



CSDR

FOCUS

Updated in June 2020

REGULATORY EVOLUTION

- 1 **CSD Agreement and licensing:** licensing and European passport principles. Organization, business and governance rules. Resources requirements, set up of users committees. Risk management rules (operational risk, capital requirements...)
- 2 **CSD Role:** Harmonized definition of the CSD role. Distinction made between core functions and ancillary services. Some banking services may be offered by CSD. Direct competition with business of their participants (custody business for instance)
- 3 **Settlement landscape unification:** dematerialization and immobilization of securities, settlement cycle harmonization (T+2), common settlement discipline framework (penalties and buy In regimes, reporting of internalized settlement for custodians)
- 4 **On investor's demand segregation :** clients of CSD's participants may ask for segregated account opened in CSD's books
- 5 **Free choice for Issuers of their issuer CSD**

FOCAL POINTS

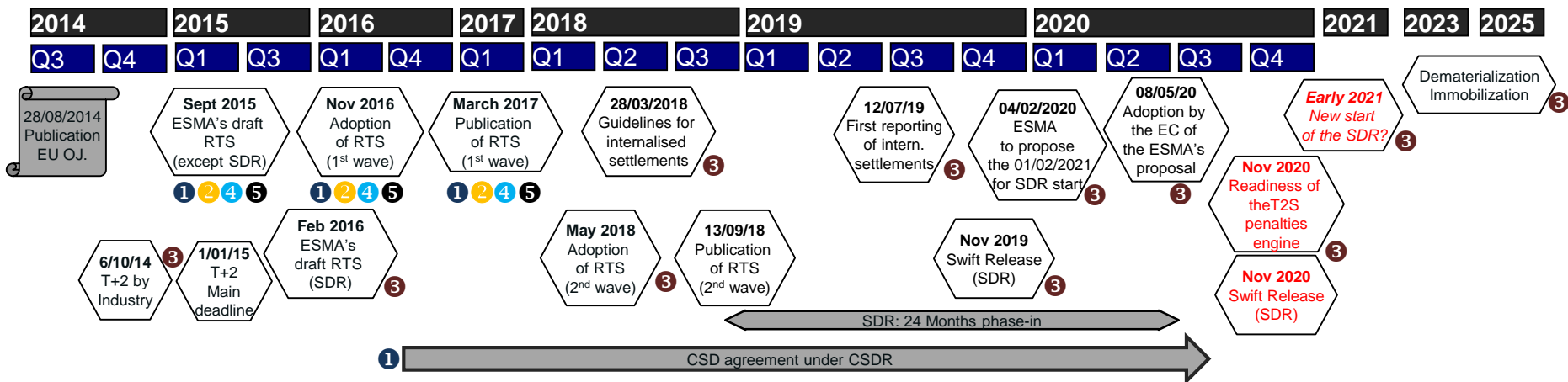
Impacts on CSDs Capital needs, Third Countries regime and potential competition with non European CSD. CSD agreement with regulators

CSD can be direct competitors with their participants through banking services and custody activities. Clearstream and Euroclear Bank should be the major CSDs involved in this competition.

Heavy impact of settlement discipline regime for all participants and CSD with client's repercussion to be put in perspective (reporting, billing etc). Quarterly reporting of internalized settlements would have an heavy impact in regards with volumes

Segregation at CSD level is mandatory for clients from segregated countries investing in securities issued by direct holdings countries. Practical implementation per CSD implies procedure definitions at CSD level. High cost difficult to assess to set up segregation for a client at CSD level

Risk of competition between issuer services at European level. No specific offer foreseen by SGSS. Already done for bonds, hard to apply for shares.



Updated on 30th of June 2020

STATEMENT

- ❑ **Entry into force of the Settlement Disciplines Regime:** ESMA has proposed the 1st of February 2021 as the new start date (instead of September 2020); to wait for the adoption by the European Commission and the non rejection by the Parliament and the Council
- ❑ **ISO Format :** new or updated formats (15022 / 20022) for the settlement discipline regime; mostly included in the 2019 Swift Release, additional updates foreseen in the 2020 Release
- ❑ **T2S penalties tool :** will be used only for T2S settlement instructions;
- ❑ **Trade associations request :** penalties to apply not before the industry's readiness ; buy-ins requirement to be put on hold until an assessment of the penalties' impact on the settlement efficiency and an analysis on the impacts of the mandatory buy-in itself
- ❑ **Works undertaken by the associations :** on the pass-on mechanism, on a framework of a platform for buy-ins' management

FOR YOUR CONSIDERATION

- ❑ **CSD Agreement :** Still some major CSDs to be agreed. Participants to comply with different obligations (segregation policy, reconciliation,...).
- ❑ **Settlement Discipline :**
 - Confirmation / allocation: the ESMA has published its final guidelines
 - Penalties: still some pending questions; however it is time now to clean up any old outstanding fails, analyze current processes looking for any improvement before the go-live date; a dry run for T2S flows is under study (penalties calculated but not paid between December and February, should February be the new date)
 - Buy-ins: a lot of questions remained open (in particular on how to avoid multiple buy-ins) – several Q&A proposed to ESMA but no answers yet
 - The European commission has adopted the ESMA's proposal for an entry into force on the 1st of February 2021 (instead of September 2020)
- ❑ **Internalized settlement reporting :** reportings sent to the NCAs who are currently analyzing them ; to be sent to ESMA
- ❑ **On demand segregation** for clients and mandatory for any client from a direct holding country, holding securities issued by this direct holding country.

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To know more please refer to:
FicheCSDR-ToKnowMore

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