EMIR – Frequently Asked Questions

1. What is EMIR (European Market Infrastructure Regulation)?

EMIR is an EU regulation (and as such directly applicable law in the EU member states) to regulate the derivative market by increasing transparency and decreasing systemic risk. Key requirements of EMIR are:

- **Mandatory clearing** of certain classes of standardized OTC derivatives via clearinghouses (mid 2014)
- **Reporting** of all outstanding derivatives (whether OTC or listed) via trade repositories (expected start Nov. 2013 IRD/CRD, Jan 2014 other asset classes)
- **Risk mitigation measures for uncleared trades**: Timely confirmation, daily valuation, portfolio reconciliation, dispute resolution and portfolio compression (step-by-step requirements, started in March, the rest to follow in September 2013)
  (Margin requirements for uncleared trades will be defined by BSBC/ IOSCO Paper under the Basel III rules, which will be the basis for further second level rules on collateral by ESMA)

2. Who is covered by EMIR?

All counterparties established in the EU and trading OTC derivatives are directly affected by EMIR.

- Financial counterparties (“FCs”) must comply with all requirements.
- Non-financial counterparties (“NFCs”) are undertakings that are not FCs and not otherwise explicitly exempt from EMIR. If their OTC derivative positions in non-hedging transactions exceed a specified threshold they will be classified as an “NFC+” they will be required to fulfill all requirements FCs must fulfill. If their OTC derivative positions do not exceed any specified threshold, they are exempted from clearing (and, most likely, from taking and posting margin upon entry into force of margin regulations). All NFCs are required to report and fulfill the other risk mitigation measures (NFCs that are not NFC+ have slightly longer timeframes in which to fulfill the timely confirmation requirements for the relevant asset class).
- There are exemptions from EMIR for certain entities such as central banks and natural persons (natural persons acting as "undertaking", i.e. with commercial activity aimed at generating profit are not exempted).
- Third country entities are affected to a certain extent by EMIR, either directly by virtue of the fact that they have a status equivalent to that of an FC, NFC+ or NFC, or indirectly to the extent they trade with entities established in the EU and directly subject to it.

3. What transactions are in scope of EMIR?

The definition of the term “derivative” is not set out in full in EMIR but cross-refers to a sub-set of financial instruments listed in the Markets in Financial Instruments Directive (“MiFID”) and includes any option, future, swap, forward or other derivative contract

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relating to securities, currencies, interest rates, financial indices, commodities, financial contract for differences and credit default swaps. The treatment of FX derivatives is not completely clear under EMIR; there is no blanket exemption for FX derivatives as an asset class although it is fairly clear spot FX would not fall within the definition. With respect to FX forwards, further clarification from the European Commission or ESMA is awaited.

4. Why do we need an amendment to the master agreements?

Certain of the risk mitigation measures require written agreement of the parties before transactions are concluded. In addition, counterparties who wish to delegate reporting to us need to make that delegation and, in connection with all reporting, any rights they may have under statute or contract to confidentiality must be waived. Therefore, in order to continue trading OTC derivatives with our clients/counterparties after 15 September 2013 we need to have an EMIR compliant master agreement in place to ensure that we and our counterparty are compliant with the EMIR rules.

5. What does the amendment cover?

EMIR Annex, covers the following:

- Procedures for agreeing how disputes relating to the valuation of their OTC derivatives transactions will be identified, recorded, monitored and resolved
- Procedures for agreeing how to reconcile the key terms (including at least the valuation) of their non-cleared OTC derivatives portfolios, as well as the extent to which a third party will perform the reconciliation
- A waiver of any rights to confidentiality parties to an OTC derivatives contract may have, whether under statute or contract, to permit reporting of the OTC derivatives contract to a trade repository.

6. Who has to sign the amendment?

- All counterparties with OTC derivatives transactions existing on or after 16 August 2012, whether or not still outstanding,
- NFCs / FCs with existing master agreements who expect to continue trading OTC derivatives with UniCredit Bank Austria AG on or after 15 September 2013 and
- Natural persons with existing exposure and a profit orientated background (see above) (otherwise EMIR does not apply to natural persons)

7. What does the reporting obligation mean and can I delegate my reporting to UniCredit Bank Hungary?

EMIR requires all parties to derivatives transactions (whether OTC or listed) to report their transactions to a trade repository. Parties are permitted to delegate this reporting either to their trade counterparty or to a third party, although they keep the ultimate responsibility for ensuring their own reporting obligation is fulfilled. We are offering our clients, free of charge, a service whereby we can report on their behalf all of their trade information in respect of their trades with us. If you wish to delegate your reporting obligation to us, you need to sign the enclosed reporting service level agreement (the

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"Reporting SLA") and return it to us with the amendment to your master agreement with us. Whether or not you delegate your reporting obligation to us, you will need to obtain a LEI and inform us what it is as we need it for our own reporting purposes.

8. What is a LEI?

"LEI" stands for "Legal Entity Identifier", which is a reference code to uniquely identify a legally distinct entity that engages in a financial transaction. It was developed by the Financial Stability Board ("FSB") at the direction of the G20 and under the auspices of the Bank for International Settlements ("BIS") in Basel, and is meant to provide a way for participants in finance to understand the relationships of corporate entities. The FSB is in the process of creating a central regulatory body for the purpose of issuing LEIs

9. Does the amendment cover posting of collateral or margin?

The amendment does not cover collateral or margin as there are currently no regulatory technical standards from ESMA covering such specifics as who must post and collect collateral, what constitutes eligible collateral, how much be posted against the value of an OTC derivatives contract, and how collateral is valued. These technical standards, once published, are not expected to enter into force until early 2015 at the earliest. When they are enacted, it is expected that they will apply only to FCs and NFCs+. At that time we will write to you again if the margin obligations apply to you and if as a result we need to amend any existing collateral documentation between us to cater for any new requirements in respect of margin and collateral.

10. Where can I find more information concerning the amendment?

Further information can be found on the following website of PSZÁF (www.pszaf.hu/bal_menu/eu/kiemelt_temak/emir).

11. What is the significance of 15 September 2013 and what happens if I do not have an EMIR-compliant master agreement by that date?

The regulatory technical standards requiring written agreement of the parties of procedures for portfolio reconciliation and dispute resolution come into force on 15 September. These technical standards require agreement of the parties ***before a transaction is entered into***. Therefore, if we enter into transactions without this written agreement you and we will be in breach of our regulatory requirements, with the potential for significant penalties from the Financial Markets Authority (the "FMA"). These penalties include fines ranging up to EUR 150,000.

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