Questions by key consideration for the principles for FMIs

Principle 1: Legal basis

An FMI should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.

As a robust legal basis for an FMI’s activities in all relevant jurisdictions is critical to an FMI’s overall soundness, this principle should be reviewed holistically with the other principles.

Key consideration 1: The legal basis should provide a high degree of certainty for each material aspect of an FMI’s activities in all relevant jurisdictions.

Material aspects and relevant jurisdictions

Q.1.1.1: What are the material aspects of the FMI’s activities that require a high degree of legal certainty (for example, rights and interests in financial instruments; settlement finality; netting; interoperability; immobilisation and dematerialisation of securities; arrangements for DvP, PvP or DvD; collateral arrangements (including margin arrangements); and default procedures)?

The NCDCP requires a high degree of legal certainty in all the activities that it performs, including settlement finality, arrangements for DvP, PvP and DvD, collateral arrangements and the immobilisation and dematerialisation of securities.

Q.1.1.2: What are the relevant jurisdictions for each material aspect of the FMI’s activities?

The relevant jurisdiction for each material aspect of NCDCP’s activities is established by the Act No 566/2001 on Securities, Act No 513/1991, the Commercial Code, Act No 530/1990 on bonds, Act No 297/2008 the anti-money laundering act, Regulation No 909/2014 on central securities depositories and related legislation.

Legal basis for each material aspect

Q.1.1.3: How does the FMI ensure that its legal basis (that is, the legal framework and the FMI’s rules, procedures and contracts) provides a high degree of legal certainty for each material aspect of the FMI’s activities in all relevant jurisdictions?

NCDCP’s guarantee of high quality in the services it provides comes from its employees, who are pro-client oriented professionals in the fields of finance and commerce. NCDCP cooperates with independent legal experts/advisors in the preparation of its rules and contracts. NCDCP is actively involved in the development of legislation, both in reviewing the proposals of other actors and presenting its own proposals. NCDCP’s basic rules are the Operational Rules. The Slovak central bank – NBS performs supervision of NCDCP’s activities.

a) For an FMI that is a CSD, how does the CSD ensure that its legal basis supports the immobilisation or dematerialisation of securities and the transfer of securities by book entry?

The form of securities is regulated by the Act on Securities and NCDCP’s Operational Rules. Since the capital market was established in the Slovak Republic, it has been obligatory to hold securities in book-entry form and therefore immobilisation and
dematerialisation operations are not used in the Slovak Republic. The depository provides immobilisation of documentary securities under a contract on collective custody of documentary securities concluded with the issuer.

b) For an FMI that is a CCP, how does the CCP ensure that its legal basis enables it to act as a CCP, including the legal basis for novation, open offer or other similar legal device? Does the CCP state whether novation, open offer or other similar legal device can be revoked or modified? If yes, in which circumstances?

NCDCP does not function as a CCP.

c) For an FMI that is a TR, how does the TR ensure that its legal basis protects the records it maintains? How does the legal basis define the rights of relevant stakeholders with respect to access, confidentiality and disclosure of data?

NCDCP does not function as a TR.

d) For an FMI that has a netting arrangement, how does the FMI ensure that its legal basis supports the enforceability of that arrangement?

NCDCP does not provide a “netting” arrangement. Monetary liabilities are calculated on a gross basis. Calculation on a gross basis means that the amount of each participant’s monetary liabilities and receivables for each transaction or order for settlement are calculated separately.

e) Where settlement finality occurs in an FMI, how does the FMI ensure that its legal basis supports the finality of transactions, including those of an insolvent participant? Does the legal basis for the external settlement mechanisms the FMI uses, such as funds transfer or securities transfer systems, also support this finality?

The legal basis for finality is laid down by Article 107a of the Act on Securities and Article 75 of NCDCP’s Operational Rules.

Key consideration 2: An FMI should have rules, procedures, and contracts that are clear, understandable, and consistent with relevant laws and regulations.

Q.1.2.1: How has the FMI demonstrated that its rules, procedures and contracts are clear and understandable?

NCDCP’s Operational Rules and its other rules, procedures and contracts are formulated clearly, briefly, comprehensibly and are approved by the advisory committee for members. The advisory committee is made up of members of NCDCP and other specialists in the area of financial markets. NCDCP is prepared to provide consultation on anything that is unclear or incomprehensible.

Q.1.2.2: How does the FMI ensure that its rules, procedures and contracts are consistent with relevant laws and regulations (for example, through legal opinions or analyses)? Have any inconsistencies been identified and remedied? Are the FMI’s rules, procedures and contracts reviewed or assessed by external authorities or entities?

Lawyers from NCDCP and independent, external legal advisors are actively involved in the drafting of rules, procedures and contracts. If necessary, NCDCP requests guidance from NBS.

Q.1.2.3: Do the FMI’s rules, procedures and contracts have to be approved before coming into effect? If so, by whom and how?
NCDCP's Operational Rules and its other rules, procedures and contracts are approved before coming into effect by lawyers from NCDCP and independent, external legal advisors. Operational Rules, its other rules and procedures are consulted by the advisory committee. Final approval of all changes of rules, procedures and contracts is made by NCDCP board of directors.

Key consideration 3: An FMI should be able to articulate the legal basis for its activities to relevant authorities, participants, and, where relevant, participants’ customers, in a clear and understandable way.

Q.1.3.1: How does the FMI articulate the legal basis for its activities to relevant authorities, participants and, where relevant, participants’ customers?

NCDCP’s Operational Rules and any amendments to them are consulted with the advisory committee, which includes representatives of the membership of NCDCP, representatives of NCDCP, representatives of associations and other financial market and capital market professionals. NCDCP’s Operational Rules and any amendments to them are approved by the Board of Directors of NCDCP.

Key consideration 4: An FMI should have rules, procedures, and contracts that are enforceable in all relevant jurisdictions. There should be a high degree of certainty that actions taken by the FMI under such rules and procedures will not be voided, reversed, or subject to stays.

Enforceability of rules, procedures and contracts

Q.1.4.1: How does the FMI achieve a high level of confidence that the rules, procedures and contracts related to its operations are enforceable in all relevant jurisdictions identified in key consideration 1 (for example, through legal opinions and analyses)?

NCDCP is subject to Slovak and EU law. Where necessary, NCDCP obtains legal analyses, opinions and methodological guidance and the legal advice of state bodies such as NBS.

Degree of certainty for rules and procedures

Q.1.4.2: How does the FMI achieve a high degree of certainty that its rules, procedures and contracts will not be voided, reversed or subject to stays? Are there any circumstances in which an FMI’s actions under its rules, procedures or contracts could be voided, reversed or subject to stays? If so, what are those circumstances?

A high degree of certainty for rules procedures and contracts is guaranteed by legislation and can be enforced directly based on legislation. In the Slovak Republic, contracts can be voided only by a court in the event of litigation. NCDCP’s rules and procedures could be voided by the supervisory body – NBS.

Q.1.4.3: Has a court in any relevant jurisdiction ever held any of the FMI’s relevant activities or arrangements under its rules and procedures to be unenforceable?

Not yet.
Key consideration 5: An FMI conducting business in multiple jurisdictions should identify and mitigate the risks arising from any potential conflict of laws across jurisdictions.

Q.1.5.1: If the FMI is conducting business in multiple jurisdictions, how does the FMI identify and analyse any potential conflict-of-laws issues? When uncertainty exists regarding the enforceability of an FMI’s choice of law in relevant jurisdictions, has the FMI obtained an independent legal analysis of potential conflict-of-laws issues? What potential conflict-of-laws issues has the FMI identified and analysed? How has the FMI addressed any potential conflict-of-laws issues?

NCDCP does not conduct business in any jurisdiction other than the Slovak Republic.
Principle 2: Governance

An FMI should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.

In reviewing this principle, it should be noted that if an FMI is wholly owned or controlled by another entity, the governance arrangements of that entity should also be reviewed to ensure that they do not have adverse effects on the FMI’s observance of this principle. As governance provides the processes through which an organisation sets its objectives, determines the means for achieving those objectives and monitors performance against those objectives, this principle should be reviewed holistically with the other principles.

Key consideration 1: An FMI should have objectives that place a high priority on the safety and efficiency of the FMI and explicitly support financial stability and other relevant public interest considerations.

Q.2.1.1: What are the FMI’s objectives, and are they clearly identified? How does the FMI assess its performance in meeting its objectives?

NCDCP’s objectives are specified in the Business plan and the Conception for the company’s development 2017 and 2018, which are approved by the general meeting after deliberation in the supervisory board. The objectives set out in these materials relate to NCDCP’s business objectives. The supervisory board assesses performance in meeting these objectives. Performance in meeting the objectives is assessed regularly, at each meeting of the supervisory board.

Q.2.1.2: How do the FMI’s objectives place a high priority on safety and efficiency? How do the FMI’s objectives explicitly support financial stability and other relevant public interest considerations?

All the objectives that the company sets are designed to support the company’s financial stability while satisfying the requirements of the market. These objectives are not pursued at the expense of safety.

Key consideration 2: An FMI should have documented governance arrangements that provide clear and direct lines of responsibility and accountability. These arrangements should be disclosed to owners, relevant authorities, participants, and, at a more general level, the public.

Governance arrangements

Q.2.2.1: What are the governance arrangements under which the FMI’s board of directors (or equivalent) and management operate? What are the lines of responsibility and accountability within the FMI? How and where are these arrangements documented?

The governance arrangements that NCDCP’s Board of Directors abide by are set out in the company’s articles of association. The Board of Directors must also comply with the law of the Slovak Republic. Members of the board of directors also enter into a contract on the performance of their function, which lays down their rights and obligations. Responsibilities for the management of the company are also defined in Article XIV of NCDCP’s articles of association and in the Commercial Code.

NCDCP has three levels of management (the Board of Directors, divisional directors and Heads of Department) and four lines of management (Business and Operations...
Division, CEO’s Division, IT Division, Account and Finance Division). At all levels of management and in all lines of management, responsibility and accountability is clearly documented by Internal Regulation No 1/2016/v – Organisational Rules, and in the job description for each of NCDCP’s employees.

Q.2.2.2: For central bank-operated systems, how do governance arrangements address any possible or perceived conflicts of interest? To what extent do governance arrangements allow for a separation of the operator and oversight functions?

NCDCP is not operated by the central bank. This means that there is no conflict of interest on either side.

Q.2.2.3: How does the FMI provide accountability to owners, participants and other relevant stakeholders?

Under NCDCP’s articles of association, the members of the Board of Directors and the supervisory board – the company’s bodies – are accountable for their actions in the company to the general meeting, which is NCDCP’s supreme body.

Disclosure of governance arrangements

Q.2.2.4: How are the governance arrangements disclosed to owners, relevant authorities, participants and, at a more general level, the public?

Under NCDCP’s articles of association, governance arrangements are deliberated on at meetings of the supervisory board, the Board of Directors and the general meeting. Through the general meeting the governance mechanisms are disclosed to NCDCP’s shareholder, SZRB Bank. They are disclosed to the relevant authorities in accordance with applicable legislation. The most important authority is NBS, which is the supervisory authority for NCDCP. Some governance mechanisms are disclosed to the public through public registries such as the Collection of Deeds.

Key consideration 3: The roles and responsibilities of an FMI’s board of directors (or equivalent) should be clearly specified, and there should be documented procedures for its functioning, including procedures to identify, address, and manage member conflicts of interest. The board should review both its overall performance and the performance of its individual board members regularly.

Roles and responsibilities of the board

Q.2.3.1: What are the roles and responsibilities of the FMI’s board of directors (or equivalent), and are they clearly specified?

Under NCDCP’s articles of association, the Board of Directors is authorised to act in the company’s name in all matters relating to the company and to represent the company in relations with third parties before the courts and other authorities.

Q.2.3.2: What are the board’s procedures for its functioning, including procedures to identify, address and manage member conflicts of interest? How are these procedures documented, and to whom are they disclosed? How frequently are they reviewed?

The standing, composition and powers of the depository’s bodies are governed by acts of general application, the Articles of Association of Národný centrálny depozitár cenných papierov, a. s., the rules of procedure or by-laws of the bodies themselves and other internal documents of the Depository.
The board of directors manages the Depository’s activities and decides on all issues for the Depository that legislation or the Depository’s articles of association do not assign to the competence of the general meeting or the supervisory board. The board of directors is the Depository’s statutory body and is entitled to act in its name in all matters and to represent it in relations with third parties.

The members of the board of directors are fully subject to the provisions of the Commercial Code on the prohibition of competitive conduct.

The legal framework for the functioning of NCDCP’s Board of Directors is laid down by the Commercial Code, NCDCP’s articles of association and its internal regulations. Conflicts of interest are managed in accordance with the Commercial Code and the special provisions laid down in Securities Act No 566/2001.

Q.2.3.3: Describe the board committees that have been established to facilitate the functioning of the board. What are the roles, responsibilities and composition of such committees?

The Depository has the following bodies: the general meeting, the board of directors and the supervisory board.

The general meeting is the Depository’s supreme body and is composed of all the attending shareholders. The general meeting adopts decisions in accordance with NCDCP’s articles of association and applicable legislation.

The board of directors manages the Depository’s activities and decides on all issues for the Depository that legislation or the Depository’s articles of association do not assign to the competence of the general meeting or the supervisory board. The board of directors is the Depository’s statutory body and is entitled to act in its name in all matters and to represent it in relations with third parties.

The supervisory board is the Depository’s supreme control body and acts in accordance with the Depository’s approved articles of association and applicable legislation.

NCDCP establishes an advisory committee for its members and other financial market professionals. Rules, procedures and contracts that appear unclear can be discussed at committee meetings.

Review of performance

Q.2.3.4: What are the procedures established to review the performance of the board as a whole and the performance of the individual board members?

The remuneration of members of the board of directors is regulated by their contracts and is linked to the fulfilment of the performance objectives set for the company in NCDCP’s business and financial plan. Fulfilment of the objectives of the board of directors and its individual members is assessed annually based on the company’s audited results. The assessment is made out in writing, assessed by the supervisory board and approved by the general meeting. In accordance with the Commercial Code, a general meeting is held at least once a year.

Key consideration 4: The board should contain suitable members with the appropriate skills and incentives to fulfil its multiple roles. This typically requires the inclusion of non-executive board member(s).

Q.2.4.1: To what extent does the FMI’s board have the appropriate skills and incentives to fulfil its multiple roles? How does the FMI ensure that this is the case?
A candidate for membership of the board of directors must satisfy the criteria laid down by law for election to a board of directors. A suitably qualified candidate for membership of the board of directors must have completed higher education and acted in a professional capacity in capital markets or banking for at least three years. If these criteria are met, NBS will issue a decision – prior approval for election as a member of the board of directors, which is a condition for the candidate’s election by the shareholder.

Q.2.4.2: What incentives does the FMI provide to board members so that it can attract and retain members of the board with appropriate skills? How do these incentives reflect the long-term achievement of the FMI’s objectives?

From the date that they start their function, a member of the board of directors is entitled to the regular monthly remuneration for activity in the board of directors approved by the general meeting in the rules for remuneration of the members of the company’s bodies unless the law or the articles of association stipulate otherwise. Their right to this remuneration ends from the date of their recall or the termination of their membership of the board of directors for other reasons. A member of the board of directors is entitled to a share of profits if the general meeting decides on this during the distribution of the net profit. Members of the board of directors can make no financial claims in connection with the performance of their function that are not permitted by the articles of association.

Q.2.4.3: Does the board include non-executive or independent board members? If so, how many?

At present NCDCP’s board of directors does not have any independent members.

Q.2.4.4: If the board includes independent board members, how does the FMI define an independent board member? Does the FMI disclose which board member(s) it regards as independent?

At present NCDCP’s board of directors does not have any independent members.

Key consideration 5: The roles and responsibilities of management should be clearly specified. An FMI’s management should have the appropriate experience, a mix of skills, and the integrity necessary to discharge their responsibilities for the operation and risk management of the FMI.

Roles and responsibilities of management

Q.2.5.1: What are the roles and responsibilities of management, and are they clearly specified?

Under NCDCP’s organisational rules, it has the following bodies: the general meeting, the Board of Directors and the Supervisory Board. The Depository also has the following organisational units: CEO’s Division, Business and Operations Division, IT Division, Account and Finance Division. Their roles and responsibilities are defined in NCDCP’s internal regulations and the employment contracts and job descriptions of individual employees.

Q.2.5.2: How are the roles and objectives of management set and evaluated?

Management roles are defined by NCDCP’s bodies: the general meeting, the supervisory board and the board of directors. Performance is evaluated at meetings of the company’s bodies. The general meeting meets at least once per year, the board of directors meets at least once a month and the supervisory board meets as required but at least once a month.
Experience, skills and integrity

Q.2.5.3: To what extent does the FMI’s management have the appropriate experience, mix of skills and the integrity necessary for the operation and risk management of the FMI? How does the FMI ensure that this is the case?

A member of NCDCP’s Board of Directors must have suitable experience, skills and integrity for risk management in NCDCP. A candidate’s fulfilment of the requirements for membership of NCDCP’s Board of Directors is assessed and approved by NBS. The outcome of assessment is NBS’s consent for election as a member of the board of directors or supervisory board by NCDCP’s general meeting.

Q.2.5.4: What is the process to remove management if necessary?

The general meeting elects members of the supervisory board (after prior approval by NBS) and likewise has the power to remove them. The removal of other chief officers and managers is governed by the Labour Code.

Key consideration 6: The board should establish a clear, documented risk-management framework that includes the FMI’s risk-tolerance policy, assigns responsibilities and accountability for risk decisions, and addresses decision making in crises and emergencies. Governance arrangements should ensure that the risk-management and internal control functions have sufficient authority, independence, resources, and access to the board.

Risk management framework

Q.2.6.1: What is the risk management framework that has been established by the board? How is it documented?

The risk management framework in NCDCP is laid down in the Internal regulation No 10/2017/v2 - Risk Management in NCDCP, which lays down a comprehensive definition of the risk management function and the method for monitoring and measuring risks in accordance with EU Regulation No 909/2014 and the approved EU regulatory technical standards for central depositaries. The management of risk related to information systems, personal data protection, business continuity and disaster recovery for NCDCP is described in internal regulations No 13/2015/v1 - Security policy, No 15/2017/v2 - Business continuity plan for NCDCP, No 18/2015/v1 - Information security (user manual), and No 16/2016/v1 - Security guidelines for personal data protection.

Q.2.6.2: How does this framework address the FMI’s risk tolerance policy, assign responsibilities and accountability for risk decisions (such as limits on risk exposures), and address decision-making in crises and emergencies?

The top management body for NCDCP’s protection and security is the board of directors. The board of directors has legal liability for NCDCP’s security system. NCDCP’s Board of Directors ensures the direct implementation of approved security measures in each area of protection and safety. The risk management manager, the compliance manager and the security manager are directly responsible for determining, implementing and maintaining NCDCP’s compliance with external and internal requirements, an adequate risk tolerance policy for the company and the identification, management, monitoring and reporting of risk. They cooperate closely with the managers of the organisational units and divisions and other employees. All employees are obliged to comply with the technical, organisational and personnel rules on protection and security laid down in NCDCP’s internal regulations.
Q.2.6.3: What is the process for determining, endorsing and reviewing the risk management framework?

The Internal regulation No 10/2017/v2 - Risk Management in NCDCP stipulates that the board of directors approves the strategy for managing operational risk, the methodical procedures and limits for operational risks, which are submitted to it for approval by the risk management manager.

The risk management manager, the compliance manager, the security manager and the independent internal auditor determine and revise the risk management framework based on daily checks and risk assessments. At least once every calendar half year, the board of directors and the managers of NCDCP deliberate on the risk report, which presents information on operational risk and compliance with the set limits.

Authority and independence of risk management and audit functions

Q.2.6.4: What are the roles, responsibilities, authority, reporting lines and resources of the risk management and audit functions?

The basic responsibilities and activities of NCDCP’s organisational units are defined in the Internal regulation No 10/2017/v2 - Risk Management in NCDCP, which defines the board of directors as the highest body and managing body for the protection of security in NCDCP. The board of directors has legal liability for NCDCP’s security system. Next in line is the risk management manager, who assesses and manages the operational risk that NCDCP is exposed to in its activities. The risk management manager is directly responsible for determining, implementing and maintaining an adequate risk tolerance policy for the company, and for the identification, management, monitoring and reporting of risk. The risk management manager also has the following specific responsibilities regarding the management of operational risk:

- proposing the operational risk management strategy and its method of implementation, setting limits for operational risk and submitting the proposals to NCDCP’s Board of Directors for approval;
- acting as a point of consultation for analyses of operational risk events.

All NCDCP’s other organisational units manage and evaluate the operational risk exposure that they bear in their activities.

Q.2.6.5: How does the board ensure that there is adequate governance surrounding the adoption and use of risk management models? How are these models and the related methodologies validated?

The basic condition for the effective ability to manage most operational risk is the existence of methodologies, procedures and systems that describe each activity and facilitate the performance, registration and auditing of actions. The scope of monitoring and evaluation of operational risk must be proportionate to the level of operational risk in each case.

Monitoring, evaluation and reporting of operational risk events is based on seven basic categories corresponding to the types of operational risk: Commercial disputes, Disputes with public bodies, HR practices, Compliance, Process management, Reporting, Fraud,
NCDCP’s management and organisational structure ensures that the management of operational risk, reporting and audit are as independent as possible of the organisational units responsible for the performance of operations.

All employees perform their activities in accordance with applicable legislation, the rules laid down by the regulator and NCDCP’s internal regulations. Every employee is responsible for identifying and managing risk in the performance of their activities and they are obliged to report any risks that they detect in their activities, even if it is outside the scope of their position.

Key consideration 7: The board should ensure that the FMI’s design, rules, overall strategy, and major decisions reflect appropriately the legitimate interests of its direct and indirect participants and other relevant stakeholders. Major decisions should be clearly disclosed to relevant stakeholders and, where there is a broad market impact, the public.

Identification and consideration of stakeholder interests

Q.2.7.1: How does the FMI identify and take account of the interests of the FMI’s participants and other relevant stakeholders in its decision-making in relation to its design, rules, overall strategy and major decisions?

NCDCP’s Operational Rules include formal procedures for identifying members’ interests and taking account of them through the advisory committee and the electronic journal, but interests can also be communicated through the supervisory body, other capital market participants and the Ministry of Finance of the Slovak Republic. NCDCP resolves conflicts of interest between individual groups of its users on the level of the board of directors and the supervisory board.

Q.2.7.2: How does the board consider the views of direct and indirect participants and other relevant stakeholders on these decisions; for example, are participants included on the risk management committee, on user committees such as a default management group or through a public consultation? How are conflicts of interest between stakeholders and the FMI identified, and how are they addressed?

NCDCP’s Operational Rules include formal procedures for identifying members’ interests and taking account of them through the advisory committee and the electronic journal, but interests can also be communicated through the supervisory body, other capital market participants and the Ministry of Finance of the Slovak Republic. NCDCP resolves conflicts of interest between individual groups of its users on the level of the board of directors and the supervisory board.

Disclosure

Q.2.7.2: To what extent does the FMI disclose major decisions made by the board to relevant stakeholders and, where appropriate, the public?

Major decisions that affect NCDCP’s clients are disclosed via the company’s website, the newsletter/journal, through the committee or through the media.
Principle 3: Framework for the comprehensive management of risks

An FMI should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks.

In reviewing this principle, an assessor should consider how the various risks, both borne by and posed by the FMI, relate to and interact with each other. As such, this principle should be reviewed holistically with the other principles.

Key consideration 1: An FMI should have risk-management policies, procedures, and systems that enable it to identify, measure, monitor, and manage the range of risks that arise in or are borne by the FMI. Risk-management frameworks should be subject to periodic review.

Risks that arise in or are borne by the FMI

Q.3.1.1: What types of risk arise in or are borne by the FMI?

NCDCP has identified several types of risk, which it describes in its internal regulations. These risks are:

1. Operational risk (transaction-process risk, risk of operational management—human error, system risk, risk of external events, disaster risk, systematic risk, transaction settlement risk, issuer risk),
2. Commercial and legal risk (legal risk, risk of change of credit rating, reputation risk, tax risk, currency convertibility risk, regulatory risk),
3. Risk resulting from NCDCP’s connections with market participants.

Risk management policies, procedures and systems

Q.3.1.2: What are the FMI’s policies, procedures and controls to help identify, measure, monitor and manage the risks that arise in or are borne by the FMI?

NCDCP currently maintains a comprehensive risk management framework through the following internal regulations:

- No 10/2017/v2 - RISK MANAGEMENT IN NCDCP. This regulation lays down the rules and procedures for protection against all risks and the methods for measuring, monitoring and managing such risks in NCDCP’s activities.
- The management of risk related to information systems, personal data protection and business continuity for NCDCP is described in followed internal regulations:
  - No 13/2015/v1 - Security policy,
  - No 15/2017/v2 - Business continuity plan for NCDCP,
  - No 18/2015/v1 - Information security user manual,
  - No 16/2016/v1 - Security guidelines for personal data protection, which includes a Catalogue of Risks as an annex.

NCDCP uses standard “risk” processes and checks to identify, measure and monitor the management and reporting of risks that may arise in NCDCP. These processes are described in work rules. NCDCP employs a risk management manager who has a great deal of experience in the area of banking and finance, in which he has held many top management positions for over 25 years.

Q.3.1.3: What risk management systems are used by the FMI to help identify, measure, monitor and manage its range of risks?
NCDCP’s risk management system begins with the prevention phase and not only risk identification. The basic methods of prevention are:

- Consistent checks for the separation of incompatible functions,
- High-quality methodology,
- Functional information systems,
- Training for employees,
- Control activity.

NCDCP uses a system of self-assessment for all deficiencies, potential problems and internal and external risks. The system used is Risk Control Self-Assessment, which creates a system for reporting real and potential risks and threats.

NCDCP uses modern, recently developed information systems such as HIS, LCP and various support systems in risk management. These systems automate various connections and actions (for example, OMEGA – the accounting system – is automatically integrated into the NCDCP base system) and ensure the security of the information system as a whole, enabling operations to function automatically to a significant extent and thereby eliminating a large amount of operational risk and also allow operational risk to be managed, checked and reported in real time and on a daily basis.

Q.3.1.4: How do these systems provide the capacity to aggregate exposures across the FMI and, where appropriate, other relevant parties, such as the FMI’s participants and their customers?

The system enables NCDCP to monitor a variety of reports in real time or on a daily basis. The system reports aggregate exposure automatically.

Review of risk management policies, procedures and systems

Q.3.1.5: What is the process for developing, approving and maintaining risk management policies, procedures and systems?

The development of policies, procedures and systems for risk management is handled by the risk management manager in response to internal circumstances (current incidents, self-assessment, daily checks of procedures and processes...) and external circumstances (monitoring of risk events in the Slovak market, monitoring of international information on risks, based on guidelines issued by NBS, ESMA...) as well as the approved policies and internal regulations on information security and in accordance with the procedures for the Development and approval of work rules.

Q.3.1.6: How does the FMI assess the effectiveness of risk management policies, procedures and systems?

NCDCP assesses the effectiveness of work rules and procedures for risk management based on measurements (where possible, a statistical assessment of probability or a percentage comparison with the median or the like), evaluation (when a risk of human error or fraud is detected, we are able to calculate the potential financial loss and also make a statistical evaluation of numbers of prevented errors = losses) and the assessment of specific risk cases.

Q.3.1.7: How frequently are the risk management policies, procedures and systems reviewed and updated by the FMI? How do these reviews take into account fluctuation in risk intensity, changing environments and market practices?

NCDCP updates its internal regulations on risk management as required, at least once a year. Risk management processes are adjusted as required – systematically and...
continuously, and risk management systems are adjusted when there is a need for changes in the systematic approach (e.g. when NCDCP introduces a new information system or changes its organisation structure).

**Key consideration 2:** An FMI should provide incentives to participants and, where relevant, their customers to manage and contain the risks they pose to the FMI.

Q.3.2.1: What information does the FMI provide to its participants and, where relevant, their customers to enable them to manage and contain the risks they pose to the FMI?

Information that NCDCP discloses to participants includes information on the integrity of an issue, orders entered by persons other than participants’ authorised persons and the non-execution of such orders, i.e. to limit participants’ internal risk, or to limit of a participants’ external risk, e.g. information on another participant’s default, the start of bankruptcy proceedings against a participant, attacks by hackers, information on the stoppage of technical systems or the deployment of an improved version of the system.

Q.3.2.2: What incentives does the FMI provide for participants and, where relevant, their customers to monitor and manage the risks they pose to the FMI?

NCDCP is not currently thinking of providing incentives for market participants to monitor risk because we believe that the legislation currently in force in the Slovak Republic adequately motivates participants to monitor and manage the risks they pose to NCDCP.

Q.3.2.3: How does the FMI design its policies and systems so that they are effective in allowing their participants and, where relevant, their customers to manage and contain their risks?

For example, by the provision of the feedback referred to in Q.3.2.1.

**Key consideration 3:** An FMI should regularly review the material risks it bears from and poses to other entities (such as other FMIs, settlement banks, liquidity providers, and service providers) as a result of interdependencies and develop appropriate risk-management tools to address these risks.

**Material risks**

Q.3.3.1: How does the FMI identify the material risks that it bears from and poses to other entities as a result of interdependencies? What material risks has the FMI identified?

NCDCP monitors the reputation and “material” (financial) risks that it could pose. We have identified systemic risk, transaction settlement risk, transaction – process risk, operational management risk – risk of human error, and legislative change.

Q.3.3.2: How are these risks measured and monitored? How frequently does the FMI review these risks?

These risks are continually monitored on a daily basis and reviewed on submission of the risk report.

**Risk management tools**

Q.3.3.3: What risk management tools are used by the FMI to address the risks arising from interdependencies with other entities?

NCDCP does not inform third parties - participants about its internal risk measurements and monitoring. NCDCP continually monitors changes in legislation and
changes in operational procedures and, where relevant, the technology used by other entities, and evaluates the effect of such developments on NCDCP’s procedures and processes.

NCDCP may allow participants to establish a pledge or SRD if they need it for eliminating credit risk in relation to their clients.

Q.3.3.4: How does the FMI assess the effectiveness of these risk management tools? How does the FMI review the risk management tools it uses to address these risks? How frequently is this review conducted?

NCDCP assesses the effectiveness of work rules and procedures for risk management based on measurements (where possible, a statistical assessment of probability or a percentage comparison with the median or the like), evaluation (when a risk of human error or fraud is detected, we are able to calculate the potential financial loss and also make a statistical evaluation of numbers of prevented errors = losses) and the assessment of specific risk cases. A review is conducted when the risk report is submitted.

**Key consideration 4:** An FMI should identify scenarios that may potentially prevent it from being able to provide its critical operations and services as a going concern and assess the effectiveness of a full range of options for recovery or orderly wind-down. An FMI should prepare appropriate plans for its recovery or orderly wind-down based on the results of that assessment. Where applicable, an FMI should also provide relevant authorities with the information needed for purposes of resolution planning.

Scenarios that may prevent an FMI from providing critical operations and services

Q.3.4.1: How does the FMI identify scenarios that may potentially prevent the FMI from providing its critical operations and services? What scenarios have been identified as a result of these processes?

NCDCP has identified the following critical scenarios and prepared plans for dealing with them: flood, earthquake, fire, failure of electricity supplies, loss of a significant number of employees, loss of information systems, and destruction of NCDCP’s premises in a terrorist attack. The response plans are set out in the Internal regulation “Disaster recovery plan for NCDCP”.

Q.3.4.2: How do these scenarios take into account both independent and related risks to which the FMI is exposed?

NCDCP’s disaster recovery plans anticipate that operations must take account of both directly related risks and other independent risks.

Recovery or orderly wind-down plans

Q.3.4.3: What plans does the FMI have for its recovery or orderly wind-down?

NCDCP’s recovery plan focuses on restoring the functionality of its information systems and its operations after an extreme event. Act No 566/2001 on securities and investment services also requires the shareholders of NCDCP to help it to recover from an adverse financial situation. NCDCP has an Internal regulation No 35/2017/v1 – ‘Wind-down plan for NCDCP’ which includes plans for several possible scenarios and their financial coverage.

Q.3.4.4: How do the FMI’s key recovery or orderly wind-down strategies enable the FMI to continue to provide critical operations and services?
NCDCP's recovery plan enables it to restore the functionality of its information systems, and its provision of operations and services in their full scope.

Q.3.4.5: How are the plans for the FMI’s recovery and orderly wind-down reviewed and updated? How frequently are the plans reviewed and updated?

In accordance Article 22(3) of Regulation 909/2014, the plans will be revised and updated every two years having regard for the scale and complexity of NCDCP's activities.
**Principle 4: Credit risk**

An FMI should effectively measure, monitor, and manage its credit exposure to participants and those arising from its payment, clearing, and settlement processes. An FMI should maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two largest participants and their affiliates that would potentially cause the largest aggregate credit exposures to the CCP in extreme but plausible market conditions. All other CCPs should maintain, at a minimum, total financial resources sufficient to cover the default of the one participant and its affiliates that would potentially cause the largest aggregate credit exposures to the CCP in extreme but plausible market conditions.

Because of the extensive interactions between the financial risk management and financial resources principles, this principle should be reviewed in the context of Principle 5 on collateral, Principle 6 on margin and Principle 7 on liquidity risk, as appropriate. This principle should also be reviewed in the context of Principle 13 on participant default rules and procedures, Principle 23 on disclosure of rules, key procedures and market data, and other principles, as appropriate.

**Key consideration 1:** An FMI should establish a robust framework to manage its credit exposures to its participants and the credit risks arising from its payment, clearing, and settlement processes. Credit exposure may arise from current exposures, potential future exposures, or both.

**Q.4.1.1:** What is the FMI’s framework for managing credit exposures, including current and potential future exposures, to its participants and arising from its payment, clearing and settlement processes?

NCDCP does not have a bank licence and does not provide internal credit to its participants to cover monetary liabilities in the settlement process. This means that NCDCP is not exposed to credit risk in the system for settling securities transactions. NCDCP does not provide internal or other credit to participants to settle transactions, which means that it does not guarantee liquidity for the settlement of transactions or the availability of securities on a vendor’s account. NCDCP does not act as a central counterparty.

If a participant defaults on their monetary liabilities in price-setting and block transactions on the exchange, the Guarantee Fund of the Bratislava Stock Exchange (BSE) can be drawn on. If the default of a participant is detected, NCDCP and BSE will cooperate to provide the liquidity necessary to cover the participant’s monetary liabilities provided that there are sufficient funds in the Guarantee Fund.

As regards the level of credit risk of the participants, this is either very low or zero and in practice participants do not default on monetary liabilities. If there is a lack of liquidity, banks may, in their own name rather than in the name of participants draw on intraday credit provided by Národná banka Slovenska (NBS).

**Q.4.1.2:** How frequently is the framework reviewed to reflect the changing environment, market practices and new products?

As NCDCP is not currently exposed to direct credit risk for the purposes of settling securities transactions, the current articles of association do not lay down a specific framework for managing credit risk.
Key consideration 2: An FMI should identify sources of credit risk, routinely measure and monitor credit exposures, and use appropriate risk-management tools to control these risks.

Q.4.2.1: How does the FMI identify sources of credit risk? What are the sources of credit risk that the FMI has identified?

As NCDCP is not currently exposed to direct credit risk for the purposes of settling securities transactions, the current articles of association do not lay down a specific framework for managing credit risk.

Q.4.2.2: How does the FMI measure and monitor credit exposures? How frequently does and how frequently can the FMI recalculate these exposures? How timely is the information?

As NCDCP is not exposed to direct credit risk in the settlement system, it does not calculate credit exposures for its participants.

Q.4.2.3: What tools does the FMI use to control identified sources of credit risk (for example, offering an RTGS or DvP settlement mechanism, limiting net debits or intraday credit, establishing concentration limits, or marking positions to market on a daily or intraday basis)? How does the FMI measure the effectiveness of these tools?

For DvP settlements, NCDCP calculates monetary liabilities on a gross basis, which means that the monetary liabilities or receivables for each of a participant’s transactions or orders for settlement are counted separately. NCDCP does not provide any credit to its participants.

Key consideration 3: A payment system or SSS should cover its current and, where they exist, potential future exposures to each participant fully with a high degree of confidence using collateral and other equivalent financial resources (see Principle 5 on collateral). In the case of a DNS payment system or DNS SSS in which there is no settlement guarantee but where its participants face credit exposures arising from its payment, clearing, and settlement processes, such an FMI should maintain, at a minimum, sufficient resources to cover the exposures of the two participants and their affiliates that would create the largest aggregate credit exposure in the system.

Coverage of exposures to each participant

Q.4.3.1: How does the payment system or SSS cover its current and, where they exist, potential future exposures to each participant? What is the composition of the FMI’s financial resources used to cover these exposures? How accessible are these financial resources?

NCDCP does not provide any credit to participants in the settlement system and therefore it does not set aside funds to cover settlement of a member’s liabilities in the event of default.

Q.4.3.2: To what extent do these financial resources cover the payment system’s or SSS’s current and potential future exposures fully with a high degree of confidence? How frequently does the payment system or SSS evaluate the sufficiency of these financial resources?

NCDCP does not provide any credit to participants in the settlement system and therefore it does not set aside funds to cover settlement of a member’s liabilities in the event of default.
For DNS payment systems and DNS SSSs in which there is no settlement guarantee

Q.4.3.3: If the payment system or SSS is a DNS system in which there is no settlement guarantee, do its participants face credit exposures arising from the payment, clearing and settlement processes? If there are credit exposures in the system, how does the system monitor and measure these exposures?

NCDCP’s clearing and settlement system does not use a DNS mechanism.

Q.4.3.4: If the payment system or SSS is a DNS system in which there is no settlement guarantee and has credit exposures among its participants, to what extent does the payment system's or SSS's financial resources cover, at a minimum, the default of the two participants and their affiliates that would create the largest aggregate credit exposure in the system?

NCDCP’s clearing and settlement system does not use a DNS mechanism.

Key consideration 7: An FMI should establish explicit rules and procedures that address fully any credit losses it may face as a result of any individual or combined default among its participants with respect to any of their obligations to the FMI. These rules and procedures should address how potentially uncovered credit losses would be allocated, including the repayment of any funds an FMI may borrow from liquidity providers. These rules and procedures should also indicate the FMI’s process to replenish any financial resources that the FMI may employ during a stress event, so that the FMI can continue to operate in a safe and sound manner.

Allocation of credit losses

Q.4.7.1: How do the FMI’s rules and procedures explicitly address any credit losses it may face as a result of any individual or combined default among its participants with respect to any of their obligations to the FMI? How do the FMI’s rules and procedures address the allocation of uncovered credit losses and in what order, including the repayment of any funds an FMI may borrow from liquidity providers?

NCDCP does not provide any credit to participants in the settlement system and therefore it does not set aside funds to cover settlement of a member’s liabilities in the event of default.

Replenishment of financial resources

Q.4.7.2: What are the FMI’s rules and procedures on the replenishment of the financial resources that are exhausted during a stress event?

NCDCP does not use its own or borrowed funds to cover the liabilities of a defaulting member.
**Principle 5: Collateral**

An FMI that requires collateral to manage its or its participants’ credit exposure should accept collateral with low credit, liquidity, and market risks. An FMI should also set and enforce appropriately conservative haircuts and concentration limits.

Because of the extensive interactions between the financial risk management and financial resources principles, this principle should be reviewed in the context of Principle 4 on credit risk, Principle 6 on margin and Principle 7 on liquidity risk, as appropriate. This principle should also be reviewed in the context of Principle 14 on segregation and portability, Principle 16 on custody and investment risk, and other principles, as appropriate.

**Key consideration 1:** An FMI should generally limit the assets it (routinely) accepts as collateral to those with low credit, liquidity, and market risks.

**Q.5.1.1:** How does the FMI determine whether a specific asset can be accepted as collateral, including collateral that will be accepted on an exceptional basis? How does the FMI determine what qualifies as an exceptional basis? How frequently does the FMI adjust these determinations? How frequently does the FMI accept collateral on an exceptional basis, and does it place limits on its acceptance of such collateral?

NCDCP does not use its own or borrowed funds to cover the liabilities of a defaulting member and therefore does not accept collateral from members.

**Q.5.1.2:** How does the FMI monitor the collateral that is posted so that the collateral meets the applicable acceptance criteria?

NCDCP does not use its own or borrowed funds to cover the liabilities of a defaulting member and therefore does not accept collateral from members.

**Q.5.1.3:** How does the FMI identify and mitigate possible specific wrong-way risk - for example, by limiting the collateral it accepts (including collateral concentration limits)?

NCDCP does not use its own or borrowed funds to cover the liabilities of a defaulting member and therefore does not accept collateral from members.

**Key consideration 2:** An FMI should establish prudent valuation practices and develop haircuts that are regularly tested and take into account stressed market conditions.

**Valuation practices**

**Q.5.2.1:** How frequently does the FMI mark its collateral to market, and does it do so at least daily?

NCDCP does not use its own or borrowed funds to cover the liabilities of a defaulting member and therefore does not accept collateral from members.

**Q.5.2.2:** To what extent is the FMI authorised to exercise discretion in valuing assets when market prices do not represent their true value?

NCDCP does not use its own or borrowed funds to cover the liabilities of a defaulting member and therefore does not accept collateral from members.

**Haircutting practices**

**Q.5.2.3:** How does the FMI determine haircuts?
NCDCP does not use its own or borrowed funds to cover the liabilities of a defaulting member and therefore does not accept collateral from members.

Q.5.2.4: How does the FMI test the sufficiency of haircuts and validate its haircut procedures, including with respect to the potential decline in the assets’ value in stressed market conditions involving the liquidation of collateral? How frequently does the FMI complete this test?

NCDCP does not use its own or borrowed funds to cover the liabilities of a defaulting member and therefore does not accept collateral from members.

**Key consideration 3:** In order to reduce the need for procyclical adjustments, an FMI should establish stable and conservative haircuts that are calibrated to include periods of stressed market conditions, to the extent practicable and prudent.

Q.5.3.1: How does the FMI identify and evaluate the potential procyclicality of its haircut calibrations? How does the FMI consider reducing the need for procyclical adjustments - for example, by incorporating periods of stressed market conditions during the calibration of haircuts?

NCDCP does not use its own or borrowed funds to cover the liabilities of a defaulting member and therefore does not accept collateral from members.

**Key consideration 4:** An FMI should avoid concentrated holdings of certain assets where this would significantly impair the ability to liquidate such assets quickly without significant adverse price effects.

Q.5.4.1: What are the FMI’s policies for identifying and avoiding concentrated holdings of certain assets in order to limit potential adverse price effects at liquidation? What factors (for example, adverse price effects or market conditions) are considered when determining these policies?

NCDCP does not use its own or borrowed funds to cover the liabilities of a defaulting member and therefore does not accept collateral from members.

Q.5.4.2: How does the FMI review and evaluate concentration policies and practices to determine their adequacy? How frequently does the FMI review and evaluate these policies and practices?

NCDCP does not use its own or borrowed funds to cover the liabilities of a defaulting member and therefore does not accept collateral from members.

**Key consideration 5:** An FMI that accepts cross-border collateral should mitigate the risks associated with its use and ensure that the collateral can be used in a timely manner.

Q.5.5.1: What are the legal, operational, market and other risks that the FMI faces by accepting cross-border collateral? How does the FMI mitigate these risks?

NCDCP does not use its own or borrowed funds to cover the liabilities of a defaulting member and therefore does not accept collateral from members.

Q.5.5.2: How does the FMI ensure that cross-border collateral can be used in a timely manner?

NCDCP does not use its own or borrowed funds to cover the liabilities of a defaulting member and therefore does not accept collateral from members.
**Key consideration 6: An FMI should use a collateral management system that is well-designed and operationally flexible.**

**Collateral management system design**

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<tr>
<th>Q.5.6.1:</th>
<th>What are the primary features of the FMI’s collateral management system?</th>
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<td><strong>NCDCP</strong> does not use its own or borrowed funds to cover the liabilities of a defaulting member and therefore does not accept collateral from members.</td>
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<th>Q.5.6.2:</th>
<th>How and to what extent does the FMI track the reuse of collateral and its rights to the collateral provided?</th>
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**Operational flexibility**

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<th>Q.5.6.3:</th>
<th>How and to what extent does the FMI’s collateral management system accommodate changes in the ongoing monitoring and management of collateral?</th>
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<th>Q.5.6.4:</th>
<th>To what extent is the collateral management system staffed to ensure smooth operations even during times of market stress?</th>
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Principle 7: Liquidity risk

An FMI should effectively measure, monitor, and manage its liquidity risk. An FMI should maintain sufficient liquid resources in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the FMI in extreme but plausible market conditions.

Because of the extensive interactions between the financial risk management and financial resources principles, this principle should be reviewed in the context of Principle 4 on credit risk, Principle 5 on collateral and Principle 6 on margin, as appropriate. This principle should also be reviewed in the context of Principle 8 on settlement finality, Principle 13 on participant default rules and procedures, Principle 23 on disclosure of rules, key procedures and market data, and other principles, as appropriate.

Key consideration 1: An FMI should have a robust framework to manage its liquidity risks from its participants, settlement banks, nostro agents, custodian banks, liquidity providers, and other entities.

Q.7.1.1: What is the FMI’s framework for managing its liquidity risks, in all relevant currencies, from its participants, settlement banks, nostro agents, custodian banks, liquidity providers and other entities?

NCDCP has not identified any liquidity risk in relation to any party in the SSS that it operates. NCDCP processes settlement instructions on a gross basis. If an RTGS collection is authorised, a participant’s account is debited directly (for purchase of a security) and then credited to the RTGS account of the participant (for sale of a security). If a participant does give NCDCP authorisation for collection from an RTGS account, they must send funds to NCDCP’s RTGS account, after which NCDCP executes the credit instruction for settlement. If any of the participants fails to provide funds in the required amount, the settlement instruction is suspended until there are sufficient funds on the participant’s RTGS account. Exchange transactions in NCDCP are processed on a gross basis. This procedure for processing instructions does not expose NCDCP to any risk.

Q.7.1.2: What are the nature and size of the FMI’s liquidity needs, and the associated sources of liquidity risks, that arise in the FMI in all relevant currencies?

NCDCP has not identified any liquidity risk in the clearing and settlement system that it operates.

Q.7.1.3: How does the FMI take into account the potential aggregate liquidity risk presented by an individual entity and its affiliates that may play multiple roles with respect to the FMI?

NCDCP has not identified any liquidity risk in the clearing and settlement system that it operates.

Key consideration 2: An FMI should have effective operational and analytical tools to identify, measure, and monitor its settlement and funding flows on an ongoing and timely basis, including its use of intraday liquidity.

Q.7.2.1: What operational and analytical tools does the FMI have to identify, measure and monitor settlement and funding flows?
NCDCP has not identified any liquidity risk in the clearing and settlement system that it operates.

**Q.7.2.2:** How does the FMI use those tools to identify, measure and monitor its settlement and funding flows on an ongoing and timely basis, including its use of intraday liquidity?

NCDCP has not identified any liquidity risk in the clearing and settlement system that it operates.

**Key consideration 3:** A payment system or SSS, including one employing a DNS mechanism, should maintain sufficient liquid resources in all relevant currencies to effect same-day settlement, and where appropriate intraday or multiday settlement, of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate payment obligation in extreme but plausible market conditions.

**Q.7.3.1:** How does the payment system or SSS determine the amount of liquid resources in all relevant currencies to effect same day settlement and, where appropriate, intraday or multiday settlement of payment obligations? What potential stress scenarios (including, but not limited to, the default of the participant and its affiliates that would generate the largest aggregate payment obligation in extreme but plausible market conditions) does the payment system or SSS use to make this determination?

NCDCP has not identified any liquidity risk in the clearing and settlement system that it operates. NCDCP has no funds that could be used to complete settlement for securities.

**Q.7.3.2:** What is the estimated size of the liquidity shortfall in each currency that the payment system or SSS would need to cover?

NCDCP has not identified any liquidity risk in the clearing and settlement system that it operates. NCDCP has no funds that could be used to complete settlement for securities. NCDCP reconciles clearing and settlement of transactions in EUR every day based on reporting.

**Key consideration 5:** For the purpose of meeting its minimum liquid resource requirement, an FMI’s qualifying liquid resources in each currency include cash at the central bank of issue and at creditworthy commercial banks, committed lines of credit, committed foreign exchange swaps, and committed repos, as well as highly marketable collateral held in custody and investments that are readily available and convertible into cash with prearranged and highly reliable funding arrangements, even in extreme but plausible market conditions. If an FMI has access to routine credit at the central bank of issue, the FMI may count such access as part of the minimum requirement to the extent it has collateral that is eligible for pledging to (or for conducting other appropriate forms of transactions with) the relevant central bank. All such resources should be available when needed.

**Size and composition of qualifying liquid resources**

**Q.7.5.1:** What is the size and composition of the FMI’s qualifying liquid resources in each currency that is held by the FMI? In what manner and within what time frame can these liquid resources be made available to the FMI?

NCDCP has not identified any liquidity risk in the clearing and settlement system that it operates. NCDCP has no funds that could be used to complete settlement for securities.
Availability and coverage of qualifying liquid resources

Q.7.5.2: What prearranged funding arrangements has the FMI established to convert its readily available collateral and investments into cash? How has the FMI established that these arrangements would be highly reliable in extreme but plausible market conditions? Has the FMI identified any potential barriers to accessing its liquid resources?

NCDCP has funds deposited on bank accounts which it can access when needed. NCDCP does not hold any collateral. NCDCP has not identified any obstacles to accessing its liquid resources.

Q.7.5.3: If the FMI has access to routine credit at the central bank of issue, what is the FMI’s relevant borrowing capacity for meeting its minimum liquid resource requirement in that currency?

NCDCP does not lend money for the purposes of settlement. Nor does it have any borrowing capacity in NBS.

Q.7.5.4: To what extent does the size and the availability of the FMI’s qualifying liquid resources cover its identified minimum liquidity resource requirement in each currency to effect settlement of payment obligations on time?

NCDCP does not lend money for the purposes of settlement.

Key consideration 6: An FMI may supplement its qualifying liquid resources with other forms of liquid resources. If the FMI does so, then these liquid resources should be in the form of assets that are likely to be saleable or acceptable as collateral for lines of credit, swaps, or repos on an ad hoc basis following a default, even if this cannot be reliably prearranged or guaranteed in extreme market conditions. Even if an FMI does not have access to routine central bank credit, it should still take account of what collateral is typically accepted by the relevant central bank, as such assets may be more likely to be liquid in stressed circumstances. An FMI should not assume the availability of emergency central bank credit as a part of its liquidity plan.

Size and composition of supplemental liquid resources

Q.7.6.1: What is the size and composition of any supplemental liquid resources available to the FMI?

NCDCP does not lend money for the purposes of settlement. Nor does it have any borrowing capacity in NBS.

Availability of supplemental liquid resources

Q.7.6.2: How and on what basis has the FMI determined that these assets are likely to be saleable or acceptable as collateral to obtain the relevant currency, even if this cannot be reliably prearranged or guaranteed in extreme market conditions?

NCDCP does not lend money for the purposes of settlement. Nor does it have any borrowing capacity in NBS.

Q.7.6.3: What proportion of these supplemental assets qualifies as potential collateral at the relevant central bank?

NCDCP does not lend money for the purposes of settlement. Nor does it have any borrowing capacity in NBS.

Q.7.6.4: In what circumstances would the FMI use its supplemental liquid resources in advance of, or in addition to, using its qualifying liquid resources?
NCDCP has not identified any liquidity risk in the clearing and settlement system that it operates. NCDCP has no funds that could be used to complete settlement for securities.

Q.7.6.5: To what extent does the size and availability of the FMI’s supplemental liquid resources, in conjunction with its qualifying liquid resources, cover the relevant liquidity needs identified through the FMI’s stress test programme for determining the adequacy of its liquidity resources (see key consideration 9)?

NCDCP does not lend money for the purposes of settlement. Nor does it have any borrowing capacity in NBS.

Key consideration 7: An FMI should obtain a high degree of confidence, through rigorous due diligence, that each provider of its minimum required qualifying liquid resources, whether a participant of the FMI or an external party, has sufficient information to understand and to manage its associated liquidity risks, and that it has the capacity to perform as required under its commitment. Where relevant to assessing a liquidity provider’s performance reliability with respect to a particular currency, a liquidity provider’s potential access to credit from the central bank of issue may be taken into account. An FMI should regularly test its procedures for accessing its liquid resources at a liquidity provider.

Use of liquidity providers

Q.7.7.1: Does the FMI use a liquidity provider to meet its minimum required qualifying liquidity resources? Who are the FMI’s liquidity providers? How and on what basis has the FMI determined that each of these liquidity providers has sufficient information to understand and to manage their associated liquidity risk in each relevant currency on an ongoing basis, including in stressed conditions?

NCDCP does not need and does not use a liquidity provider.

Reliability of liquidity providers

Q.7.7.2: How has the FMI determined that each of its liquidity providers has the capacity to perform on its commitment in each relevant currency on an ongoing basis?

NCDCP has not identified any liquidity risk in the clearing and settlement system that it operates. NCDCP has no funds that could be used to complete settlement for securities nor does it use a liquidity provider.

Q.7.7.3: How does the FMI take into account a liquidity provider’s potential access to credit at the central bank of issue?

NCDCP has not identified any liquidity risk in the clearing and settlement system that it operates. NCDCP has no funds that could be used to complete settlement for securities nor does it use a liquidity provider.

Q.7.7.4: How does the FMI regularly test the timeliness and reliability of its procedures for accessing its liquid resources at a liquidity provider?

NCDCP has not identified any liquidity risk in the clearing and settlement system that it operates. NCDCP has no funds that could be used to complete settlement for securities nor does it use a liquidity provider.
Key consideration 8: An FMI with access to central bank accounts, payment services, or securities services should use these services, where practical, to enhance its management of liquidity risk.

Q.7.8.1: To what extent does the FMI currently have, or is the FMI eligible to obtain, access to accounts, payment services and securities services at each relevant central bank that could be used to conduct its payments and settlements and to manage liquidity risks in each relevant currency?

NCDCP has access to a monetary RTGS account kept by NBS and is an associate participant in the payment system operated by NBS. NCDCP has not yet identified any need to access currencies other than the euro.

Q.7.8.2: To what extent does the FMI use each of these services at each relevant central bank to conduct its payments and settlements and to manage liquidity risks in each relevant currency?

NCDCP uses the RTGS accounts of payment banks kept in NBS to settle the financial side of DvP orders.

Q.7.8.3: If the FMI employs services other than those provided by the relevant central banks, to what extent has the FMI analysed the potential to enhance the management of liquidity risk by expanding its use of central bank services?

NCDCP uses only NBS services to settle the financial side of DvP orders.

Q.7.8.4: What, if any, practical or other considerations to expanding its use of relevant central bank services have been identified by the FMI?

NCDCP uses only NBS services to settle the financial side of DvP orders.

Key consideration 9: An FMI should determine the amount and regularly test the sufficiency of its liquid resources through rigorous stress testing. An FMI should have clear procedures to report the results of its stress tests to appropriate decision makers at the FMI and to use these results to evaluate the adequacy of and adjust its liquidity risk-management framework. In conducting stress testing, an FMI should consider a wide range of relevant scenarios. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions. Scenarios should also take into account the design and operation of the FMI, include all entities that might pose material liquidity risks to the FMI (such as settlement banks, nostro agents, custodian banks, liquidity providers, and linked FMIs), and where appropriate, cover a multiday period. In all cases, an FMI should document its supporting rationale for, and should have appropriate governance arrangements relating to, the amount and form of total liquid resources it maintains.

Stress test programme

Q.7.9.1: How does the FMI use stress testing to determine the amount and test the sufficiency of its liquid resources in each currency? How frequently does the FMI stress-test its liquid resources?

NCDCP has not identified any liquidity risk in the clearing and settlement system that it operates. NCDCP has no funds that could be used to complete settlement for securities nor does it use a liquidity provider.

For this reason, it has not carried out stress tests of its liquid resources.
Q.7.9.2: What is the process for reporting on an ongoing basis the results of the FMI’s liquidity stress tests to appropriate decision-makers at the FMI, for the purpose of supporting their timely evaluation and adjustment of the size and composition of the FMI’s liquidity resources and liquidity risk management framework?

NCDCP has not identified any liquidity risk in the clearing and settlement system that it operates. NCDCP has no funds that could be used to complete settlement for securities nor does it use a liquidity provider.

For this reason, it has not carried out stress tests of its liquid resources.

Stress test scenarios

Q.7.9.3: What scenarios are used in the stress tests, and to what extent do they take into account a combination of peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions?

NCDCP has not identified any liquidity risk in the clearing and settlement system that it operates. NCDCP has no funds that could be used to complete settlement for securities nor does it use a liquidity provider.

For this reason, it has not carried out stress tests of its liquid resources.

Q.7.9.4: To what extent do the scenarios and stress tests take into account the FMI’s particular payment and settlement structure (for example, real-time gross or deferred net; with or without a settlement guarantee; DVP model 1, 2 or 3 for SSSs), and the liquidity risk that is borne directly by the FMI, by its participants, or both?

NCDCP has not identified any liquidity risk in the clearing and settlement system that it operates. NCDCP has no funds that could be used to complete settlement for securities nor does it use a liquidity provider.

For this reason, it has not carried out stress tests of its liquid resources.

Q.7.9.5: To what extent do the scenarios and stress tests take into account the nature and size of the liquidity needs, and the associated sources of liquidity risks, that arise in the FMI to settle its payment obligations on time, including the potential that individual entities and their affiliates may play multiples roles with respect to the FMI?

NCDCP has not identified any liquidity risk in the clearing and settlement system that it operates. NCDCP has no funds that could be used to complete settlement for securities nor does it use a liquidity provider.

For this reason, it has not carried out stress tests of its liquid resources.

Review and validation

Q.7.9.6: How frequently does the FMI assess the effectiveness and appropriateness of stress test assumptions and parameters? How does the FMI’s stress test programme take into account various conditions, such as a sudden and significant increase in position and price volatility, position concentration, change in market liquidity, and model risk including shift of parameters?
NCDCP has not identified any liquidity risk in the clearing and settlement system that it operates. NCDCP has no funds that could be used to complete settlement for securities nor does it use a liquidity provider. For this reason, it has not carried out stress tests of its liquid resources.

Q.7.9.7: How does the FMI validate its risk management model? How frequently does it perform this validation?

NCDCP has not identified any liquidity risk in the clearing and settlement system that it operates. NCDCP has no funds that could be used to complete settlement for securities nor does it use a liquidity provider. For this reason, it has not carried out stress tests of its liquid resources.

Q.7.9.8: Where and to what extent does the FMI document its supporting rationale for, and its governance arrangements relating to, the amount and form of its total liquid resources?

NCDCP has not identified any liquidity risk in the clearing and settlement system that it operates. NCDCP has no funds that could be used to complete settlement for securities nor does it use a liquidity provider.

**Key consideration 10:** An FMI should establish explicit rules and procedures that enable the FMI to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations on time following any individual or combined default among its participants. These rules and procedures should address unforeseen and potentially uncovered liquidity shortfalls and should aim to avoid unwinding, revoking, or delaying the same-day settlement of payment obligations. These rules and procedures should also indicate the FMI’s process to replenish any liquidity resources it may employ during a stress event, so that it can continue to operate in a safe and sound manner.

Same day settlement

Q.7.10.1: How do the FMI’s rules and procedures enable it to settle payment obligations on time following any individual or combined default among its participants?

If a participant acting for a counterpart does not supply funds or does not supply sufficient funds in time to allow successful settlement of the settlement instruction based on the schedule of clearing and settlement, NCDCP will cancel the settlement instruction and the reservation indicator for the order in accordance with the valid Operational Rules.

Q.7.10.2: How do the FMI’s rules and procedures address unforeseen and potentially uncovered liquidity shortfalls and avoid unwinding, revoking or delaying the same day settlement of payment obligations?

NCDCP send debit instruction on RTGS account based on the paired clearing instruction evidenced in settlement system. If an instruction has been paired, it can no longer be revoked or modified. Finally NCDCP realize settlement finality which means automatic debit and automatic credit of participant RTGS account. It is not possible to revoke or give back of settlement instructions.
Replenishment of liquidity resources

Q.7.10.3: How do the FMI’s rules and procedures allow for the replenishment of any liquidity resources employed during a stress event?

NCDCP has not identified any liquidity risk in the clearing and settlement system that it operates. NCDCP has no funds that could be used to complete settlement for securities nor does it use a liquidity provider.

For this reason, it has not carried out stress tests of its liquid resources.
Principle 8: Settlement finality

An FMI should provide clear and certain final settlement, at a minimum by the end of the value date. Where necessary or preferable, an FMI should provide final settlement intraday or in real time.

In reviewing this principle, it should be noted that this principle is not intended to eliminate failures to deliver in securities trades. The occurrence of non-systemic amounts of such failures, although potentially undesirable, should not by itself be interpreted as a failure to satisfy this principle. This principle should be reviewed in the context of Principle 9 on money settlements, Principle 20 on FMI links, and other principles, as appropriate.

Key consideration 1: An FMI’s rules and procedures should clearly define the point at which settlement is final.

Point of settlement finality

Q.8.1.1: At what point is the settlement of a payment, transfer instruction or other obligation final, meaning irrevocable and unconditional? Is the point of settlement finality defined and documented? How and to whom is this information disclosed?

Article 75 in part XVI of NCDCP’s Operational Rules – CLEARING AND SETTLEMENT OF TRANSACTIONS WITH BOOK-ENTRY SECURITIES lays down rules for the acceptance of an order for settlement and its finality. In accordance with the law, NCDCP's Operational rules including all amendments are made available to the public in written form at the Headquarter of the CSD and can also be found on NCDCP’s website.

The moment is defined as follows:

In accordance with the law, NCDCP defines the point of finality of a received order for settlement as follows:

- in the case of orders for settlement of transactions without financial settlement, the point of finality is the point at which the obligation to deliver financial instruments is fulfilled;
- in the case of orders for settlement of transactions involving financial settlement, the point of finality is the point at which both the obligation to deliver financial instruments and the obligation to deliver funds are fulfilled.

Q.8.1.2: How does the FMI’s legal framework and rules, including the applicable insolvency law(s), acknowledge the discharge of a payment, transfer instruction or other obligation between the FMI and its participants, or between participants?

Article 75 in part XVI of NCDCP’s Operational Rules – CLEARING AND SETTLEMENT OF TRANSACTIONS WITH BOOK ENTRY SECURITIES lays down rules for the acceptance of an order for settlement and its finality. The rules on this matter are in accordance with Article 107a of Act No 566/2001.

Q.8.1.3: How does the FMI demonstrate that there is a high degree of legal certainty that finality will be achieved in all relevant jurisdictions (for example, by obtaining a well-reasoned legal opinion)?

Operations in NCDCP are fully in accordance with the applicable legislation of the Slovak Republic.
Finality in the case of links

Q.8.1.4: How does the FMI ensure settlement finality in the case of linkages with other FMIs?

a) For an SSS, how is consistency of finality achieved between the SSS and, if relevant, the LVPS where the cash leg is settled?

b) For a CCP for cash products, what is the relation between the finality of obligations in the CCP and the finality of the settlement of the CCP claims and obligations in other systems, depending on the rules of the relevant CSD/SSS and payment system?

NCDCP is connected with CDCP SR (existing Slovak CSD) by an omnibus account that NCDCP has established in CDCP SR. This process will be subject to the same rules described in point 8.1.1 as applicable.

Key consideration 2: An FMI should complete final settlement no later than the end of the value date, and preferably intraday or in real time, to reduce settlement risk. An LVPS or SSS should consider adopting RTGS or multiple-batch processing during the settlement day.

Final settlement on the value date

Q.8.2.1: Is the FMI designed to complete final settlement on the value date (or same day settlement)? How does the FMI ensure that final settlement occurs no later than the end of the intended value date?

The clearing and settlement system operated in NCDCP completes settlement of transactions on the settlement date specified in the settlement instruction. Settlement of transactions takes place in accordance with the time schedule of clearing and settlement laid down in Implementation Regulation No 2 to the NCDCP’s Operational Rules – PROCEDURE OF THE DEPOSITORY AND THE PARTICIPANTS IN THE SYSTEM OF CLEARING AND SETTLEMENT OF TRANSACTIONS WITH SECURITIES

Q.8.2.2: Has the FMI ever experienced deferral of final settlement to the next business day that was not contemplated by its rules, procedures or contracts? If so, under what circumstances? If deferral was a result of the FMI’s actions, what steps have been taken to prevent a similar situation in the future?

In view of the start of the NCDCP’s activities, this situation has not arisen.

Intraday or real-time final settlement

Q.8.2.3: Does the FMI provide intraday or real-time final settlement? If so, how? How are participants informed of the final settlement?

NCDCP processes clearing and settlement instructions on a gross basis, which means that all clearing and settlement instructions are processed with real-time financial settlement. If sufficient funds are not available, the instructions are automatically recycled at regular intervals.

Participants are informed of final settlement through NCDCP’s information system (HIS), which also includes the system for clearing and settlement of transactions. A system user can obtain information on the processing status of a settlement instruction and information on a missing settlement instruction.

Q.8.2.4: If settlement occurs through multiple-batch processing, what is the frequency of the batches and within what time frame do they operate? What happens if a participant does not have enough funds or securities at the settlement time? Are transactions
entered in the next batch? If so, what is the status of those transactions and when would they become final?

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<tr>
<th>Q.8.2.5:</th>
<th>If settlement does not occur intraday or in real time, how has the LVPS or SSS considered the introduction of either of these modalities?</th>
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<td>N/A</td>
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**Key consideration 3:** An FMI should clearly define the point after which unsettled payments, transfer instructions, or other obligations may not be revoked by a participant.

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<tr>
<th>Q.8.3.1:</th>
<th>How does the FMI define the point at which unsettled payments, transfer instructions or other obligations may not be revoked by a participant? How does the FMI prohibit the unilateral revocation of accepted and unsettled payments, transfer instructions or obligations after this time?</th>
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<td>A settlement instruction cannot be cancelled, amended or suspended if it is submitted as a paired instruction, or if it is submitted as an unpaired instruction and then paired. Additionally, if an instruction has been settled, it can no longer be revoked or modified. An instruction for settlement can be revoked by the participant that submitted it while the instruction’s status is “accepted” (PACK) or “pending” (PEND).</td>
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<th>Q.8.3.2:</th>
<th>Under what circumstances can an instruction or obligation accepted by the system for settlement still be revoked (for example, queued obligations)? How can an unsettled payment or transfer instruction be revoked? Who can revoke unsettled payment or transfer instructions?</th>
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<td>An instruction for settlement can be revoked by the participant that submitted it while the instruction’s status is “accepted” (PACK) or “pending” (PEND).</td>
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<th>Q.8.3.3:</th>
<th>Under what conditions does the FMI allow exceptions and extensions to the revocation deadline?</th>
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<td>NCDCP does not allow such exceptions to members in processing instructions.</td>
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<th>Q.8.3.4:</th>
<th>Where does the FMI define this information? How and to whom is this information disclosed?</th>
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<td>N/A</td>
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Principle 9: Money settlements

An FMI should conduct its money settlements in central bank money where practical and available. If central bank money is not used, an FMI should minimise and strictly control the credit and liquidity risk arising from the use of commercial bank money.

This principle should be reviewed in the context of Principle 8 on settlement finality, Principle 16 on custody and investment risks, and other principles, as appropriate.

**Key consideration 1:** An FMI should conduct its money settlements in central bank money, where practical and available, to avoid credit and liquidity risks.

Q.9.1.1: How does the FMI conduct money settlements? If the FMI conducts settlement in multiple currencies, how does the FMI conduct money settlement in each currency?

NCDCP conducts money settlements only in EUR, which is the central bank currency.

Q.9.1.2: If the FMI does not settle in central bank money, why is it not used?

N/A

**Key consideration 2:** If central bank money is not used, an FMI should conduct its money settlements using a settlement asset with little or no credit or liquidity risk.

Q.9.2.1: If central bank money is not used, how does the FMI assess the credit and liquidity risks of the settlement asset used for money settlement?

Money settlements are conducted only using central bank money.

Q.9.2.2: If the FMI settles in commercial bank money, how does the FMI select its settlement banks? What are the specific selection criteria the FMI uses?

Money settlements are conducted only using central bank money.

**Key consideration 3:** If an FMI settles in commercial bank money, it should monitor, manage, and limit its credit and liquidity risks arising from the commercial settlement banks. In particular, an FMI should establish and monitor adherence to strict criteria for its settlement banks that take account of, among other things, their regulation and supervision, creditworthiness, capitalisation, access to liquidity, and operational reliability. An FMI should also monitor and manage the concentration of credit and liquidity exposures to its commercial settlement banks.

Q.9.3.1: How does the FMI monitor the settlement banks’ adherence to criteria it uses for selection? For example, how does the FMI evaluate the banks’ regulation, supervision, creditworthiness, capitalisation, access to liquidity and operational reliability?

Money settlements are conducted only using central bank money.

Q.9.3.2: How does the FMI monitor, manage and limit its credit and liquidity risks arising from the commercial settlement banks? How does the FMI monitor and manage the concentration of credit and liquidity exposures to these banks?

Money settlements are conducted only using central bank money.

Q.9.3.3: How does the FMI assess its potential losses and liquidity pressures as well as those of its participants if there is a failure of its largest settlement bank?

Money settlements are conducted only using central bank money.
Key consideration 4: If an FMI conducts money settlements on its own books, it should minimise and strictly control its credit and liquidity risks.

Q.9.4.1: If an FMI conducts money settlements on its own books, how does it minimise and strictly control its credit and liquidity risks?

N/A - NCDCP does not conduct money settlements on its own books.

Key consideration 5: An FMI’s legal agreements with any settlement banks should state clearly when transfers on the books of individual settlement banks are expected to occur, that transfers are to be final when effected, and that funds received should be transferable as soon as possible, at a minimum by the end of the day and ideally intraday, in order to enable the FMI and its participants to manage credit and liquidity risks.

Q.9.5.1: Do the FMI’s legal agreements with its settlement banks state when transfers occur, that transfers are final when effected, and that funds received are transferable?

Article 75 NCDCP’s Operational Rules lay down rules for settlement of an order and the conditions of finality.

Q.9.5.2: Are funds received transferable by the end of the day at the latest? If not, why? Are they transferable intraday? If not, why?

Fund transfers are carried out by the end of the day – real time settlement.
**Principle 10: Physical deliveries**

An FMI should clearly state its obligations with respect to the delivery of physical instruments or commodities and should identify, monitor, and manage the risks associated with such physical deliveries.

This principle should be reviewed in the context of Principle 15 on general business risk, Principle 23 on disclosure of rules, key procedures and market data, and other principles, as appropriate.

**Key consideration 1: An FMI’s rules should clearly state its obligations with respect to the delivery of physical instruments or commodities.**

**Q.10.1.1:** Which asset classes does the FMI accept for physical delivery?

NCDCP does not provide services for the settlement of transactions involving documentary financial instruments or the storage of documentary financial instruments.

**Q.10.1.2:** How does the FMI define its obligations and responsibilities with respect to the delivery of physical instruments or commodities? How are these responsibilities defined and documented? To whom are these documents disclosed?

NCDCP does not provide services for the settlement of transactions involving documentary financial instruments or the storage of documentary financial instruments.

**Q.10.1.3:** How does the FMI engage with its participants to ensure they have an understanding of their obligations and the procedures for effecting physical delivery?

NCDCP does not provide services for the settlement of transactions involving documentary financial instruments or the storage of documentary financial instruments.

**Key consideration 2: An FMI should identify, monitor, and manage the risks and costs associated with the storage and delivery of physical instruments or commodities.**

**Q.10.2.1:** How does the FMI identify the risks and costs associated with storage and delivery of physical instruments or commodities? What risks and costs has the FMI identified?

NCDCP does not provide services for the settlement of transactions involving documentary financial instruments or the storage of documentary financial instruments.

**Q.10.2.2:** What processes, procedures and controls does the FMI have to monitor and manage any identified risks and costs associated with storage and delivery of physical instruments or commodities?

NCDCP does not provide services for the settlement of transactions involving documentary financial instruments or the storage of documentary financial instruments.

**Q.10.2.3:** If an FMI can match participants for delivery and receipt, under what circumstances can it do so, and what are the associated rules and procedures? Are the legal obligations for delivery clearly expressed in the rules and associated agreements?

N/A
Q.10.2.4: How does the FMI monitor its participants’ delivery preferences and, to the extent practicable, ensure that its participants have the necessary systems and resources to be able to fulfil their physical delivery obligations?

N/A
Principle 11: Central securities depositories

A CSD should have appropriate rules and procedures to help ensure the integrity of securities issues and minimise and manage the risks associated with the safekeeping and transfer of securities. A CSD should maintain securities in an immobilised or dematerialised form for their transfer by book entry.

In reviewing this principle, where an entity legally defined as a CSD or an SSS does not hold or facilitate the holding of assets or collateral owned by its participants, the CSD or SSS in general would not be required to have arrangements to manage the safekeeping of such assets or collateral. This principle should be reviewed in the context of Principle 17 on operational risk, Principle 20 on FMI links, and other principles, as appropriate.

Key consideration 1: A CSD should have appropriate rules, procedures, and controls, including robust accounting practices, to safeguard the rights of securities issuers and holders, prevent the unauthorised creation or deletion of securities, and conduct periodic and at least daily reconciliation of securities issues it maintains.

Safeguarding the rights of securities issuers and holders

Q.11.1.1: How are the rights of securities issuers and holders safeguarded by the rules, procedures and controls of the CSD?

The rights of securities issuers and holders are defined and safeguarded by legislation of the Slovak Republic, in particular Act No 566/2001 and NCDCP’s Operational Rules. Protection of issuers’ rights is extended in NCDCP’s contracts with its clients. Issuers’ rights are safeguarded by the professional performance of activities by NCDCP, its employees, the implementation of legislation in force in the Slovak Republic and NCDCP’s internal regulations. NCDCP cooperates closely with independent external legal advisors and when necessary it requests official opinions or guidelines from the competent authorities. At the same, NCDCP has an internal control process and continuing education programmes for employees.

Q.11.1.2: How do the CSD’s rules, procedures and controls ensure that the securities it holds on behalf of participants are appropriately accounted for on its books and protected from risks associated with the other services the CSD may provide?

The central information system, HIS, ensures correct entry and removal of securities on securities accounts and the correct registration of information on entities. The eligibility of the person/entity for an entry is ensured by the setting of the corresponding access rights in HIS. HIS is able to perform certain checks of issue integrity. It performs a check of the number of securities in a registered issue (the number of securities on accounts must not exceed the number of securities for the given issue). Before NCDCP began live operation, HIS underwent comprehensive testing with potential members. When new versions of HIS are to be deployed, NCDCP will carry out testing in a test environment before deployment in live operations. HIS is a comprehensive information system which permits the highest possible level of automated control. NCDCP conducts regular reconciliation of the information in registers of issuers and the information on owner / holder accounts. NCDCP has created resources for monitoring HIS.

Q.11.1.3: How does the CSD ensure that it has robust accounting practices? Do audits review whether there are sufficient securities to satisfy customer rights? How frequently are end-to-end audits conducted to examine the procedures and internal controls used in the safekeeping of securities?
NCDCP ensures it has robust accounting procedures by testing its information systems. NCDCP does not conduct an audit of the status of its clients’ securities accounts but it does carry out internal controlling of procedures based on an annual control plan. NCDCP addresses irregularities in the status of accounts on an individual basis. Another measure for the prevention of the unauthorised creation or deletion of securities is control of access to the information, which is regulated by Internal regulation No 13/2016/v1 - Security policy.

Prevention of the unauthorised creation or deletion of securities

Q.11.1.4: What are the CSD’s internal procedures to authorise the creation and deletion of securities? What are the CSD’s internal controls to prevent the unauthorised creation and deletion of securities?

Internal Regulation No 20/2015/v1 defines NCDCP’s rules, procedures and activities in accordance with Article 103 of Act No 566/2001 on securities and investment services and amending certain acts, as amended, for the following situations: concluding contracts with the issuers of book-entry securities, concluding contracts with the issuers of documentary securities, when creating and cancelling issuer registers, issuing or cancelling a security or changing its particulars, changing the form of a security, keeping a list of the shareholders of documentary shares held in their name, and performing related activities at the issuer’s request.

Such activities must be conducted in accordance with the applicable provisions of the Act on Securities, the Commercial Code, Act No 530/1990 on bonds, as amended, Act No 42/1992 on the reform of property relations and the settlement of property claims in cooperatives, as amended, Act No 594/2003 on collective investment, as amended, and the provision of other legislation, and must also comply with the applicable provisions of NCDCP’s Operational Rules.

The individual actions of NCDCP’s are defined to ensure the efficient and effective fulfilment of the requests of issuers and other stakeholders. HIS also permits the four-eye principle to be applied in activities related to the registration and cancellation of issues.

Periodic reconciliation of securities issues

Q.11.5: Does the CSD conduct periodic and at least daily reconciliation of the totals of securities issues in the CSD for each issuer (or its issuing agent)? How does the CSD ensure that the total number of securities recorded in the CSD for a particular issue is equal to the amount of securities of that issue held on the CSD’s books?

The central information system, HIS, conducts reconciliation automatically at every moment by implementing a check on the numbers of securities in registered issues (the number of securities on accounts must not exceed the number of securities for the given issue). HIS does not allow negative balances on owner / holder accounts.

Q.11.6: If the CSD is not the official registrar of the issues held on its books, how does the CSD reconcile its records with official registrar?

NCDCP is the official registrar for issues of book-entry securities.

Key consideration 2: A CSD should prohibit overdrafts and debit balances in securities accounts.

Q.11.2.1: How does the CSD prevent overdrafts and debit balances in securities accounts?
Overdrafts and debit balances are automatically prevented by the information system HIS using the procedures described in the answer to Q. 11.1.5.

**Key consideration 3:** A CSD should maintain securities in an immobilised or dematerialised form for their transfer by book entry. Where appropriate, a CSD should provide incentives to immobilise or dematerialise securities.

**Q.11.3.1:** Are securities issued or maintained in a dematerialised form? What percentage of securities is dematerialised, and what percentage of the total volume of transactions applies to these securities?

Since the capital market was established in the Slovak Republic, it has been obligatory to hold securities in book-entry form and therefore immobilisation and dematerialisation operations are not used in the capital market in the Slovak Republic.

The depository provides immobilisation of documentary securities under a contract on collective custody of documentary securities concluded with the issuer.

**Q.11.3.2:** If securities are issued as a physical certificate, is it possible to immobilise them and allow their holding and transfer in a book-entry system? What percentage of securities is immobilised, and what percentage of the total volume of transactions applies to immobilised securities?

Yes, if securities are issued in documentary form, they can be immobilised and then transferred in a book-entry system using the information system HIS. Since the capital market was established in the Slovak Republic, it has been obligatory to hold securities in book-entry form and therefore immobilisation and dematerialisation operations are not used in the Slovak Republic.

**Q11.3.3:** What incentives, if any, does the CSD provide to immobilise or dematerialise securities?

Since the capital market was established in the Slovak Republic, it has been obligatory to hold securities in book-entry form and since immobilisation and dematerialisation operations are accordingly not used in the Slovak Republic, NCDCP does not provide any incentives to immobilise securities, but prefers issues in book-entry form or transformation to a book-entry form.

**Key consideration 4:** A CSD should protect assets against custody risk through appropriate rules and procedures consistent with its legal framework.

**Q.11.4.1:** How do the CSD’s rules and procedures protect assets against custody risk, including the risk of loss because of the CSD’s negligence, misuse of assets, fraud, poor administration, inadequate recordkeeping or failure to protect participants’ interests in their securities?

NCDCP protects assets against the risk of negligence, misuse of assets, fraud, poor administration and inadequate bookkeeping by enforcing the procedures laid down in the Operational Rules and other internal regulations and by ensuring the trustworthiness of its employees. The Operational Rules and all amendments to them are prepared by NCDCP’s Legal Department in cooperation with external legal advisors to ensure that the Operational Rules are in accordance with Act No 566/2001 on securities and investment services.

**Q.11.4.2:** How has the CSD determined that those rules and procedures are consistent with the legal framework?
Lawyers from NCDCP and independent external legal advisors are actively involved in the drafting of rules, procedures and processes. If necessary, NCDCP requests guidance from NBS, which approves NCDCP’s Operational Rules and any amendments to them.

Q.11.4.3: What other methods, if any, does the CSD employ to protect its participants against misappropriation, destruction and theft of securities (for example, insurance or other compensation schemes)?

NCDCP provides protection for its participants against misappropriation, destruction and theft of securities based on its internal security regulations, which are in accordance with the legal framework in the Slovak Republic, or through insurance. NCDCP has drawn up a conception for NCDCP’s security policy which defines the basic areas, principles and measures relevant for protection and security. All the areas, principles and measures laid down in the security policy are in accordance with the applicable legal framework and standards. Cases of misuse, theft or destruction and resulting claims in the Slovak Republic are settled by the courts.

**Key consideration 5:** A CSD should employ a robust system that ensures segregation between the CSD’s own assets and the securities of its participants and segregation among the securities of participants. Where supported by the legal framework, the CSD should also support operationally the segregation of securities belonging to a participant’s customers on the participant’s books and facilitate the transfer of customer holdings.

Q.11.5.1: What segregation arrangements are in place at the CSD? How does the CSD ensure segregation between its own assets and the securities of its participants? How does the CSD ensure segregation among the securities of participants?

The core information system HIS provides fit and proper administration of records on clients’ accounts in accordance with applicable legislation. At the request of a client (member), NCDCP will open a securities account for their use. NCDCP does not open securities accounts for its own use. Accounts in NCDCP’s systems are established and kept for each owner/holder individually. In accordance with the law, members of NCDCP cannot establish and keep accounts for their own benefit. Checks are conducted for this in HIS and any attempt to implement it will be blocked.

Q.11.5.2: Where supported by the legal framework, how does the CSD support the operational segregation of securities belonging to participants’ customers from the participants’ book? How does the CSD facilitate the transfer from these customers’ accounts to another participant?

The segregation of securities belonging to clients of a member is secured by keeping them on owner accounts in HIS, which the members manage independently for their clients. Every account has a unique identification (number) and a specific type in the records (CSDP = owner account). Securities belonging to members are kept on owner’s accounts, which NCDCP manages for each member separately. The orders of members or the clients of members are registered by the entry of the orders in HIS. Each order must include the specific identification number of the account to which the order relates.

**Key consideration 6:** A CSD should identify, measure, monitor, and manage its risks from other activities that it may perform; additional tools may be necessary in order to address these risks.

Q.11.6.1: Does the CSD provide services other than central safekeeping and administration of securities and settlement? If so, what services?
NCDCP provides services under a licence granted by the NBS for the following services: recording book-entry securities and immobilized securities in issuers’ registers; registering owners of book-entry securities in owner’s accounts, and information on securities in client accounts of its members, in the extent defined in the Act on Securities; registering changes in owner’s accounts in the extent defined in the Act on Securities and client accounts of its members; registering data concerning book-entry securities and immobilised securities in the extent defined in the Act on Securities; providing services to members of the central depository, securities issuers, the stock exchange, and foreign stock exchanges, related to activities referred to in points (a) to (d) and (l) to (u); providing for and organising a system for technical data processing for the keeping of records referred to in points (a) to (d), and Article 104(2)(a) to (c) of the Act on Securities; ensuring the clearing and settlement of stock exchange transactions in financial instruments, and the clearing and settlement of transactions in financial instruments at the request of a client or the organiser of a multilateral trading system; ensuring clearing and settlement of such transactions means organising and operating a system of clearing and settlement for transactions in financial instruments (hereinafter referred to as the ‘settlement system’) for at least three participants in the settlement system other than the central depository which operates the settlement system; keeping lists of shareholders for registered paper shares; opening and keeping holder accounts; recording changes in holder accounts; registering other information as required by the Securities Act or another act; providing the payment of nominal value of securities and payment of income on securities after their maturity, as well as other related activities on the issuer’s request; providing safe custody and administration of financial instruments for the account of clients, incl. custodianship and related services, such as cash/collateral management; rental of safe-deposit boxes; opening an account with a foreign legal entity whose business is equivalent to that of a central depository, with a foreign bank or with a foreign investment firm and providing related services; the applicable law for this account shall be that under which was founded the foreign legal entity, foreign bank or foreign investment firm that opened the account for the central depository, and the applicable law for the keeping of data on the owner of the security shall be that of the Slovak Republic; recording foreign book-entry securities issued by the European Central Bank or the European Central Bank in cooperation with Národná banka Slovenska, as well as performing related activities and services of a central depository; this record keeping is governed by the Act on Securities, other acts, the Operational Rules of the central depository and a contract concluded between the central depository and the ECB or between the CSD and Národná banka Slovenska; opening and maintaining a technical account for the purposes of securing liabilities and claims arising from the clearing and settlement of transactions in financial instruments; opening and maintaining an owner’s account for a central depository and providing related services; opening and maintaining a holder’s account for a central depository and providing related services; performing other operations related to the business of the CSD under the Securities Act.

**Q.11.6.2:** If the CSD provides services other than central safekeeping and administration of securities and settlement, how does it identify the risks associated with those activities, including potential credit and liquidity risks? How does it measure, monitor and manage these risks, including legally separating services other than safekeeping and administration of securities where necessary?

**NCDCP** does not provide credit services or other related services and therefore it does not manage them but only monitors them.
**Principle 12: Exchange-of-value settlement systems**

If an FMI settles transactions that involve the settlement of two linked obligations (for example, securities or foreign exchange transactions), it should eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other.

This principle should be reviewed in the context of Principle 4 on credit risk, Principle 7 on liquidity risk, Principle 8 on settlement finality, and other principles, as appropriate.

**Key consideration 1:** An FMI that is an exchange-of-value settlement system should eliminate principal risk by ensuring that the final settlement of one obligation occurs if and only if the final settlement of the linked obligation also occurs, regardless of whether the FMI settles on a gross or net basis and when finality occurs.

Q.12.1.1: How do the FMI’s legal, contractual, and technical and risk management frameworks ensure that the final settlement of relevant financial instruments eliminates principal risk? What procedures ensure that the final settlement of one obligation occurs if and only if the final settlement of a linked obligation also occurs?

In NCDCP’s clearing and settlement system, DvP is conducted on a gross basis, which means that funds are debited from the buyer’s RTGS account and the security is blocked on the buyer’s side and then funds are credited to the vendor’s RTGS account. Clearing and settlement instructions are settled after information on final settlement from the payment system (DEBIT on the buyer’s side and CREDIT on the vendor’s side) and then the blocked securities are released and registered on the owner’s account.

Participants in the system enter into the following contracts: Contract on membership, Contract on the keeping of an account, and are subject to the Operational Rules and General business terms and conditions – member and General business terms and conditions – account.

The use of the gross basis means that there is no risk in the settlement of clearing and settlement instructions.

Q.12.1.2: How are the linked obligations settled - on a gross basis (trade by trade) or on a net basis?

NCDCP calculates all monetary obligations on a gross basis.

Q.12.1.3: Is the finality of settlement of linked obligations simultaneous? If not, what is the timing of finality for both obligations? Is the length of time between the blocking and final settlement of both obligations minimised? Are blocked assets protected from a claim by a third party?

Finality of settlement of transactions is not simultaneous. The time between blocking for the settlement of the transaction and the final settlement is minimised in HIS. It is usually just a few seconds. The security is blocked on the settlement day, SD. Securities blocked in this way are protected against claims by third parties (reservation indicator).

Q.12.1.4: In the case of a CCP, does the CCP rely on the DvP or PvP services provided by another FMI, such as an SSS or payment system? If so, how would the CCP characterise the level of its reliance on such services? What contractual relationship does the CCP have with
the SSS or payment system to ensure that final settlement of one obligation occurs only when the final settlement of any linked obligations occurs?

N/A
Principle 13: Participant-default rules and procedures

An FMI should have effective and clearly defined rules and procedures to manage a participant default. These rules and procedures should be designed to ensure that the FMI can take timely action to contain losses and liquidity pressures and continue to meet its obligations.

Because of the extensive interactions between the default management principles as they apply to CCPs, this principle needs to be reviewed in the context of Principle 14 on segregation and portability. This principle should also be reviewed in the context of Principle 4 on credit risk, Principle 7 on liquidity risk, Principle 23 on disclosure of rules, key procedures and market data, and other principles, as appropriate.

**Key consideration 1:** An FMI should have default rules and procedures that enable the FMI to continue to meet its obligations in the event of a participant default and that address the replenishment of resources following a default.

Participant default rules and procedures

**Q.13.1.1:** Do the FMI’s rules and procedures clearly define an event of default (both a financial and an operational default of a participant) and the method for identifying a default? How are these events defined?

NCDCP has prepared an internal regulation laying down procedures to apply in the event of a participant’s default that are in line with ESMA proposals. These proposals cover a participant’s default due to insolvency (start of bankruptcy proceedings, liquidation, deletion from the commercial register, restructuring) and also operational default. NCDCP has also drawn up and issued detailed instructions for members including instructions for handling operational problems. (For example: If a participant in clearing and settlement does not have sufficient funds on their RTGS account or there are insufficient free securities on the securities account, NCDCP’s HIS system will repeat attempts at clearing and settlement by recycling the instruction. If the instruction cannot be executed within the period for settlement and the number of days for recycling, the instruction is automatically cancelled within NCDCP’s HIS system and the securities are also unblocked on the account).

**Q.13.1.2:** How do the FMI’s rules and procedures address the following key aspects of a participant default?

a) the actions that the FMI can take when a default is declared;
b) the extent to which the actions are automatic or discretionary;
c) changes to normal settlement practices;
d) the management of transactions at different stages of processing;
e) the expected treatment of proprietary and customer transactions and accounts;
f) the probable sequencing of actions;
g) the roles, obligations and responsibilities of the various parties, including non-defaulting participants; and
h) the existence of other mechanisms that may be activated to contain the impact of a default?

Depending on the severity of a member’s breach of their duties, the rules for this procedure are laid down in the Operational Rules.

a) If a member breaches the obligations laid down in the membership contract or the Operational Rules and materially impairs the activities of NCDCP or another member, or causes damage to their client, another member or their clients, NCDCP
is entitled to suspend the offender’s membership or revoke it. NCDCP’s actions must be proportionate to the offence. Under the membership contract, if a member repeatedly defaults in the delivery of funds on the expected settlement day of a DvP transaction, NCDCP is entitled to disclose this matter in the journal and on its website.

b) NCDCP decides on the imposition of penalty.

c) A member whose membership is suspended cannot enter orders for settlement against payment; they may submit an order for a free transfer without monetary settlement and other orders permitted in the Operational Rules. A member whose membership has been revoked cannot submit any orders.

d) The management of transactions at different stages of processing is clearly defined but in principle it is possible to apply the rules on the finality of an order for settlement.

e) The expected treatment of proprietary and customer transactions and accounts is laid down in Articles 17 and 18 of the Operational Rules.

f) NCDCP’s operational rules define circumstances that a member must report to NCDCP, including any changes in the information contained in the membership contract and its annexes and other circumstances that may affect the member’s activities, in particular:

- the commencement of proceedings of the supervisory authority for the revoking of the member’s licence to provided investment services,
- a member’s bankruptcy, permission for the restructuring of their liabilities, or the refusal of bankruptcy owing to a lack of assets,
- a weakening of its financial position that could make it unable to fulfil its obligations to the Depository and other matters that could have the same effect,
- the introduction of forced administration,
- the commencement of any proceedings or any other action against them that could cause or has caused a threat to their status as a member,
- the imposition of corrective measures or penalties by the supervisory authority,
- The Operational Rules also lay down the procedure for reporting such circumstances.
- Article 17 of NCDCP’s Operational Rules specify which actions (orders) are permitted in NCDCP’s records for members whose membership has been suspended.

g) The roles of the various parties are defined in Articles 17 and 18 of NCDCP’s Operational Rules.

h) Besides the above, there are no other mechanisms to contain the impact of a default.

Use of financial resources

Q.13.1.3: How do the FMI’s rules and procedures allow the FMI to promptly use any financial resources that it maintains for covering losses and containing liquidity pressures arising from default, including liquidity facilities?

N/A - NCDCP uses real time gross settlement and therefore it does not hold any financial reserves nor does it have access to liquidity facilities.

Q.13.1.4: How do the FMI’s rules and procedures address the order in which the financial resources can be used?
N/A - NCDCP uses real time gross settlement and therefore it does not hold any financial reserves nor does it have access to liquidity facilities.

Q.13.1.5: How do the FMI’s rules and procedures address the replenishment of resources following a default?

N/A - NCDCP uses real time gross settlement and therefore it does not hold any financial reserves nor does it have access to liquidity facilities.

**Key consideration 2:** An FMI should be well prepared to implement its default rules and procedures, including any appropriate discretionary procedures provided for in its rules.

Q.13.2.1: Does the FMI’s management have internal plans that clearly delineate the roles and responsibilities for addressing a default? What are these plans?

Roles and responsibilities in the event of a threatened default by NCDCP are laid down in the internal regulation No 10/2017/v2 - RISK MANAGEMENT IN NCDCP in the section on capital requirements and in the Internal regulation No 35/2017/v1 - WIND-DOWN PLAN FOR NCDCP.

Q.13.2.2: What type of communication procedures does the FMI have in order to reach in a timely manner all relevant stakeholders, including regulators, supervisors and overseers?

NCDCP communicates regularly with stakeholders (shareholder representatives, NBS supervision) and informs them regarding its current situation and its plans for the future by inviting them to meetings of the board of directors of NCDCP, meetings of the Supervisory Board of NCDCP and by performing reporting duties set by shareholders and NBS.

Q.13.2.3: How frequently are the internal plans to address a default reviewed? What is the governance arrangement around these plans?

NCDCP’s plans for addressing default are reviewed annually or after an extraordinary event that has a heavy financial impact on NCDCP.

**Key consideration 3:** An FMI should publicly disclose key aspects of its default rules and procedures.

Q.13.3.1: How are the key aspects of the FMI’s participant default rules and procedures made publicly available? How do they address:

a) the circumstances in which action may be taken;
b) who may take those actions;
c) the scope of the actions which may be taken, including the treatment of both proprietary and customer positions, funds and assets;
d) the mechanisms to address an FMI’s obligations to non-defaulting participants; and
e) where direct relationships exist with participants’ customers, the mechanisms to help address the defaulting participant’s obligations to its customers?

a) Action may be taken based on the official information about the start of bankruptcy or restructuring procedures or serious operational troubles.
b) After the reporting of a participant’s default on Day “D”, the risk management manager convenes a meeting of the Risk Management Committee of the NCDCP, which reviews the extent of the default's impact on NCDCP’s operations and the market infrastructure and decides on the measures that NCDCP will take to eliminate risk for NCDCP and its participants.
c) The scope of actions which may be taken is given by the NCDCP’s Operational rules and the final recommendation of the risk management committee.
d) The Business and Operations Division sends information to NBS in at least the following scope no later than Day “D+1”:
- The type of participant that defaulted.
- The price and volume of the ordered transactions of the defaulting participant that are awaiting settlement and, if possible, specification of those that fail in settlement.
- The types of transactions and financial instruments associated with these instructions.
- The number of affected clients.
- Information on any risks that could result from the default.
- Measures or steps taken by NCDCP in response to the default.

e) The Business and Operations Division sends information to the defaulting member on the measure or steps taken by NCDCP in response to the default no later than on day “D+1”. The Business and Operations Division sends information on the member’s default to non-defaulting members of NCDCP, BCPB (Bratislava Stock Exchange), linked central depositories, ESMA* no later than on Day D+1.

* Information provided in accordance with point 6 above should not include personal data.

NCDCP sends information on the participant’s default to other participants in a written mail message and publishes the notice on its website.

Depending on the severity of a member’s breach of their duties, NCDCP may suspend their membership or revoke it. The rules for this procedure are laid down in the Operational Rules.

**Key consideration 4:** An FMI should involve its participants and other stakeholders in the testing and review of the FMI’s default procedures, including any close-out procedures. Such testing and review should be conducted at least annually or following material changes to the rules and procedures to ensure that they are practical and effective.

**Q.13.4.1:** How does the FMI engage with its participants and other relevant stakeholders in the testing and review of its participant default procedures? How frequently does it conduct such tests and reviews? How are these tests results used? To what extent are the results shared with the board, risk committee and relevant authorities?

Periodic testing and reviews of participant default procedures are conducted by NCDCP’s Business and Operations Division at least once per year and whenever NCDCP makes significant changes in its rules and procedures for defaults, or at the request of a competent authority. Testing and review use a relevant sample of participants, payments systems, other market members and other issuers (as the usual settlement infrastructure). Testing is conducted as required on each of the security settlement systems that NCDCP operates. A competent authority may request participation in testing.

**Q.13.4.2:** What range of potential participant default scenarios and procedures do these tests cover? To what extent does the FMI test the implementation of the resolution regime for its participants?

NCDCP must define the parameters according to which the test will be conducted before it commences. Testing must take account of the types of participants (as regards volumes, activities etc.) Participants situated in various countries or time
zones, participants that are owners of various types of account (holder, client), the structure of the relevant market, as appropriate. For example:

- test type (which system or part of a system will be tested),
- test participants (by volume, activity type, geographic location, account type – holder / owner etc.),
- share and type of outsourced services,
- connection,
- communication schemes.

The test should also include a simulation exercise and a test of the communication plan.
Principle 15: General business risk

An FMI should identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialise. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services.

This principle should be reviewed in the context of Principle 3 on the framework for the comprehensive management of risks, Principle 21 on efficiency and effectiveness, and other principles, as appropriate.

Key consideration 1: An FMI should have robust management and control systems to identify, monitor, and manage general business risks, including losses from poor execution of business strategy, negative cash flows, or unexpected and excessively large operating expenses.

Q.15.1.1: How does the FMI identify its general business risks? What general business risks has the FMI identified?

NCDCP identifies general business risks preventatively based on the experience of its managers and employees in combination with the catalogue of risks. NCDCP has identified a mix of general business risk (legal risk, risk of change of credit rating, reputation risk, tax risk, currency convertibility risk, disaster risk, regulatory risk).

Q.15.1.2: How does the FMI monitor and manage its general business risks on an ongoing basis? Does the FMI’s business risk assessment consider the potential effects on its cash flow and (in the case of a privately operated FMI) capital?

NCDCP has a stable administration and management system with a clear organisational structure, precisely defined, transparent and consistent lines of responsibility, effective procedures for detecting, managing, monitoring and reporting risks to which it is or could be exposed, an adequate remuneration policy and internal control mechanisms including reliable administrative and accounting procedures.

NCDCP’s operations apply an effective written organisational and administrative framework for detecting and managing any potential conflict of interests involving its managers, employees, members of its management body or any other person directly or indirectly connected with them, its participants or their clients. It prepares appropriate management procedures whenever a potential conflict of interests arises.

NCDCP has disclosed to the public its system of management and administration and the rules that govern its activities.

NCDCP has implemented a detailed internal regulation, the Competence Rules, the consistent application of which will make a strong contribution to eliminating general business and operational risk.

Key consideration 2: An FMI should hold liquid net assets funded by equity (such as common stock, disclosed reserves, or other retained earnings) so that it can continue operations and services as a going concern if it incurs general business losses. The amount of liquid net assets funded by equity an FMI should hold should be determined by its general business risk profile and the length of time required to achieve a recovery or orderly wind-down, as appropriate, of its critical operations and services if such action is taken.

Q.15.2.1: Does the FMI hold liquid net assets funded by equity so that it can continue operations and services as a going concern if it incurs general business losses?
NCDCP holds the funds deposited in its share capital in accounts in financial institutions to cover the company’s costs and to create reserves for unforeseen costs. NCDCP does not invest funds in other assets.

Q.15.2.2: How does the FMI calculate the amount of liquid net assets funded by equity to cover its general business risks? How does the FMI determine the length of time and associated operating costs of achieving a recovery or orderly wind-down of critical operations and services?

NCDCP calculates the liquidity necessary to cover general business risk based on an estimate of the direct threat of financial losses and costs, for example in the event of litigation, fines, penalties and the like. At present NCDCP is negotiating for the conclusion of a suitable insurance contract for professional indemnity insurance related to business risk.

Key consideration 3: An FMI should maintain a viable recovery or orderly wind-down plan and should hold sufficient liquid net assets funded by equity to implement this plan. At a minimum, an FMI should hold liquid net assets funded by equity equal to at least six months of current operating expenses. These assets are in addition to resources held to cover participant defaults or other risks covered under the financial resources principles. However, equity held under international risk-based capital standards can be included where relevant and appropriate to avoid duplicate capital requirements.

Recovery or orderly wind-down plan

Q.15.3.1: Has the FMI developed a plan to achieve a recovery or orderly wind-down, as appropriate? If so, what does this plan take into consideration (for example, the operational, technological and legal requirements for participants to establish and move to an alternative arrangement)?

NCDCP has elaborated the following plans:
- Business continuity plan,
- Disaster recovery plan,
- Recovery plan,
- Wind-down plan including various scenarios.

Resources

Q.15.3.2: What amount of liquid net assets funded by equity is the FMI holding for purposes of implementing this plan? How does the FMI determine whether this amount is sufficient for such implementation? Is this amount at a minimum equal to six months of the FMI’s current operating expenses?

The liquid assets invested in NCDCP’s share capital in accordance with Act No 566/2001 on securities and investment services are adequate to cover the implementation of the aforementioned plans. The Act on Securities also requires NCDCP’s owner to provide additional liquidity if it is needed for NCDCP’s recovery. At present NCDCP has liquid resources several times larger than six months of its operating costs. NCDCP’s liquid assets are six times larger than six months’ operating costs.

Q.15.3.3: How are the resources designated to cover business risks and losses separated from resources designated to cover participant defaults or other risks covered under the financial resources principles?

NCDCP has not allocated extra resources to cover multiple types of risk separately. NCDCP does not provide credit to members and therefore it does not need to secure funds to cover the risk of participant defaults.
Q.15.3.4: Does the FMI include equity held under international risk-based capital standards to cover general business risks?

The amount of the share capital of the central depository is laid down in Act No 566/2001 on securities and investment services, as amended, in accordance with international standards. NCDCP’s share capital is also in accordance with the requirements of Slovak law relating to the activity of a company limited by shares, which stipulate that a company’s share capital must include sufficient funds to cover general business risks.

**Key consideration 4:** Assets held to cover general business risk should be of high quality and sufficiently liquid in order to allow the FMI to meet its current and projected operating expenses under a range of scenarios, including in adverse market conditions.

Q.15.4.1: What is the composition of the FMI’s liquid net assets funded by equity? How will the FMI convert these assets as needed into cash at little or no loss of value in adverse market conditions?

The funds deposited in NCDCP’s share capital are held only in bank accounts and can be made liquid as required.

Q.15.4.2: How does the FMI regularly assess the quality and liquidity of its liquid net assets funded by equity to meet its current and projected operating expenses under a range of scenarios, including in adverse market conditions?

The funds deposited in NCDCP’s share capital are held only in bank accounts and can be made liquid as required.

**Key consideration 5:** An FMI should maintain a viable plan for raising additional equity should its equity fall close to or below the amount needed. This plan should be approved by the board of directors and updated regularly.

Q.15.5.1: Has the FMI developed a plan to raise additional equity? What are the main features of the FMI’s plan to raise additional equity should its equity fall close to or fall below the amount needed?

In Slovak law, Article 100(2)(h) and (7) of the Act on Securities (Act No 566/2001) lay down a requirement that NCDCP’s owners must be able to support recovery from any adverse situation in NCDCP. Furthermore, if there is any change of shareholder, the new shareholder must provide a declaration that they are and will be able to support recovery from any adverse situation in NCDCP. NCDCP reports this declaration to NBS, which performs supervision in this area.

Q.15.5.2: How frequently is the plan to raise additional equity reviewed and updated?

In the declaration, NCDCP’s owner declares that they are able at any time to support recovery from any adverse situation in NCDCP and every new owner must provide the same declaration.

Q.15.5.3: What is the role of the FMI’s board (or equivalent) in reviewing and approving the FMI’s plan to raise additional equity if needed?

Having regard for the solution stipulated by law for capital problems in NCDCP, the board of directors monitors the development of equity on a monthly basis and is able to react within sufficient time if necessary. The owner also receives information on the level of equity at regular monthly intervals and reports this information to NBS.
**Principle 16: Custody and investment risks**

An FMI should safeguard its own and its participants’ assets and minimise the risk of loss on and delay in access to these assets. An FMI’s investments should be in instruments with minimal credit, market, and liquidity risks.

This principle should be reviewed in the context of Principle 4 on credit risk, Principle 5 on collateral, Principle 7 on liquidity risk, and other principles, as appropriate.

**Key consideration 1:** An FMI should hold its own and its participants’ assets at supervised and regulated entities that have robust accounting practices, safekeeping procedures, and internal controls that fully protect these assets.

Q.16.1.1: If the FMI uses custodians, how does the FMI select its custodians? What are the specific selection criteria the FMI uses, including supervision and regulation of these entities? How does the FMI monitor the custodians’ adherence to these criteria?

NCDCP does not use any custodians to hold securities for its clients or to manage its own assets.

Q.16.1.2: How does the FMI verify that these entities have robust accounting practices, safekeeping procedures, and internal controls that fully protect its and its participants’ assets?

NCDCP does not use any custodians to hold securities for its clients or to manage its own assets.

**Key consideration 2:** An FMI should have prompt access to its assets and the assets provided by participants, when required.

Q.16.2.1: How has the FMI established that it has a sound legal basis to support enforcement of its interest or ownership rights in assets held in custody?


Q.16.2.2: How does the FMI ensure that it has prompt access to its assets, including securities that are held with a custodian in another time zone or legal jurisdiction, in the event of participant default?

NCDCP does not use any custodians to hold securities for its clients or to manage its own assets.

**Key consideration 3:** An FMI should evaluate and understand its exposures to its custodian banks, taking into account the full scope of its relationships with each.

Q.16.3.1: How does the FMI evaluate and understand its exposures to its custodian banks? In managing those exposures, how does it take into account the full scope of its
relationship with each custodian bank? For instance, does the FMI use multiple custodians for the safekeeping of its assets to diversify exposure to any single custodian? How does the FMI monitor concentration of risk exposures to its custodian banks?

NCDCP does not use any custodians to hold securities for its clients or to manage its own assets.

**Key consideration 4:** An FMI’s investment strategy should be consistent with its overall risk-management strategy and fully disclosed to its participants, and investments should be secured by, or be claims on, high-quality obligors. These investments should allow for quick liquidation with little, if any, adverse price effect.

**Investment strategy**

Q.16.4.1: How does the FMI ensure that its investment strategy is consistent with its overall risk management strategy? How and to whom does the FMI disclose its investment strategy?

Because NCDCP invests only in time deposits, it does not prepare an investment strategy, nor do NCDCP’s clients place any funds or securities in its administration as collateral. The risk management manager monitors the consistency of NCDCP’s investments with the risk management strategy.

Q.16.4.2: How does the FMI ensure on an ongoing basis that its investments are secured by, or are claims on, high-quality obligors?

Because NCDCP invests only in time deposits, it does not prepare an investment strategy, nor do NCDCP’s clients place any funds or securities in its administration as collateral. The risk management manager monitors the quality of the banks in which NCDCP invests its liquid assets.

**Risk characteristics of investments**

Q.16.4.3: How does the FMI consider its overall exposure to an obligor in choosing investments? What investments are subject to limits to avoid concentration of credit risk exposures?

In compliance with internal rules NO 10/2017/v2 Risk Management in NCDCP it is prohibit after adjustment for the effects of mitigation of credit risk to create in one financial institution or within the group of financial institutions an exposure higher than 25% of NCDCP’s equity presented in NCDCP Assets&Liabilities statement.

Q.16.4.4: Does the FMI invest participant assets in the participants’ own securities or those of its affiliates?

NCDCP does not invest the assets of its participants.

Q.16.4.5: How does the FMI ensure that its investments allow for quick liquidation with little, if any, adverse price effect?

Because NCDCP invests only in time deposits, it does not prepare an investment strategy, nor do NCDCP’s clients place any funds or securities in its administration as collateral.
Principle 17: Operational risk

An FMI should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and fulfilment of the FMI’s obligations, including in the event of a wide-scale or major disruption.

This principle should be reviewed in the context of Principle 20 on FMI links, Principle 21 on efficiency and effectiveness, Principle 22 on communication standards and procedures, and other principles, as appropriate.

Key consideration 1: An FMI should establish a robust operational risk-management framework with appropriate systems, policies, procedures, and controls to identify, monitor, and manage operational risk.

Identification of operational risk

Q.17.1.1: What are the FMI’s policies and processes for identifying the plausible sources of operational risks? How do the FMI’s processes identify plausible sources of operational risks, whether these risks arise from internal sources (for example, the arrangements of the system itself, including human resources), from the FMI’s participants or from external sources?

NCDCP’s system for identifying, managing, preventing and monitoring operational risk is described in the Internal regulation No 10/2017/v2 - RISK MANAGEMENT IN NCDCP. This regulation lays down rules and establishes procedures for protecting against operational risk and methods for measuring, monitoring and managing such risk in NCDCP’s activities. The management of risk related to information systems, personal data protection and business continuity for NCDCP is described in regulations: No 13/2015/v1 - Security policy, No 15/2017/v2 - Business continuity plan for NCDCP, No 18/2015/v1 - Information security user manual, No 16/2016/v1 - Security guidelines for personal data protection. NCDCP uses modern information systems that process 90% of information automatically and reduce the need for human intervention, which is the main cause of the occurrence and threat of operational risk both internally and externally.

Q.17.1.2: What sources of operational risks has the FMI identified? What single points of failure in its operations has the FMI identified?

The main sources of operational risk are human intervention in NCDCP’s overall operation in all its areas of activity, which is the most significant cause of the occurrence and threat of operational risk both internally and externally, and also the defects in NCDCP’s technical systems.

Management of operational risk

Q.17.1.3: How does the FMI monitor and manage the identified operational risks? Where are these systems, policies, procedures and controls documented?

NCDCP’s system for identifying, managing, preventing and monitoring operational risk is described in the Internal regulation No 10/2017/v2 - RISK MANAGEMENT IN NCDCP. This regulation lays down rules and establishes procedures for protecting against operational risk and methods for measuring, monitoring and managing such risk in NCDCP’s activities. The management of risk related to information systems, personal data protection and business continuity is described in regulations: No 13/2015/v1 - Security policy, No 15/2017/v2 - Business continuity plan for NCDCP, No 18/2015/v1 - Information security user manual, No 16/2016/v1 - Security guidelines for personal data protection. NCDCP uses modern information systems that process 90% of information automatically and reduce the need for human intervention, which is the main cause of the occurrence and threat of operational risk both internally and externally, and also the defects in NCDCP’s technical systems.
data protection and business continuity for NCDCP is described in regulations No 13/2015/v1 - Security policy, No 15/2017/v2 - Business continuity plan for NCDCP, No 18/2015/v1 - Information security user manual, and No 16/2016/v1 - Security guidelines for personal data protection. NCDCP uses modern information systems that process 90% of information automatically and reduce the need for human intervention, which is the main cause of the occurrence and threat of operational risk both internally and externally.

Policies, processes and controls

Q.17.1.4: What policies, processes and controls does the FMI employ that are designed to ensure that operational procedures are implemented appropriately? To what extent do the FMI’s systems, policies, processes and controls take into consideration relevant international, national and industry-level operational risk management standards?

NCDCP’s activity and its conformity with work procedures, guidelines, acts, ministerial decrees and NBS decrees implementing international, national and industry-level operational risk management standards are checked by an independent audit and the managers at each level of management in NCDCP as well as the compliance manager and the security manager.

Q.17.1.5: What are the FMI’s human resources policies to hire, train and retain qualified personnel, and how do such policies mitigate the effects of high rates of personnel turnover or key-person risk? How do the FMI’s human resources and risk management policies address fraud prevention?

NCDCP has established procedures for employee training, Work Rules that define the conditions and rules of work, NCDCP’s Code of Ethics – which lays down the moral standards expected of employees and procedures for identifying and managing conflicts of interest. The compliance manager and the security manager monitor all areas of NCDCP’s activities and act on fraud prevention both externally and internally. The risk of fraud is mitigated by multiple levels of control activity in NCDCP, the application of the four-eye principle and the design of workflow.

Q.17.1.6: How do the FMI’s change management and project management policies and processes mitigate the risks that changes and major projects inadvertently affect the smooth functioning of the system?

NCDCP conducts a feasibility study and impact assessment for fundamental changes and all partial changes in processes and examines the effect of these changes on risk.

**Key consideration 2:** An FMI’s board of directors should clearly define the roles and responsibilities for addressing operational risk and should endorse the FMI’s operational risk-management framework. Systems, operational policies, procedures, and controls should be reviewed, audited, and tested periodically and after significant changes.

Roles, responsibilities and framework

Q.17.2.1: How has the board of directors defined the key roles and responsibilities for operational risk management?

NCDCP’s Board of Directors has defined the key roles in managing operational risk in a number of documents laying down guidelines and work rules, as referred to above. NCDCP has established procedures for employee training, Work Rules that define the conditions and rules of work, NCDCP’s Code of Ethics – which lays down the moral
standards expected of employees, an internal regulation on identifying and managing conflicts of interest and competence and signature rules. The compliance manager and the security manager monitor all areas of NCDCP’s activities and act on fraud prevention both externally and internally. The risk of fraud is mitigated by multiple levels of control activity in NCDCP, the application of the four-eye principle and the design of workflow.

Q.17.2.2: Does the FMI’s board explicitly review and endorse the FMI’s operational risk management framework? How frequently does the board review and endorse the FMI’s operational risk management framework?

NCDCP’s Board of Directors reviews and endorses its operational risk management framework based on a proposal of the risk management manager or managers in all NCDCP’s lines of management whenever a threat or incident of operational risk arises internally or externally.

Review, audit and testing

Q.17.2.3: How does the FMI review, audit and test its systems, policies, procedures and controls, including its operational risk management arrangements with participants? How frequently does the FMI conduct these reviews, audits and tests with participants?

NCDCP tests security and the system for cooperation with members before the start of cooperation based on the approved Operational Rules, their implementing regulations and the contracts, and subsequently NCDCP conducts checks on a daily basis through the reconciliation of operations and other checks focusing on the quality and security of the provided services and naturally also the mitigation of any operational risk. NCDCP conducted tests of connection, functionality and clearing and settlement test as part of the acceptance tests for members.

Q.17.2.4: To what extent, where relevant, is the FMI’s operational risk management framework subject to external audit?

There has not yet been an external audit of NCDCP’s risk management framework.

The external auditor that conducts the audit of the annual financial statements always examines the operational risk management frameworks and assesses any effect they may have on provisioning.

Key consideration 3: An FMI should have clearly defined operational reliability objectives and should have policies in place that are designed to achieve those objectives.

Q.17.3.1: What are the FMI’s operational reliability objectives, both qualitative and quantitative? Where and how are they documented?

Qualitative and quantitative operational reliability objectives are laid down in Act No 566 on securities and investment services and cover both the range and quality level of the provided services. The legislative requirements are incorporated into NCDCP’s Operational Rules and the NCDCP’s broad regulatory framework.

Q.17.3.2: How do these objectives ensure a high degree of operational reliability?

NCDCP has a robust regulatory framework and 90% of its activities are conducted automatically by a new, modern information system, which ensures a high degree of operational reliability and security.
Q.17.3.3: What are the policies in place that are designed to achieve the FMI’s operational reliability objectives to ensure that the FMI takes appropriate action as needed?

NCDCP’s system for identifying, managing, preventing and monitoring operational risk is described in the work rules IP 10-2017-v2 Risk management system in NCDCP. These document lay down rules and establishes procedures for protecting against operational risk and methods for measuring, monitoring and managing such risk in NCDCP’s activities. The management of risk related to information systems, personal data protection and business continuity for NCDCP is described in internal regulations: No 13/2015/v1 - Security policy, No 15/2017/v2 - Business continuity plan for NCDCP, No 18/2015/v1 - Information security user manual, and No 16/2016/v1 - Security guidelines for personal data protection. NCDCP uses modern information systems that process 90% of information automatically and reduce the need for human intervention, which is the main cause of the occurrence and threat of operational risk both internally and externally.

Key consideration 4: An FMI should ensure that it has scalable capacity adequate to handle increasing stress volumes and to achieve its service-level objectives.

Q.17.4.1: How does the FMI review, audit and test the scalability and adequacy of its capacity to handle, at a minimum, projected stress volumes? How frequently does the FMI conduct these reviews, audits and tests?

NCDCP conducted stress tests as part of the acceptance tests for HIS and it plans to repeat them in future (around once per year).

Q.17.4.2: How are situations where operational capacity is neared or exceeded addressed?

The situation in the question has not yet arisen. If exceptional circumstances made it impossible to process the required volume of transactions within the period set by the schedule for the accounting day, NCDCP would inform its members and other participants in the capital market of an operational extension of the schedule for the given accounting day and the affected volume of transactions would be processed during the extension.

Key consideration 5: An FMI should have comprehensive physical and information security policies that address all potential vulnerabilities and threats.

Physical security

Q.17.5.1: What are the FMI’s policies and processes, including change management and project management policies and processes, for addressing the plausible sources of physical vulnerabilities and threats on an ongoing basis?

NCDCP’s internal regulations in this area are No 13/2015/v1 - Security policy, No 15/2017/v2 - Business continuity plan for NCDCP, No 18/2015/v1 - Information security user manual, and No 16/2016/v1 - Security guidelines for personal data protection. Regulations on change management and project management are developed.

Q.17.5.2: Do the FMI’s policies, processes, controls and testing appropriately take into consideration relevant international, national and industry-level standards for physical security?

Yes, they take them into account based on applicable legislation, regulations and acts.
Information security

Q.17.5.3: What are the FMI’s policies and processes, including change management and project management policies and processes, for addressing the plausible sources of information security vulnerabilities and threats on an ongoing basis?

NCDCP’s internal regulations in this area are No 13/2015/v1 - Security policy, No 15/2017/v2 - Business continuity plan for NCDCP, No 18/2015/v1 - Information security user manual, and No 16/2016/v1 - Security guidelines for personal data protection. Regulations on change management and project management are developed.

Q.17.5.4: Do the FMI’s policies, processes, controls and testing appropriately take into consideration relevant international, national and industry-level standards for information security?

Yes, NCDCP’s policies, processes, controls and testing take into consideration relevant international, national and industry-level standards for information security.

Key consideration 6: An FMI should have a continuity plan that addresses events posing a significant risk of disrupting operations, including events that could cause a wide-scale or major disruption. The plan should incorporate the use of a secondary site and should be designed to ensure that critical information technology (IT) systems can resume operations within two hours following disruptive events. The plan should be designed to enable the FMI to complete settlement by the end of the day of the disruption, even in case of extreme circumstances. The FMI should regularly test these arrangements.

Objectives of business continuity plan

Q.17.6.1: How and to what extent does the FMI’s business continuity plan reflect objectives, policies and procedures that allow for the rapid recovery and timely resumption of critical operations following a wide-scale or major disruption?

Business continuity plan - NCDCP’s business continuity plan is a comprehensive plan for the rapid recovery of NCDCP’s operations if critical situations arise.

Design of business continuity plan

Q.17.6.2: How and to what extent is the FMI’s business continuity plan designed to enable critical IT systems to resume operations within two hours following disruptive events, and to enable the FMI to facilitate or complete settlement by the end of the day even in extreme circumstances?

NCDCP operates two data centres (its main data centre and a back-up), each of which has its infrastructure in a virtual environment on three physical servers operating as a cluster. Each data centre has two independent connections.

If all three servers in the main data centre fail, operations are transferred to the back-up data centre (the transfer takes around one hour).

This six-fold redundancy in infrastructure allows us to provide services to clients almost without limit.

Q.17.6.3: How is the contingency plan designed to ensure that the status of all transactions can be identified in a timely manner, at the time of the disruption; and if there is a possibility of data loss, what are the procedures to deal with such loss (for example, reconciliation with participants or third parties)?
NCDCP’s transactions are logged synchronously at the primary and secondary site. If there is severe disruption at the primary site, all transactions are stored at the secondary site in their state before the disruption.

Q.17.6.4: How do the FMI’s crisis management procedures address the need for effective communications internally and with key external stakeholders and authorities?

The procedures are set out in the organisational rules, the articles of association, the statute of the supervisory board, the statute of the board of directors and other operational guidance documents.

Secondary site

Q.17.6.5: How does the FMI’s business continuity plan incorporate the use of a secondary site (including ensuring that the secondary site has sufficient resources, capabilities, functionalities and appropriate staffing arrangements)? To what extent is the secondary site located a sufficient geographic distance from the primary site such that it has a distinct risk profile?

The NCDCP has two secondary sites, one of which is around 5 km away and the second is about 13 km away in accordance with security standards.

Q.17.6.6: Has the FMI considered alternative arrangements (such as manual, paper-based procedures or other alternatives) to allow the processing of time-critical transactions in extreme circumstances?

The NCDCP has laid down alternative arrangements for extreme circumstances in its internal regulation Business continuity plan for NCDCP.

Review and testing

Q.17.6.7: How are the FMI’s business continuity and contingency arrangements reviewed and tested, including with respect to scenarios related to wide-scale and major disruptions? How frequently are these arrangements reviewed and tested?

They are tested at least once per year.

Q.17.6.8: How does the review and testing of the FMI’s business continuity and contingency arrangements involve the FMI’s participants, critical service providers and linked FMIs as relevant? How frequently are the FMI’s participants, critical service providers and linked FMIs involved in the review and testing?

Always once per year.

Key consideration 7: An FMI should identify, monitor, and manage the risks that key participants, other FMIs, and service and utility providers might pose to its operations. In addition, an FMI should identify, monitor, and manage the risks its operations might pose to other FMIs.

Risks to the FMI’s own operations

Q.17.7.1: What risks has the FMI identified to its operations arising from its key participants, other FMIs, and service and utility providers? How and to what extent does the FMI monitor and manage these risks?

NCDCP has identified risks relating to personal data protection, bankruptcy and other events. It mitigates these risks by contractually requiring its members to comply with the personal data protection act and to report any default or risk of bankruptcy etc. without delay.
Q.17.7.2: If the FMI has outsourced services critical to its operations, how and to what extent does the FMI ensure that the operations of a critical service provider meet the same reliability and contingency requirements they would need to meet if they were provided internally?

NCDCP does not outsource any of its operations.

Risks posed to other FMIs

Q.17.7.3: How and to what extent does the FMI identify, monitor and mitigate the risks it may pose to another FMI?

1. NCDCP minimises the impact of its operational risk by using automated IT systems, controls and procedures for all the securities transactions settlement systems that it operates. The IT systems perform automatic checks of integrity, completeness and accuracy of information and automatically request NCDCP staff to perform “four-eye” checks. The IT systems produce various types of control reports for employees and managers, the risk management manager, the compliance manager and so on. The IT systems send automatic feedback on the status of processing of clients’ orders to NCDCP’s employees responsible for these operations, they automatically report any errors in processing and NCDCP’s employees know exactly how to proceed in response to each type of report. Managers are also kept continuously up to date on the operational status of information systems and operations conducted by NCDCP’s employees.

2. NCDCP uses IT systems to conduct its main activities and provide a high degree of security and operational reliability and also adequate operational capacity. The IT systems are able to cope with the complexity, diversity and the types of the company’s services and activities in accordance with the high standards of security, integrity and confidentiality required for the information they hold. NCDCP tests the reliability and quality of its operations internally and in cooperation with external market entities.

3. Business continuity procedures and disaster recovery plans have been developed and implemented and are tested on an ongoing basis. They cover the provision of NCDCP’s services and the information systems that NCDCP uses in the settlement of securities transactions. The objective of these plans and procedures is to ensure the provision of services, the timely recovery of operations and the fulfilment of obligations in circumstances representing a major risk of service disruption.

4. The plan in (3) permits the recovery of all participants’ transactions and positions at the moment of disruption and its goal is that participants in central depository can continue their activities with certainty and complete settlement at the set date thanks to the prompt restoration of key IT systems after the moment of disruption. The plan includes the establishment of a second processing site with adequate resources, capacity, functionality and personnel.

5. NCDCP is planning and conducting a testing programme for the measures in points (1) to (4).

Q.17.7.4: To what extent does the FMI coordinate its business continuity arrangements with those of other interdependent FMIs?

NCDCP does not coordinate its recovery plan with other central depositories. NCDCP coordinates its recovery plan with its parent company as regards ensuring IT continuity.
Principle 18: Access and participation requirements

An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.

In reviewing this principle, it should be noted that FMIs are subject to the constraints of local laws and policies of the jurisdiction in which the FMI operates, and those laws may prohibit or require the inclusion of certain categories of financial institutions. This principle should be reviewed in the context of Principle 19 on tiered participation arrangements, Principle 21 on efficiency and effectiveness, and other principles, as appropriate.

Key consideration 1: An FMI should allow for fair and open access to its services, including by direct and, where relevant, indirect participants and other FMIs, based on reasonable risk-related participation requirements.

Participation criteria and requirements

Q.18.1.1: What are the FMI’s criteria and requirements for participation (such as operational, financial and legal requirements)?

The requirements for a member are laid down in the Act on Securities. NCDCP grants membership based on an application, which must include the prior approval of NBS and proof of fulfilment of the conditions/rules laid down in NCDCP’s Operational Rules.

Under the legislation currently in force in the Slovak Republic, membership of NCDCP is open to investment firms, foreign investment firms, the central bank another central depository or a foreign central depository. Membership is established by concluding a contract with NCDCP.

The specified legal entities (Article 1(1) of Act No 566/2001) may participate provided that they satisfy the following conditions:

a) Compliance with the conditions laid down in NCDCP’s Operational Rules,
b) At least two professionally qualified employees,
c) Fulfilment of the technical requirements laid down in the implementation regulation,
d) Submission of the documents specified in NCDCP’s Operational Rules.

When NCDCP receives an application for membership, it assesses the following risk types:

- Legal risk,
- Financial risk,
- Operational risk.

Q.18.1.2: How do these criteria and requirements allow for fair and open access to the FMI’s services, including by direct and, where relevant, indirect participants and other FMIs, based on reasonable risk-related participation requirements?

In accordance with EU Regulation 909/2014, which has been incorporated into domestic Slovak law, NCDCP provides fair and open access by disclosing to the public its participation criteria for legal entities in the Operational Rules and the implementation regulations. All candidates for membership are subject to the same access criteria. These criteria are transparent, objective, non-discriminatory and ensure fair and open access to NCDCP while reasonably taking account of risks in the area of financial stability and market arrangements. From the start of membership, a member is a participant in the clearing and settlement system.
Access to trade repositories

Q.18.1.3: For a TR, how do the terms of access for use of its services help ensure that competition and innovation in post-trade processing are not impaired? How are these terms designed to support interconnectivity with other FMIs and service providers, where requested?

NCDCP does not act as a TR.

Key consideration 2: An FMI’s participation requirements should be justified in terms of the safety and efficiency of the FMI and the markets it serves, be tailored to and commensurate with the FMI’s specific risks, and be publicly disclosed. Subject to maintaining acceptable risk control standards, an FMI should endeavour to set requirements that have the least-restrictive impact on access that circumstances permit.

Justification and rationale of participation criteria

Q.18.2.1: How are the participation requirements for the FMI justified in terms of the safety and efficiency of the FMI and its role in the markets it serves, and tailored to and commensurate with the FMI’s specific risks?

In accordance with Act No 566/2001 on securities, a member of NCDCP must be:

- an investment firm authorised to provide investment services in accordance with Article 6(1)(a)(b) or (d), and, in so doing, to use their client’s funds or financial instruments,
- a foreign investment firm, licensed in accordance with Article 54, which is authorised to provide investment services in the territory of the Slovak Republic to the extent laid down in Article 6(1)(a), (b), or (d), and, in so doing, to use their client’s funds or financial instruments,
- a foreign investment firm which has its registered office in a Member State under the same conditions as an investment firm which has its registered office in the Slovak Republic,
- Národná banka Slovenska (the Central bank of the Slovak Republic),
- another central depositary,
- a foreign legal entity whose business is equivalent to that of a central depository.

Q.18.2.2: Are there participation requirements that are not risk-based but required by law or regulation? If so, what are these requirements?

All the participation requirements laid down by the Act on Securities, the Operational Rules and their implementation regulation are intended to mitigate risk.

Q.18.2.3: Are all classes of participants subject to the same access criteria? If not, what is the rationale for the different criteria (for example, size or type of activity, additional requirements for participants that act on behalf of third parties, and additional requirements for participants that are non-regulated entities)?

The law of the Slovak Republic does not establish different classes of participants and all entities are subject to the same criteria.

Least restrictive access

Q.18.2.4: How are the access restrictions and requirements reviewed to ensure that they have the least restrictive access that circumstances permit, consistent with maintaining acceptable risk controls? How frequently is this review conducted?
The membership conditions are based on legislative requirements laid down in the Act on Securities which are specified in NCDCP’s Operational Rules. Any changes in these conditions are based on changes in the law or experience in practice. In accordance with EU Regulation 909/2014, which has been incorporated into domestic Slovak law, NCDCP provides fair and open access by disclosing to the public its participation criteria for legal entities in the Operational Rules and the implementation regulations. These criteria are transparent, objective, non-discriminatory and ensure fair and open access to NCDCP while reasonably taking account of risks in the area of financial stability and market arrangements.

Disclosure of criteria
Q.18.2.5: How are participation criteria, including restrictions in participation, publicly disclosed?

The membership conditions are specified in NCDCP’s Operational Rules as amended by the implementation regulations and are published on NCDCP’s website.

Key consideration 3: An FMI should monitor compliance with its participation requirements on an ongoing basis and have clearly defined and publicly disclosed procedures for facilitating the suspension and orderly exit of a participant that breaches, or no longer meets, the participation requirements.

Monitoring compliance
Q.18.3.1: How does the FMI monitor its participants’ ongoing compliance with the access criteria? How are the FMI’s policies designed to ensure that the information it uses to monitor compliance with participation criteria is timely and accurate?

A member must comply with acts of general application and NCDCP’s Operational Rules as amended by the implementation regulations. A member must comply with the obligation to supply information to NCDCP laid down by the law, in particular the duty to inform NCDCP of any and all changes that may affect the member’s conduct of their activities in accordance with the Operational Rules and the contracts concluded between the member and NCDCP. A member must cooperate with NCDCP in the performance of checks of the member. They must present the documents authorising them to provide services.

Q.18.3.2: What are the FMI’s policies for conducting enhanced surveillance of, or imposing additional controls on, a participant whose risk profile deteriorates?

NCDCP’s Operational Rules stipulate the penalties that NCDCP imposes, after a written warning, for violations of the rules laid down in the Operational Rules. In the near future, NCDCP plans to introduce financial penalties for users that default in the performance of their obligations under the Operational Rules and the contracts.

NCDCP is entitled to disclose information about members and their membership in the Journal. If a member repeatedly defaults in the delivery of funds on a transaction’s foreseen settlement date, NCDCP discloses this information in the Journal and on its website.

Suspension and orderly exit
Q.18.3.3: What are the FMI’s procedures for managing the suspension and orderly exit of a participant that breaches, or no longer meets, the participation requirements?
Procedures for the termination of membership are laid down in Article 16 of the Operational Rules. Revocation of membership is one of the penalties that can be imposed for non-compliance with the Operational Rules.

Q.18.3.4: How are the FMI’s procedures for managing the suspension and orderly exit of a participant disclosed to the public?

The procedure for the revocation of membership in NCDCP is set out in NCDCP’s Operational Rules, which are published on its website.
Principle 19: Tiered participation arrangements

An FMI should identify, monitor, and manage the material risks to the FMI arising from tiered participation arrangements.

This principle should be reviewed in the context of Principle 14 on segregation and portability, Principle 18 on access and participation requirements, and other principles, as appropriate.

**Key consideration 1:** An FMI should ensure that its rules, procedures, and agreements allow it to gather basic information about indirect participation in order to identify, monitor, and manage any material risks to the FMI arising from such tiered participation arrangements.

**Tiered participation arrangements**

Q.19.1.1: Does the FMI have any tiered participation arrangements? If so, describe these arrangements.

In accordance with the legislative framework in the Slovak Republic, NCDCP does not distinguish tiers of membership but based on participation in the payment system, participants divide into two groups – direct and indirect participants, the difference being based on the method used for the financial side of settlement.

Q.19.1.2: How does the FMI gather basic information about indirect participation? Which information is collected and how frequently is it updated?

NCDCP does not currently collect information on indirect participants. The relevant information is gathered by participants themselves. Information on indirect participants can be found in the settings of individual members' money accounts.

**Risks to the FMI**

Q.19.1.3: How does the FMI evaluate its risks arising from these arrangements?

NCDCP evaluates the risk arising from indirect participation in accordance with the procedures laid down in the Internal regulation No 10/2017/v2 - RISK MANAGEMENT IN NCDCP.

Q.19.1.4: What material risks to the FMI arising from tiered participation arrangements has the FMI identified? How has it mitigated these risks?

NCDCP evaluates the material risks arising from indirect participation in accordance with the principles and conditions laid down in the Internal regulation No 10/2017/v2 - RISK MANAGEMENT IN NCDCP.

**Key consideration 2:** An FMI should identify material dependencies between direct and indirect participants that might affect the FMI.

Q.19.2.1: How does the FMI identify material dependencies between direct and indirect participants that might affect the FMI?

NCDCP does not monitor dependencies between direct and indirect participants because NCDCP's Operational Rules define only one type of membership of the depository.

**Key consideration 3:** An FMI should identify indirect participants responsible for a significant proportion of transactions processed by the FMI and indirect participants whose transaction...
volumes or values are large relative to the capacity of the direct participants through which they access the FMI in order to manage the risks arising from these transactions.

Q.19.3.1: Has the FMI identified (a) the proportion of activity that each direct participant conducts on behalf of indirect participants in relation to the direct participants’ capacity, (b) direct participants that act on behalf of a material number of indirect participants, (c) indirect participants responsible for a significant proportion of turnover in the system, and (d) indirect participants whose transaction volumes or values are large relative to the capacity of the direct participant through which they access the FMI to manage risks arising from these transactions?

NCDCP does not currently monitor any of the mentioned criteria related to indirect participants because it does not keep records of such participants.

Q.19.3.2: What risks to the FMI arise, and how does the FMI manage these risks arising from key indirect participants?

NCDCP does not currently monitor any of the mentioned criteria related to indirect participants because it does not keep records of such participants.

Key consideration 4: An FMI should regularly review risks arising from tiered participation arrangements and should take mitigating action when appropriate.

Q.19.4.1: What are the FMI’s policies for reviewing its rules and procedures in order to mitigate risks to the FMI arising from tiered participation? How frequently is this review conducted?

NCDCP does not currently monitor any of the mentioned criteria related to indirect participants because it does not keep records of such participants.

Q.19.4.2: What criteria does the FMI use to determine when mitigating actions are required? How does the FMI monitor and mitigate its risks?

NCDCP does not currently monitor any of the mentioned criteria related to indirect participants because it does not keep records of such participants.
**Principle 20: FMI links**

An FMI that establishes a link with one or more FMIs should identify, monitor, and manage link-related risks.

In reviewing this principle, it should be noted that the questions apply only to FMIs that have established links with one or more other FMIs. Additionally, the term CSD generally refers to a CSD that also operates an SSS. The use of this broader definition for CSD in this principle mirrors market convention in the discussion of FMI links. This principle should be reviewed in the context of Principle 8 on settlement finality, Principle 11 on CSDs, Principle 17 on operational risk, and other principles, as appropriate.

**Key consideration 1:** Before entering into a link arrangement and on an ongoing basis once the link is established, an FMI should identify, monitor, and manage all potential sources of risk arising from the link arrangement. Link arrangements should be designed such that each FMI is able to observe the other principles in this report.

Q.20.1.1: What process is used to identify potential sources of risk (such as, legal, credit, liquidity, custody and operational risks) arising from prospective links? How does this affect the FMI’s decision whether to establish the link?

NCDCP’s internal regulation RISK MANAGEMENT IN NCDCP lays down conditions for the appropriate protection of linked depositories and their clients.

At present NCDCP does not have links with foreign depositories.

Q.20.1.2: What links have been established with other FMIs? How does the FMI identify, monitor and manage the risks arising from an established link on an ongoing basis?

NCDCP currently has a link to one other CSD - Centrálny depozitár cenných papierov SR, a.s. (Central Securities Depository of the Slovak Republic), ul. 29. augusta 1/A, 814 80 Bratislava, ID No (IČO): 31 338 976, which has the form of a vertical link, since one depository has established an omnibus account with another. Legal risk and operational risk were assessed before the link was established and they are reviewed on an ongoing basis based on analysis of any changes in the existing legal and operational standards and rules of the given issuer depository.

Q.20.1.3: How does the FMI ensure that link arrangements are designed so that it is able to remain observant of the other principles? How frequently is this analysis conducted?

NCDCP currently has a link to one other CSD - Centrálny depozitár cenných papierov SR, a.s. (Central Securities Depository of the Slovak Republic), ul. 29. augusta 1/A, 814 80 Bratislava, ID No (IČO): 31 338 976, which has the form of a vertical link, since one depository has established an omnibus account with another. Legal risk and operational risk were assessed before the link was established and they are reviewed on an ongoing basis based on analysis of any changes in the existing legal and operational standards and rules of the given issuer depository.

**Key consideration 2:** A link should have a well-founded legal basis, in all relevant jurisdictions, that supports its design and provides adequate protection to the FMIs involved in the link.

Q.20.2.1: In which jurisdictions has the FMI established links? What are the relevant legal frameworks supporting the established links?

So far, no links have been established outside the jurisdiction of the Slovak Republic.
Q.20.2.2: How does the FMI ensure that its links have a well-founded legal basis that support its design and provide it with adequate protection in all relevant jurisdictions? How does the FMI ensure that such protections are maintained over time?

NCDCP currently has a link to one other CSD - Centrálny depozitár cenných papierov SR, a.s. (Central Securities Depository of the Slovak Republic), ul. 29. augusta 1/A, 814 80 Bratislava, ID No (IČO): 31 338 976, which has the form of a vertical link, since one depository has established an omnibus account with another. Legal risk and operational risk were assessed before the link was established and they are reviewed on an ongoing basis based on analysis of any changes in the existing legal and operational standards and rules of the given issuer depository.

**Key consideration 3:** Linked CSDs should measure, monitor, and manage the credit and liquidity risks arising from each other. Any credit extensions between CSDs should be covered fully with high-quality collateral and be subject to limits.

Q.20.3.1: What processes are in place to measure, monitor and manage credit and liquidity risks arising from any established links?

NCDCP currently has a link to one other CSD - Centrálny depozitár cenných papierov SR, a.s. (Central Securities Depository of the Slovak Republic), ul. 29. augusta 1/A, 814 80 Bratislava, ID No (IČO): 31 338 976, which has the form of a vertical link, since one depository has established an omnibus account with another. Legal risk and operational risk were assessed before the link was established and they are reviewed on an ongoing basis based on analysis of any changes in the existing legal and operational standards and rules of the given issuer depository. Credit and liquidity risk are irrelevant for the connection between CDCP and NCDCP.

Q.20.3.2: If a CSD extends credit to a linked CSD, what processes exist to ensure that credit extensions to the linked CSD are fully covered by high-quality collateral and that credit limits are appropriate?

NCDCP currently has a link to one other CSD - Centrálny depozitár cenných papierov SR, a.s. (Central Securities Depository of the Slovak Republic), ul. 29. augusta 1/A, 814 80 Bratislava, ID No (IČO): 31 338 976, which has the form of a vertical link, since one depository has established an omnibus account with another. Legal risk and operational risk were assessed before the link was established and they are reviewed on an ongoing basis based on analysis of any changes in the existing legal and operational standards and rules of the given issuer depository. Credit and liquidity risk are irrelevant for the connection between CDCP and NCDCP.

**Key consideration 4:** Provisional transfers of securities between linked CSDs should be prohibited or, at a minimum, the retransfer of provisionally transferred securities should be prohibited prior to the transfer becoming final.

Q.20.4.1: Are provisional transfers of securities allowed across the link? If so, what arrangements make provisional transfers necessary, and is the retransfer of these securities prohibited until the first transfer is final?

NCDCP currently has a link to one other CSD - Centrálny depozitár cenných papierov SR, a.s. (Central Securities Depository of the Slovak Republic), ul. 29. augusta 1/A, 814 80 Bratislava, ID No (IČO): 31 338 976, which has the form of a vertical link, since one depository has established an omnibus account with another. Legal risk and operational risk were assessed before the link was established and they are reviewed...
on an ongoing basis based on analysis of any changes in the existing legal and operational standards and rules of the given issuer depository.

**Key consideration 5:** An investor CSD should only establish a link with an issuer CSD if the arrangement provides a high level of protection for the rights of the investor CSD’s participants.

Q.20.5.1: For any established link, how has the investor CSD determined that the rights of its participants have a high level of protection?

NCDCP currently has a link to one other CSD - Centrálny depozitár cenných papierov SR, a.s. (Central Securities Depository of the Slovak Republic), ul. 29. augusta 1/A, 814 80 Bratislava, ID No (IČO): 31 338 976, which has the form of a vertical link, since one depository has established an omnibus account with another. Legal risk and operational risk were assessed before the link was established and they are reviewed on an ongoing basis based on analysis of any changes in the existing legal and operational standards and rules of the given issuer depository.

Q.20.5.2: How frequently is reconciliation of holdings conducted by the entities holding the securities in custody?

When there is a link with a CSD, reconciliation will be carried out at every moment by the central information system HIS, so at every moment the aggregate of securities on accounts matches the aggregate number of securities on NCDCP’s omnibus account in CDCP.

Q.20.5.3: How does the investor CSD provide a high-level of protection for the rights of its participants (including segregation and portability arrangements and asset protection provisions for omnibus accounts)?

NCDCP currently has a link to one other CSD - Centrálny depozitár cenných papierov SR (Central Securities Depository of the Slovak Republic), ul. 29. augusta 1/A, 814 80 Bratislava, ID No (IČO): 31 338 976, which has the form of a vertical link, since one depository has established an omnibus account with another. Legal risk and operational risk were assessed before the link was established and they are reviewed on an ongoing basis based on analysis of any changes in the existing legal and operational standards and rules of the given issuer depository.

**Key consideration 6:** An investor CSD that uses an intermediary to operate a link with an issuer CSD should measure, monitor, and manage the additional risks (including custody, credit, legal, and operational risks) arising from the use of the intermediary.

Q.20.6.1: If the CSD uses an intermediary to operate a link, what are the criteria used by the CSD to select the intermediary or intermediaries? Are these criteria risk-based?

NCDCP does not currently use an intermediary to operate a link to another CSD. NCDCP’s Internal regulation No 10/2017/v2 - RISK MANAGEMENT IN NCDCP lays down conditions for the procedure for use of an intermediary.

Q.20.6.2: What are the respective liabilities of the two linked CSDs and the intermediaries?

NCDCP does not currently use an intermediary to operate a link to another CSD. NCDCP’s Internal regulation No 10/2017/v2 - RISK MANAGEMENT IN NCDCP lays down conditions for the procedure for use of an intermediary.

Q.20.6.3: What processes exist to measure, monitor and manage the risks arising from use of the intermediary?
NCDCP does not currently use an intermediary to operate a link to another CSD. NCDCP’s Internal regulation No 10/2017/v2 - RISK MANAGEMENT IN NCDCP lays down conditions for the procedure for use of an intermediary.
Principle 21: Efficiency and effectiveness

An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves.

This principle should be reviewed in the context of Principle 17 on operational risk, Principle 18 on access and participation requirements, Principle 22 on communication procedures and standards, and other principles, as appropriate.

Key consideration 1: An FMI should be designed to meet the needs of its participants and the markets it serves, in particular, with regard to choice of a clearing and settlement arrangement; operating structure; scope of products cleared, settled, or recorded; and use of technology and procedures.

Q.21.1.1: How does the FMI determine whether its design (including its clearing and settlement arrangement, its operating structure, its delivery systems and technologies, and its individual services and products) is taking into account the needs of its participants and the markets it serves?

The design process for rules and procedures involves not only NCDCP’s lawyers and external legal advisors but also, as necessary, input from NCDCP’s advisory committee, which includes members and other financial market professionals.

Q.21.1.2: How does the FMI determine whether it is meeting the requirements and needs of its participants and other users and continues to meet those requirements as they change (for example, through the use of feedback mechanisms)?

Feedback is provided through NCDCP’s advisory committee.

Key consideration 2: An FMI should have clearly defined goals and objectives that are measurable and achievable, such as in the areas of minimum service levels, risk-management expectations, and business priorities.

Q.21.2.1: What are the FMI’s goals and objectives as far as the effectiveness of its operations is concerned?

NCDCP’s goal is to provide services to clients under Act No 566/2001 on securities and investment services, as amended, with the greatest possible efficiency, speed, accuracy, flexibility, a pro-member approach at significantly lower operating costs than other market infrastructure.

Q.21.2.2: How does the FMI ensure that it has clearly defined goals and objectives that are measurable and achievable?

NCDCP draws up an annual business plan and conception for the company’s development, which is reviewed and approved by the shareholder and reported to NBS.

Q.21.2.3: To what extent have the goals and objectives been achieved? What mechanisms does the FMI have to measure and assess this?

Information on progress in the implementation of NCDCP’s business plan for the current year is reviewed regularly by the board of directors and it is also discussed at the general meeting of NCDCP.
Key consideration 3: An FMI should have established mechanisms for the regular review of its efficiency and effectiveness.

Q.21.3.1: What processes and metrics does the FMI use to evaluate its efficiency and effectiveness?

NCDCP regularly evaluates the Business and conception for the development of the company at meetings of the board of directors and once a year it is discussed at NCDCP’s general meeting, where the current situation is compared with the plan for the given period.

Q.21.3.2: How frequently does the FMI evaluate its efficiency and effectiveness?

NCDCP regularly evaluates the Business and conception for the development of the company at meetings of the board of directors and once a year it is discussed at NCDCP’s general meeting, where the current situation is compared with the plan for the given period.
**Principle 22: Communication procedures and standards**

An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, settlement, and recording.

This principle should be reviewed in the context of Principle 17 on operational risk, Principle 21 on efficiency and effectiveness, and other principles, as appropriate.

**Key consideration 1: An FMI should use, or at a minimum accommodate, internationally accepted communication procedures and standards.**

**Communication procedures**

Q.22.1.1: Does the FMI use an internationally accepted communications procedure and, if so, which one(s)? If not, how does the FMI accommodate internationally accepted communication procedures?

The information system used for the administration of securities, HIS, is based on the international standard SWIFT ISO20022. This standard is also routinely used for clearing and settlement (ISO 20022 MX - ASTransferInitiation message) but if consent for collection is not given, ISO 15022 MT – MT202 message format is also used. It is also possible to use proprietary services.

Q.22.1.2: If the FMI engages in cross-border operations, how do the FMI’s operational procedures, processes and systems use or otherwise accommodate internationally accepted communication procedures for cross-border operations?

Cross-border operations are not conducted at present in NCDCP.

**Communication standards**

Q.22.1.3: Does the FMI use an internationally accepted communications standard and, if so, which one(s)? If not, how does the FMI accommodate internationally accepted communication standards?

The information system used for the administration of securities, HIS, is based on the international standard SWIFT ISO20022. This standard is also routinely used for clearing and settlement (ISO 20022 MX - ASTransferInitiation message) but if consent for collection is not given, ISO 15022 MT – MT202 message format is also used. It is also possible to use proprietary services.

Q.22.1.4: If the FMI engages in cross-border operations, how do the FMI’s operational procedures, processes and systems use or otherwise accommodate internationally accepted communication standards for cross-border operations?

The information system used for the administration of securities, HIS, is based on the international standard SWIFT ISO20022. This standard is also routinely used for clearing and settlement (ISO 20022 MX - ASTransferInitiation message) but if consent for collection is not given, ISO 15022 MT – MT202 message format is also used. It is also possible to use proprietary services.

Q.22.1.5: If no international standard is used, how does the FMI accommodate systems that translate or convert message format and data from international standards into the domestic equivalent and vice versa?

The information system used for the administration of securities, HIS, is based on the international standard SWIFT ISO20022.
**Principle 23: Disclosure of rules, key procedures, and market data**

An FMI should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the FMI. All relevant rules and key procedures should be publicly disclosed.

In reviewing this principle, information should be disclosed to the extent that it would not risk prejudicing the security and integrity of the FMI or divulging commercially sensitive information. This principle should be reviewed in the context of Principle 8 on settlement finality, Principle 13 on participant default rules and procedures, Principle 24 on the disclosure of market data by trade repositories, and other principles, as appropriate.

**Key consideration 1:** An FMI should adopt clear and comprehensive rules and procedures that are fully disclosed to participants. Relevant rules and key procedures should also be publicly disclosed.

**Rules and procedures**

**Q.23.1.1:** What documents comprise the FMI’s rules and procedures? How are these documents disclosed to participants?

The rules and procedures are laid down in NCDCP’s Operational Rules, as amended by the implementation regulations. These documents are available from the company’s place of business and are published on its website.

**Q.23.1.2:** How does the FMI determine that its rules and procedures are clear and comprehensive?

NCDCP discusses changes to the Operational Rules with the members of the advisory committee. The rules must be approved by the Board of Directors. The company also cooperates with professional external advisors.

**Disclosure**

**Q.23.1.3:** What information do the FMI’s rules and procedures contain on the procedures it will follow in non-routine, though foreseeable, events?

NCDCP’s Operational Rules as amended by the implementation regulations contain procedures for all foreseeable events. Nevertheless, circumstances may arise that NCDCP deals with ad-hoc in accordance with its operational rules and the law of the Slovak Republic.

**Q.23.1.4:** How and to whom does the FMI disclose the processes it follows for changing its rules and procedures?

The procedure by which NCDCP amends its Operational Rules is subject to Article 103 of Act No 566/2001 on securities and investment services and therefore the procedures are generally available. Every change is consulted with the advisory committee.

**Q.23.1.5:** How does the FMI disclose relevant rules and key procedures to the public?

NCDCP’s Operational Rules and their implementation regulations are available from the company’s place of business and are published on its website. NCDCP complies with selected disclosure duties by publishing information on its website, in the journal and in periodicals with national circulation that include stock exchange news.
Key consideration 2: An FMI should disclose clear descriptions of the system’s design and operations, as well as the FMI’s and participants’ rights and obligations, so that participants can assess the risks they would incur by participating in the FMI.

Q.23.2.1: What documents comprise information about the system’s design and operations? How and to whom does the FMI disclose the system’s design and operations?

The system’s design is described in the following documents:

- NCDCP’s IT Architecture (version 2.0);
- HIS – ECPT2S – Information System description (version 1.2);
- SPOZUS T2S – Information System description (version 1.8);
- Internal U2A Manual for system administration and monitoring (version 2.10).

The operations that the system offers are described in the following documents:

- U2A User Manual (version 3.0);
- Implementation regulation No 3 to the Operational Rules:
  - Part 1 – Service description for the U2A interface,
  - Part 2 – Service description for the A2A interface.

All the aforementioned documents have been approved by the Board of Directors and submitted to NBS during the licensing process.

Q.23.2.2: How and to whom does the FMI disclose the degree of discretion it can exercise over key decisions that directly affect the operation of the system?

All key decisions affecting the operation of the system are consulted with the supplier of the system or the provider of infrastructure (SZRB).

Q.23.2.3: What information does the FMI provide to its participants about their rights, obligations and risks incurred through participation in the FMI?

The rights and obligations of members are laid down in NCDCP’s Operational Rules and their implementation regulations, the membership contract and the general business terms and conditions.

Key consideration 3: An FMI should provide all necessary and appropriate documentation and training to facilitate participants’ understanding of the FMI’s rules and procedures and the risks they face from participating in the FMI.

Q.23.3.1: How does the FMI facilitate its participants’ understanding of the FMI’s rules, procedures and the risks associated with participating?

The advisory committee gives members an opportunity for live discussion. NCDCP is open to communication and is prepared for active communication via email and telephone.

Q.23.3.2: Is there evidence that the means described above enable participants’ understanding of the FMI’s rules, procedures and the risks they face from participating in the FMI?

Because NCDCP began providing services for participants at the end of 2016, there have as yet been no occasions of misunderstanding or lack of clarity with participants.

Q.23.3.3: In the event that the FMI identifies a participant whose behaviour demonstrates a lack of understanding of the FMI’s rules, procedures and the risks of participation, what remedial actions are taken by the FMI?
In the event of a violation of NCDCP’s Operational Rules, NCDCP sends a written warning to the member that failed to respect/understand/comply with the rules of membership. The written warning specifies the provisions of NCDCP’s Operational Rules or other membership obligations that have been violated and sets out the depository’s recommendations for remedial action. In the event of a more serious or systematic violation of the rules, NCDCP may suspend or revoke membership as a penalty.

Key consideration 4: An FMI should publicly disclose its fees at the level of individual services it offers as well as its policies on any available discounts. The FMI should provide clear descriptions of priced services for comparability purposes.

Q.23.4.1: Does the FMI publicly disclose its fees at the level of its individual services and policies on any available discounts? How is this information disclosed?

NCDCP’s Price List and any applicable discounts can be obtained from NCDCP’s registered office and they are also published on NCDCP’s website.

Q.23.4.2: How does the FMI notify participants and the public, on a timely basis, of changes to services and fees?

NCDCP includes this information in the newsletter and journal that it send to all its clients and persons who keep an account in electronic form on a weekly basis. It also publishes the information on its website.

Q.23.4.3: Does the FMI provide a description of its priced services? Do these descriptions allow for comparison across similar FMIs?

NCDCP is of the opinion that the price list is clear and comprehensible and, where appropriate, includes examples of fee calculations. The structure of the fees in the price list permits comparison with similar depositories.

Q.23.4.4: Does the FMI disclose information on its technology and communication procedures, or any other factors that affect the costs of operating the FMI?

NCDCP has published information about its A2A interface and its communication procedures on its website. NCDCP discloses information about changes to the functionality of its system, new products, new functionalities etc. on an ongoing basis via its website.

Key consideration 5: An FMI should complete regularly and disclose publicly responses to the CPSS-IOSCO disclosure framework for financial market infrastructures. An FMI also should, at a minimum, disclose basic data on transaction volumes and values.

Q.23.5.1: When did the FMI last complete the CPSS-IOSCO Disclosure framework for financial market infrastructures? How frequently is it updated? Is it updated following material changes to the FMI and its environment and, at a minimum, every two years?

As NCDCP only commenced operation in 2016, it has not disclosed information using the disclosure framework. The company proposes to update this information every two years.

Q.23.5.2: What quantitative information does the FMI disclose to the public? How often is this information updated?
The depository discloses information via its website and the journal, which is available to all members, persons who keep owner’s accounts and persons who keep holder’s accounts.

**Q.23.5.3:** What other information does the FMI disclose to the public?

In its annual report, NCDCP discloses information on its strategic plans and its economic results including its balance sheet, profit/loss statement and the notes on its financial statements.

**Q.23.5.4:** How does the FMI disclose this information to the public? In which language(s) are the disclosures provided?

Monthly statistics are provided bilingually in Slovak and English. NCDCP discloses annual statistics with commentary and the annual report in Slovak and English. NCDCP discloses information under the disclosure framework and the Code of Conduct in English. All information can be accessed on NCDCP’s website.