

# AFME Recommendations for Partial Settlement

## Introduction

In September 2020<sup>1</sup>, the Central Securities Depository Regulation (CSDR) will introduce a Settlement Discipline Regime (SDR)<sup>2</sup> which introduces cash penalties for late matching and failed settlements, and a mandatory buy-in procedure. CSDR requires the failing party to partially settle available securities position at the end of the respective extension period, before the buy-in process is initiated. The regulation also requires Central Securities Depositories (CSDs) to offer partial settlement features to allow market participants to maximise settlement efficiency and lessen the impact of penalties and mandatory buy-ins.<sup>3</sup>

The aim of this publication is to raise awareness of CSD partial settlement features (e.g. Auto-Partial), to provide guidelines for its effective use and to promote harmonisation for adoption across market participants. This includes, but is not limited to, buy-side clients, brokers and service providers such as intermediaries, central counterparties, custodians, banks, and local agents.

The market practice has been created by the collaboration of AFME members.

## Partial Hold & Release<sup>4</sup>

### *What is it?*

CSDs will allow participants to place settlement instructions on “hold”. They will undergo matching but will not be eligible for settlement until they are released. Where settlement of a delivery instruction takes place through an omnibus account structure, Partial Hold & Release will allow for maximised settlement opportunity without increasing the risk of pilferage in cases where the full quantity of securities is not available at that time.

### **Recommendations:**

- Settlement intermediaries (Global Custodians, Prime Brokers, Local Agents etc.) to provide support for the effective use of Partial Hold & Release for their clients.
- Communication and messaging to be automated using ISO/SMPG standards.
- Trading parties and market participants to agree and opt-in for the use of Partial Hold & Release.
- To promote settlement efficiency, it is recommended for parties to instruct with a minimum partial threshold:
  - no less than the minimum tradeable amount
  - no greater than the respective T2S/CSD defaults

<sup>1</sup> Correct at time of publication, notwithstanding the proposed delay to February 2021

<sup>2</sup> [Regulation \(EU\) 909/2014](#)

<sup>3</sup> Article 12 of [Commission Delegated Regulation \(EU\) 2018/1229](#) allows CSDs where the value of settlement fails does not exceed EUR 2.5bn per annum and the settlement rate exceeds 99.5%, to opt-out of requirement to facilitate partial settlement.

<sup>4</sup> Applicable to T2S Settlement only.

## Auto-Partial Settlement

### *What is it?*

CSDs will run partial settlement processes throughout the day, whereby available positions will be automatically settled, to ensure settlement performance is maximised.

### **Recommendations:**

- Trading parties and market participants to agree to the use of Auto-Partial.
- Settlement intermediaries (such as Global Custodians, Prime Brokers, and Local Agents) to provide support for automated instruction and confirmation using ISO/SMPG standards.
- To promote settlement efficiency, it is recommended for parties to instruct with a minimum partial threshold:
  - no less than the minimum tradeable amount
  - no greater than the respective T2S/CSD defaults.<sup>5</sup>
- Regardless of account structure, all receipt instructions should be Auto-Partial enabled.

## Manual Partial Settlement

### *What is it?*

A manual partial is where two parties bilaterally agree to manually cancel and reinstruct an outstanding settlement fail in smaller shapes, to enable settlement of an available position.

### **Recommendations:**

- Manual Partial Settlements should be considered the least preferred option due to the inefficiencies it creates with cancelling, resending and re-matching settlement instructions.
- This may be unavoidable in cases where the CSD is not obligated to offer the Auto-Partial or Partial Hold & Release functionality under CSDR.
- Trading and settlement parties should communicate providing sufficient time for the agreement of the Manual Partial and subsequent instruction and matching process without undue delay.
- Upon instruction of the partial residuals, the parent instruction must be bilaterally cancelled to avoid the risk of duplicate settlement.
- Parties should agree and instruct Manual Partial Settlements at least two hours before the respective CSD settlement cut-off where practically possible.

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<sup>5</sup> At the time of publication, the T2S default threshold in cash value is 10,000 EUR or equivalent for equity instruments and 100,000 EUR or equivalent for non-equity instruments

## Other Considerations

1. Trading and settlement parties should ensure partial settlement processing takes place in the most efficient manner from a communication, operational and risk perspective without undue delay.
2. Certain products such as Securities Lending & Borrowing will require significant changes to the post-trade landscape, to ensure matching, collateral and contract management are not adversely impacted.
3. CSDR mandates that on the last business day of the extension period, the receiving party must accept any partial delivery offered by the delivering party.<sup>6</sup> In cases where a partial delivery is offered but declined by the receiving party, and the failing settlement instruction results in a buy-in, the delivering party should only be responsible for buy-in liability, claims or failure costs on the residual quantity for which a partial delivery was not offered.

*The information provided is for illustrative purposes only. This is subject to change and may not be applicable to all markets or service providers. For further details, please contact your settlement/custody service provider or refer to the T2S/respective CSD website.*

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<sup>6</sup> Article 23 of [Commission Delegated Regulation \(EU\) 2018/1229](#)