afme/
Finance for Europe

27th April 2015

EBA
One Canada Square
Canary Wharf
London E14 5AA

## Regulatory Technical Standards on prudential requirements for central securities depositories (CSDs)

Dear Sir/Madam,

On behalf of the Association for Financial Markets in Europe (AFME)[1] and its members, we welcome the opportunity to comment on the Consultation Paper of 27 February 2015 on draft Regulatory Technical Standards (RTS) published by the European Banking Authority (EBA).

As a trade body representing both direct and indirect members of Central Securities Depositories and providers of services to CSDs, we welcome the opportunity provided by EBA to respond to the consultation on capital requirements for CSDs. We believe that CSDs, due to their crucial role, do present key concentration risks that need to be managed correctly. In view of the decision taken in the level 1 text to permit CSDs to continue to provide banking and CSD services from the same entity, we welcome the EBA approach to looking at capital surcharges and determine means to managing liquidity and participant risks. Having regard to the fact that we are not CSDs ourselves, we do not intend to respond directly to the questions asked by EBA, but we would like to make some comments on the consultation approach which we would ask EBA to take into consideration as they determine final RTS in this space, because they will impact us as users and service providers.

### Capital Requirements

1) We welcome EBA's approach to apply banking types of capital requirements for banking types of services offered by CSDs. This should help to ensure a level playing field in a highly competitive environment. In particular it is consistent with other types of legislation (UCITS / AIFMD) to apply the same capital requirements for securities safe-kept in a CSD link as agent banks need to provide for in their own relationships (where they hold securities via a CSD).

[1] AFME represents a broad array of European and global participants in the wholesale financial markets, and its 197 members comprise all pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME was formed on 1 November 2009 by the merger of the London Investment Banking Association and the European operations of the Securities Industry and Financial Markets Association. AFME provides members with an effective and influential voice through which to communicate the industry standpoint on issues affecting the international, European and UK capital markets. AFME is the European regional member of the Global Financial Markets Association (GFMA) and is an affiliate of the U.S. Securities Industry and Financial Markets Association (SIFMA) and the Asian Securities Industry and Financial Markets Association (ASIFMA). AFME is listed on the EU Register of Interest Representatives, registration number 65110063986-76.

However, we believe EBA should carry out a quantitative analysis of the impacts to the various CSDs across Europe of their approach, both those that provide banking services and those that don't. CSD risks are not the same as CCP or banking risks. Any additional costs or changes to processes (such as changes to intraday collateralisation) will need to be absorbed by the CSD itself, or more likely by the participants. This is particularly important in view of the fact that CSDs tend to have privileged positions in their markets, especially on central safekeeping and issuer services, and therefore participants do not always have a choice to use another CSD to settle in different markets to avoid those additional costs or process changes. This situation will likely remain to an extent even in a post T2S landscape. This is not to say there should not be changes to risk management at CSDs, it is simply that EBA should understand these and the impacts to the broader market before imposing such changes. They should also understand as to whether the measures will indeed increase competition at CSD level or entrench existing monopolies still further.

**Intraday Liquidity Monitoring**

2) We have understood that CSDs providing banking services will be required to report their intraday liquidity exposures to regulators. This is similar to how banks will be required to do so in line with the BASEL Committee intraday liquidity monitoring requirements published in 2014. As with above, we believe this to be correct as CSD risks tend to be intraday. However, we would ask that these requirements are aligned with the roll out of the bank requirements in order to ensure CSDs have access to their correspondent bank information (where required) and vice versa. This will ensure alignment of such reporting across the industry.

In this respect, we would like to repeat that entities which combine CSD and banking services should be at the very least be subject to all applicable requirements imposed on banks, and should not have a special exemption status, in order to provide a level playing field.

**Intra-day Credit lines provided to CSDs**

3) We would like to understand the approach that EBA is taking to dealing with credit lines where they are provided by banks directly to CSDs for settlement purposes. We understood from the public hearing on 23 March 2015, that where uncommitted lines are currently provided, this would not be acceptable going forward and EBA would expect such lines to become committed in the future. We understand this approach, but would again ask that EBA fully determine the impacts of this before finalising such an approach as we believe it could have a significant impact on the business of those CSDs and, most importantly, to their participants, as compared to the current process. In addition, it needs to be noted that too stringent requirements for cash correspondent banks may limit the availability/appetite of providers to provide such banking services to CSDs, and as such may create barriers to entry/competition (the result of which would be even more concentration with a few providers).

Moreover we understand from the consultation that CSDs or banking service providers providing intra-day credit lines to CSD participants will need to request high quality collateral for any exposure. The risk rationale appears sound, but there are already concerns in the market as to likely scarcity and impacts to collateral velocity due to other key elements of legislation such as EMIR, which are still to take full effect. We would ask that EBA carry out a full assessment of the impacts of their proposal to understand how it will impact collateral scarcity and velocity.

We hope that EBA will find these comments to be of use, and we would be more than willing to discuss these points in more detail in person.

Yours sincerely

Stephen Burton
Director, Post Trade