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The European Code of Conduct for Market Infrastructure Providers

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European Repo Committee

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Clearing & Settlement in Europe

- **Lamfalussy Report (Feb 2001)**
- **Commission Communication (Apr 2004)**
- **EP Reports (Dec 2002 & Jun 2005)**
- **McCreevy speech in Luxembourg
(Sep 2005): "The clock is ticking ..."**
- **McCreevy speech before EMAC
(Jul 2006)**



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Scope

- **CCP services by CIHs, CCPs, CSDs**
- **Settlement & custody service**
- **Some applicability to trading**
- **"in principle" functional: "... all providers carrying out similar activities ..."**
- **Cash equity transactions in Europe**

Who signed up?

Source: FESE/ECSDA/EACH

Stock Exchanges (coordinated by FESE)	Clearing Organizations (coordinated by EACH)	(I)CSDs (coordinated by ECSDA)	
<ul style="list-style-type: none"> ■ Athens Ex. (Greece) ■ BME (Spain) ■ Borsa Italiana ■ Bratislava Stock Ex. (Slovakia) ■ Budapest SE (Hungary) ■ Cyprus SE ■ Deutsche Börse (Germany) ■ Euronext (BE, FR, NL, PT) ■ Irish SE ■ LSE (UK) ■ Ljubljana Stock Ex. (Slovenia) ■ Malta Stock Ex. ■ OMX Exchanges (DK, SE, FI, IS, EE, LT, LV) ■ Oslo Bors ■ SWX Swiss Ex. ■ virt-x (UK, Switzerland) ■ Warsaw Stock Ex. ■ Wiener Börse (Austria) 	<ul style="list-style-type: none"> ■ CCP Austria ■ CC&G (Italy) ■ Eurex Clearing AG (Germany) ■ KDPW (Poland) ■ KELER (Hungary) ■ LCH.Clearnet (BE, FR, NL, PT, UK) ■ OMX (Denmark, Sweden, Finland) ■ Serbia CSD ■ SIS x-clear (Switzerland) ■ VPS Clearing (Norway) 	<p><u>Signatories of the Code:</u></p> <ul style="list-style-type: none"> ■ APK (Finland) ■ Clearstream Banking (Germany, Luxembourg) ■ CSCC (Slovenia) ■ CSD AD (Bulgaria)* ■ CSD of Lithuania ■ CSD of Serbia ■ CSD of the Slovak Republic ■ Cyprus Stock Exchange* ■ Estonian CSD ■ Euroclear Bank (and also CrestCo, Euroclear Belgium, Euroclear France, and Euroclear Netherlands) ■ Helix (Greece) ■ Iberclear (Spain)* ■ Interbolsa (Portugal) ■ KDPW (Poland) 	<ul style="list-style-type: none"> ■ Keler (Hungary) ■ Latvian CSD ■ Monte Titoli (Italy) ■ NCSD Group (Sweden) ■ OeKB (Austria) ■ SIS Group (Switzerland) ■ UNIVYC (Czech Rep.) ■ VP (Denmark) ■ VPS (Norway) <p><u>Letter of Intent:</u></p> <ul style="list-style-type: none"> ■ CSD of Bosnia and Herzegovina ■ CSD of Croatia ■ CSD of Montenegro ■ Iceland's Sec. Depository ■ SCP (Czech Rep.)

European Central Securities
Depositories Association



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3 phases

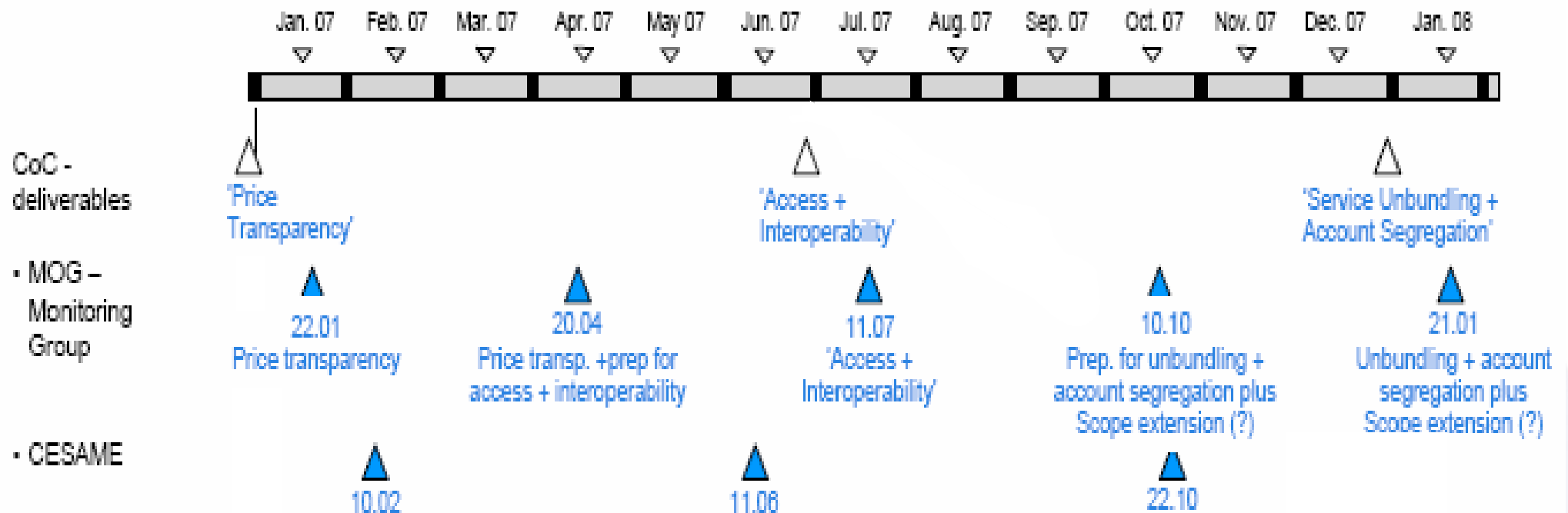
- **Price transparency**
31 Dec 2006
- **Access & Interoperability**
30 Jun 2007
- **Service unbundling & Accounting separation**
31 Dec 2007



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Principal timeline





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Monitoring

- **Costs & revenues disclosed to regulators**
- **External auditors to verify compliance**
- **Monitoring Group**
(public hand only: DG MARKT/COMP/ECFIN; CESR; ECB)
- **Meetings with industry**
Define expectations, assess progress, monitor compliance
- **Report to MOG**



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Price transparency

- **Membership, connectivity, set-up**
- **Transaction-related**
(trading, clearing, settlement)
- **Custody services**
- **Additional services**

- **Price lists**
 - Break-down of services
 - Comparability
 - Accessibility (easy to find, language, downloadable)
 - Examples / Calculator
- **Discounts (ex ante) & rebates (ex post)**
(see also Commission paper of April 2007)
- **Billing reconcilability**
 - Breakdown of amount
 - Quantification of underlying price basis



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Price transparency

Industry assessment:

- **Good efforts, good discussion basis**
- **Comparability could be better**
- **Euroclear comparability**
- **Rebates problem widely unsolved**
- **Has to remain on agenda**

- **Access**

basically: Knocking on the door of another MI (the recipient side) to become a participant according to the recipient's rules etc.

- **Interoperability**

Advanced forms of relationship where an organisation is NOT generally connecting to existing standard service offerings but where organisations agree to establish customised solutions

- **Partially addressed in MiFID**
- **plus:**
 - CCP – CCP**
 - CCP – CSD**
 - CSD – CSD**
 - CCP&CSD – access to transaction feeds (mkts)**
 - CSD – access to transaction feed from CCP**
 - trading venues – access to CSDs and CCPs**



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Access

- **Standard unilateral access**
- **Customised unilateral access**
- **Transaction feed**

- **Business case considerations only allowed on the requesting side**



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Access & Interoperability

Industry assessment

- **Expectations expressed**
- **Code says "create conditions"**
- **MI draft document discussed**
- **MOG 11 July 2007**
- **Problems:**
 - Markets without CCP**
 - Public sector barriers**



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Services unbundling & Accounting separation

- **Transparency in relations between revenues and costs**
- **Transparency for cross-subsidies**
- **Choice of services (i.e. user's choice to purchase selected services)**

Categories of services to be unbundled

- **Account provision, establishing securities, asset servicing**
- **Clearing & settlement (incl. verification)**
- **Credit provision**
- **Securities lending and borrowing**
- **Collateral management**



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Services unbundling & Accounting separation

Industry comments

- **Start early (12 months' lead?)**
- **... more to follow**



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Extension

Extension to other asset classes

- **Probably in two steps, if at all**
- **Euroclear and Clearstream positions**
- **Timeline**

Discussion points:

- **Does the repo market need it?**
- **Does it create practical problems (ICSDs)?**
- **Does it solve any problems (nat CSDs)?**
- **Will it happen automatically (market-led)?**
- **If it does not happen, what is the risk?**
- **How do we get what we want?**

**Thank you very much,
Gentlemen**

http://www.icmagroup.org/market_practice/Advocacy/clearing_and_settlement/code_of_conduct.html

http://ec.europa.eu/internal_market/financial-markets/clearing/mog_en.htm

<http://www.fese.eu/en/?inc=cat&id=19>

https://www.ecsda.com/portal/news_and_events/?id=31

<http://www.fbe.be/content/Default.asp?PageID=238>