

Winterflood

Winterflood Securities Limited

Article 38(6) CSDR Disclosure Document

English Law

This document is based on the industry disclosure template which was developed by AFME with the support of external legal counsel (Freshfields Bruckhaus Deringer). Certain sections herein have been applied or disappplied in accordance with the drafting notes to reflect our business model.

1 Introduction

The purpose of this document is for Winterflood Securities Limited (referred to as **we** or **us**) to disclose the levels of protection associated with the different levels of segregation that we provide in respect of securities that we hold directly for clients with central securities depositories within the EEA and the UK (each a **CSD**), including a description of the main legal implications of the respective levels of segregation offered and information on the insolvency law applicable.

This disclosure is required under Article 38(6) of the EU Central Securities Depositories Regulation (**CSDR**), in relation to CSDs in the EEA. For the avoidance of doubt, references in this document to CSDR shall include any corresponding regulation implemented in the UK, in relation to CSDs in the UK, following the UK leaving the EU.

Under CSDR, CSDs at which we are a direct participant have their own disclosure obligations. For convenience only and where the relevant CSD disclosures have become available, we have included links to those, at the end of this document. In the event that any of the links do not work or you cannot find the relevant disclosures, you should contact the relevant CSD directly.

This document is not intended to constitute legal or other advice and should not be relied upon as such. Clients should seek their own legal advice if they require any guidance on the matters discussed in this document.

Please refer to the glossary at the end of this document which provides certain definitions and explains some of the technical terms used in this document.

2 Background

We record each client's individual entitlement to securities that we hold for that client in a separate client account in accordance with the relevant client agreement. We also open accounts with CSDs in our own (or in our nominee's) name in which we hold clients' securities. We currently make two types of accounts with CSDs available to clients: Individual Client Segregated Accounts (**ISAs**)¹ and Omnibus Client Segregated Accounts (**OSAs**)².

An ISA is used to hold the securities of a single client and therefore the client's securities are held separately from the securities of other clients and our own proprietary securities (save where permitted under the CASS Rules).

An OSA is used to hold the securities of a number of clients on a collective basis. However, we do not hold our own proprietary securities in OSAs (save where permitted under the CASS Rules).

¹ ISAs may be subject to separate charges.

² For services which do not generally involve custody (e.g., dealing-only services), only OSAs will apply. ³ When a client has sold, transferred, or otherwise disposed of their legal entitlement to securities that we hold for them (for example, under a right to use or title transfer collateral arrangement), the securities will no longer be the property of the client.

Winterflood

Riverbank House, 2 Swan Lane, London, EC4R 3GA

T+44 (0)20 3100 0000 enquiries@winterflood.com STX 75419/75420 **www.winterflood.com**

3 Main legal implications of levels of segregation

Insolvency

Clients' legal entitlement to the securities that we hold for them directly with CSDs would not be affected by our insolvency, whether those securities were held in ISAs or OSAs.

The distribution of the securities in practice on an insolvency would depend on a number of factors, the most relevant of which are discussed below.

Application of English insolvency law

Were we to become insolvent, our insolvency proceedings would take place in England and be governed by English insolvency law.

Under English insolvency law, securities that we held on behalf of clients would not form part of our estate on insolvency for distribution to creditors, provided that they remained the property of clients³. Rather, they would be deliverable to clients in accordance with each client's proprietary interests in the securities.

As a result, it would not be necessary for clients to make a claim in our insolvency as a general unsecured creditor in respect of those securities. Securities that we held on behalf of clients would also not be subject to any bail-in process (see glossary), which may be applied to us if we were to become subject to resolution proceedings (see glossary).

Accordingly, where we hold securities in custody for clients and those securities are considered the property of those clients rather than our own property, they should be protected on our insolvency or resolution. This applies whether the securities are held in an OSA or an ISA.

Nature of clients' interests

Although our clients' securities are registered in our name at the relevant CSD, we hold them on behalf of our clients, who are considered as a matter of law to have a beneficial proprietary interest in those securities. This is in addition to any contractual right a client may have against us to have the securities delivered to them.

This applies both in the case of ISAs and OSAs. However, the nature of clients' interests in ISAs and OSAs is different. In relation to an ISA, each client is beneficially entitled to all of the securities held in the ISA. In the case of an OSA, as the securities are held collectively in a single account, each client is normally considered to have a beneficial interest in all of the securities in the account proportionate to its holding of securities.

Our books and records constitute evidence of our clients' beneficial interests in the securities. The ability to rely on such evidence would be particularly important on insolvency. In the case of either an ISA or an OSA, an insolvency practitioner may require a full reconciliation of the books and records in respect of all securities accounts prior to the release of any securities from those accounts.

We are subject to the client asset rules (**CASS Rules**) of the UK Financial Conduct Authority, which contain strict and detailed requirements as to the maintenance of accurate books and records and the reconciliation of our records against those of the CSDs with which accounts are held. We are also subject to regular audits in respect of our compliance with those rules. As long as books and records are maintained in accordance with the CASS Rules, clients should receive the same level of protection from both ISAs and OSAs.

Shortfalls

If there were a shortfall between the number of securities that we are obliged to deliver to clients and the number of securities that we hold on their behalf in either an ISA or an OSA, this could result in fewer securities than clients are entitled to being returned to them on our insolvency. The way in which a shortfall could arise would be different as between ISAs and OSAs (see further below).

How a shortfall may arise

A shortfall could arise for a number of reasons including as a result of administrative error, intraday movements or counterparty default following the exercise of rights of reuse. If agreed with the relevant clients, a shortfall may also arise in the case of an OSA as a result of securities belonging to one client being used or borrowed by another client for intra-day settlement purposes.

Where we have been requested to settle a transaction for a client and that client has insufficient securities held with us to carry out that settlement, we generally have two options:

- (i) in the case of both an ISA and an OSA, to only carry out the settlement once the client has delivered to us the securities needed to meet the settlement obligation; or
- (ii) in the case of an OSA, to make use of other securities held in that account to carry out settlement subject to an obligation on the part of the relevant client to make good that shortfall and subject to any relevant client consents required.

Where option (ii) is used, this increases the risks to clients holding securities in the OSA as it makes it more likely that a shortfall in the account could arise as a result of the relevant client failing to meet its obligation to reimburse the OSA for the securities used.

In the case of an ISA, only option (i) above would be available, which would prevent the use of securities in that account for other clients and therefore any resulting shortfall. However, it also increases the risk of settlement failure which in turn may incur additional buy in costs or penalties and/or may delay settlement as we would be unable to settle where there are insufficient securities in the account.

Where clients' securities are held in an OSA, we will use option (ii) in accordance with agreed contractual terms.

Treatment of a shortfall

In the case of an ISA, the whole of any shortfall on that ISA would be attributable to the client for whom the account is held and would not be shared with other clients for whom we hold securities. Similarly, the client would not be exposed to a shortfall on an account held for another client or clients.

In the case of an OSA, the shortfall would be shared among the clients with an interest in the securities held in the OSA (see further below). Therefore, a client may be exposed to a shortfall even where securities have been lost in circumstances which are completely unrelated to that client.

The risk of a shortfall arising is, however, mitigated as a result of our obligation under the CASS Rules in certain situations to set aside our own cash or securities to cover shortfalls identified during the process of reconciling our records with those of the CSDs with which securities are held.

If a shortfall arose and was not covered in accordance with the CASS Rules, clients may have a claim against us for any loss suffered. If we were to become insolvent prior to covering a shortfall, clients would rank as general unsecured creditors for any amounts owing to them in connection with such a claim. Clients would therefore be exposed to the risks of our insolvency, including the risk that they may not be able to recover all or part of any amounts claimed.

In these circumstances, clients could be exposed to the risk of loss on our insolvency. If securities were held in an ISA, the entire loss would be borne by the client for whom the relevant account was held. If securities were held in an OSA, the loss would be allocated between the clients with an interest in that account.

In order to calculate clients' shares of any shortfall in respect of an OSA, each client's entitlement to securities held within that account would need to be established as a matter of law and fact based on our books and records. Any shortfall in a particular security held in an OSA would then be allocated among all clients with an interest in that security in the account. It is likely that this allocation would be made rateably between clients with an interest in that security in the OSA, although arguments could be made that in certain circumstances a shortfall in a particular security in an OSA should be attributed to a particular client or clients. It may therefore be a time-consuming process to confirm each client's entitlement. This could give rise to delays in returning securities and initial uncertainty for a client as to its actual entitlement on an insolvency. Ascertaining clients' entitlements could also give rise to the expense of litigation, which could be paid out of clients' securities in the event of our insolvency.

Security interests

Security interest granted to a third party

Security interests granted over clients' securities could have a different impact in the case of ISAs and OSAs.

Where a client purported to grant a security interest over its interest in securities held in an OSA and the security interest was asserted against the CSD with which the account was held, there could be a delay in the return of securities to all clients holding securities in the relevant account, including those clients who had not granted a security interest, and a possible shortfall in the account. However, in practice, we would expect that the beneficiary of a security interest over a client's securities would perfect its security by notifying us rather than the relevant CSD and would seek to enforce the security against us rather than against such CSD, with which it had no relationship. We would also expect CSDs to refuse to recognise a claim asserted by anyone other than ourselves as account holder.

Security interest granted to a CSD

Whether or not the CSD may benefit from a security interest will be regulated by the CSD's own rules. Such rules may also regulate the CSD's approach to enforcement of such security interest. Should the CSD benefit from a security interest over securities held for a client, there could be a delay in the return of securities to a client (and a possible shortfall) in the event that we failed to satisfy our obligations to the CSD and the security interest was enforced. This applies whether the securities are held in an ISA or an OSA. However, in practice, we would expect that a CSD would first seek recourse to any securities held in our own proprietary accounts to satisfy our obligations and only then make use of securities in client accounts. We would also expect a CSD to enforce its security rateably across client accounts held with it.

Furthermore, the CASS Rules restrict the situations in which we may grant a security interest over securities held in a client account.

Corporate actions

Where securities are held in an ISA and the client is entitled to a fractional entitlement on a corporate action, it is possible that the client would not in practice benefit from that fractional entitlement. However, where securities are held in an OSA, fractional entitlements may be received on an aggregated basis and therefore it is more likely that the clients may be able to benefit from some or all of those fractional entitlements.

Our insolvency may also have an impact on our ability to collect any entitlements, such as dividends, due on clients' securities held in an ISA or OSA or exercise any voting rights in respect of those securities.

4 CSDs and Disclosures

As of the date of this disclosure, we are a direct participant of and directly hold securities for clients in each of the following CSDs:

CSD	Country	CSD Disclosures
Euroclear UK & Ireland (CREST System)	UK	https://www.euroclear.com/dam/ESw/Legal/Disclosure_pursuant-to-38(6)-CSDR-Published.pdf
Clearstream Luxembourg S.A. (International CSD located in Luxembourg)	Luxembourg	https://www.clearstream.com/clearstream-en/strategy-and-initiatives/asset-safety/csdr-article-38-disclosure

You should review the information in the relevant disclosures made available by the CSDs at which we are a direct participant.

GLOSSARY

Bail-in refers to the process under the Banking Act 2009 applicable to failing UK banks and investment firms under which the firm's liabilities to clients may be modified, e.g., by being written down or converted into equity.

Central Securities Depository or **CSD** is an entity which records legal entitlements to dematerialised securities and operates a system for the settlement of transactions in those securities.

Central Securities Depositories Regulation or **CSDR** refers to Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012. The CSDR sets out the rules applicable to CSDs in the EEA and their participants.

CASS rules means Chapter 6 of the Financial Conduct Authority's CASS Sourcebook.

Direct participant means an entity that holds securities in an account with a CSD and is responsible for settling transactions in securities that take place within a CSD. A direct participant should be distinguished from an indirect participant, which is an entity, such as a global custodian, which appoints a direct participant to hold securities for it with a CSD.

EEA means the European Economic Area.

ISA means an Individual Client Segregated Account.

OSA means an Omnibus Client Segregated Account.

Resolution proceedings are proceedings for the resolution of failing UK banks and investment firms under the Banking Act 2009.

UK means the United Kingdom.