



CENTRAL SECURITIES DEPOSITORIES REGULATION (CSDR)

Transparency of Securities Financing Market

Aurexia



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Background

Why CSDR ?

- A Central Securities Depository (CSD) is a post-trade infrastructure which provides a central point for depositing financial instruments, e.g. shares and bonds. CSDs enable securities transactions to be processed and settled by book entry and they provide custodial services.
- Given the fact that trading facilities and central counterparties (CCPs) are already regulated under MiFID, MiFIR under EMIR, respectively – the European Commission prepared a regulatory framework for CSDs – the CSDR.
- The European Commission is overseeing CSDR with the Technical Standards (ITS & RTS) being defined by the European Securities and Markets Authority (ESMA) in cooperation with the European System of Central Banks (ESCB).

1 Key Objectives

- **Harmonisation of both the timing and conduct of securities settlement** in Europe and the rules governing Central Securities Depositories (CSDs) which operate the infrastructures enabling settlement
- **Requirement for complete settlement** for all on-exchange trades 2 days following transaction date (T+2) with no distinction between national & cross-border securities transactions
- **Creation** for the first time at European level of a **common authorisation, supervision and regulatory framework** for CSDs

2 Impacts

- **Cash penalty on failed settlement:** CSD will levy a daily cash penalty, on banks & financial institutions that use their services, for each settlement instruction that fails to settle by the intended settlement date
- **Mandatory buy-in for delivery failure** for any financial instrument within a set period of the settlement date. The buy-in is executed by the participants (by the CCP for CCP-cleared transactions, or executed at the trading level with the trading party for non CCP-cleared transactions)
- **Daily reconciliation to be completed** to verify records with participants, & provide to participants
- **Securities segregation** between participants, and their clients
- CSDs' participants to offer their clients the choice **between omnibus segregation and individual client segregation**
- Settlement agents, intermediaries & custodians will be required to **report aggregated volume & value of all security transactions settled outside of a CSD**



Products in Scope

Central
Securities
Depositories
Regulation
(CSDR)**1** Instruments in Scope

Regulators have provided in-scope products at a high level & the Association for Financial Markets in Europe (AFME) is providing a best practice guide of products. MiFID refers to the notion of “transferable securities” as classes of securities which are negotiable on the capital market (except instruments of payment), such as:

- Shares, securities to shares in companies/partnerships or entities/depository receipts in respect of shares.
- Bonds or other forms of securitised debt, including depository receipts in respect of such securities.
- Securities giving the right to acquire or sell any such transferable securities or giving rise to a cash settlement determined by reference to transferable securities, currencies, interest rates, yields, commodities or other indices or measures.
- Cash Equities, Fixed Income, Exchange Traded Futures, Warrants, Securities settlement stemming from derivatives contract

2 Buy-ins & Conversion

Recommendations from the European Banking Federation (EBF), European Central Securities Depositories Association (ESDA), and other industry associations, that the timing for the introduction or changes to buy-ins & penalties should be phased in. Euroclear Bank are reviewing the recall period relating to the stock loan/borrow process, in line with changes in the settlement cycle to T+2.

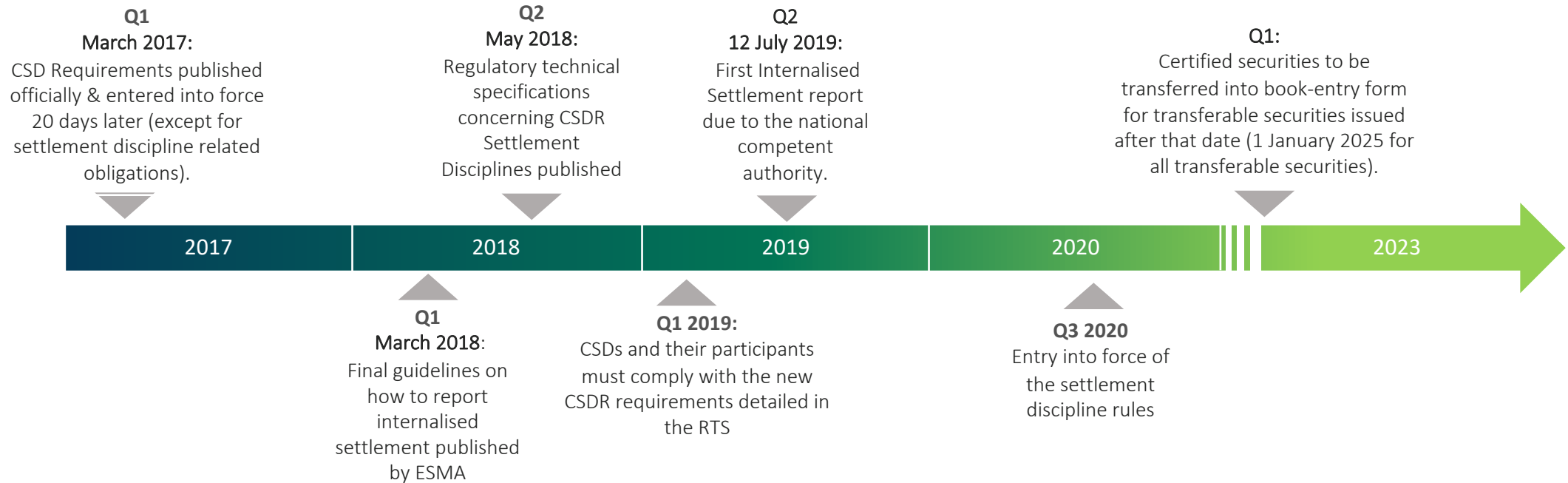
- Fixed Income
- Equities

3 Not in Scope

Both registrars & transfer agents are necessarily excluded from being a CSD, as are settlement internalisers and account operators. All settlements by settlement internalisers have to be reported to the local regulator and then onwards to the European Securities and Markets Authority (ESMA)

- Primary issuance, Initial Public Offerings (IPOs) and grey market transactions
- Undertaking for Collective Investment in Transferable Securities (UCITS).
- Money Market Instruments (MMI).

A phased-in approach



Status

The technical standards for CSD requirements were published in the Official Journal of the EU on 10th March 2017, coming into effect on 30th March 2017. The European Commission is still reviewing technical standards for settlement discipline following the final report published on 1st February 2016.

As firms prepare for that future, we believe SFTR and CSDR projects should be closely aligned to maximise cross-programme efficiencies. Proposed introduction of two new regulations, SFTR and CSDR, ESMA are demonstrating their desire to increase oversight over SFTs (Securities Financing Transactions) and putting huge emphasis on improving settlement efficiency and reducing fails.

SIMILARITIES

- Reporting to an ESMA approved Trade Repository
- Go-live dates for both likely to converge in September 2020
- Both are governed by the same European body.
- Dual sided report
- Common data elements with SFTR, like the LEI, UTI etc.
- Both require significant change to legacy systems, components and data stores.
- Delegated reporting possible (to the counterparty or a third party)

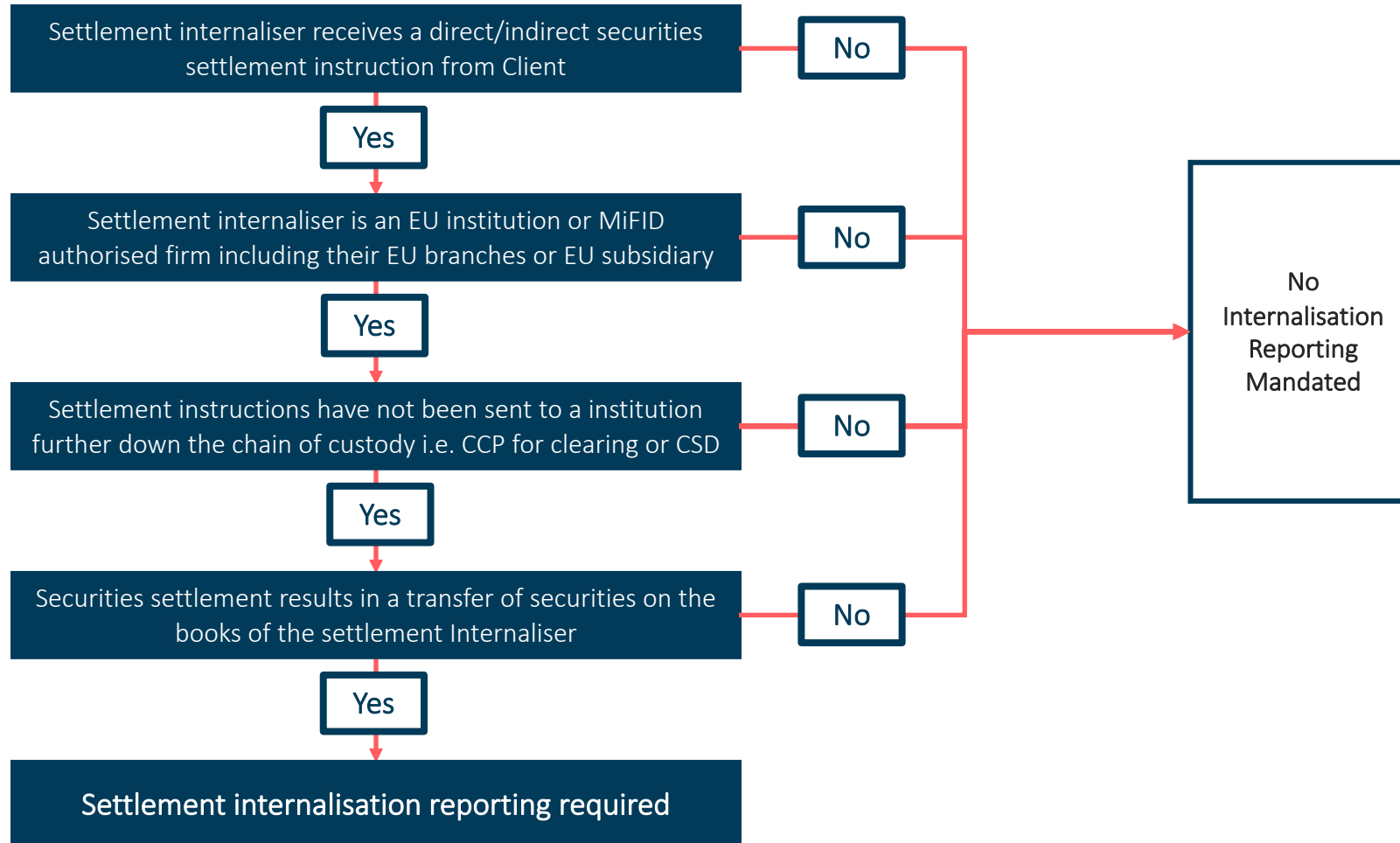
DIFFERENCES

- Reporting obligations for EU branches of non EU entities
- Phased-in approach depending on institution type
- Reporting of collateral re-use
- SFTR data requirements are numerous and have far reaching scope (across 153 reportable fields)
- Reporting technical format (ISO20022 format)
- Firms will need to be able to identify the different reporting requirements across Repo, buy / sell back and stock lending products

Internalised Settlement Reporting

Settlement Internalisation Process Flow

Internalisers are to report, to the competent authorities of its place of establishment, on a quarterly basis, the aggregated volume and value of all securities transactions that it settles outside securities settlement system.





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