

UBS Switzerland AG Indirect Clearing Risk Disclosure Summary

As a result of the application of Regulation (EU) No 600/2014 (**MiFIR**) and the Commission Delegated Regulation (EU) No 2017/2154 supplementing MiFIR with regard to regulatory technical standards on indirect clearing arrangements (the **Indirect Clearing Rules**) from 3 January 2018, for all our clients for whom we are clearing derivatives through UBS AG London Branch as clearing broker with an EU domiciled central counterparty (**EU CCP**), we are required to:

- (i) offer you a choice of a net omnibus indirect client account (a **Net Omnibus account**) and a gross omnibus indirect client account (a **Gross Omnibus account**);
- (ii) disclose to you the details of the different levels of segregation; and
- (iii) describe the risk involved with the respective levels of segregation offered.

Please refer to the UBS Switzerland AG Indirect Clearing Risk Disclosure Document for more detail. Any terms used in this summary shall be as defined in the UBS Switzerland AG Indirect Clearing Risk Disclosure Document. Please note that the term net omnibus indirect client account (Net Omnibus account) has the same meaning as the term basic omnibus indirect client account as used in the Indirect Clearing Rules and within the UBS Switzerland AG Indirect Clearing Risk Disclosure Document.

Whilst this summary will be helpful to you when making your choice of account decision, this summary and the UBS Switzerland AG Indirect Clearing Risk Disclosure Document do not constitute legal or any other form of advice and must not be relied on as such. Please consult with your own legal advisors to advise you on the matters covered here and to make the relevant choices.

Required Action

You must review the information provided in the UBS Switzerland AG Indirect Clearing Risk Disclosure Document and confirm to us in writing if you would like us to maintain with the clearing broker a Gross Omnibus account per EU CCP. By default, we will instruct the clearing broker to move your positions and margin to a Net Omnibus account, similar to your previous set-up.

Net Omnibus account (as per default):

A Net Omnibus account has the same level of segregation as the account you use now. Therefore, the original contracts in place with you, "Master Agreement for derivatives trading and forward transaction" and "Creation of Pledge" remain valid.

Gross Omnibus account (as per your instruction):

We will contact you by separate mailing in the event that you choose a Gross Omnibus account to agree to the appropriate documentation we intend to put in place for this type of account.

The terms of business we have in place with you do not address indirect clearing services provided by you for your own clients in relation to an EU CCP. Additional requirements may apply to the provision of such services by you and you must inform us if you will be providing such services so that we can address such requirements directly with you. If you continue to do business with us following receipt of the letter directing you to these disclosures you will be deemed to represent and warrant to us that you are not using the clearing services provided to you by us as a basis of providing clearing services to any of your clients as part of an indirect clearing arrangement in relation to any EU CCP.

Porting in our default

If we are declared to be in default by the clearing broker,

- (i) with respect to Gross Omnibus 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 related Margin Assets; or
- (ii) if porting cannot be achieved with respect to Gross Omnibus accounts and in any default with respect to Net Omnibus accounts, the clearing broker will terminate and liquidate the Client Transactions and CCP Transactions (including positions and Margin Assets) that relate to you and transfer the liquidation proceeds to us on your behalf.

Choice of Net Omnibus account:

If you choose a Net Omnibus account, porting will not be available.

However, even if porting will not be available, your rights in respect of positions and margin assets will be protected in our insolvency as further set out below.

Choice of Gross Omnibus account:

If you choose a Gross Omnibus account, you can appoint a back-up entity with respect to your Client Transactions and related margin assets (i.e. independently of our other clients in the same Gross Omnibus account).

Please note that information about your positions and related margin assets will be passed up the clearing chain and your identity will be made available to the clearing broker.

The porting of margin assets will be implemented by us transferring the assets we provided as margin up the clearing chain or entitlements regarding the return of such assets to another clearing broker in return for you transferring title to assets you hold with us, to us as consideration for such transfer.

Porting is likely to fail in the following scenarios:

1. **Multiple UBS Entity Default:** If UBS AG London Branch as clearing broker is also in default then it is unlikely that you will be able to port because (i) the CCP is likely to apply its own default management process with respect to UBS AG London Branch and unlikely to apply default management processes on its behalf towards UBS Switzerland AG and (ii) UBS AG London Branch itself may be subject to insolvency proceedings and impaired from applying its default management processes, in each case with respect to the Gross Omnibus account. You should assess the likelihood of a simultaneous default of UBS AG London Branch and UBS Switzerland AG.
2. **EU CCP Conditions:** If the EU CCP is in default or if the EU CCP commences default management procedures that affect your existing contracts then EU CCP mandatory processes may adversely impact your ability to port.
3. **Clearing Broker Conditions:** UBS AG London Branch will set various conditions which must be satisfied before your Client Transactions and related margin can be ported to a back-up entity. 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 UBS AG London Branch and show that you can satisfy all conditions that must be met for the porting within this period.

4. **Back-up Entity Conditions:** The back-up entity must also agree to accept the Client Transactions and the assets to be posted as margin in relation thereto. You may appoint a back-up entity upfront as part of your clearing arrangements but the back-up entity is unlikely to be able to confirm acceptance of the Client Transactions until the default occurs. The back-up entity may also have conditions that you must meet, such as additional standby fees or additional buffer margin which you may have to provide out of your own assets. If you have not appointed a back-up entity prior to our default then porting is less likely to occur.
5. **Stay on porting:** The enforceability of the porting processes is subject to the power of FINMA to order in connection with protective measures or reorganisation proceedings taken in respect of us, a temporary stay of the "porting" of assets or positions for up to two business days. In the event that porting would otherwise be triggered by such protective measures or reorganisation proceedings, it would fail if the stay overruns the deadline for porting to be achieved.

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.

Default management processes if porting does not occur

If porting does not occur, 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 will have to pay it to us (or our insolvency liquidator) for the account of our clients. Such an amount will be set-aside as described below and will not form part of our estate. Please note that Swiss law does not foresee the payment of an amount directly to you even where you have chosen a Gross Omnibus account and even if such direct payment is 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 (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).

However, if you have chosen Gross Omnibus account the clearing broker may attempt to pay an amount owed by him directly to you. Should the clearing broker succeed in his attempt to pay an amount directly to you and if you are due a payment from us as a result of the close-out calculations in respect of our Indirect Client Transactions, the amount due from us to you will be reduced by an amount, if any, that you receive (or are deemed to receive) directly from the clearing broker.

Irrespective of the choice of a Net Omnibus or a Gross Omnibus account

Statutory Protection in Swiss Insolvency:

In our insolvency, you are protected by the statutory rights of Art. 91(2) FMIA, which protect 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.

Termination of Indirect Client Transactions:

If UBS AG London Branch 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.

Return of Margin Assets:

As a result of the structure of how we hold margin assets on your behalf through the clearing chain, note that you will not have any entitlement in the margin assets we have posted as security for the Client Transactions up the clearing chain, but your entitlement will be limited to the assets you have pledged to us as security for our exposure to you under the Indirect Client Transactions. You hereby acknowledge that you have no entitlement to claim from us the excess in value of the margin assets we have posted as security for the Client Transactions up the clearing chain over the assets you have pledged to us as security for our exposure to you under the Indirect Client Transactions.

Impact of insolvency of UBS AG London Branch as clearing broker or EU CCP:

To the extent that UBS AG London Branch as clearing broker or the EU CCP fail, note that our (and therefore your) rights will depend on the law of the country in which UBS AG London Branch or the EU CCP is incorporated and the specific protections that UBS AG London Branch or the EU 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.

We expect that an insolvency official will be appointed to manage UBS AG London Branch or the EU CCP; our rights against UBS AG London Branch or the EU CCP will depend on the relevant insolvency law and/or that official; the steps, timing, level of control and risks resulting from the termination of the Client Transactions will depend on UBS AG London Branch and/ or the CCP, the applicable rules or agreements and the relevant insolvency law.