



*Post-trade made easy*

# Special resolution

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## **CS 5 – 2022, Settlement incentives and settlement head-room**

### **Euroclear Sweden**

In accordance with General terms and conditions for account operations and clearing C 2.8 and C 4.4

Applies from 2022-02-01

## A. Settlement incentives

In order to ensure an orderly settlement where clearing members deliver securities at the appointed time and have the required funds available for the assurance of settlement, and for the purpose of adhering to the settlement discipline regime stipulated in CSDR, Euroclear Sweden AB ("ES") has decided to introduce settlement incentives in accordance with the below principles of this Special Resolution.

Terms not defined specifically in this Special Resolution shall have the meaning of ES General Conditions for Accounting and Clearing.

### 1. DIFFERENTIATED FEES AS INCENTIVE FOR THE PROMPT REGISTRATION OF INSTRUCTIONS

Transfer orders for settlement on day S may be registered up to the final settlement occasion on that day. It is, nevertheless, in the interests of all members and of ES that the instructions are entered as early as possible in the settlement process, hence ES applies differentiated fees depending on the time of registration.

For the AM sub-market the following applies:

- Higher price for registering orders and deliveries on member accounts after 12 noon on S-1 (apart from instructions containing an event code)
- Higher price for registering deposits and withdrawals on VPC accounts after 12 noon on day S.

For the PM sub-market the following applies:

- Higher price for registering purchase and sale instructions after 12 noon on day S.

For crossborder transactions the following applies:

- Higher price for registering after 12 noon on day S-1.

### 2. PENALTIES FOR FAILED SETTLEMENT

ES applies penalties for settlement fails in accordance with Article 7(2) of CSDR and Articles 16-20 of CSDR RTS 1229. The fees are calculated in accordance with the European Commission's delegated Regulation (EU) 2017/389.

Payment and distribution of penalties

For the practical handling of penalties, ES applies a calendar on "banking days for sanction fees" ("BDS") for a certain given calendar month in accordance with the agreed market practice for CSDR. ES will daily provide relevant participants with information on estimated penalties in accordance with Article 16 CSDR RTS 1229. Participants then have for a certain period in the event of exceptional circumstances<sup>1</sup> the opportunity to request appeal and response in accordance with what is specified in the Service Description. On the specified day according to Service Description, ES will notify relevant participants the total sum of sanction fees to pay and/or obtain for the previous month. The penalties must then be paid to ES by deposit on the pre-intended account and are available for ES at the specified day and time according to Service Description (as far as domestic transactions, for cross-border transactions, see below). Then, ES will reconcile and distribute penalties to relevant receiving participants. More information about accounts and timings for payment/obtaining penalties can be found in Service Description.

Non-payment of announced penalties in time is a violation of ES Terms & Conditions, which can lead to exclusion and temporary suspension in accordance with Section A 10.2 of ES Terms & Conditions. The account to which the payment is done should also

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<sup>1</sup> Such a request should be based on ESMA's Q&A for CSDR, Settlement Discipline Question 4

be emptied at the end of each working day. In case of an overnight balance, the participant is obliged to pay the potential cost.

ES normally only pays penalties corresponding to what was paid to ES. This means that, if announced penalties have not been received on BDS 18 at the latest, ES, as far as possible, excluding participants who have not paid penalties, and participants who must be assessed as insolvent and excluded according to CSDR, and then perform a recalculation based on incoming penalties to determine penalties to allocate to relevant participants. Such penalties will be made available for receiving participants as soon as possible after recalculation. Any bilateral claims resulting from non-payment situations and thereby excluded from ES calculation of penalties should be paid between the relevant participants outside the VPC system. ES is not responsible for penalties not paid to ES.

For more detailed provisions on payment and distribution of penalties, see the Service Description.

#### Special provisions for cross-border transactions

In case ES is an Investor CSD for a given transaction, ES has to relate to the provisions on the payment of penalties that current issuer CSD and/or intermediary set up in their respective Terms and Conditions for participation, thus some deviations in the above-described payment and distribution of penalties are expected.

To ensure that sufficient time exists for cross-border transactions in different currencies, other days and timings for payment and distribution of penalties will apply to cross-border transactions in the case when ES is Investor CSD. Further information is found in Service Description.

#### Costs for the sanction mechanism

ES has, in accordance with Article 18 of the CSDR RTS 1229, the right to charge the participants for the cost of the sanction mechanism. The fee is stated in ES List of fees and charges.

### **3. PUBLICATION**

ES reports to the Swedish Financial Supervisory Authority and publishes some information regarding settlement fails in accordance with what is set out in Articles 14-15 of CSDR RTS 1229.

In addition, ES publish certain information/statistics to all members via the VPC system, e-mail, introduction to the ES website or other media (when publishing the website, password protection is applied where clearing members are given access) regarding how the members register assignments and meet payment and delivery commitments, as follows

#### Publication of registration statistics

Publication of registration statistics on the members' registration of orders in the VPC system, to incentivise early registration of instructions.

#### Publication for non-fulfilled settlement headroom

Publication of settlement bank and clearing member for any basic settlement headroom and expected net payment amount under Section B below not been registered at the latest at the specified time.

## Publishing regarding compliance with supplies

*For the AM part, the following applies:*

- Publication of clearing member with a negative position at the last settlement with liquid.
- Publication of delivery statistics.

*For the PM part, the following applies:*

Different rules apply to different securities depending on whether there is a functioning repo market or not. In the securities where there is a functioning repo market, these are marked in the VPC system and are referred to as "repo-marked securities". ES decides, after consulting issuers and market participants, which securities should be repo-marked, see Appendix 2.

Delivery capacity in repo-marked securities on PM accounts should be available no later than noon. 3 p.m. on the Settlement Day. At this time, instructions that give rise to negative positions are automatically excluded by the system. For settlement to take place, new instructions must be registered by both buyers and sellers.

Clearing member can indicate that certain PM account should be exempted from the automatic system exclusion. Negative positions on such PM account will thus be able to remain until the last settlement with payment. Such account is termed "PMR account".

The following publication is made regarding negative positions on all PM accounts (incl. PMR accounts):

- Publication of clearing member with a negative position in repo-marked securities partly at 3.15 p.m. partly at the last settlement with payment.
- Publication of clearing member with a negative position in other securities at the last settlement with payment.
- Publication of delivery statistics.

## B. Settlement headrooms

For an orderly settlement in accordance with the instructions submitted, it is necessary for settlement banks and clearing members to fulfil their payment commitments. This can only occur if settlement banks and clearing members have sufficient liquidity in the form of settlement headroom in conjunction with settlement on day S. Settlement banks and clearing members that have payments to effect must consequently, in accordance with the provisions set forth below, in the first place possess, at the start of settlement day, a specified lowest level of settlement headroom on the liquidity settlement account and on the cash memorandum account, and, secondly, if required later during the day, raise the settlement headroom in accordance with the forecast of net payment amounts. ES calculates the required level of settlement headroom at the commencement of the settlement day from an historic gross turnover and an historic net payment amount. See appendix 1.

### **Basic settlement headroom<sup>2</sup>**

Every *settlement bank* shall have a basic settlement headroom on its liquidity settlement account (LAK) at 07.15 a.m. on day S. This basic settlement headroom shall remain in place up to the final time of the day for settlement with payment. The recalculation of demands pertaining to basic settlement headroom will be made by ES every quarter in rolling 12-month intervals. Each settlement bank will be informed by ES of the demands concerning basic settlement headroom currently in force at any one time.

A *clearing member* shall possess a basic settlement headroom, at 07.15 a.m. on day S, on each and every cash memorandum account (LNK) belonging to such member. Certain exceptions apply, however, in respect of a clearing member having only a limited number of net payment amounts or a minimum calculated basic settlement headroom over a certain time period – see appendix 1. The basic settlement headroom shall remain in place until the final time of the day for settlement with payment<sup>3</sup>. The recalculation of demands pertaining to the basic settlement headroom will be made by ES every quarter in rolling 12-month intervals. Each clearing member will be informed by ES of the demands concerning the basic settlement headroom currently in force at any one time.

### **Expected net payment amount**

ES makes a forecast each day, for settlement banks and clearing members and for each of the sub-markets, of the expected net payment amount, that is the net of payments of all matched transfer orders with payment, as well as payments related to interest and redemption. The settlement banks and clearing members are informed of the expected net payment amount by means of a functionality in the VPC system.

Before each settlement cycle, *settlement banks* shall register the expected net payment amount as settlement headroom on the liquidity settlement account (LAK), in accordance with the timetable below. Thus, any remaining basic settlement headroom is also taken into account in the calculation. The settlement headroom shall remain in place up to the subsequent settlement cycle, although only where the settlement bank has further payment instructions to be settled on day S. It is incumbent on the settlement bank, before the final settlement occasion, to monitor the net payment amounts and to adjust the settlement headrooms accordingly to see that they do not have a limiting effect.

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<sup>2</sup> "Basic settlement headroom" was previously named "basic liquidity/limit".

<sup>3</sup> In case of a clearing member default, the settlement bank of the clearing member has the possibility to decrease the limit to the amount already used on the default date. On the following days, the settlement bank has the possibility to set the limit to zero to limit its exposure toward the defaulting member.

Where *clearing members* are concerned, the expected net payment amount shall be registered before each settlement cycle as settlement headroom on the cash memorandum account (LNK) belonging to a particular member or to one of its CIDs or PM account groups, in accordance with the timetable below. The settlement headroom shall remain in place up to the subsequent settlement cycle, though only where the clearing member has further payment instructions to be settled on day S. It is incumbent on the clearing member, before the final settlement occasion, to monitor the net payment amounts and to adjust the settlement headrooms accordingly to see that they do not have a limiting effect.

In the PM sub-market, settlement banks and clearing members shall also see to it that the expected net payment amount for the interest and redemption process is available as settlement headroom on the liquidity settlement account (LAK) or the cash memorandum account (LNK) (CM and/or PMK) as shown below:

Schedules for payment of net payment amounts

**i) The AM sub-market:**

<b>Time</b>	<b>09.00 a.m.</b>	<b>11.00 a.m.</b>	<b>2.30 p.m.</b>
Net payment amount	100%	100%	100%

**ii) The PM sub-market:**

<b>Time</b>	<b>07.30 a.m.</b>	<b>09.30 a.m.</b>	<b>11.30 a.m.</b>	<b>3.00 p.m.</b>
Net payment amount	0%	0%	100%	100%

**iii) PM sub-market, Interest and redemption:**

<b>Time</b>	<b>I/R 1</b> (07.15 a.m.)	<b>I/R 2</b> (08.00 a.m.)	<b>I/R 3</b> (09.30 a.m.)	<b>I/R 4</b> (11.00 a.m.)	<b>I/R 5</b> (12.00 noon)	<b>I/R 6</b> (1.00 p.m.)
Net payment amount	0%	0%	0%	100%	100%	100%

The net payment amount for the AM sub-market (i) includes payments related to transfer orders (instructions for receipts and deliveries) regarding the secondary market. Payments related to transfer orders regarding the primary market are administered outside of the VPC system.

The net payment amount for the PM sub-market (ii) includes payments related to transfer orders (buy and sell instructions) regarding the secondary market and regarding the primary market for issuers with no payment obligation for interest and/or redemptions to pay.

The net payment amount in the PM sub-market, interest and redemption (iii) includes payments for interest and redemptions, transfer orders (buy and sell instructions) in securities subject to redemption. The amount also includes transfer orders regarding the primary market if the issuer on the specific settlement day has obligations related to interest and/or redemption payments. Transfer orders regarding the primary market are defined as buy and corresponding sell instructions from the "issue account" of the issuer.

**APPENDIX 1**  
to Special Resolution CS 5

**FORMULA FOR CALCULATING BASIC SETTLEMENT HEADROOM**

- N = Total of net payment amounts over the past 12-month period.
- D<sub>1</sub> = Total number of occasions with a net payment amount over the past 12-month period, with 80 as a minimum.
- B = Total of gross turnover (purchase and sale payments) over the past 12-month period.
- D<sub>2</sub> = Total number of bank days over the past 12-month period.
- f<sub>n</sub> = Factor specifying the weighting of the average net payment amount.
- f<sub>b</sub> = Factor specifying the weighting of the average gross turnover.

The basic settlement headroom of a settlement bank is calculated on the basis of the average daily turnover over the past 12 months. The basic settlement headroom is rounded off upwards to the nearest one million Swedish kronor. The basic settlement headroom of a clearing member is calculated on the basis of the member's average daily turnover over the past 12-month period, times 150%, that is a by a factor of f<sub>n</sub> = 1.5 in the table below, of the average negative net amounts over the past 12-month period. The amount is rounded off upwards to the nearest hundred thousand Swedish kronor.

Clearing members with a net payment amount on a limited number of occasions, or with limited net payment amounts, during the period specified above (past 12 months), can be excluded from the calculation and from the demand to register the basic settlement headroom. Neither does ES place demands on the basic settlement headroom regarding cash memorandum accounts (LNK) belonging to a PM account group, if the calculated amount is less than 5 million Swedish kronor. For new settlement banks and clearing members without a history, ES makes an estimate of reasonable demands concerning basic settlement headroom.

$\text{Basic Settlement Headroom} = \begin{cases} \text{if } D_1 > 12: & \frac{N \times f_n}{D_1} + \frac{B \times f_b}{D_2} \\ \text{if } D_1 \leq 12: & 0 \end{cases}$
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**Overview of factors relating to SEK**

	AM sub-market		PM sub-market	
	f <sub>n</sub>	f <sub>b</sub>	f <sub>n</sub>	f <sub>b</sub>
Settlement bank	0	0,02	0	0,003
Clearing member	1,5	0,01	0	0,005
CID/ PM account group	1,5	0,01	0	0,005

**Overview of factors relating to EUR**

	AM sub-market		PM sub-market	
	f <sub>n</sub>	f <sub>b</sub>	f <sub>n</sub>	F <sub>b</sub>
Settlement bank	0	0	0	0
Clearing member	0	0	0	0
CID/ PM account group	0	0	0	0

Where the EUR or other currencies is concerned, no demands are at present proposed regarding basic settlement headroom. As regards expected net payment amounts in EUR or other currencies, the same amounts and times apply as for SEK.

**APPENDIX 2**  
to Special Resolution CS 5

**REPO-MARKED SECURITIES IN THE VPC-SYSTEM**

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In the PM sub-market of the VPC system, securities registered in Euroclear Sweden which are exchange listed and issued by the issuers listed below will obtain status repo-marked. Exchange listing is defined as securities which are listed on the "submarket OMX STO Benchmarks bonds" of Nasdaq OMX. The current valid status of a specific security is available in the VPC system.

Security types from issuers listed below will obtain a repo-marked status in the VPC system:

<b>Issuer</b>	<b>Issuer identity in the VPC system</b>	<b>Security type</b>	<b>Currency</b>
Danske Hypotek AB	DANSKEHYP	bonds	SEK
Kommuninvest i Sverige AB	KOMMUNINVE	bonds	SEK
Länsförsäkringar Bank AB	LÄNSFÖRSÄK	bonds	SEK
Länsförsäkringar Hypotek AB	LFHYPOTEK	bonds	SEK
Nordea Hypotek AB	NDAHYPOTEK	bonds	SEK
S E B AB	SEB	bonds	SEK
Stadshypotek AB	STADSHYP	bonds	SEK
Sveriges Bostadsfinansieringsaktiebolag, SBAB	SBAB	bonds	SEK
Swedbank Hypotek AB	SWEDHYP	bonds	SEK
Swedish Covered Bond Corporation, SCBC	SCBC	bonds	SEK
Swedish Government (National Debt Office)	STATEN	bonds, index-linked bonds, treasury bills <sup>4</sup>	SEK

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<sup>4</sup> Refers to treasury bills denoted "RGKT YYMM" only. YY and MM refers to the maturity date, year and month respectively. On-tap bills denoted "RGKL 1W", "RGKL 2W", ... , "RGKL 6W" will not obtain the status repo-marked in the VPC-system.