Roles of CSDs in the Financial Markets

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Nicolas Schepkens

Agenda

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    2. Role
    3. Ecosystem
    4. Regulations
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1. A little bit of History

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What is this?

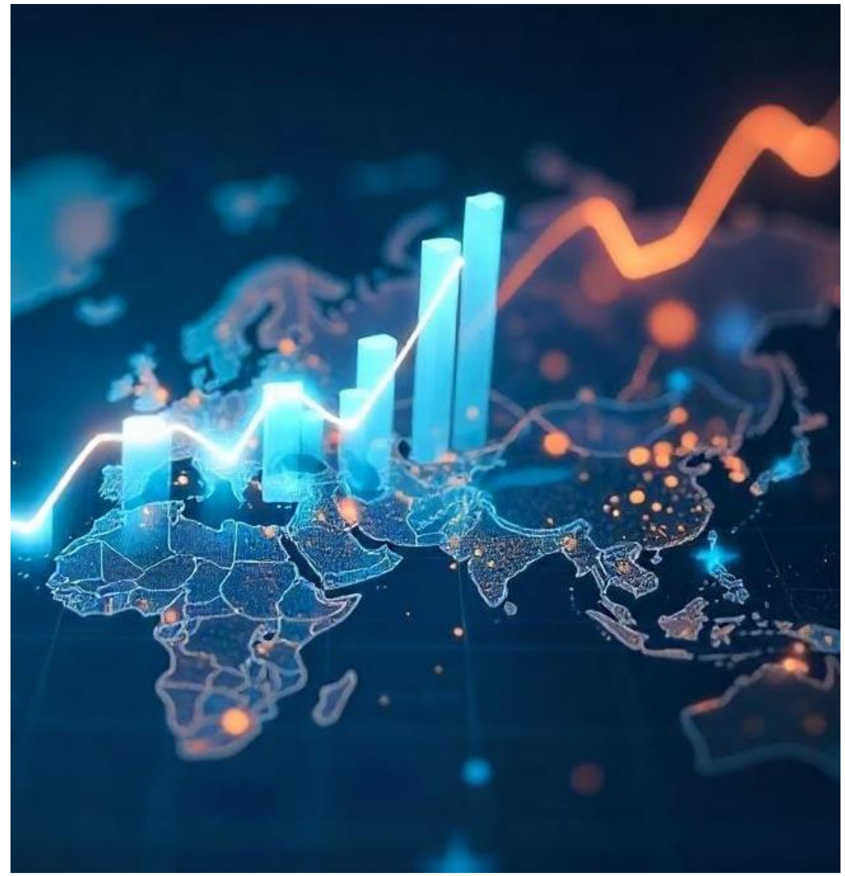
2. What's a CSD?

Role
Ecosystem
Regulations
Services

A CSD is a Financial Market Infrastructure (FMI)

Definition of an FMI:

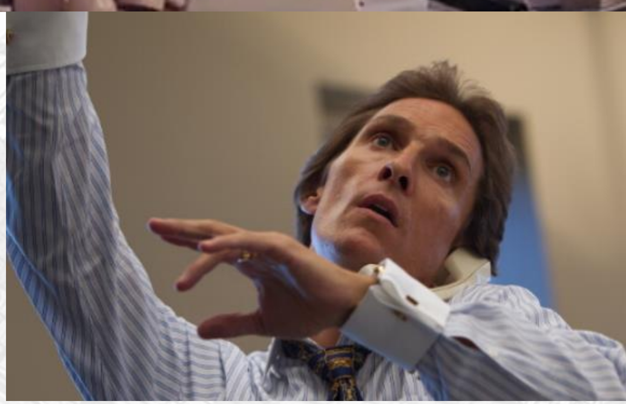
- multilateral system
- among participating institutions, including the operator of the system,
- used for the purposes of:
  - clearing,
  - settling, or
  - recording payments, securities, derivatives, or other financial transactions



CPMI-IOSCO Principles for financial market infrastructures

Where does an FMI sit?

Pre-trade vs Post trade



The different types of FMI

FMI Type	Core Function	Example Entities
Payment Systems	Transfer of funds	T2, Fedwire
Central Securities Depositories (CSDs)	Safekeeping of securities	Euroclear, Clearstream
Securities Settlement Systems (SSSs)	Transfer of securities	Euroclear, SIX SIS
Central Counterparties (CCPs)	Guarantee trades & mitigate risk	LCH, Eurex Clearing
Trade Repositories (TRs)	Record derivatives transactions	DTCC, REGIS-TR

Legal Sources and Authorities regulating FMI

- **Global sources:**
- CPMI/IOSCO Principles for Financial Market Infrastructures (Non-binding and Risk oriented)
- CPMI/IOSCO Recovery of financial market infrastructures (2014/2017)

- **EU Sources**
- EMIR, CSDR,.. (level 1)
- ESMA/ EBA Technical Standards/Implementing Technical Standards (level 2 and 3) - *e.g. EBA RTS on prudential requirements for CSDs*
- Oversight (macro supervision) and Prudential Supervision (micro supervision)

- **Authorities (national and EU level)**
- Guidelines
- Prudential Supervision (micro supervision)

Deep dive on Central Securities Depositories

- Legislation
- Definition
- What does it mean in practice?
- Roles of a CSD
- Ecosystem of a CSD
- Services offered by a CSD

Législation: CSDR

Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012 (« **CSDR** »)

2008

➔ Improve the functioning of the financial markets

➔ Protect investors

Definition (art.2 CSDR)

- ✓ Market infrastructure authorized by the national authorities
- ✓ 2 conditions:
  1. Operate an IT platform called Securities Settlement System (SSS)
  2. Offer one of the following services:
     - Initial recording of securities in a book entry system (Notary services); and/or
     - Providing and maintaining securities accounts (Central maintenance services)

CSD Core Services

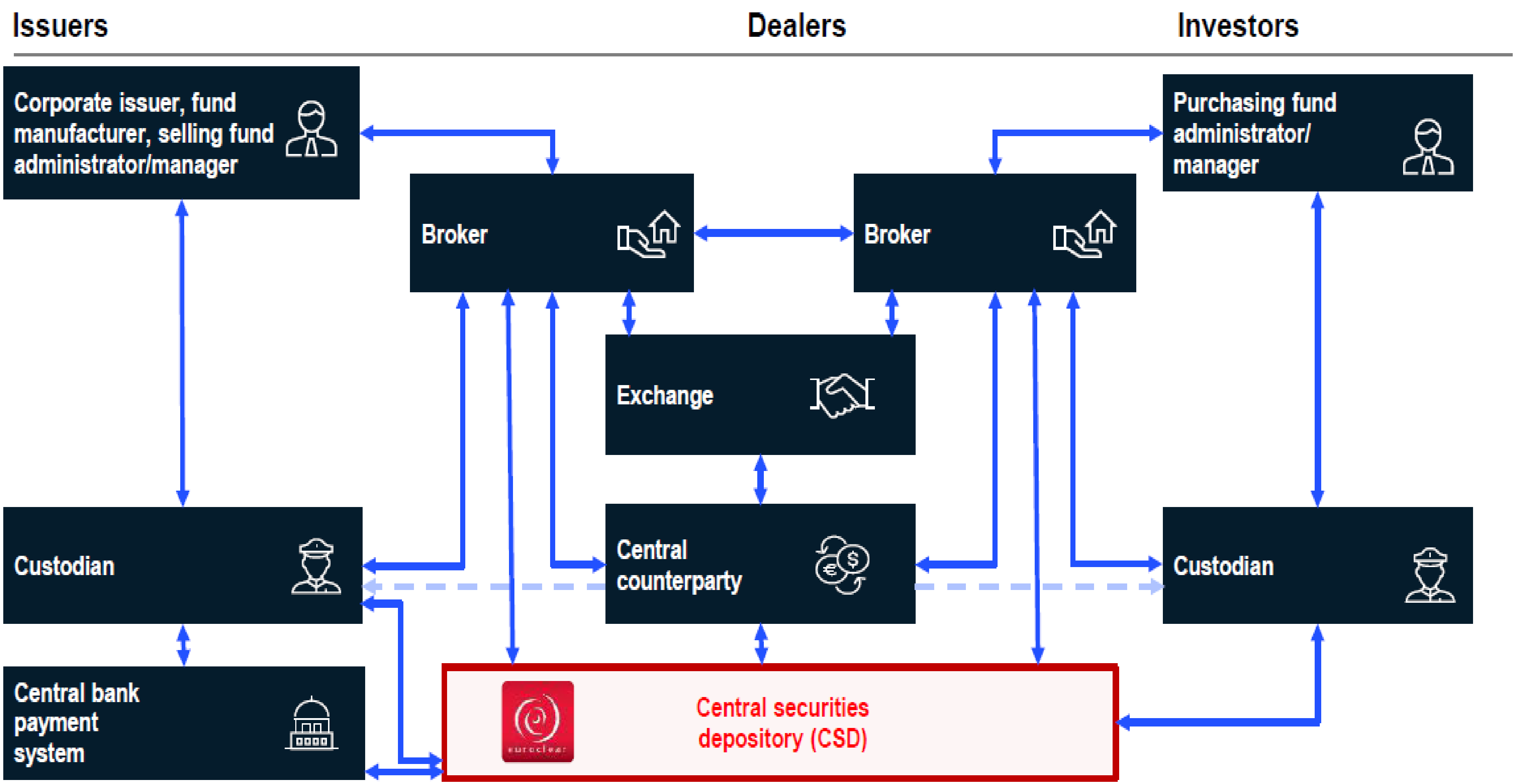
CSD + Credit Institution

Two types of CSD: Local CSD and International CSD

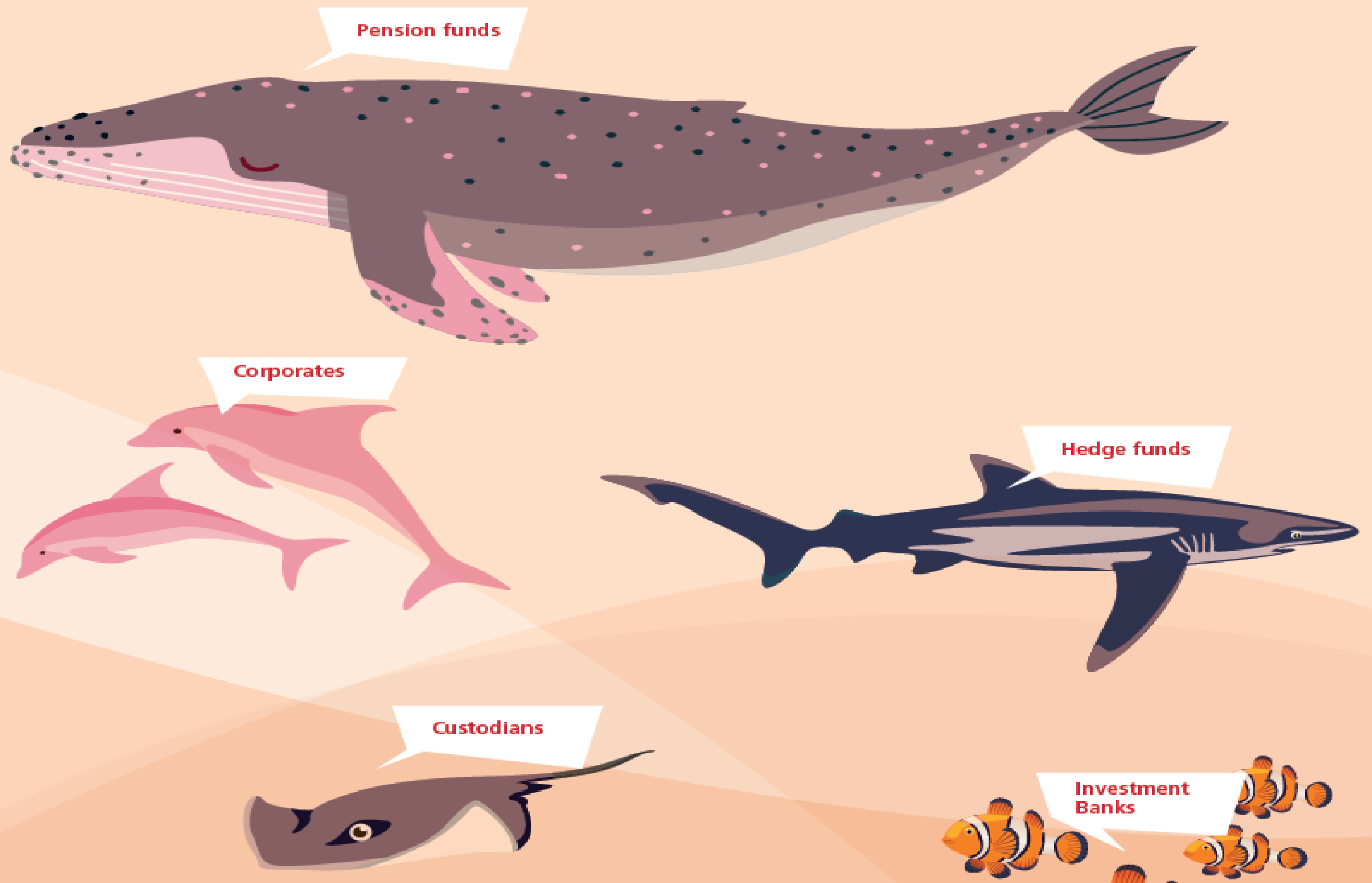
International CSD	Local CSD
Banking and CSD Licenses	CSD license
Hold Cash and Securities	Hold Securities only
International	National
Network of local CSD (links)	End of holding chain

What does it mean in practice?

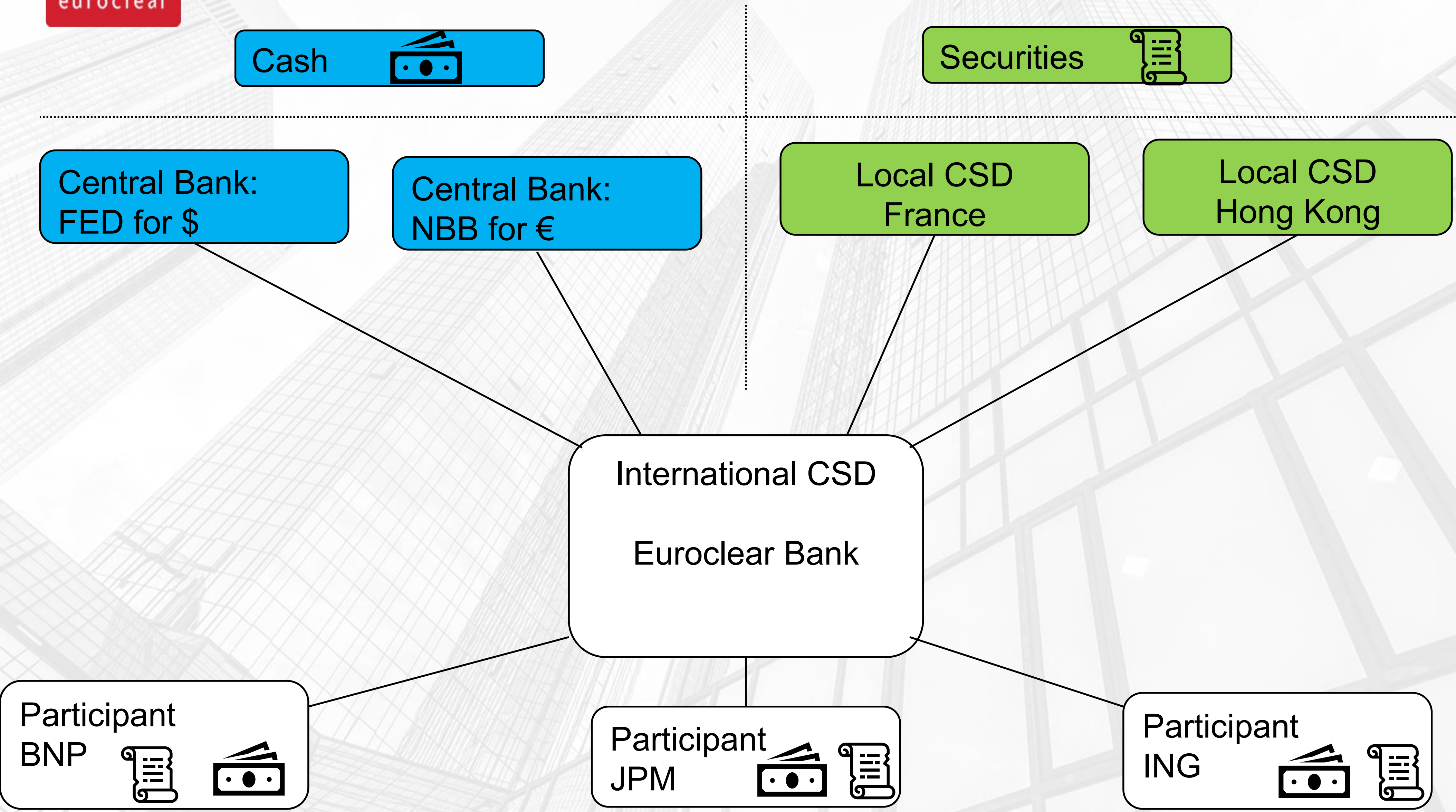
Role of a CSD: the plumbing of the financial markets



Ecosystem of a CSD : its clients

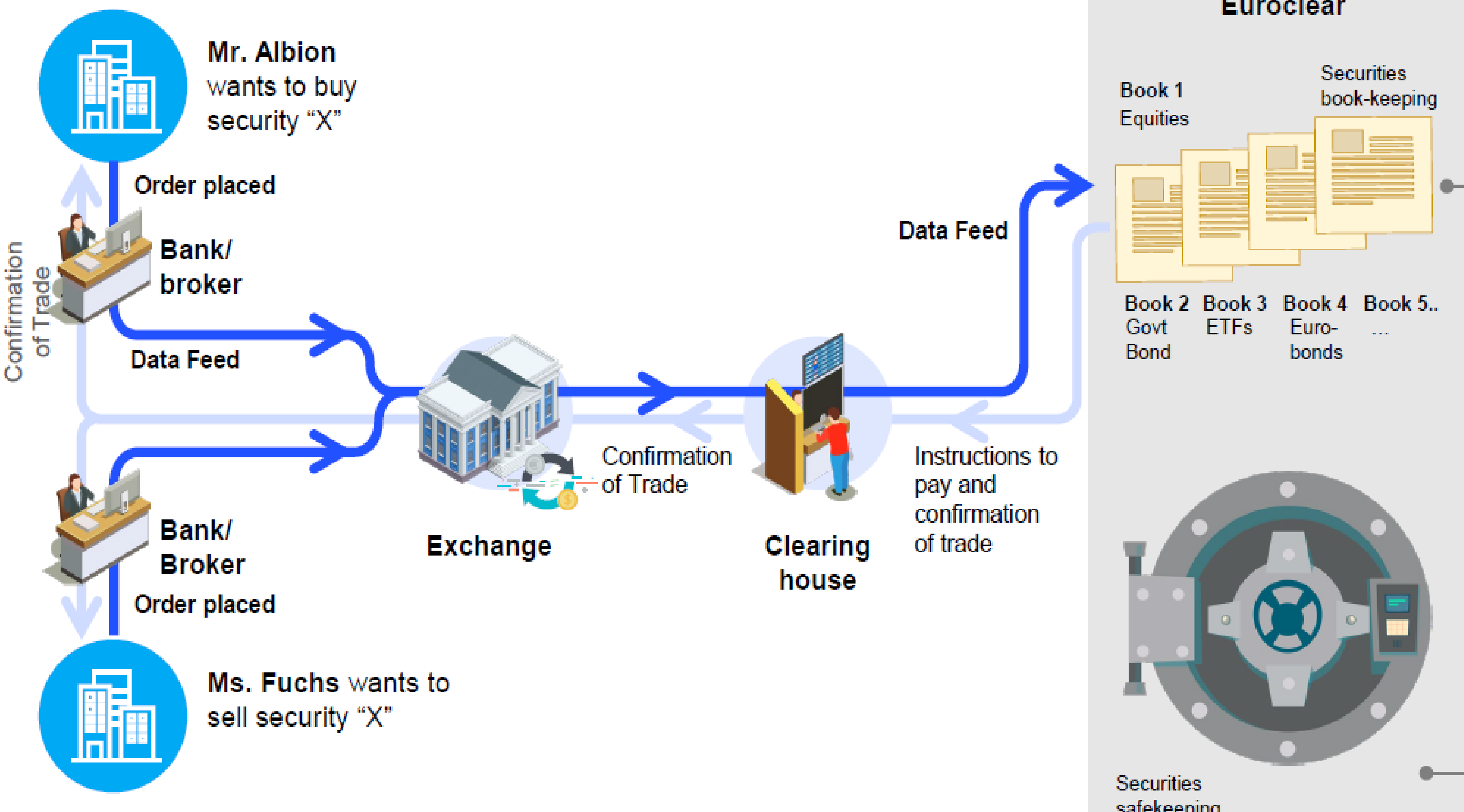


Ecosystem: Zoom on the holding chain



Services of a CSD: Settlement

Simplified example of trade of listed cash equity in Europe



Settlement

~30% of total business income[1]

Instruction to transfer ownership from Ms. Fuchs to Mr. Albion is carried out at Euroclear's books

Asset safekeeping and servicing

~60% of total business income[1]

Security "X" is held by Euroclear for safe-keeping and asset servicing

1 Business income refers to revenues made from operational activities, i.e. does not include interest income
2 Remaining business income generated by collateral management activities

Services of a CSD: Safekeeping

- Securities account
- Reconciliation
- Corporate actions:
    - ▶ Issuance
    - ▶ Interest & dividend
    - ▶ Voting
    - ▶ Redemption
- Tax

Services of a CSD: Collateral Management

Bilateral agreement
(GMRA, GMSLA, Pledge,…)

Collateral giver

Collateral taker

Triparty Service Agreement
- Terms and Conditions
- Operating Procedures
- Collateral profile(1)

Euroclear processing
- Match terms of the deal
- Verify collateral eligibility
- Transfer the securities (DVP or FOP)
- Daily mark-to-market
- Automatic margin calls
- Automatic substitutions
- Automatic corporate actions

Euroclear reporting
- Validation & matching
- Margin
- Settlement
- Custody
- Risk management

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(1) Eligibility criteria, Concentration limits, Margin percentages

3. CSDs and Geopolitics

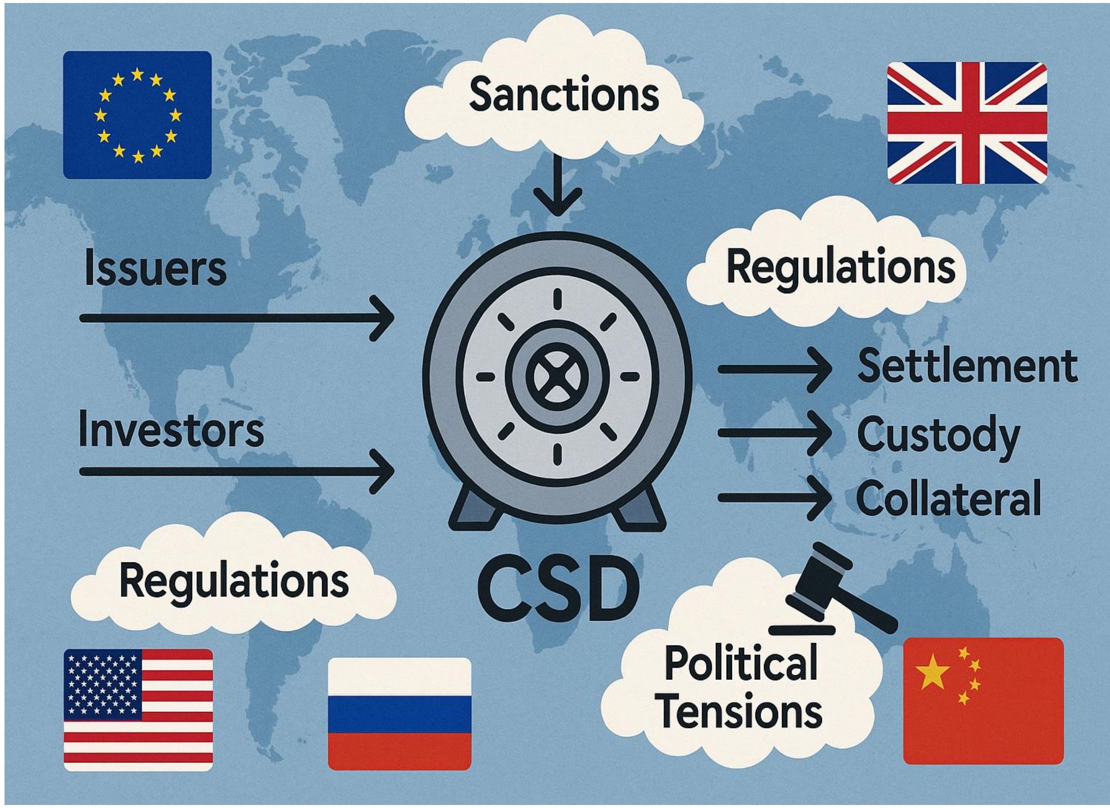
Why are CSDs relevant in Geopolitics?

CSDs sit at the intersection of international capital flows:

⇒Sanctions: Freeze assets, block transactions, adapt to new rules locally and on global markets

⇒Regulatory Divergence: Different regimes (EU, US, UK, etc.) create compliance challenges and fragmented markets.

⇒Strategic Importance: brings financial stability, making them targets or tools in geopolitical disputes.



What are (financial) sanctions?

Restrictive measures taken by countries or international organizations against other countries, persons or entities

Diplomatic coercion tool used in lieu of military action

Types:

arms embargoes trade barriers travel bans
investment bans loan prohibition asset freezes
publication bans transaction bans etc

(Inter)national sanctions regimes

United Nations
UN Security Council
Binding on all UN Member States

European Union
Art. 29 TEU and 215 TFEU: unanimity required
EU persons, and persons doing business in the EU

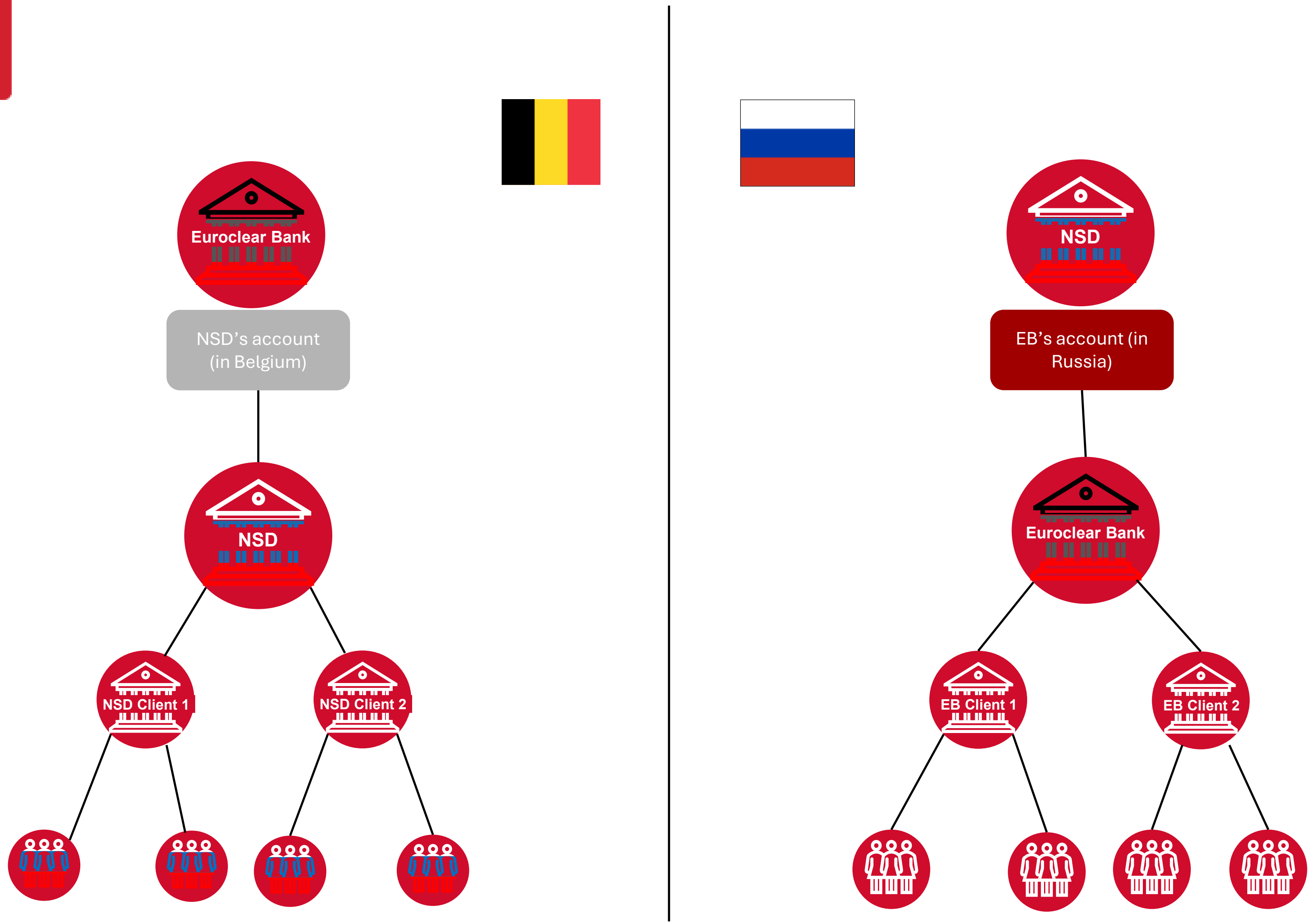
United States
Office of Foreign Asset Control (OFAC)
US Persons + strong extraterritorial effect

United Kingdom
Office of Financial Sanctions Implementation (OFSI)
UK persons + conduct within the UK

Belgium
Ministry of Finance (MinFin)
Limited number of domestic sanctions (national terrorism list)
National competent authority for Euroclear Bank

- Provides official guidance
- Grants (or declines) authorisations

Sanctions against Russia


Euroclear Bank
NSD's account
(in Belgium)
NSD
NSD Client 1
NSD Client 2
NSD
EB's account (in
Russia)
Euroclear Bank
EB Client 1
EB Client 2

EU sanctions against Russia

19 sanctions packages

Council Regulation (EU) No **269/2014** and No **833/2014**

- **Asset freezing measures** against Russian banks, companies and persons (incl. NSD,…)
- **Offsetting**
- **Immobilization** of assets of the Central Bank of Russia (CBR)
- **Windfall contribution**
- Transaction ban (formerly the ‘SWIFT’ ban)

Russian countermeasures

Payments **in RUB** to unfriendly investors on **blocked** accounts

Forced transfers, **conversions** and **repurchases** to bypass foreign institutions

Alternative payment flows to avoid default and allow direct payments to Russia-friendly investors

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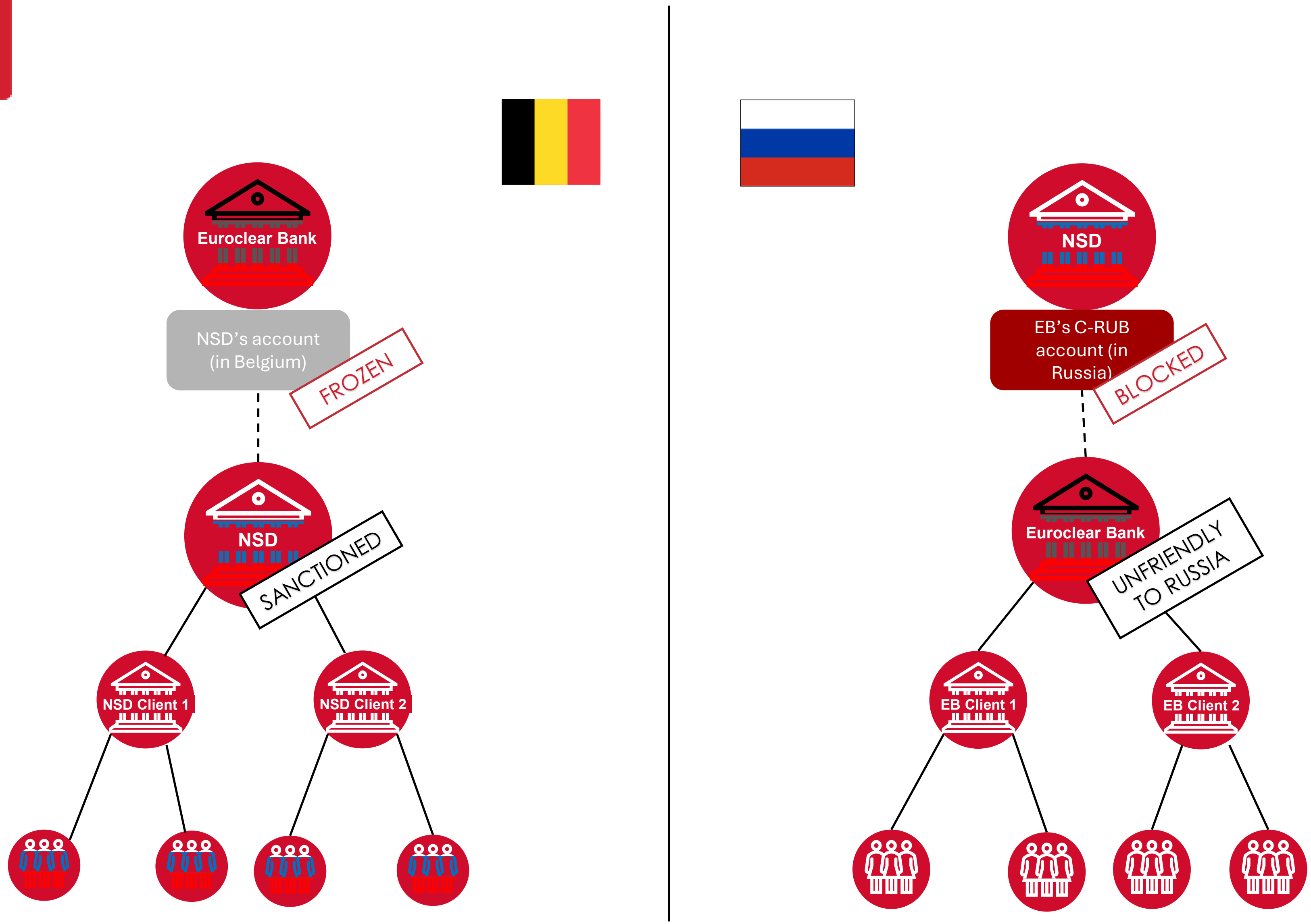

Euroclear Bank
NSD's account (in Belgium)
FROZEN
NSD
SANCTIONED
NSD Client 1
NSD Client 2
NSD
EB's C-RUB account (in Russia)
BLOCKED
Euroclear Bank
UNFRIENDLY TO RUSSIA
EB Client 1
EB Client 2

Litigation in Russia

Assets of NSD and other Russian institutions frozen in Belgium

- Also impacts underlying clients (sanctioned or not)

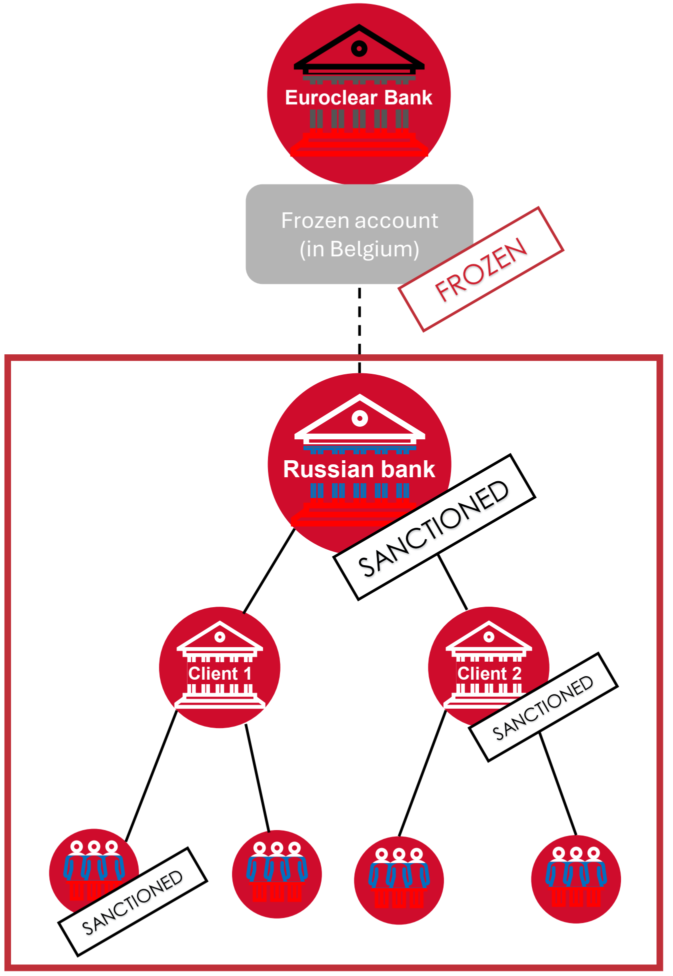
Western sanctions not recognized in Russia

- Russian claimants target EB in Russia to reclaim assets frozen in Belgium

<u>BUT</u> Russian **Decrees 8** & **244**

- Judgements after 3 JAN 2024 cannot be enforced against C & I accounts

Bankruptcy? Russia friendly countries?



Assets of the Central Bank of Russia (CBR)

Assets are not frozen but ***immobilized*** in **EU and US** since **February 2022**

Since February 2024, immobilized CBR assets subject to **windfall contribution**

- 99.7% of profits generated on CBR assets **due to the EU**

Towards creative use of the CBR assets or even expropriation?

- Letter 17 November from UvdL with 3 options
- US Peace Deal (28 points)

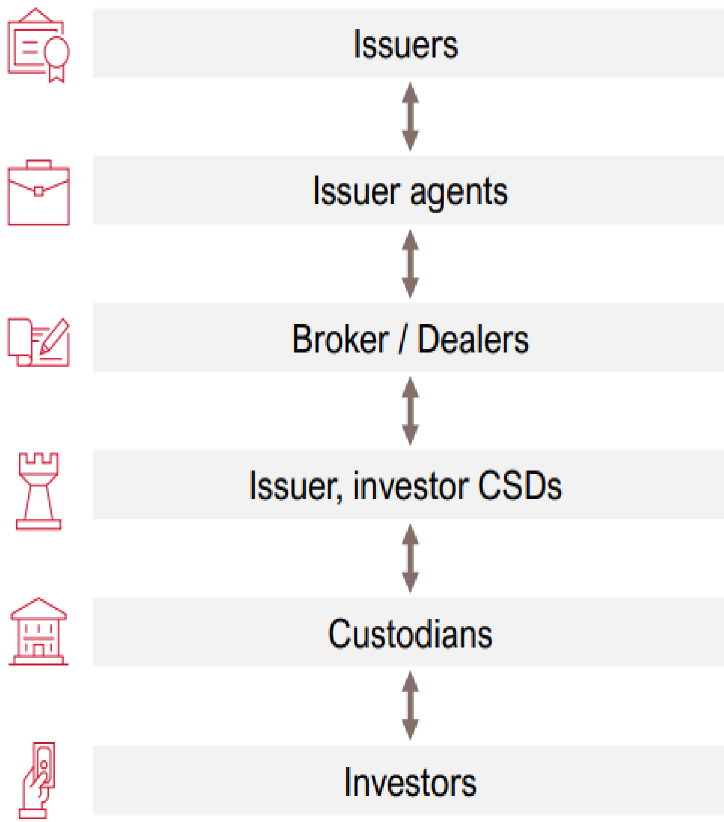
  Point 14: Frozen funds will be used …
- EU Counterproposal

  Point 14: assets will remain frozen until Russia compensates damage to Ukraine.
- US Peace Deal (19 points)

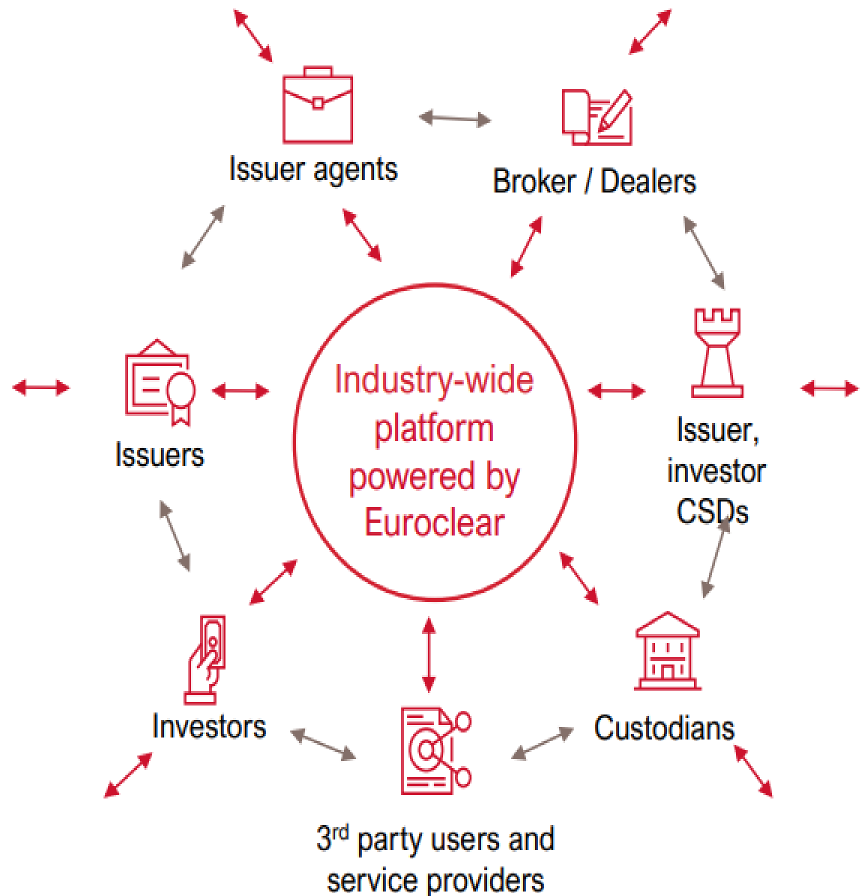
4. CSD and DFMI

DFMI

FROM a sequential value chain, where data is duplicated across multiple layers

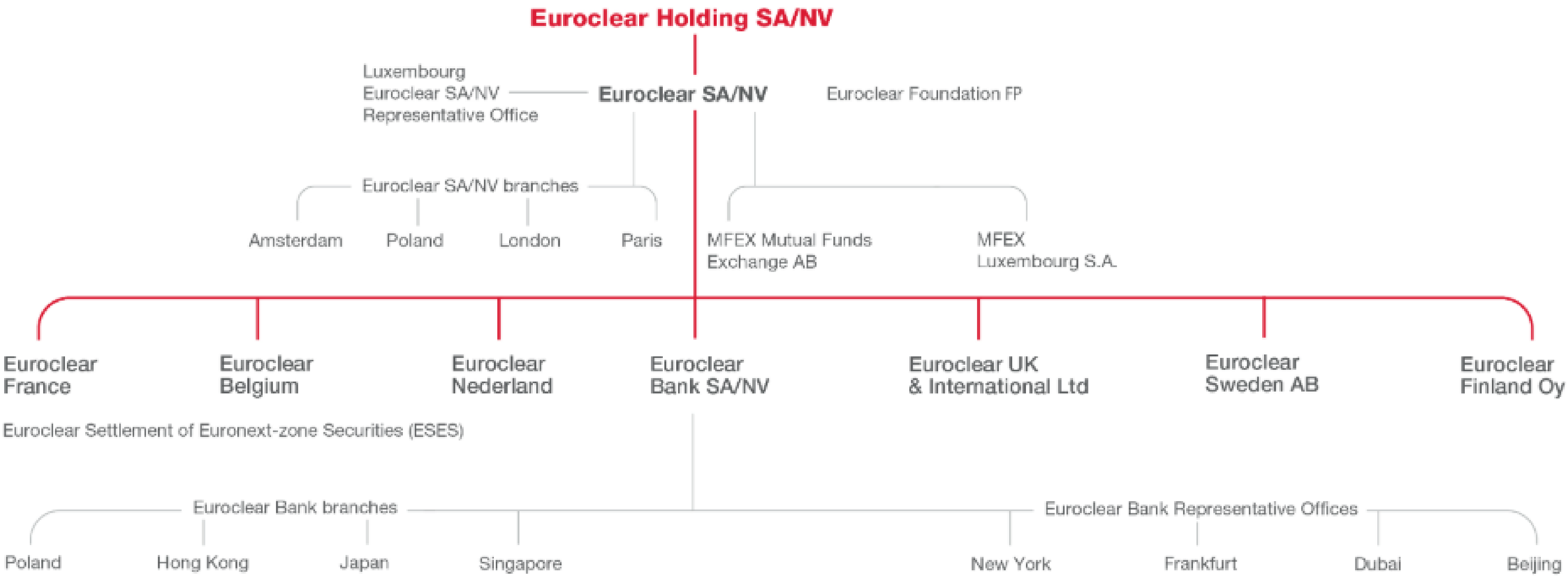


TO a digital and data FMI (D²-FMI): an open shared platform providing a catalogue of data-enabled services available to all market players and complemented by 3rd parties



5. Euroclear

Euroclear Group



Euroclear in numbers

+5,000
Permanent employees

Head office in Brussels

Worldwide 50/50

AA rating Fitch/S&P

1 ICSD
Euroclear Bank, the International Central Securities Depository with a banking license, which also operates CSD services for Ireland

6 CSDs
Domestic Central Securities Depositories for Belgium, Finland, France, the Netherlands, Sweden and the UK

€40.7 trillion assets under custody

331 million netted transactions per year, worth €1,162 trillion

1.7 million securities held on our books

3,800 clients globally

Euroclear Network

6. Legal, Governance & Regulatory Division of the Euroclear Group

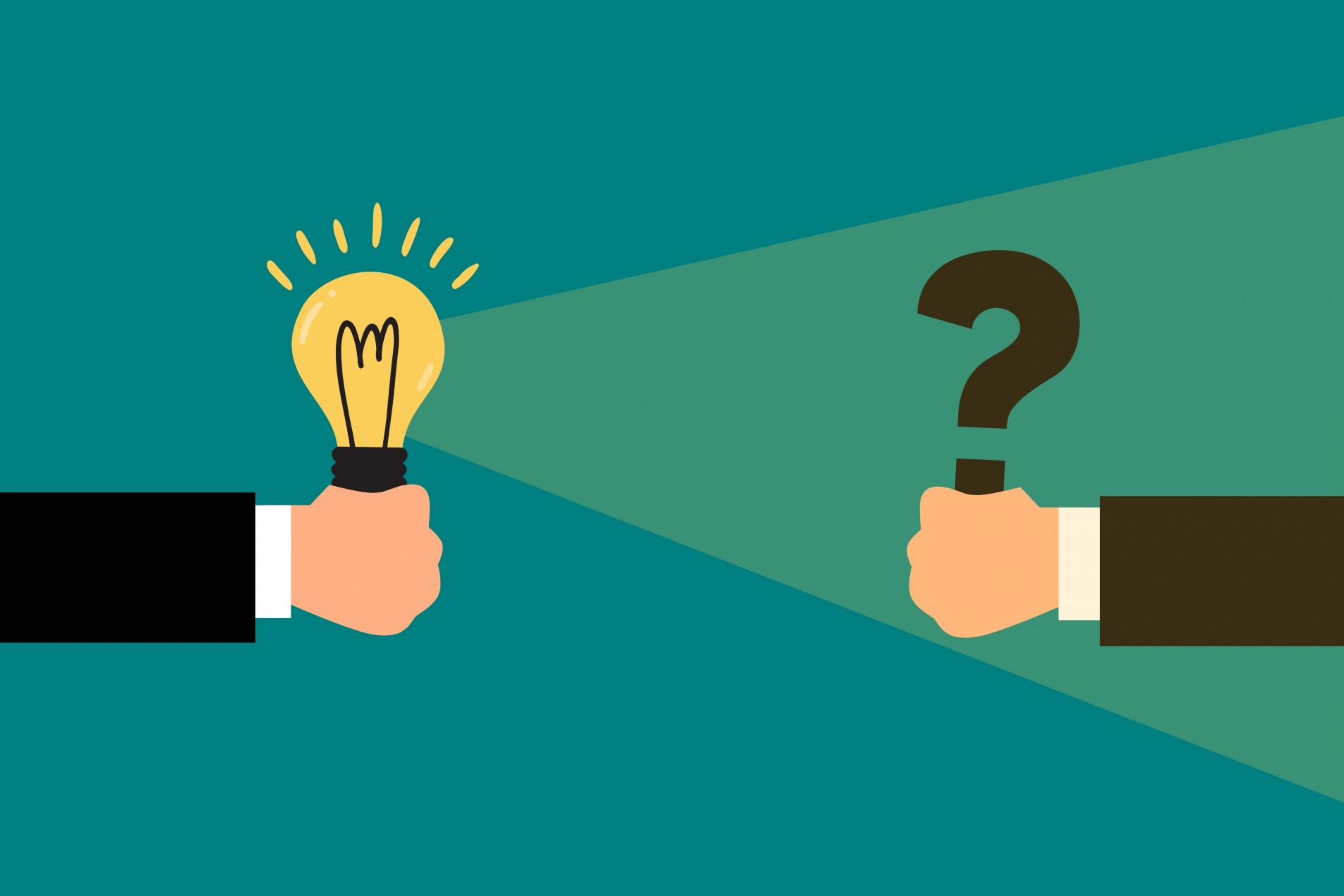
Legal, Governance & Regulatory Division

80+
Lawyers

20+
Corporate Governance

10+
Regulatory Relationship Managers

LG&R
120+

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