

# **CSDR mandatory buy-in the non-cleared bond & repo markets**

## Settlement Discipline (positives)

- Article 6: limiting number of settlement fails
- Article 7: cash penalties for fails

## MBI design challenges

- Mandatory nature
- Asymmetric differential payments
- No pass-on mechanism
- Cash compensation process for bonds
- Lack of BIAs / definition of 'conflicts of interest'

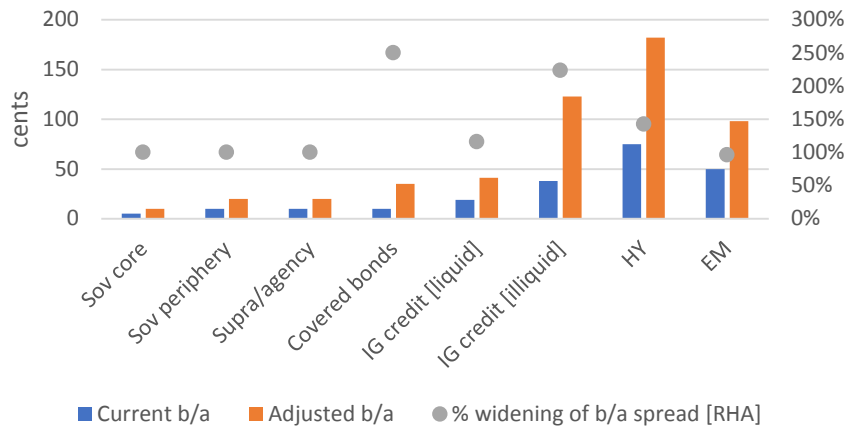
## Bond market liquidity

- RFQ / Principal risk / Balance sheet
- 20-30% of offers not based on inventory

# ICMA: CSDR-SD mandatory buy-ins

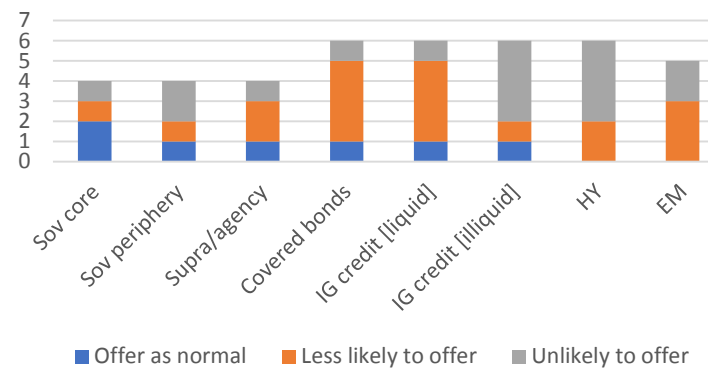
## Sell-side pricing

Impact on bid-ask spreads



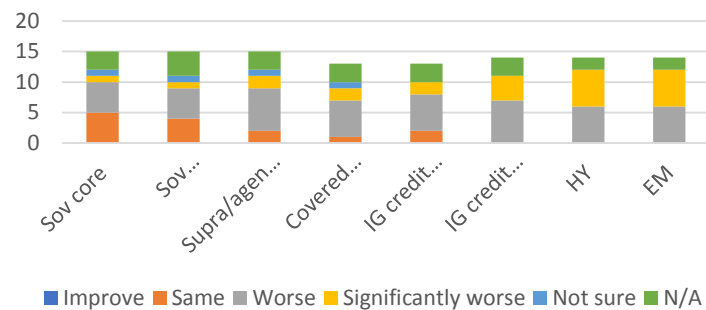
## Sell-side liquidity

Expected capacity to show offers



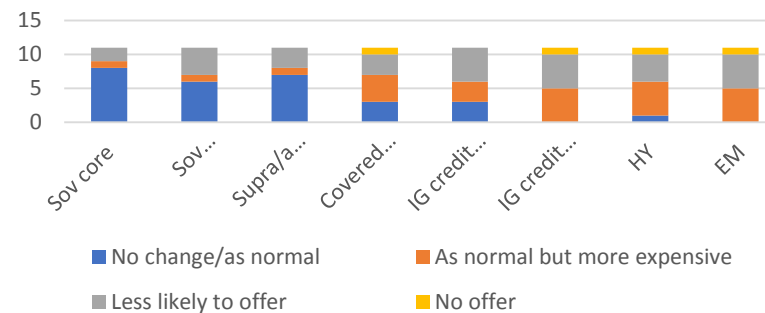
## Buy-side expectations

Expected impact to offer-side pricing



## Repo and securities lending

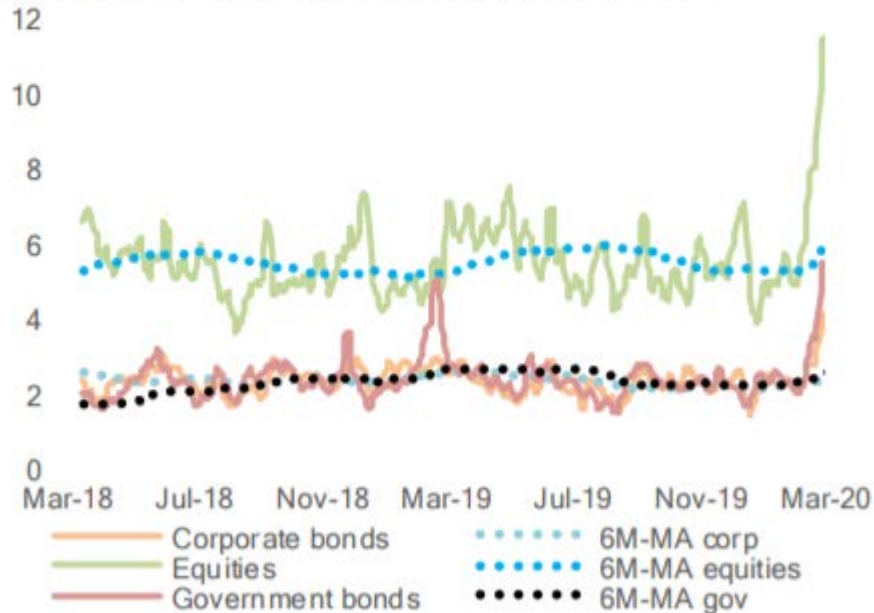
Expected impact on lending securities



## 2020 Covid-19 Crisis

Settlement fails

Massive impact of market turbulences



Source: ESMA Risk Dashboard, May 2020

- Significant uptick in settlement fails across all asset classes
- Operational challenges/stretched resources
- A liquidity crisis, not a credit crisis
- MBIs would have compounded market volatility, reduced liquidity, and added to market instability

See: ICMA, 2020, [The European investment grade corporate bond secondary market & the COVID-19 crisis](#)

## Potential solutions

- (i) Delaying implementation until the authorities have undertaken a comprehensive and robust impact study
- (ii) Phasing in implementation based on underlying asset class
- (iii) Replacing the mandatory obligation to make it discretionary
- (iv) Introducing a longer extension period (such as 30 business days)

## Discussion

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