

# Reflecting bail-in in the books of the International Central Securities Depositories (ICSDs)

## Description of processes and communication templates



March 2021



Single  
Resolution Board

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SINGLE RESOLUTION BOARD

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# ABBREVIATIONS

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<b>BRRD</b>	Bank Recovery and Resolution Directive Directive (EU) 2014/59/EU, as amended from time to time, among others, by Directive (EU) 2019/879
<b>BU</b>	Banking Union
<b>CAEV</b>	Corporate Action Event Indicator
<b>CBL</b>	Clearstream Banking Luxembourg
<b>CD</b>	Common Depository
<b>CSD</b>	Central Securities Depository
<b>CSP</b>	Common Service Provider
<b>CGN</b>	Classical global note
<b>EB</b>	Euroclear Bank
<b>EfB</b>	SRB <a href="#">Expectations for banks</a>
<b>ESCB</b>	European System of Central Banks
<b>EU</b>	European Union
<b>FOLTF</b>	Failing or likely to fail
<b>ICSD</b>	International Central Securities Depository
<b>ISIN</b>	International Securities Identification Number
<b>ISO</b>	International Standards Organization
<b>LEI</b>	Legal Entity Identifier
<b>MiFID</b>	Markets in Financial Instruments Directive Directive 2014/65/EU, as amended from time to time
<b>MIS</b>	Management Information Systems
<b>MTF</b>	Multilateral Trading Facility
<b>NGN</b>	New global note
<b>NNA</b>	National numbering agency
<b>NRA</b>	National resolution authority
<b>PPA</b>	Principal Paying Agent
<b>SDA</b>	Share delivery agent
<b>SRB</b>	Single Resolution Board
<b>SRMR</b>	Single Resolution Mechanism Regulation Regulation (EU) No 806/2014, as amended from time to time, inter alia, by Regulation (EU) 2019/877

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# 1. INTRODUCTION

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In accordance with the SRB's document *Expectations for banks* (Efb)<sup>1</sup>, banks<sup>2</sup> are expected to develop bail-in<sup>3</sup> playbooks describing adequate governance arrangements, internal processes and MIS capabilities to support the operational execution of the write-down and conversion, both internally and by third parties<sup>4</sup>. According to Efb principle 2.3 point 3, bail-in playbooks should contain information on 'arrangements for the external execution of write-downs and conversions'. In this context, banks need to have 'systems and resources in place to generate rapidly – e.g. within a few hours – up-to-date information on securities within the scope of bail-in', including International Securities Identification Number (ISIN) or other relevant identification code and 'CSDs in which the securities are issued and are subject to safekeeping', and 'identify the agents that would need to be involved in executing the write-down and conversion'.

Banks are therefore expected to describe the processes underpinning the execution of a write-down and/or a conversion of relevant securities (including related timelines and information needed by central securities depositories (CSDs) and other stakeholders) per country and type of security and to identify potential obstacles to the execution of each necessary step.

This document describes elements that banks should consider for the operationalisation of the bail-in in respect of international bearer debt securities issued by and safekept in the international central securities depositories (ICSDs), Euroclear Bank (EB) and Clearstream Banking Luxembourg (CBL). It has been developed based on discussions with the ICSDs. Banks are expected to reflect the content of this document in their bail-in playbooks as from 2021.

The document should be read in conjunction with previously published guidance on bail-in playbooks<sup>5</sup>, which covers the identification of instruments, internal and external execution processes and the provision of bail-in data points.

This document aims at:

- ▶ providing a better understanding of the procedures the ICSDs would apply in the case of the bail-in of international bearer debt securities for which the ICSDs act as issuer CSDs. Any actions undertaken by the ICSDs in respect of domestic securities, in their role of investor CSDs, will reflect events taking place on the local market;
- ▶ providing information to banks and resolution authorities across jurisdictions about how the bail-in of such instruments would be reflected in the books of the ICSDs;
- ▶ supporting banks in preparing their bail-in playbooks, in particular for securities issued and safekept in the ICSDs.

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<sup>1</sup> [https://srb.europa.eu/sites/srbsite/files/efb\\_main\\_doc\\_final\\_web\\_0.pdf](https://srb.europa.eu/sites/srbsite/files/efb_main_doc_final_web_0.pdf)

<sup>2</sup> For the purposes of this document, the term 'bank' refers to entities and groups that fall under the SRB's remit.

<sup>3</sup> For the purpose of simplification, when this document refers to bail-in, it refers to both write-down and conversion powers and bail-in in the case of resolution. Similarly, when this document refers to bail-inable instruments, it includes the instruments which may be subject to write-down and conversion.

<sup>4</sup> Efb principle 2.3.

<sup>5</sup> [Operational guidance on bail-in playbooks](#), published in August 2020 on the SRB website.

The document explains the role of ICSDs in respect of the bail-in of instruments for which they are issuer CSD and investor CSD, the stakeholders involved, processes and steps to follow, data and information requirements, communication timelines and channels used. It is based, where possible, on existing market practices and operational rules supporting the execution of the relevant corporate actions.

It does not address the bail-in execution steps for instruments issued and safekept in the local (national) CSDs (e.g. shares, other instruments of ownership, domestic bonds, etc.), as performed by these local CSDs<sup>6</sup>.

Two key practical annexes include:

- ▶ Annex I: a detailed description of the steps that would take place under the main operational scenarios (write-down and conversion);
- ▶ Annex II: communication templates for notifying the resolution event and the application of the bail-in tool to the securities issued in the ICSDs. A first notification should preferably take place from the NRA to the ICSDs<sup>7</sup>, followed by a second from the bank's operational agent to the ICSDs.

Glossaries with definitions of technical and non-technical terms used in this document can be found in annexes III and IV.

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<sup>6</sup> In that respect, a successful execution of bail-in requires clear processes for the issuance of new instruments in the domestic market, for the purpose of adequately absorbing losses and recapitalising the bank in resolution.

<sup>7</sup> Though this is not a *conditio sine qua non*, it would support a smooth process.



## 2. WRITE-DOWN AND CONVERSION AND BAIL-IN: ROLE OF THE ICSDS

Resolution authorities may exercise the power to write-down and convert relevant capital instruments and eligible liabilities independently or in combination with resolution action<sup>8</sup> and apply the bail-in tool in the case of resolution<sup>9</sup>. The purpose, in both cases, is to ensure adequate loss absorption and recapitalisation of a bank when it is failing or likely to fail (FOLTF). The success of these actions is dependent on the bank having sufficient own funds and bail-inable liabilities that can be written down and/or converted, and on an effective application of the necessary actions by way of internal execution (through actions undertaken by internal organisational units of the bank, including those leading to changes in its systems<sup>10</sup>) and external execution (through actions undertaken by third parties)<sup>11</sup>.

As a consequence of the relative importance of bail-inable securities issued through the ICSDs, the ICSDs would be expected to play an important role in the execution of the bail-in at the level of the largest banks, as well as many other banks under the remit of the SRB. It is therefore important that the ICSDs, resolution authorities and banks share a common understanding of how the related processes would take place.

### 2.1 The importance of international bearer debt securities for Banking Union banks

Banks generally need access to funding in multiple currencies on different markets. To that end, they issue securities in different countries and/or international securities, such as eurobonds<sup>12</sup>, which are issued in the Banking Union (BU) through the ICSDs. These international bearer debt securities (i.e. bearer bonds) represent a significant part of the securities<sup>13</sup> issued by banks under the SRB's remit: at end-2019, banks reported a total issuance of equity and debt securities amounting to EUR 3.88 trillion, of which EUR 1.11 trillion (or 29%) relate to issuances of international bearer debt securities via the ICSDs.

<sup>8</sup> Articles 21(7) SRMR and 59(1) BRRD.

<sup>9</sup> Articles 27 SRMR and 43 BRRD.

<sup>10</sup> For a detailed definition of internal and external bail-in execution, please see the [Questions and Answers](#) under the Operational guidance on bail-in implementation, published in August 2020 on the SRB website.

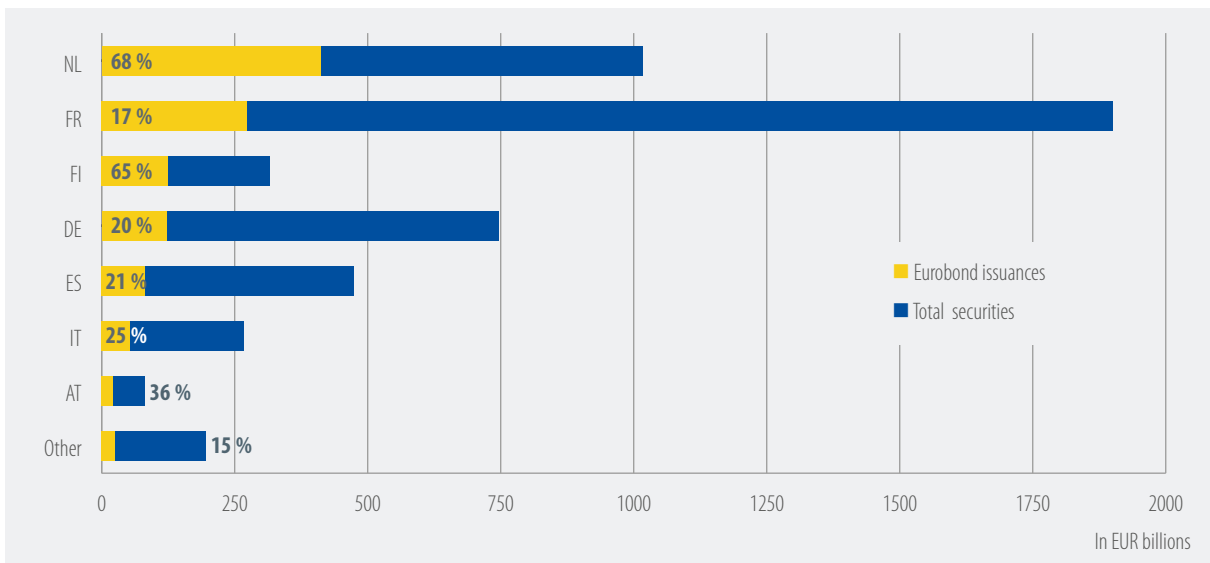
<sup>11</sup> Please see the [Operational guidance on bail-in playbooks](#).

<sup>12</sup> Eurobonds are defined as international securities issued outside the country in whose currency their value is stated. In practice, the issuer can choose the currency of issue among the ICSD's eligible currencies, including EUR, irrespective of its location. This document uses the expression 'international bearer debt securities' to avoid confusion with other uses of the term (in some countries, the term is used to designate other types of securities: e.g. in Germany, government bonds that are issued by EU member states in euros; in other instances, the term is used to designate government bonds issued in euros jointly by the European Union's euro area countries).

<sup>13</sup> Based on issuances of debt and equity instruments reported as of 31 December 2019.

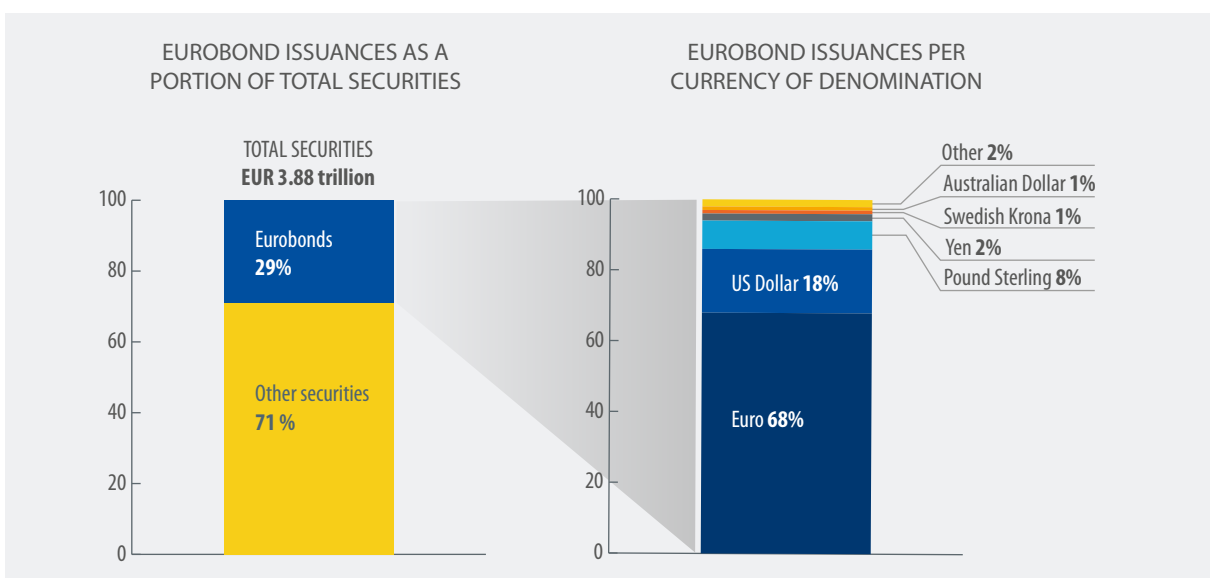
However, the size and amount of issuances through the ICSDs vary significantly among countries in the BU (Figure 1). Around 62% of all international bonds issued by BU banks in the ICSDs are under the governing laws of the Netherlands (EUR 410.57 billion) and France (EUR 273.14 billion). The Netherlands and Finland are the only markets where the value of international bearer debt securities issued via the ICSDs surpasses the value of domestically issued securities.

**Figure 1:** Debt securities issued via ICSDs (eurobonds) by banks under the SRB's remit out of total equity and debt securities issued per country in the BU, as of 31 December 2019



Eurobond issuances of BU banks are mostly denominated in EUR (68%) (Figure 2). However, a significant part is denominated in other currencies, mostly USD and GBP, which account for 18% and 8% of the total, respectively. The remaining 6% is split among a large number of other currencies. Such bonds can be issued in the ICSDs under different governing laws.

**Figure 2:** Total securities reported by banks under SRB's remit as of 31 December 2019 broken down by eurobond issuances and other liabilities (left) and eurobond issuances per currency of denomination (right)



## 2.2 The role of the ICSDs

As ICSDs, EB and CBL are CSDs operating within the BU and offering services that complement the services offered by domestic CSDs. The designation of the ICSDs as CSDs<sup>14</sup> within the BU means that they offer a 'settlement service', by operating a securities settlement system, and a 'central maintenance service', providing and maintaining securities accounts at the top tier level. The initial recording of securities in a book entry system ('notary service') for international bearer debt securities is performed by the ICSDs, together with the common depository (CD) for classical global notes (CGN) and/or the common service provider (CSP) for new global notes (NGN). In addition, the ICSDs offer their clients non-banking-type ancillary services that do not entail credit or liquidity risks, as well as banking-type ancillary services, such as providing cash accounts, cash credit or payment services.

The ICSDs act as issuer CSDs<sup>15</sup> and places of primary deposit for international bearer debt securities only. Such securities are usually identifiable by a securities ISIN starting with 'XS', rather than the standard 2-digit country code used for securities issued via a domestic CSD. The two ICSDs are themselves also designated national numbering agencies (NNAs) for the purpose of XS ISINs.

A particularity of the ICSD model compared to the CSD model, where the CSD generally also holds the global certificate of the dematerialised securities, is that the two ICSDs use CDs for that purpose for CGN<sup>16</sup>. A CD is a service provider and safekeeper of assets on behalf of EB and CBL combined. In the case of NGN<sup>17</sup>, the ICSDs rely on a common safekeeper and a CSP. The common safekeeper is one of the ICSDs if the security is intended to be European System of Central Banks (ESCB) eligible<sup>18</sup>, or usually the entity acting as CSP if it is not.<sup>19</sup>

The ICSDs also accept other securities on their platforms (equities, warrants, national fixed income securities, structured products, etc.) that have been issued in numerous local markets. They act as investor CSDs<sup>20</sup> in respect of these securities. This enables them to provide access for their clients to these markets, offering safekeeping, settlement and other services relating to these securities. This note also includes references to the implications for the ICSDs of bail-in in the domestic or other local CSDs.

## 2.3 ICSD tasks in the case of bail-in

Given the importance of international bearer debt securities for banks in the BU, ICSDs are key players in the execution of bail-in. This document highlights two cases, which are explored in further detail in point 3:

<sup>14</sup> EB received a CSDR licence in December 2019; the CSDR authorisation process is still ongoing in the case of CBL (which operates under the grandfathering regime).

<sup>15</sup> An issuer CSD is a CSD in which securities are issued (or immobilised and safekept). The issuer CSD opens accounts allowing investors (in a direct holding system) and/or intermediaries (including investor CSDs) to hold these securities (ECB [glossary](#)).

<sup>16</sup> Whereby the global certificate requires physical annotation on the attached schedule to reflect changes in the issue outstanding amount. Please also see the glossary at the end of this document.

<sup>17</sup> Whereby the global certificate refers to the records of the ICSDs to determine the issue outstanding amount.

<sup>18</sup> This refers to assets that are accepted as collateral by the Eurosystem. Please see <https://www.ecb.europa.eu/paym/coll/html/index.en.html>.

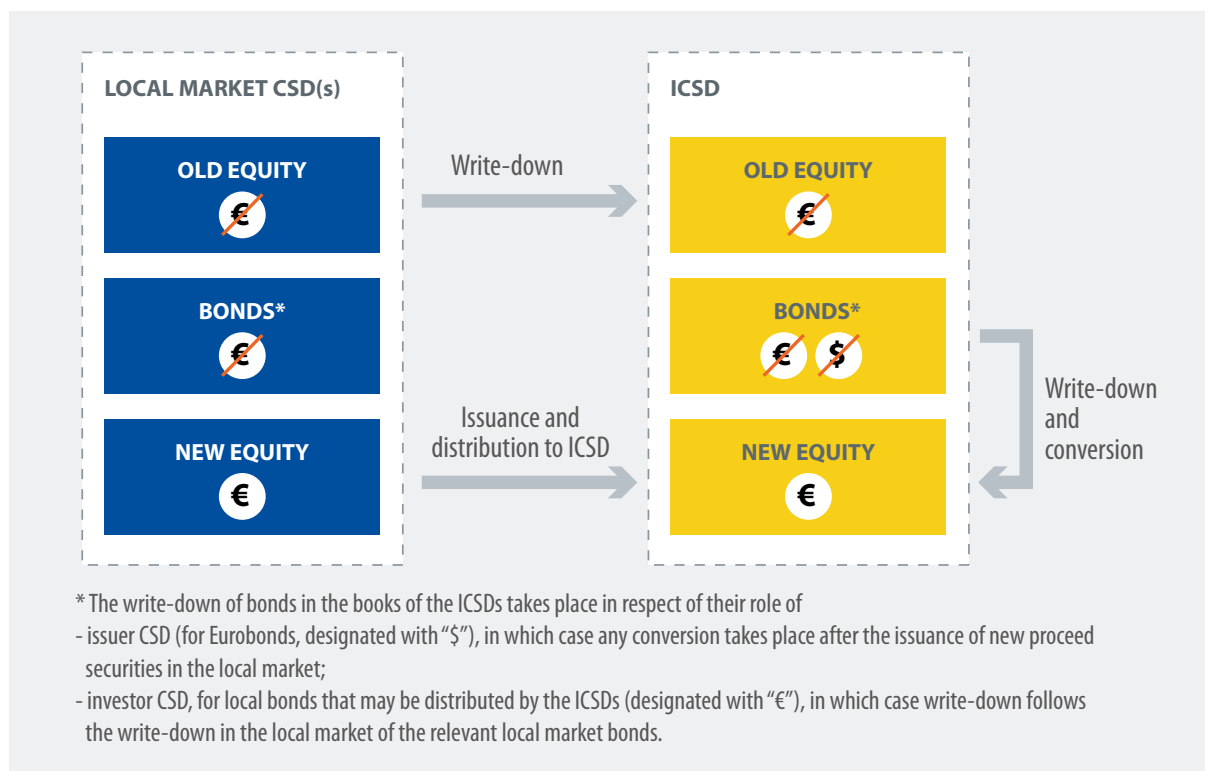
<sup>19</sup> The CSP function is in both cases performed by a member of the ICSD network of commercial banks. In the case of NGNs, the common safekeeper and CSP are usually the same bank, though not always.

<sup>20</sup> An investor CSD – or a third party acting on behalf of the investor CSD – opens an account in another CSD (the issuer CSD) to enable the cross-system settlement of securities transactions (ECB [glossary](#)).

1. **ICSD as issuer CSD (Classical Global Notes/New Global Notes):** the ICSDs would ensure that the write-down and/or conversion decision is reflected in their books, impacting the balances of their clients in respect of the relevant securities. In practice, in the case of CGNs, the (operational) instruction<sup>21</sup> to write down and/or convert should flow first to the CD (which holds the global note, and thereby the full outstanding balance, on its book) before reaching the ICSDs.<sup>22</sup> In the case of NGNs, the instruction would need to be addressed to the ICSDs themselves and the CSP.
2. **ICSD as investor CSD (securities issued in the local market):** for securities issued in the local market, ICSDs are not the primary place of deposit: these securities are not primarily issued and safekept within the ICSDs' books, but at the level of the local (national) CSD. The ICSDs therefore follow the local CSD in the case of a bail-in (Figure 3). This means that the write-down of securities in the local CSD will be reflected in the books of the ICSDs and in the positions of their participants. Similarly, when new equity is issued in the local market, this is reflected in the books of the ICSDs thereafter.

Automatically reflecting changes in the local market such as a bail-in performed by the domestic CSD within the ICSDs' books is only possible where the ICSDs have established a link with the local market (Box 1). In general, ICSDs already have established links with most BU local CSDs. In this case, the ICSDs are treated as any other holder on the domestic market<sup>23</sup>.

**Figure 3:** When the ICSDs are not the primary place of deposit, the local market is in the lead



<sup>21</sup> The electronic SWIFT instruction reflecting the markdown of the global note. This should not be confused with the communication from the bank's operational agent to the ICSDs, in accordance with Annex II.2 (Letter of the bank's agent to ICSDs). Indeed, the SWIFT instruction should preferably be preceded by a communication from the bank's agent to the ICSDs, with the CD or CSP in copy.

<sup>22</sup> This should not preclude resolution authorities from already liaising with ICSDs under strict confidentiality requirements to ensure that due preparations are taken, as the more complex operational steps need to be performed by the ICSDs, in accordance with (the national transposition of) Article 84(5) BRRD.

<sup>23</sup> An exchange agent may be necessary for applying for a local ISIN for the new shares and ensuring coordination with the local market. This is beyond the scope of this document and has no bearing on the ICSDs' activities.

### BOX 1: WHEN CAN A SECURITY ISSUED IN THE LOCAL MARKET BE REFLECTED IN THE BOOKS OF THE ICSDs?

In order for a new security to be credited to holders in ICSDs – if the issuer wishes the security to be also eligible in the ICSDs – some conditions need to be met. In particular:

- ▶ there should be an established **link** between the ICSD and the local market of issuance (usually the home market of the issuer) and
- ▶ the issuance must meet ICSD **eligibility criteria**.

#### 1. CSD links

A CSD link is an arrangement between the ICSD and a local CSD – or an agent operating in that local market – to allow for the transfer of securities from one to the other. In concrete terms, the ICSD opens an account with the local CSD – or the agent operating in the local market – to provide its clients with access to the securities issued in that local market.

For major EU<sup>24</sup> and international<sup>25</sup> markets, the ICSDs have established links with the local market that may service equities. Customers may find information on the established links and instruments serviced through these links on the websites of the ICSDs (<https://my.euroclear.com/eb/en/reference/markets/market-basics-overview.html> (accessible for registered users of the Euroclear website) for EB or, for CBL, <https://www.clearstream.com/clearstream-en/products-and-services/market-coverage>).

#### 2. Eligibility criteria<sup>26</sup>

Before accepting a security for settlement in their books, the ICSDs perform an analysis of the operational, legal and fiscal features of the issuance, where possible based on the new security's documentation. The ICSDs check, inter alia, the information on the issuer name, the issuer's place of incorporation, the issuer's address, the instrument category, the legal form of the issuance and the nominal currency. The precise information needed depends on the security instrument type and market.

Usually, securities are expected to be freely tradable. ICSDs may deviate from this rule in exceptional circumstances.

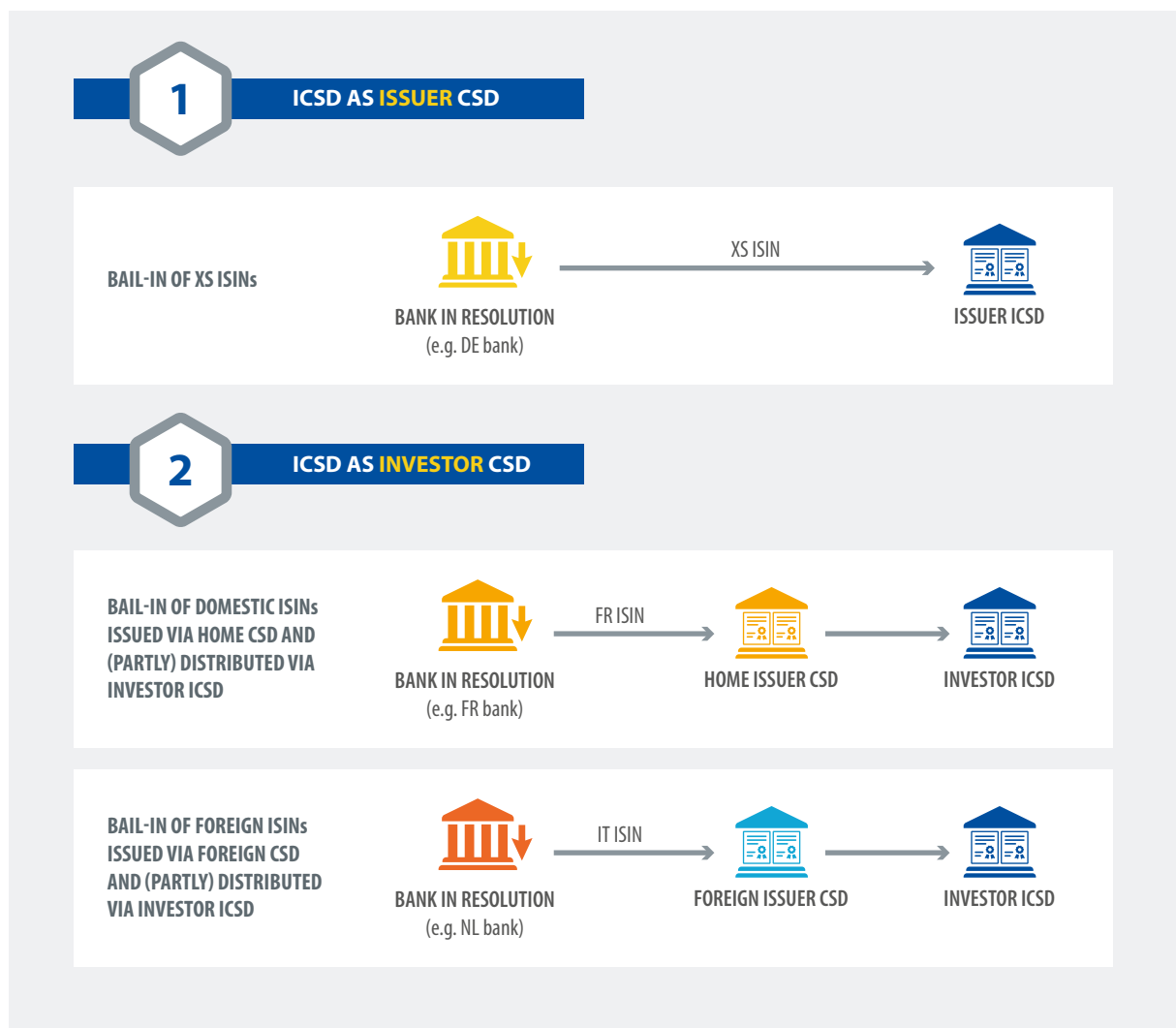
<sup>24</sup> At 31 December 2020, links with all markets servicing equities in the EU had been established, with the following exceptions, where they had only been established by CBL: Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Romania and Slovenia. This list may be subject to change.

<sup>25</sup> Such links have been established by both ICSDs with the UK, Australia, Japan, Switzerland and the US.

<sup>26</sup> In circumstances where the effective execution of a bail-in event might require specific attention from the ICSDs, for example in the case of the use of contingent entitlements or other instruments with non-standard terms and conditions, early engagement with the ICSDs would allow prompt detection of any impediments to reflect these (local) instruments in the books of the ICSDs and support swift assessment in the case of resolution.

## 3. FRAMEWORK FOR THE EXTERNAL EXECUTION OF BAIL-IN

This chapter provides information on the processes applied by the ICSDs in support of a bail-in in their role of issuer and investor CSDs, as introduced in Chapter 2.3. It focuses on the applicable operational scenarios and steps, and addresses relevant operational approaches to possible bail-in adjustments after definitive valuation 2.



### 3.1 ICSDs as issuer CSDs: different bail-in scenarios

A bail-in scenario can be characterised, in accordance with the *International Securities Operational Market Practice Book*<sup>27</sup>, as a corporate action event that is:

- ▶ Unpredictable: the securities documentation does not set out the mechanics and deadlines for dealing with the event<sup>28</sup>. Information on the corporate action event can only be made available very shortly before the launch date in additional documentation<sup>29</sup>; and
- ▶ Mandatory: it occurs upon decision of the resolution authority without any action from or agreement of the individual holders of the security.

It is a reorganisation event<sup>30</sup>, whereby the issuer either writes down and/or replaces (by way of conversion) all, or some, of an exercise security, with one or more different instrument(s) or proceed securities. Please refer to the *International Securities Operational Market Practice Book* for recommendations with regard to such type of events.

The processes described in this document are based on existing corporate action standards, which do not provide for a specific standard in the case of bail-in. Indeed, there is no specific ISO field code for bail-in events. There may be a case for defining a Corporate Action Event Indicator (CAEV) relating specifically to a bail-in, in particular to indicate that it originates from a binding national implementing act<sup>31</sup> and to distinguish the bail-in event from other corporate events that may also be planned during the same period. As long as no specific code exists, the same effect will need to be pursued through the integration of a specified field within an already used event type, where possible.<sup>32</sup>

<sup>27</sup> Euroclear and Clearstream, *International Securities Operational Market Practice Book*, January 2012.

<sup>28</sup> Market participants are expected, however, to be aware of resolution authorities' powers in respect of the securities. This is why securities governed by third countries law need to include bail-in recognition clauses, in accordance with Article 55 BRRD.

<sup>29</sup> Please see Annexes I and II with regard to the specific information and documentation needed by the ICSDs to reflect the bail-in in their books.

<sup>30</sup> In accordance with the classification of corporate actions of the International Standards Organization (ISO).

<sup>31</sup> Though the national implementing act is typically not addressed to ICSDs, ICSDs will execute instructions sent by issuers through the normal channels of communication, provided they are in line with rules and regulations and the ICSDs' contractual framework.

<sup>32</sup> SWIFT MT564 standard notifications have a dedicated field for free text. However, this may not be enabled by the systems of all CSDs and/or agents. In any case, the use of the communication templates (in Annex II.2) will support an adequate identification of the event, even if the MT564 does not contain any further details as to the nature of the event.

The following scenarios are considered:

1 BAIL-IN OF XS INSTRUMENTS ISSUED VIA ICSDs	
DESCRIPTION	VARIATIONS (SUB-SCENARIOS)*
<b>SCENARIO A</b> <b>FULL WRITE-DOWN:</b> full reduction of nominal (XS bonds), without conversion.	NA
<b>SCENARIO B</b> <b>PARTIAL WRITE-DOWN:</b> partial reduction of nominal or pool factor (XS bonds) without conversion.	<b>a.</b> Reduction of nominal <b>b.</b> Pool factor
<b>SCENARIO C</b> <b>FULL CONVERSION:</b> full reduction of nominal (XS bonds) and delivery of new instruments.	<b>a.</b> Definitive ownership instruments (e.g. shares) or contingent entitlements (both issued in local market)** <b>b.</b> Definitive ownership instruments and contingent entitlements (both issued in local market)**
<b>SCENARIO D</b> <b>PARTIAL CONVERSION:</b> partial reduction of nominal or pool factor (XS bonds) and delivery of new instruments.	<b>c.</b> Definitive ownership instruments (issued in local market)** and contingent entitlements (issued in ICSDs)
<b>Closing resolution</b> Bail-in adjustment upon definitive valuation 2 and closing of resolution.	<b>a.</b> Adjustment applied to nominal amount <b>b.</b> Adjustment applied to pool factor <b>c.</b> Conversion of contingent entitlements

\* For the sake of simplicity, though reduction can take place through nominal or pool factor under D as under B, this is not repeated here as a sub-scenario.  
 \*\* Ownership instruments or contingent entitlements issued in local market can be delivered to investors in ICSDs, provided they meet the eligibility criteria of the ICSDs.

## A. Full write-down<sup>33</sup>

XS bonds are fully written down. This entails marking the bond as worthless (in an issuer obligation sense) so that no repayment or distribution rights remain attached to the security (reduction of the nominal value of the share or bond to zero). The security continues to exist in the ICSDs' systems, which then proceed to cancellation<sup>34</sup>. In normal circumstances, there is usually a three-week period between marking down and cancellation, which occurs through a 'disposal notice'. The issuer is the legal owner of the global note, and the ICSD has no right to alter it unilaterally. In a bail-in context, cancellation would follow from the national implementing act and from the write-down instruction sent to the ICSDs (please see the communication templates in Annex II).

<sup>33</sup> This corresponds to scenario 4 in BaFin [Guidance notice on external implementation of bail-in](#), October 2019: Full reduction of nominal (bonds) WITHOUT delivery of new shares.

<sup>34</sup> Even though the security is completely written down, it would stay in the systems of the ICSDs until its cancellation. The ICSDs would only cancel the securities in line with the disposal process as agreed with the issuer. Including the cancellation in the implementing act is not strictly necessary, but would add certainty.



The write-down in the books of the ICSDs (full or partial) takes place on the record date, as communicated in the instruction letter from the issuer agent to the ICSD and relevant CD or CSP (see Annex II.2). The record date is the date upon which the ICSDs close their books for the purpose of capturing the names of the clients to whom the event will be applied.

## B. Partial write-down<sup>35</sup>

XS bonds are partially written down. This can take place through a reduction of the nominal or through a pool factor (Box 2). At the time of bail-in, some instruments may already have a pool factor below 100% in cases where their value would already have been reduced through e.g. a partial redemption or reorganisation<sup>36</sup>. Instruments may also have a pool factor above 100%, e.g. when interest payments have been capitalised instead of paid out. This needs to be duly taken into account in the calculation of the amount to bail in.

Note that, in the case of bail-in, a partial write-down is unlikely to be used on a stand-alone basis (without conversion into capital instruments). Indeed, once the losses have been absorbed by way of a write-down, the bank needs to be recapitalised. Please see scenario D for partial conversion. Scenario B is included in this framework for the purpose of clarifying the processes that ICSDs may apply in line with existing corporate action standards.

### BOX 2: WRITE-DOWN THROUGH POOL FACTOR VS. NOMINAL REDUCTION

In the case of redemption<sup>37</sup> of nominal value, an equal part of all notes of a security is redeemed and the denominations are reduced accordingly. The global certificate is updated.

In the case of a partial redemption with a pool factor, an equal part of all notes of a security is redeemed but the denominations are not reduced accordingly. A ratio (the 'pool factor') is assigned to the security and reflects the face value of the principal that is still to be redeemed. For each interest payment, the amount of interest payable is then calculated on the basis of the outstanding amount of principal and not on the basis of the denomination of the security, if applicable<sup>38</sup>.

The application of a pool factor does not change the denomination of the bailed-in securities, which remain on the ICSD's book and in the ICSD participant reports.

A full write-down by adjustment of the pool factor (applying a pool factor of 100%) is not possible (the maximum is 99.9999999999%, with 11 decimals).

The application of a pool factor is the standard procedure for all cases where a partial redemption of the securities can occur; this is reflected in the terms and conditions of the securities. The decision on whether to apply the pool factor method or the nominal reduction will be communicated by the issuer, i.e. the bank under resolution. The communication will also indicate the applicable reduction and new pool factor per relevant ISIN.

The pool factor has the advantage compared to a reduction of the nominal that it does not impact the denomination, which facilitates trading, and that it allows a finer adjustment (with nominal limited to two decimals in the case of EUR, i.e. EUR 0.01, and one currency unit for other currencies).

<sup>35</sup> This corresponds to scenario 6 in BaFin, *Ibid.*: Partial reduction of nominal (bonds) WITHOUT delivery of new shares.

<sup>36</sup> This would be the case, for example, for securities with a partial redemption schedule set out in their terms and conditions, which would define how the stepwise redemption would take place over time.

<sup>37</sup> The term 'redemption' is commonly used in the case of a reduction in the nominal value or pool factor of a security, whether mandatory or not.

<sup>38</sup> CBL Customer Handbook.

### C. Mandatory full conversion<sup>39</sup>

XS bonds (the 'exercise security(ies)') are fully written down and converted into instruments of ownership issued in the domestic CSD (the 'proceed security(ies)' or 'the proceeds'<sup>40</sup><sup>41</sup>). In most cases, these will be shares. In certain countries, different approaches may apply, such as the issuance of (temporary) interim instruments<sup>42</sup>, for example claim rights, or the joint issuance of shares (or other instruments of ownership) and complementary interim instruments. The purpose of such (complementary) interim instruments is to reflect contingent entitlements and address any possibly required bail-in adjustments following possible definitive valuation 2 (please see point 3.5 below for a discussion on different approaches to such adjustments). The ICSDs will need more time to analyse if the issuance documentation of a non-standard instrument meet the ICSDs' eligibility criteria.

The write-down in the books of the ICSDs takes place on the record date (as per A. above), and the booking of the proceed securities takes place on the settlement date, as indicated in the instruction letter from the issuer agent to the ICSD and relevant depository (see Annex II.2).

Following a mandatory conversion, settlement instructions (for the original bond) entered into the system and due to settle after the settlement date may either remain in place or be cancelled by the ICSDs at the time of processing the conversion. However, in practice, even if they remain in place they cannot settle in the originally agreed security. In that case, they are not converted into a right to receive the proceed securities and will disappear after the planned settlement date.

The new instruments are issued in the domestic CSD and delivered through this CSD to the ICSDs for further distribution. As outlined above, the ICSDs reflect the actions taken in the local market on their books. In the case of a mandatory conversion, the new securities are expected to be issued in the home market of the issuer<sup>43</sup> and to meet the ICSD eligibility criteria in order to be credited to holders in the ICSDs. Please refer to 3.3 for further details.

There are three conditions to credit the securities: they need to be

- (i) eligible on the ICSD's platform;
- (ii) delivered on the ICSD's account at the national CSD (or indirectly through a custodian);  
and
- (iii) the ICSD needs to have the authority from the CD (which stems from the message confirming the write-down of the global note) to do the write-down of the old bond. As a general rule, ICSDs performs the write-down (debit) of the existing bonds and the credit of new securities concurrently.

The situation may arise whereby the proceed security is not eligible in the ICSDs. This is unlikely to occur for securities issued in the EU (provided they are issued in a CSD), as the ICSDs have established links with most domestic CSDs in the EU, provided the security meets the ICSDs'

<sup>39</sup> This corresponds to scenario 3 in BaFin, *Ibid*: Full reduction of nominal (bonds) WITH delivery of new shares. A conversion is always associated with a de facto write-down of the part of old securities that is converted.

<sup>40</sup> If it is not specified, 'the proceeds' could be in the form of securities or cash.

<sup>41</sup> Note that in this scenario, 100% of the bonds are converted into proceed securities. The bonds themselves are fully written down as a consequence. In cases where two actions are foreseen e.g. a 50% write-down *followed* by a full or partial conversion, two scenarios need to be applied (e.g. B and C or D).

<sup>42</sup> This wording is used here to designate temporary instruments representing contingent entitlements rather than the technical codes that may be allocated temporarily in certain countries for handling fractional entitlements. For the sake of clarity, the communication template in Annex II.2 distinguishes 'interim ISINs' (for such technical codes) and 'contingent entitlements'.

<sup>43</sup> It is unlikely, though not impossible, that some securities would be issued in other local markets. The same conditions apply.

eligibility criteria. If such a case occurs, the ICSDs will attempt to collect delivery details from clients and send these details to the agent. The agent will ensure that the proceeds (instruments of ownership, such as shares, and/or interim instruments reflecting contingent entitlements, as applicable) are delivered to the holders. For instruments not meeting the ICSD's eligibility criteria that are nevertheless credited to the ICSD account, the process for non-eligible instruments will be followed. This implies holders should provide delivery details to generate a settlement instruction in order to move the position out of the ICSD with the shortest possible delay. This would not impact the bail-in as such, as it would already have taken place.

## D. Mandatory partial conversion<sup>44</sup>

XS bonds are converted partially into instruments issued in the domestic CSD (as per section C above). As a consequence, XS bonds will not be fully written down. Their nominal value will reflect the partial write-down or a pool factor will be applied, bringing the value of the issuance below par (as per section B above).

In a mandatory partial conversion, settlement instructions (for the original bond) entered into the system and due to settle after the settlement date may be cancelled by the ICSDs at the time of processing the conversion. This is likely to happen in case of a bail-in event. New instructions can then be submitted after the event has been processed.

Note that a case of bail-in can require the application of several subsequent scenarios, for example a conversion (e.g. C) followed by a write-down (e.g. A or B). In such a case, distinct instructions need to be sent to the ICSDs.

## 3.2 ICSDs as issuer CSDs: stylised process

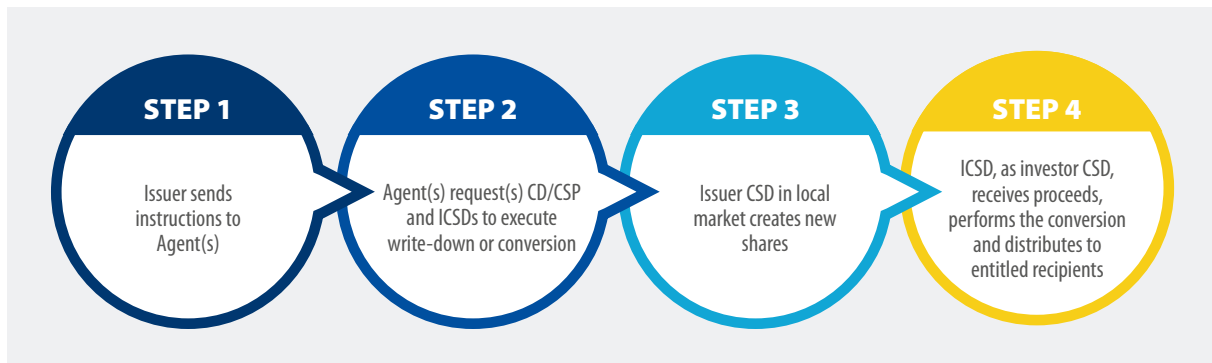
The process for write-down would be as follows for international bearer debt securities (see Figure 4 for both write-down and conversion):

1. The issuer notifies the operational agent of the national implementing act.
2. The operational agent notifies the relevant CD and the ICSDs (for CGNs) or the CSP and the ICSDs (for NGNs) by way of an instruction letter (please see the communication template in Annex II.2).<sup>45</sup> The CD (or the common safekeeper, i.e. an ICSD or the CSP) marks down the CGN (or NGN) as required. ICSDs receive mark-down instructions from the CD or CSP.
3. Each ICSD writes down the relevant position in its books.
4. Each ICSD sends SWIFT instructions to the agent (and to the CD/CSP) to confirm the execution of write-down.
5. Each ICSD sends a notice to its participants (who then forward the notice to their clients).

<sup>44</sup> This corresponds to scenario 5 in BaFin, Ibid.: Partial reduction of nominal (bonds) WITH delivery of new shares.

<sup>45</sup> The communication from the NRA to the ICSDs is not mentioned here, as per communication template II.1, but would take place at the same time or even earlier. The ICSDs would confirm receipt and perform a legal review.

**Figure 4:** Steps involved in write-down and conversion executed by the ICSDs, as applicable (simplified)<sup>46</sup>



The additional steps involved in the exchange/conversion (where the conversion takes place in an ICSD and the issuance of new equity and/or other proceed securities in a domestic CSD) would be the following:

1. The issuer/agent provides information to the ICSDs on the proceed securities. The ICSDs verify they are eligible on their platforms.
2. The issuer CSD creates the new proceed securities (in the local market); ISIN or other codes are allocated to these securities by the relevant NNA<sup>47</sup>.
3. ICSDs agree settlement with the issuer/agent: this entails exchange of account details and agreement on settlement instruction details.
4. The issuer CSD delivers the proceed securities in the accounts of the ICSDs (acting as investor CSDs). This means that the ICSDs either have an account at the local CSD or have indirect access to the local CSD through a custodian.
5. The ICSDs execute the 'exchange' and release the proceed securities to their participants, which distribute the proceed securities to former debt holders.

In a bail-in involving a conversion, the proceed securities (e.g. equity, other instruments of ownership, interim instruments representing contingent entitlements) are usually issued on the local market<sup>48</sup>. Therefore ICSDs will only be able to credit the proceeds if they act as an investor CSD for the specific local market of issuance, i.e. if they hold directly an account with the local CSD or an indirect access via an agent bank/custodian. (see sections C and D above, as well as point 3.3 below for more information on the interplay between ICSDs and domestic/local CSDs).

With regard to accrued interest, ICSDs need to be informed as to any expectation to postpone, cancel or otherwise modify any payment events stemming from the security's documentation. Such treatment depends on the jurisdiction and relevant insolvency hierarchy.

- ▶ If accrued interest is written down (not paid): the ICSDs would announce that no interest payment should be expected.

<sup>46</sup> Please see the Operational guidance on bail-in playbooks (chapter 3.4 on external execution) for a better understanding of what banks are expected to address in the bail-in playbooks.

<sup>47</sup> It is standard market practice that step 2 follows step 1. Whether this would always be the case following a bail-in depends on when the national CSD will create the proceed securities. If these securities are delivered at T+1 or later, this may leave enough time for such exchange of information.

<sup>48</sup> Nothing precludes the bank from issuing equity in several markets. This would also be true following a bail-in.

- ▶ If it is not written down, it can be added to the nominal amount of the bailed-in security and paid together with the proceeds of the conversion; or paid out in cash for the proportional amount that accrued until the effective date of the bail-in; or paid out at the moment of the planned interest payment.

Please also see the market standards for mandatory reorganisations<sup>49</sup> (Box 3) and the operational steps set out in Annex I.

### **BOX 3: MARKET STANDARDS FOR MANDATORY REORGANISATIONS (RELEVANT EXTRACTS, WITH COMMENTS AS APPROPRIATE, OTHER STANDARDS CONTINUING TO APPLY)**

#### **Information from Issuer to Issuer (I)CSD**

1. The Issuer should inform its Issuer (I)CSD of the details of a Mandatory Reorganisation, including the key dates, as soon as the Issuer has publicly announced the Corporate Action according to applicable law *[In the case of bail-in: following the publication of the national implementing act]*. It should also inform the Issuer (I)CSD of any change or confirmation of the Corporate Action and, if applicable, the reference price for compensation of Fractions by the Issuer.
2. The information should be communicated in formatted electronic form using standards defined and used by the securities industry, such as ISO standards, irrespective of the communication channel used. *[In the case of bail-in: the ICSDs expect a notification per email from the Issuer (via the agent) as per template in II.2 and a SWIFT message from the Common Depository or Common Service Provider]*.
3. For narrative text in the information, Issuers with an international shareholder base should use at least a language customary in the field of international finance, currently English.

#### **Information from Issuer (I)CSD to participants**

4. The Issuer (I)CSD should communicate the information, and any subsequent information, without undue delay of receipt from the Issuer, to all its participants who, at the time of the announcement, have a direct holding or Pending Transaction in the Exercise Security with the Issuer (I)CSD.
5. The Issuer (I)CSD should also inform, without undue delay, any participant who obtains a holding or is subject to a new Transaction on the Exercise Security after the announcement until the Record Date.
6. The information should be communicated in formatted electronic form using standards defined and used by the securities industry, such as ISO standards, irrespective of the communication channel used.
7. If a Payment needs to be reversed, an announcement, including the reason for such reversal, should be made by the Issuer (I)CSD to all affected parties prior to processing the reversal.

<sup>49</sup> Chapter 3, Corporate Actions. Market standards for mandatory reorganisations. In Euroclear and Clearstream, Ibid.

**Information flow from (I)CSD participants to End Investors**

8. (I)CSD participants, their clients and the onward Chain of Intermediaries, each at its respective level towards its own clients, should comply with standards 4 and 5 above until the information reaches the End Investor.
9. The information should be communicated to Intermediaries in formatted electronic form using standards defined and used by the securities industry, such as ISO standards, irrespective of the communication channel used.
10. The information should be communicated to non-Intermediaries, including End Investors, in a clear and comprehensible way.

**Key dates**

11. The public announcement by the Issuer under standard 1 above should be at least 2 Business Days before the last trading date as determined by the Issuer. *[Bail-in represents an exception as an unpredictable event that takes place by law and cannot be pre-announced].*
12. The last trading date, i.e. the last date to trade the Exercise Security in the old ISIN, should precede the Record Date by at least one Settlement Cycle.
13. The Payment Date should be as close as possible to the Record Date, preferably the next Business Day for proceed securities.

**Processing**

14. Payments should be by Book Entry.
15. Redemptions should be processed separately from Interest Payments, even if their Payment Dates coincide.
16. An ISIN that is different from the ISIN of the Exercise Security should be allocated to each proceed security.
17. For Payments in cash, the following should apply [...] *[Payments in cash are a priori not applicable in the case of bail-in in the EU].*
18. For Payments in securities, the following should apply:
  - a) The Issuer should make Payments to the (I)CSD as early as possible and no later than the opening of the settlement system for settlement on the relevant Payment Date. *[In the case of bail-in, if this is not possible, please liaise with the ICSDs].*
  - b) The Payments should be processed by rounding down to the nearest whole number (top-down method).
  - c) When Fractions occur and the Issuer compensates them in cash at the level of the Issuer (I)CSD, the Issuer (I)CSD participants and all the Intermediaries down the chain should in turn, each at its respective level, also compensate any Fractions in cash.

### 3.3 ICSDs as investor CSDs

In addition to executing mandatory conversions involving both XS bonds and domestic equity-linked instruments, the ICSDs will reflect in their books bail-in events that do not involve XS bonds and take place only in the domestic or other local market. In this regard, ICSDs act as custodians for their clients in respect of securities issued in markets with which they have established active links.

They would reflect the following scenarios on their books as described below:

1. Cancellation of old shares (or other instruments of ownership)

As the shares or other instruments of ownership would be cancelled in the local CSD, and therefore in the account of the ICSD at the local CSD, this would be reflected in the ICSD's participants accounts.

2. Full or partial write-down of (domestic or other local) bonds

The write-down would take place in the local CSD, of which in the account of the ICSD at the local CSD. This would be reflected in the ICSD's participants' accounts.

3. Full or partial conversion of old instruments of ownership into new (domestic or other local) instruments
4. Full or partial conversion of (domestic or other local) bonds into new (domestic or other local) instruments

The conversion would take place in the local CSD in such a way that the local bonds would be replaced by new instruments (shares, interim instruments reflecting contingent entitlements, or both) in the ICSD's account at the local CSD. Provided the newly issued instruments are eligible for settlement in the ICSD, they will be booked in the accounts of the ICSD participants at the ICSD. Cancellation would be reflected as per point 1.

In the case of a conversion of instruments issued in a local market other than the domestic market (e.g. a BU bank issuing bonds in DTCC in the US), a conversion into instruments of ownership would entail actions by each local market (US and BU), which would both be reflected in the books of the ICSDs and the accounts of the ICSDs' participants.

In the case of a bail-in initiated in a non-EU country, the operational processes described above remain applicable.

## 3.4 From the resolution weekend to the end of resolution: issues related to bail-in adjustments after definitive valuation 2

The resolution of a bank runs through different stages, from the preparation for resolution, the 'resolution weekend' and the implementation of the SRB resolution scheme, until the closing of resolution.<sup>50</sup> Bail-in takes place after the adoption of the national implementing act and is part of the implementation of resolution. Nevertheless, it may itself extend across different moments. It is legally effective at the moment of adoption of the national implementing act, after which it is reflected in the books of the CSDs and other stakeholders. These actions can possibly be based on a preliminary valuation<sup>51</sup>. Ultimately, a definitive valuation may need to be established, which may have consequences for the final decision with regard to the extent of the cancellation, transfer or dilution of shares, and the extent of write-down or conversion of relevant instruments.

Several options to address differences between the preliminary and definitive valuation 2 may be applied in different jurisdictions. Adjustments may be upwards (if authorities are rather conservative at the time of bail-in and a definitive valuation 2 implies an adjustment with consequences for bailed-in creditors) as well as downwards (if the amount bailed in appears insufficient at the time of definitive valuation 2)<sup>52</sup>. The implications, in the context of a bail-in involving the ICSDs, are outlined below.

- ▶ **Re-valuation of bonds:** the nominal value of the bond is increased or decreased after the initial write-down. In the ICSDs, this is possible in the case of a partial write-down. It is not possible, however, after a full write-down, as a security that has been marked down to zero cannot be restored. This may be different in certain domestic markets (e.g. Germany) where previously written-down securities could be maintained in the systems of the CSD and marked up if necessary.
- ▶ **Adjustment of the pool factor:** when the securities are (partially) written down by way of a pool factor (Box 2), this pool factor could be increased or decreased at a later point in time if necessary. However, applying a pool factor of 100% is not possible, and therefore this option is to be applied in the case of partial write-down only. An option might be to apply a pool factor of close to 100%, taking the consequential valuation differences into account in the calculation of the initial bail-in percentage. This would allow revaluation of the pool factor at a later stage.
- ▶ **Interim instruments representing contingent entitlements (in isolation):** as noted above, some jurisdictions foresee the issuance of interim instruments at the time of resolution. These instruments would not have an inherent value, but only a contingent value (e.g. rights). Bailed-in bonds would be converted into such instruments, which would be issued locally. Ultimately, following possible definitive valuation 2, the interim instruments would be converted into shares or other instruments of ownership. These processes would take place as outlined above (section C or D and with reference to point 3.3). Note that per creditor class a different ISIN would be created for the interim instruments. Depending on the outcome of a possible definitive valuation 2, the interim instruments would be converted into equity, at different ratios, or be written down / cancelled. As these operations would

<sup>50</sup> [Expectations for banks](#), chapter 1.4 Phases.

<sup>51</sup> This refers to the provisional valuation 2 (resolution valuation). Valuation 2 informs, inter alia, the decisions on the extent of the cancellation, transfer or dilution of shares, the extent of write-down or conversion of relevant capital instruments and eligible liabilities. See the SRB's *Framework for valuation*, February 2019 and Article 20 of the SRMR.

<sup>52</sup> Articles 20(1) SRMR and 36(1) BRRD state that the valuation shall be fair, prudent and realistic.



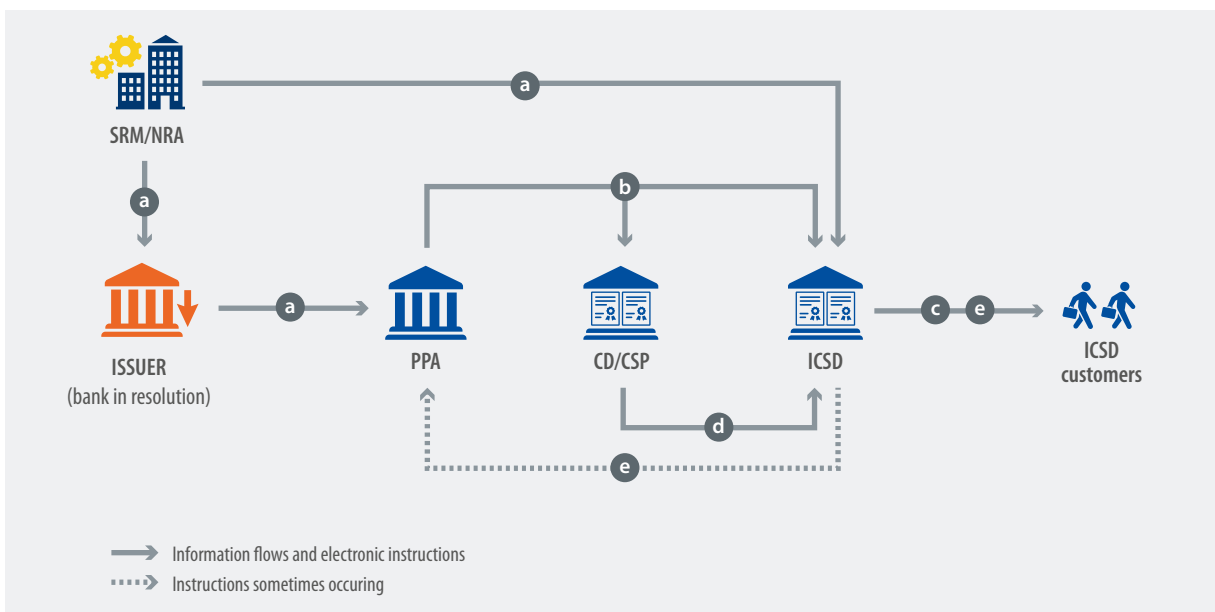
take place on the local market, the ICSDs would reflect them in their books, provided the relevant local securities are eligible for settlement in the ICSDs.

- ▶ **Interim instruments representing contingent entitlements (in combination with equity):** as noted above, some jurisdictions foresee the issuance of interim instruments as a complement to equity at the time of resolution. The conversion of international bearer debt securities in two new types of instruments (with a different ISIN for interim instruments per creditor class, as noted above) would take place in accordance with sections C and D above.
- ▶ **Allocation of additional proceed securities based on historic records:** historic records of security owners at a given record date can be retrieved from the active directory up to 3 months, and from the archive up to 5 years. Nevertheless, the longer the period between the bail-in date and the date of the bail-in adjustment, the less reliable such records would be and the more difficult it would be for the ICSDs to reach out to former debt holders (as some could have closed their accounts). This applies also at lower custodian levels.

# ANNEX I

## APPLICABLE OPERATIONAL SCENARIOS

### A. Write-down<sup>53</sup>



#### Roles & responsibilities of parties in the flow

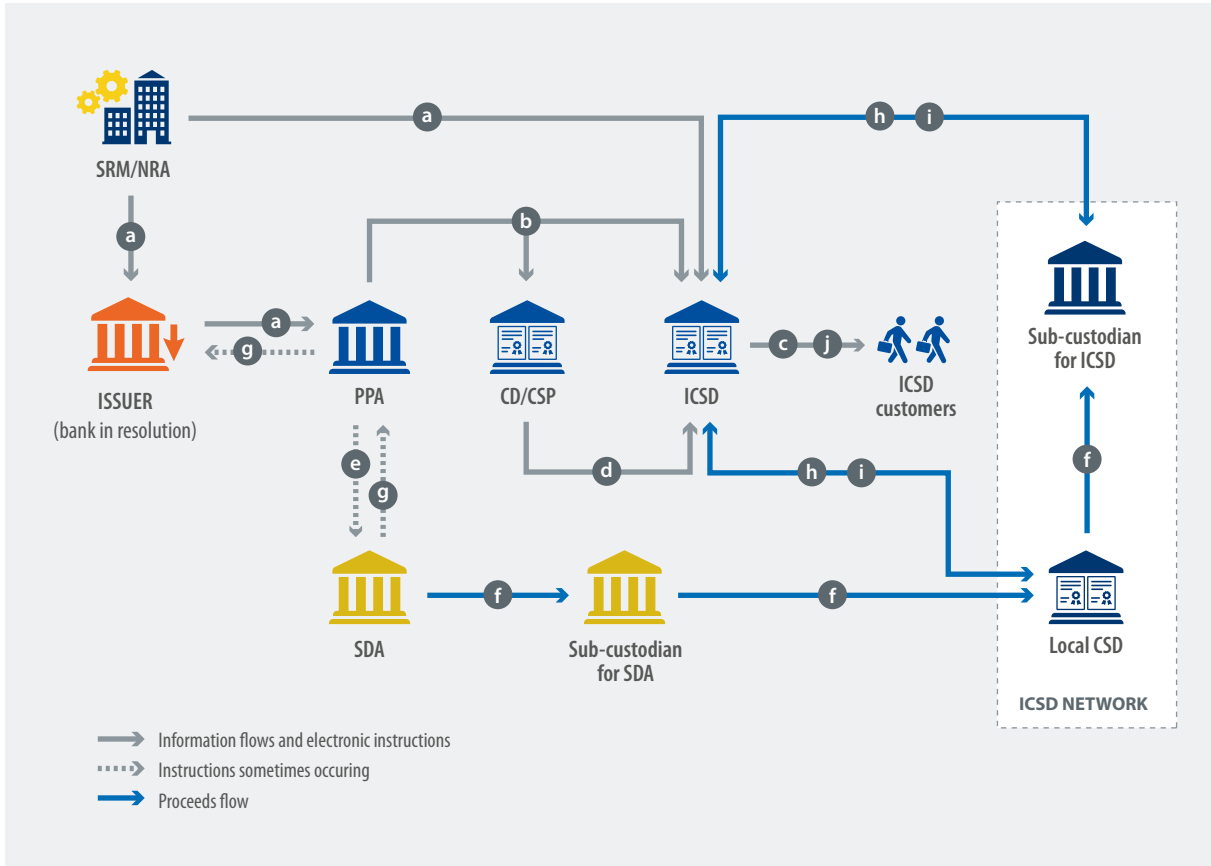
Initiator	Recipient	Timing <sup>54</sup>	Actions
a) NRA	Issuer, ICSD, supervisory authority of ICSD, Operational Agent / Principal Paying Agent (PPA) (via issuer)	After publication of national implementing act	Notifies resolution event and consequential write-down/ bail-in (communication template 1 for communication to ICSD)
b) PPA	CD or CSP, ICSD	Preferably same Business Day, if possible	Notifies resolution event and consequential write-down/ bail-in (communication template 2)
c) ICSD	ICSD customers	Same Business Day (as b))	Notifies write-down/bail-in event (SWIFT MT 564 notification)
d) CD/CSP, as applicable	ICSD	Record date as instructed by NRA and/ or PPA <sup>55</sup>	Electronic instructions (SWIFT MT 56X) to mark down; reflecting mark-down of Global Note
e) ICSD	ICSD customers, PPA	Same Business Day (as execution of d))	After booking in ICSD participants' accounts, informs /confirms that write-down /bail-in has taken place

<sup>53</sup> The same process applies for full or partial write-down, and for write-down by way of a nominal reduction or a pool factor.

<sup>54</sup> The outlined timing reflects the parties' intended operating timeline and does not represent a commitment. Whether the timing is achievable depends, inter alia, on receiving complete and accurate information timely (before 17.00 for any same-day treatment). Otherwise, the duration will be prolonged by 1 business day.

<sup>55</sup> Though any record date can be applied, including a past date, it is recommended to announce the event upfront to the ICSDs, notably if actions are expected to be undertaken in respect of new or pending trades. Note that the ICSDs process settlement instructions sent before the weekend during the night-time processing on Friday for value date Monday.

**B. Conversion<sup>56</sup>**



**Roles & responsibilities of parties in the flow**

Initiator	Recipient	Timing	Actions
a) NRA	Issuer, PPA (via issuer), ICSD, supervisory authority of ICSD	After publication of national implementing act	Notifies resolution event and consequential write-down and conversion/bail-in (communication template 1 for communication to ICSD)
b) PPA <sup>57</sup>	CD or CSP, ICSD	Same Business Day if possible	Notifies resolution event and consequential write-down and conversion/bail-in (communication template 2)
c) ICSD	ICSD customers	Same Business Day (as b)	Notifies write-down and conversion/bail-in (SWIFT MT 564 notification)
d) CD/CSP as applicable	ICSD	Record date, as instructed by the NRA and/or PPA	Electronic instructions (SWIFT MT 56X) to mark down; reflecting mark-down of 'converted' part of Global Note
e) PPA	(share delivery) agent (SDA)	T (settlement date)	Instructions to deliver proceed securities to ICSDs (agree on process for delivery of proceed securities to ICSD account before T)
f) Issuer SDA <sup>58</sup>	Local sub-custodian (of issuer agent) (delivering) and/or local CSD (in account of ICSD or sub-custodian of ICSD), as applicable	T	Instructs delivery of proceed securities to local CSD for ICSD

<sup>56</sup> The same process applies for full or partial conversion, and for conversion involving a nominal reduction or a pool factor.

<sup>57</sup> Further communications between the PPA and ICSD may take place as necessary, for example on the process for delivery of proceed securities to the ICSD account, in advance of f), before T. Not all individual communications are shown in the figure, for the sake of simplicity.

<sup>58</sup> The sections below relate to the 'standard' process, in which the proceed securities are eligible in the ICSDs.

Initiator	Recipient	Timing	Actions
g) SDA (via the PPA, if applicable)	Issuer	T	Confirms that shares were delivered to local CSD, mentioning ICSD instructions reference
h) ICSD	Local depository (receiving)	T	Instructs receipt of proceeds according to request in (f)
i) Local depository (receiving)	ICSD	T	Confirms receipt of proceed securities to receiving party according to request in (f) with ICSD instructions reference <sup>59</sup>
j) ICSD	ICSD customers	T	Delivers proceed securities to ICSD customers

## C. Additional information and notification contents for proceed securities

This section describes and defines the requirements for information and notification content for the settlement of the proceeds for the events described in this document, in addition to any specific information requirements addressed in Annex II with regard to the bail-in event (including, where necessary, for the settlement of proceeds).

If the proceed securities are new and require acceptance/eligibility checks<sup>60</sup> for these to be created in the ICSDs, the relevant Terms & Conditions of the new securities need to be sent to the ICSDs. The eligibility review can be initiated based on draft documentation. These Terms & Conditions may form part of the offer document governing the offer of securities (e.g. prospectus or offering memorandum).

Information	Applicability	Definition
Proceeds Summary T&C	If proceeds ISIN required, to be set up at the moment of event launch.	Summary terms of the proceed security required to check acceptance and eligibility criteria prior to issuing a new ISIN.

In cases where the bail-in event results in fractional entitlements less than the minimum denominations or tradable amounts, the ICSDs need to be informed about the treatment of these fractional entitlements (in communication template in Annex II.2). The following options are available<sup>61</sup>:

Information <sup>62</sup>	Value	Applicability	Definition
Disposition of fractions	BUYU, CDIST, RDDN, RDUP, STAN	Required if fractions created from event.	Specifies how fractions resulting from proceed securities will be processed or pro-rated. BUYU Buy Up: additional cash paid by the intended recipient to buy up to the next whole number of security entitlement. DIST Distributed: distribution of fractions in the form of securities. RDDN Round Down: round down to the nearest whole number. RDUP Round Up: round up to the nearest whole number. STAN Standard: If the fraction is greater than or equal to 0.5 of a security, round up; if less than 0.5, round down.

<sup>59</sup> In the case of indirect link: after settlement in local market. Information flows between the local CSD and (sub-)custodians for the ICSDs and/or security holders (for securities not eligible in the ICSDs) are not included in this description.

<sup>60</sup> The ICSDs Acceptance and Eligibility Checklists can be found in Annex 5 in Euroclear and Clearstream, Ibid.

<sup>61</sup> This does not prejudice the decisions that will be taken in the case of bail-in. From a resolution authority perspective, these rounding mechanics bear the risk of potential (minimal) different treatment of pari passu ranked creditors.

<sup>62</sup> See point 3.3.5.2, Optional proceeds in Euroclear and Clearstream, Ibid.

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# ANNEX II

# COMMUNICATION

# TEMPLATES<sup>63</sup>

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## II.1 Letter from the Resolution Authority to ICSDs

< Letterhead of the relevant Resolution Authority >

**To**

Euroclear Bank SA/NV  
Attn. Corporate Actions  
1 Boulevard du Roi Albert II  
1210 Brussels, Belgium  
By email, in advance: [CA.OMK@euroclear.com](mailto:CA.OMK@euroclear.com) or [ASO.OMK@euroclear.com](mailto:ASO.OMK@euroclear.com)

Clearstream Banking S.A.  
Attn: Corporate Actions Luxembourg  
42 JFK Avenue  
L-1855 Luxembourg  
By email, in advance: [CA\\_mandatory.events@clearstream.com](mailto:CA_mandatory.events@clearstream.com)

**Copy to:**

National regulator of EB: National Bank of Belgium  
National regulator of CBL: Commission de Surveillance du Secteur Financier, Luxembourg

Letter from the resolution authority to the ICSDs including:

- ▶ Reference and, where available, webpage link to the resolution decision, including date of adoption and entry into force, and relevant resolution authority.
- ▶ Name of the bank under resolution.
- ▶ Reference to relevant legal provisions (e.g. pertaining to the bail-in), as appropriate.
- ▶ Name of agent of the bank under resolution and, if available, LEI.
- ▶ Contact person[s], with contact details (telephone/email address).
- ▶ Official signature[s].

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<sup>63</sup> The templates have been designed to include all necessary information to gain time in the event that a bail-in needs to be initiated. They are not a requirement, and the content of the letters may be adapted to reflect the particular circumstances of the case.

## II.2 Letter from the bank's agent to ICSDs

**To:**

Euroclear Bank SA/NV  
Attn. Corporate Actions  
1 Boulevard du Roi Albert II  
1210 Brussels, Belgium  
By email, in advance: [CA.OMK@euroclear.com](mailto:CA.OMK@euroclear.com) or [ASO.OMK@euroclear.com](mailto:ASO.OMK@euroclear.com)

Clearstream Banking S.A.  
Attn: Corporate Actions Luxembourg  
42 JFK Avenue  
L-1855 Luxembourg  
By email, in advance: [CA\\_mandatory.events@clearstream.com](mailto:CA_mandatory.events@clearstream.com)

**Copy to:**

By email, in advance: [Common Depository or Common Service Provider]<sup>64</sup>

[This is an example to be used by banks and issuers in the event of resolution of a BU institution. This needs to be adapted to the particular circumstances, including relevant national legal provisions, in particular in the case of resolution of a non-BU institution].

Dear Sir/Madam,

We are writing to you in our capacity as the issuer's agent of [the Bank]<sup>65</sup> to execute, the write-down and conversion pursuant to Article 21 of the SRMR in conjunction with [relevant national law provisions] and of the bail-in pursuant to Article 27 of the SRMR in conjunction with [relevant national law provisions], provided under the national act implementing the Decision of the Single Resolution Board of [date] concerning the adoption of the resolution scheme in respect of [institution under resolution], adopted by [NRA] on [date] and published on its website at: [website address].

The details regarding the execution of the write-down and conversion, including the list of the relevant instruments, are attached to this letter as annexes.

Your contact person[s] in charge of the execution of the write-down and conversion at [institution under resolution] [is/are] [Title, Mr/Ms XXX, Tel.: xxx, Email: xxx].

This letter contains the following annexes:

- ▶ Annex 1 – Operational guidelines
- ▶ Annex 2 – List of relevant instruments
- ▶ Annex 3 – Letter from [institution under resolution] announcing the appointment of [name of issuer's agent] as the issuer's agent for [institution under resolution] (or other documentary evidence).

Kind regards,

[Signature 1]

[Signature 2]

<sup>64</sup> The issuer or its agent has the relevant contact details.

<sup>65</sup> Name of the bank/issuer.

## Annex 1: Operational guidelines for the execution of the national implementing act published on XX.XX.XXXX

[**Please note:** for each operational scenario used for the bail-in implementation, a separate document (operational guidelines) has to be prepared, with the information from the table below.]

In addition to the publication of the national implementing act, the following table explains the operational implementation of the measures ordered by [NRA]. Please also see the technical glossary in Annex III for a definition of the terms and additional explanations.

<b>Name</b>	Name of the bank/issuer
<b>LEI</b>	<b>LEI of the bank/issuer</b>
<b>Affected ISIN</b>	List of all ISIN codes for the operational scenario according to the detailed list of instruments in Annex 2
<b>Scenarios applicable to the affected ISIN codes</b>	--Please delete the non-relevant scenarios--
<b>A</b>	Full write-down: full reduction of nominal (XS bonds), without conversion
<b>B</b>	Partial write-down: partial reduction of nominal or pool factor (XS bonds), without conversion
<b>C</b>	Full conversion: full reduction of nominal (XS bonds) and delivery of new instruments
<b>D</b>	Partial conversion: partial reduction of nominal or pool factor (XS bonds) and delivery of new instruments
<b>Pool factor (old) (optional, as applicable)</b>	List of (pre-bail-in) pool factors according to detailed list of instruments (if applicable). If there is a large amount of ISINs, please see the detailed list of instruments (Annex 2).
<b>Pool factor (new) (as applicable)</b>	List of (post bail-in) pool factors according to detailed list of instruments (if applicable). If there is a large amount of ISINs, please see the detailed list of instruments (Annex 2).
<b>ISIN(s) for new security</b>	ISIN Code for new security created by conversion (proceeds ISIN) <sup>66</sup> . This can be either the definitive ownership instrument post bail-in or an interim instrument representing contingent entitlements.
<b>Interim ISIN(s) relating to fractional entitlements (optional)<sup>67</sup></b>	List of interim ISIN codes for handling fractional entitlements according to a detailed list of instruments (if applicable).
<b>Exchange ratio (1)</b>	List of ratios according to a detailed list of instruments. If the operational scenario comprises a large amount of ISINs, please see the detailed list of instruments (Annex 2).
<b>Explanation (1)</b>	Explanatory comments regarding the calculation of the exchange ratio, including pool factor, potential complexities and any other relevant information.
<b>ISIN(s) for contingent entitlements (optional)</b>	ISIN code for <b>contingent entitlements created simultaneously to the conversion</b> (if applicable).
<b>Interim ISIN(s) relating to fractional contingent entitlements (optional)<sup>68</sup></b>	List of interim ISIN codes for handling fractional contingent entitlements according to a detailed list of instruments (if applicable).
<b>Exchange ratio (2) (optional)</b>	List of ratios according to a detailed list of instruments relating to <b>contingent entitlements created simultaneously to the conversion</b> . If the operational scenario comprises a large amount of ISINs, please see the detailed list of instruments (Annex 2).
<b>Explanation (2) (optional)</b>	Explanatory comments regarding the calculation of the exchange ratio, including pool factor, potential complexities and any other relevant information.
<b>Effective date of suspension of trading</b>	DD.MM.YYYY In the case of different dates, please specify for which securities these dates are applicable.

<sup>66</sup> This security may be an interim instrument reflecting a contingent entitlement and subject to conversion in shares or other instruments of ownership at a later date, such as 'claim rights'. It is expected to be created in the local market, in which case the ISIN code is provided by the relevant NNA.

<sup>67</sup> If applicable in the relevant local market.

<sup>68</sup> If applicable in the relevant local market.

<b>Name</b>	Name of the bank/issuer
<b>Effective date of settlement blocking</b>	DD.MM.YYYY Please specify whether or not the temporary blocking applies only to new instructions.
<b>Treatment of interests</b>	General information on the treatment of accrued interest and principal payments/redemptions. <sup>69</sup>
<b>Publication</b>	Websites of issuer/bank, SRB and NRA and any additional websites.
<b>Record date</b>	
<b>Settlement date</b>	
<b>Treatment of open transactions</b>	Information on how transactions entered into the system, matched but not yet settled, should be treated.
<b>Treatment of fractional entitlements</b>	(Example: rounding down or description of the applicable domestic market process <sup>70</sup> .)
	Placeholder for additional information from agent

## Annex 2: List of instruments

This annex is in the form of an Excel spreadsheet, containing different templates for each relevant scenario. It provides the information that the ICSDs will need to receive to perform a write-down and/or conversion to reflect the bail-in in the accounts of their participants. Additional fields may be necessary to reflect national specificities in different jurisdictions. They can be included in the annex as necessary.

Note:

- ▶ when more than one instrument is issued upon conversion (e.g. equity and warrants), please complete two lines in the template;
- ▶ in the case of a partial exchange consisting of a partial write-down and a subsequent conversion of the remaining value of the security, the NRA and/or agent may either
  - reflect the result of the two steps in the exchange ratio (this is the preferred option) or
  - complete two lines and use two separate corporate action instructions (e.g. PCAL + EXOF<sup>71</sup>).

## Annex 3: Letter from [institution under resolution] announcing the appointment of [name of issuer's agent] as the issuer's agent for [institution under resolution] (or other documentary evidence).

If the agent remains the same as in the prospectus, then no explicit confirmation is requested. In the case of a new agent, the confirmation can be provided in the national implementing act and the letter from the NRA to ICSDs, or by the agent itself.

<sup>69</sup> The treatment of accrued interest depends on the jurisdiction (and insolvency hierarchy). ICSDs need to be informed of any expectation to postpone, cancel or otherwise modify any payment events stemming from the security's documentation.

<sup>70</sup> As per point 3.3.5.2, Optional proceeds in Euroclear and Clearstream, *Ibid*.

<sup>71</sup> Please see Annex III.B for a list of relevant corporate actions.



# ANNEX III (TECHNICAL) GLOSSARIES

## A. Glossary of template fields and instructions

Column in template	Term/expression	Definition
A	ISIN of the instruments affected	ISIN code of instruments in scope of write-down and/or conversion.
B	Record date	Date/time at which positions are struck at the end of the day to note which parties will be subject to write-down and possibly receive the relevant amount of entitlement, due to be distributed on the settlement date. DD.MM.YYYY
C	Settlement date	The date at which entitlements are due to be paid to investors (ICSD participants). DD.MM.YYYY
D	Outstanding aggregate principal amount according to global note	Total outstanding amount available on the market at the time of the bail-in, in the original currency. Maximum 2 decimals if in EUR, a whole number (integer) for other currencies.
E	Denomination (old) <sup>72</sup>	Smallest amount of the security that can be transferred, in the original currency. If a denomination exists, it represents the higher integral multiple amount. Maximum 2 decimals if in EUR, a full figure for other currencies.
F	Currency of denomination (old)	Currency in which the instrument has been issued. 3-letter ISO code.
G	Pool factor (old) (if pool factor, optional)	Old pool factor value (before the bail-in event), expressed as a decimal number or as a percentage (%). Maximum 11 decimals.
H	Total reduction of denomination (old) or pool factor (old) in %	Reduction/markdown % applied to old nominal (or to old pool factor). This may include old nominal subject to worthless withdrawal and nominal subject to conversion. Maximum 6 decimals for the calculation <sup>73</sup> .
I	Denomination (new) (if nominal reduction)	Denomination after application of the nominal reduction, as booked into the systems of the CSD, in the original currency. This results from the application of the total reduction % to the old denomination: $\text{denomination old (col. F)} \times (1 - \text{total reduction (col. H)})$ . E.g. $1000 (1 - 70\%) = 300$ . Maximum 2 decimals if in EUR, a whole number (integer) for other currencies.
J	Pool factor (new) (if pool factor)	New pool factor value (after the bail-in event), expressed as a decimal number or a percentage. This results from the application of the total reduction % to the old pool factor: $\text{pool factor old (col. H)} \times (1 - \text{total reduction (col. I)})$ . e.g. $100 (1 - 70\%) = 30$ . Maximum 11 decimals.
K	Exchange ratio <sup>74</sup>	Number of proceed securities to be received per notional/nominal exchanged (taking the pool factor into account, if applicable). Maximum 6 decimals for the calculation.
L	Interim ISIN for new instrument (if applicable)	ISIN code of interim proceed securities, in cases where a technical interim code for handling fractional entitlements is used.
M	Final ISIN for new instruments	ISIN code of proceed securities (including securities representing contingent entitlements).

<sup>72</sup> With reference to Euroclear and Clearstream, *Ibid.*, Annex 6A, Asset servicing checklists: 'denomination (multiple)'; and to the ICMSA Bulletin 150623/33, Guide to the Treatment of Denominations and Related Exchange Conditions, Nov. 2006.

<sup>73</sup> Although the number of decimals is limited for operational reasons, the ICSDs' communication to clients would include the full number of decimals communicated, in a free field.

<sup>74</sup> Please also see the definition of conversion rate under Article 2(75) BRRD.

## B. Corporate actions: Glossary of relevant events

Predictable (P)/ Unpredictable (U).	EVENT DESCRIPTION	DEFINITION	EVENT NAME	EVENT TYPE	Mandatory (MAND) / Voluntary (VOL)
<b>Write-down</b>					
U	PARTIAL REDEMPTION WITHOUT REDUCTION OF FACE VALUE WITH POOL FACTOR	Securities are redeemed in part before their scheduled final maturity date without reduction of the nominal value of the securities. This is commonly done by pool factor reduction.	PRED	Distribution (DISN)	MAND
U	PARTIAL REDEMPTION WITH REDUCTION OF NOMINAL VALUE	Securities are redeemed in part before their scheduled final maturity date with reduction of the nominal value of the securities. The outstanding amount of securities will be reduced proportionally.	PCAL	Reorganisation (REOR)	MAND
U	WORTHLESS <sup>75</sup>	Booking out of valueless securities.	WRTH	REOR	MAND
<b>Conversion</b>					
U	CONVERSION	Conversion of securities into another form of securities.	CONV	REOR	MAND
U	EXCHANGE OFFER	Exchange of holdings for other securities and/ or cash.	EXOF	REOR	MAND

<sup>75</sup> Not recommended as, according to some interpretations, this is only used for securities in default.

# ANNEX IV (NON-TECHNICAL) GLOSSARY<sup>76</sup>

Admission to trading	The decision for a financial instrument to be traded in an organised way, notably on the systems of a trading venue <sup>77</sup> .
Bearer security	Security whose owner's name is not recorded (registered) in the register of the issuer, and which is payable to its holder or presenter. Ownership (title) of such securities is transferable merely by handing over or delivery.
Central Securities Depository (CSD)	An entity that 1) enables securities transactions to be processed and settled by book entry; 2) provides custodial services (e.g. the administration of corporate actions and redemptions); and 3) plays an active role in ensuring the integrity of securities issues <sup>78</sup> .
Classical Global Note (CGN)	A form of global certificate which requires physical annotation on the attached schedule to reflect changes in the issue outstanding amount <sup>79</sup> .
Conversion Agent or Exchange Agent	An agent appointed by the issuer to instruct the execution of conversion or exchanges of securities <sup>80</sup> .
Common Depository	An entity appointed by the ICSDs (Euroclear Bank and Clearstream Banking Luxembourg) to provide safekeeping and asset servicing for securities in Classical Global Note form <sup>81</sup> .
Common Safekeeper	An entity appointed by the ICSDs (Euroclear Bank and Clearstream Banking Luxembourg) to provide safekeeping for New Global Notes <sup>82</sup> . Note that the Common Safekeeper will be either Euroclear Bank or Clearstream Banking Luxembourg if the security is ESCB eligible, or the entity acting as Common Service Provider if it is not.
Common Service Provider	An entity appointed by the ICSDs (Euroclear Bank and Clearstream Banking Luxembourg) to provide asset servicing for New Global Notes. <sup>83</sup>
Corporate Action	An action or event decided by the issuer of a security which has an impact on the holders of that security. This may be optional, in which case those holders have a choice (for example, they may have the right to purchase more shares, subject to conditions specified by the issuer). Alternatively, it may be mandatory, whereby those holders have no choice (e.g. in the case of a dividend payment or stock split). Corporate actions can relate to cash payments (e.g. dividends or bonuses) or the registration of rights (subscription rights, partial rights, splits, mergers, etc.) <sup>84</sup> .
Custodian	An entity, often a credit institution, which provides securities custody services to its customers <sup>85</sup> . A number of different actors provide custody services in different roles: the investor's main custodian (e.g. house bank), the sub-custody network and the CSDs. It should be noted that it is for the investor to choose the main custodian to hold the assets.
Depository	An agent with the primary role of recording (direct or indirect) holdings of securities. A depository may also act as a registrar <sup>86</sup> . The depository may be a CSD, or a different entity (such as a custodian bank).
Eurobonds	International securities issued outside the country in whose currency their value is stated. Eurobonds are usually identifiable by a securities ISIN starting by 'XS' rather than the standard 2-digit country code used for securities issued via a local CSD. In contrast to Euro MTN, for example, which can also be issued outside the country in whose currency its value is stated, eurobonds are issued all at once and not under a programme.

<sup>76</sup> Various sources, including online resources. Please see Article 2(48) and (61) BRRD for a definition of debt instruments and instruments of ownership, respectively.

<sup>77</sup> European Commission's Glossary of useful terms linked to markets in financial instruments under [https://ec.europa.eu/info/sites/info/files/glossary\\_en\\_1.pdf](https://ec.europa.eu/info/sites/info/files/glossary_en_1.pdf)

<sup>78</sup> ECB glossary.

<sup>79</sup> Euroclear and Clearstream, *International Securities Operational Market Practice Book*, January 2012.

<sup>80</sup> Euroclear and Clearstream, *Ibid.*

<sup>81</sup> Euroclear and Clearstream, *Ibid.*

<sup>82</sup> Euroclear and Clearstream, *Ibid.*

<sup>83</sup> Euroclear and Clearstream, *Ibid.*

<sup>84</sup> ECB, *Ibid.*

<sup>85</sup> ECB, *Ibid.*

<sup>86</sup> ECB, *Ibid.*

Exchange Agent	An agent appointed by the issuer to instruct the execution of conversion or exchanges of securities (also called conversion agent).
Fractional share	Less than one full share of equity is called a fractional share. Such shares may be the result of stock splits, dividend reinvestment plans (DRIPs), or similar corporate actions and could also result from a conversion resulting from a bail-in event.
Global Certificate or Global note	Certificate representing an entire issue of securities. This may be a temporary global certificate or a permanent global certificate, and in CGN or NGN form. <sup>87</sup>
Interim instrument	A security (usually of a type related to equity) that is issued for the purpose of allowing a conversion from bail-inable liabilities into that instrument, as a first step in the bail-in process. The interim instrument is meant to be converted after definitive ex post valuation into a definitive instrument, most likely equity.
International Central Securities Depository (ICSD)	A CSD which was originally set up to settle eurobond trades and is now active in the settlement of internationally traded securities from various domestic markets, typically across currency areas. At present, there are two ICSDs located in the EU: Clearstream Banking in Luxembourg and Euroclear Bank in Belgium.
Investor CSD	A term used in the context of central securities depository (CSD) links. An investor CSD – or a third party acting on behalf of the investor CSD – opens an account in another CSD (the issuer CSD) to allow the cross-system settlement of securities transactions <sup>88</sup> .
ISIN	The International Securities Identification Number (ISIN, IS 6166) is the recognised global standard for unique identification of financial instruments. ISINs are used to identify most types of financial instruments, including equity, debt and derivatives.
Issuer	Legal entity that issues and sells securities to finance its operations. Issuers may be corporations, investment trusts, or domestic or foreign governments. Issuers are legally responsible for the obligations of the issue and for reporting financial conditions, material developments and any other operational activities as required by the regulations of their jurisdictions.
Issuing agent	Legal entity assisting the issuer in its relation with the CSD, for the purpose of issuing the securities: it creates the ISIN in the system through the initial deposit to create the security.
Issuer CSD	A central securities depository (CSD) in which securities are issued (or immobilised). The issuer CSD opens accounts allowing investors (in a direct holding system) and/or intermediaries (including investor CSDs) to hold these securities <sup>89</sup> .
Legal owner	The person or entity holding title to the security (or any other possession). In the case of registered securities, the registered owner. If the legal owner is not the beneficial owner, it may be described as a 'nominee'.
Listing	The admission to trading of a financial instrument on an exchange. (In some cases, e.g. when the exchange does not offer trading facilities in a given jurisdiction, listing can take place without trading being possible on the exchange's trading platform). Delisting thus refers to the removal of the instrument from trading.
National Numbering Agency (NNA)	The organisation in each country responsible for issuing International Securities Identification Numbers (ISIN), as described by the ISO 6166 standard and the Classification of Financial Instruments code, as described by the ISO 10962 standard. The role of a National Numbering Agency is typically assigned to the national stock exchange, CSD, central bank or financial regulator.
New Global Note (NGN)	A form of Global Certificate which refers to the records of the ICSDs to determine the issue outstanding amount <sup>90</sup> .
Operational agent	Any entity that acts on behalf and upon request of the issuer and supporting the issuer throughout the lifecycle of the securities issued by the issuer. Operational agents are involved in the issuance of securities, the preparation and performance of corporate actions, conversions, etc.
Paying agent	An agent appointed by the issuer to process the cash payments to be made by the issuer (collection of coupon, redemption or other monies) related to a security <sup>91</sup> .
Pay(ment) date	The date on which entitlements (such as a dividend, mutual fund distribution or bond interest payment, but also any cash proceeds relating to a bail-in event) are scheduled to be paid to eligible investors. Also called distribution date.
Primary deposit	A deposit on account with the issuer CSD. Primary clearing and settlement occurs when there is a change in the position of a securities account held with the issuer CSD.
Pool factor	Factor used to calculate the value of the outstanding principal of the financial instrument applicable until the next redemption (factor) date, or after the redemption (factor) date <sup>92</sup> . Can also be defined as: ratio of outstanding principal to original face value <sup>93</sup> .

<sup>87</sup> Euroclear and Clearstream, *Ibid.*

<sup>88</sup> ECB, *Ibid.*

<sup>89</sup> ECB, *Ibid.*

<sup>90</sup> Euroclear and Clearstream, *Ibid.*

<sup>91</sup> Euroclear and Clearstream, *Ibid.*

<sup>92</sup> Euroclear and Clearstream, *Ibid.*

<sup>93</sup> DTCC, Fixed income: best practices, 7 April 2020

Record date	<p>In general, this refers to the date upon which the issuer or the relevant agent (CSD, registrar) closes its books for the purpose of capturing the names of the legal owners to whom the distribution will be paid. All legal owners will participate in the distribution or exchange, whether or not they are the beneficial owner.</p> <p>In the context of the topic of this note, it specifically refers to the date/time at which positions are struck at the end of the day to note which parties will be subject to write-down and possibly receive the relevant amount of entitlement, due to be distributed on the settlement date.</p>
Registered security	Security whose ownership is registered with the issuing company or its agent (this may be a CSD).
Registrar	An entity that records the ownership of securities on behalf of the issuer <sup>94</sup> .
Regulated market	<p>A regulated market is a multilateral system, defined by Article 4 MiFID, which brings together or facilitates the bringing together of multiple third-party buying and selling interests in financial instruments in a way that results in a contract. Examples: the traditional stock exchanges such as the Frankfurt and London Stock Exchanges<sup>95</sup>.</p>
Suspension of trading	<p>A temporary halt in the trading of a particular financial instrument as a consequence of a regulatory intervention or an intervention by the exchange operator, following serious concerns about the relevant company's assets, operations, or any other financial information. In addition, MiFID foresees the possibility to suspend for market abuse reasons (Article 52). Trading halts may also follow excessive movements in the market value of the instrument; under MiFID, these are treated more as mechanisms to manage volatility rather than suspensions. Usually, the issuer may also ask for a trading halt in advance of important announcements.</p>
Trading venue	A trading venue is either a regulated market (a stock exchange), a multilateral trading facility (i.e. a multilateral trading system operated by an investment firm or a market operator) or an organised trading facility (i.e. a multilateral system which is not a regulated market or an MTF).

<sup>94</sup> ECB, Ibid.

<sup>95</sup> European Commission, Ibid.



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