



G30 Seminar at the Bank of England, 13 May 2003

Europe matters, Ladies and Gentlemen, because its competitiveness in a global environment is at stake, because the efficiency and cost effectiveness of its capital market is of the essence to investors and market operators alike, as we have just learnt from Alberto Giovannini.

What is the view from Europe, what is the role of the European Securities Forum in the context of the topic of this seminar: Global Clearing and Settlement: A Plan for Action?

To start with: CPSS/IOSCO, ISSA, the Group of 30 and the Giovannini Group have done a superb job: they have achieved a broad consensus at global and at European level among private sector market participants, political authorities and regulators. They have worked out the basis to build on, without which the risk of being confronted with 'back to square one' would be high time ad again.

The European Securities Forum had a reputation to debate and influence high level structural issues such as the vertical vs horizontal integration of the securities value chain in Europe or the plan to create a single pan-European CCP. Don't take me wrong: These debates have been important and necessary. Today, however, we propose that we go beyond these debates in order to avoid the following four risks

- First, the risk that we lose sight of the real issues, i.e. the need to reduce risk and cost of cross border securities transactions as a *conditio sine qua non* to achieve the objective of an integrated competitive European capital market.
- Second, the risk that public authorities in Europe become impatient over perceived inaction of market led forces and legislate or set rules and structures for the European securities markets on the basis of inadequate knowledge and experience.
- Third, the risk that those who currently profit from the fragmentation of the European securities infrastructure will continue to do so for an undue future period, essentially at the disadvantage of the investing community.
- And finally forth: the risk that the awareness created, that the political and commercial will for change will fade away again.

Against this background ESF set up the Operations Committee at the end of last year not to duplicate the aforementioned work of the Group of 30 or the Giovannini Group but to complement it, to answer – by harnessing senior operations executives of the largest market operators active in the European securities markets – the question: what next, i.e. to support and accelerate the process of implementation, thereby seeking the cooperation with institutions and organisations with similar objectives both in the private and public sector.

Within a period of some four months ESF's Operations Committee worked out a first set of priorities and specific requests on which all its members agree, irrespective of whether they represent an investment bank, a custodian bank, an agent bank or a universal banking type of organisation, whether its head-office is located in Europe or in North America. The four areas of priorities are:

- The standardisation and harmonisation of communication, such as ISO 15022 as the sole messaging format standard throughout Europe, compatible with global standards.
- The harmonisation of settlement timeframes and operating hours and rules relating to corporate actions, such as the standardisation of record and ex-date for all corporate action events and income payments.
- The removal of restrictions of open access and free choice, such as the elimination of national settlement and depository requirements in Germany or the registration process in Spain.
- The harmonisation of the legal environment in Europe, such as the introduction of an EU wide legal definition of transfer of ownership in dematerialised securities.

This set of priorities is of a medium term nature in terms of implementation, medium term meaning the next few years.

To increase the dimension of practicability, to answer the question: and what does this mean in reality, ESF's Operations Committee developed furthermore the first of a series of action plans for 2003.

From a long list of actions those have been chosen that best met the following criteria:

- Tangible benefits at lowest investment cost, taking into account the current market environment
- Short timeframe of realisation
- Choosing prioritised markets, i.e. markets of size and importance
- Least disruptive to current processes protecting investments made

Eight very detailed and specific actions to be completed by the end of 2003 are the result. You will find them described in the document ESF's Call for Action that is part of the hand out.

Let me just quote three examples:

- Reach agreement with Crest to introduce ISO 15022 standard for securities lending and repo transactions in the UK market. This is one of the answers to the question: what does it mean to standardise and harmonise communication.

- Reach agreement with the Italian and the Swiss tax authorities to allow automation of cross border tax reclaim. Large custodian banks employ a sizeable number of employees to fill in physical original tax reclaim forms, rubberstamped and signed by hand – this low value activity should be allowed to be performed in electronic form.
- Reach agreement in principle with the Spanish authorities and with Iberclear to eliminate the trade registration process that makes post-trade activities in Spain so complex and costly.

As you will see from the document contained in the hand out, each of these actions is a first step to achieve an overriding objective: this is a reflection of our optimisation approach: to avoid getting lost in details on the one hand and the risk of being too generic and high level to be of practical use on the other.

To conclude:

- The implementation process needs to start now as a matter of credibility of the private and the public sector.
- Cooperation will be the recipe for success – cooperation between the public and the private sector but also cooperation among private sector organisations.
- Europe is ESF's centre of gravity, however, always with a view to be compliant with global standards.
- And last but not least, as you may have noticed: ESF has changed to be an agent of implementation representing the market