

TO : Companies Listed on the Cyprus Stock Exchange (Regulated and Emerging Companies Markets) / Members / Custodians / Nominated Advisors

FROM : Acting General Manager of the Cyprus Stock Exchange

SUBJECT : **Introduction of clean price quotation method in the trading of fixed income securities**

DATE : 3 August 2020

CIRC. NO. : **17-2020, 13-2020, 11-2020, 11-2020**

Sirs,

In the context of its ongoing efforts to upgrade the services provided to Market Stakeholders and for purposes of harmonisation with European Regulations and international practices and procedures, the Cyprus Stock Exchange (CSE) has proceeded to the implementation of a new clean price quotation method for fixed income securities traded on the CSE's Bonds Markets.

To this end, the necessary amendments to the regulatory framework have been introduced, to enable issuers seeking to list Bonds on the Stock Exchange to determine whether their securities will be traded under clean price or dirty price conditions. Relevant reference to the selection of the trading method will be made in the issuer's Prospectus / Information Document, which is prepared before the listing of their securities on the CSE.

You will find here below information on the entry of orders in the trading system in connection with the handling of these two quotation methods, taking also into account the amendments to the Trading Rules (RAA 409/2006 – as amended).

- In the case of Fixed Income Securities traded under clean price conditions, the price of the order will not include the accrued interest of the specific security, which the system will calculate and add in order to determine the gross value of the order. Furthermore, in the case of good-till orders in relation to Fixed Income Securities, traded under clean price conditions, the system will calculate and add the accrued interest of the specific security in order to determine the gross value of the order.
- Therefore, when entering an order with the clean price quotation method, the accrued interest resulting from the possession of the security must not be incorporated in the value of the order, as this will be calculated by the

trading system and automatically added to the total value of the order (buy clean pay dirty).

- On the contrary, in the case of quotation using the dirty price method, the accrued interest resulting from the possession of the security is not incorporated automatically in the calculation of the final value of the transaction. The dirty price entered in the order with this quotation method is considered to be the final price, also including accrued interest (buy dirty pay dirty).

The dates taken into consideration in calculating accrued interest in the case of trading of Bonds in the CSE trading system are as follows:

- The record date is the business day preceding the payment of the coupon. During the trading session preceding the date of closing of the register of holders of any Bond, regarding the granting of any benefit, entered orders are deemed not to include the benefit granted, which will belong to the transferor (Ex Date) and accrued interest calculated by the trading system at the specific trading session is nil.
- The payment date is the date of payment of the coupon, as determined by the issuer and is entered in the trading system, while the record date, the date of payment of the coupon in the trading system, is determined one day before the payment date.
- The record date which applies in case the date of payment of the coupon is not a business day (weekend or bank holiday) is determined by the issuing company.
- For any changes to the terms of a Bond, the procedures must be completed in time and the CSE must be officially notified thereof at least 30 days in advance, in order to make the necessary changes in the Trading System. The changes can become effective in the Trading System after the end of the trading session of the day preceding the Ex Date, in other words before the commencement of the new interest-bearing period, in accordance also with the issuer's information document (e.g. confirmation or change of following interest-bearing period, interest rate).

In view of the above amendment, the Stock Exchange has also put in place a new procedure for cash distributions relating to new Issuers of Corporate Bonds which will be listed, traded with the buy clean pay dirty quotation method and whose Register will be kept by the Central Securities Depository / Central Registry (CSD) of the CSE.

It should be noted at this point that the CSE has reached this decision upon considering two important reasons:

- That the new Cash Distributions procedure is in line with international practices and the new standards elaborated by the European Central Bank (AMI-SeCo Corporate Action Standards), to take effect in November 2022.
- That the new Cash Distributions procedure also assists in the execution of the trading of the Corporate Bonds with the clean price quotation method, at least for new Issues.

In addition to the aforesaid Issuers of Corporate Bonds, the CSE also encourages existing Issuers of Corporate and Government Bonds to study this new procedure and consider the possibility of taking all necessary actions in order to harmonise their processes with the new Cash Distributions procedure.

More specifically, we set out below the Cash Distributions procedure for Issuers of Corporate Bonds to be traded with the buy clean pay dirty quotation method, and whose Register will be kept by the Central Securities Depository / Central Registry (CSD) of the CSE:

1. The new procedure will apply to new issues of Corporate Bonds and not to existing issues. The possibility of applying the procedure also to Government Bonds and/or existing issues of Corporate Bonds may be examined upon consultation between the CSE and the Issuers (in any case, as regards existing issues, the procedure relating to Corporate Actions will inevitably change by November 2022, in accordance with the standards of the European Central Bank, for which you were initially informed with the CSE Circular dated 5 February 2020 whilst more detailed information will be provided shortly).
2. New Issuers of Corporate Bonds must entrust the cash payment of the interest coupon, of the early repayment/repayment to a **Payment Bank** (licensed to carry out Financial Institution operations). The Issuer's payment bank must effect the cash payment of the interest coupon / repayment / early repayment as stated in detail here below. To this end, upon its listing on the CSE, the Issuer must notify the name of its Payment Bank by relevant announcement.
3. Upon the listing of a new Corporate Bonds Issuer on the CSE, in addition to the **Bond allocation record**, the Issuer will have the obligation to submit the

declaration of investor participation in a special tax treatment category record (the relevant format is attached herewith – declaration of investor participation in a Special Tax Treatment Category). In this record, the Issuer may declare the Natural or Legal Persons subject to special tax treatment in accordance with the existing Legislation, e.g. Funds / Insurance Companies / Banks / Legal Persons resident abroad / Natural Persons resident abroad (submission of questionnaire). Moreover, the Issuer may submit to the CSD of the CSE a declaration of investor participation in a special tax treatment category record (other than upon its listing in which case it is compulsory), at any time, up to 5 days prior to the record date of the payment of interest coupon, in order to update the tax information of the Register of beneficiaries. In accordance with the existing Legislation, two taxes regarding the payment of interest coupons apply (Special Contribution for Defence, payment to the General Health Scheme). The CSE will enter for all beneficiaries, “by default”, the tax treatment in accordance with the percentage rates of the pertinent Legislation, save in the case of investors subject to special tax treatment, to be submitted by the Issuer, based on the format of the aforesaid record. The withheld tax amount will be paid directly to the tax authorities by the Issuer, as per the current practice.

4. The new Corporate Bonds Issuer will have the obligation, in addition to the necessary information on the payment of the interest coupon already provided for in the existing Regulatory Framework, to include in a relevant announcement the exact percentage of the interest coupon during the interest-bearing period per Bond, e.g. an Issuer of Corporate Bonds with an annual interest rate of 8.25% pays twice a year per semester (the interest-bearing period being 01/01/2020-30/06/2020), nominal value of Bond €100.

$$\begin{array}{r} \text{Percentage of interest} \times \text{days} \times \text{Nominal value} = \dots\dots 8.25\dots\dots \times \\ \dots 182\dots\dots \times 100 = \underline{\underline{4.11369863}} \end{array}$$

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It should be noted at this point that the Issuer’s announcement regarding the coupon payment date must be in line with the respective date stated by the Issuer in its information document at the time of listing of its securities. For purposes of calculating accrued interest on a daily basis, dates must be strictly complied with, so that the business day preceding the payment date is the record date as calculated by OASIS. During the trading session preceding the date on which the Register of the holders of any Bond closes for the granting of any benefit, entered orders are deemed not to include the benefit granted, which will belong to the transferor (ex date), as the accrued

interest calculated by the system (OASIS) during the trading of the specific trading session is nil.

5. Based on the Issuer's announcement, on the business day following the record date, the CSE will send the Issuer the following records, with copy to the Payment Bank:
 - Interest Coupon Notification Record (000029). The record includes the details of all Interest Beneficiaries as at the record date, including a calculation of the tax amounts to be deducted (General Health Scheme, Special Contribution for Defense), the gross interest amount as well as the net interest amount received by each beneficiary (a detailed description of the Record format is attached under point 2.3 of the Corporate Action Records, pages 18-28).
 - Electronic file for Cash Distributions by the Operators (000061). The electronic file includes only the details of the beneficiaries of interest in respect of whom, as at the record date, the Operators have declared through the DSS that they wish to undertake the cash payments upon authorisation by their Investors/Clients ("cash distribution YES"). Additionally the electronic file includes the total net amount of Interest per Operator, as well as the total number of Bonds per Operator for which Interest will be paid (a detailed description of the electronic format is attached, point 3- page 13).
 - Electronic file for Cash Distributions (000060) by the Issuer. The electronic file includes only the details of the beneficiaries of interest in respect of whom, as at the record date, the Operators have declared through the DSS that they do not wish to undertake the cash payments ("cash distribution NO"). It also includes the "exceptions" where, based on specific grounds and upon consultation with the CSE, the Bonds were kept in the CSE Special Account, such as for example for pledged securities, Court Orders / Official Receiver / Liquidators. The record also includes a calculation of the amount of tax deductions (General Health Scheme, Special Contribution for Defense), the gross amount of the Interest as well as the net amount of Interest received by each beneficiary (a detailed description of the record format is attached herewith – point 2- pages 6-12).
6. Through the DSS, Operators will also receive relevant information and will have the possibility to issue detailed statements per client/investor,

presenting the gross and net amount of interest, as well as the total amount deducted for applicable taxes.

7. Upon receiving the above files from the CSE and conducting all necessary controls, the Issuer's Payment Bank will proceed to the payment of the net amounts per investor in relation to the cash distribution of the interest coupon, repayment (no taxes apply) and early repayment. Cash payment will be effected by transfers to the accounts of the Operators who, in turn, will pay the amounts to their clients/bond holders, save in the cases of exceptions, where the amounts will be paid to the Investors, Pledgees, Official Receivers, etc. themselves. We note that the CSE will not keep investor payment instructions (IBAN). Therefore, the dispatch of cheques by the Issuer, as per the current procedure, is abolished, at least for the investors who have chosen to receive the cash payments through their Operators ("cash distribution YES").
8. In order to ensure the implementation of paragraph 6 above for the specific securities (ISIN), it will not be possible to keep the Bonds in the Special Account. For special cases where securities are required to be kept in the Special Account (e.g. deceased individuals or securities blocked by a Court Order or Pledge), these may be returned on an exceptional basis upon consultation between the Stock Exchange and the Operator.
9. The above main features must be made known to Bondholders and Investors, e.g. through the Information Document.

The relevant changes to the Regulatory Framework are attached herewith.

We remain at your disposal for any clarifications you may require – for trading issues you may contact Officer Mr. Michalis Michael (tel. 22712403) and for Central Securities Depository / Central Registry issues Officer A' Mr. Phytos Galaxis at 22712434.

We would like to thank you for your cooperation.

Yours truly,

Nicos Trypatsas
Acting General Manager

Enclosures

Cc.: Securities and Exchange Commission
CFSFA (Cyprus Financial Services Firms Association)
Committee of Issuers under Regulation EU 909/2014
Committee of Participants (Members and Custodians) under Regulation EU
909/2014