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# Economics of standard setting in C&S

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# Economic issues in C&S

## A lot of previous work on:

- competition
  - efficiency
    - productive, allocative
- distribution/ access
  - smaller companies; small investors
- systemic risk

**... but little on standard setting**



# Outline

Standards in C&S

Economics of standard setting

Two arguments against laissez-faire

Some tentative policy conclusions



## 1 Models of standard setting in an securities ownership network

### 1.1 Model 1: competition between domestic CSD and custodian

This first model explores how the profitability of securities transaction services depends upon the fixed costs  $C$  to customers of switching from one domestic service provider to another. Messaging and communication standards can alter these switching costs as well as the costs of providing these services.

$$\Pi = N \times C + X_1$$

### 1.2 Model 2: the case of domestic and foreign customers

This subsection extends the simple model of the previous sub-section to a situation where there are two securities, for which transaction accounts are each provided by a different CSD. These two securities can be interpreted as domestic securities located in different countries  $a$  and  $b$ , although they could as well be a domestic and an international security. Assume that there are  $N$  customers in country  $a$  (domestic customers) seeking to settle 1 transaction per period of securities located in  $a$ . There are also  $n$  customers from country  $b$  (foreign customers) seeking to settle  $\theta \leq 1$  transactions per period of securities located in country  $a$ . Discriminatory charging (different prices for domestic and foreign customers) is prohibited.

#### 1.2.1 Domestic competition for foreign and domestic investors

$$\pi = (N + n)C + X_1 \tag{1.1}$$

#### 1.2.2 International competition for foreign and domestic investors

$$\pi = (N + n)C + X_1 - X_0 \tag{1.2}$$