



Customer information on CSD participants default rules and procedures

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1. Legal basis

According to Article 41 of Regulation (EU) No 909/2014 (CSDR), the OeKB CSD, as the central securities depository for its operated Securities Delivery and Settlement System (SSS), must have effective and clearly defined rules and procedures to deal with a default of one or more of its participants. These rules and procedures shall ensure that OeKB CSD can intervene in a timely manner to limit losses and liquidity shortages due to defaults and to be able to continue to meet its obligations.

In accordance with Article 41(4) of the CSDR, ESMA has issued guidance on the "CSD participants default rules and procedures" (ESMA70-151-294).

The CSDR defines the term "default" in relation to a participant as "*a situation where insolvency proceedings (...) are opened against a participant*".

According to the ESMA guideline, although the CSDR relies on a rather narrow definition of default, CSDs are nevertheless permitted to establish other procedures to deal with events that may happen to their participants, in addition to opening formal insolvency proceedings.

In this context "participant" shall mean a securities account holder with OeKB CSD as defined in clause 3.1 of the General Terms and Conditions (GTC) of OeKB CSD.

OeKB CSD shall also regularly test and review its default procedures together with its participants to ensure that they are practicable and effective (see also section 3 Insolvency Tests).

2. Process for the default of a securities account holder at OeKB CSD

2.1 Initial Situation

The OeKB CSD has established the rules and procedures under Article 41 CSDR in accordance with the rules of the T2S Framework Agreement (Collective Agreement, Manual of Operational Procedures), which shall be applied in the event of default of a participant as defined in the European Directive 98/26/EC ("Settlement Finality Directive"). These are documented as a process in the OeKB CSD. In the following, the customer-relevant process steps are described.

2.2 Customer relevant process steps

The process focuses on the defined steps and on the timely and correct taking of the necessary measures in the case of participant event of participant default such as forwarding information, checking the status of the participant and changing the authorizations, especially with regard to the cash accounts, securities accounts and further participation in the OeKB CSD Securities Delivery and Settlement System.

2.2.1 Acknowledgement of the default of a participant

The OeKB CSD can be informed about the default of one of its participants by

- the participant itself,
- the CSD's competent authority (FMA, OeNB),
- the defaulting participant's competent authority
- the European Central Bank (ECB), or
- any other person with the knowledge of the existence of the default, such as a central counterparty, a trading venue, a linked CSD or the operator of a common settlement infrastructure used by the CSD.

The OeKB CSD shall inform its customers of the default of a T2S participant by means of mailing.

2.2.2 Blocking the securities accounts and accounts of the defaulting participant

The security accounts and accounts of the affected customer will be blocked in accordance with T2S Rules. Payment and transfer orders already submitted will be settled in accordance with the GTC of OeKB CSD (see in particular Section 5.6 Insolvency of a Custodian) in compliance with the Collective Agreement and the European Directive 98/26/EC ("Settlement Finality Directive") (see also Section 4. Appendix "Extract from the T2S Rulebook").

2.2.3 Restrictions on the permissions of the participant

The participant's authorizations on the online clients of the OeKB CSD will be restricted to read-only access. Incoming SWIFT messages and thus transmitted orders of the affected participant will no longer be processed.

2.2.4 Instruction by the liquidator

Upon appointment of the liquidator, the liquidator shall determine vis-à-vis OeKB CSD who may give instructions to the defaulted participant and by which means and which procedure for the securities- and cash accounts of the defaulted participant held with OeKB CSD. According to the information provided by the liquidator, OeKB CSD shall set up the corresponding authorizations.

3. Insolvency Tests

The European Central Bank (ECB) is planning to conduct annual so-called Insolvency Tests on the T2S customer test environment involving all participating CSDs and national banks, where the process of an insolvency of participants will be tested.

Participation in the default tests is obligatory for all CSDs and national banks; completion is effected within one working day.

The customers of OeKB CSD will be informed in due time about the date of the next Insolvency Test by means of a customer mailing and can register for this test.

The test cases and the details of the test process will be defined by OeKB CSD and communicated to the participating customer in due time.

4. Appendix: Excerpt from the T2S Manual of Operations

Version 1.9.1:

Scenarios of settlement instructions during an insolvency procedure and applicable rules for CSDs:		
No	Description	Applicable rule for OeKB CSD
1	Transfer orders entered before the opening of insolvency proceedings.	No action to be taken (i.e. to be processed according to system rules).
2	Transfer orders entered after the opening of insolvency proceedings, which were matched on the T2S platform before the CSD/NCB becomes aware and for settlement on the same business day.	No action to be taken immediately. To be put on hold and cancelled if unsettled at the end of the day (i.e. bilateral cancellation applies).
3	Transfer orders entered after the opening of insolvency proceedings, which were matched on the T2S platform before the CSD/NCB becomes aware but for settlement later than on the day of insolvency.	To be put on hold and cancelled at the end of the day (i.e. bilateral cancellation applies).
4	Transfer orders entered after the opening of insolvency proceedings, which were not matched on the T2S platform by the time the CSD/NCB becomes aware.	To be immediately cancelled by CSD/NCB (alternatively put on hold for a later cancellation).
5	Transfer orders entered after the moment the CSD/NCB becomes aware of insolvency proceedings upon request of the insolvency liquidator.	To be processed according to system rules
6	Transfer orders entered after the moment the CSD/NCB becomes aware of insolvency proceedings without involvement of the insolvency liquidator.	To be rejected

