

MERRILL LYNCH CANADA INC.

DIRECT CLIENT DISCLOSURE DOCUMENT

Indirect Clearing

Introduction

Throughout this document references to "we", "our" and "us" are references to the clearing broker's client which provides indirect clearing services (the **Direct Client**). References to "you" and "your" are references to the client of the Direct Client (the **Indirect Client**).

What is the purpose of this document?

To enable us to comply with our obligations as a Direct Client under the Indirect Clearing RTS¹, which require that, where we are providing indirect clearing services to you that involve us clearing derivatives through a clearing broker on a European Union (EU) central counterparty (CCP)², we must:

- offer you a choice of a basic omnibus indirect client account and a gross omnibus indirect client account (as discussed under "*The types of accounts available*" in Part One B below);
- disclose to you the details of the different levels of segregation;
- publicly disclose the general terms and conditions under which we provide services to you (as discussed under "*The terms and conditions on which we offer services to you*" in Part One D below); and
- describe the risk associated with each type of account.

In respect of the treatment of margin and collateral at the CCP level you should refer to the CCP disclosures that the CCPs are required to prepare.

We must comply with EMIR, MiFIR³ and the Indirect Clearing RTS with respect to any transactions we clear for you over EU CCPs. We are also subject to laws and regulations applicable in Canada and the Province of Ontario because we are a Canadian organized entity with its principal/head office in Ontario.

As a member firm of the Investment Industry Regulatory Organization of Canada (IIROC) we are required to comply with the client asset segregation requirements of the IIROC member rules (IIROC Rules) with respect to our Canadian business. The IIROC Rules and applicable Canadian bankruptcy rules applicable to securities firms do not currently require or accommodate gross margined segregated accounts at the level of the Direct Client. We may not be able to provide you with the segregated indirect client accounts that give full effect to the segregation offered with the accounts required by Indirect

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Clearing RTS. In such a case you will receive client asset segregation that complies with the IIROC Rules. We may, however, determine based on our assessment of the relevant facts and circumstances, that we are able to facilitate the opening of a form of segregated accounts that comply with the Indirect Clearing RTS at the clearing member level. Please note, however, that the forms of protection associated with these segregated accounts will not be available in the event of our insolvency where the Canadian client protection regime will apply. Whether or not we can provide segregated indirect client accounts, the Canadian client asset protection rules under the Canadian insolvency laws will apply in the event of our insolvency (or that of our clearing broker if it is also subject to such laws).

Organisation of this document

This document is set out as follows:

- Part One A provides some background to indirect clearing.
- Part One B gives information about the differences between the basic omnibus indirect client account and the gross omnibus indirect client account, explains how this impacts on the clearing of your derivatives and sets out some of the other factors that might affect the level of protection you receive in respect of assets provided to us as margin.
- Part One C sets out some of the main insolvency considerations.
- Part One D sets out a general overview of the terms and conditions under which we provide services to you.
- Part Two provides an overview of the different levels of segregation that the clearing brokers offer, together with an explanation of the main implications of each.

What are you required to do?

You must review the information provided in this document, the relevant clearing member disclosures and the disclosure statement provided by the CCP through which you may clear derivatives and, where we offer to facilitate the opening of segregated accounts at the clearing member level that comply with the Indirect Clearing RTS, you will also need to confirm to us in writing which account type you would like us to maintain with respect to each clearing broker through which we clear derivatives for you from time to time. We will explain how we would like you to make this confirmation and by when. If you do not confirm within the requested timeframe, we will record the positions and assets relating to you in an account that we assign to you that has a level of Indirect Clearing RTS-compliant segregation, provided that:

- we have requested from you your written choice of segregation;
- in our communication with you, we have informed you that your failure to elect a level of segregation in accordance with the Indirect Clearing RTS will result in us allocating you to an account having a level of Indirect Clearing RTS-compliant segregation (e.g. an omnibus segregation, net or gross as the case may be); and
- we have explained to you that election by us does not preclude you to elect a different (e.g. higher) level of segregation at any time by communicating it in writing to us.

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Important

Whilst this document will be helpful to you, this document does not constitute legal or any other form of advice and must not be relied on as such. This document provides a high level analysis of several complex and/or new areas of law, whose effect will vary depending on the specific facts of any particular case, some of which have not been tested in the courts. It does not provide all the information you may need to make your decision on which account type or level of segregation is suitable for you. It is your responsibility to review and conduct your own due diligence on the relevant rules, legal documentation and any other information provided to you on each of our account offerings and those of the various clearing brokers and CCPs through which we clear derivatives for you. You may wish to appoint your own professional advisors to assist you with this.

We shall not in any circumstances be liable, whether in contract, tort, breach of statutory duty or otherwise for any losses or damages that may be suffered as a result of using this document. Such losses or damages include (a) any loss of profit or revenue, damage to reputation or loss of any contract or other business opportunity or goodwill and (b) any indirect loss or consequential loss. No responsibility or liability is accepted for any differences of interpretation of legislative provisions and related guidance on which it is based. This paragraph does not extend to an exclusion of liability for, or remedy in respect of, fraudulent misrepresentation.

Please note that this disclosure has been prepared on the basis of English law (with respect to the description of the Indirect Clearing RTS) and Canadian federal law and the laws of the Province of Ontario (**Canadian law**), save as otherwise stated. However, issues under other laws may be relevant to your due diligence. For example, the law governing the CCP rules or related agreements; the law governing our insolvency; the law of the jurisdiction of the CCP, the law of the jurisdiction of incorporation of the clearing broker; and the law of the location of any assets.

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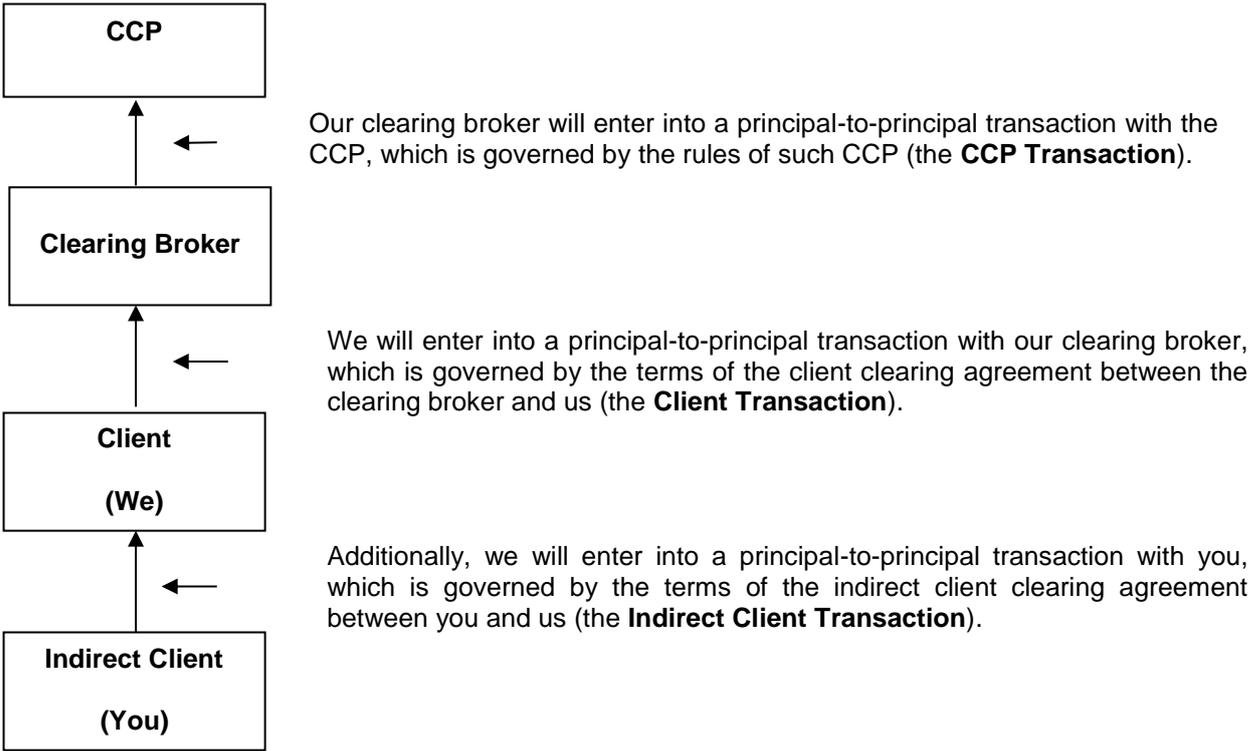
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Part One A: A brief background to indirect clearing

The market distinguishes two main types of clearing models: the "agency" model and the "principal-to-principal" model. Most of the EU CCPs which our clearing brokers use adopt the "principal-to-principal" model, and this document assumes all transactions are cleared according to this model.

The "principal-to-principal" clearing model

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



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

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

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As the principal to the CCP, our clearing broker is required to provide assets to the CCP as margin for the CCP Transactions that relate to you and to ensure the CCP has as much margin as it requires at any time. We will therefore ask you for margin and, where you provide it in a form which we cannot transfer to the clearing broker, we may transform it. If you have provided us with assets as margin, you may face what we call "transit risk" - this is the risk that, if we were to default prior to providing such assets to the clearing broker, or our clearing broker were to default prior to providing such assets to the CCP, the assets that should have been recorded in your account at the CCP will not have been and will not benefit from the protections described below under "*What happens if we are declared to be in default by a clearing broker?*".

However, in many cases you may not actually face transit risk because our clearing brokers often call margin from us early in the morning to pass it on to the CCP so we will often use our own funds to satisfy the margin call and then seek to recover such amount from you. In these cases where the margin has been funded by us and has already been passed on to the CCP before we call it from you, it is rather that we are exposed to you for the interim period. The arrangements between you and us relating to how the margin calls will be funded will be set out in the indirect client clearing agreement between you and us.

If we have no direct relationship with a clearing broker who is a member of the relevant CCP ourselves and where you have opted for a Basic Omnibus Indirect Client Account, we may enter into a principal-to-principal transaction with an affiliate who is the Direct Client of a relevant clearing broker in a long chain arrangement under the Indirect Clearing RTS (a **Long Chain Arrangement**). Under a Long Chain Arrangement, both the affiliate Direct Client and we would be subject to the relevant requirements for Direct Clients in the Indirect Clearing RTS. Consequently, any references in this document to 'Direct Client' should be read as including us in the capacity of a client of an affiliate Direct Client under a Long Chain Arrangement.⁴

Please see Part One B for an explanation of how this is relevant to the choice of account types.

Features of Canadian Law and Practice

Under applicable Canadian law a Direct Client is not required to offer you a choice between a basic omnibus indirect client account and a gross omnibus indirect client account (as described above). A Direct Client may establish accounts at the clearing member level that are omnibus accounts for clients, whether gross or net segregated accounts, as long as the clearing broker is able to offer such accounts. However, accounts opened for you at the Direct Client level applicable to exchange-traded futures are subject to the segregation requirements consistent with IIROC rules. The IIROC rules currently require segregation of client assets from our own assets, but do not require or facilitate the establishment of accounts that segregate futures margin from other margin or gross margining of futures positions. A change in rules is anticipated to allow for a separation between securities and futures operations and to facilitate the opening of gross margined accounts, which may allow us to offer such an option in future.

On a default of the Direct Client in the event of a deficiency in the holding of a particular financial asset, the protection associated with the segregation of accounts may not be recognized to the extent that Canadian law is relevant to that determination. Under the *Securities Transfer Act* (Ontario) a securities intermediary is required to maintain in its client accounts sufficient assets to satisfy the entitlements of all customers. If, however, the firm holds an insufficient amount of a financial asset to satisfy those entitlements, there is a proportionate sharing of those particular financial assets held by the firm in both its client and house accounts among the clients of the firm. The financial assets in this pool would include assets held by the Direct Client in segregated accounts at the clearing broker level or with other intermediaries in a Long Chain Arrangement. While these rules are designed to provide a level of protection of the interests of clients in priority to the interests of the Direct Client or its non-client

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creditors, they likely do potentially pool the interests of clients without regard to the type of segregated account the client has selected at the clearing member level.

What is the Canadian Collateral Protection Regime?

A. Exchange-Traded Futures and Options

The IIROC rules require member investment firms to segregate client securities (Rules 17 and 2000). They do not provide for gross margining accounts. There is currently no requirement to segregate lines of business and the margin rules applicable to member firms are based on an aggregation of futures positions with securities account positions. Further, the Canadian Investor Protection Fund (CIPF) extends to both securities and futures accounts. The current rules do not easily accommodate gross margining of futures positions and segregation of margin supporting futures trading. The collateral protection regime is the same one that applies to your securities trading accounts.

B. OTC Derivatives

OTC Derivatives are only cleared by our affiliates.

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

There may be circumstances where you wish to transfer some or all of your Indirect Client Transactions to another Direct Client or another clearing broker on a business as usual basis (i.e. in the absence of us having been declared in default by a clearing broker). We are not obliged to facilitate this under the Indirect Clearing RTS but we may be willing to do so subject to our ability to transfer the Client Transactions to which they relate and the margin provided to the clearing broker in connection with them (which will depend on the relevant arrangements with the clearing broker and the CCP) and any conditions set out in our indirect client clearing agreement. We will facilitate these transfers if the transferred and remaining positions will retain appropriate margin. You will also need to find a Direct Client or clearing broker that is willing to accept such Indirect Client Transactions and/ or the related Client Transactions and assets.

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

What happens if we are declared to be in default by a clearing broker?⁵

Option A

If we are declared to be in default by a clearing broker the clearing broker will terminate the Client Transactions that relate to you (see "*What happens if porting is not achieved*" below).

Option B

If we are declared to be in default by a clearing broker, there are two possibilities with respect to the Client Transactions and assets related to you:

- with respect to Gross Omnibus Indirect Client Accounts, the clearing broker will, at your request, try to transfer (**port**) to another clearing broker (a **back-up clearing broker**) or another

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Direct Client (a **back-up Direct Client** and together with the back-up clearing broker a **back-up entity**), such Client Transactions and assets; or

- if porting cannot be achieved with respect to Gross Omnibus Indirect Client Accounts and in any default with respect to Basic Omnibus Indirect Client Accounts, the clearing broker will terminate the Client Transactions that relate to you (see *"What happens if porting is not achieved"* below).

The porting process will differ depending on the clearing broker, but it is likely to involve a close-out (with us) and a re-establishment (with the back-up entity) of the Client Transactions, or a transfer of the open Client Transactions and related assets from us to the back-up entity. In some cases clearing brokers will support this structure legally by requiring us to grant a security interest to you over some or all of our related rights against the clearing broker, but in other cases where clearing brokers can rely on the Indirect Clearing RTS and local legislation, this may not be necessary.

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

Option A:

No. Because we cannot facilitate the opening of a Gross Omnibus Indirect Client Account, porting is not available.

Option B:

No, there will be a number of conditions which must be satisfied before the Client Transactions and assets that relate to you can be ported to a back-up entity. These conditions will be set by the clearing broker and will include obtaining your consent. In all cases you will need to have a back-up entity that has agreed to accept the Client Transactions. You may wish to appoint a back-up entity upfront as part of your clearing arrangements, but the back-up entity is unlikely to be able to confirm that it is willing to accept the Client Transactions until the default occurs. The back-up entity may also have conditions that they require you to meet. You may also be able to agree with the clearing broker that it may choose a back-up entity on your behalf. If you have not appointed a back-up entity prior to our default, or agreed with the clearing broker that it may appoint one on your behalf, then this may mean that porting is less likely to occur.

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 between itself and you.

The type of account and level of segregation you choose will have an impact on the ability to port Client Transactions and assets to a back-up entity upon our default. Further, the commencement of insolvency proceedings with respect to us can interfere with the ability to achieve porting. Please see Part One C for a consideration of the main insolvency considerations.

If you choose a Basic Omnibus Indirect Client Account (described in more detail in Part One B), no contractual arrangements are required to be put in place for porting and, therefore, porting will ordinarily not be available.

If you choose a Gross Omnibus Indirect Client Account (described in more detail in Part One B), you can appoint a back-up entity with respect to just your Client Transactions (i.e. independently of our other clients in the same Gross Omnibus Indirect Client Account).

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What happens if porting is not achieved?

If applicable, each clearing broker is permitted to specify a period of time after which, if it has not been able to achieve porting, it will be permitted to actively manage its risks in relation to the Client Transactions. This period of time will vary across clearing brokers. If you want to port your Client Transactions (where possible), you will need to notify the clearing broker and show that you can satisfy the other conditions within this period.

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

If the clearing broker terminates the Client Transactions, then the Indirect Client Transactions between you and us are also likely to terminate. The termination calculations in respect of those Indirect Client Transactions will be performed in accordance with the indirect client clearing agreement between you and us and such calculations will likely mirror those performed by the clearing broker in respect of the Client Transactions. If you are due a payment from us as a result of the close-out calculations in respect of our Indirect Client Transactions, the amount due from us to you will be reduced by any amount that you receive (or are deemed to receive) directly from the clearing broker.

Please see Part One C for a consideration of the main insolvency considerations.

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

The types of accounts available

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

There are two basic types of indirect client accounts available from the clearing broker – Basic Omnibus Indirect Client Accounts and Gross Omnibus Indirect Client Accounts. Some of the CCPs then offer different levels of segregation within some of those account types as described in Part Two of this document.

As noted, we refer you to the CCP disclosures which the CCPs are required to prepare and which set out the treatment of margin and collateral at CCP level. We have also included below a general overview of the most common segregation approaches taken by CCPs, but note that for any particular CCP, there is no substitute for that CCP's own disclosure.

Basic Omnibus Indirect Client Account⁶

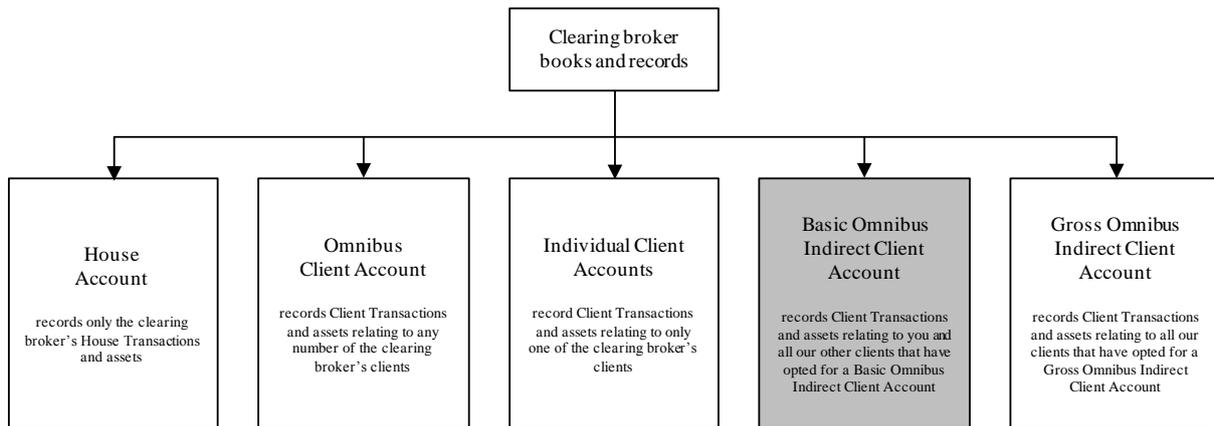
Under this account type, at the level of the clearing broker, the Client Transactions (including the corresponding assets in the clearing broker's accounts) relating to you are segregated from:

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

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

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Can Client Transactions and related collateral be netted with the clearing broker's House Transactions and assets?	No
Can Client Transactions and related assets be netted with those relating to us or the clearing broker's other Direct Clients?	No
Can Client Transactions and related collateral be netted with those relating to our clients?	Yes (provided our other clients' Client Transactions and assets are recorded in the same Basic Omnibus Indirect Client Account)
Can Client Transactions and related collateral be netted with those relating to the clearing broker's other Indirect Clients?	No

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

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

Please see Part Two for an overview of the risks in relation to a Basic Omnibus Indirect Client Account and for details of the different levels of segregation that may be available at different CCPs.

Gross Omnibus Indirect Client Account⁷

We are not currently able to offer you the choice of a Gross Omnibus Indirect Client Account, but are providing the following description for your information.

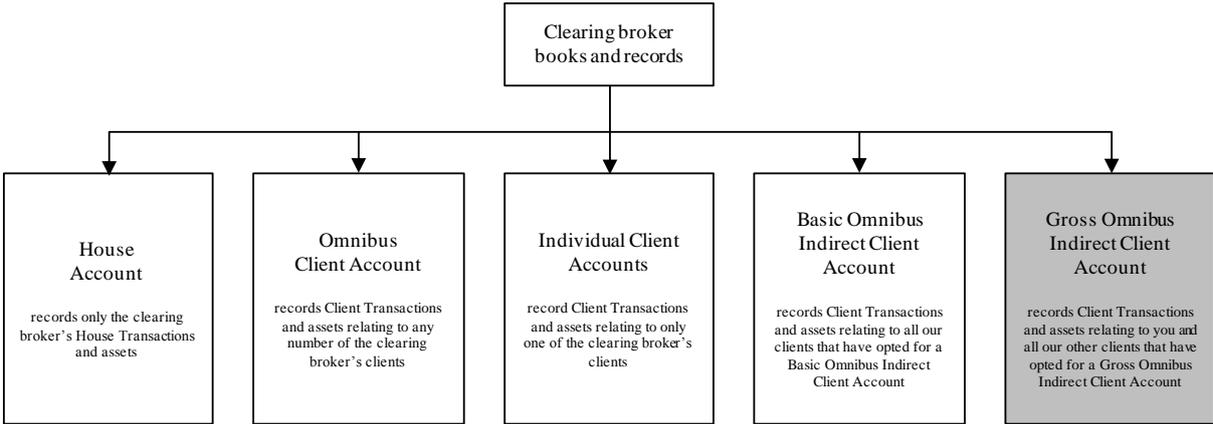
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Under this account type, at the level of the clearing broker, the Client Transactions (including the corresponding assets in the clearing broker's accounts) relating to clients are segregated from:

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

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



Can Client Transactions and related collateral be netted with the clearing broker's House Transactions and assets?	No
Can Client Transactions and related assets be netted with those relating to us or the clearing broker's other Direct Clients?	No
Can Client Transactions and related collateral be netted with those relating to our clients?	The Client Transactions relating to you will not be netted with the Client Transactions relating to any of our other clients.

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	However, the collateral relating to you may be used to cover Client Transactions of our other clients to the extent it is recorded in the same Gross Omnibus Indirect Client Account. ⁸
Can Client Transactions and related collateral be netted with those relating to the clearing broker's other Indirect Clients?	No

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

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

Please see Part Two for an overview of the risks in relation to a Gross Omnibus Indirect Client Account and for details of the different levels of segregation that may be available at different clearing brokers.

Affiliates

Except for Long Chain Arrangements, we treat our affiliates in the same way as clients when complying with the Indirect Clearing RTS. This means that affiliates also have a choice between types of account. An affiliate may be part of the same account as other clients.

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

There are a number of factors that, together, determine the level of protection you will receive in respect of assets that you provide to us as margin for Indirect Client Transactions:

- whether you choose a Basic Omnibus Indirect Client Account or a Gross Omnibus Indirect Client Account (as discussed under "*The types of accounts available*" above);
- in each case, whether such assets are transferred by way of title transfer or security interest;
- whether we call any excess margin from you or you pay excess margin to us;
- whether you will get back the same type of asset as you provided as margin; and
- the bankruptcy and other laws that govern the clearing broker, us and the CCP.

The rest of Part One B sets out further details for each of these variables and their implications under Canadian law.

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Will you provide cash or non-cash assets as margin for the Client Transactions?

As noted under *"The "principal-to-principal" clearing model"* in Part One A, as a Direct Client of the clearing broker, we are required to transfer assets to the clearing broker in respect of the Client Transactions related to your Indirect Client Transactions. Clearing brokers only accept certain types of liquid cash and non-cash assets as margin.

As is market practice, we will decide what types of assets to accept from you as margin for your Indirect Client Transactions. This will be set out in the indirect client clearing agreement between you and us. What we will accept from you as margin for the Indirect Client Transactions will not necessarily be the same type of assets that the clearing brokers will accept from us for the Client Transactions, in which case we may provide you with a collateral transformation service, under which we transform the assets you provide to those which we can pass onto the clearing broker.

Do you provide assets to us on a title transfer or a security interest basis?

As is market practice, we will decide the basis on which we are willing to accept assets from you. This will be set out in the indirect client clearing agreement between you and us.

Security Interest

Where the indirect client clearing agreement provides for the transfer of assets by way of security interest, when you transfer assets to us, you retain a beneficial ownership interest in the assets we hold in your account. Such assets are transferred to us on the basis that [as between you and us] the assets still belong to you, but you have granted us a security interest with respect to such assets.

We may enforce that security interest if you default in your obligations to us. Absent the exercise of any right of use by us (see below), only at the point of such enforcement would the full property interest in such assets or their liquidation value transfer to us. We will record in our books and records that we have received such assets from you with respect to the applicable Indirect Client Transaction.

Prior to any such default, you may also give us a right to use such assets. Until such time as we exercise such right of use, the assets continue to be held for you. Once we exercise the right of use (e.g. by posting the assets to a clearing broker), the assets will cease to be held for you and in effect become our assets, at which point you will bear our credit risk in a similar way. The circumstances in which we may exercise such right of use and the purposes for which we may use any assets will be set out in the indirect client clearing agreement between us.

If we have transformed the assets you have provided in order to provide appropriate margin to the clearing broker or CCP or we have invested your assets as permitted by the indirect client clearing agreement, any rights you have apply to the assets into which your assets were transformed or the investment made with the assets and not your original assets.

What is your position with respect to cash balances in your account with a Canadian Direct Client?

As is market practice, we will decide the basis on which we are willing to accept cash margin from you. This will be set out in the indirect client clearing agreement between you and us.

In the absence of special arrangements between us, you accept our credit risk with respect to cash balances in your account whether they arise from cash margin which you provide to us or amounts we receive from our clearing broker with respect to your Client Transactions. Whether or not we segregate

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your cash margin, a credit balance recorded in your account with respect to the cash represents our monetary obligation to you and not the holding of an asset on your behalf.

If we are declared to be in default by a clearing broker, and the clearing broker cannot port or return the balance owing with respect to your account by the clearing broker to you directly and the balance must instead be returned to us (or our insolvency representative) for the account of our clients (see "*What happens if porting is not achieved*" in Part One A above), then:

- Generally, any cash paid to us by the clearing broker for the account of our clients is likely to form part of the customer pool fund and to be subject to the normal rules on distribution to all clients of the firm.

The customer pool fund is the mechanism through which our insolvency representative would normally gather together the money relating to most of our clients for which we hold client money, wherever it is held, and from which it would distribute that client money in accordance with the scheme of distribution in the insolvency legislation.

How will any excess margin we call from you be treated?⁹

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

Under the Indirect Clearing RTS, excess margin should be treated in accordance with the terms of the indirect client clearing agreement between you and us. Depending on those terms, you may take credit risk on us in respect of it.

Will you get back the same type of asset as you originally provided to us as margin for an Indirect Client Transaction?

In a business as usual situation, whether we will deliver the same type of asset to you that you originally provided to us will be governed by the indirect client clearing agreement between you and us.

In the event of our default, if you are due a payment, you may not receive back the same type of asset that you originally provided to us. This is because the clearing broker is likely to have wide discretion to liquidate and value assets and make payments in various forms, and also because the clearing broker may not know what form of asset you originally provided to us as margin for the Indirect Client Transaction and as a result of any asset transformation services we may provide. Further, an insolvency representative distributing the a customer pool fund to customers is not required to distribute the same assets as are credited to the account. This risk is present regardless of what type of client account you select.

Also as explained above with respect to the *Securities Transfer Act*, if there is a deficiency in our holdings of a financial asset such that we are not able to meet the entitlements of all clients to that asset, there will be a proportionate sharing among all customers holding that asset in their accounts.

Please see Part One C for a consideration of the main insolvency considerations.

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Part One C: What are the main insolvency considerations?

General insolvency risks

If we enter into insolvency proceedings, you may not receive all of your assets back or retain the benefit of your positions and there are likely to be time delays and costs (e.g. funding costs and legal fees) connected with recovering those assets. These risks arise in relation to both Basic Omnibus Indirect Client Accounts and Gross Omnibus Indirect Client Accounts because:

- you will not have any rights directly against the CCP; except for clearing broker-specific porting solutions described earlier and the comments below under "*Margin rights*", you will not have any rights directly against the clearing broker; and you will only have contractual claims or special statutory claims against us (i.e. rather than being able to recover particular assets as owner);
- our insolvency proceedings are most likely to be a liquidation under bankruptcy legislation (although it is possible for us to enter into an arrangement proceeding or other process that does not involve liquidation of assets). In liquidation, subject to a few exceptions, you will not be able to take any action against us without court or insolvency official consent (which can be a time consuming process with an uncertain outcome); and
- any stage of a cleared transaction (e.g. Indirect Client Transactions, Client Transactions) may be challenged by our insolvency official if, broadly speaking, it was not on arm's length terms. If successful, the court has broad powers to unwind or vary all of those stages.

Please also note that:

- insolvency law may override the terms of contractual agreements, so you should consider the legal framework as well as the terms of disclosures and legal agreements;
- a large part of your protection comes from CCP arrangements and the legal regimes surrounding them. Therefore, you should understand these in order to evaluate the level of protection that you have on our default. It is important that you review the relevant disclosures by the relevant clearing broker and the CCP in this respect;
- we are a Canadian corporation incorporated under the Canada Business Corporations Act that is a registered dealer under the Ontario Securities Act and a registered futures commission merchant under the Ontario Commodity Futures Act ; and

As a general rule, Canadian insolvency proceedings would apply with respect to us.

Canadian Customer Protection Regimes in Insolvency Proceedings

General.

In general, if a securities firm is placed in bankruptcy, it would be liquidated by a trustee in bankruptcy in accordance with the securities firm liquidation provisions under Part XII of the *Bankruptcy and Insolvency Act* (Canada) (**BIA**).

Transfer of customer assets and positions. Once a Direct Client has filed for, or is otherwise placed in bankruptcy, a clearing broker may not transfer, or port, the positions and assets of non-defaulting clients to another Direct Client except as directed by the trustee in bankruptcy and permitted by the overseeing court. While a right to close-out derivatives transactions is enforceable in such a proceeding,

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the right of the clearing broker as against the Direct Client to transfer open positions is not expressly safe-guarded. The trustee in bankruptcy is likely to attempt to effectuate the transfer to another firm of all client positions that are not closed out together with the money, securities or other property held to margin the contracts.

Liquidation Process. If positions and assets are not transferred, the BIA requires that customer losses are shared ratably among all customers of the firm. The BIA procedure would involve a pooling of all securities and cash assets held by the firm for the benefit of all customers of the firm together with the firm's own securities and cash into a "customer pool fund". Customer claims are paid from this customer pool fund proportionately. The claim of the customer is a "net equity claim". The net equity claim does not include amounts owing by the firm to the customer under exchange traded or OTC derivatives contracts, but does include the value of collateral of the client securing any indebtedness of the client to the firm and any cash credited to the client's account that is received from a clearing broker net of any indebtedness the client owes to the firm.

With one statutory exception, all securities and cash held by or for the firm, whether owned by the firm itself or held for the account of its customers, vest in the trustee in bankruptcy. The BIA does not draw a distinction between assets held in segregated accounts for clients. In other words, the BIA does not generally recognize that customers have claims as beneficiaries of a trust or property owners of the assets held by the firm regardless of the type of account in which those assets are held by the firm. The only securities and other financial assets held by a firm that do not vest in the trustee to become part of the customer pool in bankruptcy are what are known as customer name securities (essentially securities registered in the name of the client on the issuer's books), which are not relevant to your futures trading account. If the assets in the customer pool fund are insufficient to meet all of the net equity claims of customers, then the unpaid portion of the net equity claim also has a preferred claim against the other assets of the firm albeit subordinate to administrative charges and the claims of secured creditors.

The BIA scheme differs from the ownership regime established by the *Securities Transfer Act* (which would apply outside of bankruptcy to Canadian accounts) or by the Indirect Clearing RTS.

Although the customer's claim is a monetary one, it may in fact receive all or part of the distribution in kind with respect to securities. The BIA provides that to the extent that securities of a particular type are available in the customer pool fund, the trustee must distribute them to customers with claims to the securities, in proportion to their claims to the securities, up to the appropriate portion of their net equity claim. The trustee may determine however that, in the circumstances, it would be more appropriate to sell the securities and distribute the proceeds to the customers with claims to the securities in proportion to their claims to the securities.

Insolvency of clearing brokers, CCPs and others

Except as set out in this section "*Insolvency of clearing brokers, CCPs and others*", this disclosure deals only with our insolvency. You may also not receive all of your assets back or retain the benefit of your positions if other parties in the clearing structure default – e.g. the clearing broker, the CCP, a custodian or a settlement agent.

In relation to a clearing broker or CCP insolvency, broadly speaking, our (and therefore your) rights will depend on the law of the country in which the clearing broker or the CCP is incorporated (i.e. not likely Canadian law) and the specific protections that the clearing broker or the CCP has put in place. You should review the relevant disclosures carefully in this respect and take legal advice to fully understand the risks in these scenarios. In addition, please note the following:

- under the indirect client clearing agreement, Indirect Client Transactions will terminate at the same time as the matching Client Transactions unless our clearing agreement with the clearing

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broker provides otherwise. This will result in a net sum owing between you and us. However, your claims against us are limited recourse so that you will only receive amounts from us in relation to Indirect Client Transactions if we receive equivalent amounts from the clearing broker or the CCP in relation to relevant Client Transactions;

- we expect that an insolvency official will be appointed to manage the clearing broker or the CCP. Our rights against the clearing broker or the CCP will depend on the relevant insolvency law and/or that official;
- it may be difficult or impossible to port Client Transactions and/ or CCP Transactions and related margin, so it would be reasonable to expect that they will be terminated at the level of the clearing broker and/ or the CCP. The steps, timing, level of control and risks relating to that process will depend on the clearing broker and/ or the CCP, the applicable rules or agreements and the relevant insolvency law. However, it is likely that there will be material delay and uncertainty around when and how much assets or cash we will receive back from the clearing broker or the CCP. Subject to the bullet points below, it is likely that we will receive back only a percentage of assets available depending on the overall assets and liabilities of the clearing broker or the CCP;
- it is unlikely that you will have a direct claim against the clearing broker or the CCP because of the principal-to-principal model described in Part One A;
- if recovery of margin in these scenarios is important, then you should explore whether any clearing brokers offer "bankruptcy remote" or "physical segregation" structures. It is beyond the scope of this disclosure to analyse such options but your due diligence on them should include analysis of matters such as whether other creditors of the type described in "*Porting – preferential creditors*" below will have priority claims to margin; whether margin or positions on one account could be applied against margin or positions on another account (notwithstanding the client clearing agreement); the likely time needed to recover margin; whether the margin will be recovered as assets or cash equivalent; and any likely challenges to the legal effectiveness of the structure (especially as a result of the clearing broker's insolvency).

Margin rights

If you provide assets (other than cash) to us by way of security interest and if we have not exercised a right of use over those assets, then you should have a legal right to recover the balance of those assets (after settling your obligations to us) ahead of other creditors. However, please note that, depending on the exact set up of our security arrangements, it may be that some preferential creditors will still have a prior claim to your assets (please see "*Porting – preferential creditors*" below which deals with a similar point). In a bankruptcy proceeding you would not have a right to recover the assets, but would be able to include the value of the assets in your net equity claim. See above *Canadian Customer Protection Regimes*.

If you have retained the assets (e.g. in a custody account over which you have given us a security interest), then you will have the best chance of recovering them. If you have transferred the assets to our name by way of security (e.g. by giving us a charge, lien or other security interest over the assets) then you bear more risk if there is a shortfall in any of the assets that we are holding. Generally speaking, your risk of loss will be highest in relation to cash margin or other assets transferred on a title transfer basis; lower in relation to securities held by us in an omnibus account; and possibly lower still if securities are segregated in our books and records and at custody level identifying you as the client. They will be lowest (at least with respect to the risk of our insolvency), if the assets are held in an account in your name at a third party.

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The actual result will be highly fact specific and will depend on, amongst other things, the exact terms of our legal arrangements; how we have operated accounts; and claims that other intermediaries (e.g. custodians and settlement systems) have to those assets.

We would not expect the above position to be materially different depending on whether we use a Basic Omnibus Indirect Client Account or Gross Omnibus Indirect Client Account.

Close-out netting

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

The BIA safe-guards rights of the clearing broker to terminate and net under the terms of eligible financial contracts, which includes the Client Transactions and it protects your rights to terminate and net under the terms of the Indirect Client Transactions. It also protects your right to realize on any financial collateral you hold from us to secure our obligations under the Indirect Client Transactions. However, we note that an assignment of payment rights as against our clearing broker would not constitute financial collateral. Generally, however, secured creditors are not prevented from realizing on security in a bankruptcy, whether or not it is financial collateral.

The *Payment Clearing and Settlement Act* (Canada) should safe-guard the right of the clearing broker to exercise close-out rights against us and should protect the right of the CCP (particularly if it is designated as a systemically important CCP under the PCSA) to exercise such rights against the clearing broker in the event of our default. If you are a financial institution it will also safe-guard your close-out rights as against us.

Please also note more generally that your freedom to close out Indirect Client Transactions is more limited under the indirect client clearing agreement than in other arrangements that you may be used to. In particular, the main termination event under our indirect client clearing agreement is that the relevant clearing broker has declared us to be in default under the client clearing agreement between it and us. The intention is to match the treatment of Client Transactions and Indirect Client Transactions as much as possible. However, this may mean that – unless the clearing broker declares a default under the client clearing agreement - you cannot terminate Indirect Client Transactions for common reasons such as a payment or insolvency default on our part.

Porting – prohibition

As mentioned above, except in specific (e.g. physically segregated) structures, a clearing broker only owes us (not you) obligations in relation to Client Transactions and related assets.

As a result, when these contracts and assets are transferred to a back-up entity, there is a risk of insolvency challenge because our rights have effectively been taken from us on or around the time of our insolvency. Applicable laws may not permit this. Further, because there is a pooling of all assets of a firm for the benefit of all customers in a bankruptcy proceeding, the transfer of Client Transactions and assets to a new Direct Client may be viewed as preferring you over our other clients and creditors. Consequently, there is a risk that the courts may therefore not permit, or may unwind, any porting and related Indirect Client Transactions with this back-up entity.

The porting rights of certain CCPs may be expressly safe-guarded by provisions of the *Payment Clearing and Settlement Act*, but those protections apply to the CCP porting rules and not the clearing broker's own porting rights under the client clearing agreement upon our own default.

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Porting - preferential creditors

As mentioned under *"What happens if we are declared to be in default by a clearing broker?"* in Part One A, a clearing broker's porting structure may be based on or supported by a security interest. This can take different forms but generally involves us creating security over our rights against the clearing broker in relation to a Basic Omnibus Indirect Client Account or a Gross Omnibus Indirect Client Account in your favour or in favour of another person (e.g. an independent trustee) to hold the security on your behalf. Broadly speaking, the security interest should support the argument that these assets are not part of our insolvency estate (i.e. are not to be shared with our general creditors).

However, depending on the exact structure, insolvency law gives certain statutory creditors priority over secured creditors. This means that some creditors may have a claim on client account assets ahead of you. Statutory creditors are likely to include, amongst others, our insolvency official (e.g. in respect of its costs and expenses), Crown creditors with respect to unremitted taxes and source deductions, a relatively small amount of unsecured creditors, some employee salaries and pension contributions.

Mismatch of CCP/Client Transactions and assets

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

For example, it may occur at clearing broker level as a result of Fellow Client Risk (see the explanation of this term in Part Two of this document) in a Gross Omnibus Indirect Client Account, with the result that there are insufficient assets available for porting to satisfy our obligations to you in relation to the Indirect Client Transactions.

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Part One D: The terms and conditions on which we offer services to you

Terms and Conditions

Indirect Clearing Arrangements

In accordance with the provisions of the Regulatory Technical Standards on Indirect Clearing Arrangements under MiFIR¹ and EMIR², we are required to disclose the general terms and conditions pursuant to which we provide our clients indirect clearing services with respect to exchange-traded derivatives contracts that are cleared by a central counterparty authorized in the European Union (“**EU CCP**”).³ Such terms and conditions are set out in detail in the agreement, including all schedules and appendices thereto, that we enter into with you (the “**Agreement**”).

The term “**indirect clearing services**,” for purposes of this Statement, refers to the circumstances where we access an EU CCP through a clearing member of that EU CCP.

In significant part, the terms and conditions identified below are required in order for us to comply with relevant provisions of Canadian, U.S. and E.U. laws, rules and regulations and the self-regulatory organizations with jurisdiction over our securities-related activities. (All such laws and rules, as applicable, are collectively referred to herein as the “**rules**”.) For example, the rules require that we must:

- take reasonable steps to know our clients in accordance with applicable law, including Anti-Money Laundering and “know your customer” rules;
- establish risk-based limits on each client’s orders;
- conduct business only with or through an intermediary that is registered, as applicable (or not required to be registered);
- obtain a first priority security interest in all exchange-traded derivatives contracts and all cash and securities deposited to margin such contracts; and
- confirm that our clients have received and understood certain prescribed disclosures.

A general description of the principal terms and conditions governing our relationship with our clients is set out below. The actual provisions of the Agreement are more detailed. Moreover, please note that the specific terms and conditions of the Agreement that we enter into with any client may differ depending on our analysis of the risks that such client’s trading activities may present.

Before providing indirect client services to you, we will generally require, subject to the terms and conditions contained in the Agreement, that you:

¹ Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012.

² Regulation (EU) No. 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives central counterparties and trade repositories.

³ “**Exchange-traded derivative**” is defined in Article 2(1)(32) of MiFIR to include any derivative traded on an EU regulated market or on any third-country trading venue determined to be “equivalent” to an EU regulated market for purposes of discharging MiFIR’s mandatory trade execution obligations. No such equivalence determinations have yet been made. Where applicable, when used herein this term also includes equity options listed for trading on an EU regulated market (“**Non-US Listed Equity Options**”).

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- provide us with such information that we may request in order to verify your identity as required by law or as we may otherwise require for account opening purposes.
- confirm to our satisfaction that you meet our minimum financial and operational requirements appropriate for your business, experience and the nature of the trading in which you intend to engage; you must agree to provide us with such financial information, including a current financial statement, as we may request from time to time and to notify us promptly of any material change in your financial condition.
- confirm to our satisfaction that you have full power and authority to enter into the Agreement and to enter into the transactions contemplated thereby for your account or on your behalf.
- confirm to our satisfaction that you have obtained all registrations or licenses, if any, that you may require to conduct business and that you remain in good standing with all relevant regulatory and self-regulatory authorities.
- acknowledge that you have read and understood all disclosure statements with respect to your trading activities that we have provided you, including the appropriate Disclosure Statement on Indirect Clearing.
- acknowledge that all exchange-traded derivatives transactions effected for your account or on your behalf are subject to “**Applicable Law**”, including exchange and clearing organization rules that require your consent to be subject to the jurisdiction of the markets on which you trade, and that you will conduct all activities subject to the Agreement in accordance with such Applicable Law.
- agree that we may, in our sole discretion, limit the size of your positions, refuse to accept any order or transaction, or require you to transfer your account to another firm.
- agree to meet all margin calls with respect to exchange-traded derivatives contracts that we clear for your account or on your behalf in such form and amounts and within such time as we may determine, consistent with Applicable Law.
- grant us a lien and first priority security interest and right of set-off in all exchange-traded derivatives contracts and all cash, securities and other property (“**collateral**”) that you deposit with us to margin, guarantee or secure all exchange-traded derivatives contracts that we clear for your account or on your behalf. You must grant us the right to borrow, pledge, repledge, hypothecate, rehypothecate, loan or invest any such collateral.
- acknowledge that, upon an event of default, as that term is defined in the Agreement, we will have certain rights as set out in the Agreement, including the right, in addition to any remedy otherwise available in law or equity, to liquidate any or all exchange-traded derivatives contracts held in your name or on your behalf by any lawful means and to apply any collateral to meet any amounts you owe us.
- acknowledge that we will not be liable to you for any losses that may be incurred except insofar as such losses are a direct result of our negligence, willful misconduct or fraud and, further, that in no event will we be liable for any consequential, indirect or punitive damages.
- agree that the Agreement will be interpreted in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

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Part Two: Clearing broker indirect client account structures

As noted in Part One B, each clearing broker is required under the Indirect Clearing RTS to offer at least the choice of a Basic Omnibus Indirect Client Account or a Gross Omnibus Indirect Client Account. This Part Two contains an overview of the levels of segregation of each account type, together with an overview of the main protections afforded by and the main legal implications of each.

The descriptions given in this Part Two are very high level and consider the minimum requirements for indirect client account types under the Indirect Clearing RTS and the respective levels of segregation. However, the particular characteristics of the accounts will affect the exact levels of protection they offer and the legal implications so you must review the information provided by the clearing brokers to fully understand the risks of the specific account we maintain in relation to you at each clearing broker. You may also need to seek professional advice to understand the differences in detail. However, we hope that the questions raised and factors described in both parts of this document will help you to know which questions to ask and to understand the impact of the answers you receive.

The descriptions have been prepared on the basis of the minimum requirements in the Indirect Clearing RTS.

The Annex seeks to compare the main account types and levels of segregation against the following risks:

Risks used to compare each account type and level of segregation	Explanation of risk
Transit Risk	Whether you are exposed to us at any point in the process of providing or receiving margin in respect of Indirect Client Transactions.
Fellow Client Risk	Whether assets provided to the clearing broker or CCP in respect of Client Transactions related to you could be used to cover losses in Client Transactions relating to another client.
Liquidation Risk	Whether, if the Client Transactions and assets relating to them were to be ported, there is a risk that any non-cash assets would be liquidated into cash. If this were to happen, the value given to such assets by the clearing broker may differ from what you perceive to be the full value of the assets.
Haircut Risk	Whether the value of the assets that relate to Client Transactions might be reduced or not increase by as much as you expect because the clearing broker applied a haircut that did not properly reflect the value of the asset.

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Risks used to compare each account type and level of segregation	Explanation of risk
Valuation Mutualisation Risk	Whether the value of the assets that relate to Client Transactions could be reduced or not increase by as much as you expect because the assets posted in relation to other clients' Client Transactions have decreased in value.
Clearing Broker Insolvency Risk	Whether you are exposed to the insolvency or other failure of the clearing broker.

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Typical account characteristics at the clearing broker level

	Basic Omnibus Indirect Client Account	Gross Omnibus Indirect Client Account
Who will the Client Transactions recorded in the account relate to?	Basic Omnibus Indirect Client Accounts record both assets and Client Transactions that relate to you (where you have opted for a Basic Omnibus Indirect Client Account) and the assets and Client Transactions that relate to our other clients that have also opted for a Basic Omnibus Indirect Client Account.	Gross Omnibus Indirect Client Accounts record both assets and Client Transactions that relate to you (where you have opted for a Gross Omnibus Indirect Client Account) and the assets and Client Transactions that relate to our other clients that have also opted for a Gross Omnibus Indirect Client Account.
Which losses can assets recorded in the account be used for?	Assets that are provided to the clearing broker as margin for a Client Transaction recorded in a Basic Omnibus Indirect Client Account may be used to cover any losses in that account, whether such losses relate your Client Transactions or Client Transactions relating to one of our other clients within that Basic Omnibus Indirect Client Account.	Assets that are provided to the clearing broker as margin for a Client Transaction recorded in a Gross Omnibus Indirect Client Account may be used to cover any losses in that account, whether such losses relate your Client Transactions or Client Transactions relating to one of our other clients within that Gross Omnibus Indirect Client Account. ¹⁰
Will the clearing broker know which Client Transactions and types of assets relate to you?	The clearing broker may not know which Client Transactions and assets recorded in a Basic Omnibus Indirect Client Account relate to you.	Yes, but prior to our default it may not know your identity.
Will the clearing broker record the assets provided by value only or will it identify the type of asset provided?	The clearing broker may identify in its records the type of asset provided as margin for the Basic Omnibus Indirect Client Account but will not be able to identify which type of assets relate to any client's Client Transactions within that Basic Omnibus Indirect Client Account.	The clearing broker may identify in its records the type of asset provided as margin for the Gross Omnibus Indirect Client Account but is unlikely to be able to identify anything other than the value of assets provided in respect of any of our client's Client Transactions within that Gross Omnibus Indirect Client Account.

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	Basic Omnibus Indirect Client Account	Gross Omnibus Indirect Client Account
Will the Client Transactions recorded in the account be netted?	It is likely that the Client Transactions recorded in the account will be netted. This means that Client Transactions that relate to you may be netted with Client Transactions that relate to our other clients whose Client Transactions are recorded in the same Basic Omnibus Indirect Client Account.	Client Transactions relating to you are likely to be netted with other Client Transactions relating you. However, Client Transactions relating to you should not be netted with Client Transactions relating to any of our other clients recorded in the same Gross Omnibus Indirect Client Account.
Will the margin be calculated on a gross or net basis?	The margin will be calculated on a net basis.	The margin will be calculated on a gross basis.
Will you have to enter into any documentation or operational arrangements directly with the clearing broker?	You may have to enter into legal documentation to which the clearing broker is party. It is unlikely that you will have to set up any operational arrangements with the clearing broker directly.	You may have to enter into legal documentation to which the clearing broker is party. It is possible but unlikely that you will have to set up some operational arrangements with the clearing broker directly.
Transit Risk	Yes	Yes
Fellow Client Risk	Yes	Yes ¹¹
Liquidation Risk	Yes	Yes (unless the clearing broker is able to port the assets recorded in the account or is able to transfer the assets to you without needing to liquidate some or all of them first).
Haircut Risk	Yes	Yes

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	Basic Omnibus Indirect Client Account	Gross Omnibus Indirect Client Account
Valuation Mutualisation Risk	Yes	Yes
Clearing Broker Insolvency Risk	Yes	Yes
How likely it is that porting will be achieved if we default?	Unlikely	If you have satisfied all of the clearing broker's and back-up entity's conditions, porting is more readily facilitated in the event of our default.

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¹ Commission Delegated Regulation (EU) No. 2017/2154 supplementing Regulation (EU) No 600/2014 with regard to regulatory technical standards on indirect clearing arrangements, and Commission Delegated Regulation (EU) No. 2017/2155 amending Commission Delegated Regulation (EU) No 149/2013 with regard to regulatory technical standards on indirect clearing arrangements.

² ESMA confirms in paragraphs 9, 10 and 92 of the May 2016 Final Report on the Indirect Clearing RTS that (indirect) clearing on recognised non-EU CCPs is out of scope of the Indirect Clearing RTS requirements. This disclosure is designed for clearing on EU CCPs only.

³ Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012.

⁴ This description is based on Articles 6(2)(b) and 6(4) of the Indirect Clearing RTS.

⁵ This description is based on Articles 4 (5) to (7) of the Indirect Clearing RTS.

⁶ This description is based on Article 4(2)(a) of the Indirect Clearing RTS.

⁷ This description is based on Article 4(2)(b) of the Indirect Clearing RTS.

⁸ The current description of the netting sets is based on the FIA interpretation of Article 4(2)(b) of the Indirect Clearing RTS as set out in more detail in the FIA's working document on indirect clearing arrangements for exchange-traded derivatives (ETD) under draft MiFIR RTS on indirect clearing arrangements (the **FIA Working Document**). As set out in more detail on page 9 of the FIA Working Document, it is proposed for "client in another account" to be added at the end of Article 4(2)(b).

⁹ This section refers to excess margin as described in Recital 5 of the Indirect Clearing RTS.

¹⁰ This assessment is based on the FIA interpretation of Article 4(2)(b) of the Indirect Clearing RTS as summarised in the FIA Working Document.

¹¹ This assessment is based on the FIA interpretation of Article 4(2)(b) of the Indirect Clearing RTS as summarised in the FIA Working Document.