

A stylized map of Europe in dark blue and white, with numerous small national flags of various European countries pinned to it. The flags are scattered across the map, representing the geographical scope of the document.

Central Securities Depositories - Regulation

December 4th 2018

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Some piece of History

- **As soon as 2004**, European Commission performed some workshops on the need to provide some rules on CSDs and globally on the European post trading
- No reason at that time to speed up the process and **crisis 2007-2008** proved the relative “good health” of CSDs which were viewed like “safe” for many actors. CSDs were followed closely under domestic law
- **G20 decisions on OTC Clearing** for Derivatives products
 - The G20 was instrumental in establishing the core elements of a new global financial regulatory framework that should make the financial system more resilient
- **MIFID 2008** aims at harmonizing rules among the European market (trading platforms)
- **EMIR 2013** -> in respect of CCPs and Trade repository
 - => Fixed Income Settlement & Custody functions were missing in the scope
- **CDSR** should be seen as complementary to both EMIR and MIFID regulation

Who's concerned

- **Who's concerned?**
 - CSDR applies to European **Central Securities Depositories (CSD's)**
 - CSDR applies as well to any entities being participants on those CSDs (result of the requirements imposed on CSDs themselves)
 - **Issuers** that issue securities in EU CSDs
 - **Participants to CSDs**
 - **Banks** that offer banking services to CSDs

What's the aim

- **To set up some common rules** for CSDs through European Markets
 - Need of harmonizing settlement infrastructures obvious since T2S implementation
- **To increase the safety & efficiency of securities settlement**
 - Raise & tackle the “Failed topic” which was highlighted during & after the Financial crisis
- => To improve operational efficiency and asset protection

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2011 :
First text issued by European Commission on this topic

August - September 2014:

- Entry into force of CSDR, 20 days after publication in the Official Journal of the EU

March 2017:

- Publication of Level 2 measures (excluding settlement discipline) in the Official Journal

September 2017:

- Deadline for CSDs to apply for re-authorization

September 2020, 14th:

- Entry into force Settlement discipline

EU CSDs

- **New operating license**
- **Organizational requirements**
- **Prudential requirements**

CSD Customers

- **Wider requirements**
- **New account segregation rules**
- **Daily reconciliation processes**
- **Book entry form of securities**
- **Using of Legal Entity Identifier code (LEI)**

CSD Customers

- **New settlement discipline regime**
- **T+2 settlement cycle**
- **New systematic buy ins**
- **Penalties**

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New operating License

- CSD Passport

Organizational requirements

- CSDR changes the CSD landscape by reducing the number of CSD operating currently around 40
- Concentration of CSD

Prudential requirements (LIVE)

- **CREDIT**
 - Credit lines, custody advances or Bank guarantees need to be collateralized
- **COLLATERAL**
 - New rules for collateral valuation or haircuts
 - Review/set up of concentration limits
- **LIQUIDITY**
 - Debit interest at a minimum threshold
- **RISK MANAGEMENT**
 - Comprehensive risk management framework covering legal, operational and business risks

Stakes for final clients

- Syndicated new issues :
 - To check we have sufficient collateral the day of the peak
 - Revisit our current process for all syndicated issues where we are the issuer or lead manager
- Custody advances : To use proceeds prior to payments confirmations, we ll need :
 - A sufficient Credit line by the CSD/ICSD
 - Sufficient collateral associated with the credit line

Wider Requirements

- **ACCOUNT SEGREGATION**
 - CSD customers to offer to their clients choice between
 - Omnibus client segregation or not
 - CSDs and customers to disclose levels of protection and cost associated
- **RECONCILIATION**
 - CSD Customers to reconcile their records with the information received by the CSD on a daily basis
- **BOOK ENTRY FORM**
 - End of paper securities (dematerialization)
 - Securities transferable or admitted on trading venues
- **MANDATORY LEI**
 - Unique 20 character code that identifies legal entity
 - CSDs to collect LEIs from CSD customers or issuers
 - Should facilitate record keeping

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Key changes

Global Target

- The aim is to set up one single rule package for all European Markets.
- CSDs will require its customers to ensure smooth settlement on the intended settlement date
- Individual settlement performance will be reviewed by CSDs and reported to regulators
- Sanctions for non-compliance may apply

Failed prevention

- **Extended settlement period**
- Following the liquidity of products, we have extended periods of settlement from 3-7-15 days before some penalties apply
- **Partial settlement**
- CSD-R open the door to partial settlement.
- The aim is to force the partial settlement as soon as counterparty hold part of the nominal traded
- => Should lead to further use of standardized settlement messaging services by participants
- => May impact market liquidity

Buy In

- Trading parties or CCPs will be required to initiate buy ins and report the outcome details to the CSDs
- Fails matched however failing due to lack of securities will be taken into account as well

Penalties

- Beyond this period, CSDs are required to play a “new” role to facilitate such process
 - To calculate, report the amounts due on a daily basis
 - To collect & redistribute money back to counterparties concerned
- **ICSDs** (Clearstream, Euroclear Bank) will follow this new process
- It will take place at least monthly

Confirmations

- The aim is to ease confirmations process following the requirements (deadlines) of ESMA
- => We have to define new market practices -> discussed in groups like AFTI
- Standardization of data exchanged, allocation 2 hours after trade is executed

Penalties processes

- **One target : to limit penalties**
- From a CIB view, we closely monitor Failed trades, including short positions
 - Workshops with our Front Office
 - Use of RPA to have real time status of trades
 - Systematic chasing of our counterparties
 - => **Improve our settlement efficiency**

Buy In Management

- Workload and current process to define following the regulation some process & market practices allowing to deal with Buy In in an easier way than today

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Challenges

- Represents a big structural change in market practices
- Significant technical changes for CSDs to make the necessary adaptations
- Capacity for domestic CSDs to innovate in an environment of change
- National protectionism

Benefits expected

- Securities infrastructures linked with common EU rules
- Solving the costly fragmentation of securities market infrastructure => final phase of T2S?
- Stimulates competition between actors