ECB OMG
CSDR Settlement Discipline
June 23\textsuperscript{th}, 2022
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Overview on Settlement Discipline Regime

The CSDR came into force on 17 September 2014 with the aim of:

- increasing safety and efficiency of securities settlement and settlement infrastructure in the EU;
- harmonising the legal framework applicable to CSDs in Europe;
- establishing a more level playing field among European CSDs.

**Regulation references**

- Central Securities Depositories - Regulation, CSDR No 909/2014
- Commission Delegated Regulation (EU) 2018/1229 (so-called Settlement Discipline)

**Application**

- All EU and global market participants and non-EU market participants settling their transactions in a CSD or ICSD in the EU will have to comply with the CSDR.
- All instruments that can be settled with an EU CSD are in scope.

**Focus of the presentation**

- Settlement Discipline Regime, consists of two regulatory streams - measures to prevent settlement fails and measures to address settlement fails - entered into force on February 1st, 2022.
Measures to prevent and address settlement fails
Measures to prevent settlement fails

Settlement Discipline Regime provides for measures to prevent settlement fails:

<table>
<thead>
<tr>
<th>SDR - Measures taken</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tolerance levels</td>
<td>Maximum difference between the settlement amounts in two corresponding settlement instructions that would still allow matching - 2EUR for amounts up to 100k and 25EUR for amounts over 100k.</td>
</tr>
<tr>
<td>Bilateral cancellation mechanism</td>
<td>Enables participants to bilaterally cancel matched settlement instructions that form part of the same transaction.</td>
</tr>
<tr>
<td>Hold &amp; Release mechanism</td>
<td>They allow the instructing participant to block and release, for settlement purposes, pending settlement instructions.</td>
</tr>
<tr>
<td>Recycling</td>
<td>CSDs shall recycle settlement instructions that have resulted in a settlement fail until they have been settled or bilaterally cancelled.</td>
</tr>
<tr>
<td>Partial settlement</td>
<td>CSDs shall allow for the partial settlement of settlement instructions.</td>
</tr>
</tbody>
</table>
Measures to address settlement fails (1/2)

Penalties under CSDR are applied on a daily basis to all transactions that have not been cleared or settled by the intended settlement date. CSDs calculate penalty amounts at the end of each business day on which the instruction fails to settle. Penalties are charged to the CSD/CCP Participants who caused the settlement fails and credited to the Participants who suffered the settlement fails.

CSDs are required to provide their participants with a daily report, and provide a monthly procedure to collect penalties and redistribute the amounts collected. For cleared settlement transaction, the CCP is responsible for the collection of penalties and their redistribution.

Two types of penalties are applicable:

- Late Matching Fail Penalty (LMFP)
- Settlement Failure Penalty (SEFP)

Penalties calendar

1° Month

- 1st business day: end of appeal period.
- 12th business day: last day to input amendments.
- 14th business day: Monthly aggregated amounts for penalties of previous month.
- 15th business day (optional): net amount to be received or paid (cash pre-advice).
- 17th business day: payment (collection and redistribution).

2° Month

- 10th business day: end of appeal period.
- 12th business day: last day to input amendments.
- 14th business day: Monthly aggregated amounts for penalties of previous month.

Application of penalties

- Equities1
- Debt securities1
- Money market instruments1
- Other eligible CSDs irrespective of the geographical location of the trading parties.

The only exceptions are:

I. Settlement transactions that do not represent transfer orders;
II. Corporate actions on stock;
III. Technical instructions, e.g., T2S automatic realignments;
IV. T2S Settlement restrictions.

1 traded on an EU TV or cleared on an EU CCP and settling on an EU CSD
Measures to address settlement fails (2/2)

Below is summarized the widely adopted approach by market participants for the management of penalties, based on the participation in the international working groups and from discussions between CSD participants.

On a daily basis CSD participants send to their clients the details of the individual penalties and the instructions from which they originate via SWIFT MT537 PENA message or via other reporting system (e.g. web platform / e-mail). On a monthly basis CSD participants send to their clients, via MT537 or via other reporting system (e.g. web platform / e-mail), the aggregate report according to the different criteria, summarising the penalties for the previous month, including the amount to be credited/debited.

On the 17th Penalties Business Day of the following month, the CSD (and its participants) shall perform the payment process, i.e. the CSD shall collect and redistribute the penalties amounts to/from its participants. The CSD participants will debit/credit to clients the penalties received (both in bonis and malis), on a specific cash account. Generally, the cash movement on the client's account will be identifiable by a dedicated movement description, to allow the client to easily trace the cause of the debit/credit.

The appeal can be made by the CSD participants at any time, at the latest by the 10th business day of the month following the month to which it relates. In order to comply with the timeframe towards CSDs, some CSD participants could apply a stringent cut-off.
First results and lesson learned
First results and lesson learned

FEATURES OF THE CSDR SETTLEMENT PENALTY PROCESS

- High volumes
- Cascade process
- Critical dependency on STP

MARKET READINESS AT GO-LIVE (Feb.22)

- Various issue experienced during the testing phases (some issues arose directly in production)
- Different readiness status across CSDs and market participants
- Descoping of the mandatory buy-in
- Postponement of the first month collection/redistribution of penalties

RELATING TO THE QUALITY OF THE DAILY REPORTS

- Accuracy
- Completeness
- Formatting
- Timeliness

OPERATIONAL ISSUES

- High volumes
- Cascade process
- Critical dependency on STP

OTHER

- Bridge transaction
- Not fully harmonized approach across ICSDs/CSDs

Italian market average*

*Source: MIS report – Euronext Securities Milan
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What’s next?
What's next?

CSDR Refit

On 16 March 2022, the European Commission published a legislative proposal providing for changes to CSDR to enhance the efficiency of the EU’s settlement markets, while safeguarding financial stability.

Key points of the proposal related to the Settlement Discipline Regime:

- **Exemptions** from penalties application to specific transactions;
- **Mandatory buy-ins** could become applicable if and when the penalties regime alone does not improve settlement fails in the European Union;
- **Pass-on mechanism** introduction;
- **Symmetry of cash compensation**

Market participants and associations were called to provide their own consideration on the legislative proposal. At the same time the proposal was submitted to the European Parliament and Council for their consideration. Given the feedbacks received the legislative iter will continue, considering also the recent (June, 2nd) ESMA publication of a final report on amending the regulatory technical standards (RTS) on settlement discipline to postpone the application of the CSDR mandatory buy-in regime for three years.

Open points

Commission has adopted some suggestion stemming out from previous consultation on CSDR but there are still some crucial aspects that must be given attention to, inter alia:

- Mandatory buy-in versus Voluntary buy-in
- Lack of buy-in agents
- Other transaction type to be exempted
- Central golden source database containing securities reference data
Open question
Open question

- Which are the main challenges that you managed with the adoption of the new penalty regime if any and which are the next that you foresee?
The Intesa Sanpaolo Group
### Intesa Sanpaolo in brief

- **Loans to customers**: €465,254 M
- **Direct deposits from banking business**: €555,565 M
- **Market capitalisation**: €40.5 Bn
- **Cost/Income ratio**: 52.5%
- **Shareholders’ Equity**: €63,775 M
- **Net Income 2021**: €4,185 M
- **Branches**: 4,719
- **Customers**: 20.6 million
- **Abroad**: 34%

#### In Italy, Intesa Sanpaolo is the banking group leader with 13.5 million customers and with a market share of 22% in customer deposits and 20% in customer loans.

#### Intesa Sanpaolo is one of the top banking groups in the Eurozone with a market capitalisation of 44.6 billion euro.

#### A bank with a sustainable profitability, i.e. balanced between operating performance, productivity, risk profile, liquidity and solidity/leverage.

#### Rating (updated May 2022)

<table>
<thead>
<tr>
<th>Rating</th>
<th>Moody’s</th>
<th>S&amp;P Global Ratings</th>
<th>Fitch Ratings</th>
<th>DBRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long term senior preferred (unsecured)</td>
<td>Baa1</td>
<td>BBB</td>
<td>BBB (high)</td>
<td></td>
</tr>
<tr>
<td>Short term</td>
<td>P-2</td>
<td>A-2</td>
<td>F2</td>
<td>R-1 (low)</td>
</tr>
</tbody>
</table>

#### Market shares in Italy

<table>
<thead>
<tr>
<th>Category</th>
<th>Share %</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans</td>
<td>20.4%</td>
<td>1°</td>
</tr>
<tr>
<td>Deposits</td>
<td>22.4%</td>
<td>1°</td>
</tr>
<tr>
<td>Assets</td>
<td>23.9%</td>
<td>1°</td>
</tr>
<tr>
<td>Management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pension Funds</td>
<td>24.3%</td>
<td>1°</td>
</tr>
</tbody>
</table>

Note: Results as at 31 December 2021
1. At 31 March 2022
2. Data redetermined - where necessary and material - considering the changes in the scope of consolidation following the inclusion of UBI Banca and, on the basis of management accounts, the reallocation of the contribution of branches sold in H2 2021 to Income (Loss) from discontinued operations, the full line-by-line consolidation of Assicurazioni Vita (former Aviva Vita), Lombarda Vita and Cargeas Assicurazioni (not considering, on the basis of management accounts, the contribution of branches sold in H2 2021), and the effects of the acquisition of the REYL Group. Including Net Income 4. Including bonds 5. Mutual funds; data as at 30.09.2021 6. Data as at 30.09.2021
Source: Intesa Sanpaolo website (About us), data as of 31.03.2022
Intesa Sanpaolo can boast a strategic international presence with nearly 1,000 branch offices and 7 million customers, including subsidiary banks dealing in commercial banking in 12 Central Eastern European countries, the Middle East and North Africa, and an international network specialised in supporting corporate customers in 25 countries above all in the Middle East and North Africa, as well as countries in which Italian companies are most active such as the US, Brazil, Russia, India, and China.

### Europe
- **Direct branches**
  - Frankfurt
  - Istanbul
  - London
  - Madrid
  - Paris
  - Warsaw

- **Representative offices**
  - Brussels
  - Moscow

### Americas
- **Direct branches**
  - New York

- **Representative offices**
  - Washington DC

- **Subsidiaries**
  - Intesa Sanpaolo Brasil (Brazil)

### Asia
- **Direct branches**
  - Abu Dhabi
  - Doha
  - Dubai
  - Hong Kong

- **Representative offices**
  - Beirut
  - Ho Chi Minh City
  - Jakarta

- **Subsidiaries**
  - Reyl (UAE)
  - Shanghai
  - Singapore
  - Tokyo
  - Mumbai
  - Beijing
  - Seoul

### Africa
- **Representative offices**
  - Cairo

- **Subsidiaries**
  - Bank of Alexandria (Egypt)

### Oceania
- **Direct branch**
  - Sydney

- **Representative offices**
  - Cairo

- **Subsidiaries**
  - Bank of Alexandria (Egypt)
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