

european securities forum

Harmonisation, Standardisation and Integration of Clearing & Settlement in Europe

Action Plan 2005



1. Introduction

The European Securities Forum represents major international banks operating in the European securities markets. In May 2003 it published its Call for Action document with a view to start the much needed implementation process of change to harmonise and integrate the clearing & settlement processes in Europe. Focusing on the approach of breaking down widely shared high level objectives into concrete steps, ESF continued its role as an agent of change of European clearing and settlement by means of the Action Plan for 2004.

The Action Plan 2005 is a seamless pursuit of this work building on the achievements and the reputation built in the past two years.

As in the previous years, ESF's Operations Committee has defined the priorities and medium term objectives as well as a short term action plan built on the analytical work performed by private and public sector initiatives, particularly The Group of Thirty and the Giovannini Group.

As a member of the Clearing and Settlement Advisory and Monitoring Group (CESAME Group) established by the European Commission, ESF and its members will thus continue to actively contribute to the removal of the barriers defined in the Giovannini Report of April 2003

In order to avoid any duplication or multiplication of efforts, ESF is committed to a close coordination and cooperation with organisations and institutions that pursue similar objectives of harmonisation, interoperability and integration of clearing and settlement in Europe (EALIC, EBF, ECSDA, FESE, LIBA et al) and at a global level (AGC, G-30, ISSA).

ESF emphasises the importance of an intensified cooperation with public sector authorities as most obstacles to a harmonised and standardised clearing and settlement in Europe have roots in existing fragmented market practices and legal, fiscal and regulatory diversities.

2. Review of Action Plan 2004

2.1. General Comments

ESF's second Action Plan, published on 30 January 2004 upon finalisation by the Operations Committee and approval by the Executive Committee was well received beyond our membership by a broad circle of interested parties including the media.

As was the case with our Action Plan 2003, the actions were dealt with in parallel even if some – in terms of allocated resources – took precedence, e.g. actions related to corporate actions or tax reclaim, over others.

We enjoyed strong support from our members in delegating highly knowledgeable and experienced executives to the working groups which, by usually being kept small, perform highly efficient and effective work. This support is a key success factor for the achievements and progress made.

Moreover, we appreciate the excellent cooperation with other organisations in pursuing our objectives.

2.2. Summarised Progress Report on individual actions

- **Pre-settlement date matching**
 - **Action**
Reach agreement with ECSDA on harmonisation of pre-settlement date matching information details provided by CSDs.
 - **Status**
 - We have widened the scope of this initiative and have reached a broad agreement with ECSDA on the assessment of current deficiencies of pre-settlement date matching processes and on proposals that aim at remedying them.
 - This initiative will be taken further in cooperation with ECSDA (see Action Plan 2005)

- **Record and ex date**
 - **Action**

Reach agreement with FESE and ECSDA on proposed harmonisation of record and ex date.
 - **Status**
 - We have reached agreement with ECSDA, EALIC (the European Association of Listed Companies), EBF and FESE on our proposal to harmonise record and ex date for cash dividends, reducing thus substantially the amount of compensation payments.
 - This proposal will be part of a solution to be presented to the CESAME Group in spring 2005.
- **Voluntary corporate actions**
 - **Action**

Reach agreement with FESE and ECSDA on proposed procedure to resolve identified problems related to voluntary corporate actions for equities.
 - **Status**
 - The voluntary corporate actions working group has worked out proposals to harmonise and standardise voluntary corporate actions processes (rights issues, tender offers) with a view to reduce risk and costs.
 - As part of the Action Plan 2005, upon testing these proposals against real examples, we will seek the discussion with and the buy-in by organisations such as EALIC, EBF, ECSDA and FESE on the proposed standards.
- **Non-US certification process**
 - **Action**

Find solution to make the non-US certification process more cost effective.

- **Status**
 - An agreement in principle to join forces has been reached with AGC (the Association of Global Custodians) and with SIA with a view to enter into discussions with US authorities.

- **Remote access**
 - **Action**

Reach agreement with Monte Titoli and Iberclear to allow remote access.
Start discussions with ECB on remote access to central banks in the Eurozone.

 - **Status**
 - Agreement with Monte Titoli has been reached; the targeted inclusion of Banca d'Italia for cash leg is pending.
 - Remote access with Iberclear depends on the change / removal of the registration process for equities; in cooperation with Iberclear we seek an agreement with the Spanish Stock Exchange Commission and other constituencies.
 - First discussions on remote access to Central Banks held with ECB.

- **CCPs**
 - **Action**

If the creation of new CCPs is unavoidable (e.g. Nordic countries), they should use existing infrastructure, clearing techniques and procedures.

 - **Status**
 - Agreement with relevant representatives of Nordic securities infrastructure reached.
 - Priority is with executing / expanding Nordic CSD, i.e. at consolidating clearing and settlement in the Nordic area.

- **Tax reclaim**
 - **Action**

Reach agreement with the Italian, Swiss and Danish tax authorities to allow automation of cross border tax reclaim.
 - **Status**
 - Italy: no meaningful progress
 - Switzerland: In cooperation with the Swiss Bankers Association, an agreement in principle has been reached with the Swiss Federal Tax Authorities on a concept focusing on simplifying and automating the tax reclaim process.
 - Denmark: In cooperation with the Danish Bankers Association the Danish Tax Authorities have indicated their willingness to significantly expand taxation at source making tax reclaim largely superfluous.
- **German restrictions**
 - **Action**

Analyse the nature of restrictions for German securities (legal/non-legal requirements) and reach agreement with Deutsche Börse Group to remove restrictions not caused by German legal requirements.
 - **Status**
 - Deutsche Börse has changed its rules and regulations on 26 February 2004 removing existing restrictions and liberalising clearing and settlement.
- **Dematerialisation in the UK**
 - **Action**

Reach agreement with the relevant authorities to provide for dematerialisation in the UK.
 - **Status**

- Favourable response by the Minister of DTI on a detailed proposal to dematerialise shares and enfranchise shareholders in the UK worked out by an industry group that includes relevant institutions and organisations.

- **Trade and transaction reporting**
 - **Action**

Consolidation of LSE trade and transaction reports and harmonisation of LSE and Euronext transaction reporting requirements.
 - **Status**
 - Scope of action broadened to analyse divergent trade and transaction reporting requirements throughout Europe; work in progress.

3. Action Plan 2005

During several meetings since November 2004 ESF's Operations Committee has worked out the Action Plan 2005. This plan provides for consistency of approach, i.e. it is based on and in line with the Giovannini Report and G-30 Recommendations.

Taking into account the intrinsic complexity in certain areas, e.g. corporate actions processing, a mixture of 'quick wins' and longer term deliveries with roll-over character has been chosen. The corroborated parameters for choosing the shorter term objectives and actions are

- most tangible benefits at lowest investment costs
- completed within a reasonably short timeframe
- targeted at prioritised markets
- least disruptive.

The Action Plan 2005 reflects again the priorities of the members selecting from a longer list of proposed actions.

The list does not reflect an order of priorities; rather, they will be tackled simultaneously.

The Working Groups tasked with the individual actions will work out detailed objectives, milestones and timelines to track progress and measure success.

G-30 Recommendation	Giovannini Barrier	ESF medium term objective	ESF action 2005
<p>Recommendation 8: Automate and standardise asset servicing processes, including corporate actions, tax relief arrangements, and restrictions on foreign ownership</p>	<p>Removing barrier 3: National rules relating to corporate actions processing should be harmonised</p>	<p>Standardisation of mandatory and voluntary corporate actions processes</p>	<ul style="list-style-type: none"> • Reach agreement with EALIC, EBF, ECSDA and FESE on defined set of standards for voluntary corporate actions • Reach agreement with US authorities to make non-US certification process more cost effective • Work out standards on AGM-related processes: no blocking of shares, dates and timelines, proxy voting • Define default rules for corporate actions processes and reach agreement on them with relevant organisations • Define broker protection rules and reach agreement on them with relevant organisations
<p>Recommendation 5: Automate and standardise institutional trade matching</p>		<p>Harmonisation of settlement processes</p>	<ul style="list-style-type: none"> • Work out set of standards for pre-settlement date matching process and reach agreement on them with ECSDA and other relevant organisations

G-30 Recommendation	Giovannini Barrier	ESF medium term objective	ESF action 2005
	<p>Removing Barrier 5: Practical impediments to remote access to national clearing and settlement systems should be removed</p>	<p>Remote access to securities infrastructure organisations (exchanges, CSDs, CCPs) and payment mechanisms (Central Banks) throughout Europe</p>	<ul style="list-style-type: none"> • Warrant remote access in Italy for securities and cash leg • Reach agreement with the relevant private and public sector constituencies in Spain to abolish the registration process for equities as a pre-requisite for remote access
<p>Recommendation 8: Automate and standardise asset servicing processes, including corporate actions, tax relief arrangements, and restrictions on foreign ownership</p>	<p>Removing Barrier 11: All financial intermediaries established within the EU should be allowed to offer withholding agent services</p>	<p>Harmonisation of rules and procedures for withholding tax processes (taxation at source, tax reclaim)</p>	<ul style="list-style-type: none"> • Reach agreement with the Italian and Danish tax authorities to provide for a more efficient process of taxation at source / tax reclaim • Reach agreement with the French and Italian tax authorities to allow foreign intermediaries to act as withholding agents
		<p>Standardisation of regulatory reporting requirements throughout Europe</p>	<ul style="list-style-type: none"> • Work out synopsis of current reporting requirements in all European markets • Work out set of standards for regulatory reporting

G-30 Recommendation	Giovannini Barrier	ESF medium term objective	ESF action 2005
			<ul style="list-style-type: none"> • Reach agreement with LSE to abolish unnecessary reporting requirements in cooperation with LIBA
		<p>Avoid further fragmentation and diversities and including Central and Eastern European markets in the process of harmonisation and standardisation</p>	<ul style="list-style-type: none"> • Establish relations with relevant securities infrastructure organisations and domestic major market users in Central and Eastern Europe • Use existing relations / participations of ESF members