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CONTEXT



Some piece of History



Who's concerned

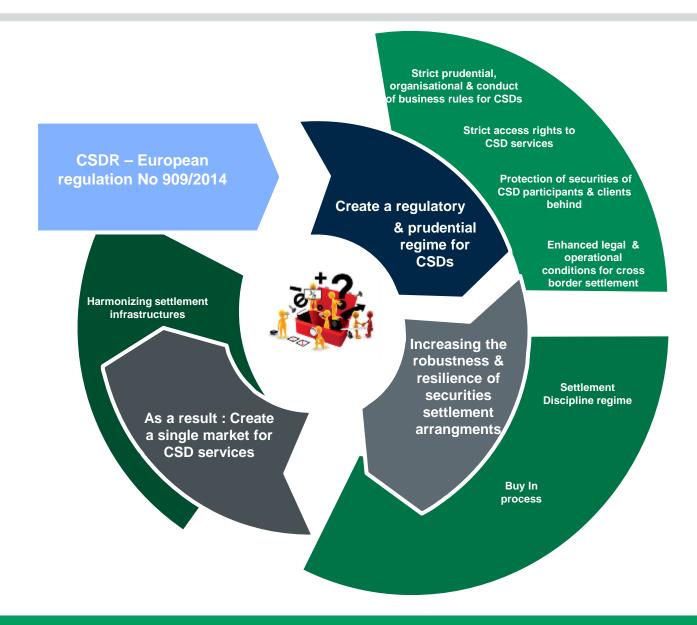


Instruments

- As soon as 2004, European Commission performed some workshops on the need to provide some rules on CSDs and globally on the European post trading
- No reason at that time to speed up the process and crisis 2007-2008 proved the relative "good health" of CSDs which were viewed like "safe" for many actors. CSDs were followed closely under domestic law
- **G20 decisions on OTC Clearing for Derivatives products**
 - The G20 was instrumental in establishing the core elements of a new global financial regulatory framework that should make the financial system more resilient
- MIFID 2008 aims at harmonizing rules among the European market (trading platforms)
- **EMIR 2013 -> in respect of CCPs and Trade repository**
 - => Fixed Income Settlement & Custody functions were missing in the scope
- CDSR should be seen as complementary to both EMIR and MIFID regulation.
 - CSDR applies to European Central Securities Depositaries (CSD's), including ICSDs
 - CSDR applies as well to all market participants, wherever located, using European CSD's:
 - **CCPs**
 - **Participants to CSDs**
 - Banks that offer banking services to CSDs
 - No list provided here. We understand the following instruments to be in scope:
 - All CSD eligible MIFID II financial instruments (Securities, Money market instruments, ...)

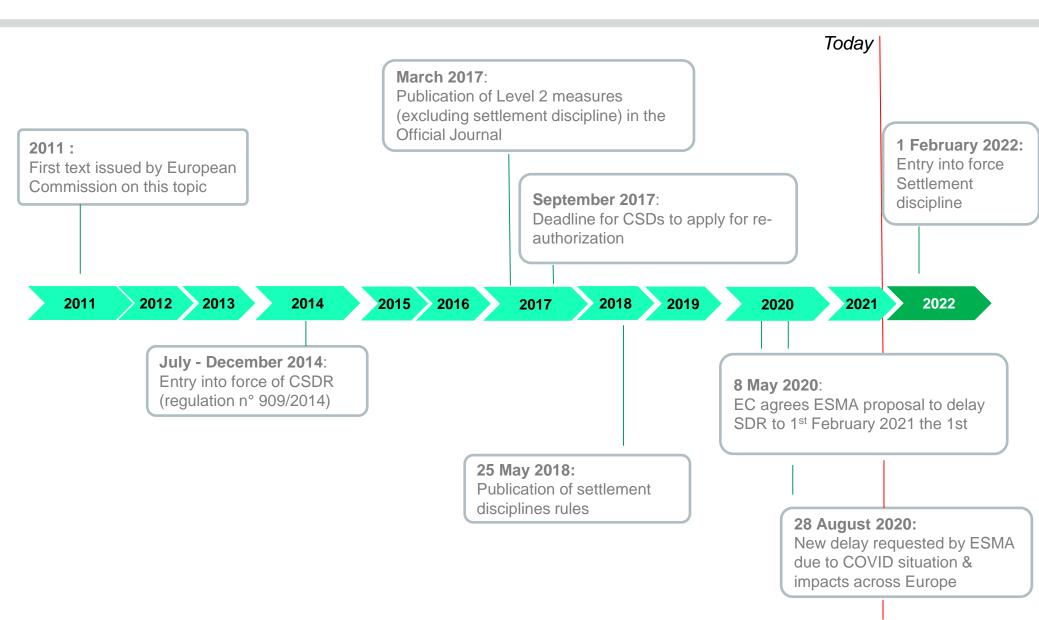
WHAT'S THE AIM OF CSDR





TIMELINE





SETTLEMENT DISCIPLINE REGIME - SDR



Investment firms shall ensure: - the prompt communication of the allocation of securities for

the transaction - the confirmation of this one.

CSDR required that a Buy In process shall be initiated if transaction is not settled 4 business days after the intended settlement date « extension period »

Allocation & Confirmation

Preventing Settlement fails:

Mandatory Buy ins

> **Addressing** settlement Fails: **Penalties**

Matching of Settlement instructions

Monitoring

Settlement Fails

New rules defined here:

- -Transaction types tu use
- -Matching criteria revisited by CSDs
- -Tolerance level accepted
- -Real time matching to set up
- -Set up bilateral cancellation facility for matched transactions

CSDR requires that CSDs shall establish a system that monitors settlement fails of transactions & report it on a regular basis.

Cash penalties applied on following transactions:

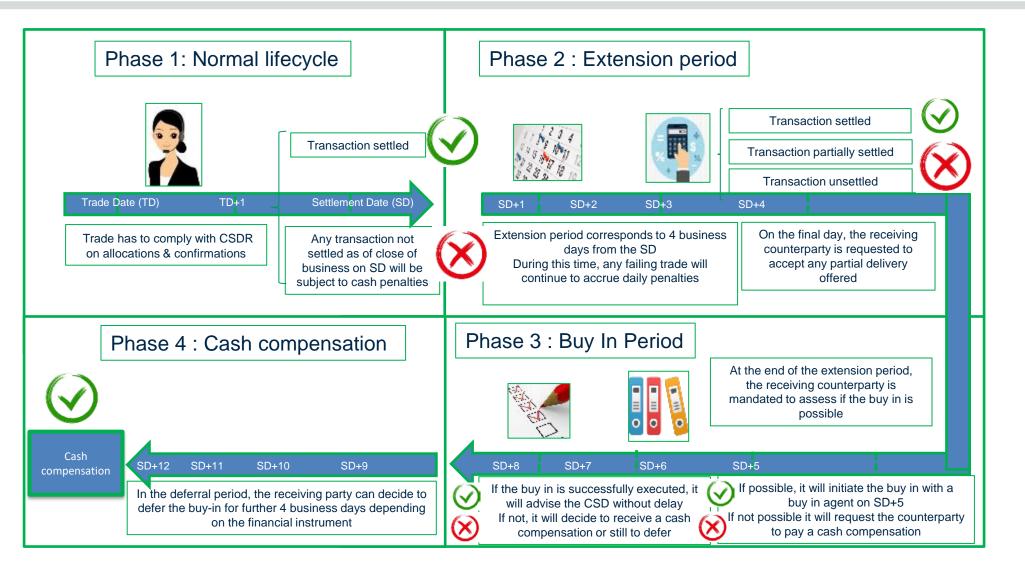
Matched instructions even if on hold Calculated daily and applied monthly to participants

Redistributed to participants that suffered the fail



LIFECYCLE OF A FAILLING TRANSACTION WITH CSDR (LIQUID SHARES)





CHALLENGES ON SETTLEMENT EFFICIENCY FOR INVESTMENT FIRMS



KPI production

SETTLEMENT EFFICIENCY

Failed rate

Daily Monitoring

HOLDINGS RECONCILIATION MANAGEMENT

Place of safekeeping

OTHER STATIC
DATA REQUIRED

Accuracy of SWIFT

Review SSIs

SETTLEMENT INSTRUCTIONS

Common cause of mismatching/late matching



NEXT CHALLENGES



Challenges

- A big structural change in market practices
- Significant technical changes for CSDs to make the necessary adaptations & Investment firms too
- Capacity for domestic CSDs to innovate in an environment of change

Benefits expected

- Securities infrastructures linked with common EU rules
- Solving the costly fragmentation of securities market infrastructure => final phase of T2S?
- A more efficient market with less failed trades

Mandatory Buy- in still under discussion

- A tremendous change in the market
- Reality or just a dream
- Which impacts
- What's next

