

20 December 2018 | EMEASW01918

Service Watch

EMEA: BRRD Risk Disclosure – Semi Annual Reminder

Priority: High

Topic: Market Environment, Market Regulation

Summary

Following release of the European Securities and Markets Authority's statement on 2 June 2016 (which clarifies how investment firms like Citi should apply the relevant MiFID requirements governing the distribution to clients of financial instruments subject to the BRRD resolution regime) we would like to specifically draw your attention to some of the risks that flow from receiving services from Citi in relation to certain types of financial instruments.

This notice applies to all EEA markets.

Action to be taken

Under the provisions of the EU Bank Recovery and Resolution Directive (Directive 2014/59/EU) ("**BRRD**") and other applicable and analogous legislation in other jurisdictions relating to resolution and recovery, national regulators, fiscal agencies and/or other competent public authorities ("**Resolution Authorities**") have certain legislative powers to manage and resolve banks, broker dealers and other financial institutions which are failing or likely to fail.

There is a risk that the use of such powers by any applicable Resolution Authority or the manner in which they are exercised may materially adversely affect (i) your rights under certain types of financial instruments, (ii) the market value of certain types of financial instruments and / or (iii) an institution's ability to satisfy any liabilities or obligations it has to you. By accepting related services from Citi and its affiliates, you confirm that you are aware of these risks which are set out in more detail below. No further action is required by clients.

Full report

Any of the EU incorporated affiliates of Citigroup Inc. ("**Citi**") may offer, issue, distribute or provide other services (including, without limitation, custodial and other post-trade services) in relation to certain financial instruments. Some of these financial instruments may be unsecured financial instruments issued or entered into by "**BRRD Entities**" (i.e. EU entities within the scope of the BRRD including EU credit institutions, certain EU investment firms and / or their EU subsidiaries or parents) ("**BRRD Financial Instruments**"). As set out below, there are certain risks connected to BRRD Financial Instruments which we are required by regulatory guidance to disclose to you.

Under the BRRD, Resolution Authorities have various statutory resolution powers to manage BRRD Entities which are failing or likely to fail. These resolution powers include to (a) transfer, or sell, all or some of the shares or other instruments of ownership issued by, or some or all of the assets, rights or liabilities of a BRRD Entity to a bridge bank, potentially limiting the capacity of the BRRD Entity to meet repayment obligations; (b) reduce to zero the outstanding amount due in respect of BRRD Financial Instruments, or convert any such BRRD Financial Instruments into ordinary shares or other instruments of ownership in order to stabilise and absorb losses at the BRRD Entity; and (c) except for certain secured liabilities, amend or alter the maturity of BRRD Financial Instruments issued or entered into by a BRRD Entity or amend or suspend any amount of interest payable under such BRRD Financial Instrument.

The impact of resolution powers on BRRD Financial Instruments, and liabilities or obligations of a BRRD Entity in resolution, depend on the rank of the instrument, liability or obligation in the resolution creditor hierarchy. This rank may have changed due either to the specified order of preference for the bail-in tool or due to the introduction of preference in the hierarchy for deposits from natural persons, micro, small and medium sized enterprises.

The BRRD requires the resolution powers to be exercised in accordance with the general principle that no creditor shall incur greater losses than would have been incurred if the BRRD Entity had been wound up under normal insolvency proceedings. This means that you may have a right to compensation if the exercise of a BRRD resolution power results in less favourable treatment for you than the treatment that you would have received under normal insolvency proceedings. This assessment must be based on an independent valuation of the BRRD Entity and compensation payments, if any, may be considerably later than contractual payment dates (in the same way that there may be a delay in recovering value in the event of insolvency).

The prices, volatility and liquidity of any market in BRRD Financial Instruments may be impacted by the use, or anticipated use, of any resolution power by any Resolution Authority. In particular, existing liquidity arrangements (for example, re-purchase agreements by the issuing BRRD Entity) might not protect you from having to sell BRRD Financial Instruments at a substantial discount in case of financial distress of the issuing BRRD Entity.

The use of any power by an applicable Resolution Authority may materially adversely affect your rights under any BRRD Financial Instrument, the market value of any BRRD Financial Instrument and/or a BRRD Entity's ability to satisfy any liabilities or obligations it has to you. In accepting services from Citi in relation to any BRRD Financial Instrument, you confirm that you are aware of the resolution powers under the BRRD which may be exercised in respect of a BRRD Entity and the potential consequences on any BRRD Financial Instrument or other liability or obligation of a BRRD Entity.

There may be analogous legislation relating to recovery and resolution of failing financial institutions in other applicable jurisdictions (including, without limitation, the United States) in which Citi and its affiliates operate. Such legislation may be on terms similar to (or more onerous than) the BRRD.

This information is also available in a durable medium on the Direct Custody and Clearing website and can be accessed via the following link: <https://www.citibank.com/mss/dcc/>

Source:

ESMA Statement on MiFID practices for firms selling financial instruments subject to the BRRD resolution regime dated 2 June 2016: https://www.esma.europa.eu/sites/default/files/library/2016-902_statement_brrd.pdf