

Industry Perspectives on CSDR Penalties Regime

AMI-SeCo
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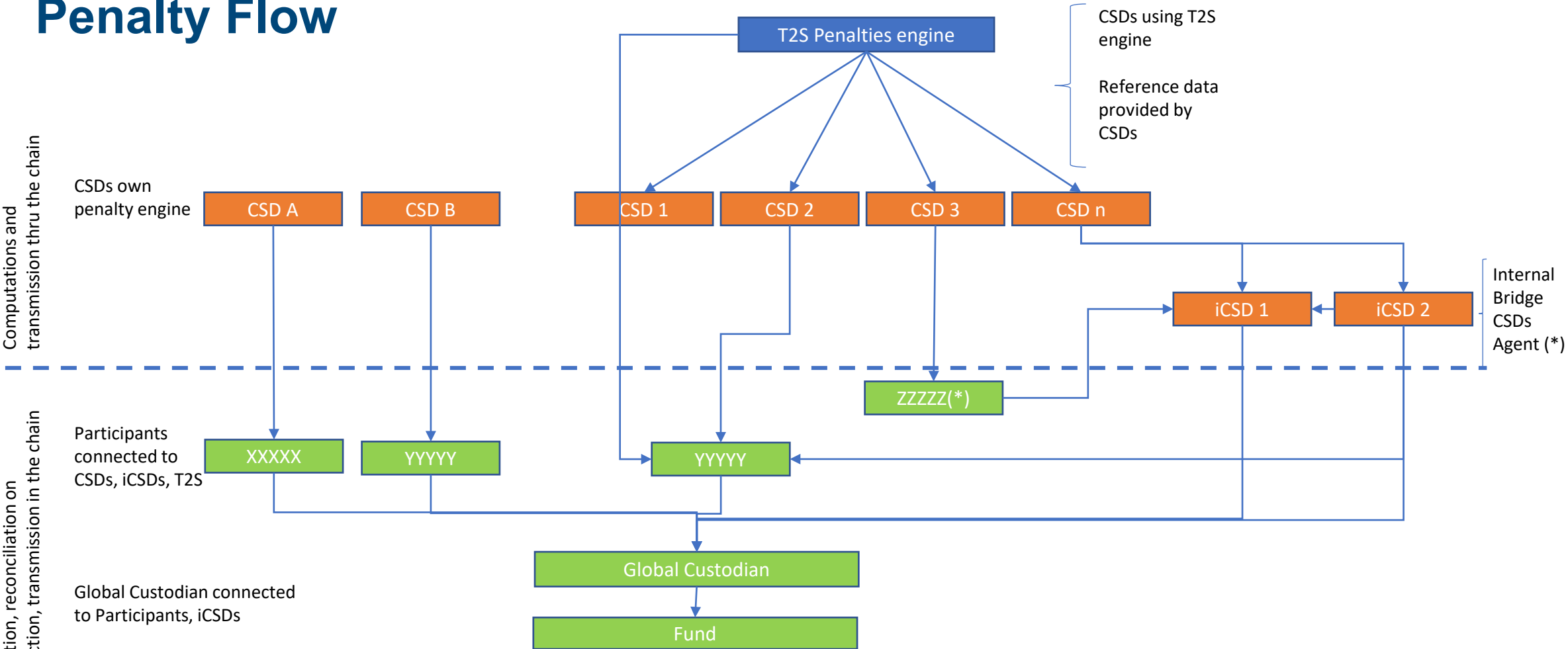


Setting the Scene – Current Processes

Key elements:

- Three processes:
 - Daily penalties – calculation and provision of information down the chain (cascade process)
 - Monthly netting – calculated separately by each service provider for each client
 - Booking of monthly net amounts by each service provider
- Complexity / Timing issues
- Service providers collate information from multiple upstream service providers
- For all three processes, there is a requirement for validation/reconciliation at each point in the custody chain
- All three processes are highly vulnerable to errors
- Processing by any individual service provider is highly dependent on:
 - the ability to automate processes
 - accurate and timely upstream processing, and
 - receiving standardized messages that can be processed STP.

Penalty Flow



Setting the Scene – Implementation so far

Current state of play

- Significant improvement in timeliness of daily reports versus initial weeks
- Ongoing operational issues

Way forward:

- Establishment of three short-term industry working-groups to focus on reference data issues, calendar issues, messaging issues
- Review of existing market standards
- Creation of new market standards
- Improvements proposed through CSDR Refit

Way Forward - Reference Data

- Current challenges include lack of single source to determine in-scope securities and applicable penalty rate; lack of single source for reference price; data quality issues (e.g. CFI codes)
- Industry Task Force has been established – first meeting: **9 June**
- TF is reviewing possible short-term, medium-term, long-term solutions
- Several associations called for a publicly available database containing all relevant information, so that all parties in the chain can access the same data.
- Other regulatory initiatives (e.g. ESAP, Consolidated Tape) could potentially be leveraged

Way Forward - Market Standards - Messaging

- Problems may arise from:
 - Differences in interpretation of SMPG standards
 - Lack of compliance
 - Lack of sufficiently detailed standards
- Industry Task Force has held 4 meetings so far: focused on collated formatting issues and conducted analysis
- 4 potential change requests have been identified and raised to SWIFT
- TF intends to make recommendations to where SMPG standards could be made clearer
- TF intends to publish guidance, highlighting areas where standards are not adhered to

Way Forward - Market Standards – Operational process

- Current challenges include:
 - No market standards document covering intermediaries - only a framework for CSD processing
 - Reconciliation/validation at each point of custody chain is more difficult than anticipated -
 - Differences in approach by intermediaries have knock-on effects down the custody chain
 - High risk of timing issues in custody chains with several intermediaries
 - Concerns expressed by end investors that use multiple custodians
- Industry Task Force has been established to review the monthly calendar– first meeting: **to be arranged in June**
- Intermediaries believe more time is required between generation of monthly report and payment/redistribution
- Longer term, there is a need to develop a market standards document on the model of the CAJWG / SRD2 SI standards:
 - Covering end-to-end operational process (CSD to end investor)
 - Requirements (process / timing) based on place in the custody chain (CSD/CSD participant/etc.)
 - Very high degree of standardisation for clients that are intermediaries
 - Greater flexibility and optionality for clients that are end investors
- Market standards document to complement ECSDA Penalties framework
- All relevant stakeholders to participate in drafting work, and to endorse
- AGC has started discussions on an initial draft

Way Forward - Regulation / Supervision

Current challenges include:

- Involvement of CCPs in collection/distribution process increases complexity
- Application of penalties to “technical” instructions (market claims, registration movements, tax adjustments, etc) increases complexity and noise (as these penalties are difficult to identify, and to allocate)
- Different penalty rates can apply to same instrument dependent on place of trading

Several proposals were made in industry responses to CSDR Refit:

- Amendment of Article 19 of the RTS to remove CCPs from collection/distribution process
- Penalty rate to depend on ISIN (and not on place of trading)
- Changes to scope of CSDR penalties – all cash movements to be out of scope, etc