

# **Standardising and harmonising pre-settlement date matching processes in Europe**

# Agenda

- **Introduction**
- **Deficiencies of current situation**
- **Objectives**
- **Scope of proposed standards**
- **Concept**
- **Headlines of proposed standards**
- **Benefits**
- **Way forward**

# Introduction

- The harmonisation and standardisation of pre-settlement matching processes – not an explicit Giovannini barrier but closely related to barriers 1 and 6
- Successful cooperation between market users and market infrastructure in the past 12 months

## Deficiencies of current situation

- diversities of (i) scope of matching, (ii) matching times and (iii) matching procedures and matching fields
- the lack of automation / electronic matching in a number of markets
- language issues and misunderstandings associated with verbal pre-matching
- dependencies on intermediaries
- diversities of handling matching systems, e.g. custodians / agents banks requiring availability of securities as a condition for matching in order to comply with regulatory requirements in certain markets
- diversities in one and the same market / product according to the type of transaction (DvP, FoP, transfer)

# Objectives

- to reduce the risk of fails and contract differences
- to increase settlement efficiency and reduce settlement cost accordingly
- to improve matching rates and increase certainty over open trade populations

# Scope of proposed standards

- The (I)CSDs and their members
- All cash equities and fixed income DvP and FoP OTC transactions, i.e. transactions which require bilateral input with the CSD to match.
- *In scope* are portfolio transfers, stock lending and repo transactions in so far as they are not recognised as the respective specific types of transactions by the systems of the respective CSDs.
- *Out of scope* are portfolio transfers and financing transactions (stock lending, repo) that are recognised as such by the systems of the respective CSDs.

# Concept

In order to

- induce early matching *and*
- allow a process with one matching instruction only by each party *and*
- avoid the requirement of availability of cash and securities as a condition for matching

Introduce two phases

- Phase one, from matching till start of settlement: instructions can be put in hold status or cancelled (instructions are non-binding)
- Phase two, from start of settlement: uncanceled transactions that are not in hold status will automatically go to the settlement process (instructions are binding / irrevocable)

Need of further (legal) analysis: request to Legal Certainty Group

## Headlines of proposed standards

- Matching fields
- Principle of one matching instruction only
- Lifetime and timing of instructions
- Separation of matching from availability of cash or securities, hold / release mechanisms
- Electronic / automated matching including reporting / monitoring
- Tolerance amount

# Benefits

- provide for uniform scope of matching, matching times and matching procedures and fields
- eliminate existing lack of automation / electronic matching
- significantly increase the overall efficiency of matching processes
- simplify internal processes of all types of market users (investment banks, custodians, prime brokers etc.) which will reduce required resources
- decrease the complexity of IT solutions through harmonisation of matching processes across markets

## Benefits (ctd.)

- allow early remedy of contract differences reducing thus the number of fails
- warrant risk reduction resulting from incentives for market users to instruct early
- increase the transparency of the post-trade value chain
- facilitate a shortening of the settlement cycle

## Way forward

- Final agreement with ECSDA on proposed standards
- Consultation with broader constituencies
- Gap analysis, implementation plan