A FURTHER DELAY TO CSDR, WHAT SHOULD YOU DO NOW?

Speed Read

- The European Commission has endorsed the proposed delay to the implementation of CSDR Settlement Discipline until 1 February 2022
- This delay gives firms an opportunity to take a more strategic approach to ensuring compliance
- It also allows them to look to address operational and efficiency issues in their post-trade architectures
- The delay presents an opportunity for greater industry collaboration to establish a joined-up solution for the management of buy-ins
- Delay is not an option, and priority should be given to solving outstanding issues such as achieving consensus on how the buy-in regime will work in practice

IMPACT OF CSDR DELAY TO 1 FEBRUARY 2022

On 23 October, the European Commission endorsed the proposed delay to the implementation of CSDR Settlement Discipline – via an amendment to Delegated Regulation (EU) 2018/1229 concerning the regulatory technical standards on settlement discipline – to 1st February 2022.

While a level of uncertainty will continue due to a number of key issues – for example, solving for asymmetrical payments, a pass-on mechanism and transaction scope – the proposed delay has been welcomed by industry associations and market participants. Concerns has been voiced over specific aspects of the Settlement Discipline Regime (SDR), notably the impact of mandatory buy-ins on market liquidity and a lack of overall industry readiness.

This delay should not prompt market participants to lose momentum or even cease their implementation efforts, but rather take the opportunity to think more strategically about their solutions. We believe that participants should look across their post trade processes beyond just the management of settlement fails. Their focus should be on improving operational efficiency and addressing legacy issues that in turn will address the requirements of CSDR at a global level, rather than just across EU markets.

The industry must continue to collaborate and use this time wisely to identify a joined-up solution for the management of buy-ins. There is still no consensus on how buy-ins will be processed, and this remains the key area where collaboration is critical to finding the right solution, balancing the requirements of the regulators and the industry participants.

The additional time afforded by the delay is also an opportunity to find the path forward in areas such as electronic allocation, confirmations and affirmations. Here the industry must collectively drive a wider adoption of tools and platforms that solve legacy issues in these areas. These service providers must be encouraged by industry to interoperate and lower the barriers to entry to the benefit of the entire market.

Furthermore, the industry should seek to reduce bilateral settlement and move towards full adoption of a central counterparty clearing (CCP) model. Following the more recent focus on this model due to the EMIR & Dodd-Frank regulations, there has been a wider adoption of CCP clearing in the OTC derivatives space – but the securities markets have not followed suit.

The following themes should remain a key focus for the industry to address:

1. Reduce settlement activity

- Target2-Securities – a holistic T2S and clearing strategy could see the consolidation of CSD and agent bank accounts and relationships
- Internal booking models – post Brexit & business reform programs, firms should look at how booking models can be simplified or removed
- CCP clearing - participants should work to widen the adoption of CCP clearing services (buy-side and broker to broker activity)
- Inventory management – firms should develop consolidated real-time single stock records and a more efficient approach to inventory/ collateral management.

2. Increase T+0 trade capture, allocation, confirmation & affirmation accuracy

- Trade capture automation/ timeliness and accuracy remain a key requirement
- Widen the adoption of electronic allocation, confirmation, and affirmation processes

3. Improve reference data quality

- Enhance instrument reference data, for instance via the adoption of a standardized product taxonomy and instrument classification used to confirm settlement location
- Client SSIs – enhancements can be achieved via Intelligent Automation using digital technology such as robotic process automation (RPA), native language processing (NLP) and machine learning (ML).

4. Rationalize/ transform technology

- Retire or plan the decommission of legacy hosted technology and transition to cloud-based applications technology
- Consolidate duplicate/ legacy systems that perform similar processes or functions

5. Buy-in management

- Firms should collaborate with peers, market infrastructures and fintech vendors to define and implement a common industry process for the end-to-end management of buy-ins
- They should also establish the right internal processes to identify and manage buy-ins.

This further delay to CSDR is a real opportunity for the industry to improve operational efficiencies and address legacy issues, which in turn will decrease penalty and buy-in risk when the regulation does go live.

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