



# **Giovannini Barrier 4 and 7**

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Joint submission of European Primary Dealers Association and  
the European Repo Committee

Clearing and Settlement Advisory and Monitoring Experts' Group

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## EPDA Mandate

- Provide a representative forum for EMU government primary dealers
- Address, seek consensus and resolve primary and secondary market issues in EMU government bond markets
- Focus on integration and efficiency of European government bond markets

## EPDA Objectives

Consult with key market participants, including EU DMOs/Treasuries, Central Banks, EU Commission and ECB on:

- Recommendations for efficient primary market procedures and practices
- Promotion of an efficient, integrated, transparent and liquid secondary market
- Providing best practice recommendations
- Issuing comment letters on regulatory and legal proposals
- Information, education and research projects and conferences

## 21 EPDA Executive Members

Executive members represent 164 dealerships in the EMU

 ABN Amro

 Barclays Capital

 BNP Paribas

 Calyon

 IXIS CIB

 Citigroup

 Credit Suisse

 Deutsche Bank

 Dresdner Bank

 Goldman Sachs

 HSBC

 ING Bank

 J.P. Morgan

 Lehman Brothers

 Merrill Lynch

 Morgan Stanley

 Nomura Securities

 RBS

 Société Générale

 UBS

 Unicredit Banca Mobiliare

# 15 EPDA Clearing and Settlement Working Group

Representatives from Clearing and Settlement departments

 **Barclays Capital**

 **BNP Paribas**

 **IXIS CIB**

 **Citigroup**

 **Credit Suisse**

 **Deutsche Bank**

 **Dresdner Bank**

 **Goldman Sachs**

 **HSBC**

 **ING Bank**

 **J.P. Morgan**

 **Lehman Brothers**

 **Merrill Lynch**

 **Nomura Securities**

 **UBS**

## **ERC Mandate**

- The European repo council (ERC) comprises those ICMA International Repo Council members who are active in Europe's cross-border repo market
- There are 61 Members of the ERC
- The European Repo Committee acts as the Executive for the European Repo Council and it has 19 members



# ICMA European Repo Council



ABN AMRO  
Aurel Leven Securities  
Banca Caboto  
Banca d'Intermediazione Mobiliare  
Banca Intesa  
Banca Monte dei Paschi di Siena  
Banca Nazionale del Lavoro  
Banco Bilbao Vizcaya Argentaria  
Banco Santander  
Bank Austria Creditanstalt  
Bank Julius Bär & Co.  
Banque et Caisse d'Epargne de l'Etat,  
Barclays  
Bayerische  
Bayerische Landesbank  
Bear, Stearns International Limited  
BNP Paribas  
Caja de Madrid  
CALYON  
CIBC  
Citigroup  
Commerzbank  
Confederación Española de Cajas de Ahorros  
Credit Suisse Securities  
Daiwa Securities SMBC Europe Limited  
Danske Bank  
Deutsche Bank  
Dexia Bank  
Dresdner Bank  
DZ Bank AG  
Fortis Bank

GESMOSA-GBI, Agencia de Valores  
Goldman Sachs  
HBOS Treasury Services  
HSBC  
HSBC France  
ICAP Securities  
ING Bank  
ING  
IXIS  
J.P. Morgan  
KBC Bank  
Kredietbank  
Landesbank  
Lehman Brothers  
Lloyds TSB Bank plc  
Man Financial  
Merrill Lynch  
Mitsubishi UFJ Securities International  
Mizuho International Morgan Stanley  
MPS Finance Banca Mobiliare  
NIBC Bank N.V.  
Nomura International  
Raiffeisen Zentralbank Österreich  
Royal Bank of Canada Europe  
Société Générale  
The Royal Bank of Scotland  
UBS  
UniCredit Banca Mobiliare  
WestLB



**ABN Amro**



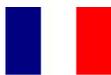
**Banca Intesa**



**Barclays**



**Bayerische (HVB)**



**BNP Paribas**



**Caja de Madrid**



**Citigroup**



**CECA**



**Credit Suisse**



**Dexia**



**Dresdner Bank**



**Deutsche Bank**



**Goldman Sachs**



**ICAP**



**J.P. Morgan**



**Merrill Lynch**



**Morgan Stanley**



**RBS**



**UBS**

### **Giovannini Barriers 4 and 7**

- Barrier 4: Absence of intra-day settlement finality
- Barrier 7: National differences in operating hours/settlement deadlines

## EPDA/ERC Joint Project

- Identify the European government bonds eligible in the various ICSDs and CSDs
- Identify the published settlement deadlines for delivery and receipt of “free of payment” and “delivery versus payment” bonds across the various ICSDs and CSDs
- Sent out survey to 2 ICSDs, and 12 CSDs. We received responses from both ICSDs and the following CSDs: *Crest UK, Euroclear France, Euroclear Netherlands, Iberclear, Interbolsa, Monte Titoli, NBB, NCSD Group, and OEKB.*
- We surveyed 14 Primary Dealers on settlement deadlines for bond movements across the various ICSDs and CSDs
- We also surveyed market participants with a view to identifying practical situations that do not comply with the deadlines provided
- We produced a table that shows the bond eligibility and deadlines for the bond movements across the ICSDs and CSDs which should be read in conjunction with this presentation

# ICSDs and CSDs surveyed



OEKB



NBB



VP



NCSD Group



Euroclear France



Monte Titoli



Clearstream Frankfurt



HCSD



Euroclear Nederland



Clearstream Luxembourg



Euroclear Bank



CREST, UK



CREST, Ireland



Interbolsa



Iberclear

# Bond Eligibility

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## **Bond Eligibility**

- ICSDs accept all European government bonds
- Many CSDs only accept a small selection of European government bonds (other than their own domestic bond);
- As we have “gaps” in our research, we expect that those bonds that are not eligible in other CSD systems is much greater than that reflected in our tables
- Even if a market participant wished to move a bond from one CSD to another CSD for settlement purposes, in many cases this would not be possible as the bonds are not eligible

## Bond Movements

- In practice, market participants rarely if ever move bonds between CSDs (even if eligible)
- Bond movements are generally between ICSDs and CSDs
- There are many reasons for this situation:
  - Many Government Bonds are not eligible in all CSDs
  - Settlement instruction deadlines tend to be later in ICSDs
  - Clients who are to be delivered a government bond either have a local account or an ICSD account (directly or via agents)
  - Primary dealers perceive the ICSDs as more reliable
  - Its easier to set up internal systems to use one ICSD as the “hub” for bond movements based on their settlement deadlines that creating a “spiderweb” of bond movements between CSDs based upon a multitude of differing deadlines which is efficient and difficult to manage

## Settlement Deadlines

- There are still large differences in the settlement deadlines between ICSDs and CSDs; and CSDs and CSDs (as well as between FOP and DVP) which undermines a harmonised and efficient European system
- Even for a unique bond movement between one CSD and an ICSD, sometimes there are discrepancies between the CSD and ICSD instruction deadlines which requires a market participant to use the earlier of the two.
- Agents frequently have earlier deadlines than the ICSD and CSD deadline which again requires the market participant to use the Agent's earlier deadline. We have not added these to the table as they are too numerous and varying.

## Onward Settlement

- Even if the deadline for the settlement instruction is satisfied, the time required to move the bond needs to be considered in order to settle the onward transaction (which essentially is the reason for the movement).
- The time to achieve to move the bond from one account to another may be anywhere from ~30minutes to ~2 hours
- Differing settlement deadlines and times to achieve the bond movement cause certain problems for onward settlement:
  - For example, receiving a bond in a CSD for onward delivery to a client in Euroclear or CBL may be impractical as its delivery time may be uncertain
  - If the counterparty does not deliver the bond before the settlement deadline for delivering to Euroclear or CBL, you are left long in bonds and short cash which results in a loss of interest
- In most cases, intra-day settlement can theoretically be achieved but frequently the instructions need to be sent very early in the day in order to guarantee that it will occur.

# Examples of Bond Movement Times

## Bond Movement Examples

- Euroclear to France:  
Instruction sent at 13:54  
Settlement effected at 14.22  
~ half an hour
- Euroclear to Italy:  
Instruction sent at 13:52  
Settlement effected at 14:55  
~ 1 hour

# Impact on Settlement Operations

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## Settlement Operations – Impact

- Use ICSD as a hub in the settlement system for bond movements across Europe which is effectively a “work around” of inefficient CSD to CSD movements
- Staff are well-trained traders by operations so that the tendency is not to trade when it is close to cut-off times for realigning securities, especially where onward settlement is required after a bond movement
- Robust and efficient means of funding (long) positions held in CSDs which makes it less urgent to realign long positions

## **Example 1** - Moving bonds from Euroclear to Domestic for an onward domestic sale in Italy

- need to instruct the cross border by 1pm to ensure settlement before 2.30pm as need bonds to be ready for domestic delivery by 2.30pm, otherwise can get blocked by the counterparty.
- In the Italian market, the bond move process is very slow. Once position is received, both sides (agent in Italy and agent in EOC) first pre-match the bond moves over the phone, and then once agreed input the trades into the Bank of Italy system.
- Confirmations are then sent from Monte Titoli to the Euroclear agent, who then sends a confirmation to Euroclear to confirm settlement
- The process can take anything from 30 minutes to an one hour and half depending on whether the cycles are caught or not.

**Example 2** - Moving bonds from Spanish Domestic to Euroclear for an onward delivery to a Clearstream counterparty:

- Need to instruct the cross border transaction asap and agree a manual daylight between the two counterparties for the onward delivery.
- Bank of Spain will not guarantee a FOP cross-border move prior to 12.30pm, therefore we need to instruct at the earliest opportunity.
- The cross border cycles occur every 30mins from 6am to 4.30pm, however Bank of Spain will not guarantee when they will settle a FOP cross border as they are not DVP and therefore not prioritised.

- The lack of eligibility of holding government bonds in various CSD accounts undermines harmonisation
- Settlement deadlines differ across Europe between the ICSDs and CSDs including for the same movement
- ICSDs perceived as more reliable than CSDs
- Settlement deadlines are generally not late enough to ensure intra-day settlement between CSDs for onward delivery purposes
- Bond Movements have early deadlines, take time and lack certainty which hinders onward delivery