keler

Service Description

related to developments of the
KELER Service Development Program (KSDP)

v 1.0

15 July 2019

CONTENTS

VERSION CONTROL

Version	Date	Comment
1.0	2019.07.15.	KSDP first phase content introduction

1. INTRODUCTION

In 2018, KELER started KELER Service Development Program (KSDP), a new, comprehensive program. KELER set the goal to create an IT infrastructure that is more modern and of higher quality than the current infrastructure, with domestic developers and suppliers, on new foundations, thus further strengthening its position among European central securities depositories.

KSDP consists of several project phases and will build functionalities and service elements gradually.

The first phase of the Program focuses on the renewal of the securities settlement system. As part of this, an automated interface will be built between KELER and T2S, and services and mechanisms will be created that are required primarily by the provisions of the CSDR[1] and the related EU regulation (SDR[2]) governing settlement discipline.

Parallel with the new settlement platform, the new master data management and fee calculation systems of KELER will be launched based on which the statements and reports prepared for our Clients will be entirely renewed also.

This document provides a high-level summary of all the services and related changes compared to the current operation that will be effective after the go-live of the first phase of the Program, assisting our Clients in determining and planning the developments and service level requirements at a high level.

No changes are planned in the first phase of the Program related to the services not mentioned in this document.

KELER continuously updates this document with any changes arising as the Program progresses, and detailed information that may be later available related to certain functionalities, subject to version control.

We trust that the Program contributes to the more efficient, secure and competitive operation of the Hungarian capital market in line with European Union standards and our Clients will be satisfied with the developments implemented.

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[1] Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012 („CSDR").
[2] Commission Delegated Regulation (EU) 2018/1229 of 25 May 2018 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on settlement discipline.

2. MASTER DATA

2.1. Client data

The new systems launched in the KSDP do not change client (partner) level data registration, and ensure the continuity of the services provided based on the existing contracts.

2.1.1. Access to T2S services

Our Clients can continue to use T2S services in indirect mode (as ICP, Indirectly Connected Party), in the communication channels provided by KELER and with the use of the message formats determined by KELER.

In the first phase of the Program, direct access to T2S, and thus the use of T2S securities settlement services in direct mode (as DCP, Directly Connected Party) will not be possible.

2.2. Accounts

2.2.1. Account structure

The current securities and cash account structures do not change, i.e. our Clients can continue using the XXXX-YYYYYY (4-character main account + 6-character subaccount) format. The currently existing dedicated securities subaccounts will remain in use also.

In line with the requirements of the Capital Market Act and various international regulations, KELER segregates its own assets and Client assets, and manages securities and funds on segregated accounts, and for this purpose, it keeps segregated accounts.

It will be possible in the future also to keep securities provided as collateral on separated accounts, but the blocked balance type also can be used for the same purpose.

2.2.2. Securities accounts and balances

With regard to securities accounts, own and client type will continue to be set at master data level in the KELER system, similarly to current practice.

In the interest of legal compliance, KELER will request additional data related to the management of securities subaccounts, and our Clients will need to provide information on subaccount type and use, indicating whether the subaccount concerned is the individual account or the omnibus account of the client of the KELER participant.

This information will be have to be provided for new subaccount opening requests, more information on the categorization of existing accounts will be provided later.

KELER clients with KID will continue to be able to request the opening, amendment and cancellation of dedicated KELER subaccounts, similarly to the current practice.

No change is expected related to the currently used balance types. (blocked + available balance types are differentiated)

2.2.3. Cash accounts and balances

No changes are expected related to the current cash account numbers, account and balance types.

2.2.4. Linking securities and cash accounts in KELER

With the launch of the new system, for transactions involving fund movements, one default cash account can be linked to each securities main account by transaction type and by currency.

Clients with several main accounts can continue using the same cash accounts, i.e. one MNB or KELER cash account can be linked to several main accounts.

If the cash account number is populated in the appropriate field for the settlement orders initiated by the Client to be settled in KELER, the system will attempt settlement on the account instructed instead of the default account set. (Provided that the instructed account belongs to the client and it is a live account).

Prior to the go-live of the new system, based on the current cash account use habits of our Clients (please see below), KELER will set the default account numbers, but Clients will be able to amend these account numbers.

- for credit institutions for HUF settlement: MNB account number
- for credit institutions for foreign currency settlement: KELER account number
- for Clients other than credit institutions for settlements in all currencies: KELER account number
- for cross-border transactions in all currencies: KELER account number

More details on the possibilities to link securities and cash accounts will be provided later.

2.2.5. Account structure in T2S

KELER entered the T2S system in 2017 with the securities issued in Hungary, but without the national currency, following the so-called partial entry model. Based on an earlier decision by the Magyar Nemzeti Bank, the Hungarian Forint (HUF) did not become part of T2S. Consequently, KELER outsources settlement in Euro only to the platform, while HUF-based domestic transactions continue to be matched and settled in its own system.

Securities side

KELER keeps the securities positions of its Clients registered in KELER on an omnibus account, in a consolidated way.

However, at the request of our Clients, several accounts can be opened for segregation purposes (so-called segregated T2S account) in T2S. The T2S segregated account balances are shown in KELER on the so-called dedicated T2S accounts, with 1 to 1 mapping between accounts.

Only T2S instruments can be kept in segregated securities accounts.

KELER will have to maintain continuously the link with between the above mentioned T2S accounts with the accounts kept in KELER, and the consistency of systems.

The securities transactions that can be settled on dedicated T2S accounts will be advised later.
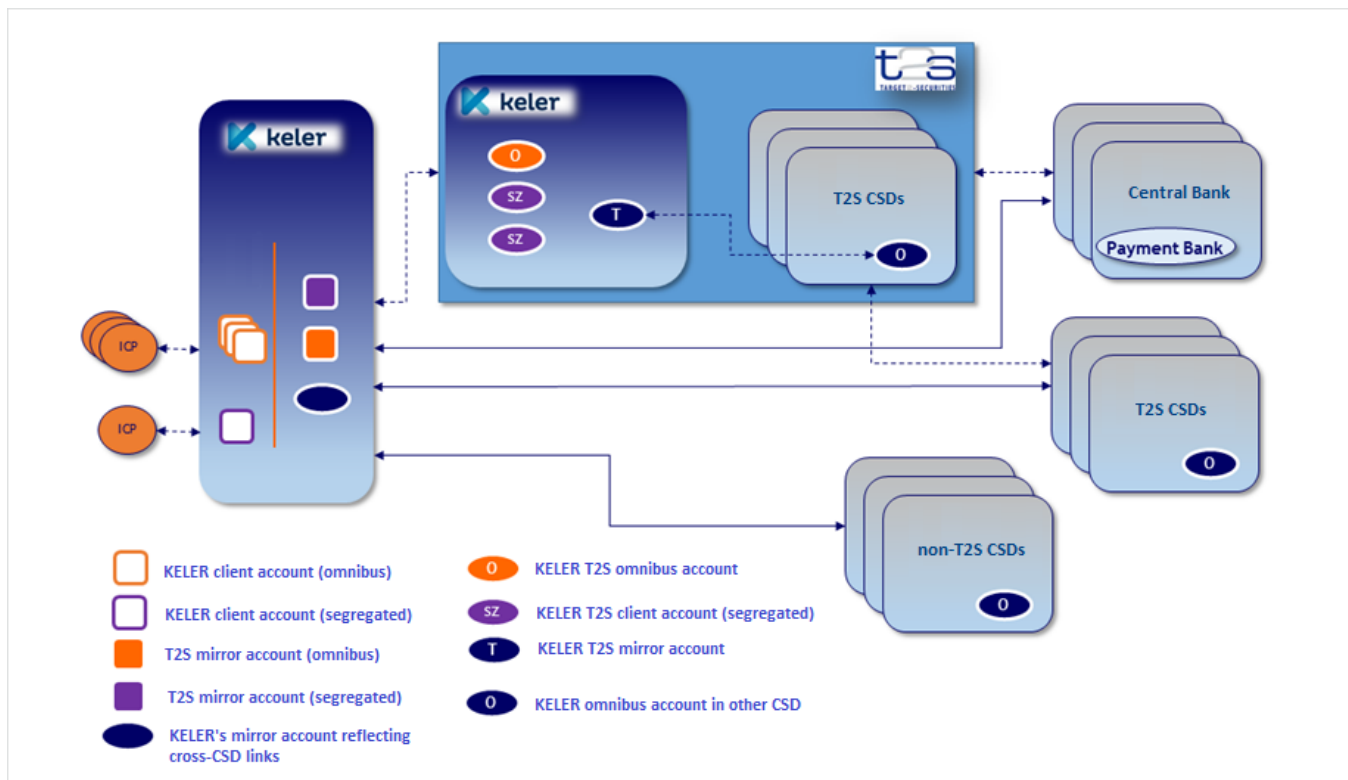
Figure 1. - KELER high-level account structure in T2S

T2S currency side

All financial settlements within T2S are currently performed in Euro and Danish Krone, on the so-called DCAs (Dedicated Cash Accounts). In the case of transactions in the above T2S currencies, KELER serves Clients through its dedicated omnibus cash account in T2S. With regard to financial settlement, KELER makes possible financial settlement not only on its DCA, but on segregated DCA and DCA external to KELER.

T2S currency settlement models offered by KELER

The T2S account structure offers various options to our Clients to perform securities settlement in T2S currencies.

Possibilities on the securities side:

- KELER omnibus
- KELER segregated account (the participant has to be shown in T2S also as an account holder with BIC)

Possibilities for cash account:

- KELER omnibus
- KELER segregated
- cash account external to KELER, opened with a central bank or a commercial bank

	Securities side	Cash side
	T2S securities account	**T2S cash account (DCA)**
Model 1	KELER omnibus *Default model*	KELER omnibus
Model 2	KELER segregated	KELER omnibus
Model 3	KELER segregated	external to KELER
Model 4	KELER omnibus	KELER segregated
Model 5	KELER segregated	KELER segregated
Model 6	KELER omnibus	external to KELER

Figure 2. - Possible T2S account structures for our Clients

By default, ICPs settle both cash and securities in the KELER omnibus account; however, at request we make possible the above flexible linking of securities and cash accounts. Only one cash account can be linked to one securities account.

<u>Differences in cover verification in the various models</u>

If the KELER omnibus account is selected on either the securities and/or the cash side, due to the nature of the omnibus account structure, KELER verifies securities / cash cover before sending the settlement instructions to T2S. If cover verification is successful, securities / cash positions are blocked. Subject to the result of cover verification and the blocking date, KELER sends orders with CSD Release or CSD Hold status to T2S.

In the case of the segregated securities account model, KELER verifies cover also in advance for settlement instructions for segregated securities accounts, and blocking is performed if cover verification is successful. If a DCA external to KELER is used, having regard to the client cash account kept outside KELER in this model, KELER does not verify cash cover for such transactions, T2S checks the cover required for settlement in the DCA stated by the client. In all cases, KELER sends CSD Release instruction to T2S.

2.2.6. Account Operator model – delegation of disposition right over the account

After go-live of the new system, KELER makes it possible to delegate the disposition right over the account, based on which delegation the account operator can get access to the account of the original account holder, that is to say it can submit orders in the name and on behalf of the account holder, and can receive statements and confirmations related to the account instead of the account holder.

Delegation of disposition right over the account is planned at the level of securities main account, i.e. the account operator would get right of disposition over all subaccounts belonging to the main account concerned, without any exception.

2.3. Securities

2.3.1. Securities master data related validation rules

In line with international practice, in the future KELER will consider the nominal value of debt securities and the number of units of shares and investment units as basic transaction data. The system will reject instructions that do not comply with this rule (with status code REJT//DQUA).

Minimum settlement quantity will be introduced as instrument master data in settlements; this determines the lowest number of units that can be settled for shares and investment units and the lowest nominal value of settlement for bonds. For domestic securities, this value equals the nominal value for bonds, for shares and investment units this is one unit, but the issuer can determine a different value also. If nominal value or

number of units other than stated by the issuer is instructed, the instruction will be rejected (with status code REJT//MINO).

The multiples (tick) that can be settled above the minimum settlement quantity will continue to be checked. The instruction can state the whole number multiple of the nominal value for bonds and the whole number multiple of number of units for shares and investment units. If this rule is not met, the instruction is rejected (REJT//MUNO status code).

Settlement instruction for instruments with unknown ISIN codes will be rejected also (REJT//DSEC status code)[3].

2.3.2. Securities issued in Hungary eligible for T2S settlement

KELER develops its systems to be able to make available in T2S also all the securities with Hungarian ISIN codes (HU) that are fungible in terms of settlement and dematerialized in form.

In harmony with the recommendation of the ECB, upon the request of the Client, KELER is required to open any ISIN code in T2S, provided it complies with the above described characteristics.

The following securities are available in T2S:

- dematerialized securities traded on the BSE
  - Premium share category
  - Government securities
  - Mortgage bonds
- government securities and mortgage bonds issued privately in T2S currency

Additional securities available in T2S will be determined later, based on market consensus.

Due to its central securities depository role, KELER acts as the so-called Securities Maintenance Entity (SME)4 in T2S with respect to Hungarian securities.

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[3] Cross-border orders, where the place of settlement is not KELER, are exceptions to this rule. In these orders KELER does not reject trades with unknown ISIN code.

[4] SME: the entity responsible for the maintenance of securities master data in T2S. The issuing central securities depository automatically becomes SME related to the securities it issued, and if a central securities depository issuing a specific ISIN code is not in T2S, a central securities depository in T2S will have to assume the SME role to ensure that the ISIN code concerned is available in T2S.

3. GENERAL CHARACTERISTICS OF SECURITIES SETTLEMENT

Transaction types to be used after the system implementation will change. Detailed business specification of transaction types and the ISO codes required for submitting orders are being finalized. In general, the format of settlement instructions that our Clients can submit will be in line with international communication standards, thus message communication standardization will primarily affect clients communicating on KID.

Details regarding transactions will be included in interface descriptions.

3.1. References

3.1.1. References in domestic settlements

In line with market needs, the system and operation of transaction references will be renewed substantially. The submitted settlement orders will be identified with the following references during the process of settlement:

Reference type	Content	Shown in client advices
Partner reference	1. Common trade reference: trade reference that can be stated in the instruction. Reference bilaterally agreed by Clients and sent to KELER as part of the instruction (optional) related to the transaction. It is an optional matching criterion, i.e. if both counterparties populate the field, it becomes a matching element. 2. Partner reference: the partner's own internal instruction reference. 3. Repo reference: reference to identify the starting repo transactions; it identifies the expiring repo and the modified repo also.	• before matching in status advices • after matching in status advices • the common trade reference is part of the allegement message
KELER reference	4. KELER reference: reference allocated to the instruction by KELER 5. Matching reference: reference allocated by KELER to the transaction with matched status if the place of matching is KELER.	• before matching in status advices • after matching in status advices Matching reference: included in the financial orders sent to the MNB, the MNB can forward this information in MT900/MT910 VIBER message in the case of Clients that have cash accounts with the MNB.

References stated in ISO15022 and ISO20022 messages will be included in interface descriptions.

The following figure illustrates the use of references in the case of an OTC transaction.
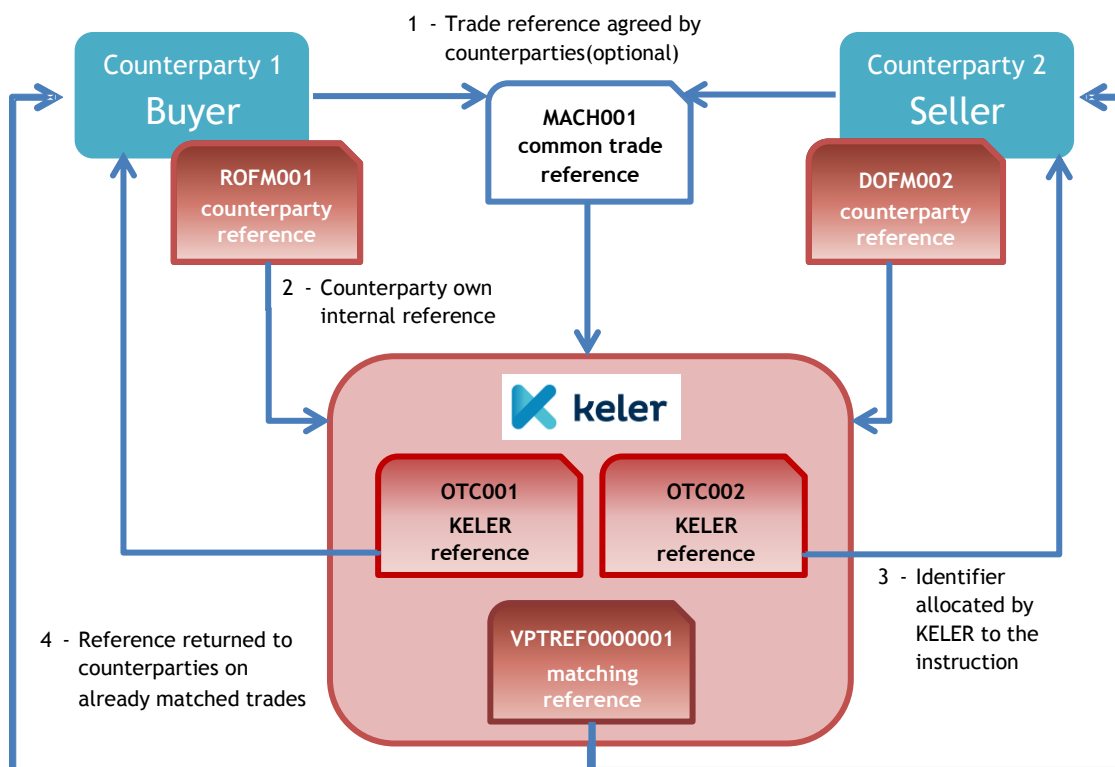
Figure 4. – Use of references

3.1.2. References inT2S

The entry into T2S extends the group of references used in domestic settlements.

With regards to the reference numbers available during the life cycle of trades, the T2S reference (Market Infrastructure Reference - MITI) will be introduced for transactions submitted to T2S as a reference in addition to the references of domestic settlements. KELER will forward the T2S reference to its partners if the place of settlement is T2S, otherwise only KELER references will be used.

T2S references are stated in status messages, allegements, confirmations and end of day pending and settled transaction statements also.

If the place of matching is T2S, the matching reference generated by T2S is confirmed to Clients. However, this is stated in status messages and confirmations only.

T2S reference (MITI): reference allocated by T2S after acceptance if the instruction is submitted to T2S

Format: numeric identifier of 16 digits

T2S matching reference: reference allocated by T2S to the transaction already matched if T2S performs matching.

Format: numeric identifier of 16 digits

The following figure illustrates the use of T2S references in the case of an OTC transaction that is matched by the system of KELER and is submitted to T2S as already matched:
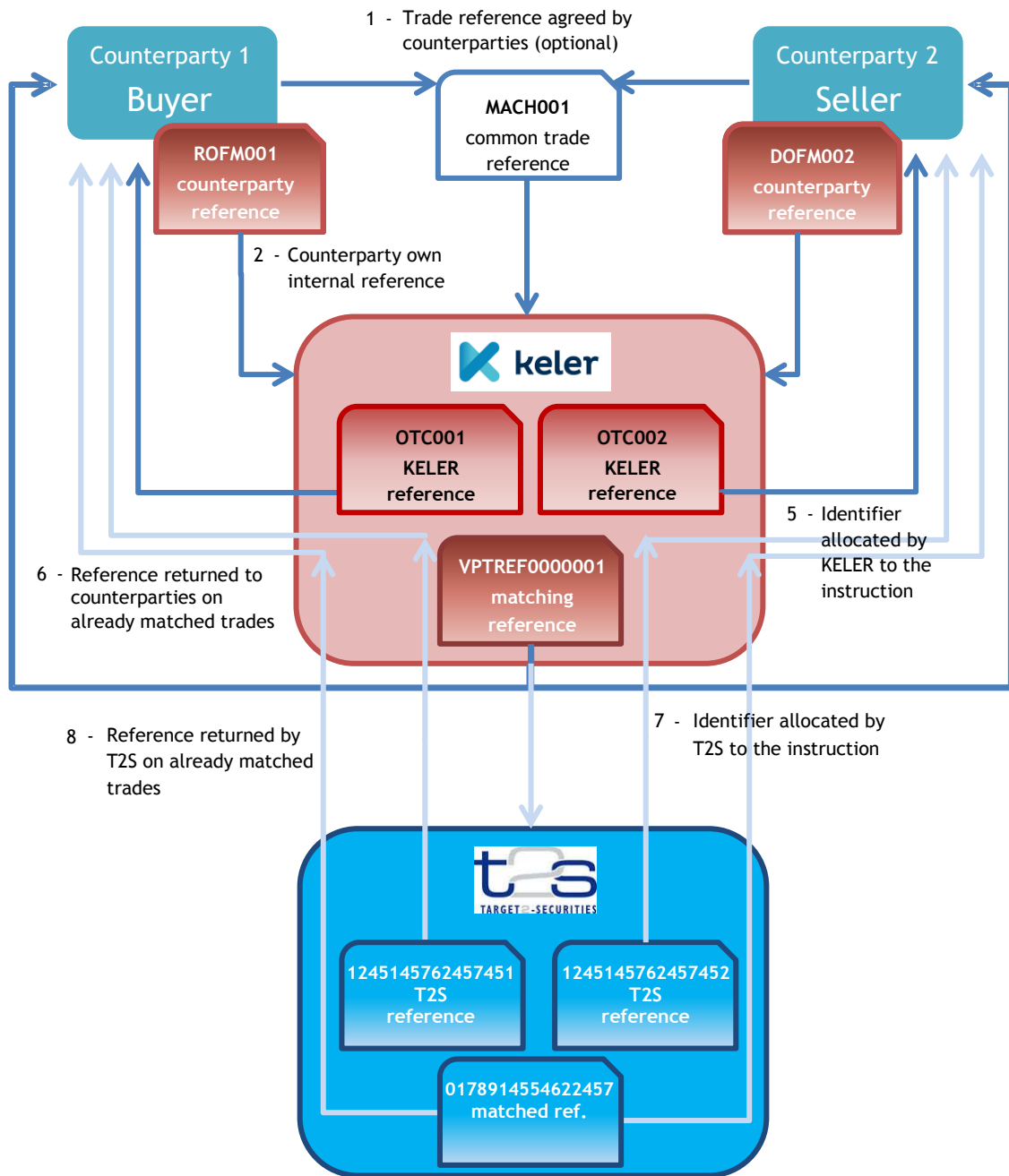
Figure 5. Use of KELER references, supplemented with T2S references

3.2. Settlement instruction lifecycle

Life cycle in KELER　　　　　　　　**Life cycle in T2S**
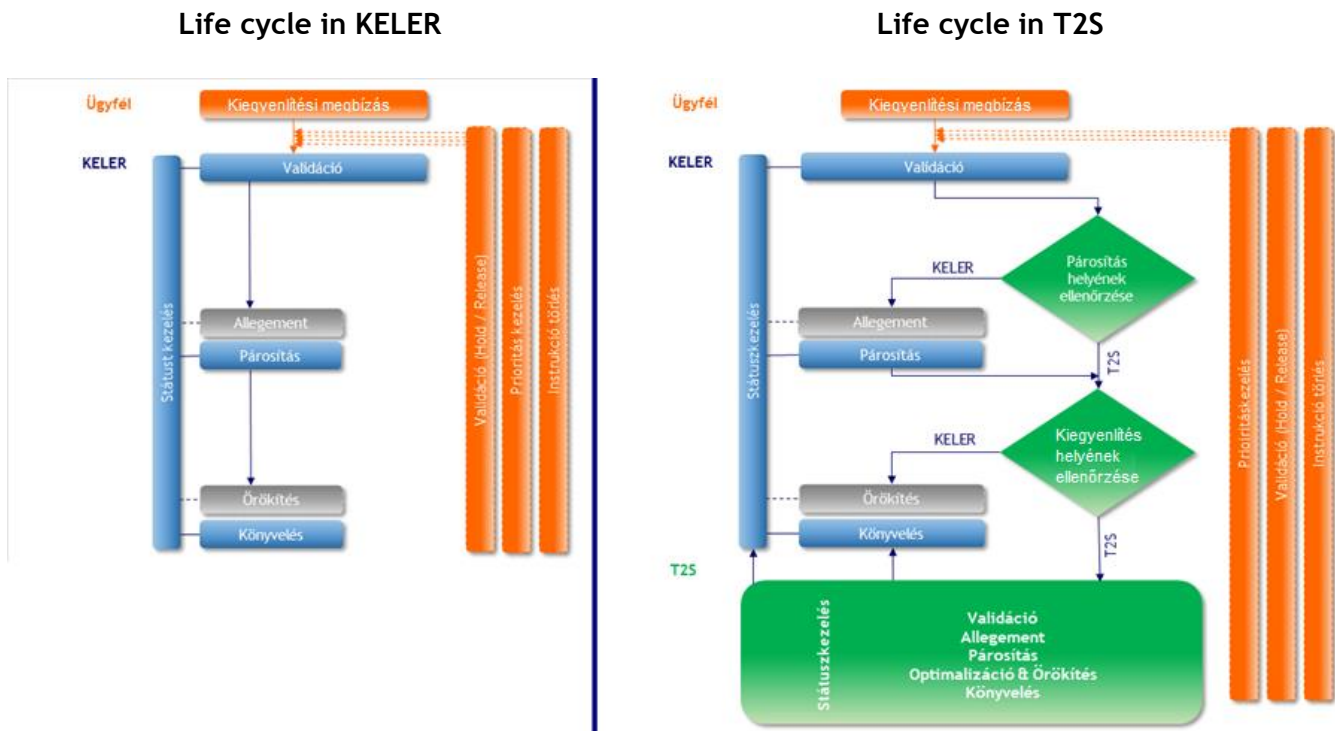
Figure 6. – Settlement instruction life cycle in KELER and in T2S

3.3. Submitting and validation of instructions

After the introduction of the new system, KELER expects that settlement orders are submitted in line with the requirements of T2S, CSDR and international standards. Message communication formats to be used and the rules to be complied with in the future are different than currently. Related messages will be finalized in the interface specification. Detailed rules on the fields of settlement orders will be published after system specification is completed.

Settlement orders accepted by KELER will be validated in terms of format and business content. Clients will be informed in status messages on the result of validation, i.e. acceptance or rejection.

3.4. Changes in Settlement Finality rules

In line with the basic principles of T2S (T2S Eligibility Criteria), and in order to comply with the harmonized rules on settlement finality (SF) in T2S[5], the following principles will apply to matching and settlement processes after T2S entry.

Due to the partial entry model, the T2S platform and the KELER system will jointly determine and manage the various degrees, times of settlement finality of settlement instructions (SF I – validation - acceptance, SF II – unilateral irrevocability from the time of matching, SF III – finality and irrevocability after booking). The place of SF I-II-III of various settlements can be different.

KELER determines the **moment of acceptance of the settlement instruction (SF I).**

Matching (SF II) can be performed in KELER or in T2S. The place of matching is determined as follows: if both legs of the transaction, i.e. both settlement instructions are received by KELER, matching is performed in KELER, however, if one of the KELER partners submits at least one of the instructions directly to T2S, the place of matching will be T2S.

KELER declares **the finality and irrevocability (SF III) of the transaction** if KELER can settle it as domestic transaction (not submitted to T2S) or it occurs simultaneously with posting in T2S if the transaction is submitted to the platform.

The place of settlement is determined jointly by the type of connectivity of the settlement parties (ICP or issuing depository), the account types involved in the settlement instructions (either dedicated T2S account kept in KELER with one to one mapping to a segregated account in T2S, or an account kept in KELER linked to the KELER omnibus account in T2S) and the currency of the transaction (in case of DVP).

Transactions denominated in Euro are to be settled in T2S, however, FOP or HUF DVP transactions between two ICPs remain in the settlement system of KELER as they do not change the balance of the omnibus account in T2S. Nevertheless, our partners – irrespective of whether they are central securities depositories with accounts in KELER, or ICPs – in the case of HUF-based transactions and FOPs can choose freely the place of settlement (T2S or KELER) by being able to open segregated T2S account that will be a dedicated account in KELER.

Thus, the place of settlement for transactions between KELER Clients (intra-CSD) will be as follows:

- DVP transaction settlement in EUR: place of settlement is T2S only, regardless of the type of connectivity of counterparties and the account type involved;
- DVP transaction in non-T2S currency (e.g. HUF): place of settlement is KELER, with the use of actual DVP transaction (non-T2S currency DVP settlement is not permitted on T2S dedicated securities account);
- FOP transaction: place of settlement can be T2S or KELER depending upon the account types of the settlement counterparties;

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[5] The different degrees of finality of transactions in T2S are determined as follows:
1. Settlement finality I (SF I) is the moment the transfer order is received in the system, from this moment the transfer order is protected against insolvency proceedings. The central securities depositories using the T2S platform identify the time when their own systems receive the securities transfer orders: this is identical to the moment the order is validated. This validation can take place in the T2S platform or in the system of the central securities depository (for central securities depositories that offer matching services).
2. Settlement finality II (SF II) is the irrevocability of the transfer order, in line with the rules of the system designated in line with the settlement finality rules. In the T2S system the rule protects the irrevocability of orders by forbidding that forbids the unilateral cancellation of instructions after the order is matched.
3. Settlement finality III (SF III) is the irrevocability of transfer orders (booking in the accounts of the central securities depository) in line with the rules of the system designated in line with the settlement finality rules. In the interest of legally valid and seamless cross-border settlements against payment (DVP), the regulatory/legal environments of the central securities depositories participating in T2S are required to acknowledge that T2S account movements / booking entries are unconditional and irrevocable.

Scenario	Payment type	Is either counterparty an issuing depository?	Does either counterparty have a dedicated T2S account?	T2S currency	Place of settlement
1	DVP	No	No	No	KELER
2	DVP	No	Yes	No	n/a
3	DVP	No	No	Yes	T2S
4	DVP	No	Yes	Yes	T2S
5	DVP	Yes	Yes	Yes	T2S
6	DVP	No	Yes	No	n/a
7	FOP	No	Yes	n/a	T2S
8	FOP	No	No	n/a	KELER
9	FOP	Yes	Yes	n/a	T2S

Figure 7. - Place of settlement of transactions

If any of the settlement counterparties is an issuing depository or has segregated T2S account or the counter value of securities is payable in EUR, T2S is the place of settlement. In other cases there is no change in the settlement flow and the transaction will be settled in KELER.

We recommend sharing the above information with the settlement counterparties before the instruction is submitted.

Our Clients are reminded that in the case of domestic settlements only the KELER account number of the counterparty should be stated.

Any reference to a T2S account number will result in the rejection of the instruction. After T2S entry, if the place of settlement is T2S, the system will automatically derive the T2S account number of the counterparty from the internal KELER account number.

3.5. Allegement function

The system sends allegement advice to the settlement counterparty whose settlement order is missing on orders received and validated in terms of format and business content.

If KELER is the place of matching, KELER sends the allegement messages, if T2S is the place of matching, and then KELER forwards the allegement advice to its client, provided that the counterparty submitting the order clearly stated the KELER client with BIC11.

The cancellation of the unmatched instruction triggers the cancellation of the allegement message (allegement cancellation). Allegement cancellation is sent immediately. If a new instruction is submitted subsequently, this means a new allegement will be sent.

At the end of the recycling period, the system cancels allegement messages linked to unmatched transactions.

If the missing counterparty instruction is submitted, after successful matching, the system removes the allegement message (allegement removal) sent earlier and informs the instructing party thereon without delay.

Allegement is sent immediately after the first unsuccessful matching attempt (following the receipt and processing of unmatched order), but within no more than one hour, if matching attempt is made within a period of five hours before the cut-off of the intended settlement, or after the time of the intended settlement.

3.6. Matching

Matching is the process when the KELER system (or T2S) compares the settlement details submitted by the seller and buyer of the securities in the settlement orders to validate if the counterparties agree on the terms of the settlement. KELER ensures real-time matching continuously during the settlement day.

In the future, KELER performs order matching for domestic settlements in line with T2S rules.

The system applies mandatory, additional and optional criteria during matching. The following data are **mandatory matching criteria** to be instructed by both counterparties:

- settlement order type (DFP, RFP, DVP, RVP, PFOD)
- intended settlement date
- trade date
- currency and settlement amount (except for FOP) with due regard to tolerance limits
- ISIN code
- securities quantity to be settled
- seller and buyer identification (BIC11)
- trade type (with ISO codes)

The so-called **additional matching fields** will be introduced. These fields are not mandatory to be completed; however, if either counterparty completes these fields, they become mandatory matching terms:

- Opt-out indicator
- Ex-Cum indicator

The **optional matching fields** become matching elements only if both counterparties populate them:

- common trade reference
- counterparty account number

It will be possible to state additional data in the instruction (e.g. LEI code, or partial settlement indicator); however, KELER will not take such data into account for matching purposes.

3.6.1. Major changes in order matching

Counterparty identification

Based on the new rules, counterparty identification is based on BIC, i.e. matching in both KELER and T2S will be based on the BIC code of 11-character length.

The BIC code can be the so-called connected BIC, allowing the submission of SWIFT instruction, or non-connected BIC, from which no SWIFT instruction can be sent. Clients with non-connected BIC can submit orders in the KID system.

In the case of settlement with clients without BIC code[6], KELER provides a technical BIC (KELEHUH1XXX) for counterparty identification. As the technical BIC code is not sufficient for clear counterparty identification, in such cases the technical BIC and the counterparty account number are recommended to be stated jointly in the order.

If a client has several securities main accounts but only one BIC, we recommend that a unique 11-length BIC is applied for each main account in the interest of clear identification.

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[6] Primarily issuers, fund managers, municipalities, state organizations.

KELER as the place of settlement is also identified with BIC11. Accordingly, the KELRHUHBXXX BIC is to be used in the instruction to state the place of settlement (PSET). If KELER as the place of settlement is identified with BIC of 8 characters, the instruction will be rejected.

Counterparty account number

The use of the counterparty securities account number will also change. The account number field that is currently mandatory for FOP trades only will become an optional matching field as counterparty identification will be primarily based on BIC.

At the same time, if one of the counterparties populates the field, the system will use it as mandatory matching criterion, as the account number of the counterparty submitting the order is always stated in the instruction.

The counterparty account number is strongly recommended to be stated in the order as based on this information the Client of KELER that is involved in the settlement can be clearly identified. Accordingly, lack of account number may result in cross-matching.

In case of cross-matching, transaction settlement is performed with a counterparty / on an account that is not the intention of the counterparties. Partner level cross-matching may occur when a counterparty 11-BIC is assigned to several main account numbers (e.g. in the case of clients without real BIC to whom KELER assigns technical BIC).

Account level cross-matching may result from the lack of account number.

Transactions involved in cross-matching cannot be identified at the level of KELER; Clients are in charge of identifying and sorting out such cases.

In the case of FOP transfers between different main accounts, if the account number of the receiving counterparty is not stated, provided automated credit transfer generation is set on the securities account of the receiving settlement counterparty, the buy leg is not created for the receiving counterparty, the transaction can be settled only if the receive order by the buying counterparty is submitted, and after successful matching.

In the case of a transfer within one main account (intra-BP transfer), it is mandatory to state the securities account number of the other side, or the instruction will be rejected.

Our Clients are reminded that in the case of domestic settlements only the securities account number of 4+6 length in KELER of the counterparty can be stated. As per the current practice, the instruction is rejected if only the main account number (4 characters) is stated.

If only the BIC is stated (no counterparty account number is instructed), allegement message will be sent, however, Clients are reminded that if several main account numbers are linked to the same BIC, due to the lack of counterparty account number, the allegement message may not be sent to the proper settlement counterparty, but to the holder of the main account that is registered by KELER.

Intended settlement date

The intended settlement date can be given in the orders in advance and subsequently also, but it cannot be earlier or later than 20 settlement days before or after the date of submitting the order.

Trade date

It is a change compared to the current practice that trade date will be a mandatory field and matching criterion at the same time.

Trade date can be the date of submitting the instruction or an earlier date, and it is permitted to instruct a trade date that is a KELER non-settlement day.

Quantity of securities to be settled

Instead of the current registry based on only number of pieces, it will be necessary to state the quantity of securities to be settled in the settlement orders as follows:

- for securities representing ownership, the number of pieces will be mandatory to be stated,
- for debt securities matching is based on nominal value.

Opt-out, Ex/Cum indicators

The so-called Opt-out and Ex/Cum indicators will be introduced, it will be relevant for market claim and transformation. These attributes will be taken into account as additional matching conditions during matching, i.e. if either counterparty populates them, they become mandatory matching elements.

Matching reference

As an optional matching element, it will be possible to state in the settlement order the transaction reference agreed by counterparties bilaterally. If both counterparties populate the field, references have to be identical for successful matching.

3.7. Settlement tolerance limit

Tolerance limit is the maximum difference of the settlement amounts of two related settlement orders where matching is possible.

Tolerance limits will be used in bands in the future: for settlement amounts up to EUR 100 000 it will be EUR 2, for settlement amounts exceeding EUR 100 000 it will be EUR 25, or equivalent currency amounts for orders to be settled in both KELER and T2S.

Matching is performed by the system if the difference of settlement amounts is less than the tolerance limit. The system checks the band to be applied based on the settlement amount instructed by the buyer, based on the limit, but if there is a difference in purchase price for matched orders, settlement is based on the amount instructed by the seller.

For transactions settled within the tolerance limit, the buyer receives in the status messages, confirmation and end-of-day statement after matching the counter value stated by the seller.

If the system receives several instructions with similar parameters, it matches the two instructions for which the difference of the settlement amount is the least. If the amount is the same for several instructions, the principle of LIFO is applied (the latest submitted from among the possible matches).

KELER plans to calculate (reassess) the bands and tolerance limits valid for currencies annually, based on the year-end ECB exchange rates. Deviation from this may occur in case of extraordinary volatility or major exchange rate shift on the market.

3.8. Client priority management

The real-time processing of securities transactions is completed with priority and queue management. With the introduction of the new system, KELER harmonizes the current number of client priorities (0-9) with the priorities Clients can use as determined by T2S (3-4), with 3 meaning so-called High and 4 meaning Normal priority.

The KELER system will allocate Normal (4) priority as default priority to orders. Client transactions with identical KELER priorities continue to be processed in line with the order of acceptance.

In case the instruction contains values other than 3 or 4 as priority, the instruction will be rejected.

3.8.1. Client priority modification

KELER continues to allow Clients to modify instruction priority in the securities processing order until the instructions submitted are settled or cancelled. Priority modification continues not to apply to the cash queue and to buyer side securities transaction priority modification. If the transaction is subject to cover verification and a related priority modification order is received, the system will reject it. However, the hold functionality can apply to financially uncovered items, and bilateral cancellation can be submitted.

Please note that similarly to the current practice one modification request message can contain only one request, i.e. either modification of hold-release or priority modification. The two functionalities are not accepted in one message by the system; hence such orders will be rejected.

3.8.2. Priority management in T2S

KELER maps T2S priorities to the transaction level priorities used in the domestic environment and to Client priorities; accordingly, it will submit settlement and blocking transactions to T2S.

The following priorities are available in T2S: Reserved, Top, High, and Normal.

Mapping is as follows:

KELER priority	T2S priority
1	Reserved (cannot be used by Clients, only KELER can use this priority)
2	Top (cannot be used by Clients, only CCP can use this priority)
3	High
4	Normal

The transactions not involving T2S or the T2S transactions of ICP Clients are processed based on KELER priorities.

The settlement order of instructions in T2S is determined by the transaction type, the settlement date, and the priority instructed by the settlement counterparties in T2S.

During the processes of T2S optimization and recycling, related to the settlement of an instruction involving several identical transaction types, T2S takes first the instruction with the highest priority. It also checks the intended settlement date of instructions and processes first the instruction with the earliest value date from among the instructions of the same type.

The settlement of instructions submitted during the intra-day real-time settlement cycle is preceded by the settlement of the pending (recycled) transactions in the night-time settlement cycle.

3.9.   Hold/Release functionality

Settlement orders can be submitted in Release or Hold status. If the instruction is submitted in Hold status, instruction settlement will be blocked; however, such instructions are also submitted for matching. By modifying, releasing the instruction in Hold status, instruction settlement can be started.

After the start of the new system, it will not be possible to set Hold/Release at account level. In the future, it can be stated in the instruction only, and it can be established based on the instruction if it is submitted to the KELER system in Release or Hold status. This applies to intra-BP transfers among the own accounts of the client also.

KELER sends status messages to confirm the acceptance and the result of the matching of instructions with hold/release functionality. The participants can send hold or release messages as many times as justified.

Please note that similarly to the current practice, one modification request message can contain only one request, i.e. either modification of hold/release or priority modification. The two functionalities in one message are not accepted by the system; hence such orders will be rejected.

With the start of the new system, the currently functional hold/release functionality does not change; however, it will be extended to cover all settlement order types in line with the requirements of the SDR.

3.9.1. Hold/Release mechanisms in T2S

If the KELER omnibus account is selected on the securities and/or the cash side, due to the nature of the omnibus account structure, KELER verifies cover on the securities/cash side before sending the settlement instructions to T2S. If cover verification is successful, the securities/cash positions are blocked. Subject to the result of the cover verification and the due date of blocking, KELER sends CSD Release or CSD Hold status messages to T2S.

In the case of the segregated securities and/or cash account model, KELER does not verify cover in advance for settlement instructions for segregated securities / cash accounts, thus no blocking in advance is performed. KELER sends CSD Release instruction to T2S.

If a cash account external to KELER is used, having regard to the client EUR cash account kept outside KELER in this model, KELER does not verify cover for the transaction, T2S checks the cash position required for settlement in the DCA stated by the client. KELER sends CSD Release instruction to T2S.

If counterparties submit orders with hold status and the place of settlement is T2S, KELER forwards the order in unchanged form (hold status) to T2S. This is the Party Hold functionality in T2S terminology.

Prior to actual settlement in T2S, hold/release messages can be instructed during the lifecycle of transactions on as many occasions as needed.

The Hold/Release function does not apply to settlement restrictions in T2S.

3.10. Settlement order cancellation

In the future, KELER will allow only bilateral cancellation for matched orders, i.e. both counterparties are required to request cancellation regardless whether the place of settlement is T2S or KELER.

Settlement instructions can be cancelled until transaction settlement as follows:

- unmatched or unsuccessfully matched transactions (in line with the current practice) with unilateral cancellation;
- transactions successfully matched by KELER or T2S with bilateral cancellation.

KELER checks if the instruction the client wishes to cancel exists in the system and also if cancellation is possible. If the instruction status is settled, cancellation is rejected.

Transfer orders within the same main account can be cancelled unilaterally by the selling counterparty by submitting cancellation order, similarly to current practice.

In the case of bilateral cancellation, the cancellation instruction will be matched also. In the case of cancellation by one of the parties, the counterparty will be sent a status message (with IPRC//CPRC code), however, the transaction takes part in settlement (and can also be settled) until the other counterparty submits cancellation. It is recommended to set the instruction status to hold to avoid settlement and the send cancellation request only after the instruction was put on hold successfully.

Unmatched instructions are cancelled automatically on the 20th settlement day after the intended settlement date or the date of the last status change, whichever occurs later.

3.11. Status management

KELER will provide real-time information on the status of settlement instructions.

In the new settlement system, KELER expands the group of the status codes used in status messages related to transactions, and thus enables Clients to improve settlement discipline and efficiency.

If the incoming instruction cannot be matched, in line with the matching criteria KELER checks which other instruction already in the system could be potentially matched with the incoming instruction.

If only one of the attributes checked does not match, the system sends advice to the counterparties submitting the instructions on unsuccessfully matching, including the reason of mismatch in the status message. Upon the launch of the system, status messages will be sent if the following fields do not match. In these cases the following status codes will be applied:

- instrument (ISIN): NMAT//DSEC
- intended settlement date: NMAT//DDAT
- settlement amount (for DVP only, and only for difference exceeding the tolerance limit): NMAT//DMON

The KELER system sends NMAT//CMIS status message in the following cases:

- from the above mentioned attributes more than one do not match in the given instruction
- in addition to the above mentioned attributes other elements subject to matching of the instructions do not match

In the case of several, apparently matching instructions, the system sends advice for the most recently received trade in line with the LIFO principle (in line with the principles of matching), in the case of instructions received later, the Client gets back the currently used, unmatched, missing counterparty instruction status (NMAT//CMIS).

If the opposite side instruction match, with all data matching, is among the instructions received later, the system performs matching successfully and ignores the earlier submitted instruction that was considered a possible match.

The following figure illustrates the possible statuses of the unsuccessfully matched instruction:
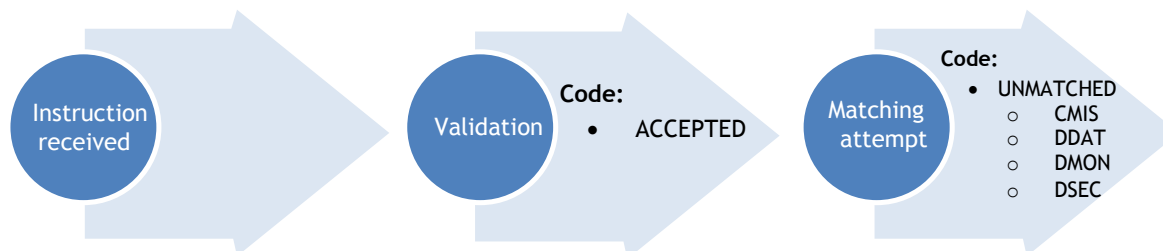

Figure 8. Unsuccessfully matched instruction statuses

If a trade is submitted to T2S, in addition to standard KELER status message, counterparties receive the status messages sent by T2S also, including the T2S reference.

KELER informs clients concerned on transactions failed on the intended settlement date after the cut-off applicable to the transaction concerned by sending a new, failed (PENF) status.

Status codes related to specific transactions will be finalized in interface specifications.

3.12. Recycling

KELER will recycle matched transactions for an indefinite term, but not later than bilateral cancellation by settlement counterparties or the maturity date of the securities.

Unmatched transactions will be recycled for 20 settlement days after the intended settlement date, or if the intended settlement date is a past date, then for 20 settlement days after receipt, and then unmatched transactions will be cancelled by the system.

KELER will ensure recycling for all transactions. Unlike the current practice, Clients will not be able to request cancellation at instruction level at the end of the day.

As a major change, in the case of recycling at the end of the day, orders will not get a status specifically referring to recycling at the end of the day and change status on the next settlement day as it is done currently, but the actual status reflecting the reason of failed settlement will be shown for the settlement order, including transactions pending for several days.

3.13. Partial settlement

KELER will ensure partial order settlement as an optional service both in its own system and on the T2S platform.

KELER (or T2S) can use the cover available on the securities account of the selling counterparty in part instead of the full quantity stated in the settlement order and can make interim settlement by recycling the transaction for the remaining securities quantity (difference between the full and the partial quantity) until necessary cover is available. KELER attempts to perform partial settlement at times defined in advance on the settlement date, in line with the applicable schedule.

It will not be mandatory to populate the partial settlement indicator in the instruction submitted to KELER, but if the field is not populated, the system allows partial settlement. Partial settlement can take place if both settlement counterparties allow the function, and the intent to this effect is stated in the instruction (or the partial settlement indicator is not populated). If none of the counterparties requested partial settlement, then KELER attempts settlement for the full securities cover, as currently.

3.14. Verification of cover and posting

Settlement is considered completed, final in KELER when the cash and securities debit and credit entries related to the transaction concerned are posted in the respective cash and securities accounts. If cash settlement is related to the securities transactions, the cash accounts involved can be stated in the settlement instructions but can also be the default cash accounts stated in advance.

Posting is completed only if cover is verified successfully in the instructed securities or cash accounts, or, in case of partial settlement, if securities are available fully or partially on the account of the seller.

Transactions are posted on a gross basis both in KELER and in T2S. This is also the case when the system verifies cover for the net position in T2S (e.g. in the case of technical netting).

3.14.1. Optimization in T2S

T2S operates sophisticated optimization mechanisms in the night-time batch settlement period. The purpose of the optimization process is to maximize the settlement volume and value that can be reached with the available securities and cash instruments and thus minimize the number and value of unsettled transactions. Hence, the optimization algorithm ensures the optimal balance of quantity (the number of settled transactions) and value (cash counter value of DVP transactions) maximization.

During the settlement day, KELER provides the following optimization services with T2S assistance for the transactions submitted to T2S:

- technical netting: aims to maximize, with taking into account the final net balance from all the transactions, the resources needed to settle certain transaction groups. This allows increasing the number and value of transactions settled, while booking entries are posted on a gross basis.
- partial settlement: minimizes the value and number of transactions that would remain unsettled at the end of the day due to the lack of securities with the settlement of securities or a part of the securities available on the securities account.

- determining instruction priority: can be applied if the settlement of an instruction is to be put before the settlement of another instruction related to the same securities and cash resources (similarly to the operation of the domestic market).

3.14.2. Blocking cover for transactions to be submitted to T2S

If T2S is the place of transaction settlement, KELER automatically adds the T2S specific attributes (e.g. T2S securities account number) to the instruction to be submitted to T2S.

Also, due to the nature of the omnibus account structure, by checking the parameters for this purpose, KELER blocks securities or cash before the settlement instructions are sent to T2S. If a blocking is due to be performed in the securities or cash account, the system performs it without delay after successful cover verification. If cover verification fails, the system sends to T2S the instruction in Hold status.

Value dated instructions are submitted to the night-time settlement cycle of T2S in the end-of-day process before the value date (SD-1), cover verification is part of this process. Depending upon the result of verification of cover, KELER submits the orders to T2S with Release or Hold status.

4. SPECIFIC TRANSACTION TYPE FEATURES

4.1. BSE fix price and auction trades

Fix price and auction trades made on the stock exchange are gross settled at the order of the BSE, on DVP basis, no major changes are planned in settlement on the client side. However, please note that:

- SWIFT based status messages and statements will be available for these transactions also,
- settlements in EUR will be submitted to T2S, but HUF transactions involving the dedicated T2S securities and/or segregated (or external) cash account will also be settled in T2S,
- unlike current practices, the client has to provide cash cover for self-deals, i.e. when the buyer and seller sides of the transaction involve the same cash account,
- in line with legal requirements, KELER will ensure transaction cancellation, hold-release and recycling functionalities for BSE for settlement orders received from the BSE also. However, order format and settlement rates (gross/net) are being reviewed.

4.2. Multinet trades guaranteed by KELER CCP

KELER CCP provides clearing services to the following securities markets: Budapest Stock Exchange, the MTF market operated by the BSE (BETa), MTS Hungary trading platform, Astana International Exchange. The trades made on these trading venues are settled in KELER in line with BIS Model 3, with multilateral netting on the cash and securities side, with KELER CCP undertaking guarantee as central counterparty. KELER CCP submits the settlement orders resulting from clearing to KELER, in matched format, to the client's account, no settlement order is to be submitted by the client.

KELER CCP transactions are settled in HUF primarily; however, settlement in EUR and USD is possible.

Based on current information and plans, no changes are expected in the method of securities and cash side netting, however, settlement orders are expected to be submitted to the KELER system before the intended settlement date of the multinet trades, at the end of the settlement process on trade date, debit items involving client accounts in released status, while credit items in hold status. Actual settlement takes place after debit transactions are successfully executed.

The client will receive automated status advices on instructions submitted by the CCP, in the communication channel selected by the client.

Due to the implementation of the requirements of the regulation governing settlement discipline (SDR), KELER CCP default processes and sanction mechanisms will be reviewed and transformed significantly. In the future, in case of default, the original settlement orders will be suspended and any compulsory buying-in started only after the mandatory settlement grace period stated in the regulation and to be introduced. KELER CCP will inform clearing members in detail on the new procedure.

KELER will ensure T2S settlement of exchange trades, provided the client designates the accounts used for the settlement of such transactions as T2S dedicated account also. (These are the current S00000 and Mxxxxx subaccounts.)

The counterparty submitting the instruction (KELER CCP as central counterparty) will be able to cancel, amend and recycle the instruction in compliance with the requirements of the SDR. Consequently, status messages and confirmations will be added to the interface descriptions. As an additional change, messages related to multinet transactions will be available on SWIFT also.

4.3. Physical delivery of derivatives (FISZER)

Similarly to multinet transactions, KELER settles FISZER transactions also on DVP basis, based on the instructions of KELER CCP.

No changes on the client side are expected in the basic operation, except for the default process, that is subject to review due to the implementation of SDR requirements.

As a further change, FISZER transactions will be submitted to T2S if the HUF transactions involving dedicated securities account and/or segregated (or external) cash account are also settled in T2S. The party submitting the instruction (KELER CCP as central counterparty) will be able to cancel, amend and recycle the instruction, in compliance with the requirements of the SDR. Messages related to FISZER transactions will be available on SWIFT also.

4.4. Primary market transactions

Primary market transactions are settled on DVP basis, based on the allocation data received from the issuer or its agent.

No change in operation is expected, EUR trades will be submitted to T2S, however, HUF transactions involving the dedicated T2S securities and/or segregated (or external) cash account will also be settled in T2S. As an additional change, messages related to primary market trades will be available on SWIFT also. The party submitting the instruction (ÁKK) will be able to cancel, amend and recycle primary market trades.

4.5. DVD (Delivery versus Delivery)

DVD is a transaction type that is executed with debiting one or several specific securities series against the credit of one or more specific securities series. The order is settled if the securities to be debited and credited are available in full on the securities accounts of clients.

KELER will ensure the use of T2S instruction elements for DVD transactions, however, this transaction type will be available on KID only, and will have to be input in the unique message format and screen to be created by KELER. DVD transaction cannot be initiated on SWIFT, as there is no applicable ISO standard.

The following changes are expected regarding DVD transactions:

- transaction recycling, (bilateral) cancellation and allegement sending will be transformed in line with the new rules.
- DVD order matching, cover verification and settlement will be performed real-time. DVD transactions will be subject to transaction-level priority management in the future also.
- KELER performs matching during the settlement of DVD transactions for the securities in the 'pool', one by one (by ISIN), and will send separate status message and confirmation on each matching and settlement by ISIN.

DVD transaction settlement in T2S

T2S does not directly supports DVD transaction settlement, however, during the settlement of the different legs of the DVD transaction, KELER submits client instructions to T2S by transforming them into T2S-eligible, linked elementary FOP settlement orders.

4.6. Blockings

Securities blockings will be possible in line with the current method. No modifications related to blocking transactions are planned in the Program, and SWIFT-based orders cannot be submitted either.

4.7. Repo transactions

After the start of the new system, hold-in and delivery type repo transactions will continue to be available.

Repo transaction format and content elements are in line with the rules applicable to other transactions (recycling fields, counterparty identification, etc.).

KELER will continue to support repo transaction extension (full and partial extensions also) and starting repo transaction amendment in the future also.

KELER will continue to generate automatically the settlement leg on the day before the intended settlement date, and will inform the clients concerned in status messages and statement of pending trades at the end of the day.

KELER assigns repo transactions a priority that is lower than the priority of OTC transactions.

The following new services will be introduced for repo transactions:

- *Allegement sending:* Similarly to FOP and DVP transactions, KELER will send allegement message to settlement counterparties, and will send allegement withdrawal or cancellation for matched or cancelled transactions.
- *Repo hold/release:* Hold-release functionality will be introduced for the starting repo transactions, related to which Clients will receive more detailed repo transaction status feed-back.
- *Repo extension:* KELER allows repo extension on expiry date at the latest. Expiring transaction priority management will change as follows: expiring items will be put into the settlement queue after start of day on expiry date, in the order of trade date. Extension cannot be cancelled, i.e. clients cannot cancel extension; however, an extended repo can be extended repeatedly.
- *Repo early expiry:* KELER allows settlement before repo expiry day also if the intended new expiry date is not a past date. Early expiry requires that clients state a settlement date and the amended expiry amount.

Repo extension and early expiry is possible by submitting a cancellation order and a new instruction, based on the matched instructions of both counterparties. If modification is submitted on KID, then KID generates related messages (cancellation+new instruction).

Compliance with SDR requirements (recycling, tolerance limits, cancellation) regarding repo transaction processing is being investigated.

REPO transactions in T2S

T2S does not support directly repo transactions, however, KELER submits the instructions to T2S when processing the various legs of repo transactions by transforming the Client orders into T2S-eligible settlement orders.

4.8. Distribution and settlement of open-end investment funds

The KELER WARP (Wide Application Routing Platform) system allows the automation of back office processes and order management related to the distribution, clearing and settlement of open-end investment fund units.

The integration of the new settlement and master data management systems of KELER and the WARP will mean changes for our clients primarily in the management of settlement transactions, out of which changes the following are highlighted:

- In line with the new settlement backend system functionality, new transaction types and statuses will be introduced in WARP also.
- The process of daily top-ups and cancellations will be simplified:
    - for FOP distribution trades also, in line with the current DVP transaction operation principle, one transaction will ensure that the top-up of the new investment units is made to the clearing agent account 787878, and from there the securities are moved to the target account instructed in the distributor instruction,
    - for FOP redemptions the transfer between the distributor's securities account and the account of the settlement agent (account 606060) will be linked with the cancellation of the investment fund units
- for FOP transactions, the top-up and cancellation transactions of the same securities for the same value date but involving several accounts will not be aggregated in the future, and thus any default or settlement delay can be restricted to one account.

- The WARP interface will allow the use of the hold-release and cancellation functionalities for top-up and cancellation transactions also.
- Transaction cancellation will be also possible after settlement orders are generated and sent to the settlement system, until the time of actual settlement. Full (bilateral) cancellation of clearing orders will result in the cancellation of all related distribution orders also.

Additional functionality changes involving WARP can be expected after assessment and detailed specification.

Investment unit settlement in T2S

It will not be possible to submit instruction to the dedicated T2S account. Only DVP settlements against EUR, involving any account, will be submitted to T2S.

4.9. Buy-in transactions

In line with the provisions of the SDR, if failed settlement orders are not settled after the mandatory settlement grace period (for 4, 7 or 15 days depending upon the type of securities), the original orders are to be suspended and buy-in is to be started with the appointment of the buy-in agent.

Buy-ins are to be executed with so-called buy-in transactions especially dedicated for this purpose. For our Clients it means that orders will have to be BYIY flagged, however, these orders will be processed, settled in the same way as traditional FoP and DVP trades.

It is noted that KELER as central securities depository will (can) not play any role in appointing the buy-in agent or in the execution of buy-ins. (Except if buy-in arises for reasons related to the own account trading activity of KELER.) As central securities depository, KELER will be involved only in the settlement of orders designated as buy-in orders.

4.10. Payment free of delivery / PFoD

PFoD will be introduced as new transaction type, meaning a payment related to securities, but without securities settlement taking place, as the securities quantity in the settlement order is zero.

PFOD is used primarily related to the processing of corporate actions resulting in payment, distribution. Additionally, KELER plans to collect and distribute penalties with PFoD transactions also.

PFoD introduction was originally necessary due to T2S integration, however, KELER made this transaction type generally available to its Clients for settlement within KELER also, in addition to T2S settlements.

5. PENALTIES

In line with CSDR and the related regulation on settlement discipline, central securities depositories will impose mandatory penalties on participants causing fails.

KELER is responsible for identifying the settlement orders that did not settle (i.e. failed) on the originally intended settlement day, or, in case of later matching, on the day(s) following it, and for calculating the penalty based on the securities quantity, market price stated in such instructions and the penalty rate stated in the regulation, for reporting, collecting and forwarding the applicable penalties.

Penalty, as one of the sanction mechanisms stated in the regulation, is not part of KELER income, but will be paid to the participants that that have to receive the penalties amounts.

Penalties apply to trades made on both trading venues and on the OTC market. Based on legal requirements, the central securities depository reports to the central counterparty the details of penalties due for failed settlement orders that the central counterparty cleared, and the central counterparty is required to collect from and distribute to clearing members such penalties.

Penalties are to be imposed on matched settlement orders that do not settle on the intended settlement date and are for the settlement of financial instruments

- that can be traded on EU trading venues or can be cleared by EU central counterparty
- where the primary trading venue of the financial instrument is not outside the EU, in so-called third country

(Unmatched orders are not subject to penalties!)

Penalties are determined based on the status the matched order has at the end of the time window (at cut-off) allowing settlement applicable to the transaction type concerned. This status defines the reason why the settlement failed, i.e. the counterparty for which the penalty is to be imposed, thus e.g. in case of insufficient securities cover the buyer, in case of insufficient cash cover the seller, in case of orders in hold status penalties can be imposed on both counterparties at the same time.

KELER will report daily to each participant and KELER CCP until 12:00 on the business day after the subject day at the latest the penalties and related settlement order details for which penalties payable by or to the client arose. Penalty reporting is planned in the form of MT548, 537 reports and semt.044 reports and separate inquiries on KID.

Penalty types:

- *LMFP (Late Matching Fail Penalty)***:** If settlement orders are matched after the intended settlement date (ISD), the penalty is imposed from the intended settlement date of the transaction until matching date, retrospectively, for several days (N) as the case may be, sanctioning late matching, and the counterparty initiating the last operation before matching (e.g. instruction sent as the second instruction) is required to pay this penalty.

$$\text{LMFP} = \sum_{n=1}^{N} (\text{Penalty rate} * \text{Securities daily reference price} * \text{Securities quantity})$$
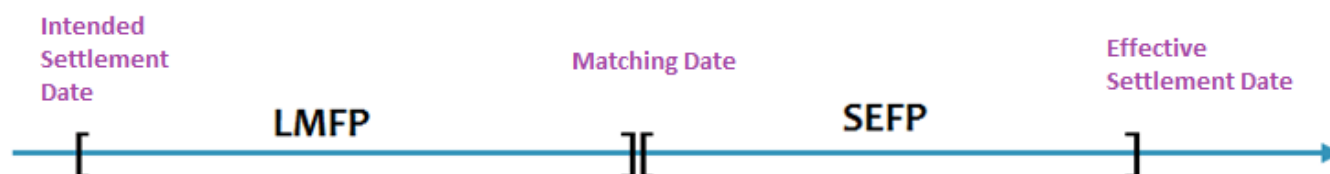
- *SEFP (Settlement Fail Penalty):* Penalty calculated for the period between the intended and effective settlement date(s), payable for settlement orders that are matched until the applicable cut-off on the intended settlement date, but are not settled on the intended settlement date or on the following business day(s). On one business day, only the SEFP applicable to the day concerned is charged.

  SEFP = Penalty rate * Securities daily reference price* Securities quantity

  Penalty rate:

  - *in the case of no securities cover or transactions in hold status: value depending upon the securities type (see table)*

- *in the case of no cash cover: time proportionate part of the discount rate defined by the central bank issuing the currency concerned*

Penalty rates for the calculation of penalties[7]

Liquid shares	*1,00 bp*
Illiquid shares	*0,50 bp*
Government bonds	*0,10 bp*
Corporate bonds	*0,20 bp*
Financial instruments traded on SME growth market*, except for bonds	*0,25 bp*
Bonds traded on SME growth market*	*0,15 bp*
Other financial assets	*0,50 bp*
In case of insufficient cash	*Official interest rate charged for daily credit by the central bank issuing the currency of settlement, which cannot be less than 0*

*Currently there are only two such MTFs (Milan and London), for the time being these two categories are not relevant for domestic securities

For intra-CSD transactions, penalty is calculated and collected in the following currencies:

- if the original settlement order type is FOP, in HUF (also for trades in securities denominated in other currencies)
- if settlement method is DVP, then the original currency of the settlement order.

Penalty life cycle and payment

The client can raise objections with KELER related to the penalty calculated until the end of the 10th business day of the month after the subject month of the penalty, if it is of the view that the calculation is incorrect.

KELER makes corrections on the 12th business day of the month at the latest if the client objection is justified, and sends reports including the modifications to the clients until noon on the 13th business day at the latest.

On the 15th business day of the month, the KELER system managing penalties prepares the PFOD orders with which penalties are collected and distributed on the 17th business day of the month. After these PFOD orders are received in the settlement system, the client will be informed in the status message related to the order and in the end-of-day statement on the final net amount by currency payable by the client or payable by KELER to the client after penalty amounts are summarized.

Based on this notice, the client has to make sure that at least the amount covering penalty is available on the cash account from which penalties are collected.

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[7] For details please see: Regulation EU 2017/389.

On the 17th business day, KELER attempts to collect penalties with the special PFOD transaction. Such transactions have special priority and are settled before any other order type that would be debited to the cash account concerned of the client.

The external settlement platform (T2S) or the central securities depositories calculating the penalty (e.g. KDPW) will report to KELER the penalties imposed on orders to be settled outside KELER (T2S or cross-border). Such penalties will be also reported to the client involved in the failed settlement order. Penalties imposed and passed on by external venues will be settled jointly with the penalties calculated by KELER.

In line with regulations, the central counterparty (KELER CCP) is in charge of collecting and distributing the penalties for settlement orders that failed and have been cleared by the central counterparty.

6. CLIENT REPORTS, QUERIES

The general goal related to the redesign of statements is to ensure as full compliance as possible with KELER reports based on ISO standards, and that statements are easy to interpret and are bilingual (Hungarian, English).

Accordingly, the currently available reports that are linked in terms of content or sometimes contain redundant information will be merged. The reviewed data content does not mean that information content will be reduced, reports will show all data that are relevant for Clients.

Furthermore, the introduction of the new reports will make available additional information in many areas, or will bring useful fine-tuning.

As part of the Program, KELER plans to extend the queries Clients can make (in KID) (e.g. account history, balances, penalty details, etc.).

The statements and queries that will be available in the future, including detailed content, will be published after specification.

7. FEE CALCULATION, INVOICING

7.1. Changes related to fee calculation

We strive to ensure that calculations based on the current fee structure can be performed as fully as possible in the new fee calculation system, however, some changes are expected in certain areas in the basis and method of fee calculation, and some service fees will be aggregated.

The system will be capable of calculating safekeeping fees at daily market prices and for the portfolio value (instead of the current calculation at month-end prices).

The prevailing Fee Schedule of KELER provides information on fees, fee structures, including T2S fees and any changes in the process of fee calculation applied in the future.

7.2. Reverse Billing

With reverse billing KELER enables Clients to pay directly to SWFIT the fees or a part of the fees that KELER charges related to SWFIT communication. The benefit of this service is that for the Clients having already SWIFT membership fee will be charged in line with the agreement they concluded with their service provider.