DISCLOSURE TO CLIENTS PURSUANT TO ARTICLE 38(6) OF THE CENTRAL SECURITIES DEPOSITORIES REGULATION

Section 1: Segregation

1. Introduction

This document is to disclose the levels of protection associated with the different levels of segregation that we (see glossary) provide in respect of securities that we hold for clients with Central Securities Depositaries within the EEA ("**CSDs**", see glossary). This includes a description of the main legal implications of the respective levels of segregation offered and information on the applicable insolvency law.

This disclosure is required under Article 38(6) of the Central Securities Depositories Regulation ("**CSDR**", see glossary) which relates to CSDs in the EEA.

CSDR also places disclosure obligations on the CSDs with which we hold securities.

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

Nothing in this document should be construed to override any terms of the custody agreement which we have in place with the client (as amended or supplemented from time to time).

2. Background

We record each client's individual entitlement to the securities that we hold for that client in (one or more) securities accounts established for that client, in our own books and records, pursuant to the terms of the custody agreement between the client and us. We also open accounts with the CSDs in our own name in which we hold clients' securities.

Currently, we offer two types of accounts with the CSDs to our clients. These are Individual Client Segregated Accounts ("**ISAs**") and Omnibus Client Segregated Accounts ("**OSAs**").

An ISA is used by us to hold the securities of a single client and therefore the client's securities are held by us in a CSD account which is separate from accounts used to hold the securities of other clients and accounts used to hold our own proprietary securities.

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

3. Main legal implications of levels of segregation

Our Insolvency

Our clients' legal entitlement to the securities that we hold for them with the CSDs would not be affected by our insolvency, whether those securities were held in ISAs or OSAs.

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

Application of Irish insolvency law

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

Under Irish insolvency law, securities that we held on behalf of clients would not form part of our estate on insolvency for distribution to creditors, subject to any security interest we may have and provided that they remained the property of the clients. Rather, they would be deliverable to clients in accordance with each client's proprietary interests in the securities.

As a result, it would not be necessary for clients to make a claim in our insolvency as a general unsecured creditor in respect of those securities. Securities that we held on behalf of clients would also not be subject to any bail-in process in Ireland (see glossary), which may be applied to us if we were to become subject to resolution proceedings (see glossary).

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

Application of branch insolvency law

Pursuant to local laws of the jurisdictions where our branches through which we hold securities in the relevant CSDs are located, those branches would not be subject to local insolvency proceedings in those jurisdictions, but only to insolvency proceedings in Ireland, as described in the preceding section.

Nature of clients' interests

Although our clients' securities are recorded in our name at the relevant CSD, we hold them on behalf of our clients. As such, our clients are considered to have a beneficial proprietary interest in those securities as a matter of law, in addition to any contractual right they may have against us to have the securities delivered to them.

This applies both in the case of ISAs and OSAs. However, the nature of our clients' interests in ISAs and OSAs is different. In relation to an ISA, each client is beneficially entitled to all of the securities held in the relevant ISA attributable to that client. In the case of an OSA, as the securities are held collectively in a single account, each client is normally considered to have a beneficial interest in all securities in the account proportionate to its holding of securities as recorded in our books and records.

Our books and records constitute evidence of our clients' beneficial interests in the securities. The ability to rely on such evidence would be particularly important on our insolvency and in the case of an OSA, since no records of individual clients' entitlements would be held by the relevant CSD.

In accordance with the European Communities (Licensing and Supervision of Credit Institutions) Regulations, 1992, we must maintain accurate books and records, which include the reconciliation of such books and records against the accounts of the CSD. We are also subject to regular audits in respect of our compliance with those regulations. As long as books and records are maintained in accordance with the regulations, clients should receive the same level of regulatory protection from both ISAs and OSAs.

Shortfalls

If there were a shortfall between the number of securities that we are obliged to deliver to clients and the number of securities that we hold on their behalf in either an ISA or an OSA, this could result in fewer securities than clients are entitled to being returned to them on our insolvency. There would be a difference in the way in which such a shortfall could arise, 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.

Where we have been requested to settle a transaction for a client and that client has insufficient securities held with us to carry out that settlement, in the case of both an ISA and an OSA, we only carry out the settlement once the client has delivered to us the securities needed to meet the settlement obligation.

We do not permit clients to make use of or borrow securities belonging to other clients for intra-day settlement purposes, even where the securities are held in an OSA, in order to reduce the chances of a shortfall arising as a result of the relevant client failing to meet its obligation to reimburse the OSA for the securities used or borrowed.

Treatment of a shortfall

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

In the case of an OSA, the shortfall would be shared among the clients with an interest in the OSA, in accordance with the amounts of their respective interests. Therefore, it is possible that a client may be exposed to a shortfall even where securities have been lost in circumstances which are completely unrelated to that client.

If a shortfall arose for which we are liable to the client, the client may have a claim against us for any loss suffered. If we were to become insolvent prior to covering a shortfall, clients would rank as general unsecured creditors for any amounts owing to them in connection with such a claim. Clients would therefore be exposed to the risks of our insolvency, including the risk that they may not be able to recover all or part of any amounts claimed.

In these circumstances, clients could be exposed to the risk of loss on our insolvency. If securities were held in an ISA, the entire loss would be borne by the client for whom the relevant account was held. If securities were held in an OSA, the loss would be allocated between the clients with an interest in that account equal to the client's share of the shortfall.

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 our books and records. Any shortfall in a particular security held in an OSA would then be allocated among all clients with an interest in that security in the account. It is likely that this allocation would be made rateably between clients with an interest in that security in the OSA, although arguments could be made that in certain circumstances a shortfall in a particular security in an OSA should be attributed to a particular client or clients. It may therefore be a time consuming

process to confirm each client's entitlement. This could give rise to delays in returning securities and initial uncertainty for a client as to its actual entitlement on an insolvency.

Security interests

Security interest granted to a third party other than a CSD

Security interests granted over clients' securities could have a different impact in the case of ISAs and OSAs. For the avoidance of doubt certain security interests over a client's securities must always be granted in accordance with the terms of the custody agreement and/or additional contractual agreements that we have in place with the client.

Where the client purports to grant a security interest over its interest in securities held by us which we hold 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 from that account to all clients holding securities in the relevant account. However, in practice, we would expect that the beneficiary of a security interest over a client's securities would perfect its security by notifying us rather than the relevant CSD and would seek to enforce the security against us rather than against such CSD, with which it had no relationship. We would also expect the CSDs to refuse to recognise a claim asserted by anyone other than the account holder.

Security interest granted to CSD

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

Corporate actions

Where securities are held in an ISA and the client is entitled to a fractional entitlement on a corporate action, it is possible that the client would not in practice benefit from that fractional entitlement. However, where securities are held in an OSA, fractional entitlements may be received on an aggregated basis and therefore it is more likely that the clients may be able to benefit from some or all of those fractional entitlements.

Our insolvency may also have an impact on our ability to collect any entitlements, such as dividends, due on clients' securities held in an ISA or OSA or exercise any voting rights in respect of those securities.

Section 2: Pricing

1. <u>Introduction</u>

We are also required by Article 38(6) of CSDR to disclose the costs that are associated with the different levels of segregation we offer, as described in Section 1 of this document.

2. Costs

As noted in Section 1, we offer our clients ISAs or OSAs, in respect of securities we hold for clients with CSDs. There are fundamental differences between ISAs and OSAs and as a result, the costs associated with each will vary.

In general, an ISA will be more expensive than an OSA. The main reason for this is that, operationally, ISAs are more expensive than OSAs for us to open and maintain at a CSD. OSAs afford a greater level of operational efficiency than ISAs. For example, operating an ISA structure will require us to open and maintain multiple ISAs, which may incur higher charges at the CSD and from any other third parties involved. This is in contrast to an OSA arrangement which would enable us to use one account for a number of different clients.

Without prejudice to the foregoing in this paragraph, please note that it is not possible for us to provide specific information regarding costs in this document. Client specific pricing structures for both ISAs and OSAs will depend on a variety of factors and will be calculated on a case-by-case basis. Please contact your usual Relationship Manager if you would like to discuss this further.

GLOSSARY

"**bail-in**" refers to the process under the European Union (Bank Recovery and Resolution) Regulations 2015 (as amended) to failing Irish banks and investment firms under which the firm's liabilities to clients may be modified, for example by being written down or converted into equity.

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

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

"**EEA**" means the European Economic Area.

"**resolution proceedings**" are proceedings for the resolution of failing Irish banks and investment firms under the European Union (Bank Recovery and Resolution) Regulations 2015 (as amended).

"**we**" or "**us**" refers to U.S. Bank Europe DAC and our U.S. Bank Europe DAC United Kingdom Branch.