

International Capital Market Association
TRAX2 – *how Barrier 6 can be tackled*

Presentation by
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National differences in settlement periods

- Settlement periods for all (equity) markets within the EU should be harmonised.
- The group agreed that this barrier should not be tackled – at least for the time being.
- Further study should be undertaken to consider whether it (wouldn't be) better ... to identify adequate mechanisms to manage the resulting costs and risks arising from the lack of harmonisation ...

ESF-ECSDA initiative to harmonise and standardise pre-settlement date matching

- Presentation at CESAME 24 October 2005
- Document dated 05 October 2006
 - on www.eurosf.com > publications > esf documents
- CESAME Operational Conclusions:
 - "... could facilitate the dismantling of this barrier"
- Standard 3: Matching should occur real-time and continuous ...
- Standard 10: The instruction process to the CSD should be ... by electronic data transfer between the user and the CSD; ... should be fully automated and free of manual intervention

ICMA & TRAX2

- Who is ICMA?
- What is TRAX2?
- How do the SRO status of ICMA and TRAX2 address Giovannini Barrier 6?



- **Self-Regulatory Organisation**
 - ISSRO status under UK law (and similar in Switzerland)
 - ICMA sets rules: ICMA Rulebook, TRAX
 - Affiliate Member of IOSCO
- **Trade Association**
 - Market Practices Committees (primary, secondary, repo, ECP)
 - ICMA sets best practice: IPMA Handbook (primary markets)
 - Regulatory policy and advocacy work
 - Educational activities
- **IT services support both functions**
 - Matching cash and Repo trades
 - Reporting trades
 - Transaction reporting

Introduction to TRAX2



- TRAX is a **real-time post-trade/pre-settlement system** for transactions traded in the OTC market space.
- TRAX2 has the following responsibilities:
 - **Matching** of trade information including settlement details and facilitating true STP
 - **Operational Risk Management** to minimise risk from failed or problem trades
 - **Compliance** with ICMA's SRO Obligations
 - **Facilitates transaction reporting** to Competent Authorities.
- Operated by ICMA since 1989.
- Over 200 subscriber firms from 16 countries.
- Over **5 million trades** processed per month.
- TRAX2 Securities database holds in excess of 400,000 debt and equity instruments.

Advantages of Matching



- Enables **any asset class** including cash, repos, and on or off-exchange derivative instruments (Options, Futures, CFDs, etc) to be **bi-laterally agreed and matched** through the system.
- New **settlement matching model** with real time exchange of standard settlement instructions (SSI) enabling firms to **agree settlement details** prior to the settlement cycle.
- **Flexible** matching model to meet specific business requirements.
- Available for both buy and sell side firms.

TRAX2 Screenshot



Repo Trade Entry (UVW LON)

File Help

Trade Date/Time

Date: 07 February 2007

Time: 16:00:00

Purchaser/Sale Indicator

Purchase Sell

Counterparty

Code: CDE LON

Code Type: TRAX

Sub Account:

Security Details

Tradeable Security: Bond

Code: DE0001141471

Code Type: ISIN

Price Details

Price: 95.205

Currency: EUR

Quantity: 25,000,000

Conditions

Special:

Bargain: RE

Sender's Ref:

Pool Ref:

Place Of Trade

Type: OFF

Place: OFF

Repo Details:

Repo Type: Term

Reference Rate: London Inter Bank Of

Repo Rate/Spread (%): 5

Forward Price:

Call Notice:

Settlement Details | Additional Settlement Details | Settlement Account Details | Control Nos | Narrative | PTAs

Settlement Date: 09 February 2007

Settlement Amount:

Currency:

Settlement Transaction Type:

Payment Indicators:

Place Of Settlement:

Counterparty Place Of Settlement:

Entered By Counterparty:

Second Leg Details:

End Date:

Closing Amount:

Closing Currency:

Sender's Ref:

Ready.

Submit Cancel

- The ICMA Rule Book makes express mention of settlement dates under Rule 223 - **Special Value Date**
 - "A special value date may be mutually agreed between the buyer and the seller at the time of dealing."
- TRAX2 allows counterparties to match settlement details such as the value date prior to the settlement cycle, thus eliminating (operational) risk arising from differences in standard cycles.



Let us recall:

Giovannini Barrier 6 states that

"Further study should be undertaken to consider whether it is better to pursue a harmonised settlement period across the EU, ...

... or to identify adequate mechanisms to manage the resulting costs and risk arising from lack of harmonisation, ...

... pending further clarity of the global trend of settlement cycles".

Benefits



- TRAX2 is such an **"adequate mechanism to manage the resulting costs and risk arising from lack of harmonisation"** of settlement periods.
- It dramatically **reduces operational risk** resulting from problem and potential failed trades.
- Hence, it addresses CRD/Basle II issues (op risk).
- It helps overcome divergences in different infrastructure standards.
- It has 24/7-365 service availability.
- Highly competitive reporting/matching transaction costs.

Future Developments - STP



- ICMA are now in discussions to allow firms to connect to TRAX2 via the **SWIFT network**.
- The SWIFT network link will also facilitate the user demand for **true STP** links to ICSDs, CSDs and custodians.
- Initial discussions between ICMA and the ICSDs concerning STP links are progressing well.



- Our Securities Database **contains** over 400,000 securities including bills, convertibles, equities, FRNs, GDRs, Straights, and Warrants.
- Data field **coverage** includes ICMA Code, ISIN Code, Common Code, Security Short Name, Issue Currency, Security Type, Coupon Payment Frequency, Maturity Date, Status...
- **Sources** include Lead Managers, Clearing Houses and Data Vendors.
- Database is **updated** on a daily basis.
- Available via TRAX2 **screens** and/or downloadable **file**.
- Available to TRAX2 **users** and **Competent Authorities**.

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