

APPROVED BY
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Minutes No. 4

THE RULES ON THE SECURITIES SETTLEMENT SYSTEM OF THE CENTRAL SECURITIES DEPOSITORY OF LITHUANIA

I. GENERAL PROVISIONS

1. The Rules on the Securities Settlement System (hereinafter referred to as the Rules) of the public company Central Securities Depository of Lithuania (hereinafter referred to as the Central Depository) shall establish the procedure for acceptance or withdrawal of participants of the securities settlement system (hereinafter referred to as the System or SSS), the rights and duties of the SSS operator and participants, the operational basis of the SSS, the operational risk management facilities, the basis for the determination of the fees for the services provided by the SSS, the ways and the moment of entry of Instructions into the SSS and the procedure for their execution.

2. Concepts as used in these Rules:

2.1. **Accounting day** means any day, when the SSS performs settlements against received instructions as prescribed in the SSS schedule.

2.2. **Settlement day** means an S day, when the SSS has to execute transfers of securities and (or) cash (if any) between general securities accounts and settlement accounts of the SSS participants. The settlement day in Instructions shall be specified by the SSS participants as well as by the regulated markets and /or multilateral trading facilities, whereas in the absence of such specification, it shall be established in accordance with legal acts.

2.3. **Settlement movement** means entries in the database of the Central Depository made on the basis of placed Instructions following the execution of which securities are transferred between general securities accounts of the SSS participants, and (or) payment Instructions are submitted to the payment systems to execute cash transfers between settlement accounts of the participants, thereby ensuring DVP. Settlement movements shall be generated in conformity with the transfer Instructions of the SSS participant, the SSS operator, or the third party.

2.4. **Settlement accounts** mean accounts of SSS participants and SSS operator opened within the payment systems that keep records of cash held by the SSS operator, SSS participants and their clients.

2.5. **General securities account (omnibus account)** means a securities account opened with the Central Depository in the name of the SSS participant, wherein the SSS operator makes entries according to the procedure prescribed by legal acts and wherein the amount of securities equals the total amount of securities in the personal securities accounts managed by the SSS participant, the accounting records of which are handled by the SSS participant acting as an account manager according to the procedure prescribed by legal acts. Within the meaning of these Rules, personal securities accounts opened to the SSS participants in the Central Depository, or other securities accounts opened on behalf of the SSS participants, as

well as client accounts of the SSS participants registered abroad as account managers and/or central depositories that are opened on behalf of those SSS participants, shall be equated to general securities accounts.

2.6. Participants' secure information site (hereinafter referred to as PSIS) means a non-public Internet web site administered by the Central Depository, which is designed exclusively to the SSS participants who have signed the agreement with the Central Depository provided for in these Rules.

2.7. Electronic document exchange system LITAS (hereinafter referred to as EDA LITAS) means a system operated by the Bank of Lithuania that is designed for the exchange of standardized electronic documents between the SSS participants and between the systems executing payment orders or securities transfers.

2.8. Payment system means the system LITAS-RLS, LITAS_PHA, TARGET2 component system or any other system designed to execute cash settlements and with which the SSS operator holds an agreement regarding transfer of cash.

2.9. Instructions mean documents of the SSS participant placed electronically through the EDA LITAS or SWIFT systems, the structure of which is based on the ISO 15022 or ISO 20022 standards, i.e. instructions concerning free-of-payment securities transfers, instructions concerning securities settlements against payment, which give orders to make entries in general securities accounts and settlement accounts of the SSS participants. Within the meaning of these Rules, other documents submitted by the SSS participants on the basis of which and when confirmed by the SSS participants (provided such confirmation is required in cases prescribed by legal acts or other regulations), the SSS operator makes entries in general securities accounts of the SSS participants, may also be deemed Instructions.

2.10. Messages mean documents placed by the SSS operator with the SSS participants through the EDA LITAS or SWIFT systems, which are structured on the basis of the ISO 15022 or ISO 20022 standards, or documents placed with the SSS participants through the Participants' secure information site administered by the Central Depository, or in paper form, the structure whereof is determined by the SSS operator and which are provided for in agreements signed between the SSS operator and the SSS participants.

2.11. System (SSS) means a system for handling databases and processes operated on the basis of agreements of its participants in observance of general rules and standardized procedure with the purpose of carrying out registration and safekeeping of securities, execution of stock events and securities settlements between the SSS participants by making entries of securities transfers between general securities accounts and transmitting payment Instructions related to such securities transfers for further processing into the payment systems. The SSS shall execute real and designated time settlements of securities transactions, concluded on or off the regulated market and multilateral trading facilities, as well as free-of-payment securities transfers. Settlements shall be carried out according to trading session results provided by the information system of the regulated market and/or multilateral trading facility and instructions provided by the participants and third party.. The SSS shall ensure a simultaneous, final and irrevocable settlement of securities within the SSS and cash settlements within the payment systems.

2.12. SSS participant means a financial brokerage firm, a credit institution or other legal person who has concluded an agreement with the SSS operator and acts in compliance with the provisions of these Rules and other legal acts regulating securities settlement systems.

2.13. **System operator** means the public company Central Securities Depository of Lithuania, which carries out administration of participants and management of the SSS in compliance with these Rules and the agreements concluded between the Central Depository and the SSS participants.

2.14. **SSS schedule** means a schedule approved by the SSS operator and placed in its website that provides the operating hours of the SSS, as well as the cut-off times for receipt and execution of Instructions. The SSS schedule is harmonized with the schedules of the payment systems.

2.15. **Matching** means a comparison checking of information available in Instructions placed by the SSS participants. The Instructions shall be deemed matched whenever the parameters, set by the SSS operator with regard to the Instructions placed by the SSS participants, coincide.

2.16. **SWIFT** means a system providing the service of secure standardized electronic message interchange (between SSS participants and the systems executing payment orders or securities transfers) and the software giving access to the system.

2.17. **Securities** mean equity and non-equity securities as well as other financial instruments as defined in the Republic of Lithuania Law On Markets in Financial Instruments.

2.18. **Third party instructions** mean Instructions provided to the SSS by the SSS participants – regulated markets, multilateral trading facilities or other persons, directly not involved in the transaction, however entitled on the basis of legal acts or other documents to submit Instructions to the SSS. The instruction given by the SSS operator shall also be deemed the Third party instruction.

3. Other concepts of the Rules have the meaning assigned thereto in the Law on Settlement Finality in Payment and Securities Settlement Systems, the Law on Payments, the Law on Markets in Financial Instruments, the Rules on Accounting of Financial Instruments and Their Circulation, the Operating Rules of the Payment System LITAS-RLS, the Operating Rules of the Payment System TARGET2-LIETUVOS BANKAS and the Rules of the System LITAS-PHA.

4. Following the Instructions placed by its participants, the SSS shall generate securities settlement movements, the execution of which shall imply a transfer of securities between the general securities accounts of the SSS participants and submission of payment orders to one of the payment systems for a transfer of cash between settlement accounts of the SSS participants, thereby ensuring a safe, final and irrevocable settlement of securities transactions.

5. The DVP settlement of transactions shall be carried out pursuant to the DVP principle of settlement movements, i.e. securities transfers between the general securities accounts of the SSS participants within the SSS and cash transfers between settlement accounts of the SSS participants within the payment systems shall be carried out simultaneously.

6. The operation of the SSS shall be based on the principles of security, efficiency, sustainability and openness.

7. The SSS participants shall place Instructions specified in the Rules and receive the SSS messages in compliance with the procedure set forth in these Rules, Operating Rules of the payment systems, the Rules on Settlement of Transactions Concluded on

the regulated markets or multilateral trading facilities and agreements with the SSS operator or other regulations.

8. Article 68 par.1 (2) of the Republic of Lithuania Law on Markets in Financial Instruments and Article 2 par. 22 and Articles 4, 5, 6, 7 and 8 of the Law on Settlement Finality in Payment and Securities Settlement Systems shall serve as the legal basis for the Rules.

II. PARTICIPANTS OF THE SYSTEM

9. Only the institutions specified in the Law on Settlement Finality in Payment and Securities Settlement Systems may become participants of the SSS. The SSS participants must also be participants of one of the payment systems and hold a settlement account there. The SSS participant, who is a participant of the payment system TARGET2 component system, must also be a member of SWIFT.

10. The Bank of Lithuania, regulated markets, multilateral trading facilities, central counterparties, or foreign central or international securities depositories may become SSS participants under a separate agreement between them and the SSS operator. These entities shall not be obliged to be participants of the payment systems.

11. In order to conclude agreements with the SSS operator and become SSS participants, the institutions shall supply the SSS operator with the following:

11.1 an application;

11.2 copies of the Registration Certificate, the By-laws (bank Statutes and Regulation of a structural subdivision) with all valid amendments and supplements as well as a copy of a license issued by the Securities Commission (with an attached list of financial brokers), or a copy of a bank license imposing no restrictions to render investment services;

11.3 a document or its copy, certifying the nomination (election) of the head of the institution;

11.4 a signature card of the authorized employees;

11.5 additional data and (or) required documents on request of the SSS operator;

11.6 a copy of the agreement specified in the operating rules of the payment systems LITAS-RLS and/or LITAS-PHA, and /or notification to the SSS on the status possessed in TARGET2 component system.

11.7 a request to exchange SWIFT keys with the SSS, when the participant plans to use SWIFT for exchange of messages with the SSS.

12. Having received and examined the documents mentioned in subparagraphs 11.1, 11.2, 11.3, 11.4 and 11.5, the SSS operator shall provide the Bank of Lithuania with a recommendation as specified in its regulations in case the SSS participant seeks to become a participant of the payment systems LITAS-RLS and/or LITAS-PHA.

13. Prior to the receipt of the documents referred to in paragraph 11.6 the SSS operator shall set the conditions enabling the institution to perform testing procedures as provided for in the operating rules of the payment systems LITAS-RLS and/or LITAS-PHA.

14. Within 10 days of the receipt of all the documents referred to in paragraph 11, the head of the SSS operator shall take a decision either to approve the application of the institution or reject it and shall notify the applicant thereof in writing. In case the application has been approved, the institution shall be allocated the code of the SSS participant, which shall be indicated in the above-mentioned notification letter and the institution shall be registered with the Register of the SSS participants. In case of refusal to approve the application, the reasons of the refusal shall be laid down in the notification letter delivered to the institution.

15. In case the Head of the SSS operator has approved the application of the institution, and the latter has received the notification letter testifying the approval, the institution must within 10 days enter into a standard agreement with the SSS operator (Annex 1).

16. The institutions shall become SSS participants on the following business day after the conclusion of the agreement specified in paragraph 15.

17. The SSS participant shall be deprived of the status of a participant:

17.1. upon termination of the Agreement;

17.2. upon withdrawal of the said participant from the SSS in accordance with the procedure established in the Agreement;

17.3. in the event he has been deprived of the status of a participant in all payment systems;

17.4. upon the decision of the SSS operator to discontinue the operation of the SSS;

17.5. upon the decision of the Board of the SSS operator, if the said participant has at least twice a year infringed the provisions of these Rules and each time has been notified by the SSS operator thereof in writing.

18. In the event that the Agreement concluded between the SSS operator and the SSS participant has been terminated on any grounds:

18.1 the parties to the Agreement must fulfill to each other their obligations which have arisen before the termination of the Agreement;

18.2 the SSS participant must file with the SSS operator the information specified by the latter from the personal accounts managed by him as on the day of the termination of the Agreement;

18.3 the SSS participant must transfer management of the personal securities accounts to other SSS participant (participants) and notify the SSS operator thereof.

III. RIGHTS AND DUTIES OF THE SSS OPERATOR

19. The SSS operator shall be responsible for the secure and efficient operation of the System.

20. The SSS operator shall execute securities transfers between general securities accounts of the SSS participants in conformity with Instructions and Third party instructions.

21. The SSS operator shall give Instructions to the payment systems to transfer cash between settlement accounts of the SSS participants and shall execute securities

transfers between the general securities accounts of the SSS participants within the SSS in compliance with the Instructions and Third party instructions and the rules regulating settlement of transactions concluded on the regulated markets or multilateral trading facilities, and on other legal grounds..

22. The SSS operator shall deliver messages provided for in these Rules to the SSS participants.

23. The SSS operator, having found out that the operations of an SSS participant are to be suspended and (or) bankruptcy proceedings initiated, must take all possible measures to prevent the Instructions placed by the said participant with the SSS from entry into the SSS. Such a participant can place with the SSS only free-of-payment securities transfer Instructions, which are not forbidden or which are binding by laws and regulations.

24. The SSS operator not later than within 2 business days must notify the Bank of Lithuania in writing of the messages received from the SSS participants with regard to the changes in their name, address of the head office, license and other requisites.

25. The SSS operator not later than within 7 business days must notify the Bank of Lithuania in writing of the amendments and supplements to these Rules and amendments to the agreements concluded with the SSS participants.

26. The SSS operator within 3 business days after the adoption of the resolution to terminate operation of the SSS must notify the Bank of Lithuania thereof. The resolution on the termination or suspension of operation of the SSS shall be passed by the Board of the SSS operator.

27. Upon written request of the Bank of Lithuania the SSS operator must file other required information concerning the SSS operation.

IV. RIGHTS AND DUTIES OF THE SSS PARTICIPANTS

28. The SSS participant must comply with the provisions laid down in concluded agreements, these Rules, legal acts or other regulations, specifying placement of Instructions, timely receipt and processing of delivered messages and confirmation of settlement movements as well as observe the legal acts, regulating accounting of securities and cash and their circulation.

29. The SSS participant must notify the SSS operator of any change of the data provided in the application for participation in the SSS and deliver to the SSS operator anew the updated documents listed in the Rules in case any amendments have been made thereto. These data and documents shall be submitted not later than the following business day after the change has taken place.

30. In order settlement movements could be executed in time, the SSS participant must accumulate at a designated time a required amount of cash and (or) securities on accounts set by the SSS operator and must at a designated time confirm settlement movements (provided such confirmation is required in cases prescribed by legal acts or other regulations). The SSS participant shall be liable for non-fulfillment of the

above-mentioned obligation in accordance with the procedure prescribed by legal acts, regulations or agreement with the SSS operator.

31. Where bankruptcy proceedings against an SSS participant have been initiated in court, the SSS participant must immediately notify the SSS operator thereof. The notification on the initiation of bankruptcy proceedings must indicate the calendar date and time of the adoption of the resolution.

32. Upon suspension or annulment of the license of an SSS participant by the supervisory authorities, he must immediately notify the SSS operator thereof in writing. So long as the SSS participant fails to deliver the above-mentioned notification to the SSS operator, he shall accept all liability for the consequences that arise due to that failure.

V. THE PRINCIPLES OF OPERATION OF THE SSS

33. The SSS participants shall exchange the documents with the System via the system EDA LITAS, which ensures information interface between the SSS and the payment systems LITAS-RLS and LITAS-PHA and their participants, or via SWIFT system, which ensures information interface between the SSS and the payment system TARGET2 – Lietuvos bankas and TARGET2 component system and their participants. The exchange of documents between the systems and their participants shall be executed electronically.

34. Written Instructions to the SSS operator may be submitted only by former direct Central Depository participants-issuers, who transfer by means of such Instructions their securities issued by themselves to the accounting of a SSS participant-issuer's agent (account manager – SSS participant).

35. While placing their Instructions with the SSS, the SSS participants may specify the date and (or) time parameters of their execution. Having matched the Instructions placed by the SSS participants and having generated a settlement movement specifying an exact date and time of its execution, the SSS shall start settlement at a designated time. In case of failure to execute such settlement movements by the end of the accounting day, they shall be either cancelled or their settlement time shall be postponed to the following accounting day depending on the type of transaction. Having matched the Instructions submitted by the SSS participants and having generated a settlement movement specifying an exact date of its execution, the SSS shall start settlement in the beginning of the set day in the order of placement (according to FIFO principle) and pursue execution till the end of the accounting day. In the event of failure to match the Instructions submitted by the SSS participants till the time and (or) date specified for the beginning of settlement, they shall be cancelled.

36. Each accounting day the SSS participants may place with the SSS the following Instructions:

- 36.1 Receive free;
- 36.2 Receive against payment;
- 36.3 Deliver free;
- 36.4 Deliver against payment;
- 36.5 Instruction to cancel the documents;

36.6 Other Instructions provided for by a separate decision of the SSS operator.

37. The SSS operator shall set the parameters of the documents referred to in par. 36 of the Rules, which shall be mandatory when placing these documents with the SSS for processing, as well as the detailed procedure for the execution of such documents.

38. The SSS participants shall use the Instructions *Receive free* and *Deliver free* in order to transfer securities between their general securities accounts within the SSS. Having received the said Instructions, the SSS shall match them and generate a settlement movement, which shall be executed on a designated settlement day at real or designated time. In order to transfer securities from one of his general securities account to another, the SSS participant shall submit only one Instruction (unilateral Instruction), which shall not be matched within the System.

39. The SSS participants shall use the Instructions *Receive against payment* and *Deliver against payment* in order to ensure DVP of settlement of securities transactions concluded off the regulated markets and/or multilateral trading facilities. Having received the above-mentioned Instructions, the SSS shall match them and generate a settlement movement, which shall be executed on a designated settlement day at real or designated time, by simultaneously making a transfer of cash between the settlement accounts of the SSS participants within one of the payment systems and a transfer of securities between the general securities accounts of the SSS participants within the SSS. In order to ensure DVP settlements, the SSS operator, when starting the settlement process, shall block the securities, which are to be delivered, in the general account of the delivering participant and immediately provide to the payment system the defined payment order to transfer cash between the settlement accounts specified in the settlement movement. Having obtained a message from the payment system on a successful cash transfer between the specified settlement accounts, the SSS operator shall immediately execute a transfer of the earlier blocked securities between the general accounts specified in the settlement movement, thus finishing the DVP settlement.

40. On the basis of the Instructions and Third party instructions the SSS operator shall generate settlement movements. Upon conformation by the SSS participants of these settlement movements (provided such a confirmation is necessary in cases provided for by legal acts and regulating documents). the SSS operator shall execute on their basis the transfers of securities between the general securities accounts of the SSS participants and (or) place payment orders to the relevant payment system with respect to the transfer of cash between settlement accounts of the SSS participants.

41. The Instructions of the SSS participants and Third party instructions shall be executed according to the Schedule approved by the SSS operator.

42. The detailed order and procedures for settlements of transactions concluded on the regulated markets or multilateral trading facilities shall be regulated by separate Rules on settlement of transactions concluded in those markets or systems.

43. The cash funds for securities settlements shall be managed through the settlement accounts opened within the payment systems.

44. The settlement accounts of the SSS operator in the payment systems shall be opened for dividend and interest payments and for cash accumulation.

45. By making entries in the databases the SSS shall fix the date and time of the receipt (acceptance) of Instructions and the date and time of the beginning of settlement movements generated on the basis of these Instructions (the moment of irrevocability) as well as the date and time for making entries in general securities accounts of the SSS participants.

46. The SSS participants shall not be allowed to change the submitted Instructions. They may only revoke the Instructions by delivering a message *Cancel the documents*.

47. The moment of irrevocability of Instructions shall be defined as the moment when the SSS starts executing the settlement movement generated according to the placed Instructions. The blocking of the placed securities in the general securities accounts of the participant shall be deemed the beginning of the execution of the settlement movement and it shall be equated to the moment of entry of Instructions into the SSS. Such settlement movements can fail only as a result of shortage of securities in the general securities accounts of the participants within the SSS and (or) cash in the settlement accounts of the participants.

48. Settlement of securities transactions shall be considered as having taken place upon making entries in general securities accounts of the SSS participants and executing cash transfers between settlement accounts of the payment systems. A free-of-payment securities transfer shall be considered as having taken place, upon making respective entries in general securities accounts of the SSS participants delivering and receiving the securities.

49. Having received notification on the initiation of a bankruptcy case to a participant or on suspension of its operations, the SSS operator shall suspend all the Instructions placed by that participant, with the exception of those, on the basis of which the execution of the settlement movements generated within the SSS have already been commenced. Such a participant may deliver to the SSS only the free-of-payment securities transfer Instructions, which are not forbidden or which are binding by laws and regulations.

50. On the basis of a received written court judgment or a decision by any other legally authorized institution, which is related to the prohibition for the SSS participant to use the cash funds and (or) securities, the SSS operator shall suspend further execution of the placed by the above-mentioned participant and not executed Instructions.

VI. OPERATIONAL RISK MANAGEMENT FACILITIES OF THE SSS AND CONTINGENCY PLAN

51. The SSS operator shall ensure that in settling Instructions placed by the SSS participants, securities would be timely transferred from the general securities account

of one SSS participant to the general securities account of another SSS participant and payment Instructions would be timely delivered to the payment systems.

52. The SSS operator shall provide for such risk management facilities of the SSS as an early warning system identifying shortage of securities and explicit procedures guaranteeing timely admission and execution of the submitted Instructions. The SSS operator shall extend no credits to SSS participants for the elimination of any possible shortage of securities or cash.

53. The SSS operator shall not execute any Instructions placed by the SSS participant that might cause shortage of securities in general securities account of the SSS participant.

54. The SSS participants must implement and manage credit and liquidity risk management facilities in their operations taking into account the requirements of laws and regulations, operational characteristics and client investment safety.

55. Seeking correspondence between the number of securities of each issue put into circulation and the number of these securities, which are actually in circulation, the SSS operator shall ensure the balance between the number of securities of a respective securities issue in securities issue registration account and the total amount of securities of the same issue in the general securities accounts of the SSS participants.

56. The SSS operator shall ensure the entirety of hardware, software and organizational measures, enabling to receive Instructions from participants, execute settlement movements and submit other documents in case of outage of hardware and software.

57. The SSS operator shall implement technical means in order to avoid possible threats. Such means shall safeguard the components and equipment of settlement system from unforeseen events (i.e. natural disaster, physical impact on premises and equipment, illegal access to data or equipment, etc.). The SSS operator shall specify operational procedures for the employees engaged in information technologies, accounting and settlement as well as their actions in unforeseen events.. The SSS operator must take technical and organizational actions in order to make the SSS and its components safe from disruptions in communication, malicious actions and human errors.

58. In unforeseen events, the SSS operator shall employ reserve hardware and software as well as workstations located outside the main building of the SSS operator for the running of the SSS and storage of data archives. Work processes and servicing of settlements from the off-site location must be reactivated in case of outage not later than within 2 hours.

59. In unforeseen events the SSS operator shall take decisions regarding operation, operational risk management and business continuity. Such decisions of the SSS operator shall be binding on the SSS participants.

60. In order to ensure a proper running of the SSS and continuity of its operations, the processing capacity of the SSS hardware per month (on business days) may not

exceed 50% on average of its total capacity. In the event that this established limit is exceeded by 15%, the SSS operator must expand the capacity of the used hardware.

61. The SSS operator at established periodicity shall carry out data backup in computer files, specify the data to be stored, their terms of storage and the backup and safekeeping procedures for other electronic files.

62. Seeking to ensure smooth operation of the SSS, its operator shall control the compliance of the SSS participants with the provisions of these Rules and other legal acts regulating accounting of securities and their circulation.

63. The SSS participants shall be subject to penalties and (or) restrictions of operations, including liquidation of the status of an SSS participant by a written decision of the SSS operator, if they fail to discharge their contractual obligations and (or) infringe on the provisions of these Rules.

VII. THE PRINCIPLES OF THE DETERMINATION OF FEE TARIFFS TO BE CHARGED FOR THE SSS SERVICES

64. The tariffs of the SSS services, the entrance and annual fees of the SSS participants, other charges and penalties shall be established in the SSS operator's Instruction *The Procedure for the Determination and Payment of the Fees of the Central Securities Depository of Lithuania* and agreements concluded between the SSS operator and SSS participants.

VIII. THE FACILITIES FOR ENSURING DATA SAFETY AND AUTHENTICITY

65. Data Safety and authenticity with regard to Instructions of the SSS participants and SSS messages shall be ensured by the procedure laid down in the Operational Rules of the payment systems and agreements between the SSS operator and the SSS participants.

IX. APPLICABLE LAW

66. The Republic of Lithuania law shall apply to the rights and obligations of the participants arising from the participation in the SSS.