

Central Securities Depositories - Regulation





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CONTEXT



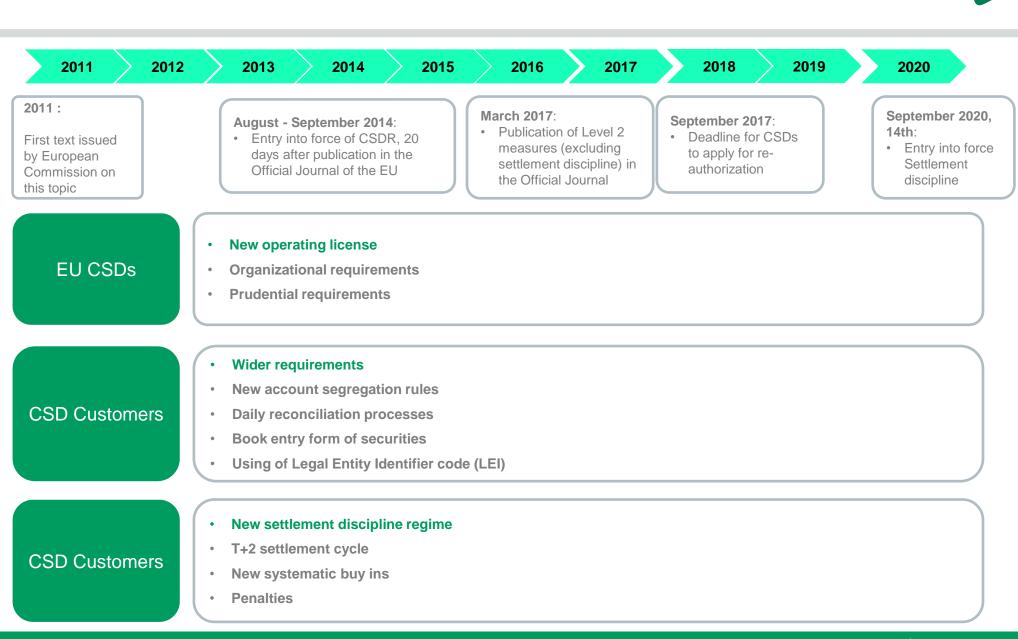
	• As soon as 2004, European Commission performed some workshops on the need to provide some rules of CSDs and globally on the European post trading
	• No reason at that time to speed up the process and crisis 2007-2008 proved the relative "good health" of CSDs which were viewed like "safe" for many actors. CSDs were followed closely under domestic law
	G20 decisions on OTC Clearing for Derivatives products
Some piece of History	 The G20 was instrumental in establishing the core elements of a new global financial regulatory framework that should make the financial system more resilient
	MIFID 2008 aims at harmonizing rules among the European market (trading platforms)
	EMIR 2013 -> in respect of CCPs and Trade repository
	 => Fixed Income Settlement & Custody functions were missing in the scope
	CDSR should be seen as complementary to both EMIR and MIFID regulation
	Who's concerned?
	CSDR applies to European Central Securities Depositaries (CSD's)
Who's	 CSDR applies as well to any entities being participants on those CSDs (result of the requirements imposed on CSDs themselves)
concerned	Issuers that issue securities in EU CSDs
	Participants to CSDs
	Banks that offer banking services to CSDs
	To set up some common rules for CSDs through European Markets
	 Need of harmonizing settlement infrastructures obvious since T2S implementation
What's the aim	To increase the safety & efficiency of securities settlement
	Raise & tackle the "Failed topic" which was highlighted during & after the Financial crisis
	 => To improve operational efficiency and asset protection

CRÉDIT AGRICOLE CORPORATE & INVESTMENT BANK

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TIMELINE





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SUMMARY OF IMPACTS



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New operating License	CSD Passport
Organizational requirements	 CSDR changes the CSD landscape by reducing the number of CSD operating currently around 40 Concentration of CSD
Prudential requirements (LIVE)	 CREDIT Credit lines, custody advances or Bank guarantees need to be collateralized COLLATERAL New rules for collateral valuation or haircuts Review/set up of concentration limits LIQUIDITY Debit interest at a minimum threshold RISK MANAGEMENT Comprehensive risk management framework covering legal, operational and business risks
Stakes for final clients	 Syndicated new issues : To check we have sufficient collateral the day of the peak Revisit our current process for all syndicated issues where we are the issuer or lead manager Custody advances : To use proceeds prior to payments confirmations, we II need : A sufficient Credit line by the CSD/ICSD Sufficient collateral associated with the credit line

SUMMARY OF IMPACTS



ACCOUNT SEGREGATION

- · CSD customers to offer to their clients choice between
- Omnibus client segregation or not
- CSDs and customers to disclose levels of protection and cost associated

RECONCILIATION

· CSD Customers to reconcile their records with the information received by the CSD on a daily basis

BOOK ENTRY FORM

- End of paper securities (dematerialization)
- · Securities transferable or admitted on trading venues

MANDATORY LEI

- Unique 20 character code that identifies legal entity
- CSDs to collect LEIs from CSD customers or issuers
- Should facilitate record keeping

Wider Requirements





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SETTLEMENT DISCIPLINE Key changes

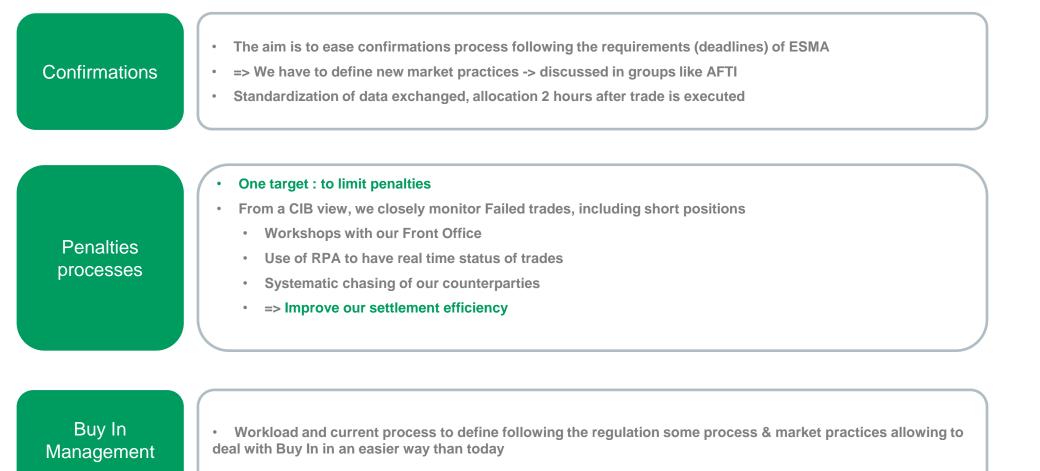


Global Target	 The aim is to set up one single rule package for all European Markets. CSDs will require its customers to ensure smooth settlement on the intended settlement date Individual settlement performance will be reviewed by CSDs and reported to regulators Sanctions for non-compliance may apply
Failed prevention	 Extended settlement period Following the liquidity of products, we have extended period s of settlement from 3-7-15 days before some penalties apply Partial settlement CSD-R open the door to partial settlement. The aim is to force the partial settlement as soon as counterparty hold part of the nominal traded => Should lead to further use of standardized settlement messaging services by participants => May impact market liquidity
Buy In	 Trading parties or CCPs will be required to initiate buy ins and report the outcome details to the CSDs Fails matched however failing due to lack of securities will be taken into account as well
Penalties	 Beyond this period, CSDs are required to play a "new" role to facilitate such process To calculate, report the amounts due on a daily basis To collect & redistribute money back to counterparties concerned ICSDs (Clearstream, Euroclear Bank) will follow this new process It will take place at least monthly



CONFIRMATIONS / SETTLEMENT DISCIPLINE What is at stake for final customers like CACIB









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NEXT CHALLENGES



Challenges

- · Represents a big structural change in market practices
- Significant technical changes for CSDs to make the necessary adaptations
- Capacity for domestic CSDs to innovate in an environment of change
- National protectionism

Benefits expected

- · Securities infrastructures linked with common EU rules
- Solving the costly fragmentation of securities market infrastructure => final phase of T2S?
- Stimulates competition between actors

