



Fédération Bancaire Européenne
European Banking Federation

General Remarks

This document summarizes the comments received from FBE members on the document called “ECSDA Response to Giovannini Report – April 2004”. The FBE acknowledges the excellent work carried out by the ECSDA regarding the lifting of Giovannini Barrier 7 and Barrier 4. The FBE appreciates the consultation and thanks the ECSDA Board of Directors for seeking comments from the FBE.

We support this ECSDA initiative and its starting point. We have however some comments and suggestions regarding the document. We are pleased to share them with you in our response and remain available to discuss them in further detail.

The FBE strongly encourages ECSDA to involve the FBE in the next stage of the work, especially in further consultation and with the implementation process considering the interdependencies between banks, users of CSDs. We are fully committed to achieve Giovannini’s goals.

On the introduction

We understand the usage of the term “SSS” in the scope of the document as all organizations involvement in the transaction chain must work together to achieve the removal of the barriers, including of course custodian banks. However, we feel that some of the standards may not be applicable to banks as they do not operate as such “settlement systems” but merely as intermediaries in the transaction chain between investors and infrastructures. This is especially the case for standards 9.

We indeed believe that settlement efficiency will lead to increased liquidity and support this objective of the provision of increased liquidity throughout Europe. On the other hand, we also like to insist that the increased liquidity is not achieved at the cost of an increased systemic risk. Therefore, credit risks must be limited by taking appropriate mitigating measures, including full collateralization at the point of final and unconditional settlement.

Lack of harmonization is hindering the implementation of the standards. Custodian banks as actors in the processing chain have their own role to play but we feel this is a shared responsibility of banks as well as (I)CSDs. Any lack of harmonization by any of the parties constitutes an obstacle, not just by the banks.

The same paragraph raises other comments, for example on the usage of commercial bank money.

Our views on this paragraph are

- Harmonize opening hours across EU for commercial banks, central banks and CSDs, taking TARGET hours as the benchmark, for their securities related clearing and settlement activities.
- Harmonize -in a first phase- the opening and intraday settlement hours and process and -in a second phase the pre-banking day settlement hours should there be a need. We wonder whether it is desirable and wise to allow final DvP settlement when the local payment system is closed.
- Settle in central bank money (not commercial bank money)
- Potentially allow for the closing time of settlement to be defined by the type of instrument - but never outside of TARGET hours - to facilitate the differences in their risk profiles.

Barrier 7 – Opening Days and Timetable

Standards 1, 2 and 3

We endorse the analysis on the obstacles to implementation of these standards. Some of these obstacles will be very acute for banks, especially the issue of opening of banks during local, national or religious holidays. Bearing in mind that such holidays are likely continue existing, we could propose that “the holidays in a country which are non-holidays in TARGET”, are treated as holidays for the “retail clientele of the banks (commercial banks)” while “sufficient” staff works and operates to sustain the cross-border institutional volumes only (Commercial banks, National Central Bank, National CSD). The level of staff support should be allowed to be defined by “market and cost/benefit” parameters in the respective country.

The option for the CSD settlement method of payments should be changed from “commercial bank money” to “central bank money”. Therefore, the option that the CSD could be a bank itself to help in settling money should not be considered, unless the CSD is the central bank itself. This however does not decrease the staffing and cost dimension as banks still need to be staffed to monitor and manage liquidity and central bank functions.

Costs

The report rightly identifies costs as a potentially high obstacle to implementation. A cost analysis must be completed for the entire industry and for Europe as a whole to further determine the implementation timing of these recommendations as investments must be assessed and budgeted as integral part of a long-term strategy.

Competition

The document implies that (I)CSDs offering cross-border settlement must have to offer an element of custody service. Inevitably, this element will create conflict. Another element of conflict is certainly the quasi natural monopoly position of (some) (I)CSDs. We also consider this sensitive issue as a risk element that could jeopardize the lifting of the barrier. The level playing field principle and fair competition must be ensured to avoid blockings.

Although, the ECSDA Standards document is only concerned with “the settlement participants” and “the opening settlement days”, we believe that one should also be concerned with “the opening days for trading”. This is especially true for those markets/products where T+0 is allowed and traders use it for covering positions i.e. “government bonds”. In the latter case, it must be considered whether institutional trading should be open to cover fails and short positions at least.

Standards 5

We welcome this recommendation and see it as a beneficial step towards increased liquidity and the establishment of a true single market. We would also like to suggest considering the possible synchronization of the timings of settlement batch, especially in light of the TARGET 2 project. However, in order to allow a smooth closing of TARGET 2 and allow treasurers to forecast efficiently, we are not in favour of late DvP settlements for same day value date. We feel that sufficient time should be left between the last settlement for same day value by an SSSs and the closing of TARGET 2 for Ancillary Systems settlement for same day value date at 5 PM CET.

We also support Standards 9; and whenever possible are in favor of real-time or frequent short batches.

We support the proposal for a longer implementation time for barrier 5 because of the far-reaching consequences for the financial institutions. Modification of the systems and/or processes will require at least 6 months and therefore sufficient time should be left to the market to prepare to the new environment without disruption. We also would like to point out the need for a coordinated approach between these changes and the preparation of the TARGET 2 SSP. (Share Settlement Platform).

Standards 6

On pre-banking day settlement issues, we support entirely the recommendation on end of day. We also support the ECSDA position on credit risks.

On the start of day aspects, we believe it is important to clearly define what start of day means, especially to avoid confusion for settlement processes starting on a day for next day value date.

Barrier 4 – Intra Day Finality

We agree with the principle of intra day finality. However, we believe that the best way to achieve finality is the use of central bank money, rather than rely on collateralization which we consider as a second best method as it is far less final and less secure compared to central bank money. Therefore, we feel that the statement “central bank money where possible” should be much stronger and only recommend central bank money. It is a goal towards which we should work to reduce credit risk and increase pan European liquidity.

In case of CSD links especially, it is critical that only securities which are irrevocably and finally settled can circulate across links to avoid any potential issues in case of fails or bankruptcy for example.

Banks overall realize that removing the barriers implies drastic changes. Therefore, banks will need to have sufficient time following CSD decisions and system specifications of the “new rules”, so that they can adapt their systems too. Therefore, the implementation of these standards should include an agreed upon comprehensive plan with dates for all the market participants and it should be done in consultation with banks as users and often owners of (I)CSDs.