

DIRECT CLEARING - CLEARING MEMBER DISCLOSURE DOCUMENT

INTRODUCTION

Throughout this document references to "we", "our" and "us" are references to Banque de Luxembourg providing direct clearing services (the **Clearing Member**). References to "you" and "your" are references to the client of Banque de Luxembourg (the **Direct Client**).

Terms not otherwise defined in this disclosure document shall have the meaning assigned to them in the Execution and Direct Client Clearing Supplement.

WHAT IS THE PURPOSE OF THIS DOCUMENT?

To enable us to comply with our obligations as a clearing member under EMIR, which requires that where we are providing direct clearing services ((the **Direct Client Clearing Services**) to you that involve us clearing derivatives through an EEA central counterparty (**EEA CCP**), we must:

- offer you a choice of an individual client account or an omnibus client account (as discussed under "*The types of accounts available*" in Part One B below);
- publicly disclose the levels of protection and costs associated with different levels of segregation; and
- describe the main legal implications of different levels of segregation.

In respect of the treatment of margin and collateral at CCP level you should refer to the CCP disclosures that the CCPs are required to prepare.

ORGANISATION OF THIS DOCUMENT

This document is set out as follows:

- Part One A provides some background to direct clearing.
- Part One B gives information about the differences between the individual client account and the omnibus client account, explains how this impacts on the clearing of your derivatives and sets out some of the other factors that might affect the level of protection you receive in respect of assets provided to us as margin.
- Part One C sets out some of the main insolvency considerations.
- Part Two provides an overview of the main variations on the different levels of segregation that the CCPs offer, together with an explanation of the main implications of each. For the position relating to any particular CCP you should refer to the disclosure and any other information prepared by the CCP.

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WHAT ARE YOU REQUIRED TO DO?

You must review the information provided in this document and the relevant CCP disclosures and confirm to us in writing which client account type you would like us to maintain with respect to each CCP on which we clear derivatives for you from time to time. We will explain how we would like you to make this confirmation and by when. If you do not confirm within the requested timeframe, we will record the positions and assets relating to you in an account that has the level of EMIR-compliant segregation which is the closest to your pre-EMIR account structure, provided that:

- we have used reasonable and multiple endeavours to obtain your written choice of segregation and have evidence of our efforts;
- in our communication with you, we have informed you that your failure to elect a level of segregation in accordance with EMIR Article 39 will result in us allocating you to an account having the level of EMIR-compliant segregation which is the closest to your pre-EMIR account structure (e.g. an omnibus segregation), and
- we have explained to you that election by us does not preclude you to elect a different (e.g. higher) level of segregation at any time by communicating it in writing to us.

IMPORTANT

Whilst this document will be helpful to you when making this decision, this document does not constitute legal or any other form of advice and must not be relied on as such. This document provides a high level analysis of several complex and/or new areas of law, whose effect will vary depending on the specific facts of any particular case, some of which have not been tested in the courts. It does not provide all the information you may need to make your decision on which account type or level of segregation is suitable for you. It is your responsibility to review and conduct independent due diligence on the relevant rules, legal documentation and any other information provided on each of the account offerings and those of the various CCPs on which we clear derivatives for you. You may wish to appoint independent professional advisors to assist with this.

We shall not in any circumstances be liable, whether in contract, tort, breach of statutory duty or otherwise for any losses or damages that may be suffered as a result of using this document. Such losses or damages include (a) any loss of profit or revenue, damage to reputation or loss of any contract or other business opportunity or goodwill and (b) any indirect loss or consequential loss. No responsibility or liability is accepted for any differences of interpretation of legislative provisions and related guidance on which it is based. This paragraph does not extend to an exclusion of liability for, or remedy in respect of, fraudulent misrepresentation.

Please note that this disclosure has been prepared on the basis of Luxembourg law save as otherwise stated. However, issues under other laws may be relevant to your due diligence. For example, the law governing the CCP rules or related agreements; the law(s) governing our insolvency; the law of the jurisdiction of incorporation of the CCP; and the law of the location of any assets.

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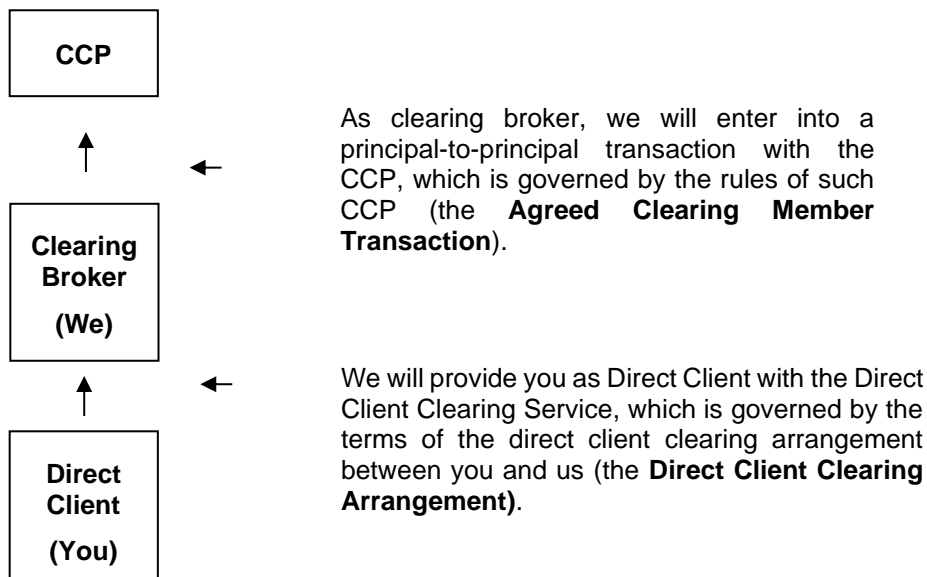
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PART ONE A: A BRIEF BACKGROUND TO DIRECT CLEARING

The market distinguishes two main types of clearing models: the "agency" model and the "principal-to-principal" model. Most of the CCPs we use adopt the "principal-to-principal" model, and this document assumes all transactions are cleared according to this model.

1. The "principal-to-principal" clearing model

When clearing transactions for you through a CCP, we usually enter into a transaction directly with the CCP.



The Agreed Clearing Member Transaction entered into with the CCP is made in our name but for your account and on your behalf. The obligations and commitments that we will agree upon with the CCP under the Agreed Clearing Member Transaction will ultimately be bearing on you. The rights and obligations arising from the performance of our Direct Client Clearing Services are stipulated in the Direct Client Clearing Arrangement.

As the principal to the CCP, we are required to provide assets to the CCP as margin for the Agreed Clearing Member Transactions that relate to you and to ensure the CCP has as much margin as it requires at any time. We will therefore ask you for margin and, where you provide it in a form which we cannot transfer to the CCP, we may transform it. If you have provided us with margin assets, you may face what we call "transit risk" - this is the risk that, if we were to default prior to providing such assets to the CCP, the assets that should have been recorded in your account at the CCP will not have been and will not benefit from the protections described below under "*What happens if we are declared to be in default by a CCP?*".

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However, in many cases you may not actually face transit risk because the CCPs often call margin from us early in the morning so we will often use our own funds to satisfy the margin call and then seek to recover such amount from you. In these cases, it is rather that we are exposed to you for the interim period. The arrangements between you and us relating to how the margin calls will be funded will be set out in the Direct Client Clearing Agreement between you and us.

Please see Part One B for an explanation of how this is relevant to the choice of account types.

2. What if you want to transfer your Positions to another clearing broker?

There may be circumstances where you wish to transfer some or all of your rights and obligations governed by the Direct Client Clearing Arrangement resulting from the Agreed Clearing Member Transactions (hereinafter referred to as **Positions**) to another clearing broker on a business as usual basis (i.e. in the absence of us having been declared in default by a CCP). We are not obliged to facilitate this under EMIR but we may be willing to do so subject to our ability to transfer the Agreed Clearing Member Transactions to which your Positions relate and the margin provided to the CCP in connection with them (which will depend on the relevant CCP's rules) and any conditions set out in our Direct Client Clearing arrangement. You will also need to find a clearing broker that is willing to accept such Positions and the related Agreed Clearing Member Transactions and assets.

It may be easier to transfer your Positions and Agreed Clearing Member Transactions that are recorded in an Individual Client Account than those recorded in an Omnibus Client Account (both types of account being described in more detail in Part One B) for the same reasons as set out below under "*Will the Agreed Clearing Member Transactions and assets relating to you be automatically ported to a back-up clearing broker?*".

3. What happens if we are declared to be in default by a CCP?

If we are declared to be in default by a CCP, there are two possibilities with respect to the Agreed Clearing Member Transactions and assets related to you:

- with respect to Individual Client Accounts, Omnibus Client Accounts, the CCP will, at your request, try to transfer (**port**) to another clearing broker (a **back-up clearing broker**), such Agreed Clearing Member Transactions and assets; or
- if porting cannot be achieved with respect to such accounts, the CCP will terminate the Agreed Clearing Member Transactions that relate to you (see "*What happens if porting is not achieved*" below).

The porting process will differ depending on the CCP but it is likely to involve a close-out (with us) and a re-establishment (with the back-up clearing broker) of the Agreed Clearing Member Transactions or a transfer of the open Agreed Clearing Member Transactions and related assets from us to the back-up clearing broker. In some cases CCPs will support this structure legally by requiring us to grant a security interest to you over some or all of our related rights against the CCP but in other cases where CCPs can rely on EMIR and local legislation, this is not necessary.

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4. Will the Agreed Clearing Member Transactions and assets relating to you be automatically ported to a back-up clearing broker?

No, there will be a number of conditions which must be satisfied before the Agreed Clearing Member Transactions and assets that relate to you can be ported to a back-up clearing broker. These conditions will be set by the CCPs and will include obtaining your consent. In all cases you will need to have a back-up clearing broker that has agreed to accept the Agreed Clearing Member Transactions. You may wish to appoint a back-up clearing broker upfront as part of your clearing arrangements but the back-up clearing broker is unlikely to be able to confirm that it is willing to accept the Agreed Clearing Member Transactions until the default occurs. The back-up clearing broker may also have conditions that they require you to meet. You may also be able to agree with the CCP that it may choose a back-up clearing broker on your behalf. If you have not appointed a back-up clearing broker prior to our default, or agreed with the CCP that it may appoint one on your behalf, then this may mean that porting is less likely to occur.

If porting is achieved, your Positions with us will terminate in accordance with our Direct Client Clearing agreement. We would expect your back-up clearing broker to put in place new direct client clearing arrangement between itself and you.

The type of account and level of segregation will have an impact on the ability to port the Agreed Clearing Member Transactions and assets to a back-up clearing broker upon our default.

With regard to an Omnibus Client Account (described in more detail in Part One B), in most cases, all of our clients who have Agreed Clearing Member Transactions and assets relating to them recorded in the same Omnibus Client Account will have to agree to use the same back-up clearing broker, and the back-up clearing broker will have to agree to accept all of the Agreed Clearing Member Transactions and assets recorded in that Omnibus Client Account. It is therefore likely to be difficult to achieve porting in relation to an Omnibus Client Account.

It should be easier to achieve porting in respect of your positions if you choose an Individual Client Account (described in more detail in Part One B), because you can appoint a back-up clearing broker with respect to just your Agreed Clearing Member Transactions and the related assets.

5. What happens if porting is not achieved?

Each CCP is permitted to specify a period of time after which, if it has not been able to achieve porting, it will be permitted to actively manage its risks in relation to the Agreed Clearing Member Transactions. This period of time will vary across CCPs. If you want to port your Agreed Clearing Member Transactions (where possible), you will need to notify the CCP and show that you can satisfy the other conditions within this period.

Otherwise, the CCP will terminate the Agreed Clearing Member Transactions and perform a close-out calculation in respect of them in accordance with the CCP rules. If there is an amount owed by the CCP in respect of the Agreed Clearing Member Transactions, to the extent that the CCP knows your identity and how much of that amount relates to you, the CCP may pay such amount directly to you. If the CCP does not know your identity and/or does not know how much of the amount relates to you, the CCP will pay it to us (or our insolvency practitioner) for the account of our clients.

It is more likely that a CCP will be able to pay any such amount directly to you with respect to an Individual Client Account (described in more detail in Part One B). This is because your identity will typically be disclosed to the CCP in these cases.

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If the CCP terminates the Agreed Clearing Member Transactions, then your Positions are also likely to terminate. The termination calculations in respect of those Positions referred to as the Early Termination Amount, will be performed in accordance with the Direct Client Clearing Arrangement between us. Such calculations will likely mirror those performed by the CCP in respect of the Agreed Clearing Member Transactions. If you are due a payment from us as a result of the close-out calculations in respect of the Positions, the amount due from us to you will be reduced by any amount that you receive (or are deemed to receive) directly from the CCP.

Please see Part One C for a consideration of the main insolvency considerations.

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PART ONE B: ACCOUNT TYPES AND THE FACTORS TO CONSIDER

1. The types of accounts available

Unless specifically stated otherwise, reference to accounts means the accounts in the books and records of each CCP. The CCP uses these accounts to record the Agreed Clearing Member Transactions that we enter into in connection with the Direct Client Clearing Services provided to you and the assets that we provide to the CCP in respect of such Agreed Clearing Member Transactions. Additionally, we will open accounts in our books and records to record your Positions with us and the assets that you provide to us in respect of such Agreed Clearing Member Transactions.

There are two basic types of client account available at the CCP level– Omnibus Client Accounts and Individual Client Accounts. Some of the CCPs then offer different levels of segregation within those as described in Part Two of this document. As noted, we refer you to the CCP disclosures which CCPs are required to prepare and which set out the treatment of margin and collateral at CCP level. We have also included below a general overview of the most common segregation approaches taken by CCPs, but note that for any particular CCP, there is no substitute for such CCP's own disclosure.

At the clearing broker level, we then open and maintain accounts corresponding to the relevant direct clearing accounts at the CCP level as described in more detail below.

1.1. Omnibus Client Account

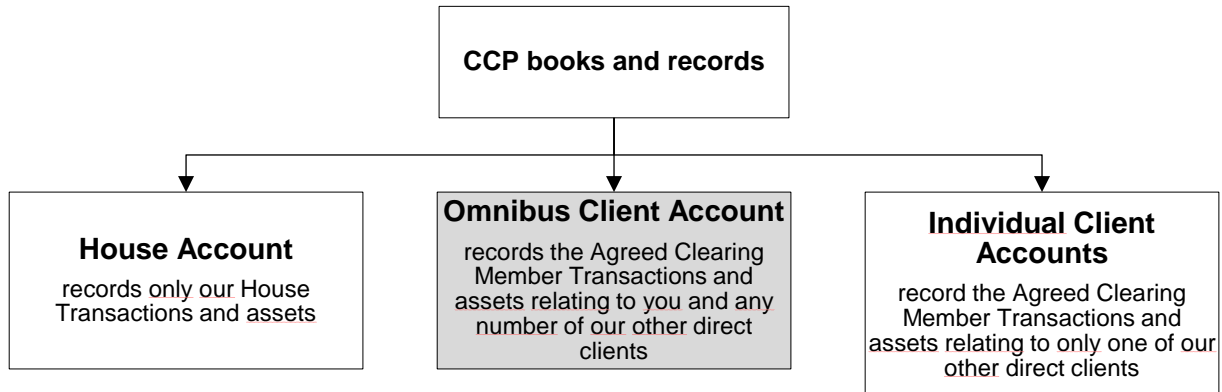
Under this account type, at the level of the CCP, the Agreed Clearing Member Transactions and assets that relate to them in the CCP's accounts are segregated from:

- any transactions we are clearing for our own account (our **House Transactions**) (including corresponding assets in the CCP's accounts) at the CCP;
- any Agreed Clearing Member Transactions (including corresponding assets in the CCP's accounts) relating to any of our other direct clients that have opted for an Individual Client Account.

However, the Agreed Clearing Member Transactions and assets that relate to you will be commingled with the Agreed Clearing Member Transactions and assets relating to any of our other direct clients that are recorded in the same Omnibus Client Account.

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Can the Agreed Clearing Member Transactions and related collateral be netted with our House Transactions and assets?	No
Can the Agreed Clearing Member Transactions and related assets be netted with those relating to our other Direct Clients?	Yes (provided the other clients' Agreed Clearing Member Transactions and assets are recorded in the same Omnibus Client Account)

The CCP will agree not to net the Agreed Clearing Member Transactions relating to you with our House Transactions or any Agreed Clearing Member Transactions not recorded in the same Omnibus Client Account, nor use the assets relating to such Agreed Clearing Member Transactions with respect to any House Transaction or Agreed Clearing Member Transactions recorded in any other account.

However, both we and the CCP may net the Agreed Clearing Member Transactions that are recorded in the same Omnibus Client Account. The assets provided in relation to the Agreed Clearing Member Transactions recorded in the same Omnibus Client Account can be used in relation to any Agreed Clearing Member Transactions (whether it relates to you or to any of our other direct clients) credited to that Omnibus Client Account.

Please see Part Two for an overview of the risks you may face if you choose an Omnibus Client Account and for details of the different levels of segregation that may be available at different CCPs.

1.2. Individual Client Account

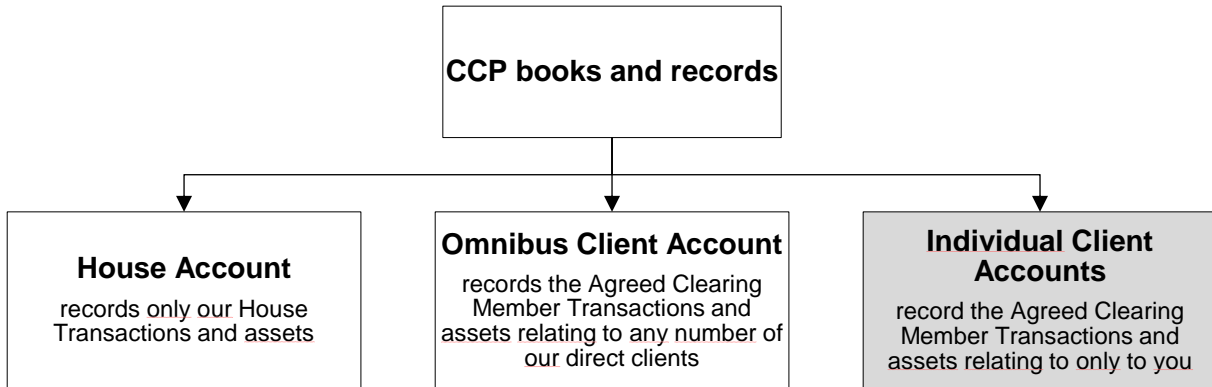
Under this account type, at the level of the CCP, the Agreed Clearing Member Transactions and assets that relate to you in the CCP's accounts are segregated from

- any transactions (including corresponding assets in the CCP's accounts) relating to our House Transactions;

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- any Agreed Clearing Member Transactions (including corresponding assets in the CCP's accounts) relating to any of our other direct clients (regardless of whether they have opted for an Individual Client Account or an Omnibus Client Account); and



Can the Agreed Clearing Member Transactions and related collateral be netted with our House Transactions and assets?	No
Can the Agreed Clearing Member Transactions and related assets be netted with those relating to our other clients?	No

The CCP will agree not to net the Agreed Clearing Member Transactions relating to you with our House Transactions, nor use the assets relating to such Agreed Clearing Member Transactions in relation to our House Transactions.

Further, and in contrast to an Omnibus Client Account, the CCP will agree not to net the Agreed Clearing Member Transactions relating to you that are recorded to an Individual Client Account with any Agreed Clearing Member Transactions recorded to *any* other account, nor use the assets related to such Agreed Clearing Member Transactions in relation to the Agreed Clearing Member Transactions recorded in any other account.

Please see Part Two for an overview of the risks you may face if you choose an Individual Client Account and additional features of Individual Client Accounts that may be available at different CCPs.

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2. Other factors that may impact on the level of protection you receive in respect of assets that you provide to us as margin under the Direct Client Clearing Arrangement

There are a number of factors that, together, determine the level of protection you will receive in respect of assets that you provide to us as margin:

- whether you choose an Omnibus Client Account or an Individual Client Account (as discussed under "*The types of accounts available*" above);
- whether, if you choose an Omnibus Client Account, you would want a gross or net account;
- in each case, whether such assets are transferred by way of title transfer or security interest;
- whether you will get back the same type of asset as you provided as margin; and
- the bankruptcy and other laws that govern us and the CCP.

The rest of Part One B sets out further details for each of these variables and their implications under Luxembourg Law.

3. Would you prefer a gross or net Omnibus Client Account?

While the CCPs are only required to offer one type of Omnibus Client Account (and one type of Individual Client Account) with regard to direct clearing under EMIR, some of them have developed a range of accounts within these two types with features that provide different degrees of segregation. These are discussed in more detail in Part Two. There are two main levels of segregation within Omnibus Client Accounts:

- Net is where the margin called by the CCP in respect of the Agreed Clearing Member Transactions is called on the basis of the net Agreed Clearing Member Transactions recorded in the Omnibus Client Account.
- Gross is where the margin called by the CCP in respect of the Agreed Clearing Member Transactions is called on the basis of the gross Agreed Clearing Member Transactions recorded in the Omnibus Client Account.

It may be easier to port the Agreed Clearing Member Transactions and their related assets, both in business as usual and default circumstances, with regard to a gross Omnibus Client Account than if you choose a net Omnibus Client Account. This is because the CCP is more likely to have sufficient assets to facilitate the porting of the Agreed Clearing Member Transactions that relate to you and those that relate to another client separately if it has called the margin on a gross basis. That said, different CCPs' accounts have been designed in different ways and so you should consider the CCP's information about the specific accounts to understand the exact differences. Please see Part Two for more details on this.

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4. Will you provide cash or non-cash assets as margin?

As noted under "The "principal-to-principal" clearing model" in Part One A, as a clearing member of the CCP, we are required to transfer assets to the CCP in respect of the Agreed Clearing Member Transactions carried out when providing the Direct Client Clearing Services to you. CCPs only accept certain types of liquid cash and non-cash assets as margin.

As it is market practice, we will decide what types of assets to accept from you as margin and this will be set out in the Direct Client Clearing Arrangement between you and us.

5. Do you provide assets to us on a title transfer or a security interest basis?

As it is market practice, we will decide the basis on which we are willing to accept assets from you. This will be set out in the Direct Client Clearing Arrangement between you and us. Unless otherwise agreed between you and us, our Direct Client Clearing Arrangement provides in principle that you transfer assets to us on a security interest basis and not by way of title transfer.

5.1 Security Interest

Where the Direct Client Clearing Arrangement provides for the transfer of assets by way of security interest, when you transfer assets to us, you *retain* full beneficial ownership of such assets. Such assets are transferred to us on the basis that the assets still belong to you, but you have granted us a security interest with respect to such assets.

We may enforce that security interest if you default in your obligations to us. Absent the exercise of any right of use by us (see below), only at the point of such enforcement would title in such assets or their liquidation value transfer to us. We will record in our books and records that we have received such assets from you.

Prior to any such default, you may also give us a right to use such assets, in which case the assets continue to belong to you. Once we exercise the right of use (e.g. by posting the assets to a CCP) you will bear our credit risk in respect of the return of such assets. The circumstances in which we may exercise such right of use and the purposes for which we may use any assets will be set out in the Direct Client Clearing Arrangement between us.

5.2 Title Transfer

Where the Direct Client Clearing Arrangement provides for the transfer of assets by way of title transfer, when you transfer assets (**Transferred Assets**) to us, we become the *full owner* of such assets and you lose all ownership rights in such assets. We will record in our books and records that we have received such Transferred Assets from you. We will be obliged to deliver to you equivalent assets to such Transferred Assets (**Equivalent Assets**) in the circumstances set out in the client clearing arrangement.

We may either transfer such Transferred Assets on to the CCP with respect to the Agreed Clearing Member Transaction, or we may transfer other assets to the CCP with respect to such Agreed Clearing Member Transaction.

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You bear our credit risk with respect to our obligation to deliver Equivalent Assets to you. This means that if we were to fail, unless we are declared to be in default by the CCP, you will have no right of recourse to the CCP or to any assets that we transfer to the CCP and you will instead have a claim against our estate for a return of the assets along with all our other general creditors. Even if we are declared to be in default by the CCP, the extent of your rights in relation to the CCP, if any, will depend on the particular CCP.

6. Will you get back the same type of asset as you originally provided to us as margin?

In a business as usual situation, whether we will deliver the same type of asset to you that you originally provided to us will be governed by the Direct Client Clearing Arrangement between you and us.

In the event of our default, if you are due a payment, you may not receive back the same type of asset that you originally provided to us. This is because the CCP is likely to have wide discretion to liquidate and value assets and make payments in various forms, and also because the CCP may not know what form of asset you originally provided to us as margin. This risk is present regardless of what type of client account you select.

Please see Part One C for a consideration of the main insolvency considerations.

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PART ONE C: WHAT ARE THE MAIN INSOLVENCY CONSIDERATIONS?

1. General insolvency risks

If we enter into insolvency proceedings, you may not receive all of your assets back or retain the benefit of your Positions and there are likely to be time delays and costs (e.g. funding costs and legal fees) connected with recovering those assets. These risks arise in relation to both Individual Client Accounts and Omnibus Client Accounts because:

- except for CCP-specific porting solutions described earlier and the comments below under "*Margin rights*", you will not have any rights directly against the CCP; and you will only have contractual claims against us (i.e. rather than being able to recover particular assets as owner);
- our insolvency proceedings are most likely to be a version of either a *sursis de paiements* (suspension of payments) or a *liquidation judiciaire* (liquidation proceeding). In suspension of payments and liquidation proceedings, subject to a few exceptions, you will not be able to take any action against us without court or insolvency official consent (which can be a time consuming process with an uncertain outcome); and
- any stage of a cleared transaction may be challenged by our insolvency official if, broadly speaking, it was not on arm's length terms. If successful, the court has broad powers to unwind or vary all of those stages.

Please also note that:

- insolvency law may override the terms of contractual agreements, so you should consider the legal framework as well as the terms of disclosures and legal agreements;
- a large part of your protection comes from CCP arrangements and the legal regimes surrounding them. Therefore, you should understand these in order to evaluate the level of protection that you have on our default. It is important that you review the relevant disclosures by the CCP in this respect; and
- The Luxembourg resolution regime set forth in Luxembourg act of 18 December 2015 on the failure of credit institutions and certain investment firms, as amended (the **BRR Act 2015**), which aim to implement directive n° 2014/59/EU of the European Parliament and Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms (**BRRD**) under Luxembourg law applies because we are a credit institution that falls within its scope. We suggest that you take legal advice on such regime because it is beyond the scope of this disclosure; and

Additionally the interaction of key default issues – e.g. porting, recovery of assets, close-out netting and other insolvency matters – are likely to be determined by a combination of, without being limited to, Luxembourg law, the law applicable to the relevant CCP and the law of the location of any collateral.

We suggest that you take legal advice on the interaction of these legal systems because it is beyond the scope of this disclosure.

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2. Insolvency of clearing brokers and others

Except as set out in this section "*Insolvency of clearing brokers and others*", this disclosure deals only with our insolvency. You may also not receive all of your assets back or retain the benefit of your positions if other parties in the clearing structure default – e.g. the CCP itself.

In relation to CCP insolvency, broadly speaking our (and therefore your) rights will depend on the law of the country in which the CCP is incorporated (i.e. not necessarily in full or in part Luxembourg law) and the specific protections that the CCP has put in place. You should review the relevant CCP disclosures carefully in this respect and take legal advice to fully understand the risks in this scenario.

In addition, please note the following:

- we expect that an insolvency official will be appointed to manage the CCP. Our rights against the CCP will depend on the relevant insolvency law and/or that official;
- it will be difficult or impossible to port the Agreed Clearing Member Transactions and related margin, so it would be reasonable to expect that they will be terminated at CCP level. The steps, timing, level of control and risks relating to that process will depend on the CCP, its rules and the relevant insolvency law. However, it is likely that there will be material delay and uncertainty around when and how much assets or cash we will receive back from the CCP. Subject to the bullet points below, it is likely that we will receive back only a percentage of assets available depending on the overall assets and liabilities of the CCP;
- it is unlikely that you will have a direct claim against the CCP because of the principal-to-principal model described in Part One A;
- under the Direct Client Clearing Arrangement, your Positions will terminate at the same time as the matching Agreed Clearing Member Transaction unless the relevant CCP rules provide otherwise. This will result in a net sum owing between you and us. However, your claims against us are limited recourse so that you will only receive amounts from us if we receive equivalent amounts from the CCP in relation to the relevant Agreed Clearing Member Transactions;
- if recovery of margin in this scenario is important, then you should explore "bankruptcy remote" or "physical segregation" structures offered by some CCPs. These tend to be offered only in relation to Individual Client Accounts and generally involve either:
 - you or us retaining assets in your/our name and only giving a security interest over that margin to the CCP (i.e. it allows the CCP to apply margin if we default but should keep the assets out of the CCP's insolvency if it defaults); or
 - the CCP holding the assets in a blocked or controlled margin account and giving a security interest (or similar legal right) over the margin back to us, to you and/or to a trustee on our behalf.

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It is beyond the scope of this disclosure to analyse such options but your due diligence on them should include analysis of matters such as whether other creditors of the type described in "*Porting – preferential creditors*" below will have priority claims to margin; whether margin or positions on one account could be applied against margin or positions on another account (notwithstanding the contractual agreement in the CCP's rules); the likely time needed to recover margin; whether the margin will be recovered as assets or cash equivalent; and any likely challenges to the legal effectiveness of the structure (especially as a result of the CCP's insolvency).

3. Margin rights

If you provide assets to us by way of security interest and we have not exercised a right of use over those assets, then you should have a legal right to recover the balance of those assets (after settling your obligations to us) ahead of other creditors. However, please note that, depending on the exact set up of our security arrangements, it may be that some preferential creditors will still have a prior claim to your assets (please see "*Porting – preferential creditors*" below which deals with a similar point).

If you have retained the assets (e.g. in a custody account over which you have given us a security interest) then you will have the best chance of recovering them. If you have transferred the assets to our name by way of security then you bear more risk if there is a shortfall in any of the assets that we are holding. Generally speaking, your risk of loss will be highest in relation to cash margin; lower in relation to securities held by us in an omnibus account; and lower still if securities are segregated in our books and records and at custody level identifying you as the client.

The actual result will be highly fact specific and will depend on, amongst other things, the exact terms of our legal arrangements; how we have operated accounts; and claims that other intermediaries (e.g. custodians and settlement systems) have to those assets.

We do not expect the above position to change materially if you have an Individual Client Account or an Omnibus Client Account.

4. Collateral Act 2005

The Luxembourg act dated 5 August 2005 on financial collateral arrangements, as amended (the **Collateral Act 2005**) would, under certain conditions pertaining to the characteristics of the transactions and the parties, protect the close-out netting of financial transactions entered into with us in a way that is enforceable against third parties and by derogation to the Luxembourg insolvency law.

Please see below an outline of some other specific insolvency risks and related commentary. Please note that the provisions of the Collateral Act 2005 are a complex and unclear piece of legislation and this summary is not a substitute for detailed legal analysis with your professional advisors.

5. Close-out netting

If we default and the CCP cannot port the Agreed Clearing Member Transactions and collateral (e.g. because a back-up clearing broker cannot be found) then we would expect it to terminate and net our Agreed Clearing Member Transactions and apply related assets.

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You and we would want this to work differently from normal bilateral close-out netting that would apply to all positions and assets between us and the CCP – e.g. assets on an Individual Client Account relating to you could be netted with our house or another client account at the CCP. There is a risk that this netting across accounts could happen automatically as a result of ordinary Luxembourg insolvency law. However, to the extent that protection of the provisions of the Collateral Act 2005 applies, this should not occur.

A similar risk occurs between us and you in relation to the Positions and assets in relation to the Direct Client Clearing Services. It is most likely to materialise in a pre-porting period during which Luxembourg law may automatically set off amounts owed and collateral relating to one CCP with amounts owed and collateral relating to another. This risk arises regardless of what you and we may provide for in our Direct Client Clearing Arrangement. Whilst the resulting Early Termination Amount should represent our net exposure to each other, it will make porting difficult or impossible.

There are certain industry-wide legal opinions that have been prepared on the effectiveness of close-out provisions in standard client clearing agreements. You should seek legal advice and/or access to such opinions for more information in this respect.

Please also note more generally that your freedom to exercise close out netting is more limited under the Direct Client Clearing Arrangement than in other arrangements that you may be used to. In particular, the main termination event under our Direct Client Clearing Arrangement is that the relevant CCP has declared us to be in default under the CCP's rules. The intention is to match the treatment of the Agreed Clearing Member Transactions and your Positions as much as possible. However, this may mean that – unless the CCP declares a default under its rules - you cannot exercise close out netting for common reasons such as a payment default on our part.

6. Porting - prohibition

As mentioned above, except in specific (e.g. physically segregated) structures, a CCP only owes us (not you) obligations in relation to the Agreed Clearing Member Transactions and related assets.

As a result, when these contracts and assets are transferred to a back-up clearing broker, there is a risk of insolvency challenge because our rights have effectively been taken from us on or around the time of our insolvency. Applicable laws may not permit this and there is a risk that the courts may therefore not permit, or may unwind, any porting and related Agreed Clearing Member Transactions with your back-up clearing broker.

As mentioned above, based on Luxembourg statutory and regulatory provisions applicable as of the date of this Clearing Member Disclosure Document, the only way porting may be effective in a situation where we are subject to insolvency proceedings in Luxembourg would be for a clearing broker which benefits from the protection of the provisions of the Collateral Act 2005 to accept a close-out (with us) and a re-establishment (with the back-up entity) of the Agreed Clearing Member Transactions.

7. Porting - preferential creditors

As mentioned under "What happens if we are declared to be in default by a CCP?" in Part One A, a CCP's porting structure may be based on or supported by a security interest. This can take different forms but generally involves us creating security over our rights against the CCP in relation to an Individual Client Account or an Omnibus Client account in your favour or in favour of another person (e.g. an independent trustee) to hold the security on your behalf. Broadly speaking, the security interest should support the argument that these assets are not part of our insolvency estate (i.e. are not to be shared with our other creditors).

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However, depending on the exact structure, insolvency law may though give certain statutory creditors priority over secured creditors. This means that some creditors may have a claim on client account assets ahead of you. Statutory creditors are likely to include, amongst others, our insolvency official (e.g. in respect of its costs and expenses), a relatively small amount of unsecured creditors, some employee salaries and pension contributions.

8. Mismatch of Agreed Clearing Member Transactions and Assets

It could be that our net assets in relation to the Agreed Clearing Member Transactions do not match our net obligations to each other in relation to the Direct Client Clearing Arrangement. This can slow down or make porting impossible either operationally or legally.

For example, it may occur at CCP level as a result of Fellow Client Risk (see the explanation of this term in Part Two of this document) in an Omnibus Client Account, with the result that there are insufficient assets available for porting to satisfy our obligations to you in relation to the Direct Client Clearing Arrangement.

Alternatively, it could be that all of your Position and collateral with us are netted automatically as a result of Luxembourg insolvency law (please see above under "*Close-out netting*").

9. Transfer under the Luxembourg resolution regime

The Luxembourg resolution regime set forth in the BRR Act 2015, which aim to implement BRRD into Luxembourg law applies because we are a credit institution that falls within its scope. As a result, in serious circumstances, we may, among other things, be transferred to a third party by the resolution board of the Luxembourg *Commission de surveillance du secteur financier*. In that case, your counterparty and/or your counterparty risk may change. It is unlikely that you will be able to stop such transfer or to enforce any early termination rights against us as a result of such transfer.

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PART TWO: CCP CLIENT ACCOUNT STRUCTURES

As noted in Part One B, each CCP may offer at least one Omnibus Client Account and/or at least one Individual Client Account by changing some of the features. This Part Two contains an overview of the main levels of segregation within each account type of which we are aware that the CCPs offer with respect to direct clearing together with an overview of the main protections afforded by and the main legal implications of each.

The descriptions given in this Part Two are very high level and consider the typical features of these client account types and levels of segregation. However, the particular characteristics of the accounts will affect the exact levels of protection they offer and the legal implications so you must review the information provided by the CCPs to fully understand the risks of the specific account we maintain in relation to you at each CCP.

Each CCP is required to publish information about the client account structures it offers under EMIR and we have provided a link to the website of each CCP we use separately. You may also need to seek professional advice to understand the differences in detail. However, we hope that the questions raised and factors described in both parts of this document will help you to know which questions to ask and to understand the impact of the answers you receive.

The descriptions of the client accounts have been prepared on the basis of publicly available disclosure documents made available by a selection of CCPs. We are not responsible for, and do not accept any liability whatsoever, for any content or omissions or inaccuracies contained in the information produced by any CCP.

The Annex seeks to compare the main account types and levels of segregation against the following risks:

Risks used to compare each account type and level of segregation	Explanation of risk
Transit Risk	Whether you are exposed to us at any point in the process of providing or receiving margin pursuant to the Direct Client Clearing Arrangement.
Fellow Client Risk	Whether assets provided to the CCP in respect of the Agreed Clearing Member Transactions related to you could be used to cover losses in the Agreed Clearing Member Transactions relating to another client.
Liquidation Risk	Whether, if the Agreed Clearing Member Transactions and assets relating to them were to be ported, there is a risk that any non-cash assets would be liquidated into cash. If this were to happen, the value given to such assets by the CCP may differ from what you perceive to be the full value of the assets.

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Risks used to compare each account type and level of segregation	Explanation of risk
Haircut Risk	Whether the value of the assets that relate to the Agreed Clearing Member Transactions might be reduced or not increase by as much as you expect because the CCP applied a haircut that did not properly reflect the value of the asset.
Valuation Mutualisation Risk	Whether the value of the assets that relate to the Agreed Clearing Member Transactions could be reduced or not increase by as much as you expect because the assets posted in relation to other clients' Agreed Clearing Member Transactions have decreased in value.
CCP Insolvency Risk	Whether you are exposed to the insolvency or other failure of the CCP.

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Typical account characteristics at the CCP level

	Net Omnibus Client Account	Gross Omnibus Client Account	Individual Client Account
Who will the Agreed Clearing Member Transactions recorded in the account relate to?	Net Omnibus Client Accounts record both assets and the Agreed Clearing Member Transactions that relate to you and the assets and the Agreed Clearing Member Transactions that relate to one or more of our other clients.	Gross Omnibus Client Accounts record assets and the Agreed Clearing Member Transactions that relate to you and the assets and the Agreed Clearing Member Transactions that relate to one or more of our other clients.	Only assets and the Agreed Clearing Member Transactions that relate to you should be recorded in an Individual Client Account.
Which losses can assets recorded in the account be used for?	Assets that are provided to the CCP as margin for a Agreed Clearing Member Transaction recorded in a net Omnibus Client Account may be used to cover any losses in that account, whether such losses relate to the Agreed Clearing Member Transactions relating to you or the Agreed Clearing Member Transactions relating to another client.	Assets that are provided to the CCP as margin for the Agreed Clearing Member Transactions recorded in a gross Omnibus Client Account may be used to cover any losses in that account, whether such losses relate to the Agreed Clearing Member Transactions relating to you or the Agreed Clearing Member Transactions relating to another client.	Assets that are provided to the CCP as margin for the Agreed Clearing Member Transactions recorded in an Individual Client Account may only be used to cover losses in that account.
Will the CCP know which Agreed Clearing Member Transactions and types of assets relate to you?	The CCP may not know which Agreed Clearing Member Transactions and assets recorded in a net Omnibus Client Account relate to you.	The CCP may not know which Agreed Clearing Member Transactions and assets recorded in a gross Omnibus Client Account relate to you.	Yes

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	Net Omnibus Client Account	Gross Omnibus Client Account	Individual Client Account
Will the CCP record the assets provided by value only or will it identify the type of asset provided?	The CCP may identify in its records the type of asset provided as margin for the net Omnibus Client Account but will not be able to identify which type of assets relate to any client's Agreed Clearing Member Transactions within that net Omnibus Client Account.	The CCP may identify in its records the type of asset provided as margin for the gross Omnibus Client Account but is unlikely to be able to identify anything other than the value of the assets provided in respect of any client's Agreed Clearing Member Transactions within that gross Omnibus Client Account.	The CCP should identify in its records the type of asset provided as margin for an Individual Client Account.
Will the Agreed Clearing Member Transactions recorded in the account be netted?	It is likely that the Agreed Clearing Member Transactions recorded in the account will be netted. This means that the Agreed Clearing Member Transactions that relate to you may be netted with the Agreed Clearing Member Transactions that relate to our other clients whose Agreed Clearing Member Transactions are recorded in the same net Omnibus Client Account.	The Agreed Clearing Member Transactions relating to you in the account will be netted with the other Agreed Clearing Member Transactions relating to you. However the Agreed Clearing Member Transactions relating to you should not be netted with the Agreed Clearing Member Transactions relating to any of our other clients recorded in the same Gross Omnibus Client Account.	The Agreed Clearing Member Transactions are likely to be netted, but should not be netted against the Agreed Clearing Member Transactions relating to any of our other clients.
Will you have to enter into any documentation or operational arrangements directly with the CCP?	You may have to enter into legal documentation to which the CCP is party. It is unlikely that you will have to set up any operational arrangements with the CCP directly.	You may have to enter into legal documentation to which the CCP is a party. It is possible but unlikely that you will have to set up operational arrangements with the CCP directly.	You may have to enter into legal documentation to which the CCP is a party. It is also possible that you will have to set up some operational arrangements with the CCP directly.

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	Net Omnibus Client Account	Gross Omnibus Client Account	Individual Client Account
Transit Risk	Yes	Yes	Yes
Fellow Client Risk	Yes	Yes	No
Liquidation Risk	Yes (unless the CCP is able to port the assets recorded in the account or is able to transfer the assets to you without needing to liquidate some or all of them first).	Yes (unless the CCP is able to port the assets recorded in the account or is able to transfer the assets to you without needing to liquidate some or all of them first).	Yes (unless the CCP is able to port the assets recorded in the account or is able to transfer the assets to you without needing to liquidate some or all of them first).
Haircut Risk	Yes	Yes	Yes
Valuation Mutualisation Risk	Yes	Yes	No
CCP Insolvency Risk	Yes	Yes	Yes
How likely it is that porting will be achieved if we default?	There is a significant risk that porting will not be achieved in respect of positions and assets recorded in a net Omnibus Client Account.	There is a significant risk that porting will not be achieved in respect of positions and assets recorded in a gross Omnibus Client Account.	If you have satisfied all of the CCP's and back-up clearing member's conditions, porting is more readily facilitated in the event of our default.

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Additional features that may be available for Individual Client Accounts

Some CCPs may offer additional Individual Client Accounts with special features that have been designed to mitigate certain of the risks identified under "Typical account structures" above. Below is a high level overview of some of the common additional features. The extent to which any risks are mitigated by these additional features, if at all, will depend on the structures used by an individual CCP. Again, therefore, you must review the information provided by the CCPs in order to evaluate the actual risks to you and you may need some professional advice. It is likely that these additional features will only be available to certain types of clients that meet each CCP's requirements. These additional features are not required by EMIR. Accordingly, not all CCPs will offer them nor are we obliged to facilitate access to them.

Additional feature	High level overview of the additional feature	Which risks might this feature mitigate?
Extended porting period	In the event of our default, this feature has been designed to allow more time for porting to be achieved.	This may make porting more likely to be achieved.
	For a set period of time (decided by the CCP) following our default, the Agreed Clearing Member Transactions and assets that relate to you will continue to be held in an account which the CCP will identify as directly relating to you. If you find a back-up clearing broker, these Agreed Clearing Member Transactions and assets will then be transferred to one of their client accounts. If you do not find a back-up clearing broker, they will be terminated and the close-out value returned to you.	
	Where the CCP treats you as an interim Clearing Member, it is possible that the CCP may expect you to contribute to the default fund and may require additional margin, including variation margin, to be provided in respect of the Agreed Clearing Member Transactions transferred to you.	

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Additional feature	High level overview of the additional feature	Which risks might this feature mitigate?
	It is possible that you may have to set up such accounts as the CCP requires and have the ability to make payments directly to the CCP. The CCP may also have an additional list of requirements that you will have to satisfy to be able to use the extended porting period.	
Separate custody account (in the name of the CCP) for the assets that have been provided as margin for positions relating to you	The assets relating to your positions are held in a separate account (in the CCP's name) at the CCP's custodian from any other assets held for the CCP. It is likely that you will have to enter into additional legal documentation with us and the CCP.	This may make porting more likely to be achieved.
Ability for you to keep assets required as margin for positions relating to you in a custody account in your name.	It is likely that you will have to enter into additional legal documentation and security arrangements with us and the CCP, and any custodian or settlement bank used under this structure. This additional feature may be restricted to certain types of non-cash assets. The custodian may be specified by or require the approval of the CCP. There will be additional operational requirements that you will need to meet in order to use this type of additional feature.	Transit Risk CCP Insolvency Risk This may make porting more likely to be achieved.
Ability for you to post margin directly to the CCP.	You may be able to post margin directly to the CCP rather than you posting it to us, and us in turn posting it on to the CCP.	Transit Risk

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Additional feature	High level overview of the additional feature	Which risks might this feature mitigate?
	This form of account may require you to have an account with particular custodians and settlement banks. The custodians and settlement banks are likely to be specified by the CCP.	
	You will have to enter into additional legal documentation with us and the CCP.	
	There will be additional operational requirements which you will need to meet in order to use this type of additional feature.	

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