

**CONTENTS**

1. General Provisions .....	2
2. Clearing Agent and Clearing Agreement.....	4
3. Use of Funds of Member Firm and Client.....	5
4. Transfer of Data From Trading System to Settlement System.....	6
5. Exchange Guarantee Fund .....	7
6. Amendment of Exchange Transactions.....	9
7. Activities of Exchange upon Organisation and Securing of Settlements .....	11
8. Exchange transactions with cross-border settlement .....	18
9. Sanctions .....	19

## 1. GENERAL PROVISIONS

- 1.1. For the purposes of these "Rules for Clearing and Settlement of Exchange Transactions" (hereinafter the *Clearing and Settlement Rules*), clearing of exchange transactions shall mean execution of exchange transactions.
- 1.2. For the purposes of these Clearing and Settlement Rules, the settlement of exchange transactions shall mean execution of obligations arising from exchange transactions by transfers of securities and money, according to the conditions of the exchange transactions executed by the member firms on the basis of the settlement details submitted by the member firm to the keeper of the of the Estonian Central Register of Securities (hereinafter: *ECSD*) and the execution of operations necessary for clearing and settling the transactions by the Exchange.
- 1.3. For the purposes of these Clearing and Settlement Rules, the settlement details shall mean an order given to ECSD by a member firm for the transfer of securities in order to execute the obligations arising from an exchange transaction, which contain information necessary for the execution of the transaction.
- 1.4. Unless otherwise provided by the Clearing and Settlement Rules, the clearing and settlement of exchange transactions shall be effected according to the rules established therefore by ECSD and/or a person organising the clearing and settlement of transactions (hereinafter: *ECSD Rules*). Unless provided otherwise, the definitions presented in the Clearing and Settlement Rules shall be used in the meaning specified in the ECSD Rules.
- 1.5. The composition of data contained in the trade data and settlement details forwarded by a member firm for clearing and settlement of exchange transactions shall be determined by the provisions of the rules for the use of the Exchange trading system and the ECSD Rules.
- 1.6. The clearing and settlement of exchange transactions shall be effected on the settlement date of the transaction (*S*). The settlement date of an exchange transaction shall be determined according to the rules for the use of the trading system. In case of automatic order matching, the settlement date of the transaction shall be the third exchange day (*T+3*) following the transaction date (*T*). Member firms can agree upon a settlement date that differs from that by filing a relevant application with the Exchange according to the procedure prescribed by the Exchange. In case of manual trade, the member firms may determine that the settlement date of the transaction is from *T+1* until *T+6*. Member firms may agree on a different settlement date of the transaction than the one provided in the previous sentence may be agreed only on the consent of the Exchange.
- 1.7. A member firm shall be held responsible for securities and money necessary for clearing and settling transactions being available on the respective current and securities accounts, both in the case of transactions in the name and on the account of the member firm as well as in the name and on the account of their clients.

- 1.8. The Exchange shall control the possibility of clearing and settlement of transactions. The Exchange has the right to make changes to the terms and conditions of exchange transactions and to amend the settlement details and trade data in the cases and according to the procedure provided by these Clearing and Settlement Rules and ECSD Rules.

## 2. CLEARING AGENT AND CLEARING AGREEMENT

- 2.1. A member firm, which is not a credit institution that is an ECSD account operator shall have a valid clearing agreement with a credit institution which is an ECSD account operator (hereinafter: the *Clearing Agent*) for clearing and settlement of exchange transactions. By agreement of the Exchange Management Board, a foreign member firm may arrange the clearing and settlement of exchange transactions through an ECSD account operator, which conforms to the requirements provided in subsection 32 (2) of the Estonian Central Register of Securities Act (hereinafter: the *Foreign Clearing Agent*). In such a case, the member firm need not conclude a clearing agreement with a credit institution, which is an ECSD account operator. The Exchange Management Board shall refuse to grant the above-mentioned consent if the settlement of exchange transactions by the foreign member firm has not been arranged according to the legislation of their country of seat or does not ensure the due execution of the obligations arising from exchange transactions according to the assessment of the Exchange Management Board.
- 2.2. A clearing agreement is an agreement concluded by a member firm with a Clearing Agent, on the basis of which the financial obligations arising from the exchange transactions of the member firm are settled under the settlement details forwarded by them through the correspondent account of the Clearing Agent with the Bank of Estonia. The conditions of and procedure for clearing and settlement through the correspondent account of the Clearing Agent shall be specified in the ECSD Rules.
- 2.3. Settlement of the financial obligations between a Clearing Agent and a member firm shall be effected according to the conditions and procedure provided by a clearing agreement or other agreement between them.
- 2.4. A member firm shall be obliged to submit a copy of the clearing agreement to the Exchange. Five banking days before the expiry of the clearing agreement at the latest, the member firm shall be obliged to submit a copy of the new clearing agreement that shall enter into force on the day following the date of expiry of the previous clearing agreement at the latest.

**3. USE OF FUNDS OF MEMBER FIRM AND CLIENT**

- 3.1. Each member firm, which is not a credit institution that is an ECSD account operator, shall have a clearing account with the Clearing Agent. For the purposes of these Rules, a clearing account is a current account of a member firm that is used for financial settlements arising from the execution of the exchange transactions concluded by the member firm.
- 3.2. The conditions of and procedure for using the clearing account shall be determined in the clearing agreement concluded between a member firm and their Clearing Agent according to the provisions provided in section 2.2 of these Clearing and Settlement Rules.
- 3.3. A member firm shall be obliged to use one or more clearing accounts of the client for financial settlement of the obligations arising from the transaction executed on the account of the client. For the purposes of these Rules and Regulations, a clearing account of the client of a member firm (*Client Account*) is a special current account opened by the member firm with their Clearing Agent for the maintenance of the funds of the clients of the member firm. The funds of one or more clients of the member firm shall be maintained in the Client Account of the member firm.
- 3.4. A member firm shall be obliged to keep account of the funds in the Client Account of the member firm and the personal bank account of the client in respect of which the client has granted to the member firm the right of disposal according to the provisions of legislation and rules established by the Exchange.
- 3.5. The provisions of this chapter shall not be applied to such a foreign member firm that arranges the settlement of exchange transactions through the Foreign Clearing Agent specified in section 2.1.

**4. TRANSFER OF DATA FROM TRADING SYSTEM TO CLEARING AND SETTLEMENT SYSTEM**

4.1. The data (the *trade data*) concerning the conditions of the exchange transactions executed in the Exchange trading system, which are contained in transaction orders and trade data shall be transferred to the clearing and settlement system used for clearing and settling exchange transactions with the following specifications:

4.1.1. *Repealed - entered into force 27.09.2004*

4.1.2. as the price of the exchange transaction executed with bonds shall be specified as a percentage of the nominal value of the bond in the trading system, the price of the bond shall be recalculated before the transfer of data to the clearing and settlement system, as a result of which the price of the bond shall be displayed in the trade data as the price of the bond in euros.

## **5. EXCHANGE GUARANTEE FUND**

### **5.1. General provisions**

5.1.1. The purpose of the Exchange guarantee fund is to cover the expenditure incurred by the Exchange and ensure the execution of the other obligations of the Exchange created in relation with:

5.1.1.1. the securities provided by the Exchange in respect of the clearing and settlement of exchange transactions;

5.1.1.2. in the cases provided in subsection 7.1.4, as a result of implementation of the aids and measures used by the Exchange to secure the clearing and settlement of transactions.

### **5.2. Amount of contribution and procedure for payment**

5.2.1. Before commencing trading on the Exchange, a member firm shall make a one-time contribution on the Exchange into the Exchange guarantee fund. For payment of the contribution into the Exchange guarantee fund the member firm shall pay the required amount to the account of the Exchange guarantee fund opened by the Exchange for this purpose.

5.2.2. The size of the Exchange guarantee fund shall be determined by the Board of the Exchange, taking into consideration legislative requirements on the size of the guarantee fund, trading activity, volume and number of transactions on the market, other possible relevant circumstances and risks and the overall situation on the market.

5.2.3. The size of the Exchange guarantee fund shall be determined by the Board of the Exchange. In cases provided in the Rules, the Board shall be entitled to require that member firms make additional contributions to the Exchange guarantee fund at the dates, degree and procedure as laid down by the Board of the Exchange.

5.2.4. The procedure for keeping the assets of the guarantee fund and the procedure for investing funds of the guarantee fund shall be established by the Board of the Exchange.

### **5.3. Procedure for reimbursement of contribution**

5.3.1. A member firm that cancels the membership of the Exchange or whose membership is cancelled in accordance with the provisions of the "Supervision" section of these Rules and Regulations, has the right to demand reimbursement of the contribution paid by them. If the contribution of the member firm has been, by a resolution of the Exchange Management Board, used to settle their debt to the Exchange, a member firm or an investor, also if the resources of the Exchange guarantee fund have been used by a member firm to compensate for the damage caused to another member firm, the Exchange or an

investor, the Exchange Management Board shall determine the amount to be reimbursed, taking into account the amount of payments made from the guarantee fund.

- 5.3.2. A resolution concerning the reimbursement of the contribution shall be made within three (3) months of the date specified in section 5.3.1. The part of the contribution that is to be reimbursed shall be returned to the member firm within ten (10) Exchange days after the adoption of the said resolution.

#### **5.4. Restoration of the guarantee fund**

- 5.4.1. Member firm whose financial shortfall that was caused by non-execution of its obligations is covered from the Exchange guarantee fund shall reimburse in addition to the payment made from the guarantee fund also all other costs related to the use of the guarantee fund as well as the fees for every Exchange day in accordance with the rules laid down by the Exchange within three days after payment of the funds from the guarantee fund (T+3).
- 5.4.2. In case the member firm for whose non-execution of obligations the funds of the guarantee fund were used fails to reimburse the payments made from the guarantee fund and other costs related to the use of the guarantee fund and fees provided in clause 5.4.1 within the specified term the Exchange shall collect the debt without delay on account of the member firm's bank guarantee or deposited amount.
- 5.4.3. In case the size of the guarantee fund falls below statutory minimum level, the Exchange shall restore the guarantee fund within a reasonable time to at least the minimum statutory by requiring that member firms make additional equal contributions to the Exchange guarantee fund.



## **6. AMENDMENT OF EXCHANGE TRANSACTIONS**

### **6.1. General provisions**

For the purposes of these Clearing and Settlement Rules, amendment of exchange transactions shall mean amendment of the conditions of exchange transactions, of trade data and settlement details until the banking day preceding the settlement date of the transaction (S-1). Amendments can be made according to the schedule of data-processing operations established on the basis of the ECSD Rules.

### **6.2. Amendment of conditions of exchange transaction**

6.2.1. Only the Exchange has the right to amend the conditions of an exchange transaction. Unless otherwise provided by these Clearing and Settlement Rules or Member Rules, the Exchange shall amend the conditions of the exchange transaction based on a motivated application of the member firm serving as a party to the transaction, provided that the other party to the transaction has also granted their consent to the amendments requested.

6.2.2. A member firm has the right to submit to the Exchange an application for the amendment of the following conditions of an exchange transaction:

6.2.2.1. amendment of the settlement date of the transaction;

6.2.2.2. conversion of the status of the exchange transaction into a transaction with off-exchange settlement;

6.2.2.3. cancellation of the exchange transaction.

6.2.3. If the Exchange refuses to make the above-mentioned amendments to the conditions of the exchange transaction, the member firm that submitted the application shall be immediately notified thereof.

### **6.3. Amendment of data contained in the settlement details by member firm**

6.3.1. A member firm has the right to amend the settlement details made by them for execution of an exchange transaction, if the settlement details have not been confirmed or have been confirmed by the member firm for the purposes of the ECSD Rules.

6.3.2. If the confirmation of the account operator has been attached to the settlement details, the member firm has no right to amend them. The member firm has the right to order the account operator who certified the settlement details to cancel the settlement details.

**6.4. Off-exchange settlement of exchange transactions**

- 6.4.1. As a rule, settlement of exchange transactions shall be effected according to the chapter "Securities Transfers Based on Exchange Transactions" of the ECSD Rules. On the basis of a motivated application of a member firm and on condition that the member firm serving as the counterparty to the transaction agrees thereto, the Exchange may allow settlement of the transaction executed through the trading system of the Exchange according to the provisions of the chapters "Securities Transfer Against Payment" and "Securities Transfer Without Payment" of the ECSD Rules (so-called *Off-exchange Settlement of Exchange Transaction*).
- 6.4.2. After the conversion of the status of the exchange transaction into an off-exchange transaction, the member firm shall arrange an additional entry of the conditions of the transaction and the settlement of the transaction through the ECSD account operators as "transfer of securities without payment" or "transfer of securities against payment" according to the conditions provided by the ECSD Rules.
- 6.4.3. The off-exchange transaction shall be settled through the ECSD account operator with the settlement date of T+5 at the latest, where the date of entering the trade data in the Exchange trading system shall be regarded as the date T. If the transaction has not been settled during that period, the member firm shall immediately notify the Exchange thereof.
- 6.4.4. The measures provided by these Rules and Regulations shall not be applied to secure the execution of off-exchange transactions. Off-exchange transactions shall be executed on the own responsibility of the member firms.

## **7. ACTIVITIES OF EXCHANGE UPON ARRANGEMENT AND SECURING OF SETTLEMENTS**

### **7.1. General provisions**

7.1.1. The Exchange has the right to issue mandatory precepts to member firms, if the member firm as failed or is, according to the Exchange, unable to execute, either partially or fully, their obligations arising from the clearing and settlement of exchange transactions either in the name and on the account of the member firm or on the account of the client.

7.1.2. The Exchange has the right to impose additional requirements on the member firm that is related to an exchange transaction the settlement of which has partially or fully failed, or in respect of whom there are grounds to believe that they are unable to execute the obligations arising from the settlement of their exchange transaction and related thereto.

7.1.3. A delay caused by a technical error of the member firm, measures taken by the Exchange or other reason upon the settlement of the exchange transaction shall not serve as the basis for cancellation of the exchange transaction and shall not grant a party to the transaction the right to unilaterally refuse to settle the transaction, except in the cases provided in section 4.1 of the Member Rules. If the delay upon the settlement of the exchange transaction was caused by the activities or omission of a party to the transaction, as a result of which the other party incurred proprietary damage, the other party to the transaction has the right to demand of the delaying party compensation for the proprietary damage, except for the revenue forgone, caused by the delay upon the settlement of the transaction.

7.1.4. The Exchange has the right to apply to a member firm that has, according to the assessment of the Exchange, either partially or fully responsible for the failure to settle an exchange transaction, all the measures and sanctions provided by the Rules and Regulations of the Exchange as well as other aids and measures that have not been directly provided by the Rules and Regulations of the Exchange but the application of which is necessary in the particular situation according to the assessment of the Exchange. As such aid or measure, the Exchange may, *inter alia*, apply buy-in and sell-out of securities. All the orders given by the Exchange to the member firm concerning the aids and measures to be applied shall be mandatory to the member firm.

### **7.2. Settlement Limit**

7.2.1. The Exchange has the right to limit the aggregate amount of the financial obligations arising from the exchange transactions executed by a member firm during the trading period, depending on the financial situation of the member firm and the extent of the guarantees granted to the Exchange in accordance

with these Clearing and Settlement Rules to ensure the execution of the obligations of the member firm.

7.2.2. A member firm, which is not a credit institution that is an ECSD account operator is required to submit to the Exchange a bank guarantee in accordance with the requirements of the Exchange to guarantee the settlement of exchange transactions or to deposit a necessary amount in the account determined by the Exchange for that purpose. The total value of both the buy and the sell transactions effected by a member firm both in their own name and on their own account as well as on the account of the client during one exchange day may not exceed more than ten (10) times the value of the bank guarantee issued to the Exchange to guarantee the execution of the obligations of the member firm.

7.2.3. A member firm may not conclude agreements for the execution of exchange transactions in excess of the aggregate value limit of financial obligations of the transactions established in accordance with the provisions of sections 7.2.1 and 7.2.2 of these Clearing and Settlement Rules by the Exchange.

7.2.4. If a member firm violates the obligation provided in section 7.2.3, the Exchange has the right to impose sanctions against the member firm as stipulated in the Rules and Regulations of the Exchange and/or demand of the member firm the taking of such measures that would secure settlement of the transactions according to the assessment of the Exchange. Member firms shall be obliged to comply with the requirements presented and precepts issued for that purpose by the Exchange.

7.2.5. If a foreign member of the Exchange arranges settlement of exchange transactions through the Foreign Clearing Agent specified in section 2.1, the Exchange Management Board may make exceptions for such member firm to the requirements provided in section 7.2. Acting upon a written application, the Board of the Exchange may provide exceptions provided in the previous sentence also with regard to other member firms if the solvency of the member firm and other measures for securing transactions described in the application allow to conclude that the execution of the obligations of the member firm is sufficiently guaranteed also without considering the requirements provided in clause 7.2 (*predominantly the guarantee requirement provided in clause 7.2.2*).

### **7.3. Verification of clearing and settlement of exchange transactions**

7.3.1. The Exchange shall verify the possibility to clear and settle the exchange transactions according to the procedure for and schedule of the execution of the clearing and settlement operations of exchange transactions provided in the ECSD Rules.

7.3.2. In the course of the verification, the Exchange shall identify the possibility of clearing and settlement of the exchange

transactions that are to be settled on the same settlement date (S). For that purpose, the Exchange shall verify the following circumstances:

7.3.2.1. the existence of the settlement details;

7.3.2.2. execution of the settlement details, i.e.:

7.3.2.2.1. the existence of a confirmation of a competent system member on the settlement details and

7.3.2.2.2. the availability of the amount of securities necessary for settling the exchange transactions on the securities account specified in the settlement details;

7.3.2.3. the existence of the confirmation of the debit net position given by the Clearing Agent.

#### **7.4. Failure of settlement**

7.4.1. An exchange transaction shall be considered a failed transaction, if:

7.4.1.1. the settlement details of neither party to the transaction have been attached to the trade data;

7.4.1.2. all settlement details necessary for executing the obligations arising from the exchange transaction have not been attached to the trade data;

7.4.1.3. the settlement details have been entered but a competent system member has not confirmed thereof;

7.4.1.4. the balance and status of the securities account specified in the settlement details do not, on the basis of the registration system data, allow for the execution of all the obligations to be executed in the settlement and specified in the settlement details;

7.4.1.5. the Clearing Agent or the Clearing Agent for cross-border Exchange transactions does not confirm the financial debit net position of the Exchange member which is not a credit institution or the net position of the Exchange member that complies with the requirements provided in the provisions of clause 8.2.

7.4.2. Extraordinary situations that cause failure of exchange transactions

For the purposes of these Clearing and Settlement Rules, extraordinary situations are situations in which the usual remedies provided in section 7.5 would endanger the operations of the securities market as a whole. Such situations include, *inter alia*, commencement or declaration of a moratorium or bankruptcy proceeding with regard to a member firm or their Clearing Agent.

7.4.3. The Exchange shall notify the cases of the failure of exchange transactions to the member firms that are responsible for the entry and execution of the respective settlement details but whose settlement details a) are either not there or b) do not ensure the execution of all the obligations arising from the transaction or c) can not be executed for any other reasons.

7.4.4. During the period provided by the schedule of the settlement operations of exchange transactions, the member firms have, *inter alia*, an opportunity for the settlement of the transaction:

7.4.4.1. to request the account operator attachment of their confirmation to the settlement details;

7.4.4.2. to borrow securities;

7.4.4.3. to require the Exchange to make amendments to the conditions of the exchange transaction.

**7.5. Usual remedies applied by Exchange for eliminating circumstances causing failure of exchange transaction**

7.5.1. If the settlement details necessary for the execution of the obligations arising from the exchange transaction of either party have not been attached to the trade data, the transaction will not be settled in the clearing and settling system.

7.5.2. If the settlement details necessary for the execution of the obligations arising from the exchange transaction of one party have not been attached to the trade data, the Exchange has the following rights.

7.5.2.1. In the case of a transaction in which a member firm is on the side of both the buyer and the seller according to the information contained in the trade data, the Exchange shall act as follows:

7.5.2.1.1. if according to the settlement details entered, the operations should be effected on the securities account opened in the name of the member firm but the settlement details for executing operations on the securities account of the client that used the services of the member firm are not there, the settlement date of the transaction shall be postponed. The settlement date of the transaction shall be postponed by one banking day but not more than five days;

7.5.2.1.2. if according to the settlement details entered, the operations should be effected only on the securities account of the client that used the services of the member firm, but the settlement details for executing operations on the securities account of the member firm are not there, the Exchange shall enter the missing settlement details for executing operations on the securities account opened in the name of the

member firm and shall attach the confirmation of the member firm thereto.

7.5.2.2. In the case of a transaction in which the buyer and the seller are different member firms according to the information contained in the trade data and one member firm has failed to enter their settlement details, the Exchange shall enter the respective settlement details for executing operations on the securities account opened in the name of that member firm that has failed to enter the settlement details and shall attach the confirmation of the member firm thereto.

7.5.3. If the settlement details of the exchange transaction have been entered but they have not been confirmed by a competent system member, the Exchange shall act as follows:

7.6.3.1. a transaction in which the member firm is both the buyer and the seller according to the information contained in the trade data, while the confirmation has been attached only to the settlement details given in respect of the securities account opened in the name of the member firm, the settlement date of the transaction shall be postponed. The settlement date of the transaction shall be postponed by one banking day but not more than five days;

7.6.3.2. in the remaining cases, the Exchange shall enter the respective settlement details for executing operations on the securities account opened in the name of the member firm that entered the settlement details to which a confirmation has not been attached and shall attach the confirmation of the member firm thereto.

7.5.4. If the balance of the securities account specified in the settlement details does not, according to the data of the register system, allow for the execution of all the settlement details to be executed in that settlement, the Exchange shall act as follows:

7.5.4.1. the amount of the transaction shall not be decreased for the settlement of the transaction;

7.5.4.2. if a sufficient amount of securities for clearing and settling the transaction is not available on the securities account of the member firm specified in the settlement details entered by the member firm, the Exchange shall postpone the settlement date of the respective transaction. The settlement date of the transaction shall be postponed by one banking day but not more than five days;

7.5.4.3. if a sufficient amount of securities for clearing and settling the transaction is not available on the account of the client specified in the settlement details entered by the member firm, the Exchange shall enter a debit settlement detail from the securities account opened in

the name of the member firm and shall attach a confirmation of the member firm thereto. The described replacement shall not be effected if the securities necessary for clearing and settling the transaction are not available on the account of the member firm. In such case, the settlement date of the relevant transaction shall be postponed. The settlement date of the transaction shall be postponed by one banking day but not more than five days.

7.5.5. If the Clearing Agent does not confirm the financial debit net position of the member firm, which is not a credit institution for the full purpose of the ECSD Rules, the Exchange shall act as follows:

7.5.5.1. the Exchange shall identify the extent to which the Clearing Agent agrees to confirm the financial obligations of the member firm;

7.5.5.2. the Exchange shall decrease the financial debit net position of the relevant member firm by postponing the settlement of the transactions which contain the credit settlement detail to which a confirmation of the member firm has been attached in the smallest amount the allows for the confirmation of the debit net position by the Clearing Agent.

## **7.6. Handling of extraordinary situations**

7.6.1. General provisions

7.6.1.1. The Exchange shall use the buy-in of securities, the sell-out of securities and the use of the Exchange guarantee fund as the aids aimed at securing the settlement of exchange transactions only in extraordinary situations, which include, above all, a situation in which the postponement of the settlement of transactions would endanger the operation of the securities market as a whole.

7.6.1.2. For the purposes of these Clearing and Settlement Rules, buy-in of securities shall mean buying of securities as an exchange transaction by the Exchange, which are of the same class as the securities serving as the object of an exchange transaction not settled, if the objective of such buy transaction is the transfer of securities to a person entitled thereto in a situation in which settlement of the transaction failed or if the Exchange has grounds to believe that the settlement of the transaction on the settlement date of the transaction would fail.

7.6.1.3. For the purposes of these Clearing and Settlement Rules, sell-out of securities shall mean a sales transaction effected by the Exchange in respect of the securities, which are of the same class as the securities serving as the object of an exchange transaction not settled, if the objective of the sales transaction is the



transfer of money to a person entitled thereto in a situation in which settlement of the transaction failed or if the Exchange has grounds to believe that the settlement of the transaction on the settlement date of the transaction would fail.

- 7.6.1.4. Buy-in and sell-out of securities shall be effected according to the procedure established therefore by the Exchange.
- 7.6.1.5. In order to effect the buy-in and sell-out of exchange transactions, the Exchange shall use the resources of the Exchange guarantee fund and the securities account opened for that purpose in the name of the Exchange with ECSD (hereinafter: the *Exchange Collateral Account*).
- 7.6.1.6. For the purposes of these Clearing and Settlement Rules, the contract price of an exchange transaction is the sale and buying price of securities initially agreed by the parties in the exchange transaction, due to the settlement failure of which the buy-in or sell-out was effected.

#### 7.6.2. Buy-in of securities

- 7.6.2.1. Buy-in of securities shall be effected, if the member firm, which is a seller according to the trade data of the exchange transaction, does not have a sufficient amount of securities serving as the object of the exchange transaction for executing the transaction.
- 7.6.2.2. Buy-in of securities shall be effected on the settlement date of the failed transaction, or, should that not be possible, on the earliest possible day. An exchange transaction for the securing of which the buy-in was effected shall be settled on its original settlement date or, when not possible, on the earliest possible day.
- 7.6.2.3. In order to effect a buy-in transaction of securities, the Exchange shall buy the securities necessary for clearing and settling the failed transaction as an exchange transaction and shall enter in this exchange transaction a crediting settlement detail in which they shall specify the Exchange Collateral Account as the securities account. On the basis thereof, the securities bought as a result of the transaction shall be transferred to the Exchange Collateral Account.
- 7.6.2.4. If the buy-in transaction has been settled or it is certain that it will be settled, the Exchange shall replace the debiting settlement detail of the initially failed exchange transaction by a debiting settlement detail in which the Exchange Collateral Account has been specified as the securities account. On the basis thereof, the securities necessary for clearing and settling the exchange transaction shall be taken from the Exchange Collateral Account.

- 7.6.2.5. ECSD shall transfer the money obtained from the sale of the securities serving as the object of the buy-in transaction to the Exchange guarantee fund on the basis of the order received from the Exchange.
- 7.6.2.6. If the actual price of the bought-in securities is higher than the contract price determined by the parties, the Exchange shall cover the difference from the Exchange guarantee fund.
- 7.6.2.7. If the Exchange has covered the difference between the contract price and the buy-in price from the Exchange guarantee fund, the Exchange has the right to claim the bank guarantee issued to the Exchange for the execution of the obligations of the member firm in accordance with the provisions of the Rules and Regulations of the Exchange.
- 7.6.2.8. If a bank guarantee has not been issued to the Exchange or the bank guarantee issued to the Exchange is not sufficient to cover the payment made by the Exchange from the guarantee fund in accordance with the provisions of section 7.6.2.7, the Exchange shall require the member firm, whose obligations were met through effecting the buy-in, to pay the difference. The member firm shall also be obliged to pay all the fees and expenditure related to the buy-in and arising therefrom.
- 7.6.2.9. If the actual price of the bought-in securities were lower than the contract price determined by the parties, the Exchange shall transfer the difference in the prices to the Exchange guarantee fund.
- 7.6.3. Settlement of exchange transaction on the account of guarantee fund resources. Sell-out of securities
  - 7.6.3.1. A buy transaction of securities of the member firm shall be settled on account of the Exchange guarantee fund resources, if the Clearing Agent of the member firm does not confirm or is unable to confirm due to insolvency the debit net position of the member firm or the Bank of Estonia suspends settlement of the payments of the ECSD account operator serving as the Clearing Agent of the member firm in the Bank of Estonia.
  - 7.6.3.2. In order to settle the exchange transaction executed by a member firm because of the resources of the Exchange guarantee fund, the Exchange shall replace the crediting settlement detail of the respective exchange transaction of the member firm by the crediting settlement detail from the Exchange Collateral Account. In such a case, the amount of money necessary for clearing and settling the transaction shall be taken from the Exchange guarantee fund and the securities serving as the object

of the transaction shall be transferred to the Exchange Collateral Account. Consequently, if a buy transaction of securities has been settled, partially or in full, on account of the resources of the Exchange guarantee fund, the Exchange shall give an order to ECSD to transfer the securities which had been an object of the buy transaction to the collateral account opened with ECSD by the Exchange for this purpose.

- 7.6.3.3. If the Exchange has used the guarantee fund resources to settle a buy transaction of securities effected by a member firm in their own name and on their own account or on the account of their client and the member firm has not transferred the amount of money equal to the money used from the guarantee fund to the account of the Exchange by the end of the third exchange day of the settlement of the transaction, the Exchange has the right to sell out the securities that had been an object to the transaction and had been transferred to the collateral account opened in the name of the Exchange by ECSD under the provisions of section 7.6.3.2.
- 7.6.3.4. The Exchange Collateral Account shall be specified as the debited securities account in the sell-out transaction of securities. In such a case, the securities serving as the object of the transaction shall be taken from the Exchange Collateral Account and the money received as a result of the transaction shall be transferred to the Exchange guarantee fund.
- 7.6.3.5. If the money received as a result of the sell-out of securities in accordance with the provisions of section 7.6.3.4 is not sufficient to cover the amount used to settle the transaction executed on account of the Exchange guarantee fund resources, the Exchange has the right to claim the bank guarantee issued to the Exchange in accordance with the Rules and Regulations of the Exchange for the execution of the obligations of the member firm.
- 7.6.3.6. In case the bank guarantee issued to the Exchange is not sufficient to cover the amount paid from the Exchange guarantee fund in accordance with the provisions of section 7.6.3.5, the Exchange shall require the member firm whose obligations were executed through effecting the sell-out to pay the expenses.
- 7.6.3.7. If the member firm that is required to cover the payments made from the Exchange guarantee fund does not pay the debt by the date set by the Exchange, the Exchange has the right to implement against the member firm any sanctions provided by the Rules and Regulations of the Exchange.
- 7.6.3.8. If the amount received from the sales of the securities is larger than the payment made from the Exchange

Guarantee Fund in order to secure the settlement of the transaction, the Exchange shall transfer the amount serving as the difference in the prices to the guarantee fund.

7.6.4. Extraordinary situations

- 7.6.4.1. For the settlement of an exchange transaction the buy-in and the sell-out shall not be effected when the difference between the contract price of the securities and the buy-in or sell-out price exceeds the total amount of the Exchange guarantee fund.
- 7.6.4.2. If the buy-in or a sell-out of securities is not effected, the Exchange shall declare the transaction a failed transaction, and shall immediately inform the parties to the transaction thereof.
- 7.6.4.3. If the Bank of Estonia suspends the settlement of payments made by any of the ECSD account operators (account operator serving as a Clearing Agent) in the settlement system of the Bank of Estonia and the Exchange guarantee fund resources are not sufficient for the settlement of exchange transactions, the Exchange shall declare all unsettled transactions of that ECSD account operator failed transactions.

## **8. EXCHANGE TRANSACTIONS WITH CROSS-BORDER SETTLEMENT**

- 8.1. Within the meaning of these Rules of Clearing and Settlement of Stock Exchange Transactions, cross-border stock exchange transaction means a transaction in which the execution of the transfer order communicated for the realisation of which includes the transfer of securities that are the object of the transaction as follows:
  - 8.1.1. from a securities account opened in the Estonian Central Register of Securities (hereinafter the Estonian securities account) to a securities account opened in the Latvian Central Depository (hereinafter the Latvian securities account);
  - 8.1.2. from a Latvian securities account to an Estonian securities account; or
  - 8.1.3. from one Latvian securities account to another Latvian securities account.
- 8.2. Transfer orders necessary for execution of cross-border exchange transactions with regard to a Latvian securities account can be forwarded to EVK by the member firm who:
  - 8.2.1. has notified the Exchange of his decision to use the trading system for making cross-border stock exchange transactions and also disclosed to the Exchange the terms of the transfer order that are used in cases provided in the code of rules of EVK for executing the obligations resulting from cross-border stock exchange transactions;
  - 8.2.2. has signed a settlement contract for cross-border stock exchange with the credit institution that acts as account administrator or who at the same time acts as an account administrator and credit institution.
- 8.3. Within the meaning provided in clause 8.2.2., "cross-border settlement contract" means a written contract made between the credit institution acting in the capacity of an account administrator and the member firm in which EVK is authorised by the relevant member firm to carry out transactions for settling financial obligations calculated on the transfer orders communicated and calculated with regard to the Latvian securities accounts on account of the funds held in the correspondent account of the account administrator of the relevant credit institution (*hereinafter transaction agent for cross-border stock exchange transactions*). Also the provisions of clause 2.4 apply on cross-border settlement contracts.
- 8.4. Cross-border exchange transaction is executed according to provisions of clause 3.7.2 of the code of rules of EVK. Otherwise, provisions of the Rules of Clearing and Settlement of Stock Exchange Transactions shall apply on cross-border exchange transactions and on the activities of the Exchange in

securing the settlement of the cross-border transaction, taking into consideration the following exceptions:

- 8.4.1 Application of Chapter 3 of the Rules of Clearing and Settlement of Stock Exchange Transactions – in connection with the execution of the cross-border exchange transaction, the rules related to the use of monetary assets of the member firm who complies with the requirements laid down in the provisions of clause 8.2 insofar as they do not violate the requirements laid down by its cross-border settlement contract, by the Latvian law and by the Latvian Central Depository;
- 8.4.2. Application of Chapter 6 of the Rules of Clearing and Settlement of Stock Exchange Transactions – a member firm who complies with the requirements mentioned in the provisions of clause 8.2 may apply that the terms of the cross-border exchange transactions made by it include in addition to the changes made in clauses 6.2.2.1, 6.2.2.2 or 6.2.2.3 also the transformation of the cross-border exchange transaction signed by it into an exchange transaction (i.e., an exchange transaction with normal domestic settlement).
- 8.4.3. Application of provisions of clause 7.5 of the Rules of Clearing and Settlement of Stock Exchange Transactions – in case the cross-border exchange transaction cannot be executed with regard to the non-compliance or non-executability of the requirements laid down for the transfer order issued for a Latvian securities account (*insufficient balance, etc*), the Exchange shall be entitled to request that the Latvian Central Depository changes or cancels the transfer order on the Latvian securities account and that the Latvian securities account shown on the transfer order is replaced with the Latvian securities account opened on behalf of the member firm.

## **9. SANCTIONS**

If a member firm fails to execute any of the obligations imposed on them by the provisions of these Clearing and Settlement Rules or fails to execute them duly, the Exchange has the right to impose on such member firm any of the sanctions and measures provided by the Rules and Regulations of the Exchange.