CSDR AND SETTLEMENT DISCIPLINE REGIME – ARE YOU READY?

BNP PARIBAS SECURITIES SERVICES
November 2021

The bank for a changing world
AGENDA

1. Overview: the current situation

2. Changes and impact on our custody product

3. Annex
1 - Overview: the current situation

- SDR implementation date
- Next legislative steps
- Accompanying you through the change
The settlement discipline regime is due to be implemented on 1 February 2022. Based on the current version of the regulation, this includes:

- measures to prevent settlement fails (measures on allocation and confirmation of trades);
- monitoring of settlement fails;
- measures to address settlement fails – cash penalties;
- measures to address settlement fails – mandatory buy-ins.

Nevertheless, in September 2021, ESMA issued a letter to the European Commission to confirm its view on the way forward on settlement discipline in the context of the CSDR review (esma70-156-4963_letter_-_esma_to_ec_on_csdr_settlement_discipline.pdf (europa.eu)). In this letter, ESMA highlighted the challenges of the buy-in regime and the need for clarity regarding some open questions necessary for the implementation of the buy-in requirements and therefore called for an urgent action to delay the implementation deadline so that sufficient time is given for the CSDR review to thoroughly consider the mandatory buy-in framework.

Following such letter, the Commission decided to tag legislative changes relating to settlement discipline (i.e. propose to delay the implementation of the mandatory buy-in framework) in the DLT Pilot Regime text, for which the legislators were close to reaching an agreement.

The EU Council Presidency presented a buy-in regime amendment and reached an agreement with the EU Parliament on the postponement of the CSDR mandatory buy-in regime at the DLT Trilogue meeting held on 24 November.

A more detailed communication on the agreement is yet to be published, allowing ESMA to address practical issues for the postponement of the mandatory buy-ins provisions due on 1 February 2022.
CSDR: ACCOMPANYING YOU THROUGH THE CHANGE

**Support Documents**
- CSDR handbook
- CSDR podcasts
- CSDR webinars
- CSDR toolkit
- CSDR webpage
- NeoLink guideline
- CSDR Market and Client updates

**Partner Approach**
- Dedicated CSDR Client Updates on settlement efficiency, internalised settlement reporting.
- Dedicated calls with CSDR experts
- Connectivity, on demand, with external providers for CSDR related services
- Support to accomplish UAT and Dry run testing
- Completion of CSDR questionnaires and forecast of penalties amounts

**Industry Efforts**
- AFME and AGC membership
- SMPG Co-chair of settlement & reconciliation working group
- Representation on several CSDR industry taskforces
- Contribution to Industry discussions and review/creation of market practices (e.g. partial settlement, penalties reporting, etc.)
- Local presence (on site) in local market committees and banking associations

**Global Oversight**
- Adaptation of IT infrastructure to comply with new messaging standards (i.e. MT537 PEN, MT530) and processes
- Enhancement and development of our NeoLink web portal to provide alternative solutions to clients not using SWIFT reporting
- Pro-active and flexible solutions to provide you with a unique CSDR approach despite divergent approaches of local CSDs
- Proposal for a customised set up in our tools to meet your expectation and ensure a smooth roll out from live date

**Service Evolution**
- AFME and AGC membership
- SMPG Co-chair of settlement & reconciliation working group
- Representation on several CSDR industry taskforces
- Contribution to Industry discussions and review/creation of market practices (e.g. partial settlement, penalties reporting, etc.)
- Local presence (on site) in local market committees and banking associations

**Local Expertise**
- Adaptation of IT infrastructure to comply with new messaging standards (i.e. MT537 PEN, MT530) and processes
- Enhancement and development of our NeoLink web portal to provide alternative solutions to clients not using SWIFT reporting
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2 - Changes and impact on our custody product

- Product evolution to support CSDR
- Standard daily and monthly reporting
- Optional value added reporting
- Buy-in reporting
- Penalties collection and re-distribution
- Internalised settlement service
PRODUCT EVOLUTIONS TO SUPPORT CSDR

**SETTLEMENT EFFICIENCY**
- Hold and release
- Partial settlement
- Partial release capabilities
- Monitor your settlement fails via our NeoLink dashboard
- Real time MT548 messages
- MT548 APIs

**PENALTIES MANAGEMENT**
- Capture of daily accruals and monthly penalties from CSDs and CCPs.
- Association of each accrual to your settlement instructions in our books
- Investigation in case of any discrepancy

**BUY-IN ALERT & REPORTING**
- Buy-in alert report to clients, available upon subscription
- Processing of the buy-in trade, collection of buy-in results via MT599 message and reporting to the relevant CSD.

**REPORTING NEEDS**
- Daily and monthly SWIFT reporting of penalties
- NeoLink dashboard and NeoLink on demand reporting for daily and monthly penalties
- Intra-day reporting to forecast penalties amount
- MIS metrics to ease your reconciliation process

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Penalties calendar and reporting

1. **Appeal period.** Window for participants to ask CSDs for corrections on penalties from the previous month.
2. **End of appeal period.**
3. **Monthly aggregated amounts for penalties of the previous month.**
4. **Collection and redistribution of penalties.**

**Business Days**

1 - 31

- **Daily reporting sent at each EOD for every business day.**
- **MT950 – MT940 sent overnight on the 17th business day.**
- **CSDR reimbursement note issued on the 17th business day.**
- **Monthly reporting sent at EOD of the 14th business day.**
STANDARD PENALTIES REPORTING - DAILY

**SWIFT**

- :98A::STAT// - Statement date
- :22F::SFRE// - Specifies the frequency of the statement (daily or monthly)
- :98A::DACO// - Date on which the instruction fails to settle and for which a penalty is calculated
- :19A::GBNT// - Global net amount for a party
- :19A::AGNT// - Bilateral net amount for a party and counterparty
- :20C::PCOM// - A unique reference assigned by the calculating CSD to the penalty
- :20C::PREF// - A unique reference assigned by the calculating CSD to the penalty. For a party at fault, the reference is the penalty common reference (PCOM) preceded by “F”. For a party not at fault, the reference is the penalty common reference (PCOM) preceded by “N”
- :22H::PNTP// - Indicates the type of penalty: LMFP = Late matching fail penalty and SEFP = settlement fail penalty
- :19A::AMCO// - Amount of the penalty calculated

**NeoLink**

A screenshot of a NeoLink interface is shown with fields for Daily Settlement Penalties. The fields include:

- Computation Date
- Last update
- Bank
- Securities Account
- Computed Amount
- AMCO Currency
- Client Reference
- ISIN
- Penalty Type
- Failing Days Counter

Sample data for the fields is provided, including dates and amounts, indicating how penalties are calculated and reported.
Appeals can be lodged by CSD participants at any time during the calendar month, as from the moment of computation and reporting of the penalty, and maximum until (and including) the 10th Penalty Business Day of the following month. The appeal period shall generally end on the 10th Penalty Business Day (included) of the following month.

WHEN?
As from the moment of computation and reporting of the penalty the Appeal Request to BNP Paribas shall be sent no later than the 8th Penalty Business Day of the following month.

HOW?
Appeal request needs to be sent to BNP Paribas via MT599 or equivalent authorized media-in including the minimum required information.

WHAT?
Minimum required information*:
- Reference of the related Penalty
- Appeal reason
- Expected penalty amount and calculation details to be applied
- CSD concerned in the penalty requirements.

* Without this information the Appeal request will not be processed. Any specific information requested by the relevant CSD will be enriched by BNP Paribas or requested to the client in compliance with the relevant CSD.

BNP Paribas Appeal follow-up:
We will inform you about your appeal request’s status:
- Appeal acknowledgment will be sent within 1 business day via email to client after the completion of internal checks;
- Appeal acceptance or rejection: each time that an appeal is accepted by a CSD, and a change is applied to a penalty, it will be reported on the following business day in the MT537.
- BNP Paribas will report to clients the amendment on a penalty in the following business day. If no update is received, the appeal needs to be considered as rejected.
STANDARD PENALTIES REPORTING - MONTHLY

**SWIFT**

- **:98A::STAT//**: Statement date
- **:22F::SFRE//**: Specifies the frequency of the statement (monthly)
- **:69A::STAT//**: The month the statement refers to
- **:95P::REPA//**: Agent’s bank BIC of the counterparty of our client (e.g. PARBITMMXXX)
- **:95P::CASD//**: The CSD of the counterparty (e.g. Monte Titoli MOTIITMMXXX) as the CSD of your counterparty
- **:19A::GBNT//**: Global net amount for a party
- **:19A::AGNT//**: Bilateral net amount for a party and counterparty
- **:20C::PCOM//**: A unique reference assigned by the calculating CSD to the penalty
- **:20C::PREF//**: A unique reference assigned by the calculating CSD to the penalty. For a party at fault, the reference is the penalty common reference (PCOM) preceded by “F”. For a party not at fault, the reference is the penalty common reference (PCOM) preceded by “N”
- **:22H::PNTP//**: Indicates the type of penalty: LMFP = Late matching fail penalty and SEFP = settlement fail penalty
- **:19A::AMCO//**: Amount of the penalty calculated
OPTIONAL VALUE ADDED REPORTING

- Optional reporting, available upon subscription, is provided to alert you on your failing instruction also showing you the forecasted penalty amount and the relevant buy-in threshold (associated reporting fee will be waived for 2022. A fee will be introduced afterwards).
- Our MIS monthly reporting will be also enhanced to focus on your CSDR metrics to ease your reconciliation process allowing you to have an overview per market, counterparty, security type. This MIS report will be available in the course of 2022 and you will be notified of its availability via Client update. No additional fee for this metrics.

<table>
<thead>
<tr>
<th>Scope</th>
<th>Format</th>
<th>Frequency</th>
<th>Reporting Principle / Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local &amp; Global Custody Activity</td>
<td>Excel</td>
<td>Monthly</td>
<td>Penalties Reporting including:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>▪ Late settlement</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>▪ Late matching</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>▪ Per market or across markets</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>▪ Comprehensive view per counterparty/security type</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Note: Reporting can be aggregated across branches</td>
</tr>
<tr>
<td>Local Custody Activity only</td>
<td>Excel</td>
<td>Intra-day</td>
<td>Reporting for penalties and buy-in threshold</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Forecast_SEFP, Currency, Buy-in threshold, Client instruction ref, Quantity, ISIN, ESD, S/R Acc</th>
</tr>
</thead>
<tbody>
<tr>
<td>-80,46 EUR, 30.10.21 XXXXXXX, 450,00 LU0274211217, 25.10.21744XXX</td>
</tr>
<tr>
<td>-73,30 EUR, 30.10.21 YYYYYYYYY, 3,500,00 IT0054504395, 25.10.21744XXX</td>
</tr>
<tr>
<td>-60,00 EUR, 30.10.21 RRFRFRFRF, 2,000,00 IT005244818, 25.10.21744XXX</td>
</tr>
<tr>
<td>-2,18 EUR, 30.10.21 KKKKKKKKK, 112,000,00 IT0054525233, 25.10.21744XXX</td>
</tr>
<tr>
<td>-2,18 EUR, 30.10.21 QQQQQQQQ, 112,000,00 IT0054525233, 25.10.21744XXX</td>
</tr>
<tr>
<td>10,93 EUR, 30.10.21 12345678, 5,874,00 IT005239881, 25.10.21744XXX</td>
</tr>
<tr>
<td>73,10 EUR, 30.10.21 44334433, 55,000,00 IT0054525233, 25.10.21744XXX</td>
</tr>
</tbody>
</table>
PENALTIES COLLECTION AND REDISTRIBUTION

Invoice Sample

CSDR Test
Cash Account: 0000000166

Penalties

<table>
<thead>
<tr>
<th>CSDR Penalties</th>
<th>Period</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debit</td>
<td>Oct 2021</td>
<td>EUR: 500.00</td>
</tr>
<tr>
<td>Credit</td>
<td>Oct 2021</td>
<td>EUR: 1,000.00</td>
</tr>
</tbody>
</table>

Net Amount: EUR: -500.00

<table>
<thead>
<tr>
<th>Account Number</th>
<th>CSDR Penalties</th>
<th>Net Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>46621Q</td>
<td>CSDR Penalties</td>
<td>-1,000.00</td>
</tr>
<tr>
<td>TQTC MEKC QG7</td>
<td>MOTI (EUR)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Debit</td>
<td>500.00</td>
</tr>
<tr>
<td></td>
<td>MOTI (EUR)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>-500.00</td>
</tr>
</tbody>
</table>

MT940 / MT950 Sample

{1:F01PARB1TMMAAXXX9999999999}
{2:I940PARBFRRPPXPBLN}
{3:{108:MMI01931914HBXXX}}
{4:
 :20:GL2111154048177
 :25:PARBITEUR802390200
 :28C:00226/00001
 :60F:D211112EURXXXXX
 :61:2203201115DR500,00 P211000003 //AC00000166

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### Clusters’ instruction

**BYIY trade Message sample**

- 16R:STAT
- 25D:SETT/PENF
- 16R:REAS
- 24B: PENF/BYIY
- 70D: REAS/BYIY NOTICE RECEIVED

**Expiry date:** 26/11/2021

- 16S:STAT
- 16S:REAS
- 16S:GENL
- 16R:SETTRAN
- 35B: ISIN IE00BG0J8L59 TABULA/SHS CL-G EUR
- 36B: SETT/UNIT/50
- 19A: SETT/EUR5293
- 97A: SAFE//64XXXX
- 22F: SETR/TRAD
- 22H: REDE/DELI
- 22H: PAYM/APMT
- 98A: SETT/20211117
- 98A: TRAD/20211115
- 16R: SETPRTY

**SWIFT MT530 sample**

- 97A: SAFE//64XXXX
- 16R: REQD
- 20C: PREV/AEMM192172UYNNYY
- 22F: BYIY/BSSY
- 35B: ISIN IE00BG0J8L59 TABULA/SHS CL-G EUR
- 36B: SETT/UNIT/50
- 90B: BYIY/ACTU/EUR2540
- 19A: BCAM/EUR15387
- 98A: EFFD/2021XXXX

**NeoLink screen sample**

- **Report Buy-in Results**
  - Securities Confirmation:
  - BUY-IN INFORMATION:
    - Buy reference:
      - B0123654789654123
      - Buy indicator:
        - Partially Successful
      - Price of financial instrument bought:
        - 23
      - Quantity of additional financial instrument bought:
        - Currency
      - Cash compensation amount:
        - 23

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**BNP Paribas receives the buy-in results via MT530 SWIFT message or via NeoLink**

*We collect buy-in results to communicate them to the relevant CSD for their own record keeping purposes.*
Although CSDR and the delegated regulation 2018/1229 does not impose CSDR penalties on internalized settlement, we believe we should still calculate, report and account (upon receipt of authorisation from both parties to the transaction) penalties on such transactions. This is to ensure a fairness in the application of CSDR penalties and avoid incorrectly applying penalties to an entity who is not the failing party, simply because certain transactions in the chain of settlement haven’t been sent to the CSD.

**INTERNALISED SETTLEMENT**

**WHEN?**

You can subscribe to this service at your convenience

**HOW?**

Completing and signing a Standing Instruction* or via your usual Account Opening Form* (AOF)

**WHAT?**

SLD/SLA shall be updated to reflect the associated process

* Standing Instruction template and updated AOF will be shared with you in due time

**BNP Paribas CSDR Default on Internalised settlement:**

We will not apply cash penalties on internal settlement transactions unless we receive a proper instruction from you.
3 - Annex

- Settlement best practices
- Market and Client updates references across 2021
# SETTLEMENT BEST PRACTICES

## Preventing and monitoring settlement fails

<table>
<thead>
<tr>
<th>Your challenges</th>
<th>Our solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Your instructions should include the transaction type ISO code (field 22F::SETR/) that most accurately reflects the underlying economics of the transaction. This is required to determine if a buy-in is applicable.</td>
<td>We process and pass onto CSDs and sub-custodians the field 22F::SETR/ you instruct</td>
</tr>
<tr>
<td>Manage accurate standing settlement instructions (SSIs)</td>
<td>We provide real time Swift and Neolink status reporting</td>
</tr>
<tr>
<td>Monitoring your transactions status updates</td>
<td>MT548 APIs are now also available</td>
</tr>
<tr>
<td>Settlement Dashboard available for Neolink users</td>
<td></td>
</tr>
</tbody>
</table>

## Reducing late matching and settlement fail penalties

<table>
<thead>
<tr>
<th>Your challenges</th>
<th>Our solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monitoring if the settlement counterparty is in place and have all details needed for matching</td>
<td>We provide allegement message (MT578) and NeoLink report</td>
</tr>
<tr>
<td>Prompt sending of instruction</td>
<td>We support Hold &amp; Release mechanism</td>
</tr>
<tr>
<td>Manage lack of securities</td>
<td>We offer partial settlement and partial release</td>
</tr>
<tr>
<td>Manage your release priority</td>
<td>We offer priority change both via SWIFT and via NeoLink</td>
</tr>
</tbody>
</table>

## Penalties management

<table>
<thead>
<tr>
<th>Your challenges</th>
<th>Our solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Penalties allocations and reconciliation</td>
<td>Daily, monthly Swift and Neolink, reporting. New monthly metrics, appeal process to submit any appeal request to the relevant CSD on your behalf</td>
</tr>
</tbody>
</table>

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Please make sure the proper set up is in place for any of the above solutions (e.g MT530 for partial management, MT578 for allegement messages)
SUPPORT CONTENT

TOOLKIT

HANDBOOK

WEBPAGE

REGMEMO

[Images and links are not transcribed as they are visual elements.

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MARKET AND CLIENT UPDATES REFERENCE

Reference of all Market and Client updates on CSDR

Will be emailed to all participants following the webinar
Contacts

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Head of Global Product Asset Servicing and Regulatory Solutions

Silvia Sancin
Custody Solutions Manager for Banks, Brokers and Corporates
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