



7 May 2003

## Integration of Clearing & Settlement in Europe – ESF's Call for Action

### 1. Introduction

ESF welcomes and strongly supports the private and public sector initiatives, such as CPSS-IOSCO, ISSA, The Group of Thirty, and the Giovannini Group in their analyses of the causes of high costs and risks in cross border clearing & settlement, as well as the standards recommendations toward overcoming fragmentation and achieving harmonisation and integration. The broad consensus achieved at international and at European levels is a key condition to success.

**ESF, representing the largest operators in the European securities markets, has no intention to duplicate this analytical work but rather to complement it and to build on it: it is now calling for action to implement measures that will ultimately lead to an integrated European capital market.**

The principal objective thereby is the harmonisation and standardisation of the entire lifecycle of cross border securities transactions, thus allowing straight through processing (STP), pursuant to the principles of open access and free choice. However, clearing and settlement is the area that currently requires most urgently actions towards this objective.

Against this background, and in order **to support and accelerate the implementation process**, ESF's Operations Committee has defined **the priorities and the more specific requirements to harmonise the clearing & settlement processes and procedures, as well as the legal, fiscal, and regulatory environments in Europe.**

Further, the Operations Committee has worked out **the first of a series of action plans** that focus on detailed actions that:

- provide the most tangible benefits at the lowest investment costs
- will be completed within a reasonably short timeframe (quick wins)
- are targeted at prioritised markets
- will be least disruptive.

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## 2. ESF's priorities and specific requests

The political and commercial will to replace the current fragmentation and differences by harmonising processes within Europe and integrating its securities infrastructure, is deemed of paramount importance. To this end we propose to build momentum by starting the implementation phase taking at hand the following **first set of priorities and specific requests** without delay:

### 2.1. Standardisation and harmonisation of communication

- Principal addressees: SWIFT (in its capacity as a standards facilitator), ECSDA, National CSDs, ISO
- ISO 15022
  - Sole messaging format standard throughout Europe
  - Standardisation of formatting requirements for cross border instructions and domestic instructions
  - Standardisation of mandatory message fields across all markets and standardisation of non-mandatory message fields whose use continues to be necessary until full harmonisation of clearing and settlement processes has been achieved.
  - Use of ISO 15022 as standard for each type of transactions associated with financing (collateral management, securities lending, and repo)
  - Use of XML as the technical standard for messages and IP-based protocols
  - Compatibility with global standards
- ISIN / BIC
  - Standardisation of instrument / entity (e.g. counterparty, client, fund,...) identifiers in and across all European infrastructure systems, enabling referencing within market users systems
  - Compatibility with global standards

### 2.2. Harmonisation of rules relating to corporate actions, beneficial ownership and custody throughout Europe

Principal addressees: ECSDA, national / EU authorities

- Standardisation of settlement timeframes and alignment with payment markets; this will allow markets participants to settle – even cross currency – in a defined timeframe and to deploy cash on the day of settlement.
- Standardisation of record and ex-date for all corporate action events and income payments, and use of validated sources and repositories for such data.
- Standardisation of rules and procedures (including timeframes) for tax process (taxation at source, tax reclaim). A single pan-European automated 'format' for

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such process is to be created that will be validated for contents by electronic signatures.

- Standardisation of account segregation rules at CSD and Clearing House level, excluding the obligation to segregate by beneficial owners.
- Automated and standardised provision of complete information, within a standard timeframe, for corporate actions and new issues. Information should be in a format allowing for automated download.

### 2.3. Removal of restrictions on the location of clearing and settlement and removal of impediments to remote access to clearing and settlement systems

Principal addressees: National / EU authorities, national CSDs

- Elimination of national settlement and depository restrictions, e.g. Germany
- Elimination of the registration process in Spain
- Acceptance of the home country passport within the EC for custody, investment administration, and the execution of fiduciary roles.

### 2.4. Harmonisation of the legal environment in Europe

Principal addressee: EU Commission

- Single EU-wide legal definition of ownership in dematerialised securities
- Single EU-wide legal definition of transfer of ownership (including finality of transfer and collateral rights) of dematerialised and immobilised securities

## 3. Action plan # 1

Based on the priorities and specific requests as described in chapter 2 above, the following **very specific actions, to be completed by the end of 2003**, have been

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chosen **to start the implementation process**, taking into account the criteria of low investment cost, high and early benefits for markets users, relative importance, and size of targeted market(s). The list of actions does not reflect an order of priorities; rather, they will all be tackled simultaneously.

The described actions constitute **the first steps** towards achieving the respective overriding objective; hence, ESF's Operations Committee will work out **further action plans** by way of an ongoing process until full harmonisation and integration has been reached.

### Objective

- Standardisation of instrument / counterparty / client identification in all European infrastructure systems enabling referencing within market users systems.
- Use of ISO 15022 as standard in financing transactions (securities lending, repo).
- Standardisation of record and ex-date for all corporate action events and income payments and use of validated sources and repositories for such data.
- Standardisation of settlement timeframes, operating hours and alignment with payment markets.

### Action

- Reach agreement with Euroclear France and SIS to eliminate the currently required local identification codes for counterparties in France and Switzerland.
- Reach agreement with Crest to introduce ISO 15022 standard for each of securities lending and repo transactions in the UK market.
- Create an expert group, including representatives from regulatory authorities, to work out a model to be implemented in all European markets.
- Reach agreement with ECSDA on standardisation of settlement timeframes and operating hours.

- Standardisation of rules and procedures (including timeframes) for tax process (taxation at source, tax reclaim).
- Elimination of the registration process in Spain.
- Single EU-wide legal definition of ownership and transfer of ownership in dematerialised securities.
- Acceptance of the home country passport within the EC for custody, investment administration and the execution of fiduciary roles.

- Reach agreement with the Italian and the Swiss tax authorities to allow automation of cross border tax reclaim process.
- Reach agreement in principle with the Spanish authorities and with Iberclear to eliminate the registration process.
- Reach agreement with the EU Commission to establish expert group with agreed brief.
- Reach agreement of principle with relevant political and regulatory authorities.

#### 4. The way forward

- ESF, representing its members, will aim at entering into a close **cooperation** with the organisations and institutions (e.g. ECSDA, SWIFT, FBE) designated by the Giovannini Group to take the lead in efforts to remove the defined barriers.
- ESF also seeks to cooperate at national and at EU levels with the **political authorities** that will be assigned the responsibility to remove the barriers in the legal, fiscal, and regulatory areas.
- ESF seeks the cooperation with organisations that pursue the same or similar objectives in order to **avoid duplication of efforts, make the implementation process as efficient as possible** and to **contribute to a global standardisation process**.
- At the same time the action plan # 1 will serve as a foundation for the **concrete steps within defined timeframes and with clearly described milestones** to be taken by the ESF management – supported by its members and other cooperation partners – toward infrastructure service providers, and political and regulatory bodies.
- As a result of the ongoing work of its Operations Committee ESF will provide further sets of specific requests and requirements, i.e. an **ongoing series of action plans** to define and describe in detail the actions required to remove the individual barriers and impediments.
- Taking into account that (i) there will be interdependencies between the actions of implementing the required harmonisation, i.e. a need for coordination, and (ii) the fact that ESF's members will bear directly and/or indirectly a significant part in the investments required to make the action plan a reality, ESF requests to participate in the body to be created pursuant to section 4 of the Second Report of the Giovannini Group, to **coordinate the implementation and monitor the development** of this work.

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