



The regulation increases certainty at trading with securities

Press Release

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The European Commission comes with an initiative aiming to enhance the securities settlement discipline. In particular, it concerns regulation which is binding also for the Slovak Republic. In practice this will mean the obligation to implement the penalty mechanism from 01 February 2022, through which Centrálny depozitár cenných papierov SR (CDCP SR) will have to collect and consequently distribute cash penalties for late settlement or late matching of settlement instructions. The goal of the proposal is to achieve higher efficacy and also certainty during trading with securities for both parties – buyers and sellers.

Until now, the penalties were applicable mainly to securities settlement instructions that failed to settle after the intended settlement day. Under the new conditions the penalty will apply also to delayed placement of settlement instructions. Penalized will be also matched instructions put "On Hold". The settlement fail will not be linked only to the lack of cash or securities, but also to intentional holding of the instruction that prevents settlement of an instruction.

„Implementation of the new penalty mechanism will bring benefits to clients primarily in the form of higher certainty, that securities they have bought on the regulated market will be credited to their account on the settlement day and will be to their disposal,“ says Martin Wiedermann, the Managing Director of CDCP SR. „On the other hand, the vendors will have higher certainty that they will receive payment for security sold on the regulated market on the settlement day. That is because in both cases the counterparty will be subject to the penalty if securities are not delivered or cash is not paid.“

The penalties will be calculated based on penalty parameters, market prices, type and liquidity of the financial instrument and duration of fails given by the regulation. Within the penalty mechanism, the central depository will not increase or decrease calculated amounts by fees or other amendments. The full amount will be transferred from the failing party to the receiving party.

The central securities depository will publish annually on its web site the report on settlement fails with information on securities and cash funds not delivered. In order to support transparency and to facilitate comparability of settlement fails in the entire European Union, the central depositories will publish the information on settlement fails in harmonised form.

Several years' preparation for launching of the penalty mechanism to operation resulted in so called Dry Run Test. Hereby, from September of the last year, CDCP SR and other depositories participating in the T2S and their clients tested monitoring, reporting and calculation of penalties for failed instructions.

“We are glad that the entire process took place without bigger complications and we may launch the penalty mechanism as planned. This is one of important means in the European Union and in Slovakia, how to enhance discipline and ensure certainty in trading by timely settlement of securities transactions,” added Martin Wiedermann. Automated processing reduces processing related risks that could arise from errors made by the employees in case of non-automated process. The regulation extends benefits of automated processing of securities instruction also to the participants in the securities settlement system. With regard to global nature of the financial markets, the automated processing shall maintain high percentage of settled trades along with increased volume of processed instructions and will enable timely settlement of cross-border trades.

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