

Facing the new reality

Since its establishment in 2007, Depozitarul Central has worked in a completely dematerialized environment. Being an early adopter helps the Romanian CSD navigate challenging times. GIS Press met its CEO Silvia Buicanescu.

Ms. Buicanescu, the inclusion of the Romanian market in FTSE Emerging Markets index confirmed the achievements on both market access and post-trade environment. Can you provide some background?

Depozitarul Central actively supported the initiatives promoting Romania's Emerging Market status. The significant contribution of Depozitarul Central to the fulfillment of the qualitative criteria is explained by the fact that one third of the 9 criteria refer to the post-trading segment exclusively. Also, the consideration of the values settled our system related to OTC turnaround transactions, according to the rules and mechanisms developed by Depozitarul Central, in the calculation of the quantitative criteria regarding liquidity had an impact.



Silvia Buicanescu

How have you continued to modernize the local capital market and increase its attractiveness since then?

Among other, we implemented new mechanisms in accordance to settlement discipline and improved some technical processes. They include matching tolerance for RON settlement, bilateral cancellation facility for negotiated trades, "hold/release" and "links" mechanisms for RON settlement, real-time continuous settlement for RON gross trades and enhancement of the communication with the participants in relation to settlement instructions statuses.

Other important projects were the implementation of the mechanisms for settlement penalties reporting, the implementation of SRD II and the use of the ISO 20022 standard for communication related to SRD II, but also the authorization of Depozitarul Central as Local Operating Unit to continue the management of LEI codes for funds entities in accordance with the new Regulatory Oversight Committee policies.

Can you share your strategy regarding the adoption of ISO20022 standards?

In order to comply with the requirements of SRD II, Depozitarul Central made amendments to its Rulebook and implemented the reporting flows of shareholders' identity and information on general meetings both for financial instruments for which Depozitarul Central is the Issuer CSD and for those for which Depozitarul Central is the investor CSD.

In addition, for situations in which Depozitarul Central acts as the issuer CSD, the RO-NMPG Corporate Actions subgroup established the market practice for using the ISO 20022 communication standard in relation to participants and intermediaries in the custody chain, both for the identification of shareholders and in connection with information regarding the general meetings of shareholders.

Depozitarul Central also upgraded its system by implementing the new communication standard. Thus, for participants who will subscribe to the use of the ISO 20022 format and for the intermediaries from their custody chain, the reporting of the clients' identity will be done directly at Depozitarul Central through SWIFT.

The CSDR Settlement discipline regime has challenged the central depositories and their participants' ability to construct a safer settlement mechanism.

Last September, the working group RO-NMPG-Settlement & Reconciliation set the SWIFT market practice regarding the reporting of penalties, in compliance with the European framework.

The technical changes of Depozitarul Central's system developed by the Bucharest Stock Exchange included the development of the daily mechanism for calculating the penalties in RON for transactions not settled on the intended settlement date. Furthermore, the determination of the monthly penalties

applicable to the participants and the solution for collecting and redistributing the penalties in RON. Also, they rule how to take over the penalties calculated by the T2S system for the settlement operations in EUR and replicating them in the local system. They also provide a solution for instructing in T2S the monthly penalties to be collected and redistributed. Assimilation from the international depository with which Depozitarul Central has the cross-border connection of the information related to the penalties associated with the settlement operations carried out through this connection and their replication in the local system is also foreseen. Finally, the changes demand notification of participants about penalties and the development of specific reports to the authorities. Amendments of the Rulebook were needed, too.

At the end of January, Depozitarul Central system and SWIFT messages were upgraded to implement the settlement discipline requirements.

Starting February, the developments of Depozitarul Central's system were operationalized on production environment for the implementation of the cash sanctions mechanism for non-execution of settlement and for the measures to prevent, monitor and resolve cases of non-execution of settlement, according to CSDR.

Can you share your plans regarding the update of the rules applicable to Depozitarul Central Guarantee Fund and the settlement limits for participants?

As your readers probably know, last year, Depozitarul Central finished the technical developments on test environment for the implementation of the project called Resizing the contributions of the participants to the Guarantee Fund

and introducing the settlement limits. During the testing phase of the new risk management framework with the participants, the Brokers Association submitted some observations to the solution. Discussing their proposals with the authorities, it was established that a revision of the methodology for setting up the Guarantee fund is needed. Currently, the amendments referring to the Depozitarul Central rules are being analyzed and the technical way of implementing the new elements is being defined.

The Central Counterparty is a complex project, in which detailed analyzes were required, carried out within inter-institutional expert groups. They looked into the operational processes and the conditions of participation in the system, the definition of the clearing and settlement conditions, the establishment of the principles and methodology applied for the management of the risks related to the clearing and settlement processes, etc.

In the first stage, clearing and settlement services will be implemented for transactions with derivative financial instruments, as well as forward contracts on energy. Thus, initially there will be no significant implications for Depozitarul Central in terms of its current business. In the next stage, when the Central Counterparty will become operational for the spot market managed by BVB, the settlement risk management procedures will move to the Central Counterparty.

What else keeps you busy at the moment?

We intend to continue our strategic, compliance and operational projects, business development and diversification projects. Of course, we will continue to support BVB's efforts to implement the Central Counterparty, short CCP.RO. At the same time, we remain careful to

ensure compliance with the authorization requirements according to CSDR and as a LOU.

Also, we are considering the implementation of new digital services, especially for enrolling investors, which will facilitate their access and participation in the capital market. The resizing of the participants' contributions to the Guarantee fund and the introduction of settlement limits, but also the implementation of the Advisory Group on Market Infrastructures for Securities and Collateral Standards on corporate events and invoicing are two other ongoing projects.

During the last two years, the pandemic has radically changed the operating models in various industries, including ours. How is the war in Ukraine challenging the market infrastructure?

In a globally challenging environment defined by the Covid-19 crisis, Depozitarul Central demonstrated operational stability even in the midst of considerable challenging circumstances. Embracing technological progress, we offer our clients various online services, and we maintain a sustained rhythm of development of these services.

Geopolitical shifts, including the current war in Ukraine brought further uncertainty, but times like these underline the importance of Depozitarul Central's role as market infrastructure provider. Our market participants rely on our stability and adaptability.