

TO : Members – Custodians/ Listed Companies / Nominated Advisors
FROM : Acting General Manager of the Cyprus Stock Exchange
SUBJECT : Draft New Regulatory Decision on the operation of the Central Securities Depository / Central Registry
DATE : 14 September 2021
CIRC. NO. : **11-21 – 06-21 – 08-21 – 08-21**

Sirs,

As you may already know, an ongoing effort to harmonize the operation of National Markets is under way in the European Union. With regard to post-trading issues, this effort is mainly based on European Regulation 909/2014 (CSDR) and Directive SRD II. In this context, the Cyprus Stock Exchange (CSE), in cooperation with Hellenic Exchanges (the provider of its systems), is in the process of developing a new version of the Dematerialized Securities System (DSS) of the Central Securities Depository / Central Registry (CSD) of the CSE, aiming to satisfy these new requirements. At the same time, it has prepared a draft new Regulation on the Operation of the Central Securities Depository / Central Registry, attached to this circular.

The aim is for the changes in the CSD system to be implemented gradually and more specifically in **two phases**, with the minimum possible cost in terms of adjustment and changes.

1st Phase of the Project

Taking into consideration all of the above, the 1st phase of the adjustments will concern the following:

1. The structure of Accounts for segregation of securities of Participants and their clients

Among the basic requirements of the CSDR Regulation is the obligation for CSD's to provide investors with the option of the type of account they wish to maintain their securities. Thus the possibility of using collective accounts (omnibus accounts) is regulated as well as introducing securities segregation between Participants and their clients.

As already known, the CSE already supports the segregation at the investor level, providing significant services to holders of the accounts, whether natural or legal persons, and it also offers the use of the omnibus account. The CSE therefore aims to continue providing the

current options of supporting accounts in the name of the registered holder or in an omnibus account, while offering in addition new account options, and providing relevant services to investors.

The necessary information for opening a Share Account is attached hereto.

2. Link Services

Within the above context the CSE is promoting changes in its technical and regulatory frameworks in order to develop links (direct or indirect) between its Central Securities Depository and other Central Securities Depositories (CSDs). For the needs of its CSD's links with other CSDs, the CSE enters into the necessary link agreements and generally makes the necessary provisions with the establishment of specific terms, conditions and procedures for the participation and access of CSDs to its Central Securities Depository / Central Registry.

In the initial phase, it is planned to activate the 'Investor CSD' service, which will enable the receiving and sending of messages from and to foreign CSDs, through which transfers will be concluded from and to the accounts kept by a Custodian in the name of the CSE with a respective change in the CSD (DSS system) accounts. This will also enable the routing of Over the Counter (OTC) instructions which will be entered by the Participant to the Custodian, taking into consideration the place of settlement. After their processing, the DSS will accordingly modify the balances of the Participant's affected accounts.

2nd Phase of the Project

In relation to the 2nd phase of the adjustments, indicatively we mention the following:

1. Corporate Actions

The new DSS version will enable the sending and receiving 15022 messages in relation to corporate actions. The changes to be introduced will include, amongst others, the following:

- New way of supporting public bids / offers while maintaining the existing procedure with the electronic OTC transfer file.
- With the introduction of the new system, both new and existing accounts will provide that the cash distribution for securities held under Participants will be made via the Participants (cash distribution YES). More specifically, with regard to dividend payments, etc., these will be distributed to Participants, who will then distribute the corresponding amounts to their clients. We would like to note that for the cases where the securities are held in the Special Account, direct distribution by the Issuers will continue at this stage.

- The electronic corporate actions file will be accepted with the participation of non-appearing Share Accounts.
- With regards to possible amendments to the procedures or new functionalities which may arise, please note that you will be notified at a later stage, with a separate CSE circular addressing exclusively corporate actions. These changes are currently being analysed and processed.

2. Identification Services

Enrichment of the beneficiaries records in order to include all necessary information for the identification of the beneficiaries of securities held in an omnibus account. The relevant beneficiary records will contain an appropriate marking of the omnibus accounts, in order to determine the accounts for which the identification of the ultimate beneficiaries will need to be requested.

3. Over the Counter Transactions

In the new DSS version, all CSD Participants will be able to enter orders for conducting OTC transactions which currently is only applicable to General Operators. Additionally CSD Participants will be able to transfer securities between Participant accounts of the same Investor share account, and carry out off-exchange transfers (e.g. donations / parental benefits), etc.

4. Off-Exchange Transfers through the CSD

In addition to off-exchange transfers through the OTC application, Participants will also be able to carry out off-exchange transfers in securities under their control, through the blocking of securities, by declaring their intention to make a transfer to the account of the investor delivering the securities. We also note that, in this phase, the CSE will continue to carry out off-exchange transfers in the same manner as it has done so until now, due to the substantial percentage of securities held in the Special Account, until the relevant legislative changes are finalised.

5. Pledges / Blocking

In the new environment, Participants will be able to pledge / block securities, however the CSE will also continue to provide the current functionality of pledging / blocking for securities in the Special Account. Blocking due to option contracts will also be supported.

6. Connection with Participants

In order to support the communication of 15022 messages to Participants with regards to corporate actions and balance updates, the API service will be activated. Participant connectivity to the API will be feasible through either Swift Network or Athex Gateway, according to their preference. Connection to Swift Network requires the use of either Alliance or Alliance lite or Swift Cloud.

7. Update on security balances in accounts

With the new functionality, Participants will have the option to receive daily updates, per account, on the balances of their securities accounts at the beginning and the end of the day (opening and closing balances). The account balance updates will include information for available and other types of balances (expected, blocked, pledge, etc.). The update will be provided through printouts or DSS files (as per current practice) as well as through ISO15022 in the future.

8. Service of Safekeeping Investor Securities in a Participant Account without possibility of Transfer through the Participant

The CSE will provide a service through which an investor holding securities in an individual share account will be able to block securities in a Participant account for safekeeping purposes, without the possibility of such securities being transferred by the Participant. Only the CSE will be able to lift the above blocking, at the request of the holder. For as long as the blocking is in force, the holder will continue to receive all benefits deriving from the blocked securities, but the securities will not be transferable for any reason through the Participant.

9. Merger of Share Accounts in the DSS by the Participant

Under the existing model, the merger of share accounts of either natural or legal persons is carried out exclusively by the CSD. In the new framework, Participants will also be able to carry out a merger. The securities will be transferred from the absorbed share account to the one that will remain (retained), through the appropriate orders for delivery / acceptance instructions. The Participant keeping the absorbed share account will then submit a request to the CSE for its deactivation.

The Cyprus Stock Exchange invites all interested parties to send comments on these proposed amendments. More specifically, interested parties may submit their positions / views by email at info@cse.com.cy **by 28 September 2021** with the reference "Consultation on the Proposed New Regulatory Decision on the operation of the Central Securities Depository / Central Registry".

In summary, we would like to point out that the first phase of the changes will pertain to the structure of the accounts and is scheduled to take effect within October 2021, on a date to be notified to all parties concerned. The second phase, which will include the rest of the changes, will be implemented on a later date which will again be notified to all parties concerned. Given that changes are still being processed, especially with regard to the second phase, you will be informed of any changes in the proposed Regulatory Decision which may arise.

We remain at your disposal for any clarifications.

Thanking you in advance and looking forward to your cooperation.

Yours,

Nicos Trypatsas
Acting General Manager

Encl.

Cc: Cyprus Securities and Exchange Commission
CFSFA
Cyprus Association of Listed Companies
Issuers' Committee under Regulation EU 909/2014
Participants' Committee (Members and Custodians) under Regulation EU 909/2014