



Investor Account Protection

The protection of investor assets held by Pershing is an integral part of our service. In the unlikely event that either Pershing or your firm is unable to meet its financial obligations, your clients would benefit from extensive account protection for the net equity value of the securities positions and cash held in their accounts. Pershing adheres to industry regulations, implements strict risk and information management policies, and has Business Continuity provisions and additional insurance policies in place to protect the integrity of investors' assets.

FSA Client Asset Rules

Pershing is regulated by the Financial Services Authority (FSA) and is required to comply with the FSA's Client Asset Rules which help protect investor assets in several ways, including:

- > **Asset Segregation.** In compliance with FSA Client Asset Rules, investors' assets, under a Model B arrangement, are held on trust in accounts segregated from Pershing's own assets. Therefore, in the unlikely event of default by Pershing, investors' assets would be allocated to the beneficial owner. These assets would not be considered as belonging to Pershing and therefore would not be used to repay Pershing's creditors in the event of liquidation. Although, in extremely rare circumstances, a court might permit a liquidator to meet the liquidator's costs in delivering the assets to the owner, out of the assets.
- > **Verification of Asset Records and Instructions.** Pershing is required to perform regular checks to verify that investor assets held in trust are accurately recorded. There must also be specific agreement as to who can issue and receive instructions on an investor's assets and the extent of their authority.
- > **Assessment of Custodians.** The FSA stipulates that custodians appointed by Pershing to hold investor assets must be subject to prior assessment to ensure that custodians extend the same level of asset protection as defined by the FSA.

EU and US Regulations

Pershing is obligated to meet a number of global regulatory requirements in the areas of risk management, capital adequacy, and financial reporting. The Capital Requirements Directive (CRD) focuses on the regulation of credit institutions and investment firms across the EU and implements a revised Basel II framework that relates capital levels more closely to risks. Pershing's compliance with this and many other international guidelines and regulations, including Sarbanes-Oxley, provides our clients and their investors with additional assurances that the firm is adequately capitalised and operates within a best-practice framework.

Holistic Approach to Control and Risk Management

Pershing takes a holistic approach to managing its control environment. Each department has responsibility for its own control environment and for risk assessment in order to validate the integrity of financial information and to ensure that assets are protected from unauthorised use or disposition and that transactions are executed in accordance with management's authorisation and client instructions.

Pershing's Internal Audit team provides an independent and objective assurance activity – identifying strategic, operational, and financial risks faced by the organisation and assessing the controls put in place by management to mitigate those risks.

An annual SAS 70 Level II audit is also undertaken by independent, external auditors to provide additional, impartial oversight of Pershing's controls and tests of operating effectiveness. The audit focuses on the controls that Pershing has in place which may form part of clients' information systems. The resulting report is distributed to our clients to support you in the assessment of controls surrounding transactions processed by Pershing.

Business Continuity and Disaster Recovery

Pershing recognises that Business Continuity is a vital part of its control framework and has regularly tested Business Continuity plans in place to manage the risk and reduce the impact of a serious incident. Geographically diverse operational centres are supported by an out-of-region data centre and alternative work area recovery sites. Ensuring the continuation of critical business processes helps to safeguard investor information and assets in the event of an incident.

Financial Services Compensation Scheme

As the UK's statutory fund of last resort for clients of authorised financial services firms, the Financial Services Compensation Scheme (FSCS) can pay compensation to investors if a firm is unable, or likely to be unable, to pay claims against it. In general, this would occur when a firm has stopped trading, or is insolvent, and has insufficient assets or funds to meet its obligations to investors.

- > **Protection of Assets in Custody at Pershing.** In the unlikely event that Pershing had failed to properly apply the FSA's Client Asset Rules and had also defaulted on its obligations, eligible investors would be able to make a claim to the FSCS for any assets lost by Pershing.

Accounts held in custody at Pershing are protected by the Financial Services Compensation Scheme up to £48,000 for cash and securities in each protected investor account held by Pershing.

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> **Protection of Cash Invested with Third Party Banks.** Pershing invests client assets awaiting reinvestment with third party banks. In order to protect your clients' cash, we have put in place a number of safeguards to mitigate risk. We use a broad range of international banks and financial institutions to ensure that deposits are well diversified from a risk perspective.

Pershing places deposits with banks on a pooled basis in Pershing's own name, segregated as client money, but has received guidance from the FSCS that, in the unlikely event of a default, the compensation scheme for deposits with banks would apply as if the deposits were held on a non-pooled basis in the names of investors. It should be noted that this is guidance only and the FSCS reserves the right to determine eligibility for each case, applying eligibility criteria to any investor claims.

The current limit on FSCS compensation for bank deposits is £50,000 per investor.

Further information regarding claim amounts and investor eligibility can be obtained from www.fscs.org.uk.

Insurance – Lloyd's of London

In addition to the existing FSCS coverage, Pershing also provides coverage in excess of FSCS limits for client assets through Lloyd's of London. This excess account protection offers some of the highest levels of coverage that will be available in the industry. Our policy through Lloyd's of London will protect all client assets in custody at Pershing Securities Limited (UK) and Pershing LLC (US), up to an overall aggregate level of \$1 billion, of which \$1.9 million may be for cash awaiting reinvestment in your account or investments held per investor holding account with Pershing.

Visit www.fscs.org.uk for more information on FSCS and www.lloyds.com for more information about Lloyd's of London.

Additional Insurance

In addition to risk capital, FSCS, Lloyd's of London coverage, and the asset protection offered by compliance with the FSA Client Asset Rules, Pershing has additional insurance policies in force to protect against financial losses caused directly by events such as:

- incomplete transactions
- forgery and fraudulent alteration
- computer crime and computer viruses
- extortion
- physical loss of or damage to the property including subsidence and terrorism
- public and product liability
- employer's liability
- professional liability (Errors and Omissions)
- directors' and officers' liability

Client Insolvency

Under a Model B agreement, Pershing's tripartite relationship with your firm and your underlying investors offers additional insolvency protection. In the unlikely event that the investors' financial intermediary becomes insolvent, your clients' assets would remain held in trust by Pershing and would not be impacted by the insolvency.

To see how Pershing's Investor Account Protection could simplify your processes and systems, call the sales team on +44 (0)20 7864 8000 or email salesteam@pershing.co.uk.

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