

Session 3

The integration of securities market infrastructures in Europe: the example of settlement Executive Summary

Post-trading operations cover the activities of confirmation, clearing and settlement of securities transactions. Largely invisible to investors, these activities are nonetheless indispensable for the smooth functioning of modern financial markets. It is thus essential to provide the European Union with a framework of infrastructures serving the creation of an efficient and integrated financial market.

The integration process should largely be in the hands of the private sector but the public sector can be expected to intervene at some stage and to play an efficient role.

As mentioned in the Giovannini report, “consolidation in the clearing and settlement infrastructures raises issues of legitimate interest to public policy makers. Public policy should focus on cost-effectiveness, competition and risk”.

- Efficient and safe securities clearing and settlement systems are a necessary condition for integrated capital markets, the sound execution of monetary policy, the smooth functioning of payment systems and the preservation of financial stability.
- The complexity of the consolidation process and the different interests at stake requires conditions of fair competition and co-ordination between competitors, as well as co-operation between market participants and the public authorities and, possibly, policy decisions.

Eurofi supports the position outlined by the Giovannini report of a clear strategy and timetable to eliminate technical, tax and legal barriers to cross-border clearing and settlement in the EU. This requires considerable resources from the private sector but also considerable involvement by the EU Commission and national governments. In other words, the conclusions of the Giovannini report must be promptly enforced and a monitoring of these solutions is indispensable.

Settlement infrastructures are historically core or public utilities services operating on a non for profit basis. They were set up as monopolies. But the consolidation process has led Europe to a blurring of the roles between intermediaries and CSDs/ICSDs who are now offering value added services.

This situation leads to decreasing transparency (blurring of governance rules and of the allocation of investments between infrastructure and value added services) and increasing the possibilities for product bundling and price cross-subsidisation.

As far as settlement arrangements are concerned, the part played by the European Authorities should limit itself to:

- The definition of the various functions of « Post Trade Activities» and the provision of a European Passport.
- The separation of the central depository function from other activities. It should be subject to specific rules to ensure a safe functioning market and equal treatment for users.

A specific regulation would probably require the creation of either a specific entity, or a network of similar specialised entities.

With the co-operation of the central banks, it would be possible to link the final delivery with a settlement in central bank money. Resident intermediaries may borrow central bank money on the interbank market or even directly from their central bank through collateralised repos, as has been done in France for years. Non-residents would have to use correspondent banking with resident financial institutions, as is the case for all other categories of payment. The linkage between the central banks and the settlement in central bank money might be associated with the reform of TARGET.

The central depository function should include the cash settlement in central bank money. It should be managed according to rules applicable to a non-profit-making or « cost plus » entity (transparency in terms of accountancy, would, in any event, be imposed). This could require a legal structure and a separate computerised platform accessible on a non-discriminatory basis.

It is sometimes argued that a single European entity would not make progress due to the lack of competitors. It seems that competition between Europe, the United States and other financial centres around the world would be a sufficient incentive to innovation.

By acting in this fashion, the European Authorities would create the conditions for the effective integration of Central Depositories within Europe.