AGREEMENT
OF

“COOPERATION FOR LICENSING, REGULATION AND OVERSIGHT OF SECURITIES SETTLEMENT SYSTEMS AND SECURITIES CLEARING HOUSE”
Parties:

Bank of Albania (hereinafter “the Bank”, with address: “Skanderbeg Square”, No. 1, Tirana, Legally represented in Agreement by the Governor of the Bank of Albania, Mr. Gent Sejko.

And

Financial Supervisory Authority (hereinafter referred to as “the Authority”), with address: “Dora D’Istria Street No. 10, legally represented in Agreement by the Executive General Director of the Financial Supervisory Authority, Mr. Ervin Koçi.

Whereas on the basis of:

1. Article 3, point 4, letter “dh” of Law no. 8269, dated 23.12.1997 “On Bank of Albania”, as amended, The Bank has the responsibility to promote the smooth operation of the payment system;


3. Article 3 of Law no. 133/2013, dated 29.04.2013 “On Payment System”, which stipulates that the Bank, in performing its tasks laid down in this law, cooperates with any domestic and/or foreign authority, in order to exchange information, coordinate activities, or other cooperation agreements as it deems necessary;

4. Article 6, point 3 of Law no. 133/2013, dated 29.04.2013 “On Payment System”, which specifies that in case of licensing a securities settlement system and a securities clearing house, the person licensed by the Bank of Albania, pursuant to paragraph 1 of this Article, shall commence its activity only after being licensed by the Albanian Financial Supervision Authority, pursuant to the relevant legislation;

5. Article 8, point 3 of Law no. 133/2013, dated 29.04.2013 “On Payment System”, which stipulates that The Bank of Albania and the Albanian Financial Supervision Authority, upon a bilateral agreement, shall specify the role of each institution, with regard to the regulation, oversight and inspection of the securities settlement system and the securities clearing house;
6. Article 2, letter "a" of Law no. 9572, dated 03.07.2006 “On the Financial Supervisory Authority”, as amended, the Authority is responsible for the regulation and supervision of securities market and activities of this market, including the activities of subjects related to the investments in securities which operate in this market;

7. Article 18/1, point 1, of Law 9572, dated 03.07.2006 “On the Financial Supervisory Authority”, as amended, according to which the Authority can conclude agreements or memoranda of understanding with other domestic or foreign supervisory authorities, supervisory authorities in the financial sector, in order to cooperate, exchange information or carry out joint inspections.

8. Article 42, paragraph 7 and Article 43 of Law no. 9879, dated 21.02.2008 “On Securities”, which defines, respectively, the clearing and settlement activities as activities related to securities transactions, which may be offered by brokerage companies or banks in the role of brokerage companies, both licensed by the Authority;

9. Article 120 of Law no. 9879, dated 21.02.2008 “On Securities”, which specifies that the transfer of the ownership of a dematerialized security on the basis of a transaction concluded on a stock exchange, or in regulated market is performed by clearing and settlement, where clearing is the comparing of information on a completed legal transaction, on the dematerialized securities, the determination of the payment deadline and the calculation of the charge to be paid; and settlement is the process of intermediation and supervision of payments and of the security transfer, which is linked with the legal transaction;

10. Article 123 of Law no. 9879, dated 21.02.2008 “On Securities” defining the securities registrar or Registry, its related activity and designating the Authority as its licensing authority;

11. Article 138 of Law no. 9879, dated 21.02.2008 “On Securities”, which stipulates that the Registry, in addition to administering the data on securities, if it provides clearing and settlement services, shall establish a guarantee fund. The the guarantee fund assets are created by companies, which use its clearing and settlement services.

Agree to enter into this Agreement (hereinafter referred to as the "Agreement") under the following terms:

Article 1

Legal basis

The Agreement is based on and for the implementation of the following acts:

Article 2

Purpose

The purpose of the agreement is to set out the segregation of duties and to determine the conditions and procedures for the licensing, regulation and oversight of securities settlement systems and securities clearing houses.

Article 3

Scope of application

1. The requirements of this Agreement regarding the cooperation in the framework of licensing, regulation and oversight of the systems operated by operators for settlement and clearing of the securities shall be binding on both parties to the Agreement.

2. The Securities Registrar shall be subject to licensing and supervision by the Authority. Where the Securities Registrar also performs securities clearing and settlement activities through the operation of a Securities Settlement System pursuant to the Law on Payment System, its licensing and supervision shall be subject to this Agreement.

Article 4

Exclusion from the scope of application

Oversight and regulation of the AFISaR system, operated by the Bank of Albania, for the clearing and settlement of securities issued by the Albanian Government or Bank of Albania, fall under the responsibility of the Bank of Albania.

Article 5

Interpretations

1. Any condition or provision of the Agreement which may give rise to ambiguity shall be interpreted in the essence of the laws referred to in Article 1 and in accordance with the purpose to which the Parties make this Agreement.
2. For all matters not expressly provided for in this Agreement, the laws and regulations of the respective field shall apply.

Article 6

Licensing

1. In accordance with the Law “On Payment Systems” and bylaws, the Bank shall review the applications submitted to it, for the purpose of licensing, by entities that intend to operate securities settlement systems and securities clearing houses when placing themselves as the buyer of each seller and the seller to any buyer. During this process, the Bank shall consult with the Authority to assess the parties' position on the entity's compliance with the criteria.

2. The Bank, from the date of the decision regarding the entity’s licensing application, shall notify the entity of the decision for granting the license or shall notify it in writing of the refusal to grant it, accompanied by the relevant reasons. In the case of the decision to grant the license, the Bank shall notify the entity in writing of its obligation to be licensed by the Authority prior to the initiation of operations.

3. At the end of its evaluation process, the Authority shall notify the Bank of the decision taken with respect to the entity licensed by the Bank.

4. In accordance with the Law “On Securities” the Authority shall review the applications submitted to it, for the purpose of licensing, by entities intending to provide the securities registration service. In case the entity licensed by the Authority as a Registrar intends to perform securities clearing and settlement functions through the operation of a Securities Settlement System or Securities Clearing House, the Authority shall require the entity to be licensed in advance by the Bank of Albania for the operation of the Securities Settlement System or as a Clearing House for Securities.

5. The obligations for notification as set forth in paragraphs 2 and 3 of this Article are followed.

6. For specific needs during the licensing phase related to: system participants, clearing and settling instruments, system usefulness, and other issues aimed at clarifying licensing procedures, the parties shall cooperate closely with each other to address them.

7. The entity licensed to operate the Securities Settlement System or as the Securities Clearing House shall notify the Bank and the Authority in writing of any changes to the data on the basis of which the license has been granted. Any change shall be approved first by the Bank and then by the Authority.

Article 7
Revocation or suspension of license

In cases where one of the parties, based on the relevant legal and sub-legal framework, intends to suspend or revoke the license of an operator, it has the obligation to inform the other licensing party immediately, and after a consultation process between the parties, a final decision is taken.

Article 8

List of systems

1. The Bank shall publish and update a list of systems and their operators, including securities settlement systems and securities clearing houses.

2. The parties shall immediately notify each other of revocation and suspension of licenses, or any other action that may lead to the revocation or suspension of licenses of the entities that are part of the list specified in point 1.

Article 9

Regulation

1. For the regulation through the bylaws of securities settlement systems and securities clearing houses, the parties shall be based on the best international principles and standards.

2. The Parties shall cooperate and consult with each other, as well as with the relevant entities, at the stage of drafting the bylaws dealing with licensing and oversight issues of the regulating entities.

3. In the context of regulation, the parties may carry out joint market analysis, as well as exchange opinions on materials of this nature. The parties may arrange trainings and require joint technical assistance in the context of regulation.

Article 10

Oversight

1. The parties shall oversee the licensed institutions in accordance with the international principles set out in the Annex to this Agreement. Within the oversight process, the Bank is primarily responsible for minimizing systemic risk in these systems in the context of financial stability, while the Authority is primarily responsible for investor’s transparency and protection.

2. The parties shall exercise oversight over the operators, through on-site inspections or off-site examinations.
3. As part of the coordination of oversight actions, the parties shall cooperate at the beginning of each year to establish a coordinated plan for on-site inspections (including joint inspections), and simultaneously shall cooperate on the quantity, quality, form of collection of data/information from the overseen entities and on how they are used by the parties.

4. In addition, in order to coordinate actions between them, as part of the exercise of the oversight activity, the parties shall arrange periodic or special meetings, at the technical level or high management level.

5. To enable an effective oversight process, the parties:
   
   a) in the case of inspections of the overseen entities, cooperate in carrying out the inspection report (in the case of joint inspections) or consult on the results and recommendations of inspections carried out by one party and which they consider relevant to the other party;
   
   b) consult on sanctions and/or other punitive measures in cases when they ascertain legal and/or subordinate violations by the overseen entities.

6. The segregation of duties and requests for information during the oversight activity shall be based on the Annex to this Agreement, as well as the specifications set forth in the regulatory acts on securities settlement systems and securities clearing houses, to be approved by the parties.

Article 11

Confidentiality and information sharing

1. The information shared between the parties, under this agreement, shall be considered as confidential. It is used by parties solely for the purpose of licensing and overseeing the securities settlement systems, and securities clearing houses, and will not be disclosed to third parties without the consent of the party who generated the information, unless otherwise provided by law. Any sharing of information with third parties under the relevant legislation should be communicated to the party that generated the information.

2. For the purpose of this agreement, the parties shall exchange the necessary information in written and/or verbal form, unless the Agreement requires a written form. The parties shall keep records of the information they have exchanged between themselves and of the content of the meetings they have held, and these shall be subject to the same information requirements as in point 1 above.

Article 12

Contact persons
1. Upon signature of this Agreement, the parties shall inform each other in writing of the contact persons.

2. The parties shall immediately notify each other of any change of contact persons.

3. Any possible change of the address and telephone numbers shall be notified to the other party within 2 business days of making such change.

Article 13

Notifications

1. Any notification, request or other formal communication between the parties is effected by registered official mail, fax, e-mail or in the event of failure by telephone.

2. In the event that the notification, request or communication reaches the addressee after the end of the official business day of each party to the Agreement, it shall be deemed received at 08.30 of the following business day.

Article 14

Entry into force and duration

The Agreement enters into force upon signature by the parties and extends its effects indefinitely.

Article 15

Changes

The Agreement may be amended in writing and with the mutual consent of the parties.

Article 16

Settlement of the Agreement

The parties have the right to terminate this Agreement by notifying the other party at least 60 days before the date at which they wish to terminate.

Article 17
Settlement of disputes

All disputes that may arise between the parties from the application of the Agreement, and which cannot be resolved in good faith shall be settled by competent Court.

The Agreement, after being read by the parties, is signed by their free and independent will in 4 units in the Albanian language, with each party holding 2 units.

FOR                              FOR
BANK OF ALBANIA                              FINANCIAL SUPERVISORY AUTHORITY

GOVERNOR                              EXECUTIVE GENERAL DIRECTOR
Gent Sejko                              Ervin Koçi
ANNEX

Matrix of applicability of principles to different typologies of financial market infrastructure and responsible institutions.

<table>
<thead>
<tr>
<th>Principle</th>
<th>PS*</th>
<th>SR*</th>
<th>SSS*</th>
<th>SCH*</th>
<th>Authority responsible for overseeing the SSS and SCH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsible Authority</td>
<td>BoA</td>
<td>FSA</td>
<td>BoA+ FSA</td>
<td>BoA+ FSA</td>
<td>BoA+ FSA</td>
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<tr>
<td>1. Legal Basis</td>
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<td>✓</td>
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<tr>
<td>2. Governance</td>
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<td>✓</td>
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<td>3. Framework for the comprehensive management of risk</td>
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<td>4. Credit Risk</td>
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<td>✓</td>
<td>✓</td>
<td>✓</td>
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<td>5. Collateral</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>BoA+ FSA</td>
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<tr>
<td>6. Margin</td>
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<td>✓</td>
<td>✓</td>
<td>FSA + BoA</td>
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<td>7. Liquidity Risk</td>
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<td>✓</td>
<td>✓</td>
<td>✓</td>
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<td>8. Settlement Finality</td>
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<td>9. Money Settlement</td>
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<td>11. Central Securities Depositary</td>
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<td>13. Participant default rules and procedures</td>
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<td>✓</td>
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<td>FSA + BoA</td>
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<td>14. Segregation and portability</td>
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<td>FSA + BoA</td>
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<td>15. General business risk</td>
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<td>16. Custody and investment risk</td>
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<td>18. Access and participation requirements</td>
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<td>✓</td>
<td>FSA + BoA</td>
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<td>21. Efficiency and effectiveness</td>
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<td>✓</td>
<td>FSA + BoA</td>
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<td>22. Communication procedures and standards</td>
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<td>✓</td>
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<td>BoA+ FSA</td>
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<td>24. Disclosure of market data</td>
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</table>

Source: CPSS-IOSCO – Principles for financial market infrastructures – April 2012

*PS*-Payment System

*SR*-Securities Registrar

*SSS*-Securities Settlement System

*SCH*- Securities Clearing House