

# Participant default procedure Board policy

Applicable to staff and contractors of Euroclear Sweden AB



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## Reference information

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Key contact(s)	Head of Operations
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# Table of contents

1. Introduction .....	3
2. Scope .....	3
2.1. Objectives.....	3
2.2. Implementation .....	4
3. The Silver Team.....	6
4. Testing of this Board policy .....	6
5. Oversight of this Board policy .....	7
5.1. Oversight of this Board policy.....	7
5.2. Creating awareness on Participant default procedure matters.....	7
5.3. Violations of Euroclear Swedens’s policies.....	7
6. Definitions .....	8

## 1. Introduction

These Guidelines set out the principles, considerations and procedures that ES will apply in handling the default of participants. In order to test the effectiveness and practicality of the participant default procedure, ES will undertake with its participants and other relevant stakeholders testing and review at least annually.

## 2. Scope

### 2.1. Objectives

The objective of the Settlement Finality Directive (“SFD”) is to reduce systemic risk in the event of system participant’s insolvency. While ES is a designated system under the SFD, the Board Policy has been prepared to ensure that correct actions are taken among ES to mitigate potential systemic risk that participant’s insolvency might cause

Participants are considered to be in default when the participant

- is declared bankrupt,
- files its own bankruptcy petition,
- suspends payments,
- is the subject of composition proceedings or compulsory reconstruction
- if other circumstance exists that indicates the participant is insolvent, or

- the FSA authorisation is withdrawn.

## 2.2. Implementation

### General actions

1. The measures in this policy shall be activated once ES has identified a participant default and taken all reasonable measures to verify its occurrence.
2. When information is received about one of the situations covered in these guidelines, the information should be escalated to the Silver team. Participants are requested to notify their default to ES as soon as possible via email to Clear\_Settle@euroclear.eu or via telephone to +4684029125.
3. Business Operations should as soon as possible map all dealings (holdings, transactions etc.) which the Participant currently has with ES and report this to the Silver Team. The information should be regularly updated.
4. As soon as information is received of a default of a participant, that information, including details available at that moment in time and the source of the information, should be transmitted to the FSA. Following this, as soon as possible, the following information as well as additional relevant information should be identified and transmitted to the FSA:
  - a. the type of participant in respect of which the default has occurred;
  - b. the total volume and value of the defaulting participant's settlement instructions that are pending settlement and, if possible, of those that may fail to settle;
  - c. the types of transactions and financial instruments those instructions relate to;
  - d. if applicable, in which common settlement infrastructure the defaulting participant's settlement instructions are processed and, when available, any other indicators of cross border activities of the participant in default;
  - e. where known to the CSD, the number of clients the defaulting participant has; and
  - f. information on any material risk that such default might entail.
5. The Silver Team should as soon as possible establish contact with authorised personnel of the Participant. If the Participant has been declared bankrupt or in liquidation, the receiver in bankruptcy or liquidator should be contacted.
6. When it has been verified that bankruptcy, compulsory reconstruction or other proceedings of a comparable nature have been initiated against a clearing member and/or a settlement bank any further transfer orders from the participant shall be rejected<sup>1</sup>. This action should be taken by Settlement & Asset Services at Business Operations. The participant should be informed of the action as soon as possible by the Head of Operations, or the Chief Operating Officer or the Head of Legal (see also section 14).
7. ES will also as soon as possible inform the competent authorities, the relevant authorities, non-defaulting participants, trading venues and CCPs served by the CSD, the linked CSDs and ESMA of the actions taken by ES as a result of the default.
8. After verification of one of the situations covered in these guidelines the decision on whether to temporary suspend/exclude the Participant wholly or in part from further participation should be taken by the CEO. If action 6 is not applicable the decision should include to what extent operations in the VPC-system should be terminated. The decision can come into force with immediate effect and should be on a temporary basis. The

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<sup>1</sup>In the event that the defaulting participant acts as Settlement Bank for other Clearing Members, those Clearing Members will be blocked from sending new transfer orders under the failing Settlement Bank.

Participant should be informed of the decision as soon as possible and be sent a written notice of the decision.

9. The Participant should be given an opportunity to submit an explanation or take corrective measures. Thereafter, a final decision regarding exclusion can be taken by the CEO.
10. After suspension/exclusion and consultation with authorised personnel of the Participant (e.g. receiver in bankruptcy), establish if any registrations in the VPC-system should be allowed.
11. The Silver Team should establish contact with other Euroclear group entities to inform of the situation and ascertain whether the Participant is active within other parts of the group. The Silver Team should establish who will coordinate these contacts.
12. The Silver Team should appoint an employee who maintains a record of all actions taken by ES.
13. The Silver Team should establish an ES spokesperson.
14. After the general action 6, clearing members transfer orders are only allowed to be initiated for settlement current day or following intended settlement days. Instructions that not settle should be blocked from recycling..
15. After the general action 8, the following actions should be taken with regards to a clearing member;
  - a. The decision, in accordance with the general action 8, to restrict or terminate the clearing member's ability to enter new transfer orders should be implemented by Settlement & Asset Services at Business Operations. Previously entered transfer orders should be subject to matching and pre-settlement procedures in accordance with the normal routines for the handling of transfer orders.
  - b. Business Operations should contact the settlement bank for information on which actions it intends to take. Note that the settlement bank's obligations towards the clearing member are unchanged after the decision to temporarily exclude the clearing member. But the settlement bank can, with five days' notice, terminate its obligations in relation to the clearing member. In such cases it is the duty of the settlement bank to ensure that all the bank's payment undertakings have been settled or else taken over by another settlement bank at the latest by the end of the period of notification. If the settlement bank decides to terminate its obligations, a confirmation of said termination should be sent by ES to the settlement bank and the clearing member.
  - c. When ES has taken the final decision to exclude the clearing member, the settlement bank's obligations towards the clearing member ceases.
16. After the general action 8, the following actions should be taken with regards to a settlement bank;
  - a. The decision, in accordance with the general action 8, to restrict or terminate the settlement bank's ability to enter instructions should be implemented by Settlement & Asset Services at Business Operations. This should be discussed with the Riksbank to ensure that it does not affect the financial stability of the market.
  - b. Business Operations should contact clearing members using the settlement bank, for information on which actions they intend to take. Note that the clearing member's ability to terminate its relationship with the settlement bank is not regulated in the ES rules.

17. After the general action 8, the following actions should be taken with regard to an account operator/issuer agent:
  - a. The decision, in accordance with the general action 8, to restrict or terminate the account operator's ability to enter instructions should be implemented by Settlement & Asset Services at Business Operations.
  - b. Business Operations should contact other Participant's using the account operator for information on which actions they intend to take. Note that other participant's ability to terminate its relationship with the account operator, or vice versa, is not regulated in the ES rules.
  - c. Business Operations should start the discussion with the bankruptcy trustee regarding the transfer of clients to another account operator and issuers to another issuer agent.
18. After the general action 8, the following actions should be taken with regard to a nominee;
  - a. Business Operations should, if necessary, help coordinate the transfer of holdings to another nominee and/or account operator.

### 3. The Silver Team

The Silver Team is the crisis team within ES regarding situations that arise in case of the default of a participant. The composition of the team might be adapted to the situation at hand.

### 4. Testing of this Board policy

The policy will be tested annually as well as following any changes to it or upon request by the competent authority. Such tests will involve relevant samples of participants, market infrastructures, and any other entities as appropriate.

Prior to each test, ES will define the parameters of how the test will be run. If requested by the competent authority ES will submit those parameters to it prior to the test.

In case any weaknesses are revealed in the testing, the policy will be updated accordingly. ES will inform any market infrastructures or participants of any noticed lack of knowledge or readiness relevant to the policy, and make sure actions are taken to remove such weaknesses.

The results of any tests and the contemplated changes to the policy, if any, will be shared with the Board, risk committee, competent authority and relevant authorities. A summary of the results of the test and the contemplated changes to the policy, if any, shall be disclosed to its participants.

## 5. Oversight of this Board policy

### 5.1. Oversight of this Board policy

The content of this document is approved by the Board.

The Business Operations/Settlement and Assets Services is accountable for overseeing the implementation of this document and of the underlying policy documents. Business Operations/Settlement and Assets Services will:

- review this document every year or as needed and report any findings to the CEO; and
- recommend amendments or additions, when appropriate.

### 5.2. Creating awareness on Participant default procedure matters

Business Operations/Settlement and Assets Services is responsible for implementing an effective training framework in support of this Board policy and more generally in driving the awareness of Participant default procedure matters. The CEO is responsible for ensuring that their teams are adequately aware of the risks faced in their business area. In addition, Business Operations/Settlement and Assets Services is available for any questions or concerns.

### 5.3. Violations of Euroclear Swedens's policies

Violations of ES's policy documents, Code of Business Conduct, laws, regulations or market practices may lead to legal proceedings or criminal sanctions in line with domestic legislation, as well as administrative or disciplinary action. For further information about reporting violations, please refer to the "Speak Up Policy Handbook" available on Pulse+.

## 6. Definitions

Definitions of significant terms used in this document are set out below:

Board	The Board of Directors of Euroclear Sweden AB.
CEO	ES Chief Executive Officer
Policy owner	The assigned person from the business accountable for driving the revision/creation of policy documents. The relevant business area decides who it nominates as the policy owner.
Policy Documents	ES Board Policies and Policy Handbooks
Contractor	Any person other than Staff, who provides services to ES, whether as temporary or casual staff, agency workers, independent contractors and consultants, in each case whether engaged directly by ES or through an intermediary company or agency.
CSDR	Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012.
ES	Euroclear Sweden AB, company reg. no. 556112-8074
CSD	Central Securities Depository
Staff	Any person employed full-time or part-time by ES under a contract of employment, whether based at a Euroclear Company's premises or otherwise.