

CSDR FORUM 2021

RESPONSES TO UNANSWERED LIVE AUDIENCE QUESTIONS

Q. What is the view on impact/scoping for non-professional clients. Is the standpoint that penalties and buy ins should be enforced on non professional clients?

A. AFME: Our view, as expressed in our consultation response, is that the regulation should be clarified to only apply to only regulated/authorised entities. In some Nordic markets, where each customer has a segregated account at CSD-level, its difficult to imagine enforcing a individual investor to initiate a buy-in process.

Q. Is it likely that the industry would move on an actual settlement basis, when it comes to Corporate Actions and other ancillary processes?

A. Emma Johnson: I'm assuming by 'actual settlement' the question is being framed as settlement at the CSD rather across the books of prime brokers, global and sub-custodians. Its an interesting angle and certainly a watching brief. Provided that regulation continues to permit these practices and that intermediaries, like the ones mentioned, continue to maintain books and records that evidence entitlement then it remains a commercial and risk decision. If the question is being framed in relation to 'perfect settlement' that incubates the investor / fund from what is actually happening at the level of the CSD then this is again a commercial topic and not a regulatory matter - yet.

Q. Do you think CSDs impacted by CSDR will begin to demand more information but have not given infrastructure providers enough time to react?

A. AFME: We are not aware of any requests so far from CSDs for participants to provide additional information, beyond notification of the buy-in results as mandated by the regulation.

Matt Johnson: My view is CSD's will only require data sets that the regulation calls for. This may change if there is CSDR II in the next few years

Charlie Pugh: Agree that CSDs are unlikely to ask for more information than they actually require either under the regulations or to comply with the regulations.

Q. Do you need agree a partial with the trading parties and settlement parties?

A. As long as the end trading party has not opted-out of partial settlement, on a per-instruction basis this will be facilitated at a settlement level.

Q. Will partial settlements create problems on dividend record date, tax implications?

A. It's not clear what problems this would create that would not be resolved through existing processes for non-settled positions over record date.

Q. Of the 15 who offer auto partials, how much of market volume do they represent?

A. Whilst we don't have the exact breakdown, generally speaking it is the larger CSDs by market volume which offer auto-partial solutions. As noted, by Feb 2022 all CSDs will need to facilitate this, unless the value of settlement fails does not exceed 2.5bn EUR per year, or the settlement rate is 99.5% or higher.

CSDR FORUM 2021

Q. How many CSD's are directly under the CSDR regulation?

A. All EU CSDs and ICSDs will need to be licensed under CSDR. Currently, 23 (I)CSDs have received their licence.

Q. Is the Manual Partial Settlement same as the existing market practice process of Split Settlement (bilateral)?

A. Yes, it would be an agreement between two parties to settle part of the transaction.

Q. Once a partial buy-in has completed, how do you cancel only the failed part of the original transaction?

A. For a partial buy-in, the entire original instruction should be cancelled and replaced with a new instruction for the outstanding quantity.

Q. If I do a partial after SD and instruct after my counterpart, am I liable for the Penalty, even though I only instructed late to facilitate the partial?

A. In the case of a manual partial, where the original instruction is cancelled and reinstructed in smaller shapes, we understand that those new instructions would be subject to LMFPs applied to the last party to input the instruction. Another reason to use automated solutions where possible!

Q. I was of the understanding that partial settlement was difficult via Euroclear. CREST automatically partially settles with no intervention required but Euroclear requires the counterparty to request it and for us to approve or reject.

A. Charlie Pugh: Functionality to support partial settlement was introduced for internal EB settlement instructions in June 2020. A partial settlement service on Bridge settlement instructions will be introduced from 8 Feb 2021. [Full details can be found here](#) (a log on is required).

Q. Will Partial settlement expect the trade date time to be supplied by the account holder in order to distribute partials i.e. avoid settling ahead and avoid cross border discrepancies?

A. If this were possible, its not clear if this could work as CSDs may use a different time stamp from the trade date time (e.g. time instrucion received).

Q. Should partials not be mandatory from ISD onwards?

A. AFME: Although this is not mandated by the regulation, we encourage partial settlement from ISD onwards.

Q. How will it be determined which party is at fault for failing trades that lead to Buy ins/fines?

A. AFME: Our view is that the buy-in can only be triggered by the non-delivery of securities by the delivering party. If the transaction is failing due to lack of cash, or otherwise the fault of the receiving party, a buy-in should not be initiated.

CSDR FORUM 2021

Q. Holistically if a transaction is going to fail, can the asset be swapped for a similar asset which is available in the inventory automatically i.e. where a comparable asset is available for the same class.

A. This is not explicitly envisaged by the regulation, which mandates settlement of the original securities. CSDR does not preclude trading parties from cancelling a trade, if mutually agreed.

Q. Is it possible for CSD's to do the buy-ins, so there will never be a chain of failed settlements?

A. No. The buy-in is initiated by the CCP for cleared transactions, receiving trading venue member for on-venue non-cleared transactions, or receiving trading party for OTC transactions.

Q. Will the auto-partial/partial facility be extended to direct link crossborders? i.e. Crest has auto partial so does Euroclear but the direct link Crossborders do not.

A. Sachin Mohindra: We do not have full details at this stage. The T2S and EU CSD auto-partial requirements may differ from 3rd country CSDs.

Q. Are all custodians looking to sign up to Alert GC Direct as they would hold the golden copy of SSI Data and would automatically up date on behalf of their clients to ensure counterparties always see the most up to date SSI's.

A. Matt Johnson: At present there are 9 global custodians utilising the GC Direct model in ALERT. Other GC's and regional custodians are also exploring this model as a way to bring golden source SSI data to market.

Q. The CSDR and its regulatory objectives have been known in the market for eight years, its goal is to create change to achieve those objectives. Why have custodians not changed their processes by know and complaining about being in the middle? Surely that is the definitive role of an intermediary?

A. Emma Johnson: I disagree. Custodians have and are changing their processes. As the gateway to the CSDs they are having to change and implement what the CSDs are doing such as i) Having to accommodate the mandatory CSD functionality such as hold and release and partial settlement ii) Having to create and implement cash penalty functionality such as the daily and monthly cash penalty reporting, monthly debit and credit of cash penalties and a reporting solution for the mandatory buy-ins that their clients are subject to. The challenge here is that the custodians are dependent on the CSDs providing details of what and how they are implementing cash penalties and buy-in reporting so the custodians are, as a result, disadvantaged by some CSDs who are still not communicating their reporting templates which leaves the custodian stuck in the middle in that they can't implement requirements they do not have as each CSD is doing things differently.

Q. How will you handle buy in?

A. AFME: We intend to publish guidelines for buy-ins on non-cleared transactions, to provide an overview of the high-level buy-in process.

CSDR FORUM 2021

Q. We have a challenge on the calculation of the Fail penalty for Bonds where Most relevant Market MIC is not available from ESMA for non Equity instruments and hence have a problem identifying the instruments with highest turnover - what are your thoughts and recommendations?

A. ICMA have written a paper on this topic and highlighted the issue to the regulators.

Q. Emma - For status Missing instruction are there any plans to limit the time instructions can be missing before either party has to either match or remove instructions from the system?

A. Emma Johnson: There is no requirement currently beyond T2S cancelling all aged instructions after 60 days. The onus for missing instructions really lies with the trading parties; if one side has instructed they will need to chase down their cpty who when they do instruct, if past ISD, will automatically get a late matching fail penalty. This is why the allocation and confirmation process is so crucial and the need for a seamless operational flow internally and with those you trade with.

Q. Matt - I have recently seen announcements about DTCC Consulting Services on your website and LinkedIn. Is the service built to assist in translating the regulation and what it means to our operating model?

A. Matt Johnson: Yes the new consultancy services will help client understand the CSD Regulation and what obligations it will require. The consultancy services are also helping clients understand where they have post trade efficiency gaps, to improve operational performance.

Q. For Netting of instructions and splits managed by the agreement of the counterparties do you think change the bank will introduce a form of transaction confirmation for Net's?

A. Sachin Mohindra: There will certainly be a need to link back netted settlement obligations back to the underlying gross trades for the management of penalty and buy-in attribution. Each party would be expected to manage this linkage.

Q. When do you think other CSDs (outside UK) will begin to demand populating info (e.g. Place of Trade) or will begin laying out their requirements - if CSDs drag their feet, the market will not be able to respond in time for 1st Feb 2022

A. AFME: We intend to conduct further analysis across CSDs to understand any proposed changes in mandatory or matching fields.

Q. Hello, as much as we don't like to see it, however, if they decide to go ahead with the mandatory buy-ins, who will be executing the buy-ins? If it's going to be buy-in agents, who will be appointing them? OR is it going to be similar to the emerging markets i.e. exchange executing buy-ins through the brokers? Do we have any clarity on this yet?

A. AFME: The buy-in is initiated by the CCP for cleared transactions, receiving trading venue member for on-venue non-cleared transactions, or receiving trading party for OTC transactions.

CSDR FORUM 2021

Q. The reality is that the issue of Settlement Failure should have been handled by the Short-Selling Directive, which failed itself. Lumping settlement failure into a procompetitive piece of CSD legislation has effectively made CSDR a nightmare for all.

A. AFME: The SSR only covers cash equities cleared by a CCP. The intention of the current legislative text is to cover a wider range of actors and security types.

Q. If there is a buy-in, resolution will fall primarily to the Middle-Office at Sell-side firms and at their Custodians: are Middle-Office solutions robust enough?

A. Sachin Mohindra: Full F2B transparency and data flow is essential to make this work effectively. Industry workflow tools will certainly help. Settlement to trader information flow is most important. It all depends on the organisation set up of each firm.

Q. Why would SDR penalize Free of Payment items such as an account transfer where the end beneficiary is moving their account to another provider and the movement is No Change of Beneficiary... Or someone is gifting the shares. There is no trade involved. Those types of movements are subject to buy-ins as well... Doesn't make any sense.

A. AFME: We have included this feedback in our response to the consultation on CSDR. The buy-in scope should be limited to trades between two separate trading parties.