Czech National Bank

RULES OF THE SHORT-TERM BOND SYSTEM (SKD)

2024

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Part One
General Provisions

Article 1
The Short-Term Bond System

(1) The Short-Term Bond System (hereinafter only the "SKD") is a system which is the central record (register) of securities in book-entry form[1,2] and a settlement system for transactions in the securities in book-entry form[3] that are kept in this record[1]. The SKD is a settlement system providing settlement order finality in accordance with Act No. 256/2004 Coll., on Undertaking on the Capital Market, as amended (hereinafter only the "Act on Undertaking on the Capital Market").

(2) The Rules of the SKD (hereinafter only the "Rules") are stipulated by the Czech National Bank (hereinafter referred to as the "CNB") pursuant to Articles 85, 92(3) of the Act on Undertaking on the Capital Market and in accordance with Regulation (EU) No 909/2014 of the European Parliament and of the Council[4]. The CNB is the operator of the system (hereinafter only the "operator"). The Rules and contracts on participation in the SKD are governed by Czech law.

Article 2
Object of Regulation

(1) These Rules regulate the manner of keeping records and the settlement of transactions with the securities in book-entry form (hereinafter referred to as the "securities") representing a right to repay outstanding amount in the Czech curreency:

a) issued by the Czech Republic and maturing within one year[1],
b) issued by the CNB with maturities of up to six months[5],
c) issued by other issuers with maturities of up to one year[1].

(2) The object of regulation pursuant to the Rules is not organizing a securities market in accordance with the Act on Undertaking on the Capital market.

Article 3
Functions and Aims of the SKD

(1) The SKD performs in particular the following functions:

a) keeping a record of securities pursuant to Article 2 by their issuers,
b) keeping a record of securities in asset accounts,

[1] Article 33(2) of Act No. 6/1993 Coll., on the Czech National Bank, as amended
[2] Article 92(3) of the Act No. 256/2004 Coll., on Undertaking on the Capital Market, as amended
[3] Article 33(4) of Act No. 6/1993 Coll., on the Czech National Bank, as amended
[4] 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 (hereinafter only "Regulation (EU) No 909/2014 of the European Parliament and of the Council").
[5] Article 33(1) of Act No. 6/1993 Coll., on the Czech National Bank

c) keeping a record of SKD participants (hereinafter only the "participants"),

d) primary sale of securities pursuant to Article 2 within the framework of the SKD,

e) executing of instructions of participants for registration of facts relating to securities pursuant to Article 2 within the SKD,

f) settlement of securities transactions pursuant to Article 2 within the SKD,

g) arranging for repayment of securities pursuant to Article 2 and for the pay-out of their yields[6].

(2) The records linking-up with the central records kept by the CNB[7] (hereinafter the linking-up records) do not form part of the SKD records.

(3) The aim of the SKD is to ensure the correct performance of all the aforementioned functions.

Article 4
The CNB as the SKD Operator

(1) The CNB as the SKD operator

a) issues binding Rules of the SKD,

b) is responsible for the proper functioning and development of the SKD,

c) concludes and repudiates contracts on participation in the SKD and contracts on asset accounts in the SKD, defining the scope of the rights and obligations of the participants,

d) stipulates the amount of fees for the services provided within the SKD[8],

e) approves the internal organizational and operational rules of the SKD,

f) stipulates the procedures for resolving exceptional situations (Part 6),

g) imposes sanctions for the breach of obligations under the Rules, under contracts on participation in the SKD and contracts on an asset account in the SKD,

h) defines the functions of the SKD in relation to the Czech Express Real Time Interbank Gross Settlement system (hereinafter only the "CERTIS system") pursuant to Article 5,

(2) The CNB as the SKD operator is also responsible for

a) the due keeping of records of securities in the SKD,

b) the due execution of the agents' instructions for the registration of facts relating to securities and to the settlement of transactions in securities,

c) the protection, security and confidentiality of the information contained within the SKD in accordance with the legal regulations,

d) archiving all documentation relating to the operation of the SKD for the period stipulated by the Act on Undertaking on the Capital Market[9],

e) attending to objections (Article 58), suggestions and comments of participants,

f) charging of fees for the services provided to participants.

[6] Article 31, Article 33(2)(c) of Act No. 6/1993 Coll., on the Czech National Bank, as amended
[7] Article 94(3) of the Act No. 256/2004 Coll., on Undertaking on the Capital Market, as amended
[8] CNB's Schedule of Charges for Financial and Business Services, Part VI., Short-Term Bond System
[9] Article 99a (1) of the Act No. 256/2004 Coll., on Undertaking on the Capital Market, as amended

Article 5
The CERTIS System

The payment relations between participants in connection with the transactions executed within the SKD are mainly implemented through the CERTIS system on the basis of third party payment instructions issued by the SKD.

Article 6
Securing of the Electronic Communication with the SKD

(1) An employee of the agent shall use their user name and password to access the SKD. Registration orders shall be secured by an electronic signature of the agent's employees.

(2) Certificates issued by qualified trust service providers to the agent's employees (Article 9) shall be used for electronic signatures[10].

(3) The operator shall register only selected employees of the agent (administrators) and the identification data from their certificates (Distinguished Name) in the SKD. The administrators shall register other employees of the agent and the identification data from their certificates. A detailed desciption of the procedure is given in the Participant's Manual[11].

Article 7
SWIFT system

In the case of participants who have access to the SWIFT system[11], automated communication of agents is enabled directly via the SWIFT system for selected types of instructions.

[10] Act No. 297/2016 Coll., on Trust Services for Electronic Transactions, as amended.
[11] Participant's Manual is accessible on https://www.cnb.cz/en/financial-markets/skd/

Part Two
Position, Rights and Obligations of the Participants

Article 8
Participants

(1) From the point of view of operation of the SKD, the participants in the SKD are:

a) participants in the sense of the definition of a settlement system with settlement finality[12], i.e. agents (Article 9),

b) other participants that are not participants in accordance with subparagraph a), i.e.

1. custodians (Article 10),
2. clients (Article 11).

(2) The same person/entity may be at the same time an agent, a custodian and a client.

(3) The CNB concludes a contract on participation in the SKD with agents[13]. The CNB concludes a contract on participation in the SKD[14] on the basis of an application for participation in the SKD.

(4) The CNB concludes a contract on customer account in the SKD[15] with custodians and the CNB concludes a contract on owner account in SKD[16] with clients, both contracts are called a contract on asset account in the SKD.

(5) The CNB concludes a contract on asset account in the SKD based on an application for the opening of an asset account in the SKD.[17] If an applicant – future custodian or client – has not yet concluded a contract on an asset account in the SKD, he is obliged, when applying for the opening of his first asset account in the SKD[17] to submit an application at the same time for participation in the SKD[14].

(6) The application for the Opening of an Asset Account in the SKD shall be sent by an applicant in a written form or directly or via its agent. The procedures and conditions are specified in the Appendix to the Rules No. 4 – Conditions for the Opening and Maintenance of Asset Accounts in the SKD. Asset accounts are open on the basis of the Contract on the Customer Account in the SKD or the Contract on the Owner Account of the Book-entry Securities in the SKD.

(7) The scope of the participants' authorizations is contained in the contract on their participation in the SKD, in the contract on an asset account and in the Rules.

(8) The participants are obliged to adhere to the Rules. In the event that is some conflict in the contracts with the CNB and the Rules, the provisions of the contracts shall prevail.

(9) The participants are obliged to inform the operator without delay in writing of any changed facts that they declared in the application for participation in the SKD and its appendices. The operator shall not bear responsibility for any damages which may result from non-fulfilment of this obligation.

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[12] Article 84(1) of the Act No. 256/2004 Coll., on Undertaking on the Capital Market, as amended
[13] Appendix to the Rules No. 1a – Specimen Contract on Participation in the SKD
[14] Form – Application for Participation in the SKD
[15] Appendix to the Rules No. 1b – Specimen Contract on the Customer Account in the SKD
[16] Appendix to the Rules No. 1c – Specimen Contract on the Owner Account of Book-entry Securities in the SKD
[17] Form - Application for the Opening of an Asset Account in the SKD

(10) The participants are entitled to acquire information on all facts within the SKD which relate to them. They may acquire the requested information either through their agent (Article 9(1)) or directly on the basis of a written request.

(11) Under the Rules, the CNB acts within the SKD as an agent with full scope of authorizations under Article 9 and as a client with full scope of authorizations under Article 11.

(12) Under the Rules, the Ministry of Finance of the Czech Republic acts within the SKD as a client with full scope of authorizations under Article 11.

Article 9
The Agent

(1) The agent may be authorized on the basis of a contract on participation in the SKD to mediate for other participants – i.e. the custodians (Article 10) and the clients (Article 11) electronic access to their respective asset accounts (Article 16(4)) in the SKD and to obtain from the SKD information which relates to these accounts.

(2) The CNB shall conclude a contract on participation in the SKD only with a legal entity mentioned in Article 84(1) of the Act on Undertaking on the Capital Market.

(3) The agent, to the extent of the authorizations contained in his contract on participation in the SKD, is authorized to organise auctions (Article 13).

(4) If the agent is at the same time a custodian or a client or, as the case may be both a custodian and a client, he may arrange for the activity under (1) for himself as well.

(5) The agent must have direct (on-line) electronic connection to the SKD and must have concluded with the CNB a written contract on participation in the SKD. Further the agent, before concluding with the CNB a contract on participation in the SKD, must conclude with the CNB a contract on access via the CNB's communication gateway.

(6) In his dealings with the SKD the agent is obliged to comply with security rules and provide technical equipment and software in accordance with Annex No. 2 of the SKD Rules.

(7) The agent is obliged to have "the agent's cash account", i.e. either his own interbank payment account maintained with the CNB (hereinafter only the "interbank payment account") or must have an account with a bank which has an interbank payment account (hereinafter only the "agent's bank")[18].

(8) In the contract on participation in the SKD[13], or in an appendix to this contract, the agent shall authorize the operator, to issue third party payment instructions to the CERTIS system, which will be debited to his interbank payment account (paragraph (7)). In the instructions to the CERTIS system the SKD shall state the agent's cash account mentioned in the contract on participation in the SKD.

(9) Within the framework of the settlement and other operations ensured by the SKD (Part Four and Part Five) payments by custodians and by the agent's clients are made from the agent's cash account mentioned in the contract on participation in the SKD.

(10) The agent, who is an obligor as per the provisions of the act on some measures against the legalization of revenues from criminal activities[19], shall be responsible for the proper identification of custodians and clients to whom he is authorized to ensure electronic

[18] If the participant does not have his own account in the CERTIS system, he shall agree the conditions of the payment relations with the bank which maintains his cash account.

[19] Act No. 253/2008 Coll. on Selected Measures against Legitimisation of Proceeds of Crime and Financing of Terrorism, as amended

access to their asset accounts as well as for the compliance with other obligations stipulated by this act, especially the meeting of the obligation to maintain identification data of custodians and clients whose provision, including the provision of copies of appropriate documents, may be required by the operator.

Article 10
The Custodian

(1) The custodian is a legal entity with which the CNB has concluded a contract on a customer account in the SKD[15]. The CNB shall conclude a contract on a customer account in the SKD only with an entity mentioned in Article 92(2) of the Act on Undertaking on the Capital Market. Only the custodian may have one or multiple customer accounts with the SKD (Article 17). A customer account is opened on the basis of a contract on a customer account in the SKD. A custodian has access to each customer account through an agent specified in a contract on customer account in the SKD that is related to the relevant customer account. On the basis of the contract on a customer account in the SKD the custodian may:

a) purchase on the primary market,
b) purchase on the secondary market,
c) sell on the secondary market the securities recorded in the SKD.

(4) The custodian shall be obliged to transmit data, in writing or electronically, relating to the maturity of the securities to the SKD (Article 35(6)).

(5) The custodian records the securities in owner accounts or in customer accounts in linking-up records.

(6) The custodian, who is an obligor as per the provisions of the act on some measures against the legalization of revenues from criminal activities[19], shall be responsible for the proper identification of clients as well as for the compliance with other obligations stipulated by this act, especially the meeting of the obligation to maintain identification data of his clients whose provision, including the provision of copies of appropriate documents, may be required by the operator.

(7) Based on the justified written application by an agent who has access to customer account the CNB shall withdraw from the contract on a customer account in the SKD due to the fact that no securities were registered on the customer account for one year preceding the day of submitting the application (except where a different time limit has been agreed in the contract on a customer account in the SKD).

Article 11
The Client

(1) The client is a legal entity or a natural person with whom the CNB has concluded a contract on an owner account of the securities in book-entry form in the SKD[16].

(2) Only the client may have one or multiple owner accounts (Article 18) with the SKD. The owner account is opened on the basis of the contract on an owner account of the securities in book-entry form in the SKD. A client has access to each owner account through the agent specified in a contract on an owner account of securities in the SKD that is related to the relevant securities owner account.

(3) Only the client may issue securities[20] in the SKD. A client who intends to issue securities shall use the services of an agent who has access his owner account.

(4) On the basis of the contract on an owner account of the securities in book-entry form in the SKD the client may

a) issue,
b) purchase on the primary market,
c) purchase on the secondary market,
d) sell on the secondary market the securities recorded in the SKD.

(1) Based on the justified written application by an agent who has access to owner account the CNB shall withdraw from the contract on an owner account in the SKD due to the fact that no securities were registered on the owner account for one year preceding the day of submitting the application (except where a different time limit has been agreed in the contract on an owner account in the SKD).

Article 12
The Agent's Office

The agent's office is a place equipped with a workstation, via which the agent

a) submits instructions of the participants for whom he performs the function of an agent to the SKD,

b) receives information from the SKD on facts relating to the transactions of the participants for whom he performs the function of an agent,

c) arranges for other functions connected with the transactions of the participants for whom he performs the function of an agent.

Article 13
Auction

(1) Auctions organized within the SKD for purchase of securities on the primary market are organised by the agent in the agent's office (Article 12).

(2) Within the framework of the preparation for the primary sale the issuer of a security may process the orders himself and use the agent only for the transmission of the results to the records of the SKD.

(3) The agent executes the recording and archiving of documents on the activities pursuant to (1) and (1) for the period of 5 years[21], or for the period of 10 years if the agent is a bank[22].

[20] I.e. issue a security in accordance with Article 520(1) in conjunction with Article 525(2) of the Law No. 89/2012 Coll., Civil Code, as amended
[21] Article 17 of the Act No. 256/2004 Coll., on Undertaking on the Capital Market, as amended
[22] Article 21 of Act No. 21/1992 Coll., on Banks, as amended

Part Three
Record-Keeping System

Article 14
Records Kept by the CNB

The records kept within the SKD constitute central records in accordance with Article 92(3) of the Act on Undertaking on the Capital Market.

Article 15
Extent of the Records

(1) The SKD, within the framework of its record-keeping system, keeps records of
   a) asset accounts (Article 16),
   b) issues (Article 19).

(2) The SKD, within the framework of its record-keeping system, also keeps records of
   a) instructions (Article 20) and linking-up settlements (Article 24),
   b) issuers (Article 21),
   c) participants (Article 22),
   d) the activities and employees of the agents (Article 23(1)),
   e) the activities and employees of the operator (Article 23(1)).

(3) The records under (1) and b) constitute a comprehensive, mutually interrelated system, which enables the operation of the SKD and the activities of its participants. It contains all information required for keeping central records of securities.

Article 16
Record of Asset Accounts

(1) An asset account is recorded as an owner account or as a customer account.

(2) An asset account contains the following data:
   a) data on the account holder,
   1. business firm or business name, identification number and registered office of the legal entity,
   2. name, surname, residential address, personal number or date of birth of the natural person, if a personal number has not been allocated to the the natural person; in the case of a businessman incorporated in the Commercial Register, business firm, or place of business, and identification number, if assigned,
   b) numerical designation of the account and the date of its opening,
   c) specification as to whether the account is an owner account or a customer account,
   d) data on the individual securities recorded in the account, in particular:
   1. the requirements stipulated by law for the respective security in book-entry form,
   2. type, ISIN or code of the security,
   3. number of pieces of the security for each issue,
   4. data on the blocking of the security,

5. data on any lien attaching to the security,

e) designation of the agent through whom the account holder's access to the account is ensured,

f) time of execution of an entry into this account,

g) data on the lien and the blocking of the account,

h) any further data necessary for the functioning of the SKD, as determined by the operator.

(3) A account maintained with a bank which has an interbank payment account (hereinafter only the "cash account") is assigned to each asset account. The cash account serves in particular as an account to which payments connected with the settlement of the client's or custodian's securities transactions pursuant to Parts Four and Five are transferred.

(4) Only one agent, authorized by the account holder, has access to each asset account.

(5) A statement of an asset account[23] contains the data pursuant to (2) except for (d), (1).

Article 17
Customer Account

(1) A customer account may be open only for the custodian.

(2) Securities given in charge in the SKD which the account holder took over from their owners are recorded in a customer account[24].

Article 18
Owner Account

Securities held in the SKD which are in the ownership of the account holder are recorded in an owner account[25].

Article 19
Record of Issues

(1) The record of issues contains basic data on the individual issues, i.e. in particular the following:

a) title of the security,

b) date of issue[26],

c) date of maturity of the security,

d) nominal value of the security,

e) volume of the issue in nominal value,

f) value at maturity,

g) data on the blocking of the issue (Article 47),

h) data on the account holder and the type of account in which the security is recorded,

[23] Article 99 of the Act No. 256/2004 Coll., on Undertaking on the Capital Market, as amended
[24] Article 528 of Act No. 89/2012 Coll., Civil Code, as amended
[25] Article 527 of Act No. 89/2012 Coll., Civil Code, as amended
[26] Article 519(1) in conjuction with Article 525(2) of Act No. 89/2012 Coll., Civil Code, as amended

i) data on the issuer,
j) further data, if necessary.

(2) Securities issues in the SKD are designated with a code assigned by the SKD or, as the case may be, with an ISIN.

(3) Every issue is implemented from one account of the owner-issuer only.

(4) A statement from the record of issues contains data pursuant to (1) and (2).

Article 20
Registration Instructions

(1) The instructions to register a settlement must contain the following:

a) data on the transferor and the transferee,

1. business firm or business name, identification number and registered office of the legal entity,

2. name, residential address, personal number or date of birth of the natural person; in the case of a businessman incorporated in the Commercial Register, business firm, or place of business, and identification number, if assigned,

b) identification of the account to which the security is to be debited and identification of the account to which the security is to be credited;

c) ISIN or code of the security,

d) total nominal value of the securities being transferred,

e) data as to whether it is a settlement for consideration or without consideration,

1. in the case of a settlement for consideration also the yield, or the price, or the total value for which the security in book-entry form is transferred, unless the nature of the settlement precludes this;

2. in the case that the nature of the settlement precludes the stating of the price, the instruction to register a settlement must contain data on the type of transfer, from which the impossibility to state the price of the transfer for consideration will unequivocally result;

f) type of transaction, i.e. the legal grounds,

g) the requested date of settlement.

(2) The instruction to enter a lien must contain the following:

a) data on the pledgor and the pledgee, or rather the provider and recipient of financial collateral

1. business firm or business name, identification number and registered office of the legal entity,

2. name, residential address, personal number or date of birth of the natural person; in the case of a businessman incorporated in the Commercial Register, business firm, or place of business, and identification number, if assigned,

b) identification of the account in which the securities with respect to which the lien is to be established are maintained and identification of the account of the pledgee to the credit of which the lien is to be established; if the pledgee, or the recipient of financial securing, is not a participant, identification of the CZK account maintained with a bank which has an interbank payment account,

c) ISIN or code which identifies the security in book-entry form,

d) total nominal value of the securities being pledged,

e) date of maturity of the debt,

f) requested date of registration of the lien,

g) in the event of a pledge of securities against payment (Article 40), total value of the payment.

(3) Paragraph (2) shall be used for the entry of the cancellation of a pledge. Further, the number of the pledge being cancelled shall be stated.

(4) The instruction for the blocking of an asset account (Article 46) or, as the case may be, for the blocking of securities (Article 45) must contain the following:

a) data on the account holder,

1. business firm or business name, identification number and registered office of the legal entity,

2. name, residential address, personal number or date of birth of the natural person; in the case of a businessman incorporated in the Commercial Register, business firm, or place of business, and identification number, if assigned,

b) period for which the blocking is being established[27],

c) ISIN or code of the security, to which the instruction for the blocking of securities relates,

d) total nominal value of the securities to which the instruction for the blocking of securities relates.

(5) The instruction for the blocking of an issue must contain the following:

a) ISIN or code of the security,

b) period for which the blocking is being established[27].

(6) The paragraphs (4) and (5) shall be used, *mutatis mutandis*, for the instruction for the cancellation of the blocking.

(7) The instruction for the provision of intraday credit (see 43(5)) must contain the following:

a) data on the account holder,

1. business firm or business name, identification number and registered office of the legal entity,

2. name, residential address, personal number or date of birth of the natural person; in the case of a businessman incorporated in the Commercial Register, business firm, or place of business, and identification number, if assigned,

b) ISIN or code of the security,

c) total nominal value of the securities to which the instruction for the creation of intraday credit relates.

(8) The paragraph (7) shall be used, *mutatis mutandis*, for the instruction for the repayment of intraday credit.

(9) The instructions for the registration of facts relating to securities in an asset account shall be issued by the account holder in the manner and form stipulated by the operator[28].

(10) The instructions for the registration of a transfer of a security on the basis of a settled transaction shall be issued by the account holder exclusively through his agent who has access to the account.

Article 21
Record of Issuers

As part of the record-keeping system, the record of issuers is maintained within the framework of the record of issues and the record of participants. The record of issuers contains:

[27] Article 97(2) of the Act No. 256/2004 Coll., on Undertaking on the Capital Market, as amended
[28] Participant's Manual

a) data on the issuer

1. business firm or business name, identification number and registered office of the legal entity,

2. name, residential address, personal number or date of birth of the natural person; in the case of a businessman incorporated in the Commercial Register, business firm, or place of business, and identification number, if assigned,

b) ISIN or code of the security issued by him,

c) date and time of execution of the entry into this record.

Article 22
Record of Participants

The record of participants contains the following:

a) data on the individual participants,

1. business firm or business name, identification number and registered office of the legal entity,

2. name, residential address, personal number or date of birth of the natural person; in the case of a businessman incorporated in the Commercial Register, business firm, or place of business, and identification number,

b) contact addresses of the individual participants,

c) the distinction as to the type of participation (the agent, the custodian, the client),

d) the scope of authorizations of the participants.

Article 23
Further Records and Information

(1) Within the framework of the SKD also other facts that are necessary for its functioning are recorded, in particular data on the agents' offices, their activities and employees (Article 15 (2)(d), and on the activities and employees of the operator (Article 15 (2)(e)).

(2) The operator keeps records of the specimen signatures of the participants' employees who are authorized to perform the individual acts under the contract on participation in the SKD and the contract on an asset account in the SKD and also records of the contact persons and addresses for sending documents to the participants.

(3) The operator keeps records of the prospects and the issue conditions[29] of the securities recorded in the SKD.

(4) If blocking is registered in an asset account, then the operator records data on the person/entity or the designation of the court or the state authority on the orders of which the blocking was established and the period for which it was established.

(5) If data on a lien attaching to a security are registered in an asset account, then the operator records the data on the persons of the pledgee, or rather the recipient of financial collateral, and distrainee (Article 20(2)).

(6) The operator maintains records of cases of settlement failure and measures that it and its participants take to prevent and resolve settlement failure.

[29] Article 36 and the following of the Act No. 256/2004 Coll., on Undertaking on the Capital Market, as amended and Article 8 and the following of Act No. 190/2004 Coll., on Bonds, as amended

(7) The operator maintains records of testing of the emergency plan and measures adopted ascertained based on the testing of the emergency plan.

(8) The operator maintains records of exceptional situations and solutions of such situations. Within the framework of the activities of the SKD, in particular when resolving exceptional circumstances, the authorized employees of the operator shall have access to all data contained in the SKD.

(9) The operator maintains reports of internal and external audits.

(10) The operator maintains minutes of meetings of the users' committee.

(11) The data contained in the SKD may also be used to compile information surveys relating to the functions of the SKD and available from the agents' offices.

(12) The operator shall provide a record of orders/settlements and a record of asset accounts to public authorities at their request.[30]

[30] Article 11(1) and (2) of Commission Implementing Regulation (EU) 2017/394 of 11 November 2016 laying down implementing technical standards with regard to standard forms, templates and procedures for authorisation, review and evaluation of central securities depositories, for the cooperation between authorities of the home Member State and the host Member State, for the consultation of authorities involved in the authorisation to provide banking-type ancillary services, for access involving central securities depositories, and with regard to the format of the records to be maintained by central securities depositories in accordance with Regulation (EU) No 909/2014 of the European Parliament and of the Council.

Part Four
System of Settlement

Section 1
Principles of Settlement

Article 24
Settlement

(1) The settlement pursuant to this Part of the Rules means transactions connected with transfers of securities between the individual asset accounts[31].

(2) Within the framework of the settlement process each individual transfer is settled separately[32].

(3) The transferor means the custodian or client to whose asset account the securities are debited.

(4) The transferee means the custodian or client to whose asset account the securities are credited.

(5) The settlement of securities transfers[33], which is executed by the SKD for the clients and custodians in cooperation with the agents, consists in transfers of securities from the asset account of the transferor to the asset account of the transferee (hereinafter only the "securities transfer")

a) which do not include payments for the delivery of securities,

b) which include payments for the delivery of securities on the principle "delivery versus payment"[34].

(6) The settlement of securities transfers on the principle delivery versus payment, which is executed by the SKD for the clients and custodians in cooperation with the agents and the CERTIS system, includes:

a) the transfer of securities,

b) the payment of the agreed-upon purchase price by the transferee's agent to the seller or to the seller's custodian (hereinafter only the "clearing").

(7) Both the transferor and the transferee, through their agents, input into the SKD instructions for the registration of the transfer (Article 25) containing identical data concerning settlement based on which instructions for the registration of the transfer are paired.

Article 25
Instructions to Register Transfers And Resolve Settlement Failure

(1) Instructions to register a transfer of securities in asset accounts (hereinafter only "instructions to register a transfer") are the basis for

[31] Part Seven of the Act No. 256/2004 Coll., on Undertaking on the Capital Market, as amended

[32] The English terms "trade-to-trade" or "gross delivery-gross clearing" are also used.

[33] Transfers of securities for consideration mean the purchase and sale of securities connected with payment. In the case of transfers without consideration only changes in the records of securities are carried out and there is no financial settlement.

[34] "DVP"

a) transfers of securities in asset accounts (Article 28),

b) third party payments (Article 27), in applying the principle "delivery versus payment".

(2) Instructions to register a transfer are submitted within the stipulated time-limits[35] by the transferor or, as the case may be, the transferee, via their agents.

(3) The SKD shall accept instructions to register a transfer, provided that they are formally correct.

(4) Within the SKD, instructions to register a transfer with the stipulated day of settlement including the actual accounting day are accepted.

(5) If the SKD, on the settlement day[35] does not receive by the stipulated time with respect to an instruction to register a transfer (for example, to debit) a corresponding (matching) registration instruction (i.e. for example, to credit), the SKD shall cancel the instruction to register (for example to debit) and shall notify the issuer of the instruction of this fact through the agent who submitted the instruction.

(6) If the SKD on the settlement day by the end of the stipulated time receives mutually corresponding instructions for registration of a transfer (for both crediting and debiting), the SKD shall match these instructions and at the same time shall verify whether there is a sufficient quantity of disposable securities in the transferor's asset account and shall block the securities in the transferor's account for the purposes of a transfer (which means that until the time of completion of the transfer no transactions can be carried out with the blocked securities).

(7) Matching of instructions is possible where, in applying the "delivery versus payment" principle, instructions to register transfers meet the tolerance levels for matching settlement amounts. The tolerance level shall be set in relation to the settlement amount,[36] for which the settlement amount of the transferor, or the seller, shall be used.

(8) In the event that on the settlement day there is not, by the end of the stipulated time, a sufficient quantity of disposable securities in the transferor's asset account, the SKD shall postpone the respective instructions to register a transfer to the following accounting day, however no later than the end of the stipulated period of the seventh subsequent accounting day or the end of the stipulated period at the latest of the accounting day preceding by one accounting day the maturity day of the transferred securities, whichever accounting day is the earlier (hereinafter only the "extended period"); then the instruction to register the transfer is automatically cancelled. Both the transferor and the transferee are informed about this fact by their agents. During an extended period the transferor and the transferee can individiduaally cancel settlement (Article 25(9)).

(9) Both the agent of the transferor and the agent of the transferee must request during the stipulated period of the accounting day, by means of an instruction, the individual cancellation of the settlement and thereby the release of the securities blocked for the purposes of the transfer. Unless the cancellation is requested by both of them, it shall not be executed. The SKD shall notify the transferor and the transferee of the non-executed transfer through their agents.

(10) Immediately after the stipulated period on the last day of the extended period and ascertaining that the transaction was not settled because on the transferor's asset account there were not enough disposable securities by the end of the stipulated period on the day of

[35] Appendix to the Rules No. 3 - Periods and Time-Limits for the Execution of Transactions in the SKD

[36] Article 6 of 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; hereinafter "Commission Regulation (EU) 2018/1229".

settlement, the management of the SKD is informed of this. All cases of settlement failures are monitored and published.[37]

(11) After the cancellation of settlement, the participants shall be informed thereof through the SKD system. It the buyer is interested in a substitute purchase, the participants shall choose the substitute purchase procedure, which they shall have in place with their counterparties.[38,39]

(12) For each day of the extended period, the selling participant is obligated to pay a charge for non-performance of obligation. These fees are charged and collected every month and then distributed on a monthly basis among the receiving participants affected by settlement failures.[40]

(13) Trading parties causing settlement failures shall pay financial compensation to the receiving trading parties[41], including the compensation of substitute purchase costs[41] and the compensation of price differences[42].

(14) If a participant constantly and systematically does not deliver securities as of the designated day for settlement and, despite a request from the operator, does not implement a remedy, this is regarded as a serious breach of the Rules and the operator can block the participant's asset account (Article 46), or terminate the obligation under the contract in accordance with the relevant contract on asset account.

Article 26
Clearing of Transactions Connected with Payments

The clearing of securities transactions which are connected with payments[43] is executed through accounts with the central bank in the CERTIS system on the basis of instructions issued by the SKD. The operator is authorized by the client's or custodian's agent to issue instructions for third party payments to the CERTIS system on the basis of the contract on participation in the SKD which it concluded with the agent.

Article 27
Third Party Payments

(1) If in the case of a transfer of securities on the principle delivery versus payment it is found, upon verification, that there is a sufficient quantity of disposable securities (Article 25(6)) in the transferor's asset account, the number of securities being transferred in his asset account shall be blocked for the purposes of the transfer and the SKD shall issue a third party payment instruction to CERTIS system to the debit of the transferee's agent's cash account (Article 9(7)) and to the credit of the transferor's cash account (Article 16(3)).

(2) On the basis of this third party payment instruction the CERTIS system shall transfer the respective amount from the transferee's agent's cash to the transferor's cash account.

[37] Articles 13–15 of Commission Regulation (EU) 2018/1229
[38] Article 7 of Regulation (EU) No 909/2014 of the European Parliament and of the Council
[39] Article 25 and Articles 30–31 of Commission Regulation (EU) 2018/1229
[40] Articles 16–18 of Commission Regulation (EU) 2018/1229
[41] Articles 32–33 of Commission Regulation (EU) 2018/1229
[42] Article 35 of Commission Regulation (EU) 2018/1229
[43] Purchase and sale, repo, sell-and-buy, intraday credit, lien and extinction of a lien against payment

Article 28
Transfers in Asset Accounts

(1) Upon each registration of a transfer of securities the SKD shall inform the transferor and the transferee through their agents on the executed transfer and shall create for the both transferor and the transferee a new statement of his asset account.

(2) In the case of a transfer of securities on the principle delivery versus payment the procedure pursuant to (1) shall be implemented upon notification from the CERTIS system to the SKD that the third party payment has been executed. The SKD shall fulfil the respective instructions to register the transfer of securities between the transferee and the transferor in their respective asset accounts.

(3) If on the settlement day there are not, by the end of the accounting day of the CERTIS system, sufficient funds in the transferee's agent's cash account, the transaction shall not be implemented and the SKD shall not register the transfer of securities. The SKD shall release the securities blocked for the purposes of the transfer in the transferor's asset account and shall notify the transferor and the transferee, through their respective agents, of the non-executed transfer.

Section 2

Primary Market

Article 29
Preparation for the Registration of an Issue

(1) Securities recorded in the SKD may be issued by the CNB, the Ministry of Finance of the Czech Republic and by clients who had concluded a contract on an owner account in the SKD which contains their authorization to issue.

(2) If, in accordance with legal regulations[44], securities in book-entry form are to be issued, which under these Rules are recorded in the SKD (Article 2), the issuer is obliged to notify the operator of this fact.

(3) The notification to the operator shall contain:

a) designation of the issuer, designation of the owner account from which the securities are issued,

b) designation of the agent,

c) title of the security, ISIN, issue code, tranche number,

d) total volume of the issue, number of securities and nominal value of the security,

e) date of issue and date of maturity of the security,

f) date and time of the termination of acceptance of orders for the auction,

g) manner of determination of the maximum yield or price, or amount of the yield or price,

h) information as to whether the issue will be implemented as a single act or progressively, in multiple tranches,

i) manner of the primary sale or, as the case may be, algorithm of the auction,

j) further data, if necessary.

(4) The issuer shall submit the notification under (2) himself or through his agent. The notification shall be submitted on the prescribed printed form, including all requisite background documents[45], within the stipulated time-limit before the day of auction[35].

(5) In the event of re-opening, reduction in volume[46] or cancellation[39] of an existing issue in the SKD record, the issuer shall proceed, *mutatis mutandis,* pursuant to (2).

(6) When organizing the primary sale of securities recorded in the SKD, an auction under these Rules means

a) the processing of the auction participants' orders by the agent[47], or

b) only the transmission of the results of processing of the orders to the SKD records[47].

(7) The operator shall enter the notification under (2) into its records in order that all securities to be issued within the framework of the given issue may be registered in its records. The agents have access to data on the issue, the issuer and his agent from their offices.

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[44] Act No. 89/2012 Coll., Civil Code,as amended; Act No. 256/2004 Coll., on Undertaking on the Capital Market, as amended

[45] Form - Notification of the Issuer on the Intent to Issue Securities in the SKD

[46] This is applicable on transformation of the form of a security or on prepayment, in part or in whole, of an issue.

[47] The issuer has in particular the option to use some of the algorithms processed by the operator of the SKD.

Article 30
Organization of the Primary Sale

(1) In addition to the notification under Article 29(3), the issuer may, before the day of auction organized in the SKD, notify the other participants of his intent to issue securities. This notification concerning the issue shall include in particular the following:

a) designation of the issuer, designation of the owner account from which the securities are issued,

b) title of the security, ISIN, issue code, tranche number,

c) total volume of the issue, number of securities and nominal value of the security,

d) date of issue and date of maturity of the security,

e) date and hour of the auction,

f) manner of determination of the maximum yield or price, or amount of the yield or price,

g) manner of the primary sale, in particular the circle of possible investors, manner of placing orders for the purchase of securities of the given issue, place and time-limit for the acceptance of orders, manner of their processing[40] and manner of announcing the results of the auction,

h) further data, if necessary.

(2) An auction pursuant to Article 29 must be executed by the agent who has access to the owner account stated in Article 29(3).

(3) The participants who are authorized to do so under the contract on an asset account in the SKD and whom the issuer has enabled to do so in the prospect of the security or in the conditions of issue[29] shall, in the event of their interest, place their orders for the purchase of securities of the given issue within the time-limit and in the manner stipulated by the issuer.

(4) The auction day must precede the day of the primary sale, i.e. the day of issue, at least by the stipulated time[35].

(5) On the auction day, on the basis of the participants' orders placed via the agent organising an auction, the SKD shall enter the distribution of securities of the given issue among the individual auction participants and the yields, or prices, at which the primary sale in the individual cases will be implemented, according to the procedure stipulated by the issuer[40], in its records.

(6) Should an error occur in the course of the auction, the persons involved shall proceed according to the Rules and the Participant's Manual.

(7) The auction participants shall be informed of the results of the auction (or, as the case may be, of the extent of satisfaction of their orders) by the agent organising an auction.

(8) Unless stated otherwise in the prospect of the security or in the conditions of issue[29], the employees of the agent organising an auction are forbidden to provide any information on participants' orders to other participants or to third parties who are not the employees of the respective agent.

(9) The agent organising an auction is obliged to archive the documents, on the basis of which the agent executed an auction, for at least a period of 5 years[21], or 10 years if the agent is a bank[22]. The issuer is obliged to archive the accepted orders for the purchase of securities, unless they are included in the documents of the agent, for a period stipulated by the Act on Undertaking on the Capital Market[21].

Article 31
Primary Sale

(1) On the basis of the results of the auction the SKD shall carry out the settlement of the primary sale as at the date of issue. Within the framework of the primary sale each individual sale is settled separately.

(2) On the date of issue the SKD shall issue instructions to the CERTIS system for the respective third party payments to the debit of the cash accounts of the agents of the transferees and to the credit of the cash account of the issuer.

(3) The day of the primary sale, as at which under the prospect of the security or of the conditions of issue[29] the securities were registered in the participants' asset accounts and thus became the property of the first holders, is the date of issue of the respective securities. From this date onwards, the securities of the given issue are transferable in the SKD within the framework of the secondary market.

(4) The maturity of securities is calculated from the date of issue.

(5) Securities not issued as at the day of issue shall be considered as an unplaced part of the issue. If the prospect of the security or the conditions of issue[29] allow an issue in progressive tranches, the securities from the unplaced part of the issue may be offered again and issued in accordance with the procedure pursuant to Article 29 and Article 30.

(6) The securities of a given issue purchased in the primary sale continue to be transferable in the SKD within the framework of the secondary market until the stipulated time before the maturity day, unless the transferability of the issue is limited by the procedure pursuant to Article 44 to Article 47.

Section 3

Secondary Market

Article 32
Transfer for Consideration

(1) A transfer for consideration is a transfer of securities which comprises payments for the delivery of securities according to the principle delivery versus payment Article 24(5) (a)).

(2) A security which is transferable on the secondary market may be transferred to another client or custodian by transfer for consideration until the stipulated time[35] before the maturity day.

Article 33
Transfer without Consideration

(1) A transfer without consideration is a transfer of securities in the course of which the SKD does not ensure and does not monitor the payments connected with the change of the owner of the securities.

(2) A security which is transferable on the secondary market may be transferred to another client or custodian by transfer without consideration until the stipulated time[35] before the maturity day. Transfers without consideration with the stipulated day of delivery of the securities, including the actual accounting day, are accepted.

(3) When registering a transfer of securities without consideration, the SKD shall proceed pursuant to Article 25. After verifying that there are sufficient disposable securities in the transferor's asset account, it shall register the transfer without consideration of the securities in question without further delay to the credit of the transferee's asset account.

Article 34
Exchange

(1) Mutually conditional transfers without consideration of securities of two different issues between two asset accounts are carried out by means of an exchange.

(2) An exchange on the secondary market can be executed until the stipulated time before the maturity day of the securities which are being exchanged.

(3) Upon agreeing the conditions of the exchange, the agents of both participants shall issue, within the specified time-limit[35] , instructions for the transfer of the securities that are the subject of the exchange to the SKD (as both the transferors and the transferees).

Section 4

Maturity of Securities

Article 35
Repayment of Securities and Pay-Out of Yields on Securities

(1) The SKD arranges for the repayment of the securities recorded in the SKD, as well as for the pay-out of the yield on them, automatically on the day of their maturity or, if the maturity day falls on a day of a public holiday, on the nearest following business day.

(2) As at the maturity date of a security the SKD shall send the issuer a statement of the record of issues (Article 19). At the same time the SKD shall send the issuer a list of the liens recorded in the SKD with respect to the maturing securities as at the maturity date.

(3) The SKD shall issue to the CERTIS system a third party payment instruction to the debit of the cash account of the issuer's agent (Article 9(7)) and to the credit of the cash accounts of the clients or custodians in whose accounts the securities were recorded (Article 16(3)). If a lien has been established on the securities in an owner account in the SKD, the pay-out shall be executed into the cash account of the pledgee or rather the distrainee. If a lien has been established on the securities in an owner account in the linking-up records, the payout shall be executed into the cash account of the custodian who maintains the respective linking-up records.

(4) The amount due which is paid out for one piece of a security equals the value of the security at maturity recorded in the SKD (Article 19). The value of a security on maturity paid out to the client or the custodian is, in cases stipulated by a special legal regulation[48] decreased by the tax collected by the means of a special rate (withholding tax) or the securing of the tax in the amount as per the appropriate tax rates[49].

(5) In accordance with the relevant legal regulation, yields on bonds pursuant to the act governing bonds and income stemming from the right to redemption of bonds issued by the Czech Republic, another EU Member State or an EEA country shall be exempt from tax, which provision shall apply to both natural and legal persons[50]. In these cases, the procedure specified in items (6) to (10) shall not be applied.

(6) In the case of bonds which are not exempt from tax pursuant to paragraph (5), the client or the custodian, if he claims benefits ensuing from the appropriate double-tax treaty, or benefits ensuing from the fact that he is a tax resident of an EU Member State or EEA country and where tax security should otherwise be withheld, shall be obliged to submit, on the day preceding the maturity day of the issue, unless he agreed otherwise with the operator, the tax domicile in respect of each paid-out income and the statement of the foreign entity that it really is the owner of the income ensuing from the yields on the securities registered on the asset account in the SKD and a statement that this income is its income as per the tax legislation of the state whose tax resident the foreign entity is. If the client or the custodian fails to present to the operator the appropriate documents required for the provision of benefits ensuing from the respective double-tax treaty or tax residence in an EU Member State or EEA country and if he failed to agree otherwise with the operator, the value of the securities shall be, on the maturity day of the issue, decreased by the amount of tax or tax security as per the respective regulation[51,52].

[48] Article 36 (1)(c) act No. 586/1992 Coll., on Income Taxes, as amended
[49] Article 38e(1)(a) and Article 38e (2)(a) of Act No. 586/1992 Coll., on Income Taxes, as amended
[50] Article 4(1)(za) and Article 19(1)(i) of Act No. 586/1992 Coll., on Income Taxes, as amended
[51] Article 38e(1)(a) and Article 38e (2)(a) of Act No. 586/1992 Coll., on Income Taxes, as amended

(7) Where a withholding tax is to be applied and where the procedure referred to in (6) is not followed, the client or the custodian may apply the withholding tax rate pursuant to the relevant provision[53] for a foreign entity which is a tax resident in an EU country or the EEA or a third country with which the Czech Republic concluded a treaty to prevent double taxation or a treaty or agreement on the exchange of information in tax matters for the area of income tax, or a state which is a contractual party to a multilateral international treaty containing a provision regarding the exchange of tax information in the area of income tax also applicable to the Czech Republic (a contractual country). In this case, the client or the custodial shall be obliged to submit a statement made by the foreign entity proving its tax residence in the contractual country and a statement made by this entity that it is the real owner of the income from the yields on securities filed on the customs account in SKD and that this income is its income under tax law of the state of its tax residence, on the date preceding the maturity of the issue, unless agreed otherwise with the operator. If the client or the custodian fail to submit the respective documents to the operator and did not agree otherwise with the operator, the value of the securities shall be lowered by the tax under the respective legal regulation upon maturity of the issue[48,51]. The custodian is obliged to hand over to the operator, on the day preceding the day of maturity of the issue at the latest, the Statement on securities on the customer account (see the Participant's Manual).

(8) The SKD shall provide data pursuant to (6) to the issuer's agent on the maturity day of the issue.

(9) The issuer's agent shall ensure that the whole or a part of the withheld tax or withheld tax security is returned provided that the custodian or the client present to him the appropriate documents to apply the nil or lower tax rate after the maturity day of the issue, however, on the 22nd day of the month following the month in which the issue became mature at the latest;. The clients or customers of the custodian who have the right to be provided with benefits ensuing from the respective double-tax treaty and withholding tax, shall, after this deadline, ask directly the issuer to ensure that the whole or a part of the withheld tax is returned.

(10) At the end of the maturity day of a security the SKD shall delete the repaid securities from its records, as a result of which these securities shall cease to exist.

[52] See Participant's Manual for details

[53] Article 36 (1)(b) of Act No. 586/1992 Coll., on Income Taxes, as amended

Section 5

Irrevocability of Payment Instructions

Article 36
Non-Execution of Instructions and Cancellation of Instructions

(1) The operator shall not execute the participant's instruction, if it is at variance with these Rules, the contract on participation in the SKD or the contract on an asset account in the SKD. The operator will refuse the execution of the participant's instruction, if finds out that the instruction is at variance with the legal regulations.

(2) In the case of transactions that are not settled on the Delivery versus Payment principle, the moment of acceptance of an instruction for settlement means the moment at which the securities in the asset account are blocked for the purposes of a transfer[54].

(3) In the case of transactions that are settled on the Delivery versus Payment principle, the moment of acceptance of an instruction for settlement means the moment at which an instruction for payment is created and despatched to the CERTIS system[5644].

(4) A settlement instruction cannot be revoked from the moment of acceptance of such instruction[55].

(5) On the basis of a new instruction issued by the participant, the SKD shall cancel his previous instruction for transfer of a security or any other transaction with the security, provided that, with respect to the previous instruction, the moment pursuant to (2) or (3) has not occurred yet.

(6) A cancelled instruction shall be regarded as invalid from the very beginning.

(7) On the basis of a written request submitted by the agent organising an auction, the operator may, not later than one business day before the day of issue of the securities, cancel the issuer's notification on the distribution of securities of the given issue among the individual participants in the auction (Article 30) (hereinafter only the "cancellation of the results of an auction"). The operator of the point of auction may submit such request, provided that an error has occurred in the processing of the orders due to:

a) an omission or an error of the issuer (Article 56),
b) an omission or an error during auction (Article 55),
c) technical failure (Article 57).

(8) In the cases pursuant to (7)(a) and (b) the operator shall execute the cancellation of the results of an auction only provided that such cancellation does not entail excessive technical difficulties. The agent organising an auction shall be always entitled to cancel the results of an auction pursuant to (7) (c). Liability for any damages arising due to the cancellation of the results of an auction shall be borne by the person who caused such damages.

(9) In the event of cancellation of the results of an auction pursuant to (6) and (7), the agent may conduct an auction again one business day before the day of issue of the securities at the latest.

[54] Article 85(2)(k) of the Act No. 256/2004 Coll., on Undertaking on the Capital Market, as amended
[55] Article 85(2)(l) of the Act No. 256/2004 Coll., on Undertaking on the Capital Market , as amended

Article 37
Check Sums and Protection of Participants' Securities

(1) At the end of the stipulated period of an accounting day a check is performed during which there is a comparison between the previous daily end balance of individual issues of securities and all settlements of individual issues processed during the day and the current daily final balance of individual issues of securities on securities accounts. Any inconsistencies or discrepancies resulting from the matching process are analysed and an attempt is made to resolve them before starting settlement of the subsequent business day. If this problem cannot be resolved by the start of the next business day, the operator will suspend the settlement of an issue of securities until the problem is remedied. If settlement is suspended, the operator informs its participants and all entities involved in the settlement process of this without delay. The operator informs its participants without undue delay after this problem is remedied.

(2) Overdrawing of a securities asset account or debit balances on a securities asset account is not permitted.

(3) In the SKD it is possible, at any time, to immediately distinguish on asset accounts the securities of one owner or custodian from securities of another owner of custodian. On a customer account there are accounts that enable the custodian to hold on one asset account securities that belong to various customers of the relevant custodian ("aggregate division of customers"). The custodian offers its customers a choice between aggregate division of customers and division of individual customers; in the event of the division of individual customers, securities of individual customers are entered on individual customer asset accounts.

Part Five
Other Operations in the SKD

Section 1
Lien on Securities

Article 38
Contractual Lien on Securities

Contractual lien on securities / on account shall be established on the basis of the following:

a) a contract on the establishment of a lien concluded by the pledgee and the distrainee or the pledgor, as per Act No. 89/2012 Coll., the Civil Code, as amended (“hereinafter only the “Civil Code”),
b) arranging of a financial securing by the means of a lien between the provider and the recipient of the financial colatteral (hereinafter referred to only as the "provider", "recipient") as per a Act No. 408/2010 Coll., on Financial Securing, as amended by Act No. 303/2013 Coll., amending some acts in connection with re-enactment of private law.

Article 39
Establisment and Extinction of a Contractual Lien on Securities and on account of the securities

(1) A contractual lien on securities maintained in an owner account in the SKD[56] is established by entering this contractual lien on the basis of an instruction for registration pursuant to Article 20(2).

(2) A lien on the securities owner account[57] in the SKD shall be established upon entry of the lien based on a written notification to the operator. The operator may not transfer a pledged security recorded in linking-up records in an owner account to a new owner without the pledgee’s, or rather the recipient’s, consent.

(3) An instruction for registration of a contractual lien on securities as per Article 38(a) shall be sent to the operator by the pledgee, the distrainee or the pledgor in the prescribed manner[28] and within the stipulated time-limit[35]. The operator shall only accept the instruction if it is formally correct. If the instruction is filed by the pledgee or the pledgor, it must be substantiated by the establishment of a lien. When entering the lien on the securities owner account in the SKD, the procedure is analogous.

(4) An instruction for entering of a contractual lien as per Article 38(b) (hereinafter referred to also as the "financial securing") shall be sent to the operator by the recipient and the provider in the prescribed manner[28] and within the stipulated time-limit[35]. The operator shall only accept the instruction if it is formally correct. Special procedures concerning the financial securing are set out under Article 41.

(5) In the event that on the account of the owner – pledgor, or rather the provider, there is not, by the end of the accounting day when the lien is to be registered, a sufficient

[56] Article 1331 of the Act No. 89/2012 Coll., Civil Code, as amended
[57] Article 1333 of the Act No. 89/2012 Coll., Civil Code, as amended

quantity of disposable securities, the SKD shall postpone the entering of the contractual lien to the following accounting day, however, by the end of the accounting day preceding by one accounting day the maturity day of the pledged securities at the latest and then the instruction to entering the contractual lien is automatically cancelled. The pledgee, the pledgor and the distrainee or rather the recipient and the provider are informed about this fact by their agents. When entering the lien on the securities owner account in the SKD, the securities owner account shall be pledged regardless of the fact, whether any securities are registered on the account upon the entering of the contractual lien.

(6) In the event that on the account of the owner – pledgor, or rather the provider, there is a sufficient quantity of disposable securities, the SKD shall register the establishment of a contractual lien on securuties on the account of the owner – pledgor, or rather the provider, and the pledgee, the pledgor and the distrainee or rather the recipient and the provider, shall be informed about the entering of the contractual lien by their agents. The SKD shall create for the pledgor, or rather the provider, the statement of his owner account with the entering of the contractual lien and to the pledgee, or rather the recipient, the statement of his owner account with the information about the entering of the contractual lien for his benefit. If the pledgee or the distrainee, or rather the recipient, do not have an owner asset account in the SKD, they shall be informed by the operator in writing. When entering the lien on the securities owner account in the SKD, the securities owner account shall be pledged. The lien applies to all disposable securities registered on the owner's asset account when entering the contractual lien on the securities owner account in the SKD, as well as on the securities transferred to the pledged account of the owner of securities throughout the existence of the lien.

(7) Throughout the duration of the lien on a security, the pledgee may exert rights relating to the security to the extent agreed between the parties.

(8) An instruction for registration of the extinction of a contractual lien shall be sent to the operator by the pledgee, the distrainee or the pledgor, or rather the recipient or the provider in the prescribed manner[28] and within the stipulated time-limit[35]. If the instruction for registration of the extinction of a contractual lien is sent by the distrainee or the pledgor, or rather by the provider, he must present to the operator also a document proving that a fact occurred which is the reason for the extinction of the lien. A document as per the second sentence is especially a statement of the pledgee which may also have a form of an approving instruction of the pledgee, or rather the recipient, for the entering of the extinction of the contractual lien on the account of the owner – pledgor or rather the provider. This procedure shall, mutatis mutandis, be followed when entering the extinction of the lien on the securities owner account in the SKD on the basis of a written notification to the operator. If a security is transferred from the pledged account with the pledgee’s consent, the lien on the security shall also terminate upon the transfer. Special procedures concerning the extinction of the financial securing are set out under Article 41.

(9) The pledgee, the pledgor and the distrainee or rather the recipient and the provider are informed about the fact that the instruction for the entering of the extinction of the contractual lien was met by their agents. The SKD shall create for the pledgor, or rather the provider, the statement of his owner account with the entering of the contractual lien and to the pledgee, or rather the recipient, the statement of his owner account with the information about the entering of the extinction of the contractual lien entered for his benefit. If the pledgee or the distrainee, or rather the recipient, do not have an asset account in the SKD, they shall be informed by the operator in writing.

(10) A contractual lien on securities maintained in the SKD in a customer account is established by entering this contractual lien in the linking-up records maintained by the custodian in the owner accounts. The custodian is obliged to notify the operator of the

establishment and extinction of a lien on the securities he maintains in the linking-up records. The custodian shall give notice of the establishment or extinction of a contractual lien by means of an instruction for entering of the contractual lien or for entering of the extinction of a contractual lien. The custodian shall be responsible for this notification and for the accuracy of the data stated in it. The SKD shall not perform the entering of the establishment of the contractual lien if there is an insufficient number of disposable securities in the customer account, the procedure it applies in this respect is similar as per (5). The custodian shall be informed about the establishment or extinction of a contractual lien or of the fact that the entering was not performed by his agent.

(11) The custodian may not transfer a pledged security recorded in linking-up records in an owner account to a new owner without the pledgee's, or rather the recipient's, consent.

(12) Throughout the duration of a contractual lien on a security, the contractual lien shall also apply to any yields on the pledged security, unless the pledgee waived the right of the yields in favour of the distrainee[58].

(13) If the debt secured by a contractual lien on a security as per Article 38(a) is not repaid duly and in time, the pledgee is authorized to satisfy his claim in a manner agreed in writing with the distrainee or pledgor, or to use proceeds of the sale of the pledged securitites to this end[59]. The pledgee is obliged to inform the distrainee[60] of the intended sale in a written form in advance.

(14) If the material fact occurred, the recipient of the financial collateral is authorized to sell the pledged security or, if this was agreed, to keep it[61], or rather to exert rights related to the pledged security paragraph (16). Special procedures concerning the realization of the financial securing are set out under Article 41.

(15) When realizing a pledge through the sale of the pledged securities (paragraphs (13) and (14)) a combination of forced transfer (Article 48) and a sale for consideration (Article 32) is employed. The realization of the pledge by keeping the securities (paragraph (14)) is performed by the virtue of forced transfer. An instruction for the registration of a transfer by virtue of realization of a contractual lien shall have priority over the other transactions of the pledgor, or rather of the provider. The details are regulated in the Participant's Manual. The pledgee is obliged to inform the distrainee in writing about the sale of the pledge and the related costs[62].

(16) If a right for settlement is established in respect of a pledged security, the appropriate amount, including the yield on the security, is credited, as at the date of maturity, for the benefit of the pledgee or rather the recipient.

(17) If the pledgee or recipient is not a participant, a special procedure shall be used to enter the establishment and extinction of a contractual lien. Details are laid down in the Participant's Manual.

Article 40
Lien and Extinction of a Lien on Securities against Payment

(1) The procedure on entering a contractual lien tied to the pay-out of an amount of credit to the distrainee, or rather the provider, and on entering the extinction of a lien against

[58] Article 1332(2) of the Act No. 89/2012 Coll., Civil Code, as amended
[59] Article 1359 of the Act No. 89/2012 Coll., Civil Code, as amended
[60] Article 1362(1) of the Act No. 89/2012 Coll., Civil Code, as amended
[61] Articles 17 and 18 of Act No. 408/2010 Coll., on Financial Collateral, as amended
[62] Article 1369 of the Act No. 89/2012 Coll., Civil Code, as amended

payment is analogous to the procedure pursuant to Article 39, with the differences stated in the following paragraphs.

(2) A lien and the extinction of a lien against payment are accessible only to the SKD clients.

(3) The pledgor must be at the same time the distrainee.

(4) An instruction for entering a contractual lien as per Article 38(a) by proving the establishment of the lien, of the lien contract (Article 39(3) shall be issued to the operator by the pledgee. An instruction for entering a lien as per Article 38(b) shall be submitted to the operator by the recipient and the provider. A part of the instruction for entering the contractual lien is an order to pay the amount of the credit into the account of the pledgor or rather the provider.

(5) Upon verification that there are sufficient disposable securities to which the contractual lien applies in the pledgor's or rather provider's owner account, the respective number of securities in his owner account shall be blocked for the purposes of a lien and the SKD shall issue a third party payment instruction to the CERTIS system to the debit of the cash account of the pledgee's or rather recipient's agent (Article 9(7)) and to the credit of the cash account of the pledgor or rather the provider (Article 16(3)).

(6) Upon receiving a notice from the CERTIS system that the third party payment has been executed, the SKD shall execute the respective instruction for entering a contractual lien in the pledgor's or rather the provider's owner account.

(7) If on the day determined for the provision of a loan there is not, by the end of the accounting day of the CERTIS system, a sufficient quantity of disposable securities on the pledgor's or rather the provider's owner account, the SKD shall postpone entering the contractual lien to the following accounting day, however, by the end of the accounting day of the CERTIS system preceding by one accounting day the maturity day of the pledged securities at the latest and then the instruction to register the contractual lien is automatically cancelled. Both the pledgee and the pledgor or rather the recipient and the provider are informed about this fact by their agents.

(8) Unless stated otherwise in the contract on the establishment of a lien, the instruction for entering the extinction of a contractual lien arranged as per Article 38(a) against payment shall be issued to the operator jointly by the pledgee and the pledgor. An instruction for entering a contractual lien arranged as a financial securing shall be submitted to the operator by both the recipient and the provider. A part of the instruction is an order to pay the amount of the debt into the account of the pledgee or rather the recipient.

(9) If on the day stipulated for the extinction of the contractual lien there are not, by the end of the accounting day of the CERTIS system, sufficient funds in the cash account of the pledgor's or rather the provider's agent, the SKD shall not enter the extinction of the contractual lien. Both the pledgee and the pledgor or rather the recipient and the provider are informed about this fact by their agents.

Article 41
Special Procedures Concerning the Financial Securing as per Article 38 (b)

(1) If the recipient transfers pledged securities to a third party[63], he shall give the operator an instruction in writing to enterthe extinction of the contractual lien stating the number of the instruction of the original pledge which expires by the instruction and, at the same time, an instruction to perform the forced transfer of disposable securities from the account of the owner – provider to another asset account stating the number of the instruction of the original pledge. After the instructions are performed, the disposable securities are recorded on an asset account of the third party. When transferring part of the pledged securities, the procedure is analogous.

(2) If the recipient is authorized to further pledge the pledged securities[53], he shall give, in case of such a pledge of securities, the operator an instruction in writing to enter the extinction of the contractual lien stating the number of the instruction of the original pledge which expires by the instruction and, at the same time, an instruction to enter a new contractual lien. The new contractual lien may be established either based on a contract on the establishment of a lien concluded between the recipient and a third party as per Article 38(a) or based on an arranged financial securing as per Article 38(b). After the instructions are performed, the pledged securities remain to be on the owner account of the provider. To the registration of the new contractual lien and other procedures, the appropriate Article 40, Article 41. When pledging part of the pledged securities, the procedure is analogous.

(3) If the provider, based on the recipient's request, supplements the financial collateral provided within the financial securing[64], he shall give the operator an instruction in writing to enter the contractual lien in respect of other securities on his owner account stating the number of the instruction of the originally supplemented pledge. The volume of pledged securities is increased.

(4) If the provider asks the recipient to return part of the financial collateral[54] and the pledged securities are still recorded on the owner account of the provider, the recipient shall give the operator an instruction in writing to register the extinction of the contractual lien in respect of those securities that are affected by the returning of the part of the financial collateral. If the provider asks for a part of the financial collateral to be returned and the pledged securities are not recorded on the owner account of the provider (the recipient already dealt with them) both the recipient and the provider shall give an instruction in writing to register the transfer of the securities from the recipient's account to the provider's account. If there is an insufficient number of disposable securities on the recipient's account to perform the instruction for the registration of the transfer, the SKD proceeds as per Article 25(7). After the instruction is performed, the disposable securities transferred from the recipient's account are recorded on the provider's owner account.

(5) If the provider changes the pledged securities recorded on his owner account for other securities (financial collateral of comparable value)[54], the provider as well as the recipient shall give the operator an instruction in writing to enter the extinction of the contractual lien stating the number of the instruction of the original pledge which expires by the instruction and, at the same time, the provider as well as the recipient shall give an instruction to enter the contractual lien to the other securities stating the number of the instruction of the original pledge (financial collateral of comparable value). The SKD shall perform the instruction for entering the extinction of the contractual lien only in case that on the owner account of the provider there is a sufficient number of disposable securities to perform the instruction for the registration of the contractual lien in respect of other

[63] Article 11 of Act No. 408/2010 Coll., on Financial Collateral, as amended
[64] Article 14 of Act No. 408/2010 Coll., on Financial Collateral, as amended

securities (Article 43(5) through (6)). After the instructions are performed, the pledged securities are recorded on the owner account of the provider. In case that the provider replaces the pledged securities to the recipient with other assets outside the SKD, both the provider and the recipient give the operator an instruction in writing to enter the extinction of the contractual lien at the same time.

(6) If the recipient replaces to the provider, at the latest at the date of maturity of the secured receivable, the pledged securities[65], the recipient and the provider give the instruction to enter the transfer of the securities from the account of the recipient to the account of the provider and, at the same time, they give the instruction to register the contractual lien in respect of the transferred securities for the benefit of the recipient stating the number of instruction of the original pledge.

(7) When realizing the pledge, the recipient shall be obliged to hand over to the operator an affidavit in writing that a fact has occurred which authorises the recipient to exercise the right to use financial collateral to settle a claim[51], stating in what way he is going to deal with the pledged securities (Article 39(14)). If the recipient wants to sell the pledged securities, he shall give, simultaneously, to the operator an instruction in writing to enter the extinction of the contractual lien and an instruction to perform a forced transfer of securities from the owner account of the provider to another asset account stating the number of the instruction of the original pledge. After the instructions are performed, the disposable securities are recorded on an asset account of the third party, If the recipient wants to keep the pledged securities, he shall give, simultaneously, to the operator an instruction in writing to enter the extinction of the contractual lien and an instruction to perform a forced transfer of securities from the owner account of the provider to the asset account of the recipient stating the number of the instruction of the original pledge. After the instructions are performed, the disposable securities are recorded on the asset account of the recipient. If the recipient fails to proceed in either of the above ways, the recipient shall be entitled to exert the rights related to the pledged securities on their date of maturity (Article 39(16)).

Article 42
Establishment and Extinction of a Lien in Another Manner

(1) A lien on securities may be also established in another manner, for example on the basis of the decision of a court or an administrative authority issued under a special Act, or, as the case may be, directly by operation of law.

(2) An instruction for entering a lien as per (1) in writing shall be submitted to the operator by the respective authority. The instruction shall include, apart from the facts necessary for entering a lien (Article 20(2)), also the designation of the respective authority which issued the decision and the date of establishment of the lien. The decision of the respective authority shall be attached to the instruction. The SKD shall enter the establishment of the lien into the asset account as at the date stated in the decision of the respective authority.

(3) An instruction for entering the extinction of a lien as per (1) shall be submitted by the respective authority that decided on the application of the lien. The decision of this authority shall be attached to the instruction. The SKD shall enter the extinction of the lien into the asset account as at the date stated in the decision of the respective authority.

[65] Article 13 of Act No. 408/2010 Coll., on Financial Collateral, as amended

(4) The provisions of (5) through (16) of Article 39 shall apply, *mutatis mutandis*, for a lien pursuant to (1) with the proviso that the operator shall notify of the facts mentioned in these provisions also the respective authority that decided on the establishment or extinction of the lien.

Section 2

Intraday Credit

Article 43
Provision and Repayment of Intraday Credit

(1) The CNB, through the SKD, may extend an intraday credit to the SKD clients in compliance with the concluded Frame Agreement on Provision of Intraday Credit for the purposes of a fluent settlement of transactions within the CERTIS system[66].

(2) The intraday credit may be provided at any time from the opening of the SKD accounting day to the closing of the accounting day of the CERTIS system[35] based on an instruction for extending the intraday credit entered by the client. Provisions of Article 39 through 41 do not apply to procedures related to the securing of the intraday credit.

(3) The intraday credit may be increased (or decreased) at any time from the opening of the SKD accounting day to the commencement of the closing of the accounting day of the CERTIS system[37] based on an instruction to increase (or decrease) the intraday credit.

(4) The intraday credit may be repaid based on an instruction for repayment of the intraday credit entered by the client at any time in the course of the SKD accounting day, however, at the latest till the commencement of the closing of the accounting day of the CERTIS system[35], other than that, based on the procedure as per (9).

(5) In the instruction for the provision (or an increase) of the intraday credit and in the instruction for the repayment (or a decrease) of the intraday credit, the client shall state the number of the owner account, the appellation of the issue and the nominal volume of securities provided as a financial collateral. Based on the above information, the CNB shall determine the value of the intraday credit.

(6) The market value of a security provided as a financial collateral shall be determined for the purposes of the calculation of the extended intraday credit as the last known average daily price of transactions made with such a security on an SKD accounting day preceding the accounting day on which the SKD system received the instruction to extend the intraday credit. If on such an SKD accounting day no transactions were made with the security, the price shall be determined based on a linear interpolation between the value of the security when issued and when mature.

(7) In the instruction for the provision (or an increase) of the intraday credit and in the instruction for the repayment (or a decrease) of the intraday credit, the client shall state the number of the owner account, the appellation of the issue and the nominal volume of securities provided as a financial collateral. As a follow-up, the SKD shall issue to the CERTIS system a third party payment instruction to the debit of the cash account of the CNB and to the credit of the cash account of the client in the value of the extended intraday credit and, at the same time, it shall enter the contractual lien in respect of the securities on the client account of the owner specified in the instruction. If, by the end of the CERTIS system accounting day, there are not securities on the client account in the volume set out in the client's instruction, the SKD shall automatically cancel the instruction for extending

[66] Official Information of the Czech National Bank of 29 July 2011 on the manner of performing operations of the Czech National Bank on the domestic monetary market published in the CNB Bulletin, chapter 9/2011

(or increasing) the intraday credit and shall not provide the client with the intraday credit. The SKD shall inform the client about this fact by the means of his agent.

(8) After having received the instruction for repayment (or decreasing) the intraday credit, the SKD shall issue to the CERTIS system a third party payment instruction to the debit of the cash account of the client and to the credit of the cash account of the CNB and, at the same time, it shall enter the extinction of the contractual lien in respect of the respective securities on the client's owner account.

(9) Unless the client repays the intraday credit based on an instruction for repayment of the intraday credit, the SKD shall perform, when closing the accounting day of the CERTIS system, an automatic repayment of the loan to the debit of the cash account of the client in the CERTIS system and to the credit of the cash account of the CNB and, at the same time, it shall enter the extinction of the contractual lien in respect of the securities on the client's owner account corresponding to the repaid part of the intraday credit. When repaying the intraday credit as per this paragraph, the SKD shall enter of the extinction of the contractual lien in respect of the securities preferentially in securities with a longer period remaining until their maturity.

(10) In the event that the balance of the client’s funds in his cash account in the CERTIS system is not sufficient to repay the intraday credit in full as per (9), the procedure shall be in compliance with the Frame Agreement on Provision of Intraday Credit concluded between the CNB and the client. The SKD shall transfer the appropriate number of securities corresponding, by their value, to the unpaid part of the intraday credit to the cash account of the CNB.

Section 3

Blocking

Article 44
Establishment and Extinction of the Blocking

(1) The blocking means the suspension of the right of disposal with respect to a security, or an asset account[67], on the basis of the execution of the respective entry in the records of the SKD.

(2) Within the SKD, it is possible to establish the blocking as

a) the blocking of a security,
b) the blocking of an asset account,
c) the blocking of an issue.

(3) The blocking is established on the basis of an instruction for the registration of the blocking (Article 20(4) and (5)).

(4) The blocking becomes extinct by an entry in the records of the SKD. The SKD shall make the entry upon the extinction of the period for which the blocking was established or on the basis of an instruction of a person who can prove his authorization to cancel the blocking[68].

Article 45
Blocking of Securities

(1) Blocked securities cannot be transferred, except in the case of forced transfer (Article 48), nor can they be the subject of a contractual lien (Articles 40, 41 and 42).

(2) An instruction for the blocking of securities may be issued by

a) the holder of the asset account,
b) the operator in accordance with the Rules,
c) any other authorized person under the law[69].

Article 46
Blocking of an Asset Account

(1) When an asset account is blocked, it is not possible to transfer securities from it or into it.

(2) An instruction for the blocking of an asset account may be issued by

a) the holder of the asset account,
b) the operator in accordance with the Rules,
c) any other authorized person under the law[69].

[67] In particular Article 97(1) of the Act No. 256/2004 Coll., on Undertaking on the Capital Market, as amended
[68] Article 97(3) and (4) of the Act No. 256/2004 Coll., Undertaking on the Capital Market, as amended
[69] Article 98(1) of the Act No. 256/2004 Coll., Undertaking on the Capital Market, as amended

Article 47
Blocking of an Issue

(1) The blocking of an issue means blocking of all securities of the given issue. The SKD shall make an entry to this effect on the basis of an instruction for the registration of the blocking of an issue.

(2) Securities of the blocked issue cannot be transferred, except in the case of forced transfer (Article 48), nor can they be the subject of a contractual lien (Articles 40, 41 and 42).

(3) The operator shall execute the blocking of an issue

a) on the basis of a written request of the issuer, if such possibility is stated in the prospect or in issue conditions[29] of the respective issue[70],

b) at its own instigation in accordance with the Rules,

c) on the basis of a written request of any other authorized person under the law[59].

[70] E.g. if the issue is transferable only until a certain time-limit before its maturity on the grounds of creating the conditions for the refund of withholding tax.

Section 4

Forced Transfer

Article 48
Forced Transfer of Securities

(1) If, in accordance with the Rules, the operator is authorized to execute a transfer of securities from one asset account to another asset account, it shall use an instruction for forced transfer.

(2) Forced transfer is a transfer of securities without consideration with the proviso, that the instruction for forced transfer has priority over any other instructions.

Part Six
Risk and Exceptional Circumstances

Article 49
Rules and Instruments for Risk Treatment

(1) The SKD is a settlement system with settlement finality that is part of the CNB. The system for managing and administering the SKD is included in the hierarchical structure of the CNB, which is publicly available[71]. The basic internal regulation that defines the organisational arrangement of the CNB, determines and sets out the principles for the CNB's internal management and control system, defines the levels of management and powers of CNB managerial employees, defines the powers of organisational units of the CNB, the principles of co-operation and mutual communication between them is the CNB Organisational Rules. The Organisational Rules and amendments thereto are approved by the banking board. The CNB Organisational Rules are the CNB's base internal regulation and a binding initial document for the preparation of internal regulations and managerial acts of the CNB.

(2) Risk management is generally regulated by Article 11 of the Organisational Statute, which establishes three lines of defence against risk materialisation. The organisational framework for the management of assets and asset risks in the IS/IT area is documented in CNB guidelines No. 32/2019 laying down security policy in the area of the CNB's information systems and information technology, CNB guidelines No. 80/2020 for the management of operational risk at the CNB and the related methodological sheets. Operational risks are examined and updated at least once a year on the basis of, among other things, the Overview of control measures implemented by the Information Systems Department for IS SKD.

(3) The SKD is exposed to systemic risk, operational risk, liquidity risk, credit risk, financial risk, risk of human error and systematic risk.

(4) Security measures to reduce operational risk are taken and documentation of them is drafted within the CNB's security, which also applies to the SKD. This means, in particular, security of premises, the separation of locations of the main and back-up information systems, their interconnectedness for real-time system and data updates, the operation based on reliable technologies, a duplicate data storage on disc media, availability of substitute energy sources, developing and testing a business continuity plan, testing sufficient capacity for processing all settlements, substitutability of key staff and, last but not least, the security measures include mechanisms that are to uncover cyber-attacks and prevent them. Other specific security measures include e.g. a limited group of staff employees and their access to the room of the main and back-up facility, a regular data-archiving system, repeated audit of the system, checks of rights of access to the system, direct checks of system data by system participants, electronic checks of input data, audit trails for data, check sums of the systems. The tools for limiting risk also include, for example, the four-eyes principle during a change of data for operations concerning the money accounts, sending informative e-mails about the making of a change, logging the process of transaction processing and logging user activities, monitoring activities.

[71] www.cnb.cz

(5) Since the SKD does not provide the participants with loans, it is not exposed to credit risk. Intraday loans are provided to banks upon blocking securities on securities accounts for the purpose of intraday loans; securities are used as collateral in the provision of intraday loans (Article 43).

(6) Settlement risk and liquidity risk are reduced by stipulating the rights and obligations of participants in the Rules[72]. Risk is further reduced by the Real-Time Gross Settlement Model and the DVP settlement principle which provides for inseparable settlement of securities and the related financial transfer. The definition of settlement finality and separate accounting for funds and investment instruments also reduces the above risk.

(7) The participation principle of the settlement system contributes to the reduction of systemic risk. Appropriate conditions are set for participation in the settlement system with settlement finality based on a statutory determination of possible participants[72]. Compliance with this principle and requirements specified by the Rules, including technical and disclosure duties, reduces systemic risk.

(8) The SKD, as a part of the CNB, is subject to an external audit every year. In the CNB it is subject to internal audit. Output from audit reports is documented and serves as one of the sources for the adoption of additional measures in the risk management system. Output from external audit reports is publicly available[71]. The conclusions of an audit are handed over to the users' committee (Article 50), if necessary[73].

Article 50
Users' Committee

(1) For the purpose of discussing users' needs, a users' committee is established in the SKD. Every agent or issuer that is not an agent appoints one member of the users' committee to the committee, unless it waives this right. The mandate of the users' committee, the system for managing it and its organisational procedures are publicly available at the CNB website[74]. The users' committee holds regular meetings and submits reports to the SKD's management.

(2) The users' committee provides opinions on fundamental measures that have an impact on users. The users' committee can submit a non-binding opinion containing detailed reasoning concerning the SKD's price structure.

(3) Members of the users' committee are bound by confidentiality, without this affecting the right of their managerial employees to be fully informed. If the chairman of the users' committee determines that in the case of a member there is an actual or potential conflict of interests, the member cannot vote on the matter in question.

Article 51
Emergency Plan and Operation Recovery Plan

[72] Conditions for participation are specified in the form "Application for Participation in the SKD".
[73] The conclusions of an audit are handed over to the users' committee in the cases specified in Article 52 of Commission Delegated Regulation (EU) 2017/392 of 11 November 2016 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on authorisation, supervisory and operational requirements for central securities depositories (hereinafter only "Commission Regulation (EU) 2017/392").
[74] www.cnb.cz/financni_trhy

(1) A strategy for ensuring the continuity of operations is created in the SKD and the basis is the emergency plan, which stipulates the procedure for recovering the SKD's operations in case of emergency, the continuity of the most important operations in catastrophic scenarios, including natural disasters, pandemics, physical attacks, undesirable interference from outside, terrorist attacks or cyber-attacks. The procedure for recovering operations after an emergency identifies, includes and determines the most appropriate strategies for recovery for the most important operations and recovering the most important operations. It ensures that the back-up systems commence processing without undue delay.

(2) The procedure for recovering operations defines a secondary place of processing with sufficient resources, capacities, functionalities and personnel that are suitable from the viewpoint of the SKD's operational needs and the risks it faces, with the aim of ensuring the continuity of the most important operations in the event the main place of processing is not in operation.

(3) The emergency plan is regularly tested in accordance with the importance variants for the assumed possible emergency circumstances with the full participation of users. Records of testing are made and, based on them, the relevant measures are taken to improve continuity of the SKD's operations.

Article 52
Cyber security occurrences and cyber security incidents

(1) The SKD shall proceed according to the Act on Cyber Security, which defines cyber security occurrences and cyber security incidents.

(2) A "cyber security occurrence" is an occurrence which may cause a breach of information security in information systems or a breach of services security or security and integrity of electronic communications networks[75].

(3) A "cyber security incident" is a breach of information security in information systems or a breach of services security or security and integrity of electronic communications networks due to a cyber security occurrence[76].

(4) SKD participants shall be obliged to detect any cyber security occurrences or incidents relating to the workstation and networks to which it is connected, and authentication of information for SKD. Further procedure shall follow Article 3 of Appendix No. 2 to the Rules.

Article 53
Corrections in the Record of Securities

(1) Errors in the SKD may arise as a result of an error in the SKD, an error during auction, an error caused by the participant or a technical fault.

(2) The operator shall correct an error in the SKD records:

a) on the basis of an objection of the authorized person[77] (i.e. on the basis of an objection of the account holder, the agent or the issuer which it acknowledges to be justified),

b) at its own instigation, if it detects an error or incompleteness in records,

c) on the basis of a legitimate decision of a court or any other authority,

d) on the basis of a correction made in the linking-up records,

[75] Article 7(1) of Act No. 181/2014 Coll., on Cyber Security, as amended

[76] Article 7(2) of Act No.181/2014 Coll., on Cyber Security, as amedned

[77] Article 98(1) of the Act No. 256/2004 Coll., on Undertaking on the Capital Market, as amended

e) on the basis of other facts occurring outside the SKD[78].

(3) The liability of the participants and the operator for damages caused under the legal regulations is not affected by these Rules.

(4) The correction shall be made as at the day at which the error arose in the records, unless it follows otherwise from the law or from a decision of a court or any other authority. If it is not possible to specify this day, the correction of the error shall be made as at the day at which the error was detected[79].

(5) The operator shall maintain documentation on the corrected errors.

(6) The operator shall send all clients or custodians, in whose asset accounts it has executed any corrections or completion of data, a statement or their asset accounts without undue delay, after the correction or completion of data was executed.

Article 54
Error in the SKD

An error in the SKD means an error in the processing of an instruction, an error in maintaining the client's or custodian's asset account, an error in the records or any other action or omission on the part of the employees of the operator which infringes the rights of the participants.

Article 55
Error during Auction

An error during auction means incorrect processing of the participant's order or any other act or omission on the part of an employee of the agent organising an auction which has infringed the rights of the participants.

Article 56
Error Caused by the Participant

(1) An error caused by the participant means a breach of his obligations ensuing from the Rules, from his contract on participation in the SKD, from his contract on an asset account in the SKD or from his contract on access via the CNB's communication gateway.

(2) An error under (1) is in particular:

a) non-fulfilment of the participant's obligations towards the other participants,

b) repeated non-compliance with the time-limits and procedures stipulated in the Appendix to the Rules No. 4 - Periods and Time-Limits for the Execution of Transacions in the SKD and in the Participant's Manual,

c) non-payment of the agreed-upon fees.

(3) Each participant is obliged to inform the operator without undue delay of any error under (1).

[78] E.g. natural disasters, the threat of bomb attack, etc.

[79] Article 98(2) of the Act No. 256/2004 Coll., on Undertaking on the Capital Market, as amended

Article 57
Technical Fault

(1) A technical fault means a fault in the hardware or software equipment of the SKD which reduces or makes impossible the communication between the agents' offices and the SKD.

(2) A technical fault may occur in the SKD or in the agent's office or in their mutual connection.

(3) In the event of a technical fault under (1) the employee of the operator or of the agent's office (hereinafter only the "user of the technical facility") shall find out whether his office is functioning and whether the fault has not occurred in his office.

(4) In the event of a fault in the agent's office or in communication the agent may ask the operator for the possibility to send instructions for the registration of transfers in writing.

(5) When sending written instructions for the registration of transfers, the agent shall use the forms published in the Participant's Manual.

Article 58
Objections Entered by the Participants

(1) A participant who detects an error in the SKD (Article 54) shall notify the operator of this fact in writing (hereinafter only the "objection"). The objection may be also entered on behalf of the client by his agent.

(2) The objection must be signed by the participant's (agent's) employee whose specimen signature is at the disposal of the operator.

(3) The operator is obliged to send the participant (agent) who has entered an objection within five business days of its receipt written information on its resolution.

(4) If the objection is unjustified, the operator shall state the reason for its rejection and, if possible, also the real cause of the event which is the subject of the objection.

(5) If the objection is justified, the operator shall communicate the manner of resolution of the objection[80].

(6) The participant shall proceed in a similar manner in the case of an error during auction (Article 55) with the proviso, that the above-mentioned obligations of the operator shall be the obligations of the agent organising the auction.

(7) If the participant does not agree with the manner in which the objection has been resolved (paragraph (3)), he may send the CNB[51] a written complaint. The CNB is obliged to investigate the complaint and to inform the participant of the result of this investigation and of its conclusions in the given matter within 1 month of the receipt of the complaint. If the objection is justified, it shall also inform the participant of the measures adopted to improve the SKD.

[80] Article 4(2)(e) of the Rules

Article 59
Blocking of an Asset Account on a Change of the Agent

(1) In the event of termination of the agent's participation in the SKD, the client or custodian for whom this agent ensures access to his asset account, is obliged to notify the operator in writing of a change of the agent (Appendix No. 4 of the Rules, Article 4).

(2) Until the client or custodian has submitted the notification pursuant to (1), the operator shall be authorized to block the client's or custodian's asset account (Article 46) and to keep it blocked until the time when the change of the agent is entered into the asset account.

Article 60
Penalty

(1) If an error caused by the participant (Articles 55, Article 56) has resulted from a gross breach of his obligations ensuing from these Rules, his contract on participation in the SKD or his contract on an owner account of the securities in book-entry form in the SKD, or if such error is caused repeatedly, the CNB as the operator of the SKD may restrict or withdraw such participant's authorizations ensuing from his contract on participation in the SKD or, as the case may be, repudiate the contract or withdraw from the contract.

(2) The participant shall be informed of the restriction or withdrawal of his authorizations as a result of sanctions in writing. This information shall comprise the time-limit, after the extinction of which the restriction or cancellation of the participant's rights becomes effective, giving the exact date from which the participant's rights shall be restricted or withdrawn.

(3) In cases other than those under (4) and (5) the time-limit under (1) may not be shorter than

a) 3 business days for the authorization to issue securities or the authorization to purchase securities on the primary or secondary market,

b) 1 week for the authorization to organise auctions,

c) 2 weeks for the authorization to sell on the secondary market,

d) 1 month for the authorization to provide the agent's services.

(4) If it is necessary from the point of view of the security of the SKD, the CNB as the operator of the SKD may restrict the participant's authorizations with immediate effect. If it does so, it is obliged to inform the participant of this fact not later than on the next business day.

(5) In the event of a particularly gross breach of the obligations of the participant, the CNB as the operator of the SKD shall have the right to withdraw his authorizations with immediate effect and block his access to his asset account or accounts (Article 46).

(6) The CNB as the operator of the SKD and the SKD participants shall endeavour to correct errors swiftly and to settle any disputes amicably. Where agreement cannot be reached, disputes shall be referred to a competent court of the Czech Republic.

Part Seven
Fees for Services

Article 61
Payment of Fees

(1) The operator is entitled to charge fees for the services provided to the participants. The participants are obliged to pay their service fees duly and in time.

(2) The amount of the fees for services under (1), the manner of their payment and the time-limits for their payment are stipulated by the valid CNB's Schedule of Charges for Financial and Business Services (part VI. Short-Term Bond System), which is available on the CNB webiste https://www.cnb.cz/en/financial-markets/skd/rules-of-the-short-term-bonds-system-skd, its change is announced to the participants by the CNB at least two months before the start of the effect of the change.

Part Eight
Final Provisions

Article 62
Changes in the SKD

(1) A change in the Rules or their appendixes shall become effective upon their publication, unless a later date is specified by the CNB.

(2) The participants shall be informed in writing of any change in the Rules, their appendices or in the Participant's Manual under (1) and at the same time shall be given an appropriate period in which they shall have to adapt their activity to the change in the SKD or may express their disagreement with the change and repudiate the contract on participation in the SKD or the contract on an asset account in the SKD. If the participants do not express an opinion within the appropriate period, the CNB shall consider this to mean agreement with the change in the stipulated period. In case of disagreement with any change in the Rules, the CNB shall be entitled to repudiate the contract on participation in the SKD or the contract on an asset account in the SKD as of the date of effect of the change.

(3) Information about any changes in the Rules, their appendices and their updating wording are published on the CNB website.

Article 63
Participant's Manual

(1) The Participants' Manual[11] is a set of methodological instructions and directions which also regulates the working procedures relating to the operation of the SKD and participation in the SKD.

(2) The Participants' Manual is intended for all participants.

Article 64
User Manual

(1) The CNB as the operator of the SKD issues a User Manual in the form of user documentation. This is a set of directions for operating the application software of the SKD service and the agent's office.

(2) The User Manual for Service is intended for the SKD service.

(3) The User Manual for the Agent is intended for the agents.

Article 65
Forms

Instructions and applications relating to the functioning and contractual relations in the SKD shall be submitted using the forms which are available on the CNB website[81].

[81] https://www.cnb.cz/en/financial-markets/skd/forms

Article 66
Final Provision

The Rules are to be observed from 1 July 2024 onwards.

Czech National Bank
Na Příkopě 28
Praha 1
Company ID Number 48136450

Basic Terms

Term	Definitions	Reference
Securities	Securities in book-entry form	Article 1 (1)
Linking-up records	Records linking-up with the central records kept by the CNB	Article 3 (2)
CERTIS	Czech Express Real Time Interbank Gross Settlement	Article 5
Participants	Persons with whom the CNB has concluded a contract on participation in the SKD or a contract on an asset account in the SKD	Article 8 (1)
Agent	Person authorized on the basis of a contract on participation in the SKD to arrange for other participants – custodians and clients – electronic access to their asset accounts in the SKD and to obtain information relating to such accounts from the SKD	Article 9 (1)
Interbank payment account	Interbank payment account maintained with the CNB	Article 9 (7)
Agent's bank	Bank which maintains the agent's interbank payment account	Article 9 (7)
Agent's cash account	Interbank payment account or an account maintained with the agent's bank	Article 9 (7)
Custodian	Legal entity with which the CNB has concluded a contract on a client account in the SKD	Article 10 (1)
Client	Legal entity or natural person with which the CNB has concluded a contract on an owner account in the SKD	Article 11 (1)
issue	issue securities	Article 11 (3)
Asset account	Owner account or customer account	Article 16 (1)
Cash account	Account maintained by a bank which has an interbank payment account	Article 16 (3)
Customer account	Account in which, in the SKD, securities which their owners entrusted to the account holder are maintained	Article 17 (2)
Owner account	Account in which, in the SKD, securities which are in the ownership of the account holder are maintained	Article 18
Instructions to register a transfer	Instructions to register a transfer of securities in asset accounts or, as the case may be, to pay the agreed-upon purchase price	Article 20 (1)
Transferor	Custodian or client to whose asset account the securities are debited	Article 24 (3)
Transferee	Custodian or client to whose asset account the securities are credited	Article 24 (4)
Clearing	Payment of the agreed-upon purchase price by the transferee's agent to the seller or to the seller's custodian	Article 26
Transfer of securities	Transfer of securities from the transferor's asset account to the transferee's asset account	Article 28
CNB cash account	cash account assigned to the CNB asset account	Article 43 (7)