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UNDERSTANDING CUSTOMER FUNDS PROTECTION

SOCIETE GENERALE INTERNATIONAL LIMITED

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SEGREGATION

SEGREGATION

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 FCA 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 and transaction accounts with CCPs and intermediate brokers assessed to meet CASS requirements. SGIL holds acknowledgement letters of the segregation status of the accounts with each entity concerned.
- **Daily Client Money Calculation.** A daily client money calculation is performed to determine the client money requirement in respect of 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 approach adopted is the alternative approach.

CLEARING: WHAT DOES SEGREGATION CONCRETELY MEAN?

Client Money

- **Client cash collateral given to SGIL as to pay for margins**
 - Client money will be deposited by SGIL at approved CCP, Intermediate Brokers or Banks in accordance with the CASS rules.
- **Client cash left above the margin requirement as excess**
 - Client cash will be deposited to client money banks on client accounts in accordance with the CASS requirements.

SEGREGATION (CONT'D)

Client Assets Held As Securities

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

- Client non-cash collateral given to SGIL as to pay for margins
Non-cash collateral is **received** by the firm subject to Title Transfer Collateral Arrangements (TTCA) and will be deposited at approved CCPs. In some instances client non-cash collateral will be held at a client's third-party custodian under a pledge structure or held under our cash equity prime brokerage agreement as a security interest with limited right of re use.
- 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 clients' Custody Assets 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.

ESMA authorised 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 held at the CCP, 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. The EMIR segregation models provide Individual Segregated Accounts (ISA) and Omnibus Segregated Accounts (OSA) for clearing derivatives through an EU central counterparty (CCP). In addition, cash will be held as client money under the FCA CASS rules unless title has been transferred under TTCA.

The link to the SGIL EMIR ISA/OSA explanatory document can be found here:

https://sgildisclosure.societegenerale.com/fileadmin/user_upload/SG_NUK_Disclosure/SGNUK_PDF/SGIL_EMIR_ISA_OSA_Risk_Disclosures.pdf

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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 2018, SGIL has a total regulatory capital base of £1,000m ordinary share capital and £145m of subordinated debt. SGIL’s total capital ratio was 23.68%, of which, Common Equity Tier 1 was 20.93%.

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.

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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 Compliance Monitoring Reviews and Internal Audit.

CONTROLS, AUDITS AND INSPECTIONS (CONT'D)

External Auditors

On an annual basis the independent auditors provide an opinion to the FCA in a Annual CASS Assurance Report as to whether SGIL has maintained systems and controls adequate to enable it to comply with the custody, client money, collateral and mandate rules.

The audit is carried out in accordance with the Client Assets Assurance Standard issued by the Financial Reporting Council.



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 under TTCA 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.

A disclosure is made on client's statements as to whether the cash is held as client money or held under TTCA.

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 by SGIL as collateral are transferred to SGIL either by way of title transfer or are held as a custody asset where SGIL has the contractual right to reuse under rehypothecation; or, are transferred to SGIL as a custody assets where SGIL has a 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.

Where clearing services are provided under our cash equity prime brokerage agreement, securities will be segregated in a custody account subject to a security interest prior to an exercise of any limited right of re use.

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