

## CUSTOMER ASSETS MANAGEMENT AND REPORTING POLICY SUMMARY

 <p>LLOYDS BANKING GROUP</p>	<p><b>GROUP CUSTOMER ASSETS MANAGEMENT AND REPORTING POLICY</b></p> <p><b>SUMMARY FOR THIRD PARTY SUPPLIERS</b></p>
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### RATIONALE

This Policy has been designed to assist in managing the risks associated with ensuring adequate protection of customer assets and providing accurate and timely customer asset tax reporting to relevant tax authorities. The overall risk includes the following risk drivers:

- Failure to appropriately protect client money and custody assets (collectively “Client Assets”) or comply with Client Assets regulations.
- Failure to protect customers’ deposits by adhering to the core requirements of the Deposit Guarantee Schemes.
- Failure to comply with requirements of the US Foreign Account Tax Compliance Act (FATCA) and associated legislation adopted by other countries.
- Failure to comply with requirements of the Common Reporting Standard (CRS) for the Automatic Exchange of Information (AEoI) between tax authorities globally.

In addition, this Policy has been designed to support compliance with the following legislation and / or regulations:

1. Client Assets (Client Money and Custody Assets)
2. Deposit Guarantee Scheme (FSCS - Financial Services Compensation Scheme)
3. FATCA – (Foreign Account Tax Compliance Act)
4. CRS (Common Reporting Standards)

In the UK, protection of Client Assets represents one of the Financial Conduct Authority’s (FCA) eleven fundamental Principles for Business. A legal entity must arrange adequate protection for its Client Assets when it is responsible for them (FCA Principle 10).

The FCA Handbook includes a CASS (Client Assets) sourcebook that sets out rules and guidance on holding client assets and client money, including requirements on segregation and safe custody of assets, statutory trusts for client money and retrieving information in the event of insolvency. Regulation in relation to the protection of Client Money and Custody Assets is in place in other jurisdictions.

This policy also includes the protection of customer assets by incorporating the requirements of the Financial Services Compensation Scheme (FSCS) under the regulation of the UK’s Prudential Regulation Authority (PRA). Detailed rules are set out in the PRA Rulebook, Depositor Protection.

Transparency of customer account information is an increasing global requirement in the fight against tax evasion and there are two main global agreements that require financial institutions to provide information on customer assets to relevant tax authorities: the Foreign Account Tax Compliance Act (“FATCA”) by the US tax authorities; and the Common Reporting Standard (“CRS”) adopted by a broad group of jurisdictions represented by the Organisation for Economic Co-operation and

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Development (OECD).

This Policy provides guidance on the regulatory requirements relating to the four components and sets out the associated minimum standards and control requirements. Suppliers must carry out their own risk assessments to identify any areas of key risks where additional controls should be implemented.

By following the provisions of this policy, data relating to customer's assets will only be shared with tax authorities when it is appropriate to do so and relevant customer's assets will be protected against an insolvency of the Lloyds Banking Group account holding legal entity.

This Policy provides sets out the minimum control requirements for third party suppliers. Third party suppliers must carry out their own risk assessments to identify any areas of key risks where additional controls should be implemented.

### **Customer Impact**

The Group's vision is to be the best bank for customers. The Group Customer Assets and Reporting Policy supports this vision and the aim of providing investors with strong, stable and sustainable returns by:

- Avoiding the risk of loss of customer assets and entitlements in the event of a Lloyds Banking Group legal entity failure or otherwise;
- Ensuring that customer asset data provided to tax authorities is relevant and an accurate reflection of information held by and provided to LBG;

Ensuring effective compliance with client assets regulations and compliance with LBG FATCA and CRS operational tax reporting regulations, Group and local policies, procedures and standards wherever we operate

### **SCOPE**

This third party version of the Policy applies to suppliers where it has been identified that the Group Policy applies to the provision of their goods and/or services.

### **MANDATORY REQUIREMENTS – GENERAL**

#### **Mandatory Requirements**

Policy Mandatory Requirements must be complied with from the date of Policy publication, and suppliers must be able to evidence compliance by [11/11/2017] 3 months from publication.

#### **2.1 Protection of Customer Assets**

In order to meet the Groups obligations in relation to Client Assets:

In the UK the Financial Services Act 2012 introduced two new UK regulators: the Financial Conduct Authority (FCA) and the Prudential Regulatory Authority (PRA). Both of these bodies have a role relating to the protection of customer assets, in the case of the FCA as part of their consumer protection objective and in the case of the

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PRA as part of their financial stability objective.

Globally, regulatory requirements are increasing and most jurisdictions set out rules and guidance on holding client assets and client money, including requirements on segregation and safe custody of assets, statutory trusts for client money and retrieving information in the event of insolvency. In the UK, this regulation is contained within the FCA CASS (Client Assets) sourcebook.

The PRA Rulebook contains a Depositor Protection chapter which includes provisions for the payment of compensation by the Financial Services Compensation Scheme (FSCS) to an eligible depositor in the event of a default by the account holding UK Bank. This policy includes specific procedures relating to CASS and FSCS.

### **2.1.1 Suppliers must :**

Ensure that their products, processes and services are assessed to determine whether they are in scope of Client Assets regulations as part of initial implementation, subsequent changes and as a minimum, annually.

2.1.2 Suppliers determined to be in scope of CASS must subsequently assess their products, processes and services to determine which elements of CASS the activities fall under and liaise with Lloyd's supplier management to ensure this is captured.

2.1.3 Suppliers in scope of CASS must ensure Policies and Procedures are in place to ensure compliance with the requirements of CASS Regulation.

In order to meet the Groups obligations in relation to FSCS:

2.1.4 Suppliers must ensure that their products, processes and services are assessed to determine whether they are in scope of Deposit Guarantee regulations as part of initial implementation, subsequent changes and as a minimum, annually.

2.1.5 Suppliers determined to be in scope of Deposit Guarantee regulations must subsequently assess their products, processes and services to determine which of the 13 PRA Depositor Protection Rulebook chapters the activities fall under, and liaise with Lloyds supplier management ensure this is captured

2.1.4 Suppliers that are responsible for customers and/or products, services or processes that that are in scope of the Deposit Guarantee Scheme must ensure Policies and Procedures are in place to ensure compliance with the requirements of Deposit Guarantee Regulation

### **2.2 Tax Transparency (FATCA and CRS operational reporting)**

Part of our commitment to Helping Britain Prosper is to fully support all jurisdictions in which we do business. The automatic exchange of financial account information is about improving transparency in the fight against tax evasion and in so doing protecting the integrity of the tax systems of the Participating Jurisdictions. The UK is a party to a number of international agreements designed to provide tax administrations with details of financial accounts and assets, owned by individuals and entities that are resident for tax purposes in a participating jurisdiction, but which are held by financial institutions in a different participating jurisdiction to their own.

As a result, the UK Government has introduced legislation that imposes obligations on the UK financial sector to identify the country of tax residence of our customers before then reporting this to HMRC when the financial account is held by persons tax resident in a participating jurisdiction (other than the UK) for onward transmission under the exchange of information articles in the various treaties and conventions to

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which the UK is party. In return, those participating jurisdictions supply HMRC with similar information on UK tax resident individuals and entities holding accounts with their financial institutions. This policy includes specific procedures relating to FATCA and CRS.

2.2.1 Suppliers that affect LBG's ability to meet its obligations associated with customer tax reporting regulations must ensure they have not engaged in any activities, or have any informal policies and procedures in place, directing, encouraging facilitating or assisting the avoidance of tax reporting classification.

2.2.2 Suppliers must ensure that their products, processes and services are assessed as to whether they are in scope for FATCA and CRS regulations as part of initial implementation, and subsequent changes. This assessment must be completed annually as a minimum. In scope suppliers must subsequently determine which elements of the regulation are relevant to the activities being undertaken

2.2.3 The United States of America's Foreign Account Tax Compliance Act (FATCA) seeks to address non-disclosure of financial account information (e.g. account balances, payments etc.) of certain U.S taxpayers who hold accounts outside of the U.S by placing an obligation on financial institutions to report account information of certain customers to the Internal Revenue Service.

2.2.4 The Common Reporting Standard (CRS) is the result of the drive by the G20 nations to develop a global standard for the automatic exchange of financial account information. Following the creation of the CRS, many jurisdictions, including the UK, have either signed the multilateral competent authority agreement, or made a commitment to automatic exchange.

KEY CONTROLS		
Control Title	Control Description	Frequency
Regulatory Scope Assessment	The supplier must carry out a review to assess whether all areas of their business have been correctly assessed as in or out of scope of FCA CASS, PRA Depositor Protection, FATCA and CRS regulatory requirements	Annually
Functional Control Assessment	The supplier must carry out a review to assess and document Functional controls to ensure they appropriately address all regulatory requirements undertaken by the supplier	Half Yearly
Regulatory Compliance	The supplier must carry out a review to ensure that processes are in place to fully comply with the relevant FCA CASS, PRA Depositor Protection, FATCA and CRS regulatory requirements	Half Yearly

## MANDATORY REQUIREMENTS – NON-COMPLIANCE

Compliance to this Policy shall be validated through the Banks FSQS process. The Supplier Manager will discuss any non-compliance issues with the Accountable Executive for the relationship and local Risk team to agree the way forward.

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Version Number	Effective Date
1.0	August 2016
3.0	August 2017
4.0	August 2018
<b>Next Planned Revision: August 2019</b>	