

CESAME Group

Operational Conclusions

(following the meeting held on 25 October 2004)

1. AIM

Upon its second meeting on 25 October 2004, the CESAME group has decided to tackle certain issues of its mandate. These Operational Conclusions shall set out a roadmap for the agreed work to be undertaken in view of the following meeting of the CESAME group on 7 March 2005.

2. INDUSTRY'S INPUT (ACTION FROM PRIVATE MARKET PARTICIPANTS AND ASSOCIATIONS)

At the second meeting, the following important inputs to be provided by CESAME participants were identified:

Giovannini barriers

Barrier 7 and Barrier 4

- (1) previous to the next CESAME meeting, i.e. by 15 February 2005, CEECSDA to provide a report of CEECSDA members' timeframe for implementing the ECSDA standards*
- (2) opening/closing time of systems and intraday settlement finality:
 - (a) ECSDA members to establish liaison groups in the course of the last quarter of 2004 in each market place in order to look in more detail at the potential consequences of the harmonisation of the rules (involve securities back-office and cash back-office; cooperation with central banks and the ECB, especially in view of the introduction of TARGET 2)
 - (b) by the end of February 2005: ECSDA to publish a progress report regarding their standards, in particular on compliance of CSDs with the standards; reasons for non-compliance; problem solving strategies
 - (c) ECSDA members to fully implement the standards, *i.e.* to adapt their systems in order to comply with the standards. This will have to be done in parallel, where appropriate, with the banks and other areas of

* the 10 ECSDA standards concern e.g. the range of eligible instruments, opening days and hours, processing periods

the market – as identified in the ECSDA report – that should be associated with the process of implementing ECSDA standards and taking into consideration that sufficient time should be given to all stakeholders to adjust to new market practices, with a view to complete the process by mid 2005.

- (d) Monitoring systems: for effective overall implementation of the standards
 - ECSDA will share with CESAME group a set of criteria and information to monitor and assess the development of the implementation process,
 - if significant delays of implementation are still reported, then (as appropriate) peer pressure or supervisory means may be envisaged
 - or eventually Commission intervention will be applied to try to overcome difficulties

Barrier 1

- (3) On national IT differences and interfaces: SWIFT to
 - (a) prepare a table of relevant facts in regard to national IT and interfaces by 28 February 2005
 - (b) adopt and open to consultation a document on defining a global protocol by the next CESAME group meeting on 7 March 2005
 - (c) following the result of the consultation: adopt a global protocol to be used by the industry
 - (d) possible follow-up: Commission and ECB to consult on ways to accelerate adoption and diffusion of the global protocol within the industry

Barrier 3

EBF, ECSDA, ESF and EALIC to synchronise their work on corporate actions issues. Each association will produce its own report to be presented in a coordinated way after proper discussion among the associations at CESAME group meetings. The following items in particular should be addressed within the indicated timeframe:

► by end February 2005:

- (e) voluntary corporate actions: ESF to submit to EALIC, EBF and ECSDA proposals to harmonise voluntary corporate actions processes to reduce open trade risks and to standardise default rules

► by next CESAME group meeting of 7 March 2005:

- (f) cash distribution (EBF, ECSDA, ESF already working on this), i.e.
 - cash dividends: EBF to publish their recommendations on cash dividends as well as implementation plans by end of 2004
 - interest payments and redemptions: EBF work is under way (to be completed before 7 March 2005)
 - cash distribution: ECSDA work has started as a priority, expected to complete first phase by the end of 2004
- (g) stock distribution (EBF, ECSDA)
 - stock distribution: ECSDA work has started as a priority, expected to complete first phase by the end of 2004
- (h) communication between issuers and intermediaries on the one side and intermediaries and investors on the other (EALIC, ECSDA and EBF), possibly with the participation of the Commission

► by 13 June 2005 (CESAME group meeting date):

- (i) by 13 June 2005: other corporate actions, i.e.
 - EBF to identify recurrent events and then proceed to a stocktaking exercise on treatment of these events in the various markets, market practices, etc. followed determining which of these practices should be the recommended practice in the EU in the form of recommendations; EBF to invite their members to liaise with the local CSD and issuers' association in order to provide timeframe and actions necessary for implementation
 - ECSDA on other corporate actions such as voluntary ones, tax processing and everything related to shareholders processing: to be addressed on a later stage
- (j) shareholder rights including proxy voting and shareholders meetings (all four associations working on this)

Barrier 8

- (4) Cliff Dammers from IPMA (guest at the last meeting) to provide by 7 March 2005 a written report on the coping of numbering agencies issuance of ISIN numbers in view of time period reduction under the new issue settlement cycle (ANNA issue).

Reporting / updates

- (5) Upon the following meeting on 7 March 2005:
 - Gertrude Tumpel-Gugerell to update on IOSCO work
 - Eddy Wymeersch to update on CESR work
 - Stephan Schuster to update on G30 work

3. PUBLIC SECTOR ACTION

- (1) Update on ECON (EP) work (indicative timetable: 2 February 2005: Hearing; 18 February 2005: ECON vote; 18 March 2005: Plenary vote)
- (2) ECOSOC (responsibility of the Section for the Single Market, Production and Consumption; with aim to adopt an ECOSOC opinion on the Commission communication; meeting scheduled for 11 January 2005)

4. PARALLEL ACTIONS BY ECB / CENTRAL BANKS

- (1) December 2004: next progress report on TARGET
- (2) 2007 (to prepare operation of TARGET 2): three party task force has been set up between Central banks, ECSDA and users
- (3) Wider involvement of central banks: initiative of the ECB on the cross-border use of collateral (reached a reduction in the execution time of so-called Correspondent Central Banks Model (CCBM) transactions thanks to the code of conduct that the banks have developed and applied through self regulation in order to accelerate the procedure they were using to transfer collateral cross-border)
- (4) Monitoring of adaptation of all ancillary systems of the industry to the harmonisation of closing hours (industry to apply the same deadlines, probably the operational beginning of TARGET 2 in 2007)

5. COMMISSION'S TASKS

(where assistance and input from the CESAME group is required)

- (1) Regarding the degree of concentration of and settlement internalisation by agent banks and custodian banks generally:
 - Commission to circulate soon a format for data collection, asking ECSDA and CEECSDA for quantitative input in view of the Regulatory Impact Assessment. This first step will allow identifying the degree of concentration in the agent banks' market at the level of each CSD. As a second step, a further data request will be made in order to try to evaluate the level of internalisation at the level of custodian banks.
 - CESAME participants to provide quantitative information according to the formats.
- (2) Regarding definitions/functional analysis: subgroup of CESAME members has been created (BNP, Deutsche Börse Group, Citigroup, Euroclear, ECB,

ECSDA, LCH, DB, FBE). Commission will circulate in mid-January 2005 a note entailing an analysis regarding the definitions/functional analysis. CESAME members will be asked to reply at the latest 21 days after having received this note.

- (3) Summary and detailed analysis of responses received upon the consultation of the Commission's Communication on Clearing and Settlement (by January 2005) including a more detailed overview of specific issues, e.g., competition and systemic risk issues
- (4) Setting up of a Legal Group (Members to be determined by end of 2004; first meeting on 31 January 2005)
- (5) Setting up of a Tax Group (Members to be determined by early 2005; first meeting tentatively by March 2005)
- (6) In view of the next CESAME meeting on 7 March 2005:
 - (a) Update on ECOFIN conclusions on C&S developments
 - (b) Update on ECON developments (Villiers report?)
 - (c) Update on The Hague Convention, Company law, a.o.b.
 - (d) DG COMP to update on Consultation on C&S structures report (end of consultation 15 December 2004 – summary of responses)
- (7) Cost-benefit analysis or regulatory impact assessment: presentation for meeting on 13 June 2005; market failure and dimension of the economic benefit

CESAME Group / Operational Conclusions / Overview

2005	January	February	March	April	June	July	
Data Collection	Data format from COM	Replies from (I)CSDs	Data format from COM	Replies from custodian banks			
Definitions/ Funct. analysis	Note from COM	Replies to the note					
Barriers 4 & 7	ECSDA liaison group establ.; ECSDA progress report on standards*	CEECSDA report on implementation timeframe & op. links	Poss. at CESA-ME: ECSDA to share info on monitoring systems		ECSDA members to implement standards*		
Barrier 1		SWIFT table of IT and interfaces	Adopt and consult on global protocol document			Tentatively: SWIFT to adopt a global protocol for industry use	
Barrier 3	Communication between issuers, intermediaries, investors (EAL-IC,ECSDA,EBF)		EBF, ECSDA, ESF joint report on cash and stock distribution		EBF report on corporate actions, incl. timeframe & implementation actions	ECSDA, EBF, EALIC, ESF to work on shareholders rights	ECSA report on other corporate actions (tax and shareholders processing)
Barrier 8		C.Dammers report on issuance of ISIN numbers					
Updates	For next CESAME meeting: on IOSCO, CESR, G30, EP, ECOSOC, etc.						
ECB action	Progress report on TARGET	Ongoing ECB/ EBF initiative on cross-border use of collateral Ongoing adap-tation monitor-ring of ancillary systems					For2007:prepara-tion TARGET 2
Commission's tasks (others)	Summary of responses, tentat. meeting of legal group		Tentatively: meeting of fiscal compliance experts group			Presentation on cost-benefit analysis/reg. imp. assessment	

* the 10 ECSDA standards concern e.g. the range of eligible instruments, opening days and hours, processing periods

