

# Client Asset Key Information Document ('CAKID')

This document is designed to provide you with some important information to help you understand how and where your assets will be held by Davy and to highlight the associated risks. It is important that you also refer to the section in your Terms and Conditions which explains 'How we hold your Assets' in more detail.

## What are the client asset requirements ('CAR')?

The Client Asset Requirements ('CAR') form Part 6 of the Investment Firms Regulations 2017 and are the legislative rules that Davy must follow in safeguarding your assets. They are designed to ensure that investment firms holding client assets have the processes and controls in place to safeguard and protect those assets. The regulations include clear rules which can be broadly covered as the core principles namely, segregation, designation & registration, reconciliation, daily calculation, client disclosures & consent, risk management & client asset examination. The regulations strengthen the safeguards for holding client assets, but they cannot eliminate all risks relating to client assets nor do they relate to the performance or valuation of the client asset.

## Key features of CAR

- Segregation of your assets from Davy's assets;
- Accurate record keeping to enable Davy at any time and without delay to distinguish your assets from those belonging to Davy;
- Receipt of written assurances from third parties before placing your assets with such third parties;
- Prompt lodgement 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;
- Requirement to obtain client consents for holding client assets in pooled accounts or outside the Republic of Ireland
- Daily cash calculations to ensure that the amount of client funds held is equal to the amount that should be held;
- Counterparty due diligence;
- Requirement to appoint a person who is responsible for ensuring the firm complies with its obligation under the regulation; and

- An annual client asset examination by the firm's external auditors, the results of which must be reported to the Central Bank.

A copy of the Investment Firms Regulations 2017 and further information on these regulations is available on the CBI's website: [www.centralbank.ie/regulation/industry-market-sectors/client-assets](http://www.centralbank.ie/regulation/industry-market-sectors/client-assets)

## What are client assets?

Client assets are categorised under two broad headings:

1. Client funds (including cheques or other payable orders, current and deposit account balances). This is primarily cash held by the firm on behalf of clients to whom we provide financial services.
2. Client financial instruments. These are generally all types of securities such as equities and bonds. In legal terms, it means any financial instrument as defined in the MiFID Regulations and the Investment Intermediaries Act 1995.

## When does CAR apply and not apply?

CAR applies where Davy receives and holds client funds and client financial instruments that have been entrusted to the firm (or its nominee), and where the firm has the capacity to effect transactions over those assets.

Generally speaking, CAR applies when a client avails of the firm's nominee service, where we hold documents of title, and/or where we hold funds on a client's behalf.

Cheques or other payable orders will be client funds from the time of their receipt by us, but are no client funds if:

- Made payable to a third party and which we directly transmit to that party; and/or
- The cheque/payable order received from a client is not honoured by the paying bank.

Client funds sent to a client by way of cheque/payable order do not cease to be client assets until the cheque/ payable order is presented and paid by the eligible credit third party.

Client assets cease to be client assets when they are paid or transferred to the client or to a third party on the written instruction of the client, or if funds are due and payable to Davy as outlined in the Terms and Conditions (e.g. if a client defaults on its obligations to the firm).

Clients with their own custody arrangements and/or clients who hold financial instruments in their own name fall outside the scope of CAR unless the client has sent in his/her own name share certificate to Davy to be sold in the market. In this instance, CAR will apply while Davy is directly holding the own name share certificate for the client in its own safe custody arrangements.

CAR does not apply where the assets relate exclusively to activities which are not regulated financial services or where the asset is not a regulated financial instrument. Direct property investments and property related income (such as rent) held on your behalf are not subject to CAR or the Investor Compensation Scheme. Such non-CAR client assets must be held separately from CAR client assets. Despite this, we aim to protect your interests in respect of non-CAR client assets by holding such assets separately from Davy's assets and by applying appropriate safeguarding measures.

### Ongoing disclosures to clients

Davy will disclose in its client asset statements to you whether individual assets within a portfolio are within or outside the scope of CAR. If you have any questions about this please speak to your normal Davy contact who will answer any questions you may have.

### Who holds my funds and how?

Client funds are held either in pooled client asset settlement accounts, pooled client asset deposit accounts or individually designated client asset deposit accounts with regulated credit institutions. Further information about the credit institutions we use is set out on our website [www.davy.ie](http://www.davy.ie).

Client funds are protected by the detailed rules laid out in CAR, including 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 credit institution, and counterparty due diligence.

Where assets held outside of Ireland or to be held in a pooled client asset account, specific client consents are obtained, and this is included within the Davy client application forms.

### How are my financial instruments held?

Your financial instruments are generally held using the Davy nominee service. In 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 is not entitled to the asset and so, while it will receive the income and capital on behalf of the beneficial owners, it may 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 CAR, to report to clients in relation to the client assets it holds and any benefits associated with the assets.

### Where are my financial instruments held?

In accordance with CAR, financial instruments are held directly by a Davy Nominee company or Davy may hold these instruments with approved eligible counterparties in accounts specifically designated as Davy client asset accounts. These Counterparties may arrange for these holdings to be held with various sub-custodians outside the Davy nominee structure in local markets with account names dictated by the naming convention in those local markets, however Davy will remain the legal owner of these assets. The counterparty undertakes reviews of its sub-custodians on a regular basis. We operate a number of pooled client asset accounts with approved counterparties. This means that any assets held on your behalf on a pooled basis are held in accounts containing assets owned by other clients. These client accounts do not contain assets of Davy.

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 a 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.

Where clients hold other types of investments not mentioned above (e.g. private equity investments), they may be held in the name of a nominee company with third parties. Please contact Davy if you require further information in this regard. You may of course choose to make your own custody arrangements and/or hold financial instruments in your own name.

The list of third parties with whom client assets may be held with are set out on our website and is available here: [www.davy.ie/legal/client-asset-information](http://www.davy.ie/legal/client-asset-information). **You should be aware that the list of third parties with whom client assets may be held is subject to change and clients should refer to our website for the most up to date list.**

## How does Davy monitor third-party banks and custodians?

We are careful in our choice of third parties, we monitor their performance on an ongoing basis and perform regular risk assessments on them. Any third party we choose is appropriately authorised in the jurisdiction in which it is located and is also subject to appropriate prudential and/or client asset supervision. In order to ensure the highest standard for our clients, Davy conducts a detailed due diligence assessment prior to placing client assets with any third party. Additionally, Davy will ensure that either a funds or financial instrument 'facilities letter' is in place with the third party prior to lodgement of client assets. Davy conducts periodic reviews of our third parties and agreements to ensure compliance with CAR.

However we do not accept liability for any acts or omissions of those custodians or credit institutions or for their default. In the event that a custodian or credit institution becomes insolvent, you may not receive back all or any of the assets or funds that that custodian or credit institution holds on your behalf.

We are a member of the Investor Compensation Scheme, set up by law, which provides compensation to eligible investors should we become insolvent. You will only have a right to compensation if you qualify as an eligible investor; and if we are unable to return to you money or financial instruments that you are owed or own and if your loss is recognised by the Investor Compensation Scheme. The amount of compensation that you may receive will be 90% of the net amount you have lost or €20,000, whichever is less. Full details of the Investor Compensation Scheme are available on [www.investorcompensation.ie](http://www.investorcompensation.ie). In the event of changes to the scheme details will be provided on that website.

## What are the main risks or limitations to safeguarding client assets?

Clients should note that while CAR imposes obligations on firms to segregate client assets from firm assets as well as other requirements, it does not protect or guarantee the value of the client assets and nor does it in any way seek to impose regulations on investments which may be unregulated or which may operate outside a regulatory environment. Similarly, investors will continue to bear default risk in the event of either the firm or one of the firm's eligible credit institutions or custodians defaulting on its obligations.

The material risks relating to the safeguarding client assets are outlined below.

### A. Counterparty risk:

This risk, also known as a default risk, is a risk that a counterparty will not pay what it is obligated to on a transaction pending settlement or the counterparty suffers insolvency or other financial difficulties (default).

### B. Operational risk:

This risk is the risk of loss resulting from inadequate or failed internal processes, people, systems, or from external events. For every firm, there is a risk that its people, processes and systems are imperfect, and that losses will arise from errors and/or ineffective operations.

### C. Risk of fraud:

The risk of fraud relates to an intentional deception made for personal gain or to damage another individual which may be perpetrated internally or externally to the firm.

### D. Risk of pooling:

This risk is the risk that one client's assets will be used to fund another client's transactions or that the pool may have a deficit and that losses would be applied on a pro-rata basis across all clients participating in the pool.

## What are the main controls to safeguard client assets?

While a firm can never fully eliminate risk, firms such as Davy are obliged to put in place adequate policies, procedures and controls designed to comply with the provisions of the MiFID regulations. MiFID firms must monitor and evaluate the adequacy and effectiveness of their systems, internal control mechanisms and arrangements established, ensure they are implemented and maintained in accordance with the Regulations, and to take appropriate measures to address any deficiencies.

Davy has a comprehensive system of internal controls, policies and procedures that are continually evaluated for adequacy and effectiveness. In addition to 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 Client Asset Oversight function, Compliance function, Davy Group Risk and and the Internal Audit function. There is also strict segregation of duties between the operational and finance areas, with additional client asset oversight conducted by the 'Head of Client Asset Oversight'.

1. **Client Asset Oversight ("CAO")**: The Davy CAO team is the function that oversee and assess the risks and controls with regard client asset processes within Davy. The Head of Client Asset Oversight is a pre-approved function under the fitness and probity regulatory regime and leads this function.
2. **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.
3. **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.

4. **Davy Group Risk:** The Risk Function reporting to the Chief Risk and Regulatory Officer, oversees all the risks for the firm and ensures that the Davy Group has in place a comprehensive risk framework.

Davy is also 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 compliance with CAR – Client Asset Examination:** As per regulation 65 Davy is required to engage external auditors to examine the firm in relation to the safeguarding of client assets annually. After the completion of the audit, the external auditor must report its findings to both the Board of Davy and the Central Bank of Ireland.

Clients should be aware that the information set out in this document in relation to the application of the client asset regime by J & E Davy, when it applies and how client assets are determined and dealt with by J & E Davy is not exhaustive. In the event that you have any questions please do not hesitate to call your normal Davy contact.

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