Application instructions for participation in Euroclear Finland

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Introduction

Euroclear Finland Ltd ("Euroclear Finland") is a central securities depositary and has a central role in the Finnish capital market. Euroclear Finland is responsible for providing long-term, secure and cost effective services to issuers, intermediaries and investors, as regards the issuance, corporate actions, settlement and safekeeping of financial instruments, on the Finnish market. Euroclear Finland is part of the Euroclear group which is the world’s largest provider of domestic and cross-border settlement and related services for bond, equity, fund and derivatives transactions.

As a participant in Euroclear Finland, you are in a position to take advantage of our extensive experience and knowledge in our field of business.

This document contains instructions for the preparation of an application to participate in Euroclear Finland. Information regarding the different technical systems as well as a description of the various options that are offered for participation in the different systems is available on the Euroclear’s website www.euroclear.com.

In the processing of an application, Euroclear Finland will take into consideration those aspects that have a bearing on maintaining public confidence in the securities market. Euroclear Finland therefore places a high demand on security and efficiency and on the ability of the applicant company to run its business operations on a long-term basis. Participants shall also at all times run their business operations in accordance with the rules and regulations of Euroclear Finland.
Requirement references

For the convenience of the reader, this document contains references to relevant sections in the rules and regulations of Euroclear Finland or Finnish laws where more details of the requirements can be found. The following abbreviations are used for the references:

CSD  Central Securities Depository

Rules and regulations of Euroclear Finland:
Rules  Rules of Euroclear Finland
Decision  CEO's Decision(s) related to the Rules of Euroclear Finland

Finnish law:
SMA  Securities Markets Act (746/2012)
ABEA  Act on Book-Entry Accounts (827/1991)
ABESCO  Act on Book-Entry System and Clearing Operations (749/2012)
ISA  Investment Services Act (747/2012)
Instructions for applying to Euroclear Finland

In order to join Euroclear Finland as a participant, the applicant needs to submit an application in accordance with the instructions below.

To facilitate the application process, please use the numbering noted on the right-hand side.

According to the rules and regulations of Euroclear Finland and in order to facilitate the processing of the application, the following information at least shall be appended thereto. More details on the information needed can be found in the rules and regulations of Euroclear Finland.

According to law and regulations an applicant applies as an Account Operator and a Clearing Party roles. In some Euroclear Finland documents e.g. the Service Description, the Interface Descriptions and the Technical Connectivity Description, an Account Operator is referred as a Depository Participant and a Clearing Party as a Settlement Member. Below is a short description of those types.

Depository Participant manages its accounts and its clients’ accounts with the Central Securities Depository (i.e. Euroclear Finland). Depository Participants will open accounts for their clients and perform actions related to account management or rights and restrictions on their behalf. A Depository Participant is always associated with a Settlement Member because management of securities accounts requires the right to instruct settlement instructions. For instance, each securities debit and credit is executed with a settlement instruction and input of position level restriction auto-generates a settlement restriction instruction.

Settlement Member places settlement instructions in the system: there are always buyer’s Settlement Member and seller’s Settlement Member through which settlement of settlement instructions is processed. A Settlement Member is always associated with a Depository Participant because each settled settlement instruction and settlement restriction is booked to/from a securities account upon Depository Participant’s strict liability.

Issuer Agents will be allowed to perform the following functions:

- Security creation and maintenance
- Issuance processing
- Program creation and maintenance
- Corporate action processing

An Issuer Agent is always associated with Depository Participant as well as Settlement Member because management of corporate action payments requires access to internal cash account operated by Depository Participant and management of corporate actions and new issues require right to instruct (automated system generated) settlement instructions which upon settlement are booked into a securities account upon Depository Participant’s strict liability.

Adequate time should be reserved for the processing of the application, which varies depending on the scope of the application. It is strongly recommended that the applicant establishes contact with Euroclear Finland well in advance of their plans so that the situation may be examined with regard to the said applicant and the issue may be thoroughly prepared prior to the filing of the actual application. Euroclear Finland will handle the application promptly upon receipt of the application. Should the information in the application be insufficient and Euroclear Finland is required to request for additional information, the handling of the application may consequently be prolonged.

The application shall be written in English or Finnish and signed by an authorised signatory (as indicated in trade register or otherwise). The application can be sent to the following address:

Euroclear Finland
CEO
P.O. Box 1110
00101 Helsinki, Finland
1 General information

Specify the official legal name, business ID and the Finnish business ID of the applicant. ¹

State which person(s) is/are responsible for the application. Provide information of their email addresses and phone numbers.

Please state that you are applying to become a participant in Euroclear Finland.

Each participant shall apply both Account Operator and Clearing Party status. Issuer Agent status is optional.

Append information of the applicant’s decision to apply for participation (for example an extract from the minutes of a meeting of the board of directors).

Confirm that the applicant undertakes to comply with the self-regulation of Euroclear Finland.²

2 Organisation description

Give an outline of the history of the company.

Attach an accurate extract from the Trade Register or corresponding information. The documents must clearly state the authorised signatories. Attach a copy of articles of association, or equivalent, which shall include information on the company’s type of business.³

Describe the ownership of the company, including any group structure where relevant.⁴

Specify which activities the company is authorised to conduct, such as securities business and banking operations, and attach copies of permits from a regulatory body. Non-domestic applicants shall, where relevant, attach a copy of notification from the supervisory authority of the applicant’s home state to the supervisory authority of Finland and a copy of the reply to the notification.⁵

Provide a general description of the company’s organisation and attach an organisational chart of the overall organisation.

Describe in detail the organisation that will interact with Euroclear Finland. Attach an organisational chart of the part of the organisation that will conduct business relating to the application, including names and function.

Specify which persons in the company are responsible for the following issues and provide information of their email addresses, phone numbers, as well as their experience in the field and where they are placed in the organisation:

- technical issues
- operational issues
- legal issues
- security/risk issues

¹ An applicant can obtain a Finnish business ID from Finnish Tax Administration. The form is available from the following link: http://www.ytj.fi/english/services/Notification-forms/2163
² Rules 1.5.9, subsection 8
³ Rules 1.5.34, subsection 2-3
⁴ Rules 1.5.34, subsection 1
⁵ Rules 1.5.34, subsection 4 and 1.5.9, subsection 1
Describe how the applicant, by means of staffing, will ensure the fulfilment of its obligations under the rules and regulations of Euroclear Finland. Note that this request is independent on whether any administration is outsourced. Provide information also on any planned training of users and list relevant courses that employees have participated in.\(^6\)

Submit a CV-type clarification, especially of the experience in the securities markets, of at least two (2) persons participating in the management of the applicant. Submit also a CV-type clarification, especially of the experience in securities operation activities, for the minimum three (3) persons working with the relevant system of the CSD. Provide information of their email addresses, phone numbers. Specify whether these persons are employed on a permanent or temporary basis. Note that this request is independent on whether any administration is outsourced.\(^7\)

An applicant shall appoint at least one Registration Officer and his/her personal deputy for the registration operations. The Registration Officer shall meet the qualifications specified further in the Rules of Euroclear Finland and shall decide on the matters requiring legal expertise. Submit a CV-type clarification of the experience of the Registration Officer.\(^8\)

For applicants with other domicile than Finland, a legal opinion may be required. The legal opinion must be drawn up by a legal expert independent of the applicant and may take up the following issues.

- The validity of the rules and regulations of Euroclear Finland in the applicant’s country of domicile, as well as the possibility of enforcing a Finnish court decision or a Finnish arbitration decision in the applicant’s country of domicile.

- Where it is not possible to attach a registration certificate to the application, a legal opinion as to the terms and conditions applied regarding authorised representation for the company.\(^9\)

3 Financial description\(^10\)

The applicant must show that it has adequate financial prerequisites with regard to the business to be conducted and the scope of the obligations the applicant is expected to have in conjunction with the operations. The prerequisites shall exist to ensure that operations can be conducted long-term. Where applicable, Euroclear Finland will obtain information from a credit information company in conjunction with the processing of the application. The minimum capital requirement is 730,000 euros in equity capital.

As for the minimum capital requirements, please note that Euroclear Finland will consider the size of the equity capital in relation to registered share capital. This would be relevant especially for companies with low levels of profitability. Submit copies of the annual reports (financial statement and auditor’s report) for the three most recent financial years as well as the most recent quarterly report. Submit forecast for current year with adjustments where necessary.

Submit copies of the annual reports (financial statement and auditor’s report) for the three most recent financial years as well as the most recent quarterly report. Submit forecast for current year with adjustments where necessary.

Provide information on insurances (business liability and crime) and guarantees safeguarding the operations and of any other special arrangements supporting the operations.

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\(^6\) Rules 1.5.9 subsections 3 and 4 and the Decision: “Requirements imposed on persons using Euroclear Finland’s OM and RM system”

\(^7\) Rules 1.5.9 subsections 3 and 4 and the Decision: “Requirements imposed on persons using Euroclear Finland’s OM and RM system”.

\(^8\) Rules 1.5.20, subsection 1, see also Rules 2.1.5

\(^9\) ABEASCO chapter 5 section 1 and chapter 6 section 4, Rules 1.5.26, 1.5.28, 1.5.34, subsection 4

\(^10\) ABEASCO chapter 5 section 1 and chapter 6 section 4, ISA chapter 6, Rules 1.5.9, subsection 2, 1.5.11, subsection 1 and 1.5.18, 1.5.20, subsection 2
4  Business description

Describe in general the applicant’s operations and business. Specify whether the applicant is conducting other business than securities operations.

Describe in detail Euroclear Finland related part of the business.

Provide an estimate of the scope of future operations, the most central key ratios, such as number of customers and their nationality and number of transactions etc.

Specify whether external resources will be used for any part of the business operations. Give a comprehensive description of the scope of the outsourcing and the reason why this is necessary. Specify in detail which operations will be handled by the applicant and by the outsourcing partner and submit the agreement with the service provider. Euroclear Finland will make an assessment in each individual case, taking into consideration security aspects and the need for an efficient functioning communication with Euroclear Finland.11

5  Risk management description12

A participant in Euroclear Finland must possess the requisite routines and resources to be able to manage the risks and problems that may arise in relation to the participant’s business.

Submit a general description of how the risk management responsibilities are defined and how risks are managed within the organisation. The description should clarify the following.

- The person responsible within the organisation for the management of risks.
- Policies and other relevant risk documentation established in order to support the management of risks.
- The management of risks within the organisation.
- The distribution of information relating to risk management within the organisation.
- Procedures for handling operational incidents.
- The escalation routines relevant to a risk/incident situation, including named recipients of incident reporting.
- The organisation of internal control function.

Please describe the management of the following risks.

Operational risk/IT risk
- Risks relating to the operational organisation (e.g. inadequate organisation, unclear responsibilities, no decision-maker at hand in difficult situations).
- Risks relating to personnel (e.g. key staff dependence, human error, ignorance, fraud, insufficiently trained staff).
- Risks due to loss of data communications, telecommunications (e.g. telephone, fax) and power.
- Risks that damage to a single piece of hardware, system or application software, or communication equipment jeopardises the usability of main functions in critical IT systems.
- Risks due to viruses and other internet attacks.
- Risks due to unauthorised access or poor data security in operations.
- Risks due to insufficient physical security arrangements (e.g. theft, sabotage).
- Risks that the premises of the applicant are destroyed or otherwise become inaccessible (e.g. fire).
- Other operational risks.

11 Rules 1.5.10
12 Rules 1.5.9, subsection 6, 1.6.9, 1.6.10 and the Decision: “Data Security regulations as well as preparation for malfunctions and other exceptional situations”
Other risks
- Legal risk (e.g. investments, other business operations).
- Counterparty risk (e.g. principal risk, market risk, liquidity risk).
- Outsourcing (e.g. confidentiality issues, operational risks associated with the outsourced services).

Give an overview of the applicant’s preparedness and the preventive measures that exist for handling crises and abnormal situations, e.g. in the form of a business continuity plan. State who is responsible for the maintenance and the frequency of testing and updating the measures.

6 Technical description

A participant at Euroclear Finland must be technically connected to, and capable of operating the CSD system in accordance with the Euroclear Finland’s requirements for technical communication.\textsuperscript{13}

Information on the details required to describe concerning the technical communication for Euroclear Finland is found in appendices to this instruction for participation.

7 Description of participant roles

Following sections describes different Euroclear Finland’s participant roles. Please note that an applicant is applying for an Account Operator, a Clearing Party and an Issuer Agent status, since these terms are in Euroclear Finland’s rules and regulations. In some Euroclear Finland documents e.g. Technical Connectivity Description an Account Operator is referred as a Depository Participant and a Clearing Party as a Settlement Member.

7.1 Clearing Party\textsuperscript{14}

An applicant applying for membership as a Clearing Party shall simultaneously apply for membership as an Account Operator and simultaneously will be granted right to act as an Issuer Agent.\textsuperscript{15}

Notify Euroclear Finland of a monetary account in the TARGET system of the European System of Central Banks in which the payments to the Clearing Party are to be made. If the applicant does not have its own account in the TARGET system, it shall arrange payment transactions with the party whose account the applicant notifies to Euroclear Finland.\textsuperscript{16}

An applicant who can obtain central-bank financing shall provide a certificate from the central bank that shows that the applicant is a central bank’s monetary policy counterparty that is eligible for central bank financing.

An applicant who cannot obtain central-bank financing shall acquire and maintain a valid liquidity guarantee, safeguarding the liquidity of the party. If, despite a request from Euroclear Finland, the Clearing Party has not transferred funds to the payment deposit to settle purchases, Euroclear Finland has the right to request funds based on the Clearing Party’s liquidity guarantee. This guarantee must be obtained from a credit institution that has an agreement, with the Bank of Finland or another central bank in the European Economic Area, safeguarding the liquidity of the credit institution. The guarantee cannot be obtained from an entity belonging to the same group of companies with the Clearing Party. Euroclear Finland assesses and sets a requirement relating to the amount of the liquidity guarantee of a new Clearing Party, on the basis of the information provided by the applicant regarding its operations and their estimated scope.\textsuperscript{17}

\textsuperscript{13}Rules 1.5.9, subsections 2 and 5 and 1.5.34, subsection 5
\textsuperscript{14}Rules 1.5.11 – 1.5.19
\textsuperscript{15}Rules 1.5.1
\textsuperscript{16}Rules 1.5.19
\textsuperscript{17}Rules 1.5.12 – 1.5.16 and 4.2.19
7.2 Account Operator

State whether the accounts are to be opened on own behalf and/or on behalf of third party. Describe and define your account model structure together with an estimate of the number of accounts to be opened.

According to the ABEA, Account Operators have a strict liability, which means that an Account Operator is, irrespective of negligence, liable to compensate damages relating to a book-entry account managed by it. Confirm that the applicant understands the strict liability of an Account Operator and state whether the applicant’s liability insurance covers claims for damages according to strict liability of Account Operators.

Confirm that the applicant undertakes to comply with the Rules of the Finnish Central Securities Depository Fund and to pledge a security to the Registration Fund. When a new Account Operator starts its operations, the amount of the pledged security shall be 600,000 euros. The purpose of the Fund is to safeguard the fulfilment of the legal liability in damages of an Account Operator up to the statutory maximum. If the Account Operator is unable to meet its liability in damages provided for in the ABEA, the injured party shall be entitled to compensation from the Registration Fund.

The Account Operator must be able to handle communication with Euroclear Finland and the tasks required from an Account Operator.

The Account Operator shall be able to take care of the transactions relating to keeping book-entry accounts of its customers or its own. The Account Operator must maintain the data of its book-entry account in Euroclear Finland’s book-entry register to the extent it provides services for its customers. It shall be able to communicate with Euroclear Finland’s book-entry register via graphical user interface (GUI) or/and messaging interfaces.

Confirm that the applicant has the proper systems in use and can carry out required tasks. Notify if all or some of the tasks are outsourced to an existing Account Operator and include an agreement with the service provider and submit it for assessment to Euroclear Finland and the Finnish Financial Supervision Authority. Please note that for such arrangement, the responsibilities are unchanged and the liability remains with the Account Operator buying the services from another Account Operator.

An Account Operator shall present a plan for the settlement of errors and discrepancies in its operations. Please present the information required according to the managing director’s decision on the plan on the settlement of errors and discrepancies.

7.3 Issuer Agent

Issuer Agent role shall be granted together with an Account Operator and a Clearing Party role. Issuer Agent carries out issues and corporate actions in central bank money.

Specify which types of corporate actions, issues and other corporate events are to be processed.

Describe how business activities as an Issuer Agent are kept separate from any other business activities within the applicant’s organisation.