



EUROPEAN CENTRAL BANK
EUROSYSTEM

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REMOVING GIOVANNINI BARRIER 7

Methodology

Out of the 15 Giovanni barriers to the integration of EU securities post-trading systems, two barriers refer to the absence of intra-day settlement finality and different operating hours/settlement deadlines. Barrier 4 relates to the absence of intra-day final irrevocable delivery of some assets across borders and the related limited ability to reuse them. Barrier 7 relates to differences in the operating hours of national systems. This may lead to incompatible deadlines for matching and delivery between systems.

Work on dismantling these two barriers started by the time the Giovanni Group published its second report in 2003. In its report “The ECSDA’s response to the Giovanni Report” of April 2004, ECSDA analysed in detail these barriers and proposed ten standards the implementation of which was expected to ensure their removal.

While these standards have been largely adopted and implemented by ECSDA members, it has become clear that some practical impediments for CSD participants remain nonetheless and require further action. In particular, as it stands now, the harmonisation of operating hours is limited to settlement activities of CSDs when acting as issuer CSDs, but does not cover settlement activities that are typically conducted by CSDs as investor CSDs. Hence, while harmonisation of operating hours and cut-off times has been achieved at domestic level, there is still lack of harmonisation, especially at cross-border level. In particular, ECSDA recommendations have allowed the harmonisation of the cut-off times to enter and settle transactions in an issuer CSD. However domestic transactions require harmonisation also of other cut-off times/

Against this background, this note aims at setting out a very simple methodology on how to move beyond the current situation, i.e. to identify what are the other actions required to fully remove barrier 7.

Mapping exercise:

As a starting point, it is proposed to conduct a mapping exercise. This mapping exercise should help to get a clearer overview of the current situation as regards cut-off times for settlement of cross-border transactions: i.e. as a minimum cut-off times of issuer and investor CSD and where needed cut-off times of agent bank.

Scope:

The mapping exercise should usefully include both equities and bonds.

Participants:

From a cost-benefit point of view, the mapping exercise should focus on the CSDs for which the cross-border traffic is particularly important: i.e. the ICSDs, the euro-area CSDs, plus the CSDs in UK, Denmark, Sweden and Switzerland. While for cross-border securities transfers also agents/custodians play an important role, they are removed from the exercise for the moment as this would be too complicated at this stage. They could (and should) be included at a later stage.

Questions:

Each of the (I)CSDs participating in the mapping exercise should then answer the following questions:

- Which instruments are currently eligible for settlement?
- Define the links which exist with the other CSDs participants in the mapping exercise.
- Where the instrument is eligible and there is a link, define the relevant same-day cut off for delivery AND receipt of that instrument (i.e. define the relevant cut-off both from issuer and from investor CSDs perspective). Do this for both FOP and DVP.
- Determine (if possible) the maximum time taken to move the instrument.
- Note whether the delivering or receiving CSD is using real-time or batch processing.
- Note any other limitations or relevant factors for each movement (including cut-off of agent or custodian banks).

Further action:

On the basis of the answers to these questions, an action plan could be worked out which would aim at harmonising cut-off times and operating hours to facilitate cross-system settlement. This action plan may consist of a set of recommendations by ECSDA to its members.

Timeline:

It is envisaged to present to the next CESAME meeting, this methodology and a first draft of the mapping exercise. The mapping exercise can be prepared by ECSDA starting from the background material provided by ECB and SIFMA. The action plan identifying concrete proposals for harmonisation should be prepared by the end of 2008.

Roles and responsibilities:

Any initiative to fully harmonise opening hours is primarily the responsibility of the private sector. The European Central Securities Depository Association (ECSDA) should take the lead in this project, but there will be a need for co-ordination with central banks and users of the systems.