

Measures to Prevent & Monitor Settlement Fails

These measures mostly apply to EEA CSDs and include enhancements to the communication and processing of transaction details across market participants, as well as uniform and transparent monitoring and reporting of settlement fails by the CSDs.

HSBC Broking will accommodate CSDR measures to prevent and monitor settlement fails as applicable. Unless a specific communication on this topic is sent from us, clients are not expected to take any action in respect of these measures.

Cash Penalties

Under the Settlement Discipline Regime, if a trade fails to settle on the intended settlement date and/or is matched after that date, the EEA CSD where the settlement should have taken place will be responsible to calculate and apply cash penalties for each business day of the fail until the settlement or cancellation of the transaction.

Cash penalties will be calculated as a percentage of the market value of the security and different rates will apply dependent on the security type and its liquidity.

The EEA CSDs will report cash penalties against the party found by the CSD to have caused the fail and in favour of the non-defaulting counterparty.

Cash penalties will be reported by the EEA CSDs daily and charged in a consolidated netted way during the next calendar month.

Under the existing arrangements, you receive the economic use of securities or cash on contractual terms and are therefore protected from risks related to non-deliveries that we sometimes note in our systems. In case of any cash penalties related to CSDR settlement fails, HSBC Broking will continue to perform the necessary monitoring and absorb all relevant penalty debits and credits, as received from the EEA CSDs.

Mandatory Buy-Ins

The SDR introduces a mandatory buy-in regime applicable to failed transactions that have not settled or been cancelled during a set number of days following the intended settlement date. While buy-ins already exist, the requirements of the SDR mandatory buy-in regime would mean a significant change to established practices and has led to many questions and discussions across the industry.

As a result, the European Parliament and Council have agreed to postpone the implementation of the CSDR mandatory buy-in regime. An official regulatory amendment, including how long the postponement will be, is pending and yet to be disclosed by the EU authorities.

HSBC Broking will monitor market developments and meet the CSDR mandatory buy-in requirements as applicable once further regulatory clarity is available. If any attention or action is needed from our clients, we will let them know.