



ECSDA's feedback to the European  
Commission's consultation

on

**Savings and Investments Union:  
Regulation fostering EU market  
integration and efficient  
supervision**

**20 March 2026**

# Executive Summary

ECSDA welcomes the intention of the European Commission to further develop the capital markets' integration and supervision within the Union. We also appreciate the opportunity to contribute and share our views on the proposed measures, drawing on our members' expertise and forward-looking ideas.

For decades, ECSDA and its Members worked on advancing the following points, which we believe are relevant within the SIU context:

- Boosted liquidity – continuing to pursue the removal of barriers through efficient market interconnection and attracting the attention of States to take action, where still needed.
- Innovative and competitive markets supported by resiliency & safety, financial stability and investor protection with clear accountability.
- Support for European companies' growth journey and their enhanced access to capital.

Central Securities Depositories (CSDs) are at the core of major parts of the proposal, which makes it particularly important for the association to provide its perspective in support of the SIU objectives and the legislative process. We see the Market Integration and Supervision Package (MISP) as a unique opportunity to continue driving growth, enhancing the EU's global competitiveness, and shaping the future of its financial markets.

It is with these objectives in mind that we comment on the major considerations in relation to settlement and central (including DLT-based) securities depositories in the MISP proposal.

## I. CSD connectivity

The proposals under the Market Integration and Supervision Package offer a chance to move toward a more efficient setup better aligned with the long-term needs of European capital markets. The international context reinforces this need for reflection.

**Europe must ensure that its infrastructure remains competitive, scalable and able to support the Union's broader ambitions in a global financial environment.**

Within this debate, the topic of CSD connectivity has naturally gained prominence. Many European CSDs already collaborate closely at the domestic and cross-border level, and fixed income markets in particular show how a “hub” dynamic can bring benefits to issuers and investors. Extending similar advantages to equities – and over time, all asset classes – represent a logical next step if Europe wants a coherent and future-ready model.

As previously stated (See [ECSDA's 2025 Links Report](#)), we fully support the MISP policy objective of fostering the provision of cross-border services, facilitating and simplifying the establishment of new links.

***The ECSDA Links Report highlights:***

1. **High degree of existing market interconnection:** European CSDs are already highly interconnected, with **372 links currently in place**, and a single access to most European securities through one EU CSD is already possible. **CSDs are committed to developing more links where needed to ensure better accessibility of the EEA securities from a single CSD account.**
2. **The CSDs' ecosystems have not always been able to bring sufficient volumes to these links**, and therefore, the use of the links is an essential element to influence the pan-EU liquidity and demand for cross-border settlement.
3. To make a significant change to the current level of Union connectivity and integration, **it is essential to focus on the market demand, as well as CSD participants' and their underlying clients' reasons for not yet using cross-border solutions of CSDs more broadly.** These reasons may include a.o. low appetite for the end-investors to invest in the other EU markets (e.g. due to the lesser visible to them attractiveness of EU companies e.g. vs the US ones), unavailability of ISINs available through CSD links to the end investors because of the broker/investment bank internal decisions (even if the broker or investment bank has access to the CSD offering the connectivity for these ISINs), settlement internalisation of cross-border transactions resulting in low realignment to be made between CSDs or other practical challenges such as tax payment.
4. **The European CSDs continue to develop solutions** to further enhance connectivity and fine-tune their services in line with market needs and their innovation aspirations, and regulatory priorities.
5. **Ensuring that the MISP connectivity rationalisation measures do not negatively impact the cost of service is essential.** This is why we believe that connections to hubs and the use of relayed links, if rendered cost-efficient, can help to improve the level of EU market integration.
6. **The emergence of regional cooperation initiatives** has the potential of consolidating liquidity among smaller markets, where there may be a close (institutional) investor base and potentially some level of proximity of legal frameworks.
7. **The links between CSDs should be promoted and recognised as a value-added activity inherent to CSDs, bringing the major benefit to the EU capital markets of safety and certainty.** Furthermore, these links, especially those operational in T2S, benefit from standardised operational features and common operating rules that help to mitigate settlement, custody,

legal, credit, and liquidity risks of the market participants<sup>1</sup>. As a result, they prove to create resilient connectivity that effectively supports the integration of capital markets, despite the local legal divergence.

8. **Some CSDs primarily support domestic activity, while others naturally channel cross-border and multi-currency flows or connect several jurisdictions.** A framework that recognises these differences can help Europe progress from today's decentralised landscape toward a structure that is more coordinated and easier for market participants to navigate, while still respecting the need for efficient functioning of market infrastructures for supporting the development of local economies.

**We, therefore, welcome the acknowledgement of the importance of links in the MISP. However, we insist on the need for further essential improvements of the proposal.**

*The following practical considerations remain essential:*

- 1) **Connectivity shall remain shaped by market needs to be efficient and cost-effective.**

A regulatory framework aimed at expanding interconnection should not automatically define which asset classes must move through each link. **CSDs work closely with their participants and understand liquidity patterns, risk considerations and demand levels.** Preserving the possibility to set eligible financial instruments offered through which connection will ensure that the model supports meaningful economic activity rather than creating an “empty highway”. **The European Commission should take action to incentivise the use of CSD links further.**

While CSD Hubs should have a responsibility to connect to local markets and provide access to the securities issued there, they should continue to retain the ability to deem certain instruments not eligible in their systems when the underlying risk profile exceeds their own risk appetite<sup>2</sup>. This is already the case today and remains essential for the safe functioning of the wider ecosystem.

- 2) **Interoperability of links is not required to ensure high-quality CSD connectivity between markets. The concept of interoperability for CSDs is different from that of CCPs.**

As mentioned in the ECSDA Links report, we are of the view that all EEA securities should be accessible from a single CSD account. Establishing more links to support the higher level of connectivity within Europe fully aligns with that objective. We, therefore, in principle, agree with the need to establish reciprocal links between CSD Hubs and non-Hub CSDs.

However, for the bilateral (N.B.: the more correct term, in our view, would rather be “reciprocal”) links. The requirement of “interoperability” – in the sense of a mandatory establishment of a joint IT system – between a smaller, less-significant CSD and a CSD Hub is unjustified. It will entail substantial upfront investment and risk, as well as ongoing operational and compliance costs, especially considering the fragmented legal and tax environment, and when those CSDs are not in T2S, and when the interoperability would imply higher cost and risk. This burden is unnecessary and disproportionate for all – big and small – CSDs.

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<sup>1</sup> The CSD layer is much more standardised and automated than other levels of the custody/processing chain.

<sup>2</sup> In practice, some instruments may present elevated risks due to factors such as exposure to issuers with opaque governance structures, securities where the beneficial ownership cannot be reliably established, or cases where shareholders or key decision makers are subject to sanctions or embargo measures. Other examples include markets where insolvency and property rights frameworks are not sufficiently aligned with investor protection needs, or where local disclosure standards do not provide the level of transparency required for sound settlement and safekeeping.

In many cases, demand for cross-border settlement or for holding international securities through the smaller CSD is limited, especially when local investors mainly operate in the domestic market and currency, or when the alternative chosen by the local investor to the domestic market is, in the vast majority, the US. And therefore, diversifying the CSD links to a broader range of EU States is not making a difference.

Adding additional unnecessary requirements inevitably restricts the CSD's ability to recover the costs of building and maintaining such links. Particularly, this is the case where the cost recovery is limited to non-banking-type ancillary services and where the CSD still needs to compete with global custodians and investment firms having a much broader, unrestricted by the CSDR range of services - able to provide settlement and most other CSD services as well, e.g., such as cross-border payment services.

**In this spirit, the proposal, as it currently stands, requires some improvements to ensure that the new obligations are clearly defined and proportionate and that key concepts are aligned with market practice so that the overall framework brings concrete benefits.**

### **3) Relayed links should be leveraged and rendered less burdensome.**

We welcome the introduction of the definition of a relayed link, as we believe it may further help make such connectivity solutions more transparent to supervisors. The relayed links are an essential way of connecting the two CSDs in an efficient way in cases where the volumes do not yet justify a direct link.

However, the proposal should recognise that the relayed links are not just regular indirect links but provide a much higher level of risk management in comparison with the indirect link intermediated by a custodian. This is also recognised by the ECB in the context of the use of the CSD links for collateral management for the monetary policy operations.

In order to facilitate deeper EU connectivity in Europe in a cost-efficient way, it is essential that the EU CSDR recognises the value and high level of risk protection offered by the relayed links. The CSDR should simplify the burden for the establishment of such links.

### **4) An appropriate timeline is necessary to safeguard operational continuity and avoid unnecessary pressure on the sector.**

Under the new regime, some CSDs will need to create entirely new connections, and others will need to adapt their existing setups. These efforts coincide with IT modernisation, mandatory regulatory, and other projects already underway, including T+1, as CSD participants continue to add demands towards CSDs to adapt existing services or introduce additional processes.

## ***Policy recommendations for CSD connectivity***

### **1. Scope and proportionality of connectivity obligations – Flexibility for the requesting CSD**

We recommend enhancing the clarity and proportionality of connectivity obligations, particularly regarding the scope of asset classes. Specifically:

- The obligation in **Article 48a** to make all financial instruments issued in a CSD available for settlement through a link should apply **only to the receiving CSD upon request of the requesting CSD**, rather than to the Requesting CSD itself.
- **The Requesting CSD** should retain the possibility to **exclude certain financial instruments from the link** where justified, for example, in cases of:

- Absence of market demand,
- Legal constraints, primarily related to the **taxation of specific instruments**,
- Technical considerations or limitations.

This approach ensures that new links reflect **actual demand, liquidity patterns, and risk profiles**, particularly as the model extends beyond fixed income to equities and other instruments.

## 2. Definition of “CSD Hub”

Given the significance of this new concept, restating the definition of “CSD Hub” could be helpful, rather than a mere cross-reference to the significance criteria in Article 48a(1).

## 3. Bilateral links

- The definition of a bilateral link should be reconsidered to use the term “**reciprocal**” instead of “bilateral”.
- To ensure proportionality and alignment with market practice, bilateral links **must not require interoperability** (via joint IT platform development and/or legal arrangements) to ensure:
  - i. **Unnecessary and potentially dangerous risk transfers** between CSDs.
  - ii. **Unjustified costs** that do not reflect actual market needs.

## 4. Relayed Links

- The definition of a relayed link should make a difference from an indirect link.
- The core text of the proposal should seek ways to facilitate the establishment of such links with minimum burden and costs.

**As the discussion continues, ECSDA and its members stand ready to support a constructive and pragmatic approach. The essential objective of the MISP for CSDs should not be to increase the number of links for their own sake, but to encourage connections and increase cross-border volumes that genuinely strengthen European markets, their role and competitiveness in the global financial system.**

# II. T2S

**ECSDA supports measures that:**

1. Promote the use of T2S and enhance its central role as the core European settlement for central bank money settlement in euro and potentially other EEA currencies;
2. Increase settlement volumes on the platform; and
3. Promote further enhancements of the platform by improving its functionalities and resilience.

The Hub model creates a robust framework, while the strategic focus for developing further euro-zone settlement integration would greatly benefit from increasing the volumes on T2S. This is the only way to fully exploit the platform's core advantages – higher settlement efficiency and improved capital and liquidity management.

That being said, it **cannot be disregarded that large volumes are settled outside CSDs, not subject to the prudential framework of the CSDR. Bringing some of these volumes to CSDs would result not only in higher levels of CeBM, safety and legal certainty but also volumes on T2S.** (See section on settlement internalisation).

When it comes to balancing the proportionality and anticipating effects of the proposed measures, considering the market reality, we would like to flag that:

1. Non-euro area CSDs report low or absent client demand for settlement in euro. Regular surveys conducted as part of their corporate strategy consistently confirm the absence of interest among participants and relevant central banks in joining T2S, even for the local currency (which is, in any case, not yet available in T2S).
2. To meet the very limited participants' demand, such CSDs currently perform Euro settlement via T2 using central bank money – in accordance with CSDR.
3. Several CSDs outside of the Eurozone are today connected to T2S for DvP settlement with finality in Euro, performed with zero or very low volumes. It should, however, be considered that the volumes are typically very small, and, from experience of already connected CSDs, do not increase over time, following the connection to T2S. Hence, *ceteris paribus*, connecting to T2S does not increase the volumes of cross-border.

**Given the above-mentioned scenario, imposing an obligation on all CSDs (and particularly outside of the Eurozone) to settle through T2S accounts, regardless of their transaction volumes in T2S-eligible currencies, would conflict with the principle of proportionality.**

For some markets, in particular non-Eurozone markets, T2S project management and migration costs are disproportionate relative to their settlement volumes and represent a key barrier preventing both markets and their participants from joining the EU platform.

As it is highly uneconomical for the CSD to move the rest of its settlement to T2S because of the small Euro-settlement portion, if the proportionality is not taken into account, there is a high likelihood that the non-euro-zone CSD will rather stop the provision of settlement in Euro, leaving it to more risky providers to provide the service. This will be to the detriment of the local market.

#### **Policy recommendations for T2S-related provisions:**

**With this measure, the proposal intervenes in the core business model of CSDs, rendering the EU set-up – already more rigid than in other regions – even less defined by the market-driven business development (which is the natural driver of the modern markets allowing them to remain competitive, aligned, and when needed, anticipative of the market needs rather than rendered obsolete due to the legislative rigidity). Based on the EU objective to simplify, decrease the burden and costs to support the competitiveness of EU businesses, we ask for an approach that is more proportionate and considers the market reality. We therefore propose:**

1. We recommend carefully considering that the willingness to join T2S is closely linked both to the political commitment to join the Eurozone and to the availability of the local currency in T2S, as prerequisites for the full settlement connectivity of the CSD.

2. There could also be a **threshold calibrated** on the basis of an effective use of available market data for non-Eurozone CSDs, allowing the obligation to be applied in a proportionate and evidence-based manner. The threshold should be designed and set in a way that does not create disincentives for non-Eurozone CSD and their participant to settle in euro.
3. In parallel with the new conditional interconnection obligations, **there could be a targeted review of the T2S pricing framework**, ensuring that the overall pricing structure remains attractive and proportionate, allowing for competitive positioning of the EU industry.
4. **The authorities may consider whether channelling significant transactions above a certain threshold or those of institutional investors to settle through a CSD and not just at SIs would benefit the overall level of safety and certainty.** This measure would thereby much support higher activity on T2S— while continuing to strengthen the system’s resilience and functionality (see also the following section).

### III. Settlement Internalisation

*ECSDA welcomes the proposal to provide increased transparency and information on Settlement Internalisers (SIs), but a deeper understanding of the impacts and correction of the negative effects is essential for a stronger EU liquidity.*

Settlement internalisation is a relevant phenomenon that warrants deeper analysis, not only in terms of costs, settlement efficiency, and potential legal and operational risks, but also with regard to its **broader impact on EU market integration**. In particular, further analysis is needed to assess its potential effects on the fragmentation of cross-border settlement flows, as well as on the effective use of T2S and the freedom of choice of settlement location.

We also welcome the ongoing ESMA survey conducted in preparation for the new report on CSD settlement and internalised settlement. The previous report, which dates back to November 2020, urgently requires an update to ensure consistency in the development of the SIU policy measures.

While we welcome more transparency and regular monitoring, we would like to stress that **settlement in the books of an SIs is structurally and operationally different from CSD settlement**.

The organisation of the process at SI leads to the cross-border equity settlement largely happening in the books of the SI/agents. It is interesting to note that the volumes of settlement internalisation are high for the same instruments for which the activity of the systematic internalisers at the trading level is also known to be high.

Settlement internalisation is enabled by omnibus account structures and internal book-entry reallocation, meaning the intermediary can complete delivery/receipt between two clients without passing instructions to the underlying CSD (or the next intermediary). They also have different validation rules. In many cases, these differences will result in different settlement fails that may not be comparable, which may wrongly seem to justify less attention from the authorities.

**Operational and custody risk** are repeatedly flagged as the most common risks associated with internalised settlement in ESMA's report to the Commission, and ESMA stresses monitoring given **extremely high values/volumes and concentration**.

**Furthermore, the settlement internalisation is not done in CeBM, nor with T2S involvement.** SIs follow different regulatory frameworks that are not crafted to address the settlement-related needs, unlike the CSD one, and certainly **not considerate of either prudential requirements or dedicated oversight for the settlement volumes** going through some of them. Unless mandated by the client otherwise, which is rare, the SIs' systems privilege first the internalised settlement, with CSD settlement positioned at the end of the processing window. This results in the settlement of only outstanding positions and low volumes.

For several years, deep attention of the policymakers was dedicated to the creation of a bigger pool of liquidity at the post-trade level. While some mentioned market infrastructures as parties to take action for defragmentation – where, as mentioned earlier, CSDs already have numerous links, and there is already at least one solution allowing access to all EU Markets through a single CSD account and where further efforts are ongoing – there was no sufficient attention to the parallel shadow settlement largely contributing to the split of liquidity. With the legally divergent environment, with different securities and tax laws, asset protections, etc., most frequently it means operating an SSS for each Member State at the CSD level. However, **the SIs heavily contribute to the EU liquidity fragmentation**. To increase the level of integration, further splitting of liquidity and transaction flows happening through settlement internalisation requires attention.

Also, the breadth and a lower regulatory burden of the SI licence allow them to offer all the related tax and asset servicing services, FX, and cross-border debt settlement channelled via agents, which means that local CSDs (and T2S) only capture a marginal amount of cross-border securities settlement volumes. **With all else equal, if a CSD can (by its licence, cash and tax arrangement) provide a tax service or another relevant ancillary service, the level of regulatory burden attached to the CSDR licence renders this service less competitive with an SI.** The barriers of post-trade, rooted in the divergence of the EU regulatory, tax and operational frameworks, support the settlement internalisation. It is essential to continue addressing the EU local divergences to decrease the settlement internalisation flows and limit the fragmentation of flows to a minimum.

Enhanced disclosure and transparency obligations alone are not sufficient to remedy the existing structural distortion: according to the ESMA Report on Trends, Risks and Vulnerabilities No. 2, 2025, looking at equities, Settlement Internalises processed 80% or more instructions compared to CSDs in 2024. In terms of the value of instructions, internalised settlement accounted for about 66% of the value processed by CSDs in 2024. The TRV report in 2026<sup>3</sup> shows a significant increase in these instructions in 2025.

ECSDA will be pleased to speak with the authorities on how to remedy the regulatory arbitrage.

### ***Policy Recommendation for addressing settlement internalisation***

- 1. Consider the overall impact of settlement internalisation on market integration and continue monitoring trends** and collecting data to improve the understanding of the **phenomenon, particularly in its cross-border dimension**.

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<sup>3</sup> ESMA TRV, 11 March 2026, p. 32, available at [https://www.esma.europa.eu/sites/default/files/2026-03/ESMA50-1949966494-4041\\_TRV\\_Risk\\_Monitor\\_1\\_2026.pdf](https://www.esma.europa.eu/sites/default/files/2026-03/ESMA50-1949966494-4041_TRV_Risk_Monitor_1_2026.pdf)

2. **Reduce the regulatory arbitrage between CSDs and internalised settlement** in line with the measures mentioned above.

This will allow investors to effectively choose the higher level of protection and benefit from the deeper liquidity pools and common settlement infrastructure provided by interconnected CSDs and T2S, in line with the objectives of the MISP.

3. **Progress to address legal and tax divergences between States** to foster true market integration.
4. As CSD fees for core services are already public, **the ESMA mandate with regard to tariff formats should be limited to settlement internalisers.**

#### **IV. Choice of Settlement Location (Article 34c MiFIR)**

ECSDA strongly supports and is committed to providing market participants with a meaningful choice of settlement location where there is demonstrable and sustained market interest. Hence, ECSDA welcomes the introduction in MiFIR Article 34c of a harmonised right for trading venue members across the EU to designate their settlement location.

**However, we caution against designing this access as an unconditional right.** This choice should be implemented in a secure and orderly manner by anchoring the designation of a CSD to the existing risk-based framework. Granting an unconditional right to designate the settlement location would compel the establishment and maintenance of a potentially large number of new technical, legal and operational connections regardless of whether there is a credible business case, demonstrated user demand or adherence to established risk management and due diligence processes.

Forcing the creation of such connections without economic justification would generate substantial costs and increase systemic and operational risk and fail rates, leading to a fragmented post-trade ecosystem.

As a reference, article 37(2) of MiFID II provides for a right to choose the settlement location, which was not of an unconditional nature and includes risk-based pre-requisites – such as functioning links between the systems and the approval of the competent supervisory authority to ensure the orderly functioning of the market.

These requirements were not transferred to the new MiFIR structure in the proposal and, in particular, were not harmonised in Article 34c MiFIR. The current proposal for an unconditional right of choice, therefore, is not in line with the previous, risk-based logic of the repealed Article 37(2) of MiFID II. It, therefore, appears not to consider the above-mentioned risks.

We believe the above-mentioned concerns can be addressed by EU lawmakers by **improving the coordination of the access right in MiFIR Article 34c with the existing access rules in Article 53 of CSDR, fostering the legal certainty of the overall open access regulatory framework.**

Concretely, we encourage the EU lawmakers to make the access right set forth by Article 34c subject to the existing access rules of Article 53 of CSDR.

## V. Passporting

ECSDA welcomes the European Commission's initiative to further streamline and simplify the EU passporting framework for central securities depositories. The CSDR fostered the capabilities of CSDs to accept issuance of shares by non-domestic EU issuers.

However, until the laws are harmonised, the notification simplification does not change the underlying struggle related to the divergence of laws, which remains to be solved by the parties involved in the cross-border issuance.

That said, to some extent, the proposed change of CSDR Article 23 introduces a more efficient passporting process by limiting the requirements to an ex-post notification when a CSD begins offering issuance services in another Member State, and by removing the obligation to comply with the host Member State's corporate law framework.

These changes are expected to facilitate the CSDs' ability to provide time-to-market servicing of foreign issuers. This may facilitate the expansion of cross-border CSD services within the EU, enhance market integration, and ensure a more level playing field between CSDs and other financial market infrastructures operating under EU law.

### *Policy recommendations to further enhance passporting*

- 1. Apply standard review process for Article 23(2) updates:**  
Given the simplification objectives and the content of the notification, we recommend that the obligation to update information under Article 23(2) should follow the standard terms of the review and evaluation process.
- 2. Improve consistency between Articles 16(1a) and 23:**  
We recommend regrouping Article 16(1a) (covering only certain core services) with the passporting provisions in Article 23. This would clarify that the core principle that the CSD authorisation is effective across the entire EU serves as the clear baseline for passporting — including for settlement and ancillary services.
- 3. Protect commercially sensitive information under Article 23(3):**  
We recommend amending the provision requiring ESMA to publish on its website information received via notifications, particularly the value of foreign financial instruments serviced (point (c) of Article 23(2)). Such information is commercially sensitive, and public disclosure could raise confidentiality concerns. It should instead be shared only with the relevant competent authorities.

## VI. Innovation

### *Liquidity and technical interoperability to enable scale*

ECSDA members are actively involved in the DLT-related projects across Europe to support the safe adoption of digital assets and the tokenisation of existing securities (positions), as well as the Eurosystem's current work to bring a wholesale CBDC into production.

**Several ECSDA Members already run DLT platforms in real-life operation**, providing issuers with a more efficient and digital approach to issuance, while securing a high level of asset protection and legal certainty for investors and combining key elements **to support broader market adoption with trust**.

They collaborate in the development of market technical **interoperability frameworks and standards** as essential elements of a European tokenised wholesale financial markets ecosystem that leverages technology such as distributed ledger, AI and others.

Moreover, by tokenising the ~100 trillion of Assets under Custody (AuC) they hold, the European CSDs can contribute to open new liquidity pools, avoid fragmentation and enable capital market efficiencies.

**European CSDs help to ensure that Europe's strategic autonomy can be fostered with the support of the tokenised financial ecosystem, building future-proof, scalable and innovative market infrastructure based in Europe.** To avoid liquidity dispersion, the European digital ecosystem should be built by combining traditional and digital processes and enabling interoperability between legacy systems and new technologies.

### *General regulatory approach*

**ECSDA supports the EU Commission's proposals to modernise CSDR, making it technologically neutral and allowing innovation in the existing framework, complemented with the enhancements to the DLT Pilot Regime.**

**In light of the fast-paced developments in other major jurisdictions, particularly the US, Europe must be supported by a modern, globally competitive and streamlined regulatory framework to fully unlock innovation potential.**

**In the context of the global accelerating digital transformation of capital markets, the European regulatory framework continues to ensure financial stability and investor protection. While maintaining these, we advocate for strengthening the regulatory framework through simplification, enhanced consistency and allowing market participants to innovate.**

**In this respect, we share the approach followed by the Commission with the MISP of enabling the maturity path from the gradual scaling of the DLT pilot into the "mainstream regime" (i.e. CSDR, MiFID II/MiFIR) by way of appropriate transition rules.**

From the first phase of the DLT Pilot Regime, it became evident that while Europe was a first-mover in creating a dedicated framework for DLT, the PR's design ultimately failed to attract significant volumes or market interest. In the settlement space, this is obviously coming from the fact that the technology itself is not making the difference unless it allows for an enhanced business case addressing the issuers and investors' needs so much better or cost-effectively that would justify the creation of another settlement venue. Several reports speak about the sufficient abundance of settlement providers in Europe, and as mentioned earlier, there is rather an effort to consolidate them to enhance liquidity fragmentation.

The innovation under the existing CSDR regulatory framework is already occurring. The creation of a parallel Pilot regime, separate from CSDR, creates an artificial difference in cost drivers, where the pilot tests the lighter regulatory burden more than the technology itself. A more neutral way to test the technology would have been to propose a proportionality to the core CSDR or, akin to the US, exemption letters, allowing for the use of different technologies, including DLT, AI, cloud and others. This would allow to more neutrally consider which of the technologies brings additional value and gradually adjust the risk management in a proportionate way to the volumes and to the specificities of that technology.

*Now that the Union is engaged with the Pilot regime, we support enhancements there and in the CSDR.*

As the EU has opted for a different approach and is now engaged with the Pilot regime, we view the enhancement of the DLT Pilot Regime and modernisation of the CSDR<sup>4</sup> as important and useful first steps.

We also support the proposed revisions to CSDR and Settlement Finality Directive to provide legal certainty in the DLT context.

The first steps can be further improved already now by extending the framework for the settlement of the cash leg to other new forms of money and by enhancing usage conditions, alleviating prefunding requirements.

At the same time, to unlock the full potential of its 100 trillion AuC by tokenisation, Europe's CSDs should be granted a similar no-action letter/clarification on the ESMA level, such as in the US, or allow for proportionality under the CSDR.

**Current political momentum offers a unique opportunity to maintain Europe's competitive edge by ensuring technological neutrality of the EU regulatory frameworks, where innovation is already driven by key FMs,** rather than containing innovation to a siloed, parallel regime, which adds to incoherence and fragmentation, and mostly relies on the lighter regulatory burden.

For the settlement provider of high scale and significant volume, the full scope of CSDR and MiFID should apply, with the exemptions strictly limited to cases of technical incompatibility.

**The MISP enhances the Pilot Regime.** However, as part of the 2030 regulatory assessment, ESMA should take stock of the concrete use cases enabled by a genuinely scalable and accessible pilot regime.

**Accordingly, for the Pilot Regime and CSDR modernisation, we would see the following:**

1. The fully-licensed CSDR entities need to be permitted to operate a DLT market infrastructure under the Pilot Regime **without being subject to aggregate value thresholds** and with a limited list of exemptions connected to incompatibility with DLT.
2. Rather than undergo a duplicative and burdensome licensing process, these entities, which already adhere to the EU's highest prudential standards, should be able to do so via a simple **notification procedure**.
3. **Broadening the range of eligible settlement assets** is a prerequisite for meaningful innovation. The legislation should explicitly permit the use of **all forms of tokenised money** for settlement and as eligible assets, provided that the prudential framework is adequate. This scope should include not only MiCA e-money tokens but also tokenised deposits and money market funds, ARTs, and, once available, a wholesale Central Bank Digital Currency (CBDC).

For further regulatory alignment between CSDR and MiCAR, including MiCA instruments into CSDR and allowing CSDs to offer MiCA services as an ancillary service seems a natural modernisation step.

4. **Expansion of the eligible instruments** is consistent with the principle of technological neutrality underpinning the EU regulatory framework. In particular, it would ensure that equivalent financial

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<sup>4</sup> By defining DLT and adapting key concepts to the DLT technology in the CSDR, e.g. revisions of book-entry, cash and securities accounts - and enabling settlement with MiCA authorised e-money tokens.

instruments are treated consistently regardless of the technology used for their issuance, recording, or settlement.

We welcome the ECB's recent announcement about the decision, which renders DLT-issued securities in a regulated SSS (securities settlement system) eligible for ECB collateral operations.

5. **Most importantly, the clear transition path should be an essential element of the coherent framework between the CSDR & MiFID/R and the Pilot.**

CSDs play a key role in building the future European capital markets. Among all DLT Pilot Regime participants, CSDs are uniquely positioned to have already heavily invested in the digital operational resilience, standardisation based on the market needs and creation of meaningful advancement of the on-chain markets.

They hold trillions of assets under custody and have established relationships with thousands of market participants, with a high potential for at-scale tokenisation. Thus, CSDs have the ability **to build the bridge between the new and the old world**, avoiding the splitting of liquidity, providing investors with a trusted framework to embrace innovation with the assurance of financial markets' stability and resiliency.

We support the additional flexibility in the testing environment for small-scale experiments towards a future-proof permanent regulation, in the exemptions design. Although it should be made clear that the prudential environment for the systemically relevant market infrastructure should not be bypassed. The goal should still be to modernise the EU's core regulatory frameworks to fit the DLT and other new technologies.

This approach would foster a true level playing field and prevent the fragmentation of already scarce liquidity, allowing market forces to drive innovation on an equal footing and with clarity on the fact that the prudential framework that was deemed relevant after the market turmoil is still relevant to prevent another massive crisis for the systemic volumes.

**As CSDs advance in their DLT use case initiatives, they will progressively identify which exemptions should be retained and which adjustments to the standard framework may be necessary to support the transition from experimental pilots to a fully operational mainstream regime that is fit for innovation. At this stage, not all aspects are yet known.**

**We emphasise a clear transition path to ensure a level playing field, as all market participants will ultimately be required to comply with the same framework once DLT-based activities reach scale.**

As the use case developed under the revised DLT Pilot Regime will help identify which CSDR provisions may be incompatible with DLT, we expect that actively licensed CSDs provide their views to ESMA in the context of the 2030 report.

We support using this report to take stock of the implemented use cases. and to outline a concrete transition path for integrating the DLT PR back into the respective fully-fledged regulatory frameworks of licensed entities.

6. **Unbundling of individual core CSD services is incoherent with the former CSDR reflection**

**For new technologies to add value, they must complement and create synergies with established core platforms like T2S, not introduce new points of friction and fragmentation.**

**To recall, the definition of CSDR has been carefully crafted to ensure that market infrastructures are covered by the appropriate legislation. Furthermore, the notary, custody and other services are intrinsically interconnected and heavily reliant on the settlement (and vice versa), including to ensure the integrity of the issue.**

In this regard, we strongly caution against proposals that would permit the unbundling of core CSD functions into "single services" provided by different entities. Such an approach would jeopardise market integrity, introduce unnecessary operational complexity, and should therefore not be permitted.

Specifically, splitting CSD services would transform what is currently a seamless internal reconciliation process into a complex, costly, and error-prone external one between multiple providers. Furthermore, it would create ambiguous liability chains, making it difficult to assign responsibility in the event of a failure. The supervision of these entities will be even more complex. These operational risks ultimately pose a direct threat to the stability and resilience of the market.

As pointed out in the proposal, the requirement to ensure the integrity of securities issuance applies equally to conventional CSDs and to CSDs using DLT. For CSDs using DLT, strict reconciliation rules are to be designed, taking into account the specific ways in which DLT operates. In this context, we question how the proposed unbundling of services would be compatible with the need to preserve the integrity of issuance.

***Extension of the DLT Pilot Regime to Crypto-Asset Service Providers: It should be clear that the Pilot regime allows experimentation with the technology at a small scale, but larger volumes do not exempt providers from the CSDR framework.***

In light of the objective of enhancing clarity, ensuring consistency, and reducing the complexity of the regulatory framework, we believe the rationale for extending the Pilot Regime to Crypto-Asset Service Providers (CASPs) should be explained in greater detail.

Such an extension would be inconsistent with the EU regulatory framework, which has, since the emergence of crypto-assets in financial services, clearly distinguished between crypto-assets that qualify as financial instruments and those that do not, as noted in the preambles of Regulation EU 2022/858. This distinction underpins the MiCA framework for crypto-assets outside the scope of EU financial legislation, addressing specific challenges identified by legislators regarding investor protection, market integrity, and financial stability, while ensuring legal certainty and regulatory coherence.

Blurring this distinction will undermine the conceptual clarity that has so far characterised the EU approach. It will introduce unnecessary complexity into the regulatory landscape. Furthermore, there are inconsistencies in the exemptions for CASPs operating TSSs with the MiCAR.

Given the SIU's objectives to achieve market integration, the enlargement of the scope of entities will render this objective unachievable.

The Pilot regime should not create a loophole bypassing the prudential regulation when the volumes require a high level of prudence for financial stability reasons and protection of many citizens' investments. CASPs or investment firms should be reminded of the experimental nature of the Pilot for the small scale. For the volumes beyond the threshold, no unbundling or other loopholes should allow to replicate CSD services for bigger volumes with whatever technology without applying the CSDR.

## Interoperability and Standards

We welcome the proposal in Article 10(g), which recognises the importance of establishing standards and ensuring the technological interoperability to enable the new ecosystem to flourish. In this regard, as highlighted in recent CSD reports, we fully share the view that standardisation plays a crucial role in supporting interoperability between DLT market infrastructures. This includes standardised data models for digital assets, technical standards to allow for cross-chain communication or common security frameworks, to enhance data quality, improve automation and prevent fragmentation of the digital asset landscape.

Given this priority of creating a bridge between the existing and digital infrastructures, and in particular the fact that industry standards referred to in paragraph 1 of Article 10(g) should focus on establishing links, we believe that the standard-setting process should be industry-driven, led by licensed actors with substantial hands-on experience operating real-life DLT platforms in the securities space, including as well actors like the ECB.

The current approach to forming standard-setting “groups” does not appear to fully recognise the value of consolidated, practical experience in both the DLT and traditional environments, which is essential to ensure that standards are both effective and implementable in practice and not overly rigid.

### Policy recommendations

- 1. Accelerate the futureproofing of CSDR by adapting it to new technologies and making a single set of standards fitting for Pilot and CSDR DLT-based systems.**

Move beyond a parallel pilot regime, taking stock from concrete use cases by future-proofing CSDR and related legislation, ensuring technological neutrality, legal certainty, and a level playing field, while enabling innovation at scale. To ensure a full level of technological neutrality, the EC may introduce some provisions for the smaller entities authorised under the CSDR, including in cases when they would like to experiment with non-DLT technologies, such as AI or Cloud. Review the CSD services (annex to CSDR) in light of new, broader capabilities and service range allowed by the new technologies and modern market needs.

- 2. Enhance and scale the DLT Pilot Regime with a clear transition path to foster the modernisation of the mainstream regime.**

To facilitate the connection between DLT and non-DLT ecosystems, the current level 1 provisions and future market standards should be reused with limited exemptions for cases of technical incompatibility. This will also help the transition of smaller scale Pilot-based entities to the mainstream regime with a clear, flexible transition framework aligned with the principle of “same risks, same rules” and allowing for a higher level of standardisation and defragmentation of the overall market.

- 3. Enable the use of diverse forms of tokenised money for settlement**

Expand eligible settlement assets to include MiCA e-money tokens, tokenised deposits, money market funds, ARTs, and future wholesale CBDC, while alleviating prefunding requirements to unlock meaningful adoption.

#### 4. Promote interoperability through industry-driven standards

Ensure that standard-setting is led by licensed market infrastructures with proven operational experience, based on real-world testing, to deliver scalable, interoperable solutions and avoid market fragmentation.

## VII. Supervision

ECSDA welcomes the Commission's intention to create, with the proposal, more efficient and harmonised supervision to integrate EU capital markets.

Greater convergence will create level playing fields, enable further market integration and scale, and accelerate cross-border activities, while ensuring adequate risk management and strengthening the European financial markets.

In order to be successful, any new supervisory framework **must avoid duplicative supervisory layers, adhere to a principle-based approach and maintain operational efficiency and timely regulatory responsiveness**. Supervisory activities across different types of FMIs and technologies should also be harmonised. **The reform should, therefore, follow the principles of simplicity, proportionality, and cost-effectiveness.**

#### *Risk connected to layering and complexity*

ECSDA cautions against a framework based on layering of responsibilities between ESMA and National Competent Authorities (NCAs), as this will lead to complexity, duplication, unclear accountability, slower decision-making, and elevated costs.

Any change must first ensure substantive reforms on ESMA capacities as well as a clear-cut between policy making and oversight. Without these, a new supervisory design would drive up industry compliance and supervisory costs and weaken the overall integrity and effectiveness of the supervisory framework.

However, supervisory reform is not a silver bullet for increasing the EU's global attractiveness and competitiveness and shall not distract from other urgent capital market reforms. The currently proposed ESMA reforms, taken together with the changes made in other legislative files designating ESMA as the supervisor of significant trading venues, CCPs, and CSDs, pose the risk of complex and costly overlapping supervisory layers, especially arising from the ESMA-NCA cooperation arrangements.

Furthermore, it is of central importance that a reform of the supervisory structure does not impair legal protection. In this context, we note that the new powers of intervention in MiFIR, EMIR, CSDR, and the ESMA Regulation are not clearly defined, which creates considerable legal uncertainty. For example, the ESMA proposals allow the authority to take "appropriate measures" under vague conditions and with unspecified legal consequences, thereby setting the threshold for interventions unreasonably low and jeopardising effective legal protection.

The introduction of complex, multi-tiered procedures between ESMA and national authorities can also lead to problems regarding legal protection, as it is not always clear which court certain procedural acts can be challenged before, and national courts are not permitted to review ESMA decisions substantively. To ensure comprehensive judicial review, ESMA decisions in such cases should be designed as non-binding

opinions only. Moreover, the appeals procedure under Article 60 ESMA Regulation exhibits significant deficiencies from a German perspective, particularly due to the lack of a statutory suspensive effect and the delegation of procedural rules to the Board of Appeal, which impairs transparency and legal certainty.

In the event that the supervisory regime is revised, these aspects should be urgently addressed and made clear. Proportionate intervention powers, as well as transparent and judicial control mechanisms, must be ensured. The powers of ESMA must therefore be complemented by a European administrative procedure law that guarantees compliance with fundamental standards of legal protection.

**The supervisory reform should consider the following:**

1. **assignment of clear responsibility and ensures legal certainty,**
2. **in line with the intention to support EU competitiveness, should not lead to additional costs,**
3. **clear separation of policy-making from oversight,**
4. **streamlined communication and decision-making,**
5. **fostering of innovation and competitiveness, and allows for proportionality,**
6. **harmonised supervision and oversight approaches to ensure a level playing field.**

## **VIII. Groups' recognition**

We welcome the objectives of the package of facilitating intra-group outsourcing and allowing groups of CSDs to create synergies and benefit from economies of scale.

This objective is illustrated by the changes to Article 19 of CSDR, foreseeing that outsourcing of a core service between CSDs of the same group is exempted from NCA authorisation and will be subject to a streamlined approval process under ESMA, leveraging their central database.

However, we note that for trading venues, the outsourcing proposal goes further than for CSDs, as intragroup outsourcing is no longer treated as outsourcing for supervisory purposes based on Article 2f MiFIR.

Intragroup outsourcing across different financial market infrastructures should be regulated in a consistent manner in order to improve cost efficiency across the EU.

**Therefore, CSDs should benefit from intra-group outsourcing provisions similar to trading venues, which would translate into ex-post notification instead of an authorisation procedure.** Responsibility for outsourcing, including retention of sufficient expertise, would remain with the authorised outsourcing entity as is currently the case under article 30 (1) of CSDR. Such simplification would also ease the administrative burden of supervisors.

***To enhance the proposal further, we have the following observations and requests on the Group outsourcing:***

1. **Unnecessary new notification requirement:** for intra-group outsourcing to a non-CSD entity of non-banking ancillary services (services referred to in section B of the Annex of CSDR), the proposal creates a new notification procedure in Article 30(4), which leads to a new burden in terms of assessing the services and notifying the NCA. We wonder what the purpose of such a requirement is. In the spirit of regulatory simplification and burden reduction, we

would advise against implementing this change. Alternatively, when the service provider is a regulated entity belonging to the same group, it could be exempted.

2. **Staff sharing:** Although the Commission seems to think the contrary, changes to article 19/19a do not address this topic. Indeed, the Commission's impact assessment suggests that the problem is one of intragroup outsourcing vs external outsourcing constraints, while our ask is not to qualify staff sharing as outsourcing in the first place.
3. **Regulatory overlap between CSDR and DORA:** The proposed changes relating to intra-group outsourcing do not address regulatory overlap in this regard between CSDR and DORA. Our main recommendation is to undertake a streamlining exercise of the CSDR text in the context of the more recent DORA requirements. Consideration should be given, for example, to repealing CSDR requirements for ICT operational risk in favour of DORA (or treating DORA as *lex specialis* in this area).

***We thank the European Commission for the possibility to contribute to this consultation.***



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