

CSD information disclosure with regards to Article 38 of CSDR

LuxCSD S.A.

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Executive Summary

- **LuxCSD offers participants the opportunity to hold proprietary or their client securities and the choice, where applicable, between Omnibus Client Segregated (OCS) and Individual Client Segregated (ICS) account models. Fees are published on www.luxcscd.com**
- **Securities are protected from insolvency and bankruptcy in OCS and ICS account models equally, with differences arising in the levels of risk, operational complexity and overall cost base**
- **Risks for securities protection arising for either OCS or ICS account models are mitigated to the largest extent possible internally at LuxCSD**

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1. Introduction

The purpose of this document is to disclose the levels of protection associated with the different levels of segregation in respect of securities that participants hold with **LuxCSD S.A.** [hereinafter “**LuxCSD**”] required under Article 38 of the Regulation (EU) No 909/2014 of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories (**CSDR**).

This disclosure document shall include a description of the accounts and levels of segregation offered as well as the main legal implications of the levels of segregation including the information on the insolvency laws applicable to LuxCSD¹.

The handling of cash funds via specific cash account is not in scope of this document; for details please refer to the relevant sections of the Client Handbook that cover cash-related activities.²

2. About LuxCSD

- LuxCSD is a public limited liability company (*société anonyme*) incorporated and existing under Luxembourg law (registered with the trade and companies register of Luxembourg under registration number B 154.449). Its Legal Entity Identifier is 222100T6ICDIY8V4VX70.
- LuxCSD is an authorised central securities depository (“**CSD**”) under Article 16 of CS DR. Accordingly, it is subject to the supervision of the Commission de Surveillance du Secteur Financier (“**CSSF**”).
- In addition, LuxCSD, as an operator of a securities settlement system (SSS) designated by the Central Bank of Luxembourg (Banque centrale du Luxembourg, “**BcL**”), is also subject to the oversight supervision of the BcL, in accordance with article 109 of the Payment Services Law (as defined in the Section 3.1 of this document), transposing article 10.1 of the Directive 2009/44/EC of the European Parliament and of the Council of 6 May 2009 amending Directive 98/26/EC of the European Parliament and of the Council of 19 May 1998 on settlement finality in payment and securities settlement systems (SFD).

LuxCSD provides a national access point to T2S from an issuance and custodian perspective. Any assessment of the risks associated with the safekeeping of securities should be based on LuxCSD’s status and the regulatory provisions by which it is bound. Assets deposited by participants with LuxCSD are governed and protected by the laws and regulations of the Grand Duchy of Luxembourg. In particular, the rights and interests of LuxCSD’s participants in financial instruments under deposit are set out in the main legal texts described below.

¹ The expression “insolvency laws” shall be read within the meaning of the Article 2(6) of the Securities Law (as defined in the Section 3.1 of this document) as “collective proceedings involving the realisation of the assets and distribution of the proceeds of this realisation among the creditors, shareholders, partners or members, as appropriate, and implying an intervention by administrative or judicial authorities, including where the collective proceedings are terminated by a composition or other analogous measure, whether or not they are founded on insolvency or are voluntary or compulsory”.

² For more information please refer to the LuxCSD’s website under <https://www.luxcsd.com/luxcsd-en/keydocuments/client-handbook/client-handbook-luxcsd-1275672>.

3. Legal and Regulatory Framework

3.1 Legal basis

The rights of the participants against LuxCSD for securities held in their accounts are governed by the laws of the Grand Duchy of Luxembourg, and in particular by the following main texts:

- CSDR;
- from Articles 1915 to 1949 of the civil code, hereinafter referred to as the **Civil Code**;
- law of 1 August 2001 on the circulation of the securities and other fungible instruments as amended (loi modifiée du 1er août 2001 concernant la circulation des titres et d'autres instruments fongibles), hereinafter referred to as the **Securities Law**;
- law of 5 April 1993 on the financial sector as amended (loi modifiée du 5 avril 1993 relative au secteur financier), hereinafter referred to as the **Banking Act**;
- law of 10 November 2009 on payment services, on the activity of electronic money institution and settlement finality in payment and securities settlement systems as amended (loi modifiée du 10 novembre 2009 relative aux services de paiement, à l'activité d'établissement de monnaie électronique et au caractère définitif du règlement dans les systèmes de paiement et les systèmes de règlement des opérations sur titres), hereinafter referred to as the **Payment Services Law**;
- law of 6 April 2013 on the dematerialisation of the securities [as amended](#) (loi du 6 avril 2013 relative aux titres dématérialisés), hereinafter referred to as the **Dematerialisation Law**;
- law of 28 July 2014 of immobilisation of the bearer shares (loi du 28 juillet 2014 relative à l'immobilisation des actions et parts au porteur), hereinafter referred to as the **Immobilisation Law**;
- law of 3 September 1996 concerning the involuntary dispossession of bearer securities as amended (loi modifiée du 3 septembre 1996 concernant la dépossession involontaire de titres au porteur);
- law of 5 August 2005 on the collateral financial arrangements as amended (loi modifiée du 5 août 2005 sur les contrats de garanties financières), hereinafter referred to as the **Collateral Law**.

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

According to Luxembourg's conflict of laws rules (pursuant to article 17 of the Securities Law and the PRIMA rule set out in the article 23 of the Collateral Law)³, Luxembourg law determines the nature of the rights to the securities held by participants in their accounts with LuxCSD, irrespective of the fact that LuxCSD holds the securities in its name with an issuer CSD.

Therefore, the rights and interest of LuxCSD's participants to the assets held with LuxCSD are deemed to be located in Luxembourg and are thus governed by Luxembourg law.

3.2 Segregation requirements

3.2.1. CSDR

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

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

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

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

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

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

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

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

7. A CSD shall not use for any purpose securities that do not belong to it. A CSD may however use securities of a participant where it has obtained that participant's prior

³ Confirmed by the parliamentary comments on the Dematerialisation Law regarding the amendment to the Article 17 of the Securities Law. Draft Bill 6327A, p.38.

express consent. The CSD shall require its participants to obtain any necessary prior consent from their clients.”

3.2.2. Securities Law

Article 17 of the Securities law has set out the principle of segregation when LuxCSD is acting as investor CSD and provides the following:

“The account keeper may deposit with other account keepers or foreign account keepers, through book transfer or otherwise, the securities credited or transferred to the securities accounts it maintains, or it may be registered directly or indirectly on the securities register of the relevant securities. **The account keeper must hold these securities separately from its own securities with these other account keepers or depositories.** The application of this law, the situation of the securities that continue to be held with the relevant account keeper, the validity or effectiveness of the collateral set up in accordance with the law of 5 August 2005 on financial collateral arrangements shall not be affected by this deposit.”

Article 19 of the Securities Law applies to LuxCSD in its capacity as account keeper principally operating a securities settlement system and provides as follows:

“Account keepers principally operating a securities settlement system must keep the securities held by them in relation to the system they operate separately from the other securities deposited with them”.

3.3 General Terms and Conditions

The legal obligations under statutory law, the rights and obligations of LuxCSD vis-à-vis its participants are documented in the General Terms and Conditions (“GTCs”) and the other governing documentation.

Article 3 of the GTCs describes the rules applicable to the opening of accounts and the notification by the participant of the nature of the assets held in the accounts for segregation purposes. Such Article provides for the following:

“1) LuxCSD will establish in its books accounts for the Client as shall be required from time to time for the provision of services by LuxCSD.

2) All such accounts shall be opened in the name of the Client, who is solely responsible and liable for the fulfilment of all Client's obligations pertaining thereto.

3) The Client is responsible to opt for the level of segregation to apply on the assets deposited with LuxCSD and shall inform LuxCSD accordingly as provided in the Governing Documents. It undertakes to segregate in separate accounts at all times assets deposited with LuxCSD and held by such Client on a proprietary basis from assets deposited with LuxCSD and held by such Client on a non-proprietary basis and such accounts shall be designated accordingly.

4) The opening of accounts on a non-proprietary basis and the nature of such non-proprietary accounts shall be subject to advance approval by LuxCSD and, at the discretion of LuxCSD, to the requirement by LuxCSD to be provided by the Client with additional information, including information relating to the clients of the Client, as set forth in these General Terms and Conditions, being met.”

Whenever the term “client” is used, without initial capital letter, it refers to the client of LuxCSD’s Participant/Client.

The GTCs can be downloaded in English from the following website:

<https://www.luxcsd.com/>

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

4.1 Level of segregation offered by LuxCSD

There are 2 levels of segregation offered by LuxCSD:

- omnibus client segregated account or “OCS”;
- individual client segregated account or “ICS”;

which are further described below.

In order to carry out the safe custody and settlement of securities transactions, a participant can maintain a collective account at LuxCSD, in which the securities holdings of all of the participant’s underlying clients are booked together. This level of segregation corresponds to the omnibus client segregated account (OCS) as set out in the Article 38.3 of CSDR.

Alternatively, the participant may choose to set up separate deposit accounts at LuxCSD to segregate the securities of its individual clients from the holdings of the participant and of its other clients. This level of segregation corresponds to the individual client segregated account ICS as set out in the Article 38.4 of CSDR.

The participant is required under CSDR to offer its [participants](#) the choice between OCS or ICS. Depending on the level of segregation chosen by the participant, the costs associated may differ. The ICS is indeed associated with additional costs (see fee schedule⁴ section 6.1 Standard Account Service Fee) due to the number of additional accounts that employing such a structure naturally necessitates.

Luxembourg law ([Article 3\(1\) of the Securities Law](#)) provides that the securities holders benefit - up to the amount of securities held on their securities account from

- a right in rem of an intangible nature in all the securities of the same description held on an account with LuxCSD.
- the rights attached to these securities and the rights provided by the Securities Law; and
- the rights provided for in the Securities Law.

According to Article 4 (1) of the Securities Law, the legal ownership of the securities results from the credit of securities to the participant’s securities account. Such proprietary right applies to a portion of securities corresponding to its holding with LuxCSD against the pool of securities of the same kind and denomination representing the whole issuance, irrespective of the level of segregation chosen.

LuxCSD books for either account type (ICS or OCS) the securities and any other fungible financial instruments received as a deposit, or held in an account separately from his own proprietary positions, off balance sheet (i.e. independently of ICS or OCS).

⁴ For more information please refer to LuxCSD’s public website under <https://www.luxcsd.com/luxcsd-en/keydocuments/fee-schedule>

4.2 Law applicable to LuxCSD's insolvency

LuxCSD is a public limited liability company (société anonyme) incorporated and existing under the laws of the Grand duchy of Luxembourg. It is subject to the supervision of the CSSF as CSD and to the BcL as SSS.

If LuxCSD were to become insolvent, insolvency proceedings would take place in Luxembourg and be governed by Luxembourg insolvency law applicable to PSF institutions and commercial companies as described in the Code of Commerce and the law of 10 August 1915 on commercial companies, as amended. Entitlements, rights and access during these proceedings are also stipulated in accordance with Luxembourg insolvency practitioner's actions.

Therefore, it is the reason why the Luxembourg commercial law together with the Securities Law, for the aspects related to the securities held in custody define the rules and principles applicable to the claims that LuxCSD's participants may have towards LuxCSD as described here above in Sections 3.1 and 4.2.

4.3 Impact of the insolvency of LuxCSD on participants

Conditions to be applied in the event of insolvency of the central securities depository are set out under Luxembourg law by the Securities Law (Art. 4 (2) and Article 10).

For securities held through LuxCSD's network and in the event of LuxCSD's insolvency, the participant is deemed to have acquired the interest in the securities held with LuxCSD.

If LuxCSD were to become insolvent the securities (not any cash holdings) would not fall in the bankruptcy estate of LuxCSD.

According to the Article 10 (1) of the Securities Law, in the case of winding-up proceedings in relation to LuxCSD, the claim on the number of securities which LuxCSD owes shall be filed with the liquidator collectively on the aggregate amount of the securities of the same description held by or with LuxCSD, registered in its name or in the name of a third party designated in whatever form, or maintained in the name of LuxCSD with another account keeper which could be linked domestic CSD or local depository bank acting as intermediary in case of indirect link.

If such pool of securities were to be insufficient to cover the entirety of the claims for restitution, the shortfall is divided among participants in proportion to their rights. In such a case, if LuxCSD has securities of the same type held in its own accounts, these securities would be added to the pool of securities of the same description to be allocated among its participants holding such securities. LuxCSD would only receive back the remainder of securities left after the total number of securities of same type, held by it on behalf of its participants or as a fiduciary for third parties, have been returned.

4.4 Protection against upper tier attachments

As explained in the previous sections, in case of LuxCSD's insolvency proceedings, LuxCSD's participant would (subject to potential losses), according to Luxembourg law, recover the number of securities for which LuxCSD is accountable towards the participant against the pool of securities of the same type in deposit with LuxCSD or deposited by LuxCSD, by transfer into an account or otherwise, in its name at other depositories in Luxembourg or abroad.

This is irrespective of the level of segregation chosen by the participant. Even for ICS, only the participant is entitled to claim the proprietary right over the securities and attached rights against LuxCSD.

In addition, under Luxembourg law, LuxCSD's participant assets cannot be seized by their creditors (referred to in legal terms as being protected against "upper tier attachments"). Article 11 (1) of the Securities Law provides that no attachment of securities of a participant⁵ shall be made on, or to affect:

- (a) a securities account of any person other than that participant;
- (b) the issuer of any securities credited to a securities account of that participant; or
- (c) a person other than the participant or LuxCSD. Any attachment made in violation of this rule is void.

Accordingly, any such attachment proceedings requested or to be executed in Luxembourg in violation of this law paragraph 1 is considered as void.

For the purpose of the above, "attachment of securities of an account holder" means any judicial, administrative or other act or process to freeze, seize, restrict or impound securities of that account holder in order to enforce or satisfy a judgment, award or other judicial, arbitral, administrative or other decision or in order to ensure that availability of such securities to enforce or satisfy any future judgment, award or decision.

The same principle is reinforced for the accounts held with the securities settlement system. With respect to the capacity of LuxCSD as SSS, Article 111 (5) of the Payment Services Law provides that:

"No settlement account held with a system operator or settlement agent, as well as no transfer, via a credit institution incorporated under Luxembourg law or foreign law to such settlement account, may be seized, sequestered or blocked in any way by a participant (other than the system operator or settlement agent), a counterparty or a third party."

⁵ For the purpose of the above, "attachment of securities of an account holder" means any judicial, administrative or other act or process to freeze, seize, restrict or impound securities of that account holder in order to enforce or satisfy a judgment, award or other judicial, arbitral, administrative or other decision or in order to ensure that availability of such securities to enforce or satisfy any future judgment, award or decision.

4.5 Loss sharing among the levels of segregation

As described under Article 45 of the GTCs, losses in a collective holding of a particular class of Securities are to be borne jointly and on a pro-rata basis by the co-owners of the collective holding. This concept is applied regardless of the level of segregation that has been applied to the participant and the account structure(s) employed. Consequently:

- In case of loss or total destruction by Act of God of a pool of securities of the same type, LuxCSD shall formulate the necessary objections and arrange for the reconstitution of the securities lost or destroyed. If the loss or destruction by Act of God was partial and if the reconstitution of the securities lost or destroyed could not be achieved, the pool of securities or other financial instruments of the same type shall be distributed among the injured participant in proportion to their rights.
- If the loss or destruction resulted from facts which cause LuxCSD to be liable and if the reconstitution of the lost or destroyed securities could not be achieved, the claims of the injured participant on the remaining securities shall be exercised according to the above paragraph.

The injured participant will become unsecured creditor of the account provider for any outstanding part of their rights. This constitutes, therefore, a potential risk to the participant and the balance of securities held via accounts opened on either an ICS or OCS basis.

4.6 Usability of Securities

According to Luxembourg law principles applicable to the depositories of financial instruments, and article 38 (7) of CSDR, LuxCSD has a duty of safeguard, protection and restitution of the assets deposited with it. Accordingly, LuxCSD is prevented from using any assets deposited by its participants without their express written prior consent.

LuxCSD will not use for any purpose securities that belong to the participant, unless and to the extent LuxCSD has obtained the participant's prior express consent. For those securities held by the participant on behalf of its clients, the participant is required to obtain from its clients any necessary consent prior to authorising the use of such securities by LuxCSD.

Such principles are reflected in LuxCSD's contractual documentation as well as internal control processes for the purposes of the protection of the participant assets and their entitlement rights. For more information regarding the usage of securities and the rules for obtaining written consent may be seen under Article 11 of the GTC's.

5. Levels of segregation for accounts offered by LuxCSD

The following table illustrates the risks, costs and levels of protection of the levels of segregation offered at LuxCSD. This table shall be viewed as an executive summary of the sections within this document in order to provide the reader an overview and ease her the comprehension of the document.

Level of Segregation (excerpt; see section 5.1)	Account Types (excerpt; see section 3.2)	Levels of Protection (excerpt; see section 4)	Risk and Impacted Entity (excerpt; see section 5.4)	Cost (excerpt; see section 5.3, 5.4)
Individual Client Segregation	<ul style="list-style-type: none"> Proprietary Main Accounts Third party Main Accounts Other Accounts 	All of the account types (see section 5.2) at LuxCSD independent of the participant's choice on the level of segregation for its accounts and for its clients have a high level of protection. For more details please refer to section 4 seq above.	Threat to Asset Safety e.g. with respect to possible mismanagement of portfolios <i>(Risk to CSD participant)</i> Settlement Processing & Inventory Management e.g. with regard to higher reconciliation efforts needed <i>(Risk to CSD participant)</i> Control Risk e.g. due to higher account numbers and more efforts on safeguarding and reconciliation <i>(Risk to CSD participant)</i> Transparency of Ownership is increased as an identification may possibly be assessed sooner <i>(Risk to CSD participant)</i>	Increased fees due to e.g. increased number of accounts maintained, operational costs due to e.g. increased number of accounts to reconcile. More details on the costs for the accounts and levels of segregation can be accessed in the sections below.

Level of Segregation (excerpt; see section 5.1)	Account Types (excerpt; see section 3.2)	Levels of Protection (excerpt; see section 4)	Risk and Impacted Entity (excerpt; see section 5.4)	Cost (excerpt; see section 5.3, 5.4)
Omnibus Client Segregation	<ul style="list-style-type: none"> Proprietary Main Accounts Third party Main Accounts Other Accounts 	All of the account types (see section 5.2) at LuxCSD independent of the participant's choice on the level of segregation for its accounts and for its clients have a high level of protection. For more details please refer to section 2 seq above.	<p>Threat to Asset Safety e.g. due to lower transparency on securities' ownership <i>(Risk to CSD participant)</i></p> <hr/> <p>Settlement Processing & Inventory Management Risk e.g. security shortfall due to delivery issues <i>(Risk to CSD participant's client)</i></p> <hr/> <p>Control Risk e.g. reconciliation more cumbersome and settlement systems need to be more sophisticated <i>(Risk to CSD participant)</i></p> <hr/> <p>Transparency of Ownership Risk e.g. due to lower transparency of end beneficial ownership in CSD records, operational risk due to potential misallocation in case of insolvency <i>(Risk to CSD participant & its client)</i></p>	<p>Lower cost due to reduced accounts maintained and increased operational efficiency.</p> <p>More details on the costs for the accounts and levels of segregation can be accessed in the sections below.</p>

Table 1 - Overview of the costs, risks and levels of protection of the levels of segregation offered at LuxCSD

5.1 Account types at LuxCSD

The following account types are currently offered by LuxCSD to its participants:

- Proprietary Main Accounts or Additional Accounts
- Third party Main Accounts or Additional Accounts

These account types may be offered on a published or unpublished basis.⁶ In addition to the main accounts special purpose accounts are offered to participants of LuxCSD

- Standard Accounts
- Fund Issuance Account

5.2 Account Models

All of the account types (see section 5.1) at LuxCSD offer the participant the possibility to “segregate” with additional accounts. Participants will use accounts designated “proprietary” for their own assets; this will generally consist of a main account and as many additional accounts as necessary (and permitted). The model for third party assets is described below.

At the moment of account opening and during the life of the participant relationship, LuxCSD offers participants the choice between different levels of segregation:

- Omnibus Client Segregation (also referred to as “OCS”)
- Individual Client Segregation (also referred to as “ICS”)

Under OCS an account is opened in the name of the participant and designated accordingly during the account opening process. As such, the positions held in an OCS will be deemed to belong to multiple underlying clients of the participant who is holding them on a collective basis. A segregation of a participant’s client assets from a participant’s proprietary accounts can be achieved at the participant’s request. Ownership of the holdings can only be individually determined on a participant level (not the CSD level) as securities are held on a collective basis.

ICS is used to hold the securities of a single underlying client of the participant and therefore the participant’s client’s securities are held separately from the securities of other clients of the participant and from the participant’s own securities. In this case the segregation of the assets of one participant’s client from assets of other clients of the participant is achieved on the level of LuxCSD. ICS can be maintained in the name of either the participant or the participant’s client directly in accordance with the name provided in the account opening form and subject to approval by LuxCSD following checks by account administration and compliance teams.

⁶ Published and Unpublished Accounts: The main account of every Participant is usually published: the existence of the account, including the account number and account name, is available through query functions available via Xact Web Portal, CreationOnline or the LuxCSD website. Upon request and at the CSD’s discretion, a Participant can open an Unpublished Account. Unpublished Accounts are not listed in any printed publication. Additional accounts are generally opened as Unpublished Accounts. It is not normally necessary to divulge the existence of these accounts to Counterparties, Settlement with Counterparties is normally executed using the Participant’s main account.

5.3 Costs of the levels of segregation

The costs for the above described account structures and therefore the level of segregation offered can be found in section 6.1 of LuxCSD's fee schedule published on the LuxCSD's website⁷. Participants are charged for every additional account they open in case they wish to segregate their client's assets.

Commercial terms for all the account types described in section 5.1 are established by the LuxCSD's governing documents (General Terms and Conditions and Client Handbook).

⁷ For more information please refer to LuxCSD's public website under <https://www.luxcsd.com/luxcsd-en/keydocuments/fee-schedule>

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

Please note that LuxCSD has outsourced its operations to Clearstream Banking S.A. and Clearstream Services S.A. (collectively referred to as "Clearstream") and the services identified below should be viewed under this arrangement.

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

#	Risk	Individual Client Segregation	Omnibus Client Segregation
1	Threat to Asset Safety	<p>A CSD participant may be susceptible to mismanaging portfolios across multiple segregated accounts without the knowledge of the CSD itself. In addition, the CSD participant is required to ensure that account names and documentation is maintained accurately.</p> <p>Impacted Entity: CSD Participant</p> <p>Mitigating Measures: LuxCSD helps its participants to avoid potential mismanagement of portfolios by establishing a contractual framework and by providing account-level services for key custody operations.</p> <p>These contractual rules are outlined as follows:</p> <ul style="list-style-type: none"> GTC's: Participants are obliged under the terms of LuxCSD's GTCs Article 3 to segregate entitlements to securities deposited for their own account (proprietary assets) from entitlements deposited on behalf of third parties (underlying clients). 	<p>Operational risk that in case of participant default / insolvency, identification of participant's client assets cannot be ensured due to the quality of reconciliation and record keeping within the books of the participant.</p> <p>Impacted Entity: CSD Participant</p> <p>Mitigating Measures: LuxCSD helps its participants to avoid potential mismanagement of portfolios by establishing a contractual framework and by providing account-level services for key custody operations.</p> <p>These contractual rules are outlined as follows:</p> <ul style="list-style-type: none"> GTC's: Participants are obliged under the terms of LuxCSD's GTCs Article 3 to segregate entitlements to securities deposited for their own account (proprietary assets) from entitlements deposited on behalf of third parties (underlying clients).

		<ul style="list-style-type: none"> • LuxCSD’s participant due diligence and AML /KYC measures facilitate the identification of the participants underlying clients (Beneficial Owners) and thereby supports effective and reliable reconciliation processes. • The Client Handbook provides detailed requirements for how the client is supposed to manage their respective securities accounts in line with the governing regulatory and LuxCSD’s GTC requirements i.e.: disclosure of information concerning their respective accounts and transaction activities in view of facilitating securities settlement and reconciliation processing. • A transparent and enforced participant acceptance policy helps reduce counterparty risks for participants. • LuxCSD monitors and informs participants in due time regarding changes to the regulatory environment in its jurisdiction. <p>The services to participants are as follows:</p> <ul style="list-style-type: none"> • Provisioning of settlement transactions • Intraday settlement to support portfolio realignment • Reconciliation tools • Client Service Support 	<ul style="list-style-type: none"> • LuxCSD’s participant due diligence and AML /KYC measures facilitate the identification of the participants underlying clients (Beneficial Owners) and thereby supports effective and reliable reconciliation processes. • The Client Handbook provides detailed requirements for how the client is supposed to manage their respective securities accounts in line with the governing regulatory and LuxCSD’s GTC requirements i.e.: disclosure of information concerning their respective accounts and transaction activities in view of facilitating securities settlement and reconciliation processing. • A transparent and enforced participant acceptance policy helps reduce counterparty risks for participants. • LuxCSD monitors and informs participants in due time regarding changes to the regulatory environment in its jurisdiction. <p>The services to participants are as follows:</p> <ul style="list-style-type: none"> • Provisioning of settlement transactions • Intraday settlement to support portfolio realignment • Reconciliation tools • Client Service Support
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		<ul style="list-style-type: none"> • Domestic market operational and disclosure guides that help the participant understand the implications of holding assets in a foreign regime (via any external links). • LuxCSD Default Management Procedure actively monitors participants settlement activities to ensure the appropriate action is taken in due time to manage potential participants in default processes (contractual and legal defaults). <p>For more details on the above please refer to the Client Handbook at: https://www.luxcsd.com/luxcsd-en/keydocuments/client-handbook/client-handbook-luxcsd-1275672</p>	<ul style="list-style-type: none"> • Domestic market operational and disclosure guides that help the participant understand the implications of holding assets in a foreign regime (via any external links). • LuxCSD Default Management Procedure actively monitors participants settlement activities to ensure the appropriate action is taken in due time to manage potential participants in default processes (contractual and legal defaults). <p>For more details on the above please refer to the Client Handbook at: https://www.luxcsd.com/luxcsd-en/keydocuments/client-handbook/client-handbook-luxcsd-1275672</p>
2	Settlement Processing & Inventory Management Risk	<p>Reduced levels of internalised settlement for the participant at the level of the CSD.</p> <p>Increased number of segregated accounts will lead to a greater number of transactions, including for realignment purposes, to settle at the CSD (cost and operational risk).</p> <p>Impacted Entity: CSD Participant</p> <p>Mitigating Measures: LuxCSD helps its participants by</p> <ul style="list-style-type: none"> • Comprehensive Tax, Corporate Actions, Proxy Voting and Income services as described in the Client Handbook document ultimately reduce the 	<p>Potential for the participant’s clients within the omnibus account delivering securities that they do not hold, leading to a securities shortfall with other clients of the participant in the account, which may result in a loss of another underlying client’s assets.</p> <p>As a result, short positions could force the need to borrow securities and to allocate associated costs.</p> <p>Impacted Entity: CSD Participant’s Client</p> <p>Mitigating Measures: LuxCSD helps its participants by</p> <ul style="list-style-type: none"> • Equivalent products and services as for Individual Client Segregation:

		<p>operational burden of reconciliation by ensuring effective credit or debit of security and cash considerations; this limits potential operational exposures related to missed entitlements. Furthermore, these are subject for regular internal audit and certification in accordance with International Standard on Assurance Engagements (ISAE 3402).</p> <ul style="list-style-type: none"> • Domestic market operational and disclosure guides help participants understand the implications of holding assets in a foreign regime (via any external links). • Overdrafts of securities accounts are not permitted. LuxCSD applies daily reconciliation for all its securities. • Automated processing via STP on the CSD Real Time Settlement application systems – STP driven reduces the operational burden of processing and reconciliation including limiting the operational risk exposures. 	<ul style="list-style-type: none"> • Comprehensive Tax, Corporate Actions, Proxy Voting and Income services as described in the Client Handbook document ultimately reduce the operational burden of reconciliation by ensuring effective credit or debit of security and cash considerations ; this limits potential operational exposures related to missed entitlements. Furthermore, these are subject for regular internal audit and certification in accordance with International Standard on Assurance Engagements (ISAE 3402). • Domestic market operational and disclosure guides help participants understand the implications of holding assets in a foreign regime (via any external links). • Overdrafts of securities accounts are not permitted. LuxCSD applies daily reconciliation for all its securities. • Automated processing via STP on the CSD Real Time Settlement application systems – STP driven reduces the operational burden of processing and reconciliation including limiting the operational risk exposures.
3a	Control Risk	<p>The level of reconciliation required across multiple and extensively segregated account structures can become significant. The increased number of accounts can also lead to increased number of dormant accounts and increased volumes of underlying client data to safeguard at all levels of the custody chain.</p>	<p>The one-to-many nature of an omnibus account makes securities reconciliation more cumbersome and requires a sophisticated and timely settlement system / securities record to be able to reconcile positions and identify breaks on a participant and ultimately their client's level.</p>

		<p>Impacted Entity: CSD Participant</p> <p>Mitigating Measures: LuxCSD helps its participants to avoid potential mismanagement of portfolios by enforcing a clear contractual framework, which includes the monitoring and follow-up on dormant accounts. This is further supplemented by adequate reconciliation tools at the account-level that enable a participant to readily identify active accounts and their balances with a view to taking any appropriate action.</p> <p>Please also refer to section for “Omnibus Client Segregation” for further details.</p>	<p>Impacted Entity: CSD Participant</p> <p>Mitigating Measures: LuxCSD helps its participants by</p> <ul style="list-style-type: none"> • Specifically for securities issuers, and in line with the Securities Law, LuxCSD holds in its books securities that are, in number and description of the securities credited on the securities accounts it maintains for its participants. • LuxCSD’s participant due diligence and AML / KYC measures in place facilitate the identification of the participants underlying clients (Beneficial Owners) and thereby helps reduce counterparty risk, represents a control on assessing a participant’s eligibility for omnibus account and supports effective reconciliation processes. • Comprehensive Tax, Corporate Actions, Proxy Voting and Income services as described in the Client Handbook document ultimately reduce the operational burden of reconciliation by ensuring effective credit or debit of security and cash considerations; this limits potential operational exposures related to missed entitlements. Furthermore, these are subject for regular internal audit and certification in accordance with International Standard on Assurance Engagements (ISAE 3402). • Automated processing via STP on the CSD Real Time Settlement application systems – STP
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			<p>driven reduces the operational burden of processing and reconciliation hence limiting the operational risk exposures.</p> <ul style="list-style-type: none"> As a four-eyed principal control measure the internal accounting process is audited on an annual basis and the reconciliation process is audited on a bi-annual basis to ensure sound practice in accordance with the stipulated and governing regulatory requirements.
<p>3b</p>		<p>In the event of LuxCSD default, a participant's books and records should be adequately reconciled using the tools provided by LuxCSD in order to permit resolution authorities to efficiently ascertain the nature of claims and entitlements.</p> <p>Impacted Entity: CSD Participant Mitigating Measures: n/a</p>	
<p>4</p>	<p>Transparency of Ownership Risk</p>	<p>Potential for faster identification of the participant's clients to the issuers, to the regulators and to administrators in the event of the participant's insolvency or any other default / insolvency in the transaction lifecycle (albeit this cannot always guarantee more time favourable remediation in a default scenario).</p> <p>In addition, the CSD participant is required to ensure that account names and documentation is maintained accurately.</p> <p>Impacted Entity: CSD Participant</p>	<p>The identification of end beneficial ownership can be more difficult as the main account can contain many beneficial owners, the identities of which can be received by the CSD upon request (during registration for designated shares).</p> <p>The CSD has no transparency through to the participant's client's end beneficial name at the participant onboarding stage. Operational risk could potentially arise such as wrongly allocated income proceeds or corporate actions proceeds, wrong disclosure vis-à-vis the issuer and authorities or wrongly declared beneficial owners vis-à-vis tax authorities may occur.</p> <p>Impacted Entity: CSD Participant</p>

		<p>Mitigating Measures: The CSD will trigger its DMP to handle the participant in default related processes.</p>	<p>Mitigating Measures: See above mitigation measures covered in sections 1-3</p>
5	Cost	<p>Increased number of accounts, reconciliations and messaging increases operational cost. Due to the segregated nature of the account, all instructions need to be settled across the CSD, therefore no benefit of reduced internalised settlement cost.</p> <p>Impacted Entity: CSD Participant</p>	<p>Operational efficiency due to reduced number of accounts / messages leads to lower cost. Opportunity for internalised / net settlement across the books of the participant reduces transaction costs.</p> <p>Impacted Entity: CSD Participant</p>

Table 2 – Risk Types and Cost per Level of Segregation

For all of the above-mentioned risks **LuxCSD** has adequately implemented measures and procedures to mitigate and prevent these risks from arising. For more information, please refer to the relevant section covering each area of risk in the Client Handbook⁸ and fee schedule⁹ (Section 6.1, Standard Account Service Fee).

The following illustrates general risks regarding the account types:

- **Business Continuity / Business Recovery:**

LuxCSD has established adequate and resilient procedures and measures to address settlement continuity in order to ensure wherever possible continuous operational capacity. Details about Business Continuity and Business Recovery are available upon request from a Client Relationship Manager.¹⁰

- **Risk of inadequate definition of participant assets under Luxembourg law:**

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

- **Information requirements and record keeping:**

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

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

⁸ For more information please refer to the LuxCSD's website under:
<https://www.luxcsd.com/luxcsd-en/keydocuments/client-handbook/client-handbook-luxcsd-1275672>

⁹ For more information please refer to LuxCSD's public website under
<https://www.luxcsd.com/luxcsd-en/keydocuments/fee-schedule>

¹⁰ For more information please refer to the LuxCSD's website under:
<https://www.luxcsd.com/luxcsd-en/keydocuments/client-handbook/client-handbook-luxcsd-1275672>

6. LuxCSD's Regulatory Compliance with Articles 38 (5) – (7) of CSDR

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

6.1 Article 38 (5) of CSDR

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

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

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

LuxCSD confirms that it is compliant with CSDR Article 38 (5). For further information please see the LuxCSD Client Handbook, the Account Application Form¹¹ and details provided under sections 3.1 and 3.2 of this document.

6.2 Article 38 (6) of CSDR

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

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

LuxCSD is compliant with the requirement applicable to the CSDs. For further details please see earlier sections of this document.

6.3 Article 38 (7) of CSDR

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

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

¹¹ For more information please view LuxCSD's website under:
<https://www.luxcsd.com/luxcsd-en/keydocuments/account-opening-forms>

LuxCSD is compliant with this requirement. For further details please see Article 11 of the GTCs and Section 4.6 of this document.

7. Definitions and Glossary

Term	Description
Banking Act	Law of 5 April 1993 on the financial sector, as amended
Collective Account	See OCS
CSD	Central Securities Depository
CSDR	Regulation (EU) No 909/2014 of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories
Collateral Law	Law of 5 August 2005 on the collateral financial arrangements as amended
Dematerialisation Law	Law of 6 April 2013 on the dematerialisation of the securities as amended
Fungible	An asset's interchangeability with other individual assets of the same type.
GTCs	General Terms and Conditions
ICS	Individual Client Segregation
Immobilisation Law	Law of 28 July 2014 of immobilisation of the bearer shares
Levels of protection	The extent to which assets are protected in the LuxCSD environment.
Levels of segregation	The types of segregation made available to participants in the books of a CSD such as LuxCSD.
OCS	Omnibus Client Segregation
Payment Services Law	Law of 10 November 2009 on payment services, on the activity of electronic money institution and settlement finality in payment and securities settlement systems as amended
Securities Law	Law of 1 August 2001 on the circulation of the securities and other fungible instruments as amended