



ECSDA
European Central Securities
Depositories Association

FESE, EACH & ECSDA – Implementation progress towards the Code of Conduct

Joint status update for the meeting with the
Monitoring Group in Brussels on 10 October 2007

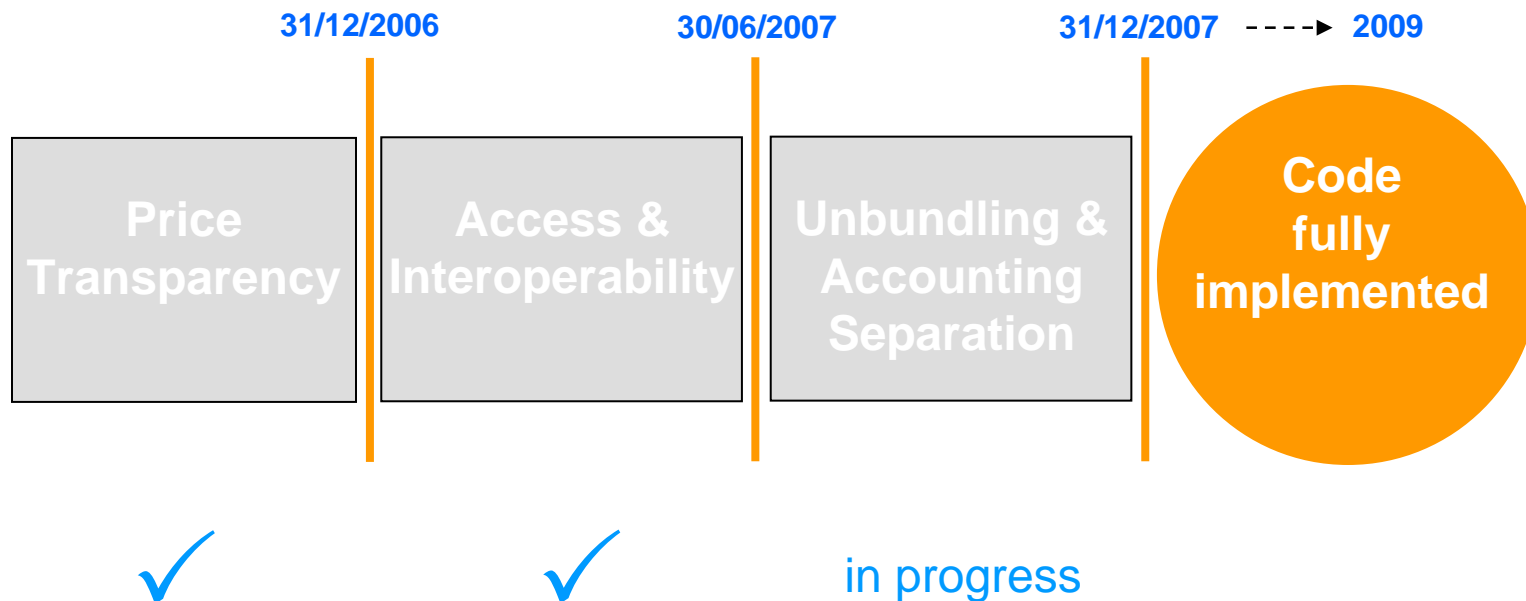
Agenda



- Introduction
- Communication with involved parties (Users, EU Commission, CESR)
- Price Transparency (Articles 7 - 18)
- Access and Interoperability (Articles 19 - 37)
- Service Unbundling & Accounting Separation (Articles 38 - 43)
- External Auditing (Article 44)
- Other asset classes

Implementing the Code*: The timeline

Code of Conduct implementation timeline



* for Cash Equities only

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- External Auditing (Article 44)

- Other asset classes

Communication with involved parties (Users, EU Commission and CESR)

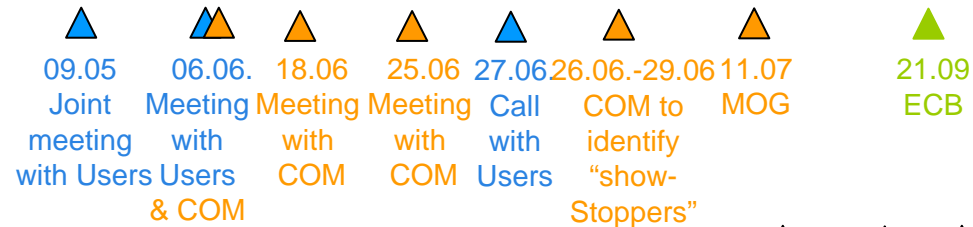
- Giving Users, EU Commission and CESR the opportunity to discuss important issues regarding the Code of Conduct, regular meetings with the infrastructures took place:



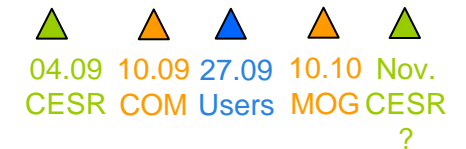
Price Transparency



Access & Interoperability



Service Unbundling & Accounting Separation



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Compliance with the Code - ECSDA Conversion Tables published on websites



Status of Today (26. September 2007)

- **28 ECSDA Members** out of the **33** who signed the CoC have already published a Conversion Table on their respective websites, including all major players

- Reminder on “Conversion table” for ECSDA members was sent – there are still some conversion tables missing on the respective websites. The missing 5 CSDs:
 - Cyprus Stock Exchange (Cyprus),
 - UNIVYC Ltd (Czech Republic),
 - Icelands Securities Depository LTD (Iceland),
 - Central Registry of Securities JSC-Republic of Srpska (Bosnia & Herzegovina),
 - Central Depository Agency Inc (Croatia),have only published price lists so far.

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Level of Acknowledgement - Access & Interoperability Guideline



ECSDA
European Central Securities
Depositories Association

Stock Exchanges (coordinated by FESE)	Clearing Organizations (coordinated by EACH)	(I)CSDs (coordinated by ECSDA)	
<ul style="list-style-type: none"> ■ Athens Ex.(Greece) ■ BME (Spain) (LoI) ■ Borsa Italiana ■ Bratislava Stock Exchange.(Slovakia) ■ Budapest SE (Hungary) ■ Cyprus SE ■ Deutsche Börse (Germany) ■ Euronext (BE, FR, NL, PT) ■ Irish SE ■ LSE (UK) ■ Luxembourg Stock Exchange ■ Ljubljana Stock Ex. (Slovenia) ■ Malta Stock Ex. ■ OMX Exchanges (DK, SE, FI, IS, EE, LT, LV) ■ Oslo Bors ■ Prague Stock Exchange ■ SWX Swiss Ex. ■ virt-x (UK, Switzerland) ■ Warsaw Stock Ex. ■ Wiener Börse (Austria) 	<ul style="list-style-type: none"> ■ CCP Austria ■ CC&G (Italy) (LoI) ■ Eurex Clearing AG (Germany/Ireland) ■ KDPW (Poland) ■ KELER (Hungary) ■ LCH.Clearnet Ltd (UK) ■ LCH.Clearnet SA (BE, FR, NL, PT) ■ OMX (Denmark, Sweden, Finland) ■ Serbia CSD (LoI) ■ SIS x-clear (Switzerland) (LoI) ■ VPS Clearing (Norway) (LoI) 	<p><u>Signatories of the Code:</u></p> <ul style="list-style-type: none"> ■ APK (Finland) ■ Clearstream Banking Germany ■ Clearstream Banking Luxembourg ■ CSCC (Slovenia) ■ CSD AD (Bulgaria) (LoI) ■ CSD of Croatia (LoI) ■ CSD of Lithuania ■ CSD of Montenegro ■ CSD of Serbia ■ CSD of the Slovak Republic (LoI) ■ Cyprus Stock Exchange (LoI) ■ Estonian CSD ■ Euroclear UK & Ireland ■ Euroclear Bank ■ Euroclear Belgium ■ Euroclear France ■ Euroclear Netherlands ■ Helix (Greece) ■ Iberclear (Spain) (LoI) ■ Interbolsa (Portugal) ■ KDPW (Poland) 	<ul style="list-style-type: none"> ■ Keler (Hungary) ■ Latvian CSD ■ Malta Stock Ex. ■ Monte Titoli (Italy) (LoI) ■ NCSD Group (Sweden) ■ OeKB (Austria) ■ SIS Group (Switzerland) ■ UNIVYC (Czech Rep.) ■ VP (Denmark) ■ VPS (Norway) <p><u>Letter of Intent:</u></p> <ul style="list-style-type: none"> ■ CSD of Bosnia and Herzegovina (LoI) ■ Iceland's Sec. Depository ■ SCP (Czech Rep.) (LoI) <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p><u>Legend</u></p> <p>Bold = Letter of Acknowledgement</p> <p>Bold (LoI) = Letter of Intent</p> <p><u>Results (as of 09.10.07 at 11:00h)</u></p> <p>FESE: 19 LoA, 1 LoI → 20 Responses</p> <p>EACH: 7 LoA, 4 LoI → 11 Responses</p> <p>ECSDA: 24LoA, 8 LoI → 32 Responses</p> <p>Total 47 LoA, 16 LoI → 63 Responses</p> </div>
		10.10.2007	

Letter of Commissioner McCreevy – Summary

- The three associations answered in a letter to Commissioner McCreevy (3 August 2007) that they will look at the A&I Guideline in January 2008.
- ECSDA had a discussion with the ECB (21 September 2007) in which all points were clarified.
- Assessment of implementation of A&I Guideline in the course of 2008.

Status of Access & Interoperability requests*

Market Receiving Entity	Belgium			France			Netherlands			Portugal			Germany			Switzerland			UK			Italy		
	T P	C C	C S	T P	C C	C S	T P	C C	C S	T P	C C	C S	T P	C C	C S	T P ¹	C C	C S	T P	C C	C S	T P	C C	C S
Requesting Entity		P	D		P	D		P	D		P	D		P	D		P	D		P	D		P	D
Eurex Clearing				X	X	X	X	X	X							X	X	X	X	X	X			
LCH.Clearnet Ltd	X		X	X		X	X		X	X		X	X	X	X							X	X	X
LCH.Clearnet SA													X	X	X							X	X	X
SIS x-clear	X	X		X	X		X	X		X	X		X	X					X	X	X			
Clearstream Banking Frankfurt		X			X			X			X	X					X			X	X			
Clearstream Banking Luxembourg		X			X			X			X					X				X				
Euroclear Bank													X											
SIS SegalInterSettle													X	X	X									

¹ = virt-x

- shaded areas indicate links already in place
- blank areas indicate that no links applicable
- black area indicate organisation to itself

* Table dd. 8 October 2007; based on information publicly available in the financial press

Agenda

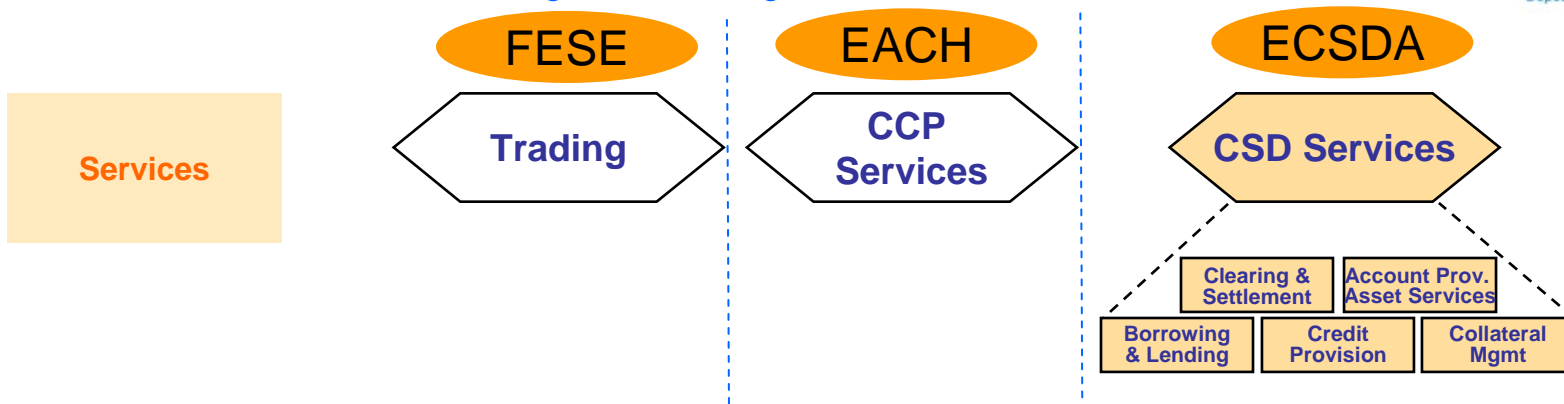
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Overview: Service Unbundling & Accounting Separation



ECSDA
European Central Securities
Depositories Association

- Unbundling the following services from each other:



Services

Unbundling

- Customer can purchase an unbundled service without having to purchase another
- Special price offers for several unbundled services possible; special price has to meet price transparency requirements of CoC

→ Affects primarily ECSDA members

Accounting

- Disclose non-consolidated accounts for unbundled services to National Regulator
- Apply IFRS or local standard, if IFRS not mandatory

→ Affects all associations: FESE, EACH and ECSDA members

ECSDA Deliverables: Service Unbundling

■ Service Unbundling

- Common preparation, but there will be a decentralised implementation by each organisation in accordance with the requirements of the national regulator

- **ECSDA established a Task force on “Service Unbundling” (Articles 38- 41)**
 - Several meetings/conference calls have already taken place since April 2007.
 - The task force developed a glossary (see separate attachment) to define relevant terms which have been distributed to all ECSDA members for review and to finally facilitate their individual implementation of Service Unbundling on a common basis.
 - The task force has developed a simplified “4 Step” approach as a guideline to ECSDA members.

4 Steps to complete “Service Unbundling”

Step 1: Identification of business area relevant for CoC

- [Art 39ii](#) should be relevant if the organisation is a CSD only
- In case of trading and/or clearing services [Art 39i](#) is also applicable
- Generally [Art 6](#) has to be considered as well

Step 2: Identification of gap between current services list/pricing and CoC requirements

- Compare the current status of the services vis a vis [Art 40 & 41](#)
- Apply definitions (Glossary) of TF “Unbundling” and check them against the internal organization's usage in services / price lists

Step 3: Transform identified gaps into implementation plan

- Conduct activities to unbundle services effectively
- Define separate pricing for each unbundled service

Step 4: Publish services / price lists in compliance with CoC by 31.12.2007

Completion of the CONVERSION TABLE on „Price Transparency“ is a pre-requisite to „Unbundling Services“!!!!

Summary of Status of Service Unbundling

- **ECSDA asked their members for feedback on the status of their internal impact analysis on Service Unbundling:**
- Out of **33** CSDs **29** have answered the survey.
- Out of **33** CSDs **0** have not started their internal impact analysis by now.
- Out of **33** CSDs **18** reported work in progress.
- **11** CSDs have stated to have finished their internal impact assessment.

- **Asked about the (preliminary) assessment of complexity to implement gap:**
 - 22** CSDs answered, that they had a **low** complexity
 - 5** CSDs answered, that they had a **medium** complexity
 - 2** CSDs answered, that they had a **high** complexity

ECSDA Deliverables: Accounting Separation

■ Accounting Separation

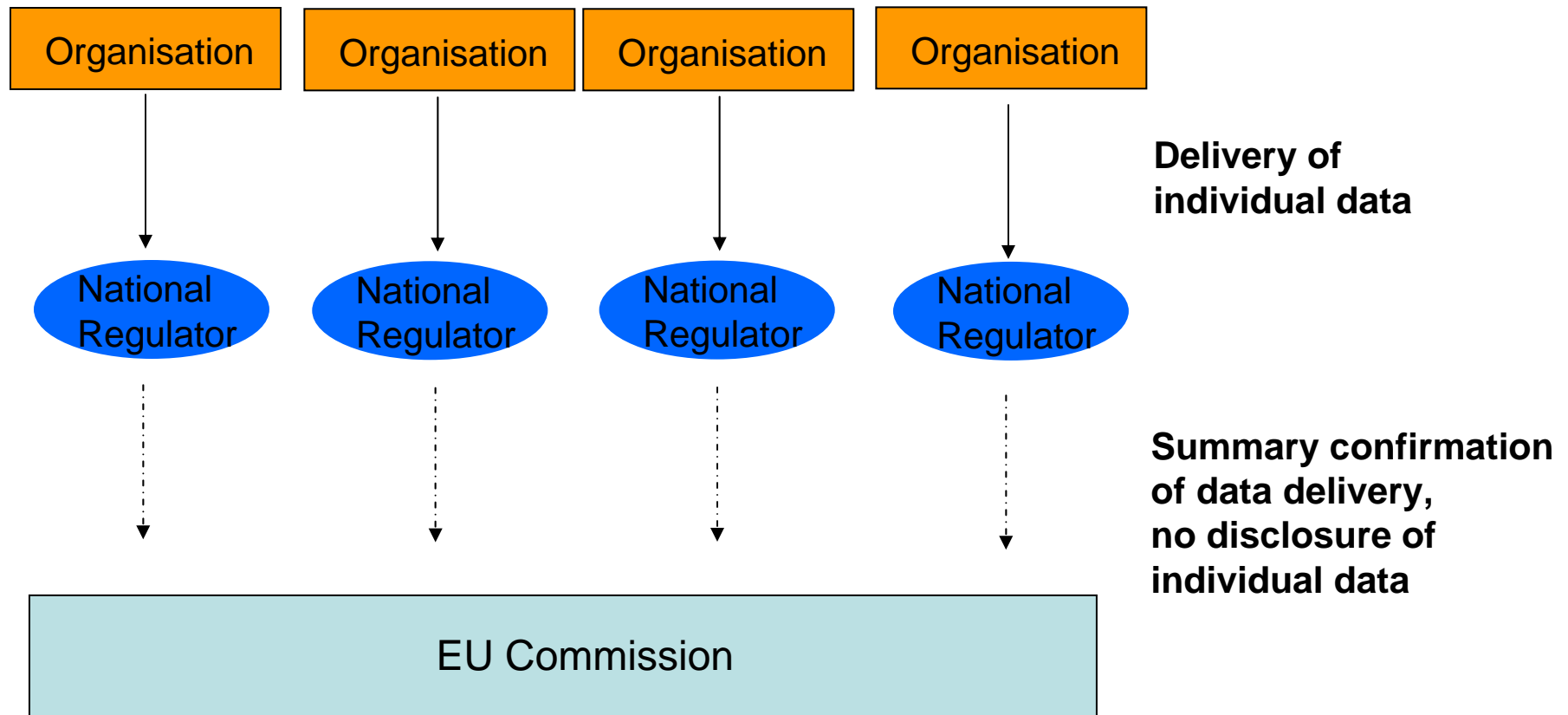
- Decentralised preparation and implementation: every organisation will perform its own activities. Implementation monitoring done on Association levels.
- Organisations will report to their national regulatory authorities only, but not to the EU COM.

■ ECSDA position of Accounting Separation

- The undersigning Organisations committed to implement this reporting by 1st of January 2008. I.e. the collection of the necessary basis data will start 2008.
- We strongly believe that any reporting that is not totally based on the new management accounting system as well as adjusted processes would endanger to disclose inadequate and misleading information.
- The reporting along the definition of the Code of Conduct has a high impact on the internal processes and applications of the undersigning companies, i.e. in the finance and accounting departments. As the CoC accounting basis is not yet in place essential figures (i.e. revenue and cost data according to CoC categories) will only be available starting with the year 2008.
- Depending on the legal reporting frequency & period of each organisation Accounting Separation related data will be available in 2008,2009.

Accounting Separation

■ Process



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External Auditing of the Code of Conduct (1/3)

■ Process of External Auditing – Terms of Reference

- The Commission proposed some **draft terms of reference** for the **external auditors** of the Code.
- In summary, a two-steps process is proposed by the EU Commission:
 1. A self-assessment report by the Organisations, which will be provided to the National Regulator.
 2. An assurance-report by the External Auditors assessing the self-assessment report, which will also be provided to the National Regulator.
- The associations discussed the draft terms of reference with their members and provided a joint feedback on the draft terms of reference via the three associations FESE, EACH and ECSDA.
- It was agreed with the Commission that Market Infrastructures will send their comments on the Commission proposal (done in a letter to the EU Commission dated xx September 2007).

External Auditing of the Code of Conduct (2/3)

Summary of key comments of the three associations on the Terms of Reference sent to the EU Commission:

- Each organisation will produce **Self-assessment** reports for each of the three phases / sections of the Code
 - For **Price Transparency**, the updated versions of the current FESE / EACH / ECSDA price transparency implementation reports is suggested to be used as a template.
 - For **Access and Interoperability**, the report will be based on a standard template (to be developed).
 - For **Unbundling and Accounting Separation**, the self-assessment report will be based on a standard template (to be developed).
- Compliance with **Services Unbundling and Accounting Separation** will additionally be subject to an **external audit**, which will result in the production of an **Assurance statement** from the external auditor.
- The reporting date to the national regulators should be no later than 30 days after the approval of the fiscal results by auditors and disclosure of the annual report.

External Auditing of the Code of Conduct (3/3)

■ Role of different players with regard to the three phases of the Code

Role in monitoring compliance with the Code				
Code phase	Organisations	Auditors	National Regulators	MOG *
Price Transparency	Self-assessment by the organisations based on the implementation reports			Monitoring of the self assessment by the organisations based on the implementation reports
				→
Access and Interoperability	Self-assessment by the organisations based on request received / raised			Monitoring of the self-assessment by the organisations for the implementation of the Access and Interoperability Guideline
				→
Unbundling and Accounting Separation	1) Non-consolidated accounts and revenues & costs of unbundled services (articles 42 & 43) sent to auditors and national regulators.	Receive data of 1) and testify consistency of information. Issue assurance statement to confirm compliance of the organisation (including 2) below)	Receive information (datasheet) from organisations (articles 42 & 43)	Receive assurance statements from Organisations.
	2) Prepare Self-assessment report which will be sent to auditors and national regulators on the implementation of articles 42 & 43	Receive self-assessment report . Verify information relating to articles 42 and 43. Include the result into the assurance statement above (see1))	Receive assurance statement per organisations from Auditors	Monitoring of the compliance per organisation based on assurance statement of external Auditors.
				→

* The MOG is responsible for monitoring the implementation of the Code of Conduct. It is chaired by the EU Commission

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Other asset classes

Generic questions to be addressed

The following generic questions have to be clarified upfront and serve as prerequisite of any discussion about other asset classes :

- Is there a “market failure/deficit” to be addressed for :
 - a) fixed income instruments?
 - b) derivatives?
- If there is a market failure what would be the adequate tool of a regulatory action for :
 - a) fixed income instruments?
 - b) derivatives?
- If a self-regulatory approach is the adequate instrument to address market failure for derivatives/fixed income markets, which are the additional market players who should be involved?
- Do you think that market infrastructures should, as a priority, focus on the full implementation of the existing Code of Conduct for cash equities?