

# CSD-R REGULATION



## 01

### The CSD-R in brief Impacts of the regulation

The [CSD-R](#) (Central Securities Depositories Regulation) is the European Regulation n. 909/2014 that regulates securities settlement services and, more generally, the activities of the Central Securities Depositories (CSDs) on 28 August 2014 and came into force on 17 September 2014.

#### The New Regulation

The new Regulation constitutes a fundamental milestone in the process of harmonizing post-trade activities in Europe.

- [Enhancing the safety and efficiency of CSDs](#), identifies as critical market infrastructure
- [Harmonising the applicable regulatory framework](#) and defining common rules for all CSDs
- [Introducing a standard framework](#) for dealing with settlement fails.

Contents of the primary rules provided for by the regulation are detailed by the provisions of the Delegated Regulations cd. [Technical Standards](#).

The legislation applies to all European CSDs, in addition to the Central Depositories of Iceland, Lichtenstein and Norway. With the entry into force of the CSD-R, all European CSDs have had to request re-authorisation to act as a Central Depository under the new regulation with their respective Supervisory Authorities and document their compliance with the new legislation. Euronext Securities Milan received its licence from domestic authorities in December 2019.

**The purpose of this document is to provide an overview of the main points involving clients** in relation to the implementation of the CSD-R by Euronext Securities Milan. Operating in accordance with the applicable regulatory framework and international best practice, Euronext Securities Milan is aligned with most of the CSD-R provisions, which identifies the CSD as a critical market infrastructure, able to ensure maximum security and operational transparency. With this in mind, MonteTitoli has decided to focus its offer on asset servicing and value-added services that best support the operations of its Participant.

## Impact and Role On Participants

### Reconciliation Process *(art.37 CSD-R – art. 65 RTS Reg. 2017/392)*

With the objective of ensuring the integrity of Issuance, CSDs must verify that the number of securities constituting an issuance (or part of it) is equal to the sum of the securities recorded in the accounts of Clients. To this end, when performing the process of daily reconciliation of the account balances in which financial instruments are recorded, the CSD must perform two key controls, checking that:

- the sum of the balances in Client securities accounts coincides with the balance of the Issuer's securities account with reference to each financial instrument issued;
- the end-of-day balance in the securities accounts of each Participant coincides with the balance on the previous accounting day, including all accounting movements recorded on that day with respect to the issued financial instrument in question. In the event of discrepancies, the CSD must activate the necessary settlement procedures.

In this regard, Article 65 of Delegated Regulation n.392/2017 provides that if the reconciliation process reveals an undue creation or deletion of securities and the CSD fails to solve this problem by the end of the following business day, the CSD must suspend the settlement of transactions in those securities until the account records are properly realigned.

In the event that the settlement of transactions in a security is suspended, the CSD must inform Participants and the competent Authorities. It should be reminded that Clients are also required to perform a similar reconciliation process internally on a daily basis, with reference to the accounting sent by MonteTitoli with its Daily Statement. Any discrepancies must be immediately reported to MonteTitoli.

### Communication Standards *(art.35 CSD-R)*

Pursuant to Article 35 of the CSD-R, in their communication procedures with their Clients, CSDs must use international open communication and messaging procedures, identified as "Communications Standards" in order to facilitate efficient recording, payment and settlement of securities transactions.

ESMA clarified that the standard refers only to communication procedures concerning automated interactions (A2A, machine/machine), not manual interactions (U2A, i.e. man/machine). See document Q&A CSD-R, interpretation art.35).

### Links with other CSDs *(art.37 CSD-R – art. 65 RTS Reg. 2017/392)*

The CSD-R requires that, before establishing a link, the CSD concerned must identify, assess, control and manage all potential sources of risk for the protection of their Participants and take appropriate measures to mitigate them.

Specifically, the link must provide adequate protection for linked CSDs and their Participants, particularly with regard to protection of the financial instruments held through the link.

In this regard, on 23 March 2018, ESMA updated its CSDR Q&A and clarified that links between two CSDs in T2S must be considered as «interoperable links». As a consequence these types of links are subject to additional requirements relating to the alignment of certain operational aspects and require procedures to be followed in case of an insolvency event affecting participants occurs. See document Q&A CSD-R.

### **Settlement Discipline** (*art.7-8 CSD-R*)

The CSD-R provides for the introduction of a set of measures designed to ensure the orderly and timely execution of settlement processes (so-called «Settlement Discipline»).

In particular, the measures are intended to:

- **Prevent settlement fails**, with particular reference to the transactions hold & release mechanism,
- **Monitor settlement fails**, with particular reference to the reporting of fails that CSDs must provide to the supervisory authorities in aggregate form;
- **Manage settlement fails**, with particular reference to
  - i. The regulation of penalties, i.e. when
    - a) transaction is not settled on the intended day (or following days), or when
    - b) settlement instruction is matched after the settlement date
  - ii. The standardization of the buy-in procedure

The European Commission has adopted the **Technical Standards** on 25 May 2018. Currently ESMA has proposed a delay to the entry into force of the new Settlement Discipline to 1 February 2022. Euronext Securities Milan has and will continue to support the implementation of a single procedure for penalties managed in T2S, as the most efficient solution in economical and operational terms. Moreover Euronext Securities Milan is the CSD active within the association of CSD (ECSDA) in the production of the ECSDA CSDR Penalties Framework in order to define harmonized processes between CSDs T2S and not. Lastly, at a local level, it has set-up a subgroup of the PTPC to work on defining the requirements for the implementation of procedures to support the Settlement Discipline domestically.

### **LEI Code** (*art.4 and art. 11.5 RTS reg. UE 2017/392*)

The **Legal Identifier Code, or LEI**, is a univocal code defined according to the ISO 17442 standard that identifies legal entities operating in the financial markets. The CSD-R requires CSDs to record the LEI code of all clients (issuers and intermediaries) in their databases.

Issuers and intermediaries are therefore required to obtain a LEI code and report it to the CSD. The LEI code will be recorded in the CSD's database and used in the reporting obligations to the supervisory authorities. The **LEI code is obligatory** in the admission of new Clients.

### Identification of Key Participants

In order to ensure the proper and efficient functioning of the settlement system, the CSD-R requires that the CSD monitors potential risks arising from clients whose operations, within the settlement system, are particularly significant on the basis of the following elements:

- Number of settled instructions sent (volumes)
- Countervalue handled (value)
- Dependencies between the clients of the CSD and their respective clients, if they are known to the CSD

On the basis of these criteria, Euronext Securities Milan produces a list of «Key Participants» which will be updated periodically. Those included in the list shall be promptly informed by MonteTitoli. In line with the contractual provisions common to all Participants, those identified as “Key” are required to promptly notify the CSD of any organizational and/or technological change that could potentially impact their interaction with MonteTitoli.

### Segregated accounts *(art. 7-8 CSD-R)*

Article 38 of the CSD-R pays particular attention to the protection of Client assets, establishing a set of rules for the structure and segregation of accounts, along with transparent rules regarding the level of protection and associated costs.

In particular, the CSD must allow its Participants to:

- Segregate its own securities from those of its clients
- Hold the securities of various Clients in a single account
- Segregate the securities of each Client, if and as requested by the Participant

In accordance with the above requirements, Monte Titoli introduced the obligation to define the securities accounts of each Client at a data registry configuration level, selecting from:

- Account for own securities
- Account for omnibus third party securities
- Account for third party securities individually segregated (or destined for a single client).

Third party accounts can be used for the registration of securities held by several Clients of a CSD Participant (“omnibus third party accounts”), or for the registration of securities held by an individual Client of a CSD Participant (“accounts segregated at the level of the individual client”).

In the latter case, Participants in the CSD are not required to disclose the identity of the Client. Participants must define their securities accounts using the CLIM Pplatform.

In order to comply with the transparency requirements established by Article 38 of the CSD-R, Euronext Securities Milan has published a specific document on segregation which in addition to describing the various types, indicates the costs, as already published in the Fee list, and the main legal implications associated with each level of segregation.

## **Amendments to Service Rules**

The introduction of the CSD-R has led to a general reorganization of the legislation governing the centralized management and liquidation activities contained in Part III – Consolidated Law on Finance which, in line with Community legislation, now establishes a single set of rules for the activities of Central Depositories. Accordingly, the text of the [Regulations for Settlement Services and Centralised Management](#), are now integrated into a single document as follows:

### **PART I**

- **Common Provisions:** containing provisions on access to services, rules of conduct, suspension and exclusion procedures

### **PART II**

- **Discipline of the Centralised Account and of the ancillary services:** containing specific rules for the Centralised Administration and the current related and instrumental activities

### **PART III**

- **Discipline of the Settlement Service and ancillary services:** containing the current rules for the Settlement Service and related activities, in particular the X-TRM and the cross-border settlement service.

Instructions for the three services will remain separate.

## **Contract**

Given the revision of the structure of the general terms for the supply of services and the substantial amendments of some contractual provisions, Clients are required to submit a new [Request for Services](#).

### User Committee (art. 28 CSD-R)

Article 28 of the CSD-R provides that each CSD is required to establish a [User Committee](#). The Committee is entitled to submit non-binding opinions to the Board of Directors of the CSD on the most significant issues concerning the level of service, the price structure, and/or Italian market harmonization practices. All technical and operational matters dealt within the existing and/or future technical working groups are excluded from the Committee's mandate.

Euronext Securities Milan has made the committee operational with the following composition:

- Three (3) members representing Issuers
- Six (6) members representing Participants of the Settlement Service.

### Organisational structure of the CSD

The provisions of the CSD-R pay particular attention to the internal organization of CSDs and require the adoption of specific governance arrangements. In particular the following corporate positions must be assigned:

- CTO (Chief Technology Officer)
- CRO (Chief Risk Officer)
- CCO (Chief Compliance Officer)

In addition, the following committees must be established to support the Board of Directors in their respective areas of responsibility

- Risk Committee
- Audit Committee
- Remuneration Committee

### Transparency (of fees) (art. 34 CSD-R)

Under the CSD-R, CSDs are required to [publicly disclose the price and fees](#) associated with basic services. In particular, CSDs must publish the prices and fees of each service separately and provide their clients with all information that enables them to check invoices against published pricing lists.

Euronext Securities Milan is compliant with these requirements and continues to ensure transparency in pricing and the services it provides.

For further information, see the "[DownloadArea/Fees](#)" section of the [montetitoli.it](#) website.

## About Us

Euronext Securities Milan, an Italian-based CSD is a leading provider of efficient and secure settlement, custody, asset servicing and issuer services to a domestic and international client base of 197 intermediaries and more than **2,700 issuers**.

Euronext Securities Milan manages a wide range of financial instruments, with over **€3.375 trillion assets under custody** (2019: €3.2 trillion). 51.1 million settlement instructions were processed in 2020.

Euronext Securities Milan is investing strongly in cutting-edge technology to drive a **digital transformation** in its business, introducing Robotics Process Automation and Data Analytics tools to increase operational efficiency and implement a data management business model to identify market trends and offers new and improved client services.

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**<https://www.euronextsecurities>**

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