

DECLARATION OF CONFORMITY FOR INDICES IN THE PX GROUP

pursuant to Section 26 (3) of Regulation (EU) 2016/1011

A. GENERAL INFORMATION

- (1) Date of declaration: 14. 11. 2019
Date of last update: 09. 03. 2020
- (2) Administrator's name: Prague Stock Exchange

B. DECLARATION

The administrator, the Prague Stock Exchange, has decided not to apply the following provisions of Regulation (EU) 2016/2011¹ for the following non-significant benchmarks:

(1) Non-significant benchmarks, to which the provisions do not apply:	<ul style="list-style-type: none"> - PX (ISIN: XC0009698371) - PX GLOB (ISIN: CZ0160000001) - PX TR (ISIN: CZ0160000019) - PX-TRnet (ISIN: CZ0160000027) - any other indices in the PX family
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(2) The provisions of Regulation (EU) 2016/1011 which are not used for these benchmarks and the reason why it is appropriate for the administrator to not comply with these provisions	
Provision of Regulation (EU) 2016/1011	Reason for not being used
Article 4 (8): <i>“An administrator shall establish specific internal control procedures to ensure the integrity and reliability of the employee or person determining the benchmark, including at least internal sign-off by management before the dissemination of the benchmark.”</i>	The benchmarks provided by the administrator are not determined by persons. These are benchmarks based solely on data about trade entered into on a regulated market or in a multilateral trading facility according to a predefined formula. All data is generated and processed by the T7 trading system operated by the Deutsche Börse Group, eliminating the risk of human factors and the need for internal sign-off by management.

¹ Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 214/17/EU and Regulation (EU) No 596/2014

Article 5 (2): *“Administrators shall develop and maintain robust procedures regarding their oversight function, which shall be made available to the relevant competent authorities.”*

Article 5 (3): *“The oversight function shall operate with integrity and shall have the following responsibilities, which shall be adjusted by the administrator based on the complexity, use and vulnerability of the benchmark:*

a) reviewing the benchmark's definition and methodology at least annually;

b) overseeing any changes to the benchmark methodology and being able to request the administrator to consult on such changes;

c) overseeing the administrator's control framework, the management and operation of the benchmark, and, where the benchmark is based on input data from contributors, the code of conduct referred to in Article 15;

d) reviewing and approving procedures for cessation of the benchmark, including any consultation about a cessation;

e) overseeing any third party involved in the provision of the benchmark, including calculation or dissemination agents;

f) assessing internal and external audits or reviews, and monitoring the implementation of identified remedial actions;

g) where the benchmark is based on input data from contributors, monitoring the input data and contributors and the actions of the administrator in challenging or validating contributions of input data;

h) where the benchmark is based on input data from contributors, taking effective measures in respect of any breaches of the code of conduct referred to in Article 15; and

i) reporting to the relevant competent authorities any misconduct by contributors, where the benchmark is based on input data from contributors, or administrators, of which the oversight function becomes aware, and any anomalous or suspicious input data.”

Article 5 (4): *“The oversight function shall be carried out by a separate committee or by means*

The significance of “PX” type indices is very low and any non-provision of them will have no impact on the functioning of markets, consumers, the economy or financial stability in EU Member States. The calculation of the indices is based solely on regulated data, namely on the prices of shares traded on a regulated market and/or in a multilateral trading system operated directly by the administrator. At the same time, the indices are calculated using a predetermined formula and normally without human intervention. The reliability of the input data is therefore guaranteed. The scope for exercising discretion or professional judgement is considerably limited. Discretion is exercised only exceptionally, for example when deciding whether or not to include a particular stock title in the index base in extraordinary cases, such as some special operations. The administrator is a supervised entity as the organiser of a regulated market and a multilateral trading system and, for this reason, already fulfils a number of regulatory requirements in the capital market area.

In view of the above and the resulting low susceptibility of the indices to manipulation, the administrator has decided to entrust supervision to just one person (different from Article 5 (4) of Regulation (EU) 2016/1011) and to define only basic responsibilities and powers for that person without having to comply with the detailed requirements contained in Article 5 (2) and (3) of Regulation (EU) 2016/1011.

<p><i>of another appropriate governance arrangement.”</i></p>	
<p><i>Article 6 (1): “Administrators shall have in place a control framework that ensures that their benchmarks are provided and published or made available in accordance with this Regulation.”</i></p>	<p>The calculation of indices is based solely on the prices of stock exchange trades. All data is generated and processed by the T7 trading system without significant human intervention. Discretion in calculating and accessing the benchmarks is therefore ruled out. A control framework to the full extent of Article 6 of Regulation (EU) 2016/1011, therefore, makes no sense. As a regulated entity, the Exchange has general plans for maintaining operations and resuming operations in the event of an emergency. Similarly, the Exchange has prepared a procedure in case operation of the T7 system is interrupted (see the Benchmark Declaration). At the same time, the administrator's control function is largely fulfilled by the oversight function. Likewise, the significance of “PX” type indices is very low and any non-provision of them will have no impact on the functioning of markets, consumers or the economy.</p>
<p><i>Article 6 (3): “The control framework shall include: a) management of operational risk; b) adequate and effective business continuity and disaster recovery plans; c) contingency procedures that are in place in the event of a disruption to the process of the provision of the benchmark.”</i></p>	<p>The same reason as for Article 6 (1)</p>
<p><i>Article 6 (5): “The control framework shall be documented, reviewed and updated as appropriate and made available to the relevant competent authority and, upon request, to users.”</i></p>	<p>The same reason as for Article 6 (1)</p>

Ing. Petr Kobic, CEO
Prague Stock Exchange