

2. Securities clearing, settlement and custody

FMI and financial institutions that provide securities clearing, settlement and custody services are considered part of the post-trade securities landscape. Systems that clear trades conducted on a stock exchange or concluded between counterparties on the OTC market, as well as the systems that settle the obligations of the buyer and seller of a trade are subject to oversight. In the EU, institutions that operate these systems are subject to EMIR and CSDR supervision. Chart 3 depicts the scope of the Bank's oversight and supervision role in this area.

Section 2.1 covers CCPs which systemic relevance has grown after new legislation made central clearing for standardised OTC derivatives mandatory. CCPs are subject to both prudential supervision and oversight. While there is no CCP established in Belgium, under the EMIR Regulation, the Bank takes part as a competent authority in seven CCP colleges when the CCP is settling in a Belgian CSD or due to the size of Belgian clearing members' contribution to the mutual CCP default fund which is available to the CCP to cover the default of a clearing member.

(I)CSDs, responsible for the last stage in the post-trade chain, are dealt with in section 2.2. Of the three (I)CSDs that Belgium hosts, only Euroclear Bank has banking status and falls under the prudential authority of the ECB. However, as an LSI under the SSM, it remains under the direct prudential supervision of the Bank.

As the risk profile of an FMI is fundamentally different from a universal deposit-taking bank, prudential requirements for banks (Basel III, Capital Requirements Directive, etc.) do not always adequately cover the specific operational and financial risks involved. Other internationally agreed standards for CCPs and (I)CSDs are more adequate for covering such risks (i.e. PFMI). In the EU framework, these principles have been transposed into EU legislation (EMIR and CSDR).

(I)CSDs established in Belgium have a different scope in terms of activities. While Euroclear Bank provides services in a wide range of securities, securities eligible in Euroclear Belgium are primarily Belgian equities. Under the CSDR, the Bank has been assigned as the sole competent supervisory authority for Euroclear Bank and Euroclear Belgium, and is, as overseer, also considered as relevant authority in the CSDR.

NBB-SSS holds and settles public sector debt including securities issued by the Belgian federal government and by regional or local governments as well as private sector debt issued by corporates, credit institutions or other entities. NBB-SSS is subject to oversight only.

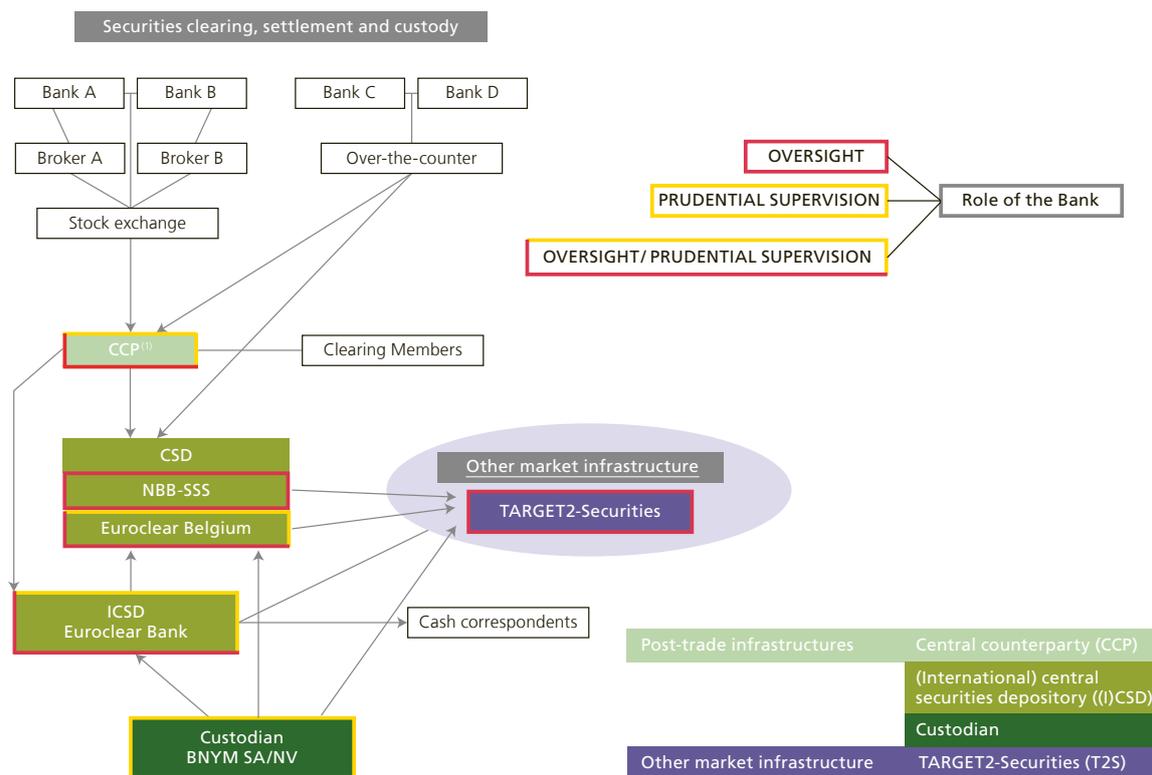
Daily settlement operations of Euroclear Belgium and NBB-SSS are outsourced to TARGET2-Securities (T2S), as in the case of other CSDs in Europe. T2S is not a CSD, but as it provides settlement services to many euro area and some non-euro area CSDs, it is essential that it enables member CSDs to comply with the regulations applicable to them. In line with PFMI Responsibility E (Cooperation with other authorities), the Eurosystem has set up the T2S Cooperative Arrangement to ensure that all authorities with a legitimate interest in the smooth functioning of T2S are involved, including the overseers and market authorities of CSDs that have signed the T2S Framework Agreement, in coordination with the ECB and ESMA. The authorities assess both the general organisation of T2S as a critical infrastructure (i.e. technical platform, legal basis, governance structure and comprehensive risk

management framework), as well as the services it provides against an applicable subset of the PFMI. The Bank is involved in the cooperative oversight of T2S¹.

Finally, section 2.3 covers institutions whose single business line is the provision of custody services (i.e. providing securities safekeeping, settlement and investor services to their clients) with a focus on BNYM SA/NV which is a global custodian established in Belgium with links to multiple (I)CSDs allowing its clients to hold securities issued in markets worldwide.

Chart 3

Scope of the Bank’s oversight and prudential supervision role in the post-trade securities landscape



1 LCH.Clearnet Ltd (UK), ICE Clear Europe (UK), LCH.Clearnet SA (FR), Eurex Clearing AG (DE), EuroCCP (NL), Keler CCP (HU), CC&G (IT).

2.1 CCPs

Changes in regulatory framework

With the introduction of the clearing obligation – that is, the mandatory use of a central counterparty (CCP) – for standardised over-the-counter derivatives contracts², CCPs have become increasingly critical components of

1 Oversight activities of the Eurosystem on T2S are covered in the Eurosystem’s Oversight Report. <https://www.ecb.europa.eu/paym/pol/html/index.en.html>.
 2 The clearing obligation is being implemented since mid-2016. It covers standardised interest rate swap contracts in the most relevant currencies, and index-linked credit default swaps. ESMA holds a “Public register for the clearing obligation under EMIR” available on its website at <https://www.esma.europa.eu/regulation/post-trading/otc-derivatives-and-clearing-obligation>.

the financial system. Back in 2015, the Financial Stability Board (FSB) had set out a workplan to strengthen CCP resilience, and ultimately, its resolvability if need be¹. This workplan to strengthen the requirements for CCPs is almost fully implemented with the exception of a last aspect related to resolution.

In mid-2017, the FSB published guidance on CCP resolution² that covers the required powers for the CCP resolution authority to maintain continuity of critical CCP functions, the use of loss allocation tools and the establishment of crisis management groups for relevant CCPs to ensure adequate cross-border cooperation between authorities. To finalise this work, the FSB consulted³ the market in November 2018 on two specific aspects, i.e. the availability of financial resources for CCP resolution and the treatment of CCP equity in resolution. The consultation findings will be supplemented with input from existing CCP crisis management groups on current or planned practices for CCP resolution. The final guidance should be available by the end of 2020.

In the EU, EMIR and its Implementing Regulations set out the clearing and reporting obligations for market participants' clearing derivatives, besides the requirements for CCPs and their supervision. In February 2019, the European Parliament, Council of Ministers and Commission reached a preliminary agreement on the so-called EMIR Refit legislation⁴ that seeks to relieve small companies – especially non-financial counterparties – of disproportionate costs and administrative burdens, notably by simplifying the requirements relating to reporting and the clearing obligations.

Also in mid-2017, the Commission put forward proposals to improve consistency of supervisory arrangements for CCPs established in the EU, and enhance the EU's ability to monitor, identify and mitigate third-country CCP risks⁵. The Commission, Parliament and Council reached an agreement on EMIR 2.2, i.e. the adaptation of EMIR, in March 2019. The supervision of CCPs will be further harmonised across the EU, while the primary role of CCPs' national competent authority is maintained. EU supervision of CCPs will include wider mandatory consultation of ESMA and an enhanced role for the CCP supervisory college. Issuing central banks for EU currencies are also to be given a bigger role, as regards CCP payment and settlement arrangements, and liquidity risk management. Furthermore, the legislation sets up a direct ESMA supervisory regime for systemic third-country CCPs, and introduces the possibility to require – via a Delegated Act – relocation of so-called “substantially systemically important” CCP activities to the EU. Thus, this legislation prepares for the impact of Brexit in this field by strengthening the third-country CCP authorisation and supervisory regime.

Anticipating the risk of a hard Brexit, ESMA has also given the UK CCPs temporary and conditional recognition as third-country counterparties under EMIR. Without this arrangement, these CCPs would lose their authorisation as an EU CCP overnight, yet they are widely used by EU-based credit institutions that clear in these CCPs and which need to guarantee continuity of their contracts. To avoid market distortions, ESMA has recognised the UK CCPs until 30 March 2020⁶.

At the end of 2016, the Commission tabled a proposal for a Regulation on EU CCP recovery and resolution frameworks to ensure the continuity of a CCP's critical functions while avoiding the use of taxpayers' money to restructure and resolve the CCP. The legislative work was put on hold, awaiting the agreement on CCP supervision in EMIR 2.2 as the allocation to EU and national authorities of fiscal responsibility for CCP resolution should mirror the division of tasks of CCP supervision. The Council resumed discussions in May 2019.

1 <http://www.fsb.org/2015/09/2015-ccb-workplan/>.

2 <http://www.fsb.org/2017/07/guidance-on-central-counterparty-resolution-and-resolution-planning-2/>.

3 <http://www.fsb.org/2018/11/financial-resources-to-support-ccb-resolution-and-the-treatment-of-ccb-equity-in-resolution/>.

4 http://europa.eu/rapid/press-release_IP-19-848_en.htm.

5 The Commission's legislative proposal is available at http://europa.eu/rapid/press-release_IP-17-1568_en.htm.

6 The ESMA decision was based on the equivalence decision of the Commission in December 2018 stating that the UK regulatory and supervisory framework for CCPs is equivalent to that of the Union. See Commission Implementing Regulation 2018/2031 of 19 December 2018. Available at <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32018D2031&from=EN>.

Prudential and oversight approach

From a microprudential perspective, the most relevant financial risks faced by a CCP are counterparty risk and liquidity risk if a clearing member defaults. To cope with these risks, a CCP is required by EMIR to be able to withstand at all times the simultaneous default of its two biggest clearing members in extreme but plausible markets, and have adequate resources to cover the losses or to raise the liquidity needed in time. When handling the default of a clearing member, the CCP standardly re-establishes a balanced book via auctioning the positions of the defaulter to surviving clearing members. The adequacy of pre-funded resources and the auction process did get additional attention from supervisors and regulators in the wake of the NasdaqClearing clearing member default in September 2018¹. CPMI and IOSCO are preparing a market consultation paper in this respect.

In April 2018, ESMA published the framework of its third supervisory stress test for EU CCPs. These tests focus on both the counterparty credit risks and the liquidity risks which CCPs would face as a result of multiple clearing member defaults and simultaneous market price shocks. For this test, new components were added, to assess the impact of liquidation costs for concentrated positions².

There is currently no CCP established in Belgium. However, CCPs are relevant for Belgian markets and clearing members, and settle in Belgian (I)CSDs. The Bank continues to participate in seven EU CCP supervisory colleges as listed in table 3. Relevant CCPs include Eurex Clearing AG in Frankfurt, LCH Ltd in London – which clears interest rate swaps in euro and other currencies – and LCH SA in Paris which clears the Euronext Brussels markets. All three CCPs clear repos. Since the end of 2018, euro repo clearing activity has shifted from the London CCP LCH Ltd to its continental partner clearing house LCH SA in Paris. The impact on the clearing of the repo market in Belgian government bonds is shown in Box 3. For volume data on these three CCPs, see also Annex 3.

Supervisory priorities in 2019

Priorities for the ongoing supervision of EU CCPs are set by the national competent authority, taking into account the college members' demands.

Based on the FSB guidance, national competent authorities are continuing to set up cross-border crisis management groups for CCP resolution and starting or continuing to plan for CCP resolution. In parallel, based on the CPMI-IOSCO guidance requirements, CCPs are enhancing their recovery rules that stipulate how to allocate default losses to stakeholders, including clearing members. Another continuing priority is the CCP's operational risk management, and in particular the cyber risk it incurs.

In 2018, ESMA issued guidance on CCP conflict of interest management³ and on anti-procyclicality margin measures for CCPs⁴. National competent authorities are expected to follow up their implementation.

Finally, new services and products, or significant risk model changes implemented by an EU CCP have to be approved by its national competent authority, taking into account the opinion of the CCP's supervisory college.

1 Finansinspektionen describes the event in its November 2018 Stability in the Financial System report (p. 19), available at <https://www.fi.se/contentassets/86382ed610304769b77c5a35aa54891f/stability-financial-system-2018-2nn.pdf>

2 The ESMA press release on the third EU wide CCP stress test can be found at <https://www.esma.europa.eu/press-news/esma-news/esma-launches-third-eu-wide-ccp-stress-test>.

3 https://www.esma.europa.eu/sites/default/files/library/esma70-151-1094_final_report_with_guidelines_on_ccps_management_of_conflicts_of_interest.pdf

4 https://www.esma.europa.eu/sites/default/files/library/esma70-151-1293_final_report_on_guidelines_on_ccp_apc_margin_measures.pdf

Table 3

EU CCP supervisory colleges with the Bank's participation

CCP ¹	Main clearing services and relevance for Belgium	Direct Belgian clearing members ²	EMIR criteria for the Bank's participation in the CCP's supervisory college	
			Supervisor of Belgian clearing members contributing – on a country-by-country basis – most to the CCP default fund	CCP settles in a Belgian (I)CSD ³
LCH Ltd (UK)	Interest rate swaps/repos	4 <ul style="list-style-type: none"> ■ AXA Bank Belgium ■ Belfius Bank; ■ BNP Paribas Fortis; ■ KBC Bank 		X (EB, NBB-SSS)
Eurex Clearing AG (DE)	Listed interest derivatives/repos	4 <ul style="list-style-type: none"> ■ Belfius Bank; ■ MeDirect Bank; ■ BNP Paribas Fortis; ■ KBC Bank 		X (EB)
LCH SA (FR)	Euronext cash and derivatives trades (including Euronext Brussels) / repos	8 <ul style="list-style-type: none"> ■ Axa Bank Belgium ■ Banque Degroof Petercam; ■ Belfius Bank; ■ BNP Paribas Fortis; ■ Delen Private Bank; ■ KBC Bank ■ Leleux Associated Brokers; ■ Van De Put & Co Private Bankers 		X (EB, EBE, NBB-SSS)
ICE Clear Europe (UK)	Credit default swaps	none		X (EB)
CC&G (IT)	National CCP of Italy	none		X (EB)
Euro CCP (NL)	Main European stocks	none		X (EB)
Keler CCP (HU)	National CCP of Hungary	1 <ul style="list-style-type: none"> ■ KBC Securities Hungarian branch 	X	

Source: NBB.

1 EU CCP supervisory college participation is reassessed annually on the basis of the criteria set out in Art. 18 of EMIR. It is worth noting that EMIR 2.2 also makes provision for a third-country CCP supervisory college to be set up.

2 A Belgian bank not mentioned in the table may clear in a CCP but as an indirect clearing member, that is, as the client of a clearing member.

3 EB: Euroclear Bank ICSD, EBE: Euroclear Belgium CSD, NBB-SSS.

Clearing of repo trades in Belgian fixed-income bonds

After consultation with the market, the London clearing house LCH Ltd started shifting, as from the end of 2018, its clearing business in euro repos to Paris-based LCH SA to accommodate strong demand for migration of euro repo clearing in the euro area. The Belgian repo market – based on OLOs and Belgian Treasury certificates – was one of the first to move to LCH SA. As illustrated in the chart below, this had an impact on the clearing process of the Belgian repo market (representing about € 40 billion per day on average in March 2019). Other euro repo markets (such as Germany, Austria and the Netherlands) followed in the first quarter of 2019. As a result, total repo volumes in LCH SA almost doubled compared to the previous year. From a financial stability point of view, it means that this activity is now being processed by an institution established in the eurozone that has access to central bank services in euro. This is of particular importance for liquidity-intensive activities such as the repo market.

Changes in repo volumes in LCH Ltd and SA and Belgian repo market

(in € billion, total monthly nominal¹)



Source: LCH Ltd and SA.

¹ "Nominal" is the sum of contracts' bond nominal value cleared (double-counted).

2.2 (I) CSDs

Changes in regulatory framework

The Commission issued in May 2018 a set of regulatory technical standards on settlement discipline¹. This Regulation specifies measures to *prevent* settlement fails (including requirements both for investment firms on communications with their clients on trades to be settled and for CSDs to limit the number of settlement fails by providing systems to support matching of settlement instructions). In addition, the Regulation also introduces measures to *address* settlement fails by requiring CSDs to establish monitoring systems (i.e. for the number, value and length of settlement fails) and reporting systems (i.e. for reporting settlement fails to the competent authority and for public disclosure). Furthermore, CSDs have to calculate and apply cash penalties to participants whose settlement instructions fail. In case of systematic failure to deliver securities on the intended settlement day, CSDs may decide to suspend such participants. The rules concerning the buy-in process for financial instruments that have not been delivered (within a certain period set) are also further detailed in this Regulation (i.e. buy-in procedures and notifications, calculation and payment of cash compensations should buy-ins fail or not be possible). In this area, CSDs' responsibility is about providing reporting on buy-ins based on information received from the relevant trading venue or the central counterparties (in case of cleared trades) to the relevant competent authorities. Responsibility for the execution of buy-ins however, remains at the trading level and with the trading parties. The Regulation on settlement discipline will enter into force two years after its publication in the Official Journal of the EU.

In December 2018, ESMA published two consultation papers related to settlement discipline, i.e. guidelines on standardised procedures and messaging protocols used between investment firms and their professional clients to limit the number of settlement fails (under Article 6(2) of the CSDR) and guidelines on the scope, reporting architecture and exchange of information between ESMA and national competent authorities regarding settlement fails, based on the reports submitted by CSDs (following Art. 7(1) of the CSDR). The aim is to finalise both guidelines in Q3 2019. For a consistent and uniform implementation across EU jurisdictions of the 2014 CSDR and the regulatory technical standards, ESMA also continues to update its Questions and Answers section regarding the implementation of the CSDR².

On Brexit, by the absence of approval of the Withdrawal Agreement³, the Commission published in December 2018 a "no-deal" Contingency Action Plan⁴. Precautionary measures were taken to ensure that payments and transfers of securities made by EU participants into UK systems would – in all scenarios – be protected in line with the Settlement Finality Directive.

Following the new regulatory framework in the UK (that is based on the CSDR), EU-based CSDs providing CSD services in the UK will need to apply for recognition in the UK after the UK's withdrawal from the EU takes effect. Such recognition would be required if the CSD has a branch in the UK, settles securities under UK law and has either UK issuers or UK participants. Until they obtain their UK licence, such CSDs would however benefit from a transitional regime (cf. EU CSDR rules for third-country CSDs). In case the CSD would not have its CSDR licence yet, and would still operate under local law, the UK authorities would need to conduct an equivalence assessment of that local law. Both Euroclear Bank and Euroclear Belgium have requested recognition in the UK

1 Regulation (EU) 2018/1229 of 25 May 2018 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on settlement discipline, OJ L 230, 13.9.2018.

2 <https://www.esma.europa.eu/press-news/esma-news/esma-updates-its-csdr-qas-0>.

3 The Withdrawal Agreement between the EU and the UK of November 2018 stipulated that Union law would still apply in the UK during the transition period (as from March 2019 until the end of 2020, but extendable once by up to one or two years). As the UK would be considered as if it were still an EU country, applicable rules would remain unchanged, including the CSDR. Neither EU nor UK CSDs would therefore be considered as third-country CSDs until the end of 2020.

4 In this Contingency Action Plan, the European Commission provided an equivalence decision with regard to the regulatory framework applicable to UK CSDs for a fixed, limited period of 24 months to ensure that EU institutions would still be able to use UK systems.

to continue to provide CSD services in the UK. As the share of UK participant or issuer activity is minimal in NBB-SSS, the latter decided not to seek designation as third-country system under UK law¹.

Prudential and oversight approach

The three (I)CSDs established in Belgium have a distinct status, scope and risk profile. The Bank adopts different roles with respect to these (I)CSDs. The Bank is also the lead supervisor of Euroclear SA/NV, the financial holding company owning and providing core services to the Euroclear Group (I)CSDs, including Euroclear Bank and Euroclear Belgium.

For the NBB-SSS, the Bank acts in its capacity as overseer. Although the NBB-SSS is being operated by the Bank and therefore exempted from obtaining a CSDR license, it has to comply with the CSDR requirements. For that purpose, NBB-SSS introduced a CRO function and a specific Risk Committee. The latter's mandate is published on the Bank's website².

Euroclear Belgium is subject to the Bank's oversight (based on the PFMI) and CSDR supervision. The CSDR authorisation process for Euroclear Belgium continued to be a key focus. The Bank considered the updated CSDR file, received end September 2018, as complete and started the authorisation process. As Euroclear Belgium shares a common rule book and settlement platform with the other ESES³ CSDs, the Bank coordinated its assessment with the French and Dutch competent and relevant authorities⁴. Key in the assessment has been the governance of the Euroclear Group and the role of Euroclear SA/NV as both the owner of and critical service provider to the Euroclear Group (I)CSDs for IT, Legal, Risk management, etc. Following the CSDR, measures were taken to strengthen the autonomy and independence of local entities from Euroclear SA/NV, as well as the monitoring framework for outsourcing and critical service providers' relationships via service level agreements and key performance and risk indicators. For the authorisation of Euroclear Belgium, the Bank also involved the FSMA and the Eurosystem; the latter being a relevant authority due to its role as central bank of issue for the EUR (i.e. the settlement currency in Euroclear Belgium). In April 2019, the Bank granted the CSDR licence to Euroclear Belgium⁵.

1 The list of EU CSDs applying for recognition in the UK is available at: <https://www.bankofengland.co.uk/-/media/boe/files/financial-stability/financial-market-infrastructure-supervision/interim-list-of-third-country-csd.pdf?la=en&hash=3C6C36895859AD0869E651B849B09967F4CE3F1C>.

2 https://www.nbb.be/doc/ti/nbbsss_rcmandate.pdf.

3 Euroclear Settlement of Euronext-zone Securities.

4 FR: BdF, AMF; NL: DNB, AFM.

5 The full list of CSDs authorised under Article 16 of CSDR is available at: https://www.esma.europa.eu/sites/default/files/library/esma70-151-889_csd_register.pdf.

BOX 4

International dimension of Euroclear Bank

By the very nature of its business model, Euroclear Bank is internationally oriented. This international dimension is reflected in several areas such as participants, currencies and linked securities markets. At the end of 2018, Euroclear Bank had 1 650 participants located worldwide. Its participant base



consists mainly of non-domestic participants, including almost 100 central banks, 27 CCPs and CSDs, as well as credit institutions, broker-dealers and investment banks.

Apart from its notary function for international bonds, notably Eurobonds, which it mainly shares with Clearstream Banking Luxembourg, Euroclear Bank aims to provide its participants with a single gateway to access many foreign securities markets (i.e. Euroclear Bank has a link with foreign CSDs which act as notary for securities issued in the local market). When (I)CSDs offer their participants access to foreign securities markets, they are considered as *investor (I)CSDs*, whereas the foreign (I)CSDs are referred to as *issuer (I)CSDs*. As of 2018, Euroclear Bank is connected to more than 50 foreign CSDs as investor ICSD in domestic markets.

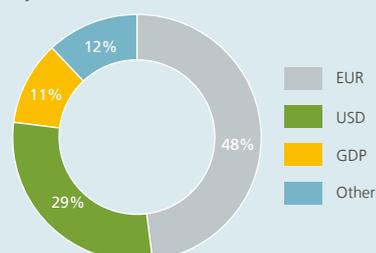
To provide services in international bonds and a wide range of foreign securities, about 100 different currencies are eligible in the system operated by Euroclear Bank¹. Securities can be settled against payment in a Euroclear settlement currency which can be different from the denomination

Securities deposits and settlement turnover in Euroclear Bank

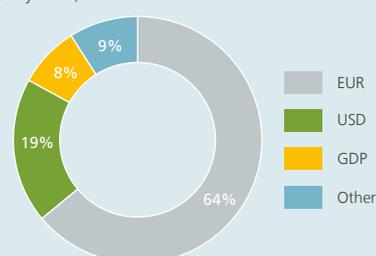
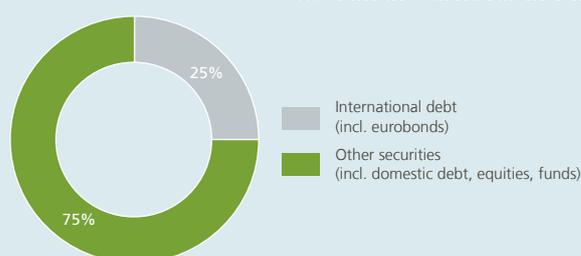
Breakdown by security type

Breakdown by currency

Securities deposits in value (2018, end of year)



Settlement turnover in value (2018, yearly total)



Source: Euroclear.

¹ Settlement currencies: AED, ARS, AUD, BGN, BHD, BWP, BRL, CAD, CHF, CLP, CZK, CNY, DKK, EUR, GBP, HKD, HRK, HUF, ISK, IDR, ILS, JOD, JPY, KES, KWD, KZT, LBP, MUR, MXN, MYR, NAD, NOK, NZD, OMR, PEN, PHP, PLN, QAR, RON, RUB, SAR, SEK, SGD, THB, TRY, USD, ZAR.

Denomination currencies: DZD, AOA, AMD, AZN, BDT, BYR, BMD, BOB, KHR, XOF, XAF, CLF, COP, CRC, DOP, EGP, GEL, GHS, XAU, GTQ, INR, JMD, KGS, MKD, MNT, MAD, MZN, MMK, NPR, TWD, NIO, NGN, PKR, PYG, RWF, XDR, RSD, KRW, LKR, TZS, TTD, TND, TMT, UGX, UAH, UYU, UZS, VUV, VEF, VND, YER, ZMW.



currency. Denomination currencies are used as units of account for securities balances but not for payment transactions.

At the end of 2018, the value of securities deposits held on Euroclear Bank's books on behalf of its participants amounted to € 13.5 trillion equivalent (up from € 12.8 trillion in 2017). After EUR (48%), USD is the main denomination currency (29%), followed by GBP (11%). 54% of securities deposits are in international bonds, such as Eurobonds, for which issuers can choose the currency or country of issue.

Regarding settlement turnover, the number of transactions settled in 2018 in Euroclear Bank amounted to 107.0 million (up from 95.4 million in 2017). In value terms, this represents € 525.7 trillion (up from € 498.1 trillion in 2017). 64% of settlement turnover, free of payment and against payment transactions, was denominated in EUR, after USD (19%) and GBP (8%). In terms of settlement turnover per security type, compared to securities deposits, international debt accounts for 25% while the bulk is composed of other types of securities such as domestic debt and, to a lesser extent, equities or exchange-traded funds.

The interconnectivity of Euroclear Bank with other FMIs is a critical component in the Euroclear Group strategy to establish a common pool of collateral assets in which Euroclear Group entities provide collateral management services as a triparty agent taking over the collateral management tasks (including collateral selection, valuation and substitution) from its participants during the lifecycle of the transaction concluded between two participants. At the end of 2018, at group level, the average daily value of triparty collateral managed by the Euroclear (I)CSDs reached € 1.224 trillion equivalent (up from € 1.150 trillion in 2017).

The specific international and multicurrency dimension of Euroclear Bank is detailed in Box 4. Euroclear Bank is not only subject to the Bank's oversight and CSDR supervision but also to its prudential bank supervision. See also Box 5 on "Euroclear, Banking Supervision and the SSM" in that regard.

For the CSDR authorisation, Euroclear Bank has to apply not only for a CSD licence but also for a banking licence¹, both including elements of the interoperable link with Clearstream Banking Luxembourg. In the course of 2018, Euroclear Bank implemented several measures relevant for CSDR compliance. As an example, for the interoperable link between Euroclear Bank and Clearstream Luxembourg (the so-called "Bridge"), a solution was implemented jointly by both ICSDs in October 2018 to avoid any unsecured credit exposures due to settlement activity via the Bridge. The Bank also focused on specific liquidity risk management requirements under the CSDR, in particular the "Cover 2" requirement. It implies that Euroclear Bank should have sufficient qualifying liquid resources (QLR) in each relevant currency² to meet its payment obligations if the two participants on which Euroclear Bank has the largest liquidity exposure default. To meet this requirement, Euroclear Bank has reviewed relevant aspects of its credit and liquidity risk management framework. It reduced

1 In the EU, only five (I)CSDs are currently licensed as a bank, namely Euroclear Bank (BE), Clearstream Banking Luxembourg (LU), Clearstream Banking Frankfurt (DE), Keler (HU) and OeKB (AT).

2 Relevant currencies are identified based on, in accordance with EBA RTS Art. 36.8, the most relevant Union currencies as well as their share in the largest net negative liquidity positions of the CSD-banking service provider. However, for a transitional period of 12 months, relevant currencies can be identified based on the relative share of each currency in the total value of against payment settlement.

potential liquidity exposures by further decreasing intraday credit limits on participants and increased the level of its own QLR. The new credit and liquidity risk management framework being implemented by Euroclear Bank is based on a multicurrency ex-ante approach (i.e. limits are set by currency depending on its QLR in that currency) as opposed to an ex-post control framework (i.e. whereby measures are taken by the (I) CSD afterwards based on the outcome of liquidity back-test scenarios). At exposure level, the framework incorporates the different roles participants can have in the system. At QLR level, and in accordance with the CSDR, high-quality collateral pledged by participants that has an active outright sale or repo market and for which reliable access can be demonstrated, including in stressed conditions, or that can be liquidated through a pre-arranged and highly reliable funding arrangement, is included. In that regard, credit limits are based on collateral hierarchy principles imposing minima for best (liquid) collateral and maxima for lower quality collateral. Since the full amount of QLR is not available the whole day due to liquidity facilities' cut-off times or repo market deadlines, credit lines will be reduced towards the end of the day in function of the available QLR. This allows for a dynamic (intraday) credit and liquidity risk management. In addition, long cash balances that participants leave overnight on their cash accounts are not qualified as QLR as these participants have the contractual right to withdraw all these balances in full at any time¹. These enhancements in Euroclear Bank's liquidity risk management framework were being implemented in Q1 and Q2 of 2019. Further work on "fat-tail risks" scenarios such as procedures to cover unexpected liquidity shortfalls has been conducted in 2019 as well.

In the framework of the PFMI, the Bank consults and considers the views of the other authorities of the Multilateral Oversight Group (i.e. Federal Reserve, Bank of England, Bank of Japan, and ECB as observer). In this forum, the Bank continued to discuss specific issues in the area of operational risk management (operational and cyber resilience) as well as credit-related risks due to participants' long cash balances and income and redemption pay-in flows. Apart from solving inefficiencies in its processing of such payment flows, one of the strategies of Euroclear Bank to mitigate these risks is to divert incoming payments to central bank accounts. EUR payments are gradually being shifted to Euroclear Bank's TARGET2 account. As of March 2019, Euroclear Bank also became a direct participant of the central bank money cash system of the Bank of England (CHAPS). For that purpose, Euroclear Bank holds a settlement account at the Bank of England allowing the transfer of £ payments.

Cyber resilience also continues to be a priority for the Bank in its oversight activities with Belgian (I)CSDs. Within the Euroclear Group, different projects to further enhance its cyber resilience are ongoing. A Cyber Resilience Task Force, encompassing overseers and supervisors of all group entities and chaired by the Bank, is monitoring the implementation of these projects. End 2018, the Euroclear Group entities self-assessed them as compliant with the mandatory controls of the SWIFT Customer Security Programme which aims to improve the security of the customers' connectivity to the SWIFT network (i.e. end-points of payment and securities settlement systems).

The governance structure of the Euroclear Group has been changed since November 2018. Euroclear plc, the top financial holding established in the UK, has been transferred to Belgium in anticipation of Brexit. Euroclear Holding SA/NV has now become the top financial holding of Euroclear and is – as Euroclear Plc previously – set up as a passive holding. Its activities mainly consists of detaining participations in the financial holding Euroclear SA/NV (indirect) and the other (I)CSD entities of the Group. The new structure of the Euroclear Group is shown in Annex 2. Changes also occurred in Euroclear's shareholdership. In 2018, the US exchanges operator Intercontinental Exchange (ICE) became one of the largest shareholders after having increased its share up to close to 10%. End 2018, the Federal Holding and Investment Company (SFPI-FPIM) acquired about 2% of the shares in Euroclear. The London Stock Exchange Group also bought a stake of close to 5% in early 2019.

¹ Whereas in banking regulation, 30% of "operational balances" could be considered as "stable".

Euroclear, Banking Supervision and the Single Supervisory Mechanism

As of November 2014, the Single Supervisory Mechanism (SSM) entered into force, designating a group of EU banking institutions as Significant Institutions (SIs) and placing them under the direct supervision of the ECB in cooperation with the national competent authorities (NCAs), whereas the NCA remained lead supervisor on the remaining banking institutions, the Less Significant Institutions (LSIs). The decision on whether a bank is deemed an SI is based on several criteria including the size of the balance sheet (> €30 billion). A yearly significance assessment is performed by the ECB in cooperation with the relevant NCAs to review the list of SIs. Moreover, the ECB can at any time decide to take control of the direct supervision of an LSI if this is justified for the consistent application of its supervisory standards. Euroclear Bank has been classified by the ECB as an LSI as well as Euroclear SA/NV, a financial holding established in Belgium and owner of Euroclear Bank. Both thus remain under the direct banking supervision of the NCA, namely the Bank.

Euroclear SA/NV consolidated and Euroclear Bank standalone have also been designated as Other Systemically Important Institutions (O-SIIs) by the Bank, which means that both are considered as domestically important institutions. O-SIIs are defined as institutions whose failure would have a significant impact on the financial system or the real economy. They need to hold an additional macroprudential capital buffer on top of the other regulatory capital requirements. These additional buffers have two principal motivations. Firstly, to reduce the probability of default of the institution, given the high economic and social costs of such a default, and secondly, to impose surcharges on the institution that reflect the negative externalities that its failure would generate. The Bank decided that Euroclear SA/NV consolidated and Euroclear Bank standalone must retain an O-SII capital buffer of 0.75% of its risk weighted assets. The domestic importance of the Belgian-based banks is reassessed on an annual basis by the Bank. The methodology to identify the O-SIIs is published on the Bank's website¹ and considers criteria such as size, complexity, interconnectedness and substitutability.

¹ <https://www.nbb.be/nl/financieel-toezicht/macropudentieel-beleid/macropudentiele-instrumenten/buffer-voor-de-andere>.

Supervisory priorities in 2019

After the CSDR authorisation of Euroclear Belgium in April 2019, the priority for 2019 is the authorisation file for Euroclear Bank. Given its international scope and multicurrency dimension, the Bank will consult with a wide range of other relevant and competent authorities in the EU member states in the framework of the CSDR (See Box 6). Further work will also be conducted on the potential use by Euroclear Bank of central bank services for non-EU currencies.

A standing topic on the Bank's supervision and oversight plan continues to be operational resilience and cyber security in the Euroclear Group (i.e. Euroclear SA/NV, Euroclear Bank and Euroclear Belgium), in cooperation with other Euroclear Group regulators in the framework of the Cyber Resilience Task Force.

In addition, the Bank will pay attention to Euroclear corporate governance aspects (such as potential evolutions in the shareholder structure of the Group) and to the impact of Brexit on the Euroclear business and strategy. On the latter, in May 2019, Euroclear Bank published its proposal to become the issuer CSD for Irish corporate securities as from March 2021.

BOX 6

Cooperation between the Bank and other authorities with regard to Euroclear

The Bank cooperates with domestic and foreign authorities in the framework of the oversight and supervision of Euroclear entities established in Belgium, i.e. Euroclear SA/NV, Euroclear Bank and Euroclear Belgium. The table below provides the list of authorities and the rationale for having a cooperation arrangement with them.

In the framework of the CSDR, the Bank, as competent authority, also needs to involve other relevant authorities in the authorisation and supervision of (I)CSDs established in Belgium. The CSDR identifies as “relevant authorities”, i.e. authorities responsible for oversight, central banks in the EU in whose books cash is settled and central banks in the EU issuing the most relevant currencies in which settlement takes place. In the case of Euroclear Bank and Euroclear Belgium, the Bank also acts as relevant authority in its role as overseer of securities settlement systems. As Euroclear Belgium settles EUR in central bank money, the Eurosystem (represented by the Bank) is considered as relevant authority as well. For Euroclear Bank, this also includes Bank of England and Danmarks Nationalbank. For this category of relevant authority – central banks in the Union issuing the most relevant currencies in which settlement takes place –, the parameters to assign relevant authorities are defined by the CSDR RTS. As some of these parameters require a calculation of data on an aggregate basis, ESMA collects, via the competent authorities, data across all CSDs. ESMA publicly discloses the list of relevant authorities¹.

In addition, the Bank has to involve other authorities for the authorisation to provide banking-type ancillary services. These include (i) the relevant authorities (as defined in the previous paragraph), (ii) the competent authorities in the Member State (MS) where the CSD has established interoperable links with another CSD, (iii) the competent authorities in the host MS where the activities of the CSD are of substantial importance for the functioning of the securities markets and the protection of investors, and (iv) the competent authorities responsible for the supervision of the participants of the CSD established in the three MS with the largest settlement values in the CSD’s securities settlement system.

Given the need to use consistent data aggregated at EU level for the calculation of the respective indicators, ESMA issued guidelines on the data collection, processing and aggregation process to determine (i) the most relevant currencies in which settlement takes place² and (ii) the substantial importance of a CSD for a host MS³.

1 https://www.esma.europa.eu/sites/default/files/library/esma70-151-887_csd_list_of_relevant_authorities_art_12.pdf.

2 https://www.esma.europa.eu/sites/default/files/library/esma70-708036281-66_csd_guidelines_on_relevant_currencies_0.pdf.

3 https://www.esma.europa.eu/sites/default/files/library/esma70-708036281-67_csd_guidelines_on_substantial_importance_of_a_csd_0.pdf.



Cooperation	Rationale for cooperation
National cooperation	
FSMA	Market authority responsibilities regarding (I)CSDs in Belgium
International cooperation	
Euroclear SA/NV	
Euroclear Group overseers and market supervisors (BE: NBB, FSMA; FI: Bank of Finland, Finanssivalvonta; FR: Banque de France (BdF), Autorité des marchés financiers (AMF); NL: De Nederlandsche Bank (DNB), Autoriteit Financiële Markten (AFM); SE: Riksbank, Finansinspektionen; UK: Bank of England, Financial Conduct Authority)	Multilateral cooperation with regard to the parent holding company of the Euroclear Group (I)CSDs (Euroclear SA), a critical service provider to the Euroclear Group entities
Euroclear Bank	
Central banks of issue of major currencies in Euroclear Bank (Federal Reserve System, Bank of England, Bank of Japan and ECB as observer)	Multilateral oversight cooperation with the relevant central banks of issue of the major currencies settled in Euroclear Bank
ECB	Bilateral oversight cooperation in the framework of oversight and financial stability within the euro area
Bank of England	Bilateral oversight cooperation on specific aspects of Euroclear Bank relevant for Bank of England
Bank of Japan	Bilateral oversight cooperation on specific aspects of Euroclear Bank relevant for Bank of Japan
Central Bank of Ireland	Bilateral oversight cooperation with regard to the settlement of Irish bonds in Euroclear Bank
Hong Kong Monetary Authority	Bilateral oversight cooperation focusing on the links between Euroclear Bank and Hong Kong market infrastructures
Banque Centrale de Luxembourg (BCL) / Commission de Surveillance du Secteur Financier (CSSF)	Bilateral cooperation on the oversight and supervision of the ICSDs Euroclear Bank and Clearstream Banking Luxembourg
Securities Exchange Commission (SEC)	Bilateral cooperation focusing on US-related activities within Euroclear Bank
ESES	
ESES overseers and market supervisors (BE: NBB, FSMA; FR: BdF, AMF; NL: DNB, AFM)	Multilateral cooperation covering the CSDs of Euroclear France, Euroclear Nederland and Euroclear Belgium sharing a common rulebook.

Source: NBB.



Consultation in the context of the CSDR	Rationale for consultation
National consultation	
Euroclear Bank / Euroclear Belgium	
<i>CSD services</i>	
FSMA	The Bank seeks the FSMA's advice for aspects that fall under the latter's perimeter of competence for CSDs. This covers rules on conflicts of interest, record-keeping, the requirements concerning participation, transparency, procedures for communicating with participants and other market infrastructures, the protection of the assets of participants and their clients, freedom to issue securities via any CSD authorised in the EU, and access between a CSD and another market infrastructure ¹
International consultation	
Euroclear Bank	
<i>CSD services</i>	<i>Central bank of issue of the most relevant currencies in which settlement takes place².</i>
Eurosystem, Bank of England, Danmarks Nationalbank	Calculation methodology ³ : <ul style="list-style-type: none"> ■ the relative share of each Union currency in the total value of the settlement by a CSD of against-payment settlement instructions, provided that such share exceeds 1 %; or ■ the relative share of against-payment settlement instructions settled by a CSD in a Union currency compared to the total value of A/P settlement instructions settled in that currency across all CSDs in the Union, provided that such share exceeds 10 %
<i>Banking-ancillary services</i>	<i>The following authorities are involved in the authorisation of the CSD⁴</i>
Eurosystem, Bank of England, Danmarks Nationalbank	<ul style="list-style-type: none"> ■ Relevant authorities
Commission de Surveillance du Secteur Financier (CSSF)	<ul style="list-style-type: none"> ■ Competent authority in the MS where the CSD has established interoperable links with another CSD
Competent authorities from twenty MS in the EU	<ul style="list-style-type: none"> ■ Competent authorities in the host MS where the activities of the CSD are of substantial importance for the functioning of the securities markets and the protection of investors⁵ Calculation methodology: the aggregated market value of financial instruments issued by issuers from the host MS that are initially recorded or centrally maintained in the CSD represents at least 15 % of the total value of financial instruments issued by all issuers from the host MS that are initially recorded or centrally maintained in all CSDs established in the Union⁶ ■ Competent authorities responsible for the supervision of the participants of the CSD established in the three MS with the largest settlement values in the CSD's securities settlement system on an aggregated basis
ESMA, EBA	<ul style="list-style-type: none"> ■ European regulatory agencies
Euroclear Belgium	
<i>CSD filing</i>	
Eurosystem	Eurosystem (as represented by the Bank) as central bank in the Union in which books cash is settled and issuing the most relevant currency in which settlement takes place

Source: NBB.

1 In accordance with the Protocol between the Bank and the FSMA on their cooperation in the framework of the supervision of CSDs and assimilated institutions.

2 CSDR Art. 12(1)(b).

3 Art. 2(1)(a) of the Commission Delegated Regulation (EU) 2017/392.

4 CSDR Art. 55(4).

5 Art. 24 of Regulation (EU) No 909/2014 (CSDR).

6 Art. 5(1)(a) of the Commission Delegated Regulation (EU) 2017/389.

2.3 Custodians

Changes in regulatory framework

The Law of 31 July 2017 introduced a new licence which can be granted to credit institutions carrying on activities exclusively in the following areas: custody and asset servicing, bookkeeping and settlement in financial instruments, as well as associated services, in addition to accepting deposits or other returnable funds from the public and granting credit for own account, where such activities are ancillary or linked to the above-mentioned services (hereinafter referred to as “depository banks”). As the banking supervision framework does not address all prudential supervision aspects of this type of activity (e.g. customer asset protection), a specific prudential supervision approach is warranted in areas which are not covered by the banking regulations.

The Bank of New York Mellon SA/NV (BNYM – a Significant Institution according to the SSM Regulation) and The Bank of New York Brussels Branch (BNYM BB) – a third-country branch holding in global custody mainly assets from non-continental EU customers – were granted a complementary licence to operate as depository banks at the end of 2017 (see also Annex 2 for the governance structure of the BNYM group).

Moreover, other non-bank specific prudential regulation introduced additional reporting requirements for credit institutions. One of them, namely reporting on settlement internalisers within the context of the CSDR, is particularly relevant for institutions providing custody and related services. See Box 7 for more information on settlement internalisers.

BOX 7

New reporting obligation for settlement internalisers

On 23 July 2014 the European Parliament and the Council adopted the European Regulation on improving securities settlement in the EU and on central securities depositories¹ (the “CSDR”).

According to Article 9(1) of the CSDR, settlement internalisers shall report to the competent authorities of their location of establishment on a quarterly basis the aggregated volume and value of all securities transactions that they settle outside securities settlement systems.

“Settlement internaliser” means any institution, including those authorised in accordance with Directives 2013/36/EU² or 2014/65/EU³, which settles transfer orders on behalf of customers on its own account rather than through a securities settlement system⁴.

The aim is to take further steps for improved transparency and to provide regulators with an extensive view of the securities settlement infrastructure, potentially inducing policy changes to improve safety in the markets.

¹ Regulation (EU) No 909/2014.

² Authorisation for credit institutions to provide services throughout the Union.

³ Authorisation for investment firms to provide services throughout the Union.

⁴ Art. 2(1)(11) of the CSDR.



Further information on the requirements regarding the content of the reporting on internalised settlements is provided in Commission Delegated Regulation (EU) 2017/391 of 11 November 2016 (hereinafter referred to as the 'RTS'). Technical standards regarding the templates and procedures for the reporting and transmission of information on internalised settlements are specified in Commission Implementing Regulation (EU) 2017/393 of 11 November 2016.

To ensure a common, uniform and consistent application of Article 9 of the CSDR and the relevant provisions of the RTS on internalised settlement, ESMA issued guidelines (28 March 2018) clarifying the scope of the data to be reported by settlement internalisers and the types of transactions and operations that should or should not be included.¹

All institutions in scope of the reporting requirements should comply with the ESMA Guidelines from the first reporting period onwards. In accordance with Article 1(1) of Commission Implementing Regulation (EU) 2017/393, (i) the period that the first report shall cover goes from 1 April 2019 until 30 June 2019; and (ii) settlement internalisers shall send the first report to the competent authorities by 12 July 2019.

The following types of transactions and operations are considered *in scope* of internalised settlement reporting:

- purchase or sale of securities (including primary market purchases or sales of securities);
- collateral management operations (including triparty collateral management operations or auto-collateralisation operations);
- securities lending or securities borrowing;
- repurchase transactions;
- transfers of securities between accounts of different investment funds (funds with or without legal personality should be treated as customers);
- execution of transfer orders by a settlement internaliser on its own account, to the extent that they result from securities transactions with customers of the settlement internaliser;
- transfer of securities between two securities accounts of the same customer;
- title transfer financial collateral arrangements as defined in point (b) of Article 2(1) of Directive 2002/47/EC (SFD);
- security financial collateral arrangements as defined in point (c) of Article 2(1) of SFD, where there is a transfer of securities between accounts;
- corporate actions on flow represented by transformations.

The following types of transactions and operations are considered *out of scope* of internalised settlement reporting:

- corporate actions on stock, such as cash distributions (e.g. cash dividend, interest payment), securities distributions (e.g. stock dividend, bonus issue), reorganisations (e.g. conversion, stock split, redemption, tender offer);
- corporate actions on flow represented by market claims;
- primary market operations, meaning the process of initial creation of securities;
- creation and redemption of fund units;
- pure cash payments, not related to securities transactions;
- transactions executed on a trading venue and transferred by the trading venue to a CCP for clearing or to a CSD for settlement.

¹ ESMA70-151-1258.



The following types of financial instruments should be considered *in scope* of internalised settlement reporting:

- financial instruments that are initially recorded or centrally maintained in CSDs authorised in the EU;
- financial instruments initially recorded and/or centrally maintained outside of CSDs authorised in the EU but settled in a European CSD.

On 5 February 2019, the Bank published¹ a circular to implement the ESMA guidelines of 28 March 2018 on Internalised Settlement Reporting under Article 9 of the CSDR.

1 https://www.nbb.be/doc/cp/eng/2019/20190205_nbb_2019_02.pdf.

Prudential approach

As a Significant Institution, BNYM falls under the direct supervision of the SSM. The majority of planned supervisory actions are therefore carried out jointly by the Bank and the ECB within the SSM framework. BNYM is also subject to specific monitoring by the Bank as regards the specific requirements applicable to depositary banks on *inter alia* the customer asset protection framework and compliance of new activities/acquisitions. As a third-country branch, BNYM BB falls under the direct supervision of the Bank.

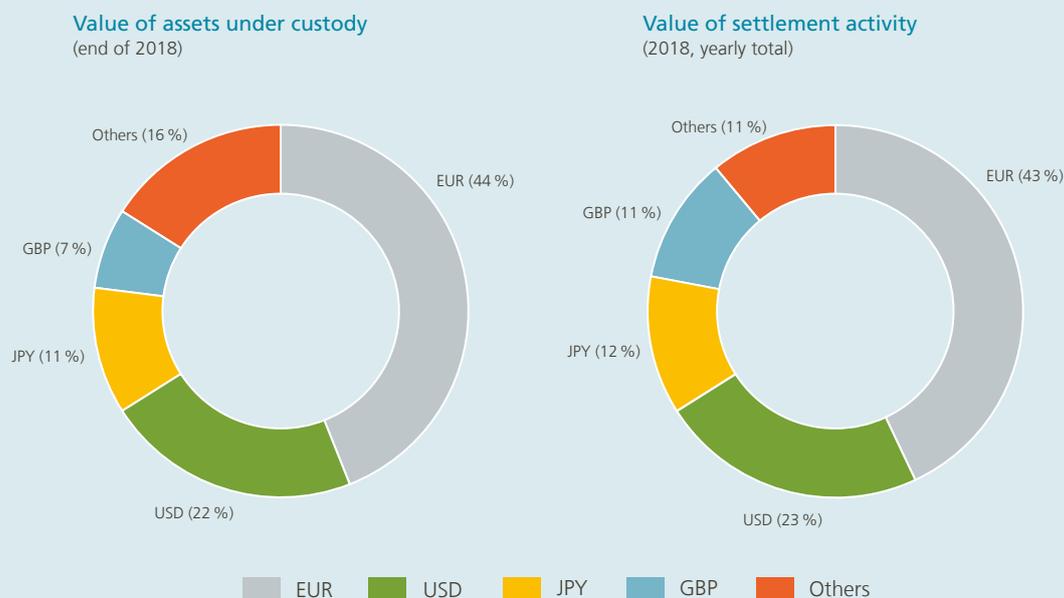
BNYM and BNYM BB have a specific business model and consequently a risk profile that is distinct from that of other credit institutions; i.e. their business lines all relate to the investment servicing activity for professional counterparties. They do not engage in retail banking. The liability side of their balance sheet consists predominantly of non-maturity customer deposits. They receive cash deposited by customers to finance their transactions. These customer deposits are reinvested in the market, intragroup, with central banks or in high-quality investment portfolios. Credit granted to customers has an operational, uncommitted nature; i.e. (intraday) overdrafts are granted to facilitate the processing of transactions.

BNYM's activity is largely situated off-balance sheet (€ 2.4 trillion assets under custody as of end 2018) and its profit is mainly fee-driven. Customers are mostly institutional counterparties. This is one of the concentration risks inherent to the custodian business model. As for other custodian banks, the risk profiles of BNYM entities in Belgium are driven by (intraday) credit risk, intraday aspects of liquidity, and operational risk (including IT risks) resulting from tail operational events such as FMI disruptions or failures due to the role of a custodian bank in the settlement process. Acting as a global custodian of the BNYM Group, BNYM has a strong international dimension, as explained in Box 8.

The SSM, which has established a harmonised supervisory approach for banks under its direct supervision, also takes into account the specificities of the business model and risk profile of custodians. An important level of supervisory judgement for custody-specific risks is currently required from the joint supervisory team when supervising SSM custodians, in order to ensure that all material risks for custodian banks are identified and captured in all parts of the SSM supervisory process (such as risk assessment, SREP, stress test and recovery planning).

International dimension of Bank of New York Mellon Group and SA/NV

Assets under custody and settlement turnover in BNYM SA/NV by currency



The Bank of New York Mellon, a banking group incorporated in the US, is the largest custody bank in the world in terms of assets under custody (\$ 33.1 trillion as at December 2018). It is a global systemically important bank (G-SIB), providing asset and investment management services to institutional customers. The Bank of New York Mellon SA/NV (BNYM), the Belgian subsidiary, provides asset services mainly and acts as the Groups' custodian for T2S markets and as the custodian for EU customers. BNYM has a non-bank subsidiary in Germany and branches in the UK, Luxembourg, the Netherlands, Germany, France, Ireland and Italy, through which it operates in these local markets. BNYM qualifies as an 'other systemically important institution' (O-SII) as assessed by the Bank based on the relevant EBA guidelines.

By the end of 2018, BNYM served more than 2 100 international, institutional customers on whose behalf it held € 2.4 trillion equivalent assets under custody, denominated in more than 75 different currencies¹. The majority of these assets are denominated in EUR (44 %), followed by USD (22 %), JPY (11 %) and GBP (7 %). In terms of settlement activity², BNYM processed about 16.2 million transactions worth 42.2 trillion equivalent in 2018. The main currencies are EUR (43 %), USD (23 %), JPY (12 %) and GBP (11 %).

¹ Eligible currencies include AED, ARS, AUD, AZN, BDT, BGN, BHD, BMD, BRL, BSD, BWP, CAD, CHF, CLP, CNY, COP, CRC, CZK, DKK, EGP, ETB, EUR, FKP, GBP, GHS, GMD, HKD, HRK, HUF, IDR, ILS, INR, ISK, JOD, JPY, KES, KRW, KWD, KYD, KZT, LBP, LKR, MAD, MUR, MXN, MYR, MZN, NAD, NGN, NIO, NOK, NZD, OMR, PEN, PGK, PHP, PKR, PLN, PYG, QAR, RON, RSD, RUB, SAR, SEK, SGD, THB, TND, TRY, TWD, TZS, UAH, UGX, USD, UYU, VEF, VND, XOF, ZAR, ZMW, ZWL.

² Value of BNYM settlement activity is based on receipt and delivery instructions.

Supervisory priorities in 2019

Prudential supervision of BNYM will focus on the impact of Brexit. The withdrawal of the UK from the EU will redesign the regulatory landscape for the BNYM group, impacting both product offering and reliance on intra-group outsourcing to the UK. The ECB has published guidance for prudential supervisors for assessing the impact of Brexit¹. This guidance revisits principles on governance and risk management, outsourcing, recovery and resolution, booking models, dual hatting, etc. Assuring that BNYM is compliant with these principles and other regulation in this regard will be a priority.

Alongside, but not entirely disconnected from adapting the business model to a post-Brexit environment, BNYM is currently in the process of simplifying its footprint structure in Europe (including the UK). This process entails different strategic initiatives that are changing the way customers are serviced. These include *inter alia* the transfer of activities and customers between group entities. The Bank is closely monitoring these transfers to safeguard customers' interest and assets.

Institutions qualified as settlement internalisers within the meaning of the CSDR need to report to the Bank on a regular basis. In accordance with the applicable Implementing Regulation, they should provide their first report by mid-July 2019. The Bank will monitor compliance with these requirements through its supervisory activities.

¹ <https://www.bankingsupervision.europa.eu/banking/relocating/html/index.en.html>.