

How will CSDs adapt to regulatory changes in Europe?



ECSDA

European Central Securities
Depositories Association

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Seoul, 3 November 2011

Session 1 "CSDs in Evolution"

Agenda



1	Regulation as driver for change
2	Upcoming EU legislation on CSDs
3	ECSDA's collective response
4	Likely impact on CSDs
5	Conclusion

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Regulatory overload

CPSS-IOSCO

FSB resolution framework

Global standards

ESCB-CESR (to be replaced by ESMA technical standards)

TARGET2-Securities

Giovannini barriers work

CCBM2

Code of conduct

MiFID

Existing European public initiatives in post-trading

CSD legislation

SLD (Securities Law Directive)

European crisis management and resolution framework

Upcoming European regulations



Objectives of regulation

- **Financial crisis** → focus on safety and transparency of infrastructures
 - ✓ Although CSDs proved resilient and are not part of G20 agenda, EU Commission decided to legislate
- In practice however, most existing & future regulatory initiatives pursue **various competing objectives**:



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Legislation announced

- **13 Jan. 2011:** 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:** More than 100 responses received
- **Nov. 2011 (?):** European Commission to adopt official legislative proposal



Main contents

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)

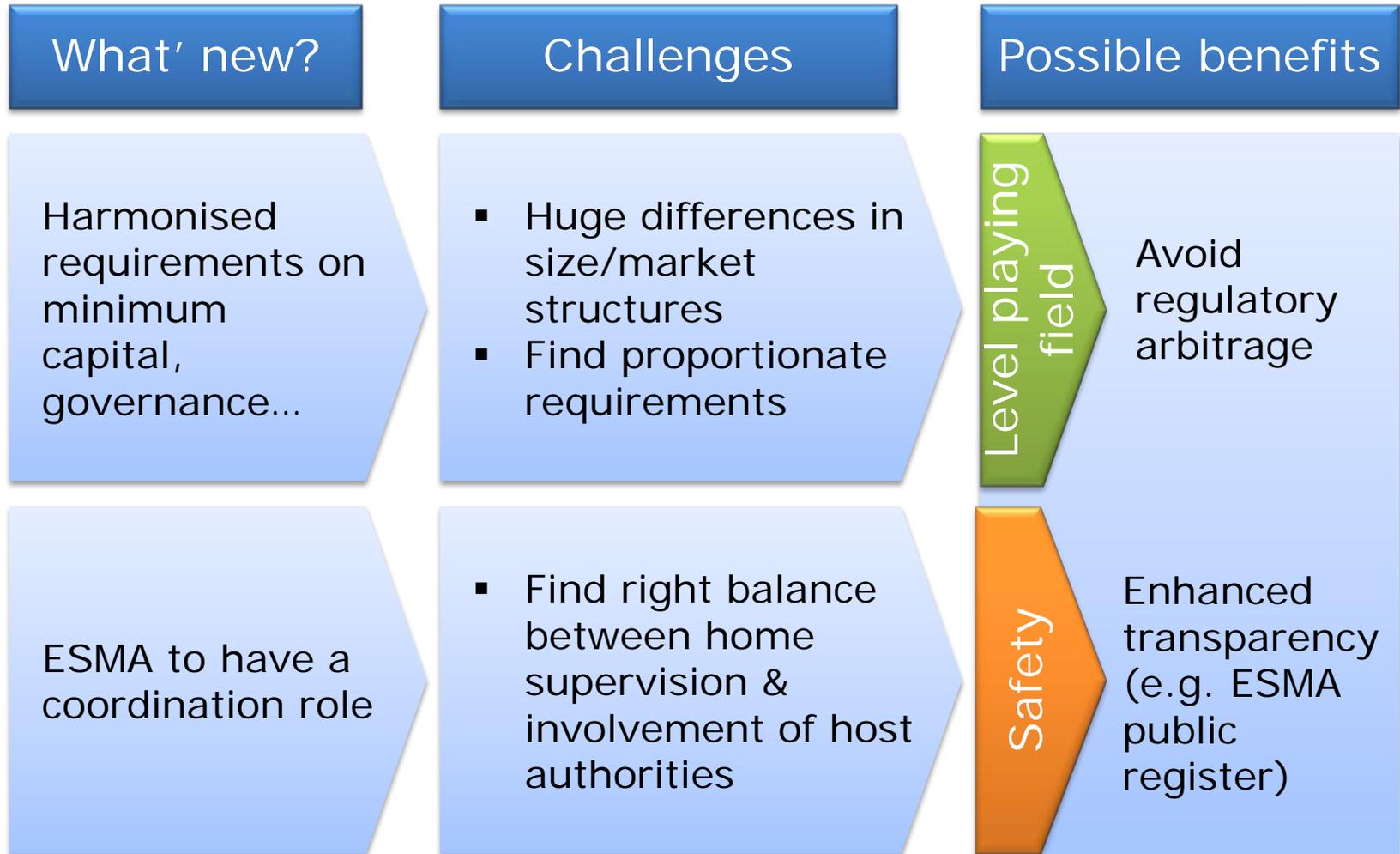
Possible benefits

Level playing field

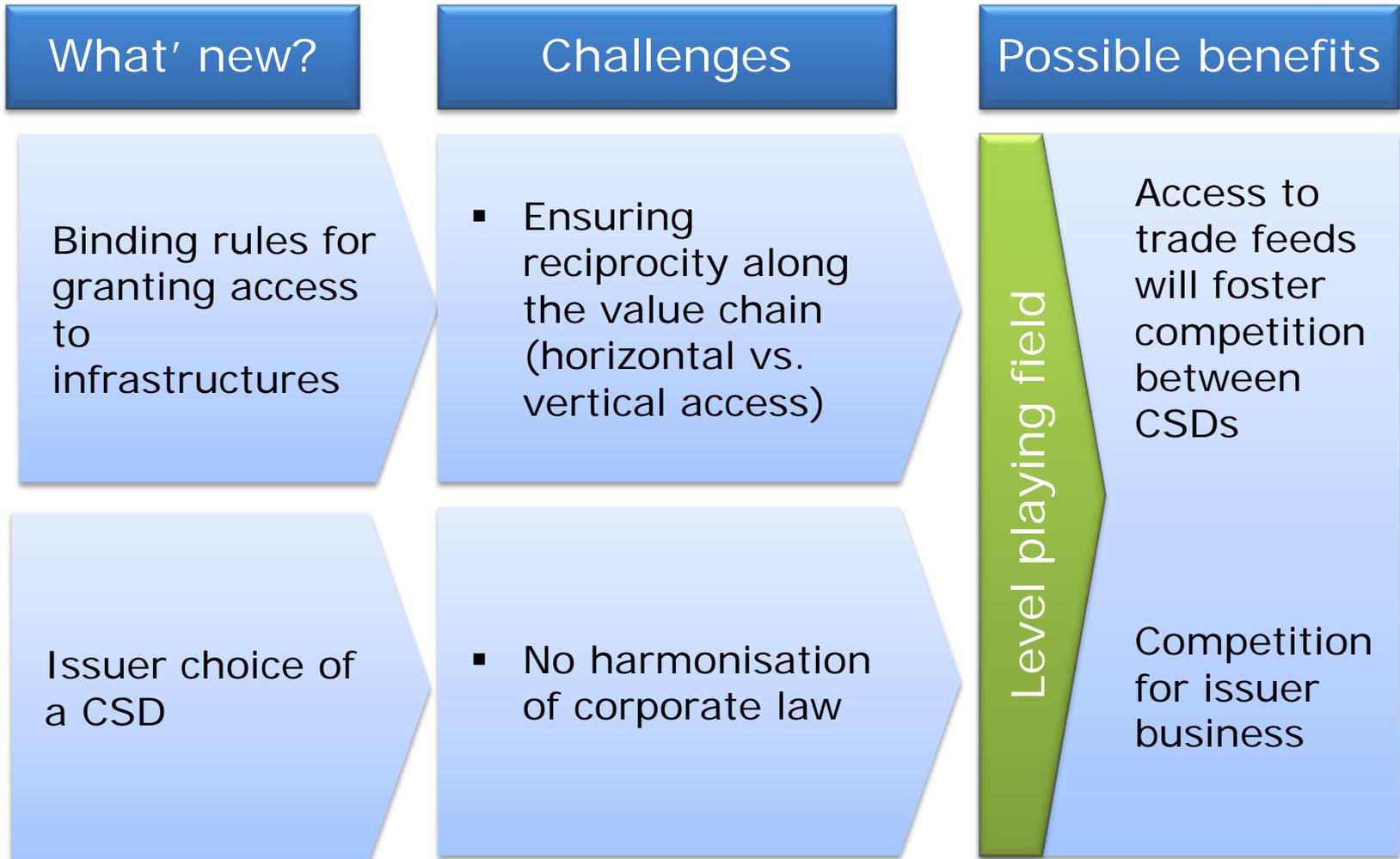
Single EU definition & license could make it easier for CSDs to develop operations outside of domestic market



2- Prudential supervision

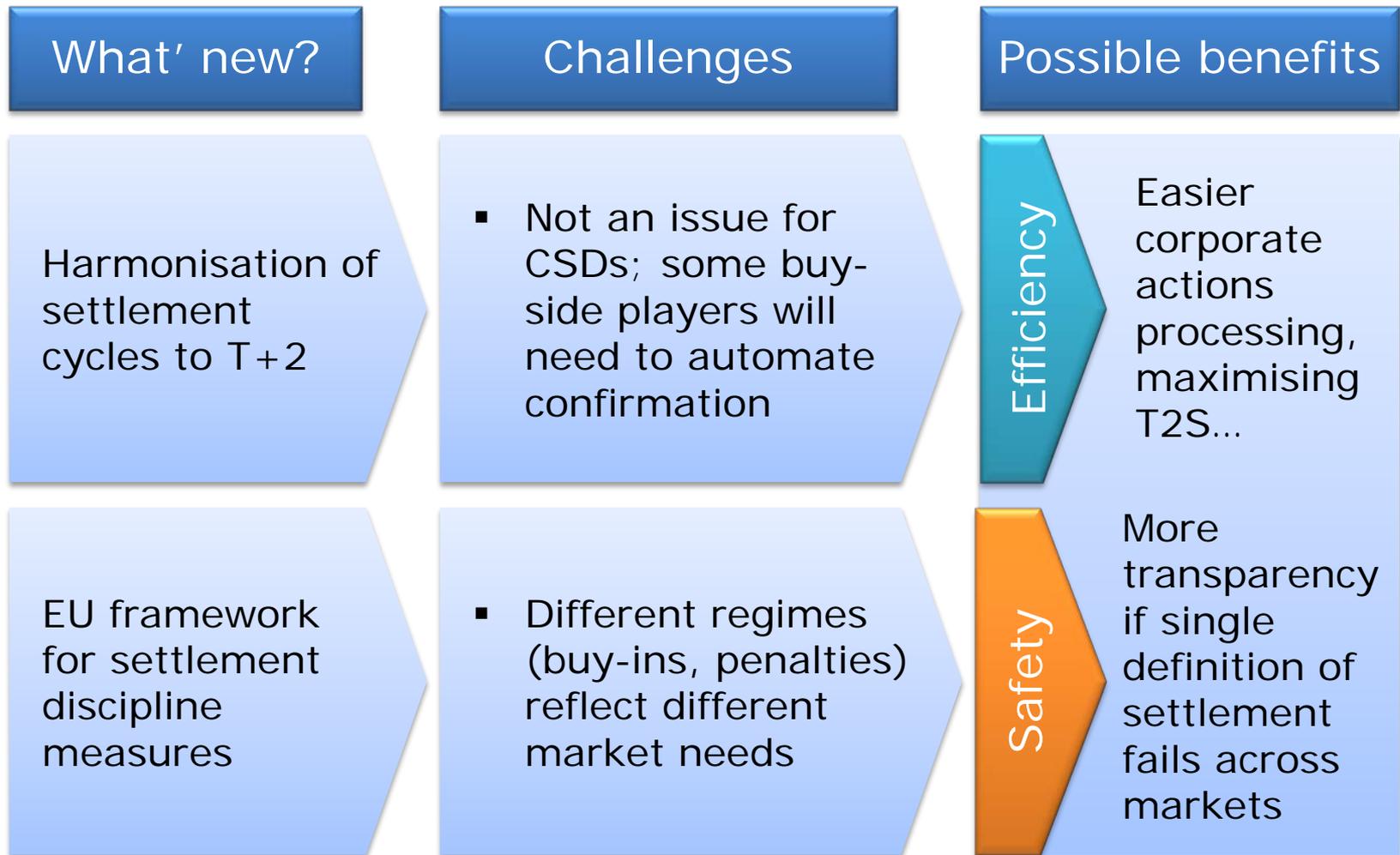


3- Access & Interoperability





4- Settlement process



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ECSDA's response

- **Publication of a joint response** to the consultation by the 41 member (I)CSDs (1/03/2011):
 - ✓ Overall supportive: **need for binding rules**, e.g. to remove obstacles to efficient cross-border settlement
 - ✓ **Consistency across the value chain** will be very important (e.g. reciprocal access to trading & clearing)
 - ✓ **Consistency with international standards** (CPSS-IOSCO)
 - ✓ Harmonising prudential rules will benefit long-term safety and level playing field but **innovation must remain possible**



ECSDA's follow-up

- **Bilateral meetings with the EU Commission:**
3 expert meetings in Brussels before the summer
- **Meeting with the “EU Presidencies”:** small delegation met with Finance Ministry in Hungary and Poland in 2011. Meetings will soon be organised with Denmark & Cyprus in 2012 (6-month presidency).
- **Press coverage/external communication:**
 - ✓ Articles by the Secretary General in specialised media
 - ✓ Participation of ECSDA representatives in post-trading conferences

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Possible impact of legislation

- Impact assessment to be released together with draft EU 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



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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

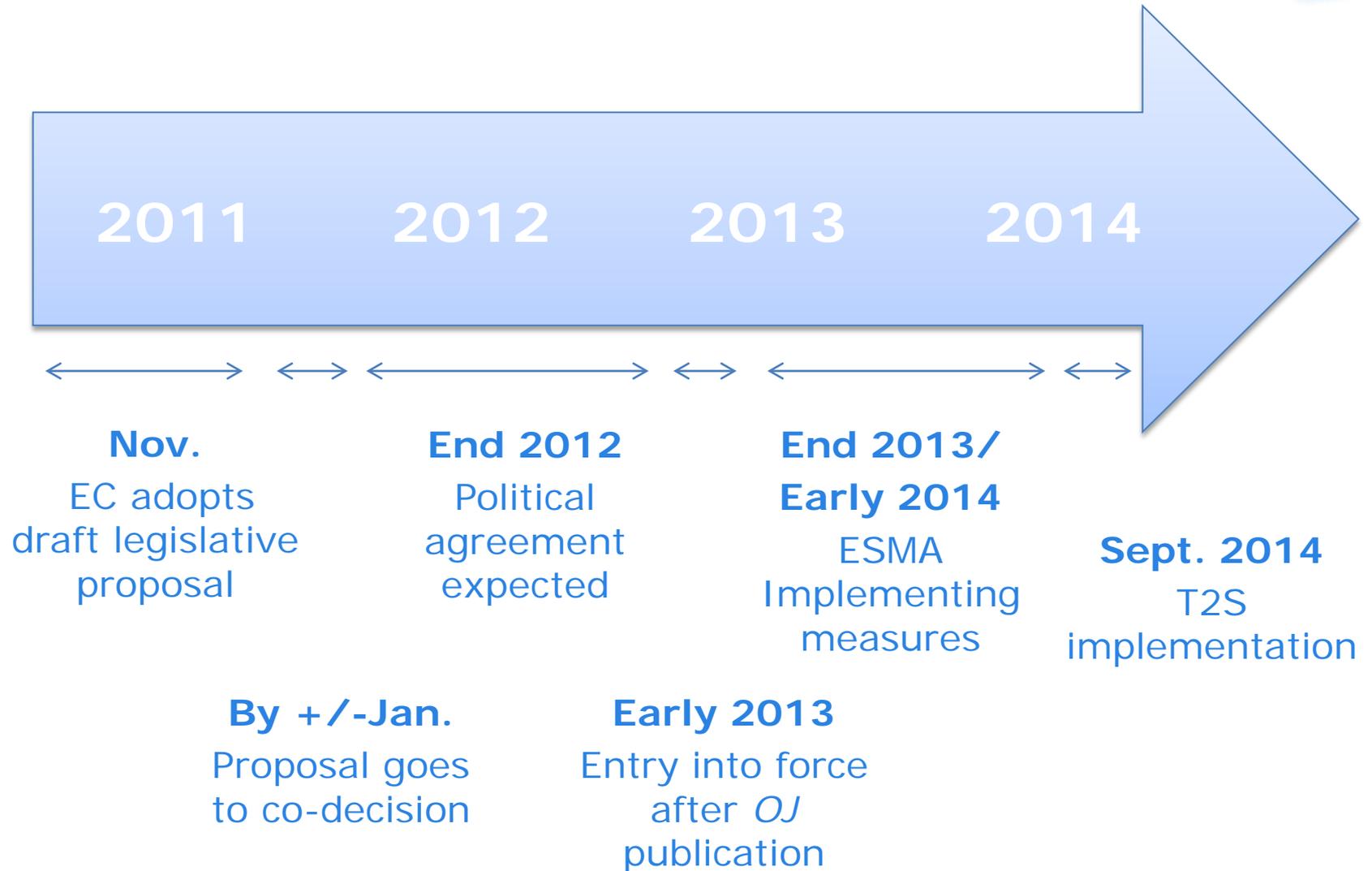
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Timeline





Conclusion

- ✓ The evolution of the CSD industry in Europe will be driven to a large extent by regulatory developments
- ✓ The upcoming European regulation on CSDs might provide new opportunities for developing cross-border business WITHIN Europe.
- ✓ However if it contains too strict requirements it might restrict innovation and discourage the use of CSDs.



ECSDA wants to ensure that European legislation is coherent with global initiatives and that it allows CSDs to continue to innovate in providing services which foster market-wide safety, efficiency & transparency.

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