

UBS Switzerland AG Indirect Clearing Risk Disclosure Document

Introduction

Throughout this document references to "we", "our" and "us" are references to UBS Switzerland AG as provider of indirect clearing services (the **Direct Client**). References to "you" and "your" are references to you as our client (the **Indirect Client**).

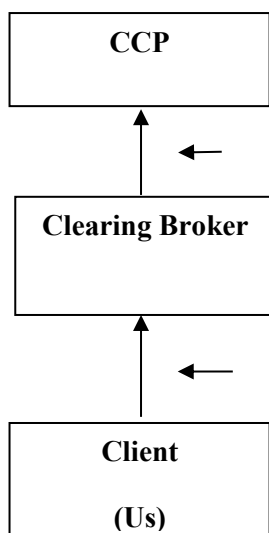
We are providing indirect clearing services to you by clearing derivatives through UBS AG London Branch as our clearing broker with an EU central counterparty (**CCP**). As from 3 January 2018, Commission Delegated Regulation (EU) No 2017/2154 supplementing Regulation (EU) No 600/2014 with regard to regulatory technical standards on indirect clearing arrangements (the **Indirect Clearing Rules**) requires that we offer you a choice of a basic omnibus indirect client account (also known as a net omnibus indirect client account) (a **Basic Omnibus Indirect Client Account**) and a gross omnibus indirect client account (a **Gross Omnibus Indirect Client Account**)(as discussed under "*The types of accounts available*" in Part B below).

Whilst this document will be helpful to you when making the decision between Basic Omnibus Indirect Client Accounts and Gross Omnibus Indirect Client Accounts, this document does not constitute legal or any other form of advice and must not be relied on as such. 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 account offerings and those of the clearing broker and CCPs through 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 for any losses or damages that may be suffered as a result of using this document. Note that issues under laws other than Swiss laws may be relevant to your due diligence. For example, the law governing the CCP rules or related agreements; the law governing the client clearing arrangement between the clearing broker and us; the law of the jurisdiction of the CCP, the law of the jurisdiction of incorporation of the clearing broker; and the law of the location of any assets.

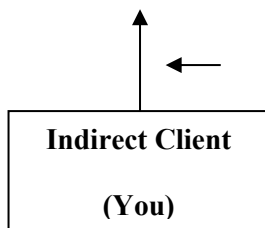
Part A: Indirect clearing on a "principal-to-principal" basis

When clearing transactions for you through UBS AG London Branch as our clearing broker, we enter into two separate transactions. Additionally, our clearing broker will enter into a third transaction directly with the CCP.



Our clearing broker will enter into a principal-to-principal transaction with the CCP, which is governed by the rules of such CCP (the **CCP Transaction**).

We will enter into a principal-to-principal transaction with our clearing broker, which is governed by the terms of the client clearing agreement between the clearing broker and us (the **Client Transaction**).



Additionally, we will enter into a principal-to-principal transaction with you, which is governed by the terms of the indirect client clearing agreement between you and us (the **Indirect Client Transaction**).

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 our clearing broker and us and (ii) our clearing broker will take the opposite position in the CCP Transaction to the position it has under the related Client Transaction. Similarly, the terms of each Indirect Client Transaction are equivalent to those of the related Client Transaction, except that (i) each Indirect Client Transaction will be governed by an indirect client clearing agreement between you and us, and (ii) we will take the opposite position in the Indirect Client Transaction to the position we have under the related Client Transaction.

Under the terms of the client clearing agreement between our clearing broker and us, a Client Transaction will arise without the need for any further action by either our clearing broker or us, as soon as the CCP Transaction arises between our clearing broker and the CCP. Similarly, under the terms of the indirect client clearing agreement between you and us, an Indirect Client Transaction will arise without the need for any further action by either you or us, as soon as the Client Transaction arises between our clearing broker and us. Once all three of those transactions referred to above have been entered into, your transaction is considered to be "cleared".

As the principal to the CCP, our clearing broker is 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 provide such margin assets (the "Margin Assets") to the clearing broker under a "title transfer" security arrangement to allow the clearing broker to meet its obligations towards the CCP in respect of the CCP Transaction.

However, we will not ask you to provide the Margin Assets to us under a title transfer collateral arrangement to allow us to pass on the Margin Assets to the clearing broker. Instead, you have entered into a standard form General Deed of Pledge (the "GDP") with us. Under such GDP, you provide a pledge to us to secure any claim we have against you (including those arising from the Indirect Client Transactions) over all the assets held by you in your custody and cash accounts with us, as specified in the GDP (the assets pledged to us as security for our claims against you under the Indirect Clearing Transactions the "Client Assets"). We will ask you to keep a sufficient amount of Client Assets in your custody and cash accounts with us to ensure that our claims against you under the Indirect Clearing Transactions are fully covered and, to that effect, we may issue margin calls to you as further agreed in the GDP and the documentation governing the Indirect Client Transactions. We do not use the Client Assets as collateral to meet the relevant margin requirements applicable to the Client Transactions, but use other assets on our books for these purposes as Margin Assets.

In such structure, the Margin Assets recorded on your account at the CCP will only be available to be "ported" if certain conditions are met (see *"What happens if we are declared to be in default by a clearing broker?"* and *"Will the Client Transactions and assets relating to you be automatically ported to a back-up entity?"* below). If these conditions are not met, you will not be in a position to exercise "porting rights" in respect of the Margin Assets. However, in the absence of the application of such protections, you may in any event claim the segregation of your Client Assets from the insolvency estate in our insolvency, to the extent not used to cover any of our claims secured under the GDP (see *"If porting does not occur, will your entitlements in positions and margin assets be segregated from our insolvency estate?"* below).

What if you want to transfer your Indirect Client Transactions to another Direct Client?

There may be circumstances where you wish to transfer some or all of your Indirect Client Transactions to another Direct Client or another clearing broker on a business as usual basis (i.e. in the absence of us having been declared in default by a clearing broker). We are not obliged to facilitate this under the Indirect Clearing Rules but we may be willing to do so subject to (1) our ability to transfer the Client Transactions to which your Indirect Client Transactions relate to another direct client designated by you and willing to accept such Indirect Client Transactions and/or the related Client Transactions and (2) our ability to transfer Margin Assets related to your Indirect Client Transactions by, on the basis of your instructions, transferring the Margin Assets or entitlements regarding the return of the Margin Assets to another clearing broker in return for you transferring title to the Client Assets to us as consideration for such transfer. This is the result of the structure of how we hold margin assets on your behalf through the clearing chain (see "*Indirect clearing on a principal-to-principal basis*" above).

Therefore, you will need to find another direct client or clearing broker that is willing to accept the Indirect Client Transactions and/or the related Client Transactions.

It may be easier to transfer Indirect Client Transactions and Client Transactions that are recorded in a Gross Omnibus Indirect Client Account than those recorded in a Basic Omnibus Indirect Client Account, (both types of account being described in more detail in Part B) for the same reasons as set out below under "*Will the Client Transactions and assets relating to you be automatically ported to a back-up clearing broker or back-up Direct Client?*".

What happens if we are declared to be in default by a clearing broker?

If we are declared to be in default by a clearing broker, there are two possibilities with respect to the Client Transactions and assets related to you (see Articles 4 (5) to (7) of the Indirect Clearing Rules):

- (i) with respect to Gross Omnibus Indirect Client Accounts, the clearing broker will, at your request, try to transfer (**port**) to another clearing broker (a **back-up clearing broker**) or another Direct Client (a **back-up Direct Client** and together with the back-up clearing broker a **back-up entity**), such Client Transactions and assets; or
- (ii) if porting cannot be achieved with respect to Gross Omnibus Indirect Client Accounts and in any default with respect to Basic Omnibus Indirect Client Accounts, the clearing broker will terminate and liquidate the Client Transactions and CCP Transactions (including positions and assets) that relate to you and, to the extent that the clearing broker cannot validly transfer the liquidation proceeds directly to you, transfer the liquidation proceeds to us on your behalf (see "*What happens if porting is not achieved*" below).

The porting process will involve a close-out (with us) and a re-establishment (with the back-up entity) of the Client Transactions, or a transfer of the open Client Transactions and related assets from us to the back-up entity (and, as the case may be, a transfer of the open CCP Transactions from the clearing broker to another clearing broker).

As a result of the structure how we hold margin assets on your behalf through the clearing chain (see "*Indirect clearing on a principal-to-principal basis*" above), the porting of margin assets will be implemented by us transferring the Margin Assets or entitlements regarding the return of the Margin Assets to another clearing broker in return for you transferring title to the Client Assets to us as consideration for such transfer(see "*Will the Client Transactions and assets relating to you be automatically ported to a back-up entity?*" below).

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 Direct Client, the clearing broker and the CCP (see under Part C "*Porting – limitations*" below and, if porting cannot be achieved, see "*If porting does not occur, will your entitlements in positions and margin assets be segregated from our insolvency estate?*" below).

Will the Client Transactions and assets relating to you be automatically ported to a back-up entity?

No.

Choice of Basic Omnibus Indirect Client Account:

If you choose a Basic Omnibus Indirect Client Account (described in more detail in Part B), porting will not be available.

Choice of Gross Omnibus Indirect Client Account:

If you choose a Gross Omnibus Indirect Client Account, there will be a number of conditions which must be satisfied before the Client Transactions and assets that relate to you can be ported to a back-up entity. These conditions will be set by the clearing broker and will include obtaining your consent. In all cases you will need to have a back-up entity that has agreed to accept the Client Transactions. You may wish to appoint a back-up entity upfront as part of your clearing arrangements but the back-up entity is unlikely to be able to confirm that it is willing to accept the Client Transactions until the default occurs. The back-up entity may also have conditions that they require you to meet. You may also be able to agree with the clearing broker that it may choose a back-up entity on your behalf. If you have not appointed a back-up entity prior to our default, or agreed with the clearing broker that it may appoint one on your behalf, then this may mean that porting is less likely to occur.

The porting of margin assets will be implemented: by us transferring the Margin Assets or entitlements regarding the return of the Margin Assets to another clearing broker in return for you transferring title to the Client Assets to us as consideration for such transfer

This solution requires that you waive any rights or interest in the Client Assets and you transfer them to us. The advantage of this solution would be that the porting is more likely to succeed, because the assets to be ported would be the same as already accepted as margin by the clearing broker and the CCP. This solution is only possible under the assumption that the Client Assets either exceed the value of the Margin Assets (which should be the case if you have complied with our requests to provide margin on a timely basis) or, if that is not the case, you have covered any shortfall by which the value of the Margin Assets exceeds the value of the Client Assets.

If porting is achieved, your Indirect Client Transactions with us will terminate in accordance with our indirect client clearing agreement. We would expect your back-up entity to put in place new indirect client transactions/client transactions between itself and you. However, note that the method how the porting is implemented depends (i) on the documentation entered into between you and us and (ii) on the documentation you enter into with your back-up entity.

Therefore, the type of account and level of segregation you choose will have an impact on the ability to port Client Transactions and assets to a back-up entity upon our default.

What happens if porting is not achieved?

Each clearing broker 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 Client Transactions. This period of time will vary across clearing brokers. If you want to port your Client Transactions (where possible), you will need to notify the clearing broker and show that you can satisfy the other conditions, including the implementation of a solution for the porting of the margin assets, within this period (see *Will the Client Transactions and assets relating to you be automatically ported to a back-up entity?*" above).

Otherwise, the clearing broker will terminate the Client Transactions and perform a close-out calculation in respect of them in accordance with the client clearing agreement. If there is an amount owed by the clearing broker in respect of the Client Transactions, the clearing broker must pay it to us (or our insolvency liquidator).

If the clearing broker terminates the Client Transactions, then the Indirect Client Transactions between you and us are also likely to terminate. The termination calculations in respect of those Indirect Client Transactions will be performed in accordance with the indirect client clearing agreement between you and us and such calculations will likely mirror those performed by the clearing broker in respect of the Client Transactions. If you are due a payment from us as a result of the termination of the Indirect Client Transactions, the amount due from us to you will be owed in addition to any claims you have in respect of the return of the Client Assets held by us. If we have a claim against you resulting from the termination of the Indirect Client Transactions, we may liquidate or foreclose into the Client Assets to satisfy such claim. Where the proceeds resulting from the liquidation of the Client Assets exceed our claims against you resulting from the Indirect Client Transactions, you may claim from us the excess by which the liquidation proceeds exceed our claim (see *"If porting does not occur, will your entitlements in positions and margin assets be segregated from our insolvency estate?"* below).

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. 91(2) FMIA, which are statutory rights of Indirect Clients in respect of their entitlements in assets (margin) and positions (transactions) held on their behalf by the Direct Client with the clearing broker. Under Art. 91(2) FMIA, the liquidator in insolvency proceedings of a Direct Client must set-aside any assets (margin) and positions (transactions) of Indirect Clients from the insolvency estate of the Direct Client after:

- (i) completing any netting of claims, as agreed pursuant to the default management processes between the Direct Client 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. 91(2) FMIA arise by operation of law and would be exercised automatically by the Swiss liquidator in an insolvency of the Direct Client.

However, as a result of the structure of how we hold margin assets on your behalf through the clearing chain (see *"Indirect clearing on a "principal-to-principal" basis"* above), as regards margin assets, you will not have any claims in respect of Margin Assets and you only have an entitlement to the return of any Client Assets in excess of any claims we may have against you, i.e. after we complete any private sale of Client Assets pledged to us under the GDP (see *"What happens if porting is not achieved?"* above).

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

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

The types of accounts available

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

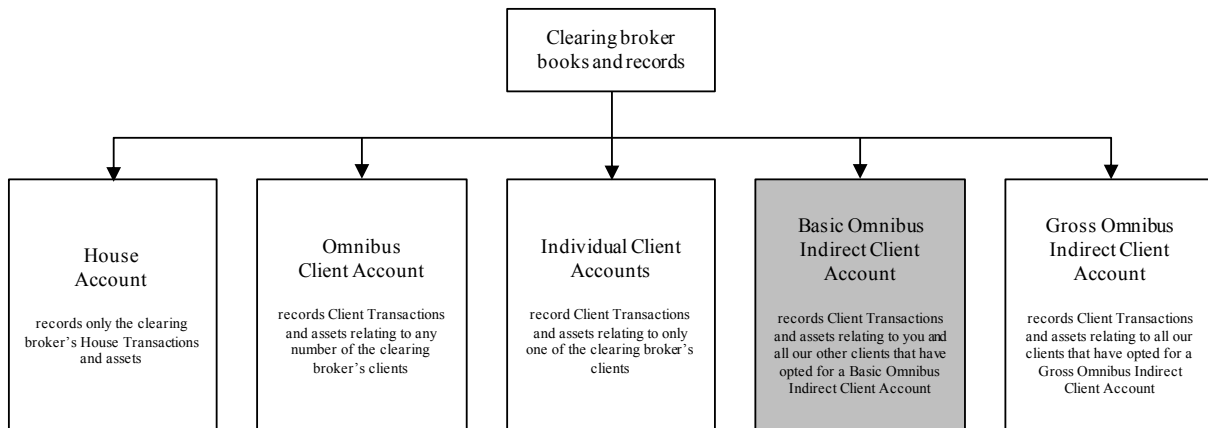
There are two basic types of indirect client accounts available – Basic Omnibus Indirect Client Accounts and Gross Omnibus Indirect Client Accounts.

Basic Omnibus Indirect Client Account

Under this account type (reference is made to Article 4(2)(a) of the Indirect Clearing Rules), at the level of the clearing broker, the Client Transactions (including the corresponding assets in the clearing broker's accounts) relating to you are segregated from:

- (i) any transactions the clearing broker has cleared for its own account (the clearing broker's **House Transactions**) and any of their assets;
- (ii) any Client Transactions (including corresponding assets in the clearing broker's accounts) relating to us or the account of one of the clearing broker's other Direct Clients (regardless of whether they/we have opted for an individual client account or omnibus client account);
- (iii) any Client Transactions (including corresponding assets in the clearing broker's accounts) relating to any clients of the clearing broker's other clients that have also opted for a Basic Omnibus Indirect Client Account and which are recorded in a different Basic Omnibus Indirect Client Account; and
- (iv) any Client Transactions (including corresponding assets in the clearing broker's accounts) relating to any of our clients or any clients of the clearing broker's other clients that have opted for a Gross Omnibus Indirect Client Account.

However, the Client Transactions (including corresponding assets in the clearing broker's accounts) that relate to you will be commingled with the Client Transactions (including corresponding assets in the clearing broker's accounts) relating to any of our other clients that have also opted for a Basic Omnibus Indirect Client Account and which are recorded in the same Basic Omnibus Indirect Client Account.



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

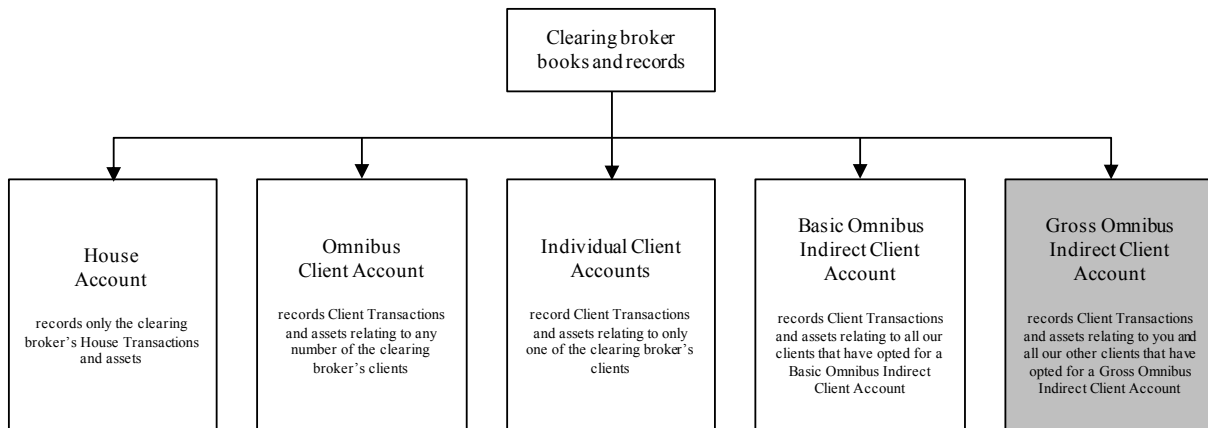
However, both we and the clearing broker may net the Client Transactions that are recorded in the same Basic Omnibus Indirect Client Account. The assets provided in relation to the Client Transaction credited to that Basic Omnibus Indirect Client Account can be used in relation to any Client Transaction credited to that Basic Omnibus Indirect Client Account.

Gross Omnibus Indirect Client Account

Under this account type (reference is made to Article 4(2)(b) of the Indirect Clearing Rules), at the level of the clearing broker, the Client Transactions (including the corresponding assets in the clearing broker's accounts) relating to you are segregated from:

- (i) any House Transactions and any of their assets;
- (ii) any Client Transactions (including corresponding assets in the clearing broker's accounts) relating to us or the account of one of the clearing broker's other Direct Clients (regardless of whether they/we have opted for an individual client account or omnibus client account);
- (iii) any Client Transactions (including corresponding assets in the clearing broker's accounts) relating to any of our clients or clients of the clearing broker's other clients that have opted for a Basic Omnibus Indirect Client Account; and
- (iv) any Client Transactions (including corresponding assets in the clearing broker's accounts) relating to any clients of the clearing broker's other clients that have also opted for a Gross Omnibus Indirect Client Account and which are recorded in a different Gross Omnibus Indirect Client Account.

However, the Client Transactions (including corresponding assets in the clearing broker's accounts) that relate to you will be commingled with the Client Transactions (including corresponding assets in the clearing broker's accounts) relating to any of our other clients that have also opted for a Gross Omnibus Indirect Client Account and which are recorded in the same Gross Omnibus Indirect Client Account.



The clearing broker will agree not to net Client Transactions relating to you with its House Transactions, the Client Transactions relating to us or the clearing broker's other Direct Clients, the Client Transactions of the clearing broker's other Direct Clients' clients or any Client Transactions relating to our other clients (regardless of whether they are recorded in the same Gross Omnibus Indirect Client Account).

The clearing broker will also agree not to use the assets relating to Client Transactions relating to you with respect to any House Transaction or Client Transaction recorded in any other account. However, both we and the clearing broker may use the assets provided in relation to the Client Transactions relating to you in relation to any Client Transaction relating to our other clients that have also opted for a Gross Omnibus Indirect Client Account which are credited to the same Gross Omnibus Indirect Client Account.

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

- (i) whether you choose a Basic Omnibus Indirect Client Account or a Gross Omnibus Indirect Client Account (as discussed under "The types of accounts available" above);
- (ii) whether we call any excess margin from you or you pay excess margin to us;
- (iii) whether you will get back the same type of asset as you provided as margin; and
- (iv) the bankruptcy and other laws that govern the clearing broker, us and the CCP.

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

Type of assets provided as margin for the Client Transactions

As is market practice, we will decide what types of assets to accept from you as margin for your Indirect Client Transactions. This will be set out in the indirect client clearing agreement between you and us. What we will accept from you as margin for the Indirect Client Transactions (the Client Assets) may not be the same type of assets that we provide to the clearing brokers as margin (the Margin Assets).

Impact of providing margin to us on a security interest basis

As a result of the structure of how we hold margin assets on your behalf through the clearing chain (see "*Indirect clearing on a "principal-to-principal" basis*" above), you *retain* full legal and beneficial ownership of the Client Assets. Such assets are transferred to a cash or custody account with us on the basis that the assets still belong to you, but you have granted us a pledge as a security interest with respect to such assets.

We may enforce that pledge if you default in your obligations to us. Absent the exercise of any right of use by us, only at the point of such enforcement would we be entitled, to the extent agreed in the GDP as the relevant pledge agreement between you and us, to exercise a right of private sale by transferring title in such assets or their liquidation value to us or a third party in exchange for their market value, which may be set-off against the debt owed to us. We will record in our books and records that we have received such assets from you with respect to the applicable Indirect Client Transaction. To the extent that the market value of the pledged assets exceeds the debt owed to us, we must return, after completion of such enforcement, the excess to you.

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

Excess margin is any amount of assets we require from you or you provide to us in respect of an Indirect Client Transaction that is over and above the amount of assets the clearing broker requires from us in respect of the related Client Transaction.

Under the Indirect Clearing Rules, excess margin should be treated in accordance with the terms of the indirect client clearing agreement between you and us. As regards the Client Assets provided as excess margin, you will retain title to such Client Assets and your interests will be treated in the same way as any other cash or securities held on accounts with us, which are pledge under the GDP.

Part 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 Basic Omnibus Indirect Client Accounts and Gross Omnibus Indirect Client Accounts because:

- (i) you will not have any rights directly against the CCP; except for clearing broker-specific porting solutions described earlier and the comments below under "*Margin rights*", you will not have any rights directly against the clearing broker; however, you will benefit from the protections of Art. 91 in connection with Art. 90 FMIA (as set out above under Part A "*If porting does not occur, will your entitlements in positions and margin assets be segregated from our insolvency estate?*");
- (ii) before FINMA initiates insolvency proceedings, FINMA would most likely order a combination of bank reorganisation 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;
- (iii) 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

- (iv) any stage of a cleared transaction (e.g. Indirect Client Transactions, Client Transactions and porting) may be challenged (by the insolvency liquidator) 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:

- (i) 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; and
- (ii) 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 relevant clearing broker and the CCP in this respect.

Insolvency of clearing brokers, CCPs and others

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 clearing broker, the CCP, a custodian or a settlement agent.

In relation to a clearing broker or CCP insolvency, broadly speaking, our (and therefore your) rights will depend on the law of the country in which the clearing broker or the CCP is incorporated and the specific protections that the clearing broker or the CCP has put in place. You should review the relevant disclosures carefully in this respect and take legal advice to fully understand the risks in these scenarios. In addition, please note the following:

- (i) we expect that an insolvency official will be appointed to manage the clearing broker or the CCP. Our rights against the clearing broker or the CCP will depend on the relevant insolvency law and/or that official;
- (ii) if it is not possible to port Client Transactions and/ or CCP Transactions and related margin, it would be reasonable to expect that they will be terminated at the level of the clearing broker and/ or the CCP. The steps, timing, level of control and risks relating to that process will depend on the clearing broker and/ or the CCP, the applicable rules or agreements 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 clearing broker or 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 clearing broker or the CCP;
- (iii) it is unlikely that you will have a direct claim against the clearing broker or the CCP because of the principal-to-principal model described in Part A; if such direct payment were agreed between you, us and the clearing broker, in insolvency proceedings initiated against us, such contractual arrangement would not be enforceable under Swiss bankruptcy laws, because it would be a breach of the principle that all the assets and liabilities of the insolvent debtor form part of the insolvency estate; in Swiss insolvency proceedings, claims forming part of the bankruptcy estate can no longer be validly discharged by payment to the debtor, but must be paid into the bankruptcy estate, and the insolvent debtor can no longer dispose of its assets (i.e. any claim we have against the clearing broker belongs to our insolvency estate and the clearing broker may not discharge its obligation by paying such amount directly to you);
- (iv) under the indirect client clearing agreement, Indirect Client Transactions will terminate at the same time as the matching Client Transactions unless our clearing agreement with the clearing broker provides otherwise;

- (v) the termination calculations in respect of those Indirect Client Transactions will be performed in accordance with the indirect client clearing agreement between you and us and such calculations will likely mirror those performed by the clearing broker in respect of the Client Transactions;
- (vi) if you are due a payment from us as a result of the termination of the Indirect Client Transactions, the amount due from us to you will be owed in addition to any claims you have in respect of the return of the Client Assets held by us;
- (vii) if we have a claim against you resulting from the termination of the Indirect Client Transactions, we may liquidate or foreclose into the Client Assets to satisfy such claim; where the proceeds resulting from the liquidation of the Client Assets exceed our claims against you resulting from the Indirect Client Transactions, you may claim from us the excess by which the liquidation proceeds exceed our claim (see *"If porting does not occur, will your entitlements in positions and margin assets be segregated from our insolvency estate?"* above); and
- (viii) you will not have any claims in respect of Margin Assets, but you only have an entitlement to the return of any Client Assets in excess of any claims we may have against you, i.e. after we complete any private sale of Client Assets pledged or us under the GDP (see *"What happens if porting is not achieved?"* above).

Margin rights

On the basis that you provide assets to us by way of security interest, 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.

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 a Basic Omnibus Indirect Client Account or Gross Omnibus Indirect Client Account.

Close-out netting

If we default and the clearing broker cannot port the Client Transactions and margin assets (e.g. because a back-up entity cannot be found), then we would expect it to terminate and net our Client Transactions and apply related assets.

You and we would want this to work differently from normal bilateral close-out netting that would apply to all positions and assets between us and the clearing broker – e.g. assets on an Gross Omnibus Indirect Client Account relating to you could be netted with our house or another indirect client account at the clearing broker. There is a risk that this netting across accounts could happen automatically as a result of ordinary Swiss insolvency law or the automatic termination may be agreed as part of the contractual arrangement.

A similar risk occurs between us and you in relation to the Indirect Client Transactions. It is most likely to materialise in a pre-porting period during which Swiss law may automatically set off Indirect Client Transactions relating to one clearing broker with Indirect Client Transactions 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 or impossible. However, as a result of the structure how we hold margin assets on

your behalf through the clearing chain (see *"Indirect clearing on a "principal-to-principal" basis"* above), the Client Assets will not be part of such set off or netting.

Porting – limitations

As mentioned above (under Part A *"What happens if porting is not achieved?"* above), except in specific (e.g. physically segregated) structures, a clearing broker only owes us (not you) obligations in relation to Client Transactions and related assets.

As a result, when these contracts and assets are transferred to a back-up entity, 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 Indirect Client Transactions with this back-up entity.

As regards a default of us, assuming that the "porting processes" are validly agreed under the contractual arrangements between the Direct Client, the clearing broker and the CCP, the transfer of margin assets and positions (transactions) under such processes would be upheld under Swiss laws upon the occurrence of a default of the Direct Client 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. 91(1) FMIA in combination with 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). This also applies, in respect of margin assets, regardless of whether the Margin Assets or the Clients are ported (see Part A, *"Will the Client Transactions and assets relating to you be automatically ported to a back-up entity?"* above).

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.

Mismatch of CCP/Client Transactions and assets

It could be that our net assets in relation to Client Transactions do not match our net obligations to you in relation to the matching Indirect Client Transactions. This can slow down or make porting impossible either operationally or legally.

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 Articles 28 to 32 of the Banking Act, any of our assets and liabilities may be transferred to a third party by order of FINMA. 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.