



SETTLEMENT DISCIPLINE CASH PENALTIES

OPERATIONAL MANUAL
EXTERNAL DOCUMENT

/ PORTO

INDEX

1.	INTRODUCTION	4
2.	MEASURES TO ADDRESS FAILS	5
2.1.	SYSTEM TO MONITOR & REPORT SETTLEMENT FAILS	5
2.2.	CASH PENALTIES	6
2.3.	BUY-INS.....	6
3.	CASH PENALTIES	7
3.1.	BUSINESS DAY DEFINITION.....	7
3.1.1.	BUSINESS DAYS (BD).....	7
3.1.2.	PENALTIES BUSINESS DAYS (PBD)	7
3.2.	REFERENCE DATA REQUIRED FOR PENALTY CALCULATIONS	7
3.2.1.	SECURITIES SUBJECT TO PENALTY.....	8
3.2.2.	INSTRUCTIONS SUBJECT TO PENALTIES	8
3.2.3.	DAILY REFERENCE PRICE.....	9
3.2.4.	INSTRUMENT LIQUIDITY/ ILLIQUIDITY CLASSIFICATION	10
3.2.5.	INSTRUMENT TRADING SEGMENT “SME GROWTH MARKET” – PLACE OF TRADING INFORMATION.....	10
3.2.6.	INSTRUMENT CATEGORY PENALTY RATE.....	10
3.2.7.	CENTRAL BANK DISCOUNT RATE.....	11
3.2.8.	FOREIGN EXCHANGE RATES	12
3.3.	DAILY CALCULATIONS.....	12
3.4.	DAILY REPORTING.....	13
3.5.	MONTHLY REPORT.....	15

3.6.	MONTHLY APPEAL PERIOD	15
3.7.	MONTHLY AGGREGATED AMOUNTS.....	17
3.7.1.	MONTHLY BILATERAL NET PER COUNTERPARTY	18
3.7.2.	GLOBAL NET (MONTHLY AMOUNT TO BE PAID OR TO BE RECEIVED).....	19
3.8.	MESSAGES AND REPORTS FORMATS	19
3.9.	COLLECTION AND DISTRIBUTION	22
3.10.	COLLECTION & DISTRIBUTION OF CASH PENALTIES - CONTINGENCY PROCEDURES.....	23
3.11.	CROSS-CSD SETTLEMENT FAILS - SPECIFICITIES.....	24
3.12.	PENALTIES WHERE THE PARTICIPANT IS A CCP	27
3.12.1.	Main Principles.....	27
3.12.2.	T2S settlement fails.....	28
3.12.3.	Penalties calculation and reporting on cleared transactions by ES Porto	28
3.12.4.	Penalties collection and redistribution on cleared transactions by the CCP	29

1. INTRODUCTION

On July 23, 2014, the European Parliament and the Council issued Regulation (EU) 909/2014 [hereinafter, CSDR] aiming at the harmonisation of the regulatory environment of securities settlement and Central Securities Depositories in the European Union.

On May 25, 2018, the European Commission officially published the Delegated Regulation 2018/1229, supplementing Regulation (EU) 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on settlement discipline regime (RTS SD).

The Settlement Discipline regime is a key requirement of the CSD Regulation (CSDR) which purpose is to promote the operational efficiency of CSDs and thereby contribute to a timely and efficient settlement within the European Union.

Under this regime, Euronext Securities Porto has been:

- Introducing a set of rules and procedures in order to encourage the settlement of transactions on the intended settlement date;
- Adopting a range of measures to prevent settlement fails;
- Analysing the measures foreseen in the CSDR to address settlement fails;
- Promote the dialogue and sharing of relevant information on the subject, with the Market;
- Provide to its Participants the essential functionalities for the entry into force of this new regime.

The CSDR Settlement Discipline regime shall enter into force on February 1, 2022.

2. MEASURES TO ADDRESS FAILS

2.1. SYSTEM TO MONITOR & REPORT SETTLEMENT FAILS

Under article 7(1) of CSDR, Euronext Securities Porto is implementing a system that monitors settlement fails of transactions in financial instruments referred to in Article 5(1) of CSDR. The system contains all the details referred in article 13 of the Commission Delegated Regulation (EU) 2018/1229 (RTS on settlement discipline or RTS SD).

Under article 7 (1) of the CSDR and article 14 of RTS SD, Euronext Securities Porto will provide regular reports to its competent authority and relevant authority as to the number and details of settlement fails and any other relevant information, including the measures envisaged by Euronext Securities Porto and its participants to improve settlement efficiency.

The details related to the monthly information to be provided to the regulator are established in the Annex I of the RTS SD, and the information is elaborated in accordance with the information already published by ESMA, namely the Technical Reporting Instructions CSDR Article 7 – Settlement Fails Reporting, Guidelines on Settlement Fails Reporting and the CSDR Settlement Fails XML Schema. According to the CMVM draft regulation that was in public consultation until January 21, 2022, the monthly information related to settlement fails will be disclosed through the CMVM extranet.

The competent authority will share with ESMA the relevant information on settlement fails.

Under article 15 of RTS SD, Euronext Securities Porto will made public, on an annual basis, in its website, the information set out in Annex III of the RTS SD, in an aggregated and anonymised form.

2.2. CASH PENALTIES

Euronext Securities Porto has to establish procedures that facilitate settlement of transactions in financial instruments referred to in Article 5(1) of the CSDR that are not settled on the intended settlement date.

The cash penalties will serve as an effective deterrent for participants that cause settlement fails ('failing participants').

Euronext Securities Porto has decided to use the T2S Penalty Mechanism.

Cash penalties will be calculated by the T2S Penalty Mechanism, on a daily basis for each business day that a transaction fails to be settled after its intended settlement date until the end of a buy-in¹ process, but no longer than the actual settlement day.

The cash penalties will not be considered as a revenue source for Euronext Securities Porto.

2.3. BUY-INS

The current wording of the CSDR regarding the Buy-ins regime provides that, without prejudice to the penalty mechanism and the right to bilaterally cancel the transaction, where a failing participant does not deliver the financial instruments referred to in Article 5(1) of the CSDR to the receiving participant within 4 business days after the intended settlement date ('extension period') a buy-in process shall be initiated whereby those instruments shall be available for settlement and delivered to the receiving participant within an appropriate time-frame.

Where the transaction relates to a financial instrument traded on an SME growth market the extension period shall be 15 business days unless the SME growth market decides to apply a shorter period.

The European Parliament and the European Council have officially agreed to postpone the implementation of the mandatory buy-in regime included the CSDR Settlement Discipline.

¹ The European Parliament and the European Council have officially agreed to postpone the implementation of the mandatory buy-in regime.

3. CASH PENALTIES

3.1. BUSINESS DAY DEFINITION

3.1.1. BUSINESS DAYS (BD)

Business days are those days on which an instruction can settle in Euronext Securities Porto' system (and in the payment system in case of settlement versus payment – TARGET2 for EUR or SPME for non-EUR currency) ("opening days").

Applicable business days calendars:

- the Euronext Securities Porto's own settlement calendar;
- the payment system calendar of the relevant currency – TARGET2 for EUR or SPME for non-EUR currency.

Based on the above, a penalty will not be applied:

- for 'free of payment' instructions: for the days when the Euronext Securities Porto settlement system is closed;

- for 'against payment' instructions: for the days when the Euronext Securities Porto settlement system and/ or the payment system of the relevant currency is closed (if the cash leg is to be settled in the payment system of the relevant currency).

3.1.2. PENALTIES BUSINESS DAYS (PBD)

ECSDA CSDs agreed on common principles for a harmonised process in the definition and counting of "business days" for the CSDR penalties management.

For clarity, such specific "business days" are called "Penalties Business Days" (PBD). The PBDs may differ from the actual "business days" of a CSD's settlement system or payment system calendar.

3.2. REFERENCE DATA REQUIRED FOR PENALTY CALCULATIONS

Euronext Securities Porto has entered into a data agreement with a data provider in order to obtain

all the information needed to send to the T2S Penalty Mechanism for the penalties calculation, such as the securities subject to penalties and the daily prices.

3.2.1. SECURITIES SUBJECT TO PENALTY

- A CSD-eligible MiFID II/MiFIR 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.

3.2.2. INSTRUCTIONS SUBJECT TO PENALTIES

Settlement fails penalties will be calculated for all Settlement Instructions, free of, against or with payment that are:

- matched (prior, on or after their Intended Settlement Date - ISD); and
- failing to settle on and after their ISD.

EXEMPTIONS:

- Settlement transactions that do not represent “transfer orders⁽²⁾” according to the second indent of point (i) of Article 2 of Directive 98/26/EC [Settlement Finality Directive];
- Corporate Actions (CA) on stock (ISO transaction code CORP);
- Technical instructions (e.g., T2S automatic realignments - ISO transaction code REAL);
- T2S settlement restrictions (blocking, reservation, earmarking).

Note:

- (T2S) Auto-collateralisation operations, while automatically generated, are considered in scope;
- Primary issuance settlements are in scope (except the process of initial creation of securities which cannot be regarded as a “transfer order” from a legal standpoint);

⁽²⁾ Definition: “Any instruction by a participant to place at the disposal of a recipient an amount of money by means of a book entry on the accounts of a credit institution, a central bank, a central counterparty or a settlement agent, or any instruction which results in the assumption or discharge of a payment obligation as defined by the rules of the system, or an instruction by a participant to transfer the title to, or interest in, a security or securities by means of a book entry on a register, or otherwise.”

- Treatment of Investment Funds redemptions/ subscriptions order routing instructions (CSD model vs. TA model/ transfer order vs. settlement instructions model).

3.2.3. DAILY REFERENCE PRICE

The daily reference 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 maximum three months of historical prices when relevant, e.g., for late matching fails), independently from when the calculation is actually performed.

- 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”³.

ASSUMPTION:

- For instruments that no updated daily MiFID/R price is available, it will be used the latest MiFID/R price;
- Where no MiFID II/R price or market value is available, Euronext Securities Porto will use:
 - for debt instruments: nominal value (in the ISIN denomination currency);
 - for non-debt instruments: default price (e.g., issue price).

The amount imposed by the penalty will be calculated:

- for against payment settlement fails:
 - in the currency of the cash leg.
- for free of payment settlement fails:
 - either in the currency of the underlying security if the instrument is quoted in nominal or per cent (usually fixed income instruments); or
 - in the currency of the daily reference price if the underlying security is quoted in units (usually shares); or
 - in a default currency as defined by and eligible for settlement in the Calculating-CSD.

IMPORTANT NOTE: Euronext Securities Porto, in its role of the penalties Calculating-CSD, will use a single currency for all penalties (related to both, free of and against payment settlement fails), e.g., will convert all daily penalties in a single default currency (the Euro).

³ This information will only be provided by ESMA in the beginning of February 2022.

3.2.4. INSTRUMENT LIQUIDITY/ ILLIQUIDITY CLASSIFICATION

The liquidity indicator is a binary classification of securities that, for the purpose of penalties calculation, only applies to shares, i.e., when the Financial Instrument Type of the security is "SHRS" and specifies if the security is "Liquid" or "Illiquid".

3.2.5. INSTRUMENT TRADING SEGMENT "SME GROWTH MARKET" – PLACE OF TRADING INFORMATION

The SME Growth Market indicator is a binary classification of securities that applies for any type of securities and that specifies whether the security is listed in a SME Growth Market.

For the sake of identifying the applicable penalty rate, Euronext Securities Porto participants must identify whether the instrument to be settled was actually traded on an EU SME Growth Market by verifying both, the receiving and delivering instruction of the settlement transaction.

Only when both instructions show the same "Place of trading" four-digit MIC (Market Identifier Code) the reduced penalty rate applicable to SME instruments will be applied.

3.2.6. INSTRUMENT CATEGORY PENALTY RATE

Euronext Securities Porto will apply the Penalty rates as published in the Delegated Regulation (EU) 2017/389.

Type of fail	Rate
1. Settlement fail due to a lack of shares that have a liquid market within the meaning of point (b) of Article 2(1)(17) of Regulation (EU) 600/2014, excluding shares referred to in point 3	1,0 basis point
2. Settlement fail due to a lack of shares that do not have a liquid market within the meaning of point (b) of Article 2(1)(17) of Regulation (EU) 600/2014, excluding shares referred to in point 3	0,5 basis point

Type of fail	Rate
3. Settlement fail due to a lack of financial instruments traded on SME growth markets , excluding debt instruments referred to in point 6	0,25 basis point
4. Settlement fail due to a lack of debt instruments issued or guaranteed by: <ul style="list-style-type: none"> (a) a sovereign issuer as defined in Article 4(1)(60) of Directive 2014/65/EU; (b) a third country sovereign issuer; (c) a local government authority; (d) a central bank; (e) any multilateral development bank referred to in the second subparagraph of Article 117(1) and in Article 117(2) of Regulation (EU) 575/2013 of the European Parliament and of the Council; (f) the European Financial Stability Facility or the European Stability Mechanism. 	0,10 basis point
5. Settlement fail due to a lack of debt instruments other than those referred to in points 4 and 6	0,20 basis point
6. Settlement fail due to a lack of debt instruments traded on SME growth markets	0,15 basis point
7. Settlement fail due to a lack of all other financial instruments not covered in points 1 to 6	0,5 basis point
8. Settlement fail due to a lack of cash	Official interest rate for overnight credit charged by the central bank issuing the settlement currency with a floor of 0 (zero)

3.2.7. 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 will be divided by 360 days (in order to generate the applicable daily penalty rate).

For T2S CSDs, it is T2S that provides, under the Penalty Mechanism, the reference data related to the Central Bank Discount rate.

3.2.8. FOREIGN EXCHANGE RATES

For non-EUR currencies, the relevant Central Banks' Foreign exchange (FX) rates will be consulted. For FOP instructions related penalties, a FX conversion to another currency may be required.

The relevant FX rate for the relevant currency of the failing settlement instruction must be sourced to the Penalty Mechanism (for EUR, various FX rates are published by ECB on its website).

For T2S CSDs, it is T2S that provides, under the Penalty Mechanism, the reference data related to the Foreign Exchange Rates.

3.3. DAILY CALCULATIONS

Euronext Securities Porto, through the T2S penalty mechanism, will calculate daily penalties for each instruction that:

- i. failed to settle on its intended settlement date (SEFP); or
- ii. matched after its intended settlement date (LMFP).

For the computation of the Settlement Fail Penalties (SEFP), it is considered the different FOP and DVP settlement cut-off times of Euronext Securities Porto settlement system.

For the computation of the Late Matching Fail Penalties (LMFP), it is considered the number of days after the ISD until the day of the late matching and end of the business day, as matching could still occur until then.

Daily penalties calculations for every single failed settlement instruction will be completed by Euronext Securities Porto as soon as possible to make the daily reports available to its participants (including other directly linked CSDs) in a timely manner, i.e., optimally latest by midday (12:00 p.m. CET) on the business day following the settlement fail. Euronext Securities Porto daily reports will be provided after receiving the reporting from the T2S Penalty Mechanism. No "intraday" penalties calculation or reporting will apply.

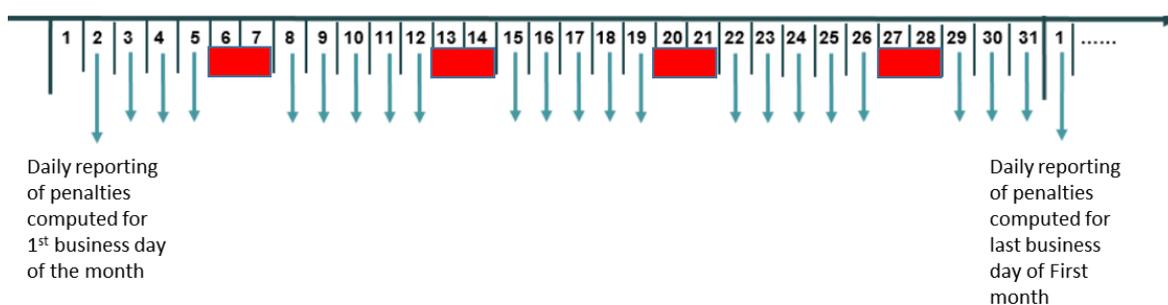
For every failing settlement instruction, Euronext Securities Porto will calculate, for each party, the net penalties (i.e., the single credit or debit net amount) per CSD, currency and counterparty on a daily basis.

Under exceptional circumstances ⁽⁴⁾, daily penalties previously calculated by Euronext Securities Porto for the current calendar month, could be amended (i.e., re-calculated due to changes in applicable reference data) or removed (i.e., cancelled) on any business day until the appeal period has ended (see 3.5).

3.4. DAILY REPORTING

Euronext Securities Porto will send daily penalty reports to their participants when there are new, amended, removed or re-included penalties during the day. The penalty calculation period will be one calendar month. For each business day, Euronext Securities Porto will generate two separate reports: one for the new penalties and one for the amended, removed or re-included ones (Modified Penalties), if applicable.

First MONTH (computation and reporting of penalties)



Euronext Securities Porto will report penalties for each “party” and aggregated per counterparty (a participant in Euronext Securities Porto system). In the case no penalty is to be applied (i.e., no

⁽⁴⁾ See ESMA CSDR Q&A “Settlement Discipline Questions 4 – Cash penalties: scope”.

failed transaction resulted in new penalties, amendments, removals or re-inclusions) for one reporting day for a party, a “no activity” report will be sent.

Euronext Securities Porto will deliver the daily reports to their participants after the closing of the settlement day on which (new or previous) penalties were calculated, amended, removed or re-included and optimally latest until midday (12:00 p.m. CET) on the following business day. Penalties for fails on a Friday will be calculated and reported on Monday morning. Euronext Securities Porto daily reports will be provided after receiving the reporting from the T2S Penalty Mechanism.

Daily penalties are computed for and reported to the relevant failing and non-failing party. Euronext Securities Porto will hence report twice each penalty computed:

1. The one applicable to the failing party (i.e., party imposed with the penalty), and
2. The one applicable to the non-failing party (i.e., party entitled to receive the penalty).

The failing party and the non-failing party are the two counterparts instructing the settlement transaction and consequently the respective owners of the involved securities accounts.

It shall be noted that, in case of a “cross-CSD scenario” Euronext Securities Porto will consider the other involved CSD as the owner of the relevant securities account of the underlying settlement instruction.

Within the messages for daily reporting:

- The party will be a repetitive block in order to be able to include all the information in a single message. Euronext Securities Porto will report cash penalties for a given party sorted by CSD (for cross-CSD fails), currency and counterparty of the penalty (i.e., non-failing or failing party, respectively);
- It is understood that an individual penalty contained in the report of a specific participant will have a mirror entry (debit vs. credit) in the penalty report of the relevant counterparty, i.e., will be on the participant level reported in two penalty reports;
- The daily reports contain only the amounts and information for a specific business day, i.e., they do not reflect exposures accrued in the course of several failing days.

The information listed above will be available through:

- ISO 20022 messages- semt.044 (only for DCPs, if subscribed);
- ISO 15022 messages - MT537 (if subscribed);

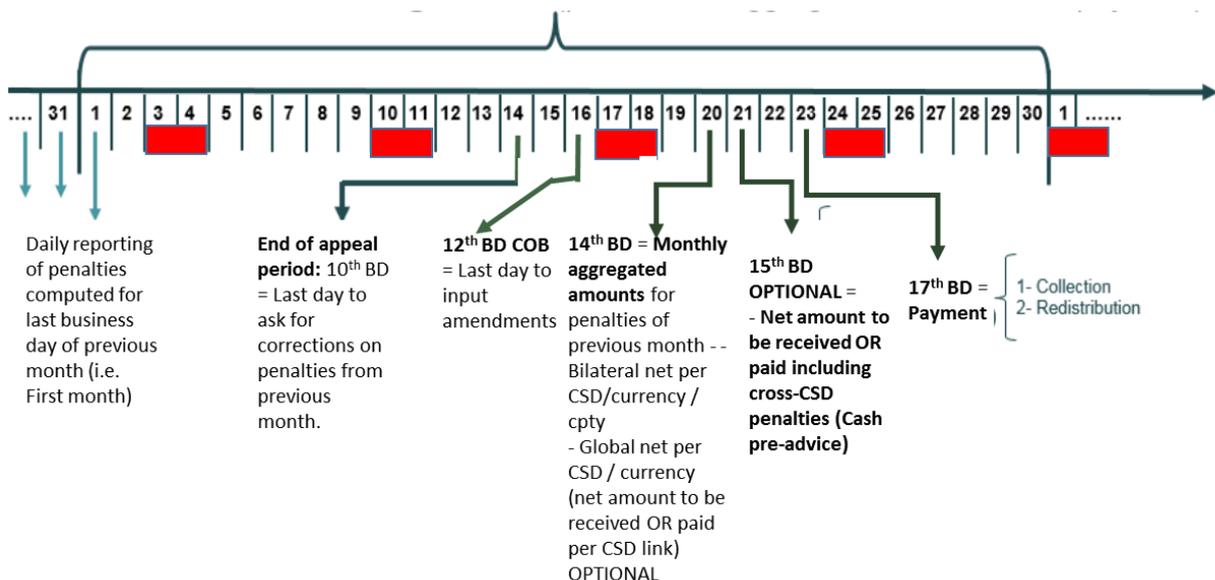
- STD files:
 - **PENDAGGR** - Daily Aggregated Information on Penalties
 - **PENDETL** - Daily Penalties Details Information **PENDCALC** - Daily Penalties Calculation Information

3.5. MONTHLY REPORT

Euronext Securities Porto will follow the same principles defined for all CSDs in the ECSDA CSDR Penalties Framework to ensure that the appeal period and monthly penalty reporting occur prior the 15th business day.

The below timeline illustrates the monthly reporting, assessment and payment process:

Following MONTH (provision of aggregated amounts and payment)



3.6. MONTHLY APPEAL PERIOD

Euronext Securities Porto will apply a dedicated appeal period for its 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 Euronext Securities Porto participants at any time during the calendar month, as from the moment of computation and reporting of the penalty, and until (including) the 10th business day of the following month.

Any amendment requested after the appeal period ended cannot be taken into account by Euronext Securities Porto.

Reasons for appeals may be the situations listed in the ESMA CSDR Q&As “Settlement Discipline Questions 4 – Cash penalties: scope”, or any similar situation ⁽⁵⁾:

- 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 Euronext Securities Porto:
 - if, on the respective day, the relevant payment system is closed for settlement (e.g., settlement instructions in one of the currencies accepted in the SLME – Non-Euro Currency Settlement System, for which the cash leg settles in the SPME – Non-Euro Currency Payment System managed by Caixa Geral de Depósitos);
- Technical impossibilities at Euronext Securities Porto level that prevent settlement, such as: a failure of the infrastructure components, a cyber-attack, network problems.

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

By close of business on the 12th business day of the following month, any adjustment resulting from appeals will be completed by Euronext Securities Porto, to be reported on the 13th business day by midday (12:00 p.m. CET) at the latest.

In order to apply for an appeal, Euronext Securities Porto participants should send to Euronext Securities Porto, the following information:

- Identification of the Participant;
- Date of detection of modified and reported penalties;

⁽⁵⁾ Note that, in the absence of a single central source, the reference prices applied by CSDs may slightly deviate for a single instrument that can be settled in multiple CSDs; such deviations do not represent a valid reason for lodging “appeals” towards the CSDs.

- The T2S reference of the penalty;
- Penalty-Type-Code;
- The reason for the appeal;
- The 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).

Appeals represent an exception handling.

Euronext Securities Porto's process for appeals, related to the communication requirements to submit an appeal and to provide the outcome of the appeal assessment to the appealing participant, is the following:

1. Euronext Securities Porto Participants send a file or a message, '**PENAPfil**'/'**PENAPmsg**', through the STD application with the information of the penalties to be modified and receive the feedback on a message - '**PENAP**' - with all the appeals penalties sent with the status '**PEND**' (waiting for Euronext Securities Porto and T2S verification and approval).
2. If the appeal is **rejected**, Participants are informed via STD, message '**PENAP**' with the status '**REJT**' and with the reason of the rejection.
3. If the appeal is **accepted**, Participants are informed via STD, message '**PENAP**' with the status '**ACPT**';
4. In the next day, Participants will received the modification reports with the modify penalties accepted:
 - '**PENMODTL**' - Modified Penalties Detail Information
 - '**PENMOCAL**' - Modified Penalties Calculation Data Information
 - '**PENMOAGR**' - Aggregated Information on Modified Penalties

3.7. MONTHLY AGGREGATED AMOUNTS

On the 14th PBD of the following month, Euronext Securities Porto will report the monthly aggregated amounts for the penalties of the previous month (i.e., the aggregated amounts of the penalties computed for all the business days of the previous month).

The 14th PBD is the last day when the monthly reporting can be sent. If Euronext Securities Porto is closed on this day, the monthly reporting will be sent prior to the 14th PBD.

For each party, per currency and counterparty, Euronext Securities Porto will sum up all the cash penalties that this party can be expecting to be credited or debited with.

If the net result is a credit, the party can expect a cash payment from this counterparty. If the result is a debit, the party will have to pay this counterparty.

Thus, the monthly reporting will include, 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.

3.7.1. MONTHLY BILATERAL NET PER COUNTERPARTY

On the 14th business day of the month, bilateral net amounts of the penalties computed for all the business days of the previous month is calculated per CSD, currency and party against each of its counterparties.

When calculating the monthly aggregated amounts, Euronext Securities Porto will consider the last available value of the amount of each penalty aggregated (i.e., Euronext Securities Porto will take into account all the modifications performed until the end of the penalties appeal period, i.e., changes until and including the 11th business day of the following month).

This aggregation of the monthly penalties per CSD, currency and counterparty (i.e., bilateral net amounts) allows to:

- Isolate the amounts of the CCPs that will not be collected and redistributed by Euronext Securities Porto;
- Isolate non-payments from Euronext Securities Porto participants (i.e., participants affected by a non-payment of its counterpart as well as the amount that cannot be distributed by Euronext Securities Porto since it was not collected could be easily identified);
- Provide a netting as required by the CSDR;
- Reduce the required liquidity.

Accordingly, for each CSD, party and currency, the monthly bilateral net amount equals to:

– The sum of all the cash penalties of the previous month in the relevant currency, that the party is entitled to receive (reported as credit) from a given counterparty (i.e., to be paid by this counterparty);

Minus

– The sum of all the cash penalties of the previous month in the relevant currency and that were imposed to the party (reported as debit), and to be paid to the same counterparty.

Subsequently, for each party of Euronext Securities Porto, a “net amount per counterparty” is calculated.

If the result is a positive amount, the bilateral net amount will be a credit for the party (i.e., an amount entitled to be received from the counterpart) and if the result is a negative amount, the bilateral net amount will be a debit (i.e., an amount due to the counterpart).

3.7.2. GLOBAL NET (MONTHLY AMOUNT TO BE PAID OR TO BE RECEIVED)

On the 14th business day of the month, a “global net amount” of the monthly nets (by counterparty) bilateral amounts is calculated per CSD and currency for each CSD party.

Accordingly, for each CSD, currency and party, the monthly net amount equals to:

– The sum of all the net bilateral amounts in the relevant currency that the party is entitled to receive (reported as credit and for all counterparties);

Minus

– The sum of all the net bilateral amounts in the relevant currency and that were imposed to the party (reported as debit and for all counterparties).

The “global net” amount resulting from this calculation will either be an amount due by the party (i.e., to be paid by the party), or an amount to be received by the party. This amount will be reported to Euronext Securities Porto participants, through a new STD file (mnemonic PENMPAYM - Monthly Penalties - Payment Forecast).

3.8. MESSAGES AND REPORTS FORMATS

For the purpose of exchanging penalties information between Euronext Securities Porto and its participants in a Straight-Through-Processing (STP) way, penalties reports content and formats

used will be harmonised. Such approach will enable all involved parties to apply a common messaging and communication process, by using ISO reports for Application-to-Application (A2A) message exchanges.

ISO 20022 messages

For the ISO 20022 format, a semt.044 message dedicated to penalty messaging will be used.

The features of this message are as follows:

- It is a message dedicated to penalty reporting and its peculiarities (new information fields);
- It uses the most recent ISO standard in XML format;
- It has hierarchical blocks, repetitive for every party. These repetitive party blocks contain repetitive blocks for counterparties, with the specific penalties' information (report->party->counterparty->penalty). These repetitive blocks might ease the processing of reports further down the line as they will already contain the needed block of information; and
- The proposed message contains fields going beyond the potential group of mandatory fields and can possibly accommodate also optional and additional fields if needed.

The penalties amounts will contain a "credit" (for amounts to be received by the CSD participant) or "debit" (for amounts to be paid by the CSD participant) indicator.

Example:

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

ISO15022 messages: Penalties calculation reporting

Based on the T2S ISO 20022 messages content and structure, the existing ISO 15022 messages MT537 were adapted by SWIFT to cover penalties related information by introducing a "PENA" sequence:

- The MT537 (Statement of transactions) contains a dedicated new "PENA" sequence specific to the penalties reporting, in order to avoid any rejection of a 'standard' MT537 received after the settlement of the transaction;

- The MT537 "PENA" message includes new fields and repetitive blocks containing information such as late matching/ settlement fail; reporting of underlying transaction; penalty ID; credit/debit indicators; calculation parameter references. The new fields will correspond to the new ISO 20022 message in their content and level, although there might be alternative approaches to the content of some fields, if the nature of the field requires it;

- The penalties amounts will contain a "N" (debit) indicator for amounts to be paid by the Euronext Securities Porto participant.

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	

- **STD – Sistema de Transferência de Dados (Data Transfer System)**

Euronext Securities Porto also uses its proprietary solution (STD) to report penalties as an additional option.

3.9. COLLECTION AND DISTRIBUTION

On the 17th PBD of the following month, Euronext Securities Porto will collect and distribute the penalties amounts from/to its participants.

If the Euronext Securities Porto systems and/or the payment system of the relevant currency is closed on the 17th PBD, the payment will be done on the next possible business day.

For the penalties' payments processing, Euronext Securities Porto will generate PFOD instructions:

- on the 15th PBD Euronext Securities Porto will create PFOD instructions to receive the cash amounts from its participants that have to pay cash penalties and to deliver the cash amounts to the participants that have to receive cash penalties;
- Euronext Securities Porto's participants must have adequately funded their relevant cash account (DCA⁶) in order for the PFOD to timely settle on the 17th PBD.

The PFOD instructions will contain the following information:

- ✓ **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**

enalties.

The generation the PFOD instruction and the respective settlement will be made available through the usual outputs:

- via STD - SLRT, SLRT-PND, SLRT-RES
- ISO 15022 - status advice and settlement confirmations messages
- ISO 20022 - status advice and settlement confirmations messages (only for DCPs)

The rules of the T2S settlement platform will be applied to the PFOD instructions (i.e., recycling, reporting or other relevant rules).

In this context, Euronext Securities Porto participants must ensure that penalty amounts due are available to Euronext Securities Porto and that they comply with their payment obligations towards Euronext Securities Porto on time to avoid delays and processing issues due to a lacking or incomplete penalties collection by the 17th PBD.

In the penalties collection process, the PFOD settlement will lead to a credit of the Euronext Securities Porto 's penalties cash account (T2S DCA) – Collection, and a debit of the Euronext Securities Porto participant 's cash account (T2S DCA) - Distribution. The process of collection and redistribution will be managed in a phased approach to make sure Euronext Securities Porto does not pre-finance any payment. The overall payment process consists of the following phases:

1. Collection from the Euronext Securities Porto's participants (as well as receiving the subsequent payments from other CSDs) that are due to pay penalties;
2. Redistribution to Euronext Securities Porto's participants (as well as delivering the subsequent payments to other CSDs) that are due to receive penalties.

All steps will be performed completely on the 17th PBD. If not, a contingency process will be adopted by Euronext Securities Porto.

3.10. COLLECTION & DISTRIBUTION OF CASH PENALTIES - CONTINGENCY PROCEDURES

On the 15th PBD, Euronext Securities Porto will create PFOD instructions to receive the cash amounts from its participants that have to pay cash penalties and to deliver the cash amounts to the participants that have to receive cash penalties.

Euronext Securities Porto's participants must have adequately funded their relevant cash account (DCA⁷) to allow the timely settle of PFOD on the 17th PBD.

If in the morning of the 17th PBD is missing the payment by any participant for the collection, Euronext Securities Porto will contact the failing participant by email and/or phone on the 17th PBD, from 9h30 CET. The participant must transfer the cash amount for the payment, before 16h00 CET, DVP cut-off (limit time for the resolution of the settlement fail).

In case the collection and redistribution could not be performed on the planned payment date, **after 16:00 CET, on the 17th PBD, Euronext Securities Porto will trigger the Contingency Procedure:**

Preparation of the new Collection and Distribution process:

- Cancellation of the PFOD instruction in T2S;
- Identification and exclusion from the process the instructions of the failing participant;
- Preparation of the new PFOD instructions to be sent to T2S.

On the 18th PBD, at 19:00 CET (17th Calendar day) Euronext Securities Porto will made available to the participants:

- New Cash Forecast;
- Send an email informing the new date/time for the settlement of the Collection and Distribution.

On the 18th PBD, during the day (real time), Euronext Securities Porto will send to T2S the new PFOD instructions, with the new settlement date.

The Collection and Distribution process must be finalized until the end of the month.

3.11. CROSS-CSD SETTLEMENT FAILS - SPECIFICITIES

(⁷) For this purpose, Euronext Securities Porto participants can use the default DCA or inform a DCA specific for settlement penalties.

For settlement fails involving multiple CSDs (cross-CSD settlements), SDR penalties, if applicable, will be calculated only by one CSD (the “Calculating-CSD”, i.e., the CSD where settlement is actually taking place based on the “actual place of settlement” concept). This also means that an Investor-CSD being a participant in another CSD (e.g., Issuer CSD) shall comply with the Terms & Conditions of the latter CSD.

Daily calculations

In line with the “actual place of settlement” concept, if Euronext Securities Porto is acting as an Investor-CSD, it shall wait for the daily amounts to be provided by the Calculating-CSD where settlement is actually taking place and report them afterwards to its own participants.

The daily calculation performed by the Calculating-CSD considers Euronext Securities Porto (Investor-CSD) as a standard participant (in the other CSD’s books). It means that the Calculating-CSD cannot provide the daily penalties at the level of the Euronext Securities Porto’s participants. The Calculating-CSD shall report the daily penalties to the Euronext Securities Porto (Investor-CSD), as soon as possible and until latest 12:00 p.m. CET on the business day following the settlement fail, in order for Euronext Securities Porto (Investor-CSD) to report these cross-CSD penalties in a timely manner to its own participants.

Daily Reporting

The daily reporting shall segregate the penalties resulting from the intra-CSD activity, and the ones resulting from the cross-CSD activity. In such a case, Euronext Securities Porto participants might receive up to four reports, for the same business day:

- a report including all new intra-CSD penalties;
- a report including the penalties intra-CSD which were amended, removed or re-included;
- a report including all new cross-CSD penalties;
- a report including the penalties cross-CSD which were amended, removed or re-included.

Calculating-CSD shall provide the daily reports latest until midday (12:00 p.m. CET) while CSD’s depending on the reporting of a settlement platform (like T2S) or Calculating-CSD shall provide their reports ideally until latest 14:00 p.m. CET. The receiving CSD will in turn report these penalties to its participants. Thus, Euronext Securities Porto participants should consider that cross-CSD penalties may be reported later than intra-CSD penalties (depending on the time of receipt from the Calculating-CSD). Whenever possible, the intra-CSD penalties and cross-CSD penalties will be reported at the same time.

The penalty information shall be passed on to the part of the failing settlement instruction, as it appears in the Euronext Securities Porto (Investor-CSD) records.

In case of a CSD-link, the failing party may be a participant or an underlying client of a participant of the relevant linked CSD.

Monthly Events

Monthly appeal period

In a cross-CSD context, the appeal period ends at close of business on the 11th PBD of the following month. It allows CSDs to still pass on to other CSDs the appeals requested by CSD participants on the 10th PBD. At close of business on the 11th Penalties Business Day, CSDs shall no longer request appeals to other CSDs. In case the 11th PBD is a CSD closing date, the appeal end date will be preponed to an earlier date. It means that the end of the appeal period for participants (planned on the 10th PBD) will also be moved to an earlier date.

An appeal requested latest until the 10th PBD by an Euronext Securities Porto participant and accepted, must be sent to the other CSD on the 11th PBD, and thus will be reported to the Euronext Securities Porto participant on the 12th PBD (depending on the settlement chain).

By close of business on the 12th PBD of the following month, any adjustment resulting from appeals shall be completed, to be reported on the 13th PBD ideally latest until 14:00h p.m. CET.

Monthly aggregated amounts

The process will be identical to the one described for Intra-CSD settlement fails. The monthly aggregated amounts will include the cross-CSD penalties separated by CSD.

Monthly payment (collection and redistribution)

In a cross-CSD scenario, the process will slightly differ compared to the normal one, as CSDs are not themselves responsible for supplying the funds to proceed with the penalties' payment.

On the 17th PBD of the month, all involved CSDs shall have collected the amounts due by their participants (including those that are CSDs themselves), in order to be able to start the payment process across CSDs.

If the CSD and/ or the payment system of the currency is closed on the 17th PBD the payment will have to be done on the next possible business day.

3.12. PENALTIES WHERE THE PARTICIPANT IS A CCP

3.12.1. Main Principles

Commission Delegated Regulation (EU) 2018/1229 (SDR RTS) defines, in article 19, a specific exception in relation to the CSD collection and redistribution of penalties procedure (established in article 17 of the SDR RTS), in what concerns failing cleared transactions, where the failing or

receiving participant is a CCP. In this situation SDR RTS article 19 stipulates that CSDs shall calculate and report penalties for failing cleared transactions but the collection and redistribution procedure shall be done by the CCPs towards its clearing members.

Therefore, and in compliance with article 19 of the SDR RTS, the relevant penalty amounts will be excluded from the Euronext Securities Porto monthly payment processing. The CCP will have to collect and redistribute the cash penalties that are provided in the Euronext Securities Porto's penalties reports.

3.12.2. T2S settlement fails

The T2S penalty mechanism will identify cleared transactions by the 'account owner' BIC code and will flag the relevant penalties accordingly in the T2S reporting to Euronext Securities Porto and DCPs.

Therefore, the CCP must ensure the segregation of its clients from its proprietary activity per BIC code. I.e., the CCP transactions that are not related to the direct settlement of the CCP's clearing member transactions must refer to a BIC that is not contained in the relevant T2S 'CCPs penalties account owner BIC list'.

The CCP shall actively inform Euronext Securities Porto in case an 'account owner' BIC shall be added or removed from the T2S list that is maintained by T2S.

3.12.3. Penalties calculation and reporting on cleared transactions by ES Porto

As per SDR RTS article 19, Euronext Securities Porto will provide to the CCP the penalty detection, the penalty calculation and the penalties reporting but not the collection or redistribution of the calculated and reported penalties.

Therefore:

- Euronext Securities Porto will include the CCP cleared transactions when:
 - performs its daily fails detection and penalties calculation process;
 - reports the gross and bilateral net amounts penalties in its daily reporting;
 - reports the monthly bilateral penalties net amounts in its monthly reporting to be provided on the 14th PBD.
- Euronext Securities Porto will not include the CCP cleared transactions when:
 - reports the global penalties net amounts in its monthly reporting that provides the monthly amounts to be paid or to be received by the Euronext Securities Porto's participants;
 - creates the PFODs on the 15th PBD;

- performs the penalties collection and distribution payment process on the 17th PBD.

3.12.4. Penalties collection and redistribution on cleared transactions by the CCP

The collection and redistribution process of the penalties on cleared transactions subject to SDR RTS article 19 is outside the responsibility of Euronext Securities Porto. These penalties will be managed by the CCP with its clearing members.

According to SDR RTS article 19, the CCP shall report to Euronext Securities Porto the amounts it collected and distributed on a monthly basis.

In order to confirm to Euronext Securities Porto, on a monthly basis, the actual payment execution, the CCP shall use the template text that was defined by EACH and ECSDA:

"Subject: CCPXXXXXX confirmation to CSDYYYYYY of penalties collected and distributed Following the obligations established in Article 19 of the Commission Delegated Regulation (EU) 2018/1229, and in particular the obligation established in Article 19 (d), we kindly confirm that all penalties submitted by CSDYYYYYY to CCPXXXXXX corresponding to the month of XXXXXX have been duly collected and distributed to the relevant clearing members of CCPXXXXXXX."

This information shall be sent by the CCP by email to Euronext Securities Porto (email: centralf@euronext.com).

In case the CCP is not able to complete the collection and distribution for a specific month, the CCP must inform Euronext Securities Porto of the situation and the reason for the non-completion, by sending an email to centralf@euronext.com.