



FUNDS TRANSFER AND SETTLEMENT COMPANY - TRANSFOND S.A.

DISCLOSURE FRAMEWORK 2023

**TRANSFOND's response to CPSS-IOSCO requirements
"disclosure framework for financial market infrastructures"
- May 2023 -**

RESPONSIBLE INSTITUTION: TRANSFOND S.A., OPERATOR OF THE SENT SYSTEM

JURISDICTION IN WHICH THE INSTITUTION OPERATES: ROMANIA

SUPERVISORY AUTHORITY OF THE INSTITUTION: THE NATIONAL BANK OF ROMANIA

PUBLISHING DATE: MAY 2023

INFORMATION MAY ALSO BE FOUND AT: www.transfond.ro

FOR FURTHER INFORMATION, PLEASE CONTACT: info@transfond.ro

I. Summary

TRANSFOND supports the work of the Committee on Payments and Settlement Systems attached to the Bank for International Settlements together with the International Organization of Securities Commissions, to encourage the publication of clear and comprehensive information, as established in the document "Principles for Financial Market Infrastructures: Disclosure Framework and Assessment Methodology – December 2012".

TRANSFOND operates the SENT system, through which it provides interbank payment clearing services in lei (normal and instant low-value credit transfer up to 50,000 lei, cheques, bills of exchange, promissory notes and direct debits regardless of value) and in euros (transfer credit, regardless of value). The system is designated by Order no. 637/15.06.2011 of the Governor of the National Bank of Romania as coming under the provisions of Law no. 253 of 16 June 2004 regarding the finality of the settlement in the payment systems and in the settlement systems of operations with financial instruments (which transposes Directive 98/26/EC of the European Parliament and of the Council of 19 May 1998 regarding the finality of settlement in payment and securities settlement systems into Romanian legislation). TRANSFOND operates a reliable, effective, low-risk and efficient clearing system. TRANSFOND has implemented clear and transparent rules and procedures in the operation of SENT, intended to contribute to ensuring the stability of the financial system and to monitoring, managing and minimizing the risks involved. The procedural and risk management framework allows TRANSFOND and its participants to manage the various risks they face in the operation and use of the SENT system. Both a clear business continuity management framework as well as robust and effective contingency management rules and procedures have been implemented.

The Board of Directors and the management of TRANSFOND are committed to maintaining a very low degree of risk. This commitment is reflected both in the manner of risk management (such as a conservative policy and the use of established methodologies) and in the adequate capitalization of the company.

The activities carried out by TRANSFOND have a solid legal basis and appropriate management mechanisms.

TRANSFOND is firmly committed to ensuring the security and effectiveness of the services it provides and demonstrates a risk-based approach to the provision of current and new services.

II. Summary of major changes since the last update

The main changes since the publication of the previous version of the document in May 2018 are as follows:

- The decrease in the number of shareholders from 20 to 19, following a merger by absorption between two of the company's shareholders, Banca Românească being absorbed by Eximbank;
- The commissioning of the processing component for low-value instant payments, in lei (SENT – CPI Lei), on 22.04.2019;
- Commissioning of the AliasPay service, intended for the initiation of payments using the beneficiary's mobile phone number, on 18.03.2021;

- Commissioning of the SANB Service (Beneficiary Name Display Service), with the objective of preventing fraud among customers making electronic payments, by displaying the name of the beneficiary, on 24.11.2022.

III. The general operating framework of TRANSFOND

Description of TRANSFOND and the markets served

The company was established in 2000, following Romania's commitments regarding the modernization of the Romanian banking infrastructure undertaken for joining the European Union (EU), as part of the EU accession process.

TRANSFOND began operating in 2001, taking over the activity of operating the payment system outsourced by the Central Bank.

TRANSFOND is financial market infrastructure (Financial Market Infrastructure - **FMI**) responsible for ensuring the integrity and development of the main clearing and settlement services for (a) - national interbank SEPA transfers in national currency (leu) through SENT - CPM Lei, (b) - national and cross-border interbank SEPA transfers in euro currency through SENT – CPM Euro and (c) - national interbank instant SEPA transfers in national currency (leu) through SENT CPI Lei. For this purpose, TRANSFOND fulfils the role of administrator and operator of the SENT system.

Following commissioning of the SENT system, it recorded a series of major improvements, the most noteworthy of which are: the introduction of the processing of debit payment instruments (cheques, bills of exchange, promissory notes) in electronic format, in 2008; the adoption of the SEPA standards for credit transfers in the national currency and the introduction of tiered participation arrangements, in 2012; the processing of SEPA credit transfers in euro currency, in 2013; the adoption of SEPA standards for direct debits, in 2016; the introduction of the processing of instant credit transfer payments in accordance with SEPA standards, in 2019.

Through the infrastructure it developed, TRANSFOND has ensured availability of the SENT system of over 99% and in parallel laid the foundations for a new line of business (e-Business), aimed at facilitating companies' financial activities. In this way, value-added services were developed - **e-Arhiv@**, in 2009 (an Electronic Filing Service, intended primarily for the financial community in Romania) and **e-Factur@**, in 2010 (an Electronic Invoicing Service, intended for issuers and recipients of invoices in electronic format) - which will improve the efficiency of companies' financial activities. The development of e-Business services is one of the main concerns of TRANSFOND when it comes to the diversification of the company's business activity.

SENT services are offered to payment service providers (credit institutions, payment institutions, institutions issuing electronic currency):

- Romanian legal entities (banks, credit cooperatives, housing savings banks, mortgage credit banks);
- branches established on the territory of Romania by foreign legal entities from the European Economic Area, which have been notified to the National Bank of Romania by the competent authority of the member state of origin.

The current number of participants in the SENT system is 37 for the CPM Lei Component, 13 for the CPM Euro Component and 10 for the CPI Lei Component.

To ensure the processing of cross-border SEPA (credit transfer) payment orders in euro currency via the SENT system, TRANSFOND concluded an interoperability agreement with the EquensWorldline Clearing and Settlement Mechanism (CSM) in 2013.

The volume and value of the operations processed through the SENT system – Lei component and euro component are presented in table no. 1 and table no. 2 below.

Table no. 1 - Volume of electronic payments in the period 2018 – 2021 (number of transactions)

The year	SENT-CT ¹ &DD ²	SENT-PI ³	SENT-CQ ⁴	SENT-BE ⁵	SENT-PN ⁶	SENT-euro
2018	102,437,619	-	856,996	170	2,591,533	614,138
2019	116,257,689	58,515	744,408	119	2,409,870	767,413
2020	132,706,940	720,010	586,828	58	1,978,358	911,143
2021	159,580,300	3,007,264	512,525	67	1,797,369	1,133,378

Table no. 2 - Number of payments in electronic format in the period 2018 – 2021

The year	SENT-CT&DD (million lei)	I FEEL (million lei)	SENT-CQ (million lei)	SENT-BE (million lei)	SENT-PN (million lei)	SENT-euro (million euros)
2018	338,808.74	-	11,524.30	0.31	33,111.49	2,775.10
2019	380,942.65	0.33	10,985.06	0.60	34,428.22	3,538.78
2020	404,000.41	2,095.11	13,063.23	0.16	30,265.82	3,540.69
2021	483,532.15	6,460.54	8,060.92	0.13	30,821.08	4,617.73

The financial results of the company, in the same period (2018 – 2021), are presented in table no. 3 below:

Table no. 3 – Financial results of TRANSFOND in the period 2018 - 2021

Profit and loss account (lei)	2018	2019	2020	2021
TOTAL Revenue	64,621,131	68,287,492	77,023,953	92,265,922
Operating income	63,957,300	67,541,774	76,299,932	91,675,575
Financial income	663,831	745,718	724,021	590,347
Total expenses	39,126,206	41,832,376	46,070,470	47,951,280
Operating expenses	39,107,004	41,782,221	46,039,287	47,943,465
Financial expenses	19,202	50,155	31,183	7,816
Gross result	25,494,925	26,455,116	30,953,483	44,314,642
Tax	4,080,717	4,218,418	4,865,584	6,906,459
NET PROFIT for the financial year	21,414,208	22,236,698	26,087,899	37,408,183

General organisation of TRANSFOND

TRANSFOND is a joint-stock company operating with private equity based on the Companies Law no. 31/1990. Its name is "SOCIETATEA DE TRANSFER DE FONDURI ŞI DECONTĂRI – TRANSFOND S.A." ("FUND TRANSFER AND SETTLEMENT COMPANY - TRANSFOND S.A.") and it is registered with the Trade Register under number J40/6820/2000.

¹ Credit Transfer

² Direct Debit

³ Instant payments

⁴ Cheques

⁵ Exchanges

⁶ Tickets on order

The share capital is 6,720,000 lei, divided into 6,720 shares with a nominal value of 1,000 lei. These shares are distributed among 19 shareholders, including Banca Națională a României (National Bank of Romania).

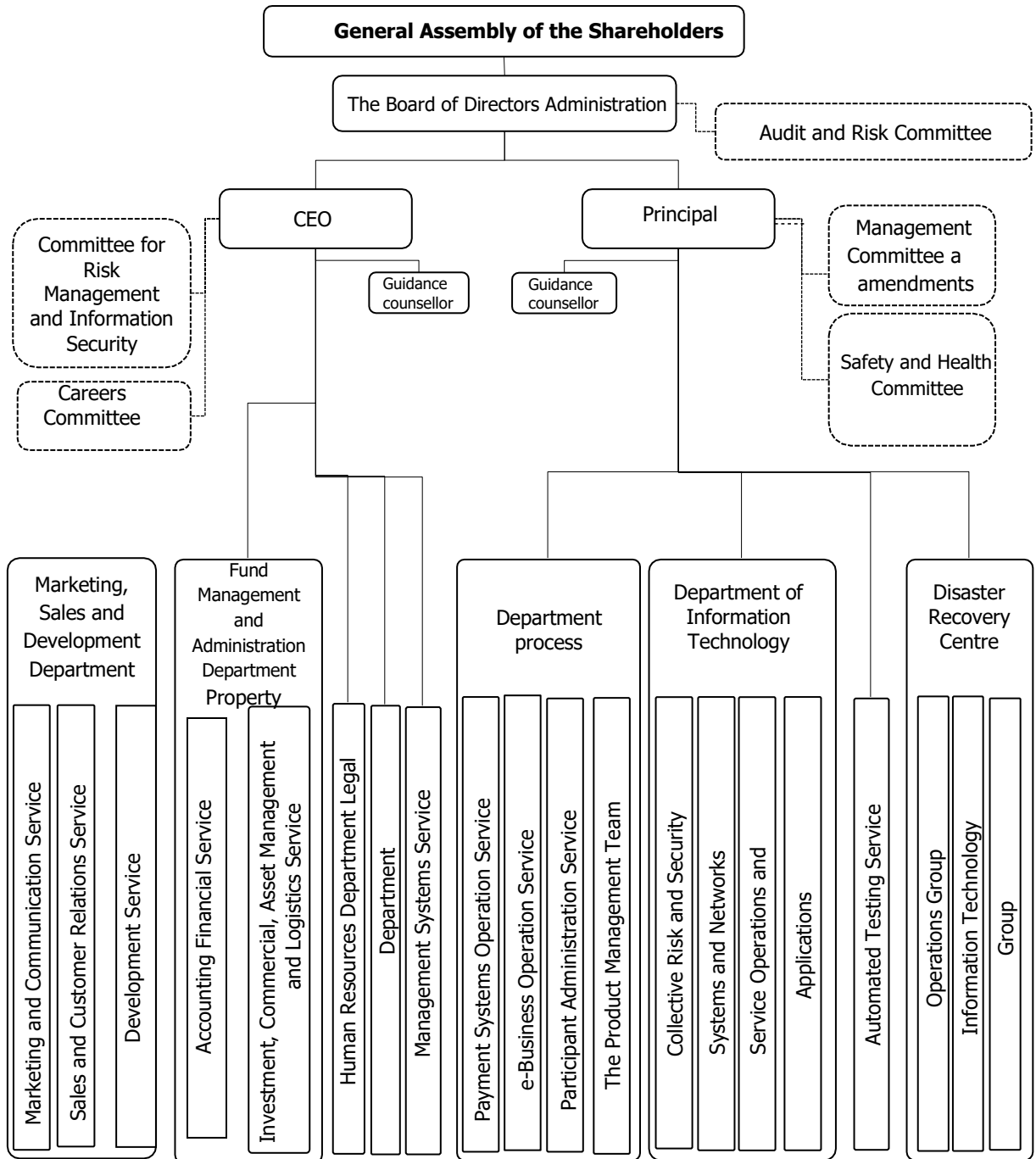
According to the provisions of the Memorandum of Association, the company's shareholders can only be the National Bank of Romania and credit institutions regulated by banking legislation. The shareholders designate and elect a Board of Directors consisting of 9 members, who are natural persons, every 4 years.

The Board of Directors establishes the company's main directions of activity and development and, together with the executive management, it has the role and responsibility of establishing and monitoring the fulfilment of objectives, along with the development of new services.

The Board of Directors established the Audit and Risk Advisory Committee (consisting of three members). At the level of the executive management of the company, together with the heads of the work structures and in accordance with the Organisation and Functioning Regulation, the following committees were established and carry out their activity based on yearly-established objectives: the Information Security and Risk Management Committee, the Change and Project Management Committee, the Careers Committee and the Occupational Health and Safety Committee.

The current organisational structure of TRANSFOND is presented in diagram no. 1 below:

Diagram no. 1 – the organisational structure of TRANSFOND



THE LEGEND: ————— = Organisational structure/ administrative relationship;
 - - - - - = Functional structure/ functional relationship

The efficiency of TRANSFOND's governance mechanisms is reflected both in the performances recorded in the provision of interbank electronic payment services as well as in TRANSFOND's ability to develop and diversify its activities.

The regulatory framework

According to Art. 22 of Law 312 of 28 June 2004, "The National Bank of Romania monitors payment systems, including payment instruments, to ensure their security and efficiency and to avoid systemic risk". The SENT system is registered in the records of the National Bank of Romania as a "*compensation system*", thus being placed under its supervision.

Operation of the SENT system is governed by the *SENT System Rules*, which have been developed by TRANSFOND in direct consultation with the system participants. These Rules have been approved by the Board of Directors of TRANSFOND and endorsed by the National Bank of Romania.

TRANSFOND has concluded contracts with all relevant stakeholders (members, infrastructure providers, settlement service providers).

To ensure a solid, clear, transparent and applicable legal basis at the TRANSFOND level, a structure of contracts was created (for details see section IV. Principle 1 *Legal provisions*) as follows:

- a) Contracts between TRANSFOND and SENT participants;
- b) Contracts between TRANSFOND and providers of settlement infrastructure and services;
- c) Other agreements and contracts (between TRANSFOND and other entities).

In addition to the specific content of each type of contract, they include clauses relating to privacy, security and data protection.

Architecture and operation of the SENT system

The SENT system is a hybrid system with a deferred net settlement system (DNS), which processes electronic retail payments; it calculates participants' net multilateral positions over multiple clearing cycles. SENT allows its participants to send payment instructions in electronic format, protected by encryption and digital signature.

Daily clearing activities at SENT – CPM Lei level for local currency *leu* (for settlement in local currency SENT uses a fully collateralized guarantee mechanism) are grouped into three clearing cycles. During each compensation cycle, the following activities are performed:

- Each participant sets up their own guarantees, prior to the beginning of the compensation process;
- Participants send their own payment orders to the SENT system;
- Submitted files are technically validated and accepted for clearing or placed in a queue for further clearing. Non-SEPA credit transfer instruction files (in proprietary SENT format) are automatically converted to SEPA format;
- At the end of the clearing cycle, each participant's net multilateral positions are calculated. These net positions are grouped into a Net Settlement Instruction (IDN) which is transmitted to the ReGIS system for final settlement.

- Immediately after the settlement of the IDN, all cleared credit transfer payment orders are sent by SENT to each participant and the guarantees established by the participants are released/unlocked. SENT sends end-of-session reports to each participant.

There is only one clearing cycle for instant payment processing, which is completed on business days. The daily clearing activities at the level of SENT – CPI Lei (for settlement in local currency a fully collateralized guarantee mechanism is used) are as follows:

- Each participant establishes their own guarantees;
- Participants send to the SENT system their own payment orders in SEPA format, which are sent by the central system to the receiving participant and are immediately compensated;
- At the end of the clearing cycle, each participant's net multilateral positions are calculated. These net positions are grouped into an IDN that is transmitted to the ReGIS system for final settlement.

No guarantee mechanism is used for the *euro* currency. During each compensation session, the following activities are performed:

- Participants submit their own payment orders;
- Files in SEPA format are submitted and technically validated, then accepted for clearing or rejected;
- At the end of the clearing cycle, the net positions of each participant are calculated. These net positions are grouped into a Net Settlement Instruction (IDN) which is transmitted to the TARGET2-Romania system for final settlement. The SENT system uses settlement procedure no. 5 with a waiting period of 30 minutes;
- If at the end of the waiting period there are insufficient funds available in the settlement account indicated by one of the participants, their payment orders are rejected, the net positions of all participants are recalculated and a new IDN instruction is sent to TARGET2-Romania for final settlement;
- Immediately after IDN settlement, all cleared credit transfer payment orders and end-of-session reports are sent by SENT to each participant and CSM partner.

IV. The synthetic presentation of each principle

In the content of this document, 17 (1, 2, 3, 4, 5, 7, 8, 9, 13, 15, 16, 17, 18, 19, 21, 22 and 23) of the 23 Principles described in the document "Principles for Financial Market Infrastructures: Disclosure framework and Assessment Methodology – December 2012" have been described synthetically. The other 7 Principles described in the document "Principles for financial market infrastructures: Disclosure framework and Assessment Methodology – December 2012" are not applicable to payment systems and are therefore not included (as presented on page 14, table 1 of the mentioned document). Also, Principle 12 is deemed out of scope, as SENT is not an exchange-of-value system.

Brief presentation of each principle

Principle 1: Legal background

An FMI should have a sound, clear, transparent, and enforceable legal background for every material aspect of its business in all relevant jurisdictions.

Synthetic presentation	<p>The SENT system is governed by Romanian legislation and European legislation transposed into Romanian legislation.</p> <p>The SENT system is supervised by the National Bank of Romania.</p> <p>The legal framework of the SENT system is solid and consists of the System Rules of SENT, the system documentation, the participation contracts concluded between TRANSFOND and each of the direct participants, the participation contracts of SENT with the ReGIS and SAFIR systems in order to manage the guarantee scheme and of the final settlement for the local currency, the participation contract of SENT in TARGET2-Romania with a view to the final settlement for the euro currency, the contract for the processing of SEPA schemes concluded between TRANSFOND and the Romanian Association of Banks.</p> <p>The purpose of compensation, settlement and guarantees are secured by Law 253/2004 (transposition of the Directive on the Purpose of Settlement 98/26/EC into Romanian legislation) and Government Ordinance 9/2004. The SENT system was assigned by the Order of the Governor of the National Bank of Romania 637/2011 as coming under the scope of Law 253/2004 and was notified for this purpose to the European Commission.</p> <p>The applicable legislation and the System Rules of SENT are published on the TRANSFOND website. System documentation is provided upon request as part of the process of joining the system.</p>
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Principle 2: Governance

An FMI should have governance mechanisms that are clear and transparent, promote the safety and efficiency of the FMI and support the stability of the financial system in general, other relevant public interest considerations as well as stakeholder objectives.

Synthetic presentation	<p>TRANSFOND's governance mechanisms comply with the provisions of BNR Regulation no. 3/2018 on the monitoring of financial market infrastructures and payment instruments, with subsequent amendments and additions.</p> <p>The governance structures are contained in the Memorandum of Association of TRANSFOND, which is approved by the General Meeting of the Shareholders.</p> <p>TRANSFOND's activity is established by the General Meeting of the Shareholders. The company is managed by a Board of Directors consisting of 9 members, one of whom is an independent director.</p> <p>The main objective of the TRANSFOND Board of Directors is to ensure the effectiveness of the Payment System. The TRANSFOND Board of Directors approves TRANSFOND's strategy and activity guidelines. The Board of Directors of TRANSFOND also appoints the CEO and the Manager, who coordinate operative activities and report to the Board of Directors of TRANSFOND.</p> <p>The roles and objectives of the managers are clearly established in the "Regulations for the Organisation of the Directors' Activity" and in the management contracts concluded with the CEO and the Manager. The management objectives are evaluated by the TRANSFOND Board of Directors.</p> <p>All objectives are "SMART" and are continuously monitored, both at the department level as well as at the level of the Quality Management System. The Board of Directors of TRANSFOND presents an Annual Activity Report for the approval of the General Meeting of the Shareholders.</p>
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	<p>TRANSFOND has implemented a risk management system based on its own Risk Management Methodology. The methodology is based on the indications of international guidelines and standards (ISO 31000:2009, ISO/IEC 27001:2005, ISO/IEC 27002:2005, ISO/IEC GUIDE 73:2009) and complies with them. In accordance with this, the company carries out a periodic (annual) risk analysis whose results are presented, analysed and approved by the Information Security and Risk Management Committee and presented to the TRANSFOND Board of Directors.</p> <p>Also, the company has a Regulation on the organisation and operation of internal control, which aims to ensure a unitary framework for the organisation and operation of the internal control system to comply with the applicable laws and regulations and to achieve the objectives under minimal risk conditions. The internal auditor is appointed/removed by the Board of Directors of TRANSFOND.</p>
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Principle 3: Framework for global risk management

An FMI should have a robust risk management framework to comprehensively manage legal, credit, liquidity, operational and other risks.

<p>Synthetic presentation</p>	<p>TRANSFOND has implemented a risk management system based on its own Risk Management Methodology.</p> <p>The global risk tolerance policy stipulates that all risks must be monitored and evaluated by the Information Security and Risk Management Committee and by the TRANSFOND Board of Directors (at least annually and whenever necessary).</p> <p>The risks to which SENT participants are exposed are managed by SENT's System Rules. This document is publicly available on the TRANSFOND website.</p> <p>There are also emergency management procedures, these procedures being an integral part of TRANSFOND's Continuity Plan. By implementing the national currency payment guarantee scheme, participants are provided with collateral management information to enable them to analyse system-wide usage and ways to reduce settlement risk.</p> <p>The Risk Management System is periodically audited, both by internal and external auditors:</p> <p>The Risk Management Framework is reviewed periodically.</p> <p>To assess and control the risks to which the SENT system is exposed by its participants:</p> <ul style="list-style-type: none"> • each direct participant in the SENT system submits the self-assessment of compliance for the previous calendar year to the system administrator at the time of requesting entry into the SENT system and annually thereafter; • for critical participants, SENT's System Rules provide for the requirement for them to carry out, annually, a business continuity test, as well as to participate in the tests of business continuity organised by TRANSFOND.
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Principle 4: Credit Risk

An FMI should effectively measure, monitor and manage credit risk exposure to participants and those arising from payment, clearing and settlement processes. An FMI should maintain sufficient financial resources to fully cover credit risk exposures to each participant with a high degree of confidence. In addition, a CCP that is involved in activities with a more complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources sufficient to cover a wide range of possible stress scenarios that should include, but not be limited to, the default of the two largest participants and their affiliates, which could cause the CCP the largest aggregate credit risk exposures under extreme but plausible market conditions. All other CCPs should maintain, at least, the total financial resources sufficient to cover the payment incapacity of a participant and its affiliates that could cause the CCP the largest exposures to aggregate credit risk under extreme but plausible market conditions.

Synthetic presentation	<p>TRANSFOND has implemented a robust credit risk management framework, presented in SENT's System Rules.</p> <p>In the case of the CPM Lei and CPI Lei Components of the SENT system a unilateral security scheme is used, the guarantees being based on the responsibility of the participants. In the situation where, at the time of clearing, a direct settlement participant does not have sufficient available funds, the guarantees are automatically executed by the National Bank of Romania, as administrator of the ReGIS system.</p> <p>In the case of the CPM Lei Component of the SENT system, no security scheme is used; the procedure by which the credit risk is controlled consists of restoring the compensation, by removing from compensation the net debtor positions of the participants without sufficient liquidity available in the TARGET2-Romania system.</p> <p>The credit risk is managed based on the method of settlement in the ReGIS and TARGET2-Romania systems, according to the "all or nothing" principle, whereby the settlement of all net positions, debtors and creditors, is carried out simultaneously.</p> <p>TRANSFOND has no obligation to cover the net debtor positions of its participants if they do not have sufficient funds, so it was not necessary to implement additional control measures.</p> <p>SENT allows participants to continuously monitor processed transactions (including their status) and the net position of each participant is communicated to them before the net settlement instruction is sent for settlement.</p> <p>The system rules of SENT are revised whenever the framework of regulation and market conditions change.</p>
<p>Principle 5: <i>Guarantees</i> <i>An FMI that requires collateral to manage its credit exposure or that of its participants, should accept collateral with low credit, liquidity and market risk. An FMI should set and apply conservative haircuts and concentration limits appropriately.</i></p>	
Synthetic presentation	<p>For payment instructions in <i>lei</i> of the participants, all payment obligations of SENT participants are guaranteed. These funds/bets are blocked for the entire duration of the clearing session, until the settlement of the IDN instruction is completed. The rules for setting up guarantees are presented in the System Rules of the ReGIS and SaFIR systems (managed by the National Bank of Romania).</p> <p>For payment instructions in <i>euro</i>, no guarantee scheme has been implemented (unilateral or bilateral), the credit risk being controlled by the restoration of compensation.</p>
<p>Principle 7: <i>Liquidity risk</i> <i>An FMI should effectively measure, monitor and manage liquidity risk. An FMI should maintain sufficient liquid resources in all relevant currencies to settle payment obligations on the same day and, where appropriate, intraday and multi-day, with a high degree of confidence, in a wide range of possible stress scenarios which should include, but not be limited to, the default of the participant and its affiliates, which would generate the largest aggregate liquidity obligation for the FMI under extreme, but plausible market conditions.</i></p>	
Synthetic presentation	<p>The exposure of the SENT system to liquidity risk is managed according to the System Rules of SENT.</p> <p>At no time should the SENT system ensure the final settlement of the net positions of its participants from its own funds.</p> <p>The SENT system does not require the central bank to grant a line of credit.</p>

	<p>SENT incorporates extensive facilities for real-time monitoring of participants' technical accounts (sent and received instructions, net positions, guarantee limits, exposure limits and level of guarantees). The net positions calculated for each participant are communicated to them 15 minutes before the transmission for settlement of the IDN related to the CPM Lei and 30 minutes in the case of the IDN related to the CPM Euro. The System Rules of SENT explicitly define the obligations related to the settlement of all parties involved in each phase of processing.</p>
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Principle 8: Finality of settlement

An FMI should ensure a clear and secure final settlement, at least until the end of the currency date. Where necessary or preferred, an FMI should provide final settlement throughout the day or in real time.

Synthetic presentation	<p>The moment within a clearing session when the finality of the settlement takes place is the moment when the settlement service provider (National Bank of Romania for the <i>lei</i> currency and TARGET2-Romania for the <i>euro</i> currency) transfers the respective funds from/to the settlement accounts of the participants according to the settlement instruction sent by SENT. Each clearing cycle is completed with the settlement of net positions on the same day that the IDN was calculated, thus ensuring settlement by the end of the settlement day.</p> <p>SENT's System Rules clearly state that transactions cannot be revoked by a participant or a third party from the moment their status becomes "cleared".</p> <p>To ensure a high degree of legal certainty regarding settlement in all relevant jurisdictions, participants must provide TRANSFOND with (a) a legal opinion regarding the legal capacity of the institution to fulfil its obligations in accordance with the Rules of SENT system in force, (b) a legal opinion regarding the legislation of the country of origin (if the institution is outside of the European Economic Area) and (c) a copy of the company registration certificate from the state where the company was established.</p>
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Principle 9: Settlement of funds

An FMI should settle funds in central bank money where practical and available. If central bank money is not used, an FMI should reduce and strictly control the credit and liquidity risks arising from the use of commercial bank money.

Synthetic presentation	<p>The final settlement of the net positions calculated by the SENT system is carried out in the accounts managed by the central bank in the following systems:</p> <ul style="list-style-type: none"> • in the ReGIS system managed by the National Bank of Romania (using primarily the funds available from the participant's settlement account at the National Bank of Romania, then from the funds resulting from the execution of pledges made by the National Bank of Romania) - for settlement in <i>lei</i> currency; • in the TARGET2-Romania system, administered by the National Bank of Romania, in the participants' own accounts or in the accounts of other participants who concluded a settlement agreement with the SENT participant - for settlement in <i>euro</i> currency. <p>TRANSFOND does not perform settlement of accounts managed at its level. Being a system with multilateral settlement on a net basis, settlement of its clients' accounts (in the ReGIS or TARGET2-Romania systems) is performed simultaneously on all accounts.</p>
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Principle 13: Rules and procedures regarding the participant's inability to pay

An FMI should have effective and clearly defined rules and procedures to manage a participant's default. These rules and procedures should be designed to ensure that the FMI can take timely action to limit liquidity losses and pressures and to continue to fulfil its obligations.

Synthetic presentation	<p>SENT's System Rules clearly and explicitly define the rules and procedures applied in the event of a participant's inability to pay and allow this situation to be managed without affecting the system's ability to continue processing. The risk control measures implemented by TRANSFOND do not expose the SENT system to settlement risk (credit risk and liquidity risk) in the event of a participant's inability to pay.</p> <p>In the case of receiving an official notification regarding the opening of insolvency proceedings, the participant is suspended. If the suspension occurs during a clearing session, the net positions already calculated are settled in the ReGIS/TARGET2 - Romania systems according to the rules of these systems; instructions received after this time will be invalidated by the SENT system.</p>
<p>Principle 15: General Business Risk <i>An FMI should identify, monitor and manage general business risk and hold sufficient equity-financed net liquid assets to cover potential general business losses so that it can ensure continuity of operations and services if these losses materialize. Moreover, net liquid assets should at all times be sufficient to ensure recovery or coordinated performance of critical operations and services.</i></p>	
Synthetic presentation	<p>TRANSFOND has implemented its own risk management methodology. According to this methodology, TRANSFOND performs periodic risk analyses, the results of which are approved by the Risk Management and Information Security Committee and are presented to the TRANSFOND Board of Directors. All identified risks are registered in the Risk Register at TRANSFOND level.</p> <p>TRANSFOND has capital reserves intended to cover unexpected or excessively high expenses that may arise in stressful situations. These reserves include cash reserves that can cover operational expenses for at least six months of operation.</p> <p>Given its solid financial results, TRANSFOND has not deemed it necessary to develop a plan for recovery of activity or controlled closure of critical operations and services.</p>
<p>Principle 16: Custody and investment risks <i>An FMI should protect its own and participants' assets and minimize the risk of loss and delay in accessing these assets. FMI investments should be in instruments with minimal credit, market and liquidity risk.</i></p>	
Synthetic presentation	<p>TRANSFOND makes a clear separation between its own assets and those of its participants: (a) TRANSFOND does not manage any assets of its participants used as pledges and (b) TRANSFOND's own assets are not used within the guarantee scheme of the SENT system.</p> <p>Also, the financial placements of TRANSFOND are carried out in such a way that the associated credit, market and liquidity risks are reduced.</p>
<p>Principle 17: Operational risk <i>An FMI should identify plausible sources of operational risk, both internal and external, and mitigate their impact by using appropriate systems, policies, procedures and controls. Systems should be designed to ensure a high degree of security and safety in operation and should have adequate, scalable capacity. Business Continuity Management should aim for the rapid recovery of operations and the fulfilment of FMI obligations, including in the event of widespread or major disruptions.</i></p>	
Synthetic presentation	<p>Operational risk monitoring and management are key elements of TRANSFOND's risk management function. The risk management framework was designed to identify, monitor and manage all risks, including operational risks.</p> <p>The risk management process (risks and controls) is audited yearly both by the internal auditor and by the external auditors.</p>

	<p>TRANSFOND has established clear and explicit service quality levels, both with its suppliers and customers, these levels being constantly monitored. The availability of the SENT system has exceeded 99.9% every year since becoming operational.</p> <p>TRANSFOND has implemented an Information Security Policy that explicitly addresses confidentiality, integrity, availability, authenticity, traceability and access control. This policy is applicable to TRANSFOND, its customers and suppliers in accordance with the applicable roles and requirements. TRANSFOND has implemented an Information Security Management System (based on ISO 27001), which is certified by the Intertek certification services company under the UKAS logo since May 2014.</p> <p>TRANSFOND has a standby office (located more than 170 km away from the main office) that can take over the processing of payments in the event of the main office being unavailable. The PFMI requirements regarding the resumption of operations were considered when developing the TRANSFOND Business Continuity Plan.</p> <p>The Business Continuity Plan is reviewed and tested annually. Critical participants are involved (mandatory) in continuity tests organised by TRANSFOND.</p>
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Principle 18: Access and participation requirements

An FMI should have objective, risk-based and publicly available participation criteria that allow fair and open access.

Synthetic presentation	<p>TRANSFOND has made public the eligibility criteria for participating in the SENT system through the SENT System Rules, publicly available on the company's website. These criteria are based on operational, legal and financial aspects and have been harmonized with Directive 2015/2366/EC; these criteria do not constitute an element limiting access to the system.</p> <p>To assess and control the risks to which TRANSFOND is exposed by its clients, each direct participant must submit an annual self-assessment according to predetermined criteria.</p> <p>The review of access requirements is carried out according to the results of the annual risk analysis and relevant infrastructure changes.</p> <p>The procedures for suspending a participant are publicly available within the SENT System Rules.</p>
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Principle 19: Ways of participation structured on levels

An FMI should identify, monitor and manage the material risks to the FMI results from tiered participation.

Synthetic presentation	<p>TRANSFOND regularly reviews the risks related to tiered participation in terms of settlement risk (for non-settlement direct participants and indirect participants), legal and operational (the indirect participant's access to the system if its direct participant fails). These risks are continuously reviewed and addressed (ways to control and mitigate these risks have been identified) by the Information Security and Risk Management Committee.</p> <p>The risks generated by an indirect participant are addressed at the level of its direct participant (the direct participant undertakes to guarantee the payment obligations of its indirect participant). To effectively manage liquidity by the direct participant, it can define/monitor exposure limits for each of its indirect participants.</p>
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Principle 21: Efficiency and Effectiveness

An FMI should meet the requirements of its participants and the market it serves in an efficient and effective manner.

Synthetic presentation	<p>TRANSFOND is financial market infrastructure (FMI) owned by an important part of its clients (18 participants and the National Bank of Romania), which allows shareholders to directly formulate their needs regarding the processing of "retail" interbank payments. Both the initial design of the SENT system and all subsequent major developments were validated by the entire banking community prior to their implementation, including through the involvement of the Romanian Banks Association.</p> <p>The processing capacity of the SENT system has been rated according to the volumes recorded in the Romanian market and uses a scalable architecture.</p> <p>TRANSFOND uses several feedback mechanisms by participating in working groups at the level of the Romanian Banks Association, by receiving direct requests from customers, by involving its participants in testing major changes and by submitting annual customer satisfaction forms.</p> <p>Among the most important business priorities are the expansion of SEPA addressability and the creation of optional additional services, along with the sustained reduction of processing fees per transaction.</p> <p>SENT's objectives and service levels are defined in SENT's System Rules. The fulfilment of the objectives is permanently monitored according to the requirements of the quality management system. The Board of Directors of TRANSFOND receives semi-annual reports on efficiency and effectiveness in general and on the SENT system in particular.</p>
<p><i>Principle 22: Procedures and standards regarding communication</i> <i>An FMI should use, or at least adapt to, relevant internationally accepted communication procedures and standards to facilitate payment, clearing, efficient settlement and recording.</i></p>	
Synthetic presentation	<p>TRANSFOND is adapted to the interbank electronic payments market, allowing its participants to process payment instructions according to national and international standards. TRANSFOND also uses SWIFT communication procedures and BIC codes assigned by SWIFT to banking and financial institutions.</p> <p>The format used for payment instruments is either proprietary SENT (national credit transfers, debit instruments) or SEPA ISO 20022 (national and cross-border credit transfers, direct debits). Interoperability with other systems is based on the EACHA Interoperability Framework.</p>
<p><i>Principle 23: Publication of rules, key procedures and market information</i> <i>An FMI should have clear and complete rules and procedures and provide enough information to enable participants to have a fair understanding of the risks, fees and other material costs they incur by participating in the FMI. All relevant rules and key procedures should be made public.</i></p>	
Synthetic presentation	<p>SENT's System Rules are publicly available on TRANSFOND's website. These Rules describe the SENT system, its architecture and operation, as well as the rights and obligations of each participant in the system.</p> <p>All other documents (user manual, technical documents, contract forms) are confidential and are provided to applicants/participants based on signing a confidentiality agreement. The clarity and completeness of the Rules is assessed using the feedback mechanisms outlined in Principle 21.</p> <p>Participation and processing costs are presented in full in Annex 4 of the SENT System Rules; these rates are applied uniformly (no discounts are granted). The modification of commissions and tariffs can be carried out with the approval of the Board of Directors of TRANSFOND and with the opinion of the National Bank of Romania.</p>

	TRANSFOND has the right to send additional instructions to the SENT System Rules regarding the architecture and use of the SENT system and the obligations of the participants; these instructions are communicated to each participant at least 15 calendar days before the application date.
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V. List of publicly available resources

In addition to the information contained in this report, on TRANSFOND's website www.transfond.ro – the following information is available:

- Details regarding TRANSFOND shareholders, the Board of Directors, executive management, customers and partners;
- Description of services provided;
- System Rules of SENT;
- Annual reports and statistics;
- Press Releases.