



POSITION

Evolution of post trading in the European Single Market

The European Banking Federation (FBE)¹ is actively engaged in the dynamic discussion in respect of the evolution of post trading in the European Single Market, both from an operational and a policy perspective. In the post trading debate the FBE represents institutions that are connected all along the value chain in functions such as trading, brokerage, paying agency, custodianship and as users of both central counterparty and central securities depository services. Therefore the FBE enjoys a unique perspective in the debate.

The market is moving...

The FBE supports the widely held assumption that the costs of post trading in Europe are currently too high. We believe that the numerous technical, legal and fiscal barriers identified by the Giovannini Group are at the centre of why costs are high. Whereas the current structures in post trading appear to be working efficiently at the national level, the lack of technical, legal and fiscal harmonisation across post trading in the Single Market implies higher direct and indirect costs for users when seeking to undertake business on a cross-border basis.

The market is now moving efficiently and in a timely fashion to address the technical barriers with the aim of reducing costs for users and improving the efficiency of post trading in the Single Market. However, there are limits to what the market can deliver in respect of the more complicated process of dismantling the fiscal and legal barriers. The industry calls on Europe's regulatory and supervisory agencies to continue and, in some cases, step up their efforts to drive towards the common aim of dismantling the Giovannini barriers.

...towards greater efficiencies

A model for a central clearing interface independent of trading venues is an option worth considering, since consolidation in clearing would appear to be more easily achievable today than it would in the settlement space. If this scenario proves to be successful it could act as a catalyst for further harmonisation and consolidation where a central settlement system could emerge in time. This assumes that the right conditions exist *a priori* to allow the market to move towards this solution.

The current uncertainty in the trading (and post trading) landscape brought about by proposed recent mergers and potential mergers of the future of trading platforms could well have a strong bearing the efficiencies in trading through to clearing and settlement. Continued international merger activity amongst Stock Exchanges will almost inevitably lead to a re-structuring of post trading activities in Europe over time.

¹ The European Banking Federation (FBE) is the voice of the European banking sector representing the vast majority of investment business carried out in Europe. It represents the interests of over 5,000 European banks, large and small, from 29 national banking associations, with assets of more than €20,000 billion and over 2.3 million employees.

As the debate on post trading matures, two schools of thought appear to be emerging in respect of how the post trading environment of tomorrow will look. Inter-operability of post trading systems could be seen as an alternative to the eventual consolidation, driven by market forces, in the post trading area. Users of post trading services are for the most part, currently sceptical as regards the benefits inter-operability both in respect of cost-benefit and in terms of risk portability. We are not convinced that inter-operability would allow competition between infrastructures to effectively materialise and believe that developing those links could increase costs.

At best inter-operability could be a short term solution to improving the efficiency of post trading in Europe, but even then it would be doubtful as to whether the technological and other associated costs would justify the investment in light of the potential benefits inter-operability could deliver. Importantly, systemic risk in cross-border securities clearing and settlement must be avoided. Moreover, legal certainty should not be sacrificed to any extent for gains in efficiency.

The Commission has adopted the right approach

The FBE supports the approach the European Commission has adopted to date and welcomes the recent publication of DG Internal Market's economic analysis of post trading in Europe and commends DG Competition for its Issues Paper of 24 May 2006 on competition in EU securities trading and post-trading. The combination of market solutions, the appropriate exercise of competition powers, including some additional *ex ante* power if necessary, and scrutiny from a Single Market perspective is the right one in the view of users.

DG Competition's Issues Paper identifies aspects of post trading in Europe that it considers to be impediments to free and fair competition. The FBE believes that DG Competition has identified the right issues and agrees that free and fair competition goes wider than an examination of the structural issues that could be considered as hindering competition in the post trading space in Europe's Single Market.

Clearly, the market is moving in a number of ways and we are confident that this movement points to greater efficiencies and the lowering of the costs of post trading in the future.