

Settlement Internalisation and Omnibus Accounts

Executive Summary

The settlement process in European securities markets is primarily **driven by market participant choice**. Investors, brokers and other trading counterparties select the service providers that best meet their commercial and operational needs, including where they open their **securities and cash accounts**. That account choice determines how settlement is effected. Internalised settlement is therefore typically the *consequence* of market structure and client preferences rather than a unilateral decision by intermediaries.

Intermediaries often pool clients' assets in a single "omnibus" account, as per clients' preference, because it offers flexibility and cost-efficiency. Where both counterparties' securities are held in the **same** account with the **same** intermediary (e.g. custodian, broker-dealer, prime broker or triparty agent), settlement can be completed through internal book-entry without recourse to external settlement infrastructure ("internalised settlement"). This is operationally rational: it reduces external messaging and reconciliation, improves speed and certainty, and avoids unnecessary cost and friction for movements that can be safely processed within a single set of books and controls.

Conversely, when counterparties use **different** providers (or different CSDs), settlement must occur through a CSD and, where relevant, via cross-CSD arrangements. In addition, barriers in certain jurisdictions (legal, fiscal and market practice) continue to constrain cross-border account structures and link utility.

AFME considers that the current CSDR framework appropriately recognises internalised settlement, provides transparency through Article 9 reporting, and preserves market participant choice (including between omnibus and segregated accounts). Additional structural restrictions or expanded disclosure obligations would be disproportionate, undermine competition and increase costs, without delivering commensurate risk reduction.

1. Introduction

The purpose of this paper is to provide clarity on the drivers of settlement outcomes - internalised settlement, CSD settlement, and cross-CSD settlement - and to explain the role of omnibus account structures in enabling efficient custody and post-trade processing.

This paper emphasises that settlement internalisation is generally an **account-structure outcome** driven by trading counterparties and investors. Internalised settlement occurs within institutions that are subject to robust regulatory and prudential frameworks and internal control environments.

2. Regulatory context and key definitions

Article 2(1)(11) of CSDR¹ defines a "settlement internaliser" as an institution that executes transfer orders on behalf of clients, or on its own account, without using a securities settlement system (i.e. a CSD). Article 9 of CSDR requires settlement internalisers to report internalised

¹ <https://eur-lex.europa.eu/eli/reg/2014/909/oj/eng>

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settlement activity to their competent authority on a quarterly basis, including the volume and value of securities transactions settled outside a CSD.

Article 1(1) of the CSDR RTS² defines an “internalised settlement instruction” as an instruction settled by the settlement internaliser in its own books and not through a securities settlement system.

3. The settlement “routing” mechanism: account choice determines outcome

Settlement flows in practice follow a straightforward logic driven by where trading counterparties maintain their accounts:

3.1 Settlement on the books of the same provider (internalised settlement)

When a settlement intermediary, such as a custodian bank, acts on behalf of both counterparties to a transaction, and holds both the clients’ assets in an omnibus account at a CSD (or other settlement intermediary), settlement is executed directly on the books of the custodian bank. This internalisation reduces reliance on market infrastructure and eliminates external messaging and reconciliation steps that can cause delays or errors.

From a market design standpoint, it would be highly inefficient to require these movements to be re-instructed to a CSD where no change in the CSD’s books and records is necessary, as this would introduce additional processing steps and costs without clear benefits.

3.2 Settlement through a CSD (CSD settlement)

Where counterparties use different custodians/agents, settlement must be effected through external market infrastructure, i.e. a CSD, because the movement must be reflected across different books and records.

3.3 Settlement across different CSDs (cross-CSD settlement)

Where counterparties hold accounts in different CSDs, settlement requires cross-CSD processing and connectivity. The effectiveness of such arrangements is impacted by legal, fiscal and market practice barriers, and by constraints on account structures in certain jurisdictions that reduce link utility.

4. Why internalised settlement is used

Internalised settlement is used primarily to optimise efficiency, reduce settlement costs, and mitigate counterparty and operational risks in post-trade processing. From this perspective, investors, including retail investors at the end of the chain, ultimately benefit through faster processing and lower costs.

It is particularly valuable in operational contexts where high-frequency movements occur within a single provider’s books:

- **Tri-party collateral management**³, where the tri-party agent performs collateral optimisation and internalised settlement reduces time and cost by avoiding interaction with external settlement infrastructure (especially where both counterparties are clients of the agent and movements occur within internal books).
- **Portfolio transitions and restructuring**, where bulk movements between accounts held at the same custodian can be processed internally, avoiding unnecessary market exposure and reducing the risk of fails.
- **Internal client transfers**, where assets move between sub-accounts or business units (often in omnibus structures) and internalised settlement enables rapid transfer without settlement risk.

² [Commission Delegated Regulation \(EU\) 2018/1229 of 25 May 2018](#)

³ This is a commercial service offered by both banks and (I)CSDs, where the latter also settle (internalise) these movements on their own books similar to banks. Limiting the ability for banks to internalise these instructions while permitting them for (I)CSDs would severely limit competition, while not achieving any risk reduction.

5. Omnibus and segregated accounts: preserving optionality

An omnibus account is where an intermediary holds the assets of multiple clients in a single, pooled account at a CSD. Whilst the CSD only sees the account in the intermediary's name, the intermediary keeps separate internal records for each underlying client.

Omnibus accounts provide flexibility, cost efficiencies and scalability. These benefits are relevant not just to settlement, but to account opening and maintenance, asset servicing, and reconciliation processes⁴, and facilitate tailored service offerings across jurisdictions. Constraints on omnibus accounts in certain jurisdictions limit link utility and reduce effectiveness due to local fiscal, legal and market practice barriers.

AFME emphasises the importance of maintaining user choice: CSDR mandates access to both omnibus and segregated accounts, and clients who wish to avoid internalisation can and do select segregated arrangements.

6. Risk considerations and proportionality

AFME considers there is no material risk inherently associated with settlement internalisation⁵. Firms engaging in internalised settlement are subject to rigorous regulatory, risk and prudential frameworks, and have appropriate controls to ensure accurate, safe and timely settlement of internalised instructions.

Current reporting obligations provide transparency on internalised volumes; creating additional reporting requirements would be costly and burdensome for little to no value-add and would not align with the EU's regulatory simplification agenda.

For collateral management, the high number of (mostly) FoP movements reflect a continuous mark to market between the value of the collateral and the value of the outstanding exposure. High settlement volumes (which can happen outside of CSD opening hours and cover portfolios of assets across the globe) therefore are clear evidence of risk reduction.

7. Recommendations

7.1 Settlement internalisation

- *Preserve the current efficient and flexible model; avoid new structural restrictions or disproportionate public disclosures of use cases.*
- *Maintain the current Article 9 reporting framework; do not introduce expanded obligations or penalties that would impose disproportionate cost relative to policy objectives.*

7.2 Omnibus accounts

- *Focus policy efforts on removing legal and fiscal barriers and avoiding mandates that constrain account structure choices.*
- *Retain flexibility to support diverse market participant needs and preserve optionality for clients.*

8. Conclusion

Internalised settlement and omnibus accounts are risk-mitigating, client-driven practices that enhance efficiency and reduce friction. Restrictions on internalisation would increase costs and reduce flexibility, without making EU capital markets more attractive or competitive. EU public authorities should focus on enabling demand, removing barriers, and preserving optionality and competition in post-trade services.

⁴ For more details, please see: [AFME paper CSD Account Structure](#)

⁵ This is reflected in [ESMA's 2020 report](#) to the European Commission which stated that "no major risks related to internalised settlement have been identified".

Annex – Addressing common misconceptions regarding internalised settlement

Internalised settlement is distinct from, and not connected to, the MiFID concept of a “systematic internaliser” (SI), which applies to firms who execute bilateral trades against their clients on an organised, frequent and substantial basis (i.e. outside of a trading venue). The ‘thing’ being internalised in the case of SIs is risk – SIs utilise their own capital to trade against clients and provide liquidity. There is absolutely no connection between an SI’s trading activity and how settlement takes place. The SI and its client are the trading counterparties – unless their positions are held in the same omnibus account at a common intermediary, settlement will be effected on the books of the CSD.

As enshrined in CSDR, all market participants must be offered a choice of omnibus or segregated accounts. Investors who wish to do so may hold their assets in segregated accounts, which prevents internalisation of settlement. The fact that many investors choose to hold securities in omnibus accounts illustrates the efficiencies and cost savings that they generate. It is not the case that investors cannot control whether instructions are internalised.

Internalised settlement supports settlement liquidity rather than causing “liquidity fragmentation”. In the settlement context, we assume liquidity to mean the availability of the assets necessary to satisfy delivery obligations. In this regard, internalisation supports enhanced liquidity by supporting faster, more efficient settlement processes.

Internalised settlement contributes to SIU objectives by creating optimally efficient settlement chains. Suggestions that the route to growing CSD/T2S volumes is by restricting internalised settlement are simply not credible – this would introduce unnecessary costs and frictions, generating processing fees for CSDs at investors’ expense.

According to ESMA’s most recent reporting⁶, **“no major risks have been identified” in relation to internalised settlement, which remains a fraction of the overall size of CSD volumes.** Across all asset classes, we note that the ESMA TRV report⁷ shows that the value of instructions processed by CSDs was approximately six times greater than the value processed by settlement internalisation.

We caution against any reference to “settlement internaliser” as a specific type of entity, and instead encourage reference to “internalised settlement” as an activity, which can be performed by many types of entity including brokers, global custodians, local custodians and investor CSDs. Brokers and custodians are subject to a comprehensive and robust regulatory/prudential framework for all services that they provide to clients.

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⁶ [ESMA’s 2020 report](#) remains the most recent and authoritative assessment, with an updated report on CSD settlement and internalised settlement expected by the end of the year.

⁷ [ESMA Report on Trends, Risks and Vulnerabilities, N2 2025 \(p.26\)](#)