



EUROPEAN COMMISSION

MEMO

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Regulation on securities settlement and on Central Securities Depositories in the EU ('CSD Regulation') – Frequently Asked Questions

See also [STATEMENT/14/130](#)

1. What does the CSD Regulation address?

The CSD Regulation aims to harmonise both the timing and conduct of securities settlement in Europe and the rules governing Central Securities Depositories (CSDs) which operate the infrastructures enabling settlement.

With regard to settlement, the CSD Regulation harmonises timing and discipline of securities settlement in the EU.

It creates, for the first time at European level, a common authorisation, supervision and regulatory framework for CSDs.

2. What is settlement?

Any trade in securities on or off a trading venue is followed by a post-trade flow of processes, including for example confirmation of the trade details by a trading venue or clearing by a central counterparty (CCP), leading to the settlement of the trade, which means the delivery of securities to the buyer against the delivery of cash to the seller. Settlement may occur on the day of the trade, but more often a number of days later depending on the type of securities, the type of trading venue, or the type of market concerned.

3. What are CSDs?

CSDs are the key institutions that operate the infrastructure (so-called securities settlement systems) that enable settlement. They are the institutions which materialise the transactions concluded on the markets. It is with them that settlement is either finalised, or fails. CSDs also ensure the maintenance of securities accounts that record how many securities have been issued by whom and each change in the holding of those securities. This is made possible by the fact that CSDs intervene on the primary market, by centralising the initial recording of newly issued securities. CSDs also play a crucial role for the financing of the economy, as in practice almost all the collateral posted by companies, banks and other institutions to raise funds flows ultimately through securities settlement systems operated by CSDs.

4. Why did the Commission propose this Regulation?

While generally safe and efficient within national borders, settlement across borders presents higher risks and costs for investors than domestic operations. Meanwhile, the importance of cross-border transactions in Europe continues to increase. It is therefore important to have a harmonised set of measures across Europe for settlement as well as for the institutions responsible for settlement, the CSDs. CSDs are currently regulated at national level and lack a common set of prudential, organisational and conduct of business standards at European level.

These problems are important and need to be solved, as cross-border transactions in Europe, ranging from usual purchases/sales of securities to collateral transfers, continue to increase and CSDs become increasingly interconnected. These trends are expected to accelerate with the advent of Target2 Securities (T2S), a project launched by the Eurosystem to provide a common technical platform for securities settlement in Europe, which is scheduled to start in June 2015.

5. What is the size of the CSD market? Who are the big players?

CSDs in the EU settled over one quadrillion (1 000 trillion) worth of transactions in the last two years and were holding almost €39 trillion of securities at the end of 2012.

There are over 30 CSDs in the EU, generally one in each country, and two 'international' CSDs (ICSDs – Clearstream Banking Luxembourg and Euroclear Bank). The ICSDs are a sub-category of CSDs specialised in the issuance of international bonds, commonly known as "Eurobonds". The two ICSDs represent about 37% of total settlement volumes in the EU.

The ICSDs form part of larger groups, which include national CSDs:

- Euroclear group includes Euroclear Bank (the ICSD) and 6 national CSDs in France, Belgium, Netherlands, the UK & Ireland, Finland and Sweden; and
- Clearstream group includes Clearstream Banking Luxembourg (the ICSD) and 2 national CSDs in Germany and Luxembourg.

The two groups represent around 80% of total settlement volumes in the EU.

By comparison, the US market is very concentrated, with only two CSDs, one for government securities (Fedwire Securities Service), and the other for all other securities (the Depository Trust Company (DTC)).

6. What are the specific objectives of the CSD Regulation?

The main objectives of the CSD Regulation are to:

- Increase the safety of settlements, in particular for cross-border transactions, by ensuring that buyers and sellers receive their securities and money on time and without risks;
- Increase the efficiency of settlements, in particular for cross-border transactions, by introducing a true internal market for the operations of national CSDs; and to
- Increase the safety of CSDs by applying high prudential requirements in line with international standards.

7. What is the relationship of the CSD Regulation with the Target2 Securities (T2S) project of the Eurosystem?

The objectives of the CSD Regulation are consistent with those of Target2 Securities (T2S), a project launched by the Eurosystem to create a common technical platform to support CSDs in providing borderless securities settlement services in Europe. The two initiatives are complementary: the CSD Regulation harmonises legal aspects of securities settlement and the rules for CSDs at European level, allowing T2S (<http://www.ecb.int/paym/t2s/html/index.en.html>) – which harmonises operational aspects of securities settlement – to achieve its goals more effectively.

8. What are the expected costs and benefits of the CSD Regulation?

In the short term, the CSD Regulation is likely to create more competition between CSDs, with expected benefits for the quality and price of cross-border services. In the medium to long term, the CSD market could become more consolidated and less fragmented. There could be less intermediation for cross-border holding of securities and CSD services, and cross-border settlement will become safer and cheaper. This would translate into lower costs for investors along the whole post trading chain.

9. What is the expected impact on growth and SMEs?

The expected reduction in the costs of holding and settling securities, especially cross-border, would benefit both issuers, by increasing their ability to raise capital, and investors, by allowing them to place their funds more efficiently. The securities market in the EU would therefore become more efficient in supporting the financing of the economy and sustainable growth. SMEs, in particular, would benefit from the expected cost reductions since the fees charged by CSDs for the issuance and custody of their securities are often proportionally higher than for larger companies.

10. What is the relationship with other legislative acts, such as the European Markets Infrastructure Regulation (EMIR) and the Markets in Financial Instruments Directive (MiFID)?

There are three main types of institutions operating securities market infrastructures:

- Trading venues - that is, regulated exchanges, MTFs (multi-lateral trading facilities), OTFs (organised trading facilities), where the trading of securities takes place. These are regulated by MiFID ([MEMO/14/305](#));
- Central counterparties (CCPs) – responsible for clearing of securities transactions. These will be regulated by the Regulation on OTC (over the counter) derivatives, central counterparties and trade repositories (EMIR) ([MEMO/12/232](#)); and
- CSDs - responsible for settlement of securities transactions. These will be regulated by the CSD Regulation.

The CSD Regulation therefore completes the regulatory framework for securities market infrastructures, alongside MiFID and EMIR.

11. How does the CSD Regulation relate to the efforts to provide more convergence at international level?

Standards for CSDs, although non-binding, already exist at international level:

- As early as 2001, global banking and securities regulators (CPSS-IOSCO) adopted a set of recommendations for securities settlement systems;
- These were adapted to the EU through non-binding guidelines issued by European regulators (ESCB-CESR) in 2009;
- In October 2010, the Financial Stability Board (FSB) called for updating the existing standards to support more robust core market infrastructures, including CSDs. The CPSS-IOSCO principles were subsequently updated in April 2012.

The CSD Regulation is consistent with these standards.

12. What about crisis management in this area?

Work regarding crisis management for financial market infrastructures, including CSDs, is ongoing at international level under the Financial Stability Board umbrella. The Commission is playing an active role in this work.

13. What is dematerialisation of securities? Why is it mandatory?

Dematerialisation is the obligation for most securities to be recorded electronically, in book-entry form through a CSD, at least from the moment they are traded via an organised trading facility (i.e. non OTC market) or posted as collateral. In certain Member States, mainly in the UK and Ireland, a certain number of securities are still held directly by the investors in paper form. It takes more than three times longer to settle a transaction in paper securities than a transaction in securities held in book entry form. The key objective of dematerialisation is to ensure a quicker settlement in line with the harmonisation of the settlement periods set at a maximum of two days after the trading day (T+2) (see question 14 below). However, currently holders of paper securities, as long as they do not sell them through a regulated trading venue, will have the possibility to keep them in paper form until 2025. The obligation for most securities to be recorded electronically does not imply that securities holders should use computers in the management of their securities.

Other benefits of this measure include:

- Safety for holders, given that there will be fewer opportunities for fraud and less risk of losing paper certificates and ensuing indemnities;
- Safety for issuers, custodians and third parties, in that there will be a better 'reconciliation' between the securities issued and the ones circulating and a better identification of the actual moment of transfer of securities from one holder to another;
- Reduction of costs for issuers, custodians and third parties, given that the management of paper securities is more costly.

An extensive period of time, until 1 January 2025, will be provided for market participants to record all existing paper securities in book entries.

14. Why are settlement periods being reduced to T+2?

In Europe most securities transactions are settled either two or three days after the trading day (T+2 or T+3), depending on each market. The settlement period will be harmonised in Europe and set at a maximum of two days after the trading day (T+2). A harmonised settlement period will reduce operational inefficiencies and risks for cross-border transactions, while reducing funding costs for investors (for instance, for those that have to deliver cash or securities at T+3 but can only receive them at T+2). A shorter settlement period would have an important advantage of reducing counterparty risk, that is, the period of time during which an investor runs a risk that its counterparty will default on its obligation to deliver cash or securities at the agreed settlement date.

15. What measures does the CSD Regulation provide for reducing settlement fails?

The CSD Regulation will also provide for a set of strict measures to address settlement fails with a certain degree of flexibility tailored for the needs of SMEs and specific transactions such as repurchase agreements. In particular, market participants that fail to deliver their securities on the agreed settlement date will be subject to penalties and a buy-in procedure whereby those securities shall be bought and delivered in a timely manner to the receiving market participants. .

16. Why are central banks exempt from some provisions of the CSD Regulation?

Being independent institutions, central banks offering core CSD services are exempt from certain requirements of the CSD Regulation, notably the licensing, supervision and capital requirements. However, they remain subject to its substantive provisions, in particular to prudential rules and provisions on settlement.

17. What roles will national authorities and the European Securities and Markets Authority (ESMA) play?

CSDs will be authorised and supervised by national competent authorities specifically designated by the Member States. The national competent authorities should, however, consult and cooperate with other relevant authorities, which include the authorities from the Member States responsible for the oversight of each securities settlement system operated by CSDs and the central banks in whose accounts securities transactions are settled. Where a CSD has subsidiaries in several Member States, the CSD Regulation requires the authority responsible for the supervision of the CSD to cooperate with the authorities responsible for the supervision of its subsidiaries. This cooperation also implies immediate information of the authorities involved in case of emergency situations affecting the liquidity and stability of the financial system in any of the Member States where the CSD or its participants are established.

ESMA will have an important role in ensuring cooperation between national competent authorities and developing technical standards for the application of certain provisions of the CSD Regulation.

18. Will CSDs be able to provide services anywhere in the European Union?

The CSD Regulation will provide important opportunities for EU cross-border activities of CSDs as it will grant authorised CSDs a "passport" to provide their services in the EU without the need for further authorisation. This means also that CSD groups can consolidate their operations in a much more efficient way. Whenever a CSD provides its services in a Member State other than where it is established, the competent authority of the home Member State is mainly responsible for the supervision of that CSD.

This opening up of the market for CSD services will be reinforced by the removal of the existing competitive distortions and obstacles in the functioning of the single market. The CSD Regulation addresses the following issues:

- *Access between issuers and CSDs:* issuers will have the right to record their securities in any authorised CSD in the EU.
- *Access between CSDs:* a CSD will have the right to become a participant in a securities settlement system of another CSD based on non-discriminatory and risk-based criteria.
- *Access between CSDs and other market infrastructures, such as CCPs or trading venues:* a CSD will have the right to receive transaction feeds from those infrastructures, and reversely will have to grant them access to its securities settlement system on a non-discriminatory basis.

19. What about third country CSDs? Can they provide services in the EU?

A CSD from a third country can provide its services in the EU. For certain core services and branches in the EU, a third country CSD will need to seek recognition from ESMA. Such recognition may be granted only when the Commission confirms that the legal and supervisory framework of that third country offers the same level of safety as the EU one, when the framework of that third country is effectively applied, when the third country recognises the EU regulatory and supervisory framework and when ESMA and third country authorities put in place cooperation arrangements to ensure that ESMA receives all the information it needs.

20. How does the CSD Regulation treat the provision of banking services ancillary to settlement?

CSDs are operating systemically important infrastructures for the securities and the payments markets. Their resilience needs to be strengthened in line with international efforts. Since some of them provide banking services to their participants related to the settlement service, they are exposed to more risks and, therefore, to a greater likelihood of suffering a default or being subject to severe stress with dramatic consequences for the securities and payments markets.

While these services tend to be limited to intraday lending or deposit taking, the amounts handled are very significant.

The CSD Regulation will allow CSDs to provide banking services ancillary to settlement either directly by themselves or by appointing for that purpose one or more banks. The CSD Regulation will introduce safeguards to address the risks resulting from these services such as:

- The mitigation measures of the related credit and liquidity risks, such as for instance full collateralisation of credit and stringent liquidity management measures.
- An additional capital surcharge for CSDs and banks providing these banking services to CSD users.
- The CSDs and banks providing these services will not be allowed to provide other potentially riskier banking services than those related to securities settlement ('limited licence' requirement).
- Cooperation of supervisors in authorising and supervising the provision of these banking services to CSD users.

21. Why does the CSD Regulation cover sanctions?

The CSD Regulation requires Member States to provide appropriate administrative sanctions and measures that can be applied to breaches of its provisions. This is necessary to deter potential breaches and to ensure that the provisions of the CSD Regulation are effectively complied with. In view of the existing divergences in the national sanctioning regimes of the Member States revealed in the Commission's Communication ['Reinforcing sanctioning regimes in the financial sector'](#), the CSD Regulation harmonises the sanctioning powers which should be available for national competent authorities, the criteria which should be used in the determination of sanctions and the level of fines imposed. The CSD Regulation does not prevent individual Member States from fixing higher standards and does not cover criminal sanctions.