ISLA

February 2019

CSDR:

Settlement Discipline Impact to Securities Lending

Phase 1:
Identifying The Issues

ISLA CSDR Working Group

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Executive Summary

Settlement rates for securities lending as at 2018 were estimated to be between 80 and 90%[1] with the majority of failed settlements occurring on the return leg of loan transactions.

The securities lending market will be impacted by the enforcement of settlement fail cash penalties and buy-in regimes contained within the Central Securities Depository Regulation (CSDR) expected to go-live September 2020.

At the same time, the timing challenges (T+1) inherent in the reporting obligations of SFTR mean that accurate records, reconciled with counterparties, will be key to its success and fails will significantly impact reporting accuracy.

In recognition of the increasing need to improve settlement rates and driven by the Executive Operations board of ISLA, the CSDR Working Group (CSDR WG) was formed with representation from both lenders and borrowers. The working group was tasked with identifying the key settlement issues and causes of fails faced by the market, then to continue work on potential solution proposals to be published to the wider ISLA membership for feedback. The concluding result of this work would be a market consensus and possibly best practice considerations.

To this end, a member survey was undertaken at the beginning of the 2018 and the key trends from the results used to drive a more detailed review of the issues facing the market.

This survey represents the first phase of the working group's objectives and, once complete, the Working Group will define and propose potential market solutions and changes to existing practices which can be adopted to minimise the impact of CSDR and to further aid market efficiency and liquidity.

[1] As measured and estimated by responders to the ISLA survey Q1 2018

Executive Summary

Key findings include:

- The current processes for managing SSIs have been found to be a key cause of failed settlements. This is due to both manual updating and in some cases complex account structures.
- Pre-matching rates are low and pre-matching is considered low priority. However improved pre-matching which includes SSI comparisons can have a dramatic impact in reducing market settlement fails.
- Available automated [vendor] solutions may not meet market needs and are not consistently utilised by firms.
- Differing booking practices and in particular timings have a negative impact on settlement success.
- DVP (Delivery versus Payment) settlement generally prioritised above FOP (Free of Payment) settlement by market participants and intermediaries, creating challenges for efficient securities lending settlement.
- Functionality in TARGET2-Securities (T2S) is not being fully utilised because of internal restrictions and budget restraints.
- Pro-active intraday collateral management for both DVP and FOP settlements will help improve liquidity and reduce same day loan settlement fails caused by mismatched settlement deadlines.

Whilst it is recognised that some of these issues cannot be resolved by the industry, some can, and where infrastructure creates a barrier it may be possible to alleviate some of the impact through increased adoption of best practices and automated solutions.

Introduction and Background

CSDR will introduce cash penalties for transactions failing in the European Union (EU) from intended settlement date (ISD) and mandatory buy-ins where transactions are failing on ISD+4 (liquid) and ISD+7 (Illiquid)[2] . These cash penalties and buy-ins will apply to securities lending transactions and add additional cost, risk and complexities to the activity.

In response to this regulation, ISLA intend to:

1. Work with members in minimising failing transactions by identifying the causes and where possible seeking market solutions
2. Assist member firms in understanding the new process
3. Consider standardised practices around buy-in processes and liability

Alongside CSDR, SFTR will require market participants to report and match certain information relating to securities lending transactions. Whilst actual settlement information is not required, ISLA believes that robust post trade settlement practices and increased pre-matching rates in the market will aid in the reporting and matching process.

This paper has been prepared by a working group of market participants and is intended to identify the common causes of settlement fails within the securities lending market which may incur fines or penalties under the CSD Regulation (EU)No 909/2014. This document represents the first phase of the work group's objective. Once complete, the working group will seek potential market solutions and/or changes to practices which market participants can adopt to minimise the cost implications of CSDR and further aid market efficiency and liquidity.

In early 2018, ISLA conducted a survey of members to identify high level causes of fails. This survey can be found in Appendix 1. It is the results from this survey that have informed this Phase 1 of CSDR work.

[2] Securities are described as liquid and illiquid as defined under MiFiD II

CSDR: Overview

As part of the European Commission's agenda of enhancing the safety and soundness of the EU financial system, the recording of securities in book-entry form is seen as an important step towards increasing the efficiency of settlement and ensuring the integrity of securities.

The CSDR is intended to harmonise the legal aspects of securities settlement and the rules for CSDs at an EU-wide level, therefore allowing T2S, which aims to harmonise operational aspects of securities settlement, to achieve its objectives more effectively.

Settlement under CSDR

The CSDR contains three sets of measures which are intended to improve the safety of settlement.

1. The CSDR states that securities must be in electronic book-entry form. And that the CSD must keep an electronic record of ownership rather than issuing certificates to investors.

2. The CSDR requires that the settlement date for transactions executed on a trading venue, must be no later than the second business day after the trade takes place (T+2 requirement).

3. The CSDR requires CSDs to monitor and facilitate transactions in order to prevent settlement failure, and if necessary, subject market participants who fail to deliver their securities, to cash penalties and buy-in procedures requiring the non-defaulting participant to utilise a buy-in agent to buy the securities in the market and deliver them to the relevant counterparty.

It is this third requirement that the working group has been focusing on.

CSDR: Overview

Timing

The CSDR was published in the Official Journal (OJ) of the EU on 28th August 2014 and its provisions generally came into effect on 17th September 2014 The regulatory technical standards for settlement discipline (see Article 6 & 7) were adopted by the European Commission (EC) in May 2018 and, after a period of scrutiny, the RTS was passed into law in September 2018. Therefore the settlement disciplines will apply 24 months later with the projected go-live date of Monday 14th September 2020.

Scope

The CSDR settlement disciplines will apply to all market operators in the context of European securities settlement and all European CSDs.

They will apply to all trading entities regardless of their domicile if they settle transactions on a EU CSD, either directly or via a settlement or clearing agent.

With regards to securities settlement, the requirements in the CSDR mainly apply to transferable securities as defined under MiFiD[3], money-market instruments, units in collective undertakings and emission allowances which are admitted to trading or traded on a trading venue or cleared by a CCP.

Securities Financing Trades (SFTs) are captured by the scope of the CSDR settlement disciplines and cash penalties will apply to all transactions, However, exemptions have been provided from the mandatory buy-in scheme for SFTs which are for less than 30 days term[4]. The market requires further clarification for this exemption, specifically in respect to the scope and application.

Members of the European System of Central Banks and other national or public bodies that perform similar services, which would otherwise qualify as CSDs, are exempt from certain requirements under the CSDR.

[3] Markets in Financial Instruments Directive (2004/39/EC)
[4] Article 22(2) of the RTS

Specific Identified Issues

The CSDR WG identified key trends from the ISLA survey and have identified key market practices and processes which cause the majority of fails within each area. These are detailed below.

Some borrowers report that the management of changing SSI's between loan settlement and return causes issues and manual intervention.

Standard Settlement Instructions (SSI's)

SSI's were identified in the ISLA survey as a major source of fails because of the manual processing, control environment and in some cases the change in SSIs between loan and subsequent return, caused by changes in beneficial owner.

SSI's feature in almost every section of this paper, and are a key consideration. However there are two specific areas that drive many of the issues.

SSI Set Up and Amendments

The process of set up or amendments is very manual in most firms, and often requires formal documentation signed by authorised signatories and "call back" controls.

Firms try and adhere to the ISLA Best Practice (Appendix 4) of completing this process within five days but this is challenging, and cases of requiring immediate updates in order to settle transactions are not uncommon. This is because either the amending firm has not provided the information earlier or the five day process has not been completed.

Whilst the controls are necessary and appropriate, the use of a recognised repository for SSI's can alleviate some of the requirements.

One to Many Settlements

Some borrowers report that the management of changing SSI's between loan settlement and return causes issues and manual intervention.

Whilst agent lenders differ in their set up, some require a change in SSI when loans are re-allocated to new beneficial owners and if the record of this is retained in a separate system to the trading system, such as within credit analysis, the trading desk will book returns assuming the security should be returned to the same SSI as it had been received from, as is the preferred approach from a settlement efficiency perspective.

Trade Booking & Notification Process

In order for the trade booking and notification process to be effective, some key components must be complete to overcome manual processing requirements – which ultimately lead to settlement barriers. These include:

Account / Static Data Set-Up:

- Correct account set-up to reflect that all static data for the accounts are set up on a like-for-like basis is imperative to assist with the Straight-Through-Processing (STP) process.
- Inconsistent or out-of-date data such as country of exchange, margin / haircut, as well as product-specific driven factors such as settlement cycles are likely to delay or prevent matching and settlement.

Notification of New Borrow / Loan / Returns:

- Requirement to notify or 'call-in' transactions to counterparts – exacerbated by the lack of standard formats for non-automated solutions.
- Requirement to act upon the agreement of the notification, or notify the counterparty within a reasonable time period where the notification cannot be met, to allow the transaction to be re-agreed as required.

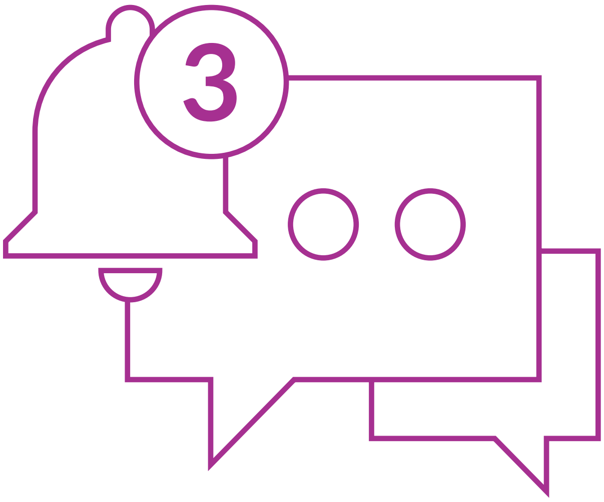
Inconsistent Source Data

- Data, such as that required for pricing, requires a consistent approach to allow trade matching and settlement. Many market participants use a variety of data sources or blended pricing sources for example – which may lead to unmatched transactions, or differences in the value of the positions. (See Position Reconciliations).

Timing of Bookings

- Bilateral agreement and accuracy of the timing of the booking is imperative – however due to time zone differences and systemic/manual cut-offs, the timing of bookings will impact trade and settlement dates.

Trade Booking & Notification Process



Special Requirements

Bulking/Netting: Where special processes are undertaken to reduce transaction volume (e.g. bulking/netting) pre and post instruction, the process must be carried out with 100% accuracy to ensure trade agreement. This action increases the risk of differences in the matching process and ultimately settlement.

Preferences: Where special requirements are in place for settlement cycles, cut-off times for booking trades or minimum values or fees, these additional factors which are likely to change the economics of the transaction offer additional risk in the booking and pre-matching/matching process.

Contractual versus Actual Availability

Contractual availability is a measure of future asset holdings which includes assets that are expected to settle at a future date.

- Trading based on contractual rather than actual availability may not prevent trades from becoming matched – but is likely to lead to matched but failing transactions. Whilst this is currently unlikely to lead to penalties in current state – it is very likely to lead to cash penalties/buy-ins under the CSDR regime. Whilst it is recognised that booking based on contractual availability may improve firm efficiencies so consideration should be given to establishing market guidance for this, it is also recognised that this may add settlement risk and so should be considered, and if implemented, monitored carefully by firms.
- Quantity changes post initial trade agreement due to a change in availability will require the trade to be cancelled and re-agreed. Combined with the requirement for bilateral cancellation in many markets – this may lead to unmatched / failing transactions for prolonged periods.

Position Reconciliations

Where positions are not fully or partially reconciled, some market participants may select not to book returns until this is resolved. As a result, some market participants may therefore have booked/alleged transactions which will go unmatched until resolution.

Fails Prevention/Pre-matching

Whilst best efforts may be applied, transactions may not be processed until the next day, resulting in date mismatches and fails.

Manual Pre-Matching Issues

- There is some confusion around who should be sending/receiving the initial excel file of loan and return positions, sometimes duplicating efforts.
- Lack of acknowledgement and response to pre-matching files.
- Some borrowers only match after close of business (COB). However, those pre-matching files may be sent too close to COB in some instances, and this may be reducing the ability to amend before settlement date.

Vendor Pre-Matching Issues

- There is inconsistent contract compare vendor use across industry and there is inconsistency in the way the available solutions are used with little or no interoperability.
- Unmatched contract compare reason codes/reasons for cancelled/rejected trades are not detailed enough to allow counterparty's to perform the next required action. For example if the counterparty believes a rejection is invalid, there is no linkage through the vendor solution to notify, leading to manual emails to be sent outside the solutions.
- The "chat" facilities in automated solutions are not being utilised by members users.
- Getting daily pre-matching/trade files from the vendors in a consistent format would be a win for the industry (avoids numerous manual email files being sent bilaterally).

Counterparty Date Issues

Trading counterparts have internal cut-offs which may be much earlier than the market deadlines. Whilst best efforts may be applied, transactions may not be processed until the next day, resulting in date mismatches and fails. Some firms may stop instructing settlement where their internal cut-off has passed.

Returns Notifications

- Counterparty not actioning manual email returns notifications.
- Overall returns rules across industry are inconsistent.

Fails Prevention/Pre-matching

Additional Observations

- A general move to same day trades is reducing the effectiveness of pre-matching loans.
- The section of ISLA's Best Practice paper on trade matching recommends that trade confirmation straight after trade booking may be too much, as trades can be booked months in advance of settlement date. S-1 may be more practical.
- Although not mentioned in the Best Practice under trade matching, SSIs are sometimes sent with the comparison file. This may be improving pre-matching success for these counterparties.
- Generally, settlement success rates improve if best practice is adhered to.
- DVP trades marked at different times by counterparty's leading to cash discrepancies and subsequent mismatching.
- Inconsistent matching criteria across markets – T2S has largely addressed this but the use of the SB/SL SWIFT tag is debatable (may be needed for CSDR buy-ins anyway).
- Long process to resolve contract compare differences on an individual break basis. Need to have a forum to address how these should be resolved.
- Some firms will cancel a trade after a trade has failed for a pre-determined number of days – this is an issue especially for ETFs where realignments will take>3 days and consideration should be given to establishing market practice on cancelling fails.

Fails Prevention/Pre-matching

Impacts of Pre-Matching

The below shows two sample days, across several borrowers, where manual pre-matching was used. Pre-matching was done with a SD-1 timeframe, as opposed to promptly after the execution of a trade. The pre-matched trades were checked once on settlement date at 9am, and again at 5pm to review success. *Note: Suppressed trades have not been released as they're awaiting collateral.*

	Loans		Returns	
	No.	**%**	**No.**	**%**
Total Reviewed	69		193	
Settled/Resolved 9am	**6**	**9%**	**87**	**45%**
Suppressed at 9am	52	75%	N/A	N/A
Unmatched at 9 am	6	9%	9	5%
Matched at 9am	5	7%	97	50%
Settled/Resolved 5pm	**68**	**99%**	**162**	**84%**
Suppressed at 5pm	0	0	N/A	N/A
Unmatched at 5pm	1	1%	3	2%
Matched at 5pm	0	0	28	15%
Total Trades (Inc Trades Not Pre-Matched)	**92**		**195**	

	No.	%	No.	%
Total Reviewed	104		173	
Settled/Resolved 9am	**7**	**7%**	**87**	**50%**
Suppressed at 9am	82	79%	N/A	N/A
Unmatched at 9 am	1	1%	8	5%
Matched at 9am	14	13%	78	45%
Settled/Resolved 5pm	**100**	**96%**	**154**	**89%**
Suppressed at 5pm	2	2%	N/A	N/A
Unmatched at 5pm	2	2%	2	1%
Matched at 5pm	0	0	17	10%
Total Trades (Inc Trades Not Pre-Matched)	**124**		**295**	

The above table highlights that a relatively high settlement rate can be achieved through SD–1 pre-matching when sending a simple Excel file of positions and with no vendor solution available (98% - 99% settlement of released loans by 5pm on settlement date). This does however require each lender/borrower to have the resource to proactively compare positions. This table also highlights that the return settlement rate is considerably lower than the loan settlement rate, which is most likely a result of contractual versus actual availability mentioned previously in this document.

Securities lending transactions are normally settled in shorter timeframes than standard market settlement cycles.

Settlement Timeframes

Securities lending transactions are normally settled in shorter timeframes than standard market settlement cycles. This, added to the DVP nature of many transactions means that the market infrastructure and more specifically settlement timeframes impact the industry's ability to settle efficiently.

Whilst T2S provides some uniformity of matching and settlement, timeframes are still inconsistent across other non-T2S settlement platforms adding to the complexity of securities lending transactions and most particularly for lenders where recalls are issued to settle sale transactions.

Under the GMSLA, borrowers meet their legal obligations for recalls if the securities are returned by settlement date. However because of mismatches in FOP and DVP cut-offs, this can lead to the loan return settling but not the sale.

For example, in T2S markets the DVP deadline is 16:00 CET but the FOP deadline is 18:00 CET. This means a borrower can return securities FOP at 17:00 and meet their obligation but the lender is unable to settle the DVP sale transaction on the same day.

Settlement Ordering

The algorithm used by CSDs and/or sub-custodians for ordering settlements in many markets is often on a "last in, last out" basis. This means on any given settlement date if the loan of return transaction is matched after the subsequent transaction, settlement delays can occur and liquidity in any particular security may be impacted. As many securities lending transactions can be required for settlement in very short timeframes, that can often be "last in, last out".

Appendix 2 provides details for each European market where settlement timeframes can cause settlement issues in securities lending. Whilst this is not something that the industry can resolve, consideration should be given to how the impact of these inconsistencies can be minimised.

Systemic Prioritisation

Outside T2S markets, systemic prioritisation algorithms mean that FOP transactions may, in certain circumstances, get a lower settlement priority than DVP. This means that the infrastructure is failing FOP transactions whilst waiting for DVP settlements to occur (even where the DVP requires the FOP to happen first) FOP transactions are given a lower settlement priority.

Alongside this anecdotal evidence suggests that settlement systems will begin to prioritise the matching of next day DVP settlements and then fail FOP settlements for same day, because the securities have been allocated to the DVP.

Internal Prioritisation

Internal prioritisation also may have an impact in a similar way. Firms are under increasing resource pressure and it is not uncommon for cash equity settlements and securities lending settlements to be managed by one team, who again may manually prioritise the DVP settlements. In the current environment, this may be understandable given there may be little recourse on failed FOP settlement, however CSDR will allocate fines and penalties which may refocus internal prioritisation.

T2S Functionality

The introduction of T2S has changed the settlement landscape in Europe and a number of enhanced functions could be utilised by the market to improve settlement efficiencies. These functions include:

Hold and Release: the functionality allows trades to pre-match but be held from settlement. The market could utilise this functionality to manage the release of loan instructions on receipt of collateral. This functionality could be used to hold an instruction (post matching) until collateral is received, and if collateral is bilateral the two transactions can be linked to settle accordingly. Although this will not work where collateral is managed separately in a triparty collateral manager, the hold functionality could still be used to pre-match and hold, whilst collateral confirmations are sought from the TPA.

Partial Settlement: this could be used by the market to minimise fails and aid liquidity in certain securities. However, currently firms internal systems are not set up to receive partial settlements and utilising this is likely to create increased manual reconciliations and stock breaks if not implemented correctly. Equally, where loans have been made from an omnibus account, auto partial settlement is restricted due to various risk management procedures adopted by custodians. These complexities, alongside the cost implications for lenders means that this functionality has not been widely adopted.

AFME have published recommendations for utilising T2S functions including the above. These recommendations can be found at AFME Recommendations for T2S settlement[5].

At the same time, T2S change request 653[6] relates to the ability to partially hold and release instructions. This will allow for partial settlement to take place when an omnibus account is in use, and currently this is understood to be released in Q4 2019.

[5] https://www.afme.eu/globalassets/downloads/industry-guidelines/afme-recommendations-for-t2s-v1.72.pdf
[6] https://www.ecb.europa.eu/paym/t2s/progress/pdf/substand/mtg26/CR653_Messaging_Aspects.pdf

Collateral

Collateral requires settlement of securities and can be subject to the same issues discussed elsewhere in the paper, where it is managed outside of triparty collateral managers. However, exposure management and the covering of loans as a process can also cause delays in the settlement of loan transactions whether managed via triparty or bilaterally between counterparties.

The CSDR WG identified the following issues:

- Markets with early cut offs mean limited time to collateralise. Pre-paying collateral in these markets reduces settlement risk.
- The timing of same day loans needs to give sufficient time for collateral to be requested and covered prior to the DVP cut off. Should standard timings be included within the best practice document?
- Delays in agreeing collateral figures postpone the collateral process. Efficient reconciliation processes and pre-matching would help to reduce discrepancies between counterparties and avoid these delays.
- Borrowers need to provide collateral in sufficient time to allow for triparty processes and reporting. Some lenders are also performing additional oversight before loans are released which may need to be considered within this timing.
- Lenders need to ensure the timely release of loan instructions once collateral has been received prior to any DVP cut off.
- Continuous same day bookings can make it difficult for lenders to identify individual loans that have been collateralised earlier in the day. Technology and/or a vendor can help to identify at a trade level where collateral has been received and can be released.
- Accurate SSI information and static data is required for timely settlement of bilateral collateral. Any changes to this information need to be shared and updated timely.
- Timing of collateral substitutions, particularly for bilateral, can result in onward settlement failure.
- A bilateral model is generally slower and more inefficient than the triparty model.

Corporate Actions and Events

Whilst the CSDR WG reviewed practices for Corporate Actions and Events (CA&E), it was recognised that the processes of set up and management do not directly impact the settlement success, apart from where immediate settlement is required and there are discrepancies in set up timings.

As set up is bilaterally agreed and in itself does not require market settlement, it was agreed to exclude CA&E's for the purpose of this paper.

However, firms are advised that under Article 9, CA&E set up may be classified by some firms as an internalised settlement, and so may require consideration under this Article. This will depend on individual firms own interpretation and set up, therefore firms should consider their own applications and impacts.

Next Steps

It is clear from the findings of this research that a number of issues exist which prevent settlement rates improving. Some of these are not resolvable by the industry and will require changes by regulators and infrastructure providers in policy or approach. However some issues can be resolved by adoption of automated solutions and best practices to improve current practice.

The second phase of work undertaken by the CSDR WG will be to identify the possible solutions and where necessary engage with automated (vendor) solutions and market practitioners to provide recommendations to the market either as guidance or best practice.

However, it should be recognised that improvements will only minimise settlement fails and potential buy-ins and that it is inevitable that firms will face both under the CSDR regime.

Therefore, alongside this work to improve settlement rates, ISLA will also be considering the process and practices that will need to be adopted by the market in order to manage settlement fines and buy-ins in the most efficient and cost effective manner.

Appendix 1:
Member firm survey re pre-match and settlement fails

https://www.isla.co.uk/

Appendix 2:
Settlement timeframe mismatches in Europe

https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32014L0065
http://ec.europa.eu/finance/securities/docs/isd/mifid/rts/160714-rts-1_en.pdf
http://ec.europa.eu/finance/securities/docs/isd/mifid/rts/160714-rts-2_en.pdf

Appendix 3:
CSDR Mandatory Buy-in Regulation

Mandatory buy-ins regulation was passed into European law in September 2014 as a provision under CSD Regulation (Level 1).

Article 7.3 of CSDR states:
'Without prejudice to the penalty mechanism referred to in paragraph 2 and the right to bilaterally cancel the transaction, where a failing participant does not deliver the financial instruments...to the receiving participant within 4 business days after the intended settlement date ('extension period') a buy-in process shall be initiated whereby those instruments shall be available for settlement and delivered to the receiving participant within an appropriate time-frame.'

ESMA published its final Report of the technical standards on settlement disciplines under the CSDR regulation in February 2016 (ESMA/2016/174) with an entry into force 24 months after publication in the Official Journal on 10th March 2017

Appendix 4:
ISLA Best Practive for Operational Processes for Security Lending Transactions

https://www.isla.co.uk/

Summary of the provisions for mandatory buy-ins

- The buy-in process shall be part of the contractual documentation applicable to each participant of a CSD, CCP, and trading venue.
- Buy-ins should avoid unnecessary costs for the failing counterparty and avoid any risk taking by the CSD, CCP, and trading venue.
- The receiving party has an obligation to notify the failing party and CSD: (a) at the end of the last business day of the extension period; (b) on the last day of the buy-in period with the results.
- Buy-ins can only be executed against the unsettled amount of securities, and partials must be accepted by the receiving counterparty at the end of the extension period, regardless of counterparties opting out of auto-partial settlement.
- Where buy-ins are only partially successful, the receiving counterparty must accept the amount of securities successfully bought-in. For the residual amount, the receiving counterparty can choose to defer the buy-in or receive cash compensation.
- Where the buy-in fails, the receiving counterparty can choose to defer the buy-in or receive cash compensation.
- The extension period (the number of consecutive days a transaction fails before the buy-in is initiated) will be 4 business days for liquid securities and 7 days for illiquid securities (as defined by MiFID II/R).
- The buy-in period (the timeframe to deliver the securities after the extension period has lapsed) will be 4 business days for liquid securities (as defined by MiFID II/R) and 7 days for illiquid securities for all other securities.
- The receiving trading party must trigger a buy-in after the extension period via a buy-in agent
- All SFTs with a term of less than 30 days will be exempt
- For operations composed of several transaction (i.e. repos and securities lending transactions):
  - I. The second-leg will be treated the same as an outright sale (so in scope)
  - II. The first-leg will be bought-in where the timeframe to settle the buy-in (extension period plus buy-in period) is shorter than the term of the transaction (i.e. the buy-in can be settled before the second-leg of the transaction).
  - III. For these transactions, a buy-in against the first-leg will be considered ineffective where the second-leg falls before the buy-in can be settled.
  - IV. This suggests that the first-leg of securities financing transactions (SFTs) will be in scope where the term of the SFT is 9 days or longer for liquid assets, and 15 days or longer for illiquid assets (or possibly 13 days and 22 days respectively if the possibility for deferral is allowed for)
- Where a buy-in fails or is not possible, cash compensation shall be determined by;
  - I. A price determined by the buy-in agent with reference to the closing price of the relevant trading venue the previous day; or where not possible, with reference to market prices available across different trading venues or brokers
- Where the reference price for cash compensation is less than the original transaction price, the compensation will be set at zero.

A participant will be deemed to consistently and systematically fail where its settlement efficiency rate is 15% lower than the rate for the relevant settlement system (although no recourse is prescribed). CSDs shall provide to affected CCPs and trading venues information relating to failed transactions, including the list of instructions the CCP or trading venue sent for settlement to the CSD, along with information relating to intended settlement date, end of extension period, end of buy-in period, end of deferral period, and payment of cash compensation or settlement or cancellation.

Disclaimer

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