



Participation

Euroclear Sweden AB • 2019

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Introduction

This document contains information to facilitate the preparation of affiliation to Euroclear Sweden AB ("ES"). It begins with a brief introduction to different options for clearing and settlement and safekeeping, which is needed in order to comprehend the different forms of participation which are explained further on.

Clearing and Settlement

ES manages account operations and clearing activities for the Swedish financial market. This means that most financial instruments existing on the market are registered and settled in the vpc system. Both Swedish and foreign instruments are handled in the vpc system.

The vpc system supports clearing and settlement of securities denominated in SEK and EUR. The system is divided into two sections with slightly different functionality - the **AM sub-market** and the **PM sub-market**. The settlement of securities fulfills international demands regarding the delivery of securities against payment and is also a final and irrevocable settlement in accordance with the EU directive concerning settlement finality.

AM sub-market

In the AM sub-market, the functionality has been developed to primarily meet the needs for clearing and settlement of equities and equity related instruments. However, all securities affiliated to ES, e.g. interest bearing securities, can be cleared and settled in the AM sub-market.

PM sub-market

The functionality in the PM sub-market has been developed to meet the needs of institutional investors' clearing and settlement of debt instruments. The PM sub-market enables participants to clear and settle for example treasury bills, mortgage certificates, mortgage bonds and treasury bonds. Instruments issued in the PM sub-market can be transferred to accounts for clearing and settlement in the AM sub-market.

Safekeeping

The vpc system offers various alternatives for safekeeping of securities by providing several types of securities accounts for the registration of holdings. A securities account is either an **owner- registered account**, which is opened in the name of the owner, or a **nominee account**, which is opened in the name of the nominee on behalf of the owner.

Owner- registered account

A securities account which is registered in the name of the owner is called an owner-registered account. ES handles processing of, for example payment of dividends, withholding and reporting of tax and notification to the account holder regarding changes in the account.

Nominee account

A securities account which is registered in the name of a nominee is known as a nominee account. The securities account shows the total holdings for the nominee's customers. Only a participant authorized by ES as a nominee can open nominee accounts. Nominees maintain a register of the holdings of their clients in their own custodian system. ES only notifies the account holder, i.e. the nominee, of any changes in the account.

PM account

A PM account is a securities account in which only securities issued in the PM sub-market may be registered. Hence this is the only account to be used in connection with settlement in the PM sub-market. A PM account can be either an owner-registered or a nominee account.

Service account

A service account is a securities account which may be opened in accordance with a special agreement between ES and an account operator. From a technical and legal point of view a service account is an owner-registered account, which may be supplemented with a number of optional services. The supplementary services include categorizing and grouping of customers, safekeeping and settlement of non-Swedish securities, support of securities services via the Internet and the valuation of holdings.

Member account

A member account is a securities account that ES opens for each clearing member participating in the AM sub-market in conjunction with the approval as a clearing member. The instructions of the clearing member are registered on the member account but should then be transferred to other securities accounts in the settlement process. Therefore the member account should not normally show any holdings. The member account can be an owner-registered or a nominee account.

Corporate Actions

Services

ES offers an information service, Securities Information, whereby information on securities, corporate actions and issuer details is provided via an XML interface. The service is divided into a number of different products, based on each unique type of security and corporate action, enabling the customers to subscribe only to the products which are of interest to them. As a supplementary service, ES offers a web-based solution for retrieving information via the Internet. ES also offers Corporate Actions via ISO interface.

Handling of corporate actions

Mandatory corporate actions are processed by ES. For all voluntary corporate actions an issuer agent, who acts as an administrator on behalf of the issuer, is required according to the rules of ES. The issuer agent handles the communication with the account holders and processes the voluntary corporate action.

Payments related to securities issued in the AM sub-market are paid directly to the account holders' cash account via Bankgirocentralen BGC AB¹. Payments related to securities issued in the PM sub-market and held on PM accounts are incorporated in the clearing members' liquidity forecast and included in the daily clearing and settlement process.

¹ Swedish domestic giro system that handles all types of payments between banks and their customers.

Participation

The following options are offered for participation:

- clearing member
- account operator
- issuer agent
- nominee
- settlement bank

Clearing Member

A clearing member participates in ES's clearing and settlement and reports trade instructions to the vpc system for settlement. The clearing member is responsible for ensuring that securities and payments are settled on intended settlement dates. Where the clearing member is not itself a settlement bank, a settlement bank authorised by ES shall be appointed for making payments (see 2.4.5).

Clearing members may participate in the clearing process in one or more sub-markets and currencies, i.e. AM SEK, AM EUR, PM SEK and/or PM EUR.

A clearing member participating in the AM sub-market, which is not itself an account operator, is obliged to utilise an account operator for final registration on the securities account of the buyer or the seller. A clearing member participating in the PM sub-market must, however, be an account operator itself as the transfer instructions reported by the clearing member to the vpc system for settlement in the PM sub-market also entail registration in the buyer's or the seller's securities account.

A clearing member can participate with various clearing member identities (CIDs), for example, one CID for own activities and another CID for a customer.

Participation as a clearing member on its own behalf may be granted to legal entities which possess sufficient capital, a suitable organisation for the business, requisite risk management routines, secure technical systems and which are otherwise deemed to be suitable to participate in clearing operations. In addition, participation may be granted to the Central Bank of Sweden and the Swedish National Debt Office.

Participation as a clearing member on behalf of a third party may be granted to Swedish and foreign clearing organisations or central securities depositories, the Central Bank of Sweden, and institutions which hold a permit from the Swedish Financial Supervisory Authority for execution of orders in respect of financial instruments of behalf of customers. Participation may also be granted to a foreign undertaking which, in its country of domicile, is entitled to execute orders in respect of financial instruments of behalf of customers and which is under satisfactory supervision by an authority or other competent body.

Account Operator

A company authorised as an account operator is given the right, on behalf of ES, to open securities accounts and/or to register new or amended data in vpc accounts. Account operators have a technical connection with ES allowing them to register instructions in the vpc system. The account operating functions of the vpc system are accessed via terminals, file transfers and/or computer to computer communications.

Participation as an account operator on its own behalf may be granted to legal entities which possess sufficient capital, a suitable organisation for the business, requisite risk management routines, secure technical systems and which are otherwise deemed to be suitable to carry out registration measures. In addition, participation may be granted to the Central Bank of Sweden and the Swedish National Debt Office.

Participation as an account operator on behalf of a third party may be granted to Swedish and foreign clearing organisations or central securities depositories, the Central Bank of Sweden and other central banks, and institutions which hold a permit from the Swedish Financial Supervisory Authority for conducting securities operations. Participation may also be granted to a foreign undertaking which, in its country of domicile, is authorised to conduct securities operations and is under satisfactory supervision by an authority or other competent body.

Issuer Agent

An issuer agent is an account operator with a special authorisation to act in conjunction with the issuance of financial instruments or other kinds of corporate actions where the participation of an issuer agent is required in accordance with the ES Rules for Issuers and Issuer Agents.

An issuer agent acts on instructions from the issuer and carries out the registrations resulting from the issue. In order to be permitted to process issues in the PM sub-market, an issuer agent must participate as a clearing member in the PM sub-market.

If the issuer agent processes corporate actions, in which it holds securities on behalf of others over night, the issuer agent must also be a nominee.

Participation as an issuer agent is granted only to account operators and the requirements as requested for above regarding account operators apply.

Nominee

A nominee as the representative for one or more investors in relation with ES can open nominee accounts. By request of ES, nominees are required to provide information about underlying owners (known as nominee reporting). A nominee, who is not an account operator and therefore does not have a technical connection to ES, must utilise the services of an account operator for this function.

Nominees normally manage the holdings of individual investors in their own custodian system, where holdings are mirrored on an aggregated level to one or more nominee accounts at ES. A nominee shall ensure that the customer's securities do not become intermingled with any of its own holdings.

A nominee is responsible towards the underlying customer for the administration, for example notification of holdings and the processing of corporate action. A Swedish nominee is also responsible for withholding of taxes and reporting to the Swedish Tax Agency. For non-Swedish nominees, ES is the withholding agent. ES offers tax deduction at source and reports the withholding tax to the Swedish Tax Agency. The handling of Swedish customers with holdings with a non-Swedish nominee is dependent on whether the nominee has undertaken to file statements of income to the Swedish Tax Agency.

Participation as a nominee may be granted to Swedish and foreign clearing organisations or central securities depositories, the Central Bank of Sweden and other central banks, and institutions which hold a license from the Swedish Financial Supervisory Authority for conducting securities operations. Participation may also be granted to a foreign undertaking which, in its country of domicile, is authorised to conduct securities operations and which is under satisfactory supervision by an authority or other competent body.

Settlement Bank

A settlement bank supplies services related to the settlement of payments. A settlement bank operates on behalf of one or more clearing members, and handles the disbursement or receipt of payments at settlement. Settlement banks may choose to participate in one or more sub-markets and in one or more currencies. A settlement bank that is not an account operator and therefore does not have technical connection to ES must utilise the services of an account operator for this function.

As a settlement bank for payments in SEK, the institute must be an authorised participant in the payment system of the Central Bank of Sweden.

As a settlement bank for payments in EUR, the institute must be a participant in a payment system at a central bank and thereby have access to credit in EUR, or by means of an agreement with such participant, have access to credit in EUR on terms equally efficient as those applying to participants in the system.

