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REGULATORY INTELLIGENCE

# Countdown to CSDR: challenge, opportunity and what firms should be doing ahead of implementation

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The countdown to the Central Securities Depositories Regulation (CSDR) has begun, and there are now less than four months until implementation. Some uncertainty remains, however, and the European Securities and Markets Authority (ESMA) has recently urged the European Commission (EC) to consider a delay of the mandatory buy-in regime under the Settlement Discipline Regime (SDR) scheduled for February 1, 2022.

The move may come as a relief to market participants, but a delay is just that: the regulation is not going away. Pushing the deadline further back does not mean a full scaleback of the rules, and there are plenty of actions firms can take now to get ahead. Regardless of moving timelines, the author suggests the following best practice:

**Review existing processes**

As part of its argument for a delay, ESMA has highlighted the lack of certainty about whether the proposal from the EC will include changes to the mandatory buy-in rules. This would have an impact on firms' ability to implement the regime — particularly from a cost perspective given the need to change systems and processes later to align with potential amendments.

Additional time is important, therefore, and will help support a review of resourcing and technology capabilities. Firms would be well-advised to review their processes and to gain a clear view of post-trade inefficiencies. They should also reflect on what new systems or controls need to be put in place and ensure they are adequately resourced to implement them.

As part of this process, it will also be critical for firms to take stock of their settlement efficiency rates. The market must be clear on requirements here: any trades that fail will generate a daily penalty until settlement takes place. Firms should use this additional time to look at settlement rates and close any gaps.

**Rethink the status quo**

As with any change, the new regulation presents an opportunity to rethink the way things are done. Regulation can drive organisational change that goes beyond simple compliance, and can deliver enhanced operational efficiency and decrease costs and risks.

Settlement penalties will drive a change in behaviour, but everyone has a role to play. Firms need to engage with trade associations, speak to clients and share experiences with counterparties. The whole world settles securities trades in European depositories — but as an industry, the potential to drive the approach to best practice here is huge.

The author would encourage firms on both the buy side and the sell side to acknowledge the role they have to play — this should not be viewed as a "back-office" regulation, as the potential impact of settlement penalties is far-reaching, with significant profit and loss implications.

**Internal communication and training**

Given the deadlines and the constantly evolving nature of implementation, firms need to provide all stakeholders with regular updates.

There are still unanswered questions, which makes communication between teams essential. If new processes are being implemented, time for training and onboarding also needs to be factored in. Raising awareness of the potential challenges and reputational risk to offset these challenges is also important.

**Align CSDR and SFTR to maximise cross-programme efficiency**

The go-live dates for both the Securities Finance Transaction Regulation (SFTR) and the CSDR were originally planned to converge in September 2020. CSDR was delayed by more than 12 months. Both regulations are governed by the same body and both required significant change to legacy systems and data processes. Firms can, however, achieve efficiencies by putting a plan in place to ensure accurate trade records are made before settlement with transaction reporting. If trades are misreported, there can be repercussions — whether in monetary terms or reputational damage — which are difficult to quantify. SFTR and CSDR reporting should be closely aligned, to maximise reporting efficiencies.

Complaints Procedure