IMI CORPORATE & INVESTMENT BANKING

INTESA SANPAOLO

ECB OMG

CSDR Settlement Discipline

June 23th, 2022

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Overview on Settlement Discipline Regime

Regulatory framework

The Central Securities Depositories Regulation (**CSDR**) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on Central Securities Depositories is one of the key regulations adopted as a consequence of the global financial crisis, together with MiFID (Markets in Financial Instruments Directive) and EMIR (European Market Infrastructure Regulation).

The CSDR came into force on **17 September 2014 with the** aim of:

- **increasing safety** and **efficiency of securities** settlement and settlement infrastructure in the EU;
- **harmonising the legal framework** applicable to CSDs in Europe;
- establishing a **more level playing field** among European CSDs.

Regulation references

- Central Securities Depositories - Regulation, **CSDR No 909/2014**
- Level 2 **implementation standards**: Commission Implementing Regulation (EU) **2017/391** and **2017/393**
- Commission Delegated Regulation (EU) **2018/1229** (so-called ***Settlement Discipline***)

Application

- All EU and global market participants and non-EU market participants settling their transactions in a CSD or ICSD in the EU will have to comply with the CSDR.
- **All instruments** that can be settled with an **EU CSD are in scope**.

Focus of the presentation

- **Settlement Discipline Regime**, consists of two regulatory streams - measures to prevent settlement fails and measures to address settlement fails - **entered into force on February 1st , 2022.**

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Measures to prevent and address settlement fails

Measures to prevent settlement fails

Settlement Discipline Regime provides for measures to prevent settlement fails:

SDR - Measures taken	Description
Tolerance levels	Maximum difference between the settlement amounts in two corresponding settlement instructions that would still allow matching - 2EUR for amounts up to 100k and 25EUR for amounts over 100k.
Bilateral cancellation mechanism	Enables participants to bilaterally cancel matched settlement instructions that form part of the same transaction.
Hold & Release mechanism	They allow the instructing participant to block and release, for settlement purposes, pending settlement instructions.
Recycling	CSDs shall recycle settlement instructions that have resulted in a settlement fail until they have been settled or bilaterally cancelled.
Partial settlement	CSDs shall allow for the partial settlement of settlement instructions.

Measures to address settlement fails (1/2)

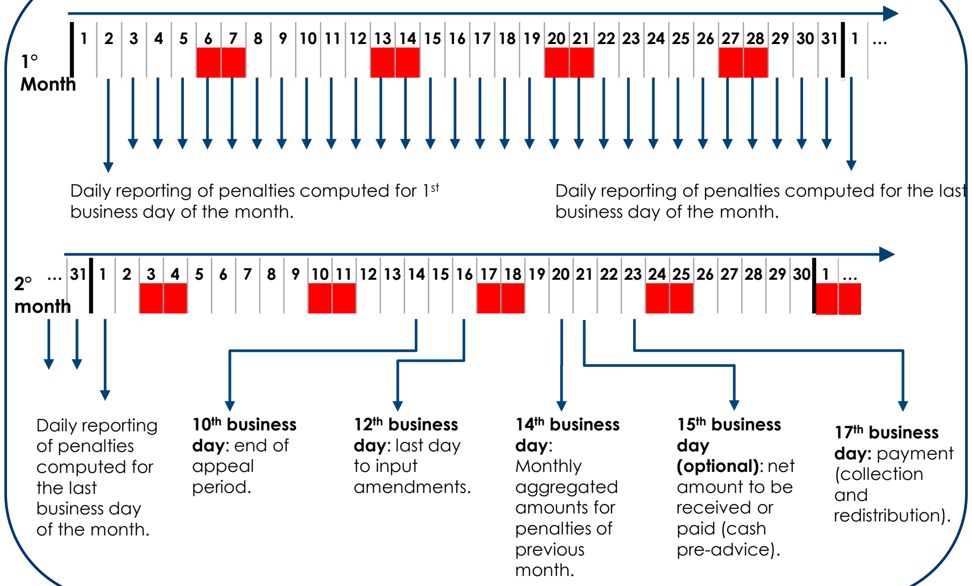
Penalties under CSDR are **applied on a daily basis** to all transactions that have not been cleared or settled by the intended settlement date. CSDs calculate penalty amounts at the end of each business day on which the instruction fails to settle.
Penalties are charged to the CSD/CCP Participants who caused the settlement fails and credited to the Participants who suffered the settlement fails.

Types of penalties

CSDs are required to provide their participants with a **daily report**, and provide a **monthly procedure to collect** penalties and **redistribute** the amounts collected.
For cleared settlement transaction, the CCP is responsible for the collection of penalties and their redistribution.
Two types of penalties are applicable:

- **Late Matching Fail Penalty (LMFP)**
- **Settlement Failure Penalty (SEFP)**

Penalties calendar



Application of penalties

- **Equities**[1]
- **Debt securities**[1]
- **Money market instruments**[1]
- **Other eligible CSDs** irrespective of the geographical location of the trading parties.

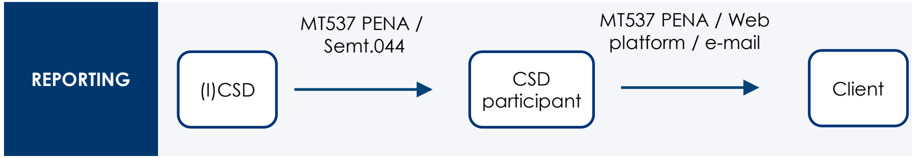
The only exceptions are:

I. Settlement transactions that do not represent transfer orders;
II. Corporate actions on stock;
III. Technical instructions, e.g. T2S automatic realignments;
IV. T2S Settlement restrictions.

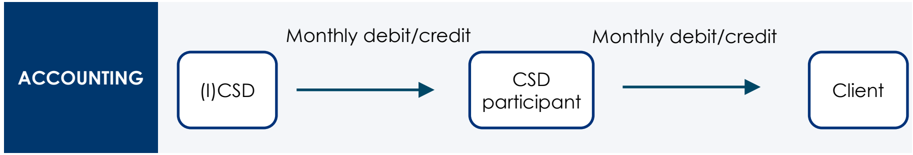
[1] traded on an EU TV or cleared on an EU CCP and settling on an EU CSD

Measures to address settlement fails (2/2)

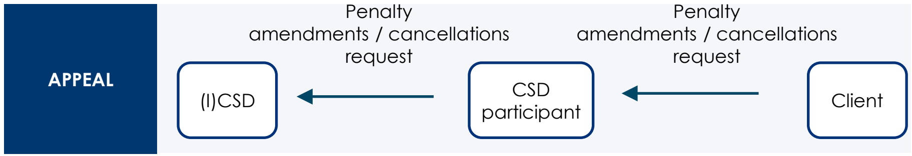
Below is summarized the widely adopted approach by market participants for the management of penalties, based on the participation in the international working groups and from discussions between CSD participants.



On a daily basis CSD participants send to their clients the **details of the individual penalties** and the instructions from which they originate via SWIFT MT537 PENA message or via other reporting system (e.g. web platform / e-mail). On a **monthly basis CSD participants** send to their clients, via MT537 or via other reporting system (e.g. web platform / e-mail), the aggregate **report** according to the different criteria, summarising the penalties for the previous month, including the amount to be credited/debited.



On the 17th Penalties Business Day of the following month, the CSD (and its participants) shall perform the payment process, i.e. the CSD shall collect and redistribute the penalties amounts to/ from its participants. The CSD participants will **debit/credit to clients** the penalties received (both in *bonis* and *malis*), on a specific **cash account**. Generally, the cash movement on the client's account will be identifiable by a **dedicated movement description**, to allow the client to easily trace the cause of the debit/credit.



The **appeal** can be made by the CSD participants at any time, at the latest by the **10th business day** of the month following the month to which it relates. In order to comply with the timeframe towards CSDs, some CSD participants could apply a stringent cut-off.

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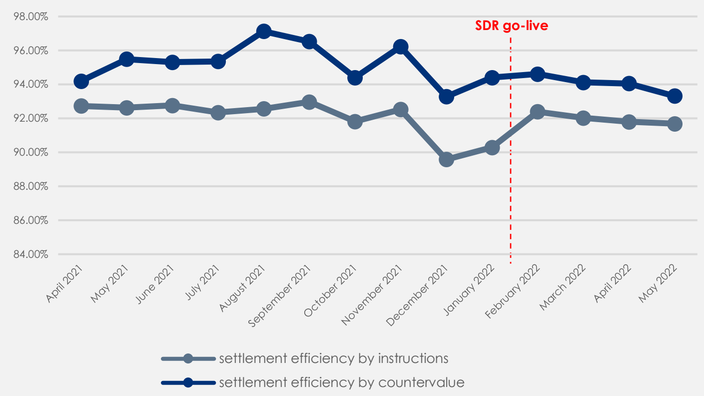
First results and lesson learned

First results and lesson learned

FEATURES OF THE CSDR SETTLEMENT PENALTY PROCESS

- High volumes
- Cascade process
- Critical dependency on STP

Italian market average*



*Source: MIS report – Euronext Securities Milan

MARKET READINESS AT GO-LIVE (Feb.22)

- Variuos **issue experienced** during the **testing** phases (some issues arose directly in prodcution)
- Different **readiness status** across CSDs and market participants
- Descoping of the **mandatory buy-in**
- **Postponement** of the **first month collection/redistribution** of penalties

OPERATIONAL ISSUES

RELATING TO THE QUALITY OF THE DAILY REPORTS

- Accuracy
- Completeness
- Formatting
- Timeliness

OTHER

- Bridge transaction
- Not fully harmonized approach across ICSDs/CSDs

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What's next?

What’s next?

CSDR Refit

On 16 March 2022, the **European Commission** published a legislative proposal **providing for changes** to CSDR to enhance the efficiency of the EU’s settlement markets, while safeguarding financial stability.

Key points of the proposal related to the Settlement Discipline Regime:

- **Exemptions** from penalties application to **specific transactions**;
- **Mandatory buy-ins** could become applicable if and when the penalties regime alone does not improve settlement fails in the European Union;
- **Pass-on mechanism** introduction;
- **Simmetry of cash compensation**

Market participants and associations were called to provide their own **consideration** on the **legislative proposal.** At the same time the **proposal** was submitted to the European Parliament and Council for their consideration. Given the feedbacks received the legislative iter will continue, considering also the recent (June, 2nd) **ESMA publication** of a **final report** on amending the regulatory technical standards (RTS) on settlement discipline to **postpone** the application of the CSDR **mandatory buy-in regime** for **three years**.

Open points

Commission has adopted some suggestion stemming out from previous consultation on CSDR but there are still some crucial aspects that must be given attention to, inter alia:

- **Mandatory buy-in** versus **Voluntary buy-in**
- Lack of **buy-in agents**
- Other **transaction type** to be exempted
- Central **golden source database** containing securities reference data

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Open question

Open question

- **Which are the main challenges that you managed with the adoption of the new penalty regime if any and which are the next that you foresee?**

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The Intesa Sanpaolo Group

Intesa Sanpaolo in brief

Loans to customers
€ 465,254 M

Direct deposits from banking business
€ 555,565 M

Market capitalisation[1]
€ 40.5 Bn

Cost/Income ratio[2]
52.5 %

Shareholders' Equity[3]
€ 63,775 M

Net Income 2021
€ 4,185 M

4,719
Branches, of which 21% abroad

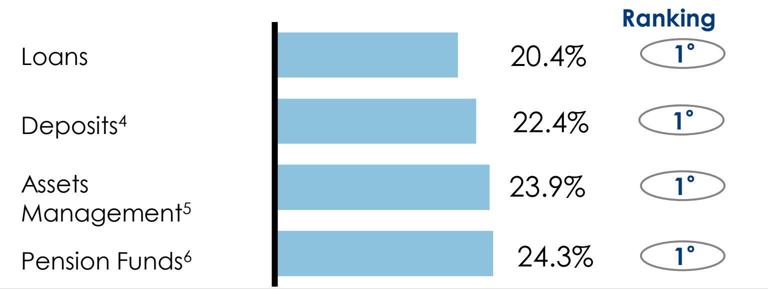
20.6 million
customers, of which 34% abroad

- In Italy, Intesa Sanpaolo is the banking group leader with 13.5 million customers and with a market share of 22% in customer deposits and 20% in customer loans
- Intesa Sanpaolo is one of the top banking groups in the Eurozone with a market capitalisation of 44.6 billion euro[1].
- A bank with a sustainable profitability, i.e. balanced between operating performance, productivity, risk profile, liquidity and solidity/leverage

Rating (updated May 2022)

	Moody's	S&P Global Ratings	Fitch Ratings	DBRS
Long term senior preferred (unsecured)	Baa1	BBB	BBB	BBB (high)
Short term	P-2	A-2	F2	R-1 (low)

Market shares in Italy



Note: Results as at 31 December 2021
1. At 31 March 2022 2. Data redetermined - where necessary and material - considering the changes in the scope of consolidation following the inclusion of UBI Banca and, on the basis of management accounts, the reallocation of the contribution of branches sold in 1H21 to Income (Loss) from discontinued operations, the full line-by-line consolidation of Assicurazioni Vita (former Aviva Vita), Lombarda Vita and Cargeas Assicurazioni (not considering, on the basis of management accounts, the contribution of branches sold in 1H21), and the effects of the acquisition of the REYL Group 3. Including Net Income 4. Including bonds 5. Mutual funds; data as at 30.09.2021 6. Data as at 30.09.2021
Source: Intesa Sanpaolo website (About us), data as at 31.03.2022

Intesa Sanpaolo: the international network

Intesa Sanpaolo can boast a strategic international presence with nearly 1,000 branch offices and 7 million customers, including subsidiary banks dealing in commercial banking in 12 Central Eastern European countries, the Middle East and North Africa, and an international network specialised in supporting corporate customers in 25 countries above all in the Middle East and North Africa, as well as countries in which Italian companies are most active such as the US, Brazil, Russia, India, and China

Europe

Direct branches

- Frankfurt
- Istanbul
- London
- Madrid
- Paris
- Warsaw

Representative offices

- Brussels[1]
- Moscow

Subsidiaries

- Intesa Sanpaolo Bank Albania (Albania)
- Intesa Sanpaolo Banka Bosna i Hercegovina (Bosnia - Herzegovina)
- Privredna Banka Zagreb (Croatia)
- Banca Intesa (Russian Federation)
- Intesa Sanpaolo Bank Ireland (Ireland)
- Fideuram Bank Luxembourg (Luxembourg)
- Intesa Sanpaolo Bank Luxembourg (Luxembourg)
- Eximbank (Moldova)
- Intesa Sanpaolo Bank Luxembourg (Netherlands)
- Intesa Sanpaolo Private Bank (Suisse) Morval (United Kingdom)
- VUB Banka (Czech Republic)
- Intesa Sanpaolo Bank Romania (Romania)
- Banca Intesa Beograd (Serbia)
- VUB Banka (Slovakia)
- Intesa Sanpaolo Bank (Slovenia)
- Intesa Sanpaolo Private Bank (Suisse) Morval (Switzerland)
- Pravex Bank (Ukraine)
- CIB Bank (Hungary)

Americas

Direct branches

- New York

Representative offices

- Washington DC

Subsidiaries

- Intesa Sanpaolo Brasil (Brazil)

Africa

Representative offices

- Cairo

Subsidiaries

- Bank of Alexandria (Egypt)

Asia

Direct branches

- Abu Dhabi
- Doha
- Dubai
- Hong Kong
- Shanghai
- Singapore
- Tokyo

Representative offices

- Beirut
- Ho Chi Minh City
- Jakarta
- Mumbai
- Beijing
- Seoul

Subsidiaries

- Reyl (UAE)

Oceania

Direct branch

- Sydney

Data as at 31.12.2021

1. European Regulatory and Public Affairs