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Has CSDR delivered on CMU objectives?

As post-trade services providers and financial market infrastructures, Central Securities Depositories (CSDs) are essential in capital markets and therefore also core to the success of the Capital Markets Union (CMU). CSDs contribute to the CMU objectives by continuously enhancing their service offering towards issuers and investors and by implementing the CSD Regulation (“CSDR”) which confirms CSDs as the safest place to issue, settle and safekeep securities. CSDR also makes CSDs more competitive as it gives issuers choice of which CSD to use for their securities issuance. Also, the technical development of Target2Securities (T2S) has been accompanied by a comprehensive effort to harmonise market practices across those markets which have migrated to T2S.

For CSDs, in a further step towards more integrated and harmonised EU post-trade processes, there are two main focus points in the coming years. First, the upcoming CSDR review which is foreseen to start shortly. Second, implementation of recommendations for harmonisation which have been put forward by the European Commission’s CMU High-Level Forum (HLF).

On the one hand, the review of CSDR comes (too) early as not all EU CSDs have been authorised. The review should therefore be targeted to a few key elements that could foster further integration among CSDs. A review of CSDR should be focused on easing passporting and improving supervisory convergence - two topics that have proven less successful in the ongoing CSDR implementation.

On the other hand, the delay that was offered by the authorities for the implementation of the Settlement Discipline Regime (“SDR”) should also allow time to reflect on the content of such regime. The COVID -19 crisis may provide a valuable data set to analyse the (theoretical) impact the SDR could have had. As a follow-up of the recent market turmoil, we believe it would be prudent for the Commission and ESMA to carefully assess all implications of the SDR. The surge of settlement volumes combined with business continuity arrangements, may cater for new insights on the impact of measures on settlement efficiency and market liquidity.

From a CMU perspective, and in addition to the recommendations of the HLF, we believe renewed attention is required on how the trading, clearing and settlement layers operate cross-border, post implementation of major regulations such as MiFID, EMIR, CSDR, taking into account different dynamics of cash instruments

(equities, debt). The Commission could seek evidence on the effectiveness of the open access and interoperability requirements included in MiFID, EMIR and CSDR and the reasons for a potential lack thereof.

A well-targeted CSDR review, combined with further harmonisation as suggested by the HLF will contribute to the CMU objectives and global competitiveness of EU capital markets, supporting the International role of the Euro. ●