Brussels, 9 July 2019

European Central Securities Depositaries Association
Response to ECB market consultation related to EDDI

Introduction

The European Central Securities Depositories Association (ECSDA) welcomes the ECB market consultation on its possible European Distribution of Debt Instruments (EDDI) initiative. We believe such consultation is a necessary step for the ECB and the market to evaluate the need for action in the pre-issuance and post-trade domains, and to decide whether to progress reflections on the initiative.

ECSDA hereby provides its response to the ECB's consultation and is open for further dialogue with the ECB on this topic. The market consultation asks for feedback on the four following areas: (i) Pre-issuance infrastructure and (ii) Harmonisation in pre-issuance, as well as (iii) Post-Trade infrastructure and (iv) Harmonisation in post-trade. We focus in our response mainly on the Post-trade infrastructure component of EDDI and the related harmonisation, whilst also commenting on the problem description (as indicated in the consultation, "Issue at stake"). Other parties are better placed to provide detailed commentary on the aspects of pre-issuance harmonisation and infrastructure. At this stage, ECSDA remains uncertain as to which, if any, might be the best solution to enhance competition in the area of pre-issuance.

ECSDA views in brief

Our below views on EDDI are inspired by our constant ambition to serve our markets safely and efficiently.

ECSDA is committed to further foster the Capital Markets Union (CMU) initiatives and underlines its commitment to increased efficiency in the issuance of debt instruments. ECSDA strongly supports harmonisation, particularly when enabled by market-led initiatives.
ECSDA believes that the output of the ECB consultation should incorporate:

- **a detailed substantiation and quantification of market demand in the four areas of the consultation;**
- **a definition of the scope and value proposition of a solution to respond to those market demands.**

ECSDA also believes that no specific model, or solution should be pursued by the ECB before having reached a common and thorough understanding of the working of the markets and roles and responsibilities of different actors in the issuance process, where improvements would be needed and if a public-sector initiative in this area would be the right way forward, in light of a continuously evolving competitive environment.

In the consultation, we are surprised not to see a description of the current existing mechanisms for the same day distribution of securities. In addition - in the description of the problem statement - we see no substantiation and quantification of the perceived market need which would not be met by currently existing solutions.

Following discussions and workshops with the ECB and based on the content of the market consultation document, ECSDA believes that several concerns need to be addressed before any decision is made with regard to EDDI.

In particular, ECSDA would like to highlight the following points:

1. **Substantiation and quantification of market demand;**
2. **Definition of scope and value proposition;**
3. **Compatibility with the ongoing and planned EU CMU and post-trade policy agenda implementation;**
4. **Need for a further investigation of the compatibility of different ECB roles;**
5. **Compatibility of the need of a "neutral" party with competitive pre-issuance and post-trade markets;**
6. **Compatibility of CMU objectives with potential weakening of the infrastructure efficiency for equity, local issuers and local investors;**
7. **Compatibility of EDDI with T2S objectives and priorities; and**
8. **Complex legal, contractual, and regulatory challenges.**

In further detail

We would like to remind that post-trade mechanisms allowing the issuers to reach out to investors based in different markets (in Europe and beyond) already exist. Today, same-day distribution of issuance to investors in other EU Member-States in Central Bank money is also possible thanks to CSDs links, facilitated by T2S.

Important harmonisation efforts have been done by the industry in the post-trade field in Europe in the recent years. It is widely recognised, however, that there are still many barriers to an efficient EU cross-border clearing and settlement. Ongoing implementation of CSDR gives rise to additional barriers, such as a creation of a new lengthy procedure for a CSD to accept issuance of bonds of an issuer from a different EU jurisdiction or hurdles to DVP settlement in multiple currencies for a CSD without a banking licence.

ECSDA believes that the path to further scalability for issuers and enhancing efficiency and depth of issuance across different EU markets is a coherent legislative and fiscal environment across EU. Efficient market practices established at national level may meet specific needs of relevant actors and support issuance of securities in the local market according to the local requirements and expectations, these should not be challenged nor discontinued until the foundation for the divergent needs is harmonised. The tax framework applicable to debt issuance remains an element of significant divergence. Though governments use withholding tax applied to debt proceeds for their national budget, ECSDA recommends that the new European Commission identify a path in this area for further harmonisation (without imparting to this national area of responsibility, if there is no such political will).

A similar reasoning is applicable to the securities law domain, where harmonisation would be a major catalyst to cross-jurisdictional issuance. Without such harmonisation, actions undertaken by commercial or public actors will not bring substantial benefits. We are persuaded that a coherent and harmonised legislative and fiscal framework would be central to the success of the Financial Market and CMU. **We**

consider that alignment between all the stakeholders concerning the prioritisation of the ECB's and Commission's agendas in the area of post-trading is essential. ECSDA will remain a proactive contributor to the dialogue with policymakers.

With regard to the current proposal for the EDDI initiative**,** ECSDA has the following concerns:

1. **Substantiation and quantification of the market demand:**

- ECSDA does not agree with the problem statement as outlined in Section 3 "The issue at stake". The paper rightly confirms that issuers can reach a wide range of European and international investors (page 5)[1]. The existing open model provides issuers with a choice to distribute their debt to target investors (domestic and/or international) and this through an increasingly competitive environment resulting from infrastructural changes, such as T2S, as well as CSDR which is in implementation. For ECSDA, in order to prioritize the current effort within the financial markets, it is crucial that ECB provides (1) a substantiation and quantification of market demand and (2) demonstrates if and why this market demand would not be catered to through the full implementation of T2S and CSDR. We hope that the ECB will provide this information following the current market consultation.
- We understand that certain issuers may see a need for further harmonisation and standardisation; similarly, we advocate that those needs should be accomplished in a fair and competitive environment, as with various harmonisation efforts successfully achieved by the market, e.g. in the post-trade (such as on corporate actions) and end-to-end (such as on the distribution of international debt instruments).

2. **Definition of scope and value proposition:**

- The ECB's reference to the EPTF report (consultation, page 7) seems to suggest that the variety of issuance and holding procedures in the EU has been identified by EPTF as a barrier, which is not the case. We challenge that EDDI could constitute a **solution for fragmented practices, as we understand that it will create an additional route or layer and, hence, itself result in fragmentation.**

- ECSDA distinguishes between three broad issuance patterns:
    1. European issuers issuing in Euro only,
    2. European issuers issuing in Euro and foreign currencies, and
    3. Non-European issuers issuing in Euro and potentially other currencies.

  Within the first pattern, many are local issuers and do not expect to develop their reach beyond the Member-State borders. The two other patterns are rather international than solely Euro-zone specific, such as an EDDI solution would be.

  On the investors' side, we see similar patterns.

  For each of these existing issuer/investor patterns, there are currently well-functioning solutions in place that accommodate their needs. We highlight the role played by the two ICSDs for over 50 years, in the area of securities issuance and distribution. The Eurosystem should recognise that the ICSDs form part of the agreed EU FMI framework, as they allow EU/international issuers to reach an EU/international investor base, not always having an account with an EU Central Bank. Notwithstanding, we understand the Eurosystem preference for provision of Central Bank money

[1] Market consultation on a potential Eurosystem initiative regarding a European mechanism for the issuance and initial distribution of debt securities in the EU, 22 May 2019, p.7 states "(…) large issuers can already reach a wide range of European and international investors (…)".

settlement. Furthermore, solutions in Central Bank money allowing issuers to reach a broader range of investors also exist. Hence, a possible EDDI solution would only cover a segment of the existing issuer/investor patterns and would therefore increase the number of different channels between issuers and investors.

Also, if EDDI post-trade would be used by EU supranational issuers (which seem to be the most important driving force for EDDI as voiced by the ECB during the workshops) to distribute their euro-denominated debt securities, this would account for a maximum of 7 % of the total amount of outstanding euro-denominated debt securities, according to the most recent available data and on the assumption that all EU supranational issuance would be through EDDI. This means EDDI would possibly benefit only a marginal number of issuers/issued securities. This reinforces our view that EDDI would represent a new additional layer in the pre-issuance/post-trade space, rather increasing complexity/fragmentation and the total costs for issuers or investors.

As a result of these points, as ECSDA, we believe it is critical that the outcome of the consultation also consider the potential costs of EDDI (e.g. of establishing and maintaining a new set-up parallel to existing services and links). **ECSDA recommends an assessment of the presumed EDDI benefits, substantiated by figures, as a prerequisite for any further decisions on EDDI.**

- The value proposition of EDDI for European supra-national issuers might still not be clear; furthermore, we urge the ECB to clarify the scope of issuers who are expected to benefit from EDDI. In our view, issuers encounter few difficulties in the distribution of their debt issuances, allowing them to reach expected potential investors.

  We raise, as an example, a recent publication of the European Stability Mechanism (ESM), highlighting the importance of the participation of non-European investors, such as from Asia.

> *25.02.2019*
>
> *The European Stability Mechanism (ESM) on Monday raised €2 billion by issuing a new 10-year bond, marking a successful start to its funding activities in 2019.*
>
> *"Our first ESM bond this year received very strong support from the market, with the 10-year turning out to be a well-received maturity by the investor community. It allowed us to complete the ESM's funding target for the first quarter," said Kalin Anev Janse, ESM Secretary General and Management Board member responsible for funding. "**The highlight of the deal is the participation of Asian investors, who represented 33% of the allocation.** It re-confirms the trend we have seen since 2018 – Asian investors are returning back to Europe," he added.*
>
> *The spread on the 0.5% bond, maturing on 5 March 2029, was fixed at mid-swaps minus 8 basis points, for a reoffer yield of 0.565%. The order book was in excess of €8.5 billion.*
>
> *Book runners for the deal were BofA Merrill Lynch, Credit Agricole CIB and Nomura.*

- We understand that an objective of EDDI is to contribute to a deep and liquid single European market for debt instruments (consultation, page 8). ECSDA supports that objective but questions the assertion that a deep and liquid single market for European debt instrument is dependent on the implementation of an EDDI-type of (post-trade) infrastructure.

- Based on CSDs' experience with servicing issuers and investors, any project needs to be carefully prioritised e.g. against those that result from mandatory regulatory requirements, such as CSDR. EDDI could distract attention and resources from those priority topics, that are essential to the completion of CMU goals. We hope the consultation will allow all stakeholders to have a better view on the scope and value proposition before proceeding to decision-making. **Should the consultation**

demonstrate a strong demand for an initiative such as EDDI, supported by a large spectrum of players - small and large issuers, as well as from local and international investors - CSDs will proactively support such efforts, as we are doing in other areas.

3. **Compatibility with the ongoing and planned EU CMU and post-trade policy agenda implementation:**

- The timing of any actions related to post-trade infrastructure should take into account the ongoing implementation of the Regulation (CSDR)[2], that promotes increased competition amongst CSDs and where the issuers can choose the issuer-CSD that offers the most appropriate services. Also, CSDs offer same terms and conditions for access to CSD participants based in other European Economic Area (EEA) jurisdictions. In addition, CSD links (both within and outside T2S) allow issuers to access investors in other EEA and CSDR-equivalent third-country markets through their chosen CSD. CSDs are developing and expanding their services to issuers, allowing European issuers and investors to leverage competition to receive high-quality market infrastructure services tailored to their needs in specific areas[3]. While the CSD regulation (CSDR) is still in the process of implementation, we believe that it might be too soon to decide on eventual further actions.
- EDDI risks distorting the market by taking an approach that is not coherent with the European Union Single Market objectives of more competition and private solutions, rather than public intervention in commercial service provision.

4. **Need for a further investigation of the compatibility of different ECB roles:**

- The EDDI initiative might be viewed as contradictory to previous ECB statements such as the one expressed under Principle 3[4] of the T2S Principles. The competition and compatibility of different roles run simultaneously by the ECB may have a disruptive impact on the market, especially if EDDI would position it as a service provider in a commercially competitive space.

5. **Compatibility of the need of a "neutral" party with competitive pre-issuance and post-trade markets:**

- The consultation document refers repeatedly to the need for a "neutral" party or solution. For example, on page 4 of the document "*at the current state, there is no pan-European neutral, and harmonised channel for the issuance and distribution of debt securities …*" and on page 7 "*however, these solutions are neither neutral, nor pan-European by construction…*". This seems to imply that a neutral party would be a pre-condition for efficient market functioning.
- ECSDA strongly believes that the concept of "neutrality" is not a constituent of an efficient European capital markets, which is based on non-neutral, commercial parties in the areas of trading, issuance, market making, clearing, settlement, asset servicing, collateral management, asset management, etc. We believe it is not in the interest of the EU single market that some elements of the market would be taken on by a "neutral" party, acting as *supra partes*, not subject to competition.

6. **Compatibility of potential weakening of the infrastructure for equity, local issuers, and local investors with the CMU objectives:**

- Depending on the number of issuers and scope of issuance that would be distributed through EDDI post-trade, some or all EEA CSDs could be significantly weakened financially. This would in turn be

[2] Regulation (EU) 909/2014 and its Level II standards that are in the process of being implemented.
[3] As highlighted in the report of the European Post Trade Forum, these areas remain largely unharmonised.
[4] T2S shall not involve the setting-up and operation of a CSD, but instead will serve only as a technical platform for providing settlement services to CSDs

detrimental also for equity issuers and smaller local issuers of debt securities, as they would need to carry a more important part of the CSDs' fixed costs and be obliged to seek alternative solutions for issuance, with potentially devastating impact on the smaller CSDs. This impact on the local ecosystem is clearly contrary to the objectives of CMU, as it would lead rapidly to an oligopoly among the CSDs that could withstand the impact on competition, as well as higher costs for retail and local investors.

7. **Compatibility of EDDI with T2S objectives and priorities:**

- CSDR has not yet been fully rolled-out and the deployment of T2S (and related strategies by market participants) is ongoing, with increased cross-CSD activity expected to materialise in the years to come. T2S has come at a high cost for the market (infrastructures and market participants) while the real benefits are still to be reaped (e.g. cross-CSD settlement has not significantly increased through T2S links yet). ECSDA believes that the proposal to create EDDI may indicate that the ECB does not believe that T2S and interoperability between T2S CSDs would reach the objectives initially set out when the T2S project was launched.
- ECSDA believes that the ECB should assess the impact of the potential implementation of EDDI as a TARGET service, in order to clearly identify the effect of such a service in the performance of T2S platform and in the cross-border settlement efficiency.

8. **Complex Tax legal, contractual, and regulatory challenges:**

- Last, but not least, ECSDA believes it should be clarified how the EDDI components would be delivered by the ECB, including its legal status, the contractual arrangements required and the regulatory framework.
- Though from recent discussions with ECB, we understand EDDI would no longer be considered to become a limited purpose CSD, which ECSDA welcomes, many important outstanding questions on the possible legal, fiscal, contractual, and regulatory aspects of EDDI remain open and are fundamental.

Due to the above-mentioned concerns, ECSDA believes that in the shape it is currently designed, EDDI is not the appropriate solution for the problem indicated in the Eurosystem's consultation. We consequently recommend considering the above-mentioned concerns before any further decision on EDDI is proposed.

Below, you will find our detailed answer to the consultation.

Question 1:

- **Please provide your views on the description of the European ecosystem for the issuance of debt instruments, in particular as regards whether you deem other actors, elements or processes relevant to complete the picture.**

Answer 1: [ECSDA believes that the description of the current ecosystem is not fully representative of the current situation and may wrongly give an impression that the complexity that may be perceived by a reader of this section would be eventually corrected by the ECB through EDDI.

In particular, we would like to highlight the following:

1. *Chart 1 seems to be overly complex in its representation of the actors involved in the respective phases of the issuance and not congruent with the accompanying description. Not all the scenarios described in Chart 1 are relevant to describe the situation of an individual issuer, as they would typically face only one or two situations shown on the chart. It should be noted that the breadth of possible actions within the custody chain does not automatically result in operational inefficiencies within the issuance process. Hence, the complexity they may face is de facto either fairly limited or is helpfully facilitated by the intermediaries to allow an even broader outreach (see last point below).*

   The issuers choice of "route" is influenced by their specific requirements. These can differ to a great extent between issuers and issuances, such as the type of issue, whether domestic or International, and the required support, investor reach, applicable law, and regulations.

   Furthermore, the chart does not represent the option for issuers to issue their debt securities simultaneously in multiple (I)CSDs. Today, a large proportion of international debt securities is actually issued and distributed through both ICSDs simultaneously, acting jointly as issuer-CSDs.

2. *The Chart covers more steps than the initial distribution of securities. New issue distribution in reality is a very first, short step before secondary market operations start. After initial new issues distribution, there will be very quickly realignments of positions between CSDs through links and/or via custodian banks as part of secondary market operations. Initial distribution and secondary market settlement happen exactly in the same ecosystem.*

3. *Analysing the Chart, one may wrongly believe that the post-trade infrastructure part is complex and hence costly for the issuer. In fact, most significant complexities arise from legal and fiscal hurdles, resulting from a lack of harmonisation of European fiscal, securities and corporate legislations, as extensively covered under the Giovannini/EPTF work. Furthermore, some EU CSDs do not charge at all for issuance.*

4. *Europe has a high density of CSD links*, the development of which is typically driven by investor demand. CSD links facilitate the cross-border reach of the issuers to investors and vice a versa and thereby reduce complexity in post-trade infrastructure.*

   The existing open model provides issuers with a choice to distribute their debt to target investors (domestic and/or international) and this through an increasingly competitive environment resulting from infrastructural changes, such as T2S, as well as CSDR which is still in implementation. For ECSDA, in order to prioritize the EDDI initiative within the financial markets, it is crucial that ECB provides (1) a substantiation and quantification of market demand and (2) demonstrates if and why this market demand would not be met by full implementation of T2S and CSDR. We hope that ECB will provide this information following the current consultation.

   *We recognise that certain issuers may see a need for further harmonisation and standardisation; it is unclear why this could not be accomplished in a fair and competitive environment, similar to different harmonisation efforts that the market is successfully achieving, e.g. in the post-trade (such as on corporate actions) and end-to-end (such as on the distribution of international debt instruments). The current debt securities distribution ecosystem is described in the document in a static way while in reality there are a lot of changes expected due to T2S and CSDR** (in the process of implementation). We expect an even bigger development of cross-border CSD services for both the issuers and the investors in Europe, allowing them a greater choice and efficiency.*

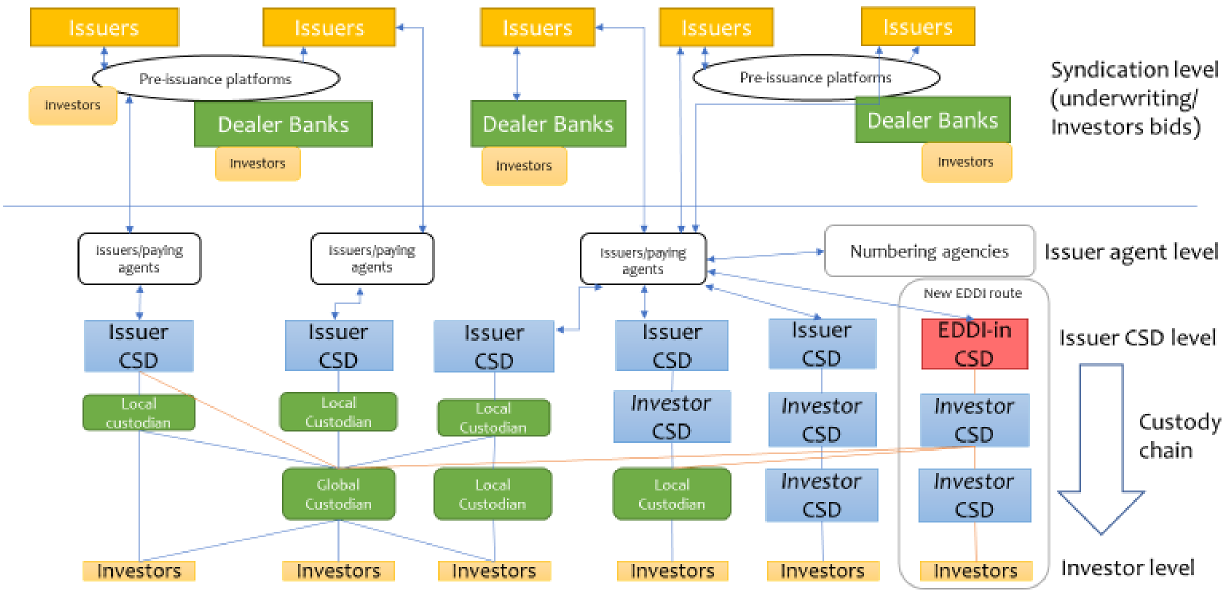
5. *Issuers for whom the vast pan-European reach is important would typically want to see their investor base*

being as broad as possible, in many cases going beyond Euro-zone borders. For example, in its statement on 25 February 2019, ESM highlighted that 33% of investors in the new ESM 10-year bond where from Asia***. Hence, for a broad outreach, the alternative routes in Chart 1 will remain relevant.

Issuance and primary market distribution of debt instruments cannot and should not be considered in isolation of secondary market models and associated constraints. A number of constraints and barriers to an efficient secondary market in Europe remain, as highlighted by experts from the European Post-Trade Forum (EPTF) in their report published in May 2017. As a result of these barriers, investors' choice in terms of access channel to debt securities markets is reduced, which has a direct bearing on channels that will be used to support debt issuance and distribution.

Based on our current understanding of EDDI, we do not believe that EDDI would reduce complexity in the value chain between issuers and investors, rather may have the opposite effect. As an optional offering, EDDI is not claiming to be the only solution for debt issuers, hence part of the issuers will need to keep contact with the local CSD for other types of instruments.

As a result, EDDI will create an additional complexity in the current issuance and holding chains and will lead to more fragmentation, rather than less. (See below modified chart, based on Chart 1 provided in the consultation)



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* See ECSDA report "CSD links in Europe", 29 July 2019, https://ecsda.eu/archives/5082
** Regulation (EU) 909/2014, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014R0909
*** ESM, press release, ESM raises €2 billion with new 10-year bond, https://www.esm.europa.eu/investors/esm/esm-raises-%E2%82%AC2-billion-new-10-year-bond]

Question 2a:

- **Do you think that there is a structural issue in the current debt issuance and distribution in the EU, seen from the perspective of a single capital market? If so, what is your view regarding the underlying causes of this structural issue?**

Answer 2a: [ECSDA believes that there is no structural issue in the current debt issuance and distribution: the necessary mechanisms exist, function well, and continue to evolve permanently in order to acquire greater efficiency. These mechanisms address the various needs of the issuers and investors across Europe and beyond. We believe it would not be appropriate for us to comment on the pre-issuance aspects of the consultation.

In light of the role played by CSDs in the post-trade industry, ECSDA would like to address in detail the concept of "Issue at stake".

The ECB's reference to the EPTF report (consultation, page 7) seems to suggest that the diversity of issuance and holding procedures in the EU has been identified by EPTF as a barrier which is not the case. We challenge that EDDI could constitute a solution for fragmented practices, as we understand that it will create an additional route or layer and, hence, itself result in further fragmentation.

ECSDA distinguishes between three broad issuance patterns:

1. *European issuers issuing in Euro only,*
2. *European issuers issuing in Euro and foreign currencies, and*
3. *Non-European issuers issuing in Euro and potentially other currencies.*

Within the first pattern, many are local issuers and do not expect to develop their reach beyond the Member-State borders. The two other patterns are rather international than Euro-zone specific, such as an EDDI solution would be.

On the investors' side, we see similar patterns.

For each of these existing issuer/investor patterns, there are well-functioning solutions in place that accommodate the needs. We highlight the role played by the two ICSDs for over 50 years in the area of securities issuance and distribution.

While we understand the preference of the Eurosystem provision of Central Bank money settlement, we believe it should be underlined that the ICSDs form part of the agreed EU FMI framework, specifically as they allow EU/international issuers to reach an EU/international investor base, despite not always having an account with an EU Central Bank. Furthermore, solutions allowing issuers to reach a broader range of investors in Central Bank money exist today. A possible EDDI solution may, therefore, only address a part of the existing issuer/investor patterns (and hence possibly further reduce its overall market coverage potential). As a result, instead of carrying the stated efficiencies, EDDI would rather increase the number of different channels, or at best substitute existing ones, hence, not delivering the benefits of a single funding gateway for issuers and investors.

The comparison with the situation in the US, Japan and China does not seem so relevant as there are many elements on which these markets differ from EU: they often have a single legal system, a single currency, single central bank, single sovereign issuer, etc. Isolating the difference in new issue distribution alone may be misleading. The EU market is a result of difference in legal systems, of the existence of 27/28 Member States, different central banks (even within the same currency zone), different sovereign issuers, etc. In this context, we see the absence of a pan-European fiscal, securities and corporate law framework as a barrier to more efficient, integrated debt capital markets in Europe.

In the context of CSDR, the issuer has acquired a legally recognised right to opt for an issuance in a different EU CSD. We will shortly see more issuance of European issuers in a different jurisdiction. Driven by this opportunity to service issuers from a different jurisdiction, many EU CSDs have recently announced further enhancements of their service offering to issuers and development of innovative solutions,* *supporting a competitive offering of market infrastructure services tailored to issuer's needs. CSD links (both within and outside T2S) allow issuers to access investors in other EEA and CSDR equivalent third-country markets through their chosen CSD.*

T2S was designed to support the concept of Issuer CSD and Investor CSD as the basis for seamless cross-border settlement in Central Bank Money across Europe whilst promoting competition between CSDs, in turn, enabling increased competition and differentiation of services throughout the custody chain. As indicated in our response to Question 1, the use of an intermediated custody chain is not in itself problematic. The use of an intermediated custody chain based on (1) secure and efficient links between custody and settlement chains and (2) user choice between providers (competition) adds value to users.

That being said, T2S still has to deliver functionalities to enable an integrated market for securities settlement across CSDs, for example, the ability to use 'already matched' instruction in a cross-CSD model. These are part of the Eurosystem commitments under the framework of T2S that still need to be realised, in order to ensure a true level-playing field across CSDs and to enable the implementation of T2S-related strategies by market participants, with a resultant increase in cross-CSD activity.

*The consultation refers to the annex of the EPTF report, that however does not highlight the existence of any structural issue. It describes the current process in a neutral way and positively states "With the entry into force of CSDR, the issuance of securities to be traded on trading venues can take place in any EU domiciled CSD, regardless of whether that CSD is domiciled in another Member State to the issuer.**"*

We also note that the report from the Commission Expert Group on Corporate Bonds issued in November 2017 does not include recommendations that would support EDDI.

*In 2013, ECSDA has conducted a study on CSDs' issuer services, where it described the broad range of services provided by the European CSDs to issuers***.*

As a sign of a healthy questioning of areas for further improvement, the ICMA article quoted in the consultation (i.e. Electronification of primary bond markets) focuses on the reasons for testing the DLT in the area of primary markets. Conclusions drawn by the author relate to the fact that an open and decentralised infrastructure might find a business case and that a collaboration of different actors in the market may be useful. It is a perspective that is shared by the CSDs and, as examples of such collaboration with use of DLT solutions, we refer to the CSD's e-voting and e-proxy solutions, or even creation of CSDs using DLT (such as ID2S) and decentralised solutions with CSD participation (such as the Liquidshare project). However, the ICMA article shall certainly not be used to justify an eventual public intervention, which may limit further innovation in the area of debt issuer services by EU CSDs and other market actors.

*The industry is already advancing well on the topics of standardisation of issuance and services of specific types of instruments. We would like to highlight that different types of instruments require different approaches, and it may not be appropriate to create a single standard, taking into account the specific nature of each instrument. In this context, we would like to highlight the ISMAG initiative for international bonds**** and industry work on Green bonds standardisation*****.*

** At the time of drafting the response to the consultation, no full clarity was provided by the European authorities on the interpretation of the articles of the CSDR referring to the freedom of issuers to issue in a different jurisdiction (CSDR art. 49).*

*** EPTF report, p. 21, https://ec.europa.eu/info/sites/info/files/170515-eptf-report-annex-3_en.pdf*

**** ECSDA, CSD Issuer services report, issued on 16 October 2013, https://ecsda.eu/wp-content/uploads/2014/07/2013_10_ECSDA_IS_Report.pdf*

***** International Securities Market Practice Book, issued in a reviewed version in June 2012.*

****** https://www.icmagroup.org/green-social-and-sustainability-bonds/]*

Question 2b:

- **Do you face problems or see problems for issuers when reaching out to a pan-European or international investor base? If so, please specify.**

Answer 2b: [Already today, issuers can choose the issuance process that is most appropriate and fit for their needs, depending on the nature of funding and target investor base, currency, applicable governing and fiscal laws. It is important to understand that the targets of local issuers are substantially different from those of national or supranational ones. National CSDs for instance exist to be close to issuers of all sizes and levels of sophistication, and to serve their needs in the legal jurisdiction of their choice.

We believe, that although there is room for harmonisation in legal and fiscal areas, issuers do not face problems in reaching their targeted investor base.

Equally, from an investor perspective, a wide range of options exists to access securities, ranging from direct access to the Issuer CSD, an Investor CSDs or a global or local custodian bank. The access "route" of choice for an investor is influenced by a range of factors, such as level of sophistication and the requirement for the value-added services of a custodian bank. The latter helps to bundle and consolidate flows in a single place with customised service and delivers economies of scale. This can be of particular relevance for small to medium sized investors.

The choice of the issuance channel will also be driven by the nature and level of sophistication of the issuer. It is a fact that small and mid-size enterprises (SMEs) will naturally first tap their national investor base, most likely by leveraging their national CSD infrastructure as post–trade gateway. At the other end of the issuer spectrum, large, established corporates will have global borrowing needs that often require investor and currency diversification. Such issuers will leverage (combinations of) CSD issuance channels across the globe (ICSDs, DTCC, JASDEQ, etc) to respond to their own and their investors' needs. We therefore observe that there are very few debt issuers which will be focussed on a purely pan-European distribution, as most large issuers look for diversification across all large investor pools (Americas, Asia-Pacific, Europe & Middle – East).

In our view, an issuer deriving value from a broad Euro-zone outreach, also values the international reach, or at least the possibility to reach out to investors in the EU beyond the Euro-zone. (See our answer to question 1.) Hence, the creation of a solution limited to the Euro-zone would not respond to the objective of a broad outreach. We also expect that some larger issuers may be interested in multi-currency solutions. From this perspective, we believe that issuance and DVP settlement in multiple currencies in EU CSDs should be a priority for EU policymakers in the review of CSDR (the EPTF barrier 2 on the watchlist).

If EDDI post-trade would be used by EU supranational issuers (which seem to be the most important driving force for EDDI as voiced by the ECB during the workshops) to distribute their euro-denominated debt securities, this would account for a maximum of 7 % of the total amount of outstanding euro-denominated debt securities, according to the most recent available data and under assumption that all EU supranational issuance would be through EDDI. This means EDDI would possibly benefit only a marginal number of issuers/issued securities. This reinforces our view that EDDI would represent a new additional layer in the pre-issuance/post-trade space, rather increasing complexity/fragmentation and the total costs for issuers or investors.

As a result of these points, as ECSDA, we recommend using the consultation to ascertain the potential costs of EDDI (e.g. of establishing and maintaining a new set-up parallel to existing services and links). ECSDA recommends an assessment of the presumed EDDI benefits, substantiated by figures, as a prerequisite for any further decisions on EDDI. The value proposition of EDDI for European supranational issuers is still unclear; furthermore, we urge the ECB to clarify the scope of issuers who are expected to benefit from EDDI. Only with that information will ECSDA be able to contribute to the work of the ECB and see the value to the CMU, ensuring that issuers encounter little difficulties in the distribution of their debt issuances, allowing them to reach all potential investors.]

Question 2c: • **What are the main considerations for issuers and/or their agents/dealers when choosing a place of issuance and a service provider?**
Answer 2c: *[In our opinion, CSDs are not the addressees of this question.]*
Question 2d: • **What is your view on the statement that there is a need to improve competition and level playing field conditions regarding the access of banks, investors and CSDs to debt securities?**
Answer 2d: [Speaking about level playing field in access to debt securities is misleading. It seems to incorrectly suggest that some investors are currently unable to access debt securities because of the current post-trade set up. Moreover, EDDI will not change the way investors invest in debt securities versus today. *Any actions related to post-trade infrastructure should take into account the ongoing implementation of the Regulation (CSDR), that promotes increased competition amongst CSDs and where the issuers can choose the issuer-CSD that offers the most appropriate services. Also, CSDs offer same terms and conditions for access to CSD participants based in other European Economic Area (EEA) jurisdictions. In addition, CSD links (both within and outside T2S) allow issuers to access investors in other EEA and CSDR-equivalent third-country markets through their chosen CSD. CSDs are developing and expanding the services provided to issuers, allowing European issuers and investors to leverage competition to receive high-quality market infrastructure services tailored to their needs in specific areas.]*
Question 2e: • **Would the improvement in the neutrality, harmonisation and pan-European reach support and develop further the issuance of debt in euro?**
Answer 2e: [The consultation document refers repeatedly to the need for a "neutral" party or solution. For example, on page 4 of the document "at the current state, there is no pan-European neutral, and harmonised channel for the issuance and distribution of debt securities …" on page 7 "however, these solutions are neither neutral, nor pan-European by construction…". This seems to imply that a neutral party would be a pre-condition for an efficient market. *The co-existence of different solutions and the availability of choice for the issuer are fundamental for a healthy competition. Real competition is achieved when clients can freely opt amongst different options, none of them neutral. The natural market dynamics will determine the disappearance of non-competitive offers.* *ECSDA strongly believes that the concept of "neutrality" is not a constituent of an efficient European capital market, which is fully composed of non-neutral, commercial parties in the fragmented area of trading, issuance, market making, clearing, settlement, asset servicing, collateral management, asset management, etc. We believe it is not in the interest of an EU single market that some elements of the market would be taken on by a "neutral" party, acting as supra partes, not subject to competition.* *Finally, we urge the ECB to clarify how the addition of a new post-trade issuance channel would actually increase issuance of debt in Euro. Currency choice for funding is driven by other factors than the degree of efficiency of post-trade infrastructure.]*

Question 3a:

- **Do you think that there is a need for further harmonisation and standardisation in the area of debt securities issuance?**

Answer 3a: *[Harmonisation and standardisation play a key role in a well-functioning debt securities market. Such harmonisation is achieved by bringing together all actors in the value chain of the debt securities issuance, and include private and public-sector issuers, financial intermediaries, asset managers, investors, infrastructure providers, central banks, law firms and others. These efforts should follow inclusive governance, allowing for appropriate representation from eurozone and non-eurozone States. Given the international nature of markets, any harmonisation efforts need to take into account the international perspective and should not only focus on a particular domestic or regional market.*

In Europe, harmonisation of financial services is a question of EU law and its standard-setting efforts. As such, our expectation is that all issues voiced and prioritised as a result of the consultation are addressed by the European policymakers, with whom ECSDA and the CSDs actively cooperate.

Last but not least, harmonisation work in Europe has proven to be often hindered by the absence of pan-European fiscal, securities and corporate legislation, which leads, despite best practices and guiding principles, to differences between Member States. Furthermore, the interpretation of newly created European legislation creates further discrepancies (to accommodate the specificities of the relevant National Member States fiscal securities and corporate frameworks).

Unless the backbone of EU legislation is harmonised, new legislation may result in even bigger gaps between EU States individual legislative environments.

Such concerns have been voiced in the past at the time in which the European Commission was considering using legislative powers to propose a Securities Law to clarify "who owns what" thanks to a harmonisation of substantial aspects of securities law. While the question of "who owns what" at the CSD level has been successfully resolved through legal assessments and undoubtedly complex, such widespread harmonisation of applicable laws across the European Union would be the biggest driver to foster further integration and harmonisation, thereby creating a level-playing field for all actors.]

Question 3b:

- **Should the work on harmonisation/standardisation cover the full transaction chain, i.e. from pre-issuance to post-trade?**

Answer 3b: *[We believe so and welcome harmonisation efforts which consider the full transaction chain.]*

Question 3c:

What are your views regarding the pre-issuance harmonisation items/topics? Which processes should be looked at?

Answer 3a: [CSDs are not the addressees of this question. Nonetheless, we believe that further harmonisation in the legal and tax areas would be beneficial to the creation of an EU single market.]

Question 3d:

- **What would you consider the best way forward, for example in terms of methodology and governance, for fostering harmonisation in this area?**

Answer 3d: [ECSDA recommends an extensive consultation and engagement of issuers at any level and a broad spectrum of other relevant actors, to understand the mechanisms in place locally, nationally, and internationally.

The governance should encompass all European Union Member States, based on the current

mechanisms set up under the European treaties and driven by the European policy makers, i.e. based on the proposal of the European Commission, the European Parliament and the Council of the European Union should decide on the right way forward.]
Question 3e: • **Is there a need to reinforce and/or support with EU regulation any harmonisation efforts in the area of pre-issuance?**
Answer 3e: [Yes, we believe that further harmonisation on the legal and tax sides would be beneficial to the creation of an EU Single market.]
Question 3f: • **Do you see any other efforts that could help resolve the current market fragmentation?**
Answer 3f: [*Not at this stage; we anticipate that the outcome of the present consultation will form the basis for more exhaustive considerations.* *We note that as of today, CSDR has not yet been fully rolled-out and the deployment of T2S (and related strategies by market participants) is still ongoing, with increased cross-CSD activity expected to materialise in the years to come. The creation of a new infrastructure would undermine these legislative efforts and implementation investments, as well as the evidence that T2S and CSDR will deliver on their objectives of interoperability between T2S CSDs.* *Please also see our response to 3a.]*

Question 4a:

- **Do you think that the establishment of a European market infrastructure service could potentially address the lack of neutrality and pan-European reach in the current debt securities market? If not, what other solution would you propose?**

Answer 4a: [As indicated before, we do not believe that the establishment of EDDI is warranted.

Regarding "Neutrality"

In our view, as explained in response to 2e above, provision of services by a neutral party is not a pre-condition for efficient market functioning. From the consultation document, it is not clear what "neutral" actually means in the view of the ECB and what would be the demand for and benefit of neutrality. It is not in the EU single market objectives that some parts of the market's functioning would need to be taken on by a "neutral" party that is not subject to competition. It is therefore unclear why the concept of neutrality would be so important in the limited element of the capital market's infrastructure which EDDI would potentially be.

Regarding Pan-European Reach

Please refer to our response to 2a in which we highlight the active development of CSD services to issuers, the role of CSD links in these offerings and the importance of Issuer and Investor CSD concepts in T2S, and to our response to 3f highlighting the dynamic nature of the market as it adapts to T2S and CSDR, as well as the potential negative consequences of the creation of a new infrastructure at the current juncture.

CSDR has not yet been fully rolled-out and the deployment of T2S (and related strategies by market participants) is ongoing, with increased cross-CSD activity expected to materialise in the years to come. A new infrastructure would undermine the belief that T2S and CSDR will deliver on their objectives of interoperability between T2S CSDs. The impact to develop a new infrastructure could lead to market participants questioning their investments in other Eurosystem projects (e.g. T2/T2S consolidation, ECMS and harmonisation efforts).

With regard to the development of further issuance in Euro, as the document is referring to EU as a single domestic market" and then "euro debt issuance in the EU" (second paragraph, introduction), "issuing debt in Euro" (chapter 3) and euro debt issuance (chapter 6.2) etc. It is unclear if EDDI targets issuance in the EU in all currencies, in Euro, or in all T2S currencies (currently, Euro and DKK). As in the majority of instances it speaks about the issuance in Euro, we retain this for the purposes of the response to the consultation. We however kindly ask the ECB to specifically clarify the scope in this regard. Notwithstanding, pan-European reach is already a reality as evidenced by EU and non-EU issuers today. We urge the ECB to clarify how the addition of a new post-trade issuance channel would actually increase issuance of debt in Euro. Currency choice for funding is driven by other factors than the degree of efficiency of post-trade infrastructure.]

Question 4b:

- **Do you think that this service, as described above, exists today in the EU? If not, should it be offered by a private entity or a public entity, and why?**

Answer 4b: *[Please see our detailed response to 2a and 2b above. We believe that a streamlined distribution of debt securities for the Euro-zone Member states in Central bank money exists today and is actively used. It is the case every time debt is issued through CSDs settling securities via Central bank cash accounts. In our view EDDI will not create a truly pan-European mechanism in the EU. (As EDDI would be limited to (a subset of) Euro-denominated securities (its scope being still unclear).*

In that light, we would encourage support of multi-currency solutions. De facto, CSDR sets a barrier for a CSD without a banking licence to provide the multi-currency settlement. ECSDA believes that the European policy makers should further reflect on ways of increasing access of EU CSDs to multi-currency DVP issuance and settlement (EPTF watchlist barrier 2).

The EDDI initiative might be viewed as contradictory to previous ECB statements such as the one expressed under Principle 3 of the T2S Principles. The competition and compatibility of different roles run simultaneously by the ECB may have a disruptive impact on the market, especially if EDDI would position it as a service provider in a commercially competitive space. Furthermore, the ECB should be mindful of the compatibility of EDDI with T2S objectives and priorities (see response to 5a).]
Question 4c: • **Is there a need to combine both approaches, i.e. a Europe-wide harmonisation initiative and the provision of a European market infrastructure service, and why?**
Answer 4c: *[Please see our responses to 3 a-f. Although we believe that harmonisation would be beneficial in the highlighted areas, we believe that ECB intervention in the area of debt issuance, as an infrastructure solution, is unwarranted and inappropriate.]*
Question 4d: • **Do you see a need for the Eurosystem to support those actions? If so, how?**
Answer 4d: *[Please see our response to 4c.]*

Question 5a:

- **What is your view regarding the inclusion of the pre-issuance and post-trade functions in a potential EDDI initiative?**

Answer 5a: [ECSDA also believes that no specific model, or solution should be pursued by the ECB before having reached a thorough understanding of the working of the markets and roles and responsibilities of different actors in the issuance process, where improvements would be needed and if a public-sector initiative in this area would be the right way forward, in light of a continuously evolving competitive environment

In the consultation, we are surprised not to see a description of the current existing mechanisms for the same day distribution of securities. In addition- in the description of the problem statement - we see no substantiation and quantification of the perceived market need which would not be met by currently existing solutions.

Following discussions and workshops with the ECB and based on the content of the market consultation document, ECSDA believes that a several concerns need to be addressed before any decision is made with regard to EDDI.

In particular, ECSDA would like to highlight the following points:

1. *Substantiation and quantification of market demand;*
2. *Definition of scope and value proposition;*
3. *Compatibility with the ongoing and planned EU CMU and post-trade policy agenda implementation;*
4. *Need for a further investigation of the compatibility of different ECB roles;*
5. *Compatibility of the need of a "neutral" party with competitive pre-issuance and post-trade markets;*
6. *Compatibility of CMU objectives with potential weakening of the infrastructure efficiency for equity, local issuers and local investors;*
7. *Compatibility of EDDI with T2S objectives and priorities; and*
8. *Complex legal, contractual, and regulatory challenges.*

In further detail

We would like to remind that post-trade mechanisms allowing the issuers to reach out to investors based in different markets (in Europe and beyond) already exist. Today, same-day distribution of issuance to investors in other EU Member-States in Central Bank money is also possible thanks to CSDs links, facilitated by T2S.

Important harmonisation efforts have been done by the industry in the post-trade field in Europe in the recent years. It is widely recognised, however, that there are still many barriers to an efficient EU cross-border clearing and settlement. Ongoing implementation of CSDR gives rise to additional barriers, such as a creation of a new lengthy procedure for a CSD to accept issuance of bonds of an issuer from a different EU jurisdiction or hurdles to DVP settlement in multiple currencies for a CSD without a banking licence.

ECSDA believes that the path to further scalability for issuers and enhancing efficiency and depth of issuance across different EU markets is a coherent legislative and fiscal environment across EU. Efficient market practices established at national level may meet specific needs of relevant actors and support issuance of securities in the local market according to the local requirements and expectations, these should not be challenged nor discontinued until the foundation for the divergent needs is harmonised. The tax framework applicable to debt issuance remains an element of significant divergence. Though governments use withholding tax applied to debt proceeds for their national budget, ECSDA recommends that the new European Commission identify a path in this area for further harmonisation (without imparting to this national area of responsibility, if there is no such political will). A similar reasoning is applicable to the securities law domain, where harmonisation would be a major catalyst to cross-jurisdictional issuance. Without such harmonisation, actions undertaken by commercial or public actors will not bring substantial benefits. We are persuaded that a coherent and harmonised legislative and fiscal framework would be central to the success of the Financial Market and CMU. **We consider that alignment between all the stakeholders concerning the prioritisation of the ECB's and Commission's agendas in the area of post-trading is essential. ECSDA will remain a proactive contributor to the dialogue with policymakers.**

With regard to the current proposal for the EDDI initiative**,** ECSDA has the following concerns:

1. **Substantiation and quantification of the market demand:**

- ECSDA does not agree with the problem statement as outlined in Section 3 "The issue at stake". The paper rightly confirms that issuers can reach a wide range of European and international investors (page 5)*. The existing open model provides issuers with a choice to distribute their debt to target investors (domestic and/or international) and this through an increasingly competitive environment resulting from infrastructural changes, such as T2S, as well as CSDR which is in implementation. For ECSDA, in order to prioritize the current effort within the financial markets, it is crucial that ECB provides (1) a substantiation and quantification of market demand and (2) demonstrates if and why this market demand would not be catered to through the full implementation of T2S and CSDR. We hope that the ECB will provide this information following the current market consultation.
- We understand that certain issuers may see a need for further harmonisation and standardisation; similarly, we advocate that those needs should be accomplished in a fair and competitive environment, as with various harmonisation efforts successfully achieved by the market, e.g. in the post-trade (such as on corporate actions) and end-to-end (such as on the distribution of international debt instruments).

2. **Definition of scope and value proposition:**

- The ECB's reference to the EPTF report (consultation, page 7) seems to suggest that the variety of issuance and holding procedures in the EU has been identified by EPTF as a barrier, which is not the case. We challenge that EDDI could constitute a **solution for fragmented practices, as we understand that it will create an additional route or layer and, hence, itself result in fragmentation.**
- ECSDA distinguishes between three broad issuance patterns,
    1. European issuers issuing in Euro only,
    2. European issuers issuing in Euro and foreign currencies, and
    3. Non-European issuers issuing in Euro and potentially other currencies.

  Within the first pattern, many are local issuers and do not expect to develop their reach beyond the Member-State borders. The two other patterns are rather international than solely Euro-zone specific, such as an EDDI solution would be.

  On the investors' side, we see similar patterns.

  For each of these existing issuer/investor patterns, there are currently well-functioning solutions in place that accommodate their needs. We highlight the role played by the two ICSDs for over 50 years, in the area of securities issuance and distribution. The Eurosystem should recognise that the ICSDs form part of the agreed EU FMI framework, as they allow EU/international issuers to reach an EU/international investor base, not always having an account with an EU Central Bank. Notwithstanding, we understand the Eurosystem preference for provision of Central Bank money settlement. Furthermore, solutions in Central Bank money allowing issuers to reach a broader range of investors also exist. Hence, a possible EDDI solution would only cover a segment of the existing issuer/investor patterns and would therefore increase the number of different channels between issuers and investors.

Also, if EDDI post-trade would be used by EU supranational issuers (which seem to be the most important driving force for EDDI as voiced by the ECB during the workshops) to distribute their euro-denominated debt securities, this would account for a maximum of 7 % of the total amount of outstanding euro-denominated debt securities, according to the most recent available data and on the assumption that all EU supranational issuance would be through EDDI. This means EDDI would possibly benefit only a marginal number of issuers/issued securities. This reinforces our view that EDDI would represent a new additional layer in the pre-issuance/post-trade space, rather increasing complexity/fragmentation and the total costs for issuers or investors.

In consequence, we believe it is critical that the outcome of the consultation also consider the potential costs of EDDI (e.g. of establishing and maintaining a new set-up parallel to existing services and links). **ECSDA recommends an assessment of the presumed EDDI benefits, substantiated by figures, as a prerequisite for any further decisions on EDDI.**

- The value proposition of EDDI for the European supra-national issuers carried by EDDI is still unclear to ECSDA; furthermore, we urge the ECB to clarify the scope of issuers who are expected to benefit from EDDI. In our view, issuers encounter few difficulties in the distribution of their debt issuances, allowing them to reach all potential investors.

  We raise, as an example, a recent publication of the European Stability Mechanism (ESM), highlighting the importance of the participation of non-European investors, such as from Asia.

> *25.02.2019*
>
> *The European Stability Mechanism (ESM) on Monday raised €2 billion by issuing a new 10-year bond, marking a successful start to its funding activities in 2019.*
> *"Our first ESM bond this year received very strong support from the market, with the 10-year turning out to be a well-received maturity by the investor community. It allowed us to complete the ESM's funding target for the first quarter," said Kalin Anev Janse, ESM Secretary General and Management Board member responsible for funding. "**The highlight of the deal is the participation of Asian investors, who represented 33% of the allocation.** It re-confirms the trend we have seen since 2018 – Asian investors are returning back to Europe," he added.*
> *The spread on the 0.5% bond, maturing on 5 March 2029, was fixed at mid-swaps minus 8 basis points, for a reoffer yield of 0.565%. The order book was in excess of €8.5 billion.*
> *Book runners for the deal were BofA Merrill Lynch, Credit Agricole CIB and Nomura.*

- We understand that an objective of EDDI is to contribute to a deep and liquid single European market for debt instruments (consultation, page 8). ECSDA supports that objective but questions the assertion that a deep and liquid single market for European debt instrument is dependent on the implementation of an EDDI-type of (post-trade) infrastructure.
- Based on CSDs' experience with servicing issuers and investors, any project needs to be carefully prioritised e.g. against those that result from mandatory regulatory requirements, such as CSDR. EDDI could distract attention and resources from those priority topics, that are essential to the completion of CMU goals. We hope the consultation will allow all stakeholders to have a better view on the scope and value proposition. **Should the consultation demonstrate a strong demand for an initiative such as EDDI, supported by a large spectrum of players - small and large issuers, as well as from local and international investors - CSDs will proactively support such efforts, as we are doing in other areas.**

3. Compatibility with the ongoing and planned EU CMU and post-trade policy agenda implementation:

- The timing of any actions related to post-trade infrastructure should take into account the ongoing implementation of the CSDR, that promotes increased competition amongst CSDs and where the issuers can choose the issuer-CSD that offers the most appropriate services. Also, CSDs offer same terms and conditions for access to CSD participants based in other European Economic Area (EEA) jurisdictions. In addition, CSD links (both within and outside T2S) allow issuers to access investors in other EEA and CSDR-equivalent third-country markets through their chosen CSD. CSDs are developing and expanding their services to issuers, allowing European issuers and investors to leverage competition to receive high-quality market infrastructure services tailored to their needs in specific areas (as highlighted in the report of the European Post Trade Forum, these areas remain largely unharmonised). While CSDR is still in the process of implementation, we believe that it might be too soon to decide on eventual further actions.

- EDDI risks distorting the market by taking an approach that is not coherent with the European Union Single Market objectives of more competition and private solutions, rather than public intervention in commercial service provision.

4. Need for a further investigation of the compatibility of different ECB roles:

- The EDDI initiative might be viewed as contradictory to previous ECB statements such as the one expressed under Principle 3 of the T2S Principles**. The competition and compatibility of different roles run simultaneously by the ECB may have a disruptive impact on the market, especially if EDDI would position it as a service provider in a commercially competitive space.

5. Compatibility of the need of a "neutral" party with competitive pre-issuance and post-trade markets:

- The consultation document refers repeatedly to the need for a "neutral" party or solution. For example, on page 4 of the document "*at the current state, there is no pan-European* <u>*neutral*</u>*, and harmonised channel for the issuance and distribution of debt securities …*" and on page 7 "*however, these solutions are neither* <u>*neutral*</u>*, nor pan-European by construction…*". This seems to imply that a neutral party would be a pre-condition for efficient market functioning.
- ECSDA strongly believes that the concept of "neutrality" is not a constituent of an efficient European capital markets, which is based on non-neutral, commercial parties in the areas of trading, issuance, market making, clearing, settlement, asset servicing, collateral management, asset management, etc. We believe it is not in the interest of the EU single market that some elements of the market would be taken on by a "neutral" party, acting as *supra partes*, not subject to competition.

6. Compatibility of potential weakening of the infrastructure for equity, local issuers, and local investors with the CMU objectives:

- Depending on the number of issuers and scope of issuance that would be distributed through EDDI post-trade, some or all EEA CSDs could be significantly weakened financially. This would in turn be detrimental also for equity issuers and smaller local issuers of debt securities, as they would need to carry a more important part of the CSDs' fixed costs and be obliged to seek alternative solutions for issuance, with potentially devastating impact on the smaller CSDs. This impact on the local ecosystem is clearly contrary to the objectives of CMU, as it would lead rapidly to an oligopoly among the CSDs that could withstand the impact on competition, as well as higher costs for retail and local investors.

7. Compatibility of EDDI with T2S objectives and priorities:

- CSDR has not yet been fully rolled-out and the deployment of T2S (and related strategies by market participants) is ongoing, with increased cross-CSD activity expected to materialise in the years to come. T2S has come at a high cost for the market (infrastructures and market participants) while the real benefits are still to be reaped (e.g. cross-CSD settlement has not significantly increased through T2S links yet). ECSDA believes that the proposal to create EDDI may indicate that the ECB does not believe that T2S and interoperability between T2S CSDs would reach the objectives initially set out when the T2S project was launched. participants might question the investment.

- ECSDA believes that the ECB should assess the impact of the potential implementation of EDDI as a TARGET service, in order to clearly identify the effect of such a service in the performance of T2S platform and in the cross-border settlement efficiency.

8. Complex Tax legal, contractual, and regulatory challenges:

- Last, but not least, ECSDA believes it should be clarified how the EDDI components would be delivered by the ECB, including its legal status, the contractual arrangements required and the regulatory framework.
- Though from recent discussions with ECB, we understand EDDI would no longer be considered to become a limited purpose CSD, which ECSDA welcomes, many important outstanding questions on the possible legal, fiscal, contractual, and regulatory aspects of EDDI remain open and are fundamental to the decision-making process on such a solution.

Due to the above-mentioned concerns, ECSDA believes that in the shape it is currently designed, EDDI is not the appropriate solution for the problem indicated in the Eurosystem's consultation. We consequently recommend, to consider the above-mentioned concerns before any further decision on EDDI is proposed.

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* Market consultation on a potential Eurosystem initiative regarding a European mechanism for the issuance and initial distribution of debt securities in the EU, 22 May 2019, p.7 states "(…) large issuers can already reach a wide range of European and international investors (…)".

** T2S Principle 3 states that T2S shall not involve the setting-up and operation of a CSD. T2S Principles can be found here: https://www.ecb.europa.eu/paym/target/t2s/profuse/shared/pdf/2011_t2s_general_principles.pdf?0dc079ccd42f59392810de2c96912ebd

Question 5b:

- **What is your view regarding the concept of the optional and voluntary usage of the two EDDI components for all relevant EDDI stakeholders/users?**

Answer 5b: [*In order to develop an opinion on the concept of the optional and/or voluntary usage of the two EDDI components for stakeholders, we would urge the ECB to provide clarity on the benefits and on the exact model.*

Based on the limited information made available via this consultation, we regard the potential set-up of a new post-trade market infrastructure as an additional operational route or layer to be supported, adding costs and fragmentation without any obvious benefit in comparison with the existing solutions or solutions under development.

From a conceptual standpoint, we will always favour an open, voluntary adoption scheme versus mandatory usage. This fosters competition between service providers and steers innovation & cost efficiency, to the benefit of end users. An open, voluntary adoption scheme is even more needed in situations where both private sector and public authorities compete in the provision of a particular service, such as the ones intended under EDDI.]

Question 5c:

- **What do you think are the relevant debt issuers that could benefit from, or would be interested in, issuing via EDDI and why?**

Answer 5c: [Please see our detailed responses to 2a and 2b above. In short, based on the limited information made available via this consultation, we have not identified benefits offered under a potential EDDI solution compared to today's market mechanisms.]

Question 5d: • **Should access to EDDI be restricted to certain classes of issuers? If so, why?**
Answer 5d: [Before expressing an opinion on the potential interest of any type of issuer, we urge the ECB to provide us with a clearer picture of: - *The view of the issuers and of the investors participating to the present consultation on their exact challenges with the current solutions; and* - *The scope of EDDI.* *We understand from dialogue to date with the ECB that supranationals are the primary expected beneficiaries of EDDI, hence one would expect a large number of supranational issuers to express their support for the initiative. Without that support, we do not understand the target beneficiaries of the proposed business model.* *However, as mentioned in our response to 2b, we believe that the entire supranational issuer category accounts for a maximum of 7 % of the EUR issuance volume.]*
Question 5e: • **How would the benefits of EDDI change if access to EDDI were restricted to certain classes of issuers, e.g. public or supranational, sub-sovereign and agency (SSA) issuers?**
Answer 5e: *[We believe that the more the solution is focused on supranationals, the less it will probably respond to the needs of small local issuers, hence hampering CMU and issuers access to markets. Please refer to our answer to question 5d, which addresses the same questions.]*
Question
• **Should access to EDDI be restricted to certain CSDs?**
Answer 5f: *[We would highlight that existing legislation applicable to CSDs in Europe does distinguish between CSDs. To the contrary, CSDR takes into account all different business models existing in Europe to regulate all CSDs under the same rules, particularly when ensuring the integrity of a securities issue. Considering that all CSDs are subject to the same rules and obligations, there should equally be little argument to select certain CSDs among equals.* *Should EDDI be restricted to certain CSDs over others, it would be severely endanger the level playing field that CSDR is establishing amongst CSDs, and such segregation would translate itself in a new form of barriers building being imposed by the EDDI rules.]*
Question 5g: • **In your view, which criteria should an EDDI service meet in order to be attractive for your institution?**
Answer 5g: [As highlighted in earlier answers, at the current stage, we have not identified major industry gaps or structural deficiencies for which EDDI offers a solution. We would welcome a dialogue with the Eurosystem on the outcome of the consultation. ECSDA is open to work with the Eurosystem on the basis of full information transparency to find a suitable solution to the item under discussion. Once the consultation is closed, and the conclusions determined, we believe it would be in the best interest of the ECB, the CMU and the participants of this consultation and the Financial Markets to identify the best path to be taken and where (pre-issuance or post-trade), through which means (harmonisation and/or technical solution, and by which actors (ECB, European policy-makers and/or industry) to the efficiency of the market as well as the liquidity of the instruments may be improved through enhancements to the distribution mechanism.]

Question 6a:

- **What are your views on the expected impact of EDDI on the market in general and on your institution in particular?**

Answer 6a: *[We would like to provide comments to the ECB assessment on impacts on different stakeholders.*

- The consultation states that *"Market-wide interaction would be facilitated"*

  ECSDA views*:* **EDDI will result in further fragmentation** in Euro-zone and even more so between Euro-zone and non-Eurozone issuance. Furthermore, it will weaken issuance of equities and other types of instrument.

- The consultation states that *"EDDI could influence the business models of CSDs".*

  ECSDA views*:* It is correct to say that the business models of CSDs will be impacted.

  First, **CSDs will need to develop a new specific core service for debt securities issued through EDDI, next to their existing core service for debt securities not issued through EDDI, in addition, to settlement that is outsourced to Eurosystem already.** This will significantly impact business models of EU CSDs that may decide to be connected to EDDI. Compared to the existing situation where CSDs are in commercial contact with issuers and/or issuing agents, with EDDI, it is unclear which entity will have a commercial relation with issuers; i.e. who would promote EDDI to issuers. We doubt that such commercial role can be taken on by the ECB.

  Secondly, we expect EDDI to have direct negative impact on the competition among CSDs. Currently and even more so when CSDR is fully enacted*, European CSDs compete by attracting both issuers and investors, including from other jurisdictions**. As a result of EDDI, there will be no need/possibility to compete for issuers' choice of a CSD**. EDDI alters the level playing field conditions that CSDR has established.

  Consequently, **provision of services by a public entity would impede innovation and competition in issuer CSD services for debt issuers**. The size of the holding of securities as issuer CSD will be solely defined by the holding of the securities by investors. Hence, for the services that will remain to be provided by CSDs directly (i.e. not outsourced to EDDI), CSDs with the biggest investor base today will be privileged. **The smaller CSDs may never be able to recover the difference in the size of their investor base**.

  Thirdly, as a result of the impact on CSD competition for servicing of debt securities, we expect that the provision of services for other types of assets will also be impacted**. As the local infrastructure would be weakened financially and need to carry a more important part of the CSDs' fixed costs, this would in turn be detrimental for servicing of assets that require an infrastructure fitting the specificities of the instruments and local corporate** laws (that are unharmonised and cannot be serviced by other CSDs without development of a dedicated process and expertise and, hence, additional costs for the local market).

- The consultation states that *"Issuers would have full choice in deciding how they want to use the EDDI service"* and that "*EDDI would offer eligible issuers a choice that they do not have today, namely the possibility to issue European securities without having to select a specific location of issuance."*

  ECSDA views*:*

  Location of issuance should be established for any issuance for legal reasons and it would not be possible to avoid it. Differently from the "location of the issuance", many EU CSDs may service debt issuance governed under a different law than the law of the jurisdiction where the CSD is established, leaving the choice of the governing law to the issuer already today.

As CSDR enables the issuer's choice of CSD, CSDs may provide for the issuance under a different law. Furthermore, the mechanism for primary distribution of debt securities on the same day exists through CSD links in T2S. It is therefore unclear what would be the benefits for the issuers to subscribe to the EDDI post-trade service.

We believe that issuers should be concerned that EDDI will prevent their choice of a CSD of issuance, as it will impede competition and innovation in issuer-CSD services and that will become fully dependent on the single provider of services not subject to competition.

As mentioned in our response to the previous bullet point, we expect that EDDI would weaken infrastructure servicing other types of instruments and local issuance. Hence, investors issuing these instruments will be disadvantaged and will need to deal with higher level of fragmentation.

Finally, we are not clear why the ECB makes the link between liquidity, as relating to the secondary market, and the solution proposed by EDDI.

** Although further action may need to be taken by European policy makers. In order to fully free up competition among CSDs, the EU legislation need to provide the common ground for a more coherent EU CSD supervision, corporate, insolvency and fiscal legislation.*

*** For the purposes of EDDI, the CSD links will be transformed into issuer CSD - issuer CSD set up, while the current issuer CSD - investor CSD set up will need to be maintained for other securities. This is likely to result in additional complexity increasing the costs of maintaining the infrastructure.]*

Question 6b:

- **Which other elements do you consider relevant regarding the potential impact of EDDI, beyond what is described above?**

Answer 6b: *[*

- *Weakening of local infrastructures.*
- *Increased outsourcing risk for CSDs.*
- *Increased complexity.*
- *Increased operational risk.*
- *Development cost and maintenance cost. (Who will bear those costs? Who will bear the costs in case of business case not being met?)*
- *Concentration risk.*
- *Distortion of fair competition.]*