

CSDR Q&A

May 2018





CSDR requirements are having a significant impact on market participants and their businesses. VP received the CSDR authorisation from the Danish FSA as of 3 January 2018, thereby making several requirements in the CSDR mandatory for our customers as of this date. In order to facilitate the implementation process, we have compiled the answers to several questions that are currently considered by our customers. This Q&A will be reviewed and updated as and when appropriate. Present version: **May 2018**

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General Questions

Q1: What are the current changes to the VP-system in order to be CSDR compliant?

A: VP systems have been updated in order to be CSDR compliant. The changes have also impacted our customers, hence all existing securities accounts have been marked with ownership type (OW, OM, IS), which is also applicable when opening new securities accounts. Furthermore, Issuers and Participants in VP have been obliged to forward their LEI (Legal Entity Identifier) to us for registration. For details, please refer to sections [LEI](#) and [Static Data on Securities Accounts](#) below.

Q2: How and when will the VP Rulebook be updated in accordance with CSDR? **Updated**

A: VP received the CSDR authorisation from the Danish FSA as of 3 January 2018 and as a consequence, the VP Rule Book has been updated accordingly. All parts of the VP Rule Book, i.e. Definitions, Terms and Conditions, Book-entry Rules and Settlement Rules, have been changed. CSDR-related updates are:

- Suspension of an ISIN if the reconciliation reveals an undue creation or deletion of securities
- Termination of the requirement for Securities Account Controllers to provide a guarantee to VP
- Requirements on LEI and asset segregation
- VP's right to refuse access to our systems

Q3: T2S: Will Nordic markets and Nordic CSDs be aligned to T2S? Will there be a harmonised solution?

A: VP is implementing the requirements as outlined in CSDR and coordinated on a European level in T2S. For the implementation process in other Nordic markets, we kindly refer to the relevant CSDs.

LEI

Q4: What is a LEI?

A: The Legal Entity Identifier (LEI) is a unique 20 character ISO identifying code for a legal entity that participates in financial transactions worldwide, throughout all markets and legal systems. LEI contains key reference information and resembles a business registration number. The establishment of a Global LEI system is critical to improving measurement and monitoring of systemic risks. Global, standardised LEIs will enable regulators and organisations to more effectively measure and manage counterparty exposure while also resolving long standing issues on entity identification across the globe.

Q5: Where do I get a LEI?

A: For information regarding LEIs and how to obtain them, please visit the [Danish FSA homepage](#). Further information can be found at the [Global Legal Entity Identifier Foundation](#) (GLEIF) website.

Q6: At which level are LEIs mandatory and who has to report them?

A: CSDR imposes mandatory updates to issuer identification. VP shall report LEIs on our customers and we are therefore obliged to register LEIs on all Issuers and Participants in VP.

According to CSDR, LEIs on securities account level is optional.

A customer can be an Issuer in VP and must have a LEI registered, even though the Issuer does not have a securities account in VP or is listed on the stock exchange. The Issuing agent representing the Issuer is responsible for reporting LEI on the Issuer.

Q7: Regarding the account type “Customer On behalf of customers (Global Custodian)” – whose LEI should be registered on these types of securities accounts – is it the CSD Participant’s LEI i.e. the Securities Account Controller (KI) or is it the actual customer’s LEI e.g. the Global Custodian?

A: First of all, LEIs on securities accounts are not mandatory according to CSDR. For the securities account type IS where the customer is a Global Custodian, it is the LEI of the Global Custodian that may be reported, i.e. it is the LEI of the Participant’s clients that may be reported.

Q8: Is it mandatory to report a LEI on collective investment funds?

A: Yes, LEIs are mandatory on collective investment funds issuing securities. Sub-funds (“afdelinger”) and unit classes (“andelsklasser”) of collective investment funds are not required to have their own and independent LEI when acting as Issuers, although it is possible to register a LEI for the various entities within a collective investment fund. Thus, in the context of CSDR, a LEI per collective investment fund is sufficient. Please note that a LEI on sub-funds and unit classes may be required in order to be compliant with other legislation, c.f. below.

Q9: Should Remote Participants report a LEI?

A: Customers who have signed an agreement with VP as a Remote Participant are considered participants under CSDR, as VP's General Terms and Conditions apply. Furthermore, they are participating directly in the settlement of securities. Remote participants are therefore obliged to comply with CSDR, and report a LEI.

Q10: Does VP check if the correct data has been registered? **updated**

A: All Issuers and Participants are responsible for delivering the correct information. The LEI must be valid and have a status of 'Issued', 'Pending Transfer' or 'Pending Archival'. If the LEI is not provided for the correct legal entity or does not have the correct status, the LEI will be considered invalid. Furthermore, the LEI must be renewed yearly to maintain validity. Thus, VP has to ensure that accurate and up-to-date details have been provided for reporting purposes to the Danish FSA.

Q11: What if Issuers or Participants refuse to submit a LEI? **updated**

A: According to CSDR, VP has to report a LEI on all Issuers and Participants to the competent authorities, which is also incorporated in VP's Rulebook upon receipt of the CSDR authorisation. All our customers are obliged to observe and comply with the terms and conditions as stipulated in the VP Rulebook and must act in accordance with applicable legislation for VP, including CSDR. Thus, VP has a responsibility to require the presence of an issuer LEI before we can accept to act as an issuer CSD for securities of that issuer.

Q12: Is there any other legislation mandating the registration of LEI? **new**

As mentioned under Q6, VP shall report LEIs on our customers in accordance with CSDR, i.e. we have to register LEIs on all Issuers and Participants in VP. However, other new European legislation will mandate both EU and non-EU market participants to obtain an LEI in a variety of circumstances in order to trade or clear:

EMIR: EU trade repositories are obligated to reject trade reports that do not contain an LEI. Under certain circumstances, the underlying fund/sub-fund must get its own LEI.

MIFID II/MIFIR: Investment firms are required to obtain an LEI from their customers prior to providing a service that would result in a transaction reporting obligation. Customers of investment firms, including sub-funds, intermediaries and wealth clients, will be required to have an LEI, even if they are not an EU entity, not operating or domiciled in the EEA and not directly subject to EU regulations.

Please consult the corresponding regulation for further details:

[MIFIDII/MIFIR](#)

[EMIR](#)

A LEI is therefore necessary to buy or sell securities – no LEI, no trade. You can still hold existing securities and not have a LEI, but once you buy or sell, including subscriptions and emissions, a LEI will be required.



Once again, it must be stressed that VP is subject to CSDR and must require LEI from you in accordance with these rules, but that you might be subject to other legislation as well, which will require a LEI in order for you to be fully compliant with all European Legislation.



Static Data on Securities Accounts

Q13: What information do we need to add at securities account level?

A: CSDR imposes mandatory updates to securities accounts. The changes affecting our customers consist of:

Marking of securities accounts in VP Securities depending on type of owner:

OW – Own account (Participant’s own account)

OM – Omnibus account (Account held by participant on behalf of customers)

IS – Client individual account (Individual client segregation)

VP has ensured that all securities accounts have been marked in accordance with CSDR. Customers who wish to change the marking of a securities account may report this to VP. Please also note that an ownership type is mandatory for all new securities accounts.

Q14: Is it possible to determine which account markings used today (PR/FH/ST) will be the equivalent of IS/OM/OW?

A: No, the markings PR/FH/ST refers to settlement groups in the system with different rights/obligations. They are not related to CSDR and are part of the system management tools necessary to ensure the operation of the system.



Protection of Securities

Q15: What are the obligations for participants regarding information related to the protection of customers securities, i.e. levels of segregation?

A: According to CSDR art. 38(6) VP shall publicly disclose the levels of protection and the costs associated with the different levels of segregation that we provide. The description shall include the main legal implications of the respective levels of segregation. VP has published a brief regarding the [levels of segregation](#) offered by VP, which has also been distributed to the members of Finance Denmark.

Independently of VP, Participants are also obligated to publicly disclose the levels of segregation that they offer and the commercial terms and costs related to these.

Remote participants are only participating directly in the VP Clearing and Settlement system on their own behalf and is neither entitled nor obligated to undertake Securities Account Controller related activities such as book-entry. Therefore Remote participants are not obligated to offer their customers several levels of segregation according to CSDR.

IBAN-number

Q16: IBAN-numbers – what to report?

A: The following has to be reported in order to be compliant with CSDR:

- IBAN number for issuers' cash accounts used to provide liquidity to pay out interest, dividends, redemptions etc.
- DCA's used for Corporate Actions have a corresponding cash account with an IBAN number
- Mortgage institutions may submit IBAN number for their own cash accounts in KRONOS/DN used for Corporate Actions
- For EUR cash accounts in Target 2: It will be possible to submit an internationally recognized bank account number specifically for accounts with no IBAN number
- If a customer issues securities in more than one currency, an IBAN number has to be provided for all cash accounts (DKK, SEK, EUR, etc.)



Data on Transaction Type, Place of Trading and Place of Clearing

Q17: Can we report additional Data on Transactions?

A: VP settlement instructions already contain most of the transaction data required according to CSDR.

However, the VP system is currently not including the following transactional data to be reported in each settlement instruction:

- Type of transaction
- Place of trading
- Place of clearing

The changes envisaged under CSDR for the mandatory matching of 'Type of transaction' and the information fields 'Place of Trading' and 'Place of Clearing' will enter into force at the time of the new settlement discipline regime.

However, the necessary fields are available for testing in the T2S test environment as of April 2018, and included in all settlement transactions as of the implementation of DKK settlement on T2S 29 October 2018 (not a matching criteria).



Reporting – Technical Issues

Q18: How do I report Ownership type on securities accounts?

A: Static data on securities accounts can be reported through the proprietary format or VP user interface (3270).

Q19: How do I report information on Issuers and Participants?

A: Static data on Issuers can be reported through eFORMS in vp.ONLINE. Customers with no access to vp.ONLINE can send an email to CSD Services (csd@vp.dk) with the information in order to ensure registration.

Participants reporting their own LEI and IBAN-no. (not reporting the information for other customers in the capacity of Account Controller/Issuing Agent/Clearing Member) can do so by sending an email to CSD Services (csd@vp.dk).

Q20: Why are there no data fields for reporting of IBAN-numbers in the "ændringer til fremtidige versioner af vejledningerne"?

A: The IBAN-number is a reporting requirement on Issuer/Participant level, which is not part of the system-to-system reporting taking place at securities account level.

Suspension of Securities for Settlement

Q21: What is the procedure for suspension of securities for settlement?

A: VP performs a daily reconciliation on:

- Aggregated opening balance
- Individual movements during the day
- Aggregated closing balance

In case of a reconciliation break or system disturbance, there can be a suspension of settlement, and VP issues updates through VP Info's as per usual, until the issue has been solved.

The suspension of settlement in case of problems related to reconciliation has been implemented in the VP Rule Book.

Settlement Internalisers

Q22: What should be reported regarding internalised settlement?

A: Settlement internalisers shall report to the competent authorities on a quarterly basis the aggregated volume and value of all securities transactions that they settle *outside* securities settlement systems. For further information, please refer to the Guidelines on Internalised Settlement Reporting published by ESMA.

Partial Settlement

Q23: Will partial settlement be implemented in the VP settlement system?

A: According to CSDR, a CSD shall offer participants the option to settle their settlement instructions partially. Furthermore, T2S will apply partial settlement when the delivering party does not have the full quantity of securities, or the receiving party does not have sufficient cash on the DCA for settlement. Instructions for settlement on T2S are per default subject to partial settlement, although it is possible to exclude instructions from partial settlement. Thus, VP will be developing a solution for partial settlement in the VP system in accordance with the legislation as well as aligning our systems with T2S functionality.



Settlement Discipline Regime **new**

Q24: When will the regulatory technical standards(RTS) on settlement discipline enter into force? *new*

On 25 May 2018, the EU Commission published the RTS concerning the settlement discipline regime.

The Council and the Parliament now have a 1-3 months objection period, possibly extended by another 1-3 months. The process will be completed by the publication of the RTS in the Official Journal of the EU. The RTS will then enter into force 2 years after publication in the Official Journal.

Q25: What changes can be expected with the implementation of the regulatory technical standards on settlement discipline? *new*

A: The CSDR settlement discipline will impose strict measures and requirements to improve settlement performance and address settlement fails, which will have extensive impact on all customers at every CSD in Europe and require significant IT system changes at the level of CSDs, CCPs, trading venues and their participants. It will be mandatory for CSDs to implement a penalty mechanism, buy-in-options and procedures to suspend a participant.

Monitoring and reporting will be a considerable task for VP, and we will maintain a close dialogue with our customers to ensure a smooth transition to the new regime. VP has already established a project management group to ensure system development and implementation. Market participants will also need to implement new policies and adapt business procedures.

Penalty mechanism

Cash penalties will be calculated for each transaction, which fails to settle on intended settlement date, either due to lack of cash or lack of securities. The size of the cash penalty depends on asset type and size of the transaction. Penalties are computed and reported for each business day. Hence, the CSDs will provide a daily report detailing the penalties computed for the previous business day. The CSDs will report the penalties to both the failing and the non-failing party. Furthermore, the collection and distribution of penalties will be performed once a month.

Buy-in

The new rules also mean that a buy-in-process delivering the financial instruments, will be initiated within four to seven business days (depending on asset type) after the intended settlement date (extension period). If possible, mandatory partial settlement may take place within the extension period. Penalties are calculated each day until the buy-in is finalized. The buy-in process will be handled by an independent buy-in agent.

If the buy-in fails or is not possible, the receiving participant can choose to be paid a cash compensation or to defer the execution of the buy-in to an appropriate later date (deferral period). If the relevant financial instruments are not delivered to the receiving participant at the end of the deferral period, a cash compensation shall be paid.

Suspension of a Participant

A procedure for suspension of a participant considered to be failing consistently and systematically, is part of the CSDR Settlement Discipline regime. Suspension is an extreme measure that can only be used as a last resort solution for a serious problem and can only be executed after careful consideration of the circumstances in each case and in close consultation with the respective competent authority.

In order to comply with the rules specified in CSDR, VP has to establish a procedure of suspension, i.e. monitoring and sanctioning participants who do not meet the established benchmarks. Working relationship with the most relevant participants will be initiated in order to establish a dialogue regarding settlement fails as part of the broader efforts to improve settlement efficiency.

Please consult the corresponding regulation for further details:

[RTS](#)

[Annexes](#)

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