



Guide

On the Impacts of the CSDR on the Clients of
KELER Ltd.

18 September 2017

Dear Clients,

Please find below the summary of the client impacts of the [CSDR](#), the European Union regulation governing the operation of central securities depositories.

In line with the provisions of the CSDR, KELER is required to acquire re-authorization for both central securities depository services and banking-type ancillary services. The deadline to submit authorization requests is standard across Europe; thus, KELER is to submit the request of authorization to the Magyar Nemzeti Bank (MNB) as competent authority until the end of September 2017. The CSDR states that the MNB has 6 months to decide on the request, this period starts after the authorization request is validated in terms of format; consequently, KELER is expected to receive the new license in March 2018. As competent authority, the MNB expects KELER to comply with the requirements of CSDR as much as possible at the time of submitting the authorization request; however, certain regulatory documents of KELER, such as the General Business Rules and Fee Schedule, including the applicable provisions of the CSDR enter into force at the time the license is provided. Accordingly, the rules detailed below, relating to the clients of KELER, if these rules mean any change in the current practice, mostly take force at the time the license is acquired. The applicable deadline will be stated for the provisions that the regulation allows to be introduced after the date of the license.

The authorization request of KELER is being finalized, and will be submitted to the MNB before the end of September deadline; KELER will inform Clients when the request is actually submitted.

Some of the provisions of the CSDR will impact the clients of KELER Ltd., or state requirements for the clients of KELER also. The following pages highlight these changes, any requirements applicable to the clients of KELER, and the client groups to which the provisions apply.

In addition to information on client impact, KELER will provide further details on the CSDR in the near future.

Sincerely yours,
KELER Ltd.

Potential impact of the CSDR provisions on the clients of KELER

Measures to improve settlement discipline

Settlement Discipline is one of the key measures of the CSDR, and is expected to enter into force as of 2019. The Settlement Discipline rules will require central securities depositories to impose financial penalties on clients for failed trades and introduce mandatory buy-in procedures to encourage their securities account holding clients to settle trades until the intended settlement date.

Impacted client groups

- Investment firms keeping securities accounts with the depository

In line with Article 6 of the CSDR, the investment firms keeping securities accounts with KELER are required to take measures to limit the number of settlement fails.¹ Such measures at least consist of arrangements between the investment firms and certain of its clients that ensure trade settlement at the latest on the intended settlement date (e.g. prompt communication of an allocation of securities to the transaction, confirmation of allocation and confirmation of the acceptance or rejection of terms in good time before the intended settlement date). In light of the above, investment firms are required to introduce measures with respect to their clients also.

The final technical standards including the detailed rules have not yet been published, based on information currently available to KELER the final technical standards are expected to be published in the autumn of 2017. Detailed rules and the applicable provisions of the CSDR are to be applied 2 years after publication. After the publication of the final standards, KELER plans to set up a working group to inform market participants on the impact of the provisions and consult market participants on the issues arising related to the application of the provisions. KELER will invite to the working group the representatives of the User Committee, the Settlement Committees of the Government Debt Management Agency and the Budapest Stock Exchange, and the representatives of its clients with the highest turnover. All Clients will be informed on the results of the consultation.

Protection of the securities of system participants and clients

The CSDR requires central securities depositories to allow segregation at the following levels: the account of securities account holder („participant own account”), single client account („individual client segregation”) or the account in which the securities belong to multiple clients („omnibus client segregation”).² KELER offers the possibility of segregation at these levels; the provision does not mean any change in the current situation.

Impacted client groups

- Investment firms keeping securities accounts with the depository

In line with the above, from the time of obtaining the CSDR license, the holders of securities accounts with KELER “are required to offer their clients at least the choice between omnibus client

¹ Article 6 (2) of the CSDR

² Article 55 (3) of the [Regulatory technical standards on authorization, supervisory and operational requirements for central securities depositories](#)

segregation and individual client segregation and inform them of the costs and risks association with each option.”³.

Reconciliation

Reconciliation, i.e. the comparing of the end-of-day central securities depository portfolio to the records of central securities depository account holders is part of the current market practice. The account statements that KELER provides electronically (KID or SWIFT) or on paper for the clients without electronic access allow reconciliation to be performed. The CSDR requires the holders of securities accounts with KELER to compare at least daily their own records to the daily information provided by KELER .⁴

Impacted client groups

- Holders of securities accounts with the depository

In view of the above, our clients need to pay particular attention to the following information provided by KELER when performing reconciliation:

- aggregate balance of the securities account at the start of the trading day concerned;
- individual securities transfers in the securities account on the trading day concerned;
- aggregate balance of the securities account at the end of the trading day concerned.

Detailed rules related to reconciliation can be found in Chapter IX (Articles 59-65.) of [the regulatory technical standards on authorization, supervisory and operational requirements](#).

Although KELER does not expect that any event raising the suspicion of deviation would occur, KELER analyses all cases of non-compliance and controversy that may result from reconciliation and intends to solve them on the day of occurrence. If it can be concluded based on the reconciliation that the creation or cancellation of securities was unjustified, and KELER does not sort out the issue until the end of the following settlement day, KELER suspends the settlement of the securities series concerned until the unjustified securities creation or cancellation is remedied, and it requests the trading venue concerned to suspend it also. KELER informs its clients and the authorities involved without delay. After the correction of any deviation, the suspension of the securities series is terminated, thus ensuring continuous trading of the securities concerned.

Internalized Settlement

The CSDR requires the so-called Settlement Internalizers to report to their competent supervisor the aggregate volume and value of all their trades settled outside central securities depositories. The first report of this type is due to be submitted within 10 business days of the end of the first quarter after 10 March 2019.⁵ The applicable technical standards govern the content of reports.

KELER will provide the necessary data to the competent authorities in line with the requirements.

Impacted client groups

- Settlement Internalizers: any institution executing securities transfers on behalf of clients or for own account, without the involvement of the central securities depository (e.g. KELER)

³ Article 38 (5) of the CSDR

⁴ Article 37 of the CSDR

⁵ Article 1 (1) of [Commission Regulation \(EU\) 2017/393 of 11 November 2016 laying down implementing technical standards with regard to internalized settlements](#)

For detailed information on the trade data to be reported, please refer to the applicable technical standards of the CSDR:

- [Commission Delegated Regulation \(EU\) 2017/391 on regulatory technical standards on internalized settlements](#)
- [Commission Implementing Regulation \(EU\) 2017/393 on technical standards with regard to internalized settlements](#)

Legal Entity Identifier (LEI)

LEI, the unique identification code of legal entities of 20 characters became widely known due to the reporting requirement stated in EMIR ('European Market Infrastructure Regulation') for capital and energy market participants. The use of LEI has been expanding in the past years, and will continue to increase as LEI is a mandatory element of the MiFID II. reporting as of 2018.

Impacted client groups

- Holders of securities accounts with the depository
- Securities issuers

It is mandatory⁶ for central securities depositories to collect and record the LEIs of their securities account holder clients and issuers. This requirement is to ensure that central securities depositories can meet their reporting obligations to domestic and European supervisory authorities with the use of standard forms, tables and procedures. Accordingly, all the securities account holder clients and issuer clients of KELER are required to have LEI.

In line with the expectations of ESMA, the European Securities and Markets Authority, after the license is received, KELER is also required to validate that the LEIs provided by issuer clients are the identifiers of the appropriate legal entities and the identifiers are valid.

Provision of banking-type ancillary services

KELER will continue to provide banking services to clients as a specialized credit institution after its CSDR license is received. KELER submits the request of authorization to provide banking-type ancillary services to the MNB as part of the CSDR license request.

Impacted client groups

- Clients having cash accounts with KELER

According to the provisions of the CSDR, in the future KELER can offer banking services only to the participants of the securities settlement system, that is to say to its clients that have securities accounts also.

Acceptance of clients, risk management

In line with the requirements of the CSDR, KELER already has transparent eligibility terms for clients wishing to open securities accounts, available to the public in the General Business Rules.

Impacted client groups

- Holders of securities accounts with the depository

⁶ Based on Article 29 of the CSDR and Article 11 (5) of the implementing technical standards on the licensing arrangements of central securities depositories

The client identification procedures comply with the requirements of the CSDR and the regulations in effect to prevent money laundering and other legal regulations, KELER regularly reviews these procedures. As part of compliance with the provisions of the CSDR, KELER plans to introduce the Know-Your-Customer (KYC) questionnaire, the only new element and a condition of account opening and account management for clients holding securities accounts in order to be able to assess more efficiently any counterparty risks. KELER will provide detailed information on the questionnaire before it is introduced.

KELER is required to determine, monitor and manage the risks that the activities of major securities account holders may result related to its activity.⁷ The major securities account holders will be determined based on the following data: trade volumes and values, substantial interdependencies between account holders and their clients, impact of individual account holders on other account holders in case of any operational issues at KELER.⁸ KELER is required to identify the clients of account holders if they are known to KELER (e.g. their transactions are settled in dedicated accounts) and they represent a significant part of the transactions of KELER or the account holder concerned. KELER performs the identification of account holders in the KYC questionnaire to be introduced; however, in line with the above, this identification will be performed only for its clients with the highest turnover.

It will be mandatory for KELER to test IT systems (primarily upon introduction and upon major changes). KELER will have to involve its clients in the testing if necessary. The currently known requirement of testing is not expected to result in significant changes in the present practice of KELER.

⁷ Article 45 (6) of the CSDR

⁸ Article 64 (1) of [Commission Delegated Regulation \(EU\) 2017/392 of 11 November 2016 on regulatory technical standards on authorization, supervisory and operational requirements](#)