

July 14, 2021

## Central Securities Depositories Regulation (CSDR)

### EU Regulation on Settlement and Central Securities Depositories

The Central Securities Depositories Regulation (CSDR) is intended to increase the safety and efficiency of securities settlement, and of securities settlement infrastructures, in the European Union. It is also intended to create a competitive and level playing field between European Central Securities Depositories. The regulation entered into force on September 17, 2014, however many of the obligations under CSDR have taken effect between 2019 and 2022.

#### Overview

The Central Securities Depositories Regulation (CSDR) aims to harmonise timing and standards of conduct in the European securities settlement industry. The Regulation mandates the use of Central Securities Depositories (CSDs) for securities issuance and for the settlement of securities transactions that have been executed by clients. The Regulation requires that CSDs be authorised to provide services and sets out prudential and conduct of business requirements for CSDs. It also sets out rules aimed at reducing settlement failure rates and improving settlement discipline.

Together with the Regulation on Over the Counter (OTC) derivatives, central counterparties and trade repositories (European Market Infrastructure Regulation or EMIR), and the Markets in Financial Instruments Directive (MIFID), CSDR provides a framework in which securities infrastructures (trading venues, central counterparties, and CSDs) are subject to common rules on a European level.

#### Key Milestones

2017	2018	2019	2020 and Beyond
March 10	March 28	July 12	November 22, 2021
Publication of CSD Authorisation RTS/ITS	ESMA Final Guidance on Internalised Settlement	Implementation of rules on reporting of internalised settlement - two years after publication in the Official Journal	SWIFT 2021 Release for ISO20022/ISO15022
Publication of Internalised Settlement RTS/ITS			

	March 30 Implementation date - CSDs are expected to be authorised by their National Competent Authorities	February 1, 2022 Implementation of Settlement Discipline rules
September 30 CSDs have to apply to their National Competent Authorities to become an Authorised CSD	September 13 Publication in Official Journal of Settlement Discipline RTS	January 2023 Mandatory dematerialisation of newly issued securities
		January 2025 Mandatory dematerialisation of existing issued securities

## What are the changes being introduced?

CSDR is made up of six main sections, comprising 76 articles:

Main Sections	Description
Subject matter, scope and definitions	Sets out the subject matter and scope of the Regulation, and defines key terms, such as the term “Central Securities Depository”
Securities settlement	<p>Sets out rules on securities settlement:</p> <ul style="list-style-type: none"> <li>• Book-entry, dematerialisation and immobilisation of physical securities issues</li> <li>• Settlement periods (with a maximum settlement cycle of T+2)</li> <li>• Settlement discipline measures including fines for late matching and failed settlement, and mandatory buy-ins</li> </ul> <p>Obligations for the reporting by intermediaries of internalized settlement</p>
Central securities depositories	<p>Sets out rules for:</p> <ul style="list-style-type: none"> <li>• The authorisation and supervision of CSDs</li> <li>• The organisation and conduct of business of CSDs</li> <li>• CSD services</li> <li>• CSD prudential requirements</li> <li>• CSD links</li> <li>• Rights of access to CSDs (for issuers, and for other CSDs)</li> </ul> <p>Rights of access between CSDs and other market infrastructures (CCPs and trading venues)</p>

Provision of banking-type ancillary services for CSD participants	<p>Sets out rules for:</p> <ul style="list-style-type: none"> <li>• The authorisation to provide banking-type ancillary services</li> <li>• The prudential requirements for the provision of such services</li> </ul> <p>The supervision of entities (banks and CSDs) providing such services</p>
Sanctions	Defines the processes with respect to infringements of the CSDR rules
Delegation of power, implementing powers, transitional, amending and final provisions	Confers powers on the European Commission to adopt delegated acts, amends relevant sections in other pieces of European legislation, and sets out transitional arrangements for the implementation of CSDR rules.

### How does this impact BNY Mellon products and services?

BNY Mellon is assessing the impact CSDR may have across our products and services in order to identify any changes that will be needed; we shall advise such changes in due course. The following details the impacts that have been identified:

Part	Theme	Outcome
<b>CSD Requirements</b>	Record-keeping	Provide standardised data to CSDs, e.g. Legal Entity Identifier and account structure.
	Omnibus and Segregated Accounts	<p>Provide clients with the option for either omnibus or segregated accounts.</p> <p>Provide clients with costs and level of protection for omnibus and segregated accounts.</p>
	Due Diligence	Review of existing due diligence procedures to reflect new CSD regulatory requirements.
	Banking Ancillary Services	Changes in the banking ancillary services provided to BNY Mellon by CSDs that settle in commercial bank money.
	Business Continuity and Recoverability	Review and update, where relevant, BNY Mellon's Business Continuity and Recovery processes and procedures in the event of a CSD's authorisation being withdrawn or systems failure.
	Reconciliation	Ensure all reconciliations are completed daily.
<b>Internalised Settlement</b>	Internalised Settlement Reporting	Implement a new quarterly report to be sent to national securities regulators from July 2019.
	Fail Prevention and CSD Services	<p>Instruction matching and confirmation is maximised before settlement.</p> <p>All EU CSDs will provide a standard set of services including partial settlement, bilateral cancellation, and hold and release. BNY Mellon will implement</p>

**Settlement Discipline**

settlement services to meet the market needs and expand its services to clients.

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Penalty Fines

Implement processes and procedures to ensure fines are identified and passed on to the responsible party.

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Buy-in and Cash Compensation

Implement processes that facilitate the buy-in settlement process and reporting.

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**Book-entry**

Book-entry  
Dematerialisation or  
Immobilisation

Ensure all new and current issuances are moved to book-entry process and any physical certificates are either dematerialised or immobilised.

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**For further information on CSDR, please contact your BNY Mellon Relationship Manager.**

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