Article 73 para. 4 Swiss Financial Market Infrastructure Act (FMIA)

Required Participant Disclosure: BNP Paribas

Disclosure Letter – Switzerland

1. Introduction

The purpose of this document is to disclose the protection associated with the two different types of segregation accounts that BNP Paribas provides in respect of securities held directly for clients with the Central Securities Depository located in Switzerland, SIX SIS AG, including a description of the main legal implications of the two types of segregation accounts and on the insolvency law applicable.

This disclosure of the information contained in this document is required under Article 73 para.4 of the Swiss Financial Markets Infrastructure Act (FMIA) in relation to CSDs domiciled in Switzerland.

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

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.

BNP Paribas, acting though its Zurich Branch ("Bank"), is a Participant of SIX SIS AG, CSD domiciled in Switzerland (CSD). Article 73 para.4 FMIA requires from Participant to offer its client the possibility of omnibus client segregated accounts or individual client segregated accounts at the CSD level and additionally to publish the specifics concerning the level of protection granted by the different type of segregation accounts.

2. Background

In Bank's own books and records, Bank records each client's individual entitlement to securities

that it holds for that client in a separate client account. Bank also opens accounts with SIX SIS AG in its own name (i.e. the account is held in the name of Bank but designated as client account) in which it holds clients' securities. As a general rule, Bank is operationally able to establish two types of client securities accounts with SIX SIS AG: Individual Client Segregated Account (ISA) and Omnibus Client Segregated Account (OSA).

An OSA is used to hold the securities of a number of clients on a collective basis.

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. For more information on ISAs and OSAs and their respective costs, please click on the following link: https://securities.cib.bnpparibas/regulatory-disclosures-publications/central-securities-depositories-regulation-csdr/

3. Main legal implications of levels of segregation

Insolvency

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

BNP Paribas is considered as a systematically important institution and if BNP Paribas were to become insolvent, the Bank would be subject to EU resolution authority exercised by the Single Resolution Board, including its ability to institute resolution plan. The Zurich branch of BNP Paribas may also be subject to insolvency proceedings in Switzerland which would be governed by Swiss insolvency Law.

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

which are discussed below.

Exclusion from the bank's bankruptcy estate

France

Under the provision of French Law, BNP Paribas must segregate its own securities from securities of its clients. If BNP Paribas becomes subject to insolvency proceedings, proprietary rights over financial instruments are determined at the level of the securities account held by BNP Paribas and not at the level of the accounts held at the CSD. BNP Paribas' clients securities cannot be claimed by BNP Paribas' own creditors and can only be claimed by the clients of BNP Paribas.

Accordingly, in case of a potential insolvency event affecting BNP Paribas, the fact that securities are held through an ISA opened in the books of the CSD on behalf of a particular client of BNP Paribas does not give that client more protection than in the case of clients who hold their securities through an OSA.

Moreover, under the French Law, securities that BNP Paribas held on behalf of clients would not form part of BNP Paribas' estate in resolution, would not be subject to the claims of its general creditors. As a consequence, it would not be necessary for clients to make a claim in our insolvency as a general unsecured creditor in respect of those securities.

Switzerland

Under Swiss Law, intermediated securities, 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 insolvency 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 Article 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[1]. 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 recorded in BNP Paribas' name at SIX SIS AG, BNP Paribas holds them on behalf of BNP Paribas' clients.

For securities that are held by SIX SIS AG directly or indirectly through one or several other CSDs located outside Switzerland, 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 AG or any other CSDs 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

If 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 a 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

[1] 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 not exceed eight days.

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 clients' accounts (see below).

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[2]. 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.

[2] Cf. Art. 19 FISA.

Security interests

Security interest granted to SIX SIS

Where SIX SIS 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 SIX SIS 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 SIX SIS 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 SIX SIS to enforce its security rateably across client accounts held with it. Furthermore, Swiss law requires the liquidator to satisfy claims of SIX SIS arising out of the custody of intermediated securities or the financing of their acquisition.[3]

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 SIX SIS 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, Bank would expect that the beneficiary of a security interest (pledgee) over a client's securities would perfect its security by notifying Bank rather than SIX SIS and would seek to enforce the security against Bank rather than against SIX SIS, with which it had no relationship. We would also expect the CSD to refuse to recognise a claim asserted by anyone other than the Bank as account holder.

This Participant Discloser – Switzerland is dated September 2018

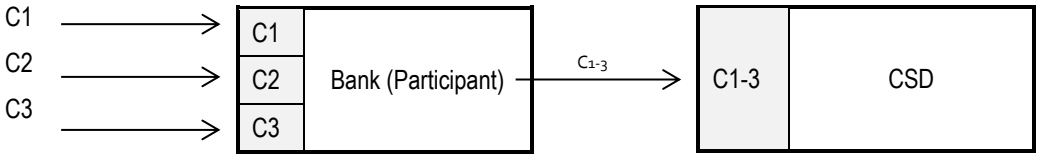
[3] Cf. Art. 17 para. 3 FISA

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.
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)