

# Deutsche Börse Buy-in Agent Service

Operated by Eurex Securities Transactions Services GmbH

2019



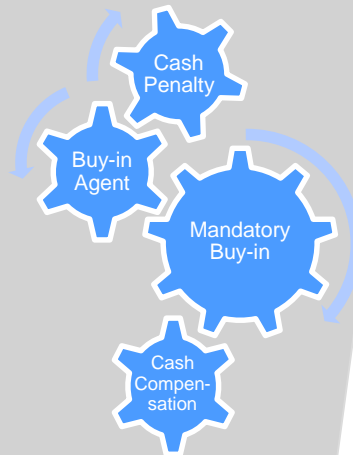
# Agenda

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- II Buy-in Request to the Agent
- III Buy-in Process
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- V Settlement
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# I. Regulatory Background

## Relevant CSDR key facts

- The Central Securities Depository Regulation (CSDR)<sup>1</sup> enforces mandatory Buy-ins for not settled securities transactions after a certain number of days following the intended settlement day
- The receiving party of the transaction has to appoint a Buy-in Agent to execute the Buy-in
- The Buy-in Agent purchases the securities and delivers them to the receiving party
- The Seller bears the Buy-in costs and the price difference between the original price and the price of the Buy-in
- Cash compensation if the Buy-in was not successful or is not possible



### End of „Extension period“ defines buy-in starting point

- ISD +4 → Liquid Shares
- ISD +7 → Other financial instruments
- ISD +15 → Shares traded on a SME growth market

### In-scope instruments

- Shares, Depository Receipts, Bonds, Funds, ETFs, Warrants, Certificates, Emission Allowances
- Traded or admitted for trading on an EU trading venue / exchange
- Or cleared by CCP
- Exemptions: Shares where the principal trading venue is in a third country<sup>2</sup>

### In-scope transactions

- Which are the result of a trade between two parties (OTC, Trading Venue cleared, Trading Venue not cleared)
- Which are matched in a EU-CSD or ICSD
- Which are not settled because the seller is short of securities or puts its instruction on-hold
- Free of payment and versus payment
- Exemption: Repo and Securities Lending transactions with a maturity of less than 30 days

<sup>1</sup> Art.7 - Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014

<sup>2</sup> ESMA publishes a list of shares, which are excluded: [https://registers.esma.europa.eu/publication/searchRegister?core=esma\\_registers\\_mifid\\_shsexs](https://registers.esma.europa.eu/publication/searchRegister?core=esma_registers_mifid_shsexs)

## II. Buy-in Request to the Agent

### Request submission channels

#### Manual Request Submission

#### Buy-in Agent GUI

##### 1) Entry in the GUI

- Manual input of buy-in requests via GUI surface



##### 2) Upload of Excel/CSV files

- Manual file upload of multiple buy-in requests
- File-Download via GUI



→ Feedback and status updates via GUI

#### Technical Request Submission

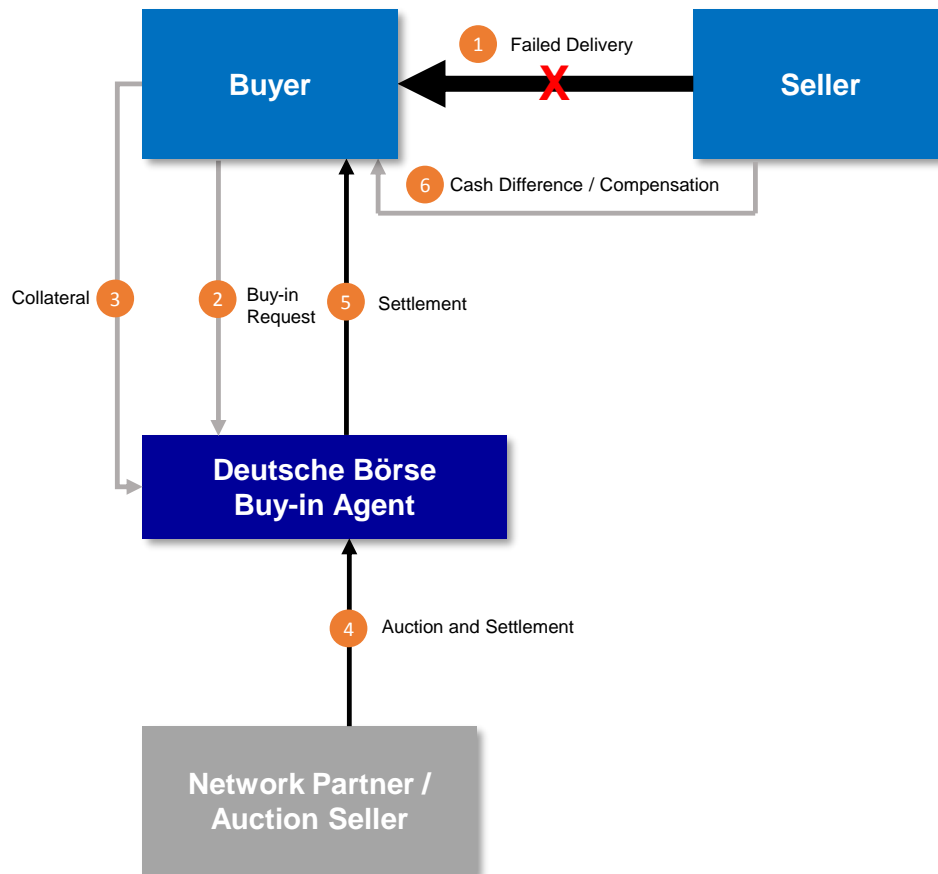


#### API

- Direct technical connection to the Buy-in Agent core system via API
  - API message for single or multiple buy-in requests with generally same functionalities like GUI
- Feedback and status updates via API and GUI

## III. Buy-in Process (1/2)

### Buy-in Agent process flow & functions



#### Core functions of the Buy-in Agent

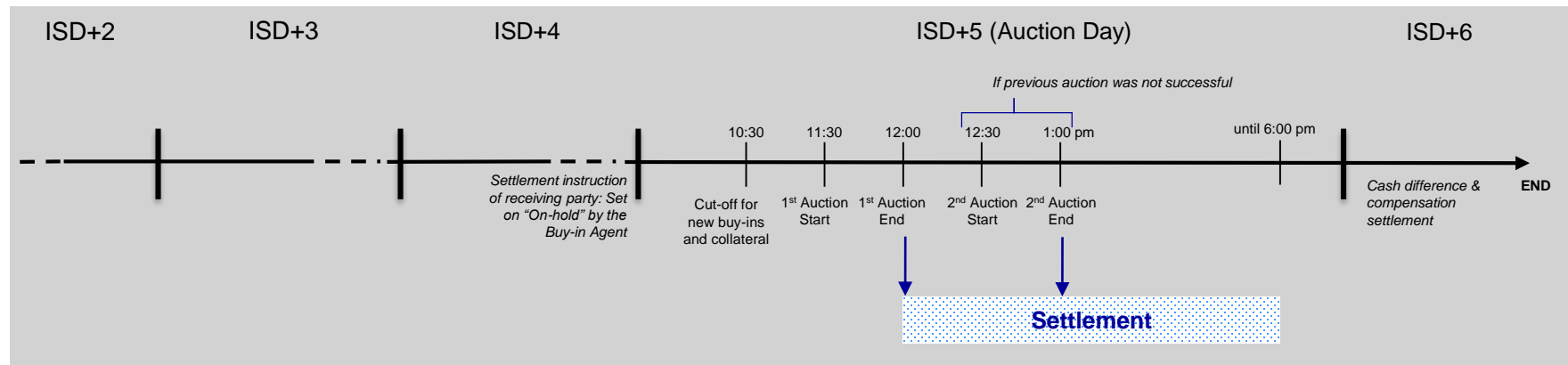
- Buy-in request receipt and validation
- Preparation and execution of auctions
- Delivery of bought-in securities

#### Optional Services

- Blocking and cancellation of failed deliveries
- Notification management with CSD and Seller
- Calculation and settlement of cash differences and cash compensations
- Settlement instructions for cash and securities with Power of Attorney
- Identification of settlement failure chains and cycles to reduce number of buy-ins

## III. Buy-in Process (2/2)

### Timeline for equity Buy-ins with an extension period of 4 days



#### Buy-in warning to Seller

- Mandatory partial settlement latest 3 pm<sup>1</sup>
- End of day: Buy-in Agent sets the underlying instruction on-hold to prevent the receipt of securities

- Final acceptance of the Buy-in requests by Buy-in Agent
- Information of the appointment to the failing counterparty
- One or two auctions to purchase the securities<sup>2</sup>
- Settlement between auction seller, Buy-in Agent and Buyer
- Cancellation of the failed settlement instruction
- Information to Buyer, Seller and CSD about the Buy-in result

- Cash difference or compensation
- Debit from Seller, credit to Buyer

<sup>1</sup> Without involvement of Buy-in Agent

<sup>2</sup> Option for repetition of up to 15 days

# IV. Buy-in Auction

## Automated Auction

- Price/Quantity offers for guaranteed sameday delivery can be entered or uploaded in the GUI
- Price caps defined per asset class limit the risk/costs for the failing Seller
- Automated selection of best offers after 30 minutes
- Pre-defined SSIs and option for settlement with PoA ensure fast matching and settlement

Buy-In Agent | Local Time: 08:42 CET | Last Login Time: KUCLO CBKER495 (CBKER\_KUCLO)

Offer Management | Master Data | Landing Page | Tools | Settings

### Overview Of Today's Auction - Asset-Class View

Asset Class	Sub-Asset Class	Number Of Securities	Auction Date	Auction Start Time	Auction End Time	Settlement Date
Equities	Liquid Equities	10	13.02.2019	11:30:00	12:00:00	13.02.2019
	Illiquid Equities	20				
	SME Growth Market Equities	22				
Sovereign Bonds	AAA-A	20	13.02.2019	11:30:00	12:00:00	13.02.2019
	BB-B	30				
Corporate Bonds	AAA-A	25	13.02.2019	11:30:00	12:00:00	13.02.2019
	BB-B	10				
ETFs	ETF	50	13.02.2019	11:30:00	12:00:00	13.02.2019

Total Count: 1

## Benefits for auction participants

- Participation in auctions supports market integrity
- New platform with easy handling and transparent auction rules
- Potential to generate extra revenues due to higher selling prices for auctioned securities
- No costs for accessing the auction platform and for auction participation
- Price discount for Clients of the Buy-in Agent service who register as auction participants

### Enter Offer

Network Partner Id	COMFRA	Auction Type	First
Auction Ref No	6	Auction End Time	12:00:00
Auction Start Time	11:30:00	Total Auction Quantity	100
ISIN	AT0000000STR1	Settlement Date	11.02.2019
ISIN Long Name	STRABAG SE-BR	Min Offer Quantity	10
Max Offer Price/Rate	155	Offer Date	11.02.2019
Currency	EUR	Offer Quantity *	<input type="text"/>
Offer Price *	<input type="text"/>	<input type="checkbox"/> Max Offer Price	<input type="checkbox"/> Total Quantity
Deliver To	CBF	Deliver From	CBF
Asset Class	EQUITY	Second Auction Possible	Yes
		Remarks	<input type="text"/>

# V. Settlement

## Settlement of Buy-in securities

- Settlement takes place **immediately** after a successful auction between Network Partner, Buy-in Agent and Client
- Network Partners provide offers for **guaranteed same-day delivery**
- Network Partners and Clients **predefine their SSIs and options** in the Buy-in Agent GUI
- The Buy-in agent receives and delivers securities via its **accounts with Clearstream** (from/to Clearstream internal, T2S, other domestic markets, via Euroclear/Clearstream Bridge)
- **All CSDR in-scope instruments and CSDs** can be used<sup>1</sup>
- Settlement of **cash differences and cash compensations** takes place on the next day after **bilateral agreement in the GUI**

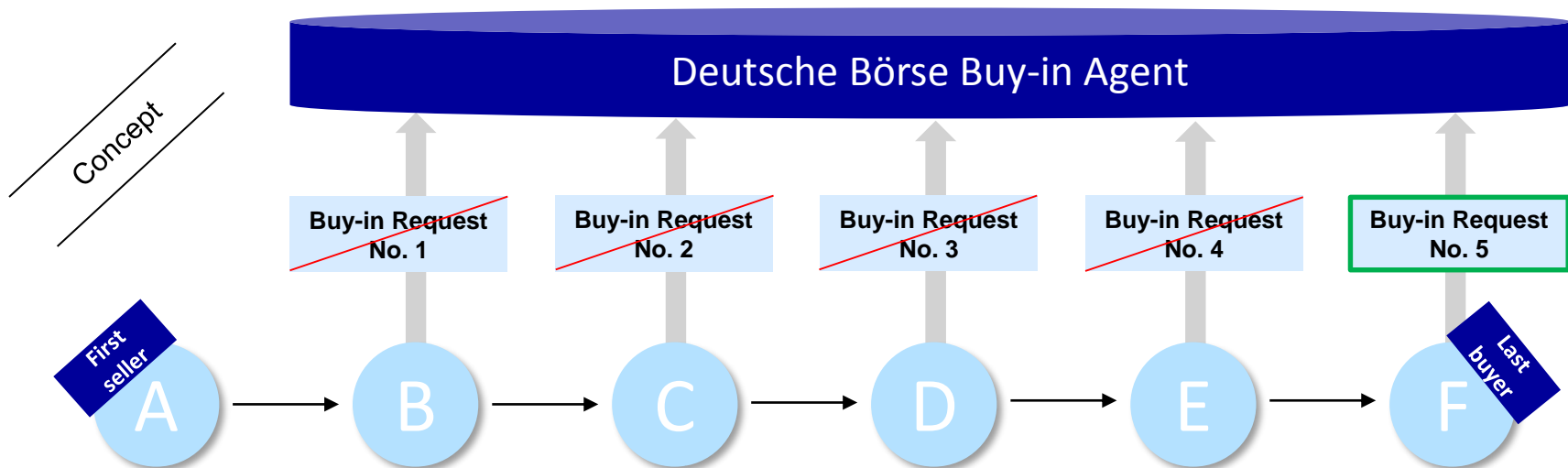


<sup>1</sup> Limitations only on instruments with political sanctions and CSDs with early cutoff



## VI. Settlement Fail Chain Resolution

Mechanism to reduce number of Buy-ins



- A **concept** to **identify** and **resolve settlement fail chains** is in development with the aim to **minimize the number of buy-ins**
- In the example above **B, C, D, E** and **F** initiate a buy-in request and report their original sellers (A - E) as their **failing counterparty**
- **A** did not request a buy-in and gets identified as **first seller**, whereas **F** represents the **last buyer** as he is not reported as a failing counterparty by another party
- In this basis scenario, only **the last buy-in will be executed<sup>1</sup>** and cash difference will be settled for each fail chain member
- The model will cover all scenarios: different **ISDs, quantities, currencies, price fluctuations, fail cycles, CCP involvement** and **different Buy-in agents**

<sup>1</sup> Confirmation from regulator required that Buy-in pass-on in a chain may replace a buy-in

## VII. Buy-in Agent Management

### Legal



#### Framework

- A registration for clients and Network Partners is required
- Standard Terms and Conditions apply to all Clients and Network Partners

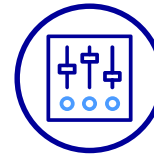
### Pricing



#### Components

- Monthly Base Fee
- Transaction Fee<sup>1</sup>
- Fees for optional services<sup>1</sup>

### Collateral Management



#### Collateral Requirement

- Collateral from clients ensures resilience of the Buy-in Agent
- Collateral requirement is based on quality of buy-in securities and credit rating of the client
- Non-EUR Buy-ins require prefunding in cash as collateral

#### Eligible collateral

- Cash and High Quality Government Bonds
- Collateral is title transferred to the Buy-in agent before order acceptance

#### Collateral location

- Active payments to a Target-2 account or to CBL, or direct debit
- Bond collateral is managed by Clearstream Triparty

### Admission



#### Client Types

- Direct Clients
- Indirect Clients via Technical Agent

#### Direct Clients

- 3 different models
- Different exposure limits, client rating requirements and monthly fees, etc.

#### Indirect Clients

- Use of a Technical Agent (TA)
- TA: technical & operational responsibility for buy-in requests, while the Client remains the contracting party towards the Buy-in Agent and carries all legal obligations out of the service contract

<sup>1</sup> Can be charged directly by the Buy-in Agent to the Seller



## Buy-in Agent Project Contact

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