



Procedure for Participation

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1. Introduction

1.1. Purpose and scope of this document

One of the primary functions of ID2S is the settlement of securities transactions, in particular Money Market instruments, in TARGET2-Securities (T2S), the pan-European platform for the securities settlement in central bank money.

As part of its Risk Management function, ID2S does formally perform controls to assess the risk it is taking by accepting a new Participant (a “Requester”- a legal person that intends to become a Participant) on its system.

The conditions for initial acceptance are described in the ID2S Access Rules.

The present Procedure describes criteria and processes when ID2S:

1. Monitors a relationship with an existing member;
2. Applies disciplinary measures,
3. Suspends or ends a relationship with an existing member.

All the processes described in this Procedure aim at preventing the spreading of systemic risks by assessing and monitoring the risk triggered by a new member for ID2S and its other existing members.

1.2. Relevant regulation

- Regulation No. 2014/909:
 - Article 33 describing requirements for participation;
- Commission Delegated Regulation (EU) 2017/392:
 - Article 20 related to the requirements for participation;
 - Articles 88, 89, 90 related to the considerations to access to the CSD.

2. Process to handle an access request

Access to ID2S is subject to compliance with pre-defined criteria which are publicly disclosed on the ID2S website. The Requester's profile is assessed after receipt of the official request for access.

When a request for access is transmitted, ID2S follows the process described in document ASCD0001 Access Rules and Customer Due Diligence, and provides an answer to the Requester accordingly.

3. Continuous AML monitoring of members' activity

In line with the laws and regulations mentioned above, ID2S does continuously monitor its members' activities within the settlement system, in order to record and report on all suspicious behaviors to TRACFIN, the French government's anti-money laundering and anti-terrorism financing cell in accordance with the TRACFIN declaration process. The CCO is the TRACFIN correspondent.

As part of this effort, ID2S has implemented the following potential suspicious scenarios related to transaction monitoring:

- **Scenario 1: material change in frequency and amounts of trades from one Participant**
In such scenario, the suspicious activity is identified by an unusual activity from one member compared to its expected settlement behaviour. This unusual activity has to be investigated when the unexpected increase in frequency and / or amounts is identified for the second time during a three months period;
- **Scenario 2: opposite orders in a very tight time period**
This scenario consists in identifying money-laundering techniques in back-to-back trades. An investigation is triggered when a Participant repeatedly sells and buys, or when frequent buy-backs occurs for the same Participant.;
- **Scenario 3: multiple trades below the identification threshold**
This scenario consists in identifying money-laundering situations where a Participant engages repeatedly into small transactions below the retail banking identification threshold (10.000€);
- **Scenario 4: security value far below pricing on the market**
In this scenario, situations where a Participant is repeatedly and / or systematically selling securities below market value will be investigated.

4. Procedure for Participation Monitoring

4.1. Actors in scope of this section

Participants	Issuers	CSDs	CCPs and Trading Venues
X	X	X	X

4.2. Continuous monitoring of compliance with access rules

On a yearly basis, the Risk department controls whether Participants, Issuers, linked CSDs and FMIs connected to ID2S still fulfill the necessary criteria for access (laid out in the Access Rules). Results of this assessment are recorded in ID2S' register of yearly member reviews.

On an ongoing basis, ID2S may request Members for additional AML KYC documents. Moreover, in the exceptional case a document is missing when the Member has been onboarded, or when expired documents are not renewed on time, a remediation process is initiated in order to obtain the missing document.

The continuous risk monitoring is performed on all entities connected to ID2S as summarised below:

#	Description	Responsible	Frequency	System
1.	<p>Once a member relationship has been established, it is monitored. The following tasks are performed on an ongoing basis and at least yearly. Based on the following parameters, the validity of the member participation is assessed:</p> <ul style="list-style-type: none"> • risk assessment (continued validity of the results as per the member's onboarding), • proper controls on operational flows, • appropriate measures to ensure compliance with latest applicable 	CCO / CRO / COO	Ongoing basis or at least yearly	Manual

#	Description	Responsible	Frequency	System
	<ul style="list-style-type: none"> regulation, adequate reporting by the member, operational reliability of the member. contractual documentation is checked against its obsolescence assessment all of its European direct and relayed links against the “Framework for the Assessment of Securities Settlement systems and links to determine their eligibility for the use in Eurosystem credit operations”. permanent screening: upcoming alerts are subject to assessment and may have an impact on the Participant’s AML risk scoring 			
2.	If the assessment is satisfying, it is archived. If not, it is decided whether the relationship should be updated or terminated. If the link must be terminated, this process ends and the process described in this document under Disciplinary measures if criteria for participation are not respected is engaged.	CCO / CRO	Yearly	Manual
5.	If the assessment leads to the conclusion that the arrangements in place with the member should be updated, changes are made to existing agreements.	COO / Legal department/ Compliance department	Ad-hoc	Manual Microsoft-Office
6.	The amended agreement is sent to the member.	COO	Ad-hoc	Manual Microsoft-Office
7.	<p>If the member accepts the changes, the amended agreement is signed and archived by ID2S, ending the process.</p> <p>If the member is another CSD, any new modification of a link is communicated to the AMF and the Banque de France in compliance with CSDR</p> <p>If the member does not accept the changes, the termination procedure is implemented.</p>	Member/ COO / CCO	Ad-hoc	Manual

5. Disciplinary measures if criteria for participation are not respected

The Member may only benefit from the ID2S services if it fulfils the relevant requirements and obligations set out by applicable French and European laws including those related to AML, the ID2S Legal documentation, and ID2S’s Access Rules.

In case of any irregularity situations, ID2S may need to report and take actions as described in the sections below.

As described above, ID2S performs regular monitoring of the compliance of issuers, Participants, CSDs, CCPs and trading venues with the access rules applicable to them.

5.1. Identification of breach in criteria for participation

A breach is identified when the Member is materially or repeatedly in breach of, violates or disregards the ID2S Access Rules and / or the Legal Documentation as defined in the Operating Manual.

All breaches identified are recorded in ID2S's register of yearly member reviews.

The rules of this section apply to all members, unless the same rules hereafter are explicitly restricted to a certain type of members and derogation is approved by the Board of Directors.

5.2. Procedure in case of suspension and exit of a Member

The Procedure below applies in case:

- ID2S decides to suspend or exclude a Member following the identification of material or frequent breaches and / or violations of the Access Rules and / or the Legal Documentation;
- The Member requests himself to be suspended and / or exits ID2S.

Note that according to the General Terms & Conditions, the Member is required to inform immediately ID2S if it is no longer able to comply with the Access Rules.

Step	Action	Responsible	Time
1	<p>When the CEO of ID2S receives information that a participating entity, is materially or repeatedly in breach of ID2S's Access Rules and / or the Legal Documentation, he must immediately initiate this "breach procedure".</p> <p>The CEO might receive information of a Member's breaches from different sources:</p> <ul style="list-style-type: none"> • Usual Risk Committee where operational incidents are presented and where decision to suspend / exclude a Participant has been taken and the decision is documented (meeting minutes); • Exceptional Risk Committee organised for exceptional circumstances, especially in case of breach from one of a participating entity; • Information from the Member itself, the authorities, the market, the news, another CSD, an agent of the Participant and/or Issuer, etc. In such case, the CRO must contact the Participant, FMI, CSD or Issuer for verification. If it is confirmed, the CRO must initiate step 2. 	CEO	Immediately
2	The CRO informs the COO.	CRO	Immediately after the step 1
3	The Operations department and CCO put together the relevant information package, including the identity, the activities and list of ID2S' services used by the concerned member,	COO / CCO	Immediately after the step 2

Step	Action	Responsible	Time
	and initiates step 5 below.		
4	<p>The CCO forwards the information package it receives from the COO (see step 3 above) to the AMF and the Banque de France.</p> <p>Furthermore, the CCO informs the following persons of the upcoming suspension of the concerned member ::</p> <ol style="list-style-type: none"> 1. ESMA; 2. relevant authorities of the CSD (Banque de France and Eurosystem) 3. Its other Participants; 4. The trading venues served by the CSD; 5. The operator of the common settlement infrastructure (T2S) used by the CSD; 6. Linked CSDs. 	CCO	Immediately after the step 3
5	<p>The Operations department performs the following tasks:</p> <ol style="list-style-type: none"> 1. Checks that all transactions are either settled or blocked; 2. Pending trades are analysed in line with the Settlement Finality Directive and, where relevant, applicable insolvency laws. Where possible (legally and from a risk management perspective), trades are settled; 3. Other instructions are blocked until the entity is rehabilitated; 4. Removal of authorisations; 5. Blocking of Member's access, including, depending on the type of member, blocking of issuance accounts and suspension of links with accessing FMI's and CSD's. 	COO	Immediately after the step 4
6	The Operations department confirms to the COO that the relationships, links or accesses, as relevant, are suspended / closed and informs the CRO about the events to update the register of events.	COO	Immediately after step 4 is done

5.3. Insolvency Guidelines

As soon as ID2S is informed of a default of a Participant, the information will be transmitted to the AMF and the Banque de France with details available at that moment in time and mentioning the source of the information. Following this first communication, ID2S prepares an information package with at least the following details:

- The nature of the defaulting Participant (i.e. information such as legal status, license, activity, whether it is a key Participant under Article 67 of the Commission Delegated Regulation (EU) 2017/392);
- The total volume and value of the defaulting Participant's settlement instructions that are pending settlement and if possible of those that may fail to settle
- The type of transactions and financial instruments (
- When applicable, in which common settlement infrastructure the defaulting Participant's settlement instructions are processed and, when available, any other indicators of cross border activities of the Participant in default;
- Where known, the significant clients the defaulting Participant has; and
- Information on any material risks that such default might entail.

The guidelines above are completed with the ID2S "Participants Default Rules and Procedures".