clearstream | DEUTSCHE BÖRSE GROUP

CSD information disclosure with regard to Article 38 of CSDR

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Clearstream Europe AG

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Executive summary

Clearstream Europe AG (CEU) offers participants in the securities settlement systems (SSS) operated by CEU (Participants) the opportunity to hold proprietary or their client securities[1] and the choice, where applicable, between Omnibus Client Segregated (OCS) and Individual Client Segregated (ICS) account models.

The corresponding fees are published on the Clearstream website under Clearstream Fee schedule.

Securities are protected from insolvency and bankruptcy in OCS and ICS account models equally, with differences arising in levels of risk, operational complexity and overall cost base.

Risks for securities protection arising for either OCS or ICS account models are mitigated to the largest extent possible internally at CEU.

1. Introduction

The purpose of this document[2] is to disclose the levels of protection and the costs associated with the different options of segregation provided in respect of securities that participants in the securities settlement systems (SSS) operated by CEU (Participants) hold with Clearstream Europe AG (CEU), required under Article 38 of Regulation (EU) No 909/2014 of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories as amended (CSDR).

This disclosure document includes a description of the accounts and levels of segregation offered as well as the main legal implications of the available options of segregation including the information on the insolvency law applicable to CEU.

The recovery and resolution proceedings as set out in the German Act on Recovery and Resolution of Institutions and Financial Groups (Sanierungs- und Abwicklungsgesetz) transposing Directive 2014/59/ EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms (BRRD) are excluded from the scope of this informative notice.

The content of this document is intended for information purposes only. None of the information contained in this document constitutes a legal advice or other advice. They cannot be relied for any other purposes. It constitutes neither a legal opinion nor an offer or a commercial solicitation by CEU. Participants should seek their own legal advice if they require any guidance on the topics presented in this document.

[1] The term "securities" includes also book-entry credits on a fiduciary basis or trustee business.
[2] Unless specifically described, the information provided in this document shall also apply to "6-series accounts". However, the handling of cash funds via specific cash accounts is not in scope of this document; for details, please refer to the relevant sections covering cash-related activities in the CEU Client Handbook.

2. About Clearstream Europe AG

Any assessment of the risks associated with the safekeeping of securities should be based on CEU's status and the regulatory provisions by which it is bound:

- CEU is a stock corporation (Aktiengesellschaft) under German law (registered in the commercial register under number HRB 7500). Its Legal Entity Identifier is 549300298FD7AS4PPU70.
- CEU is an authorised central securities depository (CSD) under Articles 16 and 54 of CSDR. Furthermore, CEU is authorised and regulated as a credit institution under the German Banking Act (Kreditwesengesetz). Accordingly, it is subject to the supervision of the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, Bafin) which operates in close cooperation with the German central bank (Deutsche Bundesbank).
- In addition, CEU, an operator of SSS (governed by the laws of Germany) designated by Deutsche Bundesbank in accordance with Section 24b (1) of the German Banking Act, is also subject to the oversight supervision of Deutsche Bundesbank. Section 24b of the German Banking Act is a transposition of Article 10 (1) of the Directive 98/26/EC of the European Parliament and of the Council of 19 May 1998 on settlement finality in payment and securities settlement systems (SFD).

3. Legal and Regulatory Framework

3.1 Legal basis

The deposit of assets by Participants with CEU is governed and protected in particular by the following laws:

- CSDR;
- Regulation (EU) No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (CRR);
- German Banking Act (Kreditwesengesetz);
- German Securities Deposit Act (Depotgesetz);
- German Federal Debt Management Act (Bundesschuldenwesengesetz – Section 6: entry of CSD into debt ledger equalling the existence of a pool of certificates in the CSD's vaults);
- German Civil Code (Bürgerliches Gesetzbuch) and German Commercial Code (Handelsgesetzbuch) general rules (vindication, transfer of (co-)ownership, regular custody contract, good faith acquisition, mandate and agency etc.);
- German Insolvency Code (Insolvenzordnung).

All laws and regulations governing settlement of securities are publicly available.[3]

[3] Available online on the website: Gesetze im Internet.

The CSDR should not be interpreted as replacing German laws and regulations applicable to the holdings of securities and the arrangements maintaining the integrity of the issue. As set out in the recital 42 of CSDR, the regulation does not interfere with the national laws and regulations, which remain fully applicable.

3.2 Segregation requirements

3.2.1 CSDR

The CSDR has set out rules to segregate the securities accounts maintained for the Participants with the central securities depositories (CSDs) and to offer, upon request of the Participants, further segregation of the accounts in order to keep separately the assets of the Participants and those of the Participants' clients. Article 38 of CSDR provides for the following:

1. "For each securities settlement system it operates, a CSD shall keep records and accounts that shall enable it, at any time and without delay, to segregate in the accounts with the CSD, the securities of a participant from those of any other participant and, if applicable, from the CSD's own assets.

2. A CSD shall keep records and accounts that enable any participant to segregate the securities of the participant from those of the participant's clients.

3. A CSD shall keep records and accounts that enable any participant to hold in one securities account the securities that belong to different clients of that participant ('omnibus client segregation').

4. A CSD shall keep records and accounts that enable a participant to segregate the securities of any of the participant's clients, if and as required by the participant ('individual client segregation').

5. A participant shall offer its clients at least the choice between omnibus client segregation and individual client segregation and inform them of the costs and risks associated with each option.

6. However, a CSD and its participants shall provide individual clients segregation for citizens and residents of, and legal persons established in, a Member State where required under the national law of the Member State under which the securities are constituted as it stands at 17 September 2014. That obligation shall apply as long as the national law is not amended or repealed and its objectives are still valid.

7. CSDs and their participants shall publicly disclose the levels of protection and the costs associated with the different levels of segregation that they provide and shall offer those services on reasonable commercial terms. Details of the different levels of segregation shall include a description of the main legal implications of the respective levels of segregation offered, including information on the insolvency law applicable in the relevant jurisdictions.

8. A CSD shall not use for any purpose securities that do not belong to it. A CSD may however use securities of a participant where it has obtained that participant's prior express consent. The CSD shall require its participants to obtain any necessary prior consent from their clients."

3.2.2 Securities Deposit Act

Section 2 of the German Securities Deposit Act provides for a separate safe custody of securities in the case of individual safe custody:

"The custodian shall be obliged to keep the securities with an outwardly identifiable designation of each depositor separately from its own securities and those of third parties if they are securities which are not admitted to collective safe custody by a securities clearing and deposit bank or if the depositor requests separate safe custody. Any rights and obligations of the custodian to dispose of or administer the deposits shall not be affected hereby."

Pursuant to Section 5 of the German Securities Deposit Act, the normal case in legal terms however is not separate safe custody but collective safe custody:

1. "The custodian may entrust securities, which are admitted to collective safe custody by a securities clearing and deposit bank, to the latter for collective safe custody, unless the depositor has requested separate safe custody of the securities in accordance with Section 2 sentence 1. In lieu of collective safe custody by a securities clearing and deposit bank, the custodian may hold the securities in safe custody itself without separating them from its own holdings of the same category or those of third-parties or entrust them to a third party for collective safe custody, if the depositor has authorised this expressly and in writing. The authorisation may neither be included in standard terms and conditions of the custodian nor refer to other documents; it must be given separately for each safe custody transaction.

2. Instead of taking the securities into collective safe custody, the custodian may transfer a corresponding share of collective holdings to the depositor.

3. Section 3 shall apply to collective safe custody with a third party.

4. Securities clearing and deposit banks may entrust securities for collective safe custody to a foreign custodian within the framework of a mutual account relationship which has been agreed upon in view of cross-border securities clearing transactions, provided that

   (1) the foreign custodian acts as a securities clearing and deposit bank in the country in which it has its registered office and is subject to public supervision or another equivalent supervision in terms of investor protection;

   (2) the depositor is granted a legal status in respect of the collective holdings of such custodian, which is equivalent to the status under this Act;

   (3) the claim of the securities clearing and deposit bank against a foreign custodian to deliver of the securities is not subject to prohibitions of the country in which such custodian has its registered office; and

   (4) the securities are fungible and admitted to collective safe custody by the securities clearing and deposit bank and the foreign custodian within the framework of their mutual account relationship.

The liability of the securities and deposit banks under Section 3 para. 2 sentence 1 for fault by the foreign custodian may not be restricted by agreement."

Records of the depositors and the securities have to be kept by the custodian in a custody ledger pursuant to Section 14 of the German Securities Deposit Act:

1. "The custodian shall be obliged to keep a trading book in which each depositor and the category of securities, the nominal amount or number of securities identification, numbers or other descriptive features of the securities held in safe custody shall be entered. If the identification numbers or other descriptive features result from lists which are kept in addition to the custody ledger, a reference to such lists shall suffice.

2. There is no need to enter a security if its safe custody ends before the entry could be made in the ordinary course of business.

3. The provisions governing the keeping of a custody ledger shall apply mutatis mutandis to collective safe custody as well.

4. If the custodian entrusts the securities to a third party it shall specify the place of the establishment of the third party in the custody ledger. If the name of the third party is not clear from the further accounting, lists which are kept in addition to the custody ledger or from correspondence, the name of the third party must likewise be stated in the custody ledger. If the custodian is empowered to safe custody under Section 5 para. 1 sentence 2, exchange safe custody, pledging or to dispose of ownership, this shall likewise be evidenced in the custody ledger.

5. If a custodian informs the third party custodian that it is not the owner of the securities entrusted by it to the third-party custodian (Section 4 para. 3), the third-party custodian must evidence this when making the entry in the custody ledger."

3.3 General Terms and Conditions

The rights and obligations of CEU vis-à-vis its Participants (beside the legal obligations under statutory law) are documented in the General Terms and Conditions of Clearstream Europe AG (GTCs) as well as the Special Conditions and the other governing documentation.

With view to the segregation of securities accounts, Number V (3) of the GTCs provides for the following:

"For each securities account the client shall be obliged to disclose to CEU whether the securities account belongs to the client themselves, to one of their clients or to several of their clients. The client has to notify CEU immediately of any changes."

The GTCs, the Special Conditions and the other governing documentation can be downloaded in German (legally binding version) or English (convenience translation) from the Clearstream website under General Terms and Conditions - CEU.

The term "Client" as defined and used in the GTCs has the same meaning as the term "Participant" used in this document.

Whenever the term "client" is used, without initial capital letter, it refers to the client of CEU's Participant/Client.

4. Main legal implications of the levels of segregation offered by CEU

4.1 Level of segregation offered by CEU

There are two levels of segregation offered by CEU in accordance with Article 38 (3) and (4) of CSDR:

- Omnibus client segregation or "OCS"; and
- Individual client segregation or "ICS".

The OCS as set out in Article 38 (3) of CSDR: in order to carry out the custody and settlement of securities transactions, Participants can maintain a collective account at CEU, in which the securities holdings of multiple underlying clients of the Participant are booked together.

The ICS as set out in Article 38 (4) of CSDR: alternatively, the Participant may choose to set up separate deposit accounts at CEU to segregate the securities of its individual clients from the holdings of the Participant and of its other clients. This is achieved in one of two ways either:

- by opening a separate main account or
- by using the sub account functionality of a main account[4].

The Participant is required under CSDR to offer its clients the choice between OCS or ICS. Depending on the level of segregation chosen by the Participant, the costs associated may differ. The ICS is associated with additional costs (see Clearstream Fee Schedule[5] - Section 8.1, "Standard Account Service Fee") due to the number of additional accounts that employing such a structure naturally necessitates. CEU books for either account type (ICS or OCS) the securities and any other fungible financial instruments received as a deposit or held in an account, separately from its own proprietary positions and off-balance sheet (i.e. independently of ICS or OCS).

According to Section 4 para.1 of the German Securities Deposit Act, the participant accounts held by CEU are managed as a third-party deposit (in either ICS or OCS account type). This means that clients, as co-owners in the securities of the same type in deposit, benefit from a right in rem on these securities (proprietary right pursuant to Section 985 of the German Civil Code).[6]

For additional information on OCS and ICS account models as well as the costs, please refer to Sections 5.2 and 5.3 of this document.

[4] For more information on the types of sub-accounts and how to open special purpose sub accounts, please refer to Section 2.2 of the CEU Client Handbook. The account types are mainly intended to facilitate safekeeping and service requirements for the Participant and for CEU. They also serve to give greater transparency to the operational processes.
[5] For more information, please refer to the Clearstream website under Clearstream Fee schedule.
[6] Does not apply to non-collective safe custody.

4.2 Law applicable to CEU's insolvency

CEU is a stock corporation ("Aktiengesellschaft") under German law. As a CSD authorised under CSDR and as a credit institution under the German Banking Act, it is subject to the supervision of the Bafin, which operates in close cooperation with Deutsche Bundesbank.

Were CEU to become insolvent, insolvency proceedings would take place in Germany and be governed by German insolvency law. Entitlements, rights and access of Participants during these proceedings are stipulated in accordance with German law and the insolvency practitioner's actions.

4.3 Impact of the insolvency of CEU on Participants

If CEU were to become insolvent, Participants' securities (excluding any cash holdings) would not fall in the bankruptcy estate of CEU. Pursuant to Section 47 of the German Insolvency Code, the Participants would be entitled to a right of segregation ("Aussonderung").

As ownership of the Participant in the securities held by CEU is intermediated by the Participant acting as account holder on the level of CEU, the Participant (on behalf of the client) could demand the transfer of securities corresponding to the co-ownership share of the respective clients to another account (so called "segregation" in accordance with the German Insolvency Code). Such claims shall be made by Clearstream's Participant or the investor towards the liquidator.[7]

The right of segregation would apply, irrespective of whether securities are booked in ICS or OCS, so that both segregation types provide a similar level of protection in case of insolvency of CEU. However, the individual client segregation (ICS) achieved through the opening of multiple main accounts can be associated with additional costs (see Clearstream Fee Schedule[8]) due to the number of additional accounts that employing such a structure naturally necessitates.

For securities held through CEU's network of CSD links and in the event of CEU's insolvency the Participant is deemed to have acquired the interest in the securities held with CEU as soon as the securities are credited to CEU's securities account with a local linked CSD or depository or registered on the register in the name of or on behalf of CEU and before the credit to the Participant's own securities account.

4.4 Protection against upper tier attachments

Also, irrespective of whether securities are booked either in ICS or OCS, creditors of CEU's Participant's underlying clients cannot seek to "attach securities" to the effect that they would be entitled to demand from CEU, the restitution of securities. This is because ownership of the clients in the securities held by CEU is intermediated by the Participants themselves as account holders and, consequently, only the Participants (but not their clients) are entitled towards CEU to claim the restitution of securities.

[7] This does not apply to individual safe custody.
[8] For more information, please refer to the Clearstream website under Clearstream Fee schedule.

4.5 Loss sharing among the levels of segregation

If the collective holding is decreased due to a loss, for which CEU is not responsible, CEU will apportion such loss on a pro rata basis to the Participants according to the fraction each Participant (for its clients) holds in this collective holding at the moment that the loss occurred. If securities of the respective class are available, CEU, at the Participant's expense, will acquire securities at prevailing market conditions in order to compensate for the loss. In doing so, CEU will consider the legitimate interests of the Participant as reasonably as possible. Alternatively, CEU will debit the Participant's securities account accordingly. This constitutes, therefore, a potential risk to the Participant and the balance of securities held via accounts opened on either an ICS or OCS basis.

If CEU is responsible for the loss, CEU's liability pursuant to Section 7 para. 2 sentence 2 of the German Securities Deposit Act and as established in the GTCs (Number VII "Liability"), shall remain unaffected.

4.6 Usability of securities

CEU does not use for any purpose securities that do not belong to it. CEU may, however, use securities of a Participant where it has obtained that Participant's prior express consent. CEU requires its Participants to obtain any necessary prior consent from their clients. This corresponds to the legal requirements of Article 38 (7) of CSDR. For more information regarding the usage of securities and the rules for obtaining written consent may be seen in the GTCs under Number XXXII ("Pledge").

5. Levels of segregation for accounts offered by CEU

The following table illustrates the risks, costs and levels of protection of the levels of segregation offered at CEU and serves as an executive summary of the sections within this document.

Level of segregation (excerpt; see Section 5.2)	**Account types** (excerpt; see Section 5.1)	**Levels of protection** (excerpt; see Section 4)	**Risk and impacted entity** (excerpt; see Section 5.4)	**Cost** (excerpt; see Sections 5.3, 5.4)
Individual Client Segregation	Collective Safe Custody Individual Safe Custody Non-Collective Safe Custody	All of the custody types (see Section 5.1) at CEU independent of the Participant's choice on the level of segregation for its accounts and for its clients have a high level of protection. For more details, please refer to Section 4 seq above.	Threat to Asset Safety e.g. with respect to possible mismanagement of portfolios by the CSD Participant (Risk to CSD Participant) Settlement Processing & Inventory Management e.g. with regards to higher reconciliation efforts needed for the CSD Participant (Risk to CSD Participant) Control Risk e.g. due to higher account numbers and more efforts on safeguarding and reconciliation (Risk to CSD Participant) Transparency of Ownership is increased as an identification may possibly be assessed sooner (Risk to CSD Participant)	Increased fees due to e.g. increased number of main accounts maintained, operational costs due to, e.g., increased number of accounts to reconcile. More details on the costs for the accounts and levels of segregation can be accessed in the sections below.

Level of segregation (excerpt; see Section 5.2)	Account types (excerpt; see Section 5.1)	Levels of protection (excerpt; see Section 4)	Risk and impacted entity (excerpt; see Section 5.4)	Cost (excerpt; see Sections 5.3, 5.4)
Omnibus Client Segregation	Collective Safe Custody Individual Safe Custody Non-Collective Safe Custody	All of the custody types (see Section 5.1) at CEU independent of the Participant's choice on the level of segregation for its accounts and for its clients have a high level of protection. For more details please refer to Section 4 seq above.	Threat to Asset Safety e.g. due to lower transparency on securities' ownership (Risk to CSD Participant) Settlement Processing & Inventory Management Risk, e.g. security shortfall due to delivery issues (Risk to CSD Participant's client) Control Risk, e.g., reconciliation more cumbersome and settlement systems need to be more sophisticated (Risk to CSD Participant) Transparency of Ownership Risk, e.g. due to lower transparency of end beneficial ownership in CSD records, operational risk due to potential misallocation in case of insolvency (Risk to CSD Participant & its client)	Lower cost due to reduced accounts maintained and increased operational efficiency. More details on the costs for the accounts and levels of segregation can be accessed in the sections below.

Table 1: Overview of the costs, risks and levels of protection of the levels of segregation offered at CEU

5.1 Custody types at CEU

The following custody types are currently offered by CEU to its Participants:

- Collective Safe Custody;
- Individual Safe Custody;
- Non-Collective Safe Custody.

For more detailed information on Collective Safe Custody types, Individual Safe Custody and Non-Collective Safe Custody types please refer to the CEU Client Handbook.[9]

[9] For more information, please refer to the Clearstream website under CEU Client Handbook.

5.2 Segregation models

All of the custody types (see Section 5.1) at CEU offer the Participant the possibility to "segregate" with additional accounts.

For proprietary securities, the Participant has the possibility to individually separate or "segregate" either by opening as many additional main accounts as are needed (and permitted) or by using sub-accounts under an existing main account. As per the German Securities Deposit Act, proprietary accounts must be designated accordingly. The model for third-party assets is described below.

At the moment of account opening and during the life of the Participant relationship, CEU offers Participants the choice between OCS and ICS (as explained in Section 4.1 above).

- Under **OCS** an account is opened in the name of the Participant and designated accordingly during the account opening process. As such, the positions held in an OCS are deemed to belong to multiple underlying clients of the Participant who is holding them on a collective basis. Participants that intend to hold proprietary assets in either the main account or an available sub-account are required to categorise these accordingly as own assets. Otherwise, by default, the assets are deemed to be belonging to a third party (a participant's underlying client(s)).

  According to Section 4 para.1 of the Securities Deposit Act, the OCS is managed as a third-party deposit so that the Participant's client securities recorded therein are not liable for the Participant's liabilities. Ownership of the holdings can only be individually determined on a Participant level (but not the CSD level) as securities are held on a collective basis. Legal ownership of the securities can only be determined by the Participant's records - not on the level of the CSD.[10]
- **ICS** is used to hold the securities of a single underlying client of the Participant and therefore the Participant's client's securities are held separately from the securities of other clients of the Participant and from the Participant's own securities. In this case, the segregation of the assets of one Participant's client from assets of other clients of the Participant is achieved on the level of CEU. ICS can be maintained in the name of either the Participant or the Participant's client directly in accordance with the name provided in the account opening form and subject to approval by CEU following checks by account administration and compliance teams.

To safekeep securities, CEU Participants hold a securities account which includes a main account and a sub-account. Due to the availability of this sub-account structure, it is possible to individually separate or "segregate" holdings.

Non-Collective Safe Custody also offers the possibility to segregate the assets of Participants and their clients as with the Collective Safe Custody type. Under Individual Safe Custody, the depositor's securities are kept separate from the other securities positions that CEU keeps in safe custody. By way of this segregation, the depositor remains the owner of the physical securities certificates.

In this case the segregation of assets of one Participant's client from assets of other clients can be achieved on the level of CEU. An ICS can be maintained in the name of the Participant. Legal ownership of the securities is determinable on the level of the CSD.

[10] Does not apply to Non-Collective Safe Custody.

5.3 Costs of the levels of segregation

The costs and commercial terms for the above described account structures and therefore the level of segregation offered can be found in Section 8.1 ("Standard Account Service Fee") of the Clearstream Fee Schedule, published on the Clearstream website.[11]

Participants are charged for every additional main account they open in case they wish to segregate their client's assets.

Participants using the sub-account functionality of main accounts to segregate its clients' assets are currently charged for the main account only.

5.4 Risks and costs of the segregation levels of accounts offered by CEU

Depending on the level of segregation chosen by the Participant, the following risks and costs may arise:

#	Risk	Individual Client Segregation	Omnibus Client Segregation
1	**Threat to Asset Safety**	A CSD Participant may be susceptible to mismanaging portfolios across multiple segregated accounts without the knowledge of the CSD itself. In addition, the CSD Participant is required to ensure that account names and documentation are maintained accurately. **Impacted Entity:** CSD Participant **Mitigating Measures:** CEU helps its Participants to avoid potential mismanagement of portfolios by establishing a contractual framework and by providing account-level services for key custody operations. These contractual rules are outlined as follows: ▪ GTCs: Participants are obliged under Number V (3) of CEU's GTCs to disclose to CEU for each securities account whether the securities account belongs to the Participant themselves, to one of their clients or to several of their clients; the Participant has to	Operational risk that in case of Participant default / insolvency, identification of Participant's client assets cannot be ensured due to the quality of reconciliation and record keeping within the books of the Participant. **Impacted Entity:** CSD Participant and CSD Participant's Client **Mitigating Measures:** CEU helps its Participants to avoid potential mismanagement of portfolios by establishing a contractual framework and by providing account-level services for key custody operations. These contractual rules are outlined as follows: ▪ GTCs: Participants are obliged under Number V (3) of CEU's GTCs to disclose to CEU for each securities account whether the securities account belongs to the Participant themselves, to one of their clients or to several of their clients; the Participant has to notify CEU immediately of any changes.

[11] For more information, please refer to the Clearstream website under Clearstream Fee schedule

notify CEU immediately of any changes.

- CEU's Participant due diligence and AML / KYC measures facilitate the identification of the Participant's underlying clients (Beneficial Owners) and thereby supports effective and reliable reconciliation processes.
- The Client Handbook provides detailed information about the account types supported by CEU for transactions in securities held in the different custody types at CEU.
- A transparent and enforced Client and Access Acceptance Policy (client-and-access-acceptance-policy.pdf) helps reduce counterparty risks for Participants.
- CEU monitors and informs Participants in due time regarding changes to the regulatory environment in its jurisdiction.

The services to Participants are as follows:

- Provisioning of Settlement Transactions
- Intraday Settlement to support Portfolio realignment
- Reconciliation tools
- Client Service Support
- Domestic market operational and disclosure guides that help the Participant understand the implications of holding assets in a foreign regime (via any external links).
- CEU Default Management Procedure actively monitors Participants settlement activities to ensure the appropriate action is taken in due time to manage potential Participants in default processes (contractual and legal defaults).

For more details on the above, please refer to the CEU Client Handbook as well as the Clearstream Default Management web page.

- CEU's Participant due diligence and AML / KYC measures facilitate the identification of the Participant's underlying clients (Beneficial Owners) and thereby supports effective and reliable reconciliation processes.
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For more details on the above, please refer to the CEU Client Handbook as well as the Clearstream Default Management webpage.

#	Risk	Individual Client Segregation	Omnibus Client Segregation
2	**Settlement Processing & Inventory Management Risk**	Reduced levels of internalised settlement for the Participant at the level of the CSD. Increased number of segregated accounts will lead to a greater number of trans-actions, including for realignment purposes, to settle at the CSD (cost and operational risk). **Impacted Entity:** CSD Participant **Mitigating Measures:** CEU helps its Participants by ▪ Comprehensive Tax, Corporate Actions, Proxy Voting and Income services as described in the Client Handbook document ultimately reduce the operational burden of reconciliation by ensuring effective credit or debit of security and cash considerations; this limits potential operational exposures related to missed entitlements. Furthermore, these are subject for regular internal audit and certification in accordance with International Standard on Assurance Engagements (ISAE 3402). ▪ Domestic market operational and disclosure guides help Participants understand the implications of holding assets in a foreign regime (via any external links). ▪ Overdrafts of securities accounts are not permitted. CEU applies daily reconciliation for all its securities. ▪ Automated processing via STP on the CSD Real Time Settlement application systems - STP driven reduces the operational burden of processing and reconciliation including limiting the operational risk exposures. ▪ Comprehensive credit and risk framework with continuous monitoring of a Participant's exposures mitigates against Participant default.	Potential for the Participant's clients within the omnibus account delivering securities that they do not hold, leading to a securities shortfall with other clients of the Participant in the account, which may result in a loss of another underlying client's assets. As a result, short positions could force the need to borrow securities and to allocate associated costs. **Impacted Entity:** CSD Participant's Client **Mitigating Measures:** CEU helps its Participants by ▪ Equivalent products and services as for Individual Client Segregation: ▪ Comprehensive Tax, Corporate Actions, Proxy Voting and Income services as described in the Client Handbook document ultimately reduce the operational burden of reconciliation by ensuring effective credit or debit of security and cash considerations; this limits potential operational exposures related to missed entitlements. Furthermore, these are subject for regular internal audit and certification in accordance with International Standard on Assurance Engagements (ISAE 3402). ▪ Domestic market operational and disclosure guides help Participants understand the implications of holding assets in a foreign regime (via any external links). ▪ Overdrafts of securities accounts are not permitted. CEU applies daily reconciliation for all its securities. ▪ Automated processing via STP on the CSD Real Time Settlement application systems - STP driven reduces the operational burden of processing and reconciliation including limiting the operational risk exposures. ▪ Comprehensive credit and risk framework with continuous monitoring of a Participant's exposures mitigates against Participant default.

#	Risk	Individual Client Segregation	Omnibus Client Segregation
3a	Control Risk	The level of reconciliation required across multiple and extensively segregated account structures can become significant. The increased number of accounts can also lead to increased number of dormant accounts and increased volumes of underlying client data to safeguard at all levels of the custody chain. CEU Participants should be mindful that the use of the sub-account function under the main account will require additional oversight to ensure that sub-accounts are used appropriately. For further details of sub-accounts and special sub-accounts please refer to the CEU Client Handbook.. **Impacted Entity:** CSD Participant **Mitigating Measures:** CEU helps its Participants to avoid potential mismanagement of portfolios by enforcing a clear contractual framework, which includes the monitoring and follow-up on dormant accounts. This is further supplemented by adequate reconciliation tools at the account-level that enable a Participant to readily identify active accounts and their balances with a view to taking any appropriate action. CEU helps its Participants with the following actions: ▪ Specifically for securities issuers, CEU holds in its books securities that are, in number and description of the securities credited on the securities accounts it maintains for its participants. ▪ CEU's Participant due diligence and AML / KYC measures in place facilitate the identification of the Participants underlying clients (Beneficial Owners) and thereby helps reduce counterparty risk, represents a control on assessing a Participant's eligibility for omnibus account and supports effective reconciliation processes.	The one-to-many nature of an omnibus account makes securities reconciliation more cumbersome and requires a sophisticated and timely settlement system / securities record to be able to reconcile positions and identify breaks on a Participant and ultimately their client's level. **Impacted Entity:** CSD Participant **Mitigating Measures:** CEU helps its Participants with the following actions: ▪ Specifically for securities issuers, CEU holds in its books securities that are, in number and description of the securities credited on the securities accounts it maintains for its Participants. ▪ CEU's Participant due diligence and AML / KYC measures in place facilitate the identification of the Participants underlying clients (Beneficial Owners) and thereby helps reduce counterparty risk, represents a control on assessing a Participant's eligibility for omnibus account and supports effective reconciliation processes. ▪ Comprehensive Tax, Corporate Actions, Proxy Voting and Income services as described in the Client Handbook document ultimately reduce the operational burden of reconciliation by ensuring effective credit or debit of security and cash considerations; this limits potential operational exposures related to missed entitlements. Furthermore, these are subject for regular internal audit and certification in accordance with International Standard on Assurance Engagements (ISAE 3402). ▪ Automated processing via STP on the CSD Real Time Settlement application systems - STP driven reduces the operational burden of processing and reconciliation hence limiting the operational risk exposures.

	▪ Comprehensive Tax, Corporate Actions, Proxy Voting and Income services as described in the Client Handbook document ultimately reduce the operational burden of reconciliation by ensuring effective credit or debit of security and cash considerations; this limits potential operational exposures related to missed entitlements. Furthermore, these are subject for regular internal audit and certification in accordance with International Standard on Assurance Engagements (ISAE 3402). ▪ Automated processing via STP on the CSD Real Time Settlement application systems - STP driven reduces the operational burden of processing and reconciliation hence limiting the operational risk exposures. ▪ As a four-eyed principal control measure the internal accounting process is audited on an annual basis and the reconciliation process is audited on a bi-annual basis to ensure sound practice in accordance with the stipulated and governing regulatory requirements.	▪ As a four-eyed principal control measure the internal accounting process is audited on an annual basis and the reconciliation process is audited on a bi-annual basis to ensure sound practice in accordance with the stipulated and governing regulatory requirements.
3b	In the event of CEU default, a Participant's books and records should be adequately reconciled using the tools provided by CEU in order to permit resolution authorities to efficiently ascertain the nature of claims and entitlements. **Impacted Entity:** CSD Participant **Mitigating Measures:** n.a.	

#	Risk	Individual Client Segregation	Omnibus Client Segregation
4	**Transparency of Ownership Risk**	Potential for faster identification of the Participant's clients to the issuers, to the regulators and to administrators in the event of the Participant's insolvency or any other default / insolvency in the transaction lifecycle (albeit this cannot always guarantee more time favourable remediation in a default scenario). In addition, the CSD Participant is required to ensure that account names and documentation are maintained accurately. **Impacted Entity:** CSD Participant **Mitigating Measures:** 1. The CSD will trigger its DMP to handle the Participant in default related processes. 2. Credit monitoring activities support assessments of Participant's portfolios and tracking and identification of potential credit events to ensure the appropriate actions is taken in due time.	The identification of end beneficial ownership can be more difficult as the main account can contain many beneficial owners, the identities of which can be received by the CSD upon request (during registration for designated shares). The CSD has no transparency through to the Participant's client's end beneficial name at the Participant onboarding stage. Operational risk could potentially arise such as wrongly allocated income proceeds or corporate actions proceeds, wrong disclosure vis-à-vis the issuer and authorities or wrongly declared beneficial owners vis-à-vis tax authorities may occur. **Impacted Entity:** CSD Participant **Mitigating Measures:** See above mitigation measures covered in Sections 1-3.
5	**Cost**	Increased number of accounts, reconciliations and messaging increases operational cost. Due to the segregated nature of the account, all instructions need to be settled across the CSD, therefore no benefit of reduced internalised settlement cost. **Impacted Entity:** CSD Participant	Operational efficiency due to reduced number of accounts / messages leads to lower cost. Opportunity for internalised / net settlement across the books of the Participant reduces transaction costs **Impacted Entity:** CSD Participant

Table 2 – Risk Types and Cost per Level of Segregation

For all of the above-mentioned risks CEU has adequately implemented measures and procedures to mitigate and prevent these risks from arising. For more information, please refer to the Client Handbook[12] and the Clearstream Fee Schedule[13].

[12] For more information, please refer to the Clearstream website under CEU Client Handbook.
[13] For more information, please refer to the Clearstream website under Clearstream Fee schedule.

In addition, the following list illustrates general risks regarding the account types:

- **Business Continuity / Business Recovery:**

  CEU has established adequate and resilient procedures and measures to address settlement continuity in order to ensure wherever possible continuous operational capability. Details about Business Continuity and Business Recovery are available upon request from a Client relationship manager.

- **Risk of inadequate definition of Participant assets:**

  Potential conflict of governing laws between CEU's Participants and CEU's framework regarding the definition of Participant assets. Under CSDR, CEU ensures to the greatest degree possible that the Participant's securities can be used in line with the services offered. CEU is not responsible for assessing the Participant's rights and obligations under its domestic legal framework.

- **Information requirements and record keeping:**

  Potential conflict of governing laws between CEU's Participants and CEU's framework regarding information and record keeping requirements. Under CSDR CEU ensures to the greatest degree possible that the Participant's securities can be used in line with the services offered. CEU is not responsible for assessing the Participant's rights and obligations under its own domestic legal framework.

The topics addressed in this declaration should also be viewed in the wider context of the risk management framework applicable to CEU and its sister company Clearstream Banking S.A. (CBL) in Luxembourg, whose purpose is to set adequate and comprehensive risk management standards to ensure the sustainability of the CSDs' operations and thereby smooth and efficient market operations. By applying this framework, inclusive of all policies and procedures, the CSDs identify, measure, monitor, manage and report risks associated with the safekeeping of securities, but also limits the risks the CSDs pose to others (including Participants).

6. CEU's Regulatory Compliance with Article 38 (5)–(7) of CSDR

The following section provides an overview of Article 38 of CSDR that CEU is required to adhere to.

6.1 Article 38 (5) of CSDR

CEU is required to adhere to Article 38 (5) of CSDR which states:

"5. A participant shall offer its clients at least the choice between omnibus client segregation and individual client segregation and inform them of the costs and risks associated with each option.

However, a CSD and its participants shall provide individual clients segregation for citizens and residents of, and legal persons established in, a Member State where required under the national law of the Member State under which the securities are constituted as it stands at 17 September 2014. That obligation shall apply as long as the national law is not amended or repealed and its objectives are still valid."

CEU confirms that it is compliant with Article 38 (5) of CSDR. For further information please see the Client Handbook, the Account Application Form[14] and the details provided under Section 4 of this document.

6.2 Article 38 (6) of CSDR

CEU is required to adhere to Article 38 (6) of CSDR which states:

"6. CSDs and their participants shall publicly disclose the levels of protection and the costs associated with the different levels of segregation that they provide and shall offer those services on reasonable commercial terms. Details of the different levels of segregation shall include a description of the main legal implications of the respective levels of segregation offered, including information on the insolvency law applicable in the relevant jurisdictions."

CEU confirms that it is compliant with this requirement. For further details please see earlier sections of this document.

6.3 Article 38 (7) of CSDR

CEU is required to adhere to Article 38 (7) of CSDR which states:

"7. A CSD shall not use for any purpose securities that do not belong to it. A CSD may however use securities of a participant where it has obtained that participant's prior express consent. The CSD shall require its participants to obtain any necessary prior consent from their clients."

CEU confirms that it is compliant with this requirement. For further details please see Number XXXII ("Pledge") of the GTCs and Section 4.6 of this document.

[14] For more information, please refer to the Clearstream website under Account opening forms.

7. Definitions and Glossary

Term	Description
Act on Recovery and Resolution of Institutions and Financial Groups	Gesetz zur Sanierung und Abwicklung von Instituten und Finanzgruppen (Sanierungs- und Abwicklungsgesetz – SAG)
Banking Act	Gesetz über das Kreditwesen (Kreditwesengesetz – KWG)
Civil Code	Bürgerliches Gesetzbuch (BGB)
Collective Account	See OCS
Commercial Code	Handelsgesetzbuch (HGB)
CRR	Regulation (EU) No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012
CSD	Central securities depository
CSDR	Regulation (EU) No 909/2014 of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012
Federal Debt Management Act	Gesetz zur Regelung des Schuldenwesens des Bundes (Bundesschuldenwesengesetz – BschuWG)
Fungible	An asset's interchangeability with other individual assets of the same type
GTCs	General Terms and Conditions (German "Allgemeine Geschäftsbedingungen" – AGB) of CEU
ICS	Individual Client Segregation
Insolvency Code	Insolvenzordnung (InsO)
Levels of protection	The extent to which assets are protected in the CEU environment
Levels of segregation	The types of segregation made available to Participants in the books of a CSD such as CEU
OCS	Omnibus Client Segregation
Participant	Participant in the securities settlement systems operated by CEU governed by laws of Germany
Securities Deposit Act	Gesetz über die Verwahrung und Anschaffung von Wertpapieren (Depotgesetz – DepotG)
SFD or Settlement Finality Directive	Directive 98/26/EC of the European Parliament and of the Council of 19 May 1998 on settlement finality in payment and securities settlement systems
SSS	Securities settlement system

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