

# Commission proposals to bolster the financial settlement systems

Against a background of changes in financial markets and regulatory developments, modifications have been proposed to EU Directives dealing with settlement systems and financial collateral arrangements. The solutions proposed could make an important contribution to strengthening the tools for managing instability in financial markets.



To strengthen Europe's financial settlement systems and update financial collateral arrangements the Commission has drawn up a proposal to amend the Settlement Finality Directive and the Financial Collateral Directive.

These are the two main Community instruments in the area of clearing and settlement and financial collateral. The main purpose of the proposal is to bring the Directives into line with the latest market and regulatory developments.

With the introduction in November 2007 of MiFID - the Directive on Markets in Financial Instruments - trading systems are expected to become increasingly linked and interoperable. MiFID, for example, enables investment firms, regulated markets and Multilateral Trading Facilities (MTFs) to choose their post-trade location. There is consequently a need for legislation to be adapted. The protection afforded by Settlement Finality Directive will consequently be extended to night-time settlement and to settlement between linked systems.

In addition the scope of the protection provided by both Directives will be broadened to include new types of assets (i.e. credit claims eligible for 'collateralisation') so as to facilitate their use throughout the Community.

The proposal also seeks to introduce a number of simplifications and clarifica-

tions to facilitate the application of the two Directives.

### Financial turmoil

The recent and ongoing financial turmoil is a further argument in favour of the proposal, since the revised provisions could significantly help to strengthen the tools available for managing instability in financial markets.

The establishment of a harmonised legal framework for the use of credit claims as collateral in cross-border transactions would, for example, help enhance market liquidity, which has been severely hit in recent months.

### Settlement Finality

The Settlement Finality Directive was drafted in the mid-1990s with a view to preparing European payment and securities settlement systems for the euro and a more integrated market place.

It provides protection to both payment and securities settlement systems in case of default by a participant.

The Financial Collateral Directive regulates and facilitates the cross-border use of collateral.

Both Directives generally work well and Member States, market participants and other stakeholders strongly support them. With this proposal the Commission's primary aim is to update them to bring them in line with regulatory and market developments that have occurred since their adoption.

"Ensuring the proper functioning of settlement systems in rapidly evolving markets is indispensable for the stability of financial markets, even more so in times of market turmoil," said Internal Market and Services Commissioner Charlie McCreevy.

"Following MiFID and the Code of Conduct, we are witnessing an increasing number of requests for cross-border links between post-trade systems. We are also witnessing an increased use of new types of collateral in the marketplace, in particular credit claims.

"However, the use of credit claims as collateral in cross-border transactions is almost non-existent, as they currently do not enjoy the protection of the Financial Collateral Directive. I would like to remedy this as well."

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