

DESCRIPTION OF DIFFERENT LEVELS OF SEGREGATION OFFERED BY NASDAQ CSD

THE DESCRIPTION IS BASED ON DRAFT PROPOSAL FOR AMENDMENTS TO FINANCIAL INSTRUMENTS MARKET LAW. ONCE THE LAW IS SUBMITTED TO THE PARLIAMENT, REFERENCES TO SPECIFIC PROVISIONS OF THE LAW NEED TO BE CHECKED.

Securities account provided by the CSD	Segregation level description under applicable law	Asset segregation as per Article 38 of CSDR	Associated costs	Commercial terms	Legal implications	Treatment under the insolvency law
II Latvia						
<p><u>1. Participant own account</u></p> <p>Participant own account is registered in the name of the Account Operator and is used for holding securities owned by the Account Operator.¹</p>	<p>Participant account (in Latvian – <i>dalībnieka konts</i>) is used for recording securities belonging to a participant of central securities depository (“CSD”).²</p>	<p>Participant own account ensures segregation of securities of a participant from those of any other participant (Article 38(1) CSDR) and segregation of securities of a participant from those of the participant’s clients (Article 38(2) CSDR).</p>	<p><i>Please refer to the Price List.</i></p>	<p><i>Please refer to the Price List.</i></p>	<p>Participant account is registered in the name of the Account Operator and is used for holding securities belonging to the Account Operator.</p> <p>The record in the participant account is a proof that securities registered with the Latvian settlement system (“Latvian SSS”) belong to the participant who is the account holder.³ The record of a pledge over securities credited to a securities account is a proof of such pledge.⁴</p>	<p>The records in the Latvian SSS determine the entitlement of a participant to securities and any encumbrances over such securities.</p> <p>Securities recorded in the participant account must not be used for the satisfaction of the claims of Nasdaq CSD creditors, also in the event Nasdaq CSD is declared to be insolvent.⁵</p>

¹ Section 5.3.1 (i) of Chapter I of Nasdaq CSD Rules.

² Article 100¹(1)(1) of the Financial Instruments Market Law (“**FIML**”).

³ Article 125(2¹) of FIML.

⁴ Article 125(2³) of FIML.

⁵ Article 125(5¹) of FIML.

Securities account provided by the CSD	Segregation level description under applicable law	Asset segregation as per Article 38 of CSDR	Associated costs	Commercial terms	Legal implications	Treatment under the insolvency law
<p><u>2. Owner account</u></p> <p>Owner account 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.⁶</p>	<p>Owner account is one of the types of individual account (in Latvian – <i>individuālais kants</i>): a securities account that is used for recording securities that belong to, or are held by, a single client of the CSD participant.⁷</p> <p>Where the law specifically regulates the owner account, it refers to an individual account which under CSD rules is used for recording of securities that belong to a single client of the CSD participant.⁸</p>	<p>Owner account ensures individual client segregation (Article 38(4) CSDR).</p>	<p><i>Please refer to the Price List.</i></p>	<p><i>Please refer to the Price List.</i></p>	<p>Owner account is registered in the name of a customer (individual or legal entity) of the Account Operator at the Nasdaq CSD level and is used for holding securities belonging to that customer. The securities owner is identified at the Nasdaq CSD level.⁹ The owner account represents “direct” or “transparent” securities holding model under which the records of the securities owner (end investor) are maintained at CSD level.</p> <p>It is not necessary to maintain parallel securities records with the Account Operator servicing the customer (even if the Account Operator maintains parallel records in its internal system, such records have no legal implications). The Account Operator is merely administering the owner account according to the client’s instructions.</p>	<p>The top-tier records maintained by Nasdaq CSD determine the entitlement of an individual or legal entity (account holder) to securities and any encumbrances over such securities. Any other records (if such exist with the Account Operator) in respect to securities held with the owner account have no legal implications.</p> <p>Securities recorded in the owner account must not be used for the satisfaction of the claims of the creditors of Nasdaq CSD or a credit institution or an investment brokerage company (Account Operator), also in the event of insolvency of Nasdaq CSD or Account Operator, respectively.¹²</p> <p>The owner account offers the following advantages over nominee accounts in the event of Account Operator’s insolvency:</p>

⁶ Section 5.3.3 (i) of Chapter I of Nasdaq CSD Rules.

⁷ Article 100¹(1)(3) of FIML.

⁸ Cf. Articles 100¹(2), 125(2²) and 125(7) – (10) of FIML.

⁹ Article 100¹(2) of FIML.

¹² Article 125(5) - (5¹) of FIML.

Securities account provided by the CSD	Segregation level description under applicable law	Asset segregation as per Article 38 of CSDR	Associated costs	Commercial terms	Legal implications	Treatment under the insolvency law
					<p>Account Operator maintains relationship with the account holder. The account holder provides instructions, information requests to Nasdaq CSD via the Account Operator with whom it has entered into agreement regarding administration of the owner account.</p> <p>The record in the owner account is a proof that securities belong to the individual or legal entity in whose name the account is opened.¹⁰ The record of a pledge over securities credited to a securities account is a proof of such pledge.¹¹</p>	<p>1. There is no risk that Account Operator's securities accounting records are deficient or securities are used without the client's authorisation since securities are held "directly" by the end investor (Account Operator role is limited to administrating owner account and communicating instructions of his client to Nasdaq CSD). This eliminates the risk associated with the operational or other failures of Account Operator.</p> <p>2. It allows speedier insolvency resolution of the affected securities accounts since:</p> <p>(i) records of securities entitlement are maintained at the level of Nasdaq CSD and can be quickly retrieved from Nasdaq CSD. Thus, Nasdaq CSD records with the owner account are definite.</p> <p>(ii) the right to administer the owner account can be transferred from the insolvent Account Operator to another</p>

¹⁰ Article 125(2²) of FIML.

¹¹ Article 125(2³) of FIML.

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						<p>Account Operator (full portability), should the insolvency administrator and the holder of the owner account decide so.</p> <p>3. In cross-border situation where securities registered with Latvian SSS are held by a foreign individual or legal entity, only Latvian law applies to entitlement over securities recorded in the owner account. In contrast, where a foreign investor holds securities through several tiers of nominee accounts (e.g. Estonian investor has a nominee account with Estonian participant which in turn has a nominee account with Latvian SSS, entitlement over securities (if any) in every tier may be subject to the law of a different country.</p>
<p><u>3. Omnibus securities account</u></p> <p>Omnibus securities account is registered in the name of:</p> <p>(i) an Account Operator for holding securities of the Account Operator's</p>	<p>Omnibus securities account corresponds to statutory term "participant clients' account" (in Latvian – <i>dalībnieka klientu kots</i>). Participant clients' account is used for omnibus accounting of securities belonging</p>	<p>Omnibus client segregation (Article 38(3) CSDR)</p>	<p><i>Please refer to the Price List.</i></p>	<p><i>Please refer to the Price List.</i></p>	<p>Omnibus account is opened in the name of the Account Operator or a Foreign CSD with whom Nasdaq CSD has entered into a CSD link arrangement, and is used for holding securities of its multiple clients in one account. At the Nasdaq CSD level securities are</p>	<p>Securities recorded in the omnibus securities account must not be used for the satisfaction of the claims of the creditors of Nasdaq CSD or a credit institution or an investment brokerage company (Account Operator) or other participant, also in the event of insolvency of Nasdaq</p>

Securities account provided by the CSD	Segregation level description under applicable law	Asset segregation as per Article 38 of CSDR	Associated costs	Commercial terms	Legal implications	Treatment under the insolvency law
<p>multiple clients; or</p> <p>(ii) a Foreign CSD for holding securities under CSD link arrangement between Nasdaq CSD and Foreign CSD.¹³</p>	<p>to, or held by, multiple clients of the CSD participant.¹⁴</p>				<p>segregated from those of the Account Operator but not between the fellow investors (i.e. omnibus client segregation).</p> <p>The record in this securities account merely evidences that securities are held on behalf of multiple clients of Account Operator and a Foreign CSD. Such clients are not identified at the level of Nasdaq CSD.</p> <p>Credit institutions and investment brokerage companies have to ensure that securities transactions are immediately registered and securities acquired or disposed of, as a result of such transactions are reflected in records on the client securities accounts¹⁵ (i.e. lower tier accounts maintained at the level of credit institution or an investment brokerage company).</p>	<p>CSD, Account Operator or other participant, respectively.¹⁶</p> <p>Records of the securities account maintained by a lower tier account provider (Account Operator or other financial intermediary in the downstream holding chain) is a proof of entitlement to securities,¹⁷ including where insolvency proceedings of Nasdaq CSD or a lower tier account provider are commenced.</p>

¹³ Section 5.3.2 of Chapter I of Nasdaq CSD Rules.

¹⁴ Article 100¹(1)(2) of FIML.

¹⁵ Article 125(4) of FIML.

¹⁶ Article 125 (5) – (5¹) of FIML.

¹⁷ Article 125(2) of FIML.

Securities account provided by the CSD	Segregation level description under applicable law	Asset segregation as per Article 38 of CSDR	Associated costs	Commercial terms	Legal implications	Treatment under the insolvency law
<p><u>4. Segregated nominee account</u></p> <p>Segregated nominee account is registered:</p> <p>(i) in the name of an Account Operator and is used for holding securities for its single customer; or</p> <p>(ii) in the name of a client of Account Operator and is used for holding securities for a single customer of such a client, regardless of whether such customer is the end investor or acts as an intermediary in the securities holding chain.¹⁸</p>	<p>Segregated nominee account is one of the types of the individual account (in Latvian – <i>individuālais konts</i>). Individual account is used for recording securities belonging to, or held by, a single client of a participant.¹⁹</p>	<p>Individual client segregation (Article 38(4) CSDR).</p>	<p><i>Please refer to the Price List.</i></p>	<p><i>Please refer to the Price List.</i></p>	<p>Segregated nominee account is opened either in the name of the Account Operator or a client of an Account Operator (e.g. a credit institution or investment brokerage company (“IBS”) that is not a participant of Latvian SSS). If a top-tier segregated nominee account is used, lower tier account providers should hold securities in a separate segregated individual account throughout all of the levels in the securities holding chain from the ultimate account provider up to the top-tier segregated nominee account with Nasdaq CSD.</p> <p>The account is used for holding securities of a single customer of an account holder (e.g. Nasdaq CSD may open a segregated nominee account in the name of IBS that is used for holding securities of its single customer). Such</p>	<p>Securities recorded in the segregated nominee account must not be used for the satisfaction of the claims of the creditors of Nasdaq CSD or a credit institution or an investment brokerage company (Account Operator or its client holding securities for a single customer), also in the event of insolvency of Nasdaq CSD, Account Operator or its client, respectively.²²</p> <p>The records of segregated individual account maintained by a lower tier account provider (Account Operator, its client or another financial intermediary in the downstream securities holding chain) is a proof of the entitlement to securities,²³ including where insolvency proceedings of Nasdaq CSD or a lower tier account provider are commenced.</p>

¹⁸ Section 5.3.3 (ii) of Chapter I of Nasdaq CSD Rules.

¹⁹ Article 100¹(1)(3) of FIML.

²² Article 125(5) – (51) of FIML.

²³ Article 125(2) of FIML.

Securities account provided by the CSD	Segregation level description under applicable law	Asset segregation as per Article 38 of CSDR	Associated costs	Commercial terms	Legal implications	Treatment under the insolvency law
					<p>customer may be either an end investor or an intermediary holding securities for another investor.</p> <p>In case the account holder is a client of Account Operator, it is not necessary to maintain a parallel securities account or securities records with the Account Operator servicing this account. Account Operator maintains relationship with the account holder. Account holder provides instructions and information requests to Nasdaq CSD via that Account Operator.</p> <p>Nasdaq CSD identifies and maintains records of the account holder.²⁰ The customer of an account holder is not identified at the level of Nasdaq CSD.</p> <p>The record in the segregated nominee account merely evidences that securities are held on behalf of another person on individually segregated basis.</p>	

²⁰ Article 100¹(2) of FIML.

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					Credit institutions and investment brokerage companies have to ensure that securities transactions are immediately registered and securities acquired or disposed of, as a result of such transactions are reflected in the records on the client securities accounts (i.e. lower tier accounts maintained at the level of credit institution or an investment brokerage company). ²¹	
<p><u>5. Nominee account</u></p> <p>Nominee account 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.²⁴</p>	<p>Nominee account is one of the types of the individual account (in Latvian – <i>individuālais kants</i>). Individual account is used for recording securities belonging to, or held by, a single client of a participant.²⁵</p>	<p>Individual segregation client (Article 38(4) CSDR).</p>	<p><i>Please refer to the Price List.</i></p>	<p><i>Please refer to the Price List.</i></p>	<p>Nominee account is opened in the name of a customer of an Account Operator (e.g. a credit institution or IBS that is not a participant of Latvian SSS).</p> <p>This account is used for holding securities of multiple clients of a customer of a participant to Latvian SSS (e.g. Nasdaq CSD may open a nominee account in the name of IBS, which is not a participant to</p>	<p>Securities recorded in the nominee account must not be used for the satisfaction of the claims of the creditors of Nasdaq CSD or a credit institution or an investment brokerage company (a customer of Account Operator), also in the event of insolvency of Nasdaq CSD or a customer of Account Operator, respectively.²⁸</p> <p>Records of the securities account maintained by a lower</p>

²¹ Article 125(4) of FIML.

²⁴ Section 5.3.3 (iii) of Chapter I of Nasdaq CSD.

²⁵ Article 100¹(1)(3) of FIML.

²⁸ Article 125(5) – (5¹) of FIML.

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					<p>Latvian SSS, that is used for holding securities of its multiple clients). Such clients may be either end investors or intermediaries holding securities for other investors.</p> <p>It is not necessary to maintain a parallel securities account or securities records with the Account Operator servicing the nominee account. Account Operator maintains relationship with the account holder. The account holder provides instructions and information requests to Nasdaq CSD via the Account Operator servicing this account.</p> <p>Nasdaq CSD identifies and maintains records of the account holder.²⁶ The customers of an account holder are not identified at the level of Nasdaq CSD.</p> <p>The record in the nominee account merely evidences that at the top-tier level securities of multiple clients of the account holder are held on jointly segregated</p>	<p>tier account provider (a customer of Account Operator or another financial intermediary in the downstream securities holding chain) that evidence the entitlement to securities are used to identify the end investor.</p>

²⁶ Article 100¹(2) of FIML.

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					<p>basis.</p> <p>Credit institutions and investment brokerage companies have to ensure that securities transactions are immediately registered and securities acquired as a result of such transactions are recorded in the client securities accounts (i.e. lower tier accounts maintained at the level of credit institution or an investment brokerage company).²⁷</p>	

Capitalised terms in this description have the same meaning as in the Nasdaq CSD Rules.²⁹

²⁷ Article 125(4) of FIML.

²⁹ [insert web link following the publication of the Nasdaq CSD Rules].