Macquarie is sending you these FAQs because you execute uncleared over-the-counter (OTC) derivative transactions with us that may be subject to new global regulatory requirements. These requirements cover the exchange of variation margin in relation to uncleared OTC derivatives transactions (OTC Margin Rules).

If you fall within the scope of the OTC Margin Rules, we will need to update our derivatives documentation before those requirements take effect on 1 March 2017.

**The FAQs address only VM rule requirements.** Regulations for posting initial margin (IM) are not yet applicable to Macquarie. We will come back to you with additional information in relation to IM rules in the future.

The FAQs are intended to provide an overview of the OTC Margin Rules and are not offered as legal advice or guidance. We encourage you to consult your legal counsel with respect to whether and how the OTC Margin Rules apply to you and your specific activities.
1. What are OTC Margin Rules?
Regulatory authorities throughout the world are adopting OTC Margin Rules that require parties to uncleared OTC derivatives transactions to collect and post margin. The OTC Margin Rules follow the framework issued by the Basel Committee on Banking Supervision and the Board of the International Organisation of Securities Commissions (BCBS/IOSCO).

Final OTC Margin Rules have been adopted in the US, Japan, Canada, and Australia. Rules of other jurisdictions are in varying stages of development, however it is currently anticipated that the EU variation margin requirements (for all counterparties) may still come into force on or around 1 March 2017 (in line with the BCBS/IOSCO framework).

2. What OTC Margin Rules will Macquarie follow?

**Australia**
Macquarie has its global headquarters in Australia, where Macquarie Bank Limited (MBL) is regulated as an Authorised Deposit-taking Institution by the Australian Prudential Regulation Authority (APRA). MBL and its banking affiliates worldwide are subject to APRA’s Prudential Standard CPS 226 Margining and risk mitigation for non-centrally cleared derivatives (Australian margin rules). The Australian margin rules apply whenever Macquarie trades an in-scope product with an in-scope counterparty anywhere in the world.

**United States**
MBL is a non-U.S. provisionally registered swap dealer that, when transacting in in-scope products with counterparties with a connection to the United States, must comply with the OTC Margin Rules adopted by the Federal Reserve Board, “Margin and Capital Requirements for Covered Swap Entities” (12 C.F.R. Part 237) (Fed Regulation KK) (US PR margin rules).

Macquarie Energy LLC (MELLC) is a U.S.-organised swap dealer provisionally registered with the U.S. Commodity Futures Trading Commission (CFTC). As a non-bank swap dealer, MELLC is subject to the CFTC’s Margin Requirements for Uncleared Swaps for Swap Dealers and Major Swap Participants (81 FR 635) (US CFTC margin rules) when dealing with in-scope products with counterparties regardless of location.

**Europe**
To the extent that MBL enters into transactions that have a direct, substantial and foreseeable effect in the EU, it may also be subject to EU margin rules.

Macquarie Bank International Limited (MBIL) is incorporated and registered in England and Wales, and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. MBIL is subject to EU margin rules when dealing with in-scope products with counterparties regardless of location.

**Other regimes**
Macquarie may be subject to other OTC Margin Rules as well, such as the rules expected to be published in the near future by the Hong Kong Monetary Authority and the Monetary Authority of Singapore.

Applying multiple regimes
In circumstances where a Macquarie entity would be required to follow OTC Margin Rules from varying or different jurisdictions, we expect to follow the stricter of the two (or more) sets of applicable rules until cross-border regulatory guidance is provided or substituted compliance determinations have been made.

3. What type of margin will be required?
The rules provide for two types of margin:

**Variation Margin (VM),** which is collateral collected to cover a party’s mark-to-market exposure on a portfolio of trades.

**Initial Margin (IM)**, which is collateral collected to cover potential future exposure with respect to a portfolio of trades in the event a party defaults.

(*These FAQs primarily discuss VM requirements and do not address IM requirements. Matters with respect to IM collection and posting requirements will be addressed at a later date as those rules are not expected to become effective for Macquarie prior to 2019.*)
4. When will Macquarie collect variation margin and from what counterparties?

<table>
<thead>
<tr>
<th>Regime</th>
<th>Start date</th>
<th>In-scope counterparties</th>
</tr>
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<tbody>
<tr>
<td><strong>Australian margin rules</strong></td>
<td>VM rules apply from March 1, 2017.</td>
<td>MBL and its banking affiliates are required to collect and post VM from all Covered Counterparties. In summary, Covered Counterparties are broadly defined to include financial institutions that engage substantively in one or more of a list of enumerated activities (domestically or overseas), which includes (among others – refer definition for full list) banking; leasing; portfolio management (including asset management and funds management); futures and commodity trading and broking; insurance and similar activities that are ancillary to the conduct of these activities. Certain public sector entities are out of scope, together with specified special purpose vehicles that enter into OTC derivative transactions for the sole purpose of hedging. Macquarie is not required to collect or post VM with Covered Counterparties that are below the de minimis AUD 3 billion threshold (based on the entity group’s aggregate average notional amount of non-centrally cleared derivative transactions).</td>
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<tr>
<td><strong>US PR margin rules and US CFTC margin rules</strong></td>
<td>VM rules apply from March 1, 2017.</td>
<td>MBL¹ and MELLC are required to collect and post VM from all dealer swap entities and financial end users (FEU). FEUs include, but are not limited to, counterparties that are not swap entities and are US offices of foreign banks, trust or fiduciary companies, investment funds, including private funds, insurance companies, market intermediaries and service providers (such as broker dealers and investment advisors).</td>
</tr>
<tr>
<td><strong>EU margin rules</strong></td>
<td>Macquarie recognises that there is uncertainty and potential delay to the EU VM rules compliance date, but would like to take a consistent approach with its counterparties and be in a position to exchange VM starting on 1 March 2017.</td>
<td>MBIL and MBL² will collect and post VM from all EU financial counterparties (FC) and non-financial counterparties whose OTC derivatives trades are above the specified clearing threshold (NFC+).</td>
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</tbody>
</table>

Keep in mind that even if no OTC Margin Rules apply, Macquarie will continue to require margin to the extent that it deems necessary in light of the creditworthiness and trading activity of the counterparty and the nature of the transaction. Macquarie may require collateral above the amount required by any applicable OTC Margin Rules.

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¹. US PR Margin Rules only apply to MBL when trading in-scope products with counterparties with a connection to the United States.
². EU Margin Rules may apply when MBL enters into transactions that have a direct, substantial and foreseeable effect in the EU.
5. What transactions are subject to OTC Margin Rules?
Each regime takes a slightly different approach to which transactions are in scope, however as a general rule all non-cleared OTC derivatives are in scope.

Jurisdictions treat physically-settled FX forwards and FX swaps differently, some excluding them from, and others subjecting them to, the VM requirements.

6. Are transactions executed before 1 March 2017 subject to the OTC Margin Rules?
The OTC Margin Rules do not apply to transactions executed with Macquarie before the 1 March 2017 compliance date unless they are commingled with post-compliance date transactions under the same master agreement and Credit Support Annex (CSA), in which case the rules apply to both existing and new transactions.

In addition, amendments to an existing transaction may cause that transaction to become in scope, depending on the nature of the amendments and the applicable OTC Margin Rules.

7. What documentation do you need from us? What agreements must be in place to exchange variation margin?
Macquarie must first ensure that we have a master agreement (e.g. an ISDA Master Agreement) in place. To an existing or new master agreement, VM rule compliant CSAs must be added by 1 March 2017. If we have an existing CSA then it may be amended for compliance with OTC Margin Rules.

8. Is there an ISDA protocol to assist with entering into CSAs?
To assist in compliance with the OTC Margin Rules, ISDA has launched several initiatives in 2016. The relevant ISDA documents are:

(i) an ISDA Regulatory Margin Self-Disclosure Letter (ISDA SDL) for exchanging information about a party’s status under the OTC Margin Rules and helping to determine if and when compliance with a new regulatory margin regime will be required (available at http://www.isda.org/publications/isdacreedit-users.aspx);

(ii) an ISDA 2016 Variation Margin Protocol to: create a new CSA; amend an existing CSA; or replicate and amend an existing CSA (available at http://www2.isda.org/functional-areas/wgmr-implementation/isda-2016-variation-margin-protocol/); and

(iii) Credit Support Annexes for Variation Margin (VM) and Initial Margin (IM) as well as an English Law Credit Support Deed (IM).

The (i) and (ii) documents listed above are available on the ISDA Amend electronic platform (www.markit.com/isda-amend), however this platform does not yet support the Australian margin rules. If completing the ISDA SDL on ISDA Amend, please send us the Australia Supplement separately.

9. What is the ISDA SDL?
The ISDA SDL is a standard form which parties may use to exchange information that is required to determine how and which set of OTC Margin Rules apply to their trading relationship.

Each counterparty will be required to provide, among other things, the entity’s legal entity identifier (LEI), legal name, parent entity group, exempt status, jurisdiction (including US, EU and/or Japan) and its Average Aggregate Notional Amount (“AANA” – see below).

We encourage you to review and complete the ISDA SDL and Australia Supplement as soon as possible and in any event by 16th December 2016. When completed, please send to: MGLOTCMarginReform@macquarie.com

10. The ISDA SDL asks for our AANA. What is AANA and how is it used?
Compliance dates for the IM and VM requirements are based on the average aggregate daily (US PR margin rules and US CFTC margin rules) or month end (EU margin rules and Australian margin rules) notional amount (AANA) for each counterparty and its consolidated group.

VM and IM requirements will come into effect on a phased-in basis between a pair of trading parties when both parties reach an AANA threshold.
In relation to VM requirements, Macquarie’s 2016 AANA is below the 2016 VM margin threshold of $3 trillion; therefore, our VM compliance date is 1 March 2017.

In relation to IM requirements, Macquarie does not expect that its AANA will exceed the regulatory threshold until one of the later phases. As such, we will come back to you at a future date to discuss IM requirements in detail and we ask that you focus on addressing the imminent VM requirements with us in advance of March 1, 2017. (Note: Once the IM requirements come into effect, we may need to enter into a new CSA(s), or amend existing CSA(s)).

11. What is a consolidated group (entity group)?
Generally, a party’s consolidated group refers to its family entities and consists of its affiliates and/or subsidiaries.

Under the Australian margin rules, a consolidated group refers to all entities under a consolidated financial statement (Australian Accounting Standard AASB 10) or equivalent foreign accounting standards that apply to the group’s consolidated accounts.

Under the US CFTC margin rules and the US PR margin rules, a consolidated group refers to all entities under a consolidated financial statement or GAAP, IFRS or other similar standards.

Under the draft EU margin rules, a parent entity and its subsidiaries are considered a consolidated group.

12. I am an investment manager. What do I need to do?
The margin requirements that apply to a particular transaction are determined by the jurisdiction and entity type of the two principals, not those of the investment manager.

While Macquarie can obtain information and negotiate documentation directly with the underlying client or fund, our experience indicates that the client’s investment manager will be heavily involved and active in its capacity as the client’s agent and may post collateral on behalf of its underlying client or fund.

As such, an investment manager will have to ensure that all of its client funds either complete the standard ISDA SDL or provide the same information to the investment manager for communication to us.

You may need to reach out to each client and ask them to provide their entity details, group information as well as AANA, as the client will be best positioned to determine its trading activity across the market.

We strongly encourage you to start engaging your clients and collecting this information, as well as to prepare to operationally exchange margin with your counterparties.
QUESTIONS 13 TO 17 ARE ONLY RELEVANT IF OTC MARGIN RULES APPLY TO TRANSACTIONS BETWEEN YOU AND MACQUARIE

13. I currently post collateral to Macquarie. Will I also be required to receive collateral from Macquarie?
Yes, the new OTC Margin Rules require an exchange of collateral. Counterparties must be able to both collect and post applicable margin.

14. I have an existing CSA with Macquarie; do I have to amend it? What if I don’t have a CSA with Macquarie?
Yes, existing CSAs must be amended or replaced to be compliant with the VM requirements. The amendment will include terms on eligible collateral, haircuts, and transfer timing. Amendments can be made bilaterally or through the ISDA 2016 Variation Margin Protocol.

If we do not already have a CSA in place, we need to enter into a new compliant CSA either bilaterally or through the ISDA 2016 Variation Margin Protocol.

15. What are the VM thresholds and minimum transfer amounts (MTAs)?
The amount of VM that is required is calculated using the net mark-to-market exposure.

<table>
<thead>
<tr>
<th>Margin regime</th>
<th>Threshold</th>
<th>Combined VM and IM MTA (parties may agree on a lower figure)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australian margin rules</td>
<td></td>
<td>Not to exceed AUD 750,000</td>
</tr>
<tr>
<td>US CFTC margin rules and US PR margin rules</td>
<td>Zero</td>
<td>Not to exceed USD 500,000</td>
</tr>
<tr>
<td>EU margin rules</td>
<td></td>
<td>Not to exceed EUR 500,000</td>
</tr>
</tbody>
</table>

16. How often and how quickly must we exchange VM with Macquarie?
VM must generally be calculated and exchanged on a daily basis, with margin regimes making different accommodations for transfer timing for local jurisdiction business holidays and time zone differences.

17. What will Macquarie post and collect as eligible collateral?
If you have an existing ISDA Credit Support Annex then, subject to OTC margin rule requirements, the items of eligible collateral agreed will continue to be acceptable.