

# **Examining The Evolution Towards An Integrated Pan-European Clearing and Settlement Process**

# Agenda

- The current state and expected development of integrating clearing and settlement in Europe
  - The key objectives
  - The evolution of the European clearing and settlement landscape since 1999 – strategy vs. reality
  - The Euroclear – CrestCo merger: a new dimension ?
  - The approach of the non-aligned European CSDs
  - European CCP consolidation: last in, first out?
  - Consolidation vs. integration
  - Outlook: Elements of a European solution

## Agenda

- Why does the integration and consolidation of post-trade processes in Europe matter for political and regulatory authorities?
  - The objective of the EU to create an integrated European capital market by 2005
  - Financial stability and level playing field
  - Creating an integrated European capital market: a case for division of labour and cooperation
  - ESF's proposal of a Uniform Securities Code in Europe
- Conclusions

## **The current state and expected development of integrating clearing and settlement in Europe**

- The key objectives: reducing cost and risk of cross border clearing and settlement in Europe
- The analytical diagnosis of the drivers of cost and risk
  - National differences in technical requirements/market practice
  - Fiscal diversities
  - Legal heterogeneity
- Private sector and public sector initiatives to meet the key objectives by removing existing impediments

## **The current state and expected development of integrating clearing and settlement in Europe**

- The evolution of the European clearing and settlement landscape since 1999 – strategy vs. reality
  - The merger of Euroclear and Clearstream did not (yet) take place
  - Euroclear: from ‚hub and spoke‘ to the consolidator role
  - Clearstream: the strategy of focusing on (domestic) efficiency
  - The combination of ICSD and CSD: source of conflict with Agent Banks

## **The current state and expected development of integrating clearing and settlement in Europe**

- The Euroclear – CrestCo merger: a new dimension ?
  - Clearing and settlement of bonds vs. equities
  - 60 % market share – Les jeux sont faits?
  - Partial service vs. full service offering
  - The onerous road from consolidation to integration
  - Governance and ownership: coinciding or conflicting interests?

## **The current state and expected development of integrating clearing and settlement in Europe**

- The approach of the non-aligned European CSDs
  - Consolidation and integration at national levels as a basis for integration at European levels
  - Multiplying cost of change at the level of market participants
  - CSSI – an alternative (interim?) option of integration

# **The current state and expected development of integrating clearing and settlement in Europe**

- European CCP consolidation: last in, first out?
  - The role of CCPs in the securities value chain
  - CCPs: fashion or necessity – the driving forces
  - Assessment of the current situation
  - Umbrella CCP model – the solution for multicultural Europe?

# **The current state and expected development of integrating clearing and settlement in Europe**

- Consolidation vs. Integration
  - The need to go beyond the dispute of vertical vs. horizontal integration
  - What are the real issues? Defining the priorities to reduce cost and risk

# **The current state and expected development of integrating clearing and settlement in Europe**

- Outlook: Elements of a European solution
  - Creating a European DTCC? – one size doesn't fit all
  - The pros and cons of centralisation and decentralisation – a tailor-made optimisation process for Europe
    - The trading, CCP and clearing and settlement level
    - Fixed income instruments vs. equities – the need of differentiation
  - Why working on the architecture of the future landscape matters

## **Why does the integration and consolidation of post-trade processes in Europe matter for political and regulatory authorities?**

- The objective of the EU to create an integrated European capital market by 2005

„If the EU financial market is to compete on a global scale, it must be deep, liquid, efficient, safe, transparent and cost-effective... If the costs of using European clearing and settlement systems are too great, or if the infrastructure does not support the desired functionality, then market participants might not invest in those markets or use other, potentially more risky, methods to achieve the finalisation of cross-border transactions.”

## **Why does the integration and consolidation of post-trade processes in Europe matter for political and regulatory authorities?**

- Integration, financial stability and level playing field
  - Recommendations at global level: CPSS-IOSCO Task Force, ISSA, G30
  - Initiatives of the EU Commission: Giovannini Group, Communication to Council and EU Parliament
  - The joint working group ESCB / CESR

## **Why does the integration and consolidation of post-trade processes in Europe matter for political and regulatory authorities?**

- Creating an integrated European capital market: a case for division of labour and cooperation
  - The highest priorities where no involvement of political and regulatory bodies is required: communication standards as a basis for interoperability and standardisation of clearing and settlement periods
  - The highest priorities involving political and regulatory bodies

## **Why does the integration and consolidation of post-trade processes in Europe matter for political and regulatory authorities?**

- ESF's proposal of a Uniform Securities Code in Europe
  - Why is the creation of uniform securities code deemed the single most important requirement for an integrated European capital market?
  - Why is ESF championing this proposal?
  - What is the first reaction of the EU Commission and what is the chosen way forward?

## Conclusions

- To make the European capital market competitive in a global environment
- Winners and losers of the process of consolidation and integration
- The task is challenging – a case for cooperation and forceful action