

## Determination of Client Money Entitlement: PB (IPBA (pre-MiFID) and MPBA)

This paper summarises the approach taken with respect to potential Client Money entitlements of parties (each, a “Creditor”) with whom LBIE had, prior to 07.56am 15 September, 2008, entered into an agreement on terms which are identical to, or sharing the same characteristics as, the Financial Contract, and for whom no Client Money had been segregated in relation to that contract. It assumes that sums paid to LBIE by the Creditor were paid pursuant to the terms of the Financial Contract.

### Definitions

Financial Contract:	(i) International Prime Brokerage Agreement (Title (2005) and Charge (2007)) (pre-MiFID); and (ii) Master Prime Brokerage Agreement.
Financial Contract Terms:	Financial Contract entered into on standard form terms with settlement requests issued in relation to each transaction but with no specific reference to ‘client money’ within the Financial Contract, other than in relation to the exemptions mentioned below.
Obligations:	LBIE’s obligations to pay/account for money under the Financial Contract to the Creditor in relation to cash balances on the Creditor’s cash account or otherwise.
Client Money:	Money which was client money as defined in the FSA rules (at the Administration Time).
Client Money Claim:	Any claim by the Creditor that it has an entitlement to a distribution from the pre-administration Client Money pool constituted under the FSA rules, on the basis that it had a “client money entitlement” as at the Administration Time. This is a “contractual entitlement” and does not depend upon actual segregation of funds. In LBIE’s view this means an individual client balance falling within paragraph 7 of CASS 7 Annex 1G (“ICB”) and/or a client equity balance as defined in the FSA Rules (“CEB”) which, in each case, fell within the scope of CASS 7.
Administration Time:	07.56am, London time, on 15 September, 2008.

### Assessment of Client Money Claim

This paper summarises LBIE’s view as to whether parties who have entered into a Financial Contract on the Financial Contract Terms have a Client Money Claim pursuant to that contract against LBIE.

Client Money Claim:	No. It is however LBIE’s view that a Client Money Claim generally arises in relation to sums specifically segregated on behalf of a client by LBIE prior to the Administration Time and which remained so
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segregated at that time. There may however be some limited instances where a Client Money Claim is determined by LBIE not to arise notwithstanding segregation of sums. In such cases, the relevant clients will be contacted directly by LBIE to explain the rationale for such a determination.

Rationale: Court Judgment; FSA Rules; Contract Terms/Facts.

Court Judgment: The judgment given by the Supreme Court does not specifically address whether Obligations arising under the Financial Contract give rise to a Client Money Claim. The Court has confirmed that distribution of the client money pool is based on client money entitlement under Chapter 7 of the CASS Rules construed in accordance with the judgment. LBIE considers that this means that the client money entitlement is equal to ICB plus CEB (as defined above) (see paragraph 153 of the judgment).

Although not specifically addressed in the judgment, it is consistent with the judgment and it is LBIE's view that ICB and CEB only cover balances which were within the scope of the client money rules and hence would exclude any balances which were not client money, for example, due to the operation of title transfer collateral arrangements or to which the client money rules otherwise did not apply.

FSA Rules: There is a provision in the Client Money rules which provides that money received on a title transfer collateral arrangement basis is not regarded as Client Money (CASS 7.2.3R).

Contract Terms/Facts: Pre MiFID agreements contained a client money opt-out provision in relation to cash received by LBIE (clause 4.2 of the IPBA 'Title' document, clause 5.2 of the IPBA 'Charge' document and clause 5.5 of the Master Prime Brokerage Agreement) but without any specific reference to sums being transferred to LBIE with full ownership as collateral (as provided in the post-MiFID documents). Upon implementation of MiFID (preventing opt-out from the client money rules), LBIE sent letters to counterparties which letters provided that cash received by LBIE under IPBAs or MPBAs would be treated as collateral in respect of which there had been a full title transfer to LBIE.