

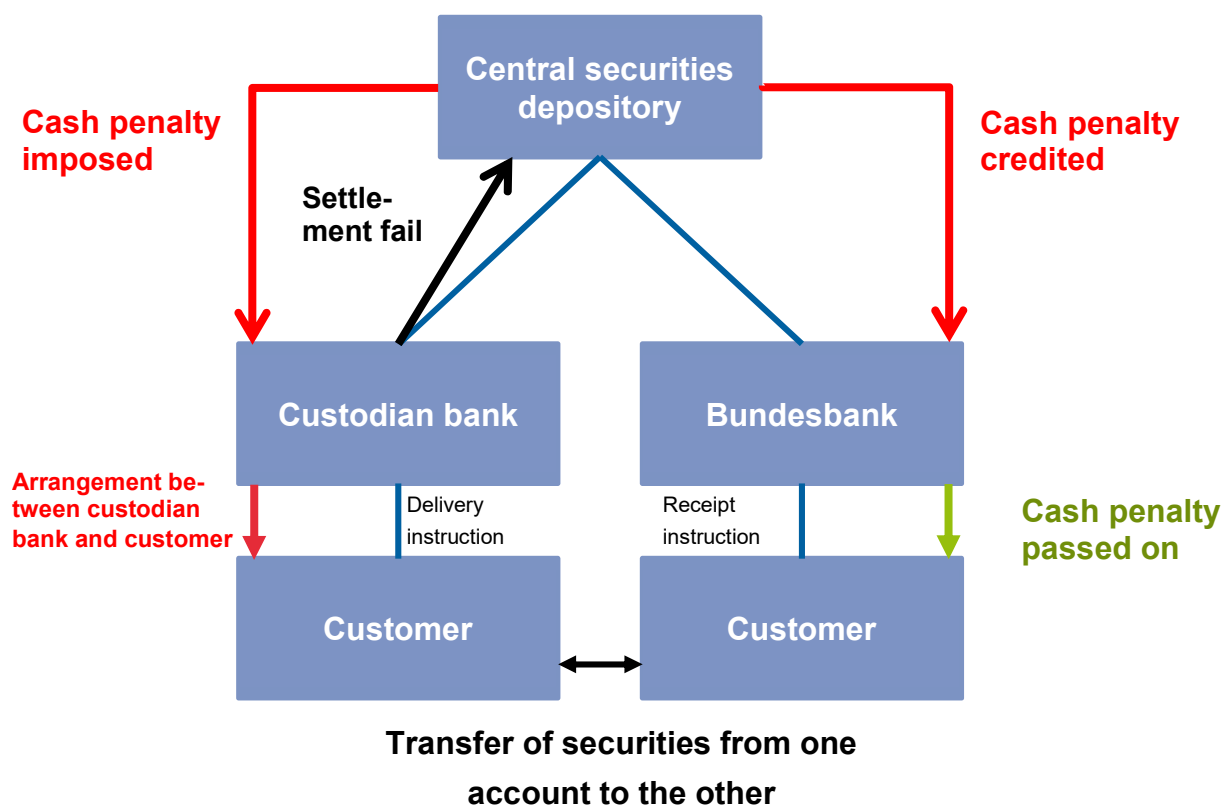
## Information for monetary policy counterparties – the Deutsche Bundesbank’s handling of cash penalties pursuant to Regulation (EU) No 909/2014 (Central Securities Depositories Regulation – CSDR)

### Background

The Central Securities Depositories Regulation (CSDR) from 2014 saw the introduction of a framework of uniform rules governing central securities depositories (CSDs) in Europe and the market infrastructures they operate. The provisions of the CSDR have gradually entered into force. One objective of the CSDR is to improve the efficiency of securities settlement, hence it contains a mechanism for sanctioning settlement fails with **cash penalties**. These rules enter into force on 1 February. Additionally, the CSDR contains **buy-in** rules, the implementation of which EU legislators have postponed to an as yet undetermined date.

### Rules regarding cash penalties

Chart 1: Transfer of securities between own custody accounts, national level



As the simplified illustration in Chart 1 shows, the Bundesbank is connected to a CSD (Clearstream), where it holds both its own securities and those of its customers in custody. The CSD itself maintains safe custody accounts, in which it documents securities transfers for its directly connected participants. If a monetary policy counterparty of the Bundesbank wishes to have securities delivered to or from their Bundesbank safe custody account, a corresponding posting is also made in the Bundesbank's safe custody account with Clearstream. Mirror-image postings are made in the customer's safe custody account (or its custodian bank account) with Clearstream (see Chart 1).

With effect from 1 February 2022, CSDs will be required to impose cash penalties on participants that cause settlement fails.<sup>1</sup> Under said mechanism, non-occurrence of settlement of a securities transaction on the intended settlement date (ISD) will result in Clearstream collecting a cash penalty from the direct participant responsible for that settlement fail and distributing that cash penalty to the direct participant that did not receive its securities on time.<sup>2</sup>

## Role of the Bundesbank

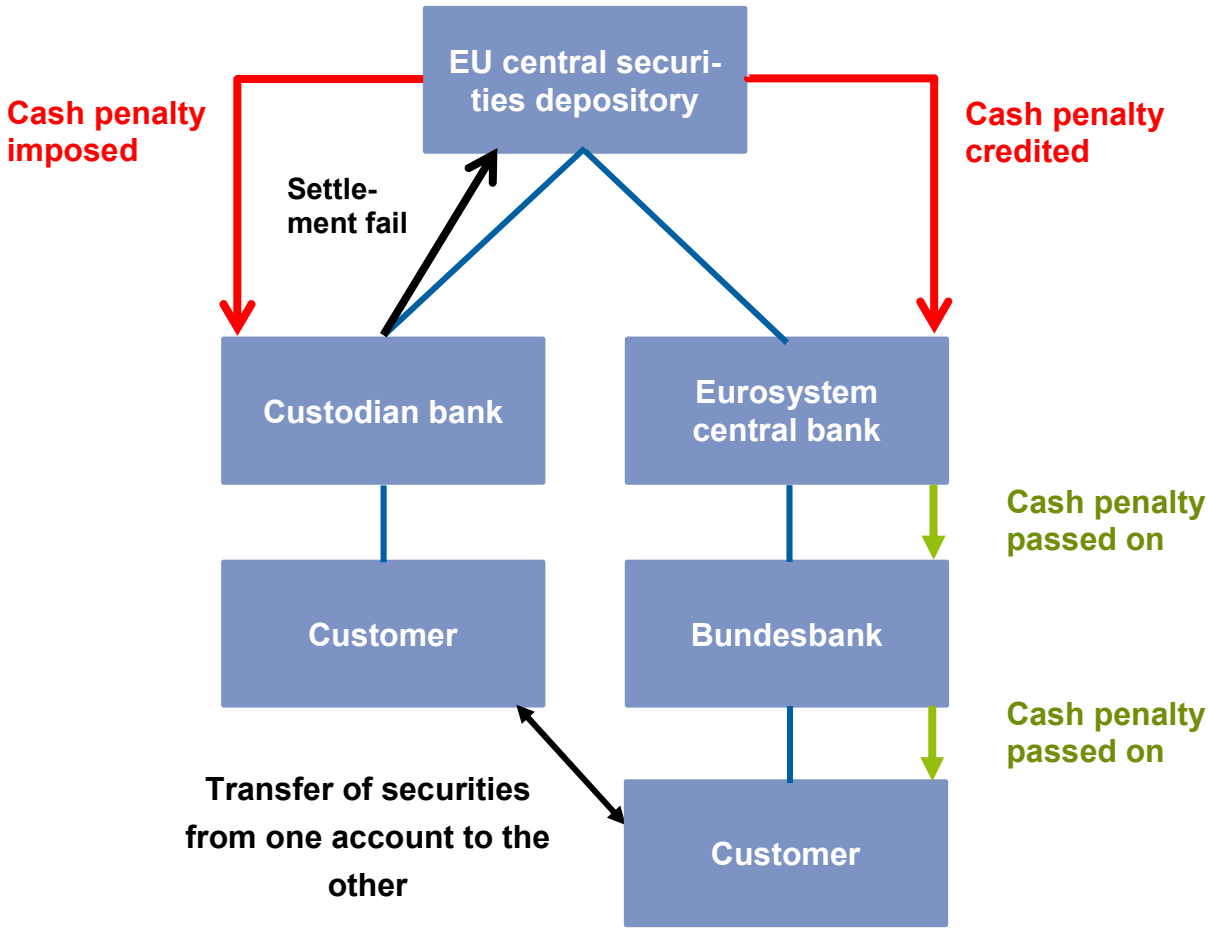
Accordingly, the Bundesbank receives **cash penalties** from Clearstream or must itself pay cash penalties to Clearstream. The Bundesbank acts as its monetary policy counterparties' agent in collateral transactions, which means it will pass on any cash penalties received to monetary policy counterparties and also pass on any cash penalties payable.

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<sup>1</sup> Settlement fails in the context of collateral transactions are late matching (which either party can cause) or late settlement (which only the party delivering securities can cause).

<sup>2</sup> Clearstream's penalty mechanism is explained in greater detail at <https://www.clearstream.com/clearstream-en/products-and-services/settlement/c20018-1978834>

Chart 2: Transfer of securities between own custody accounts using CCBM



The Bundesbank also accepts securities indirectly via other EU CSDs using the Correspondent Central Banking Model (CCBM).<sup>3</sup> In this set-up, other Eurosystem central banks act as intermediate custodians (see Chart 2). If the Bundesbank receives cash penalties from other EU central banks, it will always distribute these to its monetary policy counterparties. If it has to pay cash penalties itself, the Bundesbank will invoice its monetary policy counterparties accordingly.

The Bundesbank will make information contained in the daily reports on settlement fails provided by Clearstream or the other central banks of the ESCB available to safe custody account holders as PDF documents sent to their CAP inbox at the end of the month. Credits or debits are made on the cash account assigned for the securities account from the 17th business day of the following month.<sup>4</sup>

<sup>3</sup> See also at <https://www.ecb.europa.eu/paym/coll/ccbm/html/index.en.html>

<sup>4</sup> For information on the penalties lifecycle, see also the ECSDA CSDR Penalties Framework.

In order to avoid settlement fails (in particular through late matching), the Bundesbank (and, in the case of the CCBM, the other central banks of the Eurosystem) reserves the right in future to cancel unmatched instructions and instructions that are matched but not settled at the CSD at the end of the day, even without a customer order.