out in CASS 7 (“Client Money Rules”).

SGIL’s principal obligations in relation to client monies:

- **Segregation.** Client money is held on trust and segregated from the assets of SGIL.
- **Trust Status.** SGIL deposits client money with client money banks recognised to meet CASS requirements. SGIL has obtained confirmation of the trust status of the accounts from each client money bank.
- **Daily Client Money Calculation.** A daily client money calculation is performed to determine what the client money requirement was at the close of the previous business day. Any deficit is topped up using SGIL’s own funds. Any excess is drawn down. The client money calculation is based on the alternative approach.

CLEARING: WHAT DOES SEGREGATION CONCRETELY MEAN?

■ Client cash given to SGIL as to pay for margins

- Client cash will be deposited by SGIL at approved CCPs or Brokers compliant with CASS rules

■ Client non-cash collateral given to SGIL as to pay for margins

- Client securities will be deposited at approved Exchanges, CCPs or will be hold at an approved third-party custodian

■ Client cash left above the margin requirement as excess

- Client cash will be deposited to CASS pre-approved banks on a client account held under trust

SEGREGATION (CONT'D)

SGIL's treatment of client assets differs depending on whether such assets are placed with SGIL as collateral or as safe custody.

SGIL applies the CASS custody rules set out in CASS 6 (the "Custody Rules") when holding safe custody assets belonging to clients ("Custody Assets").

The Custody Rules attempt to:

- ensure that Custody Assets are, wherever possible, safe from claims of general creditors of SGIL's estate in the event of its insolvency; and
- prevent the use of Custody Assets belonging to a client on SGIL's own account except with the client's express consent.

SEGREGATION (CONT'D)

Segregation in light of EMIR requirements: Authorised Central Counterparties (“CCPs”) are required to offer both individual client segregation and omnibus client segregation.

Qualified CCPs need to have procedures for transferring client positions and assets on the default of a clearing member to another clearing member designated by the client.

To accommodate the segregation and portability requirements under EMIR, the FCA modified the Client Money Rules and its related client money distribution rules:

- In case of a clearing member’s insolvency, client money held as margin at a CCP can be transferred along with client positions, instead of being pooled with client money of other clients of the clearing member.
- Any balance owed by the CCP to the clearing member's clients can be returned to those clients.

SGIL has assessed the EMIR segregation models offered by each CCP and has developed client offerings accordingly.

CAPITAL REQUIREMENTS AND REGULATORY REPORTING

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Capital Requirements

SGIL is categorised as “well-capitalised” in accordance with Basel capital standards.

As at 31 December 2017, SGIL has a total regulatory capital base of £1,000m ordinary share capital and £145m of subordinated debt. SGIL’s total capital ratio was 16.82%, of which, Common Equity Tier 1 was 14.64%.

SGIL meets the requirements of the Capital Requirements Regulation (Regulation 575/2013) which replaced the previous Capital Requirements Directive (2006/48/EC and 2006/49/EC) with effect from 1 January 2014.

CONTROLS, AUDITS AND INSPECTIONS

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CASS Large Firm

SGIL is classified as a 'CASS large firm' by the FCA. CASS large firms are required by the FCA to allocate the function of CF10a (the CASS operational oversight function) to a director or senior manager within the firm, with responsibility for:

- overseeing the operational effectiveness of that firm's systems and controls that are designed to achieve compliance with CASS;
- reporting to the firm's governing body in respect of that oversight; and
- completing and submitting the Client Money and Asset Return (CMAR).

Client Asset Oversight Committee (CAOC)

Overall framework for the operation of Client Money and Assets overseen by the CAOC and subject to Internal Audit.

CONTROLS, AUDITS AND INSPECTIONS (CONT'D)

External Auditors

On an annual basis the independent auditors confirm in a Annual CASS Assurance Report that SGIL has maintained systems and controls adequate to enable it to comply with the client money rules.



SUMMARY OF APPLICATION OF BANKRUPTCY RULES

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Client Money

Unless otherwise provided under the terms of the customer agreement, client money subject to the Client Money Rules is held on trust and segregated from the assets of SGIL.

If SGIL was to become insolvent, client money would be distributed in accordance with CASS rules so that each client receives a sum which is rateable to its client money entitlement.

When the client agrees that title to and full ownership of the money will be transferred to SGIL for the purpose of covering its obligations, SGIL will not hold such money in accordance with the Client Money Rules. If SGIL was to become insolvent the client would be treated as a general creditor of SGIL.

SUMMARY OF APPLICATION OF BANKRUPTCY RULES (CONT'D)

Client Assets

Custody Assets should, wherever possible, be safe from claims of general creditors of SGIL's estate in the event of its insolvency. In case of an irreconcilable shortfall of any particular type of Custody Asset(s), all clients whose Custody Assets are held in a omnibus client account shall share the shortfall on a pro-rata basis.

Client assets held as collateral and client assets which SGIL has the contractual right to reuse are transferred to SGIL by way of title transfer or security interest. In such a case, SGIL is obliged to return equivalent collateral to the client upon request to the extent that the client's obligations to SGIL have been satisfied in full.

Collateral will not be segregated from other assets belonging to SGIL and may be available to creditors of SGIL.

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