

CSD Regulation

FAQs

1. What is the CSDR (European Central Securities Depositories Regulation)?

This is 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, hereinafter the CSDR, which sets out to harmonise certain aspects concerning settlement and establish a set of common requisites for CSDs operating in the EU. The CSDR plays a crucial role in attempts to harmonise post-trading in Europe, because it will improve the legal and operational conditions to help bring about a proper, efficient and secure settlement process.

2. When do the CSDR obligations will be applicable?

The effective date of the requirements depends on the date on which the CSD concerned obtains the mandatory authorisation stipulated in the regulation, a process which IBERCLEAR is currently undergoing. Notwithstanding the foregoing, the introduction of the regulation on internalised settlement and settlement discipline is independent of the obtaining of this authorisation, and they will come into force on 10 March 2019 and 13 September 2020 respectively.

3. How does the CSDR affect IBERCLEAR clients?

The future application of the CSDR entails new features and requisites which may be of interest to IBERCLEAR participants and issuers.

Reconciliation

The CSDR obliges CSDs to implement reconciliation measures (set out in Chapter IX of Regulation 2017/392) to verify that the number of securities making up an issue or forming part of a securities issue registered with the CSD is equal to the sum of securities registered on the securities accounts of the CSD participants. In this regard, CSDs must carry out daily internal and external reconciliation procedures, which in turn obliges participants to carry out internal reconciliations.

Book-entries

The CSDR requires any issuer established in the Union that issues or has issued transferable securities which are admitted to trading or traded on trading venues to arrange for such securities to be represented in book-entry form as immobilisation or subsequent to a direct issuance in dematerialised form (Article 3.1 CSDR).

Utilisation of the LEI (Legal Entity Identifier)

Article 29.1 of Regulation 909/2014, which stipulates that depositories will maintain, for a period of ten years, all their records on the services and activities carried out, and Annex IV of Regulation 2017/394, entail the obligation for participants and issuers to have the LEI in the formats

established for registers of operational and settlement instructions and registers of positions.

Thus all IBERCLEAR participants and issuers must provide LEI data and keep them updated, including its renewal.

Settlement discipline

In general terms, the objectives pursued with the measures to prevent settlement fails and treat settlement fails are for settlement instructions to be notified by the entities involved for them to be validated and accepted by the system as soon as possible, for a match to be forthcoming as soon as possible in order to secure irrevocability, so that settlement instructions are finalised at their intended settlement date (hereinafter ISD), to enable the security to be actually transmitted (Articles 6 and 7 CSDR).

The package of regulations for measures concerning settlement discipline will be applicable from 13th September 2020.

Transparency

With regard to governance, CSDs must have an ARCO settlement system User Committee, which must be composed of representatives of issuers and participants (Article 28 CSDR). In this regard, IBERCLEAR has issued Circular No. 1/2019, 29 January, on "Committee of users of ARCO settlement system", which aims at the creation of a Committee of users that will be composed of representatives of issuers and participants of the system.

Risk management

From the perspective of participants and their clients, the CSD's new risk management requisites focus on three aspects: monitoring of fails, identification of the systemic participants and the protection information based on different account segregation options.

Internalised settlement

The CSDR obliges credit institutions and investment services companies to report quarterly to their competent authority the volume and aggregate value of the transfer orders of securities settled outside the securities settlement systems. These settlements fall outside the functions

attributed to IBERCLEAR, as manager of the settlement system. Nor does IBERCLEAR perform any monitoring or control functions in relation to these settlements.

The first report on volume and aggregate value must be submitted by the internalisers within ten business days starting from the end of the first quarter after 10 March 2019.

4. How does TARGET2-Securities (T2S) affect the authorisation process under CSDR?

As a result of the creation of the ARCO System, including its migration to T2S, and the process of operational and regulatory adaptation that IBERCLEAR had to carry out, the regulatory framework applicable to IBERCLEAR already contains many of the organisational and operational requirements stipulated in the CSDR and, likewise, many of IBERCLEAR's operational procedures have already been adapted.

5. How does the CSDR affect the market infrastructures?

The CSDR will affect the operations of market infrastructures. Among other aspects, regulations on settlement discipline will establish penalties for fails and any repurchases carried out after the ISD.

6. How does the CSDR affect IBERCLEAR??

IBERCLEAR submitted in 2017 an authorisation request to the CNMV and it is still working in order to obtain the statement that considers as completed the documentation that certifies compliance with the organisational and operational requirements of the CSDR, according to the terms defined in this Regulation and in the Commission Delegated Regulations and Execution Regulations approved in implementation of the CSDR.

7. What are the next steps in the authorisation process?

Once the application is considered as completed, the CNMV will have six months to inform IBERCLEAR in writing with a fully reasoned decision as to whether the authorisation has been granted or refused (Article 17.8 CSDR).

8. Where can I find further information?

You will find further information at the following link:
<http://www.iberclear.es/esp/Normativa/Marco-Legal>

You may write to the following e-mail address for further information: srmiberclear@grupobme.es

BME

Bolsas y Mercados Españoles
Plaza de la Lealtad, 1
Palacio de la Bolsa
28014 Madrid

www.bolsasymercados.es

This material has been prepared by Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros S. A. (BME) and/or its subsidiaries (collectively, "BME", all of the foregoing entities belonging to the group headed by SIX Group Ltd., hereinafter "SIX Group") for the exclusive use of the persons to whom BME delivers this material. This material or any of its contents should not be construed as a binding agreement, recommendation, investment advice, solicitation, invitation or offer to buy or sell any financial information, products, solutions or services. Nor is this information a reflection of the firm positions (of its own or of third parties) of the participants in the Spanish Stock Market.

Neither BME nor SIX Group is under any obligation to update, revise or keep current the content of this material, and it is subject to change without notice at any time. No representation, warranty or undertaking - express or implied - is or will be given by BME or SIX Group as to the accuracy, completeness, adequacy, suitability or reliability of the content of this material. Neither BME nor SIX guarantee the legality, reliability, usefulness, truthfulness, accuracy, completeness and timeliness of the information provided by external sources, particularly in the data used throughout the report. Therefore, neither BME nor SIX shall be liable for any damages that users may suffer as a result of the unlawfulness, unreliability, inaccuracy, lack of truthfulness, incompleteness and/or non-timeliness of the contents.

As it reflects theoretical opinions, its content is merely informative and therefore should not be used for the valuation of portfolios or assets, nor serve as a basis for investment recommendations. The Contributing Entities, BME and the entities belonging to the SIX Group shall not be liable for any financial loss or decision made on the basis of the information contained in this material. In general, neither BME nor any of its subsidiaries, nor the Contributing Entities, their administrators, representatives, associates, controlled companies, directors, partners, employees or advisors assume any liability in relation to such information, nor for any unauthorized use thereof.

This material is the property of BME and may not be printed, copied, reproduced, published, transmitted, disclosed or distributed in any form without the prior written consent of BME.