CSDR Settlement Discipline – Citi Private Bank NAM, Citi Private Bank Canada, Citi Personal Wealth Management and Citi Personal Investments International: External Citi Frequently Asked Questions ("FAQs")

These FAQs set out answers to some questions you may have in relation to the amendments being made by Citi to the terms and conditions of the client agreement that governs your account with us in response to the requirements of the settlement discipline regime under the EU Central Securities Depositories Regulation (**"CSDR"**).

European Union legislators recently announced a delay in the applicability of certain provisions of CSDR. Your December 2021 account statements included an amendment to your client agreements related to CSDR. Due to the announced delay, we are providing you with the following revised amendment which supersedes the amendment included with your December 2021 account statement:

> Effective February 1, 2022, the following paragraph is added to your Agreement. For purposes of this amendment, "you" refers to the client or account holder unless the context of the Agreement governing the Account otherwise requires. All other provisions remain in effect.
>
> Notwithstanding any other provision of this Agreement, for any of your transactions deemed subject to Article 7 of Regulation (EU) No 909/2014 ("CSDR"), you understand that in connection with the requirements of CSDR, Citi may be charged cash penalties ("Cash Penalties") in connection with Citi's provision of custody or other services which relate to a transaction that fails to settle. Citi reserves the right, in its sole discretion, to charge you for such Cash Penalties. In addition, Citi may receive payments of cash penalties ("Penalty Credits") in connection with such settlement fails. You understand and agree that, except as provided in another written agreement between us or unless prohibited by applicable law, any such Penalty Credits received by Citi shall be for Citi's account only and that you shall not be entitled to receive any Penalty Credits. Upon your request, Citi shall use reasonable efforts to provide you with the details of any Cash Penalties paid and Penalty Credits received by Citi which relate to those services provided to you.

Note: The sentence stating that Citi reserves the right, in its sole discretion, to charge you for Cash Penalties does not apply to investment management agreements.

Continue reading to learn more about these changes to your agreements with us.

1. What is the CSDR?

The CSDR[1] is a European Union regulation, which regulates how transactions in securities and certain other financial instruments settle in Central Securities Depositories (**"CSDs"**) across the European Economic Area (**"EEA"**)[2]. It seeks to: (i) harmonise the timing and conduct of securities settlement in the EEA; (ii) remove some existing barriers to cross-border settlement; and (iii) introduce rules relating to the safety and soundness of EEA CSDs (such as Euroclear and Clearstream), as the entities responsible for the holding of securities (such as shares).

The CSDR also introduces a new settlement discipline regime, which aims to reduce the number of settlement fails that occur in EEA CSDs, and to address settlement fails where they occur. The measures being introduced under the CSDR settlement regime include new cash penalties rules.

The CSDR settlement discipline regime is due to take effect from 1 February 2022.

2. How does the CSDR settlement discipline regime affect me?

The CSDR settlement discipline regime has a very broad extraterritorial impact and is generally relevant to you where you trade or hold financial instruments that settle on an EEA CSD.

Importantly, the CSDR settlement discipline regime requires us to make certain amendments to our agreements with you to enable us and you to comply with its requirements. We explain what these amendments are and how they affect you in practice below.

3. What are the CSDR cash penalties rules?

The CSDR cash penalties rules aim to deter parties from causing settlement fails. In most cases, the regime works by EEA CSDs charging penalties to their participants that cause a settlement fail (**"penalty debits"**) and passing those amounts on to the CSD participants that failed to receive the financial instruments (**"penalty credits"**). Cash penalty debits and credits may be passed in turn to Citi by the custodians and settlement agents it uses to facilitate settlement of your transactions.

4. What are the amendments you are making to our agreements?

The amendments to your agreements relate to two different aspects of the CSDR settlement discipline regime, which are (a) the cash penalties regime; and (b) mandatory buy-in requirements. We address each of these in turn below.

(a) Amendments relating to the cash penalties regime

The updated agreements include a new provision about how Citi intends to absorb the economic impact of CSDR cash penalty debits and credits that Citi pays or receives in relation to your assets or transactions.

As disclosed in the updated agreements, Citi will usually absorb both the burden and benefit of CSDR cash penalties attributable to your assets or transactions, and will not seek to pass these on to you. Therefore, the CSDR cash penalties regime will generally have no practical impact on you and your transactions.

By way of exception, if you are at fault in causing particularly significant cash penalty charges to arise on your transactions, for example if you have acted in breach of your relevant agreement with Citi, Citi will, except in the case of investment management agreements, have the right to recover these from you by charging your account. Citi will seek to notify you if it becomes aware you are at risk of incurring a cash penalty charge.

(b) Amendments relating to CSDR mandatory buy-in rules

The amendments to your agreements, as set out in the notice you received previously, also included some language on CSDR mandatory buy-in requirements.

As originally designed, the CSDR settlement discipline regime also included mandatory buy-in rules that would require financial instruments to be bought in from a third party to remedy a settlement fail in certain circumstances.

However, it was recently announced that application of these requirements by the relevant regulators will be delayed indefinitely whilst a review is carried out and the requirements are revised. In anticipation of this announcement, the amendments to your agreements relating to mandatory buy-ins provide that they are automatically disapplied where regulatory enforcement of these requirements is delayed. Therefore, unless and until we notify you otherwise, we do not expect any transactions for your account with us to be impacted by the CSDR mandatory buy-in rules and so this wording is no longer relevant to you and will not have any effect in practice.

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[1] Regulation (EU) No 909/2014
[2] Please note that, as the UK is no longer part of the EEA, the CSDR does not apply to financial instruments which settle in CSDs in the UK.