Central Securities Depositories Regulation (CSDR)

Disclosure Document

Integrated Financial Arrangements Ltd
A firm authorised and regulated by the Financial Conduct Authority

Contents

This document is what is known as a Disclosure Document. It is intended to provide an introduction to the types of CREST account available with Transact. We are required to provide the disclosures that follow by Article 38(6) of the Central Securities Depositories Regulation (CSDR). By default we operate what is known as an "omnibus" CREST account but you can ask us to operate a segregated account for certain of your investments. These disclosures are provided to help you to make an informed choice as to the CREST account type that best meets your requirements.

This document is not intended to constitute legal or other advice and should not be relied upon as such. We strongly recommend that you obtain advice about the matters referred to in this document because of the complex nature of the subject matter and because we cannot advise you. Terms, as defined in the glossary, are shown in **bold** the first time that they are used**.**

Much of the language in this document is consistent with what you will find in equivalent documents provided by other platforms and is therefore "industry standard". We have, for the most part, used an industry standard format and language to help with comparisons.

1. Introduction 2
2. Background 2
3. Main legal implications of levels of segregation
   Insolvency 2
   Application of English insolvency law 2
   Nature of clients' interests 3
   Shortfalls 3
4. Costs overview 4
5. Costs: OCSA vs ICA comparison 5
6. General cost information 5

1. Introduction

This document discloses the levels of protection associated with the different levels of segregation that we provide as custodian of the investments held in Transact client portfolios with Central Securities Depositories within the EEA (CSDs), including a description of the main legal implications of the different types of segregation offered and information on the insolvency law applicable.

The CSD on which Integrated Financial Arrangements Limited (IFAL) is a direct participant is Euroclear UK and Ireland Limited (known as CREST). CREST has its own CSDR disclosure obligations which can be found on its website.

2. Background

In our own systems and records, we record each client's individual entitlement to securities that we hold for them in one or more separate CSD accounts.

In common with most platforms, a fundamental principle of our business operation is the aggregation of client orders and the pooling of client money and custody assets. Therefore we hold all relevant custody assets in what is known as Omnibus Client Segregated Accounts (OCSAs). However, CSDs also offer Individual Client Segregated Accounts (ICSAs) and under the CSDR we are obliged to offer clients the option of applying for relevant custody assets to be held by us for them in an ICSA. This document sets out information about OCSAs and ICSAs. Some firms will not feel strongly about whether their clients opt for OCSAs or ICSAs. We do feel strongly that ICSAs offer no meaningful benefits to Transact clients even without considering the costs associated with them. To be clear, we are offering ICSAs to clients only because the CSDR requires us to.

An ICSA is used to hold the securities of a single client at the CSD. This account is separate from the accounts used to hold the securities of other clients.

An OCSA is used to hold the securities of all clients, who do not have securities in an ICSA, on a collective basis.

3. Main legal implications of each level of segregation

Insolvency

Clients' legal entitlement to the securities that we hold for them directly with CSDs are affected by our insolvency, whether those securities are held in ICSAs or OCSAs. In practice, distributions to clients following our insolvency depend on a number of factors, as detailed below.

Application of English insolvency law

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

Under English insolvency law, the securities that we hold on behalf of clients would not form part of what is known as our "estate" for distribution to creditors, provided that they remained the property of the clients. They would be safeguarded for clients under the "client money estate" rules.

As a result, it would not be necessary for clients to make a claim following 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, applicable to us if we were to become subject to resolution proceedings.

Where we hold securities in custody for clients, and those securities are considered the client's property rather than our own property, they should be protected on our insolvency or resolution. This applies whether the securities are held in an OCSA or an ICSA.

Nature of clients' interests

Although our clients' securities are recorded in our name – or that of our custodian - at the relevant CSD, we hold them on behalf of our clients.

This applies both in the case of ICSAs and OCSAs. However, the nature of clients' interests in ICSAs and OCSAs is different.

In relation to an ICSA, which can be used to hold securities in a Transact GIA, ISA and SIPP, each client is beneficially entitled to the securities held. In the case of an OCSA, 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 their holding in those wrappers. An OCSA can be used to hold securities in Transact insurance policy wrappers, e.g. a Transact Personal Pension, in respect of which clients have a contractual interest in the value of the securities which are themselves legally and beneficially owned by us.

Our books and records provide evidence of your clients' beneficial and contractual interests in the securities. The ability to rely on such evidence is particularly important on insolvency. In the case of either an ICSA or an OCSA, an insolvency practitioner may require a full reconciliation of the books and records of all securities accounts prior to their release.

When a client has sold, transferred or otherwise disposed of their legal entitlement to securities that we hold for them, the securities are no longer the property of the client.

We are subject to the client asset rules of the UK Financial Conduct Authority (CASS Rules), which contain detailed requirements as to the maintenance of accurate books and records, and the reconciliation of our records against those of the CSDs where accounts are held. We are also subject to 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 on insolvency from both ICSAs and OCSAs.

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 ICSA or an OCSA, 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 for ICSAs and OCSAs (see further below).

How a shortfall may arise

A shortfall could arise for a number of reasons. For example, as a result of administrative error, intra-day movements or counterparty default.

Treatment of a shortfall

In the case of an ICSA, the whole of any shortfall on that ICSA 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 OCSA, the shortfall would be shared among the clients with an interest in the securities held in the OCSA.

The risk of a shortfall arising is mitigated as a result of our control obligations under the CASS Rules, where, in certain situations, we are required to contribute corporate cash to cover shortfalls identified during the process of reconciling our records with those of the CSDs.

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.

If securities were held in an ICSA, the entire loss would be borne by the client for whom the relevant account was held. If securities were held in an OCSA, 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 OCSA, each client's entitlement to securities held needs to be established based on our books and records. Any shortfall in a particular security held in an OCSA would then be allocated among all clients with an interest in that security in the account. It is likely that this allocation would be shared between clients with an interest in that security in the OCSA, although arguments could be made that in certain circumstances a shortfall in a particular security in an OCSA 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. It could also give rise to the expense of litigation, which could be paid out of clients' securities.

4. Cost overview

We expect that the cost of operating an ICSA account will generally far exceed the cost of operating an OCSA account.

The following factors will impact the costs of setting up and maintaining an account at CSD level:

- The chosen account type i.e. OCSA or ICSA.
- The number of markets in which you require an account.
- The number of accounts you require in each market.
- The set-up and maintenance fees charged by the relevant CSD(s).
- The incremental operational overhead incurred in supporting your chosen account structure.

As a result of the different costs applied to ICSAs compared with OCSAs, ICSAs will be more expensive to open and maintain. Any additional fees that are applied by the CSD to Transact's CREST accounts may be passed onto the client for the operation of both OCSA and ICSA accounts. All charges for the different account structures are subject to periodic and ongoing review and change by Transact and the relevant CSDs.

5. Costs: OCSA v ICSA comparison

Omnibus Client Segregated Account- Transact Costs

As explained earlier in this document, an OCSA is a shared account at CSD level used to hold a number of clients' securities on a collective basis. OCSAs form part of the standard model Transact currently supports and offers.

Individual Client Segregated Account – Transact Costs

Charges for ICSAs will be higher than those of OCSAs due to the additional operational complexity and cost involved in setting up and maintaining an ICSA. These additional charges will apply to each ICSA at the CSD.

CSD costs

In addition to Transact costs, the CSD may charge additional amounts due to its own increased operational overhead. As OCSAs form the standard model used by CSDs, ICSAs are likely to be subject to higher charges than OCSAs (at CSD level), including additional set up and maintenance costs. If the CSDs impose extra charges we will reserve the right to pass those on to clients.

6. General cost information

The information set out in this document is provided as an indication of risks and costs likely to be incurred when choosing an OCSA or ICSA. The indicative charges referred to are subject to ongoing review and change by us and the relevant third parties. The cost of setting up a single ICSA will be £2,000, per wrapper type (i.e. A client would need three ICSAs if they wanted an ICSA for each of their SIPP, GIA and ISA), with a £2,000 per quarter management fee at portfolio level. Please contact your Transact Client Services Manager contact to discuss anything about our ICSA service.

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, for example 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 EU Regulation 909/2014 which sets out rules applicable to CSDs and their participants.

Client Money Estate: Client money must be held under the Client Money (CASS) Rules. As such, if client money is held in a firm's own "corporate" account(s), in the event of insolvency the Client Money Estate can make a claim again the General Estate (all the company's assets) for breach of trust and then take steps to recover the relevant client money.

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.

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

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