



OTP Bank Group

Market: EU/EEA

Date: 28 December 2021

CASH PENALTIES

The cash penalty collected/paid by the failing participant to the CSD will be distributed to the counterparty according to the following calculation methods and types of cash penalties.

There are two types of cash penalties:

- Late Matching Fail Penalties (LMFP);
- Settlement Fail Penalties (SEFP).

LMFP

The CSD Penalty Mechanism calculates and applies LMFP to settlement fails on instruction eligible for cash penalties if such settlement instruction matches after the relevant cut-off time of its ISD.

The LMFP is charged to the customer who was last to provide its settlement instruction for the period between the ISD and the day of matching of the instruction. The acknowledgement timestamp of the instruction is used to determine the failing participant. If both customers send their instructions late, after the end of the relevant settlement period of the ISD, only one of the two customers of a transaction is charged with the LMFP, the customer who was last to enter their settlement instruction, as mentioned above.

The LMFP shall be calculated for each business day as from the ISD until, and excluding, the business day when the instruction is matched. If settlement instructions match late, the LMFP applies regardless of whether settlement instructions have been (bilaterally) cancelled.

SEFP

The CSD Penalty Mechanism calculates and applies SEFP to settlement fails if the settlement instruction:

- Is matched before the end of the relevant settlement period of the current business day;
- Has reached the ISD;
- Fails to settle (in part or in full) and remains to settle until the end of the relevant settlement period of that business day (if not cancelled).

The SEFP will be charged to the client:

- Having the settlement instruction "On Hold";
- Being lack of securities, if no settlement instruction is "On Hold";
- Being lack of cash if no settlement instruction is "On Hold" or lack of securities.

If both settlement instructions are "On Hold", then both parties to the transaction will be charged with a SEFP to be pay to the counterpart. This scenario is not a zero-sum game in case of against payment



settlement instructions, because the calculation method for settlement fails on deliveries against payment is different from the one on receipts against payments.

Types of penalties rates:

TRANSACTION TYPE	FAILING PARTICIPANT	PENALTY AMOUNT	REASON OF THE FAIL
DVP/RVP	Delivering party	Reference price x Quantity x Security penalty rate	Late Instruction / Instruction on hold / Lack of securities
	Receiving party	Reference price x Quantity x Cash penalty rate	Late Instruction / Instruction on hold / Lack of cash
DFoP/RFoP	Delivering party	Reference price x Quantity x Security penalty rate	Late Instruction / Instruction on hold / Lack of securities
	Receiving party	Reference price x Quantity x Cash penalty rate	Late Instruction / Instruction on hold

The Security Penalty Rate is the fixed rate applied by the CSD for settlement fails, depending on:

- The classification of the relevant financial instrument.
- The liquidity indicator of the relevant financial instrument.
- Whether trade occurs on a SME Growth Market, or not.

The liquidity indicator is a binary classification of securities applying only to shares, when the Financial Instrument Type of the security is "SHRS". The information on whether the share is considered a liquid or an illiquid share is derived from the **FITRS** database, maintained by ESMA.

If settlement fail applies to a share and the liquidity indicator for the share is not available or unknown, then it will be considered as illiquid.

The reference price of the security for the business day where the settlement instruction failed to settle:

- For shares and similar instruments, the reference price is the closing price of the "most relevant market in terms of liquidity" (MRMTL).
- For other securities, the reference price is the closing price of the trading venue with the highest turnover.

If the cash penalty is a LMFP applying on multiple days, then the CSD Penalty Mechanism calculates the LMFP, applying the relevant reference price for each applicable day. If the LMFP applies on business days more than three months in the past, then, for those days, the CSD Penalty Mechanism applies the oldest available reference price, the three-months old price.

The Reference Price and the price source will not be reported in the daily reports on cash penalties.



Global Securities Services

NewsFlash



Securities penalty rates in basis points are the followings:

FINANCIAL INSTRUMENT		NOT TRADED ON SME GROWTH MARKET	TRADED ON SME GROWTH MARKET
Share	Liquid	1,00	0,25
	Illiquid	0,50	0,25
Bond	Corporate	0,20	0,15
	Government	0,10	0,10
Other financial instruments		0,50	0,25

The Cash Discount Penalty Rate is the fixed rate applied by the CSD for settlement fails, depending on the settlement currency. Official interest rate for overnight credit charged by the central bank issuing the settlement currency with a floor of zero. The official interest rate for Euro (EUR) will be the "marginal lending facility rate" which is defined by the European Central Bank (ECB) and published on its website, divided by 360. In the absence of a common definition of the CSDR legal text term 'discount rate', ECSDA defined a table describing for each currency which Central Bank rate concretely will be used by CSDs for penalties calculation purposes.



2020_11_currencies
_discount_rate_exce

*ECSDA source of information

LMFP and SEFP cannot both apply for the same business day: either LMFP or SEFP can occur, depending on the matching timestamp (being before or after the CSD's settlement cut-off time).

One Scenario example of a daily penalty report:

Party	12345	
Account Servicer (of the Party)	"CSD A"	
Counterparty	67890	
Account Servicer (of the Counterparty)	"CSD A"	
Instruction Type (of the Party)	DvP	
Trade date (TD)	05.03.2021	
Intended Settlement Date (ISD)	09.03.2021	
Actual settlement date	12.03.2021.	
Quantity	1,000.00 units	
	900.00	EUR
Price (per unit)	(09.03.2021)	
	900.00	EUR
	(10.03.2021)	
	900.00	EUR
	(11.03.2021)	
Amount	900,000.00 EUR	
Financial Instrument	XX0247770224	
CFI Code E*****	(SHRS)	
Liquidity Indicator	No (not liquid)	
Security penalty rate for illiquid shares	0,005000%	
Place of Trade	Not Provided	
Acknowledgement Timestamp	05.03.2021 14:04:48	



Global Securities Services

NewsFlash



Matching Timestamp

11.03.2021 09:47:26

ECB Marginal lending facility 0.25%

On 11.03.2021, at the end of the relevant settlement period (16:00 CET for EUR), the instruction is matched but unsettled because the Seller is short of securities. The instruction settles on 12.03.2021.

From that information, we can deduct that, on 11.03.2021, there are two cash penalties:

- The first one is due to Late Matching of the settlement instructions, and the Party 12345 is entitled to receive the cash penalty (non-failing participant), because it is its counterparty (67890) who sent its RvP late; and

As we have two days of LMFP, LMFP shall be calculated for 09.03. & 10.03.2021.

in the amount of: $900.000, * 0,25/100/100/360*2= 12,5$ EUR

where the penalty rate date is 0,000694% (0,25%/360)

- The second one is due to Lack of Securities from Party 12345, who will be imposed with a cash penalty to be paid to 67890.

SEFP shall be calculated only once on 11.03.2021. in the amount of 45,00 EUR

($900.000, * 0,005/100$).

Impact on Investors: implementation of measures to prevent settlement fails (cancellation mechanism, hold and release mechanism, recycle mechanism, partial settlement, tolerance level), and measures to address the settlement fails (cash penalties for late matching –LMFP, and cash penalties for late settlement – SEFP).

Required Actions: In order to prepare for the Settlement Discipline Regime, the following steps are recommended:

- review of the fail rates of transactions settlement with your brokers;
- review of operational processes and flows for weaknesses, inefficiencies and other flaws in relation to affirmation, allocation and transaction confirmation;
- review of the buy-in policies;
- decide whether or not to bear the costs of cash penalties (for LMFP & SEFP) on behalf of investment funds
- agree on new contractual arrangements with brokers in order to prevent and address settlement fails;
- agree on the monthly payment method for late matching/settlement penalties and consider the impact on the cash flow;
- engage a buy-in agent for possible buy-ins in the year 2022.

Application Date: 1 February 2022

OTP Banka d.d.

Ulica grada Vukovara 284, 10000 Zagreb

www.otpbanka.hr

Your OTP GSS contact:

Mrs Marina Šonje Tomorad, Head of Custody Unit

marina.sonje-tomorad@otpbanka.hr

+385 (0) 72 206 486



Global Securities Services

NewsFlash



Disclaimer: This Newsflash is provided by OTP Bank d.d., a member of OTP Group, as a service to its customers only. The information and opinions provided therein has been prepared in good faith on the basis of information which is either publicly available or obtained from sources which OTP Bank d.d. reasonably believes reliable, and OTP Bank d.d. does not represent or warrant their veracity, accuracy, relevance or completeness. Such publicly available information may be incomplete or condensed and no responsibility or liability (express or implied) is accepted for any errors, omissions or misstatement by OTP Bank d.d.. Information herein reflects the market situation at the time of writing and may change as market or regulatory conditions and circumstances develop. Figures relate to the past and indicate historic data. Past performance is not a reliable indicator of future results. No representation, warranty or undertaking, express or implied is made and no responsibility is taken or accepted by OTP Bank d.d. as to or in relation to the accuracy or completeness or otherwise of the material in this Newsflash or as to the reasonableness of any assumption contained herein. The estimates and opinions included in this Newsflash are subject to change without notice and solely reflect the viewpoint of the authors thereof and are not intended, and shall not be interpreted, as an offer by OTP Bank d.d. or any of its officers, directors, employees or agents to buy, sell, hold, hedge or otherwise deal with any currency, security, commodity or any kind of swap, forward rate, futures, options, derivatives or other contract or product whatsoever or an investment advice. It does not constitute legal, tax and accounting advice. Any person acting or behaving, or refraining from acting or behaving, in reliance on, or under the guidance of, the information provided or opinions expressed or recommendations made herein shall do so exclusively at its own risk based on independent assessment and without any liability for the result of its actions on the part of OTP Bank d.d. or any of its officers, directors, employees or agents. Any such assessment should involve the complex consideration of the legal, tax, accounting, regulatory, financial, credit and other related aspects of any decision in respect of the information contained in this Newsflash in order to be capable of making a well advised decision based on opinions from competent and independent advisors or other experts. OTP Bank d.d. or any of its officers, directors, employees or agents shall not be liable for any failure to obtain such advice.

OTP Bank d.d. assumes no responsibility or liability for information contained in this Newsflash and is not holding out any information as a recommendation to take (or refrain from taking) any action in respect of any financial instruments.

OTP Bank d.d. does not assume or accept any liability whatsoever for any direct, indirect, financial, economic or consequential loss or damage arising from any use of material contained herein, caused by the negligent act or omission of OTP Bank d.d., provided that such limitation of liability shall not apply to any liability which cannot be excluded or limited under applicable law.