Settlement Discipline Regime Standing Group Minutes – 31 March 2017

1) Approval of minutes from 20 February 2017

The minutes were approved without further comment.

2) Update on clearing level task force

The clearing level task force provided the following update:

- A unified gap analysis has been signed off and circulated with the clearing members of the TF
- The TF will be meeting again within the next few weeks at which point they will examine the gap analysis with a view towards:
    - delegating the ownership of tasks
    - the generation of workflows
    - prioritisation of tasks
- Have held discussions with EUI regarding the harmonisation of reporting data flows, AFME on buy-ins, and ECSDA on penalties.
- Beginning to look at Level 3 Q&As
- ICE Clear have to asked to join the TF from the perspective of implications of the SDR for equity derivatives and will be included moving forward

CR reiterated the value of coordinating with bodies from other markets, and again encouraged the group to share contacts that may be useful. ESMA had also not yet started on Q&A's so it would be useful to begin to draft questions to share at the next meeting – **ACTION 1**

LCH confirmed that they are able to share a contact from the Swedish market – **ACTION 2**

3) Update on trading level task force

The trading level task force provided the following update:

- Continue to work through line-by-line RTS with a detailed gap analysis to follow
- Beginning to assign areas of interest to specific members
- Three risks identified and added to the risk register
- An initial meeting with market makers of illiquid securities had taken place and the following was discussed:
    - Potential manipulation of the buy in process
    - Amendment of venue rules to allow for liquidity provisions
    - Early ideas to ease fails that will need to be feasibility tested before refinement

The subject of systemic failures was also discussed, specifically how participants could be identified and the composition of a review committee. It was suggested that LEIs could be used to identify failing participants.

Update on the above to be provided at the next meeting – **ACTION 3**

CR commented that although the regulator would be unlikely to sit on the review committee, the committee would report to the regulator and there would be a need for transparency.

CR noted that the line-by-line was important to populate the risk register, it should be prioritised and defined at the next meeting – **ACTION 4**

CB referred to an item on the risk register regarding buy-ins on a security that is suspended from trading, which the standards do not specifically accommodate. Risk register sponsors should attend the next task force meeting – **ACTION 5**

CR commented that if a buy-in is not possible, it should not be triggered. Clarification is required on this point and could form part of a Level 3 FAQ.

4) Update on settlement level task force

The settlement level task force reported that during the most recent meeting they continued to work through line-by-line RTS – it is hoped this will be complete at the next meeting. Upon completion, focus will turn towards individual transactions types.

The below items were discussed and subsequently added to the risk register:

- How to account for netted transactions that are of more than one type and/or across multiple trade dates
- Transactions that are netted across platforms do not have a distinct place of trade
- In the case of default by a participant, who becomes the creditor/debtor to the default estate

The TF also discussed cases where a transaction was unmatched after intended settlement date. Clarification will be required as to whether the second matcher is fined the 'cash' or 'stock' rate.

CP provided stats of projected fines over a period of 20 business days in February 2017. The total projected net fine over this period was about 2.2m GBP.

CP asked for clarification on the rate that would be used to calculate the fines on cash fails. Base rate vs overnight rate?

CR said that this is something that will need to be confirmed by the Bank of England's banking team – **ACTION 6**

The group was reminded of the settlement engine being developed by the Euroclear Group.

It was asked when the engine would be finalised and operational and what would be the forum to discuss in detail?

CP said that there was no fixed date for completion, but that it was still anticipated that there would be a period of 3 months of dry running to allow participants to examine the impact of the new regime. The components of the engine are already fixed and do not impact clients. However, EUI does recognise the need for harmonised reporting across the board.

CR asked that CP prepare a presentation of the penalties engine for the next meeting - **ACTION 7**

The group questioned the availability of reference data post-Brexit, with specific focus on the most liquid market pricing. CR noted that all BREXIT implications should be added to the risk register – **ACTION 8**

It was asked about the timing of the collection of fines.

CP explained that each monthly period of fines would be followed by a month of reconciliation with overseas CSDs. This time period would also allow for any adjustments that would be required if, for instance, the price of a security was disputed. Once the fines were finalised, they would be netted at user level. The fines would then be collected at the beginning of the following month i.e. collection at the beginning of March for the January fine period.

CR emphasised the need for key developing themes, for instance, the proposed timing of fine collection, be presented and captured by the working group to allow oversight with the group as a whole before key decisions are made. Any decision that will impact the group should be shared to allow informal consultation.

CP commented that the penalties engine was a significant component of the new regime and the current focus was on the business requirements needed to build it. He added that work was being carried out is on the basis that the currently available standards would not change significantly.

All sponsors recognised the need to involve the working group fully before specifications can be decided.

It was asked whether the fines collected and distributed would be classed as client money.

This will need to be followed up with the FCA – **ACTION 9**

CR suggested that breakout sessions may be a useful on the bigger building blocks of the regime as had previously been discussed for mandatory buy-ins, and any suggestions of themes should be shared – **ACTION 10**

5) Review of the Risk Register

CB explained that the risk register would be updated to include dates for delivery and linked risks.

CR highlighted the need for questions to be separated from the risk register and collated in a separate list.

The representative for BoNY (MC) kindly agreed to take charge of the question list – **ACTION 11**

CR highlighted that cooperation with the sponsors would be required to help prioritise the questions and determine the best place to send them, adding that questions that come through the working group are likely to carry more weight.

The qualitative rating of risks was discussed. It was agreed that these would be a useful inclusion, even if only at a basic level. These will need to be defined and agreed beforehand - **ACTION 12**

CR reminded the sponsors of the need for the risks to be a specific as possible.

CB mentioned the need for the risk register to be fully populated before the development of an action plan. A deadline of Friday, 5 May was set to complete the risk register – **ACTION 13**

It was further agreed that all actions should be removed from the risk register and added to the action table – **ACTION 14**

6) Review of Open Actions table

The open actions table was reviewed and updated.