

CSD-R Settlement Discipline

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Summary

- ◆ Erratum
- ◆ Reporting
- ◆ Appeal
- ◆ Penalties related to CCPs
- ◆ Collection & redistribution of penalties
- ◆ Buy-in
- ◆ Dry-run
- ◆ Varia
- ◆ Pending questions
- ◆ Planning

Penalties (ERRATUM)

Examples

- ◆ DvP instruction with Intended Settlement Date 12/11

Matching	Settlement		SEFP	LMFP	Formula
	My instruction (DvP)	Counterparty (RvP)			
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)

Yes, but for the 12/11 and the 13/11

Extra precision : SEFP on the 14/11

Reporting

General information

◆ 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 and added the global net amounts

◆ If nothing to report, report sent with “no activity”

◆ Possible to subscribe to daily and monthly reports independently

◆ Penalties are reported by currency, party (T2S BIC) and counterparty (T2S BIC) => in the daily reporting, you can link a penalty to a securities account using the related transaction data

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

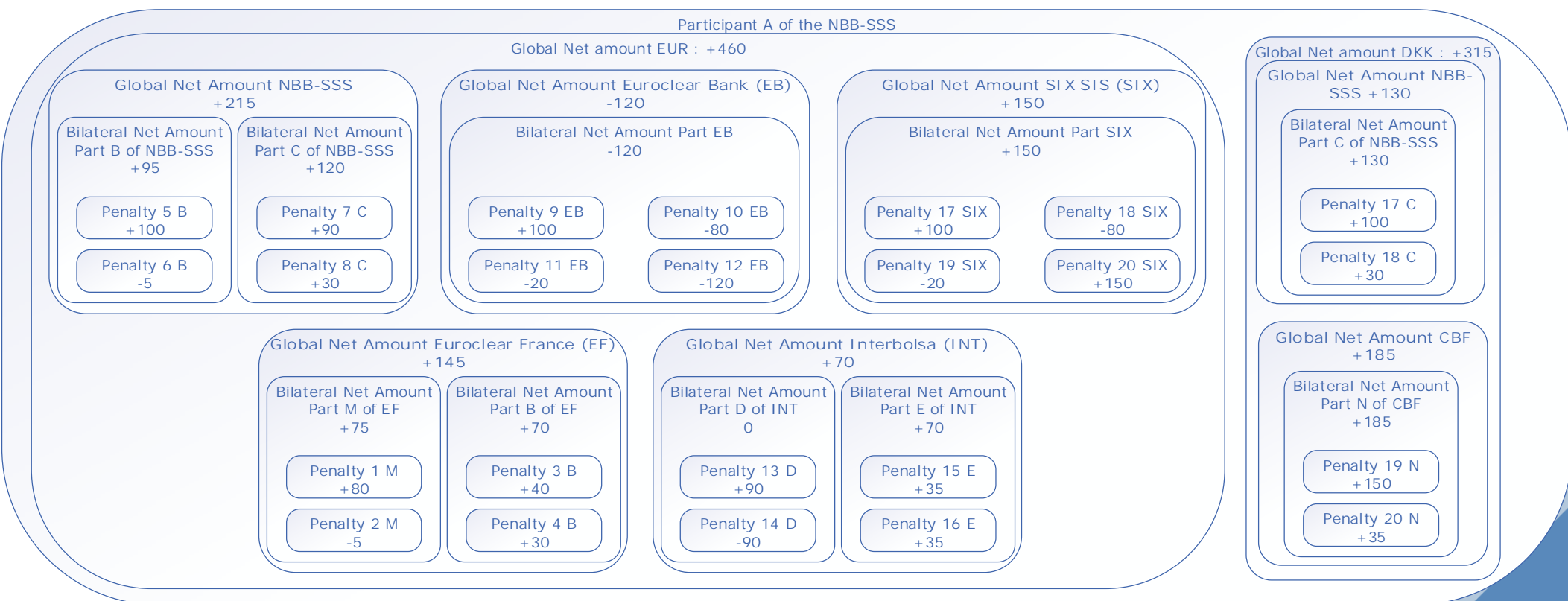
Reporting

Definitions

- ◆ Bilateral net amount :
 - ◇ Aggregated net amount 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 in a report
- ◆ Monthly “ECSDA” global net amount (or counterparty CSD aggregated amount)
 - ◇ Aggregated net amount per currency and CSD for all counterparties in monthly reporting
 - ◇ Sum of all bilateral net amounts in the monthly reporting per currency and CSD
 - ◇ Is an amount to be credited or debited during collection & redistribution
- ◆ Monthly total global net amount
 - ◇ Aggregated net amount per currency in monthly reporting
 - ◇ Sum of all counterparty CSD aggregated amount in the monthly reporting per currency
 - ◇ Will not be used during collection & redistribution

Reporting

Simplified structure of the monthly reporting



Reporting

semt.044 structure

- ◆ Basic info (ID, page, etc)
- ◆ Reporting period (day, month, period)
- ◆ Frequency : daily (DAIL) or monthly (MNTH)
- ◆ Penalty list type (only in daily reporting) : new (FWIS) or modified (FWAM)
- ◆ Activity indicator : is there penalties to report ?
- ◆ Account servicer : NBB-SSS (always at your service)
- ◆ Penalty block

Reporting

semt.044 structure

◆ Penalty block

- ◇ Currency
- ◇ Detection date (only in daily reporting)
- ◇ Party ID (you, as failing or non-failing)
- ◇ Aggregated amount (only in monthly reporting)
 - Total global net amount
 - « ECSDA » global net amount (or counterparty CSD aggregated amount)

◇ Penalty per counterparty block

- Account servicer of the counterparty
- Counterparty ID
- Bilateral net amount
- **Penalty details block**

Reporting

semt.044 structure

◆ Penalty details block

- ◇ ID
- ◇ Type (SEFP or LMFP)
- ◇ Status (ACTV or REMO, with the 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 several for LMFP)
- ◇ **Calculation data block** (repetitive if many days for LMFP, only in 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 !
 - Foreign exchange 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 (11th BD for linked CSDs)
 - ◇ If the 11th BD is a closed day, it will be the 10th BD for linked CSDs and the 9th BD for participants
 - ◇ Don't wait until the 10th BD to send your claims
- ◆ Current valid reasons for appeals :
 - ◇ 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.
- ◆ Detailed procedure will follow, but is to be considered to handle exceptional cases (NBB-SSS will spontaneously remove the penalties if deemed appropriate)

Penalties related to CCPs

- ◆ Decision taken at EACH : CCPs will do the collection and redistribution as required by CSD-R SD
- ◆ CSDs will report these penalties but not collect them
- ◆ To be confirmed by ESMA : whenever one party in a settlement transaction is a CCP (as a delivering or receiving CSD participant), penalties will not be collected/ redistributed by the CSD for this transaction, but what about CCPs using a settlement agent ?

Collection & redistribution

General information

- ◆ Amounts to be collected/redistributed :
 - ◇ “ECSDA” global net amounts (or counterparty CSD aggregated amounts)
 - ◇ Full amounts of penalties collected and redistributed on the 17th business day of the month by the NBB-SSS
 - ◇ 17th BD is closed => following BD
 - ◇ No tolerance amount
- ◆ Collection using PFODs
 - ◇ CSD participants : already matched non-modifiable
 - ◇ Linked T2S CSDs with an active link (EF, CBF, MOTI, INT) : unmatched
 - ◇ Other linked CSDs (EB, SIX) : already matched modifiable
- ◆ **Get the cash ready on your main DCA by the 16th !!!**

Collection & redistribution

PFOD

- ◆ Created on the 15th BD
- ◆ Highest priority
- ◆ Trade date 15th BD, ISD 17th BD
- ◆ Transaction type PAIR ; no partial ; no market claims
- ◆ Dummy ISIN code LU2128008567 (not in scope of penalties)
- ◆ Reference to monthly report ID provided for reconciliation
- ◆ Participant main DCA used (with SAC)
- ◆ Matched or not :
 - ◇ CSD participants : already matched non-modifiable
 - ◇ Linked T2S CSDs with an active link (EF, CBF, MOTI, INT) : unmatched
 - ◇ Other linked CSDs (EB, SIX) : already matched modifiable

Collection & redistribution

Models

Partial redistribution : No pool or link between the PFODs.

- ◆ Pro : smoothest process possible : if a debit or credit can settle, it does directly.
- ◆ Con : very complex in case of non-payment because the money used to settle the credits can be unrelated to the underlying penalties. In case of non-payment, the "unrelated" credits can have to be unwinded along with the recomputation. In case of cross-border, can also impacts the other CSDs and their participants

All or nothing pooling : all the debits (and optionally credits) are pooled/linked together.

- ◆ Pro :
 - ◇ In case of non-payment, the process to apply is simple : exclude all the penalties related to the non-paying party, recompute the bilateral nets amounts, then the global net amounts and cancel and replace all the PFODs. There is nothing to unwind because nothing could have settled.
 - ◇ There is no mix between failing and non-failing parties : if one pool settles, the underlying penalties are paid from the failing parties to the related non-failing parties.
- ◆ Con :
 - ◇ If only one party doesn't pay, the whole chain is blocked, including the other markets.
 - ◇ If 3 CSDs adopt this model, it can create deadlocks.

Collection & redistribution

Models

CSD link pooling : all the debits and credits related to a CSD link are pooled/linked together.

- ◆ Pro : settlement can occur per market, so if one participant has not the money to pay all the penalties, it can limit the number of impacted markets and smooth the process.
 - ◇ There is no mix between failing and non-failing parties : if one pool settles, the underlying penalties have paid from the failing parties to the related non-failing parties. In case of non-payment, there is no need to unwind what has already been paid.
- ◆ Con : pools must be managed in case of non-payment

Conclusion

- ◆ Most certainly no harmonized model among CSDs
- ◆ NBB-SSS preferred option : CSD link pooling
- ◆ Nevertheless :
 - ◇ If a CSD A in the chain chooses the partial redistribution option, it has an impact on its linked CSDs who must be ready to recover amounts in case of non-payment for a participant of CSD A
 - ◇ Whatever the model, it must be possible to exclude penalties, recompute amounts to debit/credit and recover paid amounts
- ◆ Open points : non-payment case (and associated very deterrent punishment if not insolvent)

Buy-in

- ◆ **Erratum** : buy-in instructions are subject to penalties
- ◆ Transaction types to use in both legs to avoid LMFP on remaining quantity to settle after buy-in
 - ◇ ISO15022 :
 - Instruction to settle the remaining part from partially successful buy-in must use 22F:: STCO/REGL/BSSP (and not 22F::RPOR//BYIY)
 - ◇ ISO20022 : must use BSSP as SecuritiesTransactionType for sese.023
- ◆ Reporting of buy-in results
 - ◇ From the receiving party, trading venue or CCP to the NBB-SSS
 - ◇ ECSDA template being refined (csv file)
 - ◇ A2A solution : NBB One-Gate
- ◆ Buy-in process is mandatory (CSD-R SD Art 25) but out of the CSD scope

Dry-run

- ◆ From the 14/12/2020 until the 31/01/2021
- ◆ Penalties are computed by T2S with real data, populated in Ramses but not collected
- ◆ Daily and monthly reports are generated and can be subscribed to
- ◆ Free of charge (apart from pure SWIFT costs of reporting)

Varia

- ◆ The NBB-SSS will use standardized processes/documents as much as possible (T2S message content, ECSDA Framework, etc)
- ◆ No changes prior to entry into force of the CSD-R SD
- ◆ No additional penalties on top of the CSD-R SD ones

Pending questions

- ◆ 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
- ◆ Reference data issues (inconsistencies, update timings, etc)
- ◆ Collection and redistribution method validation (global net amount and not bilateral net amount, etc)
- ◆ What in case of non-payment of penalties

Planning

- ◆ 08/06/2020 : User Committee consultation for the new NBB-SSS T&C
- ◆ 12/06/2020 : info-session including CSD-R SD
- ◆ 16/07/2020 : EAC T2S Rel 4.2 (includes T2S CR 654)
- ◆ 08/2020 : publication of the new NBB-SSS T&C
- ◆ 25/09/2020 : UTEST T2S Rel 4.2
- ◆ 28/9/2020 : NBB-SSS participants can test in UAT
- ◆ 21/11/2020 : PROD T2S Rel 4.2
- ◆ 14/12/2020 : dry-run start
- ◆ 01/02/2021 : CSD-R SD entry into force

What must you do ?

From a pragmatic point of view

◆ Penalties

◇ Optional

- Subscribe to the semt.044 daily/monthly to get A2A flows and the "ECSDA" global net amount
- Collect and redistribute the cash penalties among your customers

◇ Mandatory starting from the entry into force :

- Make the cash ready by the 16th BD
- Cooperate if you have a bad settlement efficiency

◆ Buy-in

- ◇ Report the results of buy-in using the template and One-Gate
- ◇ A lot of other things : amend your contracts, make contact with a buy-in agent, ... out of my CSD scope

Documentation

- ◆ Regulation (EU) 909/2014 published on 10/03/2017 (CSD-R)
- ◆ Delegated Regulation (EU) 2018/1229 published on 13/09/2018 supplementing the CSD-R
- ◆ ECSDA CSD-R Penalties Framework
- ◆ On the NBB-SSS external sharepoint :
 - ◇ semt.044 usage guideline for NBB-SSS + examples
 - ◇ PFOD examples
 - ◇ Buy-in reporting template for NBB-SSS (used at ECSDA)

Questions/comments/remarks

