CC&G CSDR Implementation

November 12, 2021
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The Central Securities Depository Regulation (CSDR) provides measures to achieve consistency and standardisation across the CSDs in Europe.

Not only CSDs but also CCPs and Market Participants are affected by the CSDR.

Measures include a new settlement discipline regime with the aim to improve settlement efficiency.

The Settlement Discipline provisions will entry into force on 1st February 2022.

CC&G approach to CSDR

CC&G is member of "EACH Securities Operations Working Group (SOWG). EACH SWOG addressed to ESMA several requests about the interpretation of CSDR’s articles.

Moreover, CC&G has taken part to the EACH working group which have published the CCP CSDR Framework for the application of the Settlement Discipline, aiming to provide an harmonised interpretation of the rules.
**UPDATE**: The European Securities and Markets Authority (ESMA), has written to the European Commission (EC) regarding the implementation of the CSDR, urging it to consider a delay of the mandatory buy-in regime since the final EC legislative proposal for the review of CSDR, possibly including changes to the buy-in regime, is not expected before the end of this year. The other settlement discipline requirements, such as settlement fails reporting and cash penalties regime, are expected to entry into force, as planned.

There is a contingent probability that the entry into force of the Buy-in procedure will be postponed.

In the event that the buy-in procedure will be postponed, CC&G is inclined to maintain the current procedure. However CC&G is considering the impact of the penalties on the buy-in procedure.
CC&G CSDR Implementation

CC&G shall modify its own procedures to be compliant with the CSDR. Developments are ongoing and the main impacted areas are:

- **Population of settlement instructions**
  CCPs must follow the matching criteria for settlement instruction and must modify some fields of the settlement instruction created also on behalf on Members.

- **Buy-in procedure**
  The buy-in procedure will be changed in order to respect the provisions of the RTS which intends to harmonize the rules on buy-in and cash compensation across markets.

- **Partial settlement**
  In order to increase settlement efficiency and prevent fail penalties, CC&G will modify its partial settlement configuration.

- **Penalties**
  CCPs is implementing a penalties mechanism to recover the penalties calculated from (I)CSDs from/to their Clearing Members.
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Population of settlement instructions

CCPs must follow the matching criteria for settlement instructions as laid out by CSDR and RTS. CC&G is making changes to the following matching field as described below:

<table>
<thead>
<tr>
<th>PLACE OF CLEARING</th>
<th>CC&amp;G will use the BIC CCEGITRR in the settlement instructions.</th>
</tr>
</thead>
<tbody>
<tr>
<td>PLACE OF TRADING</td>
<td>The content of this field will be BLANK.</td>
</tr>
<tr>
<td>TRADE DATE</td>
<td>On ICSDs bond section settlement instructions CC&amp;G will populate the field with the date of the execution of the related trades.</td>
</tr>
<tr>
<td>TRANSACTION TYPE</td>
<td>CSDR requires to report the transaction type corresponding to the type of trades constituent of the net. A CSDR Q&amp;A has confirmed that CCPs can maintain their netting criteria. The proper transaction type should be applied, when a CCP does not net different transaction types. A conventional transaction type (such NETT) can be used when the CCP net different transaction types. As a consequence, for equity settlement balances and ICSDS bond settlement balances, CC&amp;G will use the transaction type TRAD. For T2S bond settlement balances which may be made of repos, reverse repos and cash, the change on this field is under analysis and the implementation date will be communicated later on.</td>
</tr>
</tbody>
</table>
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## Buy – in: technical envisaged changes

<table>
<thead>
<tr>
<th>Extension Period</th>
<th>Change vs current process</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 BD after the ISD for transactions in shares</td>
<td>Additional extension of 5 BD at end of extension period no longer possible</td>
</tr>
<tr>
<td>7 BD for “all other market” transactions</td>
<td>Instruction is no longer cancelled upon buy-in activation</td>
</tr>
<tr>
<td>Shorter recycling period for bonds</td>
<td>New optional deferral period has been introduced</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Hold</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Failing delivery instruction is put «on-hold» the day after the end of the extension period</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Execution Period</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Buy-in agent’s execution period could last up until 8 or 14 days</td>
<td>CSDR introduces a new calculation rule:</td>
</tr>
<tr>
<td></td>
<td>Market value (previous day) - original ctv</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash Compensation</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Triggered in case buy-in is not possible or unsuccessful</td>
<td></td>
</tr>
</tbody>
</table>

CSDR buy-in procedure

- 4 BD after the ISD for transactions in shares
- 7 BD for “all other market” transactions
- Shorter recycling period for bonds
Buy-in new timing

- **LIQUID MARKET SHARES**
  - Extension period: 4 days
  - Buy-in delivery: 4 days
  - Deferral: 4 days

- **ILLIQUID MARKET SHARES**
  - Extension period: 4 days
  - Buy-in delivery: 7 days
  - Deferral: 7 days

- **ALL OTHER MARKETS**
  - Extension period: 7 days
  - Buy-in delivery: 7 days
  - Deferral: 7 days

| ISD | ISD +1 | ISD +2 | ISD +3 | ISD +4 | ISD +5 | ISD +6 | ISD +7 | ISD +8 | ISD +9 | ISD +10 | ISD +11 | ISD +12 | ISD +13 | ISD +14 | ISD +15 | ISD +16 | ISD +17 | ISD +18 | ISD +19 | ISD +20 | ISD +21 |
|-----|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
|     |        |        |        |        |        |        |        |        |        |         |         |         |         |         |         |         |         |         |         |         |         |         |
CC&GBuy-in process

Subject to Authorities approval

CC&G is developing the changes to the buy-in procedure as described in the chart below.

REPORT ME01-ME02 Current Buy-in notice

REPORT ME52 – ME54 End of ext. period

Timeframe for delivery

REPORT ME09-ME11 Report deferral of buy-in execution or

REPORT CASH COMPENSATION (to be shared shortly)

Possible deferral period

INTENDED SETTLEMENT DAY

EXTENSION PERIOD

The failing CM can contact CC&G to deliver the securities if the buy-in agent has not yet executed.

Day after the end of extension period c.o.b:

➢ Instruction is put on hold (CC&G through PoA)

➢ CC&G appoints a buy-in agent

➢ REPORT ME05 – ME06 Buy-In activation Containing buy-in information

➢ In case the buy-in is not possible, CC&G will notify cash compensation

➢ REPORT ME09 – ME11 Buy-In execution

-containing buy-in information and buy-in ISD, when the failing instruction will be cancelled

REPORT ME53-ME55 RECEIVING FAIL POSITION WARNING: sent to the in bonis partecipant starting from the end of the extension period, to notify the instruction is still pending
CC&G Buy-in process

Subject to Authorities approval

**Buy-in on the Bond Section:**

As per Art. 7.4 CSDR and Art. 22 RTS the buy-in should not apply to operations composed of several transactions such as Repos where the second transaction is set within 30 business days after the intended settlement date of the first transaction.

For proper risk management and to boost settlement efficiency, CC&G will apply buy-in without any differentiation between long/short repos and cash.
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Partial settlement: envisaged changes

**T2S PARTIAL INDICATOR**

CC&G will change the partial indicator from PARC (partial settlement allowed with threshold) to PARQ (partial settlement allowed with minimum quantity 0) **for all asset class except Government Bonds**. For Government Bonds CC&G and LCH won’t change the partial indicator currently in use (PARC).

Implementation date expected after February 2021 – date to be confirmed

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**ICSDs PARTIAL SETTLEMENT**

ICSDs have introduced automatic partial windows on bridge settlement. CC&G is evaluating the implementation of partial settlement on ICSDs Bond section.

Implementation date expected within February 2021 – date to be confirmed
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Penalties mechanism

- CC&G reconciles the penalties received from (I)CSDs with related failing settlement instructions.
- CC&G sends data files with penalties details to Clearing Members and Settlement Agents.
- CC&G receives Monthly Penalties, elaborates penalties net amounts to be paid by Direct Clearing Member.
- On the 15th day CC&G sends to Clearing Members and Settlement Agents a data file containing the list of final active penalties and a data file with the monthly net amount per settlement system. The report is created at account level and Trading Client level, following fails registration rules.
- Payments are processed at Settlement system/Clearing Member/Account level in Target 2 through direct debit - margin payments set up.
Penalties - updates

**Data files**

- CC&G will daily distribute the data files with penalties details;
- The content of the daily data file is based on the related MT537 messages received from (I)CSDs;
- CC&G will distribute monthly data files with the list of only active penalties used for calculating the net amount (only active);
- CC&G will distribute monthly data file and Pdf reports with information related to the penalties net amount to be paid/collected;

**Reports**

- A new pdf report will be created to inform Members on the penalties net amount. Moreover, current version of MS52 and MS53 will be modified to include penalties payments.
# PENALTIES REPORTING

Penalties daily and monthly reporting

<table>
<thead>
<tr>
<th>Report/Data files</th>
<th>Data aggregation level</th>
<th>Distribution level</th>
</tr>
</thead>
<tbody>
<tr>
<td>D05A</td>
<td>Settlement system/Member/account</td>
<td>Member</td>
</tr>
<tr>
<td>D05B</td>
<td>Settlement system/Member/account</td>
<td>Settlement Agent</td>
</tr>
<tr>
<td>D05C</td>
<td>Settlement system/Member/account</td>
<td>Member</td>
</tr>
<tr>
<td>D05D</td>
<td>Settlement system/Member/account</td>
<td>Settlement Agent</td>
</tr>
<tr>
<td>D05E</td>
<td>Settlement system/Member/account</td>
<td>Member</td>
</tr>
<tr>
<td>D05F</td>
<td>Settlement system/Member/account</td>
<td>Settlement Agent</td>
</tr>
<tr>
<td>D05G</td>
<td>Settlement system/Clearing Member/account</td>
<td>Settlement agent for cash</td>
</tr>
<tr>
<td>D05H</td>
<td>Settlement system/Clearing Member/account</td>
<td>GCM</td>
</tr>
</tbody>
</table>

(For GCM, the data file reports the list of penalties net balances of its TC)

<table>
<thead>
<tr>
<th>Monthly reports</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>MS54</td>
<td>Settlement system/Member/MembeMember</td>
</tr>
<tr>
<td>MS55</td>
<td>Settlement system/Clearing Member/Member</td>
</tr>
</tbody>
</table>

NEW Available from 19/11/2021
Penalties - Payments

- CCPs penalties are debited/credited on the 17th BD, at Clearing Member level, on Target2. CC&G will firstly debit Clearing members; when all amounts have been collected, CC&G will credit Clearing Members only the amount collected.

- Timing for payments will be communicated later on.

- Clearing Members will distinguish penalties payments through a specific reason code, which will be different based on the settlement system.

- Where a Clearing Member does not pay penalties, it is considered that CCPs are not obligated to pay penalties and are obligated only to redistribute penalties to the extent they collect penalties. As a consequence it is proposed to decrease the settlement penalties fees due to each member in proportion to their individual penalty fees to the total penalty fees due to all members. Technical details are under analysis.

<table>
<thead>
<tr>
<th>Settlement system/account</th>
<th>Reason code</th>
</tr>
</thead>
<tbody>
<tr>
<td>T2S Penalties/House</td>
<td>MIF-PET-ABI-H</td>
</tr>
<tr>
<td>T2S Penalties/Client</td>
<td>MIF-PET-ABI-C</td>
</tr>
<tr>
<td>ICSD Penalties/House</td>
<td>MIF-PEI-ABI-H</td>
</tr>
<tr>
<td>ICSD Penalties/Client</td>
<td>MIF-PEI-ABI-C</td>
</tr>
</tbody>
</table>
Penalties – Mismatch scenario

There are potential scenarios, such as box positions or strange nets, where the amount of penalties that the CCP should re-distribute, according to the calculation provided by the CSD, is more than the amount collected by the CCP.

CCPs are exempted from penalties, therefore in the above situation, the potential losses resulting from penalties mismatch scenarios will be redistributed among members as follows:

*CC&G will decrease the settlement penalties fees due to each member in proportion to their individual credit penalties to the total penalty fees due to all members.*
Penalties – Mismatch scenario

CC&G will provide Members with details on net penalties amount and mismatch amount on Monthly report D05E. A single payment message will be processed on the 17th business day.

<table>
<thead>
<tr>
<th>Member A</th>
<th>Member B</th>
<th>CC&amp;G</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Penalties in malis: -80 €</td>
<td>• Penalties in malis: -10 €</td>
<td>• Penalties in malis: -100 €</td>
</tr>
<tr>
<td>• Penalties in bonis: 60 €</td>
<td>• Penalties in bonis: 40 €</td>
<td>• Penalties in bonis: 90 €</td>
</tr>
<tr>
<td>• Net amount: -20 €</td>
<td>• Net amount: 30 €</td>
<td>• Net amount: -10 €</td>
</tr>
</tbody>
</table>

CC&G has an unbalanced net amount due to a mismatch scenario and it is proposed to reduce proportionally the in bonis penalties of both Member A and member B.

<table>
<thead>
<tr>
<th>Member A</th>
<th>Member B</th>
</tr>
</thead>
<tbody>
<tr>
<td>•Mismatch amount: -6 €</td>
<td>•Mismatch amount: -4 €</td>
</tr>
<tr>
<td>• Final Net amount: -26 €</td>
<td>• Final Net Amount: 26€</td>
</tr>
</tbody>
</table>
Mismatch scenario – Reporting example

Monthly data files D05E/F/H include the data on the mismatch adjustment calculated for each member/account/settlement system.

Example:

General Clearing Member 1 has two trading clients: Trading client A and Trading client B. They operate both in T2S and on ICSDs, in house and client accounts. The information provided by CC&G include the data reported in the following table.

<table>
<thead>
<tr>
<th>Member ABI Code</th>
<th>Member Account</th>
<th>GCM ABI Code</th>
<th>Settlement Location</th>
<th>Currency for payment</th>
<th>Net amount for payment</th>
<th>Mismatch Adjustment</th>
<th>Final net amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>GCM 1</td>
<td>H</td>
<td>GCM1</td>
<td>MOTI</td>
<td>EUR</td>
<td>+1.000,00</td>
<td>-28,00</td>
<td>+972,00</td>
</tr>
<tr>
<td>GCM 1</td>
<td>C</td>
<td>GCM1</td>
<td>MOTI</td>
<td>EUR</td>
<td>+200,00</td>
<td>-19,00</td>
<td>+181,00</td>
</tr>
<tr>
<td>TC A</td>
<td>H</td>
<td>GCM1</td>
<td>MOTI</td>
<td>EUR</td>
<td>-10,00</td>
<td>-3,50</td>
<td>-13,50</td>
</tr>
<tr>
<td>TC A</td>
<td>C</td>
<td>GCM1</td>
<td>MOTI</td>
<td>EUR</td>
<td>-100,00</td>
<td>-7,00</td>
<td>-107,00</td>
</tr>
<tr>
<td>TC B</td>
<td>C</td>
<td>GCM1</td>
<td>MOTI</td>
<td>EUR</td>
<td>+300,00</td>
<td>-22,00</td>
<td>+278,00</td>
</tr>
<tr>
<td>GCM 1</td>
<td>H</td>
<td>GCM1</td>
<td>ECLR</td>
<td>EUR</td>
<td>-700,00</td>
<td>-26,00</td>
<td>-726,00</td>
</tr>
<tr>
<td>TC B</td>
<td>H</td>
<td>GCM1</td>
<td>ECLR</td>
<td>EUR</td>
<td>+400,00</td>
<td>-13,00</td>
<td>+387,00</td>
</tr>
<tr>
<td>TC A</td>
<td>C</td>
<td>GCM1</td>
<td>ECLR</td>
<td>EUR</td>
<td>+600,00</td>
<td>-5,00</td>
<td>+595,00</td>
</tr>
</tbody>
</table>

Net Payments will be processed as follows:

<table>
<thead>
<tr>
<th>Payment Reason code</th>
<th>Payment amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>MIF-PET-GCM1-H</td>
<td>+972,00</td>
</tr>
<tr>
<td>MIF-PET-GCM1-C</td>
<td>+338,50</td>
</tr>
<tr>
<td>MIF-PEI-GCM1-H</td>
<td>-726,00</td>
</tr>
<tr>
<td>MIF-PEI-GCM1-C</td>
<td>+982,00</td>
</tr>
</tbody>
</table>
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CSDR Project Timeline and buy-in testing session

- **Oct 2021**: T2S Penalties Dry Run Phase
- **Nov 2021**: 15/11
- **Dic 2021**: 20/12
- **Jan 2022**: T2S and ICSDs Penalties Dry Run Phase
- **Feb 2022**: Go Live

**BUY-IN EXTERNAL TEST**
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