



Post-trade made easy

Special resolution

CS 5 – 2019, Settlement incentives

Euroclear Sweden

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

Applies from 03 June 2019

Settlement incentives

In order to ensure that clearing members deliver securities at the appointed time and have the required funds available for the assurance of settlement, Euroclear Sweden AB ("ES") has decided to introduce settlement incentives. The incentives consist of increased fees for late registration, penalty fees and publication.

The following incentives will be introduced:

Fees:

The size of the fees introduced as an incentive may be seen in ES price list. Any fees to be charged will be debited in conjunction with ES regular invoicing of clearing members. The General Terms and Conditions, section A 5.5 otherwise applies for fees in general.

Publication:

Publication refers to information to all clearing members via e-mail, by insertion on ES website or via other media. Where publication on the website is concerned, the principle of password protection applies by which clearing members are given access.

INCENTIVES FOR THE PROMPT REGISTRATION OF INSTRUCTIONS

Transfer orders for settlement on day S may be registered up to the final settlement occasion on that particular 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.

For the AM sub-market the following applies:

- Higher price for registering receipts and deliveries on member accounts after 12 noon on S-1 (with the exception of instructions containing an event code)
- Higher price for registering deposits and withdrawals on VPC accounts after 12 noon on day S.
- The publication of registration statistics

For the PM sub-market the following applies:

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

INCENTIVES FOR SETTLEMENT HEADROOM

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 headroom¹

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 payment². 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.

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:

¹ "Basic settlement headroom" was previously named "basic liquidity/limit".

² 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.

Schedules for payment of net payment amounts

i) The AM sub-market:

Time	09.00 a.m.	11.00 a.m.	1.00 p.m.
Net payment amount	100%	100%	100%

ii) The PM sub-market:

Time	07.30 a.m.	09.30 a.m.	11.30 a.m.	1.30 p.m.
Net payment amount	0%	0%	100%	100%

iii) PM sub-market, Interest and redemption:

Time	I/R 1 (07.15 a.m.)	I/R 2 (08.00 a.m.)	I/R 3 (09.30 a.m.)	I/R 4 (11.00 a.m.)	I/R 5 (12.00 noon)	I/R 6 (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.

The following incentives apply concerning settlement headroom

- Publication of settlement banks and clearing members for which the required basic settlement headroom, or alternatively the expected net payment amount, has not been registered by the time stated.
- Penalty fee for clearing members for which the expected net payment amount has not been registered by 11.00 a.m. on the AM sub-market and by 11.30 a.m. and on the PM sub-market.

INCENTIVES FOR MEETING DELIVERIES

On the AM sub-market, the following applies :

- Publication of clearing members with a short position at the final time for settlement with payment.
- Publication of delivery statistics.

On the PM sub-market, the following applies :

Different rules apply for different securities depending on whether or not a functioning repo-market is in existence. Securities, in which there is a functioning repo-market, are

marked in the VPC system and are designated as "Repo-marked securities". ES decides, after consultation with issuers and market participants, which securities that will be repo-marked.

Delivery capacity in repo-marked securities on PM accounts must be in place at the latest by 13:30 on the settlement day. At this point in time, instructions that lead to a short position on a PM account will automatically be excluded by the system. In order for settlement to take place, new instructions must be entered by both buyer and seller.

PMR accounts

Clearing members may specify a particular PM account as an exception to the automatic system exclusion. Short positions that arise on such PM accounts will consequently be able to remain in place up to the final settlement with payment. Such PM account is called "PMR account".

The following incentives apply to negative positions on all PM accounts (incl. PMR accounts):

- Publication of clearing members with a short position in Repo-marked securities at 1.45 p.m. and at the final settlement cycle for settlement with payment
- Publication of clearing members with a short position in other securities at the time of the final settlement cycle with payment
- Penalty fee for clearing members with a short position at the time of the final settlement cycle with payment
- Publication of delivery statistics

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.
- D₁ = 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.
- D₂ = Total number of bank days over the past 12-month period.
- f_n = Factor specifying the weighting of the average net payment amount.
- f_b = 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_n = 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 _n	f _b	f _n	f _b
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 _n	f _b	f _n	F _b
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

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:

Issuer	Issuer identity in the VPC system	Security type	Currency
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 ³	SEK

³ 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.