



CSDR

FOCUS

Updated in January 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

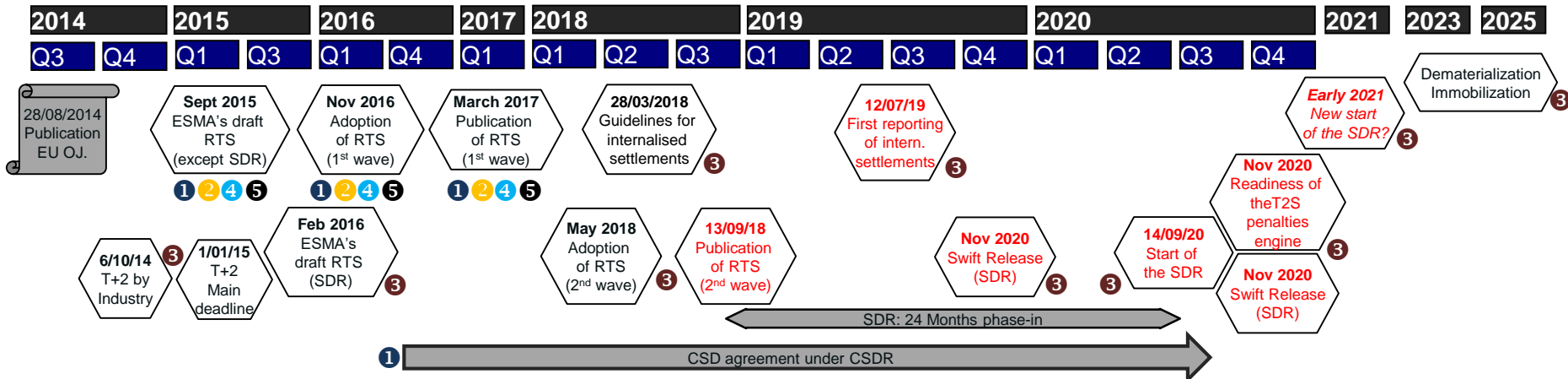
Impacts on CSDs Capital needs, Third Countries regime and potential competition with non European CSD. CSD agreement with regulators

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 16th of January 2020

STATEMENT

- ❑ **Level 2** : Regulatory Technical Standards on settlement discipline have been adopted and published on 2018 September the 13th opening a 24 months delay for implementation (2020, September the 14th).
- ❑ **ISO Format** : new or updated formats (15022 / 20022) for the settlement discipline regime
- ❑ **Implementation notebook** : French Post Trade Industry (AFTI) has updated its implementation guide
- ❑ **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.
- ❑ **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; ECSDA (the European CSDs association) has issued a new version of its framework (November 2019)
 - Buy-ins is still under progress via several working groups (AFME, ICMA, ...) leading to exchanges with ESMA; a lot of questions remained open (in particular on how to avoid multiple buy-ins for a single lack of stock)
 - The entry into force normally in September 2020 may be postponed until November 2020 and potentially in Q1 2021
- ❑ **Internalized settlement reporting** : first reportings have been sent to the NCAs (Q3 2019) who are currently analyzing them
- ❑ **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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