bankenverband

February 2, 2021

BdB response on the COM's CSDR review consultation document

Annex 1a

Q15 (Internalised Settlement):

The European Commission (COM) stated in its targeted consultation document in section 3 (Internalised Settlement): "The identification of such risks or of any trends seems to have been limited to date. Nevertheless, the reported figures show very high volumes and values, high concentration, as well as high settlement fail rates".

In our response we agreed that the current methodology biases the volumes/values by double counting the instructions and the existence of failing settlement instructions. Failing instructions are furthermore counted in excess in relation to all other instructions which are aggregated and only counted once when settled. A single fail will contribute multiple times to the reporting of failed instructions while a settled instruction only does once. This misrepresents the true aggregate and rate of failed instructions, and should therefore not lead to wrong conclusions.

As an **example**, we present the data from one of our members:

In its report of the 4th quarter in 2020, high numbers of **portfolio transfers** between the accounts of the same client (no change of beneficial ownership) resulted in "settlement fails" due a specific account set-up, although the actual securities were always held for the same client:

- 742,555 transfers of securities were made between the accounts belonging to the same client with a total volume of more than **12 trillion Euros**.
- Of these transfers, 103,796 transactions were counted as settlement fails with a total volume of more than **411 billion Euros**.

Under these circumstances, an extremely high number and/or volume of internalised settlement and of settlement fails will be reported, although only one and the same client is "affected" and no risk is involved. Consequently, the reporting of such transfers should be carefully analysed and assessed.