

CC&G CSDR Implementation



CC&G

A EURONEXT COMPANY

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CSDR – RTS Overview

- 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.

CSDR REFIT

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:

PLACE OF CLEARING

CC&G will use the BIC CCEGITRR in the settlement instructions.

PLACE OF TRADING

The content of this field will be BLANK.

TRADE DATE

On ICSDs bond section settlement instructions CC&G will populate the field with the date of the execution of the related trades.

TRANSACTION TYPE

CSDR requires to report the transaction type corresponding to the type of trades constituent of the net.

A CSDR Q&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, CCG 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.

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Buy – in: technical envisaged changes

CSDR buy-in procedure

EXTENSION PERIOD

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



HOLD

Failing delivery instruction is put «on-hold» the day after the end of the extension period



EXECUTION PERIOD

Buy-in agent’s execution period could last up until 8 or 14 days



CASH COMPENSATION

Triggered in case buy-in is not possible or unsuccessful



Change vs current process

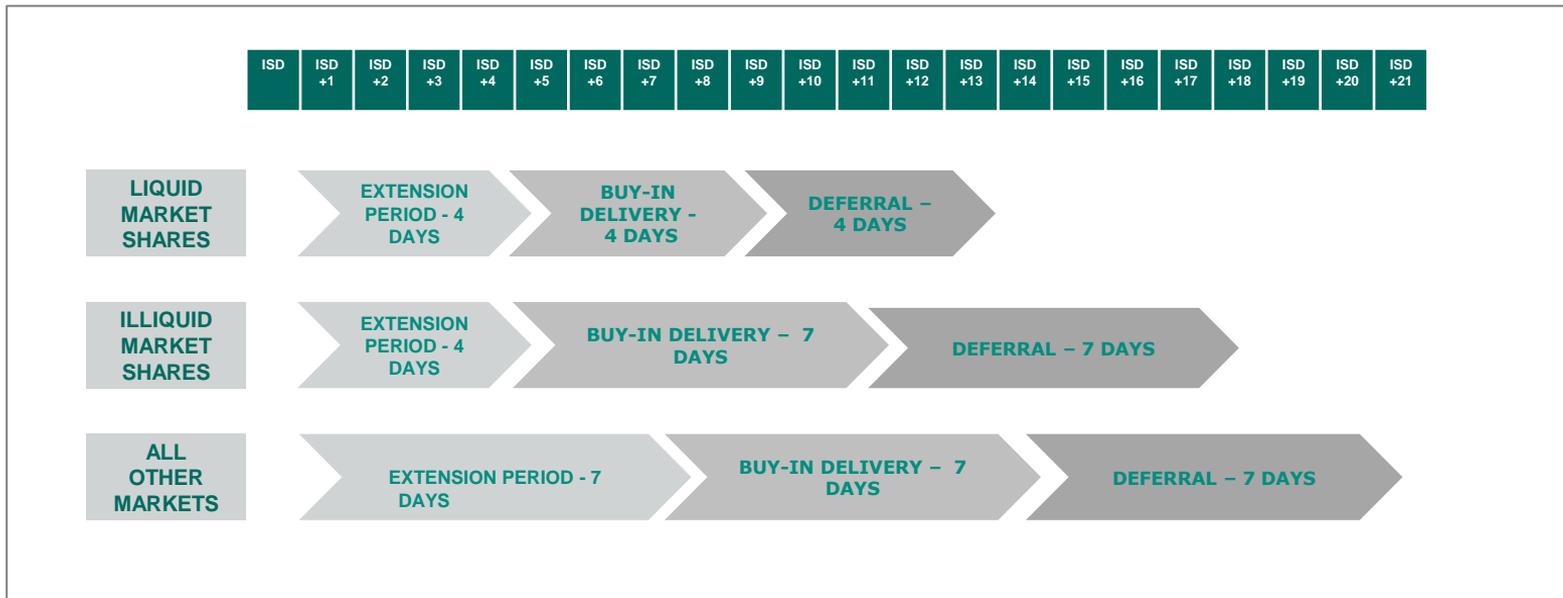
Additional extension of 5 BD at end of extension period no longer possible

Instruction is no longer cancelled upon buy-in activation

New optional deferral period has been introduced

CSDR introduces a new calculation rule:
Market value (previous day) - original ctv

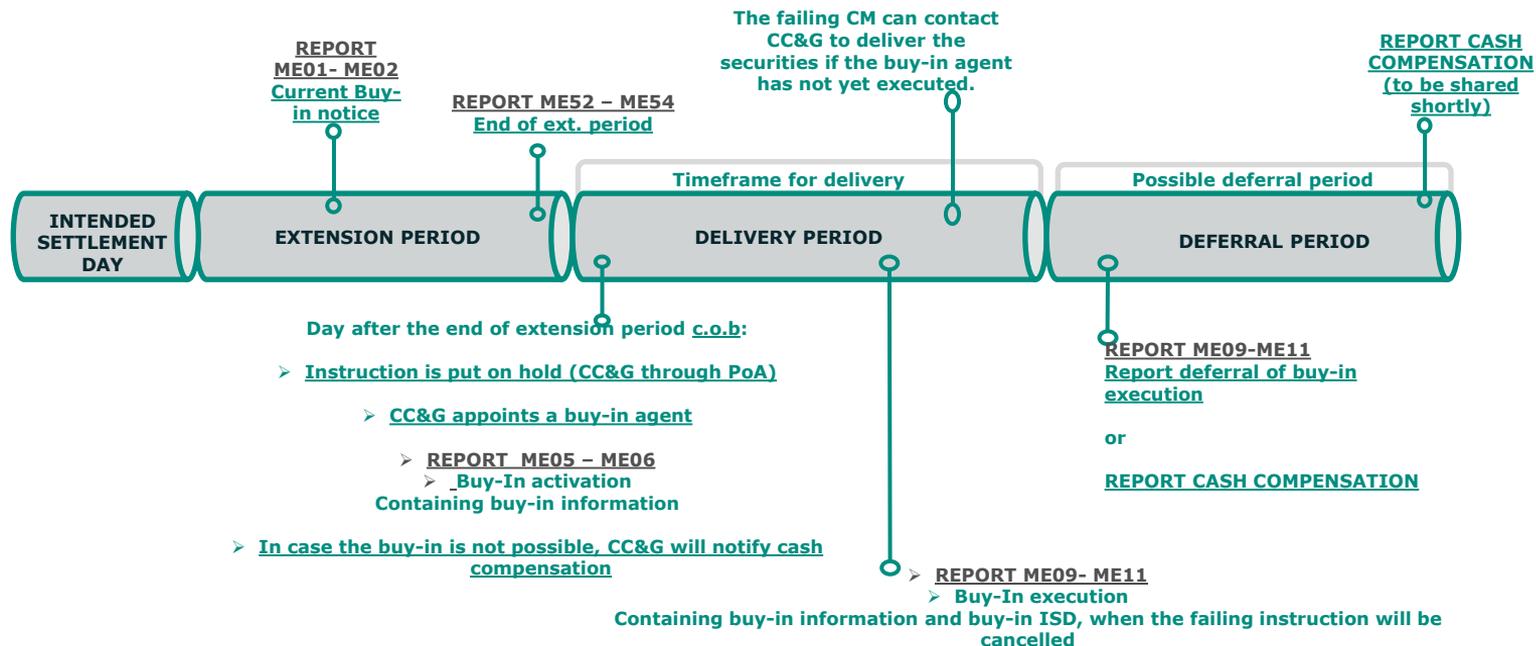
Buy-in new timing



CC&G Buy-in process

Subject to Authorities approval

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



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

CC&G new procedure

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

ICSDs PARTIAL SETTLEMENT

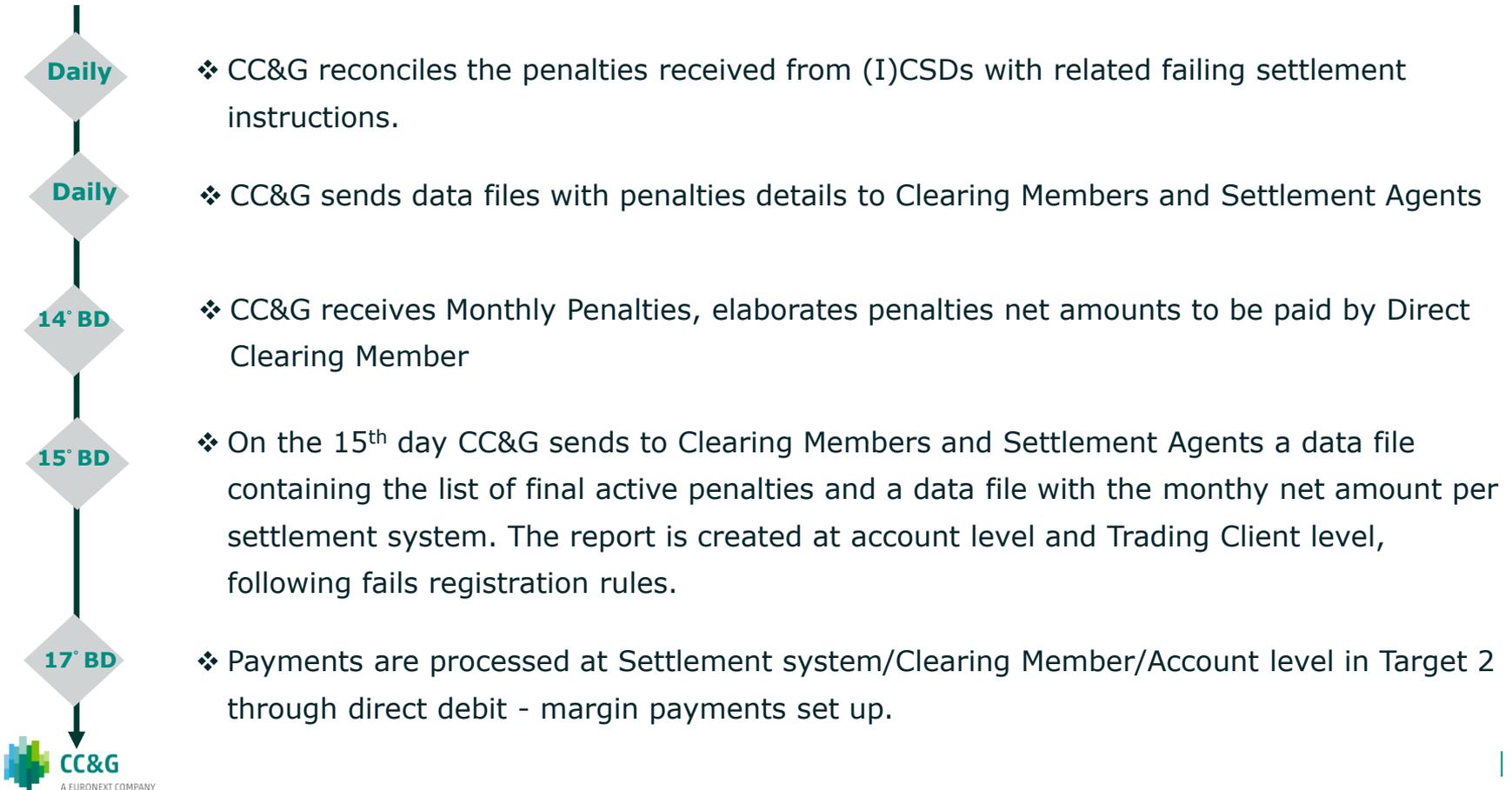
ICSDs have introduced automatic partial windows on bridge settlement. CC&G is evaluating the implementation of partial settlement on ICSDs Bond section

Implementation date expected within February 2021 – date to be confirmed

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Penalties mechanism



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

	Report/ Data files	Data aggregation level	Distribution level	
Penalties details - daily	D05A	Settlement system/Member/account	Member	
	D05B	Settlement system/Member/account	Settlement Agent	
Penalties details - monthly	D05C	Settlement system/Member/account	Member	
	D05D	Settlement system/Member/account	Settlement Agent	
Penalties net balances monthly	D05E	Settlement system/Member/account	Member	
	D05F	Settlement system/Member/account	Settlement Agent	
	D05G	Settlement system/Clearing Member/account	Settlement agent for cash	
	D05H	Settlement system/Clearing Member/account (for GCM, the data file reports the list of penalties net balances of its TC)	GCM	NEW Available from 19/11/2021
Monthly reports	MS54	Settlement system/Member/account Member	Member	
	MS55	Settlement system/Clearing Member/account	GCM	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.

Settlement system/account	Reason code
T2S Penalties/House	MIF-PET-ABI-H
T2S Penalties/Client	MIF-PET-ABI-C
ICSD Penalties/House	MIF-PEI-ABI-H
ICSD Penalties/Client	MIF-PEI-ABI-C

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

**PENALTIES NET
PAYMENTS INCLUDE
MISMATCH AMOUNT**

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.

Member A
Penalties in malis: -80 €
Penalties in bonis: 60 €
Net amount: -20 €

Member B
Penalties in malis: -10 €
Penalties in bonis: 40 €
Net amount: 30 €

CC&G
Penalties in malis: -100 €
Penalties in bonis: 90 €
Net amount: -10 €

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.

Member A
Mismatch amount: -6 €
Final Net amount: - 26 €

Member B
Mismatch amount: -4 €
Final Net Amount: 26€

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.

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

PENALTIES NET
PAYMENTS INCLUDE
MISMATCH AMOUNT

Net Payments will be processed as follows:

Payment Reason code	Payment amount
MIF-PET-GCM1-H	+972,00
MIF-PET-GCM1-C	+338,50
MIF-PEI-GCM1-H	-726,00
MIF-PEI-GCM1-C	+982,00

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CSDR Project Timeline and buy-in testing session



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