

Andrej Bolkovic
Cap Gemini Ernst & Young Nederland B.V.
Finance Division
Tel off. +31 30 689 6848
Tel mob. +31 6 1503 1050

CESR - ECSB
Wim Moeliker and Elias Kazarian

Subject: Standards for Securities Clearing and Settlement Systems in the EU

Friday 31 October

Dear Mr Moeliker and Mr Kazarian,

Please find enclosed my input for the consultative report on Standards for Securities Clearing and Settlement Systems in the EU. I would be glad to answer any questions that may arise, and can be reached on the numbers above.

Yours sincerely,

Andrej Bolkovic

It is good to see the movement from recommendations to standards. Efficiency, interoperability and easy access on a European level are still a long way off today. The standards set in the consultative report are a good way in the right direction but to achieve that which they aim, the standards should be imposed rigorously. However, in order for all of the separate standards to work together the overall business architecture of securities clearing and settlement systems should also be addressed.

One of the main issues not addressed in the consultative report is the overall business architecture of securities clearing and settlement systems on a European level. When investigating different markets in the EU, any party involved in the securities clearing and settlement process is always faced with high costs due to research, development of new systems and different rules and procedures to name but a few. Several standards set out in the consultative report will, if imposed properly, resolve a number of issues. The standards however, would be more effective in an overall agreed view of what securities clearing and settlement systems are to start with and what the roles of the different parties involved in the process are.

Agreement and definition of the following aspects by the EU would improve interoperability and efficiency:

- The definitions of all parties involved in the clearing & settlement process.
- The rights and obligations of each of the parties.
- The information that is (or should be) exchanged between the parties in order to function properly on a EU level. Not all information exchanged is standardized or managed by SWIFT. Standardization of messages would be easier if a general view existed of the information that must be exchanged.

This might seem simple, but there seems to be not one simple answer. As a result, the new standards will only partly achieve that which they aim. What is in fact needed is an EU business and system architecture for securities clearing and settlement systems.

For example, looking at Euronext (Amsterdam), The London Stock Exchange and the Helsinki Exchange it becomes apparent that each market has a different way of interpreting the clearing and settlement process, the parties involved have functions that differ and the related systems operate differently. Every custodian/general clearing member wishing to enter any of these markets is forced to invest in order to be able to operate these markets. Stock exchanges looking for new customers or offering new services are faced with the same problem. Currently, the London Stock Exchange is offering Dutch securities to Dutch parties starting from next year. The only way to make this in the least interesting is by offering clearing & settlement through the systems that are in place in the Netherlands. Anyone who has looked into the UK and Dutch market will be aware of the evident differences in systems and functions between CREST, LCH and Euroclear Netherlands (CNS) and Clearnet. The same applies for the new clearing system being implemented for the Helsinki Exchange. Although this does introduce a CCP on the Finnish market, as suggested by the standards, the system operates differently again from the systems of the LSE and Euronext.

Although we might all agree in discussions what clearing and settlement is, every country (and also every bank) seems to have a different interpretation and different systems to handle this. This has its impact on interoperability, access to new markets and efficiency. The consolidation in the markets we see today will reduce the differences, but places the definition in the hands of the biggest players. In order to fully achieve its goals, the EU should define a target business architecture of the securities clearing and settlement systems.