Central Securities Depositories Regulation

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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

- CSDR applies to European Central Securities Depositaries (CSD’s), including ICSDs
- CSDR applies as well to all market participants, wherever located, using European CSD’s:
  - CCPs
  - Participants to CSDs
  - Banks that offer banking services to CSDs

Instruments

- No list provided here. We understand the following instruments to be in scope:
  - All CSD eligible MIFID II financial instruments (Securities, Money market instruments, …)
WHAT’S THE AIM OF CSDR

CSDR – European regulation No 909/2014

Create a regulatory & prudential regime for CSDs

- Strict prudential, organisational & conduct of business rules for CSDs
- Strict access rights to CSD services
- Protection of securities of CSD participants & clients behind
- Enhanced legal & operational conditions for cross border settlement
- Settlement Discipline regime

Harmonizing settlement infrastructures

As a result: Create a single market for CSD services

Increasing the robustness & resilience of securities settlement arrangements

Buy In process

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**TIMELINE**

- **2011**: First text issued by European Commission on this topic.
- **2011** - **2014**: First text issued by European Commission on this topic.
- **2017**: Publication of Level 2 measures (excluding settlement discipline) in the Official Journal.
- **March 2017**: Deadline for CSDs to apply for re-authorization.
- **September 2017**: Deadline for CSDs to apply for re-authorization.
- **1 February 2022**: Entry into force of Settlement discipline.
- **8 May 2020**: EC agrees ESMA proposal to delay SDR to 1st February 2021.
- **28 August 2020**: New delay requested by ESMA due to COVID situation & impacts across Europe.
Investment firms shall ensure:
- the prompt communication of the allocation of securities for the transaction - the confirmation of this one.

CSDR required that a Buy In process shall be initiated if transaction is not settled 4 business days after the intended settlement date « extension period »

Cash penalties applied on following transactions:
- Matched instructions even if on hold
Calculated daily and applied monthly to participants
Redistributed to participants that suffered the fail

New rules defined here:
- Transaction types to use
- Matching criteria revisited by CSDs
- Tolerance level accepted
- Real time matching to set up
- Set up bilateral cancellation facility for matched transactions

CSDR requires that CSDs shall establish a system that monitors settlement fails of transactions & report it on a regular basis.
LIFECYCLE OF A FAILING TRANSACTION WITH CSDR (LIQUID SHARES)

Phase 1: Normal lifecycle
- Trade Date (TD)
- TD+1
- Trade has to comply with CSDR on allocations & confirmations

Phase 2: Extension period
- SD+1
- SD+2
- SD+3
- SD+4
- Extension period corresponds to 4 business days from the SD
- Any failing trade will continue to accrue daily penalties
- On the final day, the receiving counterparty is requested to accept any partial delivery offered

Phase 3: Buy In Period
- SD+5
- SD+6
- SD+7
- SD+8
- If possible, it will initiate the buy in with a buy in agent on SD+5
- If not possible, it will request the counterparty to pay a cash compensation

Phase 4: Cash compensation
- SD+9
- SD+10
- SD+11
- SD+12
- In the deferral period, the receiving party can decide to defer the buy-in for further 4 business days depending on the financial instrument
- Cash compensation

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CHALLENGES ON SETTLEMENT EFFICIENCY FOR INVESTMENT FIRMS

SETTLEMENT EFFICIENCY

- KPI production
- Failed rate
- Daily Monitoring

HOLDINGS RECONCILIATION MANAGEMENT

- Place of safekeeping

OTHER STATIC DATA REQUIRED

- Accuracy of SWIFT

SETTLEMENT INSTRUCTIONS

- Review SSIs
- Common cause of mismatching/late matching

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NEXT CHALLENGES

Challenges

• A big structural change in market practices
• Significant technical changes for CSDs to make the necessary adaptations & Investment firms too
• Capacity for domestic CSDs to innovate in an environment of change

Benefits expected

• Securities infrastructures linked with common EU rules
• Solving the costly fragmentation of securities market infrastructure => final phase of T2S?
• A more efficient market with less failed trades

Mandatory Buy-in still under discussion

• A tremendous change in the market
• Reality or just a dream
• Which impacts
• What’s next