

Initiatives towards improved securities services in Europe

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Initiatives towards improves securities services

- I. **Rationale**
- II. Initiatives
- III. Conclusions

Rationale

Euro-area securities infrastructure: 3 objectives

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graph TD; A[Euro-area securities infrastructure: 3 objectives] --> B[Efficiency]; A --> C[Integration]; A --> D[Safety];
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Efficiency

Integration

Safety

Fragmented clearing and settlement landscape

A fragmented clearing and settlement landscape in Europe

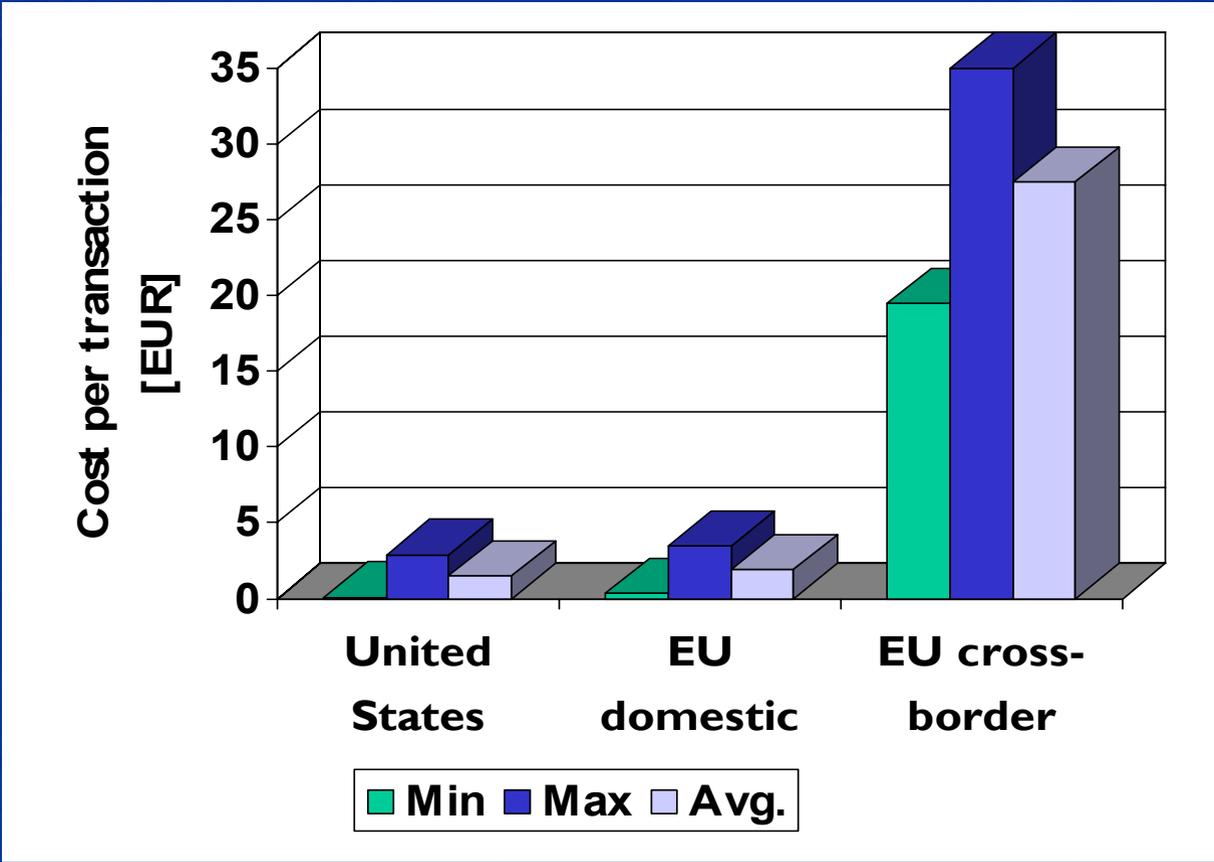
- Despite some consolidation, still many providers with different technical features and business practices.
- Diversity and the existence of many clearing and settlement systems per se are not a problem.
- On the contrary, they offer greater choice.
- But: they constitute a problem when they affect the level of integration, efficiency, and financial stability.

Lack of cost efficiency

Lack of cost efficiency:

- Domestic settlement costs vary across EU
- They are higher than in comparable markets, e.g. the US
- Costs of settling across systems (and borders) in the EU are particularly high

Lack of cost efficiency



Lack of integration

Lack of integration:

- Fragmentation along national borders
- Different conditions of accessing and providing services depending on location
- Freedom of choice is severely restricted
- Inconsistent with the Single Market

Lack of harmonised regulatory framework

Lack of harmonised regulatory framework:

- Multitude of national regulators and overseers
- Multitude of national laws and regulations
- No harmonised implementation of existing standards (ESCB-CESR Recommendations)
- Risk of regulatory arbitrage
- Potential risks for financial stability

Need for improvements

Need for improvements, but how?

→ Market failure? Serious allegation!

- Public intervention requires justification

→ What form of intervention?

- Legislation?
- Catalyst activities?
- Oversight and regulation?
- Operational activities of central banks?

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Initiatives

Central bank services *Securities markets initiatives*



MIFID

**Removal of
Giovannini
barriers**

**Code of
conduct**

**ESCB-
CESR**

History

A long and evolving process:

- 2001: First Commission consultation
- 2001: First Giovannini report
- 2001: Start of ESCB-CESR work
- 2003: Second Giovannini Report
- 2004: CESAME work starts
- 2004: Commission Communication
- 2004: MiFID
- 2004: First ESCB-CESR report
- 2006: Code of Conduct
- 2006: TARGET2-Securities
- 2007: CCBM2
- 2009: CESAME 2
- 2009: Adoption of ESCB-CESR recommendations
- 2009: Commission consultation on OTC derivatives

I. Directive on Markets in Financial Instruments (MiFID)

- Elimination of concentration provisions; internalisation permitted
- Competition between regulated markets, Multilateral Trading Facilities (MTF), and internalising intermediaries
- Access rights for regulated markets and investment firms
- Improved regulatory framework for co-operation among supervisory authorities

Implications of MiFID:

- Intensified competition at trading level
- Emergence of Multilateral Trading Platforms (e.g. Turquoise)
- Impact on post-trading: Emergence of new post –trade service providers for these MTFs, e.g. EuroCCP



Intensified competition also in the post-trade arena!

Removal of Giovannini Barriers

II. The removal of “barriers” to clearing and settlement

- Restrictions on freedom of choice and freedom of services
- In contradiction with the Single Market
- Two reports of “Giovannini Group” mandated by the Commission
- Identification of 15 barriers to efficient clearing and settlement (2001)
- Strategy for removing these 15 barriers (2003)

Removal of Giovannini Barriers

Three types of barriers:

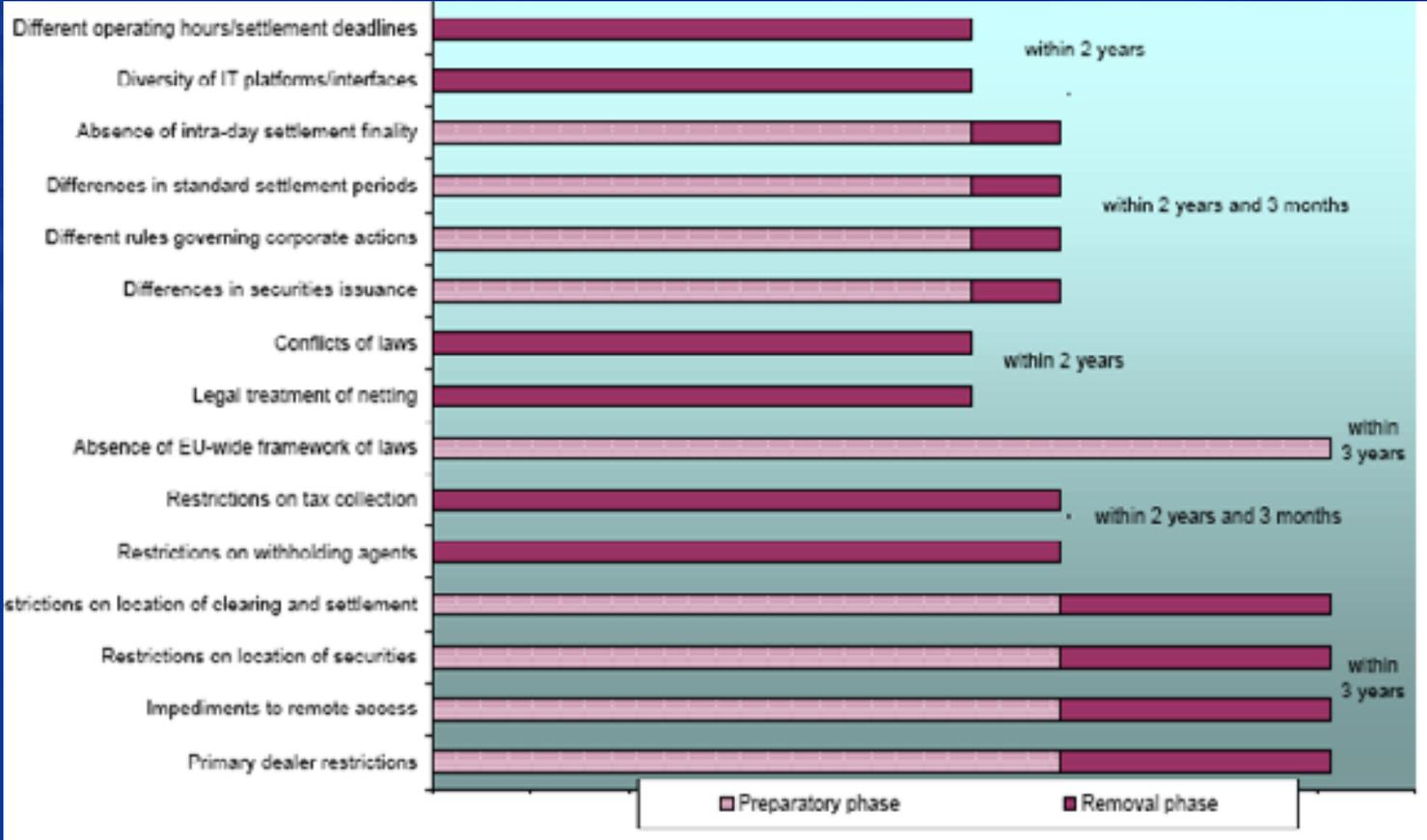
- **Technical requirements / market practices**
- **Taxation / fiscal procedures**
- **Legal issues**

Creation of three groups

- **CESAME: to take care of private-sector barriers**
- **FISCO: to take care of fiscal barriers**
- **Legal Certainty Group: to take care of legal barriers**

Removal of Giovannini Barriers

The proposed timeline for removal as in 2003



Removal of Giovannini Barriers

The situation as it is today (CESAME report Nov 2008):

Barrier / Sub-phase	Fact finding	Standard setting	Endorsement	Overall progress
<i>Barrier 1</i>	100%	77%	75%	91%
<i>Barrier 2/10</i>	100%	60%	60%	70%
<i>Barrier 3</i>	100%	75%	0%	63%
<i>Barrier 4/7</i>	100%	100%	100%	100%
<i>Barrier 5</i>	100%	100%	100%	100%
<i>Barrier 6</i>	0%	0%	0%	0%
<i>Barrier 8</i>	100%	100%	100%	100%
<i>Barrier 9</i>	100%	40%	0%	35%
<i>Barrier 11</i>	100%	30%	0%	40%
<i>Barrier 12</i>	100%	30%	0%	40%
<i>Barrier 13</i>	100%	40%	0%	35%
<i>Barrier 14</i>	100%	100%	100%	100%
<i>Barrier 15</i>	100%	100%	100%	100%
Overall progress	97%	68%	48%	69%

Removal of Giovannini Barriers

The situation as it is today:

- Limited progress so far: only barriers 8 and 14 fully dismantled.
- Especially slow progress in removing public-sector related barriers where legislation may be needed.
- In August 2008, Legal Certainty Group has proposed 15 recommendations for removing barriers 3, 9, 13.
- These recommendations suggest future legislative measures, but set no precise deadlines.
- TARGET2-Securities expected to have most substantial effect on removing the private-sector barriers.

Removal of Giovannini Barriers

Removal of Giovannini barriers - conclusion:

- “Minimum intervention approach”: remove barriers to achieve fully integrated Single Market.
- Desired side effect: once barriers have been fully dismantled, competition and market forces may boost efficiency.
- No clear view as regards the final market structure (how much horizontal/vertical consolidation in trading, clearing, and settlement).
- Some, however rather slow progress.
- Need for further action!

Code of Conduct

III. Code of Conduct for clearing and settlement

- Self-regulatory tool “better regulation”; voluntary commitment signed by the industry (FESE, EACH, ECSDA) in November 2006.
- “The economist’s approach”; create efficiency and integration on the basis of freedom of choice and competition.
- Freedom to choose preferred service provider separately at each layer of the transaction chain (trading, clearing, and settlement).
- Three sets of measures to be implemented: price transparency, free access and interoperability, and service unbundling; to be implemented by end 2007.
- Monitoring Group to ensure implementation on the basis of “name and shame”.

Code of Conduct

Progress in implementation achieved so far:

- Monitoring Group met seven times with the industry and users to assess progress.
- Price transparency: a lot of information publicly available, but further work needed to improve price comparability.
- Access/interoperability: large number of link requests and downward pressure on fees; few requests has been implemented so far due to regulatory arrangements and disputes on business case considerations.
- Service unbundling: industries have developed a methodology, but further evidence is needed.

Code of Conduct

Code of Conduct - conclusion:

- Use of self-regulation creates a precedent. Success of the Code of Conduct may trigger similar initiatives in other areas.
- The instrument involves the industry, is flexible and perhaps relatively quick in implementation. More has been achieved in a short period of time than a directive could have.
- But results are mixed. Final conclusion not possible at this stage. Whether legislation will be needed is still an open question.
- Extension of Code to other asset classes (fixed income/derivatives)?
- ECOFIN: benefits to be passed on to final investors. How?

IV. ESCB/CESR Recommendations:

- Published on 23 June 2009
- Aimed at enhancing safety and soundness in post-trading
- Fosters integration by creating harmonised regulatory framework
- Complementary to the other initiatives

ESCB-CESR complements the Code of Conduct

Requirements of the Code of Conduct	Corresponding elements in ESCB-CESR
<i>Price transparency</i>	RSSS 17 + RCCP 14
<i>Interoperability</i>	Open access in RSSS 14 + RCCP 2. Interoperability supported by RSSS 19 + RCCP 11.
<i>Unbundling</i>	Unbundling encouraged by RSSS 5, 9, and 10.

ESCB-CESR helps to remove Giovannini barriers

Giovannini barriers	Corresponding elements in ESCB-CESR
<i>Barriers 4 + 7 (intraday finality and operating hours)</i>	Timing of settlement finality in RSSS 8
<i>Barrier 5 (impediments to remote access)</i>	Open access in RSSS 14 + RCCP 2
<i>Barrier 1 (Information technology and interfaces)</i>	Communication procedures in RSSS 16

Central bank operations

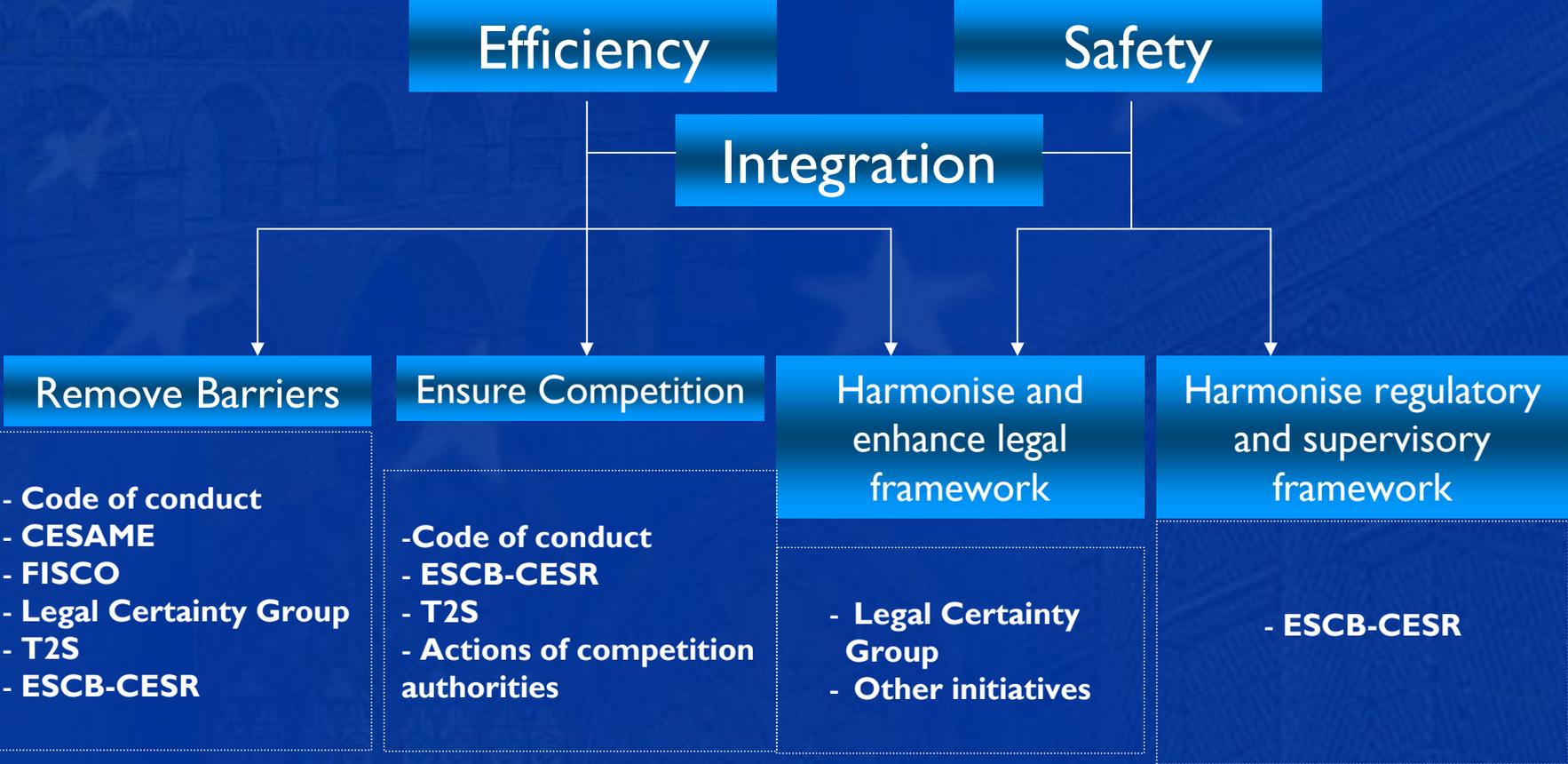
V. Central bank operations in clearing and settlement

- TARGET2-Securities / CCBM 2
- The most immediate and forceful approach to boosting efficiency and integration in European clearing and settlement.
- It is not in contradiction or competition with the Commission's approaches. Rather, it complements them.
- It helps to remove some Giovannini barriers. It is in line with the requirements and the spirit of the Code: T2S promotes competition at all layers other than settlement.
- It combines the efficiencies of integrated settlement of both cash and securities with the ability for the central bank to keep full control over its currency.

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Conclusion



Conclusion

Conclusions:

- All initiatives together help to create an integrated, safe, and efficient post-trading infrastructure for Europe.
- The initiatives are complementary to each other.
- They have triggered a process the end of which is open.
- Whether further measures are needed is not clear yet.