



one clear connection

FAQ on Segregation and Portability

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1. Legal Disclaimer

Whilst this document might be helpful when making decisions, this document is not legally binding and does not constitute legal or any other form of advice and must not be relied on as such. Your relationship towards ECC is solely governed by respective Agreements with ECC and ECC's Clearing Conditions in their current valid version.

This document only provides high level information and does not interpret the governing Agreements or applicable rules and regulations.

This document does not provide all the information necessary to make a decision on which account type or level of segregation is suitable. Nothing contained herein should be considered a solicitation or a recommendation by us or an assessment of suitability for a particular account type, level of segregation or transaction.

No representation or warranty is made as to the accuracy or completeness of the information provided herein. It is each Clients responsibility to review and conduct own due diligence on any information provided.

Any decisions you take have to be based on your own analysis and judgment. ECC shall not be liable for resulting damages. It is recommended to appoint own professional advisors to assist in the decisions for the appropriate level of segregation.

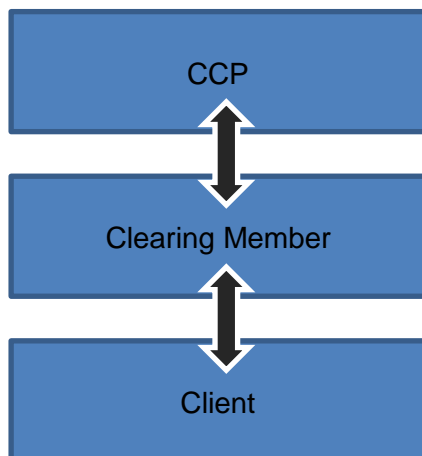
Please note that this disclaimer shall be subject to and construed in accordance with the principles of German law and shall be governed by the laws of Germany.

2. Introduction

This document explains commonly asked questions relating to ECC's segregation models. It is updated from time to time and published on ECC's website. This document is intended for information purposes. Legally binding are only the current rules and regulations of ECC AG.

2.1. Principal-to-Principal Model

ECC operates a "principal-to-principal" clearing model for derivatives¹ clearing according to Par. 3.3.2 Clearingconditions: When a derivative transaction is concluded on one of the markets ECC clears, two separate transactions are created:



A principal-to-principal transaction with the CCP, which is governed by the rules of the CCP (the CCP Transaction)

A principal-to-principal transaction with the client, which is governed by the terms of the client clearing agreement (the Client Transaction) and the rules of the CCP. Client means Non-Clearing Members and other Clients of the Clearing Member in the A-Accounts.

The terms of each client transaction are equivalent to those of the related CCP Transaction, except that each Client Transaction will be governed by a client clearing agreement between client and Clearing Member and the Clearing Member will take the opposite position in the CCP Transaction to the position under the related Client Transaction.

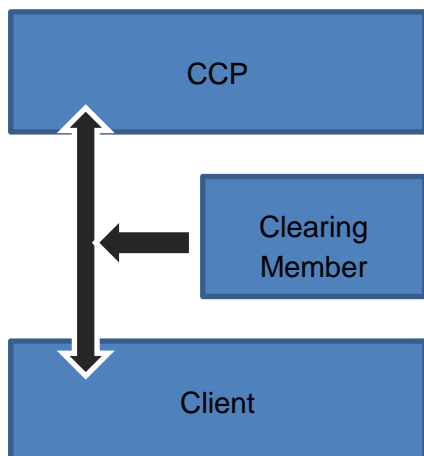
¹ "Derivatives" in this context means transactions in futures and options regardless of the regulatory classification as derivative under MIFID.

A client transaction will arise without the need for any further action by either Clearing Member or client as soon as the CCP Transaction arises between Clearing Member and the CCP. Once both of those transactions have been entered into, a transaction is considered to be “cleared”.

As the principal to the CCP, the Clearing Member is required to provide assets to the CCP as margin for the CCP transactions that relate to the client transaction and to ensure that the CCP has as much margin as it requires at any time. The Clearing member will therefore ask the Client for margin and, where the Client provides it in a form which cannot be transferred to the CCP, the Clearing member may transform it. According to the clearing rules of the CCP the Clearing Member has to ask at least the amount of margins as required by the CCP.

2.1. Guarantor Model

ECC operates a “guarantor” clearing model for spot clearing: When a spot market² transaction according to Par. 3.3.3 Clearingconditions is concluded on one of the markets ECC clears (or when a derivatives market transactions goes into physical delivery according to Par. 3.3.5 Clearingconditions) the clearing member guarantees the financial performance of the client’s obligation:



A client transaction with the CCP (CCP transaction) is governed by the rules of the CCP

The financial guarantee of the clearing member is governed by the terms of the client clearing agreement (the Client Transaction) and the rules of the CCP. The guarantee for a CCP transaction is similar to a client transaction.

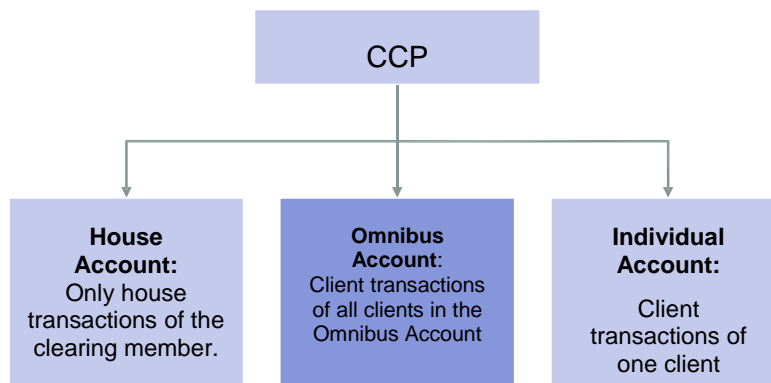
² Spot Market transactions are defined as transactions that are fulfilled within 2 days after conclusion according to ECCs Clearing Conditions

The clearing member besides guaranteeing the performance of the client furthermore acts as a settlement bank for the client (accepting payments on the client's behalf) and through its guarantee function pays to ECC amounts due out of the transaction. Once the transaction has been entered into, a transaction is considered to be "cleared".

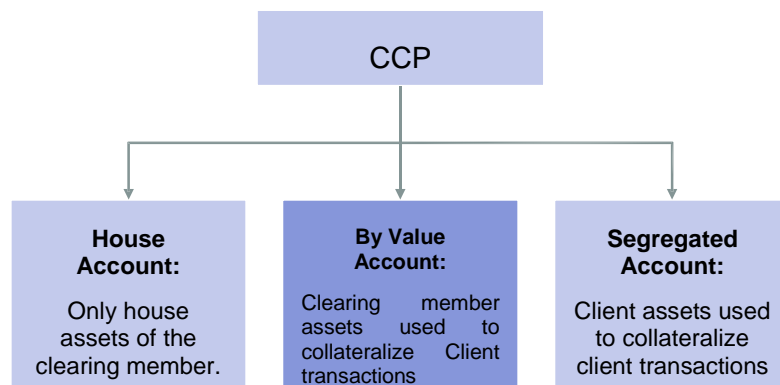
As the guarantor to the benefit of the CCP, the Clearing Member is required to provide assets to the CCP as margin for the transactions and to ensure that the CCP has as much margin as it requires at any time. The Clearing member will therefore ask the Client for margin and, where the Client provides it in a form which cannot be transferred to the CCP, the Clearing member may transform it. According to the clearing rules of the CCP the Clearing Member has to ask at least the amount of margins as required by the CCP.

2.2. Account types

Besides the house account there are two basic types of client transaction accounts available – Omnibus Client Accounts and Individual Client Accounts:



Furthermore, besides the house collateral account, there are two basic client segregation collateral account types available:



Based on a combination of the above mentioned account types for transactions and collateral assets, ECC offers the two combined account types as mandated by EMIR: the Individually Segregated and Omnibus Segregated accounts (ISA/OSA). Furthermore, ECC offers further segregation in the form of By Value accounts for both Omnibus and Individual Accounts by General and Simple Omnibus Segregation (GOS/SOS).

2.3. Omnibus Segregated Client Account (OSA)

Under this account type, the OSA CCP Transactions and assets that relate to them in the CCP's accounts are segregated from any CCP Transactions the Clearing Member has cleared for the Clearing Members own account (House Transactions) and any assets he has provided as margin for those House Transactions. However, the CCP Transactions and assets that relate to an OSA Client will be commingled with the CCP Transactions and assets relating to any of the other OSA clients that are recorded in the same Omnibus Client Account.

ECC will not net for the purposes of position keeping and margining the CCP Transactions relating to the Omnibus Account with:

- the House Transactions
- or any CCP Transactions not recorded in the same Omnibus Client Account,

nor use the assets relating to such CCP Transactions with respect to

- any House Transaction
- or CCP Transaction recorded in any other account.

The assets provided in relation to the CCP Transaction recorded in the same Omnibus Client Account can be used in relation to any CCP Transaction credited to that Omnibus Client Account.

2.4. Individual Segregated Client Account (ISA)

Under this account type, the CCP Transactions and assets that relate to a Client in the CCP's accounts are segregated from those relating to the Clearing Members House Transactions and to the CCP Transactions and assets that relate to any other Client.

ECC will not net for the purposes of position keeping and margining the CCP Transactions relating to the Individual Account with

- House Transactions,
- or any CCP Transactions not recorded in the same Client Account

nor use the assets relating to such CCP Transactions in relation with

- the House Transactions,
- or CCP Transaction recorded in any other account.

3. General Setup

3.1. How to set up an Individual Segregation Account?

The NCM should contact its CM to start the process for setting up an ISA Account. Upon approval of ECC and the respective CM, an ISA Account will be created by ECC. To do so, a Collateral Agreement for the passing-through of collateral (NCM07) has to be signed by the NCM requesting segregation, its CM and ECC. A Close-out Netting Agreement has to be concluded between the CM and the segregated NCM as a precondition (ECC's close-out netting agreement can be used as a template). Clients must become NCM first, if they wish to be setup with an IS Account.

Furthermore, a separate collateral account has to be opened with Clearstream Banking Frankfurt by the CM, if the NCM wishes to post security collateral. See question "How to deposit collateral?"

3.2. How to set up an Omnibus Segregation Account?

Upon request of the CM, ECC opens one or more OSA Accounts. ECC and the Omnibus Representative must sign a Collateral Agreement for the passing-through of collateral (NCM07) as a precondition.

A Client that wants to opt for OSA shall contact its CM and sign a bilateral close-out netting agreement (ECC's close-out netting agreement can be used as a template). Indeed, all clients in the Omnibus Segregated Account have to sign such an agreement. Additionally, the clients have to appoint an "Omnibus Representative" who has the duties as described in the clearing conditions.

Furthermore, a separate collateral account has to be opened with Clearstream Banking Frankfurt by the CM if the NCM wishes to post security collateral. See question "How to deposit collateral?"

3.3. How do segregated accounts show up in the EUREX System?

The value of the all collateral is shown by collateral pool in the EUREX System near to real time. The naming convention for standard pools is as follows:

House Pool: CM ID + XPROPPOOL e.g.: ABCEXXPROPPOOL

OSA Pool: CM ID + CM ID + SOS + Position Account e.g.: ABCEXABCEXOSAA1

ISA Pool: CM ID + NCM ID + ISA + Position Account e.g.: ABCEXDEFEXISAPP

GOS Pool: CM ID + XSTANDARD e.g.: ABCEXXSTANDARD

SOS Pool: CM ID + CM ID + SOS + Position Account e.g.: ABCEXABCEXSOSA2

3.4. What kind of reports are available?

ECC provides a comprehensive set of reports that support the management and monitoring of collateralization levels in the Common Report Engine (CRE). CM and NCM can get access to the CRE according to the following information:

Technical access description:

<http://documents.ecc.de/document/15956/Common%20Report%20Engine%20%20Distribution%20of%20EUREX%20Reports%20via%20FTP>

Setup form:

http://cdn.ecc.de/document/15981/20120912_T06_CRE_Access.pdf

Technical details and user guides:

http://cdn.ecc.de/document/17864/20120912_ECC_CommonReportEngine_Non_Eurex_Member.pdf

The EOD reports are normally available at the beginning of the next day. For detailed information regarding the contents of the provided reports please refer to Eurex XML Report Reference Manual.

3.5. Are there any fees for segregation?

ECC currently does not foresee any additional fees associated with the different segregation models.

3.6. What if a Client/NCM uses different CMs for different markets?

If a NCM uses the same CMs for several markets cleared by ECC, the segregation method applies to all such markets. If a NCM uses different CMs for different markets cleared by ECC, the NCM can have different segregation settings for each of the CMs.

4. Collateral Acceptance

4.1. Are collaterals held in a bankruptcy remote manner?

Collateral recorded in an ISA/OSA can be cash or securities:

- **Cash:** Cash is recorded in separate pledge accounts in ECCs books and records. The funds are managed together with ECCs own funds and other funds according to ECCs Investment Policy. In case of a default of ECC such funds would become part of the insolvency estate and therefore are not regarded as bankruptcy remote.
- **Securities:** The securities are recorded and held in separate pledge accounts at Clearstream Banking Frankfurt. In case of a default of ECC, they would not become part of the insolvency proceedings and are therefore regarded as bankruptcy remote.

5. Margin

5.1. What happens with NCM Variation Margin payments in case of a CM default?

The clients daily settlement of variation margin for transactions cleared by ECC takes place between the NCM or Client and the CM. The payment arrangement and the settlement details are outside of ECCs payment system and are therefore not protected by the segregation as described above.

Example: NCM pays variation margin to CM who defaults. NCM moves to new CM or Back-up CM. ECC did not receive variation margin payment from old CM.

ECC will use the collateral to cover firstly its own outstanding debts with regard to the NCM positions and only transfer the remaining collateral. Consequently that means that the NCM is at risk with the variation margin payments, which can be typically limited to one day depending on payment arrangements between CM and NCM and the speed of transfer to another CM.

Example: ECC pays Variation Margin to CM who defaults. NCM did not receive Variation Margin payment from CM.

The NCM will have to claim the outstanding debt with the CM's administrator. ECC cannot reimburse the NCM for potential losses.

5.2. What about Intraday Margin Calls?

An intraday margin shortfall of an IS or OS collateral pool can be covered with a surplus of the standard collateral pool of the CM. Any (intraday) margin surplus of an IS or OS Collateral Pool can however not be used to cover an intraday shortfall of the Standard Collateral Pool.

Should the collateral of the Standard Collateral Pool not be sufficient to cover the intraday margin shortfall of the IS/OS or GOS Clients as a whole an intraday margin call will be instructed by ECC against the CM. This margin call can be instructed in cash or collateral by the CM. The collateral will be credited to the Standard Collateral Pool of the CM. The CM can then allocate the collateral to different IS/OS or GOS Accounts. See question 3.4 "How to deposit collateral?"

5.3. How will excess margin be treated?

Excess margin is any amount of assets a Clearing Member requires from Clients or they provide to their Clearing Member in respect of a Client Transaction that is over and above the amount of assets the CCP requires from the Clearing Member in respect of the related CCP Transaction.

Under an Individual Client Segregation the Clearing Member is required to pass such excess margin on to a CCP. Any excess margin provided will be subject to Transit Risk and may be subject to CCP cut-off times or settlement times in accordance with customary practice for those assets.

If a Client provides his Clearing Member with assets which are not related to individually segregated clearing activities at a particular CCP and such assets are not dedicated to cover positions with a dedicated CCP, then such assets need not be passed on to a CCP.

If the Clients excess margin is not in the form of assets which are eligible to be posted to the CCP (in accordance with the CCP's rules), the Clearing Member has no obligation to transform such assets into assets that would be eligible to be posted to the CCP (unless agreed otherwise between Clearing Member and Client).

6. Default of the Clearing Member

6.1. What happens to existing transactions?

Derivative Transactions

There are two possibilities with respect to the CCP Transactions and assets related to the client:

- the CCP will, at Clients request, try to transfer (port) to another clearing member (a back-up clearing member), such CCP Transactions and assets; or, if this cannot be achieved,
- the CCP will terminate the CCP Transactions that relate to the client.

The porting process will be a close-out with the Clearing Member and a re-establishment with the back-up Clearing Member of the CCP Transactions or a transfer of the open CCP Transactions and related assets to the back-up Clearing Member.

Spot Transactions

Spot transactions are concluded between ECC and the Clients directly with the Clearing Member acting as payment agent and guarantor. They will not be ported, but ECC will decide whether to complete delivery or to terminate them depending on the ability of the Client to appoint an alternative payment agent.

Difference Claim for terminated/ported transactions

As a result of termination, ECC will calculate a difference claim on the Clearing Member that reflects the economic loss that ECC suffers out of replacement or hedging transactions on the open position. The difference claim where it is negative (i.e. an amount owed to ECC) may be covered by collateral. If the amount is positive, it is returned to the Clearing Member.

To calculate collateral usage per client account, a hypothetical difference claim is allocated to each client account, reflecting regarding the position at maximum the amount if only this account had been subject to termination / porting. Usage of collateral that is allocated to client accounts is capped at the amount of each hypothetical claim amount, within an omnibus collateral account, all collateral allocated to position accounts of that omnibus may be used.

6.2. Will the CCP Transactions and assets automatically be ported?

There will be a number of conditions which must be satisfied before the CCP derivative Transactions and assets can be ported to another Clearing Member; these conditions will include obtaining the Clients and new clearing members consent:

- Only positions and assets of Clients with the status as an NCM, OSA omnibus accounts, or GOS and SOS accounts that consist entirely of NCMs will be ported.
- Positions of NCMs (without) could be ported for single NCMs without Assets in case the porting of Assets is not possible.
- The ISA/OSA clients may appoint a back-up Clearing Member (for OSA joint appointment) that has agreed to accept the CCP Transactions in case of a default of the primary Clearing Member. It is advisable to appoint a back-up Clearing Member upfront. It might be difficult to obtain the backup Clearing Members confirmation to accept the CCP Transactions when a default occurs. The backup Clearing Member may also have conditions that have to be met. If no back-up Clearing Member has been appointed prior to the Clearing Members default, then this may mean that porting is less likely to occur.

- The client may on its own initiative or when contacted in the Default event by ECC appoint a new Clearing Member. The Clearing member may have conditions that need to be fulfilled and not only the technical setup at the clearing member but also internal decision making at the new clearing member may delay or make impractical the transfer. ECC will only allow a typically short time window for this part of the transfer process (see What happens if porting is not achieved?)
- Furthermore, in case of Default, ECC reserves its rights to deny porting to the new clearing member if additional collateral cannot be furnished by this clearing member, or if its risk assessment of the new clearing member would make a porting of assets or transactions imprudent.

If porting is achieved, ECC will transfer the Client Transactions from the Clearing member in default to the backup Clearing Member.

The type of account and level of segregation will have an impact on the ability to port CCP Transactions and assets to a backup Clearing Member:

In an Omnibus Client Account all of the clients who have CCP Transactions and assets relating to them recorded in the same Omnibus Client Account will have to agree to use the same backup Clearing Member, and the new Clearing Member will have to agree to accept all of the omnibus clients, their CCP Transactions and assets recorded in that Omnibus Client Account. It is therefore likely to be difficult to achieve porting in relation to an Omnibus Client Account, unless previously agreed.

It should be easier to achieve porting an Individual Client Account, especially if a back-up Clearing Member is appointed up-front.

6.3. Will the Client get back the same type of asset as originally provided?

In the event of the Clearing Member's default the Clients may not receive back the same type of asset that they have originally provided to their Clearing Member. This is because the CCP may have to liquidate assets partly and return the cash proceeds but also because the CCP may not know what form of asset the Client originally provided to the Clearing Member (i.e. in case of asset transformation services provided by the Clearing Member). This risk is present regardless of what type of client account the Client selects. In ISA and OSA accounts, this risk is smallest.

6.4. What happens if porting is not achieved?

ECC will, after a Default event within a specified period of time, actively manage its risks in relation to the CCP Transactions. This period of time is set in accordance to ECCs default procedures by the Default Management Committee. The clients will need to notify ECC and fulfill the porting conditions within this period.

Otherwise, ECC will terminate the CCP Transactions and perform a close-out calculation in respect of them in accordance with its rules.

If there is an amount owed by the CCP in respect to collateral provided to the CCP

In GOS and SOS accounts,

- a) to the extent that the CCP knows the Clients identity (this excludes A Accounts but includes OSA Accounts and NCMs),
- b) only if the clients have concluded with their CM a netting agreement that only covers ECC,
- c) the clients have proven to ECCs satisfaction the amounts they have placed as collateral with the CM through a title transfer collateral arrangement and which have not been used due to a close-out amount by the CM.

ECC will offer to pay such remaining collateral amount (limited to the collateral allocated to the clients transaction account and limited to the amount in c) directly to the known Clients under its reclaim procedure. Otherwise, ECC will pay directly to the insolvency practitioner for the account of the Clients.

In ISA and OSA accounts,

- a) ECC, after it has potentially made use of the collateral in respect to the client transactions associated with the ISA or OSA Account, will release its pledge on the ISA/OSA collateral.
- b) The ISA/OSA client have a secondary pledge on the collateral to the benefit of the ISA client/OSA representative.
- c) ECC will therefore release the collateral to the ISA client / OSA representative after having given corresponding information to the beneficiary and after having been instructed by the beneficiary.

If ECC terminates the CCP Transactions, then the Client Transactions between Clearing Member and Client are also likely to terminate. To achieve certainty in this respect, a corresponding close-out netting agreement is needed. The termination calculations in respect of those Client Transactions will be performed in accordance with the client clearing agreement between Clearing

Member and Client or – if no specific close out agreement exists – in accordance with ECCs rules if applicable. These calculations may or may not mirror those performed by ECC in respect of the CCP Transactions. If the Client is due a payment from the return of collateral by the Clearing Member as a result of the close-out calculations in respect of the Client Transactions, the amount due will be reduced by any amount that the Client receives (or is deemed to receive) directly from ECC.

6.5. What is the difference between title transfer and pledge?

Title Transfer

Where Clients transfer assets (Transferred Assets) by way of title transfer to their Clearing Member, the Clearing Member becomes the full owner of such assets and the Client loses all rights in such assets. The Clearing Member has the obligation to record the Transferred Assets in his books and records that he has received such Transferred Assets from the Client with respect to the applicable Client Transaction.

The Clearing Member may either transfer such Transferred Assets on to the CCP – in case of an Individual Segregated Account he is obliged to do so - with respect to the CCP Transaction related to the Client Transaction, or he may transfer other assets to the CCP with respect to such CCP Transaction.

The Client bears the credit risk with respect to the Clearing Member. This means that if the Clearing Member fails (unless it is declared to be in default by ECC and the Client has opted for an Individual Segregated Account) the Client will have no right of recourse to ECC or to any assets that were transferred to ECC and the Client will instead have a claim against the insolvency estate for a return of the assets along with all other general creditors. ECC has implemented a reclaim procedure to grant clients access to surplus collateral that remains after the close out has been completed however this is subject to additional conditions that are explained in ECCs reclaim procedure.

Pledge

When the Client pledges assets on the basis of German Law to the Clearing Member, the assets still belong to the Client, but the Client has granted a pledge with respect to such assets.

The Clearing Member may make use of that pledge, if the Client defaults in his obligations to the Clearing Member. At the point of such enforcement would such assets or their liquidation value transfer to the Clearing Member.

The Clearing Member might have a right of rehypothecation. In such cases the client bears the risk with respect to the Clearing Member.

Depending on the legal agreements the client might face the risk of the depository where the assets are held.

7. Risk Disclosure

The descriptions given in this part are very high level and consider the typical features of the account types and levels of segregation. However, the particular characteristics of the accounts will affect the exact levels of protection they offer and the legal implications so you must review additional documents and information provided by ECC to fully understand the risks of the specific account including but not limited to:

- Current ECC Clearing Conditions <http://www.ecc.de/ecc-en/about-ecc/rules>
- Publications on ECCs website <http://www.ecc.de/ecc-en/risk-management>
- Access conditions and forms <http://www.ecc.de/ecc-en/access-to-ecc>
- Price List <http://www.ecc.de/ecc-en/about-ecc/rules/price-list>

You should also seek professional advice to understand the differences in detail. The following table shows the typical risk in relation to the different segregation models:

Transit Risk	Whether the Client is exposed to losses at any point in the process of providing or receiving margin in respect of Client Transactions.
Fellow Client Risk	Whether assets provided as collateral could be used to cover losses in CCP Transactions relating to another client.
Liquidation Risk	Whether, if the CCP Transactions and assets relating to them were to be ported, there is a risk that any non-cash assets would be liquidated into cash. If this were to happen, the value given to such assets by the CCP may differ from what the Client perceives to be the full value of the assets.
Haircut Risk	Whether the value of the assets that relate to CCP Transactions might be reduced or not increase by as much as the Clients expects because the CCP applied a haircut that did not fully or properly reflect the value of the asset.
CCP Insolvency Risk	Whether the Client is exposed to the insolvency or other failure of the CCP.
Legal Risk	Whether the rules and procedures when finally decided upon a competent court of law

	fully reflect the intention of all parties
Operational Risk	Whether the rules and procedures are properly applied.

The following table gives an overview on the typical features of the different segregation models followed by a high level risk assessment. The extent to which any of the risks are relevant to the Client not only depend on the chosen level of segregation but also on the type of asset provided as margin to the Clearing Member and the legal concept of providing those assets. It is therefore recommended to assess the details using legal advice:

	GOS/SOS Omnibus	OSA Omnibus	ISA
Who will the CCP Transactions recorded in the account relate to?	Assets and CCP Transactions that relate to one or more undisclosed Clients as well as one or more disclosed Clients (NCM)	Assets and CCP Transactions that relate to one or more undisclosed Clients	Only assets and CCP Transactions that relate to one specific Client
Which losses can assets recorded in the account be used for?	Assets recorded in the account can be used to cover losses for the CCP Transactions recorded for all Clients covered by this account. Fellow client risk exists		Assets recorded in the account can only be used to cover losses for the CCP Transactions recorded in this account
Will the CCP know which CCP Transactions and types of assets relate to you?	The CCP does not know which assets have been posted by each Client		Yes
Will the CCP record the assets provided by value only or will it identify the type of asset provided by each Client?	The CCP will only record the value for the Omnibus Account and not allocated assets to specific Clients.		The CCP will record each asset as provided by the Client

Will the CCP Transactions recorded in the account be netted?	With regard to position keeping, positions recorded on one position account (regardless if it is an NCM position account or a CM position account) will not be netted with positions on any other position account.		
Will margin be calculated gross or net for the account?	gross across accounts, net within position account		
Does the client need to execute any legal arrangements directly with the CCP?	For undisclosed Clients there is no legal arrangement directly with the CCP. For disclosed Clients (NCM) there is a tri-party arrangement (NCM agreement).	There is a tri-party arrangement between Omnibus Representative, CCP, and Clearing Member.	There is a tri-party arrangement between CCP, Client and Clearing Member.
Transit Risk	Yes	Yes	Yes
Fellow Client Risk	Yes	Yes	No
Liquidation Risk	Yes	Yes (unless assets are ported and transferred to Clients before liquidation). Collateral for spot transactions will not be transferred as spot positions cannot be transferred. therefore risk is higher.	
Haircut Risk	Yes	Yes	Yes
CCP Insolvency Risk	Yes	Yes	Yes
CM Insolvency Risk	Yes	Yes	Yes
Operational Risk	Yes	Yes	Yes
Legal Risk	Yes	Yes	Yes
How likely is it that porting will be completed?	Significant risk that porting cannot be achieved for	If preconditions (e.g. back-up Clearing Member) are fulfilled it is more likely that porting of assets and	

	assets for all clients and for positions of undisclosed clients. If preconditions (e.g. back-up Clearing Member) are fulfilled by NCM's it is more likely that porting of positions can be achieved	positions can be achieved
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