APPROVED
by the Council of the Bank of Latvia
Resolution No 138/1
of 2 November 2007

I. Rimšēvičs
Governor of the Bank of Latvia

Riga _____ _____   SAMPLE

AGREEMENT No

On Participation of Ancillary System in TARGET2-Latvija

The Bank of Latvia represented by _____, Chairman of the Board, acting under the Republic of Latvia Law "On the Bank of Latvia" (hereinafter, the Bank of Latvia), on the one side and _____ (hereinafter, the Ancillary System) operating in accordance with the Statute, represented by _____ on the other side, (hereinafter, jointly the Parties), enter into the following Agreement (hereinafter, the Agreement).

1. The present Agreement entitles the Ancillary System to participate in the European Automated Real-time Gross Settlement Express Transfer System TARGET2-Latvija (hereinafter, TARGET2-Latvija) using the settlement procedures provided for the ancillary systems.

2. Under this Agreement the Parties operate in accordance with the following Paragraphs of the Bank of Latvia "System Rules for Participation in TARGET2-Latvija" (hereinafter, the System Rules):
2.1 Paragraph 4.5.1 (technical and legal requirements);
2.2 Paragraphs 4.5.2.–4.5.5 (the application procedure), with the proviso that the Ancillary System complies with the access criteria stated in the definition of the Ancillary System, set out in Paragraph 1.38 of the System Rules instead of those referred to in Paragraph 4.1;
2.3 Paragraph 5.2 (cooperation and information exchange requirements), except Paragraph 5.2.8;
2.4 Paragraphs 8.1 and 8.2 (business continuity and contingency procedures and security requirements);
2.5 Paragraph 10.2 (liability regime);
2.6 Paragraph 10.3 (evidence provisions);
2.7 Paragraphs 11.1 and 11.2 (duration, termination and suspension), except Paragraph 11.2.1.2;
2.8 Paragraph 11.3, if applicable (closure of the payment module (PM) accounts);
2.9 Paragraph 12.3 (confidentiality provisions);
2.10 Paragraph 12.4 (data protection, anti-money laundering requirements and requirements of the related issues);
2.11 Paragraph 12.5 (notices on the requirement);

2.12 Paragraph 12.6 (contractual relationship with the network service provider);
2.13 Paragraph 12.7 (amendment procedure);
2.14 Paragraph 12.8 (third party rights);
2.15 Paragraph 12.9 (governing law, jurisdiction and place of performance);
2.16 Appendix 5 to the System Rules (operating schedule).

3. The Ancillary System certifies that it is familiar with the Agreement, Appendix, items listed in Paragraph 2 of the System Rules, and Appendix 5 to the System Rules and that neither the Agreement, nor the System Rules and Appendices create unfavourable conditions for the Ancillary System.

4. Under the present Agreement the Parties shall comply with the settlement procedure of the Ancillary System set out in Appendix 1 that forms an integral part of the present Agreement.

5. Parties agree that the Ancillary System shall apply _____
_____ procedure.
(one or several procedures outlined in Appendix 1 to the present Agreement are referred to)

6. The Bank of Latvia shall settle in the ancillary systems at_____.
(time)

7. In the event of TARGET2-Latvija contingency situations and the Participant- related or the Ancillary System-related failure the Bank of Latvia shall take the following contingency measures:
_____.
(the list of measures)

8. The Parties agree that the Bank of Latvia may unilaterally introduce amendments to the Agreement, System Rules, or Appendices at any time. The Bank of Latvia shall notify the Ancillary System of the amendments made to the Agreement, System Rules, or Appendices in writing. Amendments shall be deemed to have been approved unless the Ancillary System expressly objects in writing within 14 (fourteen) days of being informed of the amendments. Where the Ancillary System has objected to the amendment, the Bank of Latvia is entitled, by giving a written notice, to terminate immediately and unilaterally that Ancillary System's participation in TARGET2-Latvija and close any of its payment module account.

9. The Bank of Latvia shall, on a timely basis, notify the Ancillary System on the expected amendments, where possible, prior to their approval at the Bank of Latvia.

10. The Ancillary System shall undertake the following:
10.1 to participate in TARGET2-Latvija tests organised by the Bank of Latvia and address other issues related to the use of TARGET2-Latvija;
10.2 to notify the Bank of Latvia on modifications in the Ancillary System's payment and information systems or infrastructure, that might affect the participation of Ancillary System in TARGET2-Latvija, and upon the Bank of Latvia's request, perform recurrent tests of the modified TARGET2-Latvija systems.

11. The Bank of Latvia shall:
11.1 inform the Ancillary System about the introduction of new technical configuration of TARGET2-Latvija at least three months in advance;
11.2 conduct tests related to the TARGET2-Latvija implementation.

12. Where the Ancillary System has informed on the changes in payment and information systems or infrastructure pursuant to Paragraph 10.2, the Bank of Latvia shall be entitled to request the conduction of recurrent tests of TARGET2-Latvija as well as set a date from which the above changes are implemented in TARGET2-Latvija.

13. To ensure the authenticity of payment instructions and orders processed in TARGET2-Latvija in contingency situations or in the event of Ancillary System-related operational failure, the Participant shall submit to the Bank of Latvia:

13.1 a list of authorised persons who have the right to encrypt and sign information electronically, and verify the authenticity of the received information;

13.2 the Ancillary System's sample seal (if any) and a list of the authorised persons who have the right to sign the Ancillary System's paper-based payment instructions and orders, certified by a notary public;

13.3 a list of authorised persons who have the right to submit to and receive at the Bank of Latvia the Ancillary System's paper-based payment instructions and orders as well as other settlement-related information.

14. To ensure rapid exchange of information on TARGET2-Latvija related matters in contingency situations and the operational failure of Ancillary System, the Ancillary System and the Bank of Latvia shall exchange lists of contact persons.

15. The Parties agree that Paragraph 18 of Appendix 1 to the Agreement shall take effect on 19 May 2008. The Ancillary System shall pay to the Bank of Latvia by 18 May 2008, the following fees, based on the volume of transactions (the number of processed items) processed per month.

Band	No	To	Price (EUR)
1.	1	100	1.75
2.	101	1 000	1.00
3.	1 001	–	0.80

16. The Agreement shall take effect on _____. Where the Ancillary System's participation in TARGET2-Latvija is terminated pursuant to the System Rules, the Agreement shall become invalid.

17. The present Agreement is made on __ (_____) pages (including Appendix 1 on 12 (twelve) pages), in 2 (two) copies, one for each Party.

18. Registered addresses and banking details of the Parties

18.1 Bank of Latvia: K. Valdemāra iela 2A, Riga, LV-1050, phone 6702 2300, fax 6702 2420, e-mail: info@bank.lv, VAT payer's number LV90000158236, registered with the Register of VAT Payers on 12 September 1996. Settlement account of the Bank of Latvia No. LV51 LACB 0LVL 1750 5010 0, BIC LACBLV2X.

18.2 Ancillary System:

_____

BANK OF LATVIA   ANCILLARY SYSTEM

_____   _____

_____   _____
         (date)   (date)

Seal   Seal

SETTLEMENT PROCEDURES OF ANCILLARY SYSTEMS

1. Terms

1.1 Ancillary System Interface (ASI) – a technical device allowing an ancillary system (AS) to use special predefined services for the submission and settlement of AS payment instructions; it may also be used by the participating national bank (NCB) to settle cash operations resulting from cash deposits and cash withdrawals.

1.2 Participant Interface (PI) – a technical device allowing the participants to submit and settle payment orders, using services offered in the PM.

1.3 Core TARGET2 services – processing of payment orders in TARGET2 component systems, settlement of ancillary system-related transactions and liquidity pooling mechanisms.

1.4 Credit instruction – a payment instruction submitted by an ancillary system and addressed to the ancillary system's central bank to debit one of the accounts opened and/or managed by the ancillary system in the PM, and to credit either the settlement bank's PM account or sub-account by the amount specified in the payment instruction.

1.5 Debit instruction – a payment instruction addressed to the central settlement bank and submitted by an ancillary system to debit the settlement bank's PM account or sub-account by the amount specified therein, on the basis of a debit authorisation, and to credit any of the ancillary system's accounts in the payment module or another settlement bank's account or sub-account.

1.6 Payment instruction or ancillary system's (AS) payment instruction – a credit instruction or a debit instruction.

1.7 Ancillary system central bank (ASCB) – a central bank with which the respective ancillary system has concluded a bilateral agreement for processing the Ancillary System's payment instruction in the PM.

1.8 Settlement central bank (SCB) – a central bank holding the settlement bank's PM account.

1.9 Settlement bank – a participant whose PM account or sub-account is used to settle the ancillary system's payment instructions.

1.10 Information and Control Module (ICM) – the SSP module allowing the participants to obtain on-line information and providing for the submission of liquidity transfer orders, liquidity management and payment order initiation in contingency situations.

1.11 ICM broadcast message – information made simultaneously available to all TARGET2 participants or a selected group of participants via the ICM.

1.12 Debit mandate – an authorisation in the form provided by the central bank in the static data forms addressed to both its ancillary system and its settlement central bank, entitling the ancillary system to submit debit instructions and instructing the settlement central bank to debit the settlement bank's PM account or sub-account according to the debit instructions.

1.13 Short position – owing money during the settlement of ancillary system's payment instruction.

1.14 Long position – being owed money during the settlement of ancillary system's payment instruction.

2. Role of the settlement central bank

2.1 The Bank of Latvia shall act as the settlement central bank in relation to the settlement bank which holds the PM account.

3. Management of relationship among central banks, ancillary systems and settlement banks

3.1 The Ancillary System shall provide a directory of its settlement banks to the Bank of Latvia containing data on the settlement bank PM accounts. The Ancillary System may access the directory of its respective settlement banks via the ICM.

3.2 The Ancillary System shall immediately notify the Bank of Latvia of any changes in the directory of settlement banks. The Bank of Latvia shall inform the respective SCB on the above changes via an ICM broadcast message.

3.3 The Ancillary System shall collect debit authorisations and other relevant documents from its settlement banks and submit them to the Bank of Latvia in Latvian and/or English.

3.4 Where the settlement bank is a participant in TARGET2-Latvija, the Bank of Latvia shall verify the validity of the debit authorisation provided by the settlement bank and make any necessary entries in the Static Data (Management) Module. Where the settlement bank is not a participant in TARGET2-Latvija, the Bank of Latvia shall forward the debit authorisation (or an electronic copy thereof, if so agreed between the Bank of Latvia and the respective settlement central bank) to the respective settlement central bank for verification of its validity. The settlement central bank (banks) shall perform the verification and notify the Bank of Latvia on the outcome thereof within five business days after the receipt of the above request. After verification the Bank of Latvia shall update the directory of settlement banks in the ICM.

3.5 The verification performed by the Bank of Latvia shall be without prejudice to the responsibility of the Ancillary System for attributing the payment instructions solely to the banks included in the directory of settlement banks referred to in Paragraph 3.1.

3.6 Where the Bank of Latvia and the settlement central bank are not one and the same institution, the Bank of Latvia and the settlement central bank shall exchange information on any significant events during the settlement process.

4. Initiation of payment instructions via the ASI

4.1 All payment instructions submitted by the Ancillary System via the ASI shall be in the form of XML messages.

4.2 All payment instructions submitted by the Ancillary System via the ASI shall be deemed to be highly urgent and settled in accordance with the System Rules.

4.3 A payment instruction shall be deemed accepted if:
4.3.1 the payment instruction complies with the rules established by the network service provider;
4.3.2 the payment instruction complies with the System Rules;
4.3.3 the settlement bank is included in the directory of settlement banks referred to in Paragraph 3.1;
4.3.4 the settlement bank's participation in TARGET2 has been suspended, the explicit consent has been obtained from the settlement central bank of the suspended settlement bank.

5. Entry of payment instructions into the system and their irrevocability

5.1 Credit instructions shall be deemed to be entered into TARGET2-Latvija at the moment the Bank of Latvia has accepted them, and are irrevocable from that moment. Debit instructions shall be deemed to be entered into TARGET2 component system at the moment the Bank of Latvia has accepted them, and are irrevocable from that moment.

5.2 The application of Paragraph 5.1 shall not affect those provisions of the Ancillary System that stipulate the moment of entry into the Ancillary System and/or irrevocability of payment orders submitted to the Ancillary System prior to the moment of entry of the respective payment instruction into TARGET2-Latvija.

6. Settlement procedures

6.1 Where the Ancillary System requests the use of a settlement procedure, the Bank of Latvia shall offer one or more of the following settlement procedures:
6.1.1 "Liquidity transfers";
6.1.2 "Real-time settlements";
6.1.3 "Bilateral settlements";
6.1.4 "Standard multilateral settlements";
6.1.5 "Simultaneous multilateral settlements";
6.1.6 "Dedicated liquidity".

6.2 The settlement central banks shall support the settlement of the Ancillary System's payment instructions in accordance with the selected settlement procedure referred to in Paragraph 6.1, simultaneously settling payment instructions on the settlement bank PM accounts or sub-accounts.

6.3 Further provisions related to the settlement procedures referred to in Paragraph 6.1, are set out in Paragraphs 9–14.

7. Opening of the PM account shall not be mandatory.

7.1 The Ancillary System shall not be obliged to become a direct participant in TARGET2-Latvija or open the PM account, if using the ASI.

8. Accounts for the support of settlement procedures

8.1 In addition to the PM accounts, the Bank of Latvia may open the following accounts in the PM module to be used by the Ancillary System and the settlement bank for the settlement procedures referred to in Paragraph 6.1:

8.1.1 technical accounts;

8.1.2 mirror accounts;

8.1.3 guarantee fund accounts;

8.1.4 sub-accounts.

8.2 Where the Bank of Latvia and the Ancillary System have agreed on settlement procedures 4, 5 or 6 for the interfaced modules, the Bank of Latvia shall open a technical account in TARGET2-Latvija for the Ancillary System. The Bank of Latvia may offer these accounts as an option for settlement procedures 2 and 3. Individual technical accounts are opened with respect to settlement procedures 4 and 5. At the end of the settlement process of the respective Ancillary System, the balance on the technical accounts shall be zero or positive and the end-of-day balance shall be zero. The technical accounts shall be identified by means of the respective Ancillary System's BIC.

8.3 When agreeing on settlement procedures 1 or 6 for integrated models, the Bank of Latvia shall open mirror accounts in TARGET2-Latvija. The Bank of Latvia may also open mirror accounts when offering settlement procedures 1 or 6 for interfaced models. Mirror accounts are special PM accounts opened by the Bank of Latvia in TARGET2-Latvija to be used by the Ancillary System. Mirror accounts are identified by the Bank of Latvia's BIC.

8.4 When agreeing on settlement procedures 4 or 5, the Bank of Latvia may open guarantee fund account for the ancillary systems in TARGET2-Latvija. The balances on these accounts are used to settle the Ancillary System's payment instructions, if the available liquidity is insufficient on the settlement bank's PM account. The holders of the guarantee fund account may be the Bank of Latvia, Ancillary System, or guarantors. The guarantee fund accounts are identified by the respective account holder's BIC.

8.5 Where the Bank of Latvia and the Ancillary System have agreed on settlement procedure 6 for the interfaced models, the settlement central banks shall open for the settlement banks one or more sub-accounts in their TARGET2 component systems to be used for the dedicated liquidity. The sub-accounts shall be identified by the BIC of the PM account to which they relate in combination with an account number of the respective sub-account. The account number consists of the country code and no ore than 32 other characters (depending on the respective national bank account structure).

8.6 The accounts referred to in Paragraphs 8.1.1–8.1.4, shall not be published in TARGET2 directory. Where the participant has so requested, the account holder may be provided with the relevant statements of accounts for all the above accounts at the end of every business day (MT 940 and MT 950).

8.7 Detailed rules on opening the accounts specified in this Paragraph and their use for supporting the settlement procedures may be stipulated by the bilateral agreements between the Ancillary System and the Bank of Latvia.

9. Settlement procedure 1 "Liquidity transfer"

9.1 When offering settlement procedure 1, the Bank of Latvia and the settlement central banks shall support a liquidity transfer from the mirror account to the settlement bank's PM account via the ASI. The liquidity transfer may be initiated by the Ancillary System or the Bank of Latvia acting on behalf of the Ancillary System.

9.2 Settlement procedure 1 shall only be used for the integrated model where the respective Ancillary System has to use the mirror account to pool the required liquidity dedicated by its settlement bank and to transfer the liquidity back to the settlement bank's PM account.

9.3 The Bank of Latvia may offer the settlement of payment instructions within the deadlines stipulated by the Ancillary System, as referred to in Paragraphs 15.2 and 15.3.

9.4 The settlement banks and the ancillary systems shall have access to the information via the ICM. The Ancillary System shall be notified on completion or failure of the settlement. Where the Ancillary System initiates a liquidity transfer from the mirror account to the settlement bank's PM account, the settlement bank shall be notified on crediting via the SWIFT MT 202 message.

10. Settlement procedure 2 – "Real-time settlement"

10.1 When offering settlement procedure 2, the Bank of Latvia and the settlement central banks shall support the settlement of the cash leg of the Ancillary System by settling the payment instructions submitted by the Ancillary System on an individual basis rather than in batches. Where the payment instruction to debit a short settlement bank's PM account is queued in accordance with the relevant country's Rules for TARGET2, the respective settlement central bank shall inform the settlement bank via an ICM broadcast message.

10.2 Settlement procedure 2 may also be offered to the ancillary systems for the settlement of multilateral balances, and in such cases the Bank of Latvia shall open technical account for these ancillary systems. Moreover, the Bank of Latvia shall not offer the Ancillary System the service of managing the sequence of incoming and outgoing payments that may be required for these multilateral settlements. The Ancillary System shall be responsible for the sequence of settlements.

10.3 The Bank of Latvia may offer the settlement of payment instructions within the deadlines specified by the Ancillary System, as referred to in Paragraphs 15.2 and 15.3.

10.4 The settlement banks and the Ancillary System shall have access to the information via the ICM. The Ancillary System shall be notified on completion or failure of the settlement. Where the settlement banks have so requested, these banks shall be notified on a successful completion of settlement via the SWIFT MT 900 or MT 910 message.

11. Settlement procedure 3 – "Bilateral settlement"

11.1 When offering settlement procedure 3, the Bank of Latvia and the settlement central banks shall support the settlement of cash leg of the Ancillary System by settling the payment instructions submitted by the Ancillary System in a batch mode. Where the payment instruction to debit a short settlement bank's PM account is queued in accordance with the relevant country's Rules for TARGET2, the respective settlement central bank shall inform the settlement bank via an ICM broadcast message.

11.2 Settlement procedure 3 may also be offered to the ancillary systems for the settlement of multilateral balances. Subject to the following amendments, *mutatis mutandis* shall be applied to Paragraph 10.2:

11.2.1 the payment instructions to debit the short settlement banks' PM account and credit the Ancillary System's technical account as well as debit the Ancillary System's technical account and credit the long settlement banks' PM accounts are submitted as separate files;

11.2.2 the long settlement banks' PM accounts are credited only after all short settlement banks' PM accounts have been debited.

11.3 If multilateral settlement fails (e.g., because not all collections from short settlement banks' PM accounts have been successful), the Ancillary System shall submit the payment instructions in order to return those debit transactions that have already been settled.

11.4 The Bank of Latvia may offer:

11.4.1 a settlement of payment instructions within the deadlines specified by the Ancillary System, as referred to in Paragraph 15.3;

11.4.2 the function "Information period", referred to in Paragraph 15.1.

11.5 The settlement banks and the Ancillary System shall have access to the information via the ICM. The Ancillary System shall be notified on completion or failure of the settlement. Where the settlement banks have so requested, these banks are notified on a successful settlement via the SWIFT MT 900 or MT 910 message.

12. Settlement procedure 4 – "Standard multilateral settlements"

12.1 When offering settlement procedure 4, the Bank of Latvia and the settlement central banks shall support the settlement of multilateral cash balances of the Ancillary System's transactions by settling the payment instructions submitted by the Ancillary System in a batch mode. The Bank of Latvia shall open special technical accounts for these ancillary systems.

12.2 The Bank of Latvia and the settlement central banks shall ensure the sequencing of payment instructions. They shall only book credits, if all debit payments have been settled successfully. The payment instructions to debit the short settlement banks' PM accounts and credit the Ancillary System's technical account as well as credit the long settlement banks' PM accounts and debit the Ancillary System's technical account shall be submitted in one file.

12.3 First, the payment instructions to debit the short settlement banks' PM account and credit the Ancillary System's technical account shall be settled. The long settlement banks' PM accounts are credited only after all the above payment instructions are settled (including a possible funding of technical account from the guarantee fund mechanism).

12.4 Where the payment instruction to debit a short settlement bank's PM account is queued in accordance with the respective country's Rules for TARGET2, the settlement central bank shall inform this settlement bank via an ICM broadcast message.

12.5 Where the funds are insufficient on the short settlement bank's PM account, a guarantee fund mechanism shall be activated by the Bank of Latvia, if so stipulated by the bilateral agreement between the Bank of Latvia and the Ancillary System.

12.6 Where no guarantee fund has been provided for and the entire settlement fails, the Bank of Latvia and the settlement central banks shall be deemed to have been instructed to reject all payment instructions in a file and return those payment instructions that have already been settled.

12.7 The Bank of Latvia shall notify the settlement banks on the settlement failure via an ICM broadcast message.

12.8 The Bank of Latvia may offer:

12.8.1 settlement of payment instructions within the deadlines specified by the Ancillary System, as referred to in Paragraph 15.3;

12.8.2 the function "Information period", referred to in Paragraph 15.1;

12.8.3 the guarantee fund mechanism, referred to in Paragraph 15.4.

12.9 The settlement banks and the Ancillary System shall have access to the information via the ICM. The Ancillary System shall be notified on completion or failure of the settlement. Where the settlement banks have so requested, these banks are notified on a successful settlement via the SWIFT MT 900 or MT 910 message.

13. Settlement procedure 5 – "Simultaneous multilateral settlements"

13.1 When offering settlement procedure 5, the Bank of Latvia and the settlement central banks shall support the settlement of multilateral cash balances of the Ancillary System's transactions by settling the payment instructions submitted by the Ancillary System. To settle the respective payment instructions, Algorithm 4 shall be used (see Appendix 1 to the System Rules). Unlike settlement procedure 4, settlement procedure 5 operates on an "all–or–nothing" basis. In this procedure, the debiting of short settlement banks' PM accounts and crediting long settlement banks' PM accounts are executed simultaneously (rather than sequentially, as in settlement procedure 4). Paragraph 12 shall apply *mutatis mutandis* subject to the following amendments: where one or more payment instructions fail, all payment instructions shall be queued and Algorithm 4, referred to in Paragraph 16.1, shall be re-applied to settle the Ancillary System's queued payment instructions.

13.2 The Bank of Latvia may offer:

13.2.1 a settlement of payment instructions within the deadlines specified by the Ancillary System, as referred to in Paragraph 15.3;

13.2.2 the function "Information period", referred to in Paragraph 15.1;

13.2.3 the guarantee fund mechanism, referred to in Paragraph 15.4.

13.3 The settlement banks and the Ancillary System shall have access to the information via the ICM. The Ancillary System shall be notified on completion or failure of the settlement. Where the settlement banks have so requested, these banks are notified on a successful settlement via the SWIFT MT 900 or MT 910 message.

13.4 Where the payment instruction to debit a short settlement bank's PM account is queued in accordance with the relevant country's Rules for TARGET2, the respective settlement central bank shall inform the settlement banks via an ICM broadcast message.

14. Settlement procedure 6 "Dedicated liquidity"

14.1 Settlement procedure 6 may be used for both the interfaced and integrated models described in Paragraphs 3–10 and 11–13. In the case of integrated model, the respective Ancillary System shall use a mirror account to collect the required liquidity dedicated by its settlement banks. In the case of interfaced model, the settlement bank shall open at least one sub-account related to a specific ancillary system.

14.2 Where the settlement banks have so requested, these banks are notified via the SWIFT MT 900 or MT 910 message on crediting or debiting of their PM accounts or, if applicable, their sub-accounts.

14.3 Interfaced model

14.3.1 When offering settlement procedure 6, the Bank of Latvia and the settlement central banks shall support the settlement of bilateral or multilateral cash balances of the Ancillary System's transactions by:

14.3.1.1 allowing the settlement bank to pre-fund its potential settlement obligations by means of liquidity transfers from its PM account to its sub-account (hereinafter, the dedicated liquidity) prior to the Ancillary System's processing;

14.3.1.2 after the completion of Ancillary System's processing, the Ancillary System's payment instructions regarding the short settlement banks shall be settled by debiting their sub-accounts (within the limits of funds available on the above account) and crediting the Ancillary System's technical account, while regarding the long settlement banks the payment instructions are settled by crediting their sub-accounts and debiting the Ancillary System's technical account.

14.3.2 When offering settlement procedure 6:

14.3.2.1 the settlement central bank shall open for each settlement bank at least one sub-account in relation to the Ancillary System;

14.3.2.2 the Bank of Latvia shall open a technical account for the Ancillary System for crediting funds collected from the sub-accounts of the short settlement banks, and for debiting funds when making credits to the dedicated sub-accounts of the long settlement banks.

14.3.3 Settlement procedure 6 shall be offered both for daytime processing and night-time operations of the Ancillary Systems. The business day of the night-time operations shall start immediately upon the compliance with the minimum reserve requirements, and any debiting or crediting made on the respective accounts shall refer to the new business day.

14.3.4 Pursuant to settlement procedure 6 and regarding the dedicated liquidity, the Bank of Latvia and the settlement central banks shall offer the following liquidity transfer services to and from the sub-accounts:

14.3.1 standing orders that the settlement banks may submit or modify at any time during the business day via the ICM (when accessible). Standing orders submitted after sending the "start-of-procedure" message on a given business day shall only be valid on the next business day. If there are several standing orders to credit diverse sub-accounts, they shall be settled in the order of their amount, starting with the highest one. Where there are standing orders during the night-time ancillary system operations, for which the funds on the PM account are insufficient, these orders shall be settled following a pro-rata reduction of all orders;

14.3.4.2 current orders that may be submitted by a settlement bank (via the ICM) or the respective ancillary system via an XML message during the running of settlement procedure 6 (the time span between the "start-of-procedure" and the "end-of-procedure" messages) and that are settled for as long as the processing cycle of ancillary system has not yet commenced. Where the Ancillary System has submitted a standing order for which the funds on the PM account are insufficient, this order shall be settled in part;

14.3.4.3 SWIFT payment orders via the MT 202 message that may be submitted during the running settlement procedure 6 and only during daytime processing. These orders shall be settled immediately. During a running cycle the above operation shall be performed without notifying the Ancillary System.

14.3.5 Settlement procedure 6 shall commence by means of the "start-of-procedure" message and finish by means of the "end-of-procedure" message, both of them sent by the Ancillary System. However, regarding the night-time Ancillary System's operations, the "start-of-procedure" message shall be sent by the Bank of Latvia. The "start-of-procedure" message shall effect the settlement of standing orders in order to transfer liquidity to sub-accounts. The "end-of-procedure" message leads to an automatic re-transfer of liquidity from the sub-account to the PM account.

14.3.6 The liquidity dedicated under settlement procedure 6 shall be frozen as long as the Ancillary System's processing cycle is running (starting with the "start-of-procedure" message and finishing with the "end-of-procedure" message, both sent by the Ancillary System), and released thereafter.

14.3.7 Within each Ancillary System's processing cycle, payment instructions shall be settled out of the dedicated liquidity, thereby using Algorithm 5 (referred to in Appendix 1 to the System Rules).

14.3.8 A settlement bank's dedicated liquidity may be increased within each Ancillary System's processing cycle by means of crediting certain incoming payments directly to its sub-accounts (i.e. coupon and securities' redemption payments). In such cases, liquidity is first credited on the technical account, and then debited from this technical account prior to crediting this liquidity on the sub-account (or the PM account).

14.3 Integrated model

14.4.1 The Bank of Latvia and the settlement central bank shall support these settlements by offering settlement procedure 6 for the integrated models. Where settlement procedure 6 is used for the integrated model during daytime processing, a limited functionality is offered.

14.4.2 Pursuant to settlement procedure 6, the Bank of Latvia and the settlement central banks shall offer, for the integrated model, the following services of liquidity transfer to the mirror account:

14.4.2.1 standing orders (both for daytime processing and night-time operations of the Ancillary Systems) that the settlement banks may submit or modify at any time during the business day via the ICM (when accessible). Standing orders submitted after sending the "start-of-procedure" message on a given business day shall only be valid on the next business day. If there are several standing orders, they shall be settled in the order of their amount, starting with the highest one. Where the standing order is not covered for the daily processing, it shall be rejected. Where there are standing orders during the night-time ancillary system operations, for which the funds on the PM account are insufficient, these orders shall be settled following a pro-rata reduction of all orders;

14.4.2.2 current orders that may be submitted by a settlement bank (via the ICM) or the respective Ancillary System via an XML message during the running of settlement procedure 6 (the time span between the "start-of-procedure" and the "end-of-procedure" messages) and that are only settled, if the processing cycle of the Ancillary System has not yet commenced. Where the current order has been submitted, for which the funds on the PM account are insufficient, this order shall be partially settled;

14.4.2.3 the SWIFT orders via the MT 202 message that may only be submitted during daytime processing. These orders shall be immediately settled.

14.4.3 Provisions for the interfaced model regarding the "start-of-procedure" and "end-of-procedure" messages as well as the start and end of the cycle shall apply *mutatis mutandis*.

15. Optional connected mechanisms

15.1 For settlement procedures 3, 4 and 5, the Bank of Latvia may offer an optional connected mechanism "Information Period". Where the Ancillary System (or the Bank of Latvia on its behalf) has specified the optional "Information Period" time, the settlement bank shall receive an ICM broadcast message indicating the time by which the settlement bank may request a return of the respective payment instruction. The settlement central bank shall only take this request into account, if it is communicated via and approved by the Ancillary System. The settlement shall commence, where the settlement central bank has failed to receive the above request by the end of the "Information Period". Where the settlement central bank has received the above request within the "Information Period", it shall":

15.1.1 return the respective payment instruction, where settlement procedure 3 is used for bilateral settlements;

15.1.2 return all payment instructions in a file and inform all settlement banks and the Ancillary System by means of the ICM broadcast message, where settlement procedure 3 is

used for settlement of multilateral balances or the entire settlement fails in settlement procedure 4.

15.2 Where the Ancillary System sends the settlement instructions prior to the scheduled time ("from"), these instructions shall be stored until the scheduled time. In this case, payment instructions shall only be submitted to the entry disposition when the "from" time has been reached. The above settlement mechanism may be used in settlement procedures 1 and 2.

15.3 The settlement period "till" allows for allocating a limited period of time for the Ancillary System's settlement to prevent containing or delaying the settlement of other Ancillary System-related or TARGET2 transactions. Where any payment instruction has not been settled until reaching the "till" time, this instruction shall be rejected or, in the case of settlement procedures 4 or 5, the guarantee fund mechanism may be activated. The settlement period "till" may be defined with respect to settlement procedures 1–5.

15.4 The guarantee fund mechanism may be used where the settlement bank's liquidity is insufficient to cover its obligations stemming from the Ancillary System's settlements. This mechanism may be used to provide the required complementary liquidity to allow the settlement of all payment orders involved in the Ancillary System's settlements. The above mechanism may be used in settlement procedures 4 and 5. If the guarantee fund mechanism is to be used, a special guarantee fund account shall be opened where the "emergency liquidity" is available or may be made available upon request.

16. Algorithms used

16.1 Algorithm 4 supports settlement procedure 5. To facilitate settlement and reduce the required liquidity, all Ancillary System's payment instructions are included regardless of their priority. The Ancillary System's instructions to be settled in accordance with settlement procedure 5 bypass the disposition and are kept in the PM separately until the end of the current optimisation process. In one cycle of Algorithm 4, several ancillary systems using settlement procedure 5 will be included if they intend to settle at the same time.

16.2 In settlement procedure 6, the settlement bank may dedicate a liquidity amount to settle balances stemming from a certain Ancillary System. The dedication is implemented by setting aside the required liquidity on a specific sub-account (interfaced model). Algorithm 5 is used both for night-time operations of the ancillary systems and daytime processing. The settlement process is implemented by debiting the short settlement banks' sub-accounts in favour of the Ancillary System's technical account and then debiting the Ancillary System's technical account in favour of the long settlement banks' sub-accounts. In the case of credit balances, the booking can be executed directly on the settlement bank's PM account, if the Ancillary System has indicated it within the respective transaction. Where the settlement of one or several debit instructions fails (i.e. as a result of an Ancillary System's error), the respective payment is queued on the sub-account. Algorithm 5 may be applied to settlement procedure 6 with respect to the sub-accounts. Moreover, Algorithm 5 shall not take into account any limits or reservations. Total position shall be calculated for each settlement bank and all transactions settled where all total positions are covered. Transactions that are not covered shall be placed back in the queue.

17. Consequences of suspension or termination

17.1 Where the suspension or termination of ASI used by the Ancillary System takes effect during the cycle of settling the Ancillary System's payment instructions, the Bank of Latvia is deemed to be authorised to complete the settlement cycle on behalf of the Ancillary System.

18. Fee schedule and invoicing

18.1 An ancillary system using the ASI, irrespective of the number of accounts it holds with the Bank of Latvia and/or the settlement central bank, shall be subject to the fees consisting of three components.
18.1. A fixed monthly fee of EUR 1 000 (Fixed Fee I).
18.1.2 A fixed monthly fee of EUR 417–4 167 (in proportion to the gross value of the Ancillary System's euro cash settlement transactions; Fixed Fee II).

Band	From (EUR million/day)	To (excluding; EUR million/day)	Annual fee (EUR)	Monthly fee (EUR)
1	0	1 000	5 000	417
2	1 000	2 500	10 000	833
3	2 500	5 000	20 000	1 667
4	5 000	10 000	30 000	2 500
5	10 000	50 000	40 000	3 333
6	50 000	–	50 000	4 167

The Bank of Latvia shall annually calculate the gross value of the Ancillary System's euro cash settlement transactions on the basis of the gross value in the previous year, and the calculated gross value shall be applied for calculating fees as of 1 January of each calendar year.
18.1.3 Transaction fee shall be calculated on the same basis as the fee stipulated for TARGET2 participants in Appendix 6 to the System Rules. The Ancillary System may choose one of the two options: either to pay a fixed fee of EUR 0.80 per payment instruction (Option A, stated in Paragraph 1.1.1 of Appendix 6) or to pay a fee calculated on a degressive basis (Option B, stated in Paragraph 1.1.2 of Appendix 6), subject to the following amendments:
18.1.3.1 For Option B, the band limits relating to the volume of payment instructions shall be divided by two;
18.1.3.2 a fixed monthly fee of EUR 100 (under Option A) or EUR 1 250 (under Option B) shall be paid in addition to Fixed Fee I and Fixed Fee II.

18.2 Any fee payable in relation to the payment instruction submitted or payment received by the Ancillary System via the ASI, shall be charged solely to this Ancillary System.

18.3 The Ancillary System shall receive an invoice from the Bank of Latvia for the previous month based on the fees stated in Paragraph 18.1 no later than on the fifth business day of the next month and shall make payments to the account indicated by the Bank of Latvia or debit them from the account specified by the Ancillary System no later than on the tenth business day of the current month.

18.4 For the purposes of this Paragraph, each ancillary system specified under the Directive 98/26/EC shall be deemed a separate ancillary system even where two or more ancillary systems are operated by the same legal person. The above provision shall also apply to the ancillary systems not specified under the Directive 98/26/EC. In this case, an ancillary system shall be identified in accordance with the following criteria:
18.4.1 a formal arrangement based on a contractual instrument (e.g., an agreement between the participants and a system operator) or laws and regulations;
18.4.2 several participants;
18.4.3 common rules and standardised arrangements;

18.4.4 payment and/or securities clearing; netting and/or settlements among participants.