

LONDON STOCK EXCHANGE RESPONSE TO CONSULTATION ON CESR-ESCB DRAFT RECOMMENDATIONS ON CCPS AND CSDS

This response represents the views of London Stock Exchange plc as a stock exchange and the comments largely reflect the interests of a trading platform. Overall, we support the approach being taken.

Part 1 – Recommendation 3

This recommendation is written as if the settlement cycle was governed by the CSD. This is not the case for on-exchange trades where the settlement cycle is a term of the trade and is therefore governed by the rules of the exchange.

It is therefore inappropriate to measure a CSD against something over which it may have no control.

We would also question whether a reduction in settlement cycle below T+3 will actually be a net benefit in markets where CCPs are in use. The role of the CCP means that there will be no reduction in counterparty risk (although there would probably be a reduction in the amount of collateral deposited against margin requirements) and there would be a possible decrease in settlement efficiency as participants may find it hard to settle on shorter cycles.

There may be a case for markets to investigate these issues, but, again, it is not clear that CSDs should be measured against this. If this is to happen (as suggested in explanatory paragraph 10) then stock exchanges also need to be involved.

It is a good idea for settlement performance to be monitored (key issue 2), but monitoring on its own is not enough – the market (not just the CSD, again) needs to establish what it is going to do with the information.

Key issue 7 suggests incentives for early settlement during the trading day without giving any reason for this – presumably the main benefit is related to liquidity management by participants. Given the different approaches to settlement in different markets (eg overnight only, overnight plus day-time, day-time only) it is hard to see whether any general principles could be adopted here.

Explanatory paragraph 11 suggests that CSDs should have a role in dropping unsettled transactions after a period of time. Again, this is conflicting with the role of exchanges in creating contracts between parties through executing trades. It should be up to the exchanges (and the CCPs where used) to determine the contractual arrangements, not the CSDs.

Part 1 – Recommendation 4

It is not within the power of most CSDs – as far as we are aware – to decide whether a CCP should be used in a market. It is therefore inappropriate to measure a CSD against this.

Part 2 – Recommendation 11

There is a definition of “interoperability” in explanatory paragraph 2, which fails to explain what it is or what it is for, which is to facilitate free competition between CCPs and choice for customers. Understanding this helps to measure whether it is being achieved or not.

A key requirement that should be added to explanatory paragraph 8 is that a CCP that uses buying-in must be able to exercise this power against a linked CCP.