

CSD-R Settlement Discipline

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Summary

- ◆ CSD-R SD
- ◆ Penalties
- ◆ Penalties computation
- ◆ Penalties planning
- ◆ Penalties reporting
- ◆ Appeal
- ◆ Collection & redistribution of penalties
- ◆ Buy-in
- ◆ CSD-R SD planning

CSD-R SD

- ◆ Central Securities Depository Regulation (CSD-R) : Regulation (EU) 909/2014 published on 10/03/2017
 - ◇ Goal : increase the safety and efficiency of securities settlement through harmonized operational criteria
 - ◇ Mean : mandatory application for a CSD license setting performance and operational requirements
 - ◇ Entry into force : 30/03/2018
- ◆ Settlement Discipline (SD) : Delegated Regulation (EU) 2018/1229 published on 13/09/2018 supplementing CSD-R
 - ◇ Goal : improve the safety and efficiency of securities settlement
 - ◇ Mean : settlement discipline measures
 - Settlement fail penalties
 - Mandatory buy-in
 - ◇ Entry into force : 13/09/2020
- ◆ ECSDA CSDR Penalties Framework
 - ◇ Goal : market practice for the implementation of settlement fail penalties by EU CSDs

Penalties

Definition

- ◆ Computed on a daily basis for each business day that a matched settlement instruction fails to settle on or after its Intended Settlement Date (ISD)
- ◆ Failing to settle : lack of security, lack of cash, on hold, linked, etc
- ◆ Also applies to instructions matching after their ISD
- ◆ Collected by the CSDs from the failing parties and redistributed by the CSDs to their counterparties
- ◆ Penalty amounts rounded up to maximum two decimals
- ◆ Two types :
 - ◇ Settlement Fail Penalty (SEFP)
 - ◇ Late Matching Fail Penalty (LMFP)

Penalties

Settlement Fail Penalty (SEFP)

- ◆ Once the instruction is matched, penalize a non-execution or failure of settlement after the relevant cut-off on or after ISD
- ◆ Applies earliest from the ISD or the matching date (when matching took place after ISD and no settlement occurred on the matching date) to the date of actual settlement or cancellation of the instruction, in addition to Late Matching Fail Penalties, when applicable
- ◆ One SEFP concerns a single business day
- ◆ Computation : after the settlement cut-off times of the CSD (different for FOP and for DVP)
- ◆ Generated for each business day the matched instruction fails to settle
- ◆ Party penalized : account owner of the securities account of the failing instruction

Penalties

Late Matching Fail Penalty (LMFP)

- ◆ Penalizes the late sending of Settlement Instructions that prevents timely settlement of a transaction
- ◆ Applies retroactively from the ISD until the actual matching date
- ◆ Generated once but can include as many business days as days passed between the ISD and the day the instruction is matched
- ◆ Computation : after the end of the business day as matching could still occur until then
- ◆ Party penalized :
 - ◇ Account owner of the securities account of the last instruction to enter the system (or to be modified)
 - ◇ Already matched : instructing party or delivering party (but possible to reallocate the penalty)

Penalties

Business days

- ◆ Business days are days on which an instruction can settle in the own CSD or, in case of settlement versus payment when the payment is executed outside the CSD system, the payment system applicable to the relevant currency (“opening days”).
- ◆ Based on the above, a penalty shall not be applied:
 - ◇ for ‘free of payment’ instructions: for the days when the CSD settlement system is closed
 - ◇ for ‘against payment’ instructions (when the payment is executed outside the CSD system): for the days when the CSD settlement system or the payment system of the relevant currency is closed

Penalties

Scope of instructions

- ◆ Penalties shall 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
- ◆ Exemption : instructions executing a buy-in (marked with 22F:: SETR//BYIY)
- ◆ Exemption from LMFP : instruction to settle the remaining part from partially successful buy-in (marked with 22F::RPOR//BYIY for ISO15022 or BSSP for ISO20022 ; both instructions must have the code)
- ◆ Other exemptions to be confirmed by ESMA :
 - ◇ Settlement transactions that do not represent “transfer orders” according to the second indent of point (i) of Article 2 of Directive 98/26/EC [Settlement Finality Directive];
 - ◇ Corporate actions on stock
 - ◇ Technical instructions (T2S automatic realignments)
 - ◇ T2S Settlement restrictions

Penalties

Scope of instruments

- ◆ CSD-eligible MiFID II/ MiFIR financial instrument:
 - admitted to trading or traded on an EU trading venue (see ESMA FIRDS database); or
 - cleared (or eligible for clearing) by an EU CCP.
- ◆ excluding shares when their principal trading venue is located in a third country.
- ◆ The relevant MiFID II/ MiFIR financial instruments types are:
 - ◇ transferable securities [i.e. equity- and bond- (like) instruments (including ETFs) and giving a right to buy or sell any of those]
 - ◇ UCITS
 - ◇ money-market instruments
 - ◇ emission allowances

Penalties

Computation

- ◆ Computation occurs every business day for the previous business day
- ◆ Executed by the T2S penalty mechanism (T2S CR 654 for T2S Rel 4.2)
- ◆ Always in a T2S settlement currency (if not, conversion using ECB rates)
- ◆ The instruction preventing the settlement is penalized, whatever the reason (lack, money, link with unsettled instruction, hold, restriction on used securities account, etc)
- ◆ If lack of securities, no check on cash availability
- ◆ If both instructions are on hold/linked with unsettled instruction, both are penalized
- ◆ Partial settlement : remaining quantity to settle taken into account

Penalties

Computation

SETTLEMENT INSTRUCTION TYPE	CALCULATION METHOD	FORMULA
DVP, DFOP or RFOP	SECU	Quantity of security failed to settle x Reference Price x Security Penalty Rate
RVP	MIXE	Quantity of security failed to settle x Reference Price x Cash Discount Penalty Rate
PFOD-Debit or PFOD-Credit	CASH	Amount of cash failed to be delivered x Cash Discount Penalty Rate
DWP or RWP	BOTH	SECU + CASH

◆ LMFP on DVP/RVP already matched : applied only on the DVP leg, so SECU

Penalties

Reference data

◆ Cash Discount Penalty Rate :

- ◇ Official interest rate for overnight credit charged by the central bank issuing the settlement currency with a floor of 0
- ◇ EUR : ECB marginal lending facility rate (currently 0,25 %)

◆ Security Penalty Rate :

- ◇ Published with Delegated Regulation (EU) 2017/389
- ◇ Debt instruments "govies" : 0,10 basis point (0,001 %)
- ◇ Debt instruments traded on SME growth markets : 0,15 basis point (0,0015 %)
- ◇ Other debt instruments : 0,20 basis point (0,002 %)

Penalties

Reference data

- ◆ Reference Price of a security :
 - ◇ For bonds : *closing price of the trading venue “with the highest turnover”*
 - ◇ Rules to define “highest turnover” expected from ESMA by early 2020
 - ◇ No single source (each CSD has its own)
- ◆ Foreign Exchange Rates : official ECB exchange rates published on ECB website
- ◆ For applicable business days of LMFP before the last 3 calendar months, the reference data used will be the one applicable 90 calendar days ago for all these business days

Penalties

Examples

◆ DvP instruction with Intended Settlement Date 12/11

Matching	Settlement		SEFP	LMFP	Formula
	<i>My instruction (DvP)</i>	<i>Counterparty (RvP)</i>			
Before the 12/11	OK	OK	No	No	/
Before the 12/11	LACK	OK	Yes	No	SECU
On the 14/11 and my instruction is the last	OK	OK	No	Yes, for the 13/11 and the 14/11	SECU
On the 14/11 and my instruction is the first	LINK	OK	Yes	Yes, for my counterparty	SECU for my SEFP MIXE for his LMFP (RvP)
Before the 12/11	PREA	PREA	Yes, for both	No	SECU for my SEFP MIXE for his SEFP (RvP)

Penalties

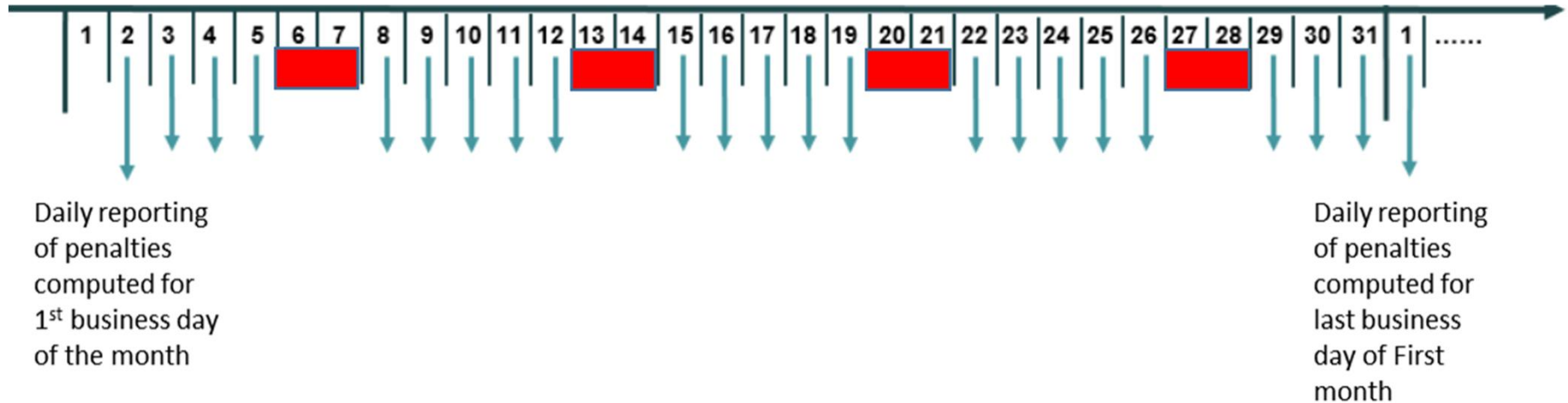
Modification

- ◆ Only possible between creation and end of the appeal period
- ◆ Removal : under exceptional circumstances penalties can be cancelled
- ◆ Re-inclusion : penalties previously removed by the CSD can be re-included
- ◆ Switch : to switch the failing and non-failing parties
- ◆ Re-allocation : to allocate LMFP on already matched instruction
- ◆ Recalculation : if the applicable reference data has changed, the penalty will be re-calculated

Penalties

Planning

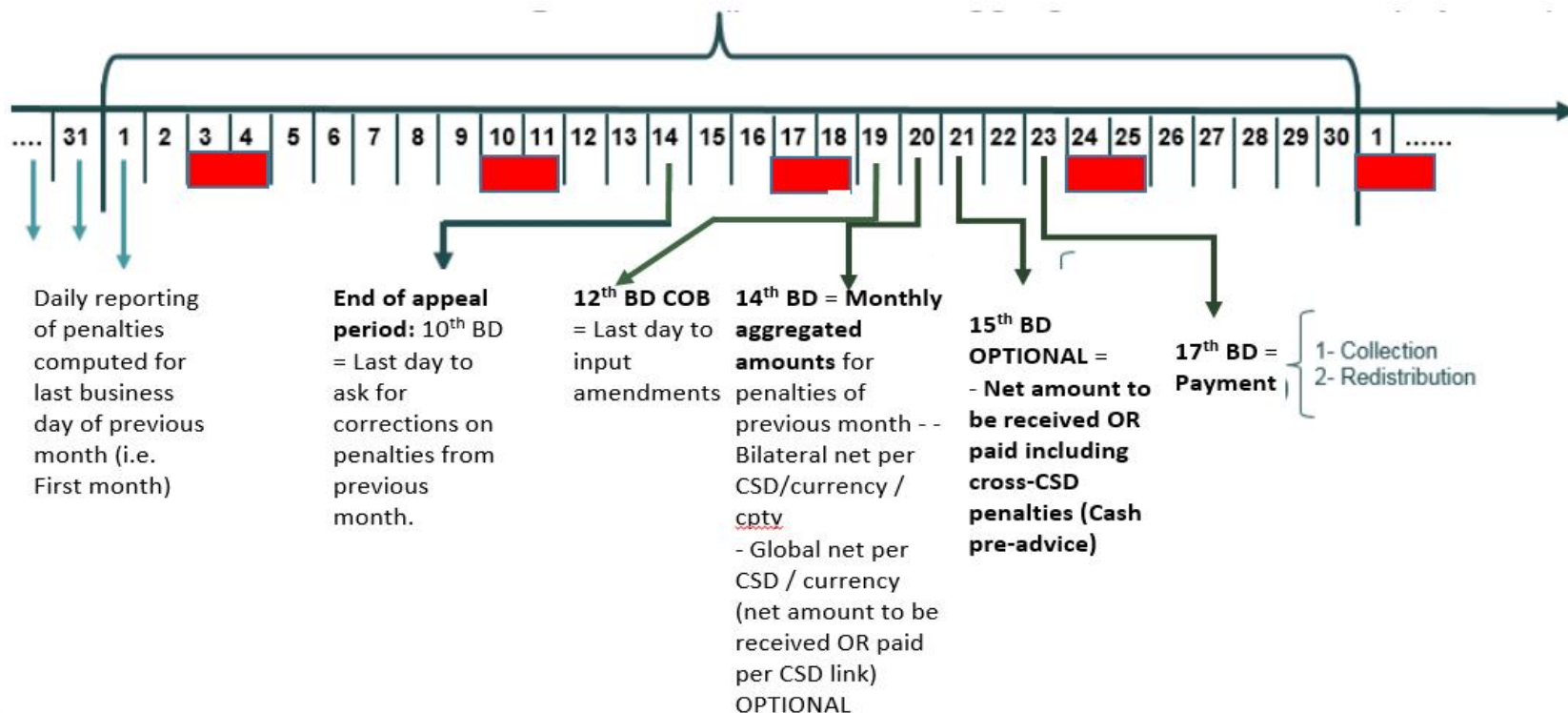
First MONTH (computation and reporting of penalties)



Penalties

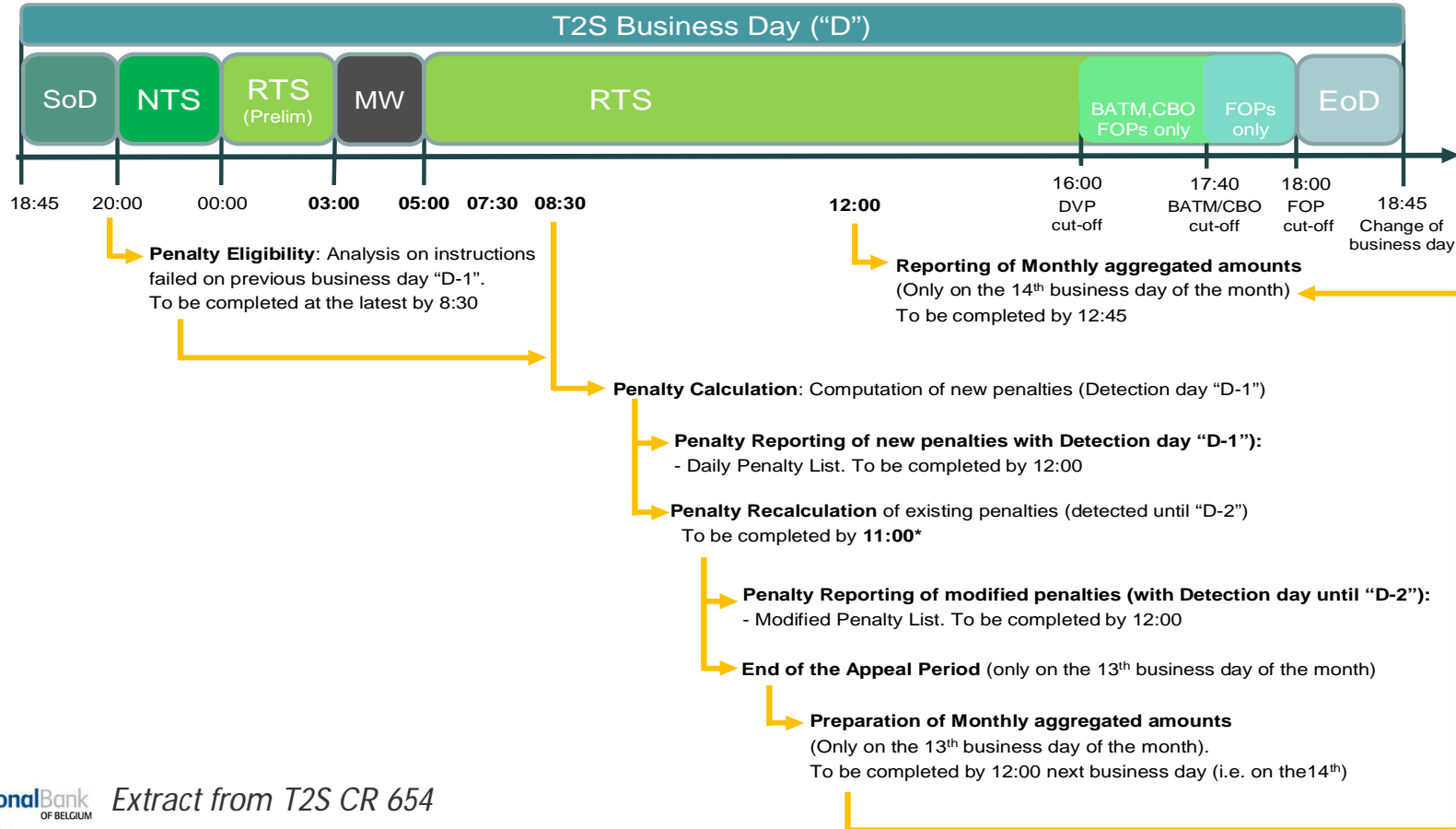
Planning

Following MONTH (provision of aggregated amounts and payment)



Penalties

Planning



Penalties reporting

◆ Daily

- ◇ Daily Cash Penalty List : newly computed penalties for the previous business day
- ◇ List of Modified Penalties : penalties removed, re-included, re-allocated, switched, recalculated
- ◇ Sent by T2S at the latest at 12:00, forwarded by the NBB-SSS after having received it

◆ Monthly

- ◇ List of global net amount to be paid or received
 - ◇ Sent by T2S at the latest at 12:45 on the 14th BD, forwarded by the NBB-SSS after having received it
- ◆ If nothing to report, report sent with “no activity”

Reporting

Definitions

◆ Bilateral net amount :

- ◇ Aggregated net amount provided per currency and counterparty in daily and monthly reporting
- ◇ Sum of all cash penalties that a party can be expecting to be credited or debited for a specific currency and counterparty

◆ Global net amount :

- ◇ Aggregated net amount provided per currency for all counterparties, only in monthly reporting
- ◇ Sum of all bilateral net amounts in the monthly reporting per currency
- ◇ Is the amount to be credited or debited during collection & redistribution
- ◇ Computed by the CSDs (not T2S)

Reporting

Definitions



◆ Reporting of party B :

◇ Bilateral net amounts (daily and monthly) :

◇ EUR

- Party A : 50 (debit)
- Party C : 100 (credit)

◇ Global net amount (only monthly) :

◇ EUR

- 50 (credit)

Reporting

Communication channels

◆ A2A

- ◇ ISO 20022 semt.044 for daily and monthly reporting
- ◇ NO ISO 15022 !!!

◆ U2A

- ◇ Penalty screen in Ramses allowing exports in .csv file
- ◇ Updated Daily Performance Dashboard and Monthly Performance Dashboard

Reporting

semt.044 structure

- ◆ Basic info (ID, page, etc)
- ◆ Reporting period (day, month, period)
- ◆ Frequency (daily, monthly)
- ◆ Penalty list type : new or modified (for daily reporting only)
- ◆ Activity indicator : is there penalties to report ?
- ◆ Penalty block

Reporting

semt.044 structure

◆ Penalty block

- ◇ Currency
- ◇ Detection date (not in monthly reporting)
- ◇ Party ID (you, as failing or non-failing)
- ◇ Global net amount (only for monthly reporting)
 - **Penalty per counterparty block**
 - Counterparty ID
 - Bilateral net amount
 - **Penalty details block**

Reporting

semt.044 structure

◆Penalty details block

- ◇ID
- ◇Type (SEFP or LMFP)
- ◇Status (ACTV or REMO)
- ◇Reason for activating or removing the penalty
- ◇Amount (with credit/debit indicator)
- ◇Calculation method (SECU, MIXE, CASH, BOTH)
- ◇Number of days (1 for SEFP, can be many for LMFP)
- ◇**Calculation data block** (repetitive if many days for LMFP, only for daily reporting)
- ◇**Related transaction data block** (only reference provided for Modified Penalty List, no details)

Reporting

semt.044 structure

◆ Calculation block

◇ Date

◇ Financial instrument attributes

- ISIN code
- Classification of security
- Liquidity indicator (not used for NBB-SSS because no shares)
- No price data !
- Security penalty rate data (SME growth market, etc)

◇ Cash Discount Penalty Rate

◇ **Sub amount block** (only used for breakdown if LMFP and several days or if BOTH)

Appeal

- ◆ Appeal period :
 - ◇ From the creation of the penalty until the 10th BD of the following month
 - ◇ Not possible after !!!
- ◆ Based on very exceptional situations, like :
 - ◇ ISIN suspension from trading or settlement
 - ◇ 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
- ◆ Detailed procedure will follow, but is to be considered to handle of very few cases

Collection & redistribution

- ◆ Full amount of penalties collected and redistributed on the 17th business day of the month by the NBB-SSS
- ◆ Collection using PFODs
- ◆ No tolerance amount
- ◆ Get the cash ready on your main DCA by the 16th !!!

Collection & redistribution

◆ PFOD

- ◇ Created on the 15th BD
- ◇ High priority
- ◇ Trade date 15th BD, ISD 17th BD
- ◇ Reference to monthly report ID provided for reconciliation
- ◇ Dummy ISIN code (not in scope of penalties)
- ◇ Participant main DCA used (with SAC)
- ◇ Already matched instructions (except for CSD participants)

◆ Yet to be defined :

- ◇ What in case of non-payment ?
- ◇ All or nothing execution (using pools) ?

Buy-in

◆ Transaction types

◇ ISO15022 :

- Buy-in instructions must use 22F:: SETR//BYIY
- Instruction to settle the remaining part from partially successful buy-in must use 22F::RPOR//BYIY

◇ ISO20022 : must use BSSP as SecuritiesTransactionType for sese.023

◇ TO BE CONFIRMED !

◆ Reporting of buy-ins

◇ Buyer to its CSD

◇ ECSDA template being drafted (csv file)

◇ TO BE CONFIRMED !

Pending questions

- ◆ Exemptions to penalties
- ◆ Prices to be used
- ◆ Penalties related to CCPs
- ◆ What in case of non-payment of penalties
- ◆ Transaction types to be used for buy-in related transactions
- ◆ Buy-in harmonized reporting to CSDs

Planning

- ◆ 02/2020 : CSD-R SD dedicated info-session & delivery of NBB-SSS specific documentation
- ◆ 06/2020 : User Committee consultation for the new NBB-SSS T&C
- ◆ 07/2020 : EAC T2S Rel 4.2 (including T2S CR 654)
- ◆ 08/2020 : publication of the new NBB-SSS T&C
- ◆ 09/2020 : UTEST T2S Rel 4.2
- ◆ 13/09/2020 : CSD-R SD entry into force
- ◆ 21/11/2020 :
 - ◇ End of CSD-R SD grace period
 - ◇ T&C entry into force
 - ◇ T2S Rel 4.2 PROD
- ◆ Grace period from September to November : yet to be officially confirmed and could be extended

Documentation

- ◆ Regulation (EU) 909/2014 published on 10/03/2017
- ◆ Delegated Regulation (EU) 2018/1229 published on 13/09/2018 supplementing CSD-R
- ◆ ECSDA CSDR Penalties Framework
- ◆ T2S CR 654 (with semt.044 specifications)
- ◆ NBB-SSS specific documentation will be published

CSD-R SD

What must I do as NBB-SSS participant ?

- ◆ Get the cash ready for collection !!!
- ◆ Use the right codes for the buy-in related instructions
- ◆ Report the buy-in results
- ◆ Receiving penalties A2A reports : not mandatory (cfr CSD-R SD Art 16§4)

Questions/comments/remarks

