



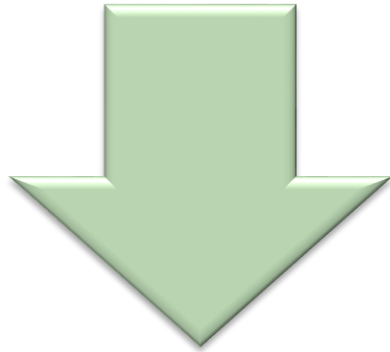
# CSDR Settlement Discipline

## *Impacts of Cash Penalties and Buy-In on Govies*

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Milan, 2 December 2019

# What are the differences with the previous MT regime <sup>(1)</sup>?

## Differences to be carefully considered



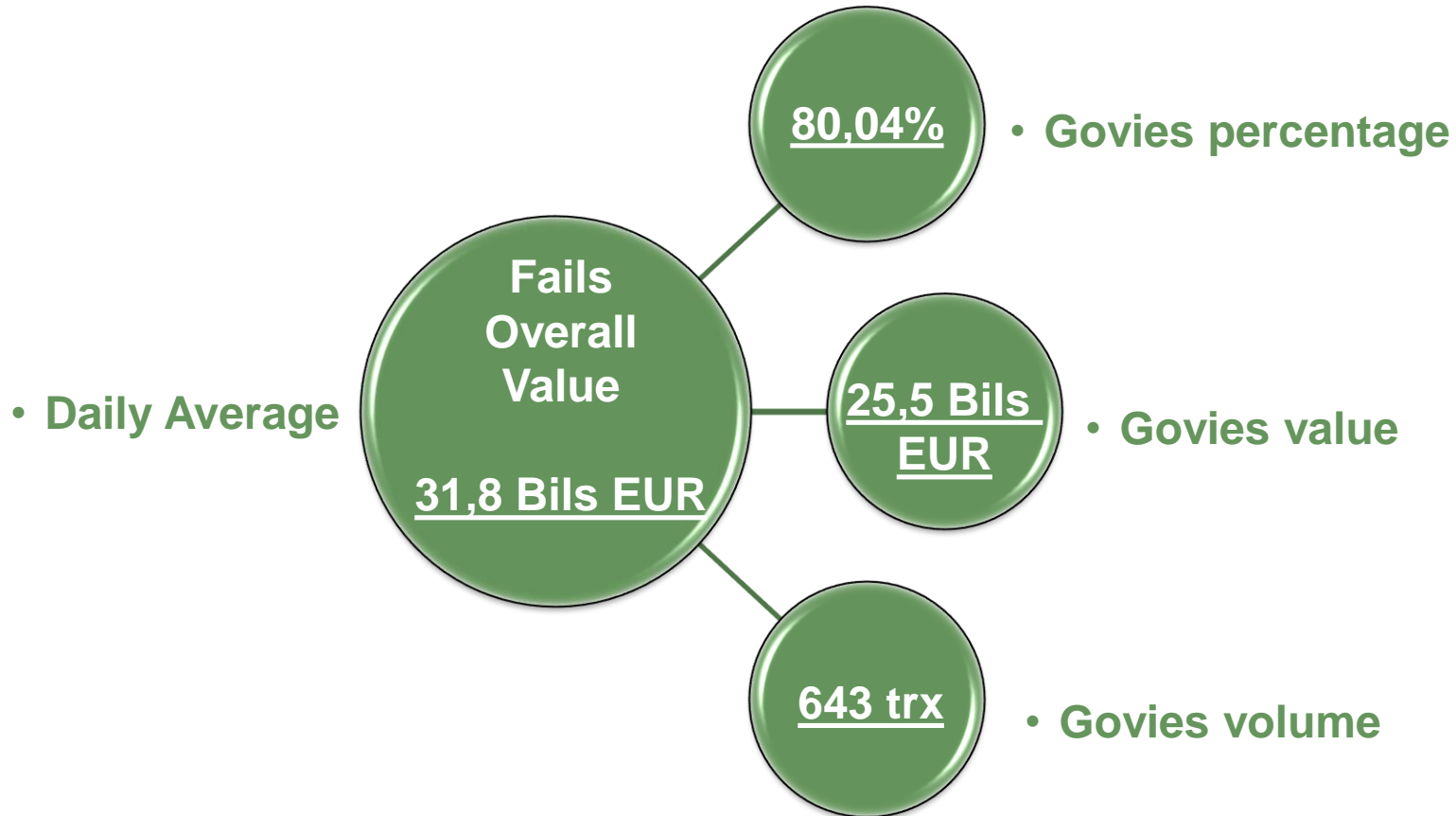
- “on Hold” are fails
- Buy-in for OTC
- Late Matching penalties

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- + Lower percentages
  - + Harmonised through EU



<sup>(1)</sup> Never applied after migration in T2S

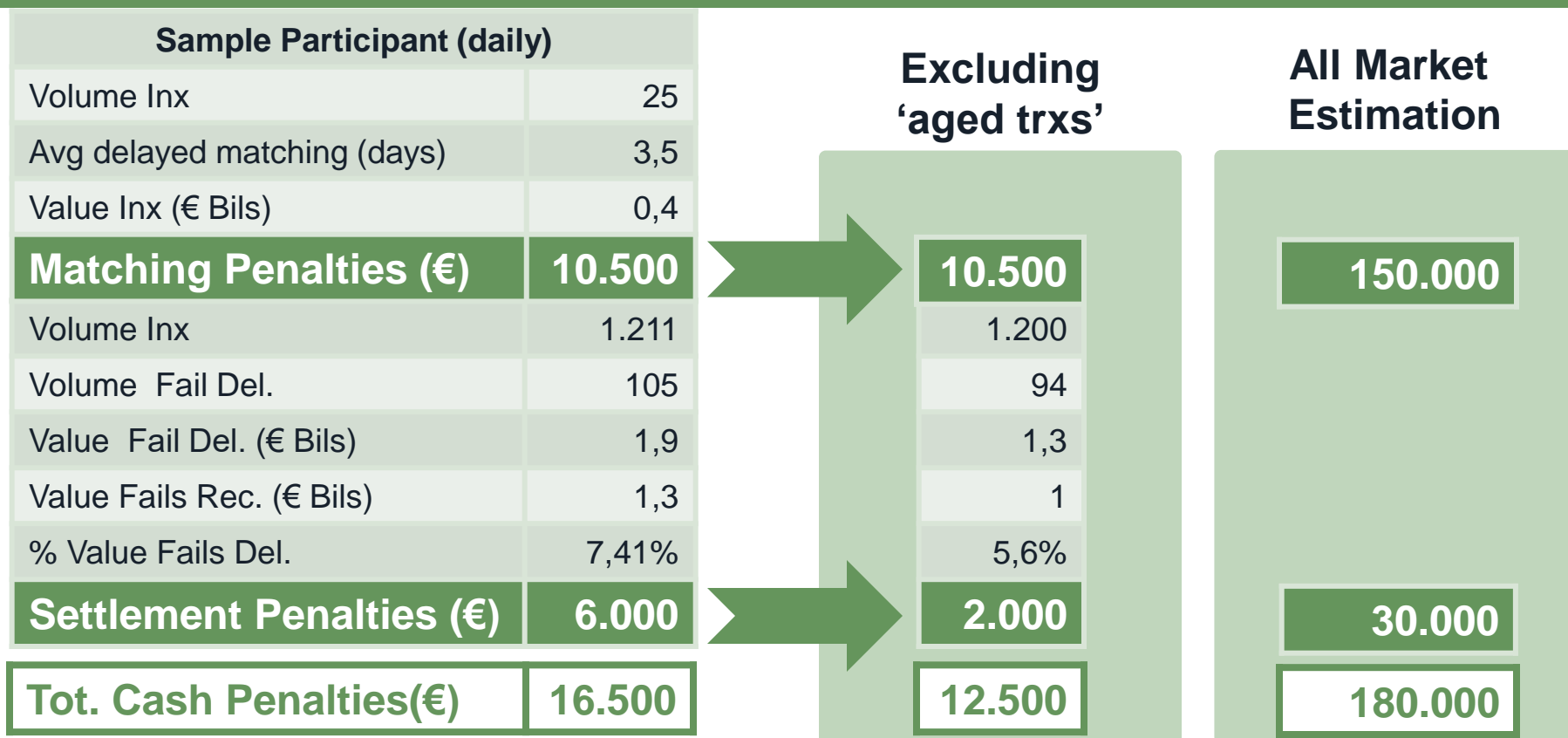
# Where are 'fails' concentrated?



# What criteria was used for penalties simulation?

<b>Securities</b>	Government Bonds
<b>Time period</b>	Daily
<b>Date</b>	10 October
<b>Participant</b>	5-10% Total Turnover
<b>Aged Transactions</b>	Trx kept pending > 60 business days
<b>Late matching</b>	Pending trx matched on 10 Oct.

# What are the economic impacts of penalties on Govies?



1. Delayed matching can have a very high impact

2. Aged transactions significantly contributes to penalties amounts

# What criteria was used for buy-ins simulation?

## Buy-in trx

- Only OTC trx
- Still pending after 7 days form Intended SD

## Price

- Average spread applied

## Starting date

- Still to be defined whether all pending trx at starting date are eligible for buy-in



# What are the economic impacts of OTC Buy-Ins?

	Sample Participant		
	At Starting Date (TBD)		Ordinarily
	<i>Aged tx IN</i>	<i>Aged tx OUT</i>	<i>ISD = ASD - 7</i>
Vol. potential Buy-in	25	14	3
Val. potential Buy-in (€ Mils)	700	200	67
<b>Buy-In additional costs (€)</b>	<b>140.000</b>	<b>40.000</b>	<b>13.400</b>



All Market Estimation Regime	
<b>Buy-In additional costs (€)</b>	<b>187.600</b>

**Aged transactions can significantly impact buy-in countervalue**

# What can we do?

Create awareness

- Inform respective clients in the supply chain

Cancel aged transactions

- Support initiative in T2S for centralised cancellation

Provide supporting functionality

- Evaluate monitoring facilities both for delayed matching and fail settlement



# What are the guidelines of MT solution?

**Monte Titoli implementation aims at being cost-effective and aligned with the indications of the Users**

## Harmonisation

- Fully compliance with T2S solution and the ECSDA Framework
- Adopting standard ISO15022 and ISO20022 messages

## Cost-recovery

- Billing will be based on an all inclusive fee
- Annual adjustment in case of revenue exceeding

## Customer driven

- Discussion of the requirements in ad-hoc user group

## Warning functionality

- Development of dedicated warning list to timely inform participants of potential buy-in and delay matching

# What are the costs and fees?

<b>INVESTMENT COSTS</b>	<b>600.000 €</b>
Annual amortisation (5 Years)	120.000 €
<b>RUNNING COSTS</b> (Staff, Data providers, T2S Info, etc.)	<b>270.000 €</b>
<b>TOTAL ANNUAL COSTS</b>	<b>390.000 €</b>

## BILLING CRITERIA

- Single fee all inclusive based on  $\Delta$  Penalties
- $\Delta$  Penalties is calculated per each Participant and Account based on the monthly difference between penalties to be paid and the ones to be received

<b><math>\Delta</math> PENALTIES (ESTIMATE '19)</b>	<b>396.000</b>
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<b>TOTAL COSTS / <math>\Delta</math> PENALTIES</b>	<b>390.000 / 396.000 = 0,98</b>
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<b>SINGLE FEE</b>	<b>0,90-1,00 €</b>
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