Investor & Treasury Services

Article 38(6) CSDR and Article 73 FMIA Participant Disclosure: RBC Investor Services Bank 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 that we hold directly for clients with Central Securities Depositories within the EEA and Switzerland (***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 relation to CSDs in the EEA) and Article 73 of the Swiss Financial Markets Infrastructure Act (***FMIA***) (in relation to CSDs in Switzerland).

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 individual entitlement to 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.

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.

3. Main legal implications of levels of segregation

Insolvency

Clients' legal entitlement to 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.

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

Application of Luxembourg insolvency law

Were we to become insolvent, our insolvency proceedings would take place in Luxembourg and be governed by Luxembourg insolvency law.

Under Luxembourg insolvency law, securities that we hold on behalf of clients would not form part of our estate on insolvency for distribution to creditors. Rather, they would be deliverable to clients in accordance with each client's *in rem* rights 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, they should be protected on our insolvency or resolution. This applies whether the securities are held in an OSA or an ISA. Insolvency proceedings may, however, delay the restitution of the securities to the client, amongst other reasons because an insolvency practitioner 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.

Nature of clients' interests

Under Luxembourg law, fungible assets (such as securities) that are deposited with us would become our property ("improper custody"). Clients have a contractual right against us to deliver the securities to them. This applies both in the case of ISAs and OSAs.

However, a special protective regime has been created under Luxembourg law in the case of the deposit of fungible financial instruments. The deposit of the securities will be subject to the fungibility regime set out in the law of 1st August 2001 on the circulation of securities, as amended (the Law on the Circulation of Securities). Under the Law on the Circulation of Securities, each client has a right *in rem* (a proprietary interest) of an intangible nature up to the number of securities booked to its securities account held with us, on the entire pool of securities of the same type held in accounts by us (the "securities entitlement") as the immediate account provider, i.e. as the account provider who has opened the client's securities account. This is in addition to any contractual right a client may have against us to have the securities delivered to them.

As a general rule, each client would be able to recover the number of securities to which it is entitled. This would only be possible, however, once the bankruptcy trustee has verified all entitlements.

According to Luxembourg law, the securities entitlement can only be exercised by the client against its immediate account provider, even if the latter has sub-deposited the securities in its name with a higher tier intermediary. This means that the client can generally only exercise its rights in relation to the securities entitlements against us and not against CSDs with which we hold accounts, whether the client's securities are held in ISAs or OSAs.

Our books and records constitute evidence of our clients' proprietary interests in the securities. The ability to rely on such evidence would be particularly important on insolvency. In the case of either an ISA or an OSA, an insolvency practitioner 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. In case of an ISA, this reconciliation will likely be able to occur more efficiently and less onerously than in case of an OSA.

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 in either an ISA or an OSA, 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

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 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 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) in accordance with agreed contractual terms.

Treatment of a shortfall

The treatment of shortfalls may vary depending on whether the securities are held by us in an ISA or OSA.

In the case of an ISA, the whole of any shortfall on that ISA would be attributable to the client for whom the account is held and would not be shared with other clients for whom we hold securities. Similarly, the client would not be exposed to a shortfall on an account held for another client or clients.

In the case of an OSA, the shortfall would be shared among the clients in relation to the securities held in the OSA. Therefore, a client may be exposed to a shortfall even where securities have been lost in circumstances which are completely unrelated to that client.

The risk of a shortfall arising is, however, mitigated as a result of our obligation, in case the available quantity of specific securities is insufficient, to cover the loss by securities of the same nature belonging to us in certain circumstances and within the limits set out by law.

If a shortfall arose and we would not hold a sufficient amount of securities of the same nature belonging to us, clients may have a claim against us for any loss suffered. If we were to become insolvent prior to covering a shortfall, clients would rank as general unsecured creditors for any amounts owing to them in connection with such a claim. 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. If securities were held in an ISA, the entire loss would be borne by the client for whom the relevant account was held. If securities were held in an OSA, the loss would be allocated between the clients with an interest in that account.

In order to calculate clients' shares of any shortfall in respect of an OSA, each client's interests with respect to securities held within that account would need to be established as a matter of law and fact based on our books and records. Any shortfall in a particular security held in an OSA would then be allocated among all clients with an interest in that security in the account. It is likely that this allocation would be made rateably between clients with an interest in that security in the OSA, although arguments could be made that in certain circumstances a shortfall in a particular security in an OSA should be attributed to a particular client or clients. It may therefore be a time consuming process to confirm each client's entitlement. This could give rise to delays in returning securities and initial uncertainty for a client as to its actual entitlement on an 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 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 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, restrictions apply in relation to the situations in which we may grant a security interest over securities held in a client account.

GLOSSARY

bail-in refers to the process under the law of 18 December 2015 on the resolution, reorganisation and winding up measures of credit institutions and certain investment firms and on deposit guarantee and investor compensation schemes, as amended (the ***2015 Law*** applicable to failing Luxembourg banks 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

Financial Markets Infrastructure Act or ***FMIA*** refers to FinfraG (Finanzmarktinfrastrukturgesetz), a Swiss law which sets out rules applicable to CSDs and their participants.

resolution proceedings are proceedings for the resolution of failing Luxembourg banks and investment firms under the 2015 Act.

ARTICLE 38 CENTRAL SECURITIES DEPOSITORIES REGULATIONS

COSTS DISCLOSURE

Pursuant to Article 38(6) of CSDR, where we are a direct 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 to decide which account type to choose at a relevant CSD. 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 I&TS 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 I&TS 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 I&TS provides a client with an ISA, 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

Clients should note that if they settle securities at more than one CSD and select an ISA at each CSD, the fees set out above will apply separately to each account.

Third party fees and RBC I&TS fees

In addition to RBC I&TS fees, clients may be required to pay third party fees incurred in relation to the CSD holding the clients' securities. 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 I&TS 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 I&TS does not have economies of scale

All charges are subject to periodic and ongoing review and may be changed by RBC I&TS and/or the relevant CSD.

Fees charged by RBC I&TS are not inclusive of out of pocket expenses, registration fees, stamp duty, legal fees, travel expenses and usual disbursements together with VAT or GST, if applicable.