

CLEARING MEMBER DISCLOSURE DOCUMENT UBS AG

Introduction

Throughout this document references to “we”, “our” and “us” are references to UBS AG (acting through its Zurich main office) its Australian branch and its London branch office as the clearing broker. References to “you” and “your” are references to the client¹.

What is the purpose of this document?

To enable us to comply with our obligations as a clearing member under EMIR², which requires that where we are providing services to you that involve us clearing derivatives through an EU central counterparty (CCP)³, 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 have provided the costs associated with the different levels of segregation separately. Details can be found at: [Pricing Guidelines for Listed Products and OTC Derivatives Clearing Services](#) 

Organisation of this document

This document is set out as follows:

- Part One A provides some background to clearing.
- Part One B gives information about the difference 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, and sets out links to further information provided by the CCPs.

Part One A, Part One B and Part Two should each be read in conjunction with Part One C.

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 account type you would like us to maintain with respect to each CCP on which we clear derivatives for you from time to time and whether you agree with the way in which we propose to deal with any excess margin we may hold in relation to an individual client account. We will explain how we would like you to make this confirmation. If you do not confirm within the requested timeframe, we will not be in compliance with our obligations under EMIR, which is not a position we can continue with indefinitely. In the meantime, we will continue to clear your derivatives, either using the existing account structure or an omnibus client account, as this is the most similar of the new account

types to the existing account structure.

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 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 various CCPs on which we clear derivatives for you. 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 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 the insolvency considerations have been prepared on the basis of Swiss 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 of the jurisdiction of incorporation of the CCP; and the law of the location of any assets.

When you contract with UBS AG through its London branch, English law may be relevant in addition to Swiss law. As a general rule, English courts will not put branches of foreign entities into English insolvency proceedings. This means that, despite us acting through an English branch, most of our insolvency-related questions will be determined by Swiss law. However:

- in relatively limited cases, English courts will take insolvency jurisdiction even in relation to English branches of foreign companies; and
- 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 Swiss law, English law and the law of the location of any collateral.

When you contract with UBS AG through its Australian branch, Australian law may be relevant in addition to Swiss law. As a general rule, despite us acting through an Australian Branch, most of our insolvency-related questions will be determined by Swiss law. However:

- in certain cases, ancillary or concurrent liquidation proceedings may be initiated in Australia; and
- the interaction of key default issues – eg. Porting, recovery of assets, close-out netting and other insolvency matters may be determined with reference to Swiss law, Australian law and the law of the location of any collateral.

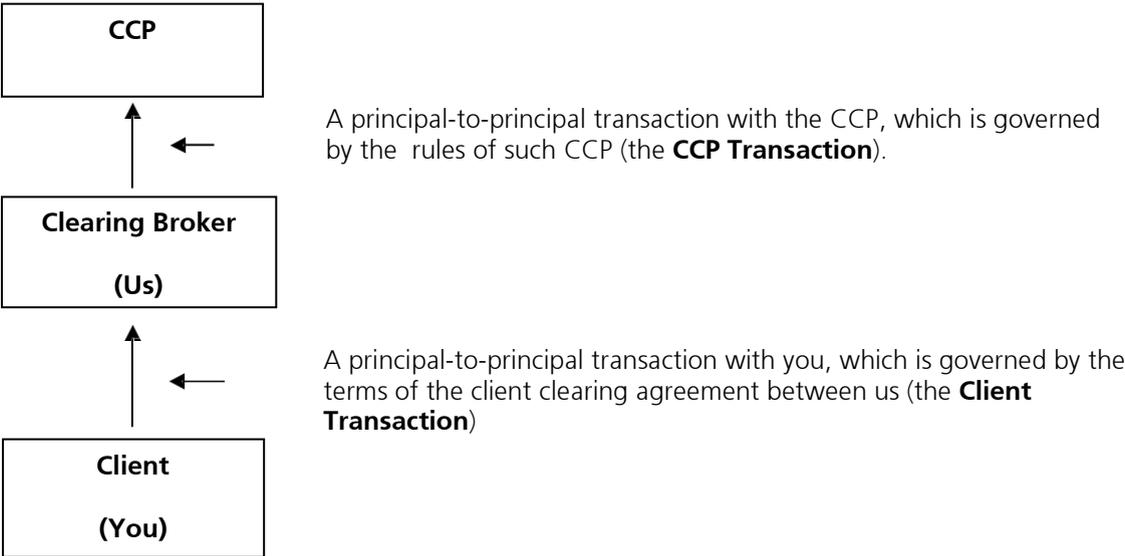
We suggest that you take legal advice on the interaction of these legal systems because it is beyond the scope of this disclosure.

Part One A: A brief background to 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.

The “principal-to-principal” clearing model

When clearing transactions for you through a CCP, we usually enter into two separate transactions:



The terms of each Client Transaction are equivalent to those of the related CCP Transaction, except that (i) each Client Transaction will be governed by a client clearing agreement between you and us and (ii) we will take the opposite position in the CCP Transaction to the position we have under the related Client Transaction.

Under the terms of the client clearing agreement between you and us, a Client Transaction will arise without the need for any further action by either you or us, as soon as the CCP Transaction arises between us and the CCP. Once both of those transactions have been entered into, your transaction is considered to be “cleared”.

As the principal to the CCP, we are required to provide assets to the CCP as margin for the CCP 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?*”. Transit risk may be mitigated if you contract with UBS AG through its London branch and we hold margin in the form of cash as client money (see “*What is the impact if you contract with UBS AG through its London branch and we treat cash you transfer to us as client money in accordance with the FCA client money rules?*” below).

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 client clearing agreement between you and us.

If we are not a member of such CCP ourselves, we may enter into a principal-to-principal transaction with another clearing broker, instead of a principal-to-principal transaction with such CCP. Such arrangements are outside the scope of this document.⁴

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

What if you want to transfer your Client Transactions to another clearing broker?

There may be circumstances where you wish to transfer some or all of your Client Transactions to another clearing broker on a business as usual basis (ie. 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 CCP Transactions to which they 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 client clearing agreement. You will also need to find a clearing broker that is willing to accept such Client Transactions and the related CCP Transactions and assets.

It may be easier to transfer Client Transactions and CCP 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 CCP Transactions and assets relating to you be automatically ported to a back-up clearing broker?*"

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 CCP Transactions and assets related to you:

- the CCP will, at your request, try to transfer (**port**) to another clearing broker (a **back-up clearing broker**), such CCP Transactions and assets; or, if this cannot be achieved, including in case of our insolvency,
- the CCP will terminate the CCP 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 CCP Transactions or a transfer of the open CCP Transactions and, in either case, the transfer of the related assets from us to the back-up clearing broker. Note that if the CCP rules provide for an automatic early termination of our CCP Transactions in the case of our insolvency, the process of a close-out (with us) and a re-establishment (with the back-up clearing broker) would need to be adopted.

In order to provide a legal basis for this structure some CCPs may require us to enter into arrangements under which we will grant you a security interest over some or all of our related rights against the CCP. Such arrangements may not be necessary in relation to every CCP which we clear transactions through on your behalf, or with other clearing brokers who you may use to access EU CCPs. This is because in some jurisdictions the CCP may be able to rely on local legislative provisions in order to carry out either the porting or return of assets directly to you without needing a security arrangement to be in place or may, upon reviewing the applicable jurisdictions in question, consider that such a security arrangement is not required. Whether or not a security arrangement is required will depend on the jurisdiction that the CCP is established in as well as the jurisdiction which would apply to our insolvency. The CCP disclosure documents may provide further information on what arrangements they require to be put in place. Please refer to the relevant CCP's websites for further information on CCP disclosure documents. Due to Swiss insolvency laws as described in more detail in Part One C, we may be required by CCPs to put such security arrangements in place.

In the event that insolvency measures are taken by the Swiss Financial Market Supervisory Authority (**FINMA**) in respect of us, the arrangement regarding the porting of positions and margin assets are enforceable under the rules of the Swiss Financial Market Infrastructure Act (**FMIA**) and the Financial Market Infrastructure Ordinance (**FMIO**), provided that the "porting processes" are validly agreed under the contractual arrangements between the clearing broker and the CCP (see under Part One C "*Porting – limitations*" below). If porting cannot be achieved, the CCP terminates and liquidates the CCP Transactions that relate to you and transfers the liquidation proceeds to us on your behalf. You will be entitled to such liquidation proceeds in our insolvency under the rules of the FMIA and the FMIO (see "*If porting does not occur, will your entitlements in positions and margin assets be segregated from our*

insolvency estate?").

Will the CCP Transactions and assets relating to you be automatically ported to a back-up clearing broker?

No, generally, there are a number of conditions which must be satisfied before the CCP 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 CCP 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 CCP 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.

Your Client Transactions with us will terminate in accordance with our client clearing agreement. We would expect your back-up clearing broker to put in place new client transactions between itself and you.

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

If you choose an Omnibus Client Account (described in more detail in Part One B), in most cases, all of our clients who have CCP 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 CCP 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 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 CCP Transactions 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 CCP Transactions. This period of time will vary across CCPs. If you want to port your CCP Transactions, 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 CCP Transactions (if such CCP Transactions have not already terminated due to automatic early termination) 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 CCP Transactions, to the extent that the CCP knows your identity and how much of that amount relates to you, the CCP may, to the extent legally permissible and subject, if required by the CCP, to security arrangements being in place, 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. Even if insolvency proceedings are initiated against us, note that you will be entitled to such liquidation proceeds paid to us under the rules of the FMIA and the FMIO (see "*If porting does not occur, will your entitlements in positions and margin assets be segregated from our insolvency estate?*").

It is more likely that a CCP will be able to pay any such amount directly to you if you select 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 this case.

However, Swiss insolvency law may not allow a direct payment by the CCP to you. Please see Part One C for the main insolvency considerations under Swiss law.

If the CCP terminates the CCP Transactions, then Client Transactions between us will terminate at the same time as (i) the matching CCP Transactions (if automatic early termination is applicable), (ii) the CCP formally declaring a clearing broker to be in default or (iii) a CCP default, unless the relevant CCP rules

provide otherwise. This may (in the case of (ii)) above result in the Client Transactions terminating before the CCP Transactions. The termination calculations in respect of those Client Transactions will be performed in accordance with the client clearing agreement between us and such calculations will likely mirror those performed by the CCP in respect of the CCP Transactions. If you are due a payment from us as a result of the close-out calculations in respect of our Client Transactions, 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.

If porting does not occur, will your entitlements in positions and margin assets be segregated from our insolvency estate?

In our insolvency, you are protected by the rights of Art. 90(2) FMIA, which are statutory rights of clearing brokers' clients in respect of their entitlements in assets (margin) and positions (transactions) held on their behalf by the clearing broker with the CCP. Under Art. 90(2) FMIA, the liquidator in insolvency proceedings of a clearing broker must set-aside any assets (margin) and positions (transactions) of the clearing brokers' clients from the insolvency estate of the clearing broker after:

- (i) completing any netting of claims, as agreed pursuant to the default management processes between the CCP and the clearing broker (Art. 90(1)(a) FMIA); and
- (ii) completing any private sale of margin assets in the form of securities or other financial instruments, provided that their value may be determined based on objective criteria (Art. 90(1)(b) FMIA).

Such rights of Art. 90(2) FMIA arise by operation of law and would be exercised automatically by the Swiss liquidator in an insolvency of the clearing broker.

Please see Part One C for a discussion of the further insolvency considerations.

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

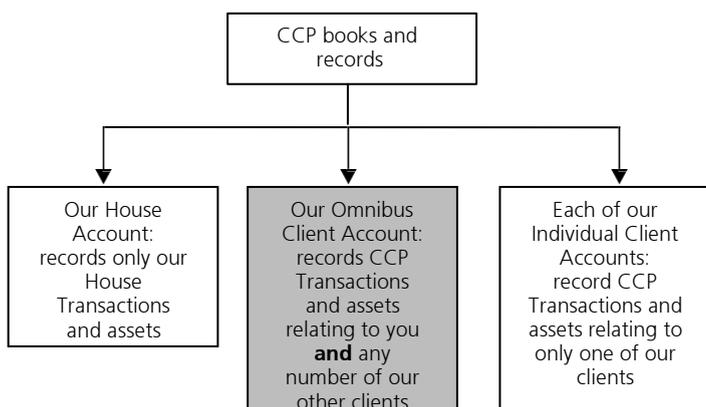
The types of account available

Reference to accounts means the accounts in the books and records of each CCP. The CCP uses these accounts to record the CCP Transactions that we enter into in connection with the clearing of your related Client Transactions and the assets that we provide to the CCP in respect of such CCP Transactions.⁵

There are two basic types of client account available – 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.

Omnibus Client Account⁶

Under this account type, the CCP Transactions and assets that relate to them in the CCP’s accounts are segregated from any CCP Transactions we have cleared for our own account (our **House Transactions**) and any assets we have provided as margin for those House Transactions at the CCP. However, the CCP Transactions and assets that relate to you will be commingled with the CCP Transactions and assets relating to any of our other clients that are recorded in the same Omnibus Client Account.



Can CCP Transactions and related assets be netted with our House Transactions and assets?	No
Can CCP Transactions and related assets be netted with those relating to our other clients?	Yes (provided the other clients’ CCP Transactions and assets are recorded in the same Omnibus Client Account)

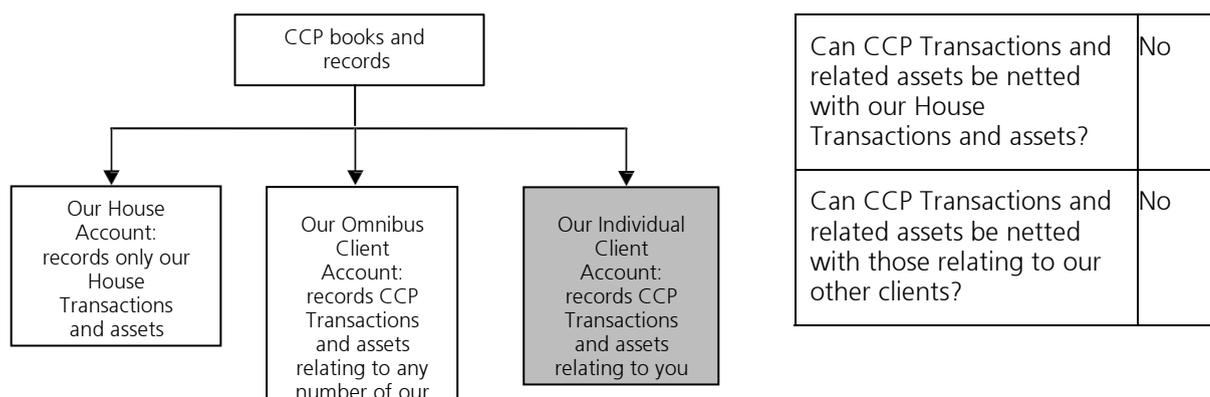
The CCP will agree not to net the CCP Transactions relating to you with our House Transactions or any CCP Transactions not recorded in the same Omnibus Client Account, nor use the assets relating to such CCP Transactions with respect to any House Transaction or CCP Transaction recorded in any other account.

However, both we and the CCP may net the CCP Transactions that are recorded in the same Omnibus Client Account. 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.

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 as well as Part One C regarding close-out netting.

Individual Client Account⁷

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



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

Further, and in contrast to an Omnibus Client Account, the CCP will agree not to net the CCP Transactions relating to you that are recorded to an Individual Client Account with those of any other client recorded to *any* other account, nor use the assets related to such CCP Transactions in relation to the CCP Transactions 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 Client Account and additional features of Individual Client Accounts that may be available at different CCPs as well as Part One C regarding close-out netting.

Affiliates

We treat our affiliates in the same way as clients when complying with EMIR. This means that affiliates also have a choice between types of account. An affiliate may be part of the same Omnibus Client Account as other clients.

Other factors that may impact on the level of protection you receive in respect of assets that you provide to us as margin for Client Transactions

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 Client Transactions:

- whether you choose an Omnibus Client Account or an Individual Client Account (as discussed under *"The types of account 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 or not cash that you transfer to us is treated as client money in accordance with the FCA client money rules;
- 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.

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), 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 CCP Transactions is called on the basis of the net CCP Transactions recorded in the Omnibus Client Account.
- Gross is where the margin called by the CCP Transactions is called on the basis of the gross CCP Transactions recorded in the Omnibus Client Account.

It may be easier to port CCP Transactions and their related assets, both in business as usual and default circumstances, if you choose 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 CCP 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 One C and Part Two for more details on this.

Will you provide cash or non-cash assets as margin for the Client Transactions?

As noted under "*The "principal-to-principal" clearing model*" in Part One A, as a clearing broker of the CCP, we are required to transfer assets to the CCP in respect of the CCP Transactions related to your Client Transactions. CCPs only accept certain types of liquid cash and non-cash assets as margin.

As is market practice, we will decide what types of assets to accept from you as margin for your Client Transactions. This will be set out in the client clearing agreement between us. What we will accept from you as margin for the Client Transactions will not necessarily be the same type of assets that the CCPs will accept from us for the CCP Transactions, in which case we may provide you with a collateral transformation service, under which we transform the assets you provide to those which we can pass onto the CCP.

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

As 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 client clearing agreement between us.

Title Transfer

Where the client clearing agreement 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 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 Client Transaction. 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.

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

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 and the CCP has a particular security arrangement in place such that it owes such amount or has to deliver such assets to you rather than us and such arrangement being enforceable under Swiss insolvency laws, 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 (see also above under Part One A "*What happens if porting is not achieved*").

However, in our insolvency, you are protected by the rights of Art. 90(2) FMIA, which are statutory rights of clearing brokers' clients in respect of their entitlements in assets (margin) and positions (transactions) held on their behalf by the CCP. Under Art. 90(2) FMIA, the liquidator in insolvency proceedings of a clearing broker must set-aside any assets (margin) and positions (transactions) of the clearing brokers' clients from the insolvency estate of the clearing broker after:

- (i) completing any netting of claims, as agreed pursuant to the default management processes between the CCP and the clearing broker (Art. 90(1)(a) FMIA); and
- (ii) completing any private sale of margin assets in the form of securities or other financial instruments, provided that their value may be determined based on objective criteria (Art. 90(1)(b) FMIA).

Security Interest

Without right of use: Where the client clearing agreement provides for the transfer of assets by way of a security interest without right of use by us (see below), when you transfer assets to us, you *retain* title to 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.

Only at the point of an enforcement of such security interest 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 Client Transaction.

With right of use: You may also give us a security interest with a right to use such assets prior to any such default (e.g. by posting the assets to a CCP) and limit our obligation to returning Equivalent Assets. The grant of such a security interest is likely from a Swiss law perspective to result in such assets ceasing to belong to you and in effect become our assets at the point at which they are transferred to us irrespective of whether we actually make such use and you will bear our credit risk as under the title transfer arrangements. 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 client clearing agreement between us.

What is the impact if you contract with UBS AG through its London branch and we treat cash you transfer to us as client money in accordance with the FCA client money rules?

This question is separate to the question of what level of segregation you want and results from the FCA's client money regime rather than EMIR. However, if we hold your cash as client money, your choice of account type could impact how any cash balance returned to us (or our insolvency practitioner) on our default is treated. Whether or not we will treat cash collateral that we receive from you or on your behalf as client money will be set out in the client clearing agreement related to the applicable Client Transaction. We may not treat cash as client money where we are a bank or you provide cash to us on a title transfer basis (see under "*Do you provide assets to us on a title transfer or a security interest basis?*" above).

If we do treat cash transferred to us as client money, then we will follow the FCA client money rules in respect of such cash. In this case, unless we are declared to be in default by a CCP, the FCA client money rules apply in the same way to cash you provide to us as margin for Client Transactions as they apply to cash we treat as client money in relation to other types of business. We will be permitted to transfer client money held as margin to a CCP.

However, if we are declared to be in default by a CCP and the CCP cannot port or return the balance to you directly and the balance has instead to be returned to us (or our insolvency practitioner) for the account of our clients (see "*What happens if porting is not achieved*" in Part One A above), there are some important differences in how the FCA client money rules would apply.

- If you select an Individual Client Account, then to the extent that any cash is paid to us by the CCP for your account, it will not form part of the client money pool and will instead be distributed to you.

The client money pool is the mechanism through which our insolvency practitioner would normally gather together the client money relating to most of our clients for which we hold client

money, wherever it is held, and from which it would distribute that client money in accordance with the FCA client money rules.

- If you select an Omnibus Client Account, any cash paid to us by the CCP for the account of our clients is likely to form part of the client money pool and be subject to the normal client money rules on distribution⁸. However, there may be some exceptions to this, including where (a) we do not hold any excess margin (see under *"How will any excess margin we call from you be treated?"* below) in relation to the Omnibus Client Account and (b) the CCP can tell us how the money paid to us should be allocated between the clients in the Omnibus Client Account.

How will any excess margin we call from you be treated?⁹

We are required to treat excess margin in a particular way in relation to an Individual Client Account. Excess margin is any amount of assets we require from you or you provide to us in respect of a Client Transaction that is over and above the amount of assets the CCP requires from us in respect of the related CCP Transaction.

If you choose an Individual Client Account we are required to pass all excess margin on to a CCP. If you provide us with assets which are not related to your individually segregated clearing activities at a particular CCP and such assets are not dedicated to cover your current positions with that CCP, then we do not need to post such assets on to that CCP. Also, if the excess margin you provide to us is not in the form of assets which are eligible to be posted to the CCP (in accordance with the CCP's rules), unless we agree otherwise, we have no obligation to transform such assets into assets that would be eligible to be posted to the CCP. The details of this will be set out in the client clearing agreement between you and us.

If you provide us with collateral in the form of a bank guarantee in our favour, we are not required to post on to the CCP an amount of assets equal to the value of the portion of the bank guarantee which exceeds the amount of margin we have called from you in respect of the relevant Client Transaction(s).

If you choose an Omnibus Client Account, we are not required to pass any excess margin on to the CCP. Depending on the terms on which we hold excess margin, you may take credit risk on us in respect of it.

Will you get back the same type of asset as you originally provided to us as margin for a Client Transaction?

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 client clearing agreement between 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 for the Client Transaction and as a result of any asset transformation services we may provide. This risk is present regardless of what type of client account you select.

Please see Part One C for the main insolvency considerations under Swiss law.

Part One C: What are the main insolvency considerations?

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); however, you will benefit from the protections of Art. 90 FMIA (as set out below under Part One A "If porting does not occur, will your entitlements in positions and margin assets be segregated from our insolvency estate?");
- before FINMA initiates insolvency proceedings, FINMA would most likely order a combination of bank reorganization proceedings under Art. 28 to 32 of the Swiss Federal Banking Act (the **Banking Act**) with protective measures under Art. 26 of the Banking Act; as part of such proceedings, FINMA may order a stay of termination rights and certain other rights, including rights to "port" positions and margin assets, for a period of up to two business days according to Art. 30a of the Banking Act, to the extent that such termination and other rights would be triggered by the reorganisation proceedings or protective measures;
- in the event that a reorganisation fails, bank insolvency proceedings would be initiated by FINMA under Art. 33 et seq. of the Banking Act. In such proceedings, you will no longer be permitted to dispose of your positions and assets held with us; and
- any stage of a cleared transaction (e.g. Client Transactions, CCP Transactions and porting) may be challenged in a claw-back action before the competent Swiss court if, broadly speaking, it was not on arm's length terms and therefore classified as an impairment of creditors. 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
- to the extent we act through a foreign branch you should also read our disclosure in respect of the foreign legal system of the foreign branch involved (see notes under "Important"). The respective foreign courts may take insolvency jurisdiction in respect of the assets and liabilities of the foreign branch.

Insolvency of CCPs 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 law of the country in which the CCP is incorporated (i.e. not necessarily Swiss 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 CCP 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 only 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 client clearing agreement, Client Transactions will terminate at the same time as (i) the matching CCP Transactions (if automatic early termination is applicable), (ii) the CCP formally declaring a clearing broker to be in default or (iii) a CCP default unless the relevant CCP rules provide otherwise. This may (in the case of (ii) above) result in Client Transactions terminating before CCP Transactions. 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 in relation to Client Transactions if we receive equivalent amounts from the CCP in relation to relevant CCP 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.

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 – particular security arrangements -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

If you provide assets to us by way of a security interest without 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.

If you have retained the assets (e.g. in a custody account over which you have given us a security interest without right of use) then you will have the best chance of recovering them. If you have transferred title to the assets or granted us a security interest with right of use (and irrespective of whether we actually make such use) or transferred cash to us, then you bear our full credit risk. However, as regards cash on a cash account in our insolvency, you are only protected to the extent that you may benefit from the Swiss deposit protection scheme (which provides coverage up to an amount of CHF 100,000) or, if we are acting through a foreign branch, the relevant foreign deposit protection scheme, such as the Financial Services Compensation Scheme if applicable to you when you contract with our

London branch.

Generally speaking, your risk of loss will be highest in relation to cash margin not subject to client money protection rules (which is only offered where you contract directly with UBS AG London branch); 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.

Close-out netting

If we default and the CCP has not been able to port the CCP Transactions and collateral, we would expect the CCP to terminate (if such CCP Transactions have not already terminated due to automatic early termination) and net our CCP Transactions and apply related assets. If porting of CCP Transactions and collateral has been successful, or you have received (or you are deemed to have received) any amounts directly from the CCP, any net payment due from us to you will be reduced by such amount.

You and we want netting by the CCP to work differently from normal bilateral close-out netting. Instead of all positions and assets between us and the CCP – e.g. assets on an Individual Client Account relating to you being netted with our house or another client account at the CCP, you and we want the CCP to calculate separate net amounts for CCP Transactions that are risk-managed together.

We would expect the CCP to calculate a close-out amount for each group of CCP Transactions that are risk-managed together but there is a risk that this netting across groups of risk-managed CCP Transactions could happen automatically as a result of Swiss insolvency law.

A similar risk occurs between us and you in relation to Client Transactions. It is most likely to materialise in a post-default/pre-porting period during which Swiss law may automatically set off Client Transactions and collateral relating to one CCP with Client Transactions and collateral relating to another. This risk arises regardless of what you and we may provide for in our clearing documentation. Whilst the resulting termination amount should represent our net exposure to each other, it will make porting difficult.

There are certain industry-wide legal opinions that are being 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 close out Client Transactions is more limited under the client clearing agreement than in other arrangements that you may be used to. In particular, the main termination events under our client clearing agreement in respect of Client Transactions at a particular CCP are that the relevant CCP has declared us to be in default under the CCP's rules, there has been an automatic early termination of the CCP Transactions or there has been a CCP default. The intention is to match the treatment of CCP Transactions and Client Transactions as much as possible. However, this may mean that – unless the CCP declares a default or an event giving rise to an automatic early termination based on a deemed default has occurred - you cannot terminate Client Transactions for common reasons such as a payment or insolvency default on our part.

Porting – limitations

As mentioned above, except in specific (e.g. physically segregated) structures, a CCP only owes us (not you) obligations in relation to CCP 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 Client Transactions with your back-up clearing broker.

As regards a default of us, assuming that the "porting processes" are validly agreed under the contractual arrangements between the clearing broker and the CCP, the transfer of assets (margin) and positions (transactions) under such processes would be upheld under Swiss laws upon the occurrence of a default of the clearing broker in respect of positions and, as regards margin assets, provided that any assets to be transferred are either securities or other financial instruments with a value that may be determined on the basis of objective criteria (e.g. a market price). The relevant statutory provisions are Art. 27(1)(c) of the Banking Act and Art. 90(1)(c) FMIA. This recognition applies irrespective of whether the porting implies a close-out netting of outstanding positions and a re-establishment of new positions or whether it results in a transfer of outstanding positions without a close-out netting (Art. 74(2) FMIO).

However, note that the enforceability of the porting processes is subject to the power of FINMA to order under Art. 30a Banking Act, in connection with protective measures under Art. 26 of the Banking Act or reorganisation proceedings under Art. 28 to 32 of the Banking Act, a temporary stay of the "porting" of assets or positions for up to two business days.

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 arrangement. 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 Omnibus Client account in your favour or in favour of another person (e.g. an independent trustee) to hold the security on your behalf. Where the security arrangement results in an assignment or transfer of these assets to you prior to our insolvency, such assets would not be part of our insolvency estate (i.e. are not to be shared with our other creditors, unless successfully challenged) and it is likely that these assets can be ported to a new clearing broker in the process of realising such security interest and only an excess would fall into our insolvency estate. It could be that our net assets in relation to CCP Transactions do not match our net obligations to each other in relation to the matching Client Transactions. 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.

Mismatch of CCP/Client Transactions and assets

It could be that our net assets in relation to CCP Transactions do not match our net obligations to each other in relation to the matching Client Transactions. 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 Client Transactions.

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

Swiss Banking Act

The Swiss Banking Act applies because we are a Swiss bank that falls within its scope. For instance, in reorganisation proceedings under Article 28 to 32 of the Banking Act, any of our assets and liabilities may be transferred to a third party by order of FINMA or some of our liabilities may be bailed in. 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 if the reorganisation is successful.

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, 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 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 account structures it offers and we have provided a link to the relevant part of the website of each CCP we use. 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 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 in respect of Client Transactions.
Fellow Client Risk	Whether assets provided to the CCP in respect of CCP Transactions related to you could be used to cover losses in CCP Transactions relating to another client.
Liquidation Risk	Whether, if the CCP 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.
Haircut Risk	Whether the value of the assets that relate to CCP 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.

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

Typical client account characteristics

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

	Net Omnibus Client Account	Gross Omnibus Client Account	Individual Client Account
Will the CCP Transactions recorded in the account be netted?	It is likely that the CCP Transactions recorded in the account will be netted. This means that CCP Transactions that relate to you may be netted with CCP Transactions that relate to our other clients whose CCP Transactions are recorded in the same Net Omnibus Client account.	No	CCP Transactions are likely to be netted, but should not be netted against the CCP Transactions relating to any of our other clients.
Will the margin be calculated on a gross or net basis?	The margin will be calculated on a net basis.	The margin will be calculated on a gross basis.	The margin requirement for an Individual Client Account will typically be calculated on a net basis.
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.
Transit Risk	Yes	Yes	Yes
Fellow Client Risk	Yes	Yes	No

	Net Omnibus Client Account	Gross Omnibus Client Account	Individual Client Account
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 broker's conditions, porting is more readily facilitated in the event of our default, provided that in case of our insolvency this is likely to be dependent on you having been granted a security interest or assignment of our rights against the CCP that is legally enforceable under Swiss insolvency laws. For further risks (e.g. automatic close out; netting) that may make porting difficult or impossible to achieve see Part One C above.

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?
<p>Extended porting period</p>	<p>In the event of our default, this feature has been designed to allow more time for porting to be achieved.</p> <p>For a set period of time (decided by the CCP) following our default, the CCP 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 CCP 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.</p> <p>Where the CCP treats the Client as an interim Clearing Broker, 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 CCP Transactions transferred to you.</p> <p>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.</p>	<p>This may make porting more likely to be achieved, provided that in case of our insolvency this is likely to be dependent on you having been granted a security interest or assignment of our rights against the CCP; legally enforceable under Swiss insolvency laws. For further risks (e.g. automatic close out; netting) that may make porting difficult or impossible to achieve see Part One C above.</p>
<p>Separate custody account (in the name of the CCP) for the assets that have been provided as margin for</p>	<p>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.</p> <p>It is likely that you will have to enter into additional legal documentation with us and the</p>	<p>This may make porting more likely to be achieved provided that in case of our insolvency this is likely to be dependent on you</p>

<p>positions relating to you</p>	<p>CCP.</p>	<p>having been granted a security interest or assignment of our rights against the CCP; legally enforceable under Swiss insolvency laws. For further risks (e.g. automatic close out; netting) that may make porting difficult or impossible to achieve see Part One C above.</p>
<p>Ability for you to keep assets required as margin for positions relating to you in a custody account in your name.</p>	<p>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.</p> <p>This additional feature may be restricted to certain types of non-cash assets.</p> <p>The custodian may be specified by or require the approval of the CCP.</p> <p>There will be additional operational requirements that you will need to meet in order to use this type of additional feature.</p>	<p>Transit Risk</p> <p>CCP Insolvency Risk</p> <p>This may make porting more likely to be achieved.</p>
<p>Ability for you to post margin directly to the CCP.</p>	<p>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.</p> <p>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.</p> <p>You will have to enter into additional legal documentation with us and the CCP.</p> <p>There will be additional operational requirements which you will need to meet in order to use this type of additional feature.</p>	<p>Transit Risk</p>

¹ This disclosure document applies where you act as principal for your own account as a direct client. Please refer to our "Direct Client Disclosure Document – Indirect Clearing" which applies where you act as principal for your own account as an indirect client available which is hyperlinked [here](#).

² Regulation (EU) No 648/2012 on OTC derivatives, central counterparties and trade repositories.

³ The ESMA Questions and Answers on EMIR dated November 2013 confirm that EU clearing members of non-EU CCPs are not required to comply with Article 39 when offering client clearing on non-EU CCPs.

⁴ The document assumes UBS AG is a clearing member of each CCP through which it clears Client Transactions. It has not been drafted with indirect client clearing arrangements in mind, either where UBS AG is the clearing member or the client of another clearing member.

⁵ This meaning is derived from Article 39(9) EMIR.

⁶ This description is based on Articles 39(2) and 39(9) EMIR.

⁷ This description is based on Articles 39(3) and 39(9) EMIR.

⁸ This paragraph uses the term "is likely to" because client money might not form part of the client money pool where the circumstances set out in CASS 7A.2.4(3)(c) exist.

⁹ This section refers to excess margin as described in Article 39(6) and the ESMA Questions and Answers on EMIR dated February 2014.