



CSD Regulation (CSDR) WORKSHOP

SETTLEMENT DISCIPLINE

 **INTERBOLSA**
A EURONEXT COMPANY

September 28, 2021



Agenda

1. Introduction
2. Project Timeline
3. Cash Penalties
 - Main Principles
 - Main Developments
 - Testing Phase (UTEST)
 - T2S Dry Run Tests
 - Go Live
4. Questions & Answers

1. INTRODUCTION



DOCUMENTATION ON SETTLEMENT DISCIPLINE

The Regulation:

- Regulation (EU) 909/2014 of the European Parliament and of the Council, of 23 July 2014, on improving securities settlement in the EU and on central securities depositories

Technical Standards:

- Commission Delegated Regulation (EU) 2018/1229 of 25 May 2018 with regard to regulatory technical standards on settlement discipline, published in the Official Journal on 13/09/2018

The ESMA Q&A:

- Questions and Answers on the implementation of the Regulation (EU) 909/2014 on Settlement Discipline (no final version yet available)

ECSDA CSDR Penalties Framework:

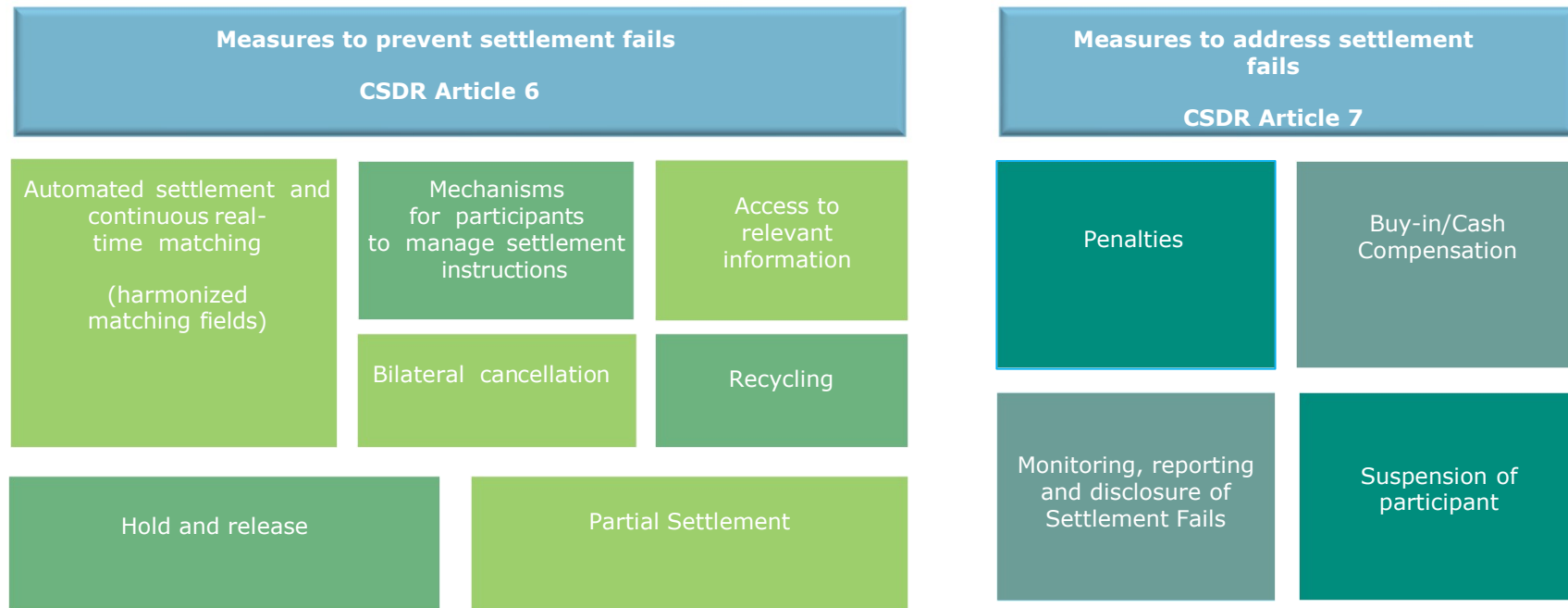
- Harmonisation of rules and procedures related to cash penalties

T2S Change Requests:

- **CR 654** T2S Penalty Mechanism
- **CR 715** Optimisations to the T2S Penalty Mechanism's (CR654) user requirements
- **CR 717** T2S penalty mechanism: exemption from LMFP on settlement instructions created as a result of partially successful buy-ins
- **CR 718** Daily provision of Euro Foreign Exchange Rates for the penalty mechanism

CSDR - SETTLEMENT DISCIPLINE

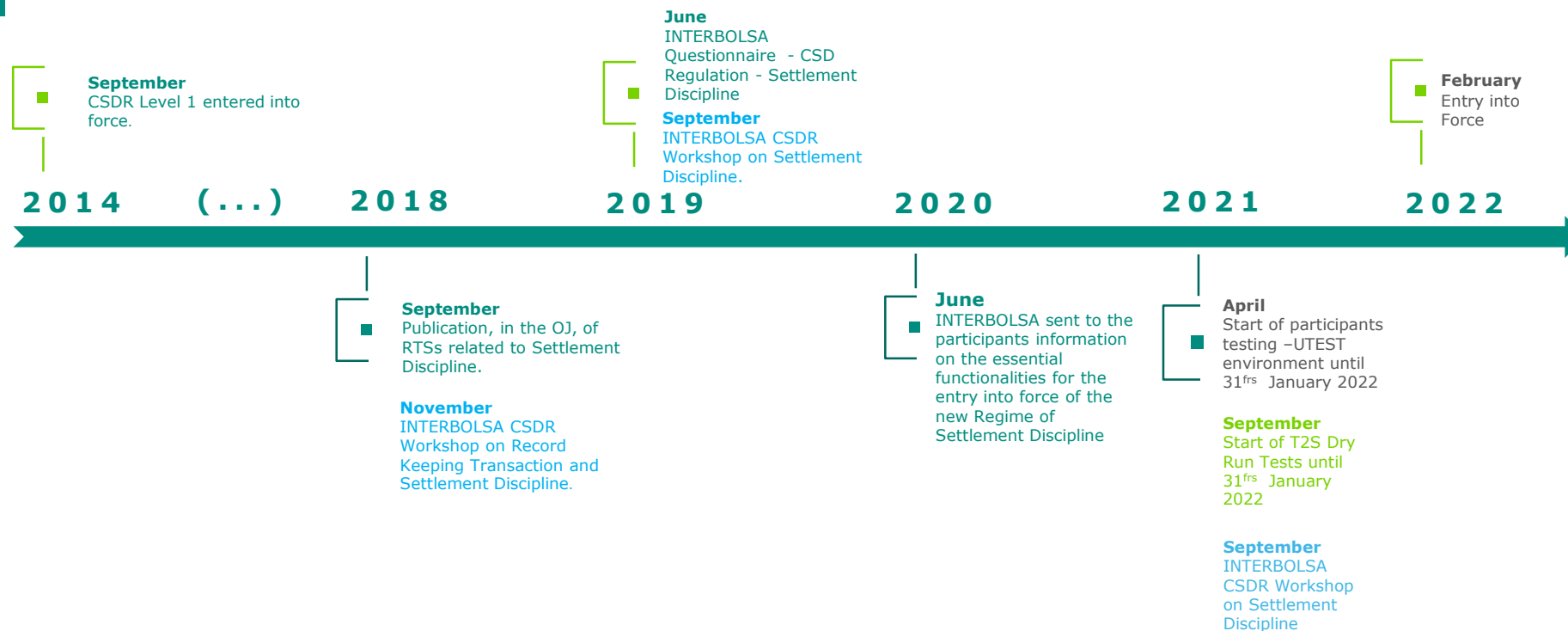
The new settlement discipline defines the measures to prevent and address settlement fails



2. PROJECT TIMELINE



TIMELINE SETTLEMENT DISCIPLINE



3. CASH PENALTIES



MAIN PRINCIPLES



CASH PENALTIES

ECSDA FRAMEWORK

To whom the ECSDA Framework will apply?

Objective:

Harmonisation of rules and procedures. Focuses on the penalties related questions of the settlement discipline regime of the CSDR

Principles to be applied by all EU CSDs:

- ✓ Provision of a cash penalty mechanism
- ✓ Cash Penalties:
 - Daily calculated, after intended settlement date (ISD) until the actual settlement or cancellation
 - Apply to: matched settlement instruction (free or against payment) that fails to settle after its ISD, including Hold instructions and late matching fails

Daily information to Participants

Collection before redistribution

Special situation of the CCPs

Penalties not a revenue source for the CSD

Redistribution of the penalties collected to the participant that suffered from the fail at least on a monthly basis

CASH PENALTIES

ECSDA FRAMEWORK

1. ECSDA CSDR Penalties Framework key considerations	5. Reference data required for penalty calculations	9. Cross-CSD settlement fails
2. Penalties Lifecycle and Business Days Calendar	6. Penalties Currencies Conversions Needs	10. Collection & Redistribution of Penalties (Payment)
3. Penalties Scope	7. Calculation methods of the cash penalties	11. Reporting
4. Identification of the party to be penalised	8. Changes to previously calculated cash penalties	12. Miscellaneous

CASH PENALTIES

INSTRUCTIONS SUBJECT TO PENALTIES

A cash penalty is calculated for all SI, free or against payment, that are:



Transfer orders
(according to the SFD)

Matched
(prior, on or after their ISD)

**Failing to settle on and
after their ISD**



EXEMPTIONS:

**Corporate Actions (CA)
on stock**
(ISO transaction code CORP)

Technical instructions
(T2S realignments)

Settlement restrictions
(blocking, reservation,
earmarking)

CASH PENALTIES

SETTLEMENT FAIL PENALTY (SEFP)

Any Settlement Instruction that failed to settle on its intended settlement date (ISD) subject to computation of SEFP:



Instructions on “hold” on ISD after the relevant cut-off (and afterwards) will be subject to penalties

- Matched before the relevant cut-off of a given business day
- Has reached its ISD
- Fails to settle on ISD or on the day it is matched (late after ISD) and after (fail reason: “lack of securities” or “lack of cash” or “SI on hold”)

CASH PENALTIES

LATE MATCHING FAIL PENALTY (LMFP)

Any Settlement Instruction (SI) that is matched after the relevant settlement cut-off time of its ISD, is subject to computation of LMFP:



Instructions sent with an ISD in the past will be subject to penalties

- For the business day when it is matched and (retroactively) for each past business day that it failed to settle
- The penalty is charged to the participant who last entered or modified the relevant SI for the period between the ISD and the day of matching of the instruction
- In the case of “already matched SI” will be penalised:
 - The instructing party, if it is known, or
 - The delivering party

CASH PENALTIES

STATIC DATA

In order for T2S to be able to calculate cash penalties some static data is needed to be set up in the T2S platform

Static data set up by CSDs (*) in T2S

Securities Subject to Cash
Penalties

Daily Prices

Static data setup by T2S

SME Growth Market

Euro Foreign Exchange
Reference Rates

Cash Discount Penalty
Rates

Penalties Rates

CASH PENALTIES

SECURITIES SUBJECT TO CASH PENALTIES

CSD-eligible MiFID/R financial instruments:

- ✓ Admitted to trading or traded on an EU trading venue; or
- ✓ Cleared (or eligible for clearing) by an EU CCP

* Excluding shares when their principal trading venue is located in a third country

List of ISINs subject to SDR derived by CSDs by:

- ✓ Using the “end of fail day” for MIFID/R instruments; and
- ✓ Eliminating those shares that are exempted from the Short Selling Regulation



CASH PENALTIES

SECURITIES SUBJECT TO CASH PENALTIES

The securities subject to cash penalties list contains the following information:

- ✓ Financial Instrument Type: DEBT;EMAL;ETFS;MMKT;SECU;SHRS;SOVR;UCIT;OTHR
- ✓ Liquidity Status (only for shares): Liquid or Illiquid

CASH PENALTIES

DAILY PRICES

Instrument is in scope of MiFID/R:

Shares and similar:

Closing price of the “most relevant market” (MRM) in terms of liquidity

Other instruments:

Closing price of the trading venue “with the highest turnover”

WORKING ASSUMPTION

- For instruments for which no updated daily MiFID/R price is available, is used the latest MiFID/R price
When no MiFID/R price is available at all, is used a price as determined by the CSD

Where no market value is available, INTERBOLSA will use:

- for debt instruments: nominal value (in the ISIN denomination currency)
- for non-debt instruments: default price (e.g. issue price)



CASH PENALTIES

DAILY PRICES

The **daily price** used for calculating the fails penalties is the price of each business day when the settlement instruction is subject to penalty calculation (i.e. using a maximum of three months of historical prices when relevant, e.g. for late matching fails), independently from when the calculation is performed



CSDs are required to source and store **market price data** for all instruments in scope of the penalty regime on a daily basis

In the absence of a single European price feed or source for all CSDs, this has to be managed individually by CSDs via their data vendors, unless CSDs can source price data themselves





CASH PENALTIES

DAILY PRICES

The amount imposed by the penalty shall be calculated in:

For DVP instructions

- ❖ The currency of the cash leg

For FOP instructions

- ❖ The currency of the underlying security if the instrument is quoted in nominal or per cent
(usually Fixed Income instruments)
- ❖ The currency of the daily reference price if the underlying security is quoted in units
(usually shares)

(may lead to a FX conversion need)

CSDs shall apply the penalty rates as quoted and published as such in the Delegated Regulation 2017/389

CASH PENALTIES

CENTRAL BANK DISCOUNT RATE

The **cash discount rate** is the official interest rate of the central bank issuing the settlement currency that should evidence the borrowing costs for that currency

For Euro, this is the **marginal lending facility rate** which is published on the ECB website

For **penalties calculations**, the annual cash discount rate shall be divided by 365 days in order to generate the applicable daily penalty rate

FOREIGN EXCHANGE RATES

For **FOP instructions** related penalties, a FX conversion to another currency may be required

For **non-EUR currencies**, the relevant Central Banks' Foreign Exchange (FX) rates shall be consulted

For **EUR** the FX rates are published on the ECB website

CASH PENALTIES

SECURITY PENALTY RATES

Financial instrument type		Security penalty rate (in basis points)
Shares	Liquid shares not traded on SME Growth market	1,0
	Illiquid shares not traded on SME Growth market	0,5
	Liquid and illiquid shares traded on SME Growth market	0,25
Bonds	Corporate bonds not traded on SME Growth market	0,2
	Corporate bonds traded on SME Growth market	0,15
	Bonds issued by public authority traded or not traded on SME Growth market	0,10
Other financial instruments	Other financial instruments not traded on SME Growth market	0,5
	Other financial instruments traded on SME Growth market	0,25

The reduced penalty rate for SME Growth market will apply only when both instructions has the same "Place of trading" four-digit MIC.

CASH PENALTIES

HOW IS IT CALCULATED AND RATES APPLICABLE

INTERBOLSA will use the T2S penalties engine for the detection, computation and daily/monthly reporting of penalties:

Instruction types	Failure caused by	Formula to apply
Delivery versus Payment (DVP) Delivery Free of Payment (DFP) Receipt Free of Payment (RFP)	Lack of securities	Security penalty rate*reference price*quantity
Receipt versus Payment (RVP)	Lack of cash	Cash discount penalty rate*reference price*quantity
Debit payment free of delivery (DPFOD) Credit payment free of delivery (CPFOD)	Lack of cash	Cash discount penalty rate*amount
Delivery with payment (DWP) Receipt with payment (RWP)	Lack of securities + Lack of cash	Security penalty rate*reference price*quantity + cash discount penalty rate*amount

CASH PENALTIES

HOW IS IT CALCULATED AND RATES APPLICABLE

For the computation of the **SEFP**, it is required to consider the settlement cut-off times of the CSD (FOP and DVP)

For the computation of the **LMFP**, it is required to consider the end of the business day as matching could still occur until then

Daily penalties can only be calculated by CSDs when all **relevant reference data** is known

For every failing SI, the CSD calculates for each party, the **net penalties** (i.e., the single credit or debit net amount) per CSD, currency and counterparty on a daily basis

CASH PENALTIES

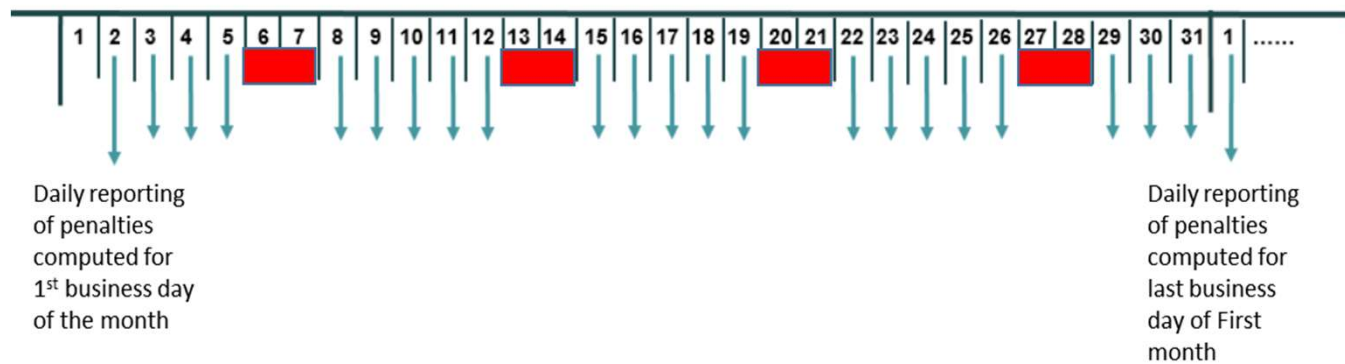
DAILY REPORT - TIMETABLE

Gross penalties:

Each penalty per settlement instruction (with details of underlying instruction)

For each party: daily net penalties per CSD, currency and counterparty

First MONTH (computation and reporting of penalties)





CASH PENALTIES

DAILY REPORT

CSDs deliver the daily reports to their participants:

- **After receiving reports from T2S**

The penalty calculation period is **one calendar month.**

For each business day, IB generates two separate reports:

- for the new penalties
- for the amended, removed or re-included ones, if applicable (modified penalties)

Reporting formats:

SWIFT messages:

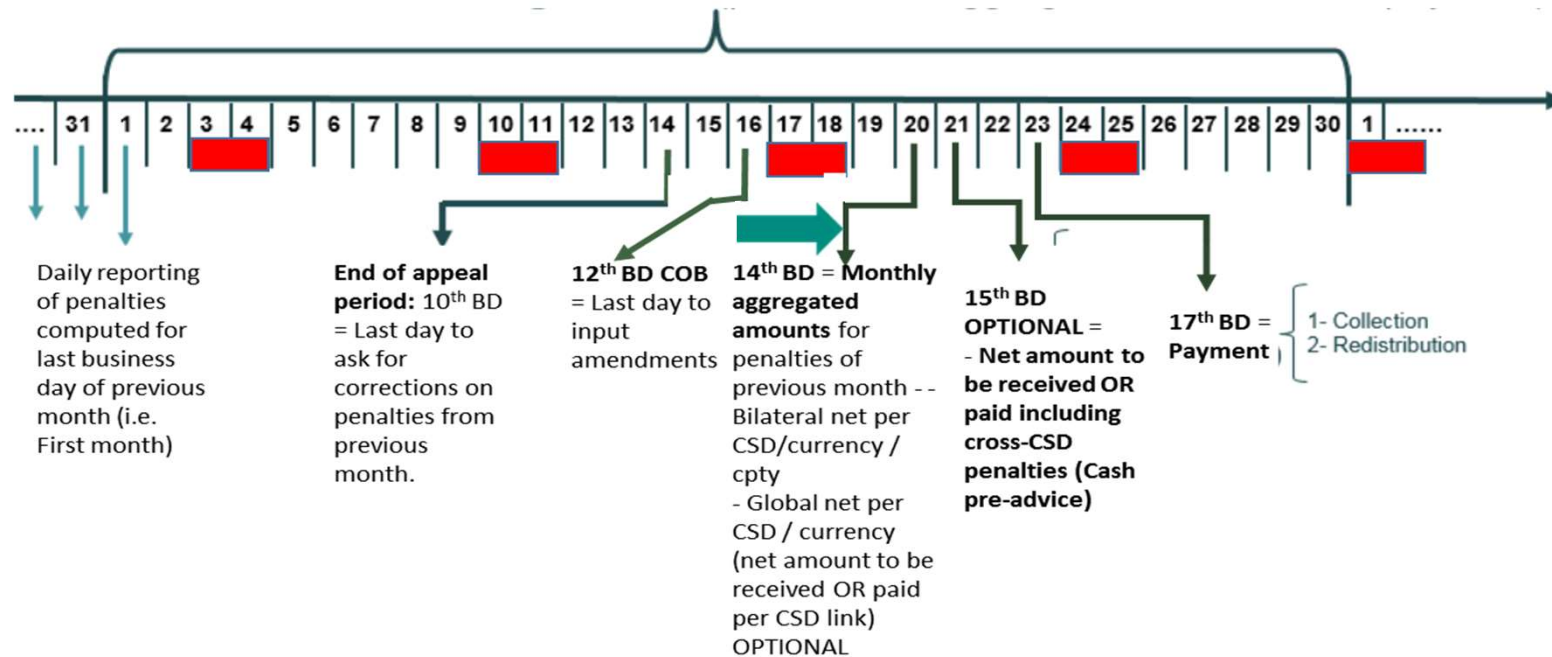
- ISO 15022 (MT537)
- ISO 20022 (semt.044)

STD (new files) - Daily information

CASH PENALTIES

TIMETABLE

Following MONTH (provision of aggregated amounts and payment)



CASH PENALTIES

MONTHLY REPORT & PAYMENT

● Monthly reporting and Payment:

14th BD:

Aggregation of the daily nets of the previous month ➡ single net amount per currency/market/counterparty

15th BD:

Calculation of net amounts to be received or paid by each participant per currency/market (for all its counterparties)

17th BD:

Collection & Redistribution of the net amounts for all participants

Reporting formats:

SWIFT messages:

- ISO 15022 (MT537) or
- ISO 20022 (semt.044)

STD (new files and message) –
Monthly information

CASH PENALTIES

MONTHLY APPEAL PERIOD

CSDs apply a **dedicated appeal period** for participants to assess single settlement fails penalty calculations, on an exceptional basis, within and post the end of a calendar month

Appeals can be lodged by participants at any time during the calendar month, as from the moment of computation and reporting of the penalty, and until (and including) the 10th business day of the following month

Any **amendment requested after the appeal period** ended cannot be taken into account by the CSD

Each time that an appeal is accepted by a CSD, and a change is applied to a penalty, it will be reported on the following business day

Updates made by the CSD on the 11th business day of the following month will be reported on the 12th business day of the following month

CASH PENALTIES

MONTHLY APPEAL PERIOD – REASONS AND INFORMATION

REASONS

ISIN suspension from trading or settlement (e.g. due to “undue creation or deletion of securities” reconciliation issues)	Settlement instructions involving cash settlement outside the securities settlement system operated by the CSD if, on the respective day, the relevant payment system is closed for settlement	Technical impossibilities at the CSD level that prevent settlement, such as: a failure of the infrastructure components, a cyber-attack, network problems

INFORMATION



In order to apply for an appeal, sufficient information needs to be provided by the Participant to the CSD, covering at least:

- **Date of detection and of reported penalties**
- **T2S reference of the penalty**
- **Penalty-type-code**
- **Reason for the appeal**
- **Expected penalty amount to be applied (optional information)**
- **T2S settlement instruction identification**
- **ISO transaction code**
- **Intended Settlement Date**
- **Securities account number of the participant (T2S Format)**

↓
STD file/message
'PENAPfil'/'PENAPmsg'

CASH PENALTIES

MONTHLY AGGREGATED AMOUNTS

On the 14th business day of the following month, the CSD reports the monthly aggregated amounts for the penalties of the previous month (i.e. the aggregated amounts of the penalties computed for the business days of the previous month)

For each party, per currency and counterparty, the CSD sums up all the cash penalties that the party can be expecting to be credited and debited

The monthly reporting includes, per currency and per party, **all the net amounts against each of its counterparties for the penalties computed for the business days of the previous month**

The monthly reports do not include the details of each gross penalty (that is only available in the daily reports)



CASH PENALTIES

COLLECTION AND RE-DISTRIBUTION - SOME PRINCIPLES

I. Discontinuation of existing regimes:

- CSDR SD principles will be common for all EU CSDs

II. Penalties will be fully collected and redistributed amongst participants on a monthly basis:

- A debit for the participant who is responsible for the settlement fail
- A credit for the participant who suffered the settlement fail

III. CCP exception:

- CCPs are excluded from the collection / re-distribution process
- CCPs continue to apply penalties themselves (based on the reporting they received from the CSDs)

CASH PENALTIES

COLLECTION AND RE-DISTRIBUTION

For each party, the net amount (to be paid or to be received) is **reported by the CSD on the 15th business day** before the payment date (17th business day)

On the **17th business day of the following month** the CSD collects and re-distributes the penalties amounts (net) to/ from its participants

Payment models:

- Direct debits and/or cash transfers
- PFOD instructions
- Cash transfer via payment bank

INTERBOLSA will use T2S PFOD instructions

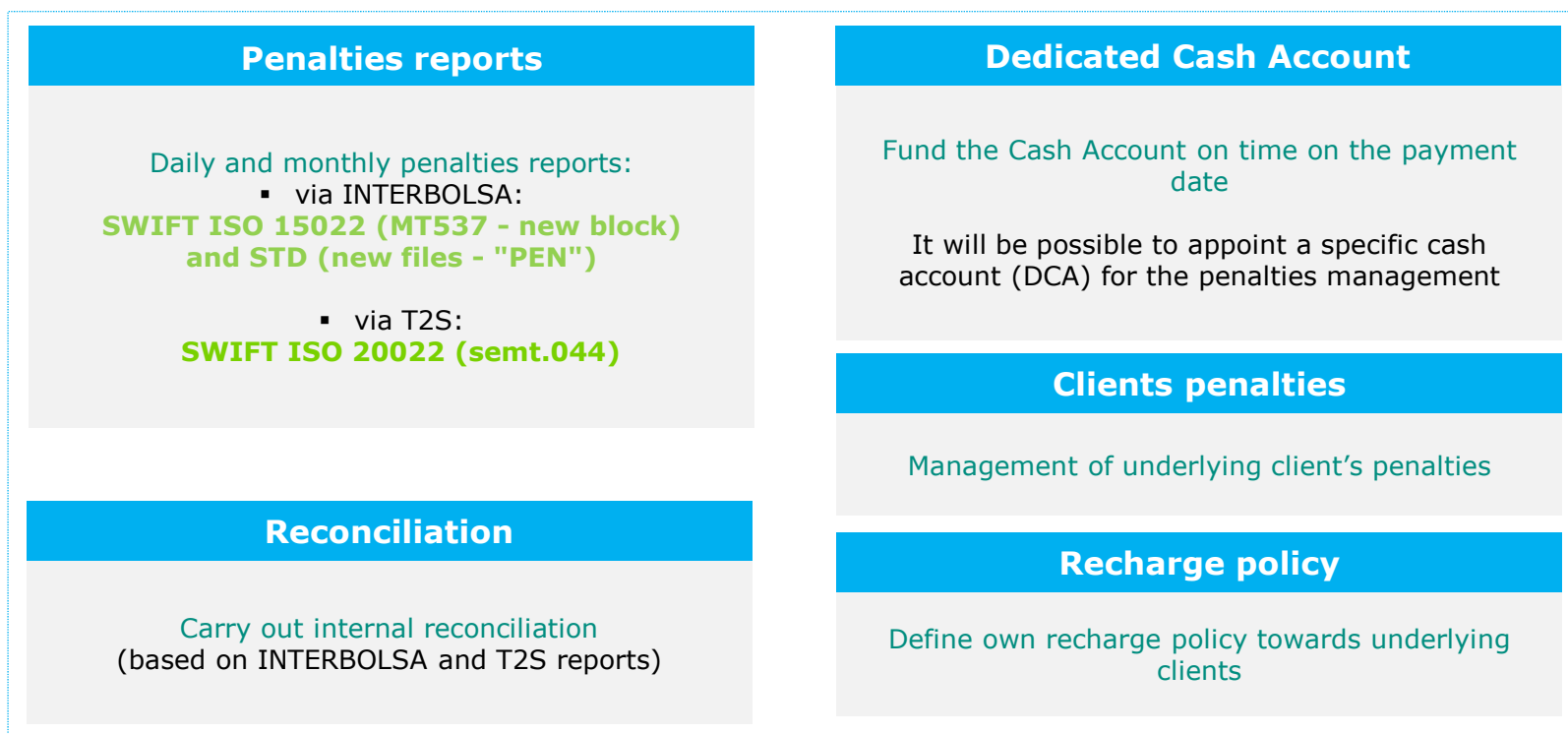
Cash penalties involving CCPs are excluded from the monthly payment process (but part of the daily and monthly reports)

MAIN DEVELOPMENTS



CASH PENALTIES

PENALTY MECHANISM – IMPACTS FOR PARTICIPANTS



CASH PENALTIES

PENALTY MECHANISM – DAILY REPORTS

Reporting	DCPs	ICPs
<p>Daily Penalty List of new penalties</p> <p>In case of penalty (failed transaction resulted in new penalties) for one reporting day, for a party, a report stating 'activity' will be sent</p>	<ul style="list-style-type: none"> ISO 20022 messages semt.044 (only for DCPs, if subscribed) ISO 15022 messages MT537 (if subscribed) STD <ul style="list-style-type: none"> PENDAGGR - Daily Aggregated Information on Penalties PENDETL - Daily Penalties Details Information PENDCALC - Daily Penalties Calculation Information 	<ul style="list-style-type: none"> ISO 15022 messages MT537 (if subscribed) STD <ul style="list-style-type: none"> PENDAGGR - Daily Aggregated Information on Penalties PENDETL - Daily Penalties Details Information PENDCALC - Daily Penalties Calculation Information
<p>Daily Penalty List of modified penalties</p> <p>In case of penalty (failed transaction resulted in amendments, removals, or re-inclusion) for one reporting, for a party, a report stating 'activity' will be sent</p>	<ul style="list-style-type: none"> ISO 20022 messages semt.044 (only for DCPs, if subscribed) ISO 15022 messages MT537 (if subscribed) STD <ul style="list-style-type: none"> PENMOAGR - Aggregated Information on Modified Penalties PENMODTL - Modified Penalties Detail Information PENMOCAL - Modified Penalties Calculation Data Information PENAP - Message with the Appeals of the Modified Penalties 	<ul style="list-style-type: none"> ISO 15022 messages MT537 (if subscribed) STD <ul style="list-style-type: none"> PENMOAGR - Aggregated Information on Modified Penalties PENMODTL - Modified Penalties Detail Information PENMOCAL - Modified Penalties Calculation Data Information PENAP - Message with the Appeals of the Modified Penalties

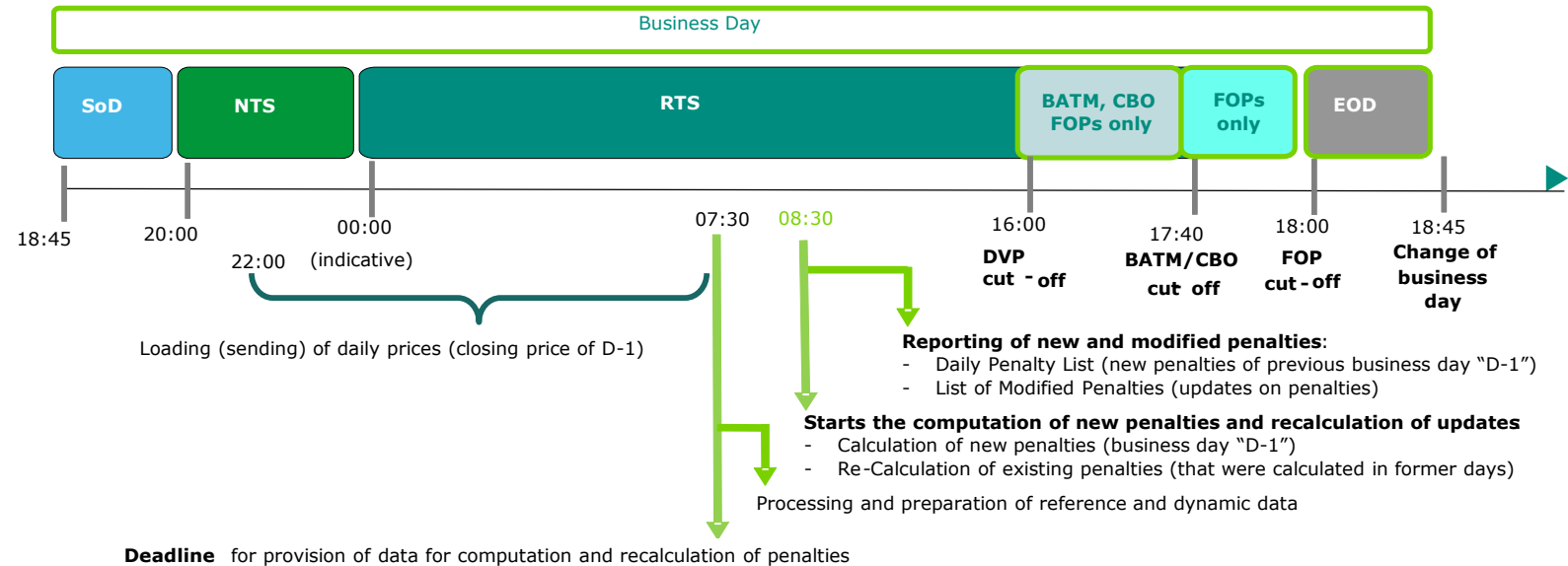
CASH PENALTIES

PENALTY MECHANISM – MONTHLY REPORTS

Reporting	DCPs	ICPs
<p>Monthly Penalty List In case of penalty (failed transaction resulted in new penalties, amendments, removals or re-inclusions) during the reporting period, a report stating 'activity' will be sent</p>	<ul style="list-style-type: none"> ISO 20022 messages semt.044 (only for DCPs, if subscribed) ISO 15022 messages MT537 (if subscribed) STD <ul style="list-style-type: none"> PENMAGGR - Monthly Aggregated Information on Penalties PENMDETL - Monthly Penalties Details Information 	<ul style="list-style-type: none"> ISO 15022 messages MT537 (if subscribed) STD <ul style="list-style-type: none"> PENMAGGR - Monthly Aggregated Information on Penalties PENMDETL - Monthly Penalties Details Information
<p>Monthly Information of Penalties Payment Forecast This file contains monthly information regarding the net amount of penalties, to be debited or credited to each Participant</p>	<p>STD</p> <ul style="list-style-type: none"> PENMPAYM - Monthly Information - Penalties Payment Forecast 	

CASH PENALTIES

T2S PENALTY MECHANISM - TIMELINE



CASH PENALTIES

T2S PENALTY MECHANISM – T2S GUI

T2S GUI subscription of menu where DCPs can subscribe the penalties reports (semt.044) – only for DCPs

t2s
TARGET2 - SECURITIES

SECURITIES CASH SERVICES **STATIC DATA** MONITORING

Static Data > Messages and Reports > Report Configurations

Search Criteria - Report Configurations

Status: Active

Configuration Name:

Event Type:

Currency: ---

Delta Mode: All

System Entity Wide Report: All

Report Name:

- All
- Current Business Day Cash Forecast
- Daily Penalty List
- Executed AI on Cash
- Executed AI on Securities
- Executed CI on Cash
- Executed CI on Securities
- List of Modified Penalties
- Monthly Aggregated Amounts
- Next Business Day Cash Forecast
- Pending AI on Cash
- Pending AI on Securities
- Pending CI on Cash
- Pending CI on Securities
- Pending Restrictions on Cash
- Pending Restrictions on Securities
- SD Party Statement
- SD Securities Accounts Statement
- SD Securities Statement
- SD T2S DCA Statement
- Settled Restrictions on Cash
- Settled Restrictions on Securities
- Statement of Accounts
- Statement of Holdings
- Statement of Pending Instructions
- Statement of Settlement Allegements
- Statement of Transactions

CASH PENALTIES

T2S PENALTY MECHANISM – REPORT


Message structure in ISO 20022: semt.044

- **Report General Details**
 - Frequency —————→ Daily (Business date) | Monthly (Period)
 - Type —————→ Daily Penalties List | List of Modified Penalties
- **AccountServicer / Depository** —————→ CSD
- **Claims (penalties) for Party, Currency and Date** —————→ Date: only for List of Modified Penalties
 - Aggregated DEBIT and CREDIT amount per currency
 - **Claims (penalties) per Counterparty**
 - Aggregated NET Amount (DEBIT or CREDIT) —————→ daily or monthly bilateral net amount between party & counterparty
 - **Penalty Details**
 - Penalty References —————→ Individual Reference and Common Reference
 - Type —————→ Settlement Fail Penalty | Late Matching Fail Penalty
 - Status —————→ NCOM | NEW | UPDT | REMO
 - Amount computed
 - Calculation Method —————→ SECU | MIXE | CASH | BOTH
 - Number of days
 - **Calculation details** —————→ ISIN, Price details, Quotation details
 - **Related Transaction**
 - Reference
 - Transaction details
 - Status and Reason

CASH PENALTIES

INTERBOLSA FORM

Form to subscribe ISO 15022: MT537_PENA

**INTERBOLSA**
A EURONEXT COMPANY

INTERBOLSA FORM - Access to ISO 15022 messages (FIN), through SWIFTNet

MT537 (Statement of pending transactions) - Penalties Report

☒ New ☐ Modify ☐ Cancel

Environment: **Tests**

BIC 11 (SWIFTNet) *

Activation date:

* The Financial Intermediary declares that this institution has already subscribed to the Interbolsa's Market Infrastructure Closed User Group (MI-CUG) on the SWIFT Portal.

Participant Identification

Party Code *
BIC: <input type="text"/> (Mandatory BIC11)
Party Name *
Name: <input type="text"/> (max: 350 characters)

ISO 15022 messages with individual subscription

Reception messages	Access
Statement of pending transactions: MT537 - Penalties Report - Daily Penalty Report - Amended Daily Penalty Report - Monthly Penalty Report	Yes
<small>In scope of the CSDR - Settlement Discipline Regime (SDR), this report provides the details of the penalties calculated on instructions that matched after ISD and on instructions that failed to settle on or after ISD.</small>	

Authorized Signatures *

Date: <input type="text"/>
Name(s): <input type="text"/>
Signature(s): <input type="text"/>

*mandatory
For tests the signature is not mandatory

1



CASH PENALTIES

INTERBOLSA REPORTS - ISO 15022 MESSAGE

MT537 contain a dedicated new “PENA” sequence specific to the penalties reporting

MT537 includes new blocks and repetitive fields:

- Matching / settlement fail
- Reporting of underlying transaction
- Penalty ID
- Credit/debit indicators
- Calculation parameter references

CASH PENALTIES

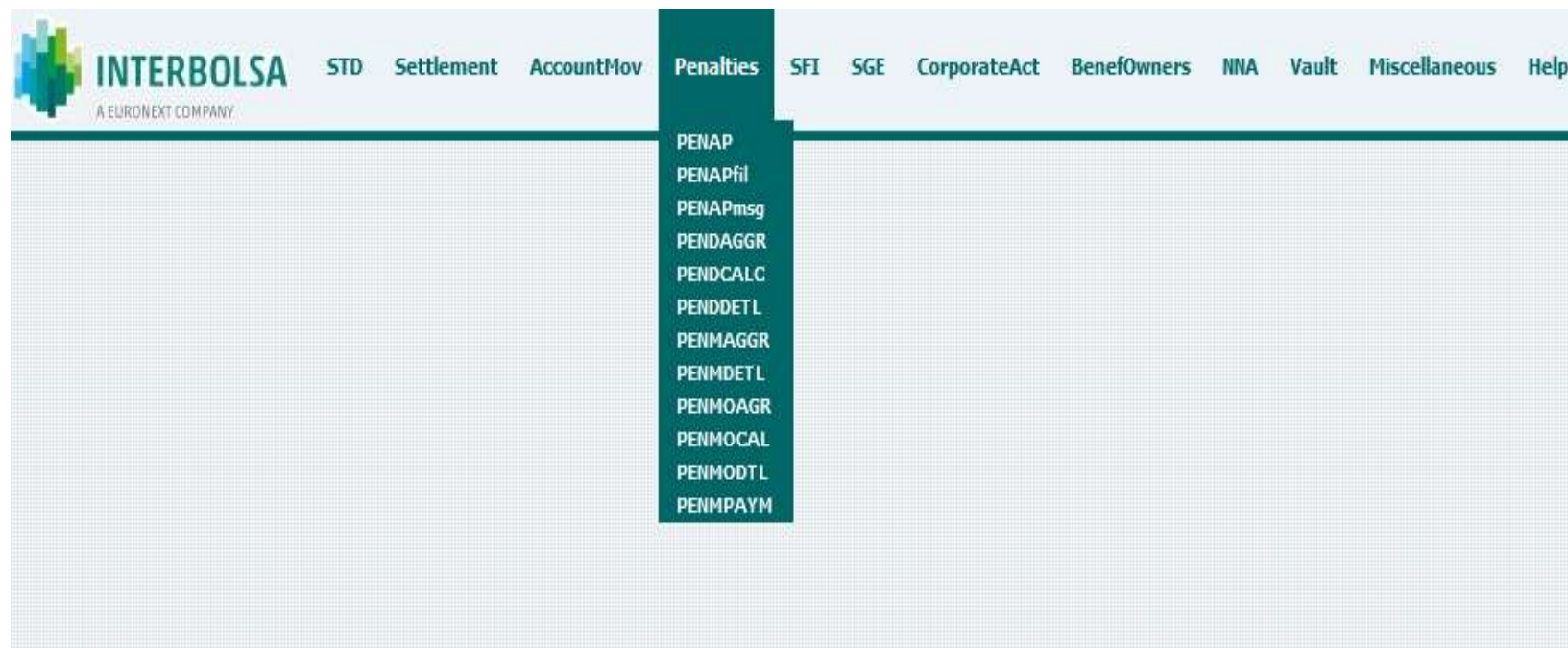
INTERBOLSA REPORT –ISO 15022

Message structure in ISO 15022:
MT537

Sequence	M/O	Sequence nr.	Description	Remarks
PENA	O	D	Penalties	
PENACUR	O/R	D1	Claims for Party and currency	Total Amount
PENACOUNT	O/R	D1a	Claims (penalties) per Counterparty	Aggregated Net Amount
PENDET	O/R	D1a1	Penalty Details	Penalty Reference Amount computed Number of days
CALDET	O/R	D1a1A	Calculation Details	Penalty date Calculation method Indicator Amount Exchange rate
FIA	O	D1a1A1	Financial Instrument and Attributes	Price Rate
RELTRAN	O/R	D1a1A2	Related Transaction	Reference
TRAN	O/R	D1a1A2a	Transaction Details	Original instruction
STAT	O/R	D1a1A2a1	Status	
REAS	O/R	D1a1A2a1A	Reason	

CASH PENALTIES

INTERBOLSA REPORTS – STD FILES



CASH PENALTIES

T2S PENALTY MECHANISM – APPEALS PROCESS

1

Appeals for modification of calculated penalties handled by INTERBOLSA

2

Appeals for modification submitted by the Participants to INTERBOLSA via STD application (PENAPfil/'PENAPmsg') with the information of the penalties to be modified and receive the feedback in a message 'PENAP' with all the appeals penalties sent with the status '**PEND**' (waiting for INTERBOLSA and T2S verification and approval)

3

Participants must provide for the appeal:

- Identification of the Participant;
- The T2S reference of the penalty;
- Penalty-Type-Code;
- The reason for the appeal;
- The expected penalty amount to be applied (text) - optional information;
- T2S Settlement Instruction identification (for re-allocation: of the counterpart instruction);
- ISO Transaction Code;
- Intended Settlement Date



CASH PENALTIES

T2S PENALTY MECHANISM – APPEALS PROCESS

4

INTERBOLSA will check:

- ✓ If the appeal for modification is lodged within active period, before 11th penalties BD the following month, if the reason of the appeal is valid and send the appeals to T2S validation

5

INTERBOLSA will send the following information after validation by T2S:

- ✓ If the appeal is **rejected**, Participants are informed via STD, message '**PENAP**' with the status '**REJT**' and with the reason of the rejection.
- ✓ If the appeal is **accepted** by INTERBOLSA, Participants are informed via STD, message '**PENAP**' with the status '**ACPT**';
- ✓ After the appeal is executed by T2S, Participants are informed via STD, message '**PENAP**' with the status '**EXEC**';

6

Penalty is removed or recalculated by T2S

7

Removal or modification of penalty will be reported in the daily modified report on the following BD with a new status and reason code

CASH PENALTIES

PENALTY MECHANISM – APPEALS STATUS AND REASON CODES

Modification Type	Status code	Reason code		Result
Removal	REMO	OTHR	Other	Penalty is assigned new code + amount to 0
		SEMP	Settlement on Multiple platforms	Penalty is assigned new code + amount to 0
		INSO	Insolvency	Penalty is assigned new code + amount to 0
		SESU	Settlement Suspended	Penalty is assigned new code + amount to 0
		TECH	Technical Suspended	Penalty is assigned new code + amount to 0
		SUSP	Trading Suspended	Penalty is assigned new code + amount to 0
Re-inclusion	ACTV	REIN	Updated	Penalty is assigned new code + updated penalty amount
Switch	ACTV	SWIC	Switched	Penalty is assigned new code
Re-allocation	ACTV	RALO	Re-allocation	Penalty is assigned new code + amount to 0 for the non-failing party Status 'active'+ standard re-allocation code for the real failing party + penalty amount
Update	ACTV	UPDT	Updated	Penalty is assigned new code + updated penalty amount



CASH PENALTIES

COLLECTION AND RE-DISTRIBUTION

In line with the requirements of CSDR, the collection and distribution of penalties will be performed once a month.

- ❑ Based on the monthly aggregated amounts, global net amounts to be paid or received are calculated and reported per settlement participant on the **14th Penalties Business Day**.
- ❑ On the **15th Penalties Business Day**, INTERBOLSA will create PFOD instructions to receive the cash amounts from its participants that have to pay a net amount resulting from cash penalties calculation and to deliver the cash amounts to the participants that have to receive a net amount resulting from the cash penalties.
- ❑ On the **17th Penalties Business Day** of the month, INTERBOLSA will process the collection from settlement participants who will have to pay penalties and the redistribution of penalties to participants who will have to receive penalties.
 - If the CSD and/or the payment system of the currency is closed on the 17th Penalties Business Day, the payment will be executed on the next possible Penalties Business Day.





CASH PENALTIES

COLLECTION AND RE-DISTRIBUTION

- ❑ In the penalties collection process, the PFOD settlement will lead to:
 - a credit of the INTERBOLSA's penalties cash account (T2S DCA) by debit of the participant account -
Collection
 - a debit of the INTERBOLSA participant's cash account (T2S DCA) by a credit of the participant account
- **Distribution**
- ❑ Settlement participants have to fund the relevant T2S DCAs in time to ensure successful PFOD settlement
- ❑ CCPs themselves will collect and re-distribute any penalties related to CCP activity. Cash penalties involving CCPs are excluded from the monthly payment process of the CSD, but are still part of the daily and monthly reports.



CASH PENALTIES

COLLECTION AND RE-DISTRIBUTION

- Global net amounts are aggregated and reported to the participants in the EUR currency.

Netting Example:

Counterparty	Penalties amount	Party to received or pay
Settlement Participant 1	+2.500,00	Receive
Settlement Participant 2	-940,00	Pay
Settlement Participant 3	-300,00	Pay
Party net amount	+1.260,00	Receive





CASH PENALTIES

COLLECTION AND RE-DISTRIBUTION

PFOD settlement instructions - Information

- ❑ **Dummy-ISIN:** A dummy-ISIN has been created to be used exclusively for penalties payment and will be used in all penalty's payment - Payment Free of Delivery (PFOD) instructions.
Note that settlement participants will need to register the dummy ISIN in their systems.
- ❑ **Securities account (SAC):** Interbolsa will use the default SAC ("999995") of the participants in the PFOD settlement instructions.
- ❑ **DCA for cash penalties payment:** for the purpose of executing the penalties payment, the participants can opt to use a dedicated cash account (specific DCA). Otherwise it will be used the DCA linked to the default SAC.
- ❑ **INTERBOLSA Penalty DCA:** As INTERBOLSA will be the party/counterparty in the PFOD instructions for penalties payment, proper segregation of the penalties payment flow has to be ensured. Thus, INTERBOLSA will have a dedicated cash account (specific DCA) which will be used exclusively for penalties collection and re-distribution.



CASH PENALTIES

COLLECTION AND RE-DISTRIBUTION

PFOD settlement instructions – Information

The PFOD instructions will be created by Interbolsa and sent to T2S with the following data:

- ✓ **Trade Date:** 15th business day of the following month
- ✓ **Intended Settlement Date (ISD):** 17th business day of the following month
- ✓ **ISO Transaction Code:** PAIR
- ✓ **Instruction Type:** PFOD
- ✓ **ISIN:** LU2128008567 (Dummy ISIN)
- ✓ **Securities Account (SAC):** Default Account
- ✓ **DCA:** If there is a specific DCA for cash penalties
- ✓ **Counterpart:** Interbolsa (IBLSPTPPXXX)
- ✓ **Counterpart CSD:** Interbolsa (IBLSPTPPXXX)
- ✓ **Partial settlement indicator:** No partial settlement allowed (NPAR)
- ✓ **Priority Indicator:** 1
- ✓ **Status:** Released

TESTING PHASE (UTEST)





CASH PENALTIES

PENALTY MECHANISM – TESTS PARTICIPATION

During the testing phase (UTEST), that was initiated in April 2021:

- 7 participants had instructions generate **LMFP** penalties
- 9 participants had instructions generate **SEFP** penalties
- 1 participant has tested **appeals**
- 4 participants subscribed **MT537-PEN** reports
- 4 DCPs subscribed **semt.044** messages

CASH PENALTIES

PENALTY MECHANISM – TESTS SCENARIOS

Tests				
Scenarios	Calculation Method Identification	Type of Penalty	Type of Instruction	ISO Transaction Code
Penalties – Daily / Monthly	<p>SECU- Calculation Method based on the quantity of securities failed to be delivered, the price of the Security and the Penalty rate of the relevant Asset Type</p> <p>MIXE - Calculation Method based on the quantity of securities failed to be delivered, the price of the Security and the discount rate of the relevant Currency, or "MIXE"</p> <p>CASH- Calculation Method based on the amount of cash failed to be delivered and the discount rate of the relevant Currency</p> <p>BOTH- the Penalty is calculated as the sum of the Penalty calculated with the "SECU" method and the "CASH" method</p>	SEFP LMFP	DVP RVP DFP RFP DWP RWP	TRAD OWNI OWNE CLAI PORT BYIY REPU RVPO COLI COLO
Scenarios	Type of request	Type of Penalty	Removal Reason Code	Status
Penalties – Modifications / Appeals	REMO – Removal REIN – Re-inclusion RALO – Re-allocation SWIC - Switch	SEFP LMFP	<p>Must be filled in case the Request Type is 'REMO'. Possible values are:</p> <ul style="list-style-type: none"> • 'SESU' • 'SEMP' • 'SUSP' • 'TECH' • 'OTHR' 	<ul style="list-style-type: none"> • 'PEND' – Appeal pending • 'ACPT' – Appeal accepted • 'EXEC' – Appeal/Modification executed • 'REJT' – Appeal rejected

CASH PENALTIES

PENALTY MECHANISM – DAILY FILES (STD EXAMPLES)

PENDAGGR - Daily Aggregated Information on Penalties

Part.	Moeda Penalidades	Data Penalidades	Part. (BIC)	CSD-CP (BIC)	Part-CP	Part-CP (BIC)	Tipo-CP	Montante-Líquido Agreg.Diário	Moeda-Mont-Líquido	D/C
782	EUR	20210923	YYBDPTPPXXX	IBLSPTPPXXX	182	YYADPTPPXXX	CSDP	1,09	EUR	DBIT

PENDCALC - Daily Penalties Calculation Information

T2S-Ref-Penalidade	Data	Part. (BIC)	Part-CP	Part-CP (BIC)	Cod-ISIN	Tipo-Instrum.	SME-Growth	Taxa-penalidade Valor-Mob.	Taxa-penalidade-desconto	Montante Sub-Montante-1	Montante Sub-Montante-2
N210923003663209	20210923	YYADPTPPXXX	782	YYBDPTPPXXX	PTOTEIOE0007	SOVR		,00100	0	0	0

PENDETL - Daily Penalties Details Information

Data Pena.	Part. (BIC)	CSD-CP (BIC)	Part-CP	Part-CP (BIC)	T2S-Match-Ref Penalidade	Cod-ISIN	T2S-Ref-Penalidade	Tipo-Pena	Estado-Pena	Montante-Penalida	Moeda-Pena	D/C (Pena)	Método-calculo	Num-Dias
20210923	YYADPTPPXXX	IBLSPTPPXXX	782	YYBDPTPPXXX	210923003663209	PTOTEIOE0007	N210923003663209	SEFP	ACTV	1,09	EUR	CRDT	SECU	0001

Referência-IB	Referência-T2S	Ref-T2S-Match	Instr-Part. (BIC)	ISO-Tx-Cod	ISD	Conta T2S (SAC)	Part-Conta (BIC)	Mov-Tipo	Pag-Tipo	Quantidade (FAMT)	Montante-a-Liq	Motivo Falha-Liq(1)
RT0000048475	2109160334530994	0121052667829000	IBLSPTPPXXX	TRAD	20210317	IBLSYYADPTPPXXXSA00000000018200000010	YYADPTPPXXX	RECE	APMT	100000,00	5,00	CLAC

CASH PENALTIES

PENALTY MECHANISM – APPEALS FILE and MESSAGE (STD EXAMPLE)

INTERBOLSA

A EURONEXT COMPANY

STD

Liquidação

MovConta

Penalidades

SFI

SGE

ExrDireitos

Titulares

ANC

Cofre

Diversos

Manuais

Ajuda

*PENAP@20210729 - Mensagem com o estado dos Pedidos das Penalidades a Modificar/Modificadas (6)

Bora STD	Num-Pedid...	Part.	Part.(BIC)...	Ped. Tipo...	T2S-Ref-Penalidad...	Tipo-Pena...	Cod-ISIN	Motivo	Mot-Desc...	Novo Falt...	Novo Não-falt. Part.(BIC)	Referência-T2S	ISO-Tx-Co...	ISD	Estado...	Descrição-Estad...	Novo T2S-Match-Ref Penali...
16:42:30	000000003	782	YYBDFIPFXXX	REMO	F210727040707870	SEFP	PTPRSOAM0017	SUSP				2105181957207191	TRAD	2021/05/13	PEND		
17:11:51	000000004	804	DEUTNL2AXXX	REMO	F210719038212994	LMFP	PTOTEOOE0033	SUSP				2107162013564220	TRAD	2021/07/15	PEND		
18:50:51	000000003	782	YYBDFIPFXXX	REMO	F210727040707870	SEFP	PTPRSOAM0017	SUSP				2105181957207191	TRAD	2021/05/13	ACPT		
18:50:52	000000004	804	DEUTNL2AXXX	REMO	F210719038212994	LMFP	PTOTEOOE0033	SUSP				2107162013564220	TRAD	2021/07/15	ACPT		
18:51:46	000000003	782	YYBDFIPFXXX	REMO	F210727040707870	SEFP	PTPRSOAM0017	SUSP				2105181957207191	TRAD	2021/05/13	EXEC		
18:51:46	000000004	804	DEUTNL2AXXX	REMO	F210719038212994	LMFP	PTOTEOOE0033	SUSP				2107162013564220	TRAD	2021/07/15	EXEC		

<

>

*PENAPmsg - Pedido das Penalidades a Modificar (Mensagem) (1)

<div><input checked="" type="checkbox"/></div>	Part.	Part.(BIC)	Ped. Tipo	T2S-Ref-Penalidade	Tipo-Pena...	Cod-ISIN	Motivo	Mot-Descr...	Novo Falt. Part...	Novo Não-falt. Part.(BIC)	Referência-T2S	ISO-Tx-Co...	ISD	
<div><input checked="" type="checkbox"/></div>	782	YYBDFIPFXXX	REMO	F210810044917771	SEFP	PTPRSOAM0017					210810044917771	TRAD	2021/05/13	

</

CASH PENALTIES

PENALTY MECHANISM – MODIFIED PENALTIES FILES (STD EXAMPLES)

PENMOAGR - Aggregated Information on Modified Penalties

Part.	Part. (BIC)	Data Penalidades	Moeda Penalidades	Tipo Part.	CSD-CP (BIC)	Part-CP	Part-CP (BIC)	Tipo-CP	Montante-Líquido Agreg.Diário	Moeda-Mont-Líquido	D/C
782	YYBDPTFPXXX	20210902	EUR	CSDP	IBLSPTFPXXX	782	YYBDPTFPXXX	CSDP	0	EUR	

PENMOCAL - Modified Penalties Calculation Data Information

Part. (BIC)	T2S-Ref-Penalidade	Data	Cod-ISIN	Tipo-Instrum.	Euro-taxa-câmbio	Taxa-penalidade Valor-Mob.	Taxa-penalidade-desconto	Montante Sub-Montante-1
YYBDPTFPXXX	F210903003553939	20210902	PTOTEIOE0007	SOVR	0	,00100	0	0

PENMODTL - Modified Penalties Detail Information

Part. (BIC)	Data Penalidades	CSD-CP (BIC)	Part-CP (BIC)	T2S-Match-Ref Penalidade	T2S-Ref-Penalidade	Ref-MI-realocação	Tipo-Penalidade	Estado-Penalidade	Motivo	Mot-Descr	Montante-Penalidade
YYBDPTFPXXX	20210902	IBLSPTFPXXX	YYBDPTFPXXX	210903003553939	F210903003553939	210902003545589	LMFP	ACTV	RALO		,11

Moeda-Penalidade	D/C (Penalidade)	Método-cálculo	Num-Dias	Referência-Part.	Referência-IB	Referência-T2S	Ref-T2S-Match	Instr-Part. (BIC)
EUR	DBIT	SECU	0001	TST1PEN	MCT2021245000001	2109020334242487	0121052658798000	IBLSPTFPXXX

CASH PENALTIES

PENALTY MECHANISM – MONTHLY FILES (STD EXAMPLES)

PENMAGGR - Monthly Aggregated Information on Penalties

Part.	Moeda Penalidades	Part. (BIC)	CSD-CP(BIC)	Part-CP	Part-CP(BIC)	Tipo-CP	Periodo-Reporte	Montante-Liquido Agreg.Mensal	Moeda-Mont-Liquido	D/C
782	EUR	YYBDPTFPXXX	IBLSPTFPXXX	533	BCOMPTPLXXX	CSDP	2021-08	11,99	EUR	CRDT
782	EUR	YYBDPTFPXXX	IBLSPTFPXXX	182	YYADPTFPXXX	CSDP	2021-08	2471,56	EUR	CRDT

PENMDET - Monthly Penalties Details Information

Part.	Moeda Penalidades	Part. (BIC)	CSD-CP(BIC)	Part-CP	Part-CP(BIC)	T2S-Match-Ref Penalidade	T2S-Ref-Penalidade	Ref-MI-realoção	Tipo-Pena	Montante-Pena	Moeda-Pena	D/C (Pena)	Método-calculo	Num-Dias
782	EUR	YYBDPTFPXXX	IBLSPTFPXXX	533	BCOMPTPLXXX	210816003481903	N210816003481903		SEFF	1,09	EUR	CRDT	SECU	0001
782	EUR	YYBDPTFPXXX	IBLSPTFPXXX	533	BCOMPTPLXXX	210817003487158	N210817003487158		SEFF	1,09	EUR	CRDT	SECU	0001
782	EUR	YYBDPTFPXXX	IBLSPTFPXXX	533	BCOMPTPLXXX	210818003490300	N210818003490300		SEFF	1,09	EUR	CRDT	SECU	0001
782	EUR	YYBDPTFPXXX	IBLSPTFPXXX	533	BCOMPTPLXXX	210819003495096	N210819003495096		SEFF	1,09	EUR	CRDT	SECU	0001
782	EUR	YYBDPTFPXXX	IBLSPTFPXXX	533	BCOMPTPLXXX	210827003521901	N210827003521901		SEFF	1,09	EUR	CRDT	SECU	0001
782	EUR	YYBDPTFPXXX	IBLSPTFPXXX	533	BCOMPTPLXXX	210830003530924	N210830003530924		SEFF	1,09	EUR	CRDT	SECU	0001
782	EUR	YYBDPTFPXXX	IBLSPTFPXXX	182	YYADPTFPXXX	210804003386725	N210804003386725		SEFF	,26	EUR	CRDT	SECU	0001
782	EUR	YYBDPTFPXXX	IBLSPTFPXXX	182	YYADPTFPXXX	210804003386731	N210804003386731		SEFF	,31	EUR	CRDT	SECU	0001
782	EUR	YYBDPTFPXXX	IBLSPTFPXXX	182	YYADPTFPXXX	210804003387964	N210804003387964		LMFP	2465,29	EUR	CRDT	SECU	0002
782	EUR	YYBDPTFPXXX	IBLSPTFPXXX	182	YYADPTFPXXX	210805003451476	N210805003451476		SEFF	,26	EUR	CRDT	SECU	0001

PENMPAYM - Monthly Information - Penalties Payment Forecast

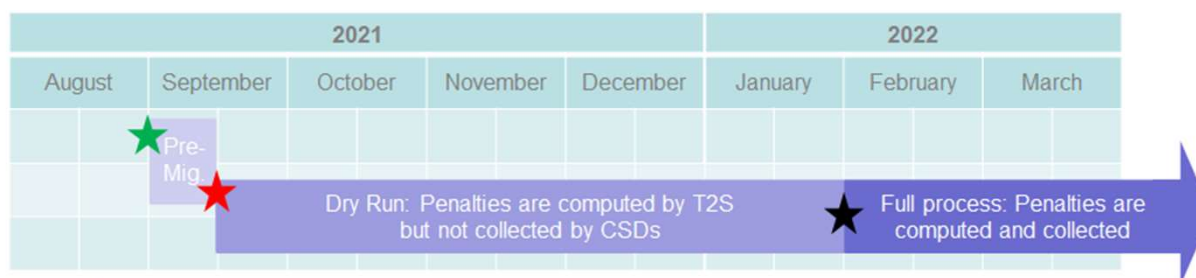
Part.	Part. (BIC)	Periodo-Reporte	Montante-Agregado Liquido	Moeda	D/C	Data-Pag.
782	YYBDPTFPXXX	2021-08	2483,55	EUR	CRDT	20210910

T2S DRY RUN TESTS



T2S DRY RUN TESTS

HIGH LEVEL PLAN



Legend:

★ Start of the Pre-Migration / Configuration Period

Pre-Migration - Configuration Period

★ Activation Date (14th of September)

Dry Run: Penalties are computed by T2S but not collected by CSDs
→ First report (Daily Penalty List) including penalties will be sent by T2S on the morning of 15th of September

★ Entry into force (1st of February)

Full process: Penalties are computed by T2S and collected by CSDs
→ First report (Daily Penalty List) including penalties that will be collected by the CSDs will be sent by T2S on the morning of 2nd of February



T2S DRY RUN TESTS

PENALTY MECHANISM – PROCESS

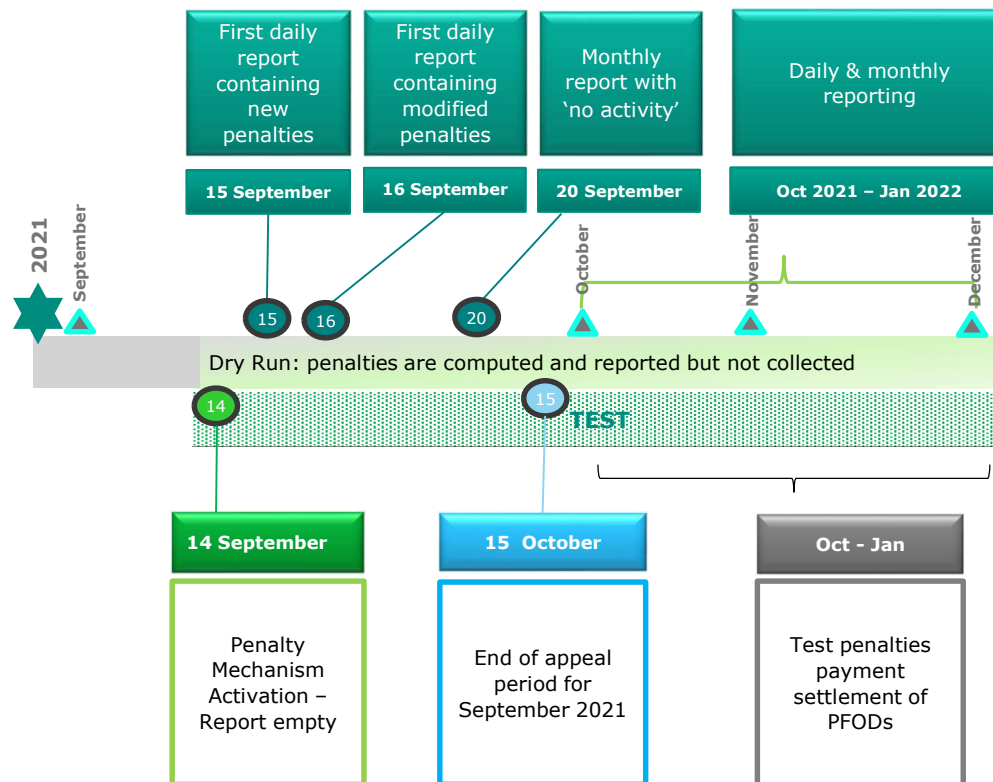
After the activation of the T2S penalty mechanism the daily penalties reports are sent to all Interbolsa participants as following:

- On the **14th** and **15th** of September 2021 was sent the daily penalties reports containing no penalties ('no activity')
- The **first daily penalties report** containing new penalties (if applicable) was sent on the **16th of September 2021**
- The **first daily modified penalties report** containing modified penalties (if applicable) was sent on the **17th of September 2021**
- Afterwards **daily penalties report**, containing new penalties (if applicable), and **daily modified penalties report**, containing modified penalties, is sent every day
- Requests of modification (Appeals) is allowed by Interbolsa from the first day penalties are reported until the 10th Penalties Business day (PBD) of the following month, i.e., 14th of October 2021 for the first month (September 2021)
- The **first monthly report** will be sent on the 14th PBD of the following month, i.e., **20th of October 2021**;
- On the 15th PBD of the following month, i.e., **21th of October 2021**, Interbolsa will make available, via STD, the information with the cash forecast of the Collection and Distribution, with payment date on the 17th PBD of the following month, i.e., 25th of October 2021, but the PFOD instructions will not be created by Interbolsa (no settlement will take place).

The 'Dry Run' tests will continue until the end of January 2022.

T2S DRY RUN TESTS

PENALTY MECHANISM – TIMETABLE



GO LIVE



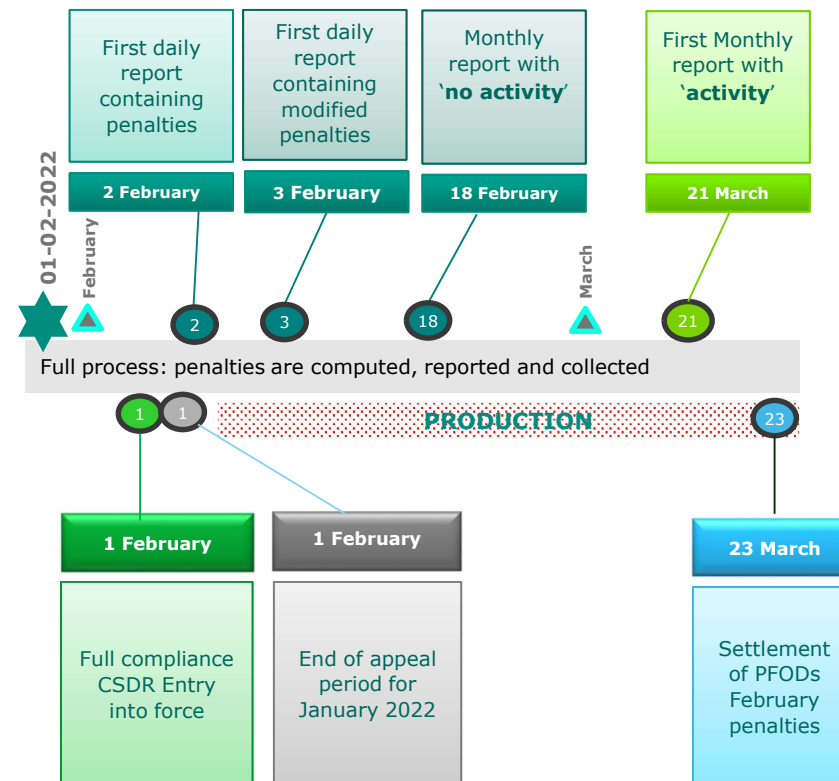
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GO LIVE

PENALTY MECHANISM – TIMETABLE



4. QUESTIONS & ANSWERS





GLOSSARY

- BATM: Bilaterally Agreed Treasury Management
- BD: Business Day
- CBO: Central Bank Operation
- CCP: Central Counterparty Clearing House
- CMVM: Comissão do Mercado de Valores Mobiliários (Portuguese Securities Market Commission)
- COB: Close of Business
- CPFOD: Credit Payment Free of Delivery
- CR: Change Request
- CSD: Central Securities Depository
- CSDR: CSD Regulation
- CSG: T2S CSD Steering Group
- DFP: Delivery free of Payment
- DPFOD: Debit Payment of Delivery
- DVP: Delivery versus Payment
- DWP: Delivery with Payment
- EC: European Commission
- ECB: European Central Bank
- ECSDA: European CSDs Association
- EOD: End of Day

- ESMA: European Securities and Markets Authority
- EU: European Union
- FIRDS: Financial Instruments Reference Database System (of ESMA)
- FOP: Free of Payment
- FX: Foreign exchanges
- ISD: Intended Settlement Date
- LMFP: Late Matching Fail Penalty
- MIC: Market Identifier Code
- MiFID: Markets in Financial Instruments Directive
- MiFIR: Markets in Financial Instruments Regulation
- MW: Maintenance window
- NTS: Night Time Settlement
- OJ: Official Journal
- RFP: Receipt Free of Payment
- RTS (CSDR): Regulatory Technical Standards
- RTS: Real Time Settlement
- RVP: Receipt versus Payment
- RWP: Receipt with Payment
- SDR: Settlement Discipline Regime
- SEFP: Settlement Fail Penalty
- SFD: Settlement Finality Directive
- SI: Settlement instruction
- SoD: Start of the day



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