Association des Banques et Banquiers, Luxembourg
The Luxembourg Bankers' Association
Luxemburger Bankenvereinigung

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ABBL[1] response to the EBA Consultation Document on the CSD-R Prudential Requirements

Information about the ABBL (Luxembourg Bankers' Association):	
Identity	Professional Organisation
Capacity	Industry trade body
MS of establishment	Luxembourg
Field of activity/ industry sector	Banking & other financial services
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1.1 Key points

The ABBL welcomes the consultation process on the Prudential requirements under the CSD-R, we feel that as an association whose aim is to represent a broad market interest where both custodian banks and CSD and CSD with a banking licence are present some comments may contribute to the process of creating level 2 rules.

We have always been of the opinion that a place exists for both business models namely custodian institutions and CSDs with a banking licence and that both group of market

1 The Luxembourg Bankers' Association (ABBL) is the professional organisation representing the majority of banks and other financial intermediaries established in Luxembourg. Its purpose lies in defending and fostering the professional interests of its members. As such, it acts as the voice of the whole sector on various matters in both national and international organisations.

The ABBL counts amongst its members' universal banks, covered bonds issuing banks, public banks, other professionals of the financial sector (PSF), financial service providers and ancillary service providers to the financial industry.

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stakeholders have a beneficial role to play. We would also see that similar activities might ideally be under a similar prudential regime, we note in this regards that CSDs with a banking licence will be under the banking requirements.

We would also stress the low risk nature of CSD activities even for banking CSD when the activities under the banking licence are duly regulated. We may not share the idea to top banking prudential regulation with additional layers for activities performed by CSDs. In their role as market infrastructure they will have a large number if not all of their clients under prudential banking regulation.

We also note that in the context of the CSD-R the definition of the banking activities may impact banks as well as cash agent, therefore we urged EBA to pay close attention of not imposing "monster" regulation that – if at all – only the CSDs with a banking license will be able to meet, unless a dedicated cash bank with full licence is created for the purpose to serve CSDs only and with a doubtful business model under economic terms.

Conceptually we would support the concept of risk-weighting intra-day activities that support the settlement process at the lower risk band and in most likelihood attribute the same risk level as under the "pure banking prudential requirements". We would as well try to ensure that collateral management business model remains sustainable in tri-party REPO financing operations to the risk of closing yet another important facility to be used for regulatory purposes under EMIR (notably). Finally, even if CSDs are not investing their clients assets/moneys, we would pay close attention to the requirements that would force CSDs to hold only government debt for liquidity management (yielding close to 0 % or even negative) some elements that may by themselves introduce some risk in the banking CSD model.

As conclusion we would stress that:

CSDs, even with a banking licence are not CCPs, their main aim is not to take potentially large risks; they do not become holder of market position. Most of their risks are intraday and closed by the end of the session (and in most cases protected by an underlying position in securities).

To our understanding the custody risk faced by CSD participants is already fully covered under operational and legal risks that affects their capital position.

The proposed treatment of CSD links for the purpose of calculating capital requirements will create unnecessary duplication that could have a negative impact on market integration by incentivising CSDs to close links with other CSDs that would work against the objective of greater market integration. Moreover, the currently proposed method appears also from a practical perspective not workable for the purpose proposed.