

The changing landscape of European clearing and settlement – a prerequisite for sustainable operational efficiency

Agenda

- **Introduction: a foregone conclusion**
- **The essence and role of key initiatives: Group of Thirty, Giovannini Group, ESCB-CESR, EU Commission**
- **Assessment of the current situation – expected next steps**
- **ESF's role as an agent of change**
- **Conclusions**

Introduction: a foregone conclusion

- There will be no sustainable and affordable operational efficiency in Europe without
 - the harmonisation, standardisation and integration of clearing and settlement processes and procedures
 - a common framework of securities laws and regulation
 - the removal of national fiscal obstacles
 - a close cooperation between public and private sector bodies
 - the commitment of the best professionals
 - The political and economic will and insight of the key constituencies

The essence and role of key initiatives (I)

- The Group of Thirty
 - International initiative supported by market users, market infrastructure, central banks, regulators - Report 2003
 - Three-pronged strategy:
 - Technical and business practice standards to strengthen the connections across borders and systems
 - Stronger risk management, including the stronger legal guarantees to provide a solid legal basis for clearing and settlement
 - Improved governance supported by official supervision and fair and open access to systems

The essence and role of key initiatives (II)

- The Group of Thirty
 - Strengths and weaknesses of the initiative
 - Implementation
 - Action Plan for Private and Public Sector
 - Five to seven year time horizon
 - Monitoring group

The essence and role of key initiatives (III)

- The Giovannini Group
 - Group of financial sector experts mandated by the EU Commission – two reports 2001 and 2003
 - Analysis and definition of 15 existing barriers to cross border efficiency caused by
 - Market practice / regulatory requirements
 - Tax procedures
 - Issues of legal certainty
 - Analysis of public policy considerations in integration / consolidation models

The essence and role of key initiatives (IV)

- The Giovannini Group
 - Implementation strategy
 - Sequencing taking into account interdependencies
 - Assignment of leadership roles
 - Coordination / cooperation
 - three year time horizon
 - Strengths and weaknesses

The essence and role of key initiatives (V)

- ESCB-CESR
 - Joint Working Group of European central banks and securities regulators – Report 2003
 - CPSS-IOSCO recommendations → 19 ESCB-CESR standards
 - Objectives:
 - Consistent regulation based on functional approach
 - Safety, soundness, efficiency
 - Avoid systemic risk
 - Investor protection
 - Promote integration

The essence and role of key initiatives (VI)

- ESCB-CESR
 - Limited participation and involvement of private sector (consultation 2002, 2003)
 - Standards partly highly controversial – scope of application, collateralisation
 - Stalemate situation in view of 10 new accession countries

The essence and role of key initiatives (VII)

- EU Commission
 - Communication on clearing and settlement 2002 in the context of FSAP and Giovannini Group

“If the EU financial market is to compete on a global scale, it must be deep, liquid, efficient, safe, transparent and cost-effective. The creation of an integrated clearing and settlement environment is, therefore, an essential pre-condition for efficient post-trade processing of all securities transactions within the EU.”

The essence and role of key initiatives (VIII)

- EU Commission
 - Objectives
 - Removal of the barriers identified by the first Giovannini Report
 - Open access, free choice
 - Market integrity and financial stability
 - Communication on clearing and settlement 2004

Assessment of the current situation – expected next steps (I)

- Post G-30 / Giovannini II: a missed opportunity to build the required momentum
- ECSDA and ESF: initiators of private sector actions – is it sufficient?
- Why the endorsement and support by the public sector matters
- The role of ESCB-CESR
- ESF's conclusions: what needs to be done, what risks should be avoided

Assessment of the current situation – expected next steps (II)

- Expected next steps:
 - The Communication of the EU Commission
 - Consultation
 - Monitoring
 - Initiation and coordination of implementation process
 - Modified ESCB-CESR Report – limited consultation
 - Initiatives of the private sector

ESF's role as an agent of change (I)

- ESF's profile – constancy and change
 - Unchanged key principles
 - Change of focus in a changing environment: from the vertical vs horizontal debate to the gruelling work of the Operations Committee
 - Representing the largest market operators active in the European securities markets
 - Sole organisation focusing exclusively on the European post-trade part of the value chain
 - The importance of its representative character

ESF's role as an agent of change (II)

- The role of ESF's Operations Committee
 - Defining the market users' priorities in a (still) unorganised environment
 - ESF Action Plans for 2003 and 2004 – practical steps based on the Giovannini Reports, not reinventing the wheel
 - Criteria
 - tangible benefits at lowest investment cost
 - short timeframe
 - priorities markets
 - least disruptive

ESF's role as an agent of change (III)

- The role of ESF's Operations Committee
 - Examples from the Action Plans
 - Achievements, failures
- The role of ESF's Legal Committee
- ESF's intended role in the Giovannini implementation process

Conclusions

- There will be no sustainable and affordable operational efficiency in Europe without
 - the harmonisation, standardisation and integration of clearing and settlement processes and procedures
 - a common framework of securities laws and regulation
 - the removal of national fiscal obstacles
 - a close cooperation between public and private sector bodies
 - the commitment of the best professionals
 - The political and economic will and insight of the key constituencies
- The need to start the implementation process and to build momentum is urgent.