

PREAMBLE AND DISCLAIMER NOTICE

The following document comprises the answers formulated by VP Securities Services – Værdipapircentralen A/S (hereinafter ‘VP’) in reply to the Disclosure Framework questionnaire forwarded to VP by the joint CPSS and IOSCO Working Group on Disclosure by Securities Settlement Systems.

The Disclosure Framework has been completed by VP for the benefit of potential participants in the VP securities Settlement System and is intended to assist such participants make an informed general assessment of the VP Securities Settlement System.

The nature of the Disclosure Framework questionnaire entails that VP cannot accept responsibility for the completeness, accuracy or actuality of the information stated therein or construed with respect thereto and that reference to other sources will be necessary. For further details and verification of the information given in the Disclosure Framework, please refer to the appropriate organisations and authorities in Denmark.

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DISCLOSURE FRAMEWORK FOR SECURITIES SETTLEMENT SYSTEMS VP SECURITIES SERVICES

I. Basic information

- A. The SSS is named VP Securities Services (Værdipapircentralen A/S, hereinafter 'VP').
- B. VP is located in Taastrup (19 kilometres west of Copenhagen), Denmark; Central European Time zone.
- C. Functions performed by VP: services relating to the deposit and settlement of securities.
 - 1. VP serves as both a securities depository and as a provider of securities settlement services.
 - a) The following types of instruments are eligible for deposit at VP: Danish listed/unlisted bonds and shares etc; and foreign listed/unlisted bonds and shares etc.
 - b) The following types of instruments are eligible for transfer within VP: Danish listed/unlisted bonds and shares etc; and foreign listed/unlisted bonds and shares etc.
 - c) All VP-eligible securities are dematerialised.
 - d) VP does not provide safekeeping for physical certificates.
 - 2. VP intermediates in the transfer of funds to cash accounts in conjunction with securities transfers. VP does not provide cash accounts. In relation to the VP System, cash accounts are kept either by the Danish central bank or by an entity termed 'Primary Cash Provider' (corresponds approximately to 'Cash Correspondent' as defined in the Glossary). Payment settlement in relation to the VP System can take place in DKK and EUR.
 - 3. VP is the exclusive provider of trade matching services for such securities as are settled at VP.
 - 4. VP is the exclusive provider of trade netting services for such securities as are settled at VP. The netting performed by VP is multilateral. VP also offers securities settlement on an RTGS basis.
 - 5. VP does not currently offer a securities lending or borrowing programme, although it is legally entitled to do so.

6. VP provides both custodial services and services related thereto, including: notification of all ownership changes; intermediation of payments to investors (dividends, interest and drawn amounts); notification of payments, drawings, and redemptions; notification of corporate actions and subscription rights etc; as well as tax reporting and double taxation administration.
7. VP does not act as a central counterparty or principal to transactions with its participants.
8. VP offers an automatic collateralisation facility to the Participants in its Clearing Business. This functionality helps settlement by reducing the liquidity requirements of those Participants by enabling the automatic collateralisation of securities holdings in immediate connection with the clearing and settlement of securities trades. Collateralisation is effected with respect to a cash value (borrowed amount plus haircut) in part or all of securities holdings rather than in individual securities. A securities buyer can thus collateralise the securities bought in conjunction with the settlement of the pertinent (buy) trade transaction..

VP has also implemented a multicurrency facility enabling settlement in a number of different currencies.

D. VP is organised as a limited liability company.

1. VP is a private-sector entity.
2. VP is organised on a for profit basis.
3. The legal basis for the establishment of VP and for securities transfers made through it was originally the Danish Securities Centre Act of 1 July 1980 and is now the Danish Securities Trading Act of 20 December 1995.

E. A description of the organisational and ownership structure of VP:

1. VP is owned by its shareholders who currently also comprise its Participants (i.e. banks, brokers, issuers of securities, institutional investors and the Danish central bank).
2. VP operates its own system. VP does not outsource any of the functions of the VP System.
3. VP has a Board of Directors:
 - a) The VP Board has 15 (non-executive) members:
 - 10 representing the shareholders in VP; and
 - 5 representing the employees of VP
 - b) Responsibilities of the VP Board:

- ensure that VP has a reasonable, prudent, and efficient organisation;
- make decisions in matters under the Danish Securities Trading Act;
- hear and approve fees and budgets;
- examine and approve annual accounts; and
- ensure that established directives on control and security are satisfactory and adequate.

F. The financial resources of VP as of 31 December 2001:

1. Net capital of VP: DKK 202.5 million.
2. In accordance with the Danish Securities Trading Act, the total capital capability of a SSS as regards its custody obligations shall amount to at least DKK 1 billion by way of contributions from the participants. In relation to VP, the said contributions take the form of guarantees issued by the participants for the benefit of VP.
3. VP does not retain credit lines or letters of credit.
4. VP has the power to raise participant payments to VP.

G. As dependent on the activity concerned, all of VP's operations are subject to the authorisation, supervision and oversight of the Danish Financial Supervisory Authority.

II. Rules and procedures of VP

A. The rules and procedures governing the rights and obligations of the participants as well as the duties of VP are set out in: the VP Participation Agreement including any subagreements, supplements and appendices; as well as VP's statutes, business conditions, guidelines and rules as in force at any time.

1. As of their entering the Participation Agreement, the participants will in the context of the above material receive a copy of such rules and procedures as are applicable to the participation categories chosen by the participants.
2. As regards rules and procedures, no other documentation than that mentioned above is provided to the participants.
3. The procedure for changing rules and procedures:
 - a) As dependent on the nature of the rules and procedures in question, legal details may be changed by the Danish Ministry for Economic Affairs, the Danish Securities Council or the Danish Financial Supervisory Authority. Policy matters are changed by the Board of Directors. Operational details are changed by VP.

- b) Participants are informed of changes in rules and procedures by letter and through an updating of the documentation received.
 - c) A user committee is heard about proposed changes to rules and procedures.
- B. The rules and procedures are binding on both VP and its participants. In exceptional circumstances, VP may waive or suspend written rules and procedures subject to the approval of the Danish Financial Supervisory Authority.

III. Relationships with participants

- A. Types of membership offered by VP:

Preliminary Note

As a CSD, VP offers the following categories of participation in its 'Book-Entry Business' (i.e. the issue of dematerialised securities and book-entry of rights pertaining to such securities): 'Account Controllers' are entitled to effect reports for book-entry with VP, 'Major Clients' are entitled to procure information concerning their own accounts directly from VP and transfer notifications of sales through VP to the pertinent Account Controller and Foreign CSDs can be linked up as Foreign Depositories.

As a Clearing Centre, VP offers the following categories of participation in its Clearing Business' (i.e. the clearing and settlement of securities transactions on behalf of Clearing Participants): 'Settlement Administrators' are entitled to report the securities side of trade transactions for clearing and settlement at VP and 'Payment Administrators' are entitled to report the cash side of securities transactions for clearing and settlement and to intermediate in the transfer of payments between Issuers and Investors.

1. The types of membership offered by VP differ as follows:
Account Controllers are entitled to issue dematerialised securities and maintain VP accounts on their own behalf and on behalf of third parties while Major Clients and Foreign Depositories only keep VP Accounts in their own name (e.g. as omnibus customer accounts). Note that the Link Agreement entered by Foreign Depositories is distinct from that entered by all other types of VP Participants.

Settlement Administrators are entitled to report securities transactions for clearing and settlement on their own behalf and those who simultaneously participate as Account Controllers may also report such transactions on behalf of third parties. Payment Administrators who maintain a cash Settlement account with the Danish central bank are termed 'Primary Cash Providers'. Payment Administrators who do not concurrently participate a Primary Cash Providers must establish a cash account with such an entity to be used for the cash settlement of securities transactions.

2. All participants within a given VP participation category are subject to the same rules and procedures.
- B. Those participants as are connected to VP under the 'Account Controller' category can and will as the general rule establish accounts for their customers' assets that are segregated from their own asset accounts at VP.
1. This segregation will as a rule be accomplished by way of a multiplicity of accounts but can also be effected through the establishment of omnibus accounts.
 2. In accordance with the Danish Securities Trading Act, the securities of participants and their customers shall as the general rule be segregated, but in exceptional circumstances non-segregation is possible subject to the approval of the Danish Financial Supervisory Authority.
 3. The fact that a VP account bears the name of a third party does not confer any rights as a participant onto such a third party but only rights as a VP account holder.
- C. Participant requirements for each type of membership:
In accordance with the Danish Securities Trading Act, the main requirements as regards each type of participation are as follows:
- All entities must enter a Participation Agreement in which the more detailed requirements of participation are set out: See below under answer to Question C.4
 - Entities participating as Account Controllers are by Statute required to hold a license to carry on securities business by their home country authorities (such permission could e.g. as regards EU and EEA entities be evidenced by a 'European Passport' to carry on securities business). The VP Board have cf. the Participation Agreement imposed this same requirement on all entities who participate as Clearing Participants.
 - To participate as a Foreign Depository, the entity in question must have status as a CSD and be subject to home country public supervision. The participation of the pertinent CSD must also be approved by the Danish Financial Supervisory Authority.
1. Participants are not required to be domiciled or resident in any particular jurisdiction.
 2. In accordance with the Danish Securities Trading Act, participation as Account Controller and Foreign Depository requires that the entity in question be subject to public supervision. The remaining categories of participation do not require subjection to any particular supervisory regime.
 3. Participants are not required to hold an equity stake in VP.

4. Other requirements: In accordance with the Danish Securities Trading Act all Participants (both Book-Entry and Clearing Business Participants) must enter a Participation Agreement with VP (in the latter's capacity as CSD and Clearing Centre respectively). These Agreements are standard contracts whose content only vary in accordance with the Participants choice of business and function categories.

The said Agreements set out the detailed requirements of participation, the most important of which are as follows: Account Controllers must contribute to VP's capital capability. Major Clients and Foreign Depositories must use the services of an account Controller and VP's Custody services respectively, as regards such Participants' VP Accounts. Clearing Participants from countries that have not implemented the EU Directive on Settlement Finality must provide a legal opinion documenting the enforceability of VP's netting rules as against the Participant in question and its potential winding-up estate etc.

- D. VP does not engage in oversight of its participants.
- E. Participants may terminate their participation in VP subject to three months notice and providing all outstanding membership obligations have been satisfied before the expiration of the notice of termination. Additional liabilities may remain after the point of exit if the Participant in question was a member of VP's loss-sharing arrangement (all Account Controllers). These liabilities can expire three months after the end of the financial year (of exit).
- F. Where a Participant connected to VP's clearing business grossly or repeatedly disregards the conditions of connection or becomes the subject of winding-up proceedings or an administration order etc, VP shall be entitled to terminate the Participation Agreement in question. Where the supervisory authorities issue an order in respect of a Participant connected to VP's Book-Entry Business as an Account Controller or such a Participant becomes subject to winding-up proceedings or an administration order etc, VP shall be obliged and entitled respectively to terminate the Participation Agreement in question.
- G. As regards VP's clearing and settlement, VP shall be subject to a fault-based liability as towards the Participants where a clearing and settlement related service from VP is delayed or contains errors or defects. This liability shall be limited to remedy and re-delivery, cf. contractual agreement.

As regards VP's book entry of ownership/rights to dematerialised securities, VP shall be subject to a strict liability as towards the participants in their capacity as holders of rights for losses resulting from erroneous book-entries, cf. statutory legislation.

IV. Relationships with other SSSs and commercial intermediaries

- A. VP maintains a manual two-way linkage with the Swedish CSD – VPC AB, and an automated one-way linkage with the International CSD – Euroclear Bank.

1. Identity of other SSSs and type of securities transferred via the linkage:

Re. Link with Euroclear

- a) See answer to Question IV.A,
- b) All Danish securities in VP are eligible for transfer via the linkage.
- c) The transfer of securities via the Euroclear-VP linkage can be effected both free of and against payment. In the latter case, the transfer of securities will take place simultaneously with the posting of the payment corresponding thereto..
- d) Euroclear does not provide custody services to VP.

Re. Link with VPC

- a) See answer to Question IV.A,
- b) All Danish and Swedish securities as specified at any time by VPC and VP are eligible for transfer via the VP-VPC link.
- c) The VP-VPC link is presently only a Free Of Payment link.
- d) VPC provides custody services to VP.

- B. VP does not employ the services of securities custodians and/or commercial cash correspondents.
- C. Standards used by VP when approving/reviewing relationships with other SSSs: financial requirements are as stipulated in the CAD; operational requirements are those of on-line communication as based on international standards, including SWIFT securities messages.
- D. VP does not advance funds or securities to or on behalf of any other intermediaries.
- E. Measures in place to protect VP and its participants against the failure of other SSSs to meet obligations as towards VP: no custody exposure; no credit exposure since all decisions relating to credit and collateral lie with the pertinent cash clearing participant i.e. either the Danish central bank or a Primary Cash Provider.

V. Securities transfers, funds transfers, and linkages between transfers

Preliminary Note.

This section of the Disclosure Framework includes references to the term ‘transfer’ which in the Framework Glossary is defined as ‘An act, which transmits or creates an interest in a security, a financial instrument or money’. However in VP the term ‘transfer’ has a more narrow meaning as it is defined as the unilateral reporting of a securities transmission to VP’s Book-Entry System, where the transmission is carried out by debiting one VP Account against the simultaneous and corresponding crediting of another VP Account. The term thus denotes a transaction, which is not included in VP’s SSS. To avoid confusion all questions referring to ‘transfers’ will thus depending on the context, be answered as if referring to either a transfer (as defined by VP) of securities and/or the settlement of a securities trade.

Moreover, in the context of securities settlement, certain Framework questions refer to 'securities transfers' and associated 'fund transfers'. As a consequence of the above, such questions will be answered as if referring to 'securities settlement' and 'cash settlement' as defined by VP: thus, 'cash settlement' shall as regards Net Settlement mean the crediting/debiting on the affected VP Accounts of the net effect of all settled trade transactions in the pertinent Net Settlement Block; and as regards RTGS mean the crediting/debiting on the affected VP Accounts of the securities of the individual cleared trade, while 'cash settlement' shall as regards both Net Settlement and RTGS mean the simultaneous recording of the corresponding (Net and Gross, respectively) trade amounts on the affected cash accounts.

- A. In VP the clearing and settlement of a trade transaction requires the reporting of both a 'preadvice' (contains trade details) and an 'instruct' (a final confirmation of the preadvice and designation of 'validity period' during which the trade may be recycled in the settlement process) by both parties to the trade. As from the receipt of the last of the two preadvices, VP will carry out 'matching' (a comparison of the information contained in the preadvices). For a trade to be included in the settlement process (i.e. attain 'ready for settlement' status) both preadvices concerning the trade must have been received by VP and matching completed with a positive result before a predetermined point in time, in addition to which the instructs of both parties to the trade must be received before the same time limit and designate validity periods that coincide in whole or in part.
1. Matching is required for all types of trade transactions (i.e. both trade transactions against payment and free of payment). Matching is not carried out with respect to transactions, which in VP are referred to as 'transfers' (see above under 'Note').
 2. If the results of matching (of preadvices) are negative, the preadvices in question will automatically be cancelled and should the parties still want to settle their transaction, they must report new preadvices. If the settlement instructs do not specify validity periods which coincide at least in part, the said instructs will automatically be cancelled and should the parties still want to settle their trade transaction, they can re-instruct the preadvices in question provided the latter have not lapsed.
 3. When both parties to a trade transaction have reported instructs with coinciding validity periods, the reporting shall be binding on the participants and cannot be unilaterally cancelled or revoked.
 - a) If a Participant fails to meet its obligations (i.e. fails to make the requisite securities/cash available at the time of settlement, the trade transaction in question will be postponed for later settlement in accordance with VP's Clearing Rules. This principle will also apply in the event and irrespective of a Participant's intervening bankruptcy etc, cf. VP's Clearing Rules.
 - b) The above rule is a feature of the VP Clearing Rules and has been agreed with the participants in accordance with national law, i.e. the Danish Securities Trading Act, in which the EU Finality Directive has been implemented.

- c) Trade transactions become binding as from the point in time when both parties to the trade have reported instructs to VP which coincide at least in part. No pre-matching takes place prior to the matching of preadvices in VP.
- B. Only a small proportion of the securities (i.e. primarily shares) transferred and or settled within VP are registered.
1. The registrar is selected by the company in which the shares are issued.
 2. Registered securities are kept in the name of the beneficial owner or in any name, which such owner wishes to have registered.
 3. As part of the services offered, VP will transfer owner requests for registration to the registrar.
 4. VP will initiate re-registration in the event of a change of ownership or a request by the owner for an amendment of the registration.
 5. Re-registration is effected immediately. VP informs the registrar as a by-product of the settlement process. In most cases the registrar updates on a same day or next day basis.
 6. Securities trades can be settled in VP before registration in a buyer's name is complete. VP's database is the official proof of legal title so the rules and procedures of VP do not provide for an unwind or reversal of such settlement in the event of bankruptcy or other events which result in the buyer's name not being entered on the register.
- C. A description of how securities transfers are processed in VP:
As regards Net Settlement, securities settlement is carried out as follows: the net effect of all cleared trade transactions in the pertinent net settlement block is credited/debited on the affected VP Accounts. In RTGS, securities settlement is effected by crediting/debiting the securities of the individual cleared trades in the affected VP Accounts.
1. Securities trades in VP are processed as debits and credits to the securities accounts of the participants or their customers/clients.
 2. Settlement can be effected immediately (RTGS) or (more commonly) as part of a batch settlement (Net Settlement). There are several batch cycles (Net Settlement Blocks) per 24-hour period.
 3. RTGS can be effected from 08.00 to 15.00 hours CET. Net Settlement Blocks are processed with legal effect times of 18.00, 23.45, 06.00, 10.30 and 13.35 hours CET.

4. Settlement is effected on all Danish weekdays except Saturdays, Constitution Day (5 June), and Christmas Eve (24 December). No differentiation is made between the various types of securities.

D. Cash settlement in conjunction with the VP System is made as debits and credits to balances held at the Danish central bank.

1. VP does not maintain any form of cash accounts for its participants. The settlement accounts in question are maintained by the Danish central bank.
2. The participant who holds a settlement account with a commercial bank (i.e. a Primary Cash Provider) bears the cash deposit risk associated with the default etc. of the said bank. A participant who holds a settlement account at the Danish central bank is only exposed to the strictly theoretical cash deposit risk associated with the default etc. of the central bank.
3. VP does not provide any credit extensions or advances of funds to its participants and does therefore not expose itself to any credit risk.
4. n.a. (see answer to question V.D.3.)

E. A description of the DVP system used in VP:

VP's SSS is a DVP system. VP has adopted Model 3 'Simultaneous Net Settlement of Securities and Fund Transfers' as regards its Net Settlement functionality and Model 1 'Gross, Simultaneous Settlements of Securities and Funds Transfers' as regards its RTGS functionality.

1. As regards both Net Settlement and RTGS: securities settlement and corresponding cash settlement are processed within different systems; securities settlement is carried out in VP, while cash settlement is effected at the Danish central bank. The two systems are linked in accordance with an agreement between VP and the Danish central bank with communications being effected via the data centre of the latter.
 - a) As regards RTGS, securities settlement is linked to cash settlement on a trade-by-trade basis. As regards Net Settlement, securities settlement is linked to cash settlement on a net basis.
 - b) Large trade transactions must be split (by the participants): as regards VP's Net Settlement, trade transactions concerning bonds denominated in DKK may not exceed nom. DKK 500 million.
2. As regards both Net Settlement and RTGS; securities settlement and the corresponding cash settlement become final (i.e. irrevocable and unconditional) at the same point in time.

- a) As regards RTGS, securities settlement is final at the point in time at which the affected VP Accounts are credited/debited. As regards Net Settlement, securities settlement is final at the conclusion of the settlement cycle (i.e. the Net Settlement Block in question).
- b) Cash settlements become final and irrevocable at the same time as the corresponding securities settlements. VP has real time access to the credit lines of the participants in the Danish central bank.

Within the parameters of VP's Net Settlement and RTGS systems, the timing of cash settlement finality allows for the same-day re-utilisation of funds received in exchange for securities.

- c) The final delivery of securities does not precede the final transfer of funds. Participants cannot dispose of such securities prior to funds finality.
 - d) The final delivery of funds does not precede the final delivery of securities. Participants cannot dispose of such funds prior to securities finality.
 - e) The timing of finality is the same for all such instruments as are eligible for settlement within VP and for all currencies in which payment is to be made.
3. Participants have access to clearing information both prior to settlement as well as after finality.

- F. VP does not "guarantee" cash or securities settlement.
1.- 3. n.a. (see answer to question V.F.)

VI. Default procedures

A. Preliminary Note

In accordance with VP' s rules and procedures, VP Participants may only carry out the agreed functions and maintain their participation in VP for such period as they continue to satisfy the conditions here for as laid down by legislation and the Participation Agreement.

A Book-Entry Participant's material or repeated breach of the terms of the Participation Agreement will be reported to the supervisory authorities. If ordered to do so by the authorities, or if a Book-Entry Participant becomes subject to winding-up proceedings, an administration order or compulsory composition etc., VP will be obliged and entitled respectively to terminate the Agreement with the Participant in question.

VP will similarly be entitled to terminate its Participation Agreement with a given Clearing participant in the event of that Participant's material or repeated breach of the terms of the said agreement. The same shall apply if a Clearing Participant becomes

subject to winding-up proceedings an administration order or compulsory composition etc.

1. If a Participant fails to satisfy a solvency test under the applicable laws of that Participant's jurisdiction, VP shall be entitled to terminate its Participation Agreement with that Participant. The same shall apply should the Participant become subject to winding-up proceedings, an administration order or compulsory composition etc.
2. A participant's repeated failure to make payments or deliveries of securities within the time specified with respect to VP's net settlement blocks could lead to the imposition of sanctions (in the form of fees) on such participant in accordance with VP's clearing rules as approved by the VP Board.
3. The entitlement to terminate Participation Agreements in the event of breach etc. is set out in the Danish Securities Trading Act and the Participation Agreement itself. As dependent on the participation category of the Participant in question, this right of termination is conferred on the Danish Financial Supervisory Authority and/or VP (i.e. VP's Board of Directors). The said right may be exercised at the discretion of these entities and is likely to be so e.g. in the event of a Participant's repeated or material breach of the Agreement.

The right to impose fees set out in the Clearing Rules of the Participation Agreement and is conferred upon VP at whose discretion it may be exercised. Fees will be imposed in the event of transgressions of the applicable rules pertaining to settlement practices.

B. Preliminary Note

Procedures followed by VP in the event of a participant breach: the participant in breach will be disconnected - it will not be able to enter into new obligations and it will not be able to access its funds in the cash accounts as kept by either the Danish central bank or the primary cash provider. However, the said funds will be available to meet the defaulting participant's obligations under VP's netting rules. No unwinds of transfers (i.e. settlements) will be necessary or possible.

1. VP informs all participants immediately after an event of default has occurred.
2. In the event of participant default etc, VP will continue to meet its obligations as towards the participants: VP will continue its operations as normal and settlement will continue under VP's normal DVP conditions.

VP is not at risk in the event of a participant's default since VP is not party to the transactions. VP's risk would be the operational risk: a loss-causing system malfunction that cannot be corrected because it coincides with a participant's default.

There are no loss-sharing arrangements etc, as between the participants: the individual participants are exposed to a price/market risk if their counterparty is the defaulting participant and as such is unable to settle due to insufficient funds or securities.

3. n.a. (see answer to question VI.B.2)
 4. The VP settlement system does not comprise provisional transfers of securities or funds.
 5. Neither bankruptcy nor insolvency can be declared retrospectively in VP's jurisdiction, i.e. Denmark.
 6. Transfers (i.e. settlements) of securities or funds that in answer to question V.E.2. are defined as final, will under no circumstances be unwound in VP.
- C. In VP's history, a number of participants have been declared insolvent or in default, etc.
1. There are no loss-sharing procedures as regards the VP settlement system.
 2. The mentioned occurrences of insolvency/default did not lead to any losses for VP. The market/price risk of the defaulting participants was carried by the participants.

VII. Securities overdrafts, securities lending, and back-to-back transactions

- A. Debit positions (overdrafts) in securities accounts at VP can never arise.
1.- 4. n.a. (see answer to question VII.A.)
- B. VP does not provide for the lending of securities.
1.- 4. n.a. (see answer to question VII.B.)
- C. In VP, back-to-back transactions are settled as follows:
In the VP SSS, a back-to-back trade is processed (settled) as two separate trade transactions to be settled within the same settlement block.
1. Delivery instructions by participants receiving and redelivering securities on the same day under back-to-back transactions, are only settled in the same settlement block if the participant in question has securities on deposit that have been received no later than the final securities transfer, i.e. a receipt no later than the same settlement cycle or the redelivery.
 2. With the exception of the transaction size maximum specified in answer to question V.E.1.b), there are no limits in place as regards the above-mentioned arrangement for the settlement of back-to-back transactions.

3. Payment instructions by participants in VP under back-to-back transactions are only settled in the same settlement block if the participant has funds on deposit in a cash settlement account held with the Danish central bank or a primary cash provider that have been received no later than simultaneously with a final funds transfer, ie no later than in the same settlement cycle.

Several Net Settlement cycles per day as well as the RTGS facility entails several opportunities to settle back-to-back.

An on-delivery of securities to a counterparty outside the VP System is not possible without an extension of credit.

VIII. Risk control measures

- A. A description of the roles and responsibilities of those sectors of VP as are responsible for risk management and control:
 1. VP has a process for the internal review of risk management policies and procedures. A description of this process is contained in the VP rules and procedures pertaining to safeguard measures.
 2. VP has a risk management policy that addresses the review and approval of new products and services to be offered by VP. The risk management approval of a new product or service is given at the Board of Director level of VP's organisation.
 3. VP has no specific risk management function.
 4. The VP Board of Directors review risk management policies and procedures. VP's Board has the support of an internal systems audit. The Board does not have a risk management committee.
- B. VP's activities are subject to both an external and internal systems audit.
 1. The external systems audit is effected by Deloitte Touche Tohmatsu International, while the internal systems audit is performed by the VP Internal Information Systems Audit as appointed by VP's Board of Directors.
 2. VP's compliance with both internal controls as well as external rules and procedures is audited by the external systems audit. The internal systems audit encompasses supervision of whether: VP's systems accord with the law and VP's statutes; security, safeguard measures and audit requirements are satisfied during the development, upkeep and operation of the systems; VP's business conditions are adequate from a security and safeguard point of view; VP's guidelines accurately reflect the functioning of the VP System; and security and safeguard procedures are followed in conjunction with daily operations.

3. VP is audited continuously by both the external and internal systems audit.
 4. The audit reports of the internal and external systems audit are available to the Danish Financial Supervisory Authority and to a participants audit committee.
- C. VP has had the capacity to value (i.e., mark-to-market) securities from Q1 1998.
1. These valuations will be used in VP's collateralisation services.
 2. Securities will be re-evaluated on a daily basis.
 3. The source of the security valuations will be market prices as adjusted by a haircut (determined by the creditor).
- D. VP does not have a lien on the securities held in or transferred through it.
- 1.- 2. n.a. (see answer to question VIII.D.)
- E. Circumstances in which collateral is used to limit or mitigate risk:
1. VP has operated a collateral management system since Q1 1998.
 2. VP does not share a collateral system with any other SSS or payment system.
 3. Collateral at VP can be posted and returned on the same day.
 4. The types of transactions at VP which will involve the use of collateral (as defined in the VP System for the administration of rights of security) will be those where both parties thereto are participants in VP's clearing and settlement system.
 5. The creditor decides which (VP eligible) securities can be used as collateral and the haircut required.
 6. The collateral valuation methodologies as are employed by the VP collateral management system are reviewed by the VP User Committee.
 7. Policies and procedures as regards collateral are described in VP's clearing rules.
- F. The VP Settlement system does not use limits on exposure as a method of monitoring or controlling risk.
- 1.- 6. n.a. (see answer to question VIII.F.)
- G. A description of other controls to mitigate or reduce risks at VP:
1. VP has the capacity to monitor participants' accounts during processing. Within the parameters of VP's settlement system, VP's participants also have the capacity to monitor their accounts continuously during processing.

2. For the time being, VP does not have a special risk control regime as regards participants known to be experiencing financial difficulties.
3. VP has a loss-sharing arrangement (minimum DKK 1 billion) for errors in VP's depository system (loss of ownership and loss of rights to securities in the book-entry system). VP does not have a loss-sharing arrangement for the settlement system. In case of the default of a clearing participant, other participants will be exposed to a price risk for all unsettled trades as towards the defaulting participant.

IX. Operational risks

A. The operational reliability of the systems used by VP:

1. The percentage uptime of the systems used by VP:
 - a) As regards the whole system, overall percentage uptime is greater than 99.7%.
 - b) As regards minor delays in settlement: Two days per year.
 - c) As regards minor delays in cross border transmissions: None per year.
2. Major operational problems experienced by VP during the last two years:
 - a) None.
 - b) n.a.

B. A description of contingency/disaster recovery planning at VP:

1. VP has a formal contingency plan for business continuity in place.
2. The plan is not available to the participants.
3. The plan is rehearsed on an annual basis. This testing includes the switching of communication lines to the participants.
4. Major elements of the business continuity plan:
 - Access to a back-up site.
 - Establishment of an emergency organisational structure.
 - Access to a complete hardware installation.
 - Continuous mirroring of data on to discs located offsite..
 - Substitution of VP's entire communication system.
5. The planned time for VP's resumption of operations if the primary systems become unusable is 4 hours.

C. Key features of the internal controls covering operations and security at VP: establishment of operational control and securities measures:

The entire VP organisation is focused on operational integrity and security. A list of internal controls would be very long. Rules and provisions pertaining to internal controls are set out in: the Danish Securities Trading Act and Executive Orders issued pursuant

thereto; as well as VP's Statutes and Security Directives issued pursuant thereto. As subject to the external systems audit, the internal systems audit evaluates the internal controls: that the controls are working, adequate and in compliance with the directives of VP's Board of Directors. Policy decisions regarding internal control and security are made by VP's Board of Directors. Detailed decisions are made by the General Management.

1. VP has detailed controls and procedures in place to ensure that VP acts only on authentic settlement instructions from valid participants.
 2. The internal operational and security controls of VP are included in both the external and internal audit of VP.
 3. The internal operational and security controls of VP are covered by regulatory requirements as applicable to VP, specifically an executive order pertaining to the systems audit.
- D. VP does not impose any minimum operational standards on third parties (e.g. communication providers) as separate from settlement participants.
1. No specific standard exist for third parties or participants, but a new participant must undergo a formal test before being granted access to the VP System. This test covers technical and operational as well as business matters. The test as well as acceptance criteria are specified by VP.
 2. The general rule of Danish law is one of liability based on fault (*culpa*). In the event of losses incurred due to operational problems caused by third parties or participants, VP would need to bring legal action against the a third party or a participant. As regards the consequences of operational problems in relation to the other participants, see answer to question III.G.