

Nasdaq CSD SE

**PROCEDURE PUT IN PLACE BY NASDAQ CSD
TO MANAGE THE DEFAULT OF A PARTICIPANT**

Document Revisions

Version	Date	Revision Notes
1	2017-09-18	1 st version
2	2018-12-31	Annual review

CSDR Article 41 (1) For each securities settlement system it operates, a CSD shall have effective and clearly defined rules and procedures to manage the default of one or more of its participants ensuring that the CSD can take timely action to contain losses and liquidity pressures and continue to meet its obligations.

I GENERAL

1. The capitalized terms used in this Procedure shall have the meaning assigned to them in the Rules of the Nasdaq CSD unless this Procedure expressly provides otherwise.
2. According to the Rules of Nasdaq CSD default of a Participant means any Insolvency Event or Operational Default that may occur due to change in Participant's legal status, technical interruption or restrictions on Participant's activity established against it, Participant is not able to perform its obligations in connection with its participation in the securities settlement system(s) operated by the Nasdaq CSD.
3. For the purposes of this Procedure, Operational Default means *Technical non-compliance* or *Legal non-compliance*:
 - 3.1. *Technical non-compliance* means Participant's inability to connect to the systems of the Nasdaq CSD in accordance with the communication means set by Rules and procedures of Nasdaq CSD;
 - 3.2. *Legal non-compliance* means a failure of the Participant to fulfill the participation requirements as stipulated in the Rules of the Nasdaq CSD (e.g. revocation of the license of investment services or credit institution by respective FSA) or breaching the requirements set in the Rules of the Nasdaq CSD.

II DECISION MAKING

4. The Default Handling Team will be evaluating situations and events and proposing to the Management Board of the Nasdaq CSD which actions are to be taken under this Procedure, Rules of the Nasdaq CSD as well as any agreements in case of Participant's Insolvency Event or Operational Default. The Default Handling Team is responsible for ensuring that all decisions taken in respect of default/non-compliance process are well informed.
5. Members of the Default Handling Team of the Nasdaq CSD:
 - 5.1. Head of Operations;
 - 5.2. Head of Sales and Services;
 - 5.3. Representative from Legal;
 - 5.4. Representative from IT;
 - 5.5. Representative from risk management.

III ACKNOWLEDGEMENT OF A PARTICIPANT'S INSOLVENCY EVENT AND ACTIONS TAKEN BY NASDAQ CSD IN CASE OF INSOLVENCY EVENT OF A PARTICIPANT

6. Nasdaq CSD Participants have to notify Nasdaq CSD of their Insolvency Event as soon as possible through communication channel(s) provided in the Operating Manual.
7. Immediately after receiving of a notification from a Participant or any other person with knowledge of the occurrence of the Insolvency Event of Participant Nasdaq CSD will hold a meeting of Default Handling Team and, after having taken all reasonable steps to verify occurrence of Insolvency

Event, will send to the supervisory authority and Central Bank overseeing the respective securities settlement system a circular letter with the following information:

- 7.1. The name and type of Participant in respect of which the Insolvency Event has occurred;
 - 7.2. The circumstances constituting an Insolvency Event of particular Participant;
 - 7.3. The total value and volume of the insolvent Participant's settlement instructions that are pending settlement in the system of operator and, where possible, those that may fail to settle;
 - 7.4. The type of transactions and financial instruments those instructions relate to;
 - 7.5. The number of clients concerned, if information will be available to the Nasdaq CSD;
 - 7.6. Any other information on any risks insolvency of Participant might entail.
8. Nasdaq CSD will notify as soon as possible its supervisory authority and the defaulting Participant of the actions to be taken or taken by Nasdaq CSD following the Insolvency Event.
 9. Nasdaq CSD will as soon as possible send a circular letter to following affected stakeholders of respective securities settlement system informing of the actions taken by Nasdaq CSD following the Insolvency Event:
 - 9.1. Its relevant supervisory authorities;
 - 9.2. ESMA;
 - 9.3. Non-defaulting participants of the Nasdaq CSD;
 - 9.4. Trading venues;
 - 9.5. Linked CSD;
 - 9.6. T2S Service Desk.
 10. No personal data within the meaning of point (a) of Article 2 of Directive 95/46/EC will be provided to the persons referred to in Sections 9.3 to 9.6.
 11. Upon approval of the occurrence of the Participant's Insolvency Event Management Board of the Nasdaq CSD immediately will decide on suspension of respective Participant and will apply the default management procedure described in the Annex II of Rules of the Nasdaq CSD¹.

IV ACKNOWLEDGEMENT OF A PARTICIPANT'S OPERATIONAL DEFAULT AND ACTIONS TAKEN BY NASDAQ CSD IN CASE OF A PARTICIPANT'S OPERATIONAL DEFAULT

12. Participants have to notify Nasdaq CSD of their Operational Default as soon as possible after the occurrence of the Operational Default through communication channel(s) provided in the Operating Manual.
13. In case of Participant's Legal non-compliance (except in case when the license of investment services or credit institution license is revoked) or in case of Technical non-compliance, the Default Handling Team immediately after Nasdaq CSD has become aware of Participant's non-compliance will decide on appropriate actions to be taken.
14. In case the Participant due to objective reasons will not be able immediately remedy the breach or resolve Technical non-compliance, the Default Handling Team may decide to apply temporary exceptions from the participant requirements to the non-complying Participant before initiating

¹ <https://www.nasdaqcsd.com/about-us/rules-regulations/nasdaq-csd-rules/>

suspension or termination of non-compliant Participant to the Management Board, if the risk of doing so can be mitigated.

15. Any temporary exception shall not increase the risk for Nasdaq CSD and other Participants.
16. If temporary measures are not sufficient or if the Participant does not remedy the breach in time limits specified by the Default Handling Team, the Management Board, advised by the Default Handling Team, may decide on suspension or termination of the non-compliant Participant.
17. In case of Technical non-compliance Nasdaq CSD will use all reasonable efforts to minimize the duration of any interruption for the Participant and will have a right to apply the following contingency measures:
 - 17.1. Changing the schedule for data processing and settlement activities, including temporary suspension of such activities, extraordinary extension of the working time of the securities settlement system(s) and postponing of the Settlement Dates of affected transfer orders;
 - 17.2. Temporary restriction of access to the securities settlement system(s) or certain functionalities thereof;
 - 17.3. Forwarding transfer orders and other instructions issued for performing CSD activities of Nasdaq CSD through alternative communication channels and, if necessary, manual processing of transfer orders and instructions so forwarded;
 - 17.4. Other measures foreseen in the recovery plan of Nasdaq CSD notified to the Participants or respective system Participants of the affected securities settlement system;
 - 17.5. Actions referred to above will be decided on a case-by-case basis.
18. In case the Management Board decides to terminate the participation of the Participant of the Nasdaq CSD due to its Legal non-compliance, Nasdaq CSD will inform the supervisory authority and Central Bank of the country whose law applies to respective securities settlement system by sending a circular letter with the following information:
 - 18.1. The name and type of Participant in respect of which the Legal non-compliance has occurred;
 - 18.2. The circumstances constituting non-compliance of a particular Participant;
 - 18.3. Any other information on any risks such non-compliance might entail.
19. Nasdaq CSD will immediately send a circular letter to following stakeholders of the respective securities settlement system(s) in case of decision to terminate participation of the Participant of the Nasdaq CSD due to its Legal non-compliance:
 - 19.1. ESMA;
 - 19.2. Compliant Participants of the Nasdaq CSD;
 - 19.3. Trading venues;
 - 19.4. Linked CSD;
 - 19.5. T2S Service Desk.
20. In case the Management Board makes decision to terminate the participation of the Participant of the Nasdaq CSD due to its Legal non-compliance, Nasdaq CSD will immediately suspend Participant's access to Nasdaq CSD securities settlement systems and services and block/suspend

Participant's set-up in T2S, if the Participant is a DCP and declare Participant as defaulting participant.

21. Nasdaq CSD will apply and activate default management procedure assessing its operational activities with regards to the following Transfer Orders submitted by defaulting Participant:
 - 21.1. Transfer Orders entered before the decision of the Management Board of the Nasdaq CSD to terminate the participation and are not matched;
 - 21.2. Transfer Orders entered before the decision of the Management Board of the Nasdaq CSD to terminate the participation and are matched;
 - 21.3. Transfer Orders entered after the decision of the Management Board of the Nasdaq CSD to terminate the participation and are not matched;
 - 21.4. Transfer Orders entered after the decision of the Management Board of the Nasdaq CSD to terminate the participation and are matched.
22. Upon termination of the right of participation in securities settlement system the Nasdaq CSD shall organize the transfer of the right to administer securities accounts opened through the defaulting Participant to other Participant holding Participant status in the respective securities settlement system of the Nasdaq CSD. The transfer of the right to administer securities accounts shall be organized pursuant to agreement with the supervisory authority of respective securities settlement system.
23. Nasdaq CSD as per decision of relevant supervisory authority shall accept Transfer Orders seeking to debit securities accounts of defaulting Participant submitted by defaulting Participant, its appointed entity or legal successor.

V IMPLEMENTATION OF THE DEFAULT PROCEDURE

24. The Management Board of the Nasdaq CSD shall ensure that personnel of the Nasdaq CSD involved in operations with Participants have been trained and strictly follows the Procedure to implement it in a timely manner.
25. The training of employees will reoccur on an annual basis.
26. The roles, obligations and responsibilities of the various parties are set out in the Rules, contracts between Nasdaq CSD and its participants and this Procedure.

CSDR Article 41 (3) A CSD shall undertake with its participants and other relevant stakeholders periodic testing and review of its default procedures to ensure that they are practical and effective.

VI TESTING OF PROCEDURE

27. Sales and Services and Operations units of the Nasdaq CSD will undertake with its Participants and other relevant stakeholders periodic testing and review of this procedure to ensure that it is practical and effective.
28. Sales and Services and Operations units of the Nasdaq CSD will perform tests at least on annual basis but in any case following any substantive changes to the Procedure, or upon request from supervisory authorities of the countries of whose law applies to securities settlement system.
29. Testing for all Nasdaq CSD securities settlement systems will be performed in cooperation with T2S Operational Managers Group (T2S OMG).

30. For all Nasdaq CSD securities settlement systems Nasdaq CSD will conduct insolvency procedure tests of a Nasdaq CSD participant in accordance with business process workflow description of T2S MOP (Manual of Operational Procedures).
31. Prior to testing, Sales and Services and Operations units of the Nasdaq CSD will define the parameters according to which such test will be conducted, taking into account different types of Participants.
32. Testing parameters will be agreed upon with National Central Banks, if testing parameters will involve activities related to T2S Dedicated Cash Accounts.
33. Information (incl. parameters, scenarios) regarding planned testing for all Nasdaq CSD securities settlement systems will be sent to T2S OMG at least 6 months before testing, as approval from T2S OMG should be obtained prior testing.
34. Sales and Services and Operations units of Nasdaq CSD will introduce regular testing of realistic default and non-compliance scenarios, including among others default of one or more key Participants of the Nasdaq CSD.
35. Sales and Services Unit will be responsible for sending out written invitation for mandatory participation in testing to all Participants of each securities settlement system of the Nasdaq CSD one month before the first day of testing.
36. Invitation will contain detailed information about testing dates and scenarios to be tested by the Nasdaq CSD and Participants.
37. Outcome of tests will be shared without delay with the Management Board, Default Handling Team, the Supervisory Council and the Risk committee. A summary of the outcome of the tests will also be disclosed to the Participants through the relevant User Committee. Outcome of tests will also be shared with the relevant supervisory authorities.
38. Nasdaq CSD will involve User Committee of each securities settlement system in improving and further developing its procedures. In case a test reveals any weakness in Nasdaq CSD default rules and procedures, Nasdaq CSD will assess whether any modifications to the Rules or this Procedure are necessary.

CSDR Article 41 (2) A CSD shall make its default rules and relevant procedures available to the public.

39. All aspects of the Nasdaq CSD's participant default procedures are provided in the Rules of the Nasdaq CSD and this Procedure. Both documents will be publicly available on the official website of the Nasdaq CSD. In case of discrepancies between this Procedure and the Rules of the Nasdaq CSD, the Rules of the Nasdaq CSD shall prevail. On participant default handling aspects not covered by the Rules of the Nasdaq CSD and this Procedure, Nasdaq CSD takes duly into account ESMA Guidelines on "*CSD participants default rules and procedures*", dated 08/06/2017 (ESMA70-151-294²), as amended from time to time.

² https://www.esma.europa.eu/sites/default/files/library/esma70-151-294_guidelines_on_csd_participant_default_rules.pdf