
RULES AND PROVISIONS OF THE SETTLEMENT PERFORMANCE REGIME

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VP SECURITIES
WEIDEKAMPSGADE 14
P.O. BOX 4040
DK-2300 COPENHAGEN S
P: +45 4358 8800
F: +45 4358 8810
E: CUSTOMERR@VP.DK
W: VP.DK



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SETTLEMENT PERFORMANCE REGIME

Objective

On 1 July 2011, VP SECURITIES A/S (VP) introduced a new settlement performance regime for professional customers in the VP settlement system. After a trial period of six months, the regime came into force on 1 January 2012.

The settlement performance regime was set up in cooperation with both domestic and foreign market participants in the VP settlement system. The purpose of the regime is to promote the timely settlement of transactions via monthly measurement of customers' ability to settle matched transactions and generally contribute to a high settlement performance ratio. The regime is evaluated annually in cooperation with the market participants represented by VP's Customer Advisory Forum.

The settlement performance regime is part of VP's Clearing Rules. The purpose of this memorandum is to provide a detailed description of the main features of the regime and of how it is operated.

Customers included

The regime includes all professional customers, which are defined as non-private customers settling more than 500 transactions per month, calculated as a 12-month average. A list of the customers included is compiled once a year as of 1 July, based on statistics for the period from 1 July of the previous year to 30 June of the present year. The new list comes into force as from 1 August of the present year.

General principles for the calculation of settlement ratios

The ratios are calculated on the basis of customer IDs and include all of each ID's underlying accounts. A customer ID is allocated by the custodian (defined as the account controller, according to the VP Clearing Rules).

The customer's settlement performance ratio is calculated on the basis of the transaction value. This distinction is based on how settlement transactions Free of Payment (FoP) are often intra-company transactions or transactions with the company's own customers. The failure of such transactions usually has no effect on the overall settlement efficiency. In contrast, settlement transactions involving cash amounts usually result from actual transactions between two external parties which the parties wish to ensure via Delivery versus Payment (DvP).

The calculation of customers' settlement performance ratios consists of the value of the total number of preadvices that are settled plus preadvices that are credited, while the calculation of the total settlement ratio is based on the total value of transactions. Both methods exclude transactions that are cancelled during the settlement day (i.e. preadvices with status code 11). In addition, the status of preadvices is only registered once a day for calculation purposes, and this is defined as immediately after settlement batch 60.

Securities included

In principle, the settlement performance regime includes all types of securities settled in VP. For the time being, however, it has been decided to only monitor the settlement performance for shares.



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Calculation of individual customer settlement performance ratios

An individual customer settlement performance ratio consists of:

$$\text{Value of settled preadvices} * 100 / \text{value of settled + non-settled preadvices}$$

Further details of the technical calculation method are presented in Appendix 1.

Regarding transactions that are not settled on the agreed settlement day, one of the preadvices is counted as a non-settlement for the party that could not deliver, while the other preadvice is credited for the party that was ready for settlement. This procedure is repeated for each settlement day that the transaction is not settled (if the transaction is finally cancelled, the last day is excluded from the calculations).

Calculation of total settlement ratio

The monthly settlement ratio per individual professional customer is compared with an average of the total settlement in the VP settlement system. The average is also calculated on the basis of transaction value.

The total settlement ratio consists of:

$$\text{Value of settled transactions} * 100 / \text{value of transactions ready for settlement} - \text{cancelled transactions}$$

Further details of the technical calculation method are presented in Appendix 1.

Fixing of benchmark

The benchmark is defined as the average total settlement ratio for shares per month, measured by transaction value minus 1.5 percentage point. The benchmark must always exceed 85%.

Publication of settlement performance

On a monthly basis, VP publishes the individual settlement ratios for each customer via VP's Customer Centre on VP's website (access restricted to customers only).

VP publishes a report for each customer, with a calculation of the individual settlement performance ratio. This report can only be accessed by the custodian on behalf of its customers.

VP also publishes a list of settlement performance ratios for all customers, which is accessible to all VP customers. This makes it transparent which customers are above or below the benchmark. If a customer is sanctioned with a penalty, this will also be published on the website. This publication is an important element of the regime as it can be expected to impose a significant element of self-regulation.

In addition to publication via VP's Customer Centre, VP also distributes the reports via e-mail. Together with the report on the individual settlement performance ratios, the custodian also receives an overview of failed preadvices per customer.

The custodian can use the reports for follow-up actions in relation to the customers' settlement behavior.



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Follow-up by VP

The settlement performance regime becomes effective if the professional customer has a monthly settlement ratio below the benchmark for three successive months. In such case, VP sends a letter to the customer via the custodian with a notification regarding the customer's inadequate settlement performance ratio. If the customer has a monthly settlement ratio below the benchmark for an additional three successive months, VP contacts the customer via the custodian once again, requiring a statement of the reasons for the performance, including possible improvement measures. This statement must be presented to VP within one month.

Based on the statement, a joint meeting attended by participants from VP, the custodian and the customer can be organized in order to agree on the possible implementation of improvement measures within a deadline set by VP. If the settlement performance ratio is still not within the benchmark after the agreed deadline, VP will take the initiative to evaluate the possible reasons, together with the custodian and the customer. If the customer has not implemented the agreed improvement measures, VP can impose the sanction of a penalty on the customer.

The penalty amount is set at DKK 100,000.00. If the customer is not a direct clearing member of the VP settlement system, the penalty will be imposed on the custodian on behalf of the customer.

The sanction can be imposed in multiple instances if the customer has repeatedly failed to implement the improvement measures.

Annual evaluation

The rules and provisions of the settlement performance regime are evaluated on an annual basis at VP's Customer Advisory Forum in order to assess the effect and size of the benchmark and penalties, for example, as well as the calculation method for the customers concerned.

Further information

For further information, please refer to the document "FAQ for the settlement performance regime" (Frequently Asked Questions) which is available at VP's Customer Centre under the menu item "FAQ".

The rules for the settlement performance regime are also incorporated in VP's "Clearing Rules". Please see the chapter "Rule set for professional account holders". The Clearing Rules are also available at VP's website.



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Appendix 1

Appendix 1 provides detailed information on the calculation methods for the individual customer settlement ratios as well as the total settlement ratio for the settlement performance regime.

Calculation of individual customer performance settlement ratios

An individual customer performance settlement ratio is defined by the following calculation method:

$$\frac{\text{Value of settled preadvices} + \text{value of credited preadvices} * 100}{\text{Value of preadvices ready for settlement} + \text{value of matched preadvices} - \text{value of cancelled preadvices}}$$

- Preadvices that are settled are defined as: preadvices with status code 9: "Notification settled – transaction completed".
- Preadvices that are credited are defined as: "preadvices from settlements where the counterparty alone is responsible for the non-settlement of the transaction".
- Preadvices that are ready for settlement are defined as: preadvices with status code 15: "Notification ready for settlement".
- Preadvices that are matched are defined as: preadvices with status code 8: "Match found".
- Preadvices that are cancelled are defined as: preadvices with status code 11: "Notification cancelled".

Calculation of total settlement ratio

The monthly settlement ratio per individual professional customer is compared with an average of the total settlement in the VP settlement system.

The total settlement ratio is defined by the following calculation method:

$$\frac{\text{Value of settled transactions} * 100}{\text{Value of transactions ready for settlement} - \text{value of cancelled transactions}}$$

- Transactions that are settled are defined as transactions with status code 9.
- Transactions that are ready for settlement are defined as transactions with status code 15.
- Transactions that are cancelled are defined as transactions with status code 11.