



ECSDA
European Central Securities
Depositories Association

FESE, EACH & ECSDA – Implementation Progress towards the Code of Conduct

Joint status update for the CESAME
meeting in Brussels on 11 June 2007

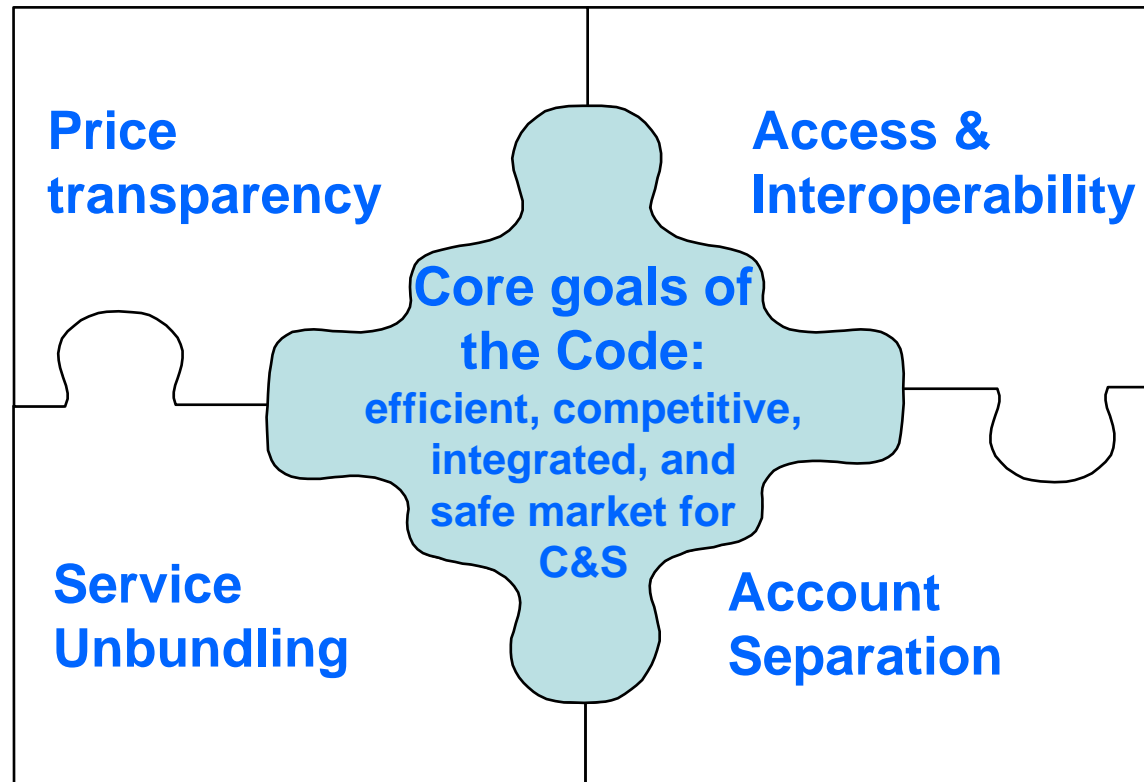
Agenda

- Introduction
- Price Transparency (Articles 7 - 18)
- Access and Interoperability (Articles 19 - 37)
- Unbundling Services and Account Separation (Articles 20–38)
- Communication with Users

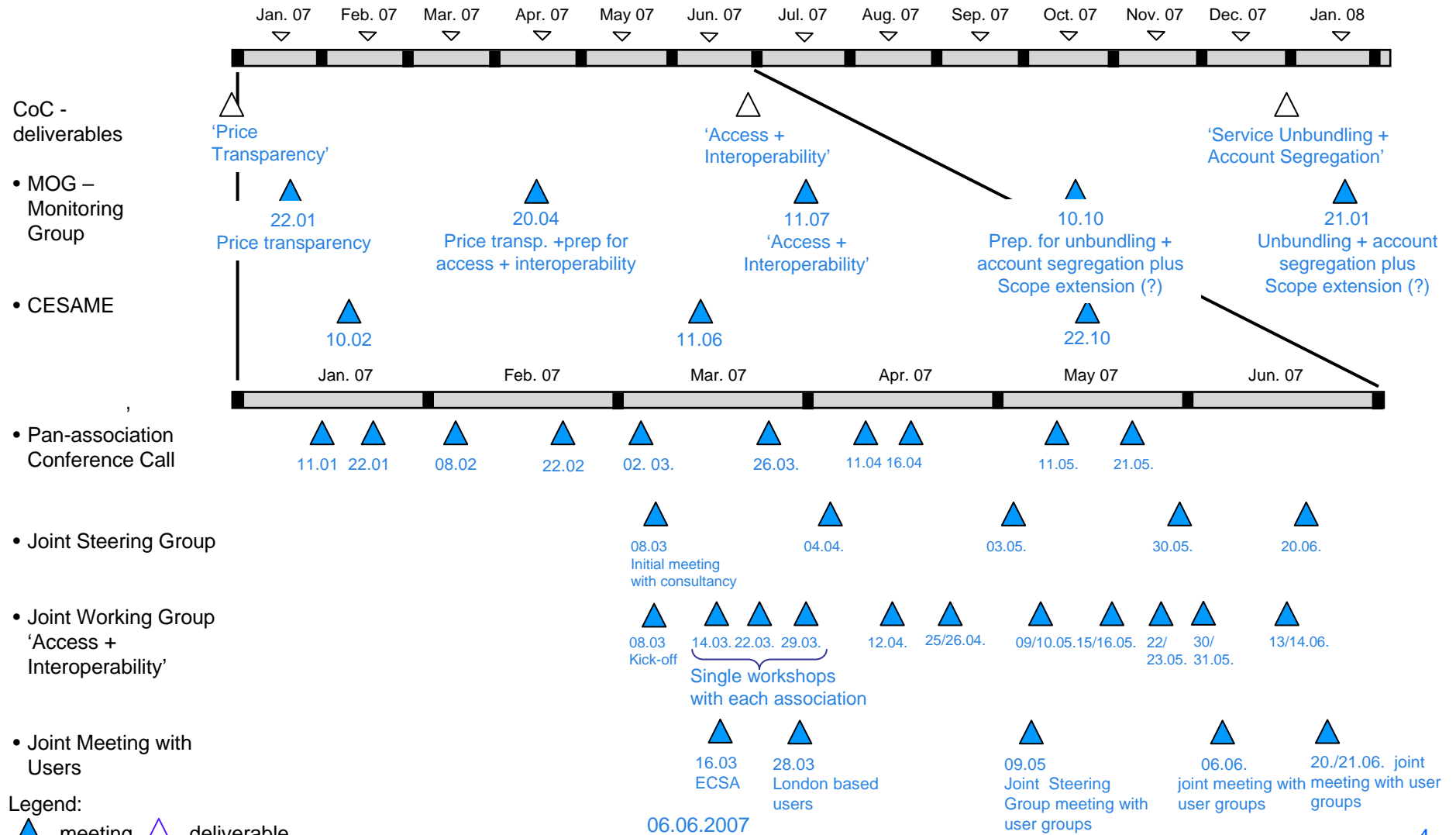
Implementation of complementary components will lead the Code to a success



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High-level timeline of the Code

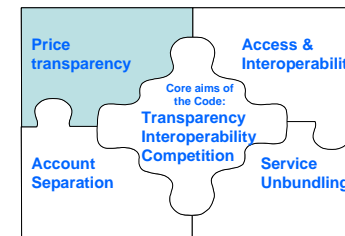




Agenda

■ Introduction

■ Price Transparency (Articles 7 - 18)



■ Access and Interoperability (Articles 19 - 37)

■ Unbundling Services and Account Separation (Articles 20–38)

■ Communication with Users

Accomplishments since 31. Dec. 2006

Art. 8-14 + 16

General acknowledgment that implementation has been completed across all 3 layers
→ Items are closed; CoC provisions are fulfilled

Art. 17 (Oxera Study)

Clarification required from EU-Commission re. applicability towards CoC as Oxera clearly stated several times that its work is not related to the Code.
→ Item is closed as all 3 Associations and its members support Oxera and its work.

Art. 15 (commitment to work on further comparability of prices within each layer at the value chain)

General acknowledgment that implementation is completed by Exchanges and CCPs.
Please see the following slide re. CSD-status
→ Item is closed; CoC provision is fulfilled

Art. 18 (Reconcilability)

General acknowledgment that implementation has been completed across all 3 layers
→ Item is closed; CoC provision is fulfilled

Evolution from Price Transparency towards Comparability by ECSDA

CoC – scope

Price Transparency (Art. 7-14; 16; 18)

- Publication / accessibility of information
- Publication of price examples specific to each organisation

Clarity of definitions (Art. 15)

- Conversion tables facilitating the identification of specific fees across multiple organisations ‘navigators’ (by 31 May 07)

Unbundling of Services (Art. 38-41)

- Implementation of Unbundling of Services (by 31 Dec. 07)

Possible next steps

Additional requests*

- English language
- Downloadable version
- Webbased ‘calculators’
- Identical sequence of fee schedules
- Consistent terminology
- Announcing price changes with sufficient notice (e.g. 4 weeks)
- Samples per users segment

Price Comparability

- Users should be able to anticipate the prices for the case of services across multiple organisations.

→ ECSDA is prepared to discuss the “additional requests” with the Users (meeting scheduled for 22 June 07). However this is not a dependency on the CoC-implementation

* Please refer to “ECSDA User Task Force report April 07”

Compliance with the Code

ECSDA Conversion Tables

- In particular ECSDA has been asked by Users and the European Commission to help understanding the different services and prices of its member CSDs and ICSDs in a comprehensive way in order to facilitate price comparability going forward.
- Therefore, the special ECSDA Taskforce “Price Comparability” has elaborated Conversion Tables, which encompass the prices and services of its member CSDs and ICSDs in a comparative manner.
- The Conversion Tables show the following details in a concise structure:
 - ✓ Service description according to the services listed in the Code
 - ✓ Overview which tariff sections in the members’ price schedules refer to which service
 - ✓ Clear reference to members’ fee schedule/ tariff brochure
 - ✓ Overview of fees charged to customer (issuer/ agent, intermediary, end investor, other)
- The Conversion Tables have been sent to the User representatives for further discussion with ECSDA
- The Conversion Tables are ECSDA’s contribution, with which the expectations of Users and the EU Commission regarding price comparability (Art. 15) are addressed.
- The Monitoring Group welcomed the progress made since January, in particular the Conversion Table, which is a major step towards improving comparability of prices and services in the settlement layer.



Conversion table example*

1. Services (as listed in section V of Code)	2. ECSDA proposed sub-sections to ease completion conversion table	3. Complete which tariff sections/captions refer to which service	4. Reference to tariff brochure -	5. Fees charged to (issuer or its agent, intermediary,	6. Service description (in summary or reference to existing documents)
Account provision & Asset Servicing	Opening and maintenance of securities accounts	Not charged separately for	N/A	N/A	
	CSD membership	Not charged separately for	N/A	N/A	
	Asset servicing dematerialised securities	Safekeeping for equities, investment fund units and similar instruments evidenced by individual certificates and permanent global certificates	3.2.1	Intermediary	Safekeeping services including all event handling apart from exception handling for income payments. Basis for fee is the market value of account deposit value in EUR mn.
	Asset servicing physical/immobilised securities	Exceptional events	5.3.1, 5.3.2, 5.3.3, 5.3.4, 5.3.5, 5.3.6, 5.3.7	Intermediary	Exceptional services such as late amendments and cancellations of income events, selling/buying of subscriptions rights. Corporate event instruction via SWIFT
	Asset servicing physical/immobilised securities	Meeting attendance by a proxy	5.3.8, 5.3.9	Intermediary	AGM/ECM agenda requests, ordering of admission tickets, handling of proxy voting instructions
	Proxy voting	Withholding tax reporting services	5.3.10, 5.3.11, 5.3.12, 5.3.13, 5.3.14, 5.3.15	Intermediary	Processing of certificates of residence, tax certificates, tax refund claims and allocations/elections. Issuance of tax vouchers, corrections and tax reclaims. ProAct tax reclaim service (electronic/manual).
	Withholding tax services				
Establishing securities in book-entry form	Issuance dematerialised securities	Deposit/withdrawal of individual certificates/global certificates or transfer of positions into/out of the special deposit	5.1.1	Issuer or its agent	Technically there are no dematerialised securities in CBF, as at least one physical (global) certificate exists
	Redemption/cancellation dematerialised securities	Destruction, invalidation, official stamping of certificates, exchange, repayment, liquidation, coupon renewal for global	5.1.6	Issuer or its agent	Technically there are no dematerialised securities in CBF, as at least one physical (global) certificate exists
	Deposit physical securities in book-entry form (immobilisation)	Deposit/withdrawal of individual certificates/global certificates or transfer of positions into/out of the special deposit	5.1.1	Issuer or its agent	Technically there are no dematerialised securities in CBF, as at least one physical (global) certificate exists
	Withdrawal physical securities from book-entry system			Issuer or its agent	
	Withdrawal physical securities from book-entry system	Destruction of individual certificates and invalidation, repayment, liquidation for individual certificates	5.1.5	Issuer or its agent	
	Other	Issuance related services	5.2	Issuer or its agent	Trustee services and checking of certificates or coupon sheets
	Other	Other vaults services	5.1.2, 5.1.3, 5.1.4, 5.1.7, 5.1.8, 5.1.9	Issuer or its agent	Administration of global certificates (mark up/down) and cum bonds (detachment, reattachment), custody services for unissued/invalidated certificates, dispatch of securities, reporting
Clearing and Settlement (including verification)	Verification (matching)	Not charged separately for	N/A	N/A	
	Settlement netting	Not charged separately for	N/A	N/A	
	Clearing and settlement for OTC transactions DVP	Securities transfer domestic	4.2.1, 4.2.2, 4.2.4	Intermediary	Securities settlement leg of OTC trades, including stock exchange trades coming from the CCP. Premium for securities transfers in Real-Time Settlement (RTS) and manually entered by Clearstream Banking.
	Clearing and settlement for OTC transactions FOP				
	Clearing and settlement for OTC transactions DVP	Cash transfer OTC transactions	4.3.2, 4.3.3	Intermediary	Cash settlement leg of OTC trades, including stock exchange trades coming from the CCP. Premium for cash transfers in Real-Time Settlement (RTS).
	Clearing and settlement for OTC transactions FOP				
	Clearing and settlement for Stock Exchange transactions DVP	Settlement of securities in collective safe custody and individual safe custody	4.1.1	Intermediary	Securities settlement leg of stock exchange trades that do not result from the Central Counterparty (CCP) processing. Stock exchange trades coming from the CCP are considered as OTC transactions.
Clearing and settlement for Stock Exchange transactions DVP	Cash transfer stock exchange trades	4.3.1		Cash settlement leg of stock exchange trades that do not result from the Central Counterparty (CCP) processing. Stock exchange trades coming from the CCP are considered as OTC transactions.	
Own account transfers	Cash/securities transfer	4.2.1, 4.2.2, 4.3.2, 4.3.3			
Other	Other securities transactions	4.4.1, 4.4.2, 4.4.3, 4.4.4, 4.4.5	Intermediary	Non-settlement transactions, for instance exchange of non-German shares for German certificates and vice-versa, pledged-securities transfers, passing on of physical individual certificates at collection.	
Securities Lending and Borrowing	Fail related SLB	Frankfurt Automated Borrowing and Lending Service (FAB)	9.1.1, 9.1.2, 9.1.3	Intermediary	Automated fails lending service with definition of remuneration for lender / Clearstream Banking and user fee for borrower
	Other				
Collateral management	Collateral management related to collateralisation of central bank liquidity	Xemac	10.1	Intermediary	Collateral management service for securities pledged as collateral to Deutsche Bundesbank.
	Management of guarantee funds	Service not offered	N/A	N/A	
	Other				
Credit provision		Service not offered	N/A	N/A	
Communication (note: not in Code)	Technical communication set-up and maintenance	Service not offered	N/A	N/A	Service offered and invoiced by IT service provider
Other		Services for registered shares	5.4	Issuer and its agent / Intermediary	Issuance services for registered shares, asset servicing, processing of shareholder data and reporting
		CBF MIS reporting	6.4.1	Intermediary	

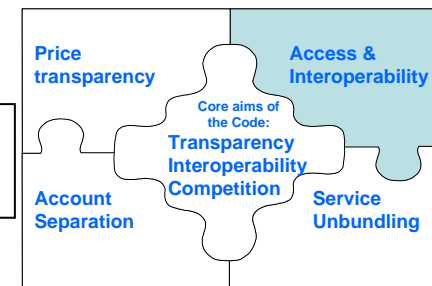
* Draft example from Clearstream Banking AG / Germany)

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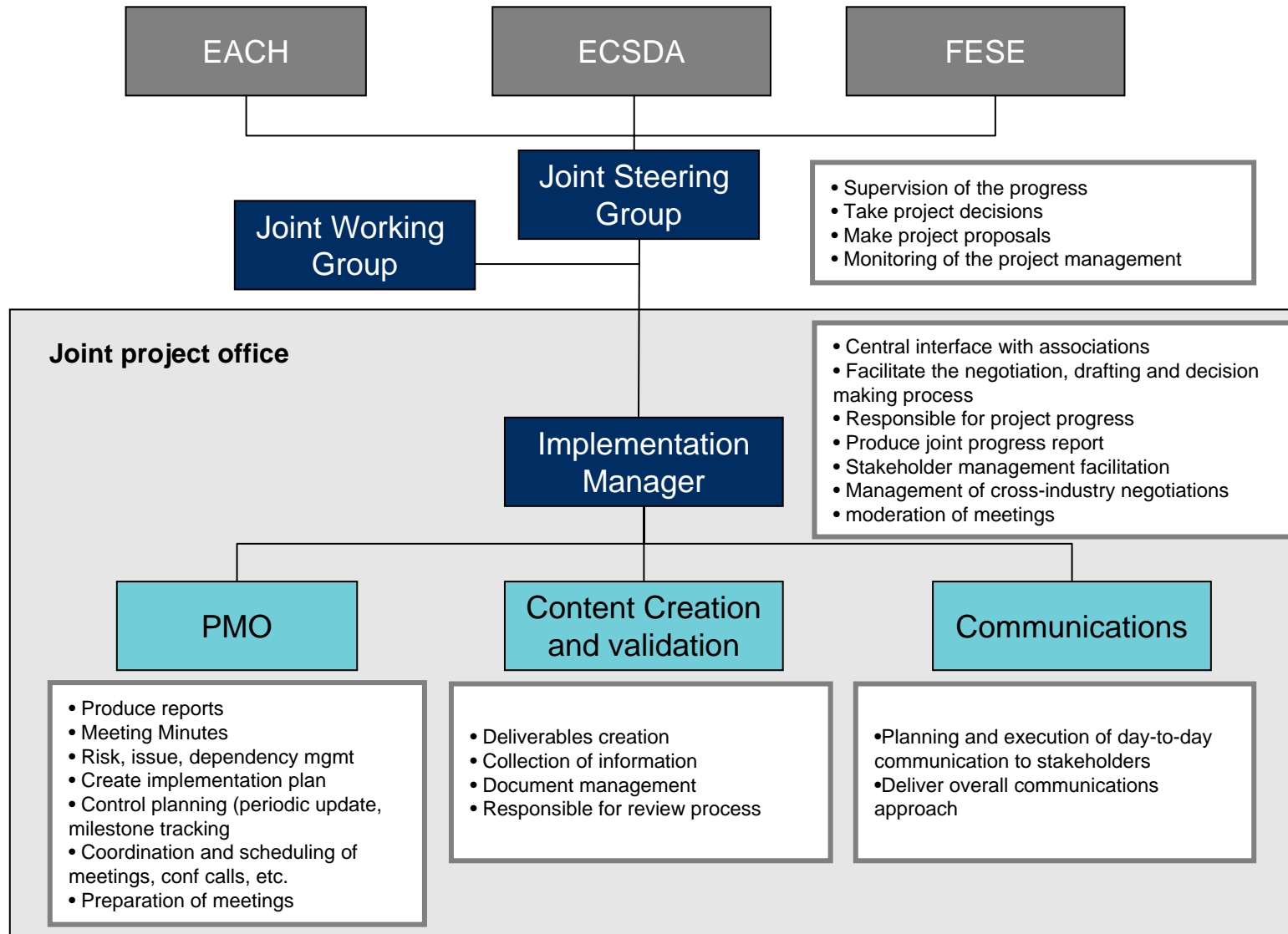
- Unbundling Services and Account Separation (Articles 20–38)

- Communication with Users

Joint Association Work Project structure



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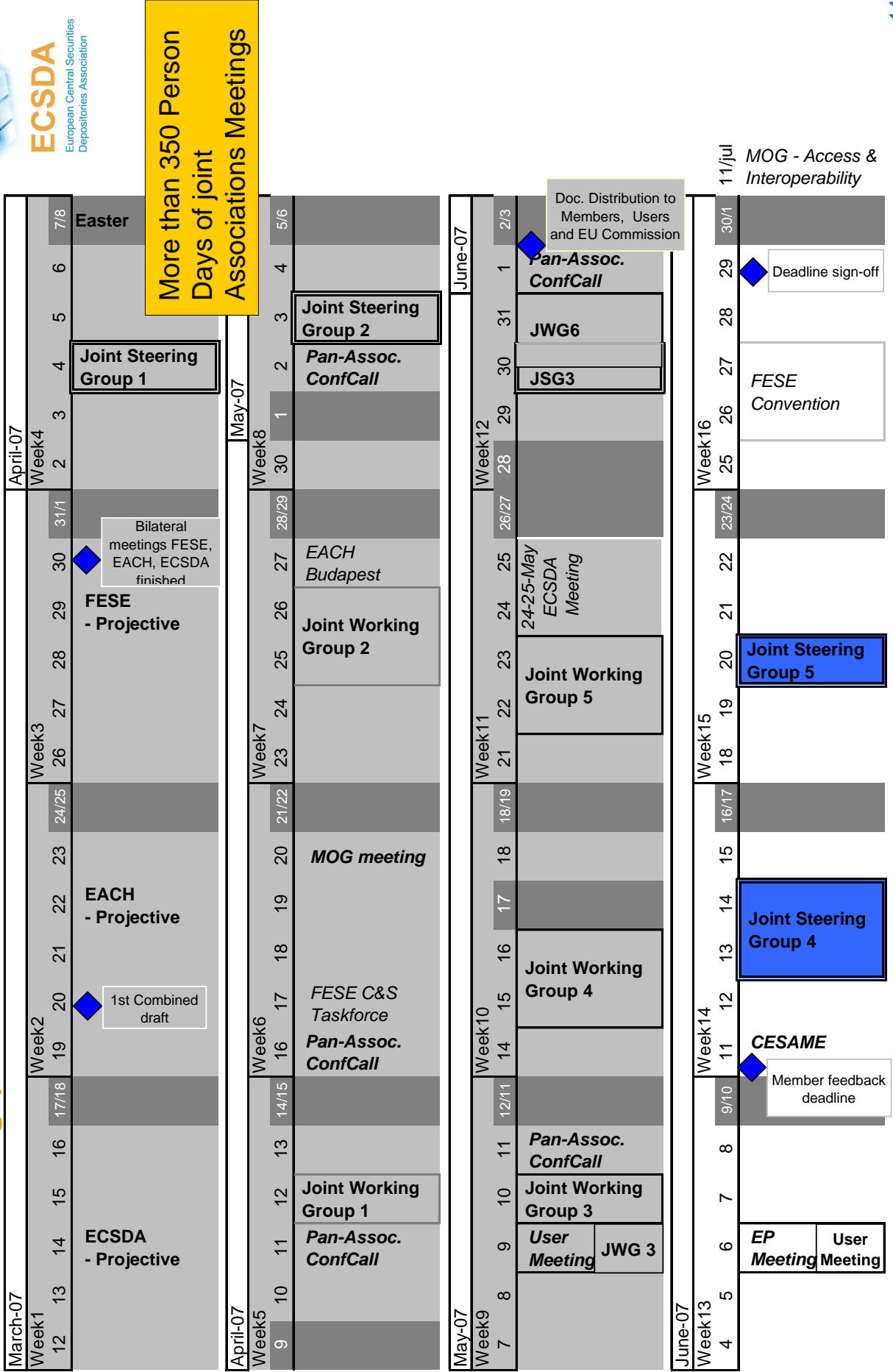
Joint Association Work Project Status / Next steps

- The first draft for review of the Access & Interoperability Guideline has been distributed to the Associations' Members, the EU Commission and the Users.
- On 6-June meetings are planned with the EU Commission and with the Users to discuss their feedback on the Guideline.
- All feedback on the Guideline will be processed in further workshops by mid of June-07 after which the Guideline will be submitted to the Associations' members for sign-off by end Jun-07.
- Initial feedback (begin May-07) from the EU Commission representatives and the Users has been taken into account already while discussing the Access & Interoperability principles.

Joint Association Work Joint Steering Group and Deliverables

- The Access and Interoperability Principles and Conditions Guideline will be delivered on 30th June 2007 in line with the EU-Commissions requirements and with the European Code of Conduct for Clearing and Settlement.
- The Guideline will describe common definitions, principles, conditions and scenarios for the set-up of new relations between market infrastructure providers in the Clearing and Settlement market.
- The Guideline will also contain a roadmap for the next steps to be taken by the organizations towards implementation and compliance to the Guideline principles and list the potential external constraints (e.g. legal, fiscal, regulatory).
- The roadmap is required as actual implementation requires provider specific preparation to deal with A&I requests of other market infrastructure providers compliant with the A&I conditions document. The roadmap will bring visibility and control on this.
- In the course of the project the Associations' Joint Steering Group will set-up a Communication Plan to assure joint and aligned communication and improved interaction with the different stakeholders for the Guideline.

Joint Association Work Meeting plan



More than 350 Person Days of joint Associations Meetings

11/jul MOG - Access & Interoperability

Joint Association Work

Access & Interoperability scenarios

Receiving Requesting	Trading Platform	CCP	CSD
Trading Platform		[3.1] TF	[3.2] TF
CCP	[3.3] TF	[3.8] SA / CA / IO	[3.5] SA / CA / TF
CSD	[3.4] TF	[3.6] SA / CA / TF	[3.7] SA / CA / IO

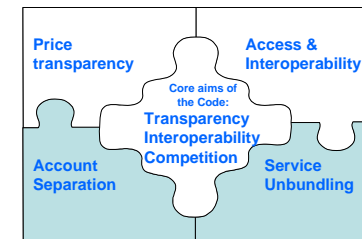
Legend

- SA Standard Access
- CA Customised Access
- IO InterOperability
- TF Transaction Feed
- [x.x] Scenario chapter reference
- Vertical link
- Horizontal link

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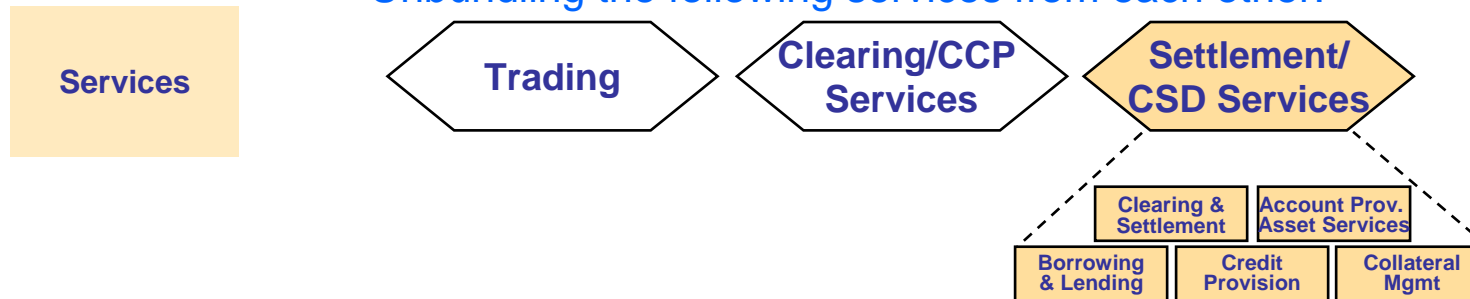
- **Unbundling Services and Account Separation (Articles 20–38)**



- Communication with Users

CoC requires unbundling of services and account separation as of 01.01.2008 for cash equities

- Unbundling the following services from each other:



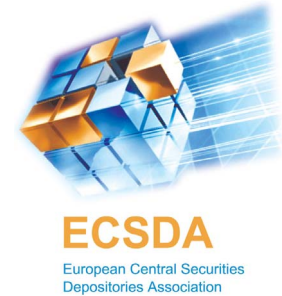
Unbundling

- Customer can purchase an unbundled service without having to purchase another
- Special price offers for several unbundled services possible; special price has to meet price transparency requirements of CoC

Accounting

- Disclose non-consolidated accounts for unbundled services to National Regulator
- Apply IFRS or local standard, if IFRS not mandatory

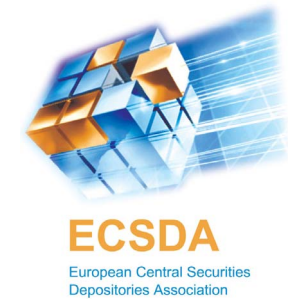
CoC – Service Unbundling and Account Separation



■ TF ‘Service Unbundling’ – Kick off meeting 3 April 2007

- Mario Nava attended the meeting in the morning and outlined the expectations of the European Commission regarding the deliverables of this task force. He informed the TF that it is intended to publish a document by the end of May with a list of principles for account separation to be used by financial auditors to verify the compliance of the respective CSD with these principles.
- The scope of the TF was discussed, especially if the focus should be on both unbundling and account separation. It was agreed to address the two areas in separate manners and times being aware that they have significant contact points. “Vertical” and “horizontal” separation will be addressed and discussed with the respective associations and organizations.
- The task force agreed on several principles, e.g. to provide a common understanding of the activities which will be included in the unbundling and account provision.
- The TF decided to adopt the Conversion Table worked out by the Price Transparency TF and to update them to fully fit the objectives of the CoC.

CoC – Service Unbundling and Account Separation



■ TF 'Service Unbundling' – conference call on 16 May 2007 - outcome

- A first draft for a glossary was distributed. Suggestions for missing definitions shall be provided for the next meeting.
- It was agreed to use the ECSDA conversion table developed by the price transparency task force as a basis for all further definitions and unbundling & account separation activities.
- The following milestones for ECSDA members have been discussed. Milestones for Account Separation are included even though the members of the task force agree, that the focus is on Unbundling:

- | | |
|---|------------|
| • Common understanding of terminology: Glossary | 30.06.2007 |
| • Internal gap analysis per organization | 30.06.2007 |
| • Implementation of unbundling | |
| ➤ Unbundling of 1st level (Trading vs. Clearing vs. Settlement) | 30.09.2007 |
| ➤ Unbundling of 2nd level (CSD activities) | 31.12.2007 |
| • Price Unbundling | 31.12.2007 |
| • Milestones with external dependencies | |
| • Terms of Reference for auditors by European Commission | 30.06.2007 |
| • Agreement with auditing firm for verification of CoC compliance | 30.09.2007 |
| • Agreement with National Regulator | 31.12.2007 |

CoC – Service Unbundling and Account Separation



- TF 'Service Unbundling' – conference call on 16 May 2007 – issues and next steps
- Reporting requirements:
There are several factors not in scope of the TF Unbundling but relevant for a successful implementation of both Unbundling and Account Separation:
 - Terms of Reference for auditors by European Commission
 - External audit to confirm CoC compliance
 - Agreement with National Regulator as addressee of reportingThe TF Unbundling needs to clarify the corresponding responsibility and process with ECSDA.
- Next Meeting will take place in calendar week 25 in Frankfurt

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Alignment of different perception with Users

- The 3 associations work actively to integrate the Users in the development of the implementation to the Code
- Giving Users the opportunity to discuss important issues, several meetings have been planned:



Summary of meetings with Users

- The 3 associations met with two user groups to inform about implementation progress:
 - ✓ **ECSDA**: 16th March '07
 - ✓ **European Forum of Securities Associations**: 28th March '07 (ESF, LIBA, AFEI, Assosim et al.)
- Different expectation of what should be delivered between Users and 3 associations (levels of interpretation on CoC).
- Users have expressed different focus areas:
 - ✓ **ECSDA** = Price Transparency by CSDs (questionnaire to Users distributed to get structured feedback on compliance of price transparency and identify open issues. Art. 15 identified as “work in progress”)
 - ✓ **European Forum of Securities Associations** = Access + Interoperability (User expressed strong demand to be deeper involved in Access and Interoperability)
- Joint meetings with only one combined User group to address any topic and to avoid being faced with conflicting views on the implementation. Future meetings will be joint meetings on invitation by the 3 associations – First joint meeting was on 09 May re. ‘Access + Interoperability’
- Joint meetings with both user groups on the implementation of price transparency on 22 June scheduled.

User Group meeting regarding Access & Interoperability on 9 May

- 3 Associations delivered a presentation regarding Access & Interoperability to Users to make the ongoing work transparent

- Users took the opportunity to give their comments
 - ✓ Request for direct User involvement in the discussions
 - ✓ Request for a competitive environment and in particular a real choice of CCP for the 3 largest trading venues
 - ✓ Market demand is an essential element to assess a business case
 - ✓ Document should also cover additional risks which might occur in the context with new links.

- Next Steps:
 - ✓ Access & Interoperability document will be prepared by the 3 associations
 - ✓ This document will be provided to Users for feedback
 - ✓ Meeting with Users is scheduled on 06 June 2007 in Brussels

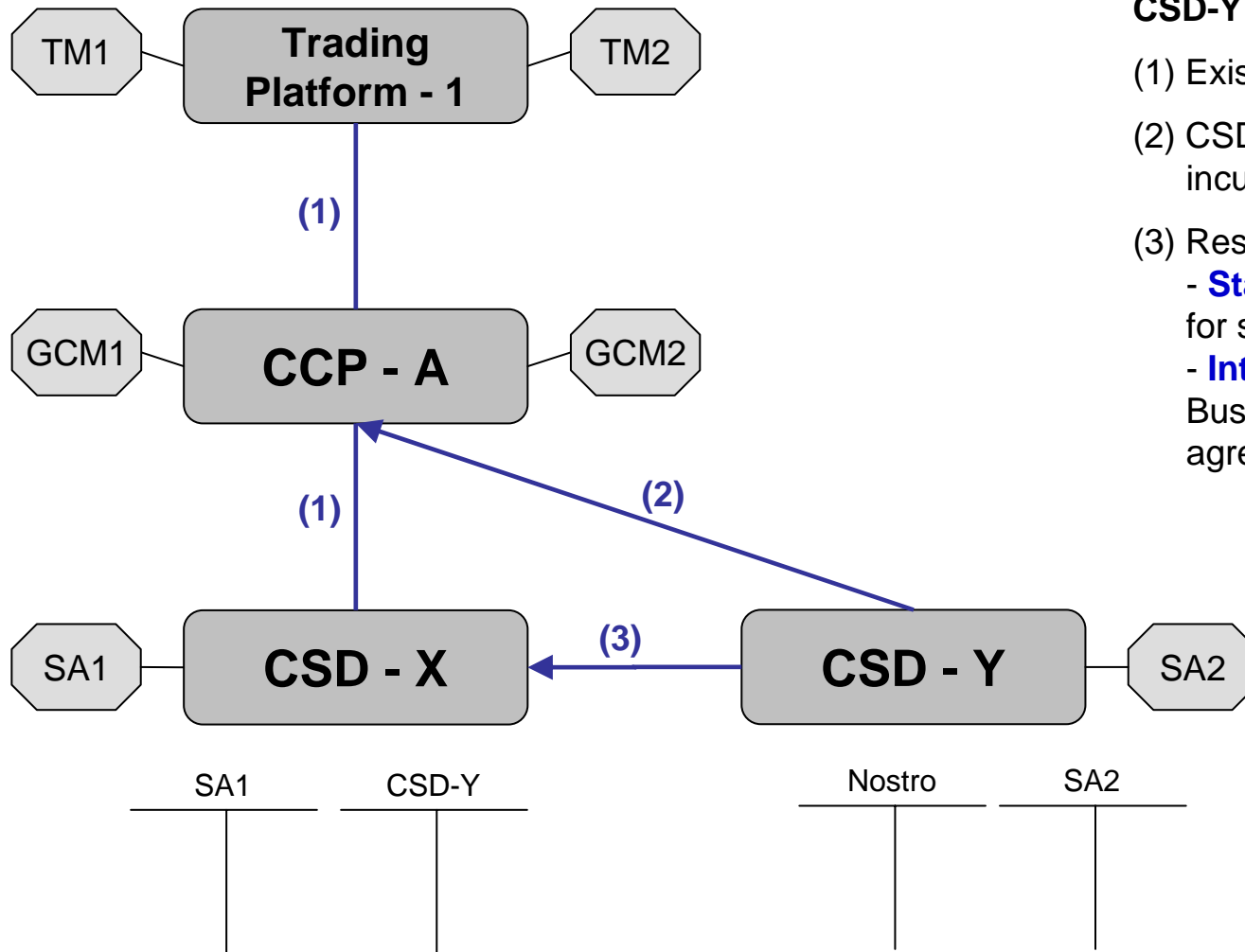


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BACK UP

Joint Association Work

CSD to CSD Scenario



CSD-Y entrance in existing market.

- (1) Existing market relationships
- (2) CSD-Y requests SA/CA/TF to incumbent CCP-A.
- (3) Resulting:
 - **Standard / Customised Access** for securities settled on CSD-X.
 - **Interoperability** is subject to the Business Case and mutual agreement.

TM Trading Member
GCM General Clearing Member
SA Settlement Agent

Joint Association Work

CSD to CSD Scenario (Cont'd)



- **Standard Access for Normal Members / Standard Participants as CSD**
 - Set-up an account in the Receiving CSD
 - Adhere to the procedures of the Receiving CSD
- **Customised Access**
 - Beyond Standard Access with no fundamental changes in the receiving CSD systems, processes, business model.
 - For customisation requests in e.g. communication means and systems, reports, Corporate Actions services.
 - The receiving party principle applies.
- **Interoperability**
 - Anything that is beyond Customised Access,
 - Consensus is that majority of the possible requests and expected market competition can be achieved by Standard or Customized Access.

Joint Association Work

CSD to CSD Scenario (Cont'd)



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■ Fees

- Standard Access: as for Standard Participants
- Customised Access: As Standard Access + the Customisation Fee to be paid by the Requesting party (*)
- Interoperability: up for mutual negotiation

■ Rights

- Standard Access: all the rights to Access
- Customised Access: Same rights + payment for customisation
- Interoperability: Everyone can ask, rest is subject to Business Case and mutual agreement.
- Mediation is a right for all Standard / Customised Access.

■ Remarks

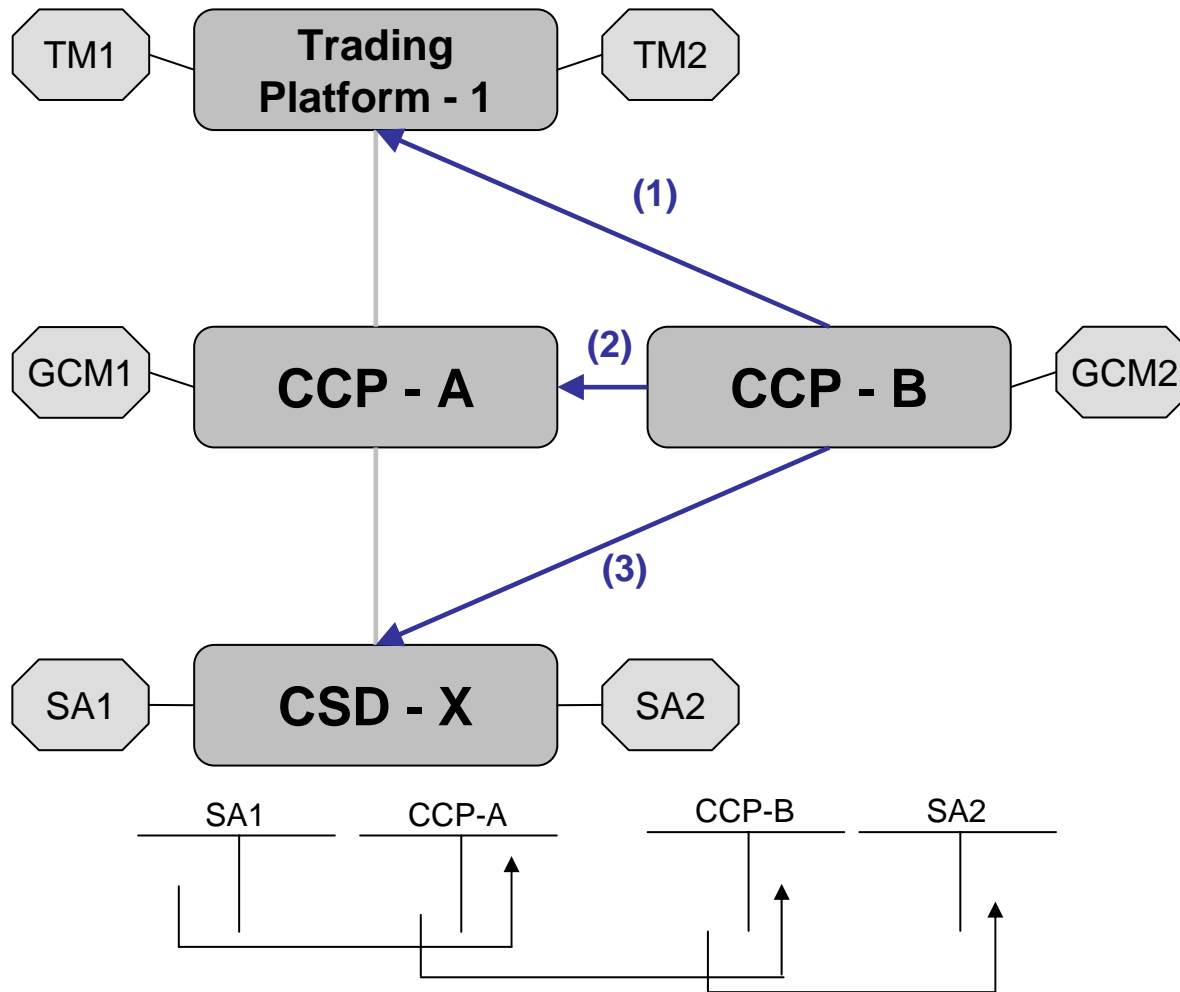
- Any development requests related to the removal of the Giovannini barriers is Standard Access.
- Loss of Market share is not part of the Receiving CSD Business Case.

(*) One-off costs and ongoing costs to be distinguished.

06.06.2007

Joint Association Work

CCP to CCP Scenario



CCP-B entrance in existing market.

- (1) CCP-B requests **Transaction Feed**.
- (2) As result CCP-B sets up relationship with CCP-A:
 - **Interoperability** as CCP to CCP relationship (subject to conditions).
 - In case CCP-B requests **Standard / Customised Access** as Standard Member no transaction feed is necessary.
- (3) As a consequence / condition CCP-B demands access to the eligible CSD-X.

TM Trading Member
GCM General Clearing Member
SA Settlement Agent

Joint Association Work

CCP to CCP Scenario (Cont'd)



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- **Standard Access: As Standard Member**
 - A CCP has the right to Access another CCP under the standard participant conditions of the Receiving CCP.
 - It's the responsibility of the Requesting CCP to ensure its own regulatory compliance for this type of Access.
 - It implies no recharging of development costs from the Receiving CCP to the Requesting CCP

- **Customised Access: As Standard Member with limited changes**
 - Customised Access is a right.
 - The Receiving CCP will perform some customisation at the request of the other CCP, for which it will be compensated on a cost-plus basis unless bilaterally agreed otherwise.
 - The customisation should be reasonable, should be aligned with international industry standards and may become available for all members and as a consequence costs incurred for the customisation could be shared.

Joint Association Work

CCP to CCP Scenario (Cont'd)



■ Interoperability

- The Receiving CCP recognizes the CCP status of the Requesting CCP and vice versa.
- The Receiving Party principle applies between CCPs for cross transactions.
- Risk management
 - The CCPs involved have to arrange an adequate collateralisation scheme to cover the exposure of potential losses
- There is no cross charging for internalised trades.
- Customer independence, each CCP services its own customers without any intervention from the other CCP.