

Nasdaq CSD SE

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

Effective Date: 30.11.2020

Document Revisions

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

| Version | Date of amendments | Owner of the document | Modifier/ involved stakeholders | Brief description of the main changes and their justification | Approved date |
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| 3 | 2019-12-10 | Head of Operations | Head of Operations | Annual review. Revision table updated. No changes needed | 2019-12-11 |
| 4 | 2020-04-27 | Head of Operations | OGC | Updated version | 2020-05-25 |
| 5 | 2020-11-25 | Head of Operations | OGC | Updated version. Amended clauses 7.5 and 25. | 2020-11-30 |

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 Nasdaq CSD unless this Procedure expressly provides otherwise.
2. Whereas, the Rules of Nasdaq CSD cover the management of the Participant's Insolvency Event by Nasdaq CSD¹, this Procedure aims to cover in further detail the procedural actions taken by Nasdaq CSD in case of an Insolvency Event of a Participant.

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

3. Nasdaq CSD Participants have to notify Nasdaq CSD of their Insolvency Event as soon as possible by sending an e-mail to the address: csd@nasdaq.com.
4. Immediately after receipt of a notification from a Participant or becoming aware of an Insolvency Event of a Participant from any other trustworthy source (i.e. court, regulators, etc.), a ticket(s) is created by Sales and Services to Operations to (i) block the communication means with CSD System available to the Participant and/or (ii) revoke access of the users belonging to the defaulting Participant.
5. Nasdaq CSD without delay informs one or more of the following stakeholders on the Insolvency Event of the Participant:
 - (i) the defaulting Participant;
 - (ii) ESMA;
 - (iii) the financial supervision authorities Estonia, Latvia, Lithuania or Iceland;
 - (iv) the Central banks of Estonia, Latvia, Lithuania or Iceland;
 - (v) Non-defaulting participants of Nasdaq CSD;
 - (vi) trading venues, linked CSDs or T2S Service Desk;
6. Head of Sales and Services, Head of Operations, Chief Compliance Officer (CCO) and Legal Counsel(s) (OGC) of a respective country will hold, without unnecessary delay, a meeting to determine the following:

¹ Annex II of Nasdaq CSD Rules. See also the following Sections in the Rules of Nasdaq CSD that refer to Insolvency Event: 2.7.1; 2.9.1 (xiv); 2.11.5; 2.17.3 (xi); 3.3.1 (v); 3.3.2 (i); 3.3.4; 3.5.3; 6.3.6; 6.4.2.

- 6.1. The circumstances constituting Insolvency Event of the particular Participant;
 - 6.2. The value and volume of the insolvent Participant's Transaction Orders that are pending settlement in the Settlement System and those that may fail to settle;
 - 6.3. The type of transactions and financial instruments these Transaction Orders relate to;
 - 6.4. The number of clients concerned insofar such information is available to Nasdaq CSD;
 - 6.5. Any other indicators of cross border activities of the Participant in default which may have relevance to and is available to Nasdaq CSD;
 - 6.6. Any measures Nasdaq CSD is obliged to take under Estonian, Latvian, Lithuanian or Icelandic laws, as the case may be;
 - 6.7. Any other information on any risks the Insolvency Event of the Participant might entail.
7. Thereafter, the Head of Sales and Services, Head of Operations, CCO and OGC shall, based on information deriving from Sections 6.1-6.7, resolve in writing on immediate actions taken, such as:
 - 7.1. Placing all pending Transactions Orders under surveillance and resolve the handling of these pursuant to Annex II of Nasdaq CSD Rules;
 - 7.2. Rejecting any new Transaction Orders pursuant to Annex II of Nasdaq CSD Rules;
 - 7.3. Allowing only debiting operations from the accounts of Defaulting Participant and its customers' accounts;
 - 7.4. Implementation of any other Estonian, Latvian, Lithuanian or Icelandic law specific immediate obligatory measures (or deviations of the above thereof);
 - 7.5. Implementation of any immediate measures ordered or requested by the relevant supervisory authorities or central banks in case additional measures should be applied taking into account the specific situation and those measures are not prescribed in the legal acts, and the competent authority or central bank has the legal rights to order implementation of such measures ;
 - 7.6. Further notices to bodies named in Section 5.
 8. All external communication regarding Participant's Insolvency Event will be conducted via secure communication channels or with encrypted e-mail exchange insofar as possible and feasible whereas the notice will include relevant and appropriate information pertaining to the Insolvency Event and considering the recipient.
 9. Head of Operations and Head of Sales and Services will be responsible for internal immediate communication to relevant personnel of Nasdaq CSD of measures taken and will ensure the implementation thereof. CCO and in the absence of CCO, the OGC, shall ensure external communication pursuant to this Procedure. CCO and OGC shall also be responsible for providing immediate and up-to-date information to the Management Board of Nasdaq CSD as well as preparing overviews and proposals for the consideration of the Management Board. CCO and OGC shall inform the Management Board of any escalations pertaining to the Insolvency Event of a Participant.
 10. Without any unnecessary delay, the Management Board of Nasdaq CSD will resolve on:

- 10.1. suspension or termination of the respective Participant's right of participation in respective Settlement System in accordance with the laws of Estonia, Latvia, Lithuania or Iceland, as the case may be, and the Rules of Nasdaq CSD;
 - 10.2. whether immediate measures (Sections 4 and 7) taken prior to the Management Board meeting will be continued;
 - 10.3. which additional measures could be or should be taken considering the latest available information on the Insolvency Event or any feedback from relevant supervisory authorities, central banks or legislation of Estonia, Latvia, Lithuania or Iceland.
11. Management Board decision on suspension or termination of the respective Participant's right of participation in respective Settlement System shall immediately be communicated to the bodies referred to in Section 5 in manner described in Section 8.

III IMPLEMENTATION OF THE DEFAULT PROCEDURE

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

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.

IV TESTING OF INSOLVENCY DEFAULT PROCEDURE

15. The provisions of this Section apply to all Nasdaq CSD Settlement Systems unless expressly provided otherwise in this Procedure or in the Rules of Nasdaq CSD.
16. Sales and Services and Operations units of 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.
17. Sales and Services and Operations units of the Nasdaq CSD will perform tests at least on an 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 apply to Settlement System.
18. Testing for all Nasdaq CSD Settlement Systems, except the Icelandic Settlement System, will be performed in cooperation with T2S Operational Managers Group (T2S OMG).
19. For all Nasdaq CSD Settlement Systems, except the Icelandic Settlement System, Nasdaq CSD will conduct participant insolvency procedure tests in accordance with business process workflow description of T2S MOP.
20. Prior to testing, Sales and Services and Operations units of Nasdaq CSD will define the parameters according to which such test will be conducted, taking into account different types of Participants.

21. Testing parameters will be agreed upon with national central banks, if testing parameters will involve activities related to T2S Dedicated Cash Accounts.
22. Information (incl. parameters, scenarios) regarding planned testing for all Nasdaq CSD Settlement Systems, except the Icelandic SSS, will be sent to T2S OMG at least 6 months before testing, as approval from T2S OMG should be obtained prior testing.
23. Sales and Services Unit will be responsible for sending out written invitation for mandatory participation in testing to all Participants of each Settlement System one month before first day of testing.
24. Invitation will contain detailed information about testing dates and scenarios to be tested by the Nasdaq CSD and Participants.
25. The results of any test and the contemplated changes to the default rules and this Procedure, if any, will be shared with the Nasdaq CSD's Management Board, Supervisory Council, Risk Committee and FCMC. Nasdaq CSD will also disclose at least a summary of the results of a performed test to its participants by publishing the summary at Nasdaq CSD Participant Secure Portal.
26. Nasdaq CSD may involve User Committee of each securities settlement system in improving and further developing its procedures.

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

27. All aspects of the Nasdaq CSD's Participant default procedures are provided in the Rules of 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.