



MALTA STOCK EXCHANGE PLC

DISCLOSURE FRAMEWORK FOR SECURITIES SETTLEMENT SYSTEMS

March 2015

Page 1 of 34

Introductory Note

The following constitutes the response of Malta Stock Exchange Plc, as operator of a MaltaClear, a securities settlement system, to the Disclosure Framework developed by the Committee on Payment and Settlement Systems (CPSS) of the Group of 10 (G-10) and the International Organisation of Securities Commissions (IOSCO).

This document describes the state of affairs as at October 2014 and will be updated in line with any further legislative, regulatory and operational rules, if so required.

This document is for information only and does not constitute a legal declaration.

I. BASIC INFORMATION

A. What is the name of the SSS?

MaltaClear

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

MaltaClear is situated within the premises of Malta Stock Exchange plc at:

Garrison Chapel
Castille Place
Valletta VLT 1063
Malta

The time zone is CET.

C. What functions does the SSS perform?

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

MaltaClear does not in itself provide depository services which are provided by the Central Securities Depository. MaltaClear, which forms part of the Central Securities Depository provides securities settlement services in respect of securities admitted to the central securities depository.

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

MaltaClear itself does not provide any cash account services and neither does it effect securities settlement transfer considerations in relation to securities transfers denominated in the currencies of MaltaClear transfers, currently euro, GBP and U\$ Dollars

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

MaltaClear extends a securities earmark facility whereby offers for securities may be matched with securities' balances as held within the central securities depository.

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

MaltaClear does not provide trade netting services.

No.

N/A

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

MaltaClear itself does not offer a securities lending or borrowing programme. MaltaClear Participants may enter into an appropriate lending and borrowing arrangement in order to cover the lack of coverage in financial instruments for settlement purposes.

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

MaltaClear does not provide custodial and/or related services. These services are provided by the central securities depository.

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

MaltaClear does not act as a central counterparty or as principal to transactions with its participants.

8. Other? Please specify?

N/A.

D. What type of organisation is the SSS?

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

Maltaclear is operated by Malta Stock Exchange plc which a public sector entity.

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

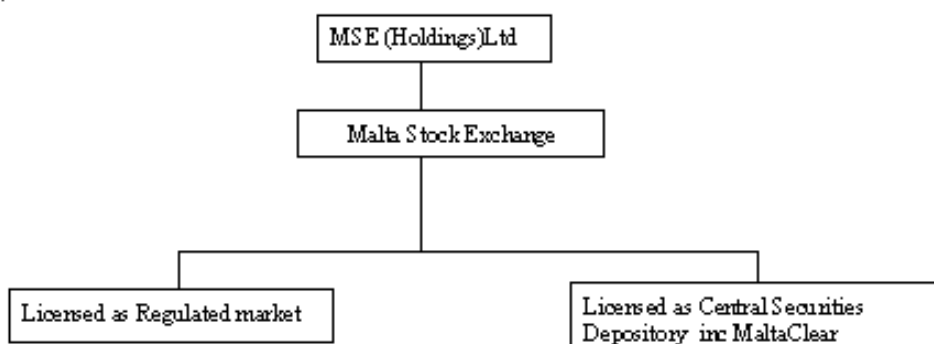
MaltaClear is operated by Malta Stock Exchange plc which is organised on a for-profit basis.

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

Malta Stock Exchange Plc, has been licensed by the Competent Authority in terms of the Financial Markets Act (Cap.345 of the Laws of Malta) (FMA) to operate a central securities depository. Such services are laid down in Article 24 of the FMA and include the provision of “... *clearing and settlement services and any other services ancillary thereto....*”.

MaltaClear requirements and procedures are included in Chapter 7 of the Bye-laws of Malta Stock Exchange Plc, duly approved by the Competent Authority as provided for in the Financial Market Rules issued in terms of the FMA and as also approved by the Central Bank of Malta as oversight authority in respect of authorised payment systems in terms of Article 36 of the Central Bank of Malta Act (Cap. 208 of the Laws of Malta).

- E. Please describe and provide a diagram outlining the organizational and ownership structure of the SSS.



1. Who are the owners of the SSS?

Malta Stock Exchange plc is a wholly-owned subsidiary of MSE (Holdings) Ltd, a holding company wholly owned by the Government of Malta. As indicated in Question D.3.above, Malta Stock Exchange plc is licensed to operate a regulated market and a central securities depository which includes clearing and settlement services provided by MaltaClear.

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

MaltaClear is operated by the central securities depository which in turn forms part of Malta Stock Exchange plc.

The provision of cash accounts is outsourced to the Central Bank of Malta for Euro and commercial banks for non-Euro settlement.

3. Does the SSS have a Board of Directors?

MaltaClear forms part of Malta Stock Exchange plc which is governed by a Board of Directors set up in terms of its Memorandum and Articles of Association of the Company.

F. Please describe the financial resources of the SSS.

MaltaClear's operational costs are offset through transactions costs charged to participants. Any costs not covered by transaction charges are, however, covered by Malta Stock Exchange plc.

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

As indicated in Question D.3 above, MaltaClear is subject to the authorisation, supervision and oversight of the Central Bank of Malta in terms of Article 36 of the Central Bank of Malta Act (Chapter 208 of the Laws of Malta). Furthermore, Malta Stock Exchange Plc which operates MaltaClear is in turn subject to the authorisation, supervision and oversight of the Malta Financial Services Authority, as Competent Authority in terms of Article 24 of the Financial Markets Act (Chapter 345 of the Laws of Malta).

II. RULES AND PROCEDURES OF THE SSS

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

MaltaClear rules and procedures are included as Chapter 7 and relevant Appendices of the Bye-laws of Malta Stock Exchange Plc.

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

All participants are given a copy of the relevant rules and procedures upon application for participation. All participants are also provided with copies of any subsequent amendments to the Bye-laws. Furthermore, the Bye-laws are published and readily available on Malta Stock Exchange Plc's web page (www.borzamalta.com.mt).

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

All documentation pertaining to MaltaClear is included within the Bye-laws, as amended from time to time. The last amendment to the Bye-laws is dated October 2014. Occasionally Exchange Notices or Notices to Members are issued and circulated to MaltaClear Participants and also published on the website www.borzamalta.com.mt.

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

MaltaClear rules and procedures may be amended from time to time as a consequence, among other matters, of technical developments, legislative and /or regulatory changes, change in procedures of related Exchange and market procedures, etc.

Amendments to MaltaClear rules and procedures, must be approved by the Board of Directors of Malta Stock Exchange Plc, following due consultation with participants and other industry participants.

In terms of the Central Bank of Malta Act (Cap 208 of the Laws of Malta) all amendments to MaltaClear rules and procedures, must, after approval by the Board of Directors be also approved by the Central Bank of Malta as lead oversight authority in respect of authorised payment systems.

Finally, subsequent to Central Bank of Malta approval, any amendments to the Bye-laws (of which MaltaClear rules and procedures form part) must be approved by the Malta Financial Services Authority as Competent Authority in terms of Article 8 of the Financial Market Rules issued in accordance with Article 5 of the Financial Markets Act (Chapter 345 of the Laws of Malta).

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

MaltaClear rules and procedures are binding on the operator as well as on participants. Bye-laws 7.01.01 to 7.01.05 set out the obligations and responsibilities of the operator of MaltaClear, including liability to the extent of the losses of the injured party as a consequence of the failure of the Operator to ensure settlement finality and the provision of contingency arrangements.

The rules and procedures of MaltaClear may not be waived or suspended unless in times of national crisis. Bye-law 7.01.03 provides that any part of the procedures contained in the Bye-laws may be replaced, as necessary in accordance with contingency arrangements.

Amendments to prevalent rules and procedures must go through the process as described in Question D.3 above before coming into effect on a date as advised by Malta Stock Exchange Plc.

III. RELATIONSHIPS WITH PARTICIPANTS

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

Bye-law 7.05.01 sets out the participation criteria for membership in MaltaClear and all authorised payment systems shown in Part 2 of the relevant Chapter of the Bye-laws. Current participation criteria provide that the following may participate in MaltaClear.

Participation criteria

7.05.01 A person will be considered a Participant of MaltaClear, and all the authorised Payment systems shown in Part 2, by the Operator if he satisfies any of the following criteria:

7.05.01.01 is a Member of the Malta Stock Exchange duly authorised in terms of Chapter 3 of these Bye-laws; or

7.05.01.02 is an authorised intermediary in terms of Council Directive 93/22/EEC of the 10 May 1993; or

7.05.01.03 is a central securities depository, international central securities depository, clearing and settlement system, central counterparty or clearing house or any other entity which is a signatory to the EU Code of Conduct on Clearing and Settlement.

Where the applicant is not a Member of the Exchange, the applicant must confirm that he has pledged an amount as may be determined by the Board from time to time but which at no time shall exceed the amount applicable to Members as outlined in bye-law 3.04.02 by Maltese Government financial instruments, any other euro fixed interest financial instrument admitted to any of the Exchange's recognised lists or a recognised bank guarantee in favour of the Exchange.

7.05.02 Notwithstanding bye-law 7.05.01 above, a person may be considered by the Operator to be a Participant of MaltaClear, and all the authorised Payment systems shown in Part 2 if he satisfies the participation criteria of any other payment system approved by the Central Bank of Malta in

accordance with the directives issued in terms of the Central Bank of Malta Act [Chap. 204 of the Laws of Malta].

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

Each MaltaClear participant must maintain one or more cash accounts with one or more Executing Banks. These accounts are utilised solely by the relevant participant for settlement purposes. These accounts are omnibus accounts into which each participant deposits his clients' funds. These funds are segregated from other funds pertaining to the participant in his own name. In terms of the Bye-laws, and an Agreement signed with Participants, the Operator is authorised to debit such account/s held with the Executing Banks [Appendix 7.3 of the Bye-laws], up to a limit of the relevant netting settlement amount. On the other hand, securities are held directly in the names of the participant' clients beneficial owners in the accounts held at the Central Securities Depository.

C. Please describe participation requirements for each type of membership.

Bye-law 7.05.01 sets out the participation criteria for participation in MaltaClear. Participation criteria are the same for all participants as described in (A) above.

Any participant must maintain an active bank account with one or more executing banks which must be eligible to be a participant in an approved payment system. Participants must accept full responsibility for the discharge of all obligations arising from participation in MaltaClear and must give appropriate authorisation to the Operator where required by the specific payment system, to debit his settlement accounts.

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

The Operator is not involved in any oversight activities that would overlap with any of the participants' regulatory obligations owed to the participants' relevant competent regulatory authority. However, the Operator

- must ensure that participants are cognizant of the relevant rules and regulations and the authorizations required and act accordingly;
- must ensure that all relevant accounts are opened and that there are no limitations hindering their operations;
- generally supervise the functioning of the system and monitor transactions;
- inform participants of daily settlement balances;
- report to the regulatory and oversight authorities aggregated statistical settlement data as well as data on late/failed settlement, and
- update rules and procedures as required.

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

Participants may voluntarily terminate their participation in MaltaClear in accordance with bye-laws 7.05.15 to 7.05.18 as shown hereunder subject to any obligations already assumed in respect of other participants being satisfied.

Voluntary termination of participation

7.05.15 Subject to any obligations already assumed in respect of other Participants, a MaltaClear Participant may terminate his participation in MaltaClear upon giving the Operator one (1) month advance written notice of such intention to terminate participation. Such termination shall not, however, become effective until full and final settlement of any obligations already assumed by the retiring Participant under the MaltaClear rules.

7.05.16 Upon notification of a Participant's intention to terminate his participation the Operator shall immediately notify all other current Participants, the Malta Financial Services Authority and the Central Bank of Malta of such intended termination of participation. Participants shall have fifteen (15) working days within which to advise the Operator in writing of any amount and any other relevant details of any liabilities owed to them by the Participant intending to terminate his participation in connection with any MaltaClear transactions.

7.05.17 Termination of participation shall not effect or prejudice any liability for debts and dues or any obligation incurred in terms of the rules of MaltaClear.

7.05.18 In the case of a Participant's voluntary termination of participation, the Board shall have the right without prejudice to any other rights available to it at law, to retain the Participant's pledged funds in accordance with bye-law 7.05.01 above and to place such monies or other sums realised thereby to such reserve or other account as the Board may deem appropriate and use any such monies to discharge the liabilities of the said Participant towards other participants. Any remaining balances shall be refundable to the said Participant.

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

The Operator may in accordance with bye-law 7.05.11 suspend or terminate with immediate effect a participant from further participation in MaltaClear.

Suspension and termination of MaltaClear Participant

7.05.11 The Operator shall suspend with immediate effect a Participant from further participation in MaltaClear on account of:

7.05.11.01 the suspension from Membership of the Exchange of a Participant or of any other licence or authorisation that is required under any relevant law for the said Participant to carry on the business of a Member of the Exchange or of an authorised intermediary, or the suspension of any other licence or authorisation of a Participant indicated in bye-law 7.05.01.03 above,

7.05.11.02 non-compliance with any one or more of the requirements for such participation as set out by the Operator, and

7.05.11.03 insolvency proceedings in respect of any Participant.

Provided further that the Operator may suspend or terminate participation in MaltaClear in the case of one or more defaults by a Participant.

7.05.12 Notification of such suspension for any of the reasons given in bye-law 7.05.11 above shall be communicated in writing to the MaltaClear Participant who shall have five (5) working days from the date of notification of suspension to apply in writing to the Board giving his reasons why the Operator should reconsider its decision.

7.05.13 The Board shall reply to any such application as mentioned in bye-law 7.05.12 above, within five (5) working days.

7.05.14 The Board's determination of the application for reconsideration submitted in terms of bye-law 7.05.12 above shall be in writing and shall be served on the applicant.

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

Section 7.01.00 the Bye-laws sets out the responsibilities and liabilities of the operator vis-à-vis participants in the system, as follows :

Collateral

7.01.01 The Operator shall ensure that the necessary financial support or guarantees, including but not limited to the provision of overdraft arrangements and collateralised financial instruments in its favour, are in place in order to maintain the financial integrity and continued operations of MaltaClear.

Publication of data

- 7.01.02** The Operator shall ensure that any data relating to MaltaClear Participants or their Executing Banks shall remain confidential. However, the Operator shall not be prohibited from publishing any aggregated data or statistics.

Systems failure

- 7.01.03** The Operator shall make all possible contingency arrangements it deems necessary, including the suspension or replacement of any of the arrangements contained in these Bye-laws and Appendices, by manual procedures and/or alternative automated procedures, in order to ensure that settlement finality is achieved when a failure occurs in any of the arrangements described in these Bye-laws and the Appendices.
- 7.01.04** Should the Operator fail to perform any of its obligations as set out in these bye-laws, as a result of the failure of any of its systems or arrangements, MaltaClear shall not incur any liability resulting from such failure towards the injured party. Any losses suffered by the injured party as a result of a failure to ensure fulfilment of the conditions for settlement will be incurred by MaltaClear only to the extent of the direct losses incurred by the injured party based on the value of the relevant securities on settlement date but without consideration to any loss of future earnings.
- 7.01.05** In the case of a failed settlement as outlined in bye-law 7.01.04 above, the injured party shall have fifteen (15) working days from the date of such failure to make the appropriate claims for direct losses to MaltaClear.

IV. RELATIONSHIPS WITH OTHER SSSs AND COMMERCIAL INTERMEDIARIES

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

MaltaClear maintains direct links with the Central Securities Depository, where securities' accounts are maintained in order to achieve finality of settlement of transactions.

The CSD maintains a link with Clearstream Banking AG, Frankfurt (also extending to relayed link to Clearstream Banking S.A., Luxembourg) governed by a Custody Agreement and appropriate Service Level Agreement.

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

N/A.

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

As stated in A. above, the Malta CSD maintains a link with CBF under a Custody Agreement and appropriate SLA.

The insurance cover of the CSD has been appropriately extended to cover the link.

The link is approved by the Central Bank of Malta in terms of Article 36 of the Central Bank of Malta Act and has been assessed by the ECB [via the NCBs of the two entities].

In October 2013 it was confirmed that the following links have been deemed to be eligible for the Eurosystem monetary policy and intraday credit operations:

- MaltaClear (investor CSD) to CBF-Cascade (issuer CSD)

- CBF-Cascade (investor CSD) to MaltaClear (issuer CSD)
- and the relayed link from CBL (investor SSS) via CBF-CASCADE (middle SSS) to MaltaClear (issuer SSS).

D. Does the SSS advance funds or securities to or on behalf of other intermediaries such as issuing or paying agents. If so, please identify the circumstances in which such exposure could arise?

N/A, MaltaClear does not currently advance funds or securities.

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

There would be no difference between standards and management risk measures in respect of domestic and international participants. MaltClear disclaims any responsibility if a settlement instruction entered into the system to avail of the MSE-Clearstream link cannot be processed due to any reason beyond MaltaClear's control.

V. SECURITIES TRANSFERS, FUNDS TRANSFERS AND LINKAGES BETWEEN TRANSFERS

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

Matching is currently required for all transactions. Securities transfer orders are entered in MaltaClear as soon as they are definitively allocated to securities accounts thereby becoming final and binding on all parties against the corresponding cash transfer orders. The Operator initiates incoming funds transfers instructions in the form of multilateral netting notifications. MaltaClear is duly mandated to debit from the Participants' cash accounts held with the Executing Banks. When all funds are credited to MaltaClear's cash settlement account, transfer of securities held within the central securities depository will be initiated (i.e., upon confirmation that DvP settlement finality has been achieved). Should a Participant fail to meet his settlement obligations, the Operator may take any action to ensure that the settlement cycle is not interrupted and may take any sanctions, including impose a fine and in the last resort, also suspend or terminate participation, as provided for in the Bye-laws.

B. Are securities transferred within the SSS registered?

As described in (A) above, securities are registered within the central securities depository, also operated by the Malta Stock Exchange plc.

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

As described in (A) above, Security Transfer Instructions for transfer of securities held within the central securities depository are initiated upon confirmation that DvP settlement finality has been achieved. Final delivery of securities is achieved if, and only if, final payment has been achieved.

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

Cash Transfers are processed as debits and credits to Participants' accounts through the Executing Banks. MaltaClear does not maintain cash accounts for participants. There is no cash deposit risk. Securities transfers are processed through a debit from the selling client's securities account and a corresponding credit in favour of a buying client's securities account.

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

All transactions are processed in one batch. MaltaClear is a DvP Models 1 and 2 according to the BIS definitions (vide <http://www.bis.org/publ/bppdf/bispap30z.pdf>).

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

MaltaClear is available as required in the operating times of Target2. The netting cycle for transactions is executed and completed at 13.00 hours, but may allow for later batch settlement windows, within the relevant operating times of Target2.

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

MaltaClear securities settlement may be available on a daily basis.

There are no securities settlement instructions for which settlement occurs on specific days only.

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

Funds and securities transfers are processed within the same system. As described above finality of settlement is ensured through the linkages (via SWIFT) between the SSS and central securities depository. Accounts are held at the Central Bank with TARGET2 for Euro denominated payments, and commercial banks in respect of non-Euro payments and the SSS (Please see III(A) above.).

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

As described above MaltaClear is a DvP Model 1 and 2 according to the BIS Settlement Models for Treasury Bills/money market instruments and all the remaining instrument type transactions respectively. Timings of settlements are as hereunder :

Settlement day: Securities Settlement [T+2] Netting System

- Participants must ensure that funds are deposited into their Settlement Accounts (Cleared Funds)
- The Operator generates and transmits SWIFT Messages Type 204 to debit the Participants' Settlement Accounts and credit the MSE MaltaClear Settlement Account within the Payment System for Participants with net amounts due.
- SWIFT Message Types 202 are sent to Payment System Participants' executing banks with net due balances to credit the MSE MaltaClear accounts.
- Provided that all net amounts due have been credited in the MSE MaltaClear Settlement Account, SWIFT message types 103 are sent to the Payment System. MaltaClear sends messages to the Payment System for onward transmission to the net owed participants' executing banks to credit their respective accounts based on trading of T+0.
- Simultaneously with the above, trades are settled on a gross basis and registered within the respective account held at the central securities depository on the DvP basis.

OTC trades are reported to the market in accordance with Chapter 8 of the Bye-laws and are settled on T+0 FOP.

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

Funds transfers are processed within the MaltaClear's mandate in respect of designated cash accounts at the Participants' executing banks. Securities transfers are effected in the central securities depository. The SSS and the central securities depository are linked through the SWIFT messaging system.

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

All transfers of MaltaClear transactions are done on a DvP basis where the final settlement of financial instruments occurs if, and only if the final settlement of funds occurs. Final delivery of securities does not precede the final transfer of funds. The transfers occur simultaneously. The timing of finality does not differ depending on the type of security transferred or the currency in which the payment is made.

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

Only when they are final.

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

The SSS itself does not guarantee funds or securities transfers. The rights, obligations and liabilities of the SSS and its Participants are set out clearly in the relevant Bye-laws.

It is to be noted that transfer orders and netting are legally enforceable from the point of entry into the SSS (bye-laws 7.04.06 and 7.04.07 refer) and are binding on third parties, even in the event of insolvency proceedings against a Participant of the System, provided that the transfer orders were entered into the system before the opening of the insolvency proceedings.

VI. DEFAULT PROCEDURES

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

Failure to deliver funds or securities would constitute a default by a Participant in terms of the Bye-laws which could lead the SSS to make use of exceptional settlement arrangements.

The insolvency of a Participant under applicable laws would also constitute a default by a Participant.

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

Once a default event has been determined by the SSS alternative settlement arrangements are employed as outlined in the Bye-laws hereunder.

7.06.00 Default Rules

7.06.01 Voluntary Renunciation to execution of settlement obligation

A settlement default or fail occurs in the case of insufficient settlement of funds or financial instruments due by the intended settlement date relevant deadline. A settlement default or fail shall be subject the following Default Rules, although the Exchange may, on a case by case basis, derogate such Default Rules where the trading counterparties express in writing their respective voluntary renunciation to the execution of the settlement obligations by the expiry of the settlement date. Any such derogation from the following Default Rules shall not prejudice the right of the Exchange to impose penalties and sanctions on the defaulting party in accordance with Section 7.07.00 of these Bye-laws.

Insufficient coverage of settlement funds

Auto-collateralisation of purchased securities

Buying Client

- 7.06.02** A buying client of an unsettled trade may seek to utilise the financial instruments purchased as collateral against a loan facility from a credit institution to pay for the financial instruments so purchased.
- 7.06.03** Should the buying client decide to avail himself of the option as outlined in bye-law 7.06.02 above, he shall inform the Participant acting on his behalf by no later than close of business on T+1 providing all the relevant details of the credit facility obtained or to be obtained for delivery of the requisite funds by the set deadline on T+2 as the intended settlement date (hereinafter '*ISD*').
- 7.04.04** The Participant is to inform the Exchange of such occurrence by no later than T+1 that during the settlement and delivery process on T+2 as the *ISD*, such financial instruments may be registered in the name of the buyer but pledged in favour of the credit institution providing the loan facility and deposit of funds as aforesaid.
- 7.06.05** The buying client is to ensure that in such circumstances as outlined in bye-law 7.06.04 above, the Exchange is in receipt of the necessary documentation in order to effect and acknowledge the pledge and that the credit institution is in a position to advance the funds for settlement prior to the cut-off time on T+2 as the *ISD*.

Participant – Novation

- 7.06.06** In cases where the buyer has not advanced the appropriate funds for settlement or will not be in a position to advance the appropriate funds for settlement to the Participant, the Participant shall be entitled to acquire title to the purchased securities provided that the direct participant himself effects or procures the payment of the relevant settlement total in accordance with the standard Novation Clause included in the Client Agreement Letter as stipulated in bye-law 4.01.05.

which Agreement Letter caters for the client's consent for delivery of title to the purchased securities, subject to a default by the buying client to settle the requisite settlement funds within close of business of T+1 where the ISD is T+2. The novated securities shall upon successful settlement be credited to the securities account of the relevant Participant as may be specified.

7.06.07 Should the Participant decide to utilise the novation facility entitlement as outlined in bye-law 7.06.06 above, by paying the requisite settlement funds for the financial instruments himself, he must inform the Exchange immediately he becomes aware of such a situation of the buying client's inability to advance the said funds, but no later than close of business on T + 1, giving all relevant details of the buyer who has failed to settle so as to ensure that during the delivery and settlement process the financial instruments will be registered in his name and not in that of the buyer.

7.06.08 Should the Participant decide to utilise the entitlement as outlined in bye-law 7.06.06 above to secure collateral against the financial instruments bought to obtain sufficient funds to effect settlement of an excluded trade, he should inform the Exchange immediately, but definitely not later than close of business on T + 1 giving full details of the financial terms entered into. The Participant shall ensure that, should he decide to utilise this option, the Exchange is in receipt of the necessary documentation in order to effect and acknowledge the pledge and that the credit institution is in a position to advance the funds for settlement prior to the stipulated cut-off time.

Selling-out procedure

7.06.09 Should neither the buyer nor the Participant acting on his behalf be in a position to take up the options for auto-collateralisation and novation as described in bye-laws 7.06.02 to 7.06.08 above, a sell-out procedure may be resorted to on T + 2 upon request of the buying stockbroker being made by the close of business on T+1. Settlement of the selling-out sale will be on a T + 0 gross basis.

7.06.10 In such circumstances, the relevant sell order shall be placed on the market and every endeavour shall be made to obtain the best possible

price for such sale. However, any losses incurred on such sale arising from market fluctuations shall be borne by the defaulting Participant.

- 7.06.11** Such sell order as indicated in bye-law 7.06.10 above shall remain available on the regular market until executed or until the unsettled trade is due to be excluded from the delivery versus payment system as mentioned hereunder, whichever comes first, provided that both parties to the defaulting trade agree.

Roll-back procedure

- 7.06.12** A roll-back procedure shall be resorted to in circumstances where the lack of cash coverage persists despite all the above mentioned courses of remedial action.
- 7.06.13** A roll-back procedure is a process of the last resort where the Exchange concludes that the removal from the calculation of the multilateral netting balances of unsettled transactions is inevitable and the roll-back procedure is resorted to so as to facilitate the clearing and settlement process.
- 7.06.14** The Exchange shall inform all Participants that it shall be effecting a roll-back procedure by the cut-off time on Settlement Day as stipulated in the Settlement Time-table issued by the Operator from time to time. Such Notice shall also call on Participants to credit any funds top-up by a set deadline within the same T+2 as the ISD.
- 7.06.15** In a roll-back procedure, all those trades that can be settled should be settled and such trades remaining unsettled by the set deadline due to insufficient funds shall be excluded from the recalculated multilateral netting balances. All trades that may settle are included in recalculated multilateral netting balances and they shall be settled by the Operator so that the greatest number of trades are settled provided that the participants affected by any increased financial contributions arising from the re-calculated net multilateral balances advance the notified funds top-up by a set deadline for such top-up. Upon credit into the MaltaClear Operator's cash account of all the remaining funds top-up,

the trades included in the recalculated multilateral netting will be settled on T+2 as the ISD.

- 7.06.16** In a roll-back procedure, the multilateral netting balances will be recalculated after the unsettled transactions have been identified and excluded from the new netting balances and after the trades settled as outlined in bye-law 7.06.15 above are excluded from the new multilateral netting balances.
- 7.06.17** The Operator shall inform the affected Participants of the recalculated netting balances soonest following the processing of the said recalculation. Such recalculated netting balances, including any consequent funds' top-ups, shall be due for settlement by the set deadline of T+2 as the ISD.
- 7.06.18** Any top-up contributions owed by Participants as a result of a roll-back procedure shall at all times be arrived at according to the relevant trading session market prices of the instruments transacted in addition to any applicable accrued interest calculations for debt instruments and relevant charges in accordance with normal procedures.
- 7.06.19** The Exchange may take any action and/or impose any fines on the defaulting Participant as described in bye-laws 7.07.01 to 7.01.03 below.

Excluded Trades

- 7.06.20** The MaltaClear transactions that have been excluded from the recalculated multilateral netting balances shall be due for settlement on a gross basis on the next working day following the original Settlement Date, i.e. T + 3.
- 7.06.21** Such transactions shall remain available for settlement until T + 3, after which time should such transactions remain unsettled, the Operator shall give notice to the relevant Participants of the outstanding transactions which shall then be excluded from MaltaClear settlement.
- 7.06.22** In the event that unsettled transactions are excluded from MaltaClear settlement as aforesaid, the Exchange disclaims any responsibility for

and shall not be liable in respect of any claims for losses or damages, whether direct or indirect, suffered by Participants or their clients.

Insufficient coverage of Financial Instruments

Coverage of shortfall by Participant acting on behalf of seller

7.06.23 In circumstances where the Exchange identifies a lack of a sufficient amount of financial instruments on Settlement Day, the Participant shall be informed accordingly. The Exchange may propose to the Participant to seek to cover the shortfall in the seller's relevant securities balance by the ISD cut-off time by supplying the requisite amount from any balances standing to the credit of such Participant's securities account in favour of the seller's account held at the CSD.

7.06.24 Should such Participant agree to cover the shortfall in financial instruments from his own holdings, he shall inform the Exchange accordingly prior to the ISD cut-off time and authorise the Exchange to debit his holdings in his account held at the CSD so as to credit the seller's account held at the CSD in order that the settlement and delivery process may continue unimpeded.

Lending and Borrowing of Financial Instruments

7.06.25 A Participant may opt to cover the lack of coverage in financial instruments through an appropriate lending and borrowing arrangement agreed to between the parties against adequate indemnity for any financial loss that may be suffered by the lender in the event of any default under the securities lending and borrowing arrangement.

7.06.26 Should the Participant be taking up this option, he shall inform the Operator accordingly by not later than 09.30 hours on Settlement Day and shall also provide the Operator with a copy of the borrowing agreement and all other appropriate details in order that the settlement and delivery process may be effected unhindered.

Buying-in procedure

- 7.06.27** Should the option described in bye-laws 7.06.23 to 7.06.26 above not appear to be possible the Exchange shall instruct the Participant to effect a buying-in procedure on the next day that the trading system is available.
- 7.06.28** In such circumstances the Participant will be bound to effect a purchase on the market of the financial instruments not available for settlement. The relevant purchase order shall be placed on the market and every endeavour shall be made to obtain the best possible price for such purchase. However, any losses incurred on such purchase arising from market fluctuations shall be borne by the defaulting selling Participant.
- 7.06.29** Such purchase order shall remain on the trading system until executed or until such time that the excluded trade is due to be removed from the Maltaclear delivery versus payment system, whichever comes first provided that both parties to the defaulting trade agree.

Roll-back procedure

- 7.06.30** Should the lack of cover of financial instruments still persist by close of the trading session of T+2 on the ISD, the Exchange shall effect a roll-back procedure similar to that effected in the circumstances of lack of cash coverage in accordance with bye-laws 7.06.13 to 7.06.23 above.

C. Has a Participant in the SSS ever been declared in default or become insolvent.

No, there has been no instance in which a Participant has been declared in default or become insolvent.

VII. SECURITIES OVERDRAFTS, SECURITIES LENDING AND BACK-TO-BACK TRANSACTIONS

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

No.

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

The SSS does not provide for lending of securities.

C. How does the SSS settle for back-to-back transactions.

N/A.

VIII. RISK CONTROL MEASURES

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

Risk management and control are reviewed by Risk Management Committee set up by the Board and the Board of Directors of the Operator and by the Competent Authority as well as the Exchange's external auditors`. Operations Audit Office (which is the Internal Audit Office of the Exchange) also reviews all documentation and procedures with respect to risk management and control of MaltaClear. *(Please also see VIII (B) below).*

B. Please describe any internal and external audits or supervisory/regulatory examinations that are performed with respect to the SSS.

The SSS is subject to the oversight of the Central Bank of Malta. The SSS also regularly reports to the Central Bank of Malta as its Competent Authority.

As the SSS is an integral part of the Malta Stock Exchange Plc, Its rules and procedures are also approved by the Malta Financial Services Authority, as regulator of the capital market. Furthermore, SSS procedures and operations are also subject to internal audit through the Exchange's own Operations' Audit Office as well as the external auditors as part of the annual risk management review.

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

Currently, MaltaClear does not hold any securities itself.

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

MaltaClear does not have any lien on the securities transferred through it.

In accordance with the Bye-laws of the Exchange, on trading day, the central securities depository shall record the relevant amount of securities in the buyer's account indicating the acquisition of the right of forward transmission. The buyer may re-sell and alienate the said acquired right. Until final settlement a buyer shall only have acquired a corresponding right for the forward delivery of the relevant securities if he discharges his payment obligation on Settlement Day.

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

All Participants in MaltaClear, in terms of the Bye-laws of the Malta Stock Exchange, must deposit in favour of the Exchange an amount in cash (or equivalent) and which is reviewed from time to time. Such cash amounts may be used by the Exchange, in full or in part, to cover any shortfalls in settlement amounts (*Please see VIII (G) below*).

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

Please see VIII (G) below.

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

The Exchange, as Operator of MaltaClear, considers that settlement risks are minimal since it exercises a continuous monitoring of the system and is, therefore, at any moment, aware of the prevalent conditions and state of processing of instructions, etc. However, the rules and procedures of the system also include the following risk prevention measures :

- DvP – The clearing system operates according to DvP models 1 and 2 for all transactions.
- Deposit by Participants to be availed of in the case where Participants fail to deposit sufficient funds in their settlement accounts prior to cut-off time.
- Sanctions and penalties imposed on any defaulting Participant which may include fines and any penalties including suspension or termination of Participation from the system.

In terms of the Bye-laws of the Exchange, Participants in MaltaClear upon being accepted as Participants, accept full responsibility for compliance with all the rules and regulations of MaltaClear and also accept full responsibility for any liability that arises vis-à-vis the Operator and other Participants of MaltaClear, as a result of failed settlement.

IX. OPERATIONAL RISKS

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

Note: All audit, security and operational assessments of MaltaClear are for the internal use of the Exchange.

- 1. What is the percentage uptime of the systems used by the SSS?**

The percentage uptime of the systems used is 100%.

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

No.

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

- 1. Data management (backup and audit trails)**

- Audit trail of all transactions is available on a daily basis
- On a daily basis, back-up is taken
- On a weekly basis, a back-up is taken which is stored off-site

- 2. Emergency plan**

The Operator of MaltaClear is obliged to make all possible contingency arrangements it deems necessary, including the suspension or replacement of any of the arrangements contained in the Bye-laws and any other relevant regulations and procedures. Contingency arrangements may include alternative automated procedures or manual procedures in order to ensure that settlement finality is achieved when a failure occurs in any of the arrangements described in the Bye-laws and any other relevant regulations and procedures.

In the case of the failure of the messaging system (SWIFT), other arrangements, which include the use of e-mails, fax, etc. have been agreed to with the Executing Banks and the Central Bank.

3. Disaster recovery

Please see IX (B) above.

C. What are the key features of the internal controls covering operations and security at the SSS (eg. Change controls or those or those covering remote access)

MaltaClear is located within the Exchange and is operated and controlled by relevant officials of the Exchange. This guarantees the confidentiality and security of the transactions.

- MaltaClear structure and control procedures ensure that it acts only on authentic settlement instructions from valid Participants/Executing Banks
- Users are defined at different levels of authorization depending of their particular function
- Internal operational and security controls are included in the internal and external IT audits of the Exchange
- Hardware configuration and backup tapes are kept in a secure area within the Exchange with limited authorized access and also off-site

D. Does the SSS impose minimum operational or performance standards on third parties (eg. communications providers).

MaltaClear imposes operational standards in the contracts signed between the Participants and their Executing Banks. One criteria for Participation is that participants have to be appropriately licensed by their relevant Competent Authorities, which license would include operational standards. MaltaClear does not impose any other operational standards except that all Participants and any third parties must be in a position to abide by the rules and regulations of the system.