



International TraderForum 2002 New Challenges in Clearing and Settlement

Introduction to Panel Discussion

- **Why clearing and settlement matters for traders**

Let me just mention three reasons and I am sure there are many more:

- Firstly, because clearing and settlement of a transaction simply means the fulfilment of the contract the trader has entered into – why should a trader not take an active interest whether the obligations of the parties to a deal have honoured their obligations at the terms and conditions agreed?
- Secondly, because clearing and settlement and the associated costs and risks today are perceived a strategically important part of the value chain of the securities industry.
- It is on this basis that senior executives of UBS, Morgan Stanley and Deutsche Bank founded and some twenty more leading financial institutions active in Europe joined the European Securities Forum whose prime objective is the creation of an efficient pan-European capital market through consolidation and integration of its securities infrastructure as well as appropriate and enabling infrastructure – why should chairmen and senior executives but not traders care about the efficiency of what is inseparably connected to the trade?
- Thirdly, because there is empirical evidence of a correlation between the efficiency of market infrastructure and liquidity – have you ever come across a trader complaining about efficient and liquid markets?

- **The need for greater efficiencies and legal and regulatory harmonisation**

- Most domestic clearing and settlement systems and processes in Europe and beyond are characterised by high cost efficiency and low risk. In a world of the sector investment approach replacing the country investment approach, i.e. an unprecedented increase of cross border transactions, this is simply not enough.
- In spite of the introduction of the euro, in spite of the consolidation steps in the recent past, particularly around Euronext and Euroclear, the fragmentation of the European securities infrastructure and operational, legal and regulatory barriers are impeding efficient cross border clearing and settlement in Europe.

- You will learn from my colleagues on the issues of operational cost and risk drivers. I will therefore briefly touch on the need of legal and regulatory harmonisation in Europe: in the context of a recent consultation on clearing and settlement by the EU Commission we at the European Securities Forum concluded that the legal harmonisation and the creation of a uniform securities code is the single most important requirement for an integrated European capital market. The legal fragmentation in Europe is not only a major source for legal risks and uncertainties – I assume you will want to know whether you really own what you have purchased – but is also responsible for a sizeable amount of the complexities and costs in the back offices of your banks. There cannot be cross border efficiency as long as we have more than a dozen different legal meanings of ownership and transfer of ownership in Europe!
- **Reducing cost and risk in the post trade area: a case for division of labour and cooperation between the securities industry and political bodies**
 - The Giovannini Report has listed 15 barriers to a more efficient securities infrastructure in Europe, part of them are of caused by differences in market practices and technical requirements part of them are caused by the fiscal and legal and regulatory fragmentation in Europe.
 - We at the ESF take the view – which by the way is shared by the EU Commission – that the harmonisation of processes and procedures, i.e the removal of the barriers related to technical requirements and market practices should be market led, whilst the solutions in the legal and regulatory area should be provided by the relevant political and regulatory bodies.
 - This division of labour should, however, be complemented by a close cooperation between the securities industry and political and regulatory bodies.