



CSDR

FOCUS

Updated in November 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

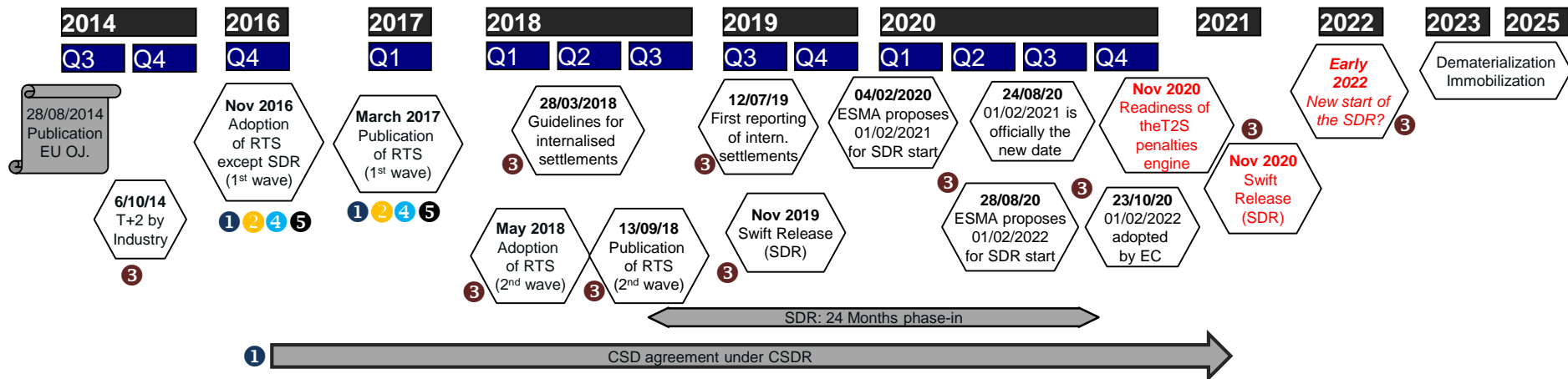
Impacts on CSDs Capital needs, Third Countries regime and potential competition with non-European CSD. CSD agreement with regulators

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 a 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 5th of November 2020

STATEMENT

- ❑ **Entry into force of the Settlement Disciplines Regime:** the 1st of February 2021 is the new official date. However the EC has adopted the new ESMA's proposal to start the settlement disciplines regime (SDR) on the 1st of February 2022. Now in the non objection period before being official.
- ❑ **T2S penalties tool :** will be used only for T2S settlement instructions; a dry run (computation of penalties but payment) is foreseen for September 2021
- ❑ **Open questions:** a list is now publicly available on the ESMA's website; most of the open points are eventually in the hands of the EC
- ❑ **Works undertaken by the associations:** on the pass-on mechanism or the scope of transactions submitted to the buy-in as well as on several issues to be fixed
- ❑ **CSDR's review:** the process to start in the coming weeks (a EC consultation should be launched) ; ICMA and AFME are currently working on proposals to be made to the EC and ESMA to improve the SDR such as a non mandatory buy-in

FOR YOUR CONSIDERATION

- ❑ **CSD Agreement:** Participants to comply with different obligations (segregation policy, reconciliation,...).
- ❑ **Settlement Discipline:**
 - Confirmation / allocation: the ESMA has published its final guidelines
 - Penalties: time to clean up any old outstanding fails, analyze current processes looking for any improvement before the go-live date;
 - Buy-ins: a lot of questions remain open (in particular on how to avoid multiple buy-ins)
- ❑ **Internalized settlement reporting :** live (to be followed the impact of the Brexit)
- ❑ **On demand segregation** for clients and mandatory for any client from a direct holding country, holding securities issued by this direct holding country.
- ❑ **SDR and Brexit:** UK has decided to not apply the EU SDR

Contact SGSS/CAO/REG:

Pierre Colladon & Sylvie Bonduelle



pierre.colladon@sgss.socgen.com
sylvie.bonduelle@sgss.socgen.com

To know more please refer to:
 FicheCSDR-ToKnowMore

"This document is for informational purposes only. Under no circumstance should it, in whole or in part, be considered as an offer to enter into a transaction. This document is not intended to have an advisory character or intended to represent an investment recommendation or a recommendation regarding a certain strategy, product or service. Although information contained herein is from sources believed to be reliable, Société Générale makes no representation or warranty regarding the accuracy of any information and is not responsible for errors of any kind. Any reproduction, disclosure or dissemination of these materials is prohibited. The products and services described within this document are not suitable for everyone. This document is not intended for use by or targeted at retail customers. All of the products and/or services described may not be available in all jurisdictions"