

Press release - 25 October 2006

Post trading price transparency is vital for increasing the competitiveness of the European securities industry

Eurofi, a thinktank dedicated to European capital markets co-chaired by Jacques de Larosière, together with ICME, a specialized consultancy, conducted between October 2005 and May 2006, assessments related to the pricing practices of EU post-trading central providers. These assessments were overseen by a group of representative users active in the EU – global/local custodians and investment banks/brokers.

These assessments covered the main EU post-trading central providers (CCPs, CSDs, ICSDs) for their bonds and cash equity activities and were focused on the services for which they act as market infrastructures: clearing, settlement and safekeeping and related usage fees.

The main conclusions were that prices charged by EU post-trading central providers had not evolved significantly over the last 3 to 5 years despite significant profits made by most providers and partial consolidation. Users also considered that transparency of pricing and financial information was insufficient at present for them to evaluate and anticipate total costs easily and to assess pricing policies correctly. In addition they felt that their interests were not always sufficiently taken into account within the boards or in current consultation processes related to pricing issues.

Based on these conclusions the Eurofi users group drafted a list of recommended practices for increasing price transparency and leveraging unbundling and accounting separation to the benefit of users. They have invited the European Commission and industry associations to take them into account in the code of practice currently being developed. They indeed believe that these are major requirements for ensuring the competitiveness of post-trading central providers in the EU and fair pricing of services. They also consider that these measures should be applied not only to cash equities as in the present proposals made but also to bonds. The attached appendix details and illustrates the main practices recommended organized around 5 main principles.

Principle 1: Sufficient pricing information should be publicly available to all potential users (eg via the web site) to enable them to understand the way prices are defined for different services and types of users, to anticipate and simulate total costs they will incur and reconcile billing and track historical price evolutions

Principle 2: Sufficient information should be disclosed on rebates to enable users to work out total costs

Principle 3: Formal consultation processes on the pricing policy involving representative users should be in place

Principle 4: Respective roles of the management, board and users in pricing decisions should be clarified, as well as the policy of board composition and selection to enable the views of users to be sufficiently taken into account

Principle 5: Publicly available financial information accessible to all users published by central providers should enable users to evaluate the reasonableness and fairness of prices

Whatever the outcome of possible consolidation scenarios in trading or post trading activities and of the progress of the lifting of the Giovannini barriers, the Eurofi users Group believes that all these practices are necessary to create sufficient price transparency for users and considers that they can all be technically implemented within the main EU providers by the end of 2007 at the latest, provided an efficient and adequate implementation and enforcement process is in place.

This requires in particular involving directly user representatives not only in the validation of the final draft of the code but also in the monitoring process to be set up by the Commission to ensure that their interests are clearly expressed and taken into account. It also requires external and neutral audits to be conducted to assess present practices in detail and check whether the specific measures of the code of conduct are put in place correctly and consistently throughout the different EU central providers.

The Eurofi users group will carefully follow the progress made on these measures in the coming months and will make sure the interests of users are clearly taken into account.

APPENDIX 1: PRICE TRANSPARENCY PRACTICES RECOMMENDED BY EUROFI

Principle 1:

Sufficient pricing information should be publicly available to all potential users (eg via the web site) to enable them to understand the way prices are defined for different services and types of users, to anticipate and simulate total costs they will incur and reconcile billing and track historical price evolutions

- Current pricing schedules should be available to all potential users (members and non-members) on the web site of the provider
- User manuals / handbooks explaining the pricing schedule and structure, the content of services provided and the way fees are calculated should be systematically available for users.
- Providers should publish clear information on their website regarding the evolution of prices over the 3 last years and give access to the related newsletters on pricing. Modifications to the pricing structure over time should be clearly explained and historical comparisons should be made possible.
- The structure of pricing schedules and the denomination of identical services should be similar across providers as far as possible
- Pricing policies describing the way prices are defined for different services and different types of users should be available to all potential users (members and non-members) on the web site of the provider:
 - Pricing methodology and rationale
 - Achieved and expected impacts on prices of automation investments, process optimizations or consolidation
 - Principles of equitability between different user segments based on usage of services implying in particular full disclosure of discount schemes and calculation methods for volume discounts

Principle 2:

Sufficient information should be disclosed on rebates to enable users to work out total costs

- For providers who distribute rebates:
 - A rebates distribution policy should be described and made available to all members: method of calculation, criteria for access to rebate schemes and allocation
 - The amounts distributed in rebates over the previous years should be made public as well as the balance between rebates and dividends distributed

Principle 3:

Formal consultation processes on the pricing policy involving representative users should be in place

- Formal consultation process of users through existing user groups or specific groups involving representative users, to:
 - Review and comment changes in the pricing schedules and in the pricing policy
 - Discuss specific decisions that impact prices and infrastructure costs with the related business case: investments, process changes...
- This consultation should take place either through existing user groups or user groups to be set up and requires prior clarification of the governance of user groups

related to pricing issues (mandate, member selection criteria, decision-making rules, conflict resolution processes).

Principle 4:

Respective roles of the management, board and users in pricing decisions should be clarified, as well as the policy of board composition and selection to enable the views of users to be sufficiently taken into account

- Pricing modifications should be recommended by the management once representative users have been consulted if necessary through a formal consultation process described in Principle 3 and decided by the board taking the views and interests of the different stakeholders into account
- To enable the right decisions to be made, central providers should ensure that the interests of users are correctly represented within their board through the adequate composition
- All stakeholders (users, management and board members) should have access to equivalent information on pricing evolutions and their rationale

Principle 5:

Publicly available financial information accessible to all users published by central providers should enable users to evaluate the reasonableness and fairness of prices

- Disclosure of the breakdown of revenues by main services provided (eg settlement, safekeeping, connectivity, reporting, membership fees and other services) and of the related volumes
- Disclosure of the breakdown of costs by main services provided (eg settlement, safekeeping, connectivity, reporting, membership fees and other services) (1)
- Disclosure of the breakdown between recurring costs and investments (1)

APPENDIX 2: RATIONALE OF THE RECOMMENDED PRACTICES:

Improved price transparency and adapted governance processes should foster competitiveness of central providers and enable fair pricing of services:

- Current and potential users should be able to evaluate the total costs that they will incur with a given central provider from the outset (including rebates), to compare costs across markets for similar services and to follow the evolution of prices over time
- Users should be able to understand the pricing policy (ie pricing methodology and rationale, relative level of pricing of different services and related impacts for different customer segments, rationale of the distribution of rebates...) and its impact on the revenue and cost ratios of providers
- The views of users (possibly different types of users) on pricing evolutions should be clearly taken into account by the management when necessary to ensure the pricing strategy of the provider is fair and balanced. To support this:
 - Governance processes should be organized to clarify the decision-making process and make sure the views of all the different stakeholders (including users) are considered
 - Balanced decisions should be enabled through appropriate access of the different stakeholders to information