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Financial Stability Board Bail-in process Frequently Asked Questions

Frequently Asked Questions

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Glossary

Term	Definition
Central Securities Depository ("CSD")	An entity that 1) enables securities transactions to be processed and settled by book entry; 2) provides custodial services and 3) plays an active role in ensuring the integrity of securities issues.
Clearstream Banking S.A. ("Clearstream")	Luxembourg-based ICSD, authorised under Regulation (EU) No 909/2014 (CSDR), operating a securities settlement system within the meaning of Directive 98/26/EC.
Eurobond	International securities issued outside the country in whose currency their value is stated. Eurobonds are usually identifiable by an ISIN starting by 'XS' rather than the standard 2-digit country code used for securities issued via a domestic CSD.
Euroclear Bank SA/NV ("Euroclear")	Belgium-based ICSD, authorised under Regulation (EU) No 909/2014 (CSDR), operating a securities settlement system within the meaning of Directive 98/26/EC.
Financial Stability Board ("FSB")	International body being a successor to the Financial Stability Forum (FSF). The FSB coordinates at the international level the work of national resolution authorities and international standard setting bodies with the aim to develop and promote effective financial regulations and policies that support global financial stability.
International Central Securities Depository (ICSD)	A financial market infrastructure that provides custody, settlement and asset-servicing services for international securities (Eurobonds) transactions.
Investor-CSD	An investor CSD under the Central Securities Depositories Regulation (CSDR) is a central securities depository that opens and maintains a participant account in another CSD (known as the "issuer CSD") to facilitate cross-border or cross-system settlement of securities transactions.
Issuer-CSD	Under the European Union's Central Securities Depositories Regulation (CSDR), an **issuer CSD** is a central securities depository that provides the initial notary service or the central maintenance service for a specific securities issue. It acts as the primary home for those financial instruments. [1, 2].
National Resolution Authority (NRA)	National Resolution Authorities are the national bodies responsible for planning and implementing the resolution of failing banks within the Single Resolution Mechanism.

Single Resolution Board ("SRB")	The central resolution authority within the Banking Union. Together with the national resolution authorities, it forms the Single Resolution Mechanism (SRM).

Contact details at the ICSDs to announce a bail-in event

Name	Email	ICSD
CA OMK	ca.omk@euroclear.com	EUROCLEAR
Corporate Actions Operations	CA_mandatory.events@clearstream.com	CLEARSTREAM
OCN Contingency	Ocn.contingency.coordination@deutsche-boerse.com	CLEARSTREAM

Introduction

The Financial Stability Board (FSB) has developed international standards for the effective resolution of failing financial institutions. Bail in is a resolution tool that allows authorities to write-down or convert into equity or other instruments of ownership certain liabilities of a failing financial institution, including international debt securities (Eurobonds). The primary objective of bail-in is to preserve financial stability by maintaining the critical functions of the institution, while ensuring that losses are absorbed by its creditors and shareholders rather than by taxpayers.

The FSB provides detailed practices on how bail-in should be executed across markets, noting complexities such as:

- trading suspensions and delisting of old securities;
- issuance and re-listing of new shares;
- coordination across multiple countries and CSDs when securities are cross-border

In their role as issuer-CSD, Euroclear and Clearstream are guided by the principles outlined by the FSB and Single Resolution Board (SRB). This document should be read in conjunction with the publication of the SRB describing the operationalisation of a bail-in in respect of Eurobonds held by the ICSDs. This FAQ aims at answering additional/frequent operational questions that issuer-banks, their intermediaries (agents, depositories) and national regulators or resolution authorities may have on the processing of bail-in actions by the ICSDs.

Disclaimer

This FAQ is provided for information purposes only. It does not constitute legal, regulatory or professional advice and should be read together with the relevant applicable laws, regulations and guidance issued by the competent authorities. Euroclear and Clearstream do not accept any liability for any loss caused by reliance on information contained in this document.

Frequently Asked Questions (FAQ)

Q1. Have any official documentation and/or guidelines been published in respect of the processing of a bail-in event on securities held in the ICSDs?

A1: Yes, the Single Resolution Board (SRB) has released a dedicated publication covering bail-in events on Eurobonds held in the ICSDs. This publication was prepared by the SRB in close cooperation with both Euroclear and Clearstream and provides operational guidance on the processing of various bail-in scenarios.

- The guidelines are addressed to both issuer-banks and intermediaries (agents, depositories) involved in the process of bail-in. The main focus is on Eurobonds securities although some guidelines reference domestically issued instruments where the ICSDs act as Investor-CSD rather than Issuer-CSD.
- The publication is available for download from the SRB website: https://srb.europa.eu/en/node/1204.

Q2. Can discussions be initiated with the ICSDs prior to market release of the bail-in notification?

A2: Yes, the discussions with the ICSDs can be initiated prior to the market release, with the understanding that no action will be taken until the formal process has started. As part of their standard corporate actions operations, the ICSDs frequently handle confidential information.

Q3. Can bail-in documentation, in draft or final format, be shared with the ICSDs on a strictly confidential basis?

A3: Yes, information can be shared with the ICSDs even if not yet in final format and will be treated as strictly confidential for information only and therefore will not trigger any action on the ICSD side. Should an NDA be required, it should be made available in due time for the ICSDs to review.

Q4. Can Issuers and/or Depositories contact the ICSDs to request a dry-run of a bail-in exercise?

A4: Yes, the ICSDs can review mock-up documents on request, such as the Resolution notice, the Operational notification, the Swift messages (in excel format), the proposed email correspondence, commonly part of a dry-run of a bail-in exercise.

- The timing for such an exercise should be agreed upfront with the ICSDs, to allow sufficient time for internal coordination.

Q5. Can the ICSDs be contacted outside of standard business hours?

A5: For standard inquiries on bail-in processing, parties should contact the ICSDs during European business hours or via email.

In case of imminent potential announcement of a bail-in, the ICSDs may exceptionally be contacted outside of business hours for informational purposes via the contact details provided in this FAQ, however actions will be delayed until business hours resume.

Q6. Should the common depository or common service provider be informed in case of bail-in event on ICSD held securities?

A6: Yes, the common depository or service provider must be informed in case of bail-in, as referenced in the SRB publication.

Q7. Is a summary of the bail-in notification sufficient, or is an official English translation of the Resolution Order mandatory?

A7: A summary translation of the Order into English may initially be provided, however a copy of the full Resolution Order as made available by the Resolution Authority must be provided without delay.

- For Eurobonds the operational notifications outlining the details of the bail-in as made available by the agent managing the event must be provided in English.

Q8. Are there any operational arrangements to suspend settlement of in-scope securities once overnight processing has started or are there any mechanisms to delay this process in urgent scenarios?

A8: No procedural or technical mechanisms apply to delay the settlement processing batch to accommodate a bail-in process.

Q9. When does the ICSDs' overnight processing begin?

A9: The overnight processing starts at 21:30 CET: this implies that the overnight batch for settlement on Monday already starts on the preceding Friday at 21:30 CET.

Q10. Do the ICSDs accept interim instruments as a proceed of bail-in event (for example: Claim Rights Securities)?

A10: Interim instruments can only be used as a proceed of a bail-in, upon the ICSDs' explicit acceptance, as it remains conditional to complying with the respective ICSDs' eligibility review process.

- It is recommended to provide as early as possible a template of the issuance documentation of the interim instruments to allow a proactive review of the eligibility of the instrument.
- The proactive review, however, does not guarantee eligibility of the instrument in the ICSDs as acceptance of all instruments is decided on a case-by-case basis.

Q11. Is a legal opinion required to conduct the eligibility assessment or confirm interim instruments eligibility?

A11: On case-by-case basis, the ICSDs may require a legal opinion from an external counsel to confirm the eligibility of interim instruments, therefore, the ICSD recommend the provision of a template of the issuance documentation of the interim instrument available in tempore non suspecto to allow for a proa-active assessment of the eligibility of the instrument in the ICSDs.

Q12. Can the ICSDs act as the Investor-CSD for Claim Rights Securities instruments?

A12: Yes.

Q13. Can the ICSDs act as the Issuer-CSD for the proceeds of a conversion – including interim securities such as Claim Right Securities – if the security in scope of the bail-in is deposited in a domestic market?

A13: No, the ICSDs can only act as Issuer-CSD for the proceeds of a conversion where the resulting securities of the bail-in have a primary clearing in the ICSDs.

- For domestically issued securities resulting from a bail-in, the ICSDs expect the conversion proceeds (if applicable) to be credited to the local account of the respective ICSDs in the relevant domestic market.

Q14. Can the ICSDs distribute different conversion securities' proceeds (ratio), including interim securities (such as Claim Right Securities), to holders of different securities in scope of the bail-in?

A14: Yes, the ICSDs can manage both (i) a different conversion ratio for the respective securities in scope of the bail-in or (ii) the allocation of different securities' proceeds as

conversion results for securities in scope of the bail-in. A combination of both scenarios is also possible.

Q15. Can an existing equity ISIN be (re-)used as a proceed for a bail-in conversion?

A15: It is recommended not to use an existing equity ISIN as the resulting proceeds of the conversion of the debt instruments as this may create ambiguity, for example, in respect of pending settlement instructions that may not have been cancelled or to demonstrate pre-bail-in client holdings in potential litigation cases.

Q16. Can the conversion securities' proceeds be blocked on the account of the clients in the ICSDs?

A16: Yes. Although free transferability of a security is usually an eligibility criterion for accepting securities in the ICSDs, the temporary suspension of settlement of the proceeds of the conversion will apply at security level, and not at individual clients level.

Q17. How should accrued interest resulting from the conversion be communicated?

A17: Accrued interest can be reported together with the principal in one Swift message. The Swift should include additional information: calculation method, total amount and calculation period should be put in the :70E::ADTX field.

There is a specific field for ACCRUED INTEREST:

- There is a specific field for accrued interest indicator (Yes or No): :17B::ACIN

Q18. Do the ICSDs have any guidelines regarding the processing of accrued but unpaid interest on securities in scope of a bail-in?

A18: The assessment on how accrued interest should be managed remains with the Resolution Authority and/or the agent managing the bail-in event. From a processing point of view, the ICSDs can accommodate the following:

- If accrued but unpaid interest is to be paid out in cash to the entitled holders, information on the exceptional payment should be relayed to the ICSDs as part of the conversion information.
- If accrued but unpaid interest is to be included in the conversion, this should be considered for the conversion ratio. The conversion ratio is expressed versus the nominal face amount of the security.

Q19. If a bond primarily cleared in the ICSDs is fully written down as part of a bail in, can it be marked up again later if the valuation of the old instrument needs adjustment?

A19: If the bond was fully written down, it is cancelled in the ICSDs and cannot be marked up again unless a specific request is sent to technically re-open the ISIN code, which is not the standard and recommended process, and therefore cannot be guaranteed upfront.

If the bond was only partially written down (either via nominal reduction or via an adjusted pool factor), then a later correction can be processed. This would occur through either:

- A mark up of the remaining nominal amount; or
- An amendment of the pool factor.

Any later adjustment will affect the holders at the time of the correction, which may differ from the holders at the time of the initial write-down.

Q20. Can additional proceeds be allocated based on historical record if an adjustment of the valuation of the security in scope of the bail-in would be required?

A20: Yes, additional entitlements can be allocated based on historic record dates.

Historic records of ICSD clients with a holding at the time of the bail-in record date can be retrieved for up to ten years. The ICSDs however cannot advise on the maintaining of records by the underlying intermediaries.

Q21. Can a bail-in be accommodated on instruments deposited in the ICSDs if the proceed of the conversion is not eligible in the ICSDs?

A21: Yes, in this scenario the ICSDs collect the delivery details from their clients and provide this information to the agent servicing the bail-in event. This agent then needs to arrange for direct delivery of the proceed entitlement with the entitled holders outside of the ICSDs.

Such flow will significantly increase the complexity, workload, manual intervention and operational risk for all parties involved in the data collection process ahead of the security delivery.