



CSDR



FOCUS

Updated in March 2019

REGULATORY EVOLUTION

- 1 **CSD Agreement and licensing:** licencing and European passport principles. Organisation, business and governance rules. Ressources requirements, set up of users committees. Risk management rules (opérationnal 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 immobilisation of securities, settlement cycle harmonisation (T+2), common settlement discipline framework (pénalités 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

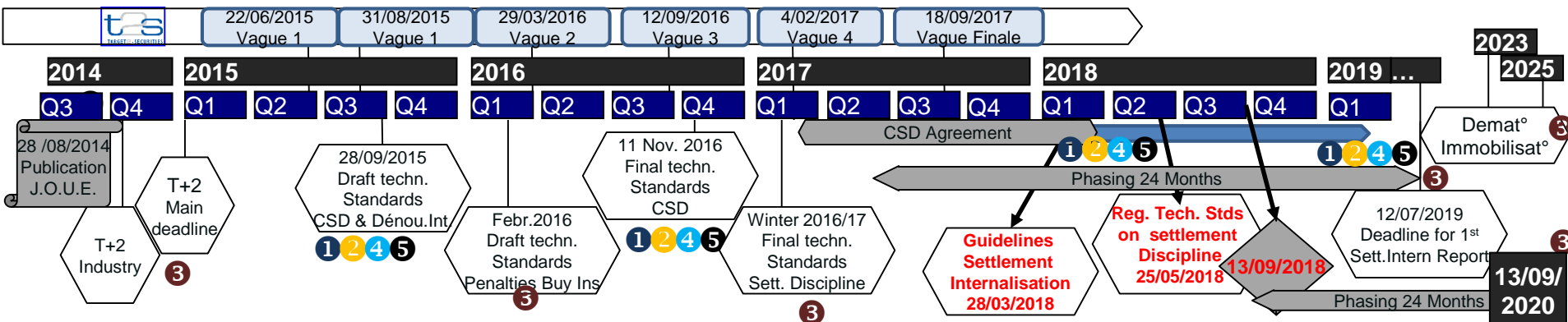
Impacts on CSDs Capital needs, Third Countries regime and potential competition with non European CSD. CSD agreement with regulators

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). Quaterly 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 26 February 2019

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** : local authorities would have to apply ISO Format as required by ESMA but no view on method of exchange with Custodians (internalized settlement reporting)
- ❑ **Implementation notebook** : French Post Trade Industry has updated its implementation notebook (new version to be published T1 2019)
- ❑ **T2S penalties tool** : will be used only for T2S settlement instructions

FOR YOUR CONSIDERATION

- ❑ **CSD Agreement** : No vision on date of agreement of CSD (ESES foreseen in February/March 2019) . It will imply to participants to automatically comply with different obligations (**segregation** policy, **reconciliation**,...).
- ❑ **Settlement Discipline** : Some pending questions on penalties have been answered by ESMA in its Q&A. Work on buy-ins is still under progress via several working groups (AFME, ICMA, ...) and will lead to exchanges with ESMA. ECSDA (the European CSDs association) is currently writing a framework for penalties based on the T2S TF outcome but extended to non T2S CSDs. Message of penalties reports implies Change Requests that could come in late stage of the SWIFT Release process. ESMA has consulted on the confirmation / allocation part of the settlement disciplines for its future guidelines.
- ❑ **Internalized settlement reporting** : tests with regulators need to start quickly now (first report to be sent in July).
- ❑ **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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FicheCSDR-ToKnowMore

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