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# TRADING SPECIFICATIONS

1. These Trading Specifications have been established on the basis of section 4.1.3 of the Member Rules of NASDAQ OMX Riga (hereinafter referred to as the Rules).
2. The purpose of these Trading Specifications is to specify the technical requirements and other specific requirements and criteria which are necessary in order to perform transactions in the Exchange trading system in accordance with the Rules of NASDAQ OMX Riga (hereinafter referred to as the Exchange).
3. Terminology used in the Trading Specifications corresponds with the terminology used in the Rules.
4. The following issues are regulated in the Trading Specifications:
  - 4.1 Exchange day structure and activities during the trading session (Annex 1);  
*(Annex 1 amended on January 19, 2010; Effective from February 8, 2010)*
  - 4.2 Opening call auction, closing call auction and equilibrium price (Annex 2);  
*(Annex 2 amended on January 19, 2010; Effective from February 8, 2010)*
  - 4.3 Order types, validity and priority (Annex 3);  
*(Annex 3 amended on January 19, 2010; Effective from February 8, 2010)*
  - 4.4 Rules for determining the volume weighted average spread in manual trades (Annex 4);
  - 4.5 Tick size, lot quantity, and Volatility Guard (Annex 5);  
*(amended on September 20, 2010; Effective from September 27, 2010)*
  - 4.6 The procedure and timeframe for releasing information about the manual trades (Annex 6);  
*(Annex 3 amended on January 19, 2010; Effective from February 8, 2010)*
  - 4.7 Thresholds for block trade (Annex 7);  
*(4.8. null and void from 1 November, 2007)*
  - 4.9 Minimum order sizes for market makers (Annex 9);
  - 4.10 Kinds and types of transaction (Annex 10);  
*(Annex 3 amended on January 19, 2010; Effective from February 8, 2010)*
  - (4.11. null and void from 1 November, 2007)*
  - 4.12 Determining of price for fixed-income instruments and determining of settlement amount of trades, executed on equity and fixed income markets (Annex 12);  
*(amended on November 10, 2010; Effective from November 22, 2010)*
  - 4.13 Rules on the procedures for initial placement and buybacks of Latvian government securities in the trading system of the Exchange (Annex 13);
  - 4.14 Calculation of average volume weighted price (Annex 14).  
*(amended on February 25, 2009; Effective from February 27, 2009)*

## Exchange day structure and activities during the trading session

The tables included in the present Annex lay down the structure, schedules for the trading day and the transactions, which are permitted in the Order Book in the respective time period, for each individual sub-market.

### I Equity market

#### Market segments: shares; fund units; issue instruments

Period	Period breakdown by transaction	Time	Transactions		
			Order management <sup>1</sup>	Automatic order matching	Manual trades <sup>4</sup>
<b>Pre-trading session</b>	<i>Period before opening call auction (Pre-Open)</i>	09:00-10:00	Yes	No	Yes
<b>Trading hours</b>	<i>Opening call auction (Uncross)</i>	10:00	Yes	Yes <sup>3</sup>	Yes
	<i>Continuous trading</i>	10:00-15:55	Yes	Yes	Yes
	<i>Period before closing auction (Pre-close)</i>	15:55:~16:00	Yes	No	Yes
	<i>Closing call auction (Uncross)</i>	Randomly picked by the system; between 15:59:30 and 16:00	Yes	Yes <sup>3</sup>	Yes
<b>Post-trading session</b>	<i>Post-trading session</i>	~16:00-16:30	Yes <sup>2</sup>	No	Yes
<b>Off-trade period</b>	<i>Off-trade period</i>	16:30 - 09:00	No	No	No

**Notes:**

„Yes” – transaction is permitted.

„No” – transaction is prohibited or technically restricted.

<sup>1</sup> – Order entering, modification, cancellation. Where the number of financial instruments in the order is reduced, the priority in the Order book is retained; any other modifications shall be done via cancelling the previous order and entering a new one, thus creating a new priority in the Order book.

<sup>2</sup> – Orders may be only cancelled, or modified without changing the quantity or price.

<sup>3</sup> – The auction starts simultaneously for all Order books of the sub-market. The uncross lasts a short time, usually a fraction of a second. A random uncross sequence for the Order Books is applied..

<sup>4</sup> – Manual trades with settlement period T+0 shall be reported during Trading hours by 14:00. Manual trades with settlement date T+0 reported after 14:00 will be cancelled.

## II Fixed - income market

### Market segment: RSE Bonds Automatch

Period	Time	Transactions				
		Order entering	Order modification	Order revocation	Order activation/ inactivation	Manual Trades <sup>1</sup>
Trading hours (TRAD)	10:00–16:00	Yes	Yes	Yes	Yes	Yes
Terminating of trading hours (TERM)	16:00–16:05	No	No	No	No	No
Post-trading session (POTR)	16:05–16:30	No	No	Yes	No	No
Off-trade period (CLSD)	16:30–10:00	No	No	No	No	No

### Market segment: RSE Bonds

Period	Time	Transactions			
		Order entering	Order modification	Order revocation	Manual trades <sup>1</sup>
Trading hours (INDIC)	10:00–16:00	Yes	Yes	Yes	Yes
Termination of trading hours (TERM)	16:00–16:30	No	No	No	No
Off-trade period (CLSD)	16:30–10:00	No	No	No	No

„Yes” – transaction is permitted.

„No” – transaction is prohibited or technically restricted.

<sup>1</sup> Manual trades with settlement period T+0 shall be reported during Trading hours by 14:00; Manual trades with settlement date T+0 reported after 14:00 will be cancelled.

## **Opening call auction, closing call auction and equilibrium price**

The Annex lays down the procedure for carrying out an opening call auction and closing call auction (hereinafter – collectively "Auction") and the principles for determining the equilibrium price.

1. Auction is applied only on the equity market and on its sub-markets.
2. The auction consists of two phases: order management and order matching (uncross).
3. In Call, all valid orders placed in the Order Book before the Call are automatically matched and executed at equilibrium price.
4. Equilibrium price is determined only in case when in the specific Order Book the highest buy price is higher or equal to the lowest sell price.
5. Equilibrium price is a price:
  - 5.1. that maximizes the number of shares at the time of the uncross to be executed;
  - 5.2. where more than one price exists under 5.1, the uncross shall occur at the price that minimizes any imbalance in the Order book;
  - 5.3. where more than one price exists under 5.2, the uncross shall occur at the price in the bid/ask orders with the highest quantity of equities;
  - 5.4. where more than one price exists under 5.3, the uncross shall occur at a price that is the average price between the highest price with positive imbalance and the lowest price with negative unbalance.
6. Procedure of execution of orders (priorities):
  - 6.1. at first, orders where the given price is equal or better than the equilibrium price are automatically matched, whereas the transaction price is the equilibrium price. In case of buy orders the best price is higher than the equilibrium price, and in case of sell orders the best price is lower than the equilibrium price;
  - 6.2. in case the same price has been given to several orders, the order, which is placed (reported) in the Order Book at an earlier time (FIFO), shall be executed (automatically matched) at first.
7. If the rules determining the validity of the order do not provide otherwise, the orders that were not matched during the opening call auction shall remain in the Order Book.

## Order types, validity and priority

This Annex lays down the types of transactions, which can be placed in the Exchange trading system, as well as the conditions of orders and the order matching priority principles:

### I Matching Priority

1. Orders in the Order Book will be matched according to the following priority:
  - 1) by price;
  - 2) by displayed volume: orders with displayed volume have a priority over non-displayed orders;
  - 3) by the time the order reached the Order book (time priority).

### II Order types, attributes and validity: equity market

#### 2. Order types

**2.1. Limit order** – a Limit order stipulates a maximum purchase price or minimum selling price. Order is executed either fully or partially by automatically matching it

A Limit order valid exclusively for Opening call auction (LOO) or Closing call auction (LOC) shall be admitted. A Limit order for Opening or Closing call auction shall mean an order to buy or sell at a specified price or better. The order shall be valid only till the close of the respective auction; when matched, it will be executed at the equilibrium price of the respective auction.

*(amended on November 10, 2010; Effective from November 22, 2010)*

**2.2. Market order (MKT)** – a market price is an order to sell or buy a financial instrument at the current market price during continuous trading (Trading Hours) with Time-in-Force condition Immediate-or-Cancel (IOC).

Where a Market order has been entered in the Order book before an Auction where orders are matched, the entered order is valid for the respective auction.

Order is executed only in case if full or partial execution of the order is possible, by automatically matching it. In case of partial execution of an order, the order for non-executed quantity is automatically cancelled.

It is possible to enter a Market order exclusively for an Opening Call Auction (MOO) or a Closing call auction (MOC). A Market order for Opening or Closing call auction shall mean an order to buy or sell at market price the volume specified in the order. The order shall be valid till the close of the respective auction; when matched, it will be executed at the equilibrium price of the respective auction.

At Opening or Closing call auctions, Market orders have a priority over Limit orders.

**2.3. Imbalance order (IOOP or IOOC)** - an order type that is executed at the equilibrium price during an Opening or Closing call auction. It is possible to enter an Imbalance order for an Opening Call auction (IOOP) or a Closing call auction (IOOC).

Imbalance orders shall not affect the equilibrium price and shall be executed only against the residual volume of financial instruments subsequent to the respective auction. Imbalance orders may not be crossed.

Imbalance orders have a lower priority compared to other order types. Internally, they are time-prioritized.

#### 3. Order attributes

**3.1. Reserve order/iceberg order** - an order where certain portion of the total volume of an order is not displayed in the Order Book. Both the displayed and non-displayed portions of the Reserve order are available for potential execution against incoming orders.

In case of the condition “With hidden quantity” for the order, the order is automatically added with the next provided quantity for execution (number of financial instruments) after the order quantity, which is shown in the Order Book, is fully executed (matched), and this added order loses its time priority for other orders placed with the same price.

3.2. **Minimum quantity order** – an order can be entered for execution with a minimum share quantity.

In case the only order attribute is „minimum quantity order”, i.e. it is not combined with any other order attribute, it is only accepted during continuous trading with a time in force IOC.

3.3. **Non-displayed order (Hidden order)** - orders are hidden from other participants than the participant entering it. To qualify as a Hidden order, the order has to be sufficiently large in scale to meet the Block transaction limits specified in Annex 7 of the Specifications. Where a Member enters or modifies a Hidden order with a volume falling short of the Block transaction limits, this order shall automatically acquire a Time-in-Force condition Immediate-or-Cancel (IOC) (by default) or will be rejected (by an option earlier specified by the Member). Where the volume in the order decreases as a result of partial execution and the remaining part is smaller than the limit set for block transactions, the order shall remain non-displayed for other market participants.

3.4. **Pegged order** – the order is priced relative to the current market price of the financial instrument. The price is pegged to the Best Bid Offer (BBO) (where the Pegged orders have not been taken into consideration) with an incremental difference (a tick) from the BBO. Pegged orders have their price automatically adjusted by the Trading System in response to changes in BBO prices, and a new timestamp is created for a pegged order each time it is automatically adjusted. A Pegged order may specify the highest permissible buying price or the lowest selling price beyond which the order shall not be executed (protection price); in case the order is executed in full or partially, there is no price disadvantage compared to the highest buying price or the lowest selling price.

The following types of Pegged orders are possible: primary peg – peg an order to the same side of the BBO of an Order Book, Market peg- peg an order to the opposite side of the BBO of an Order Book and Mid-point peg peg an order to the mid-point of the BBO of an Order Book.

Mid-point Pegged orders and BBO Pegged orders shall be entered to the system only as non-displayed (hidden) orders and thereby comply with all criteria set forth for this order type, including the order size that should correspond to the Block transaction limits laid out in Annex 7 of the Specifications.

#### 4. Order validity (Time in Force)

4.1. The orders to be entered in the Order book shall specify Time-in-Force – either till a specific time in the Trading session, till a certain date, or until certain conditions set in. The following types of validity may be used:

- 1) **Immediate or cancel**; IOC (also known as Fill and Kill (FAK) – Order is executed only in case if full or partial execution of the order is possible, by automatically matching it. In case of partial matching of an order, the order for unmatched quantity is automatically cancelled;
- 2) **Good till market close/ Day order** – the order is valid until the close of the Exchange trading session;
- 3) **Good till cancelled**; GTC – the order is valid until it is cancelled. If the order is left overnight, it will be inserted again in the order book the morning of the next Exchange day at the opening of the Trading Session. The GTC orders will retain their original chronological order based on original entry time into the Trading system.;
- 4) **Good till time**; GTT – the Order is valid until a specified time of the day it has been entered in the Order book.

In case validity term has been indicated in the order and the order has not been executed in full until such term, the order is automatically cancelled.

5. For more details on compatibility of individual order types and order attributes, their applicability to different periods in the Trading session and validity, please consult „NASDAQ OMX Nordic Market Model”.

### III Order types, attributes and validity: fixed income market

6. The terms in this chapter are used in the same meaning as in the previous chapter herein.

#### 7. Order types:

7.1. **Limit Order** - a Limit order stipulates a maximum purchase price or minimum selling price. Order is executed either fully or partially by automatically matching it.

7.2. **Linked order** – the linked order corresponds to a number of single orders with an exclusive OR-condition on the maximum volume level. When a trade takes place in one of the legs, the volume of the other legs will immediately be reduced proportionally (If one order is executed partially, the other(s) is decreased proportionally).

If one order is executed in full, the other(s) is cancelled. The maximum number of orders that can be linked is 5.

#### 8. Order attributes:

8.1. **Reserve order/iceberg order;**

8.2. **Fill or Kill (FoK)** – the order is executed only in case if full and immediate execution of the order is possible, by automatically matching it with one or several corresponding orders. The order is cancelled automatically if full and immediate matching is not possible.

8.3. **Fill and Kill (FaK)** - the order is executed only in case if immediate full or partial execution of the order is possible by automatic matching. Where an order is executed partially, the unmatched quantity of the order is cancelled automatically.

#### 9. Order validity (Time in Force):

9.1. **Good till market close/ Day order.**

### Determining of Volume Weighted Average Spread in Manual Trades

The Annex provides detailed rules for determining Volume Weighted Average Spread as well as gives an example of Volume Weighted Average Spread calculation.

1. For the purposes of Volume Weighted Average Spread calculation, volume weighted average buy price or volume weighted average sell price is the volume weighted average price at which a Member would be able to conclude a Trade of specified volume in the Order book (only buy or sell order volumes displayed in the Order book are used for calculations).
2. Volume Weighted Average Spread depends on the volume of the planned Manual Trade, against which the volume weighted average prices of buy and sell orders in the Order book are calculated.
3. An example of Volume Weighted Average Spread calculation:

Before Volume Weighted Average Spread was introduced, a Manual Trade of buying, e.g., 250,000 shares, depending on the Orders in the Order book, could be concluded within the price spread between LVL 109.75 and LVL 110.00.

Applying the Volume Weighted Average Spread, the same Manual Trade can be concluded within a wider price spread, i.e., LVL 109.49 and LVL 110.19.

Orders in the Order Book:

Number	Buy	Sell	Number
96200	109.75	110.00	121500
75800	109.50	110.25	67800
50000	109.25	110.50	55950
25000	109.00	110.75	23400
<u>20600</u>	<u>108.75</u>	<u>111.00</u>	<u>58800</u>
<b>267600</b>	<b>109.44</b>	<b>110.37</b>	<b>327450</b>

Calculation:

$$[(110.00 * 121,500) + (110.25 * 67,800) + (110.50 * 55,950) + (110.75 * 4,750)] / 250,000 = \underline{110.19}$$

$$[(109.75 * 96,200) + (109.50 * 75,800) + (109.25 * 50,000) + (109.00 * 25,000) + (108.75 * 3,000)] / 250,000 = \underline{109.49}$$

## Tick size, Lot quantity, and Volatility Guard

This Annex lays down the Tick size, Lot quantity and Volatility Guard.

### 1. Tick size

1.1. Tick size in the equity market (by exception for fund units), according to the currency in which the financial instrument is listed in the lists of the Exchange, is as follows:

- 1) 0.001 LVL;
- 2) 0.001 EUR;
- 3) 0.001 USD .

*(amended on November 10, 2010; Effective from November 22, 2010)*

1.2. Tick size in the sub-market of fund units, according to the currency in which the fund units are listed in the lists of the Exchange:

- 1) 0.0001 LVL;
- 2) 0.0001 EUR;
- 3) 0.0001 USD.

1.3. Tick size in the fixed-income market is 0.0001%.

### 2. Lot quantity

2.1. Lot quantity is 1 (one).

### 3. Volatility Guard

A Volatility Guard is an automatic trading pause and resumption process designed to restore an orderly market in a single order book. The Volatility Guards will be utilized if an order deviates too much in percentage from the last sale price (Dynamic Volatility Guard) or from the reference price, which is normally the day's opening price (Static Volatility Guard).

For more details on mechanism, thresholds, terms and other conditions of Volatility Guards, please consult „NASDAQ OMX Nordic Market Model”.

*(amended on September 20, 2010; Effective from September 27, 2010)*

### The procedure and timeframe for releasing information about Manual Trades

1. The information about Manual Trades is released in accordance with the Member Rules and the additional provisions set out in this Annex.
2. The information about Manual Trades that do not comply with the provisions of Item 3 of this Annex shall be released by the Member according to the below described procedure:

Time of Manual trade	Timeframe for information release
Trading hours	Immediately, but not later than 3 (three) minutes after concluding the Manual trade.
The period starting with 3 (three) minutes prior to the closure of the Trading hours (3 minutes prior the end of the Closing call auction) provided that it has been impossible to release the information on the Manual trade during the Trading hours.	During the Post-trading session, but not later than 3 (three) minutes after concluding the Manual trade.
Post-trading session	Immediately, but not later than 3 (three) minutes after concluding the Manual trade.
The period starting with 3 (three) minutes prior the closure of the Post-trading session provided that it has been impossible to release the information on the Manual trade during the Post-trading session.	Not later than in the Pre-trading session on the following Exchange day.
Off-trade	Not later than in the Pre-trading session on the following Exchange day.
Pre-trading session	Not later than before the opening of Trading hours.
The period starting with 3 (three) minutes prior the opening of Trading hours provided that it has been impossible to release the information on the Manual trade during the Pre-trading session.	Immediately, but not later than 3 (three) minutes after concluding the Manual trade.

Where a Manual Trade cannot be reported within the aforementioned time limits due to technical disruptions in the Member's Technical Equipment, the information on Manual trades shall be reported as soon as the technical impediment has ceased. A Member shall, without delay, notify the Exchange on any obstacles to timely report of the information on concluded Manual trades.

3. A Member may delay the release information about the Manual Trade, provided it has been concluded with the Member's client and the volume corresponds to the volumes specified in EC Regulation No. 1287/2006 (Table 4), however, observing the timeframe specified by the Regulation.

### **Block transaction limits**

Block transaction limits depend on the average daily turnover of the share in question and is set according to the provisions of EC Regulation No. 1287/2006 about large transactions compared to the standard market size. Information on Block transaction limits is available on the Exchange trading system.

### **Minimum order sizes for Market makers**

The minimal quantity of financial instruments in the Market makers' orders shall be set by the Exchange simultaneously with the decision to include the respective financial instrument in the Liquidity Providing program.

The Exchange may change the quantities by notifying the Members at least 1 (one) month in advance.

The Exchange shall post on its website the information about the minimal quantity of financial instruments in the Market maker's orders.

### Kinds and Types of Manual Trades

This Annex defines the kinds and types of Manual Trades, and the periods when the respective kind of trade may be used in the Trading system, as well as procedure for conducting individual types of trades.

#### 1. Kinds of Manual Trades:

Kind of Manual trade	Name in the Trading system	Description
Standard	<i>Standard Trade</i>	A Manual Trade that has been concluded in compliance to standard requirements with regard to price, time and settlement. Trades below the Block transaction limits have to be made within the volume weighted average spread. Where it is impossible to establish volume weighted average spread, the Manual trade shall be executed at a price that reflects the current market value.
Non-Standard	<i>The types are described in the Tables under Items 2 and 3 of this Annex</i>	A Manual Trade that, due to reasonable circumstances, is being concluded at a price that does not correspond to the current market value or at a price that has not been set within the respective price spread if the spread would be applicable in a standard situation

#### 2. Types of Non-Standard Manual Trades: equity market

Type of Non-Standard trade	Description
Derivative related transaction	Manual Trade or transfer related to derivative contract execution or expiry, requiring a swap or trade of financial instruments.
Portfolio Trade	Manual Trade with more than one financial instrument provided these instruments are grouped and traded as a portfolio at a specified reference price.
Volume weighted average price transaction	Manual Trade that has been concluded as result of executing more than one order, and the settlement is at volume weighted average price
Exchange Granted trade	Other type of Non-standard Manual Trade (not listed in this Table). A Member shall obtain an approval from the Exchange prior to registering other type of trade in the Trading System.

### 3. Types of Non-Standard Manual trades: fixed income market

Type of Non-Standard trade	Name in the Trading system	Description
Derivative related transaction	<i>OX Exchange granted trade (XGRT)</i>	Manual Trade or transfer related to derivative contract execution or expiry, requiring a swap or trade of financial instruments.
Portfolio Trade	<i>OX Exchange granted trade (XGRT)</i>	Manual Trade with more than one financial instrument provided these instruments are grouped and traded as a portfolio at a specified reference price.
Volume weighted average price transaction	<i>OX Exchange granted trade (XGRT)</i>	Manual Trade that has been concluded as result of executing more that one order, and the settlement is at volume weighted average price.
Repurchase agreement	<i>OX Exchange granted trade (XGRT)</i>	Manual Trade related to execution of an agreement regarding borrowing and returning of financial instruments.
Non-standard settlement	<i>OX Exchange granted trade (XGRT)</i>	Manual Trade with settlement period other than standard settlement cycle T+3.
Exchange Granted trade	<i>OX Exchange granted trade (XGRT)</i>	Other type of Non-standard Manual Trade (not listed in this Table). A Member shall obtain an approval from the Exchange prior to registering other type of trade in the Trading System..

4. In case the terms and conditions of the Manual Trade do not correspond to the ones in the notification submitted to the Exchange, the Exchange is entitled to cancel the trade, modify the kind of transaction or request the Member to make the necessary modifications, as well as exclude the trade from the transactions on which the calculation of Last Paid Price is based.
5. Where a Member has concluded a Non-standard Manual Trade, the Member shall, upon the Exchange's request, supply the reasons justifying the choice of the said type of trade.
6. Standard Manual trades where the information has been released during Trading hours and the price is within the volume weighted average spread at that particular moment shall have an effect on Last Paid Price.

### **Determining of price for fixed-income instruments and determining of settlement amount of trades, executed on equity and fixed income markets**

These Specifications define the principles for order entry and determining of price of order for fixed-income instruments and determining settlement amount of trades executed on equity and fixed income markets.

1. Placing orders or registering a transaction with fixed income instruments in the fixed income market segment with no automatch (the order book is linked to market segment **RSE Bonds**), the principles to be followed are:
  - 1.1. In orders placed in the Order Book, “dirty price” (price with accrued interest) is indicated. Price is indicated in percentage of the nominal value.
  - 1.2. For fixed income financial instruments the nominal amount (number of financial instruments multiplied with nominal value) is entered in the orders.
  - 1.3. The settlement amount is calculated by multiplying the “dirty price” with the nominal amount in the order. Settlement amount of the trade shall be rounded to 2 digits after the decimal point, applying the decimal arithmetic rounding rules.
2. Placing orders or registering a transaction with fixed income instruments in the fixed income automatch market segment (the order book is linked to market segment **RSE Bonds Automatch**), the principles to be followed are:
  - 2.1. Yield to maturity is to be indicated in the orders (also for short-term debt securities).

The trading system provides the calculated (for information purposes only) “clean price” (in percentage, excluding accrued income) corresponding to the yield, for the following financial instruments: short-term debt securities, long-term debt securities for which ACT/ACT yield – price calculation methodology is applied; long-term debt securities with coupon payment once per year for which 30E/360 price calculation methodology is applied.
  - 2.2. Automatch functions in the market (orders are matched according to the indicated yield).
  - 2.3. For fixed income financial instruments the nominal amount (number of financial instruments multiplied with nominal value) is entered in the orders.
  - 2.4. The settlement amount is calculated by multiplying the “dirty price” with the nominal amount in the order. Settlement amount of the trade shall be rounded to 2 digits after the decimal point, applying the decimal arithmetic rounding rules.
  - 2.5. Accrued interest is rounded to 6 digits after the decimal point.
3. The settlement amount of trades executed on equity market is calculated by multiplying the price with the amount in the order. Settlement amount of the trade shall be rounded to 2 digits after the decimal point, applying the decimal arithmetic rounding rules.

AUTHORISED  
Treasurer

I. Krūmane  
29.06.2005

**RULES ON THE PROCEDURES FOR INITIAL PLACEMENT AND BUYBACKS OF LATVIAN  
GOVERNMENT SECURITIES IN THE TRADING SYSTEM OF NASDAQ OMX Riga**

“Rules on the procedures for initial placement and buybacks of Latvian government securities in the trading system of NASDAQ OMX Riga” (hereinafter – rules) establish the procedures for initial placement of Latvian government securities in competitive multi-price auctions, fixed-rate (non-competitive) auctions and in tap issues of government securities, and the procedures for buybacks of Latvian government securities in the trading system of NASDAQ OMX Riga (hereinafter – Exchange). These procedures have been drafted with due respect to the regulations of the Cabinet of Ministers “Regulation on Issuing Government Securities” (2005.05.31 No.387) and according to provisions of the agreement made by and between Riga Stock Exchange and the Treasury. Initial placement of government securities in Latvia is subject to these regulations and other regulatory acts on government securities in force in the Republic of Latvia.

(amended on February 25, 2009. effective from February 27, 2009)

**1. USED TERMS**

1.1. Member of the Exchange – a legal entity registered in the Republic of Latvia or a foreign legal entity which in according to the Exchange rules obtains the member status of the Exchange

(amended on February 25, 2009. effective from February 27, 2009)

1.2. Latvian government securities (hereinafter securities) – Latvian government T-bills and Latvian government T-bonds.

(amended on January 5, 2009. effective from February 2, 2009)

1.3. T-bills – securities with a maturity of up to one year inclusive issued at a discount and redeemed according to their nominal amount at maturity.

1.4. T-bonds – securities with a maturity exceeding one year issued at a fixed income rate and redeemed according to their nominal amount at maturity.

1.5. Nominal amount – set value of a security paid up at the maturity date.

1.6. Discount – the difference between the nominal amount of the security and the price of the security, should the price of the security be lower than the nominal amount of the security.

1.7. Price – the value of the security, for which the calculation procedure is laid down by these rules

1.8. Fixed income – fixed revenue from securities appointed at initial placement of securities, undertaken by the government to pay on the dates fixed by the Treasury directive.

1.9. Bid – a binding offer to buy or sell an indicated number of securities

1.10. Competitive multi-price auction (hereinafter competitive auction) – a method of initial placement or buybacks of securities, where securities are auctioned/bought back at competitive rates bid by members of the Exchange. According to these rules, the bidder shall indicate the security interest rate in the bid.

- 1.11. Maximum allowable interest rate – a security interest rate fixed by the Treasury above which bids submitted to competitive auction at the initial placement are not satisfied.
- 1.12. Minimum allowable interest rate – a security interest rate fixed by the Treasury below which bids submitted to the Treasury in case of security buybacks are not satisfied.
- 1.13. Fixed-rate (non-competitive) auction (hereinafter in the text – non-competitive auction) – a method of initial placement of securities where securities are auctioned at an initially fixed security interest rate or fixed income rate (for T-bonds). The interest rate of the securities shall be set according to the interest rate fixed for these securities at the most recent competitive auction announced by the Treasury.
- 1.14. Method of tap issues – a method of initial placement of securities where the State Treasury through the trading system of the Exchange makes a direct offer for members of the Exchange to purchase securities at an interest rate fixed at discretion by the State Treasury and, in case of initial placement of a new issue of T-bonds, sets the fixed income rate for this issue.  
(amended on February 25, 2009. effective from February 27, 2009)
- 1.15. Method of direct buybacks – buybacks by State Treasury where the State Treasury through the trading system of the Exchange makes a direct offer for members of the Exchange to sell back to the State Treasury an issue of securities in circulation at an interest rate fixed at discretion of the State Treasury.  
(amended on February 25, 2009. effective from February 27, 2009)
- 1.16. Total nominal amount – the sum total of nominal amounts of securities which is an aliquot part of the minimum amount transacted of a respective securities issue.
- 1.17. Minimum amount of purchase – unit of minimum total nominal amount set by State Treasury which a member of the Treasury can offer at an auction and which cannot be divided.
- 1.18. Transaction – a transaction performed with securities in a competitive multi-price auction or a fixed-rate (non-competitive) auction and tap issues of securities, as well as buying back or redeeming securities before the maturity date, which is made or registered in the trading system of the Exchange according to the procedures set by the Exchange.  
(amended on February 25, 2009. effective from February 27, 2009)
- 1.19. ISIN code – an internationally recognized identification number of financial instruments (International Securities Identification Number), allocated for any total of replaceable financial instruments – financial instruments of identical characteristics issued by the same issuer.

## 2. GENERAL PROVISIONS

- 2.1. Securities are issued by the Ministry of Finance and their initial placement is carried out by the State Treasury. Initial placement of securities with mediation of the Exchange is carried out, using the trading system of the Exchange in accordance with the agreement concluded between the State Treasury and the Exchange. The dates of initial placement and settlement of the securities and the characteristics of security issues shall be set in separate directives of the State Treasury.  
(amended on February 25, 2009. effective from February 27, 2009)
- 2.2. Within the framework of initial placement and buybacks of securities, the Exchange shall carry out the following functions:
- 2.2.1 to ensure information technologies required for the process of initial placement and buybacks;
  - 2.2.1 to electronically forward to members of the Exchange and, upon receiving a respective request, to the State Treasury information about the results of the initial placement of securities and to publish the necessary information on the Reuters media as well as ensure availability of the information on the Exchange homepage.
  - 2.2.3 to submit to LCD for execution settlement orders on transactions with securities on initial placement or buybacks of securities;
  - 2.2.4 to perform other functions envisaged in agreements concluded between the State Treasury and the Exchange on co-operation on initial placement of securities;

2.2.5 ensure that the Member has access, via Trading system the information on the transactions executed during the respective auction or buyback, except for the information about the transaction parties. Irrespective of the above, Member is able to identify own transactions in the Trading system.

2.3. The State Treasury shall confirm results of the initial placement of securities, examine claims and other cases and make other decisions in the course of initial placement of securities.

2.4. Settlements on transactions with securities in cases of initial placement and buybacks of securities and when acting according to provisions on financial instruments applying to securities shall be performed according to Latvian Central Depository Regulation No 13 „On Financial Operations with Latvian Government Securities”.

2.5. Members of the Exchange shall pay a commission fee once a month for participation in competitive and non-competitive auctions, as well as for purchase of securities at tap issues, according the size specified in the enforcement note "On Fees for Services Provided by the RSE". Members of the Exchange shall pay the invoices within 5 (five) days after the date when they are written.

### 3. INITIAL PLACEMENT OF SECURITIES IN A COMPETITIVE AUCTION

3.1. Placement of securities in a competitive auction shall be carried out in accordance with a directive from the State Treasury. A separate competitive auction shall be organized for each issue of securities. One or more competitive auctions can take place on the same day. Competitive councils are closed, unless the directives from the State Treasury indicate otherwise.

3.2. The total nominal amount which has not been sold on a competitive auction can be repeatedly auctioned at a competitive auction or sold in tap issues, the amount of a circulating issue of securities can be increased on an additional auction or through tap issues.

3.3. The Treasury shall forward a respective directive about issue indicating the date and the time of start of each competitive auction, the ISIN code of securities, their nominal amount, amount of issue, date of settlement, date of redemption, the dates of fixed income payments on T-bonds and other information, should that be necessary. The Treasury shall forward the information mentioned in this paragraph no later than four working days, or in cases, when the Treasury is unable to meet previously set deadline taking into account extraordinary circumstances, no later than at 10:00 at the previous working day prior to each competitive auction. At the same time the State Treasury shall ensure availability of the indicated information on the homepage of the State Treasury.

(amended on May 28, 2009. effective from June 1, 2009)

3.4. Without delay, but no longer than within one working day from receipt of the State Treasury directive indicated under section 3.3, the Exchange shall forward to the members of the Exchange the said information in electronic format, as well as publish it on Reuters media and ensure availability of the information on the State Treasury homepage.

3.5. A competitive auction shall take place should at least one member of the Exchange have applied for it.

3.6. To participate in a competitive auction, a member of the Exchange shall submit at least one bid to the trading system of the Exchange on the date of the competitive auction by the time appointed by the State Treasury. All bids submitted to the competitive auction can be amended or revoked before the starting time set by the State Treasury.

3.7. A member of the Exchange shall take part on a competitive auction with one or several bids, indicating the ISIN code and the total nominal amount to be purchased for each bid and the respective corresponding promised interest rate of the security. The interest rate increment promised in the bid shall be 0.001 per cent. The total nominal amount of securities contained in a Exchange member's bids shall not exceed the total nominal amount of securities offered by the State Treasury at the respective competitive auction.

(amended on January 5, 2009. effective from February 2, 2009)

- 3.8. Bids of a competitive auction shall be satisfied starting from the lowest promised interest rate within the margins of the amount of securities issue fixed by the State Treasury and the maximum permissible interest rate.
- 3.9. In cases where it is impossible to fully satisfy the bid of the competitive auction, it shall be satisfied within the range of the unauctioned total nominal amount.
- 3.10. In case if there are several competitive auction bids with equal interest rates promised by members of the Exchange which cannot be fully satisfied, they will be satisfied in proportion to the total nominal amount indicated in the bid, taking into account the amount of issue of securities and the minimum amount of purchase. Should an total nominal amount of securities remain unallocated after this process, it shall be allocated to the member of the Exchange whose bid had indicated the largest total nominal amount of securities. In case if an identical total nominal amount of securities has been indicated in two or more bids, the remaining total nominal amount shall be allocated to one of these members of the Exchange, according to principle of randomness generated by the trading system of the Exchange.
- 3.11. Over the course of the competitive auction the Exchange shall draft a total of results of the auction in an electronic format which shall be published before the end of the day of the competitive auction in the Reuters media and availability of the information shall be ensured on the homepage of the Exchange and transferred to the State Treasury after receipt of a separate demand from it.

#### 4. INITIAL PLACEMENT OF SECURITIES IN A NON-COMPETITIVE AUCTION

- 4.1. Placement of securities in a non-competitive auction shall be carried out in accordance with directives from the State Treasury. A separate non-competitive auction shall be organized for each issue of securities. One or more non-competitive auctions can take place in one day. Non-competitive auctions shall be closed, unless the directives from the State Treasury state otherwise.
- 4.2. The State Treasury shall electronically forward a respective directive to the Exchange about issue of securities, indicating the date and start time of the non-competitive auction, the ISIN Code of the securities, their nominal amount, amount of issue, date of settlement, date of redemption, dates of fixed revenue payment for the T-bonds and, if necessary, providing other information. The Treasury shall forward the information mentioned in this paragraph no later than four working days, or in cases, when the Treasury is unable to meet previously set deadline taking into account extraordinary circumstances, no later than at 10:00 at the previous working day prior to each competitive auction. The State Treasury shall at the same time ensure availability of the indicated information on the Treasury homepage.  
(amended on May 28, 2009. effective from June 1, 2009)
- 4.3. The Exchange shall forward the indicated information to members of the Exchange immediately, but not later than within one working day since receipt of the State Treasury directives indicated under section 4.2 of these Rules, as well as publish it on the Reuters media and ensure availability of the information on the homepage of the Exchange.  
(amended on May 28, 2009. effective from June 1, 2009)
- 4.4. One working day before each non-competitive auction the Exchange shall notify members of the Exchange in electronic format about the interest rate and fixed income rate for the issue of securities to be auctioned at the non-competitive auction, as well as publish these on the Reuters media and ensure availability of the information on the homepage of the Exchange
- 4.5. A non-competitive auction shall take place if at least one member of the Exchange has applied for it.
- 4.6. In order to participate in a non-competitive auction, on the date of a non-competitive auction a member of the Exchange shall submit at least one bid to the trading system of the Exchange until the time fixed by the State Treasury. All bids submitted for non-competitive auction can be modified or cancelled before the deadline set by the State Treasury.
- 4.7. A member of the Exchange shall participate in a non-competitive auction with one or several bids, indicating on each bid the ISIN code, the interest rate fixed by the State Treasury and the total nominal amount. The total

nominal amount of securities contained in a Exchange member's bids shall not exceed the total nominal amount of securities offered by the State Treasury at the respective non-competitive auction.

- 4.8. In a non-competitive auction bids shall be satisfied in proportion to the total nominal amounts of securities indicated in the bid. Should a total nominal amount of securities remain unallocated after this process, it shall be allocated to the member of the Exchange whose bid had indicated the largest total nominal amount of securities. In case if an identical total nominal amount of securities has been indicated in two or more bids, the remaining total nominal amount shall be allocated to one of these members of the Exchange, according to principle of randomness generated by the trading system of the Exchange
- 4.9. Over the course of a non-competitive auction the Exchange shall prepare a summary of results of the auction, publish this information in the Reuters media by the end of the day of non-competitive auction, ensure its availability on the homepage of the Exchange and send it to the State Treasury on receipt of a separate demand from the Treasury.

## 5. INITIAL PLACEMENT OF SECURITIES AT TAP ISSUES

- 5.1. Placement of securities at tap issues shall be made according to directives from the State Treasury. One or several issues of securities can be placed in tap issues on one day.
- 5.2. The Treasury shall send respective directives about issue of securities no later than on the date of tap issues of the securities or in case of a new issue of securities, no later than one working day before tap issues of the securities by 13.00, send respective directives on issue of securities to the Exchange, indicating the date of tap issues, the ISIN code of securities, their nominal amount, yield, date of settlement, date of redemption, dates of payment of fixed income from T-bonds and indicate other information, should that be necessary. At the same time the State Treasury shall ensure availability of the indicated information on the homepage of the Treasury.

(amended on May 28, 2009. effective from June 1, 2009)

- 5.3. Upon receipt of the State Treasury directives indicated under section 5.2, the Exchange immediately, but not later than until 10:00 at the day of tap issue, shall forward electronically that information to the members of the Exchange, as well as publish these on the Reuters media and ensure availability of the information on the homepage of the Exchange

(amended on May 28, 2009. effective from June 1, 2009)

- 5.4. In order to take place in tap issues of the securities, each member of the Exchange shall submit to the Exchange trading system a bid for purchase of securities. All bids submitted for tap issues are irrevocable and unchangeable.
- 5.5. Members of the Exchange shall take part in tap issues with one or several bids, with the ISIN code, yield specified by The Treasury and total nominal amount indicated on them.

(amended on May 28, 2009. effective from June 1, 2009)

- 5.6. The bids on tap issues of securities submitted by members of the Exchange shall be executed in the rank of their submission, taking into account minimum amounts of purchase.
- 5.7. After execution of bids for tap issues of securities the Exchange shall draft a summary of results of the tap issues, which shall be published in the Reuters media by the end of the day of tap issues of securities and availability of information shall be ensured on the homepage of the Exchange, as well as, on receipt of a separate demand from the State Treasury, sent to the State Treasury.

## 6. BUYBACKS OF SECURITIES

- 6.1. Full or partial buybacks of securities with an objective of redemption of this issue of securities before maturity shall be carried out in accordance with the directives of the State Treasury. Buybacks of securities can be made by using competitive multi-price auctions or methods of direct buybacks.

- 6.2. The Treasury shall electronically forward appropriate directives about buybacks and pre-maturity redemption of securities to the Exchange, indicating the date of buybacks of securities, the ISIN code of the securities, their nominal amount, amount of buybacks and pre-maturity redemption, the date of settlement, the date of and pre-maturity redemption of securities and other information if necessary no later than ten days before buybacks of securities in a competitive multi-price auction or no later than a day before the date of buybacks. At the same time the State Treasury shall ensure availability of the indicated information on the homepage of the Treasury. The Exchange shall ensure further distribution of the information about buybacks and redemptions pursuant to the provisions of sections 3 and 5 of the present rules.
- 6.3. Carrying out buybacks of securities, a member of the Exchange shall submit to the Exchange trading system at least one bid for buybacks of securities by the deadline appointed by the State Treasury.
- 6.4. In case of a competitive multi-price auction a member of the Exchange shall indicate in each bid the ISIN code for securities to be sold and the total nominal amount as well as the offered interest rate. The yield increment on the security offered in the bid shall be 0.001 percent point. It is possible to amend or revoke the bids submitted to the competitive multi-price auction by the deadline indicated by the State Treasury.
- 6.5. In case of direct buybacks of securities a member of the Exchange shall indicate the ISIN code and the total nominal amount of the securities to be sold. The bids submitted for direct buybacks are irrevocable and unchangeable.
- 6.6. In a competitive multi-price auction the bids shall be satisfied starting from the highest offered interest rate within the amount of buybacks of securities appointed by the State Treasury. The State Treasury shall have the right to appoint the minimum permissible interest rate of securities buybacks. In case of several bids for competitive multi-price competition with identical interest rates offered by members of the Exchange which cannot be fully met, these shall be satisfied in proportion to the total nominal amount indicated in the bid, taking into account the amount of issue of securities and the minimum amount of buybacks. Should a total nominal amount of securities remain not bought back after this process, this amount shall be bought back from the member of the Exchange with the largest total nominal amount of securities indicated on the bid. In case if an identical total nominal amount of securities has been indicated in two or more bids, the remaining of nominal amounts of securities shall be bought back from one of these members of the Exchange, according to principle of randomness generated by the trading system of the Exchange
- 6.7. Bids submitted for direct buybacks of securities shall be satisfied in the order of submission

## 7. LIABILITES FOR FAILURE TO PERFORM ON OBLIGATIONS

- 7.1. Should on the date of settlement of securities by 10.00 a member of the Exchange fail to secure a sufficient amount of funds on the respective account of the bank of Latvia or has failed to ensure the necessary volume of securities on the securities account at the Central Depository of Latvia (in case of buybacks of securities), the Exchange according to the information provided in the demand of the State Treasury shall charge a penalty of Ls 70 and 0.5 % of the total nominal amount of securities promised to buy by the member of the Exchange for the respective auction or tap issues/buybacks. The member of the Exchange shall pay up the penalties to the Exchange within 10 days after receipt of a respective invoice from the Exchange by transfer of funds to the Exchange account indicated on the invoice. After receipt of the invoice the Exchange shall transfer the received funds to the State Treasury in accordance to agreements concluded between the State Treasury and the Exchange on co-operation on initial placement of securities, buybacks and pre-maturity redemption of securities.
- 7.2. The member of the Exchange shall pay a penalty in the amount of 0.5 % from the outstanding amount for each day in arrears for failure to observe the commission fee payment deadline indicated under section 2.5. Payment of the penalty will not liberate a member of the Exchange from the obligation to perform on obligations.

## 8. CALCULATION OF GOVERNMENT SECURITIES PRICE, ACCRUED PROFIT, FIXED INCOME AND INTEREST RATE

- 8.1. According to the International Securities Market Association (ISMA) the standard annual basis for calculation of price and profit for short-term T-bills is Act/360, that means that the actual number of days is used for

calculation with 360 days as the basis. The annual basis for calculation of prices for mid-term and long-term T-bonds, accrued profits, fixed income and profit is Act/Act, meaning that the actual number of days is used in the calculation, using the actual number of days in a year as the basis. In case of additional and/or repeated issues the previous 30E/360 annual base standard will be applied on mid-term and long-term T-bonds, the issues of which were initially put in circulation before 1 July 2005, meaning that each calendar month shall be regarded as 1/12 of 360 days in the year and the period of 30 days and the time period from a specific date of a month until the same date of the following month shall be regarded to constitute 30 days.

8.2. The following conditions shall be taken into account when calculating the price, interest rate, accrued profit, and fixed revenue on mid-term and long-term T-bonds:

8.2.1. The amount of fixed income payment is calculated for a nominal value, rounding it up to six decimal fractions and multiplying by the number of securities. The total amount of payment of fixed income payment shall be rounded up to two decimal signs after the mark.

8.2.2. The purchase price is calculated for a nominal value, rounding it up to six decimal fractions and multiplying by the number of securities. The total amount of payment of fixed income payment shall be rounded up to two decimal signs after the mark.

8.2.3. In case of repeated or additional issue of mid-term or long-term T-bonds in circulation the accrued profit shall be added to the purchase price of mid-term or long-term T-bonds.

8.2.4. In case of repeated or additional issue of mid-term or long-term T-bonds in circulation the fixed income rate from the first issue of these mid-term or long-term T-bonds shall remain without change.  
(amended on January 5, 2009. effective from February 2, 2009)

8.3 Methods for securities price calculation.

8.3.1. Method for calculation of price for short-term T-bills:

$P = Nv * (1 - d * r / 360)$ , where

P – price of the security;  
Nv – nominal value of the security  
d – discount rate in decimal fractions;  
r – the number of actual days till redemption;

8.3.2. The method for calculation of price for fixed-rate mid-term and long-term T-bonds appointed according to ISMA (International Securities Market Association) standard shall be as follows:

Total price of the bond  $K=P+Ac$ , where

$$P = \sum_{i=1}^n \frac{CF_i}{(1 + Y / Fq)^{Li}} \text{ where}$$

P – price of medium-term or long-term T-bonds net of accrued income (net price);  
n - the number of coupon payments by State Treasury till maturity;  
CF<sub>i</sub> – the amount paid by the State Treasury at the end of the i-th period of each payment;  
Y – yield to maturity in decimal fractions;  
Fq – number (frequency) of fixed income payments per annum;  
Li – the number of fixed-income periods until the date of calculation of the fixed income at the end of the i-th period:

$$Li = t - m / k$$

$$Ac = \frac{N * Fi * m}{Fq * k}, \text{ where}$$

Ac – accrued income;

N – the nominal value of one security;

Fi – fixed annual income rate in decimal fractions;

m – the number of the actual days for which the accrued income is calculated;

k – the actual number of days over the period of coupon where the date of accrued profit calculation falls;

t – number of fixed income payments till the State Treasury payment at the end of the i-th period.

#### 8.4 Methods of interest rate calculation for the securities.

8.4.1. For short-term T-bills with period of redemption not exceeding twelve months:

$$i = \frac{Nv - P}{P} * \frac{360}{r}, \text{ where}$$

Nv – nominal value of the security

i – interest rate in decimal fractions;

P – price of the security

r – the number of actual days till redemption.

8.4.2. The accrued profit shall be calculated from the last date of fixed income settlement or the date of settlement of the initial issue (included) until the date of settlement of repeated or additional issue of the same mid-term or long-term T-bonds (not included).

## 9. FINAL PROVISIONS

9.1. These procedures shall take effect as of 1 July 2005.

9.2. Should amendments be made to this procedure, they shall take effect after receiving approval from the State Treasury according to the procedures stated by the Exchange Member and Trading Rules.

(amended on February 25, 2009. effective from February 27, 2009)

### Calculation of average volume weighted price

This Annex describes the methodology for calculation of average volume weighted price for the financial instruments listed on the exchange.

1. Average volume weighted price is calculated by dividing the total trading volume in the respective period with the number of traded financial instruments in the same period, i.e., according to formula:

$$P_v = \frac{\sum_{i=1}^n (P_i \cdot Q_i)}{\sum_{i=1}^n Q_i}, \text{ where:}$$

$P_v$  – average volume weighted price of a financial instrument in the period;

$P_i$  – price of a financial instrument in the trade;

$Q_i$  – number of financial instruments in the trade;

$n$  – number of trades in the same period.

2. The result is rounded to two decimal points.

3. The calculation of average volume weighted price is based on the following trades:

- Before October 31, 2007 - automatically matched trades (*AUTO*) and reported manual trades (*CTNO*) during the trading hours, except for block trades (*CTBL*);
- As of November 1, 2007 – automatically matched trades (*AUTO*) and reported Standard manual trades (*STND*) during the Trading hours, that affect the Last Paid Price.