

*C. Allocation of Sovereign Loss*

1. Each portion of a customer's claim exposed to Sovereign Loss in a location will be reduced by:

$$\text{Total Sovereign Loss} \times \frac{\text{Portion of the customer's claim exposed to loss in that location}}{\text{All portions of customer claims exposed to loss in that location}}$$

2. Each portion of a customer's claim exposed to Sovereign Loss in a currency will be reduced by:

$$\text{Total Sovereign Loss} \times \frac{\text{Portion of the customer's claim exposed to loss in that currency}}{\text{All portions of customer claims exposed to loss in that currency}}$$

3. A portion of a customer's claim exposed to Sovereign Loss in a location or currency will not be reduced below zero. (The above calculations might yield a result below zero where the FCM kept more customer funds in

a location or currency than it was authorized to keep.)

4. Any amount of Sovereign Loss from a location or currency in excess of the total amount of funds authorized to be kept in that location or currency (calculated in accord

with Section II.1 above) ("Total Excess Sovereign Loss") will be divided among all customers who have authorized funds to be kept outside the U.S., or in currencies other than U.S. dollars, with each such customer claim reduced by the following amount:

$$\text{Total Excess Sovereign Loss} \times \left[ \frac{\left( \text{This customer's total claim} - \text{The portion of this Customer's claim required to be kept in U.S. dollars, in the U.S.} \right)}{\text{Total customer claims} - \text{Total of all customer claims required to be kept in U.S. dollars, in the U.S.}} \right]$$

The following examples illustrate the operation of this convention.

*Example 1.* No shortfall in any location.

Customer	Claim	Location(s) customer has consented to having funds held	Location	Actual asset balance
A .....	\$50	U.S.	U.S. ....	\$50
B .....	50	U.K.	U.K. ....	£300
C .....	50	Germany	U.K. ....	50
D .....	£300	U.K.	Germany .....	50

Note: Conversion Rates: 1 = \$1; £1=\$1.5.  
Convert each customer's claim in each currency to U.S. Dollars:

Customer	Claim	Conversion rate	Claim in U.S. dollars
A .....	\$50	1.0	\$50
B .....	50	1.0	50
C .....	50	1.0	50
D .....	£300	1.5	450
Total .....			600.00

Determine assets available for distribution to customers, converting to U.S. dollars:

Location	Assets	Conversion rate	Assets in U.S. dollars	Shortfall due to sovereign action percentage	Actual shortfall due to sovereign action	Amount actually available
U.S. ....	\$50	1.0	\$50	.....	.....	\$50
U.K. ....	£300	1.5	450	.....	.....	450
U.K. ....	50	1.0	50	.....	.....	50
Germany .....	50	1.0	50	.....	.....	50
Total .....			600.00	.....	0	600.00

There are no shortfalls in funds held in any location. Accordingly, there will be no reduction of customer claims.

**Claims:**

Customer	Claim in U.S. dollars after allocated non-sovereign shortfall	Allocation of shortfall due to sovereign action	Claim after all reductions
A .....	\$50	\$0	\$50