

CSDR – CENTRAL SECURITIES DEPOSITORIES REGULATION

Segregation at CSD level (art. 38)

European regulation applicable to central securities depositories

INTRODUCTION

The Central Securities Depositories Regulation (the so called CSDR¹) is an European regulation that defines the European CSD regulatory framework for central securities depositories meanwhile requiring several measures to improve the settlement of financial securities and to reinforce the investor protection.

CSDR impose to participants of a CSD the new obligation to offer their clients the possibility to segregate their assets within the books and records of the Central Securities Depositories. More precisely, its article 38 requires that a participant to a CSD offers its clients the choice between “omnibus client segregation” and “individual client segregation” and inform them of the costs and risks associated with each option.

Société Générale is a participant of several Central Securities Depositories within the European Union. As such, accounts are opened in the books of CSDs in the name of Société Générale in which SG holds the financial securities of its clients (omnibus clients segregation, applicable by default). In accordance with CSDR, Société Générale now offers its clients the possibility to have their securities registered in an individualized account with the CSD (individual client segregation). This individualized account is still open in the name of SOCIETE GENERALE, but only records the securities of the client concerned.

Though this document does not constitute legal advice, it will give you an overview of this new regulatory requirement, in accordance with article 38.6 of CSDR.

¹ 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 Text with EEA relevance.

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1. CSDR SEGREGATION POLICY SCOPE

This new CSDR requirement applies to direct participants of a CSD (CSD Central Securities Depositories or I-CSD – International Central Securities Depositories).

SOCIETE GENERALE, via its securities services department SGSS, offers safekeeping services in the following CSDs and ICSDs across EEA, either directly or through one of its branches in the local market:

List of CSDs where SGSS is direct participant:

CSD	Euroclear France Euroclear Belgium Euroclear Nederland Euronext Securities Milan (Italy) Clearstream Banking Frankfurt (Germany)	Iberclear (Spain) OeKB CSD (Austria) SIX SIS (Switzerland)* KDPW (Poland)
I-CSD	Euroclear Bank	Clearstream Banking Luxembourg

This document summarizes the main pros and cons of the individual segregation at the CSD's level and gives you an overview of the implementation details (workload and costs).

* SIX SIS (Switzerland)¹

2. ACCOUNT STRUCTURE : CURRENT SITUATION VS NEW CSDR REQUIREMENT

To better understand what individual client segregation means, let's recall what exists today.

The current situation is largely the result of the European directive on markets in financial instruments² (the so-called MIF Directive).

Indeed, MIF (and now MIF II) requires a custodian:

- to maintain internal accounts to identify at any time the securities account holder to whom the securities belong to and to distinguish assets held for one client from assets held for any other client and from its own assets.
- when it deposits clients' assets to a third party (for example a CSD or a sub custodian) to take the necessary steps to ensure that any client's financial instruments are identifiable separately from the financial instruments belonging to the CSD or the sub custodian itself. To this extent, the custodian shall open several accounts within the books of this third party. **Externally the account structure is essentially an omnibus client account structure, where securities are grouped by large categories of holders: securities held by the custodian clients, securities held for the own account of the custodian, securities held for the own account of the sub custodian.**
- to conduct regular reconciliations between the internal and the external accounts, to avoid any loss or accounting mistake (a shortfall on a given security appears when the total quantity recognized internally is not exactly the same as the total quantity recognised externally, meaning the custodian doesn't recognise to its clients the whole quantity of securities its clients have deposited in its books).

¹ In accordance with article 73 para. 4 of the Swiss Financial Markets Infrastructure Act, and subject to the entry in force and transposition in Switzerland of Decision of the EEA Joint Committee No 18/2019 of 8 February 2019.

² Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU Text with EEA relevance

3. WHAT DOES CHANGE WITH CSDR?

As a reminder, like MIF (now MIF II), CSDR requires CSDs to maintain records and accounts that allow a participant to hold financial securities in the books of the participant separately from securities deposited with other participants and from any assets the CSD itself may hold as well as to segregate the securities held by the participant from those held by the participant's clients.

But CSDR goes also a step further by requiring custodians when they are direct participant of a CSD (i.e. the third party mentioned above in §2 is a CSD) to offer their clients the choice between:

- an omnibus client segregation (individual client account in the books of the custodian and omnibus client account in the books of the CSD) and
- individual client segregation at CSD level (the individual client account in the books of the custodian is replicated at the level of the CSD), **while this account remains opened in the name of the custodian.**

This possibility to choose the segregation level goes with the reauthorization of each CSD under CSDR¹.

4. DOES THE NEW MODEL BRING MORE PROTECTION TO YOUR ASSETS?

As mentioned, MIF (now MIF II), already contains requirements to ensure the safeguarding of clients' assets:

- a custodian shall not use the securities of a given client for its own account or for any other person or client without the prior consent of that given client.
- a custodian shall take appropriate measures to prevent the unauthorised use of a given client financial instruments for its own account or for the account of any other person or client.

Therefore, **the protection of your assets will not increase due to the choice of an individual client segregation at the CSD level.**

5. WHAT ARE THE BENEFITS OF THE INDIVIDUAL CLIENT SEGREGATION?

On a day-to-day basis, the main consequence for you will be to have all your settlement instructions processed by the CSD in a dedicated account apart from the settlement of instructions of other custodian's clients.

The individual client segregation model is often seen as a mean to avoid the use of your assets by another client. Indeed, it avoids any misuse, but in fact the protection of your assets from any misuse is firstly handled by the custodian itself rather than by the CSD: it is the custodian that is given accounts access rights and manages settlement instructions.

A control of the client's provision is performed, irrespective of the segregation set up, before sending any instruction to the CSD. Should there not be sufficient provision on the client's account in the custodian book, then the

¹ https://www.esma.europa.eu/sites/default/files/library/esma70-155-11635_csds_register_-_art_21.pdf

instruction is either retained or sent but its settlement is blocked (“hold and release”) so that other client’s assets cannot be used. This process goes on until the provision becomes sufficient.

Should a shortfall happen (when the custodian recognizes to its clients more than it actually holds at the CSD’s level), the custodian shall buy or borrow the missing quantity or give cash compensation to cover the shortfall (when the buyback of financial securities is impossible due to insufficient liquidity).

6. WHAT ARE THE CONSTRAINTS OF THE INDIVIDUAL CLIENT SEGREGATION?

The setting up of an individual segregation at the CSD level will generate an increase of information flow and an increase of transactions daily matching:

- The individual client segregation will imply the creation and the processing of a dedicated account in the books of the CSD, thereby increasing the costs for this client (for further details, please see in appendix).
- To have your settlement instructions settled on time (and avoid any penalty that CSDR imposes since February 2022) **you will have to clearly inform all your counterparties to a transaction and request them to update your SSI in their database so that they will deliver to / receive from the right new account at the CSD level.**

Same constraints and processes will apply for each CSD with which individual segregated accounts are opened.

7. WHAT ARE THE CONSEQUENCES IN CASE OF INSOLVENCY (BANKRUPTCY)?

In case of insolvency of a French custodian, insolvency proceedings would take place in France and be governed by French insolvency law.

Under French insolvency law, financial securities held on behalf of clients of a French custodian would not be part of its estate on insolvency for distribution to creditors. Rather, they would be deliverable to clients in accordance with each client’s proprietary interests in the securities at the time of the opening of the solvency proceedings.

As a result, it would not be necessary for clients to file a claim in our insolvency as a general unsecured creditor in respect of those securities. The clients may arrange to have securities credited to an account kept by another intermediary or by the issuer of the securities, from whom they recover.

Accordingly, where a French custodian holds securities on behalf of clients, those securities are considered the property of those clients rather than the property of the custodian, based on the quantity registered in the clients’ accounts opened in the books of the custodian. **This applies whether the securities are held in an omnibus client segregation or in an individual client segregation. We insist, the quantity of securities written in the books of the custodian will prevail.**

The receiver or liquidator, acting jointly with the provisional receiver or liquidator, if any, appointed by the Autorité de Contrôle Prudenciel et de Résolution, shall verify, for each financial security, that the quantity of securities held in an account with a CSD or with another intermediary on behalf of a given defaulting custodian, regardless of the nature of the accounts opened with them, is sufficient to enable that custodian to meet its obligations towards its clients on the basis of the quantity of securities written in the accounts of that custodian opened in the name of its clients.

Accordingly, in our opinion, the nature of clients’ interests in omnibus client segregation or in individual client segregation is not different: each client is not specifically entitled to all of the securities held in an account opened with a CSD.

Any shortfall on an account opened under individual segregation for a given client would not be attributable to that client but would be shared between all the clients of the defaulting custodian. Similarly, the client for which an individual account would be opened in the books of a CSD would be exposed to a shortfall of financial securities found on accounts opened in the books of the CSD for other clients of the defaulting custodian.

To conclude, the shortfall would be shared among all the clients whatever having an omnibus client segregation or an individual client segregation.

However, the risk of a shortfall on financial securities is mitigated as a result of custodians obligation under the AMF General Regulations that require custodians to cover shortfalls identified during the reconciliation of their records with the records of the CSDs where the securities are held.

APPENDIX

You will find here below links to CSD's disclosures and a synthesis dashboard of individual segregation account impacts including additional costs, by markets.

TABLE OF INSTITUTIONS DISCLOSURES ON CSDR ARTICLE 38:

INSTITUTION	LINK
ESMA	Follow up of CSDs CSDR licenses: https://www.esma.europa.eu/sites/default/files/library/esma70-155-11635_csd_register_-_art_21.pdf
ECSDA	CSDs published disclosures : https://ecsda.eu/disclosures-csdr-art-38
Euroclear France Euroclear Belgium Euroclear Nederland	https://www.euroclear.com/about/en/regulatorylandscape/csdr/euroclear-compliance-with-article-38.html
Clearstream Banking Frankfurt (Germany)	https://www.clearstream.com/clearstream-en/strategy-and-initiatives/asset-safety/csdr-article-38-disclosure
OeKB (Austria)	https://www.oekb-csd.at/en/about-oekb-csd/the-five-functions-of-oekb-csd.html
Euroclear Bank (International)	https://www.euroclear.com/about/en/regulatorylandscape/csdr/euroclear-compliance-with-article-38.html
Clearstream Banking Luxembourg (International)	https://www.clearstream.com/resource/blob/2434196/f8ab3fa9ac6218a2c46c439e524bc99d/cbl-article-38-disclosure-document-data.pdf
Iberclear (Spain)	http://www.iberclear.es/docs/docsSubidos/Regulation/CSDR_white_paper_EN.pdf
KDPW (Poland)	https://www.kdpw.pl/uploads/attachments/securities-segregation-levels-offered-by-kdpw.pdf
SIX SIS (Switzerland)	https://ecsda.eu/wp-content/uploads/CH_SIX_SIS.pdf

APPENDIX

SYNTHESIS DASHBOARD

CSD or ICSD	*Impacts of an individual client segregation account and costs		Re authorization date
	On a day-to-day basis*	On assets protection	
Euroclear France Euroclear Belgium Euroclear Nederland	<ul style="list-style-type: none"> • Implementation delay of some weeks • Our rate card will reflect adaptation of transaction costs 		Refer to ESMA – follow up of CSDs CSDR licences
Clearstream Banking Frankfurt (Germany) OeKB (Austria) Euroclear Bank (International) Clearstream Banking Luxembourg (International) Euronext Securities Milan	<ul style="list-style-type: none"> • Implementation delay of some weeks • SGSS Transactions costs will be slightly higher depending on your activity 		
Iberclear (Spain)	<ul style="list-style-type: none"> • No implementation delays • SGSS Transactions costs will be slightly higher depending on your activity 	No increase of protection of investor assets	
KDPW (Poland)	<ul style="list-style-type: none"> • Implementation delay of 48h • SGSS Transactions costs will be slightly higher depending on your activity 		
Additional costs per segregation (any CSD or ICSD)	<ul style="list-style-type: none"> • New sub-account opening : EUR 2 000 • Annual custody costs : EUR 500 • * to which should be added other CSD costs if any (e.g EUR 150/month per account in Iberclear) 		

Please contact your client relationship manager for further details

SGSS IS SOCIETE GENERALE'S BUSINESS UNIT DEDICATED TO SECURITIES SERVICES

Established in 20 locations in 18 countries with 4,000 employees, SGSS provides a full range of securities services that are adapted to the latest financial markets and regulatory trends: clearing services, custody and trustee services, retail custody services, liquidity management, fund administration and asset servicing, fund distribution and global issuer services.

SGSS ranks among the top three largest European custodians and the top ten worldwide, with EUR 4,944* billion of assets under custody. SGSS provides custody & trustee services for 3,499* funds and the valuation of 2,555* funds, representing assets under administration of EUR 582* billion. SGSS ranks among the European leaders in stock option management.

*Sources: SGSS internal report and Competitor Annual Reports Greensted. Data as of 03.31.2024

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