

# FREQUENTLY ASKED QUESTIONS

**CLIENT ASSETS**

**1<sup>ST</sup> DECEMBER 2016**

## ABOUT DAVY

Established in 1926, the Davy Group is Ireland's leading provider of wealth management, asset management, capital markets and financial advisory services. The Davy Group is headquartered in Dublin, with offices in London, Belfast, Cork and Galway. Employing over 600 people, we offer a broad range of services to private clients, small businesses, corporations and institutional investors, and organise our activities around five interrelated business areas - Asset Management, Capital Markets, Corporate Finance, Private Clients and Research.

As the leading broker in the Irish market, we accounted for over 41% of all dealings in Irish equities on the Irish Stock Exchange in 2015<sup>1</sup>. Davy is a primary dealer in Irish government bonds and acts as arranger on most corporate bond issues. We advise 65% of companies on the Irish Stock Exchange, including 7 of Ireland's top 10 listed companies<sup>2</sup>. We are Ireland's leading ESM (Enterprise Securities Market) and AIM (Alternative Investment Market) adviser, representing approximately 75% of companies quoted on the ESM market<sup>2</sup>, and 17 companies quoted on the AIM market of the London Stock Exchange<sup>3</sup>. Davy advised and executed on over 80% of funds raised on the Irish Stock Exchange between 2013 and 2015 and we have been consistently recognised by the world's top names in financial services for the quality of our research and service.

## Q. WHAT IS THE FINANCIAL POSITION OF THE DAVY GROUP (J&E DAVY HOLDINGS GROUP)?

**A.** As at 30th December 2015, the Davy Group had net assets of €170 million. The most recent financial statement for the Davy Group is disclosed on the website, [www.davy.ie](http://www.davy.ie). At 30th December 2015, the total consolidated regulatory capital requirement of J&E Davy Holdings amounted to €45.8 million and was over three times covered by the regulatory capital resources available at that date.

J&E Davy, trading as Davy, is a wholly owned subsidiary of the J&E Davy Holdings. As a MiFID authorised firm, Davy is required to hold a minimum level of capital calculated in accordance with regulatory requirements and we are required to report to the Central Bank of Ireland on a periodic basis as to the level of capital held. The firm is financially stable and had a successful year in 2015.

## Q. WHO REGULATES DAVY?

**A.** J&E Davy, trading as Davy, is regulated by the Central Bank of Ireland. Davy is authorised as an investment firm under the European Communities (Markets in Financial Instruments) Regulations 2007 ('MiFID'). MiFID is a European Union wide directive that harmonises regulation for investment services across the EU. The main objectives of MiFID are to increase competition and consumer protection in investment services. The Central Bank of Ireland is responsible for prudential and conduct of business regulation and supervision of investment firms in Ireland. Essentially what this means is that the Central Bank of Ireland regulates Davy in respect of our corporate governance, interactions with clients, safeguarding of client assets and capital requirements, as well as other regulatory requirements.

Davy is a member of the Irish Stock Exchange, the London Stock Exchange and Euronext. In the UK, Davy is authorised by the Central Bank of Ireland and authorised and subject to limited regulation by the Financial Conduct Authority. Details about the extent of our authorisation and regulation by the Financial Conduct Authority are available from us on request.

1 Source: Irish Stock Exchange, December 2015

2 Source: Irish Stock Exchange, March 2016

3 Source: London Stock Exchange, March 2016

## Q. WHAT ARE THE CLIENT ASSET REGULATIONS (CAR)?

**A.** The Client Asset Regulations have been imposed by the Central Bank of Ireland on investment firms that hold client assets. The requirements are imposed under S.I. No 104 of 2015, Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1)) and the Client Asset Regulations 2015 for Investment Firms.

A copy of the Regulations is available on the Central Bank of Ireland's website at [www.centralbank.ie](http://www.centralbank.ie).

The purpose of the client asset regime is to safeguard client assets by ensuring firms adhere to general principles and prescriptive requirements in this regard. The objectives of the client asset regime are:

1. Maintaining public confidence in the client assets regime;
2. Minimising the risk of loss or misuse of client assets by authorised entities;
3. In the event of the insolvency of an entity, enabling the efficient and cost effective return of those assets to clients.

## Q. WHAT SAFEGUARDS ARE IN PLACE UNDER CLIENT ASSET REGULATIONS?

**A.** The Client Asset Regulations obliges firms that hold client assets to put in place a comprehensive range of safeguards to help protect clients' ownership rights, including the following:

- Segregation of client assets from the firm's assets;
- Record keeping to enable the firm at any time and without delay to distinguish client assets;
- Receiving assurances from the firm's counterparties before lodging client assets;
- Prompt lodgements of all client funds and prompt registration of client financial instruments to designated client asset accounts;
- Regular reconciliations between the firm's internal systems and the records of third parties that hold client assets on behalf of the firm;
- Daily cash calculations to ensure that the firm's client money resource is equal to its client money requirement;
- On-going counterparty due diligence by the firm; and
- Annual CAR audits by the firm's external auditors, which are reported to the Central Bank.

## Q. WHAT CONTROLS ARE IN PLACE IN DAVY TO SAFEGUARD MY ASSETS?

**A.** We hold all client assets in accordance with Client Asset Regulations. Some of the controls in place include:

1. **Segregation:** Assets (money and securities) that we hold on behalf of clients are segregated from Davy's own assets. The banks, custodians and counterparties with whom we hold client assets have provided written confirmation to this effect. There is also a high level of segregation of departments and functions within Davy. One of the key controls in place is that there is a strict segregation of duties between front and back office roles. Segregation of duties means in practice that Private Client Advisers or other staff members who accept orders and place trades do not have access to our client accounting system. They do not settle trades, cannot lodge money received from clients or withdraw funds from client deposit accounts. Movements of client assets within Davy are processed by our Finance Department and Custody & Settlements Department. Both of these departments operate entirely independently of the Private Clients Department.
2. **Reconciliation:** Client funds are reconciled on a daily basis and client financial instruments are reconciled at least monthly. We generally have electronic links in place ensuring the timely, accurate and efficient reconciliation of client assets.
3. **Professional Indemnity Insurance:** Davy has professional indemnity insurance in place. This cover includes client protection against fraud.

## **Q. HOW DOES THE DAVY NOMINEE SERVICE WORK?**

**A.** As the name suggests, the Davy nominee service operates such that our nominee company holds assets on your behalf. There are a number of practical reasons why a potential investor may wish to avail of our nominee service.

Some of the reasons are:

1. Some countries have abolished physical share certificates, which mean that shares must be held electronically;
2. We can act on your instructions immediately if we hold shares electronically;
3. You don't have to worry about losing physical share certificates or the cost of replacing them; and
4. We handle the administration associated with share ownership such as dividend collection and dealing with corporate actions.

## **Q. IF I HAVE CASH IN MY DAVY ACCOUNT, WHERE IS IT HELD?**

**A.** Client funds will always be held either in pooled client asset settlement accounts, pooled client asset deposit accounts or individually designated client asset deposit accounts with an eligible credit institution. Further information about the credit institutions we use is available upon request.

Client funds are protected by rules laid out in Client Asset Regulations which include obligations relating to the segregation of client funds from the firm's funds, accurate record keeping, regular reconciliations between the firm's records and the eligible credit institution's, counterparty due diligence, etc. Prior to lodging client funds with an eligible credit institution, we receive a written confirmation from the credit institution that client asset accounts are legally segregated from any bank account that Davy itself may hold.

## **Q. IF I HAVE SHARES AND OTHER FINANCIAL INSTRUMENTS IN MY DAVY NOMINEE ACCOUNT, WHERE ARE THESE HELD?**

**A.** If you have financial instruments in your Davy account using the Davy nominee service, you remain at all times the "beneficial" owner of those investments, even though a company independent of the Davy Group (such as Davy's nominated custodian) or a nominee company of the Davy Group may be registered as the "legal" owner.

Beneficial ownership arises where one party holds assets on behalf of another. The legal owner (i.e. the registered holder) has control over the asset and can, for example, buy and sell the asset on behalf of the beneficial owner. However, the legal owner in this instance is not entitled to the asset and so, while it will receive the income and capital on behalf of the beneficial owners, it will never benefit from it. The beneficial owner receives the benefits associated with ownership such as dividends and gains from the asset. Davy is obliged by law, and by the Central Bank of Ireland, to report to our nominee clients details of to the client assets it holds for them, and any benefits associated with the assets.

Shares in UK and Irish companies, UK and Irish Exchange Traded Funds (ETFs) and UK government bonds are generally held with CREST/Euroclear UK & Ireland Limited (CREST). CREST is the Central Securities Depository (CSD) for the UK and Ireland. In addition CREST provides for real-time settlement of securities and is one the largest and most technically advanced settlement systems in the world. Our nominee company is a member of CREST and its name appears on the share registers for these assets. Our nominee company operates individually designated CREST accounts for all clients who hold CREST eligible securities through Davy. This means that there are separate accounts within CREST for each Davy client. Client accounts are segregated from each other as well as from those of the firm.

Foreign shares, foreign ETFs and government and corporate bonds (with the exception of UK government bonds) are held with our global custodian, Bank of New York Mellon (BNY Mellon), in accounts designated as “Davy Client Asset Account”, BNY Mellon in turn may arrange for these holdings to be held with various sub-custodians in local markets with account names dictated by the naming convention in those local markets. The custodian undertakes reviews of its sub-custodians on a regular basis. We operate a number of pooled client accounts with BNY Mellon. This means that any assets held on your behalf with BNY Mellon are held in accounts containing assets owned by other clients. These client asset accounts do not contain assets of the firm.

Unit fund transactions settle and are held in a J&E Davy Client Asset Account. Generally speaking and depending on the fund, orders are centralised either through Allfunds Bank or Clearstream Bank, our designated custodians for such assets. The relevant custodian arranges for the units to be registered with the individual fund administrators in the name of its nominee company (i.e. Allfunds or Clearstream nominee company). In some cases, units in other collective investment schemes, which are not held by either Allfunds Bank or Clearstream Bank, are directly held with the fund administrators and are registered in the name of Davycrest Nominees.

The use of pooled accounts is a feature of global custody. We maintain appropriate records to make sure that we can easily identify the securities we hold for you within pooled accounts. We have electronic links to our custodians which facilitates timely settlement and reconciliation.

Notwithstanding the above, there are some situations where market convention determines that Irish and UK stocks will be settled as though they were European (through our global custodian BNY Mellon) and vice versa (i.e. where certain foreign stocks will be settled through CREST). This most often arises where stocks are dual listed on more than one exchange or where the domicile of the company is different to the market where the stock is listed.

In the event that an asset registered in the name of our nominee company can only be held in physical/certificated format, we hold the certificate in a fire proof safe on our premises. It is Davy policy to minimise the amount of nominee holdings held in paper format so we only accept such holdings where they cannot be held electronically. There are strict controls in place to safeguard access to certificates as well as reconciliations which are described in greater detail below.

## Q. WHAT HAPPENS TO MY ASSETS IN THE UNLIKELY EVENT OF THE DEMISE OF DAVY?

**A.** Investments and money held on behalf of clients are legally segregated from Davy’s own assets. This means that in the unlikely event of the demise of Davy, the firm’s creditors would not have recourse to client assets when making a claim against the firm.

## Q. IS DAVY SUBJECT TO EXTERNAL OVERSIGHT?

**A.** Yes. Davy is subject to extensive external oversight as summarised below:

1. **Central Bank of Ireland:** The Central Bank of Ireland supervises Davy as it is responsible for the regulation and supervision of investment firms in Ireland. As a regulated entity, we are subject to close scrutiny and frequent reviews by the Central Bank to ensure that we have met our regulatory requirements, including the detailed requirements in place with regard to the safeguarding of client assets. To help facilitate this oversight, we are required to submit regular reports to the Central Bank, one of which is a monthly report that relates specifically to client assets.
2. **External audit of internal controls:** We are audited by one of the “big four” audit firms. As part of their terms of engagement, our external auditors undertake a review of our internal controls annually, including those associated with the protection of client assets.
3. **External audit of compliance with Client Asset Regulations:** Davy is required to engage external auditors to examine the firm’s compliance with the Client Asset Regulations on an annual basis. After the completion of the audit, the external auditor must report its findings to both Davy and the Central Bank of Ireland.

## Q. ARE THE CONTROLS SUBJECT TO INTERNAL OVERSIGHT?

**A.** Yes. The firm has a comprehensive system of internal controls, policies and procedures that are continually evaluated for adequacy and effectiveness. In addition to intensive external oversight of our control framework from such parties as our external auditors and the Central Bank of Ireland, the firm has in place a number of independent control functions that oversee the financial and operational controls in place. These are the firm's Compliance function, Risk Office and Internal Audit. There is also strict segregation of duties between the operational and finance areas, with additional client asset oversight conducted by the independent "Head of Client Asset Oversight".

1. **Independent Compliance function:** The Davy Compliance Department is an independent team that monitors and assesses the firm's compliance with our legal and regulatory requirements.
2. **Independent Internal Audit function:** Davy has a separate and independent internal audit function which establishes, implements and maintains an audit plan to examine and evaluate the firm's internal systems, controls and arrangements.
3. **Risk Office:** The Risk Office, reporting to the Chief Risk Officer, oversees all the risks for the firm and ensures that the Davy Group has in place a comprehensive risk management framework. The Risk Office is a fully independent control function and includes the client asset oversight area reporting to the Head of Client Asset Oversight. In relation to Client Asset Regulations, the Risk Office carries out regular reviews of the procedures and processes in place to safeguard client assets. This includes, inter alia, regular monitoring of client asset reconciliations performed by other departments in Davy that are independent of both the front office and the Risk Office.
4. **Other reviews:** We also seek external advice from large, reputable firms on new developments in regulation, law and information security to ensure we are in line with industry best practice. We have invested very significant amounts in leading edge technology platforms to ensure that we have robust systems to deliver the best service to clients in a secure and reliable way. This includes independent reviews of IT security (firewalls, controls over data, etc.).

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