



# CSDR – UNDERSTANDING THE IMPACT ON CUSTODIANS

Custodians will face their own specific challenges under the Settlement Discipline Regime (SDR) of the Central Securities Depositories Regulation (CSDR).



## SDR

Expected to come into effect 1<sup>st</sup> February 2022.

### 1 ACCOUNT SEGREGATION



Discretionary custodian services such as account segregation and partial settlement will be mandatory under SDR, leading to an increase in documentation and onboarding responsibilities for custodians.

### 2 PARTIAL SETTLEMENT



SDR will mandate partial settlement at central securities depositories (CSDs) to help minimize financial penalties and to ensure CSDs only apply failed trade penalties to the outstanding, unsettled balances. This will require custodians to develop new processes requiring technology spend and additional human resources.

### 3 BUY-SIDE RELATIONSHIPS



If the buy-side is the cause of inefficiency in the settlement process, custodians must be prepared for potentially difficult conversations with their clients.

### 4 EXTENDED SERVICES



SDR's mandatory penalties could require custodians to extend services to assist the buy-side with late settlement penalty reconciliations, a service that will require a daily update on the status of financial penalties being applied. Custodians may even implement services to highlight trades that are approaching buy-in or need to be bought in.

### 5 PREPARATION



The custodian community needs to encourage their clients to prepare well in advance while also communicating the ways their relationship will likely evolve, specifically around new services SDR compels custodians to provide.

## PREPARE TODAY

Early preparation and custodians' pro-active education of buy-side clients are key to ensuring that they are equipped to cope with the new SDR requirements.

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