Clearstream Spotlight

The Central Securities Depositories Regulation

Adopted in the aftermath of the financial crisis, the European Central Securities Depositories Regulation (CSDR) aims to increase the operational efficiency of Central Securities Depositories (CSDs) and to help CSDs keep assets as safe and secure as possible.

Directly impacting CSD customers

In addition to European CSDs themselves, whose CSDR obligations include a new licence to operate, CSD customers will be directly impacted by the CSDR – for example, by a new settlement discipline regime, which introduces mandatory buy-ins and cash penalties for settlement failures.

New settlement discipline regime

As part of the new settlement discipline regime, mandatory buy-ins and cash penalties will apply when settlement fails. Banks and other financial institutions using CSD services will be subject to cash penalties applied by the CSD for each settlement instruction that fails to settle by the intended settlement date.

A mandatory buy-in process will be introduced for all financial instruments not delivered within a set period following the intended settlement date. Central counterparties or trading parties will take responsibility for the buy-ins by initiating a buy-in auction or appointing a buy-in agent.

Wider CSD customer requirements

Other CSDR provisions directly impacting CSD customers relate to account segregation rules, daily reconciliation processes, book-entry form of securities and the use of Legal Entity Identifier (LEI) codes to identify their legal entities, among other provisions.

Implementation timeline

Entry into force of the settlement discipline requirements is expected 24 months after the Commission adopts its regulatory technical standards, however all other CSDR requirements have to be complied with by the time the CSDs receive their authorisation licence under the new regime. Based on current timelines, we expect that CSDs and CSD customers will need to comply with the new CSDR requirements by mid-May 2018, followed by those relating to the settlement discipline regime during the course of 2019.

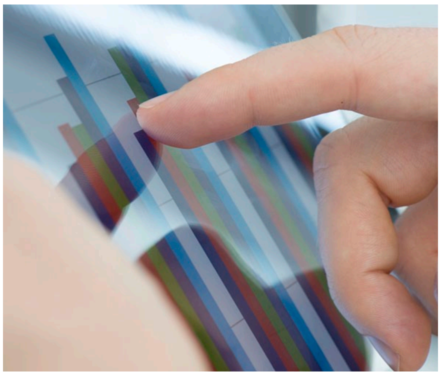
Meanwhile, EU Member State CSDs have six months, starting from 31 March 2017 (following the publication of CSDR Level 2 legal acts in the Official Journal of the European Union on 10 March 2017), to submit their CSDR application files with their respective National Competent Authorities. The National Competent Authorities then have 30 working days to declare the files complete, with authorisation expected six months thereafter.

Increasing operational efficiency and asset protection

The CSDR sets out performance and operational criteria all CSDs must fulfil to obtain a new operating licence, designed to help increase operational efficiency and asset protection. The criteria include enhanced governance, price transparency and more stringent prudential requirements.

To help CSDs keep customers' assets as safe as possible and to mitigate risks in the capital markets, customer on-boarding and risk management protocols are under the CSDR spotlight. Clearstream already has a strict Know Your Customer (KYC) policy in place and applies the most advanced operational risk management method set out in the Basel II banking recommendations – the Advanced Measurement Approach (AMA), which is approved by our local regulators.

We are reviewing all relevant policies and practices to help us comply with the new requirements under the CSDR.



More information

For more information on the CSDR, please consult our CSDR webpages (http://bit.ly/ClearstreamCSDR) or contact your Relationship Manager.

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