

Central Securities Depositories Regulation (CSDR)

EU Regulation on Settlement and CSDs

Introduction

The Central Securities Depositories Regulation (CSDR) is intended to increase the safety and efficiency of securities settlement, and of securities settlement infrastructures, in the European Union. It is also intended to create a competitive, level playing field between European Central Securities Depositories.

The regulation entered into force on 17 September 2014.

Overview

The Central Securities Depositories Regulation (CSDR) aims to harmonise timing and standards of conduct in the European securities settlement industry. The Regulation mandates the use of CSDs for securities issuance and for the settlement of securities transactions that have been executed on recognised trading venues. The Regulation requires that CSDs be authorised to provide services, and sets out high prudential and conduct of business requirements for CSDs. It also sets out rules aimed at reducing settlement failure rates, and improving settlement discipline.

Together with the Regulation on OTC derivatives, central counterparties and trade repositories (European Market Infrastructure Regulation or EMIR), and the Markets in Financial Instruments Directive (MIFID), CSDR provides a framework in which securities infrastructures (trading venues, central counterparties, and central securities depositories) are subject to common rules on a European level.

Key Milestones

2015	2016	2017	2018	2019 and Beyond
<p>28 September Submission by ESMA of draft Regulatory Technical Standards (RTS) and Implementing Technical Standards (ITS)</p>	<p>1 February Submission by ESMA of draft RTS on settlement discipline</p>	<p>30 September CSDs have to apply to their National Competent Authorities to become an Authorised CSD</p>	<p>13 September Publication in Official Journal of Settlement Discipline RTS</p> <p>28 March ESMA Final Guidance on Internalised Settlement</p>	<p>12 July 2019 Implementation of rules on reporting of internalised settlement - two years after publication in the Official Journal</p>
	<p>11 March Publication of CSD Authorisation RTS/ITS Publication of Internalised Settlement RTS/ITS</p>		<p>30 March Implementation date - CSDs are expected to be authorised by their National Competent Authorities</p>	<p>13 September 2020 Implementation of Settlement Discipline rules - two years after publication in the Official Journal</p> <p>2023/2025 De-materialisation of securities</p>



What are the changes being introduced?

CSDR is made up of six main sections, comprising 76 articles:

Main Sections	Description
1. Subject matter, scope and definitions	Sets out the subject matter and scope of the Regulation, and defines key terms, such as the term “central securities depository”
2. Securities settlement	Sets out rules on securities settlement: <ul style="list-style-type: none"> • Dematerialisation and immobilisation of securities issues • Settlement periods (with a maximum settlement cycle of T+2) • Settlement discipline measures including fines for late settlement, and mandatory buy-ins • Obligations for the reporting by intermediaries of internalised settlement
3. Central securities depositories	Sets out rules for: <ul style="list-style-type: none"> • The authorisation and supervision of CSDs • The organisation and conduct of business of CSDs • CSD services • CSD prudential requirements • CSD links • Rights of access to CSDs (for issuers, and for other CSDs) • Rights of access between CSDs and other market infrastructures (CCPs and trading venues)
4. Provision of banking-type ancillary services for CSD participants	Sets out rules for: <ul style="list-style-type: none"> • The authorisation to provide banking-type ancillary services • The prudential requirements for the provision of such services • The supervision of entities (banks and CSDs) providing such services
5. Sanctions	Defines the processes with respect to infringements of the CSDR rules
6. Delegation of power, implementing powers, transitional, amending and final provisions	Confers powers on the European Commission to adopt delegated acts, amends relevant sections in other pieces of European legislation, and sets out transitional arrangements for the implementation of CSDR rules

How does this impact BNY Mellon products and services?

BNY Mellon is assessing the impact CSDR may have across our products and services in order to identify any changes that will be needed; we shall advise such changes in due course. Here is a list of impacts that have so far been identified:

Part	Theme	Outcome
CSD Requirements	Record-keeping	Collate and provide record-keeping data for direct markets.
	Omnibus and Segregated Accounts	Provide clients with the option for either omnibus or segregated accounts. Provide clients with costs and level of protection for omnibus and segregated accounts.
	Due Diligence	Review of existing due diligence procedures to reflect new CSD regulatory requirements.
	Banking Ancillary Services	Changes in the banking ancillary services provided to BNY Mellon by CSDs that settle in commercial bank money.
	Business Continuity and Recoverability	Review and update, where relevant, BNY Mellon's Business Continuity and Recovery processes and procedures in the event of a CSD's authorisation being withdrawn or systems failure.
	Reconciliation	Ensure all reconciliations are completed daily.
Settlement Discipline	Fail Prevention and Timely Settlement	Instruction matching and confirmation is maximised before settlement. All EU CSDs move to T+2 settlement.
	Buy-in Process	Assess the impacts on market practice, and on internal processes and procedures, of the future mandatory buy-in requirements.
	Penalty Fines	Implement processes and procedures to ensure fines are identified and passed on to the responsible party.
	Internalised Settlement Reporting	Implement a new quarterly report to be sent to national securities regulators.
Dematerialisation	Dematerialisation	Ensure all new and current issuances are moved to book-entry process and any physical certificates are either dematerialised or immobilised.

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