

MTS Finland

SPECIFIC GOVERNING RULES

Approved on April 23rd 2004

Adjusted on June 2005

Adjusted on November 18th 2005

Adjusted on January 16th 2006

Adjusted on August 23rd 2006

Adjusted on June 26th 2008

Adjusted on October 1st 2009

Adjusted on November 30th 2010

Adjusted in May and November 2011

Section A - Maturity buckets

Traded Securities shall be classified in the following maturity buckets according to their remaining maturity:

1. RFG.

Bucket A	1 year to 3.5 years
Bucket B	3.5 years to 6.5 years
Bucket C	Over 6.5 years

2. FBB.

All securities	12 months and less
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Section B - Minimum proposal quantity and minimum order quantity

The **minimum proposal quantity** for Traded Securities is as follows:

Benchmark Securities	Euro 5 million
Liquid Securities	Euro 5 million
Regular Securities	Euro 2.5 million

The **minimum order quantity** for all Traded Securities is EUR 2.5 million.

Section C – Contracts

In accordance with article 19 of the Common Governing Rules, the types of contract by means of which each Traded Security may be traded on the System shall be spot buy or spot sell contracts.

Section D - Trading hours (Central European Time)

1. **7.30 a.m. – 8.00 a.m.:** Pre-Market phase, during which only Market Makers are operative; during this time period the Market Makers can insert and change their Quotes. Each Market Maker can only view its own quotes.

8.00 a.m. – 8.15 a.m.: Offer phase, during which all Participants can operate, on the basis of the user profile assigned to them; it is possible to send Orders. During this time period the automatic matching of Quotes is not active.

8.15 a.m. – 5.30 p.m.: Open Market phase, during which all System Participants can operate on the basis of the user profile assigned to them; the automatic matching of Quotes is active until the market closes.

5.30 p.m. – 7.30 a.m.: Closed Market phase, during which the market is completely inoperative. During this time period Participants can only send and receive messages, examine statistics concerning the day's negotiations, receive reports, lists and indices.

2. The minimum number of hours in relation to the obligations to make Quotes on the System per Trading Day during the Opening Hours of the System is 5 hours.

Section E – Trading days

A trading day on the System is defined by the Target calendar.

1. A Market Maker shall be exempted from MTS Finland compliance calculations to define Liquidity Providers on the days which are recognised public holidays in the Market Maker's country of system connection such that the Market Maker is not in default of its undertaking for not complying with its obligation on such days. For more details, please refer to section F of this document.
2. Market Making Monitoring shall be suspended for the entire market in case, subject to paragraph 1 above, 50% + 1 of the market makers are exempted from quoting because of a domestic bank holiday.

The company will therefore consider participants to be resident in the country where they have the connection unless participants specify in written form where they want to be considered as resident for the RFG segment (or any future segment if applicable).

Section F - Quotation/spread obligations

Since October 2009, compliance to quoting requirements is monitored by the Finnish State Treasury, who receives a detailed daily report of participants performances automatically generated from the MTS System. In case a participant shall have any queries about their performance, they should make their enquiries directly with the Finnish State Treasury.

- Model in use since 1st October 2009: Variable spread quotation - parameters with minimum quantities but with undefined spreads

Market Makers no longer have quoting obligations imposed by MTS Finland. All Market Makers should quote the RFGs defined as benchmark by the Finnish Treasury in accordance with the quoting parameters as set and communicated by the Finnish Treasury in order to be considered a Liquidity Provider and eligible to fee-rebate on quarterly basis as approved by the Finnish Market Committee.

For more details on how compliance figures are calculated by MTSAM, please refer to section P of this document.

Section G - Clearing and settlement institutions

In order to be admitted to trading, MTSFi participants must hold a deposit account with Euroclear or Clearstream Banking.

Participants selecting the possibility to clear transactions through LCH.Clearnet Ltd, must be a member of RepoClear System.

Section H - Clearing and settlement procedure

The System will be connected to the Clearing and Settlement Institutions via the SWIFT network. On a real time basis, the System will send instructions to these institutions on behalf of System Participants.

A SWIFT 518 record directed to LCH.Clearnet Ltd will be created by the System for a transaction between two participants whom have both selected the possibility to route their transactions to LCH.Clearnet Ltd but under the condition that the transaction meets the eligibility criteria for registration by LCH.Clearnet Ltd. Such transactions are anonymous and both parties will find LCH.Clearnet Ltd as counterpart.

In all other cases, a SWIFT 541 record will be created for the buyer and a SWIFT 543 record for the seller and will be sent to Euroclear and Clearstream on behalf of both System Participants. Such transactions are not anonymous.

Each settlement instruction will include all the settlement details, including the settlement amount calculated by the system.

The Bridge existing between Euroclear and Clearstream Banking enables settlement of transactions executed by counterparts having accounts open with either agent.

Institutions will receive the matching status reports and the settlement status reports from to Euroclear/Clearstream Banking in the usual manner. Transactions executed on MTS Finland will be distinguished by a special reference code.

On a real time basis, System Participants receive detailed trading activity reports, with settlement details, through MTS Finland activity pages on the System.

System Participants will authorise Euroclear or Clearstream Banking to settle instructions sent by MTS Associated Markets by executing “Power of Attorney” – arranged by Euroclear/Clearstream Banking – in favour of MTS Associated Markets.

On the Power of Attorney each System Participant must specify the account number he wants to be operated. Every participant will be allowed to use only a single account for clearing transactions executed on MTS Finland.

Executing the Power of Attorney, System Participants also authorise the Company to receive a daily fail report with indications of the trades either not settled on the value date, cancelled or modified by members.

Participants selecting the possibility to clear transactions through RepoClear System, will authorize the Company to send instructions on eligible transactions to LCH.Clearnet Ltd.

Section I - Settlement cycle

The settlement cycle will follow the Target calendar.

Section J – Updated list of Benchmark, Liquid and Regular Securities

List updated as per last review of governing rules; for more recent version please send an email to mtsam@mtsam.com

- RFGB

Instrument Code	Description
FI0001005407	RFGB 5.375 04/07/13
FI0001005704	RFGB 4.250 04/07/15
FI0001006066	RFGB 3.875 15/09/17
FI0001006306	RFGB 4.375 04/07/19
FI0001006462	RFGB 3.125 15/09/14
FI4000006176	RFGB 4.000 04/07/25
FI4000010848	RFGB 3.375 15/04/20
FI4000018049	RFGB 1.750 15/04/16
FI4000020961	RFGB 3.500 15/04/21
FI4000029715	RFGB 1.875 15/04/17

The Finnish State Treasury decides whether a traded security is listed on the system as a Benchmark, a Liquid or a Regular Security.

Section K – MTS Finland membership application form

Please send an email to mtsam@mtsam.com)

Section L - Assignment of Benchmark and Liquid Securities to Market Makers

- RFGBs.

All Benchmark Securities are defined and communicated to the Market Makers by the Finnish Treasury.

A day before a new security is available for trading, MTS Finland informs all market makers in the segment. In order to be considered a Liquidity Provider and eligible to fee-rebate on quarterly basis, participants are reminded that quoting requirements apply as from specific date.

Annex M - Daily statistics

The list described in MTSAM's Governing Rules shall be compiled at the end of each Trading Day and shall be divided into sections.

For cash trades the list shall indicate, for each type of Traded Security:

- (a) identification code of the type of Traded Security;
- (b) description of the type of Traded Security;
- (b) the minimum price;
- (d) the maximum price;
- (e) the average weighted price;
- (f) the volume negotiated.

Annex N – Procedure to be used in the event that a System Participant is unable to verify on its screen the contracts executed by it on the System

In the event that a System Participant is, for any reason, unable to verify on its screen the contracts it has executed on the System, it is possible to obtain the necessary information by taking the following steps:

1. Telephone MTSAM executive officers who should be able, through the *Softsolution web data access*, to verify all the contracts executed on the System and therefore the contracts which concern the particular System Participant with such information as the identity of the Traded Security so traded, the quantity, the price and the time of execution and the identity of counterparty.

2. In the event that the MTSAM executive officers are unable to use the *Softsolutionweb data access*, then SIA SpA should be contacted by the System Participant by telephone to provide the necessary information.
3. In the event that SIA is, for any reason, unable to access its *SIA Datafeed Monitor*, it is possible to resort to an alternative tool (*Tandem Monitor*), which is connected directly to the central system on a local network and through which the necessary information may be extracted.
4. In the event that the *Tandem Monitor* is also unavailable for use, SIA can use a utility program called *Enform*, typical of the Tandem platform, through which it is possible to directly access the contract archive contained in the mass memories (disks) in order to extract the necessary information. It should be noted that the archives are duplicated as the system is *Fault Tolerant*. Further back-up is provided by a second duplication of the archives on the *Disaster Recovery* site.

Operating Procedures to be used by a System Participant to verify on its computer system the status of the contracts executed by it on the System and in the event of its being unable to do so.

A System Participant shall:

- (a) at all times monitor relevant "pages" of the System to check whether an Application it makes has been accepted in whole or in part or not accepted ("refused") and, if a relevant entry does not appear on its screen within 5 seconds of the Application being made, to contact the Company to check what has happened
 1. The Company should be able, through the *Softsolution web data access*, to verify all the contracts executed on the System and therefore the contracts which concern the particular System Participant with such information as the identity of the Traded Security so traded, the quantity, the price and the time of execution and the identity of counterparty.
 2. In the event that the Company is unable to use the *Softsolution web data access*, then SIA SpA should be contacted by the System Participant by telephone to provide the necessary information.
 3. In the event that SIA is, for any reason, unable to access the *SIA Datafeed Monitor*, it is possible to resort to an alternative tool (*Tandem Monitor*), which is connected directly to the central system on a local network and through which the necessary information may be extracted.
 4. In the event that the *Tandem Monitor* is also unavailable for use, SIA can use a utility program called *Enform*, typical of the Tandem platform, through which it is possible to directly access the contract archive contained in the mass

memories (disks) in order to extract the necessary information. It should be noted that the archives are duplicated as the system is *Fault Tolerant*. Further back-up is provided by a second duplication of the archives on the *Disaster Recovery* site;

- (b) notify the Company immediately if it believes a system malfunction or other technical problem has occurred; and
- (c) if it believes it is exposed to a market risk due to a system malfunction or other technical problem, suspend all its Proposals via the open server and, if it is subject to a market making obligation, immediately request from the Company a temporary suspension of the obligation.

Annex O – Trade Cancellation Procedures

BILATERAL CANCELLATION REQUEST

The cancellation of erroneous trades shall be carried out by the Company on the basis of mutual written requests by the relevant parties to be sent by email to the Company prior to the closing of the Market or immediately afterwards.

If the cancellation of a trade is requested by only one of the parties of the transaction, the following procedure shall apply:

The cancellation request shall be notified by one of the parties to the Company and the other party by telephone or email within 15 minutes of the execution of the trade. In any case it must be confirmed by email. Upon the receipt of the notification, the Company shall immediately contact the other party with respect to such cancellation.

If the other party confirms its agreement to such cancellation request within 10 minutes of receipt, the request shall be treated as a mutual request and shall be executed by the Company.

UNILATERAL CANCELLATION REQUEST

In the event that agreement cannot be reached on the Bilateral cancellation of a trade the following procedure will be used to ascertain whether a unilateral cancellation can be performed.

In order to qualify for unilateral cancellation a trade must be proved beyond doubt to deviate considerably from Fair Market Value of the security in question at the time of execution. To be “inconsistent” with the market value, the trade price must have been executed at a price that was greater than 50% outside the current bid/offer spread on a specific instrument at the time of its execution.

To this purpose the company will immediately:

- 1- request of five member banks their opinion as to fair market value at the time of trade execution, asking them to quote a two way inter-dealer electronic quote in the instrument object of the trade.
- 2- The five banks consulted are appointed by the Market Committee and exclude either party of the disputed transaction.
- 3- The five banks consulted should respond to a request in relation to Fair Market Value within 15 minutes by return email.
- 4- The company will discard the bid/offer couple containing the highest bid and the bid/offer couple containing the lowest offer and calculate the spread between the average of the remaining bid prices and the average of the remaining ask prices which will determine the Fair Market Value. The average bid/offer spread will be calculated truncating the result to the third decimal and then rounding up to the second one.

Once fair market value is ascertained, the trade price in question will be considered to deviate from the Fair Market Value if it is 50% wider than the average bid/offer spread (Fair Market Value) which was calculated.

More in details:

- Error sale** (*i.e.* cancellation request is made by the seller):

Should the price at which the trade was made be at a price greater than 50% below the current bid/offer spread as defined above at the time of the execution of the trade then the transaction will be cancelled.

- Error purchase** (*i.e.* cancellation request is made by the buyer)

Should the price at which the trade was made be at a price greater than 50% above the current bid/offer spread as defined above at the time of the execution of the trade then the transaction will be cancelled.

Example of the “Polling Methodology” as per the AFME Rules

Finnish RFGB 4.375 04/07/2019

The Trading Platform had the following best bid/offer on the screen – 107.15/110.25
Seller aggresses bid at 107.15 and then reports it as an error trade (being an error sale).

Following a poll of five market participants, the five quotes are as follows:

- 108.60/109.60
- 108.50/109.65
- 107.90/109.50
- 108.25/109.30
- 108.30/109.20

The bid/offer couple containing the highest bid and the bid/offer couple containing the lowest offer are eliminated, which leaves the following:

108.50/109.65

107.90/109.50

108.25/109.30

The average bid/offer spread is calculated taking into account the remaining three, truncating the result to the third decimal and then rounding up to the second one:

Avg Bid= $(108.50 + 107.90 + 108.25)/3$ => truncated to the 3rd and rounded up to the 2nd

Avg Offer = $(109.65 + 109.50 + 109.30)/3$ => truncated to the 3rd and rounded up to the 2nd

Therefore the remaining values are: **108.22/109.48**

If we apply the 50% deviation margin to the average bid/offer spread (126 cts) we obtain the following bid and offer limits, that represent the Fair Market Value:

107.59/110.11

The sale executed at 107.15 will be cancelled as the low parameter is 107.59 i.e. all sales < 107.59 may be cancelled should that be requested by the seller in the present example.

If after following all of the steps above the reported error trades is proved to deviate significantly from Fair Market Value based on the criteria listed above, the company will enforce the unilateral cancellation of the trade in order to maintain a fair and orderly market and avoid the unfair penalization of members for genuine errors.

The company will inform the interested parties via telephone (with confirmation via e-mail) of its decision regarding the cancellation request within 45 minutes from the notification of the error trade.

In the event of transactions carried out on an anonymous basis between two counterparties

which use the Central Counterparty Service, the Company is entitled to reveal the identities in order to resolve the trade dispute, if deemed useful to resolve the trade dispute.

The current institutions must be contacted in case of unilateral trade cancellation

List updated as per last review of the governing rules; for more recent version please send an email to mtsam@mtsam.com

Credit Agricole
Deutsche Bank
Commerzbank
Nordea
Pohjola

HSBC and Nykredit will act as back up bank when one of the above mentioned banks fail to provide us with their viewpoint.

The Executive Officers send a prompt email communication to at least two contact people of each institution.

Section P –Participants’ monthly average adjusted compliance to quoting requirements

Variable spread quotation: parameters with minimum quantities but with undefined spreads **(in use since October 2009)**

Market makers have the option of receiving daily compliance reports upon request containing information on the Best 5Hrs Spreads (5HrSp), the Quantity during best 5Hrs Spreads (5HrQty), the Quotation time and the Compliance Ratio(in %). The compliance ratio is calculated based on the banks performance for the items previously mentioned compared to CompSp and the CompQty. This data would provide simple and straightforward information on relative secondary market performance. If you would like to apply to this service, please send an email to mtsam@mtsam.com.

Calculation of Compliance Ratio for one security:

Definition:

1. Quotation Time. These data provide the total time the security was quoted
2. Best 5Hrs Spread (5HrSp). This is the time weighted average spread of the best (i.e. sharpest quoted) 5 hours of each security. In case the market maker has quoted less than or equal to 5 hours, the time weighted average spread of the total quotation time will be provided here.

3. Quantity during Best 5Hrs Spread (5HrQty). This is the time weighted average quantity expressed in million, quoted during the 5HrSp. In case the market maker has quoted less than or equal to 5 hours, the time weighted average quantity of the total quotation time will be provided here.

A market maker's compliance with quoting requirements will be evaluated on a quarterly basis, based on 5HrSp with ($5HrQty \geq CompQty$) and ($5HrSp \leq CompSp$).
For each Benchmark security (s):

$CompQty$ = Minimum quantity set by the Finnish State Treasury

$$CompSp_s = K + \frac{\sum_{MTSFin \text{ quoting market makers}} 5hrSp}{\# \text{ MTSFin quoting market makers}}$$

With K = Standard deviation

If a Market maker has quoted prices in a benchmark with ($5HrSp \leq CompSp$) and ($5HrQty \geq CompQty$), then the compliance ratio in this security will be:

$$CR_s = \min \left[\frac{Quotation \ time_s}{5}; 1 \right]$$

In other cases, the compliance ratio in the specific security will be zero.

Daily and Quarterly CR (compliance ratio):

The daily CR (DCR) is calculated as:

$$DCR = \frac{\sum_{i \in Benchmark} CR_i}{\# Benchmark}$$

The quarterly CR (QCR) is the sum of all DCR ratios divided by the total number of working days, i.e.

$$QCR = \frac{\sum_{d \in working \ days} DCR_d}{\# working \ days}$$

The number of working days may vary between market makers depending on holiday calendars. A market maker is defined as a Liquidity Provider during a quarter if and only if his QCR, duly corrected in case of any technical problems, exceptional circumstances and problems of other nature as communicated to MTS Finland by the Market Maker or by the Finnish State, is at least 75 per cent.

Section Q – Additional conditions for the admission of the State Agency in the System

In addition to the conditions as set in Article 3, the Finnish State Treasury wishing to be admitted to the system as a market maker, must satisfy the Finnish Market Committee that:

- a. in the TRS-segment, it will take part in trading through proposals on the bid side only and orders on the ask side only
- b. in the FIN-segment, it will take part in trading by quoting bid offer spreads larger than quoting obligations as set in Section F.

Section R – Additional conditions for the admission of Market Dealers and Market Makers

1. In accordance with article 5 of MTSAM Common Governing rules and in addition to the conditions as set in Article 3.2 of the same rules, an institution as referred to in Article 3.1.b that wishes to be admitted to trading on MTSFi as a Market Maker must (A) satisfy MTSFi Market Committee that it has a net worth, as calculated by the respective regulatory instructions for supervisory purposes of the institution, of at least an amount of euro 250 million **AND** (B) demonstrate a total turnover in Finnish government securities of no less than €600 million over the twelve months preceding the date of the application to become a Market Maker.
2. In accordance with article 4.a and 4.b of MTSAM Common Governing rules and in addition to the conditions as set in Article 3.2 of the same rules, an institution as referred to in Article 3.1.b that wishes to be admitted to trading on a MTSFi as a Market Dealer must (A) satisfy MTSFi Market Committee that it has a net worth, as calculated by the respective regulatory instructions for supervisory purposes, of at least Euro 100 million or the equivalent or has in place guarantees to the satisfaction of the Board in an amount of not less than such sum **AND** (B) demonstrate a total turnover in Finnish government securities of no less than Euro 300 million over the twelve months preceding the date of the application to become a Market Dealer;

Section S – Fee Schedule

Please refer to separate MTSAM fee schedule (*email: mtsam@mtsam.com*)

Section T – Resignation of Market Dealers and Market Makers

As stated in article 8 of MTSAM Common Governing Rules, a Market Dealer or a Market Maker may resign from membership giving not less than 3 months notice in writing to the Company.

A Market Maker may change status to Market Dealer by giving no less that 1 month notice in writing to the Company.

Section U – Market Operation Committee

The following members are member of the MOC:

Barclays
Citigroup
Nordea
Pohjola