

## FrontLine SIX x-clear Ltd

### **SIX x-clear CSDR late settlement regime implementation**

#### **1.0 Overview**

SIX Group Ltd (SIX) is domiciled in Switzerland and thus governed as a company by Swiss law. In some areas of business, however, European Union (EU) regulation applies, either directly or indirectly. In order to provide a framework for smooth business practice, SIX therefore often pro-actively adapts certain aspects of EU regulation.

Regulation (EU) No. 909/2014 on improving securities settlement in the European Union and on central securities depositories (CSDR) and the corresponding Regulatory Technical Standards (RTS) is one of the key regulations adopted in the aftermath of the 2008 financial crisis. Among others, one of the aims of CSDR is to harmonize certain aspects of the settlement cycle and settlement discipline and to provide a set of common requirements for CSDs (central securities depositories) operating securities settlement systems across the EU. The final provisions of CSDR with regard to settlement discipline are set to become effective on 14 September 2020, but this date will most likely be postponed to the beginning of 2021.

As a provider of clearing-services, SIX x-clear Ltd (SIX x-clear) is affected by CSDR. However, as a Swiss company, SIX x-clear is not directly subject to CSDR but has to comply with the equivalent Swiss regulation, the Swiss Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading (FMIA or FinfraG). FMIA has been in effect since 1 January 2016 and therefore any necessary changes were introduced in the course of 2015 and 2016. The Swiss Financial Market Supervisory Authority (FINMA) confirmed that SIX x-clear complies with FMIA when it awarded SIX x-clear its CCP license on 28 March 2018.

As a CCP, SIX x-clear clears a range of EU and European Economic Area (EEA) trade venues for clearing members whose trades will settle in the EU/EEA area. SIX x-clear wishes to continue offering its services in the EU and EEA. Therefore, SIX x-clear aims to fulfil its duties as a clearing service provider under CSDR and support the EU and EEA CSDs in which it participates to fulfil their legal obligations under CSDR, thereby ensuring the highest degree of settlement efficiency for our Members. SIX x-clear also aims to align its solution with interoperating co-CCPs in order to maintain efficiency and a high settlement service level for our clients in EU/EEA interoperating markets. SIX x-clear is therefore affected by the EU regulation and the following changes are being introduced as a result.

#### **1.1 SIX SIS Ltd (SIX SIS)**

For questions regarding SIX SIS's settlements services in Switzerland and the EU/EEA area(s), please refer to the separate information published.

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### 2.0 **Effective date**

Most likely 1 February 2021.

### 3.0 **Impact on participants**

The following statements refer only to settlement transactions which are based on trade venue transactions sent for clearing to SIX x-clear.

The CSDR requirements which will impact SIX x-clear's current late settlement regime can broadly be divided into the following areas:

- Buy-in process
- Cash penalties process

SIX x-clear will adjust the current late settlement regime with regard to the requirements of CSDR.

The relevant Business Partner Specifications and the changes in the Contractual Relationship of SIX x-clear with its Members (i.e. Rulebook and Operational Manual/Clearing Terms) will be published in due course before the final provisions of CSDR with regard to settlement discipline become effective.

SIX x-clear and its co-CCPs are in close contact to ensure smooth daily operations under CSDR in interoperating markets and to avoid potential different interpretations and implementations under the CSDR regime.

### 4.0 **Details**

Please be aware that for settlement transactions which have the Place of Settlement (PSET) at SIX SIS, the Swiss settlement market regime will be applied. In case of EU and EEA PSET locations, the CSDR settlement market regime will be set into force.

#### 4.1 **Buy-in process**

##### **a. Swiss settlement market regime**

The overall target of the Swiss financial market is to keep its current high settlement discipline in order to reduce the risk of late securities deliveries in the Swiss markets. Therefore, all settlement transactions which have their PSET at SIX SIS will continue to fall under the current Swiss settlement market regime.

No changes to the current standard buy-in periods for settlements in the Swiss market are foreseen with the exception to reduce the market maker period extension period from ISD+11 to ISD+8.

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The following SIX x-clear buy-in period regimes are planned to be introduced with the effective date of CSDR's settlement discipline regime for all settlement transactions falling under the Swiss settlement market regime.

Regimes	Intended Settlement Date (ISD)	Notification	Buy-in execution	Description
<b>Standard</b> (no changes with regards to the current process)	T+2	ISD+4	ISD+5	All settlement transactions with PSET SIX SIS
<b>Market maker</b>	T+2	ISD+7	ISD+8	Exception for registered market makers on ISIN level in case of settlement transactions with PSET SIX SIS

With regard to operational rules of the buy-in process, SIX x-clear will mostly align with the CSDR buy-in process to avoid different rule sets in place for different jurisdictions if ever possible.

### b. CSDR settlement markets regime

The details of the buy-in process under CSDR will be disclosed in the coming months as soon as pending key decisions have been made by the responsible authorities in the EU.

#### 4.2 CSDR Cash penalty process

The details with regards to the penalty regime under CSDR will be disclosed in the coming months as soon as pending key decisions have been made by the responsible authorities in the EU.

#### 4.3 Current CCP late/failed settlement regime

SIX x-clear's current CCP late/failed settlement regime will remain in place.

SIX x-clear supports the goal of CSDR's settlement discipline regime to reduce the number of settlement fails. To this aim, SIX x-clear currently has no plans to abandon the late settlement regime in place today.

The operational burden to monitor, provide information and handle the impact on corporate action issues due to late/failed settlements has increased over recent years and CCPs need to be reimbursed for their efforts and related costs due to failed transactions.

Therefore, failing selling clearing members will continue to be charged with the current CCP late/failed settlement fees to cover the costs and push for optimization in

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settlement efficiency. In this way, SIX x-clear intends to set an incentive at CCP level to increase high settlement efficiency in the respective settlement markets.

Such compensation will form an additional fee and must be distinguished from the penalty required by CSDR. The CSDR-based penalty is set to compensate the non-failing party and will be redistributed by the respective CSD or CCP (still subject to discussion with ESMA).

### 4.4 **Further information**

SIX x-clear will publish another FrontLine with more details on the CSDR buy-in and penalties processes and a respective Q&A document once pending key decisions have been made by the responsible authorities in the EU.

In addition, SIX x-clear will update the following document in due course once more information becomes available:

SIX x-clear's Clearing Terms - section "Late Settlement & Buy-in" - as part of the Rules and Regulations of SIX x-clear Ltd ([www.six-group.com](http://www.six-group.com) > Login > Securities Services Private > Clearing > Download center).

### 5.0 **Contact**

If you have any further questions, please contact your Relationship Manager. The contact details are mentioned in the list of SIX SIS contacts published at [www.six-group.com](http://www.six-group.com) > Post Trade > Clearing > Contacts.