

**KELER Ltd. Depository Announcement -
No. 9-02**

**on the finality of settlement in payment and securities
settlement systems**

Effective from: 28 February 2023

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1. Introductory Provisions

Pursuant to Act XXIII of 2003 on the finality of settlement in payment and securities settlement systems (hereinafter: Tvt.) with regard to securities settlement systems, including the Target2-Securities (hereinafter: T2S)¹ securities settlement platform of Eurosystems KELER Central Securities Depository Ltd. (hereinafter: KELER), under its General Rules of Business and as System Operator is authorised to conduct insolvency proceedings and perform contact tasks with the court, other competent authorities (hereinafter: Authority, such as the Central Bank of Hungary), the T2S and direct and indirect System participants.

In setting up the processes related to the participants' payment limitation proceeding, KELER intends to achieve the following goals:

- Common, uniform and consistent application of the provisions stipulated in Article 41 of the CSDR¹,
- The effective sharing of information with the most important interested and affected parties specified in point 1.2,
- Minimising the impact on other participants,
- Prevention of systemic risk (e.g. mitigating disputes related to settled transactions).

This Depository Announcement ("Announcement") sets out the rules and procedures (which may be) applied by KELER during insolvency proceedings.

Terms used in the Depository Announcement have the meanings ascribed to them in the General Business Rules.

1.1. Scope of the Depository Announcement

The following, in particular, are classified as insolvency proceedings:

- bankruptcy- and liquidation proceedings or the appointment of a temporary administrator under Act XLIX of 1991 on Bankruptcy Proceedings and Liquidation Proceedings,
- the supervisory measure according to Section 185 Subsection (2) Point c) Subpoint cf), Section 48 Subsection (5) and Section 55 Subsection (2) of Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (hereinafter: Hpt.),
- the supervisory measure according to Section 128 Subsection (1) and Section 164 Subsection (1) Points h) and n) of Act CXXXVIII of 2007 on Investment Firms and Commodity Dealers, and on the Regulations Governing their Activities (hereinafter: Bszt.) and the payment ban according to Section 135 Subsection (1) of the Bszt,
- the supervisory measure according to Section 400 Subsection (1) Points h) and j) and Subsection (4) of Act CXX of 2001 on the Capital Market,
- the moratorium suspending individual enforcement measures ordered by the court in the procedures regulated in the Act on Restructuring (hereinafter: Restructuring Act)²

provided that the competent authority specified that its proceeding is an insolvency proceeding according to Section 5 Subsection (1) of the Tvt.

It should be stressed that the provisions of this Depository Announcement should be applied specifically in the event of the insolvency of a participant; however, applied to the appropriate extent they are also suitable for handling other supervisory measures against the Participants, for example the revocation of authorisation.

Interested parties concerned by the insolvency of a participant of the settlement system:

- KELER
- External interested parties:
 - > supervisory officer, receiver, or liquidator
 - > authorities:
 - Central Bank of Hungary, as supervisory authority of financial organisations

¹ As a supranational securities settlement system T2S was set up for connecting certain central securities depositories and central banks of the European Union by enabling cross-border DVP settlement, which is realised in cash accounts managed by participating central banks and securities accounts managed by participating central securities depositories.

¹ Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012

² This point is effective from 1 July 2022

- Central Bank of Hungary, as an institution involved in operating the settlement system
 - Courts
 - competent authority regarding the participant subject to an insolvency proceeding
-
- > participants of the settlement system
 - > trading venues
 - > central counterparties
 - > CSD links
 - > participants specified in other legislation or supervisory regulatory tool

2. Rights and obligations of KELER as System Operator under Section 3 (1) c) of the Tvt.

2.1. Contacts with the court and the competent authority, as part of which

a) KELER, as System Operator notifies in writing the court, the Authority, and T2S (ECB) of the persons designated to receive the notification on the payment limitation proceeding as per Section 5 (1) of the Tvt., specifying their position and contact details

Person notified to the court, the Authority, and T2S, authorised to receive notifications:

The Chief Executive Officer of KELER Ltd,

<https://english.keler.hu/Contacts>

E-mail: elszamolohazusers@keler.hu
T2S-SettlementManager@keler.hu (for notifications from the ECB)

Mailing address:

KELER Kozponti Ertektar Zartkoruen Mukodo Reszvenytarsasag (KELER Central Securities Depository Ltd.)

1074 Budapest, Rakoczi ut 70-72.

Central phone number: +36-1-483-6100

b) KELER, as System Operator shall notify the court and the Authority within 15 days of the certified receipt of the data of indirect and direct System Participants specified in Article 3 (1) cb) of the Tvt. and Article 4.1. b) and c) of this Depository Announcement and of changes to such data.

For the purposes of compliance with the Tvt., during contact with direct and indirect System Participants KELER may request and register the data and information specified in Article 4.1. b) and c) of this Depository Announcement. If KELER deems it necessary, it may also request the submission of supporting documents for data.

²Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012

KELER shall keep records from which the content and time of entry of notifications of insolvency proceedings sent to the competent court or authority or T2S can be clearly identified subsequently, as well, and which records must be kept for 10 years.

3. Obligations of KELER as settling party

Upon receiving a notification of insolvency proceedings against a direct or indirect Participant member KELER shall follow Articles 5 and 6.

4. Obligations of the Participants

The participants' obligations to submit documents are regulated by the General Business Rules of KELER as effective at all times.

Direct participants must provide in writing

- a) for connecting to the system the standard Authorisation prescribed by the General Rules of Business of KELER (*Annex 1*) must be signed,
- b) the following data listed in the General Business Rules of KELER, using the standard KELER Data Sheet (*Annex 2*) simultaneously with signing the authorisation:
 - name,
 - registered seat,
 - company registration number,
 - tax number,
 - name of the authorised contact person entitled to take steps and their substitute(s),
 - position, department
 - telephone- and fax number,
 - postal and e-mail address,
 - BIC code,
 - LEI code.
- c) to report the indirect participant - with whom the direct participant has a contractual relationship which enables the indirect participant to transfer orders through the system - using the data sheet standardised by KELER (*Annex 3*), on which the direct participant is obliged to indicate the data of the indirect participant as listed in subparagraph b),
- d) to notify KELER of the changes occurred in the data mentioned in the previous subparagraphs b) and c) through the duly completed and signed Form, within 5 days of the change, and to submit to KELER the documents supporting the data, no older than 30 days (company register extract, deed of establishment and the form containing the core data of the Contracting Party) within this period.

The Participant shall give immediate notice to KELER, if it becomes aware of an insolvency being initiated against either the Participant or its direct participant.

5. Procedural rules in the event of a notification on insolvency proceeding

5.1. Entry time of the notification on insolvency proceeding

KELER and the direct and indirect Participants agree that they shall consider and accept as the certified time of entry of a notification according to Section 5 Subsection (1) of the Tvt. the time when the KELER department designated to receive notifications or a person designated to receive notifications sent to the central e-mail address has verifiably received or downloaded (irrespective of the method of communication) the first officially signed notification or appropriate electronic notification sent by the competent court or Authority, or authority with competence over the participant subjected to insolvency proceeding (Authority), or T2S on an insolvency proceeding against a direct or indirect Participant.

Decision delivered by the court shall be construed:

- a) as a court ruling for stay of individual enforcement actions in restructuring procedures;
- b) as a court ruling for stay of payment in the case of bankruptcy proceedings, and on any extension thereof;
- c) as a court ruling on the appointment of a temporary administrator and on the ordering of liquidation in the case of liquidation proceedings

Any other party who becomes aware of the participant being subject to insolvency proceedings, for example, the central counterparty, trading venue, linked CSDs or the operator of the common settlement infrastructure used by the CSD is also obliged to inform KELER of this fact, which KELER shall check against official sources.

5.2. Notification of T2S about the initiation of a payment limitation proceeding

If the notification on an insolvency proceeding was sent by an entity other than the ECB, then after receiving the notification on insolvency proceeding as per Article 5.1 and if it concerns T2S, KELER, as a participant according to Section 3 Subsection (1) Point c) of the Tvt. immediately informs via telephone or electronically the T2S Service Desk about the launching of the proceeding, the content of the notification and the time of its receipt.

The T2S Service Desk notifies the participants of the T2S system with the assistance of the ECB.

5.3. Notification of Participants about the payment limitation proceeding

After receiving the notification on payment limitation proceeding as per Article 5.1, KELER, as System Operator according to Section 3(1) c) of the Tvt. immediately informs via electronic means the persons authorised by the direct and indirect Participants according to Article 4.1. b) to receive such notification and take action

- a) of the initiation of the proceeding and the content and time of receipt of the related notification,
- b) of the exact time when the System suspended the admission of instructions from direct or indirect Participants subject to the proceeding according to Article 5.1. a)
- c) in the case of T2S partners activate in the T2S system the Case 2 and Case 4 restrictions necessary for the suspension.

KELER forwards the notification of the initiation of the payment restriction procedure received from the ECB to the Participants even if the notification is received regarding a participant of a system not operated by KELER.

5.4. Notification of the MNB about the insolvency proceeding

Following receipt of the notice on the initiation of an insolvency proceeding pursuant to Section 5.1, KELER as System Operator in the meaning of Article 3, Section (1), paragraph c) of Tvt, shall transmit all information at its disposal to MNB, including all details and sources thereof as specified in its internal regulation.

In the event KELER is informed of the initiation of an insolvency proceeding by a party other than MNB, KELER contacts the Central Bank of Hungary (MNB) in order to

- transmit the available information, their details and source according to its relevant internal regulation
- obtain all information which concern and impact the settlement system (where not done yet),
- obtain additional information about the situation
- agree on sharing information generated during the insolvency proceeding and related processes.

5.5. Notification of other participants about the insolvency proceeding and measures

KELER shall immediately inform the following persons and organisations about measures taken after the launch of the insolvency proceeding:

- a) the authorities concerned;
- b) ESMA;
- c) participants not subject to the insolvency proceeding;
- d) trading venues and central counterparties served by the CSD;
- e) the operator of the common settlement infrastructure used by the CSD;
- f) linked CSDs.

If the recipients of the notification are persons/organisations listed in items c) to f), the notification is sent without the personal data specified in Section 3 Subsection (2) of Act CXII of 2011 on Informational Self-Determination and Freedom of Information.

6. Procedural rules for payment limitation proceedings against a direct Participant

6.1. Following the receipt of a notification of insolvency proceedings KELER, as settling party

- a) immediately, within 30 minutes at the latest suspends the admission of instructions from the Participant subject to the insolvency proceeding. Further instructions may only be admitted according to the procedural rules for insolvency proceedings specified in other legislative provisions (e.g. with the approval of the liquidator, administrator or their agents),
- b) suspends the clearing right of the direct or indirect Participant clearing member or non-clearing member trading on an exchange.

Instructions that were admitted pursuant to Article 4 (1) of the Tvt. in the way and by the time limit specified in Article 5.3 b) of the same, and as specified in the General Business Rules of KELER and the current Depository Announcement No 9-11 on the entry, settlement and cancellation deadlines of instructions (hereinafter: Depository Announcement 9-11) will be settled by KELER as settling party, unless said instructions are cancelled by the direct Participant subject to the proceeding in the way and by the time limit specified in the General Business Rules of KELER and Depository Announcement 9-11.

Following the time limit specified in Article 5.3 b), that is following the time of notification of an insolvency proceeding **KELER shall consider as admitted the following instructions:**

- > **with regard to transfer instructions settled outside the T2S system (that is, in KELER) and not in T2S currency** KELER shall consider as admitted on the given day instructions for the given value date, whether submitted electronically or as a document, if the instruction
 - was submitted in the way and with the content defined in the General Business Rules of KELER, is correct in terms of form and content, and as such it was admitted by KELER (that is, it was not rejected due to reasons of logic, form, or content)
 - **is a successfully matched and secured transfer instruction**
- > If a notification of insolvency proceeding against the participant is received, KELER shall consider unmatched and unsecured transactions as not admitted, and shall delete them from the settlement process.
- > **with regard to transfer instructions settled in the T2S system and in T2S currency** KELER shall consider as admitted on the given day instructions for the given value date, whether submitted electronically or as a document, if the instruction
 - was submitted in the way and with the content defined in the General Business Rules of KELER, is correct in terms of form and content, and as such it was admitted by KELER (that is, it was not rejected due to reasons of logic, form, or content)
 - **is a matched transfer instruction, which KELER shall attempt to settle until the end of the given settlement day. If settlement fails, at the end of the settlement cycle the instruction is deleted.**
- > transactions that credit the partner subject to the insolvency proceeding will be settled after the start of the insolvency proceeding, as well.

The insolvency proceeding does not affect the settlement of T+2 exchange transactions cleared by KELER CCP Ltd.

The revocability of instructions is regulated in the General Business Rules of KELER and Depository Announcement 9-11.

KELER defines the criteria it considers when choosing the measures listed in rules relating to insolvency proceedings in an internal regulation.

6.2. Settlement from security deposits

Cash and securities registered in the settlement account of the customer on the business day on which the insolvency proceeding is initiated cannot be diverted until lawfully admitted transfer instructions are settled, but may be diverted thereafter. These include:

- a) the balances of the cash- and securities accounts of the Participant subject to the insolvency proceeding
- b) the balances registered in their security deposit sub-accounts on the business day on which the insolvency proceeding is initiated,
- c) the balance resulting from credits posted on the day on which the insolvency proceeding is initiated,

which serve for settling the liability of the Participant to the System and the related system existing on the Business Day on which the payment limitation proceeding is initiated.

7. Procedural rules in case of a payment limitation proceeding initiated against an indirect participant

In the case of an indirect participant, KELER will stop accepting the orders of the account holder (Direct participant) immediately, but no later than thirty minutes after receiving the notification, until the direct participant declares in writing that the settlement and execution orders sent by it do not contain any order from an indirect participant falling within the scope of the payment limitation proceeding. The form for the statement is available on the KELER website, under the Business Forms menu "Finality".

If the form is filled in correctly, signed and sent to KELER electronically, KELER will immediately revoke the suspension of the direct participant.

After that, if the indirect participant has a pending transaction in the settlement system, the direct participant must cancel it immediately. The direct participant must ask its partner to cancel its transaction with matched status.

8. Procedural rules for payment limitation proceeding against a participant established in the United Kingdom

Following the withdrawal of the United Kingdom from the European Union, protection to which participants of the settlement system are entitled to in the event that a participant is subjected to a payment limitation proceeding, provided in Directive 98/26/EC of the European Parliament and of the Council of 19 May 1998 on the finality of settlements in payment and securities settlement systems in the European Union - and thus, the KELER participants, in the event that an indirect or direct participant based in the United Kingdom is subjected to a payment limitation proceeding - can be ensured by a designation system established by a specific legal act adopted by the United Kingdom legislature, the supervisory authority of which is the Bank of England (BoE).³

KELER joined the temporary designation system (Temporary Designation Regime - TDR) and applied for permanent designation (steady state Permanent Designation - PD), according to which the BoE sends an immediate notification to KELER if a payment limitation proceeding has been initiated against a legal entity based in the United Kingdom.

If KELER receives a notification from the BoE, KELER considers it as a notification received from a competent authority, and accordingly, upon receipt of the notification, it shall proceed according to the provisions of Chapters 5, 6 and 7 of this Depository Announcement, and, within 7 days from certified receipt as mentioned in point 6.1, it shall notify BoE of the data of direct and indirect participants based in the United Kingdom as specified in Section 3 (1) cb) of the Tvt. and point 4.1 (b) and (c) of this Depository Announcement, as well as of any changes in such data.

³ Systems recognised under the Financial Markets and Insolvency (Settlement Finality) Regulations 1999 - SFRs and 2019/341 Statutory Instrument in the TDR and later under the PD are subject to regulations equivalent to the SFD in terms of the finality of execution in the payments and settlement systems.

9. Periodic testing and review of the rules relating to payment limitation proceedings

In order to test the efficiency and practicality of the procedure detailed in this Depository Announcement KELER performs testing and review with system participants and other parties involved at least annually, or carries out new tests requested specifically by the Central Bank of Hungary or in the event of a substantive change in rules relating to insolvency proceedings.

KELER shall designate external parties involved in testing and request their cooperation. Parties involved in testing shall always be sent prior notice of the planned time, exact goal, and expected procedure of the test and other relevant information. Participation in the testing is mandatory based on Recommendation 15/2018 (IV.3.) of Magyar Nemzeti Bank on the rules and procedures of the central securities depositories regarding the handling of payment limitation proceeding initiated against the participants. If the designated party does not participate in the testing, KELER will report this to the MNB, and KELER is also entitled to apply the legal consequences provided for in the KELER General Business Rules if the Client does not cooperate with KELER despite KELER's notice in cases where the Client's cooperation is necessary for the fulfilment of an obligation of KELER based in law or of its duty based on official regulations, i.e. in this case, KELER is entitled to suspend the right of disposal over the account of the party involved in the testing.

The parameters and process of testing are set out in internal regulatory documents of KELER.

KELER performs testing for each securities settlement system it operates, on an appropriate sample of:

- the participants,
- the market infrastructure involved (CSDs, organisations which settle the cash side of securities transactions settled by the CSD, central counterparties, and trading venues),
- and in certain cases, other organisations (such as the operator of the common settlement infrastructure used by the CSD, third parties to whom provision of the service was outsourced, etc.), according to parameters specified in the relevant internal regulation.

If KELER identifies any deficiency in the process during testing, it shall take the necessary steps.

KELER shares the summary of the tests performed with the participants of the test (via their provided contact details) and the Central Bank of Hungary.

In all cases KELER shall inform participants of planned changes to the rules of insolvency proceedings in an announcement and via the KID system.

Budapest, February 28, 2023

KELER Ltd.

Annex 1

Authorisation

The undersigned

Name:**Address:**

and

Name:**Address:**

representing

Company name:**Registered seat:**.....**Company registration number:****Tax number:****BIC code:****LEI code:****Mailing Address:****Central e-mail address:****Central phone number:****Central fax number:**

pursuant to Section 3 (1) d) of Act XXIII of 2003 on the *finality of settlement in payment and securities settlement systems* authorise KELER Central Securities Depository Ltd. (H-1074 Budapest, Rakoczi ut 70-72.), to perform the tasks specified in Section 3 (1) c) of the abovementioned act.

The rules and detailed provisions pertaining to the performance of this task are defined in the General Rules of Business of KELER Central Securities Depository Ltd.

.....
(Place, Date).....
(Authorised signature)

Annex 2

Data Sheet

For implementing the provisions of Act XXIII of 2003 on the finality of settlement in payment and securities settlement systems

For Participants in the securities settlement system

1. Data of the System Participant:

Company name:	
Registered seat:	
Company registration number:	
Tax number:	
BIC code:	
LEI code:	
Mailing address:	
Central e-mail address:	
Central phone number:	
Central fax number:	

2. Data of the contact persons of the System Participant (persons designated to receive the notification and their substitutes):

Name:	
Position:	
Organisational unit:	
Phone number:	
E-mail address:	

Name:	
Position:	
Organisational unit:	
Phone number:	
E-mail address:	

Name:	
-------	--

Position:	
Organisational unit:	
Phone number:	
E-mail address:	

.....

(Place, Date)

.....

(Authorised signature)

Data Sheet for notification of Indirect participant

For the execution of the provisions of Act XXIII of 2003 on the finality of settlement in payment and securities settlement systems

For securities settlement system Indirect participants**1. System Participant's data:**

Company name:	
Registered seat:	
Company registry number:	
Tax number:	
BIC code:	
LEI code:	
Mailing address:	
Central email address:	
Central phone number:	
Central fax number:	

2. Indirect participant's data:

Company name:	
Registered seat:	
Company registry number:	
Tax number:	
BIC code:	
LEI code:	
Mailing address:	
Central email address:	
Central phone number:	
Central fax number:	

3. Data of the Indirect Participant contact persons:

Name:	
Position:	
Organisational unit:	
Phone number:	
Email address:	

.....
Place, Date)

.....
Authorised signature of System Participant)

NYILATKOZAT / DECLARATION

Közvetett Résztvevő ellen indított fizetést korlátozó eljárásban érintett
Képviselőtében
/ In the representation of a company affected by an insolvency proceeding against
Indirect Participant

Cégnév / Company name:

Székhely / Registered seat:

Cégjegyzékszám / Company registration number:

Adószám / Tax number:

A Közvetett Résztvevő ellen indított fizetést korlátozó eljárásban érintett (cégnév) / The company affected by insolvency proceeding against Indirect Participant (Company name):

.....

képviselőtében ezennel kijelentem, hogy a fizetést korlátozó eljárás alá került Közvetett Résztvevő tranzfer megbízásait elkülönítetten kezelem. / In the representation of the above, I hereby declare that the transactions of the Indirect Participant subject to insolvency proceedings handled separately.

.....
helység, dátum / Place, Date

.....
bankszerű aláírás(ok) / Client authorized signature