



Post-trade made easy

Spotlight on Cross-Border Services

What is changing for ICSDs and its clients?

Cartagena, March 2012

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Euroclear





Spotlight on Cross-border Services

... *today's agenda*

- **Regulatory challenges and opportunities**
 - ▶ Consolidation increasing at trading level
 - ▶ Clearing Industry reshaping
 - ▶ Public sector infrastructure initiatives
 - ▶ Business model 'convergence'
- **Zoom view** into how Euroclear is adapting to changing regulatory and risk landscape
 - ▶ Asset protection, risk mitigation - e.g. ISMAG, Direct Links / Dual Depository Project
 - ▶ Adapting services and products - e.g. Collateral Management solutions
 - ▶ Commitment and Growth beyond Europe – e.g. Asia, and other regional and domestic initiatives
- **Facts & Figures**
 - ▶ Euroclear Group and Euroclear Bank at a glance





Spotlight on Cross-border Services

What has changed for ICSDs and its clients?

- **Regulatory challenges and opportunities**
 - ▶ Consolidation increasing at trading level
 - ▶ Clearing Industry reshaping
 - ▶ Public sector infrastructure initiatives
 - ▶ Business model 'convergence'



Regulatory challenges and opportunities

- Direct Regulatory challenges and opportunities include
 - ▶ CSD Regulation
 - ▶ Securities Law Directive
 - ▶ Revised CPSS/IOSCO Principles which will all affect the future structure and services of CSDs and ICSDs
- Indirect Regulatory challenges and opportunities include
 - ▶ EMIR
 - ▶ MiFID / MiFIR
 - ▶ Basel III
 - ▶ Dodd-Frank Act which will all affect the behaviour of our clients and partners



Consolidation increasing at trading level

- Focused at trading level where competition and commoditisation have shrunk revenues
 - ▶ Designed to deliver global reach and regional diversification,
 - ▶ Cost synergies and
 - ▶ Scale
- Where will such consolidated infrastructure wish to clear and settle?
- Will trade level consolidation deliver greater consolidation post trade?
- Will Exchange/trading platform ownership of CCPs increase?



Clearing Industry reshaping

- Dodd Frank and EMIR will have significant impact on the clearing landscape
 - ▶ Especially in the OTC derivatives market where in the long term 60-80%* of contracts could be centrally cleared
 - ▶ Significant impact on revenues, but also investment
 - ▶ Could drive the delivery of distinct asset class specific to CCP models
- Increased use of netting across cash markets reduces CSD volumes



Public sector infrastructure initiatives

- T2S Requires Eurozone CSDs to consider outsourcing their settlement platforms to T2S
- Requires significant investment which may not be offset by internal decommissioning ...
 - ▶ ... leading to market concerns that post trade costs may rise
- CSDs will be looking at new business opportunities following the commoditisation of settlement
 - ▶ Issuer services, asset servicing, collateral management, banking(?)



Business model 'convergence'

- Boundaries breaking down in the exchange and trading platform spaces ...
 - ▶ ... listed and OTC infrastructure likely to come together more
- ... but boundaries between (I)CSDs and their clients also blurring as competitive forces move CSDs into new services to take advantage of T2S



Conclusion

- (I)CSDs impacted by significant direct and indirect regulatory and public sector intervention and by dramatic changes at trade and clearing levels
- Business models will need to be reinvented
- Will require significant market restructuring



European Union - CSD Regulation (CSDR)

Purpose and objectives

- Final Proposal adopted on 7 March 2012
- CSDR is designed to:
 - ▶ harmonise the EU regulatory framework for CSDs, and
 - ▶ harmonise certain aspects of securities settlement (T+2, Settlement discipline, forced dematerialisation/immobilisation)
- CSDR is expected to:
 - ▶ address authorisation process and provision of services across EU
 - ▶ cover all types of CSDs through a consistent regulatory framework
 - ▶ provide a regulatory framework dealing with third country providers
- We wish CSDR to be:
 - ▶ consistent with CPSS/IOSCO Principles (expected to be issued in Q1 2012)
 - ▶ coherent with MiFID II and EMIR in :
 - goals and methods
 - infrastructure role
 - provisions on access etc.



The market aspects of securities settlement

- The CSDR requires the following:
 - ▶ The mandatory dematerialisation or immobilisation of securities
 - ▶ T+2 settlement for all securities traded on a regulated market or a multilateral trading facility
 - ▶ The imposition of mandatory measures to address settlement fails through the harmonisation of settlement discipline regimes (for CSDs) and buy-in rules (for CCPs)



EU CSD Regulation

Optimal policy outcomes

- CSD Regulation should
 - Cover both CSDs and ICSDs through a consistent regulatory framework
 - Allow CSDs to hold banking licences
 - Ensure enforceable and symmetrical access rights to trading venues, CCPs and other CSDs
 - Deliver a licensing and passporting regime for CSD services that allows EU CSDs to not only compete and adapt post-T2S, but also to consolidate
 - Build on the new globally accepted CPSS/IOSCO Principles for Financial Market Infrastructures (ex-ante prudential measures)
 - Contain strong ex-post resolution and recovery mechanisms to ensure continuity of operation
 - Provide a regulatory framework dealing with third-country providers



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ISMAG = end-to-end benefits

... for Investors

- ✓ Improved service levels in asset servicing / Corporate Actions / Income events
i.e. timeliness, completeness and accuracy of information & processing
- ✓ Increased transparency on their assets performance/structure

... for Issuers

- ✓ Increased Investors' satisfaction
- ✓ Attractive and competitive issuance model to expand Investor base
- ✓ Better servicing and increased efficiency, leading to reduced costs and risks

... for Intermediaries

- ✓ Improved service level towards Investors and Issuers,
- ✓ Attractive issuance model to expand Investor base
- ✓ Better cost control in a volume increasing and complex environment
- ✓ Better risk controls through increased efficiency and standardisation
- ✓ Increased communication amongst various Market players



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Asset protection is key

Low risk custody
provider:
AA/AA+

Settlement finality:
17f7

Risk of loss protection
through Terms &
Conditions

Low operational risk:
standard processing



Selection and
supervision of
depository network -
**Direct Link/Dual
Depository Project**

Strong legal framework
against insolvency risk:
royal decree 62

**Highly regulated and
supervised** as financial
institution and as a
settlement system



How is asset protection achieved at Euroclear?

- Protection against two types of risk
 - ▶ risk of loss
 - ▶ insolvency risk
- Euroclear Bank is highly regulated and supervised as a securities settlement system and as a financial institution:
 - ▶ Financial Services Market Authority (ex Belgian Banking and Finance Commission)
 - ▶ National Bank of Belgium
- Risk of loss protections in the Terms and Conditions governing the use of Euroclear
- Robust Belgian legal framework protects against insolvency risk
 - ▶ Royal Decree 62
- Carefully selected, managed and reviewed depositary network



Asset Protection and Risk mitigation in our market links

- The **Direct Links/Dual Depository Project** is key in terms of addressing asset protection and risk mitigation concerns:
 - ▶ Direct Links Project
 - ▶ Dual Depository Structure





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Direct Links Project: overall approach

Scope

- Goal: open a direct account with the domestic CSD in markets where currently we use a specialized depository

Context

- Strong focus on asset protection and accessibility of assets
 - ▶ Legal ownership
 - ▶ Immediate availability of assets
- **AIFM Directive** – liability of fund custodians for sub-depository

Objectives

- Elimination of sub-deposit risk
- Market proximity



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Dual Depositories

Scope

- Goal: split our current depot across two depositories in order to have full business continuity established (in markets where we cannot become direct in the CSD in the short term)

Approach

- Ranking of market based on risk / materiality
- Selection of second provider based on EB selection criteria (financial soundness, operational capability, commitment to the business...)
- Split of depot along clear lines (e.g. bonds <> equities) but commitment to be able to service all of the instruments by both agents.

Objective

- Ensure active fall-back



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Dual Cash Correspondents

Scope

- Goal: split our cash activity across two cash correspondents

Approach

- Align service level (deadlines, account conditions ...) to that of current active cash correspondent
- Gradual implementation as from Q2 2011

Objective

- Provides clients choice/preference on cash correspondents



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 - ▶ Commitment and Growth beyond Europe – e.g. Asia, and other regional and domestic initiatives

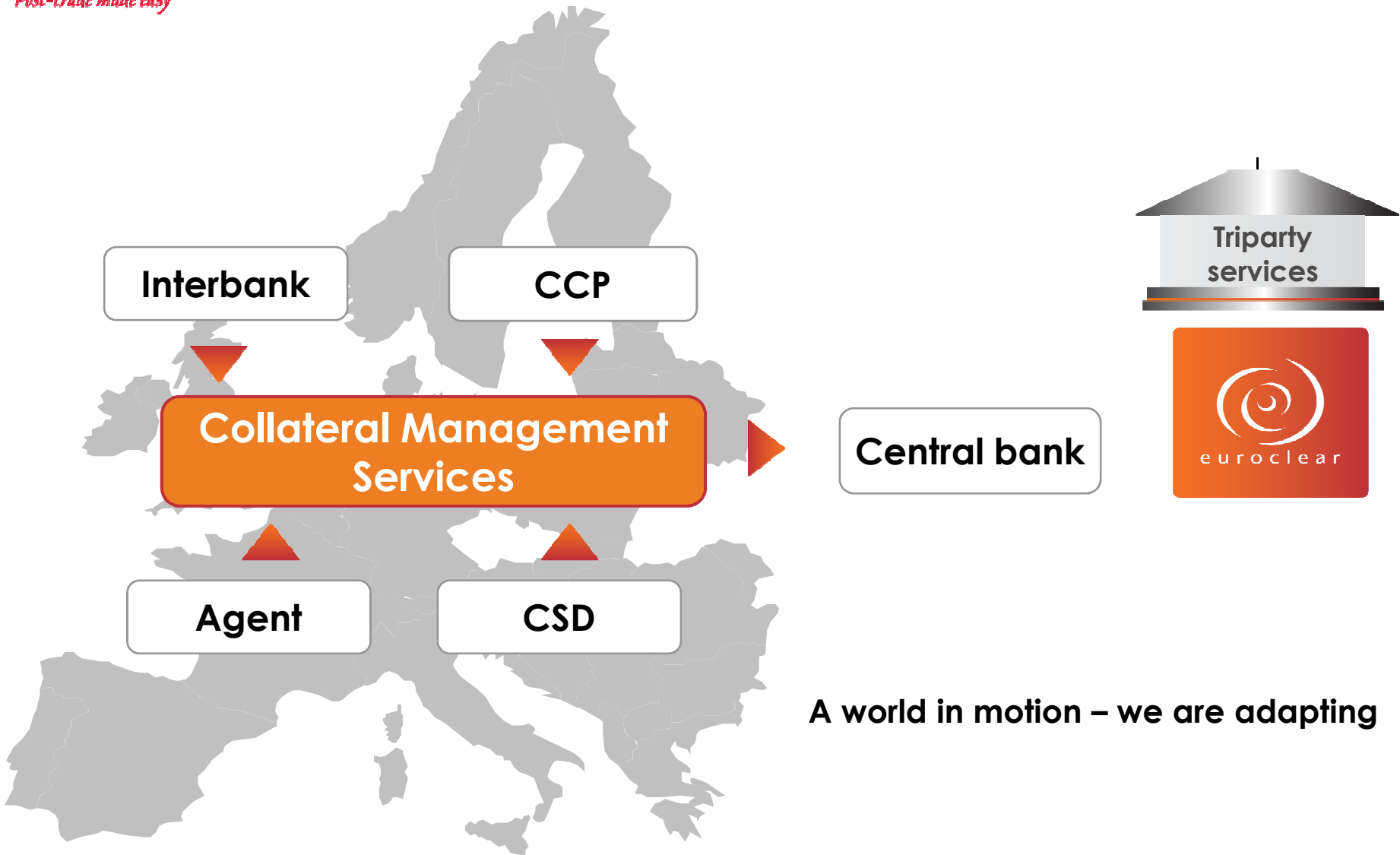




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Euroclear value proposition

An open infrastructure with powerful features



A world in motion – we are adapting



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Commitment and Growth beyond Europe

... Asia case-study

... other regional and domestic initiatives under way



Pan-Asian CSD Alliance

Partnership with several Asian central banks and CSDs to

- facilitate local bond market developments
- enhance attractiveness of local securities to foreign investors
- improve cross-border flows in Asia

APPROACH

Gradual, pragmatic and flexible approach to

- tackle local market issues by leveraging existing infrastructures
- limit upfront investment
- enable local market development at its own pace and level
- facilitate the introduction of harmonized, but non-intrusive common systems

TOOLKIT of SOLUTIONS

- Pick and choose at own convenience, depending on urgency and relevance
- Practical, complementary and market-agnostic by nature
- Tested and up-and-running in several markets



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Key milestones of the Pan-Asian CSD alliance





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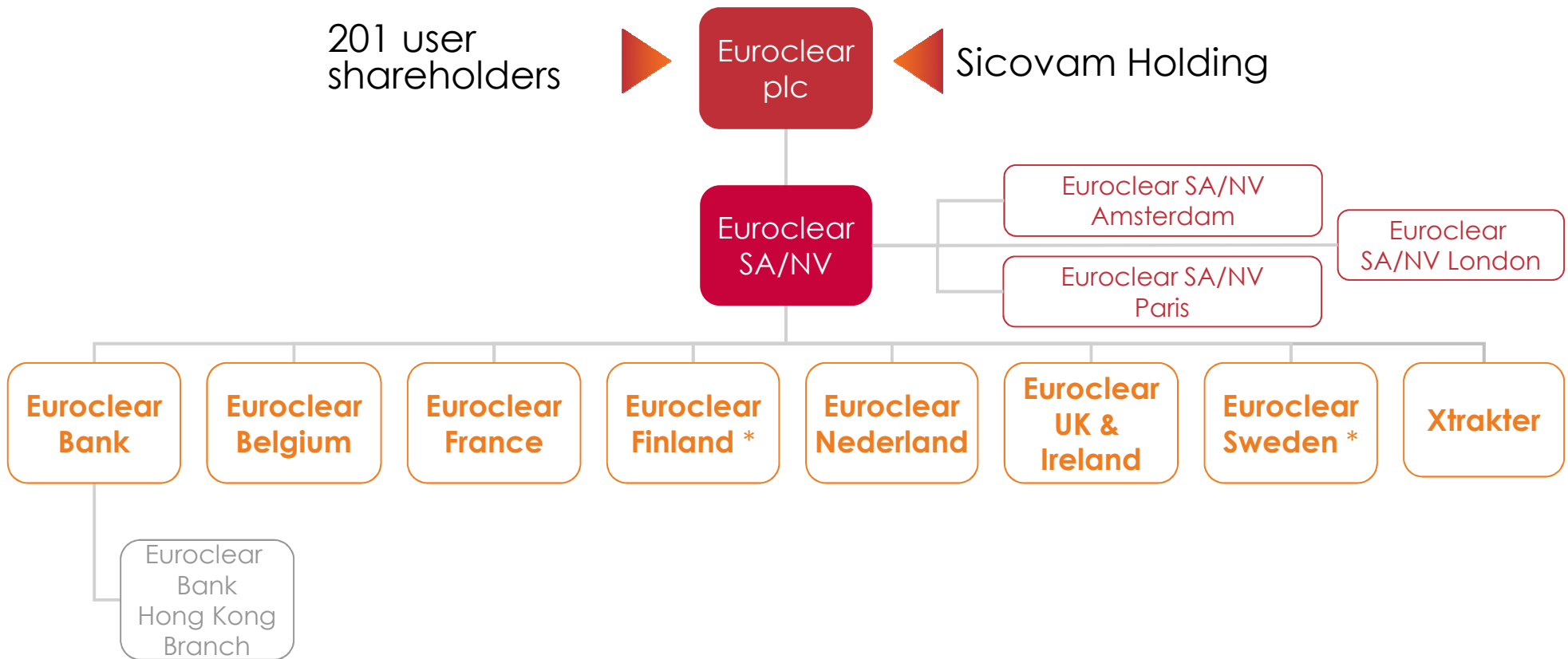
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Euroclear Group Ownership structure

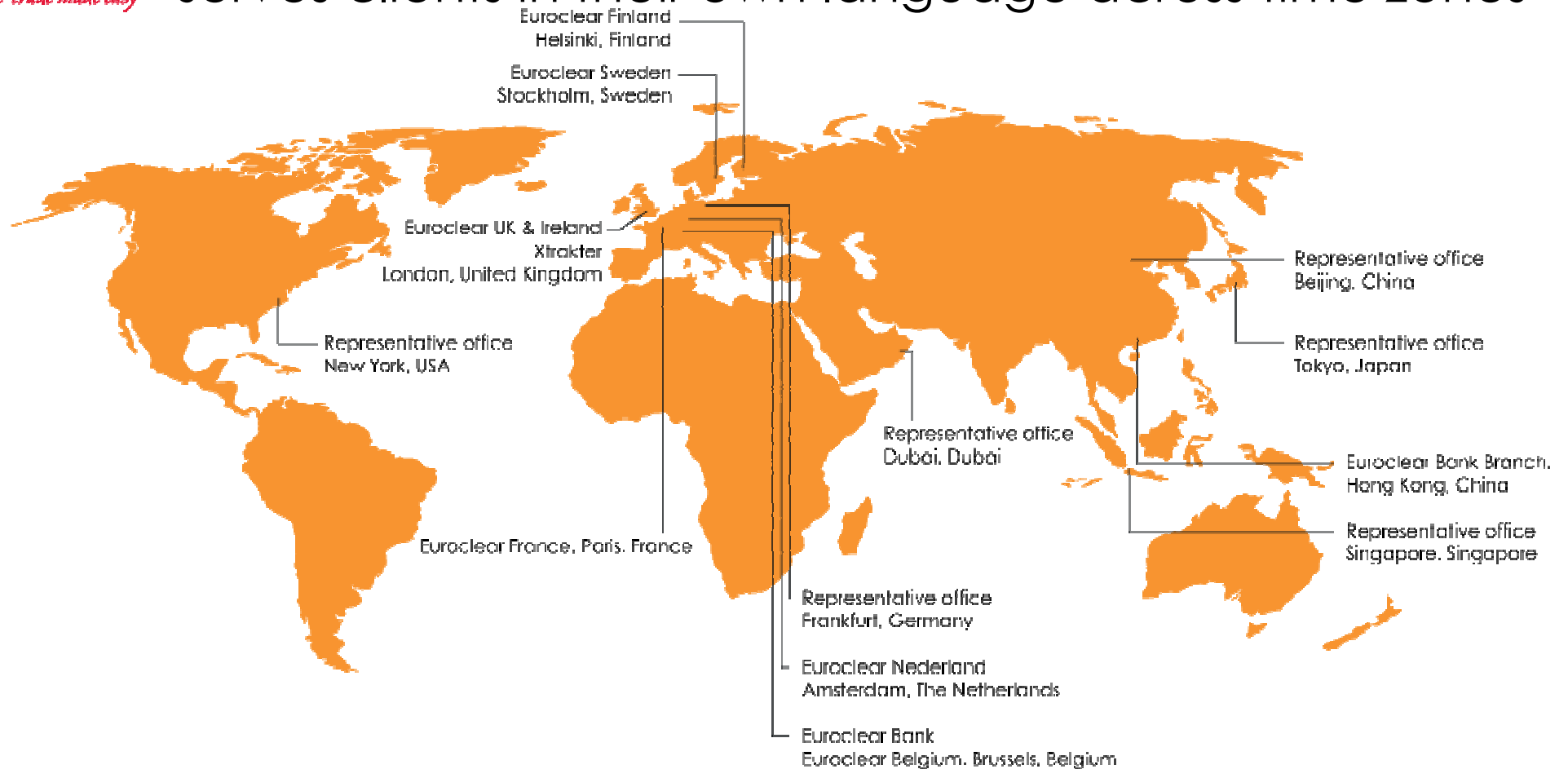


* NCSD Holding



Euroclear Group in the world...

serves clients in their own language across time zones



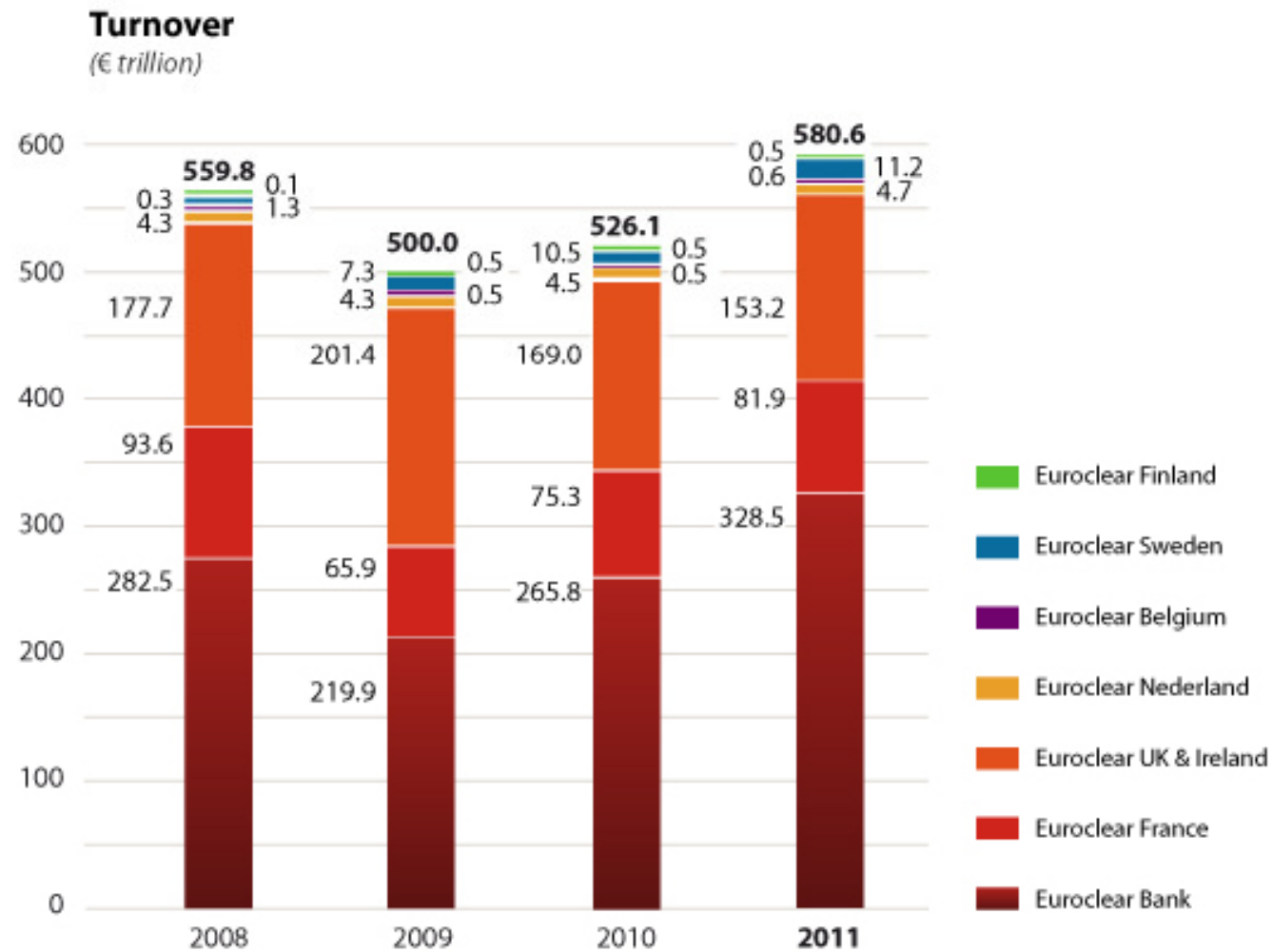
- Market proximity with offices in Amsterdam, Brussels, Beijing, Dubai, Frankfurt, Helsinki, Hong Kong, London, New York, Paris, Singapore, Stockholm and Tokyo
- Providing personalized Client Support in 16 languages



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Euroclear Group

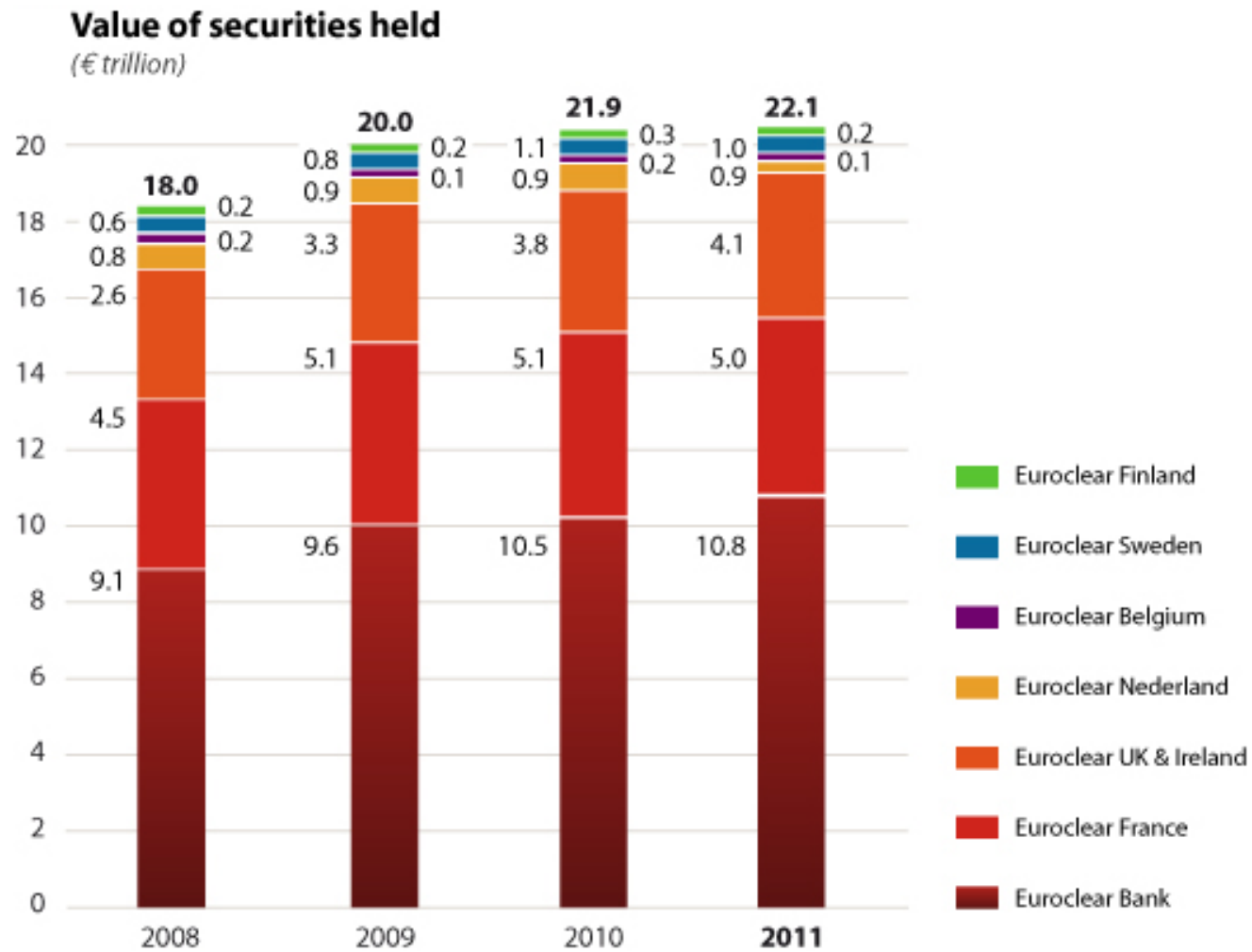
turnover





Euroclear Group

value of securities held (depot)

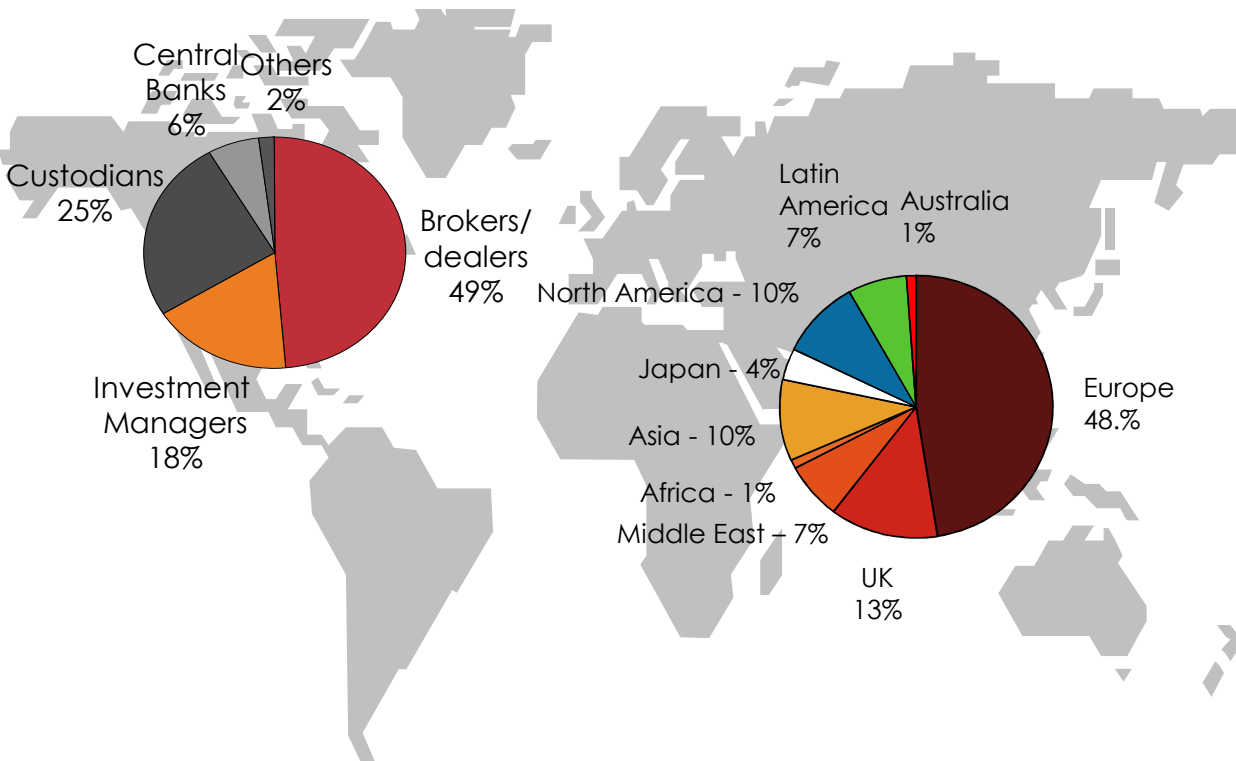




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Euroclear Bank in the international capital market

Post-trade made easy with Global Reach



Euroclear Bank

- €10.8 trillion of assets under custody
- 60 million transactions settled, representing €328 trillion in value
- Global reach to over 40 markets in more than 50 settlement currencies
- More than 600,000 different securities
- Financial institutions from 90+ countries

Euroclear covers 65% of Eurotop 300 and more than 50% of EU government debt



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Euroclear Bank today

- 842 European Participants
- 555 non-European Participants

- 24 European markets
- 19 non-European markets

- More than 600,000 different securities

- EUR 324 billion cross-market, cross-instrument triparty collateral

- Multi-market group structure combining international and domestic services



Market links – providing an easy access to more than 40 markets

Americas

- Argentina
- Brazil
- Canada
- Chile
- Mexico
- USA

EMEA

- Austria
- Belgium
- Cyprus
- Czech Republic
- Denmark
- Dubai
- Finland
- France
- Germany

Greece

- Hungary
- Ireland
- Israel
- Italy
- Luxemburg
- The Netherlands
- Norway
- Poland
- Portugal
- Romania
- Russia

Slovak Republic

- Slovenia
- South Africa
- Spain
- Sweden
- Switzerland
- United Kingdom

Asia Pacific

- Australia
- Hong Kong
- Indonesia
- Japan
- Malaysia
- New Zealand
- The Philippines
- Singapore
- Thailand



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Direct Links Project

Market list

- **Direct links:**

- ▶ Austria
- ▶ Belgium
- ▶ Chile
- ▶ Denmark
- ▶ Finland
- ▶ France
- ▶ Germany
- ▶ Greece
- ▶ Ireland
- ▶ Italy
- ▶ Malaysia
- ▶ Norway
- ▶ Slovenia
- ▶ Sweden
- ▶ The Netherlands
- ▶ United Kingdom

- **Coming soon:**

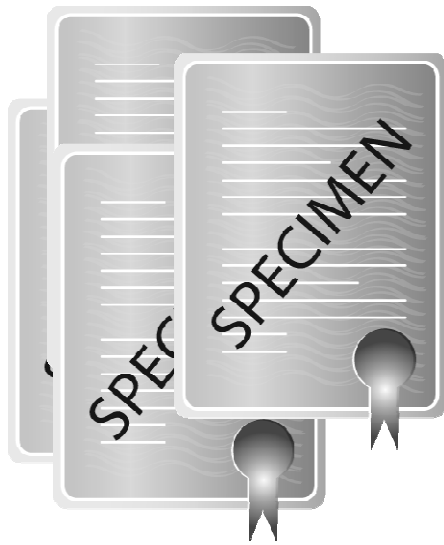
- ▶ Mexico
- ▶ Dubai
- ▶ Hungary
- ▶ Slovakia
- ▶ Australia
- ▶ South Africa
- ▶ Switzerland
- ▶ Canada
- ▶ US
- ▶ Argentina

- In markets where Euroclear has a direct link with the local CSD, Euroclear may still use a local custodian to, for e.g., operate the account or provide other services ...
- ... but the securities are not sub-deposited.
- Indeed, on a direct link structure, the securities are directly held with the domestic CSD, thus eliminating intermediary risk.



Euroclear Bank

Products & Services



- Securities Settlement
- Money Transfer / Treasury
- Custody
- Securities Lending and Borrowing
- Triparty Collateral Management
- FundSettle



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