

CSDR Reconciliations & Breaks Reporting - an AutoRek Assessment



Introduction

In order to decisively address the risks and uncertainties attributable to longer settlement periods for transactions in transferable securities, the European Parliament and Council have progressed with Regulation (EU) No 909/2014. This regulation is set to improve on securities settlement in the European Union and on the central securities depositories by amending Directives 98/26/EC and 2014-65-EU along with Regulation (EU) No 236/2012.

The European Parliament and Council have found it necessary to provide a common settlement period to facilitate the identification of the required settlement date and facilitate the execution of measures to support a systematic settlement regime. The intended settlement date of transactions in transferable securities which are executed on the trading venues regulated by Directive 2014/65/EU and Regulation (EU) No 600/2014 should be no later than on the second business day (T+2) after the trading takes place. The regulation also supports Member States with effective reconciliation specifications to reduce the sources of errors for issuers, investors and intermediaries.

After being published in the Official Journals of the European Union in August 2014, CSD regulation is gradually entering into force.

“Partnering with CSDs and Direct Depository Participants to support their Regulatory Reconciliation & Breaks Reporting obligations.”



Timeline:

| | | | | | | | |
|--|--|--|---|---|--|---|--|
| • August CSDR published in official Journal | • March RTS published for CSD requirements and settlement internalisation | • May RTS settlement discipline published | • July first internalised settlement reporting to NCAs | • September initial entry into force SDRs, including buy-ins and penalties (estimated) | • February initial entry into force SDRs, including buy-ins and (delayed to*) | • January book entry form for all new issues | • January book entry form for all transferable securities |
| 2014 | 2017 | 2018 | 2019 | 2020 | 2021 | 2023 | 2025 |

*Timeline under review with ESMA



Overview of Key Topics:

The CSDR coverage has a complex and wide range of requirements, effectual interpretation and associated implementation can be time consuming and burdensome. The summary below itemises the main topics, focusing on the reconciliation requirements.

Authorisation and Obligations for a CSD

Renewal of licenses will be compulsory for all CSDs in order to continue providing their services.

Daily Reconciliation and Breaks reporting of securities will be mandatory as stipulated in Article 17, 36, 37, 42 and 48.

- The CSD shall report on the number of reconciliation breaks encountered and attributed to undue creation and/or deletion of securities in the issue maintained by the CSD.
- The CSD shall have appropriate rules and procedures, including robust accounting practices and controls, ensuring the integrity of securities issues, and reduce and manage the risks associated with the safekeeping and settlement of transactions in securities.
- The CSD shall be responsible to implement suitable reconciliation measures to verify security issues in part or full equivalent of the sum of securities recorded on the depository participants account of the settlement system, operated by the CSD.
- Linked CSDs should have strong reconciliation procedures and processes to ensure accuracy of respective records. Similar reconciliation procedures shall be used for intermediaries.

- All CSDs and depository participants to offer respective clients a choice of individual or omnibus accounts.

Internalised Settlement

Quarterly reporting by BD10 based on a single LE aggregated by volume and value would be required if entities (i) do not forward client settlement instructions to CSDs or DPs and (ii) settlement instruction results in transfer of securities outside a CSDs records.

Settlement Regime

One of the more significant requirements of the CSD is to increase settlement efficiency, focusing on:

- Strict daily cut-offs for allocation and confirmation.
- Standardised settlement matching fields and active real-time matching.
- Transparent reporting of settlement efficiency rates, benchmarked to market average.
- Disciplinary action via cash penalties and mandatory buy-in for transactions failing SD+4.



Reconciliation Impact:

The CSD regulation and associated articles will impact two market participant groups in particular:

- Central Securities Depositories (CSD).
- Direct CSD Participants: i.e. Registrars, Issuer and Transfer Agents, Fund Managers and Custodian Banks.

The impact on the Securities Borrowing and Lending (SBL) business has also been noted. Several reconciliation scenarios and potential variants have been mapped in the table.



Reconciliation Impact table:

| Scenario | Reconciliation Name | Reconciliation Frequency | CSD Core System Records | External Participant Records |
|------------|---|---------------------------|--|---|
| 1 | Registrar Model: Daily Total Balance Reconciliation | At least once Daily | Total balances per securities account | Registrar/Issuer agent records: total balances per securities account |
| 1.1 | Registrar Model: Daily Settlements Reconciliation | At least once Daily | Total balances per securities account transferred during a given business day (including aggregated opening and closing balances and daily transactions) | Registrar/ Issuer agent records: total balances per securities account transferred during a given business day (including aggregated opening and closing balances and daily transactions) |
| 1.2 | Registrar Model: Securities Issuer Full Reconciliation | At least once Fortnightly | All balances per securities issue | Registrar/Issuer agent records: all corresponding balances per securities issue |
| 2 | TA/FA Model: Record Reconciliation | At least once Daily | Total balances per securities account (including aggregated opening and closing balances) | TA/ FM entity records: total balances per securities account (including aggregated opening and closing balances) |
| 2.1 | TA/FA Model: Record Reconciliation via CSD Third Party | At least once Daily | Total balances per securities account via CSD third party (including aggregated opening and closing balances) | TA/FM entity records: total balances per securities account (including aggregated opening and closing balances) |
| 3 | Common Depository Model: Daily Total Balance Reconciliation | At least once Daily | Total balances per a securities account (including aggregated opening and closing balances and daily transactions) | Linked CSD records: total balances per a securities account (including aggregated opening and closing balances and daily transactions) |
| 3.1 | Common Depository Model: Full Total Balance Reconciliation | At least once Daily | Total balances per a securities issue (including aggregated opening and closing balances and daily transactions) | All linked CSD records: total balances per a securities issue (including aggregated opening and closing balances and daily transactions) |
| 3.2 | Common Depository Model: Part Immobilization Reconciliation | At least once Annually | Total balances per a securities account per last audited inventory | Linked CSD records: total balances per a securities account per last audited inventory |
| 3.3 | Common Depository Model: Full Immobilization Reconciliation | At least once Annually | Total balances per a securities issue per last audited inventory | All linked CSD records: Total balances per a securities issue per last audited inventory |
| 4 | Corporate Actions Processing: Control Reconciliation | At least once Daily | Full securities issuer data set | External Corporate Actions Vendor: full events feed (golden record) |

In flight project:

"AutoRek are working with a leading European exchange with multiple issuers across the Eurozone. Pre CSDR the obligation for reconciliation was outsourced to issuer agents, post CSDR the Exchange must be responsible for the reconciliation. Autorek are assisting to build a seamless, automated process that will allow the exchange to discharge this regulatory obligation with minimum operational impact & cost while exposing other areas for automation and efficiency savings."



Why AutoRek?

Now more than ever, businesses need to deliver excellence service to their clients in a unified manner, utilising new and innovative workflow and people management practices, as they are reliant on distributed and remote team working. This is where AutoRek's innovative and holistic platform can make a significant contribution towards specific business goals.

Using its collective expertise, grounded with robust data management and reconciliations insight, AutoRek is able to successfully tier and incorporate Robotics and Machine Learning. Using the platform's time tested "participated and graded process design approach" the solution increases straight through processing accuracy. This in turn supports volume ramp-ups and exception management, delivered seamlessly through the Cloud.

This approach has energised and transformed manual and long-established business processes using conventional tools. Thus enabling business teams to focus precious time on value add activity, which support the reduction in operational risks carried by the teams and ultimately, a demonstrable increase to the operational resilience of the organisation.

How AutoRek can Provide Comprehensive Support:

- Single reconciliation engine integrating data from DDPs and core CSD system within existing CSD infrastructure per Article 48(6).
- Compliant with the stipulated double-entry accounting principle per Article 59.
- Immobilisation reconciliation of physical securities (if applicable) based on audited inventory record extracts per Article 59.
- Control reconciliation to facilitate Corporate Actions processing per Article 60.
- Labelling of suspended securities to support internal controls per Article 65.
- Automatic matching per Securities Issue per Securities Account per Article 86.
- Robust audit and workflow management to comply with maker and checker principle per Article 86.
- Capable of integrating ISO 15022 (i.e. MT535 and MT536) and ISO 2022 (i.e. Semt.017) input standards.
- Active archiving to save reconciliation data for up to 10 years on Cloud.
- Adaptable to supplemental regulatory requirements and new data feeds.

Find Out More

To arrange a demonstration or a confidential discussion to explore our methodology and credentials, please contact us:

To find out more, please contact us:

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