

**Article 38 (5) (6) Central Securities Depositories Regulation (CSDR)  
Participant Disclosure: BNP Paribas Securities Services**

**Disclosure Letter – Germany**

**1. INTRODUCTION**

This document describes the level of protection associated with the two types of segregation accounts that BNP Paribas Securities Services provides in respect of securities that it holds for its clients with Clearstream Banking AG, Frankfurt (referred to as “CBF”) pursuant to the German Custody Act (*Depotgesetz*), including a description of the main legal implications of the two types of segregation accounts as well as the applicable German insolvency rules.

The disclosure of the information contained in this document is required under Article 38 (5) and (6) of the Central Securities Depositories Regulation (EU) No 909/2014 (“CSDR”). BNP Paribas Securities Services is subject to these disclosure obligations in its capacity as a Direct Participant (see glossary) of several Central Securities Depositories (“CSD”). CSDs have their own disclosure obligations under the CSDR.

Capitalised terms not defined in the text shall have the meanings given to them in the glossary at the end of this document.

**2. BACKGROUND**

The custody of each BNP Paribas Securities Services' client's securities is kept through separate client accounts in its books and records. BNP Paribas Securities Services has the obligation to segregate in its books the securities of each of its clients which are segregated from BNP Paribas Securities Services' proprietary assets.

BNP Paribas Securities Services also opens securities accounts at the level of each CSD and ensures that its clients' securities are segregated from BNP Paribas Securities Services' own securities in the books of each CSD, irrespective of the type of accounts described below. CSDs are not permitted to commingle their own assets with securities of their Direct Participants.

BNP Paribas Securities Services is operationally able to establish two types of client securities accounts with CSDs: Individual Client Segregated Account (“ISA”) and Omnibus Client Segregated Account (“OSA”).

An OSA is used to hold the securities of a number of BNP Paribas Securities Services' clients on a collective basis.

An ISA is used to hold the securities of one single client of BNP Paribas Securities Services and therefore the securities of that single client are held separately from the securities of BNP Paribas Securities Services' other clients.

Although each ISA may be named in a way that identifies the client for whom it is maintained, the client does not have any right or ability to give instructions directly to the CSD with respect

to that ISA and therefore holding securities through an ISA does not give a client any operational rights with respect to that ISA.

For more information on ISAs and OSAs and their respective costs, please click on the following link: <https://securities.bnpparibas.com/about-us/regulatory-publications/csdr.html>

### 3. GERMANY

#### 3.1 Legal rules regarding securities' ownership

The specific rights of depositors depend on the way the securities are held in custody. In accordance with the German Custody Act (*Depotgesetz*) and available CBF disclosure, there are three types of custody on the level of CBF under which its Direct Participants (including BNP Paribas Securities Services) may hold securities for its customers (acting for themselves and not as intermediary of a third party) (the “**Depositors**” and each a “**Depositor**”): (i) collective safe custody (*Girosammelverwahrung*), (ii) individual safe custody (*Sonderverwahrung*) and (iii) book entry credit (*Gutschrift in Wertpapierrechnung*). Securities of Depositors are kept separately from securities owned by the custodian.

For securities in collective safe custody (including German government bonds registered in the German Federal Debt Register), Depositors obtain a co-ownership interest of fractions in respect of the collective holding represented by a global certificate held by a CSD equal to the nominal value or units of the Depositor’s securities.

For physical securities held in individual safe custody, Depositors retain their sole ownership interest in respect of the securities so deposited.

Foreign law governed securities that are not held via CBF or a CSD link are not held in collective safe custody within the meaning of the German Custody Act. With regard to these securities, Depositors have no ownership right but only a claim against its custodian for delivery of the position the custodian has vis-à-vis the foreign custodian. That position is recorded by the custodian in the form of book entry credits and held on a fiduciary basis for the Depositor. To ensure that the fiduciary positions are sufficiently protected and segregated from any propriety holding, BNP Paribas Securities Services will, *inter alia*, obtain a confirmation from the foreign custodian (i) that the securities belong to final clients of BNP Paribas Securities Services, (ii) that the relevant securities safekeeping accounts shall be designated “customer’s account” and (iii) that any security interest is exercised only for claims which arise from the purchase, administration and safe custody of a particular security.

## **3.2 ISA and OSA**

BNP Paribas Securities Services provides ISAs and OSAs to its clients/Depositors, where possible also throughout the custody chain. Legally, securities held in an OSA are subject to an equal level of protection as securities held in an ISA. However, in the insolvency of a custodian, some argue that the legal interests of the Depositors are easier to identify. It is also considered that securities held in an OSA are more vulnerable to misappropriation of securities than securities held in an ISA.

## **3.3 Insolvency**

### *3.3.1 Insolvency of Clearstream Banking AG, Frankfurt*

An insolvency of CBF does not affect the ownership or fiduciary rights of BNP Paribas Securities Services' clients, the Depositors, regarding securities held in accounts of BNP Paribas Securities Services at CBF, regardless of whether the securities are kept in an ISA or OSA at the level of CBF or BNP Paribas Securities Services. In case of collective or individual safe custody, the Depositors have a right to segregate their securities from the insolvency estate based on their (co-)ownership interest. Similarly, following the predominant view among German legal scholars, in case of book entry credit, BNP Paribas Securities Services, on behalf of its clients, has a right to separate the legal position CBF is holding against the (foreign) third party custodian from the insolvency estate of CBF based on the contractual arrangements. The same level of protection applies in the event that CBF becomes subject to resolution measures by the competent resolution authority, as in particular the Bail-in tool.

If CBF, as custodian infringes the respective Depositor's legal position through an unlawful disposition and thereby hampers their segregation right, the depositors of CBF, i.e. BNP Paribas Securities Services, become priority insolvency creditor of CBF by operation of law with a priority claim against the insolvency administrator for delivery of these securities which is settled out of a pool of similar securities separated from CBF's insolvency estate. This priority claim applies provided that the depositors have complied with their obligations.

Even though BNP Paribas Securities Services' clients are not depositors with CBF, in an insolvency of CBF, BNP Paribas Securities Services as intermediate custodian of its clients should be entitled to assert a priority claim against CBF on behalf of its Depositors.

### *3.3.2 Insolvency of BNP Paribas Securities Services*

Pursuant to German international insolvency law, the insolvency of BNP Paribas Securities Services is in principle governed by French insolvency laws. However, German international insolvency law would be applicable if the accounts held with BNP Paribas Securities Services are located in Germany. The segregation right under the German Insolvency Code (referred to above) remains unaffected in respect of "securities" located in Germany. In such case, BNP Paribas Securities Services' clients will be entitled to exercise their segregation right regarding German law governed securities held by BNP Paribas Securities Services in collective safe

custody or individual custody which is provided under German insolvency law on the basis that the clients' account is maintained by BNP Paribas Securities Services in Germany.

In respect of securities that BNP Paribas Securities Services holds for its clients in form of book entry credit, the location of the position that BNP Paribas Securities Services holds for its clients depends on the nature of the position which in turn depends on the type and nature of the foreign security and the way it is held in custody. Based on a security by security analysis, the location of the security may be in Germany, offering protection to segregation rights, or outside of Germany and the position of the clients of BNP Paribas Securities Services would be determined under French insolvency laws and the laws of any non-German jurisdiction.

### **3.4 Shortfall**

A shortfall arises if the number of securities that CBF or BNP Paribas Securities Services must deliver to their clients is higher than the actual number of securities that they hold. A shortfall could for example occur because of administrative errors, intraday movements or counterparty default following the exercise of rights of reuse and is particularly relevant in the event that CBF or BNP Paribas Securities Services are subject to insolvency procedure, in which case the principles set out under 3.3 apply. In principle, the level of protection of securities held in an OSA is equal to the level of protection of securities held in an ISA.

#### *3.4.1 At the level of CBF*

In case of a shortfall of securities which are deposited in an OSA in collective safe custody for which CBF is not responsible, CBF will allocate such losses to the relevant depositors on a *pro rata* basis. If a shortfall occurs in an ISA for which CBF is not responsible, the depositor bears the full loss. In case of a shortfall for which CBF is responsible, including shortfalls caused by third parties, CBF will be obliged to compensate the depositors. The depositors rank as unsecured creditors with regard to any such compensation claim against CBF.

#### *3.4.2 At the level of BNP Paribas Securities Services*

In respect of a shortfall on the level of BNP Paribas Securities Services, the same principle applies as set out under 3.4.1. Regarding securities which are deposited in an OSA in collective safe custody for which BNP Paribas Securities Services is not responsible, BNP Paribas Securities Services will allocate losses to its clients on a *pro rata* basis. If a shortfall occurs in an ISA for which BNP Paribas Securities Services is not responsible, the clients bear the full loss. In case of a shortfall for which BNP Paribas Securities Services is responsible, including shortfalls caused by third parties for which BNP Paribas Securities Services is liable, BNP Paribas Securities Services will compensate its clients for such loss. In an insolvency of BNP Paribas Securities Services, the clients rank as unsecured creditors with regard to any such compensation claim against BNP Paribas Securities Services.

**This Participant Disclosure document is dated January 21, 2020.**

## **GLOSSARY**

**Bail-in tool** is a measure under the EU bank resolution framework which enables the resolution authority to write down and/or convert into equity the claims of a broad range of creditors, according to a predefined creditor hierarchy.

**Central Securities Depository (CSD)** is an entity which operates a securities settlement system and provides at least one other core service listed in Section A of the Annex of the CSDR.

**Central Securities Depositories Regulation or CSDR** refers to Regulation (EU) 909/2014 of the European Parliament and of the Council dated 23 July 2014 on improving securities settlement in the European Union and on central securities depositories.

**Direct Participant** means an entity that holds securities in an account with a CSD and is responsible for settling transactions in securities that take place within a CSD. A Direct Participant should be distinguished from an Indirect Participant.

**Indirect Participant** means an entity, such as a global custodian, which appoints a Direct Participant to hold securities for it with a CSD.

**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, as applicable, a Direct Participant or an Indirect Participant.

**Graphic representation of OSA and ISA:**

### ***Disclaimer***

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