



Participant Default Rules and Procedure

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95 rue Saint Lazare,
75009 Paris

www.id2s.eu

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1. Introduction

1.1. Purpose and scope of this procedure

This procedure describes which steps ID2S follows where an Insolvency Proceeding (as defined below) is opened against one of its Participants, in accordance with article 41 of Regulation (EU) 909/2014.

Furthermore, this procedure aims at ensuring that ID2S takes timely actions to minimise the impact of the suspension on the other Participants, and on the clients of the defaulting Participant to the extent possible; and continue to meet its obligations.

1.2. Definitions

Terms	Definitions
Participant	As per ID2S Operating Manual definition, "Participant means any legal person that participates to the securities settlement system operated by ID2S (excluding FMI) and in whose name ID2S has opened one or more Securities Accounts, including an Issuer acting as its own IPA."
Insolvency Proceeding	Means any collective measure defined in the law of a Member State, either to wind up the Participant or to reorganise it, where such measure involves the suspending of, or imposing limitations on, transfers or payment. Such proceeding is opened at the moment when the relevant authority handed down its decision. Moreover, for Participants falling within the scope of article 1 of Directive (EU) 2014/59, the implementation of measures mentioned within Chapter IV "Resolution tools" of this Directive, will be considered for the purpose of this procedure as an insolvency proceeding.
Default	Means a situation where an insolvency proceeding is opened against a Participant and includes pre-insolvency events such as credit downgrading or verified information dispatched by the press (for example) according to which the Participant is or might soon be unable to meet its obligations towards ID2S.
Defaulting Participant	Means a Participant which is in default.

2. Implementation of the procedure

2.1. Identification of default situations

ID2S can become aware of the potential default of a Participant in different ways:

1. Direct information from the Participant who notifies ID2S its situation of illiquidity and imminent default. According to the document AINF0005 "General Terms & Conditions", section III "Member's Duties", any Participant is required to inform ID2S if insolvency proceedings are opened against him as soon as possible, by sending an email to its contact in accordance with document CDBR0003 "Procedure for Participation" and General Terms and Conditions;
2. Market authorities (Banque de France, Autorité des Marchés Financiers), pursuant to article R.613-18 of the French code monétaire et financier (Monetary and Financial

Code), or the Autorité de Contrôle Prudentiel et de Résolution informs ID2S that an Insolvency Proceeding has been opened against the Participant;

3. T2S;
4. Financial press or media;
5. Unofficial sources (which may trigger an investigation that confirms the situation of Default);
6. Continuous monitoring by the CCO and COO in the framework of the continued customer due diligence.

2.2. Verification the event of default:

The application of the procedure (section 4) shall be initiated only after ID2S has taken all reasonable steps to verify that an event of default has occurred.

Therefore, if the information was received from another source than the respective authority according to Article 6(2) of Directive 98/26/EC, the CCO verifies the reliability of the information received. This is the case where:

- a certified copy of official documentation in respect of the insolvency practitioner(s) appointment is not yet available;
- the relevant event of default does not as of itself involve a formal declaration, court order etc.
- the relevant event of default has not yet actually occurred but, in ID2S' opinion, appears likely to occur

In such a scenario, these steps may include but are not limited to:

- contacting the appointed insolvency practitioner(s), the relevant regulatory authorities and potentially the participant believed to be in default;
- reviewing information and notifications that have become publicly available.

2.3. Criteria taken into account for the actions taken by ID2S

Once the potential event of default is identified and verified, ID2S shall measure the potential impact of the default event on its systems and participants by assessing:

- the total volume of the transactions and nominal value of the Defaulting Participant's settlement instructions that are pending settlement and if possible, the Defaulting Participant's settlement instructions that may fail to settle;
- the risks that the default might entail.

ID2S shall also minimise the impact of the suspension on the other Participants, and on the clients of the defaulting Participant (or potentially defaulting) to the extent possible. ID2S will monitor the time needed to attain the final suspension of the defaulting Participant (or potentially defaulting) and the transactions and values that are at risk. To that respect the CCO, CRO and /or CEO shall:

- assess the time necessary for the suspension and impacts on the parties to the ID2S securities settlement system (liquidation of the positions to be settled, financial flows, connections by other participants to the system, information to third parties, etc.).
- liaise with any person designated to supervise/validate transactions as per Book VI "Des difficultés des entreprises" of the French Code de commerce.

Depending on the assessment above, ID2S may take the following measures to contain losses and liquidity pressures in the market, at and after the point of Participant default:

1. ID2S may instruct T2S to cancel the instruction (see Section 4, step 10);
2. ID2S may block the entry of the additional settlement instructions by the Defaulting Participant (see Section 4, step 10);
3. ID2S may suspend of the Participant from the ID2S securities settlement system, (see Section 4, step 11).

After having completed its assessment, ID2S may proceed to the official suspension of a Participant from its securities settlement system.

3. Communication with the relevant stakeholders

Each communication is made in the fastest way possible and in accordance with ID2S communication procedures and standards as provided for in document CDBR0005 “Procedures and Standards for Communication” and article 118 et seq. of the Operating Manual. The Participant and ID2S communicate the addresses and contact details as provided in section 4 of the ID2S Terms and Conditions. Interruption in the communication between the Members and ID2S is described in article 118 et seq. of the Operating Manual.

The information relating to the Defaulting Participant provided by ID2S to the different stakeholders does not contain personal data within the meaning of Directive 95/46/EC on the protection of individuals with regard to the processing of personal data and on the circulation of such data.

3.1. Information to the defaulting Participant

Where ID2S intends to implement or implements one or more of the measures mentioned in this procedure, the CCO shall immediately inform by email the defaulting Participant of the measures to be taken.

3.2. Information to ID2S' competent authorities

ID2S informs by email the competent authorities (Autorité des Marchés Financiers and Banque de France) as soon as it is informed of a Defaulting Participant, in accordance with section 6.4 “Insolvency Guidelines” of document CDBR0003 “Procedure for Participation”.

Upon decision on the measures to be implemented, ID2S informs the authorities of the measures it intends to implement together with the criteria analysis leading to the proposed measures (in addition to unsolicited measures).

3.3. Information to the European Securities and Market Authority (ESMA)

Where ID2S implements any measure mentioned herein, it informs directly and immediately the ESMA in accordance with ID2S communication procedures and standards as provided for in document CDBR0005 “Procedures and Standards for Communication”.

ID2S communication will indicate the CEO as point of contact for any question that may arise.

3.4. Information to ID2S' relevant authorities

Information to the relevant authorities (Banque de France and Eurosystem) is made simultaneously and as per information to the ESMA.

3.5. Information to non-defaulting Participants

Information of the name of the defaulting Participant to non-defaulting Participants is sent by email simultaneously to the information sent to the ESMA, in addition to the SWIFT MT599 (see Section 2.2).

3.6. Information to trading venues and CCPs

Information to relevant trading venues and CCPs is made simultaneously to the information sent to the ESMA.

3.7. Information to T2S

Information to T2S is made simultaneously to the information sent to the ESMA.

3.8. Information to linked CSDs

Information to linked CSDs is made simultaneously to the information sent to the ESMA.

4. Procedure in case of insolvency of a Participant

ID2S is responsible for the execution of the procedure described below. The application of the procedure requires a prior assessment of the insolvency law applicable to linked CSDs.

Step	Action	Responsible	Time
1	When any member of ID2S receives an information of an actual or potential default in relation to a Participant, he/she shall immediately initiate this procedure and inform the CCO.	All ID2S employees	Immediately
2	The CCO verifies the event of a default as described above (2.2). Once the event is confirmed, the CCO shall inform the other corporate officers	CCO	Immediately after step 1

Step	Action	Responsible	Time
3	<p>The CRO shall as soon as possible collect (directly or indirectly through other officers) informations as per the “Insolvency Guidelines” of the document CDBR0003 Procedure for Participation:</p> <ul style="list-style-type: none"> the nature of the defaulting Participant: its legal status, license, activity, whether it is a key Participant or not; the total volume and value of the defaulting Participant's portfolio, settlement instructions that are pending and, where possible, the defaulting Participant's settlement instructions that may fail to settle, with the market “value” being calculated in accordance with article 42(2) of Delegated Regulation (EU) 2017/392; the significant clients of the defaulting Participant, if ID2S has that information; information on any material risks that the default might entail on ID2S. 	<p>CCO</p> <p>COO</p> <p>CCO</p> <p>CRO</p>	Immediately after step 2
4	<p>The COO coordinates with the T2S Settlement Manager. Together they must initiate the “T2S insolvency process” described in work instruction “Insolvency in T2S” within the T2S Collective Agreement.</p> <p>This requires, inter alia that the T2S Settlement Manager involves T2S. The T2S Service Desk sets up a conference call on which the T2S Settlement Manager provides information on the insolvent Participant. As a result, the following actions might be undertaken in compliance with the T2S Framework Agreement which allows ID2S to send specific instructions where a default occurs. ID2S can, in particular:</p> <ul style="list-style-type: none"> Block the settlement on a single/multiple Securities Accounts held by the insolvent CSD/NCB Participant (Apply “Case 2 restrictions” in T2S GUI and block them also internally); Retrieve the information/list of all pending instructions in both systems (T2S and ID2S) for which SF1 (Settlement Finality 1) and/or SF2 (Settlement Finality 2) have been reached for reporting requirements; Retrieve and cancel or put on hold all the impacted Settlement Instructions after ID2S has become aware of the event of insolvency, as well as revoke privileges that the insolvent Participant had on its securities accounts; Apply where required, “Operations Procedure 9 – ID2S Operational procedure for T2S contingency”. 	COO + Head of Operations	Immediately after step 2

Step	Action	Responsible	Time
	<ul style="list-style-type: none"> The communication is made in accordance with ID2S communication procedures and standards (please refer to document CDBR0005 "Procedures and Standards for Communication"). 		
5	The CCO shall immediately inform by email the defaulting Participant of the measures taken.	CCO	
6	<p>The COO looks into which service functions the insolvent Participant is participating in with ID2S and initiates the participation process set out below.</p> <p>In order to fulfil this requirement, the COO will prepare a package of information including data set out in the Data scheme developed by the ESCB¹ for the collection of quantitative data in a crisis situation².</p> <p>The information package is forwarded to the CEO.</p>	COO	Immediately after step 4
7	<p>The CEO informs:</p> <ul style="list-style-type: none"> The Risk Committee if relevant; The Chairman of the User Committee who will inform all the members of that Committee. 	CEO + Chairman of UC	Immediately after step 2
8	<p>The CEO informs the following persons of the insolvency event:</p> <ol style="list-style-type: none"> Banque de France and AMF; ESMA; Relevant authorities of the CSD (Banque de France and Eurosystem). <p>The CEO forwards the information package received from the COO.</p>	CEO	Immediately after step 7
9	<p>COO / Operations informs:</p> <ol style="list-style-type: none"> Its other Participants via MT599 within 2 hours from receipt of the official information from the AMF; Linked CSDs; The trading venues and CCPs served by ID2S; The operator of the common settlement infrastructure (T2S) used by the CSD. <p>CDO will publish the information on ID2S website.</p>	COO CDO	Immediately after step 6

¹ European System of Central Banks

² Standard information to be collected in the case of a crisis

Step	Action	Responsible	Time
10	<p>The operating department, under the responsibility of the COO, performs the following tasks:</p> <ol style="list-style-type: none"> 1. Access for updates are removed and replaced by view access in ID2S systems; 2. Check that all transactions are either settled or blocked; 3. Pending trades are analysed in relation to the relevant insolvency laws, the Settlement Finality Directive and Insolvency rules from T2S. Other instructions are blocked until the entity goes out of insolvency; 4. Blocking of the defaulting Participant's access for all services, as per ID2S communication procedures and standards (please refer to document CDBR0005 "Procedures and Standards for Communication"). <p>Once ID2S has identified a default in relation to a Participant, ID2S (CEO, CCO, CRO and the COO) shall implement the following measures on an unsolicited basis, and additional measures on a case by case basis.</p> <p>Such unsolicited measures are:</p> <ul style="list-style-type: none"> • where an instruction is not matched at the end of the day where a Participant is in default, ID2S may instruct T2S to cancel the instruction, depending on the applicable insolvency laws; • blocking of the entry of the additional settlement instructions by the Defaulting Participant. <p>In particular, in accordance with article 80 of Directive 2014/59, ID2S will execute transfer orders that have been entered into the securities settlement system it operates and that have reached irrevocability before the occurrence of the default.</p>	COO	Immediately after step 9
11	<p>Additional ad hoc measures, such as suspension of the Participant from the ID2S securities settlement system, shall be defined by the CRO for approval by the CCO / CEO taking into account the nature of the Defaulting Participant, of the default and any other relevant information.</p> <p>The selection and implementation of these actions are subject to, where appropriate, the recommendations of the appointed insolvency practitioner(s) and/or the directions of the relevant regulatory authorities.</p>	CRO / CCO /CEO	

4.1. Payment Bank default

For the settlement of its transactions, each ID2S Participant may use one or more T2S Dedicated Cash Account(s) opened in the books of a central bank participating to T2S, in its own name or in the name of a payment bank it has appointed.

Where a Participant informs ID2S of the default of its payment bank vis-à-vis the relevant central bank (i.e. the central bank in the books of which the Dedicated Cash Account of the payment bank is opened), or where ID2S identifies that a Participant's payment bank is in default vis-à-vis the relevant central bank, ID2S will, upon instruction from the Participant, suspend the operations of that Participant as long as the Participant has not indicated to ID2S a successor payment bank, direct Participant to a central bank.

A Participant's payment bank default is not *ipso facto*, a Participant's default.

5. Administration, periodic testing and review of the procedure

5.1. Periodic testing

ID2S tests the effectiveness and practicality of this procedure periodically. These tests are performed in the following circumstances:

- at least once a year;
- when ID2S plans to implement a substantial change of the Participant default rules and procedure;
- if requested by the competent authorities.

Such tests include a simulation exercise and a test of the communication procedures.

The tests are run in consideration of several parameters that consider, among others:

- the different types of Participants (i.e. volume, activity of the Participants, whether the Participant is a key Participant);
- the location of the Participants;
- the different types of accounts holding (omnibus or segregated) by the Participants;
- the relevant market infrastructures, as appropriate.

Such parameters are submitted to the AMF on its demand.

The results of each test conducted by ID2S are provided in written form memo, with a risk analysis, by the CRO or COO (in liaison with any relevant people within ID2S) to the CCO and if the tests are unsuccessful and an immediate action is required, also to the CEO.

Information of the results of such tests is provided to the User Committee.

The competent authorities may additionally request ID2S to take part in the tests.

Where a test reveals any weakness by reason of the criteria chosen or the process, ID2S amends this procedure accordingly.

5.2. Administration and review

The CCO, in cooperation with the corporate officer in charge of financial assessment of a Participant in the context of onboarding, has day-to-day responsibility for this procedure and must ensure that all employees who may deal with this procedure receive appropriate training.

Each amendment considered to this procedure is submitted for validation to the CCO, and then, upon validation of the CCO and the CEO as the case may be, to the risk committee of ID2S.

Furthermore, the contemplated changes to the default procedure should be disclosed by ID2S to its management body, risk committee, Participants as well as competent and relevant authorities.

The CEO has the overall responsibility for this procedure and for reviewing the effectiveness of actions taken in response to concerns raised.

This Procedure is available on the ID2S website.