

Industry Update: the European Central Securities Depositories Association (ECSDA)

- **Giovanni Sabatini, ECSDA Chair and CEO of Monte Titoli**

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Agenda

- Recent developments in ECSDA
- The ECSDA response to the Giovannini Report

New ECSDA Members

- **Cyprus Stock Exchange**
- **Euroclear Bank**
- **Icelandic Securities
Depository**
- **Clearstream Germany**

Now 19 members:

CSD SA: Greece

CrestCo: GB

Euroclear France

Euroclear Netherlands

Iberclear: Spain

Monte Titoli: Italy

SIS: Switzerland

VPC: Sweden

Euroclear CIK: Belgium

Clearstream: Luxembourg

HEX: Finland

Interbolsa: Portugal

VPS: Norway

OEKB: Austria

VP: Denmark



The new mission of ECSDA

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

The new scope for ECSDA

- **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**
- **Provide open, fair and equitable access to clearing and settlement**
- **Favour continuous dialogue between European Authorities and market participants in order to keep the regulatory framework updated and consistent.**
- **Foster international cooperation among private associations**

Some recent initiatives

During last year, ECSDA has conducted the following initiatives:

- **Response to the Public Consultation regarding ESCB CESR Standards**
- **Response to the TARGET 2 (new European payment infrastructure) consultation and definition of SSSs user requirements on TARGET 2**
- **Common Task Force with Th. Murray/ standardized questionnaire for ECSDA members**
- **ECSDA entrusted by the Giovannini Group with the task of removing three barriers identified by the Giovannini Group**
- **Common response also planned for the forthcoming Communication of the European Commission regarding Clearing and Settlement**

The mandate of ECSDA

- **The Second Giovannini report released in April 2003 mandated that the European Central Securities Depositories Association (ECSDA) look into the removal of three of the fifteen barriers the report identified**
 - Barrier 4: Intraday Finality
 - Barrier 7: Operating hours and settlement deadlines
 - Barrier 3: Corporate Actions
- **ECSDA set up a dedicated working group to deal with these barriers**

Benefits of removing the barriers

- **Harmonisation**
- **Clarity**
- **Settlement Efficiency and Liquidity**
- **Cost reduction**
- **Opportunity/ Fairness**

ECSDA's report

- **The first response from ECSDA (one year after publication of the second Giovannini report) was published in mid April 2004**
- **The report issued addresses two of the barriers, namely 4 and 7 and details**
 - **the 10 standards that have been agreed**
 - **the timeframes in which they are to be implemented**
 - **which CSDs have yet to reach the agreed standards**
 - **the obstacles to reaching the standards by European CSDs, including which other stakeholders are affected by each standard**

The 10 Standards agreed by ECSDA members

- **Although there is a high degree of compliance by ECSDA members for some of the standards, others only have 50% of CSDs meeting the targets and there will be considerable change over the next 12 months. The short time scale is an indication of the importance all ECSDA members place on the standards**
- **The document identifies the CSDs who do not meet Standards, as it is important to understand the current situation and where change will be affected**

The 10 Standards agreed by ECSDA members

- **Standard 1: All SSS who offer settlement in Euros should be open for Euro settlement for all types of financial instruments eligible in that SSS at least on all TARGET opening days (*End 2004*)**
- **Standard 2: All SSS who offer settlement in a currency should be open for settlement in that currency for all types of financial instruments eligible in that SSS at least on all relevant currency-opening days (*End 2004*)**
- **Standard 3: SSS introducing settlement in a new currency after 2004 should adapt to the relevant opening days immediately upon the new currency being available in the SSS (*N/A*)**

The 10 Standards agreed by ECSDA members

- **Standard 4:** Settlement systems should be open for activities other than settlement activity (i.e. reporting, enquiries, reconciliation etc.) as long as possible from a cost efficient point of view, but at least from the currency opening time (07.00 CET for euros) to the end of the currency day (18.00 CET for euros) (*End 2004*)
- **Standard 5:** All European SSS should start DvP settlement by the opening time of the relevant European currency's banking system and continue to offer DvP settlement until, at a minimum, two hours before the banking system closes (*April 2005*)
- **Standard 6:** For maximum efficiency and liquidity, participants should be encouraged to settle as early as possible in the morning (*ongoing monitoring and action*)

The 10 Standards agreed by ECSDA members

- **Standard 7:** No next value date settlement should start before the relevant banking system closes. (ie in the Euro zone no overnight batch should start until TARGET closes, currently 18:00 CET.) *(End 2004)*
- **Standard 8:** No settlement processing should occur between settlement systems before both are processing the same settlement value date *(End 2004)*

The 10 Standards agreed by ECSDA members

- **Standard 9**: SSS should support efficient cross-border settlement in Europe by providing intraday finality in real time or by at least one settlement cycle per hour during the period identified in standard 5 (April 2005)
- **Standard 10**: In the case of a transaction being unable to settle at the first attempt on a given settlement day, all SSS should continue to try to settle the transaction as frequently as defined in standard 9 at least until the end of this settlement day as defined in Standard 5 (April 2005)

Cooperation

- **It is important to note that the reaching of standards by all SSS will not, by itself, remove the two Giovannini barriers.**
- **This is due to the fact that other areas of the market will also have to adapt their practices in order to create the single European market**
- **Where this is the case, the report identifies which areas of the market will have to act and how**

Interaction with:

- **Central and Commercial Banks to ensure that the Standards are accepted and implemented by all relevant parties**
 - **Cash exchange is a vital part of the settlement process and there is still a lack of harmonised opening hours both at the SSS and banks**
 - **One area not solved in this document: settlement outside banking hours: the ECSDA recommendation is to deal with this issue later (to take into account the decisions taken by ECB about the way, the new European payment system TARGET2 interfaces with the SSS (integrated, interfaced))**

Interaction with:

- **Public Authorities: European Commission, ECB, CESR**
- **European market participants and their respective associations, i.e.:**
 - **EBF: European banking Federation**
 - **FESE: Federation of European Stock Exchanges**
 - **ESF: European Securities Forum**
- **Technical/ network providers (like SWIFT and SMPG Securities Market Practice Group)**

Interaction with:

- **ECSDA also works closely with the Central and Eastern European Central Securities Depositories Association (CEECSDA): as the European Union expands it is important that agreement is reached both with banks and CEECSDA before the Standards can be considered as final**
- **At global level, cooperation with ACSDA/ ACG/ G30/CPSS is welcomed very much**



Monitoring Group planned by European Commission for coordinating efforts, also at global level

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Or have a look at the new website of ECSDA:

**<http://www.ecsda.com>, where you can download
also the complete report**