CSDs: Global (Global)

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SMI Markets: Global

EC Issues Proposal for CSD Regulation

Further to our previous newsflash, the European Commission (EC) proposed today, 7 March 2012, to set up a common regulatory framework for Central Securities Depositories (CSDs). The aim of the proposal is to bring more safety and efficiency to securities settlement in Europe and also shorten settlement cycles and minimise settlement fails. The following key elements have been proposed:

- The settlement period will be harmonised and set at a maximum of two days after the trading day for the securities traded on stock exchanges or other regulated markets (currently two to three days are necessary for most securities transactions in Europe).
- Market participants that fail to deliver their securities on the agreed settlement date will be subject to penalties, and will have to buy-in the securities in the market and deliver them to their counterparties.
- Issuers and investors will be required to keep an electronic record for virtually all securities, and to record them in CSDs if they are traded on stock exchanges or other regulated markets.
- CSDs will have to comply with strict organisational, conduct of business and prudential requirements to ensure their viability and the protection of their users. They will also have to be authorised and supervised by their national competent authorities.
- Authorised CSDs will be granted a 'passport' to provide their services in other Member States.
- Users will be able to choose between all 30 CSDs in Europe.
- CSDs in the EU will have access to any other CSDs or other market infrastructures such as trading venues or Central Counterparties (CCPs), whichever country they are based in.

It should be noted that the proposal also describes the different options and associated risks for CSDs providing certain types of banking services.

The proposal will now pass to the European Parliament and the Council (Member States) for negotiation and adoption.

More information, with the full text of the proposal, can be found here: Commission acts to increase the safety and efficiency of securities settlement in Europe.

CSD Risk Impact

Global (Global)

CSD Rating: -
CSD Flash Impact: On Watch

The mandatory standardised fails management procedures across the EU are expected to minimise settlement fails and therefore improve settlement liquidity in Europe. Although procedures are generally already in place for on-exchange trades, the model for OTC trades should be greatly improved with a proper fails management process rather than cancelling trades.

The shortened settlement cycle is also expected to ease the liquidity demand with reduced collateral requirements and lead to a reduction of counterparty risk exposure.

Moreover, the possibility for users to choose a CSD and the creation of a “passport” for CSDs to provide services in other States will open competition between all European CSDs which may lead to revenue loss as investors switch to more competitive/ cheaper solutions offered elsewhere or even to consolidation between CSDs. However, other aspects of local regulations, including the Securities Law Directive, would need to be passed to allow issuers to choose other CSDs than their local one.

Finally, the obligation to dematerialise or immobilise all securities traded on EU regulated markets is expected to improve asset safety, mitigating the risk of loss or theft of physical securities, as well as increasing the STP level in the EU capital market infrastructure.

Market Information Impact

Global

This newsflash is for information only.

Related Flash: Consultation on CSD Regulation and Harmonisation of Settlement Cycles in EU - Update, 21/02/2012 (click to view)

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