

CSDR: Getting to grips with the new rules



European Central Securities
Depositories Association

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Agenda

1	<p>What we know:</p> <ul style="list-style-type: none">▪ Rules for CSDs▪ Rules for market participants▪ Impact on issuers & investors
2	<p>What we do NOT know:</p> <ul style="list-style-type: none">▪ Upcoming technical standards
3	<p>What's coming next</p>

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Rules for CSDs

- **Single authorisation and supervision process**
 - ✓ CSD licence subject to performance of 2 core services
 - ✓ List of authorised services specified in CSDR Annex
 - ✓ National regulator to cooperate with other relevant authorities
 - ✓ Annual supervisory assessments, onsite inspections
- **Prudential requirements**
 - ✓ Capital requirements: proportional to risk profile of the CSD, with minimum of 6 months operating expenses
 - ✓ Comprehensive risk management framework covering legal, operational, investment & overall business risk
 - ✓ Business continuity (IT tools, 2nd processing site...)
 - ✓ Recovery plan

Rules for CSDs (2)

- **Organisational requirements**

- ✓ Transparency of governance arrangements
- ✓ Stronger role for user committees (advising CSD Board)
- ✓ Min. 2 independent directors in the Board
- ✓ Recordkeeping rules (min. 10 years)
- ✓ Dedicated internal auditor, risk officer, compliance officer
- ✓ Restrictions on CSD participations in other legal entities

- **Transparency**

- ✓ Price transparency
- ✓ Fails reporting (to regulators, participants & general public)
- ✓ ESMA CSD register

Rules for CSDs (3)

- **Non-discriminatory access**
 - ✓ Vertical access to CCPs and trading venues
 - ✓ Horizontal access with 4 types of CSD links: standard, customised, interoperable, indirect (via custodian banks)
 - ✓ Fair & transparent criteria for participants & issuers

Rules on CSD 'banking services'

- **Commercial bank money settlement...**
 - ✓ is only allowed if CeBM is not *"practical and available"*
 - ✓ requires a special authorisation under CSDR art.54:
 - ➔ Either CSD itself obtains authorisation
 - ➔ Or it designates a separate settlement bank
- **In either case, strict prudential rules apply**
 - ✓ Full compliance with banking legislation + additional capital surcharge + extra rules on credit & liquidity risks
 - ✓ Limited banking services (Section C of Annex)
 - ✓ Recovery plan & disclosures on intra-day liquidity risk
- **Exception for low CoBM volumes (max. €2.5 bn/year)**

Rules for market participants

- **Move to a T+2 settlement cycle (art.5)**

- ✓ for all "*transferable securities*" executed on MiFID venues
- ✓ Exceptions: ➔ Privately negotiated
 - ➔ Executed bilaterally
 - ➔ Primary market

Already on T+2	As of 6 Oct. 2014	2015
BG, DE, SI	AT, BE, CH, CY, HR, CZ, DK, EE, ES (bonds), FR, GR, HU, IE, IS, IT, LT, LU, LV, MT, NL, NO, PL, PT, SE, SK, UK	Nov: ES (equities) BA, RS

Rules for market participants (2)

- **Same-day confirmation of trades (art. 6)**
 - ✓ Investment firms required to facilitate SDA by their clients
- **Strict rules to enforce settlement discipline (art.7)**
 - ✓ Mandatory buy-ins (incl. for non-CCP cleared transactions)
 - ✓ Daily penalties charged to CSD participants for failed instructions
- **Requirements for 'settlement internalisers' (art.9)**
 - ✓ Quarterly reports to ESMA on the value and volume of instructions settled in own books, outside a CSD

Rules for market participants (3)

- **New rules on account segregation (art. 38)**

- ✓ CSD participants must offer choice to their clients between omnibus a/c & individual segregation at CSD level
- ✓ Segregation to be offered on "*reasonable commercial terms*"
- ✓ Public disclosure of the costs & risks associated with each option (including legal implications in insolvency)
- ✓ Exception: direct holding markets where individual segregation is currently imposed by law for domestic investors (as long as the law is not amended)

 **Towards more or less segregation at CSD level?**

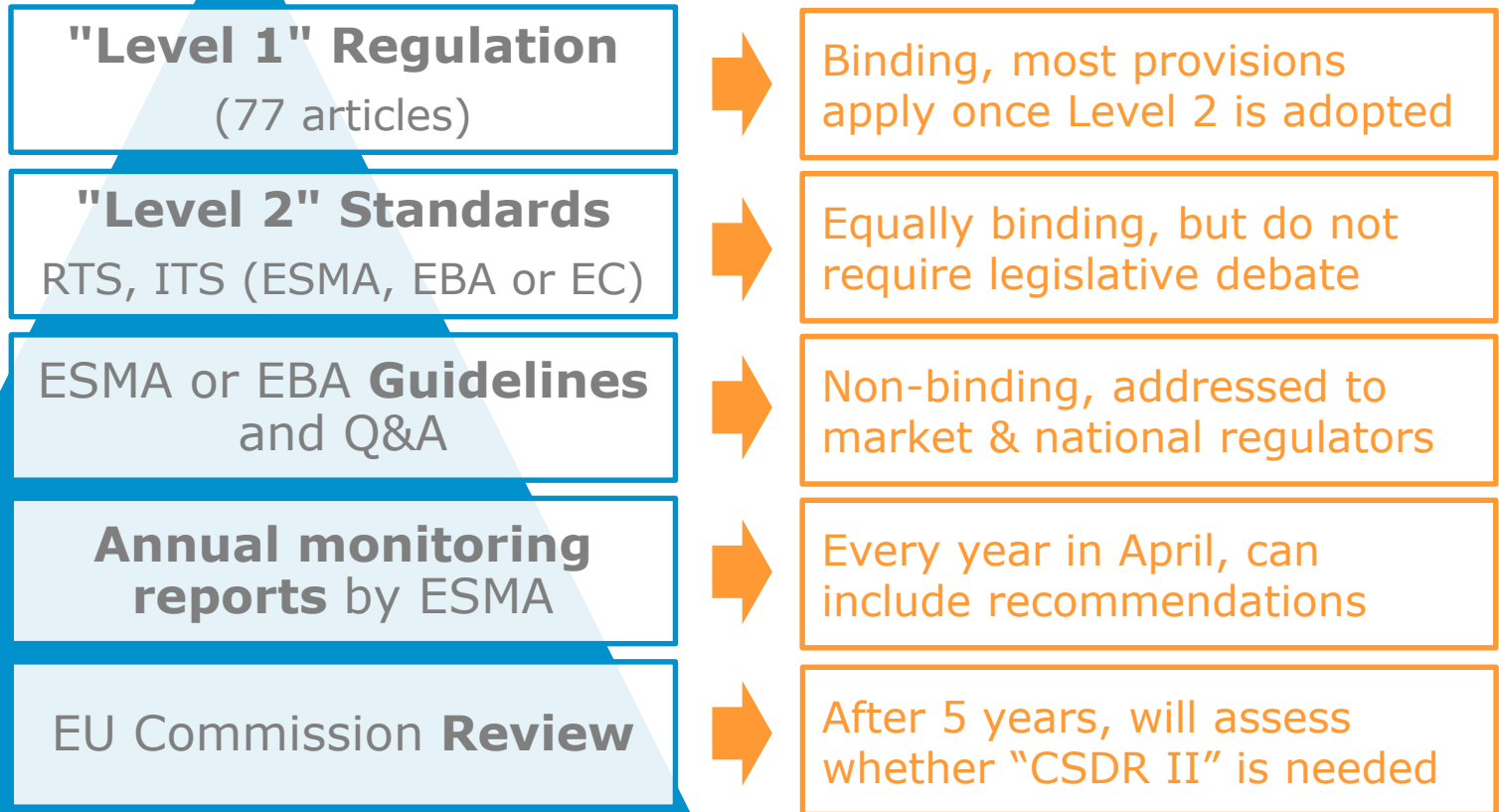
Impact on issuers & investors

- **The end of paper securities (art.3)**
 - ✓ Compulsory immobilisation/dematerialisation by 2025 (2023 for new securities)
- **Account segregation at CSD level (art.38)**
 - ✓ New principle of investor choice
 - ✓ Transparency on the costs & legal implications of omnibus a/c
- **Issuer choice of a CSD (art. 49)**
 - ✓ Main impact on equities

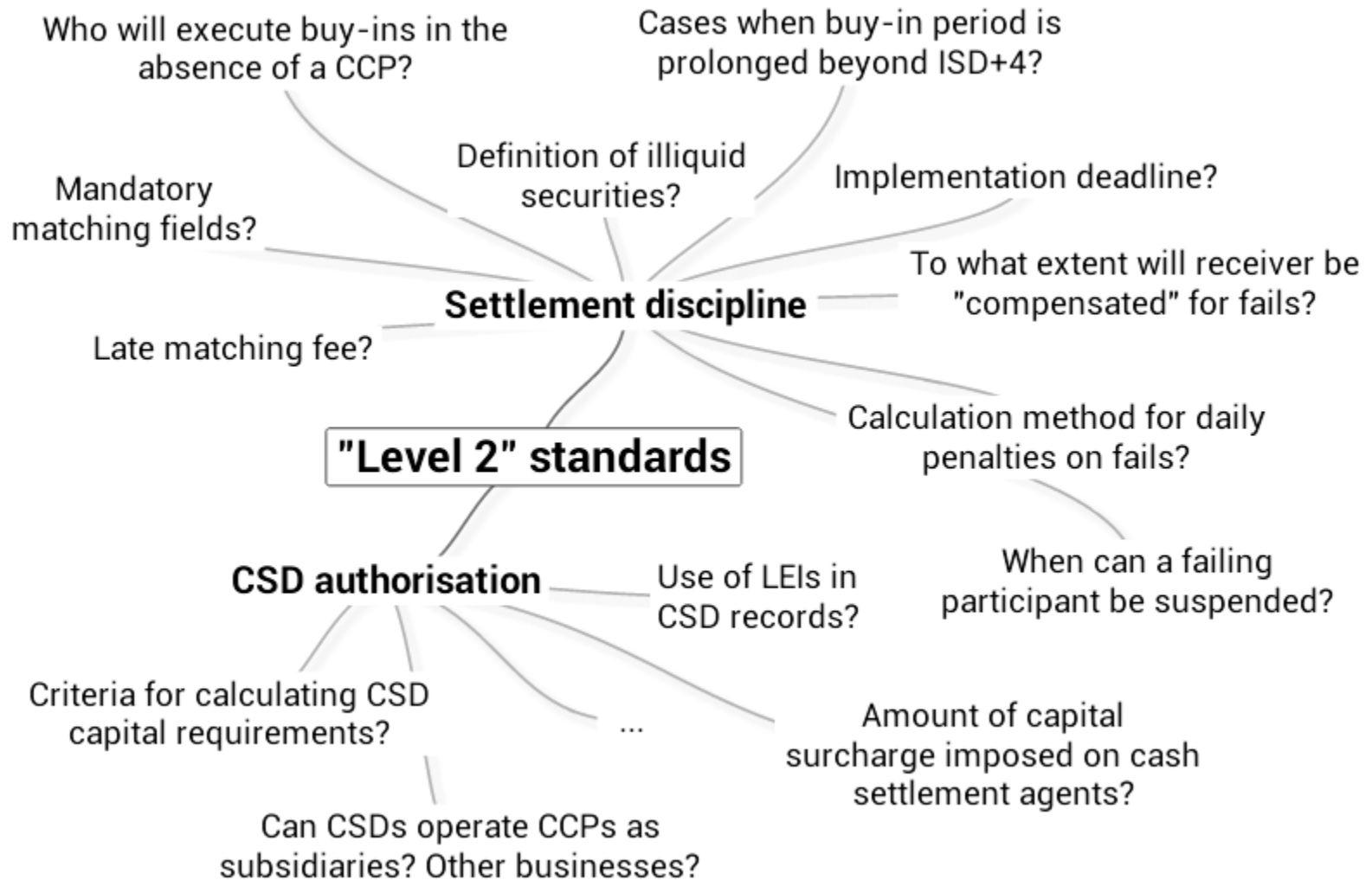
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A multi-layered framework



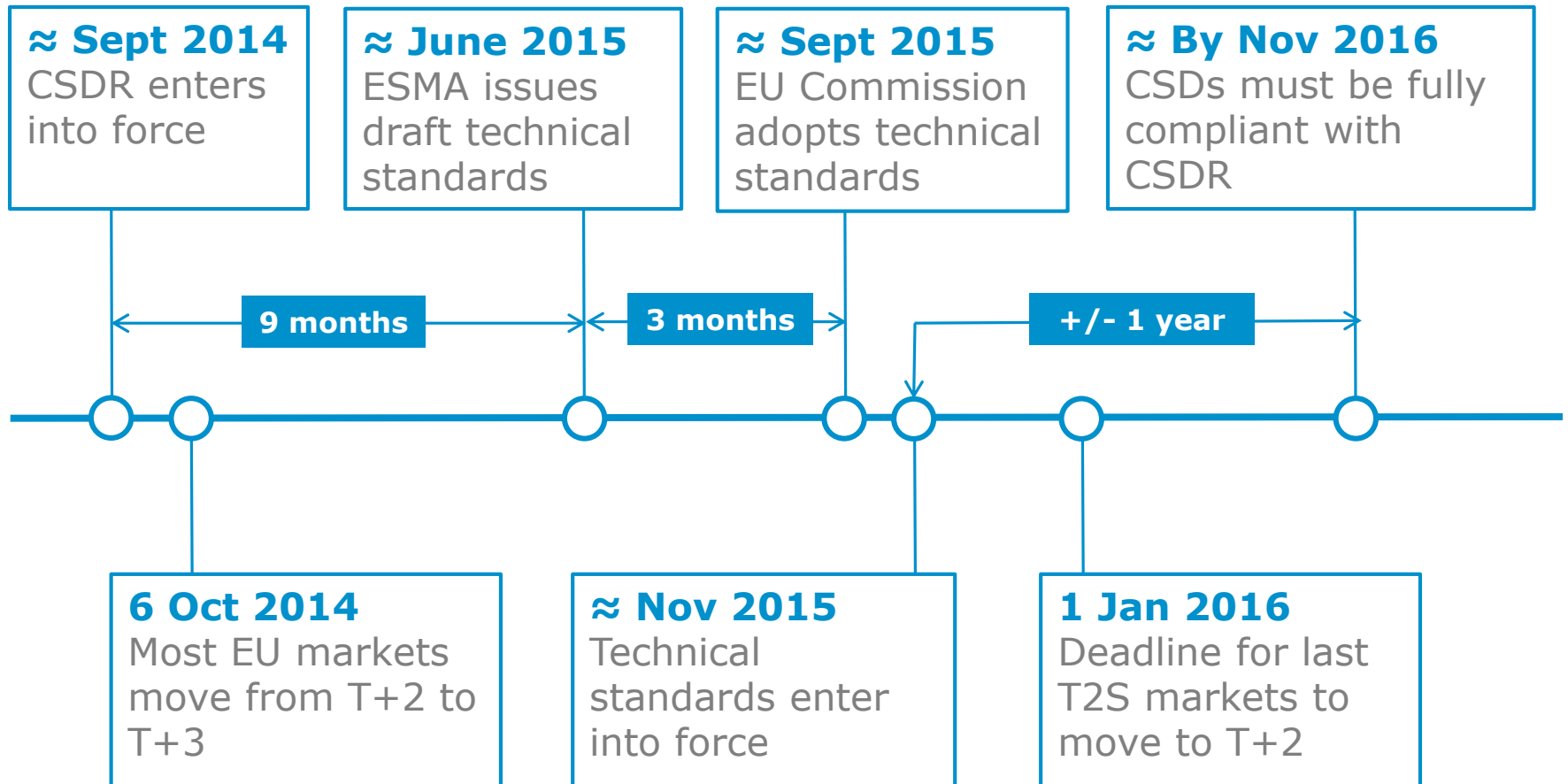
Open issues



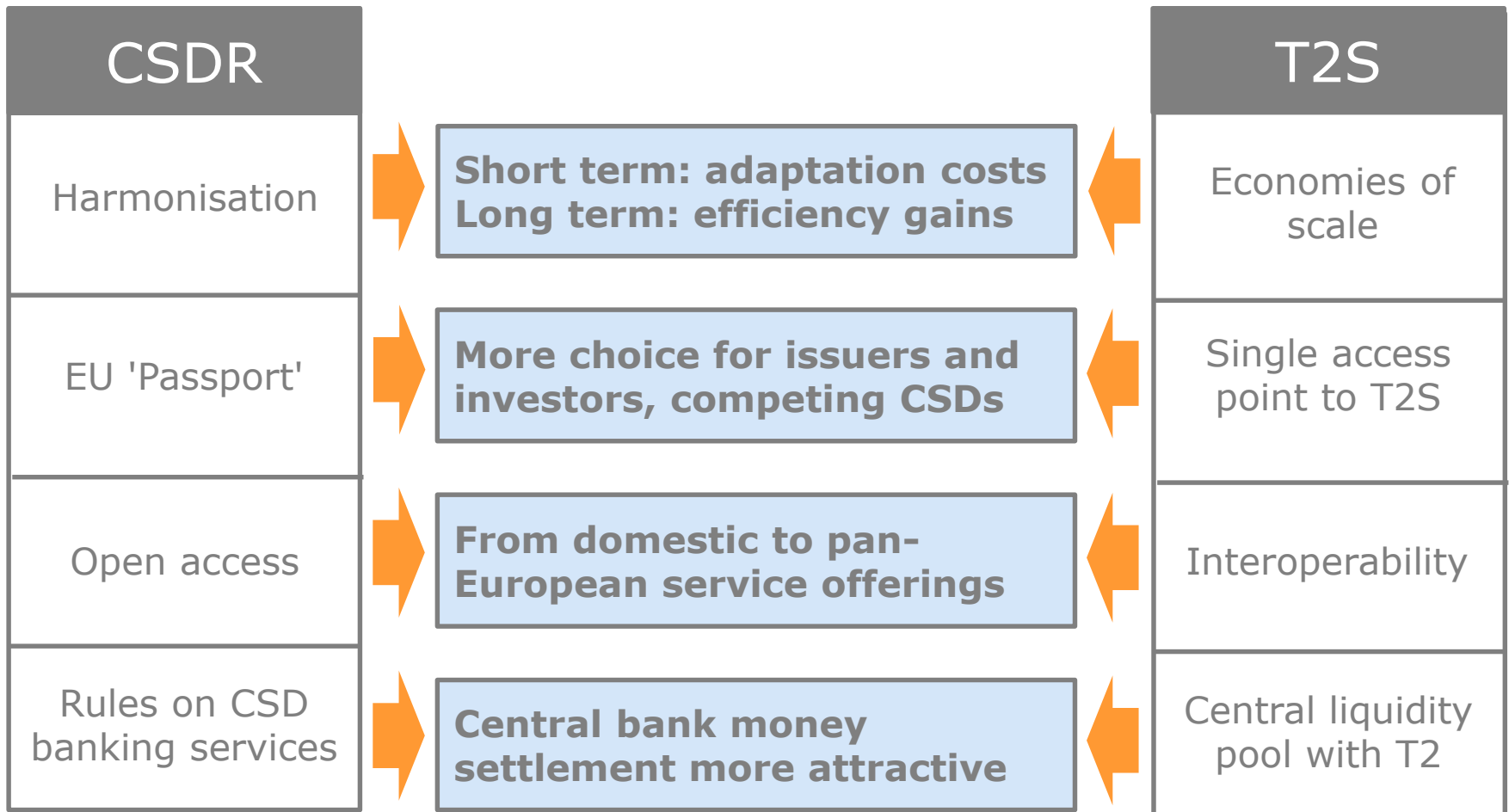
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CSDR indicative timeline



Combined impact with T2S



Conclusion

- **Many CSDR requirements will have a direct impact on market participants, not just CSDs.**
- **Timing is KEY**
 - ✓ Now is the time to assess compliance gaps
 - ✓ Implementation deadline for the new settlement discipline framework likely to be a major challenge
 - ✓ From 2017 onwards, those CSDs and market participants which made the right decisions and adaptations during the transition period will be in a better position to reap the combined benefits of CSDR & T2S.

Thank you



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