Legally Required Participant Disclosure

Article 73 (4) Swiss Financial Market Infrastructure Act (FMIA) and Art. 38(6) CSDR

1. Introduction[1]

The purpose of this document is to disclose the levels of protection associated with the different levels of segregation in respect of securities that held directly for clients with Central Securities Depositories (CSDs) within Switzerland and the European Union (EU), 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 Art. 73 para. 4 of the Swiss Financial Markets Infrastructure Act (FMIA) in relation to CSDs domiciled in Switzerland and Art. 38(6) of the Central Securities Depositories Regulation (CSDR) in relation to CSDs domiciled in the EU. The information provided herein is subject to Swiss law.

This document is not intended to constitute legal or other advice and should not be relied upon as such. You should seek your own legal advice if you require any guidance on the matters stated herein.

Deutsche Bank (Switzerland) Ltd, a Swiss bank domiciled in Switzerland ("the Bank"), is a Participant of SIX SIS AG ("SIX SIS"), a CSD domiciled in Switzerland. Art. 73 para. 2 FMIA requires the Bank to offer indirect participants[2] of a Swiss CSD (i.e. of SIX SIS) the possibility of omnibus client segregated accounts or individual client segregated accounts. Furthermore, according to Art. 73 para. 4 FMIA, the Bank shall publish the respective costs and specifics concerning the level of protection granted by different types of accounts (please refer to the document Cost disclosure).

The Bank is also a Participant of CSD(s) domiciled in the EU. According to Art. 38 para. 5 and 6 CSDR a Participant of such CSD shall offer its clients at least the choice between omnibus client segregation and individual client segregation and inform them of the costs and risks associated with each option including a description of the main legal implications of the respective levels of segregation offered and information on the insolvency law applicable.

2. Background

In the Bank's owns books and records, the Bank records each client's individual entitlement to securities that it holds for that client in a separate client account. The Bank also opens accounts with SIX SIS and EU CSDs in its own name (i.e. the account is held in the name of the Bank but designated as client account) in which it holds clients' securities. As a general rule, the Bank makes two types of accounts with SIX SIS and EU 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 the Bank's own proprietary securities.

An OSA is used to hold the securities of a number of clients on a collective basis. However, the Bank does not hold its own proprietary securities in OSAs.

3. Main legal implications of levels of segregation

Insolvency (bankruptcy)

If a Swiss bank were to become insolvent, the insolvency proceedings would take place in Switzerland and be governed by Swiss insolvency law. Nevertheless, foreign branches of a Swiss bank may also be subject to insolvency proceedings in the foreign location in question governed by local insolvency law.

Clients' legal entitlement to the securities that a Swiss bank holds for them directly with SIX SIS and EU CSDs would generally (except in specific circumstances, some of which are discussed below) not be affected by the bank's insolvency (bankruptcy), regardless of whether those securities were held in ISAs or OSAs.

In practice, the exclusion of securities from a Swiss bank's bankruptcy estate would further depend on a number of additional 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.

[2] Only clients of a Participant acting themselves as providers of securities accounts are considered indirect participants under Art. 73 para. 2 FMIA.

Exclusion from the bank's bankruptcy estate

Under Swiss insolvency laws, intermediated securities and certain other safe custody assets within the meaning of the Banking Act booked on safekeeping accounts held by clients with a Swiss bank, as well as certain readily available claims of the bank to receive delivery of securities from third parties, do not form part of the bankruptcy estate. Instead, in an insolvency (bankruptcy) of a bank, they are designated to be excluded in favour of the relevant client, subject to any claims the bank has against the client.

According to Art. 11 FISA, a Swiss bank must hold with itself or with a sub-custodian or CSD intermediated securities (available securities) in a quantity and of a kind at least equal to, the total of intermediated securities credited to the securities accounts maintained by the bank for its clients[3]. A bank is also subject to strict requirements as to maintenance of accurate books and records and as to reconciliation of its records against those of the CSDs and sub-custodians with which the intermediated securities are held.

Accordingly, as long as a bank maintains sufficient holdings of intermediated securities in accordance with its statutory obligations, clients should receive the same level of protection in the bank's insolvency, regardless of whether the intermediated securities are held in an ISA or an OSA. However, ISA could contribute to swifter identification of client assets in a default scenario.

Nature of clients' interests

Although client's securities are held in the Bank's name at SIX SIS and EU CSDs, the Bank holds them on behalf of the Bank's clients.

For securities that are held by SIX SIS directly or indirectly through one or several other CSD located outside Switzerland and for securities that are held in an EU CSD, the nature of the entitlement embodied in a security also depends on the law, regulations and contractual framework applicable to such other CSDs and further parties involved in the custody chain. In such a case, entitlements that are available for exclusion may be limited to contractual claims against SIX SIS or any other CSD involved. Moreover, the ability of the client to exclude securities in the case of insolvency may depend on whether the CSD or any custodian in the custody chain could assert any right to set-off, retention right, security interest or similar right with respect to the securities (see also "Security interests" below).

Shortfalls

As described above, the statutory requirements are designed to ensure that a Swiss bank holds intermediated securities in a quantity and a kind at least equal to the intermediated securities credited to client accounts. If notwithstanding these requirements there were a shortfall between the number of intermediated securities that a bank is obliged to deliver to clients and the number of intermediated securities that the bank holds on their behalf in either an ISA or an OSA, this could result in fewer intermediated securities than clients are entitled to being returned to them on the bank's insolvency. The way in which a shortfall could arise and would be treated may be different as between ISAs and OSAs.

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. In most cases a shortfall occurs as a result of a mismatch between the time when a bank receives intermediated securities and the earlier time when the delivery is booked to the account of the receiving account holder. In Switzerland, typically for exchange traded transaction, banks credit the client accounts immediately on trade date while the effective delivery may not occur intraday but later (most markets have settlement cycles of 2 or 3 days). As a result, a recipient client could dispose of its intermediated securities as soon as they are credited to its securities account, irrespective of whether the bank has actually already received the intermediated securities. This process is referred to as contractual settlement. Contractual settlement may therefore cause a difference between the bank's number of intermediated securities at the CSD and the clients' higher number of aggregated securities credited to their securities accounts. In the normal course of the settlement this process-immanent difference disappears at the end of the settlement cycle.

Contractual settlement increases market liquidity, accelerates deliveries and settlement, and is based on the fact that a failed settlement of an exchange traded transaction (and the risk that, as a result, a bank does not hold sufficient available securities) is rare. The risk involved with shortfalls is further mitigated by the fact that, if a shortfall arises, a bank is obliged to acquire without delay securities if and to the extent the total number of available securities is less than the total number of securities credited to client's accounts (see below).

[3] Available securities also include the bank's readily available rights to delivery of intermediated securities from other custodians during the regulatory or customary settlement period for the corresponding market, provided that this period does exceed eight days.

In the case of an ISA, the securities held in the ISA can only be delivered out for the settlement of transactions made by the ISA client. As a matter of principle, this may reduce the risk of a shortfall in that account, but also increases the risk of settlement failure which, in turn, may incur additional costs (e.g. buy-in costs) and/or delay in settlements.

Treatment of a shortfall

In the case of an ISA, although arguments could be made that the relevant client should not be exposed to a shortfall that is clearly attributable to an account held for another client or clients, it cannot be excluded that a shortfall on any other (ISA or OSA) account would be shared rateably among clients, including clients who do not have an interest in the relevant account[4]. Accordingly, a client holding 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 arises, the Bank has the obligation under Swiss law to acquire without delay securities if and to the extent the total number of available securities is less than the total number of securities credited to clients' accounts. If a shortfall arose and was not so covered, clients may have a claim for compensation against a Swiss bank. Furthermore, if the securities that may be excluded from the bank's bankruptcy estate (see above) are not sufficient to satisfy the claims relating to client accounts in full, securities of the same kind held by the bank for its own account will also be excluded for the benefit of the relevant clients.

If a Swiss bank 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 a Swiss bank’s insolvency, including the risk that they may not be able to recover all or part of any compensation claimed.

In order to calculate clients’ shares of any shortfall in respect of an OSA, each client’s entitlement to securities held within that account would need to be established as a matter of law and fact based on the bank's books and records. The shortfall would then be allocated among the clients as described above. It may therefore be a time-consuming process to confirm each client’s entitlement and establish the securities available for exclusion. 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 the CSD

Where the CSD benefits from a security interest (either it benefits from a statutory right or a contractual right based on its terms and conditions) over securities held by the bank with it (including securities held for clients), there could be a delay in the return of securities to a client (and a possible shortfall) in the event that the bank failed to satisfy its obligations to the CSD and the security interest was enforced. This applies regardless of whether the securities are held in an ISA or an OSA. However, in practice, we would expect that the CSD would first seek recourse to any securities held in the bank's proprietary accounts to satisfy the bank's obligations and only then make use of securities in client accounts. We would also expect the CSD to enforce its security rateably across client accounts held with it. Furthermore, Swiss law requires the liquidator to satisfy claims of the CSD arising out of the custody of intermediated securities or the financing of their acquisition[5].

Security interest granted to third party

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 (and a possible shortfall in the account). However, in practice, the Bank would expect that the beneficiary of a security interest (pledgee) over a client’s securities would perfect its security by notifying the Bank rather than the CSD and would seek to enforce the security against the Bank rather than against the CSD, with which it had no relationship.

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[4] Cf. Art. 19 FISA

[5] Cf. Art. 17 para. 3 FISA

GLOSSARY

Central Securities Depository (**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 (CSDR) refers to EU Regulation No 909/2014 on improving securities settlement in the European Union and on central securities depositories, which sets out rules applicable to CSDs and their participants. The CSDR is relevant for the European Economic Area (EEA) and is under scrutiny for incorporation into the EEA Agreement. Upon completion of the adoption process it will also be in force in the EEA.

Federal Act on Banks and Savings Banks (Banking Act or BA), a Swiss law which sets out the financial market legislation governing banks, private bankers and savings banks, dealing, amongst others, with operating licences and specifying rules for business conduct.

Federal Act on Intermediated Securities (FISA), a Swiss law which regulates the custody of certificated and uncertificated securities by custodians and their transfer.

Financial Markets Infrastructure Act (**FMIA)**, a Swiss law which sets out rules applicable to CSDs domiciled in Switzerland and their participants.

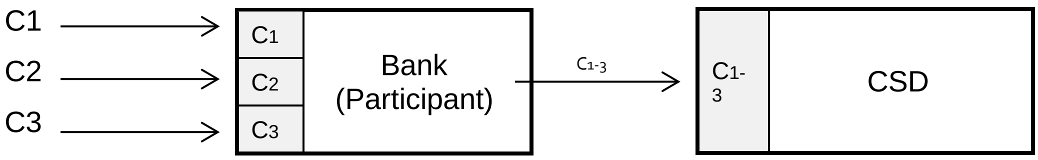
Individual Client Segregated Account (ISA), is used to hold the securities of a single client.

Omnibus Client Segregated Account (OSA), is used to hold the securities of a number of clients on a collective basis.

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.

Graphic representation of OSA and ISA

OSA (example with three clients C1-C3)



ISA (Example with client C1)