

Article 38(6) CSDR Participant Disclosure

September 2018

1. Introduction

The purpose of this document is to disclose the levels of protection associated with the two different types of segregation that ABN AMRO Clearing Bank N.V (AACB) can provide in respect of securities held directly for clients with Central Securities Depositories (CSDs) located within the European Economic Area (EEA), including a description of the main legal implications of two types of segregation offered and information on the insolvency law applicable. This document should be read in conjunction with the cost disclosure annexed to this document.

This disclosure is required under Art. 38(6) of the Central Securities Depositories Regulation in relation to CSDs domiciled in the EEA. The information provided herein is, unless otherwise provided, subject to Dutch law.

At the end of the document is a glossary explaining some of the technical terms used in this document.

This document is intended to provide an introduction to the two types of account available at CSD level only. Prior to considering any change of account structure, AACB recommends that clients have a more detailed, client specific, discussion with their relationship contacts at AACB, in order to allow them to make an informed choice as to the best account type for their requirements.

2. Background

AACB records each client's individual entitlement to securities that it holds for that client in one or more client accounts established and maintained for such client in its own books and records. AACB also opens and maintains accounts with CSDs in its own (or its nominee) name in which client positions in securities are reflected.

Under CSDR, AACB is required to make two types of accounts with CSDs available to clients: an Individual Client Segregated Account (ISA) and an Omnibus Client Segregated Accounts (OSA).

An ISA is used to hold the securities of a single client only and therefore the client's securities are held separately from the securities of other clients and AACB's own securities¹.

An OSA is used to hold the securities of multiple clients on a collective basis.

3. Main legal implications of levels of segregation under Dutch law

General

If AACB were to become insolvent (bankrupt), its insolvency proceedings would take place in the Netherlands and be governed by Dutch insolvency laws.

Clients' legal entitlements to the securities that AACB (or its nominee) holds with CSDs, whether in an ISA or OSA, would not be affected by AACB's insolvency or be subject to a bail-in process, which may be applied to AACB if it were to become subject to resolution proceedings.

Client's legal entitlements

Under Dutch law, securities that AACB holds on behalf of clients must either be held by itself in accordance with the Securities Giro Transfer Act (SGTA) or by a nominee. Where such client securities are held by AACB they will be subject to the SGTA. The SGTA provides a protective measure in favour of clients holding securities with AACB, which consist in granting clients co-ownership rights in a notional pool of securities (*verzameldepot*) maintained by AACB in proportion to securities of the same kind to which they are entitled to. If AACB uses a nominee for the holding of securities on behalf of its clients, the nominee holds such securities for the benefit of the clients and each client will be granted a direct right vis-à-vis the nominee corresponding to the amount of securities so held. Securities held by AACB in accordance with the SGTA or by its nominee will therefore not form part of AACB's estate on insolvency for distribution to its creditors. Rather, they would be available to clients in accordance with each client's entitlement to the securities as recorded in AACB's books and records.

Insolvency (bankruptcy)

AACB is subject to strict requirements as to maintenance of accurate books and records and as to reconciliation of its records against those of the CSDs with which securities are held. Accordingly, as long as AACB (or its nominee) maintains sufficient holdings of securities in accordance with its regulatory obligations, clients should receive the same level of protection in AACB's insolvency or resolution, regardless of whether an ISA or an OSA is used to hold such securities. In both cases clients will be protected in the event of AACB's insolvency or resolution.

Shortfall

As described above, the regulatory requirements are designed to ensure that AACB holds securities in a quantity and of a kind at least equal to which clients are entitled to. If notwithstanding these requirements there a shortfall were to occur between the amount of securities to which clients are entitled to and the amount of securities that AACB (or its nominee) holds on their behalf (for instance as a result of an administrative error or operational issue), this could result in fewer securities than clients are entitled to being returned to them on AACB's insolvency or resolution.

¹ Although an ISA may be named in a way that identifies the client for whom it is maintained, the client does not have any right or ability to instruct the CSD with respect to any ISA maintained on its behalf or the securities maintained in that account, and so holding securities in an ISA does not give a client any operational rights with respect to those assets

Both the SGTA as well as the terms governing the use of the nominee, contain an arrangement for the treatment of such shortfalls. These arrangements will be relevant for the distribution of securities held by AACB (or its nominee) among clients entitled to such securities on AACB's insolvency or resolution. In the case of a shortfall of securities, the shortfall would be shared among all clients proportionately to their entitlement to the relevant securities. The way in which a shortfall would be treated will be the same for all securities held by AACB (or its nominee), regardless whether an ISA, OSA or another type of segregated account is used to hold such securities. Even if a particular client could "trace" or otherwise identify securities corresponding to its entitlement, an ISA would not entitle such a client to receive those securities; such client would be subject to the same losses sharing arrangement as all other clients of AACB.

Release of securities

Where securities held by AACB (or its nominee) are to be distributed among clients on AACB's insolvency or resolution, the insolvency practitioner or resolution authority may require a full reconciliation of the books and records in respect of all securities accounts prior to the release of any securities to the clients. In such case an ISA may contribute to swifter identification of client securities, although this does not mean that securities will be released quicker. While insolvency practitioners and resolution authorities are required to apply the loss sharing arrangements and consider the interests of other account holders, it may still be a complex and time-consuming process to confirm each client's entitlement to the securities available for distribution.

4. CSD disclosures

This document does not relate to an insolvency of a CSD or other proceedings in any jurisdiction affecting the rights of creditors of a CSD. Under the CSDR, the CSDs located in the EEA of which AACB is a direct participant have their own disclosure obligations. Those disclosures may be available at the websites of the relevant CSDs.

5. Costs information

Annexed to this document is a high level overview of the costs associated with the account types described in this document.

Glossary

Bail-in refers to the process under the Dutch Act on Financial Supervision applicable to failing Dutch banks and investment firms under which their liabilities to clients may be modified, for example by being written down or converted into equity

Central Securities Depository or CSD is an entity which records legal entitlements to dematerialised or immobilised securities and operates a system for the settlement of transactions in those securities

Central Securities Depositories Regulation or CSDR refers to EU Regulation 909/2014 which sets out rules applicable to CSDs and their participants.

Direct participant is an entity that holds securities in an account with a CSD and is responsible for settling transactions in securities that take place within a CSD. A direct participant should be distinguished from an indirect participant, which is an entity, such as a global custodian, which appoints a direct participant to hold securities for it with a CSD

Resolution proceedings are proceedings for the resolution of failing Dutch banks and investment firms under the Dutch Act on Financial Supervision

Securities Giro Transfer Act or SGTA refers to the Dutch Securities Giro Transfer Act of 1977, as amended, (*Wet giraal effectenverkeer*) governing the book-entry transfer of securities and the protection of investors in the event of the insolvency of their account provider

ANNEX

Cost overview

The following factors will impact the costs of setting up and maintaining an account at CSD level:

- The chosen account type (i.e. OSA or ISA)
- The number of markets in which you require an account
- The number of accounts you require in each market
- The set-up and maintenance fees charged by the relevant CSD(s)
- The incremental operational overhead incurred in supporting the chosen account structure

It is expected that as a result of the different costs applied to ISAs compared with OSAs, there will be an additional fee applied to ISAs. All charges for the different account structures are subject to periodic and ongoing review and change by AACB and the relevant CSDs.

Costs: OSA v ISA comparison

Omnibus Client Segregated Account (OSA)

AACB costs

As explained in the disclosure document, an OSA is a shared account at CSD level used to hold a number of clients' securities on a collective basis. OSAs form part of the standard model AACB currently supports and offers at CSD level. AACB does not expect that charges for the operation of these accounts differ significantly from existing levels. All charges are subject to ongoing review.

Individual Client Segregated Accounts (ISA)

AACB costs

As explained in the disclosure document, an ISA is an account at CSD level used to hold the securities of a single client separately from the securities of other clients. Charges for ISAs are likely to be higher than OSAs due to the additional operational complexity and cost involved in setting up and maintaining an ISA. AACB expects to charge an additional set up and maintenance fee for ISAs. These additional charges will likely apply to each ISA at each CSD. For example, if a client settles securities at two CSDs and selects an ISA at each CSD, the additional set-up and maintenance fees may apply separately to both accounts.

CSD costs

In addition to AACB costs, the relevant CSDs may charge additional amounts due to the increased operational overhead and complexity on their side. As OSAs form the standard model used by CSDs, ISAs are likely to be subject to significant higher charges than OSAs, including additional set up and maintenance fees.

General

This cost disclosure may not provide all the information clients may require in order to determine which account type is most suitable for them. It is clients' responsibility to review and conduct their own due diligence on the relevant rules, legal documentation and any other information provided to clients by AACB or a third party. Clients should seek their own legal advice if they require any guidance on the matters discussed in this disclosure document.

The information set out herein is provided as an indication of possible costs likely to be incurred by an average client when choosing an OSA or ISA. The indicative charges referred to are subject to ongoing review and change by AACB and the relevant third parties. AACB would be happy to discuss what the precise costs are likely to be in respect of setting up and maintaining an account at a CSD based on your individual circumstances and requirements.

Client should contact their AACB relationship manager to arrange such discussion.

This document is not intended to constitute legal or other advice and should not be relied upon as such. You should seek your own legal advice if you require any guidance on the matters stated herein.