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**CONTEXT**

**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?**

- CSDR applies to European **Central Securities Depositaries (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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TIMELINE

2011:
First text issued by European Commission on this topic

2011 - September 2014:
- Entry into force of CSDR, 20 days after publication in the Official Journal of the EU

2013:
- New operating license
- Organizational requirements
- Prudential requirements

2014:
- Wider requirements
  - New account segregation rules
  - Daily reconciliation processes
  - Book entry form of securities
  - Using of Legal Entity Identifier code (LEI)

2015:
- New settlement discipline regime
  - T+2 settlement cycle
  - New systematic buy ins
  - Penalties

2016:
- March 2017:
  - Publication of Level 2 measures (excluding settlement discipline) in the Official Journal

2017:
- September 2017:
  - Deadline for CSDs to apply for re-authorization

2018:
- September 2020, 14th:
  - Entry into force Settlement discipline
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## SUMMARY OF IMPACTS

### 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 will need:
    - A sufficient Credit line by the CSD/ICSD
    - Sufficient collateral associated with the credit line
SUMMARY OF IMPACTS

- **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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SETTLEMENT DISCIPLINE
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 / SETTLEMENT DISCIPLINE
What is at stake for final customers like CACIB

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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NEXT CHALLENGES

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