Investor & Treasury Services

Article 38(6) CSDR Disclosure: RBC Investor Services Bank France S.A.

1. Introduction

The purpose of this document is to disclose the levels of protection associated with the different levels of segregation that we provide in respect of securities in book-entry form that we hold directly for clients with Central Securities Depositories within the EEA (CSDs), including a description of the main legal implications of the respective levels of segregation offered and information on the insolvency law applicable. This disclosure is required under Article 38(6) of the Central Securities Depositories Regulation (CSDR) in the EEA. It has been prepared on the basis of French laws and regulations, unless otherwise stated.

Under CSDR, the CSDs of which we are a direct participant (see glossary[1]) have their own disclosure obligations and may make their own disclosures from time to time. These disclosures are provided by the relevant CSDs. We have not investigated or performed due diligence on the disclosures and clients rely on the CSD disclosures at their own risk.

This document is not intended to constitute legal or other advice and should not be relied upon as such. Clients should seek their own legal advice if they require any guidance on the matters discussed in this document.

2. Background

In our own books and records, we record each client's proprietary interest in the securities that we hold for that client in a separate client account. We also open accounts with CSDs in our own (or in our nominee's) name in which we hold clients' securities. We currently make two types of accounts with CSDs available to clients: Individual Client Segregated Accounts (ISAs) and Omnibus Client Segregated Accounts (OSAs).

An ISA is used to hold the securities of a single client and therefore the client's securities are held separately from the securities of other clients and our own proprietary securities. Although each ISA may be named in a way that identifies the client for whom it is maintained, the client does not have any right or ability to give instructions directly to the CSD with respect to that ISA and therefore holding securities through an ISA does not give a client any operational rights with respect to that ISA.

An OSA is used to hold the securities of a number of clients on a collective basis. However, we do not hold our own proprietary securities in OSAs.

In both cases, CSDs are not permitted to commingle their own assets with securities held on behalf of a client.

[1] At the end of this document is a glossary explaining some of the technical terms used in the document.

3. Main legal implications of levels of segregation

Insolvency

Clients' proprietary interest in the securities that we hold for them directly with CSDs would not be affected by our insolvency, whether those securities were held in ISAs or OSAs.

The distribution of the securities in practice on an insolvency would depend on a number of factors, the most relevant of which are discussed below.

Application of French insolvency law

Were we to become insolvent, our insolvency proceedings would take place in France and be governed by French insolvency law. In such case, clients' proprietary rights in the securities would be determined at the level of the client securities accounts (comptes-titres) held by us.

Under French insolvency law, securities that we held on behalf of clients would not form part of our estate on insolvency for distribution to creditors, provided that they remained the property of the clients[2]. Rather, they would be deliverable to clients in accordance with each client's proprietary interests in the securities.

As a result, it would not be necessary for clients to make a claim in our insolvency as a general unsecured creditor in respect of those securities.

Securities that we held on behalf of clients would also not be subject to any bail-in process (see glossary), which may be applied to us if we were to become subject to resolution proceedings (see glossary).

Accordingly, where we hold securities in custody for clients and those securities are considered the property of those clients rather than our own property, they should be protected on our insolvency or resolution. This applies whether the securities are held in an OSA or an ISA.

Nature of clients' interests

Although our clients' securities are registered in our name at the relevant CSD, our clients are presumed as a matter of law to have a proprietary right over the securities recorded in our books in their name. This proprietary right is in addition to any contractual right a client may have against us to have the securities delivered to them.

Our books and records constitute evidence of our clients' proprietary rights in the securities. The ability to rely on such evidence would be particularly important on insolvency and an insolvency administrator or liquidator may require a full reconciliation of the books and records in respect of all securities accounts prior to the release of any securities from those accounts. This would apply whether or not the securities are registered in an OSA or an ISA at the level of the CSD.

We are subject to the client asset rules set out in (i) the French Monetary and Financial Code and (ii) the General Regulation of the Autorité des marchés financiers (together, the Applicable Rules), which contain strict and detailed requirements as to the maintenance of accurate books and records and the reconciliation of our records against those of the CSDs with which accounts are held. We are also subject to regular audits in respect of our compliance with those rules. As long as books and records are maintained in accordance with the Applicable Rules, clients should receive the same level of protection from both ISAs and OSAs.

Shortfalls

If there were a shortfall between the number of securities that we are obliged to deliver to clients and the number of securities that we hold on their behalf, this could result in fewer securities than clients are entitled to being returned to them on our insolvency. The way in which a shortfall could arise would be different as between ISAs and OSAs (see further below).

How a shortfall may arise

[2] When a client has sold, transferred or otherwise disposed of their proprietary right to securities that we hold for them (for example, under a right to use or title transfer collateral arrangement), the securities will no longer be the property of the client.

A shortfall could arise for a number of reasons including as a result of administrative error, intraday movements or counterparty default following the exercise of rights of reuse. If expressly agreed with the relevant clients, a shortfall may also arise in the case of an OSA as a result of securities belonging to one client being used or borrowed by another client for intra-day settlement purposes.

Where we have been requested to settle a transaction for a client and that client has insufficient securities held with us to carry out that settlement, we generally have two options:

(i) in the case of both an ISA and an OSA, to only carry out the settlement once the client has delivered to us the securities needed to meet the settlement obligation; or

(ii) in the case of an OSA, to make use of other securities held in that account to carry out settlement subject to an obligation on the part of the relevant client to make good that shortfall, to the extent permitted by applicable law and subject to any relevant client consents required.

Where option (ii) is used, this increases the risks to clients holding securities in the OSA as it makes it more likely that a shortfall in the account could arise as a result of the relevant client failing to meet its obligation to reimburse the OSA for the securities used.

In the case of an ISA, only option (i) above would be available, which would prevent the use of securities in that account for other clients and therefore any resulting shortfall. However, it also increases the risk of settlement failure which in turn may incur additional buy in costs or penalties and/or may delay settlement as we would be unable to settle where there are insufficient securities in the account.

Where clients' securities are held in an OSA, we will use option (ii) unless directed otherwise, to the extent permitted by applicable law and agreed contractual terms.

Treatment of a shortfall

If we become insolvent, the insolvency administrator or liquidator shall verify, for each type of security that we hold on behalf of our clients, that the number of securities in the accounts opened in our name with the relevant CSD, regardless of the nature of these accounts, is sufficient to enable us to meet our obligations towards our clients. If, in the opinion of the insolvency administrator or liquidator, there is a shortfall, that shortfall shall be borne by all the clients concerned, in proportion to the number of securities of that description recorded in the clients' securities accounts opened in our books.

French rules do not expressly indicate whether a shortfall would be attributable to the client(s) for whom the account is opened at the relevant CSD or whether it would be shared rateably among all clients, irrespective of the type of account (ISA or OSA) opened with the relevant CSD.

In the case of an ISA, a shortfall on any other (ISA or OSA) account would in principle be shared rateably among all clients, including clients who do not have an interest in the relevant ISA. Accordingly, a client whose securities are held in an ISA may still be exposed to a shortfall on an account held for another client or clients.

In the case of an OSA, a shortfall attributable to the OSA would be shared rateably among the clients with an interest in the OSA and potentially other clients. Therefore, a client may be exposed to a shortfall even where securities have been lost in circumstances which are completely unrelated to that client.

If a shortfall arose, clients may have a claim against us for any loss suffered and would rank as general unsecured creditors for any amounts owing to them in connection with such a claim, unless they can benefit from the protection of the French investor compensation scheme. Clients would therefore be exposed to the risks of our insolvency, including the risk that they may not be able to recover all or part of any amounts claimed.

In these circumstances, clients could be exposed to the risk of loss on our insolvency.

Security interests

Security interest granted to third party

Security interests granted over clients' securities could have a different impact in the case of ISAs and OSAs.

Where a client purported to grant a security interest over its interest in securities held in an OSA[3] and the security interest was asserted against the CSD with which the account was held, there could be a delay in the return of securities to all clients holding securities in the relevant account, including those clients who had not granted a security interest, and a possible shortfall in the account. However, in practice, we would expect that the beneficiary of a security interest over a client's securities would perfect its security by notifying us rather than the relevant CSD and would seek to enforce the security against us rather than against such CSD, with which it had no relationship. We would also expect CSDs to refuse to recognise a claim asserted by anyone other than ourselves as account holder.

Security interest granted to CSD

Where the CSD benefits from a security interest granted by us in accordance with applicable laws over securities held for a client, there could be a delay in the return of securities to a client (and a possible shortfall) in the event that we failed to satisfy our obligations to the CSD and the security interest was enforced. This applies whether the securities are held in an ISA or an OSA. However, in practice, we would expect that a CSD would first seek recourse to any securities held in our own proprietary accounts to satisfy our obligations and only then make use of securities in client accounts. We would also expect a CSD to enforce its security rateably across client accounts held with it.

Furthermore, the Applicable Rules restrict the situations in which we may grant a security interest over securities held in a client account.

[3] To the extent permitted by applicable laws.

GLOSSARY

bail-in refers to the process under the French Monetary and Financial Code applicable to failing French credit institutions and investment firms under which the firm's liabilities to clients may be modified, for example by being written down or converted into equity.

Central Securities Depository or ***CSD*** is an entity which records legal entitlements to dematerialised securities and operates a system for the settlement of transactions in those securities.

Central Securities Depositories Regulation or ***CSDR*** refers to EU Regulation 909/2014 which sets out rules applicable to CSDs and their participants.

direct participant means an entity that holds securities in an account with a CSD and is responsible for settling transactions in securities that take place within a CSD. A direct participant should be distinguished from an indirect participant, which is an entity, such as a global custodian, which appoints a direct participant to hold securities for it with a CSD.

EEA means the European Economic Area

resolution proceedings are proceedings for the resolution of failing French credit institutions and investment firms under the French Monetary and Financial Code.

Article 38 Central Securities Depositories Regulations

Costs Disclosure

Pursuant to Article 38(6) of CSDR, where we are a participant of a CSD in the EEA we are also required to publicly disclose the costs associated with the types of accounts with CSDs that we currently make available to clients including Omnibus Client Segregated Accounts (OSAs) and Individual Client Segregated Accounts (ISAs).

Costs Disclosure

This Costs Disclosure is intended to provide indicative information with respect to the associated costs for setting up and maintaining OSA and ISA structures at a CSD.

To determine aggregate costs, several different factors are taken into account, including the type of accounts, number of relevant accounts required, and related set-up and maintenance costs.

Based on current market practice, the costs for electing an ISA structure are generally higher than an OSA structure. This reflects the increased operational and maintenance costs associated with the ISA's multiple account structure.

This disclosure does not purport to include all the information you would need in order to choose, when keeping securities in our books, the account type which we will open at a relevant CSD in order to safeguard the securities in your account. It is your responsibility to review and conduct your own due diligence, and review all applicable legal documentation, laws, regulations and rules provided to you by us or a third party.

Please contact your RBC Investor Services Bank France representative to discuss costs in more details.

Cost for OSAs and ISAs

Set up and maintenance fees

OSAs form part of the existing account structure which RBC Investor Services Bank France currently offers at CSDs. As a result, we would expect the structure of our existing account opening and ongoing maintenance fees to remain relatively consistent.

Where RBC Investor Services Bank France provides a client with the possibility to open an ISA in the books of a CSD in order to protect securities held in the client's account, we may apply the following:

- An annual charge to open a new individual account or convert an existing account to the individual account structure
- Account maintenance charges applied by the CSD may be passed through and charged to the client for both OSAs and ISAs

The fees set out above will apply separately to each account.

Third party fees and RBC Investor Services Bank France fees

In addition to RBC Investor Services Bank France fees, clients may be required to pay third party fees incurred in relation to the CSD where we have opened an ISA or an OSA to keep the clients' securities registered in our books. Such third party fees will generally include CSD fees (including fees imposed by CSDs for holding non-cash collateral), regulatory levies, taxes or other charges or costs that may be imposed on the CSD or on any third party broker or third party vendor.

Charges associated with enhanced service delivery

Further RBC Investor Services Bank France fees may apply based on complexity and/or where additional services are provided, such as:

- Bespoke or enhanced technological or operational support
- Complex account structure and/or high number of accounts
- Extensive or high level of oversight required to support the client
- Additional services arising from non-standard products or portfolio types
- Activity in markets where there are specific barriers to entry or extensive regulatory requirements
- Activity in markets where the client or RBC Investor Services Bank France does not have economies of scale

All charges are subject to periodic and ongoing review and may be changed by RBC Investor Services Bank France and/or the relevant CSD.

Fees charged by RBC Investor Services Bank France are not inclusive of out of pocket expenses, registration fees, stamp duty, legal fees, travel expenses and usual disbursements together with VAT, if applicable.