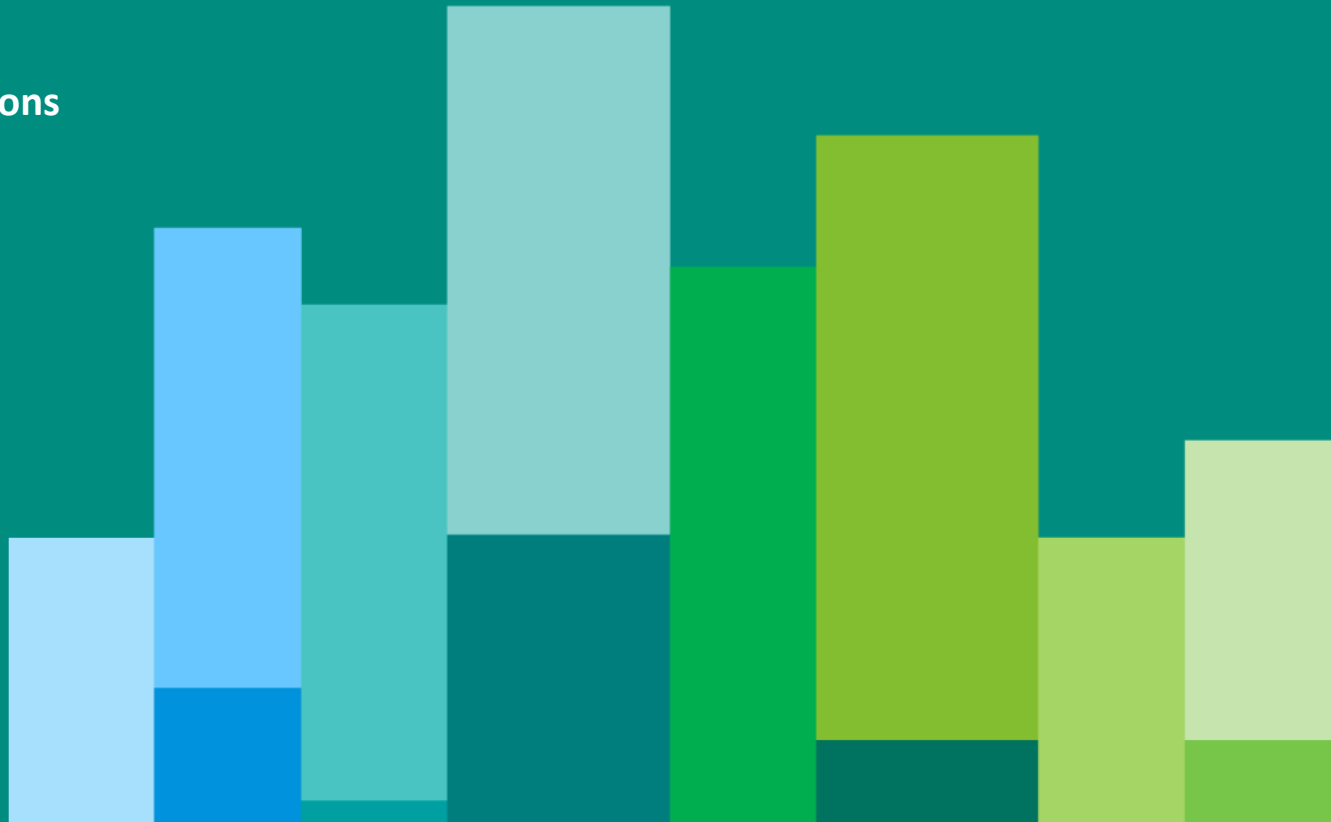


CSD REGULATION (CSDR) WORKSHOP

Record Keeping Transactions

Settlement Discipline

22/11/2018



AGENDA

1

Introduction

2

Record Keeping Transactions – Market impact

3

Settlement Discipline – Status Update

a) Regulatory Technical Standards:

i) Measures to prevent settlement fails

ii) Measures to address settlement fails

iii) Cash Penalties / Buy-Ins

b) ECSDA Single Settlement Fails Penalties Framework

c) T2S Penalty Mechanism

4

Next steps



RECORD KEEPING TRANSACTIONS: MARKET IMPACT



RECORD KEEPING TRANSACTIONS – MARKET IMPACT

Timestamps SF1, SF2 and SF3 will be made available in the following outputs:

SF - Settlement Finality

Timestamp: **SF3 (settlement)**

- ✓ MT508, MT536, MT538, MT544, MT545, MT546, MT547
- ✓ SLRTqryS
- ✓ SLRT, EXCH, MVI, GRT, LOE, SFI, SGE (*)
- ✓ SLRT-RES, EXCH-RES, LOE-RES, MVI-RES, GRT-RES, SFI-RES, SGE-RES, LIQ-RES

Timestamp: **SF1 (accepted)** **SF2 (matched)**

For the **DCPs**:

- ✓ Settlement instructions: sese.024, sese.032, semt.017, semt.018
- ✓ Settlement restrictions: semt.014, semt.016, semt.034

For the **ICPs** (via STD):

- ✓ SLRTqryS
- ✓ SLRT, EXCH, MVI, GRT, LOE, SFI, SGE (*)
- ✓ SLRT-PND, EXCH-PND, LOE-PND, MVI-PND, SFI-PND, SGE-PND, LIQ-RES

(*) It will be disseminated the timestamp associated to the last status (MATH / PACK, MACH, SETT)

RECORD KEEPING TRANSACTIONS – MARKET IMPACT

Transaction Type Code (ISO Transaction Code)

Interbolsa will make available the following **Transaction type code**:

- ✓ **PORT** (Portfolio Movement or Portfolio Transfer):
Transfer of securities portfolio from one depository bank (participant) to another on behalf of its customer
- T2S will make available a new **Transaction type code**:
- ✓ **BIYI** (Buy-in transaction)

Cash Account Identifier

The **Dedicated Cash Account (DCA)** will be informed on the Settlement confirmation (Status SETT), in the following outputs:

- ✓ STD - SLRT-RES, EXCH-RES, LOE-RES, LIQ-RES, SLRT, EXCH, LOE, SFI, SGE
- ✓ SWIFT- MT544-547, MT536

Status of settlement instructions Failing instruction - PENF

T2S will provide a new status - PENF - for instructions not settled on the Intended Settlement Date (ISD) – status at the end of the settlement day, in the following outputs:

- ✓ For the **DCPs**: sese.024; semt.018
- ✓ For the **ICPs**:
 - STD – SLRT, SLRT-PND, EXCH, EXCH-PND, MVI, MVI-PND
 - SWIFT - MT548, MT537

RECORD KEEPING TRANSACTIONS – MARKET IMPACT

Place of Trading

- ✓ A new field for the identification of the **“Place of Trading”** will be made available through the MIC - "Market Identifier Code"

<https://www.iso20022.org/10383/iso-10383-market-identifier-codes>

- ✓ The current field "Place of Trading" is maintained, with the type code (EXCH, OTCO, PRIM, SECM, VARI)

- ✓ The new field will be implemented:

- In the inputs:

- STD – SLRTfile, SLRTmsg, EXCHfile, EXCHmsg
- SWIFT (ISO 15022) – MT540-543

- In the outputs:

- STD - SLRT, SLRT-PND, SLRT-RES, LIQ-RES, EXCH, EXCH-PND, EXCH-RES
- SWIFT (ISO 15022) – MT544-548, MT536-537

- ✓ The MIC codes list will be made available on the INTERBOLSA website

RECORD KEEPING TRANSACTIONS – MARKET IMPACT

✓ A new field - “**Place of Clearing**” - will be made available on SLrt, for the inclusion of the CCP BIC code

✓ The new field will be implemented :

- In the inputs:

- STD – SLRTfile, SLRTmsg, EXCHfile, EXCHmsg
- SWIFT (ISO 15022) – MT540-543

- In the outputs:

- STD - SLRT, SLRT-PND, SLRT-RES, LIQ-RES

It is currently available via SWIFT (ISO 15022) and in the STD outputs: EXCH, EXCH-PND, EXCH-RES

Place of Clearing

RECORD KEEPING TRANSACTIONS – MARKET IMPACT

Migration Timeline

2019

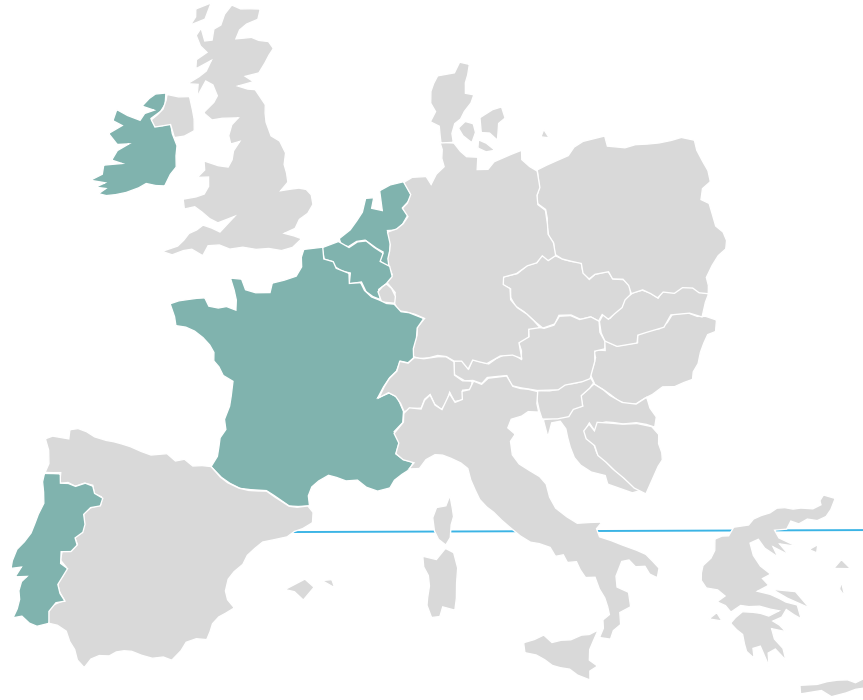
June

November

- ISO Transaction code - **PORT** and **BIYI** (BIYI: CR-607)
- **Timestamp** - **SF3**
- **Timestamps** - **SF1 and SF2** (CR-600)
- Cash account identifier - **DCA**

- Status of settlement instructions - **PENF** (CR-609)
- **Place of Trading** – **MIC code** (CR-606) *
- **Place of Clearing** – **CCP BIC code** (CR-606) *

* Although the Change Request CR-606 only migrates to production in November 2019 (T2S Release 3.2), it is expected that Interbolsa's inputs / outputs will be adapted in June 2019.



SETTLEMENT DISCIPLINE



SETTLEMENT DISCIPLINE (REGULATORY TECHNICAL STANDARDS)

Regulatory Technical Standards / T2S Penalty Mechanism

| Date | Description |
|--------------------|--|
| February 2, 2016 | ESMA submits RTSs on Settlement Discipline to EC |
| May 25, 2018 | Adopted by the EC the RTSs related to Settlement Discipline |
| September 13, 2018 | Publication, in the OJ, of RTSs related to Settlement Discipline |
| September 13, 2020 | Entry into force of RTSs related to the Settlement Discipline |
| November, 2020 | T2S Penalty Mechanism – Go live |

Measures to prevent the occurrence of settlement fails:

✓ Settlement facilitation:

| | |
|-----------------------|----------------------------|
| Matching | Tolerance levels |
| Cancellation facility | Hold and release mechanism |
| Recycling | Partial settlement |
| Information | |

✓ Derogation - measures to prevent settlement fails :

| | |
|----------------------------|--------------------|
| Hold and release mechanism | Partial settlement |
|----------------------------|--------------------|



Measures to address settlement fails:

✓ Monitoring of settlement fails:

| | |
|---|--------------------------------|
| Reason, based on the information available to the CSD | Any settlement restrictions |
| Type of financial instrument | Type of transaction |
| Place of Trading /Place of Clearing | Type of settlement instruction |
| Type of securities accounts | Currency |

- ✓ CSDs shall establish working arrangements with the participants in SSS to analyze the main reasons for the settlement fails;
- ✓ Reporting of settlement fails;
- ✓ Public disclosure on settlement fails.



MEASURES TO ADDRESS SETTLEMENT FAILS:

✓ **BUY-INS:**

- Transactions cleared by a CCP
- Transactions not cleared by a CCP and executed on a trading venue
- Transactions not cleared by a CCP and not executed on a trading venue
- Calculation and payment of the cash compensation of the buy-in costs and related price difference
- Timeframes for buy-in process

✓ **Systematic failure to deliver securities**

MEASURES TO ADDRESS SETTLEMENT FAILS :

✓ **Cash penalties:**

- Calculation and application
- Collection and distribution
- Costs of the penalty mechanism
- Penalty mechanism where the participant is a CCP
- CSDs that use a common settlement infrastructure

✓ **Public disclosure on settlement fails**

SETTLEMENT DISCIPLINE (ECSDA SINGLE SETTLEMENT FAILS PENALTIES FRAMEWORK)

(not finalized)

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

SETTLEMENT DISCIPLINE (ECSDA SINGLE SETTLEMENT FAILS PENALTIES FRAMEWORK)

ECSDA FRAMEWORK STRUCTURE

1. ECSDA CSDR Penalties Framework key considerations

5. Reference/ Static data required for penalty calculations

9. Cross-CSD settlement fails

2. Penalties Lifecycle and Business Days Calendar

6. Penalties Currencies Conversions Scenarios

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

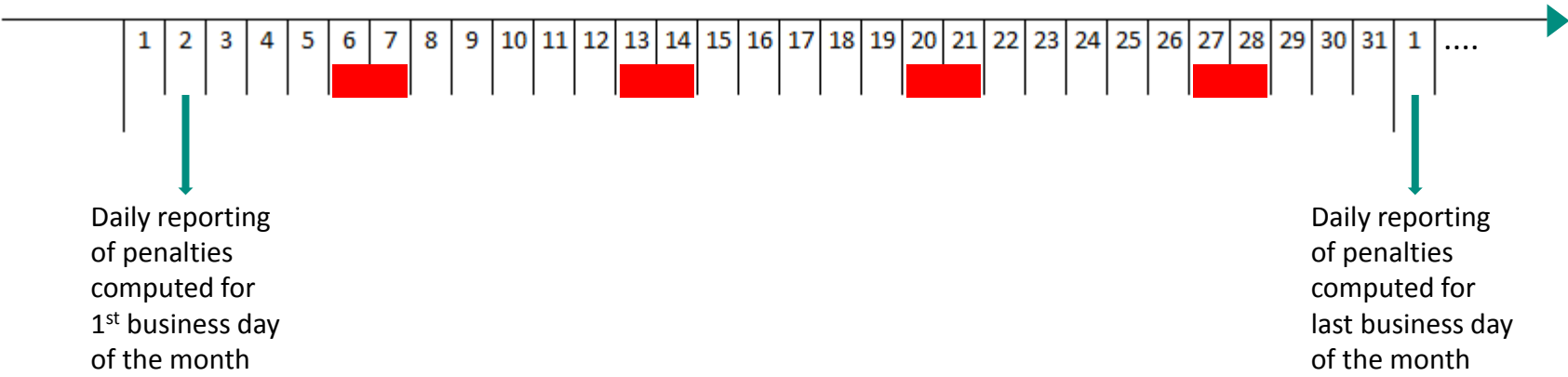
12. Miscellaneous

SETTLEMENT DISCIPLINE (ECSDA SINGLE SETTLEMENT FAILS PENALTIES FRAMEWORK)

Penalties Lifecycle and Business Days Calendar

- Business Days
- Daily calculations / Daily reporting

First MONTH (computation and reporting of penalties)

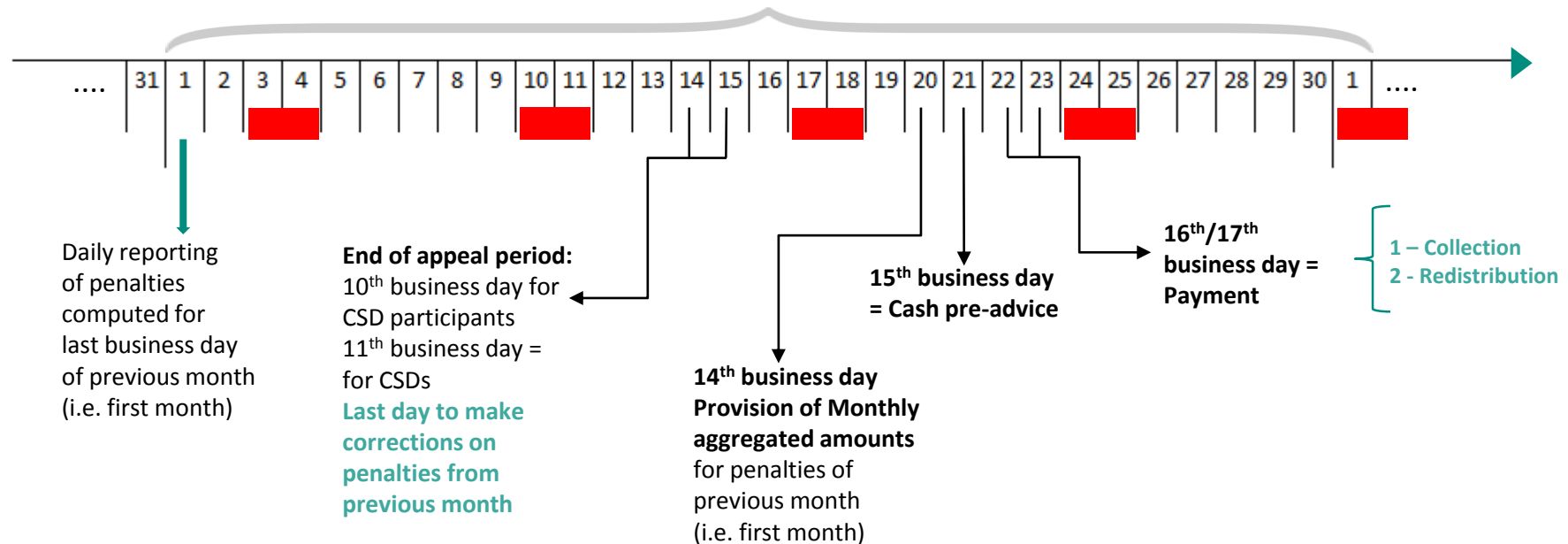


SETTLEMENT DISCIPLINE (ECSDA SINGLE SETTLEMENT FAILS PENALTIES FRAMEWORK)

Penalties Lifecycle and Business Days Calendar:

- Monthly events / Monthly appeal / Monthly Aggregated amounts

Following MONTH (provision of aggregated amounts and payment)



Monthly payment

- Collection & redistribution (CCPs are excluded)

SETTLEMENT DISCIPLINE (ECSDA SINGLE SETTLEMENT FAILS PENALTIES FRAMEWORK)

PENALTIES SCOPE:

- Instructions subject to cash penalties
- Instruments subject to cash penalties

IDENTIFICATION OF THE PARTY TO BE PENALIZED:

- Late matching fail penalty (LMFP)
- Settlement fail penalty (SEFP)

SETTLEMENT DISCIPLINE (ECSDA SINGLE SETTLEMENT FAILS PENALTIES FRAMEWORK)

REFERENCE / STATIC DATA REQUIRED FOR PENALTY CALCULATIONS:

- Instruments subject to penalties
- Daily reference price
- Instrument type
- Instrument Liquidity/Illiquidity classification (applies to shares (“SHRS”))
- Instrument trading segment (“SME Growth Market”)
- Penalty rate
- Central bank discount rate (penalties due to lack of cash)
- Foreign exchange (FX) rates

CURRENCIES CONVERSIONS:

- Against payment transactions
- Free of payment transactions

SETTLEMENT DISCIPLINE (ECSDA SINGLE SETTLEMENT FAILS PENALTIES FRAMEWORK)

CALCULATION METHODS OF THE CASH PENALTIES:

- Settlement fail penalty (SEFP)
- Late matching fail penalty (LMFP)
- Daily cash penalties aggregate
- Monthly cash penalties aggregation
- Calculation of the monthly amount to be paid /to be received

CHANGES TO PREVIOUSLY CALCULATED CASH PENALTIES:

- Removal of existing penalties
- Re-inclusion of a previously removed penalty
- Update of existing penalties

SETTLEMENT DISCIPLINE (ECSDA SINGLE SETTLEMENT FAILS PENALTIES FRAMEWORK)

Reporting:

- Reporting formats:
 - ISO 20022 messages
 - ISO 15022 messages
 - U2A
 - Proprietary reports/messages
- Generic reporting content
- Message types:
 - Daily penalties report
 - Monthly aggregated report

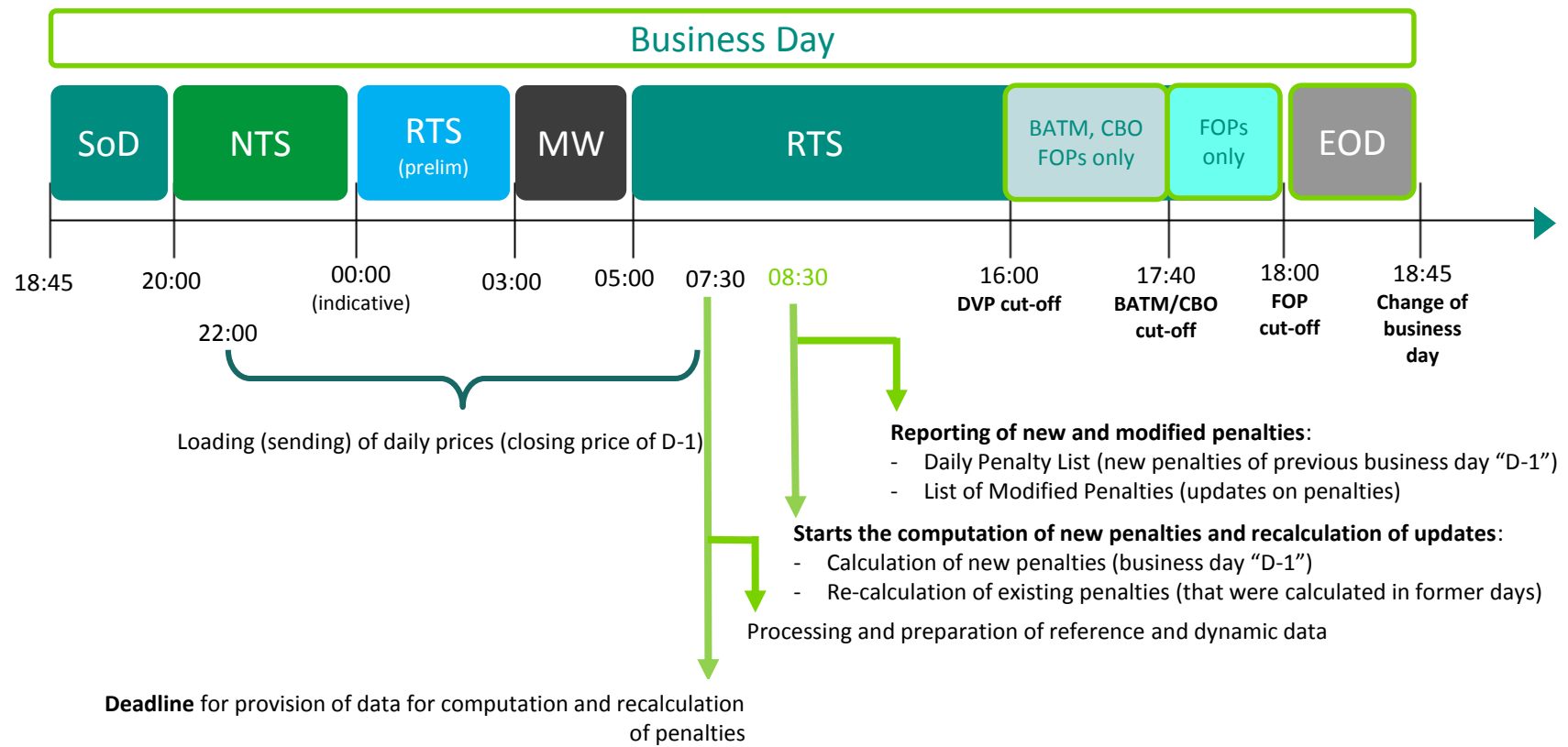
- T2S/4CB has drafted dedicated daily and monthly penalties ISO 20022 reports.
- ISO 20022 format: it is proposed to use a Pillar III semt.xxx message dedicated to penalty messaging.
- ISO 15022 format: the existing messages will also be adapted to cover the penalties information; they shall be made available in November 2019. Please refer to the SMPG, Standards MT Release November 2019, Settlement and Reconciliation;
 - The following development of the standard was agreed by SMPG:
 - MT537 (Statement of Pending Transactions);
 - MT548 (Securities Settlement Status Advice) adaptations will contain a dedicated new sequence specific to the penalties reporting.
 - MT537/548 will include new fields and repetitive blocks:
 - 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 (semt.xxx message) in their content and level.
- It should be noted that all reports between CSDs and from CSDs to their participants should be identical in terms of the applied formats.

SETTLEMENT DISCIPLINE (T2S PENALTY MECHANISM)

Message structure in ISO 20022

- **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

SETTLEMENT DISCIPLINE (T2S PENALTY MECHANISM)



Note: It won't be possible for the users to query penalties from the Maintenance Window (MW) until the end of the Daily Reporting

NEXT STEPS



- **Settlement Discipline regime:**
 - Internal analysis / sharing of information and discussion with the market
- **Change Request 654** (T2S Penalty Mechanism):
 - Analysis /discussion follow-up
- **ECSDA Single Settlement Fails Penalties Framework:**
 - Follow-up of the discussion / framework development



Questions

