

Settlement Discipline Regime

Operational Processes



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V1.1



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Version History

Version	Author	Revision Date	Revision Description
1.0	Renan van der Wolf	11/10/2021	
1.1	Renan van der Wolf	20/11/2023	Penalties Business Day definition and Penalties schedule updated

1. Introduction

The CSD Regulation (CSDR) Settlement Discipline (SD) is described in the EU Regulation 909/2014 and the Delegated Regulation (EU) 2018/1229. Its goal is to improve the safety and efficiency of securities settlement through settlement discipline measures.

The goal of this document is to complement the Terms and Conditions by describing the settlement fail penalties and the operational processes put in place in this context which impact the Participants.

2. Cash Penalties Scope

A cash penalty is computed on an Instruction for a specific day only if:

- The Instruction is in scope of the settlement discipline
- The underlying security is in scope of the settlement discipline
- The day is a Penalty Business Day (see chapter 2.3 Penalties Business Day)

Any guidance issued by the NBB Oversight or European Securities and Markets Authority (ESMA) over the scope of cash penalties will be taken into account by the NBB-SSS.

2.1. Instructions subject to cash penalties

Cash penalties are calculated for all Instructions, free of, against or with payment, that are:

- 'transfer orders'¹ according to the second indent of point (i) of Article 2 of Directive 98/26/EC (Settlement Finality Directive),
- matched (prior, on or after their Intended Settlement Date (ISD)), and
- failing to settle on and after their ISD.

2.2. Securities subject to cash penalties

Penalties are calculated for an Instruction if the underlying security to be transferred is:

- CSD-eligible financial instruments:
 - admitted to trading or traded on an EU trading venue; or
 - cleared (or eligible for clearing) by an EU CCP.

To derive the concrete list of securities subject to settlement discipline, the NBB-SSS:

- a) uses the European Securities and Markets Authority (ESMA) Financial Instrument Reference Database (FIRDS) databases;
- b) identifies the securities eligible for settlement in the NBB-SSS.

¹ Definition: 'Any instruction by a participant to place at the disposal of a recipient an amount of money by means of a book entry on the accounts of a credit institution, a central bank, a central counterparty or a settlement agent, or any instruction which results in the assumption or discharge of a payment obligation as defined by the rules of the system, or an instruction by a participant to transfer the title to, or interest in, a security or securities by means of a book entry on a register, or otherwise.'

The fact that a security active in the NBB-SSS is subject to cash penalties or not can be consulted on the NBB-SSS platform.

2.3. Business Days

When considering cash penalties, the business days calendars that must be taken into account are:

- the NBB-SSS own settlement calendar;
- the payment system calendar of the relevant currency.

Penalties Business Days (PBD) are therefore the days on which an Instruction can settle in the NBB-SSS and in the relevant payment system in case of settlement versus payment.

Based on the above, a cash penalty shall not be applied:

- for 'free of payment' Instructions: for the days when the NBB-SSS is closed.
- for 'against payment' Instructions: for the days when the NBB-SSS and/or the payment system of the relevant currency is closed (if the cash leg is to be settled in the payment system of the relevant currency).

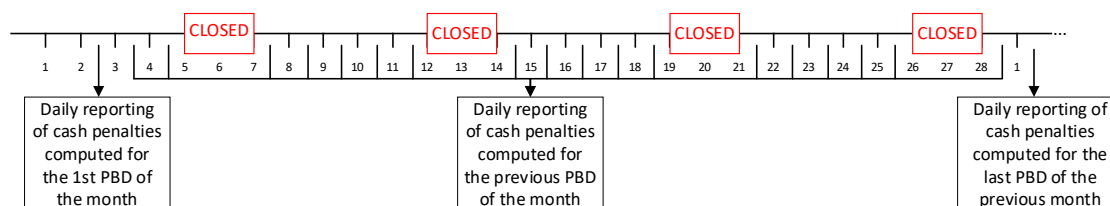
3. Penalties Schedule

3.1. Penalty Business Day

A Penalty Business Day (PBD) is a concept defined to be used for the monthly reporting, appeals, and collection and redistribution processes by a CSD.

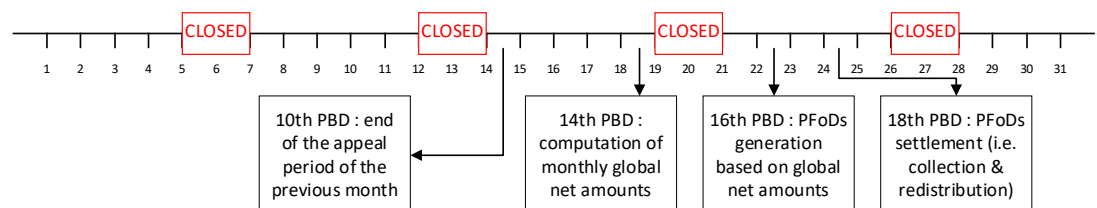
A PBD is defined as any calendar day except the 1st January, 25th December, Saturdays and Sundays.

3.2. During the first month after the entry into force of the Settlement Discipline



Cash penalties are computed and reported on a daily basis for the previous PBD.

3.3. After the first month



After the first month, several special events linked to this month will occur in the next month: the end of the appeal period, the computation of monthly global net amounts, the generation of the Payments Free of Delivery (PFoDs) and the collection & redistribution process.

Note that during this next month:

- Daily computation and reporting of the cash penalties related to this next month will occur even if not represented on the timeline above.
- The above-mentioned daily computation and reporting may include modifications of cash penalties related to the previous month until the end of the appeal period.

All the special events of the second month will occur in the third month and so on.

3.4. Exceptions

If it is not possible to apply the PBD concept or the calendar due to any reason, the appeal deadlines and monthly reporting dates may be preponed to the previous business day while the payment date would be postponed to the next possible business day.

Any deviation from the standard calendar shall be communicated to the NBB-SSS Participants.

4. Types of Cash Penalties

4.1. Late Matching Fail Penalty

4.1.1. Definition

Any Instruction being in scope of the penalties calculation that is matched after the relevant CSD settlement cut-off time of its ISD will be subject to Late Matching Fail Penalties (LMFP) retroactively for each past business day that it has failed to settle.

The penalty is charged to the Instruction which was the last to enter or modify the relevant Instruction (i.e. 'accepted timestamp' is later than the one of the counterparty's Instruction) for the period between the ISD and the day of matching of the Instruction. Therefore, when both parties send their Instructions after the ISD, only the one having sent its Instruction the latest will be imposed with a LMFP.

Note that the failing Participant may claim its dues outside the NBB-SSS if the real failing party does not have a Securities Account in the NBB-SSS or is no party in the settlement transaction.

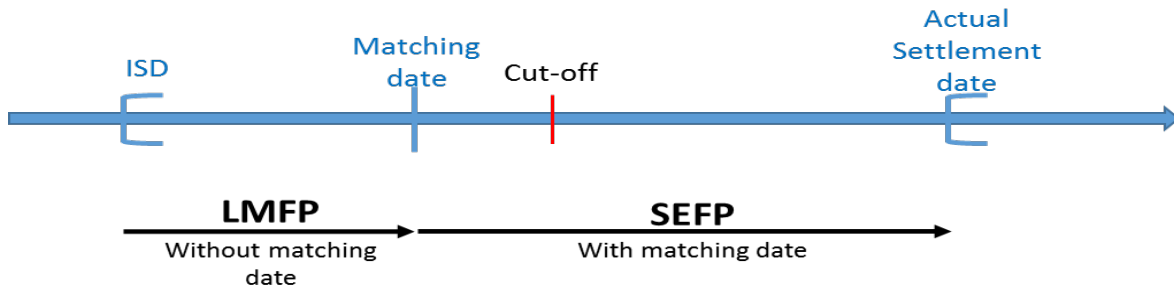
4.1.2. Number of days considered in the computation of LMFP

The number of days taken into account to calculate the total amount imposed by a LMFP will differ depending on whether the Instruction subject to LMFP can either still settle or not on the business day when the Instruction is matched (i.e. depending on whether it is matched before or after the relevant cut-off on the matching business day).

When the Instruction can still settle on the business day when it is matched:

- This scenario relates to those Instructions matched after their ISD (late matching) but matched at a point in time when it is still possible to settle them on the business day when they are matched (i.e. matched before the relevant cut-off for Matching Business day).

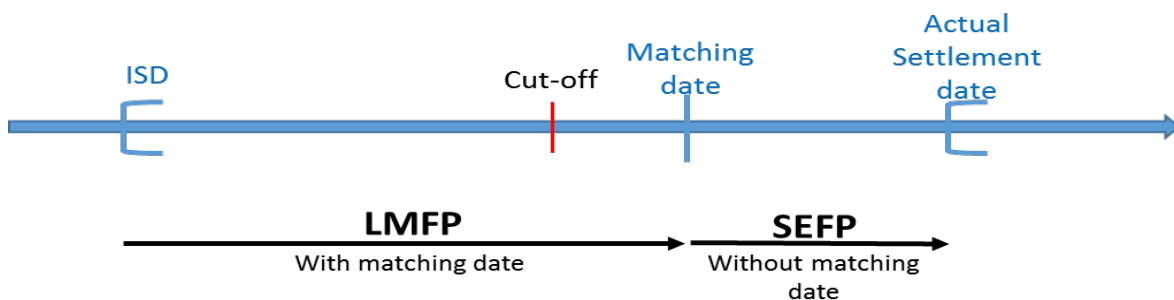
- The LMFP shall be calculated for each business day as from the ISD until and excluding, the business day when the Instruction is matched.
- In case the Instruction does not settle on the business day when it is matched (even if it was possible because it arrived before the cut-off) then, a separate calculation will have to be performed for an additional Settlement Fail Penalty (SEFP).



Therefore, the matching date is excluded from the LMFP and included in the SEFP.

When the Instruction can no longer settle on the business day when it is matched:

- This scenario relates to those Instructions matched, on or after the ISD, at a point in time when it is not possible to settle them on the business day when they are matched because it is after the relevant cut-off.
- The LMFP shall be calculated for each business day as from the ISD until, and including, the business day when the Instruction is matched.



The matching date is included in the LMFP and excluded from the SEFP.

4.1.3. Already matched case

In case of 'already matched' Instructions (i.e. both Instructions are sent at the same time as matched), these Instructions will be subject to the computation of LMFPs in case they are sent after the ISD.

In such cases, it is never possible for the T2S penalty mechanism to determine the real failing party by comparing the accepted timestamps as both Instructions have the same timestamp.

In such cases, the cash penalty will be applied to the instructing Participant of the two Instructions (i.e. the party who sent the Instructions to the CSD) and it will be considered as the failing and the non-failing party for the penalty.

In a such case, the instructing party is required to inform the NBB-SSS to whom to allocate the penalty (i.e. the delivering or the receiving Participant) and enable the NBB-SSS to adjust the cash penalty assignment accordingly.

When the instructing Participant is a third party, the cash penalty might not be applicable to the instructing party of the two Instructions as this instructing party does not have an account in the NBB's books (e.g. electronic trading platforms/trading venues).

If there is no request to re-allocate the cash penalty to one of the parties until the end of the month during which the cash penalty has been computed, the delivering party will be the one to be penalized by default. It will be up to the delivering party, in agreement with the receiving party, to request the NBB-SSS to perform a switch (see chapter 6 Appeals and modifications) of the cash penalty to the receiving party if the receiving party was the real defaulting party.

Note that the penalized party may claim its dues outside the NBB-SSS if the real failing party does not have a securities account in the CSD's books or is no party in the settlement transaction. For example, when a trading venue is the real failing party, the penalty will be charged to the delivering party by default and the delivering party may pass on its penalty bilaterally to the trading venue.

4.2. Settlement Fail Penalty

A Settlement Fail Penalty (SEFP) is applied on any Instruction being in scope of the cash penalties' calculation that:

- i. is matched and
- ii. fails to fully settle on or after its ISD.

An Instruction in scope shall be subject to the computation of SEFP for each business day the Instruction is failing to settle.

An Instruction that 'fails to settle on ISD' must be understood as a Instruction that is not cancelled and remains to be settled, fully or partially, by the end of the relevant settlement cut-off time (DvP cut-off, FoP cut-off, etc). The relevant cut-off is the key point in time to take a 'snapshot' of the status and fail reason of an Instruction and determine its eligibility for cash penalty application.

SEFP can be applied in addition to LMFP and it is possible that the two parties of a transaction are penalized with a SEFP (for example when both legs of a matched Instruction are still on hold after the relevant cut-off time).

The amount imposed by the cash penalty must be calculated depending on:

- i. the type of transaction formed by the two matched Instruction using reference data,

- ii. penalty rate of the ISIN or discount rate (Central Bank interest rate on cash) for the financial instrument exchanged by the transaction and
- iii. whether the instruments need to be delivered or received by the counterparty.

Note that when a settlement fail reason 'lack of securities' has been identified by the NBB-SSS, no additional fail check for a 'lack of cash' shall be made.

5. Computation of Cash Penalties

As the NBB-SSS is a T2S CSD, the computation of the cash penalties is performed by the T2S Penalty Mechanism using the reference data provided by the NBB-SSS (for more details, refer to the T2S Change Request 654 and linked Change Requests² as well as to the T2S UDFS).

Once a failing Instruction has been identified as in scope of the settlement discipline and subject to a SEFP or LMFP, the cash penalty can be computed. For the computation of the SEFP as well as the LMFP, the (possibly different for FoP and DvP) settlement cut-off times must be considered.

Cash penalties can only be calculated when all relevant reference data is known to them. As such, the cash penalties will be calculated and reported for Instructions that failed to settle on the previous business day.

The Instruction type is the only relevant parameter to define the calculation method to be used.

Under exceptional circumstances, cash penalties previously calculated by the NBB-SSS could be amended (i.e. re-calculated due to changes in applicable reference data) or removed (i.e. cancelled) on any business day until the appeal period of the cash penalties has ended.

5.1. Calculation method

There are four types of formulas that can be used to compute a penalty depending on the type of Instruction:

Instruction type	Formula
- Delivering versus Payment (DVP)	Quantity of securities failed to be delivered X Reference Price X Security penalty rate of the relevant asset type ³
- Delivering Free of Payment (DFP)	
- Receiving Free of Payment (RFP)	

² <https://www.ecb.europa.eu/paym/target/t2s/governance/html/changerequests.en.html>

³ Penalty rate as determined in the relevant ESMA Delegated Act.

- Receiving versus Payment (RVP)	Quantity of securities failed to be delivered X Reference Price X Cash discount rate of the relevant currency
- Debiting Payment Free of Delivery (DPFOD) - Crediting Payment Free of Delivery (CPFOD)	Amount of cash failed to be delivered X Cash discount rate of the relevant currency
- Delivering with Payment (DWP) - Receiving with Payment (RWP)	Sum of: - Quantity of securities failed to be delivered X Reference Price X Security penalty rate of the relevant asset type - Amount of cash failed to be delivered X Cash discount rate of the relevant currency

If an LMFP is applied on a DVP/RVP already matched, it will be applied only on the DVP leg, so the formula is “Quantity of securities failed to be delivered X Reference Price X Security penalty rate of the relevant asset type”.

The cash penalties amounts may be reported with various decimals, but the monthly payment amounts shall be rounded up to the first two decimals.

5.2. Reference data

In order to calculate the cash penalties, the information described in this section needs to be available.

When reference data required to calculate penalties is missing by the calculation date, penalty amounts shall be set to ‘zero’ until the data becomes available unless the latest available reference data can be applied by the NBB-SSS (until the data is updated).

The latest point in time for consideration of new (or updated) reference data by the NBB-SSS shall be the 11th PBD of the following month. Consequently, if new or updated data for calculating cash penalties are available to the NBB-SSS only after the 11th PBD, no retroactive cash penalties calculations or adaptations can be made by the NBB-SSS.

5.2.1. Reference price

The NBB-SSS needs to source (or derive) and apply a reference price for each day when the Instructions fail to settle. The prices applied shall be in line with the Delegated Regulation (EU) 2017/389 price determination rules⁴.

⁴ See Articles 3 and 7 of the Delegated Regulation (EU) 2017/389 of 11 November 2016, supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council as regards the parameters for the calculation of cash penalties for settlement fails and the operations of CSDs in host Member States: http://eur-lex.europa.eu/eli/reg_del/2017/389/oj

In the absence of a single central source, the reference prices applied by the NBB-SSS may slightly deviate for a security that can be settled in multiple CSDs and from reference data at a Participant. Such deviations do not represent a valid reason for lodging appeals.

The daily reference price used for calculating the cash penalties is the price of each business day when the Instruction is subject to penalty calculation (i.e. using maximum of three months of historical prices when relevant, e.g. for late matching fails), independently from when the calculation is performed.

Hence, the reference price for the penalty calculation for each fail day shall be the one of the relevant fail date.

5.2.2. Instrument type

The instrument type classification is derived from the below CFI code mapping table:

CFI Code Structure	Type of Financial Instrument
Position 1 of the code is 'D' and position 4 is 'T' or 'C', or position 2 is 'N'	SOVR
Position 1 of the code is 'D', position 2 is neither 'Y' or 'N' and Position 4 is neither 'T' nor 'C'	DEBT
Position 1 of the code is 'D', position 2 is 'Y' and position 4 is neither 'T' nor 'C'	MMKT
Residual category	OTHR

Together with the SME Growth Market classifications, the instrument type is used for the identification of the applicable cash penalty rate for any given failed Instruction.

5.2.3. SME Growth Market indicator

The SME Growth Market indicator is a binary classification of securities that applies to any type of securities and that specifies whether the security is listed in an SME Growth Market.

For the sake of identifying the applicable penalty rate, the NBB-SSS needs to identify whether the security to be settled was actually traded on an EU SME Growth Market by verifying both the receiving and delivering Instruction of the settlement transaction.

The reduced cash penalty rate applicable to SME securities shall be applied only when both Instructions show the same 'Place of trading' four-digit MIC (Market Identifier Code) and that this MIC is on the list of EU SME Growth Market⁵.

⁵ The list of SME Growth Market Trading Venues can be found on the ESMA website (<https://www.esma.europa.eu/databases-library/registers-and-data>).

5.2.4. Security cash penalty rate

Considering all the previously mentioned decision criteria, CSDs shall apply the ESMA penalty rates as quoted below and published as such in the Delegated Regulation 2017/389:

Type of fail	Rate
1. Settlement fail due to a lack of debt instruments issued or guaranteed by: <ul style="list-style-type: none">(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;(f) the European Financial Stability Facility or the European Stability Mechanism.	0,10 basis point
2. Settlement fail due to a lack of debt instruments other than those referred to in points 4 and 6	0,20 basis point
3. Settlement fail due to a lack of debt instruments traded on SME growth markets	0,15 basis point
4. 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), i.e. the cash discount penalty rate.

5.2.5. Cash discount penalty rate

CSDs must source the relevant interest rate for the currency of the failing Instruction in case the fail reason is 'lack of cash'.

The cash discount rate is the official interest rate of the central bank issuing the settlement currency that should evidence the borrowing costs for that currency (i.e. it is the official interest rate for overnight credit charged by the central bank issuing the settlement currency with a floor of 0 and divided by 360).

5.2.6. Foreign Exchange Rates

For cash penalties related to FOP Instructions, a foreign exchange (FX) conversion to another currency may be required. For EUR, various FX rates are published by ECB on its website⁶. In case FX rates are missing or other cross-rates (e.g. SEK/DKK) are needed, these must be sourced preferably from the respective central bank issuing the currency.

5.3. Currencies

The T2S Penalty Mechanism shall compute penalties in a T2S settlement currency:

- For Instructions against payment (cash settlement in a T2S settlement currency), the amount imposed by the cash penalty shall be denominated in the currency of the cash leg of the Instruction;
- For free of payment Instructions (no cash is settled in T2S), the currency of the amount imposed by the penalty shall be derived by checking either the currency of the underlying security if the Settlement Type stored in Static data is nominal, or in the currency of the daily reference price if the Settlement Type of the underlying security is unit, and:
 - If the currency derived is a non-Euro T2S settlement currency, T2S shall check whether the BIC of either the CSD of the failing party or the CSD of the non-failing party of the penalty is in the List of CSDs with penalty computation in non-Euro settlement currencies for FOPs for that currency. If this is the case, T2S shall compute the cash penalty in the non-Euro T2S settlement currency, otherwise it should be calculated in EUR.
 - If the currency derived is EUR or if it is not a T2S settlement currency, it should be calculated in EUR.

The NBB-SSS shall not opt for penalty computation in non-Euro T2S settlement currencies for FOPs but if the CSD of the other party does and that the currency derived by T2S is a non-Euro T2S settlement currency, then T2S shall compute the penalty in a non-Euro T2S settlement currency.

5.4. Example

DVP Instruction with Intended Settlement Date 12/11

Matching	Settlement		SEFP	LMFP	Formula
	<i>My Instruction (DVP)</i>	<i>Counterparty (RVP)</i>			
Before 12/11	OK	OK	No	No	/
Before 12/11	LACK	OK	Yes	No	SECU
On 14/11 and my Instruction is the last	OK	OK	No	Yes, for 12/11 and 13/11	SECU

⁶ <http://www.ecb.europa.eu/stats/exchange/eurofxref/html/index.en.html>

On 14/11 and my Instruction is the first	LINK	OK	Yes for the 14/11	Yes, for my counterparty	SECU for my SEFP MIXE for his LMFP (RVP)
Before 12/11	PREA	PREA	Yes, for both	No	SECU for my SEFP MIXE for his SEFP (RVP)

6. Appeals and Modifications

For the purpose of this Annex, appeals are to be understood as the very exceptional request of modification of a cash penalty and can only be raised by Participants in the NBB-SSS.

The appeal period of each cash penalty shall begin when the cash penalty is computed and reported, and:

- If the requesting party is a Participant (excluding CSDs): the appeal period shall end the 10th PBD (included) of the month following its computation. If the NBB-SSS is closed on this date, the appeal period shall close prior to the 10th PBD.
- If the requesting party is a Participant CSD: the appeal period shall end the 11th PBD (included) of the month following its computation. If the NBB-SSS is closed on this date, the appeal period shall close prior to the 11th PBD and the end of the appeal period for Participant will be closed one PBD before the new end of the appeal period for linked CSDs.

The following types of appeals can be raised:

- Removal
- Switch
- Re-allocation
- Reference data correction

A Participant can request a Removal, Switch and Re-allocation of a cash penalty directly in the NBB-SSS platform (Ramses) or any type of appeal by sending an e-signed email to the NBB-SSS with the filled form "Cash penalty appeal".

Appeals must be submitted as quickly as possible by the Participant after the reporting of the related penalty. The NBB-SSS will handle all appeals diligently and on best-effort basis and appeals submitted too close to the end of the appeal period may not be treated. In such a case, the NBB-SSS shall not be liable for any loss.

If an appeal is accepted by the NBB-SSS, its impact on the related cash penalty will be integrated and reported as defined in the chapters related to the computation and reporting of penalties.

A cash penalty previously removed by the NBB-SSS could be re-included on any business day until its appeal period has ended. If the applicable reference data has changed in the meantime, the cash penalty will be re-calculated.

By the close of business on the 12th PBD of the following month, any adjustment resulting from modifications and appeals shall be completed by the NBB-SSS and reported on the 13th PBD.

6.1. Removal

Any guidance issued by the NBB Oversight or European Securities and Markets Authority (ESMA) over the scope of cash penalties will be taken into account by the NBB-SSS and required removal will be performed by the NBB-SSS.

If a Participant requests a removal in Ramses, this modification request will have to be approved by an NBB-SSS representative.

6.2. Switch

This functionality caters for cases where a transaction is settled on multiple platforms, i.e. where settlement on T2S depends on the fulfilment of a condition outside T2S.

For example, when cash settlement takes place outside T2S while the settlement of securities takes place in T2S, conditional securities deliveries (CoSD) may be used by T2S Actors to block the securities in T2S until cash settlement takes place on the relevant platform.

Depending on the CoSD configuration and the business scenario, the T2S Penalty Mechanism could compute and assign the penalty to the incorrect party (i.e. to the delivering instead of to the receiving participant or vice versa), e.g. because the free-of-payment delivery in T2S is failing, while as it is due to the lack of cash of the counterparty on the external cash settlement platform. Hence, in order to allow the NBB-SSS to make the required ex-post correction, it is possible to swap the failing party and the non-failing party of the cash penalty.

It is worth mentioning that the Common Penalty ID is not updated. Hence, after the first switch, the Individual Penalty ID for the (new) Failing Party will start by "N", and the Individual Penalty ID for the (new) Non-Failing Party will start by "F".

If a Participant requests a switch in Ramses, this modification request will have to be approved by an NBB-SSS representative.

6.3. Re-allocation

'Already matched' Instructions will be subject to the computation of LMFPs in case they are sent after the ISD.

In such cases, it is not always possible for the NBB-SSS (and never possible for the T2S settlement platform) to determine the real failing party by comparing the accepted timestamps (as both legs have the same timestamp).

In such cases, the cash penalty will be applied to the instructing party of the two Instructions (i.e. the party who sent the Instructions to the NBB-SSS).

When the instructing party is one of the counterparties of the failed settlement transaction, it will be up to the instructing party (e.g. CCP) to inform the NBB-SSS to whom to allocate the penalty (i.e. the delivering or the receiving participant), thus enabling the NBB-SSS to adjust the cash penalty assignment accordingly.

When the instructing party is a third party, the cash penalty might not be applicable to the instructing party of the two Instructions as this instructing party does not have an account in the NBB-SSS's books (e.g. electronic trading platforms/ Trading Venues). In such a case, if there is no request to re-allocate the cash penalty to one of the counterparties during the appeal period, the delivering party might be the one to be penalized by default. It will be up to the delivering party, in agreement with the receiving party, to request the NBB-SSS to perform a re-allocation of the penalty to the receiving party if the receiving party was the real defaulting party.

If a Participant requests a re-allocation in Ramses, this modification request will have to be approved by another user of this Participant or by an NBB-SSS representative.

6.4. Reference Data Correction

In case of a strong divergence or error in a reference data used to compute a cash penalty, a Participant can request a reference data correction.

In the absence of a single central source, the reference prices applied by the NBB-SSS may slightly deviate for a security that can be settled in multiple CSDs and from reference data at a Participant. Such deviations do not represent a valid reason for lodging appeals. Reference data corrections can be initiated spontaneously by the NBB-SSS if needed (missing or incorrect reference data) and will always trigger a re-computation of the cash penalties using the modified reference data.

7. Reporting

Cash penalties are available through several channels, each with their level of details:

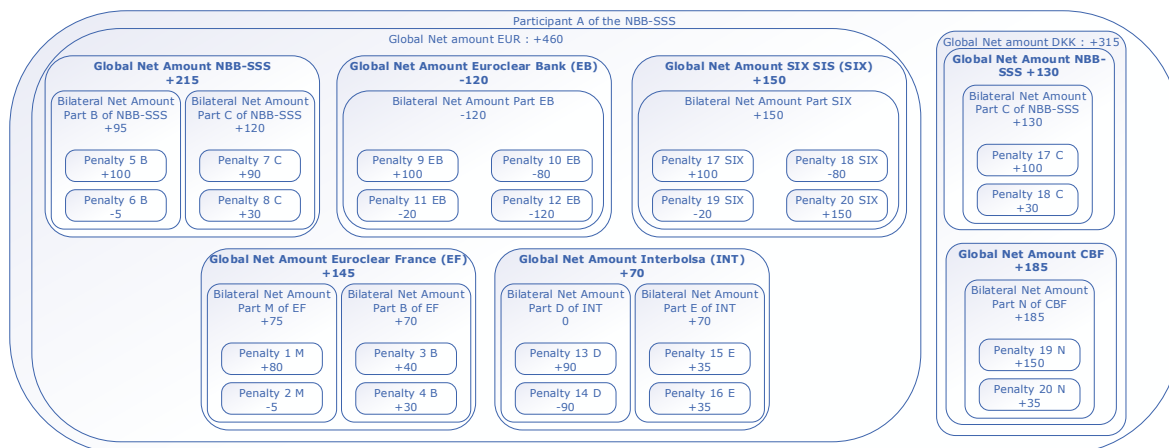
- Graphical User Interface of the NBB-SSS platform (Ramses)
- CSV files that can be manually exported from Ramses
- ISO20022 semt.044 reports sent through SWIFT with two main types of reporting:

- Daily reporting:
 - Daily Cash Penalty List: newly computed cash penalties for the previous business day.
 - List of Modified Penalties: cash penalties removed, re-included, re-allocated, switched, recalculated.
 - In the daily reporting, a cash penalty can be linked to a security account using its related transaction data.
- Monthly reporting:
 - Sent at the latest on the 14th PBD of the following month (if the NBB-SSS is closed on this day, the monthly reporting shall be sent prior to the 14th PBD).
 - Contains the list of global net amount to be paid or received.
 - The monthly reporting does not provide the calculation data block and the related transaction data block.

The semt.044 reports can contain the following types of aggregated amounts:

- Bilateral net amount: it is the aggregated net amount per currency and counterparty, i.e. the sum of all cash penalties that a party can be expecting to be credited or debited for a specific currency and counterparty in a report. This amount is present in the daily and the monthly reports.
- Monthly “ECSDA” global net amount (or counterparty CSD aggregated amount): it is the aggregated net amount per currency and CSD for all counterparties in the monthly reporting, i.e. the sum of all bilateral net amounts in the monthly reporting per currency and CSD. It is an amount to be credited or debited during the collection & redistribution of penalties (see chapter 8 Collection & redistribution of cash penalties) and is only computed by the NBB-SSS (so it is not in the reports sent by T2S). This amount does not include cash penalties related to CCPs (see chapter 10 CCPs).
- Monthly total global net amount: it is the aggregated net amount per currency in monthly reporting, i.e. the sum of all counterparty CSD aggregated amount in the monthly reporting per currency. It will not be used during collection & redistribution.

Taking all the information above into account, here is a simplified structure of the monthly reporting:



The amounts in bold on the above structure are the amounts which will be collected and redistributed for Participant A.

Participants can subscribe independently to the two main types of semt.044 reports (daily and monthly reporting). If there is no cash penalty to report, the semt.044 report will be sent with a “no activity” flag.

The NBB-SSS shall deliver the daily reports to the Participants after the closing of the settlement day on which (new or previous) cash penalties were calculated, amended, removed or re-included on the following business day.

In case of cash penalty modification, the bilateral net amounts provided in the previous daily reports will not be updated (recalculated) but reflected in the daily report “List of Modified Penalties”. However, the cash penalty updates will be taken into account for the calculation of the monthly penalty amounts.

The usage guidelines of the NBB-SSS for the semt.044 are available on SWIFT MyStandards⁷.

8. Collection & Redistribution of Cash Penalties

The NBB-SSS uses PFoD Instructions to collect and redistribute the global net amounts previously communicated in the reports sent to the Participants who have subscribed to it. As explained in the chapters 7 (Reporting) and 10 (CCPs), cash penalties involving CCPs shall be excluded from the global net amounts and therefore from the collection and redistribution process.

These PFoD Instructions will be generated on the 16th PBD with the 16th PBD as trade date, the 18th PBD of the month as Intended Settlement Date, a dummy ISIN LU2128008567 and “PAIR” as settlement transaction type indicator. These PFoD Instructions are not subject to settlement fails

⁷ https://www2.swift.com/mystandards/#/group/_NBB-SSS

penalties. They shall use the Participant main T2S (EUR) DCA and be non-modifiable, released and already matched.

PFOD parameters	
Transaction Type	PAIR
Trade Date	16 th PBD of the following month
Intended Settlement Date	18 th PBD of the following month ⁸
Dummy ISIN code	LU2128008567 ⁹
Partial Indicator	No partial allowed (NPAR)
Priority Indicator	Highest possible for the CSDs (001)
Modification Allowed	No for Participants (excluding CSDs) Yes for Participants CSDs ¹⁰
Hold and Released	Released
Common reference	Not to be used
2 nd level matching	Participant BIC code linked to the default settlement Dedicated Cash Account (DCA)
Matching status	Already matched (to be matched for Participants CSDs)
Delivery/ Receipt	<p>As the transaction is already matched, both legs are created and matched by the NBB-SSS:</p> <ul style="list-style-type: none"> • a CPFOD (PFOD-CRDT, crediting cash) will be used to collect cash on the CSD penalties cash account, thus being a debit for the Participant => collection • a DPFOD (PFOD-DBIT, debiting cash) will be used to distribute cash from the CSD penalties cash account, thus being a credit for the Participant => re-distribution <p>For Participants which are Participant CSDs, the PFoD shall not be already matched and therefore :</p> <ul style="list-style-type: none"> • if the NBB-SSS has to receive a penalty amount, it will create a CPFOD for delivery (to credit the NBB-SSS DCA) • if the 'NBB-SSS has to pay a penalty amount, it will create a DPFOD for receipt (to debit the 'NBB-SSS DCA)

There will be no tolerance amount between the amount to be paid as reported by the NBB-SSS and the amount actually collected, i.e. the Participants must pay exactly the amount as calculated and reported by the NBB-SSS.

⁸ If the 18th PBD is not a T2S BD, it will be the next T2S BD.

⁹ Debt instrument, CFI code TRFMXX, i.e. qualified as Financial Instrument Type 'OTHR', usage restricted

¹⁰ Investor-CSDs in an Issuer-CSD must be able to use the 'hold/ release' functionality.

Participants shall fund their relevant T2S DCAs in time to ensure that the abovementioned PFoD Instructions can settle in the T2S night-time settlement cycle (NTS) for value 18th PBD to avoid payment delays in the collection and redistribution process.

If, despite the execution of contingency actions, Participants fail to pay their global net amount, the NBB-SSS shall recompute the global net amounts by excluding all the cash penalties linked to the non-paying Participants, cancel the previously generated PFoDs and regenerate new PFoDs based on the new global net amounts. The non-collected cash penalties shall be included in the next collection and redistribution process.

On the 18th PBD of the month, the NBB-SSS (and its Participants) shall perform the payment process, i.e. the NBB-SSS shall collect and redistribute the penalties amounts to/ from its Participants.

Each Participant shall pay (for each currency, if applicable) the exact amount as reported by the NBB-SSS.

If the NBB-SSS and/or the payment system of the currency is closed on the 18th PBD, the payment shall be done on the next Business Day.

9. Insolvency

In case of insolvency of a Participant, no more penalties can be computed with this Participant as failing Party. The penalties already computed will not be included in the collection and redistribution process unless agreed with the liquidator.

10. CCPs

The cash penalties with a CCP as failing or non-failing party will be excluded from the NBB-SSS's monthly collection and redistribution process¹¹. CCPs will be collecting and redistributing these cash penalties that are provided and identified in the reports

from the NBB-SSS. The CCPs must also report the results of their collection and redistribution process to the NBB-SSS.

10.1. Transactions scope

The T2S penalty mechanism will identify cleared transactions by the 'account owner' BIC code and flag the relevant penalties accordingly in the T2S reporting to the NBB-SSS and its Directly Connected Participants.

¹¹ See Delegated Regulation (EU) 2018/1229, Article 19.

CCPs must ensure they segregate their clients from their proprietary activity per BIC code, i.e. CCP transactions that are not related to the direct settlement of the CCPs' clearing member transactions must refer to a BIC that is not contained in the relevant T2S' CCPs penalties account owner BIC list.

CCPs shall actively inform the NBB-SSS in case an "account owner BIC" code must be added or removed from the T2S list that is maintained by T2S.

10.2. Penalties collection & redistribution on Instructions cleared by CCPs

The collection & redistribution process of the penalties on cleared transactions subject to Article 19 of the Delegated Regulation (EU) 2018/1229 is outside the remit of the NBB-SSS. These penalties will be managed by the CCPs with their clearing members.

10.3. Reporting the results of the collection and redistribution by CCPs

According to Art. 19 (d) of the Delegated Regulation (EU) 2018/1229, CCPs shall report to CSDs the amounts they collected and distributed on a monthly basis. To do so, the CCPs shall confirm via e-signed email to the NBB-SSS the actual payment execution to the CSDs on a monthly basis using the following template:

'Subject: CCPXXXXXX confirmation to CSDYYYYYY of penalties collected and distributed

Following the obligations established in Article 19 of the Commission Delegated Regulation (EU) 2018/1229, and in particular the obligation established in Article 19 (d), we kindly confirm that all penalties submitted by NBB-SSS to [name of the CCP] amounting to [total amount to be collected and then redistributed] and corresponding to the month of [month and year] have been duly collected and distributed to the relevant clearing members of [name of the CCP].'