

european securities forum

Harmonisation, Standardisation and Integration of Post Trading in Europe

Action Plan 2007

20 February 2007



1. Introduction

ESF's three prongs strategy:

- to continue the practical work towards higher operational efficiency
- to contribute to legal, tax and regulatory harmonisation and standardisation solutions
- to be engaged in policy and structural initiatives

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, 2005 and 2006.

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 Plans 2006 and 2007.

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. It aims at contributing to the harmonisation and standardisation of the **legal, fiscal and regulatory** environment by way of practical proposals and exerting its influence in the removal of those Giovannini Barriers for which **public sector authorities** are accountable.

In addition to the granular work of harmonising and standardising key operational clearing and settlement processes, and building on the reputation thereby achieved, ESF continues to be engaged in **structural initiatives**, e.g. **the Code of Conduct** and **Target 2-Securities** 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 participate in the **European Financial Markets Federation (EFMF)**, 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. ESF remains convinced of the need of **consolidation of securities trade associations in Europe**.

2. Review of Action Plan 2006

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.

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

The newly established Structural Actions Working Group performed excellent work – often under great time pressure – in making ESF's voice heard in the context of policy issues (legislative vs. market led route) and structural initiatives (Code of Conduct, Target 2-Securities), to which the ESF Legal Committee and the ESF Tax Group meaningfully contributed their professional expertise.

2.2. Summarised Progress Report on individual actions

2.2.1. Operational Actions

- **Corporate actions processes (Corporate Actions Expert Group)**
 - Work on defining standards for key corporate actions processes largely concluded and published in respective abstract document (see ESF website)
 - Consent by relevant organisations, above all ECSDA and EBF, resulting from consultation process
 - Leading role of ESF Corporate Actions Expert Group confirmed
 - Ongoing cooperation with EALIC / ECSDA / EBF / FESE (joint working group) on AGM related processes

- **Pre-settlement date matching (Matching Standards Working Group)**
 - Final version of standards document of ESF and ECSDA agreed and published (see ESF website)
 - SWIFT agreed to develop required new MT 530
 - Implementation by end 2009
 - ECB agreed to adhere to standards should T2S be implemented
 - Highly complementary to OMGEO's Same Day Affirmation initiative
- **Buy-in processes**
 - Short term action (agreement with Euroclear) successfully concluded
- **Investment fund processing**
 - For the time being re-active position of ESF in order to avoid duplication of work in progress by ISSA and EFAMA
- **Omnibus account acceptance**
 - Dealt with in Memorandum to Commissioner McCreevy (see below)

2.2.2. Structural Actions

- **EU legislation on clearing and Settlement (Structural Actions Working Group)**
 - Memorandum to Commissioner Mc Creevy with meaningful contributions of ESF Legal Committee and ESF Tax Group
 - McCreevy's policy statement of July 2006 in line with ESF position

- **Code of Conduct (Structural Actions Working Group)**
 - ESF's informal actions with infrastructure and EC
 - Participation in Users' meetings chaired by EC
 - ESF's objectives and principles met in agreed Code of Conduct
 - Defined position for next phases (work out of greater details / monitoring)
 - Continued dialogue with infrastructure in coordination with other market user trading associations

- **Target 2-Securities**
 - ESF accepted consultation party
 - Input to economic part of feasibility study

- **Consolidation in Nordic area (NCSD)**
 - Subsequent to initial contacts with Nordic CSDs decision to postpone further action

- **Remote access**
 - **Italy:** comprehensive remote access services as from 1 January 2007 presented at workshop chaired by ESF
 - **Spain:** file on request of change of registration process (condition precedent to remote access) part of Memorandum to Commissioner McCreevy

3. Action Plan 2007

The Action Plan 2007 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 2007 are grouped in **three prongs**: issues of an **operational** nature, **legal, fiscal and regulatory** issues and issues of a **policy / 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 envisaged actions in the **legal, regulatory and fiscal** area are targeted towards contributing practical solutions worked out by practitioners and to represent the market users' views in respective public sector projects.

The planned work in the area of a **policy / structural** nature reflects the need of the cooperation of market users with **infrastructure organisations** and **public authorities** is required to achieve the overriding objective of efficiency increase.

This Action Plan outlines the rationale and the overall objectives for 2007 of each action with the respective committee / working group responsibility indicated. The **Committees / 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

General approach: While ESF and its respective Working Groups have often led the process of **developing solutions** to harmonise and standardise processes (corporate actions, pre-settlement date matching) in the past years, the **focus in 2007** shall be on **formal endorsement and implementation of proposed solutions** by relevant organisations and institutions.

- **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:**
 - Accelerate the process of agreement on and implementation of solutions to harmonise and standardise corporate action processes
 - Define issues related to fixed income corporate actions and work out respective solutions
- **Buy-in processes** (Settlement Working Group to be set up)
 - **Rationale:** Need to standardise and harmonise the buy-in processes throughout Europe medium term
 - **Objectives:**
 - Produce a survey on the current buy-in procedures in the European markets in cooperation with FESE / ECSDA
 - Develop a first set of standards to harmonise buy-in processes
- **Investment fund processing** (Operations Committee)
 - **Rationale:** Lack of operational standards in the investment fund industry and related inefficiencies
 - **Objective:**
 - Coordinate comments from ESF members on harmonisation proposals provided by ISSA and EFAMA

- **Interest claims / receivables** (Settlement Working Group to be set up)
 - **Rationale:** Lack of widely agreed standards and guidelines across different segments
 - **Objectives:**
 - Establish analysis to define gaps left by other industry initiatives (ISITC Europe, ECSDA, EBF)
 - Work out (missing) standards and seek endorsement by relevant constituencies

3.2. Legal, fiscal and regulatory actions

- **Legal:** (Legal Committee)
 - **Rationale:** Legal uncertainty caused by existing diversities of legal regimes
 - **Objectives:**
 - Support the work performed in Europe and at global level to reduce legal uncertainty through legal harmonisation (Hague Convention, Unidroit Convention, Legal Certainty Group)
 - Represent the views and positions of ESF members towards relevant institutions and organisations (Legal Certainty Group, European Commission, Unidroit, ECB)

- **Tax:** (Tax Group)
 - **Rationale:** Undue costs and risks caused by lack of harmonisation of fiscal procedures
 - **Objectives:**
 - Follow up on tax part of the Memorandum to Commissioner McCreevy of June 2006
 - Work out proposal for standardised documentation required for withholding tax relief / tax reclaim

- **Regulatory:** (Structural Actions Working Group)
 - **Rationale:** Inactivity of public sector authorities in removing barriers of a regulatory nature
 - **Objectives:**
 - Follow up on the Memorandum to Commissioner McCreevy fostering public sector action, in particular with respect to
 - Omnibus account acceptance
 - Change of registration process for equities in Spain
 - Harmonisation of segregation requirements

3.3. **Policy / Structural actions** (Structural Actions Working Group)

- Represent the members' views and position in the industry projects Code of Conduct and Target 2-Securities
- Contribute, where feasible practitioners' input and solutions
- Cooperate and coordinate with other market users' associations to make best use of scarce resources
- Cooperate with infrastructure in the Code of Conduct project with a view to work out common solutions and to contribute to the success of the project