



NEWSLETTER

FOR MEMBERS OF CDCP

www.cdcp.sk DECEMBER 2016



Participants and members

The current lack of clarity as to the definitions of a participant and a member have been removed by the latest amendment to the Securities and Investment Services Act. The Act has been thus harmonized with the EU Regulation on improving securities settlement and on central securities depositories (CSDR Regulation). The amendment to that Act preserves the institute of a member of the central depository but it amends its definition, i.e. the membership requirements. CDCP plans to incorporate all current legislative changes into the Rules of Operation subject to preparation, which are to take effect on the date of migration of CDCP to T2S, i.e. on 6 February 2017.

These rules define a participant in the settlement system as the person meeting participation requirements who has been granted access by CDCP in compliance with the CSDR Regulation and the Rules of Operation. On the other hand, a member is the person who is a settlement system participant who has been granted a membership by CDCP in compliance with the Act and the Rules of Operation. Membership granting is conditioned by a licence to provide investment services under the Act. A future member has to be authorized to dispose of funds or financial instruments of clients and this depending on the scope of the services that CDCP plans to make available to the member.

A participant and member of CDCP may, under certain circumstances, act as an authorized participant (in respect of holder accounts of other participants or the owner accounts that are not deemed to be non-allocated under the Act) and an authorized member (in respect of non-allocated owner accounts) and execute entries to the accounts kept for other entities. Pursuant to the new Rules of Operation, CDCP assumes that it will provide participants with access to the following types of services:

1. opening and keeping of an owner's account and access to relevant services (Owner Account Services),
2. opening and keeping of a holder's account and access to relevant services (Holder account services),
3. services of authorized participants for the holder's accounts,
4. services of authorized participants for the owner's accounts,
5. issuer services.

The participant may select the services the access to which it will request from CDCP. Granting access is conditioned by the authorization of the participant to execute the given type of services and the participant's meeting the preconditions and criteria applicable to execution of the given type of services.

In draft Rules of Operation, CDCP determines also the scope of services that the participant may be granted access to. It means the following services:

1. opening and keeping of a client account and access to relevant services (Client Account Services),
2. services for an authorized member in connection with non-allocated accounts.

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The member may select type of service the access to which it will request from CDCP. Similarly, the member has to be authorized to execute the given type of services and shall comply with the requirements and criteria applicable to execution of the given type of services. As concerns non-allocated accounts, the Act stipulates special obligations for members, i.e. execution of selected entries to accounts, which will not be executed by CDCP anymore. A non-allocated account is an owner's account opened with CDCP before 30 September 2015 for a natural person or a legal person for whom the depository is not obliged under the Act to open an owner account upon their request commencing from 1 October 2015. The non-allocated account definition excludes the owner accounts opened for:

- central depository
- member
- state body acting on behalf of the Slovak Republic
- MH Manažment, a.s.

CDCP plans to publish specifications of types of the services made available to participants and members via its web site.

Based on the above stated and current practice, CDCP assumes three basic models of participation in CDCP as concerns accounts and individual types of services that participants may request access to:

Model 1: The participant who is the member of CDCP operates own accounts

(owner's account, holder's account, client's account). The participant may act as:

- an authorized participant (for the accounts that are not deemed to be non-allocated, including the account of another participant),
- an authorized member – the non-allocated accounts registered by CDCP.

Model 2: The participant who is not a member of CDCP operates own accounts

(owner's account, holder's account). The participant may act as:

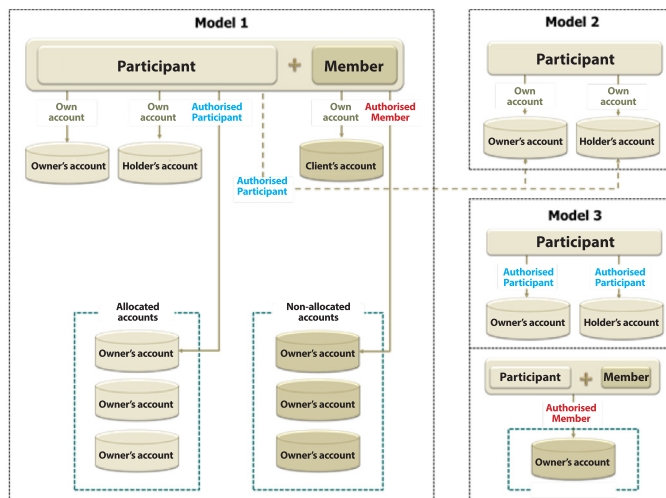
- an authorized participant (for the accounts that are not deemed to be non-allocated, including the account of another participant).

Model 3: A specific type of participation within which the participant

(who may be a member at the same time) does not have own accounts and operates the accounts of other entity.

The above basic models are graphically presented in the following figure and each model allows several options especially as concerns acting of an authorized participant.

Scheme of assumed models of participation in CDCP



Operating day will be restricted

Due to the migration of CDCP to the European platform Target2-Securities on the first weekend of February, CDCP shortens the operating day of 3 February 2017.

The operating day of 3 February will end on 2.00 pm. This decision was made based on the experience gained through migration testing and time requirements associated with individual migration steps which led to the conclusion that the last operating day before the migration to T2S should be shortened in order to have a period of time to prepare migration files for T2S on Friday, 3 February 2017.

Migration of central depositories to T2S is carried out in five migration waves and CDCP is included in the 4th migration wave with the first T2S platform operating day on 6 February 2017 and the migration weekend starting on Friday, 3 February 2017.

T2S is a project of the Central European Bank, Eurosystem banks, and central depositories, which will result in T2S – a shared technological platform of depositories, which allows settlements of transactions with securities in the EUR currency and other accepted currencies in the central bank's money, which is supposed to simplify especially cross-border transfers of securities.

Changes in the settlement day schedule within the settlement and clearing system of CDCP valid on 3 February 2017.

Time	Entity	Činnosť		
		Stock Exchange Trades	OTC trades	Obchody so ZCP
10:00	CDCP	End time for transfer of cash funds (netting)		
12:00	CDCP	End time for transfer of cash funds (gross)		I. cyklus: konečný čas pre prevod peňažných prostriedkov
13:00	CDCP		End time for acceptance of DvP instructions for SD	
until 13:15	Člen	Confirmation of the Member on consent with settlement of instructions in its registry (SD=T+0)		
13:30	CDCP	End time for transfer of cash funds (SD=T+0)	End time for transfer of cash funds	
			End time for acceptance of FoP instructions for SD	
until 13:45	CDCP	Settlement of DvP and FoP instructions	Settlement of DvP and FoP instructions	Settlement of DvP and FoP instructions
14:00	CDCP	End of operating day		



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Publication of the issue terms and conditions for debt securities

The rules for publication of the issue terms and conditions for debt securities have changed. Based on the 2014 amendment to the Securities Act, issuers are obliged to submit to the central securities depository the issue terms and conditions for debt securities within 15 days from the issue of the first security. If you are an issuer of paper-form debt securities or book-entry debt securities, you may request that the central depository publish your issue terms and conditions at no charge via the depository's web site. These changes have resulted in centralization of issue terms and conditions in one place and made it easier for the global investment community to access this information.

The issuer's consent to the publication of issue terms and conditions is provided in writing via forms. Where the issuer of book-entry debt securities is interested in their publication via our website, they just simply state their consent to the publication in the issue registration form that they receive from the Issue Department. The issuer may withdraw the consent in writing at their convenience at any time. If an issuer of paper-form debt securities is interested in publication of the issue terms and conditions, they shall state their consent to the publication in the ISIN application.

After granting the consent to the publication of issue terms and conditions, the issuer shall submit to the depository either the original or officially certified copy of the issue terms and conditions in writing within 15 days from the issue of the first bond. The issuer may send the issue terms and conditions to the depository via mail or deliver them personally to the mail room. The issue terms and conditions shall be signed by the persons authorized to act on behalf of the issuer but their signatures do not need to be officially authenticated.

In case of any changes in the issue terms and conditions, the issuer of debt securities shall provide the depository with all changes in the issue terms and conditions as well as with their full amended wording. Subsequently, we will publish the changes in the issue terms and conditions and their full amended wording at our website.

The issue terms and conditions can be found at the CDCP website in the main menu. To access the information, ISIN/Issue No. of securities is to be entered.

The contact data of the Issue Department can be found in the section entitled Contact on the CDCP website www.cdcp.sk.



For more information, visit www.cdcp.sk

CFI code

The CFI code (Classification of Financial Instruments) identifies in more detail securities and related financial instruments. Its assignment is stipulated by the international standard ISO 10962 – Securities and related financial instruments – Financial Instrument Classification. Unlike the ISIN code, this code is not a unique code identifying a specific issue of securities, it only defines

in more detail categories of securities and their relevant attributes. The CFI is assigned due to the need for the consistent and unified approach to the division of securities into groups especially within cross-border trading. It respects the characteristics of securities upon their issue and remains consistent throughout the entire life of the issue. It has been developed so that it provides, to the maximum possible extent, the information about securities while preserving its adaptability. Simultaneously, there may be cases when the CFI may change during its lifetime (e.g. restriction of transferability of securities based on a resolution of the company's general meeting, etc.).

The updated version of the 2015 international standard was issued in the context of current reporting requirements. The assumed widespread implementation of the CFI code may lead to its extensive use due to increasing information requirements, transaction systems, and risk assessment systems. For instance, Target2-Securities uses the CFI code for additional classification of securities.

In the Slovak Republic, the CFI code is assigned by CDCP as a member of the Association of National Numbering Agencies (ANNA).

CFI structure and its generation

The CFI consists of six alphabet characters. The first character – identifies the highest classification level and category, e.g. equity securities, debt securities, collective investment instruments, etc. The second character identifies specific groups within each category (e.g. common stock, priority securities, etc.). Other four characters of the CFI identify the most important attributes of each category, such as form of securities, their transferability restrictions, etc.,

CFI assignment

The depository assigns the CFI as one of prerequisites to all book-entry securities and paper-form securities to which the ISIN code is assigned. The assignment is executed physically upon assignment of the ISIN code (within the same operation). For its assignment we do not request any special application or documentation from our clients and we assign the CFI code along with the ISIN code.

Change and cancellation

Since the CFI does not identify the specific issue but it classifies the group of securities, upon change of their attributes a new CFI code is generated, i.e. the CFI particulars do not change, the code is replaced. The CFI code assigned to a specific issue of securities ceases to exist together with the end of the issue and cancellation of the ISIN code.



CDCP becomes accredited for LOU



CDCP is interested in improvement of the quality of its services and therefore it resolved to become an accredited LOU institution that assigns LEI codes.

As an operating unit functioning currently in the temporary regimen (pre-LOU), CDCP is interested in becoming a full member of the Global LEI System (so called GLEIS) allowed to function as the accredited local operating unit (LOU) and assign LEI codes to entities from any of the countries for which it is accredited.

The entire accreditation process is carried out under the auspices of the Global Legal Entity Identifier Foundation (GLEIF). GLEIF evaluates the readiness of CDCP interested in functioning within the Global LEI System, assignment of LEI codes, and managing of reference data of the entities to which LEIs have been assigned in compliance with the relevant international standard.

The reason for accreditation of CDCP as a full member is the future potential that we see in the unique LEI identifier. This is evidenced by the fact that since 21 May 2014 when our pre-LOU statutes were approved, we have been managing over 470 LEIs out of which 330 have been assigned by us. In addition to that, over 140 LEIs have been ported to the depository from other pre-LOUs based on applications filed by the companies interested in porting.

CDCP started the process of its accreditation in September this year. The entire process consists of six phases and the last phase will end in the middle of the year 2017 when GLEIF notifies the accreditation result in writing. The creation and sending of an accreditation plan containing the objectives, intentions, and abilities of the applicant to function as an LOU represents a fundamental precondition for the accreditation process. Subsequently, CDCP will sign the Master Agreement in which it will undertake to comply with all terms and conditions, particulars and requirements related to the accreditation.

Within the accreditation process, the applicant is to submit and document compliance with an extensive set of requirements applicable to an LOU. The most important information concerns the services that will be provided upon assignment of new LEIs, porting and renewal of LEI codes, procedures preventing duplicate assignment of LEIs, the manner of data quality assurance and data archiving.

Positive assessment of requirements guarantees that the applicant that becomes an LOU will assign and manage LEI codes in compliance with the international standard and rules of the GLEIS global system. The accredited LOU will be assessed on an annual basis as to whether it complies with the strict criteria and requirements applicable to local operating units.

HARMONOGRAM Akreditácie CDCP na LOU

Process / month/&year	IX. 2016	X. 2016	XI. 2016	XII. 2016	I. 2017	II. 2017	III. 2017	IV. 2017	V. 2017	VI. 2017
Accreditation	NDA signing	Sending of the accreditation plan (AP) to GLEIF		Sending of the accreditation plan (AP) to GLEIF		M.A. signature	Preparation of accreditation documentation		Accreditation decision	

For more information, visit www.cdc.p.sk

EUROFI Conference

An international conference organized by the EUROFI European think tank during the Slovak Presidency of the EU Council was held in Bratislava on 7 – 9 September 2016. The conference provided representatives of the banking sector and capital markets with the unique opportunity to hold discussions dealing with current topics of the European Union. The agenda included the European currency union, banking union, and capital market union and the impacts of Brexit specifically on the banking market.

Within the discussion focusing on development of CEE capital markets, representatives of those markets ("CEE markets") and original member states discussed the potential for development of those markets in the current situation characterized by regulation and proceeding harmonization and globalization of markets. CEE markets are specifically characterized by the fact that they are small and such capital markets represent only relatively small percentages of GDP with low turnovers. The financial sector is based on bank loans and banks have a more local focus. These markets have been recording certain development of the government bonds market followed by the corporate bonds market.

Original member states request that CEE domestic capital markets integrate into the European capital market without any significant pressure. First of all, the international section of national markets should be integrated. Larger companies, even on the Slovak market, should acquire funds also from the capital market and thus diversify their funding. Local companies acquire funding mostly on the national markets.

National markets in CEE countries remain fragmented what is criticised by foreign investors.

The reason why CEE capital markets are underdeveloped when compared to the markets of western countries is that those markets have been developing for a shorter period of time (approximately 25 years) while western markets were developing in isolation with only local investors, banks, etc., while the CEE markets have been developing in an open integrated environment. What are the possibilities for development of CEE capital markets? Discussion participants believe that one of the opportunities is to increase the financial literacy in CEE countries, to focus on the market for small and medium enterprises, and support distribution of funds. The governments' support for CEE capital markets is necessary.

Bank loans are usually applied for by more problematic companies and banks check them. Good companies should get funding through the capital market but currently banks provide those companies with credits with near to zero interest rates.

In Slovakia, the current situation has been conditioned by the heritage from the nineties when scandals reduced the level of trust in the capital market. Privatization has never been carried out via the capital market. The Slovak economy is young, new enterprises emerge but they do not need to enter the capital market at early stages of their development. The risk appetite of investors looking for higher yields is increasing. According to one of discussion participants, the cooperation between the private and public sectors is necessary. Tax benefits for investors are necessary too but in fact, the tax burden has been increasing.

Small and medium enterprises do not need integration because they get funding in local markets. A number of local traders have terminated their activities due to regulation that is not necessary within local markets to such a great extent. Large banks do not represent a sufficient replacement because they pick only the most interesting opportunities. Implementation of IFRS standards should help even if for local companies it is difficult to switch from local accounting standards to the international standards.

The access of small and medium enterprises to the capital market may be supported by the guarantee covering at least a part of the loan. It is recommended to refrain from implementation of domestic standards that would hinder investing for foreign investors. Small and medium enterprises may have dual listing of securities.



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