HELPING CLIENTS TO MEET CSDR'S SETTLEMENT DISCIPLINARY MEASURES

OVERVIEW

The Central Securities Depositories Regulation (CSDR) aims to increase the safety and efficiency of securities settlement and the settlement infrastructures in the EU.

CSDR will harmonize certain aspects of the settlement cycle and introduce settlement discipline to provide a set of common requirements for central securities depositories (CSDs) operating securities settlement systems across the EU. CSDR was introduced in 2014 and along with directives and regulations such as MiFID II and EMIR, it aims to strengthen the stability of the EU financial industry by mitigating settlement risks.

All firms, no matter where they are in the world, that trade in securities that will ultimately settle at an EU domiciled CSD will be in scope for CSDR's Settlement Discipline Regime.

STANDARDIZED SETTLEMENT

CSDR aims to bring higher levels of standardized settlement in the European market and endeavors to achieve 99% trade settlement efficiency. To do this, the regulation is introducing measures to prevent fails, which focus on the trade confirmations and allocation process, to encourage the use of automated platforms to match transactions on the date of execution.

In October 2014, the CSDR implemented a T+2 settlement cycle for equities and fixed income transactions executed on trading venues. The Settlement Discipline Regime (SDR) established as part of the CSDR is expected to enter into force from February 1st, 2022.

UNDERSTANDING CSDR'S SETTLEMENT DISCIPLINARY MEASURES

CSDR's SDR will require investment firms to put in place measures to mitigate settlement fails. Its recommended measures to prevent fails encourage investment firms to offer their professional clients the mechanism to send confirmations and allocation details electronically, using international open communication procedures and standards for messaging and reference data. Investment firms may use third party systems for confirmation and allocation.

It also endorses straight through processing (STP), as this is essential both for maintaining high settlement rates as volumes increase and for ensuring timely settlement of cross-border trades.

Under the SDR, market participants will be liable to pay daily penalties or charges against each transaction that fails to settle under the T+2 timeframe. Mandatory buy-ins will become standard practice, where a failing participant does not deliver the financial instruments to the receiving participant within four business days (or greater depending on the asset classification) after the intended settlement date.

The penalty will be charged daily based on the notional value of the transaction up until the buy-in period.

Under the SDR, buy-ins will become mandatory for all asset classes and trade types.

GMEI®

CSDR will require the parties and counterparties to a transaction to be identified by a Legal Entity Identifier (LEI) in their reporting architecture.

The GMEI utility, owned and operated by Business Entity Data (BED) B.V., a wholly owned subsidiary of DTCC, is the largest Global LEI Foundation (GLEIF)-accredited Local Operating Unit (LOU) that provides LEI registrations, renewals and other services to firms in financial transactions globally.

To find out more about the GMEI Utility, **visit gmeiutility.org.**

ALERT®

ALERT automatically enriches CTM trades with standing settlement instruction (SSI) information by connecting to the world's largest community of SSI database subscribers. ALERT allows users to store LEI data and provides investment managers and broker/dealers the capability to create and maintain collateral standing settlement instructions (SSIs), enabling real-time enrichment for margin calls within the Margin Transit Utility (MTU).

With the ALERT Global Custodian Direct (GC Direct) workflow, custodian banks and prime brokers can manage SSIs on behalf of their clients enabling them to become the owner and maintainer of the SSI data, effectively creating a golden copy within the ALERT platform.

Additionally, with ALERT Key Auto Select (AKAS) clients who utilize CTM to agree their trades, can lock in their preferred place of settlement (PSET) on trade date through a rules-based service that will automatically select the correct PSET and SSIs and deliver them to all counterparties through its Settlement Notification feature.

To find out more about ALERT, **visit dtcc.com/ALERT.**

CTM™

The CTM service, DTCC's central matching platform, enables clients to meet their T+2 settlement requirements through its automated straight-through-processing (STP) of trades.

CTM provides seamless connectivity from trade execution to instruction, including direct connectivity via FIX from front- to middle-office trade processing as well as via the SWIFT network to a full community of custodian banks for the purposes of settlement notification. When an LEI is populated within ALERT and the executing broker uses CTM enrichment, the LEI will automatically be populated to the CTM message, where buy-side clients can view, retrieve, store and use for their regulatory reporting.

CTM has expanded its Place of Settlement (PSET) matching rules to include all the current T2S national CSDs. CTM trades containing a buy- and sell-side T2S PSET BIC will now match. In addition, the CTM SWIFT MT541/3 messages will include Place of Safekeeping (PSAFE) information when the T2S depositories differ for the buy-side and sell-side trade. PSAFE is crucial information required for cross-border security settlement and this information can be added to the CTM SWIFT message through a simple one-off client subscription change.

To find out more about CTM, **visit dtcc.com/ctm.**

DTCC EXCEPTION MANAGER

An "exception" refers to a transaction that requires user attention, to ensure the transaction settles successfully. Minimizing trade exceptions can reduce trade failure and help clients to avoid penalties proposed under CSDR's SDR.

The DTCC Exception Manager platform allows market participants to publish, manage and communicate on exceptions throughout the trade lifecycle process. It centralizes and standardizes exception processing to firstly enable faster resolution, and then deliver a significant reduction in the number of exceptions.

To find out more about DTCC Exception Manager, **visit www.dtcc.com/ExceptionManager.**

MARGIN TRANSIT UTILITY (MTU)

MTU was created to improve settlement efficiency and reduce operational complexity and risk for margin call processing. By leveraging automation, MTU allows you to efficiently validate, enrich, settle, report and monitor matched margin calls globally while easily connecting to and sharing information with multiple counterparties.

The service helps reduce operational risk by standardizing and automating the margin process from the point of agreement through to settlement. It also helps manage credit and liquidity risk by accelerating the distribution of settlement data to the relevant party.

To learn more about MTU, **visit: www.dtcc.com/mtu.**

DON'T WAIT – PREPARE TODAY FOR CSDR

DTCC is working with clients across the financial markets now to help them understand and prepare for CSDR.

To find out more about how our solutions can help firms prepare for CSDR and lower their risk of penalties, please email us at solutions@dtcc.com or visit us on the web at www.dtcc.com/csdr