

Background

Following a joint meeting on 17th May 2022 between ESMA, industry participants and major trade associations, it was agreed to establish a short-term industry task force to review outstanding issues relating to messaging standards, impacting the implementation of CSDR cash penalties.

During the review, several areas were identified where existing market standards – in particular the [global market practice](#) created by the SMPG for CSDR penalties reporting using MT537 PENA and semt.044 messages – are not being widely adhered to by market participants.

The purpose of this document is to capture these issues, and remind all market participants of the importance of following the global market practice and standards. The document is not in any way a replacement of existing documents such as the global market practice. It is a summary of encountered issues with penalties reporting across the industry, from a frequency and/or impact perspective, and a reminder or clarification of the SMPG's or industry recommendations on these issues.

Outcome of CSDR Messaging Standards reviews

Daily cash penalties reports

1. MT537 cash penalties daily reports where the Amount value is missing from the '19A::SECU' or '19A::CASH' fields in Sub-Sequence D1a1A.

SMPG market practice

In most cases, the information mentioned in this field will be repetitive with the information mentioned in Subsequence D1a1 (:19A::AMCO). Except for LMFP over several days or in case the calculation method is "BOTH" then the information would be needed and is not repetitive.

According to SMPG market practice, a breakdown of the cash penalty amount is required for LMFPs spanning over several days. Therefore, in line with industry best practice, a subsequence D1a1A is to be included for each penalty day for LMFPs spanning over several days, and in each such subsequence a CASH or SECU amount is to be provided.

2. MT537 cash penalties daily reports where the Amount DR indicator is missing from the ':19A::SECU' or ':19A::CASH' fields in Sub-Sequence D1a1A.

SMPG market practice

In most cases, the information mentioned in this field will be repetitive with the information mentioned in Subsequence D1a1 (:19A::AMCO). Except for LMFP over several days or in case the calculation method is "BOTH" then the information would be needed and is not repetitive.

In all fields that include the amount of the penalty; the sign in the MT537 PENA message must be interpreted as follows:

- If the sign is negative (e.g. :19A::GBNT//EUR6,16) then the cash penalty is due to be paid by the party that has received the reporting (:95a::REPA/ in sequence D1) and is due to be received by the counterparty (:95a::REPA/ in sequence D1a) mentioned in the report.
- If the sign is positive (e.g. :19A::GBNT//EUR6,16) then the cash penalty is due to be received by the party that has received the reporting (:95a::REPA/ in sequence D1) and is due to be paid by the counterparty (:95a::REPA/ in sequence D1a) mentioned in the report.

Accordingly, with the two above recommendations from the SMPG market practice, it follows that a subsequence D1a1A is to be included for each penalty day for LMFPs spanning over several days, and in each such subsequence, any non-zero amounts are to be reported with a negative sign when applicable as per above.

3. Unmatched details between new & updated penalties (MT537 & SEMT.044) regarding the :20C::ACOW// field in Sub-Sequence D1a1B.

SMPG market practice

We suggest the ACOW to always be filled with the SEME (Sender's Message Reference) of the instruction subject to cash penalties. This information is critical for the participant to retrieve the underlying transaction in their system. The executing/servicing party needs to populate the ACOW with the SEME of the participant's instruction.

In case there would be no client reference (e.g. the instruction is generated by the CSD), a "NONREF" would be expected in the field 20C::ACOW

Following SMPG guidance, in adherence to industry best practice, the Account Owner (ACOW) information should be populated as follows:

Scenario	Account Owner (ACOW) ref.
If client reference for the settlement instruction is available.	Field to be populated with 'Sender's client reference' (i.e.; XXXX12345)
If client reference for the settlement instruction is not available.	Field to be populated with 'NONREF'

Monthly cash penalties reports

1. **'RELTRAN'** information missing from Subsequence D1a1B in MT537 cash penalties report.

The sequence should always be present as it is key for any receiving party to receive the information on the reference of the instruction involved.

SMPG market practice for RELTRAN information:

Qualifiers	M/O	Recommendation
:20C::ACOW//	M	We suggest the ACOW to always be filled with the SEME (Sender's Message Reference) of the instruction subject to cash penalties. This information is critical for the participant to retrieve the underlying transaction in their system. The executing/servicing party needs to populate the ACOW with the SEME of the participant's instruction. In case there would be no client reference (e.g. the instruction is generated by the CSD), a "NONREF" would be expected in the field 20C::ACOW
:20C::MITI//	O	The MITI is only applicable to T2S instructions
:20C::CORP//	O	Only relevant in case of market claims.
:20C::RELA//	O	

Following SMPG guidance, in adherence to industry best practice, the Account Owner (ACOW) information should be populated as per the daily report

2. **Payment date** information missing from Sequence D "PENA" in the monthly MT537 cash penalties report. This is a recommended field in the SMPG market practice and an ISO 15022

change request has been made suggesting that this field be made mandatory for monthly reports in the future.

The taskforce acknowledges that there may be dependencies on upstream feeds and payments so it may not be possible to be strictly adhered to, but the inclusion of this field assists in downstream reconciliation and is often necessary to create accruals for expected payment.

- 3. Statement period** information missing from Sequence D “PENA” in the monthly MT537 cash penalties report as part of field :69A::STAT//. This is a recommended field in the SMPG market practice and an ISO 15022= change request has been made suggesting that this field be made mandatory for monthly reports in the future.

The inclusion of this field is recommended for good reconciliation practice, allowing firms to identify reference dates to which the cash penalty relates.

Daily & monthly cash penalties reports

1. Use of MT537s and MT548s for penalty messages.

SMPG standards

In ISO 15022, the MT537 is the recommended message to be used to report cash penalties. However, it's left at the discretion of each executing/servicing party to use the MT548 if needed. If the MT548 would be used, this could only be for daily cash penalties as the MT548 is not designed to report monthly cash penalties.

In line with SMPG and ISO 15022 guidance, the recommendation to best adhere to common standards would be for industry participants to use **MT537** as the default format for the reporting of daily and monthly cash penalties. Offering to provide an additional message in MT548 format for daily cash penalties is at the discretion of the account provider.

2. Identification of multiple accounts in penalties reports.

For firms looking to report multiple accounts in a single penalties report, the recommendation is to state 'NONREF' within the :97A::SAFE sequence.

3. Participants experiencing difficulties carrying out monthly reconciliations with MT537 reports.

For each monthly reconciliation and subsequent payment, there should be a global net amount (or multiple global net amounts) and related reference for this amount in the monthly MT537 message that ties exactly (with a standardised reference) to the payment made.

As per industry general consensus, the recommendation is to include the :20C::CPRF// field as best option to ease reconciliation of CSDR cash penalties.

SMPG market practice

With SR2021, a new field has been added to mention the reference of the Global Net Amount that should be paid/received by the participant. This reference is expected to be mentioned in the payment that will be triggered by the instructing/servicing party (regardless if the payment is done via settlement instruction (PFOD) or cash movement).

4. MT537 monthly reports containing aggregated details for more than one month period when late reporting backdated penalties.

For the monthly MT537 reconciliation and subsequent payments, the monthly amounts should be kept separate and not aggregated (i.e., penalties for the months of February and March should not be consolidated into one payment).

As best practice, monthly reports should be kept separate and not aggregated, unless specifically agreed with provider.

5. Where there are entries for CSDR cash penalty debits or credits, the MT940/950 SWIFT message should provide a reference identifier that ties back to the MT537.

According to best market practice, both the 'PEN' transaction type code and the 'CPRF' reference, as provided for each global net amount in the monthly report, can be used in conjunction for identification of the movements on the cash account and on the cash statement.