HSBC Securities Services Central Securities Depositories Regulation (CSDR)

Frequently Asked Questions

December 2021

This document is for information purposes only and intended for use in the United Kingdom.

Contents

PUBLIC

Glossary/Key

AFME	The Association for Financial Markets in Europe
BIC	Bank Identifier Code
CBF	Clearstream Banking Frankfurt
CBL	Clearstream Banking Luxembourg
CCP	Central Counterparty
CSD	Central Securities Depository
CSDR	Central Securities Depositories Regulation
DCA	Dedicated Cash Account
ECB	European Central Bank
ECSDA	European Central Securities Depositories Association
EEA	European Economic Area
EMIR	European Market Infrastructure Regulation - a body of European legislation for over-the-counter derivatives
EU	European Union
EUI	Euroclear UK & Ireland, the UK CSD
Extension Period	The period between the Intended Settlement Date and when a buy-in has to take place; please refer to the appendix for timing
FAQ	Frequently Asked Questions
HSBC	The HSBC legal entity with whom you have contacted to receive HSS services or products
HSS	HSBC Securities Services
ISD	Intended Settlement Date
ISIN	International Securities Identification Number
LEI	Legal Entity Identifier
MIC	Market Identifier Code
MiFID	Markets in Financial Instruments Directive – legislation that increases transparency across the European Union's financial markets and standardises the regulatory disclosures required for particular markets
MiFIR	Markets in Financial Instruments Regulation
NCA	National Competent Authority – relevant regulator e.g. the Bank of England
SME	Small or Medium Sized Enterprises
T2S	TARGET2-Securities, the European securities settlement platform which aims to offer centralised delivery-versus-payment (DvP) settlement in central bank money across European securities markets.

Introduction

The Central Securities Depositories Regulation (CSDR) is a Regulation brought into force by the European Union (EU). It applies throughout the European Economic Area (EEA).

In the EU's post-2008 financial crisis securities regulatory programme, the Markets in Financial Regulation Directive II (MiFID II) and Markets in Financial Regulation (MiFIR) dealt mainly with markets and trading venues, and the European Markets Infrastructure Regulation (EMIR) has addressed clearing and reporting. CSDR is now focusing on European securities settlement systems, their operators and participants.

As a Regulation (compared to a Directive), CSDR has direct impact in member states without transposition into national law. CSDR was published in the EU's Official Journal on 28 August 2014, but its implementation stretches out to 2025.

HSBC has been working for some time with its clients in order to implement CSDR across the relevant businesses.

In the Frequently Asked Questions (FAQs) below we set out the questions we are asked most often by clients, together with our answers based on our knowledge and current understanding. We expect that matters will continue to develop over the coming months, and we shall issue updates as necessary. Please do contact your relationship manager at HSBC with any questions arising from this document, or to discuss further.

CSDR Settlement Discipline is expected to go live from 1 February 2022 after a delay imposed by the European Commission.

Update on the implementation of Mandatory Buy Ins:

Over the past few years there has been considerable industry advocacy effort in support of withdrawal/ postponement/changes to the mandatory buy ins (MBI) element of the settlement discipline regime. In July of this year, the European Commission indicated subject to an impact assessment, they will consider proposing a refit to elements of CSDR more broadly and SDR specifically around mandatory buy-ins based on feedback from the industry. In Sept of this year ESMA issued a letter to the Commission recommending a postponement to the implementation of the mandatory buy in (MBI) regime. Key industry meetings took place over October and into November on this topic.

In an announcement on Wednesday the 24th of November the European Parliament agreed to a postponement of the February 1st 2022 go live of the mandatory buy in (MBI) in element of the settlement discipline regime. We are expecting a formal announcement to be issued by ESMA imminently as well as an outline of next steps. At this point, HSBC Markets & Securities Services has ceased work on implementation of the mandatory buy-ins (MBI) in line with this guidance until advised of its future roadmap by the European Regulatory bodies. We will provide further updates as they become available. Additionally, please note that only Mandatory buy-ins are postponed, other elements of CSDR SDR as mentioned in the guide will be live from 01 Feb 2022. As industry best practices develops and further regulatory guidance is received there may be changes to the requirements for supporting Settlement Discipline Regime (SDR). HSBC Markets & Securities Services will continue to keep clients informed of any such changes and supplement this document as necessary

These FAQs have been updated in line with the publishing of our HSBC CSDR Operations guide for clients of our custody Product. Please refer to the operations guide for full details on various points which will refer to in these FAQs where relevant. Please reach out to your Client Service Manager for any further questions or clarifications you may need.

No.	General Questions	Answers
1	What is the scope of the EU Central Securities Depositories Regulation (CSDR)?	CSDR introduced requirements for settlement of financial instruments in the European Union and rules for the organisation and conduct of central securities depositories to promote safe, efficient and smooth settlement. The requirements for settlement applies to all the participants in the settlement system as defined in the Settlement Finality Directive. This includes CCPs, CSDs, CSD Participants and their clients. Further to this, it includes Global Custodians, their clients and any party involved in the provision of investment services that result in the issuance of a settlement instruction. This last point brings investment managers in scope of CSDR. The scope of CSDR was extended to EEA CSDs via an amendment to Annex IX (Financial Services) to the EEA Agreement. *On 23 June 2020, UK Chancellor Rishi Sunak has published a Written Ministerial Statement which includes the announcement that the UK will not be implementing the EU's new securities settlement discipline regime (EU SDR), set out in the Central Securities Depositories Regulation, which is due to apply from 1 February 2022. The UK government will "consider the future approach to the UK's settlement discipline framework, given the importance of ensuring that regulation facilitates the settlement of market transactions in a timely manner while sustaining market liquidity and efficiency", which has led it not to implement the EU SDR.*
2	What is the aim of CSDR?	The main objective of CSDR is to increase the safety and efficiency of securities settlement and settlement infrastructures (CSDs) in the EEA, providing, but not limited to: a. shorter settlement cycles; b. settlement discipline measures including penalties and mandatory buy-ins for settlement fails; c. dematerialisation for most securities; d. strict prudential and conduct of business rules for CSDs; e. strict access rights to CSD services f. increased prudential and supervisory requirements for CSDs and other institutions providing banking services ancillary to securities settlement.
3	What are the main provisions of CSDR concerning custodians and their clients, and when do they apply?	The various requirements of CSDR apply in stages over a number of years, as set out below. ◆ Standard shorter settlement cycle of T+2 has applied across most of the European Economic Area since 6 October 2014. ◆ Authorisation of CSDs – CSD require new licences from their NCA to continue to provide their services. Authorisations started in 2018. At the time of writing some CSDs including Euroclear UK and Ireland and Clearstream Banking Luxembourg still await their authorisation. ◆ Reconciliation (Article 36 and 37) – CSDs must reconcile participant position on a daily basis. CSD participants must reconcile their records to the CSD on a daily basis. ◆ Segregation (Article 38) – CSDs must offer their participants the choice of omnibus or segregated accounts. Further to this they have to publically disclose the costs and level of protection per each account structure. CSD participants must also offer their clients the choice of segregated or omnibus accounts. ◆ Article 36, 37 and 38 will only apply once the CSD has received its licence. ◆ Internalised Settlement – From March 2019, internalised settlement reporting commenced. Settlement internalisers must submit reports of all settlement not occurring at a CSD to their local NCA 10 days after each quarter end. The report must include details of settlement volumes, client details and settlement fails. ◆ Settlement Discipline (Articles 6 -7) – Allocation and confirmation - Investment firms (i.e. the broker) must ensure their client provides written allocation on the same day of the transaction or by 12pm the next day. The investment firm must confirm the transaction within two hours of receiving the allocation. ◆ Settlement Instructions – The UK CSD requires settlement instructions to be populated with place of trade and all other CSDs require the transaction type to be populated on a mandatory basis. This information will be required to flow through the settlement chain from both the investment firm and their client, i.e. the broker and the investment manager. ◆ Penalties – CSDs must apply penalties to transactions which fail to settle on their intended settlement date. The CSD will calculate the penalties on a daily basis and recover them monthly from the CSD participant that caused the failure, which will then in turn be passed through the chain of intermediaries to the trading party. The CSD is not permitted to retain these penalties and must redistribute them to the other trading party to the transaction. ◆ Mandatory Buy-ins – Share transactions that continue to fail after ISD+4 will be subject to mandatory buy-ins. Transactions in less liquid shares and other instruments will be required to be bought in on ISD+7 or up to ISD+15. The party failing to receive must appoint a buy-in agent to buy-in the failing delivery party. ◆ CSDR's settlement discipline regime, including penalties and mandatory buy-ins, **applies from 1 February 2022.** ◆ Dematerialisation (Article 3(1)) – CSDR makes dematerialisation of newly issued transferable securities mandatory from 1 January 2023. It also makes the dematerialisation for all transferable securities mandatory from 1 January 2025.

No.	General Questions (cont'd)	Answers
4	What account choices does CSDR require a custodian to offer to its clients?	Under CSDR Art 38(5) CSDs' participants (e.g. custodians) must offer to their clients the choice of segregated or omnibus accounts. Under Art 38(6) CSDs' participants must inform their clients of the risks and costs of segregated or omnibus accounts. These provisions will apply following authorisation of each CSD by its National Competent Authority under CSDR. Most CSDs (including Euroclear France, Euroclear Bank and Clearstream Frankfurt) have now been authorised, but some CSDs including EUI and CBL are expected to be authorised in 2020. HSS has published the relevant documentation on HSBC's Global Banking & Markets website. There will be a reference and link to the website documents in the regular client Service Level Definition document, as well as here: https://www.gbm.hsbc.com/financial-regulation/market-structure/csdr/account-segregation.
5	Is a CSD's participant's client required to make the offer of segregated or omnibus accounts to its clients?	No. For example, where a Global Custodian holds securities at a Sub-Custodian, which in turn holds the securities at a CSD, the Sub-Custodian must offer the choice of segregated or omnibus accounts to the Global Custodian, but there is no requirement for the global custodian to make such an offer to its own client who holds the securities.
6	How should the CSD's participant make the account holding offer above?	The CSD's participant must make the above account offer as soon as the relevant CSD is authorised by its National Competent Authority. Under Art 38(5), the offer of the choice of segregated or omnibus accounts must be made by the CSD's participant to its clients. Under Art 38(6) the CSD's participant must publish the comparative costs and risks of using segregated or omnibus accounts. Please see question 4 of this section for the link to our segregated account disclosures.
7	What obligations does CSDR place upon non-CSDs that settle securities trades (settlement internalisers)?	CSDR Art 9 sets out the requirement, for organisations that carry out settlement for securities transactions that would normally settle at an EEA CSD, but do not and are internalised (settlement internalisers), to make an aggregated quarterly report to the settlement internalisers' National Competent Authority of the volumes and values of transactions settled. These reports are then transmitted to ESMA. A standard form for reporting electronically is available from the NCA. There are specific rules on the reporting of branches. Organisations outside the EEA who participate in EEA CSDs are not required to make these quarterly reports as, being outside the EEA, such organisations have no NCA for this purpose to whom they could report.

No.	Settlement Discipline Questions (General)	Answers
1	What is the scope for CSDR settlement discipline?	All instruments eligible to settle in an EEA settlements system are in scope, with the exception of shares where the primary trading venue is in a third-country. The geographical location of the trading parties is not relevant. There is no exemption for non-EU clients or investment firms, who must comply with CSD regulation for trades instructed to be settled at an EEA CSD, even where the firms are indirect CSD participants. ESMA maintains a register of authorised CSDs who will be in scope of the regulation. Some transaction types are exempt from the mandatory buy-in process, including repos or stock borrowing and lending transactions of under 30 days' duration. However, these transaction types are still in scope for cash penalties. A buy-in can only be initiated on a matched instruction, where the delivering party is responsible for the failure of the trade.
2	Will HSBC carry out testing with clients, and can you share your test plan yet?	*Yes, HSBC is conducting some testing with Clients and Agents, please contact your Client Manager to discuss further.*
3	Will you support partial settlement?	Yes – in line with market practice and in accordance with the regulatory requirement. For T2S markets we already apply default auto-partial functionality. For the remaining markets, our intention is to do the same. However, where an omnibus account is used in some markets, we may require account setup changes. If you do not wish for us to auto-partial, you can still instruct with NPAR.

No.	Trade Matching Questions	Answers
1	Will there be any new fields required on our settlement instructions?	EUI (CREST) have released a white book detailing the following requirements: i. a CSDR Transaction Type field which is mandatory (SWIFT field 22F::SETR);* ii. the Place of Trade MIC is now a mandatory field (SWIFT field 94B::TRAD) and; iii. the Trade Date field is also now mandatory and matching. Note: if no MIC is provided, we will automatically default this field to XOFF. *While transaction type is currently a mandatory SWIFT requirement, it is now additionally a mandatory field across the EEA as per CSDR RTS Article 5.4. **These changes were applied from 27 July 2020. The UK is no longer in scope for CSDR.**

No.	Settlement Penalties Questions	Answers *(Please see Settlement Penalties section in our Client Guide)*
1	How will CSDR settlement penalties operate?	Cash penalties will be applied to all failing matched transactions. These will be calculated at the end of each business day where an instruction fails to settle, from intended settlement date (ISD) until actual settlement date. The penalty calculation is performed by the respective CSDs and reported to their participants on a daily basis. Daily penalty rates range from 0.1 basis points for bonds of Sovereigns, Supranationals and Agencies (SSA bonds) to 1.0 basis points for liquid shares. Please see the appendix for the penalty rates applied.
2	What type of penalties are being introduced by CSDR?	There are both late matching and late settlement penalties. Late matching penalties will be applied to the last party to instruct. The formula for calculating the LMFP is dependent on the trade type i.e. RvP vs. DvP etc., and this is calculated at CSD level. Please see the appendix for the formula. With respect to settlement fail penalties, the party failing to deliver will be debited depending on instrument type and the failing recipient will be credited by the same amount. We will look to pass this on to the client in turn where appropriate.
3	How will HSBC implement the SWIFT changes regarding penalties?	We intend to implement all required changes to meet the regulation including MT537 & MT548 message type changes (in line with SR2019/20) – namely updating these message type to include the PENA sequence. We will we deliver the updated MT537 and MT548 penalty reports daily (depending on client preference) and the MT537 penalty report on a monthly basis. Penalty reports will also be available on HSBCnet.
4	Will the related trade reference for each penalty be included in all penalty notification reports?	Yes. For MT537, penalty reporting (daily and monthly) the related trade reference will be available in field 20C:\\ RELA of the TRAN block. *(Please see appendix A in our Client Guide)* For MT548, penalty reporting the related trade reference will be available in field 20C:\\RELA of the GENL block.
5	Will HSBC support the updated MT548 SWIFT message?	*Yes we will. For further details, please see Settlement Penalties section and appendix C in our Client Guide.*
6	Will HSBC support the new D PENA sequence in the MT537 SWIFT message?	Yes. We **will** support the new PENA sequence in the MT537 message for both daily and monthly penalties reporting. *(Please see appendix A in our Client Guide)*
7	What is HSBC's interpretation of the term "party" in ECSDA Penalty Framework v2.0?	The ECSDA Penalty Framework states that "the definition of 'party' is at the discretion of each CSD. Each CSD will decide at which level it wants to apply the 'party' concept (level of the entity, LEI, BIC, participant securities account, or other)." We expect to use this approach, depending on the information we obtain from the CSDs in which we participate. We note that the term Party is not specifically defined by CSDR, or by the ECB in its glossary related to payment, clearing and settlement systems: https://www.ecb.europa.eu/pub/pdf/other/glossaryrelatedtopaymentclearingandsettlementsystemsen.pdf We will seek precision in defining this term in the context of CSDR when available from the CSDs.

No.	Settlement Penalties Questions (cont'd)	Answers
8	Does HSBC have a list of instruction types and ISINs that are not subject to penalties imposed by CSDR?	The CSDs will maintain a list of instruction types/ISINs that are not subject to penalties. The industry guidance offered by the ECSDA framework to CSDs notes the following: "[…] cash penalties should not be applied in the following situations where settlement cannot be performed for reasons that are independent from the involved participants: i. ISIN suspension from settlement due to a reconciliation issue; ii. ISIN suspension from trading; iii. settlement instructions involving cash settlement outside the securities settlement system by the CSD if, on the respective day, the relevant payment system is closed for settlement; iv. technical impossibilities at the CSD level that prevent settlement, such as: a failure of the infrastructure components, a cyber-attack, network problems." (ECSDA Penalties Framework - 12.2.2 Exceptional situations where the cash penalty mechanism should not be applied - pp. 184-85)
9	Under the regulation, who is expected to receive the settlement fines?	The regulation states: 'cash penalties imposed on failing participants should, where possible, be credited to the non-failing clients [non-failing trading party] as compensation.' (CSDR Level I – Recital 16)
10	What is the penalty process for trades booked late?	For trades that are instructed to the CSD late, there is a separate late matching penalty that is charged. The settlement penalty will retrospectively appear in the following days' daily penalty report for each day that has been missed. For example, a trade that has been instructed and matched on ISD+2 will have its settlement penalty applied and reported on the ISD+3 report.
11	Will there be any additional costs associated with the penalties process?	**At the point of publication, no additional CSDR fees have yet been determined.**

No.	Penalty Appeal Questions	Answers *(Please see Penalty Distribution section in our Client Guide)*
1	How will HSBC manage the CSD penalty appeals in accordance with the ECSDA Penalty Framework v2.0 suggests, given that each CSD can/will design its own penalty appeal processes?	Clients cannot challenge penalties directly with the CSD and must appeal through their Custodian. We are still awaiting clarification from CSD's regarding requirements and process for appeals. If you would like to dispute a penalty, please contact your Client Services Manager who will direct your question accordingly.
2	Will HSBC add a Sub-Custodian deadline to the market deadline for appeals (10th business day of the month)?	This decision has not been taken yet and will be determined based on the penalty process that our Sub-Custodians and the CSDs will establish. Please refer to the appendix for the penalty reporting/appeals monthly timeline.
3	How will the appeals process work for queries concerning assigned penalties?	Please contact your Client Services Manager to lodge an appeal.

No.	Daily Report Questions	Answers
1	i. At what time will the daily penalty report be available to clients? ii. Will one or two daily penalty reports be sent? (One for the new penalties and one for the amended, removed or re-included).	**i. Daily penalty reports will be sent to our clients upon receipt of the report from our Sub-Custodian network.** The ECSDA framework notes that CSDs shall deliver the daily reports to their participants after the closing of the settlement day (on which (new or previous) penalties were calculated, amended, removed or re-included) and latest until midday (12:00 p.m. CET) on the following business day. Penalties for fails on a Friday might be calculated and reported either on Saturday, or Sunday, or Monday morning, depending on the CSD´s own operational day (but in all cases the business date shall be the one of Monday). (ECSDA Penalties Framework - 2.1.2 Daily Reporting - p. 14) **ii. One daily penalty report will be sent with removed or amended penalties included.**
2	What information is available in penalty reports?	*Penalties will be reported per account/per currency/ per CSD, which is how we will report this to clients. For details on what the MT537 and MT548 will contain, Please refer Settlement Penalties section as well as appendix A & C in our Client Guide.*
3	By what method does HSBC intend to provide clients with the daily penalties report?	HSS will implement an MT537 and **MT548** for daily penalties in line with industry best practice and will also provide reporting via HSBCnet (for countries where HSBCnet is used). *Please refer to Settlement Penalties Section well as appendix A & C in our Client Guide.*
4	Will there be a daily penalty report if there are no penalties?	*HSBC will not generate a report to clients if there are no penalties to report. If you wish to receive a nil report, please speak to your client service manager. Please refer to Settlement Penalties section in our Client Guide for further details.*
5	Does HSBC have a sample file created that we could review?	*Please see appendix A & C in our Client Guide for reference.*
6	Will we receive one file/message per client account/portfolio?	*Penalties will be reported per account/per currency/ per CSD, which is how we will report this to clients. For details on what the MT537 and MT548 will contain, Please refer Settlement Penalties section as well as appendix A & C in our Client Guide.* *For HSBCnet reporting we can provide individual or grouped reports.*
7	What time should we expect the file/message?	We plan to deliver reporting on a real-time basis (following receipt from our Sub-Custodians or CSDs (as applicable), which we expect will be **by midday next business day** We are currently reviewing our operational processes around CSDR implementation, and file/messaging delivery will be in line with industry best practice and standards.
8	What currencies will be used in the daily penalty reports?	*The currency used in the daily penalty reports will be the currency of the failing trade.*

No.	Payment Method Questions	Answers *(Please see Penalty Distribution section in our Client Guide)*
1	Will HSBC process the credit/debit on the 17th business day of the month?	Yes, we intend to process credit/debits according to this timeline. Please see the appendix for expected penalty timelines.
2	How will HSBC inform expected recipients that a party has failed to pay?	We expect our Sub-Custodians and CSDs to pass penalties automatically. In the unlikely event the Sub-Custodian or CSD does not do so, HSS would raise an exception and liaise with clients through our client service team. We will not credit the client until we have received the funds from the CSD via our agent network. For cross-border trades involving two CSDs, penalties may be delayed, as credits are not paid until debits are received.
3	What delivery method should we expect?	Automatic debit/credit or through invoices in line with our current billing arrangement.

No.	Payment Method Questions (cont'd)	Answers *(Please see Penalty Distribution section in our Client Guide*)
4	What level of detail will be included in the invoice?	The invoice will include the net amount of penalties with a breakdown of penalties at transaction level. Please note we are reviewing the content and structure of the invoice for these penalties and will provide further information in due course.
5	How will the penalties be assigned within a chain of transactions?	The penalty will be assigned to the party at fault by the CSD in each leg of the transactions. Where there is a chain of transactions, we expect the penalty to pass through the chain. However, we recognise that there may be multiple parties at fault within a single chain.
6	How will the penalties be processed when CCPs are involved in the settlement?	The expectation is that the parties trading with the members of the CCPs should be credited/debited. The exact mechanics of this is currently being discussed at an industry level. We are working with industry bodies including the IA/AFME to determine the processes and industry best practice.
7	Which cash account will be used for penalties processing?	On the basis that we will pass penalties on to our clients through the existing billing arrangements the cash account designated for payment of invoices will be used.
8	How do you expect us to pay penalties to you on a monthly basis?	The method our clients use in their current billing arrangement will apply for penalty processing. However, this is currently under review.
9	How are penalties booked on client accounts (aggregated or net amount)?	Penalties will be reported on daily basis as an aggregated amount, on a monthly basis as a net amount, and debited/credited as a net amount.
10	What will be the billing currency you will be using for all CSDR Penalties?	HSBC will invoice clients in their existing billing currency and debit/credit the same account as used for billing. Please contact your client service manager should you wish to use a different account for CSDR penalties.
11	Will fees be credited/debited to the clients standard cash account in the currency of the charge applied by the CSD?	Clients will be invoiced their CSD credit/debit account in their existing billing currency. Clients may receive penalties in multiple currencies and this is represented in the daily and monthly MT537 messages, however the standard approach for HSBC acting as GC will be to invoice clients in only one currency (i.e. the clients existing billing currency).The key takeaway is that a client's billing currency may differ from originating currency of penalties across the various markets.

No.	Legal Questions	Answers
1	*Will there be any changes to contracts or agreements as a result of the implementation of SDR?*	*We expect there will be a requirement for new supporting contractual documentation covering SDR aspects of CSDR, in particular the mandatory buy-in regime. Further information will be provided as soon as possible on this aspect. Please see Buy-Ins section our Client Guide for more details.*

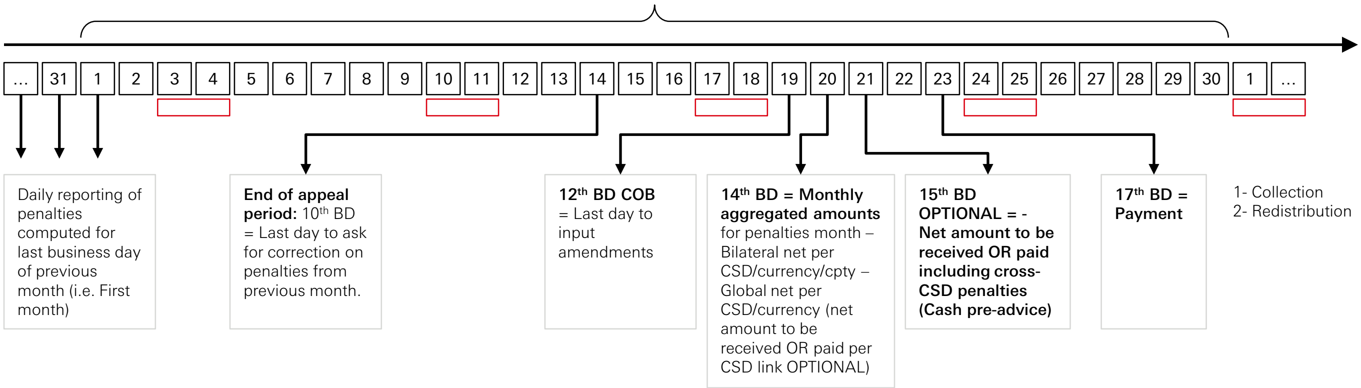
No.	Hold & Release	Answers
1	*Will HSBC support Hold and Release functionality?*	*HSBC will support hold and release across the CSDR markets where the respective CSD supports the functionality. Please see Hold and Release section our Client Guide for more details.*

No.	Client Engagement	Answers
1	*Do I need to notify HSBC of any requirements I have in respect of SDR functionality?*	*There are a number of decisions which we ask our clients to assess and advise us on in respect of hold and release functionality, partial settlement functionality and Settlement Penalties reporting.* *Please see Summary of Services & Client decisions section in our Client Guide for more details. Please reach out to your client service Manager to discuss.*

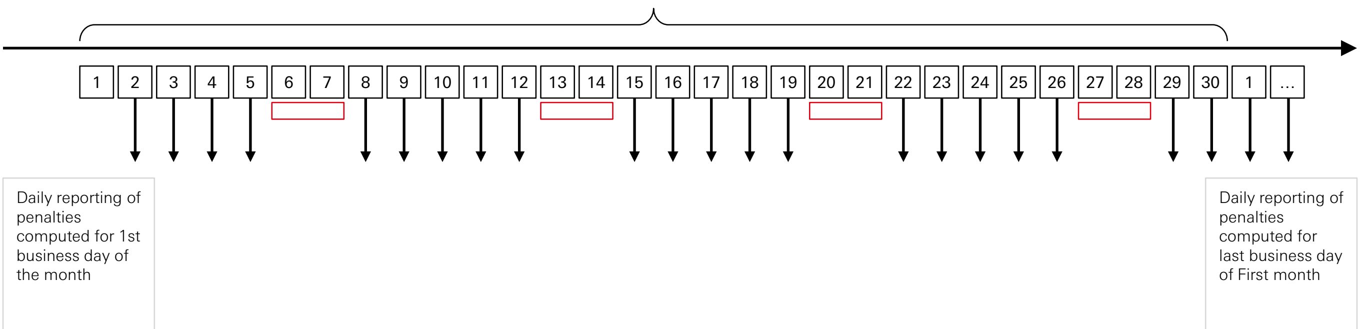
Appendix

1. Penalties Calendar

Following MONTH (provision of aggregated amounts and payment)



First MONTH (computation and reporting of penalties)



Source: ECSDA Penalty Framework, [https://ecsda.eu/wp-content/uploads/2019/11/2019_11_Framework_Settlement.pdf]

Appendix (cont'd)

2. Late Matching Penalty Calculation

$$\text{LMFP} = \sum_{n=1}^{N} (Rate_{day\,x} * Reference\ Price_{day\,x} * Quantity)$$

Where:

- **N** is equal to the number of business days resulting from the difference between the "ISD and the Matching Business Day (MBD)".
- **Rate** is the flat penalty rate stored in Static Data for the asset type of the ISIN of the failed instruction (according to ESMA definitions) and for the relevant business day (x).

  Mathematically is "x=MBD - n" (see examples below).
- **Reference Price** is the price stored in Static Data for the ISIN of the instruction and for the relevant business day (x).

  Mathematically is "x=MBD - n" (see examples below).
- **Quantity** is the quantity of securities failed to be delivered, which is the matched quantity of the Settlement Instruction. Given that LMFP relate to the matching time, it is not the remaining quantity at cut-off time like in SEFP but the matched quantity.

Source: https://ecsda.eu/wp-content/uploads/2019/01/Annex_I_1_T2S_Penalty_Mechanism.pdf

3. Penalty Fail Rates

Type of Fail	Rate
Settlement fail due to a lack of shares that have a liquid market	1,0 basis point
Settlement fail due to **a lack of shares that do not have a liquid market**	0,5 basis point
Settlement fail due to a **lack of financial instruments traded on SME growth markets**	0,25 basis point
Settlement fail due to a **lack of debt instruments** issued or guaranteed by: (a) a sovereign issuer as defined in Article 4(1)(60) of Directive 2014/65/EU; (b) a third country sovereign issuer; (c) a local government authority; (d) a central bank; (e) any multilateral development bank referred to in the second subparagraph of Article 117(1) and in Article 117(2) of Regulation (EU) No 575/2013 of the European Parliament and of the Council (1);(f) the European Financial Stability Facility or the European Stability Mechanism.	0,10 basis point
Settlement fail due to a **lack of debt instruments other**	0,20 basis point
Settlement fail due to a **lack of debt instruments traded on SME growth markets**	0,15 basis point
Settlement fail due to a **lack of all other financial instruments** not covered in points 1 to 6	0,5 basis point
Settlement fail due to a **lack of cash**	Official interest rate for overnight credit charged by the central bank issuing the settlement currency with a floor of 0 (zero)

Source: ECSDA framework, [https://ecsda.eu/wp-content/uploads/2019/11/2019_11_Framework_Settlement.pdf]

Appendix (cont’d)

4. Useful Links

- CSDR Level I: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014R0909
- CSDR Level 2 RTS: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2018.230.01.0001.01.ENG&toc=OJ:L:2018:230:TOC
- CSDR draft ECSDA Penalties Framework: https://ecsda.eu/wp-content/uploads/2019/11/2019_11_Framework_Settlement.pdf
- ESMA final report on Standardised Procedures and Messaging: https://www.esma.europa.eu/press-news/esma-news/esma-publishes-final-report-csdr-guidelines-standardised-procedures-and
- ESMA list of SME markets: https://registers.esma.europa.eu/publication/searchRegister?core=esma_registers_upreg.

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