

## Have you properly assessed your custodian risk?

Many investors take for granted that their investments are safe and secure. This is something Credo takes very seriously and we have consistently, over the past 20 years, focused on providing our clients with a safe, robust and secure environment in which to hold their assets.

These are some of the questions that you should be asking of your wealth manager or stockbroker?

1. Does the custodian offer Contracts for Difference (CFDs) which are often highly leveraged?
2. Does the custodian have exposure to derivatives such as futures?
3. Does the custodian offer margin lending on shares?
4. Does the custodian lend out your stock to other clients?

A **'Yes'** to any of the above questions could ultimately compromise the safety and security of your assets. In appointing Pershing Limited as our primary custodian, we are comfortable that none of the above questions raise any concerns as they are all an emphatic **'No'**.

Pershing is part of BNY Mellon, the world's largest custodian and AA rated bank, with a long history of expertise and experience in custody services.

## Our holistic approach to risk

Although there are no zero risk options within the financial services industry, our custodian, Pershing, takes the approach of providing the maximum number of protections available to our clients to provide the greatest possible assurance.

Pershing's focus as a business is ensuring the safety of the investors' assets. They have no competing priorities, it's the only thing they do and we believe they are the best at what they do.

Pershing provides a safe, robust model for holding and protecting investor assets. They operate from a very strong capital position, they have proven expertise in the safeguarding of investors' assets and have a well developed and holistic risk management framework.

### The administration regime

We appreciate the recent high-profile case involving Beaufort Securities has caused concern amongst investors as it demonstrated that ring-fencing and segregation of assets do not prevent the collection of the administrator or liquidator fees out of investors' assets. As you are aware, under CASS rules (the rules that control client money or safe custody of assets), the assets held in custody are segregated from the assets of the custodian.

In the event of the custodian's insolvency, those assets are not available to the creditors of the custodian or to the administrator. The flipside of this position is that the work required by the administrator to return assets to the investor cannot be funded by the custodian's own assets and English law (most recently in the Special Administration regime) recognises therefore that such work would need to be funded from the investors' assets themselves. Contrary to media reports, this position is the result of the assets being segregated and held by the custodian on trust and do not represent a breach or cancellation of CASS protections.

Importantly, in a situation where Credo became insolvent, our administrator would not have a right to recover their costs from investor assets as the assets are not held by Credo but rather by our custodian, Pershing.

The protection of investor assets is at the forefront of our service model. We operate under a "fully disclosed/Model B" framework providing a tripartite contract between Pershing, Credo and our clients. This means the assets are held by Pershing, as custodian on behalf of the investor. Under this agreement, each investor (and therefore their assets) is fully identified on Pershing's books and records and recognised as the beneficial owner of those assets which are, in addition to the above, fully segregated from Pershing's own assets.

At Credo, we understand the importance to our clients that their custodian has the protection of client assets at the centre of their focus. This is our partner Pershing's major strength, as the market leader in outsourced custody.