

CESAME Group

Synthesis Report of the meeting held on 7 March 2005

1. INTRODUCTORY ADDRESS AND INITIAL COMMENTS

The Chairman welcomed the group members, introduced Mr Murray, member of Commissioner McCreevy's cabinet and thanked members for making it possible to use only one language for the group's work. The Chairman highlighted the growing economic and political importance of the CESAME group's work so far: access statistics on the Commission's website on clearing and settlement, namely the CESAME Group, illustrate the continuous public interest. As before, all meeting documents will be available on the website shortly after the meeting.

The group was briefly informed about the **latest political developments** in the European Parliament which is working on an opinion on the Commission's Communication (draft Villiers report, discussion scheduled for March/April, Plenary vote for May). The ECOSOC has adopted its Report on the Communication too. Also clearing and settlement was identified as one of the key measures in 2006 within the Commission's planned activities. However, the Commission's work in 2005 will be spent on analysis and evaluation, in particular preparing a thorough impact assessment to which the Commissioner attaches special importance. If the case for a directive were to be proven, a proposal could be prepared in the first semester of 2006.

2. IMPACT ASSESSMENT / POLICY ISSUES

2.1. DG COMP Report

Presentation: Upon the request of the members, the Group was informed about the **consultation of DG Competition** on their report on Clearing and Settlement structures¹. This report gives an overview on trading, clearing and settlement arrangements in all EU Member States but it was lacking detail regarding some Member States. It was the aim of the report and the consultation to establish a document which is as accurate as possible in describing the situation on trading, clearing and settlement in the Member States. Over 30 comments were received so far which improved the document. The relevant sections per country have been updated but some comments need clarification because of inconsistencies. DG Competition will try to take account of current developments and intends to re-publish the report, before the summer, as a working document. Regular updates are envisaged to keep the descriptions up-to-date. In parallel, a fact-finding exercise will continue in order to better understand the - sometimes very different - arrangements/relationships between trading and post-trading.

Comments/Discussion: It was clarified that the document is intended to be purely descriptive (looking at the theoretical set-up as well as at reality) including a cross-border analytical description on trends in this area. It is not intended to be a competition or regulatory assessment. Members stressed the importance of the

¹ http://europa.eu.int/comm/competition/general_info/securities/report2004.pdf

document: as it will be considered and consulted as “the” description of the trading, clearing and settlement landscape in Europe, ensuring its accuracy and continuous discussion within the CESAME group is crucial. Members would welcome circulation of draft versions to provide as much clarity in the document as possible. The document should be clear about certain set-ups or relationships e.g. vertical integration may be seen as a facility which enhances efficiency, but also it may be seen as limiting competition. It was again confirmed that the document is not intended to contain any judgement or bearing other than to describe and understand the present set-up of the industry.

2.2. Data requests

Presentation: In view of its ongoing **analysis of the clearing and settlement industry** and its overall policy development, it is important that the Commission has access to relevant information. Information which is certainly important in this context is the degree of internal settlement by major banks on which the available information is contradictory. At the previous CESAME meeting it was therefore agreed to study the question using a two-step data collection process: the first step will enable identification of the degree of concentration in the agent banks’ market at the level of each (I)CSD. The second step will enable evaluation of the level of internalisation at the level of major custodian banks. However, when elaborating the **data format**, confidentiality issues were raised (in particular about ICSD disclosing such customer data without consent of the client’s bank). As a consequence, group members were presented with alternatives such as:

- involving a trusted third party (e.g. the ECB), which will pass the information to the Commission in an anonymous way or
- provide aggregated data (but then some information will be lost) or
- just ask larger market participants in a random way (lower level of information)

Various combinations of these possibilities were also explored.

Comments/Discussion: On the substance, it was pointed out that high settlement levels at (I)CSDs might not automatically imply a high internalisation within the banks concerned but could mean just the opposite. It was clarified that, while this can clearly happen to be true ex-post, in the absence of precise information regarding the degree of internalisation by agent banks, such a working assumption is the best from an ex-ante point of view. Setting aside internalised trading, members suggested distinguishing between internal clearing and internal settlement because one may not necessarily lead to the other. Internalisation should be defined to receive meaningful data and the lack of data for CCPs should be taken into account. A member suggested making a distinction between the national and the EU level as regards the market scope.

On the confidentiality issue, many bank members were rather unconcerned and some did not object to their names being mentioned. If a problem remains, it was agreed that, as a first step, appropriate aggregation is an easy and practicable solution. Therefore, the Commission will send the first data format to ECSDA/CEECSDA to be circulated to their members. Members will chose whether to channel their replies

through ECSDA/CEECSDA or send them directly to the Commission. At any rate, the Commission will endeavour to guarantee confidentiality.

2.3. Literature analysis

Presentation: Initial work on **annex 1 to the Impact Assessment** was presented to the Group. The purpose of this analysis is to make a survey of the excess costs of cross-border clearing and settlement across seven existing studies. These studies cover both types of methodology.

The analysis of the literature is a pre-requisite to performing the impact assessment. The analysis will enable an estimate of the lower bound to be derived by eliminating the identified costs. Upper bounds costs (i.e. by taking into account the impact of induced cost on liquidity and trading turnover) will be assessed at a later stage.

It was stressed that these excess costs are the economic excess costs of cross-border clearing and settlement and they are not necessarily equal to the benefits of any possible action (be it a Directive or something else). It is quite unlikely indeed that any action (or mix of actions) would wipe out all excess costs.

It was stressed that the following Impact Assessment of the Commission will only be as good as the underlying data of the study which has been checked with the market. During the discussion the Commission stressed that it does not try to structure markets and that its lower bound estimate refers to market integration which is not equivalent to the eventual benefits of a directive. The group was reminded that the work on the Impact Assessment will continue to be discussed by an internal Commission working group which covers several relevant DGs (COMP, ECFIN, MARKT, JRC, SG, GOPA) and which is chaired by DG MARKT.

Comments/Discussion: The very lively discussion focused *inter alia* on issues of underlying data (comparability and depth). It was acknowledged that the studies differed regarding approach, assumptions and data. All studies provide certain benefits while at the same time meeting criticism. The following points were put into question:

- whether the studies took adequate account of different cost for different services (and pricing models/business policies) and for different securities (bonds - in particular Eurobonds - being more efficient and thus cheaper than equity which thus may provide more savings)
- whether there are easier approaches, e.g. compare domestic markets to the U.S. market; compare the cost of running 25 systems opposed to one or five; or compare ICSDs' cost to national CSDs' cost
- whether studies were (to be) based on pre-netting figures and amounts
- whether figures and savings estimates should distinguish between wholesale and retail business because of very different transaction amounts and cost

- whether it will be possible to harmonise a significant part of current different practices which are also a cause for additional cost and/or whether systems will consolidate (providing economies of scale and more efficiency)
- whether assumptions and estimates in the studies are realistic.

During the discussion, ICSDs, CSDs, CCPs were perceived to shoulder a relatively low amount of the overall cost compared to intermediaries. However, it is the latter which have to deal with the different infrastructures, legal and tax systems etc. and thus provide added value. Additional effects of an efficient clearing and settlement market like more liquid markets and lower cost of capital and easier risk management were mentioned. Due to the shortcomings of present studies and data, it was suggested that the Commission should, as much as possible, work together with industry and should endeavour to verify data and assumptions of the analysed studies and not shy away from pointing out inaccuracies and correct them.

3. COMMUNICATION AND SUMMARY OF THE RESPONSES

Presentation: After having already presented a preliminary summary of the responses during the last CESAME group meeting, certain members expressed an interest in a more detailed overview of specific issues, e.g. it was asked that, when publishing its **summary of the responses**, the Commission should categorise respondents by market segment and provide an indication of the number of entities representing particular views. This was deemed especially important in relation to associations submitting one response but representing a great number of institutions. Then the final summary giving more details on the replies was presented. The broad support for the expert groups, a leadership role of the Commission and the need – expressed by 56 out of 82 respondents (which include 13 abstentions) - for a directive was highlighted.

Comments/Discussion: As the replies were already discussed in the previous meeting, the discussion focused on clarifications, in particular the different positions towards a possible directive. Members were reassured that the summary did not include comments but analysed certain parts of the replies, e.g. the answers of the CSDs in more detail.

4. ACTION FROM PRIVATE MARKET PARTICIPANTS

The group then assessed progress made by the private sector towards the elimination of the barriers identified in the two “Giovannini” Reports. The discussion was conducted on the basis of reports presented by the bodies involved in that process.

4.1. **Barrier 7** (settlement deadlines and operating hours/days) and **Barrier 4** (intra-day settlement finality)

Presentation: In April 2004, ECSDA issued a consultative report which recommends the adoption of specific standards to address these two barriers. The objective of ECSDA was for the recommendations to be implemented by mid-2005. ECSDA intends to publish a progress report (probably in April 2005) on their recommended standards; however, the report was not yet available for this meeting. The report is

expected to provide information on the CSDs complying with the recommended standards and on those not yet in line. For CSDs not able to cope with the standards, the report will mention the underlying reasons and what could be done to solve the problems encountered. So far, compliance rates are between 70-100 % for the different standards. Lower compliance, e.g. on Standard 6 (early settlement) is related to qualitative requirements. The report will also note that non-compliance is mostly not due to unwillingness or lack of capability to implement the standards, but often to markets which are not ready for these changes, e.g. because they prefer to wait for the finalisation of TARGET 2 or the finalisation of market consolidation. Further difficult aspects arise if banking systems are not open on all TARGET dates. It was clarified that the standards apply to settlement in Euro (thus opening hours should coincide with TARGET hours; for other currencies the opening hours of the relevant payment systems could apply). The standards also imply that the opening hours of SSS and central banks should be aligned – taking into account that participants need sufficient time to square their positions, i.e. the SSS closes before TARGET closes. ECSDA does however not want to prescribe how long this period shall be, but wanted to provide a “buffer” to adjust at the end of the day the liquidity positions. Therefore the wording of Standard 5 will possibly be clarified by changing “banking system” to “payment system”. Overall, the level of compliance is high and development is going in the right direction. ECSDA will also prepare yearly status updates to monitor compliance with the standards on an ongoing basis.

CEECSDA reported on the implementation of the standards in six (out of eight) new Member States (Hungary, Estonia, Poland, Lithuania, Slovenia and Slovakia). Standards 1 – 6: Only three CSDs settle in other currencies (EE, HU, PL), all others only in their domestic currencies. Opening times correspond to those of the relevant national central banks, however this will most likely change when these countries join the Eurozone and their deposited securities will be accepted as collateral by the ECB. Standards 7 – 10: As there are very few operational links between CEECSDA countries or between CEECSDA and ECSDA countries, some of these standards do not apply. Apparently, a significant number of new Member States want to implement the standards when entering the Eurozone.

Comments/Discussion: The discussion was focused on the effects of TARGET 2 being perceived as one of the main drivers in this area. Group members expect the introduction of TARGET 2 to facilitate settlement because it will remove obstacles and put pressure on the markets by enabling settlement in other RTGS if the domestic RTGS should be closed. TARGET 2 is not expected to be open during the night, but it is expected to offer “technical windows” to provide overnight finality (on an automated basis). However, this “technical window” is not considered to be within the scope of the standards but outside the regular processing day and aimed at facilitating cross-border transfer by providing finality to the settled transactions. A decision on this functions is expected mid 2005.

Within the TARGET 2 project a “Three party task force” consisting of CSDs which are a subset of the (107) ancillary systems settling into TARGET, National Central Banks and users (banks) has been established. This Task Force has worked a lot on the part of the TARGET2 user specifications related to ancillary systems but left some issues open, one being the management of the settlement day within TARGET (open from 7.00 hrs to 18.00 hrs). The Task Force tries to plan from a liquidity management

(treasury) point of view how transactions will settle in an orderly fashion in order to avoid a gridlock – caused by all ancillary systems settling at the same time.

Members mentioned that the full adoption of all Standards may depend on different issues, e.g. the migration to TARGET 2 planned for 2007 or on factual issues, e.g. the establishment of the Euroclear single platform. New Member States are aware that they have to comply if they want to participate (Poland joined TARGET 1 on the date of the meeting). The ECB reminded members that Standard 3 of the ESCB/CESR clearing and settlement Standards already asks for compliance with the TARGET operating hours; this will be relevant throughout the EU for securities settlement systems settling in Euro, not only in the Eurozone. Distinguishing between those standards which refer to the Euro and those which refer to any given currency (e.g. Standard 2) may also be helpful when progress on the standards is discussed.

Members insisted that banks need to be associated with the process being part of the chain; adapting their systems to new standards requires some time. Group members also mentioned the need for CCPs to be open, especially in regard to liquidity management transactions. Opening hours should be harmonised across European commercial banks, central banks and CSDs, taking TARGET hours as the benchmark.

The members agreed that CESAME will need to continue monitoring the situation as it evolves – preferably on the basis of previously distributed documents.

4.2. *Barrier 1 (differences in information technology and interfaces)*

Presentation: The presentation centred on the SWIFT Consultation Paper “The proposal for the removal of Barrier 1 of the Giovannini Report” of January 2005. The press announcement for the consultation covered Europe as well as the Americas and Japan/Asia and received encouraging feedback. Industry is also interested in the impact of adoption of a global protocol. Next steps: the consultation ends on 15 April (no replies yet but a number of associations are working on contributions). Comments will be analysed until September and an initial protocol model will be created and presented in early October for further comments. Already in December a final protocol shall be presented to the board members of SWIFT. If approved, publication of the final protocol shall take place in the first quarter of 2006. Usually, SWIFT standards are “adopted” by an agreement as to what is in the standards and then a timeframe is set within which users can adapt their systems to the standards.

N.B. SWIFT standards (not SWIFT network) have been approved as the global repository for the securities industry globally by ISO. Thus, SWIFT has become the service provider for standards business models for the XML-protocol which is key to the whole industry.

Comments/Discussion: Members mentioned that many entities are extremely interested and working hard on their comments in cooperation with SWIFT national user groups. The issues under discussion are twofold: a technical part but also a strategic part since communication protocols are considered a sensitive issue by major custodians and agents banks.

On the technical side is the discussion on whether the standards cover all functions and processes (bearing on the level of automation and efficiency the standards can

provide). Therefore, before today's procedures are changed, it has to be ensured that the new protocol works properly and will be used by a major part of the market. This leads to the wider issue of timing: members felt that there is industry consensus about the SWIFT standards which are regarded to be the "standards of the future". However, the timing of implementation – in the EU and globally - has to be discussed. This is also relevant for monetary operations: the banking community has to be able to implement the standards before the ESCB adopts the protocol, otherwise counterparties which do not use the protocol are cut out which could create distortions. This links in with the strategic part of the discussion: smaller firms are possibly hesitant to make costly changes to their existing systems (carrier and cost of carrier of these standards). In this respect, the standards themselves have to be properly distinguished from the carriers in this discussion (e.g. when SWIFT standards are being alleged to be "10-times as expensive as domestic standards" there is obviously confusion between standards and the used carriers or the migration from existing carriers which is meant). However, members expect industry to implement the standard once it has been adopted, because otherwise participants will lose business. Banks are already users of the present SWIFT standards (XML-protocol widely adopted for cash transactions). They consider the conversion of other market participants to the present standards to already be an improvement. It was felt that a global mapping showing all existing initiatives on this issue could be useful to ensure a consistent and efficient timeframe integrating all parties concerned of the different initiatives, probably with differentiation on which type of securities/derivatives are concerned since the situation is not the same for all of them.

Alberto Giovannini urged members to come forward with relevant information if they feel that different issues or types of securities merit a different approach or different timelines. If possible, a standardised information map should be elaborated on which entity covers which subject within a given period. This could be part of the annex to the operational conclusions.

4.3. Barrier 3 (corporate actions)

Presentation: the four associations cooperating in this field (EBF, ECSDA, ESF and EALIC) have been working on their own initially, but are now cooperating and coordinating their work. ECSDA and EBF are looking at the long term elements for corporate actions while ESF is working on short-term solutions and EALIC is focusing on the communication with the issuers. All aspects of corporate actions shall be covered by this approach. The target is to reduce complexity and go beyond mere technical processing. Harmonisation and standardisation (of content, format, distribution channels used) of corporate action could also improve transparency between issuers and shareholders; therefore FESE is informally involved in the discussion (also because some information requirements are laid down in market rules). Key elements are:

- elimination of interim securities (like coupons)
- definition and standardisation of key dates (ex-date, record date, and payment date), definition of optimal period between ex-date and record date, and
- standardisation of payment mechanisms (e.g. for coupons).

At present, a gap-analysis for each market according to a standardised matrix is carried out. Then work will continue on establishing an implementation plan and identifying legal, tax and regulatory barriers in order to determine how and when public action is needed. Finally, constant monitoring of progress achieved will take place. Work started with the subject of cash dividends, followed by other topics like stock distribution, proxy voting, communication between issuers and intermediaries, analysis of market claims, etc. Associations are also creating a communication and implementation plan to make sure that the recommendations are widely disseminated and discussed and then put in place in a consistent manner.

Eleven members of ESF have quantified the benefits of harmonisation and standardisation of ex- and record date alone with an aggregate annual amount of more than 10 mio. € Work on certain voluntary actions has resulted in a draft standard; this might be presented at the next CESAME group meeting.

Comments/Discussion: Due to the many different entities involved (issuers, intermediaries, markets, banks, CSDs, etc.) and the multi faceted issues, ensuring first consistency of the standards and then uniform implementation is important. It is therefore difficult to commit to definitive implementation dates. Members acknowledged the severe difficulties in coming to an agreement in the harmonisation process and gave credit to the associations involved for their achievements so far. The next step will be to convince the markets and to get industry to make significant investments in order to reap benefits which will only come later. One of the challenges will be to entice markets with little significant savings resulting from harmonisation to adapt new standards. The work of the CESAME group might help in this area. Identifying where the main pressure points are (procedural/fundamental, law, concept of shareholder relationship) is essential. The CESAME group is expected to describe, understand and discuss the issues at stake across all markets and then to decide whether it puts its collective weight into pushing for them. Therefore, over time, presentations will have to evolve from a technical level (“the picture of the tree”) to a political level (“the picture of the forest”) and the CESAME group shall spend time on determining the political way forward and where to act first.

It was reiterated that *public sector action* is also required for the removal of barriers relating to corporate actions, to the extent that they are the result of diverging national rules, especially in the areas of taxation, legal framework and supervisory issues. The work on corporate actions is also generally strongly linked to the work of the Legal Certainty Group, e.g. in regard to corporate governance, shareholders’ rights, exact time of transfer of securities’ ownership etc. Some of the historically open legal issues are only being approached now, e.g. it was only in 2004 when provisions on actions/resolutions in writing were put into the terms and conditions in Eurobonds.

Group members noticed an increasing number of different reporting requirements, too, which are enshrined in many directives (e.g. in the field of securities and company law – Transparency directive, MiFiD, Market Abuse Directive, reporting of voting rights etc.) and market rules. This will create demand on multiple systems to establish these reporting lines. However, duplication of networks covering the same requirements and doing the same should be analysed to avoid cost, duplication, establishment of different protocols (SWIFT) etc. Many technical issues within corporate actions are linked to problems in other areas which could simultaneously benefit from solutions, e.g. clarification of the ex-date and record date could be beneficial to clear up the

present confusion which exists on dividend payments and annual meeting participation in regard to sold but not yet settled shares.

The Commission's services shall endeavour to provide an overview on the different transparency issues/reporting requirements. The operational conclusions are to be developed as a tool to monitor progress and identify needs for further work. The associations will continue their work and report on progress upon the forthcoming meetings. Finalised recommendations shall be posted on the CESAME web site.

4.4. *Barrier 8 (securities issuance practice)*

Presentation: All ANNA members in the EU are now issuing, on request, ISIN numbers on the same day. Although members report slightly different practices within Member States, they are generally satisfied with the service provided. More information on details is given in the document pertaining to the presentation. Barrier 8 is thus no longer perceived as a major obstacle.

However, another difficulty has materialised in this context. The U.S. numbering agency (S&P) claims intellectual property in the national part of the ISIN number it issues. The effect of this practice would be that every time an entity is using U.S. ISIN numbers, e.g. a bank in its internal database, it could be asked to pay ca. 50 US cents for such use. Indeed it appears that invoices to that effect have already been sent out by the U.S. numbering agency; they have apparently been ignored, at least for the time being. Although the claim is apparently also not supported in the U.S. or by ANNA, some large users have negotiated block fees (some fund managers are said to pay annually around 100.000 USD per location).

Comments/Discussion: Members are worried that the charging of fees could be a setback on the use of ISINs and put into question the use of having standardised numbers at all. It was decided to study the issue and the Commission endeavoured to possibly bring it to the attention of the EU-US dialogue. Members also briefly discussed (the little use of) International/Euro Commercial Papers which are being placed into Euroclear France which can handle short term overnight papers on an automated basis.

It was agreed that in its operational conclusions, the Commission should establish and keep updated a 'Tableau de Bond' on the different barriers. The purpose of such a tool is to monitor progress, identify actors and foster any necessary action.

Barrier 10 (restrictions on the activity of primary dealers and market makers)

As complimentary information to the agenda, the Commission recalled that Barrier 10 relates to possible restrictions on the settlement activity of primary dealers with responsibility of the public sector for removal. The Chairman informed the group that it was contemplated to draft a letter - for his signature (as chairman of the CESAME group) and that of Jan Schmidt (as the Commission member of the EFC Sub-Committee of national debt managers) - addressed to the national debt offices and to EPDA, IPMA or future-ICMA and AMTE (Association Marchés Taux Euro). The letter could recall the context for Barrier 10 and ask for a response on the existence and explanation of any

restrictions linked *specifically* to primary dealers' settlement activities. The Commission will then co-ordinate the public sector response through the EFC sub-committee and the overall response, i.e. both public and private sectors, through the CESAME group.

Group members welcomed action on this barrier which is within the ambit of the public sector. They were keen to be kept informed about future developments.

5. PUBLIC AUTHORITY ACTION

Concerning the developments at the **European Parliament (EP)**, the group was informed that the EP has drafted an own-initiative report on the Commission strategy on Clearing and Settlement (Rapporteur: Ms T. Villiers and in future Ms P.N. Kauppi in the ECON Committee). The Commission wholeheartedly welcomes this initiative of the EP and it will play a very active part in the discussion since it shows that the EP is aware of the importance of the clearing and settlement industry for the whole EU economy and that it is willing to take a stance early on in the process. The Parliament held a closed-door meeting in January and an open-door expert hearing in February (at which Mr Giovannini was an invited expert). Further discussions of the draft report and the forthcoming amendments are foreseen during March. The voting is likely to take place in April 2005 in the ECON and in May in the Plenary.

The **European Economic and Social Committee (ECOSOC)** has also adopted a favorable opinion on the Communication on clearing and settlement on 10 February 2005 by 99 votes in favour, 2 abstentions and no negative votes.

The Commission informed the group members on the contacts it had with the Member States on clearing and settlement (in the context of the Council Committees). Discussions have been, and will be, held in the context of the **ESC, FSC and ECOFIN**.

Thanks to the efforts of the Dutch presidency, the issue of clearing and settlement was prominent on the Agenda of the FSC of 28 October 2004. The Commission was asked to inform the **FSC** of the result of the consultation process and of the discussions within the CESAME group. The FSC then prepared the ECOFIN Conclusions of November 2004 in relation to clearing and settlement. The **Council Conclusions on Clearing and Settlement** were adopted at the ECOFIN of 25 November 2004. A link to the conclusions is available on the CESAME group's website. The ECOFIN conclusions were supportive of the strategy and the line taken. Broad agreement was found in the Council for the Commission's strategy for the identification of the Giovannini barriers as the main obstacles to integration, which implies a concerted private and public effort and a solid support for the different initiatives undertaken (including CESAME Group to the work of which the Council dedicated a whole paragraph of supportive text). It also supported the preparation of an impact assessment within an adequate timeframe. However, as a matter of principle, the Commission had to stress that an impact assessment is one of many tools, albeit an important one, in the formation of its initiatives. Therefore, the outcome of any impact assessment cannot, either in this or in other areas, prejudice or limit, in any way, the Commission's right of initiative, which is granted by the Treaty.

Members were informed that the Commission presented to the **ESC** (Lamfalussy level 2 committee), at its meetings of 18 November and 23 February, a detailed plan of action together with the first results of the consultation on the Communication. The Summary Records of the ESC meetings are available on DG Markt's website.

The CESAME group was then informed about the ongoing work on the assessment methodology for the **CESR/ESCB standards** (as envisaged in paragraph 27 of the standards) which will be presented to the industry soon. A public hearing shall take place on 15 September at CESR's premises in Paris. Also, a new "Europeanised" body of rules for CCPs has been developed (based on the CPSS-IOSCO recommendations for CCPs). It is not yet decided if these rules are to be integrated into the existing standards or if they merit a separate document. A controversial discussion took place on the issue of custodian banks (e.g. on risk analysis, internalised settlement, contractual settlement, DvP). Further work in the area of and supervisory co-operation (see standard 18) will start in April and will take place in a manner of continuous dialogue. The work on developing the assessment methodology for credit and liquidity risk controls (see standard 9) has not yet begun.

Members were also briefed on **TARGET 2**. The ECB published the third progress report in January 2005. The four main issues of the report are

- liquidity management (comprehensive functions, e.g. settlement of different positions from a single RTGS account and intraday liquidity pooling feature)
- pricing (eliminating pricing differences between domestic and cross-border transactions)
- ancillary system settlement (night-settlement window for ancillary systems using different settlement models, ECSDA request for extension of the technical night time window is under consideration), and
- migration issues (migration in different waves and on different predefined dates).

Comments/Discussion: In regard to the CESR-ESCB standards, one member emphasized that this new approach is much more acceptable than the previous one.

6. LEGAL CERTAINTY, FISCAL COMPLIANCE EXPERTS' GROUP AND CESAME SUB-GROUP ON DEFINITIONS

- UNIDROIT
- Company law issues
- The Hague Convention

The *Legal Certainty Group* had its first meeting on 31 January 2005. It works similarly to the CESAME group, providing maximum transparency through its website (http://europa.eu.int/comm/internal_market/financial-markets/clearing/certainty_en.htm). Presently, the group is working on a very detailed questionnaire covering the most relevant legal issues.

Potential members of the *Fiscal Compliance Group* have been identified and a draft mandate is established and presented to DG Markt's hierarchy for approval. It is expected that the group will meet for the first time in mid-April. It will also have its own website where documents will be regularly posted.

CESAME Sub-Group on Definitions has held its first meeting on 2 March 2005 on the basis of a draft document. Work on elaborating a common understanding is progressing, possibly leading to definitions of functions rather than definitions of activities. Hopefully, a set of definitions can be put before the CESAME group after the summer.

7. OTHER ISSUES

The date of the next meeting has been fixed: it will take place 10 June 2005 in the Commission premises in Brussels. The subsequent meeting is tentatively planned for 24 October 2005.