

CSD legislation: What can we expect?



ECSDA

European Central Securities
Depositories Association

Soraya Belghazi, Secretary General

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Agenda



ECSDA
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Depositories Association

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ECSDA: Who are we?

2

Background: Why legislate?

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EC proposal: What to expect?

4

Impact: How will it affect CSDs?

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Next steps: When?

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ECSDA: Who are we?

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ECSDA members

- **41 (I)CSDs:** international and domestic securities depositories
 - ➔ 35 full members
 - ➔ 6 associate members (observers)
- Located in **36 European countries**
- Active in **issuance, settlement and custody**





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ECSDA objectives

ECSDA is a non-profit association whose main objective is to **support cooperation between European CSDs.**

This cooperation can take various forms, such as:

- ✓ Developing expertise on the CSD business (studies, educational material...)
- ✓ Facilitating the exchange of best practices, including with other regional CSD associations
- ✓ Promoting CSDs' role for financial stability & efficiency
- ✓ Representing the common interest of European CSDs towards regulators

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Why legislate on CSDs?

Financial crisis



CSDs proved resilient in the crisis.

- ✓ Mitigating operational risk
- ✓ Processing unprecedented volumes



CSDs not the focus of G20 reform

- ✓ Priority rather on CCP clearing
- ✓ OTC derivatives rather than cash market

Why legislate on CSDs?



No market failure, but other valid reasons:

- ✓ Having a consistent & **comprehensive framework along the value chain** (MiFID/trading, EMIR/CCPs...)
- ✓ **Removing obstacles** to efficient cross-border settlement & custody (cf. Giovannini process)
- ✓ Overcoming **limitations of self-regulation** (cf. Code of Conduct Access & Interoperability Guideline)
- ✓ Harmonising prudential framework to ensure **long-term safety and soundness of CSDs**

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What to expect?

- **13 Jan. 2011:** EC releases public consultation on CSD legislation and “certain aspects of securities settlement”
 - ➔ *Consultation paper gives an indication of the possible “building blocks” of future legislation*
- **1 March 2011:** Deadline for responses
 - ✓ More than 100 responses sent to EC
- **Nov. 2011 (?):** EC to adopt official legislative proposal



What to expect?

Part 1: CSDs

- CSD services (definitions, licensing)
- Supervision & prudential requirements
- Access rights & interoperability

Part 2: Settlement process

- Harmonisation of settlement cycles
- Settlement discipline measures

1- CSD services



What' new?

Distinction between core & ancillary services

List of authorised CSD services

Challenges

- Encompass all existing CSDs (how many "core" functions required?)
- Exemptions?

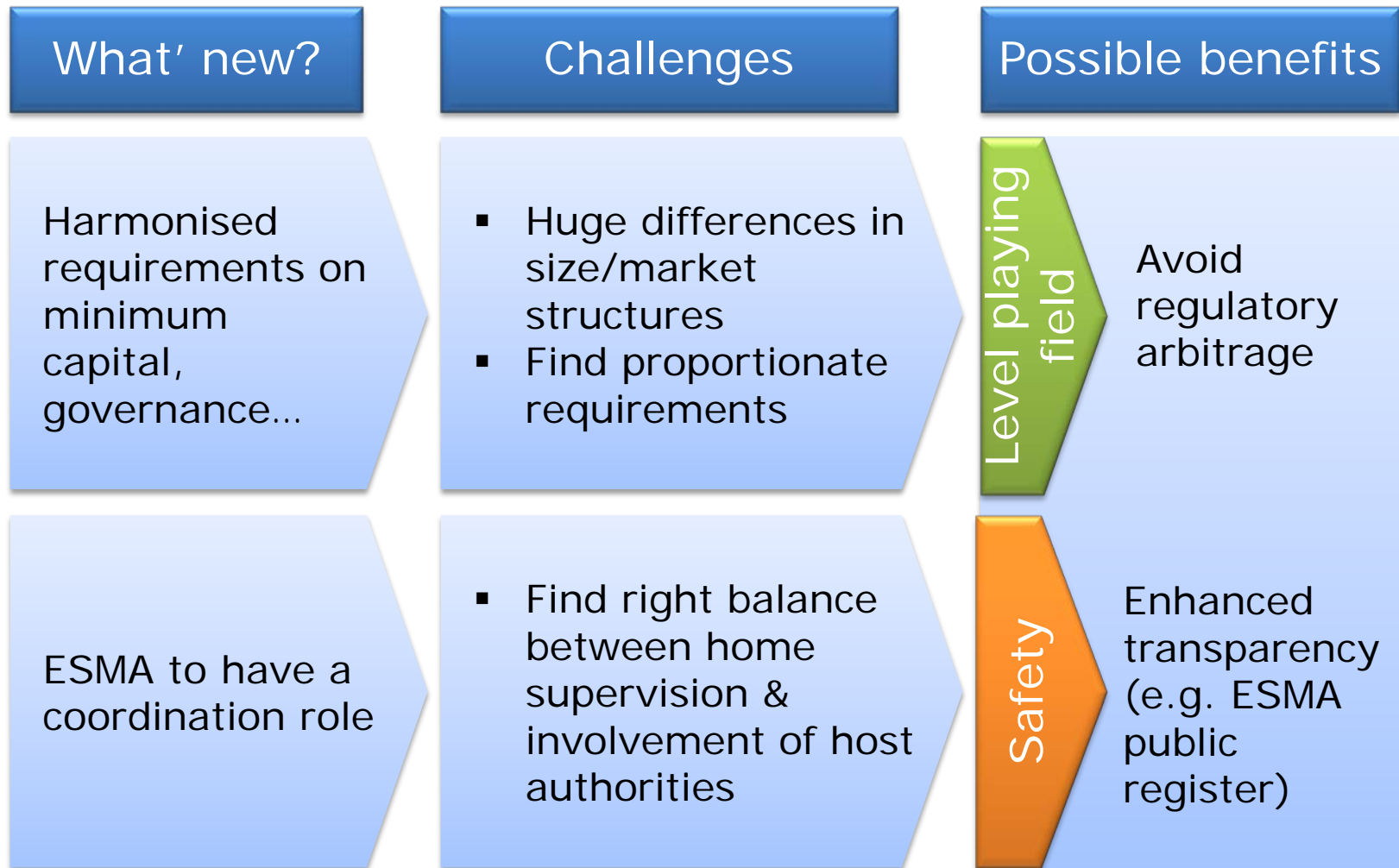
- Non-exhaustive list to allow for innovation?
- Banking license? (only some CSDs today)

Possible benefits

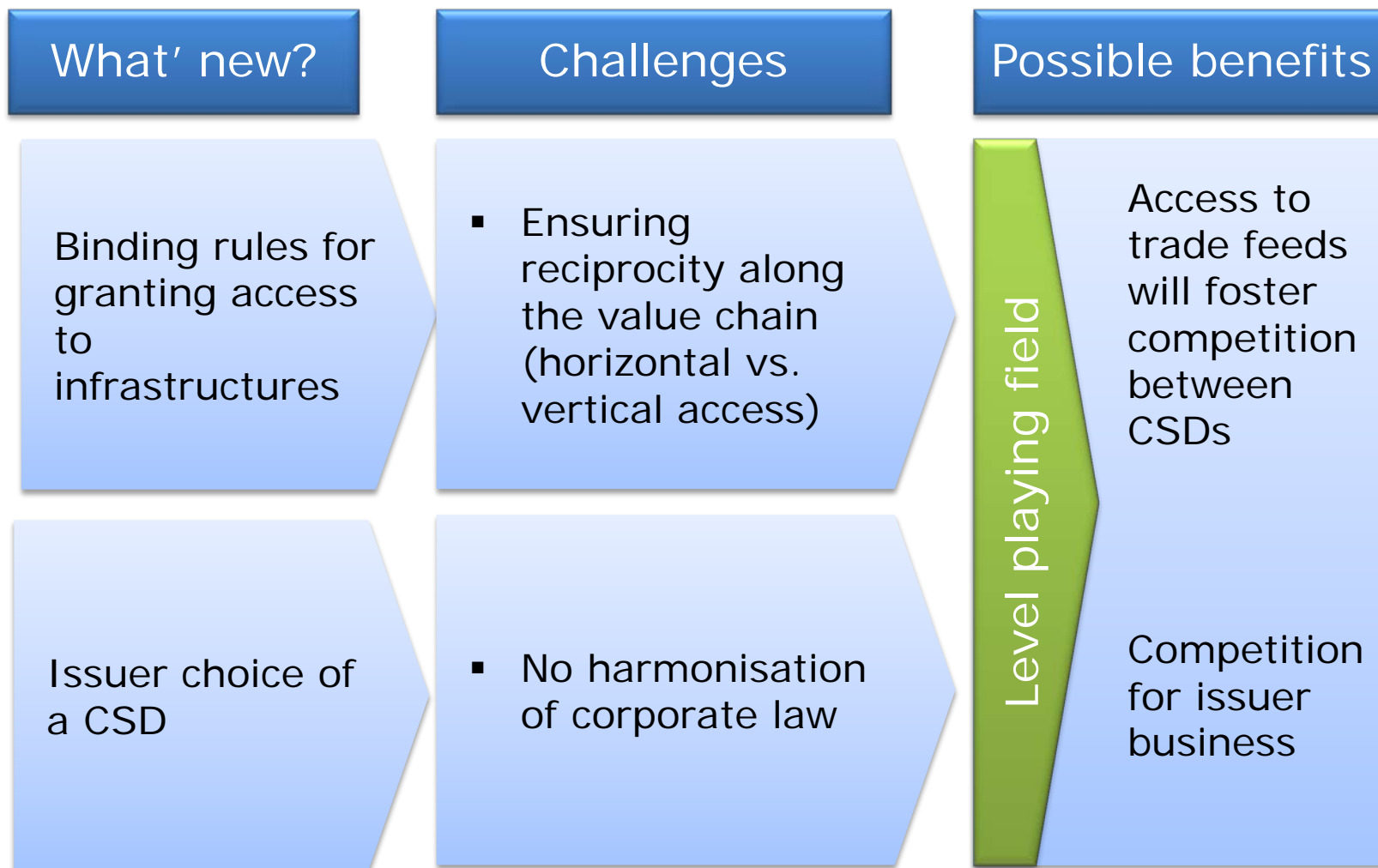
Level playing field

Single EU definition & license could make it easier for CSDs to develop operations outside of domestic market

2- Prudential supervision

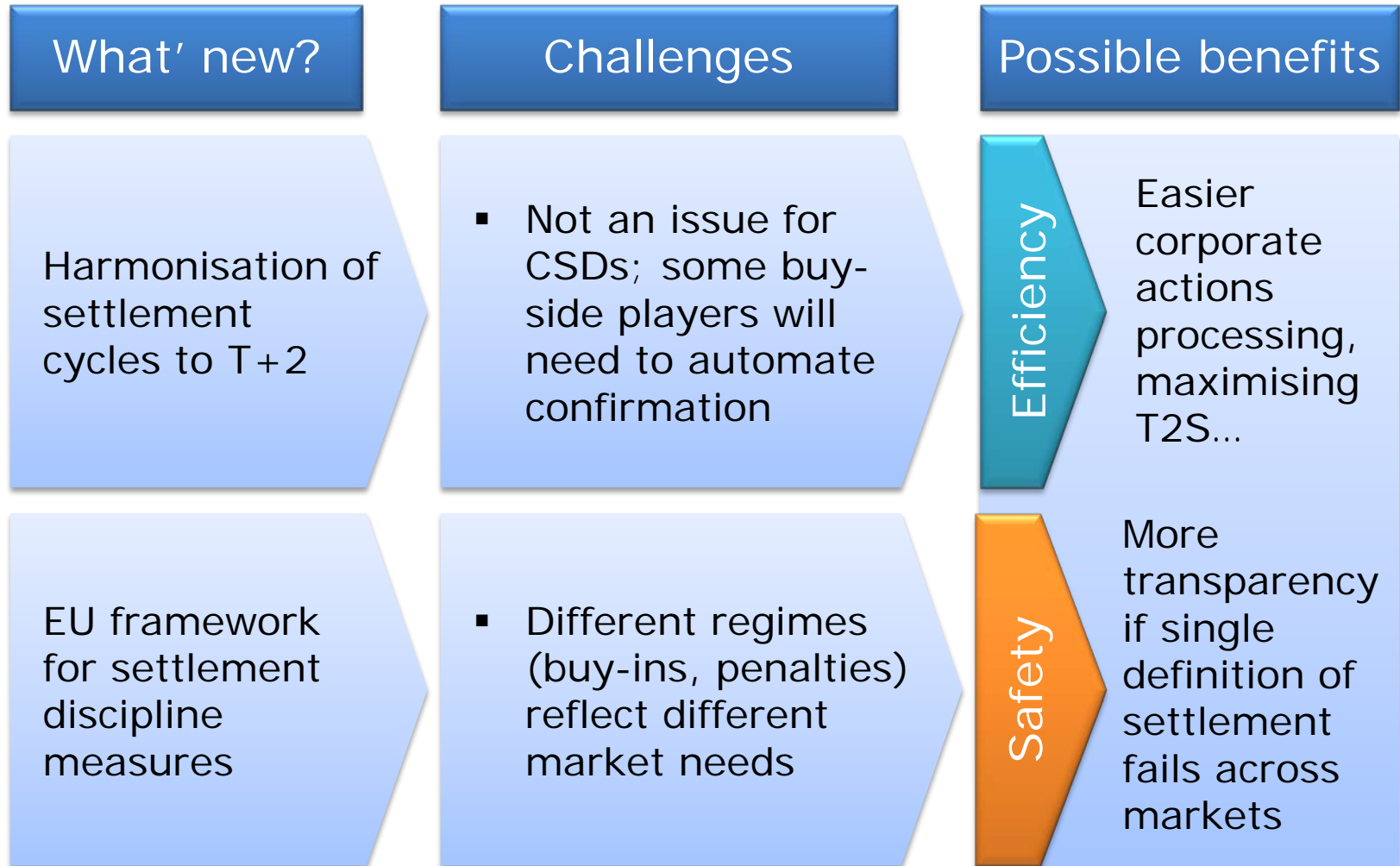


3- Access & Interoperability





4- Settlement process



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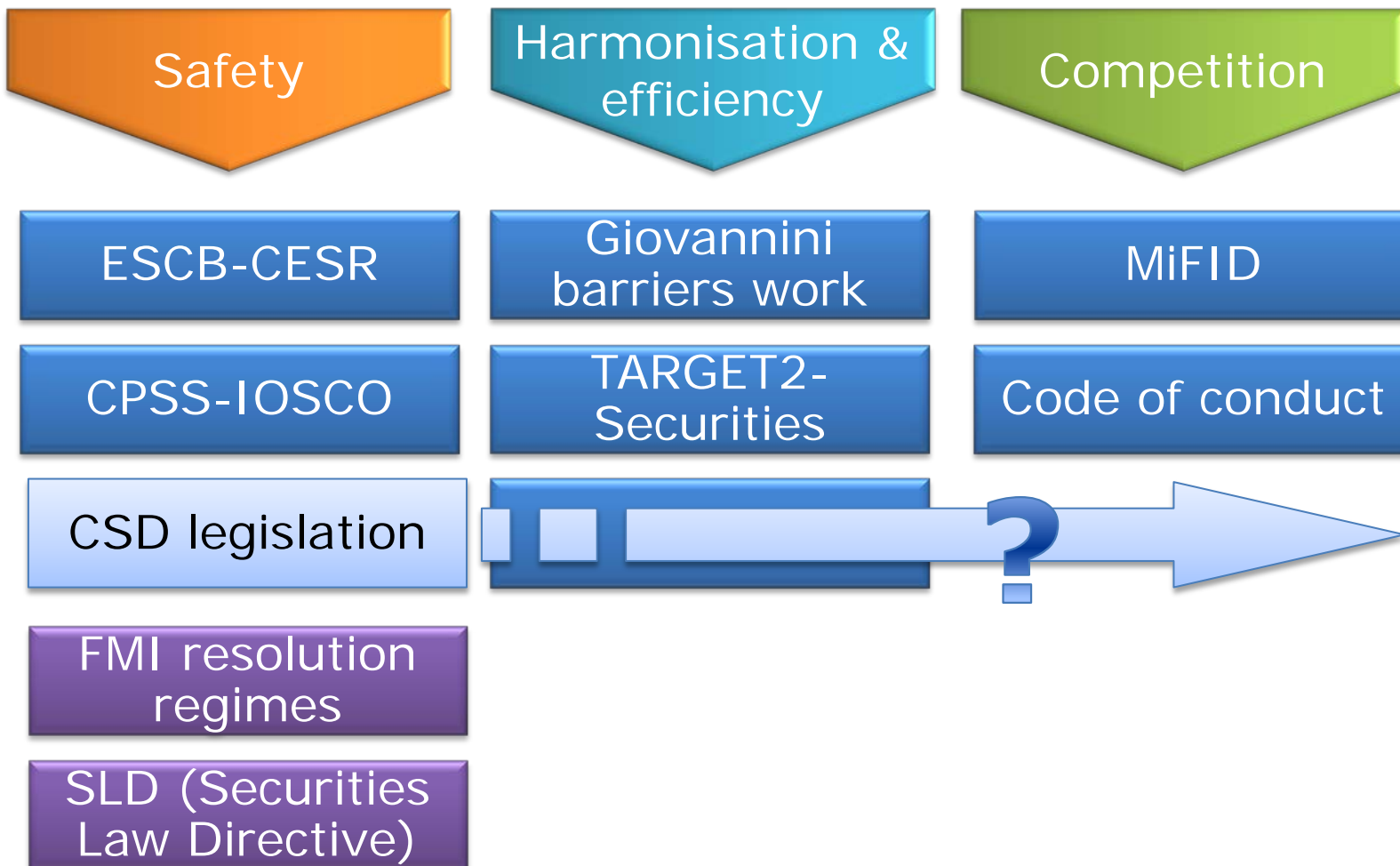
Possible impact of legislation

- EC impact assessment to be released together with draft legislation.
- Actual impact on CSDs will depend on final provisions
 - ✓ Regulation rather than directive?
- Most of all, it will depend on the **combined impact** of legislation & other initiatives (T2S, market harmonisation, consolidation etc.)



Possible impact of legislation

Primary objective of current & pending initiatives:



Possible impact of legislation



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Opportunities

- ✓ “Passport” for CSD services across the single market
- ✓ Access to non-domestic issuers
- ✓ Access rights to other infrastructures



Pitfalls

- ✓ Too strict requirements might discourage use of CSDs
- ✓ Risk of hampering innovation
- ✓ Risk of inconsistency with global initiatives

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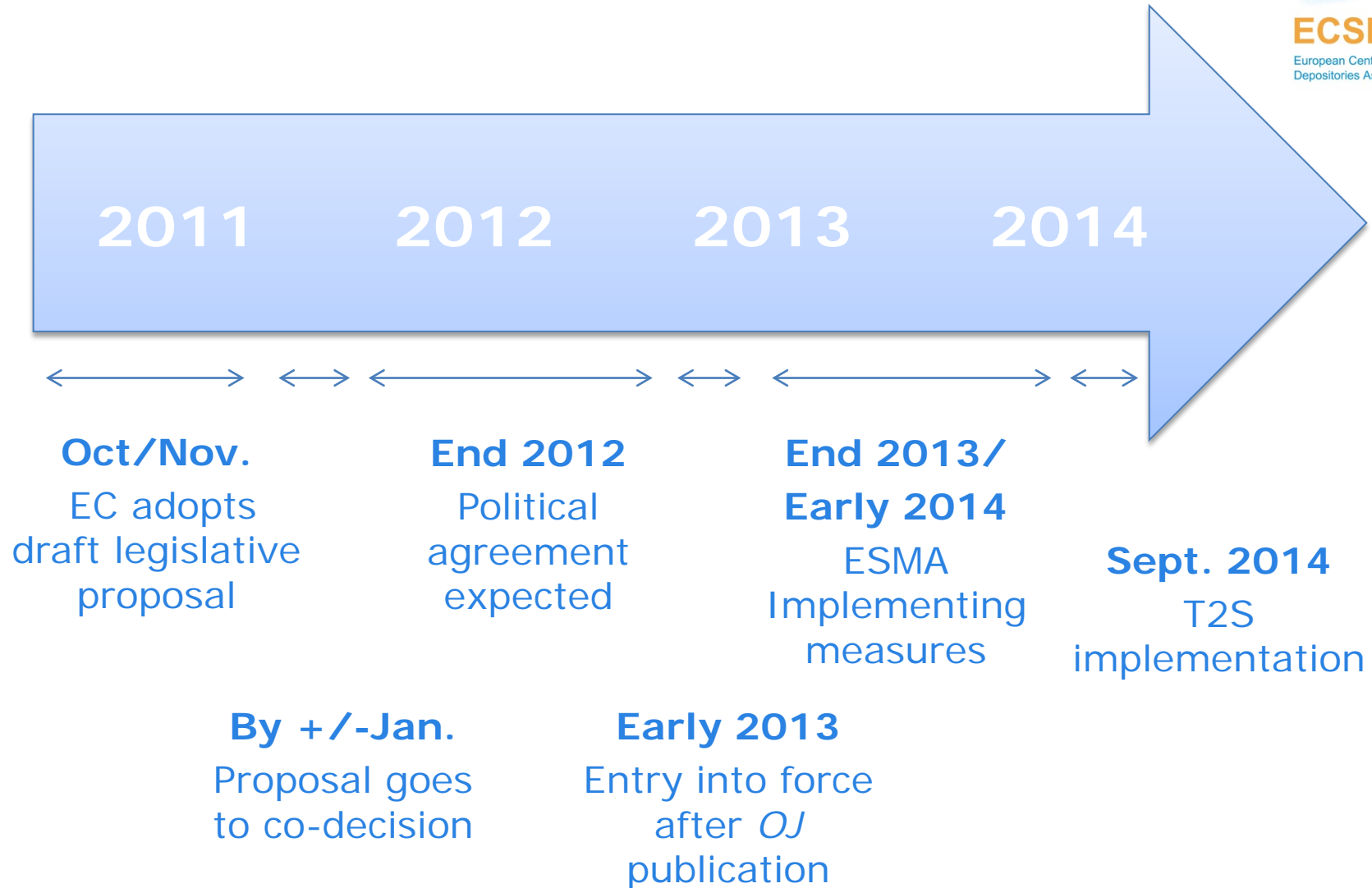
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Next steps: When?

Timeline



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Conclusion

- ✓ Most stakeholders agree that EU legislation on CSDs can bring important benefits to financial markets
- ✓ Issues for debate have already been identified (access rights, scope of CSD services...)



The upcoming legislation should allow CSDs to provide **harmonised & commoditised services which foster market-wide safety, efficiency & transparency.**

Contact

ECSDA aisbl

Soraya Belghazi

Secretary General

Rond-Point Schuman 6, bte 5

1040 Brussels

BELGIUM

Ph. +32 2 234 63 14

info@ecsda.eu

www.ecsda.eu



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