

## DISCLOSURE FRAMEWORK FOR SECURITIES SETTLEMENT SYSTEMS

### Central Register of Short-term Securities maintained by the National Bank of Slovakia

#### Introduction

The following document comprises the answers formulated by the National Bank of Slovakia regarding its system for the registration and settlement of short-term securities. The document is a response to the Disclosure Framework questionnaire published in February 1997 by the joint working group of the Committee on Payment and Settlement Systems (CPSS) of the Bank for International Settlements and the International Organisation of Securities Commissions (IOSCO).

This document is intended to inform potential direct and indirect participants by providing information about the system and to help them understand and assess the risks associated with its securities settlement activities. The framework does not necessarily identify all possible topics.

The National Bank of Slovakia believes the information to be accurate at the time of completing the questionnaire. The following document has only an informative nature: it can neither be considered as a part of the rules and procedures of the system or of agreements between the Slovak National Bank and any person, nor as an amendment or addition to the aforesaid texts.

Requests for further information may be directed to:

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31 March 2005

## I. Basic information

This section addresses a number of fundamental features of the SSS, and provides the market context for its operation. The questions establish the basic functions of the SSS, including the securities for which it provides settlement services, as well as whether the SSS offers other services. Questions on the organisational and ownership structure of the SSS elicit information on its legal basis and corporate governance. A wide variety of organisational structures and business functions are possible for SSSs. For example, systems may be owned by central banks, by their participants or by an independent private sector entity, that may or may not be operated for profit. It is helpful to distinguish the type of ownership, the organisational and decision-making structure of the SSS and the financial resources of the SSS, as well as the supervisory oversight to which the system is subject, as a first step in clarifying the respective responsibilities of all relevant parties.

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

**Central register of short-term securities (hereinafter the "Register").**

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

**Address: Imricha Karvaša 1, 813 25 Bratislava, Slovak Republic**

**Time zone: CET**

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

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

**The Register serves as a short-term securities depository and provides securities leg settlement services.**

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

**Short-term securities denominated in the Slovak koruna, with maturity up to 1 year, issued by the Ministry of Finance of the Slovak Republic (hereinafter the "MFSR") or by the National Bank of Slovakia (hereinafter the "NBS").**

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

**Treasury bills – issued by the MFSR**

**NBS bills – issued by the NBS**

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

**Securities registered in the Register are dematerialised.**

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

**No.**

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

**The Register currently does not provide cash accounts or fund transfers in conjunction with securities transfers.**

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

**The Register provides a trade matching service. This service is not provided for securities settled in the Register by any other entities.**

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?*

**Securities Transfers are made on a gross basis.**

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

**No.**

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?*

**No.**

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

**No.**

8. *Other? Please specify.*

**Functions of the Register:**

- a) **keeping records of securities issuers,**
- b) **opening securities accounts for the members of the Register (hereinafter "participants") and their customers, and their recording,**
- c) **registration of securities issues,**
- d) **keeping records of the primary sale of securities,**
- e) **keeping records of trades on the secondary market,**
- f) **keeping records of repurchases of matured securities by their issuer,**
- g) **registration of the establishment, change and cessation of a contractual lien on securities, and suspension of the right to dispose of pledged securities,**
- h) **providing the establishment of a lien on securities upon the provision of intraday loans.**

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

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

**The Register is part of the NBS, it is maintained by its Settlement Department.**

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

**As the Register is part of the NBS, it 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?*

**The NBS maintains the Register on the basis of Act No 566/2001 Coll. on securities and investment services and on amendments to certain laws (Securities Act) and Act No 566/1992 Coll. on the National Bank of Slovakia.**

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

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

**The Register is part of the NBS.**

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

**The Register is operated by the NBS, no functions are outsourced to third parties.**

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

**No.**

*(a) What is its composition?*

**Not applicable.**

*(b) What are its responsibilities?*

**Not applicable.**

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

**The Register was established from the funds of the NBS.**

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

**Not applicable.**

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

**The Register is not specially guaranteed: the NBS is responsible for its operation.**

3. *Credit lines or letters of credit?*

**No.**

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.**

**The Register is run by the NBS, and is not subject to any authorisation, supervision or oversight by an external authority.**

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

It is important that SSSs have clear rules and procedures governing all major aspects of their operations. If participants have access to these rules and procedures, they will be able to form clear expectations about the actions of the SSS and will be able to use their understanding to make decisions on that basis. This is particularly important with regard to the resolution of failures to settle or other potential disruptions to the operation of the SSS. The rules and procedures also typically describe the structures and processes for taking decisions that are at the core of any organisation's corporate governance. For SSS operators, the integrity of the decision-making processes and the means for communicating decisions is important to the level of confidence participants have in the system's ability to manage risk fairly and effectively. The questions below focus broadly on how participants can obtain copies of the SSS's rules and procedures, how participants can provide input to the rules and procedures, how they are notified of changes, the applicability of the rules and procedures to the SSS as well as its

participants, and the circumstances under which the rules and procedures can be overridden. Taken together, the questions are intended to provide participants with an understanding of the role that the system's rules and procedures play within the operation 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?**

**Decision of the National Bank of Slovakia of 21 December 2004 establishing the Rules of Procedure of the central register of short-term securities maintained by the National Bank of Slovakia (hereinafter the "Rules of Procedure")**

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

**The Rules of Procedure are available for participants on the NBS's website ([www.nbs.sk](http://www.nbs.sk)), or they can be sent to participants upon their request by surface or electronic mail.**

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

**There is no other documentation which would have the same status as the Rules of Procedure.**

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

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

**The NBS undertakes all activities connected with any changes to the Rules of Procedure based on the approval by the Bank Board of the NBS.**

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

**Information on changes to the rules and procedures are sent to participants by a letter, which includes a list of changes or new Rules of Procedure. Changes are also posted on the NBS's website (see section II.A.1.).**

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

**Proposed changes to the rules are sent to participants for comments as part of the consultation procedure.**

**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?**

**The rules and procedures are binding both for the Register and its participants. There are neither conditions nor authorities allowing the Register to circumvent the written rules and procedures.**

### III. Relationships with participants

In evaluating SSSs, it is essential that participants understand the nature of the relationships that the systems have with their participants. The different types of membership that are available as well as the requirements for admission as a participant should be understood. A knowledge of the account structure of the SSS is also important for an informed evaluation of the system. Participants should understand whether this structure allows or requires the segregation of their customers' cash or securities in separate accounts or sub-accounts at the SSS. This section addresses these issues as well as the procedures for and consequences of terminating participation in the SSS. Because of loss-sharing or other arrangements, termination of membership may not extinguish all obligations of participants with respect to the SSS. General limitations on SSS liability to participants are the subject of the final question in this section. These questions are obviously important in enabling participants to establish the magnitude of their exposures to different risks associated with the SSS. Although these questions provide the basic framework of the relationship between participants and the SSS, many of the most important aspects of these relationships concern the resolution of failures to settle or events of default. Specific questions on these topics are discussed in Section VII below.

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

The Register operates as a one-tier system and keeps records of two kinds of membership: the member of the Register (participant) and its customer.

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

The members of the Register are the NBS and the MFSR. Upon request, the following entities may become a member:

- a) a bank and a branch of a foreign bank,
- b) the Export-Import Bank of the Slovak Republic,
- c) an insurance company,
- d) a stock brokerage firm registered in the Slovak Republic,
- e) a central depository registered in the Slovak Republic or a central depository, registered outside the Slovak Republic.

A customer communicates with the Register only by its participant.

##### *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.*

The same rules and procedures apply for all participants in all membership categories.

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

The Register opens securities accounts for its participants and their customers. Only one securities account can be established for one participant in the Register. Customers' accounts are segregated from the participants' securities accounts. In the Register, only one asset account can be established for a customer of a participant, with the exception of an asset management company which can have an account established for each mutual and pension fund opened or managed by this asset management company.

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

**The Register establishes an independent securities account for each customer.**

2. *Is the segregation optional or compulsory?*

**Compulsory.**

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?*

**The customer of a participant disposes of his securities account; however, he mediates instructions through the participant.**

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

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

**The participants of the Register, except for the central depository which is registered outside the territory of the Slovak Republic, must be residents of the Slovak Republic.**

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

**No.**

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

**Not applicable.**

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

**The participants are registered following an application for the opening of a securities account of a participant. The customers are registered following an application for the opening of a securities account of a customer.**

**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.***

**No.**

**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.***

**The winding up of a securities account of a participant must be submitted in writing. The winding up of a securities account of a customer can be requested by a participant who had applied for its opening. The application shall be submitted to the NBS in two originals. A securities account in the Register can be wound up only if no securities are registered on this account. The NBS shall wind up the original securities account of a customer at the latest within 5 working days after the delivery of an application for the winding up of a securities account.**

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

**The termination of membership of the Register is currently addressed only on the part of the participant. Termination of the membership on the part of the Register will be addressed by other regulations governing the Register operation.**

*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)?*

The scope of the Register's liability to participants, which liability is not covered by the Rules of Procedure, is addressed by the relevant provisions of Act No 513/1991 Coll. Commercial Code as amended, and relevant provisions of Securities Act .



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

Many SSSs have relationships with intermediaries who perform critical tasks for the SSS and indirectly, therefore, for the system's participants and their customers. In particular, relationships or linkages between SSSs may be important for an understanding of the implications of settlement arrangements. For example, in those instances where the linkage includes using another SSS or a commercial intermediary as a securities sub-custodian, disclosure of information concerning the linkage would be essential for participants to fully evaluate the associated risks. The appraisal of risks may differ depending on whether the linkage allows only free deliveries or whether cash accounts at the two SSSs are also involved. The latter types of linkage deserve particular attention to ascertain whether they increase the potential for settlement disruptions to spread quickly between different systems. Because it is the SSS and not its participants that negotiates and concludes the agreements with these third parties, it is important for participants to be fully advised on the relevant aspects of the system's various intermediary relationships, including the standards used by the SSS in the selection and monitoring of intermediaries, the functions that the intermediaries perform and any specific risk management mechanisms in place specifically to protect against the risks posed by these relationships. It is also important to identify instances in which the SSS advances funds or securities on behalf of third parties or intermediaries, as these actions can pose risks to the SSS and its participants.

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

**No. The further questions of this part are not applicable.**

*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?*

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

*(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.*

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

**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.***

**Not applicable.**

**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.*

**Not applicable.**

*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

At the heart of the operations of SSSs are the transfers of securities and funds that actually comprise the settlement process. The questions in this section begin by focusing on the process, if any, for matching settlement instructions prior to beginning the settlement process itself. In some markets, matched settlement instructions are binding, which may impose additional obligations on participants that are important for them to understand. This section next considers issues raised by the practice of securities registration. Because the laws of different countries vary widely in this regard, this disclosure framework has not been designed to substitute for the legal analysis of the implications of registration, for example the issue of the nature of the title to securities that is transferred in the SSS if the system itself is not also the registrar. The questions are instead focused on the circumstances in which the SSS itself becomes involved in the registration process, as well as the risks that may arise if participants fail while securities are in the process of being re-registered in the buyer's name. In particular, it is important to understand whether the rules and procedures of the SSS would require transactions to be unwound in such an event. The mechanics of securities and funds transfers are then addressed, including the issue of where cash transfers associated with securities transfers at the SSS take place. These questions also address the circumstances under which the SSS extends credit to participants as an aspect of providing funds transfer capability at the SSS. It is clearly important for participants to understand what types of cash account are offered at the SSS and on whom they take a risk with respect to cash deposits, as well as whether the SSS itself bears credit risk in conjunction with these accounts. The questions then explore the timing of processing within the SSS, whether the SSS is a DVP system, and what type of DVP model, if any, has been adopted by the SSS. DVP is a mechanism which ensures that final delivery occurs if and only if final payment occurs, which eliminates principal risk and contributes to reductions in liquidity risk. The issues which arise in the practical implementation of DVP were outlined in the DVP Report referred to in the Introduction, and mainly concern the finality of the securities transfers and the funds transfers which together constitute the DVP settlement. Transfers are final if they are both irrevocable and unconditional. A transfer is irrevocable when the parties to it can no longer revoke their instructions, and it becomes unconditional when there are no longer any circumstances that could cause the SSS to unwind it. If transfers are provisional at the time of processing, even if DVP is achieved, the risk remains that transfers may have to be unwound later if finality cannot be achieved. If not properly recognised and controlled, this "finality risk" could have systemic effects. Members of SSSs are often provided with immediate availability of securities received, even if the transfer is not final. If these members then sell the securities again, or make them available to custodial clients, and the original transfer is subsequently unwound, additional transfers by the member or the member's clients may also have to be unwound, spreading the impact of the unwind to unrelated parties. It could also ultimately lead to losses to be shared among participants. For these reasons, the questions below attempt to clarify precisely the circumstances under which transfers become final. The questions also address the provision of settlement guarantees by the SSS. If guarantees exist, it is necessary for participants to understand the events that trigger the guarantee as well as the coverage that is provided by the guarantee, including the liability of the SSS with respect to the guarantee.

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

The participant sends, in the case of the securities transfer being connected with the purchase or sale of securities, the following:

- a) An instruction for the securities transfer registration credited to the securities account of a buyer (the buy instruction), if he buys the securities for his own securities account, or if the securities are purchased by his customer;

- b) An instruction for the securities transfer registration debited against the securities account of the seller (the sell instruction), if he sells the securities from his securities account, or if the securities are sold by his customer.

The participant sends, in the case of the securities transfer being connected with providing or accepting a credit backed by a transfer of pledged securities:

- a) A creditor's instruction to transfer pledged securities, if a participant or its customer has provided a credit to a debtor;
- b) A debtor's instruction to transfer pledged securities, if a participant or its customer has received a credit from a creditor.

If there was a matching buy instruction and sell instruction, or a creditor's instruction and a debtor's instruction entered into the system, the Register performs the reservation of securities and sends the participants a report on this.

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

Matching is not required with the following types of transactions: primary sale, maturity and intra-day credits providing.

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

If there was not a matching buy instruction and sell instruction, or a creditor's instruction and a debtor's instruction entered into the system, the Register does not perform the reservation of securities and informs participants of this fact in an adequate manner.

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

The matched settlement instructions are binding on both participants.

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

If a participant, who buys the securities for its own securities account or on behalf of its customer, does not perform the transfer of funds, the Register cancels the securities reservation.

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

The rules and procedures of the Register are contained in the Decision of the National Bank of Slovakia of 21 December 2004 establishing the Rules of Procedure of the central register of short-term securities maintained by the National Bank of Slovakia.

*(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.*

The Register enters a buy instruction and a sell instruction or a creditor's instruction and a debtor's instruction into the system on the trade day and from this moment they become binding.

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

**All securities transferred within the Register are registered (recorded).**

*1. Who is the registrar?*

**The registration (book keeping) is performed by the Register following an issuer's instruction.**

*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?*

**Securities are registered on securities accounts of the securities owners. No securities are registered in the name of the Register.**

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

**The Register does not offer custodial services.**

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

**A participant buying securities for its own securities account or for its customer is obliged, following the securities reservation, to perform transfer of funds in the form of a priority payment (RTGS payment) for the bought securities. Its financial liability is considered settled upon crediting a cash account of a seller in the inter-bank payment system SIPS in the amount of the total value of the transaction, at the latest on the settlement day of the transaction. Based on the confirmation of the received payment from the selling participant, the Register shall perform the registration of securities and send a confirmation of the transaction registration together with the account statement to the participants.**

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

**A participant selling securities from its own securities account or from its customer's securities account shall send to the Register, immediately upon crediting the seller's account in the amount of the total value of the transaction, confirmation of the received payment. Upon the receipt of the confirmation from the seller, the Register shall transfer securities to the buyer's account. Participants are informed when registration is complete.**

*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?*

**No, securities cannot be transferred 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.*

**Securities transfers are processed as debits against and credits to securities accounts of the Register participants.**

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

They are processed continuously as transactions are put into the system (on a 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 working days from 8:30 a.m. to 1:00 p.m., the Register accepts an instruction for the registration of the securities transfer in favour of the buyer's account (the buy instruction), an instruction for the registration of the securities transfer debited against the seller's securities account (the sell instruction), a creditor's instruction for the transfer of pledged securities, a debtor's instruction for the transfer of pledged securities and until 2:15 p.m. the confirmation of payment.

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

Securities settlements occur daily (on every working day).

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.*

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?*

The Register does not maintain cash accounts for its participants and their customers (see I.C.2). They are maintained within the inter-bank payment system SIPS.

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

On the NBS.

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 Register provides neither credit extensions nor short-term financial funding to its participants and thus it does not expose itself to credit risk.

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.*

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

(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.*

Each securities transfer is linked to a specific funds transfer on a gross trade-by-trade basis.

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



**The Register does not "split" large transactions into multiple transactions nor requires participants to do so.**

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 transfer becomes final when the securities are credited to the buyer's securities account.**

*(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 transfer becomes final after crediting the amount to the seller's account in the inter-bank payment system SIPS in the amount of the total transaction value, at the latest on the day of its settlement.**

*(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?*

**The Register is a DVP system (Model 1) and participants therefore may freely dispose of securities only after the final transfer of funds.**

*(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?*

**No, participants may not dispose freely of the funds.**

*(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.*

**No, the finality time table is the same for all types of securities recorded in the Register.**

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 only when the securities transfers are final.**

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

**No. The Register guarantees neither funds nor securities transfers.**

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

Events of default are among the most difficult and stressful occurrences that market participants and SSSs may experience. The IOSCO Report underscores the need for transparency in the area of default procedures on the grounds that it will provide more certainty in the operation of critical market mechanisms during these stressful events, and thereby reduce the risk that a single default will cause further disruptions. Because the definition of a default event may differ across systems, the IOSCO Report recommends disclosure with regard to the circumstances in which action may be taken, as well as who may take it, and the scope of the actions that may be taken. In some cases, the term "default" may not be used by the SSS in its rules and procedures or in contracts with its participants. In these instances, SSSs should attempt to spell out for their participants both how they would address the insolvency of a participant and any other circumstances in which they would initiate exceptional measures to fulfil settlement or other obligations to their participants. In this regard, this section attempts to lay out in one place the available resources of the SSS with respect to meeting obligations in the event of a default or other events that would trigger exceptional measures. It is important for participants to understand what these resources are as well as the order in which they will be accessed. The questions also address the possibility that securities or funds transfers will be unwound by the SSS. Because unwinds are a way to reallocate liquidity pressures and credit losses, it is vital that participants understand all the possible circumstances in which an unwind could occur.

***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.***

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

**In case of a failure by a participant to meet a test of its solvency, its securities account or account of its customer becomes blocked.**

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

**If a participant buying securities for its securities account or for its customer does not perform the funds transfer, the Register shall cancel the reservation of securities. If a participant, or its customer, selling securities does not have adequate number of securities on its securities account, the Register shall not accept the instruction.**

*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.*

**In case of default or other exceptional events, the NBS (its Banking Supervision Division) and the Financial Market Authority shall make a decision on further procedures. The relevant measures shall be taken according to their instructions.**

***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***

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

**Participants are informed through the website of the NBS.**

*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.).

**See VI. A2.**

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 default the securities account of a participant or its customer becomes blocked.**

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?

**It is not possible to unwind securities transfers from the settlement system. The further questions of this part are not applicable.**

(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?

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?

**Subsequent to the moment of acceptance of an order for the registration of a transfer neither a participant in the settlement system nor any other third person may validly revoke or cancel an order accepted by the settlement system nor can the carrying out of such an order otherwise be inhibited. (Article 107a of Securities Act Servicesas amended by Act No. 510/2002 Coll.)**

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.

**Not applicable.**

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

**Yes.**

1. Have loss-sharing procedures been invoked?

**No.**

2. Please describe whether any of these defaults or insolvencies resulted in losses for the SSS or its participants and how they were absorbed.

**There were no losses either on the side of the Register or on the side of any participant.**

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

In recent years, SSSs have implemented a variety of approaches aimed at satisfying increasing demands for more rapid securities settlements, particularly in the cross-border context. This section focuses on several related issues that can arise in conjunction with these procedures. The first set of questions in this section relates to the possibility of debit positions in participants' securities accounts at the SSS. Because such positions indicate instances where participants have been allowed to transfer securities that they do not have on deposit at the SSS, they clearly involve substantial risk that the SSS may not be able to obtain the actual securities and complete all necessary settlements. For this reason, it is vital for participants to understand the conditions, if any, under which such debit positions can arise, and what actions the SSS will take to rectify them. The questions also address measures that SSSs can take to reduce or prevent such debit positions. The existence of a securities lending programme at the SSS and the conditions under which securities loans are triggered is another important topic covered by the questions in this section. Participants need to understand both when the SSS will arrange for securities to be lent to them and when securities they hold on deposit at the SSS will be made available for lending to others. The existence and terms of a securities lending programme may also have implications for the SSS's ability to facilitate settlements in a variety of circumstances, particularly for back-to-back transactions. Back-to-back transactions were a major focus of the Cross-Border Report and involve a pair of transactions that require a counterparty to receive and redeliver the same securities on the same day. They have the major advantage of avoiding unnecessary funding costs by the party buying and onselling the securities. This practice poses no particular risk when the delivery follows an actual final receipt of the securities, as there is then no risk that this receipt would have to be unwound. Especially in the cross-border context, differences in the timing of settlement cycles or of finality have led to the development of practices whereby SSSs in some circumstances allow on-deliveries under back-to-back transactions before the initial securities receipts are final, in effect extending temporary (often intraday) securities loans. The questions in this section attempt to clarify the circumstances under which this occurs, so that participants can understand the risks entailed by these practices.

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

**Debit positions (overdrafts) on securities accounts are not permitted. The further questions of this part are not applicable.**

#### *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.*

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

**The lending of securities is not permitted. The further questions of this part are not applicable.**

- 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?*

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

- 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?*

**Back-to-back transactions are allowed only when the funds in the amount of the total value of the transaction are credited to the account of a selling participant in the inter-bank payment system SIPS on the settlement day of the transaction, and the participant (the selling party) informs the Register about this fact immediately. The securities are registered on the asset account of the buyer based on the confirmation of this payment.**

- (a) Only if the participant has securities on deposit with the SSS that have been received pursuant to a final securities transfer?*

**Yes, securities must be received on the basis of a final transfer.**

- (b) If the participant has securities on deposit with the SSS that have been received pursuant to a provisional securities transfer?*

**No.**

- (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?*

**No.**

- (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.*

**No.**

- (e) Other? Please specify.*

**Not applicable.**

- 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.*

**There are no limits or controls in place.**

*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 ondelivery of securities without the need for an extension of credit?*

**See VII C.1.**

## VIII. Risk control measures

This section of the disclosure framework is intended to provide a description of the risk management systems employed by the SSS. Sound risk management encompasses a number of aspects, including assessment of risks and senior management and Board of Directors input into the risk management process, particularly with respect to the review of new products and services by the SSS. Internal and external audits as well as supervisory oversight can also play a vital role in ensuring that the risk management approach is sound and implemented with integrity. A range of different risks can arise in conjunction with the different services that SSSs may provide. For example, in the course of providing settlement services, the SSS may become exposed to credit, custody or liquidity risks if it either explicitly or implicitly extends funds credit or lends securities to participants. In the provision of custody services, the SSS may take on credit risk if it extends funds to or on behalf of third parties. A variety of risk management approaches to these risks are possible, including in particular the use of collateral or limits on risk exposures. The questions also address several other provisions or tools that may be helpful to SSSs in managing or containing the different risks that they face, but are not meant to exhaust all the possible approaches that SSSs may employ.

### 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.*

**Activities of the Register are reviewed by the Internal Audit Department of the NBS.**

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?*

**All changes to the system (incl. technical specification or extending of functions of the system) are subject to the approval procedure by the Bank Board of the NBS.**

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

**No, the Register does not involve the risk management function.**

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

**Not applicable.**

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

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

**Audit of the Register's activities is carried out by the Internal Audit Department of the NBS.**

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

**Audit reviews the compliance with rules and procedures of the Register's activities.**

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

**The Rules of Procedure specifying the rules and procedures of the Register are reviewed by the internal audit.**

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

**At least once a year.**

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

**No.**

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

**The following questions are not applicable, as the Register does not hold securities.**

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.*

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

**The Register does not have any lien on securities held in or transferred through it. The following questions in this part are not applicable.**

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?*

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

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

**The Register does not require collateral to limit or mitigate risks. The following questions are not applicable.**

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?*

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

**The Register does not use limits to monitor or control risks. The following questions are not applicable.**

1. *Please explain the types of limit used and the exposures to which they apply*
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?*
3. *Do limits apply to participants individually or in the aggregate or both?*
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)?*
5. *Does the SSS automatically reject transactions that exceed limits or is compliance determined ex post?*
6. *How are limit policies developed and reviewed?*
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?*

**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?*

**Partially. Upon the closeout of each transaction the Register sends to its participant a confirmation of the transaction and a statement from the securities account of the participant. These documents are sent by surface mail.**

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

**There is no special risk control regime.**

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?*

**The Register does not maintain or administer any loss-sharing arrangements.**



## IX. Operational risks

Operational failures at the SSS could limit participants' ability to access their assets held at the SSS and prevent them from honouring their commitments to others, with potential spillover effects on other payments, clearance, and settlement systems. Furthermore, prolonged problems could reduce or eliminate trading activity with respect to the affected securities, with substantial consequences for market participants. It is good practice to mitigate operational risks through redundancy and the maintenance of strong internal controls over the operations of the SSS. In the event of an unavoidable problem or natural disaster, the SSS should also have in place a well-rehearsed plan for business continuity that addresses all the business functions and resources that the SSS would need to renew operations.

### 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?*

**99.9%.**

*(b) Broken down by major components? (e.g. communications network, central processing facility)*

**Communication network: 99.9%.**

*(c) During critical processing periods?*

**99.9%.**

2. *Has the SSS experienced major operational problems during the past two years?*

**No.**

*(a) Have settlements been delayed, been disrupted or otherwise failed because of operational problems during this period?*

**No.**

*(b) Please describe the nature of any such problems.*

**Not applicable.**

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

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

**Yes, the Register has a business-continuity plan in place.**

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

**No.**

3. *How often is this plan tested? Does this involve participants in the SSS?*

**At least twice a year.**

4. *What are the major elements of the business continuity plan?*

**Operation of the back-up register.**

5. *How long would it take the SSS to resume operations if primary systems become unusable?*

**2-4 hours.**



**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.*

**Currently, communication with the Register is organized via fax, it involves only participants of the Register. Written instructions must bear the official stamp and signatures of authorised representatives of the participant of the Register in accordance with the List of Authorised Signatures.**

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

**Yes, the internal audit also reviews compliance with control mechanisms, as specified above (See IX.C.1.).**

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

**No.**

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

**The Register does not impose any standards on third parties.**

*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?*

**Not applicable.**

*2. How would the SSS allocate losses incurred due to operational problems caused by third parties?*

**Not applicable.**