

DISCLOSURE

FRAMEWORK

NECIGEF

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I. BASIC INFORMATION

A. *What is the name of the securities settlement system?*

Securities System (Systeem Effecten - SEF)

SEF is an automated administration for the custody, management and settlement of capital- and money market paper. Transactions are processed real-time.

Data communication between Necigef and its participants is effected via the Necigef Information and Communication system (NECICOM). NECICOM enables data interchange by means of electronic mailboxes and remote links. The interface between SEF and NECICOM is based on "Straight Through Processing" (STP).

B. *Where and in what time zone is the SSS located?*

The system is based in Amsterdam. This falls within the Central European Time zone (CET).

C. *What functions does the SSS perform?*

Registration of master data (stock classes and contacts)

Account administration (holdings and participants)

Transactions settlement (giro-based securities traffic and management)

1. *Does the SS serve as a securities depository and/or provide securities settlement services?*

Yes, Necigef has as its purpose the custody and administration of securities and the management of giro-based securities traffic on behalf of its participant institutions as defined under the Wet Giraal Effectenverkeer (Securities Giro Act) as well as the undertaking of all such activities within the framework of the Act which are deemed as falling within its ambit. Appendix 1 deals with the introduction and implementation of the Securities Giro Act in greater detail.

A. *What types of instrument are eligible for deposit at the SSS (eg. debt, equities, warrants, etc)?*

Necigef takes into its custody equities, commercial and government bonds and commercial and government money market paper — insofar as such paper meets the entry requirements.

B. *What types of instrument are eligible for transfer within the SSS?*

All types of paper in custody with Necigef are eligible for (giro) transfer.

C. *Please describe whether eligible securities are dematerialised, immobilised or transferred physically.*

Necigef effects all securities transfers by giro.

D. *Does the SSS provide safekeeping for physical certificates?*

Yes, Necigef functions as a Central Securities Depository (CSD). All account balances of the participant institutions are backed by the deposit of the underlying with Necigef. To this end, Necigef takes custody of various types of paper (including individual certificates, jumbo certificates and global notes).

2. **Does the SSS provide cash accounts and/or provide funds transfers in conjunction with securities transfers? If so, in what currencies?**

Participant institutions only hold securities accounts with Necigef. Cash settlement in guilders (transactions and management) is conducted via the cash accounts of Dutch Central Bank De Nederlandsche Bank NV (DNB) or, in the case of foreign currencies, via Kas Associatie NV.

3. **Does the SSS provide a trade matching service? Do others provide such services for securities settled at the SSS?**

Instructions for Delivery Against Payment are submitted by both the delivering and the receiving party.

Necigef assesses whether the orders match on basis of the match criteria. Instructions for Delivery Free of Payment are submitted only by the party making the delivery. Matching does not take place in this instance.

4. **Does the SSS provide a trade netting service (as distinct from undertaking the settlement of securities transfers on a net basis)? Do others provide such services for securities settled at the SSS? In either case, what types of netting (bilateral or multilateral), if any, are performed?**

No. Necigef operates exclusively on the based of trade-for-trade settlement.

5. **Does the SSS offer a securities lending or borrowing programme? If yes, how does this facility work (who are the securities lenders, how are the lenders determined etc)?**

No, Necigef offers no lending facilities.

6. **Does the SSS provide custodial and/or related services such as the collection of interest, dividends, principal or withholding tax reclamation's? Which types of service are provided?**

Necigef administers the cashing and settlement of coupons, cash dividends and redemptions (income and capital) as well as mandatory conversions. In the case of optional conversions, the service is limited to the determination and allocation of conversion rights. Participants are deemed to take responsibility for exercising such rights themselves.

7. **Does the SSS act as a central counter party or principal to transactions with its participants?**

No. As indicated above, Necigef has as its purpose the custody and administration of securities and the management of giro-based securities traffic on behalf of its participant institutions as defined under the Giro Securities Transfer Act, as well as the undertaking of all such activities within the framework of the Act which are deemed to fall within its ambit. Any activities involving any form of commercial risk have expressly been excluded from this purpose and any powers thereto have been expressly withheld (see appendix 4, article 1, paragraph 2 of Necigef's articles of association) In view of the above, Necigef never takes positions (whether in cash or securities) and undertakes no netting activities.

D. What type of organisation is the SSS?

1. **Please indicate whether the SSS is a public sector or private sector entity.**
Necigef is a private sector entity. The AEX (Amsterdam Exchanges) Clearing & Depository is sole shareholder of all Necigef shares. AEX Clearing & Depository is a wholly owned subsidiary of Amsterdam Exchanges N.V.
2. **Please indicate whether the SSS is organised on a for-profit or non-profit basis.**
Effective January 1, 1997, Necigef acquired for-profit status. This profit-oriented approach must be seen in the light of Necigef's stated purpose (see answer under I C 7).
3. **What is the legal basis for the establishment of the SSS and for securities transfers made through it?**
Necigef is established according to Dutch law. All securities transactions effected by Necigef are subject to the Giro Securities Act.

E. Please describe and provide a diagram outlining the organisational and ownership structure of the SSS.

1. **Who are the owners of the SSS?**
Necigef shares are 100 percent held by AEX Clearing & Depository.
2. **What entity or entities operate the SSS? Which functions of the SSS, if any, are outsourced to third parties?**
Necigef operates the securities administration system. The automated data processing and the technical supervision of the automated network have been outsourced to AEX Information Technology, a 100 percent-owned subsidiary of Amsterdam Exchanges NV.
3. **Does the SSS have a Board of Directors?**
Yes, Necigef has a two-person board of directors. In addition Necigef has its own supervisory board and is subject to regulation by the Finance Ministry.
 - A. **What is its composition?**
Necigef has two statutory directors.
 - B. **What are its responsibilities?**
Necigef's articles of association (articles 11 through 13) detail the tasks and responsibilities of the statutory directors. The articles concerned have been attached to this questionnaire as appendix 4.
Further responsibilities arise from Volume 2 of the Civil Code, legal persona.
4. **Please submit a diagram outlining the organisational and ownership structure.**
For the diagram, please refer to appendix 5.

F. *Please describe the financial resources of the SSS.*

1. **Amount of paid-in capital and retained earnings?**

The paid-in and issued share capital amounts to 10 million Dutch guilders.

2. **Guarantees, insurance coverage or other similar arrangements?**

In order to cover operational risks, Necigef has taken out insurance policies with cover ranging from a maximum of five to 15 million guilders per occurrence. In addition the AEX holding company, to which group Necigef is affiliated, has issued a declaration it will safeguard Necigef shareholders' equity.

3. **Credit lines or letters of credit?**

The securities settlement system has access to no such facilities, which are rendered unnecessary given the responsibilities incumbent on the settlement banks. Necigef has no tasks in this regard (see point I C, point 7).

4. **Powers to assess participants or equity holders?**

The entry criteria for participants have been incorporated into the Necigef entry requirements (you are also referred to Necigef admission requirements + publication Government Gazette December 18, 1997, appendix 7). Necigef shares are not freely tradable. Any transfer of shares other than to Necigef requires the approval of the supervisory board, as laid down in Necigef's articles of association.

The shares are 100 percent owned by AEX Clearing & Depository, with approval from the Minister of Finance.

G. *Please describe whether the SSS or its operator is subject to authorisation, supervision or oversight by an external authority.*

Necigef falls under the direct supervision of the Minister of Finance.

On the one hand Necigef acts as a central institute within the framework of the Securities Giro Act, and on the other it acts as a securities settlement system for the settlement of certain securities transactions.

Necigef is charged with the implementation of the Securities Giro Act. Necigef is supervised by the Minister of Finance. Article 2 of the Securities Giro Act deals with this supervisory function in greater detail. Further regulations with regard to supervision by

the regulator were established according to a decision by the Minister of Finance promulgated in Government Gazette number 157 of August 11, 1977, specifically appendix 1 of Necigef (see appendix 6).

A supervisory entity has been appointed on behalf of the Minister of Finance. The brief of Necigef's supervisory authority is detailed in the decision of August 11, 1977, specifically article 1 of the first appendix (this article is attached herewith as appendix 6).

Based on the conditions for bourse authorisation of Amsterdam Exchanges N.V. dated December 30, 1996, the securities settlement system is subject to certain requirements aimed at avoiding system risk. Under the bourse authorisation requirements, the Netherlands Securities Board STE and the Netherlands Central Bank DNB carry joint responsibility for the system supervision of the securities settlement systems. In this regard the joint system regulators have formulated a supervisory framework which lays down standards to be met by the securities settlement systems.

In addition to internal audits carried out by Necigef regular audits are undertaken by external accountants. Such external audits are undertaken at least once a year. Such audits assess Necigef's general performance as well as the balance of physical certificates with administrative holdings and the functioning of the (administrative) organisation of data provision.

In addition the external accountant conducts a regular EDP audit of the administrative organisation of the automated data processing.

II RULES AND PROCEDURES OF THE SSS

A. *Does the SSS maintain a complete list of the rules and procedures governing the rights and obligations of participants and the duties of the SSS?*

Yes. These rules and procedures are laid down in the Securities Giro Act, Necigef's Articles of Association, the Giro Depots Regulations, the Necigef Admission Requirements, the Necigef Guidelines and the Money Market Paper and Medium Term Notes Regulations (1997).

1. How can participants obtain a copy of the rules and procedures?

Each participant receives a copy of the relevant rules and procedures at time of first joining. Participants are kept informed of any amendments. In addition, participant institutions may apply for (extra) copies of the rules and procedures from the Necigef secretariat.

2. Does other documentation provided to participants (e.g. user guides) have the same status as the rules and procedures?

Yes. Necigef provides additional documentation in the form of Circulars. Operational matters are communicated in the form of Messages. Both forms of documentation have the status of rules.

3. Describe the process for changing rules and procedures, including any need for regulatory approval.

Decisions to amend rules and procedures are taken by the Necigef executive and where necessary submitted for approval to the supervisory board and the Minister of Finance. Where such changes relate to operational aspects, these are always undertaken in consultation with representatives of the participant institutions.

A. **What authority is required, and how does this differ depending on the type of change involved?**

Necigef draws up its own admission requirements subject to approval from the Minister of Finance. Under the bourse authorisation requirements the Dutch central bank DNB and Netherlands Securities Board STE carry joint responsibility for system supervision of the securities settlement system.

B. **How are participants notified of changes in rules and procedures?**

All participants are informed in writing by Necigef of any amendments to system rules and procedures (see article 17 of the Money Market Paper and Medium Term Notes Regulations (1997) and article 30 of the Giro Depots Regulations).

C. **Is there a procedure for participants or others to comment on proposed rule changes?**

Yes, amendments of an operational nature are discussed in advance with representatives from the participant institutions (user group).

B. ***Are the rules and procedures binding on the SSS as well as its participants? Under what conditions and on whose authority can written rules and procedures be waived or suspended by the SSS?***

Yes, the rules are binding for Necigef and its participants. The regulations further include special provisions whereby the regular operational procedures may be waived in the event of calamity.

III RELATIONSHIPS WITH PARTICIPANTS

The questions in this section deal with the various types of participants an SSS may have as well as the practical consequences thereof (for example, with regard to the accounts structure of the securities settlement system. Questions are also posed with regard to the duties of the SSS to its participants. For participants this is of significance in view of determining their exposure.

A. ***Please describe the types of membership offered by the SSS.***

1. **How do the types differ?**

Necigef distinguishes between two categories of participants, namely:

- * Ordinary participants: professional institutions active on behalf of client/investors (credit institutions)
- * Special participants: inter-professional institutions serving professional institutions (for example, clearing houses and foreign central securities depositories) (non-credit institutions).

A further distinction is made between capital market paper participants and money market paper participants. A combination of the two is also possible.

2. **Within each membership category, are all participants subject to the same rules and procedures?**

The participants are all subject to the same rules and procedures. These rules and procedures are laid down in the Securities Giro Act, the Giro Depots regulations, the Money Market and the Medium Term Notes regulations and the Necigef admission requirements. Insofar as different participants are subject to different requirements, such rules and requirements as pertain specifically to these different participants are laid down in article 2 of the Necigef admission requirements.

3. **Please describe important exceptions, including both differences in rules across participants and the rationale for these differences.**

Insofar as different participants are subject to different requirements, such rules and requirements as pertain specifically to these different participants are laid down in article 2 of the Necigef admission requirements.

B. ***Can participants establish accounts for their customers' assets that are segregated from their own asset accounts at the SSS?***

No. In principle participants make use of omnibus accounts. More than one account (connection number) can be established on request. However, a distinction is made between custody, mortgage, issuing and exchange accounts.

1. **In the event of segregated accounts, what form does the account structure take (a single omnibus customer account or a multiplicity of accounts and/or sub-accounts?)**

Necigef does not operate a segregated account structure.

2. **Is the segregation optional or compulsory?**

Not applicable (see III B.1 above)

3. **Does the fact that a sub-account at the SSS bears the name of a third party give any rights to that third party as a participant under the rules of the system?**

Not applicable (see III.B.1 above)

C. ***Please describe the participant requirements for each type of membership***

1. **Are participants required to be domiciled or resident in a particular jurisdiction?**

No, the place of domicile is not an admission criterion for potential participants. For foreign institutions, article 2, paragraph 1 under B, subsection G of the admission requirements applies (see appendix 7). Foreign institutions are subject to the supervision of the authorities in the jurisdiction where the participant is legally established.

2. **Are participants required to be subject to a supervisory regime? If so, please describe.**

Where it concerns money market paper, participants are required to obtain a permit from the Netherlands Securities Board STE or the Dutch Central Bank DNB. Should the participant be a credit institution it will be required to seek the necessary permit from DNB.

Other types of institution must gain the required authorisation from the Netherlands Securities Board. All participants (including credit institutions) must meet the supervisory regulations as laid down in the 1995 Act on the Supervision of the Securities Trade as regards their securities trading activities. The Netherlands Securities Board monitors compliance with these regulations. Where it concerns a credit institution as defined under article 1 of the 1992 Act on the Supervision of the Credit System, the admission criteria are determined by that act (see appendix 7, article 2, paragraph 1 subsection a under 1, respectively article 2, paragraph 1 subsection a under 2 and article 2 paragraph 1 subsection h under 1). With regard to supervision of foreign institutions you are referred to the answer under III C 1).

3. **Are participants required to hold an equity stake in the SSS?**

No. This is not possible (see I.F.4)

4. **Are there financial, economic, personal or other requirements (e.g. minimum capital requirements “fit and proper” tests)? If so, please describe.**

Yes, the entry requirements are detailed in article 2 of the Necigef Admission Requirements. These regulations refer to the criteria as laid down by law. Necigef's admission requirements set no additional criteria other than those requirements laid down in law.

D. ***Does the SSS engage in oversight of its participants to ensure that their actions are in accordance with its rules and procedures? If so, please describe.***

Yes, the possibility exists under article 2 paragraph 1 subsection a under 3 of the Admission Requirements. Participants are required to declare in writing their willingness to furnish the central institute (Necigef) with all information which may reasonably be deemed necessary for the correct discharge of the responsibilities of the central institute, and, if requested to do so, to furnish the data in question -- insofar as is necessary -- with a certified declaration from a registered accountant or expert, whom they have authorised in writing to give direct to the central institute a supplementary statement pertaining to such declaration, whereby the participant is given the opportunity to be present when he does so.

E. ***Under what conditions can participants terminate their membership in the SSS? Does this mark the end of all liabilities of the participant? If not, please describe what liabilities could remain.***

The membership of participants may be cancelled on January 1 of any given year at their written request. Such applications should have been submitted by September 30 of the preceding year at the very latest. After the cancellation by Necigef of a participant's membership, the former participant retains a liability towards Necigef as defined under article 8, paragraph 3 of the Giro Depot regulations. In this regard you are referred to the admission requirements as detailed in appendix 7.

F. ***Under what conditions can the SSS terminate a participant's membership in the SSS?***

Provisions for the cancellation of a participant's membership are included under articles 5 ff. of the Necigef Admission requirements. Necigef may cancel a participant's admission:

- should the participant institution no longer meet the requirements as laid down under article 2
- in cases of bankruptcy, suspension of payments to creditors (including a provisional payments moratorium) or dissolution of the participant institution
- should the participant fail to observe the provisions of the Securities Giro Act
- should the participant fail to observe the necessary requirements for the proper conduct of giro-based securities transactions.

G. ***Please describe the scope of the SSS's liability to participants, including the standard of liability (negligence, gross negligence, wilful misconduct, strict liability or other), the force majeure standard, and any limitation to the scope of liability of the SSS (e.g. indirect or consequential damages). Where are these liabilities and their limitations set out (e.g. in statute or contract?)***

Under the Civil Code, liability for damage that is linked in a given way to the occurrence on which the debtor's liability rests cannot be excluded if the occurrence can be attributed to him.

Necigef's liability for the incidents to which reference is made in the articles concerned is excluded under the terms of articles 5 paragraphs 5 and 27 of the Giro Depots regulations.

The 1997 Money Market and Medium Term Notes regulations exclude liability for the following:

- damages arising from the implementation of instructions issued by persons without due representative authority or decision-making powers
- damages arising from the circumstances detailed under article 8 of said regulations
- damages arising as a consequence of the misuse or errors in the use of forms issued to participants for the interchange of instructions and data between the participant institution and Necigef.

Furthermore the central institute accepts no responsibility for transport risks involved in the physical transfer of paper to and from the participant institutions. Participants should be insured against this risk in accordance with that which is stipulated under article 2 paragraph 1 subsection a under 5 of the Necigef admission requirements.

All articles to which this answer makes reference are included as appendices to this questionnaire.

IV **RELATIONSHIPS WITH OTHER SSSs AND COMMERCIAL INTERMEDIARIES**

A. ***Does the SSS maintain linkages (including sub-custodian or cash correspondent relationships) or other relationships with other SSSs?***

Yes.

1. **Please identify each of the other SSSs used and the type of securities transferred via the linkages.**

a) **What is the name of the other SSS? Where is it located?**

Necigef only maintains links with the following foreign Central Securities Depositories: Sicovam (France), SEGA (Switzerland), CIK (Belgium), OKB (Austria) and DBC (Germany). The position of these foreign CSD's is elucidated in more detail in article 35 of the Giro Securities act.

b) **What securities are eligible for transfer via the linkage to the other SSS?**

At present only securities that are listed on both of the stock exchanges concerned (dual listing) is eligible for transfer.

c) **Are transfers of securities made via the linkage to the other SSS limited to only those that are free of payment or are transfers against payment also made via the linkage to the other SSS? If against payment, please describe the timing of the transfers and the corresponding payments.**

The securities transactions can only be effected via delivery free of payment.

d) **Does the other SSS provide custody services to the SSS and, if so, who bears any credit or custody risks?**

In principle Necigef does not give securities into custody with third parties. However, in the event of cross-border securities traffic Necigef stores may occasionally be held abroad. Such sub-custody may only be undertaken by CSDs having the status of Necigef special participants and which offer the same safety as defined under the Giro Securities Transfer Act. Relations with foreign CSDs are undertaken on the basis of reciprocity.

B. ***Does the SSS use securities custodians (other than the other SSSs addressed in the previous question) and/or commercial cash correspondents? Please identify the custodians or cash correspondents used and the duties that each performs.***

No, no use is made of cash correspondents and/or custodial institutions other than those to which reference is made in the answer to the previous question.

C. ***Please describe the standards used in approving or reviewing relationships with other SSSs., custodians or cash correspondents, including any financial or operational requirements or the presence of insurance or public supervision.***

The criteria must be identical to those of Necigef as defined in article 2, paragraph 1, subsection g of the Securities Giro Act. (You are further referred to answer IV A 1, paragraph D.)

D. ***Does the SSS advance funds or securities to or on behalf of other intermediaries such as issuing or paying agents? If so, please identify the circumstances in which such exposure could arise.***

No, Necigef advances no funds or securities to or on behalf of other intermediaries.

- E. *Please describe measures in place to protect the SSS and its members against the failure of other SSSs or commercial intermediaries to meet obligations to the SSS, including risk controls, collateral or alternative sources of funds and securities.*

Necigef has eliminated such risks by taking custody of its own holdings or only allowing its holdings to be taken into custody by sister institutions with a protective regime identical to that defined under the Giro Securities act. Necigef maintains no relations with other (commercial) intermediaries.

V **SECURITIES TRANSFERS, FUNDS TRANSERS AND LINKAGES BETWEEN TRANSFERS**

The questions in this section deal with the way in which securities transactions are settled. Attention is paid to, respectively, the revocable and final character of the settlements during the various phases of the settlement process, as well as to the consequences arising from this (ir)revocability for the system participants and the SSS itself. The section further deals with settlement guarantees. In cases where the SSS gives certain guarantees with regard to settlement, system participants should be informed of the circumstances under which these may be invoked. System participants should also be clear as to the scope of such guarantees and the liability of the SSS in this regard.

- A. *Please discuss whether and how settlement instructions are matched between participants prior to processing by the SSS.*

1. **Is matching required for all transactions without exception?**

No. In the event of delivery against payment the transactions *always* match. In the event of a delivery free of payment there is no matching (unilateral instruction from delivering party).

2. **What procedure is used when instructions do not match?**

In the event of a non-match the parties involved in the transaction are informed on a real-time basis. This communication is repeated at the end of every working day as long as the duration of the transaction in question remains valid.

3. **Are matched settlement instructions binding on participants?**

No. Pre-matching takes place. The transaction only becomes binding from the moment the required securities are committed for delivery against payment on the desired settlement date specified.

a) **If so, please describe the consequences of failure by participants to meet obligations (e.g. forced settlement, penalties, short positions)**

In the event of a participant not being able to meet its obligations, both parties to the transaction are informed and no settlement takes place. Thereafter it is left to the parties concerned to agree on some kind of an arrangement; Necigef is not involved.

- b) **Please describe whether this is a feature of the SSS's rules and procedures or of national law or regulations.**

The process as outlined under a) is laid down in the Necigef regulations.

- c) **Please provide a time line indicating the points at which matched instructions become binding, as well as any pre-matching process that takes place.**

Necigef operates a real-time settlement. This means that instructions may achieve the relevant status during the stipulated settlement periods.

B. *Are securities transferred within the SSS registered?*

No, Necigef only processes bearer securities.

1. **Who is the registrar?**

Not applicable.

2. **Is it normal practice to register the securities in the name of the SSS (or its nominee) or in the name of the beneficial owner? Are there instances in which securities housed within the SSS are registered to neither the SSS (or its nominee) nor the beneficial owner?**

Not applicable, see answer to B.

3. **If the SSS offers custodial services, will it hold securities registered in the name of the beneficial owner?**

No, Necigef has custody of the securities on behalf of its participants and not registered in the name of the owner/end beneficiary.

4. **Under what circumstances does the SSS initiate registration of securities in the buyer's name?**

At no time does Necigef initiate registration of securities in the name of the buyer.

5. **How long does the registration process typically take? Are participants notified when the registration is complete?**

Not applicable; see answer above.

6. **Can securities be transferred within the SSS before registration in the buyer's name is complete? If so, do the rules and procedures of the SSS provide for an unwind or reversal of such transfers in case of bankruptcy or other events which result in the buyer's name not being entered on the register?**

Not applicable.

C. *Please describe how securities transfers are processed within the SSS.*

1. **Please indicate whether the transfers are processed as debits and credits to members' accounts or via some other method.**

Transfers are effected exclusively in the form of debits and credits to the accounts of system participants.

2. **On a continuous (real-time) basis or in one or more batches?**

Securities transactions are all executed on a real-time basis (item by item) The payment instructions generated real-time for deliveries against payment are collected by the Dutch central bank in short-cycle batches (every half hour), after which the bank supplies confirmation of the payments executed. These confirmation messages are processed real-time direct.

3. **If continuous, during what hours does the processing occur? If in batches, at what time or times is the processing initiated and completed?**

The indirect link (electronic mailbox) is accessible 24 hours a day from Monday 07.00 hours through Saturday 07.00 hours, as well as during weekends, except in the event of maintenance work.

The direct link (remote) is accessible on working days from 07.00 hours to 16.00 hours.

In processing orders a distinction is made between evening processing (on S-1 from 19.30 to 00.00 hours) and daytime processing (on S from 07.00-16.00 hours). Deliveries against payment are processed once during the evening (at around 20.30 hours) and between 08.00 and 12.00 hours during the day.

The above arrangement means that “same-day value” processing is possible for transactions involving delivery against payment which are submitted before 1200 at the latest, while deliveries free of payment can be submitted up to 1600 hours.

4. **Do securities settlements occur daily? Please identify securities for which settlement occurs only on specific days of the week or month.**

Settlement is conducted on a real-time basis daily. This holds true for all types of security.

D. *Please describe whether final funds transfers in conjunction with the SSS are made as debits and credits to balances held at the SSS, at one or more commercial banks, at the central bank or via some other method.*

1. **Does the SSS maintain cash accounts for its participants? Are these accounts equivalent to deposit accounts at a commercial or central bank or do they serve only as “cash memorandum” accounts?**

Necigef does not maintain cash accounts.

2. **On what entity (SSS or other) does the participant bear cash deposit risk?**

The settlement of cash transfers in Dutch guilders is conducted via the Dutch Central Bank DNB, while foreign funds transfers are conducted through Kas-Associatie N.V. Participants may bear settlement bank risk in the settling of foreign funds transfers through Kas-Associatie N.V.

3. **Under what circumstances does the SSS provide credit extensions or advances of funds to its participants and thereby expose itself to credit risk?**

Necigef does not extend advances to its participants.

4. **How long can such credit extensions last? How long do they typically last?**
Not applicable, see answer above.
- E. ***Is the SSS a DVP system? If so, please describe the DVP model used according to the three models outlined below under 1a.***
Yes, model 1.
1. **Are funds transfers and securities transfers processed within the same system? If different, how are they linked?**
No. The link between the two systems (Necigef and DNB and Necigef and Kas Associatie) is effected by means of electronic data interchange. (EDI)
- a) **Please indicate which of the following three DVP models described in the DVP Report forms the basis for the SSS Delivery Versus Payment mechanism (Note: Delivery versus Payment in Securities Settlement Systems, Bank for International Settlements, Basle September 1992)**
Model 1: the settlement of cash transfers in Dutch guilders is conducted through accounts with the Dutch Central Bank DNB while foreign currency transfers are settled through Kas-Associatie NV.
- b) **Does the SSS “split” large transactions into multiple transactions or require participants to do so?**
No.
2. **When do securities transfers and funds transfers become final?**
- a) **At what time do securities transfers become final? After what event or events?**
The cash and securities transfers become final from the moment payment is made.
In accordance with article 114, Volume 6 of the Dutch Civil Code, cash payment is deemed to have been made at such time the creditor’s account -- which must be held in the country where the payment must or may be made -- is credited.
Analogous to this is that the transfer of securities becomes final when Necigef has transferred the securities by giro to the securities giro account of the party taking delivery, and the account is credited accordingly.
The parties involved are informed of this by Necigef on a real-time basis.
- b) **At what time do funds transfers become final? After what event or events?**
For funds transfers in Dutch guilders, settlement is final at such time that the booking has been made in DNB’s TOP system. The parties concerned are informed of this on a real-time basis by the Dutch central bank.
For foreign currency funds transfers, use is made of the Kas-Associatie’s services. To this end, parties maintain foreign currency accounts with Kas Associatie. To date, no settlements have yet been made in foreign currencies.

- c) **Given the settlement cycles for funds and securities transfers, is it possible to use monies received from the netting process to buy securities the same day?**

Not applicable. Necigef does not offer a netting facility.

- d) **If final delivery of securities precedes the final transfer of funds, can participants dispose freely of such securities prior to funds finality? If so, what actions will be taken if funds are not received?**

The final delivery of securities does not precede the final funds transfer, as a result of which the system manager does not have prior control over securities.

- e) **If final delivery of funds precedes the final transfer of securities, can participants dispose freely of such funds prior to securities finality?**

The final delivery of funds does not precede the final transfer of securities, so that those receivers are not in a position to freely dispose of such funds.

- f) **If so, what actions will be taken if securities are not received?**

Not applicable

- g) **Does the timing of finality differ depending on the type of security transferred or the currency in which payment is to be made? Please describe.**

There is no differentiation according to category.

3. **Please discuss whether participants are notified of securities or funds transfers while they are still provisional, only when they are final, or both.**

Participants are informed immediately following the booking (finality).

- F. ***Does the SSS itself “guarantee” funds or securities transfers?***

Necigef gives no guarantees with regard to funds or securities transfers. Necigef’s remit after all expressly excludes any type of business other than that described under its purpose which involves a commercial risk and powers to undertake any such business have expressly been withheld from it (see article 1, paragraph 2 of the Necigef Articles of Association, appendix 4).

- 1 **Under what circumstances and at what point are transfers guaranteed by the SSS?**

See answer under V F, above.

2. **What actions does the guarantee obligate the SSS to take?**

See answer under V F, above.

3. **Please indicate whether the guarantee is a feature of the SSS’s rules and procedures or of national law or regulations.**

See answer under V F, above.

VI DEFAULT PROCEDURES

In the event of an emergency it is important for system participants to know which procedures will come into effect and by whom such procedures will be initiated. Also of relevance in this regard is the scope of the procedures and who will finance any action that is undertaken.

A. *Please discuss the events or circumstances that would constitute default of a participant under the rules and procedures of the SSS or that would lead the SSS to make use of exceptional settlement arrangements or unwind procedures.*

Necigef will only undertake the settlement of a transaction where the account balance (securities and funds) are sufficient to effect the transaction in question.

1. **Failure by a participant to meet a test of its solvency under the applicable laws of its jurisdiction?**

Participants' solvency is monitored by sector regulators DNB (the Dutch central bank) or the Netherlands Securities Board STE. The (incidental) failure of a party to meet its solvency requirements does not constitute grounds for Necigef to raise the issue with the party concerned. Necigef limits itself to informing parties (on a real-time basis) that the transaction does not constitute a match. It is left to the parties concerned to raise the test of solvency issue with the party unable to meet its obligations should they wish to do so. Failures to meet payments or securities delivery obligations by system participants will not result in them being declared in default by Necigef.

2. **Failure to make payments or deliveries of securities within the time specified?**

See answer above.

3. **To the extent that the rules and procedures grant discretion in the determination of the use of default or other exceptional procedures, please discuss where the authority to exercise such discretion resides and the circumstances in which this authority would be used.**

Not applicable.

B. *What procedures are followed by the SSS once it has determined that a default event has occurred or that exceptional settlement arrangements are to be employed?*

1. **How and at what point are participants notified that this has occurred?**

In the event of a non-settlement, the parties concerned are notified by means of an error message, giving reasons. It is left to the parties concerned to assess the seriousness of the situation and whether to take possible action against the counter party.

2. **Would the SSS be expected to continue to meet all its obligations to participants under these circumstances?**

No, in such cases Necigef has already met all its obligations to participants by informing them of the non-settlement of the transaction and the reasons for this.

3. **Please discuss the resources in place to ensure that the SSS would continue to meet its obligations (e.g. collateral, participants' fund, insurance, loss-sharing arrangement etc).**

Not applicable.

4. **Please describe and provide a time line indicating the order in which these resources would be used as well as the timing of participant notifications and important deadlines (e.g. when the SSS's obligations to participants would be met, when participants would need to cover their loss-sharing obligations).**

Not applicable.

5. **Please describe all conditions under which provisional transfers of securities or funds could be unwound by the SSS.**

There are no provisional transfers of securities or funds at Necigef which may need to be unwound. See answers above.

- a) **How and on what authority would a decision to unwind securities or funds transfers be made by the SSS?**

Not applicable, see answers above.

- b) **When and how would participants be notified of a decision to unwind provisional securities or funds transfers?**

Not applicable. See answers above.

- c) **How long would participants have to cover any debit positions in their own securities or funds accounts resulting from an unwind?**

Not applicable. See answers above.

- d) **In the event of an unwind, would all transfers be unwound or would only a subset of transfers (e.g. only securities purchases or only those of a subset of participants) be unwound?**

Not applicable. See answers above.

- e) **If only a subset of transfers, what procedure would be followed to determine which transfers and in what order?**

Not applicable. See answers above.

6. **Can bankruptcy or insolvency be declared retrospectively in the SSS's jurisdiction (e.g. under a "zero hour" rule) and could this cause provisional securities or funds transfers to be unwound?**

Yes, a bankruptcy has retrospective effect to 00.00 hours of the day on which the bankruptcy declaration is issued. As a matter of principle Necigef undertakes no provisional transfers of securities. However, a transfer may be unwound in the case of a bankruptcy.

Dutch bankruptcy legislation is organised in such a way as to fix the rights of the creditor at the moment a bankruptcy is declared. The determining factor in whether the receiver may demand restitution of that which has been transferred under the so-called “zero hour” ruling is whether all the preparatory actions for effecting the payment in question were completed on the day of the bankruptcy being declared. Requisition by the receiver can only be ruled out when the creditor’s account has been credited before the above mentioned time. In all other cases it is impossible to generalise about whether money and funds transfers would be unwound. Current legislation with regard to this subject is currently under review by the Finance Ministry.

7. **Please describe any circumstances in which transfer of securities or funds that were defined as final in question V.E.2 above would ever be unwound.**

Please refer to the previous answer.

- C. ***Has a participant in the SSS ever been declared in default or become insolvent?***

No, to date no participant has ever been declared in default or declared bankrupt.

1. **Have loss-sharing procedures been invoked?**

Not applicable, see answer above.

2. **Please describe whether any of these defaults or insolvency’s resulted in losses for the SSS or its participants and how they were absorbed.**

Not applicable, see answer above.

VII SECURITIES OVERDRAFTS, SECURITIES LENDING AND BACK-TO - BACK TRANSACTIONS

In recent years SSS’s have implemented a range of methods aimed at accelerating securities settlements. These are of particular significance in a cross-border context and in view of this, this paragraph deals with securities lending, overdrafts on securities accounts and so-called back-to-back transactions (securities transactions in which the party taking delivery of the securities is required to redeliver them the same day).

- A. ***Is it possible for debit positions (overdrafts) in securities accounts at the SSS to arise?***

No, participants are not allowed to have a debit balance on the account with Necigef.

1. **Under what conditions could such debit positions occur?**

They cannot occur. See answer above.

- a) **Should the securities balance on the delivering party’s account be insufficient to settle a transaction, will this automatically result in a debit position on the securities account of the delivering party rather than a failed transaction?**

Not applicable. If the party delivering the securities has an insufficient securities balance, then settlement does not take place.

- b) **What criteria are used to determine whether a securities transaction is settled by debiting the delivering party's securities account or whether no settlement occurs?**
Not applicable. See answer above.
- c) **Are the situations described under a) covered explicitly by the rules and procedures of the SSS?**
Not applicable.
2. **How long can such debit positions last. How long do they typically last?**
The securities accounts of participants can never show a debit balance.
3. **How are debit positions in securities accounts prevented, rectified or managed?**
Not applicable.
4. **What procedures would be followed by the SSS in case the debit cannot be rectified?**
Not applicable.
5. **What procedures would be followed by the SSS in case the debit cannot be rectified? (e.g. failure by a participant with a debit balance in a securities account or unavailability of securities in the market).**
Not applicable.
- a) **Application of loss-sharing provisions allocating the loss to participants?**
Not applicable.
- b) **Absorption of the loss by the SSS?**
Not applicable.
- c) **Other? Please specify.**
Not applicable.
- B. *Under what circumstances does the SSS provide for the lending of securities to ensure settlements?*
1. **Is the process for lending securities automatic? If not, please describe the procedures used by the SSS to determine whether a securities loan will be made.**
Necigef does not provide for the lending of securities.
2. **At what point are participants notified that securities are being lent to them in order to complete their settlements?**
Not applicable, see answer above.
3. **Which securities on deposit at the SSS are eligible for lending? Do participants have the option to make securities available for lending or is it mandatory?**
Not applicable.

4. **Are lent securities identified by the SSS with specific participants as lenders or only with a common pool of securities available for lending? Does the participant whose securities are lent become a principal to the transaction?**

Not applicable.

- C. ***How does the SSS settle back-to-back transactions?***

Not applicable. This facility is still being developed by Necigef.

1. **Under what conditions are delivery instructions by participants receiving and redelivering securities on the same day under back-to-back transactions settled for same-day value?**

- a) **Only if the participant has securities on deposit with the SSS that have been received pursuant to a final securities transfer?**

Not applicable.

- b) **If the participant has securities on deposit with the SSS that have been received pursuant to a provisional securities transfer?**

Not applicable.

- c) **Before securities have been received either provisionally or finally, but when a matched receipt instruction exists for the same or greater value? Is such a practice limited to markets where matching is binding?**

Not applicable.

- d) **Before securities have been received either provisionally or finally, but when a third party has promised to deliver to the SSS securities of the same or greater value? Must the provider of the guarantee have itself received the securities through a final transfer? Please describe how the SSS evaluates such promises and whether they are addressed by the written rules and procedures of the SSS.**

Not applicable.

- e) **Other? Please specify.**

Not applicable.

2. **Please describe limits or controls in place with respect to any of the above arrangements for the settlement of back-to-back transactions, including limits on amounts involved or related to the liquidity of the underlying securities.**

Not applicable.

3. **Under what conditions are payment instructions by participants in the SSS under back-to-back transactions settled for same-day value? Can participants use the proceeds of an on-delivery of securities without the need for an extension of credit?**

Not applicable.

VIII RISK CONTROL MEASURES

The questions in this section deal with various aspects of the SSS's risk management systems. The policy pursued by an SSS in this regard is of course dependent on the type of services offered by the SSS concerned and its organisation.

A. *Risk management within the SSS*

Necigef's business comprises the custody and administration of securities and the management of securities giro traffic on behalf of its participant institutions as defined under the Giro Securities Transfer Act, as well as the undertaking of any activities which may be deemed to fall within its remit as defined within the framework of the aforementioned act. Any other activity involving commercial risk for Necigef is expressly excluded and is expressly forbidden in the description of its remit (see article 1, paragraph 2 of Necigef's articles of association). In view of the above Necigef takes no positions whether in securities or cash and undertakes no netting. However Necigef is exposed to operational risk. In order to cover operational risks, Necigef has taken out insurance policies with cover ranging from a maximum of five to 15 million guilders per occurrence. In addition the AEX holding company, to which group Necigef is affiliated, has issued a shareholders' equity guarantee to safeguard Necigef's equity.

1. Please describe the process for the internal review of risk management policies and procedures.

See VIII A.

2. Is there a risk management policy that addresses the review and approval of new products and services offered by the SSS? At what level of the organisation is risk management approval given for a new product or service?

See VIII A.

3. Does the SSS have a risk management function with clear independence from an authority over operational or marketing functions?

See VIII A.

4. Does the Board of Directors review risk management policies and procedures? Does the Board have a risk management or audit committee?

See VIII A.

B. *Please describe any internal or external audits or supervisory/regulatory examinations that are performed with respect to the SSS. For each such audit or examination, please address the following questions.*

Yes, on the one hand Necigef acts as a central securities institute as defined within the framework of the Giro Securities Transfer Act and on the other it acts as a securities settlement system for the settlement of certain securities transactions.

Necigef is charged with the implementation of the Giro Securities Transfer Act. Necigef is supervised by the Minister of Finance. Article 2 of the Giro Securities Transfer Act deals with this supervisory function in greater detail. Further regulations with regard to supervision by the regulator were established according to a decision by the Minister of Finance promulgated in Government Gazette number 157 of August 11, 1977, specifically appendix 1 of Necigef (see appendix 6).

A supervisory entity has been appointed on behalf of the Minister of Finance. The brief of Necigef's supervisory authority is detailed in the decision of August 11, 1977, specifically article 1 of the first appendix (this article is attached herewith as appendix 6).

Based on the conditions for bourse authorisation of Amsterdam Exchanges N.V. dated December 30, 1996, the securities settlement system is subject to certain requirements aimed at avoiding system risk. Under the bourse authorisation requirements, the Netherlands Securities Board STE and the Netherlands Central Bank DNB carry joint responsibility for the system supervision of the securities settlement systems. In this regard the joint system regulators have formulated a supervisory framework which lays down standards to be met by the securities settlement systems.

1. **Who performs the audit or examination?**

External accountant. This audit assesses Necigef's general performance as well as the balance of physical certificates with administrative holdings and the functioning of the (administrative) organisation of data provision. In addition the external accountant conducts EDP audits of the administrative organisation of the automated data processing. An EDP audit of the Necicom system is conducted annually. The internal audit department makes a daily assessment on the basis of output received of whether the securities system gives an accurate reflection of the holdings. This is undertaken by means of checking proof reports for accuracy and completeness.

2. **What is the scope of the audit or examination?**

a) **Please indicate whether and how it addresses the sufficiency of and compliance with internal controls.**

Internal control procedures are assessed by the external auditor on grounds of sufficiency and ease of implementation.

b) **Please indicate whether and how it addresses the SSS's compliance with its own rules and procedures.**

The external auditor assesses the internal control procedures and reports of such controls as well conducting his own random samples. The external auditor further ascertains whether the rules and procedures have been implemented in a correct and timely manner on the basis of a review of the internal audit department's dossiers.

3. **What is the frequency of the audit or examination?**

It is conducted annually.

4. **Are audit or examination reports available for review by participants?**
Audit and examination reports are not available for review by participants. Should circumstances so require, such reports can be made available to the external auditor of the institution concerned.
The results of each audit are submitted to the supervisory board and to Necigef's supervisory authorities, the Minister of Finance.

- C. *Please discuss whether the SSS has the capacity to value (i.e. mark to market) the securities that it holds*
Yes, it does, but currently no use is made of this.
 1. **Please describe how these valuations are used by risk control systems at the SSS.**
Not applicable.
 2. **How frequently are securities revalued?**
Not applicable.
 3. **What are the sources for security valuations?**
 - a) **What outside price or data sources are used?**
Prices on the AEX stock exchange.
 - b) **If pricing models are used, please describe how the models are chosen and how the model inputs are obtained.**
Not applicable.

- D. *Please discuss whether the SSS has a lien on the securities held in or transferred through it.*
Not applicable.
 1. **Does the lien apply only to the securities owned by the participants themselves or does it extend to the securities beneficially owned by customers of participants?**
Not applicable.
 2. **Under what circumstances and in what manner would such a lien allow the SSS to use the securities?**
Not applicable.

- E. *Please discuss the circumstances in which the SSS requires collateral to limit or mitigate risks.*
 1. **Does the SSS manage its own collateral system?**
Not applicable.
 2. **Does the SSS share a collateral system with another SSS or payment system?**
Not applicable.

3. **Can collateral at the SSS be posted and returned on the same day?**
Not applicable.
 4. **What types of transaction at the SSS involve the use of collateral?**
Not applicable.
 5. **What are the policies with regard to the type of collateral or haircuts required?**
Not applicable.
 6. **How are collateral valuation methodologies developed and reviewed?**
Not applicable.
 7. **To what extent are collateral policies described in the written rules and procedures of the SSS?**
Not applicable.
- F. *Please describe the SSS's use of limits on exposures to monitor or control risks.*
1. **Please explain the types of limit used and the exposures to which they apply.**
Not applicable.
 2. **Do the limits apply to all participants and/or to other SSSs with which the SSS is linked? What are the exceptions to the limits?**
Not applicable.
 3. **Do limits apply to participants individually or in the aggregate or both?**
Not applicable.
 4. **Do limits apply to implicit as well as explicit extensions of credit or securities (e.g. when on-deliveries of securities are permitted pursuant to provisional but not final delivery of securities)?**
Not applicable.
 5. **Does the SSS automatically reject transactions that exceed limits or is compliance determined ex post?**
Not applicable.
 6. **How are limit policies developed and reviewed?**
Not applicable.
 7. **To what extent are limit policies described in the written rules and procedures of the SSS? Where does additional authority to set or amend limit policies reside?**
Not applicable.
- G. *Please describe other controls to mitigate or reduce risks at the SSS.*
Not applicable.

1. **Does the SSS or its participants have the capacity to monitor participants' accounts continuously during processing?**
Yes. Participants receive real-time confirmation messages with regard to the status (amendments) of transactions. In addition they are able to request the latest situation by means of an inquiry.
2. **Is there a special risk control regime that the SSS would apply to a participant known to be experiencing financial difficulties?**
In view Necigef's modus operandi (DVP), no risk control regime is required.
3. **Does the SSS maintain or administer loss-sharing arrangements other than those applicable to events of default and addressed in Section VI above? Are these loss-sharing pools pre-funded by participants?**
Not applicable.

IX OPERATIONAL RISKS

Operational failures at the SSS can (temporarily) stop participants from gaining access to their assets held at the SSS. As a result this could prevent them from honouring their commitments to others, with potential spillover effects on other payments, clearance and settlement systems. This could jeopardise the stability of the financial system. Furthermore, prolonged problems could reduce or eliminate trading activity with respect to the securities affected, with substantial consequences for market participants.

- A. *Please provide assessments of the operational reliability of the computer and other systems used by the SSS , including any criteria that the SSS uses internally for this purpose.*
 1. **What is the percentage uptime of the systems used by the SSS?**
 - a) **Whole system overall?**
99 percent
 - b) **Broken down by major components? (E.g. communications network, central processing facility)**
Central processing facility = 99.8 percent
Communications network = 98.2 percent
 - c) **During critical processing periods?**
The benchmark established to assess this is based on an assumption of 99 percent uptime, taking into account a maximum load on the system of twice the normal daily production. For data communications a maximum average line uptake of 30 percent is assumed.
Should the uptake of the processing unit or the data communications link exhibit an uptrend in excess of this, the appropriate measures are taken.

2. **Has the SSS experienced major operational problems during the last two years?**

a) **Have settlements been delayed, been disrupted or otherwise failed because of operational problems during this period?**

In July 1997 Necigef experienced capacity problems with its automated data processing, as a result of which transactions took longer to process. Although production was never suspended or discontinued, the regular processing times were temporarily amended and certain inquiries were temporarily shut down. Increased processing capacity came on-line within a week.

b) **Please describe the nature of any such problems.**

The above mentioned problem was caused by a technical conversion of the software. In spite of the fact that the acceptance environment offered sufficient performance on the basis of the benchmark, this transpired not to be the case in the production environment. In the first instance the situation was eliminated by expanding the computer capacity, after which the system was fine-tuned.

B. ***Please describe contingency or recovery planning at the SSS.***

1. **Does the SSS have a formal plan for business continuity in place?**

Yes. Alongside a general contingency plan, Necigef also has emergency procedures for its automated data processing (including plans for an alternative site of operations).

2. **Is this plan available for review by participants?**

Information on the available contingency and emergency plans relevant to the participants are set out in the Necigef guidelines.

3. **How often is this plan tested? Does this involve participants in the SSS?**

The emergency and alternative site procedures are tested centrally at least once every quarter. Participants are not involved in these tests. Participants may test the emergency procedures available to them on request.

4. **What are the major elements of the business recovery plan?**

The key features of the emergency plan are the description of the facilities and modus operandi in the event of the failure of (part of) the automated data processing system. These are aimed at safeguarding the sequentiality and the comprehensiveness of the settlement system with a minimum of disruption of the usual time-lines.

5. **How long would it take the SSS to resume operations if primary systems become unusable?**

The response time in the event of malfunction is half an hour. In the event of relocation, four hours are required to bring the system back on line.

C. ***What are the key features of the internal controls covering operations and security at the SSS (e.g. change controls or those covering remote access?)***

1. **Please describe controls or security procedures in place to ensure that the SSS acts only on authentic settlement instructions from valid participants.**

The network security processor renders messages secure and monitors whether transactions have been properly entered into the system. Electronic messages are given an electronic signature using keys and DES algorithms, after which they can be dispatched. When such messages are received they are checked for authenticity and integrity on the basis of the electronic signature. Only once all checks have been carried out and everything has been found to be in order will the instruction be processed. In cases where irregularities are discovered these are signalled and the instruction will not be processed. The following measures have been taken, whereby a distinction is made between the use of forms, the transfer of data files and direct links with the Necigef computer system.

Diagrammatically these may be represented as follows:

| Security/ Type Form (intermediary) | User ID Password ----- | Integrity Control Number MAC | Authenticity Signature Verification MAC | Authorisation Signature MAC |
|---|------------------------------|--|--|-----------------------------------|
| Electronic Mailbox (indirect) | Network Mailbox | | | |
| Remote (direct) | Network System | Visual check With confirmation by participant | Via User ID Password | Menu structure |

Note: Every instruction will always generate a confirmation message via the electronic mailbox (real time in the event of same-day settlement and end-of-day at the latest in the event of future settlement).

Verification takes place as follows:

1. Confirmation via mailbox
2. Inquiry into orders (real time actual)

Furthermore the smooth operation of the transactions administration and the data traffic is continuously monitored on the basis of the logging.

NB The intention is to start using SWIFT in 1998 and to implement scrambling in the interests of confidentiality.

Access is protected at three different levels, namely:

- access to the network
- access to the computer centre
- access to the applications.

Monitoring of access and the associated authorisations is carried out by means of an user-id and accompanying password. The user profile determines the facilities and account numbers to which the user has access.

2. **Are internal operational and security controls included in the internal and/or external audits of the SSS?**

Control routines are incorporated within the automated systems to ensure integrity of processing (proof reports). Correct settlement is further safeguarded by means of system loggings which actively signal possible aberrations.

The system is also subject to checks on accuracy (which may or may not be enforced by the system), comprehensiveness controls and end controls. Finally controls also exist to monitor division of tasks and authorisation.

3. **Are internal operational and security controls covered by regulatory requirements applicable to the SSS?**

The controls as implemented within Necigef are not explicitly referred to in the regulations. An exception are the controls as regards the authorisation, integrity and authenticity of instructions issued by participants, which are set out in the Necigef guidelines.

D. ***Does the SSS impose minimum operational or performance standards on third parties (e.g. communications providers?)***

Yes, in the form of service level agreements.

1. **How does the SSS ensure that such standards are met on a continuing basis and what sanctions are available to the SSS if they are not?**

Assessments of whether minimum standards are being met are made on the basis of service level reports and records of system malfunctions. The available sanctions are laid down in the service level agreements concerned.

2. **How would the SSS allocate losses due to operational problems caused by third parties?**

Necigef pursues a passive policy in this regard.

Appendices:

1. Giro Securities Transfer Act
2. Articles from the giro depots regulations
3. Articles from the Money Market and Medium Term Notes Regulations (1977)
4. Articles from Necigef's articles of association
5. Diagram of the organisation
6. Appendix 1 of the ministerial order
7. Necigef admission requirements

Appendix 1

Giro Securities Transfer Act

The Wet Giraal Effectenverkeer (Giro Securities Transfer Act) was established in order to create a regulatory framework for a system of giro-based securities traffic in the Netherlands, which had then yet to be introduced. In particular, the Giro Securities Transfer Act safeguards the interests of securities clients and seeks to link up with foreign legislation with regard to giro-based securities transfers.

The Giro Securities Transfer Act was drafted on the basis of two basic principles. The first of these is the construction of co-ownership. What this amounts to in practice is that those persons with rights to securities in a depot falling within the act's ambit become pro-rata co-owners of the securities of the given type held in the depot. The second core principle is that delivery of the securities is effected by the written transfer of the number of securities concerned to the administration of the system participant.

Its central point of departure was the establishment of a central institute for the custody of securities and for the management of giro-based securities traffic. Necigef, the Netherlands Central Institute for Giro Securities Transfer, was set up to take on the role of the central institute. The introduction of a giro-based securities system necessarily involves the abolition of securities registered to a particular client. The securities incorporated within the system are interchangeable. The cancellation of individually registered securities was compensated by giving securities clients property rights with regard to securities in the system.

The client ownership rights provided for under the Giro Securities Transfer Act stem principally from the problems which arose with regard to the custody of securities in generalised collective depots. There was a rapid turnover in the contents of these depots, which also contained securities belonging to the custodial institution in question. Before the introduction of the Act, the administration of such depots involved keeping records which identified a particular client's holdings by securities number. Based on these records, it was possible to establish which particular securities of a particular class were being held for an individual client, so maintaining a direct link between securities and client.

This form of custody had far-reaching effects for the property rights of clients, as transpired when one of the custodial institutes was declared bankrupt. In the ensuing legal dispute it emerged that in the event of custody of bearer securities in a collective depot of which the composition constantly changes without specific securities holdings being linked to particular clients, the client loses his entitlement to the securities should the custodian be declared bankrupt.

The Giro Securities Transfer Act was set up in response to these developments. The introduction of this act in 1977 resulted in significant improvements to then existing custody practices. The system introduced under the Act ensures that the assets of an institution are kept separate from securities held by it for customers in its role as custodial institution. Under the Giro Securities Transfer Act, clients lose their individual property rights with regard to separate securities and in return gain a pro-rata participating interest in the relevant collective deposit.

The securities are deposited in a general, constantly changing depot. Rather than the custodial institution holding the rights to the securities under its management on the grounds of its custody, the customers remain jointly entitled. Under the act the customer of a participant institution has a property claim with regard to the securities administered for him on a giro basis by the participant.

In practice, the majority of securities are deposited by the custodial institutions with Necigef since 1986. The Giro Securities Transfer Act names parties which are admitted to the Necigef giro depository as “participant institutions”.

Under the Act such parties (banks or securities brokers) are subject to a number of requirements with regard to the tasks of custody and administration of the securities entrusted to them.

The Giro Securities Transfer Act states that Necigef takes custody of the securities of the participant institution and in consequence a custody agreement is effected between the participant and Necigef. Under the stipulations of the Act Necigef has been designated the central securities depository in the Netherlands. The composition of the depot administered by Necigef, the Giro Depot, is also constantly changing. In the case of the Giro Depot, too, a collective is created in which participants acquire shared rights on the basis of Necigef’s acceptance of custody. Although this share is registered to the participant institution, under the Act it belongs to the collective depot managed by the institution in question.

In view of the fact that only participant institutions maintain securities accounts with Necigef, the names of the participants’ clients are not known to Necigef and no direct link exists between them and Necigef. The involvement of the customers in this legal relationship is unusual in that they cannot enter into a direct agreement with Necigef and nor are they linked directly to Necigef in other ways and yet they are deemed to have gained a share in - and thereby a claim on - the collective depository on the grounds of Necigef’s acceptance of the securities into its custody.

Delivery of securities within this comprehensive depot is effected on a giro basis and occurs via administrative entries. Necigef is not a party to all giro-based transfers. In cases where delivery is effected between two clients of a single participant, the administrative bookings will remain limited to the administration of the participant concerned. Should the transaction involve customers of different participant institutions, then Necigef will record such deliveries in its own administration. In the event of a stock exchange transaction, securities delivery is also conducted through Necigef’s books, after intervention by Securities Clearing. Securities Clearing takes on the delivery commitment of the selling party and the payment commitment of the purchasing party.

The Act stipulates that Necigef is subject to government supervision. Necigef’s admission requirements are subject to the approval of the Minister of Finance. Decisions taken by Necigef organs may be submitted to the Finance Minister for overturning by the supervisory authority appointed on the Minister’s behalf. Necigef’s general terms and conditions and those of the participant institutions are deemed to complement the legal framework. As such regulations with regard to admission and system procedures are not included within the Giro Securities Transfer Act but in Necigef’s rules and regulations. This method is to be recommended because the regulations in question must constantly be updated in a flexible manner in order to meet the constantly changing situation on the ground. This regulatory approach is also frequently implemented abroad.

Appendix 2

Articles from Giro Depots regulations

Article 5

1. Instructions or notifications to the central institute must be made using forms issued by the central institute.
2. Permission must be obtained from the central institute to issue instructions to it or notify it by means other than the prescribed forms; the central institution reserves the right to attach certain conditions to such permission.
3. Unused forms will be returned should the central institute deem this necessary in the interests of a smooth and orderly carrying on of business.
4. Forms which are damaged, or which have been incompletely filled out or which contain deletions or additions will not be processed unless in the central institute's view there are no objections to doing so.

Article 23

1. Complaints related to the non-execution or incomplete execution of instructions by the central institute must be raised by the interested party with the central institute as soon as possible; at the latest within five working days after the instructions were issued or after the error was discovered.

Article 27

Without prejudice to that which is laid down in article 5, paragraph 5, the central institute cannot be held liable by a participant for damages arising from

- a the failure of the participant to adhere to stipulations laid down by or under these regulations;
- b the provision of incomplete or incorrect data to the central institute;
- c misinterpretations and omissions by the central institute as defined under article 23, first paragraph, unless the reparation of such misinterpretations and omissions is requested within five working days from the day on which the instruction was issued, respectively when the faulty implementation of said instruction was ascertained.

Article 28

The central institute will charge for its services according to tariffs which will be communicated to participants.

Closing stipulations

Article 29

All rights and obligations arising from these regulations for the central institute and its participant institutions are subject to Dutch law.

Article 30

Amendments to these regulations will be communicated by the central institute to the participant institutions in writing, together with the date of their taking effect.

Appendix 3

Articles from the Money Market and Medium Term Notes Regulations (1997)

Article 8 Liability

- 8.1 Without prejudice to the stipulations contained elsewhere in these regulations, the central institute is not liable for:
- a. damages arising from the non-communication or incomplete communication or delay of instructions and other notifications resulting from the use of post, telephone, telefax, telex, data transmission or any other means of communication;
 - b. damages arising from the failure to process or the incomplete processing of instructions for whatever reason, except in the case of proven intention or gross negligence on the part of the central institute;
 - c. consequences resulting from circumstances beyond the central institute's control, which circumstances are deemed in any case to include measures imposed by a superior authority, international conflicts, incidences of violence, labour unrest (also under the institute's staff), technical or other hitches at enterprises whose services are used by the central institute, exclusion and boycotts;
 - d. damages resulting from a participant institution's failure to meet stipulations laid down by or under these regulations;
 - e. damages resulting from the communication to the central institute of incorrect or incomplete information by a participant institution;
 - f. damages arising from misinterpretations and omissions by the central institute as defined under article 13, first paragraph, unless the reparation of such misinterpretations and omissions is requested within five working days from the day on which the instruction was issued, respectively when the faulty implementation of such instruction was ascertained.
- 8.2 Participant institutions using software provided by the central institute are deemed liable for any violation or misuse of the attached copyrights and the resultant damages.
- 8.3 The central institute's responsibility is emphatically limited to custody, management and administration. It does not vouch for the solvency of any debtor.

13 Central institute statements

- 13.1 If a participant institution in any way disagrees with that which is contained in a bank statement relating to one of its securities accounts, with a payment or any communication from the central institute, it must immediately seek to come to an understanding with the central institute.

Article 16 Applicable law

- 16.1 The relations between the central institute and the participant institution or debtor are subject to Dutch law, unless the central institute declares the law of another country to be applicable at a participant's request. The central institute reserves the right to refuse a request of this nature by a participant without giving reasons.

Article 17 Amendments

17.1 Amendments to these regulations will be communicated by the central institute to the participant institutions in writing, together with the date of their taking effect.

Appendix 4

Excerpts from the Necigef Articles of Association Management

Article 1 Name, domicile, purpose and duration

1. The company carries the name of Netherlands Central Institute for Giro Securities Transfer BV, which in commercial intercourse may also be referred to as Necigef. It is based in Amsterdam, but may also maintain offices or business premises elsewhere. The company has been set up for an unspecified period of time.
2. The company has as its purpose the custody and administration of securities and the management of giro-based securities traffic on behalf of its participant institutions as defined under the Giro Securities Transfer Act as well as the undertaking of all such activities within the framework of the Act which may be deemed to fall within its ambit. Every other business activity which may involve any kind of commercial risk is expressly excluded from the purpose of the company and under these statutes any powers thereto are expressly withheld from it.

Article 11

1. The company is managed by a board of directors comprising one or more persons. The supervisory board determines the number of directors and their remuneration. In the event of more than one director being appointed to the board, the general meeting can appoint one of their number as chairman.
2. Appointments are made by the general meeting on the basis of a binding nomination put forward by the supervisory board within three months of a seat on the board becoming vacant, including vacancies arising from a decision to increase the number of directors. This binding nomination must put forward at least two names for each vacancy and must be compiled in such a way that even in the event of one or more appointments having been made the general meeting still has a choice between two or more candidates for each subsequent appointment.
Should the binding nomination not be forthcoming within the abovementioned three-month term, then the general meeting is free in its choice of appointee.
3. The board of directors is charged with managing the company.
4. In the event of one or more of the directors being absent or hindered, the management of the company falls to:
 - a) the relevant person appointed thereto on the supervisory board (in the event of a single-person board of directors).
 - b) in the event of a board which comprises more than one director, the remaining director or directors, together with the person or one of the persons on the supervisory board who have been appointed thereto; or in the event of the absence or hindrance of all the directors, those who have been appointed to manage the company by the supervisory board.

Article 12

The general powers of representation reside with

- a) the only director;
- b) two directors together;
- c) in the event of there being no director in place through absence or hindrance, with that person or those persons appointed thereto by the supervisory board.

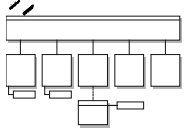
Article 13

The board of directors requires the approval of the supervisory board for decisions pertaining to dealings listed under article 274 of the act, as well as for decisions related to:

- a) the acquisition, divestment, charging, rental or renting out and other means of gaining or granting the use of property and computer systems
- b) the entry into agreements involving a bank credit being extended to the company
- c) the granting of a loan of funds as well as the taking up of funds as a loan, excluding the use of bank credits extended to the company
- d) the appointment of authorised signatories and the determination of their powers
- e) the agreement of out of court settlements
- f) going to law, including the conduct of arbitration procedures, but excluding such legal measures as cannot be delayed
- g) the award of pension rights
- h) the determination of regulations regarding the admission of participants to Necigef and the cancellation thereof as defined in the Securities Giro Transfer Act, as well as the amendment of, and addition to, such rules, all without any prejudice to such approval as might be required by or under the act
- i) the determination of regulations with regard to the custody, management and administration of the securities depots
- j) the hire of safety deposit facilities
- k) the actual admission of institutions as referred to under subsection h), as well as of securities and classes of security and the actual cancellation of such admission setting tariffs.

Appendix 5

Diagram of the organisation



Appendix 6

ORDER of August 11, 1977, no. 377-6991, Govt gazette no.157

Appendix 1

Instruction of the supervisory authority over the Central Institute for Giro Securities Transfer

- Art 1.** For the purposes of this instruction, “the Minister” is taken to mean the Minister of Finance; “the central institute” refers to the legal persona appointed by the Minister as defined in article 1 of the Giro Securities Transfer Act; the “supervisory authority” the supervisory authority over the central institute;
“the supervision” the supervision exercised over the dealings of the central institute by the supervisory authority under article 2 of the Giro Securities Transfer Act.
- Art 2.** The supervisory authority exercises supervision over the dealings of the central institute on behalf of the Minister.
- Art 3.** The supervisory authority will attend the meeting of shareholders and of the supervisory board and the joint meetings of the board of directors with the supervisory board where it deems such attendance is necessary for the exercise of its supervisory task.
- Art 4.** The supervisory authority requests from the board of directors of the central institute any such information it deems necessary for the adequate implementation of its task;
- Art 5.** 1. The supervisory authority acts in accordance with the instructions it is given by or on behalf of the Minister;
2. It reports annually and if necessary ad interim to the Minister on its supervision
- Art 6.** The supervisory authority may not hold a staff position or post with any institution that is a participant of the central institute without the Minister’s permission.

Appendix 7

Necigef admission requirements

The rules with regard to the admission and cancellation of admission as a participant according to the stipulations laid down under article 4 of the Wet giraal effectenverkeer (Giro Securities Transfer Act) have been amended effective December 1, 1996 as follows:

General Provisions

Article 1

For the purposes of implementing the provisions contained under these rules, “the Act” is taken to mean the Wet giraal effectenverkeer (Giro Securities Transfer Act); “the central institute” refers to the central institute as stipulated in article 1 of the Act; and a “participant” is deemed to be any institution which has been admitted as such by the central institute.

Admission

Article 2

1. Those eligible for admission as participants are:
 - a. enterprises and institutions
 - i. whose business consists of the custody, management and administration of securities on behalf of third parties and who maintain their collective deposits, as defined under chapter 2 of the Act, in The Netherlands;
 - ii. which are credit institutions as defined under article 1 of the Wet toezicht kredietwezen (Act on the Supervision of Credit Institutions) of 1992 and which are entered in the register as referred to under article 52 paragraph 1 of such act in accordance with those stipulations laid down in article 52 paragraph 2 of such act;
 - iii. which declare in writing their willingness to furnish the central institute with all information which may reasonably be deemed necessary for the correct discharge of the responsibilities of the central institute and, if requested to do so, to furnish the data in question -- insofar as necessary -- with a certified declaration from a registered accountant or expert as defined under article 393 of Book Two of the Civil Code, whom they have authorised in writing to give direct to the central institute a supplementary statement pertaining to such declaration, whereby the participant is given the opportunity to be present when he does so;
 - iv. are insured against the transport risk of cash and securities and the risks of fraud and robbery, all this with an own-risk deductible acceptable under the circumstances;
 - v. have declared in writing their acceptance of the applicability of the Giro Deposits Regulations (i.e. general operating rules).

- b. enterprises and institutions
 - i. which make their business or could make their business in The Netherlands from the custody, management and administration of securities on behalf of third parties
 - ii. which meet the requirements as outlined under this paragraph, letter a, subsections ii, iii, iv, and v and which at the same time:
 - A. by reason of their membership of a Dutch cooperative or other association which is a participant and under whose articles of association they are so closely integrated within such a cooperative or association that they are deemed by the central institute to constitute a part of the same as far as their business operations are concerned with the latter being liable severally with each of its several members for the fulfilment of all obligations of the members concerned as participant, or
 - B. in general, by reason of guarantees given to the central institute and by other reasons deemed satisfactory by the central institute, are interconnected to such an extent that in the opinion of the central institute they form an organised group of enterprises and institutions which jointly satisfy the requirements as laid down in this paragraph, letter a, part i.
 - C. the Dutch state as represented by the Agent of the Ministry of Finance in Amsterdam;
 - D. De Nederlandsche Bank N.V. (Dutch central bank)
 - E. AEX Securities clearing B.V.
 - F. AEX-Options clearing B.V.
 - G. foreign institutions whose object is identical or similar to that of the central institute.
 - H. exclusively as regards the custody, management and administration of Money Market Paper and Medium Term Notes, enterprises and institutions which:
 - 1. either meet the criteria outlined under this paragraph letter a, sections 2, 3 and 4, or which meet the requirements under this paragraph letter a, sections 3 and 4 and simultaneously qualify as securities intermediaries as defined under article 1, letter b, section 1 of the 1995 Act on the Supervision of the Securities Trade (Wet toezicht effectenverkeer) and in accordance with that stipulated in article 21, first paragraph of that Act are recorded in the register referred to under that same paragraph; and have declared in writing their acceptance of the applicability of the 1997 Money Market Paper and Medium Term Notes regulations.

As regards institutions established outside The Netherlands whose business in this country comprises the custody, management and administration of securities on behalf of third parties by means of one or more offices, branch offices, agencies or permanent establishments, the provisions as detailed under the first paragraph, letter a, only apply to their business as conducted in The Netherlands.

Article 3

1. Those seeking admission as a participant shall submit an application in writing to the central institute.
2. Together with the application for admission an enterprise or institution as referred to in article 2, first paragraph, letter a, shall submit to the central institute a copy of the applicant's registration entry in the Trade register as well as the written declarations of acceptance referred to under article 2, paragraph one, letter a parts iii and v.

Article 4

1. The central institute will simultaneously notify the applicant, the sector regulator and De Nederlandsche Bank NV in writing of its decision regarding the application.
2. The central institute will ensure that admission as a participant will be published in the Government Gazette at least ten, but not later than 24 days from the date of the dispatch of the decision in writing as referred to under paragraph one of this article.

Cancellation of admission

Article 5

1. The central institute is empowered to cancel the admission as participant institution at the participant's request as per January 1 of any year. The participant shall submit the request for cancellation by September of the preceding year at the latest.
2. Admission as a participant may furthermore be cancelled by the central institute
 - a. should the participant no longer meet the requirements as laid down under article 2
 - b. in cases of bankruptcy, suspension of payments to creditors (including a provisional payments moratorium) or dissolution of the participant
 - c. should the participant fail to observe the provisions of the Acts
 - d. should the participant fail to observe the requirements for the proper conduct of giro securities transfer transactions.

Article 6

1. The central institute will simultaneously notify the participant concerned, the sector regulator and De Nederlandsche Bank NV in writing of its decision to cancel an admission as participant.
Should the available period for appeal have expired without the appeal provided for under the Act having been lodged, or should a submitted appeal have been declared unfounded, then the central institute will inform the other participant in good time and in writing of the admission's cancellation and will subsequently ensure that the decision is published within fourteen days in the Government Gazette. The central institute is furthermore entitled to publish the same in one or more daily newspapers.

As from the time referred to at the beginning of paragraph 2, the participant must liquidate all the collective deposits kept by it as soon as possible.

Article 7

Enterprises and institutions as defined under article 2, first paragraph, letter h, which were admitted as participants to the clearing institute of De Nederlandsche Bank N.V. in accordance with the 1986 edition of the custody and clearing money market paper regulations and the 1988 Addendum on the custody and clearing of Medium Term Notes published by De Nederlandsche Bank N.V. and most recently amended on September 1, 1997, are -- contrary to articles 2, first paragraph letter h, 3 and 4 yet without prejudice to that which is otherwise determined under these rules — deemed to be admitted to the central institute insofar as such admission concerns the custody, management and administration of Money Market Paper and Medium Term Notes, subject to the condition that before December 31, 1997 the central institute will be in possession of a written declaration in which: a. the enterprises and institutions as defined under this article accept the applicability of the central institute's 1997 Money Market Paper and Medium Term Notes regulations and b. the central institute and De Nederlandsche Bank are authorised to exchange such data as are necessary for the continuation by the central institute of the custody, management and administration of Money Market Paper and Medium Term Notes effective from January 1, 1998.'

Article 8

1. Amendments of this regulation and the date on which they take effect will be published in the Government Gazette by the central institute within fourteen days of obtaining the necessary approval required under the Act.

Approved by the supervisory board on September 20, 1996 and by the Minister of Finance on November 11, 1996.