

Information

The influence of CSDR provisions

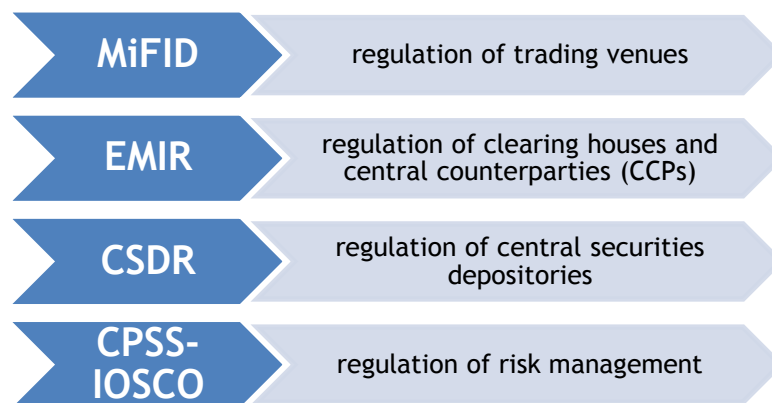
14 December 2016

Dear Clients,

This is to provide you more details on [CSDR](#)¹, the EU regulation on central securities depositories. The information is provided in the form of questions and answers.

What is CSDR?

After the crisis of 2008, European regulators took steps to cover with European regulations the entire capital market value chain. The CSDR in force since 2014 achieved this goal.



The 30 depositories located in 28 EU member states and 2 additional depositories in the European Economic Area are required to comply with the provisions of the CSDR.

The most important goal of CSDR (or CSD Regulation) is to increase the security of settlements in order to facilitate the creation of a European securities market subject to uniform regulations and increase the security of central securities depositories. The regulation determines the details of central securities depository authorization, the rules of operation of central securities depositories, and, bearing in mind the depositories with banking license, separate rules on the operation of depositories with banking license.

The regulation or the technical standards (Regulatory Technical Standard - RTS, or Implementing Technical Standards - ITS) state the rules and details, a part of these await final approval.

All EU depositories are required to comply with the CSDR. In order to meet the applicable deadlines, KELER has to submit to the MNB the authorization request in the summer of 2017.

¹ Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012.

How will KELER comply with the requirements of the CSDR?

As an entity with special credit institution license also under Hungarian law, KELER is required to be authorized under CSDR as a central securities depository and as a credit institution also. The authorization deadlines are not yet final, and depend on the finalization of the RTS/ITSs. Based on currently available information, the authorization timeline for KELER will be as follows:



KELER launched a project to ensure CSDR compliance, and in this project KELER cooperated with the MNB to analyze the impacts of the CSDR. Besides regular consultation with the MNB, preparatory work is in progress related to submitting the authorization requests.

What are the key measures of CSDR?

- EU-level depository authorizations
- general introduction of T+2 settlement cycle for regulated market trades (the KELER Group complies with the requirement since 2015)
- mandatory dematerialization (as of 2023 all transferable securities are to be kept in securities accounts)
- harmonized authorization and operation rules for depositories
- introduction of Intended Settlement Date (ISD), to which default can be measured
- mandatory buy-in, penalties for late settlement
- standardization, increase of capital requirements
- uniform rules on the provision of services offered by central securities depositories, e.g. tighter capital requirements for the provision of credit institution services
- uniform prudential rules to ensure the solvency of depositories
- mandatory application of CPSS-IOSCO risk management guidelines in regulations
- mandatory recovery and capital situation/ liquidity plans
- mandatory creation of User Committees - market representation

The RTS governing mandatory buy-in, late settlement sanctions is expected to be finalized in January or February. We will inform you in detail after these regulations are published.

Based on consultations to date, KELER can continue to provide credit institution services following the authorization.

How does the User Committee work?

In order to meet the requirements of CSDR KELER has set up a User Committee as a forum for consultation for its customer base. The first meeting of the User Committee was held on 13 December 2016.

By establishing the User Committee, KELER aims to create an independent advisory body which serves as a primary forum for consultation for both market players and KELER and ensures compliance with CSDR requirements.

KELER has invited different industry associations with close working relations to KELER to join the forum, such as: the Association of Hungarian Investment Fund and Asset Management Companies ('BAMOSZ'), the Association of Investment Service Providers ('BSZSZ'), the Hungarian Banking Association, the Budapest Stock Exchange, the Investor Protection Fund (BEVA) and in representation of the energy market, the Hungarian Independent Transmission Operator Company, MAVIR and KELER CCP. The Committee comprised of one delegate from each invited organization.

To what extent are the CSDR requirements in line with the T2S harmonization efforts?

The CSDR is in line with the T2S goals, and will complement each other in the future. As a uniform European settlement platform, T2S facilitates the harmonization of European securities settlement systems, while CSDR standardizes the various national practices through the regulation of central securities depositories.

Should you have any questions on the above, please contact:

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Budapest, 14 December 2016

Sincerely,
KELER Ltd.