

Answers to the Questions  
on the CPSS-IOSCO Disclosure Framework for  
Securities Settlement Systems

Prepared by

**CYPRUS STOCK EXCHANGE**

June 2009

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## **INTRODUCTION**

The CSE is a regulated exchange where all activity concerning corporate and public listed securities is carried out. The CSE started its operations on 29 March 1996 as a public corporate body (semi governmental legal entity), by virtue of the Cyprus Stock Exchange Law and Regulations, which had been passed by the House of Representatives in 1993 and 1995 respectively.

In accordance with the provisions of the Cyprus Securities and Stock Exchange (Central Depository and Central Registry) Laws of 1996-2006 and the Cyprus Securities and Stock Exchange (Registration, Trading and Clearing of Dematerialised Securities) Regulations of 2001 to 2006 the CSE established the Central Depository – Central Registry (CDCR) with the dematerialisation of listed securities.

The legal framework governing the operation of the CSE and the CDCR follows current international practices and standards.

### **What is the Central Depository – Central Registry (CDCR)**

The CSE undertook to replace the individual shareholders' registries of all issuers that have listed securities at the CSE with the CDCR. With the official operation of the CDCR (23 July 2001), the CSE gradually dematerialised securities and took over the registries of the Companies that have securities listed, in the CSE. With the official operation of the CDCR the CSE undertook the responsibility for maintaining and recording all changes in the registries such as transfers, pledges, corporate actions, etc regardless of whether the transaction takes place within the CSE (through the trading system) or off the Exchange.

As from the date of the takeover of the registry of a listed company by the CSE, the transfer of securities, pledges or other chargers or actions regarding the securities are recorded at the Central Registry in order to be fulfilled and considered final.

The CSE has implemented a fully automated computerised system to handle the trading, clearing and settlement of transactions and updating of the CDCR.

### **Legal status of the CDCR**

CDCR is a department of the CSE which as stated above is a semi governmental legal entity.

### **Confidentiality**

The entries into the CDCR, as provided by the Law of the Stock Exchange, are confidential (Articles 20 & 21 – CDCR Law). The information can not be disclosed except if compelled by Law or court order.

## **Investor's share account**

An Investor's share account is the account with the CDCR where all dematerialised securities of all listed companies, belonging to a person, legal or natural, are recorded. The Investor's share account, in addition to the names and number of all the securities owned by any person in any listed issuer and any changes on these securities, also contains identification data for the Investor, such as identity card number/ registration number, address etc.

## **Main characteristics of the CDCR**

- All securities are in dematerialized form.
- CDCR records all transactions that take place at the CSE as well as Off-Exchange transactions.
- For the settlement of Stock Exchange transactions
  - Settlement takes place on T+3. Transfer of securities as a result of Stock Exchange transactions takes place only upon confirmation by the CDCR that adequate cleared funds are available in the bank accounts of each participant (a pledge on securities which are, bought on day T, is possible only on day T+3 after settlement and only on available securities e.g. which are not committed for settlement).
  - Delivery Vs Payment takes place. The system performs validation of securities before Delivery Vs Payment takes place on T+3 (T = trading date).
  - No third parties are involved in the CDCR operations and no links with any other SSSs have been established either domestic or abroad.
  - All transactions are settled in Euro. .
- CDCR records charges, freezes, pledges and Off Exchange transactions or any other corporate action related to the registries it holds.

## **Government Bonds and Treasury Bills**

The Government Bonds and Treasury Bills are listed on the CSE and traded on a daily basis. Since 12<sup>th</sup> of April 2007 the registries of Government Bonds and Treasury Bills are dematerialized and consequently maintained by the CDCR.

Monetary policy and other credit transactions between credit institutions and the CBC are recorded on the registries maintained by the CSE.

## **I. Basic Information**

### **A. What is the name of the SSS?**

The Cyprus Central Depository and Central Registry (CDCR) is the SSS for the Cyprus Stock Exchange (CSE) and it is a department of the CSE.

### **B. Where and in which time zone is the SSS located?**

The CDCR is located at the premises of the CSE, 71-73 Lordou Vironos Avenue, Nicosia, P. O. Box 25427, 1309 Nicosia, Cyprus.  
Local standard time offset from UTC for Cyprus: +2 hours.

### **C. What functions does the SSS perform?**

The Cyprus CDCR carries out procedures for Stock Exchange Transactions.

Furthermore the Cyprus CDCR provides a wide range of services to investors, listed companies and participants (Members and Custodians). Such services involve: pledging, freezes, off-exchange transactions, corporate actions, help-desk, etc.

#### **1. Does the SSS serve as a securities depository and/or provide securities settlement services?**

The Cyprus CDCR serves as a securities depository and also provides securities settlement services.

##### **(a) What types of instrument are eligible for deposit at the SSS (e.g. debt, equities, warrants, etc.)?**

Eligible instruments for deposit at the SSS are: Equities, Warrants, Rights, Corporate Bonds, Government Bonds and Treasury Bills.

##### **(b) What types of instrument are eligible for transfer within the SSS?**

All instruments introduced in the CDCR are eligible for transfer.

##### **(c) Please describe whether eligible securities are dematerialised, immobilised or transferred physically.**

All eligible securities are dematerialised.

**(d) Does the SSS provide safekeeping for physical certificates?**

The CDCR does not offer safekeeping for physical certificates.

**2. Does the SSS provide cash accounts and/ or provide funds transfers in conjunction with securities transfers? If so, in what currencies?**

The Cyprus CDCR does not provide cash accounts. A commercial bank which acts as the Appointed Settlement Bank provides for each participant (Member - Custodian) a cash account (in Euro). During settlement the system performs validation of securities and if enough cleared funds are deposited in participant's cash accounts, Delivery Versus Payment takes place. All transactions are settled in Euro.

**3. Does the SSS provide a trade matching service? Do others provide such services for securities settled at the SSS?**

Trade matching is performed only by the Electronic Trading System (OASIS), which is also owned and operated by the CSE.

**4. Does the SSS provide a trade netting service (as distinct from undertaking the settlement of securities transfers on a net basis)? Do others provide such services for securities settled at the SSS? In either case, what types of netting (bilateral or multilateral), if any, are performed?**

The CDCR provides netting services on the cash leg of settlement at the participant level while the security leg of settlement is settled at an individual investor level with no netting.

Participants have the option to execute trades that will be settled multilaterally or bilaterally (with no netting).

**5. Does the SSS offer a securities lending or borrowing programme?**

The CDCR at the moment does not offer any securities lending or borrowing programme.

- 6. Does the SSS provide custodial and/ or related services such as the collection of interest, dividends, principal or withholding tax reclamations? Which types of service are provided?**

The CDCR withholds the tax that the sellers must pay to the government from the sale proceeds.

The Cyprus CDCR offers partially corporate action services. For example in the case of stock split or bonus issue the distribution is performed by the CDCR whereas in case of dividends the CDCR provides information to the listed companies on the announced record date and the listed companies distribute the dividend.

- 7. Does the SSS act as a central counterparty or principal to transactions with its participants?**

The CDCR does not act as a central counter party or principal nor there exists a central counter party in the Cyprus Securities Settlement procedures.

- 8. Other? Please specify.**

The CSE does not guarantee settlement of transactions. Ref. Qn.I.F.2 and Qn.I.F.3

**D. What type of organisation is the SSS?**

- 1. Please indicate whether the SSS is a public sector or private sector entity.**

The CSE (Ref. Qn.I.A) is a legal entity established in the form of a public corporate body.

The Council of the CSE is responsible for the management of the Exchange (Ref. Qn. I.E.3b).

The Cyprus Securities and Exchange Commission (Establishment and Responsibilities) Law of 2001 assigns the responsibility of overseeing the capital market to the Securities and Exchange Commission (SEC). The SEC's tasks are to supervise the capital market, secure its smooth operation and development, and monitor transactions in listed transferable securities which take place both through

the CSE and outside it (these are also recorded through the CDCR).

**2. Please indicate whether the SSS is organised on a for-profit or a non-profit basis.**

The CDCR is organized on a non - profit basis.

**3. What is the legal basis for the establishment of the SSS and for securities transfers made through it?**

Legal basis for the establishment of the CDCR and for securities transfers made through it:

- The Cyprus Securities and Stock Exchange Laws of 1993, as last amended in 2007.
- The Cyprus Securities and Stock Exchange Regulations of 1995 and 1997, as last amended in 2006.
- The Trading Rules (Electronic System) – 2006
- The Cyprus Securities and Stock Exchange (Central Depository and Central Registry) Law of 1996 – 2008.
- The Cyprus Securities and Stock Exchange (Registry, Trading and Clearing of Dematerialised Securities) Regulations of 2001 – 2005.
- Regulatory Decisions of the Cyprus Stock Exchange Council for the operation of the Central Depository and Central Registry Securities (30 October 2006).
- Regulatory Decisions of the Cyprus Stock Exchange Council for the Clearing and Settlement of dematerialised securities (30 October 2006).
- Regulatory Decisions of the Cyprus Stock Exchange Council for the establishment and operation of the joint guaranty fund for securing the Clearing and Settlement of stock exchange transactions (30 October 2006).

**E. Please describe and provide a diagram outlining the organisational and ownership structure of the SSS.**

Ownership structure: Ref. Qn.I.A & Qn. I.D.1

Organisational diagram: At present an official organisational structure is being prepared.

**1. Who are the owners of the SSS?**

The sole owner of the CDCR is the CSE, which in turn is owned by the government.

**2. What entity or entities operate the SSS? Which functions of the SSS, if any, are outsourced to third parties?**

The CSE is responsible for the operation of the CDCR. No operational functions are outsourced to third parties. The only function that is mainly outsourced is software development.

**3. Does the SSS have a Board of Directors?**

The CSE has a Council.

**(a) What is its composition?**

CSE Council Composition:

- Chairman
- Vice Chairman
- 5 Members

**(b) What are its responsibilities?**

The Council of the CSE, which is appointed by the Council of Ministers, is responsible for the management of the CSE and for the formulation and implementation of its policy. More specifically, the Council supervises the operations of the CSE and has exclusive authority over the management and administration of its assets, in accordance with the provisions of the Law and Regulations. All procedures and decisions concerning the CDCR are approved by the Council and the Director General. The Council and management of the CSE have implemented appropriate internal controls to safeguard the assets and ensure the integrity and security of the operations of the CSE.

**F. Please describe the financial resources of the SSS.**

The CDCR is financed through fees it levies for the maintenance of the Company Registries, from the Members and the trades.

**1. Amount of paid-in capital and retained earnings?**

The CDCR is not a separate reporting entity. It is part of the

core activities of CSE by whole. The retained earnings of CSE for 2008 are 20.054.268 euro.

**2. Guarantees, insurance coverage or other similar arrangements?**

In case where a member is not in a position to fulfil the security and/ or cash leg of transactions the Joint Guaranty Fund for securing the Clearing and Settlement of Stock Exchange transactions is activated to settle all trades. The Joint Guaranty Fund constitutes of the following:

1. An available cash balance of €5.430,72 for each Member is deposited in a special bank account in the name of the CSE.
2. A special Bank Guarantee for the amount of €5.430,72 for each Member is deposited by each Member to the CSE and is issued for the benefit of the Joint Guaranty Fund.
3. A percentage equal to 0.05% on the value of each trade (buy or sell) executed by each Member is deposited to the Joint Guaranty Fund.

**3. Credit lines or letters of credit?**

Each Member must maintain on a continuous basis a credit facility of €56.290,21 in the interest of the Joint Guaranty Fund for the accomplishment of settlement in case of default.

**4. Powers to assess participants or equity holders?**

Not applicable.

**G. Please describe whether the SSS or its operator is subject to authorisation, supervision or oversight by an external authority.**

Ref. Qn. I.D.1 regarding the supervisory role of the SEC.

Furthermore, the CDCR is overseen by the Central Bank of Cyprus in its capacity of overseer of payment and settlement systems.

## **II. Rules and procedures of the SSS**

**A. Does the SSS maintain a complete list of the rules and procedures governing the rights and obligations of**

## **participants and the duties of the SSS?**

The CDCR maintains a complete list of rules and procedures governing the rights and obligations of participants and the duties of the CDCR, which are considered to be adequately and clearly formulated (Ref. Qn.I.D.3).

**1. How can participants obtain a copy of the rules and procedures?**

Laws and regulations are published in the official gazette of the Republic and are available in the CSEs' official web page. Also copies can be obtained from the CSE.

**2. Does other documentation provided to participants (e.g. user guides) have the same status as the rules and procedures?**

The CSE issues circulars, which do not have the same status as laws & regulations.

**3. Describe the process for changing rules and procedures, including any need for regulatory approval.**

Legislative changes can be initiated by the CSE or the Ministry of Finance, and following legal vetting, are submitted to the House of Representatives to be enacted.

Regulatory Decisions of the CSE Council are not submitted to the House of Representatives in order to be enacted. Once approved by the Council of the CSE they are published in the Official Gazette.

**(a) What authority is required, and how does this differ depending on the type of change involved?**

All laws and regulations are subject to approval by the Parliament (Ref. Qn.II.B) except from Regulatory Decisions of the CSE Council.

**(b) How are participants notified of changes in rules and procedures?**

Ref. Qn. II.A.1 & Qn. II.A.2.

**(c) Is there a procedure for participants or others to comment on proposed rule changes?**

Participants & Investors can comment through their Associations (Members' & Listed Companies' Associations) or through a direct communication with the appropriate CSE department.

**B. Are the rules and procedures binding on the SSS as well as its participants? Under what conditions and on whose authority can written rules and procedures be waived or suspended by the SSS?**

Rules and procedures are binding on the CDCR as well as its participants.

Procedures and Regulatory Decisions can be waived or suspended by decision of the Council and rules and regulations by decision of the Council and the Parliament's approval.

### **III. Relationships with participants**

**A. Please describe the types of membership offered by the SSS.**

**1. How do the types differ?**

CSE Council grants membership after application only to approved investment firms and firms that may offer investment services in the Republic of Cyprus, according to the Investments Firm Law to:

- i. execute customer orders on Stock Exchange transactions or
- ii. for trading for own account
- iii. for both of the above.

Also CSE may approve Custodians to participate in the system only for the settlement of transactions.

**2. Within each membership category, are all participants subject to the same rules and procedures? Please describe important exceptions, including both differences in rules across participants and the rationale for these differences.**

All participants are subject to the same rules, regulations and procedures.

**B. Can participants establish accounts for their customers' assets that are segregated from their own asset accounts at the SSS?**

Participants asset accounts are segregated from their customers' asset accounts.

- 1. If so, is this accomplished through a single omnibus customer account or through a multiplicity of accounts and/or sub-accounts?**

This is accomplished with the multiplicity of accounts. For each one investor exists a unique investor's account with the personal details of the investor and the securities owned.

The creation of an omnibus account is only permitted if:

- i the share account refers to government bonds and
- ii the share account is created only in the name of legal entities

- 2. Is the segregation optional or compulsory?**

Segregation is compulsory unless if the exception in question 1 (Qn. III. B. 1) applies.

- 3. Does the fact that a sub-account at the SSS bears the name of a third party give any rights to that third party as a participant under the rules of the system?**

There are no sub-accounts at the SSS.

**C. Please describe participant requirements for each type of membership.**

- 1. Are participants required to be domiciled or resident in a particular jurisdiction?**

Participants are not required to be domiciled or resident in a particular jurisdiction<sup>1</sup>.

- 2. Are participants required to be subject to a supervisory regime? If so, please describe.**

Participants must comply fully with the law and regulations of the CSE. The supervisory body for the Members of the CSE is the Securities Commission. The Securities Commission cooperates with supervisory bodies of the EU Member States for the supervision of companies providing

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<sup>1</sup> Please also refer to Securities Commission "Investment Firms Law".

investment services resident in the EU offering services in the Cyprus republic and vice versa.

**3. Are participants required to hold an equity stake in the SSS?**

The participants are not required to hold an equity stake in the CDCR.

**4. Are there financial, economic, personal or other requirements (e.g. minimum capital requirements, "fit and proper" tests)? If so, please describe.**

Members are required to fulfil the following requirements:

- To be an approved investment firm or may offer investment services in the Republic of Cyprus, according to the Securities Commission "Investments Firm Law".
- To be authorised to execute transactions for clients in at least one of the financial instruments listed in Part II of Annex One of the Investment Firms Act 2002-2004 and/ or trade in financial instruments for own account in at least one of the abovementioned financial instruments.
- Have the appropriate technical infrastructure for the execution, clearing and settlement of Stock Exchange transactions, according to the stock exchange legislation. The Council of the CSE may give an exemption from this requirement, to an investment firm that operates in any other EU Member State and is a Member of a Stock Exchange in that State.
- They must also have a stockbroker representative as well as a clearing and settlement officer for stock exchange transactions, approved by the CSE.

To have the following cash/ bank guarantees:

- To deposit in the CSE's name a special bank guarantee for the amount of €5.430,72.
- Maintain a credit facility of €256.290,21.
- Additionally, Members of the CSE must open a bank account in the CSE name, at the Clearing Bank and maintain a deposit of €5.430,72.
- Deposit to the Joint Guaranty Fund a percentage equal to 0.05‰ which is calculated on the value of each trade (buy or sell) executed.

Custodians are required to fulfil the following requirements:

- Submit an application accompanied by a certified operation licence from the competent authorities.
- The licence must permit the custodian to offer services related to the execution clearing and settlement of Stock Exchange Transactions in the CDCR.

**D. Does the SSS engage in oversight of its participants to ensure that their actions are in accordance with its rules and procedures? If so, please describe.**

The SSS monitors to ensure that participants' actions are in accordance with its rules and procedures. [The Securities Commission has the right of supervision].

**E. Under what conditions can participants terminate their membership in the SSS? Does this mark the end of all liabilities of the participant? If not, please describe what liabilities could remain.**

A participant may terminate its membership upon its application and in condition that the settlement of its transactions has been completed and has no pending liabilities.

**F. Under what conditions can the SSS terminate a participant's membership in the SSS?**

The Council may terminate a participant's membership in the following circumstances:

- Upon the member's application [Article 31(4)-CSE]
- When it loses the licence to execute transactions for clients in at least one of the financial instruments listed in Part II of Annex One of the Investment Firms Act 2002-2004 and/or trade in financial instruments for own account in at least one of the abovementioned financial instruments [Article 46-CSE].
- Does not have the appropriate technical infrastructure for the execution, clearing and settlement of stock exchange transactions, according to the stock exchange legislation [Article 46-CSE].
- Does not comply with money guarantee requirements [Article 46-CSE].
- Violates the Stock Exchange Law in such a manner that jeopardises the smooth functioning of trading and settlement

[Article 46-CSE].

- G. Please describe the scope of the SSS's liability to participants, including the standard of liability (negligence, gross negligence, wilful misconduct, strict liability or other), the force majeure standard, and any limitation to the scope of liability of the SSS (e.g. indirect or consequential damages). Where are these liabilities and their limitations set out (e.g. in statute or contract)?**

Regulations 16(3) & (4) of the Cyprus Securities and Stock Exchange (Registry, Trading and Clearing of Dematerialised Securities) Regulations of 2001 – 2005 provide that the General Director and the Stock Exchange does not bear any liability against the Members or third party for any actions taken for the clearing & settlement of trades executed, where a Member defaults in his obligations.

#### **IV. Relationships with other SSSs and commercial intermediaries**

- A. Does the SSS maintain linkages (including sub-custodian or cash correspondent relationships) or other relationships with other SSSs?**

The CSE has a linkage with the Athens Stock Exchange due to the dual listing of two securities in both Exchanges. This linkage is used only for transferring securities of the same owner, from one Exchange to the other. Settlement takes place according to the place of trading.

Also the CSE has a linkage with a commercial bank (Alpha Bank) which is used as the Settlement Bank.

Please also note that CSE is one of the Members of Link Up Markets (LUM), the joint venture between 8 European Central Securities Depositories, which allows the easy implementation of links between Central Securities Depositories. CSE has already started the procedure to create links with the other participating CSDs in LUM.

- 1. Please identify each of the other SSSs used and the type of securities transferred via the linkages.**
- (a) What is the name of the other SSS? Where is it located?**

Ref. Qn. IV.A.

**(b) What securities are eligible for transfer via the linkage to the other SSS?**

At present only two securities are eligible for transfer the: “Bank of Cyprus Public Co Ltd” and “Marfin Popular Bank Co Ltd” equities. The two securities are dually listed at the CSE and at the Athens Exchange. The official registries of these two securities are maintained by the CSE but the actual settlement takes place according to which market the transaction is executed.

**(c) Are transfers of securities made via the linkage to the other SSS limited to only those that are free of payment or are transfers against payment also made via the linkage to the other SSS? If against payment, please describe the timing of the transfers and the corresponding payments.**

Transfers are for the same owner who has option to select in which of the two Exchanges to trade and are free of payment.

**(d) Does the other SSS provide custody services to the SSS and, if so, who bears any credit or custody risks?**

Not Applicable.

**B. Does the SSS use securities custodians (other than the other SSSs addressed in the previous question) and/ or commercial cash correspondents? Please identify the custodians or cash correspondents used and the duties that each performs.**

Not Applicable

**C. Please describe the standards used in approving or reviewing relationships with other SSSs, custodians or cash correspondents, including any financial or operational requirements or the presence of insurance or public supervision.**

The Council of the CSE and the Director General are responsible for the management of the CSE.

**D. Does the SSS advance funds or securities to or on behalf of other intermediaries such as issuing or paying agents? If so,**

**please identify the circumstances in which such exposure could arise.**

The CSE is not acting on behalf of other intermediaries.

- E. Please describe measures in place to protect the SSS and its members against the failure of other SSSs or commercial intermediaries to meet obligations to the SSS, including risk controls, collateral or alternative sources of funds and securities.**

Not Applicable

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

- A. Please discuss whether and how settlement instructions are matched between participants prior to processing by the SSS.**

- 1. Is matching required for all transactions without exception?**

Orders are matched on the trading platform during the trading session.

Matching is required for all transactions without exception.

- 2. What procedure is used when instructions do not match?**

Not Applicable.

- 3. Are matched settlement instructions binding on participants?**

Yes matched settlement instructions are binding on participants. When transactions are introduced from the trading platform to the Cyprus CDCR, participants have the obligation to specify the end investor details. If a participant does not specify the end investor details before the last settlement cycle starts (T+3) then by default the transaction (buy or sell) is settled on the share account of the participant.

- (a) If so, please describe the consequences of failure by participants to meet obligations (e.g. forced settlement, penalties, short positions).**

Ref Qn. VI.A.2

- (b) **Please describe whether this is a feature of the SSS's rules and procedures or of national law or regulations.**

This is a feature of the Law & Regulations applicable at the CSE (Ref. Qn. I.D.3).

- (c) **Please provide a time line indicating the points at which matched instructions become binding, as well as any pre-matching process that takes place.**

A transaction is executed in the automated trading system with the use of the matching algorithm of orders entered by the contracting parties, and becomes binding upon execution.

Stock Exchange session:

The Stock Exchange Session is divided into four periods:

- (a) Opening period of the market.
- (b) Period for specifying the opening price and matching orders at the opening price.
- (c) Trading (negotiation) period.
- (d) Closing the negotiation period.

As soon as an order is matched, it is binding on the participants.

**B. Are securities transferred within the SSS registered?**

Securities transferred within the CDCR are registered.

**1. Who is the registrar?**

The CSE has established the Central Depository and Central Registry (CDCR), which replaced all registries held by listed companies. Transfers are performed centrally through an electronic book-entry system at the CDCR.

**2. Is it normal practice to register the securities in the name of the SSS (or its nominee) or in the name of the beneficial owner? Are there instances in which securities housed within the SSS are registered to neither**

**the SSS (or its nominee) nor the beneficial owner?**

At present securities are registered only in the name of the beneficiary.

The two cases where the creation of an omnibus account is permitted are mentioned in Qn. III B1

**3. If the SSS offers custodial services, will it hold securities registered in the name of the beneficial owner?**

At the moment, securities are only registered in the name of the beneficiary.

**4. Under what circumstances does the SSS initiate registration of securities in the buyer's name?**

Registration of securities in the buyer's name takes place on (T+3) only upon confirmation by the Settlement Bank that adequate cleared funds are available in the bank accounts of each participant. On confirmation that cash has been deposited the CSD runs an algorithm which settles confirmed trades on a DVP basis (BIS model II).

**5. How long does the registration process typically take? Are participants notified when registration is complete?**

Further to the information provided in the above question (Qn. V.B.4), the CSE runs settlement cycles (DVPs) throughout the day (T+3) until all trades are settled. Securities settled are immediately available. The participants are able to view the accounts of their clients (only the holdings assigned to them by the clients) in real time.

**6. Can securities be transferred within the SSS before registration in the buyer's name is complete? If so, do the rules and procedures of the SSS provide for an unwind or reversal of such transfers in case of bankruptcy or other events which result in the buyer's name not being entered on the register?**

Securities transfers cannot be done before the registration in the buyer's name is completed.

**C. Please describe how securities transfers are processed within the SSS.**

- 1. Please indicate whether the transfers are processed as debits and credits to members' accounts or via some other method.**

Transfers are processed as debits and credits directly to owners' accounts.

- 2. On a continuous (real-time) basis, or in one or more batches?**

Securities transfers in CDCR are done on a continuous (real time) basis.

- 3. If continuous, during what hours does the processing occur? If in batches, at what time or times is the processing initiated and completed?**

During the day (T+3) multiple settlement cycles are executed. At each cycle securities transfers take place according to the funds deposited. The first cycle for settlement starts at 9:00 o'clock and the rest cycles follow (usually 4-5) not in predetermine time. The final cycle takes place between 14:00 and 14:30.

- 4. Do securities settlements occur daily? Please identify securities for which settlement occurs only on specific days of the week or month.**

Securities settlements for Stock Exchange transactions and transactions executed outside the CSE occur on T+3.

Settlement for other entries in the investor accounts (pledges and freezes) occurs on T.

- D. Please describe whether final funds transfers in conjunction with the SSS are made as debits and credits to balances held at the SSS, at one or more commercial banks, at the central bank, or via some other method.**

Final funds transfers are made as debits and credits at a commercial bank.

- 1. Does the SSS maintain cash accounts for its participants? Are these accounts equivalent to deposit accounts at a commercial or central bank or do they serve only as "cash memorandum" accounts?**

A commercial bank is responsible for the keeping of the

cash accounts separately for each participant under their name and is responsible for money transfers upon confirmation by the CDCR (Ref. Qn. V.E). Participants can deposit and withdraw money from these accounts.

**2. On what entity (SSS or other) does the participant bear cash deposit risk?**

The holding bank risk is considered to be minimal since it is a credible bank institution and it is supervised by the Central Bank of Cyprus.

**3. Under what circumstances does the SSS provide credit extensions or advances of funds to its participants and thereby expose itself to credit risk?**

The CDCR does not provide any credit extensions or advances of funds to its participants. Money deposited for settlement should be cleared funds.

**4. How long can such credit extensions last? How long do they typically last?**

Not applicable.

**E. Is the SSS a DVP system? If so, please describe the DVP model used according to the models outlined in the DVP Report (see the Introduction). Please also provide a diagram indicating the timing of events in the processing of securities and funds transfers in the SSS. Where the SSS provides more than one alternative for settlement processing, please provide a response for each alternative and indicate the relative importance of each alternative.**

The CDCR is a DVP system.

Settlement deals with the delivery of securities at the individual investors level and delivery of cash at the participants level on a net basis, with final (unconditional) transfer of securities from the seller to the buyer (delivery) occurring at the same time as final transfer of funds.

Until T+3 (T = trading day) the participant (Member or Custodian) must confirm the share account of the buyer or seller for all trades. A sell trade can be confirmed only if the share account has available securities (i.e. with no encumbrance – pledge, freeze, confirmed for settlement for another trade). The settlement cycle starts on T+3 (09:00 am). On confirmation by the CSE that cash have been deposited an algorithm

settles confirmed trades on a DVP basis (BIS model II). Securities settled are immediately available and can not be revoked.

Throughout the day a number of DVPs (settlement cycles) are executed until all trades are settled.

The transfer of securities for the above transactions is executed immediately and no batch processes need to run for the above operations to be executed. Notice of successful operations is given to the interested parties.

Time Table:

Day T=0 until T+3

- Transaction Day T
- Transactions are imported from the Electronic Trading System (OASIS) to the Security Settlement System (SSS) T  
Late the afternoon  
afterwards the closure of  
Main Market
- Members who executed a trade on T have the opportunity to transfer the obligation for settlement of any trade to a Custodian – Member of the CSE- until 17:00 of T+1. This transfer can also be canceled during T+1 until 17:00. T+1  
Until 17:00
- Members have another chance to transfer the obligation for settlement of any trade to a Custodian or cancel such obligation within the time frame 14:00-16:30 of T+2. T+2  
Between 14:00-16:30
- At 11:00 of T+3, any transactions, transferred to Custodians for settlement from previous dates, not confirmed by Custodians until 11:00 return automatically back to the Members who executed the trades for settlement. T+3  
11:00
- The Members can either confirm the T+3

trades or transfer the obligation for settlement to another or the same Custodian. The transfer of obligation for settlement is allowed within the time frame 11:00-13:30.

Between 11:00-13:30

- Custodians have the opportunity to confirm a trade until 13:30 of T+3.

T+3  
Until 13:30

- Any trades not confirmed are returned back to the Members who executed them to confirm and settle them. The Member has responsibility to fulfill a trade if a Custodian refuses. If the Member is short of securities then the Member may buy securities from the market, usually at a price higher than the market price to cover the shortage. This trade is called Spot 1 and is settled T+0.

T+3  
13:55

The CSE runs a final settlement process which finishes around 14:30.

**1. Are funds transfers and securities transfers processed within the same system or in different systems? If different, how are they linked?**

Funds transfers are processed by the settlement bank while securities transfers are processed by the CDCR. When the settlement bank informs the CDCR that adequate funds have been deposited, the CDCR proceeds with the settlement of securities while the Settlement Bank proceeds with money settlement.

- (a) **Please describe whether each securities transfer is linked to a specific funds transfer on a trade-by-trade basis or on a net basis or via some other method.**

Ref. Qn. I.C.4 & Qn.V.E.

- (b) **Does the SSS "split" large transactions into multiple transactions or require participants to do so?**

The CDCR does not split large transactions into

multiple transactions.

**2. When do securities transfers and funds transfers become final?**

**(a) At what time do securities transfers become final? After what event or events?**

Securities transfers become final on T+3 during settlement with the name of the buyer being entered in the registry of the relevant issuer held by the CDCR.

**(b) At what time do funds transfers become final? After what event or events? Does this timing allow for same-day retransfer of funds received in exchange for securities?**

Funds transfers become final at the end of each settlement cycle. After funds transfers become final participants have the opportunity for same day transfers.

**(c) If final delivery of securities precedes the final transfer of funds, can participants dispose freely of such securities prior to funds finality? If so, what actions will be taken if funds are not received?**

Final delivery of securities does not precede final transfer of funds (Ref. Qn. V.E).

**(d) If final delivery of funds precedes the final transfer of securities, can participants dispose freely of such funds prior to securities finality? If so, what actions will be taken if securities are not received?**

Not applicable because delivery of securities takes place simultaneous with the transfer of funds (Ref. Qn. V.E).

**(e) Does the timing of finality differ depending on the type of security transferred or the currency in which payment is to be made? Please describe.**

The timing of finality does not differ depending on the type of security transferred and the currency in

which payment was made.

- 3. Please discuss whether participants are notified of securities or funds transfers while they are still provisional, only when they are final, or both.**

Participants are notified for their netting obligations on T (after the end of the trading session) and can view the changes in their cash obligations between T and T+3 due to transfers to Custodians for settlement. On T+3 when settlement is final they can view in their bank accounts the final funds transfers and the holdings of their clients (only those holdings that the clients gave them access to view).

**F. Does the SSS itself "guarantee" funds or securities transfers?**

The CDCR does not guarantee funds transfer (Ref. Qn. VI.B.2).

- 1. Under what circumstances and at what point are transfers guaranteed by the SSS?**

Not applicable.

- 2. What actions does the guarantee obligate the SSS to take?**

Not applicable.

- 3. Please indicate whether the guarantee is a feature of the SSS's rules and procedures or of national law or regulations.**

Not applicable.

## **VI. Default procedures**

- A. Please discuss the events or circumstances that would constitute default of a participant under the rules and procedures of the SSS or that would lead the SSS to make use of exceptional settlement arrangements or unwind procedures.**

The cases or circumstances that would constitute default of a participant are the following:

- When the participant does not specify/ confirm until T+3 the investors share account.
- When not enough clear funds are deposited in the

- participants bank cash account for settlement.
- When there not enough available securities in the participants share account.

**1. Failure by a participant to meet a test of its solvency under the applicable laws of its jurisdiction?**

Ref. Qn. VI.A.2

**2. Failure to make payments or deliveries of securities within the time specified?**

In case where a Member is not in a position to fulfill the security leg (short selling in securities) of a transaction until T+3, the Member is required to perform a buy trade (called Spot 1 Transaction) until T+3, to cover the amount of short shares. A Spot1 Trade is settled on the same day (trade day: T, settlement day: T) so that securities are available to cover any short selling.

If the Member can not find securities in the market as described above, the unsettled trade is forwarded to next working day (T+4) for settlement. On T+4 (only during pre-opening) the Member is required to execute a buy trade (called Spot 2 Transaction), which is settled on the same day (trade day: T, settlement day: T).

In cases where a member is not in a position to fulfil the security and/or cash leg of transactions, then the Joint Guaranty Fund for securing the Clearing and Settlement of Stock Exchange transactions is activated to settle all trades. According to Article 15 of the Regulation for the Guarantee Fund, the General Manager of the CSE will appoint a Member (“Appointed Member”) to perform the necessary procedures to complete settlement. More specifically:

- i. If the failure is shortage of securities then the Appointed Member will use money from the Guarantee Fund to buy, on behalf of the Guarantee Fund, the required number of securities and use them to cover the shortage. The money received will be deposited at the Guarantee Fund.
- ii. If the failure is cash then the Appointed Member will use money from the Guarantee Fund to cover the failure and receive the securities on behalf of the Guarantee Fund. The securities bought are in the name of the

Guarantee Fund and they are sold according to the market conditions.

Also the following actions can be adopted by the CSE Director General (Regulation 16 – CDCR):

- i. Sell securities, in order to accomplish the Stock Exchange transaction and credit the Member accordingly;
  - ii. Forbid the said Member from submitting transaction proposals until this Member fulfils his obligations or the Council examines the issue;
  - iii. Bind, transfer or sell securities that belong to the Member according to the Central Depository and the Central Registry;
  - iv. Impose to the Member a fine not exceeding five hundred pounds or up to ten percent (10%) of the total amount of the transaction for every day that the member omits to fulfil his obligations;
3. **To the extent that the rules and procedures grant discretion in the determination of the use of default or other exceptional procedures, please discuss where the authority to exercise such discretion resides and the circumstances in which this authority would be used.**

Not Applicable.

**B. What procedures are followed by the SSS once it has determined that a default event has occurred or that exceptional settlement arrangements are to be employed?**

Once it has been determined that a default event has occurred the CSE Director General-CEO is informed in order to activate the Joint Guaranty Fund (Ref. Qn. I.F.2, Qn. I.F.3 and Qn. VI.A.2) to settle the trades.

**1. How and at what point are participants notified that this has occurred?**

Participants can view online the balances of their cash accounts as well as the pending transactions for settlement in the CDCR system. However, if on T+3, 14:30 a participant is in default the CSE informs the participant in writing and by telephone. CSE will also inform the rest of the participants in writing and by telephone.

2. **Would the SSS be expected to continue to meet all its obligations to participants under these circumstances? Please discuss the resources in place to ensure that this would occur (e.g. collateral, participants' fund, insurance, loss-sharing arrangements, etc.).**

The Cyprus CDCR does not act as Central Counterparty. However the Joint Guaranty Fund (Ref. Qn.I.F.2 and Qn.I.F.3) is available to settle the failed trades.

3. **Please describe and provide a time line indicating the order in which these resources would be used as well as the timing of participant notifications and important deadlines (e.g. when the SSS's obligations to participants would be met, when participants would need to cover their loss-sharing obligations).**

In case of a failure the resources are used as follows:

(i) From the Joint Guarantee Fund of the defaulting party the CSE will use:

- The cash balance of €85.430,72 deposited in a special bank account in the name of CSE
- The accumulated sum from the percentage equal to 0.05% on the value of each trade (buy or sell) executed by the Member.
- The Bank Guarantee for the amount of €85.430,72 issued for the benefit of the Joint Guaranty Fund.

(ii) If the amounts mentioned above are not enough to cover the failure then money is used proportionately from each Members' Joint Guarantee Fund.

(iii) In case that the above funds are not adequate then:

- The credit facility available for the default member, (€256.430,72) in the interest of the Joint Guaranty Fund is used and then the money of the remaining Members.
- If necessary all Members are obliged to contribute additional funds to the Joint Guaranty Fund.

Participants will be informed about the problem on T+3 as mentioned in Qn. VI.B.1 and settlement will be forwarded to next settlement day.

In case funds from the Joint Guarantee Fund are used,

because of the failure of a member to meet its obligations, then the Member has to deposit new funds within ten days from the day that the CSE asks them to do so.

- 4. Please describe all conditions under which provisional transfers of securities or funds could be unwound by the SSS.**
- (a) How and on what authority would a decision to unwind securities or funds transfers be made by the SSS?**
  - (b) When and how would participants be notified of a decision to unwind provisional securities or funds transfers?**
  - (c) How long would participants have to cover any debit positions in their own securities or funds accounts resulting from an unwind?**
  - (d) In the event of an unwind, would all transfers be unwound or would only a subset of transfers (e.g. only securities purchases or only those of a subset of participants) be unwound?**
  - (e) If only a subset of transfers, what procedure would be followed to determine which transfers and in what order?**

Not Applicable. There no provisional transfers of securities or funds.

- 5. Can bankruptcy or insolvency be declared retrospectively in the SSS's jurisdiction (e.g. under a "zero-hour" rule), and could this cause provisional securities or funds transfers to be unwound?**

Although insolvency proceedings have retroactive effect in Cyprus, this does not apply to the CDCR as this has been notified as a designated system under the provisions of the Finality of Settlement in Payment Systems and Securities Settlement Systems Law.

- 6. Please describe any circumstances in which transfers of securities or funds that were defined as final in response to question V.E.2 above would ever be unwound.**

Transfers of securities or funds that are final as defined in Qn. V.E.2 would never be unwound.

- C. Has a participant in the SSS ever been declared in default or become insolvent?**

1. **Have loss-sharing procedures been invoked?**
2. **Please describe whether any of these defaults or insolvencies resulted in losses for the SSS or its participants and how they were absorbed.**

None of the participants has ever been declared in default or became insolvent.

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

- A. **Is it possible for debit positions (overdrafts) in securities accounts at the SSS to arise?**

The CDCR does not offer securities overdrafts.

1. **Under what conditions could such debit positions occur?**
  - (a) **Do these conditions always result in debit positions in securities accounts rather than failed transactions? If not, please explain the basis for differential treatment by the SSS.**
  - (b) **Are these situations covered explicitly by the rules and procedures of the SSS?**
2. **How long can such debit positions last? How long do they typically last?**
3. **How are debit positions in securities accounts prevented, rectified or managed?**
4. **What procedures would be followed by the SSS in case the debit cannot be rectified? (e.g. failure by a participant with a debit balance in a securities account or unavailability of the securities in the market)**
  - (a) **Application of loss-sharing provisions allocating the loss to participants?**
  - (b) **Absorption of the loss by the SSS?**
  - (c) **Other? Please specify.**

1-4 Not applicable.

- B. **Under what circumstances does the SSS provide for the lending of securities to ensure settlements?**

The CDCR does not provide lending of securities at present.

- 1. Is the process for lending securities automatic? If not, please describe the procedures used by the SSS to determine whether a securities loan will be made.**
- 2. At what point are participants notified that securities are being lent to them in order to complete their settlements?**
- 3. Which securities on deposit at the SSS are eligible for lending? Do participants have the option to make securities available for lending or is it mandatory?**
- 4. Are lent securities identified by the SSS with specific participants as lenders or only with a common pool of securities available for lending? Does the participant whose securities are lent become a principal to the transaction?**

1-4 Not applicable.

**C. How does the SSS settle back-to-back transactions?**

The CDCR does not settle back-to-back transactions since they are not applicable to the CSE.

- 1. Under what conditions are delivery instructions by participants receiving and redelivering securities on the same day under back-to-back transactions settled for same-day value?**
  - (a) Only if the participant has securities on deposit with the SSS that have been received pursuant to a final securities transfer?**
  - (b) If the participant has securities on deposit with the SSS that have been received pursuant to a provisional securities transfer?**
  - (c) Before securities have been received either provisionally or finally, but when a matched receipt instruction exists for the same or greater value? Is such a practice limited to markets where matching is binding?**
  - (d) Before securities have been received either provisionally or finally, but when a third party has promised to deliver to the SSS securities of the same or greater value? Must the provider of the guarantee have itself received the securities through a final transfer? Please describe how the**

SSS evaluates such promises, and whether they are addressed by the written rules and procedures of the SSS.

(e) Other? Please specify.

2. **Please describe limits or controls in place with respect to any of the above arrangements for the settlement of back-to-back transactions, including limits on amounts involved or related to the liquidity of the underlying securities.**
3. **Under what conditions are payment instructions by participants in the SSS under back-to-back transactions settled for same-day value? Can participants use the proceeds of an on-delivery of securities without the need for an extension of credit?**

1-3 Not applicable.

## **VIII. Risk control measures**

**A. Please describe the roles and responsibilities of those areas of the SSS responsible for risk management and control.**

1. **Please describe the process for the internal review of risk management policies and procedures.**

The Head of each department with their officers review the internal processes of the Organisation on a continuous basis. The Internal Auditor reviews these processes frequently in order to determine if there is space for improvements and to verify if these processes reduce the risk that the Organisation faces. In addition to the above the Internal Auditors audit program includes an audit of the most risky activities and processes of the Organisation regarding SSS.

2. **Is there a risk management policy that addresses the review and approval of new products and services offered by the SSS? At what level of the organisation is risk management approval given for a new product or service?**

There is no specific risk management policy that addresses the review and approval of new products and services offered by the SSS. The Council including the Director General-CEO approve new products or services.

3. **Does the SSS have a risk management function with clear independence from and authority over operational or marketing functions?**

The Internal Audit department is the only department that has clear independence from SSS operations.

4. **Does the Board of Directors review risk management policies and procedures? Does the Board have a risk management or audit committee?**

The Board of Directors (Council) and the Director General – CEO review and the Internal Auditor comments on risk assessments arising from the audit. The Head of the related department is required to comment on the assessments prepared by the Auditors.

The Council has a separate Audit Committee.

- B. Please describe any internal or external audits or supervisory/regulatory examinations that are performed with respect to the SSS. For each such audit or examination, please address the following questions.**

1. **Who performs the audit or examination?**

Internal auditor performs the audit.<sup>2</sup>

2. **What is the scope of the audit or examination?**

- (a) **Please indicate whether and how it addresses the sufficiency of and compliance with internal controls**

Perform sample testing to verify compliance and propose improvements in the processes.

- (b) **Please indicate whether and how it addresses the SSS's compliance with its own rules and procedures.**

Perform sample testing to verify compliance and propose improvements in the process.

3. **What is the frequency of the audit or examination?**

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<sup>2</sup> External audits are also performed by the Auditor General of the Republic of Cyprus and commercial auditors.

1-2 times a year.

- 4. Are audit or examination reports available for review by participants?**

Yes.

- C. Please discuss whether the SSS has the capacity to value (i.e. mark to market) the securities that it holds.**

- 1. Please describe how these valuations are used by risk control systems at the SSS.**
- 2. How frequently are securities revalued?**
- 3. What are the sources for security valuations?**
  - (a) What outside price or data sources are used?**
  - (b) If pricing models are used, please describe how the models are chosen and how the model inputs are obtained.**

1-3 Not Applicable. The CDCR does not hold any securities for own account.

- D. Please discuss whether the SSS has a lien on the securities held in or transferred through it.**

Ref. Qn. VI.A.2

- 1. Does the lien apply only to the securities owned by the participants themselves or does it extend to the securities beneficially owned by customers of participants?**

The lien applies only to the securities owned by the participants themselves.

- 2. Under what circumstances and in what manner would such a lien allow the SSS to use the securities?**

In case were a participant is not able to fulfil its settlement obligations.

- E. Please discuss the circumstances in which the SSS requires collateral to limit or mitigate risks.**

1. **Does the SSS manage its own collateral system?**
2. **Does the SSS share a collateral system with another SSS or payment system?**
3. **Can collateral at the SSS be posted and returned on the same day?**
4. **What types of transaction at the SSS involve the use of collateral?**
5. **What are the policies with regard to the type of collateral used or haircuts required?**
6. **How are collateral valuation methodologies developed and reviewed?**
7. **To what extent are collateral policies described in the written rules and procedures of the SSS?**

1-7 Not Applicable.

**F. Please describe the SSS's use of limits on exposures to monitor or control risks.**

1. **Please explain the types of limit used and the exposures to which they apply.**

The participants of the CSE are obliged before the execution of any transaction to maintain on a continuous basis the guarantees mention on Qn.I.F.2 and Qn.I.F.3.

The CSE every day calculates the maximum limit of transactions that a Member is allowed to perform every day. It is calculated as follows:

Four times its net liquid assets (for this amount the ceiling is 8.980.000 Euro) plus any additional bank or cash guarantee deposited by each Member minus the risk of the three days pending for settlement. This amount is the starting limit of each Member each day.

During trading the system calculates [(Buy trades + Buy orders) – (Sell trades + Sell orders)]. The result must be less than the starting limit of each Member, for a Member to be able to continue trading.

2. **Do the limits apply to all participants and/or to other SSSs with which the SSS is linked? What are the exceptions to the limits?**

Limits apply to all Members with no exceptions.

Custodians are excepted since they don't execute trades. Only Members are responsible for the settlement of fail transactions.

3. **Do limits apply to participants individually or in the aggregate or both?**

Limits apply individually for each member.

4. **Do limits apply to implicit as well as explicit extensions of credit or securities (e.g. when on-deliveries of securities are permitted pursuant to provisional but not final delivery of securities)?**

Not Applicable.

5. **Does the SSS automatically reject transactions that exceed limits or is compliance determined ex post?**

Ref. Qn. VIII.F.1.

During trading the system automatically rejects orders that exceed limit and the Member is reactivated only if additional guarantees are provided.

At the end of the trading day and after trades have been introduced to the SSS system new limits are calculated. In case that a Member excess it's limit additional guarantees must be provided in order to be allowed to participate in next day trading.

6. **How are limit policies developed and reviewed?**

Limit policies are developed and reviewed by the Council.

7. **To what extent are limit policies described in the written rules and procedures of the SSS? Where does additional authority to set or amend limit policies reside?**

Limit policies are described in detail in Regulatory Decisions of the Cyprus Stock Exchange Council for the

establishment and operation of the Joint Guaranty Fund for securities the Clearing and Settlement of Stock Exchange transactions (30 October 2006).

Ref. Qn. VIII.F.6.

**G. Please describe other controls to mitigate or reduce risks at the SSS.**

- 1. Does the SSS or its participants have the capacity to monitor participants' accounts continuously during processing?**

SSS can monitor the settlement account of each participant and each participant it's own account during settlement.

- 2. Is there a special risk control regime that the SSS would apply to a participant known to be experiencing financial difficulties?**

A participant is allowed to execute trades only up to the maximum limit of transactions calculated each day (Ref. Qn. VIII.F.1).

It is important to note that net liquid assets are regularly reviewed and updated by the SEC.

- 3. Does the SSS maintain or administer loss-sharing arrangements other than those applicable to events of default and addressed in Section VI above? Are these loss-sharing pools pre-funded by participants?**

No.

**IX. Operational Risk**

**A. Please provide assessments of the operational reliability of the computer and other systems used by the SSS, including any criteria that the SSS uses internally for this purpose.**

- 1. What is the percentage uptime of the systems used by the SSS?**
- (a) Whole system overall?**
  - (b) Broken down by major components? (e.g. communications network, central processing facility)**
  - (c) During critical processing periods?**

The percentage uptime of the systems used by the SSS is 100%. This percentage applies for both the central system, used for the batch processing of transactions entered to the system including settlement cycles, and communications network, which provides accessibility to the users.

2. **Has the SSS experienced major operational problems during the past two years?**
  - (a) **Have settlements been delayed, been disrupted or otherwise failed because of operational problems during this period?**
  - (b) **Please describe the nature of any such problems.**

No operational problems have been experienced during the past two years. As a result settlement cycles have been completed on time as every other critical processing operation.

**B. Please describe contingency or disaster recovery planning at the SSS.**

A business recovery plan is being implemented for the whole organisation. However, a data disaster recovery plan for the major IT operations has been implemented.

1. **Does the SSS have a formal plan for business continuity in place?**

Is currently under implementation.
2. **Is this plan available for review by participants?**

Not yet.
3. **How often is this plan tested? Does this involve participants in the SSS?**
4. **What are the major elements of the business continuity plan?**
5. **How long would it take the SSS to resume operations if primary systems become unusable?**

**C. What are the key features of the internal controls covering operations and security at the SSS (e.g. change controls or those covering remote access)?**

- 1. Please describe controls or security procedures in place to ensure that the SSS acts only on authentic settlement instructions from valid participants.**

The SSS does not accept any settlement instructions by any participant since every transaction is settled on a T+3 settlement cycle basis. The Settlement Bank informs the SSS regarding the success of the payment instructions. This information is transferred across by a secure leased line (between CSE and the Holding Bank) in the form of a text file with a specific format.

- 2. Are internal operational and security controls included in the internal and/or external audits of the SSS?**

Yes.

- 3. Are internal operational and security controls covered by regulatory requirements applicable to the SSS?**

Regulation 23 of the Cyprus Securities and Stock Exchange (Recording, Trading and Clearing of Dematerialised Securities) Regulations of 2001 provides that:

- Any person who obtains deliberately or attempts to obtain any information or data that has not been communicated to him in relation to the entries in the Central Depository and the Central Register or the trading system, by-passing the provided access procedure
- Any person having access or attempts to have access, without authorization, through any method obstructing or attempting to obstruct the function of the electronic or other systems that are used to execute, accomplish or register the transactions

is committing an offence punishable with imprisonment up to 2 years or a fine up to five thousand pounds or with both punishments.

- Any person by-passing the provided access procedure to the electronic or other systems that are used to execute, accomplish or register the transactions
- Any person who proceeds to any fraudulent act in relation to the function of the electronic or other

systems that are used to execute, accomplish or register the transactions or in relation to the data kept therein, by aiming at the direct or indirect illicit profit

- Any person who proceeds to any fraudulent act in contravention to the Law and Regulations, by aiming at the direct or indirect illicit profit

is committing an offence punishable with imprisonment up to 2 years or a fine up to five thousand pounds or with both punishments. In case of a public servant or an officer of the Stock Exchange, the Committee and the Central Bank of Cyprus, this offence is considered a disciplinary offence punishable even with his dismissal from the service.

**D. Does the SSS impose minimum operational or performance standards on third parties (e.g. communications providers)?**

1. **How does the SSS ensure that such standards are met on a continuing basis and what sanctions are available to the SSS if they are not?**
2. **How would the SSS allocate losses incurred due to operational problems caused by third parties?**

No.