securitiesfinancetimes

Over the line:

DTCC's Matt Johnson on preparing the market for the settlement discipline regime

CSDR

Annual 2021

TOP 6 WAYS TO ENSURE SUCCESSFUL FAILS PREVENTION AND AVOID CSDR PENALTIES

The upcoming Central Securities Depositories Regulation's (CSDR) Settlement Discipline Regime (SDR) will impose new measures to prevent settlement failure such as cash penalties for failing and/or late matching trades, and mandatory buy-ins. Given these new, potentially large, impacts of a failed trade — the time is now to maximize your current investments in Institutional Trade Processing's suite of services and to focus efforts on the prevention of failure.

PRE-TRADE ENRICHMENT

1 **Utilize the ALERT® platform,** the industry's largest and most compliant central database of standing settlement and account instructions (SSIs) and provide automatic enrichment of those SSIs on a matched trade when used in conjunction with CTM™.

2 **Take advantage of ALERT's Global Custodian Direct (GCD) workflow,** a fully custodian or prime broker managed workflow ensuring SSIs in the system come directly from and are maintained by source data providers.

3 **Upgrade your traditional ALERT enrichment capabilities by accessing our ALERT Key Auto Select (AKAS) functionality,** a seamless (and free) rules-based enrichment of CTM trades eliminating the need to provide ALERT Keys (Country, Method, Security) as part of the trade information.

ALERT

10.7M+
SSIs

1,800+
Investment Managers

1,300+
Brokers

ALERT GCD

9
Global Custodians Live

3
Regional Custodians & Trust Banks Live

54%
GCD has helped sell-side firms realize up to a 54% reduction in SSI related fails*

0%
Buy-side firms have driven their SSI related fails down to almost 0% by using GCD*

**A Roadmap to SSI Automation: How an SSI Utility Benefits All Participants*

TRADE DATE AGREEMENT

4 **Achieve straight through processing via CTM,** the industry's standard for central matching, by agreeing to the economics, place of settlement (PSET) and associated SSIs on trade date, allowing you to resolve any trade exceptions in a timely fashion.

SETTLEMENT & EXCEPTION MANAGEMENT

5 **Prevent penalties under CSDR through centralized trade exception management with DTCC Exception Manager,** quickly resolving exceptions and reducing delays in settlement.

DATA & ANALYTICS

6 **Gain a better understanding of who your higher risk counterparties are by leveraging ITP Data Analytics,** allowing you to identify potential missed trade affirmations in order to prevent fails.

CTM

165.8M
Trades Processed in 2020

95%
Average Same Day Matching Rate

1,562
Investment Managers

1,239
Brokers

DTCC EXCEPTION MANAGER

28
Organizations (brokers, prime brokers and custodians) submitting accurate data directly to the platform

212
Counterparty Pairings

Community includes investment managers, brokers, custodians, prime brokers, and outsourcers

ITP DATA ANALYTICS

100%
CTM client coverage

93.54%
Average same day match agreement for European trades in March 2021

€ 524B
Notional delta between what was entered on trade date but not affirmed on trade date in March 2021

WANT TO LEARN MORE? VISIT DTCC.COM/CSDR
See how DTCC's ITP suite of services can reduce your risk of trade fails, minimizing the impact of CSDR.

WANT TO LEARN MORE ABOUT DTCC CONSULTING SERVICES? VISIT DTCC.COM/CONSULTING
Need support implementing the ITP suite of services at your organization? We'll help you rethink your post-trade operating model.

© 2021 DTCC. All rights reserved. DTCC, DTCC (Stylized), ADVANCING FINANCIAL MARKETS. TOGETHER, and the Interlocker graphic are registered and unregistered trademarks of The Depository Trust & Clearing Corporation.

The services described above are provided under the "DTCC" brand name by certain affiliates of The Depository Trust & Clearing Corporation ("DTCC"). DTCC itself does not provide such services. Each of these affiliates is a separate legal entity, subject to the laws and regulations of the particular country or countries in which such entity operates. See www.dtcc.com for a detailed description of DTCC, its affiliates and the services they offer.

Certain DTCC ITP LLC services are subject to regulation by the U.S. Securities and Exchange Commission ("SEC") and are offered by DTCC ITP Matching (US) LLC ("DTCC Matching"), which is set out in SEC Release No. 34-44188; File No. 600-32; 66 FR 20494 (April 17, 2001). TradeSuite ID and CTM are services of DTCC Matching and are subject to SEC regulation when used for trades in which either the broker-dealer or its institutional customer is a U.S. entity and the securities in the trade are issued by a U.S. issuer. No other services offered by DTCC ITP DTCC.COM LLC are regulated. 25897-PS0820 • DTCC Public (White)

Preparing for the settlement discipline regime

The Central Securities Depository Regulation (CSDR) provides a wide-ranging set of rules designed to increase the safety and efficiency of securities settlement systems in the EU. Introduced through a phased implementation starting in 2014, it has introduced shorter settlement periods and strict conduct of business and prudential requirements for central securities depositories (CSDs).

One implication has been to drive harmonisation of settlement cycles and further moves to dematerialised settlement. Since 6 October 2014, the settlement period has been standardised at T+2 for securities traded on stock exchanges and other regulated markets falling within the scope of CSDR.

The regulation aims to create a common rulebook governing CSD activities within the EU, including CSD organisational requirements and how they deliver products and services. This includes a passport system that enables authorised CSDs to deliver services across EU member states. It also defines supervisory and prudential rules for CSDs offering banking services alongside settlement and other core infrastructure responsibilities.

The overarching aim of the settlement discipline regime (SDR) component of CSDR is to deliver improved settlement efficiency, and to reduce settlement failure rates, across European securities markets. It will do so through the introduction of cash penalties and other deterrents to settlement failure, most notably through mandatory buy-ins.

Contributors to this CSDR volume estimate that average settlement rates across EU securities markets are currently in the 94-95 per cent range. While settlement efficiency has improved significantly over the past two decades, this settlement failure rate remains unacceptably high when represented in terms of the total value of securities, or the total value of cash, that are still outstanding after the settlement deadline.

With this in mind, the CSDR settlement discipline regime aims to drive a further reduction in fail rates and a corresponding reduction in the value of undelivered securities or funds.

However, there are challenges with the design and implementation of SDR, particularly the mandatory buy-in element, and time is closing fast before

these provisions come into force – in February 2022 according to the current timetable.

A group of 14 trade associations have written to the European Commission and the European Securities and Markets Authority (ESMA), in January 2020 and March 2021, recommending amendments to the SDR provisions. The Joint Associations are positive about some elements of the SDR, indicating that improved allocation and confirmation processes, and the introduction of cash penalties to encourage timely settlement, are important for improved settlement rates.

However, they believe there is strong feeling among buy- and sell-side market practitioners that the mandatory buy-in regime will have negative implications from a trading and liquidity perspective across many asset classes. Among other consequences, this may remove incentives to lend securities in securities lending and repo markets and it may lead to wider bid-offer spreads in cash markets.

Some have suggested it may encourage market participants to move settlement of less-liquid securities into non-EU CSDs that are not subject to CSDR.

Having already postponed SDR implementation once – to its current February 2022 enactment date – the Commission has indicated in a statement on 1 July 2021 that it may consider amendments to SDR, subject to an impact assessment that is expected to run during the second half of 2021.

The Joint Associations have welcomed the Commission's message that it will consider a review of the mandatory buy-in regime. They have also warned against implementing the rules in their current form and then revising them at a later time – forcing the market to make adjustments when SDR is already live.

But we are short on clarity at this point. The regulators have stressed that they will not announce their complete findings until Q4 2021. In the meantime, market participants are running hard to prepare for trades to settle under the new SDR regime from 3 February 2022.

Our contributors to this CSDR annual guide you through the challenges, and the potential opportunities and efficiency gains, extended by SDR. They also offer guidance on how to prepare for the new regime.

Through this CSDR annual, SFT provides an essential guide to the content of the settlement discipline regime, its implications and how to be ready when this new rulebook goes live.

Group editor: Bob Currie

Publisher: Justin Lawson
justinlawson@securitiesfinancetimes.com
+44 (0) 208 075 0929

Group editor: Bob Currie
bobcurrie@securitiesfinancetimes.com
+44 (0) 208 075 0928

Senior reporter: Maddie Saghir
maddiesaghir@blackknightmedialtd.com
+44 (0) 208 075 0925

Senior reporter: Jenna Lomax
jennalomax@blackknightmedialtd.com
+44 (0) 208 075 0925

Reporter: Alex Pugh
alexpugh@securitiesfinancetimes.com
+44 (0) 208 075 0926

Reporter: Carmella Haswell
carmellahaswell@blackknightmedialtd.com
+44 (0) 208 075 0925

Reporter: Rebecca Delaney
rebeccadelaney@blackknightmedialtd.com +44 (0)208 075 0923

Accounts: Chelsea Bowles
+44 (0) 208 075 0930
accounts@securitiesfinancetimes.com

Marketing director: Steven Lafferty
design@securitiesfinancetimes.com

Published by Black Knight Media Ltd
Copyright © 2021 All rights reserved

Inside this issue

Managing implementation

Over the line: Preparing the market for the CSDR settlement discipline regime

It is expected that the implementation of the CSDR's settlement discipline regime will contribute to a further reduction in settlement failure rates and a corresponding decrease in the value of undelivered securities or funds. DTCC's director of ITP product management and industry relations

10

Game Plan

CSDR: The Peaceful Road to Glory or Just Additional Noise?

CSDR demands that participants find solutions for front-to-back flows which require a well-orchestrated game plan and high levels of automation and STP, says Gilbert Scherff, Broadridge business analyst manager and CSDR sponsor. With an increasingly complex daily operational cycle, more stringent deadlines and higher costs, there is little room for user error

14

Settlement certainty

The Art of Certainty

Regulators tread a fine line in attempting to ensure that markets are free and transparent, while providing sufficient safeguards to reduce controllable risks. David Lewis, senior director, securities finance at FIS, explores how financial supervisors are managing this balance in their efforts to establish the conditions for settlement certainty

18

Buy-in agent

Settlement Efficiency: Failure is not an option

Michael Jahn, director of Eurex Securities Transactions Services (Eurex STS), advises on how to prepare for the Settlement Discipline Regime under CSDR and how to engage with the buy-in agent

22

Settlement management

Getting CSDR right: advancing settlement management in securities finance

As firms prepare for the rollout of Phase 3 of CSDR, the Settlement Discipline Regime (SDR) which is due to go live in February 2022, Pirum's director of business development, Simon Davies, looks at the potential impact of the regulation and what securities financing businesses should be doing to prepare

26

Get ahead

Are you ready for CSDR?

Change tends to come slowly to the financial services industry, unless it is mandated by regulators, says Camille McKelvey, head of post-trade STP business development at MarketAxess. The settlement discipline component of CSDR provides a huge opportunity to drive best practice

30

Broadridge®

Securities Finance and Collateral Management Solutions for Every Firm

- Optimize lending, funding and collateral decisions
- Reduce counterparty and operational risks
- Enable efficient and high-growth operations
- Flexible to firms of all sizes in any location
- Meet regulatory and market requirements

Ready for Next

Communications
Technology
Data and Analytics

broadridge.com

© 2021 Broadridge Financial Solutions, Inc., Broadridge and the Broadridge logo are registered trademarks of Broadridge Financial Solutions, Inc.

Inside this issue

Take a leap

Taking a leap

In preparing for the CSDR settlement discipline regime, don't just prepare for the bare minimum, says AccessFintech's Pardeep Cassells. Introduce a comprehensive solution that takes you through the entire lifecycle from efficient transaction data processing to resolution of (hopefully rare) dispute claims

34

CSDR Panel

CSDR Virtual Roundtable

CSDR aims to harmonise timing and standards of conduct in the European securities settlement industry. With the settlement discipline measures scheduled to go live on 1 February 2022, industry experts weigh up the impact of this regulation and the market's state of readiness

38

Final steps

Settlement discipline regime: the final step in the CSDR journey

As settlement penalties under CSDR will directly impact the front-office, the decision to invest in settlement infrastructure must be supported by the business. Otherwise SDR will quickly eat into profits, argues MarginTonic director Craig Pearson

50

Optimising workflow

CSDR: Streamlining Critical Settlement Workflows to Support Compliance

In the context of the forthcoming CSDR settlement discipline regime deadlines in Europe, currently scheduled to take effect in February 2022, the mission of optimising workflows takes on a new sense of urgency. Krishna Nadella, Symphony's gobal head of solutions, tells us how

56

CSD view

Fit for purpose

CSDR's objective is to harmonise the settlement cycle and settlement discipline and to implement common requirements for CSDs for both domestic and cross-border trade. Maciej Trybuchowski, president & CEO of KDPW, the Polish CSD, discusses how they have approached this agenda

60

Preparatory steps

The clock is ticking

C3 estimates that over 10,000 firms globally will be directly impacted by measures to address settlement fails under CSDR, notably the introduction of cash penalties and a mandatory buy-in framework. Paul Gill, partner & CPO at C3 Post Trade, talks us through the implications

64

EX

Fair Play

Increase your settlement efficiency with the back-up of a trusted partner.
Eurex Securities Transactions Services manages your buy-ins according to CSDR, protecting all interests and serving all asset classes.
Learn more at buyinagent.com.

Architects of trusted markets EUREX

Matt Johnson, director of ITP product management and industry relations, DTCC

Over the line: Preparing the market for the CSDR settlement discipline regime

It is expected that the implementation of the CSDR's settlement discipline regime will contribute to a further reduction in settlement failure rates and a corresponding decrease in the value of undelivered securities or funds. DTCC's director of ITP product management and industry relations Matt Johnson tells Bob Currie how DTCC is helping the market to prepare for the regulation

The Central Securities Depository Regulation (CSDR) is a multifaceted set of rules designed to increase the safety and efficiency of securities settlement and settlement infrastructures in the EU. It has done so, through a phased implementation, by introducing shorter settlement periods and strict organisational, conduct of business and prudential requirements for central securities depositories (CSDs). This establishes a passport system, enabling authorised CSDs to deliver their services across the EU. It also lays down prudential and supervisory requirements for CSDs that provide banking services supporting securities settlement.

The overarching aim of the settlement discipline regime (SDR) component of CSDR is to deliver improved settlement efficiency, and to reduce settlement failure rates, across European securities markets. It will do so through the introduction of cash penalties and deterrents to settlement failure, most notably through mandatory buy-ins.

Drawing on data from T2S Annual Reports and ESMA calculations of EU settlement rates, DTCC estimates that average settlement rates across EU securities markets are currently in the 94-95 per cent range. This does not cover every CSD in the EU or every settlement currency, but DTCC believes this provides a reliable barometer of current settlement efficiency.

While settlement efficiency has improved significantly over the past two decades, this settlement failure rate, at close to six per cent, remains unacceptably high when represented in terms of the total value of securities, or the total value of cash, that are still outstanding after the settlement deadline.

With this in mind, it is expected that implementation of the CSDR settlement discipline regime will increase settlement efficiency by contributing to a further decrease in settlement failure rates and a corresponding reduction in the value of undelivered securities or funds.

The SDR component of CSDR is scheduled to come into force in February, according to the current timetable, with the first trades expected to settle under the new regime on 3 February 2022.

DTCC has been working with clients to ensure that the transition to the new regime proceeds smoothly, as was the case with migration to T+2 settlement under Article 5 of CSDR in 2014. Although many in the industry feared widespread disruption during this transition to a shorter settlement cycle, in practice the migration was managed efficiently and with little negative impact on settlement rates.

“Testing and readiness audits that we have conducted with Tier 1 banks have delivered encouraging results and our CSDR project team estimates that, after SDR implementation in February 2022, settlement rates may rise to 97-98 per cent in H2 2022 and into 2023,” says Johnson. This would bring settlement rates in the EU closer to those in Asia, where settlement rates are well above 99 per cent in Taiwan, South Korea, Hong Kong, Singapore and a number of other Asia Pacific markets.

From a market infrastructure perspective, Johnson believes that market participants in the EU are now in a stronger position than they were when the delay to SDR implementation (pushing SDR back to February 2022) was announced 12 months ago. This has enabled market participants to sharpen their modelling under the SDR regime and their mechanisms for calculating and allocating penalties.

Specifically, the settlement process may involve a complex network of interlinked transactions where a settlement failure can lead to the failure of a chain of settlement instructions, which may also include securities lending or repo transactions in this chain of trades. For some settlement parties, this has presented complexity in modelling the application of cash penalties along this chain of transactions, identifying which party is responsible for a settlement failure and where the settlement penalty should be applied.

"DTCC finds that most CSDs and the large global custodians are comfortable with how to calculate and apply settlement penalties," says Johnson, "although we continue to provide education and support to participants across this settlement network to assist this process. From a market infrastructure standpoint, the component of the regulation that is causing most concern is the buy-in component."

Currently only one organisation, Eurex Securities Transactions Services, has confirmed that it will serve as a buy-in agent. If this remains the case, this agent will manage buy-ins for all transactions settling in a European CSD that need to be bought in. This is likely to present a major onboarding challenge — requiring firms around the world that settle trades in an EU CSD to connect to the buy-in agent — and may create bottlenecks or delays for those firms that have not yet started this engagement.

Industry response

The Joint Trade Associations, a group of 16 industry associations, have written to the European Commission and the European Securities Market Authority (ESMA) regarding the implementation schedule for mandatory buy-in rules under CSDR.

This group states that it supports the European Commission's intention to consider amendments to mandatory buy-in rules under the CSDR's SDR, which are due to be introduced by 1 February 2022.

The Commission published a report on 1 July which says that the Commission will consider conducting a legislative review of CSDR, subject to an impact assessment. This impact assessment is expected to run during the second half of 2021.

The Joint Associations welcomed the Commission's message that it will consider amendments to the mandatory buy-in regime, stating that this is a positive step towards delivering an effective settlement discipline regime that achieves its objectives and avoids negative consequences for European capital markets and investors.

The associations warned the Commission against enforcing the current rules and then revising them at a later point. This, they say, would risk damaging the competitiveness of EU capital markets and increasing cost for investors, but would also lead to a duplication of efforts and unnecessary disruption for market participants. The correct approach, they say, will be to enact necessary amendments prior to implementation, following a review of mandatory buy-in rules by co-legislators, notably the European Parliament and Council.

This letter follows earlier recommendations advanced by the Joint Trade Associations on the CSDR settlement discipline regime in letters to the European Commission and ESMA on 22 January 2020 and 11 March 2021.

Managing implementation

DTCC's Consulting Services was established in October 2020 to provide an advisory service to clients around the world with access to the firm's expertise and experience in post-trade operations. CSDR rules have had a major impact on the way that financial markets and market participants behave. DTCC's team of consultants work with firms to perform detailed impact analysis and process reviews to help design and implement robust

solutions that aim to ensure they are ready to adhere to new operating standards. “DTCC’s experts can either help a firm transform its entire infrastructure or start with smaller projects as building blocks for longer-term prevention of settlement fails,” says Johnson. The services include: assisting further automation of a firm’s settlement processes; providing better understanding of the root cause of fails; implementing exception management processes and controls to manage those fails quickly and avoid increasing penalties; and maximising use of DTCC services and firms’ ability to align with pending regulatory implementations.

“From a consultancy standpoint, the advice that DTCC is providing to all clients is that the best way to navigate the CSDR settlement discipline regime and mandatory buy-in process is to ensure that you do not fail transactions,” says Johnson.

In simplest terms, this will be dependent on ensuring that the seller has sufficient securities in inventory, and the buyer is holding sufficient cash, to discharge their settlement obligations.

Beyond this, DTCC provides an audit of factors that can have a key influence over whether a firm is settling transactions efficiently. For example, does the firm have access to the most current and accurate settlement information that is available by using a standard settlement instruction (SSI) database such as DTCC’s ALERT, as well as its Global Custodian Direct (GCD) workflow to ensure that SSIs are coming directly from and maintained by source data providers?

Is the firm using electronic pre-matching platforms, such as DTCC’s CTM platform? CTM is currently the most-widely used matching platform in the securities market and, through ALERT Key Auto Select (AKAS), allows users to enrich their trades automatically with the most accurate settlement instructions from ALERT.

Lastly, does the firm automate their settlement exception management processes by utilising a platform like DTCC’s Exception Manager to publish, manage and communicate about exceptions throughout the trade lifecycle process — with the objective to resolve any exceptions promptly and to reduce delays in settlement?

All services and consultancy that DTCC provides are delivered in the context of promoting resilience, process automation and high straight-through processing rates, with the aim of ensuring settlement finality “on time, each time,” says Johnson.

“We are able to conduct an audit of clients’ pre-trade and post-trade processes, allowing our consultancy division to provide a deep-dive view of their transaction processing arrangements, understanding where the gaps lie and where they are not automating as fully as possible,” he adds.

If a firm is using an old or invalid set of SSIs, for example, this will substantially increase the risk of trade failure. However, if it is also utilising an automated pre-trade matching platform such as CTM, these mismatches will be identified on execution date and immediate remedial action can be taken.

“The consultancy approach is all about delivering operational excellence,” says Johnson. This is not simply driven by regulation, although the large volume of ongoing regulation that is confronting the industry has provided a foundation for conversations around operational efficiency and control processes with clients and prospects.

In the settlement arena, there is still wide variation across the market in terms of firms’ same-day matching rates. Some counterparties are currently fulfilling pre-matching on T+0 for close to 100 per cent of their trades. In contrast, others have matching rates that are down in the low 80s. At industry level, this can result in high aggregate cash values of trades that are unmatched overnight — and significant delays before settlement finality is established.

DTCC is working with the market to reduce settlement failures, to improve STP rates and to remove operational risk and cost. Steps to assist market participants with their SDR preparations are key to this agenda.

CSDR: The Peaceful Road to Glory or Just Additional Noise?

CSDR demands that participants find solutions for front-to-back flows which require a well-orchestrated game plan and high levels of automation and STP, says Gilbert Scherff, Broadridge business analyst manager and CSDR sponsor. With an increasingly complex daily operational cycle, more stringent deadlines and higher costs, there is little room for user error

Harmonisation has been a key theme on regulators' minds over the past decade and has created significant transformation within the securities finance ecosystem. Overall, with the exception of the Securities Financing Transactions Regulation (SFTR), the new regulations have not specifically been targeted at the securities finance industry, although their implementation has had significant knock-on effects. The upcoming CSDR (Central Securities Depositories Regulation) will have similar repercussions indirectly throughout the industry.

With the next phase of CSDR due to be implemented in February 2022, a phase of initiatives in Europe relating to core post-trade cash and securities infrastructure will be completed. Objectively, a harmonised and efficient post-trade life cycle should be perceived to be a step forward for securities finance. Nevertheless, as always, the devil is in the detail and with CSDR there are a lot of details — especially as CSDR applies to all trading level entities, regardless of their domicile, that enter into transactions that settle in an EU CSD. With the European Football (soccer as our American counterparts may know it) Championship just behind us, I felt it appropriate to invite you to join me in a game of securities finance operations (Ops).

The Game: 'Getting Stuff Settled'

On any given day the Securities Finance Ops team are doing everything in their power to get 'stuff settled'. They are repetitively following the daily rhythm of settlement cycles and cut-offs. It can be an exciting world, with each day bringing new demands around time-sensitive and deadline-driven tasks. In most companies the securities finance teams are highly specialised, having a detailed understanding of post-trade securities settlements flows — ranging in experience from desk head to settlement clerk.

In this daily cadence, the MT-548 is the drumbeat. Any settlement clerk will know MT-548 SWIFT message types by heart. It is the clear explanation as to why a settlement did not or will not happen. The classic reasons are that the trades are 'unmatched', or there are insufficient securities and/or cash available to fund the settlement. Getting 'stuff settled' is the name of the game. Game on!

First Half: the Perfect Match

Let's kick off! It would be ideal if all trades simply followed an uninterrupted post-trade lifecycle. However in reality, this is not the case. There are so many trade details to be captured and so many opportunities for mistakes to be entered. These could, for example, be the wrong standing settlement instruction (SSI), the wrong trade/settlement dates or the wrong security quantities.

Recent data from various firms found that some traders scored less than 35 per cent 'correct first time data entry' when they reviewed the trade input across their teams, thus leaving a challenge for the Ops team to make quick decisions on identifying what is right and what is wrong. Lower levels of automation and error-prone processes do not make life any easier and these increase settlement risks and costs.

Ops teams across the globe follow the same daily cycle of frantically remediating any 'unmatched' instructions. For securities finance, this is a fast-paced game as many securities movements are same-day trades and need to settle ahead of cut-offs, further funding deadlines and general dependencies.

Without increasing (trade) automation and STP (Straight Through Processing) levels, combined with robust pre-matching and intraday reconciliation, getting trades matched can become a cumbersome and costly exercise with a back and forth of data exchange and discussions taking up valuable time.

Second Half: Right Place, Right Time

With that part of the 'match' out of the way, take a quick rest and let's get into the second half — ensuring the securities are in the right place at the right time. The aim of this phase of the game is to avoid having the securities movements unsourced or unfunded. Two questions in every settlement clerk's head are 'what are the deadlines?' and 'where are the stocks?'.

The securities finance rapid rhythm is combined with complicated analytics behind every trade and movement decision. Most securities transferred do not stand on their own as a funding action, but are undertaken to 'resolve' another challenge. Often, it is part of a wider strategy, including covering shorts, settlement fails near to buy-in, funding of collateral with a CCP, meeting regulatory ratios or financing a client relationship.

As secondary transactions have their own deadlines and places of settlement, Ops are required to understand and analyse the 'bigger picture', ensuring the prioritised funding of movements intra-day to

help solve the 'bigger picture' puzzle. The end game requires understanding and actioning the right order sequence of events, to ensure all goals and deadlines are met. Timing and knowledge are key. Anticipation of the knock-on effects for each decision, and a full understanding of the incentives relating to various trades, help order the sequence of settlements in an efficient manner. Lack of accurate and comprehensive information, miscommunication and misunderstanding are all challenges for the team, making it a demanding task to take the correct course of action.

The complex (European) custody and settlements infrastructure demands an in-depth understanding of local business practices, mechanics and timelines to ensure successful settlement of chains of transactions, although TARGET2-Securities (the European platform to centralise delivery versus payment and harmonise the fragmented securities settlements infrastructure) should remediate this challenge to a certain extent.

Extra Time: A New Set of Offside Rules

Oh no, we need to go into extra time. The CSDR settlement discipline regime introduces a whole new set of rules to an already complicated rulebook and the sport of matching and funding are taken to the next level. This includes:

1. penalising late matching/settlement
2. promoting the use of partial settlement
3. introducing (mandatory) buy-in

First, the erroneous behaviour resulting in late matching or late/failed settlements has far-reaching financial consequences. Late matching and/or failing to settle securities transfers on time will be penalised and this leaves little room for error. In securities finance, the often rapid (same day) trade and settlements cycle can be an easy source of mismatches and late settlement. Accordingly, holding back settlement instructions (common practice in the securities finance domain) will become a costly solution as this can be the root cause of late matching and settlement fails. Have you taken into consideration the operational and financial consequences of these impacts?

Second, the operational complexity further increases with (voluntary) partial settlement being introduced in full force. This complicates the daily 'fund and settle' puzzle. Pre-CSDR, settlements fail or settle. Partial settlement, promoted as part of the CSDR remediation for settlement fails, introduces a third option which can create significant challenges for securities finance participants. 'Partial settlement' doesn't always equal 'partial success'. It could still result in failing to meet the participant's objective, with additional knock-on effects. Can your existing securities finance solution process partial settlements front to back (considering the spillover effects on inventory management, collateral management, P&L calculations, billing, etc)?

Third, the final step for settlement fails under CSDR is the buy-in, triggered four to seven days after the intended settlement date. The regulation mandates buy-in regardless of the source of the transaction. Ironically enough, where securities lending is frequently used as remediation to avoid buy-ins for (cleared) securities settlements, the securities finance settlements themselves become subject to buy-in based on the 'as-is' state of CSDR.

Therefore, Ops need to be vigilant to anticipate failing securities finance trades ahead of the buy-in being triggered, giving little time to leverage existing market practices to resolve late settlement movements. CSDR is introducing yet another deadline and complication to the daily combat of having the right security at the right place at the right time. Inevitably, this will come at a price that will make remediating general funding challenges via the means of securities finance less attractive. Have you analysed how your business would need to adapt to avoid the consequences of a significant increase in buy-ins?

Penalty Shootout… Again?

Reviewing CSDR's impact in the light of securities finance resembles those exciting Euro Final evenings that never live up to expectations.

The securities finance product itself is a way to oil the general liquidity and settlements machine and amend interim inventory challenges. This may be to fund a basket of high-quality liquid assets (HQLA), to meet ratios or just the mundane scenario of avoiding a buy-in. Pre-CSDR, securities finance has been a 'go to' strategy

tool for general liquidity issues and settlement fails. The need for this tool to meet regulatory requirements has become very apparent.

Settlement fails on securities finance movements (especially securities lending recalls) can be expected, given the incentives to trade and the same-day settlement cycles. Often movements are 'best effort' and bilateral 'what ifs' are agreed. This puts these movements in a different ballpark from the general 'buy and sell' of securities scenarios, which are clearly the forefront of the CSDR regulation.

Managing securities lending settlement flows involves a complex system of prediction and detailed understanding of the mechanics of the markets. Having this knowledge and process within your Ops team holds value and to a certain extent is the foundation of a successful securities finance desk. However, the introduction of the CSDR settlement regime brings the need to reconsider the cost-versus-benefit ratio and avoid nasty surprises. These surprises could be a direct hit on P&L (e.g. penalties, fines, buy-ins), the general operations burden, or, possibly most importantly, the reputational risk of damaging relationships with clients, counterparties and the supervisory bodies.

Consequently, the sources that provide liquidity to the market through securities finance will have an incentive to take a more cautious and conservative approach, draining potential liquidity and removing 'grease' out of the post-trade flow. The CSDR goal is to increase the safety and efficiency of securities settlement. The regulation can easily have a significant, unintended and unexpected liquidity impact.

In a report on CSDR, the European Commission does acknowledge industry feedback and considers amendments (in particular related to mandatory buy-ins). Considering we are so close to go-live, and given the time required to make legislative changes to the rules, could this be too little too late for the industry to prepare?

Final Whistle: To Fail to Prepare is Preparing to Fail

Johan Cruyff said, playing football is very simple, but playing simple football is the hardest thing there is.

The regulatory trends over the last decade have demonstrated that the industry can adapt to change and resolve unintended consequences unforeseen by the regulator. The question is, are you ready to adapt to the unforeseen consequences of CSDR?

In the case of CSDR, securities finance will move into a 'perfect storm' where SFTR reporting and CSDR settlement discipline will meet and take away the flexibility that participants have been used to for so long. There will be nowhere to hide. Remediating CSDR issues could have a knock-on effect for SFTR, both directly and indirectly. By not being prepared, this could create immeasurable risk and impact commercial relationships.

CSDR demands that participants find solutions for front-to-back flows which will require a well-orchestrated game plan and, accordingly, high levels of automation and STP. With an increasingly complex daily operational cycle, more stringent deadlines and higher costs, there is little room for user error. Before the CSDR settlement discipline goes into force, it is time to further reduce operational risk and review with your ops team how the daily flows are currently operating.

When you have clarified your current operational flows and risks, you can frontload 'standard' remediation solutions with trading counterparts and peers. This, in the long run, will hopefully result in a new set of best market practices. Being prepared will position your securities finance business to be resilient and attractive when the CSDR settlement regime comes into force.

As an area of focus at Broadridge SFCM we have been adapting our front-to-back solution for securities finance to ensure we are ready for CSDR. Our solution has been enhanced to support the full CSDR settlement lifecycle, including fines and penalties management, partial settlement processing and buy-in. To help you navigate through CSDR, Broadridge has created a dashboard to measure how sound your operational flows are, understand pain points and propose remediation.

The Art of Certainty

Regulators tread a fine line in attempting to ensure that markets are free and transparent, while providing sufficient safeguards to reduce controllable risks. David Lewis, senior director, Securities Finance at FIS, explores how financial supervisors are managing this balance in their efforts to establish the conditions for settlement certainty

Death and taxes are two of the certainties of life. Certainties, even the unattractive ones, give people confidence and assurance that an action (or inaction) will achieve a given result, whether that result is dictated by nature or the government. It is rare, if not unheard of, to quote common certainties as "death, taxes and trade settlement", even in financial circles. However, the direction of regulations, market behaviours and client expectations are increasingly toward a risk-free environment with ever improving levels of certainty. Is this a desirable outcome and can the desired levels of certainty really be achieved?

Markets require confidence to function; confidence in prices, liquidity and certainty of transactions in terms of commitment to deliver what was promised. Regulators across the globe tread a fine line attempting to ensure the markets within their purview are free and transparent, while providing sufficient safeguards to reduce controllable risks. Controllable is the key word in terms of risks because there needs to be some level of risk to justify the returns potentially on offer. No amount or type of legislation can eradicate risk and retain some degree of return, and markets cannot exist without a certain amount of both. Markets must rely on a degree of caveat emptor — let the buyer beware — as there will always be investors or traders that cannot be protected from themselves, as many caught up on the losing side of the GameStop furore will attest. So, what are the controllable risks?

Settlement certainty

One such risk is settlement certainty. Settlement cycles are getting shorter and trading frequency is rising, so the need to be reassured that the security you purchased will be delivered to the right place at the right time in the right quantities is also rising. With this increase across ever more complex markets, the threat of a tarnished reputation at the local coffee house is, as some believe, insufficient to ensure good and reliable behaviour.

The safety net of a buy-in action has been a market feature or mechanism for many years, but not one that is applied lightly. There are two reasons for this, the first being that relationships still matter. Undertaking a buy-in has ramifications for future trading, perhaps more so in the world of securities finance compared with the anonymity of a major cash equities exchange. In the world of securities finance, your counterparty is known to you and it is more than likely that other trades will be proposed in the future or are in place already. That issue works both ways of course. Lenders willing to enact a buy-in too quickly will be just as unpopular as borrowers that fail to return a requested security on time.

The second reason is market knowledge. Buy-in actions are less likely to occur in a liquid security easily available on the open market, whether to borrow or buy. They are more likely to be actioned when a security is already difficult to obtain either through an alternative borrow or purchase in an already frothy market. Adding a buy-in will simply add to the pressure on supply, with potentially little impact or advantage to the instigator, and it is in these environments where a little experience and discretion may go a long way.

These issues are more than likely a big part of the pressure many market participants and trade associations are putting onto the European Commission to adapt the rules, most notably regarding the mandatory nature of the buy-in regulations. With discretion applied, market participants will be able to make a call based on the circumstances of the failure to deliver and the prevailing market conditions to determine whether a buy-in is the right path to resolution or, indeed, even possible without actually making the overall situation worse.

CSDR, or the Central Securities Depository Regulation, seeks to increase the level of settlement certainty in the marketplace through the imposition of sanctions for poor performance or behaviour, alongside the threat of mandatory buy-ins for continuing failures. The regulation itself does include criteria upon which a buy-in cannot be actioned, such as the bankruptcy of one party or the issuer of the security in question. However, it is the lack of discretion and self-regulation that is absent from the text and therefore the most troubling.

Industry consultation

With implementation now slated for February 2022, there was little time to meet the obligations mandatory buy-in regimes will force upon the industry. With a mismatch in the timing of industry consultations and responses compared to the looming deadline, many are already having to make changes in anticipation of what they think the final legislation will look like. However, the latest news is that the likelihood of the mandatory buy-in aspects of the legislation are going to be postponed. Pressure from the combined industry associations and, it appears, a significant number of NCAs (National Competent Authorities) has encouraged ESMA to rethink implementation plans. At the time of writing, this is very new news and no

specifics are known yet. However, it is believed that many member states are calling for the removal or, at the very least, a revision of the mandatory buy-in aspects of the new regulatory regime.

What has not been postponed, it is important to note, is the imposition of financial penalties for settlement failure. This part of the legislation is expected to be adopted from 2 February 2022 if the recommendations from member states are accepted. The imposition of financial penalties for poor performance or behaviour is an easy tool for regulators to use when a specific and measurable outcome is desired. Failure to deliver a specific amount of a specific security on a specific date is a binary outcome, notwithstanding the requirement to accept partial deliveries of course.

Given that, and the desire for increased settlement certainty, fines for non-compliance are hard to argue against in principle. The level of those fines could be debated, with few denying that settlement failures create costs. Many are saying that the levels proposed are disproportionate or even punitive. As noted earlier, settlement failures are more likely to occur when specific assets are already in short supply. This does not have to be a hot stock that earns significant fees for the beneficial owner; it includes all manner of illiquid securities where the borrowing and lending of those securities is vital to the smooth functioning, including the certainty of settlement, of the markets in those securities.

If the borrowing fees earned on the lending of an illiquid security do not sufficiently recompense the beneficial owner for the financial risks that they are undertaking in lending that security, they will either simply not lend them or borrowing rates will rise. Both outcomes will have a negative effect on the liquidity of the security in question, resulting in a potential widening of market spreads and increased cost for investors. All these unintended consequences run contrary to the original objectives of the CSDR and, indeed, the broader Capital Markets Union project.

The postponement — to facilitate a further consultation and review, assuming it is long enough for a period of due consideration to be undertaken — is a welcome sign to market participants and technology providers that we can put contractual and technological solutions on hold for the present. There are some disadvantages, of course. Any delay in the implementation of part of a set of new regulations will, inevitably, require two visits to contractual changes, as well as system implementations. But getting it right will always trump doing it more quickly.

On the basis that prevention is always better than cure, the market must now work within the parameters of the new rules from February and do better in preventing settlement failures in the first place. As one of the main market data and system providers in this space, FIS is working hard on integrating these two weapons in our armoury to identify and mitigate failure risks wherever possible.

That effort ranges from working with other market infrastructure providers to increase the accuracy of standard settlement instructions, errors of which cause many of the far leg settlement fails in the market, to improving the integration of data in our front-end systems. The integration of data, including our intraday services, is being used to provide early warnings of short squeezes and other liquidity crunches that can bring destabilising effects to the market. Getting ahead of the game will reduce the causes of failures and bring benefits to the broader financial market and all its stakeholders as a result, while remaining regulatory compliant.

These are the intended outcomes of the latest implementation of CSDR. It is too easy to focus on what are perceived to be the negative aspects of a piece of legislation, and when we do so the benefits can be lost. It should not be forgotten that CSDR commenced its journey to harmonise Central Security Depositories (CSDs) in 2014 and, over that time, has enacted many positive changes that have improved investor and participant certainty. As of 2021, almost all CSDs across the European Union are authorised in accordance with the requirements of CSDR, and this should be viewed as a positive outcome for all industry stakeholders as it improves certainty and uniformity across the economically vital operations of EU capital markets.

INNOVATION SHOULD BE IN YOUR TECHNOLOGY'S DNA

FIS is a strategic growth partner that gives you resilient, secure and scalable technology today – while continually innovating for the future.

Our next-generation platform provides end-to-end support for the front-, middle- and back-office processes of the securities finance and collateral value chain. The cloud-native solution is based on a lean and modern technology stack which provides real-time connectivity with market infrastructure providers via open APIs.

With advanced automation, the latest digital functionality and simplified integrations, you can increase economies of scale while generating new revenue streams and better serving your customers. And with the support of the world's largest fintech provider, you can do more than just keep pace with change – you can be ready for whatever comes next.

FIND OUT MORE TODAY

©2021 FIS. FIS and the FIS logo are trademarks or registered trademarks of FIS or its subsidiaries in the U.S. and/or other countries. Other parties' marks are the property of their respective owners. 1431251

Settlement Efficiency: Failure is not an option

Michael Jahn, director of Eurex Securities Transactions Services (Eurex STS), advises on how to prepare for the Settlement Discipline Regime under CSDR and how to engage with the buy-in agent

Eurex is committed to transparent and efficient markets. Consequently, we are glad to observe the additional focus that market participants are placing on settlement efficiency in their efforts to prepare for the Settlement Discipline Regime (SDR). Some markets are even thinking of reducing their settlement cycles, possibly bringing in new perspectives on the topic that had not previously been considered.

A lot has been said already about the root causes of settlement failures. While the results of such analysis might vary from institution to institution, there is evident consensus about the financial impact and undesirable effects of settlement inefficiency going forward. It is therefore essential to detect the breaks in the operational processes from front to back office.

This holds especially true in light of ESMA's finding that settlement fails increased sharply in past months during the Covid-19 crisis. This motivates us to be more efficient in order to reduce the number of settlement fails in the European Union. ESMA's recent risk dashboard confirms heightened risk of settlement failures for equities above pre-pandemic levels. Consequently, the need to address settlement failures should remain high on market participants' and regulators' task lists.

How to increase settlement efficiency?

One thing should be clear to everyone. Settlement efficiency does not begin in the operations department with handling settlements. Rather, it requires a full review of trade processing from front to back office. We have spoken with many clients who are analysing these issues with high priority. They ask questions such as:

- Where do I have breaks in the straight-through processing chain from trade capture to final settlement?
- Is my trading network as efficient as I am? Who causes the most need for intervention?
- Do the trading desks have access to real-time information on available securities positions and settlement status?
- How efficient is my settlement location network? Do I really need accounts in all markets?
- Do my trading counterparties have access to my latest Standard Settlement Instructions (SSIs)?

Regardless of the answers to these questions, solutions are available. In the past, middle and back offices often suffered from rigorous cost management and consequently applied manual short-term solutions. These error-prone arrangements often turned out to be permanent. The road to settlement efficiency will help to get rid of such long-established inefficiencies.

The positive effects of efficient securities settlement in the long term are becoming more evident as we bring transparency to the costs of inefficiency. Investing in process improvements and automation in middle and back offices will undoubtedly pay off.

The Race for Settlement Efficiency

Over recent months, the conversations we have had with clients confirm that a race for settlement efficiency is on. The winners will not only benefit from low cash penalties and fewer buy-ins, they should also be able to reduce their operations costs dramatically. Qualified staff will be able to work on tasks more valuable than chasing counterparties for matching settlement instructions or reconciling trade confirmations. With lower costs and settlement risks, front-office desks will no longer need to factor in the potential costs of settlement failures. Additional revenue potential will result from efficiency measures, while inefficiency may lead to loss of market share.

The value of the buy-in agent

The race for efficiency will have the positive effects that are intended. However, for certain financial instruments and markets, buy-ins will be required as a last resort. Buy-ins are nothing new in the industry. Yet, in the past very few buy-ins have been executed. Difficulties in selecting a buy-in agent for a specific financial instrument, together with cumbersome operational procedures, were the main obstacles to successful executions.

Moreover, some market participants didn't initiate buy-ins to avoid harming existing trading relationships. An appointed buy-in agent could be any broker which has had a previous business relationship with the client. Such buy-ins have then been executed as regular transactions.

From February 2022, buy-in agents will play a vital role in the settlement process. They will act as neutral intermediaries and ensure that settlement finality is established for all trades within a reasonable timeframe. In addition, steps to reduce settlement fails for retail investor transactions, which have peaked in relation to institutional investors, will strengthen the stability of markets and, as such, are very much in line with policymakers' intentions to strengthen the Capital Markets Union while fostering retail investments.

Eurex has a long history of developing market solutions to address regulatory challenges. As early as 2018, we started consultations with market participants to discuss the solution for mandatory buy-ins to comply with the Settlement Discipline standards. This industry feedback has formed the backbone of our buy-in agent service offering. The service guarantees that the regulatory obligation is fulfilled for market participants and is accompanied by a certificate to be used in regulatory audits.

However, we understand industry concerns regarding the effect multiple buy-ins in the same security might have on existing market structures. Thus, we are

working on concepts for infrastructural support to reduce the number of buy-ins in so-called “fail chains”.

A transparent and standardised process

Registered clients of Eurex Securities Transactions Services (Eurex STS) will be connected to the buy-in agent platform B7. This allows buy-in requests to be submitted at any time in any Central Securities Depository Regulation (CSDR)-relevant financial instrument.

If the measures taken to avoid buy-ins are unsuccessful, the buy-in agent will take over and organise an auction to source the securities. These auctions are held at the same time on each business day, enabling clients to plan accordingly. The buy-in agent notifies the failing counterparty via the B7 platform about the upcoming buy-in and keeps this counterparty informed about the progress and the final result of the buy-in auction. Registered Network Partners may submit their offers and Eurex STS selects the offer with the best price.

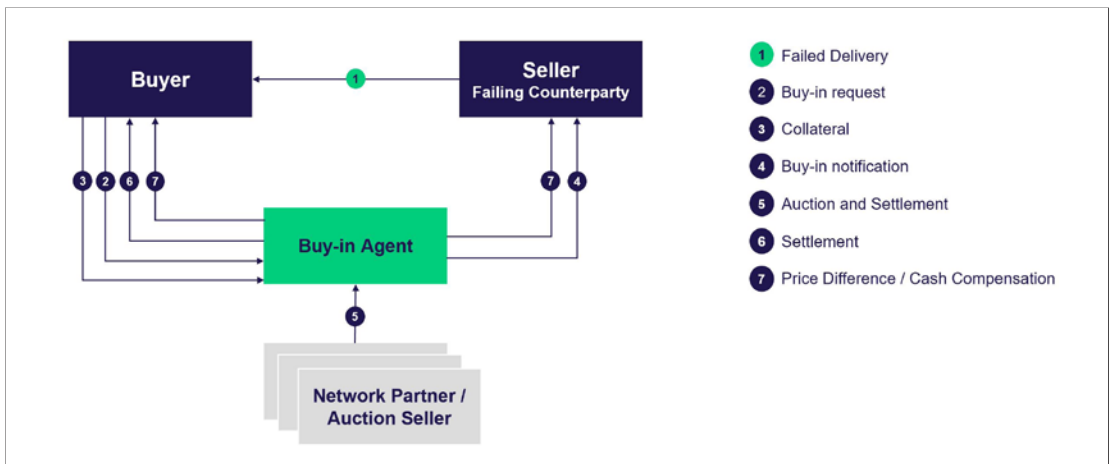
With guaranteed same-day delivery by the network partners to Eurex STS, and onwards to the client, this provides early certainty about the outcome of the buy-in for clients and failing counterparties. This avoids overnight exposures and keeps the cash penalties for the failing counterparty to a minimum.

Our new buy-in agent platform B7 is fully automated and allows flexible settlement between network partners, Eurex STS, and clients. We make use of T2S cross-border settlement and transaction linking to benefit from its available efficiency features as much as possible. Non-T2S eligible instruments can, of course, also be settled via the ICSDs and selected non-T2S domestic CSDs. Clients may also select an innovative option where the purchase amount is offset against the deposited collateral and delivery will consequently be made free-of-payment. This may help to extend the settlement window for same-day delivery and reduce the number of collateral movements.

Efficient auction and settlement are complemented by a highly automated optional price difference and cash compensation process where the client can negotiate the payment details with the failing party on the B7 platform and settle it through Eurex STS. We even have procedures to remove the potentially burdensome process of claiming the costs of the buy-in from the failing party.

Eurex STS has designed automated standardised processes for the benefit of all parties involved. Fair and transparent auction rules, supported by standard settlement instructions and Eurex STS’ neutrality as agent, reduce risks and operational complexity.

Connectivity to the buy-in agent system B7 can be directly screen based or through a technical interface. The technical system integration is another key preparatory measure. Eurex STS has also partnered with several technology providers to ease technical access and provide choice to clients.



Participation Options

Sell-side and buy-side firms across the globe should, if they have not yet done so, analyse their trading and settlement activities to identify their current settlement efficiency. According to the CSDR buy-in rules, some settlement fails could lead to mandatory buy-ins after the extension period. Consequently, to comply with the SDR, there is the need to engage a buy-in agent.

As a simple guideline, regardless of your jurisdiction and your own settlement efficiency, if securities trading takes place in your own name in instruments falling under the scope of CSDR and settlement is in an European Union CSD or ICSD, there is a high probability that you need a buy-in agent.

Registration and technical connectivity to B7 are necessary to participate in Eurex STS' buy-in process. Owing to regulatory onboarding requirements and hard deadlines specified in CSDR, it is crucial to approach your buy-in agent sufficiently early.

Multiple participation models are available to all market participants using Eurex STS as buy-in agent. An easy access model allows the submission of buy-ins for own trades and those of affiliated entities. The extended participation models provide greater flexibility and the option to submit buy-in requests for third parties, for instance custody clients. These extended participation models have been specially designed for custodians and transactions banks, but also with a focus on asset managers and prime brokers. Their clients can benefit from easy and fast indirect access to the buy-in agent. We encourage everyone to consider offering such a buy-in service to their client base as a complementary service offering.

Furthermore, international institutions with complex group structures may benefit from the segregated portfolio approach with separate user rights and collateral pools for each sub-entity, while maintaining just one contractual relationship to Eurex STS.

Ready to support the market

Operational process improvements and automation are key to increasing settlement efficiency in Europe. These preparations, and the onboarding with Eurex STS as buy-in agent, should be prioritised simultaneously for timely readiness. Eurex STS offers extensive support to help firms to find the most suitable participation model and to prepare for the new requirements coming into force in February 2022. Additionally, a permanent simulation environment is available to registered clients to provide first-hand experience of processing buy-ins on the B7 platform.

We recommend firms intensify their own efforts to prepare for SDR. That begins with the described measures and questions raised in this article, and continues with a solid data source for SDR. To identify transactions which are relevant for SDR, Eurex STS, together with Deutsche Börse Market Data and Services, have developed data products to manage SDR risks effectively.

With less than eight months to the start of the Settlement Discipline Regime in February 2022, the new rules have already started to have their intended effect on securities settlement operations in Europe and beyond.

Institutions will inevitably soon have to focus on SDR preparations. Experience has shown that legal onboarding, building up connectivity, functionality testing and process integration may require up to six months before readiness. Begin onboarding with Eurex STS now. The buy-in agent is prepared for February 2022. Will you be ready?

Michael Jahn
Director
Eurex Securities Transactions Services

Simon Davies, director of business development, Pirum

Getting CSDR right: advancing settlement management in securities finance

As firms prepare for the rollout of Phase 3 of CSDR, the Settlement Discipline Regime (SDR) which is due to go live in February 2022, Pirum's director of business development, Simon Davies, looks at the potential impact of the regulation and what securities financing businesses should be doing to prepare

Settlement efficiency provides many benefits, including operational productivity and reduced risk, along with delivering firms with a robust framework to prevent the proposed SDR buy-in and fine costs in the first place. Despite this, currently we see around 5-6 per cent of European stock lending and repo transactions failing for one or more days – with two thirds of fails on the return or off-leg. Additionally, during the busy season or periods of market volatility, fails increase by 18-21 per cent.

We estimate this will cost the industry around €150 million in CSDR settlement fines annually — and much more with the associated potential buy-in costs and the additional resources to manage the accompanying reconciliation and claims processes.

The driver for CSDR is to harmonise the various CSD regimes within the EU, firstly to bring some standardisation and efficiency to a very heterogeneous market but also to reduce counterparty risk in the event of any defaults. While the industry's focus has been on the potential costs of fines and buy-ins, CSDR is also designed to provide the market with improved functionality — such as auto-partialling and better, more frequent, intraday data. Clearly there is an incentive to minimise fines and buy-in costs and firms should also leverage both the harmonisation and increased market capabilities to improve their overall settlement efficiency.

With six months to go, firms are now accelerating their preparations to minimise the impact that the regulation brings. As part of that preparation, firms are using the implementation of CSDR as an opportunity to review and eliminate various inefficiencies and risks seen in their post-trade processes.

Practical implications

At Pirum, this requirement for greater automation manifests itself in a number of different areas. First, we have seen a huge increase in demand for pre-settlement matching and lifecycle event automation, including partialling trades. Additionally, as firms look at their intraday fails coverage they are expecting an increase in their intraday T+0 settlement bookings.

As a result, these firms need to reduce the timing of the settlement cycle and latency between instruction to market and settlement. To facilitate this, there has been a push to increase automation around pre-matching and exposure management. This includes a drive to automate the release of loan instructions to the local custodian on the back of the borrower collateralising trades — what we call Loan Release — along with enhancements to provide real-time exposure calculation and alerts.

In addition, where firms are currently relying on running exposure reports and then manually reviewing these at set times of the day, there is a realisation they will struggle to manage collateral coverage efficiently with the growing focus and resulting pressure on settlement timings. This has led to increased demand for real-time exposure data, along with a need to introduce alerts and exception workflows to keep on top of changing priorities.

Firms are focusing on automation, with the expectation that having more efficient settlement processes will help to prevent fails — initially by preventing the actual loan, or on-leg, fail. Thereafter — where two thirds of fails happen on the return, or off-leg — efficiently managing lifecycle processes to ensure the return/off-leg is in line between the counterparts is also critical and shouldn't be overlooked. Critically, this needs to include an overview of the collateral exposure processes, particularly if firms are going to ramp up intraday T+0 settlement, with very short settlement cycles to achieve same-day borrows close to settlement cut-offs.

Firms are also focusing on what happens when a fail does occur. They are looking to identify issues prior to settlement cut offs, and to increase their ability to resolve issues through exception-based prioritisation and auto-partialling trades to minimise the overall cost of a fail.

Prevention better than cure

As firms gear up to deal with the SDR fails and buy-in regime, there is a realisation that preventing problems is not only prudent and best practice, but will also provide broader operational efficiency benefits and reduce risk. Here we summarise what firms should introduce:

- Standardised settlement pre-matching fields — identifying the core trade details impacting settlement processes

- Continuous real-time trade matching for the life-cycle of the trade
- Hold and loan-release functionality
- Real-time exposure management oversight and alerts
- Real-time exception monitoring and improved work-flow
- Partial settlement management
- Adoption of industry best practices and industry services

We review fails prevention in more detail in our CSDR white paper (www.pirum.com/ whitepaper-securities-finance-and-csdr-dont-fail-to-deal-with-fails).

How Pirum is helping

Pirum has been at the forefront of the drive to increase STP and low fail rates for the securities finance market for over 20 years and recognises the value and importance of best practice.

Along with our pre-matching and life-cycle processing services, we can help automate the collateral lifecycle to link the lender's loan instruction to the borrower's collateral coverage, thereby dramatically reducing the timing from loan instruction to settlement. Additionally, we can provide operations teams with real-time intraday alerts when something changes that needs to be prioritised for either collateralisation or settlement.

For the last year, we have been working with the industry body on their CSDR initiatives and our clients on providing further tools to help both the overall workflow around lifecycle event processing and support clients' CSDR initiatives. This has culminated in the introduction of our Trade Risk Manager service (TRM). The goal has been to help firms manage their P&L, with enhanced management information systems (MIS) and workflow capabilities, and provide them with real-time breaks analysis and a CSDR settlement overview and exception prioritisation. Firms can use TRM's advanced communication capabilities to agree resolution of issues both internally within the organisation and with their counterparts.

Finally, we have automated the break resolution booking process — so when the action is agreed with the counterpart in TRM, the firm responsible can use that agreement to trigger the trade amendment or rebooking, where required, in their internal books and records.

We have also been supporting firms in managing their partial settlement processing — giving firms the ability to track the alpha and beta trade bookings by persisting the original alpha trade reference on to the partialled beta trade positions and, of course, showing any discrepancies between them and their counterpart in real-time.

> ***We estimate this will cost the industry around €150 million in CSDR settlement fines annually - and much more with the associated potential buy-in costs and the additional resources to manage the accompanying reconciliation and claims processes***

Our pre-matching, exposure management, loan release functionality and lifecycle automation helps firms to manage trades pre-settlement and throughout the lifecycle of the trade for both stock loan and repo transactions in real-time. Clients can identify and resolve issues through our enhanced workflow to minimise the impacts of the SDR, and provide improved P&L and risk management. Simple for firms to implement and supported by our client service team — which helps firms integrate the service and manage this on a day-to-day basis, we're able to help firms get CSDR-ready and get it right by 2022.

FUTURETECH INITIATIVE

Trade Risk Manager

Front Office Services

Focus

Highlights and categorises the biggest risks in your portfolio

Automation

Accelerates and automates error resolution between you and your counterparty

Profitability

Enhances PnL through the avoidance of CSDR fines and trading losses

For a Free Live Demo

connect@pirum.com

pirum.com

pirum GetConnected

Camille McKelvey, head of post trade STP business development, MarketAxess

Are you ready for CSDR?

Change tends to come slowly to the financial services industry, unless it is mandated by regulators, says Camille McKelvey, head of post-trade STP business development at MarketAxess. The settlement discipline component of CSDR provides a huge opportunity to drive best practice

It is less than seven months until CSDR implementation. Despite calls by several trade associations for a delay to the February 2022 go-live, the potential impact is huge and preparations should not be ignored.

The Central Securities Depositories Regulation (CSDR) is not just a regulation for CSDs. The potential impact will reach every participant executing securities across fixed income, repo and equity transactions.

Settlement penalties are due to be introduced in February 2022. This will have a global impact for any party failing to settle a transaction in a European CSD, irrespective of where the trading party is domiciled. Unlike some of its predecessors — for example, MiFID II, where the location was the driver for inclusion in scope — this is about where the trade settles. If this happens to be a European depository, then no matter where you are located you will be impacted. So, if you are in Asia trading with an entity in Australia, but trading a security that settles in Europe, you are in scope.

Cash Penalties — for each business day where the trade fails to settle	Buy-ins — 7 business days after intended settlement date for Fixed Income securities
An expense is charged to the party responsible for late instruction matching or failing to settle, and any income is credited to the party that has not caused the trade failure on the intended settlement date	In the event that the selling counterparty continues to fail to deliver the purchased securities, a buy-in will be enforced to ensure settlement of the failing transaction

Get ahead: MarketAxess checklist

There are plenty of actions you can take now to get ahead. We urge you to put steps in place today that will help you become more efficient. In the lead up to implementation, there needs to be a focus on market awareness and post-trade processes.

1. Review your current operations
Use this time to ensure the appropriate post-trade processing is in place. Do you have automated T+0 confirmations? Early capture of exceptions will reduce the impact. Do not rely on T+1 processing or longer,T+0 in near real-time is key. Addressing your solvable problems now will reduce the impact of future penalties.

2. Take stock of current settlement efficiency rates
The market must be clear on requirements here. Any trades that fail will generate a daily penalty until settlement takes place. Use this time to look at settlement rates and close any gaps that you can. You have time to address weaknesses now.

3. Review resourcing and technology capabilities
Once you have reviewed current processes and have a clear view of post-trade inefficiencies, it is important to reflect on what new systems or controls need to be put in place. New processes will be needed, so make sure you are adequately resourced to do this. Building in the right team and internal processes early on is vital.

4. Planning for potential roadblocks
Review post-trade processing per client. Consider if there is anything you can do to help address challenges. Could your clients benefit from automation of manual tasks that could increase trade failure? Speak to your clients now.

5. Work together as an industry
This is arguably the most important part of preparations. Settlement penalties will drive a change in behaviour, but we all have a responsibility. Engage with trade associations. Speak to clients. Share experiences with counterparties. Agree on best practice without delay.

The whole world settles securities trades in European depositories and, with less than seven months to go, there is work to do.

It is important that firms on both the buy-side and sell-side acknowledge the role they have to play. This should not be viewed as a ‘back office’ regulation, since the potential impact of settlement penalties is far-reaching with significant P&L implications.

> ***This should not be viewed as a ‘back office’ regulation, since the potential impact of settlement penalties is far-reaching with significant P&L implications***

CSDR: a huge opportunity to drive best practice

Change tends to come slowly to the financial services industry, unless it is mandated by regulators. Change is often associated with uncertainty and, as an industry, we all have a slight “fear of the unknown”.

Regardless of further delays, now is the time to embrace this change — prepare now and CSDR will be a huge opportunity to drive best practice. It is more than a compliance exercise and has potential to drive organisational change to deliver greater operational efficiency and decrease costs and risks.

Confluence

confluence.com

Turning data into financial intelligence

Delivering innovative solutions for the investment management industry

A global leader in data-driven investment management solutions, we partner with our clients to deliver products and services designed to solve complex data challenges, reduce risk and increase efficiency.

Our Solutions:

Performance & Analytics

Risk

Data Technology & Services

Regulatory

Investor Communications

SEARCH "CONFLUENCE"

www.confluence.com

© 2020. Confluence Technologies, Inc.

Taking a leap

In preparing for the CSDR settlement discipline regime, don't just prepare for the bare minimum, says AccessFintech's Pardeep Cassells. Introduce a comprehensive solution that takes you through the entire lifecycle from efficient transaction data processing to resolution of (hopefully rare) dispute claims

Pardeep Cassells, head of financial products, AccessFintech

I am writing this article after another long-awaited CSDR update from the European Commission has been published in July, which market participants hoped would bring a final clarity to the CSDR settlement discipline regime.

However, at the time of writing the regulation is still much as it ever was, with the February 2022 go-live still firmly intact and the penalties and mandatory buy-in processes still in place. Many in the industry have asked that any further changes to rules avoid negative consequences for European capital markets and investors.

In addition, we must have the time to address any new requirements well in advance of the implementation date, giving market participants sufficient time to make alterations to their systems, processes and contractual arrangements.

That being said, although changes may be announced in Q4, it is vital that we collectively keep the spirit and intent of the regulation in mind, rather than focusing on what changes may or may not be made to it.

Organisations should be actively looking to minimise mismatches and settlement fails and to solve for CSDR now, creating an efficient process and minimising the cost of ownership even ahead of any amendments to the rules. The urgency of this work is undeniable.

How did we get here?

With many valid arguments being put forward to dispel the need for elements of the CSDR regulation, it is important to remember that the average fail rate across all equities and fixed income transactions is still around 5 per cent. For many organisations, this translates to fail volumes that are sufficiently large to accrue millions of euros in penalties every month under the current writing of the regulation.

Even without the regulation, there is a huge ongoing requirement by buy and sell-side firms to create efficiency in trade management departments, which are constantly attempting to offset the cost of effort of managing mismatches and fails.

This is because failed trades can remain outstanding for days and weeks, bringing into play not just the immediate manual effort required to resolve the issue, but further manual effort to investigate, raise and manage dispute claims.

Fundamentally, we can agree that fails and mismatches are detrimental to all, with or without a regulatory burden. We can also agree that the regulation's intention to minimise mismatches and fails is a destination that we want to reach.

How can we improve without the threat of CSDR?

For a period of time, I was a broker and custodian relationship manager, looking after accounts with multiple Tier 1 Banks. Over a four-year period, I saw fail rates across the best performers reduce from 10-15 per cent down to 2-3 per cent on specific client accounts — with less improvement, unfortunately, on other accounts.

This is a great achievement. But the outstanding population still numbers millions of fails across the sector and this confirms that some support and collaboration is needed across the market.

Changes made by operational teams can have a real impact. Unilaterally, this can involve steps to ensure that the right information is communicated at the right time across the trade lifecycle and to understand the true root cause of non-STP processes in order to resolve recurring issues.

Collaboratively, organisations can agree to a best practice data model. Sharing that data with each other and then collectively focusing on TD to TD+2 exception elimination is where real change can be enacted.

This is where organisations genuinely benefit from AccessFintech's Synergy Settlements offering. Using our transaction pairing functionality allows firms to look at the same data in the same infrastructure and, by doing so, identify anomalies that would have caused trades to fail.

Seamless reporting means that any patterns can be identified quickly and resolved. This, ultimately, leads to fewer mismatches and failed trades, thereby achieving the outcome that the CSDR Settlement Discipline is striving for.

How is the community ensuring readiness?

AccessFintech's CSDR Working Group was launched in July 2019. It has operated on the principle that, where direction is not provided by regulators or where there is a lack of clarity, participants need to be proactive in making decisions and pushing for information.

This has led to individual representatives from dozens of organisations simultaneously deep-diving on the written regulation, creating a bottom-up operational workflow and using their seats in market bodies to put pressure on the regulators to provide direction and clarity.

The conversations taking place and the lessons learnt are not just useful for CSDR. These will encourage better collaboration and more effective trade processing overall across the industry. There has been a huge improvement in communication, understanding each participant's pain points, and a new spirit of working together, which we believe will stand the industry in good stead in coming months and years.

What has the Working Group achieved?

By initially documenting multiple CSDR scenarios with the support of Baringa, the Working Group has invested significant time in fully understanding the operational impact of CSDR and, from there, building out the desired end-state workflows.

The group's focus has been on designing reusable best practice standards and frameworks to ensure consistency of approach and minimal manual effort. This, in turn, is reducing the risk of error.

Best practice standards have been defined for data requirements, operational workflow and even content for the buy-in notices. These specifications are available on request and are also being shared with market bodies for further distribution.

With information sharing on an ongoing basis, specific vendor partners have been highlighted for accelerated connectivity because they are seen as potentially critical to a smooth process, whether in their capacity as a buy-in agent (e.g. Eurex) or as a potential source of market and reference data (e.g. SIX). AccessFintech is now well underway with establishing connectivity to such sources.

Several clients are now actively testing their chosen CSDR solutions. Consequently, they are setting themselves up for a successful transition into life post-CSDR, even with a "worst case" implementation.

What next?

The market seems hopeful that the window that has been opened a little by the European Commission in its latest statement will herald some changes to the regulation.

However, given that the regulators have repeatedly stressed that they will not announce their complete findings until Q4 2021 — and given this timeframe opens up more confusion around how any changes could be made prior to go-live on 1 February 2022 — preparation needs to continue.

That preparation really means two distinct things:

1. All organisations should be working to minimise mismatches and fails
2. All organisations should be preparing to efficiently solve for CSDR

The risk of waiting for clarity is that, regardless of the final shape of the regulatory requirements, there will be insufficient time to prepare fully.

Of course, the first risk that comes to mind is that this will leave organisations unable to adhere to the regulation. But a consequence that is more probable, and more difficult to manage, is that any solution will become manual — with the existing operational workforce reinforced to accommodate even more manual workflow.

This compound effect could leave firms with even less time to analyse root causes and resolve the drivers of repeat fails. Therefore, my final message is this. Don't just solve for the bare minimum — take a leap. Introduce a truly comprehensive solution that takes you through the entire lifecycle from efficient transaction data processing to resolution of (hopefully rare) dispute claims and seize this opportunity to truly transform the market.

Synergy

The Industry DataLake CSDR

COLLABORATE WITH YOUR COUNTERPARTS

ACCESS PRE-MATCHING AND FAILS INFORMATION

MANAGE CSDR WORKFLOW

ARE YOU READY?

www.accessfintech.com

CSDR Virtual Roundtable

CSDR aims to harmonise timing and standards of conduct in the European securities settlement industry. With the settlement discipline measures scheduled to go live on 1 February 2022, industry experts weigh up the impact of this regulation and the market's state of readiness

How does the settlement discipline regime component of CSDR offer benefits to the market? And where may the SDR component of CSDR have negative implications?

Matthieu de Heering: The Central Securities Depositories Regulation (CSDR) is one of many EU regulations aimed at benefiting consumers, in this case the European investor and pension-holder. Here the focus is on ensuring that the opportunity cost (of positions unavailable for ensuing trading) and the issues created by late settlement are not borne by the individual investor.

However, compliance with CSDR can bring benefits to the entire market and its participants, given the impact that a failed settlement – for instance due to an unavailable position — has up and down the settlement chain. This includes the cost of penalties, the threat of buy-ins and of related claims, which can amount to billions.

Conversely, decreasing the likelihood of a single settlement failure and the risk of buy-ins, through the application of CSDR and its penalties, can have a positive effect beyond the individual settlement instruction. This will be realised in terms of client experience and available liquidity for the individual investor and the market in which they operate.

In terms of negative implications, we know that the burden created by settlement discipline regimes, such as CSDR, is a primary concern for clients. Buy-in regimes can bring additional operational risk, given that the procedure itself is often manual. This is in addition to the market risk arising from the possible price change of the underlying security, with Murphy's law holding that the price will always shift in the direction that disadvantages the entity obliged to perform the buy-in.

Daniel Carpenter: Of course, reducing overall rates of settlement fails is the 'Holy Grail' for the industry as a whole, so anything that focuses the collective effort around that goal has to be welcomed.

As is so often the case when new regulations are introduced, financial institutions are obliged to review their systems and operational processes. The updates they make can have an additional positive impact on their operational efficiency and effectiveness as a by-product of this review.

We also see a number of other potential benefits to CSDR. First, in the better allocation of resources. Market participants will have a monetised criterion on which to decide the priority of settlement and where to allocate their resources.

With the threat of penalties, the expectation is that counterparties on all sides will apply greater diligence to settling transactions and the reduction in fail rates will have a positive impact on their bottom lines, as well as leading to better market liquidity.

Second, we should also see greater levels of ownership around prudent inventory management, enhancements to pre-matching and greater scrutiny of standing settlement instruction (SSI) population integrity to mitigate fails.

Better counterparty risk management and the application of sophisticated analytics and artificial intelligence (AI) should also identify those counterparties more likely to fail. With greater transparency of the cost structure, including settlement costs, the front-office will have the information they need to implement more informed trade execution strategies to help mitigate penalty costs and buy-in risk. By accelerating settlement harmonisation and standardisation, the settlement discipline regime could also serve to advance the industry's move to T+1.

One of the main concerns, if the mandatory buy-in rules remain in scope, is the potential for increases in the price of securities and the impact on liquidity. For example, where buy-in obligations apply to illiquid stocks, the costs of buy-ins and cash compensations may become prohibitive as demand outstrips supply. From an operational perspective, the workloads will increase for operations teams, incurring more cost unless automated procedures are deployed. The risks of failing to cancel failing

trades and holding double stock will also affect market liquidity. These points could prompt some market makers to decide they no longer want to support certain securities, further reducing the liquidity of those assets.

Bill Meenaghan: In contrast to the reaction towards the buy-in regime, the cash penalty regime has been broadly accepted by the industry with most participants now agreeing that it represents a positive move in enhancing settlement discipline within the European securities markets.

This should promote improved settlement rates as the prospect of a penalty for settlement failure drives market participants to ensure settlement finality. However, not all markets in Europe impose penalties today. In some cases it can be cheaper (or free) to fail a transaction, rather than recall a security early from securities lending. For very efficient participants, SDR may even prove to be an income stream if counterparties fail to deliver. On the negative side, liquidity may dry up in some cases. A lot of brokers do not hold inventory, instead taking on the deal with the expectation that they should be able to source the security. For less-liquid securities, this may not happen as easily. The broker will know that if they fail to source the delivery, they may have to pay the SDR penalties and any commission they would have gained can be quickly lost — although this would be offset by penalties received from their counterparty. This could slow down how quickly orders get filled and confirmed in the markets.

There could be an impact on securities lending as well. Any delay in getting securities back from loan could result in an SDR penalty, which may result in less securities lending. This could disproportionately impact less-liquid securities, as participants may be less willing to trade them.

There are also no agreed de minimis rules on claim amounts, so another negative impact will be the amount of claims that are likely to be issued and received. Very small amounts may be ignored and swallowed by some of the participants, but there could be claims for amounts that are below the current ISITC threshold of $500 equivalent.

The numbers of these claims are likely to be high, so participants could see lots of these coming through next year.

Pardeep Cassells: The important thing to remember is that, despite the complexity of the regulation and the challenges that organisations seem to be facing, the settlement discipline regime is intended to benefit the market.

A clearer focus on pre-matching will naturally lead to improved confirmation of trades and reduce fail rates.The intended penalty and buy-in regimes will help those organisations who consistently find themselves impacted by failed deliveries off-set the cost of managing the failed and mismatched trades.

It is vital that we bear in mind the current cost of managing fails at their current rate across the market. Banks and buy sides have entire operational functions in place purely to manage the inefficiencies of failed trades and mismatched trades. This impact is compounded for smaller firms that are not prioritised for deliveries and that would benefit from a structured and mandatory buy-in process.

Paul Baybutt: CSDR was introduced in 2014 to improve the safety and efficiency of securities settlement and the market infrastructure supporting settlement. Settlement discipline is specifically targeting settlement efficiency with the aim of eliminating settlement fails.

An efficient market, where settlement occurs as intended, has many benefits for participants. Trades failing to settle on time introduce risk and costs for the parties affected. Resources required to deal with exceptions include additional margin and operations staff. Investors failing to receive their securities cannot resell them, which can cause problems when sales are required to raise cash.

The objectives of improving settlement should reduce these costs and make the industry more effi-

cient. Settlement discipline could lead to some unintentional consequences. The European Commission has said it is considering proposing certain amendments to the mandatory buy-ins following its targeted consultation earlier this year.

If mandatory buy-ins go ahead, it has been well documented that there are many challenges to the industry. The regime mandates that a neutral, third-party buy-in agent must be appointed to execute the buy-in. But, to date, only Eurex Securities Transaction Services has said it will offer this service.

Despite the buy-in regime being designed to protect the end-investor, it could create unintended consequences for the investor. Should counterparties include a premium for guaranteed delivery, this would have a distorting effect on pricing and increase the cost of the transaction.

Secondly, buy-ins are not always possible, and an investor buying for long-term returns may find that the remedy for a failed buy-in, in the form of cash compensation, is not preferable.

Lastly, the buy-in process is complex and amendments to settlement discipline may be needed, as the European Commission has acknowledged, to make them more proportionate with the SDR's objectives.

In February 2020, the 'Joint Associations' said CSDR may remove incentives to lend securities in securities lending and repo markets, and it may lead to wider bid-offer spreads in the cash markets. This may encourage market participants to move settlement of less liquid securities into non-EU CSDs that are not subject to CSDR. Do you agree? How real are these concerns?

Carpenter: While the threat of buy-ins may prove to be an incentive to borrow securities, illiquid assets will always be more difficult to borrow and there is not a specific solution to solve this. We believe that forecasting and predictive analysis will play a key role in risk mitigation here.

It is vital that we bear in mind the current cost of managing fails at their current rate across the market

Pardeep Cassells, head of financial products, AccessFintech

When it comes to collateral management, the most commonly used securities are bonds, particularly sovereign-issued bonds, which are traded less actively than some other securities. With the European Central Bank set to accept as collateral a wide array of security types, the impact should be minimal in the event that trading in equities slows down. However, any increase in bond market liquidity could drive up prices for these bonds for buy-side firms.

Any increase in trading and settlement activity outside of CSDR jurisdictions would be like kicking the can down the road. With CSDR set to apply to any security issued within the EU, whether or not it is ultimately settled outside of the EU, it remains to be seen whether the impact of CSDR will outweigh the benefits of moving stock listings to another jurisdiction.

Meenaghan: The International Securities Lending Association (ISLA) warned that the mandatory buy-ins for settlement fails may discourage asset owners from lending, adversely affecting the global liquidity pool. However, many securities are now multi-listed and held in one of several depositories. While CSDR may force some issuers to consider where they list their securities initially, it may encourage others to add a multi-listing to a non-CSDR central security depository (CSD).

Participants could decide that assets should be inventoried in non-CSDR CSDs in these cases, but we do not think we will see a large movement of issuance to non-CSDR CSDs purely to avoid the SDR penalties, given the securities access provided within EU central securities depositories. Multi-listed securities are often cited as causing issues amongst participants, so it is unlikely that participants will be willing to add to this problem given the small chance of a fail on any one security.

When ICMA, one of the signatories to the letter, conducted an impact assessment across its membership, 100% of sell-side firms and 80% of buy-side respondents said that the introduction of mandatory buy-ins would have a negative effect on overall market effi-

The market has had many years to get ready for the SDR regime, but still feels unready for the introduction in February 2022

Bill Meenaghan, director, product management, IHS Markit

ciency and liquidity. ICMA members predicted that traditional lenders in securities lending markets are likely to "hold more buffers, or even withdraw inventory", which would limit loan availability to cover short positions. Do you agree?

Daniel Carpenter: Market making in illiquid assets will undoubtedly be less appealing as the cost of buy-ins, and possibly cash compensations, will reduce the expected returns. When it comes to liquid assets, where several parties buy-in the same securities, the increase in demand will reduce liquidity in those securities and have an impact on their pricing. Furthermore, if a firm is in a back-to-back and buy-ins are mandatory, both the firm and the counterparty they sell to might execute a buy-in. If that happens, then the firm will have bought securities that they cannot deliver anymore as their underlying sale will be put on hold and eventually cancelled. In that case, they will increase their inventory and incur the associated costs.

Meenaghan: The International Capital Markets Association (ICMA) called for the mandatory buy-in aspect of SDR to be scrapped, stating that the mandatory buy-in regime would have adverse impacts on European bond market efficiency and liquidity, leading to increased costs for market participants and, specifically, the end investors.

Mandatory buy-ins may be a step too far and too soon for the industry. As the Association for Financial Markets in Europe (AFME) suggested, the buy-in should be a discretionary right of the receiving party, not a mandatory obligation, describing it as a "disproportionate measure to address settlement fails". For some illiquid securities, it is not possible to source them in advance of the buy-in. If the asset manager wanted exposure to that security and was willing to wait, the current rules would prevent that since the asset manager is mandated to buy-in after 10 days if the security is illiquid.

Participants would need to keep strict reporting in place to monitor how much can be lent in these cases — and they may limit the percentage that they lend, or even withdraw from the security lending markets, if penalties are levied on their assets.

> One of the main concerns, if the mandatory buy-in rules remain in scope, is the potential for increases in the price of securities and the impact on liquidity

Daniel Carpenter, head of regulation, Meritsoft (a Cognizant company)

While the penalties may be covered by the lenders in some cases, we would expect to see a reduction in available inventory as a direct result of mandatory buy-ins.

ESMA's recommendation to postpone the CSDR component to February 2022 was originally linked particularly to concerns over the readiness of the market infrastructure to accommodate SDR changes – for example, in the need for testing of the new penalty mechanism within the T2S environment. In the meantime, we have had COVID-19. Is the market infrastructure now ready for the settlement discipline and buy-in regime under CSDR?

Cassells: Given the recent announcement from the European Commission conceding that there is still a lack of clarity around, and support for, certain elements of the regulation, it would be impossible to say that the market infrastructure is now fully ready for CSDR.

With multiple questions still outstanding in relation to eligibility, and with only one buy-in agent confirmed in the face of a regulation that insists that conflict be avoided in the appointment of agents, there is much to be done. The majority of CSDs are still to confirm how they will interact, publish and consume information through the lifecycle.

AccessFintech's Implementation Working Group has taken huge strides to push the market forward, specifically by defining market best practice data standards and messaging formats for CSDR, and this pragmatic collaboration is key given the February 2022 deadline is still in place.

Meenaghan: The market has had many years to get ready for the SDR regime, but still feels unready for the introduction in February 2022. However, applying the penalty regime is more straightforward, with fewer grey areas, and participants have been able to make progress on their agenda to support the regime.

With the new cash penalty regime due to come into force on 1 February 2022, participants should now

> The introduction of partial settlement is welcome to reduce settlement exposure and increase settlement efficiency

Paul Baybutt, director, senior product manager, global middle office product, securities services, markets & securities services, HSBC

be close to completing their preparation. With analysis and development now largely done, implementation should be underway.

However, there is a strong feeling in the industry that buy-ins should be delayed, or the need for them to be mandatory should be removed. Only one entity has stated they will act as a buy-in agent and they will require collateral to facilitate it. That will be a complicated and expensive way to manage it if no other buy-in agent steps forward.

Baybutt: The market infrastructure is not yet ready and SDR is currently under review.

While there is the European Central Securities Depositories Association (ECSDA) CSDR Penalties Framework that the industry is able to work to, the buy-in regime is a different matter and the market awaits the outcome of possible amendments before its implementation.

Carpenter: Based on our engagement with the industry over the last two years, we know that projects have been proceeding in the majority of houses. With a degree of uncertainty remaining over whether buy-ins will be mandatory or voluntary, or their inclusion in the rules delayed, the focus has naturally been on preparing for penalty processing and many have this well in hand.

Those CSDs using TARGET2-Securities (T2S) to record their positions and settle their participants' transactions have collectively agreed with the European Central Bank that the platform will form part of the solution.

T2S will support the CSDs in their CSDR obligations by calculating the penalties for all in-scope securities and reporting them to the CSDs who will, in turn, process them and distribute them to their own participants.

The CSDs stay in control of their participant relationships and are accountable for their obligations. The Directly Connected Parties (DCPs) will receive their own reports from T2S.

However, there are still questions about what happens to those assets CSDs hold outside of the T2S platform which are in scope for CSDR, and how these will be reconciled under the new regime. In addition, with T2S calculating penalties on each of its settlement days, irrespective of local variations in individual CSD operating days, how will they address the penalties that are calculated on those additional dates — and their removal after the fact?

More specifically, our clients have been putting systems and processes in place to meet both the penalties and buy-in requirements, and to accommodate their impact on securities lending processes, with the flexibility to adapt whatever shape those rules ultimately take.

The potential impact of the mandatory buy-in regime is complicated by the fact that the settlement process often involves a complex network of interlinked transactions – where a settlement failure can lead to failure across a whole chain of settlement instructions.

What problems does this present to market participants in modelling this process, particularly in securities lending transactions? What about tracking the movement of penalties along the chain of transactions and identifying how these will be allocated to the relevant parties?

Baybutt: In our role as an outsourcing provider to the buy-side, we are generally at the end of the chain. Therefore, the impact of any settlement failure along the chain will ultimately lead to our clients failing to receive securities. The counterparties our clients trade with may source securities from multiple places, pooling the sources to fulfil a delivery. If one of the sources fails to settle, the whole delivery to our client will fail. The introduction of partial settlement is welcome to reduce settlement exposure and increase settlement efficiency. This, in turn, should reduce the volume of penalties across the chain.

Carpenter: Oversight and transparency of settlement and buy-in statuses is the foremost issue. As with all aspects of our industry, there is a plethora of in-house, market and vendor solutions that will need to inter-communicate to provide holistic oversight of these in-scope items. Transparency and integration are key components of our technology solution. The ability to normalise vast amounts of transaction and other relevant data and provide a single, centralised view is vital.

Enabling collaboration and communication between counterparties through the number of different mediums currently in play is also essential to ensure a common understanding of status between counterparties. To help the industry by leveraging our platform and application programming interfaces (APIs), we have created real-time messaging integration enabling users to stay in the solution but coordinate with outside agencies to address these points.

Meenaghan: Securities often move in a connected chain of transactions. Client A buys from Client B who bought from Client C. If Client C fails to deliver, then Client B cannot deliver to Client A. Client A would be due penalties from Client B, who would in turn be due penalties from Client C. For Client B, this should be a wash as the depository sets the reference price on a daily basis for the penalty, so as long as these are all in the same CSD, then Client B would have an equal debit and credit and the right entity, Client C in this case, would be the penalty payer.

There could be an issue, though, if there was a different CSD involved in the chain as they may set a different reference price from the original CSD. It would be necessary to monitor this to ensure that you are not paying a penalty on a failed trade that was not your fault. If the delay was because Client C had the security on loan, that also brings more entities into the mix as the securities lending agent would have lent that to a fourth client. Consequently, analysis will be needed to identify who ultimately caused the delay.

Cassells: As a data-focused provider supporting the entire transaction lifecycle by aggregating trade data from across the market into a single infrastructure, we can see first-hand how operationally challenging the identification and tracking of chains will be.

We have introduced functionality to support this linkage and connectivity to create a foundation for the identification of chains. However, this is definitely an area where we will all learn more as time goes on.

Matthieu de Heering: Complying with CSDR is a key focus area for clients. We also expect copy-cat settlement discipline regimes to come up in other markets. Mandatory buy-ins already pre-date CSDR in some European countries. We believe the solution comes through end-to-end tracking of transactions as they progress through their lifecycle. SWIFT's solution is based on a Unique Transaction Identifier (UTI – ISO 23897:2020).

This forms part of SWIFT's move to transaction management, which is core to our platform strategy. The platform will maintain a copy of the transaction data that post trade service providers can tap into to enrich services. In working with early adopters, we established that the UTI is the right unique ID to apply — across messages and in the future APIs — to transactions on the SWIFT network.

Moreover, with our enhanced platform and end-to-end transaction monitoring data, all parties to a transaction will be able to gain early visibility on the content of settlement instructions and the latest processing status. This will also enable market participants to benefit from the enrichment or validation of standard settlement instructions, which can be a source of operational failures.

SWIFT has also worked with industry groups, including the Securities Market Practice Group (SMPG) and AFME, to bring ISO 15022 and ISO 20022 messages in line with CSDR requirements. Updated messages have been live on the SWIFT network since November 2020. We will also make available new ISO 20022 messages relating to T2S penalties reporting under CSDR.

UK policymakers have taken a decision not to implement the settlement discipline regime inherent in the EU CSDR regulation. What will be the primary implications for the UK market and for market participants with trading and settlement activities across these locations?

Meenaghan: Dual-listed securities that can be held in the UK and a CSDR CSD may be inventoried in CREST rather than another CSD, and trading activity may start to shift to CREST. The UK market is the biggest in Europe and currently has an existing fines process for late settlement.

While the fines are relatively small, they do exist. Without SDR, the rest of Europe could become more efficient than the UK market. However, the UK government has announced that it will consider a penalty mechanism in due course if there isn't an improvement in the UK settlement efficiency rate and this starts to become a problem.

Baybutt: While parties trading and settling securities in the UK will not have to implement the settlement discipline, many of those parties, however, also trade securities settling in CSDR-eligible CSDs.

That means they will still have to implement settlement discipline for securities they trade and settle in Europe.

What is not clear at the moment is whether this decision will make it attractive to issuers to issue securities into the UK CSD rather than a European one. Clearly there would be benefits, but settlement is not the only driver that an issuer considers before choosing its CSD. Until the outcome of the European Commission's impact analysis is concluded, and possible amendments proposed to settlement discipline, the implications will not be clear.

Carpenter: Like so many regulations that apply across capital markets, CSDR and SDR rules have extra-territorial impacts.

While existing practices will stay as they are for the UK domestic market, any firm that trades in securities listed in the EU, the European Economic Area (EEA) and Switzerland will have to comply fully with these new rules.

> Compliance with CSDR can bring benefits to the entire market , given the impact that a failed settlement has up and down the settlement chain

Matthieu de Heering, director, capital markets strategy, SWIFT

Fundamentally, the more divergent country rules are, the more complex operations processing becomes and the greater the need for flexible and comprehensive rules-based automation solutions to manage these complexities effectively and to help ensure regulatory compliance.

Karin De Ridder: The securities monitoring service within SWIFT's enhanced platform will be available to SWIFT's global securities community, irrespective of national market implementation of settlement discipline regimes. With markets so interconnected, the extraterritorial impact of CSDR on non-EU financial institutions is such that we have strong buy-in globally. Furthermore, with standards widely used in securities settlement, reconciliation, custody and corporate actions operations, and the post-trade domain, it is fundamental to ensure straight through processing (STP) is supported. The annual standards release cycle for ISO 15022 and ISO 20022 messages on the SWIFT network has contributed year after year to rising STP rates.

Increased regulation, including CSDR and, more specifically, the new settlement discipline regime, has also triggered changes to widely used securities messages supporting compliance.

CSDR requires that CSDs must implement a penalty mechanism for late or settlement failures, with penalties calculated and reported on a daily basis. To support this, SWIFT Standards added a new penalties reporting block to the MT 537 Statement of Pending Transactions, and the MT 548, Settlement Status and Processing Advice, and their ISO 20022 equivalents.

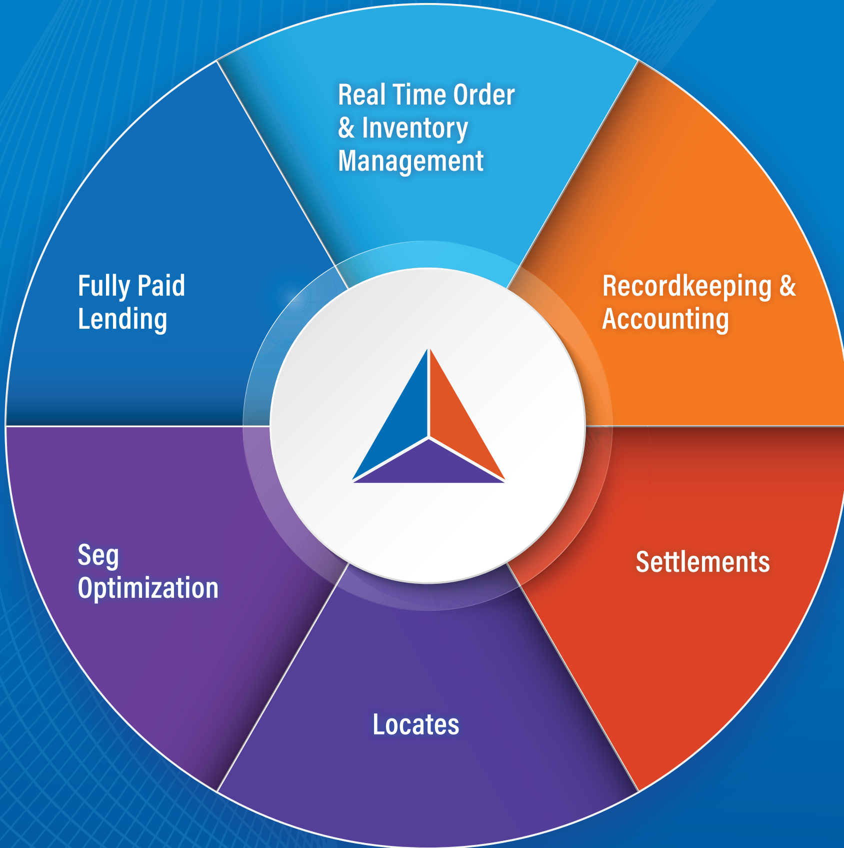
CSDR also imposes a buy-in mechanism in cases where the delivery of securities fails. Since the new order for the buy-in must carry a reference to the original trade, SWIFT Standards has harmonised the buy-in indicators in the ISO 15022 Trade Initiation and Confirmation messages. In addition we adapted MT 530 – Transaction Processing Command – so that required buy-in and cash compensation information for failing trades can also be communicated to and from the CSDs.

With markets so interconnected, the extraterritorial impact of CSDR on non-EU financial institutions is such that we have strong buy-in globally

Karin De Ridder, head of standards development team, SWIFT

EQUILEND SPIRE
POWERED BY **STONEWAIN**

Flexible. Modular. Customizable.
A Bespoke Technology Solution for All Your Securities Finance Business Needs



FOR BROKER DEALERS, AGENT LENDERS, COLLATERAL MANAGERS, BENEFICIAL OWNERS & RETAIL BROKERS

sales@equilend.com

EquiLend LLC, EquiLend Europe Limited, EquiLend Canada Corp. and EquiLend Clearing Services are subsidiaries of EquiLend Holdings LLC (collectively, "EquiLend"). EquiLend LLC and EquiLend Clearing Services are members of FINRA and SIPC. EquiLend Clearing Services is registered with the SEC and FINRA as Automated Equity Finance Markets, Inc. EquiLend Europe Limited is authorized and regulated by the Financial Conduct Authority. EquiLend Canada Corp. is authorized and regulated by IIROC. All services offered by EquiLend are offered through EquiLend LLC, EquiLend Europe Limited, EquiLend Canada Corp. and EquiLend Clearing Services. EquiLend and the EquiLend mark are protected in the United States and in countries throughout the world. © 2001-2021 EquiLend Holdings LLC. All Rights Reserved.

Settlement discipline regime: the final step in the CSDR journey

As settlement penalties will directly impact the front-office, the decision to invest in settlement infrastructure must be supported by the business. Otherwise SDR will quickly eat into profits, argues MarginTonic director Craig Pearson

In 2014, the European Union published the Central Securities Depositories Regulation (CSDR) with the objective of increasing the safety and efficiency of securities settlement infrastructure.

As an initiative, CSDR has already delivered key securities settlement infrastructure improvements to the European market and, in their recent interim report on the review of CSDR, the European Commission concludes that "in broad terms CSDR is achieving its original objectives".

The final CSDR ruleset is the Settlement Discipline Regime, currently scheduled for implementation in February 2022, which introduces key measures designed to harmonise the treatment of securities settlement fails.

Settlement discipline regime (SDR)

Settlement infrastructure has historically been a neglected area across the industry.

Often considered an operations problem, with limited or no front-office impact, settlement functions have routinely suffered from under investment.

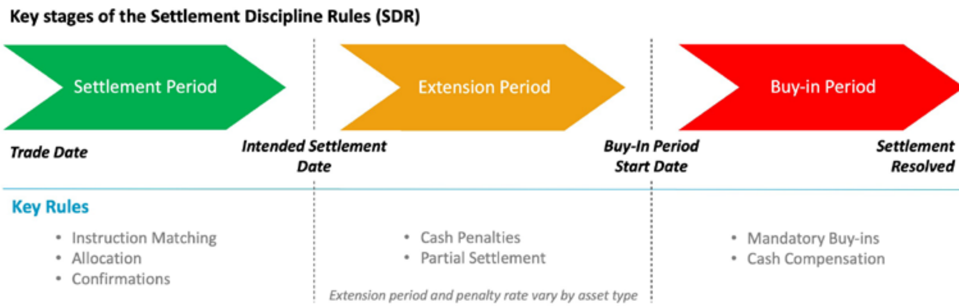
As a result, manual processes across legacy, siloed infrastructure have resulted in high risk, error-prone settlement for many firms.

Practices such as assumed settlement and reactive fails tracking are common, resulting in failing settlement instructions being treated as the norm.

Regulators have sought to address this settlement failure risk via the settlement discipline rules, which are designed to improve efficiencies in the securities settlement process chain. The SDR provisions will focus on the prevention and punishment of settlement fails.

Although a European regulation, SDR will impact all trading entities, regardless of domicile, that settle transactions in MiFID II or MiFIR (the second Markets in Financial Instruments Directive and its accompanying regulation) financial instruments at an EU CSD, either directly (as a member) or indirectly (via an agent).

Figure 1



What are the SDR rules?

The measures imposed under SDR will follow the same sequence of activities as the settlement process. (See figure 1).

The preventative measures apply to all trades upon execution, designed to prevent settlement fails from occurring.

These include allocations and confirmations within defined time periods. Objectively, if both parties pre-agree on key terms and mandatory matching fields, this will diminish the likelihood of settlements failing due to a discrepancy in instructions.

Punitive measures will apply to failing transactions immediately after the intended settlement date.

Cash penalties will be calculated and charged, driven by the notional size of the trade, for every business day that the transaction remains unsettled.

Further, if the transaction remains unsettled after a prescribed extension period, defined by the underlying asset type, then under the current rules a mandatory buy-in process will commence.

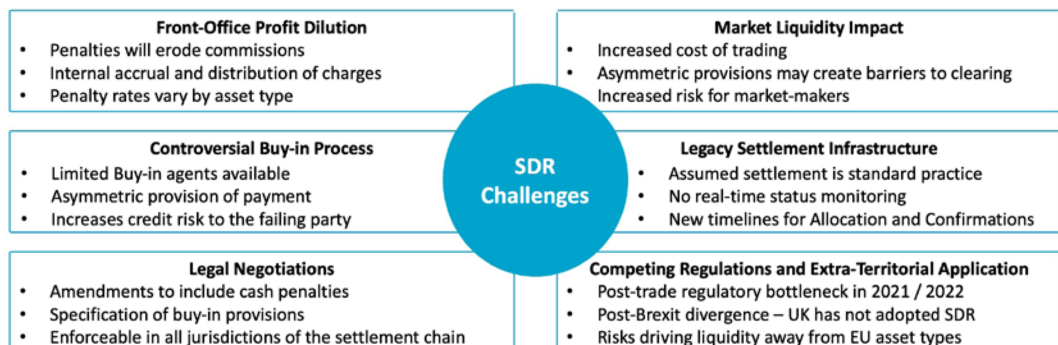
SDR Challenges

The regulations introduce key challenges for firms across the front-to-back settlement lifecycle, such as those shown in figure 2.

1. Front Office Profit Dilution

Cash penalties on failing transactions will quickly erode profit margins on trades. For example, a cash vanilla

Figure 2



equity will incur a 1 basis point (bp) per day fail penalty. Therefore, it would only need to fail for 2-3 days before a typical front office commission of 2.5bps would be eliminated.

Enough to grab the front office's attention? Absolutely.

2. Controversial Buy-In Process

In the event of a settlement fail, the buy-in mechanism provides the buyer of securities the contractual right to source the securities through a buy-in agent, while ensuring the economics of the original transaction are preserved.

The most controversial component of SDR, the concern with buy-ins, is not limited to the challenge of implementation but also the impact the provision will have on bond market efficiency, liquidity and stability.

Enforcing buy-ins on margin trades, for example, creates more risk to the failing party when there are already measures in place to mitigate the credit risk on the underlying trades.

Industry bodies continue to lobby for the removal of buy-in rules driven by the concerns above, but while the European Commission recognised this consistent feedback the provisions remain in scope currently.

3. Legacy Settlement Infrastructure

Many firms still operate on assumed settlement with no real-time fails reporting. To retrospectively reconcile and resolve any breaks after the settlement date will be too late under SDR — penalties will already be due.

4. Market Liquidity Impact

There is concern within the industry regarding the unintended consequences SDR will have on market liquidity. The risk of penalty costs must be factored into pricing models and appetite to offer markets in volatile assets may contract. Asymmetric buy-in provisions risk creating barriers to clearing and the overall costs of penalties will influence pricing.

5. Legal Negotiations

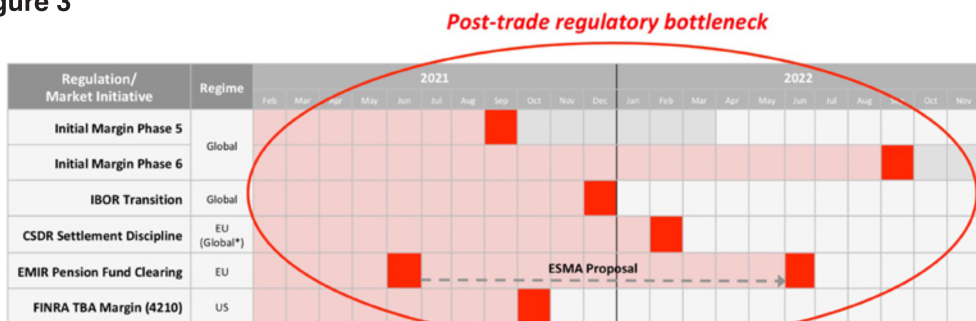
CSDR is not typically considered a legal exercise in the same way LIBOR and the uncleared margin rules (UMR) might be. But firms will need to review the legal terms that they trade under. This is to ensure that those terms include and comply with the 'fail' penalties that may be due and, perhaps most importantly, are enforceable in all jurisdictions in the settlement chain.

6. Competing Regulations and Extra-Territorial Application

We find ourselves in an unprecedented regulatory bottleneck across collateral and post-trade domains. A finite number of change resources, and competing obligations, risks firms having to prioritise deliveries.

With the UK not adopting SDR — in an early example of post-Brexit divergence — and there being no equivalent regulation in other jurisdictions, firms may elect to use

Figure 3



other non-EU assets where eligible (e.g. for collateral).

Figure 3 provides a reminder of some of the key regulations that are creating a post-trade industry bottleneck across 2021 and 2022.

SDR approach

A successful approach to SDR will require the delivery to be structured across three key transformation streams (see figure 4):

1. Preventative Measures — Improvements to settlement IT infrastructure, data, reporting and business processes, designed to minimise the occurrence of settlement fails.

2. Remediation Measures — The implementation of mechanisms to manage and resolve penalties against failing transactions, including the new cash and buy-in penalties.

3. Consequential Change — Change impacting areas of the firm outside of settlement operations, including front office, treasury and legal services, as a result of the SDR penalties.

Change principles

As the saying goes, prevention is better than cure.

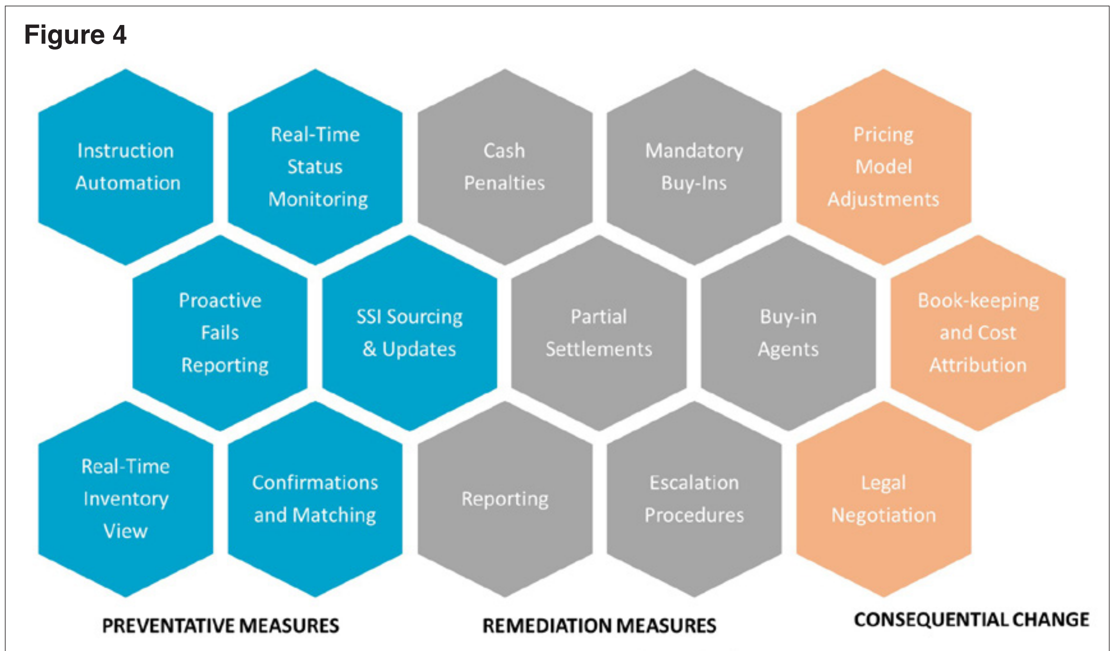
With that in mind, firms should be looking to maximise their end-to-end settlement process automation and controls to minimise the risk of settlement fails and associated SDR penalties.

Automation will also be crucial to reduce associated operational burden, as firms continue to face budget and resource constraints, magnified by an ongoing capacity burden driven by other regulations and a tough economic climate.

Data is king for SDR, as is the case for many regulations. Firms that deliver the SDR changes successfully will be those that give themselves a near real-time view of settlement status, enabling them to proactively hunt down potential fails before they occur.

With the same data focus in mind, strong reporting, metrics, SSI data and cost allocations are also a key part of the story here.

Figure 4



As the penalties will directly impact the front office, the decision to invest in settlement infrastructure must be supported by the business. Otherwise SDR will quickly eat into profits,

As ever, when making quick solution decisions, firms should consider the vendor options out there. There are certainly cost-effective services that can accelerate any SDR delivery.

Importantly, any enhancements delivered to the settlement process to meet the European SDR requirements will benefit all assets that leverage the same infrastructure. A proactive approach to settlement will become best practice, as firms apply the same principles across the whole settlement function.

Regulatory relief

Many firms were hoping that the recent consultation by the European Commission might provide more definitive guidance on any revisions to the final scope of SDR. The interim report acknowledges the number of responses regarding mandatory buy-ins and concludes:

"In light of stakeholders' feedback, it is appropriate for the Commission to consider proposing certain amendments, subject to an impact assessment, to the settlement discipline framework, in particular the mandatory buy-in rules, to make it more proportionate and avoid potential undesired consequences"

While this is encouraging to those who have lobbied for revisions to the buy-in rules, there is no guarantee that any change will be forthcoming. Given that the impact assessment is likely to run for the remainder of the year, there will be little time between any publication of results and the February go-live date.

With little or no change expected to the remaining SDR rules, we are recommending our clients continue with enhancements where possible.

Meanwhile, firms should continue to assess and understand the buy-in process, and how to engage with approved agents, so that they are in a position to proceed should the European Commission decline to revise the regulations.

Next steps

A first priority for firms is to ensure that they fully understand their current settlement infrastructure.

Only then will firms be able to resolve any settlement weaknesses to deliver adequate preventative measures.

At Margin Tonic, we offer firms a health check which delivers accelerated front-to-back current state analysis and provides clients with a consolidated view of their settlement infrastructure.

Within the Tonic Health Check, we cover areas such as IT systems, data, operational processes, governance and location.

We also include a deep-dive settlement fails analysis, including powerful components such as:

- Historical penalty simulation for cash penalties and mandatory buy-ins
- Full scope of securities and products settled at CSDs
- Fail volumes, rates and causes per product/market
- Identification of 'red flag' manual processes

Craig Pearson
Director
MarginTonic

POST-TRADE CLARITY

Margin Tonic is an expertise-led consultancy & service provider, specialising in post-trade domains.

We give our clients clarity and target state acceleration, via end-to-end services for collateral, custody, clearing, settlement, treasury, legal and more.

Our CSDR services

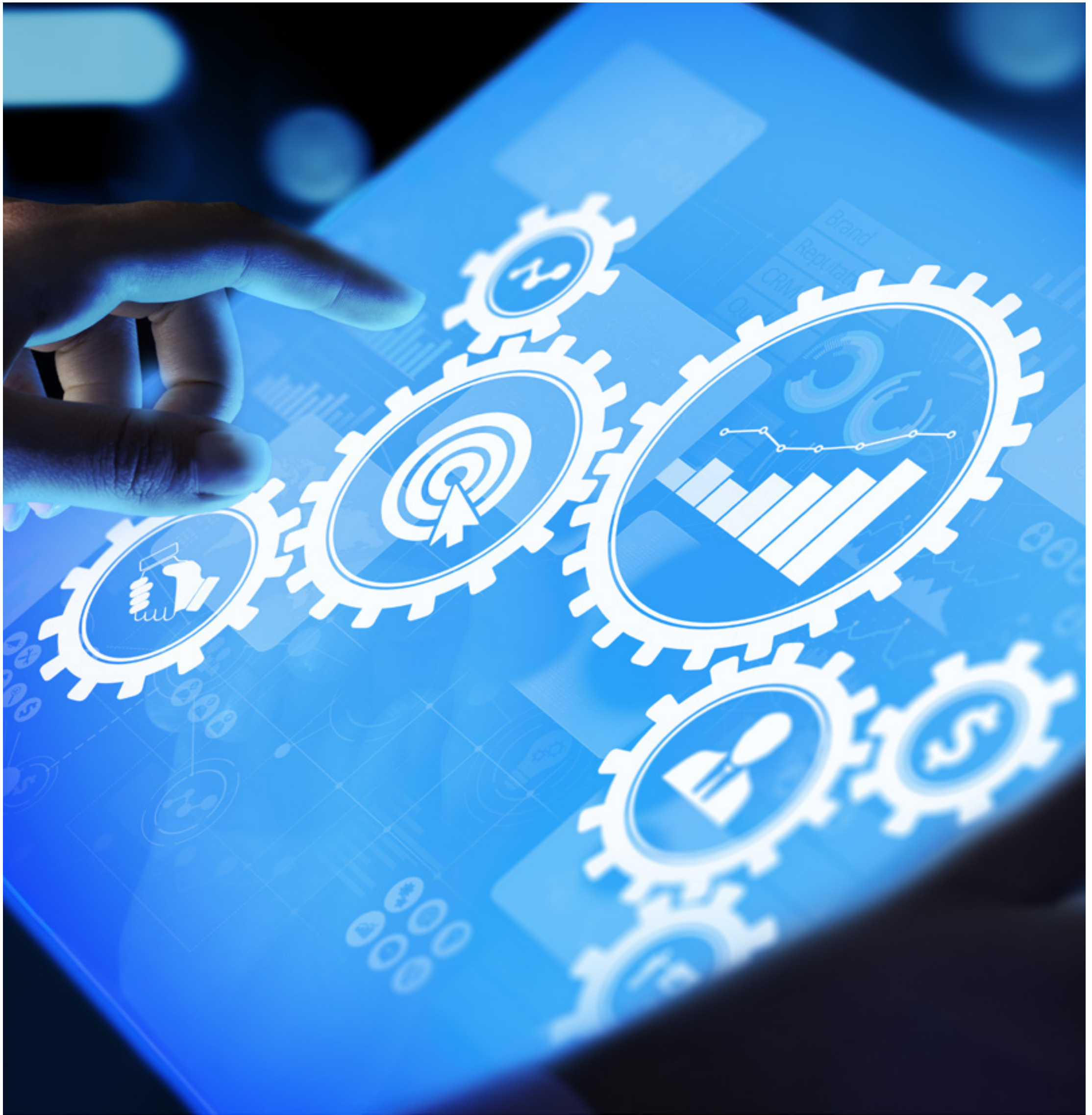
Margin Tonic can protect profits and accelerate SDR readiness for our clients, via our expertise-led modular services.

Tonic Health Check	Detailed scope impact assessment, penalty simulation analysis
Tonic Strategy	Settlement & compliance vision, strategy, objectives
Tonic Solutions	Cost-efficient solutions, target operating models & plans
Tonic Delivery	IT and operational readiness

Contact us for more information on info@margintonic.com

Our service families

SEE IT ALL CLEARLY AT
margintonic.com



CSDR: Streamlining Critical Settlement Workflows to Support Compliance

In the context of the forthcoming CSDR settlement discipline regime deadlines in Europe, currently scheduled to take effect in February 2022, the mission of optimising workflows takes on a new sense of urgency. Krishna Nadella, Symphony's global head of solutions, tells us how

At Symphony, we often talk about the concept of "workflow nirvana." Workflow nirvana is a state where the menial tasks associated with a particular process — for example, equities trading — are fully automated. Optimising these workflows frees up users' mindshare and energy to focus on high-value activities like ideation, research, and client interactions.

In the context of the forthcoming CSDR settlement discipline regime deadlines in Europe, currently scheduled to take effect in February of 2022, the mission of optimising workflows takes on a new sense of urgency. To comply with regulations pertaining to trade settlement, financial firms need to ensure efficiency and accuracy, particularly when it comes to resolving discrepancies and exceptions.

Optimising workflows

Symphony is currently embarking on a new chapter, with a focus on optimising workflows across the financial services industry. Building upon our foundation of secure, compliant messaging and communications, we are developing market infrastructure and solutions that help firms move closer to workflow nirvana — and in the operations space, streamline settlement workflows and better meet CSDR requirements.

Symphony started as a secure collaboration platform built for financial services. Today the platform is the common connector — a standard connective communication layer that brings modular workflow elements together to operate more effectively.

From our beginning as a secure and compliant messaging platform for financial services, we ultimately built a scalable, full-stack collaboration platform focused on chat, file sharing, voice and video calls, with open APIs to allow for customisation and continued innovation. As we write our next chapter, we are expanding Symphony's functionality to streamline and unify fragmented workflows for faster, more seamless transactions. More specifically, this includes digitising analog workflow steps, automating manual processes and integrating Symphony directly into user systems and platforms, among other functionalities.

The post-transaction operations workflows affected by the CSDR settlement regime are critically important, and yet have historically been underserved by technology solutions and innovation. It is this space in which we believe Symphony can be a valuable tool to improve workflow connectivity and efficiency.

Today's securities settlement professionals face many recurring challenges, but none are more pressing than their need for accuracy while performing highly detailed work and increased workflow and process efficiency.

Currently, settlement teams spend a considerable amount of time verifying the daily unmatched positions in their systems and communicating with counterparties. These tasks involve transmitting data via email, over the phone, and through financial institutions' various proprietary or third-party platforms.

Settlement representatives spend hours every day cutting, pasting, and manually formatting transaction data—a process which demands frequent context switching, is time consuming and susceptible to human error. When errors occur, they may lead to excess risk, or even market or regulatory penalties. Moreover, effective resolution in settlement workflows depends on communicating with counterparties across organisational lines. In the current workflow, settlement professionals often spend significant amounts of time identifying and reaching the correct counterparties.

Collaborative communication

Symphony alleviates these challenges by enabling operations teams to standardise data formats, automate manual processes, and securely transfer data via API, eliminating the need for repetitive copying and pasting of transaction information across systems. As exceptions arise, Symphony's collaborative communication platform connects workflow participants directly in chat rooms automatically populated with exception data, enabling real-time collaboration and resolution. Features such as alerting and notifications further progress workflows, as resolution steps are created or resolved. These tools increase accuracy, expedite

workflows, improve transparency and ultimately allow for more efficient resolution. Moreover, since Symphony can be integrated directly into proprietary and third-party platforms, users can avoid context-switching between multiple interfaces and applications during the settlement process.

There is a strong need in financial services for a centralised, verified and trusted source of industry identity — and Symphony is that source. We refer to unique, qualifying metadata such as role, market coverage and location as "IDentity."

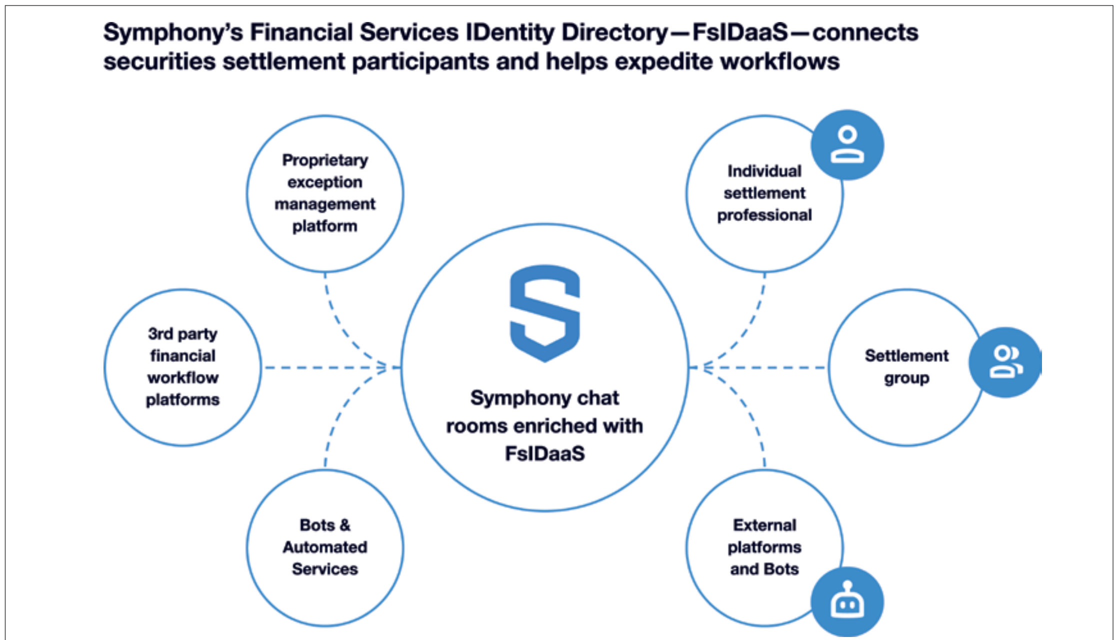
Symphony has over half a million users and serves more than 1,000 institutions, representing the largest verified database in financial services. Our directory contacts are validated by their employer firms with identity information dynamically updated in real-time as individual roles and functions change, ensuring information is always up-to-date. This functionality is built atop our secure and end-to-end encrypted platform. Moreover, connecting with another member in the directory is as simple as typing their name and initiating a chat request. There is no need to consult a database, or search outdated distribution lists to find email addresses or phone numbers.

For CSDR specifically, we are very focused on making the process of identifying the correct counterparty faster, simpler and more accurate, and thus streamlining one of the most time-consuming parts of the settlement resolution workflow. We're enriching our directory with additional identification fields specific to securities settlement, making those individuals or groups more discoverable.

Once identified, counterparties can connect seamlessly in a collaborative, secure environment for real-time resolution. This eliminates the need for back and forth email communication, creates workflow transparency and assists the ability to complete exception resolution in real-time, helping firms meet the deadlines established by CSDR regulation.

Counterparty identifiers

Let's take a look at a frequently occurring example and how Symphony can expedite the workflow. As shown in the diagram above, Symphony's Financial Services IDentity-powered Directory, FsIDaaS, creates a seamless communication linkage between proprietary and third-party platforms, bots and settlement professionals. This linkage is based



on unique metadata, which makes the parties recognisable based on function, role, and location, among other identifiers.

In traditional workflows, the settlement team at an investment bank or custodian notices a trade exception in one of their proprietary systems. With the advent of CSDR, the resolution of these exceptions is especially timely and critical. In the current workflow, the settlement team gathers the exception data (via copying, pasting, and formatting technical details, as previously noted) and then packages the information in emails. Given the time sensitivity, follow-up phone calls and emails may be required to expedite the workflow.

This process is full of manual, error-prone and time-consuming steps. Inserting Symphony and leveraging FsIDaaS expedites the process. Once the trade exception occurs, a Symphony bot captures the trade details into a secure, encrypted chat. Routing through our directory, the bot can send the exception details, as directed, to counterparties or another system's bot for further routing and processing.

In this workflow, there is no copying, pasting, and formatting of trade details. In the chat established by the bot, counterparties can add additional team members or other counterparties, creating a cohesive, transparent communication chain that includes all relevant details. In this scenario, an effective platform for resolution is created: complete trade settlement details consolidated in one place, correct counterparties connected in one platform, transparency on workflow steps, real-time communication, and collaboration over a secure, encrypted platform.

As we write our next chapter, we're focused on incorporating Symphony into a number of different areas to connect and liquefy workflows, leveraging our communication-powered infrastructure.

In the operations space, in addition to settlement we are focusing on other transaction management lifecycle (TLM) workflows, client lifecycle management (CLM), and some processes performed in the securities services space, among other areas.

Our focus also extends well beyond operations workflows. We are looking at pre- and post-transaction workflows for specific asset classes such as FX, corporate bonds and bank loans. In each of these asset classes, we see similar patterns; fragmented workflows, highly manual and repetitive steps, a good deal of context switching across platforms, and slow, typically email-driven communication mechanisms.

As we mentioned previously, Symphony is built to be integrated flexibly into other systems and platforms, which in turn helps users avoid context switching. Equally, we are focused on establishing partnerships and integrations with other industry platforms to help extend our reach.

Helping financial services firms meet their regulatory and compliance needs through secure and trusted communication has always been a priority for Symphony and our platform is continuously evolving to streamline and liquefy workflows. As a result of CSDR, firms must adapt their settlement workflows to comply with specific, time-constrained requirements. By connecting settlement teams more effectively and efficiently with relevant counterparties, automating error-prone manual processes, and reducing context switching to save time, Symphony can help operations teams prepare for CSDR — and perhaps even move one step closer to achieving workflow nirvana.

Krishna Nadella,
Global head of solutions,
Symphony

Maciej Trybuchowski, president & CEO of KDPW

Fit for purpose

CSDR's objective is to harmonise the settlement cycle and settlement discipline and to implement common requirements for CSDs for both domestic and cross-border trade. Maciej Trybuchowski, president & CEO of KDPW, the Polish CSD, discusses how they have approached this agenda

One of the key functions of CSDR is to improve the safety and effectiveness of securities settlement by ensuring that both buyers and sellers get securities and cash in a timely manner and free of excessive risk.

CSDR introduces a range of measures which prevent and address settlement failures for securities transactions. Such measures ensure settlement discipline.

The requirements imposed by CSDR apply both to CSDs which provide services in the European Union and directly or indirectly to participants of securities settlement systems operated by such CSDs.

The CSDR also governs the authorisation of CSDs under common criteria to ensure quality services and safety.

European authorisation

The Polish Financial Supervision Authority (KNF, the Polish financial regulator), in a decision of 3 March 2020, authorised Krajowy Depozyt Papierów Wartościowych under CSDR, confirming that KDPW meets the European Union's single legal requirements for central securities depositories.

Under the single passport system, the authorisation confirms that KDPW is ready to provide services under EU standards across the EU, including recording and safekeeping financial instruments as well as the settlement of transactions.

The KDPW Group has a positive track record of regulatory and supervisory approvals including the authorisation of the clearing house KDPW_CCP under the European Market Infrastructure Regulation (PLN and EUR clearing), the registration of the EMIR and Securities Financing Transactions Regulation (SFTR) Trade Repository by the European Securities and Markets Authority (ESMA), and the global legal entity identifier (LEI) accreditation by GLEIF (Global Legal Entity Identifier Foundation).

To meet the CSDR requirements, KDPW has developed and implemented a range of system modifications in key areas including IT systems, operating links with other CSDs, and corporate affairs.

Settlement discipline

The modifications required under CSDR largely relate to settlement discipline. Such requirements apply to CSDs and their participants and cover buy-ins, settlement fail fees, valuation of securities, monitoring of timely settlement, as well as modifications to instruction matching, hold-release functionalities, partial settlement, and tolerance limits.

KDPW implemented some modifications to functions supporting settlement processes in April 2017,

including the alignment of settlement instructions with the data retention requirements.

Following modifications to reconciliation processes implemented in April 2018, KDPW now provides daily aggregate statements for registration accounts.

Following ESMA's announcement on 28 August 2020, which postponed the date when Commission Regulation 2018/1229 (which was published on 13 September 2018 and contains technical standards on settlement discipline) comes into force until 1 February 2022 — and following our consultations with representatives of the Chamber of Brokerage Houses (IZD) and the Board of Depositary Banks in the first half of September 2020 — KDPW has decided to split the settlement discipline project into two phases.

In Phase 1, to be completed on 19 April 2021, the following amendments to the settlement discipline regime will be implemented:

- changes to the tolerance level functionality;
- changes relating to the cancellation of settlement instructions;
- modifications to partial settlement functionalities, as well as modifications to the processing of the settlement instruction field "Place of clearing".

In Phase 2, to be completed on 1 February 2022, the following modifications will be introduced:

- calculation of financial penalties for late settlement;
- the hold-release functionality;
- buy-in modifications.

International Success of KDPW IT Developers

Buy-in reporting messages developed by KDPW have been successfully approved by ISO 20022. As the first messages ever to be registered, these set the buy-in reporting standard, developed from scratch on the initiative of KDPW in ISO 20022. The standard defined by KDPW, and approved by ISO 20022, will apply internationally.

The ISO 20022 registration followed a complex process including an application, justification, documentation, steps to gather support, and consultations with international institutions and organisations. These include SWIFT, SMPG, Keler, Euroclear, National Bank of Belgium, VP Securities, ISO 20022 Registration Management Group, ISO 20022 Registration Authority, ISO 20022 CSDR Evaluation Team, and ISO 20022 Standards Evaluation Group.

The messages will also be available in the SWIFT network, with the next standard release scheduled for November 2021.

KDPW has processed ISO 20022 settlement messages, alongside its proprietary XML messages and SWIFT ISO 15022 messages, since 2017. The list of supported ISO 20022 messages is steadily growing.

KDPW will implement the buy-in reporting ISO 20022 messages in the second phase of alignment with the CSDR settlement discipline requirements in February 2022.

> ***Buy-in reporting messages developed by KDPW have been successfully approved by ISO 20022. As the first messages ever to be registered, these set the buy-in reporting standard***

KDPW

Creative

in Forward Thinking

www.kdpw.pl | www.kdpwccp.pl

The clock is ticking

C3 estimates that over 10,000 firms globally will be directly impacted by measures to address settlement fails under CSDR, notably the introduction of cash penalties and a mandatory buy-in framework. Paul Gill, partner & CPO at C3 Post Trade, talks us through the implications

The CSDR Settlement Discipline Regime is due to come into force on 1 February 2022. CSDR's goal is to improve the safety and efficiency of securities settlement systems across the European Economic Area (EEA). The location of the settling party is not relevant and therefore firms that are based outside of the EEA, with trades settling in EEA CSDs and ICSDs, are impacted. UK firms will be impacted where their transactions are settling in EEA CSDs and ICSDs.

There are three pillars:

1. Measures to prevent settlement fails
2. Measures to address settlement fails
3. Measures to monitor settlement fails

"We estimate that over 10,000 firms globally will be directly impacted by the measures to address settlement fails: the introduction of cash penalties and a mandatory buy-in framework. This includes both buy-side and sell-side firms."

Paul Gill, partner & CPO, C3 Post Trade

Settlements in the UK CSD, Euroclear UK, will not be subject to the regime. Again, the location of the settling party is not relevant. Settlement discipline is included in the current EC consultation on CSDR.

The outcome is not yet known, but current industry consensus appears to be:

Interest penalties: these will happen
Mandatory buy-ins: likely to happen, so we urge firms to plan for the worst and hope for the best

What is the impact of CSDR?

The regime has a firm-wide impact, including on the front office, and especially if mandatory buy-in requirements do not change.

"Examples of issues buy-side firms need to consider include tracking indexes, lending costs, cash compensation, hedge transactions, proving best execution, and accounting for interest penalties. Sell-side firms need to ensure they validate and process interest penalties and buy-ins in line with client agreements and regulatory obligations".

Rob Denham, founder & CEO, C3 Post Trade.

- Firms will receive their first fails penalties reports on 2 February 2022
- Those with multiple CSD or custodian relationships will receive a report from each of these organisations
- These reports will show the debit or credit interest associated with each fail
- Interest will then need to be validated and allocated appropriately, in line with internal policies and external regulatory and contractual obligations (such as MiFID)
- Monthly summaries need to be checked back to item-level daily reporting
- For a firm with 250 fails a day, this means at least 20 reports and 5000 interest debits and credits every month
- Few will be individually material, but all need to be processed

The first mandatory buy-ins are due a few days later. The timescales for these vary according to the instrument type, liquidity, and trading venue, but will usually be after four business days (liquid shares) or seven business days (most other transactions).

"Processing buy-ins will be hard to track and control. For example, the initiator needs to check that a buy-in is feasible, select the agent, issue the instruction, process the result, cancel the original failed instruction, and keep their counterparty informed".

Paul Gill, partner & CPO, C3 Post Trade.

How should firms prepare?

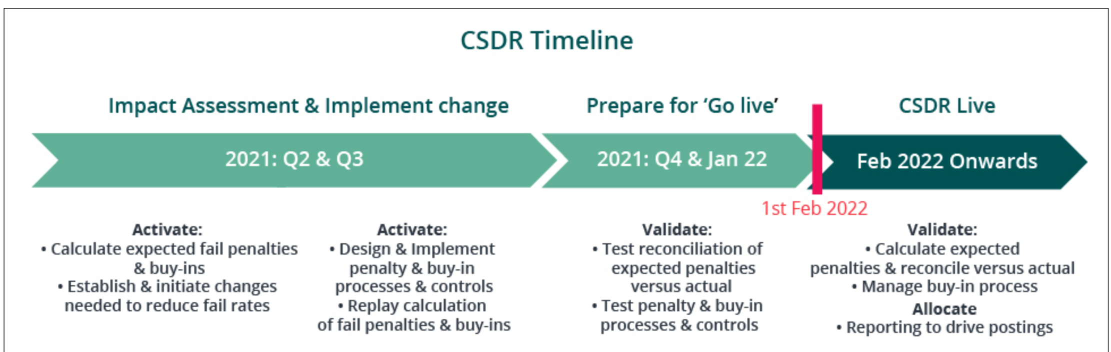
The starting point should be an impact assessment based on an analysis of the expected penalty interest, potential buy-ins, their causes, the impact on clients and the front office, and regulatory and contractual considerations. This will provide the basis for determining the size and scope of the project required and ensure that resources are appropriately allocated across the various workstreams.

Planning and preparation activities can be categorised as:

1. Reducing fails across all impacted business activities (cash trading, repo, stock lending, etc) — fewer penalties, fewer mandatory buy-ins. A trade that settles on ISD (intended settlement date) will not ever be penalised or bought in. What changes are needed to improve settlement rates and reduce the time to resolve fails?
2. Front office preparation — counterparty/broker performance needs to be reviewed and client impact, including contractual changes, assessed. How will this be monitored and managed?
3. Processing penalties — we conservatively estimate total debit and credit interest will be around €1.5 billion per annum. These are significant new flows. How are they going to be validated and allocated? How will queries be resolved? Who is going to do this?
4. Processing mandatory buy-ins — these impact a lot of business areas, including front office, middle office / fund accounting and settlements. Who will own these and coordinate across the firm?

The clock is ticking

C3 is here to help.
Before the regime goes live: Assess the impact, reduce



CSDR: Penalty Calc. | Saved searches: All | Financial Instrument: All | Liquid Flag: All | SME Growth: ALL | SEARCH

Back | Compare | Link/Group | Unlink/Ungroup | Confirm Settings | Confirm Status | Cpty Ref | Add Note | Export | Download | Hide Cancels

All	Security Description	Place of Trade	Account Servicer/ Depository	Type of Financial Instrument	Liquid Flag	SME Growth Market Flag	Penalty Type	Penalty Rate
	Qatar 4% 14 03 2029 Rule 144A	XXXX	Euroclear Bank	DEBT	N/A		SEFP	0.000020
	LYXOR ASI PA EX JP	XXXX	Euroclear France	ETFS	N/A		SEFP	0.000050
	KAMBI GROUP PLC	XXXX	CSD A	SHRS	Illiquid		SEFP	0.000050
	KAMBI GROUP PLC	XXXX	CSD A	SHRS	Illiquid		SEFP	0.000050
	KAMBI GROUP PLC	SSME	Euroclear Sweden	SHRS	Illiquid	Y	SEFP	0.000050
	DAIMLER AG	XXXX	Clearstream FFT	SHRS	Illiquid		SEFP	0.000100
	SOUTH AFR. 17.47	XXXX	Euroclear Bank	SOVR	N/A		SEFP	0.000010
	LYXOR ASI PA EX JP	XXXX	Euroclear France	ETFS	N/A		SEFP	0.000050
	Qatar 4% 14 03 2029 Rule 144A	XXXX	Euroclear Bank	DEBT	N/A		SEFP	0.000020

fails and buy-ins, build the controls and management information (MI) required

After go-live: Validate and allocate penalties, manage buy-ins, maintain reduced fail and buy-in rates

How can C3 help?

C3's CSDR fully managed service takes the worry out of compliance. We help ensure fewer fails and buy-ins, enable validation and allocation of penalties and offer a comprehensive audit trail to keep track of everything.

Calculation of the fail penalty rate:

- You provide your security identifier.
- We calculate the settlement fail penalties as per the ECSDA CSDR Penalties framework.
- We manage data sources, including the client's failed trade file, and reference data, including the European Securities Market Authority (ESMA) FIRDS (Financial Instruments Reference Database System) database, financial instrument type from the CSDR SDR RTS Annex 1, liquidity indicator from the Financial Instrument Transparency System (FITRS), SME growth market indicator from the ESMA website and the penalty rates published in the Delegated Regulation.

Calculation & reconciliation of the penalty:

- You provide failing trade details, we calculate the expected penalties
- You provide the CSD/custodian/etc. fail penalty

CSDR: Penalty Rec. | Saved searches: All | Penalty/Buy In: All | Penalty Currency: EUR | Trade Date: 01.03.2021-20.03.2021 | SEARCH

Back | Compare | Link/Group | Unlink/Ungroup | Confirm Settings | Confirm Status | Cpty Ref | Add Note | Export | Download | Hide Cancels

All	Match Status	Security Description	Cpty Name	Posting Quantity	Trade Price	Penalty Currency	Posting Amount	Trade Date	Settlement Date	Penalty or Buy-In?	Penalty Rate	Amount Computed	Amount Computed Cpty	Penalty Diff.	Total Penalty days Charged	Total Penalty Amount
	MAT	Qatar 4% 14 03 2029 Rule 144A	Cpty 3	1,600,000	103,8000000	EUR	1,600,800.00	09-Mar-2021	11-Mar-2021	Buy-In	0.000020	35.20	35.20	0.00	11	365.40
	MIS	LYXOR ASI PA EX JP	Cpty 2	1,200,000	1.170000	EUR	1,401,000.00	15-Mar-2021	17-Mar-2021	Penalty	0.000050	70.10	140.20	-70.10	1	70.10
	MAT	KAMBI GROUP PLC	Cpty 1	1,440,000	1.010000	EUR	1,454,400.00	18-Mar-2021	22-Mar-2021	Penalty	0.000050	72.70	72.70	0.00	4	290.90
	MAT	KAMBI GROUP PLC	Cpty 2	880,000	2.820000	EUR	2,481,600.00	17-Mar-2021	21-Mar-2021	Penalty	0.000050	124.10	124.10	0.00	5	620.40
	MIS	KAMBI GROUP PLC	Cpty 1	800,000	1.600000	EUR	1,280,000.00	04-Mar-2021	08-Mar-2021	Buy-In	0.000050	64.00	48.00	16.00	14	896.00
	MAT	DAIMLER AG	Eurex	1,280,000	100.980000	EUR	1,292,544.00	01-Mar-2021	03-Mar-2021	CCP No Buy-In	0.000100	129.50	129.50	0.00	17	2,197.30
	MAT	S.Africa 17/47	Cpty 4	1,360,000	2.680000	EUR	3,647,520.00	01-Mar-2021	03-Mar-2021	Buy-In	0.000010	36.50	36.50	0.00	17	620.10
	UNM	LYXOR ASI PA EX JP	Cpty 3	600,000	1.170000	EUR	700,500.00	15-Mar-2021	17-Mar-2021	Penalty	0.000050	35.00		0.00		182.70
	ALL	Qatar 4% 14 03 2029 Rule 144A	Cpty 2	16,000,000	103.800000	EUR	16,608,000.00	09-Mar-2021	11-Mar-2021		0.000020		332.00	-332.00		

Matching | Documents | Workflows | Note History | Activity History | Export History

Exception Summary (1)

A034: KAMBI GROUP PLC | 20.03.21 | MISMATCHED

Party	Posting Quantity	Posting Amount	Penalty Amount
Client	800,000	1,280,000.00	64.00
Cpty	790,000	1,260,000.00	48.00
DIFF	10,000	20,000	16.00

Latest note

N/A

reports, we reconcile against expected penalties

- We provide reporting to support internal and external allocation, posting, and reporting
- We provide MI to help minimise fails and potential buy-ins and maintain improved settlement rates
- We provide workflow to minimise buy-ins and support processing where they do occur

Posting & Reporting of fail penalties:

C3 will provide a formatted export of fail penalty data to automatically post data into the client's accounting system or to drive additional reporting.

C3 Summary Benefits:

- Calculate expected penalty interest and identify potential buy-ins
- Import and track penalty reports from CSDs/ICSDs, CCPs and custodians
- Experience a full audit trail of actions and approvals at your fingertips
- Leverage MI to monitor, manage and control your views

C3 Workstream	C3's CSDR Offering
Calculate	• An impact assessment covering expected penalty debit and credit interest, the number of buy-ins, the impact and the front office, and regulatory and contractual considerations.
Reconcile	• Have complete visibility of daily fails and penalties per custodian, prime broker, CSD and CCP. • Calculate expected penalties & buy-in. • Includes daily penalty reconciliation differences with a full audit trail of actions and approvals.
Post	• Generate posting - both agreed debit and credit interest, over/under, and other changes. • Our daily and monthly reporting features make management and control under CSDR so much easier. You'll have access to MI from historic data to identify and fix issues, receive alerts and be fully supported to validate penalties.
Additional Benefits	• Stay on top of files you've received and processed with our connectivity dashboard. • A comprehensive calculation of expected penalties. • Minimise buy-ins with countdown reporting. • Buy-in workflow management

Tools of the trades

CSDR will prevent fails and harmonise the settlement cycle. EquiLend's Iain Mackay outlines the tools that can help the securities finance industry meet the challenges of bookings, collateral movements and settlement deadlines

CSDR aims to provide robustness and efficiencies to securities settlement and settlement infrastructures in the EU. It will introduce a settlement discipline for the central securities depositories (CSD) operating across the EU, enabling harmonisation and standardisation of the settlement cycle.

CSDR's broad goal is to achieve 99 per cent settlement efficiency. To achieve this, the regulation is introducing measures to prevent fails, focusing on trade bookings, the confirmation process and leveraging automated platforms to match trades prior to settlement.

To encourage this behaviour, CSDR will require investment firms to have processes and procedures in place to prevent fails. It is also supporting firms in increasing straight-through processing to ensure timely settlement. If the trade does fail, market participants will be liable to pay daily penalties or charges against each transaction that fails to settle. There will also be mandatory buy-ins for cash T+2 fails, although securities lending trades are currently under review.

The unique challenge to securities lending transactions is that they are predominately free of payment (FOP) transactions, which generally have a later settlement cycle than cash T+2 trades. There is also the additional requirement of having collateral pledged into the account of the lender before it releases the securities. Overall, the biggest challenge for the securities finance industry is that there will be more requirements to conduct same-day activity and, therefore, more pressure to reduce latency between booking and instructing a trade. It is essential that the trade is booked correctly at the outset through an automated platform to ensure CSDR requirements are achieved and additional costs are reduced.

EquiLend is the only full-service provider that can help, via our solutions below:

NGT

Currently, over 60 per cent of the current daily trade flow is conducted on EquiLend's flagship product. NGT enables complete STP at trade booking, and statistics show that less than one per cent of trades booked on NGT have trade booking errors. It supports LEI processing, and clients can also get SSIs at the point of booking.

Event Blotter

Through the OneFile, EquiLend strips out all the events processed by clients, including new loans, returns and recalls. It confirms the trade bookings that have been completed, not only on NGT but on any other trading platform or manual execution. This tool will identify any problems and enable enrichment to ensure the correct booking instructions have been completed.

Settlement Monitor

EquiLend's Settlement Monitor, a pre-matching tool, enables firms to keep track of trades with up-to-date trade status. The Settlement Monitor ensures that all aspects of the booking are correct, it monitors the collateral movements associated with the trade and provides settlement deadlines across all the different settlement markets within the EU. This tool helps firms to prioritise exceptions, structure the day and offers transparency of the potential costs associated with the trades. Simply, it gives firms peace of mind and confidence in the status of both their instructions as well as their counterparts.

EquiLend Exposure

There is no doubt that there will be an increase in same-day activity to support CSDR. More emphasis will be placed on automated booking. However, the one area that can and will trip clients up will be the timely distribution of collateral. EquiLend Exposure addresses these concerns. Using real-time data, it calculates a firm's collateral requirements and processes collateral movements to all the different tri-party agents automatically. It tracks and reconciles the collateral movements and notifies lenders when the collateral has been received instantly, thus enabling the lender to release the loan instructions in a timely manner. All of this is within one product.

Unified Comparison

UC confirms the settlement of the transaction and provides daily reconciliation of the trades. This is important primarily for returns and recalls as UC will be able to notify firms if any amendments to the trade have not been completed by one side, the biggest culprit being SSIs. If clients manage the SSIs throughout the lifecycle of the trade, then there will be timely settlement of the return and recall.

SSI Repository

The SSI Repository interacts with EquiLend's suite of services to provide SSIs to borrows and lenders. It is well recognised that SSIs are the biggest contributor to failing trades. This tool allows for SSIs to be stored and distributed to firms.

Vendor Profiles

Pardeep Cassells
Head of Financial Products
financialproducts@accessfintech.com

Gemma Crump
Head of Marketing
marketing@accessfintech.com

www.accessfintech.com

AccessFintech' Synergy Network enables optimization of cross organization processes. Achieved through collaboration, the use of data, workflow and shared technology access. By enabling users to collaborate in our industry DataLake, it drives the uses of technology to transform operations to simplify and speed workflows, reduce liquidity risk, and provide valuable benchmarking insights across the financial ecosystem.

At its core is the AccessFintech Synergy Network, a modern and secure collaboration network that facilitates 3 key capabilities across the financial ecosystem: data collaboration at scale with more visibility into transaction data and access to benchmarking insights. Workflow optimization to speed and simplify transactions through digital automation, resolution and decision-making in one place. And technology distribution providing connectivity to new technologies and reducing the cost of ownership for all.

The company has a self-service ethos, where risk is mutualized, and there is better, more enlightened decision making across organizations and functions. AccessFintech's Synergy Network is built with leading financial institutions with a critical mass of data, participants and solutions where more than a billion transactions are now being processed every month on the network.

Mike Airey
NA Vice President Sales
+1 201 714 3039
Mike.Airey@broadridge.com

Paul Wilson
EMEA Sales Director, SFCM
+44 20 7418 4500
Paul.Wilson@broadridge.com

Jake Sweeney
APAC Senior Sales Director
+61 2 903 41777
Jake.Sweeney@broadridge.com

www.broadridge.com

Broadridge Financial Solutions, a global Fintech leader with over $4.5 billion in revenues, provides the critical infrastructure that powers investing, corporate governance, and communications to enable better financial lives. We lead business transformation and deliver technology-driven solutions for enriching client engagement, navigating risk, optimising efficiency, and generating revenue growth, helping our clients get ahead of today's challenges with products that streamline and simplify the Securities Finance industry.

Broadridge Securities Finance and Collateral Management (SFCM) offers a suite of global, front to back office securities finance solutions for buy side and sell side. Both our full service integrated Mainline solution and new FastStart rapid spin up operating solution both support agency and principal trading of equities and fixed income securities across securities lending, repo, collateral management, collateral optimisation, and end to end transaction reporting solutions. Broadridge's solutions help customers comply with new regulations, increase efficiency, improve strategic decision making and make more intelligent use of capital, balance sheet and liquidity.

In addition, Broadridge provides project management, consultancy, business analysis and testing support to augment firms' internal regulatory project teams and help them comply with the rules in a timely manner. Broadridge's technology and operations platforms underpin the daily trading of on average more than U.S. $10 trillion of equities, fixed income, and other securities globally.

For more information about Broadridge and our proven securities finance, collateral management, and transaction reporting solutions, please visit our website.

Rob Denham
Partner & CEO
Rob.Denham@c3posttrade.com
+44 (0) 20 7084 7204

Paul Gill
Partner & CPO
Paul.gill@c3posttrade.com
+44 (0) 20 7084 7202

www.c3posttrade.com

C3 Post Trade is your all-in-one exceptions solution –all in one place, all the time, in all locations.

Our intuitive private cloud platform lets you handle all post-trade exceptions, and connect to all counterparts, from one user-friendly dashboard; so, you can control operations, increase efficiency, reduce risk and scale your business with ease.

Once you've captured trades into your books and records system, our four-part solution sets you up for success:

We Match: Manage and resolve all trade matching exceptions from one single point.
We Rec: Take care of all reconciliation activity, all in one place, on demand, every day.
We Track: Clear up trade lifecycle problems to manage operational risk efficiently and cost-effectively.
We Comply: Reduce risk with built-in regulatory reporting and workflow driven control.

More visibility, more intuition, more control.
A multi-service, modular platform that reduces risk and increases efficiency.

We are committed to ensure our modular offering meets the needs of all funds, large and small (we're fortunate to work with a wide range of clients from £200m > £30bn+), and we value collaboration with them all, to ensure our services fulfil everyone's post trade requirements. To learn more of our offering and how we can support your operational efficiency, please connect with us.

Exceptional Efficiency. Simplified Control.

www.dtcc.com

With over 45 years of experience, DTCC is the premier post-trade market infrastructure for the global financial services industry. From 21 locations around the world, DTCC, through its subsidiaries, automates, centralizes and standardizes the processing of financial transactions, mitigating risk, increasing transparency and driving efficiency for thousands of broker/dealers, custodian banks and asset managers. Industry owned and governed, the firm simplifies the complexities of clearing, settlement, asset servicing, data management, data reporting and information services across asset classes, bringing increased security and soundness to financial markets. In 2020, DTCC's subsidiaries processed securities transactions valued at more than U.S. $2.3 quadrillion. Its depository provides custody and asset servicing for securities issues from 170 countries and territories valued at U.S. $73.5 trillion. DTCC's Global Trade Repository service, through locally registered, licensed, or approved trade repositories, processes 15 billion messages annually. To learn more, please visit us at www.dtcc.com or connect with us on LinkedIn, Twitter, YouTube and Facebook.

Paul Lynch
Managing director, global head of products
paul.lynch@equilend.com
+1 212 901 2281

Dan Dougherty
Managing director, global head of sales & client relationship management
dan.dougherty@equilend.com
+1 212 901 2248

www.equilend.com

EquiLend is a global financial technology firm offering trading, post-trade, market data, regulatory and clearing services for the securities lending, collateral and swaps industries.

EquiLend's services include:

- NGT, the securities finance industry's most active trading platform
- Collateral Trading, enabling funding and financing desks a centralised way to execute and manage trade structures with their counterparties
- Swaptimization, automating global equity total return swaps trading workflow
- EquiLend Post-Trade Suite for securities finance operations
- DataLend, providing performance reporting and global securities finance data to agent lenders, broker-dealers, beneficial owners and other market participants
- EquiLend Clearing Services, offering trading services and CCP connectivity
- EquiLend SFTR, a no-touch, straight-through solution for the Securities Financing Transactions Regulation
- EquiLend Spire, a front-, middle- and back-office platform for securities finance businesses

EUREX

Michael Jahn
Head of Sales and Business Development
michael.jahn@eurex.com
+49 (0) 69 211 15450

www.buyinagent.com

Eurex Securities Transaction Services' (Eurex STS) Buy-in Agent Service provides an innovative solution to the obligation to trigger buy-ins that forms part of the next stage of the Central Securities Depository Regulation (CSDR). Our solution is designed to support the market in increasing settlement efficiency and drive forward new industry-wide standards in this respect.

When a buy-in needs to be triggered, Eurex STS will act as the neutral third party – the Buy-in Agent – and close the gap for clients, enabling them to efficiently comply with the new European regulation. The offered solution provides a high level of standardization and automation, and Eurex STS will act in the best interests of both its client and the failing counterparty. Our new Buy-in Agent platform B7® is fully automated and allows flexible settlement between Network Partners, Eurex STS, and clients. Eurex STS offers a range of participation models that include the possibility of institutions participating directly as a client, as well as offering the Buy-in Agent Service indirectly to their own clients.

Eurex STS is a wholly owned subsidiary of Eurex Frankfurt AG which is part of the Deutsche Boerse Group. Eurex STS holds a Banking license for Principal Broking and is under the supervision of the Federal Financial Supervision Authority (BaFin - Bundesanstalt fuer Finanzdienstleistungsaufsicht).

Contact the Eurex STS team today via email at buyinagent@eurex.com should you require additional information or visit our website at www.buyinagent.com.

David Lewis
Senior Director, Securities Finance
david.a.lewis@fisglobal.com

Ted Allen
Director of Business Development, Securities Finance and Collateral
ted.allen@fisglobal.com

Igor Salzgeber
Head of Product Management, Securities Finance and Collateral
Igor.Salzgeber@fisglobal.com

US: +1 877 776 3706
EMEA: +44 20 8081 3840
APAC: +63 2 8802 6299

www.fisglobal.com

FIS is a leading provider of technology solutions for merchants, banks and capital markets firms globally. Our more than 55,000 people are dedicated to advancing the way the world pays, banks and invests by applying our scale, deep expertise and data-driven insights. We help our clients use technology in innovative ways to solve business-critical challenges and deliver superior experiences for their customers. Headquartered in Jacksonville, Florida, FIS is a Fortune 500® company and is a member of Standard & Poor's 500® Index.

Sitting at the intersection of technology and finance, FIS is focused on delivering fresh ideas and inventive solutions to help our customers adapt and thrive in an ever-changing environment. With a blend of software solutions, cloud infrastructure, global service capabilities and deep domain expertise, FIS is capable of supporting virtually every type of financial organisation, including the largest and most complex institutions in the world.

Whether on the supply or demand side, FIS' comprehensive range of market data, securities finance and collateral management solutions gives our clients the efficiency to run smarter operations and the agility to capitalise on opportunities.

www.kdpw.pl
www.kdpwccp.pl

KDPW Group is one of the key infrastructure institutions of the Polish financial market and CEE region. KDPW has more than 26 years of experience on the Polish and European capital market and offers a broad range of financial services to Polish and international clients.

The capital group includes:

- KDPW CSD - the Polish central securities depository responsible for the registration and safekeeping of financial instruments, the settlement of trades from the regulated and alternative trading systems in the largest capital market in Central Europe, and for a full range of issuer services, as well as financial data gathering and maintenance;
- KDPW_CCP - a modern central counterparty clearing house, which clears on-exchange trades and OTC derivatives using a robust guarantee system that reduces the risk of counterparty default. It is authorised under EMIR for clearing in PLN and EUR;
- KDPW Trade Repository - one of only a handful of fully authorised trade repositories in Europe, offers a wide selection of reporting services, including EMIR and SFTR, and is accredited as an Approved Reporting Mechanism under MIFID II / MIFIR;
- KDPW operates a Numbering Agency which issues ISIN, FISN and CFI codes. As a GLEIF accredited LOU, it assigns LEI codes for our large domestic and international client base.

Our aim: to keep extending our seamless and fully integrated portfolio of post-trade and value-added financial services for our participants.

Our strengths: with a complementary offering, innovative in-house fin-tech, robust system resources and qualified experts, KDPW has over the past 26 years built an unparalleled position on the international financial market.

MARGIN TONIC

Chris Watts
Co-founder and Director
chris@margintonic.com

Craig Pearson
Co-founder and Director
craig@margintonic.com

General
info@margintonic.com

www.margintonic.com

Margin Tonic is an expertise-led service provider, specialising in the collateral and post-trade domains. Our mission is to help our clients accelerate their objectives, by applying our industry-leading expertise to their bespoke circumstances.

At Tonic it's the breadth of our expertise that sets us apart (even if we say so ourselves!). Our Tonic specialists have decades of hands-on experience within post-trade domains, covering key products, sub-domains, functions and regulations.

We provide a modular suite of high-quality services, tailored to meet any client need, across four key service families;

1. **Advise -** Shaping your firm's vision, strategy and direction
2. **Transform** - End-to-end definition and execution of high-quality change
3. **Educate** - Accelerated education via our market-finest content, for operational or sales objectives
4. **Operate** - Tailored resourcing services to match your firm's needs

For clients who need to be ready for CSDR, we can protect profits and accelerate high-quality CSDR readiness via our expertise-led analysis, definition and delivery service modules.

Camille McKelvey
Head of Business Development, STP
cmckelvey@marketaxess.com
+44 (0) 203 655 3475

www.marketaxess.com

MarketAxess operates a leading, institutional electronic trading platform and provides automated trading solutions, market data products and a range of pre- and post-trade services. A global network of over 1,800 firms, including the world's leading asset managers and institutional broker-dealers use our trading technologies to efficiently trade, report and comply.

MarketAxess Post-Trade, formerly Trax, is a leading provider of trade matching and regulatory reporting services, serving over 950 buy- and sell-side firms globally. Through our Approved Reporting Mechanism (ARM), Approved Publication Arrangement (APA), Match services, and other regulatory reporting services, MarketAxess Post-Trade process more than 2.3 billion transactions annually. With regulated entities in the United Kingdom and the Netherlands, MarketAxess Post-Trade connects to over 18 National Competent Authorities (NCAs) and trade repositories, adding efficiency to increasingly complex regulatory and operational environments.

MarketAxess is headquartered in New York and has offices in London, Amsterdam, Boston, Chicago, Los Angeles, Miami, San Francisco, São Paulo, Hong Kong and Singapore.

For more information, please visit www.marketaxess.com/post-trade.

Phil Morgan
CEO
Philip.Morgan@pirum.com
+44 20 7220 0965
+44 7771 356 535

Karl Wyborn
CCO
karl@pirum.com
+44 20 3302 6440
+44 7447 117061

www.pirum.com

Pirum offers a secure, centralised automation and connectivity hub for international securities finance (Stock Loan and Repo), cleared and uncleared derivatives and other bilateral transactions.

Our position within the securities financing market enables banks and buyside institutions to seamlessly access counterparts, tri-party agents, trading venues, market data companies and CCPs, as well as regulatory reporting facilities.

Processing hundreds of thousands of repo trades globally each day, our suite of services enable our clients to seamlessly affirm repo trade economics on a real time basis, communicate and resolve exceptions with counterparts, instruct tri-party agents and integrate services with a variety of other market vendors.

We combine an in-depth understanding of both the securities finance industry and the most advanced technology to provide highly innovative and flexible services.

Supporting established and emerging financial institutions, Pirum's pioneering approach consistently reduces operational risk while increasing processing efficiency and profitability.

Pirum's innovative designs and customer focus have resulted in widespread industry recognition and multiple Awards.

Pirum was most recently named Global Post-Trade Service Provider of the Year at the International Securities Finance 2020 Awards, and our CollateralConnect product was named as the winner of the software solution Award.

Krishna Nadella
Global Head of Solutions
sales@symphony.com

Symphony.com

Symphony is the most secure and compliant markets' infrastructure and technology platform, where solutions are built or integrated to standardize, automate and innovate in financial services workflows. The platform is used by over half a million financial professionals connected through a trusted and verified user Directory, and powers over 2,000 community-built applications and bots. Symphony currently serves over 1000 financial institutions.

Symphony was founded in 2014 as a collaboration platform for financial services firms, helping meet industry needs for security, data sovereignty and compliance. Building on this foundation, today Symphony is the common connector, unifying workflow fragmentation across the front, middle and back offices through intelligence-led tools that create an elegant, human-digital flow.

Symphony's solutions are intended for pre and post-trade workflows, and offer:

- Standardization and automation of processes
- Real-time communication and collaboration
- Best in-class compliance, security and end-to-end encryption

The company is backed by a consortium of the world's top financial institutions and has been recognized by the industry, media and analysts for the design and performance of its platform and solutions.

Contact us to join Symphony's network.

securitiesfinancetimes

GIVE MORE VALUE TO YOUR CLIENTS

& GET THEM LISTENING TO YOU MORE

Securities Finance Times is now offering companies the opportunity to partner with us and promote your podcasts to a wider audience

Let us help you grow your audience.

For more information contact **Justin Lawson** on 020 8750 0929
or email **justinlawson@securitiesfinancetimes.com**

SYMPHONY

MAKING WORKFLOWS,
FLOW

Symphony expedites settlement workflows, securely bringing together over half a million financial services users, helping you meet CSDR requirements.

LEARN HOW SYMPHONY CAN IMPROVE YOUR SETTLEMENT WORKFLOW.

CONTACT US

symphony.com sales@symphony.com

CONNECT WORKFLOWS | COMMUNICATION-POWERED | NETWORKED INFRASTRUCTURE