



CSDR

FOCUS

Updated in September 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

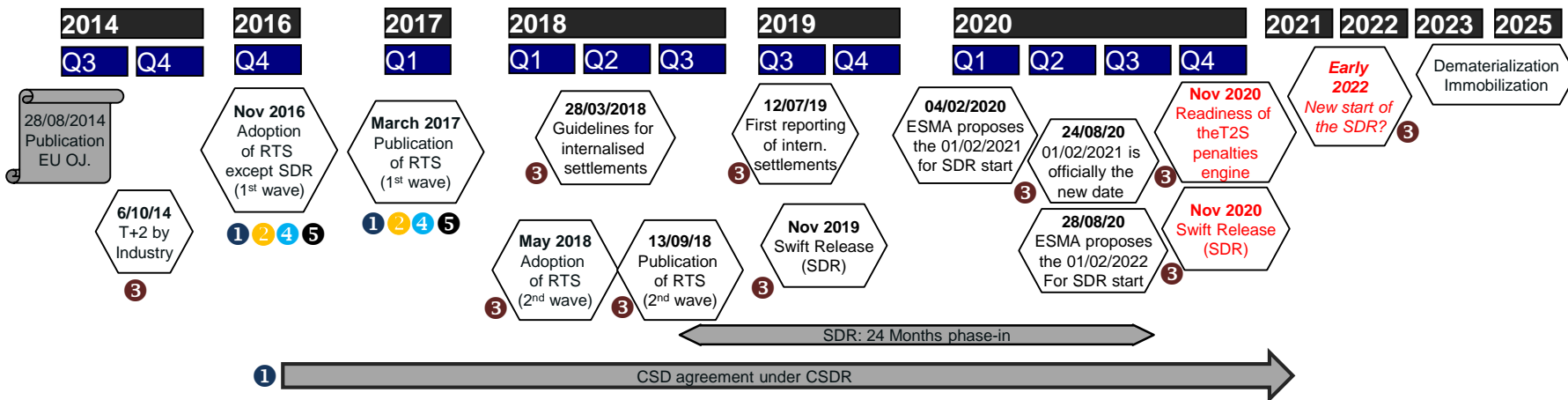
Impacts on CSDs Capital needs, Third Countries regime and potential competition with non European CSD. CSD agreement with regulators

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 1st of September 2020

STATEMENT

- ❑ **Entry into force of the Settlement Disciplines Regime:** the 1st of February 2021 is now the new official date. However ESMA has already issued a new draft RTS proposing to start the settlement disciplines regime on the 1st of February 2022. This was done at the request of the EC and motivated by the impact of the Covid pandemic
- ❑ **T2S penalties tool :** will be used only for T2S settlement instructions; a dry run (computation of penalties but payment) is foreseen
- ❑ **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 or the scope of transactions submitted to the buy-in requirement but also in the context of the CSDR's review that should start in October 2020

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: 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 remain open (in particular on how to avoid multiple buy-ins) – several Q&A proposed to ESMA but no answers yet
- ❑ **Internalized settlement reporting :** live
- ❑ **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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