

Nasdaq CSD SE

**PROCEDURES TO REDUCE AND MANAGE RISKS ASSOCIATED WITH
SAFEKEEPING OF SECURITIES**

Document Revisions

Version	Date	Revision Notes
1	18/09/2017	1 st version
2	31/12/2018	Annual review
3	8/25/2020	Icelandic SSS added

1. Protection of securities issuers and holders rights

CSDR Article 36. General provisions

For each securities settlement system it operates a CSD shall have appropriate rules and procedures, including robust accounting practices and controls, to help ensure the integrity of securities issues, and reduce and manage the risks associated with the safekeeping and settlement of transactions in securities.

CSDR Article 38. Protection of securities of participants and those of their clients

1. For each securities settlement system it operates, a CSD shall keep records and accounts that shall enable it, at any time and without delay, to segregate in the accounts with the CSD, the securities of a participant from those of any other participant and, if applicable, from the CSD's own assets.
2. A CSD shall keep records and accounts that enable any participant to segregate the securities of the participant from those of the participant's clients.
3. A CSD shall keep records and accounts that enable any participant to hold in one securities account the securities that belong to different clients of that participant ('omnibus client segregation')
4. A CSD shall keep records and accounts that enable a participant to segregate the securities of any of the participant's clients, if and as required by the participant ('individual client segregation').
5. A participant shall offer its clients at least the choice between omnibus client segregation and individual client segregation and inform them of the costs and risks associated with each option.
6. CSDs and their participants shall publicly disclose the levels of protection and the costs associated with the different levels of segregation that they provide and shall offer those services on reasonable commercial terms. Details of the different levels of segregation shall include a description of the main legal implications of the respective levels of segregation offered, including information on the insolvency law applicable in the relevant jurisdictions.
7. A CSD shall not use for any purpose securities that do not belong to it. A CSD may however use securities of a participant where it has obtained that participant's prior express consent. The CSD shall require its participants to obtain any necessary prior consent from their clients.

RTS on CSD Authorization. Article 26 Protection of participants' and their clients' securities

An application for authorisation shall include the following information concerning the measures put in place to protect the securities of the applicant CSD's participants and those of their clients in accordance with Article 38 of Regulation (EU) No 909/2014:

- (a) the rules and procedures to reduce and manage the risks associated with the safekeeping of securities;

The Rules of the Nasdaq CSD SE (hereinafter "the Rules") and the applicable national laws provide the following safeguards with respect to the issuers and holders:

- Securities accounting requirements applicable to the top tier accounts with any Securities Settlement System (hereinafter "SSS") and, in case of omnibus, nominee and segregated nominee accounts, a second tier accounts maintained by the Account Operator of the Nasdaq CSD SE (hereinafter "the Depository") in its own books;
- Asset segregation requirements ensured by separation of assets belonging to the Depository participants and their clients;
- Prohibition for the Depository to use on its own account the securities of the account holder without a prior written consent of the account holder. The Depository Rules provide for a procedure to obtain consent from the account holder;
- Internal control system, including organizational requirements, system controls and checks;
- Proper reconciliation on a daily basis as provided in the Depository Policies & Procedures regarding integrity of the issue and reconciliation;
- Liability of the Depository vis-a-vis the Participants and the Issuers and *vice versa* is clearly defined in the Rules;
- Civil liability rules of the registrar of the Estonia;
- Insurance protection (e.g. professional indemnity insurance (errors and omissions), directors and officers liability insurance) as provided in the Depository Enterprise risk management policy.

In addition to the Depository Rules, there are the Depository Service Description, the Depository Operating Manual and specific Policies and Procedures documents that provide further details on

rules, procedures, practices and controls to ensure proper risk management related to safekeeping of assets held with the Depository.

2. The Depository's procedures and controls ensuring proper accounting of assets held in its books

2.1. Common provisions

The Depository Rules Chapter I provides opening and keeping records of the following main types of Operational Accounts that enable safekeeping corresponding securities accounts in one or more Securities Settlement Systems:

- **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;
- **Owner pledge account** – an account that enables keeping corresponding pledged securities in one or more SSSs, 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;
- **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;
- **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;
- **Omnibus account** - an account that is opened in the name of an Account Operator for holding securities of the Account Operator's multiple customers; or in the name of a Foreign CSD for holding securities under a CSD link arrangement between the Depository and Foreign CSD;
- **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;
- **Segregated nominee account** - an account that is registered in the name of an Account Operator or a customer of the Account Operator and is used for holding securities for a single customer of the segregated nominee account holder, regardless of whether such customer is the end investor or acts as an intermediary in the securities holding chain.

Omnibus accounts, nominee accounts and segregated nominee accounts are subject to two level securities accounting requirements set out in the Rules and the applicable national laws. Owner accounts and segregated nominee accounts ensure individual client segregation in accordance with the CSDR and national laws requirements.

The set of data and other parameters needed in relation to opening of the Operational Accounts have to be provided in the account opening request as set out in the Operating Manual. The Operating Manual specifies account type-specific validation or verification activities.

Account numbering in the Depository system follows certain rules as described in the Depository Service Description. The harmonized account numbering algorithm is applied to all securities accounts opened in the new Depository system.

The Depository Price list will provide fee level associated with safekeeping of securities in different types of accounts.

As for the account opening and management, there may be different (lower) fees for the opening and management of the owner accounts (beneficial owner and participant own accounts) as compared to the opening and management of the omnibus and nominee accounts. Further

reductions for the account opening and management might be available for the natural persons applicable to specific SSS and described in the Depository Price List.

The account management (safekeeping) fee may consist of the minimum fee and variable component. The minimum fee will be applicable if the account is empty and will be charged for the account management. The variable component will be based on the aggregated volume of securities recorded on the operational securities account and charged per SSS. There will be a maximum level on the variable fee for certain types of accounts as provided in the Depository Price List.

2.2. Country specific provisions

2.2.1. Safekeeping securities in the Initial Registrar in Latvia

The Depository will be the Account Operator for the Initial Registrar accounts where end investors are keeping their shares either from privatization process or new company entrance to the public securities market (the existing shareholders of non-listed company are placed in the Initial Register).

According to the Depository Rules, data on securities holdings of persons registered in the Initial Register is recorded in the Initial Register accounts opened in the Latvian SSS in the name of each person registered in the Initial Register.

When securities are distributed to the owners, it is recorded in the Depository system through a file import, including necessary stakeholder information about the investor and the quantity held by the investor. The stakeholder data is checked against existing Initial Register accounts, and if no active account exists, an account is generated.

Detailed provisions regarding safekeeping of the Initial Registrar accounts are provided in the Depository Rules Chapter III and other documents describing the Depository services and operations.

2.2.2. Safekeeping of Savings Notes distributed by the Depository in Lithuania

The following Depository participants have the right to distribute and safe keep holdings of the savings notes:

- SEB bank Lithuania;
- Swedbank Lithuania;
- Luminor bank Lithuania;
- The Depository Lithuanian branch in the role of the Depository participant.

Under the agreement with the Lithuanian Ministry of Finance the Depository Lithuanian branch acting as the Issuer agent has been granted the right to instruct on dedicated issuance account in the Depository system and has authority to increase and decrease total amount of issued savings notes.

Holdings of the Savings Notes are safe kept in the same securities accounts in Lithuanian SSS which hold both T2S and non-T2S eligible securities. Savings notes can be settled through the following types of the securities accounts opened in the Depository:

- Issuance account – a technical account in the Depository system that represents the total quantity of the issued savings notes. This account is opened in the name of the issuer;
- Omnibus account – an account which is registered in the name of the Depository participant and is used for holding any securities of the participant's multiple clients;
- Owner account – an account which is registered in the name of a client of the Depository participant and is used for holding securities that belong to the investor;

- Corporate action distribution account – technical account opened in name of the Depository for redemption of securities in the depository system.

In the event of the Savings Notes distribution to end investors via the special Depository portal, the Depository opens beneficial owners accounts for these investors in the Savings Notes registrar and acts as the Account Operator of these investors accounts, including managing omnibus account in the Depository system that is registered in the name of the Depository as the Account Operator and is used for holding of the Savings Notes of the clients that have beneficial owner accounts in the Savings Notes registrar.

Detailed provisions regarding safekeeping of the Savings Notes are provided in the Depository Rules Chapter IV, the Service Description, the Operating Manual and the Processing Description of Lithuanian Government Savings Notes.

2.2.3.Special provisions regarding safekeeping of securities in Estonia

In the Depository the owner account may be opened by using the following sub-types to the extent that such sub-type is used for accounting of securities in the Estonian SSS:

- Joint owner account (*in Estonian: ühisomandi konto*) - an account that is designated by the account holder for holding securities of two or more owners in joint ownership;
- Co-owner account (*in Estonian: kaasomandi konto*) - an account that is designated by the account holder for holding securities of two or more owners in common ownership.
- A special-purpose notary's securities account (*in Estonian: notari väärtpaberikonto*) may be opened in the name of notary for or in connection with depositing of securities in the Estonian Settlement System by notary in accordance with the notaries regulation or other legal acts applicable to the activities of notary.
- A special-purpose official securities account of the bailiff (*in Estonian: kohtutäituri väärtpaberikonto*) referred to in the Code of Enforcement Procedure, legal act approved by the Estonian Parliament, may be opened in the name of bailiff for or in connection with the sale of securities arrested in the Estonian SSS.

Detailed provisions regarding safekeeping of securities in these accounts are provided in the Depository Rules, the Service Description and the Operating Manual.

2.2.4.Special provisions regarding safekeeping of securities in Iceland

The Depository acts as the Account Operator for Initial Registrar accounts. These accounts are held in the name of the end investors. This procedure is only in place where the account holder has not identified itself to Account Operator and transferred the assets into custody. This procedure is not active anymore and no new securities or accounts will be added to this set-up.

- Both omnibus and nominee accounts at the depository are subject to the Account Operator and its clients authorization to hold such account in accordance with Regulation No. 706/2008 on nominee registration and the custody of financial instruments in nominee accounts.
- As holdings on nominee and omnibus do not have voting rights, the Depository will operate Temporary voting accounts. The assets registered on such accounts belongs to a single beneficial owner while he use his rights at Annual meetings.

3. Management of risks associated with safekeeping of assets held in the books of the Depository

3.1. Internal controls & procedures ensuring safekeeping of securities

The securities accounting system for omnibus accounts, nominee accounts and segregated nominee accounts consist of:

- First level – securities accounting by the Depository in respect of top tier securities accounts;
- Second level – securities accounting by the Account Operator or respective client of Account Operator in respect of second tier securities accounts.

The Depository and the Account Operator are responsible for maintaining adequate securities records in accordance with the Depository Rules and the applicable national laws. At the first level the Depository performs securities accounting according to the law that applies to the SSS in which omnibus accounts, nominee accounts or segregated nominee account are held.

At the second level the account holder performs securities accounting according to the Depository Rules and the law that applies to the second tier securities account:

- For accounts located in Estonia - Estonian law is applicable;
- For accounts located in Latvia – Latvian law is applicable;
- For accounts located in Lithuania - Lithuanian law is applicable;
- For accounts located in Iceland – Icelandic law is applicable.

The Depository requires compliance by the Account Operators with robust securities accounting practices through well-documented rules of procedure, qualified personnel, systems and controls, and IT systems.

Records of owner accounts are kept by the Depository in the SSS in which the securities account is opened. Two level securities accounting requirements do not apply to the transparent (direct) holding model whereby the owner accounts are maintained by the Account Operator but securities records are kept by the Depository.

The Depository Rules prohibit the Depository from using on its own account the securities of the Account Holder without a prior written consent of the account holder. The Depository Rules provide a procedure for obtaining such consent.

If the authorization is revoked due to commencement of insolvency proceedings, the Depository makes the necessary arrangements with another authorized CSD in order to transfer the assets of the account holders and the corresponding securities account records to such CSD as provided in the respective Depository Policies & Procedures document.

3.2. System controls ensuring securities are safe kept in the Depository system

The Depository system has high level controls related to creation and access to securities accounts, including:

- Authority is given to the Account Operators for the creation and amendment of Securities Accounts through the assignment of an appropriate function. From this assignment of a function, the Account Operator will be able to grant functional rights to their Users to access the securities accounts;
- Account Operators will be able to create all account types except Initial Register and Shareholder Register accounts;
- Securities Account creation or amendment will be available only to those Users with Initiate or Approve levels of access to Securities Account. 4-eyes principle can be

implemented by granting one User right to initiate and another user to approve account creation or amendment;

- Double entry;
- Crediting and debiting of securities accounts can be done only based on the matched settlement instructions submitted by respective Account Operator, Issuer/Issuer Agent request or corporate action settlement;
- Securities account amendments awaiting approval will be visible and respective users will be notified;
- All actions with securities accounts are logged and traceable in the audit logs of the Depository systems.

All securities accounts are eligible to hold both T2S and non-T2S eligible securities and are replicated to T2S in case accounts are holding T2S eligible securities. Securities accounts opening and maintenance requests are given to the Depository by the Account Operators using either CSD system's GUI or ISO 20022 messages. The account opening or maintenance requests are forwarded to T2S if needed and after successful confirmation finalized in the Depository system. This means that account maintenance in the Depository system might trigger an immediate replication to T2S and is only processed after technical and business validation processes are passed in both the Depository system and T2S.

If any issues are encountered in T2S, the account opening or maintenance will be suspended for further investigation. The status of the replication is shown to the User in the Depository system's GUI and via messaging.

Foreign securities registered with a foreign CSD as an Issuer CSD that are held by or through the Participant via a CSD link arrangement can be held with Lithuanian or Latvian SSSs associated with the Operational Account through which the securities are held.

3.3. Reviews of operational risk controls

The Internal Audit function of the Nasdaq Group, reporting to the Nasdaq Group Audit Committee, is responsible for making independent reviews of the adequacy of operational risk controls according to the audit plan approved by the Depository Supervisory Counsel as provided in the Service Level Agreement on Internal Audit. The board of directors of Nasdaq Group appoints the members of the Audit Committee. An annually approved Charter governs internal Audit. An Internal Audit function is performing audits on all key processes, including IT and operations. Internal audits are completed on a periodic basis according to an Internal Audit plan.

The Depository operational risk management framework and systems are subject to independent audits. The frequency of these audits shall be based on a documented risk assessment but it shall be no less than every two years as required by CSDR.

3.4. Risk management procedures

As part of the Nasdaq CSD SE Enterprise Risk Management Framework the Depository has established the Nasdaq CSD SE Enterprise Risk Management Policy and related procedures to identify, measure, monitor, manage and enable reporting on the risks that the Depository may be exposed to, including also the risks associated with safekeeping of securities.

Head of Operations Department and Head of Sales & Services Department will be responsible for ensuring that Depository's systems and communication arrangements with the Account Operators are reliable, secure and designed to minimize operational risks. The Depository Operational Risk Management Framework provides further details on operational risk management and is designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations;
- Reliability of reporting;
- Compliance with laws, rules and regulations.

Control activities used to ensure operational risk management include:

- Preventive controls: written job descriptions, physical and IT access authorities, personnel backup arrangements, segregation of duties (e.g. between Operations and Sales & Services);
- Detective controls: business, market and project reports, employee and customer satisfaction surveys, inventories, compliance, operational risk and incident reports, monitoring of external and internal access rights.

In order to identify and measure operational risks associated with safekeeping of securities the Depository shall assess safekeeping processes and procedures during Risk Self-Assessment (hereinafter RSA) process ensuring that:

- The risks associated with safekeeping of securities are identified and estimated during Risk Self-Assessment process according to standard Nasdaq Risk Self-Assessment Guidelines.
- Risk mitigation strategy shall be developed based on Nasdaq RSA Guidelines classifying risks into the following categories:
 - Monitor. Appropriate controls to monitor the risk are in place. This can also represent a conscious decision to accept and monitor an already established mitigation plan so that no additional action is necessary.
 - Reduce. Actions shall be taken to reduce the impact and/or probability of a risk to an acceptable level (e.g. enhanced controls).
 - Urgently reduce or avoid the risk completely. The red color is also used to highlight actions that are overdue or new actions requiring immediate attention.
 - Increase the exposure to a risk. The reason may be that significant business opportunities have been identified which justifies an increase of the risk appetite, or that a risk is over-managed in relation to the potential impact.
- Material risks associated with safekeeping of securities shall be escalated to the Risk Committee and the Supervisory Council.

The Risk Assessment shall be performed annually with review and update on actions identified to mitigate the risk on quarterly basis. The results of the RSA are to be reported to the Risk Committee. The CRO is responsible for embedding the RSA process in the Company as well as for presenting the RSA report to the Risk Committee and providing information about material risks identified to the Supervisory Council. The risk reports in addition to RSA results will include Risk Appetite deviations, Risk Tolerance status, risk incidents, notable emerging risks, and the status of identified actions to mitigate risks. In addition, the Risk Committee will also review periodic updates regarding legal affairs, compliance, operations, information security, and outsourcing arrangements of the Company.