

**RULES OF NASDAQ CSD**

**Nasdaq CSD SE**

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**RULES OF NASDAQ CSD**

**CHAPTER I**

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Effective Date: 28.11.2020

## RULES OF NASDAQ CSD

### CHAPTER I – PROVISIONS COMMON TO ALL SECURITIES SETTLEMENT SYSTEMS OF NASDAQ CSD SE

#### 1. INTRODUCTION

- 1.1 **Nasdaq CSD SE ("Depository")**, organisation no. 40003242879, with its head office in Latvia and branches in Estonia, Lithuania and Iceland, is authorised by the Financial and Capital Market Commission to provide CSD services under the CSDR and act as the registrar of the Estonian Register of Securities. The Depository is supervised by Financial Services Authorities ("**FSA**") in accordance with the CSDR and applicable law.
- 1.2 The Depository is part of the Nasdaq Group, with Nasdaq Group Inc (organisation No. 52-1165937) as the ultimate parent.
- 1.3 The Depository provides initial recording of securities ("**notary service**"), maintaining of securities accounts at the top tier level ("**central maintenance service**"), settlement services ("**settlement services**") and other CSD services through the Units of the Depository and the following individual securities settlement systems (individually "**Settlement System**" or collectively "**Settlement Systems**"):
- 1.3.1 **Estonian Settlement System** - designated as a securities settlement system governed by the Estonian law and notified to the European Securities and Markets Authority ("**ESMA**") in accordance with the national law implementing the Settlement Finality Directive;<sup>1</sup>
- 1.3.2 **Latvian Settlement System** - designated as a securities settlement system governed by the Latvian law and notified to the ESMA in accordance with the national law implementing the Settlement Finality Directive;<sup>2</sup>
- 1.3.3 **Lithuanian Settlement System** - designated as a securities settlement system governed by the Lithuanian law and notified to the ESMA in accordance with the national law implementing the Settlement Finality Directive.<sup>3</sup>
- 1.3.4 **Icelandic Settlement System** - designated as a securities settlement system governed by Icelandic law and notified to the ESMA in accordance with the national law implementing the Settlement Finality Directive.<sup>4</sup>

The Depository does not offer T2S Services with respect to securities registered in the Icelandic Settlement System. Any provision of these Rules, to the extent it regulates any matter related to **T2S**, therefore does not apply to the Icelandic Settlement System. Provisions specific to the Icelandic Settlement System are set out in Section 7 of Chapter I.

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<sup>1</sup> Estonian Securities Market Act.

<sup>2</sup> Latvian Law on Settlement Finality in Payment and Financial Instruments Settlement Systems.

<sup>3</sup> Lithuanian Law on Settlement finality in Payment and Securities Settlement Systems.

<sup>4</sup> Icelandic Act on Settlement finality in Payment and Securities Settlement Systems.

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- 1.4 There shall be neither settlement links nor direct cross-border transfers between Settlement Systems operated by the Depository, thus securities initially recorded in one Settlement System of the Depository, or transferred to such Settlement System from **Issuer CSD**, cannot be transferred directly to the other **Settlement System** of the Depository.
- 1.5 An entity holding or seeking the status of the Depository's **Participant** can apply for the system participant status ("**System Participant**") in a particular Settlement System(s) or all Settlement Systems of the Depository, unless expressly stated otherwise. An Operational Account opened with the Depository by or through the Participant can only be used for accounting of securities in those **Settlement Systems** of the Depository where the Participant has acquired the status of the **System Participant**.
- 1.6 The Depository acts as an **Issuer CSD** for all securities initially recorded in the **Settlement Systems** of the Depository. Linked CSD as **Investor CSD** has the right to apply for the access (link) to a particular Settlement System(s) or all Settlement Systems of the Depository.
- 1.7 When requesting access (link) to the securities settlement system of a Linked CSD as the **Issuer CSD** the Depository aims to make securities of **Issuer CSD** available for holding through all Settlement Systems of the Depository in accordance with link arrangement with a Linked CSD.
- 1.8 A common CSD System is used for operation of Settlement Systems of the Depository, including for the record keeping, data processing and information exchange that is necessary to comply with **T2S FWA**,<sup>5</sup> maintain **Estonian Register of Securities** and provide other CSD services. Functionality of CSD System shall be available to Participants through a special-purpose client application (CSD System GUI) and other communication channels provided in Operating Manual(s) and Technical Documentation of the Depository.
- 1.9 The Depository is a party<sup>6</sup> to the **T2S FWA**, which means that settlement services regarding **T2S eligible securities** are provided through Baltic Settlement Systems, among others, in accordance with T2S FWA and T2S Rules, and that:
- 1.9.1 all **securities accounts**, in the Settlement Systems of the Depository, and their balances shall be operated on the **T2S Platform**, unless expressly stated otherwise;
- 1.9.2 **securities account balances** operated on the T2S Platform shall only be changed in T2S (*see Article 22 (1) of the T2S FWA*);
- 1.9.3 the moments of entry ("**SF I**") and irrevocability ("**SF II**") of **Transfer Orders** into the Settlement Systems of the Depository are defined in

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<sup>5</sup> Available at: [https://www.ecb.europa.eu/paym/t2s/pdf/csd\\_FA/T2S\\_Framework\\_Agreement\\_Schedules.pdf](https://www.ecb.europa.eu/paym/t2s/pdf/csd_FA/T2S_Framework_Agreement_Schedules.pdf).

<sup>6</sup> The T2S FWA does not apply to Icelandic branch, see Section 1.3.4.

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Sections 6.4.1 to 6.5.1 of these Rules which follow the respective provisions of the **Collective Agreement**, unless expressly stated otherwise;

1.9.4 the settlement of **Transfer Orders** in T2S is effected on a gross basis, considering, among others, the application or availability of the following procedures and features in accordance with T2S Rules and these Rules:

- (i) technical netting with optimization;
- (ii) **DvP** settlement in CeBM through DCAs in case of **DvP instructions**;
- (iii) partial settlement;
- (iv) CoSD settlement;
- (v) tolerance matching;
- (vi) priorities management;
- (vii) hold and release of settlement instructions; and
- (viii) linking of Transfer Orders.

## 2. GENERAL PROVISIONS

### 2.1 Definitions and interpretation

2.1.1 Capitalised terms used in these Rules and any other Contractual Documents of the Depository have the meaning set out in Annex I of Chapter I or the relevant provisions of these Rules, unless the context requires otherwise.

2.1.2 The section headings in these Rules are used for ease of reference only and shall not affect the construction or interpretation of any of their provisions.

2.1.3 In these Rules references to:

- (i) Sections, Chapters and Annexes are references to Sections and Chapters of, or Annexes to, these Rules, unless expressly stated otherwise;
- (ii) any law, regulation, directive, rule or contract, including the reference to these Rules are, unless the context requires otherwise, construed as a reference to such law, regulation, directive, rule or contract as may from time to time be adopted, amended, supplemented, consolidated or replaced;
- (iii) words in plural have the same meaning when used in the singular and *vice versa*.

2.1.4 All time specifications in these Rules and any documents adopted in accordance with these Rules refer to the time zone of the Depository unless expressly stated otherwise.

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### 2.2 Rules of the Depository

2.2.1 These Rules govern the rights and obligations of the Depository, the Participant and the Issuer in connection with the provision of the notary services, central maintenance services, settlement services and other ancillary CSD services described in the Service Description or provided pursuant to Contractual Documents referred to in 2.2.3. In cases where these Rules refer to an account holder that is not a Participant and that has a securities account in any Settlement System, these Rules apply to the account holder only if the Depository has exercised the right to assume contractual relationship between the Account Operator and such account holder in accordance with the applicable law.

2.2.2 These Rules are composed of:

- (i) Chapter I which contains common provisions that apply to all Participants, Issuers and Settlement Systems;
- (ii) Chapter II which contains provisions that apply to Estonian Settlement System;
- (iii) Chapter III which contains provisions that apply to Latvian Settlement System;
- (iv) Chapter IV which contains provisions that apply to Lithuanian Settlement System;
- (v) Chapter V which contains provisions that apply to Icelandic Settlement System; and
- (vi) Annexes (Chapters I to V and Annex together are referred to as the ("**Rules**" or "**Rulebook**").

2.2.3 The Depository shall adopt Service Description(s), Operating Manual(s), Procedure regarding settlement of securities registered with External CSD under CSD link arrangement, User Guide(s), Guidelines, Technical Documentation. The Depository may adopt other Documents that provide additional implementing details of the Rules, or specify the same in the agreement regarding the use of CSD services of the Depository.

### 2.3 Amendments

2.3.1 Subject to the regulatory approval, if any, and without prejudice to Participant's right to terminate its participation under Section 3.4.2, the Depository may amend the Rules and documents referred to in 2.2.3 at any time by giving a written notice to the affected Participants by means of e-mail indicating where such amendments are available or may be consulted.

2.3.2 The Depository gives the notice referred to in Section 2.3.1 not less than 60 calendar days (*deadline of advance notice*) prior to the date such amendments to the Rules enter into force unless, in the reasonable opinion of the Depository or pursuant to the applicable

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law, such amendments are favourable to Participants or the entry into force of the amendments within shorter period of time or immediately:

- (i) is necessary to ensure that the Depository or Participants can comply with their obligations under the applicable law; or
- (ii) is in the interest of orderly functioning of **Settlement System(s)** of the Depository, the financial system, or protection of other public interest.

2.3.3 The Depository consults with affected Participants on material amendments to the Rules (e.g. amendments requiring IT developments) that, in its reasonable opinion, may have a material effect on such Participants or when required by the applicable law, prior to the respective amendments enter into force. The Depository may consult affected Participants through the User Committee or other representative forum.

2.3.4 Where an urgent change requiring consultation needs to be implemented on short notice or without notice to deal with an unforeseen circumstances (e.g. 2.3.2 (i) above), the Depository may introduce such change on a temporary basis until a consultation process has been followed that has to be ensured within reasonable time after the introduction of such change.

2.3.5 The Depository may correct spelling mistakes and other obvious inaccuracies which do not affect the content of the Rules without complying with the procedure prescribed for the amendment in Section 2.3. The Depository shall make corrected Rules available to the Participants without delay.

2.3.6 Section 2.3 shall apply to the amendments of documents referred to in 2.2.3 with the exception that the deadline of advance notice shall be 30 calendar days, unless otherwise agreed with the Customer of the services provided by the Depository.

2.3.7 The Depository gives the notice referred to in Section 2.3.1 regarding amendments to Price List not less than 60 calendar days prior to the date such amendments enter into force unless:

- (i) the Depository introduces a new service;
- (ii) the amendments are favourable to Participants (e.g. reduction of fees).

## 2.4 Hierarchy

2.4.1 In case of conflict between the provisions of Chapter I, on the one hand, and the provisions of Chapter II, Chapter III, Chapter IV or Chapter V on the other hand, the provisions of Chapter II, Chapter III, Chapter IV or Chapter V prevail to the extent of such conflict.

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2.4.2 In case of conflict between the Rules and the Operating Manual, the Rules prevail to the extent of such conflict.

2.4.3 In case of conflict between the Operating Manual and any Service Description or any document or part thereof incorporated by reference in the Operating Manual, the Operating Manual prevails to the extent of such conflict.

2.4.4 In case of conflict between two or more provisions included in two or more documents with the same rank in the hierarchy as defined in Sections 2.4.1 - 2.4.3, the most recent provision made available on the website of the Depository or by any other means that the Depository considers appropriate prevails to the extent of such conflict.

### **2.5 Language**

2.5.1 These Rules and any documents adopted in accordance with these Rules are drawn up in English. Any translation of the Rules to Estonian, Latvian, Lithuanian, Icelandic or any other language is for the informative purposes only.

2.5.2 Without prejudice to the applicable law, any other document addressed by or to the Unit of the Depository is to be written in its Official Language or English language.

### **2.6 General duties of the Depository**

2.6.1 The Depository shall provide its services and perform its duties in accordance with the Rules, Contractual Documents of the Depository, Operating Manual, Procedure regarding settlement of securities registered with the External CSD under CSD link arrangement, the Service Description and any other procedure or rules adopted by the Depository pursuant to these Rules and the applicable law.

2.6.2 Without prejudice to the provisions of these Rules regarding the liability of the Depository, the Depository shall act fairly, diligently and professionally, with due diligence when meeting its duties under Section 2.6.1 and any other provision of these Rules.

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2.6.3 The Depository shall take all reasonable steps within powers afforded to it under the applicable law and the relevant contractual arrangements to identify, assess, monitor and manage potential sources of risk arising from the CSD link arrangement(s).

### 2.7 Business continuity

2.7.1 If the services provided by the Depository in connection with its Settlement System are interrupted for any reason, including as a result of a software error, telecommunications outage, unavailability of T2S services or, with respect to services provided through the Icelandic Settlement System, the unavailability of settlement functionalities provided by the Central Bank of Iceland or Default Event of the Participant(s), the Depository shall use all reasonable efforts to minimise the duration of any interruption of the functioning of CSD System for the Participants and shall be entitled, on its own initiative or instruction of T2S or, with respect to services provided through the Icelandic Settlement System, instruction of the Central Bank of Iceland, as applicable, to apply the following contingency measures:

- (i) changing the schedule for data processing and settlement activities, including temporary suspension of such activities, extraordinary extension of the working time of the Settlement System(s) and postponing of the settlement dates of affected **Transfer Orders**;
- (ii) temporary restriction of access to the **Settlement System** or certain functionalities thereof;
- (iii) forwarding **Transfer Orders** and other instructions issued for performing CSD activities of the Depository through alternative communication channels and, if necessary, manual processing of **Transfer Orders** and instructions so forwarded; and
- (iv) other measures foreseen in the disaster recovery, business continuity or other similar plan of the Depository notified to the Participants or respective **System Participants** of the affected **Settlement System**.

2.7.2 The Depository shall immediately notify the affected Participants about the following regarding any material interruption:

- (i) summarised description of the malfunction causing the interruption;
- (ii) any measure it has taken or shall take to limit the adverse consequences of such interruption and the predicted duration of such interruption; and
- (iii) where possible, other information, recommendations and instructions necessary for restoring the regular functioning of the affected Settlement System.



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2.7.3 Upon the request of the Depository within reasonable time before the commencement of testing, the System Participant shall be obliged to participate in the testing of the recovery plan of the relevant Settlement System.

### **2.8 Provision removed**

2.8.1 Provision removed.

2.8.2 Provision removed.

2.8.3 Provision removed.

### **2.9 General duties of the Participant**

2.9.1 The Participant shall:

- (i) comply with the Rules, Contractual Documents of the Depository, any document adopted by the Depository in accordance with the Rules, applicable law and observe good practice of the financial sector considering Participant's type(s), participation in the Settlement System(s) and activities for which it has applied or subscribed for, and to that effect maintain, among others, at all times operational capacity, financial resources, legal powers, risk-management expertise, compliance, operational and technical arrangements that are adequate to prevent the occurrence of risk for the investors, Depository, other Participants and the Issuer; pass sanction screening controls conducted by the Depository to the satisfaction of the Depository;
- (ii) considering Participant's type(s), participation in the Settlement System(s) and activities for which it has applied or subscribed for, ensure a connection(s) to the CSD System or, other IT systems or platforms (*including T2S Platform in case of DCP*) that meet(s) at all times the IT security and other technical requirements established by the Depository under these Rules;
- (iii) ensure that, by means of appropriate administrative, technical and IT security measures information communicated to the Depository by the Participant and information available from the Depository or its Settlement Systems to the Participant, including information recorded with regard to securities accounts, is protected against unauthorised access and processing, including use, destruction or alteration;
- (iv) verify correctness and compliance with applicable legal and regulatory requirements of information and instructions communicated to the Depository, preserve the documents related to the underlying orders of the account holders as required by the applicable law, and upon request provide copy of such documents to the Depository;

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- (v) ensure that all instructions, including Transfer Orders and instructions to open Operational Account(s) or instructions to pledge or block securities, are entered into the Settlement System as soon as possible but not later than by the deadlines provided in the Operating Manual or following the receipt of the client instruction, as a case may be, in compliance with Operating Manual and Technical Documentation.
- (vi) have proper credit and liquidity management arrangements and other systems and controls in place:
  - (a) to ensure and facilitate the settlement of Transfer Orders entered into Settlement Systems of the Depository on or before the ISD, and where possible, promote early settlement of Transfer Orders on the ISD;
  - (b) to minimize liquidity risks to the Depository and other Participants from its settlement activities;
  - (c) to avoid settlement fails to the extent possible; and
  - (d) to comply with buy-in regime provided in Article 7 (3) - (8) of the CSDR and RTS with regard to transactions covered by Article 7 (10) (c) of the CSDR.
- (vii) where applicable, make and maintain accurate and timely securities accounting records in its books in accordance with the Chapters I, II, III, IV or V of these Rules and the applicable law;
- (viii) comply with FATCA and other similar international tax compliance reporting and information exchange requirements;
- (ix) provide to the Depository any information, including about Participants' clients and their settlement activities, that is relevant for the Depository to identify, monitor, and manage any risks associated with tiered participation arrangements unless and in so far as mandatory law provides otherwise;
- (x) upon reasonable request of the Depository, attend to and provide assistance to any task, procedure, routine, check and control, including special-purpose audit(s), established by the Depository in the Operating Manual, or requested on an event-driven basis and manner, to ensure integrity of the Securities Issue and to comply with reconciliation measures provided by CSDR and RTS;
- (xi) shall be obliged to pay the service fees, charges, interests and fines in accordance with Section 2.13;
- (xii) notify any change in the information provided by it to the Depository as part of its Participant application which is material for the assessment of the compliance of the Participant with the admission and eligibility conditions;
- (xiii) immediately notify the Depository about any inaccuracy in the information within the Settlement System(s) or any erroneous credit or debit to any securities account or Cash Settlement Account of which it becomes aware, unless these Rules expressly provide for a longer term;

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- (xiv) promptly notify the Depository of any and all circumstances that may cause a situation where a Participant is not, due to its solvency, change in legal status, technical interruption or restrictions on its activity established against it, able to perform its obligations in connection with its participation in the Settlement System(s) of the Depository;
- (xv) follow an order issued by the Depository which establishes a breach of the Participants and may impose an obligation on the Participants (“**Precept**”);
- (xvi) provide any information requested by the Depository to the extent it is necessary to ensure or to verify Participant's compliance with the Rules and it does not conflict with mandatory law. NCBs are exempt for the obligation set out in this Section 2.9.1 (xvi), and
- (xvii) comply with applicable legislation regarding prevention of money laundering and terrorist financing and submit to the Depository, upon respective request, self-assessment or confirmation to that effect.

### 2.10 General duties of the Issuer

#### 2.10.1 The Issuer shall:

- (i) comply with the Rules, Contractual Documents of the Depository, any document adopted by the Depository in accordance with these Rules and the applicable law considering the Settlement System used for the initial recording of securities and services to which the Issuer has applied or subscribed for; pass sanction screening controls conducted by the Depository to the satisfaction of the Depository;
- (ii) ensure that the information provided to the Depository in the course of initial recording of securities is true, correct, complete and up to date;
- (iii) facilitate compliance with Corporate Action Standards and to that effect ensure submission of correct information (including any changes to, or confirmation of, such information) to the Depository about any Corporate Action affecting any attributes of securities and its issue or the rights or obligations of the holders of securities as soon as the Issuer has publicly announced the Corporate Action according to the applicable law. The list of such Corporate Actions and information to be submitted to the Depository is provided in 4.2.3, on a standard application forms for Issuer's applications established by the Depository and the relevant Service Description;
- (iv) make available Corporate Action proceeds in the account designated by the Paying Agent at the start of the payment date of the Corporate Action proceeds;

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- (v) be liable to the Depository, Participants and holders of securities for damage caused by failure to comply with (i) – (iii);
- (vi) make available to the Depository such information (including LEI code), document and records as the Depository may from time to time reasonably request for the purposes of providing the Issuer Services under these Rules, monitoring the Issuer's compliance with these Rules, facilitating compliance with Corporate Action Standards, or ensuring the integrity of Securities Issue;
- (vii) be obliged to pay the service fees, charges, interests, contractual penalties and fines in accordance with the Price List.

2.10.2 An Issuer has the right to appoint an agent (Issuer Agent or the Fund Administrator) authorised to act on behalf of the Issuer in connection with the obligations listed in Section 2.10.1 (i) - (vii) and relevant provisions under Section 4 of these Rules as specified in the documents referred to in Section 4.2.2.

2.10.3 An Issuer has to designate an Account Operator or the Depository as its Paying Agent for each Corporate Action. The Account Operator acting as Paying Agent or, in case the Depository is acting as Paying Agent, the Issuer is responsible for ensuring that the required amount of Corporate Action proceeds is made available to the Depository on the designated cash account and by the time set out in Section 2.10.1 (iv).

2.10.4 The required amount of Corporate Action proceeds in respect of the Securities Issue is equal to the total amount of the Corporate Action proceeds which the Paying Agent has to make available to the Depository on the designated cash account minus the amount of Corporate Action proceeds which the Paying Agent is entitled to receive as Account Operator in respect of the Securities Issue provided that the designated cash account of the Participant as a Paying Agent is the same as the receiving cash account of that Participant as an Account Operator.

### 2.11 Liability of the Depository

2.11.1 Unless mandatory provisions of the applicable law or the terms of this Section 2.11 provide otherwise, the Depository is only liable for any damage, loss or expenses of any kind or nature (“**Liabilities**”) resulting from its negligence, fraud or wilful misconduct and incurred by:

- (i) the Participant as a result of its holding of securities accounts, its participation or transactions in the Settlement System;

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- (ii) the account holder for Liabilities as a result of maintenance of securities accounts in Settlement System(s) of the Depository;
- (iii) the Issuer, and, where applicable, the Issuer Agent or the Fund Administrator, as a result of its use of Issuer Services.

2.11.2 Unless mandatory provisions of applicable law provide otherwise, the damaged party shall only be entitled to claim compensation from the Depository for Liabilities for which the Depository is liable under the Rules, if the damaged party notifies its claim to the Depository within a period of (i) 12 months from the date on which it has or should have become aware of the event or circumstance giving rise to such claim or (ii) the applicable prescription period, whichever period is longer, except in case of fraud or wilful misconduct of the Depository, in which case no contractual limitation shall apply.

2.11.3 Notwithstanding Sections 2.11.1 to 2.11.2, the Depository is not liable for:

- (i) any action or omission in the event and to the extent that such action or such omission arises due to Force Majeure;
- (ii) any indirect liability for losses, including loss of clients, loss of profits or savings, and reputational damage;
- (iii) any act or omission of third parties, other than acts or omissions of (i) Eurosystem pursuant to Article 32 of T2S FWA and Section 2.11.7, (ii) sub-contractor, (iii) Linked CSD providing services under the CSD link arrangement concluded with the Depository as provided for in Section 2.11.4, and (iv) credit institution which is used by the Depository for holding funds for the benefit of the Participant, Issuer or account holder as provided in Section 2.11.5;
- (iv) any Liabilities resulting from the failure by any Participant, Issuer or any other person to comply with any procedures or requirements stipulated in the Rules or from a fraudulent or abnormal use of the Settlement System(s) of the Depository by any Participant, Issuer or any other person. For the purposes of this Section 2.11.3 (iv) “abnormal use of the Settlement System” means the use of the Settlement System in a manner which is deviating from the ordinary or expected use of its functionalities and which has caused losses to another Participant or Issuer;
- (v) any Liabilities to the extent the Participant or the Issuer failed to take reasonable and practical measures to mitigate the amount of Liabilities it may incur by reason of the act or omission of the Depository.

2.11.4 Notwithstanding Sections 2.11.1 to 2.11.3, the Depository is liable for the Liabilities incurred as a result of an act or omission of a

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Linked CSD with whom the Depository has concluded a CSD link arrangement only if, and to the extent that:

- (i) the Depository has been negligent in the selection of the Linked CSD; and
- (ii) the Depository has recovered any amount from a Linked CSD under the contractual documentation with such Linked CSD, and in such case the liability of the Depository is limited to the recovered amount after deduction of any reasonable expenses the Depository has incurred in recovering or attempting to recover any amount from the Linked CSD. The Depository takes reasonable steps to recover such amounts from a Linked CSD or provides a reasonable assistance to the damaged Customers of the Depository's services in recovering such amounts from a Linked CSD if the damaged Customer is able to preliminary substantiate his claim to the Depository.

2.11.5 Notwithstanding Sections 2.11.1 to 2.11.4, the Depository is liable for the Liabilities incurred as a result of an act or omission of a credit institution (e.g. insolvency of the credit institution or suspension of one or more of its services) in which the Depository holds funds for the benefit of the Participant, Issuer, or account holder in connection with the provision of CSD services only if, and to the extent that:

- (i) the Depository has been negligent in the selection of the credit institution in which the funds are held. It is understood that the Depository shall not be considered to be negligent in the selection of the credit institution if the competent authority has approved the use of the credit institution in connection with the services provided by the Depository; and
- (ii) the Depository has recovered any amount from a credit institution, and in such case the total liability of the Depository against all the injured Participants and Issuers is limited to the recovered amount after deduction of any reasonable expenses the Depository has incurred in recovering or attempting to recover any amount from the credit institution.

2.11.6 If a Customer has incurred losses as a result of an act or omission of a Linked CSD with whom the Depository has concluded a CSD link arrangement or a credit institution in which the Depository holds funds for the benefit of the Participant, Issuer, or account holder in connection with the provision of CSD services, the Depository shall take reasonable steps to recover such amounts from the Linked CSD or the credit institution, respectively, where such recovery is feasible

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under the applicable law and the contractual arrangements with the respective Linked CSD or the credit institution, and provides a reasonable assistance to the damaged Customer in recovering such amounts from the respective Linked CSD or a credit institution if the damaged Customer is able to preliminarily substantiate to the Depository his claim for losses

2.11.7 Without prejudice to Section 2.11.3 (i), the Depository compensates the Customer any losses or damage in connection with T2S Services resulting from the Eurosystem's gross or ordinary negligence in performing its duties and obligations if and to the extent such losses or damage is a direct result of the Eurosystem's act or omission and all of the following conditions are satisfied:

- (i) the Customer has complied with the requirements and procedure set out in Section 2.11.9;
- (ii) the Depository has received a compensation from the Eurosystem , in respect of the Participant's claim; and  
any payment to the Participant is subject to the Eurosystem , not
- (iii) reclaiming any part of the amount paid to the Depository under T2S FWA.

Any compensation payable by the Depository to the Customer for losses or damage in connection with T2S Services incurred by the Customer as a result of a breach by the Eurosystem shall not be made before the Depository has received such compensation from the Eurosystem and under any circumstances the amount of such compensation shall not exceed the amount of compensation received by the Depository from the Eurosystem.

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2.11.8 The Customer has to notify the Depository without undue delay of the occurrence of any event which the Customer reasonably believes may give rise to a claim for losses or damages in connection with T2S Services provided by the Eurosystem, and in any case no later than within 20 calendar days from the occurrence of such an event or, if the Customer did not know that an event would give rise to a claim, as from the moment it has the relevant knowledge.

2.11.9 The Customer has to submit to the Depository its claim regarding any losses or damages in connection with T2S Services provided by the Eurosystem in writing specifying the amount and justification of the claim without undue delay, but in any case not later than within 11 months from the occurrence of the event which give rise to the claim or, if the Customer did not know that an event gave rise to a claim for liability, within 11 months from the moment it knew or should reasonably have known of such claim. Upon a reasonable request of the Depository, the Customer has to submit additional information and evidence to the Depository in order to allow the Depository to assess the merits of the submitted claim and/or to prepare a claim to the Eurosystem. The Customer that has submitted the claim to the Depository has to cooperate in good faith and in a timely manner with the Depository.

### **2.12 Liability of the Participant and the Issuer**

2.12.1 Unless otherwise provided by mandatory provisions of the applicable law, each Participant compensates the Depository any Liabilities incurred by the Depository in connection with the Participant's participation or with the Participant's holding securities with the Depository arising from the actions and omissions of such Participant, including any breach by the Participant of these Rules, any failure to comply with the applicable law, or as a result of the Depository's reliance on information provided by the Participant.

2.12.2 Unless otherwise provided by mandatory provisions of the applicable law, each Issuer compensates the Depository any Liabilities incurred by the Depository in connection with the Issuer's use of the Issuer Services arising from the actions and omissions of such Issuer, including any breach by the Issuer of these Rules, any failure to comply with the applicable law, or as a result of the Depository's reliance on information provided by the Issuer.

2.12.3 Notwithstanding Sections 2.12.1 and 2.12.2, the Participant and the Issuer are not liable for:



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- (i) any action or omission in the event and to the extent that such action or such omission arises due to Force Majeure;
- (ii) any indirect Liabilities, including loss of clients, loss of profits, and reputational damage;
- (iii) any Liabilities to the extent the Depository failed to take reasonable and practical measures to mitigate the amount of Liabilities it may incur by reason of the act or omission of the Participant or the Issuer.

2.12.4 Without prejudice to Section 2.12.3 (i), the Participant, the Issuer and any other Customer to whom the Depository provides services in accordance with the Rules and other Contractual Documents of the Depository compensates to the Depository:

- (i) any loss or damage that is incurred by the Eurosystem resulting from fraud or wilfull misconduct of the Depository's Customer in connection with T2S Services and compensated by the Depository to the Eurosystem;
- (ii) direct loss or damage that is incurred by the Eurosystem resulting from gross or ordinary negligence of the Depository's Customer in connection with T2S Services and compensated by the Depository to the Eurosystem; and
- (iii) any loss or damage that is incurred by the Central Bank of Iceland resulting from negligence, fraud or wilfull misconduct of the Depository's Customer in connection with Icelandic Settlement System and compensated by the Depository to the Central Bank of Iceland.

### **2.13 Fees, other charges and expenses**

2.13.1 The Customer of the Depository shall pay to the Depository such fees, charges, fines and default interest or late payment interest, contractual penalty or other charges as set out in:

- (i) these Rules and the Price List; and/or
- (ii) an agreement or other contractual arrangement entered into between the Customer and the Depository; and/or
- (iii) applicable law;

2.13.2 The Customer shall compensate to the Depository any taxes, duties, interest, fines, penalties and other extraordinary expenses (including reasonable legal counsel fees) imposed on, paid by, charged to, suffered by or incurred by the Depository in connection with the provision of CSD services to the Customer unless such taxes, duties, interest, fines, penalties and other extraordinary expenses are incurred by the Depository as a result of its fraud, wilful misconduct or failure to provide CSD services to the Customer in accordance with the

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Rules. Whenever objectively possible, the Depository makes reasonable efforts to inform the Customer on the pending expenses set out in this Section and to obtain its consent prior to incurring such expenses. The Depository shall obtain a prior consent of the Customer before incurring legal counsel fees which under this Section are compensated by this Customer.

2.13.3 Without prejudice to the Depository's right to suspend or terminate the participation of the Participant pursuant to Sections 3.3 or 3.4.1, respectively, or to terminate the contractual relationship with the Issuer as *per* applicable law, in case the Participant or the Issuer does not pay on time to the Depository any amount due under these Rules, the Depository may charge late payment interest or similar contractual penalty provided in the Price List or an agreement with the Depository without having to send any notice to this effect.

### 2.14 Confidentiality

2.14.1 Except as and to the extent otherwise provided by the applicable law or the terms of a contract between the Depository and the Customer, the Depository shall take all reasonable steps to ensure confidentiality of information relating to Customer as well as debits, credits and other entries made to securities accounts.

2.14.2 Internal procedures of the Depository shall ensure that:

- (i) disclosure of information covered by Section 2.14.1 shall only be made if and to the extent permitted by the applicable law;
- (ii) access to the information covered by Section 2.14.1 is granted to the employees or contractors of the Depository only in cases and to the extent warranted by normal exercise of such employment or contractual duties provided that the recipient of the access acknowledges in writing the legal and regulatory duties entailed and is aware of the sanctions applicable for illegal disclosure of confidential information; and
- (iii) disclosure or provision of access to information covered by Section 2.14.1 is necessary for the provision of CSD services of the Depository in accordance with these Rules or for the protection of the rights and interests of the Depository (e.g. in court proceedings).

### 2.15 Data protection

2.15.1 The Depository shall at all times comply with the data protection standards as provided under the CSDR, applicable law and data protection policies of the Depository.

**2.16 Handling of complaints**

2.16.1 The Depository handles Customer complaints regarding provision of the CSD services under these Rules in accordance with the Complaint Handling Rules set out in Annex III.

**2.17 Governing law**

2.17.1 Unless these Rules or the applicable conflict of laws provide otherwise, the provisions of these Rules regarding the provision of CSD services and the rights and obligations of the Depository against the Participant (and *vice versa*) are governed by Latvian law.

2.17.2 Notwithstanding Section 2.17.1, for the purposes of Article 2(a) of the Settlement Finality Directive:

- (i) the Estonian Settlement System and the rights and obligations of the Depository against the Participant, acting as a System Participant of the Estonian Settlement System and *vice versa*, in respect of the matters provided in Section 2.17.3 are governed by Estonian law;
- (ii) the Latvian Settlement System and the rights and obligations of the Depository against the Participant and *vice versa*, acting as a System Participant of the Latvian Settlement System, in respect of the matters provided in Section 2.17.3 are governed by Latvian law;
- (iii) the Lithuanian Settlement System and the rights and obligations of the Depository against the Participant and *vice versa*, acting as a System Participant of the Lithuanian Settlement System, in respect of the matters provided in Section 2.17.3 are governed by Lithuanian law.
- (iv) the Icelandic Settlement System and the rights and obligations of the Depository against the Participant and *vice versa*, acting as a System Participant of the Icelandic Settlement System, in respect of the matters provided in Section 2.17.3 are governed by Icelandic law.

2.17.3 Any of the following matters arising in connection with the Settlement System are governed by the law applicable to that Settlement System in accordance with 2.17.2:

- (i) the legal nature and effects resulting from a credit, debit or other entries (*e.g. pledge*) to a securities account;
- (ii) the legal nature and effect of foreign securities registered with the Linked CSD as Issuer CSD and recorded in the securities account of the Settlement System designated as the default Settlement System by the Account Operator pursuant to Section 6.18.5;

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- (iii) the legal nature and the requirements of an acquisition or disposition of securities as well as its effects between the parties and against third parties, including the effects of settlement finality moments of Transfer Orders entered into the Settlement System;
- (iv) the requirements for perfection and provision of securities, pledge or financial collateral arrangement relating to book-entry securities pledge or financial collateral, and requirements necessary to render such an arrangement and provision effective against third parties;
- (v) whether a disposition of securities extends to entitlements to dividends or other distributions, or redemption, sale or other proceeds;
- (vi) the effectiveness of an acquisition or disposition and whether it can be invalidated, reversed or otherwise be undone, including determination of good faith of the acquirer of the financial collateral;
- (vii) whether a person's interest in securities extinguishes or has priority over another person's interest, including subordination of a person's title to or interest in such book-entry securities collateral to a competing title or interest;
- (viii) the duties of an Account Operator to the holder of owner account and duties of the Account Operator to a person other than the account holder who asserts in competition with the account holder or another person an interest in securities, including the duty to provide information about the securities account;
- (ix) the duties of the Depository to the Account Operator and the duties of the Depository to the holder of owner account and to a person other than the owner account holder who asserts in competition with the owner account holder or another person an interest in securities, including the duties regarding disclosure of information about the records of securities referred to in (i) and (ii);
- (x) the requirements, if any, for the realisation of an interest in securities held in securities account; and
- (xi) upon occurrence of the Insolvency Event in respect of the System Participant, the rights and obligations arising from, or in connection with, the participation of that System Participant in the Settlement System.

2.17.4 Unless these Rules or the applicable conflict of laws provide otherwise, the provisions of the Rules regarding the rights and obligations of the Depository against the Issuer (and *vice versa*) are governed by the law which applies to the Settlement System in which respective securities of the Issuer are recorded.

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### 2.18 Dispute resolution

- 2.18.1 Any dispute, claim or controversy involving the Depository and the Customer arising from, or in connection with, these Rules and Contractual Documents of the Depository are to be resolved by mutual negotiations in constructive manner without compromising the performance of the rights and obligations that are not the subject of the dispute, claim or controversy.
- 2.18.2 Any dispute, claim or controversy that the parties fail to resolve in the course of negotiations within 30 Business Days from the date one party has offered to the other party to start such negotiations, unless an extension of such term is expressly agreed by the parties, are resolved in accordance with Section 2.18.3 or 2.18.4.
- 2.18.3 Unless these Rules or the law provides otherwise and subject to the dispute resolution procedure set out in Sections 2.18.1 and 2.18.2, any dispute, claim or controversy between the Depository and the Participant, the Depository and the Issuer or the Depository and two or more of the previously mentioned counterparties arising from, or in connection with, these Rules and Contractual Documents of the Depository concerning the matters provided in Sections 2.17.2 and 2.17.3 or Section 2.17.4, as the case may be, are conclusively resolved:
- (i) in case the rights and obligations arise in connection with Estonian Settlement System, by the Harju County Court;
  - (ii) in case the rights and obligations arise in connection with the Latvian Settlement System, by Latvian courts, and the court of first instance shall be the Riga City Vidzeme District Court (*Rīgas pilsētas Vidzemes priekšpilsētas tiesa*);
  - (iii) in case the relations between the respective parties arise from, or in connection with the Lithuanian Settlement System, by the Court determined in accordance with the Lithuanian law; or
  - (iv) in case the rights and obligations arise in connection with Icelandic Settlement System, by the District Court of Reykjavík.
- 2.18.4 Unless the applicable law provides otherwise and subject to the dispute resolution procedure set out in Sections 2.18.1 and 2.18.2, any dispute, claim or controversy between the Depository and the Participant arising from, or in connection with, these Rules and Contractual Documents of Depository concerning the matters falling beyond the scope of Sections 2.17.2 to 2.17.4, are conclusively determined by the Riga City Vidzeme District Court.
- 2.18.5 In case a third party that does not have contractual relationship with the Depository (including but not limited to the holder of owner

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account) has asserted any claim against the Depository in relation to the provision of services, compliance with the obligations under the applicable law or order of a competent authority or a court by the Depository, the Participant agrees to cooperate with the Depository to the extent the Depository may reasonably request such cooperation in connection with the conduct of defence, and such cooperation does not conflict with mandatory law.

### **2.19 Communication procedures with Customers and market infrastructures**

2.19.1 The functionality of CSD System shall be available to Customers through special-purpose client application (CSD System GUI) and other communication channels provided in Operating Manual(s) and Technical Documentation of the Depository.

2.19.2 The communication channels, methods, formats and other attributes of the information exchange regime between the Depository and Linked CSDs, Baltic Stock Exchanges, Iceland Stock Exchange, other operators of trading venue(s), other market infrastructures or Customers shall be based on the market standards established by the Depository in the Operating Manual.

## **3. PARTICIPATION AND ACCESS**

### **3.1 Types of Participants and admission criteria**

3.1.1 The Participant of the Depository is a legal entity that has the right to participate (right of participation) in one or several Settlement Systems of the Depository with one or more of the following statuses:

- (i) an Account Operator;
- (ii) a Cash Agent;
- (iii) an Issuer Agent;
- (iv) a Fund Administrator; and
- (v) Linked CSD as Investor CSD which has requested access to the services of the Depository through standard link, customised link, interoperable link or indirect link.

3.1.2 An applicant requesting the right of participation shall belong to one of the following categories of legal entities:

- (i) credit institution within the meaning of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, organised and licensed under the laws of a Member State of

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- the European Union (EU) or European Economic Area (EEA) or, in case the applicant's home state is not within the EU or the EEA, is licensed to conduct investment business in its home state and is therein subject to satisfactory supervision equivalent to what follows from this directive and is authorised to provide credit institution's services in Estonia, Latvia, Lithuania or Iceland and provides custody services in Estonia, Latvia, Lithuania or Iceland;
- (ii) investment firm within the meaning of Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU ("MiFIDII"), excluding the institutions set out in Article 2(1) of MiFIDII, organised and licensed under the laws of a Member State of the EU or the EEA or, in case the applicant's home state is not within the EU or the EEA, is licensed to conduct investment business in its home state and is therein subject to satisfactory supervision equivalent to what follows from MiFID and, where applicable, is authorised to provide custody services in Estonia, Latvia, Lithuania or Iceland.
  - (iii) central securities depository registered in a Member State of the EU or the EEA or central securities depository subject to a legal and supervisory framework effectively equivalent to the one provided in the CSDR;
  - (iv) national central bank participating in TARGET2;
  - (v) for the Icelandic Settlement System, the Central Bank of Iceland;
  - (vi) central counterparty (CCP) within the meaning of Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories.
  - (vii) Republic of Estonia, Republic of Latvia, Republic of Lithuania, Republic of Iceland or other Member State of the EU or EEA (as may be represented by the State Treasury, the Ministry of Finance or other authorised institution) and its local municipalities or any other public law legal person exercising authority within administrative territorial unit.

3.1.3 In addition to the criteria set out in Section 3.1.2 the applicant requesting the right of participation shall establish all the necessary arrangements to meet all of the obligations as attributed to the requested status under these Rules and Contractual Documents of the Depository, including:

- (i) in case of Account Operator to any Baltic Settlement System – the applicant shall be a participant of T2 Component System or have in place an agreement with a Cash Agent necessary for cash settlement arrangements;

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- (ii) in case of Account Operator to the Icelandic Settlement System – the applicant shall be a participant of the payment system (RTGS) operated by the Central Bank of Iceland or have in place an agreement with a Cash Agent necessary for cash settlement arrangements;
- (iii) in case of Cash Agent to any Baltic Settlement System – the applicant shall be a participant of T2 Component System;
- (iv) in case of Cash Agent to the Icelandic Settlement System – the applicant shall be a participant of the payment system (RTGS) operated by the Central Bank of Iceland;
- (v) in case of Issuer Agent or Fund Administrator – the applicant shall have in place all the necessary contractual arrangements with the Issuer for which the role of Issuer Agent or Fund Administrator is applied for and shall be subject to all the admission criteria applicable to the Account Operator.

3.1.4 The legal entities referred to in Section 3.1.2 (iv) and (vi) are subject to the admission requirements set out in the agreement between the Depository and the respective entity. The provisions of this Chapter apply to these legal entities to the extent the agreement with these entities expressly provides so.

### 3.2 Admission procedure

3.2.1 The Depository shall decide whether to grant the right of participation upon a standard application form and supporting documents at the latest **within one month** of the date of submission of the application. Decision shall be made within three months at the latest if:

- (i) the request for right of participation to the Depository is made under Article 52 (1) of the CSDR (*request is made for standard link access or customized link access*);
- (ii) the request for access to Settlement System(s) of the Depository is made under second sentence of Article 53 (1) of the CSDR (*request is made by CCP or trading venue*).

3.2.2 The Depository has the right to request any additional information and documents within 15 Business Days as of the date of submission of the application if:

- (i) information provided in the application or supporting documentation is inaccurate, misleading or incomplete;
- (ii) additional information or documentation is necessary to assess the applicant's compliance with the requirements and admission criteria prescribed for in the Rules;
- (iii) additional information or documentation is necessary for carrying out a comprehensive risk assessment provided by Article 33 (3) of the CSDR and Article 89 of the RTS on Authorisation;



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In case of request for the right of participation from a foreign legal entity established in a country other than Estonia, Latvia, Lithuania or Iceland, the Depository shall have the right to request the applicant to provide at its own expense a reasoned and independent legal opinion from a reputable law firm or attorney-at-law in the form and substance acceptable to the Depository demonstrating and establishing that possible conflict of laws issues would not impede the enforceability of the Rules and ability of the applicant to meet its obligations in connection with its participation in the Settlement System(s) and activities for which it has applied or subscribed for.

- 3.2.3 The term of the proceeding provided in 3.2.1 shall be suspended for the period between the request by the Depository for additional information or documents and receipt of requested information or documents from the applicant.
- 3.2.4 Right of participation is granted to the applicant that complies with requirements and admission criteria provided in Sections 3.2.1 to 3.2.2 and that has concluded a written participation agreement with the Depository.
- 3.2.5 The Depository may request that the opening of applicant's production connection(s) shall be subject to completion of validation and testing procedures to verify compliance of such connection(s) with 2.9.1 (ii).
- 3.2.6 The Depository shall refuse to grant the right of participation if:
- (i) information in the application or its supporting documentation was inaccurate, misleading or incomplete and such deficiencies were not rectified upon the request of Depository pursuant to Section 3.2.2;
  - (ii) the applicant does not meet the requirements or admission criteria provided for in these Rules;
  - (iii) reason for refusal was identified in the course of comprehensive risk assessment referred to in Article 33 (3) of the CSDR and RTS on Authorisation.
- 3.2.6 The Depository's decision refusing the right of participation shall be provided to the applicant in writing or in a format which can be reproduced in writing. The decision shall outline grounds of refusal and information to the applicant about its right to complain the refusal to the relevant FSA pursuant to Article 33 of the CSDR and Article 90 of the RTS on Authorisation.

### 3.3 Grounds and procedure for suspension

- 3.3.1 To the extent permitted by applicable law, the Depository may at any time suspend the access of a Participant to all or part of the services and

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functionalities, with effect from such date and time as the Depository may specify:

- (i) if the Participant fails to comply with any of the requirements and admission criteria provided in Sections 3.1 and 3.2 or, in the reasonable opinion of the Depository, such failure is likely to occur;
- (ii) if the Participant is in material breach of any obligations under the Rules or, in the reasonable opinion of the Depository, any such breach is likely to occur;
- (iii) if the Participant is in breach of any provision of the Rules and fails to remedy such breach within the time reasonably allocated to it by the Depository;
- (iv) if the outcome of consultations with relevant FSA carried out under Article 7 (9) of the CSDR supports suspension of the Participant because of consistent and systematic settlement fails;
- (v) upon the occurrence of a Default Event other than an Insolvency Event affecting such Participant;
- (vi) if, in the reasonable opinion of the Depository, circumstances have arisen which represent a threat to the security, integrity or reputation of the Depository or a Settlement System of the Depository; or
- (vii) if the Depository becomes aware of the fact(s) referring to the possibility that the Participant is a subject of international financial sanction.

3.3.2 To the extent permitted by the applicable law, the Depository shall suspend the right of participation of the Participant in Settlement System or/and the access of a Participant to all or part of the services and functionalities, with effect from such date and time as the Depository may specify having regard, where applicable, to the decision of the FSA or the competent NCB:

- (i) upon the occurrence of an Insolvency Event in the case of which the right of participation of the Participant in Settlement System is suspended with immediate effect;
- (ii) if the authorisation required for the Participant to conduct its business which directly relates to the business for which the Participant is using the services provided by the Depository is suspended, in whole or in part, by the relevant FSA;
- (iii) if the Participant's cash account linked to respective securities account(s) has been blocked or closed by the competent NCB.

3.3.3 Subject to applicable mandatory provisions of law, if any, any suspension shall continue for so long as the Depository shall consider appropriate and shall end on such date and on such conditions as the Depository shall determine.

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3.3.4 The Depository shall inform the Participant on the suspension of the Participant and the services and functionalities to which the suspension relates, whenever reasonably possible, prior to such suspension but not later than at the moment the suspension becomes effective. In case of Insolvency Event, the Depository shall inform the Participant on the suspension of its right of participation within reasonable time after such suspension. The Depository consults the relevant FSA, whenever reasonably possible, before the suspension of the Participant.

3.3.5 The provisions of the Rules, so far as relevant, shall continue to apply to the Participant during any suspension.

### **3.4 Grounds and procedure for termination**

3.4.1 To the extent permitted by applicable law, the Depository may at any time unilaterally terminate the participation agreement(s) with a Participant, for all or part of the services and functionalities, with effect from such date and time as the Depository may specify, upon any of the circumstances referred to in Section 3.3.1 (i) - (vii) and Section 3.3.2 (i) - (iii). The Depository consults the relevant FSA, whenever reasonably possible, before the termination of the participation agreement(s). The Depository informs the Participant on the termination of the participation, whenever reasonably possible, prior to such termination but in any case not later than at the moment such termination enters into force.

3.4.2 Any Participant may unilaterally terminate its contractual relationship with the Depository by giving the Depository at least 60 calendar days' prior written notice thereof. In case the Participant unilaterally terminates its contractual relationship with the Depository on the ground that substantial amendments are made to the Rules and such amendments enter into force before the expiry of the 60 calendar day period, the Participant may unilaterally terminate its contractual relationship with the Depository from the day when such amendments enter into force unless the applicable law provides otherwise.

### **3.5 Consequences of suspension or termination**

3.5.1 Where a Participant's contractual relationship with the Depository is suspended or terminated (whether by the Depository or at the Participant's initiative), such Participant and the Depository shall take all necessary steps to minimise the disruption to customers of the Depository and the respective Participant that the suspension or termination could cause, and the Participant must cooperate with the Depository in those matters relating to suspension or termination that the Depository reasonably requires.

3.5.2 Sections 2.14, 2.15, 2.17 and 2.18 shall survive the termination of the contractual relationship with the Participant.

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3.5.3 Chapters II – V or the Depository procedure for managing Participants default may provide specific procedures or arrangements for the transfer of the right(s) to administer securities accounts from the terminated Participant to other acting Participants of the same Settlement System.

3.5.4 The Depository informs the relevant FSA regarding the suspension or ending of suspension, or termination of the participation of the Participant without delay.

### 3.6 Rules of business conduct and participation discipline

3.6.1 The Participant shall act fairly, diligently and professionally, with due diligence when meeting its duties under 2.9.1 and any other provision of these Rules.

3.6.2 The Participant shall participate in all the tests requested by the Depository. The Depository shall inform the Participant of the planned test within reasonable time before the date of the test.

3.6.3 Without prejudice of the Depository's right to take any other measure or remedy provided in these Rules, where the Participant breaches these Rules, the Depository may, in respect of every such breach:

- (i) issue Precept requesting the elimination of the breach by the deadline specified by the Depository;
- (ii) impose daily contractual penalty up to **10 000 €** per day for each day exceeding the deadline specified under (i) above;
- (iii) reprimand the Participant;
- (iv) impose contractual penalty of up to ten times the amount of the annual participation fee for the breach that is material and recurring;
- (v) suspend the Participant;
- (vi) unilaterally terminate the participation agreement(s).

Whenever the infringement consists of a failure to perform a duty, the application of a sanction does not exempt the Participant from its performance, unless the Depository's decision explicitly provides otherwise.

3.6.4 It is understood that the Depository will never impose a contractual penalty on the Participant for the breach of its obligation under these Rules if the competent FSA has imposed a monetary penalty on the Participant for the violation of the same obligation arising under the law.

3.6.5 The Depository provides the Participant with an opportunity to be heard before imposing penalty referred to in Sections 3.6.3 (ii), (iii) and (iv) in the manner and within a reasonable deadline established by the Depository in the notice to the Participant unless (i) the urgency

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of the matter requires to take a prompt action or (ii) in the reasonable opinion of the Depository the exercise of the right to be heard would not be practical in the given circumstances. The exercise of the right to be heard does not prejudice the right of the Depository to take any measure provided in these Rules or the applicable law with a view to remedy or mitigate the effect of the breach of the Participant.

3.6.6 In determining the amount of contractual penalty provided in Sections 3.6.3 (ii) and 3.6.3 (iv) the Depository is guided by the gravity of the breach or its existing or potential consequences, the principle of good faith and the principle of proportionality. The amount of the contractual penalty is determined with a view not only to penalise the Participant for the breach but also to deter from repeated breach of these Rules. The contractual penalty shall be paid in addition to any compensation of the Depository's losses resulting from the breach of the Participant. The contractual penalty provided in Sections 3.6.3 (ii) and 3.6.3 (iv) will not be imposed cumulatively.

3.6.7 Unless the applicable law provides otherwise, any disputes between the Participant and the Depository regarding application of any measure referred to in Section 3.6.3 to the Participant are to be settled in accordance with Sections 2.16.1 and 2.18.

## **4 NOTARY SERVICES**

### **4.1 Initial recording (admission) of securities**

4.1.1 The Depository shall provide initial recording of securities through the Units of the Depository and admit such securities to the Settlement System specified by the Issuer provided that securities for which admission is requested comply with the following general admission criteria and other provisions of the Rules:

- (i) laws under which the securities are constituted allows in compliance with Article 3 of the CSDR securities to be represented in book-entry form subsequent to a direct issuance in dematerialised form;
- (ii) laws under which the securities are constituted do not prohibit securities to be validly issued and transferred in the Settlement System to which admission is requested; and
- (iii) all securities of the same issue are fungible.

4.1.2 The Depository shall decide whether to initially record and admit securities to the Settlement System specified by the Issuer upon a standard application form at the latest within three months, unless shorter deadline is provided by applicable law.

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4.1.3 The Depository has the right to request any additional information and documents within 15 Business Days as of the date of submission of the application if:

- (i) information provided in the application or supporting documentation is inaccurate, misleading or incomplete;
- (ii) additional information or documentation is necessary to assess compliance with the requirements and admission criteria prescribed for in the Rules or to fulfill the obligations of the Depository in accordance with the applicable law;
- (iii) additional information or documentation is necessary for carrying out a comprehensive risk assessment provided by Article 49 (3) of the CSDR and Article 89 of the RTS on Autorisation.

In case of admission request from a foreign Issuer the Depository shall have the right to request the Issuer to provide at its own expense a reasoned and independent legal opinion from a reputable law firm or attorney-at-law in the form and substance acceptable to the Depository demonstrating and establishing that (i) possible conflict of laws issues would not jeopardize compliance with admission criteria listed under Section 4.1.1.,(ii) the laws the foreign Issuer has been established by permit the foreign Issuer to issue securities under the laws of Estonia, Latvia, Lithuania or Iceland and (iii) the foreign Issuer has set forth sufficient measures to ensure meeting both the requirements of the laws applicable to issuance of securities and requirements of the laws the foreign Issuer has been established by.

4.1.4 The term of the proceeding provided in Section 4.1.2 shall be suspended for the period between the request by the Depository for additional information or documents pursuant to Section 4.1.3 and receipt of requested information or documents from the Issuer.

4.1.5 Subject to the execution of the securities registration agreement with the Depository the securities shall be initially recorded through the Unit of the Depository and admitted to the Settlement System under the International Securities Identification Number (ISIN) if securities comply with the admission criteria and the Depository has not identified grounds of refusal specified under Section 4.1.6.

4.1.6 The Depository shall refuse the admission of securities if:

- (i) information in the application or its supporting documentation was inaccurate, misleading or incomplete and such deficiencies were not rectified regardless of Depository's demand(s) under Section 4.1.3;
- (ii) securities do not meet the admission criteria listed under Section 4.1.1; or

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- (iii) reason for refusal was identified in the course of comprehensive risk assessment referred to in Article 49 (3) of the CSDR and RTS on Authorisation;

### 4.2 Ancillary services in connection with securities

4.2.1 The Depository shall provide the following ancillary services in connection with securities that are initially recorded through the Unit of the Depository and admitted or transferred to, or are expected to be admitted, to its Settlement Systems:

- (i) supporting the processing of Corporate Actions;
- (ii) services related to securities holders' registers;
- (iii) new issue services (*initial public offerings etc.*) of securities which the Issuer has requested to admit to any Settlement System;
- (iv) instruction routing and processing, fee collection, processing and reporting related to (i) - (iii);
- (v) providing information, data and statistics in connection with the above.

4.2.2 Services listed under Section 4.2.1 shall be provided in accordance with applicable law, these Rules, relevant Service Descriptions, User Guides and any other document adopted in accordance with these Rules, service agreements with the Depository, Corporate Action Standards, and other industry standards to which these Rules or other documents incorporated by reference therein expressly refer to.

4.2.3 Unless Corporate Action Standards allow to process incomplete or unconfirmed information on Corporate Actions, any obligation of the Depository to process Corporate Action affecting securities as well as its obligation to provide, forward or disclose information, data or statistics about such Corporate Action, shall only apply to the extent that the Depository has received in a timely manner complete set of information, and when required by these Rules or Service Description(s), valid processing request (Issuer's application) and supporting documentation, from the Issuer, the Issuer Agent or the Fund Administrator, or in case of Foreign Securities, from the relevant Linked CSD. The Depository may process the following Corporate Actions only (i) upon Issuer's application submitted on a standard application form or in a manner agreed with the Depository and (ii) insofar as the applicable law allows the respective Corporate Action:

- (i) voluntary reorganisation (e.g. registration of new shares in connection with the increase of share capital);
- (ii) mandatory reorganisation (e.g. split or reverse split, redemption);
- (iii) mandatory reorganisation with options (e.g. conversion);
- (iv) cancellation of shares in connection with the reduction of share capital;

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- (v) any other cancellation of securities except as and to the extent otherwise provided by the applicable law;
- (vi) cash distributions (e.g. interest payment, cash dividends);and
- (vii) securities distributions (e.g. stock dividend, bonus issue);
- (viii) distribution with options (e.g. optional dividend)

(each of the corporate actions and events set out in (i) to (viii) is referred to as a "**Corporate Action**").

4.2.4 The Depository performs Corporate Action on flow (i.e. pending settlement transactions in T2S or the Icelandic Settlement System), as applicable, transaction management in accordance with Corporate Action Standards, Corporate Action Service Description and T2S and Icelandic Settlement System functionality.

4.2.5 Deadlines for submission of Issuer's application, description and processing of Corporate Actions shall be provided by applicable law or Service Description. Applicable law or Service Description may provide specific rules on determination of key dates (e.g. Ex date, payment date, the record date and deadline, prior to such record date, by which Issuer's application must be submitted to the Depository).

4.2.6 The Depository shall provide services listed in Section 4.2.1 (i) – (iv) pursuant to Chapter II, III, IV or V and the relevant Service Description.

### 4.3 Integrity of the Securities Issue

4.3.1 Tasks, procedures, routines, checks and controls that are necessary to ensure integrity of the Securities Issue and comply with reconciliation measures provided under the CSDR and RTS shall be established in the Operating Manual to the extent that such tasks, procedures, routines, checks and controls have not been dealt with in the RTS.

4.3.2 The Depository has the right:

- (i) to request that Participants or a particular Participant apply specific event-driven reconciliation measure(s) in a manner specified by the Depository; and
- (ii) to subject Participants or particular Participant to audit control on the application of reconciliation measures.

4.3.3 Where the reconciliation process reveals an undue creation or deletion of securities, the Depository may suspend the affected securities account or the securities issue for settlement pursuant to the Operation Manual until the undue creation or deletion of securities has been remedied. The Depository informs:

- (i) the Account Operator of the suspended securities account about such suspension without delay;
- (ii) the Issuer of the suspended securities issue and the Participants about the suspension of the securities issue without delay.



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- 4.3.4 Where the reconciliation process reveals an undue creation or deletion of securities and the Depository fails to solve it by the end of the following Business Day, the Depository shall suspend the securities issue for settlement pursuant to RTS and the Operating Manual until the undue creation or deletion of securities has been remedied. The Depository informs the Issuer of the suspended securities issue and the Participants about the suspension of the securities issue without delay.
- 4.3.5 In case the Depository cannot determine the recipient of the securities credited to the Depository's omnibus account opened with the Issuer CSD that is used for holding Foreign Securities under a CSD link arrangement, the Depository may credit these securities to, and hold them in, the default securities account until the Depository discovers the recipient of such securities. The Depository generates a Transfer Order to credit these securities to the recipient's securities accounts as soon as the Depository discovers the recipient.

## 5. Central maintenance

### 5.1 Maintaining securities accounts

- 5.1.1 This Section applies to providing and maintaining securities accounts by the Depository with any Settlement System ("**top tier securities accounts**").
- 5.1.2 The provisions of this Section apply to providing and maintaining securities accounts by other than the Depository, i.e. custodian such as credit institutions, investment brokerage companies or alike as permitted by applicable laws ("**lower tier securities accounts**"), insofar as it is necessary to ensure compliance of the respective custodian's Account Operator with the obligations prescribed in these Rules and the applicable law, including asset protection and reconciliation of securities account balances.

### 5.2 Operational Accounts and securities accounts

- 5.2.1 Operational Account is an account for consolidated accounting purposes of securities credited to securities accounts of the same type that is opened in the name of the holder of an Operational Account in one of more Settlement Systems in which the Account Operator of the Operational Account acts as a System Participant ("**Operational Account**"). Except where otherwise provided in these Rules, each Operational Account is set up in T2S on the basis of the "all-accounts-in-T2S" principle.
- 5.2.2 Securities account is a book entry of securities of the same ISIN in the name of the holder of an Operational Account in one or more Settlement System in which the Account Operator of the Operational Account acts as a System Participant. Securities account for the securities of the same ISIN is created upon the first credit of the

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respective securities for the benefit of the holder of Operational Account.

5.2.3 Each securities account has a unique account number composed of the number of the Operational Account and ISIN of the securities credited for the benefit of the holder of Operational Account. Securities which are registered with the Depository as Issuer CSD are held with the Settlement System in which the securities are registered.

5.2.4 Except as expressly provided otherwise in these Rules, Securities account balances in respect of T2S eligible securities are operated and changed on T2S Platform in accordance with T2S Rules and reflected in CSD System. In case of discrepancies between securities account records on T2S Platform and CSD System, the records on the T2S Platform prevail over those of CSD System.

### 5.3 Account types

5.3.1 The Depository opens and keeps records of the following types of Operational Accounts that enable keeping corresponding securities accounts in the name of the Account Operator as an owner of securities in one or more Settlement Systems:

- (i) **Participant own account** – an account that is registered in the name of the Account Operator and is used for holding securities owned by the Account Operator.
- (ii) **Participant pledge account** - an account that is registered in the name of the Account Operator and is used for recording financial pledge over the securities owned by the Account Operator and credited to this account.

5.3.2 The Depository opens and keeps records of the omnibus Operational Account that enables keeping a corresponding **omnibus securities account(s)** in one or more Settlement Systems:

- (i) in the name of an Account Operator for holding securities of the Account Operator's multiple customers; or
- (ii) in the name of a Linked CSD for holding securities under a CSD link arrangement between the Depository and Linked CSD.

5.3.3 The Depository opens and keeps records of the following types of Operational Accounts that enable keeping corresponding individual client securities accounts in one or more Settlement Systems:

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- (i) **owner account** - an account that is registered in the name of the customer (individual or legal entity) of the Account Operator and is used for holding securities owned by that customer;
- (ii) **segregated nominee account** - an account that is registered;
  - (a) either in the name of an Account Operator and is used for holding securities for a single customer of Account Operator, regardless of whether such customer is the end investor or acts as an intermediary in the securities holding chain; or
  - (b) in the name of a customer of the Account Operator who is an intermediary in the securities holding chain and is used for holding securities for a single customer of such intermediary, regardless of whether such intermediary's customer is the end investor or acts as an intermediary further down in the securities holding chain.
- (iii) **nominee account** – an account that is registered in the name of a customer of an Account Operator and is used for holding securities of multiple clients of such customer, regardless of whether such clients are end investors or act as intermediaries in the securities holding chain.

5.3.4 In addition to owner Operational Account types set out in Chapter II, the Depository opens and keeps records of the owner pledge Operational Account that enables keeping corresponding **owner pledge account** in one or more Settlement Systems, i.e. an account that is registered in the name of the Account Operator's customer which owns the securities and that is used for recording financial pledge over the securities credited to this account.

5.3.5 The Depository opens and keeps records of the following technical accounts with the Settlement System:

- (i) **issuance account** - a securities account that is used for the issuance of securities of the same ISIN. The aggregate balance of issuance accounts (i.e. multiple ISINs) may be reflected in the Operational Issuance Account opened in the name of the Depository;
- (ii) **distribution account** - a securities account that is registered in the name of the Issuer Agent and is used for distribution of securities of the same ISIN during the initial issuance or initial offering of securities. The aggregate balance of distribution accounts (i.e. multiple ISINs) is reflected in the Operational Distribution Account opened in the name of the Issuer Agent;

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- (iii) **corporate actions distribution account** – a securities account that is used by Depository for distributing corporate action entitlements on behalf of the Issuer;
- (iv) **mirror account** – a securities account that is opened in the name of the Depository and is used to record the securities held by the Depository on behalf of the account holders in an omnibus, segregated or any other type of account with the Issuer CSD under a CSD link arrangement;
- (v) **inter-CSD account** – a securities account that is opened in the name of the Depository and is used for temporary recording of differences in securities holdings between the omnibus account opened by the Depository in the books of the linked external-to-T2S Issuer CSD and the mirror account opened by the Depository in the Settlement System;
- (vi) **default securities account** – a securities account in the name of the Depository that is used to temporarily record the securities held by the Depository in omnibus account with the Issuer CSD under a CSD link arrangement where the securities are credited to such omnibus account and the Depository cannot determine the recipient of the securities and therefore cannot credit securities to the recipient's securities account and debit the mirror account. The Depository is set as Account Operator of default securities account in T2S;
- (vii) **special purpose account** - refers to securities account type(s) that have special purpose and limitations of use as specified respectively in Chapter II, III or IV (e.g. temporary owner account and Initial Register account of the Latvian Settlement System, temporary securities account of the Estonian Settlement System and temporary issuer account of the Lithuanian Settlement System).

### 5.3.6

The set of data and other parameters are to be recorded by the Depository and provided in the account opening request and for each type of Operational Account are set out in the Operating Manual. The Operating Manual may specify account type-specific validation or verification activities that have to be performed prior to providing account opening request to the Depository. The Participant that provided the account opening request shall notify

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the Depository about any change in the set of data recorded by the latter in connection with the Operational Account.

### **5.4 Opening of Operational Account and securities account**

5.4.1 The Depository opens in the name of the Account Operator or its customer an Operational Account that is eligible for holding securities in one or more Settlement Systems on the basis of a request of the Account Operator that is a participant of the respective Settlement System(s).

5.4.2 The Depository opens the following Operational Accounts:

- (i) a Participant own account on the basis of a complete application of the Account Operator who wishes to open an account;
- (i) an owner account on the basis of a complete application of the person who wishes to open an account, which is submitted to the Depository by the Account Operator that is a participant of the respective Settlement System(s) or, where the applicable law so provides, directly by such person;
- (ii) an omnibus account or a segregated nominee account in the name of the Account Operator on the basis of a complete application of the Account Operator; and omnibus account in the name of the Linked CSD upon link arrangement between the Depository and Linked CSD; or
- (iii) a segregated nominee account or nominee account in the name of the customer of the Account Operator on the basis of a complete application of such customer, which is submitted to the Depository by the Account Operator or, where the applicable law so provides, directly by such client.
- (iv) an issuance account on the basis of a complete application of the Issuer or the Fund Administrator;
- (v) a distribution account on the basis of a complete application of the Issuer Agent;
- (vi) a pledge account on the basis of a complete application of the owner of securities, which is submitted to the Depository by the Account Operator or, where the applicable law so provides, directly by the owner of securities.

5.4.3 The Operational Account is deemed to be opened at the moment when the account opening procedure is completed in CSD System and in T2S, where applicable. The securities account is created in the Settlement System in accordance with Section 5.2.2.

### **5.5 General obligations of the Account Operator**

5.5.1 The Account Operator shall:

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- (i) comply with any applicable law regarding maintenance of the securities accounts, including securities accounting requirements, asset segregation, asset protection, and obligation to inform the clients on the risks and costs associated with each level of asset segregation;
- (ii) mediate opening of securities accounts and provision of other central maintenance services of the Depository, except where the Depository provides the respective service directly;
- (iii) ensure that the information necessary for the registration of the securities and Transfer Orders is communicated to the Depository in compliance with these Rules, including data processing requirements and schedule;
- (iv) communicate the Transfer Orders, information and inquiries of the account holders to the Depository;
- (v) identify the person and verify the authority of the person that has submitted a Transfer Order regarding disposal of securities and record the time of receipt of such order;
- (vi) verify the accuracy and correctness of information communicated to the Depository and shall keep the documents related to the orders of the account holders in compliance with the applicable law; and
- (vi) maintain insurance or guarantee on the terms provided in the applicable law and the agreement concluded with the Depository and provide a proof of such insurance or guarantee to the Depository if the Account Operator is obligated under the applicable law to procure insurance or guarantee.

### **5.6 Account statements**

5.6.1 The Depository makes available to the Account Operator, the Issuer, the Issuer Agent, the Fund Administrator information, and a holder of owner account insofar as requested by the applicable law statements relating to the Operational Account, securities account, Issuance Account and the Distribution Account, respectively, at such times, by such methods and conditions as may be specified in the Operating Manual.

### **5.7 Orders of courts and other competent authorities or persons**

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5.7.1 Upon the request of a court, other competent authority or person ("**Order**") and in other cases stipulated by the applicable law, the Depository:

- (i) applies a restriction instruction in respect of a certain number of securities credited to a securities account or a securities account maintained in any Settlement System in order to prevent or control the movement or disposal of securities or to exercise rights arising under the securities, as may be required under the applicable law; and
- (ii) refuses to process instructions of the Account Operator and the Linked CSD, requests of the Issuer, the Issuer Agent, the Fund Administrator in relation to such securities or securities accounts, or issuance accounts, if and to the extent that would violate the Order or the applicable law.

5.7.2 The Depository checks only the formal validity of the Order. The Depository is not liable to the Account Operator, the Linked CSD, the Issuer of the Issuer Agent or the Fund Administrator for any Liabilities incurred by the Account Operator, the Linked CSD, the Issuer, the Issuer Agent or the Fund Administrator as a result of executing a restriction in respect of securities, securities account or an issuance account and is entitled to recover from the Account Operator, the Linked CSD, the Issuer, the Issuer Agent or the Fund Administrator any costs reasonably incurred by it in connection with such restriction.

### 5.8 Pledges and financial collaterals

5.8.1 Subject to the applicable law, the Depository registers a pledge over securities and financial collateral over the securities or a securities balance of the pledge account of the holder of securities account in any Settlement System on the basis of the pledge arrangement or financial collateral arrangement between the pledgor and the pledgee.

5.8.2 A pledge and financial collateral over the securities held in the securities account maintained in the books of the Account Operator or a lower tier account provider is registered with the respective account provider in accordance with the applicable law and agreement between the parties. Section 5 of the Rules does not prejudice the Account Operators and lower tier account providers from using other methods of registration (provision) of pledges or financial collateral pledges in lower tier accounts than those provided in Section 5.

5.8.3 The Depository registers:

- (i) a pledge (other than financial collateral pledge) over all or part of the securities in the pledgor's securities account held with the Settlement System (hereinafter referred to as "**pledge over securities**")

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**account balance” or “pledge”**), where such pledge may be registered over securities held with the Settlement System under the applicable law, in accordance with Section 5.9;

- (ii) a financial collateral pledge over the securities transferred from the pledgor’s securities account and credited to a special pledge account held with any Settlement System (hereinafter referred to as **“financial collateral pledge over pledge account” or “financial collateral pledge”**) in accordance with Section 5.10.

5.8.4 Financial collateral under a title transfer financial collateral arrangement is effected in accordance with provisions regarding securities transfer from the collateral provider’s securities account to the collateral taker’s securities account set out in Section 6.

### 5.9 Pledge over securities account balance

5.9.1 The Depository registers a pledge over all or part of securities credited to the pledgor’s securities account ("**securities balance**") in favour of the pledgee by blocking the pledged securities in the pledgor's securities account via an intra-position movement to restricted securities account sub-balance.

5.9.2 The pledge over securities account balance that is pledged under a pledge arrangement is deemed to be registered at the moment of the intra-position movement is recorded in the restricted securities account sub-balance.

### 5.10 Financial collateral pledge over pledge account

5.10.1 The Depository registers a financial collateral pledge over the securities held in the pledge account in favour of the pledgee by FoP transfer of the pledged securities to a pledge account opened in the name of the pledgor. All the securities credited to the pledge account, including securities that are credited to the pledge account as Corporate Action entitlements are subject to a financial collateral pledge.

5.10.2 A financial collateral pledge over the securities credited to a pledge account is deemed to be registered at the moment the transfer of the securities to the pledge account is final in accordance with Section 6.6.1.

5.10.3 The same pledge account may be used for registering financial collateral pledge over securities of the same ISIN credited in this pledge account in favour of the same pledgee under different financial collateral pledge arrangements, but only if such arrangements do not differ from each other with respect to the pledgee’s right of use. In other cases, pledges over securities that



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are pledged under different financial collateral pledge arrangements are registered by transferring securities to different pledge accounts.

### **5.11 Registration, changing and deletion of pledge and financial collateral pledge**

5.11.1 The Depository registers a pledge and financial collateral pledge and changes data entered into the securities account regarding pledging of securities on the basis of matching instructions of the Account Operator of the pledgor and the Account Operator of the pledgee. Subject to the requirements of the applicable law, the Depository enters in the securities account the following information:

- (i) the pledgee;
- (ii) in the case of a pledge over securities account balance, ISIN and the number of the pledged securities;
- (iii) a restriction (prohibition) to transfer or otherwise dispose the pledged securities (other than securities subject to financial collateral pledge which according to default settings of the pledge account cannot be transferred or disposed without a prior written consent of the pledgee) to a third party without a prior written consent of the pledgee, if the parties have expressly so agreed;
- (iv) the pledgee's right to use the pledged securities in the manner provided in the pledge arrangement between the pledgor and the pledgee, if the parties have expressly so agreed; and
- (v) the pledgee's right to enforce the pledge by means of appropriation.

5.11.2 The Depository registers a change in the pledgee in the securities account on the basis of an instruction of the Account Operator of the pledgee.

5.11.3 The Depository deletes:

- (i) a pledge on the basis of an instruction of the Account Operator of the pledgee;
- (ii) a financial collateral pledge on the basis of matching Transfer Orders of the Account Operator of the pledgee and the Account Operator of the pledgor for the transfer of the securities from the pledge account to the securities account of the pledgor.

5.11.4 If the pledgee has not opened in its name a securities account with the Settlement System, the Account Operator chosen by the pledgee registers the data of the pledgee and submits an instruction to the Depository for the registration of the pledge, changes to the

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data entered into the securities account, change in the pledgee or the deletion of the pledge.

### **5.12. Transfer of the pledged securities and enforcement of pledge and financial collateral pledge**

5.12.1 Subject to a prior consent of the pledgee, the Depository transfers the pledged securities to a third party (transferee) on the basis of matching Transfer Orders of the Account Operator of the transferor (pledgor) and the Account Operator of the transferee or, in case the transferor and the transferee use the same Account Operator, on the basis of a Transfer Orders of the respective Account Operator. The Depository transfers the pledged securities to the transferee together with the pledge registered over the securities and any other terms entered in respect of the pledged securities in the securities account of the pledgor.

5.12.2 If the pledgee exercises his right to use the pledged securities, the Depository transfers such securities to a securities account designated by the pledgee on the basis of a Transfer Order of the Account Operator of the pledgee or, in case provided in Section 5.11.4, the Account Operator that registered data of the pledgee.

5.12.3 If the pledgee exercises his pledge right (i.e. enforces the pledge) by transferring the pledged securities to a third party (transferee), the Depository transfers such securities to transferee on the basis of matching Transfer Orders of the Account Operator of the pledgee or, in case provided in Section 5.11.4, the Account Operator that registered data of the pledgee, on the one hand, and the Account Operator of the transferee, on the other hand.

5.12.4 If the pledgee exercises his pledge right (i.e. enforces the pledge) by means of appropriation of the pledged securities, where such enforcement is allowed under the applicable law, the Depository transfers such securities to the securities account designated by the pledgee on the basis of a Transfer Order of the Account Operator of the pledgee or, in case provided in Section 5.11.4, the Account Operator that registered data of the pledgee.

## **6. BALTIC SETTLEMENT SERVICES**

### **6.1 General**

6.1.1 This Section provides general provisions regarding settlement of transfers of securities which are held with any Baltic Settlement System.<sup>7</sup> The settlement and ancillary services that Depository

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<sup>7</sup> Provisions regarding settlement of transfer of securities which are held with the Icelandic Settlement System are in Section 7.

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provides in respect of T2S eligible securities and Non-T2S eligible securities are set forth in the Service Description.

- 6.1.2 The Depository outsources the validation, matching and settlement of all the Transfer Orders in T2S eligible securities to T2S. The instructions concerning T2S eligible securities, settlement services and other T2S services are provided in T2S Platform pursuant to T2S Rules.
- 6.1.3 The Depository's services outsourced to T2S referred to in Section 6.1.2 are available only during the availability period established by T2S which is an indicative time that may be altered by T2S. In case T2S alters availability time of the services outsourced to T2S (e.g. delay of the end-of-day), the Participant has to take all the necessary measures to ensure compliance with these Rules during or after the altered availability time, including Section 6.3.6. The Depository informs Participants regarding alteration of the T2S availability time of the services outsourced to T2S promptly after it has received such information from T2S.
- 6.1.4 The Operational Accounts reflecting T2S eligible securities are reflected on T2S on one-to-one basis as T2S Securities Accounts. Only debits and credits of T2S eligible securities made in T2S Securities Accounts create legal effects.
- 6.1.5 T2S eligible securities are settled on T2S Platform according to these Rules, T2S Rules and T2S functionality. Non-T2S eligible securities are settled on CSD System according to these Rules and CSD System functionality.
- 6.1.6 Any settlement finality moment in the securities account is deemed to occur:
- (i) in case of T2S eligible securities, when T2S assigns a time stamp in accordance with T2S Rules, regardless of whether the securities account records in CSD System have been synchronised with T2S data; or
  - (ii) in case of Non-T2S eligible securities, when CSD System assigns a time stamp in accordance with CSD System technical module.
- 6.1.7 After a settlement finality moment has occurred on T2S Platform, the records in the securities account with the respective Settlement System are continuously synchronised (at regular times and on *ad hoc* basis) with T2S records in accordance with T2S Rules and the user messaging subscription preferences provided in the relevant Service Description.

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6.1.8 In these Rules the term "instruction" is used interchangeably with the term Transfer Order within the meaning of the Settlement Finality Directive or equivalent concept used in the national laws implementing this directive whenever the relevant instruction relates to the transfer of cash and/or securities.

### **6.2 Connectivity to T2S for securities**

6.2.1 A Participant may connect to T2S as:

- (i) a DCP by using a T2S authorised network service provider in order to directly access T2S services; or
- (ii) an ICP by interacting with T2S via CSD System, i.e. by sending Transfer Orders and messages to the CSD System via the authorised communication means and receiving reports from the Depository. This status does not prejudice the right of the ICP to subscribe to services directly provided by T2S (e.g. subscription to copies of messages from T2S to Depository).

6.2.2 The Depository sets up the status of the respective Participant with T2S as an ICP unless the Participant has specifically requested to be a DCP.

6.2.3 A DCP shall:

- (i) use reasonable efforts to ensure that its connectivity with the T2S Platform functions properly at all times;
- (ii) report any errors in Transactional Data (as defined in T2S FWA) and CSD Static Data (as defined in T2S FWA) to the Depository as soon as reasonably practicable in order to allow the Depository to comply with Article 22(4) of T2S FWA;
- (iii) comply with other obligations in relation to T2S Services set out in these Rules.

6.2.4 A DCP sends Transfer Orders directly to T2S, and such Transfer Orders are subject to T2S validation, matching and settlement processes only. The Depository makes corresponding records in the securities accounts maintained by DCP in CSD System on the basis of copies of Transfer Orders, status updates and settlement confirmations received from T2S.

6.2.5 An ICP sends Transfer Orders to CSD System and such Transfer Orders are subject to technical and business validation process of CSD System. If the Transfer Order relates to T2S eligible securities and the validation of such Transfer Order by CSD

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System is successful, the Transfer Order is subject to final T2S validation, matching and settlement processes. If the Transfer Order relates to non-T2S eligible securities, the Transfer Order is processed only in CSD System.

### 6.3 Processing of Transfer Orders

- 6.3.1 The Depository processes only the Transfer Orders that are submitted by or through the Participant and satisfy the conditions set out in the Operating Manual and the applicable law.
- 6.3.2 The Participant has to use the means of communication provided in the Operating Manual for sending Transfer Orders to the Depository.
- 6.3.3 The standard deadlines by which Transfer Orders must be received by the Depository are set out in the Operating Manual. In exceptional circumstances, the Depository may amend the standard deadlines when, in the reasonable opinion of the Depository, it is required due to operational issues or in cases provided in Section 2.7.2. The Depository informs the Participant of such amendment without delay.
- 6.3.4 If the securities transaction (trade) is executed on any trading venue or in auctions conducted in trading systems operated by Baltic Stock Exchange, the settlement instruction is either (i) submitted to CSD System by the relevant Participant or (ii) auto-generated by the CSD in case the relevant Participant is using the Depository's trade capture service in accordance with the Operating Manual.
- 6.3.5. The Depository does not execute a Transfer Order if and as long as:
- (i) the result of the provision check by T2S or CSD System, as a case may be, shows that securities or securities headroom or, in case of DvP or Payment free of delivery (“**PFoD**”) settlement, cash balance and external guarantee headroom involved in the settlement are insufficient; and
  - (ii) any lack of securities or securities headroom and cash balance and external guarantee headroom identified during the provision check cannot be solved by resorting to partial settlement process or auto-collateralisation process, respectively, where such process is available.

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6.3.6 In case the Insolvency Event of the Participant occurs, the Depository handles Transfer Orders of the Participant in accordance with the default procedure set out in Annex II.

6.3.7 If the securities records are maintained by the Participant in its securities accounting system, the Participant makes book entries in such system only after the Depository's confirmation of settlement finality is made available to the Participant.

### **6.4 Moment of entry of Transfer Order (SF I)**

6.4.1 A Transfer Order is deemed to be entered into the Settlement System at the moment when the Transfer Order has been validated with:

- (i) in the case of Transfer Order to be settled in T2S, T2S technical rules by the T2S Platform;
- (ii) in the case of Transfer Order to be settled in the CSD System, CSD System technical rules by CSD System.

The Depository shall adopt technical rules that specify the types of Transfer Orders that are settled in T2S and in CSD System and procedure that allows to determine the moment of technical validation of the Transfer Order.

6.4.2 A Transfer Order may not be set aside due to the fact that Insolvency Event has occurred and continues in respect to a party to that Transfer Order, provided that the Transfer Order complies with Section 6.4.1 and such compliance occurred:

- (i) prior to the occurrence of the Insolvency Event, or
- (ii) after the occurrence of the Insolvency Event, on the same day but the Depository did not know, and ought not to have known, about the occurrence of the Insolvency Event.

### **6.5 Moment of irrevocability of Transfer Order (SF II)**

6.5.1 Transfer Order is irrevocable from the moment at which the Transfer Order is given a status "matched", in the case of Transfer Orders to be settled in T2S, on the T2S Platform, or, in the case of Transfer Orders to be settled in CSD System, on CSD System, i.e. the Transfer Order is or becomes incapable of being amended or cancelled in accordance with the respective T2S or CSD System procedures by a unilateral instruction of the Participant, or any third party, who wishes to have the Transfer Order amended or deleted.

6.5.2 If the Participant has entered in CSD System a matched Transfer Order, the Transfer Order is irrevocable only from the moment at which the Transfer Order is given a status "matched", in the case

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of Transfer Orders to be settled in T2S, on T2S Platform, or, in case of Transfer Orders to be settled in CSD System, on CSD System.

- 6.5.3 Without prejudice to Section 6.9.2, a Participant or the Depository on the request of any third party, including without limitation any insolvency administrator of a Participant does not have a right to withdraw or revoke, or purport or attempt to revoke, any Transfer Order from the time at which it becomes irrevocable pursuant to Section 6.5.1. Any instruction for such revocation shall not have any legal effect, and the Depository shall not process and disregard any such instruction.

### **6.6 Finality of settlement (SF III)**

- 6.6.1 The settlement of securities transfer is final as from the moment at which the securities are credited to the transferee's securities account and debited from the transferor's securities account on T2S Platform (T2S eligible securities) or on CSD System (Non-T2S eligible securities). In case of DvP transfer of securities and PFoD transfer of Corporate Action proceeds, cash settlement is final according to Section 6.12.10 or Rules regarding settlement of cash leg for Non-T2S eligible securities, respectively.

- 6.6.2 As of the moment provided in Section 6.6.1 the transfer of securities to a securities account and, where applicable, transfer of cash to the cash account is unconditional, irrevocable, irreversible and enforceable.

### **6.7 Amendment and hold of Transfer Orders**

- 6.7.1 The Account Operator may only amend such process indicators of Transfer Order as settlement priority, partial settlement indicator and linkage information, regardless of whether the Transfer Order is matched or unmatched.

- 6.7.2 The Participant or the Depository may set the settlement of the Transfer Order on hold until it is released by the respective Participant or the Depository, respectively, in accordance with the Operating Manual. The Transfer Orders on hold are not eligible for the settlement and are pending until they are released.

### **6.8 Cancellation of Transfer Orders**

- 6.8.1 The Participant may unilaterally cancel a submitted Transfer Order until the moment such instructions are matched with a corresponding instruction.

- 6.8.2 Matched Transfer Orders may only be cancelled bilaterally with the consent of both Participants or upon request of authorised entity acting on their behalf. Notwithstanding the aforementioned,

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matched Transfer Order may be cancelled by the CSD in case the recycling period of Matched Transaction exceeds the period defined by T2S as the maximum recycling period.

- 6.8.3 The Depository may enter the cancellation instruction in the CSD System upon the request of the Participant, in respect of Corporate Actions and restrictions pursuant to Section 5.7 and in other cases provided in these Rules and applicable law.
- 6.8.4 The Participants submit a cancellation instruction in the manner and according to the time schedule provided in the Operating Manual. The original settlement instructions are cancelled at the moment when the cancellation instructions are matched in T2S or CSD System, as a case may be. If the original instructions are partly settled, only the outstanding unsettled amount is cancelled.
- 6.8.5 Transfer Orders that are not matched within the time schedule provided in the Operating Manual are not valid and are automatically cancelled in T2S and reflected in CSD System (T2S eligible securities) or automatically cancelled in CSD System (non-T2S eligible securities), as the case may be.

### **6.9 Correction of erroneous credits and debits and reversals**

- 6.9.1 Subject to applicable law and without prejudice to a claim the Participant may have against the Depository under these Rules, the Depository may, without prior consultations with the Participant, correct or reverse any credit or debit to any securities account if:
- (i) the credit and/or debit is erroneous or made as a result of incorrect processing of a transaction;
  - (ii) the Depository is required to do so under the applicable law or an order of a competent authority; or
  - (iii) as regards credit and/or debit to a securities account, such credit and/or debit is dependent on the credit and/or debit to securities account opened with a Linked CSD and such other credit and/or debit is reversed pursuant to the terms of that Linked CSD.

- 6.9.2 The Account Operator authorises the Depository to generate the necessary instructions on its behalf in order to perform such corrections or reversals. The Depository immediately notifies the Account Operator of corrections or reversals to securities account.

### **6.10 Application of restrictions by the Depository**



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6.10.1 As permitted under the applicable law, the Depository may take appropriate actions, including refusal to process Transfer Orders and/or blocking the securities and cash accounts:

- (i) if such action is necessary in connection with its custody operations, including withholding of tax, voting procedures, acceptance of conditional offers and exchange of securities or market claims; or
- (ii) upon occurrence of any event provided in Sections 3.3.1 and 3.3.2.

6.10.2 As permitted under the applicable law, the Depository refuses to process Transfer Orders or take any other action in relation to the securities accounts and cash accounts if, and insofar as, such Transfer Order or action would violate the applicable law, any order notified by a competent authority to the Depository or any agreement concluded between the Depository and the Participant.

### 6.11 Cash settlement

6.11.1 Cash leg for **T2S eligible securities in T2S eligible currency** is settled and Auto-collateralisation and processing of Corporate Actions are effected in CeBM via DCAs in accordance with Section 6.13 and 6.15.

6.11.2 Cash leg for **T2S eligible Baltic securities in non-T2S currency** is settled outside T2S in CoBM via credit institution, as may be designated by the Depository in compliance with the CSDR, in accordance with Section 6.14 or CSD which is authorised to provide banking-type ancillary services in accordance with CSDR, and T2S Rules insofar as it is necessary to realign the settlement of the cash leg and the securities leg.

6.11.3 The Depository has a right to adopt Rules regarding settlement of cash leg for Non-T2S eligible securities which shall form Annex hereto.

### 6.12 Dedicated Cash Accounts

6.12.1 Each Participant in T2S designates at least one DCA which is used for the settlement of T2S eligible securities in T2S eligible currency, including Corporate Actions, on T2S Platform. The DCA so designated is either the DCA maintained by the Participant or a Payment Bank in T2S acting for the Participant.

6.12.2 A single DCA may be linked to several Operational Accounts or a specific Operational Account in T2S that is administered by the Participant. If the Participant has more than one DCA for the same currency, the Participant has to assign a default DCA for the respective securities account and currency.

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- 6.12.3 If the Participant opens a new Operational Account without specifying the DCA, the Depository links this Operational Account to this Participant's default DCA in T2S.
- 6.12.4 If the Participant has not specified a DCA in the settlement instruction and has several DCAs linked to a single Operational Account in T2S, the default DCA linked to the given Operational Account is used for the cash settlement.
- 6.12.5 The Depository ensures that a Corporate Action distribution account is opened in the CSD system and in T2S in the name of the Account Operator acting as a Paying Agent for one or more Issuers and such account is used for settlement of Corporate Action proceeds ("**Corporate Action Distribution Account**"). The Account Operator acting as Paying Agent informs the Depository of the DCA which should be linked with its Corporate Actions Distribution Account. The Depository acting as a Paying Agent administers the cash credited to its DCA on behalf of the Issuers and keeps it separately from the cash held on its own account.
- 6.12.6 The Depository sets up and maintains a link between the DCA and the associated Operational Account.
- 6.12.7 The Depository provides the Participant acting as a Payment Bank in T2S with the information on T2S cash forecast, DCA balance and DCA cash postings in accordance with the Operating Manual and Service Description. The Payment Bank authorises the Depository to provide specific cash related services with respect to the DCA in accordance with an agreement between the parties or a power of attorney issued to the Depository.
- 6.12.8 The Depository and each Participant acting as a Payment Bank acknowledge that the account holding relationship reflected by DCA opened in the name of a Payment Bank is the relationship between the relevant NCB and the Payment Bank and is governed by the relevant NCB rules and contractual documentation.
- 6.12.9 The Operating Manual shall provide a procedure regarding accounting (i.e. keeping sub-bookkeeping records) of the cash transferred to and from the Depository's External Cash Account or the Depository's T2S account and attribution of cash from the cash deliverer to the cash recipient in the CSD System.
- 6.12.10 Settlement of cash transfer is final when the settlement amount is debited from:

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- (i) in case of T2S eligible securities in T2S eligible currency, DCA of cash deliverer in accordance with Section 6.13.1 (iii) (DvP Transfer Order) or Section 6.13.1 (iv) (PFoD transfer of Corporate Action Proceeds); or
- (ii) in case of T2S eligible Baltic securities in non-T2S eligible currency, External Cash Account of the Depository in accordance with Section 6.14.4 (iii) (DvP Transfer Order) or Section 6.14.5 (Corporate Action proceeds).

### **6.13 Cash settlement of T2S eligible securities in T2S eligible currency**

#### 6.13.1 On the Settlement Day:

- (i) in case of settlement of the cash leg of DvP Transfer Order of T2S eligible securities in T2S eligible currency, the Participant ensures the required liquidity in the Payment Bank's DCA on the Settlement Day before the deadline set by the Depository in accordance with the Operating Manual. In order to ensure settlement of DvP, liquidity can be provided by transferring funds to DCA, by relying on incoming liquidity flow or by using Auto-collateralisation (provided that there are enough T2S eligible securities on stock or on flow).
- (ii) in case of distribution of Corporate Action proceeds in respect to T2S eligible securities in T2S eligible currency the Paying Agent who services the Issuer as soon as the Settlement Day in T2S starts makes available the required cash amount to the DCA that is linked to the Paying Agent's Corporate Action Distribution Account in T2S.
- (iii) the Depository settles the cash leg of DvP Transfer Order of T2S eligible securities in T2S eligible currency by debit of the cash amount from the DCA linked to the buying Participant's securities account and credit to the DCA linked to the selling Participant's securities account. If a securities account is linked to several DCAs, the Depository will debit and credit the default DCA *as per* Section 6.12.4;
- (iv) The Depository distributes Corporate Action proceeds in respect to T2S eligible securities in T2S eligible currency according to the following procedure.
  - (a) In case the Issuer distributing Corporate Action proceeds has appointed the Depository as its Paying Agent, the Depository debits the cash amount from its DCA and credits it to the default DCA for a given currency that is linked

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to the receiving Participant's securities account. In case the Issuer distributing Corporate Action proceeds has appointed Participant as its Paying Agent, the Depository first debits the cash amount from the DCA linked to the Paying Agent's Corporate Action Distribution Account in T2S and credits it to the Depository's DCA and then debits this amount from the Depository's DCA and credits it to the default DCA for a given currency that is linked to the receiving Participant's securities account; or

- (b) In case the Issuer receiving payment from the investors has appointed the Depository as its Paying Agent, the Depository debits the cash amount from the DCA that is linked to the Participants securities account and credits it to the Depository's DCA in T2S. In case the Issuer receiving payment from the investors has appointed Participant as its Paying Agent, the Depository first debits the cash amount from the DCA that is linked to the Participant's securities account and credits to the Depository's DCA in T2S and then debits this amount from the Depository's DCA and credits it to the DCA linked to the Paying Agent's Corporate Action Distribution Account in T2S.

6.13.2 Before the end of a Settlement Day according to the time schedule provided in the Operating Manual, T2S automatically transfers:

- (i) any remaining cash balance from the Payment Bank's DCA to T2 account associated to the DCA.
- (ii) any remaining cash balance from the Depository's DCA to T2 account associated to the DCA.

### **6.14. Cash settlement of T2S eligible Baltic securities in non-T2S eligible currency**

6.14.1 The Depository may open in its name an External Cash Account for settlement of the cash leg for T2S eligible Baltic securities in non-T2S eligible currency, including Corporate Action proceeds. The Depository does not maintain overnight cash balance of the Participants or Issuers in such External Cash Accounts, except where these Rules provide otherwise.

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- 6.14.2 The Depository administers the cash credited to the External Cash Account on behalf of the Participants or Issuers and keeps it separately from the cash held on its own account.
- 6.14.3 On the Settlement Day before the deadline set by the Depository, the Cash Agent, Issuer's Paying Agent or the Issuer transfers the required cash amount to the Depository's External Cash Account.
- 6.14.4 On the Settlement Day the Depository settles the cash leg of DvP transfer of T2S eligible Baltic securities in non-T2S eligible currency according to the following procedure:
- (i) after the receipt of a DvP Transfer Order, CSD System sends a FoP Transfer Order to T2S Platform which, subject to T2S functionality, initiates CoSD procedure on Settlement Day.
  - (ii) after the Depository has received information from T2S that CoSD is activated and the Cash Agent has transferred the required cash amount to the Depository's External Cash Account in accordance with Section 6.14.3, the Depository makes sub-bookkeeping records in the CSD System as a result of which the cash amount is attributed to to the cash receiving Participant's Cash Agent and initiates a transfer of the respective amount from the Depository's External Cash Account to the External Cash Account of the cash receiving Participant's Cash Agent for the given currency.
  - (iii) immediately after the Depository has received a notification from the External Cash Account provider that the Depository's External Cash Account is debited the Depository initiates instruction release in T2S which triggers CoSD release in T2S, and the settlement of the securities transfer is completed in T2S (SF III).
- 6.14.5 On the Settlement Day but only after the required cash amount is transferred to the Depository's External Cash Account the Depository ensures the transfer of Corporate Action proceeds in respect of T2S eligible Baltic securities in non-T2S eligible currency according to the following procedure:
- (i) the Depository makes sub-bookeeping records in the CSD System as a result of which the cash amount credited to the Depository's External Cash Account is attributed to the cash receiving Participant's Cash Agent, the Issuer or the Paying Agent of the Issuer; and
  - (ii) initiates a transfer of the cash amount that is attributed to the cash receiving Participant's Cash Agent, the Issuer or the Paying Agent of the Issuer from the

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Depository's External Cash Account to the External Cash Account of the cash receiving Participant's Cash Agent, the External Cash Amount of the Issuer or the External Cash Account of the Issuer's Paying Agent, respectively.

- 6.14.6 Notwithstanding any other provision of these Rules, as of the moment the Depository has received a notification from the External Cash Account provider that the settlement amount is debited from the Depository's External Cash Account the cash leg in non-T2S eligible currency is deemed to be final and the Depository ceases to be responsible for ensuring crediting of this amount to the cash account of the recipient.

**6.15 Auto-collateralisation in T2S**

6.15.1 The Depository makes available the following T2S auto-collateralisation types in accordance with T2S Rules:

- (i) **central bank collateralisation** in T2S - subject to NCB's decision to provide such service, whereby the NCB provides intraday credit to the Payment Bank against eligible collateral in order to cover lack of cash in the DCA;
- (ii) **client collateralisation** - subject to Depository's and the Payment Bank's decision to provide such service, whereby the Payment Bank provides credit to the client in order to cover insufficient external guarantee headroom.

6.15.2 In order to use T2S auto-collateralisation:

- (i) the Payment Bank shall open an RTGS account with the same NCB that maintains its DCA;
- (ii) the Depository shall set links between the DCA and Operational Accounts which can be used to provide collateral;
- (iii) the Payment Bank shall at its static data indicate the use of auto-collateralisation service and which securities accounts are eligible for auto-collateralisation

6.15.3 The intraday credit that is provided by the NCB in T2S auto-collateralisation is secured by using the securities in accordance with T2S Rules. Securities which are not used for auto-collateralisation but are already pledged or involved in other transactions are not eligible to auto-collateralisation operations.

6.15.4 Depending on the choice of respective NCB, there are three different auto-collateralisation techniques regarding use of securities accounts for collateral:

- (i) where the securities are transferred from the securities account of Payment Bank to the securities account of the NCB (*repo technique*);
- (ii) where the securities are transferred from one securities account of the Payment Bank to another securities account of the Payment Bank (*pledge technique*);
- (iii) where the securities are restricted in the securities account of the Payment Bank without transfer to any other securities account (*pledge sub technique*).

6.15.5 Auto-collateralisation transaction shall be subject to an automatic reimbursement, which is put on hold until the Payment Bank is ready to reimburse the transaction on its DCA (by providing necessary liquidity to its DCA) and the

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reimbursement instruction is released. If the reimbursement instruction is still pending by 16:30 CET, a forced reimbursement is executed, TARGET2 intraday credit is increased and collateral is automatically relocated to the NCB securities account as collateral for TARGET2 intraday credit.

### **6.16 Measures to prevent and address settlement fails**

6.16.1 The Participant takes all the necessary measures to ensure smooth and timely settlement of every securities transaction on the ISD. The Participant shall send the instructions to the Settlement System as soon as possible in order to facilitate early matching by T2S or CSD System.

6.16.2 The Depository :

- (i) maintains a system that monitors settlement fails of securities transactions which enable the Depository to identify and keep record of ISD and the status of settlement instructions entered in each Settlement System;
- (ii) provides Participants with access to tools that allow monitoring settlement cycle and to take action to prevent settlement fails.

6.16.3 In respect of each settlement instruction that fail to settle, the Depository calculates and collects net amount of penalties to be paid by each Participant and provides details of the penalties in accordance with RTS and the Operating Manual.

6.16.4 The Participant transfers the net amount of penalties to the cash account designated by the Depository by specific date of the respective month determined by the Depository in accordance with RTS on Settlement Discipline. The Depository redistributes to the receiving Participants that have suffered from the settlement fail the net amount of cash penalties by specific date of the respective month determined by the Depository in accordance with RTS on Settlement Discipline. The Depository charges to the Participants the costs of the penalty mechanism in accordance with CSDR.

6.16.5 The Depository shall be involved in supporting the application of buy-in to the extent and as provided in RTS on Settlement Discipline.

6.16.6 Sections 6.16.3 - 6.16.5 shall apply following the entry into force of RTS on Settlement Discipline.

### **6.17 Settlement discipline measures prior to entry into force of RTS on Settlement Discipline**



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- 6.17.1 Unless otherwise provided in Chapters II, III or IV, the Depository applies settlement discipline measures provided in its Price List only towards transactions concluded, registered or reported on trading venue(s) operated by the Baltic Stock Exchanges (*exchange transactions*).
- 6.17.2 Without prejudice to 6.17.1 (right of the Depository to provide penalty fees in its Price List) exchange transactions are additionally subject to settlement discipline measures provided in the Rules and price list(s) of Baltic Stock Exchange(s).
- 6.17.3 In connection with the exchange transactions each Baltic Stock Exchange has the right to:
- (i) make inquiries from the Depository about securities accounts and Transfer Orders as long as these are related to settlement of exchange transactions;
  - (ii) request cancellation or amendment of Transfer Orders by the Depository and submit new Transfer Orders if this is necessary for the application of settlement discipline measures such as use of the guarantee fund, enforcement of settlement limit(s), buy-in and sell-out procedures as provided in the Rules of the respective Baltic Stock Exchange.

### **6.18 International settlement services**

- 6.18.1 The Depository provides international settlement services in accordance with this Section insofar as the CSD link arrangement with a Linked CSD and the procedure regarding settlement of securities registered with an External CSD under such CSD link arrangement does not provide otherwise. The Depository makes available the terms of CSD link arrangements regarding holding and settlement of securities to its Participants. The international settlement services of the Depository involve:
- (i) holding securities registered with a Linked CSD as an Issuer CSD in custody for the account of account holders and facilitating cross-border CSD securities settlement; and/or
  - (ii) maintaining omnibus account(s) for a Linked CSD as an Investor CSD to enable holding of securities held with one or more Settlement Systems operated by the Depository and facilitating cross-border CSD securities settlement.
- 6.18.2 In order to ensure cross-border CSD securities settlement, the Depository opens an omnibus account in the Issuer CSD per each Settlement System and maintains an omnibus account of the Investor CSD in each Settlement System, unless a CSD link arrangement provides otherwise.
- 6.18.3 The Depository provides the following types of international settlement of securities:

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- (i) **Cross CSD settlement in T2S** of transactions effected by or through the Participant of the Depository and a participant to a Linked CSD participating in T2S;
- (ii) **External CSD settlement** of transactions between counterparties that belong to different CSDs (the Depository and Linked CSD or two Linked CSDs), when at least one of these CSDs is not participating in T2S and is acting as Investor CSD or Issuer CSD (“**External CSD**”).

6.18.4 The Depository informs its Participants on increased risk associated with a Linked CSD or a CSD link arrangement with a Linked CSD within reasonable time from the moment it becomes aware of such risk.

6.18.5 Foreign Securities registered with a Linked CSD as an Issuer CSD that are held by or through the Participant via a CSD link arrangement are held with the Default Settlement System associated with the Operational Account through which the securities are held (*see Sections 2.17.2 and 2.17.3 regarding the applicable law to securities holdings*). The Default Settlement System of the Operational Account is the Default Settlement System of the Account Operator that has requested to open the respective Operational Account, unless the Account Operator has selected a different Default Settlement System in the application to open a new Operational Account.

6.18.6 The settlement of the Transfer Orders effected by or through the Participant of the Depository and the participant to a Linked CSD takes place automatically in accordance with T2S Rules and the CSD link arrangement if the Linked CSD is:

- (i) CSD in T2S, regardless of whether it is acting as Issuer CSD or Investor CSD;
- (ii) External CSD acting as Investor CSD.

The cash leg of DvP Transfer Order in respect of securities registered with Linked CSD in T2S or External CSD as Investor CSD is settled between DCAs of the holder of securities account with the Depository and the participant in Linked CSD in T2S or External CSD, respectively.

The finality and irrevocability of settlement of Transfer Orders processed through link arrangement is established according to the timeframes and rules of the Issuer CSD. When the Depository acts as Investor CSD in connection with the link arrangement, it shall cancel Transfer Orders placed by its Participant upon Participant's request only if such cancellation does not violate the rules of the Issuer CSD.

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- 6.18.7 The Depository keeps sub-bookeeping records of the cash leg in respect of cross-border settlement of DvP Transfer Orders in CSD System in accordance with Section 6.12.9.

### **7. Icelandic Settlement Services**

#### **7.1 General**

- 7.1.1 Notwithstanding Section 6, this Section 7 provides general provisions regarding settlement of transfers of securities which are held with the Icelandic Settlement System. The ISK payments in respect to such transfers are settled through the Central Bank of Iceland. The settlement and ancillary services that Depository provides in respect of ISK denominated securities are set forth in the Service Description and Operating Manual.
- 7.1.2. ISK Securities are settled on the CSD System according to these Rules and CSD System functionality.
- 7.1.3 Any settlement finality moment in the securities account is deemed to occur when CSD System assigns a time stamp in accordance with CSD System technical module.
- 7.1.4. In these Rules the term "instruction" is used interchangeably with the term Transfer Order within the meaning of the Settlement Finality Directive or equivalent concept used in the Icelandic Act No. 90/1999, as may be amended from time to time, implementing the Settlement Finality Directive in Iceland whenever the relevant instruction relates to the transfer of cash and/or securities.

#### **7.2 Processing of Transfer Orders**

- 7.2.1. The Depository processes only the Transfer Orders that are submitted by or through the Participant and satisfy the conditions set out in the Operating Manual and Icelandic law.
- 7.2.2. The Participant shall use the means of communication provided in the Operating Manual for sending Transfer Orders to the Depository.
- 7.2.3. The standard deadlines by which Transfer Orders must be received by the Depository are set out in the Operating Manual. In exceptional circumstances, the Depository may amend the standard deadlines when, in the reasonable opinion of the Depository, it is required due to operational issues or in cases provided in Section 2.7.2. The Depository informs the Participant of such amendment without delay.
- 7.2.4. If the securities transaction (trade) is executed on any trading venue or in auctions conducted in trading systems operated by Iceland Stock Exchange, the settlement instruction is either (i) submitted to a CSD System by the relevant Participant or (ii) auto-generated by the CSD in case the relevant Participant is

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using the Depository's trade capture service in accordance with the Operating Manual.

- 7.2.5. The Depository does not execute a Transfer Order if and as long as the result of the provision check by a CSD System, as the case may be, shows that securities or securities headroom or, in case of DvP or Payment free of delivery (“**PFoD**”) settlement, cash balance involved in the settlement are insufficient.
- 7.2.6. In case the Insolvency Event of the Participant occurs, the Depository handles Transfer Orders of the Participant in accordance with the default procedure set out in Annex II.
- 7.2.7. The participant shall only confirm book entries in its own system after the Depository’s confirmation of settlement finality is made available to the Participant.

### **7.3. Moment of entry of Transfer Order (SF I)**

- 7.3.1. A Transfer Order is deemed to be entered into the Settlement System at the moment when the Transfer Order has been validated with the CSD system technical rules. The Depository shall adopt technical rules that specify the types of Transfer Orders that are settled CSD System and procedure that allows to determine the moment of technical validation of the Transfer Order.
- 7.3.2. A Transfer Order may not be set aside due to the fact that Insolvency Event has occurred and continues in respect to a party to that Transfer Order, provided that the Transfer Order complies with Section 7.3.1 and such compliance occurred:
  - (i) prior to the occurrence of the Insolvency Event; or
  - (ii) after the occurrence of the Insolvency Event, on the same day but the Depository did not know, and ought not to have known, about the occurrence of the Insolvency Event.

### **7.4. Moment of irrevocability of Transfer Order (SF II)**

- 7.4.1. A Transfer Order is irrevocable from the moment at which the Transfer Order is given a status "matched" in the CSD System, i.e. the Transfer Order is or becomes incapable of being amended or cancelled in accordance with the CSD System procedures by a unilateral instruction of the Participant, or any third party, who wishes to have the Transfer Order amended or deleted.
- 7.4.2. If the Participant has entered in the CSD System a matched Transfer Order, the Transfer Order is irrevocable only from the moment at which the Transfer Order is given a status "matched" on CSD System.
- 7.4.3. Without prejudice to Section 7.8.2, a Participant or the Depository on the request of any third party, including without

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limitation any insolvency administrator of a Participant does not have a right to withdraw or revoke, or purport or attempt to revoke, any Transfer Order from the time at which it becomes irrevocable pursuant to Section 7.4.1. Any instruction for such revocation shall not have any legal effect, and the Depository shall not process and disregard any such instruction.

### **7.5. Finality of settlement (SF III)**

7.5.1 The settlement of securities transfer is final as from the moment at which the securities are credited to the transferee's securities account and debited from the transferor's securities account in the CSD system.

In case of DvP transfer of securities and PFoD transfer of Corporate Action proceeds in ISK, cash settlement is final when cash has been debited from the cash deliverer's NCSD LOM account and credited to the cash receiver's NCSD LOM account at the Central Bank of Iceland.

In case of DvP transfer of Non-T2S Eligible Securities and PFoD transfer of Corporate Action proceeds in EUR currency, cash settlement is final when cash has been debited from the cash deliverer's technical liquidity account in the CSD system and credited to the cash receiver's technical liquidity account in the CSD system.

### **7.6. Amendment and hold of Transfer Orders**

7.6.1. The Account Operator may only amend such process indicators of Transfer Order as settlement priority, partial settlement indicator and linkage information, regardless of whether the Transfer Order is matched or unmatched.

7.6.2. The Participant or the Depository may set the settlement of the Transfer Order on hold until it is released by the respective Participant or the Depository, respectively, in accordance with the Operating Manual. The Transfer Orders on hold are not eligible for the settlement and are pending until they are released.

### **7.7. Cancellation of Transfer Orders**

7.7.1. The Participant may unilaterally cancel a submitted Transfer Order until the moment such instructions is matched with a corresponding instruction.

7.7.2. Matched Transfer Orders may only be cancelled bilaterally with the consent of both Participants or upon request of authorised entity acting on their behalf.

7.7.3. The Depository may enter the cancellation instruction in the CSD System upon the request of the Participant, in respect of Corporate Actions and restrictions pursuant to Section 5.7 and in other cases provided in these Rules and Icelandic law.

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7.7.4. The Participants submit a cancellation instruction in the manner and according to the time schedule provided in the Operating Manual. The original settlement instructions are cancelled at the moment when the cancellation instructions are matched in the CSD System.

7.7.5. Transfer Orders that are not matched within the time schedule provided in the Operating Manual are not valid and are automatically cancelled in the CSD System.

### 7.8. Correction of erroneous credits and debits and reversals

7.8.1. Subject to Icelandic law and without prejudice to a claim the Participant may have against the Depository under these Rules, the Depository may, without prior consultations with the Participant, correct or reverse any credit or debit to any securities account if:

- (i) the credit and/or debit is erroneous or made as a result of incorrect processing of a transaction;
- (ii) the Depository is required to do so under Icelandic law or an order of a competent authority; or
- (iii) as regards credit and/or debit to a securities account, such credit and/or debit is dependent on the credit and/or debit to securities account opened with a Linked CSD and such other credit and/or debit is reversed pursuant to the terms of that Linked CSD

7.8.2. The Account Operator authorises the Depository to generate the necessary instructions on its behalf in order to perform such corrections or reversals. The Depository notifies the Account Operator of corrections or reversals to securities account at the earliest opportunity.

### 7.9. Application of restrictions by the Depository

7.9.1. As permitted under Icelandic law, the Depository may take appropriate actions, including refusal to process Transfer Orders and/or blocking the securities and cash accounts:

- (i) if such action is necessary in connection with its custody operations, including withholding of tax, voting procedures, acceptance of conditional offers and exchange of securities or market claims; or
- (ii) upon occurrence of any event provided in Sections 3.3.1 and 3.3.2.

7.9.2. As permitted under Icelandic law, the Depository is permitted to refuse to process Transfer Orders or take any other action in relation to the securities accounts and cash accounts if, and insofar as, such Transfer Order or action would violate Icelandic law, any order notified by a competent authority to the Depository or any agreement concluded between the Depository and the Participant.

**7.10. NCSL LOM accounts**

- 7.10.1 Cash settlements in ISK at the Central Bank of Iceland for Transfer Orders submitted to the Depository are only processed if the Participant acts himself as a Cash Agent or has appointed a Cash Agent.
- 7.10.2 Any ISK cash leg for Non-T2S Eligible Securities are settled in CeBM at designated cash accounts at the Central Bank of Iceland, NCSL LOM accounts.
- 7.10.3 Cash Agents must have a NCSL LOM account at RTGS system operated by the Central Bank of Iceland and shall have concluded agreement with the Depository, who acts as an Authorised Settlement Agent (ASA), regarding cash management services. Cash Agents authorise the Depository to submit an instruction to the Central Bank of Iceland in order to transfer net settlement obligations between the NCSL LOM accounts based on Transfer Orders.
- 7.10.4 The Cash Agent is responsible for having sufficient funds available for each settlement batch, including confirmed Corporate Action settlement batch.
- 7.10.5 Each Participant that is not a Cash Agent must conclude an agreement for the provision of cash agency services with a CSD participant who has the role as a Cash Agent and is a member of the RTGS system.

**7.11 Technical Liquidity Accounts**

- 7.11.1 The Depository will open a Technical Liquidity Account in the CSD System for each Cash Agent that will be used for mirroring cash balances of the NCSL LOM account at the Central Bank of Iceland in the CSD system (i.e. the Depository keeps sub-bookkeeping records of cash balances of NCSL LOM accounts in the CSD system).
- 7.11.2 The Cash Agent is responsible for providing a settlement limit to its clients and for reporting such to the CSD system that are available to the Cash Agent and to its clients.

**7.12 ISK Settlement**

- 7.12.1 The Depository operates a net settlement cycle consisting of Transfer Orders ready for settlement (a “**Batch**”) at fixed times during the day. Before each settlement cycle, it is the responsibility of the Participant to have sufficient funds available to meet its net obligations arising out of matched Transfer Orders. The Depository provides each Cash Agent with cash forecasts so that cash obligations can be monitored at all times.
- 7.12.2 At each Batch, the Depository verifies that sufficient amount of securities is available for delivery and sufficient amount of cash

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is available in order to settle each Transfer Order that is matched and eligible for settlement.

- 7.12.3 At each Batch, the Depository sends an instruction to the Central Bank of Iceland to lock the Participant's NCS D LOM account as set forth in the Operating Manual. The total amount for each NCS D LOM account is reported in a message that confirms the NCS D LOM lock, sent by the Central Bank of Iceland RTGS system to the Depository.
- 7.12.4 At each Batch, the available cash balance of each NCS D LOM account is mirrored to the Participants Technical Liquidity Account and, based on available cash position and available securities position, the CSD system calculates the settlement Batch.
- 7.12.5 The Depository sends a settlement instruction to the Central Bank of Iceland, requesting a transfer of a net amount of the funds corresponding to the settlement Batch results for the respective transaction between NCS D LOM accounts of the transferor and the transferee based on results from the settlement Batch.
- 7.12.6 Immediately after the Depository receives a confirmation of the cash transfer between NCS D LOM accounts of the transferor and the transferee at the Central Bank of Iceland, the securities are debited from the securities account of the transferor and credited to the securities account of the transferee. The settlement of both securities and cash is made for each transaction separately.
- 7.12.7 Immediately after the settlement is final in the Icelandic Settlement System, the Depository sends a message to the Central Bank of Iceland, releasing the cash amount on the NCS D LOM account.

### **7.13 Cash settlement of Non-T2S Eligible Securities in EUR currency**

- 7.13.1. The Depository uses its ancillary system account in TARGET2 (the "AS Account") with the Central Bank of Lithuania for the purposes of settlement of the cash leg for Non-T2S Eligible Securities in EUR currency, including Corporate Action proceeds.
- 7.13.2. The Depository administers the cash credited to the AS Account on behalf of the Participants or Issuers and keeps it separately from cash held on its own account.
- 7.13.3. On the Settlement Day before the deadline set by the Depository, the Participant or Issuer's Paying Agent transfers the required EUR cash amount to the Depository's AS Account.
- 7.13.4. After the Depository has received information that a correct cash amount has been credited to the Depository's AS Account in accordance with Section 7.13.3, the Depository shall make



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sub-bookkeeping records in the Technical Liquidity Account of the Participant in the CSD System.

### 7.13.5. On the Settlement Date:

- (i) the Depository settles the cash leg of DvP Transfer Order of Non-T2S Eligible Securities in EUR currency by making sub-bookkeeping records in the CSD System as a result of which the cash amount from the Technical Liquidity Account linked to the purchasing Participant's securities account is attributed to the Technical Liquidity Account linked to the selling Participant's securities account.
- (ii) the Depository distributes Corporate Action proceeds in respect to Non-T2S Eligible Securities in EUR currency according to the following procedure.
  - a. In case the Issuer distributes Corporate Action cash proceeds, the Depository shall make sub-bookkeeping records as a result of which the cash amount from the Technical Liquidity Account linked to the Issuer's Paying Agent's Corporate Action Distribution Account is attributed to the Technical Liquidity Account that is linked to the receiving Participant's securities account; or
  - b. In case the Issuer receives a Corporate Action cash payment from the investors, the Depository shall make a sub-bookkeeping records in the CSD System as a result of which the cash amount from the Technical Liquidity Account that is linked to the Participant's securities account is attributed to the Technical Liquidity Account linked to the Issuer's Paying Agent's Corporate Action Distribution Account.

7.13.6. Before the end of a Settlement Day, according to the time schedule provided in the Operating Manual, the Depository automatically transfers any remaining EUR cash balance from the AS Account to the External Cash Account of the Participant according to the sub-bookkeeping records in the Technical Liquidity Accounts in the CSD System.

7.13.7. During the Settlement day, the Participant can make a request to the Depository to transfer EUR cash balance from the AS Account to the External Cash Account of the Participant according to the sub-bookkeeping records in the Technical Liquidity Accounts in the CSD System.

### 7.14. Measures to prevent and address settlement fails

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- 7.14.1 The Participant takes all the necessary measures to ensure smooth and timely settlement of every securities transaction in the Depository. The Participant shall send the instructions to the Settlement System as soon as possible in order to facilitate early matching in the CSD System.
- 7.14.2. The Depository:
- (i) maintains a system that monitors settlement fails of securities transactions which enable the Depository to identify and keep record of ISD and the status of settlement instructions entered in each Settlement System; and
  - (ii) provides Participants with access to tools that allow monitoring settlement cycle and to take action to prevent settlement fails.
- 7.14.3. In respect of each settlement instruction that fail to settle, the Depository shall calculate and collect net amount of penalties to be paid by each Participant and provides details of the penalties in accordance with RTS and the Operating Manual.
- 7.14.4. The Participant transfers the net amount of penalties to the cash account designated by the Depository by specific date of the respective month determined by the Depository in accordance with RTS on Settlement Discipline. The Depository redistributes to the receiving Participants that have suffered from the settlement fail the net amount of cash penalties by specific date of the respective month determined by the Depository in accordance with RTS on Settlement Discipline. The Depository charges to the Participants the costs of the penalty mechanism in accordance with CSDR.
- 7.14.5. The Depository shall be involved in supporting the application of buy-in to the extent and as provided in the Commission Delegated Regulation (EU) 2018/1229 of 25 May 2018 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on settlement discipline.
- 7.14.6. Sections 7.14.1- 7.14.5 shall apply following the entry into force of the RTS on Settlement Discipline
- 7.15. Settlement discipline measures prior to entry into force of RTS on Settlement Discipline**
- 7.15.1. Unless otherwise provided in Chapters II, III, IV or V, the Depository applies settlement discipline measures provided in its Price List only towards transactions concluded, registered or

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reported on trading venue(s) operated by Nasdaq Iceland (*exchange transactions*).

7.15.2. Without prejudice to 7.15.1 (right of the Depository to provide penalty fees in its Price List) exchange transactions are additionally subject to settlement discipline measures provided in the Rules and price list(s) of Nasdaq CSD .

7.15.3. In connection with the exchange transactions, the Iceland Stock Exchange has the right to:

- (i) make inquiries from the Depository about securities accounts and Transfer Orders as long as these are related to settlement of exchange transactions; and
- (ii) request cancellation or amendment of Transfer Orders by the Depository and submit new Transfer Orders if this is necessary for the application of settlement discipline measures such as use of the guarantee fund, enforcement of settlement limit(s), buy-in and sell-out procedures as provided in the Rules of Nasdaq CSD.

### **7.16. International settlement services**

7.16.1. The Depository provides international settlement services in accordance with this Section insofar as the CSD link arrangement with a Linked CSD and the procedure regarding settlement of securities registered with an External CSD under such CSD link arrangement does not provide otherwise. The Depository makes available the terms of CSD link arrangements regarding holding and settlement of securities to its Participants. The Depository may adopt procedures regarding the settlement of securities with an External CSD setting out the provisions on processing of transfer orders under the respective CSD link arrangement.

The international settlement services of the Depository involve:

- (i) holding securities registered with a Linked CSD as an Issuer CSD in custody for the account of account holders and facilitating cross-border CSD securities settlement;
- (ii) holding securities registered with a Linked CSD as an Issuer CSD via a third party (other than a CSD) that is a participant in the securities settlement system of the Issuer CSD for the account of account holders and facilitating cross-border CSD securities settlement; and/or
- (iii) maintaining omnibus account(s) for a Linked CSD as an Investor CSD to enable holding of securities

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held with Icelandic Settlement System and facilitating cross-border CSD securities settlement.

7.16.2. In order to ensure cross-border CSD securities settlement via Icelandic Settlement System, the Depository shall:

- (i) open an account in the Issuer CSD or with a third party (other than CSD) that is a participant of securities settlement system of the Issuer CSD for the purposes of holding securities in custody for the Participants of the Icelandic Settlement System; and
- (ii) maintain an account of the Investor CSD in the Icelandic Settlement System,

unless a CSD link arrangement provides otherwise.

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### ANNEX I – DEFINITIONS

Capitalised terms used in Chapter I of the Rules and Annex II and III thereto have the following meaning, unless the context requires otherwise:

<b>Account Operator</b>	a System Participant which is authorised by the Depository as an Account Operator and which, among others, is responsible for: <ul style="list-style-type: none"><li>(i) setting up and maintaining securities accounts with the Settlement System;</li><li>(ii) communicating settlement instructions, including Corporate Action instructions of the holders of securities accounts to the Depository;</li><li>(iii) maintaining and monitoring cash and securities obligations of account holders in the Settlement System; and</li><li>(iv) mediating other services provided by the Depository in accordance with the applicable law and agreement with the Depository;</li></ul>
<b>Auto-collateralisation</b>	a functionality of the T2S Platform that allows the NCBs and/or Payment Banks to offer collateralised intraday credit to Payments Banks (i.e. NCB acting as credit provider) or a client of Payment Banks (i.e. Payment Bank acting as credit provider) in order to facilitate the settlement of underlying securities-related instructions that would fail to settle due to a lack of cash on DCA and/or insufficient external guarantee headroom on a credit memorandum balance;
<b>Baltic Settlement System</b>	each of Estonian Settlement System, Latvian Settlement System or Lithuanian Settlement System;
<b>Baltic Stock Exchange</b>	any of the following regulated markets (stock exchanges): <ul style="list-style-type: none"><li>(i) Nasdaq Tallinn AS (registration No. 10359206 with the Estonian Trade Register);</li><li>(ii) Nasdaq Riga AS (registration No. 40003167049 with the Latvian Commercial Register); or</li><li>(iii) Nasdaq Vilnius AB (registration No. 1100 57488 with the Lithuanian Register of Legal Entities);</li></ul>
<b>Business Day</b>	has the meaning ascribed to it in the Operating Manual;
<b>Cash Agent</b>	a System Participant that is authorised by the Depository as a Cash Agent and that is responsible for guaranteeing and providing funds for the settlement of the Participant's cash leg of the securities transfer and Corporate Action proceeds in any Settlement System if those securities are non-T2S eligible securities or are issued in non-T2S eligible currency;
<b>Central Bank Money (CeBM)</b>	means the liabilities of a central bank, in the form of either banknotes or bank deposits held at a central bank, which can be used for settlement purposes;

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<b>Commercial Bank Money (CoBM)</b>	liabilities of credit institutions that take the form of deposits or other funds held at a credit institution which can be used for settlement purposes;
<b>Collective Agreement</b>	collective agreement concluded between the Eurosystem and contracting CSDs to T2S FWA;
<b>Conditional securities delivery (CoSD)</b>	a settlement procedure in which the final securities and/or cash booking is dependent on the successful completion of an additional action or event outside the settlement system (e.g. registration of shares, cash settlement outside the T2S);
<b>Corporate Action</b>	any corporate action or event related to a security held with any Settlement System of the Depository which is recognised as a Corporate Action pursuant to Section 4.2.3 of these Rules;
<b>Corporate Action Distribution Account</b>	has the meaning ascribed to it in Section 6.12.5 of the Rules;
<b>Corporate Action Standards</b>	Market Standards for Corporate Actions Processing developed by Corporate Actions Joint Working Group and, in respect to the Baltic Settlement Systems, T2S Corporate Actions Standards on flows (i.e. pending settlement transactions in T2S) endorsed by T2S Advisory Group, as may be amended from time to time;
<b>Contractual Documents of CSD</b>	any contractual arrangement between (i) the Participant and the Depository, (ii) the account holder and the Depository where the Depository has exercised the right to take over relationship between the Account Operator and the account holder under the applicable law (iii) the Issuer, the Issuer Agent or Fund Administrator, on the one hand, and the Depository, on the other hand, including but not limited to the participation agreement, account agreement or issuer services agreement;
<b>CSDR</b>	Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012, as may be amended from time to time;
<b>CSD System</b>	a set of hardware, software and other technical infrastructure components through which the Depository provides securities clearing, settlement and other services.
<b>Customer</b>	any Participant, Issuer or other user of Depository's services which has acceded to these Rules. A holder of securities account is treated as a Customer if in accordance with the applicable law the Depository has exercised the right to take over contractual relationship between the account holder and the Account Operator;
<b>Dedicated cash account (DCA)</b>	a cash account held by a Payment Bank opened in TARGET2-Securities platform and used for the funds transfers in relation to securities settlement in T2S;

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<b>Default Event</b>	has the meaning ascribed to it in Section 2.9.1(xiv) of the Rules;
<b>Default Settlement System</b>	a Settlement System through which the account holder holds securities registered with a Linked CSD as Issuer CSD pursuant to a CSD link arrangement;
<b>Delivery versus payment (DvP)</b>	a securities settlement mechanism which links a securities transfer and a funds transfer in such a way as to ensure that delivery occurs if and only if the corresponding payment occurs;
<b>Directly Connected Party (DCP)</b>	T2S user, which is authorised by the Depository or NCB to access T2S directly to use T2S services, i.e. without the need for the Depository to act as a technical interface;
<b>Eurosystem</b>	the European Central Bank (ECB) and each NCB of the EU Member States whose currency is the Euro;
<b>External Cash Account</b>	a cash account opened in the books of a credit institution or CSD which is authorised to provide banking-type ancillary services in accordance with CSDR and designated by the Cash Agent or the Depository and used for managing or discharging of cash obligations of the Participant, the Issuer or the Depository;
<b>FATCA</b>	Foreign Account Tax Compliance Act enacted by the United States of America;
<b>Linked CSD</b>	a central securities depository, including international central securities depository with whom the Depository maintains a CSD link for the settlement of international transactions;
<b>Foreign Securities</b>	financial instruments that are registered with the Linked CSD as Issuer CSD;
<b>Free of payment (FoP)</b>	delivery of securities with no corresponding payment;
<b>Force Majeure</b>	circumstances beyond the reasonable control of the non-performing party, including, without limitation, an element of nature or an act of God, earthquake, fire, flood, war, terrorism, civil, industrial or military disturbance, sabotage, labour strike or lock-outs, pandemic, epidemic, riot, loss or malfunctioning of utilities or communication services, court order, act of civil or military authority, or governmental, judicial or regulatory action;
<b>Financial Services Authority (FSA)</b>	<ul style="list-style-type: none"><li>(i) in Estonia, Financial Supervision Authority (in Estonian - <i>Finantsinspektsioon</i>);</li><li>(ii) in Latvia, the Financial and Capital Markets Commission (in Latvian - <i>Finanšu un kapitāla tirgus komisija</i>);</li><li>(iii) in Lithuania, the Bank of Lithuania (in Lithuanian - <i>Lietuvos bankas</i>);</li><li>(iv) In Iceland, the Financial Supervisory Authority of the Central Bank of Iceland (in Icelandic – <i>Fjármálaeftirlit Seðlabanka Íslands</i>);</li></ul>

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<b>Fund Administrator</b>	a System Participant that is authorised by the Depository as a Fund Administrator and that is responsible for, among others, issuance, distribution and redemption of units in open-ended investment fund;
<b>GUI</b>	Graphical User Interface;
<b>Icelandic Settlement System</b>	has the meaning ascribed thereto in Section 1.3.4. of these Rules;
<b>Iceland Stock Exchange</b>	Nasdaq Iceland hf. (registration No. 681298-2829 with the Icelandic Company Register);
<b>Indirectly Connected Party (ICP)</b>	a Participant which has access to T2S indirectly, i.e. CSD System acts as a technical interface between a Participant and T2S;
<b>Insolvency Event</b>	<p>commencement or occurrence of any collective measure provided for in an EU Member State, or a third country, either to wind up a legal person or to reorganise it, or a decision of a competent authority where such measure or decision involves the suspending of, or imposing limitations on, transfers of securities or payments. For avoidance of doubt the term includes but is not limited to:</p> <ul style="list-style-type: none"><li>(i) in case of Estonia, the term means commencement or occurrence any of the following procedures or measures: (a) insolvency proceedings (in Estonian - <i>pankrotimenetus</i>) under the Bankruptcy Act or moratorium (in Estonian - <i>moratorium</i>) in relation to participants which are credit institutions under the Credit Institutions Act, or (b) resolution tools or powers (in Estonian - <i>kriisilahendusmeetmete võidõiguste rakendamine</i>) under the Financial Crisis Prevention and Resolution Act;</li><li>(ii) in case of Latvia, the term means commencement or occurrence any of the following procedures or measures: (a) insolvency proceedings (in Latvian - <i>maksātnespējas process</i>) under the Insolvency Law or the Credit Institutions Law, or (b) the resolution or recovery measures applicable to credit institutions and investment brokerage companies (investment firms) under Bank Resolution and Recovery Law;</li><li>(iii) in case of Lithuania, the term means commencement or occurrence any of the following proceedings or measures: (a) bankruptcy proceedings (in Lithuanian - <i>bankrotas</i>) under the Law on Bankruptcy, (b) restructuring proceedings (in Lithuanian - <i>restruktūrizavimas</i>) under the Law on Restructuring, (c) moratorium (in Lithuanian - <i>moratoriumas</i>) in relation to participants which are credit institutions under the Law on Banks and the Law on Credit Unions, or (d) the resolution tools (in Lithuanian - <i>pertvarkymo priemonės</i>) under the Financial Sustainability Law.</li><li>(iv) In case of Iceland, the term means commencement or occurrence of any of the following proceedings or measures: bankruptcy</li></ul>



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proceedings (in Icelandic - *gjaldþrotaskipti*) under the Act on Bankruptcy or in relation to participants which are credit institutions under the Act on Financial Undertakings.

<b>Intended Settlement Date (ISD)</b>	the date on which the parties to a securities transaction agree that settlement is to take place;
<b>International Securities Identification Number (ISIN)</b>	the number assigned by the National Numbering Agency which uniquely identifies a security;
<b>ISK</b>	means the Icelandic krona, the legal currency of the Republic of Iceland.
<b>ISK Securities</b>	ISK Securities that are demominated in the Icelandic Securities Settlement System;
<b>Issuance Account</b>	securities account that is used for issuance of the securities of the same ISIN;
<b>Issuer</b>	a person which has subscribed to the Issuer Services provided by the Depository under the Rules or any duly authorised person acting on behalf of such person;
<b>Issuer Agent</b>	a Participant that is authorised by the Depository as an Issuer Agent and that is responsible for, among others, servicing of the Issuer of securities and distributing of securities to investors during the initial offering of the Securities Issue;
<b>Issuer CSD</b>	a CSD which holds a primary deposit in the relevant financial instruments;
<b>Issuer Services</b>	the services offered by the Depository as provided in the Section " <i>Issuer Services</i> " of the Service Description;
<b>International financial sanction</b>	means international sanction that has been decided by the European Union, the United Nations, another international organisation or the Government of the Republic of Estonia, Latvia, Lithuania or Iceland, and that fully or partially prevents a subject of the sanction from using and disposing of financial means or giving thereof to its possession;
<b>Investor CSD</b>	a CSD that holds a financial instrument for which it is not the/an Issuer CSD;
<b>NCSD LOM account</b>	has the meaning ascribed to it in Section 7.10.2;
<b>National Central Bank (NCB)</b>	any of the central banks operating TARGET2 component system;
<b>Non-T2S eligible securities</b>	financial instruments that are held by the Depository as Issuer CSD other than T2S eligible securities and which are recognised by the Depository as being eligible for the settlement on CSD System, including, without limitation:  (i) financial instruments settled through the Icelandic Settlement System;

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	(ii) Lithuanian Government savings notes issued by the Lithuanian Ministry of Finance;
	(iii) Estonian II and III pillar pension fund units.
<b>Official Language</b>	(i) for Estonian branch of the Depository, the Estonian language; (ii) for the head office of the Depository, the Latvian language; (iii) for Lithuanian branch of the Depository, the Lithuanian language; (iv) for Icelandic branch of the Depository, the Icelandic language;
<b>Operating Manual</b>	operating manual of the Depository which establishes requirements and procedures for the functioning of, and interaction with, CSD System and the Settlement Systems;
<b>Operational Account</b>	has the meaning ascribed to it in Section 5.2.1 of the Rules;
<b>Participant</b>	any the parties referred to in Section 3.1.1 of the Rules that have been assigned the status of a participant by the Depository;
<b>Payment Bank</b>	a credit institution that is designated as a Payments Bank in T2S and is used to effect cash settlements on behalf of a Participant via DCA;
<b>Paying Agent</b>	any of the following: (i) Depository designated by the Issuer as a processor of Corporate Action proceeds; (ii) Account Operator designated by the Issuer to represent the Issuer in dealings with the Depository related to processing of Corporate Action proceeds which is responsible for ensuring that the required amount of Corporate Action proceeds is made available to the Depository on time;
<b>Pledge account</b>	means any of: Participant pledge account or owner pledge account;
<b>Rules or Rulebook</b>	the term has a meaning ascribed to it in Section 2.2.2;
<b>RTGS</b>	means Real Time Gross Settlement system;
<b>RTS</b>	the relevant regulatory technical standards and implementing technical standards adopted under the CSDR.
<b>RTS on Authorisation</b>	Commission Delegated Regulation (EU) 2017/392 of 11 November 2016 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on authorisation, supervisory and operational requirements for central securities depository.

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<b>RTS on Settlement Discipline</b>	Commission Delegated Regulation (EU) 2018/1229 of supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on settlement discipline.
<b>T2S Securities Account</b>	Operational Account balance on T2S Platform;
<b>Securities Issue</b>	securities that are issued by the same issuer that belong to the same type and class, and that have the same features and which are identified by the same ISIN;
<b>Service Description</b>	any description of services offered by the Depository and published on the website of the Depository;
<b>Settlement Day</b>	a day on which settlement on T2S Platform or CSD System operated by the Depository takes place according to the daily processing schedule;
<b>Settlement Finality Directive</b>	Directive 98/26/EC of the European Parliament and of the Council of 19 May 1998 on settlement finality, as may be amended from time to time;
<b>Settlement System</b>	each securities settlement system which is operated by the Depository, including the procedures and related functionality which (i) enables the settlement of transfer orders relating to transfers of securities and/or transfers of cash in relation to DvP transaction and Corporate Action payments, and (ii) any matter related or ancillary to processing of transfer orders. For avoidance of doubt, the term refers to any of the following securities settlement systems: <b>Estonian Settlement System, Latvian Settlement System, Lithuanian Settlement System or Icelandic Settlement System</b> as defined in Section 1.3 of the Rules;
<b>System Participant</b>	an entity that is assigned a status of a participant in a Settlement System;
<b>T2 Component System</b>	any of the NCB's real-time gross settlement (RTGS) systems that form part of TARGET2;
<b>TARGET2</b>	The entirety resulting from all TARGET2 component systems of the NCBs;
<b>TARGET2-Securities (T2S)</b>	Pan-European platform for securities settlement operated by Eurosystem;
<b>Technical Liquidity Account</b>	has the meaning ascribed thereto in Section 7.11.
<b>T2S eligible currency</b>	Euro and other non-euro area central bank currency that is available for settlement on T2S in accordance with the Currency Participation Agreement as may be concluded between the Eurosystem and a non-euro area central bank;
<b>Transfer Order</b>	has the meaning ascribed to it in Article 2(i) of the Settlement Finality Directive;

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<b>T2S eligible securities</b>	financial instruments held by the Depository as Issuer CSD that are recognised by the Depository as being eligible for settlement on T2S Platform and other financial instruments held by a Linked CSD as Issuer CSD and recognised as being eligible for settlement on T2S Platform;
<b>T2S eligible Baltic securities</b>	financial instruments held by the Depository as Issuer CSD that are recognised by the Depository as being eligible for settlement on T2S Platform;
<b>T2S Framework Agreement (T2S FWA)</b>	T2S Framework Agreement concluded between the Depository and the Eurosystem. Text of the T2S FWA is available at: <a href="https://www.ecb.europa.eu/paym/t2s/pdf/csd_FA/T2S_Framework_Agreement_Schedules.pdf">https://www.ecb.europa.eu/paym/t2s/pdf/csd_FA/T2S_Framework_Agreement_Schedules.pdf</a> .
<b>T2S Platform</b>	means the set of hardware, software and other technical infrastructure components through which the Eurosystem provides the services to CSDs that allow core, neutral and borderless settlement of securities transactions on a DvP basis in central bank money;
<b>T2S Rules</b>	any rules, standards, procedures or routines that regulate processing and settlement of instructions on T2S Platform and provision of other T2S services;
<b>Unit of the Depository</b>	any of the following organisational units of the Depository: <ul style="list-style-type: none"><li>(i) Estonian branch of the Depository registered with the Estonian Trade Register with registration No. 14306553;</li><li>(ii) Latvian head office of the Depository;</li><li>(iii) Lithuanian branch of the Depository registered with the Lithuanian Register of Legal Entities with registration No. 304602060; or</li><li>(iv) Icelandic branch of the Depository registered with the Icelandic Company Register with registration No.510119-0370;</li></ul>
<b>User Guide</b>	means the guidelines of the Depository describing access to, and use, one or more services provided by the Depository;

**ANNEX II - DEFAULT RULES**

**1. GENERAL PROVISIONS**

- 1.1 These default rules prescribe the measures and procedure for managing the default of a Participant in respect of Transfer Orders submitted for settlement in any Settlement System which are prepared in compliance with Article 41 of the CSDR and Collective Agreement (**Default Rules**).
- 1.2 The measures and procedures prescribed in these Default Rules do not prejudice the application of any other remedy prescribed by the Rules, including the right of the Depository to impose a penalty or other sanctions, to initiate a buy-in, to suspend or terminate the Participant's right of participation or to apply contingency measures.
- 1.3 The rights and obligations arising in connection with the Transfer Order that is submitted for settlement in any Settlement System and is impacted by the Insolvency Event of the Participant are governed by the law applicable to the respective Settlement System (see Sections 2.17.2 and 2.17.3 (xi)).

**2. DEFAULT MANAGEMENT**

- 2.1 If the Insolvency Event of the Participant has occurred, the Depository:
- 2.1.1 rejects new Transfer Orders from the defaulting Participant in accordance with Section 3.2 and blocks the communication means with CSD System available to the Participant and/or revokes access of the users belonging to the defaulting Participant to the system privilege to submit settlement instructions to CSD System;
- 2.1.2 handles the existing Transfer Orders of the defaulting Participant that are submitted for settlement to the Depository in accordance with Section 4; and
- 2.1.3 suspends or terminates the Participant's rights of participation in accordance with the Rules.
- 2.2 The Depository processes the Transfer Orders seeking to debit securities account that are impacted by the Insolvency Event of the Participant in accordance with:
- 2.2.1 in case of T2S eligible securities, the default management procedures set out in these Default Rules which are based on the Collective Agreement, T2S Rules and T2S functionalities;
- 2.2.2 in case on Non-T2S eligible securities, the default management procedures set out in these Default Rules and CSD System's functionalities.

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2.3 For the purposes of Sections 3 and 4 of these Default Rules, settlement finality moments (SF I, SF II and SF III) are determined in accordance with Sections 6.4 to 6.6 and 7.3. – 7.5 of the Rules.

### **3. REJECTION OF NEW TRANSFER ORDERS**

3.1 The Participant undertakes that upon becoming aware of any event that could result in the Insolvency Event of the Participant it will take all measures to prevent submission of Transfer Orders to the Depository resulting in debiting securities from the securities account.

3.2 The Depository rejects Transfer Orders that are entered in the Settlement System (SF I) after the Depository becomes aware of the occurrence of the Insolvency Event.

3.3 Notwithstanding Section 3.2 of the Default Rules, the Depository accepts a new Transfer Order after occurrence of Insolvency Event that is submitted on behalf of the Participant by the appointed insolvency administrator or any other competent authority and processes it in accordance with the general processing rules of the Settlement System and T2S Rules (i.e. the processing rules that would have applied had the Insolvency Event not occurred).

### **4. HANDLING OF EXISTING TRANSFER ORDERS**

4.1 All Transfer Orders that were entered into the Settlement System before the occurrence of Insolvency Event are processed in accordance with the Rules and T2S Rules.

4.2 If a Transfer Order for the settlement on the same day was entered into the Settlement System (SF I) after the moment the Insolvency Event has occurred and is matched (SF II) before the Depository becomes aware of the Insolvency Event, it is processed in accordance with the general processing rules only on the day when the Insolvency Event occurred and, if not settled at the end of that day, is cancelled by the Depository.

4.3 If a Transfer Order for the settlement was entered into the Settlement System (SF I) after the moment the Insolvency Event occurred and is matched (SF II) before the Depository becomes aware of the Insolvency Event but for the settlement on the day following the day when the Insolvency Event occurred, the Depository immediately puts the Transfer Order on hold after it has become aware of the Insolvency Event and later cancels such Transfer Order, unless the Transfer Order has been already bilaterally cancelled by the parties.

4.4 If a Transfer Order was entered into the Settlement System after occurrence of Insolvency Event and was not matched (no SF II) by the time the Depository becomes aware of the Insolvency Event, it is immediately cancelled by the Depository.

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### ANNEX III - COMPLAINT HANDLING RULES

#### 1. GENERAL PROVISIONS

1.1 These complaint handling rules of the Depository (the “**Complaint Handling Rules**”) provides a framework for handling Customer complaints in connection with its services provided under the Rules in compliance with Article 32 (2) of the CSDR.

1.2 Except in cases provided in Section 1.3, any Customer which is directly affected by the services, including any Participant and Issuer (the “**Complainant**”) may submit a complaint to the Depository and receive a reasoned decision which is adopted in a transparent complaint investigation procedure.

1.3 These Complaint Handling Rules do not apply to:

1.3.1 any complaint with respect to an employment or labour matter;

1.3.2 any complaint relating to contractual or commercial matters involving Depository which is unrelated to the scope of the Rules as set out in Sections 1.1 and 1.2;

1.3.3 any complaint about the content of the Rules, procedures or any other rules or any guidance made and issued by the Depository.

1.4 The initiation of the complaint handling procedure by the Complainant under these Complaint Handling Rules is without prejudice to:

1.4.1 the right or the obligation of the Depository to impose any sanction on the Complainant or to take any measure or remedy in accordance with the Rules or the applicable law;

1.4.2 the right of the Depository, the Participant and the Issuer to commence negotiations with a view to resolve any dispute, claim or controversy between the parties pursuant to Sections 2.18.1 and 2.18.2 of the Rules.

1.5 In case the Depository has refused a person requesting the Depository to become a Settlement System Participant or to subscribe to the Issuer Services to grant access to such services, such person may complain to the competent FSA in accordance with Article 33 (3) or Article 49 (4) of the CSDR, respectively, or take any other legal remedy available under the applicable law.

#### 2. COMPLAINT REQUIREMENTS

2.1 The Depository reviews a complaint submitted under these Complaint Handling Rules only if the Complainant is seeking a remedy in respect of a

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documented direct loss, which the Complainant has suffered or may suffer as a result of Depository's conduct, and for which the Depository may be liable under the Rules and the applicable law.

2.2 The Depository is not obliged to investigate a complaint under these Complaint Handling Rules which, in its reasonable opinion:

2.2.1 could have been, or would be, more appropriately dealt with in another manner; or

2.2.2 amounts to no more than dissatisfaction with Depository's general policies or with the exercise of its discretion where no unprofessional or other misconduct, mistake, lack of care, unreasonable delay, bias or lack of integrity is alleged; or

2.2.3 to be clearly unfounded, including cases where the Complainant is clearly not acting in good faith or the complaint is clearly fictitious, frivolous or vexatious.

The Depository informs the Complainant of the fact that, and the reasons for, not investigating his complaint.

2.3 The Complainant may submit the Complaint:

2.3.1 in writing to the customer support unit of the Unit of the Depository (Latvian head office of the Depository,<sup>8</sup> Estonian branch of the Depository,<sup>9</sup> Lithuanian branch of the Depository<sup>10</sup> or Icelandic branch of the Depository<sup>11</sup>) which maintains day-to-day relations with the respective Customer or, in case the Complaint relates to the operation of more than one Settlement System, to the Latvian head office of the Depository;

2.3.2 by sending it to the e-mail address published on the website of the Depository with subject "Complaint under Complaint Handling Rules".

2.4 In case the Complaint is submitted to the Unit of the Depository that is not responsible for reviewing the Complaint under Section 2.4, it forwards the Complaint to the competent Unit of the Depository within 5 Business Days, unless it is necessary to request additional information from the Complainant.

2.5 The Complainant has to submit the Complaint in plain and comprehensive English or the Official Language of the respective Unit of the Depository.

2.6 Complainant has to make and submit the complaint to the Depository as soon as possible but not later than thirty (30) days following the date on which the Complainant first became aware or should have reasonably become aware of the circumstances giving rise to the complaint. The Depository may reject a

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<sup>8</sup> Address: Vaļņu Street 1, LV-1050 Riga, Latvia.

<sup>9</sup> Address: Maakri tn 19/1, 10145, 10145 Tallinn, Estonia.

<sup>10</sup> Address: Business center k29, Konstitucijos avenue 29, LT-08105 Vilnius, Lithuania.

<sup>11</sup> Address: Laugavegur 182, 105 Reykjavík, Iceland.



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Complaint without investigation that is made after this term unless the Complainant provides objective justification for the delay, and such delay is not caused by the negligence of the Complainant or anyone acting on their behalf.

- 2.7 Complaint has to be signed by an authorised person and provide at least the following information or documents:
  - 2.7.1 name and registration number of the Complainant, address (contact address if it is different from the registered address) and contact details (e-mail, fixed phone number and/or mobile phone number) of person(s) with whom the Depository may communicate during the investigation of the complaint of the Complainant;
  - 2.7.2 nature of the complaint;
  - 2.7.3 documents supporting the complaint (e.g. documentary evidence, calculation of direct losses), if any;
  - 2.7.4 date when circumstances giving raise to the complaint occurred;
  - 2.7.5 clearly stated requests of the Complainant;
  - 2.7.6 number and/or date of the agreement, if the nature of the complaint is related to a particular agreement concluded by the Depository and the Complainant;

### **3. INVESTIGATION OF THE COMPLAINT**

- 3.1 The Depository acknowledges the receipt of complaint within five (5) Business Days following the date of receipt. This acknowledgement includes details of the Complainant's right to refer the Complaint to the Depository's Chief Compliance Officer ("CCO") if he is dissatisfied with the handling of the Complaint by the Depository.
- 3.2 The Depository investigates the complaint in accordance with the Rules and the applicable law and by having regard to the principles of justice, integrity, impartiality and reasonableness. All material circumstances of the complaint are assessed. The Depository's personnel investigating the complaint must avoid any conflict of interest.
- 3.3 The Depository arranges for an initial investigation of Complaint that complies with requirements set out in Section 2 by suitable personnel which has not been previously involved in the matter subject to complaint, with a view of resolving the matter to the Complainant's satisfaction.
- 3.4 Upon receipt of the complaint in accordance with Section 3.1, the Depository aims to complete all investigations promptly and informs the Complainant of the expected time for the results of the initial investigation. The Depository will aim to notify the Complainant of the result of the initial investigation

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within 60 days of receipt of a complete complaint, unless it is necessary to extend the investigation period due to the complexity or the scope of the matter subject to complaint. In case the investigation period is extended, the Depository informs the Complainant and provides reasons for such extension.

- 3.5 The term of the initial investigation referred to in Section 3.4 is suspended during the period when:
- 3.5.1 the Depository has requested additional information and documents from the Complainant that are necessary to assess the complaint;
- 3.5.2 the Complainant and the Depository have commenced negotiations pursuant to Sections 2.18.1 and 2.18.2 with a view to resolve any dispute, claim or controversy.
- 3.6 The Complainant designates a contact person for the initial investigations which shall be reasonably available to the Depository during the initial investigations and provide to the Depository all the information, documents or reasonable assistance promptly and without undue delay, as the Depository may reasonably require in connection with the complaint investigation. The Complainant provides all such assistance to the Depository at its own expense. Where the Complainant decides to withhold the requested information or documents, it has to inform the Depository of the nature and reasons for withholding of such information or documents.
- 3.7 If the Depository rejects, fully or partly, the complaint, it provides in writing and in reasonable detail the reasons for its decision. The Depository prepares the decision in the same language in which the complaint was prepared (*see Section 2.5*). If the Depository satisfies the complaint fully, it does not have to provide reasons for its decision.
- 3.8 The Depository provides its decision to the Complainant by registered mail to the registered address of the Complainant or, where the decision is signed with an authorised electronic signature, electronically to the e-mail provided by the Complainant.

## 4. INTERNAL INDEPENDENT INVESTIGATOR

- 4.1 The CCO is an independent function within the Depository/Unit of the Depository. Complainants who are dissatisfied with the outcome of an investigation or with the Depository's progress in investigating the complaint, may request the Depository to refer the matter to the CCO ("**Internal Independent Investigator**"), who may decide to carry out his own investigation of the complaint.
- 4.2 The Complainant has to make a request for referral of the complaint to the Internal Independent Investigator in writing to the person or department of Depository/Unit of the Depository issuing the result of the initial investigation (decision) within ten (10) Business Days following the date the decision is notified to the Complainant in accordance with Section 3.8.

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- 4.3 Request for referral to the Internal Independent Investigator may not be made before the result of the initial investigation is available, unless (i) the request for referral is justified by a significant delay in the initial investigation proceedings or (ii) a claim that the initial proceedings are being conducted in an incorrect manner. If a valid request for referral is not received by the Depository within the time period referred in Section 4.2, the Depository has an absolute discretion to accept or reject any referral to the Internal Independent Investigator.
- 4.4 The Internal Independent Investigator is free to conduct an investigation in whatever manner he or she thinks appropriate, including obtaining such external resources as may be reasonable in given circumstances. Investigations will normally be conducted by the Internal Independent Investigator in principally the same manner as the initial investigation in accordance with Section 3, unless the Internal Independent Investigator decides otherwise.
- 4.5 If the CCO for any reason cannot act as the Internal Independent Investigator, the Depository designates a member of legal or compliance department of the Unit of the Depository to exercise rights and duties of the Internal Independent Investigator as provided in these Complaint Handling Rules.
- 4.6 The Internal Independent Investigator ensures before he concludes an investigation and makes a report, that the factual findings of the Internal Independent Investigator are reviewed by the Complainant and the Depository and that each of them has a reasonable opportunity to correct any errors or make comments within time period set by the Internal Independent Investigator, provided that the Internal Independent Investigator is not obliged to implement such comments in its report. The Internal Independent Investigator ensures that any person who may be the subject to criticism in the report is given notice of, and the opportunity to respond to, that criticism. The Internal Independent Investigator reports to the Depository and to the Complainant on the results of his or her investigation, giving reasons for any recommendations he or she makes.
- 4.7 The Internal Independent Investigator may, if he or she thinks it is appropriate, recommend to the Depository to take one or both of the following actions:
- 4.7.1 remedy the circumstances giving rise to the complaint;
- 4.7.2 pay compensation to the Complainant.
- 4.8 The Depository has to review the recommendations of the Internal Independent Investigator and to inform the Internal Independent Investigator and the Complainant of the actions it proposes to take where the Internal Independent Investigator has reported that the complaint is fully or partially founded.

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4.9 In case the Depository refuses to satisfy, fully or partly, the complaint, the Depository provides the Complainant with a written reasoned response. If the Depository satisfies the complaint fully, it does not have to provide reasons for its decision.

### **5. FINAL PROVISIONS**

5.1 The Depository may refuse to investigate a new complaint concerning the same Complainant regarding the same subject matter which has already been considered and decided by the Depository. In such case the Depository informs the Complainant in writing (including via e-mail) that the complaint has been already investigated and a decision has been made within ten (10) Business Days from the date of receipt of a new complaint.

5.2 Any remaining disputes, claims and controversies involving the Depository, on the one hand, and the Participant or the Issuer, on the other hand, are settled in accordance with Section 2.18 of the Rules.

5.3 The Depository keeps records of data regarding the Complainant's name and address, date of receiving the complaint, name of all persons identified in the complaint, description of the nature of the complaint, disposition of the complaint, and the date when the complaint was resolved for the minimum period of 10 years in compliance with the applicable data protection regulations.