

Customer Assets Protection at Newedge UK Financial Limited

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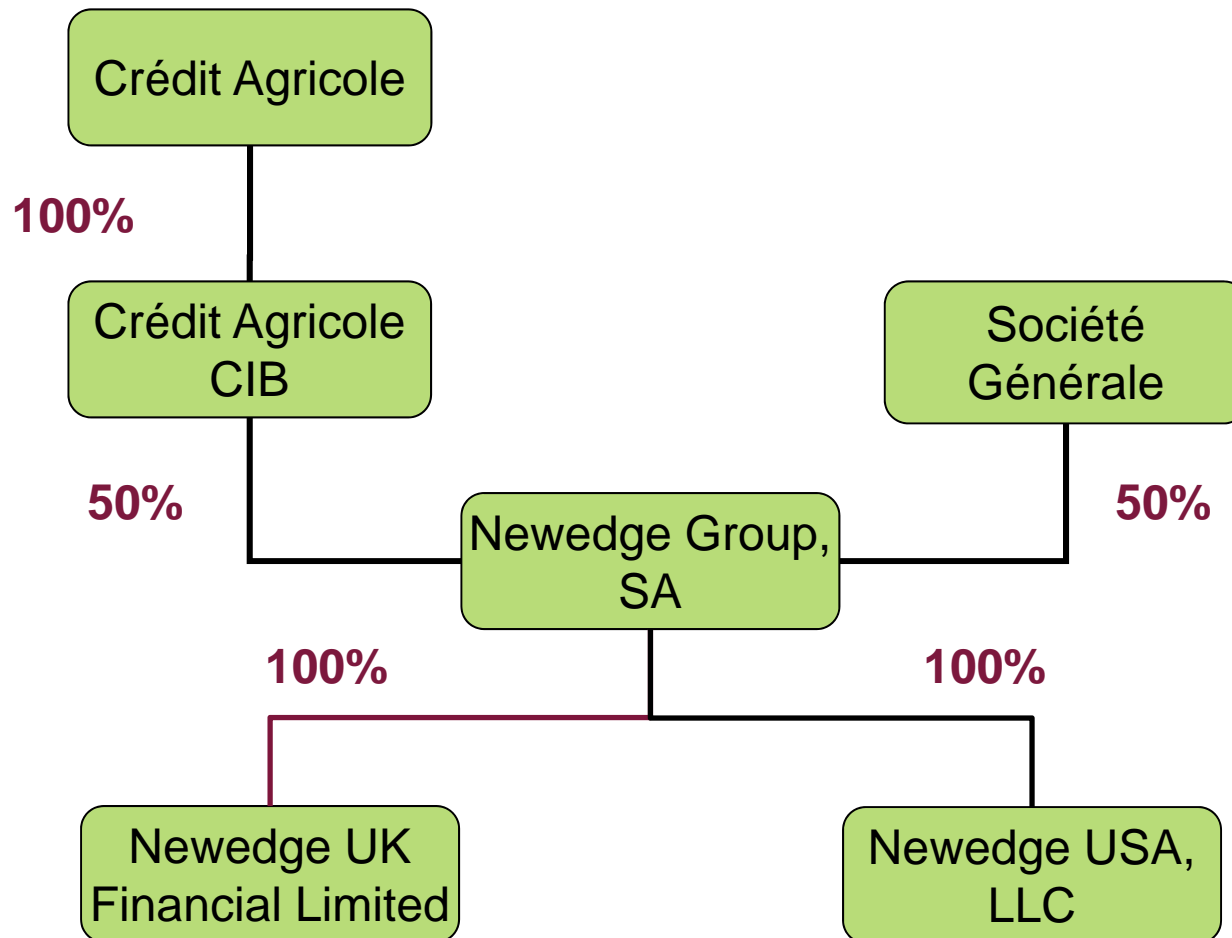
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Newedge Group SA - overview

- **Newedge Group is an independently-managed credit institution:**
 - Newedge imposes all applicable regulatory requirements on itself versus a pass-through of regulation of its two joint shareholders, Société Générale and Crédit Agricole CIB. This ensures:
 - Newedge Group is prudentially robust on a standalone basis; and
 - Newedge Group's systems and controls are of the requisite standard to ensure that the execution of its business continues to be operated on a sound and sustainable basis.
- **Newedge Group's shareholders have structured Newedge's governance to ensure operational autonomy.**
- **Newedge Group is a pure agency broker:**
 - Non-conflicted business model ensures clients' interests always come first.
- **Newedge Group is independently capitalised:**
 - As at 31 December 2010, Newedge Group's total regulatory capital was EUR 1.304 billion
 - Basel II solvency ratio of 15.2%, Tier I (core capital) ratio of 11.8%
 - Considered "well-capitalised" in accordance with Basel II capital standards.

Structure



Newedge UK Financial Limited

- **100% subsidiary of Newedge Group.**
- **Regulated by the Financial Services Authority (FSA):**
 - Subject to FSA's Client Asset regime (CASS)
 - In line with pure agency business model, the FSA categorises NEUKFL as a 'Limited Activity Firm' (LAF)
 - LAF status forbids any proprietary activity.
- **Governance:**
 - Separate Board of Directors, with an Independent Non-Executive Director
 - Executive Committee structure manages the day-to-day running of the business.
- **Well capitalised:**
 - Regulatory capital base of GBP 655m
 - GBP 483m of share capital
 - GBP 172m of subordinated debt
 - Projected capital ratio forecast to be 22.2% of which 16.3% is Tier 1 at 31 December 2011
 - Balance sheet forecast to have total assets of GBP19.4bn at 31 December 2011.

Treatment of Client Assets

- **Regulatory framework and governance**

- Newedge UK Financial Limited (NEUKFL) is subject to the FSA's Client Asset regime(CASS):
 - Governance policies and processes enhanced in 2011 in run-up to authorisation of NEUKFL and implementation for FSA rule changes
 - Compliance with the FSA CASS regime is subject to an annual review by external auditors
 - Audit completed in 2011 as part of the process to become authorised as NEUKFL by the FSA
 - Client Asset oversight is performed by an FSA Approved Person who is a Director of NEUKFL and Chairman of the Client Asset Oversight Committee (CAOC)
 - NEUKFL has Client Assets systems and controls appropriate to the size and complexity of NEUKFL's business.
- In addition, the Autorité de Contrôle Prudentiel, the French regulator of Newedge Group, has a right to inspect NEUKFL.
- NEUKFL has a fiduciary duty towards its clients to provide the proper protection and disposition of client assets. The FSA rules explicitly provide for this.
- Overall framework for the operation of Client Money and Assets overseen by the CAOC and subject to internal audit.
- Client Money and Assets Return (CMAR) completed monthly and submitted to the FSA.
- Produce daily Client Money Calculation and Custody Reports.

Treatment of Client Assets

- **Process**

- NEUKFL calculates its segregated fund requirement on a daily basis. All funds are placed in a segregated environment. This can be either:
 - a segregated transaction account at clearing houses or brokers; or
 - a segregated deposit account at one of our approved banks
- All accounts must be covered by a letter of trust.
- Both types of segregated accounts contain exclusively NEUKFL segregated client assets
- NEUKFL does not open individual accounts in the name of each segregated client. Instead, we open accounts into which ONLY the assets of segregated clients are deposited (i.e. CASS regime to pool assets).
- Client Money is held exclusively at credit institutions approved by CAOC:
 - All deposits are overnight
 - FSA allows third country banks and qualifying money market funds – currently not in use.
- NEUKFL cannot invest Client Money in any other way.

Treatment of Client Assets

- **Current approved banks**

- In line with the CASS regime, NEUKFL reviews the list of approved banks on a regular basis.
- Any change requires approval of the CAOC following a prescribed due diligence process.
- Current approved bank list for the deposit of client money:
 - The Co-Operative Bank plc
 - HSBC Bank plc
 - Lloyds TSB Bank plc
 - Santander UK plc
 - Standard Chartered Bank plc
 - The Royal Bank of Scotland plc
 - Barclays Bank plc
 - JPMorgan Chase Bank NA London Branch
 - Societe Generale New York Branch
 - Credit Agricole Corporate and Investment Bank New York Branch

Investment Policy

- **Oversight for the Investment Policy is under the Asset and Liability Committee and the Investment Committee.**
- **Policy objectives:**
 - Regulatory Compliance
 - Principal Protection
 - Liquidity
 - Diversification.
- **Newedge Investment Holdings:**
 - Liquid Asset Buffer: EUR 500m agreed with FSA
 - Other Securities held as collateral.

Summary

- **Newedge UK Financial Limited acts as a non-conflicted agent. Accordingly, we manage Customer Assets in a prudent and fully-compliant manner.**
- **Management of Customer Assets is monitored through regular reviews and reconciliations, both internally and externally, by third party auditors and regulators and governed by a distinct Client Asset Oversight Committee.**
- **NEUKFL is a well capitalised, FSA regulated UK investment firm. It holds LAF status that prohibits proprietary activity. It is a wholly owned subsidiary of Newedge Group SA, which benefits from the support of strong shareholders.**

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