

Omgeo – a DTCC company

Industry Relations

Regulatory Briefing

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CSD-R: Settlement Discipline Regime

- ESMA strongly endorses the theme of Trade Date Confirmation/Same Day Affirmation:

“ESMA considers that market-wide achievement of STP is essential.... investment firms should ensure that they have all the necessary settlement details on the business day in which the transaction takes place...”

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CSD-R: Settlement Discipline Regime

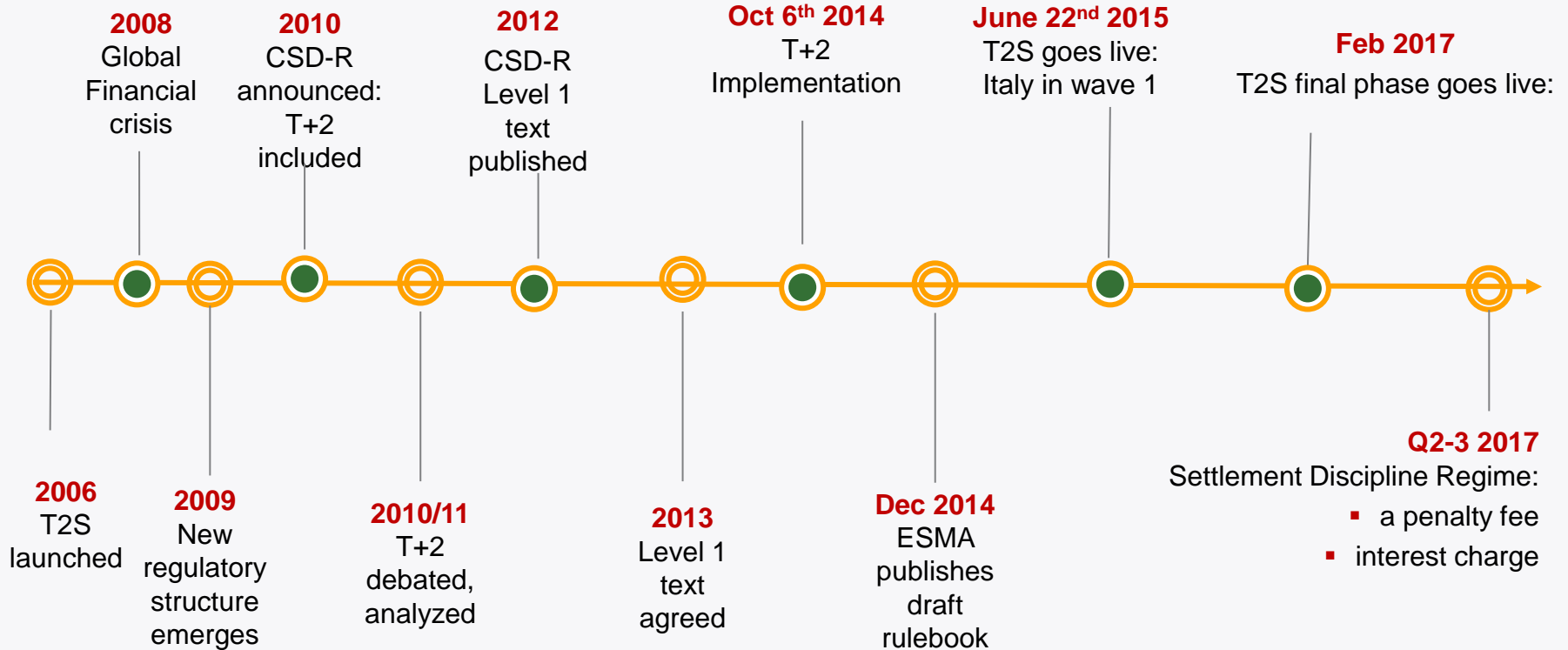
- Target for EU settlement efficiency is 99.5%
- CSD participants could face suspension if their settlement efficiency is 10% below the CSD average over a 12 month period
- CSD participants must report internalized settlement volumes/values monthly to their regulator
- CSD's must use LEI codes to identify all legal entities
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CSD-R: Settlement Discipline Regime

- Failed trade penalties are compensatory, not punitive and are not as high as expected
 - 1bp for equities (= €1 per day for a failed €10k trade)
 - 0.25bp for high-value/liquid fixed income (= €12.50 per day for a failed €500k trade)
 - 0.5bp for corporate fixed-income (= €5 per day for a failed €100k trade)
- Buy-in rules cover all trades/all markets/all participants: no exclusion for repo
- The standards do not address the scope issue (re: OTC trades) in Level 1 or the sell-side funding of bifurcated T+2/T+3 trades
- Clients must send allocations and settlement instructions to the broker/dealer on T: the broker/dealer must confirm the allocation within 2 hours
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CSD-R timetable



This is essentially a political timetable: it isn't based on market readiness



CSD-R and T2S

T+2 on October 6 2014: (confirmed): Italy, UK, Ireland, France, Belgium, Poland, Netherlands, Luxembourg, Portugal, Estonia, Latvia, Lithuania, Austria, Poland, Hungary, Czech Republic, Slovakia, Greece, Sweden, Denmark, Finland, Spain (fixed-income only), Eurobonds (traded under ICMA rules), Norway, Iceland, Switzerland.

T+2 on October 6 (un-confirmed): Croatia, Cyprus, Malta

T+2 ISpain (equities): November 2015

Existing T+2 markets Germany, Bulgaria, Slovenia



What is CSD-R

CSD-R (Central Securities Depository Regulation) is designed to improve securities settlement in the EU. The Regulation introduces mandatory dematerialization, harmonized settlement periods, settlement discipline measures and common rules for central securities depositories (CSDs). It will apply in all 28 EU member states.



What is Target2 Securities

T2S is a pan-European settlement system being developed by the ECB. T2S will improve the post-trading infrastructure in Europe by providing a single platform for securities settlement in central bank money. More than 20 CSD's and other participants will connect to T2S. T2S goes live between June 2015 and February 2017.



What is the Settlement Discipline Regime

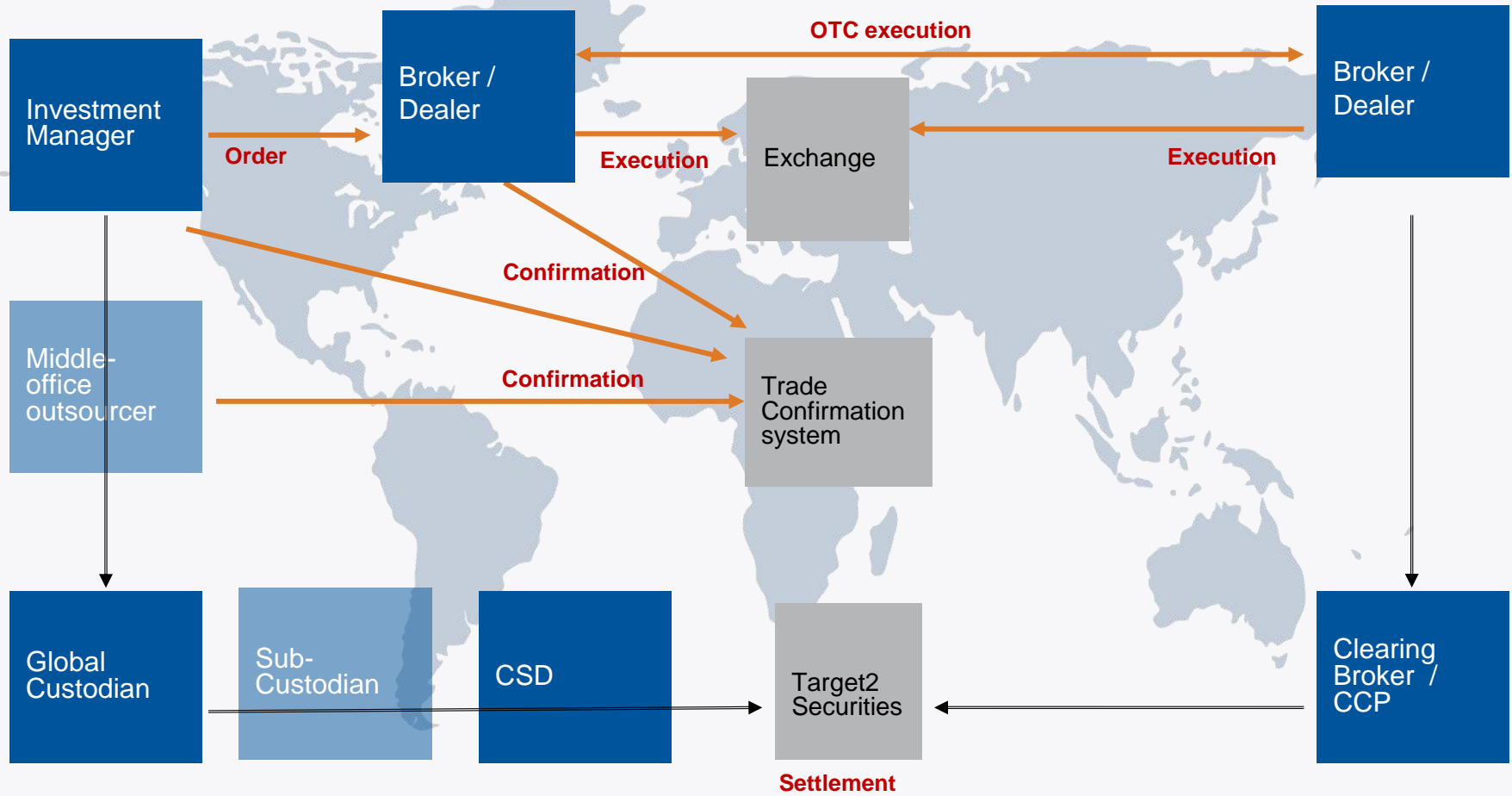
The Settlement Discipline Regime is a component of CSD-R which consists of incentives to prevent settlement fails and penalties to address settlement fails. The key objective is to reduce settlement fails. It includes rules that will subject market participants that fail to deliver securities on the intended settlement date to a harmonized 'buy-in' procedure on T+4.



Asset classes

Equity, fixed-income. There are differing interpretations of the inclusion of OTC trades: especially equity transactions for institutional clients (where the client-broker trade is considered to be OTC and therefore not mandated to be T+2). Some buy-side firms are seeking a partial opt-out from T+2.

Buy-side trades and the T2S process flow



Pale blue indicates an optional step (the IM may not use an outsourcer, the GC may not use a local sub-custodian)



LEI in CSD-R

- There are 10 types of entity in CSD-R that the draft reporting standards reference where an LEI will be required
 - CSD
 - CSD participant
 - Settlement bank
 - Instructing participant
 - Counterparty of the instructing participant
 - Client of the instructing participant
 - Issuer
 - Issuer CSD
 - Settlement bank of issuer
 - Settlement internaliser
- A client or participant is specified as follows:
 - ISO 17442 Legal Entity Identifier (LEI) 20 alphanumeric character code, or Bank Identifier Code (BIC) for legal persons (with the obligation to convert to LEI for reporting purposes to authorities). Available national identifier for natural persons (50 alphanumeric digits) which allows the unique identification of the natural person at a national level.

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