

TO : Cyprus Investment Firms ('CIFs')

FROM : Cyprus Securities and Exchange Commission

DATE : 20 Αυγούστου 2019

CIRCULAR No : C335

SUBJECT : Internalised settlement reporting requirements pursuant to Article 9(1) of Regulation (EU) No 909/2014 on improving securities settlement in the European Union and on central securities depositories ('CSDR')

A. Introduction

1. Following Circular [C242](#) relating to [CSDR](#), the Cyprus Securities and Exchange Commission ('CySEC') herein wishes to draw the attention of CIFs on the internalised settlement reporting requirements, which are provided in Article 9(1) of CSDR.
2. According to Article 9(1) of CSDR, settlement internalisers shall report to the competent authorities of their place of establishment (i.e. home regulator) on a quarterly basis the aggregated volume and value of all securities transactions that they settle outside securities settlement systems.
3. For ease of reference and better understanding, the interpretation of terms used in this circular is included in Annex 1.

B. Regulatory framework

4. The regulatory requirements relating to the internalised settlement reporting regime are provided in the following documents:
 - i. CSDR (Title II, Chapter IV).
 - ii. Commission Delegated Regulation (EU) 2017/391 ([RTS on Internalised Settlement](#)).
 - iii. Commission Implementing Regulation (EU) 2017/393 ([ITS on Internalised Settlement](#)).
 - iv. Guidelines on Internalised Settlement Reporting - [ESMA70-151-367](#).
 - v. Questions and Answers on CSDR – [ESMA70-708036281-2](#).
 - vi. Technical Guidance for Settlement Internalisers – Report Validation Rules - ESMA65-8-6448.

C. Key provisions of the Internalised Settlement Reporting Regime

5. Internalised settlement reporting obligation: Article 9(1) of CSDR states that settlement internalisers shall report to the competent authorities of their place of establishment on a

quarterly basis the aggregated volume and value of all securities transactions that they settle outside securities settlement systems.

Competent authorities shall, without delay, transmit the information received to the European Securities and Markets Authority ('ESMA') and shall inform ESMA of any potential risk resulting from that settlement activity.

6. The internalised settlement reporting requirements entered into force on 10 March 2019, in accordance with Article 1(1) of the ITS on Internalised Settlement, with the first report to be submitted for the quarter ending 30 June 2019.
7. Entities responsible for reporting: According to paragraph 14 of the Guidelines on Internalised Settlement Reporting, internalised settlement can happen at different levels of a securities holding chain (global custodians, sub-custodians, etc.), and it should be reported at the level where it takes place. Each settlement internaliser should be responsible for reporting the settlement which has been internalised in its books only.
8. Financial instruments that are in scope of internalised settlement reporting: According to paragraph 14 of the Guidelines on Internalised Settlement Reporting, the following types of financial instruments should be considered in scope of internalised settlement reporting:
 - i. financial instruments which are initially recorded or centrally maintained in CSDs authorised in the EU, i.e. financial instruments in relation to which an EU CSD acts in an issuer CSD¹ capacity;
 - ii. financial instruments which are recorded in an EU CSD that acts in an investor CSD² capacity for the respective financial instruments, even though they may be initially recorded or centrally maintained outside of CSDs authorised in the EU.
9. Types of transactions and operations that are in scope of internalised settlement reporting³: According to paragraph 14 of the Guidelines on Internalised Settlement Reporting, the following types of transactions and operations should be considered in scope of internalised settlement reporting:
 - i. purchase or sale of securities (including primary market purchases or sales of securities);
 - ii. collateral management operations;
 - iii. securities lending or securities borrowing;
 - iv. repurchase transactions;
 - v. transfers of securities between accounts of different investment funds (funds with or without legal personality should be treated as clients);
 - vi. execution of transfer orders by a settlement internaliser on its own account, to the extent that they result from securities transactions with clients of the settlement internaliser;
 - vii. transfer of securities between two securities accounts of the same client;

¹ Issuer CSD: the CSD in which securities are issued, i.e. the issuer CSD opens accounts allowing investors/intermediaries to hold these securities (source <https://www.ecb.europa.eu/home/glossary/html/glossi.en.html>).

² Investor CSD: the CSD that opens an account in another CSD (the issuer CSD) so as to enable the cross-system settlement of securities transactions (source <https://www.ecb.europa.eu/home/glossary/html/glossi.en.html>).

³ Please refer to paragraph 12 of the Guidelines on Internalised Settlement Reporting for more information on the types of transactions and operations that are considered out of scope of internalised settlement reporting.

- viii. title transfer financial collateral arrangements as defined in point (b) of Article 2(1) of Directive 2002/47/EC5 (FCD);
 - ix. security financial collateral arrangements as defined in point (c) of Article 2(1) of FCD, where there is a transfer of securities between accounts;
 - x. corporate actions on flow represented by transformations.
10. Timeline for reporting: Article 1(1) of the ITS on Internalised Settlement states that the internalised settlement reports shall be submitted within 10 working days from the end of each quarter of a calendar year.
11. Branches regime
- i. According to paragraph 17⁴ of the Guidelines on Internalised Settlement Reporting, a settlement internaliser should send the information required under Article 9(1) of CSDR, in the following reports, to the competent authority in the Member State where it is established:
 - a) one report for its activity in the Member State where it is established (including the activity of its branches in that Member State);
 - b) separate reports for the activity of its branches per Member State;
 - c) one report for the activity of its branches in third countries.
 - ii. According to paragraph 18⁵ of the Guidelines on Internalised Settlement Reporting, Competent authorities of Member States where branches of third country entities internalise settlement instructions through their books should ensure that these branches report to them the information required under Article 9(1) of CSDR, in consolidated reports covering their activity in each Member State.
12. Content of templates and procedures for Internalised Settlement Reports:
- i. The RTS on Internalised Settlement specify the content of the internalised settlement reporting, while the ITS on internalised settlement specify the templates and procedures for the reporting and transmission of information on internalised settlement.
 - ii. The ITS on Internalised Settlement specify the templates and procedures for the reporting and transmission of information on internalised settlement.
 - iii. The Guidelines on Internalised Settlement Reporting clarify further the scope and process on internalised settlement reporting.
 - iv. The Questions and Answers on CSDR (Part IV) provide additional guidance on internalised settlement reporting.

D. Actions required by CIFs

13. CIFs should ensure that they are familiar with the internalised settlement reporting requirements and what is required of them to ensure compliance.
14. CIFs should send an email to supervision@cysec.gov.cy by **Friday 13 September 2019**, in which the compliance officer of the CIF must confirm whether or not, the CIF settles securities transactions outside securities settlement systems.

⁴ Please refer to the Guidelines on Internalised Settlement Reporting for more information.

⁵ Please refer to the Guidelines on Internalised Settlement Reporting for more information.

15. CIFs which settle securities transactions outside securities settlement systems should implement a **reporting system** or ensure that their existing reporting system is in line with the technical reporting standards and the applicable schemas.
16. CIFs should follow the technical instructions mentioned in Annex 2 on how to create and submit an internalised settlement report/XML file to CySEC.
17. First reporting in relation to the quarter ending 30 September 2019 (i.e. covering the period from 1/7/2019-30/9/2019) should be submitted by 15 October 2019 (i.e. within 10 working days from the end of the quarter).
18. CySEC will launch a trial period from **9 September 2019 to 4 October 2019** regarding internalised settlement reporting. CIFs should submit on a test basis their new XML files. CIFs should perform validation tests before submitting any testing XML files to CySEC. They are also encouraged to start testing in the early stages of the trial period so as to have enough time to correct possible errors and be ready for full implementation of the relevant requirements immediately after the trial period. Reporting correct and complete data thus ensuring data integrity under CSDR is of critical importance.
19. Files sent during the trial period will be deleted at the end of the trial period and will be considered as non-received.
20. It is noted that currently there is no time limit for submitting reports for the previous quarters. However, such reports (i.e. reports relating to the quarter ending 30 June 2019) should be submitted by 25 October 2019 the latest.

For any queries, clarifications or any other correspondence, CIFs should send an email or:

- i. regulatory issues and business aspects of transaction reporting, to the email address supervision@cysec.gov.cy.
- ii. technical aspects of transaction reporting, to the email address information.technology@cysec.gov.cy.

Sincerely

Demetra Kalogerou
Chairman, Cyprus Securities and Exchange Commission

Definitions

1. **Central securities depository or CSD** means a legal person that operates a securities settlement system referred to in point (3) of Section A of the Annex to the CSDR and provides at least one other core service listed in Section A of the Annex to the CSDR, [Article 2(10) of CSDR].
2. **Financial Instrument** means those instruments specified in Section C of Annex I of MiFID [article 4(1)(15) of MiFID II].
3. **Internalised settlement instruction** means an instruction by a client of the settlement internaliser to place at the disposal of the recipient an amount of money or to transfer the title to, or interest in, a security or securities by means of a book entry on a register, or otherwise, which is settled by the settlement internaliser in its own books and not through a securities settlement system, [Article 1(1) of RTS on Internalised Settlement].
4. **Securities settlement system or SSS** means a system under the first, second and third indents of point (a) of Article 2 of Directive 98/26/EC that is not operated by a central counterparty whose activity consists of the execution of transfer orders, [Article 2(10) of CSDR].
5. **Settlement internaliser** means any institution, including one authorised in accordance with Directive 2013/36/EU or with Directive 2014/65/EU, which executes transfer orders on behalf of clients or on its own account other than through an SSS, [Article 2(11) of CSDR].
6. **Transfer order** means transfer order as defined in the second indent of point (i) of Article 2 of Directive 98/26/EC;

Method of creating and submitting XML file to CySEC.

The XML File containing the reports should be submitted electronically via the CySEC's Transaction Reporting System ('TRS'). No other ways for submitting the XML file are accepted.

The steps to prepare and submit the XML file are as follows:

1. Preparing the XML File

The xml file must comply with the XML schemas. The file should NOT be signed or zipped.

The file naming convention to be used is
 <Sender>_<FileType>_<Recipient>_<Key1>_<Key2>_<FileNumber>.xml, where:

- a) <Sender> is the CIF TRS code (e.g. "XX")
- b) <FileType> is the standard text "DATISR" standing for Data for Internalised Settlements
- c) <Recipient> is the standard text "CY"
- d) <Key1> contains the following elements delimited by "-":
 - i) the ISO country code that the report concerns ("TS" for non-EU branches - The head-office collects and aggregates all its internalised settlement activity for all its non-EU branches into one report)
 - ii) the year for which the content of the report relates to
 - iii) the quarter for which the content of the report relates to (can be "Q1", "Q2", "Q3" or "Q4")
 e.g. "FR-2019-Q1"
- e) <Key2> is a two digit number stating the version of the report, which is an integer positive number. For its first submission, this number is 01, and for every update/cancellation, this number is increased by 1(e.g., 02, 03). For submissions that follow a cancellation, this number continue to increase by 1.
- f) <FileNumber> is a six digit number which uniquely identifies a file send by the specific <Sender>. The number should be incremented by 1 every time a new file is send. For the first file submission, this number is 000001. If a file is rejected by the CySEC due to validation errors, it must be resubmitted with the same file name, except the <FileNumber>, which must be increased by 1.
Example filename (report from CIF XX regarding France):
"XX_DATISR_CY_FR-2019-Q1_01_000001.xml"

Notes regarding the Business Application Header of the file:

The From <Id> element must contain the CIF TRS code.

The To <Id> element must contain the standard text "CY".

The BizMsgIdr element must contain <Key1> and <Key2> and <FileNumber> as defined above, separated by underscore.

Eg., <BizMsgIdr> FR-2019-Q1_01_000001</BizMsgIdr>

Feedback file send to CIF:

<Sender>_<FileType>_<Recipient>_<Key1>_<Key2>_<FileNumber>_<FeedbackFileNumber>.xml

- a) <Sender> is the standard text "CY"
- b) <FileType> is the standard text "FDBISR" standing for feedback files generated by the system as a result of validation on processed data for Internalised Settlements reports
- c) <Receipient> is the TRS code of the submitting CIF (e.g. "XX")
- d) <Key 1> and <Key 2> and <FileNumber> are identical to the respective received Internalised Settlements report
- e) < FeedbackFileNumber > is a six digit number which uniquely identifies a feedback file send by the CySEC.

Example filename:

"CY_FDBISR_XX_FR-2019-Q1_01_000001_000234.xml"

2. Submitting the XML file successfully

The XML File should be submitted to CySEC via the TRS system. The technical information to log in to the TRS is the following:

i. Program to be used:

Any file transfer program (SFTP – SSH2) can be used, such as FileZilla Client, which is a free program and is available at FileZilla website.

ii. Settings:

Server IP address (Host): 212.31.100.75

Server Type: sFTP using SSH2

Port: 22

iii. Login/Password:

The login and password remain the same as the one already used by CIFs to submit any electronic file via the TRS system.

CIFs that have never requested these credentials, can do so anytime via email to information.technology@cysec.gov.cy. The email subject must include the following: “TRS Credentials – *{full name of the Reporting Entity}_{CySEC license number (if applicable)}*”.

iv. TRS directories:

Upon successful connection to the TRS via the FileZilla, CIFs can view the home directory (right side screen of FileZilla) which contains two directories:

- Incoming – the XML File must be uploaded in this specific folder.
- Outgoing – the feedback file of the XML File will be dispatched from the TRS and can be downloaded from this specific folder.

Special emphasis is given to the fact that the root directory should not be used to upload any files. Furthermore, a successful file transfer notice from FileZilla does not mean a correct submission to CySEC.