

Bank of England

Appendix B: Bank's Draft DSS Rules

April 2024

BANK OF ENGLAND DIGITAL SECURITIES SANDBOX RULES INSTRUMENT 2024

Powers exercised

- A. The Bank of England (“Bank”), being the appropriate regulator within the meaning of the Financial Services and Markets Act 2023 (Digital Securities Sandbox) Regulations 2023 (the “DSS Regulations”) makes this instrument in the exercise of its powers in:
- (1) Regulation 7 of the DSS Regulations;
 - (2) Regulation 8 of the DSS Regulations; and
 - (3) Section 166(9) of the Financial Services and Markets Act 2000 as applied and modified by Part 3 of the Schedule to the DSS Regulations.
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Financial Services and Markets Act 2000, as applied to the Bank in paragraph 10 of Schedule 17A of the Act, which is also applied and modified for the purposes of making rules under regulation 7 by Part 3 of the Schedule to the DSS Regulations.

Digital Securities Sandbox Rules

- C. The Bank makes the rules in the Annexes to this instrument.

Part	Annex
Bank of England Digital Securities Sandbox Rules – Gate 2	A
Bank of England Digital Securities Sandbox Rules – End State	B

Notes

- D. In the Annex to this instrument, the “notes” (indicated by “**Note:**”) are included for the convenience of readers but do not form part of the legislative text.

Commencement

- E. This instrument comes into force on [DATE]

Citation

- F. This instrument may be cited as the Bank of England Digital Securities Sandbox Rules Instrument 2024.

By order of the Financial Markets Infrastructure Committee of the Bank of England

[DATE]

Annex A

Bank of England Digital Securities Sandbox Rules – Gate 2

Bank of England Digital Securities Sandbox Rules – GATE 2

Chapter content

1. GENERAL RULES
2. RULES ON THE SUBJECT MATTER OF DSS CSDR
3. REGULATORY TECHNICAL STANDARDS FOR ARTICLE 48 (DSD LINKS)
4. SERVICES
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DRAFT FOR CONSULTATION

CHAPTER 1: GENERAL RULES

APPLICATION OF THIS ANNEX

1.1 This Annex applies to a *DSD* whose *SAN* states that the *DSD* has passed Gate 2.

SCOPE AND GENERAL APPLICATION

2.1 With the exception of Article 47 the *rules* apply to a *DSD* in respect of its activities referred to in regulation 3(5)(b), and ancillary activities in regulation 3(6), of the *DSS Regulations* regarding its FMI sandbox arrangements.

2.2 With the exception of the provisions referred to in rules 2.3 and 2.4, the following technical standards, which form part of *assimilated law*, and have been modified by the Technical Standards (Central Securities Depositories) (Amendment etc.) (EU Exit) Instrument 2019, are disapplied for a *DSD* in respect of its *DSS activities*:

- (1) Commission Delegated Regulation (EU) 2017/390 of 11 November 2016 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on certain prudential requirements for central securities depositories and designated credit institutions offering banking-type ancillary services,
- (2) Commission Delegated Regulation (EU) 2017/391 of 11 November 2016 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards further specifying the content of the reporting on internalised settlements,
- (3) Commission Delegated Regulation (EU) 2017/392 of 11 November 2016 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on authorisation, supervisory and operational requirements for central securities depositories,
- (4) Commission Implementing Regulation (EU) 2017/393 of 11 November 2016 laying down implementing technical standards with regard to the templates and procedures for the reporting and transmission of information on internalised settlements in accordance with Regulation (EU) No 909/2014 of the European Parliament and of the Council, and
- (5) Commission Implementing Regulation (EU) 2017/394 of 11 November 2016 laying down implementing technical standards with regard to standard forms, templates and procedures for authorisation, review and evaluation of central securities depositories, for the cooperation between authorities of the home Member State and the host Member State, for the consultation of authorities involved in the authorisation to provide banking-type ancillary services, for access involving central securities depositories, and with regard to the format of the records to be maintained by central securities depositories in accordance with Regulation (EU) No 909/2014 of the European Parliament and of the Council.

2.3 The following articles, as modified in Chapter 3, apply to a *DSD* in respect of Article 48 in Chapter 2 of the *rules*:

- (1) Article 16 of the Commission Delegated Regulation (EU) 2017/390 of 11 November 2016 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on certain prudential requirements for central securities depositories and designated credit institutions offering banking-type ancillary services (RTS 2017/390). Additional articles from RTS 2017/390 are applied and modified in rule 2.4 for the purposes of Article 16 as modified in Chapter 3.

- (2) Articles 36 and 84 to 87 of Commission Delegated Regulation (EU) 2017/392 of 11 November 2016 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on authorisation, supervisory and operational requirements for central securities depositories (RTS 2017/392).

2.4 For the purposes of rule 2.3(1):

- (1) The following articles apply, for the purposes of Article 16 in Chapter 3, subject to the modifications in rule 2.4(2):
- (a) Article 10,
 - (b) Article 11(1),
 - (c) Article 34, and
 - (d) Article 38, with the exception of 38(9).
- (2) The articles mentioned in 2.4(1) are modified as follows:
- (a) In place of “CSD-banking service provider”, substitute “*type (a) banking service provider* or credit institution engaged by a *type (b) banking service provider*” with the following exceptions:
 - (i) In Article 34, instead substitute “*type (a) banking service provider* or, a *type (b) banking service provider* must ensure the credit institution it engages,”, and
 - (ii) In Article 38, where an obligation applies to a CSD-banking service provider, the obligation instead applies to *type (a) banking service provider* or, mutatis mutandis, to a *type (b) banking service provider* ensuring through contractual arrangements that the credit institution it engages will fulfil the obligations concerned.
 - (b) In place of “CSD”, substitute “*DSD*”,
 - (c) In place of “Regulation (EU) 909/2014”, substitute “Chapter 2 of the *rules*”, and
 - (d) In Article 10:
 - (i) Omit “for the purposes of point (e) of Article 59(4) of Regulation (EU) No 909/2014” from the title of the article, subparagraph (1) and (2), and
 - (ii) Omit “referred to in point (e) of Article 59(4) of Regulation (EU) No 909/2014 and” from subparagraph (2)(e)(ii).
 - (e) For Article 38:
 - (i) Omit “For the purposes of point (e) of Article 59(4) of Regulation (EU) No 909/2014” from subparagraph (1), and
 - (iii) In subparagraph (1)(a), in place of “authorised in accordance with Article 8 of Directive 2013/36/EU”, substitute “with permission to accept deposits under Part 4A *FSMA 2000*”.

2.5 Unless the context otherwise requires, any reference in the *rules* to:

- (1) any provision of *direct EU legislation* is a reference to it as it has effect as *assimilated law*;
- (2) an *EU directive* is a reference to the directive as it had effect in EU law immediately before *IP completion day*;

- (3) the implementation or transposition of provisions of an *EU directive*, is a reference to the provisions of *EU-derived domestic legislation* which were relied on before *IP completion day* for that implementation or transposition;
- (4) an enactment which has been amended on or before *IP completion day* by regulations made under section 8 of the European Union (Withdrawal) Act 2018, is a reference to that enactment as so amended.

DEFINITIONS

3.1 In the *rules*, the following definitions apply:

Assimilated law

has the same meaning as the definition given in section 6(7) of the European Union (Withdrawal) Act 2018.

Bank

means the Bank of England.

CSDR

means the 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.

Digital Securities Sandbox Rules or rules

means the rules set out in this Annex.

Direct EU legislation

has the same meaning as the definition given in section 3(2) of the European Union (Withdrawal) Act 2018.

DSD

has the same meaning as the definition given in regulation 2 of the *DSS Regulations*.

DSD link

means an arrangement between (i) *DSDs*; or (ii) *DSDs* and *CSDs* whereby:

a) a *DSD* becomes a participant in the *Securities Settlement System* of another *DSD* or a *CSD*; or

b) a *CSD* becomes a participant in the *Securities Settlement System* of a *DSD*;

in order to facilitate the transfer of securities from the participants of the latter *DSD* or *CSD* to the participants of the former *DSD* or *CSD*

OR

an arrangement between (i) *DSDs*; or (ii) *DSDs* and *CSDs* whereby:

a) a *DSD* accesses another *DSD* or a *CSD* indirectly via an intermediary; or

b) a *CSD* accesses a *DSD* indirectly via an intermediary.

DSD links include *standard links*, *customised links*, *indirect links*, and *interoperable links*.

a) *standard link* means a *DSD link* whereby a *DSD* becomes a participant in the *Securities Settlement System* of a *DSD*, *CSD* or *third-country CSD* under the same terms and

conditions as applicable to any other participant in the *Securities Settlement System* operated by the latter;

b) *customised link* means a *DSD link* whereby a *DSD* that becomes a participant in the *Securities Settlement System* of a *DSD*, *CSD* or *third-country CSD* is provided with additional specific services to the services normally provided by that *DSD*, *CSD* or *third-country CSD* to participants in the *Securities Settlement System*;

c) *indirect link* means an arrangement between a *DSD* and a third party other than a *DSD*, *CSD* or *third-country CSD*, that is a participant in the *Securities Settlement System* of a *DSD*, *CSD* or *third-country CSD*. Such a link is set up by a *DSD*, *CSD* or *third-country CSD* in order to facilitate the transfer of securities to its participants from the participants of another *DSD*, *CSD* or *third-country CSD*;

d) *interoperable link* means a *DSD link* whereby *DSDs*, *CSDs* or *third-country CSDs* agree to establish mutual technical solutions for settlement in the *Securities Settlement Systems* that they operate;

DSS activities

has the same meaning as the definition given in regulation 2 of the *DSS Regulations*.

DSS CSDR

has the same meaning as the definition given in Part 2 of the Schedule to the *DSS Regulations*.

DSS Regulations

means the Financial Services and Markets Act 2023 (Digital Securities Sandbox) Regulations 2023 (2023/1398).

DSS USRs

means the *Uncertificated Securities Regulations* as modified in Part 5 of the Schedule to the *DSS Regulations*.

EU directive

has the same meaning as the definition given in section 20(1) of the European Union (Withdrawal) Act 2018.

EU-derived domestic legislation

has the same meaning as the definition given in section 2(2) of the European Union (Withdrawal) Act 2018.

FSMA 2000

means the Financial Services and Markets Act 2000.

Investor DSD

means a *DSD* that either is a participant in a *Securities Settlement System* operated by another *DSD*, *CSD* or *third-country CSD* or that uses a third party or an intermediary that is a participant in a *Securities Settlement System* operated by another *DSD*, *CSD* or *third-country CSD* in relation to a securities issue;

IP completion day

has the same meaning as the definition given in section 39 of the European Union (Withdrawal Agreement) Act 2020.

Issuer DSD

means a *DSD* which provides the core service in regulation 3(5)(b)(i) or 3(5)(b)(ii) of the *DSS Regulations* in relation to a securities issue;

Linked party

means the *DSDs* or *CSDs* which are part of, applying to be part of, or dealing with an application to be part of, a *DSD link*.

Receiving DSD

means a *DSD* which receives the request of another *linked party* to have access to its services through a *DSD link*.

Requesting DSD

means a *DSD* which requests access to the services of a *linked party* through a *DSD link*.

SAN

means a 'sandbox approval notice' as defined in regulation 2 of the *DSS Regulations*.

Securities Settlement System

means a securities settlement system as defined in the *DSS CSDR*, or a system operated by a *DSD* that settles transactions in financial instruments against payment or against delivery, irrespective of whether that settlement system is a system in relation to which a designation order made under regulation 4 of the Financial Markets and Insolvency (Settlement Finality) Regulations 1999 is in force.

Third-country CSD

has the same meaning as the definition given in the *DSS CSDR*.

Type (a) banking services provider

means a *DSD* the terms of whose *SAN* permit it to offer banking-type ancillary services set out in Section C of Chapter 4.

Type (b) banking services provider

means a *DSD* the terms of whose *SAN* permit it to engage one or more credit institutions for the purposes of providing banking-type ancillary services set out in Section C of Chapter 4.

Uncertificated Securities Regulations

means the *Uncertificated Securities Regulations 2001 (2001/3755)*.

3.2 Unless otherwise defined, expressions used in the *rules* have the same meaning as in the *DSS Regulations*.

3.3 Subject to 3.2, and unless otherwise defined:

- (1) expressions used in Chapters 2 to 4 have the same meaning as in *DSS CSDR*, with the modification that references to 'the Annex' in the *DSS CSDR* should be read as referring to Chapter 4 of this Annex; and
- (2) expressions used in Chapter 5 have the same meaning as in the *DSS USRs*, with the modification that references to 'the Operator' shall be read as referring to a *DSD* acting as an 'Operator' for the purposes of the *DSS USRs*.

3.4 In accordance the provisions of Part 5 of the Schedule to the *DSS Regulations* a reference in the *DSS USRs* to a provision of the *Uncertificated Securities Regulations 2001* that is disapplied in that Part 5 is to be treated as a reference to any rules set out in Chapter 5 on the subject matter of the disapplied provision.

- 3.5 Depending on the context in the *rules*, provisions may refer to 'articles', 'paragraph', 'regulation' or 'rules'. For the avoidance of doubt, they are all operative parts of the *rules*.

SKILLED PERSON REPORT

- 4.1 Where the *Bank* gives notice to a *DSD* under section 166(5) of the *FSMA 2000*, as modified by the *DSS Regulations*, that the *Bank* has appointed a person under section 166(3)(b) to provide a report:
- (1) The *DSD* must pay as a fee the expenses which the *Bank* specifies in its notice; and
 - (2) The fee must be paid within 30 days beginning with the date of the notice.
- 4.2 Expenses which may be specified include any amount invoiced to the *Bank* by the appointed person in relation their appointment.

EMERGENCY

- 5.1 If an emergency arises which:
- (1) makes it impracticable for a *DSD* to comply with a provision of the *rules*;
 - (2) could not have been avoided by the *DSD* taking all reasonable steps; and
 - (3) is outside the control of the *DSD*,
- the *DSD* will not be in contravention of that provision to the extent that, as a consequence of the emergency, compliance with the provision is impracticable.
- 5.2 The rule in 5.1 applies only for so long as:
- (1) the consequences of the emergency continue; and
 - (2) the *DSD* can demonstrate that it is taking all practicable steps to deal with those consequences and to comply with the provision.
- 5.3 The *DSD* must notify the *Bank* as soon as practicable of the emergency and of the steps the *DSD* is taking and proposes to take to deal with the consequences of the emergency.

SAN BREACHES

- 6.1 A *DSD* must ensure it remains in compliance with its SAN including any conditions, limitations, approvals or restrictions on its FMI activities specified in its SAN.
- 6.2 If a *DSD* breaches any conditions, limitations, approvals or restrictions specified in its SAN, it must report the breach to the *Bank* as soon as is practicable after becoming aware of the breach.

CHAPTER 2: RULES ON THE SUBJECT MATTER OF DSS CSDR

[**Note:** Articles 1-5,10,13, 27.7, 27.8, 27.9, 67, 69, 73 and 76 apply in the *DSS CSDR*, as modified by the Schedule to the *DSS Regulations*.]

ARTICLE 19 EXTENSION AND OUTSOURCING OF ACTIVITIES AND SERVICES

- 19.1 Where not already permitted by its *SAN*, a *DSD* must submit a request to vary its *SAN* to the *Bank* where it wishes to outsource a core service to a third party under Article 30 or extend its activities to one or more of the following:
- (a) additional core services listed in Section A of Chapter 4;
 - (b) ancillary services permitted under, but not explicitly listed in Section B of Chapter 4;
 - (c) the operation of a *Securities Settlement System* or another *Securities Settlement System*;
 - (d) the settlement of all or part of the cash leg of any *Securities Settlement System* it operates in the books of another settlement agent;
 - (e) setting up an *interoperable link*.
- 19.2 [**Note:** left blank]
- 19.3 A *DSD* that intends to establish an *interoperable link* must make a request to vary its *SAN* as required under subparagraph (e) of paragraph 1, to the *Bank*, where the *SAN* does not already permit them to do so.
- 19.4 [**Note:** left blank]
- 19.5 *DSD links* that are not referred to in point subparagraph (e) of paragraph 1 shall not be subject to a requirement to vary the *SAN* but must be notified to the *Bank* prior to their implementation by providing all relevant information that allows the *Bank* to assess compliance with the requirements provided in Article 48 and Chapter 3.
- 19.6 A *DSD* may maintain or establish a link with a *third-country CSD* in accordance with the conditions and procedures provided in this Article. Where links are established with a *third-country CSD* the information provided by the *requesting DSD* must allow the *Bank* to evaluate whether such links fulfil the requirements provided in Article 48 or the requirements that are equivalent to those provided in Article 48 and Chapter 3.
- 19.7 [**Note:** left blank]
- 19.8 A *DSD* must notify the *Bank* of the additional ancillary services explicitly listed in Section B of Chapter 4 prior to their provision.

ARTICLE 26 ORGANISATIONAL REQUIREMENTS: GENERAL PROVISIONS

- 26.1 A *DSD* must have robust governance arrangements, which include a clear organisational structure with well-defined, transparent and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks to which it is or might be exposed, and internal control mechanisms, including sound administrative and accounting procedures.
- 26.2 A *DSD* must adopt policies and procedures which are sufficiently effective so as to ensure compliance with the *DSS CSDR* and the *rules*, including compliance of its managers and employees with all the provisions of *DSS CSDR* and the *rules*.
- 26.3 A *DSD* must maintain and operate effective written organisational and administrative arrangements to identify and manage any potential conflicts of interest between itself, including its managers, employees, members of the management body or any person directly or

indirectly linked to them, and its participants or their clients. It must maintain and implement adequate resolution procedures where possible conflicts of interest occur.

26.4 [Note: left blank]

26.5 A *DSD* must have appropriate procedures for its employees to report internally potential infringements of the *DSS CSDR* or the *rules* through a specific channel.

26.6 [Note: left blank]

26.7 Where a *DSD* is part of a group of undertakings including, for example, *CSDs*, *third-country CSDs* or credit institutions referred to in Articles 54 to 60, it must adopt detailed policies and procedures specifying how the requirements laid down in this Article apply to the group and to the different entities in the group.

ARTICLE 27 SENIOR MANAGEMENT, MANAGEMENT BODY AND SHAREHOLDERS

27.1 A *DSD* must ensure that the senior management of a *DSD* must be of sufficiently good repute and experience so as to ensure the sound and prudent management of the *DSD*.

27.2 [Note: left blank]

27.3 [Note: left blank]

27.4 [Note: left blank]

27.5 A *DSD* must clearly determine the role and responsibilities of the management body in accordance with the relevant law applicable within the United Kingdom or of any part of the United Kingdom. A *DSD* must make the minutes of the meetings of the management body available to the *Bank* upon request.

27.6 [Note: left blank]

ARTICLE 29 RECORD KEEPING

29.1 A *DSD* must maintain, for a period of at least 5 years, all its records on the services and activities, including on the ancillary services referred to in Sections B and C of Chapter 4, so as to enable the *Bank* to monitor the compliance with the requirements under the *DSS CSDR* and the *rules*.

29.2 A *DSD* must make the records referred to in paragraph 1 available upon request to the *Bank* and any other public authority which under the law applicable within the United Kingdom or of any part of the United Kingdom has a power to require access to such records for the purpose of fulfilling their mandate.

ARTICLE 30 OUTSOURCING

30.1 Where a *DSD* outsources services or activities to a third party, it must remain fully responsible for discharging all of its obligations under the *DSS CSDR* and the *rules* and must comply at all times with the following conditions:

- (a) outsourcing does not result in the delegation of its responsibility;
- (b) the relationship and obligations of the *DSD* towards its participants or issuers are not altered;
- (c) any conditions and permissions given in the *SAN* of the *DSD* do not effectively change;
- (d) outsourcing does not prevent the exercise of supervisory and oversight functions, including on-site access to acquire any relevant information needed to fulfil those functions;

- (e) outsourcing does not result in depriving the *DSD* of the systems and controls necessary to manage the risks it faces;
 - (f) the *DSD* retains the expertise and resources necessary for evaluating the quality of the services provided, the organisational and capital adequacy of the service provider, for supervising the outsourced services effectively and for managing the risks associated with the outsourcing on an ongoing basis;
 - (g) the *DSD* has direct access to the relevant information of the outsourced services;
 - (h) the service provider cooperates with the *Bank* in connection with the outsourced activities;
 - (i) the *DSD* ensures that the service provider meets the standards set down by the relevant data protection law which would apply if the service providers were established in the United Kingdom. The *DSD* is responsible for ensuring that those standards are set out in a contract between the parties and that those standards are maintained.
- 30.2 The *DSD* must define in a written agreement its rights and obligations and those of the service provider. The outsourcing agreement must allow the *DSD* to terminate the agreement.
- 30.3 A *DSD* must and must procure that a service provider to the *DSD* make available upon request to the *Bank* all information necessary to enable the *Bank* to assess the compliance of the outsourced activities with the requirements of the *DSS CSDR* and the *rules*.

ARTICLE 32 CONDUCT OF BUSINESS RULES: GENERAL PROVISIONS

- 32.1 A *DSD* must have clearly defined goals and objectives that are achievable, including around the level of service it aims to provide to its users and business priorities.

ARTICLE 33 REQUIREMENTS FOR PARTICIPATION

- 33.1 For each *Securities Settlement System* it operates a *DSD* must have defined criteria for participation. A *DSD* must provide these criteria to the *Bank* on request.
- 33.2 [Note: left blank]
- 33.3 [Note: left blank]
- 33.4 [Note: left blank]
- 33.5 [Note: left blank]
- 33.6 [Note: left blank]

ARTICLE 36 REQUIREMENTS FOR DSD SERVICES: GENERAL PROVISIONS

- 36.1 For each *Securities Settlement System* it operates a *DSD* must have appropriate rules and procedures, including robust accounting practices and controls, to help ensure the integrity of securities issues, and reduce and manage the risks associated with the safekeeping and settlement of transactions in securities.

ARTICLE 37 INTEGRITY OF THE ISSUE

- 37.1 A *DSD* must take appropriate reconciliation measures to verify that the number of securities making up a securities issue or part of a securities issue submitted to the *DSD* is equal to the sum of securities recorded on the securities accounts of the participants of the *Securities Settlement System* operated by the *DSD* or, where relevant, on owner accounts maintained by the *DSD*, including those held at other CSDs for the purposes of immobilising assets held in other book-entry forms or forms of recording of securities using developing technology. Such reconciliation measures must be conducted at least daily.

- 37.2 Where appropriate and if other entities are involved in the reconciliation process for a certain securities issue, such as the issuer, registrars, issuance agents, transfer agents, common depositories, other CSDs, *third-country CSDs* or other entities, the *DSD* must organise adequate cooperation and information exchange measures between itself and any such entities so that the integrity of the issue is maintained.
- 37.3 Where a *DSD* operates a *Securities Settlement System*, it must not allow securities overdrafts, debit balances or securities creation within that *Securities Settlement System*.

ARTICLE 38 PROTECTION OF SECURITIES OF PARTICIPANTS AND THOSE OF THEIR CLIENTS

- 38.1 For each *Securities Settlement System* it operates, a *DSD* must keep records and accounts that must enable it, at any time and without delay, to segregate in the accounts with the *DSD*, the securities of a participant from those of any other participant and, if applicable, from the *DSD*'s own assets.
- 38.2 A *DSD* must keep records and accounts that enable any participant to segregate the securities of the participant from those of the participant's clients.
- 38.3 A *DSD* must keep records and accounts that enable any participant to hold in one securities account the securities that belong to different clients of that participant ('omnibus client segregation').
- 38.4 A *DSD* must keep records and accounts that enable a participant to segregate the securities of any of the participant's clients, if and as required by the participant ('individual client segregation').
- 38.5 [Note: left blank]
- 38.6 [Note: left blank]
- 38.7 A *DSD* must not use for any purpose securities that do not belong to it. A *DSD* may however use securities of a participant where it has obtained that participant's prior express consent. The *DSD* must require its participants to obtain any necessary prior consent from their clients.

ARTICLE 39 SETTLEMENT FINALITY

- 39.1 A *DSD* must ensure that any *Securities Settlement System* it operates offers adequate protection to participants.
- 39.2 A *DSD* must ensure that each *Securities Settlement System* that it operates defines the moments of entry and of irrevocability of transfer orders in that *Securities Settlement System*.
- 39.3 A *DSD* must disclose the rules governing the finality of transfers of securities and cash in any *Securities Settlement System* it operates.
- 39.4 Paragraphs 2 and 3 apply without prejudice to the provisions applicable to *DSD links*, and without prejudice to paragraph 8 of Article 48.
- 39.5 A *DSD* must take all reasonable steps to ensure that, in accordance with the rules referred to in paragraph 3, finality of transfers of securities and cash referred to in paragraph 3 is achieved either in real time or intra-day and in any case no later than by the end of the business day of the actual settlement date.
- 39.6 Where the *DSD* offers the services referred to in Article 40.2, it must ensure that the cash proceeds of securities settlements are available for recipients to use no later than by the end of the business day of the intended settlement date.

- 39.7 All securities transactions against cash between direct participants in a *Securities Settlement System* operated by a *DSD* and settled in that *Securities Settlement System* must be settled on a DVP basis.

ARTICLE 40 CASH SETTLEMENT

- 40.1 For transactions denominated in the currency of the country where the settlement takes place, a *DSD* must settle the cash payments of a *Securities Settlement System* it operates through accounts opened with a central bank of issue of the relevant currency, where practical and available.
- 40.2 Where it is not practical and available to settle in central bank accounts, a *DSD* may offer to settle the cash payments for all or part of any *Securities Settlement Systems* it operates through accounts opened with a credit institution with permission to accept deposits under Part 4A of *FSMA 2000*, or through its own accounts. If a *DSD* offers to settle in accounts opened with a credit institution or through its own accounts, it must do so in accordance with the provisions of Articles 54 to 60.
- 40.3 A *DSD* must ensure that any information provided to market participants about the risks and costs associated with settlement in the accounts of credit institutions or through its own accounts is clear, fair and not misleading. A *DSD* must make available sufficient information to clients or potential clients to allow them to identify and evaluate the risks and costs associated with settlement in the accounts of credit institutions or through its own accounts and must provide such information on request.

ARTICLE 41 PARTICIPANT DEFAULT RULES AND PROCEDURES

- 41.1 For each *Securities Settlement System* it operates, a *DSD* must have effective and clearly defined rules and procedures to manage the default of one or more of its participants.

ARTICLE 42 PRUDENTIAL REQUIREMENTS: GENERAL REQUIREMENTS

- 42.1 A *DSD* must adopt a sound risk-management framework for comprehensively managing legal, business, operational and other direct or indirect risks, including measures to mitigate fraud and negligence.

ARTICLE 43 LEGAL RISKS

- 43.1 For the purpose of its *SAN* and supervision, as well as for the information of its clients, a *DSD* must have rules, procedures, and contracts that are clear and understandable for all the *Securities Settlement Systems* that it operates and all other services that it provides.
- 43.2 A *DSD* must design its rules, procedures and contracts so that they are enforceable in all relevant jurisdictions, including in the case of the default of a participant.
- 43.3 A *DSD* conducting business in different jurisdictions must take all reasonable steps to identify and mitigate the risks arising from potential conflicts of law across jurisdictions.

ARTICLE 44 GENERAL BUSINESS RISK

- 44.1 A *DSD* must have appropriate management and control systems as well as IT tools in order to identify, monitor and manage general business risks.

ARTICLE 45 OPERATIONAL RISKS

- 45.1 A *DSD* must identify sources of operational risk, both internal and external, and minimise their impact through the deployment of appropriate IT tools, controls and procedures, including for all the *Securities Settlement Systems* it operates.
- 45.2 A *DSD* must maintain sufficiently robust IT and cyber resilience frameworks as well as incident reporting mechanisms (including to the *Bank*).
- 45.3 A *DSD* must also maintain controls to prevent, respond and recover from events that pose a significant risk of disrupting its operations, including those stemming from the use of or forms of recording securities using developing technology. This should include a business continuity and disaster recovery plan.
- 45.4 A *DSD* must ensure that the business continuity policy and disaster recovery plan referred to in paragraph 3 provides for the recovery of all transactions and participants' positions at the time of disruption to allow the participants of a *DSD* to continue to operate with certainty and to complete settlement on the scheduled date, including by ensuring that critical IT systems can promptly resume operations from the time of disruption.
- 45.5 [Note: left blank]
- 45.6 A *DSD* must identify, monitor and manage the risks that key participants in any *Securities Settlement Systems* it operates, as well as service and utility providers, and other *DSDs* or other market infrastructures might pose to its operations. It must, upon request, provide the *Bank* with information on any such risk identified.
- It must also inform the *Bank* without delay of any operational incidents resulting from such risks.

ARTICLE 46 INVESTMENT POLICY

- 46.1 A *DSD* must hold its financial assets at any one or more of the following kinds of institution:
- (a) central banks;
 - (ba) other *DSDs*
 - (b) credit institutions with permission to accept deposits under Part 4A of *FSMA 2000*;
 - (c) *CSDs* authorised in accordance with *CSDR* and *third-country CSDs* recognised under *CSDR*;
 - (d) *third-country* financial institutions that are subject to and comply with asset protection and prudential rules which are at least as stringent as those laid down in Directive 2013/36/EU UK law, Regulation (EU) No. 575/2013 and *CRR* rules, and which the *DSD* assesses as having—
 - (i) robust accounting practices;
 - (ii) safekeeping procedures;
 - (iii) internal controls which ensure the full protection of those financial assets; and
 - (iv) low credit risk based upon an internal assessment by the *DSD*; or
 - (e) *third-country CSDs* which comply with asset protection rules at least as stringent as those laid down in the *DSS CSDR* and the *rules*, and which the *DSD* assesses as having—
 - (i) robust accounting practices;
 - (ii) safekeeping procedures; and

- (iii) internal controls which ensure the full protection of those financial assets.
- 46.2 A *DSD* must have prompt access to its assets, where required.
- 46.3 A *DSD* must invest its financial resources that are held in respect of its activities referred to in regulation 3(5)(b), or ancillary activities in regulation 3(6), of the *DSS Regulations*, in cash or in highly liquid financial instruments with minimal market and credit risk. Those investments must be capable of being liquidated rapidly with minimal adverse price effect.
- 46.4 For the purposes of Article 47.1, a *DSD* must not take into account the amount of its capital, including retained earnings and reserves which are not invested in accordance with paragraph 3.
- 46.5 A *DSD* must ensure that its overall risk exposure to any individual institution of a kind referred to in subparagraphs 1(ba) to 1(e) with which it holds its financial assets remains within acceptable concentration limits.

ARTICLE 47 CAPITAL REQUIREMENTS

- 47.1 A *DSD* must ensure that its capital, together with retained earnings and reserves, is proportional to the risks stemming from the activities of the *DSD*. It must be at all times the greatest of the following:
 - (a) an amount sufficient to ensure that the *DSD* is adequately protected against operational, legal, custody, investment and business risks so that the *DSD* can continue to provide services as a going concern; and
 an amount sufficient to ensure an orderly winding-down or restructuring of the *DSD*'s activities over an appropriate time span of at least six months under a range of stress scenarios.
 - Or
 - (b) an amount at least equal to the *DSD*'s total operational expenditure for nine months.
- 47.2 A *DSD* must maintain a plan for the following:
 - (a) the raising of additional capital should its equity capital approach or fall below the requirements laid down in paragraph 1;
 - (b) ensuring the orderly winding-down or restructuring of its operations and services where the *DSD* is unable to raise new capital.

A *DSD* must ensure that the plan is approved by the management body or an appropriate committee of the management body and updated regularly. A *DSD* must provide each update of the plan to the *Bank*. A *DSD* must take any additional measures or make any alternative provision that the *Bank* requires where the *Bank* considers that the *DSD*'s plan is insufficient.

47.2A This article applies to a *DSD* in respect of its *DSS activities*.

47.3 [Note: left blank]

ARTICLE 48 DSD LINKS

- 48.1 Before establishing a *DSD link* and on an ongoing basis once the *DSD link* is established, all *DSDs* concerned must identify, assess, monitor and manage all potential sources of risk for themselves and for their participants arising from the *DSD link* and take appropriate measures to mitigate them.

- 48.2 A *DSD* that intends to establish links must submit a request to vary its *SAN* to the *Bank* as required under subparagraph (e) of Article 19.1 or notify the *Bank* as required under Article 19.5.
- 48.3 A *DSD* must ensure that a link provides adequate protection to the *linked parties* and their participants, in particular as regards possible credits taken by *DSDs* and the concentration and liquidity risks as a result of the link arrangement.
- A *DSD* must ensure that a link is supported by an appropriate contractual arrangement that sets out the respective rights and obligations of the *linked parties* and, where necessary, of the *linked parties'* participants.
- Where a *linked party* is a CSD, the linked *DSD* must ensure the contractual arrangements require the CSD to adhere to *CSDR* in respect of the *DSD link*, and to notify the *DSD* in the event of non-compliance or where the CSD anticipates non-compliance. The *DSD* must notify the *Bank* when it receives the notification from the CSD as soon as is practicable.
- 48.4 In the event of a provisional transfer of securities between linked parties, retransfer of securities prior to the first transfer becoming final is prohibited for a *DSD* and a *DSD* must ensure that it is prohibited by contractual arrangement with any linked party which is not a *DSD*.
- 48.5 A *DSD* that uses an *indirect link* or an intermediary to operate a *DSD link* with another *linked party* must measure, monitor, and manage the additional risks arising from the use of that *indirect link* or intermediary and take appropriate measures to mitigate them.
- 48.6 A *DSD* must have robust reconciliation procedures with *linked parties* to ensure that their respective records are accurate.
- 48.7 A *DSD* must ensure that *DSD links* permit DVP settlement of transactions between participants in *linked parties*, where practical and feasible. A *DSD* must notify the *Bank* of detailed reasons for any *DSD link* not allowing for DVP settlement.
- 48.8 For interoperable *Securities Settlement Systems* and *DSDs* that use a common settlement infrastructure, the *DSD* must establish, and through contractual arrangements ensures the *Securities Settlement System* establishes, identical moments of:
- (a) entry of transfer orders into the system;
 - (b) irrevocability of transfer orders.
- The *DSDs* referred to in the first subparagraph must ensure that the *DSDs* and *Securities Settlement Systems* use equivalent rules concerning the moment of finality of transfers of securities and cash.
- 48.9 *DSDs* must ensure through contractual arrangements that interoperable *DSD links* operating in the United Kingdom must be, where applicable, DVP-settlement supporting links.
- 48.10 [Note: left blank]
- 48.11 A *DSD* that has established or intends to establish a *DSD link* must comply with the *rules* in Chapter 3.

ARTICLE 54 CONDITIONS FOR PROVIDING BANKING-TYPE ANCILLARY SERVICES

- 54.1 A *DSD* must not itself provide any banking-type ancillary services set out in Section C of Chapter 4 unless it is a *type (a) banking services provider*.
- 54.2 If a *DSD* intends to settle the cash leg of all or part of any *Securities Settlement System* it operates in accordance with Article 40.2 or otherwise wishes to provide any banking-type ancillary services referred to in paragraph 1, either:

- (a) if the *DSD* wishes to provide such services itself, the *DSD* must be a *type (a) banking services provider* and must meet the conditions in paragraph (3); or
- (b) if the *DSD* wishes to use for that purpose one or more credit institutions, the *DSD* must be a *type (b) banking services provider* and the *DSD* must ensure by contractual arrangements that the credit institution or credit institutions in question meets the conditions in paragraph 4.

54.3 The conditions referred to in paragraph 2(a) are:

- (a) the *DSD* has permission under Part 4A of *FSMA 2000* to carry on any regulated activity which is carried on for the purposes of, or in connection with, such services;
- (b) the *DSD* has met the requirements laid down in Article 59;
- (c) **[Note: left blank]**
- (d) the *DSD* meets an additional capital surcharge that reflects the risks, including credit and liquidity risks, resulting from the provision of intra-day credit, inter alia, to the participants in a *Securities Settlement System* or other users of *DSD* services;
- (e) the *DSD* reports at least monthly to the *Bank* and annually as a part of its public disclosure as required under the Disclosure (CRR) Part of the PRA Rulebook on the extent and management of intra-day liquidity risk; and
- (f) the *DSD* submits to the *Bank* and keeps updated an adequate recovery plan to ensure continuity of its critical operations, including in situations where liquidity or credit risk crystallises as a result of the provision of banking-type ancillary services.

In the case of conflicting provisions laid down in the *DSS CSDR* and this Chapter, in Regulation (EU) No 575/2013, CRR rules and in Directive 2013/36/EU UK law, the *DSD* referred to in point (a) of the first subparagraph must comply with the stricter requirements on prudential supervision.

54.4 The conditions referred to in paragraph 2(b) are:

- (a) the credit institution has permission to accept deposits under Part 4A of *FSMA*;
- (b) the credit institution meets the requirements laid down in Article 59;
- (c) the credit institution does not itself carry out any of the core services referred to in Section A of Chapter 4;
- (d) **[Note: left blank]**
- (e) the credit institution meets an additional capital surcharge that reflects the risks, including credit and liquidity risks, resulting from the provision of intra-day credit, inter alia, to the participants in a *Securities Settlement System* or other users of *DSD* services;
- (f) the credit institution reports at least monthly to the *Bank* and annually as a part of its public disclosure as required under the Disclosure (CRR) Part of the PRA Rulebook on the extent and management of intra-day liquidity risk;
- (g) the credit institution submits to the *Bank* and keeps updated an adequate recovery plan to ensure continuity of its critical operations, including in situations where liquidity or credit risk crystallises as a result of the provision of banking type ancillary services from within a separate legal entity; and
- (h) the credit institution provides to the *Bank* on demand such information as the *Bank* reasonably requires for the purpose of assessing whether the conditions in this paragraph 4 and Article 59, and any additional conditions or requirements specified in technical standards or in the *SAN* of the *type (b) banking services provider*, are met.

54.5 Paragraph 4 shall not apply to credit institutions referred to in subparagraph (b) of paragraph 2 that offer to settle the cash payments for part of the *DSD's Securities Settlement System*, if the total value of such cash settlement through accounts opened with those credit institutions, calculated over a one-year period, is less than one per cent of the total value of all securities transactions against cash settled in the books of the *DSD* and does not exceed a maximum of GBP 2.5 billion per year.

ARTICLE 57 WITHDRAWAL OF AUTHORISATION

57.1 A *type (a) banking services provider* must, and a *type (b) banking services provider* must ensure that the credit institutions that it engages, establish, implement and maintain an adequate procedure ensuring the timely and orderly settlement and transfer of the assets of clients and participants to another settlement agent in the event that the *type (a) banking services provider* is no longer permitted to provide the relevant banking-type ancillary services, or the *type (b) banking services provider* is no longer permitted to use the credit institution for the provision of such services, as the case may be.

ARTICLE 59 PRUDENTIAL REQUIREMENTS APPLICABLE IN RESPECT OF CREDIT INSTITUTIONS OR DSDS REGARDING BANKING-TYPE ANCILLARY SERVICES

59.1 [Note: left blank]

59.2 [Note: left blank]

59.3 A *type (b) banking services provider* must ensure that the credit institution it is engaged in accordance with subparagraph (b) of Article 54.2, or a *type (a) banking services provider*, must comply with the following specific prudential requirements for the credit risks related to those services in respect of each *Securities Settlement System*:

- (a) it must establish a robust framework to manage the corresponding credit risks;
- (b) it must identify the sources of such credit risks, frequently and regularly, measure and monitor corresponding credit exposures and use appropriate risk-management tools to control those risks;
- (c) it must fully cover corresponding credit exposures to individual borrowing participants using collateral and other equivalent financial resources;
- (d) if collateral is used to manage its corresponding credit risk, it must accept highly liquid collateral with minimal credit and market risk; it may use other types of collateral in specific situations if an appropriate haircut is applied;
- (e) it must establish and apply appropriately conservative haircuts and concentration limits on collateral values constituted to cover the credit exposures referred to in subparagraph (c), taking into account the objective of ensuring that collateral can be liquidated promptly without significant adverse price effects;
- (f) it must set limits on its corresponding credit exposures;
- (g) it must analyse and plan for how to address any potential residual credit exposures, and adopt rules and procedures to implement such plans;
- (h) it must provide credit only to participants that have cash accounts with it;
- (i) it must provide for effective reimbursement procedures of intra-day credit and discourage overnight credit through the application of sanctioning rates which act as an effective deterrent.

59.4 A *type (b) banking services provider* must ensure that the credit institution it is engaged in accordance with subparagraph (b) of Article 54.2 or a *type (a) banking services provider* must comply with the following specific prudential requirements for the liquidity risks relating to those services in respect of each *Securities Settlement System*:

- (a) it must have a robust framework and tools to measure, monitor, and manage its liquidity risks, including intra-day liquidity risks, for each currency of the *Security Settlement System* for which it acts as settlement agent;
- (b) it must measure and monitor on an ongoing and timely basis, and at least daily, its liquidity needs and the level of liquid assets it holds; in doing so, it must determine the value of its available liquid assets taking into account appropriate haircuts on those assets;
- (c) it must have sufficient liquid resources in all relevant currencies for a timely provision of settlement services under a wide range of potential stress scenarios including, but not limited to the liquidity risk generated by the default of at least one participant, including its parent undertakings and subsidiaries, to which it has the largest exposures;
- (d) it must mitigate the corresponding liquidity risks with qualifying liquid resources in each currency such as cash at the central bank of issue and at other creditworthy financial institutions, committed lines of credit or similar arrangements and highly liquid collateral or investments that are readily available and convertible into cash with prearranged and highly reliable funding arrangements, even in extreme but plausible market conditions and it must identify, measure and monitor its liquidity risk stemming from the various financial institutions used for the management of its liquidity risks;
- (e) where prearranged funding arrangements are used, it must select only creditworthy financial institutions as liquidity providers; it must establish and apply appropriate concentration limits for each of the corresponding liquidity providers including its parent undertaking and subsidiaries;
- (f) it must determine and test the sufficiency of the corresponding resources by regular and rigorous stress testing;
- (g) it must analyse and plan for how to address any unforeseen and potentially uncovered liquidity shortfalls, and adopt rules and procedures to implement such plans;
- (h) [Note: left blank]
- (i) it must have prearranged and highly reliable arrangements to ensure that it can liquidate in a timely fashion the collateral provided to it by a defaulting client;
- (j) [Note: left blank]

ARTICLE 60 INFORMATION REGARDING BANKING-TYPE ANCILLARY SERVICES

60.1 Where a *type (b) banking services provider* uses a credit institution in accordance with Article 54.2(b), in view of the protection of the participants in the *Securities Settlement Systems* it operates, the *type (b) banking services provider* must ensure that it has access from the credit institution to all necessary information for the purpose of the *DSS CSDR* and the *rules* and it must report any infringements thereof to the *Bank* as soon as is practicable.

CHAPTER 3: REGULATORY TECHNICAL STANDARDS FOR ARTICLE 48 (DSD LINKS)

[Note: The following articles apply to a *DSD* in respect of article 48 of Chapter 2, as modified in this Chapter

- (1) Article 16 of the Commission Delegated Regulation (EU) 2017/390 of 11 November 2016 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on certain prudential requirements for central securities depositories and designated credit institutions offering banking-type ancillary services (RTS 2017/390),
- (2) Articles 10, 11(1), 34 and 38 (with the exception of 38(9)) of RTS 2017/390 as applied and modified by rule 2.4 in Chapter 1, for the purposes of Article 16.
- (3) Articles 36 and 84 to 87 of Commission Delegated Regulation (EU) 2017/392 of 11 November 2016 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on authorisation, supervisory and operational requirements for central securities.]

ARTICLE 16 OTHER EQUIVALENT FINANCIAL RESOURCES FOR EXPOSURES IN INTEROPERABLE LINKS

- 16.1 In the event that a *DSD link* is established, the *DSD* establishing the link must ensure that any bank guarantees and letters of credit, used to secure credit exposures created between *linked parties* that establish *interoperable links*, must meet all of the following conditions:
- (a) they cover only the credit exposures between the two *linked parties*;
 - (b) they have been issued by a consortium of creditworthy financial institutions that fulfil the requirements set out in Article 38(1) of RTS 2017/390, in which each of those financial institutions is obliged to pay the part of the total amount that has been contractually agreed upon;
 - (c) they are denominated in a currency the risk of which the *type (a) banking services provider* is able to adequately manage or the *type (b) banking services provider* must ensure that the credit institution it engages is able to adequately manage;
 - (d) they are irrevocable, unconditional and the issuing institutions cannot rely on any legal or contractual exemption or option allowing the issuer to oppose the payment of the letter of credit;
 - (e) they can be honoured, on demand, free of any regulatory, legal or operational constraint;
 - (f) they are not issued by:
 - (i) an entity that is part of the same group as the borrowing *linked party* or a *linked party* with an exposure covered by the bank guarantee and letters of credit;
 - (ii) an entity whose business involves providing services critical to the functioning of the *type (a) banking services provider* or in the case of the *type (b) banking services provider*, to the credit institution it engages;
 - (g) they are not subject to significant wrong-way risk within the meaning of Article 291 of Regulation (EU) No 575/2013;
 - (h) the *type (a) banking services provider* or in the case of the *type (b) banking services provider* it must ensure that the credit institution it engages monitors the creditworthiness of the issuing financial institutions on a regular basis by independently assessing the

creditworthiness of those institutions and by assigning and regularly reviewing internal credit ratings for each financial institution;

- (i) they can be honoured during the period of liquidation within three business days from the moment when the defaulting *type (a) banking services provider* or in the case of the *type (b) banking services provider*, the credit institution it engages fails to meet its payment obligations when they are due;
- j) qualifying liquid resources referred to in Article 34 of RTS 2017/390 are available to a sufficient amount that covers the time gap until the time at which the bank guarantee and letters of credit has to be honoured in case of default of one of the *linked parties*;
- (k) the risk of not having the full amount of the bank guarantee and letters of credit being paid by the consortium is mitigated by:
 - (i) establishing appropriate concentration limits ensuring that no financial institution, including its parent undertaking and subsidiaries, is part of the consortium guarantees for more than 10% of the total amount of the letter of credit;
 - (ii) limiting the credit exposure that is covered using the bank guarantee and letters of credit to the total amount of the bank guarantee minus either 10% of the total amount, or the amount guaranteed by the two credit institutions with the largest share of the total amount whichever is lower;
 - (iii) implementing additional risk mitigation measures such as a loss-sharing arrangements that are effective and have clearly defined rules and procedures;
- (l) the arrangements are periodically tested and reviewed.

ARTICLE 36 DSD LINKS

36.1 Where the applicant *DSD* has established or intends to establish a *DSD link*, the request to vary the *SAN* referred to in Article 48.2 of Chapter 2 must contain the following information:

- (a) a description of the *DSD links* accompanied by assessments of potential sources of risks arising from those link arrangements by the applicant *DSD*;
- (b) the expected or actual settlement volumes and values of the settlement performed within the *DSD links*;
- (c) the procedures concerning the identification, assessment, monitoring and management of all potential sources of risk for the applicant *DSD* and for its participants arising from the link arrangement and the appropriate measures put in place to mitigate them;
- (d) an assessment of the applicability of insolvency laws applicable to the operation of a *DSD link* and their implications for the applicant *DSD*;
- (e) other relevant information requested by the *Bank* for assessing the compliance of *DSD links* with the requirements provided in Article 48 of Chapter 2 and Articles 84 to 87 of this Chapter.

ARTICLE 84 CONDITIONS FOR THE ADEQUATE PROTECTION OF LINKED DSDS AND OF THEIR PARTICIPANTS

84.1 A *DSD* must establish and maintain a *DSD link* under the following conditions:

- (a) *requesting DSDs* must meet the requirements of the *linked party's* participation rules. *Receiving DSDs* must ensure the *linked party* meets the requirements of the *receiving DSDs'* participation rules;

- (b) where a request is made by a *DSD* to a *third-country CSD*, the *requesting DSD* shall conduct an analysis of the receiving *third-country CSD*'s financial soundness, governance arrangements, processing capacity, operational reliability and any reliance on a third party critical service provider;
- (c) where a request is made by a *DSD* to a *third-country CSD*, the *requesting DSD* shall take all necessary measures to monitor and manage the risks that are identified following the analysis referred to in point (b);
- (d) where a request is made by a *DSD*, the *requesting DSD* must make the legal and operational terms and conditions of the link arrangement available to its participants allowing them to assess and manage the risks involved;
- (e) where a request is made by a *DSD* to a *third-country CSD*, before the establishment of a *DSD link* with a *third-country CSD*, the *requesting DSD* shall perform an assessment of the local legislation applicable to the *third-country CSD*;
- (f) the linked *DSD* must ensure the confidentiality of information in connection to the operation of the link. The ability to ensure confidentiality must be evidenced by the information provided by the *DSD*, including any relevant legal opinions or arrangements;
- (g) the linked *DSD* must agree with the *linked parties* on aligned standards and procedures concerning operational issues and communication;
- (h) before the link becomes operational, requesting and receiving *DSDs* must:
 - (i) conduct end-to-end tests;
 - (ii) establish an emergency plan, as part of the business continuity plan of the linked *DSD*, identifying the situations where the *Securities Settlement Systems* of the *linked parties* malfunction or break down, and provide for the remedial actions planned if those situations occur;
- (i) all link arrangements must be reviewed at least annually by *receiving DSDs* and *requesting DSDs* taking into account all relevant developments, including market and IT developments, as well as any developments in local legislation referred to in point (e);
- (j) for *DSD links* that do not provide for DVP settlement, the annual review referred to in point (i) must also include an assessment of any developments that may allow supporting DVP settlement.

For the purposes of point (e), in performing the assessment, the *DSD* shall ensure that the securities maintained in the *Securities Settlement System* operated by the *third-country CSD* benefit from a level of asset protection comparable to the one ensured by the rules applicable to the securities settlement system operated by the *requesting DSD*. The *requesting DSD* shall require from the *third-country CSD* a legal assessment addressing the following issues:

- (i) the entitlement of the *requesting DSD* to the securities, including the law applicable to proprietary aspects, the nature of the rights of the *requesting DSD* on the securities, the possibility of encumbering the securities;
- (ii) the impact of insolvency proceedings opened against the *third-country CSD* on the *requesting DSD* regarding the segregation requirements, settlement finality, procedures and time limits to claim the securities in the relevant third country.

84.2 In addition to the conditions referred to in paragraph 1, a *DSD* must establish and maintain a *DSD link* providing for DVP settlement under the following conditions:

- (a) where a request is made by a *DSD*, the *requesting DSD* must assess and mitigate the additional risks resulting from the settlement of cash;
- (b) a *DSD* that is not authorised to provide banking-type ancillary services in accordance with Article 54 of Chapter 2, and which is involved in the execution of cash settlement on behalf

of its participants, must not receive credit and must use prefunding mechanisms covered by its participants in relation to the DVP settlements to be processed through the link;

- (c) a *DSD* that uses an intermediary for the cash settlement must ensure that the intermediary performs that settlement efficiently. The *DSD* must conduct yearly reviews of the arrangements with that intermediary.

84.3. In addition to the conditions referred to in paragraphs 1 and 2, a *DSD* must establish and maintain an *interoperable link* under the following conditions:

- (a) the linked *DSD* must agree with the *linked parties* on equivalent standards concerning reconciliation, opening hours for the processing of the settlement and of corporate actions and cut-off times;
- (b) the linked *DSDs* must establish with the *linked parties* equivalent procedures and mechanisms for transmission of settlement instructions to ensure a proper, secure and straight through processing of settlement instructions;
- (c) where an *interoperable link* supports DVP settlement, the linked *DSDs* must reflect at least daily and without undue delay the results of the settlement in their books;
- (d) the linked *DSDs* must agree with the *linked parties* on equivalent risk-management models;
- (e) the linked *DSDs* must agree with the *linked parties* on equivalent contingency and default rules and procedures referred to in Article 41 of Chapter 2.

ARTICLE 85 MONITORING AND MANAGEMENT OF ADDITIONAL RISKS RESULTING FROM THE USE OF INDIRECT LINKS OR INTERMEDIARIES TO OPERATE DSD LINKS

85.1 In addition to complying with the requirements under Article 84 of this Chapter, where a *DSD* is a *requesting DSD* that uses an *indirect link* or an intermediary to operate a *DSD link*, it must ensure that:

- (a) the intermediary is one of the following:
 - (i) a credit institution with permission to accept deposits under Part 4A of *FSMA 2000* that complies with the following requirements:
 - it ensures prompt access by the *requesting DSD* to the securities of the *requesting DSD* when required,
 - it has low credit risk, which must be established in an internal assessment by the *requesting DSD* by employing a defined and objective methodology that does not exclusively rely on external opinions;
 - (ii) a third-country financial institution that complies with the following requirements:
 - it is subject to and complies with prudential rules at least equivalent to those laid down in Regulation (EU) No 575/2013,
 - it has robust accounting practices, safekeeping procedures, and internal controls,
 - it ensures prompt access by the *requesting DSD* to the securities of the *requesting DSD* when required,

— it has low credit risk, based upon an internal assessment by the *requesting DSD* by employing a defined and objective methodology that does not exclusively rely on external opinions;

- (b) the intermediary complies with the rules and requirements of the *requesting DSD*, as evidenced by the information provided by that intermediary, including any relevant legal opinions or arrangements;
- (c) the intermediary ensures the confidentiality of information concerning the operation of the *DSD link*, as evidenced by the information provided by that intermediary, including any relevant legal opinions or arrangements;
- (d) the intermediary has the operational capacity and systems for:
 - (i) handling the services provided to the *requesting DSD*;
 - (ii) sending the *DSD* any information relevant to the services provided in relation to the *DSD link* in a timely manner;
 - (iii) complying with the reconciliation measures referred to in Article 86 of this Chapter;
- (e) the intermediary adheres to and complies with the risk-management policies and procedures of the *requesting DSD* and it has an appropriate risk-management expertise;
- (f) the intermediary has put in place measures that include business continuity policies and associated business continuity and disaster recovery plans, to ensure the continuity of its services, the timely recovery of its operations and the fulfilment of its obligations in events that pose a significant risk of disrupting its operations;
- (g) the intermediary holds sufficient financial resources to fulfil its obligations towards the *requesting DSD* and to cover any losses for which it may be held liable;
- (h) an individually segregated account at the *receiving DSD* is used for the operations of the *DSD link*;
- (i) the condition referred to in point (e) of Article 84(1) is fulfilled;
- (j) the *requesting DSD* is informed of the continuity arrangements between the intermediary and the *receiving DSD*;
- (k) the proceeds from settlement are promptly transferred to the *requesting DSD*.

For the purposes of the first indent in subparagraph (a)(i), the third indent in subparagraph (a)(ii) and subparagraph (h), the *requesting DSD* must ensure that it can have access to the securities held in the individually segregated account at any point in time. Where an individually segregated account at the *third-country CSD* is however not available for the operations of a *DSD link* established with a *third-country CSD*, the *requesting DSD* shall inform the *Bank* about the reasons justifying the unavailability of individually segregated accounts and shall provide it with the details on the risks resulting from the unavailability of individually segregated accounts. The *requesting DSD* shall in any case ensure an adequate level of protection of its assets held with the *third-country CSD*.

- 85.2 In addition to complying with the requirements under paragraph 1, when a *requesting DSD* uses an intermediary to operate a *DSD link* and that intermediary operates the securities accounts of the *requesting DSD* on its behalf in the books of the *linked party*, the *requesting DSD* must ensure that:

- (a) the intermediary does not have any entitlement to the securities held;
- (b) the account in the books of the *linked party* is opened in the name of the *requesting DSD* and the liabilities and obligations as regards the registration, transfer and custody of securities are only enforceable between both *linked parties*;
- (c) the *requesting DSD* is able to immediately access the securities held with the *linked party*, including in the event of a change or insolvency of the intermediary.

85.3 *Requesting DSDs* referred to in paragraphs 1 and 2 must perform a yearly due diligence to ensure that the conditions referred to therein are fulfilled.

ARTICLE 86 RECONCILIATION PROCEDURES FOR LINKED DSDS

86.1 A *DSD* must ensure that the reconciliation procedures referred to in Article 48.6 of Chapter 2 include the following measures:

- (a) *receiving DSDs* must transmit to the *linked party* daily statements with information specifying the following, per securities account and per securities issue:
 - (i) the aggregated opening balance;
 - (ii) the individual movements during the day;
 - (iii) the aggregated closing balance;
- (b) *requesting DSDs* must conduct a daily comparison of the opening balance and the closing balance communicated to it by the *linked party* or by the intermediary with the records maintained by the *requesting DSD* itself.

In the case of an *indirect link*, the daily statements referred to in point (a) of the first subparagraph must be transmitted through the intermediary referred to point (a) of Article 85(1) of this Chapter.

86.2 Where a *linked party* suspends a securities issue for settlement, all *DSDs* that are participants of or have an *indirect link* with that *linked party*, including in the case of *interoperable links*, must subsequently suspend the securities issue for settlement.

Where intermediaries are involved in the operation of *DSD links*, the *DSDs* concerned must establish appropriate contractual arrangements with those intermediaries in order to ensure compliance with the first subparagraph.

86.3 In the event of a corporate action that reduces the balances of securities accounts held by an *investor DSD* with another *linked party*, settlement instructions in the relevant securities issues must not be processed by the *investor DSD* until the corporate action has been fully processed by the other *linked party*.

In the event of a corporate action that reduces the balances of securities accounts held by an *investor DSD* with another *linked party*, the *investor DSD* must not update the securities accounts that it maintains to reflect the corporate action until the corporate action has been fully processed by the other *linked party*.

An *issuer DSD* must ensure the timely transmission to all its participants, including investor *linked parties*, of information on the processing of corporate actions for a specific securities issue. *Investor DSDs* must in turn transmit the information to their participants. That

transmission must include all necessary information for investor *linked parties* to adequately reflect the outcome of those corporate actions in the securities accounts they maintain.

ARTICLE 87 DVP SETTLEMENT THROUGH DSD LINKS

87.1 The *DSD* must regard Delivery versus payment (DVP) settlement as practical and feasible for the purposes of Article 48.7 of Chapter 2 where:

- (a) there is a market demand for DVP settlement evidenced through a request from any of the user committees of one of the *linked parties*;
- (b) the *linked parties* may charge a reasonable commercial fee for the provision of DVP settlement, on a cost-plus basis, unless otherwise agreed by the other *linked party*;
- (c) there is a safe and efficient access to cash in the currencies used by the *receiving DSD* for settlement of securities transactions of the *requesting DSD* and its participants.

DRAFT FOR CONSULTATION

CHAPTER 4: SERVICES

A SECTION A - CORE SERVICES

- A.1 Initial recording of securities in book-entry forms or forms of recording of securities using developing technology ('notary service');
- A.2 Providing and maintaining securities accounts at the top tier level ('central maintenance service');
- A.3 Operating a *Securities Settlement System* ('settlement service').

B SECTION B - NON-BANKING-TYPE ANCILLARY SERVICES THAT DO NOT ENTAIL CREDIT OR LIQUIDITY RISKS

Services provided that contribute to enhancing the safety, efficiency and transparency of the securities markets, which may include but are not restricted to the following.

- B.1 Services related to the settlement service, such as:
 - (a) Organising a securities lending mechanism, as agent among participants of a *Securities Settlement System*;
 - (b) Providing collateral management services, as agent for participants in a *Securities Settlement System*;
 - (c) Settlement matching, instruction routing, trade confirmation, trade verification.
- B.2 Services related to the notary and central maintenance services, such as:
 - (a) Services related to shareholders' registers;
 - (b) Supporting the processing of corporate actions, including tax, general meetings and information services;
 - (c) New issue services, including allocation and management of ISIN codes and similar codes;
 - (d) Instruction routing and processing, fee collection and processing and related reporting.
- B.3 Establishing *DSD links*, providing, maintaining or operating securities accounts in relation to the settlement service, collateral management, other ancillary services.
- B.4 Any other services, such as:
 - (a) Providing general collateral management services as agent;
 - (b) Providing regulatory reporting;
 - (c) Providing information, data and statistics to market/census bureaus or other governmental or inter-governmental entities;
 - (d) Providing IT services.

C SECTION C – BANKING-TYPE ANCILLARY SERVICES

- C.1 Banking-type services directly related to core or ancillary services listed in Sections A and B, such as:
 - (a) Providing cash accounts to, and accepting deposits from, participants in a *Securities Settlement System* and holders of securities accounts, within the meaning of point 1 of Annex I to Directive 2013/36/EU

- (b) Providing cash credit for reimbursement no later than the following business day, cash lending to pre-finance corporate actions and lending securities to holders of securities accounts, within the meaning of point 2 of Annex I to Directive 2013/36/EU;
- (c) Payment services involving processing of cash and foreign exchange transactions, within the meaning of regulation 2 of the Payment Services Regulations 2017;
- (d) Guarantees and commitments related to securities lending and borrowing, within the meaning of point 6 of Annex I to Directive 2013/36/EU;
- (e) Treasury activities involving foreign exchange and transferable securities related to managing participants' long balances, within the meaning of points 7(b) and (e) of Annex I to Directive 2013/36/EU.

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CHAPTER 5: RULES ON THE SUBJECT MATTER OF THE UNCERTIFICATED SECURITIES REGULATIONS

[**Note:** in Chapter 5, *rules* are termed ‘regulations’ or ‘paragraph’, depending on the context, in keeping with the *Uncertificated Securities Regulations*. References to, for example regulation 2.1, may also be written as 2(1).]

REGULATION 3 DVP SETTLEMENT THROUGH DSD LINKS

3.2 For the purpose of the *DSS USRs* and this Chapter 5 –

- (a) a dematerialised instruction is properly authenticated if it complies with the specifications referred to in paragraph 5.3 of Schedule 1 of Chapter 5; or if it was given, and not withdrawn, before the *Uncertificated Securities Regulations* came into force and was properly authenticated within the meaning of regulation 3.2(a) of the 1995 Regulations;
- (b) a dematerialised instruction is attributable to a person if it is expressed to have been sent by that person, or if it is expressed to have been sent on behalf of that person, in accordance with the rules and specifications referred to in paragraph 5.4 of Schedule 1 of Chapter 5; and a dematerialised instruction may be attributable to more than one person.

SCHEDULE 1

PARAGRAPH 5

5.1 A relevant system must satisfy the requirements of subparagraphs (3) to (6)

5.2 [**Note:** left blank]

5.3 Each dematerialised instruction must be authenticated –

- (a) in accordance with the specifications of the Operator, and those specifications must provide that each dematerialised instruction is identifiable as being from the computers of the Operator or of a particular system-participant; or
- (b) if it is sent to the Operator by, or by the Operator to, a depositary, a clearing house or an exchange, in accordance with specifications of that depositary, clearing house or exchange to which the Operator has agreed and which provide that each dematerialised instruction—
 - (i) is identifiable as being from the computers of the Operator or of the depositary, clearing house or exchange which sent it.

5.4 Each dematerialised instruction must, in accordance with any relevant rules of the Operator and with the specifications of the Operator or the specifications referred to in subparagraph 3(b) (as the case may be), express by whom it has been sent and, where relevant, on whose behalf it has been sent.

5.5 Each dematerialised instruction must, in accordance with any relevant rules of the Operator and with the specifications of the Operator or the specifications referred to in subparagraph 3(b) (as the case may be), indicate—

- (a) where it is sent to a system-participant or the Operator, that it is addressed to that system-participant or the Operator;

- (b) where it is sent to a person who is using the facilities of a sponsoring system-participant to receive dematerialised instructions, that it is addressed to that person and the sponsoring system-participant; and
 - (c) where it is sent to the Operator in order for him to send an Operator-instruction to a system-participant, that it is addressed to the Operator, to the system-participant and, if the system-participant is acting as a sponsoring system-participant, to the relevant person on whose behalf the sponsoring system-participant receives dematerialised instructions;
- 5.6 The relevant system must minimise the possibility for a system-participant to send a dematerialised instruction on behalf of a person from whom he has no authority.
- 5.7 For the purposes of this paragraph –
- “clearing house” means a body or association –
- (a) which is a recognised clearing house within section 285(1)(b) of *FSMA 2000*;
 - (b) which is authorised under *FSMA 2000* to provide clearing services in the United Kingdom;
 - (ba) which is a third country central counterparty within the meaning of section 285(1) of the 2000 Act; or
 - (c) which provides services outside the United Kingdom which are similar in nature to those provided by any such body or association, and which is regulated or supervised in the provision of those services by a regulatory body or agency of government;
- “depository” means a *DSD*, *CSD* or *third-country CSD* within the meaning of the *CSDR* as amended from time to time or a body or association carrying on business outside the United Kingdom with whom an Operator has made arrangements—
- (a) to enable system-members to hold (whether directly or indirectly) and transfer title to securities (other than participating securities) by means of facilities provided by that body or association; or
 - (b) to enable that body or association to permit persons to whom it provides services in the course of its business to hold (whether directly or indirectly) and transfer title to participating securities by means of the Operator's relevant system; and
- “exchange” means a body or association –
- (a) which is a recognised investment exchange within section 285(1)(a) of the 2000 Act;
 - (b) which is authorised under that Act to provide a facility for the matching and execution of transactions in securities in the United Kingdom; or
 - (c) which provides services outside the United Kingdom which are similar in nature to those provided by any such body or association, and which is regulated or supervised in the provision of those services by a regulatory body or agency of government.

PARAGRAPH 12

-
- 12 A relevant system must be able to permit each participating issuer to inspect the entries from time to time appearing in an Operator register of securities (other than an Operator register of eligible debt securities) relating to any participating security issued by him.

PARAGRAPH 13

- 13 A relevant system must be able to establish, where there is a transfer of uncertificated units of a security to a system-member for value, that a settlement bank has agreed to make payment in respect of the transfer, whether alone or taken together with another transfer for value.

PARAGRAPH 14

- 14 A relevant system must ensure that the Operator-system is able to generate Operator-instructions—
- (a) requiring participating issuers to amend the appropriate issuer registers of securities kept by them;
 - (b) informing participating issuers in a way which enables them to amend the appropriate records of securities kept by them; and
 - (c) informing settlement banks of their payment obligations.

PARAGRAPH 15

- 15 A relevant system must—
- (a) enable a system-member—
 - (i) to grant authority to a sponsoring system-participant to send properly authenticated dematerialised instructions on his behalf; and
 - (ii) to limit such authority by reference to the net value of the units of the securities to be transferred in any one day; and
 - (b) prevent the transfer of units in excess of that limit.

PARAGRAPH 16

- 16 For the purposes of paragraph 15(a)(ii), once authority is granted pursuant to a system charge (within the meaning of regulation 3 of the Financial Markets and Insolvency Regulations 1996) a limit of such authority must not be imposed or changed without the consent of the donee of that authority.

PARAGRAPH 18

- 18 A relevant system must enable system-members—
- (a) to change the form in which they hold units of a participating security; and
 - (b) where appropriate, to require participating issuers to issue certificates relating to units of a participating security held or to be held by them.

PARAGRAPH 19

- 19 Paragraph 18 shall not apply to any wholly dematerialised security.

PARAGRAPH 20

- 20 A relevant system must comprise procedures which provide that it responds only to properly authenticated dematerialised instructions which are attributable to a system-user or an Operator.

PARAGRAPH 21

- 21.1 Subject to subparagraphs (2) to (5), a relevant system must comprise procedures which provide that an Operator only registers a transfer of title to uncertificated units of a security or generates an Operator-instruction requiring a participating issuer to register such a transfer, and only generates an Operator-instruction informing a settlement bank of its payment obligations in respect of such a transfer, if—
- (a) it has –
 - (i) received a system-member instruction which is attributable to the transferor; or
 - (ii) been required to do so by a court in the United Kingdom or by or under an enactment;
 - (b) it has –
 - (i) established that the transferor has title to such number of units as is in aggregate at least equal to the number to be transferred; or
 - (ii) established that the transfer is one of two or more transfers which may be registered in accordance with regulation 30.2 of the *DSS USRs*;
 - (c) in the case of a transfer to a system-member for value, it has established that a settlement bank has agreed to make payment in respect of the transfer, whether alone or taken together with another transfer for value; and
 - (d) the transfer is not in excess of any limit which by virtue of paragraph 15(a)(ii) the transferor has set on an authority given by him to a sponsoring system-participant.
- 21.2 Subparagraph 1(a) shall not prevent the registration by an Operator of a transfer of title to uncertificated units of a security, or the generation of an Operator-instruction, in accordance with procedures agreed between the Operator and the transferor to enable the transfer by means of a relevant system of uncertificated units of a security provided that such transfer is for the purpose of, or relates to, facilitating the provision of financial credit or financial liquidity to the transferor by a settlement bank, the Bank of England, the European Central Bank, any other central bank, or any other body having functions as a monetary authority.
- 21.3 A relevant system must comprise procedures which provide that—
- (a) the Operator may amend an Operator register of securities; and
 - (b) an Operator-instruction requiring a participating issuer to register a transfer of uncertificated units of a security, or informing a settlement bank of its payment obligations in respect of such a transfer, may be generated,
- if necessary to correct an error and if in accordance with the rules made and practices instituted by the Operator in order to comply with the *rules* set out in this Chapter 5 and the provisions of Schedule 1 to the *DSS USRs*.
- 21.4 A relevant system must comprise procedures which provide that—
- (a) the Operator may amend an Operator register of securities; and

- (b) an Operator-instruction requiring a participating issuer to register a transfer of units of a wholly dematerialised security, or informing a settlement bank of its payment obligations in respect of such a transfer, may be generated,

if necessary to effect a transfer of such units, on the termination of participation in the relevant system by the system-member by whom those units are held and if in accordance with the rules made and practices instituted by the Operator in order to comply with this Schedule, to a person nominated under the Operator's rules.

- 21.5 Subparagraph 1(a) shall not prevent the registration by an Operator of a transfer of title to uncertificated units of a security, or the generation of an Operator-instruction, in order to give effect to the procedures referred to in subparagraph 3 or 4.

PARAGRAPH 22

- 22.1 Subject to subparagraph 2, a relevant system must comprise procedures which provide that an Operator-instruction to a participating issuer relating to a right, privilege or benefit attaching to or arising from an uncertificated unit of a security, is generated only if it has—

- (a) received a properly authenticated dematerialised instruction attributable to the system-member having the right, privilege or benefit requiring the Operator to generate an Operator-instruction to the participating issuer; or
- (b) been required to do so by a court in the United Kingdom or by or under an enactment.

- 22.2 A relevant system must comprise procedures which provide that an Operator-instruction to a participating issuer relating to a right, privilege or benefit attaching to or arising from an uncertificated unit of a security, may be generated if necessary to correct an error and if in accordance with the rules made and practices instituted by an Operator in order to comply with the *rules* set out in this Chapter 5 and the provisions of Schedule 1 to the *DSS USRs*.

PARAGRAPH 25

- 25 An Operator's rules and practices—

- (a) [Note: left blank]
- (b) must make provision as to the manner in which a system-member or the relevant participating issuer may change the form in which that system-member holds units of a participating security (other than a wholly dematerialised security);
- (c) must make provision for a participating issuer to cease to participate in respect of a participating security so as—
- (i) to minimise so far as practicable any disruption to system-members in respect of their ability to transfer the relevant security; and
- (ii) to provide the participating issuer with any relevant information held by the Operator relating to the uncertificated units of the relevant security held by system-members;
- (d) [Note: left blank]
- (e) must make provision—
- (i) as to which of the Operator's records are to constitute an Operator register of securities in relation to a participating security, or a participating security of a particular kind; and

- (ii) as to the times at which, and the manner in which, a participating issuer may inspect an Operator register of securities (other than an Operator register of eligible debt securities) in accordance with paragraph 12;
- (f) if they make provision for the designation of a subsidiary undertaking as a relevant nominee, must require that the relevant nominee maintain adequate records of—
 - (i) the names of the persons who have an interest in the securities it holds; and
 - (ii) the nature and extent of their interests; and
- (g) must make provision for the authentication by the Operator of any written notification given under regulation 25.3 or 32.2(c) of the *DSS USRs*.

PARAGRAPH 26

- 26 An Operator's rules and practices must require—
- (a) that each system-participant is able to send and receive properly authenticated dematerialised instructions;
 - (b) that each system-member has arrangements—
 - (i) for properly authenticated dematerialised instructions attributable to him to be sent;
 - (ii) for properly authenticated dematerialised instructions to be received by or for him; and
 - (iii) with a settlement bank for payments to be made, where appropriate, for units of a security transferred by means of the relevant system; and
 - (c) that each participating issuer is able to respond with sufficient speed to Operator-instructions.

SCHEDULE 4

PARAGRAPH 4

- 4.1 In relation to every participating issuer which is a company, an Operator of a relevant system must, in respect of any class of shares which is a participating security for the purposes of that system, enter on an Operator register of members—
- (a) the names and addresses of the members who hold uncertificated shares in the company;
 - (b) with those names and addresses a statement of the uncertificated shares held by each member and, where the company has more than one class of issued uncertificated shares, distinguishing each share by its class; and
 - (c) where the company has converted any of its shares into stock and given notice of the conversion to the registrar of companies, the Operator register of members must show the amount and class of uncertificated stock held by each member, instead of the amount of shares and the particulars relating to shares specified in subparagraph (b).
- 4.2 An entry relating to a member of a company who has ceased to hold any uncertificated shares in the company may be removed from the Operator register of members after the expiration of 10 years beginning with the day on which he ceased to hold any such shares.
- 4.3 For the purposes of this paragraph references to an Operator register of members shall not be taken to include an overseas branch register.

- 4.4 Members of a company who hold shares in uncertificated form may not be entered as holders of those shares on an overseas branch register

PARAGRAPH 12

- 12.1 Where an Operator of a relevant system is required to maintain an Operator register of general public sector securities that register must comprise the following particulars which the Operator must enter on it, namely—
- (a) the names and address of the persons holding units of the relevant participating security in uncertificated form; and
 - (b) how many units of that security each such person holds in that form.

PARAGRAPH 14

- 14.1 Where an Operator of a relevant system is required to maintain an Operator register of corporate securities, that register must comprise the following particulars which the Operator must enter on it, namely—
- (a) the names and addresses of the persons holding units of the relevant participating security in uncertificated form; and
 - (b) how many units of that security each such person holds in that form.

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Annex B

Bank of England Digital Securities Sandbox Rules – End State

Bank of England Digital Securities Sandbox Rules – End State

Chapter content

1. GENERAL RULES
2. RULES ON THE SUBJECT MATTER OF UK CSDR
3. REGULATORY TECHNICAL STANDARDS FOR ARTICLE 47 (CAPITAL REQUIREMENTS)
4. WINDING-DOWN OR RESTRUCTURING SCENARIOS
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6. SERVICES
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DRAFT FOR CONSULTATION

CHAPTER 1: GENERAL RULES

APPLICATION OF THIS ANNEX

1.1 This Annex applies to a *DSD* whose *SAN* states that the *DSD* has passed the final gate.

SCOPE AND GENERAL APPLICATION

2.1 With the exception of Article 47 the *rules* apply to a *DSD* in respect of its activities referred to in regulation 3(5)(b), and ancillary activities in regulation 3(6), of the *DSS Regulations* regarding its FMI sandbox arrangements.

2.2 With the exception of the provisions referred to in rules 2.3 to 2.5, the following technical standards, which form part of *assimilated law*, and have been modified by the Technical Standards (Central Securities Depositories) (Amendment etc.) (EU Exit) Instrument 2019, are disapplied for a *DSD* in respect of its *DSS activities*:

- (1) Commission Delegated Regulation (EU) 2017/390 of 11 November 2016 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on certain prudential requirements for central securities depositories and designated credit institutions offering banking-type ancillary services,
- (2) Commission Delegated Regulation (EU) 2017/391 of 11 November 2016 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards further specifying the content of the reporting on internalised settlements,
- (3) Commission Delegated Regulation (EU) 2017/392 of 11 November 2016 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on authorisation, supervisory and operational requirements for central securities depositories,
- (4) Commission Implementing Regulation (EU) 2017/393 of 11 November 2016 laying down implementing technical standards with regard to the templates and procedures for the reporting and transmission of information on internalised settlements in accordance with Regulation (EU) No 909/2014 of the European Parliament and of the Council, and
- (5) Commission Implementing Regulation (EU) 2017/394 of 11 November 2016 laying down implementing technical standards with regard to standard forms, templates and procedures for authorisation, review and evaluation of central securities depositories, for the cooperation between authorities of the home Member State and the host Member State, for the consultation of authorities involved in the authorisation to provide banking-type ancillary services, for access involving central securities depositories, and with regard to the format of the records to be maintained by central securities depositories in accordance with Regulation (EU) No 909/2014 of the European Parliament and of the Council.

2.3 Pursuant to Article 47.3 in Chapter 2, the following articles apply to a *DSD* in respect of its *DSS Activities* as modified in Chapter 3:

- (1) Articles 1 – 7 of the Commission Delegated Regulation (EU) 2017/390 of 11 November 2016 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on certain prudential requirements for central securities depositories and designated credit institutions offering banking-type ancillary services (2017/390).
- (2) For the purposes of Article 7.1(a) in Chapter 3, Chapter 4 applies.

- 2.4 The following articles, as modified in Chapter 5, apply to a *DSD* in respect of Article 48 in Chapter 2 of the *rules*:
- (1) Article 16 of the Commission Delegated Regulation (EU) 2017/390 of 11 November 2016 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on certain prudential requirements for central securities depositories and designated credit institutions offering banking-type ancillary services (RTS 2017/390). Additional articles from RTS 2017/390 are applied and modified in rule 2.4 for the purposes of Article 16 as modified in Chapter 5.
 - (2) Articles 36 and 84 to 87 of Commission Delegated Regulation (EU) 2017/392 of 11 November 2016 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on authorisation, supervisory and operational requirements for central securities depositories (RTS 2017/392).
- 2.5 For the purposes of rule 2.4(1):
- (1) The following articles apply, for the purposes of Article 16 in Chapter 5, subject to the modifications in rule 2.5(2):
 - (a) Article 10,
 - (b) Article 11(1),
 - (c) Article 34, and
 - (d) Article 38, with the exception of 38(9).
 - (2) The articles mentioned in 2.5(1) are modified as follows:
 - (a) In place of “CSD-banking service provider”, substitute “*type (a) banking service provider* or credit institution engaged by a *type (b) banking service provider*” with the following exceptions:
 - (i) In Article 34, instead substitute “*type (a) banking service provider* or, a *type (b) banking service provider* must ensure the credit institution it engages,”, and
 - (ii) In Article 38, where an obligation applies to a CSD-banking service provider, the obligation instead applies to *type (a) banking service provider* or, mutatis mutandis, to a *type (b) banking service provider* ensuring through contractual arrangements that the credit institution it engages will fulfil the obligations concerned.
 - (b) In place of “CSD”, substitute “*DSD*”,
 - (c) In place of “Regulation (EU) 909/2014”, substitute “Chapter 2 of the *rules*”, and
 - (d) In Article 10:
 - (i) Omit “for the purposes of point (e) of Article 59(4) of Regulation (EU) No 909/2014” from the title of the article, subparagraph (1) and (2), and
 - (ii) Omit “referred to in point (e) of Article 59(4) of Regulation (EU) No 909/2014 and” from subparagraph (2)(e)(ii).
 - (e) For Article 38:
 - (i) Omit “For the purposes of point (e) of Article 59(4) of Regulation (EU) No 909/2014” from subparagraph (1), and

(iii) In subparagraph (1)(a), in place of “authorised in accordance with Article 8 of Directive 2013/36/EU”, substitute “with permission to accept deposits under Part 4A FSMA 2000”.

2.6 Unless the context otherwise requires, any reference in the *rules* to:

- (1) any provision of *direct EU legislation* is a reference to it as it has effect as *assimilated law*;
- (2) an *EU directive* is a reference to the directive as it had effect in EU law immediately before *IP completion day*;
- (3) the implementation or transposition of provisions of an *EU directive*, is a reference to the provisions of *EU-derived domestic legislation* which were relied on before *IP completion day* for that implementation or transposition;
- (4) an enactment which has been amended on or before *IP completion day* by regulations made under section 8 of the European Union (Withdrawal) Act 2018, is a reference to that enactment as so amended.

DEFINITIONS

3.1 In the *rules*, the following definitions apply:

Assimilated law

has the same meaning as the definition given in section 6(7) of the European Union (Withdrawal) Act 2018.

Bank

means the Bank of England.

CSDR

means the 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.

Digital Securities Sandbox Rules or rules

means the rules set out in this Annex.

Direct EU legislation

has the same meaning as the definition given in section 3(2) of the European Union (Withdrawal) Act 2018.

DSD

has the same meaning as the definition given in regulation 2 of the *DSS Regulations*.

DSD link

means an arrangement between (i) *DSDs*; or (ii) *DSDs* and *CSDs* whereby:

- c) a *DSD* becomes a participant in the *Securities Settlement System* of another *DSD* or a *CSD*; or
- d) a *CSD* becomes a participant in the *Securities Settlement System* of a *DSD*;

in order to facilitate the transfer of securities from the participants of the latter *DSD* or *CSD* to the participants of the former *DSD* or *CSD*

OR

an arrangement between (i) *DSDs*; or (ii) *DSDs* and *CSDs* whereby:

- c) a *DSD* accesses another *DSD* or a *CSD* indirectly via an intermediary; or
- d) a *CSD* accesses a *DSD* indirectly via an intermediary.

DSD links include *standard links*, *customised links*, *indirect links*, and *interoperable links*.

a) *standard link* means a *DSD link* whereby a *DSD* becomes a participant in the *Securities Settlement System* of a *DSD*, *CSD* or *third-country CSD* under the same terms and conditions as applicable to any other participant in the *Securities Settlement System* operated by the latter;

b) *customised link* means a *DSD link* whereby a *DSD* that becomes a participant in the *Securities Settlement System* of a *DSD*, *CSD* or *third-country CSD* is provided with additional specific services to the services normally provided by that *DSD*, *CSD* or *third-country CSD* to participants in the *Securities Settlement System*;

c) *indirect link* means an arrangement between a *DSD* and a third party other than a *DSD*, *CSD* or *third-country CSD*, that is a participant in the *Securities Settlement System* of a *DSD*, *CSD* or *third-country CSD*. Such a link is set up by a *DSD*, *CSD* or *third-country CSD* in order to facilitate the transfer of securities to its participants from the participants of another *DSD*, *CSD* or *third-country CSD*;

d) *interoperable link* means a *DSD link* whereby *DSDs*, *CSDs* or *third-country CSDs* agree to establish mutual technical solutions for settlement in the *Securities Settlement Systems* that they operate;

DSS activities

has the same meaning as the definition given in regulation 2 of the *DSS Regulations*.

DSS CSDR

has the same meaning as the definition given in Part 2 of the Schedule to the *DSS Regulations*.

DSS Regulations

means the Financial Services and Markets Act 2023 (Digital Securities Sandbox) Regulations 2023 (2023/1398).

DSS USRs

means the *Uncertificated Securities Regulations* as modified in Part 5 of the Schedule to the *DSS Regulations*.

EU directive

has the same meaning as the definition given in section 20(1) of the European Union (Withdrawal) Act 2018.

EU-derived domestic legislation

has the same meaning as the definition given in section 2(2) of the European Union (Withdrawal) Act 2018.

FSMA 2000

means the Financial Services and Markets Act 2000.

Investor DSD

means a *DSD* that either is a participant in a *Securities Settlement System* operated by another *DSD*, *CSD* or *third-country CSD* or that uses a third party or an intermediary that

is a participant in a Securities Settlement System operated by another *DSD*, *CSD* or *third-country CSD* in relation to a securities issue;

IP completion day

has the same meaning as the definition given in section 39 of the European Union (Withdrawal Agreement) Act 2020.

Issuer DSD

means a *DSD* which provides the core service in regulation 3(5)(b)(i) or 3(5)(b)(ii) of the *DSS Regulations* in relation to a securities issue;

Linked party

means the *DSDs* or *CSDs* which are part of, applying to be part of, or dealing with an application to be part of, a *DSD link*.

Receiving DSD

means a *DSD* which receives the request of another *linked party* to have access to its services through a *DSD link*.

Requesting DSD

means a *DSD* which requests access to the services of a *linked party* through a *DSD link*.

SAN

means a 'sandbox approval notice' as defined in regulation 2 of the *DSS Regulations*.

Securities Settlement System

means a securities settlement system as defined in the *DSS CSDR*, or a system operated by a *DSD* that settles transactions in financial instruments against payment or against delivery, in relation to which a designation order made under regulation 4 of the Financial Markets and Insolvency (Settlement Finality) Regulations 1999 is in force.

Third-country CSD

has the same meaning as the definition given in the *DSS CSDR*.

Type (a) banking services provider

means a *DSD* the terms of whose *SAN* permit it to offer banking-type ancillary services set out in Section C of Chapter 6.

Type (b) banking services provider

means a *DSD* the terms of whose *SAN* permit it to engage one or more credit institutions for the purposes of providing banking-type ancillary services set out in Section C of Chapter 6.

Uncertificated Securities Regulations

means the Uncertificated Securities Regulations 2001 (2001/3755).

3.2 Unless otherwise defined, expressions used in the *rules* have the same meaning as in the *DSS Regulations*.

3.3 Subject to 3.2, and unless otherwise defined:

- (1) expressions used in Chapters 2 to 7 have the same meaning as in *DSS CSDR*, with the modification that references to 'the Annex' in the *DSS CSDR* should be read as referring to Chapter 7 of this Annex; and

- (2) expressions used in Chapter 7 have the same meaning as in the *DSS USRs*, with the modification that references to 'the Operator' shall be read as referring to a *DSD* acting as an 'Operator' for the purposes of the *DSS USRs*.
- 3.4 In accordance the provisions of Part 5 of the Schedule to the *DSS Regulations* a reference in the *DSS USRs* to a provision of the *Uncertificated Securities Regulations 2001* that is disapplied in that Part 5 is to be treated as a reference to any rules set out in Chapter 7 on the subject matter of the disapplied provision.
- 3.5 Depending on the context in the *rules*, provisions may refer to 'articles', 'paragraph', 'regulation' or 'rules'. For the avoidance of doubt, they are all operative parts of the *rules*.

SKILLED PERSON REPORT

- 4.1 Where the *Bank* gives notice to a *DSD* under section 166(5) of the *FSMA 2000*, as modified by the *DSS Regulations*, that the *Bank* has appointed a person under section 166(3)(b) to provide a report:
- (1) The *DSD* must pay as a fee the expenses which the *Bank* specifies in its notice; and
 - (2) The fee must be paid within 30 days beginning with the date of the notice.
- 4.2 Expenses which may be specified include any amount invoiced to the *Bank* by the appointed person in relation their appointment.

EMERGENCY

- 5.1 If an emergency arises which:
- (1) makes it impracticable for a *DSD* to comply with a provision of the *rules*;
 - (2) could not have been avoided by the *DSD* taking all reasonable steps; and
 - (3) is outside the control of the *DSD*,
- the *DSD* will not be in contravention of that provision to the extent that, as a consequence of the emergency, compliance with the provision is impracticable.
- 5.2 The rule in 5.1 applies only for so long as:
- (1) the consequences of the emergency continue; and
 - (2) the *DSD* can demonstrate that it is taking all practicable steps to deal with those consequences and to comply with the provision.
- 5.3 The *DSD* must notify the *Bank* as soon as practicable of the emergency and of the steps the *DSD* is taking and proposes to take to deal with the consequences of the emergency.

CHAPTER 2: RULES ON THE SUBJECT MATTER OF CSDR

[Note: Articles 1-5,10,13, 27.7, 27.8, 27.9, 67, 69, 73 and 76 apply in the *DSS CSDR* as modified by the Schedule to the *DSS regulations*.]

ARTICLE 19 EXTENSION AND OUTSOURCING OF ACTIVITIES AND SERVICES

- 19.1 Where not already permitted by its *SAN*, a *DSD* must submit a request to vary its *SAN* to the *Bank* where it wishes to outsource a core service to a third party under Article 30 or extend its activities to one or more of the following:
- (a) additional core services listed in Section A of Chapter 6;
 - (b) ancillary services permitted under, but not explicitly listed in Section B of Chapter 6;
 - (c) the operation of a *Securities Settlement System* or another *Securities Settlement System*;
 - (d) the settlement of all or part of the cash leg of any *Securities Settlement System* it operates in the books of another settlement agent;
- l setting up an *interoperable link*.
- 19.2 [Note: left blank]
- 19.3 A *DSD* that intends to establish an *interoperable link* must make a request to vary its *SAN* as required under subparagraph (e) of paragraph 1, to the *Bank*, where the *SAN* does not already permit them to do so.
- 19.4 [Note: left blank]
- 19.5 *DSD links* that are not referred to in point subparagraph (e) of paragraph 1 shall not be subject to a requirement to vary the *SAN* but must be notified to the *Bank* prior to their implementation by providing all relevant information that allows the *Bank* to assess compliance with the requirements provided in Article 48 and Chapter 5.
- 19.6 A *DSD* may maintain or establish a link with a *third-country CSD* in accordance with the conditions and procedures provided in this Article. Where links are established with a *third-country CSD* the information provided by the *requesting DSD* must allow the *Bank* to evaluate whether such links fulfil the requirements provided in Article 48 or the requirements that are equivalent to those provided in Article 48 and Chapter 5.
- 19.7 [Note: left blank]
- 19.8 A *DSD* must notify the *Bank* of the additional ancillary services explicitly listed in Section B of Chapter 6 prior to their provision.

ARTICLE 26 ORGANISATIONAL REQUIREMENTS: GENERAL PROVISIONS

- 26.1 A *DSD* must have robust governance arrangements, which include a clear organisational structure with well-defined, transparent and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks to which it is or might be exposed, and adequate remuneration policies and internal control mechanisms, including sound administrative and accounting procedures.
- 26.2 A *DSD* must adopt policies and procedures which are sufficiently effective so as to ensure compliance with the *DSS CSDR* and the *rules*, including compliance of its managers and employees with all the provisions of *DSS CSDR* and the *rules*.
- 26.3 A *DSD* must maintain and operate effective written organisational and administrative arrangements to identify and manage any potential conflicts of interest between itself, including its managers, employees, members of the management body or any person directly or

indirectly linked to them, and its participants or their clients. It must maintain and implement adequate resolution procedures where possible conflicts of interest occur.

- 26.4 A *DSD* must make its governance arrangements and the rules governing its activity available to the public.
- 26.5 A *DSD* must have appropriate procedures for its employees to report internally potential infringements of the *DSS CSDR* or the *rules* through a specific channel.
- 26.6 A *DSD* must be subject to regular and independent audits. A *DSD* must communicate the results of these audits to the management body and make them available to the *Bank* and, where appropriate taking into account potential conflicts of interest between the members of the user committee and the *DSD*, to the user committee.
- 26.7 Where a *DSD* is part of a group of undertakings including, for example, *CSDs*, *third-country CSDs* or credit institutions referred to in Articles 54 to 60, it must adopt detailed policies and procedures specifying how the requirements laid down in this Article apply to the group and to the different entities in the group.

ARTICLE 27 SENIOR MANAGEMENT, MANAGEMENT BODY AND SHAREHOLDERS

- 27.1 A *DSD* must ensure that the senior management of a *DSD* must be of sufficiently good repute and experience so as to ensure the sound and prudent management of the *DSD*.
- 27.2 A *DSD* must have a management body of which at least one third, but no less than two, of its members are independent.
- 27.3 A *DSD* must ensure that the remuneration of the independent and other non-executive members of the management body must not be linked to the business performance of the *DSD*.
- 27.4 A *DSD* must ensure that the management body is composed of suitable members of sufficiently good repute with an appropriate mix of skills, experience and knowledge of the entity and of the market. The *DSD* must ensure that the non-executive members of the management body decide on a target for the representation of the under-represented gender in the management body and prepare a policy on how to increase the number of the under-represented gender in order to meet that target. The target, policy and its implementation must be made public.
- 27.5 A *DSD* must clearly determine the role and responsibilities of the management body in accordance with the relevant law applicable within the United Kingdom or of any part of the United Kingdom. A *DSD* must make the minutes of the meetings of the management body available to the *Bank* upon request.
- 27.6 The *DSD*'s shareholders and persons who are in a position to exercise, directly or indirectly, control over the management of the *DSD* must be suitable to ensure the sound and prudent management of the *DSD*.

ARTICLE 28 USER COMMITTEE

- 28.1 A *DSD* must establish user committees for each *Securities Settlement System* it operates, which must be composed of representatives of issuers and of participants in such *Securities Settlement Systems*. The advice of the user committee must be independent from any direct influence by the management of the *DSD*.
- 28.2 A *DSD* must define in a non-discriminatory way the mandate for each established user committee, the governance arrangements necessary to ensure its independence and its operational procedures, as well as the admission criteria and the election mechanism for user committee members. The governance arrangements must be publicly available and must

ensure that the user committee reports directly to the management body and holds regular meetings.

- 28.3 A *DSD* must ensure that the terms of reference of the user committees provide for the user committee to advise the management body on key arrangements that impact on their members, including the criteria for accepting issuers or participants in their respective *Securities Settlement Systems* and on service level.
- 28.4 A *DSD* must allow user committees to submit a non-binding opinion to the management body containing detailed reasons regarding the pricing structures of the *DSD*.
- 28.5 Without prejudice to the right of the *Bank* to be duly informed, the *DSD* must ensure that the members of the user committees are bound by confidentiality. The *DSD* must ensure that where the chairman of a user committee determines that a member has an actual or a potential conflict of interest in relation to a particular matter, that member must not be allowed to vote on that matter.
- 28.6 A *DSD* must promptly inform the *Bank* and the user committee of any decision in which the management body decides not to follow the advice of the user committee. The *DSD* must allow the user committee to inform the *Bank* of any areas in which it considers that the advice of the user committee has not been followed.

ARTICLE 29 RECORD KEEPING

- 29.1 A *DSD* must maintain, for a period of at least 10 years, all its records on the services and activities, including on the ancillary services referred to in Sections B and C of Chapter 6, so as to enable the *Bank* to monitor the compliance with the requirements under the *DSS CSDR* and the *rules*.
- 29.2 A *DSD* must make the records referred to in paragraph 1 available upon request to the *Bank* and any other public authority which under the law applicable within the United Kingdom or of any part of the United Kingdom has a power to require access to such records for the purpose of fulfilling their mandate.

ARTICLE 30 OUTSOURCING

- 30.1 Where a *DSD* outsources services or activities to a third party, it must remain fully responsible for discharging all of its obligations under the *DSS CSDR* and the *rules* and must comply at all times with the following conditions:
- (a) outsourcing does not result in the delegation of its responsibility;
 - (b) the relationship and obligations of the *DSD* towards its participants or issuers are not altered;
 - (c) any conditions and permissions given in the *SAN* of the *DSD* do not effectively change;
 - (d) outsourcing does not prevent the exercise of supervisory and oversight functions, including on-site access to acquire any relevant information needed to fulfil those functions;
 - (e) outsourcing does not result in depriving the *DSD* of the systems and controls necessary to manage the risks it faces;
 - (f) the *DSD* retains the expertise and resources necessary for evaluating the quality of the services provided, the organisational and capital adequacy of the service provider, for supervising the outsourced services effectively and for managing the risks associated with the outsourcing on an ongoing basis;
 - (g) the *DSD* has direct access to the relevant information of the outsourced services;

- (h) the service provider cooperates with the *Bank* in connection with the outsourced activities;
 - (i) the *DSD* ensures that the service provider meets the standards set down by the relevant data protection law which would apply if the service providers were established in the United Kingdom. The *DSD* is responsible for ensuring that those standards are set out in a contract between the parties and that those standards are maintained.
- 30.2 The *DSD* must define in a written agreement its rights and obligations and those of the service provider. The outsourcing agreement must allow the *DSD* to terminate the agreement.
- 30.3 A *DSD* must and must procure that a service provider to the *DSD* make available upon request to the *Bank* all information necessary to enable the *Bank* to assess the compliance of the outsourced activities with the requirements of the *DSS CSDR* and the *rules*.

ARTICLE 32 CONDUCT OF BUSINESS RULES: GENERAL PROVISIONS

- 32.1 A *DSD* must have clearly defined goals and objectives that are achievable, such as in the areas of minimum service levels, risk management expectations and business priorities.
- 32.2 A *DSD* must have transparent rules for the handling of complaints.

ARTICLE 33 REQUIREMENTS FOR PARTICIPATION

- 33.1 For each *Securities Settlement System* it operates a *DSD* must have publicly disclosed criteria for participation which allow fair and open access for all legal persons that intend to become participants. Such criteria shall be transparent, objective, and non-discriminatory so as to ensure fair and open access to the *DSD* with due regard to risks to financial stability and the orderliness of markets. Criteria that restrict access shall be permitted only to the extent that their objective is to justifiably control a specified risk for the *DSD*.
- 33.2 A *DSD* must treat requests for access promptly by providing a response to such requests within one month at the latest and must make the procedures for treating access requests publicly available.
- 33.3 A *DSD* must deny access to a participant meeting the criteria referred to in paragraph 1 only where duly justified in writing and based on a comprehensive risk assessment.
- 33.4 A *DSD* must have objective and transparent procedures for the suspension and orderly exit of participants that no longer meet the criteria for participation referred to in paragraph 1.
- 33.5 [Note: left blank]
- 33.6 [Note: left blank]

ARTICLE 34 TRANSPARENCY

- 34.1 For each *Securities Settlement System* it operates, as well as for each of the other core services it performs, a *DSD* must publicly disclose the prices and fees associated with the core services listed in Section A of Chapter 6 that it provides. It must disclose the prices and fees of each service and function provided separately, including discounts and rebates and the conditions to benefit from those reductions. It must allow its clients separate access to the specific services provided.
- 34.2 A *DSD* must publish its price list so as to facilitate the comparison of offers and to allow clients to anticipate the price they shall have to pay for the use of services.
- 34.3 A *DSD* must be bound by its published pricing policy for its core services.
- 34.4 A *DSD* must provide its clients with information that allows reconciling invoices with the published price lists.

- 34.5 A *DSD* must disclose to all clients information that allows them to assess the risks associated with the services provided.
- 34.6 A *DSD* must account separately for costs and revenues of the core services provided and must disclose that information to the *Bank*.
- 34.7 A *DSD* must account for the cost and revenue of the ancillary services provided as a whole and must disclose that information to the *Bank*.
- 34.8 In order to ensure effective application of United Kingdom competition rules and enable the identification, inter alia, of cross-subsidisation of ancillary services by core services, a *DSD* must maintain analytical accounting for its activities. Such analytical accounts must at least separate the costs and revenues associated with each of its core services from those associated with ancillary services.

ARTICLE 35 COMMUNICATIONS PROCEDURES WITH PARTICIPANTS AND OTHER MARKET INFRASTRUCTURES

- 35.1 A *DSD* must use in its communication procedures with participants of the *Securities Settlement Systems* they operate, and with the market infrastructures they interface with international open communication procedures and standards for messaging and reference data in order to facilitate efficient recording, payment and settlement.

ARTICLE 36 REQUIREMENTS FOR DSD SERVICES: GENERAL PROVISIONS

- 36.1 For each *Securities Settlement System* it operates a *DSD* must have appropriate rules and procedures, including robust accounting practices and controls, to help ensure the integrity of securities issues, and reduce and manage the risks associated with the safekeeping and settlement of transactions in securities.

ARTICLE 37 INTEGRITY OF THE ISSUE

- 37.1 A *DSD* must take appropriate reconciliation measures to verify that the number of securities making up a securities issue or part of a securities issue submitted to the *DSD* is equal to the sum of securities recorded on the securities accounts of the participants of the *Securities Settlement System* operated by the *DSD* or, where relevant, on owner accounts maintained by the *DSD*, including those held at other CSDs for the purposes of immobilising assets held in other book-entry forms or forms of recording of securities using developing technology. Such reconciliation measures must be conducted at least daily.
- 37.2 Where appropriate and if other entities are involved in the reconciliation process for a certain securities issue, such as the issuer, registrars, issuance agents, transfer agents, common depositories, other CSDs, *third-country CSDs* or other entities, the *DSD* must organise adequate cooperation and information exchange measures between itself and any such entities so that the integrity of the issue is maintained.
- 37.3 Where a *DSD* operates a *Securities Settlement System*, it must not allow securities overdrafts, debit balances or securities creation within that *Securities Settlement System*.

ARTICLE 38 PROTECTION OF SECURITIES OF PARTICIPANTS AND THOSE OF THEIR CLIENTS

- 38.1 For each *Securities Settlement System* it operates, a *DSD* must keep records and accounts that must enable it, at any time and without delay, to segregate in the accounts with the *DSD*, the securities of a participant from those of any other participant and, if applicable, from the *DSD*'s own assets.

- 38.2 A *DSD* must keep records and accounts that enable any participant to segregate the securities of the participant from those of the participant's clients.
- 38.3 A *DSD* must keep records and accounts that enable any participant to hold in one securities account the securities that belong to different clients of that participant ('omnibus client segregation').
- 38.4 A *DSD* must keep records and accounts that enable a participant to segregate the securities of any of the participant's clients, if and as required by the participant ('individual client segregation').
- 38.5 A *DSD* must take all reasonable steps to ensure that a participant offers its clients at least the choice between omnibus client segregation and individual client segregation and inform them of the costs and risks associated with each option.
- 38.6 A *DSD* must, and must take all reasonable steps to ensure that its participants, publicly disclose the levels of protection and the costs associated with the different levels of segregation that they provide and must offer those services on reasonable commercial terms. Details of the different levels of segregation must include a description of the main legal implications of the respective levels of segregation offered, including information on the insolvency law applicable in the relevant jurisdictions.
- 38.7 A *DSD* must not use for any purpose securities that do not belong to it. A *DSD* may however use securities of a participant where it has obtained that participant's prior express consent. The *DSD* must require its participants to obtain any necessary prior consent from their clients.

ARTICLE 39 SETTLEMENT FINALITY

- 39.1 A *DSD* must ensure that any *Securities Settlement System* it operates offers adequate protection to participants. Any *Securities Settlement Systems* operated by a *DSD* must be designated under regulation 4 of the Financial Markets and Insolvency (Settlement Finality) Regulations 1999.
- 39.2 A *DSD* must ensure that each *Securities Settlement System* that it operates defines the moments of entry and of irrevocability of transfer orders in that *Securities Settlement System* in accordance with regulation 20 of, and paragraph 5 of the Schedule to, the Financial Markets and Insolvency (Settlement Finality) Regulations 1999.
- 39.3 A *DSD* must disclose the rules governing the finality of transfers of securities and cash in any *Securities Settlement System* it operates.
- 39.4 Paragraphs 2 and 3 apply without prejudice to the provisions applicable to *DSD links*, and without prejudice to paragraph 8 of Article 48.
- 39.5 A *DSD* must take all reasonable steps to ensure that, in accordance with the rules referred to in paragraph 3, finality of transfers of securities and cash referred to in paragraph 3 is achieved either in real time or intra-day and in any case no later than by the end of the business day of the actual settlement date.
- 39.6 Where the *DSD* offers the services referred to in Article 40.2, it must ensure that the cash proceeds of securities settlements are available for recipients to use no later than by the end of the business day of the intended settlement date.
- 39.7 All securities transactions against cash between direct participants in a *Securities Settlement System* operated by a *DSD* and settled in that *Securities Settlement System* must be settled on a DVP basis.

ARTICLE 40 CASH SETTLEMENT

- 40.1 For transactions denominated in the currency of the country where the settlement takes place, a *DSD* must settle the cash payments of a *Securities Settlement System* it operates through accounts opened with a central bank of issue of the relevant currency, where practical and available.
- 40.2 Where it is not practical and available to settle in central bank accounts as provided in paragraph 1, a *DSD* may offer to settle the cash payments for all or part of any *Securities Settlement Systems* it operates through accounts opened with a credit institution with permission to accept deposits under Part 4A of *FSMA 2000*, or through its own accounts. If a *DSD* offers to settle in accounts opened with a credit institution or through its own accounts, it must do so in accordance with the provisions of Articles 54 to 60.
- 40.3 A *DSD* must ensure that any information provided to market participants about the risks and costs associated with settlement in the accounts of credit institutions or through its own accounts is clear, fair and not misleading. A *DSD* must make available sufficient information to clients or potential clients to allow them to identify and evaluate the risks and costs associated with settlement in the accounts of credit institutions or through its own accounts and must provide such information on request.

ARTICLE 41 PARTICIPANT DEFAULT RULES AND PROCEDURES

- 41.1 For each *Securities Settlement System* it operates, a *DSD* must have effective and clearly defined rules and procedures to manage the default of one or more of its participants ensuring that the *DSD* can take timely action to contain losses and liquidity pressures and continue to meet its obligations.
- 41.2 A *DSD* must make its default rules and relevant procedures available to the public.
- 41.3 A *DSD* must undertake with its participants and other relevant stakeholders periodic testing and review of its default procedures to ensure that they are practical and effective.

ARTICLE 42 PRUDENTIAL REQUIREMENTS: GENERAL REQUIREMENTS

- 42.1 A *DSD* must adopt a sound risk-management framework for comprehensively managing legal, business, operational and other direct or indirect risks, including measures to mitigate fraud and negligence.

ARTICLE 43 LEGAL RISKS

- 43.1 For the purpose of its *SAN* and supervision, as well as for the information of its clients, a *DSD* must have rules, procedures, and contracts that are clear and understandable for all the *Securities Settlement Systems* that it operates and all other services that it provides.
- 43.2 A *DSD* must design its rules, procedures and contracts so that they are enforceable in all relevant jurisdictions, including in the case of the default of a participant.
- 43.3 A *DSD* conducting business in different jurisdictions must take all reasonable steps to identify and mitigate the risks arising from potential conflicts of law across jurisdictions.

ARTICLE 44 GENERAL BUSINESS RISK

- 44.1 A *DSD* must have robust management and control systems as well as IT tools in order to identify, monitor and manage general business risks, including losses from poor execution of business strategy, cash flows and operating expenses.

ARTICLE 45 OPERATIONAL RISKS

- 45.1 A *DSD* must identify sources of operational risk, both internal and external, and minimise their impact through the deployment of appropriate IT tools, controls and procedures, including for all the *Securities Settlement Systems* it operates.
- 45.2 A *DSD* must maintain appropriate IT tools that ensure a high degree of security and operational reliability, and have adequate capacity. IT tools must adequately deal with the complexity, variety and type of services and activities performed so as to ensure high standards of security, and the integrity and confidentiality of the information maintained.
- 45.3 For services that it provides as well as for each *Securities Settlement System* that it operates, a *DSD* must establish, implement and maintain an adequate business continuity policy and disaster recovery plan to ensure the preservation of its services, the timely recovery of operations and the fulfilment of the *DSD*'s obligations in the case of events that pose a significant risk of disrupting operations.
- 45.4 A *DSD* must ensure that the plan referred to in paragraph 3 provides for the recovery of all transactions and participants' positions at the time of disruption to allow the participants of a *DSD* to continue to operate with certainty and to complete settlement on the scheduled date, including by ensuring that critical IT systems can promptly resume operations from the time of disruption. It must include the setting-up of a second processing site with sufficient resources, capabilities and functionalities and appropriate staffing arrangements.
- 45.5 The *DSD* must plan and carry out a programme of tests of the arrangements referred to in paragraphs 1 to 4.
- 45.6 A *DSD* must identify, monitor and manage the risks that key participants in any *Securities Settlement Systems* it operates, as well as service and utility providers, and other *DSDs* or other market infrastructures might pose to its operations. It must, upon request, provide the *Bank* with information on any such risk identified.

It must also inform the *Bank* without delay of any operational incidents resulting from such risks.

ARTICLE 46 INVESTMENT POLICY

- 46.1 A *DSD* must hold its financial assets at any one or more of the following kinds of institution:
- (a) central banks;
 - (ba) other *DSDs*
 - (b) credit institutions with permission to accept deposits under Part 4A of *FSMA 2000*;
 - (c) *CSDs* authorised in accordance with *CSDR* and *third-country CSDs* recognised under *CSDR*;
 - (d) *third-country* financial institutions that are subject to and comply with asset protection and prudential rules which are at least as stringent as those laid down in Directive 2013/36/EU UK law, Regulation (EU) No. 575/2013 and *CRR* rules, and which the *DSD* assesses as having—
 - (i) robust accounting practices;
 - (ii) safekeeping procedures;
 - (iii) internal controls which ensure the full protection of those financial assets; and
 - (iv) low credit risk based upon an internal assessment by the *DSD*; or

- (e) *third-country CSDs* which comply with asset protection rules at least as stringent as those laid down in the *DSS CSDR* and the *rules*, and which the *DSD* assesses as having—
- (i) robust accounting practices;
 - (ii) safekeeping procedures; and
 - (iii) internal controls which ensure the full protection of those financial assets.
- 46.2 A *DSD* must have prompt access to its assets, where required.
- 46.3 A *DSD* must invest its financial resources only in cash or in highly liquid financial instruments with minimal market and credit risk. Those investments must be capable of being liquidated rapidly with minimal adverse price effect.
- 46.4 For the purposes of Article 47.1, a *DSD* must not take into account the amount of capital, including retained earnings and reserves which are not invested in accordance with paragraph 3.
- 46.5 A *DSD* must ensure that its overall risk exposure to any individual institution of a kind referred to in subparagraphs 1(ba) to 1(e) with which it holds its financial assets remains within acceptable concentration limits.

ARTICLE 47 CAPITAL REQUIREMENTS

- 47.1 A *DSD* must ensure that its capital, together with retained earnings and reserves, are proportional to the risks stemming from the activities of the *DSD*. It must be at all times sufficient to:
- (a) ensure that the *DSD* is adequately protected against operational, legal, custody, investment and business risks so that the *DSD* can continue to provide services as a going concern;
 - (b) ensure an orderly winding-down or restructuring of the *DSD*'s activities over an appropriate time span of at least six months under a range of stress scenarios.
- 47.2 A *DSD* must maintain a plan for the following:
- (a) the raising of additional capital should its equity capital approach or fall below the requirements laid down in paragraph 1;
 - (b) ensuring the orderly winding-down or restructuring of its operations and services where the *DSD* is unable to raise new capital.
- A *DSD* must ensure that the plan is approved by the management body or an appropriate committee of the management body and updated regularly. A *DSD* must provide each update of the plan to the *Bank*. A *DSD* must take any additional measures or make any alternative provision that the *Bank* requires where the *Bank* considers that the *DSD*'s plan is insufficient.
- 47.3 A *DSD* must comply with the *rules* in Chapter 3.
- 47.3A This article applies to a *DSD* in respect of its *DSS activities*.

ARTICLE 48 DSD LINKS

- 48.1 Before establishing a *DSD link* and on an ongoing basis once the *DSD link* is established, all *DSDs* concerned must identify, assess, monitor and manage all potential sources of risk for themselves and for their participants arising from the *DSD link* and take appropriate measures to mitigate them.

- 48.2 A *DSD* that intends to establish links must submit a request to vary its *SAN* to the *Bank* of as required under subparagraph (e) of Article 19.1 or notify the *Bank* as required under Article 19.5.
- 48.3 A *DSD* must ensure that a link provides adequate protection to the *linked parties* and their participants, in particular as regards possible credits taken by *DSDs* and the concentration and liquidity risks as a result of the link arrangement.
- A *DSD* must ensure that a link is supported by an appropriate contractual arrangement that sets out the respective rights and obligations of the *linked parties* and, where necessary, of the *linked parties'* participants.
- Where a *linked party* is a CSD, the linked *DSD* must ensure the contractual arrangements require the CSD to adhere to *CSDR* in respect of the *DSD link*, and to notify the *DSD* in the event of non-compliance or where the CSD anticipates non-compliance. The *DSD* must notify the *Bank* when it receives the notification from the CSD as soon as is practicable.
- 48.4 In the event of a provisional transfer of securities between *linked parties*, retransfer of securities prior to the first transfer becoming final is prohibited for a *DSD* and a *DSD* must ensure that it is prohibited by contractual arrangement with any *linked party* which is not a *DSD*.
- 48.5 A *DSD* that uses an *indirect link* or an intermediary to operate a *DSD link* with another *linked party* must measure, monitor, and manage the additional risks arising from the use of that *indirect link* or intermediary and take appropriate measures to mitigate them.
- 48.6 A *DSD* must have robust reconciliation procedures with *linked parties* to ensure that their respective records are accurate.
- 48.7 A *DSD* must ensure that *DSD links* permit DVP settlement of transactions between participants in *linked parties*, where practical and feasible. A *DSD* must notify the *Bank* of detailed reasons for any *DSD link* not allowing for DVP settlement.
- 48.8 For interoperable *Securities Settlement Systems* and *DSDs* that use a common settlement infrastructure, the *DSD* must establish, and through contractual arrangements ensures the *Securities Settlement System* establishes, identical moments of:
- (a) entry of transfer orders into the system;
 - (b) irrevocability of transfer orders.
- The *DSDs* referred to in the first subparagraph must ensure that the *DSDs* and *Securities Settlement Systems* use equivalent rules concerning the moment of finality of transfers of securities and cash.
- 48.9 *DSDs* must ensure through contractual arrangements that interoperable *DSD links* operating in the United Kingdom must be, where applicable, DVP-settlement supporting links.
- 48.10 [Note: left blank]
- 48.11 A *DSD* that has established or intends to establish a *DSD link* must comply with the *rules* in Chapter 5.

ARTICLE 49 REQUEST TO ISSUE IN A DSD

- 49.1B A *DSD* must ensure that where an issuer arranges to record its securities admitted to trading on regulated markets or MTFs or traded on trading venues records on a *DSD*, the corporate or similar law of the country or territory under which the securities are constituted must continue to apply.
- 49.1C A *DSD* may charge a reasonable commercial fee for the provision of its services to issuers on a cost-plus basis, unless otherwise agreed by both parties.

- 49.2 Where an issuer submits a request for recording its securities in a *DSD*, the *DSD* must treat such request promptly and in a non-discriminatory manner and provide a response to the requesting issuer within three months.
- 49.3 A *DSD* may refuse to provide services to an issuer.
- 49.4 Without prejudice to the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017, where a *DSD* refuses to provide services to an issuer, it must provide the requesting issuer with full written reasons for its refusal.

ARTICLE 51 CUSTOMISED LINK ACCESS

- 51.2 The *receiving DSD* may charge a reasonable commercial fee on a cost-plus basis to the *linked party* for making *customised link* access available.

ARTICLE 53 ACCESS BETWEEN A DSD AND ANOTHER MARKET INFRASTRUCTURE

- 53.1 A *DSD* must provide access to any *Securities Settlement Systems* it operates to a CCP or a trading venue and may charge a reasonable commercial fee for such access on a cost-plus basis.
- 53.2 When a party submits a request for access to a *DSD* in accordance with paragraph 1, such request must be treated promptly and a response to the requesting party must be provided within three months.
- 53.3 A *DSD* that refuses access must provide the requesting party with full written reasons for such refusal based on a comprehensive risk assessment.

ARTICLE 54 CONDITIONS FOR PROVIDING BANKING-TYPE ANCILLARY SERVICES

- 54.1 A *DSD* must not itself provide any banking-type ancillary services set out in Section C of Chapter 6 unless it is a *type (a) banking services provider*.
- 54.2 If a *DSD* intends to settle the cash leg of all or part of any *Securities Settlement System* it operates in accordance with Article 40.2 or otherwise wishes to provide any banking-type ancillary services referred to in paragraph 1, either:
- (a) if the *DSD* wishes to provide such services itself, the *DSD* must be a *type (a) banking services provider* and must meet the conditions in paragraph (3); or
 - (b) if the *DSD* wishes to use for that purpose one or more credit institutions, the *DSD* must be a *type (b) banking services provider* and the *DSD* must ensure by contractual arrangements that the credit institution or credit institutions in question meets the conditions in paragraph 4.
- 54.3 The conditions referred to in paragraph 2(a) are:
- (a) the *DSD* has permission under Part 4A of *FSMA 2000* to carry on any regulated activity which is carried on for the purposes of, or in connection with, such services;
 - (b) the *DSD* has met the requirements laid down in Article 59;
 - (c) the permission referred to in point (a) of this subparagraph is used only to provide the banking-type ancillary services referred to in Section C of Chapter 6 and not to carry out any other activities;
 - (d) the *DSD* meets an additional capital surcharge that reflects the risks, including credit and liquidity risks, resulting from the provision of intra-day credit, inter alia, to the participants in a *Securities Settlement System* or other users of *DSD* services;

- (e) the *DSD* reports at least monthly to the *Bank* and annually as a part of its public disclosure as required under the Disclosure (CRR) Part of the PRA Rulebook on the extent and management of intra-day liquidity risk; and
- (f) the *DSD* submits to the *Bank* and keeps updated an adequate recovery plan to ensure continuity of its critical operations, including in situations where liquidity or credit risk crystallises as a result of the provision of banking-type ancillary services.

In the case of conflicting provisions laid down in the *DSS CSDR* and this Chapter, in Regulation (EU) No 575/2013, CRR rules and in Directive 2013/36/EU UK law, the *DSD* referred to in point (a) of the first subparagraph must comply with the stricter requirements on prudential supervision.

54.4 The conditions referred to in paragraph 2(b) are:

- (a) the credit institution has permission to accept deposits under Part 4A of FSMA;
- (b) the credit institution meets the requirements laid down in Article 59;
- (c) the credit institution does not itself carry out any of the core services referred to in Section A of Chapter 6;
- (d) the permission referred to in subparagraph (a) is used only to provide the banking-type ancillary services referred to in Section C of Chapter 6 and not to carry out any other activities;
- (e) the credit institution meets an additional capital surcharge that reflects the risks, including credit and liquidity risks, resulting from the provision of intra-day credit, inter alia, to the participants in a *Securities Settlement System* or other users of *DSD* services;
- (f) the credit institution reports at least monthly to the *Bank* and annually as a part of its public disclosure as required under the Disclosure (CRR) Part of the PRA Rulebook on the extent and management of intra-day liquidity risk;
- (g) the credit institution submits to the *Bank* and keeps updated an adequate recovery plan to ensure continuity of its critical operations, including in situations where liquidity or credit risk crystallises as a result of the provision of banking type ancillary services from within a separate legal entity; and
- (h) the credit institution provides to the *Bank* on demand such information as the *Bank* reasonably requires for the purpose of assessing whether the conditions in this paragraph 4 and Article 59, and any additional conditions or requirements specified in technical standards or in the *SAN* of the *type (b) banking services provider*, are met.

54.5 Paragraph 4 shall not apply to credit institutions referred to in subparagraph (b) of paragraph 2 that offer to settle the cash payments for part of the *DSD's Securities Settlement System*, if the total value of such cash settlement through accounts opened with those credit institutions, calculated over a one-year period, is less than one per cent of the total value of all securities transactions against cash settled in the books of the *DSD* and does not exceed a maximum of GBP 2.5 billion per year.

ARTICLE 57 WITHDRAWAL OF AUTHORISATION

57.1 A *type (a) banking services provider* must, and a *type (b) banking services provider* must ensure that the credit institutions that it engages, establish, implement and maintain an adequate procedure ensuring the timely and orderly settlement and transfer of the assets of clients and participants to another settlement agent in the event that the *type (a) banking services provider* is no longer permitted to provide the relevant banking-type ancillary services,

or the *type (b) banking services provider* is no longer permitted to use the credit institution for the provision of such services, as the case may be.

ARTICLE 59 PRUDENTIAL REQUIREMENTS APPLICABLE IN RESPECT OF CREDIT INSTITUTIONS OR DSDS REGARDING BANKING-TYPE ANCILLARY SERVICES

- 59.1 A *type (b) banking services provider* must ensure that the credit institution it is engaged in accordance with point (b) of Article 54.2 must provide only the services set out in Section C of Chapter 6 specified in its *SAN* of the relevant *type (b) banking services provider*. A *type (a) banking services provider* must provide only the services set out in Section C of Chapter 6 specified in its *SAN*.
- 59.2 A *type (a) banking services provider* must comply with any present or future legislation applicable to credit institutions.
- 59.3 A *type (b) banking services provider* must ensure that the credit institution it is engaged in accordance with subparagraph (b) of Article 54.2, or a *type (a) banking services provider*, must comply with the following specific prudential requirements for the credit risks related to those services in respect of each *Securities Settlement System*:
- (a) it must establish a robust framework to manage the corresponding credit risks;
 - (b) it must identify the sources of such credit risks, frequently and regularly, measure and monitor corresponding credit exposures and use appropriate risk-management tools to control those risks;
 - (c) it must fully cover corresponding credit exposures to individual borrowing participants using collateral and other equivalent financial resources;
 - (d) if collateral is used to manage its corresponding credit risk, it must accept highly liquid collateral with minimal credit and market risk; it may use other types of collateral in specific situations if an appropriate haircut is applied;
 - (e) it must establish and apply appropriately conservative haircuts and concentration limits on collateral values constituted to cover the credit exposures referred to in subparagraph (c), taking into account the objective of ensuring that collateral can be liquidated promptly without significant adverse price effects;
 - (f) it must set limits on its corresponding credit exposures;
 - (g) it must analyse and plan for how to address any potential residual credit exposures, and adopt rules and procedures to implement such plans;
 - (h) it must provide credit only to participants that have cash accounts with it;
 - (i) it must provide for effective reimbursement procedures of intra-day credit and discourage overnight credit through the application of sanctioning rates which act as an effective deterrent.
- 59.4 A *type (b) banking services provider* must ensure that the credit institution it is engaged in accordance with subparagraph (b) of Article 54.2 or a *type (a) banking services provider* must comply with the following specific prudential requirements for the liquidity risks relating to those services in respect of each *Securities Settlement System*:
- (a) it must have a robust framework and tools to measure, monitor, and manage its liquidity risks, including intra-day liquidity risks, for each currency of the *Security Settlement System* for which it acts as settlement agent;

- (b) it must measure and monitor on an ongoing and timely basis, and at least daily, its liquidity needs and the level of liquid assets it holds; in doing so, it must determine the value of its available liquid assets taking into account appropriate haircuts on those assets;
- (c) it must have sufficient liquid resources in all relevant currencies for a timely provision of settlement services under a wide range of potential stress scenarios including, but not limited to the liquidity risk generated by the default of at least one participant, including its parent undertakings and subsidiaries, to which it has the largest exposures;
- (d) it must mitigate the corresponding liquidity risks with qualifying liquid resources in each currency such as cash at the central bank of issue and at other creditworthy financial institutions, committed lines of credit or similar arrangements and highly liquid collateral or investments that are readily available and convertible into cash with prearranged and highly reliable funding arrangements, even in extreme but plausible market conditions and it must identify, measure and monitor its liquidity risk stemming from the various financial institutions used for the management of its liquidity risks;
- (e) where prearranged funding arrangements are used, it must select only creditworthy financial institutions as liquidity providers; it must establish and apply appropriate concentration limits for each of the corresponding liquidity providers including its parent undertaking and subsidiaries;
- (f) it must determine and test the sufficiency of the corresponding resources by regular and rigorous stress testing;
- (g) it must analyse and plan for how to address any unforeseen and potentially uncovered liquidity shortfalls, and adopt rules and procedures to implement such plans;
- (h) [Note: left blank]
- (i) it must have prearranged and highly reliable arrangements to ensure that it can liquidate in a timely fashion the collateral provided to it by a defaulting client;
- (j) [Note: left blank]

ARTICLE 60 INFORMATION REGARDING BANKING-TYPE ANCILLARY SERVICES

60.1 Where a *type (b) banking services provider* uses a credit institution in accordance with Article 54.2(b), in view of the protection of the participants in the *Securities Settlement Systems* it operates, the *type (b) banking services provider* must ensure that it has access from the credit institution to all necessary information for the purpose of the *DSS CSDR* and the *rules* and it must report any infringements thereof to the *Bank* as soon as is practicable.

CHAPTER 3: REGULATORY TECHNICAL STANDARDS FOR ARTICLE 47 (CAPITAL REQUIREMENTS)

ARTICLE 1 OVERVIEW OF REQUIREMENTS REGARDING THE CAPITAL OF A DSD

- 1.1 For the purposes of article 47.1 of Chapter 2, a *DSD* must hold at all times, together with retained earnings and reserves, the amount of capital specified in Article 3 of this Chapter.
- 1.2 The capital requirements referred to in Article 3 must be met with capital instruments that meet the conditions set out in Article 2 of this Chapter.

ARTICLE 2 OVERVIEW OF REQUIREMENTS REGARDING THE CAPITAL OF A DSD

- 2.1 For the purposes of Article 1, a *DSD* must hold capital instruments that meet all of the following conditions:
- (a) they are subscribed capital which for these purposes comprises all amounts, regardless of their actual designations, which, in accordance with the legal structure of the institution concerned, are regarded under the applicable law of the United Kingdom or a third country, as equity capital subscribed by the shareholders or other proprietors;
 - (b) they have been paid up, including the related share premium accounts;
 - (c) they fully absorb losses in going concern situations; and
 - (d) in the event of bankruptcy or liquidation, they rank after all other claims in insolvency actions or under the applicable insolvency law.
- 2.2 In addition to the capital instruments that meet the conditions in paragraph 1, a *type (a) banking services provider* may, in order to meet the requirements in Article 1, use capital instruments that meet the conditions in paragraph 1;

ARTICLE 3 LEVEL OF CAPITAL REQUIREMENTS FOR A DSD

- 3.1 A *DSD* must hold capital, together with retained earnings and reserves, which must be at all times more than or equal to the sum of:
- (a) the *DSD's* capital requirements for operational, legal and custody risks, referred to in subparagraph (a) of Article 47.1 of Chapter 2, calculated in accordance with Article 4 of this Chapter;
 - (b) the *DSD's* capital requirements for investment risks, referred to in subparagraph (a) of Article 47.1 of Chapter 2, calculated in accordance with Article 5 of this Chapter;
 - (c) the *DSD's* capital requirements for business risks, referred to in subparagraph (a) of Article 47.1 of Chapter 2, calculated in accordance with Article 6 of this Chapter;
 - (d) the *DSD's* capital requirements for winding-down or restructuring its activities, referred to in subparagraph (b) of Article 47.1 of Chapter 2, calculated in accordance with Article 7 of this Chapter.
- 3.2 A *DSD* must have procedures in place to identify all sources of the risks referred to in paragraph 1.

ARTICLE 4 LEVEL OF CAPITAL REQUIREMENTS FOR OPERATIONAL, LEGAL AND CUSTODY RISKS

- 4.1 A *type (a) banking services provider* and with permission to use the Advanced Measurement Approaches ('AMA') referred to in Articles 321 to 324 of Regulation (EU) No 575/2013, must

calculate its capital requirements for operational, legal and custody risks in accordance with Articles 231 to 234 of Regulation (EU) No 575/2013.

- 4.2 A *type (a) banking services provider* and using the Standardised Approach for operational risk as referred to in Articles 317 to 320 of Regulation (EU) No 575/2013, must calculate its capital requirements for operational, legal and custody risks in accordance with the provisions of that Regulation applicable to the Standardised Approach for operational risk referred to in Articles 317 to 320 thereof.
- 4.3 A *DSD* that satisfies any the following conditions must calculate its capital requirements for operational, legal and custody risks in accordance with the provisions of the Basic Indicator Approach referred to in Articles 315 and 316 of Regulation (EU) No 575/2013:
- (a) A *DSD* that is not a *type (a) banking services provider* or a *type (b) banking services provider*;
 - (b) a *type (a) banking services provider* which does not have permission to use the AMA referred to in Articles 321 to 324 of Regulation (EU) No 575/2013;
 - (c) *type (a) banking services provider* which does not have permission to use the Standardised approach referred to in Articles 317 to 320 of Regulation (EU) No 575/2013.

ARTICLE 5 LEVEL OF CAPITAL REQUIREMENTS FOR INVESTMENT RISK

- 5.1 A *DSD* must calculate its capital requirements for investment risk as the sum of the following:
- (a) 8% of the *DSD*'s risk-weighted exposure amounts relating to both of the following:
 - (i) credit risk in accordance with paragraph 2;
 - (ii) counterparty credit risk in accordance with paragraph 3;
 - (b) the *DSD*'s capital requirements for market risk in accordance with paragraphs 4 and 5.
- 5.2 For the calculation of a *DSD*'s risk-weighted exposure amounts for credit risk, the following must apply:
- (a) where the *DSD* is not a *type (a) banking services provider*, the *DSD* must apply the Standardised Approach for credit risk referred to in Articles 107 to 141 of Regulation (EU) No 575/2013, in combination with Article 192 to 241 of that Regulation on credit risk mitigation;
 - (b) where a *type (a) banking services provider* does not have permission to use the Internal Ratings Based Approach (IRB Approach) set out in Articles 142 to 191 of Regulation (EU) No 575/2013, the *DSD* must apply the Standardised Approach for credit risk set out in Articles 107 to 141 of Regulation (EU) No 575/2013, in combination with the provisions on credit risk mitigation set out in Articles 192 to 241 of Regulation (EU) No 575/2013;
 - (c) where a *type (a) banking services provider* has permission to use the IRB Approach, the *DSD* must apply the IRB Approach for credit risk provided for in Articles 142 to 191 of Regulation (EU) No 575/2013, in combination with the provisions on credit risk mitigation set out in Articles 192 to 241 of Regulation (EU) No 575/2013.
- 5.3 For the calculation of a *DSD*'s risk-weighted exposure amounts for counterparty credit risk, a *DSD* must use both of the following:
- (a) one of the methods set out in Articles 271 to 282 of Regulation (EU) No 575/2013;
 - (b) the Financial Collateral Comprehensive Method applying the volatility adjustments provided for in Articles 220 to 227 of Regulation (EU) No 575/2013.

- 5.4 A *DSD* that satisfies any of the following conditions must calculate its capital requirements for market risk, in accordance with the provisions of Articles 102 to 106 and 325 to 361 of Regulation (EU) No 575/2013, including through the use of derogation for small trading book business provided in Article 94 of that Regulation:
- (a) a *DSD* that is not a *type (a) banking services provider*;
 - (b) a *DSD* that is a *type (a) banking services provider* but is not permitted to use internal models to calculate own funds requirements for market risk.
- 5.5 A *type (a) banking services provider* permitted to use internal models to calculate own funds requirements for market risk, must calculate its capital requirements for market risk in accordance with Articles 102 to 106 and 362 to 376 of Regulation (EU) No 575/2013.

ARTICLE 6 CAPITAL REQUIREMENTS FOR BUSINESS RISK

- 6.1 The capital requirements of a *DSD* for business risk must be whichever of the following is higher:
- (a) the estimate resulting from the application of paragraph 2, minus whichever of the following is the lowest:
 - (i) the net income after tax of the last audited financial year;
 - (ii) the expected net income after tax for the current financial year;
 - (iii) the expected net income after tax for the previous financial year where audited results are not yet available;
 - (b) 25% of the *CSD*'s annual gross operational expenses referred to in paragraph 3.
- 6.2 For the purposes of subparagraph (a) of paragraph 1, a *DSD* must apply all of the following:
- (a) estimate the capital necessary to cover losses resulting from business risk on reasonably foreseeable adverse scenarios relevant to its business model;
 - (b) document the assumptions and the methodologies used to estimate the expected losses referred to in subparagraph (a);
 - (c) review and update the scenarios referred to in subparagraph (a) at least annually;
- 6.3 For the calculation of a *DSD*'s annual gross operational expenses, the following must apply:
- (a) the *DSD*'s annual gross operational expenses must consist of at least the following:
 - (i) total personnel expenses including wages, salaries, bonuses and social costs;
 - (ii) total general administrative expenses, and, in particular, marketing and representation expenses;
 - (iii) insurance expenses;
 - (iv) other employees' expenses and travelling;
 - (v) real estate expenses;
 - (vi) IT support expenses;
 - (vii) telecommunications expenses;
 - (viii) postage and data transfer expenses;
 - (ix) external consultancy expenses;
 - (x) tangible and intangible assets' depreciation and amortisation;

- (xi) impairment and disposal of fixed assets;
- (b) the *DSD*'s annual gross operational expenses must be determined in accordance with one of the following:
 - (i) UK-adopted international accounting standards as defined in section 474(1) of the Companies Act 2006;
 - (ii) the law of the United Kingdom (or any part of it) which immediately before *IP completion day* implemented Council Directives 78/660/EEC 3, 83/349/EEC 4 and 86/635/EEC, and their implementing measures, as that law has effect on *IP completion day*;
 - (iii) generally accepted accounting principles of a third country determined to be equivalent to:
 - (aa) International Financial Reporting Standards by the Commission before *IP completion day* in accordance with Commission Regulation (EC) No 1569/2007; or
 - (ab) UK-adopted international accounting standards as defined in section 474(1) of the Companies Act 2006 in accordance with regulations made by the Treasury after *IP completion day* under Commission Regulation (EC) No 1569/2007 or in accordance with a direction under regulation 2 of the Equivalence Determinations for Financial Services and Miscellaneous Provisions (Amendment etc) (EU Exit) Regulations 2019;
- (c) the *DSD* may deduct tangible and intangible assets' depreciation and amortisation from annual gross operational expenses;
- (d) the *DSD* must use the most recent audited information from their annual financial statement;
- (e) where the *DSD* has not completed business for one year from the date it starts its operations, it must apply the gross operational expenses projected in its business plan.

ARTICLE 7 CAPITAL REQUIREMENTS FOR WINDING-DOWN OR RESTRUCTURING

- 7.1 A *DSD* must calculate its capital requirements for winding down or restructuring by applying the following steps in sequence:
- (a) estimate the time span required for winding-down or restructuring for all of the stress scenarios referred to in Chapter 4 consistently with the plan referred to in Article 47.2 of Chapter 2;
 - (b) divide the *DSD*'s annual gross operational expenses determined in accordance with Article 6.3 of this Chapter by twelve ('monthly gross operational expenses');
 - (c) multiply the monthly gross operational expenses referred to in subparagraph (b) by the longer of the following points:
 - (i) the time span referred to in subparagraph (a);
 - (ii) six months.

CHAPTER 4: WINDING-DOWN OR RESTRUCTURING SCENARIOS

1. Where a *DSD* operates a *Securities Settlement System*, a scenario where the *DSD* is unable to raise new capital to comply with the requirements laid down in Article 47.1 of Chapter 2 shall be considered as triggering the restructuring of a *DSD* ('restructuring') where the events described in the scenario would still lead the *DSD* to continue to operate a *Securities Settlement System* as referred to in point (3) of Section A of Chapter 6 and to provide at least one other core service listed in Section A of Chapter 6.
2. A scenario where the *DSD* is unable to raise new capital to comply with requirements laid down in Article 47.1 of Chapter 2 shall be considered as triggering the winding-down of its operations ('winding down') where the events described in the scenario would render the *DSD* unable to meet the definition of *DSD* in Article 3.1 of Chapter 2.
3. The scenarios referred to in Article 7(a) of Chapter 4 shall include the following assessments:
 - (a) in the case of a restructuring, the *DSD* shall assess the expected number of months needed for ensuring the orderly restructuring of its operations;
 - (b) in the case of a winding-down, the expected number of months needed for the winding-down.
4. The scenarios shall be commensurate with the nature of the business of the *DSD*, its size, its interconnectedness to other institutions and to the financial system, its business and funding model, its activities and structure, and any identified vulnerabilities or weaknesses of the *DSD*. The scenarios shall be based on events that are exceptional but plausible.
5. When designing the scenarios, a *DSD* shall meet each of the following requirements:
 - (a) the events foreseen in the scenario would threaten to cause the restructuring of the *DSD* operations;
 - (b) the events foreseen in the scenario would threaten to cause the winding-down of the *DSD* operations.
6. The plan ensuring an orderly restructuring or winding-down of the *DSD*'s activities referred to in point (b) of Article 47.2 of Chapter 2 must include all the following scenarios ('idiosyncratic events'):
 - (a) the failure of significant counterparties;
 - (b) damage to the institution's or group's reputation;
 - (c) a severe outflow of liquidity;
 - (d) adverse movements in the prices of assets to which the institution or group is predominantly exposed;
 - (e) severe credit losses;
 - (f) a severe operational risk loss.
7. The plan ensuring an orderly restructuring or winding down of the *DSD*'s activities referred to in point (b) of Article 47.2 of Chapter 2 must include all the following scenarios ('system-wide events'):
 - (a) the failure of significant counterparties affecting financial stability;
 - (b) a decrease in liquidity available in the interbank lending market;
 - (c) increased country risk and generalised capital outflow from a significant country of operation of the institution or the group;

- (d) adverse movements in the price of assets in one or several markets;
- (e) a macroeconomic downturn.

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CHAPTER 5 : REGULATORY TECHNICAL STANDARDS FOR ARTICLE 48 (DSD LINKS)

[Note: The following articles apply to a *DSD* in respect of article 48 of Chapter 2, as modified in this Chapter:

- (1) Article 16 of the Commission Delegated Regulation (EU) 2017/390 of 11 November 2016 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on certain prudential requirements for central securities depositories and designated credit institutions offering banking-type ancillary services (RTS 2017/390),
- (2) Articles 10, 11(1), 34 and 38 (with the exception of 38(9)) of RTS 2017/390 as applied and modified by rule 2.5 in Chapter 1, for the purposes of Article 16.
- (3) Articles 36 and 84 to 87 of Commission Delegated Regulation (EU) 2017/392 of 11 November 2016 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on authorisation, supervisory and operational requirements for central securities.]

ARTICLE 16 OTHER EQUIVALENT FINANCIAL RESOURCES FOR EXPOSURES IN INTEROPERABLE LINKS

- 16.1 In the event that a *DSD link* is established, the *DSD* establishing the link must ensure that any bank guarantees and letters of credit, used to secure credit exposures created between *linked parties* that establish *interoperable links*, must meet all of the following conditions:
- (a) they cover only the credit exposures between the two *linked parties*;
 - (b) they have been issued by a consortium of creditworthy financial institutions that fulfil the requirements set out in Article 38(1) of RTS 2017/390, in which each of those financial institutions is obliged to pay the part of the total amount that has been contractually agreed upon;
 - (c) they are denominated in a currency the risk of which the *type (a) banking services provider* is able to adequately manage or the *type (b) banking services provider* must ensure that the credit institution it engages is able to adequately manage;
 - (d) they are irrevocable, unconditional and the issuing institutions cannot rely on any legal or contractual exemption or option allowing the issuer to oppose the payment of the letter of credit;
 - (e) they can be honoured, on demand, free of any regulatory, legal or operational constraint;
 - (f) they are not issued by:
 - (i) an entity that is part of the same group as the borrowing *linked party* or a *linked party* with an exposure covered by the bank guarantee and letters of credit;
 - (ii) an entity whose business involves providing services critical to the functioning of the *type (a) banking services provider* or in the case of the *type (b) banking services provider*, to the credit institution it engages;
 - (g) they are not subject to significant wrong-way risk within the meaning of Article 291 of Regulation (EU) No 575/2013;
 - (h) the *type (a) banking services provider* or in the case of the *type (b) banking services provider* it must ensure that the credit institution it engages monitors the creditworthiness

of the issuing financial institutions on a regular basis by independently assessing the creditworthiness of those institutions and by assigning and regularly reviewing internal credit ratings for each financial institution;

- (i) they can be honoured during the period of liquidation within three business days from the moment when the defaulting *type (a) banking services provider* or in the case of the *type (b) banking services provider*, the credit institution it engages fails to meet its payment obligations when they are due;
- j) qualifying liquid resources referred to in Article 34 of RTS 2017/390 are available to a sufficient amount that covers the time gap until the time at which the bank guarantee and letters of credit has to be honoured in case of default of one of the *linked parties*;
- (k) the risk of not having the full amount of the bank guarantee and letters of credit being paid by the consortium is mitigated by:
 - (i) establishing appropriate concentration limits ensuring that no financial institution, including its parent undertaking and subsidiaries, is part of the consortium guarantees for more than 10% of the total amount of the letter of credit;
 - (ii) limiting the credit exposure that is covered using the bank guarantee and letters of credit to the total amount of the bank guarantee minus either 10% of the total amount, or the amount guaranteed by the two credit institutions with the largest share of the total amount whichever is lower;
 - (iii) implementing additional risk mitigation measures such as a loss-sharing arrangements that are effective and have clearly defined rules and procedures;
- (l) the arrangements are periodically tested and reviewed.

ARTICLE 36 DSD LINKS

36.1 Where the applicant *DSD* has established or intends to establish a *DSD link*, the request to vary the *SAN* referred to in Article 48.2 of Chapter 2 must contain the following information:

- (a) a description of the *DSD links* accompanied by assessments of potential sources of risks arising from those link arrangements by the applicant *DSD*;
- (b) the expected or actual settlement volumes and values of the settlement performed within the *DSD links*;
- (c) the procedures concerning the identification, assessment, monitoring and management of all potential sources of risk for the applicant *DSD* and for its participants arising from the link arrangement and the appropriate measures put in place to mitigate them;
- (d) an assessment of the applicability of insolvency laws applicable to the operation of a *DSD link* and their implications for the applicant *DSD*;
- (e) other relevant information requested by the *Bank* for assessing the compliance of *DSD links* with the requirements provided in Article 48 of Chapter 2 and Articles 84 to 87 of this Chapter.

ARTICLE 84 CONDITIONS FOR THE ADEQUATE PROTECTION OF LINKED DSDS AND OF THEIR PARTICIPANTS

84.1 A *DSD* must establish and maintain a *DSD link* under the following conditions:

- (a) *requesting DSDs* must meet the requirements of the *linked party's* participation rules. *Receiving DSDs* must ensure the *linked party* meets the requirements of the *receiving DSDs'* participation rules;

- (b) where a request is made by a *DSD* to a *third-country CSD*, the *requesting DSD* shall conduct an analysis of the receiving *third-country CSD*'s financial soundness, governance arrangements, processing capacity, operational reliability and any reliance on a third party critical service provider;
- (c) where a request is made by a *DSD* to a *third-country CSD*, the *requesting DSD* shall take all necessary measures to monitor and manage the risks that are identified following the analysis referred to in point (b);
- (d) where a request is made by a *DSD*, the *requesting DSD* must make the legal and operational terms and conditions of the link arrangement available to its participants allowing them to assess and manage the risks involved;
- (e) where a request is made by a *DSD* to a *third-country CSD*, before the establishment of a *DSD link* with a *third-country CSD*, the *requesting DSD* shall perform an assessment of the local legislation applicable to the *third-country CSD*;
- (f) the linked *DSD* must ensure the confidentiality of information in connection to the operation of the link. The ability to ensure confidentiality must be evidenced by the information provided by the *DSD*, including any relevant legal opinions or arrangements;
- (g) the linked *DSD* must agree with the *linked parties* on aligned standards and procedures concerning operational issues and communication in accordance with Article 35 of Chapter 2;
- (h) before the link becomes operational, requesting and *receiving DSDs* must:
 - (i) conduct end-to-end tests;
 - (ii) establish an emergency plan, as part of the business continuity plan of the linked *DSD*, identifying the situations where the *Securities Settlement Systems* of the *linked parties* malfunction or break down, and provide for the remedial actions planned if those situations occur;
- (i) all link arrangements must be reviewed at least annually by *receiving DSDs* and *requesting DSDs* taking into account all relevant developments, including market and IT developments, as well as any developments in local legislation referred to in point (e);
- (j) for *DSD links* that do not provide for DVP settlement, the annual review referred to in point (i) must also include an assessment of any developments that may allow supporting DVP settlement.

For the purposes of point (e), in performing the assessment, the *DSD* shall ensure that the securities maintained in the *Securities Settlement System* operated by the *third-country CSD* benefit from a level of asset protection comparable to the one ensured by the rules applicable to the securities settlement system operated by the *requesting DSD*. The *requesting DSD* shall require from the *third-country CSD* a legal assessment addressing the following issues:

- (i) the entitlement of the *requesting DSD* to the securities, including the law applicable to proprietary aspects, the nature of the rights of the *requesting DSD* on the securities, the possibility of encumbering the securities;
- (ii) the impact of insolvency proceedings opened against the *third-country CSD* on the *requesting DSD* regarding the segregation requirements, settlement finality, procedures and time limits to claim the securities in the relevant third country.

84.2 In addition to the conditions referred to in paragraph 1, a *DSD* must establish and maintain a *DSD link* providing for DVP settlement under the following conditions:

- (a) where a request is made by a *DSD*, the *requesting DSD* must assess and mitigate the additional risks resulting from the settlement of cash;

- (b) a *DSD* that is not authorised to provide banking-type ancillary services in accordance with Article 54 of Chapter 2, and which is involved in the execution of cash settlement on behalf of its participants, must not receive credit and must use prefunding mechanisms covered by its participants in relation to the DVP settlements to be processed through the link;
- (c) a *DSD* that uses an intermediary for the cash settlement must ensure that the intermediary performs that settlement efficiently. The *DSD* must conduct yearly reviews of the arrangements with that intermediary.

84.3. In addition to the conditions referred to in paragraphs 1 and 2, a *DSD* must establish and maintain an *interoperable link* under the following conditions:

- (a) the linked *DSD* must agree with the *linked parties* on equivalent standards concerning reconciliation, opening hours for the processing of the settlement and of corporate actions and cut-off times;
- (b) the linked *DSDs* must establish with the *linked parties* equivalent procedures and mechanisms for transmission of settlement instructions to ensure a proper, secure and straight through processing of settlement instructions;
- (c) where an *interoperable link* supports DVP settlement, the linked *DSDs* must reflect at least daily and without undue delay the results of the settlement in their books;
- (d) the linked *DSDs* must agree with the *linked parties* on equivalent risk-management models;
- (e) the linked *DSDs* must agree with the *linked parties* on equivalent contingency and default rules and procedures referred to in Article 41 of Chapter 2.

ARTICLE 85 MONITORING AND MANAGEMENT OF ADDITIONAL RISKS RESULTING FROM THE USE OF INDIRECT LINKS OR INTERMEDIARIES TO OPERATE DSD LINKS

85.1 In addition to complying with the requirements under Article 84 of this Chapter, where a *DSD* is a *requesting DSD* that uses an *indirect link* or an intermediary to operate a *DSD link*, it must ensure that:

- (a) the intermediary is one of the following:
 - (i) a credit institution with permission to accept deposits under Part 4A of *FSMA 2000* that complies with the following requirements:
 - it complies with Articles 38.5 and 38.6 of Chapter 2 or with segregation and disclosure requirements at least equivalent to those laid down in Articles 38.5 and 38.6 of Chapter 2 where the link is established with a *third-country CSD*,
 - it ensures prompt access by the *requesting DSD* to the securities of the *requesting DSD* when required,
 - it has low credit risk, which must be established in an internal assessment by the *requesting DSD* by employing a defined and objective methodology that does not exclusively rely on external opinions;
 - (ii) a third-country financial institution that complies with the following requirements:
 - it is subject to and complies with prudential rules at least equivalent to those laid down in Regulation (EU) No 575/2013,
 - it has robust accounting practices, safekeeping procedures, and internal controls,

- it complies with Article 38.5 and 38.6 of Chapter 2 or with segregation and disclosure requirements at least equivalent to those laid down in Articles 38.5 and 38.6 of Chapter 2 where the link is established with a *third-country CSD*,
 - it ensures prompt access by the *requesting DSD* to the securities of the *requesting DSD* when required,
 - it has low credit risk, based upon an internal assessment by the *requesting DSD* by employing a defined and objective methodology that does not exclusively rely on external opinions;
- (b) the intermediary complies with the rules and requirements of the *requesting DSD*, as evidenced by the information provided by that intermediary, including any relevant legal opinions or arrangements;
 - (c) the intermediary ensures the confidentiality of information concerning the operation of the *DSD link*, as evidenced by the information provided by that intermediary, including any relevant legal opinions or arrangements;
 - (d) the intermediary has the operational capacity and systems for:
 - (i) handling the services provided to the *requesting DSD*;
 - (ii) sending the *DSD* any information relevant to the services provided in relation to the *DSD link* in a timely manner;
 - (iii) complying with the reconciliation measures referred to in Article 86 of this Chapter;
 - (e) the intermediary adheres to and complies with the risk-management policies and procedures of the *requesting DSD* and it has an appropriate risk-management expertise;
 - (f) the intermediary has put in place measures that include business continuity policies and associated business continuity and disaster recovery plans, to ensure the continuity of its services, the timely recovery of its operations and the fulfilment of its obligations in events that pose a significant risk of disrupting its operations;
 - (g) the intermediary holds sufficient financial resources to fulfil its obligations towards the *requesting DSD* and to cover any losses for which it may be held liable;
 - (h) an individually segregated account at the *receiving DSD* is used for the operations of the *DSD link*;
 - (i) the condition referred to in point (e) of Article 84(1) is fulfilled;
 - (j) the *requesting DSD* is informed of the continuity arrangements between the intermediary and the *receiving DSD*;
 - (k) the proceeds from settlement are promptly transferred to the *requesting DSD*.

For the purposes of the first indent in subparagraph (a)(i), the third indent in subparagraph (a)(ii) and subparagraph (h), the *requesting DSD* must ensure that it can have access to the securities held in the individually segregated account at any point in time. Where an individually segregated account at the *third-country CSD* is however not available for the operations of a *DSD link* established with a *third-country CSD*, the *requesting DSD* shall inform the *Bank* about the reasons justifying the unavailability of individually segregated accounts and shall provide it with the details on the risks resulting from the unavailability of individually segregated accounts.

The *requesting DSD* shall in any case ensure an adequate level of protection of its assets held with the *third-country CSD*.

- 85.2 In addition to complying with the requirements under paragraph 1, when a *requesting DSD* uses an intermediary to operate a *DSD link* and that intermediary operates the securities accounts of the *requesting DSD* on its behalf in the books of the *linked party*, the *requesting DSD* must ensure that:
- (a) the intermediary does not have any entitlement to the securities held;
 - (b) the account in the books of the *linked party* is opened in the name of the *requesting DSD* and the liabilities and obligations as regards the registration, transfer and custody of securities are only enforceable between both *linked parties*;
 - (c) the *requesting DSD* is able to immediately access the securities held with the *linked party*, including in the event of a change or insolvency of the intermediary.
- 85.3 *Requesting DSDs* referred to in paragraphs 1 and 2 must perform a yearly due diligence to ensure that the conditions referred to therein are fulfilled.

ARTICLE 86 RECONCILIATION PROCEDURES FOR LINKED DSDS

- 86.1 A *DSD* must ensure that the reconciliation procedures referred to in Article 48.6 of Chapter 2 include the following measures:
- (a) *receiving DSDs* must transmit to the *linked party* daily statements with information specifying the following, per securities account and per securities issue:
 - (i) the aggregated opening balance;
 - (ii) the individual movements during the day;
 - (iii) the aggregated closing balance;
 - (b) *requesting DSDs* must conduct a daily comparison of the opening balance and the closing balance communicated to it by the *linked party* or by the intermediary with the records maintained by the *requesting DSD* itself.

In the case of an *indirect link*, the daily statements referred to in point (a) of the first subparagraph must be transmitted through the intermediary referred to point (a) of Article 85(1) of this Chapter.
- 86.2 Where a *linked party* suspends a securities issue for settlement, all *DSDs* that are participants of or have an *indirect link* with that *linked party*, including in the case of *interoperable links*, must subsequently suspend the securities issue for settlement.
- Where intermediaries are involved in the operation of *DSD links*, the *DSDs* concerned must establish appropriate contractual arrangements with those intermediaries in order to ensure compliance with the first subparagraph.
- 86.3 In the event of a corporate action that reduces the balances of securities accounts held by an *investor DSD* with another *linked party*, settlement instructions in the relevant securities issues must not be processed by the *investor DSD* until the corporate action has been fully processed by the other *linked party*.

In the event of a corporate action that reduces the balances of securities accounts held by an *investor DSD* with another *linked party*, the *investor DSD* must not update the securities accounts that it maintains to reflect the corporate action until the corporate action has been fully processed by the other *linked party*.

An *issuer DSD* must ensure the timely transmission to all its participants, including investor *linked parties*, of information on the processing of corporate actions for a specific securities issue. *Investor DSDs* must in turn transmit the information to their participants. That transmission must include all necessary information for investor *linked parties* to adequately reflect the outcome of those corporate actions in the securities accounts they maintain.

ARTICLE 87 DVP SETTLEMENT THROUGH DSD LINKS

87.1 The *DSD* must regard Delivery versus payment (DVP) settlement as practical and feasible for the purposes of Article 48.7 of Chapter 2 where:

- (a) there is a market demand for DVP settlement evidenced through a request from any of the user committees of one of the *linked parties*;
- (b) the *linked parties* may charge a reasonable commercial fee for the provision of DVP settlement, on a cost-plus basis, unless otherwise agreed by the other *linked party*;
- (c) there is a safe and efficient access to cash in the currencies used by the *receiving DSD* for settlement of securities transactions of the *requesting DSD* and its participants.

CHAPTER 6: SERVICES

A SECTION A - CORE SERVICES

- A.1 Initial recording of securities in book-entry forms or forms of recording of securities using developing technology ('notary service');
- A.2 Providing and maintaining securities accounts at the top tier level ('central maintenance service');
- A.3 Operating a *Securities Settlement System* ('settlement service').

B SECTION B - NON-BANKING-TYPE ANCILLARY SERVICES THAT DO NOT ENTAIL CREDIT OR LIQUIDITY RISKS

Services provided that contribute to enhancing the safety, efficiency and transparency of the securities markets, which may include but are not restricted to the following.

- B.1 Services related to the settlement service, such as:
 - (a) Organising a securities lending mechanism, as agent among participants of a *Securities Settlement System*;
 - (b) Providing collateral management services, as agent for participants in a *Securities Settlement System*;
 - (c) Settlement matching, instruction routing, trade confirmation, trade verification.
- B.2 Services related to the notary and central maintenance services, such as:
 - (a) Services related to shareholders' registers;
 - (b) Supporting the processing of corporate actions, including tax, general meetings and information services;
 - (c) New issue services, including allocation and management of ISIN codes and similar codes;
 - (d) Instruction routing and processing, fee collection and processing and related reporting.
- B.3 Establishing *DSD links*, providing, maintaining or operating securities accounts in relation to the settlement service, collateral management, other ancillary services.
- B.4 Any other services, such as:
 - (a) Providing general collateral management services as agent;
 - (b) Providing regulatory reporting;
 - (c) Providing information, data and statistics to market/census bureaus or other governmental or inter-governmental entities;
 - (d) Providing IT services.

C SECTION C – BANKING-TYPE ANCILLARY SERVICES

- C.1 Banking-type services directly related to core or ancillary services listed in Sections A and B, such as:
 - (a) Providing cash accounts to, and accepting deposits from, participants in a *Securities Settlement System* and holders of securities accounts, within the meaning of point 1 of Annex I to Directive 2013/36/EU;

- (b) Providing cash credit for reimbursement no later than the following business day, cash lending to pre-finance corporate actions and lending securities to holders of securities accounts, within the meaning of point 2 of Annex I to Directive 2013/36/EU;
- (c) Payment services involving processing of cash and foreign exchange transactions, within the meaning of regulation 2 of the Payment Services Regulations 2017;
- (d) Guarantees and commitments related to securities lending and borrowing, within the meaning of point 6 of Annex I to Directive 2013/36/EU;
- (e) Treasury activities involving foreign exchange and transferable securities related to managing participants' long balances, within the meaning of points 7(b) and (e) of Annex I to Directive 2013/36/EU.

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CHAPTER 7: RULES ON THE SUBJECT MATTER OF THE UNCERTIFICATED SECURITIES REGULATIONS

[**Note:** in Chapter 7, *rules* are termed ‘regulations’ or ‘paragraph’, depending on the context, in keeping with the *Uncertificated Securities Regulations*. References to, for example regulation 2.1, may also be written as 2(1).]

REGULATION 3 DVP SETTLEMENT THROUGH DSD LINKS

3.2 For the purpose of the *DSS USRs* and this Chapter 7—

- (a) a dematerialised instruction is properly authenticated if it complies with the specifications referred to in paragraph 5.3 of Schedule 1 of Chapter 7; or if it was given, and not withdrawn, before the *Uncertificated Securities Regulations* came into force and was properly authenticated within the meaning of regulation 3.2(a) of the 1995 Regulations;
- (b) a dematerialised instruction is attributable to a person if it is expressed to have been sent by that person, or if it is expressed to have been sent on behalf of that person, in accordance with the rules and specifications referred to in paragraph 5.4 of Schedule 1 of Chapter 7; and a dematerialised instruction may be attributable to more than one person.

SCHEDULE 1

PARAGRAPH 5

5.1 A relevant system must satisfy the requirements of subparagraphs (3) to (6)

5.2 [**Note:** left blank]

5.3 Each dematerialised instruction must be authenticated –

- (a) in accordance with the specifications of the Operator, and those specifications must provide that each dematerialised instruction is identifiable as being from the computers of the Operator or of a particular system-participant; or
- (b) if it is sent to the Operator by, or by the Operator to, a depositary, a clearing house or an exchange, in accordance with specifications of that depositary, clearing house or exchange to which the Operator has agreed and which provide that each dematerialised instruction—
 - (i) is identifiable as being from the computers of the Operator or of the depositary, clearing house or exchange which sent it.

5.4 Each dematerialised instruction must, in accordance with any relevant rules of the Operator and with the specifications of the Operator or the specifications referred to in subparagraph 3(b) (as the case may be), express by whom it has been sent and, where relevant, on whose behalf it has been sent.

5.5 Each dematerialised instruction must, in accordance with any relevant rules of the Operator and with the specifications of the Operator or the specifications referred to in subparagraph 3(b) (as the case may be), indicate—

- (a) where it is sent to a system-participant or the Operator, that it is addressed to that system-participant or the Operator;

- (b) where it is sent to a person who is using the facilities of a sponsoring system-participant to receive dematerialised instructions, that it is addressed to that person and the sponsoring system-participant; and
 - (c) where it is sent to the Operator in order for him to send an Operator-instruction to a system-participant, that it is addressed to the Operator, to the system-participant and, if the system-participant is acting as a sponsoring system-participant, to the relevant person on whose behalf the sponsoring system-participant receives dematerialised instructions;
- 5.6 The relevant system must minimise the possibility for a system-participant to send a dematerialised instruction on behalf of a person from whom he has no authority.
- 5.7 For the purposes of this paragraph –
- “clearing house” means a body or association –
- (a) which is a recognised clearing house within section 285(1)(b) of *FSMA 2000*;
 - (b) which is authorised under *FSMA 2000* to provide clearing services in the United Kingdom;
 - (ba) which is a third country central counterparty within the meaning of section 285(1) of the 2000 Act; or
 - (c) which provides services outside the United Kingdom which are similar in nature to those provided by any such body or association, and which is regulated or supervised in the provision of those services by a regulatory body or agency of government;
- “depository” means a *DSD*, *CSD* or *third-country CSD* within the meaning of the *CSDR* as amended from time to time or a body or association carrying on business outside the United Kingdom with whom an Operator has made arrangements—
- (a) to enable system-members to hold (whether directly or indirectly) and transfer title to securities (other than participating securities) by means of facilities provided by that body or association; or
 - (b) to enable that body or association to permit persons to whom it provides services in the course of its business to hold (whether directly or indirectly) and transfer title to participating securities by means of the Operator's relevant system; and
- “exchange” means a body or association –
- (a) which is a recognised investment exchange within section 285(1)(a) of the 2000 Act;
 - (b) which is authorised under that Act to provide a facility for the matching and execution of transactions in securities in the United Kingdom; or
 - (c) which provides services outside the United Kingdom which are similar in nature to those provided by any such body or association, and which is regulated or supervised in the provision of those services by a regulatory body or agency of government.

PARAGRAPH 12

- 12 A relevant system must be able to permit each participating issuer to inspect the entries from time to time appearing in an Operator register of securities (other than an Operator register of eligible debt securities) relating to any participating security issued by him.

PARAGRAPH 13

- 13 A relevant system must be able to establish, where there is a transfer of uncertificated units of a security to a system-member for value, that a settlement bank has agreed to make payment in respect of the transfer, whether alone or taken together with another transfer for value.

PARAGRAPH 14

- 14 A relevant system must ensure that the Operator-system is able to generate Operator-instructions—
- (a) requiring participating issuers to amend the appropriate issuer registers of securities kept by them;
 - (b) informing participating issuers in a way which enables them to amend the appropriate records of securities kept by them; and
 - (c) informing settlement banks of their payment obligations.

PARAGRAPH 15

- 15 A relevant system must—
- (a) enable a system-member—
 - (i) to grant authority to a sponsoring system-participant to send properly authenticated dematerialised instructions on his behalf; and
 - (ii) to limit such authority by reference to the net value of the units of the securities to be transferred in any one day; and
 - (b) prevent the transfer of units in excess of that limit.

PARAGRAPH 16

- 16 For the purposes of paragraph 15(a)(ii), once authority is granted pursuant to a system charge (within the meaning of regulation 3 of the Financial Markets and Insolvency Regulations 1996) a limit of such authority must not be imposed or changed without the consent of the donee of that authority.

PARAGRAPH 18

- 18 A relevant system must enable system-members—
- (a) to change the form in which they hold units of a participating security; and
 - (b) where appropriate, to require participating issuers to issue certificates relating to units of a participating security held or to be held by them.

PARAGRAPH 19

- 19 Paragraph 18 shall not apply to any wholly dematerialised security.

PARAGRAPH 20

- 20 A relevant system must comprise procedures which provide that it responds only to properly authenticated dematerialised instructions which are attributable to a system-user or an Operator.

PARAGRAPH 21

- 21.1 Subject to subparagraphs (2) to (5), a relevant system must comprise procedures which provide that an Operator only registers a transfer of title to uncertificated units of a security or generates an Operator-instruction requiring a participating issuer to register such a transfer, and only generates an Operator-instruction informing a settlement bank of its payment obligations in respect of such a transfer, if—
- (a) it has –
 - (i) received a system-member instruction which is attributable to the transferor; or
 - (ii) been required to do so by a court in the United Kingdom or by or under an enactment;
 - (b) it has –
 - (i) established that the transferor has title to such number of units as is in aggregate at least equal to the number to be transferred; or
 - (ii) established that the transfer is one of two or more transfers which may be registered in accordance with regulation 30.2 of the *DSS USRs*;
 - (c) in the case of a transfer to a system-member for value, it has established that a settlement bank has agreed to make payment in respect of the transfer, whether alone or taken together with another transfer for value; and
 - (d) the transfer is not in excess of any limit which by virtue of paragraph 15(a)(ii) the transferor has set on an authority given by him to a sponsoring system-participant.
- 21.2 Subparagraph 1(a) shall not prevent the registration by an Operator of a transfer of title to uncertificated units of a security, or the generation of an Operator-instruction, in accordance with procedures agreed between the Operator and the transferor to enable the transfer by means of a relevant system of uncertificated units of a security provided that such transfer is for the purpose of, or relates to, facilitating the provision of financial credit or financial liquidity to the transferor by a settlement bank, the Bank of England, the European Central Bank, any other central bank, or any other body having functions as a monetary authority.
- 21.3 A relevant system must comprise procedures which provide that—
- (a) the Operator may amend an Operator register of securities; and
 - (b) an Operator-instruction requiring a participating issuer to register a transfer of uncertificated units of a security, or informing a settlement bank of its payment obligations in respect of such a transfer, may be generated,
- if necessary to correct an error and if in accordance with the rules made and practices instituted by the Operator in order to comply with the *rules* set out in this Chapter 7 and the provisions of Schedule 1 to the *DSS USRs*.
- 21.4 A relevant system must comprise procedures which provide that—
- (a) the Operator may amend an Operator register of securities; and

- (b) an Operator-instruction requiring a participating issuer to register a transfer of units of a wholly dematerialised security, or informing a settlement bank of its payment obligations in respect of such a transfer, may be generated,

if necessary to effect a transfer of such units, on the termination of participation in the relevant system by the system-member by whom those units are held and if in accordance with the rules made and practices instituted by the Operator in order to comply with this Schedule, to a person nominated under the Operator's rules.

- 21.5 Subparagraph 1(a) shall not prevent the registration by an Operator of a transfer of title to uncertificated units of a security, or the generation of an Operator-instruction, in order to give effect to the procedures referred to in subparagraph 3 or 4.

PARAGRAPH 22

- 22.1 Subject to subparagraph 2, a relevant system must comprise procedures which provide that an Operator-instruction to a participating issuer relating to a right, privilege or benefit attaching to or arising from an uncertificated unit of a security, is generated only if it has—

- (a) received a properly authenticated dematerialised instruction attributable to the system-member having the right, privilege or benefit requiring the Operator to generate an Operator-instruction to the participating issuer; or
- (b) been required to do so by a court in the United Kingdom or by or under an enactment.

- 22.2 A relevant system must comprise procedures which provide that an Operator-instruction to a participating issuer relating to a right, privilege or benefit attaching to or arising from an uncertificated unit of a security, may be generated if necessary to correct an error and if in accordance with the rules made and practices instituted by an Operator in order to comply with the *rules* set out in this Chapter 7 and the provisions of Schedule 1 to the *DSS USRs*.

PARAGRAPH 25

- 25 An Operator's rules and practices—

- (a) [Note: left blank]
- (b) must make provision as to the manner in which a system-member or the relevant participating issuer may change the form in which that system-member holds units of a participating security (other than a wholly dematerialised security);
- (c) must make provision for a participating issuer to cease to participate in respect of a participating security so as—
- (i) to minimise so far as practicable any disruption to system-members in respect of their ability to transfer the relevant security; and
- (ii) to provide the participating issuer with any relevant information held by the Operator relating to the uncertificated units of the relevant security held by system-members;
- (d) [Note: left blank]
- (e) must make provision—
- (i) as to which of the Operator's records are to constitute an Operator register of securities in relation to a participating security, or a participating security of a particular kind; and

- (ii) as to the times at which, and the manner in which, a participating issuer may inspect an Operator register of securities (other than an Operator register of eligible debt securities) in accordance with paragraph 12;
- (f) if they make provision for the designation of a subsidiary undertaking as a relevant nominee, must require that the relevant nominee maintain adequate records of—
 - (i) the names of the persons who have an interest in the securities it holds; and
 - (ii) the nature and extent of their interests; and
- (g) must make provision for the authentication by the Operator of any written notification given under regulation 25.3 or 32.2(c) of the *DSS USRs*.

PARAGRAPH 26

- 26 An Operator's rules and practices must require—
- (a) that each system-participant is able to send and receive properly authenticated dematerialised instructions;
 - (b) that each system-member has arrangements—
 - (i) for properly authenticated dematerialised instructions attributable to him to be sent;
 - (ii) for properly authenticated dematerialised instructions to be received by or for him; and
 - (iii) with a settlement bank for payments to be made, where appropriate, for units of a security transferred by means of the relevant system; and
 - (c) that each participating issuer is able to respond with sufficient speed to Operator-instructions.

SCHEDULE 4

PARAGRAPH 4

- 4.1 In relation to every participating issuer which is a company, an Operator of a relevant system must, in respect of any class of shares which is a participating security for the purposes of that system, enter on an Operator register of members—
- (a) the names and addresses of the members who hold uncertificated shares in the company;
 - (b) with those names and addresses a statement of the uncertificated shares held by each member and, where the company has more than one class of issued uncertificated shares, distinguishing each share by its class; and
 - (c) where the company has converted any of its shares into stock and given notice of the conversion to the registrar of companies, the Operator register of members must show the amount and class of uncertificated stock held by each member, instead of the amount of shares and the particulars relating to shares specified in subparagraph (b).
- 4.2 An entry relating to a member of a company who has ceased to hold any uncertificated shares in the company may be removed from the Operator register of members after the expiration of 10 years beginning with the day on which he ceased to hold any such shares.
- 4.3 For the purposes of this paragraph references to an Operator register of members shall not be taken to include an overseas branch register.

- 4.4 Members of a company who hold shares in uncertificated form may not be entered as holders of those shares on an overseas branch register

PARAGRAPH 12

- 12.1 Where an Operator of a relevant system is required to maintain an Operator register of general public sector securities that register must comprise the following particulars which the Operator must enter on it, namely—
- (a) the names and address of the persons holding units of the relevant participating security in uncertificated form; and
 - (b) how many units of that security each such person holds in that form.

PARAGRAPH 14

- 14.1 Where an Operator of a relevant system is required to maintain an Operator register of corporate securities, that register must comprise the following particulars which the Operator must enter on it, namely—
- (a) the names and addresses of the persons holding units of the relevant participating security in uncertificated form; and
 - (b) how many units of that security each such person holds in that form.

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