

CSDR: What should we prepare for?



European Central Securities
Depositories Association

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NeMa conference

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Secretary General

CSDR is now law...



... but CSDs are unlikely to be authorised before late 2016

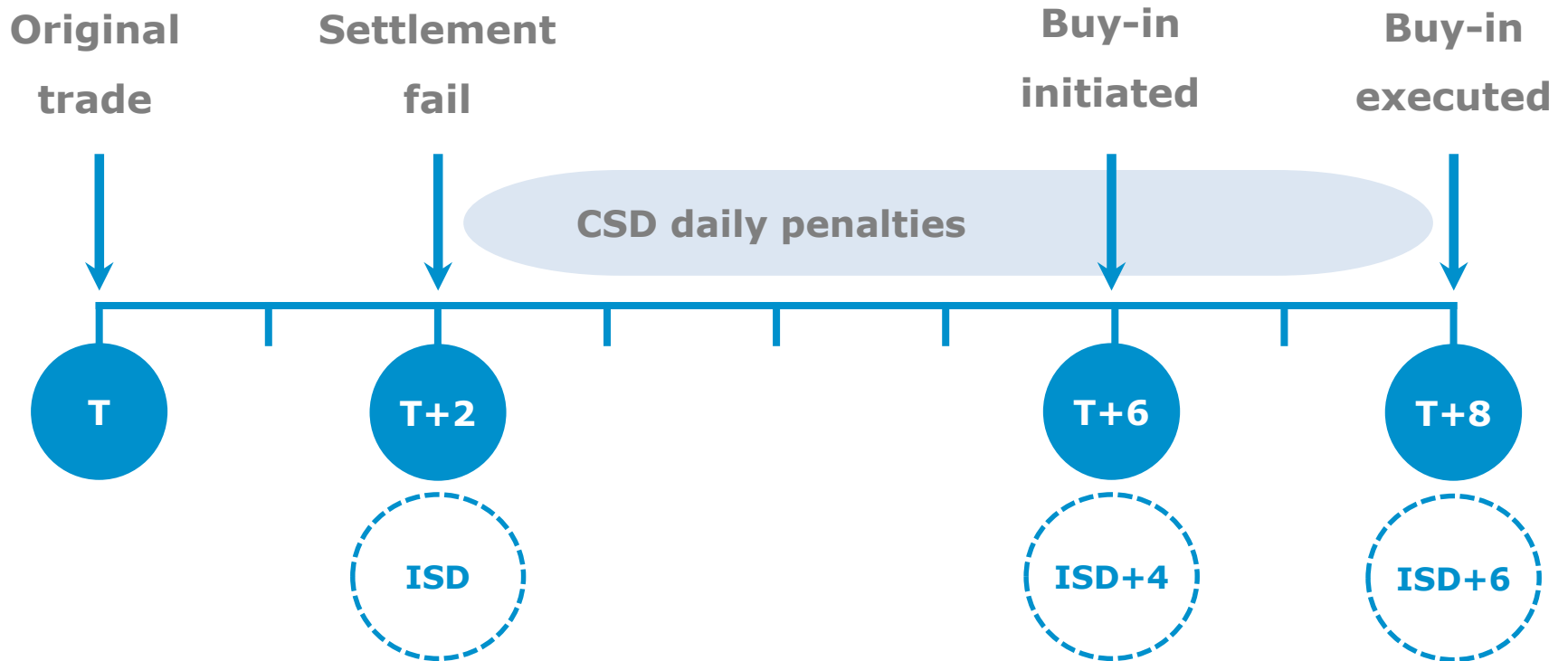
"Level 2" legislation delayed



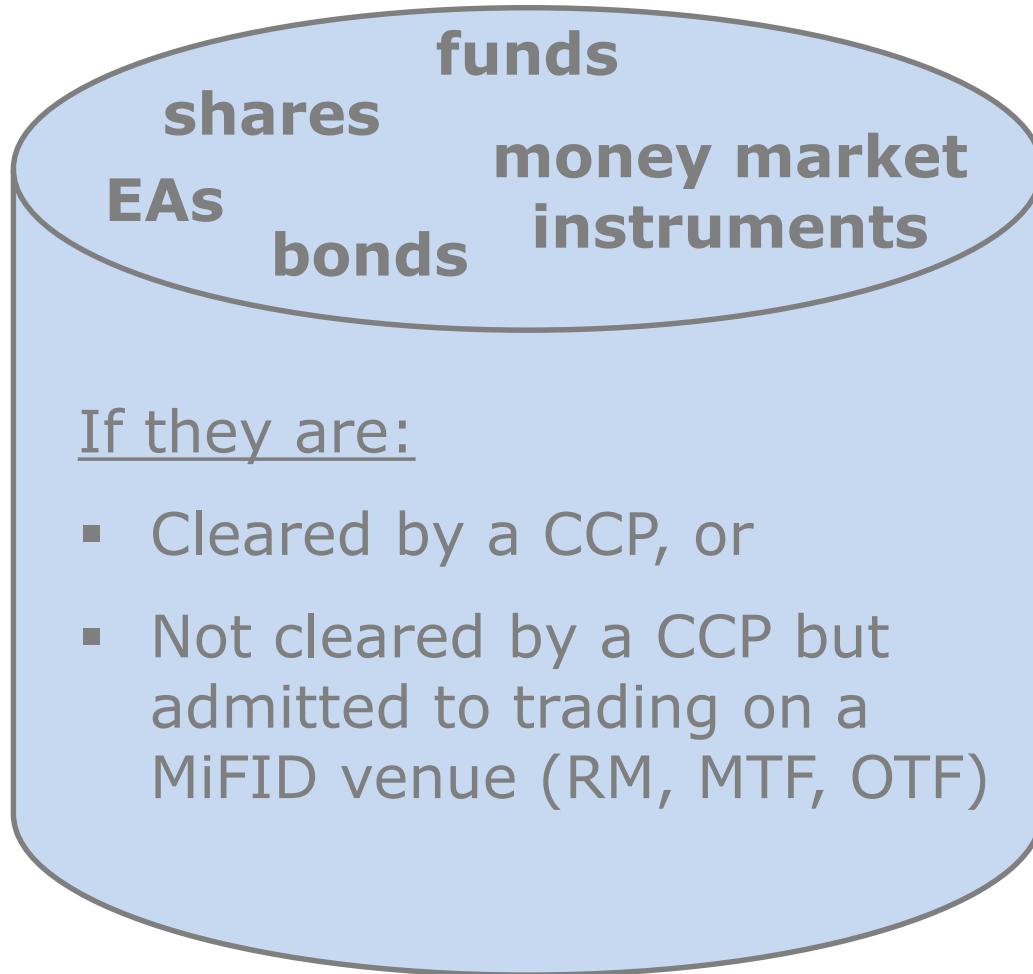
What should we prepare for?

1	Strict settlement discipline
2	New constraints for CSD services
3	Convergent segregation practices?
4	Detailed regulatory reporting

Fails: Penalties & buy-ins



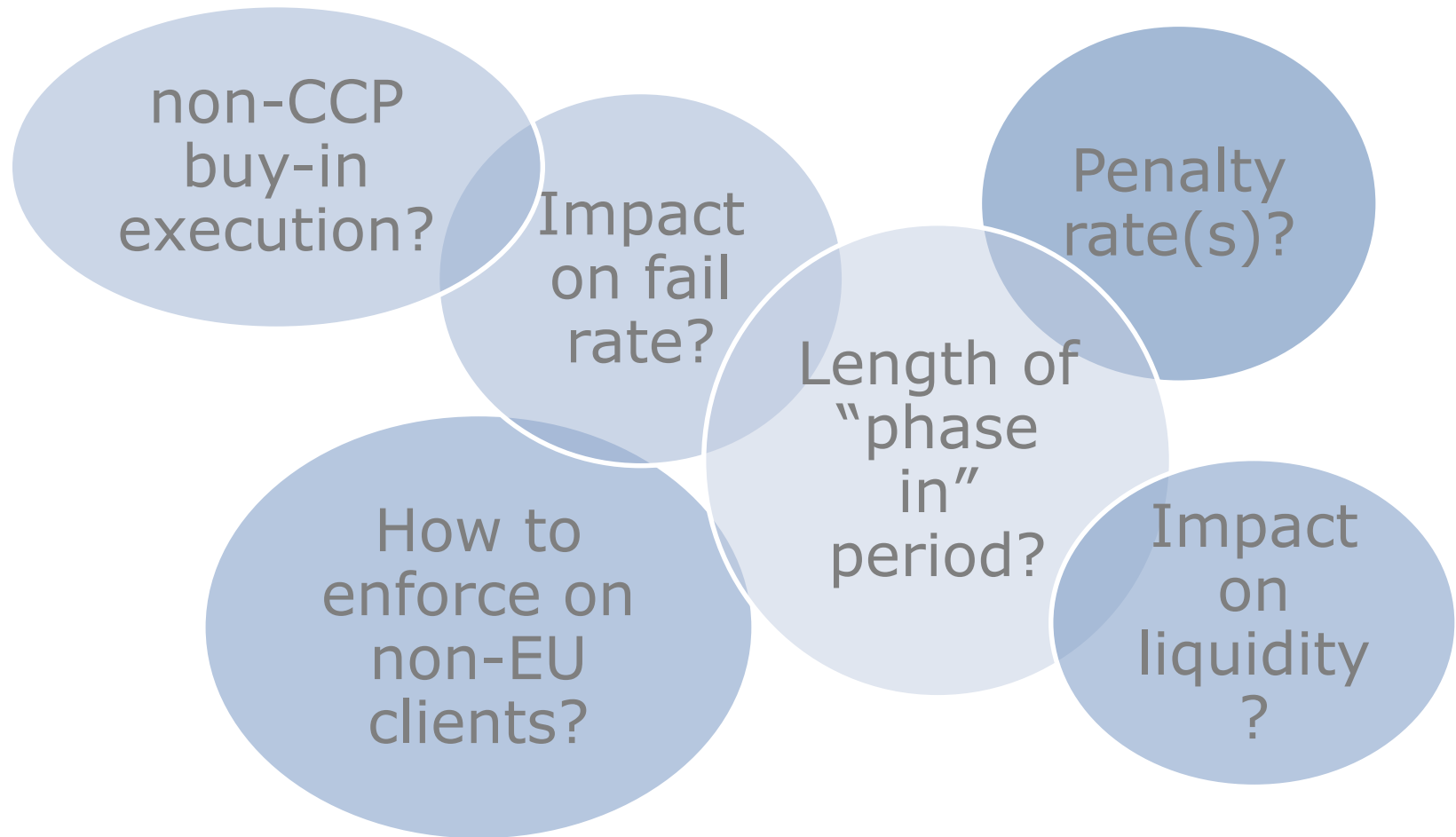
Instruments in scope



Out of scope:

- “Pure OTC” i.e. instruments not admitted to trading & not CCP-cleared
- Shares principally traded outside EU
- **Only for buy-ins:** short-term repos

Lots of issues still unanswered



Expected market impact

- **CSDs will need to...**

- ✓ ... source reference prices & adapt their system to be able to charge late settlement **penalties** to participants
- ✓ ... establish totally new information flows with participants and trading level to collect **buy-in** data

- **Market participants will need to...**

- ✓ ... establish a mechanism to pass on **penalties** to clients
- ✓ ... ensure they provide the necessary details in settlement instructions to benefit from **buy-in** exemption, where applicable

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Being authorised as CSD

- **Main conditions for authorisation**

- ✓ 2 out of 3 core services

securities settlement system

+ notary service and/or central maintenance

- ✓ minimum capital, governance requirements, recovery plan etc.

- **CSDs to compete within single market**

- ✓ Possibility for CSDs to set up EU branches

- ✓ ESMA recognition for third country CSDs

- ✓ Issuers can deposit (domestic) securities with (foreign) CSD of their choice

Cash settlement: scenarios

CSD only offers central bank money settlement

CSD uses external bank as cash settlement agent for <1% of DvP & <€2.5 bn

CSD uses external bank as cash settlement agent for higher values

CSD offers cash accounts itself

Standard CSD licence sufficient

Additional CSDR 'special banking licence' required

CSDR special 'banking' license

- 1 Authorised credit institution under the CRD
- 2 Only allowed provide CSD-related banking services
- 3 Full coverage of all credit risk exposures
- 4 Strict intraday liquidity monitoring & disclosure
- 5 Additional capital surcharge (to cover intraday risk)
- 6 Adequate recovery plan

Expected market impact

- **CSDs will need to...**

- ✓ ... upgrade their systems and procedures in several areas: the new prudential rules “raise the bar”, beyond the PFMI
- ✓ ... prepare for more competition: shifting from a domestic to a regional or pan-European focus (e.g. branches)

Consolidation?

New entrants?

- **Market participants...**

- ✓ ... should benefit from more choice & transparency of CSD services
- ✓ ... will be incentivised to use central bank money whenever possible and might face CSD restrictions on CoBM settlement

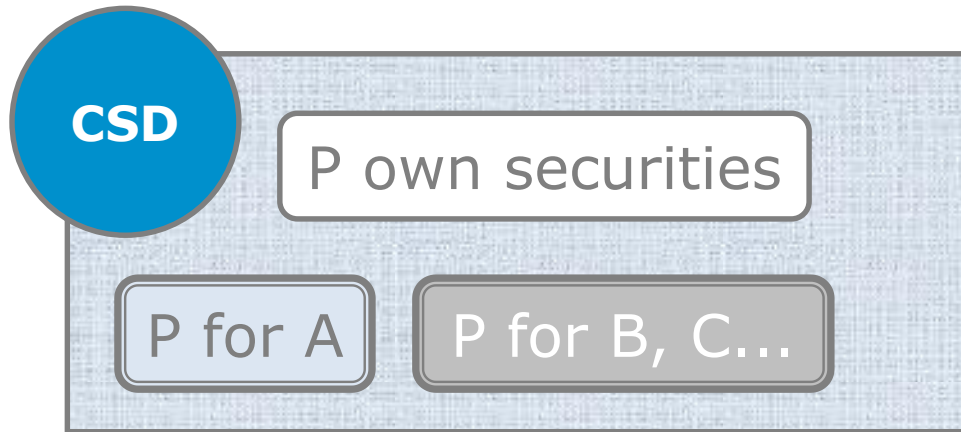
How many 'bank' CSDs?

Is there business case for DCI?

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Account segregation options

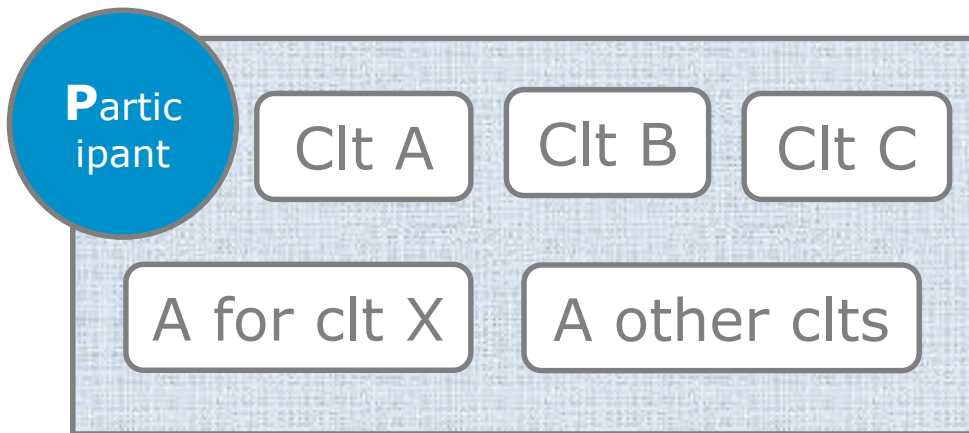


P can choose

individual clt seg.

or omnibus clt seg.

at CSD level



P must inform A, B, C... of risks & costs of segregation options at CSD

Expected market impact

- **CSDs are largely compliant but...**

- ✓ ... compulsory direct holding model is discouraged in long term
- ✓ ... in omnibus markets, CSDs will probably have to collect information allowing them to distinguish which accounts are "omnibus" and which accounts are "segregated"

More or less segregation?

Convergence?

- **Market participants, including non-EU entities, will...**

- ✓ ... have to update their client documentation to describe costs & risks of segregation options
- ✓ ... need to comply as soon as the CSD(s) is(are) authorised

Tacit or explicit choice?

Enforcement?

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Regulatory reporting

- **CSD record-keeping requirements...**

- ✓ ... might indirectly require issuers and some clients of CSD participants to obtain a Legal Entity Identifier
- ✓ ... will allow regulators to check that participants comply with settlement discipline

Who will need an LEI?

By when?

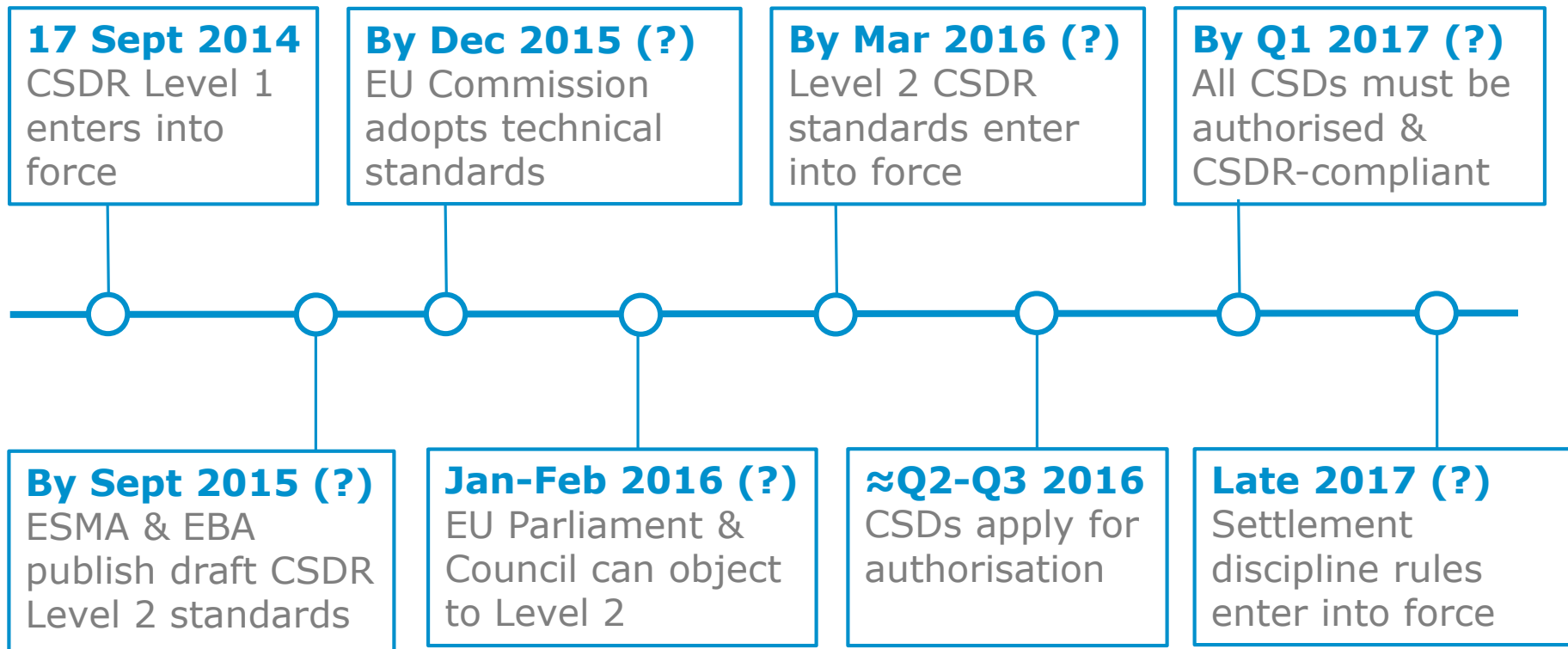
- **Market participants “internalising” settlement...**

- ✓ ... will have to produce detailed quarterly reports on value & volume
- ✓ ... will be subject to annual aggregate analysis by ESMA

Transition period?

How many SIs?

CSDR: Next steps



Thank you



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