



# **Implementing Regulation UNIVYC Settlement System Rules Securities Lending**

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## Article 1 Subject Matter

1. This Regulation is issued to implement Title III of the Part Special of UNIVYC Settlement System Rules (hereinafter the “**Settlement Rules**”), to regulate - in connection with the provisions hereof - the specific terms and conditions for the lending of securities and the activities related thereto, organized by Centrální depozitář cenných papírů, a.s. (hereinafter the “**Central Depository**”).
2. Attached to this Regulation is the Securities Lending Timetable (hereinafter the “**Timetable**”).

## Article 2 Subject Matter of Lending

1. The Chief Executive Officer of the Central Depository decides on the securities to be admitted to the Lending and Borrowing System, based on an invitation to lenders published in the Newsletter. The invitation shall entail required issues, minimum and maximum number of securities, the amount of compensation for securities reservation, period of invitation effect and potential other conditions necessary for lenders choice.
2. The decision on admission of securities to the Lending and Borrowing System is notified to chosen lenders and in the Newsletter.
3. Securities of the issue concerned shall be subject to lending from the reservation of the first security under the issue to the withdrawal of the last security under the issue.
4. Securities replacing previously admitted securities cancelled on the basis of a merger shall be deemed to be admitted to the Lending and Borrowing System.
5. The Chief Executive Officer of the Central Depository is also qualified to decide on the exclusion of the securities of a certain issue from the Lending and Borrowing System (hereinafter the “**exclusion of securities**”), if:
  - a) the securities of the issues have ceased to satisfy the conditions established by the Settlement Rules or other legal regulations;
  - b) the issuer is the subject of insolvency proceedings, is in receivership, bankruptcy has been declared against the issuer's assets, reorganization has been approved or an insolvency petition has been rejected if the issuer's assets are insufficient to cover the costs of the insolvency proceedings;
  - c) the admission of the securities of the corresponding issue has not fulfilled the purpose of the Lending and Borrowing System;
  - d) the lending of the securities of the corresponding issue is in conflict with the needs of the capital market participants.
6. The securities shall be deemed excluded as of the date of their deletion from the statutory register of securities.
7. As of the effective date of the Central Depository CEO's decision to exclude securities, the Central Depository is not further entitled to arrange for further loans involving the securities and shall be obliged to ensure the withdrawal thereof by the securities withdrawal deadline set in the timetable.

8. Unrestrictedly transferable securities may be subject of the lending if they are registered:
  - a) on asset accounts in the central register of securities, or
  - b) on asset accounts in the independent register of the Central Depository.

### **Article 3**

#### **Signing of Securities Reserving Agreements (Article 64 of the Settlement Rules)**

1. Draft securities reserving agreements (hereinafter the “**draft agreement**”) may be submitted to the Central Depository by each lender or person requesting the admission to the Lending and Borrowing System according to the Settlement Rules as the lender, to the Chief Executive Officer of the Central Depository. Draft agreements may be submitted to lenders by the Chief Executive Officer of the Central Depository.
2. Draft agreements shall be submitted in writing in two counterparts, and shall contain the following:
  - a) company name, ID No. and the registered address of the applicant, or the last name, first name, academic degree, date of birth and the address of the applicant;
  - b) company name, ID No. and the registered address of the Central Depository;
  - c) name and ISIN of the securities that are the subject of the draft agreement;
  - d) the number of the securities under the given issue requested for reservation;
  - e) determination of the reservation date;
  - f) the lender’s authorization granted to the Central Depository for the lending of reserved securities;
  - g) the lender’s statement according to which the securities concerned shall not be encumbered with any right of lien or other third party rights as of the date of reservation other than those arising from the Settlement Rules, and that during the existence of the reservation the lender shall not arrange for the establishment of any such rights;
  - h) the number of the asset account or more accounts, on which the securities shall be reserved.
3. The Chief Executive Officer of the Central Depository shall make a decision regarding the draft agreement submitted by a lender within 30 days following the delivery thereof, and shall notify the lender of approval or rejection. The same deadline for the approval or rejection of the draft agreement submitted by the Central Depository applies to lenders, unless the draft agreement stipulates otherwise.

### **Article 4**

#### **Withdrawal of Securities (Article 66 of the Settlement Rules)**

1. Lenders shall submit written requests for the withdrawal of securities to the Operating Department of the Central Depository.
2. Applications for the withdrawal of securities shall contain the following:
  - a) the lender’s company name or lender’s first name and surname;

- b) the name and ISIN of the securities to be withdrawn;
  - c) the quantity of the securities to be withdrawn;
  - d) the identification number of the account owner and the account number in the corresponding register, according to Article 2 (11).
3. The Central Depository is obliged to withdraw the securities in question by the securities withdrawal deadline according to the corresponding timetable. This period begins on the day following the delivery of the application for the withdrawal of securities to the Central Depository. At the proposal of one of the parties, it is possible to agree on the renewal of this period.
  4. If the number of the securities under a certain issue drops below the limit set out in accordance with Article 15 (3) as a consequence of the withdrawal of specific securities, the Central Depository shall also withdraw the remaining securities under the given issue. The lender shall be informed of this action.

## **Article 5**

### **Suspension of Lending (Article 67 of the Settlement Rules)**

1. Lenders shall submit written requests for the suspension of lending to the Operating Department of the Central Depository.
2. Requests for the suspension of lending shall comprise the following:
  - a) the lender's company name or lender's surname, first name and academic degree;
  - b) the name and ISIN of the securities;
  - c) requested beginning of the suspension and the duration of the suspension of lending;
  - d) the identification number of the account owner and the account number in the corresponding register, according to Article 2 (11).

## **Article 6**

### **Loan Reservation (Article 70 of the Settlement Rules)**

1. The Central Depository shall record the reservation obtained upon the opening of the Lending and Borrowing System<sup>2</sup> and arrange for the loan in accordance with the reservation.
2. Reservations shall contain the following:
  - a) the borrower's code (of the Central Depository participant);
  - b) the ISIN of the securities;
  - c) the quantity of the securities that are the subject of the reservation;
  - d) specification of the loan date;
  - e) specification of the return date;
  - f) the identification number of the account owner and the number of the account in the corresponding register according to Article 2 (11) to which the securities are to be transferred and from which they will also be returned;

- g) reservation sending date.
3. Reservations are sent electronically by means of data communication.
  4. Borrowers are entitled to apply their reservation on the day immediately preceding the date of the loan under the reservation.

## **Article 7**

### **Extension of Reserved Loan (Article 71 of the Settlement Rules)**

1. A borrower's written request for the extension of reserved loans must be filed with the Operating Department of the Central Depository during the extension period set out in the timetable. The extension period relates to the date set in the reservation or earlier extension as the loan repayment date.
2. Applications for the loan extension shall contain the following:
  - a) the borrower's company name;
  - b) the borrower's code (of the Central Depository participant);
  - c) the identification number of the loan;
  - d) the identification number of the account owner and the number of the account to which the securities have been transferred;
  - e) the quantity of the securities that are the subject of the loan;
  - f) the name and ISIN of the securities;
  - g) the original loan repayment date;
  - h) specification of the date until which the reserved loan is to be extended (loan repayment extension date).

## **Article 8**

### **Premature Termination of Reserved Loan (Article 72 of the Settlement Rules)**

1. The premature termination of a reserved loan is effective as of the date of the approval thereof by the Chief Executive Officer of the Central Depository.
2. The borrower shall return the reserved loan by the deadline for the repayment of a prematurely terminated loan, as set out in the timetable. The period before such a deadline shall commence after the date on which the borrower is delivered the written notification of the premature termination of the loan. During the interruption of the securities trade settlement, the period for the repayment of prematurely terminated loans shall be suspended.
3. Notifications of the premature termination of loans shall contain the following:
  - a) the borrower's company name;
  - b) the identification number of the transfer of the prematurely terminated reserved loan;

- c) the identification number of the account owner and the number of the account in the corresponding records according to Article 2 (11) to which the securities have been transferred;
  - d) the quantity of the securities that are the subject of the loan;
  - e) the name and ISIN of the securities.
4. The borrower shall notify the Operating Department of the Central Depository of which day of the period for the repayment of a prematurely terminated loan the borrower will return the reserved loan together with the changes in the data indicated in the reservation, if any.

## **Article 9**

### **Collateral (Article 74 of the Settlement Rules)**

1. As regards reserved loans, the amount of the collateral in CZK as of the date of the loan granting corresponds to the product of the number of borrowed securities and the price applicable as of the date of the reserved loan provision. For the calculation of the amount of the collateral, the value of the increase shall mean in both cases the percentage rate established by the Chief Executive Officer of the Central Depository and announced in the Exchange Newsletter.
2. On each following loan date, the amount of the collateral shall be re-calculated by the Central Depository and the value of the borrowed securities shall mean the product of the number of borrowed securities and the price valid on the date of the calculation (converted collateral).
3. The value of the collateral according to paragraph 2 is checked by the Central Depository against cash limits of the participant in the Lending and Borrowing System, the next accounting day after the re-calculation performed by the Central Depository. In case of insufficiency of the cash limits, the Central Depository proceeds according to Article 13.
4. For the optimization of the clearing operations, the Chief Executive Officer of the Central Depository shall be entitled to set the maximum allowable deviations of the re-calculated collateral from the collateral deposited on the guarantee account. The amount of the deposited collateral must not be lower than the value of the securities set out according to paragraph 2. The maximum allowable deviations of the collateral are published in the Newsletter.
5. Collateral shall bear interest. The interest paid from the collateral to the borrower shall be set as follows: the total sum of the accrued interest on the deposited collateral, minus management costs, shall be divided among the borrowers on a pro-rata basis, depending on the amounts of the collateral deposited during the month in question. The interest on the collateral shall be payable no later than by the fifth day following the day on which all interest for the corresponding month is credited.

## **Article 10**

### **Fee for Securities Lending (Article 75 of the Settlement Rules)**

1. The fee for the securities lending is determined as the product of the base and the rate of the fee for the securities lending.

2. The fee for the securities lending, which shall be re-calculated on a daily basis during the existence of the loan, is based on the value of the lent securities calculated as the product of the number of the lent securities and the corresponding price valid as of the calculation date.
3. The rate of fee for the securities lending, due period and the method of payment is set out in the Central Depository Price List.

## **Article 11**

### **Lender's Compensation (Article 76 of the Settlement Rules)**

1. The lender's compensation for securities reservation is set in the invitation to securities reservation in the Newsletter. Potential another compensation for realized loan, reduced by provision for Central Depository, is set out in the Central Depository Price List.
2. The fee for the securities reservation, which shall be re-calculated on a daily basis during the existence of the loan, is based on the value of the reserved securities calculated as the product of the number of the reserved securities and the corresponding price valid as of the calculation date.

## **Article 12**

### **Loan Repayment (Article 77 of the Settlement Rules)**

1. The borrower is obliged to repay the reserved loan on the day specified in the reservation as the loan repayment date.
2. The borrower repaying a reserved loan does not give an instruction for the loan repayment. Such an instruction for repayment is issued automatically, based on the parameters set out in the reservation.

## **Article 13**

### **Alternative settlement (Article 78 of the Settlement Rules)**

1. Alternative settlement is a special form of procedure which the Central Depository shall commence on the date on which the borrower defaults according to the provisions of Article 78 of the Settlement Rules.
2. The alternative settlement consists of the purchase of alternative securities or the provision of financial indemnity in order to satisfy the lender's rights in accordance with the Settlement Rules.
3. The Central Depository is in charge of the alternative settlement, i.e. shall attempt to enable the purchase of alternative securities via an authorized trading member, within two consecutive Exchange Days following the borrower's default. At the beginning of the alternative settlement process, the Central Depository shall contact all trading members with a request for the submission of offers for the securities concerned. Subsequently, the Central Depository will choose the best offer and will ask the selected trading member to provide for the purchase of the alternative securities. If the Central Depository is able to locate such alternative securities, the Central Depository shall transfer them to the lender on the next accounting day following the actual alternative settlement date.
4. If the Central Depository manages to organize the purchase of alternative securities for a value lower than the deposited collateral, the Central Depository shall return the balance to the borrower.
5. If the Central Depository cannot organize the purchase of alternative securities, the Central Depository shall provide the lender with financial indemnity by transferring the corresponding collateral, no later than



on the accounting day following the date on which the securities forming the subject of the alternative settlement were not delivered to the Central Depository. The amount of the financial indemnity shall not be lower than the value of the lent securities as of the date on which the purchase of the alternative securities could not be arranged for. For this purpose, the value of securities shall mean the product of the number of the lent securities and the valid price as of the date on which the Central Depository could not arrange for alternative securities. Any negative balance between the amount of the corresponding deposit collateral and the value of the securities calculated according to the previous sentence shall be settled by the borrower. The payment shall be due on the basis of a payment order sent to the Clearing Centre of the Czech National Bank no later than on the accounting day following the day on which the Central Depository failed to arrange for alternative securities. The Central Depository is not liable to lender for unpaid obligations to payment of the borrower.

6. The alternative settlement shall apply from the borrower's default to the date on which the lender is provided with alternative securities or the corresponding financial indemnity.
7. If the borrower acquires any separately transferrable rights from the lent securities during the period of the alternative settlement, the borrower shall be obliged to enable the Central Depository to transfer these without compensation. If such rights cannot be transferred, the borrower shall provide financial indemnity in exchange for such rights.

#### **Article 14**

##### **Penalty Fee and its Increase (Article 79 of the Settlement Rules)**

1. The penalty fee is determined as the product of the penalty fee base and the applicable rate.
2. An increase in the penalty fee is determined as the product of the penalty fee base and the increase rate.
3. The penalty fee or an increase thereof is based on the value of the securities calculated as the product of the number of the lent securities and the corresponding price valid on the date on which the reserved loan is to be returned.
4. The penalty fee rate and the penalty fee increase rate are set out in the Central Depository Price List.
5. The penalty fee is payable on the basis of a payment order sent to the Czech National Bank Clearing Centre on the day immediately following the day on which the borrower defaults.
6. The penalty fee increase is payable on the basis of a payment order sent to the Czech National Bank Clearing Centre by the fifth accounting day following the day on which the borrower's duty to pay the penalty fee increase is confirmed by the Chief Executive Officer of the Central Depository.

#### **Article 15**

##### **Limits and Restrictions of Lending and Borrowing System (Article 80 of the Settlement Rules)**

1. The limit of the maximum number of securities of any one issue intended for lending (per-issue limit) is set as the share in the total number of securities under the issue in question.
2. The limit of the maximum number of securities lent to one borrower (total per-loan limit) is determined as the ratio of all securities under the issue which the borrower acquired as a loan as of the given date to the total number of the securities of the issue concerned.

3. The Chief Executive Officer of the Central Depository is authorized to establish the limit number of the securities under one issue which may be reserved within one reservation agreement for the Lending and Borrowing System.
4. The maximum duration of the reserved loan is 28 calendar days (four weeks). If the period following the agreed loan duration in which the lent securities are to be credited to the lender's accounts (i.e. within 30 days following the write-off thereof) is less than two accounting days, the maximum duration of the loan shall be reduced by the corresponding number of days to make sure that this condition is fulfilled.
5. For the purpose of conducting stock operations, the Committee is authorized to decide to modify the loan duration period, and shall publish such a decision in the Newsletter adequately in advance.

## **Article 16**

### **Participation in Lending and Borrowing System (Article 81 of the Settlement Rules)**

1. Applications for admission to the Lending and Borrowing System (hereinafter the “**application for participation**”) may be filed by a Central Depository participant or another person.
2. Applications for participation shall be submitted in writing to the Chief Executive Officer of the Central Depository.
3. If the applicant is not a Central Depository participant and is a corporate entity, the following shall also be attached to the application:
  - a) an extract from the Commercial Register, which must not be older than three months;
  - b) complete financial statements for the last calendar year, certified by an auditor.
4. The Chief Executive Officer of the Central Depository shall decide on the admission to the Lending and Borrowing System on the basis of the satisfaction of the applicant's qualifications for becoming a participant thereof, reflecting the needs of the Lending and Borrowing System. There is no legal entitlement to admission to the Lending and Borrowing System, and no appeal may be filed against the decision.
5. Board of Directors of the Central Depository shall decide on the exclusion of a borrower from the Lending and Borrowing System.

## **Article 17**

### **Special Operations involving Securities**

1. Upon the payment of proceeds from the securities lent to the borrower, the Central Depository shall without undue delay place and order the transfer thereof to the corresponding lender.
2. The provisions of paragraph 1 shall apply to the relevant extent if, during the existence of the loan, the amount owed under a bond or any part thereof is repaid.
3. If during the existence of the loan the registration of the security in the Central Register is cancelled without compensation, the loan shall be considered returned as of the date on which the registration is cancelled.

4. If during the existence of the loan the securities which were the subject of the loan merge with the securities of another issue, the borrower shall return the securities replacing the merged securities.
5. If during the existence of the loan the securities are split, the borrower shall return the lent securities of an identical nominal value corresponding to the value of the loan.
6. If during the existence of the loan the nominal value of securities changes, the borrower shall return the same number of lent securities corresponding to the quantity of the loan.
7. For the purpose of the Settlement Rules, substitutable securities shall also mean securities subject to a change in ISIN during the existence of the loan.

## **Article 18**

### **Final Provisions**

This Regulation was approved by the Board of Directors of the Central Depository on 7 September 2020 and comes into effect on 15 September 2020.

## Annex 1

### Securities lending timetable

Deadline for securities withdrawal	11 accounting days
Opening hours of the Lending and Borrowing System	9am - 4pm
Extension period	1-5 accounting days
Deadline for the repayment of a prematurely terminated loan	6 accounting days

For the purpose of this Regulation, accounting days shall mean days on which the Central Depository carries out the settlement of securities trades, in accordance with the settlement schedule applicable for the corresponding half-year period.