CSDR mandatory buy-in the non-cleared bond & repo markets
ICMA: CSDR-SD mandatory buy-ins

**Settlement Discipline (positives)**

- Article 6: limiting number of settlement fails
- Article 7: cash penalties for fails

**MBI design challenges**

- Mandatory nature
- Asymmetric differential payments
- No pass-on mechanism
- Cash compensation process for bonds
- Lack of BIAs / definition of ‘conflicts of interest’

**Bond market liquidity**

- RFQ / Principal risk / Balance sheet
- 20-30% of offers not based on inventory
ICMA: CSDR-SD mandatory buy-ins

**Sell-side pricing**
Impact on bid-ask spreads

**Sell-side liquidity**
Expected capacity to show offers

**Buy-side expectations**
Expected impact to offer-side pricing

**Repo and securities lending**
Expected impact on lending securities

Source: ICMA Impact Study, November 2019
ICMA: CSDR-SD mandatory buy-ins

2020 Covid-19 Crisis

- Significant uptick in settlement fails across all asset classes
- Operational challenges/stretched resources
- A liquidity crisis, not a credit crisis
- MBIs would have compounded market volatility, reduced liquidity, and added to market instability

See: ICMA, 2020, The European investment grade corporate bond secondary market & the COVID-19 crisis

Source: ESMA Risk Dashboard, May 2020
ICMA: CSDR-SD mandatory buy-ins

**Potential solutions**

(i) Delaying implementation until the authorities have undertaken a comprehensive and robust impact study

(ii) Phasing in implementation based on underlying asset class

(iii) Replacing the mandatory obligation to make it discretionary

(iv) Introducing a longer extension period (such as 30 business days)