esma European Securities and Markets Authority

Reply form for the Guidelines on asset segregation under the AIFMD

1 December 2014

European Securities and Markets Authority

Date: 1 December 2014

Responding to this paper

The European Securities and Markets Authority (ESMA) invites responses to the specific questions listed in the ESMA Consultation Paper - Guidelines on asset segregation under the AIFMD, published on the ESMA website.

Instructions

Please note that, in order to facilitate the analysis of the large number of responses expected, you are requested to use this file to send your response to ESMA so as to allow us to process it properly. Therefore, please follow the instructions described below:

i. use this form and send your responses in Word format;

ii. do not remove the tags of type <ESMA_QUESTION_G_AIFMD_1> - i.e. the response to one question has to be framed by the 2 tags corresponding to the question; and

iii. if you do not have a response to a question, do not delete it and leave the text "TYPE YOUR TEXT HERE" between the tags.

Responses are most helpful:

i. if they respond to the question stated;

ii. contain a clear rationale, including on any related costs and benefits; and

iii. describe any alternatives that ESMA should consider

Naming protocol:

In order to facilitate the handling of stakeholders responses please save your document using the following format:

ESMA_CE_G_AIFMD _NAMEOFCOMPANY_NAMEOFDOCUMENT.

E.g. if the respondent were ESMA, the name of the reply form would be ESMA_CE_G_AIFMD _AIXX_REPLYFORM or ESMA_CE_G_AIFMD_AIXX_ANNEX1

Responses must reach us by **30 January 2015**.

All contributions should be submitted online at www.esma.europa.eu under the heading 'Your input/Consultations'.

Publication of responses

All contributions received will be published following the end of the consultation period, unless otherwise requested. **Please clearly indicate by ticking the appropriate checkbox in the website submission form if you do not wish your contribution to be publicly disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure.** Note also that a confidential response may be requested from us in accordance with ESMA's rules on access to documents. We may consult you if we receive such a request. Any decision we make is reviewable by ESMA's Board of Appeal and the European Ombudsman.

Data protection

Information on data protection can be found at www.esma.europa.eu under the heading 'Disclaimer'.

Q1: Which of the two identified options do you prefer?

<ESMA_QUESTION_G_AIFMD_1>

General remarks

The German Banking Industry Committee, which through its five member associations represents more than 2,000 banks in Germany, welcomes ESMA's initiative to develop guidelines to ensure uniform implementation throughout the EU of regulations for asset segregation under the AIFMD. We are grateful for this opportunity to express our views.

Based upon what we have been hearing, it would seem that there are, within the different EU member states, differing interpretations of the asset segregation options proposed by ESMA. It should thus be expected that this divergence in understandings will likewise produce a divergence in assessments.

We would like to underscore to ESMA that the following general principles should guide this undertaking, and we would strongly urge ESMA to consider these carefully in its further work:

1. The determination of the mechanics of how AIF assets are to be segregated from other client assets (in particular, whether this segregation is to occur through the creation of physically separated accounts or through the identification of assets through technical or record-keeping means) has a significant impact not only on the safe-keeping of AIF assets but also far-reaching consequences in terms of:
   a. the extent to which omnibus accounts can be used at all,
   b. the functionality of the TARGET2-Securities (T2S) settlement engine,
   c. the access of European investors to international markets,
   d. the ability of investment firms to offer various services to AIFs (e.g. collateral management, prime brokerage), and
   e. inequalities in how the same fundamental types of clients are treated. (For example, while pension funds in some member states typically use AIFs to manage securities, pension funds in other member states typically use managed accounts. There should be no disparity in how the same interest group is regulated.)

2. Within the EU, there are two fundamentally different models for client accounts:
   a. Direct account holding: Some member states (e.g. the Nordic countries) employ a custody structure in which accounts are separately carried for each end investor, all the way down the chain to the level of the issuer CSD. These structures function only within the respective domestic markets, and thus where investors in these countries wish to invest abroad, omnibus accounts must be employed.
   b. Omnibus account holding: Other member states employ custodial structures which enable sub-custodians to aggregate the assets of their various indirect clients into a single collective "omnibus" account. These structures work equally across national borders.

3. Asset segregation may be successfully achieved not only through physically separate accounts but also through technical or record-keeping mechanisms. Where omnibus accounts are used, technical or record-keeping mechanisms are a prerequisite for operating them. .

4. Investor protection against depositary or delegate insolvency is determined not only by account-level asset segregation. In fact, the national laws and legal system of the jurisdiction plays a far greater determining role. This being the case, physical segregation can only play an auxiliary role in protecting investors: it is not, in itself, a solution. In other

words, a greater degree of account-level segregation does not automatically translate into greater investor protection. To cite a specific counter-example in Germany: sec. 4 para. 1 of the Securities Custody Act (*Depotgesetz*) does indeed provide a very high degree of investor protection even in the case of limited physically separated accounts.

We welcome, in particular, the considerations which ESMA has articulated in its Consultation Paper ESMA/2014/1326 including Annex II (cost-benefit analysis). We have been able to follow the process of thought under which ESMA has, building from the regrettably ambiguous wording of Article 99(1)(a) of the Level 2 Regulation, come to its conclusion that only the first two identified options ("Option 1" and "Option 2") are possible schemes for asset segregation. We do not, however, share the presumption that these two options are the only permissible options; indeed, the wording and genesis of Article 99(1)(a) of the Level 2 Regulation provide for other possible interpretations than the segregation of AIF assets in physically separated accounts at delegate level. In view of the wording of the AIFMD at Level 1, the mandate for delegated acts, and the policy objective of investor protection, we consider the inclusion of an alternative interpretation of segregation to be absolutely essential. Specifically, "Option 3" as set forth on page 15 of the Consultation Paper is, in our view, not only permissible but could, moreover, be realised at a lower cost and effort than Options 1 or 2, while still achieving the AIFMD's stated policy objective. We strongly urge the EMSA to consider the inclusion of Option 3 in its deliberations and to amend the proposed Guidelines accordingly. We refer here to our subsequent response to Q2.

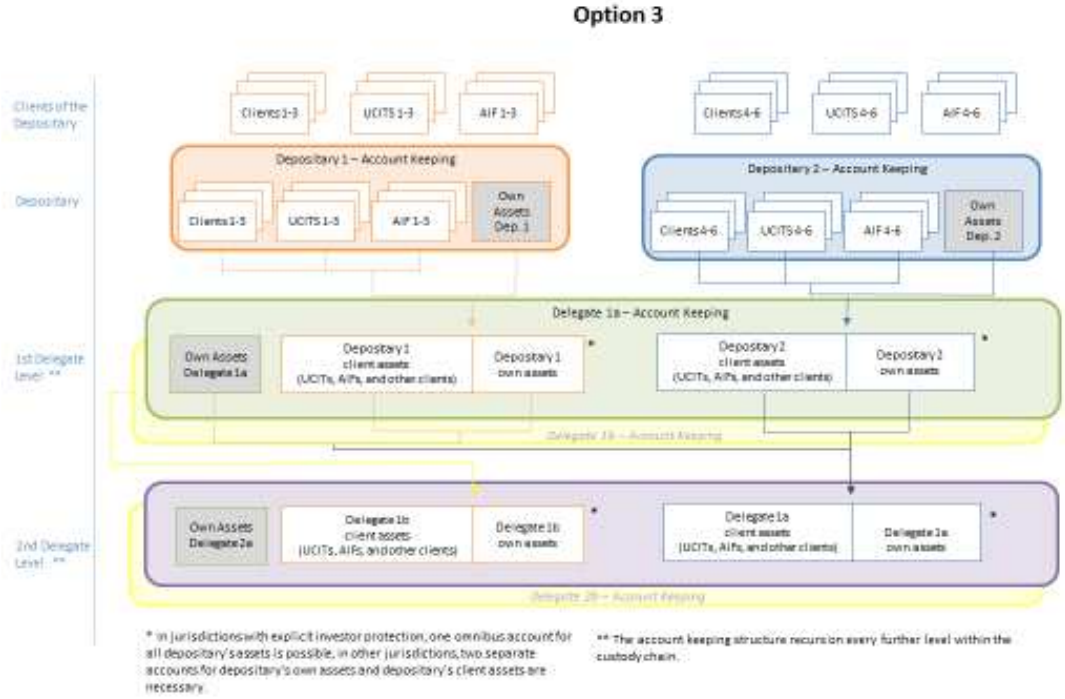
Our response to Q1, therefore, must be understood as **qualified** because it represents an **incomplete choice between the first two options**. Between these, we view Option 1 as clearly preferable; Option 2 would, in our view, conflict with the essential logic of safe-keeping and would, moreover, be in violation of law. While client assets may indeed be safely and legally aggregated in an omnibus account, the **client assets of one and the same depositary** may only be aggregated in such an omnibus account at the next (delegated) level of safe-keeping. For the purposes of investor protection, the question of identifying the specific clients to whom AIF assets held in an omnibus account with a delegated third party belong is immaterial because all client assets held in omnibus accounts for clients are insolvency-remote; whether such insolvency is of the delegate or of the depositary itself makes no difference. If the client assets of a depositary are held in separate accounts with a particular delegated third party – for example, in a so-called AIF account – this may serve as a convenience for identifying client ownership, but it does not enhance legal protection against insolvency.

In contrast, should AIF client assets from multiple depositaries be commingled in a single omnibus account at a delegated third party, as foreseen in Option 2, then, should one of the participating depositaries become insolvent, there might no longer be clarity as to which AIF the assets belong to. Ambiguity might also arise as to which parties (potentially including an insolvency administrator) are authorised to access the AIF omnibus account and to effect transactions involving account assets. A depositary should only be able to issue instructions affecting the assets of its own clients (AIF or otherwise), and these should in no case have any effect on the client assets of other depositaries. In fact, Option 2 would not only undermine investor protection but would conflict with the essential logic of safe-keeping structures: at the level of the delegate, an omnibus account is opened for each depositary. This account holds assets of this depositary('s clients) only. The depositary, in turn, maintains a separate account for each individual client, ensuring that these holdings may, at all times, be precisely allocated to each client. In the case of Option 2, however, the delegated third party would commingle the AIF assets of several depositaries and would thus not be able to know how many shares of each security belonged to each depositary.

What is more, Option 2 would conflict with Article 21(11)(d)(iii) of the AIFMD, whereby the depositary must ensure that any delegated third party segregates AIF assets "in such a way that they can at any time be *clearly identified* as belonging to clients *of a particular depositary*". Option 2 must thus be discarded on legal grounds alone.
<ESMA_QUESTION_G_AIFMD_1>

Q2: Would you suggest any alternative option which is compatible with the AIFMD and its implementing measures? If yes, please provide details.

<ESMA_QUESTION_G_AIFMD_2>
As an alternative to the first two options presented for consideration in the Consultation Paper, the German Banking Industry Committee proposes the following model, which closely corresponds to our understanding of Option 3 as described on page 15 of the Consultation Paper:



In actual banking practice, this model would offer significant advantages. It would entail not only lower costs but also greater safety because it would avoid the creation of many new and unnecessary accounts which would, in turn, make settlement transactions more complex and prone to error. It would be unquestionably consistent with the AIFMD, in particular the stipulation for delegated acts under Article 21(11)(d)(iii) (i.e. that such assets by held "*in such a way* that they can at any time be *clearly identified* as belonging to clients of a particular depositary"), and thus the policy objective of investor protection would be ensured. In contrast, Option 1, by forcing the creation of a large number of new accounts, inherently entails a certain amount of operational risk resulting from technical issues, in particular system migration and the establishment of the required new booking processes (new account numbers, new standard settlement instructions), which could – particularly in the initial phase – lead to gaps or errors in the allocation of segregated assets.

We are of the strong view that this model entirely fulfils the requirements of both Article 21(11) of the AIFMD (Level 1) and Article 99(1) of the Level 2 Regulation, whereby Level 1 dictates "what" (i.e. which assets must, at the level of a delegate, be segregated to ensure

investor protection) while Level 2 sets forth into the details of "how" (i.e. the measures through which this segregation is accomplished). Article 99(1) of the Level 2 Regulation specifically mandates that the depositary must ensure that any delegated third party act in accordance with the segregation obligations under Article 21(11) of the AIFMD. Article 99(1)(a) goes on to describe how the required segregation by the delegate should be achieved. The depositary is obligated to verify that the delegate "keeps such records and accounts as are necessary to enable it at any time and without delay to distinguish assets of the depositary's AIF clients …". The question of which assets need to be segregated is determined solely and exhaustively by Article 21(11) of the AIFMD: "the third party segregates *the assets of the depositary's clients from its own assets and from the assets of the depositary* in such a way that they can at any time be clearly identified as belonging to clients of a particular depositary." The Level 1 mandate for the delegated acts leaves no room to add to the list of assets to be segregated. Such an addition would have no democratic legitimacy, nor would it advance the objective of investor protection. As to the fourth stipulated category set forth in in Article 99(1)(a) for keeping "such records and accounts as are necessary" – namely, "and assets held for clients of the depositary which are not AIFs" – it should be noted that this distinction can only be drawn at the level of the depositary, and thus it is for the depositary alone to ensure that it can provide this information at all times to the delegate (sub-custodian). Moreover, the formulation chosen here ("such records and accounts") make it quite clear, at least to us, that the Level 2 Regulation does not necessarily mandate segregation among physically separate accounts but rather, as a legal minimum, adequate record-keeping – which is, in fact, consistent with the mandate under the Level 1 Directive. While Article 21(8) does indeed mandate separate accounts for each AIF client at the level of accounts held with the depositary, Article 21(11) makes it quite clear that delegated third parties do not, in carrying out their segregation obligations ("own assets of the depository separated from depository's clients assets"), have any comparable obligation to maintain separate client accounts. To the contrary, it mandates only that the delegate "segregates assets … *in such a way* that they can at any time be clearly identified as belonging to clients of a particular depository".

Should ESMA have a different interpretation of this language, we would urge the EMSA to work with the European Commission to amend or at least add legal clarity to Article 99(1)(a) of the Level 2 Regulation.

We fully concur with the statements of ESMA (as expressed in item 6 of the Consultation Paper, as well as Items 4 and 9 of Annex II) that the guidelines for asset segregation under the AIFMD should further the policy objective of investor protection. The key to protecting investors is to make a distinction between the institution's own and its clients' assets so that, in the event of an insolvency, the clients' assets will not be distributed amongst creditors. Therefore, unless national custody law explicitly protects even commingled assets, the institution's own assets and its clients' assets must be further segregated. Regardless of whether these client assets are held in physically separate accounts or in omnibus accounts, it is **only** important that beneficial ownership can be precisely and unambiguously determined at all times, which may be through operational means (i.e. the use of IT systems and books and records). In terms of protection against insolvency, physically breaking down client assets into individually held accounts achieves no additional benefit because, in the case of insolvency of either the depositary or a delegate, it is the institution's client assets as an entirety which are protected from distribution to creditors, and not just certain individual accounts which are specifically labelled as such. Even the term "segregation" does not refer only to one specific structure for segregating assets but rather various possible structures, depending on the type of accounts involved (individual client accounts versus omnibus account with identification and assignment through technical or record-keeping means). Finally, it must be noted that national law in each member state plays a critical role in determin-

ing whether – and if so, under what conditions – client assets could be attached by an insolvency administrator or any other person.

The delineation of assets to be segregated as set forth in Article 21(11) of the AIFMD is therefore not only correct but also fully adequate for the purposes of investor protection. A further-reaching compartmentalisation into specific asset types to be segregated is neither necessary nor helpful. Moreover, such a further compartmentalisation of asset segregation, as foreseen under Option 1, would result in higher custody costs, longer booking chains, and a possible negative impact on operating efficiencies. In sum, Option 1 would clearly not serve the interests of investor protection, as these factors could, compared to the more efficient Option 3, put the investor at a significant disadvantage, particularly in terms of net investment performance. (We refer here to our further discussion under the subsequent Q3.)

It should be underscored that this is also the conclusion reached by the International Organization of Securities Commissions (IOSCO) in its consultation report published in October 2014 entitled "Principles regarding the Custody of Collective Investment Schemes' Assets". Under its "Principle 2" (page 9 of Chapter 4, "Principles relating to the custody of CIS assets"), IOSCO very clearly states that "CIS assets [in this case: AIF assets] should be segregated from: (i) the assets of the responsible entity …; (ii) the assets of the custodian / sub-custodian throughout the custody chain; and (iii) the assets of other clients of the custodian throughout the custody chain (unless CIS assets are held in a permissible omnibus account)." The subsequent Items 48 and 49 then proceed to elaborate on typical practice for aggregating assets in omnibus accounts, specifically noting that "the segregation of assets among different clients generally occurs operationally, through IT systems and books and records, rather than through the use of separate individual client accounts." In its preface (Recital 40), AIFMD explicitly endorses the use of such omnibus accounts for AIF assets.

In the foregoing Item 45, IOSCO prefaces the foregoing discussion with the following basic statement: "This fundamental principle of CIS safekeeping is embedded in principle 25 of the IOSCO Principles which states that, '*the regulatory system should provide for rules governing the legal form and structure of collective investment schemes and the segregation and protection of client assets*.'" Thus, it is the governing law and legal system of the jurisdiction which determine the level of investor protection, and not the way in which these assets are organised or aggregated in the depositary's systems.

In summary, we strongly endorse Option 3, which we view as fully compatible with the AIFMD and its implementing measures, as well as fully consistent with the IOSCO principles. Client assets held with delegated third parties (sub-custodians) may be immediately and unambiguously distinguished at any time, regardless of whether they are held in compartmentalised (AIF-only) omnibus accounts or in omnibus accounts spanning all client segments (i.e. UCITS, AIFs and other client assets). This unambiguous identification of asset holdings and assignment to specific clients, in the apt words of IOSCO, occurs "operationally, through IT systems and books and records". By citing the name of the account holder for each transaction booked against the account, the bank makes this identification to a specific client abundantly clear. In the event of insolvency of a delegate or of the depositary itself, this method of custodial/sub-custodial management is fully adequate to protect client assets against attachment by other creditors. The policy objective of the AIFMD, namely to ensure that AIF client assets are protected against insolvency events through asset segregation, is therefore achieved. In the preface to the AIFMD, the explicit endorsement of omnibus accounts in Recital 40 presupposes their reliability for safe-keeping. Neither Article 21(11)(d)(iii) of the AIFMD nor Article 99(1)(a) of the Level 2 Regulation stipulate any further segregation (through separate physical accounts) between AIF and non-AIF client assets, as is contemplated in Option 1. Such further compartmentalisation would <u>not</u> contribute to the policy objective of investor protection. Finally, the legislation does not provide a

legal basis for any such regulatory mandate to separate AIF, UCITS and other client assets held by delegates in individual accounts (i.e. throughout the custody chain). In view of the determining role of governing law within each jurisdiction, the decision of how adequate investor protection is to be achieved through asset segregation must be left to the member states, as these are in the best position to know their governing national laws and to define, on this basis, appropriate regulations.
<ESMA_QUESTION_G_AIFMD_2>

Q3: Do you have knowledge of the impact that each of the two options identified would have on your business in terms of restructuring of existing delegation arrangements in Europe and third countries? Please quantify the one-off and ongoing costs as well as the type of costs for each of the two options or any alternative option that you may prefer.

<ESMA_QUESTION_G_AIFMD_3>
The introduction of Option 2 would not only be in violation of Article 21(11), as argued in our response to Q1, but would, moreover, conflict with civil law provisions under German law. The business impact upon our member banks would therefore be catastrophic.

As for Option 1, the mandating of this structure would likewise have a significant or even enormous negative impact without any benefit whatsoever in terms of improving investor protection:

Cost Components for Segregated Accounts

Cost Type / Cost Driver	Explanations	Multipliers
Account Opening / Account Maintenance Fee	Custody Fees are typically a basis point fee on Assets under Custody and can differ significantly per market. Custodians typically charge a minimum fee per account. The number of necessary accounts to comply with the different models is therefore a significant cost driver for depositaries on an on-going basis.	• Number of local markets • Number of Custodians throughout the sub-custody chain. • Typically custody-chains may involve 3-6 layers before assets are held in the Issuer CSD.
Transaction Fees per settlement	Custodians will charge a nominal fee per settlement transaction. The more segregated the account setup is, the more settlement transactions will occur externally as segregation reduces the internalisation of settlement.	• Number of Custodians throughout the sub-custody chain • Number of clients • Trading / Settlement Frequency of clients • Activity between „other clients" of the Depositary and „AIF clients" of the Depositary; e.g. Collateral management activity increases the number of settlements
Reconciliation Fees	A reconciliation between the books and records of the Depositary and the Delegate is required. The number of segregated accounts increases the reconciliation effort and the likelihood of reconciliation breaks.	• Number of accounts drives reconciliation costs

Cost Components for Segregated Accounts

Cost Type / Cost Driver	Explanations	Multipliers
SWIFT Costs	External settlement instructions will be sent via SWIFT Network. A fee per SWIFT transaction will apply (depending on the Depositaries SWIFT contract). A higher frequency for SWIFT traffic will increase the costs for maintenance of the SWIFT messaging infrastructure.	• Number of settlement transactions
Implementation Fees	The connectivity for additional accounts must be tested prior to go-live (assuming the existing system technology would support more segregated accounts).	• Number of accounts
Implementation Fees	Existing systems of depositaries, custodians and CSDs must be upgraded to support segregated account structures. Not all systems are designed to support sufficient granularity, which will require a major system upgrade and implementation project. Reporting tools have to be adapted in order to reflect the required additional segregation.	• the number of satellite systems to be adapted and the variety of products depending on the account structure

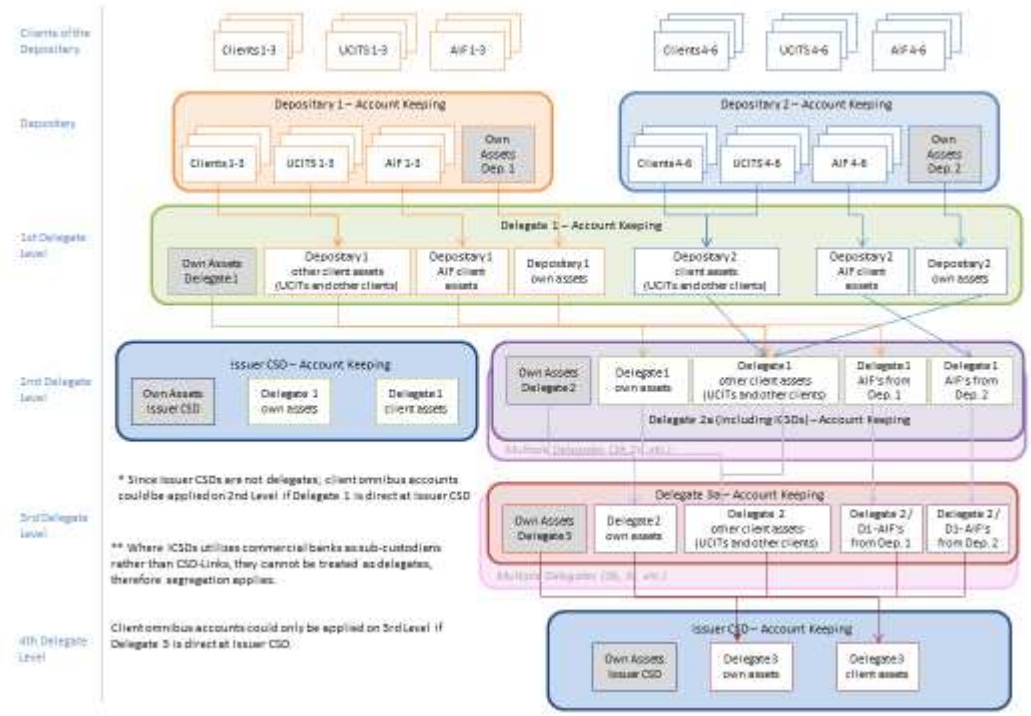
Particularly in the case of multi-level custody chains, moreover, Option 1 would result in a dramatic increase in operational complexity (proliferation of unnecessary accounts, greater complexity of settlement instructions, etc.).

We also have serious concerns about the disparity which could arise under Option 1 in the way that segregated assets are treated depending upon whether they are held directly with the issuing central securities depository ("issuer CSD"), as the ultimate custodian, or through an "investor CSD". Insofar as an issuer CSD is not deemed a "delegate" under Article 21(11), final subparagraph of the AIFMD, it would not be subject to the same safe-keeping stipulations of the AIFMD and thus exempt from the burdensome requirements of Option 1. In this case, an issuer CSD would be able to maintain collective (omnibus) accounts without any required segregation of AIF assets. An investor CSD, which in contrast acts as part of the investor-side custody chain, i.e. essentially as the final delegated sub-custodian, would have to be deemed a "delegated third party" under the AIFMD and would be compelled to follow its safe-keeping stipulations, despite being the operator of a securities settlement system. An investor CSD would therefore be compelled, in the case of Option 1, to segregate AIF assets, even if it has received these securities from another CSD acting as issuer CSD. This would, however, be quite impossible unless the issuer CSD has likewise segregated its own collective holdings (which it would not be compelled to do).

Both Option 1 and Option 2 would – in addition to this significant increase in operational complexity and operational risk, and in addition to significantly higher costs throughout the custody chain resulting from the greater number of settlements and accounts and more complex settlement instructions – preclude AIFs from using established and useful business models. Furthermore, local requirements governing individual markets, or operators of Investor CSDs, could fully preclude the implementation of Options 1 and 2 in some markets.

We have particular doubts about the feasibility of imposing Option 1 on the **TARGET2-Securities** (T2S) settlement engine.

Option 1 with unequal treatment of CSDs and (I) CSDs



<ESMA_QUESTION_G_AIFMD_3>

Q4: Do you see merit in foreseeing a specific treatment for certain types of arrangement (e.g. collateral management arrangements)? If yes, please specify how your proposal would ensure compliance with the relevant requirements of the AIFMD and Level 2 Regulation.

<ESMA_QUESTION_G_AIFMD_4>
As mentioned in the preceding section, the required implementation of Option 1 or Option 2 would obviate various existing business models, as these would no longer be compatible with the AIF market. Some examples of these business models are:

- Prime brokerage
- Tri-party collateral management
- Collateralisation of securities lending transactions through a tri-party collateral manager

These business models, which provide significant cost reduction benefits to AIFs, are **only** feasible through the use of omnibus accounts which are allocated to clients through the established electronic or record-keeping mechanisms (which we have strongly endorsed as Option 3). If Option 1 or Option 2 were to be introduced, it would only be possible to continue to offer these products to AIFs through the carving out of exceptions. However, once one starts down the road of exceptions and exemptions, there is, as a general matter, a risk of disproportionality, and thus this path is to be avoided if possible. In contrast to Option 1, Option 3 would not require any such exceptions.

In addition to the opportunities offered by these business models, access to certain markets would also be precluded if Option 1 or Option 2 were to be uniformly enforced – for example,

Shanghai-Hong Kong Stock Connect. In the case of certain AIFs, this would dramatically impact their investment strategies.
<ESMA_QUESTION_G_AIFMD_4>

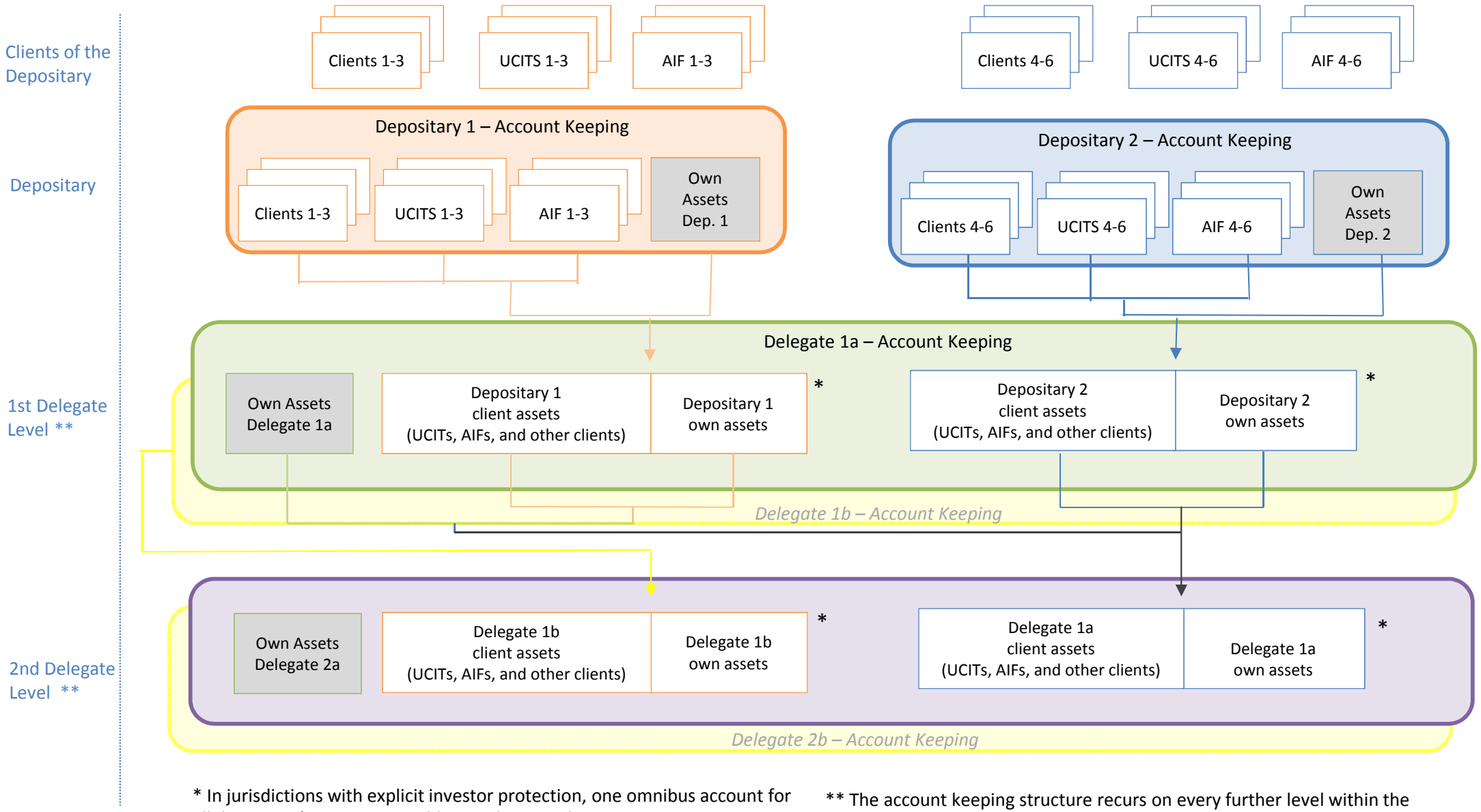
Q5: Do you agree with ESMA's approach to discarding the third, fourth and fifth options described in Section 5 of the CBA? If not please provide data and information that support your view.

<ESMA_QUESTION_G_AIFMD_5>
We **strongly disagree** with ESMA's decision to discard Option 3, which we see as a model which fully conforms to law and is suited to actual banking practice – and which would be fully able to efficiently implement the asset segregation requirements as set forth in the AIFMD. In particular, we vehemently disagree with the presumption that Option 3 would provide "a clearly lower level of investor protection" (as already argued in our response to Q2).

To the contrary, we have asserted, for reasons of operational risk, that the level of investor protection compared to Option 1 is, in fact, greater. As a strictly legal matter, Option 1 and Option 3 provide an identical level of protection of client assets in the event of a depositary or delegate insolvency. One must, however, also factor in the significantly greater operational complexity in identification and settlement which Option 1 creates compared to Option 3. Under Option 1, there would be many more accounts to be reconciled, leading to significant additional cost and complexity. Moreover, Option 1 would necessitate longer and more complex settlement instructions and booking procedures, which would therefore also be (at least in theory) more prone to error.

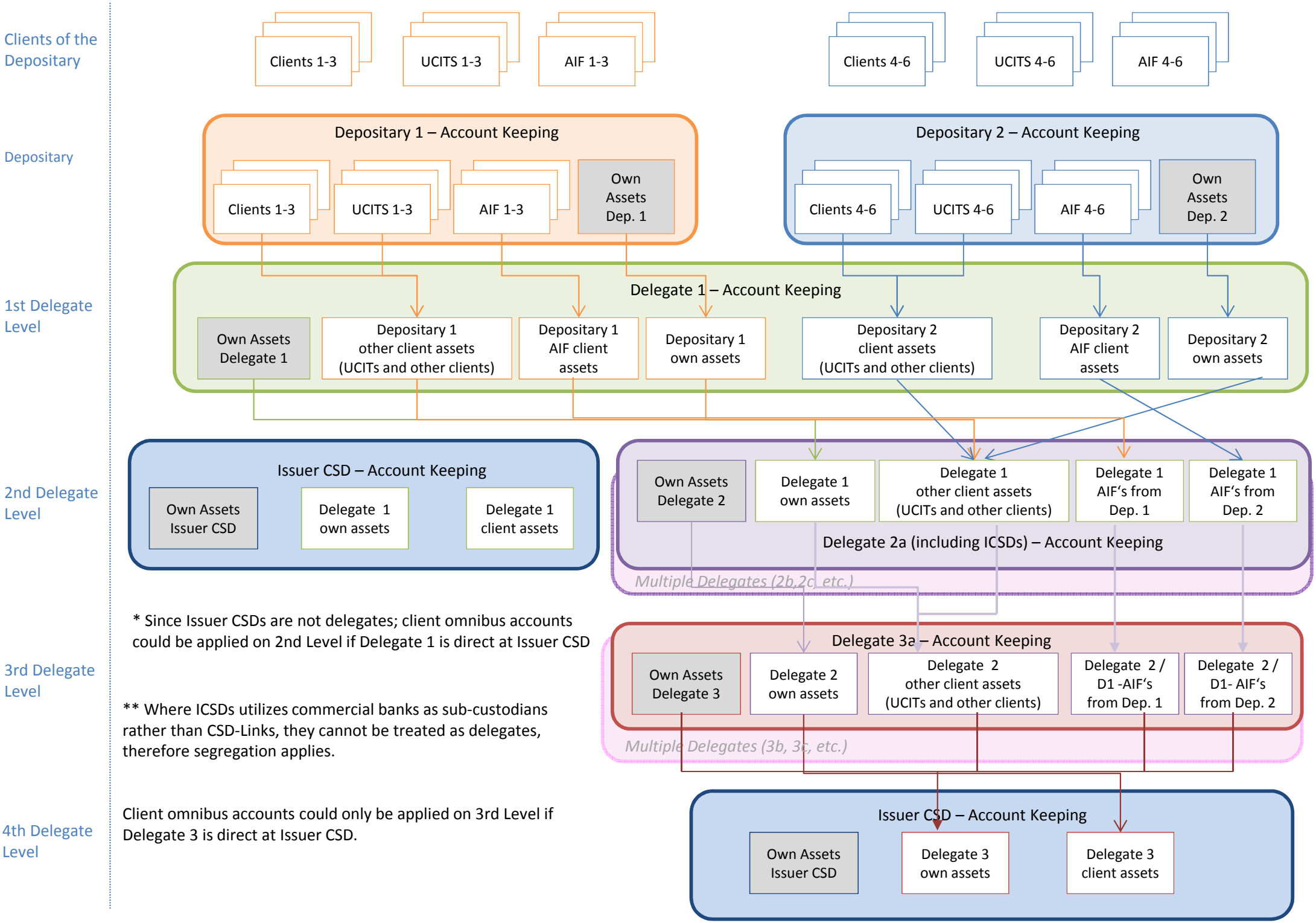
Finally, on the matter of cost, Option 3 is significantly and unquestionably more inexpensive and effective than Option 1 or Option 2. We refer here to our detailed discussion under Q3.
<ESMA_QUESTION_G_AIFMD_5>

Option 3



* In jurisdictions with explicit investor protection, one omnibus account for all depositary's assets is possible, in other jurisdictions, two separate accounts for depositary's own assets and depositary's client assets are necessary.

** The account keeping structure recurs on every further level within the custody chain.


Clients of the Depositary
Depositary
1st Delegate Level
2nd Delegate Level
3rd Delegate Level
4th Delegate Level
Clients 1-3
UCITS 1-3
AIF 1-3
Clients 4-6
UCITS 4-6
AIF 4-6
Depositary 1 – Account Keeping
Own Assets Dep. 1
Depositary 2 – Account Keeping
Own Assets Dep. 2
Delegate 1 – Account Keeping
Own Assets Delegate 1
Depositary 1 other client assets (UCITs and other clients)
Depositary 1 AIF client assets
Depositary 1 own assets
Depositary 2 client assets (UCITs and other clients)
Depositary 2 AIF client assets
Depositary 2 own assets
Issuer CSD – Account Keeping
Own Assets Issuer CSD
Delegate 1 own assets
Delegate 1 client assets
Own Assets Delegate 2
Delegate 1 own assets
Delegate 1 other client assets (UCITs and other clients)
Delegate 1 AIF's from Dep. 1
Delegate 1 AIF's from Dep. 2
Delegate 2a (including ICSDs) – Account Keeping
Multiple Delegates (2b,2c, etc.)
* Since Issuer CSDs are not delegates; client omnibus accounts could be applied on 2nd Level if Delegate 1 is direct at Issuer CSD
Delegate 3a – Account Keeping
Own Assets Delegate 3
Delegate 2 own assets
Delegate 2 other client assets (UCITs and other clients)
Delegate 2 / D1 -AIF's from Dep. 1
Delegate 2 / D1- AIF's from Dep. 2
Multiple Delegates (3b, 3c, etc.)
** Where ICSDs utilizes commercial banks as sub-custodians rather than CSD-Links, they cannot be treated as delegates, therefore segregation applies.
Client omnibus accounts could only be applied on 3rd Level if Delegate 3 is direct at Issuer CSD.
Issuer CSD – Account Keeping
Own Assets Issuer CSD
Delegate 3 own assets
Delegate 3 client assets

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SWIFT Costs	External settlement instructions will be sent via SWIFT Network. A fee per SWIFT transaction will apply (depending on the Depositaries SWIFT contract). A higher frequency for SWIFT traffic will increase the costs for maintenance of the SWIFT messaging infrastructure.	• Number of settlement transactions
Implementation Fees	The connectivity for additional accounts must be tested prior to go-live (assuming the existing system technology would support more segregated accounts).	• Number of accounts
Implementation Fees	Existing systems of depositaries, custodians and CSDs must be upgraded to support segregated account structures. Not all systems are designed to support sufficient granularity, which will require a major system upgrade and implementation project. Reporting tools have to be adapted in order to reflect the required additional segregation.	• the number of satellite systems to be adapted and the variety of products depending on the account structure