

Principles for Financial Market Infrastructures
Financial Market Infrastructures disclosure

Responding institution:
KDD – Central Securities Clearing Corporation
Tivolska cesta 48, 1000 Ljubljana, Slovenia

Information provided in the answers is accurate as of 31 December,
2013

Disclosure can be also found at: <http://www-en.kdd.si/>

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Executive summary

Assessment of KDD's operations against Principles for Financial Market Infrastructures ("PFMI") published by the Committee on Payment and Settlement Systems (CPSS) and the International Organization of Securities Commissions (IOSCO) is carried out by KDD for the first time in 2014. The ultimate aim of PFMI disclosure framework and assessment methodology is to promote greater transparency, objectivity and comparability of assessments of observance of the PFMI among CSDs community. With this assessment report, KDD tries to provide relevant and most up-to-date information to participants, relevant authorities and the broader public. KDD observed 20 relevant principles that apply for Central Securities Depositories ("CSD") and Securities Settlement Systems ("SSS"). Information provided in the answers is accurate as of 31 December, 2013.

Summary of major changes since last update of the disclosure

This is first assessment against PFMI.

General background of the FMI

General description of KDD

KDD was founded on 10 January, 1995 as a company providing central securities custody services, clearing and settlement of securities transactions and maintenance of the central registry of holders of dematerialised securities in the Republic of Slovenia. KDD's founders and shareholders are banks, stockbroking firms, fund management companies, government funds, issuers and other entities. KDD is presently the only institution in Slovenia licensed by the Securities Market Agency (national securities market regulator) to perform central securities depository services.

From the outset, KDD successfully provided technical and operative support throughout the ownership transfer of Slovenian companies. With Slovenia's accession into the EU, and in particularly with the adoption of the new common European currency, KDD's activity has moved to another level, namely, integration into European settlement infrastructure, which is clearly becoming one of the main company's tasks.

KDD's mission is ensuring security and reliability of operations with securities from the perspective of reducing financial risks on the securities market as well as increasing the operative-technical security and integrity of data in the central securities register. KDD's strategy is focused on development of services and products, enhancing the reputation, values and credibility of the company and thus generating confidence in its operations.

Efficient, simple and secure post-trading infrastructure is what KDD is striving to provide through:

- A modern and transparent system of managing the securities register;
- A concurrent fulfilment of financial obligations and obligations of transfers of securities based on trades concluded on the organised market;
- Modern and reliable technical-information post-trading support;
- Consistent and accurate rules on operations;
- Detailed and clearly defined operative procedures in all areas of its operations;
- Lower direct and indirect costs of post-trading services both for holders as well as issuers of securities, including KDD members;

- Harmonising CSD services with international standards and market practice.

KDD provides the following services to its clients (i.e. members, issuers and holders of dematerialised securities entered into KDD's central registry):

- Maintenance of central registry of holders of dematerialised securities (predominantly direct holding system with possibility of nominee ownership);
- Services to issuers: issuance, cancellation and replacement of dematerialised securities, share ledger maintenance);
- Custody services related to take-over bid procedures;
- Calculating, netting and settling obligations with respect to stock exchange transactions (standard T+2 settlement cycle);
- Settlement of obligations with respect to off-market transactions (DVP and FOP mechanisms);
- Other services related to securities transactions and exercising of rights on securities;
- Functions of national numbering agency (assigning SI ISIN codes).

Scope of KDD's services is limited since KDD does not have a banking licence (legal ban on banking type of services) and is not allowed to be exposed to any kind of credit risk (legal requirement). Hence, KDD cannot act as Central counterparty.

KDD tries to keep its operations fully compliant with all relevant international standards determining CSD business. This enables our institution to offer our members and other clients services based on current industry standards with highest safety and efficiency measures in place. As CPSS-IOSCO's PFMI serve as most relevant assessment tool for ensuring highest compliance standards for CSDs, KDD has published its first assessment against this methodology in 2014.

Statistics on KDD's services and operations

Statistics on KDD operations are published on KDD's web site:

http://www-en.kdd.si/securities/statistics/main_figures_in_2013

Statistics on KDD operations based on Eurosystem's Blue book methodology is published on Eurosystem's web site:

<https://www.ecb.europa.eu/paym/intro/book/html/index.en.html>

Organisation structure of KDD

Management Board

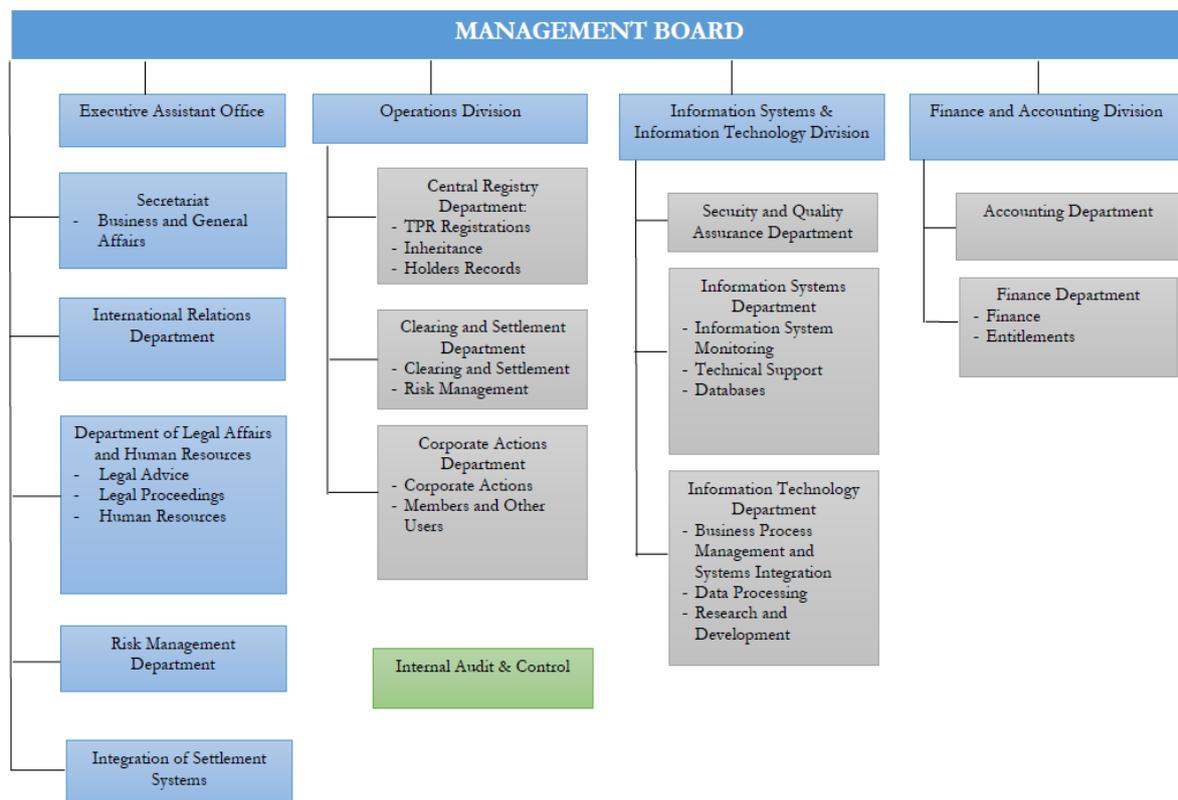
The Management Board of KDD runs and represents the company and acts on its behalf independently and on its own responsibility. KDD's Management Board consists of two members:

- Boris Tomaž Šnuderl, President and CEO;
- Davor Pavič, Deputy President and COO.

Supervisory Board

The principal duty of the Supervisory Board of KDD is to approve the general terms of business and other general bylaws of the company referring to its business activity and relations between KDD and its members, and supervise its business operations. Supervisory Board has 5 members.

Organization chart



Legal and regulatory framework

KDD's operations are governed by following laws:

- Book Entry Securities Act (ZNVP),
- Markets in Financial Instruments Act (ZTFI).

KDD is currently the only institution in Slovenia that was granted a licence to perform CSD services. This licence was granted to KDD by national securities market regulator (Securities Market Agency).

Further aspects of KDD's operations/functions are set forth with following laws:

- Takeovers Act (ZPre-1),
- Companies Act (ZGD-1),
- Investment Trusts and Management Companies Act (ZISDU-2),
- Code of Obligations (OZ),
- Law of Property Code (SPZ),
- Banking Act (ZBan-1).

Pursuant to Par. 1 of Art. 407 of ZTFI, KDD is allowed to provide the following services:

1. Maintenance of central registry of dematerialized securities. (Point 1 of Par. 1 of Art. 407 of ZTFI);

2. Operation of securities settlement system for securities trades executed on organized market. (Point 2 of Par. 1 of Art. 407 of ZTFI)
Pursuant to Par. 1 of Art. 402 of ZTFI, stock exchange transactions with dematerialized securities, entered in central registry of dematerialized securities, shall be settled through the clearing and settlement system operated by the operator of the said central registry, unless stock exchange decides that settlement services are executed with other settlement system (pursuant to Par. 1 of Art. 459 of ZTFI).
3. Other services. (Point 1 and Points 3-7 of Par. 1 of Art. 407 of ZTFI)
 - Specific custody services related to corporate actions of issuers (as precisely defined in section 11 of ZNVP);
 - Custody services related to take-over bid procedures pursuant to ZPre-1;
 - Settlement of OTC transactions with dematerialized securities either on DVP or FOP basis;
 - Entitlement processing (dividend and interest payments). This service is provided on optional basis;
 - Other services related to operations with dematerialized securities and fulfilment of rights derived therefrom;
 - Sales and maintenance of software for supporting services listed above.

Detailed provisions regulating maintenance of central registry of dematerialized securities, clearing and settlement of stock exchange transactions and performing other services are comprised in KDD Operations Rules. KDD Rules are issued by KDD pursuant to Par. 1 of Art. 429 of ZTFI, provided that ATVP grants its approval thereto. Pursuant to Par. 4 of Art. 429 of ZTFI, KDD Rules and amendments thereto shall be published in the Official Gazette of the Republic of Slovenia and posted (currently valid version) on KDD's web page. According to Par. 2 of Art. 429 of ZTFI, KDD Rules are directly applicable against KDD members, issuers and other users of KDD's services.

Provisions on KDD operations comprised in ZTFI, ZNVP and KDD Rules are supplemented by various KDD regulations that provide more detailed procedures, which should be considered by KDD, members, issuers or other persons. The following regulations are in force:

- KDD Regulations (detailed defines procedures on KDD membership, securities accounts, entries altering and not-altering number of securities, take-over bid procedures, obtaining data maintained by KDD);
- Regulations for Settlement of Stock Exchange Transactions;
- Technical regulations;
- Regulation on Arbitration Proceedings.

Pursuant to Par. 6 of Art. 429 of ZTFI, KDD regulations have to be published on the KDD's web site (currently valid version).

Supervision and control

KDD is subject to the following types of controls:

- Prudential supervision by the Securities Market Agency in the capacity of competent authority for supervision of organized securities markets and investment services,
- Supervision by the Bank of Slovenia in respect of systemic risk of settlement system and in the capacity of operator/manager of national component of RTGS TARGET2 payment system,

- Audit of tax statements by the Tax Administration Office,
- External (statutory) audit of accounting statements by independent auditing company,
- Internal audit by Internal audit department.

Ownership structure

KDD is private, user owned company. As of December 31, 2013, KDD had 17 owners, which could be distributed into following major ownership groups:

- Banks: 26,4%,
- Governmental funds: 24%,
- Fund management companies: 13,3%,
- Issuers and other private investors: 29%,
- Own shares: 7,3%.

Principle-by-principle narrative disclosure

Principle 1: Legal basis

An FMI should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.

Key consideration 1:

The legal basis should provide a high degree of certainty for each material aspect of an FMI's activities in all relevant jurisdictions.

Key consideration 2:

An FMI should have rules, procedures, and contracts that are clear, understandable, and consistent with relevant laws and regulations.

Key consideration 3:

An FMI should be able to articulate the legal basis for its activities to relevant authorities, participants, and, where relevant, participants' customers, in a clear and understandable way.

Key consideration 4:

An FMI should have rules, procedures, and contracts that are enforceable in all relevant jurisdictions. There should be a high degree of certainty that actions taken by the FMI under such rules and procedures will not be voided, reversed, or subject to stays.

Key consideration 5:

An FMI conducting business in multiple jurisdictions should identify and mitigate the risks arising from any potential conflict of laws across jurisdictions.

Activities of Central securities depository (CSD) are regulated and determined by laws and subordinate legislation. KDD ensures ultimate level of legal certainty with strict harmonisation of its activities and operations with valid legal framework.

KDD is currently the only institution in Slovenia with a licence to perform CSD services (as determined by Art 407. of ZTFI). This licence was granted to KDD by Securities Market Agency (ATVP) acting as national securities market regulator.

Legal framework

KDD operations are set forth by following laws:

- Book Entry Securities Act (ZNVP),
- Markets in Financial Instruments Act (ZTFI),

Further aspects of KDD operations are determined by:

- Takeovers Act (ZPre-1),
- Companies Act (ZGD-1),
- Investment Trusts and Management Companies Act (ZISDU-2),
- Code of Obligations (OZ),
- Law of Property Code (SPZ),
- Banking Act (ZBan-1).

Subordinate legislation

In addition to laws listed above, KDD operations are in detail specified in Decision regulating the organisational requirements for keeping the central register and managing the settlement system (issued by ATVP), KDD Operations Rules and in set of Regulations (issued by KDD). Art. 429 of

ZTFI states that KDD should adopt Operations rules and detailed procedures in form of set of Regulations. Procedures on adoption and amending Operations Rules and Regulations is determined by KDD Operations Rules (Chapter 7).

Any amendments of Operations rules should be adopted by management board and board of directors of KDD upon proposal by the management board. Management board shall present proposal of amendment of these rules to the registry members at least fifteen days before the date of a session of the board of directors where the latter is set to decide on accepting said amendments. KDD shall obtain the Agency's consent prior to publishing any amendment to the rules in Official Gazette of the Republic of Slovenia. Current version is published on KDD's web page.

Regulations and any amendments thereof should be adopted by management board and board of directors of KDD upon proposal by the management board. Management board shall present proposal of amendment of these rules to the registry members at least fifteen days before the date of a session of the board of directors where the latter is set to decide on accepting said amendments. Agency's consent and publishing in Official Gazette of the Republic of Slovenia are not required. Current version is published on KDD's web page.

KDD Operations rules determine following aspects:

- KDD membership,
- Maintenance of central registry of dematerialised securities,
- Stock exchange trades settlement,
- Take-over bid procedures,
- Disputes resolving,
- Procedures for amending KDD Rules, Regulations, General terms and conditions and Tariff.

KDD issues a set of Regulations to further define following aspects:

- KDD Regulations: KDD membership, securities accounts, entries altering and not altering number of securities, take-over bid procedures, obtaining data from records maintained by KDD;
- Regulations for Settlement of Stock Exchange Transactions;
- Technical regulations;
- Regulation on Arbitration Proceedings.

Said procedures on proposing amendments to Rules and Regulations by KDD, presentation of proposals to KDD members, Agency's approval (Operations rules only), publishing in Official Gazette of the Republic of Slovenia (Operations rules only) and availability of said documents on KDD's web page serve as solid proof that all KDD's activities and operations are clear, understandable, freely accessible and in line with valid national legislation.

Compliance with international business practice and market standards

KDD aims to harmonise its activities with international standards determining CSD business and best market practice applied by (I)CSDs with securities link to KDD. KDD assures its compliance with following actions:

- Harmonisation of its activities/functions with requirements of TARGET2-Securities project;
- Harmonisation of its activities/functions with market standards determining following aspects: corporate actions, settlement cycles, netting arrangements, settlement finality rules, communication standards/formats, etc.

- Fulfilment of requirements of European Code of Conduct for Clearing and Settlement – applying price transparency measures, establishing access and interoperability conditions, and unbundling services and implementing accounting separation;
- Periodical (self)assessing its operations against following standards/assessment frameworks: CPSS-IOSCO disclosure framework for securities settlement systems, Association of Global Custodians - Depository Information-Gathering Project, ECSDA disclosure framework;
- Periodical (self)assessment of its operation for use in Eurosystem’s credit operations as determined by ECB’s standards;
- Periodical assessments conducted by Thomas Murray (acting as CSD rating agency);
- Harmonisation of processes required for proper functioning of securities links – as requested by linked (I)CSD in form of Service Level Agreement.

Above mentioned actions assure that KDD’s operations are in line with national legislation and standards determining CSD and securities settlement systems operations. Updates of relevant documents are freely accessible on KDD’s web site.

Links between KDD and foreign (I)CSDs allow transfers of securities issued in KDD only. Transfers between accounts opened with KDD are governed with Slovenian law. Transfers in system of linked (I)CSD is governed under national legislation of respective (I)CSD. Respective link arrangement is (upon request of linked (I)CSD) defined by Service level agreement.

KDD’s operations

KDD’s core activity is maintenance of central registry of dematerialised securities. Main operations within this activity are:

- Accounts maintenance (and maintaining balance of securities);
- Settlement of Ljubljana stock exchange trades;
- Corporate actions processing;
- Maintenance of share registers and registers of holders of other nominal securities.

KDD’s operations are based on following KDD’s functions:

- Issuer CSD;
- Depository;
- Registrar;
- On-exchange trades settlement facilitator.

KDD acts as Issuer CSD only. Investor CSD functions are not enabled.

Investor CSD and depository functions

Central registry of dematerialised securities (CRVP) is electronic database with following entries (Art. 3 of ZNVP):

- Rights arising from dematerialized securities,
- Holders of these rights, and
- Third party rights and other legal facts to such securities.

KDD acts as National Numbering Agency (NNA) assigning ISIN codes to securities issued in Slovenia.

All securities entered into CRVP are dematerialised (Art. 3 of ZNVP). Issuance of physical certificates is not enabled. ZNVP defines further aspects of KDD's operations including: securities dematerialisation principles, dematerialised securities definition, issuer and issuance principles, exercising of rights from securities and other procedures that enable holders to dispose with securities. KDD Rules and Regulations define procedures related to issuance and further events in lifecycle of securities, actions supporting disposition with securities and infrastructure supporting said operations.

CRVP consists of securities accounts. Single securities account allows recording of securities owned by single person/entity. Third party rights and other legal facts are recorded on sub-account(s) of single account.

Maintenance of CRVP is defined in Art. 407 of ZTFI and Chapter 3 of KDD Operations Rules. CRVP maintenance consists of:

- Maintaining accounts,
- Entries altering the number of securities, and
- Entries not altering the number of securities.

Accounts maintenance means:

- Maintaining securities account static data (information on account holder, account type and KDD member, who opened respective account – amendments are not allowed), and
- Authorisation of KDD registry member to enter instructions related to respective account.

Performing entries altering number of securities relates to issuance, deletion and replacement of securities. In this respect KDD performs corporate actions to securities issued with KDD.

Performing entries not altering number of securities relates to entrance of instructions to transfer (delivery/receive) securities and record, amend or delete third party right or legal fact to securities.

Settlement of off-exchange trades allows real-time transfers as follows:

- OTC-DVP settlement: 8:00 am till 3:30 pm,
- OTC-FOP settlement 7:00 am till 6:00 pm.

“BIS Model 1” applies – gross securities and cash transfers.

As certain transaction meets all criteria required, KDD will settle respective transaction within intended settlement day. Cash transfers are facilitated by TARGET2. CRVP and TARGET2 are linked. Settlement finality rules are explained in Chapter 8 – Settlement finality.

Third party rights records in CRVP

With the moment of entry of securities to securities account in CRVP, the respective holder becomes legal holder of said securities (Art.16 of ZNVP). Respective entries into CRVP enable recording, deleting or amending third party rights and other legal facts to securities. Acquisition, restriction and cessation of rights to securities in CRVP is defined as follows (Art. 6 of ZNVP):

- The rights of holders of book-entry securities shall arise with the entry of securities in the holders' account in CRVP and shall be transferred by entry of securities to a new holder's account.
- The rights attached to security in CRVP are acquired, restricted or cease with an appropriate entry in CRVP unless otherwise specified by this Act.

Rights of holder of securities consists of following (Art. 16a of ZNVP):

- Right to dispose with securities,
- Right to exercise right from security directly in relation to the issuer of such security.

Legal holder may freely dispose of securities by issuing an appropriate order to KDD member that maintains respective securities account to:

- Transfer said securities to another holder, or
- Record third-party rights to such securities.

Registry function

KDD provides registry services to issuers by maintaining share ledgers and registers of (legal) holders of other nominal securities. Access to information on legal holders is accessible to KDD members, legislators and other state authorities and to general public as defined by law.

Facilitator of on-exchange trades settlement

On-exchange settlement is executed in DVP principle in central bank money – using TARGET2 cash accounts. On-exchange settlement mechanism is available to KDD settlement members only. All on-exchange trades (concluded on Ljubljana stock exchange) on certain trading day are settled in one batch on T+2. Settlement members should assure availability of cash and securities at 11:00am on T+2. KDD uses BIS Model 2 for calculation of cash and securities positions due – gross securities and net cash transfers. Final transfers of cash takes place at 1:00pm and securities at 3:00pm at the latest. Detailed rules on settlement of on-exchange trades are defined in KDD regulations on stock exchange trades settlement.

As certain transaction meets all criteria required, KDD will settle respective transaction within intended settlement day (T+2). Cash transfers are facilitated by TARGET2. CRVP and TARGET2 are linked. Settlement finality rules are explained in Chapter 8 – Settlement finality.

Principle 2: Governance

An FMI should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.

In reviewing this principle, it should be noted that if an FMI is wholly owned or controlled by another entity, the governance arrangements of that entity should also be reviewed to ensure that they do not have adverse effects on the FMI's observance of this principle. As governance provides the processes through which an organisation sets its objectives, determines the means for achieving those objectives and monitors performance against those objectives, this principle should be reviewed holistically with the other principles.

Key consideration 1:

An FMI should have objectives that place a high priority on the safety and efficiency of the FMI and explicitly support financial stability and other relevant public interest considerations.

Key consideration 2:

An FMI should have documented governance arrangements that provide clear and direct lines of responsibility and accountability. These arrangements should be disclosed to owners, relevant authorities, participants, and, at a more general level, the public.

Key consideration 3:

The roles and responsibilities of an FMI's board of directors (or equivalent) should be clearly specified, and there should be documented procedures for its functioning, including procedures to identify, address, and manage member conflicts of interest. The board should review both its overall performance and the performance of its individual board members regularly.

Key consideration 4:

The board should contain suitable members with the appropriate skills and incentives to fulfil its multiple roles. This typically requires the inclusion of non-executive board member(s).

Key consideration 5:

The roles and responsibilities of management should be clearly specified. An FMI's management should have the appropriate experience, a mix of skills, and the integrity necessary to discharge their responsibilities for the operation and risk management of the FMI.

Key consideration 6:

The board should establish a clear, documented risk-management framework that includes the FMI's risk-tolerance policy, assigns responsibilities and accountability for risk decisions, and addresses decision making in crises and emergencies. Governance arrangements should ensure that the risk-management and internal control functions have sufficient authority, independence, resources, and access to the board.

Key consideration 7:

The board should ensure that the FMI's design, rules, overall strategy, and major decisions reflect appropriately the legitimate interests of its direct and indirect participants and other relevant stakeholders. Major decisions should be clearly disclosed to relevant stakeholders and, where there is a broad market impact, the public.

Incorporation of the company and basic commitments regarding security and efficiency of operations

KDD obtained a licence from the Securities Market Agency in July 1995 to perform activities of a central securities depository (according to the current legislation, this licence is called a licence to manage the securities settlement system).

In performing its operations, KDD strictly adheres to its commitments to quality, secure and efficient performance of existing basic and commercial services for its members, issuers, holders, state institutions and other users of our services. Furthermore, we reiterate our commitment to fundamental corporate values, such as knowledge, kindness, development and reliability, including commitments relating to security and transparency of operations, as well as long-term focus on

European financial integration processes. KDD's operations strive to strengthen general financial stability, stability on the securities market, ensuring market integration and thereby a long-term guarantee of lowering (optimizing) costs on the financial market. With due consideration of the double purpose of KDD's operations (ensuring realisation of the public interest and the interest of shareholders, respectively), KDD's task is to ensure a balance in realising both interests in the greatest possible extent.

Said commitments are clearly highlighted in the document Guidelines of the Operating Strategy of KDD d.d. 2009-2014.

Capital and company bodies

KDD's share capital amounts to 1,084,960.77 EUR and is divided into 520 dematerialised ordinary registered shares of the same class. Shares are no par value shares. Each no par value share grants the same share and associated amount in the share capital and grants the right to one vote.

Shares grant their holders the following rights:

- Right to participation in managing KDD,
- Right to a share of KDD's profits or dividends as per the respective resolution on the allocation and distribution of the company's profits,
- Right to a proportional share of the assets remaining after the eventual liquidation or bankruptcy of KDD.

KDD has a two-tier management system. The company bodies include:

- Management Board,
- Supervisory Board,
- Shareholder Meeting.

Management Board

KDD's management complies with the Companies Act (ZGD-1) and other applicable regulations, and strives to realize the interests of its shareholders through conscientious and diligent action, delivering a high quality service to satisfy its members and other users of its services.

A two-member management board manages, jointly represents and acts on behalf of KDD independently and at its own responsibility. The management board is free to appoint a maximum of two proxies, who may represent KDD only jointly with another management board member. In exercising its rights, the management board is obliged to adhere to the substantive instructions of the supervisory board, resolutions of the shareholders meeting and the company's interests. Some of the management board's main powers are set forth hereinbelow:

- Management, organization and representation of KDD, as well as control of the company's operations,
- Drafts proposals of measures and resolutions, which are decided upon by the shareholders, and ensures that shareholders meetings are properly convened, prepared and technically executed,
- Drafts agreements and other acts that require consent of the supervisory board in order to become effective,
- Implements resolutions adopted by the shareholders meeting,
- Ensures that shareholders, the supervisory board and interested public are fully informed on all KDD affairs,
- Reports to the supervisory board and provides explanations on its work to the shareholder meeting,
- Publishes notifications and provides information on KDD affairs,
- Adopts and drafts organisational and other KDD acts,

- Manages KDD assets and disposes with KDD funds within the scope of the annual financial plan and subject to powers vested by the supervisory board.

The management board is obliged to draft an annual report within two months following the end of the financial year and ensure that an audit of the annual report is completed within 4 months following the end of the financial year. The management board presents the supervisory board with the annual report together with the auditor's report within eight days of receiving the auditor's report.

The supervisory board appoints members of the management board for a term of six years, with the option of reappointment thereafter. Eligible members of the management board are persons holding a Securities Market Agency licence for performance of the position of KDD management board member.

The supervisory board has adopted rules of procedure on the work of the management board, which define the powers and obligations of individual members of the management board with regard to managing KDD operations.

The management board requires the consent of the supervisory board for the following:

- Placing charges on and selling real estate,
- Assuming bill of exchange obligations or establishing liens,
- Issuing surety or pledging guarantees,
- Other matters defined in the company's articles of association.

The work of the KDD management board pursues KDD's strategy, which the management board regularly drafts for a term of five years. The supervisory board approves the strategy, while implementation of the strategy is regularly reported to the supervisory board. On an annual basis, the KDD management board drafts annual business and financial plans, which are also confirmed by the supervisory board, while the rate of implementation thereof is also reported to the supervisory board.

Supervisory board

The supervisory board:

- Supervises the management of KDD affairs, whereby it reviews and verifies the ledgers and other KDD documents with no restrictions or limitations whatsoever,
- May request the management board to provide an oral or written report on KDD affairs at any given time,
- Confirms general operational rules and other general acts of KDD, which relate to the company's performance of activities and its relationship with its members,
- Reviews the annual report as prepared by the management board, along with the auditor's report,
- Reviews findings of supervisory bodies, inspections, etc.

The supervisory board features five members. Members of the supervisory board are elected by the shareholders meeting until the KDD shareholder meeting is concluded, with the latter adopting a decision relating to the annual report for the fourth financial year since its election.

Members of the supervisory board represent the interests of KDD owners, users of KDD services and interests of KDD employees.

Management of KDD is subject to the rule of incompatibility of membership on the management board and the supervisory board, respectively.

Sessions of the meetings of the supervisory board are open only for members of the supervisory board and the management board, while other persons may only participate based on a written invitation. At these sessions, decisions shall be made with an ordinary majority of present members. Members of the supervisory board shall act with due diligence and fairness.

The supervisory board shall comply with the *Rules of Procedure on the Work of the Supervisory board*.

Shareholder meeting

Shareholders shall exercise their rights in company affairs at the shareholder meeting, which is also open to members of the KDD management board and supervisory board, respectively.

The shareholder meeting decides on:

- Adopting the annual report (in case this has not been done by the supervisory board),
- Allocation of the balance sheet profit and approving the accounts filed by the members of the management board and supervisory board (prior to which they are obliged to review the annual report),
- Appointment and dismissal of the supervisory board,
- Amendments of the articles of association,
- Measures to increase and reduce the capital and winding up of the company, including status restructuring,
- Appointing an auditor, and
- Other matters determined under applicable legislation.

Shareholder meetings are convened by the KDD management board. A shareholder meeting may also be called by the supervisory board and shareholders, respectively. The shareholder meeting makes valid decisions when there is at least 50 per cent of the share capital represented by shareholders with voting rights.

Audit

KDD outsources the audit of its annual report (business report and accounting report). In addition to the audit of the annual report, the outsourced auditor also performs a review of KDD's compliance with rules on risk management. The annual report is filed with the Securities Market Agency and the Bank of Slovenia, together with the auditor reports.

KDD replaces the outsourced auditor at least once every five years.

Publication of information

KDD publishes documents and notifications that could interest the interested public on its website (*www.kdd.si*). For instance, the website publishes the following documents: annual report, rules and KDD operating guidelines, its tariff, general terms of trading, procedures for ordering services for member issuers, basic information on KDD, notifications of completed corporate actions, a list of issued securities, etc.

Cooperation/communication with member issuers

Member issuers have a designated tab on the KDD website that is intended solely for issuer services. On the website member issuers may obtain information on any services provided by KDD, including procedures on procuring said services.

In the event of major changes to KDD operations (particularly as it regards services relating to member issuers), KDD informs its member issuers thereof in writing and depending on the significance of the change also organises workshops or additional meetings.

KDD offers its member issuers all the operative support they need in using its services.

Cooperation/communication with KDD settlement and registry members

Changes to operating procedures (i.e. changes to rules and instructions on KDD operations) are presented to all settlement and registry members for review and comment before the confirmation procedure.

In order to offer operating support to settlement and registry members, KDD has a designated secure website, where KDD members have access to operating documents (instructions, notifications, forms, installation programmes, access to the system for user assistance, etc.), which allows efficient execution of operating processes and tasks in relation to KDD.

KDD also works with its members through a national group for market practice in the field of securities. The group is established on a national level as part of a global group for market practice in the field of securities (Securities Market Practice Group - SMPG) with the aim of forming common guidelines for using corporate data and rules as part of executing tasks for registration of securities in the central securities registry (CRVP). The aim of the group is increasing the automation of business processes (STP). KDD and KDD members appoint their respective representative to the group. The group is composed of representatives of KDD and KDD members who apply the standard ISO 15022 and/or ISO 20022, in processing order for registration in the registry (CRVP).

Organisation of operations

KDD has established a clear organisational structure, which it applies to ensure human resource and organisational assignment of tasks and responsibilities, and prevents eventual conflicts of interests. Employees have the appropriate level of knowledge for the positions they are assigned to. Moreover, KDD also ensures its employees undergo continuous education and training in line with the requirements of the work process, namely with the aim of maintaining or expanding their skills capacity for work in their respective position/process.

Internal controls

The entire system of KDD's internal controls is composed of three key elements:

- Internal controls and performing control activities,
- Ensuring compliance and
- Internal audit.

Organisational, operating and technological internal controls and control activities are performed through:

- The process of risk management,
- Reporting and channelling information,
- Organising business processes, assigning responsibilities and working instructions,
- Education and raising awareness,
- Information support, control of information technology and security,
- Business continuity management (BCM) and
- Human resource policy.

Internal control and audit

KDD ensures the function of internal control and audit as part of the Department for Internal Control and Audit, which is independent and answers directly to the KDD management board, and is functionally and organisationally separate from other KDD departments. Said department provides the KDD management board and supervisory board with expert assessment of current conditions and recommendations to improve efficiency, reliability and the quality of the process of risk management, the system of internal controls and supervisory processes, and thus helps the management board and the supervisory board in efficient management of KDD.

Risk management process (see text under Section 3)

Monitoring

Monitoring of KDD operations is performed within the scope of an external audit, internal audit, through regular communication and reporting by organisational units, hiring external experts from specific fields (e.g. security review of deficiencies in the system and network).

Principle 3: Framework for the comprehensive management of risks

An FMI should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks.

In reviewing this principle, an assessor should consider how the various risks, both borne by and posed by the FMI, relate to and interact with each other. As such, this principle should be reviewed holistically with the other principles.

Key consideration 1:

An FMI should have risk-management policies, procedures, and systems that enable it to identify, measure, monitor, and manage the range of risks that arise in or are borne by the FMI. Risk-management frameworks should be subject to periodic review.

Key consideration 2:

An FMI should provide incentives to participants and, where relevant, their customers to manage and contain the risks they pose to the FMI.

Key consideration 3:

An FMI should regularly review the material risks it bears from and poses to other entities (such as other FMIs, settlement banks, liquidity providers, and service providers) as a result of interdependencies and develop appropriate risk-management tools to address these risks.

Key consideration 4:

An FMI should identify scenarios that may potentially prevent it from being able to provide its critical operations and services as a going concern and assess the effectiveness of a full range of options for recovery or orderly wind-down. An FMI should prepare appropriate plans for its recovery or orderly wind-down based on the results of that assessment. Where applicable, an FMI should also provide relevant authorities with the information needed for purposes of resolution planning.

Legal requirements for managing risk are set out in the *Financial Instruments Market Act and the Decision on organisational requirements for management of the central registry and managing the settlement system*. Risk management is just one of the control mechanisms employed by KDD (for more on the system of internal controls see Section 2).

The *Rules on KDD Job Classification* define an independent Risk Management department, while the area of operation is defined by the *Rules on Internal Organisation*.

All risk management activities are coordinated through the Risk Management Committee, which plays a decisive role in confirming, organising, managing and coordinating activities relating to the risk management system. The KDD management board understands the importance of managing risk and is consequently actively involved in the work of the Risk Management Committee. The Risk Management Committee meets regular at sessions, where it discusses topics relating to risk management and business continuity. The Committee applies the Rules of Procedure of the Risk Management Committee in performing its task. In addition to the Risk Management Committee KDD also has committee for information security and change management of the information system, whose area of operation is more specific, namely for the field of information security and information systems.

The guidelines for risk management within KDD are set out in the *Risk Management Policy*. With said policy KDD has committed to establish and implement effective procedures of identifying, assessing, managing and monitoring risk that KDD is exposed to or that it could potentially be exposed to as part of its operations. Policy implementation is an important part of the strategy of KDD operations and ensures secure trading on the securities market and thus reflects regularity of operations, as required under the applicable acts and regulations from the field of KDD's operation.

The area of risk management is also defined under the *Risk Management Strategy*, which sets out in greater detail the aim and the process of risk management. The aim of the risk management process

is to identify, assess and manage risk in a uniform and holistic manner, which includes technical and non-technical aspects, across all fields of KDD operations and throughout all KDD organisational units. Risk management thus doesn't act independently (in isolation) solely within the framework of the risk management department, but rather serves as a continuous process, which is regularly planned, monitored, maintained and enhanced, and involves holders of respective business processes or other competent individuals, and is closely associated with other control activities (e.g. information security, business continuity).

The risk management process consists of the following activities:

- Risk assessments (analysis, valuation),
- Risk treatment,
- Accepting risk,
- Communication/Reporting,
- Monitoring.

In addition to the above stated principal activities, the risk management process also includes the following activities:

- Regular integration of additional control activities, which reduce operational risk,
- Definition of business processes in a uniform manner, which allow a more transparent database of controlled information that are material to identifying risk,
- Assessment of operational risk on an annual basis, which includes technical and non-technical fields,
- Documentation of the risk management process (e.g. policy, strategy, various instructions) is subject to periodic review,
- Raising awareness amongst employees,
- Planning annual activities and reporting on implementation of plans.

KDD also has an established uniform system of incident management. The aim of the policy is to detect, report, act on, collect and monitor incidents in a regulated manner.

An important aspect of KDD's activities is raising awareness amongst members on the risks they are exposed to within the scope of KDD's activities, just like KDD itself. Effective risk management and limitation of transfer of eventual negative consequences between KDD and users of its infrastructure is supported by the latter with the following:

- Accessible, unambiguous and comprehensible legal framework;
- Accessible, unambiguous and comprehensible implementing regulation framework: Procedures of drafting/amending KDD rules and instructions, member reviews, confirmation and endorsement by the Securities Market Agency, publication in the Official Gazette of the Republic of Slovenia and availability of documents on the KDD website ensure that KDD activities and all implementing procedures arising therefrom are transparent, comprehensible, accessible to all stakeholders and compliant with the national legislation;
- Supervision of members by the Securities Market Agency, the Bank of Slovenia, KDD and other relevant state bodies;
- Training members on how to use KDD infrastructure;
- An additional source of information with regard to access to KDD services is represented by the electronic system for support of users, which is available on the KDD website. This ensure installation programmes, information on the use of online services (WCF inquiries on the KDD server), forms for access to the system, EIG documents, xml schemes, etc.;
- Additional disclosures on the KDD website include updated versions of questionnaires relating to compliance of KDD procedures with international standards, statistical data, annual reports, notifications of completed corporate activities, disclosures based on the

European Code of Conduct based on the calculation and settlement of securities transactions, data on the CRVP information system and other information relevant for KDD members.

The possibilities of transfer of risk between KDD and the following entities are as follows:

- Through KDD-related (I)CSD: because in all cases there are so-called »operated« connections, there are no direct possibilities of a transfer of risk. Risk is also limited due to the fact that KDD only acts in the role of CSD issuer and not also as a CSD investor;
- Settlement banks: settlement of the monetary part of transactions runs through the TARGET2 system, whereby exposure to risk is minimal;
- Access to funds through so-called »liquidity providers«: due to legal restriction of exposure to credit risk, KDD does not enter into associated service segments;

In case of any outsourcing of a part of activities or procedures¹, KDD shall ensure the following:

- The outsourced contractor shall be fit and able to complete the entrusted activity/procedure in line with KDD specifications;
- Said contractor shall hold all the relevant permits/licences to undertake and perform the relevant activities/procedures;
- KDD shall ensure due control over performance of the activity/procedure in question;
- The contractor shall establish (in collaboration with KDD) the necessary procedures for control over risk;
- Contractors shall disclose any information that has an effect on their ability to perform the outsourced activity/procedure to KDD;
- KDD shall prepare procedures for immediate reassignment of outsourced activities/procedures in case of termination of performance thereof by the relevant contractor;
- Contractors shall comply with KDD's recommendations with respect to performance of outsourced activities/procedures;
- KDD, its external auditor and the Securities Market Agency shall have access to all information relating to relevant activities/procedures;
- Outsourced contractors shall ensure confidentiality of information related to relevant outsourced activity/procedure;
- KDD and its outsourced contractor shall draft a plan of continuous collaboration and shall perform regular testing.

The above is set out in greater detail in the document KDD General Terms of Trading in relation to outsourcing. The document is published on KDD's website.

Mechanisms that KDD applies to manage or monitor the main groups of risks are defined in greater detail hereinbelow:

Operational risk

To manage operational risk, KDD has implemented various mechanisms, e.g.. HR organisation and assignment of responsibilities, organisation of operating processes, operating procedures of performing services, appropriate information support, managing changes to the operating process, operating procedures of harmonising (control sheets ...), raising awareness among employees, reporting and transfer of information, information security system, monitoring, review of deficiencies of operating processes.

¹ At present KDD has not outsourced any of its activities. KDD's principal activities are defined under the Financial Instruments Market Act (ZTFI) – see also KDD activities under Section 1 – Legal basis.

KDD prepares annual assessments of operational risk, namely based on identified threats, analysis of past incidents, assumptions based on experience and select external sources. Operational risk is within acceptable limits and is managed through implemented control mechanisms.

Based on a regular review of deficiencies in operating processes within the operating department, finance and accounting department and organisational units, which are not organised within said departments, it was found that there were no deficiencies beyond our control.

Risk as part of business continuity

The aim of managing business continuity is to ensure security of persons, security and recovery of technological resources, security of material assets and ensuring business continuity within predetermined deadlines. Managing business continuity is part of KDD's daily business practice.

Business continuity may be divided into business continuity of information technology and communications, and business continuity of the company as a whole. For the needs of business continuity of information technology and communications, KDD has the following mechanisms in place: uninterrupted power supply (UPS, diesel aggregate), double servers and network devices that are material to maintaining operations, internet access through two different internet providers both in Ljubljana as well as an secondary site, regular data backup (data backup + backup copies on magnetic tapes + copies of data at the secondary site), regular maintenance of hardware and software, implemented change management procedures to software and hardware, etc. For the needs of business continuity of the company as a whole, KDD has set up a secondary site in Koper, which is able to facilitate 24 employees in case of an emergency (all critical positions/processes are thus covered). Critical business processes have drafted business continuity plans. There are also procedures in place in case of a crisis.

KDD verifies the suitability of the programme for managing business continuity with regular tests of operating and recovery technological and communications resources, and tests of maintaining business continuity for operating processes.

Risk of tort liability

KDD manages risk of eventual tort liability in three ways:

- In all those cases where KDD has already been sued to pay damages or where there is a possibility of it having to reimburse a certain level of damages, KDD has formed suitable provisions.
- KDD has insurance in place in case of negative consequences for its property in the event of future operating errors, whereby it has taken out an insurance policy to cover such damages. The sum insured as per this policy amounts to 1.000.000 EUR per loss event.
- By exercising the rule regarding settlement of business disputes through arbitration, KDD ensures that the outcome of eventual disputes will be determined by persons who hold not only legal knowledge but also suitable understanding of the financial instruments market.

Credit risk

Due to tighter macroeconomic conditions and poorer long-term solvency of companies, KDD is exposed particularly to credit risk, i.e. the risk of default by users of KDD services.

KDD manages its credit risk with:

- An institute of advance payment for its services in case of corporate actions, takeovers and certain other transactions,
- By actively monitoring due payments for services rendered and fast actions in case of non-payment, including recovery through legal proceedings by filing applications for enforcement of claims electronically, which still ensures KDD has a low rate of unsettled past due claims.

Financial risk

KDD manages financial risk by applying a conservative policy and diversifying investments; most of KDD's investments are held in bank deposits and state and bank bonds of domestic and foreign issuers.

Risk arising from failure to complete transactions concluded on the organised market

Methods of managing risk that arise from failure to complete transactions concluded on the organised market are defined under the KDD Operations Rules and KDD Regulations for Settlement of Stock Exchange Transactions, while at the same time they also set out in greater detail all the procedures relating to failure to fulfil obligations of transferring securities. All KDD settlement members are liable to settle their financial liabilities as per the rules of trading, including the obligation to transfer securities of a respective settlement member, if these obligations are based on transactions concluded on the organised market. Liability is enforced through the guarantee fund. The guarantee fund constitutes assets that are managed and disposed with by KDD, and is formed through payments made by settlement members.

Procedures relating to insolvency, reducing the scope of operations and terminating operations

Procedures relating to insolvency, reducing the scope of operations and terminating or winding up operations are generally defined under the Companies Act (ZGD-1) and the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act (ZFPPIPP). More detailed procedures earmarked specifically for CSD will be prescribed in the Regulation on improving securities settlement in the EU and on central securities depositories. Based on said regulation, the regulator should also publish more detailed instructions. Pursuant to the available versions of proposals of said regulation, KDD is currently preparing everything necessary to comply with requirements of the regulation and instructions arising therefrom within the required deadlines as they become implemented.

Principle 4: Credit risk

An FMI should effectively measure, monitor, and manage its credit exposure to participants and those arising from its payment, clearing, and settlement processes. An FMI should maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two largest participants and their affiliates that would potentially cause the largest aggregate credit exposures to the CCP in extreme but plausible market conditions. All other CCPs should maintain, at a minimum, total financial resources sufficient to cover the default of the one participant and its affiliates that would potentially cause the largest aggregate credit exposures to the CCP in extreme but plausible market conditions.

Because of the extensive interactions between the financial risk management and financial resources principles, this principle should be reviewed in the context of Principle 5 on collateral, Principle 6 on margin and Principle 7 on liquidity risk, as appropriate. This principle should also be reviewed in the context of Principle 13 on participant default rules and procedures, Principle 23 on disclosure of rules, key procedures and market data, and other principles, as appropriate.

Key consideration 1:

An FMI should establish a robust framework to manage its credit exposures to its participants and the credit risks arising from its payment, clearing, and settlement processes. Credit exposure may arise from current exposures, potential future exposures, or both.

Key consideration 2:

An FMI should identify sources of credit risk, routinely measure and monitor credit exposures, and use appropriate risk-management tools to control these risks.

Key consideration 3:

A payment system or SSS should cover its current and, where they exist, potential future exposures to each participant fully with a high degree of confidence using collateral and other equivalent financial resources (see Principle 5 on collateral). In the case of a DNS payment system or DNS SSS in which there is no settlement guarantee but where its participants face credit exposures arising from its payment, clearing, and settlement processes, such an FMI should maintain, at a minimum, sufficient resources to cover the exposures of the two participants and their affiliates that would create the largest aggregate credit exposure in the system.

Key consideration 7:

An FMI should establish explicit rules and procedures that address fully any credit losses it may face as a result of any individual or combined default among its participants with respect to any of their obligations to the FMI. These rules and procedures should address how potentially uncovered credit losses would be allocated, including the repayment of any funds an FMI may borrow from liquidity providers. These rules and procedures should also indicate the FMI's process to replenish any financial resources that the FMI may employ during a stress event, so that the FMI can continue to operate in a safe and sound manner.

Art. 425 of ZTFI states that in relation to the settlement of stock exchange and other transactions in securities or the payment of liabilities arising from securities, KDD is not allowed to credit settlement members, issuers or other persons or to perform other transactions in the scope of which it would assume the credit risk of the counterparty. In addition, KDD should not assume the position of a central counterparty.

KDD is not exposed to credit risk when performing settlement of off-exchange trades. Since DVP settlement model is in use, parties to the trade are not exposed to credit risk, as settlement occurs only if both parties fulfil their obligations from trade.

KDD is not exposed to credit risk when performing settlement of on-exchange trades. As DVP settlement model is in use (Art. 451 of ZTFI), parties to the trade are not exposed to credit risk.

KDD has a range of procedures in place to assure settlement if certain on-exchange transaction if a party does not fulfil its obligations. Guarantee fund is in place to mitigate liquidity and other risks that participants may be exposed to. As stated in Art. 59 of KDD Operations Rules, settlement members are liable to settle obligations of other settlement members arising from stock exchange transactions in case of default of counterparty. The guarantee fund is constituted of assets maintained by KDD in its own name and for the account of settlement members, and particularly:

- For the benefit of settlement members, when KDD exercises its rights over these assets or rights in relation to a specific settlement member in default of its obligation from a stock exchange transaction; and
- In debit of settlement members, to meet their obligations for a liability from stock exchange trades.

As stated in Art. 88 of KDD Operations Rules, settlement members shall ensure the funds necessary to cover their obligations by making their basic, additional and supplementary payments into the guarantee fund. A detailed method of calculation the sums, accounting periods and balances of these payments, include due dates of payments, is determined by KDD Regulations. In relation to KDD creditors the balance on the Guarantee fund shall be considered as assets of settlement members.

KDD shall not be liable for settlement of obligations of settlement members, although it shall undertake actions to enforce liabilities of settlement members to settle their obligations from stock exchange trades. Pursuant to KDD Operations Rules, KDD has the following mechanisms/procedures in place:

- Guarantee fund,
- Buy-in,
- Sell-out,
- Lien,
- Contractual penalty,
- Right of buyer settlement members to withdraw,
- Temporary restriction of access to the information system,
- Exclusion of a settlement member.

KDD is not exposed to credit risk when conducting corporate actions. KDD performs any actions related to cash distributions only as initiator of corporate action deposits required funds, as calculated or determined by KDD.

Principle 5: Collateral

An FMI that requires collateral to manage its or its participants' credit exposure should accept collateral with low credit, liquidity, and market risks. An FMI should also set and enforce appropriately conservative haircuts and concentration limits.

Because of the extensive interactions between the financial risk management and financial resources principles, this principle should be reviewed in the context of Principle 4 on credit risk, Principle 6 on margin and Principle 7 on liquidity risk, as appropriate. This principle should also be reviewed in the context of Principle 14 on segregation and portability, Principle 16 on custody and investment risk, and other principles, as appropriate.

Key consideration 1:

An FMI should generally limit the assets it (routinely) accepts as collateral to those with low credit, liquidity, and market risks.

Key consideration 2:

An FMI should establish prudent valuation practices and develop haircuts that are regularly tested and take into account stressed market conditions.

Valuation practices

Key consideration 3:

In order to reduce the need for procyclical adjustments, an FMI should establish stable and conservative haircuts that are calibrated to include periods of stressed market conditions, to the extent practicable and prudent.

Key consideration 4:

An FMI should avoid concentrated holdings of certain assets where this would significantly impair the ability to liquidate such assets quickly without significant adverse price effects.

Key consideration 5:

An FMI that accepts cross-border collateral should mitigate the risks associated with its use and ensure that the collateral can be used in a timely manner.

Key consideration 6:

An FMI should use a collateral management system that is well-designed and operationally flexible.

Collateral management system design

KDD does not accept any collateral when performing its operations, as a guarantee for its credit exposure to its members. Please see also Principle 4 – Credit risk.

When facilitating settlement of stock exchange trades, KDD collects assets that constitute Guarantee fund from its settlement members. However, those funds are considered as assets of settlement members, as KDD should not guarantee settlement with its own funds or assume any kind of credit risk. Guarantee fund assets consists of cash only, which are deposited with central bank.

Principle 7: Liquidity risk

An FMI should effectively measure, monitor, and manage its liquidity risk. An FMI should maintain sufficient liquid resources in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the FMI in extreme but plausible market conditions.

Because of the extensive interactions between the financial risk management and financial resources principles, this principle should be reviewed in the context of Principle 4 on credit risk, Principle 5 on collateral and Principle 6 on margin, as appropriate. This principle should also be reviewed in the context of Principle 8 on settlement finality, Principle 13 on participant default rules and procedures, Principle 23 on disclosure of rules, key procedures and market data, and other principles, as appropriate.

Key consideration 1:

An FMI should have a robust framework to manage its liquidity risks from its participants, settlement banks, nostro agents, custodian banks, liquidity providers, and other entities.

Key consideration 2:

An FMI should have effective operational and analytical tools to identify, measure, and monitor its settlement and funding flows on an ongoing and timely basis, including its use of intraday liquidity.

Key consideration 3:

A payment system or SSS, including one employing a DNS mechanism, should maintain sufficient liquid resources in all relevant currencies to effect same-day settlement, and where appropriate intraday or multiday settlement, of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate payment obligation in extreme but plausible market conditions.

Key consideration 5:

For the purpose of meeting its minimum liquid resource requirement, an FMI's qualifying liquid resources in each currency include cash at the central bank of issue and at creditworthy commercial banks, committed lines of credit, committed foreign exchange swaps, and committed repos, as well as highly marketable collateral held in custody and investments that are readily available and convertible into cash with prearranged and highly reliable funding arrangements, even in extreme but plausible market conditions. If an FMI has access to routine credit at the central bank of issue, the FMI may count such access as part of the minimum requirement to the extent it has collateral that is eligible for pledging to (or for conducting other appropriate forms of transactions with) the relevant central bank. All such resources should be available when needed.

Key consideration 6:

An FMI may supplement its qualifying liquid resources with other forms of liquid resources. If the FMI does so, then these liquid resources should be in the form of assets that are likely to be saleable or acceptable as collateral for lines of credit, swaps, or repos on an ad hoc basis following a default, even if this cannot be reliably prearranged or guaranteed in extreme market conditions. Even if an FMI does not have access to routine central bank credit, it should still take account of what collateral is typically accepted by the relevant central bank, as such assets may be more likely to be liquid in stressed circumstances. An FMI should not assume the availability of emergency central bank credit as a part of its liquidity plan.

Key consideration 7:

An FMI should obtain a high degree of confidence, through rigorous due diligence, that each provider of its minimum required qualifying liquid resources, whether a participant of the FMI or an external party, has sufficient information to understand and to manage its associated liquidity risks, and that it has the capacity to perform as required under its commitment. Where relevant to assessing a liquidity provider's performance reliability with respect to a particular currency, a liquidity provider's potential access to credit from the central bank of issue may be taken into account. An FMI should regularly test its procedures for accessing its liquid resources at a liquidity provider.

Key consideration 8:

An FMI with access to central bank accounts, payment services, or securities services should use these services, where practical, to enhance its management of liquidity risk.

Key consideration 9:

An FMI should determine the amount and regularly test the sufficiency of its liquid resources through rigorous stress testing. An FMI should have clear procedures to report the results of its stress tests to appropriate decision makers at the FMI and to use these results to evaluate the adequacy of and adjust its liquidity risk-management framework. In conducting stress testing, an FMI should consider a wide range of relevant scenarios. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions. Scenarios should also take into account the design and operation of the FMI, include all entities that might pose material liquidity risks to the FMI (such as settlement banks, nostro agents, custodian banks, liquidity providers, and linked FMIs), and where appropriate, cover a multiday period. In all cases, an FMI should document its supporting rationale for, and should have appropriate governance arrangements relating to, the amount and form of total liquid resources it maintains.

Key consideration 10:

An FMI should establish explicit rules and procedures that enable the FMI to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations on time following any individual or combined default among its participants. These rules and procedures should address unforeseen and potentially uncovered liquidity shortfalls and should aim to avoid unwinding, revoking, or delaying the same-day settlement of payment obligations. These rules and procedures should also indicate the FMI's process to replenish any liquidity resources it may employ during a stress event, so that it can continue to operate in a safe and sound manner.

KDD is not exposed to liquidity risk when performing its operations.

Settlement of on-exchange trades can result in default of participant to meet its obligations. Counterparty's exposure to liquidity risk is in this case very limited, as KDD may intervene with Guarantee fund and cover obligations of defaulting member against counterparty. As other non-defaulting members have to replenish Guarantee fund, they are in this case exposed to liquidity risk. On the other hand, KDD has several other procedures to intervene in case of member's default and thus limit other members' exposure to liquidity risk – see also Principle 4 - Credit risk and Principle 13 – Participant default rules and procedures.

KDD manages Guarantee fund and deposits those assets with central bank, hence, KDD's liquidity risk (i.e. risk to face restricted access to those funds) is minimal. As KDD does not guarantee settlement with its own funds, it is in this respect not exposed to liquidity risk.

KDD is not exposed to liquidity risk when performing settlement of off-exchange trades.

KDD is not exposed to liquidity risk when conducting corporate actions, as funds required for distributions should be deposited with KDD prior to initiation of corporate action.

All KDD operations that involve cash transfers require use of cash accounts opened with central bank. KDD uses following bank accounts opened with Bank of Slovenia:

- Fiduciary cash account (settlement of off and on-exchange transactions);
- Fiduciary account for custodian services (corporate actions);
- Guarantee fund bank account (guarantee fund deposit and payments).

KDD members also use cash accounts opened with Bank of Slovenia for settlement operations, which ensures highest level of safety and accessibility.

Principle 8: Settlement finality

An FMI should provide clear and certain final settlement, at a minimum by the end of the value date. Where necessary or preferable, an FMI should provide final settlement intraday or in real time.

In reviewing this principle, it should be noted that this principle is not intended to eliminate failures to deliver in securities trades. The occurrence of non-systemic amounts of such failures, although potentially undesirable, should not by itself be interpreted as a failure to satisfy this principle. This principle should be reviewed in the context of Principle 9 on money settlements, Principle 20 on FMI links, and other principles, as appropriate.

Key consideration 1:

An FMI's rules and procedures should clearly define the point at which settlement is final.

Key consideration 2:

An FMI should complete final settlement no later than the end of the value date, and preferably intraday or in real time, to reduce settlement risk. An LVPS or SSS should consider adopting RTGS or multiple-batch processing during the settlement day.

Key consideration 3:

An FMI should clearly define the point after which unsettled payments, transfer instructions, or other obligations may not be revoked by a participant.

Irrevocability of settlement instructions and settlement finality

Art. 21. of ZNVP and Art. 403a of ZTFI state that KDD Operations Rules shall lay down the time when settlement instruction is considered as entered into the settlement system and the time when such instruction becomes irrevocable. Detailed rules and conditions on instruction irrevocability are determined in section Maintenance of the central registry of Operations Rules.

Irrevocability of instructions (i.e. orders) relates to possibility of cancellation by a party who entered such instruction in KDD's information system. Settlement finality (i.e. finality of entries) relates to act of recording information contained in such (matched) instruction into central registry on certain securities accounts.

Instruction (not altering number of securities²) is defined in Art. 41 of Operations Rules as Instruction is a common term used for:

- Unilateral orders (third party rights and other legal facts entries),
- Delivery parts of bilateral orders (securities transfers), and
- Receipt parts of bilateral orders (securities transfers).

Instructions can be entered by KDD member or KDD itself. Each instruction is validated by KDD for its eligibility – eligibility criteria are defined by KDD Regulations. Instructions that do not pass validation procedure are considered as not eligible for entrance into KDD's information system.

Apart from validation check, the following addition criteria should be met to perform entry into central registry (see Ch. 5 of KDD Regulations – Entries not altering number of securities):

- Securities transfers: successful matching (certain transfers require entrance of either delivery or receipt part of bilateral order only), sufficient balance of eligible securities, they are not subject to any third party rights or other legal facts or if these entries are of such a nature that they do not constitute an impediment for transfer of securities or if they expire

² Issuance, deletion and replacement of securities are considered as entries altering number of securities in central registry.

upon transfer of securities, sufficient cash balance available for DVP transfer – as detailed in Art. 43 and 45 of Operations Rules.

- Entering third party rights and other legal facts: sufficient balance of eligible securities, they are not subject to any third party rights or other legal facts or if these entries are of such a nature that they do not constitute an impediment for the desired entry, amendment or deletion – as detailed in Art. 49 of Operations Rules.

Above statements define moment of recording entries into KDD's central registry:

- A bilateral order for transfer is considered as having been entered in the central registry once it has been used as the basis for crediting the account that the securities are being transferred to (Art. 46 of Operations Rules);
- A unilateral order for entry, amendment or deletion of a third party right or other legal fact shall be considered as entered in the central registry once it serves as the basis for an entry on an account that is credited with securities which the order refers to (Art. 50 of Operations Rules).

Abovementioned moments of entry of bilateral and unilateral orders into central registry corresponds to moment of finality of order entrance – in case of securities transfers also moment of settlement finality.

The moment when bilateral and unilateral order is considered as irrevocable and will be surely executed corresponds to the moment of entry into central registry. Hence, both acts occur simultaneously.

Until a bilateral order for transfer that is created by matching complementary instructions is not entered in the central registry, KDD members entering due instructions based on which the order was generated may cancel them by mutual agreement or in certain cases even unilaterally. Art. 34 of KDD Regulations state when a bilateral order for transfer may be cancelled bilaterally or unilaterally.

Effects of insolvency procedures

Art. 450a and 450b of ZTFI and Art. 21 of ZNVP determine effects of insolvency procedures on validity of orders.

Settlement order entered into the settlement system by a member of this system shall be valid if the order is entered into the system prior to the commencement of insolvency procedure or other procedure or measure introduced by a competent authority of the Republic of Slovenia, other Member State or a third country against a member (which excludes or restricts the execution of orders placed by such member) against such member of other participant for whose account the settlement order has been entered by member.

Settlement order shall also be valid when it is entered into the settlement system after the commencement of insolvency procedure or measure (see paragraph above) against member or other participant for whose account the settlement order has been entered by member if this order is executed through the settlement system after the commencement of insolvency procedure or measure and member who enters the settlement order into the system can prove that he was unaware or could not be aware of the commencement of such a procedure or measure.

Commencement of the procedure or measure (see paragraph above) against a member or other participant in the settlement system shall not affect the validity and exercise of the collateral rights

relating to the property pledged by such member for his own account or for the account of other participants.

Settlement finality in case of links with other (I)CSDs

Rules on irrevocability of settlement instructions and settlement finality apply to any KDD system user – even if KDD system is accessed via technical link for securities transfers between KDD and other (I)CSDs.

Settlement finality on intended settlement day

KDD's settlement system enables intraday settlement finality – within instructed intended settlement day. All eligibility criteria for entries into central registry apply – see above.

Settlement on intended settlement day and settlement finality of stock exchange trades is anticipated on T+2 (trading day + 2 days). Final securities transfers occur till 3:00pm at the latest and final cash transfers at 1:00pm at the latest. Detailed provision on settlement of on-exchange trades are determined by KDD Regulations for settlement of stock exchange transactions.

KDD's settlement system enables settlement on intended settlement day and settlement finality of off-exchange (OTC) trades in real-time according to following schedule (all eligibility criteria for entries into central registry apply – see above):

- OTC-DVP settlement: 8:00am till 3:30pm;
- OTC-FOP settlement: 7:00am till 6:00pm.

If all eligibility criteria for on and off-exchange trades settlement are met within deadlines specified above, KDD will execute transfers of securities in central registry and cash in TARGET2. Both systems are linked.

KDD members can review status of their instruction in real-time mode. List of instruction statuses is as follows:

- Valid: The instruction has been received and validated. Awaiting counterparty's instruction.
- Matched: The instruction has been matched with counterparty's instruction.
- Settlement pending / awaiting money: Awaiting payment.
- Settled: Settlement has been successfully completed.
- Not settled: Settlement failed. System will recycle instructions until successfully settled or cancelled.
- Pending Cancel: Matched instruction has been cancelled by one side. Awaiting cancel from counterparty. Matched instructions cancelled by one side only are still eligible for settlement and can settle as long as they have not been cancelled by both parties.
- Cancelled: Instruction has been cancelled by the instructing party or system.
- Rejected: Instruction has been rejected by system.

Rules on instruction cancellation

Cancellation rules are determined in Chapter 5 of KDD Regulations (see section Entries not altering number of securities). The following instructions can be cancelled:

- Unmatched instructions,
- Matched instructions not entered into central registry.

Unmatched instructions can be cancelled by a member that has submitted such instruction.

If matched instruction (i.e. matched bilateral order) is not entered into central registry (moment of entry of such order is defined in Art. 46 of Operations Rules), it can be cancelled bilaterally (see Art. 34 of KDD Regulations). Parties have to submit cancellation order.

Member submitting instructions, whereby the latter has already been matched, may unilaterally cancel a bilateral order, if he wishes to release securities that are reserved (reservation of securities is attempted on intended settlement day on matched DVP orders), whereby the intended settlement date of said transaction has already expired and the transfer is pending as purchasing price has not been paid (see Art. 34 of KDD Regulations).

Bilateral orders that have been cancelled shall be deleted from the system. Bilateral orders that have yet to be entered into central registry shall also be deleted in case of commencement of corporate action related to said securities.

Principle 9: Money settlements

An FMI should conduct its money settlements in central bank money where practical and available. If central bank money is not used, an FMI should minimise and strictly control the credit and liquidity risk arising from the use of commercial bank money.

This principle should be reviewed in the context of Principle 8 on settlement finality, Principle 16 on custody and investment risks, and other principles, as appropriate.

Key consideration 1:

An FMI should conduct its money settlements in central bank money, where practical and available, to avoid credit and liquidity risks.

KDD performs settlement in central bank money only – using cash accounts opened with Bank of Slovenia.

Fiduciary money account employed in settlement of off and on-exchange transactions is opened in TARGET2. When settling stock exchange transactions, all payments related to net cash obligations and claims of KDD settlement members are transferred to/from this account. When settling off-exchange transactions, all payments are routed via this account. Cash leg of settlement is performed in Euro only.

KDD's securities settlement system and TARGET 2 are interfaced, which substantially mitigates any risks related to the fact that cash and securities leg of settlement is split into two systems. Interfacing both systems enables simultaneous settlement of both cash and securities leg of each DVP transaction.

Further cash accounts used by KDD in its operations are opened directly with Bank of Slovenia:

- Fiduciary account for custodian services (used for payments related to take-overs and entitlement payment in corporate actions);
- Guarantee fund bank account (used for guarantee fund deposit and related payments).

Principle 10: Physical deliveries

An FMI should clearly state its obligations with respect to the delivery of physical instruments or commodities and should identify, monitor, and manage the risks associated with such physical deliveries.

This principle should be reviewed in the context of Principle 15 on general business risk, Principle 23 on disclosure of rules, key procedures and market data, and other principles, as appropriate.

All securities issued in KDD's central registry are dematerialised.

Principle 11: Central securities depositaries

A CSD should have appropriate rules and procedures to help ensure the integrity of securities issues and minimise and manage the risks associated with the safekeeping and transfer of securities. A CSD should maintain securities in an immobilised or dematerialised form for their transfer by book entry.

In reviewing this principle, where an entity legally defined as a CSD or an SSS does not hold or facilitate the holding of assets or collateral owned by its participants, the CSD or SSS in general would not be required to have arrangements to manage the safekeeping of such assets or collateral. This principle should be reviewed in the context of Principle 17 on operational risk, Principle 20 on FMI links, and other principles, as appropriate.

Key consideration 1:

A CSD should have appropriate rules, procedures, and controls, including robust accounting practices, to safeguard the rights of securities issuers and holders, prevent the unauthorised creation or deletion of securities, and conduct periodic and at least daily reconciliation of securities issues it maintains.

Safeguarding the rights of securities issuers and holders

Key consideration 2:

A CSD should prohibit overdrafts and debit balances in securities accounts.

Key consideration 3:

A CSD should maintain securities in an immobilised or dematerialised form for their transfer by book entry. Where appropriate, a CSD should provide incentives to immobilise or dematerialise securities.

Key consideration 4:

A CSD should protect assets against custody risk through appropriate rules and procedures consistent with its legal framework.

Key consideration 5:

A CSD should employ a robust system that ensures segregation between the CSD's own assets and the securities of its participants and segregation among the securities of participants. Where supported by the legal framework, the CSD should also support operationally the segregation of securities belonging to a participant's customers on the participant's books and facilitate the transfer of customer holdings.

Key consideration 6:

A CSD should identify, measure, monitor, and manage its risks from other activities that it may perform; additional tools may be necessary in order to address these risks.

Securities issuance function of KDD and its legal bases

KDD acts as Issuer CSD - serves as securities issuance facilitator (see Principle 1 – Legal basis: KDD's operations). Issuance process requires recording of securities' essential elements in central registry (Art. 4 of ZNVP) including obligations of issuers from securities and rights of holders of said securities. Hence, KDD undertakes to enter into central registry the following information:

- rights derived from book-entry securities,
- holders of these rights at any given time – i.e. legal holders of securities,
- third-party rights in securities (if applicable).

Issuance procedures, other procedures applicable in securities life-cycle, available actions to enable holders to dispose with securities and other actions for using KDD's infrastructure are in detail explained in KDD Operations Rules and set of Regulations.

KDD undertakes to make any necessary changes/amendments in KDD Operations Rules and Regulations, consult its members of said changes/amendments, seek approval thereof from Securities Market Agency (KDD Operations Rules only), post said changes/amendments in Official Gazette of Republic of Slovenia (KDD Operations Rules only) and post current versions of said documents on KDD's web page in order to assure that KDD operations are clear, understandable, accessible to general public and in line with valid national legislation. Compliance

of any KDD procedure with national legislation is constantly supervised by KDD's Legal department and Internal audit department.

Integrity of each securities issuance and related controls in place

Integrity of each securities issuance is a key element for ensuring existence of holders' rights and issuers' obligations on securities. KDD accordingly controls each time segment in life-cycle of securities. The following daily checks are in place to ensure ultimate integrity standards:

- Daily check no. 1: Share ledger total balance shall reflect total sum of sub-account balances;
- Daily check no. 2: Total sum of account balances shall reflect total sum of sub-account balances;
- Daily check no. 3: sum of all daily debits and credits on sub-accounts should be zero;
- Daily check no. 4: sum of securities issued (relates to certain ISIN) should reflect total sum of sub-account balances;
- Daily check no. 5: balance on any closed securities account should be zero.

Controls listed above are executed every settlement day after closing of settlement system – after 6:00pm.

Dematerialisation of securities

All securities issued with KDD are in dematerialised form. Central registry maintained by KDD enables recording of dematerialised securities only (see Art. 3 of ZNVP). KDD does not enable issuance of physical certificates.

Liability of KDD

KDD undertakes to cover damage it can cause to holders of securities and to other users of its services. KDD manages risks related to said liability as follows:

- Creating adequate financial reservations for cases where KDD is engaged in legal proceedings;
- Insurance policy to cover losses resulting from operations errors;
- Employing arbitration solving of any disputes KDD may be involved in.

Segregation of members' and their clients' assets

KDD member is obliged to keep securities that it holds for its clients in separate accounts for such clients - i.e. client's account (Art. 255 of ZTFI). In this respect KDD offers following accounts:

- Client account: is an account maintained by a registry member appointed by the account holder;
- House account is an account maintained by a registry member with a balance of securities held by said registry member for its own account.

All account types are in detail defined in Art. 26 of KDD Operations Rules.

KDD's own funds are completely segregated from members' or their clients' funds. KDD funds can be booked on segregated accounts opened with KDD members.

Principle 12: Exchange-of-value settlement system

If an FMI settles transactions that involve the settlement of two linked obligations (for example, securities or foreign exchange transactions), it should eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other.

This principle should be reviewed in the context of Principle 4 on credit risk, Principle 7 on liquidity risk, Principle 8 on settlement finality, and other principles, as appropriate.

Key consideration 1:

An FMI that is an exchange-of-value settlement system should eliminate principal risk by ensuring that the final settlement of one obligation occurs if and only if the final settlement of the linked obligation also occurs, regardless of whether the FMI settles on a gross or net basis and when finality occurs.

Settlement mechanisms employed by KDD enable various netting and settlement methods, based on models defined by Bank for International Settlements. Model 2 applies to stock exchange trades settlement and Model 1 applies to OTC-DVP settlement.

Settlement of stock exchange trades

KDD operates a rolling T+2 settlement system (on a trade for trade principle) for all stock exchange trades. All securities transfers (and funds transfers), deriving from Ljubljana Stock Exchange (LJSE) trade, are executed on the day T+2. The final settlement of positions, deriving from stock exchange securities trades, is performed in accordance with the KDD Operations Rules, but explained in much more detail in the provisions of Regulations of KDD on Settlement of Stock Exchange Transactions. KDD operates a settlement cycle T+2 for all trades concluded on the LJSE. The LJSE Rules set out that matched transactions become binding and irreversible at 4:30 p.m. on the trading day (T+0). Information on daily stock exchange transactions are sent to KDD's information system at 2:15 p.m. and become final upon a receipt of explicit confirmation of the LJSE (usually at 3:00 p.m. but not later than 4:30 p.m.). In the case of clearing of the stock exchange transactions, the KDD clears cash obligations and cash claims from both counterparties, employing a multilateral settlement netting method. Employing settlement netting therefore means only pure calculation of net payment obligations and net payment claims arising from transactions without affecting the underlying contract between the original parties to the trade. Settlement members are notified of the final calculation of their positions and the required amount of liquidity reserve, which serves as a liquidity risk management tool. Members have on-line access to information on final calculation. Final calculation is released usually at 3:15 p.m. but not later than 4:45 p.m. on the trading day. Liquidity reserve has to be paid no later than 9.15 the day after the trading day (T+1). On T+1 (until 2 p.m.), KDD sends the list of settlement members' expected net payment obligations on the settlement day (T+2) to Bank of Slovenia, since the final cash leg settlement takes place on accounts with it. On T+2, net-to-pay settlement members have to arrange for the funds transfers from their house accounts or clients' funds accounts to their clearing accounts with TARGET2. At 11.00 a.m. on T+2 they are expected to have cleared their accounts in favour of clearing and settlement account of the KDD within the TARGET2 system. The final cash settlement is processed at 1.00 p.m. on T+2, when the KDD transfers the received funds from its clearing and settlement account to the net-to-receive members clearing accounts. Securities transfers are processed on a gross basis in the same timeframe on T+2 by transferring securities from the seller's account directly to the buyer's account. The role of the KDD is to perform its function as the settlement facilitator and to transfer respective securities. KDD is, according to its Operations Rules, obliged to deliver securities to relevant accounts, but the KDD never acts as the principal or assumes any credit risk, since any default on the securities side is always fully covered only with funds from the Guarantee Fund, which is the main risk mitigation tool. Therefore, the

KDD implicitly guarantees settlement of securities by having appropriate risk mitigation measures in place. Since the systems of KDD and Central Bank are “linked”, it is possible that the final transfer of securities and the final transfer of net cash positions occur simultaneously on day T+2.

Settlement of OTC trades on DVP principle

For DVP-OTC trades (gross market) BIS model 1 applies. »OTC-DVP« buy or sell settlement instruction is posted in KDD's information system by buying/selling member. In case of positive validation, matching is attempted. If not matched successfully at first attempt, recycling procedures start and matching is attempted later. If matched successfully, reservation of securities on the account of the seller is attempted (on intended settlement day). If the reservation is successful, system returns to the receiving agent the reference code that has to be used for cash leg settlement. Afterwards the settlement process is waiting for the buyer to provide cash payment to the KDD's TARGET2 settlement account. After system receives notification on the payment made by the buyer to the KDD's TARGET2 account the settlement procedure is started, where the reserved securities are transferred from the seller's securities account to the buyer's securities account in central registry and the cash is transferred from the KDD cash account to the seller's cash account in TARGET2.

Principle 13: Participant-default rules and procedures

An FMI should have effective and clearly defined rules and procedures to manage a participant default. These rules and procedures should be designed to ensure that the FMI can take timely action to contain losses and liquidity pressures and continue to meet its obligations.

Because of the extensive interactions between the default management principles as they apply to CCPs, this principle needs to be reviewed in the context of Principle 14 on segregation and portability. This principle should also be reviewed in the context of Principle 4 on credit risk, Principle 7 on liquidity risk, Principle 23 on disclosure of rules, key procedures and market data, and other principles, as appropriate.

Key consideration 1:

An FMI should have default rules and procedures that enable the FMI to continue to meet its obligations in the event of a participant default and that address the replenishment of resources following a default.

Key consideration 2:

An FMI should be well prepared to implement its default rules and procedures, including any appropriate discretionary procedures provided for in its rules.

Key consideration 3:

An FMI should publicly disclose key aspects of its default rules and procedures.

Key consideration 4:

An FMI should involve its participants and other stakeholders in the testing and review of the FMI's default procedures, including any close-out procedures. Such testing and review should be conducted at least annually or following material changes to the rules and procedures to ensure that they are practical and effective.

Due to very strict regulations that define KDD's services and functions, KDD can hardly be exposed to a risk that a member cannot fulfil its obligations against KDD. The only risk identified is when member does not pay compensation for KDD's services. In this case, KDD can use a sanction of temporary blocking his access to the KDD's information system of central registry or settlement system for stock exchange trades (Art. 12 and 16 of KDD Operations Rules).

Un-fulfilment of obligations from stock exchange trades of settlement member constitutes member's default. KDD Operations Rules and Regulations define detailed procedures KDD has to perform in case of member's default – failing to meet his obligations from his stock exchange trades settlement operations.

Failing to meet obligations from off-exchange trades

If a party to a trade fails to meet his obligations from off-exchange transaction (DVP or FOP transaction), settlement of such transaction is not possible.

Settlement of DVP transaction is executed if following conditions are met on intended settlement day:

- Successful reservation of required quantity of securities on seller's account;
- Exact purchase price is transferred to KDD's fiduciary cash account.

Settlement of FOP transaction is executed if required quantity of securities is available on account of delivering party on intended settlement day.

If the initial attempt to process transfer of securities based on a bilateral order has not been successful due to reasons outlined above, KDD shall recycle such bilateral order. Detailed recycling rules are determined by Art. 39 of KDD Regulations. No further sanctions are anticipated if parties to the trade fail to fulfil its obligations from off-exchange trade on intended settlement day.

Failing to meet obligations from on-exchange trades

Buyer's or seller's settlement member fail to meet its obligations from stock exchange trades if he:

- fails to meet obligations related to cash transfer;
- fails to meet obligations related to securities transfer,
- fails to meet obligations related to guarantee fund payments.

Obligations related to settlement of cash leg of stock exchange trade on intended settlement day are not fulfilled if:

- net debtor settlement member does not settle its net payment obligation in credit of KDD's fiduciary cash account on the settlement day till 11:00am;
- net debtor settlement member whose net obligation exceeds an amount determined by KDD Regulations for Settlement of Stock Exchange Transactions, does not credit the KDD's fiduciary cash account in the amount of the liquidity reserve calculated pursuant to said regulations, as an advance payment of its net financial obligation, till 9:15am on T+1.

Related KDD's procedures are determined by KDD Regulations (Section 4.2 - Settlement of financial obligations). The following procedures are in place in case of net debtor settlement member's default (see KDD Regulations for Settlement of Stock Exchange Transactions: section 2.3 - Procedures in case of default on payment of financial liabilities):

- KDD shall ensure the missing funds on KDD's fiduciary cash account by debiting the Guarantee fund. This results in substitutions of initial obligation of net debtor settlement member with new obligation to repay the sum the Guarantee fund was debited for, together with default interest, in order to cover its liabilities.
- KDD may perform sell-outs in relation to securities which act as the subject of buy stock exchange transactions of the defaulting settlement member as follows:
 - KDD may perform sell-outs of securities which are subject to buy stock exchange transactions of the defaulting settlement member for his own account and settled on current settlement day,
 - KDD may perform sell-outs of securities which are subject to buy stock exchange transactions of the defaulting settlement member for his own account when settled on future settlement day.
- KDD may pledge securities booked on defaulting member's house account.

Obligations related to settlement of securities leg of stock exchange trade on intended settlement day are not fulfilled if:

- Allocation of trade performed by seller's or buyer's settlement member is not valid (invalid trade allocations are determined in Art. 74 and 75 of KDD Operations Rules);
- Seller's settlement member fails to meet obligation to ensure an adequate amount of suitable securities on end seller's account.

Related KDD's procedures are determined by KDD Regulations (Section 4.3 - Settlement of obligations to transfer securities).

Procedures in case of default of fulfilling obligations of seller's settlement member

Art. 26 of KDD Regulations states the following:

- KDD may claim liability of seller's settlement member if he fails to ensure due balance of securities on account of end seller by 11:00am on settlement date with respect to individual sales transaction.
- KDD shall claim liability of seller's settlement member if he fails to ensure due balance of securities on account of end seller with respect to an individual sales transaction and KDD is therefore unable to transfer due securities by 3:00pm on the settlement day.

Art. 26a of KDD Regulations further states that KDD begins to claim liability of seller's settlement member if the latter has failed to ensure due balance of securities on end seller's account with respect to individual sales transaction. In this respect, KDD shall:

- Notify buyer's settlement member thereof and asks the member to clarify whether he insists on trade or whether he intends to cancel a trade,
- Asks seller's settlement member to immediately make an advance payment to cover the costs of the sell-out, or to repay the purchasing price to the buyer's settlement member in case the latter decides to cancel the trade, namely in the sum of 110% of purchasing price.

If seller's settlement member subsequently credits KDD's fiduciary account with said securities, KDD shall notify the buyer's settlement member thereof, credit the end buyer's account and reimburse any eventual advance payment to the seller's settlement member.

KDD has the following procedures in place in case of default of fulfilling obligations of seller's settlement member (see KDD Regulations for Settlement of Stock Exchange Transactions: section 3.2 - Procedures in case of default of fulfilling obligations of seller's settlement member):

- Buy-in (if buyer insists on trade or if seller's settlement member does not subsequently credit KDD's fiduciary account with said securities): KDD shall perform a buy-in in debit of the received advance payment, the eventual surplus or in case the seller's settlement member has not made an advance payment, in debit of the Guarantee fund. In this respect, the following obligation of defaulting member occurs:
 - Obligation to repay the sum the Guarantee fund was debited for, together with default interest;
 - Pay buyer's settlement member default penalty in sum of 20% of purchasing price;
 - Compensate buyer's settlement member any further damages he may have because of seller's member default.

In order to assure fulfilment of above-mentioned obligation of defaulting seller's member, KDD may take the following actions:

- Pledge securities booked on defaulting member's house account in favour of other non-defaulting settlement members to repay the sum the Guarantee fund was debited for, together with default interest;
- Pledge securities booked on defaulting member's house account in favour of buyer's settlement member to pay default penalty.
- The right of buyer's settlement member to withdraw: Before KDD begins its buy-in, it shall ask the buyer settlement member whether he wants to withdraw from the purchase of securities, or if he insists on the purchase.

If the buyer's settlement member withdraws from the purchase, KDD shall draw funds from the guarantee fund (or funds from advance payment – see above) to pay the agreed purchasing price for the securities which the buyer settlement member withdrew from, while the seller's settlement member's obligation from buy-in procedure (see buy-in paragraph above) shall be replaced by the following seller's settlement member's obligations:

- Compensate other settlement members for the sum which was drawn from the Guarantee fund, together with default interest;
- Pay buyer's settlement member a contractual penalty of 50% of purchasing price, if buyer's settlement member subsequently cancels the trade; and
- Compensate the buyer's settlement member any further damage he may have because of seller's member default.

If buyer's settlement member insists on said purchase, the transfer may be executed (upon buyer's member decision) partly with securities available on seller's account or in full quantity. If said member decides to execute purchase in full quantity, KDD undertakes buy-in procedure (debiting Guarantee fund or using funds of advance payment of seller's

settlement member). If said member decides to execute purchase in part, KDD considers unsettled quantity as withdrawn trade. Hence, this trade is split to two separate trades (Art. 84 of KDD Operations Rules).

KDD is entitled to take also the following actions in favour of buyer's settlement member or other non-defaulting settlement members:

- Debit corresponding funds from net cash claim of defaulting member's future claims from stock exchange trades due on current or future dates, in order to compensate buy-in costs together with default interest (or in case buyer's settlement member cancels the trade: pay the sum debited from Guarantee fund together with default interest), and additional default penalty;
- Enter and execute pledge of defaulting members own securities.

Procedures in creditor's default of buyer's settlement member

If the buyer's settlement member defaults on its obligations (to allocate a trade) neither upon maturity nor within a suitable extended deadline, KDD shall be entitled to sell the securities (which were transferred to its fiduciary account for custodian services) for the account of the buyer settlement member based on the said default (see Art. 85 of KDD Operations Rules - Sell-out based on creditor default).

Obligations of settlement members to make payments into the Guarantee fund

All settlement members shall assume joint and several liability for settlement of net financial obligations of respective net debtor settlement members, if the respective net debtor settlement member fails to meet his obligation in due time.

All settlement members shall assume joint and several liability for settlement of obligations of the seller settlement member to ensure conditions for settlement of the obligation to transfer securities, if the seller settlement member fails to meet his obligation in due time.

Settlement members shall not assume liability for obligations of individual settlement members to pay default interest or contractual penalties or compensation for further damages due to said defaults.

Said settlement members' obligations are detailed in section 4.4 of KDD Operations Rules.

KDD shall be entitled to enforce liability of settlement members for settlement of their obligations of payment into the Guarantee fund. To this end, KDD is entitled to enter a lien into the central registry and duly exercise it on behalf and in favour of other (Art. 90 of KDD Operations Rules).

Temporary suspension from the information system in relation to settlement of stock exchange transactions

Art 13 of KDD Regulations for Settlement of Stock Exchange Transactions states that KDD may temporary suspend from the information system in relation to settlement of stock exchange transactions any settlement member who fails to settle the following obligations by their respective due dates:

- Fail to settle net financial liabilities or pay liquidity reserve, or
- Fail to allocate a stock exchange transaction, or
- Fail to make due payment into the Guarantee fund.

Principle 15: General business risk

An FMI should identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialise. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services.

This principle should be reviewed in the context of Principle 3 on the framework for the comprehensive management of risks, Principle 21 on efficiency and effectiveness, and other principles, as appropriate.

Key consideration 1:

An FMI should have robust management and control systems to identify, monitor, and manage general business risks, including losses from poor execution of business strategy, negative cash flows, or unexpected and excessively large operating expenses.

Key consideration 2:

An FMI should hold liquid net assets funded by equity (such as common stock, disclosed reserves, or other retained earnings) so that it can continue operations and services as a going concern if it incurs general business losses. The amount of liquid net assets funded by equity an FMI should hold should be determined by its general business risk profile and the length of time required to achieve a recovery or orderly wind-down, as appropriate, of its critical operations and services if such action is taken.

Key consideration 3:

An FMI should maintain a viable recovery or orderly wind-down plan and should hold sufficient liquid net assets funded by equity to implement this plan. At a minimum, an FMI should hold liquid net assets funded by equity equal to at least six months of current operating expenses. These assets are in addition to resources held to cover participant defaults or other risks covered under the financial resources principles. However, equity held under international risk-based capital standards can be included where relevant and appropriate to avoid duplicate capital requirements.

Key consideration 4:

Assets held to cover general business risk should be of high quality and sufficiently liquid in order to allow the FMI to meet its current and projected operating expenses under a range of scenarios, including in adverse market conditions.

Key consideration 5:

An FMI should maintain a viable plan for raising additional equity should its equity fall close to or below the amount needed. This plan should be approved by the board of directors and updated regularly.

CSD's exposure to general business risk will presumably be regulated by Regulation on improving securities settlement in the EU and on CSDs. Said Regulation would result in issuing detailed guidelines detailing capital requirements, retained earnings and reserves, as important elements in managing CSD's general business risk. KDD is currently engaged with preparatory activities to accommodate any Regulation's requirements once it is enforced and within specified adaptation timeframes.

All segments of KDD operations already incorporate activities for mitigation of business risks. Risk mitigation activities and related results of such activities are detailed in Business and Financial statements report within KDD's Annual report. The following aspects and indicators are observed when judging possible business risks KDD may be exposed to:

- General business climate in Slovenia and European Union and related conditions on local securities market,
- Impact on EU regulations, namely Regulation on improving securities settlement in the EU and on CSDs, and Securities Law directive, which directly impact CSD business;
- Planned connection to T2S settlement platform and required adaptations of CSD's functions and operations;

- Changes in local regulatory framework;
- Figures related to use of information system of central registry: number of issuers, securities issues, securities accounts, corporate actions, queries processed, etc.;
- Figures related to membership in KDD;
- Figures related to on and off-exchange transactions;
- Relations between KDD and Ljubljana Stock Exchange, and double listings of Slovenian ISINs on foreign trading venues;
- Requirements of users of KDD services on service evolution and upgrades of information system of central registry: establishing links to foreign (I)CSDs, introduction of SWIFT messaging, instruction recycling and matching, etc.

Other procedures related to management of various types of risks, that also impact KDD's exposure to general business risk are detailed in chapter 3 of this document – Framework for comprehensive management of risks.

Figures on capital, reserves and reservations are disclosed in KDD's Annual report, which is publicly accessible on KDD's web page.

Any further and detailed procedures/strategies for managing specific aspects of business risk (dedicated reserves requirements, capital requirements, asset investment strategies, operations wind-down strategies, etc.) will be adopted once Regulation on improving securities settlement in the EU and on CSDs and related guidelines and regulatory technical standards are enforced and within specified adaptation timeframes.

Principle 16: Custody and investment risks

An FMI should safeguard its own and its participants' assets and minimise the risk of loss on and delay in access to these assets. An FMI's investments should be in instruments with minimal credit, market, and liquidity risks. This principle should be reviewed in the context of Principle 4 on credit risk, Principle 5 on collateral, Principle 7 on liquidity risk, and other principles, as appropriate.

Key consideration 1:

An FMI should hold its own and its participants' assets at supervised and regulated entities that have robust accounting practices, safekeeping procedures, and internal controls that fully protect these assets.

Key consideration 2:

An FMI should have prompt access to its assets and the assets provided by participants, when required.

Key consideration 3:

An FMI should evaluate and understand its exposures to its custodian banks, taking into account the full scope of its relationships with each.

Key consideration 4:

An FMI's investment strategy should be consistent with its overall risk-management strategy and fully disclosed to its participants, and investments should be secured by, or be claims on, high-quality obligors. These investments should allow for quick liquidation with little, if any, adverse price effect.

Any funds transferred by members or other entities (usually related to corporate actions) to KDD are deposited to accounts opened with the Bank of Slovenia. This ensures highest possible level of safety and accessibility.

KDD uses the following cash accounts for its operations:

- Fiduciary cash account – TARGET2 account (settlement of off and on-exchange transactions);
- Fiduciary account for custodian services – direct Bank of Slovenia account (corporate actions);
- Guarantee fund bank account – direct Bank of Slovenia account (guarantee fund deposit and related payments).

Detailed guidelines on CSD investment risks should be part of coming Regulation on improving securities settlement in the EU and on CSDs. Said regulation will be accompanied with detailed guidelines on suitable investments strategies and exposures to certain investment products. KDD is currently engaged with preparatory activities to accommodate any Regulation's requirements once it is enforced and within specified adaptation timeframes.

KDD disposes with its own funds with highest standards for mitigation of general financial and investment risks. Any investment risk is minimised by employing very conservative investment strategies and limiting exposures to single investments. KDD invests majority of available funds to bank deposits, government and bank bonds of domestic and foreign issuers. Information on KDD investments is disclosed in KDD's Annual report, which is publicly accessible on KDD's web page.

Principle 17: Operational risk

An FMI should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and fulfilment of the FMI's obligations, including in the event of a wide-scale or major disruption.

This principle should be reviewed in the context of Principle 20 on FMI links, Principle 21 on efficiency and effectiveness, Principle 22 on communication standards and procedures, and other principles, as appropriate.

Key consideration 1:

An FMI should establish a robust operational risk-management framework with appropriate systems, policies, procedures, and controls to identify, monitor, and manage operational risks.

Key consideration 2:

An FMI's board of directors should clearly define the roles and responsibilities for addressing operational risk and should endorse the FMI's operational risk-management framework. Systems, operational policies, procedures, and controls should be reviewed, audited, and tested periodically and after significant changes.

Key consideration 3:

An FMI should have clearly defined operational reliability objectives and should have policies in place that are designed to achieve those objectives.

Key consideration 4:

An FMI should ensure that it has scalable capacity adequate to handle increasing stress volumes and to achieve its service-level objectives.

Key consideration 5:

An FMI should have comprehensive physical and information security policies that address all potential vulnerabilities and threats.

Key consideration 6:

An FMI should have a business continuity plan that addresses events posing a significant risk of disrupting operations, including events that could cause a wide-scale or major disruption. The plan should incorporate the use of a secondary site and should be designed to ensure that critical information technology (IT) systems can resume operations within two hours following disruptive events. The plan should be designed to enable the FMI to complete settlement by the end of the day of the disruption, even in case of extreme circumstances. The FMI should regularly test these arrangements.

Key consideration 7:

An FMI should identify, monitor, and manage the risks that key participants, other FMIs, and service and utility providers might pose to its operations. In addition, an FMI should identify, monitor, and manage the risks its operations might pose to other FMIs.

The framework for risk management, which also includes operational risk, is set out in Section 3 hereof.

Operational risk assessments are formed on an annual basis. The operational risk assessment is based on *Criteria on Valuation of Elements of Operational Risk*.

Organisational, operational and technological internal controls and control activities are performed through:

- The process of risk management,
- Reporting and channelling of information,
- Organisation of business processes, assignment of responsibilities and tasks,
- Education and raising awareness,
- Information support, control of information technology and security,

- Business continuity management (BCM) and
- Human resource policy.

KDD manages its operational risk for its business field by monitoring incidents and its consequences, changes to business processes, managing relations with third parties, procedures based on health and safety at work, as well as fire safety, security reports based on managing information security, reports based on managing business continuity and managing operational risk for IT. The findings are reviewed and harmonised at meetings of the Risk Management Committee. Operational risk, which arises due to the dependence on technical resources, includes managing operational risk for IT, which is successfully embedded in everyday operations.

The basis for an inventory of threats, vulnerabilities and consequences in the operational risk analysis is the document Top Information Security Risks for 2008, A collaborative project by the professional information security communities at CISP forum and ISO27k implementers' forum, 31.12.2007. The assessment is made from a perspective of information security, whereby aspects of availability, integrity, performance of projects and suitability of investments are reviewed in this context. KDD has implemented the following IT controls:

- Information security management system,
- Controls to ensure confidentiality of information, which disable unauthorised access to said information,
- Controls for integrity of data, which ensure integrity and accuracy of information,
- Controls for system integrity (unauthorised or unwanted changes, such as viruses),
- Performance of proactive activities, which reduce vulnerability (patch management),
- Software to detect malicious code,
- IT audit, monitoring and reporting on the operation of the information system,
- Assigning responsibilities (ownership of data, custody of systems),
- Business continuity system,
- Recovery plans and technical resources to protect data and systems, respectively,
- Raising awareness amongst users and employees, respectively.

KDD manages operation risk for IT by:

- Monitoring incidents and their consequences and connecting them to threats and vulnerabilities. These are then analysed, while new necessary controls are subsequently implemented;
- Proactively implementing controls that limit inherent vulnerabilities (e.g. backed up discs) or are prescribed under the applicable legislation or regulations (e.g. UPS);
- Constant monitoring of recommendations of equipment manufacturers, consulting organisations and other relevant resources with regard to changes in threats, vulnerabilities and controls.

Roles and responsibilities

Roles and responsibilities of individual KDD employees are defined within the organisational structure of operations. Roles and responsibilities are further defined in policies and documents that go into greater detail to define the functions of respective internal controls (e.g. information security, business continuity).

Information security

As one of its main goals, KDD has committed to ensure security and reliability of transactions with securities with respect to reducing financial risk on the securities markets, including the aspect of

increasing the operational and technical security and integrity of data in the central securities registry.

KDD identifies information resources as a critical source of business success. The ability to manage, control and protect information resources has a direct and material effect on KDD reaching its performance targets.

All information is protected from theft, loss, destruction, unauthorised access and unauthorised change.

Information is understood in the widest possible sense, which includes development, intellectual property, business development, information on clients and members, business plans, consulting, finance, human resources, partnerships, contracts and material in various forms (audio, visual, paper or digital).

To this end, KDD has established an information security management system, whereby it ensures confidentiality, integrity and availability of information, which KDD's operations are based on, and information that has been entrusted to KDD by other companies and organisations.

The information security management system is set up with the following goals:

- Ensuring continuous and uninterrupted operations,
- Ensuring compliance with statutory and contractual obligations,
- Winning and maintaining the trust of business partners,
- Protecting the business interests of KDD,
- Protecting the reputation of KDD.

In order to achieve the set goals, KDD as a whole, as well as all of its organisational units participate in:

- Establishing,
- Implementing and operating,
- Monitoring and reviewing, and
- Maintaining and improving the information security management system.

The information security management system includes:

- KDD assets:
 - Information: databases, data files, contracts and agreements, system documents, operational and support procedures, business continuity plan, audit trail, etc.,
 - Software assets: applications, system software, development tools,
 - Physical assets: computer hardware, communications hardware and other equipment,
 - Personnel (employees, contracted workers, students),
- Network,
- Computer/communication services and other technical support,
- Business premises (registered office, secondary site).

As part of the information security management system, the company has adopted an *Information Security Policy*, which establishes general guidelines and principles for action relating to protecting information. Furthermore, we have adopted elementary security policies and guidelines, which lay down the rules of implementing the security policy in individual areas. The KDD management board has endorsed the following elementary security policies proposed by the Committee for Information security and Change management of the Information System:

- Policy of managing confidential data and the method of protecting confidential information,

- Physical security policy,
- Access control policy,
- Policy on the use of network services,
- Policy on using e-mail and the internet,
- Policy of protection from malicious code,
- Remote access policy,
- Incident management and monitoring policy,
- Policy on management of computer security logs,
- Data backup policy,
- Policy on the use of cryptographic controls for protection of information,
- Policy on the appropriate use of information resources,
- Policy on managing relations with third parties,
- Hardware and software management policy,
- Business continuity management policy,
- Risk management policy.

The information security management system in KDD complies with the relevant Slovenian legislation and standards from the ISO 27000 family.

As part of the information security management system, KDD drafts monthly and annual security reports. Monthly security reports provide information on the efficiency of security controls of physical access, security controls that prevent intrusion of malicious code into our information system, etc. The annual security report represents a concurrent review of implemented security controls in KDD, as required by the standard 27000, and a report on planned improvements of the information security management system. The annual security report is presented to the management board as well as the supervisory board.

Every year an outsourced contractor also completes a security review of the KDD network, namely with the basic aim of running a security test to detect security deficiencies within the system and network, which could jeopardize business processes and services offered on the market by KDD. The report for 2013 demonstrates that information security within the KDD environment is on a suitable level and does not contain critical security deficiencies.

Every year KDD also undertakes training of its employees on information security, a management review and an internal audit of the information security management system .

Business continuity

Based on legal obligations and KDD's mission statement, KDD has drafted a *Business Continuity Policy* and *Business Continuity Management Strategy* in order to ensure reliability of its securities operations and integrity of data in the central securities registry. When forming said policy it applied the strategic goals related to developing services and products, and increasing the reputation and credibility of the company, as well as guidelines and recommendations of the applicable standards. Business continuity management in KDD is a holistic process aimed at identifying potential threats and consequences in the event that these threats should materialise. Business continuity management thus includes procedures of recovering resources and continuing business activities in the event of an incident, as well as raising awareness amongst employees, reviewing the efficiency of action procedures in case of an incident and adapting these procedures to operational and technological changes.

The aim of the BCM programme is to ensure the safety of employees and other persons on KDD premises, and allow quick and efficient establishment of key business processes and activities in case of an incident, environmental or natural disasters, regardless of which part of operations or which part of KDD's premises is under threat.

Business continuity may be distinguished into business continuity of information technology and communications and business continuity of the company as a whole. For the needs of business continuity in terms of information technology and communications, KDD has the following mechanisms in place: uninterrupted power supply (UPS, diesel aggregate), double servers and network devices that are material to maintaining operations, internet access through two different internet providers both in Ljubljana as well as an secondary site, regular data backup (data backup + backup copies on magnetic tapes + copies of data at the secondary site), regular maintenance of hardware and software, implemented change management procedures to software and hardware, etc. For the needs of business continuity of the company as a whole, KDD has set up a secondary site in Koper, which is able to facilitate 24 employees in case of an emergency (all critical positions/processes are thus covered). Critical business processes have drafted *business continuity plans* and a *Protocol on operational procedures to Ensure Access to IS CRVP for KDD Members in Emergency Situations*. There are also procedures in place in case of a crisis. KDD also has a leaflet for its employees with brief instructions on crisis situations.

KDD verifies the suitability of the programme for managing business continuity with regular tests of operating and recovery technological and communications resources, and tests of maintaining business continuity for operating processes.

Uninterrupted operation of critical business processes (work from the secondary site) and members' ability to access the central registry information system at the secondary site (due for December this year) is tested on an annual basis, while recovery of the information system at the secondary site is undertaken quarterly and is completed in under 2 hours.

Operational capacity

KDD's technical regulations specify the following:

- That members who have a connection with the server managed by KDD shall be ensured services of secure internet access, whereby KDD ensures suitable response times of processing data on orders, which under normal conditions of operation take no more than 5 seconds, and
- If the central registry information system shuts down due to malfunction or an error of hardware managed by KDD, or due to malfunction or errors of the CRVP application or other reasons within KDD's capacity, KDD shall ensure that the system is back up and running within four hours from the system's shutdown.

The above stated requirements based on technical regulations are monitored daily (on an operational level) and regularly reviewed at meetings of the department for information systems and information technology. Response times and accessibility of the information system are subject to regular reporting. Reports (for 2013) demonstrate that the CRVP information system on average ensures approximately 99% of suitable response times (up to 5s) for data transmission, which KDD ensures its members under normal operating conditions, whereby the information system was available 100% of the hours of operation during the reporting period.

The current system architecture in place to support CRVP meets technical requirements for its operation (response times for inquiries and transactions) while at the same time the relatively low exploitation of system resources (CPU, RAM, network resources) allows processing of claims as part of technical requirements even with significantly higher system loads.

Regular quarterly testing of procedures in place to ensure business continuity, which also serve as a framework to process shorter-term processing of a significantly higher number of claims, demonstrate suitability of the system architecture even in case of transferring operations on to an secondary site or greater system load.

In addition to the above, KDD also undertakes performance tests of new versions with every major upgrade of the central securities registry information system.

Incident management

In order to establish a uniform system of incident management, KDD has introduced an *Incident Management and Monitoring Policy*, which regulates incident detection, reporting, action, collection and monitoring.

Managing changes to IS CRVP

For the needs of managing changes, KDD has implemented a *Hardware and Software Management Policy*.

Instructions for Management of Software and Data go into greater detail to define procedures to solve requirements for changes and updates of business applications and data related to said applications, obtaining data without dedicated applications, procuring software and managing projects, namely in a manner that ensures secure and efficient management of data, applications and their modifications. The document also defines the environments of the application's life cycle. Environments are divided into developmental, confirmatory and production environments.

Instructions for Management of Hardware describe procedures in planning, procurement, managing records and integrating hardware into KDD's information system. The document thus describes the guidelines for drafting operating procedures in:

- Deciding on procurement of new hardware,
- Deciding on changing and writing off existing hardware,
- Selecting providers of new hardware,
- Maintaining records on hardware,
- Testing the function of new hardware,
- Integrating new hardware into the production environment,
- Changing and recording changes in the hardware or firmware configuration.

In addition to procedures relating to managing changes of physical hardware, the document also describes procedures in upgrading firmware, installation of ServicePacks or upgrades of operating systems and changes to configuration parameters, which affect the way the hardware operates.

Archiving

For the needs of archiving documents, KDD has an archiving procedure in place, which is described in *Rules for Archiving, Classification Plan* and *UDG*.

Personnel and recruitment

See also section 2 – Organisation of Operations.

Requirements for human resource management are defined in the *Rules on Employment Relations* and *Rules of Recruitment*. The rules of recruitment regulate the policy of recruitment in KDD.

For positions that require specific know-how and skills, employees in these positions shall obtain the adequate level of knowledge (e.g. a security coordinator shall be qualified as a Certified Information Security Manager; an internal auditor shall be qualified as a Certified Internal Auditor).

Managing relations with third parties

KDD has a *Policy on Managing Relations with Third Parties* in place for the needs of maintaining security of information and capacity for processing information, which is processed or managed by third parties, which are accessible to or disclosed to third parties. The policy applies both to clients who use KDD services (members, issuers,...) as well as outsourced contractors who render select services to KDD as required.

Audit

An audit of compliance with rules on risk management is undertaken in KDD on an annual basis, namely by an outsourced auditor. The report on the completed audit is filed with the Securities Market Agency and the Bank of Slovenia, respectively.

The internal control and audit department in KDD regularly monitors the operation of the system for risk management through active involvement in the Risk Management committee and Incident Monitoring.

Special procedures of identifying, monitoring and managing risk relating to operations of key members

KDD does not have prescribed separate procedures of identifying, monitoring and managing risk represented by key members' activities. KDD undertakes all control procedures within a respective membership toe for all members of said membership type and irrespective of eventual differences in their scope of doing business with KDD.

Principle 18: Access and participation requirements

An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.

In reviewing this principle, it should be noted that FMIs are subject to the constraints of local laws and policies of the jurisdiction in which the FMI operates, and those laws may prohibit or require the inclusion of certain categories of financial institutions. This principle should be reviewed in the context of Principle 19 on tiered participation arrangements, Principle 21 on efficiency and effectiveness, and other principles, as appropriate.

Key consideration 1:

An FMI should allow for fair and open access to its services, including by direct and, where relevant, indirect participants and other FMIs, based on reasonable risk-related participation requirements.

Key consideration 2:

An FMI's participation requirements should be justified in terms of the safety and efficiency of the FMI and the markets it serves, be tailored to and commensurate with the FMI's specific risks, and be publicly disclosed. Subject to maintaining acceptable risk control standards, an FMI should endeavour to set requirements that have the least-restrictive impact on access that circumstances permit.

Justification and rationale of participation criteria

Key consideration 3:

An FMI should monitor compliance with its participation requirements on an ongoing basis and have clearly defined and publicly disclosed procedures for facilitating the suspension and orderly exit of a participant that breaches, or no longer meets, the participation requirements.

ZTFI defines access criteria to KDD's services and participation criteria. Art 446 of ZTFI states that KDD should determine participation requirements in its Operations rules. All relevant information on participation requirements are available on KDD's web page. Assess criteria for each membership category are non-discriminatory - apply irrespective of residency or business size. KDD has fulfilled all requirements of European code of conduct for clearing and settlement related to access criteria for users of CSD services and among providers of trading and post-trading services, which promotes non-discriminatory access to European CSD infrastructure to any party interested to such access.

Art. 445 of ZTFI and Art. 4 of KDD Operations rules determine the following KDD membership categories:

- Member-issuer is an entity issuing securities entered in the central registry;
- Registry member is a member involved in managing securities accounts (including using mechanism for settlement of off-exchange transactions);
- Settlement member is an entity entitled to perform functions of registry member and in addition settlement of stock exchange trades.

Registry and settlement membership further allow the following sub-categories:

- Registry or settlement membership with unlimited access allows members to manage their own account and their clients' accounts, whose owner may be any private individual or legal entity;
- Registry or settlement membership with limited access allows members to manage their own account or accounts of certain other account holders.

General terms of membership are defined in Art. 5 of KDD Operations rules as follows:

- Any entity may become a member-issuer;
- Registry or settlement membership is open to entities meeting due organisational, technical, personnel and other terms for membership as set forth by KDD Operations rules;

- Membership with unlimited access is open to:
 - Stock broking companies, investment companies, banks or special financial institutions, which, pursuant to Par. 1 and 2, Art. 32 of ZTFI, is eligible to render investment services of processing orders on account of their clients in the Republic of Slovenia from Item 2 and investment transactions for their own account from Item 3, Par. 1, Art. 8 of ZTFI, including auxiliary investment services from Item 1, Par. 1, Art. 10 of ZTFI;
 - Investment companies, banks, special financial institutions from member states, which is eligible to render investment services of processing orders in the member state where their registered office is based on account of their clients from Item 2 and investment transactions for their own account from Item 3, Par. 1, Art. 8 of ZTFI, including auxiliary investment services from Item 1, Par. 1, Art. 10 of ZTFI.
- Membership with limited access is open to:
 - The Bank of Slovenia, the central bank of another member state and the European Central Bank in as regards managing accounts of banks and special financial institutions in relation to central bank operations;
 - Entities managing assets which have limited legal capacity in relation to managing accounts where these assets are based;
 - Management companies rendering asset management services to well-educated investors pursuant to ZISDU-1, as regards managing accounts of entities whom they are rendering the said services for;
 - Entities with a licence to perform custodian services pursuant to ZISDU-1, as regards managing accounts of investment funds, mutual pension funds or long-term business funds of pension companies, which they manage;
 - Settlement system managers pursuant to Art. 459 of ZTFI relating to managing accounts necessary to ensure a connection between the settlement system from Art. 459 of ZTFI and the settlement system pursuant hereto;
 - Any entity as regards managing their own account and accounts of its subsidiaries or other organisational units.

Detailed membership criteria are determined by KDD Operations rules and Regulations, and include the following aspects:

- Procedures before signing membership agreement with KDD;
- Membership agreement between member (registry, settlement or member-issuer) and KDD;
- Technical requirements (communication, software and other equipment) as detailed in Technical regulations;
- KDD's compliance control over its members;
- Training for accessing and using KDD's information system.

Termination of membership and disconnection from information system

KDD Operations rules and Regulation determine conditions that result the following outcomes:

- Termination of issuer membership;
- Termination of registry and settlement membership in case of membership cancelation or exclusion;
- Temporary restriction of access of registry and settlement member to the information system.

Issuer membership is terminated once all securities of respective issuer are deleted from KDD's central registry.

Reasons for exclusion of registry or settlement member are as follows:

- KDD shall exclude a member if said member should be stripped of its licence to render investment services and transactions or should lose the status in relation to which it obtained membership status;
- KDD may exclude a member:
 - If the member is late in paying due compensation for services of KDD and if said compensation is not paid within eight days of a payment reminder;
 - If the member has been late in paying due compensation for KDD services more than twice within a period of six months;
 - If the member fails to meet due technical, personnel and other conditions required under Operations rules or Regulations, and fails to remedy this breach within eight days of receiving due notice;
 - If the member breaches obligations from previous point more than twice within a period of six months;
 - Based on any other due grounds for exclusion as set forth by Operations rules in relation to a respective type of membership.

Registry or settlement member can cancel its membership with issuing a written notice on membership cancellation.

Reasons for temporary restriction of access to the information system for registry members are determined in Art. 12 of KDD Operations rules:

- If a registry member has been issued a provision of temporary ban of rendering investment services by Securities Market Agency, Bank of Slovenia or another competent supervisory body of a member state or the said member's home country, or any other temporary provision which would enable the said member to use in part or in full the information system for the purpose of maintaining securities accounts, then KDD shall block access to the information system for the duration of the provision in the due scope and within the scope of technical capacity;
- If a registry member is late in paying due compensation for KDD services or if in breach of obligations regarding technical, personnel and other terms required under Operations rules or Regulations in order to use the information system for the purpose of maintaining securities accounts, KDD may block said member from accessing the information system in part or in full.

Reasons for temporary restriction of access to the information system for settlement members are determined in Art. 1 of KDD Operations rules:

- KDD shall cancel settlement members' access to the information system in due scope:
 - If Securities Market Agency, Bank of Slovenia or the competent supervisory body of a member state or foreign country of the member imposes on the settlement member measure of temporary ban which prohibits the said member to use in part or in full the settlement information system;
 - If the settlement member has been temporarily suspended from the information system of dematerialized securities accounts maintenance;
 - If the settlement member does not comply with solvency requirements set forth in KDD Regulations, until the said member complies with such requirements;
- KDD may suspend the settlement member in part or in full from the information system regarding settlement of stock exchange transactions:

- If the settlement member upon maturity defaults its obligation or creditor obligation in the settlement system as set forth under Chapter 4 of Operations rules;
- If the settlement member is late in paying the fees for KDD's services or in case of violation of obligations concerning technical, human resource and other terms, which are required pursuant to KDD Operations rules and Regulations in order to use the settlement information system for the purpose of settling stock exchange transactions;
- If the member fails to submit evidence of solvency when called upon as determined by supervision procedures pursuant to Operations rules.

KDD supervises the solvency of settlement members in order to manage risks of eventual defaults in obligations arising from stock exchange transactions, by verifying whether settlement members timely fulfil their payment obligations to KDD or to other settlement members in the settlement system, as determined in Chapter 4 of Operations rules – Settlement of stock exchange transactions. KDD may request a settlement member to submit adequate evidence of its solvency.

Principle 19: Tiered participation arrangements

An FMI should identify, monitor, and manage the material risks to the FMI arising from tiered participation arrangements.

This principle should be reviewed in the context of Principle 14 on segregation and portability, Principle 18 on access and participation requirements, and other principles, as appropriate.

Key consideration 1:

An FMI should ensure that its rules, procedures, and agreements allow it to gather basic information about indirect participation in order to identify, monitor, and manage any material risks to the FMI arising from such tiered participation arrangements.

Key consideration 2:

An FMI should identify material dependencies between direct and indirect participants that might affect the FMI.

Key consideration 3:

An FMI should identify indirect participants responsible for a significant proportion of transactions processed by the FMI and indirect participants whose transaction volumes or values are large relative to the capacity of the direct participants through which they access the FMI in order to manage the risks arising from these transactions.

Key consideration 4:

An FMI should regularly review risks arising from tiered participation arrangements and should take mitigating action when appropriate.

Indirect participation (membership) in KDD is not available. KDD Operations rules allow only direct membership (see Principle 18: Access and participation requirements).

KDD's supervision procedures apply to any member equally within each membership category. The same applies also in case of Transfer of claims and assumption of obligations between a stock exchange and a settlement member (Art. 92 of KDD Operations rules) or in case of securities transfer links between KDD and other (I)CSDs (all links are operated by KDD members).

Principle 20: FMI links

An FMI that establishes a link with one or more FMIs should identify, monitor, and manage link-related risks. In reviewing this principle, it should be noted that the questions apply only to FMIs that have established links with one or more other FMIs. Additionally, the term CSD generally refers to a CSD that also operates an SSS. The use of this broader definition for CSD in this principle mirrors market convention in the discussion of FMI links. This principle should be reviewed in the context of Principle 8 on settlement finality, Principle 11 on CSDs, Principle 17 on operational risk, and other principles, as appropriate.

Key consideration 1:

Before entering into a link arrangement and on an ongoing basis once the link is established, an FMI should identify, monitor, and manage all potential sources of risk arising from the link arrangement. Link arrangements should be designed such that each FMI is able to observe the other principles in this report.

Key consideration 2:

A link should have a well-founded legal basis, in all relevant jurisdictions, that supports its design and provides adequate protection to the FMIs involved in the link.

Key consideration 3:

Linked CSDs should measure, monitor, and manage the credit and liquidity risks arising from each other. Any credit extensions between CSDs should be covered fully with high-quality collateral and be subject to limits.

Key consideration 4:

Provisional transfers of securities between linked CSDs should be prohibited or, at a minimum, the retransfer of provisionally transferred securities should be prohibited prior to the transfer becoming final.

Key consideration 5:

An investor CSD should only establish a link with an issuer CSD if the arrangement provides a high level of protection for the rights of the investor CSD's participants.

Key consideration 6:

An investor CSD that uses an intermediary to operate a link with an issuer CSD should measure, monitor, and manage the additional risks (including custody, credit, legal, and operational risks) arising from the use of the intermediary.

The following links between KDD and other (I)CSDs are in place:

- ICSD Clearstream Banking Luxembourg,
- CSD Clearstream Banking Frankfurt,
- ICSD Euroclear Bank,
- CSD OeKB,
- CSD KDPW,
- CSD LuxCSD (relayed link via ICSD Clearstream Banking Luxembourg).

Link characteristics are as follows:

- KDD acts as Issuer CSD only – transfer of securities issued in KDD are allowed only;
- Links are operated by KDD member (bank), which opens securities fiduciary account in KDD's system and provides services KDD does not offer (cash accounts, credit lines, proxy voting, entitlement payments, information services, taxation support, corporate actions processing, etc.);
- KDD offers standards services (available to any KDD member) to support links – no link-related services are customised.

Operator of link usually further defines its link-related services for (I)CSD in Service Level Agreement. KDD can determine range of services to linked (I)CSD in such SLA upon request.

Link-related risks for KDD

As KDD offers to linked (I)CSDs and to operators of such links a standard range of services available to any KDD member, no additional risks arise for KDD in case of link operations. KDD is not exposed to credit and liquidity risks or any additional legal risks. Link operations do not provoke any operational risks, as performance features and available capacity of KDD's system is high enough to perform any link operations without any notable decline in system's performance.

There are no identification, monitoring or risk management procedures in place for KDD members' clients and linked (I)CSDs. All supervision procedures apply to any member equally within each membership category.

Provisional securities transfers and negative account balances are not allowed.

Principle 21: Efficiency and effectiveness

An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves. This principle should be reviewed in the context of Principle 17 on operational risk, Principle 18 on access and participation requirements, Principle 22 on communication procedures and standards, and other principles, as appropriate.

Key consideration 1:

An FMI should be designed to meet the needs of its participants and the markets it serves, in particular, with regard to choice of a clearing and settlement arrangement; operating structure; scope of products cleared, settled, or recorded; and use of technology and procedures.

Key consideration 2:

An FMI should have clearly defined goals and objectives that are measurable and achievable, such as in the areas of minimum service levels, risk-management expectations, and business priorities.

Key consideration 3:

An FMI should have established mechanisms for the regular review of its efficiency and effectiveness.

It is KDD's mission to offer our members and other clients services based on current industry standards with highest safety, efficiency and effectiveness measures in place. Efficiency and effectiveness of KDD operations is achieved through use of optimal technical and operational features, as well as through enabling users of our services to choose services according to their specific needs.

Efficiency and effectiveness of KDD's infrastructure is evident from wide range of services and its variations available to users. Basic CSD service categories are determined by ZTFI and further explained in Principle 1 of this document. KDD diversifies these services as to suit users' needs according to following aspects:

- Own view of market needs;
- Users suggestions and initiatives;
- International market standards;
- Initiatives and requests of national and international regulators, industry and users associations, and other stakeholders.

A few examples of KDD service features that facilitate enhanced efficiency and effectiveness for users of KDD services:

- Several membership categories;
- Several instructing methods (Client interface, STP, SWIFT);
- Access to KDD's infrastructure for (I)CSDs either with direct access, direct operated access or indirect/relayed access;
- Access to KDD's infrastructure for (foreign) custodians either with direct access (KDD membership) or indirectly (via existing members);
- Several account types (also fiduciary accounts);
- Several settlement and clearing methods: settlement of stock exchange trades, OTC-DVP or FOP transaction settlement;
- Service unbundling – respective user can choose single service or their combination according to his preferences.

Another important step aiming to increase efficiency of CSD operations throughout Europe was signing of European code of conduct for clearing and settlement, whose main objective is to allow

investors to trade European securities within a consistent, coherent and cost-efficient European framework. In 2006 KDD handed over the undersigned European Code of Conduct to European Commissioner for Internal Market and Services. The Code was jointly drafted by members of FESE, EACH and ECSDA.

The Code of Conduct covers the following areas:

- Price transparency: The Code outlines several measures to increase price transparency. The main objective is to enable customers to better understand the services they will be provided with and the prices they will have to pay for these services and to facilitate the comparison of prices and services. Further measures target improving the reconcilability of customers' ex-post billing against the published prices and services provided. KDD has taken all necessary measures to comply with the Code and published all information on KDD's web site.
- Access and Interoperability: The Code aims to allow investors the choice to trade securities – whether domestic or foreign securities – within a consistent, coherent, and efficient European framework. The ultimate aim is to offer market participants the freedom to choose their preferred provider of cash equity services separately at each layer of the transaction chain (trading, clearing, and settlement) and to make the concept of “cross-border” redundant for cash equity transactions within Europe. To this end, the Code defines principles aimed at the improvement of open and transparent access to post-trading services with a view to achieving greater interoperability. Provisions KDD Operations rules and Regulations set forth non-discriminatory criteria for access to KDD's infrastructure and services.
- Service unbundling and accounting separation: The Code regards service unbundling and accounting separation as important levers to strengthen further the transparency and efficiency of European capital markets. Service unbundling gives customers flexibility when choosing which services to purchase. Accounting separation provides relevant information on the services supplied. Measures defined in the Code are designed to provide customers with choice regarding the services available to purchase and to facilitate competition.

Technical and procedural aspects of KDD's efficiency and effectiveness relate mainly to regular assessments and checks of operations and procedures in normal and emergency situations, extensive checks of any new functionalities, performance checks of all applications and IT equipment.

Any changes in KDD's operations and changes in KDD Operations rules and Regulations are sent to KDD members before they are enforced. Any such changes are also negotiated with regulators and any other stakeholders. KDD informs of such changes KDD members, general public and issues announcement thereof on its web page. The ultimate goal of changes in KDD's operations is enhanced efficiency and reaching compliance with international business practice, standards and regulatory requirements.

Basic performance indicators on IT related processes are determined in KDD technical regulations as follows:

- KDD ensures members with secure internet access for connection with the server managed by KDD response times of orders receipt in CRVP, which in normal circumstances should not exceed 5 seconds.
- If the central registry information system stops working due to a disruption of the hardware managed by KDD, or due to a disruption or error in the CRVP application or any other reasons within the competence of KDD, the latter shall ensure that the system recommence operating within four hours from disruption.

- If the central registry information system stops working due to failure in communications or due to other reasons that are beyond the powers of KDD, the latter shall recommence operations of the system within two hours following remedy of the cause of the system failure.

Performance indicators are monitored on daily basis and discussed on dedicated meetings of Information Systems & Information Technology Division. Performance parameters are operations disruptions are regularly reported to the Management board (see also information provided in Principle 17 – Operational risk).

Architecture and capacity of entire system that supports central registry functions and all related processes is designed to meet any processing load and by far exceeds actual processing load.

Extensive tests of system's performance and response capacities are done on quarterly basis. Said tests include also sessions with increases instruction load, which is processed both on primary and secondary location. Each new or upgraded system's component is tested for its performance and impact on entire system's performance.

Principle 22: Communication procedures and standards

An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, settlement, and recording.

This principle should be reviewed in the context of Principle 17 on operational risk, Principle 21 on efficiency and effectiveness, and other principles, as appropriate.

Key consideration 1:

An FMI should use, or at a minimum accommodate, internationally accepted communication procedures and standards.

Communication solutions in place connecting KDD and its members are based on current industry standards. This enables domestic and foreign KDD clients to access KDD's services in reliable, cost efficient and non-discriminatory manner.

KDD provides access to information system:

- Over secured internet connection and
- Through SWIFT network.

KDD information system provides following services to its users:

- Data exchange between users and CSD information system using XML standard,
- GUI application »Klient« for interactive usage of the system (U2A),
- Web services for posting electronic orders into CSD system (A2A),
- ISO 15022 messages exchange over SWIFT network (A2A),
- Web services for data transfer into members' back office systems, government and other institutions' information systems,
- Exchange of data with other information systems (TARGET2, stock exchange, central bank payment system),
- Internet portal for securities issuer services,
- Internet portal for ordering and retrieval of statement of account for securities holders.

KDD information system is secure and reliable, which is provided by:

- Technologies that assure confidentiality, integrity and availability, among other: PKI infrastructure, encryption, data replication and backup on different locations and in different form, multi-tier security measures defending information system against malicious activities,
- International standards implementation for information security and business continuity (ISO 27000 in ISO 22301),
- Adequate backup location for business continuity with secondary information system and working premises,
- Regularly conducting internal and external security (e.g. penetration) tests and IT audits, and conducting regular business continuity and disaster recovery tests.

KDD members can instruct **OTC trades** settlement with following methods:

- Via GUI application »Klient«: instructing data are transformed to XML format, which is a format generally used by KDD's information system. Klient allows STP processing.
- Direct import of instructions from member's back office system: XML format and STP processing.

- Instructing using SWIFT network in ISO15022 (MT5xx) format: STP processing. SWIFT messaging is currently used by two members only.

Settlement instructing using links between KDD and foreign (I)CSDs is done via KDD members, that operate such links. All links are operated by KDD members, meaning that member's client cannot instruct KDD directly. However, links are operated by existing member by market practice and not by law or KDD Operations ruler or Regulations. KDD membership is non-discriminatory and accessible to any entity that meets KDD membership criteria.

KDD receives already matched and locked-in **stock exchange transactions** in single batch of all trades concluded on respective settlement day. Transactions are sent to KDD's system in text format, which transforms them to XML format.

KDD member instructs recording of third-party rights and other legal facts into central registry using following methods:

- GUI application »Klient« or
- STP direct instruction import.

SWIFT instructing is currently not available.

Instruction status information services are available using:

- "Klient" application: real time queries;
- WFC (Windows Communication Foundation) application: pre-made reports based on member's input of parameters. Members receive XML format reports.

Electronic instructing of corporate actions is currently not supported.

"Klient" application is accessible via Internet. SWIFT messaging is available using SWIFT network.

Principle 23: Disclosure of rules, key procedures, and market data

An FMI should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the FMI. All relevant rules and key procedures should be publicly disclosed.

In reviewing this principle, information should be disclosed to the extent that it would not risk prejudicing the security and integrity of the FMI or divulging commercially sensitive information. This principle should be reviewed in the context of Principle 8 on settlement finality, Principle 13 on participant default rules and procedures, Principle 24 on the disclosure of market data by trade repositories, and other principles, as appropriate.

Key consideration 1:

An FMI should adopt clear and comprehensive rules and procedures that are fully disclosed to participants. Relevant rules and key procedures should also be publicly disclosed.

Key consideration 2:

An FMI should disclose clear descriptions of the system's design and operations, as well as the FMI's and participants' rights and obligations, so that participants can assess the risks they would incur by participating in the FMI.

Key consideration 3:

An FMI should provide all necessary and appropriate documentation and training to facilitate participants' understanding of the FMI's rules and procedures and the risks they face from participating in the FMI.

Key consideration 4:

An FMI should publicly disclose its fees at the level of individual services it offers as well as its policies on any available discounts. The FMI should provide clear descriptions of priced services for comparability purposes.

Key consideration 5:

An FMI should complete regularly and disclose publicly responses to the CPSS-IOSCO disclosure framework for financial market infrastructures. An FMI also should, at a minimum, disclose basic data on transaction volumes and values.

KDD Operations rules and Regulations

Pursuant to Art. 429 of ZTFI, KDD has to adapt rules and regulations, which determine the following:

- Operations rules determine operations related to central registry of dematerialised securities as required by ZNVP, ZTFI, ZPre-1 and other relevant laws;
- Rules to be followed by KDD when executing procedures specified in Operations rules. Rules should determine detailed criteria for provision of KDD services, related rights and obligations of KDD and users of services. KDD has published the following set of detailed rules that determine specific areas of KDD operations:
 - KDD Regulations,
 - Regulations for Settlement of Stock Exchange Transactions,
 - Technical Regulations,
 - Regulation on Arbitration Proceedings.

Any amendments of Operations rules should be adopted by management board and board of directors of KDD upon proposal by the management board. Management board shall present proposal of amendment of these rules to the registry members at least fifteen days before the date of a session of the board of directors where the latter is set to decide on accepting said amendments. KDD shall obtain the Agency's consent prior to publishing any amendment to the rules in Official Gazette of the Republic of Slovenia. Current version is published on KDD's web page.

Regulations and any amendments thereof should be adopted by management board and board of directors of KDD upon proposal by the management board. Management board shall present proposal of amendment of these rules to the registry members at least fifteen days before the date of a session of the board of directors where the latter is set to decide on accepting said amendments. Agency's consent and publishing in Official Gazette of the Republic of Slovenia are not required. Current version is published on KDD's web page.

Said procedures on proposing amendments to Rules and Regulations by KDD, presentation of proposals to KDD members, Agency's approval (Operations rules only), publishing in Official Gazette of the Republic of Slovenia (Operations rules only) and availability of said documents on KDD's web page serve as solid proof that all KDD's activities and operations are clear, understandable, freely accessible and in line with valid national legislation.

Help-desk for users of KDD services

KDD maintains dedicated web page that serves as assistance for users of KDD services. This web page offers the following:

- Access to electronic system for users assistance (help desk);
- Download section for users applications;
- guidance on web services (WCF queries guide);
- application forms for access to KDD system;
- EIG documents;
- XML schemes, etc.

KDD Tariffs

Pursuant to Art. 430 of ZTFI, KDD has to adapt fee-schedule, which determines fees for KDD services, parties that are charged with said fees and deadlines for payment of said fees. KDD has to publish current and past versions of KDD Tariffs, as well as any additional resolutions that impact fees calculations on its web page.

European code of conduct for clearing and settlement outlines several measures to increase CSDs price transparency. The main objective is to enable customers to better understand the services they will be provided with and the prices they will have to pay for these services and to facilitate the comparison of prices and services. Further measures target improving the reconcilability of customers' ex-post billing against the published prices and services provided. KDD has taken all necessary measures to comply with the Code.

Dedicated web page provides price examples applicable to members concerning membership fees, opening and maintenance of securities accounts, issuance fees, clearing and settlement costs, etc. In addition, discount scheme is available. Detailed description of services provided by KDD are provided in Tariffs. In order to facilitate existing and potential customers the comparison of tariffs and services provided across different providers, we have published conversion table in line with Code's methodology.

Further public disclosures

KDD has published current versions of self-assessment documents on its web page:

- CPSS-IOSCO Disclosure framework for securities settlement systems,
- Association of Global Custodians Questionnaire.

KDD will publish self-assessment report based on "Principles for Financial Market Infrastructures – Assessment methodology" on its web page.

KDD publishes further documents and other information on its web page:

- Yearly and quarterly statistical reports,
- Settlement volumes on previous settlement day,
- Annual reports,
- Information on information system of central registry,
- Securities search engine for central registry of dematerialised securities,
- Guidance for holders on their disposition with securities, inheritance procedures, account balance statements, using dump securities account,
- Corporate action announcements,
- Other information and announcements relevant for users of KDD services, holders and general public.

All relevant information and documents are translated into English and freely accessible on KDD's web page.