

ECSDA's work on settlement discipline in Europe



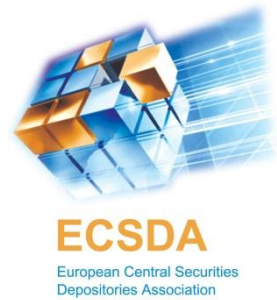
ECSDA

European Central Securities
Depositories Association

COGESI meeting

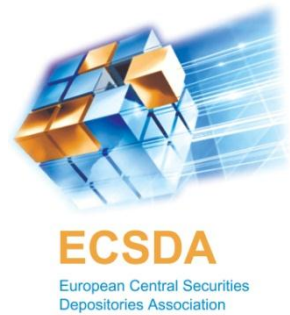
Frankfurt, 22 November 2010

Agenda



- **ECSDA report**
- Comparison with the Eurosystem survey on settlement fails
- Overview of current initiatives
- Conclusions

Background



■ Mandate from the T2S AG in March 2009:

“Timely matching and settlement ... important for the smooth functioning of all interconnected markets”

“Establishing a harmonised market discipline regime is important”

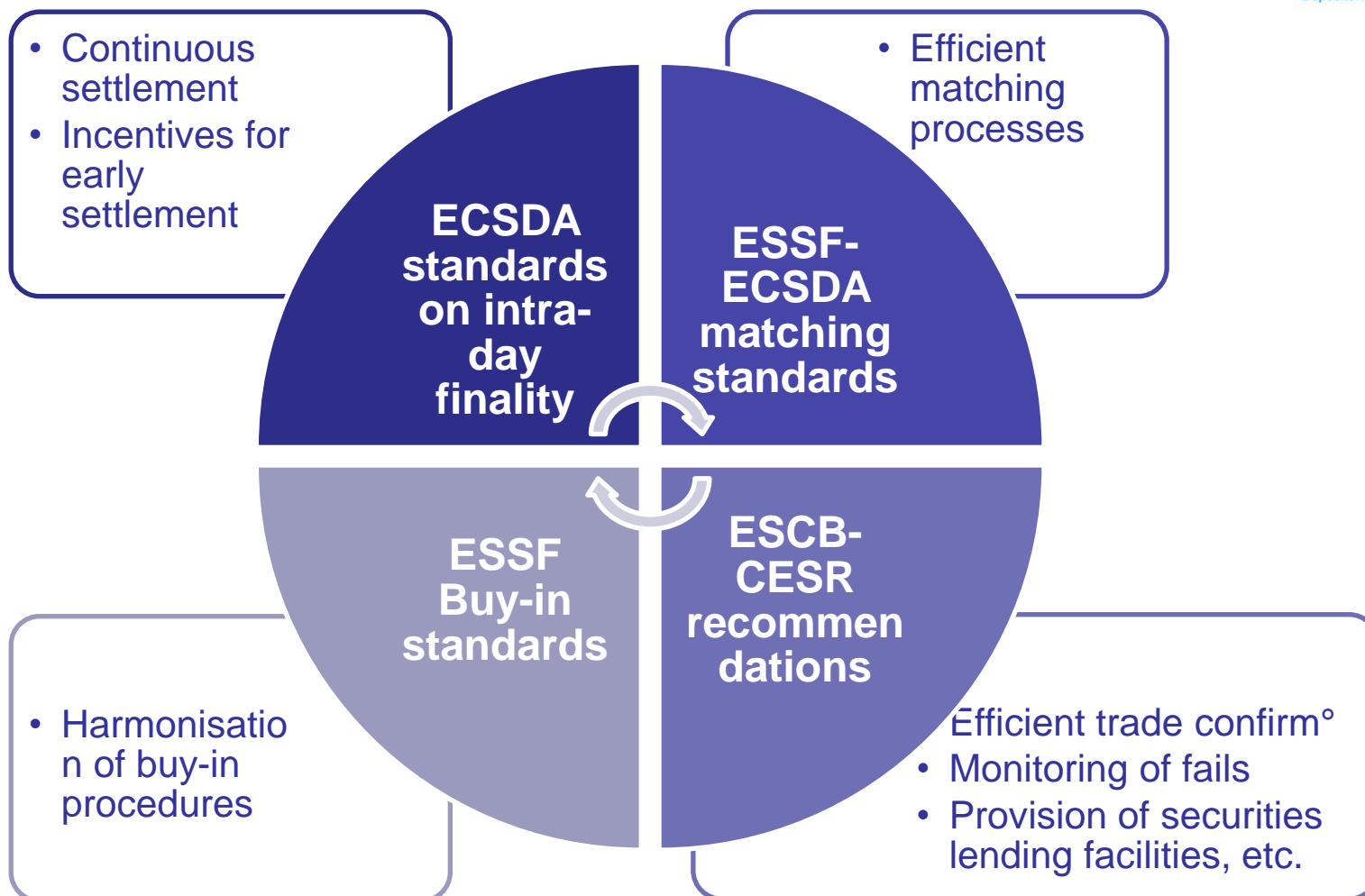
■ ECSDA report published in September 2009

- ✓ Based on a questionnaire: 19 respondent CSDs
- ✓ Compiles list of existing measures: no assessment on the usefulness of the measures

Relevant standards/recommendations

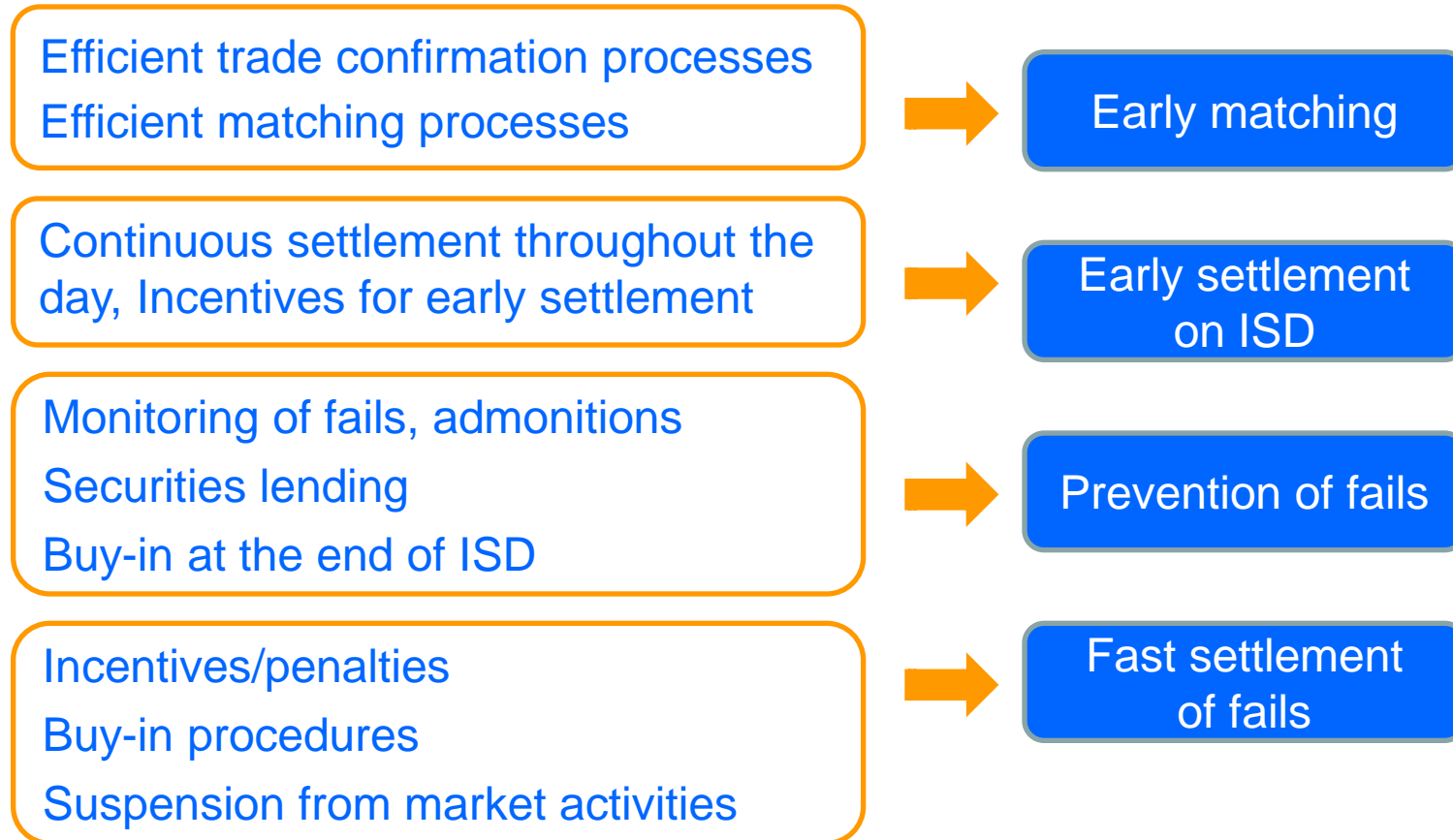


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Goals of market discipline

■ Different **measures** support different **goals**:



Main findings (1/2)

■ Early matching

- ✓ Implementation of the ESSF-ECSDA standards
- ✓ Penalties for late matching in 3 CSDs

■ Early settlement on ISD

- ✓ Continuous settlement: ECSDA standards (2004) → real-time or at least 1x/hour
In addition, many CSDs offer night-time settlement.
- ✓ Promotion of early settlement: penalties for settlement late on ISD only in 4 CSDs

Main findings (2/2)

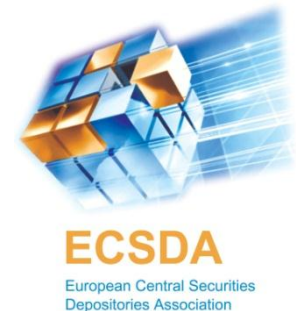
■ Prevention of fails

- ✓ Monitoring of fails in most markets, but need to harmonise the method used
- ✓ Sec. lending is mandatory to avoid fails in 4 CSDs, facilities are offered by 8 CSDs
- ✓ Buy-in on ISD or ISD+1 (mandatory or optional) in 4 CSDs

■ Fast settlement of fails

- ✓ Penalties for late settlement: possible in all markets (except BE, NL) but not harmonised
- ✓ Buy-ins (after ISD+1) implemented in 8 markets
- ✓ Suspension from market activity foreseen in most markets

Open questions



- Some of the issues will be solved by T2S (e.g. harmonised data for monitoring fails), but:

- A number of open questions remain, e.g.
 - ✓ When 3 CSDs are involved in a transaction (seller, buyer, issuer), which CSD sets the rules?
How are penalties collected cross-border?

 - ✓ How can a market suspend a user that settles via an investor CSD (i.e. has no membership in that market)?

- Should some differences in measures remain to cater for the local needs of certain markets?

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Comparison

Eurosystem report (2007)	ECSDA report (2009)
Settlement fails <ul style="list-style-type: none">↳ Determinants and consequences↳ Fails monitoring & reporting↳ Prevention of fails, penalties↳ Mitigating the effect of fails	Market discipline: <ul style="list-style-type: none">↳ Early matching↳ Early settlement↳ Prevention of fails↳ Settlement of fails
Fact-finding	Fact-finding
33 SSSs in EU25 countries (incl. NCB SSSs and ICSDs)	19 CSDs in 20 countries (cf. UK&IE)
More analytical approach → analyses causes, consequences, impact on DvP model, different categories of penalties etc.	Highlights interaction with various recommendations supporting settlement efficiency (ESCB-CESR, ESSF, ECSDA...)

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Overview of current initiatives

T2S

- AG referred the issue of market discipline (buy-ins, settlement fines) to CESAME2/CESR in May 2010

EU short selling regulation

- Article 13 of the draft EU short selling regulation foresees mandatory buy-ins and late settlement fines for transactions in equities and sovereign debt

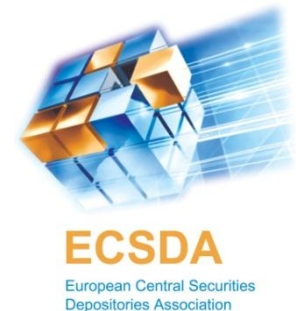
HSC WG

- 4th subgroup on “*Settlement Failure / Fail Management Process*” carried out a survey on current buy-in practices and is now looking at settlement penalties

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Conclusions



- It is generally acknowledged that the **number of settlement fails in European CSDs is low**, partly thanks to the recommendations and best practices already in place.
- **In the short term:** ensure proper implementation of existing measures
- **In the medium term:** harmonisation would be beneficial, especially in areas where divergent measures hamper smooth cross-CSD settlement
- **Harmonisation of settlement discipline would best be addressed in the context of HSC**

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