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# NSD'S ADAPTATION TO THE CSDR

# TABLE OF CONTENTS

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SETTLEMENT
DEPOSITORY
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# CSD REGULATION REVIEW
## REGULATION OF CSD'S ACTIVITIES

- **Central Securities Depositories Regulation (CSDR)** is a European Union regulation intended to improve securities settlement in the European Economic Area (EEA) and to regulate CSDs' operations both at national and supranational levels.[1]

- **Adoption date:** 23 July 2014

- **Objective:** promote safe, efficient and smooth cross-border trade settlements in EEA securities markets.
  - Regulatory measures applicable to European CSDs: licensing, supervision, and services regulation
  - Terms and conditions of provision of banking-type ancillary services for CSD participants
  - CSDR SDR – Securities Settlement Improvement

- **Subjects of regulation:** European national Central Securities Depositories (CSD) and International Central Securities Depositories (ICSD).

[1] REGULATION (EU) No 909/2014 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012 https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0909&from=EN
EEA – European Economic Area

# CSDR SDR – SECURITIES SETTLEMENT IMPROVEMENT

- **Settlement Discipline Regime (SDR)** is a CSDR section that sets out regulatory standards of measures to improve trade settlement across European securities markets. The common standards are named 'settlement discipline' (Art. 3-9).

- The **Regulatory Technical Standards on Settlement Discipline** were adopted by the European Commission on 25 May 2018.[2]

| Settlement process improvement measures: | Settlement discipline improvement measures |
|---|---|
| • Requirements to dematerialisation and/or immobilisation of securities issues<br>• T+2 settlement cycle | • Measures to prevent settlement fails<br>• Measures to address settlement fails<br>• Buy-in process |

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# SETTLEMENT DISCIPLINE IMPROVEMENT MEASURES

**European CSDs:**

Implement procedures to confirm trade details before the intended settlement date

- Notification in real-time

Encourage and incentivise the timely settlement of transactions by its participants, by implementing various settlement functions

- Partial settlement and Hold&Release service

Monitor settlement fails and report to competent authorities on a regular basis

- Disclosure of information regarding the number and value of settlement fails and a TOP-10 of settlement parties who regularly fail to settle their transactions in a timely fashion

Prevent and address settlement fails with the help of mandatory cash penalties and the buy-in process

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# MEASURES TO PREVENT SETTLEMENT FAILS[3]

- CSDs must fully **automate** the process of execution of instructions

- The Regulation sets **parameters that must be verified when matching** participants' instructions

  - Trade date is a mandatory matching field

- Limitation of a **permissible tolerance level**

| |
|---|
| EUR 2.00 for amounts ≤ EUR 100,000 (or equivalent) |
| EUR 25.00 for amounts > EUR 100,000 (or equivalent) |

- CSDs must set up a **bilateral cancellation facility** that enables participants to bilaterally cancel matched settlement instructions

  - A counterparty may not cancel a transaction unilaterally

- Application of a **partial settlement service** for transactions

- Notification of the transaction settlement status **in real-time**

  - Fully-settled, partially-settled, pending, cancelled

[3] Technical standards. Chapter 2.

# MEASURES TO ADDRESS SETTLEMENT FAILS[4]

- CSDs shall establish a settlement fail **monitoring system**
  - Collection of the following information: the reason for the settlement fail; financial instrument type and transaction type; place of settlement; type of securities accounts connected to the settlement fail; and failing participant
- Reporting information on the **number and value of settlement fails** and the measures to improve effectiveness of settlement to competent authorities
- Annual **public disclosure** on settlement fails
- Application of **mandatory cash penalties** for trades failed to be settled on the intended settlement date
  - A penalty shall be calculated and applied by CSDs against the failing participants at the end of each business day
- **Distribution of cash penalties** to participants
  - CSDs shall charge cash penalties to failing participants and distribute them to receiving participants affected by settlement fails on at least a monthly basis

# APPLICATION OF THE BUY-IN PROCESS[5]

Participants must complete transaction settlement within an **extension period**.

- The extension period starts on the settlement fail date on which cash penalties start to accrue.

- The extension period ends on the date when the mandatory buy-in process starts.

| Period length: | |
|---|---|
| Liquid shares | 4 business days |
| Other financial instruments | 7 business days |
| Financial instruments traded on SME growth markets | 15 business days |

On the last day of the extension period, the participants must settle their transaction partially, if applicable.

# CSDR SDR IMPACT ON MARKET PARTICIPANTS

The measures provided for as part of the SDR with respect to transaction settlement in European securities markets **apply to all settlement participants**.

- As a client of European ICSDs (Euroclear Bank and Clearstream), NSD adapts its operations to the updated requirements and the settlement rules applicable at those ICSDs.

**NSD's clients** who use NSD's services to settle their securities trades in European CSDs fall under those measures, namely:

- New services to manage transaction settlement through European CSDs
- Improvement of settlement discipline
- Liability for settlement fails
- Mandatory cash penalties and buy-in process, where applicable

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# REVIEW OF CHANGES IN NSD'S SETTLEMENT PROCEDURES
## AS A RESULT OF THE ENTRY INTO FORCE OF THE CSDR SDR [1/2]

**Hold&Release Service**

- Available for internal settlement (within ICSDs), link settlement (Euroclear-Clearstream), and external settlement.

- Allows settlement participants to manage transaction settlement.

- An instruction put 'on hold' is matched against a matching settlement instruction but cannot be executed until after both participants release their settlement instructions.

- The status of an instruction can be changed unilaterally: a trading party may change the status of its settlement instruction without the need for its counterparty to change the status of its settlement instruction.

- If either trading party changes the status of its instruction to 'on hold', the counterparty is notified accordingly.

# REVIEW OF CHANGES IN NSD'S SETTLEMENT PROCEDURES
AS A RESULT OF THE ENTRY INTO FORCE OF THE CSDR SDR [2/2]

## Partial Settlement Service

- Available for internal settlement (within ICSDs), link settlement (Euroclear-Clearstream), and external settlement.

- The service implies partial delivery of the assets where the available assets are insufficient to settle the transaction in full.

- Partial settlement is only possible where both parties to the transaction permit partial settlement at the level of their accounts and/or in their instructions.

- The service will allow to:

  - Improve the effectiveness of settlement

  - Increase liquidity

  - Reduce potential losses that may result from settlement fails

# CASH PENALTIES [1/2]

Cash penalties apply to a failing trading party. Cash penalties are paid by the failing trading party to the trading party affected by the settlement fail.

Pre-conditions:

- The matching instructions are matched

- The intended settlement date has occurred

- The transaction has not yet been settled in full, including due to the instruction being put on hold, or has been cancelled

Cash penalty types:

- **LMFP (Late Matching Fail Penalty)** – applies to instructions matched after the intended settlement date.

- **SEFP (Settlement Fail Penalty)** – applies to instructions not settled on the intended settlement date due to one or both instructions being put on hold or due to the insufficiency of financial instruments required to settle the transaction.

# CASH PENALTIES [2/2]

Cash penalties can be calculated **with respect to both trading parties:**

- The first penalty is calculated with respect to the party that must deliver the securities; the penalty must be paid to the buyer as a result of the failure to deliver the financial instruments.

- The second penalty is calculated with respect to the buyer in the transaction; the penalty must be paid to the delivering party as a result of the failure to make payment.

Under the CSDR, **exceptions** apply to settlement fails where:

- the failing trading party is subject to insolvency proceedings;

- securities trading and/or settlement is suspended as a result of the launch of the reconciliation process;

- cash settlement of the transaction involves payment systems beyond NSD's operating system, and on the settlement date, any such external payment system is unavailable for making payments;

- any technical failures at the CSD level prevent settlement (*e.g.,* infrastructure failure, cyber attack, network issues, etc.)

# CASH PENALTY CALCULATION

| Reason of a settlement fail at an ICSD | | • Insufficiency of securities/cash funds required to settle the transaction in full | | | |
| | | • The instruction is put on hold by one or both trading parties | | | |
| | | • Late matching of settlement instructions | | | |
| **Failing trading party** | | Receiving party | | Delivering party | |
| **Instruction types** | | Receive versus payment | Receive free of payment | Delivery versus payment | Delivery free of payment |
| **Penalty calculation method** | **Penalty rate (cash funds) * securities' reference price * number of securities** | X | | | |
| | **Penalty rate (securities) * securities' reference price * number of securities** | | X | X | X |

**NSD does not calculate cash penalties. Cash penalties are calculated by European CSDs only.**

# DAILY STATEMENTS OF CASH PENALTIES

On a daily basis, NSD will send its clients statements of all new, changed, excluded, or newly included cash penalties for failed transactions in which one of the trading parties is a client of NSD. A statement of cash penalties accrued for business day n will be sent on business day n+1.



Daily statements of cash penalties accrued on business day 1 of period M

Daily statements of cash penalties accrued on business day 5 of period M

Daily statements of cash penalties accrued on the last business day of period M

## Contents of a statement:

- Details of the failed transaction
- Reason of the settlement fail
- Cash penalty calculation details

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# APPEAL PROCEDURE

NSD's clients may appeal against cash penalties charged to them for a settlement fail. An appeal may be filed if:

- securities trading and/or settlement is suspended as a result of the launch of the reconciliation process;

- cash settlement of the transaction involves payment systems beyond a European CSD's operating system, and on the intended settlement date, any such external payment system is unavailable;

- any technical failures at the CSD's level prevent settlement.

In its appeal, the client must provide the following details:

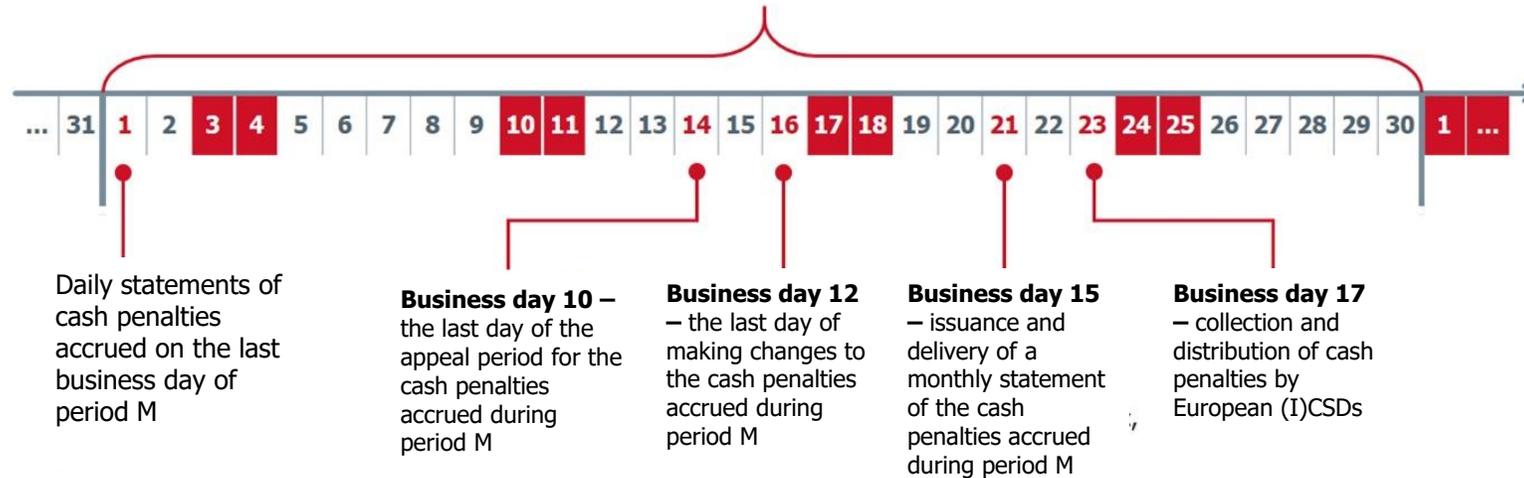| Cash penalty reference (ID) | Details of the relevant transaction | Reason of filing the appeal | Expected penalty amount | Cash penalty calculation details |
|---|---|---|---|---|

Period of appeal: from the cash penalty calculation date on business day n of period M[8] until business day 10 of period M+1[9] (both inclusive).

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# MONTHLY STATEMENTS OF CASH PENALTIES

On business day 15 of period M+1, NSD will send its clients statements containing the final net amount of penalties for period M in the relevant currency.

**Monthly statements of cash penalties accrued during period M+1**



Daily statements of cash penalties accrued on the last business day of period M

**Business day 10** — the last day of the appeal period for the cash penalties accrued during period M

**Business day 12** — the last day of making changes to the cash penalties accrued during period M

**Business day 15** — issuance and delivery of a monthly statement of the cash penalties accrued during period M

**Business day 17** — collection and distribution of cash penalties by European (I)CSDs

**Contents of a monthly statement:**

- Summary of cash penalties (penalty reference (ID), registration number of the instruction, penalty type (LMFP/SEFP), penalty amount and currency, trading party category (failing/non-failing), penalty calculation details)
- Final penalty amount for period M (debit/credit)

# PENALTY SETTLEMENT AND BUY-IN PROCESS

NSD will issue invoices to debit/credit final penalty amounts in the relevant currency and send them to clients after business day 17 of period M+1.

**During the buy-in process, NSD will perform a limited number of functions:**

- Perform partial settlement of the initial instruction on the last day of the extension period

- Change the status of the initial instruction (Hold&Release service)

- Send daily statements of cash penalties accrued for the failed transaction during the buy-in process

- Deliver the financial instruments bought-in during the buy-in process

- Cancel the transaction upon completion of the buy-in process

- Send a report on the results of the buy-in process (filled in by the client) to the ICSD

Currently, NSD has no intention to provide services as buy-in agent.

# THANK YOU!

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