

# Custody of client assets and cash by Rathbone Investment Management Limited

## Introduction

Rathbones Group Plc, the parent company heading up the Rathbones group, is a FTSE 250 listed company and subject to UK listing rules.

Rathbone Investment Management Limited ('RIM') is authorised by the Prudential Regulation Authority ('PRA') and regulated by the Financial Conduct Authority ('FCA'), and the Prudential Regulation Authority ('PRA'). A significant part of this regulation requires that sufficient capital is held by RIM to ensure that, in the event of RIM's default, all administration costs required for an orderly wind-up of the business will be covered by RIM.

Current insolvency legislation does permit that if there are insufficient funds in RIM to meet all of the administrator costs, then the recovery of any charges associated with the returning of client assets (investments) and client money (cash) to clients can be taken from assets belonging to clients.

However, there are many ways in which we aim to mitigate the risk of loss to our clients.

## FSCS – Information about the protection of your deposits and investments

If RIM as a company gets into financial difficulties and is unable to meet its liabilities, you may be eligible to receive compensation under the Financial Services Compensation Scheme (FSCS).

The FSCS is an independent body set up by the UK Government to provide compensation or some other form of resolution for people where their authorised financial services provider gets into financial difficulties and becomes unable, or unlikely to be able, to pay any claims.

There is protection in place through the FSCS where losses could be compensated for eligible clients up to a given limit.

Most client banking deposits up to the first £85,000 of loss will be protected by the FSCS. The £85,000 limit is applicable per depositor.

Investment business undertaken with us in the UK may be covered by the FSCS. The cover depends on the nature of the claim being made. Eligible claims for most types of investment business held by individuals and small businesses are covered up to a maximum limit of £85,000 per investor.

The investment limit of £85,000 is in addition to the £85,000 limit for deposits and is applicable per investor.

FSCS cover is not available for loss of money resulting from performance of the investment.

It is important for you to be aware that you may not always be able to make a claim under the FSCS, and there are also limitations in the amount of compensation you may receive.

Any compensation available will depend on your eligibility, the type of financial product or service involved, the investment and the circumstances of the claim.

Full details of the coverage of the FSCS are available on our website at [rathbones.com/financial-services-compensation-scheme](http://rathbones.com/financial-services-compensation-scheme).

For more information about the compensation provided by the FSCS, refer to the FSCS website at [www.fscs.org.uk](http://www.fscs.org.uk).

Alternatively, you may write to or telephone the FSCS using the contact details below:

The Financial Services Compensation Scheme  
PO Box 300  
Mitcheldean  
GL17 1DY

Email: [enquiries@fscs.org.uk](mailto:enquiries@fscs.org.uk)

Telephone: 0800 678 1100 or +44 207 741 4100 if calling from outside the UK.

## Regulation concerning amount of capital held

As a bank, we are required under European and UK legislation to maintain a significant level of capital to protect against losses by the firm. A large amount is specifically held in buffers which can only be utilised in the event of default. The legislation has rules to ensure that this capital is not only of sufficient value but also of sufficient quality and accessibility.

As at 31 December 2021 RIM maintained £238m of capital, which was £76m above minimum levels set by the banking regulator, as well as £28m in relation to the default-event buffers as described above. At the group consolidated level this rises to £305m of capital which was £111m above minimum levels, as well as £36m of buffers. This demonstrates that we are well-capitalised.

We are regularly required to report formally to the PRA and FCA on capital and liquidity levels, and continue to comply with all associated legislation.

## Registration of assets

We provide a registration and custodial service in respect of UK investments beneficially owned by our clients through one of our subsidiaries, Rathbone Nominees Limited.

The nominee is set up under UK Trust law and, although the assets held within it are controlled by us on a day to day basis, investments are registered to the nominee to ensure that they are segregated from our own assets.

RIM utilises BNY Mellon as its custodian for all non-UK investments. Designated accounts record clients' investments separately from our own assets.

# Custody of client assets and cash by Rathbone Investment Management Limited – continued

## Segregation of client assets

In accordance with FCA Rules on client money and client assets (known as CASS), we maintain clear and comprehensive records of all assets held. These are identified separately within our records from our own assets and investments, in clearly identifiable client accounts.

All assets are reconciled on a regular basis in accordance with the CASS requirements of the FCA. All physical certificates are retained in safe custody under restricted access.

Regular meetings are held with the custodian and service levels are reviewed monthly. We periodically conduct risk assessments of BNY Mellon's systems in accordance with FCA requirements.

## CASS governance

Oversight of CASS operations is maintained by the CASS Governance Committee, which is chaired by a member of senior management, meets monthly and reports to the RIM Board. The primary focus of the committee is to:

- protect clients, client assets and client money
- ensure client assets are not being used by the firm
- review the strength of controls and procedures
- mitigate the risk of loss
- ensure formal escalation of key management information.

## Banking deposits

Ordinarily, client cash is held with RIM as a banking deposit. This cash is placed in RIM's name with a diverse range of approved counterparties. RIM places limits to control the exposure to any counterparty at any time. However, in some circumstances, in line with FCA rules, we are required to treat some cash balances as client money. These circumstances are outlined in our Terms of Business (a copy of which is available on request).

Oversight of banking operations is maintained by the RIM Banking Committee, which reports to the RIM Board. The Banking Committee meets at least monthly and has authority to reduce counterparty limits and suspend the use of certain counterparties where necessary as a result of market conditions.

The Banking Committee operates a strict set of criteria for selecting counterparties to ensure that investments remain liquid under normal conditions.

The Banking Committee will not place new funds with a counterparty who is rated less than "A" by a recognised credit agency. The points above convey a minimum risk appetite. In practice, the selection of counterparties involves the use of additional quantitative and qualitative factors including review of credit default spreads, short term ratings, internal and external market research and other business intelligence.

## Client money

Where funds are held on a client money basis, this is in trust within designated bank accounts with external banks and separate from our own funds in accordance with FCA Rules. Diversification of funds between different banks mitigates potential further risks. Reconciliations are performed on a daily basis to ensure that sufficient funds are held in these accounts.

## Additional controls that we use to gain comfort that your money and assets are protected

### ISAE3402 controls report

An Internal Standards on Assurance Engagements (ISAE3402) audit report is completed annually by our external auditors. It provides an assurance on the adequacy of our controls and procedures over a 12 month period. The most recent report for RIM is available upon request.

### Internal audit arrangements

Our internal audit department reviews the group's administrative functions in accordance with an audit plan agreed by the Audit Committee annually. A risk-based approach is used in determining the frequency of reviews and is determined in line with the guidance from the Institute of Internal Auditors.

### Business continuity arrangements

RIM takes a proactive approach to business continuity and, as such, has documented business continuity plans in place. Testing is carried out at regular intervals to ensure that the business continuity plans are fit for purpose and all relevant staff are well rehearsed in their operation should anything happen to interrupt business operations. In the UK, our data centre locations are split between two geographically separated sites.

On a periodic basis, key suppliers - whose services are assessed as critical to our business needs - are contacted to attest their business continuity arrangements are in order to ensure our third party supplier plans are sufficient.

The security of RIM systems and customer information is of paramount importance. Our Information and Cyber Security function implements security based upon good practice and advice from organisations, such as the UK National Cyber Security Centre, to protect against cyber security threats. We undertake regular penetration testing of our systems, maintain our Cyber Essentials certification and incorporate information security controls into our ISAE3402 control framework.