

CSDR: changes and challenges for the market



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Overview

1	Impact on CSDs
2	Main challenges for the market
3	Looking ahead

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Impact on CSDs

- **A set of harmonised rules for CSDs**

- ✓ Single process for CSD authorisation & supervision
- ✓ Harmonised governance and transparency provisions
- ✓ Common prudential & minimum capital requirements
- ✓ An EU “passport” for CSDs
- ✓ Non-discriminatory access

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T+2

- **CSDR requirement to move to T+2**
 - ✓ By 1 Jan 2015 at the latest (or 2016 by exception)
 - ✓ Applies to trades “executed on trading venues”
 - ✓ Technically not an issue for CSDs, CCPs or trading venues, but some concerns remain for buy-side
- **The industry is getting prepared:**
 - ✓ “Big bang” migration on **6 Oct. 2014**
 - ✓ T2S Best Practice Recommendations

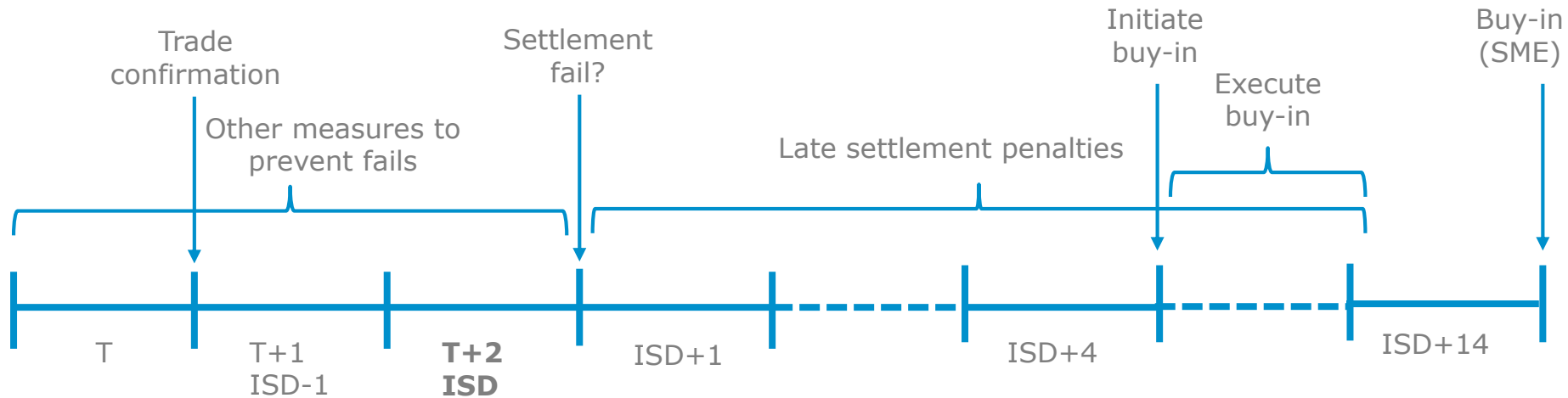
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Situation today

- **Already high settlement efficiency in Europe:**
 - ✓ Average settlement efficiency rate: 98.9% on ISD and 99.5% on ISD+1 (value terms) (ECSDA report 09/2012)
 - ✓ But some differences across markets
- **Current settlement discipline regimes**
 - ✓ Not all CSDs charge late settlement penalties (12 out of 20)
 - ✓ If they do, mostly flat fees, but regimes differ substantially
 - ✓ Some exemptions, performance thresholds
 - ✓ CSDs generally not involved in buy-ins

CSDR settlement discipline: overview



▪ CSDR covers different stages of the trade life cycle

- ✓ Trade confirmation
- ✓ Other measures to prevent fails (matching etc.)
- ✓ Late settlement penalties
- ✓ Buy-ins

Preventing settlement fails

- **Trade confirmation**

- ✓ Trading venues to establish procedures for same day trade confirmation
- ✓ Investment firms to take measures to limit settlement fails

- **CSD measures to facilitate timely settlement**

- ✓ CSDs to promote automation and STP
- ✓ Compulsory & continuous matching

Addressing settlement fails

- **Late settlement penalties and mandatory buy-ins**
- **A framework for fails monitoring & reporting**
 - ✓ Harmonised template and methodology for reporting...
 - ✓ ... to authorities, participants and public disclosure
- **Suspension of systematically failing participants**

Late settlement penalties

- **What the CSDR says:**

- ✓ Every CSD to put in place a deterrent penalty mechanism for settlement fails, including cash penalties
- ✓ Daily, ad valorem penalties
- ✓ Applies to all financial instruments admitted to trading, traded on a trading venue or CCP-cleared
- ✓ But shall take into account asset type, liquidity and type of transaction
- ✓ CCPs exempt from settlement discipline measures

Late settlement penalties

- **Many open questions remain, including:**
 - ✓ What is the main objective of the penalty regime?
 - ✓ What is the appropriate rate? A single rate for all fails?
 - ✓ How to use the penalty monies?
 - ✓ What about exemptions, e.g. for illiquid securities?
 - ✓ How and whom to charge in a transaction chain?
 - ✓ How to accommodate the CCP exemption?

Key concerns

- **Too much complexity**

- ✓ Mechanism needs to be appropriate for all markets
- ✓ Avoid too many exemptions and complications

- **Timing of implementation**

- ✓ Given the diversity of current regimes, substantial adaptations required
- ✓ When is full compliance expected?
- ✓ Crucially depends on the features of the regime

Buy-ins

- **CSDR requires:**

- ✓ Mandatory buy-ins after ISD+4 (ISD+15 for SME)
- ✓ For CCP-cleared transactions, buy-in executed by CCP
- ✓ Otherwise obligation for trading venue or CSD to have buy-in obligation in internal rules
- ✓ If buy-in fails, cash compensation or deferral

- **Important concerns over scope and timing**

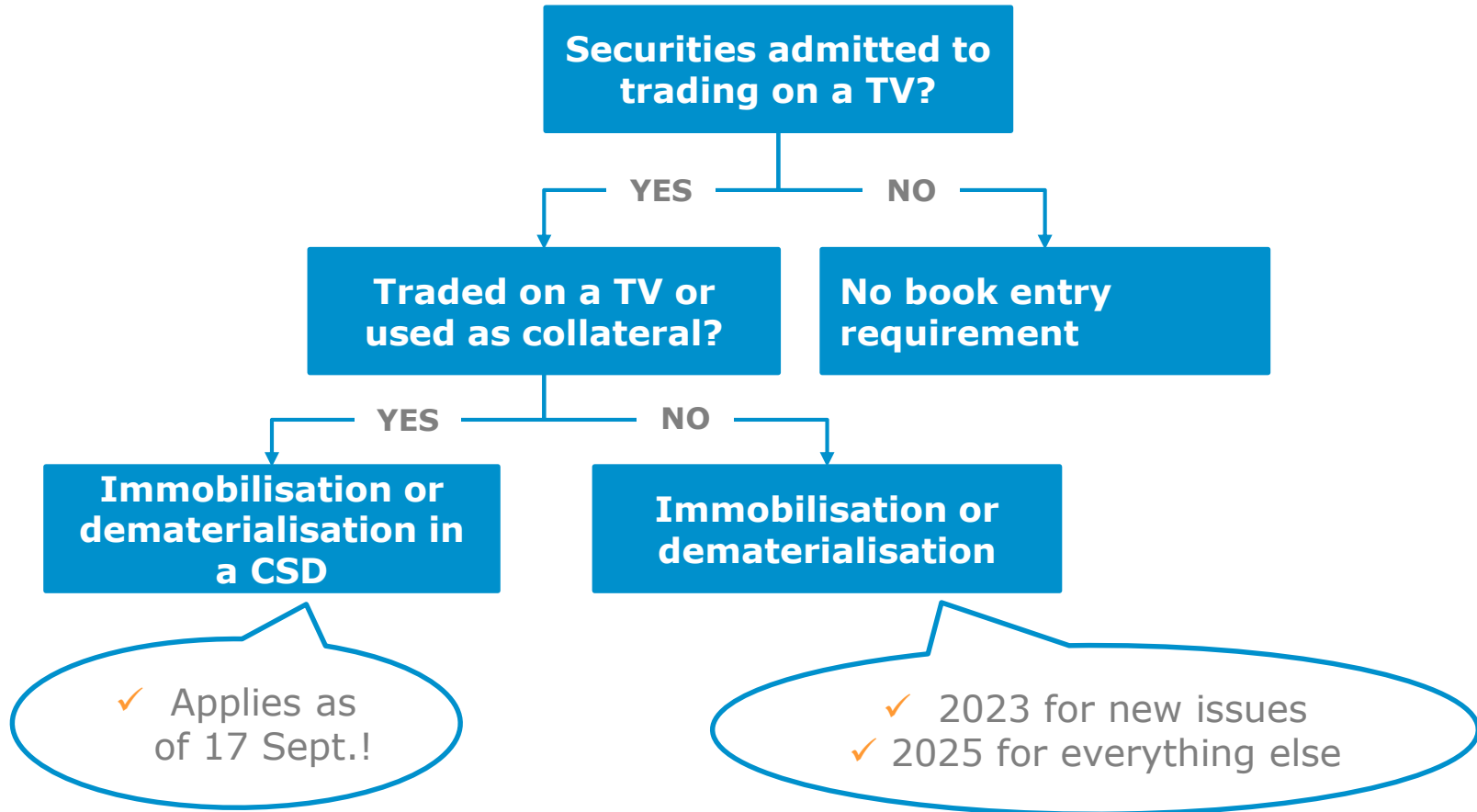
- ✓ Potential adverse impact on market liquidity
- ✓ What about non-CCP scenarios?

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Book Entry Requirement

- The end of paper securities...



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Protection of client securities

- **New rules on account segregation**

- ✓ CSD participants must offer a choice to their clients between omnibus & individual client 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)



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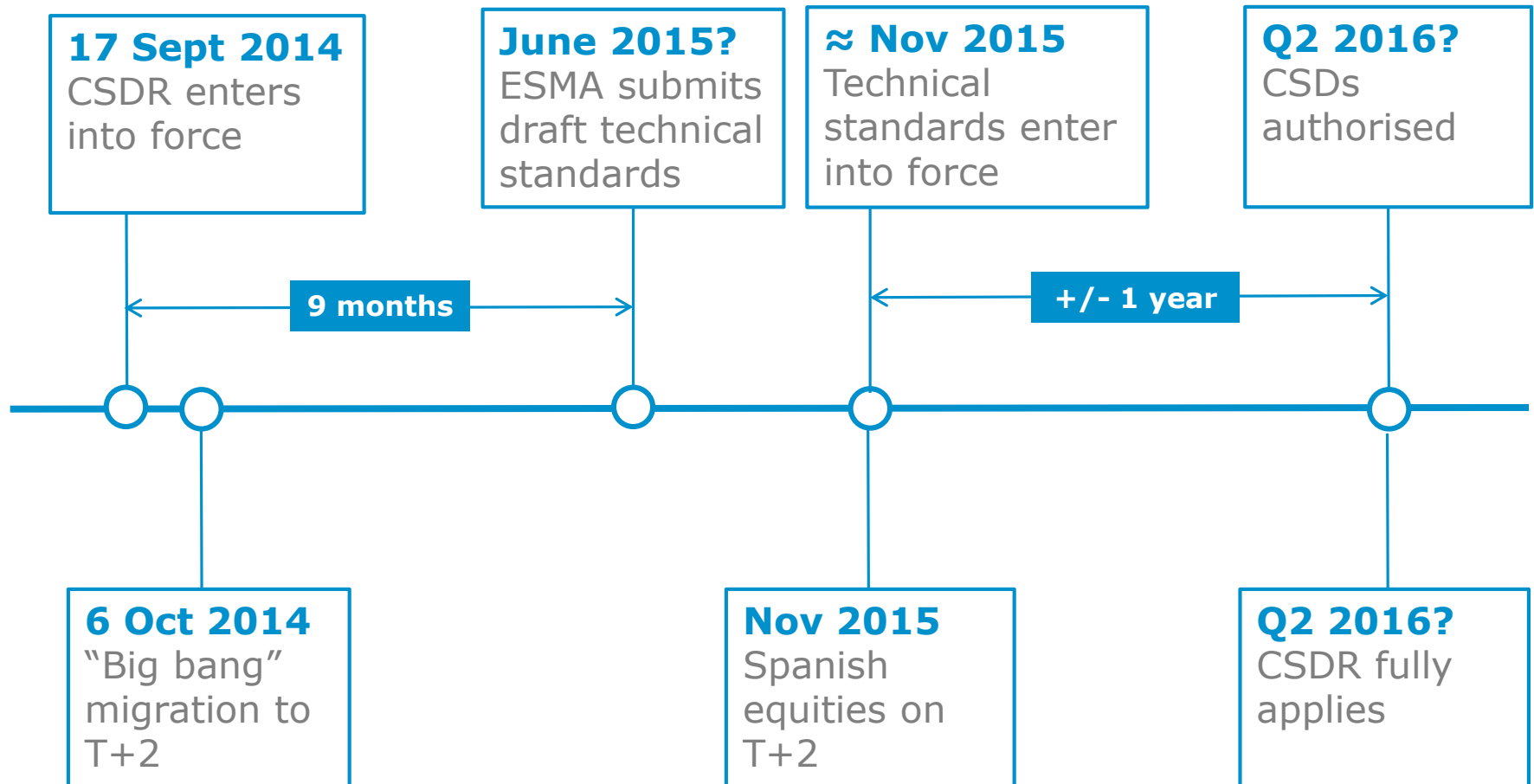
"Banking" services

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

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CSDR indicative timeline



Conclusions

- **CSDR not only relevant for CSDs**
 - ✓ Provisions with direct impact on market participants
 - ✓ Now is the time to prepare compliance!
- **Many important issues still to be addressed**
 - ✓ Implementation timing one of the key challenges
- **Market impact of the new rules**

Thank you!



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