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| 18 December 2014 |

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| Reply form for the Technical Advice under the CSDR  |
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| Date: 18 December 2014 |

Responding to this paper

The European Securities and Markets Authority (ESMA) invites responses to the specific questions listed in the ESMA Consultation Paper - D Technical Advice under the CSDR, published on the ESMA website.

***Instructions***

Please note that, in order to facilitate the analysis of the large number of responses expected, you are requested to use this file to send your response to ESMA so as to allow us to process it properly. Therefore, please follow the instructions described below:

1. use this form and send your responses in Word format;
2. do not remove the tags of type <ESMA\_QUESTION\_TA\_CSDR\_1> - i.e. the response to one question has to be framed by the 2 tags corresponding to the question; and
3. if you do not have a response to a question, do not delete it and leave the text “TYPE YOUR TEXT HERE” between the tags.

Responses are most helpful:

1. if they respond to the question stated;
2. contain a clear rationale, including on any related costs and benefits; and
3. describe any alternatives that ESMA should consider

**Naming protocol:**

In order to facilitate the handling of stakeholders responses please save your document using the following format:

ESMA\_ TA\_CSDR \_NAMEOFCOMPANY\_NAMEOFDOCUMENT.

E.g. if the respondent were ESMA, the name of the reply form would be ESMA\_ TA\_CSDR \_ESMA\_REPLYFORM or ESMA\_CE\_AIFMD\_ESMA\_ANNEX1

To help you navigate this document more easily, bookmarks are available in “Navigation Pane” for Word 2010 and in “Document Map” for Word 2007.

Responses must reach us by **19 February 2015**.

All contributions should be submitted online at [www.esma.europa.eu](http://www.esma.europa.eu) under the heading ‘Your input/Consultations’.

***Publication of responses***

All contributions received will be published following the end of the consultation period, unless otherwise requested. **Please clearly indicate by ticking the appropriate checkbox in the website submission form if you do not wish your contribution to be publicly disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure.** Note also that a confidential response may be requested from us in accordance with ESMA’s rules on access to documents. We may consult you if we receive such a request. Any decision we make is reviewable by ESMA’s Board of Appeal and the European Ombudsman.

***Data protection***

Information on data protection can be found at [www.esma.europa.eu](http://www.esma.europa.eu) under the heading ‘Disclaimer’.

# General information about respondent

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| Are you representing an association? | Yes |
| Activity: | Investment Firm |
| Country/Region | Europe |

Q1: What are your views on the proposed basis for the cash penalty calculation?

<ESMA\_QUESTION\_TA\_CSDR\_1>

We would advise ESMA that the current process appears to add unnecessary complexity which will result in unnecessary costs for market participants. A revision for the current text to identify efficiencies would be advisable. For example, the model used for calculating penalties should be neutral and not discredit direct holding markets. The proposed model also hits direct holding markets harder than nominee markets. This is because at the direct holding markets also allocations will be sanctioned and thus a failed net-transfer will be actually sanctioned twice.

<ESMA\_QUESTION\_TA\_CSDR\_1>

Q2: What are your views on the proposed approach regarding the categories of financial instruments and the penalty rates? In particular, do you consider that these penalty rates could dis-incentivise trading in small caps? Please provide evidence to support your views.

<ESMA\_QUESTION\_TA\_CSDR\_2>

It is doubtful that the penalties, due to the low penalty rates, will give the CSD participants incentive to cure the fails. Indeed for transactions where the value of the trade is sufficiently high, the system will give the participant/intermediaries in a chain of transactions incentive to cure the fail. However for low value transactions, the trade off between the penalty and administrative burden of curing the fail is not sufficiently beneficial for the involved parties.

With regards to penalty rates, it is not clear why the proposed penalty rate for corporate bonds is twice that of government bonds (0.5bp on corporate bonds, 0.25bp on government bonds), which seems exceptionally harsh especially given the very low spread and yield differential there is between the majority of corporate and government bonds. This is unnecessarily high and may have a significantly detrimental impact on bond and repo market liquidity, which is already weak. This will likely impair market efficiency and liquidity increasing the cost of transacting in European securities for both dealers/market-makers and investors. An alternative suggestion would be to split corporate bonds by ratings whereby Investment Grade bonds have 0.25bp and Non-Investment Grade bonds have 0.5bp penalty rate.

<ESMA\_QUESTION\_TA\_CSDR\_2>

Q3: What are your views on the proposed approach regarding the increase and reduction of the basic penalty amount?

<ESMA\_QUESTION\_TA\_CSDR\_3>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_TA\_CSDR\_3>

Q4: What are your views on the proposed approach regarding the cash penalties in the context of chains of interdependent transactions?

<ESMA\_QUESTION\_TA\_CSDR\_4>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_TA\_CSDR\_4>

Q5: Do you agree with the proposed frequency of one year for the assessment of the substantial importance of a CSD in another Member State?

<ESMA\_QUESTION\_TA\_CSDR\_5>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_TA\_CSDR\_5>

Q6: What are your views on the proposed indicators?

<ESMA\_QUESTION\_TA\_CSDR\_6>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_TA\_CSDR\_6>

Q7: What are your views on the proposed thresholds?

<ESMA\_QUESTION\_TA\_CSDR\_7>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_TA\_CSDR\_7>

Q8: Do you believe that the proposed indicators and thresholds are relevant in the case of government bonds? If not, please provide details and arguments.

<ESMA\_QUESTION\_TA\_CSDR\_8>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_TA\_CSDR\_8>