



EuroCCP CSDR Settlement Discipline Framework

Priority - Normal
Impact - For Your Information
Contact - Product Management

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1. Introduction

This CSDR Settlement Discipline Framework living document will be updated on a regular basis in order to provide the current and latest updates on the upcoming CSDR changes and the impact for EuroCCP clients. Although several CSDs are still in the process of publishing their technical specifications on CSDR there are already several known impact areas for which it is clear what needs to be completed in order to become CSDR compliant.

This document will provide detailed information on what processes are confirmed along with items which are still 'under development/discussion' for which we will define once agreed in the near future.

Information that is available will be updated on a regular basis, including a track changes version to identify the latest updates.

2. Main changes

As part of the new CSDR regulations the following key processes will be impacted:

- Population of Settlement instructions
- Collection and Distribution of Cash Penalties
- Buy-In / Cash compensation processes and timelines

The specifics of these changes will be further detailed in this document.

3. Settlement Instruction impact

3.1. Impact on sending settlement instructions

CSDs have announced several changes in the way certain fields in Swift settlement instructions are validated or processed. In general the CSDs have a harmonized approach but there are some small deviations per market to keep in mind while implementing the CSDR requirements.

3.2. Place of Trade (94B)

CSDs need to derive the actual place of trade from the settlement instruction to be able to calculate the applicable penalty rate for transactions completed on SME Growth markets. A CSD will only apply the lower penalty rate when both the delivering and receiving instructions contain the same Segment MIC of the SME Growth market.

CSDs have announced the following measures to address this requirement:

- Validate the Place of Trade against ISO 10383 standards
- Make Place of Trade a mandatory field

To prevent rejections of instructions from CSDs and to make sure that instructions will get the applicable penalty rate we will implement the following measures for populating the place of trade in the settlement instructions:

- CCP Cleared instructions which contain trades from 1 Segment MIC will contain the Segment MIC in the place of trade field (this is important for instructions on SME Growth markets);
- CCP Cleared instructions which contain trades from multiple venues (cross exchange netted) will contain the value 'VARI' as place of trade;
- EuroCCP will only use ISO 10383 compliant MICs (no more dummy MICs)

This impacts the Copy/PoA messages, where currently the dummy MIC 'CEUC' is being used and

this will be changed in the near future informing clients by Newsflash and within future updates of the document.

- For Over The Counter instructions there is no Segment MIC as place of trade and therefore the Place of Trade will be 'OTCO' or the venue MIC if ISO compliant.

3.3. Impact on Standard Settlement Instructions (SSI) setup

The Standard Settlement Instructions for clients will be impacted by CSDR to comply with ISO 10383 requirements and to enable the calculation of the applicable penalty rate by the CSD.

EuroCCP will send an overview to the impacted clients with a proposal for the update of the standard settlement instructions.

As it is a manual process to update the settlement instructions we will start communicating the proposed changes shortly to provide sufficient time for review.

3.4. Trade date (98a)

Trade date already has become a mandatory field for multiple CSDs. It is recommended to always populate the trade date in your settlement instructions as early as possible within the project as CSDs are expected to make this a mandatory field prior to go live.

3.5. Cross exchange netting

The netting across exchanges will be impacted due to the deviating penalty rates and buy-in timelines for SME Growth markets. This will result in a default setting where EuroCCP will exclude the trades executed on SME Growth markets from the cross exchange netting. A separate settlement instruction will then be created for the netted trades executed on each SME Growth market including their applicable SME MIC code in order for the CSD to calculate the correct penalty rate.

3.6. Ongoing discussions

There are some additional fields in the Swift instructions where we expect some small changes to happen:

- (CSDR) Transaction type (22F)
CSDs have different implementations for this field. As soon as we have a clear overview of the requirements this will be communicated
- Place of Clearing
This field will be populated by either the CSD or by the CCP. We do not expect any impact for clients, but this will be confirmed as soon as all specifications from CSDs are available.

4. Cash Penalties

This topic has recently concluded in April with many CCPs starting work on building to comply with Article 19 in the legislation resulting in EuroCCP collecting and redistributing the cash penalties to clearing members. Several topics are still under discussion or not known yet and we are working with EACH and ECSDA to ensure all are published as early as possible..

4.1. Collection and distribution of penalties

CSDR outlines the requirement for penalties on settlement instructions that fail to settle on the Intended Settlement Day (ISD). The CSDs will be responsible for the calculation, collection and distribution of these penalties (non CCP cleared instructions). For CCP cleared instructions the CCPs are responsible for the collection and distribution of penalties (Article 19).

EuroCCP has started the implementation of the changes required to collect and distribute penalties for our clearing members.

This monthly process is very similar to the process at the CSD. The main change is that as a CCP we can net penalties across CSDs for the same currency. This reduces the number of payments significantly if you are clearing through EuroCCP for multiple CSDs.

EuroCCP working with EACH and ECSDA envisages the model to work as described:

- The CSD is responsible for the daily calculation and reporting of penalties to all of its members;
- As a CCP we will not provide daily penalty reports to our clearing members. This can be retrieved from your CSD (or agent/custodian) as CCP activity will be included in the CSD daily reporting;
- Appeals of penalties have to be applied at the CSD, not through the CCP (as we are only responsible for collecting and redistributing what the CSD has reported). We expect clients to reconcile these through their daily reporting from the CSD or their settlement agent depending on the account set up and appeal if they see any discrepancies.

Note – This process is still under review with the infrastructures and clients, with further details to follow.

The monthly process contains the following steps:

- On the 14th BD we will receive the penalty reports from the CSDs;
(the actual calendar day can differ per CSD)
 - As soon as EuroCCP has received all penalty reports from the CSDs we will process them and calculate the netted penalty amount to pay or receive from each Clearing Member (per currency);
 - The distribution of invoices to the clearing members is expected to be similar to the existing monthly invoice with the amounts to be paid/received per clearing member (1 invoice per currency). This is expected to be a separate process for the penalties due to the timelines being different to the current monthly billing cycle;
 - EuroCCP will where possible will look to mirror the generation of payment instructions per clearing member per currency on the 17th BD aligning to the CSD timelines;
 - Collecting and distributing of the penalty amounts will be reported back to the CSDs
- The exact payment model is still under discussion.

4.2. Penalty reporting

The CSD will provide reports on penalties including CCP activity to the CSD participants. Direct participants will receive the penalty reports directly. Indirect participants will receive reporting through their custodian/settlement agent.

The specifications of the Swift messages used are or will be published by each CSD. For penalty reports the following Swift formats are used:

- MT537 (ISO 15022)
- Semt.044 (ISO 20022)

4.3. Penalty Mismatch scenarios

There are several circumstances which can create mismatches in penalties which can result in an potential loss/profit on CCP level as follows:

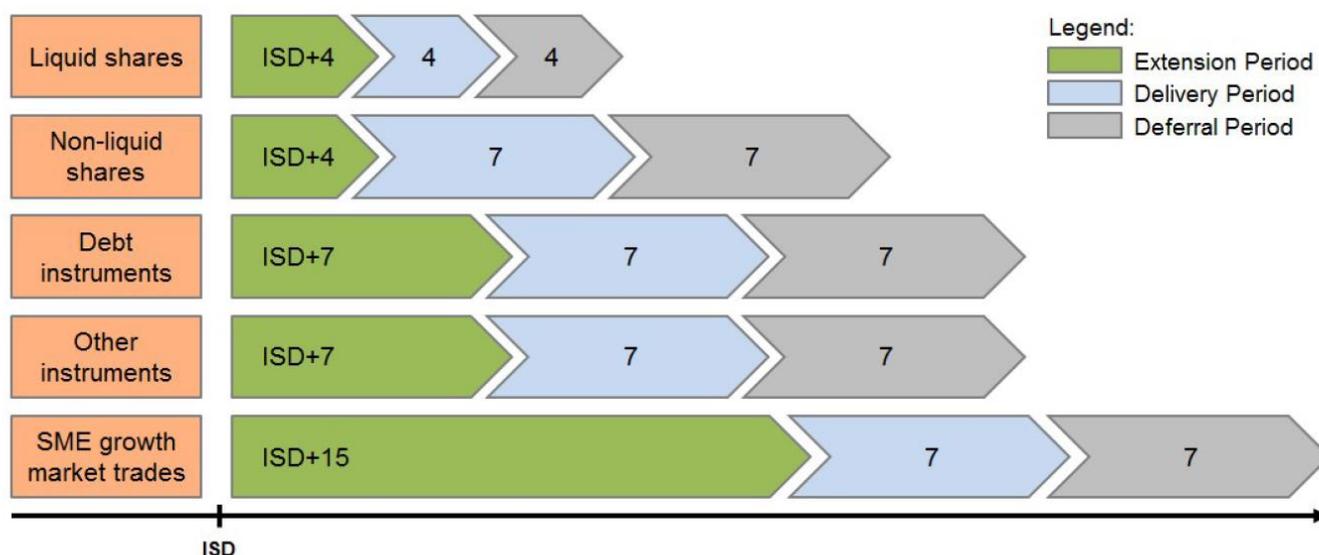
- Late delivery from clearing member just prior to the CSD market cut-off not allowing time for onwards delivery resulting in the CCP holding securities overnight. We are working with T2S and CSDs to reduce this scenario making system enhancements where possible.
- The receiving clearing member does not have partial settlement enabled
- Difference in penalty between SME Growth market penalty and non-SME Growth market penalty (same ISIN)
- Strange nets
- This is not a limitative list, multiple other scenarios will be possible.

EuroCCP will calculate the total loss/profit on a monthly basis and mutualise these costs/profit among the clearing members (per currency). EuroCCP are working with EACH to see if a common mutualisation process can be agreed between CCPs to their members.

5. Buy-In process

CSDR changes the timelines for the buy-in. In the new Settlement Discipline Regime the type of instrument in combination with the type of market (SME Growth or not) will determine the number of days allowed before the buy-in has to start.

The following table shows the allowed buy-in timelines (see remarks below the table for deviations):



Note: All periods are measured in business days except the SME growth market extension period, where calendar days are noted.

- SME buy in period could be reduced from ISD+15 if the SME venue requests a shorter timeline otherwise EuroCCP we use the full 15 days
- For CCP-cleared transactions the 7 day delivery and deferral period is not applicable (this is the same as liquid shares)
- The number of days mentioned for the extension period for SME Growth markets is in Calendar days.

Important timings from EuroCCP:

- EuroCCP will send a buy-in notification depending on the local market timing.
- A clearing member will be able to settle transactions until DVP close on the 1st day of the delivery period.
- A buy-in execution notice will be sent at DVP close on the first day of the delivery period.

6. Cash Compensation functionality

This section will be completed at a later stage..

7. Reporting requirements

EuroCCP will follow the market standards as far as the mandatory reporting of buy-in and cash compensation to the CSDs is required.

8. Market specific information

This section contains specific information on changes within certain markets.

8.1. Euroclear UK & Ireland (EUI)

EUI is one of the first CSDs to implement several changes due to CSDR with their new release on the 27th of July 2020. The impacted items in the settlement instructions are:

- CSDR Transaction type – mandatory field
Mandatory field. EuroCCP will populate this field default with 'NETT'
Format: :22F::STCO/CRST/NETT
- Place of Clearing LEI
This field will automatically be populated by EUI.
- Place of Trade MIC
This field needs to be ISO 10383 compliant and needs to be a Segment MIC
Mandatory field
- Trade date
This field changes to mandatory (see 3.4)

***Note - The UK will not include the Central Securities Depositories Regulation's (CSDR) settlement discipline regime as part of its adoption of EU regulations post Brexit. More detail to follow when available in relation to the impacts in this document.**

9. Member Testing

This is expected to be made available in Q4 2020 with further details to be communicated when available.

10. Planning

The current formal planning is that SDR comes into force on 1 February 2021. This extended go live date has recently been approved by ESMA and the European Commission. The delay also has to be formally approved by the European Parliament and Council. This approval can take some more time before it is formalised.

Several of the CSDs have confirmed that they are starting the penalty calculation and reporting as of the 23rd of November 2020 (connected to the Swift release). During this 'dry run' the CSDs will calculate and report the penalties but will not actually collect and distribute them.

11. Rule / Regulation changes

EuroCCP are looking to make minimal changes where possible and reuse processes used today in order to reduce the work load for clients upon implementation. Any changes required will be communicated as early as possible.

