

Procedure on insolvency of Participants or Issuers

| Responsible | Classified | Approver | Version |
|--------------------|-------------------|---|----------------|
| CSD Services | No | Niels Hjort Rotendahl, Executive Board | 1.1 |

According to CSDR art. 41.2 and the Insolvency Guidelines art. 5.2 , the procedure regarding a situation where insolvency proceedings are opened against a participant shall be (i) approved by the CSD’s management body and (ii) made available to the public. Thus, this insolvency procedure (the “Procedure”) was formally approved by the Executive Board 11 February 2021.

Purpose

The Procedure describes the actions required if a Participant or an Issuer at VP Securities becomes subject to Insolvency Proceedings as defined in Part 1 of the VP Rule Book (Definitions).

The purpose is to ensure that VP Securities takes the appropriate measures in order to protect itself and other Participants or clients of Participants.

The Procedure covers the types of actions VP Securities can take in case of insolvency of a Participant or issuer, and how VP Securities tests and periodically reviews the Procedure.

References

Art. 41 of Regulation (EU) No 909/2014

ESMA Guidelines on CSD participants default rules and procedures (the “Insolvency Guidelines”)

Part 2 and Part 4 of the VP Rule Book

The memorandum: “Insolvency Proceedings of VP Securities A/S or a Participant” prepared by VP Securities and published on the website of VP Securities.

TARGET2-SECURITIES – Operational Procedures Annex 20: “Workflow – Insolvency of a CSD/NCB participant”.

Work instruction: Insolvency

Work instruction: Insolvency in T2S

Work instruction: Insolvency of an Issuer

Work instruction: Test of insolvency event

Persons concerned (target group)

Executive Board

Chief Risk & Compliance Officer

Head of Business Operations

Head of Client Services

CSD Services

Customers & Communications Director

Head of Legal & Regulations

Risk Committee

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Processes

The department, CSD Services, is responsible for execution of the processes described below.

The Procedure contains three processes:

1. A general process, that needs to be followed in all cases (the “General Process”);
2. A process that needs to be followed in the event that Insolvency Proceedings are opened against an Issuer (the “Issuer Process”); and
3. A process that needs to be followed in the event that Insolvency Proceedings are opened against a Participant (the Participant Process”).

For the sake of this document the notion of “Participant” includes all entities that have signed a Participation Agreement with VP Securities, incl. any investor CSD.

Note that if the same legal entity acts as both Issuer and Participant all processes described below need to be followed.

General Process

| Step | Action | Responsible | Time |
|--------|---|---------------------------------|--------------------------|
| Step 1 | <p>When Chief Risk & Compliance Officer receives information on an insolvent Participant and/or Issuer, he must immediately initiate this Procedure.</p> <p>The Chief Risk & Compliance Officer or Head of Business Operations might receive information of a Participant’s and/or Issuer’s insolvency from different sources.</p> <p>Likely, the Danish FSA sends an email to the Chief Risk & Compliance Officer if an insolvency event has occurred in respect of a financial institution. In such case the Chief Risk & Compliance Officer will liaise with Head of Business Operations/Head of Client Services in order to identify if such financial institution is a Participant and/or Issuer of VP Securities. Note that if VP receives the information from the FSA via a phone call, verification needs to be obtained in writing.</p> | Chief Risk & Compliance Officer | Immediately ² |

² According to the Insolvency Guidelines art. 5.1.2 (1) the implementation of this Procedure must be activated once VP Securities – after having taken all reasonable steps to verify its occurrence - has identified the insolvency of a Participant.

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| | <p>Otherwise, the Chief Risk & Compliance Officer might receive the information directly from the Participant¹ and/or Issuer itself, from other departments of VP Securities, the market, the news, another CSD, an agent of the Participant, the Issuing Agent of an Issuer, etc.</p> <p>In such case the Chief Risk & Compliance Officer will liaise with Head of Business Operations/Head of Client Services in order to identify if the insolvent party is a Participant and/or Issuer of VP Securities.</p> <ul style="list-style-type: none"> - If the insolvent party is a financial institution and further is a Participant of VP Securities, the Chief Risk & Compliance Officer must contact the Danish FSA for verification. <p>As a back-up solution in order to verify, whether Insolvency Proceedings are opened against a Participant, upon request Chief Risk & Compliance Officer, CSD Services forwards a letter (a "Default Notice") to the Participant, and ask him to immediately confirm/deny the insolvency proceedings.</p> | | |
| 2 | If the insolvent party is identified as being a Participant of VP Securities the Chief Risk & Compliance Officer asks CSD Services to invite the VP Major Incident team to an immediately held Major Incident meeting. | Chief Risk & Compliance Officer | Immediately after step 1 |
| 3 | CSD Services looks into which service functions the insolvent party is participating in with VP Securities. | Employee of CSD Services | Immediately and prior to the Task Force Meeting is held. |
| 4 | <p>A Major Incident Meeting is held, with the following agenda:</p> <ul style="list-style-type: none"> - CSD Services provides information on the service functions the insolvent party is participating in with VP Securities; - It is discussed whether any special circumstances should be taken into consideration; and - It is decided to initiate the Issuer process and/or the Participant process set out below. | Head of Client Services | Immediately after step 3 |
| 5 | The Executive Board and the Risk Committee (if deemed relevant) is informed of the insolvency event. | Chief Risk & Compliance Officer | As soon as possible |

¹ According to Part 2 of the VP Rule Book (General Terms & Conditions), the Participant is required to inform VP Securities if insolvency proceedings are opened against the Participant.

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| 6 | <p>The Chief Risk & Compliance Officer prepares and make public a VP Info in order to inform the following persons of the insolvency event of a Participant and/or Issuer:</p> <ul style="list-style-type: none"> i. its non-defaulting participants; ii. the trading venues and CCPs served by the CSD; iii. T2S; iv. linked CSDs (i.e. CSDs having one or more securities accounts with VP Securities); and v. the Danish Central Bank <p>Further, the Chief Risk & Compliance Officer informs ESMA of the insolvency event of a Participant³.</p> | Chief Risk & Compliance Officer | As soon as possible |

Issuer Process

| Step | Activity | Responsible | Time |
|------|---|--------------------------|---------------------|
| 1 | <p>When the Issuing Agent instructs name change through vp.ONLINE, the work instruction "Insolvency of an Issuer" applies.</p> <p>The static data changes in the VP system are automatically forwarded to T2S, and T2S forwards a confirmation when received.</p> | Employee in CSD Services | As soon as possible |
| 2 | Information on the action taken is provided to the Issuing Agent or the bankruptcy estate (in case the Issuer and the Issuing Agent are the same legal entity). | Employee in CSD Services | Same day |
| 3 | CSD Services seeks information from the Issuing Agent or the bankruptcy estate (in case the Issuer and the Issuing Agent are the same legal entity) in respect of whether the dematerialised securities should be de-registered. | Employee in CSD Services | Same day |

Participant Process

| Step | Activity | Responsible | Time |
|------|---|---|---|
| 1 | Head of Business Operation/Head of Client Services / CSD Services and Chief Risk & Compliance Officer coordinates with Legal & Regulations. | Head of Client Services and Chief Risk & Compliance Officer | Immediately after the CSD Services receives the information |

³ No information needs to go to ESMA if insolvent party only participates as an Issuer.

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| | | | mentioned in the process "General Process" above. |
| 2 | <p>CSD Services coordinates with the T2S Settlement Manager. Together they must initiate the T2S insolvency process described in work instruction "Insolvency in T2S".</p> <p>This requires, <i>inter alia</i> that the T2S Settlement Manager involves T2S. The T2S Service Desk sets up a conference call on which the T2S Settlement Manager provides information on the involvent Participant.</p> | Employee in CSD Services + T2S Settlement Manager from Operation & Planning | Immediately after step 1 |
| 3 | <p>The Participant's access to registration and updates will be removed and replaced by view access in the VP System and vp.ONLINE.</p> <p>The work instruction "Insolvency" applies.</p> | Employee in CSD Services | Immediately after step 1 |
| 4 | <p>Securities Accounts and pending Transfer Orders will be handled in accordance with the work instructions "Insolvency" and "Insolvency in T2S", where T2S's own insolvency procedure set out in TARGET2-SECURITIES – Operational Procedures Annex 20: "Workflow – Insolvency of a CSD/NCB participant" has been implemented in the latter.</p> <p>The work instructions comply with the terms contained in the part 4 of the VP Rule Book (Settlement Rules) sections 7 and 17.8.3 in respect of settlement of Transfer Orders in the event of Insolvency Proceedings of a Participant.</p> | Employee in CSD Services + T2S Settlement Manager | Immediately after step 2 |
| 5 | <p>According to the Insolvency Guidelines art. 5.1.2 (6), the CSD shall transmit information in respect of the insolvency event, including details available at that moment in time to the Danish FSA. In order to fulfill this requirement, CSD Services prepares a package of immediately available information in respect of the Participant. The information is forwarded to the Chief Risk & Compliance Officer.</p> <p>Following this CSD Services/Products/Technology prepares a more thorough package of information consisting of the following:</p> <ul style="list-style-type: none"> - the type of Participant in respect of which the insolvency event has occurred (e.g legal status, license, activity, DCP/ICP at T2S, Functionalities in the VP system | Employee in Technology / CSD Services / Products | Same day |

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| | <p>and whether it is a key participant under Article 67 of the Commission Delegated Regulation (EU) 2017/392);</p> <ul style="list-style-type: none"> - the total volume and value of the Participant's Transfer Orders that are pending settlement, and if possible of those that may fail to settle, with "value" being calculated as specified in Article 42(2) of the Commission Delegated Regulation (EU) 2017/392 on the day of the insolvency; - the type of transactions and financial instruments those Transfer Orders relate to; - whether those Transfer Orders are processed via T2S, and, when available, any indicators of cross border activities of the Participant; - where known, the number of clients the Participant has: <ul style="list-style-type: none"> • Is the Participant Issuing Agent and if yes for how many • Is the Participant custodian (KI) for any Remote Participant (settlement participants with a designated third-party securities account controller) and if yes for how many • Is the Participant Cash Account Controller and if yes for how many • Is the Participant Cash Settlement Agent and if yes for how many • Does the Participant provides its DCA to any other participants and if yes to how many • How many Securities account is maintained by the participant sorted by owner type OM, OW and IS <p>and</p> <ul style="list-style-type: none"> - information on any material risks that such insolvency event might entail. <p>The information is forwarded it the Chief Risk & Compliance Officer.</p> | | |
| 6 | <p>The Chief Risk & Compliance Officer forward the information received from CSD Services according to step 5 above to the Danish FSA.</p> | Chief Risk & Compliance Officer | Immediately after the step above |

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Testing

According to the Insolvency Guidelines, VP Securities must initiate a test of this Procedure and assess its effectiveness, relevancy and practicality at least on a yearly basis. However, additional testing will be triggered by the following scenarios:

- following any substantive changes to the Procedure; and
- upon request from the Danish FSA.

A test must include a simulation exercise and a test of the communication procedure.

Further, according to the Insolvency Guidelines, a test must be conducted with a relevant sample of Participants, relevant market infrastructures (CSDs, entities settling the cash leg of securities transactions settled through VP Securities, CCPs and trading venues), and any other relevant entities (such as T2S, third parties to which the provision of services has been outsourced, etc.), as appropriate.

CSD Services ensures that relevant tests are conducted. In this respect, CSD Services prepares a recommendation in terms of parameters according to which a next test should be conducted, taking the above into account, and as appropriate (i) different types of participants (in terms of volume, activity etc.), (ii) participants located in different countries or time zones, (iii) participants holding different types of accounts (omnibus and segregated) and (iv) relevant market infrastructures. The recommendation is presented for Chief Risk & Compliance Officer, Head of Business Operations, Head of Client Services, Head of Custody & Settlement Products, or any employee of VP Securities appointed to replace a head of any of the departments mentioned.

The work instruction “Test of insolvency event” applies.

In this respect, it is noted that the T2S system conducts insolvency event tests on a continuous basis, and that all participants in the T2S system, including VP Securities, are obliged to participate in such tests. T2S initiates normally four ORT Insolvency test each year.

As VP Securities also conducts both T2S and VP Settlement, CSD Services will, in respect of each T2S test, consider whether the T2S test should be supplemented with additional tests outside the T2S environment.

The CSD Services prepares a thorough description of each test, which, in case a test reveals a weakness in this Procedure, includes any contemplated changes to these Procedure. The description is forwarded to the Executive Board, the Risk Committee, the Danish FSA, the Danish Central Bank and the ECB.

Further, immediately after a test has been conducted, CSD Services prepares and make public a VP Info which contains a summary of the results of the test, and (if relevant as result of the test), a description of the contemplated changes to this Procedure.

In case a need for a change of this Procedure is identified, CSD Services will in cooperation with Legal & Regulations amend the Procedure accordingly, and have the changes approved by the Executive Board.

For further information on the testing that needs to be conducted see the Insolvency Guidelines, art. 5.2.

Risks

- The insolvent customer will still have access to the system.

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- Extraordinary changes in the register and changes to the automatic flow are conducted.

Controls

All steps in the system shall take place in accordance with a four-eyes principle.

The following is controlled by CSD Services in respect of an insolvent Participant:

- All connections are removed.
- Authorisations are removed.
- Copies of screen shoots shall be taken.
- Information is sent to the relevant parties as described above.
- The insolvent Participant has been blocked and all Transfer Orders are either settled or blocked.

Reporting

Items 1,2, and 5 under Controls are documented in tables, which is printed and archived with other documents in the relevant case folder.

Copy of the information sent in accordance with item 4 under Controls is archived in the relevant case folder together with other documents, incl. screen shots from item 3 under Controls.

Final information to the Danish FSA is prepared by CSD Services. The information is provided by CSD Services to the Chief Risk & Compliance Officer, who forwards it to the Danish FSA.

Business continuity and emergency measures

N/A