Central Securities Depositories Regulation (CSDR)

CSDR – Article 38(5) and Article 38(6) Costs Disclosure Document:

CSDR is European legislation that aims to harmonise the authorisation and supervision of EU Central Securities Depositories (CSDs). In the United Kingdom the CSD is Euroclear UK and Ireland (EUI) and as a participant of EUI these regulations place certain requirements and obligations on Platform Securities.

The key objectives of CSDR include:

- Introduction of rules and safeguards in the event of CSD insolvency;
- Standardises CSD regulations across all of Europe;
- Provides greater transparency and more open access in the market; and
- Improve settlement timeframes and reduce the number of fails.

Under CSDR Article 38(5) CSD participants are required to offer their clients a choice between Omnibus client Segregated Accounts (OSA) and Individual client Segregated Accounts (ISA).

Article 38(6) of CSDR requires Platform Securities to disclose the levels of protection associated with the different levels of segregation that we provide to our clients where we hold their securities with a CSD in an OSA or ISA.

An OSA is used to hold securities for a number of Platform Securities clients on a collective basis and is opened at the CSD in our nominee's name; we do not hold our own proprietary securities in OSAs.

An ISA is used to hold securities for a single client and they are therefore segregated from the securities we hold on behalf of all of our other clients and any proprietary assets we may hold in other accounts at the CSD.

In relation to an ISA the named client is entitled to all of the securities held in that account but in the case of an OSA each client is considered to have a beneficial interest in the securities held in the account based upon the holdings recorded in our books and records.

Whether the securities are held in an OSA or an ISA they are held under the FCA CASS rules 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 where those accounts are held. Our compliance with the CASS requirements is audited on a regular basis with an independent report being provided to the FCA.

Insolvency

The securities we hold on behalf of our clients in either an OSA or an ISA are therefore protected by the CASS requirements and would not be affected by our insolvency.

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

Under those laws the securities we held on behalf of our clients would not form part of our estate on insolvency for distribution to creditors and they would be deliverable to our 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 for those securities.

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

If a shortfall arose between the number of securities that we are obliged to deliver to clients and the number of securities that we hold on their behalf this could result in fewer securities being returned to them on our insolvency. We have a number of controls in place to ensure that shortfalls should not occur however a shortfall could arise as a result of an inadvertent administrative error, counterparty default or other operational issues.

In the case of ISA the entire shortfall would allocated to that client and would not be shared with other clients. Similarly, that client would not be exposed to a shortfall on an account held for another client or clients.

In an OSA the shortfall would be shared among the clients with an interest in that OSA, so a client could be exposed to a shortfall due to circumstances completely unrelated to them. The risk of a shortfall arising is, however, mitigated because of our obligation under the CASS rules, in certain circumstance, to set aside our own cash or securities to cover shortfalls identified during the process of reconciling our records with those of the CSDs where the securities are held.

If a shortfall arose for which we are liable to the client, the client 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.

In these circumstances, clients could 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 ISA, the entire loss (equal to the shortfall) would be borne by the client for whom the relevant account was held.

If securities were held in an OSA, each of the clients with an interest in that account would bear a loss equal to the amount of the shortfall allocated to it. 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.

Security Interests

The CASS rules restrict the situations where security interests maybe granted over securities held in client accounts at CSDs. Platform Securities do not offer or grant security interests over clients' securities other than those detailed in the Terms and Conditions for the respective service.

Pricing Disclosure

Platform Securities offer clients the choice between ISA and OSA accounts at the CSD where we are participants; the normal account structure involves the use of OSAs in our nominee name. ISAs and OSAs are fundamentally different to each other and as a result, the costs associated with each option will vary.

Each account structure has a different charging structure due to the amount of administrative work that needs to be undertaken to maintain their status and records. Typically, an ISA will be more expensive due to charges levied by the CSD to open and maintain the account. While an OSA account will benefit from operational efficiencies due to economies of scale for example in the processing of corporate events such as dividends where an ISA will need to be dealt with separately along with any OSA held at the CSD.

Please note that it is not possible to provide detailed information about costs in this document. The particular pricing structures which apply to ISAs and OSAs will depend on various factors and will be calculated for clients on a case-by-case basis. The charges for our normal OSA service are laid out on our rate cards but if an ISA is required we will be happy to discuss this further with you by contacting your usual client relationship manager.