



NatWest

**NATWEST MARKETS SECURITIES INC. DISCLOSURE
DOCUMENT**

**PURSUANT TO COMMODITY FUTURES TRADING
COMMISSION REGULATION 1.55(k)**

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**COMMODITY FUTURES TRADING COMMISSION REGULATION 1.55(K):
NATWEST MARKETS SECURITIES INC. DISCLOSURE DOCUMENT**

The Commodity Futures Trading Commission (“Commission” or “CFTC”) requires each futures commission merchant (“FCM”), including NatWest Markets Securities Inc. (“NWMSI”), to provide the information contained herein to a customer prior to the time the customer first enters into an account agreement with the FCM or deposits money or securities (funds) with the FCM. NWMSI will update this information annually and as necessary to take account of any material change to its business operations, financial condition or other factors that NWMSI believes may be material to a customer’s decision to do business with NWMSI. Nonetheless, NWMSI’s business activities and financial data are not static and will change in other ways frequently throughout any 12-month period.

Except as otherwise noted below, all other information contained herein is as of September 30, 2021.

(1) The Firm

FCM’s name, address of its principal place of business, phone number, fax number and email address.

NWMSI is registered as an FCM with the CFTC and is a member of National Futures Association (“NFA”). NWMSI is also registered as a broker-dealer with the Securities and Exchange Commission (“SEC”) and is a member of the Financial Industry Regulatory Authority (“FINRA”). NWMSI’s Designated Self-Regulatory Organization¹ is the Chicago Board of Trade, whose website address is <http://www.cmegroup.com>. NWMSI’s principal place of business is:

600 Washington Boulevard
Stamford, CT 06901
Tel: +203-897- 4274
Fax: +203-873-3013
E-mail: Thomas.Morrison@natwestmarkets.com

¹ Certain capitalized terms are defined in the “Glossary of Terms” at the end of this Disclosure Document.

(2) Principals

The name, title, business address, business background, areas of responsibility and the nature of the duties of each principal of NWMSI as defined in § 3.1(a).

<i>Principal Name</i>	<i>Title</i>	<i>Business Address</i>	<i>Business Background</i>	<i>NWM Divisional Areas of Responsibility</i>	<i>Nature of Duties</i>
Paul Stevelman	President and Chief Executive Officer of NWMSI and Member of NWMSI Board	600 Washington Boulevard, Stamford, CT 06901	Prior to his current position, Mr. Stevelman had been employed in the Legal Department of NWMSI for over 22 years (3/1993 to 2015), as Co-General Counsel (2011 to 2015) and Deputy General Counsel (1999 to 2011). Prior to joining the Firm, Mr. Stevelman was an associate in the law firm of Cadwalader, Wickersham & Taft from 1988 - 1993 where he specialized in US capital markets transactions, including public and private securities transactions, municipal securities offerings and structured products. He received his JD from New York University in 1988 and a BA from Columbia College in 1985.	Head of NatWest Markets, US	Supervisory responsibility for trading, sales, coverage and Debt Capital Markets (DCM) in US.
Adam Trebing	Chief Financial Officer, NWMSI	600 Washington Boulevard, Stamford CT 06901	Mr. Trebing joined NWMSI in 2010 as a financial controller responsible for the preparation of US GAAP and IFRS accounts for various legal entities in the United States, including NWMSI, for 6 years. In 2017, Mr. Trebing was appointed to Head of Product Control and Business Partnering where he was responsible for leading the independent control function over the validity and accuracy of the P&L and Balance Sheet as well as management reporting, including financial budgeting and forecasting. Prior to joining NWMSI, Mr. Trebing worked at PricewaterhouseCoopers for 4 years	Chief Financial Officer, NatWest Markets, US	Chief Financial Officer, NatWest Markets, US. In this capacity, Mr. Trebing is responsible for overseeing and setting the strategic direction for NatWest Markets in the U.S. and supervising all Finance activities in the region which include financial and management reporting, regulatory reporting, treasury, corporate & operational tax and accounts payable.

<i>Principal Name</i>	<i>Title</i>	<i>Business Address</i>	<i>Business Background</i>	<i>NWM Divisional Areas of Responsibility</i>	<i>Nature of Duties</i>
			where he led various financial statement audits. Mr. Trebing is a Certified Public Accountant ('CPA') and holds a FINRA Series 27 and 99 registration. Mr. Trebing received his MS and BS in Accounting from the University of Connecticut.		
RBS Holdings USA Inc.	(as Principal)	600 Washington Boulevard, Stamford CT 06901			
Michelle Girard	Head of Strategic Coordination and Business Operations, Co-Head Global Economics, Member of the NWMSI Board	600 Washington Boulevard, Stamford, CT 06901	Ms. Girard joined NWMSI in 2004. Ms. Girard previously worked as a Treasury Market Strategist at Prudential Securities, Chief Economist at Sanwa Securities (USA) and Economist with Bear Stearns. Ms. Girard began her professional career as a Research Assistant for the Board of Governors of the Federal Reserve System in Washington, DC. Ms. Girard received her MA and BS in Economics from Miami University in Oxford, Ohio.	Head of Strategic Coordination and Business Operations, and Co-head Global Economics	Ms. Girard supports Head of US in coordinating and executing the regional customer strategy and operating model to ensure alignment with bank and NWM global strategic objectives, risk appetite, customer needs and to ensure products and services are relevant, suitable, modernized, and best in class. In addition, Ms. Girard oversees economists in the US, China, and India, forecasting growth, inflation, monetary and fiscal policy, and interest rates for the global and regional economies.

<i>Principal Name</i>	<i>Title</i>	<i>Business Address</i>	<i>Business Background</i>	<i>NWM Divisional Areas of Responsibility</i>	<i>Nature of Duties</i>
Casey Spezzano	Head of Customer Sales and Trading, US, Member of the NWMSI Board	600 Washington Boulevard, Stamford, CT 06901	Ms. Spezzano joined NWMSI in 2003. She has almost 15 years experience as a fixed income trader, focusing on repo, short-dated treasury securities and commercial paper, as well as balance sheet management. She received her MBA from Columbia Business School and her BA from the College of the Holy Cross.	Head of Customer Sales and Trading, US	Ms. Spezzano is responsible for all aspects of NWM's currencies, rates and credit trading and sales businesses in the US, and Global USD products. Also responsible for all aspects of supervisory requirements. She is a member of the US Management Team and NatWest Markets Securities Inc. Board member, responsible for setting, implementing and monitoring strategy in the region, as well as the governance of the risk and control environment.
John DiChiara	Interim Chief Compliance Officer, NWMSI	600 Washington Boulevard, Stamford, CT 06901	Mr. DiChiara is Interim Chief Compliance Officer (CCO) for NWMSI and NatWest Markets, US. By Board Resolution, he has been added as the Interim Chief Compliance Officer for the Futures Commission Merchant of NWMSI. Prior to his current role, Mr. DiChiara was Director and Advisory Officer to NWMSI FCM and prior to joining NWMSI, was Chief Compliance Officer of Bank of New York Mellon Capital Markets. He has been in the Investment Banking industry for over 30 years.	Interim Chief Compliance Officer of the FCM and Interim CCO of NatWest Markets, US	Mr. DiChiara is responsible for overseeing all aspects of compliance for NWMSI and NatWest Markets, US.
Antonio Paras	Head of Risk, NWM US	600 Washington Boulevard, Stamford, CT 06901	Mr. Paras joined NWMSI in 2011. Prior to his current position, Mr. Paras was the Head of US Market Risk where he oversaw risk management for the US trading desks. He also held the role of Global Head of Traded Credit & Securities Financing Market Risk where he oversaw corporate bond trading, debt capital markets and financing desks across the bank.	Head of Risk, NatWest Markets US	In his role as Head of Risk, NWM US, Mr. Paras is responsible for prudential risk management, providing 2nd line of defense across market, credit and operational risk for US trading and clients.

<i>Principal Name</i>	<i>Title</i>	<i>Business Address</i>	<i>Business Background</i>	<i>NWM Divisional Areas of Responsibility</i>	<i>Nature of Duties</i>
			Mr. Paras has over 24 years of experience in the financial industry, having previously worked for firms like J.P Morgan and Paribas Capital Markets. He holds a Ph.D from New York University and a B.Sc from Instituto Tecnologico Autonomo de Mexico.		
Michelle Bucci	Chief Operating Officer, NWMSI	600 Washington Boulevard, Stamford, CT 06901	Ms. Bucci joined NWMSI in 2006. She has 14 years' experience in Operations, most recently managing Collateral and Post Trade Operations, including establishing framework for supervision of outsourced activities. Ms. Bucci has delivered large scale transformation and regulatory change initiatives while maintaining operational controls and risk management. She holds FINRA Series 27 and 99 registrations. Ms. Bucci received a B.A. in Political Science from Providence College.	Chief Operating Officer, NatWest Markets US	Ms. Bucci as COO for NWM US is responsible for establishing and delivering on key objectives while creating efficiencies and maintaining the control environment. Ms. Bucci is responsible for US Operations, Supervisory and Control teams. She is also responsible for Third Party and Internal Service Management, Property, and Business Resilience.
Thomas Joseph Morrison	Head of Prime Brokerage, NWMSI	600 Washington Boulevard, Stamford, CT 06901	Prior to his current position as Head of Prime Brokerage which includes futures execution and clearing, Mr. Morrison was employed in the Foreign Exchange Prime Brokerage business of NWMSI for the past 18 years (September 2003 to present), where he was responsible for the Prime Sales efforts in North America. Prior to joining the firm, Mr. Morrison held positions with AIG Trading Group, Fimat USA and Cargill Investor Services where his focus was on various aspects of the Foreign Exchange Market. Mr. Morrison is a former Member of the	Head of Prime Brokerage, NatWest Markets US	Mr. Morrison is responsible for the supervision of the Futures business and Prime Brokerage origination teams within the US. He is responsible for implementing the defined strategies across the two businesses. Specifically he is to manage the on going FCM, while defining the strategy for growing the Prime Brokerage business within the approved global strategy.

<i>Principal Name</i>	<i>Title</i>	<i>Business Address</i>	<i>Business Background</i>	<i>NWM Divisional Areas of Responsibility</i>	<i>Nature of Duties</i>
			Chicago Mercantile Exchange - IMM Division. He received his BBA in Finance from Saint Joseph's College (Indiana).		
Vladimir V Golovanov	Head of US Non-Linear Rates Trading, Member of the NWMSI Board	600 Washington Boulevard, Stamford, CT 06901	Mr. Golovanov started at NWMSI (then GCM) in 1998 in Mortgage Analytics group. Has more than 15 years of options trading experience in addition to his experience of capital and funding, as well as technical expertise in electronic solutions and innovations. He holds Ph.D. in Physics from SUNY at Stony Brook.	Head of US Non-Linear Rates Trading, NatWest Markets US	Mr. Golovanov is responsible for managing USD interest rate options trading and also overseeing linear swap trading activities.
James David William Tayler	Head of US Capital Markets, Member of the NWMSI Board	600 Washington Boulevard, Stamford, CT 06901	Mr Tayler has worked for NatWest/RBS since his internship in 2008. He worked for the firm in London until 2015, then moving to the US. Mr Tayler has worked across Syndicate and Origination disciplines, covering FI's and Corporates in the US and Europe. He holds a LLB in Law from Durham University and is a CFA Charterholder.	Head of US Capital Markets, NatWest Markets US	Mr Tayler is responsible for leading the US Capital Markets business, which provides advice and execution across DCM and Derivatives – for US customers and for European customers seeking to access USD products.

(3) Firm's Business

The significant types of business activities and product lines engaged in by the FCM, and the approximate percentage of FCM's assets and capital that are used in each type of activity.

NWMSI is a primary dealer of U.S. Government securities and is principally engaged in the purchase, sale and financing of U.S. Treasury, U.S. Agency debentures, corporate debt, and the execution and clearing of exchange-traded futures and options on futures contracts. In its capacity as an FCM, NWMSI is engaged primarily in the execution and clearing of exchange-traded futures and options on futures contracts. NWMSI transacts primarily with institutional counterparties.

The following table identifies the significant types of business activities and product lines engaged in by NWMSI and the total assets that are used in each type of activity as a percentage of total assets and ownership equity.

Percentages as of September 30, 2021

Activity/Product Line	Product line assets as a % of total assets	Product line assets as a % of capital (Ownership Equity)
Financing (Resales/Borrows)	80.384%	14.012%
Inventory		
Fixed Income	15.899%	64.041%
Equities	0.000%	0.000%
Other Inventory	0.000%	0.000%
Goodwill and Tangible Assets	0.008%	1.367%
Receivables from Broker, Dealers and Customers	3.163%	6.419%
Investments in and receivables from affiliates, subsidiaries and associated partnerships	0.004%	0.631%
Fixed and All Other Assets	0.543%	13.530%

(4) FCM Customer Business

FCM's business on behalf of its customers, in its capacity as such

On February 14, 2020, NatWest Group announced that NatWest Markets ("NWM") would be refocused. As a result of a strategic review, NatWest Markets Securities Inc. ("NWMSI") provided CFTC and the Exchanges notice in March of 2020 that it is NWMSI's intention to stop offering client clearing and execution services for exchange-traded derivatives (including but not limited to futures, options on futures, and equity options). NWMSI indicated that it did intend to continue to do house futures trading to support other business lines as required.

As of December 31 2020, NWMSI completed the exit of its client clearing and execution business for exchange-traded derivatives (including US futures execution and clearing clients and European futures execution and clearing clients, previously serviced through NWMSI on behalf of its affiliates, NatWest Markets Plc and NatWest Markets N.V.). NWMSI continues to execute and clear CME futures and options contracts as necessary in relation to NWM's house futures business (including EFRPs and Block trades).

Exchange Memberships
Chicago Board of Trade (CBOT)
Chicago Mercantile Exchange, Inc. (CME)
Commodity Exchange Inc. (COMEX)
New York Mercantile Exchange, Inc. (NYMEX)

- Clearinghouses used: member

Clearing Organization Memberships	NWMSI is a Member	NWMSI's Affiliate is a Member
Chicago Mercantile Exchange (CME)	Yes	Yes

- Carrying brokers used: None

Permitted Depositories and Counterparties

FCM's policies and procedures concerning the choice of bank depositories, custodians and counterparties to permitted transactions under § 1.25

NWMSI evaluates bank depositories and custodians against NWMSI's criteria prior to establishing accounts and depositing funds and/or securities with those institutions. NWMSI performs a similar analysis of all counterparties to transactions involving the investment of Customer Funds pursuant to CFTC Regulation 1.25.

Prior to approval, NWMSI analyzes the depository or custodian's capital, leverage, funding and liquidity, profitability, asset quality and risk management. Where applicable, NWMSI also will evaluate the depository or custodian's ownership and integration into a larger financial group. Once NWMSI selects a depository to hold Customer Funds, NWMSI conducts a review of each such depository on an annual basis thereafter. In addition, on an ongoing basis, NWMSI monitors the financial strength and creditworthiness of each depository that it has selected to hold Customer Funds through a review of credit rating agency subscriptions, reports in the financial press, and earnings releases issued by the depositories.

NWMSI currently maintains its futures customer funds bank accounts at Harris Bank and at the Chicago Mercantile Exchange ("CME"). Harris Bank is an approved CME settlement bank.

NWMSI also has in place policies and procedures for assessing the appropriateness of specific investments of segregated funds in permitted investments in accordance with CFTC Regulation 1.25. Such policies and procedures take into consideration the market, credit, counterparty, operational, and liquidity risks associated with such investments, and assess whether such investments comply with applicable requirements under CFTC Regulation 1.25, including that the FCM manage the permitted investments consistent with preserving principal and maintaining liquidity.

(5) Material Risks

The material risks, accompanied by an explanation of how such risks may be material to its customers, of entrusting funds to FCM, including, without limitation:

(i) *The nature of investments made by FCM (including credit quality, weighted average maturity and weighted average coupon);*

Nature of Investments: In order to ensure that it is in compliance with its regulatory capital requirements and that it has sufficient liquidity to meet its ongoing business obligations, NWMSI holds a significant portion of its unencumbered assets in highly liquid investments such as US Treasury securities and US Agency debentures. With respect to investments of customer funds under CFTC Regulation 1.25, currently, customer funds are invested in the CME Cash account and U.S. Treasury securities. NWMSI may, at its discretion, also invest customer funds in CME Group's Interest Earning Funds 2 and 5 programs (commonly known as IEF2 and IEF5) and any other investments permitted by CFTC Regulation 1.25.

(ii) *FCM's creditworthiness, leverage, capital, liquidity, principal liabilities, balance sheet leverage, exchange memberships and other lines of business;*

Creditworthiness: As of September 30, 2021, Standard & Poor's Rating Services ("S&P") maintained a long-term counterparty credit rating of NWMSI and certain of its affiliates (including NatWest Markets Plc (NWM Plc)) of A- and; a short-term rating of NWMSI and certain of its affiliates (including NWM Plc) of A-2. The ratings outlook of NWM Plc and certain of its subsidiaries was "stable".

As of September 30, 2021, Fitch Ratings held a Long and Short-term Issuer Default Ratings (IDRs) of A/F1 for NWMSI and A+/F1 for NWM Plc. The outlook on the IDRs was "stable."

Both S&P and Fitch cite NWMSI's important role in NatWest Group plc's overall strategy and franchise, and strong support from NWM Plc as the main consideration behind the assigned ratings. (NWMSI is not currently rated by Moody's Investors Service, Inc.).

It is important to note that NWMSI's rating, while separate from the parent, is dependent on the level of parental support and less on NWMSI's independent capital base. Therefore, NWMSI's ratings are sensitive to changes in the outlook or rating of NWM Plc.

Capital and Leverage: The NWMSI Capital Plan assesses the Firm's capital position and its ability to continue as a going concern, which requires maintaining a capital position of sufficient size and quality to protect the Firm from unexpected losses, operational risks and preserve confidence of regulators, investors, and customers in both business as usual and stressed environments. NWMSI's capital management strategy is designed to meet this objective by formulating a prudent capital buffer targeted to the risk profile and appetite of the business under business-as-usual and stress conditions, as well as implementing capital adequacy processes which incorporates risk identification, risk appetite, and risk management to monitor and manage the risks to capital. As part of the capital management process, NWMSI employs a routine monitoring process of various regulatory and internal risk appetite based capital ratios. In the event that an established early warning threshold is breached, as measured by a Red Amber Green (RAG) status methodology, management escalation procedures are initiated which require mitigation and/or risk reduction to bring capital levels within allowable limits.

An actual or perceived weakness in capitalization can result in severe regulatory and business implications which may include counterparties unwilling to transact with NWMSI, constraints on business growth and regulatory limitation of NWMSI activity, among others. As such, adequate capitalization of the entity at all times is critical to the core strategy.

Liquidity: NWMSI maintains policies and procedures noting the identification, measurement, management, and monitoring of all aspects of funding and liquidity risk. Additionally, these documents identify important funding and liquidity guidelines as defined by various local and global regulators, as well as NWMSI senior management, while also detailing various aspects of liquidity stress testing and contingency planning. There is risk to an FCM's client should the FCM become unable to meet commitments when they fall due, particularly under adverse conditions, which include, but are not limited to, market risk, credit risk, and operational risks, that would preclude the FCM from obtaining sufficient, cost-effective funding to pursue or continue its self-imposed liquidity metrics and business strategies.

Principal Liabilities: The Repo markets provide the majority of financing for NWMSI, given the large percentage of high quality assets on the balance sheet. NWMSI executes both deliverable and tri-party repo with large institutional counterparties and, provides liquidity to the repo market by way of matched book trading. Traditional repo (US Treasury and Agency Debenture securities) typically constitutes greater than 95% of total repo and a predominant amount is short dated, with more than 60% NWMSI's repo funded on an overnight basis. Risk to NWMSI's funding exists if the market for re-hypothecating US traditional repo becomes illiquid or severely disrupted for a prolonged period of time.

Clearing Member Obligations: NWMSI is a member of CME. See "FCM Customer Business – Clearing House Memberships," above. In that capacity, NWMSI has agreed generally to compensate CME for damages or losses caused by the failure of a NWMSI customer to perform its obligations under its agreements with NWMSI. NWMSI also is required to contribute to the guaranty funds that have been established by CME. In general, a guaranty fund is comprised of assets contributed by clearing members that can be used to cover losses incurred by the clearinghouse in the event of a clearing member default. The amount of a clearing member's required contribution to a given guaranty fund typically is determined by the clearinghouse pursuant to a formula that is designed to cover the proportionate share of the risk introduced to the clearinghouse as a result of the trading activity cleared by such clearing member, subject to a minimum contribution. To the extent the guaranty fund is insufficient to cover the losses incurred by the clearinghouse in the event of a clearing member default, NWMSI and all other non-defaulting clearing members will be required to make additional contributions to the clearinghouse. The amount of any such additional contribution may or may not be subject to an overall cap. In the event that there were significant increases in the volume and amount of transactions cleared by NWMSI through a clearinghouse, or if a clearinghouse were to determine that it needed to increase the aggregate size of its guaranty fund, NWMSI could be required to make further contributions to the applicable guaranty fund, which could have a materially adverse effect on NWMSI's liquidity position or its ability to continue operating as a member of that clearinghouse. NWMSI is also required to maintain the clearing fund deposit for its Sponsoring Member business at the FICC.

Other Lines of Business: In addition to being registered as an FCM, NWMSI is also a securities broker-dealer, in which capacity it acts primarily as a dealer in U.S. Treasury securities and the purchase, sale and financing of Treasury, agency debentures and corporate debt securities. The risks to which NWMSI is exposed in its capacity as a broker-dealer are similar to those that NWMSI faces as an FCM. In particular, NWMSI is exposed to market risk, credit risk, liquidity

risk, concentration risk, operational risk, and legal and regulatory risk. Each of these risks, and manner in which NWMSI seeks to manage them, is described in greater detail below, *Risk Management Practices, Controls and Procedures*. In the event NWMSI's risk management programs are unsuccessful in anticipating and controlling any of these risks, NWMSI may incur losses, which may affect its ability to meet its obligations to its clients. NWMSI is also a Sponsoring Member at the Fixed Income Clearing Corporation (FICC), allowing it to facilitate clearing of repurchase and reverse repurchase transactions executed by NWMSI with certain eligible entities (Sponsored Members) at the FICC and sponsoring such Sponsored Members into FICC's Government Securities Division membership. NWMSI also guarantees to the FICC payment and performance by its Sponsored Clients of their obligations to the FICC.

(iii) Risks to FCM created by its affiliates and their activities

Affiliates: NWMSI has a \$0.90 billion committed, unsecured funding line facility with NWM Plc, of which \$0.2 billion was outstanding as of September 30, 2021. The drawdown on the committed unsecured funding line facility is used in part to fund the NWMSI unencumbered Liquid Asset Buffer, which was \$0.8 billion as of September 30, 2021. NWMSI's ability to timely meet its obligations to customers and counterparties, including clearinghouses, therefore could be adversely affected if NWM Plc were unable to provide funding to NWMSI under the unsecured committed line of credit. NWMSI also has a \$370 million subordinated debt loan with NWM Plc. The loan, which qualifies as regulatory capital under SEC capital rules, was entered into on December 27, 2017 and has an automatic 1-year extension feature if not called 13 months in advance of the then in effect maturity date. The current maturity date is December 27, 2022.

Because of NWMSI's relationship with NWM Plc, NWMSI may be impacted by a material adverse change to the financial standing of NWM Plc.

(6) Material Complaints or Regulatory Actions

The information provided in this section is as of September 30, 2021.

Any material administrative, civil, enforcement or criminal complaints or actions filed against FCM where such complaints or actions have not concluded, and any enforcement complaints or actions filed against FCM during the last three years.

Litigation

NWMSI is party to legal proceedings, and the subject of investigations and regulatory matters in the United States and other jurisdictions, arising out of its normal business operations.

All such matters are periodically reassessed with the assistance of external professional advisers, where appropriate, to determine the likelihood of NWMSI incurring a liability. NWMSI recognizes a provision for a liability in relation to these matters when it is probable that there is a present loss contingency resulting from a past event, and a reasonable estimate can be made of the amount of the loss contingency.

In many proceedings, it is not possible to determine whether any loss is probable or to estimate the amount of any loss or possible range of loss. Numerous legal and factual issues may need to be resolved, including through potentially lengthy discovery and determination of important factual

matters, and by addressing novel or unsettled legal questions relevant to the proceedings in question, before a liability can be reasonably estimated for any claim. NWMSI cannot predict if, how, or when such claims will be resolved or what the eventual settlement, fine, penalty or other relief, if any, may be, particularly for claims that are at an early stage in their development or where claimants seek substantial or indeterminate damages.

There are also situations where NWMSI may enter into a settlement agreement or recognize a provision in contemplation of a potential settlement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to contest liability, or in order to take account of the risks inherent in defending claims or investigations even for those matters for which NWMSI believes it has credible defenses and should prevail on the merits. The uncertainties inherent in all such matters affect the amount and timing of any potential outflows and any provisions that have been established.

The material litigation, investigations, and regulatory matters in which NWMSI is involved are described below. If any such matters were resolved against NWMSI, these matters could, individually or in the aggregate, have a material adverse effect on NWMSI's net assets, operating results, or cash flows in any particular period. NWMSI cannot predict the outcome of these matters at this stage and is unable to estimate the liability or possible range of loss in excess of any provision accrued, if any, that might arise or its effect on NWMSI's statement of financial condition.

Litigation Matters

Residential Mortgage-Backed Securities ("RMBS") Litigation

NWMSI and certain affiliates continue to defend several RMBS-related claims in which plaintiffs allege that certain disclosures made in connection with the relevant offerings of RMBS contained materially false or misleading statements and/or omissions regarding the underwriting standards pursuant to which the mortgage loans underlying the securities were issued. The remaining RMBS lawsuits against NWMSI and certain affiliates consist of cases filed by the Federal Deposit Insurance Corporation (as receiver for Colonial Bank, Citizens National Bank, and Strategic Capital Bank), and the State of New Mexico that together involve the issuance of less than \$400 million of RMBS issued primarily from 2005 to 2007. NWMSI has reached an agreement in principle to settle the New Mexico claims for an amount that is covered by an existing provision. In addition, NWMSI previously agreed to settle a purported RMBS class action entitled *New Jersey Carpenters Health Fund v. Novastar Mortgage Inc. et al.* for \$55.3 million, which has been paid into escrow pending an appeal of the court's March 11, 2019 approval of the settlement.

US Treasury Securities Antitrust Litigation

NWMSI and other US broker-dealers are defendants in a consolidated antitrust class action pending in the United States District Court for the Southern District of New York on behalf of persons who transacted in US Treasury securities or derivatives based on such instruments, including futures and options. The plaintiffs allege that NWMSI and the other defendants rigged the US Treasury securities auction bidding process to deflate prices at which they bought such securities and colluded to increase the prices at which they sold such securities to plaintiffs. The complaint in this matter was dismissed on March 31, 2021. Plaintiffs have filed an amended complaint which defendants are seeking to have dismissed.

European Government Bonds Antitrust Litigation

Class action antitrust claims commenced in March 2019 are pending in the United States District Court for the Southern District of New York against NWM Plc, NWMSI, and other banks. The complaint alleges a conspiracy among dealers of Euro-denominated bonds issued by European central banks (EGBs), to widen the bid-ask spreads they quoted to customers, thereby increasing the prices customers paid for the EGBs or decreasing the prices at which customers sold the bonds. The class consists of those who purchased or sold EGBs in the US between 2007 and 2012. The defendants filed a motion to dismiss, which was granted by the court in respect of NWM Plc and NWMSI on July 23, 2020; however, plaintiffs have filed an amended complaint in hopes of remedying the pleading deficiencies identified by the court. Defendants have filed a motion to dismiss the amended complaint.

Swaps Antitrust Litigation

NWM Plc, NWMSI, and NatWest Group plc, as well as a number of other financial institutions, are defendants in several cases pending in the United States District Court for the Southern District of New York alleging violations of the US antitrust laws in the market for interest rate swaps. There is a consolidated class action complaint on behalf of persons who entered into interest rate swaps with the defendants, as well as non-class claims by three swap execution facilities, TeraExchange, Javelin, and TrueEx. The plaintiffs allege that the swap exchange facilities would have successfully established exchange-like trading of interest rate swaps if the defendant dealers had not unlawfully conspired to prevent that from happening through boycotts and other means.

In July 2017, the Court overseeing the above matters dismissed all claims relating to the 2008 - 2012 time period, but declined to dismiss certain antitrust and unjust enrichment claims covering the 2013 - 2016 time period. Fact discovery in these cases is complete, and the class plaintiffs have filed a motion for class certification, which is pending.

On June 8, 2017, TeraExchange filed another complaint against NWM Plc, NWMSI, and NatWest Group plc, as well as a number of other financial institutions, in the United States District Court for the Southern District of New York, this time relating to credit default swaps instead of interest rate swaps. TeraExchange alleges it would have established exchange-like trading of credit default swaps if the defendant dealers had not engaged in an unlawful antitrust conspiracy. On October 1, 2018, the court dismissed NWM Plc, NWMSI, and NatWest Group plc from the case for lack of personal jurisdiction and failure to state a claim. The dismissal could be the subject of an appeal at a later date.

On June 30, 2021, a class action antitrust complaint was filed against a number of credit default swap dealers in New Mexico federal court on behalf of persons who, from 2005 onwards, settled credit default swaps in the United States by reference to the ISDA credit default swap auction protocol. The complaint alleges that the defendants conspired to manipulate that benchmark through various means in violation of the antitrust laws and the Commodity Exchange Act. The defendants include NWM Plc, NWMSI, and NatWest Group plc.

Odd Lot Corporate Bond Trading Antitrust Litigation

On April 21, 2020, a class action antitrust complaint was filed in the United States District Court for the Southern District of New York against NWMSI and several other securities dealers. The complaint alleges that, from August 2006 to the present, the defendants conspired to artificially widen spreads for odd lots of corporate bonds bought or sold in the United States secondary market and to boycott electronic trading platforms that would have allegedly promoted pricing competition in the market for

such bonds. On October 25, 2021, the court granted, on several grounds, defendants' motion to dismiss this case. The dismissal is subject to appeal.

FX Antitrust Litigation

In 2015, NWM Plc, NWMSI, and NatWest Group plc settled a consolidated antitrust action ("the consolidated action"), pending in the United States District Court for the Southern District of New York, asserting claims on behalf of persons who entered into over-the-counter FX transactions or who traded FX instruments on exchanges. The settlement received final court approval in August 2018. On November 7, 2018, some members of the settlement class who opted out of the settlement filed their own complaint in that court, asserting antitrust claims against NWM Plc, NWMSI, and others. Those opt-out claims are proceeding in discovery.

Certain other foreign exchange transaction related claims have been or may be threatened in the US and other jurisdictions.

LIBOR Litigation

NWM Plc, certain of its subsidiaries (including in some instances, NWMSI), and NatWest Group plc (together, "NWM defendants") are defendants in a number of class actions and individual claims filed in the US with respect to the setting of LIBOR and certain other benchmark interest rates. The complaints are substantially similar and allege that these NWM defendants and other panel banks individually and collectively violated various federal laws, including the US commodities and antitrust laws, and state statutory and common law, as well as contracts, by manipulating LIBOR and prices of LIBOR-based derivatives in various markets through various means.

Several class actions relating to USD LIBOR, as well as more than two dozen non-class actions concerning USD LIBOR, were made part of a coordinated proceeding in the United States District Court for the Southern District of New York. In December 2016, the district court held that it lacks personal jurisdiction over NWM defendants with respect to certain claims. As a result of that and other decisions, all NWM defendants have been dismissed from each of the USD LIBOR-related class actions (including class actions on behalf of over-the-counter plaintiffs, exchanged-based purchaser plaintiffs, bondholder plaintiffs, and lender plaintiffs), but seven non-class cases in the coordinated proceeding remain pending against NWM defendants, including NWMSI. The dismissal of the NWM defendants for lack of personal jurisdiction is the subject of a pending appeal to the United States Court of Appeals for the Second Circuit. In March 2020, NWM defendants executed a settlement resolving the class action on behalf of those who held bonds issued by non-defendants on which interest was paid from 2007 to 2010 at a rate expressly tied to USD LIBOR. The amount of the settlement has been paid into escrow pending court approval of the settlement.

In January 2019, class action antitrust complaints were filed in the United States District Court for the Southern District of New York alleging that the defendants (USD ICE LIBOR panel banks and their affiliates) have conspired to suppress USD ICE LIBOR from 2014 to the present by submitting incorrect information to ICE about their borrowing costs. The defendants include NatWest Group plc, NWM Plc, NWMSI, and National Westminster Bank Plc. The defendants made a motion to dismiss this case, which was granted by the court on March 26, 2020. Plaintiffs' appeal of the dismissal is pending in the United States Court of Appeals for the Second Circuit.

In August 2020, a complaint was filed in the United States District Court of California by several United States consumer borrowers against the USD ICE LIBOR panel banks and their affiliates, alleging that the normal process of setting USD ICE LIBOR amounts to illegal price-fixing, and also that banks in the United States have illegally agreed to use LIBOR as a component of price in variable consumer loans. The defendants include NatWest Group plc, NWM Plc, NWMSI, and National Westminster Bank Plc. The plaintiffs seek damages and to prevent the enforcement of LIBOR-based instruments through injunction. Defendants are seeking dismissal.

Other Litigation Involving NWMSI

In addition, NWMSI is named as a defendant in other actions. For example, NWMSI has been named as an underwriter defendant in various class actions involving public debt or equity where the plaintiff generally has brought actions against the issuer and underwriters of such securities.

NWMSI is responding to complaints by former employees concerning alleged unlawful discrimination, wrongful termination and issues relating to compensation.

NWMSI cannot predict the outcome of all of the cases under litigation matters at this stage and is unable to estimate the liability or possible range of loss in excess of any provision accrued, if any, that might arise or its effect on NWMSI's financial position.

Regulatory Matters

The businesses and financial condition of NWM Plc, including NWMSI, can be affected by the actions of various governmental and regulatory authorities in the United States, the United Kingdom, the European Union, and elsewhere. NWM Plc, including NWMSI, have engaged, and will continue to engage, in discussions with relevant governmental and regulatory authorities, including in the US, the UK, the EU and elsewhere, on an ongoing and regular basis, and in response to informal and formal inquiries or investigations, regarding operational, systems and control evaluations and issues including those related to compliance with applicable laws and regulations, including consumer protection, business conduct, competition/anti-trust, anti-bribery, anti-money laundering and sanctions regimes. NWM Plc, including NWMSI, have been providing information regarding a variety of matters, including, for example, the setting of benchmark rates and related derivatives trading, conduct in the foreign exchange market, and various issues relating to the issuance, underwriting, and sales and trading of fixed-income securities, including structured products and government securities. Any matters discussed or identified during such discussions and inquiries may result in, among other things, further inquiry or investigation, other action being taken by governmental and regulatory authorities, increased costs being incurred, remediation of systems and controls, public or private censure, restriction of business activities and/or fines. Any of the events or circumstances mentioned in this paragraph or below could have a material adverse effect on NWMSI, its business, authorizations and licenses, reputation, results of operations or the price of securities issued by it.

US Investigations Relating to Fixed-Income Securities

In October 2017, NWMSI entered into a Non-Prosecution Agreement (“NPA”) with the United States Attorney for the District of Connecticut (“USAO”) in connection with alleged misrepresentations to counterparties relating to secondary trading in various forms of asset-backed securities. As part of the

NPA, the USAO agreed not to file criminal charges against NWMSI relating to certain conduct and information described in the NPA, conditioned on NWMSI and affiliated companies complying with the NPA's reporting and conduct requirements during its term, including by not engaging in conduct during the NPA that USAO determines was a felony under federal or state law or a violation of the anti-fraud provisions of the United States securities law.

The NatWest Markets business is currently responding to a separate criminal investigation by the USAO and DoJ concerning unrelated trading by certain NWM Plc and NWMSI former traders, involving alleged spoofing. The NPA (referred to above) has been extended as the criminal investigation has progressed and related discussions with the USAO and DoJ, including relating to the impact of such alleged conduct on the status of the NPA and the potential consequences thereof, have been ongoing.

On August 30, 2021, NWMSI received a letter from USAO stating that it had determined that NWMSI has materially breached the NPA as a result of the alleged spoofing activity and that NWMSI is subject to prosecution for securities fraud in respect of the conduct underlying the NPA. NatWest Markets is engaging in discussions with the U.S. government about the resolution of the alleged spoofing activity investigation and the USAO's determination of the breach of the NPA, including why criminal prosecution of the conduct underlying the NPA should not be pursued. The duration and outcome of these matters, which may include the extension, modification, or deemed violation of the NPA, remain uncertain. No settlement may be reached and further substantial additional provisions and costs may be recognised. Any finding of criminal liability by US authorities as to NWMSI or an affiliate (including as a result of pleading guilty), as to either the alleged spoofing or the conduct underlying the NPA, could have material collateral consequences for the business of NWMSI and its affiliates. These may include consequences resulting from the need to reapply for various important licenses or obtain waivers to conduct certain existing activities of NWMSI and its affiliates, which may take a significant period of time and the results of which are uncertain. Failure to obtain such licenses or waivers could adversely impact the business of NWMSI and its affiliates, including if it results in the business being precluded from carrying out certain activities.

FX

Prior to 2020, NWM Plc paid significant penalties to resolve investigations into its historic FX business by the FCA, the CFTC, the DoJ, the Board of Governors of the Federal Reserve System (Federal Reserve), and the European Commission.

NWM Plc and its affiliates are cooperating with investigations and responding to inquiries from other governmental and regulatory (including competition) authorities on similar issues relating to alleged failings in its FX business.

(7) Customer Funds Segregation

A basic overview of Customer Fund segregation, FCM management and investments, FCMs and joint FCM/broker dealers.

Customer Accounts. FCMs may maintain up to three different types of accounts for customers, depending on the products a customer trades:

- (i) a **Customer Segregated Account** for customers that trade futures and options on futures listed on U.S. futures exchanges;

(ii) a **30.7 Account** for customers that trade futures and options on futures listed on foreign boards of trade; and

(iii) a **Cleared Swaps Customer Account** for customers trading swaps that are cleared on a derivatives clearing organization (“**DCO**”) registered with the CFTC.

NWMSI currently only maintains Customer Segregated Accounts. NWMSI does not currently maintain 30.7 Accounts or Cleared Swaps Customer Accounts. As of November 2020, NWMSI no longer has customers that trade futures and options listed on foreign boards of trade.

The requirement to maintain these separate accounts reflects the different risks posed by the different products. Cash, securities and other collateral (collectively, **Customer Funds**) required to be held in one type of account, e.g., the Customer Segregated Account, may not be commingled with funds required to be held in another type of account, e.g., the 30.7 Account, except as the CFTC may permit by order. For example, the CFTC has issued orders authorizing ICE Clear Europe Limited, which is registered with the CFTC as a DCO, and its FCM clearing members: (i) to hold in Cleared Swaps Customer Accounts Customer Funds used to margin both (a) Cleared Swaps and (b) foreign futures and foreign options traded on ICE Futures Europe, and to provide for portfolio margining of such Cleared Swaps and foreign futures and foreign options; and (ii) to hold in Customer Segregated Accounts Customer Funds used to margin both (c) futures and options on futures traded on ICE Futures U.S. and (d) foreign futures and foreign options traded on ICE Futures Europe, and to provide for portfolio margining of such transactions.

Customer Segregated Account. Funds that customers deposit with an FCM, or that are otherwise required to be held for the benefit of customers, to margin futures and options on futures contracts traded on futures exchanges located in the U.S., i.e., designated contract markets, are held in a **Customer Segregated Account** in accordance with section 4d(a)(2) of the Commodity Exchange Act and CFTC Rule 1.20. **Customer Segregated Funds** held in the Customer Segregated Account may not be used to meet the obligations of the FCM or any other person, including another customer.

All Customer Segregated Funds may be commingled in a single account, i.e., a customer omnibus account, and held with: (i) a bank or trust company located in the U.S.; (ii) a bank or trust company located outside of the U.S. that has in excess of \$1 billion of regulatory capital; (iii) an FCM; or (iv) a DCO. Such commingled account must be properly titled to make clear that the funds belong to, and are being held for the benefit of, the FCM’s customers. Unless a customer provides instructions to the contrary, an FCM may hold Customer Segregated Funds only: (i) in the U.S.; (ii) in a money center country;² or (iii) in the country of origin of the currency.

An FCM must hold sufficient U.S. dollars in the U.S. to meet all U.S. dollar obligations and sufficient funds in each other currency to meet obligations in such currency. Notwithstanding the foregoing, assets denominated in a currency may be held to meet obligations denominated in another currency (other than the U.S. dollar) as follows: (i) U.S. dollars may be held in the U.S. or in money center countries to meet obligations denominated in any other currency; and (ii) funds in money center currencies³ may be held in the U.S. or in money center countries to meet obligations denominated in currencies other than the U.S. dollar.

30.7 Account. Funds that 30.7 Customers deposit with an FCM, or that are otherwise required to be held for the benefit of customers, to margin futures and options on futures contracts traded on foreign boards

² Money center countries means Canada, France, Italy, Germany, Japan and the United Kingdom.

³ Money center currencies mean the currency of any money center country and the Euro.

of trade, *i.e.*, **30.7 Customer Funds**, and sometimes referred to as the **foreign futures and foreign options secured amount**, are held in a **30.7 Account** in accordance with CFTC Rule 30.7.

Funds required to be held in the 30.7 Account for or on behalf of 30.7 Customers may be commingled in an omnibus account and held with: (i) a bank or trust company located in the U.S.; (ii) a bank or trust company located outside the U.S. that has in excess of \$1 billion in regulatory capital; (iii) an FCM; (iv) a DCO; (v) the clearing organization of any foreign board of trade; (vi) a foreign broker; or (vii) such clearing organization's or foreign broker's designated depositories. Such commingled account must be properly titled to make clear that the funds belong to, and are being held for the benefit of, the FCM's 30.7 Customers. As explained below, CFTC Rule 30.7 restricts the amount of such funds that may be held outside of the U.S.

Customers trading on foreign markets assume additional risks. Laws or regulations will vary depending on the foreign jurisdiction in which the transaction occurs, and funds held in a 30.7 Account outside of the U.S. may not receive the same level of protection as Customer Segregated Funds. If the foreign broker carrying 30.7 Customer positions fails, the broker will be liquidated in accordance with the laws of the jurisdiction in which it is organized, which laws may differ significantly from the U.S. Bankruptcy Code. Return of 30.7 Customer Funds to the U.S. will be delayed and likely will be subject to the costs of administration of the failed foreign broker in accordance with the law of the applicable jurisdiction, as well as possible other intervening foreign brokers, if multiple foreign brokers were used to process the U.S. customers' transactions on foreign markets.

If the foreign broker does not fail but the 30.7 Customers' U.S. FCM fails, the foreign broker may want to assure that appropriate authorization has been obtained before returning the 30.7 Customer Funds to the FCM's trustee, which may delay their return. If both the foreign broker and the U.S. FCM were to fail, disputes between the trustee for the U.S. FCM and the administrator for the foreign broker may result in significant delays and additional administrative expenses. Use of other intervening foreign brokers by the U.S. FCM to process the trades of 30.7 Customers on foreign markets may cause additional delays and administrative expenses.

To reduce the potential risk to 30.7 Customer Funds held outside of the U.S., CFTC Rule 30.7 generally provides that an FCM may not deposit or hold 30.7 Customer Funds in permitted accounts outside of the U.S. except as necessary to meet margin requirements, including prefunding margin requirements, established by rule, regulation, or order of the relevant foreign boards of trade or foreign clearing organizations, or to meet margin calls issued by foreign brokers carrying the 30.7 Customers' positions. The rule further provides, however, that, in order to avoid the daily transfer of funds from accounts in the U.S., an FCM may maintain in accounts located outside of the U.S. an additional amount of up to 20 percent of the total amount of funds necessary to meet margin and prefunding margin requirements to avoid daily transfers of funds.

An FCM may exclude from the calculation of 30.7 Customer Funds permitted to be held outside of the US, those 30.7 Customer Funds held in a properly-titled account established by the FCM in a bank or trust company located outside of the US, provided the bank or trust company: (i) maintains regulatory capital of at least \$1 billion; and (ii) provides the FCM a written acknowledgment letter that the depository was informed that such funds held in the 30.7 Account belong to customers and are being held in accordance with the Act and the Commission's rules.

Depositories Holding Customer Funds

Customer Funds are required to be held in Customer Accounts at a bank or trust company, a DCO or another FCM (each, a “**depository**”). In accordance with CFTC rules, each account holding Customer Funds must be properly titled to identify it as holding Customer Funds and segregated as required by the relevant provisions of the CEA and the CFTC’s rules. Except as noted below, Customer Funds may not be commingled with the funds of any other person, including (and in particular) the carrying FCM. Each depository is required to provide the depositing FCM with a written acknowledgment that the depository was informed that such funds held in the Customer Account belong to customers and are being held in accordance with the Act and the CFTC’s rules. Among other representations, the depository must acknowledge that it cannot use any portion of Customer Funds to satisfy any obligations that the FCM may owe the depository.

In order to monitor an FCM’s compliance with the Customer Funds requirements, CFTC rules require each FCM to calculate as of the close of business each business day, and submit to the CFTC and the FCM’s DSRO no later than noon on the following business day, a report that sets out (i) the amount of Customer Funds required to be held in the Customer Account, (ii) the amount of Customer Funds actually held in the Customer Account, and (iii) the FCM’s Residual Interest in the Customer Account. Separate calculations are required for the FCM’s Customer Segregated Accounts, 30.7 Accounts and Cleared Swaps Customer Accounts.

CFTC rules require an FCM to notify the CFTC immediately whenever (i) the amount of Residual Interest in any Customer Account falls below the FCM’s Targeted Residual Interest for such account, or (ii) the FCM knows or should know that the total amount of funds on deposit in Customer Accounts is less than the amount required to be held in such accounts. The FCM is required to file a copy of any such notice concurrently with its DSRO.

In addition, each FCM must submit a report to the CFTC and the FCM’s DSRO on the fifteenth and last business day of each month listing the names of all banks, trust companies, FCMs, DCOs, or any other depository or custodian holding Customer Funds. This report must include: (1) the name and location of each depository holding Customer Funds; (2) the total amount of Customer Funds held by each such depository; and (3) the total amount of Customer Funds, cash and investments that each such depository holds. The FCM must also indicate whether any such depository is affiliated with the FCM.

Separately, NWMSI’s DSRO requires each FCM to instruct each depository, whether located in the U.S. or outside the U.S., that holds Customer Funds to confirm to the DSRO all account balances daily. DSRO programs compare the daily balances reported by the depositories with the balances reported by the FCMs in their daily segregation reports. Any material discrepancies would generate an immediate alert.

Finally, an FCM’s DSRO conducts periodic audits of the FCM and, in connection with such audits, confirms that Customer Funds are being held in properly designated accounts. The CFTC may also conduct an audit of the FCM for this purpose.

Investment of Customer Funds

Section 4d(a)(2) of the CEA authorizes FCMs to invest Customer Segregated Funds in obligations of the United States, in general obligations of any State or of any political subdivision thereof, and in obligations fully guaranteed as to principal and interest by the United States. Section 4d(f) authorizes FCMs to invest Cleared Swaps Customer Collateral in similar instruments.

CFTC Rule 1.25 authorizes FCMs to invest Customer Segregated Funds, Cleared Swaps Customer Collateral and 30.7 Customer Funds in instruments of a similar nature, as well as certain other investments on the terms set forth in Rule 1.25. CFTC rules further provide that an FCM may retain all interest or profits on such investments and is responsible for investment losses incurred in connection with the investment of Customer Funds. The FCM and a customer may agree that the FCM will pay the customer interest on the funds deposited.

Permitted investments include:

(i) Obligations of the United States and obligations fully guaranteed as to principal and interest by the United States (U.S. government securities);

(ii) General obligations of any State or of any political subdivision thereof (municipal securities);

(iii) Obligations of any United States government corporation or enterprise sponsored by the United States government (U.S. agency obligations);

(iv) Certificates of deposit issued by a bank (certificates of deposit) as defined in section 3(a)(6) of the Securities Exchange Act of 1934, or a domestic branch of a foreign bank that carries deposits insured by the Federal Deposit Insurance Corporation;

(v) Commercial paper fully guaranteed as to principal and interest by the United States under the Temporary Liquidity Guarantee Program as administered by the Federal Deposit Insurance Corporation (commercial paper);

(vi) Corporate notes or bonds fully guaranteed as to principal and interest by the United States under the Temporary Liquidity Guarantee Program as administered by the Federal Deposit Insurance Corporation (corporate notes or bonds); and

(vii) Interests in money market mutual funds.

The duration of the securities in which an FCM invests Customer Funds cannot exceed, on average, two years.

An FCM may also engage in repurchase and reverse repurchase transactions with non-affiliated registered broker-dealers, provided such transactions are made on a delivery versus payment basis and involve only permitted investments. All funds or securities received in repurchase and reverse repurchase transactions with Customer Funds must be held in the appropriate Customer Account, i.e., Customer Segregated Account, 30.7 Account or Cleared Swaps Customer Account. Further, in accordance with the provisions of CFTC Rule 1.25, all such funds or collateral must be received in the appropriate Customer Account on a delivery versus payment basis in immediately available funds.

In computing its Customer Funds requirements under the CEA and relevant CFTC rules, an FCM may only consider those Customer Funds actually held in the applicable Customer Accounts. In this regard, the Joint Audit Committee's Margins Handbook confirms that an FCM may not apply free funds in an account under identical ownership but of a different classification or account type (*e.g.*, securities, Customer Segregated, 30.7) to an account's margin deficiency. In order to be used for margin purposes, the funds must actually be transferred to the identically-owned under margined account.

Joint FCM/Broker Dealers. If an FCM is also a securities broker-dealer, the FCM is required to maintain capital equal to or greater than the greater of its capital requirement as an FCM and its capital requirement as a broker-dealer. NWMSI is an FCM/broker-dealer and, therefore, maintains a single pool of capital.

No SIPC Protection. Although NWMSI is a registered broker-dealer, it is important to understand that the funds customers deposit with NWMSI for trading futures and options on futures contracts on either U.S. or foreign markets or cleared swaps are not protected by the Securities Investor Protection Corporation.

For additional information on the protection of Customer Funds, please see the Futures Industry Association's "Protection of Customer Funds Frequently Asked Questions" located at <https://www.fia.org/resources/fia-issues-protection-customer-funds-faq>.

(8) Filing a Complaint

Information on how a customer may obtain information regarding filing a complaint about FCM with the CFTC, NFA or the FCM's DSRO.

A customer that wishes to file a complaint about NWMSI or one of its employees with the CFTC can contact the CFTC's Division of Enforcement either electronically at: <https://forms.cftc.gov/fp/complaintform.aspx> or by calling the Division of Enforcement toll-free at 866-FON-CFTC (866-366-2382).

A customer may also file a complaint about NWMSI or one of its employees with the NFA electronically at <http://www.nfa.futures.org/basicnet/Complaint.aspx> or by calling NFA directly at 800-621-3570.

A customer that wishes to file a complaint about NWMSI or one of its employees with NWMSI's DSRO may do so electronically at <http://www.cmegroup.com/market-regulation/file-complaint.html> or by telephone by calling 312-341-7970.

(9) Relevant Financial Data

The location where NWMSI's annual audited financial statements are made available:

<https://natwest.us/about-us/board-and-governance/natwest-markets-securities-inc>

Financial data as of the most recent month-end when the Disclosure Document is prepared.

(i) The FCM's total equity, regulatory capital, and net worth, all computed in accordance with U.S. Generally Accepted Accounting Principles and Rule 1.17, as applicable:

	<u>September 30, 2021</u>
Total Equity (Ownership Equity and Subordinated Liabilities)	<u>\$719,994,381</u>
Regulatory Capital (Net Capital)	<u>\$594,798,730</u>
Net Worth (Ownership Equity)	<u>\$349,994,381</u>

(ii) The dollar value of the FCM's proprietary margin requirements as a percentage of the aggregate margin requirement for futures customers, cleared swaps customers, and 30.7 customers: 100% as of September 30, 2021.

(iii) The number of futures customers, cleared swaps customers, and 30.7 customers that comprise 50 percent of the FCM's total funds held for futures customers, cleared swaps customers, and 30.7 customers, respectively: 0

(iv) The aggregate notional value, by asset class, of all non-hedged, principal over-the counter transactions into which the FCM has entered:

NWMSI is not exposed to over-the-counter transactions that are not hedged or for which NWMSI does not hold margin from a counterparty sufficient to cover exposure.

(v) The amount, generic source and purpose of any unsecured lines of credit (or similar short-term funding) the FCM has obtained but not yet drawn upon:

As noted earlier, NWMSI has a \$0.90 billion committed, unsecured funding line facility with NWM Plc, of which \$0.2 billion was outstanding as of September 30, 2021.

(vi) The aggregated amount of financing the FCM provides for customer transactions involving illiquid financial products for which it is difficult to obtain timely and accurate prices:

NWMSI does not provide financing for CFTC regulated customer transactions that involve illiquid financial products for which it is difficult to obtain timely and accurate prices.

NWMSI does, however, enter into reverse repurchase transactions with counterparties involving US government, US agency securities, and corporate bonds.

(vii) the percentage of futures customer, cleared swaps customer, and 30.7 customer receivable balances that the FCM had to write-off as uncollectable during the past 12-month period, as compared to the current balance of funds held for futures customers, cleared swaps customers, and 30.7 customers:

As of the date of this Disclosure Document, the FCM has not had to write-off as uncollectable any customer receivable balances during the past 12-month period.

Additional financial information on all FCMs, including NWMSI, is also available on the CFTC's website at: <http://www.cftc.gov/MarketReports/FinancialDataforFCMs/index.htm>.

Customers should be aware that the NFA publishes on its website certain financial information with respect to each FCM, including NWMSI. NWMSI's Capital Report provides the most recent month-end adjusted net capital, required net capital, and excess net capital. (Information for a twelve-month period is available.)

In addition, NFA publishes twice-monthly a Customer Segregated Funds report, which shows for NWMSI:

(i)(a) total funds (cash and securities) held in Customer Segregated Accounts; (b) total funds required to be held in Customer Segregated Accounts; and c) excess segregated funds, *i.e.*, the FCM's residual interest.

(ii) Percentage of Customer Segregated Funds held in cash in Customer Segregated Accounts at: (a) banks; and (b) clearing organizations and other FCMs;

(iii) Percentage of customer-owned securities held in Customer Segregated Accounts;

(iv)(a) percentage of Customer Segregated Funds held in each of the permitted investments under CFTC Rule 1.25, including (b) percentage of Customer Segregated Funds subject to reverse repurchase agreements; and

(v) Whether during that month the FCM held any Customer Segregated Funds at a depository that is an affiliate of the FCM.

The report shows the most recent semi-monthly information, but customers will also have the ability to see information for the most recent twelve-month period. A 30.7 Customer Funds report and a Customer Cleared Swaps Collateral report provides the same information with respect to the 30.7 Account and the Cleared Swaps Customer Account.

The above financial information reports can be found by conducting a search for “NatWest Markets Securities Inc.” in NFA’s BASIC system (<http://www.nfa.futures.org/basicnet/>) and then clicking on “View Financial Information” on NWMSI’s BASIC Details page.

(10) Risk Management Practices, Controls and Procedures.

As an FCM and a broker-dealer that is a major participant in the government securities, credit and corporate debt markets, NWMSI is exposed to various risks that arise in the normal course of its business. The risks to which NWMSI are subject include market, credit, liquidity, operational, legal and financial control risks.

NWMSI monitors and controls its risk exposures on a daily basis through a multi-faceted and interrelated series of financial, liquidity, credit and market risk management monitoring systems that are independent of, where possible, the market, credit, operational and other risks to which it is subject. NWMSI’s senior management has an active role in the risk management process and through documented policies and procedures, requires that various internal control and business groups participate in providing monitoring and oversight. These include, but are not limited to Asset and Liability Committee, Management Committee, the Underwriting Commitments Committee, the Business Taxonomy & Transaction Approval Policy (BTTAP), and the Credit Approval Process. In addition, NWMSI’s risk management practices are subject to periodic review by NWMSI’s internal auditors and NWM Executive Risk Committee.

Market Risk

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities, or other market factors, such as liquidity, will result in market value losses for a position or portfolio. NWMSI’s exposure to market risk is affected by the factors of the markets in which the Company participates.

Market risk is monitored daily and controlled through risk limits, position limits, management oversight, stress testing and regular independent pricing reviews. NWMSI attempts to control its market risk exposures through hedging strategies and a wide variety of quantitative and qualitative monitoring and analytical review mechanisms, including Value-at-Risk measures.

Credit Risk

Credit risk arises from the potential that a counterparty to a transaction with NWMSI might fail to perform under its contractual obligations, which could result in NWMSI incurring losses.

NWMSI controls credit risk by monitoring counterparty credit exposures, haircut and collateral values on a daily basis, following an established credit approval process which includes reviewing the financial health of counterparties at inception and on an ongoing basis, and requiring haircut levels to be adjusted or collateral to be deposited with NWMSI when deemed necessary. Collateral held is most often in the form of U.S. Government securities, U.S. Government Agency securities or cash. NWMSI has established credit limits for counterparties that are monitored on a daily basis. NWMSI further reduces credit risk, where appropriate, by entering into enforceable netting agreements and arrangements that enable NWMSI to terminate the agreement or reset specific contractual terms upon the occurrence of certain events or time periods.

Concentrations of Credit Risk

Concentrations of credit risk arise when a number of customers are engaged in similar business activities or activities in the same geographic region, or when they have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. NWMSI reviews and monitors material FCM counterparty concentration risk exposures on a regular basis.

NWMSI is engaged in various activities serving a diverse group of institutional counterparties. A substantial portion of NWMSI's transactions are executed with financial institutions that include broker-dealers, commercial banks, money managers, insurance companies. NWMSI's exposure to credit risk can be directly impacted by political, industry, and economic factors including volatile trading markets which may impair counterparties' ability to satisfy their obligations to NWMSI.

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, products, people and systems, or from external events, including legal risk.

Operational risk is managed through the performance of Risk & Control Assessments, the monitoring of key risk indicators, the review/challenge of testing performed on key control processes, escalation procedures for risk events, the promulgation of documented policies and procedures, and information systems that monitor and track operational risk events. New products and significant change are risk assessed and approved via the Business Taxonomy & Transaction Approval Policy (BTTAP).

Liquidity Risk

Liquidity risk arises from an institution's inability to meet its actual or potential obligations in a timely manner as they fall due.

Liquidity risk is monitored daily against Asset and Liability Committee (ALCo) approved risk tolerance concentration limits. Additionally, NWMSI performs a daily stress testing of its liabilities in order to assess potential shortfalls in liquidity. NWMSI liquidity risk is managed by ensuring liquidity metrics stay within risk tolerance limits, and that there is enough Liquid Asset Buffer (LAB) to cover any liquidity shortfalls identified in stress testing.

Negative Contract Prices Risk

When trading in the futures markets, we wish to remind you of the risks if the market moves against your futures positions. These risks may be particularly acute in those instances in which a futures contract settles at a negative price. The circumstances that lead a futures contract to settle at a negative price may vary. One example of when a futures contract with a physical commodity as the underlying asset may settle at a negative price is when the supply of the commodity faces physical constraints in distribution or storage to such an extent that some suppliers are prepared to pay others to physically take away the commodity. Futures contracts across other asset classes may also settle at negative prices for any number of reasons. Regardless of whether prices are positive or negative, you should keep in mind that if the market moves against your futures positions:

- You may sustain a total loss of the funds that you have deposited to establish or maintain your positions and may incur additional losses beyond these amounts;
- You may be called upon to deposit additional margin funds, on short notice;
- If you do not provide the additional funds within the time we require, your positions may be liquidated at a loss; and
- You will be liable for any resulting deficit in your account.

Other Risks

Legal, regulatory and financial control risk relate to losses NWMSI may incur due to items such as operational problems regarding execution and settlement, deficiencies in legal documentation or compliance, or inadequacies in financial control systems.

Legal and regulatory risk is managed through the assistance of the in-house Legal and Compliance Department staffed with experienced attorneys and compliance professionals knowledgeable in the firm's areas of business. NWMSI's in-house lawyers and compliance professionals work closely with the business on significant transactions, develop and utilize standard transaction documentation, obtain assistance and advice from experienced outside counsel as needed, and establish and communicate to employees and their supervisors written policies and procedures for the proper conduct of business in accordance with applicable law, regulation and NWMSI policy.

NWMSI seeks to minimize financial control risk through the segregation of responsibility for key functions involved in the gathering, analysis, and presentation of financial information, documented policies and procedures that establish authorized signatories for various key financial control activities, use of external resources for price verification, and multiple reconciliation and confirmation processes performed at regular intervals.

(11) Glossary of Terms

As used herein, the following terms have the meaning set forth below:

30.7 Account means any account maintained by an FCM for or on behalf of 30.7 Customers to hold money, securities, or other property to margin, guarantee, or secure foreign futures or foreign option positions, and all money, securities, or other property accruing to 30.7 Customers as a result of foreign futures and foreign option positions.

30.7 Customer means any person that trades foreign futures or foreign options through an FCM, other than an owner or holder of a Proprietary Account of such FCM.

30.7 Customer Funds means any money, securities, or other property received by an FCM from, for, or on behalf of 30.7 Customers to margin, guarantee, or secure foreign futures or foreign option positions, or money, securities, or other property accruing to 30.7 Customers as a result of foreign futures and foreign option positions. 30.7 Customer Funds are also sometimes referred to as the **Foreign Futures and Foreign Options Secured Amount**.

Cleared Swap means any swap that is, directly or indirectly, submitted to and cleared by a DCO registered with the CFTC.

Cleared Swaps Customer means any person that trades Cleared Swaps through an FCM, other than an owner or holder of a Proprietary Account of such FCM.

Cleared Swaps Customer Account means any account for the Cleared Swaps of Cleared Swaps Customers and associated Cleared Swaps Customer Collateral that an FCM maintains on behalf of Cleared Swaps Customers, or a DCO maintains for FCMs on behalf of such FCMs' Cleared Swaps Customers.

Cleared Swaps Customer Collateral means all money, securities, or other property received by an FCM or by a DCO from, for, or on behalf of a Cleared Swaps Customer to margin, guarantee, or secure a Cleared Swap, and money, securities, or other property accruing to Cleared Swaps Customers as a result of Cleared Swaps.

Customer Account means, collectively, a Customer Segregated Account, a Cleared Swaps Customer Account and a 30.7 Account.

Customer Funds means, collectively, Customer Segregated Funds, Cleared Swaps Customer Collateral and 30.7 Customer Funds.

Customer Segregated Account means any account maintained by an FCM for or on behalf of Segregated Customers to hold money, securities, or other property to margin, guarantee, or positions entered into on or subject to the rules of a designated contract market, *i.e.*, a U.S. futures exchange, and money, securities, or other property accruing to Segregated Customers as a result of such positions.

Customer Segregated Funds means all money, securities, or other property received by an FCM or by a DCO from, for, or on behalf of a Segregated Customer to margin, guarantee, or secure a positions entered into on a designated contract market, and money, securities, or other property accruing to Segregated Customers as a result of such positions.

Designated Self-Regulatory Organization ("DSRO") means a self-regulatory organization that has been delegated the responsibility for monitoring and auditing an FCM for compliance with the minimum

financial and related reporting requirements of the self-regulatory organizations of which the FCM is a member, and for receiving the financial reports required by such minimum financial and related reporting requirements from such FCM.

Proprietary Account means, generally, an account carried on the books and records of an FCM for (i) the FCM, or (ii) an affiliate that, directly or indirectly, is controlled by or is under common control with, such FCM.

Residual Interest means the amount of an FCM's own funds that the FCM holds in a Customer Account.

Segregated Customer means any person that trades futures or options on futures entered into on or subject to the rules of a designated contract market through an FCM, other than an owner or holder of a Proprietary Account of such FCM.

Targeted Residual Interest means an amount of the FCM's own funds that the FCM holds in a Customer Account that an FCM determines will reasonably ensure that the FCM will remain in compliance with the requirements of the CEA and the CFTC's rules relating to the protection of Customer Funds at all times.