CSDR
Settlement Discipline Regime

Buy-Ins
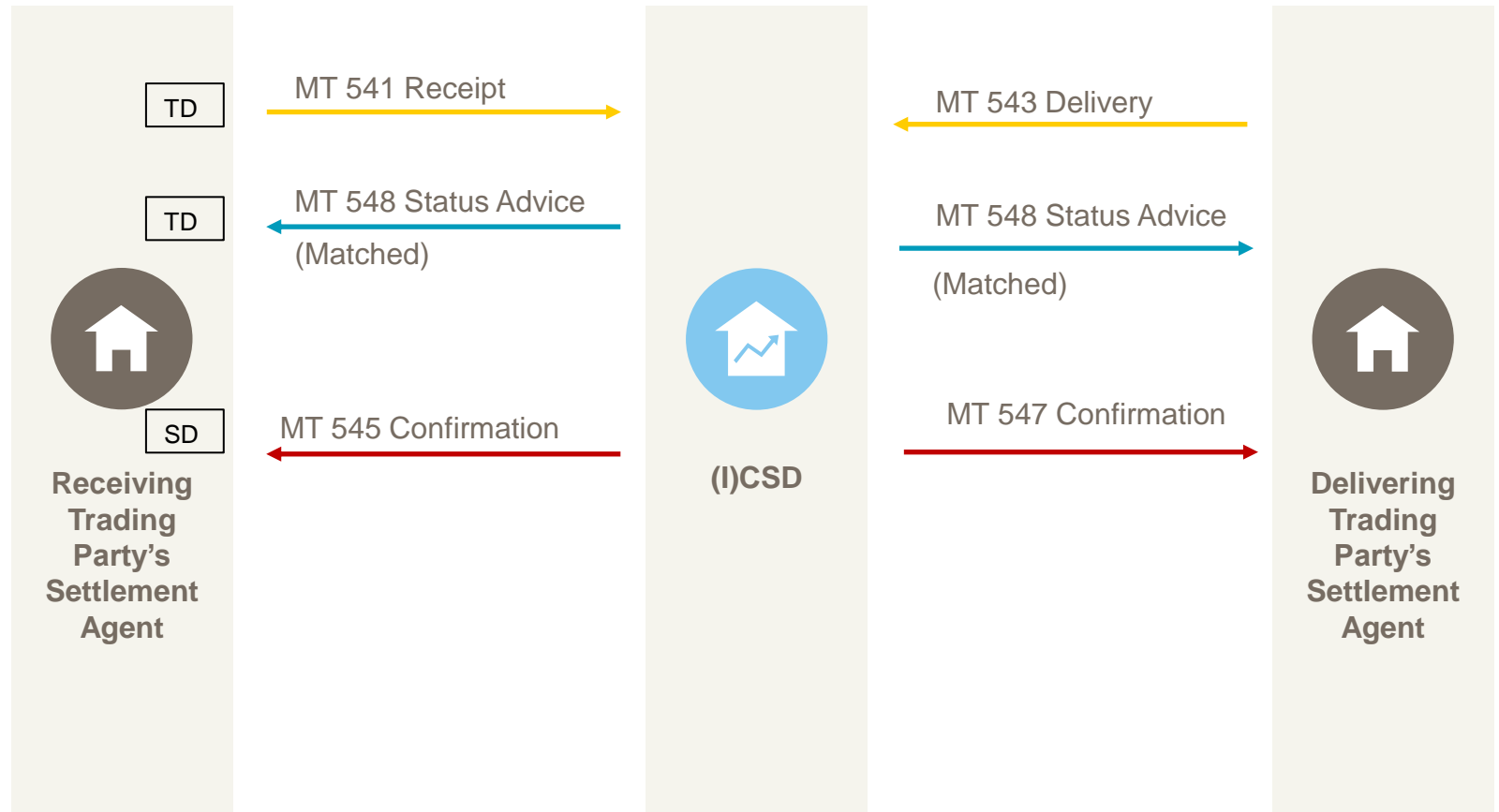Draft document for discussion purposes

10 October 2018

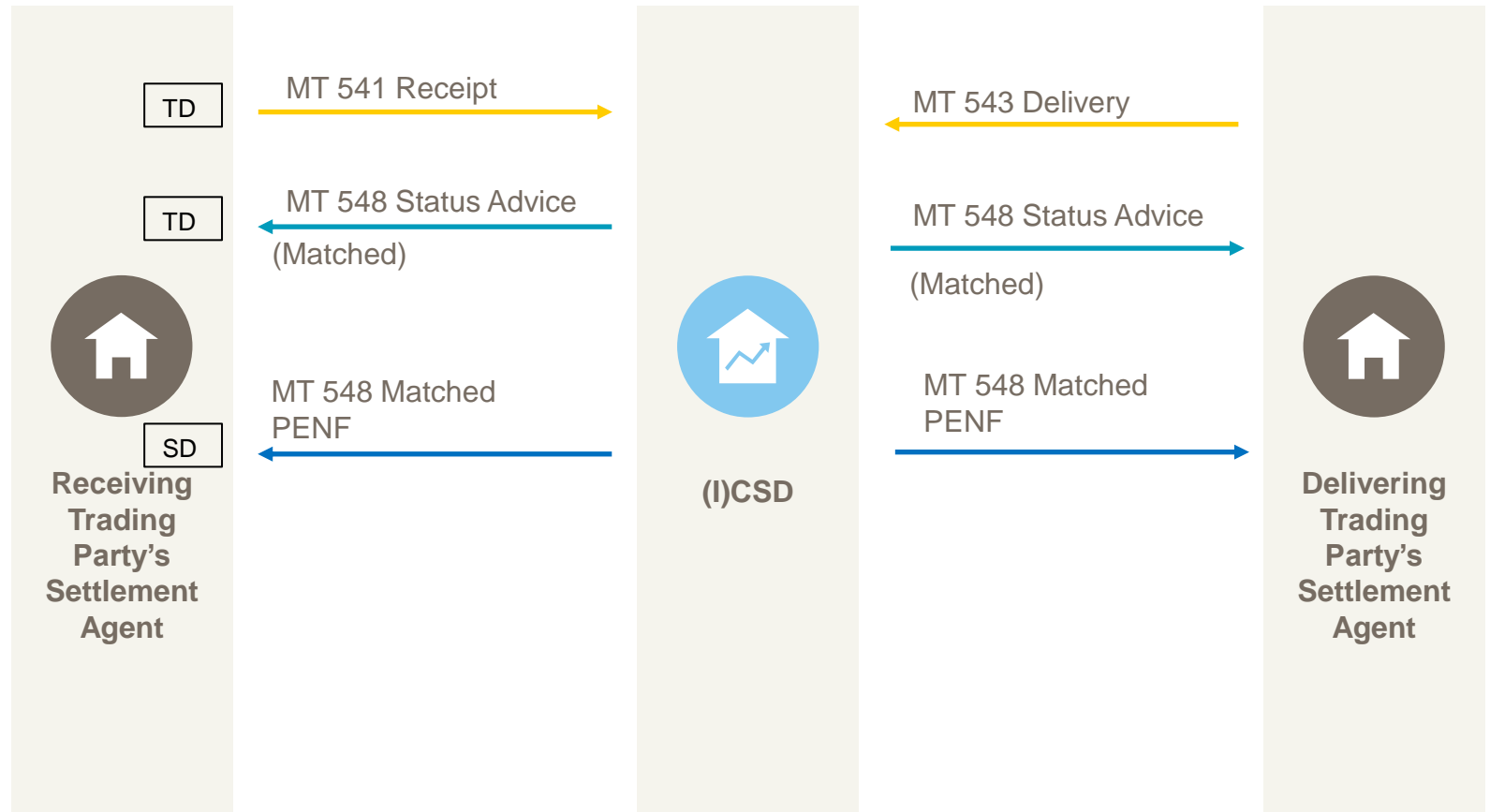# Settlement flows

Original settlement instructions and buy-in related settlement instructions

Current Process – Successful Settlement (simplified)

TD — MT 541 Receipt → | MT 543 Delivery ←

TD ← MT 548 Status Advice (Matched) | MT 548 Status Advice (Matched) →

Receiving Trading Party's Settlement Agent

SD ← MT 545 Confirmation | MT 547 Confirmation →

(I)CSD

Delivering Trading Party's Settlement Agent

Current Process – Unsuccessful Settlement (simplified)

Buy In Process - Simplified

1 – Instruction TD

2 – Status - Matching TD +1 at the latest

3 – Status - Settlement Fail on ISD

Receiving Trading Party

Buy In Agent

Delivering Trading Party which become the Failing Trading Party

Receiving Trading Party's Settlement Agent

(I)CSD

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2
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Delivering Trading Party's Settlement Agent

Buy In Process - Simplified

1 – Instruction TD

2 – Status - Matching TD +1 at the latest

3 – Status - Settlement Fails on ISD

4 – Status – Settlement Fails on ISD +5. Initiate Buy-In

5 – Buy-In Initiated by the RTP

Receiving Trading Party

Delivering Trading Party which become the Failing Trading Party

Buy In Agent
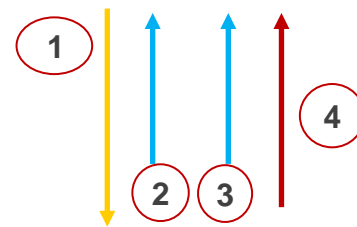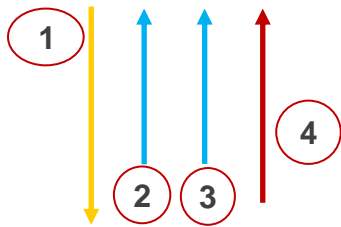
Receiving Trading Party's Settlement Agent

(I)CSD

Delivering Trading Party's Settlement Agent
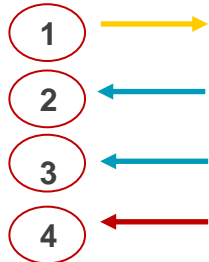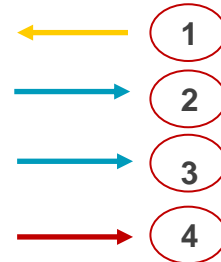
Buy In Process - Simplified

4 – Status – Settlement Fails on ISD +5. Initiate Buy In

5 – Buy-In Initiated by the RTP

6 – Original Sett Instructions on Hold

7 – Status on Hold on original instruction

8 – Buy-In Settlement Instruction initiated

9 – Status on Buy-In

Receiving Trading Party

Delivering Trading Party which become the Failing Trading Party

5 Content of the result of the Buy-in

5

Buy In Agent

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4 **6** **7** **8** **9**

4 **6** **7**

Receiving Trading Party's Settlement Agent

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(I)CSD

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Delivering Trading Party's Settlement Agent
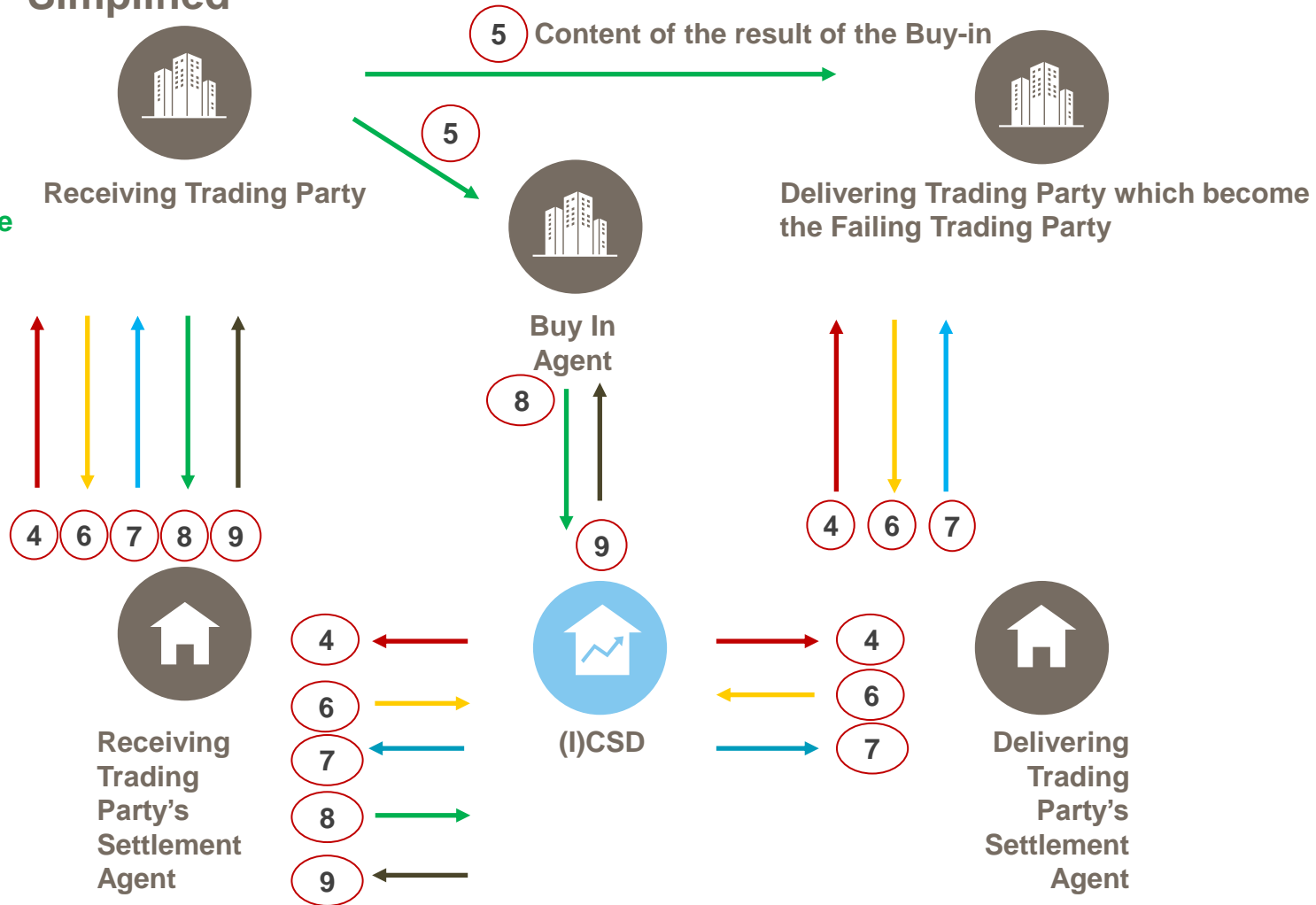
Buy In Process – Successful Settlement (simplified)

9 – Status on Buy-In

10 – Status on Hold on original instruction

11– Buy-In settles max ISD+7

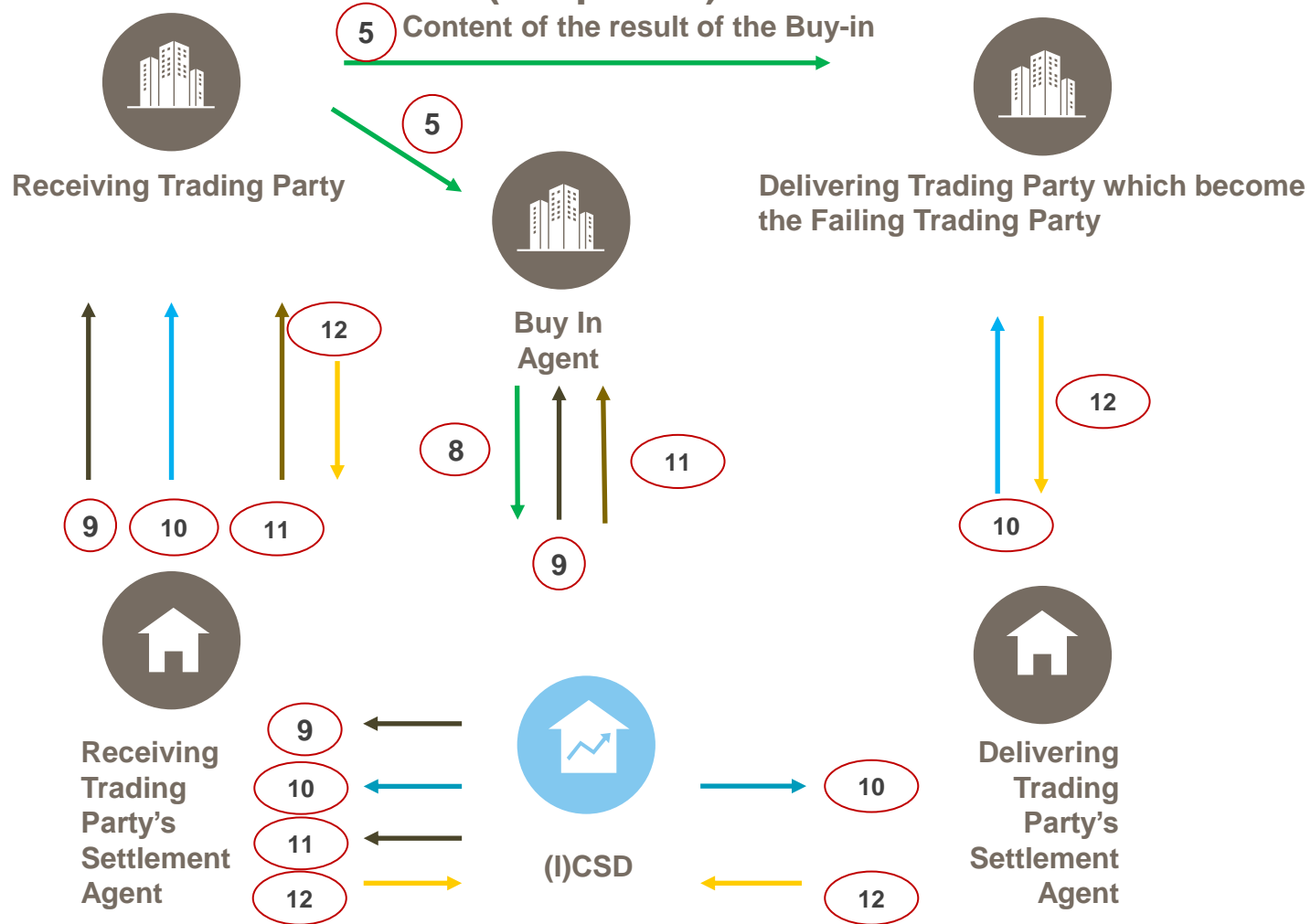**12- Original Sett Instructions Cancelled**

5 Content of the result of the Buy-in

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Receiving Trading Party

Delivering Trading Party which become the Failing Trading Party

Buy In Agent

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Receiving Trading Party's Settlement Agent

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(I)CSD

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Delivering Trading Party's Settlement Agent

Article 30

Initial verification

1. The receiving participant, through its clients, shall inform without undue delay the receiving trading party of the existence of a settlement fail. The receiving trading party shall verify, on the business day following the expiry of the extension period, whether the buy-in is not possible in accordance with Article 21(b).

2. Where buy-in is not possible, the receiving trading party shall notify to the failing trading party the reason why buy-in is not possible and the amount of the cash compensation it has calculated in accordance with Article 32. The cash compensation shall be paid in accordance with Article 33(2).

3. Where buy-in is possible, Article 31 shall apply.

The cash compensation, if any, will settle outside of the settlement platforms.

CSDR related provisions and suggested changes to existing messages

Buy-in Agent

Article 31.1

On the day referred to in Article 30(1), the receiving trading party shall appoint a buy-in agent <u>and notify the failing trading party.</u>

Article 31.2

Prior to the receipt of the notification referred to in paragraph 1, the failing trading party may deliver the financial instruments to the receiving trading party.

Article 31.3

Following the receipt of the notification referred to in paragraph 1, the failing trading venue member may only deliver the financial instruments to the buy-in agent provided the buy-in agent gives its prior consent to the delivery.

Suggested changes to MT 502/509/513/515 (and ISO 20022 equivalents) for Buy-In Agent

1. The selection of buy-in agent could be finalised by sending a **MT 502** (there is currently no ISO 20022 equivalent message for a trade order and for a client advice of execution).

2. The **MT 502** has also to include a reference of the failing settlement instruction.

3. The **MT 502** should indicate that the order is related to a Buy-In by using:
   - A dedicated indicator specifying that this is a Buy-In Order

4. The Receiving Party should then send a **MT 509** message to the Failing Trading Party to notify the buy-in initiation.

Note: Expected impact to Standards highlighted in Red

Settlement Instructions On-Hold

Article 8

Hold and release mechanism

A CSD shall set up a hold and release mechanism that shall consist of:

(a) a hold mechanism that allows pending settlement instructions to be blocked by the instructing participant for the purpose of settlement; and

(b) a release mechanism that allows pending settlement instructions that have been blocked by the instructing participant to be released for the purpose of settlement.

Article 29.3

Following the receipt of a notification referred to in paragraph 1, the failing trading venue member shall ensure that the relevant settlement instruction relating to the settlement fail is put on hold.

Note: Not in CSDR but it is felt that the market practice should be that the Receiving Party should also put their original Instruction on Hold once the Buy-In Agent is appointed

Changes to the settlement instruction process for putting on Hold

Need to use the MT 530 (sese.030) when the related instruction was sent as a NEWM. Those messages will generate a sese.030 to T2S for the CSDs-IN.

The MT 530 (sese.030) is now more used to hold/release the settlement instructions (as an indirect consequence of T2S).

Notes
- This is in line with existing global market practice published on the SPMG website
- There should be a reason code in the MT530 to indicate that this is due to a Buy-In

Results of Buy-In

Article 31.4

At the latest on the last business day of the applicable period referred to in Article 37, the receiving trading party shall notify the results of the buy-in to the failing trading party.

Article 31.5

Where buy-in is successful in part or in full, the notification referred to in paragraph 4 shall indicate the quantity and value of the financial instruments.

The receiving trading party shall accept the delivery of the financial instruments by the buy-in agent and shall pay the price for the delivered financial instruments subject to the conditions set out in Article 35.

At the end of each business day on which bought-in financial instruments are received by the receiving trading party, the receiving and failing trading parties shall ensure that the relevant settlement instructions relating to the settlement fail are cancelled and that new settlement instructions are entered into the securities settlement system for the non-delivered financial instruments. Cash penalties shall apply to each new settlement instruction from the day it is entered into the securities settlement system.

Article 31.6

On the last business day of the applicable period referred to in Article 37, where the buy-in fails or results in partial settlement, the notification referred to in paragraph 4 shall also indicate whether, for the non-delivered financial instruments, the buy-in shall be deferred or cash compensation shall be due. In the absence of such indication, cash compensation shall be due.

Article 31.11

The receiving trading party shall ensure that the CSD receives the information notified pursuant to paragraphs 4 and 8 and the information necessary to identify each new settlement instruction referred to in paragraphs 5 and 9.

Suggested changes to MT 54n (and ISO 20022 equivalents) for results of Buy-In

1. For the Settlement Instruction sent by the Buy-In Agent, and the associated one from the Receiving Party, there needs to be :
   - An indication that this settlement instruction is for a buy-in trade (CR approved for SR 2017)
   - A link with a cross reference to the original failed instruction (market practice recommendation)
   - Currently, two buy-in codes are co-existing (BYIY – BIYI) and the codes will be rationalised during SR2019 to keep an unique buy-in code.

2. The Receiving Trading Party needs to notify the Failing Trading Party in one of the following ways:
   - If successful Buy-in, send a copy of the settlement instruction related to the Buy-In to the Failing Party

3. In case of Cash Compensation, the (I)CSD has to be informed of the results of the buy-in (to be confirmed)

4. The original settlement instructions have to be cancelled:
   - An indicator should be used to specify that the instruction is cancelled further to a successful buy-in

Note
- Expected impact to Standards highlighted in Red
- (*) Currently no ISO 20022 equivalent
- The MT578 allegement will be able to indicate if the settlement was related to a Buy-In

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