



## **Pricing Disclosure under the European Market Infrastructure Regulation (“EMIR”)**

### **Introduction**

The European Market Infrastructure Regulation (“EMIR”) regulates the clearing of exchange-traded derivatives (“ETDs”) by EU central clearing houses and their clearing members. Under the EMIR, brokers like Interactive Brokers (U.K.) Limited (“IBUK”) that provide clearing services are required to comply with certain regulations in connection with the segregation of client accounts.

This disclosure is designed to provide certain information clearing firms are required to provide under EMIR. Specifically, EMIR Articles 39(5) and 39(7) require clearing firms like IBUK to offer the firm’s customers the option of having the ETDs the client trades and clears through IBUK held in an omnibus segregated account (“OSA”) or an individual segregated account (“ISA”). Clearing firms must also inform customers of the costs and level of protection associated with each account segregation option, including the material implications of the levels of segregation IBUK offers and information regarding the possible impact on customers should the firm become insolvent. Similarly, Article 38(1) of the EMIR requires clearing firms to disclose the prices and fees associated with the services that the firm provides to customers, including the benefits of certain discounts and rebates that the firm may offer to clients.

Please note that this disclosure only applies to European Union clearing houses and clearing members and these segregation options only affect a small portion of the products that you may trade through your IBUK account. This is because IBUK accounts are made up of two segments:

- (i) A segment for products held at and cleared through IBUK’s U.S. affiliate (Interactive Brokers LLC) including stocks, futures, options, forex, bonds and exchange traded funds; and
- (ii) A segment for products that are carried directly with IBUK, including European index options, futures, and futures options, and over-the-counter products such as contracts for difference “CFDs”, foreign currencies (“FOREX”) and precious metals.

The EMIR regulations and account segregation options only affect the exchange-traded derivatives traded and cleared directly through IBUK (category ii above).

### **Account Structures Available - Individual Segregated Account (“ISA”) vs. Omnibus Segregated Account (“OSA”)**

All EMIR-authorized clearing houses in the EU and their clearing members are obligated to offer customers the option to hold the positions traded through those EU clearing houses in

either an individual or omnibus segregated account. Here is a summary of the differences between these types of accounts.

#### *Omnibus segregated account (“OSA”)*

Historically, IB has held customer positions in an omnibus account, segregated from the firm’s assets or positions for the benefit of customers. In an omnibus account (or OSA), the derivative positions and associated margin of IBUK clients who trade these products are recorded in a single omnibus account at the clearing house. There is usually some degree of offsetting or “account aggregation” risk between clients whose positions and collateral are held in one single account. If the clearing house or clearing member firm defaults, losses associated with one client’s positions and/or collateral in the omnibus account may affect other clients’ positions and/or collateral because customers’ collateral is pooled and the positive value of one client’s position is netted against the negative value of another. The cash held in an IBUK customer account – including cash to cover the customer’s margin requirements – is subject to client money protection rules under UK FCA regulations and is segregated from IBUK proprietary money and therefore not normally subject to IBUK insolvency risk.

#### *Individual segregated account (“ISA”)*

In an ISA arrangement, European derivatives positions traded on a specific exchange are maintained in an account at the clearing house in the individual client’s name. The account only includes the individual client’s positions and collateral at the clearing house (and not that of other IBUK customers). Since the customer’s positions and collateral are held separately from positions and collateral belonging to other clients, the client is not exposed to account aggregation risk from other client activity.

*Note:* Different clearing houses may offer different models of individual and omnibus segregated accounts. Existing and prospective clients should review this document along with information provided by the relevant clearing houses so they can select the account structure appropriate for the customer. Links to sample clearing house account structure documents are included at the end of this document.

### **Client Money Protections**

#### *Omnibus segregated account (“OSA”)*

As mentioned above, under an omnibus segregated account, client cash collateral is subject to client money protections in accordance with the FCA’s client asset protection rules (“CASS”). This means that the cash collateral is treated strictly as client money and is segregated from IBUK’s assets so is not subject to IBUK insolvency risk. Although client assets in an OSA structure are normally protected from IBUK insolvency, they are not protected from the default of other customers or intermediaries as any shortfall by one or more customers that exceeds the firm’s ability to cover the loss has to be covered by the firm or other clients on a pro-rata basis.

Please note that IBUK has procedures in place to minimize these risks. Among other things, prior to joining a new clearing house, IBUK examines the operational procedures outlined in the clearing house’s bylaws, with emphasis on the margin and clearing fund calculations as well as the default procedures. Interactive Brokers also conducts annual reviews to monitor for any material changes to the existing policies and procedures. Because the largest risk with clearinghouses is operational risk, Interactive Brokers is careful to review and ensure that the risk management policies and procedures are adequate to mitigate a default risk that could impact non-defaulting clearing members.

Moreover, throughout the trading day, Interactive Brokers calculates margin requirements for each of our customers on a real-time basis across all product classes and across all currencies and all orders are credit vetted prior to submission. Integrated risk management procedures seek to ensure that each customer’s positions are continuously credit checked and brought into compliance if a customer’s account equity falls short of margin requirements.

*Individual segregated account (“ISA”)*

Cash collateral in an ISA structure is not held as client money and so is not subject to FCA protections on client funds. Rather, cash collateral (like positions in the account) is subject to the segregation protections of EMIR and only exposed to insolvency risk while in transit to or from a clearing house.

**Potential Cost Implications**

Under the EMIR, clearing firms can pass on their costs in offering this additional option to customers.

The costs of maintaining an OSA or ISA vary depending on the clearing houses’ charges for each account, the complexity of creating and maintaining the account, the margin deposited at the clearing house and the extent to which those costs can be spread across multiple customers who are using the same account and the extent to which those costs are covered by the commissions charged on the trading activity conducted in the account. Here is a summary of variables that may cause maintenance costs to be higher in an ISA structure:

	OSA	ISA
Variable	Lower Charges	Higher Charges
Collateral deposited at Clearing house	Low	High
Clearing House Maintenance Fees	Low	High
Account Structure	One Account for Several Clients	Many Accounts for Individual Clients
Operational Costs	Low	High
Collateral Movements to Satisfy Obligations at the Clearing House	Low Volumes	High Volumes

### *Omnibus segregated account ("OSA")*

IBUK does not anticipate any additional charges to customers who elect to maintain an omnibus segregated account, given that the costs of maintaining this structure are built into IB's commissions and other fees currently charged. This is the default option for IBUK customers and how client assets are held unless customers instruct IBUK otherwise.

### *Individual segregated account ("ISA")*

IBUK expects to charge additional costs to customers that elect to have their assets held in an ISA structure due to the higher operational costs and resource overheads that IBUK will incur in creating, clearing and maintaining these accounts. IBUK also expects that its own costs from meeting clearing house obligations, collateral movements and reconciliations for ISAs to be higher and will pass these costs on to customers. In total, the cost of maintaining an ISA may be considerable. It appears that our competitors are currently charging as much as 20,000 EUR a month for this service.

In addition, clearing houses will impose additional charges for clients who opt for an ISA structure, and IBUK will pass these on to clients.

By way of example, we have included the table below to reflect what some clearing houses are charging to maintain an ISA structure.

<b>Clearing House</b>	<b>Trading Venue</b>	<b>*IBUK Net OSA Fee (charged annually)</b>	<b>Clearing House's ISA Fee (charged annually)</b>	<b>Potential IBUK Charges for ISA (charged annually)</b>
LCH Limited	LSE Derivatives	No additional fee/change to existing credit terms as of the date of this document.	£3,000 + IBUK maintenance costs	To be determined but expected to be $\geq$ 20,000 EUROS
ICE Europe	LIFFE ETDs	No additional fee/change to existing credit terms as of the date of this document.	CCP cost to be confirmed + IBUK maintenance Cost	To be determined but expected to be $\geq$ 20,000 EUROS

IBUK only offers the Net OSA even where clearing houses offer other variants of OSA accounts. LCH Clearnet Limited also offers an omnibus account on a gross collateral basis, in which the amount of collateral deposited at the clearing house is determined by reference to each individual's underlying positions at the clearing house. By contrast, in a net omnibus account the positive values of certain client's positions may offset the negative value of others, so that the amount held at the clearing house may be lower and the amount held by the clearing member higher. In both cases the overall amount protected will be the same.

**\*\* Additional Trading Impact of ISA Account \*\***

*Due to the complexities involved with offering a margin account to customers who choose to maintain their assets in an ISA structure, IBUK will only offer cash accounts to customers who choose to maintain their positions in an individually segregated account. These customers will not be able to trade on a leveraged basis or sell short.*

**General Insolvency Risks Associated with OSA and ISA Structures**

In any clearing relationship, there is always the risk of default of the clearing house or the clearing member. Such a default may affect the client in different ways, depending on how the client's account is held at the clearing house.

*Porting:* If a clearing house declares a clearing member, like IBUK, to be in default, the clearing house may (i) try to transfer the client's positions and assets to another clearing member; or (ii) it may terminate a client's transactions.

The porting process will differ depending on the clearing house, but it generally involves a close-out and re-establishment of positions with the new broker or a transfer of the open clearing house transactions and related assets to the new broker. However, in the event of default of IBUK, it is more likely that the clearing house will terminate transactions, unless they are pending settlement and can be settled.

If a customer's funds are held in an OSA structure and IBUK defaulted, generally all clients with transactions and assets in the OSA would need to agree to use the same back-up clearing broker, and the back-up clearing broker would need to agree to accept all of the clearing house transactions and assets recorded in that OSA. It therefore may be difficult to readily achieve porting when maintaining an OSA.

Porting may be easier for an ISA account, because customers in an ISA can appoint a back-up clearing broker with respect to just your clearing house Transactions and the related assets.

*Transit Risk:* IBUK is required to provide collateral to the clearing house to cover margin requirements on customer positions. For omnibus accounts any excess cash collateral of the customer not transferred into an omnibus account will be subject to the provisions and protections of Financial Conduct Authority's client asset regulations. However, for individual accounts any excess cash collateral has to be held at the clearing house and not as client money at the firm, and therefore any cash in transit is subject to the firm's insolvency

risk while in transit to or from the clearing house, even though it is subject to EMIR protections.

*Operational Risks:* It is difficult to assess possible operational risks due to the new clearing house account structures. Clients should refer to the clearing house website(s) to ensure that they understand the relevant operational processes and requirements before electing either an OSA or ISA structure. Each clearing house publishes details of their costs on their website. These are the prices, fees and costs that IBUK has to pay to the clearing house on behalf of its clients and which IBUK will pass on to its clients. Links to documents published by clearing houses of which IBUK is a member can be found below.

**Links to Clearing House Disclosure Documents:**

- [http://www.lchclearnet.com/about\\_us/corporate\\_governance/ltd\\_account\\_structures\\_under\\_emir.asp](http://www.lchclearnet.com/about_us/corporate_governance/ltd_account_structures_under_emir.asp)
- [http://www.lchclearnet.com/Images/account%20structures%20brochure\\_21%20%2014\\_v1\\_tcm6-63942.pdf](http://www.lchclearnet.com/Images/account%20structures%20brochure_21%20%2014_v1_tcm6-63942.pdf)
- Details regarding ICE Clear Europe fees will be made available here: [https://www.theice.com/clear\\_europe.jhtml](https://www.theice.com/clear_europe.jhtml).

Please note that these links have been provided for convenience only. IBUK is not responsible for content displayed on external websites. A clearing house may change its costs at any time. If you have questions regarding a particular clearing house's costs or you cannot find the relevant costs on their website, then you should contact that clearing house directly.

Please send any questions concerning the contents of this document to: [complianceuk@interactivebrokers.com](mailto:complianceuk@interactivebrokers.com).