

PEEL HUNT – ARTICLE 38 DISCLOSURE

The purpose of this document is for Peel Hunt ("us", "we") 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 UK ("CSDs").

This disclosure is required under Article 38(6) of the Central Securities Depositories Regulation ("CSDR"). 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.

1. ACCOUNT SEGREGATION

In our own books and records, we record each client's individual entitlement to securities that we hold for that client in a separate client account. We also open accounts with CSDs 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") and Omnibus Client Segregated Accounts ("OSAs").

1.1 ISAs

Individual account segregation is used by us to hold the securities of a single client. Therefore, securities held in ISAs are held separately from accounts used to hold the securities of other clients and our own proprietary securities.

1.2 OSAs

OSAs are used by us to hold a number of clients' securities on a pooled basis in one account. However, we do not hold our own proprietary securities in OSAs.

2. COSTS/FEEs OF DIFFERENT ACCOUNTS

ISAs will be more costly to the client than OSAs. If a client opts for an ISA then they will typically be required to pay a monthly maintenance fee. This is because this involves the creation and processing of a dedicated account in the books of the CSD, which carries an administrative burden.

An OSA is much less cost intensive to run because these administrative costs are shared amongst multiple clients.

3. PROTECTIONS OFFERED BY DIFFERENT ACCOUNTS

3.1 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 we hold on behalf of clients would not form part of our estate in insolvency for distribution to creditors. These would be deliverable to clients in accordance with each client's interests in the securities.

As such, 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 nominee's name at the relevant CSD, our nominee holds them on behalf of our clients, who are considered as a matter of law to have a beneficial proprietary interest in those securities. This applies in the case of both 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. However, in an OSA, the securities are held collectively in a single account and so each client is normally considered to have a beneficial interest in all of the securities in the account proportionate to its holding of securities.

In specific cases, 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 with which accounts are held. 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.

3.2 Shortfall

If there were a shortfall between the number of securities that we are obliged to deliver to clients and the number of securities that our nominee holds 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.

How a shortfall may arise

A shortfall could arise for a number of reasons including as a result of administrative error, intra-day 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:

- (a) 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
- (b) 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 (b) 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 (a) 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.

Treatment of shortfall in the event of insolvency

For ISAs, the whole of any shortfall on that ISA would be attributable to the client for whom the account is held. However, that client would not be exposed to any shortfalls on other accounts.

In the case of an OSA, the shortfall would be shared among the clients with an interest in the securities held in the OSA. 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.

If a shortfall was not covered by us in accordance with the CASS Rules, then clients may have a claim against us. 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 would be exposed to the risk of loss on 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 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.

Any shortfall in a particular security held in an OSA would 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 the relevant clients in the OSA. It may 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.

3.3 Security interests

Security interest granted to a third party

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 relevant account is held, there could be a delay in the return of securities to all clients holding securities in the relevant account and a possible shortfall in the account.

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 (or our nominee) as the account holder.

Security interest granted to CSD

Where a CSD benefits 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 (or our nominee's) proprietary accounts to satisfy our obligations and only then make use of securities in client accounts.

4. BENEFITS AND DISADVANTAGES OF DIFFERENT ACCOUNTS

The main benefit of an ISA is that all of a client's settlement instructions are processed by the CSD in a dedicated account and separately from the settlement of instructions of other clients.

However, as discussed above, an ISA is more costly than an OSA. Although an ISA is often seen as a way to protect a client's assets from misuse, the primary protection of a client's assets is handled by the custodian rather than the CSD. It is the custodian which is given access rights and manages settlement instructions.