



Deutsche Bank  
EMIR Article 39(7) and MIFID II Clearing Member  
Disclosure Document  
January 2020



# Clearing Member Disclosure Document

## Introduction

Throughout this document references to “we”, “our” and “us” are references to Deutsche Bank S.p.A. acting as general clearing member (GCM/“”). References to “you” and “your” are references to the Client, acting as Non Clearing Member (NCM/“”) at the Italian Central Counterparty called Cassa di Compensazione e Garanzia (“CC&G” or “CCP”)<sup>1</sup>, authorised by the Bank of Italy to operate as European CCP under EMIR. For the purposes of this document the term “assets” means cash or any financial instruments.

### What is the purpose of this document?

To enable us to comply with our obligations as a clearing member under EMIR<sup>(2)</sup> and MIFID II<sup>3</sup> which requires that where we are providing services to you that involve us clearing securities transactions through an European (“EU”) CCP, we must:

- offer you a choice of an individual client account or an omnibus client account (as discussed under “*The types of account 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.

We are also required, pursuant to MiFID II(2), to:

- inform prospective and existing clearing clients of the levels of protection and costs associated with different levels of segregation; and
- describe the main legal implications of different levels of segregation.

We have disclosed the costs associated with the different levels of segregation separately. Details can be found at: [https://www.db.com/italia/it/content/gtb\\_per\\_emir.html](https://www.db.com/italia/it/content/gtb_per_emir.html)

### Organisation of this document

This document is set out as follows:

- Part One A provides some background to clearing.

<sup>1</sup> This document does not cover the scenarios of a Client which benefits from an “indirect access” to the negotiations to the Italian market or where a Client avails Deutsche Bank SpA as broker.

<sup>2</sup> Regulation (EU) No 648/2012 on OTC derivatives, central counterparties and trade repositories.<sup>3</sup> Directive No 2014/65/EU on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU and Commission Delegated Regulation (EU) 2017/589 of 19 July 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the organisational requirements of investment firms engaged in algorithmic trading (together “MIFID II”).

<sup>3</sup> Directive No 2014/65/EU on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU and Commission Delegated Regulation (EU) 2017/589 of 19 July 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the organisational requirements of investment firms engaged in algorithmic trading (together “MIFID II”).



- Part One B gives information about the difference between the individual segregated client account and the omnibus client account, explains how this impacts on the clearing of your securities transactions 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, and sets out links to further information provided by CC&G.

### What are you required to do?

You must review the information provided in this document and the relevant CCP disclosure and confirm to us in writing which account type you would like us to maintain with respect to CC&G for you from time to time. We will explain how we would like you to make this confirmation. If you do not confirm within a reasonable timeframe, we will continue to follow up with you because your confirmation is required. In the meantime, we will continue to clear your securities transactions, using the existing account structure with CC&G.

### 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 laws. 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. Nothing contained herein should be considered an offer, or an invitation to offer or a solicitation or a recommendation by us for a particular account type, level of segregation or transaction and no representation or warranty is made as to the accuracy or completeness of the disclosure provided. It is your responsibility to review and conduct your own due diligence on the relevant rules, legal documentation and any other information provided to you on each of our client account offerings and those of the CCP on which we clear securities transactions for you. Before entering into any arrangement you should be aware that certain transactions give rise to substantial risks and are not suitable for all investors. You may wish to appoint your own professional advisors to assist you 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 or 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 Italian 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 governing our insolvency; the law of the jurisdiction of incorporation of the CCP; and the law of the location of any assets.

Nothing contained herein is intended to create or shall be construed as creating a fiduciary relationship between you and Deutsche Bank. You are not permitted to reproduce in whole or in part the information provided in this document without our prior written consent. Information provided herein may be a summary or translation and is subject to change without notice.



## Part One A: A brief background to clearing

### The clearing model<sup>4</sup>

When clearing transactions for you through CC&G, we usually act simultaneously as a general clearing member – “GCM”, and settlement agent.

For the contracts received from markets guaranteed by CC&G the X-TRM Service of Monte Titoli S.p.A. (the Italian Central Securities Depository) carries out the interposition of CC&G itself between the two original counterparties, thereby guaranteeing the “anonymity” of the trade.

The party obliged towards CC&G on behalf of the NCM is ourselves as your GCM. Two operating models may apply alternatively:

- **“gross” margination model:** the GCM, in the context of the settlement service, settles the positions for its NCM. Thus, the bilateral net balances created are relative to the positions of the NCM vis-à-vis the central counterparty, through the settlement account assigned by the NCM.

The settlement agent, which is also the GCM, may use its own third party account or a specific settlement account for the NCM as the settlement account.

- **“net” margination model:** the bilateral net balances created as a consequence of the NCM’s transactions are relative to the positions of the GCM vis-à-vis the central counterparty, through the settlement account used by the NCM.

The settlement agent, which is also the GCM, may use its own third party account or a specific settlement account as the settlement account. In the second hypothesis, when creating the bilateral net balances, the NCM’s position vis-à-vis the clearing member is also created. In this case, the settlement account used by the NCM is the specific settlement account allocated by the settlement agent.

Each contractual positions generated within CC&G system as consequence of the trades concluded on the market by the NCM (**“Contractual Positions”**) will be governed by the CC&G rules and by a client clearing agreement<sup>(5)</sup> between you and us.

The Contractual Positions on the financial instruments traded by the Client is registered in the CC&G account without the need for any further action by either you or us.

As the principal to CC&G, we are required to provide assets to CC&G as margin for the Contractual Positions that relate to you and to ensure CC&G has as much margin as it requires at any time. We will therefore ask you for margins that will be passed on to CC&G. If you have provided us with assets as margin, you may face what we call “transit risk” - this is the risk that, if we were to default prior to providing such assets to CC&G, the assets that should have been recorded in your account at CC&G will not have been and will not benefit from the protections described below under *“What happens if we are declared to be in default?”*.

<sup>4</sup> Changes may apply depending on the markets/segments involved, and the specific Membership statuses. For a complete description of the rules governing clearing of transactions executed on the Italian market, please refer to the Regulation of Cassa Compensazione and Garanzia, and/or the “Instructions of X-TRM Service” available on Monte Titoli’s website.

<sup>5</sup> References to “client clearing agreement” in this disclosure shall mean the agreement between you and us that governs the Contractual Positions and any ancillary or related documents or agreements agreed and entered into between the parties.<sup>6</sup> Please refer to the “Instructions of X-TRM Service” available on Monte Titoli’s website for details



However, in some cases you may not actually face transit risk because CC&G calls margin and Default Fund payments 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 client clearing agreement between you and us.

In any case please note that under the provisions of the Italian Consolidated Law on Financial Intermediation (d.lgs. 24 February 1998, n. 58) it is provided that the financial instruments of individual customers held by a bank shall be separate assets for all intents and purposes from those of the intermediary and from those of other customers. Actions in respect of such financial instruments may not be brought by creditors of the intermediary or on behalf of such creditors, nor by creditors of the depository or the sub-depository, if any, or on behalf of such creditors. Please see Part One B for an explanation of how this is relevant to the choice of account types.

### What happens if we are declared to be in default?

If we are declared to be in default, there are two possibilities with respect to the Contractual Positions and assets related to you:

- the CCP will, at your request, try to transfer (**port**) to another clearing member (a **back-up or “Designated” clearing member**), such Contractual Positions and assets; or, if this cannot be achieved,
- the CCP will close out the Contractual Positions that relate to you (see *“What happens if porting is not achieved”* below).

The porting process, which involves a transfer of the open Contractual Positions and related assets from us to the back-up clearing member, is different depending on the account structure in place:

- Individual Segregated Account at CC&G: the porting process will be triggered by a dedicated contract (“Porting Contract”) stipulated between you and the back-up clearing member, which can be signed and sent to CC&G before the default event occurs. Such a contract can be sent to CC&G also at a later stage but no later than 5 business days after the default occurs. In the latter case, in the period between the default event and the porting, you will become a Pro-Tempore clearing member (“Partecipante Pro-Tempore”) and you will be obliged to pay your own margins directly following the procedures established by CC&G. If such a notification is not received within the above-mentioned deadline, CC&G shall close the Contractual Positions. In case the Contractual Positions recorded by you on your own behalf are separated from those recorded on your clients’ behalf, the “Porting Contract” shall indicate if such a separation shall be maintained also in the back-up clearing member’s records.
- Omnibus Client Account at CC&G: the porting process will be triggered by a Porting Contract stipulated between us and the back-up clearing member, subject to the prior confirmation collected from all clients whose positions have been registered within that account. Such a contract shall be sent to CC&G before the default event occurs. The Porting Contract can be sent to CC&G also at a later stage but no later than 3 hours after the default occurs. Upon the receipt of the contract CC&G transfers the Contractual Positions within the omnibus account to the back-up clearing member designated account. If such a notification is not received within the above-mentioned deadline, CC&G shall close the Contractual Positions.



## Will the Contractual Positions and assets relating to you be automatically ported to a back-up clearing member?

No, there will be a number of conditions which must be satisfied before the Contractual Positions and assets that relate to you can be ported to a back-up clearing member.

These conditions are set by CC&G and include obtaining your consent (and the consent of all other clients under the same omnibus account if this is the case). You will need to have a back-up clearing member that has agreed to accept the Contractual Positions. You may wish to appoint a back-up clearing member upfront as part of your clearing arrangements but the back-up clearing member is unlikely to be able to confirm that it is willing to accept the Contractual Positions until the default occurs. The back-up clearing member may also have conditions that they require you to meet. If you have not appointed a back-up clearing member prior to our default or agreed with CC&G that it may appoint one on your behalf, then this may mean that porting is less likely to occur.

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

The type of account and level of segregation you choose will have an impact on the ability to port Contractual Positions and assets to a back-up clearing member upon our default (see *“What happens if we are declared to be in default”* above).

As above-mentioned, if you choose an Omnibus Client Account (described in more detail in Part One B), all of our clients who have Contractual Positions and assets relating to them recorded in the same Omnibus Client Account will have to agree to use the same back-up clearing member, and the back-up clearing member will have to agree to accept all of the Contractual Positions, and related 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 if you choose an Individual Segregated Account (described in more details Part One B), because as mentioned you can appoint a back-up clearing member with respect to just your Contractual Positions and the related assets.

## 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 Contractual Positions. According to CC&G Rules, this period of time varies depending on the account type (segregated or omnibus), please refer to the **“What happens if we are declared to be in default?”** for any further details.. In case of ISA, if you want to port your Contractual Positions, you will need to provide CC&G with a new “Outline Clearing Agreement” (minimum clauses) with the back-up clearing member. In case of Omnibus Client Account the appointment of the back-up clearing member should be notified to CC&G through us. After having collected the consent from all our clients within the Omnibus Client Account, we will stipulate the respective agreement with the back-up clearing member on our clients’ behalf.

In case the porting is not achieved, CC&G will terminate the Contractual Positions and perform a close-out calculation in respect of them in accordance with the CC&G rules.



If there is an amount owed by CC&G in respect of the Contractual Positions, CC&G will be able to pay any such amount directly to you if you select an Individual Segregated Account (described in more detail in Part One B). This is because your identity will typically be disclosed to CC&G in this case.

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



## Part One B: Your choice of account type and the factors to consider

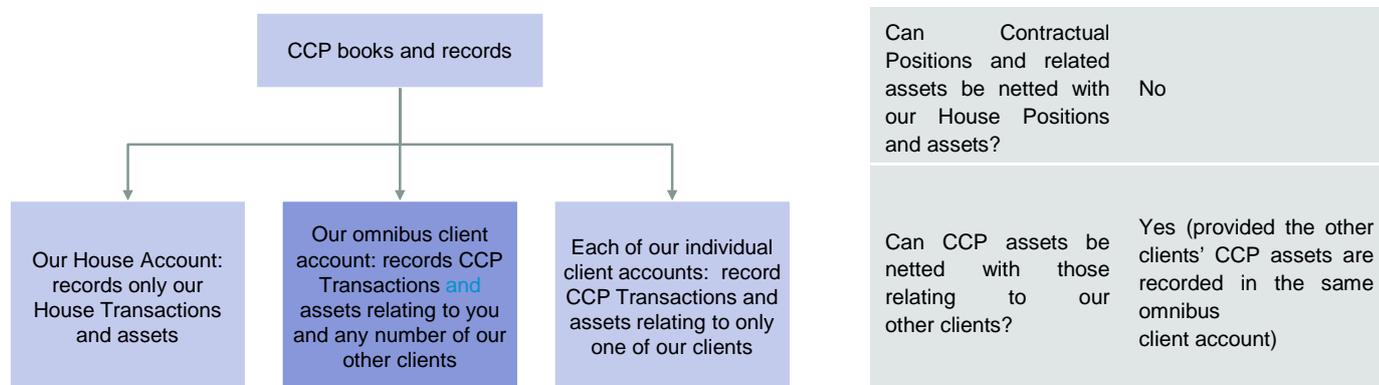
### The types of account available

Reference to CCP accounts means the accounts in the books and records of CC&G. CC&G uses these accounts to record the Contractual Positions generated by your trades concluded on the market and the assets that we provide to CC&G in respect of such Contractual Positions.

There are two basic types of client account available – Omnibus Client Accounts and Individual Segregated Accounts. A further level of segregation within the omnibus account type is further described in Part Two of this document.

#### *Omnibus Client Account*

Under this account type, the Contractual Positions and assets that relate to them in the CCP's accounts are segregated from any Contractual Positions we may have cleared for our own account (our **House Positions**) and any assets we have provided as margin for those House Positions at the CCP. Your financial position (in terms of margins paid) as an NCM will be calculated separately at CC&G even if within the Omnibus account. However, the CCP collateral securities that relate to you will be commingled with the CCP securities relating to any of our other clients that are recorded in the same Omnibus Client Account.



The CCP will agree not to net the Contractual Positions relating to you with our House Positions or any Contractual Positions not recorded in the same Omnibus Client Account, nor use the assets relating to such Contractual Positions with respect to any House Position or Contractual Position recorded in any other account.

However, the CCP may net the Contractual Positions that are recorded in the same Omnibus Client Account<sup>6</sup>. The assets provided in relation to the CCP Transaction recorded in the same Omnibus Client Account can be used in relation to any CCP Transaction (whether it relates to you or to any of our other clients) credited to that Omnibus Client Account.

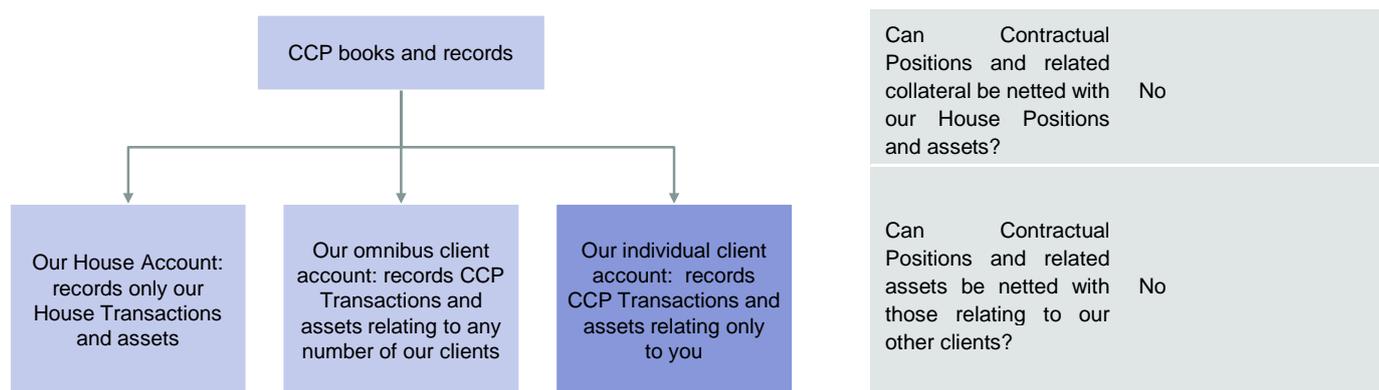
<sup>6</sup> Please refer to the "Instructions of X-TRM Service" available on Monte Titoli's website for details



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 the CCP.

### *Individual Segregated Client Account*

Under this account type, the Contractual Positions and assets that relate to you in the CCP's accounts are segregated from those relating to our House Positions and to the Contractual Positions and assets that relate to any of our other clients.



The CCP will agree not to net the Contractual Positions relating to you with our House Positions, nor use the assets relating to such Contractual Positions in relation to our House Positions.

Further, the CCP will agree not to net the Contractual Positions relating to you that are recorded to an Individual Segregated Account with those of any other client recorded to any other account, nor use the assets related to such Contractual Positions in relation to the Contractual Positions relating to any of our other clients.

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

If the segregated client is a Non-Clearing Member, CC&G may open for it, into the Clearing System, two segregated sub-accounts (a House account and a Client account) that will be managed in a totally segregated way for the purposes of the positions and related assets.

### **Affiliates**

We treat our affiliates in the same way as clients when complying with EMIR and MIFID II provisions. This means that affiliates also have a choice between types of account and the account type chosen by each of our affiliates may vary across each CCP. In some cases, this may mean that Omnibus Client Accounts available to you may also include transactions for our affiliates.



## **Other factors that may impact on the level of protection you receive in respect of assets that you provide to us as margin for Contractual Positions**

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 for Contractual Positions:

- whether you choose an Omnibus Client Account or an Individual Segregated Client Account (as discussed under “*The types of account available*” above);
- whether, if you choose an Omnibus Client Account, you would want a gross (“Default/Main Omnibus Account”/MOA) or net account (“Additional Omnibus Account”/AOA) - Please see “*Would you prefer a gross or net Omnibus Client Account*” below for further details;
- whether we call any excess margin from you or you pay excess margin to us;
- 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 Italian Law.

## **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 Segregated Account), CC&G has developed a couple of Omnibus accounts 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 Contractual Positions is called on the basis of the net Contractual Positions recorded in the Omnibus Client Account (AOA).
- Gross is where the margin called by the CCP in respect of the Contractual Positions is called on the basis of the gross Contractual Positions recorded in the Omnibus Client Account (MOA).

It may be easier to port Contractual Positions and their related assets if you choose a dedicated net Omnibus Client Account than if you choose the gross “Main” Omnibus Client Account. This is because the CCP is more likely to have sufficient assets to facilitate the porting of the Contractual Positions that relate to you and the other clients in the same AOA separately from the overall client lying in the MOA. That said, you should consider the CCP’s information about the specific accounts, as well as any other aspects pertaining the effects of segregation in the current structure of business of your GCM to understand the real differences. Please see Part Two for more details on this.

## **Will you provide cash or non-cash assets as margin for the Contractual Positions?**

As noted under “*The clearing model*” in Part One A, as a clearing member of CC&G, we are required to transfer assets to CC&G in respect of the Contractual Positions related to your trades effected on the market. CCPs only accept certain types of liquid cash and non-cash assets as margin.

The types of assets we will accept from you as margin for your Contractual Positions will be the same type of assets that the CCPs will accept from us. As a general statement, please consider that we do not offer a collateral transformation service.



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

The basis on which we are willing to accept assets from you will be set out in the client clearing agreement between us.

### *Title Transfer*

Where the client clearing agreement provides for the transfer of assets by way of title transfer collateral arrangement, (“garanzia finanziaria”) when you transfer assets (**Transferred Assets**) to us, we become the *owner* of such assets – within the limit of the legislative decree 30 July 2004, no. 170 and the Italian civil code - and you lose all rights in such assets. We will record in our books and records that we have received such Transferred Assets from you with respect to the applicable Contractual Position. 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 agreement.

You bear our credit risk with respect to our obligation to deliver Equivalent Assets to you. This means that if we were to fail (please see below) you will have a claim against our estate for a return of the assets along with our other general creditors.

We may enforce the collateral in you default in your obligations on the strength of the mechanism set out by the legislative decree 30 July 2004, no. 170.

### *Pledge*

Where the client clearing agreement is governed by Italian law and includes a pledge arrangement, when you transfer securities to us, according to the Italian civil code 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 pledge with respect to such assets, save for the provisions about the so called irregular pledge (“*pegno irregolare*”) pursuant to the Italian civil code where the ownership of the securities is transferred to the pledgee.

We may enforce that pledge 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 with respect to the applicable Contractual Position.

## How will any excess margin we call from you be treated?

In accordance with the provisions of EMIR, any assets in excess (i.e. the assets that we will require from you, in excess of those required by CC&G to us for the coverage of your contractual positions), must be deposited at CC&G. These assets will be registered in the segregated account as assets in excess (and they will not be used to cover margins due by the other clients or by us for our House account).

We will be able to request the return of the assets in excess according to the current procedures. The refund will be made by CC&G to us, which will be required to transfer the assets received to the interested client.



The assets deposited by us to cover an omnibus account, even if they exceed the amount required by CC&G, will be used to cover that account (therefore they will not be used to cover the other omnibus accounts and/or the individual segregated accounts and/or the our House account).

We will be able to request the return of the assets in excess according to the current procedures. The refund will be made by CC&G to us, which will be required to transfer to the interested clients the assets received.

**Will you get back the same type of asset as you originally provided to us as margin for a Contractual Positions?**

In both a business as usual situation and in the event of a default, you will receive the same type of asset to you that you originally provided to us.

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



## Part One C: What are the main insolvency considerations?

### General insolvency risks

As Italian Bank, being subject to the provisions of the Italian Banking Consolidated Act as a result of a state of insolvency (“*stato di insolvenza*”), we would be subject to the insolvency proceedings carried out under the supervision of Bank of Italy called the special liquidation proceeding (“*liquidazione coatta amministrativa*”) and, grounded mainly on serious irregularity in the bank’s management, legal infringements or serious expected losses, the extraordinary administration (“*amministrazione straordinaria*”).

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 Segregated Accounts and Omnibus Client Accounts because:

- even if segregated, the account might not be covered with a portability agreement with another clearing member, which is the only mean offered by CC&G to facilitate a transfer of the assets and business continuity; and
- our insolvency proceedings are most likely to be insolvency proceedings opened and controlled by Banca d’Italia (Italian Central Bank). In such insolvency proceedings you will generally not be able to take any action against us while you will take action towards the liquidator of the proceeding amongst the other creditors. All powers in respect of our insolvent estate are with the insolvency administrator of our insolvent estate and all actions have to be taken against or with the consent of the insolvency administrator; and
- any stage of a cleared transaction (e.g., Contractual Positions and porting) may be challenged by the insolvency administrator over our insolvent estate 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

- this disclosure deals only with our insolvency; 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; 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.

### Insolvency of CCP and others

Except as set out in this section “*Insolvency of CCPs 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, a custodian or a settlement agent.

In relation to CCP insolvency, broadly speaking our (and therefore your) rights will depend on the Italian law (law of the country in which CC&G is incorporated) and the specific protections that the CCP has put in place. You should review the relevant CC&G’s 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 Italian insolvency law and/or that official;
- it will be difficult or impossible to port Contractual Positions 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 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 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).

### Margin rights

Generally speaking, your risk of loss will be highest in relation to title transfer margin; and lowest if you have retained the assets (e.g. in a custody account over which you have given us a security interest). If you provide assets to us by way of security interest or pledge 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 transferred the assets to our name by way of security (e.g. by giving us a mortgage over the assets) then you bear more risk if there is a shortfall in any of the assets that we are holding.

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 Segregated Account or an Omnibus Client Account.



### **Porting – prohibition**

As mentioned herein, except in specific structures, a CCP only owes us (not you) obligations in relation to Contractual Positions and related assets.

As a result, when these contracts and assets are transferred to a back-up clearing member, there is a risk of insolvency challenge because our assets 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 Contractual Positions with your back-up clearing member.

### **Porting – preferential creditors**

As mentioned under “*What happens if we are declared to be in default?*” 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 Segregated Account or 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).

However, depending on the exact structure, insolvency law gives 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.



## Part Two: CCP client account structures<sup>(7)</sup>

As noted in Part One B, each CCP should offer at least one Omnibus Client Account and/or at least one Individual Segregated Account by changing some of the features. This Part Two contains an overview of the main levels of segregation within each account type that CC&G offers, 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 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 CC&G to fully understand the risks of the specific account we maintain in relation to you at CC&G. Each CCP is required to publish information about the account structures it offers and we have provided a link to the relevant part of the website of CC&G. 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 have been prepared on the basis of publicly available disclosure documents made available by CC&G. 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 CC&G.

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

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 in respect of Contractual Positions.
Fellow Client Risk	– Whether assets provided to the CCP in respect of Contractual Positions related to you could be used to cover losses in Contractual Positions relating to another client.
Liquidation Risk	– Whether, if the Contractual Positions 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.
Haircut Risk	– Whether the value of the assets that relate to Contractual Positions 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 Contractual Positions could be reduced or not increase by as much as you expect because the assets posted in relation to other clients' Contractual Positions have decreased in value.
CCP Insolvency Risk	– Whether you are exposed to the insolvency or other failure of the CCP.

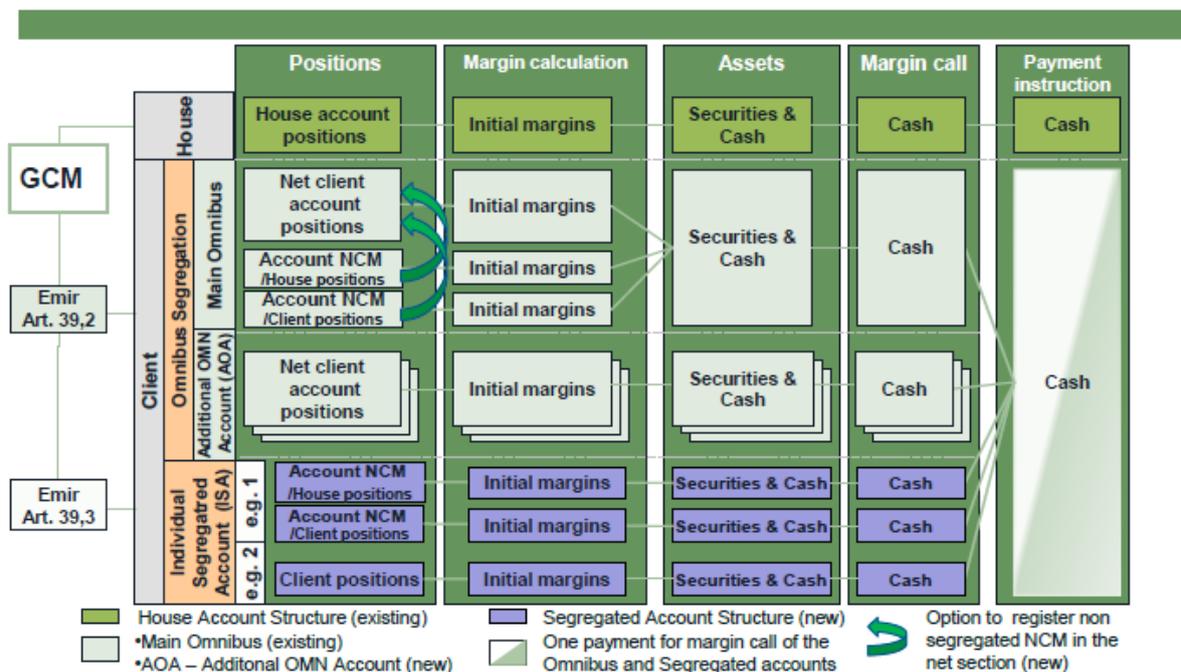
<sup>7</sup> In preparing this document reference has been made to the client account disclosure documentation made available on the websites of CC&G as at inserire data.



The new account structure offered by CC&G



# Account Structure with Emir





## Typical client account characteristics



	<b>Main Omnibus Client Account (Gross account)</b>	<b>Additional Omnibus Client Account (Net account)</b>	<b>Individual Segregated Client Account</b>
<b>Who will the Contractual Positions recorded in the account relate to?</b>	<ul style="list-style-type: none"> <li>Main Omnibus Client Accounts record both assets and Contractual Positions that relate to you and the assets and Contractual Positions that relate to one or more of our other clients. However, your Contractual Positions (as NCM) are registered and related margins are calculated separately at CC&amp;G even if within the Omnibus account. CC&amp;G collateral assets that relate to you will be however commingled with CC&amp;G assets relating to any of our other clients that are recorded in the same Omnibus Client Account</li> </ul>	<ul style="list-style-type: none"> <li>Gross Omnibus Client Accounts record assets and Contractual Positions that relate to you and the assets and Contractual Positions that relate to one or more of our other clients. This is a fully commingled (net) account in terms of Contractual Positions registration, margins calculation and collateral assets record.</li> </ul>	<ul style="list-style-type: none"> <li>Cash, collateral and Contractual Positions that relate to you are recorded, and margins are calculated, in an Individual Segregated Client Account.</li> </ul>
<b>Which losses can assets recorded in the account be used for?</b>	<ul style="list-style-type: none"> <li>Assets that are provided to the CCP as margin for a CCP Transaction recorded in the Main Omnibus Client Account may be used to cover any losses in that account, whether such losses relate to the Contractual Positions relating to you or Contractual Positions relating to another client.</li> </ul>	<ul style="list-style-type: none"> <li>Assets that are provided to the CCP as margin for the Contractual Positions recorded in an Additional Omnibus Client Account may be used to cover any losses in that account, whether such losses relate to the Contractual Positions relating to you or Contractual Positions relating to another client.</li> </ul>	<ul style="list-style-type: none"> <li>Assets that are provided to the CCP as margin for Contractual Positions recorded in an Individual Segregated Account may only be used to cover losses in that account.</li> </ul>
<b>Will the CCP know which Contractual Positions and types of assets relate to you?</b>	<ul style="list-style-type: none"> <li>The CCP knows which Contractual Positions and cash recorded in a Main Omnibus Client Account relate to you as NCM. Collateral securities, instead, cover the entire clientele lying in that account.</li> </ul>	<ul style="list-style-type: none"> <li>The CCP may not know which Contractual Positions and assets recorded in an Additional Omnibus Client Account relate to you.</li> </ul>	<ul style="list-style-type: none"> <li>Yes.</li> </ul>



	<b>Main Omnibus Client Account (Gross account)</b>	<b>Additional Omnibus Client Account (Net account)</b>	<b>Individual Segregated Client Account</b>
<b>Will the CCP record the assets provided by value only or will it identify the type of asset provided?</b>	<ul style="list-style-type: none"> <li>– The CCP calculates and registers separately the cash margins of each NCM. It identifies in its records the collateral securities provided as margin for the Main Omnibus Client Account but will not be able to identify which assets relate to any client's Contractual Positions within that Main Omnibus Client Account.</li> </ul>	<ul style="list-style-type: none"> <li>– The CCP identifies in its records the type of asset provided as margin for the Additional Omnibus Client Account but will not be able to identify which assets relate to any client's Contractual Positions within that Additional Omnibus Client Account.</li> </ul>	<ul style="list-style-type: none"> <li>– The CCP should identify in its records the type of asset provided as margin for an Individual Client Account.</li> </ul>
<b>Will the Contractual Positions recorded in the account be netted?</b>	<ul style="list-style-type: none"> <li>– The Contractual Positions recorded in the account will be netted at NCM's level. This means that Contractual Positions that relate to you are not netted with Contractual Positions that relate to our other clients whose Contractual Positions are recorded in the same Net Omnibus Client Account.</li> <li>– The registration in the context of the Main Omnibus Account of the positions of a NCM in a "General Clearing Member/house-Non-Clearing Member" sub-account and in a "General Clearing Member/client-Non-Clearing Member" sub-account enables CC&amp;G to distinguish these positions from those of other clients within the same MOA as well as from those pertaining to other NCM's registered in the same MOA.</li> </ul>	<ul style="list-style-type: none"> <li>– Yes. The Contractual Positions that relate to you in the account will be netted against the Contractual Positions for other clients in the same Additional Omnibus Client Account.</li> </ul>	<ul style="list-style-type: none"> <li>– Contractual Positions are netted, but they are not netted against the Contractual Positions relating to any of our other clients.</li> <li>– The registration in the context of an ISA account of positions and assets of the client in two sub-accounts ("NCM House account" and "NCM Clients account") enables to distinguish the Contractual Positions and assets registered in one sub-account from those registered in the other sub-account. Netting occurs separately for the two sub-accounts</li> </ul>
<b>Will the margin be calculated on a gross or net basis?</b>	<ul style="list-style-type: none"> <li>– The margin will be calculated on a gross basis.</li> </ul>	<ul style="list-style-type: none"> <li>– The margin will be calculated on a net basis.</li> </ul>	<ul style="list-style-type: none"> <li>– The margin requirement for an Individual Segregated Account will typically be calculated on a net basis (at NCM House and NCM Clients sub-account level if this is the case)</li> </ul>



	<b>Main Omnibus Client Account (Gross account)</b>	<b>Additional Omnibus Client Account (Net account)</b>	<b>Individual Segregated Client Account</b>
<b>Will you have to enter into any documentation or operational arrangements directly with the CCP?</b>	– Yes: an NCM will sign an outline agreement (minimal clauses) with its GCM by undersigning CC&G's clauses and rules bound to each respective account structure. A copy of the contract must be provided to CC&G. It is not required that you set up any operational arrangements with the CCP directly	– Yes: an NCM will sign an outline agreement (minimal clauses) with its GCM by undersigning CC&G's clauses and rules bound to each respective account structure. It is not required that you set up operational arrangements with the CCP directly.	– Yes: an NCM will sign an outline agreement (minimal clauses) with its GCM by undersigning CC&G's clauses and rules bound to each respective account structure. You will have to set up some operational arrangements with the CCP directly.
<b>Transit Risk</b>	– Yes	– Yes	– Yes
<b>Fellow Client Risk</b>	– Yes	– Yes	– No
<b>Liquidation Risk</b>	– No: the CCP is able to port the assets recorded in the account to you without needing to liquidate some or all of them first.	– No: the CCP is able to port the assets recorded in the account to you without needing to liquidate some or all of them first.	– No: the CCP is able to port the assets recorded in the account to you without needing to liquidate some or all of them first.
<b>Haircut Risk</b>	– Yes	– Yes	– Yes
<b>Valuation Mutualisation Risk</b>	– Yes	– Yes	– No
<b>CCP Insolvency Risk</b>	– Yes	– Yes	– Yes



	<b>Main Omnibus Client Account (Gross account)</b>	<b>Additional Omnibus Client Account (Net account)</b>	<b>Individual Segregated Client Account</b>
<b>How likely it is that porting will be achieved if we default?</b>	<ul style="list-style-type: none"><li>– There is a significant risk that porting will not be achieved in respect of positions and assets recorded in a Main Omnibus Client Account.</li></ul>	<ul style="list-style-type: none"><li>– There is a risk that porting will not be achieved in respect of positions and assets recorded in an Additional Omnibus Client Account. However, If all clients involved have satisfied all of the CCP's and back-up clearing member's conditions, porting is facilitated in the event of our default</li></ul>	<ul style="list-style-type: none"><li>– 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.</li></ul>



## Additional features that may be available for Individual Segregated Accounts

Below is a high level overview of some of the common additional features of an Individual segregated account. 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 clients that meet certain requirements. These additional features are not required by EMIR. Accordingly, we are not obliged to facilitate access to all of them.

Additional feature	High level overview of the additional feature	Which risks might this feature mitigate?
Extended porting period	<ul style="list-style-type: none"><li>- In the event of our default, this feature has been designed to allow more time for porting to be achieved.</li><li>- For five days following our default, the Contractual Positions 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 member, these Contractual Positions and assets will then be transferred to one of their client accounts. If you do not find a back-up clearing member, they will be terminated and the close-out value returned to you.</li><li>- Where the CCP treats the Client as a Pro-Tempore clearing member, the CCP expects you to contribute to the default fund and requires additional margin, including variation margin, to be provided in respect of the Contractual Positions transferred to you.</li><li>- 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.</li></ul>	<ul style="list-style-type: none"><li>- This may make porting more likely to be achieved.</li></ul>



### **Links to CCP disclosure documents**

Please note that the below link has been included for convenience only. In the event that it does not work, you should contact CC&G directly or, alternatively, seek assistance from your dedicated Client Manager.

CC&G:

<http://www.ccg.it/jportal/pcontroller/NavigatorHandler?nodo=1>

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