



Giovannini Barrier 10

European Primary Dealers Association

Clearing and Settlement Advisory and Monitoring Experts'
Group - Practical Examples of Barrier 10 impact on the
Clearing and Settling of European Government Bonds

12 June 2006

| COUNTRY | GENERAL COMMENT | BARRIER 10 | | <i>Indirect Consequences</i> |
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| | | <i>Primary Dealer Contract Specific</i> | <i>Contract Significance to Clearing and Settlement</i> | <i>Practical Considerations</i> |
| Austria | No PD contract available. Contract requested from the DMO. | <p>The Austrian DMO does not disclose either Primary Dealer contracts or evaluation criteria. Therefore, we are unable to verify with accuracy any information.</p> <p>Our information is that there is a requirement that in the case of auctions, settlement must be domestic via OeKB.</p> | <p>The requirement to settle domestically is restrictive in that it does not provide the market with a choice and restrictions tend to lead to inefficiencies.</p> | <p>If traded on Vienna SE, clearing and settling is via Oesterreichische Kontrollbank AG; whereas, if traded on Paris/Frankfurt, clearing and settling is via Euroclear and Clearstream.</p> <p>Cross border instructions with Clearstream are automatically deleted on S if they are not executed / settled. These need to be instructed again, which leads to work duplication.</p> <p>Batch processing between OeKB and Euroclear is limited to only one window in the morning for which instructions have to be submitted before 10:00 a.m. This impacts cross-border activity and could subsequently lead to EC borrowing. Although since 23 January 2006 OeKB works on a real-time system with additional batches for netting, there are still inefficiencies for transactions involving OeKB in cross-border processing.</p> |
| Belgium | Contract Available | <p><u>Code of Duties of the Primary Dealers in Belgian Government Securities dated January 1, 2006.</u></p> <p>Section II ("The Duties of Primary Dealers", Clause 2.2 "Participation in the secondary market", last paragraph reads, "The PDs become members of the Regulated Off-Exchange Market, governed by the Royal Decree of May 16th, 2003 on the off-exchange market in linear bonds, strips and treasury certificates, by signing the present code of duties.</p> <p>The PDs carry out the major part of their transactions in the Regulated Off-Exchange Market.</p> <p>Also, 2.3.2 specifies that PDs post yields for, at least, the lines they are committed to</p> | <p>The requirement to become member of a particular market and to perform the major part of transactions on such market restricts the choice of PDs. Potentially, this leads to increased costs due to the necessity of such membership.</p> <p>The fact that the Treasury designates the inter-dealer broker system on which PDs must quote presents issues from a competition point of view. This arrangement also begs the question whether preferences for national systems may be exhibited.</p> | <p>The recommendation to be auto-borrower and auto-lender is not consistent across the market and therefore creates inefficiency. Although there is no formal requirement <i>per se</i> to become auto-borrower/lender, there is a perception in the market that the encouragement to become one is, in fact, so strong that it is a <i>de facto</i> requirement. Several dealers do not participate in these auto lending/borrowing arrangements. However, dealers with strong interest in the Belgian government market feel compelled to satisfy the recommendation.</p> <p>Lenders must execute the NBB's Automatic Securities Lending Agreement. The Automatic Securities Lending Agreement is not a market standard agreement (such as the OSLA & GMSLA) and is non-negotiable. The market favours a uniform approach and in these circumstances, a market standard agreement would lead to greater efficiency.</p> |

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| | | <p>quote on the "inter-dealer broker" system designated by the Treasury" and follow the rules of such inter-dealer broker system.</p> <p>Clause 2.7 stipulates that PDs participate as market-maker and shareholder in the company designated by the Treasury, after consulting with the PDs, the objective of which is to ensure the functioning of an "inter-dealer broker" electronic platform for the Belgian Government securities market.</p> <p>Clause 2.8 states that PDs should participate at least as a lender of securities in the automatic securities lending facility of the National Bank of Belgium.</p> | <p>The requirement to sign an agreement in which PDs concede to being part of the auto-lending system presents problems as this is particular only to few countries. The lending agreement is not market standard (unlike OSLA and GMSLA) and therefore, resources need to be devoted separately to ensure compliance with it. Moreover, the lending agreement is non-negotiable, while at the same time required, thereby creating a nationally specific requirement rather than a legal agreement.</p> | <p>Belgium is the only country which reconciles with TRAXX or at least the only country which <i>de facto</i> and in practice questions report items and their reconciliation to TRAXX. The TRAXX reporting requirements are different from the requirements for reporting of the Belgian DMO. Although MiFID contains requirements regarding transaction reporting, we believe it would be advisable to let market practice develop uniformly alongside implementation of the directive. Currently, the fact that Belgium is the only government market where PDs are required to report via TRAXX creates inefficiencies because this is a duplication of other reporting arrangements. For, example, PDs are "requested" to report their respective monthly turnover to the Belgian Debt Agency, as per its Code of Duties, in order to assess their performance.</p> |
| Cyprus | No PD System | N/A | No particular comment, save for the fact that the lack of a PD system differentiates this country from the rest which, in itself, may be viewed as nationally specific. This may be of further significance as practice across EU Member States converges thereby in effect creating a two-tiered system of PD and non-PD system states. | No comment |
| Czech Republic | Not Contract Available | N/A | No comment | T-Bonds clear and settle through UNIVYC while T-Bills clear and settle through the short-term bond system of the Czech National Bank. |
| Denmark | Contracts Available | "Primary Dealer Contract" contract (expires 31 December 2006). | The designation of a single trading venue is restrictive. The fact that the government and | No comment. |

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| | | <p>The preamble to the agreement stipulates, “Issuance and trading of Danish Government bonds take place on an electronic trading venue, which is designated by Government Debt Management after consulting with Primary Dealers. At present, issuance and trading take place on MTSDk, a market segment of MTS Associated Markets. In doing so, Primary Dealers and Government Debt Management must act in conformity with the governing framework of MTSDk and MTS Associated Markets.”</p> <p>Clause 3 (Obligation of Primary Dealers) sets out various requirements. Among others, Primary Dealers are required to be “active counterparts in Government Debt Management’s activities” (3.1); “be market makers on MTSDk in the bond series listed on the MTS benchmark segment” (3.2); “support a liquid market for other Danish government bonds listed on the MTS liquid segment with more than 13 months remaining maturity” (3.3); “quote two-way prices for a minimum of 5 hours per day within the opening hours of MTSD.” (3.4); “display good code of conduct in the clearing and settlement of MTSDk trades ensuring high settlement rates in the settlement institutions clearing MTSDk trades.” (3.7).</p> <p>“Primary Dealer in Danish T-bills” contract (expires 31 December 2006) - mirrors the above contract, except with respect to T-bills.</p> | <p>the Primary Dealers agree upon the framework governing MTSDk as a supplementary framework to that of MTS Associated Markets is a positive step since, presumably, Primary Dealers have a say. However, it appears that since the establishment of electronic trading, this has been the only designated platform.</p> <p>MTSDk doesn’t currently designate an ICSD. Clearing and settlement is via VP.</p> | |

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| Estonia | No PD System | N/A | Please see comment on Cyprus above. | No comment |
| Finland | Contract Available | <p>“Primary Dealer Agreement” dated <u>December 15, 2005</u> (agreement to be in force for a calendar year beginning January 1, 2006 – see Clause 13)</p> <p>Clause 3.1 (Rights of a Primary Dealer) mentions that one of the rights of a PD is a right to access to a two-way pricing in the inter-bank market (as more precisely defined in the applicable secondary market rules, currently known as MTS Finland)</p> <p>Article Clause 5.2 (Trading on the Secondary Market), 5.2.1 states “Trading procedures are more precisely defined in the applicable documentation of MTS Finland or any successor trading platform.”</p> | <p>MTS Finland is the only trading platform which is currently contemplated – this potentially restricts the use of other platforms.</p> <p>Clearing and settlement on MTS Finland is via Euroclear and Clearstream, Luxembourg.</p> | No comment |
| France | Site contains list of PDs | <p>PD Agreements themselves are confidential.</p> <p>Below some translations from the AFT website setting out selection criteria and mission.</p> <p><u>PD Selection Rules:</u> The AFT selects PDs according to financial solidity criteria and the presence of specialists in Paris (such as economists or strategists). France considers such presence an irreplaceable way to create and maintain a strong level of confidence.</p> <p>In cases where some of the team members are not based in Paris, the AFT may request their physical attendance at the technical meeting, notably for auction</p> | The possibility of AFT requesting physical attendance of PD teams is restrictive and leads to inefficiencies. | <p>Repurchase agreements (AFTB-type agreement) allow the automatic calculation of interests and generation of the second leg of the transaction, which allows high settlement rate and market safety. However, this could be improved by allowing substitution of collateral.</p> <p>We are aware that the legal framework for “<i>pension livrée</i>” is different. We are further aware that a technical module has been created which accommodates this idiosyncrasy. If <i>pension livrée</i> is used, then there is commitment to the settlement of the second leg; however, if repo is used, then would need 2 different instructions to the settlement. The problem arises in situations where there is a mismatch between trading and instructions – e.g. where people trade under the GMRA contract and then instruct under <i>pension livrée</i> and further, when the mistake is realized and a dealer attempts to re-instruct, that dealer is locked in.</p> |

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| | | procedures or syndications. | | <p>If a repo fails overnight, then one could cancel the trade outright and there are no repercussions and parties often cancel if they caused the fail.</p> <p>Repo block – Euroclear France requires different formatting of instructions which creates more work, which is duplicative.</p> <p>Certain instruments are not eligible for Euroclear France and, as a result, the firms have to “re-structure/re-classify” them (<i>e.g.</i> borrow pledges) – this creates inefficiency.</p> <p>Rules regarding repos are different – <i>i.e.</i> a trade can only fail for 7 business days before Euroclear France cancels it which, in turn, causes firms to re-instruct. This is inappropriate in light of the repo agreement because it is inconsistent with such agreement.</p> |
| Germany | No PD System | N/A | <p>Please see comment on Cyprus above.</p> <p>Whilst there is no primary dealer system in Germany, the Finanzagentur only operates in the cash and repo markets through local trading systems. This is significant as the Finanzagentur is a large player in the bond market.</p> | <p>In Clearstream Frankfurt, free of payment deliveries do not require pre-matching, which results in manual effort in cases where bonds have to be rejected.</p> <p>Fragmentation of settlement creates fails and liquidity issues for KV participants. Primary settlement takes place at CFB and the issues arise in the cross-border settlement context and the subsequent delivery obligations between two Euroclear participants.</p> <p>We would like to note that a few systems exhibit fragmentation of liquidity in a domestic-to-international settlement situation. In reality, the German system is one of the systems, which work relatively well. However, there is still room for improvement.</p> <p>Settlement must take place in Clearstream Frankfurt yet a majority of government debt settles in Euroclear. We recognise that a few banks have, nevertheless, elected</p> |

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| | | | | <p>not to have accounts with Clearstream. Ideally, however, firms would be able to take participations, after an auction, straight into Euroclear.</p> <p>Germany has not accepted the new Harmonised Reporting Format for primary dealer reporting. We understand that approximately 30/39 banks are already reporting “on a voluntary basis their secondary market activities since the beginning of 2005” (according to the German DMO). The DMO has also stated that no entity is “forced” to report. The Finanzagentur has further stated that they have not received a single complaint from any of the banks. Despite the fact that there is no formal requirement to report via the format currently used by Germany, it is true that there is a prevailing market perception that dealers ought to report. There is a <i>de facto</i> requirement as a government recommendation is extremely compelling.</p> <p>Eurex clearing does not provide the ability for partial pair-offs. In general, firms do not like situations where liquidity is split between two central counterparties. This prevents balance sheet and settlement netting. In order to benefit from such netting, one clearing house or links between the clearing houses would be required.</p> <p>On exchange trading via contract notes on Xontra, the process does not validate the minimal trading unit as per issuer specification (<i>i.e.</i> if a broker sends a contract note which differs from the conditions of the security, the systems do not reject the order).</p> |
| Greece | Contract Available | <u>Joint Decision of the Minister of Economy & Finance and the Governor of the Bank of Greece, dated 31 December 2003 re: Operating Rules of the Primary Dealers</u> | The use of a particular market (HDAT) is problematic in that it is country-specific and restrictive. In addition, taking | There is a requirement that firms set up individual local accounts or IDs for custody clients. This client-specific market is an issue. |

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| | | <p><u>System.</u></p> <p>Part A, Article 1 stipulates PDs are selected to participate in syndications and auctions of the Greek government securities in the primary market as well as to trade such securities in the organised Electronic Secondary Securities Market ("HDAT")..."</p> <p>Article 2 (Selection Criteria), point 3 stipulates as a criterion "...the participation in HDAT and EuroMTS shall be taken into account in order of precedence and cumulatively as quantitative criteria."</p> <p>Article 4 (Primary Dealer Obligations), point 2 requires that PDs quote in HDAT"</p> <p>In addition 4a sets out limits on participation in HDAT which must be observed. Limits are such as: minimum quotes per day, maximum time of abstention per day, minimum turnover in HDAT and EuroMTS, minimum amount of accepted bids in primary bond auctions, geographical distribution of securities with respect to the activity in the primary and secondary market.</p> <p>4b (Primary Dealer Evaluation) includes criteria such as deviation from market price, average daily turnover and cumulative turnover based on HDAT or HDAT + EuroMTS in the case of cumulative turnover. Calculations relating to ranking of PDs are also based on market share and turnover as reflected on HDAT.</p> | <p>into account participation in HDAT and EuroMTS in particular restricts the choice of market.</p> | <p>Realignment process between Bank of Greece and Euroclear is not real-time.</p> <p>OTC trades are treated differently to market trades (HDAT). The settlement of market trades is mandatory. The process is not automatic. The Bank of Greece initiates an auction that may be successful or not. Participations during the auctions are not compulsory. Matching of OTC trades is not mandatory. At the level of Bank of Greece, matching is mandatory, otherwise trades cannot settle. In the matching process, if there is any discrepancy, it can lead to forced borrowing.</p> |

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| | | Part B (HDAT) sets out the requirements of the secondary securities market and stipulates that the bodies supervising and controlling HDAT, the appointment of participants, the method of its linking with BOGS and any other detail pertaining to its general functions are set by the Bank of Greece Governor's Acts. | | |
| Hungary | Contract Available | <p><u>Conditions of Application for Admission to the Primary Dealer System of Hungarian Government Securities dated May 1, 2004.</u></p> <p>Article 2 (The main tasks of primary dealers) mentions that a basic task of PDs is to quote, on a continuous basis, buy/sell prices for govt securities...on a trading platform defined in the Contract (currently the MMTS electronic trading system of the Budapest Stock Exchange)"</p> <p>Annex I (Declarations and certificates to be enclosed with the application for primary dealership), 3(d) requires the enclosure of a hard copy of the decision of the Budapest Stock Exchange on giving trading right in the debt securities section.</p> <p><u>Discussion section on the website</u>, Section on the secondary market in general (dated 14 November 2003) mentions that stock exchange trades are settled by KELER for a T+2 cycle pursuant to its rules of operation governing exchange-traded securities settlement. OTC trading, off-exchange government securities transactions are also settled by KELER plc. Secondary market transactions settled in accordance with the KELER Security Account Management</p> | <p>The use of a particular trading platform as defined by the government is problematic as it does not give PDs a choice and is restrictive.</p> <p>The same problem arises with the stipulation of KELER as settlement facility.</p> <p>Clearing and settlement on New Euro MTS is via Euroclear and Clearstream, Luxembourg.</p> | <p>Bonds and Bills settle delivery-versus-payment at the Central Clearing House and Depository ("Budapest Ltd").</p> <p>Bonds are ineligible at Euroclear.</p> <p>The funding deadline is before the settlement deadline so that funding cannot be performed on real-time figures.</p> |

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| | | Regulations. [Couldn't get the Contract itself online] | | |
| Ireland | National Treasury Management Agency | No restrictions in particular pertaining to C&S. | No comment | No comment |
| Italy | Contract Available | <p><u>Ministry of the Economy and Finance, Department of the Treasury - Directorate II.</u> Article 2 (Evaluation of Specialists), sub-clause 2.2.2, Distribution operations are evaluated on, among others, the basis of the volumes trading on the regulated Government Bond market dedicated to final investors. "Specialists that do not distribute off the regulated markets shall score 0 points."</p> <p>Article 4 (How to qualify as a Specialist) specifies that PDs are those entities which have been operating on "Government Bond Regulated Wholesale Markets for at least four months..."</p> <p>Annex C, Application Form Facsimile, Clause 2 requests that the candidate Specialist make the following representation "to have been graded, since at least four months, from MTS S.p.A. the authorisation to operate in the Electronic Market of Government bonds as Primary Dealer and to have fulfilled the obligations relating to the maintenance of the status;"</p> | <p>Evaluation of dealers is impacted by the volume of trading on the regulated market. Although no one particular market is specified, in reality there is a single authorised regulated market in Italy, namely, MTS (whilst theoretically, any other trading platform can apply to become a regulated market). Subsequently, clearing and settlement is restricted to Monte Titoli.</p> <p>We query to what extent, if at all, it would be possible for other markets/platforms to become "regulated" such that there is a choice for dealers both with regard to platforms and in the area of clearing and settlement.</p> | <p>Italy has a 10-year backlog of foreign investor withholding tax reclaims. The process for claiming back tax is a problem. Certain markets deduct on coupon and other at the end of the year via a claim form. Italy requires the payment of tax on interest – <i>i.e.</i> every time one buys or sells securities. This leads to the practice of entering debits and credits into customer accounts on a daily basis. Also, sometimes it is uncertain how much tax is owed if a firm doesn't have all the necessary information from a customer. The firms tend to err on the side of caution and to deduct tax and, if subsequently it is established that it did not need to be deducted, then the reclaim process takes 10 years, which is practically unworkable.</p> <p>We do realise that according to legislative decree 239/96 tax exemption for interest related to bonds is granted to foreign investors resident in "white list countries" upon filing of a self-certification. The tax reclaim on bonds is thus a back-up procedure applicable whenever the beneficiary has not completed the relevant documentation before the coupon payment. However, in practice it is often the case that clients of PDs are unable to provide the relevant tax documentation on time. Thereafter, the PD has to make a determination whether to submit a tax reclaim form. This is a manual process and therefore very inefficient. This is not an issue specific to PDs. However, due to high volumes, it is an issue particularly pertinent to PDs.</p> <p>The market practice is to conduct telephone pre-matching for all trades and some match you only when you have a position. We realize that trades executed on the regulated</p> |

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| | | | | <p>market are automatically matched and that such trades account for a large percentage of the volume of all trades. However, OTC trades are still telephone matched. Consequently, there is a situation where this divergent practice is particularly problematic – <i>i.e.</i>, when electronic trades are “back to backed” with OTC trades. The difference in pre-matching practice makes the market “bumpy” and the preference is for smooth functioning.</p> <p>Broker-dealers operating segregated accounts at their agent bank do not need to have any checks on an available position prior to the instruction being sent to the CSD. Even though since 2005, custodians do not perform any more securities position control for Primary Dealers, custodians still need to ascertain the trade details over the phone in OTC activities.</p> <p>Local agents do not appear willing to use the pre-matching functions built within Monte Titoli’s functionality. This leads to “incentives” to settle in the overnight cycle – an inefficient outcome as ideally delivery should be on the settlement date and not overnight so that firms do not forego other opportunities. The market preference is that settlement is primarily done in the night cycle and only minimal settlement occurs during the day.</p> <p>“Direct” market participants of the Italian market are required to put up extra collateral to satisfy market payments. Settlement must take place in Monte Titoli. Being non-Italian is seen as an obstacle. This means complying with legacy systems and practices. However, firms don’t need to use a specific account and some settle with an agent bank account in Italy.</p> <p>There is no acceptance of true repo trades. Fails are treated unusually in that they can never be submitted to the net settlement cycles. Trades that fail are required to</p> |

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| | | | | <p>be re-keyed into the CSD on the next business day, thus causing re-work. Market preference would be for trades to remain within the CSD until cancelled.</p> <p>MTS system cannot automatically accommodate negative accrual within its messaging STP which sometimes requires dealers to make payments manually to compensate for inaccurate settlement matching.</p> <p>Buy in on CCP trades at S+10 - increased from S+5, but still too soon. Ideally, S+30 would be preferable. Best practice would be to have standardised buy-in rules and buy-in dates across the market.</p> <p>CSD settlement can occur after last bridge. There is a delay between the last bridge and the local market.</p> <p>There is batch processing in Italy – day and night cycles. There are penalties imposed and also this is less efficient than real-time processing.</p> <p>Availability of bonds in Euroclear Bank (if received from the local market) requires a confirmation from Euroclear Bank's agent. This process takes up to 1 hour, which can impact deliveries and borrowing in Euroclear Bank.</p> <p>There is no link between the overnight process on Monte Titoli and Euroclear / CBL.</p> <p>Whilst overall settlement rates look impressive, they are not really a measure of true efficiency because local agents do not submit transactions into RRG for settlement at Monte Titoli if the counterparty does not have the position (unless the participant operates a segregated account at the agent). These results in a subset of transactions that are excluded from the net settlement cycles and, hence, may impact overall efficiency. This is due to concerns regarding the "draw on the omnibus</p> |

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| | | | | <p>account.” It is possible to prevent draw on an omnibus account with special functionality. Market preference is for predictability and reduced risk. The matching process needs to be separated from the actual settlement (<i>i.e.</i>.. employment of “hold and release” functions is desirable).</p> <p>The reliability of Monte Titoli to match and settle trades on value day has consistently underperformed in comparison to the market.</p> <p>Trades that fail at the end of the RTGS settlement cycle (<i>i.e.</i> the last to run on value date) are not left at the depository for settlement the next day. It would appear that most agents pull the instruction at the end of settlement and repeat the prematch the following day, submitting into the RTGS cycle of S+1. The messaging system within Monte Titoli does allow for participants to flag the number of days that they want the instruction to exist. It would be more efficient to leave the instruction in place, avoiding re-work.</p> <p>Although primary market issuance is eligible for settlement in the overnight settlement cycles, settlement is entirely dependent upon the timing of the release of the securities in the local market and in practice, this usually takes place during the daylight cycle. This raises an issue since the daylight cycle runs for a very limited time and has limited capacity. Consequently, settlement can be extended to the RTGS period. The preference of Primary Dealers is to settle in the night cycle, in central bank money. This may require an amendment to the issuing process for government debt or, alternatively, the daylight net cycle should be made more robust.</p> <p>In general, there is great concern among firms about the lack of adequate disclosure of the ways in which Monte Titoli operates. There is an overwhelming sense that there is a lack of transparency and this “opaque practices”</p> |

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| | | | | image is damaging to the market's confidence regarding future settlement with Monte Titoli. |
| Latvia | No PD System | N/A | See comment on Cyprus above. | No comment |
| Lithuania | Contract Available | "Requirements for the Participants of the Republic of Lithuania Government Securities Auction" dated 1 July 2004 - did not find anything which corresponds to Barrier 10 restrictions to C&S. | No comment | No comment |
| Luxembourg | Not Applicable | N/A | No comment | No comment |
| Malta | No Contract Available | N/A | No comment | No comment |
| Netherlands | Contract Available | <p><u>Primary Dealer Contract as of 2006 and General Primary Dealer Conditions.</u></p> <p>In the Conditions, please note the presence of the definition "Designated Electronic Trading System: Electronic Trading System designated by the DSTA (Dutch State Treasury Agency) after consultation with the Primary Dealers."</p> <p>Article 2 (Privileges of Primary Dealers) stipulates among the various privileges the rights, for example, 2.1 to participate in Dutch State Loans (DSL) primary issuance on the electronic trading system designated by the Agency as its choice; 2.2 to be DSL market-maker on the electronic trading system designated by the agency.</p> <p>Article 3.3 states that PDs have the right to be consulted with regard to the Agency's choice of trading systems.</p> <p>Article 4 (Obligations of Primary Dealers),</p> | <p>The designation of a particular trading system, if only one, and if there is a strong preference by the DMO to trade on such system could be potentially restrictive.</p> <p>The designated platform has been MTS Amsterdam. Clearing and settlement is via Euroclear and Clearstream, Luxembourg.</p> | <p>Execution of bond stripping and reconstitutions are time consuming due to the manual confirmation process related to the domestic market.</p> <p>There are no specific mechanisms for repos due to unclear legal status and lack of demand.</p> <p>Automatic lending and borrowing mechanisms are not used.</p> |

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| | | 4.2 PDs shall act in accordance with the rules and regulations of the electronic trading system designated by the Agency. | | |
| Poland | Regulation Available | <p><u>Rules and Regulations Governing the Activities of the Treasury Securities Dealer (TSD) as of August 24, 2005.</u></p> <p>Section I (General Provisions), Article 2, No. 9 defines "MTS Poland - means here a form of electronic trading of TS (Treasury Securities) as pointed by the Minister" and No. 20 defines "Settling participant - means an institution which settles the TS transaction concluded by a TSD or an Applicant TSD and which has a securities account or a Treasury bill account with NBP (the National Bank of Poland) or a security or deposit account with the NDS (the National Depository for Securities)".</p> <p>Section II, Article 5, No. 1 states that TSD and Applicant TSD are obliged to submit quotations for TS on MTS Poland "by presenting the bid and offer prices, in accordance with the rules relevant for MTS Poland..." No. 2 states that TSD and Applicant TSD are obliged to conclude transactions on MTS Poland at the price set in accordance with Sec. 5.1 and with the quoted face value."</p> <p>Article 4, No. 1 states that TSDs are obliged to participate in daily fixing sessions of TS organized by NBP and carried out on the MTS Poland in accordance with the TS Fixing Regulations.</p> <p>Section III, Article 11 stipulates that the</p> | <p>The requirement that a settling institution must hold an account with the National Bank of Poland or the National Depository for Securities is country-specific and restrictive.</p> <p>The requirement to conclude transactions on MTS Poland is restrictive.</p> <p>Clearing and settlement is via Euroclear and Clearstream, Luxembourg.</p> <p>The use of the various appendices advising the government of how transactions are settled, the requirement to provide data on a bank's activity on the financial markets via the settling participant are cumbersome and costly.</p> | <p>There is no reclaim process in place even though tax is withheld at the source.</p> <p>Client-specific account structure requires individual accounts for segregating bonds for each client.</p> <p>T-Bills settle via Register for Securities maintained by National Bank of Poland (KDPW).</p> <p>Bonds clear and settle through National Depository for Securities.</p> <p>Bonds are ineligible at Euroclear.</p> |

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| | | <p>Minister (of Finance) as well as NBP has the right to perform in "bank's or clearing institution's premises, verification of information and dated submitted to Minister, NBP and NDS due to fulfilling functions of the TSD..."</p> <p>Section IV, Article 2, No. 2(1) states that the Conditions of participation in competition for domestic and foreign banks include having "Treasury bill accounts and deposit accounts with NBP and securities accounts and deposit accounts run by NDS or [ap]pointing the settling participant and consent to provide data about bank's activity on financial markets by that settling participant;" and No. 4 states that the Conditions also include "participation in MTS Poland or submitting declaration of joining to MTS Poland".</p> <p>In addition, Appendix 3.1 is a Statement to be signed by the bank in which it informs that its transactions are settled by a "settling participant" to be named in the statement and that the bank consents to the provision of data to the Minister by the settling participant regarding such bank's activity on the financial market in order to assess its performance pursuant to the Conditions of the Agreement.</p> <p>Appendix 3.2 is a Statement in which the bank informs the Ministry of the institution which is the settling participant for TS transactions.</p> <p>Appendix 4.3 contains a table to be filled</p> | | |

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| | | <p>out by NDS for transactions on T-Bonds and NBP for transactions on T-Bills.</p> <p>Appendix 4.3b is a table to be filled out by the settling participant on the transactions settled non directly in NDS.</p> <p>Appendix 4.3c is a table to be filled out by the settling participant on transactions not settled directly in NBP.</p> <p>Appendix 4.3d is a table to be filled out by the TSD or an applicant for TSD on transactions settled directly in NSD.</p> <p>Appendix 4.3e is a table to be filled out by TSD or Applicant TSD on transactions settled directly in NSD (here they probably actually mean NOT directly as otherwise 4.3d and 4.3e would be the same table).</p> | | |
| <p>Portugal</p> | <p>Regulation Available</p> | <p><u>Regulation - Issuance of Obrigacoes do Tesouro and access conditions to market participants.</u></p> <p>Section III (Auction participants), Subsection I (Primary Dealer (OEVT)), Article 17 OEVT Status, Point 2(b) stipulates that PDs would have shown their capacity to consistently place and trade Portuguese Government debt through "their participation in the primary market for Treasury bonds as OMP in the MEDIP (Mercado Especial de Divida Publica as market-makers or market-dealers.</p> <p>Point 4 stipulates that institutions to which the PD status is granted must participate as</p> | <p>The requirement that PDs participate as shareholders in the managing company of the MEDIP market is costly.</p> <p>MTS Portugal is the only designated trading platform, which is a restrictive practice.</p> | <p>Income forms plus certificate of beneficial ownership forms are required on all coupons. No reclaim process is in place for tax withholdings.</p> <p>Regulation of fails and buy-in penalties is inconsistent with international standards (e.g. the right of the buyer to cancel or renegotiate a trade if it fails).</p> <p>Funding deadline differs considerably from the settlement deadline (funding deadline is at 1:00 p.m. while the settlement deadline at 5:00 p.m.) – this makes real-time funding impossible.</p> |

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| | | <p>shareholders in the managing company of MEDIP authorised by executive order No. 1183/99, of November 4. Article 19 (Duties), 19(c) states that PDs are bound to participate in MEDIP as market-maker, observing strict compliance with the rules of this market and maintaining a share not lower than 2% of this market's turnover.</p> <p>Article 22 (Other Market Participants (OMPs) rights and duties), Point 2(b) states that OMPs are bound to participate in MEDIP as market maker or market dealer.</p> <p><u>Regulation No. 4/2003 - Issuance of Bilhetes do Tesouro (BT- Portuguese Treasury Bills) and access condition to market participants.</u> Section II (Placement of BT), Article 15 (Settlement) states that "the procedures to be followed in the physical and financial settlement of BT subscriptions are defined by IGCP (the DMO) and communicated to participants through specific regulations. Section III (Treasury Bill Specialists), Article 22 (TB Specialist duties), Point 1(c) stipulates that TBSs are bound to participate in MEDIP as market makers, observing strict compliance with the market's rules and maintaining a share not lower than 2% of this market segment's turnover.</p> | | |
| Slovakia | Not Available (N/A) | N/A | No comment | No comment |
| Slovenia | Not Available (N/A) | N/A | No comment | No comment |

| COUNTRY | GENERAL COMMENT | BARRIER 10 | | <i>Indirect Consequences</i> |
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| Spain | Regulation Available | <p><u>The Directorate General of the Treasury and for Financial Policy Resolution dated March 5, 2003, Regulating the Kingdom of Spain Public Debt's "Creadores de Mercado"</u></p> <p>Section II, Second clause contains requirements which include (1) the requirement that the creator hold and own a securities account in the Bank of Spain's Book-Entry System, (2) be a full capacity member in one of the electronic trading platforms the Treasury accepts.</p> <p>Seventh Clause, Evaluation of Creadores, specifies that Creadores are also evaluated on the basis of 1(c) "Quotations in the electronic trading platform or platforms specified by the Treasury", 1(d) participation in the monthly trading in the platforms approved by the Treasury, 1(e) participation in the monthly trading between members of the Book-Entry System; Sub-clause 7(2) provides that "More weight will be given to quoting and trading in the electronic trading platforms approved by the Directorate General....";</p> <p>Section III, "Creadores in the Letras Market", Clause Eight also imposes a requirement to hold own securities account in the Bank of Spain's Book-Entry System.</p> <p>Section III, Thirteenth Clause, "Evaluation of Creadores" mimics Section II, Clause Seventh where evaluation is based among others on whether there are 1(c) quotations of bills in the electronic trading platforms</p> | <p>Firms are required to be full capacity members in one of the electronic trading platforms accepted by the Treasury (SENAF or MTS Spain). To the extent that the Treasury does not restrict dealers' choices by designating only one platform, this is less than problematic than countries that only accept one.</p> | <p>In general, tax is not withheld in Spain in transactions involving Primary Dealers (they are entitled to grossed-up payments) as they are exempt as EU residents.</p> <p>Different rules and deadlines are applied to direct market members vs. secondary market participants. The lack of uniformity leads to inefficiency.</p> <p>Spanish Agent banks have to deliver information relating to beneficiaries to Iberclear.</p> <p>No fails on government bonds are permitted. Buy-ins and forced exchange of bonds occurs.</p> <p>No fails are permitted in the market; Iberclear now has responsibility for settlement. It cannot formally force anyone to auto-borrow to cover a short position. There is a fine and it will complain if someone is short. In practice, due to the "no fails" policy, firms are compelled to borrow and then penalised for such borrowing. We are conscious that this "no fails" practice may stem from concerns regarding financial market stability and integrity and we appreciate that these are legitimate concerns of the Spanish Tesoro. At the same time, we query whether there may be another mechanism, which achieves these worthy aims without employing a practice, which effectively penalises fails even where the dealer was not at fault.</p> <p>We understand that letters may be sent by Iberclear (the Spanish CSD), if settlement failures are "perceived to be persistent and endanger the market as a whole."</p> <p>Settlement must take place at Iberclear, which is a type of national restriction.</p> <p>PDs are invited to be auto-lenders of bonds in the BoS settlement system – this provides very high settlement</p> |

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| | | <p>specified by the Treasury, 1(d) participation in the monthly trading on the electronic platforms approved by the Treasury; 1(e) participation in the monthly trading between members of the Book-Entry System and 1(f) participation in the monthly trading with entities which are not account-holders in the Book-Entry System. Sub-clause 2 provides that "More weight will be given to quoting and trading in the electronic trading platforms approved by the Directorate General."</p> | | <p>efficiency and works well when the agent bank uses segregated account. This is not easy to process when the agent bank uses an omnibus account. (It is not mandatory to become a permanent auto-lender and many PDs choose not to be). In this situation, we also recognise financial stability and efficiency concerns while at the same time we query whether further discussions with the Spanish Tesoro would not lead to improved solutions which do not entail the auto-borrow practice.</p> <p>Buy-ins is mandatory on same-day trades plus fines.</p> <p>The Central Counterparty is limited to SENAF repo trading only on trading platform basis. We understand that bilateral OTC trades may be cleared in Meffclear. However, we note that MTS has elected not to clear via Meffclear and, as a result, the issue remains.</p> <p>CSD settlement can occur after last Bridge.</p> <p>Depending on when the instructions are matched on SD, one may or may not satisfy Euroclear deadlines, (usually 12:30 p.m. on SD), as set by Euroclear and its local agent due to the not entirely smooth realignments from domestic to Euroclear Bank.</p> <p>There is no link between the overnight process on Iberclear and Euroclear / CBL.</p> <p>Where trades are to settle as a result of the circles process, a firm is not given the opportunity to settle partially if the situation arises, <i>i.e.</i> remain long of bonds and have a fully failed sale. Thereby, an opportunity cost is effectively imposed on firms (Acentada).</p> |
| Sweden | Contracts Available | <u>Agreement with Dealer of Swedish Government Bonds with an Index Clause</u> | The requirement to have an ability to participate on the | Maximum denomination of bonds allowed is SEK500 million. |

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| | | <p><u>("Inflation-Linked Bonds")</u> - no restrictions found other than Dealer has to have the right to participate on Stockholmborsen.</p> <p><u>Agreement with Dealer of Swedish Treasury Bills</u> - no particular restrictions other than Dealer has to have right to participate on Stockholmborsen.</p> <p><u>Agreement with Dealer of Swedish Government Bonds</u> defines "The Electronic Trading System" as "A computerised system for trading in Government bonds in the Secondary Market, established in the market and specifically designated by the Swedish National Debt Office" and "The Information System" as "A computerised system for the receipts and distribution of information on the Swedish money and bond market, established in the market and specifically designated by the Swedish National Debt Office."</p> <p>Article 2 says Dealer has to have right to participate on Stockholmborsen.</p> <p>Article 4 (Secondary Market), Sub-clause 4.2 (Market maker in the Electronic Trading System) states that the Dealer undertakes to act as market maker in the Electronic Trading System ..."</p> | <p>Stockholm bourse is restrictive. Clearing and settlement is via Euroclear and Clearstream, Luxembourg.</p> | |
| United Kingdom | Regulation Available | <p><u>United Kingdom Debt Management Office - The Debt Management Office's Relationship with the Gilt-Edged Market Makers and Inter-Dealer Brokers: A Description (October 1999).</u></p> <p>Section III (Interaction with the Settlement System), Item 15 states the Central Gilts</p> | <p>Potentially the requirement to settle through CRESTCo is restrictive. However, as it is part of Euroclear which is widely used, this may not be an issue.</p> | <p>Transaction reporting is required to be done via CREST (rather than via ISMA,) in addition to trade reporting. CREST reporting is inconsistent with other countries. However, the auction process into CREST seems to be straightforward.</p> <p>Stamp Duty is imposed on certain fixed income transactions which causes processing problems in ICSDs.</p> |

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| | | <p>Office (CGO) facilitates settlement of gilt transactions (it is now merged with CREST). The facility to strip and reconstitute gilts is only available through CGO and the DMO requires all GEMMs (market-makers) to be members of this service. Gilts settle through CRESTCo which is a part of the Euroclear group.</p> <p><u>"A Guide to the roles of the DMO and Primary Dealers in the UK Government bond market" dated December 2004 and issued by the UK DMO. Primary dealer firms are referred to as GEMMs (Gilt-Edged Market-Makers).</u></p> <p>Chapter I, Article 7 stipulates that all GEMMS must be authorised by the FSA directly or indirectly via the EEA passport and be registered as a market-maker with a recognised stock exchange (RIE).</p> <p>Article 19 states that all GEMMs and recognised IDBs (inter-dealer brokers) must install and maintain IT and telecommunications links with the DMO. These are used by GEMMS for price, position, turnover reporting, etc. GEMMS and IDBs must also be in a position to settle gilt transactions through CREST Co.</p> <p>Article 98 also states that all GEMMS are expected to be able to settle all trades that they commit to in a timely and accurate manner and to maintain accounts with CREST Co. and other depositaries commensurate with their trading activities and customer preferences. Existing</p> | | <p>Auction process by Fax and phone (Is this still true?).</p> <p>Realignments between Euroclear Bank and Domestic have to be instructed against payments, thereby causing funding issues.</p> <p>The ability to freeze and unilaterally cancel matched trades hinders the management of cash positions and forecasts.</p> <p>The lack of self collateralisation makes access to Central Bank money more expensive.</p> <p>Online instructions submitted via Crest GUI do not require a verification from a second person (4-eyes principle is not applicable).</p> <p>ISO15022 messages are not available for all operations, preventing generic SWIFT interface (requires proprietary messaging infrastructure).</p> <p>Both sides to a trade need to cancel a trade, <i>i.e.</i> if one party cancels, the trade will still settle (unless both have agreed and instructed accordingly). This is unlike Euroclear where the cancelled (unilaterally) trade remains unmatched. This could be a positive or a negative – the real issue is that market practice is inconsistent between CREST and Euroclear and the market likes consistency.</p> <p>CREST, in general, is not an easy system to operate. There is no authorisation for certain functions, <i>i.e.</i> security may be compromised; the screens don't give enough detail on one page, which causes additional work by having to click on each individual trade.</p> |

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| | | <p>GEMMS are expected to ensure that any changes to Standard Settlement Instructions are communicated to their customers and the DMO immediately.</p> <p>Article 52 of Auction Mechanics states that primary dealer firms are expected to match the DM settlement instructions in CREST, and to meeting their commitment on the day and in good time.</p> <p>Article 103 states that Strips may only be held or transferred within CREST.</p> <p>Article 203 (Exchange Membership) states that GEMMS are expected to be or become members of the LSE or an RIE and that those wishing to operate under the terms of any other RIE must first seek jurisdiction approval from the DMO.</p> <p>The Application form to be considered for GEMM, question 8 asks for an outline of arrangements for settlement (e.g. CrestCo membership).</p> | | |

General observations/recommendations

There are certain prevalent inconsistencies which, for the sake of brevity, have not been included under each individual country in the table. Generally, these include the difference in settlement days (e.g. T+3 or T+2) both between T-Bills and T-Bonds and among countries. Moreover, interest accrual methods differ (e.g. Actual/Actual or Actual/360).

One expressed market preference is for links between Euroclear and Clearstream. Currently, these are not seamless enough and firms still face credit risk and credit line issues. This is applicable to all countries.

Settlement circles seem to work well only in circumstances where all trades settle domestically. In situations where there is interaction between an ICSD and a CSD, settlement is not optimal, there is fragmentation due to the fact that the two types of entities work differently. The transaction is somewhat “disrupted” in comparison with a purely domestic transaction. This is problematic due to the *de facto* necessity to have local presence which is both burdensome and costly.

There is no clear preference in several markets to settle domestically or via Euroclear which leads to additional disposition effort.

In general, there does not seem to exist a uniform settlement deadline which the market could follow. Hence, inefficiencies arise as market participants have to comply with “flexible” or “moving” deadlines. In certain countries, one can settle even after the settlement deadline if agreed. Firms do not prefer such “moving deadlines” because they run counter to predictability.

There is a requirement, in a few countries, to have a local account if acting as Primary Dealer on the primary market. Hence, a PD has to move securities on to a global account if acting on the secondary market. When PDs are forced to take allocations in one particular account in a given jurisdiction, they are forced to incur further costs and this is inefficient. The market would be amenable to further discussions with the DMOs in this regard. We are conscious that some of these practices commenced with safety considerations in mind. We would like to stress that we support features which enhance the integrity of the financial market. Our aim is not to jeopardise such safety but solely to reconcile safety measures and market efficiency.