

european securities forum

Harmonisation, Standardisation and Integration of Clearing & Settlement in Europe

Action Plan 2006

15 February 2006



1. Introduction

ESF's two prongs strategy: to continue the practical work towards higher operational efficiency and to influence higher level structural issues

The European Securities Forum represents major international banks operating in the European securities markets. In May 2003 it published its Call for Action document with a view to start the much needed process of change to harmonise and integrate the clearing & settlement processes in Europe. Focusing on the approach of breaking down widely shared high level objectives (Giovannini Reports, The Group of Thirty) into concrete steps, ESF has continued its role as an **agent of change of European clearing and settlement** since then by means of the Action Plans for 2004 and 2005.

Although substantial progress in developing **practical solutions** has been made, an intensified pursuit of this work is deemed indispensable, particularly taking into account that many of the solutions towards higher efficiency still require the consent of relevant constituencies and need to be implemented. Whilst the work out of solutions has been the focus of previous years, a certain shift towards efforts aiming at reaching **agreement / consent** and support and monitoring of **implementation** characterises the Action Plan 2006.

ESF remains committed to actively contribute to the work of **CESAME Group** and to the **cooperation** and coordination with organisations and institutions that pursue similar objectives of harmonisation, interoperability and integration of clearing and settlement in Europe and at a global level.

However, in addition to the granular work of harmonising and standardising key operational clearing and settlement processes, and building on the reputation thereby achieved, ESF realises that it has to increase its influence on **higher level structural issues** that play an important role in the process of integrating clearing and settlement in Europe.

Moreover, as announced in December 2005, the Chairman and the CEO of ESF will be engaged in the **Financial Markets Federation**, which has been set up together with ICMA with the intention of shaping the future structure and form of closer cooperation between financial markets trade associations.

2. Review of Action Plan 2005

2.1. General Comments

We enjoyed again strong support from our members in delegating highly knowledgeable and experienced executives to the working groups, which, by usually being kept small, perform highly efficient and effective work. This support is a key success factor for the achievements and progress made.

In pursuing the objective of avoiding any duplication of effort, we concentrated our resources on three areas: corporate actions processes, pre-settlement date matching and remote access taking into account the establishment of the Fiscal Compliance Group (FISCO) by the EU Commission, the work of LIBA in the area of reporting requirements and the forthcoming merger of the Central and Eastern European CSDs (CEECSDA) with ECSDA.

Particularly the efforts of the working groups tasked with corporate actions processes and pre-settlement date matching have been highly successful; the work performed in monthly meeting of the working groups significantly contributed to the ESF's reputation as a solution provider

2.2. Summarised Progress Report on individual actions

- **Corporate actions processes**

The ESF Corporate Actions Expert Group consolidated its industry leadership position in developing solutions to harmonise and standardise

- key dates related to voluntary corporate actions processes
- default rules applicable to corporate actions processes
- buyer protection rules

The working out of these solutions is also part of the cooperation agreed in the context of CESAME Group with EALIC, EBF, ECSDA and FESE. We agreed with these organisations to set up a joint working group tasked with developing standards for AGM-related processes.

- **Corporate actions processes** (continued)

The detailed descriptions of the solutions as well as the presentations to CESAME Group are available on the ESF website www.eurosf.com.

- **Pre-settlement date matching**

In an interactive process with WG3 of ECSDA the ESF Working Group tasked with developing standards to harmonise pre-settlement date matching has worked out 18 standards, on which agreement has been reached with ECSDA.

The agreed standards will be put up for consultation with select organisations and trade associations in the first quarter of 2006.

The document with the standards jointly proposed by ESF and ECSDA as well as the presentation to CESAME Group is published on the ESF website www.eurosf.com.

- **Remote access: Italy and Spain**

Significant progress has been made towards remote access to Monte Titoli. The Italian CSD presented its strategy and approach at a workshop in London, to which LIBA members were invited too. Monte Titoli aims at offering a comprehensive panoply of services by way of remote access in the course of 2006.

Although the leading international and domestic agent banks in Madrid have confirmed their agreement with a document worked out by the ESF working group tasked with the change of the Spanish registration process - a prerequisite for remote access -, which describes the request for change, a successful breakthrough in this important but difficult initiative has not yet been reached.

3. Action Plan 2006

The Action Plan 2006 reflects again the priorities of the members towards the overriding objective of integrating the European securities markets, in particular the post trade part of the value chain, reducing thus cost and risk.

The actions chosen for 2006 are grouped in **two prongs**: issues of an **operational** nature and issues of a **structural** nature,

As in the previous years, the **operational** actions provide for consistency of approach, i.e. they are in line with the Giovannini Report and G-30 Recommendations and are targeted at a successful **transposition of the respective objectives into reality**.

The planned actions of a **structural** nature reflect the findings that structural changes, in addition to the harmonisation and standardisation of operational processes, are required to achieve the overriding objective.

This Action Plan outlines the rationale and the overall objectives for 2006 of each action with the respective working group responsibility indicated. The **Working Groups** tasked with the individual actions will work out detailed objectives, milestones and timelines to track progress and measure success.

3.1. Operational actions

- **Corporate actions processes** (Corporate Actions Expert Group)
 - **Rationale:** Continue the work to eliminate Giovannini Barrier 3 in cooperation with EALIC, EBF, ECSDA and FESE
 - **Objectives:**
 - Conclude the phase of working out solutions and standards for corporate actions key processes, including AGM related processes (no blocking of shares, standardised dates and timelines, proxy voting processes) and 'Dutch coupons'
 - Contribute to getting the worked out standards agreed by all relevant constituencies
 - Participate in the implementation monitoring

- **Pre-settlement date matching standards** (Matching Standards Working Group)
 - **Rationale:** Continue the successful cooperation with ECSDA in this initiative, which relates to G-30 Recommendation 5 and Giovannini Barriers 1 and 6
 - **Objectives:**
 - Carry out and evaluate the consultation with select organisations and trade associations
 - Support ECSDA in the consent building process with CSDs' market advisory committees
 - Lead the implementation monitoring jointly with ECSDA

- **Buy-in processes** (Working Group to be set up)
 - **Rationale:** Need to standardise and harmonise the buy-in processes throughout Europe medium term
 - **Objectives:**
 - Reach agreement with Euroclear to align the buy-in procedures (related to their securities lending and borrowing program) with the respective ICMA rules
 - Produce a survey on the current buy-in procedures in the European markets in cooperation with ECSDA and EACH

- **Investment fund processing** (Operations Committee)
 - **Rationale:** Lack of operational standards in the investment fund industry and related inefficiencies
 - **Objectives:**
 - Reach agreement in principle among ESF members on the concentration of settlement, depository and reconciliation functionalities with (I)CSDs
 - Cooperate with other associations, e.g. ISSA, EFAMA

- **Omnibus account acceptance** (Working Group to be set up)
 - **Rationale:** Acceptance of the concept of omnibus accounts for customer holdings in all European markets to facilitate post trade activities
 - **Objectives:**
 - Reach agreement in principle with ECSDA on the acceptance of the concept of omnibus accounts for customer holdings (teneur de compte or nominee concept) throughout Europe, particularly in Greece, Spain and in certain Central and Eastern European markets (against the background of the merger of ECSDA and CEECSDA as of 1 January 2006)
 - Define and take required supportive actions to implement the agreed concept, where required, in cooperation with ECSDA

3.2. Structural actions

- **EU Directive on clearing and settlement** (Structural Actions Working Group)
 - **Rationale:** Prepare a coherent view and position of the ESF membership to possible legislation on clearing and settlement at EU level (EU Directive on clearing and settlement)
 - **Objectives:**
 - Analyse the private and public sector achievements in removing Giovannini Barriers at end 2005
 - Analyse key causes for main unresolved issues
 - Define most promising approaches and means (effectiveness, timelines) to overcome impediments

- **CCPs** (Structural Actions Working Group)
 - **Rationale:** Integration of CCPs in Europe is a key element to increase cost efficiencies for market users and promote competition among infrastructure organisations
 - **Objectives:**
 - Analyse strengths and weaknesses of current CCP landscape
 - Define alternative routes and options to achieve CCP integration
 - Update ESF CCP study of 2000, possibly in cooperation with other organisations / trade associations

- **NCS D (Nordic CSD)** (tbd)
 - **Rationale:** Promotion of integration and consolidation of securities infrastructure is one of ESF's key objectives
 - **Objectives:**
 - Offer ESF's support in the integration and consolidation process of Nordic CSDs
 - Act as a facilitator and 'honest broker'

- **Dematerialisation** (Dematerialisation Working Group)
 - **Rationale:** Paper free transfer of securities is a key factor to reduce cost and risk
 - **Objectives:**
 - Continue the support of dematerialisation of UK securities
 - Support the efforts of dematerialisation in Belgium; make available the experience of the initiative in the UK

- **Remote access** (Working Groups on Spain / Monte Titoli)
 - **Rationale:** Continue the efforts to remove the practical impediments to remote access to national clearing and settlement systems (Giovannini Barrier 5)
 - **Objectives:**
 - Support Monte Titoli in its efforts to provide a comprehensive range of services to remote members in 2006
 - Act as a contact of choice to major market users for Monte Titoli
 - Reach agreement with the relevant Spanish institutions and authorities on the requested change of the registration process for equities, a pre-requisite for remote access, and on a timetable for the implementation of such change

- **Withholding tax procedural issues** (ESF Tax Group)
 - **Rationale:** Resume the initiative to support the removal of the Giovannini Barriers 11 and 12
 - **Objectives:**
 - Set up the agreed ESF Tax Group
 - Exert the influence of ESF and its members to induce those tax authorities in Europe to take rapid action that face the most obvious fiscal impediments as defined by the Giovannini Reports
 - Cooperate with and support the Fiscal Compliance Group (FISCO) set up by the EU Commission