

ECSDA and the European challenges in the post-trading industry



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Chairman of ECSDA

Santiago, Chile - March 2005

AGENDA

- 🚩 **ECSDA mission and scope**
- 🚩 European challenges in the post-trading industry
- 🚩 ECSDA contribution

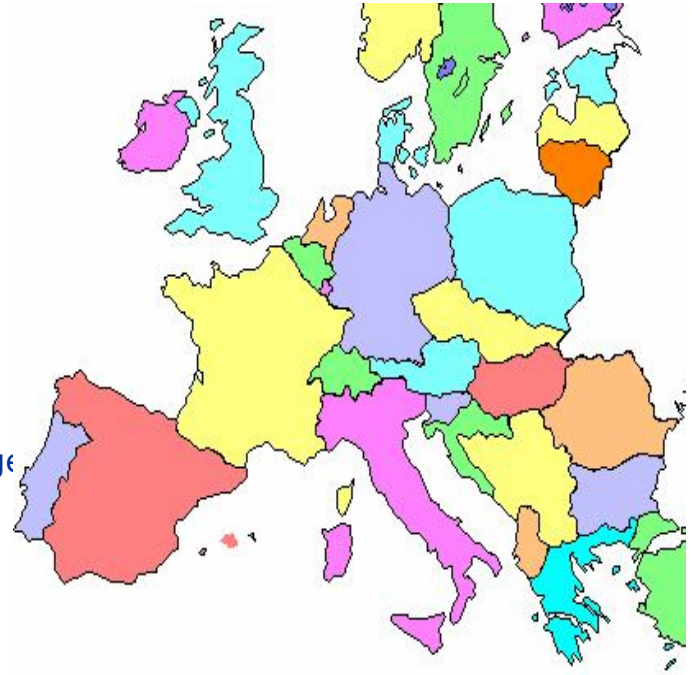
ECSDA members

**ECSDA (European Central Securities Depositories Association)
was founded in 1997**

ECSDA Members

CSD SA (Greece)
CrestCo (GB)
Euroclear France
Euroclear Nederland
Iberclear (Spain)
Monte Titoli (Italy)
VPC (Sweden)
CIK (Belgium)
Clearstream Banking Luxembourg
Icelandic Securities Depository
Clearstream Banking Frankfurt

APK (Finland)
Interbolsa (Portugal)
VPS (Norway)
OEKB (Austria)
VP (Denmark)
SIS (Switzerland)
Cyprus Stock Exchange
Euroclear Bank



ECSDA mission

The general objective is to offer solutions and provide advice at international level on technical, economical, financial and legal & regulatory matters to reduce risk and increase efficiency in custody, pre-settlement and settlement arrangements for securities and related payments across Europe for the benefit of issuers, investors and market participants

ECSDA scope

- Promote a clear and unambiguous legislative framework across Europe, minimising the potential conflicts of laws and ensuring a level playing field between providers
- Ensure transparency and minimization of risks involved in clearing and settlement by supporting the ESCB CESR standards for European clearing and settlement systems
- Favour continuous dialogue between European Authorities and market participants in order to keep the regulatory framework updated and consistent.
- Provide open, fair and equitable access to clearing and settlement
- Foster international cooperation amongst private associations

ECSDA organisation

Board of Directors

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Stéphane Bernard (CIK)
Paolo Cittadini (MT)
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Kjell Arvidsson, **Vice-Chairman**
Stéphane Bernard, **Treasurer**
Jan Hellstrom, **Secretary**

WG

WG

WG

WG

WG

Focus on ECSDA working groups

Risk Management & Audit

- Disclosure Framework

Public Policy

- EU Commission project on a framework Directive (definitions)
- ESCB/CESR standards
- Legal Certainty/Unidroit/Hague

Settlement Link

- Matching harmonisation
- Target2 interface to ancillary systems
- Update of ECSDA cross-border Model

Information Technology

on hold

Harmonisation

- Removal of 3 of the Giovannini barriers : 7 (opening days and timetables) ; 4 (intra day finance) ; 3 (corporate actions processing).

AGENDA

☞ ECSDA mission and scope

☞ **European challenges in the post-trading industry**

☞ ECSDA contribution

European challenges in the clearing and settlement industry

- the introduction of Euro has changed the rules and behaviours:
 - one set of collateral eligible throughout Europe for monetary market operations
 - investors now have a more European vision = sector based approach rather than domestic approach
- clearing and settlement activities in the EU are cost effective and safe at domestic level but cross-border arrangements are still complex and fragmented (25 different legal systems)

All European initiatives aim at one single objective

- the achievement of an efficient, integrated and safe market for securities clearing and settlement in the European Union which ensure a level playing field among the different providers of clearing & settlement services and their users.

The role of the European Authorities

- aims to create a single integrated European capital market
 - a catalyst for economic growth and job creation
- For the EU clearing and settlement industry this requires:
 - removal of the Giovannini barriers → European Commission to low cost cross-border settlement
 - removal of any competitive distortions → European Commission (between entities performing clearing and settlement activities)
- Standards for ensuring safety, soundness, efficiency in provision of settlement services → ESCB/CESR

European Union initiatives to efficient Clearing and Settlement

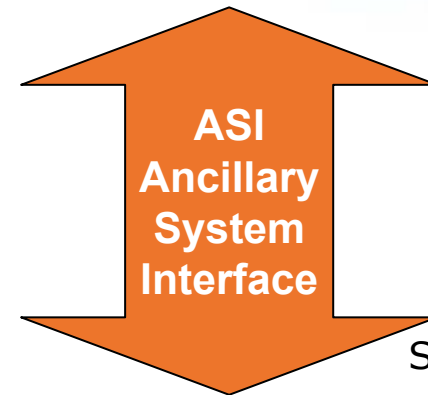
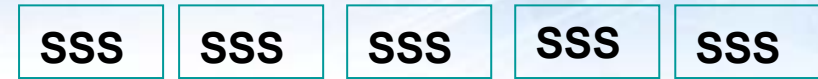
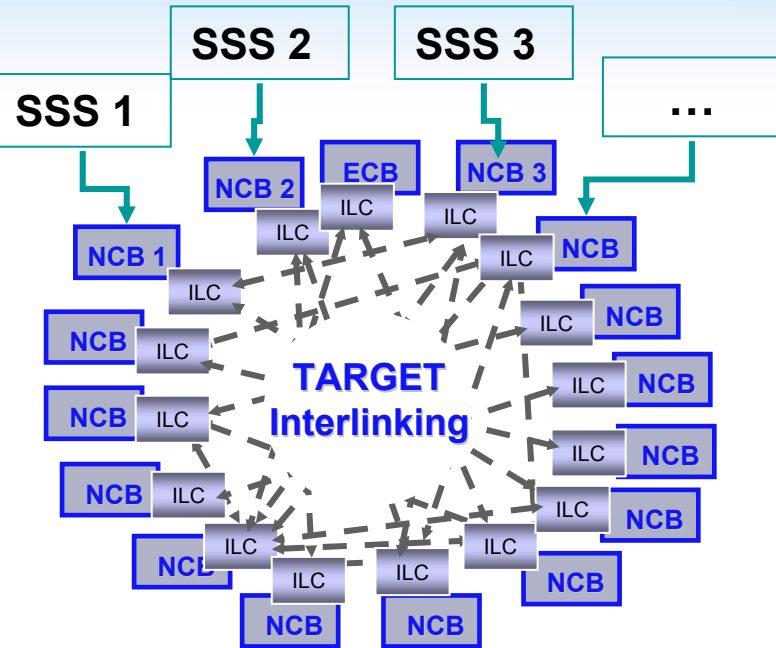
- A potential Directive for Clearing and Settlement
 - comprehensive access rights
 - common regulatory and supervisory framework based on functional principles
 - governance arrangements
- Removal of the Giovannini barriers
 - CESAME Group (chaired by the Commission) looking at the private sector barriers
 - significant market work already being delivered by ECSDA, ESF, FBE, etc. and Euroclear
 - legal and fiscal issues more complex and require public sector commitment
- Continued application of Competition Law
 - DG-competition keeps a close watching brief on the industry
- ESCB/CESR standards
 - functional standards published in 2004
 - assessment methodology currently under discussion

A new pan-European payment system

Target 2 : what will change ?

- **Single platform system**
- **More robust and resilient system**
- **Harmonised interfaces to connect users to TARGET 2**
- **Same core service for all TARGET 2 participants, irrespective of their location**
- **Single price structure**
- **Flexible liquidity management**

Target 2 : a simplified architecture



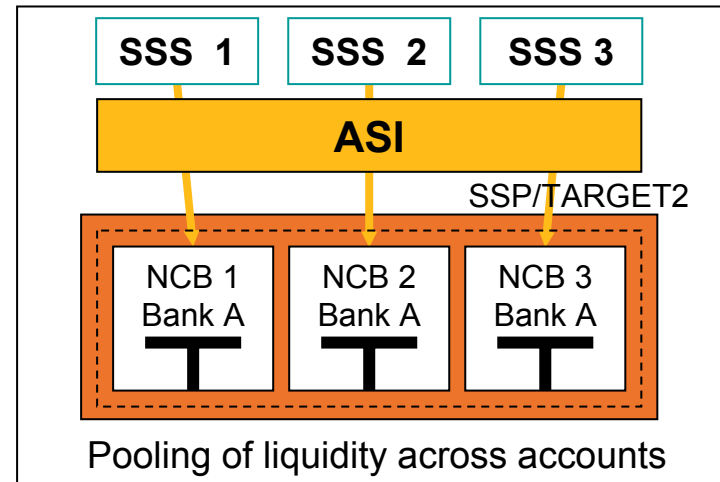
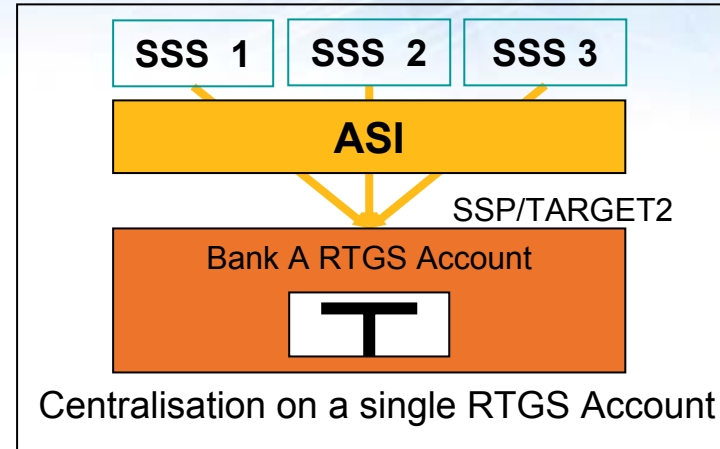
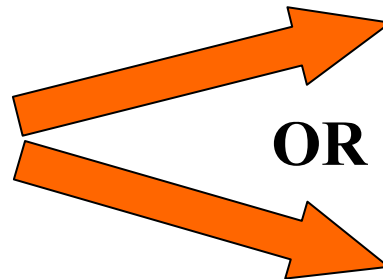
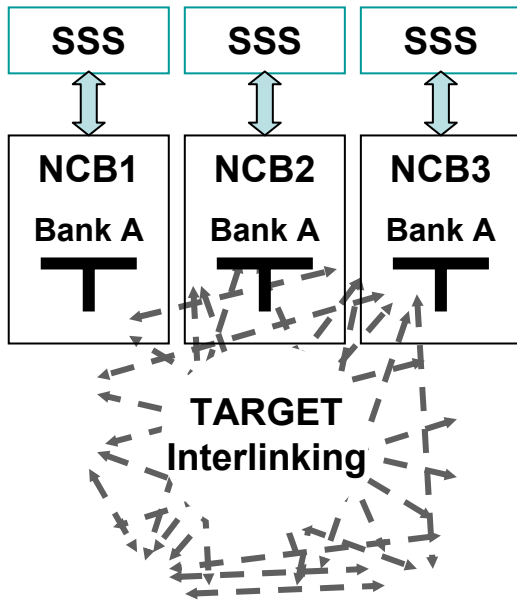
SSP TARGET2



A multitude of specific interfaces with specific procedures and specific timeframe between national central banks and local SSSs

A unique standardised ancillary system interface with multiple generic settlement procedures and standard tools to manage the schedule

Target 2 : From fragmented pools of liquidity today to a centralised liquidity pool in Target 2



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☞ ECSDA mission and scope

☞ European challenges in the post-trading industry

☞ **ECSDA contribution**

ECSDA contribution

... regarding EU initiatives

- **the Giovannini Group's reports**
- the Communication on Clearing & Settlement (European Commission)
- the ESCB-CESR standards
- the G30 recommendations
- the TARGET 2 project

Call for contribution (Giovannini group)

- Second report on “EU clearing and settlement arrangements” published in April 2003
- A concerted removal of the 15 barriers identified by the first report is the essential ingredient to the reform of post-trading in Europe
- Clearly defined strategy, responsibilities (public & private sector, i.e. ECSDA), sequencing and deadlines
- Implementation

Call for contribution (Giovannini group)

The Giovannini Group has entrusted the ECSDA with the task of taking the leading role in removing three market barriers:

- **Barrier 7:** Operating hours and settlement deadlines should be harmonised using TARGET hours as the benchmark
- **Barrier 4:** Intra-day finality in all links between settlement systems within the EU should be guaranteed
- **Barrier 3:** Harmonization of national rules relating to corporate actions processing

ECSDA role in removing Barrier 7

- ECSDA took the lead in this initiative, in close co-operation with the ESCB
- The ECSDA working group identified high level areas to be harmonised :
 - Opening days
 - Currency settlement
 - Settlement per type of security
 - Differences between internal deadlines and cross-border ones
 - Differences between gross and net transactions

ECSDA role in removing Barrier 4

- ECSDA should co-ordinate necessary measures which should be drawn up in close co-operation with the ESCB/CESR joint working group
- The ECSDA working group identified high level areas to be harmonised :
 - Settlement cycles (in order to guarantee an efficient cross-border settlement in Europe)
 - Recycling of unsettled transactions

Status on ECSDA works re: Barriers 7 and 4

What has been done

- Inventory (ECSDA countries) / Identification of differences
- First report (produced in April 2004) defining standards ECSDA members should adopt in order to overcome these barriers
- Comments of each ECSDA markets required on this first ECSDA report

Next steps

- Definition of timeframes for the implementation of standards
- Identification of CSDs which should yet reach the agreed standards
- Identification of obstacles for reaching the standards



**ECSDA should issue, in the beginning of 2005,
a status report for barriers 4 and 7**

ECSDA role in removing Barrier 3

- ECSDA role consists in:
 - the analysis of different national situations
 - the agreement on a common terminology about corporate events
 - the identification and focus on the main corporate events

Status on ECSDA works re: Barrier 3

- Given the wide ranging area of corporate actions, ECSDA has chosen to look at cash and stock distributions first and will be looking at other events after.
- ECSDA works in close co-operation with other European Associations (European Association of Listed Companies (EALIC), European Securities Forum (ESF) and European Banking Federation (EBF))

→ ECSDA should issue :

- beginning of 2005 : proposed standards and definitions relating to cash and stock distributions
- throughout 2005 : a status report on the cash and stock distributions and the publication of the proposed standards for other corporate events.

ECSDA contribution

... regarding EU initiatives

- the Giovannini Group's reports
- **the Communication on Clearing & Settlement (European Commission)**
- the ESCB-CESR standards
- the G30 recommendations
- the TARGET 2 project

Communication on Clearing & Settlement (European Commission)

ECSDA is member of the Clearing and Settlement Advisory and Monitoring (CESAME) group (European Commission, Regulators, Banks, industry representatives)

- Report on the progress made towards the elimination of the barriers 7, 4 and 3
- Expertise for the preparation of the appropriate definitions (WG2)

ECSDA contribution

... regarding EU initiatives

- the Giovannini Group's reports
- the Communication on Clearing & Settlement (European Commission)
- **the ESCB-CESR standards**
- the G30 recommendations
- the TARGET 2 project

Call for contribution (ESCB-CESR)

- The report entitled “Standards for securities clearing and settlement in the European Union” was approved by ESCB and CESR on October 22, 2004.
- The standards will come into force when an “assessment methodology” has been developed and after an analysis of the impact of the standards has been undertaken (under way)



Joint working groups ECB/NCBs/Banks/ECSDA

ECSDA contribution

... regarding EU initiatives

- the Giovannini Group's reports
- the Communication on Clearing & Settlement (European Commission)
- the ESCB-CESR standards
- **the G30 recommendations**
- the TARGET 2 project

G30 recommendations

→ **ECSDA is member of the G30 European Monitoring Committee**

→ **ECSDA : Prime contact for :**

- Rec. 4 : synchronize timing
- Rec. 5 : Trade Matching
- Rec 12 : Business Continuity

ECSDA contribution

... regarding EU initiatives

- the Giovannini Group's reports
- the Communication on Clearing & Settlement (European Commission)
- the ESCB-CESR standards
- the G30 recommendations
- **the TARGET 2 project**

TARGET 2

- Comments to the public consultation of ECB regarding the introduction of TARGET2 and description of the SSSs' user requirements on TARGET 2
- Comments on the draft "User Detailed Functional Specifications (UDFS)" for the Target2 Single Shared Platform and arguments for early opening hours to be given
- ECSDA is member of a joint ECB/NCBs/Banks working group

- A changing role for ECSDA over time

From a pure technical approach
(creation of DVP links between CSDs)

To a more “public policy role”

- A challenging role for the Association

How to best represent the interests of its members whilst
playing an active role in European construction