THE RESPONSE OF THE EUROPEAN CENTRAL SECURITIES DEPOSITORIES ASSOCIATION (ECSDA)

TO

THE ESCB/CESR CONSULTATIVE REPORT ON STANDARDS FOR SECURITIES CLEARING AND SETTLEMENT SYSTEMS IN THE EUROPEAN UNION

OCTOBER 2003

The ECSDA

The European Central Securities Depositories Association (ECSDA) was formed in 1997 to provide a forum for national and international CSDs to exchange views and carry out projects of mutual interest in the field of securities clearing and settlement.

Recently, the ECSDA has enhanced its role from the mainly technical implementation of links between CSDs. ECSDA's general objective now is to offer solutions and to provide advice at international level on technical, economic, financial, legal and regulatory matters in order to reduce risk and increase efficiency in custody, pre-settlement and settlement arrangements for securities and related payments across Europe for the benefit of issuers, investors and market participants.

This is achieved by promoting:

- processing flows which ensure the highest efficiency with a low risk profile;
- a level playing field with the highest standards for entities providing custody, pre-settlement and settlement services;
- common standards to reduce or remove barriers to cross border settlement;
- the exchange of information on legal, tax, regulatory frameworks and market practices to foster the process of harmonisation across Europe, and
- international co-operation.

Four ECSDA working groups (viz, Public Policy, Harmonisation, Settlement links, Audit and Compliance) are dedicated to projects designed to deliver this ambitious role.

The ECSDA currently has 17 members, including CSDs and ICSDs, and maintains close and active links with other international associations of CSDs around the world.

Further details of the work of the ECSDA can be found at www.ecsda.com

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EXECUTIVE SUMMARY

The ECSDA welcomes the publication of the *ESCB/CESR Consultative Report: Standards for Securities Clearing and Settlement Systems in the European Union.*

The ECSDA believes that the standards, as currently drafted, represent an important step towards the creation of a more consistent approach by the regulators across Europe to the risks in clearing and settlement services wherever they are undertaken. The standards correctly recognise that a strict institutional approach to regulation in this area can no longer adequately address the rapid development and expansion of services by custodians, agent banks, ICSDs and CSDs since the introduction of the euro.

The ECSDA believes that

1. the standards should focus primarily on the mitigation of risk across all operators of systemically important settlement systems. The standards should recognise that the elimination of all risk is an impractical objective for regulators and the market.

2. the creation of a more consistent regulatory playing field across all providers of systemically important settlement services is essential for the development of the single European capital market .

3. the standards should be introduced as soon as is practicable and across all providers of systemically important settlement services at the same time. A phased approach for introduction of the standards would only contribute to, and exacerbate, regulatory distortions between providers of similar services.

4. the standards must not have the effect of transferring executive authority away from the boards of CSDs to the regulators. The current drafting of Standard 6, which requires CSDs "to avoid taking risks", is close to having such an effect.

5. the standards should avoid using competition-style language (such as "dominant position") and should not set standards for institutions which may occupy such a position, since to do so might have specific national and European competition law implications. The overlapping of criteria may create regulatory and policy distortions.

6. some of the addressees of the standards are too restrictive and need to be refocused to take into account a wider market, including regulators, central banks and stock exchanges[1].

7. the standards should replace the "Standards for the use of EU securities settlement systems in ESCB credit operations" issued in January 1998 and also the existing CPSS-IOSCO standards. There is no need for differing standards in the area of clearing and

[1] Such instances are noted in pages 12 onwards of this paper.

Settlement which would confuse the market and add costs to providers of settlement services. As a consequence, ECSDA believes that the assessment methodology to be developed by ESCB-CESR should substitute the CPSS-IOSCO disclosure framework in order to avoid increasing the disclosure obligations on CSDs.

The ECSDA would welcome the opportunity of further discussions with the ESCB and with CESR to discuss these matters further.

THE IMPORTANCE OF FUNCTIONAL REGULATION

The market for securities settlement services in Europe is complex. Domestic settlement tends to be concentrated in the books of CSDs, although in most European countries CSDs are not expressly granted a monopoly by law. In the UK market for instance, participants tend to be direct members of CREST, the domestic CSD, and thereby self-clear, while in most other European markets local agent banks function as intermediaries providing clearing and settlement services for many participants. In France, for example, it is estimated that a substantial portion of the total settlement activity in French securities occurs in the books of local agent banks rather than the domestic CSD, Euroclear France. The volume of internalised trades could grow further following the latest text of the Investment Services Directive.

Cross border settlement, in contrast, is a competitive market with services provided by agent banks, ICSDs and CSDs.

This competitive environment has become more pronounced since the introduction of the euro in 1999, because of the need of market participants to have access to settlement services across European markets and not just domestic settlement services. The historical line between domestic and cross border activity and between fixed income securities and equities is blurring. For instance,

- CSDs have sought to maintain their activity by expanding to foreign securities the services offering to their domestic clients, and also by attracting foreign firms on a remote access basis. Some CSDs are now part of group's the parent of which is listed on a stock market which has lead to a refocusing of the financial objectives of the CSD and the businesses into which it may wish to extend its services.
- ICSDs have sought to replicate for equities transactions (which are typically traded on exchange), the low cost and efficient settlement services they have developed for cross border fixed income transactions such as Eurobonds and government bonds (which are traded on an OTC basis).
- Agent banks, which have historically settled the large majority of cross-border equity and a significant part of fixed income transactions, have worked to expand their services beyond their domestic securities by offering multi-market services to their customers. As such they have competed with ICSDs and indeed (more recently) CSDs to whom, in some countries, the agent banks control access through being both a major shareholder in, and a customer of, the CSD.

All settlement service providers are having to adapt to this new competitive environment, as the market demands an integrated service offering for domestic and cross-border transactions in bonds and equities. And the regulators also need to adapt, since the main providers of settlement services in Europe (agent banks, ICSDs and CSDs) are all, to a lesser or greater extent, competing for settlement flows and for depot. Given this competition and the similarity of services, it is inappropriate to regulate just the institution providing the settlement services, since to do so will create the likelihood of regulatory arbitrage between

such providers. The functional approach is the most suitable instrument for risk mitigation in Europe.

In addition, imposing stricter regulatory regimes on the (I)CSD than on its participants may protect participants from failure of the (I)CSD but, participants are often only intermediaries between the (I)CSD and end-investors. These end-investors have an equal interest in being protected from failures of the participants, especially where the services provided are similar to those provided by the (I)CSD.

Consequently, it is now timely and appropriate for the European regulatory authorities to focus on a far more functional approach to regulatory standards to ensure consistency of treatment wherever possible.

THE SCOPE OF THE STANDARDS

ESCB/CESR also issued an additional paper on *"The scope of application of the ESCB-CESR standards"*. This paper tackles the complex questions of to whom the standards should apply and asks the market eight specific questions. The ECSDA's views on these questions are set out below in summary.

Should the extension be to all custodians, or should it be limited to systemically important providers of securities clearing and settlement services?

ECSDA supports the extension of at least some of the standards to systemically important providers of securities clearing and settlement services. ECSDA does not believe that such standards should be applied to all custodians; the regulators need to address the standards only to those institutions who pose a significant risk to the functioning of the financial markets either domestically or on a cross-border basis.

This approach is also in line with that of the three US regulators for strengthening the resilience of critical financial markets and for minimising systemic effects of contingency situations following major or minor incidents.[2]

What are the criteria along which the systemically important systems could be defined? What would you consider to be the essential elements that should be apart of such a definition.

ECSDA believes that ESCB/CESR has already defined the relevant criteria accurately in the paper (magnitude of the activities, number of linked systems, nature of number of the custodian's clients, the possibility of being replaced in the case of failure). It is for the regulators themselves to reach a judgement on which institutions might fall into these categories, since it is only the regulators and the ESCB which can gain access to the necessary statistics needed to make such a judgement[3].

Do you agree that systemically important providers could be defined as institutions with a business share of [5%] at EU level or [25%] at domestic level (or lower, at the discretion of the national authorities) in each relevant market?

ECSDA believes that using such definitive thresholds (as taken from the Interagency paper referred to above) will require the regulators to define accurately "the relevant market" against which they are measuring an institution. It is only when that "market" has been defined that such business shares can be meaningfully calculated. However, such market definition belongs to the complex and dynamic domain of pure competition law.

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[2] See *Interagency paper on Sound Practices to Strengthen the resilience of the US Financial System.* (Board of governors of the Federal Reserve System, Office of the Comptroller of the Currency and the Securities and Exchange Commission).

[3] We refer to Article 5 of *the Statute of the European System of Central Banks and of the European Central Bank* as an example of a provision which provides access to necessary information.

ECSDA believes that there can be no doubt that each CSD and ICSD in Europe is of systemic importance and should be regulated according to the standards.

Do you agree that three relevant markets can be considered – bonds, equities and derivatives?

ECSDA believes that the consolidation of settlement activity over the last five years has meant that the regulators should be able to apply a consistent policy across all securities markets and, separately, across the derivatives markets. The markets now view their portfolios from a consolidated European perspective and settlement systems in turn have sought to provide an integrated service for money market instruments, debt securities and equities in line with customer demand to reduce the proliferation of technology platforms across Europe.

In general, CSD or ICSDs are not involved directly in the derivatives market, where contracts are usually cleared and settled through a central counterparty. However, CSDs and ICSDs may be closely involved with the settlement of the underlying securities which result from derivative contracts and CSD links may be used to facilitate cross-border settlement of the underlying securities. The regulators may wish to take a specific approach to such instruments.

Which of the ESCB-CESR standards should apply to all systemically important custodians?

The ESCB/CESR papers use three different phrases to describe players in the market;

1. systemically important custodians
2. systemically important providers of securities clearing and settlement services, and
3. custodians with a dominant position

However, little clarity is provided in defining these phrases or in giving examples of institutions which might fall in to each categorisation. We assume that some agent banks may fall into all of the above categories, but that CSDs and ICSDs at least fall into the second category. We also assume that all custodians with a dominant position will be systemically important, but that not all systemically important custodians will necessarily occupy a dominant position. We would urge ESCB/CESR, in its final report to provide examples in this area and to specify precisely the standards which would apply to each category. We would also ask the ESCB/CESR to leave questions of market dominance to the relevant competition authorities.

ECSDA believes that the main aim of the standards – and the reason why they were extended to other systemically important custodians – is to avoid systemic risk and to enhance the safety, soundness and efficiency of securities clearing and settlement in Europe. Consequently, we believe that the standards should be re-focused on this core objective.

In particular, we believe that it will not be feasible or practical, to extend all the suggested standards to commercial custodians. This does not mean that functional regulation is inappropriate, merely that the focus must rather be on those standards which do most to reduce risk. Consequently, the ECSDA believes that the following standards, at least, should also apply to "systemically important providers of securities clearing and settlement services";

- Standard 1 – a sound legal framework is essential for all providers of services to end – clients, not just systemically important institutions.

- Standard 2 - as the provider of services to end-clients, custodians are in a position to influence the timeliness of their clients confirming trades, and to facilitate central matching of market bargains.

- Standard 3 – custodians should clearly have to manage any move to shorter settlement cycles.

- Standard 5 – custodians should ensure that their arrangements for securities lending are sound, safe and efficient.

- Standard 9 – custodians should employ robust risk mitigation measures when extending credit for settlement purposes. While full collateralisation may be the preferable way for addressing counterparty risks, the ESCB-CESR standards should also consider additional measures to manage those risks when full collateralisation is not possible (see page 15).

- Standard 10 – custodians should take steps to protect their customers from potential losses and liquidity pressures arising from the failure of the cash settlement agent (usually the custodian itself).

- Standard 11 – The ECSDA believes that operational risks are the greatest threat to systemic stability, and that systemically important custodians should also meet the same robust standards as employed by CSDs and ICSDs. Basel II does not cover the specific risk which are involved in clearing and settlement.

- Standard 12 – The ECSDA agrees that systemically important custodians should protect customers' securities against the claims of entities in the custody chain

- Standard 15 – The ECSDA notes that, as currently drafted, this standard on efficiency should only apply to custodians with a dominant position. We believe that all systemically important custodians should focus on cost effective settlement services.

- Standard 16 – The ECSDA believes that this standard should be explicitly applied to all systemically important custodians.

What would be the implications of extending the scope of the standards to cover systemically important providers of securities clearing and settlement services?

The ECSDA believes that, if applied and implemented consistently and simultaneously across all providers of systemically important settlement services, the implications of extending the standards will be:

- a reduction in systemic risk across European markets;
- a higher level of transparency across all such providers of settlement services; and
- a consistent and level regulatory playing field.

All of which will mark a major step towards the creation of a truly pan European capital market benefiting all investors and issuers.

Do you agree that standards 13, 14, 15, and 17 should apply to custodians with a dominant position in one market?

The standards should avoid using competition-style language (such as "dominant position") and should not set standards for institutions which may occupy such a position, since to do so might have specific national and European competition law implications. To avoid confusion and conflicts between different sets of rules and their interpretation, some of which are heavily based on extensive case law from the EU Commission, the European Court of Justice, as well as from national authorities, such issues should be left to national and European competition authorities.

COMMENTS ON EACH DRAFT STANDARD

Standard 1 Legal framework

The ECSDA agrees that CSDs, ICSDs, CCPs and custodians operating systemically important systems should all operate under a well-founded, clear and transparent legal basis.

We also believe that such systems should disclose as fully as possible to their clients the information described in paragraph 29. However, we have three main concerns.

1. First, whether it is practical for systems which operate a number of cross-border links to publish such comprehensive information on each market in which the system is active. The standard appears to have been designed with a focus on domestic markets only.

2. Secondly, we note that the information is supposed to be supported "where appropriate" by an "analysis or opinion" which we interpret to mean an independent legal opinion. While firms will have taken such opinions they will have been addressed to the firm not to the firm's customers and, as a consequence, may have to be revised prior to publication. The cost of revising such opinions could be prohibitive for firms active in a variety of markets and we doubt that such a public opinion would provide much re-assurance for clients. We would urge ESCB-CESR to reconsider this particular requirement or to permit in-house legal opinions to be publicised.

3. Thirdly, we note in paragraph 34 the recommendation that law governing the system and the law governing the contractual aspect of the relationship with participants should be identical. This appears contrary to the possibility of the free choice of the law governing a contract which is expressly provided by the Rome Convention and also recognised by The Hague Convention.

Paragraph 29 might be better placed in Standard 17 since it relates more to the transparency of information than to the legal framework itself.

We also note that the detailed requirements for realising collateral set out in Paragraph 32 may accurately describe best practice across Europe, but may run counter to the implementation of national mandatory insolvency laws in other parts of the world. In particular, a number of countries may set up formal realisation procedures to follow in the case of bankruptcy which, although not disregarding the substantive rights of the settlement system to the collateral, may seriously impede the possibilities of immediate remedy. Such uncertainty exists for example in Turkey, China, Indonesia and Russia. Consequently, the addressees of this standard should reflect that only national governments and national regulators can deliver some of the recommendations.

Standard 2 Trade Confirmation and Settlement matching

The ECSDA supports the need to ensure that market participants should confirm/match their transactions as soon as possible after trade and no later than T+0. The matching of instructions quickly after trade reduces operational risks and costs for the market as it reduces exception processing. Participants could match their instructions even if the underlying clients are not in a position to settle; providing settlement systems are able to give participants the opportunity of freezing transactions if the client has not positioned the stock/cash for settlement day.

However, we note that while CSDs and ICSDs may be able to provide incentives to the market to match in a timely fashion (cf, the CRESTCo settlement discipline regime), they cannot directly influence the behaviour of end investors, particularly when they are located overseas and use a network of global and sub custodians.

Standard 3 Settlement cycles

The ECSDA has no major concerns with this standard which is consistent with the Second Giovannini report. It should be for the market, including stock exchanges and CCPs, to determine the costs and benefits of either harmonising settlement cycles or moving to shorter settlement cycles. The introduction and use of CCPS which remove counterparty risk at the point of trade greatly reduces the benefits of (and therefore, the need for) moving to shorter settlement cycles.

The ECSDA has detected no enthusiasm from the markets which its members serve for further work to be carried out in this area. In addition, it notes that no one has taken the initiative to develop such an analysis in Europe as called for by ESCB-CESR.

Standard 4 CCPs

The ECSDA notes the comprehensive nature of this standard and would recommend that ESCB/CESR await the publication of the forthcoming CPSS-IOSCO standards on CCPs before reviewing this standard.

The wording in paragraph 58 ("…*inter alia, the netting arrangement whether by novation or otherwise*"…) may lead to the conclusion that novation is a netting agreement. This is not correct: novation refers to the satisfaction and discharge of existing contractual obligations by means of their replacement by new obligations (which may or may not be net obligations). The wording should be modified accordingly.

Standard 5 Securities lending

ECSDA agrees that securities lending and borrowing should be encouraged in all markets to reduce the incidence of settlement failure and to improve the liquidity of securities markets. Often however, as noted in the Second Giovannini report, there are legal and fiscal restrictions or disincentives in place in national markets which require the attention of national regulators and legislators. ECSDA believes that the addressees of this standard should therefore, be expanded to cover these authorities.

Standard 6 Central Securities Depositories

The ECSDA is concerned that Standard 6, as currently drafted, could have a potentially serious and detrimental effect on the business of CSDs in Europe.

The consultation document, has correctly attempted to introduce a risk-based functional approach to the regulation of settlement activity. However, Standard 6 seems to reflect the view that CSDs (as separate institutions) should not take risks in any of their functions. The ECSDA does not believe that this is either practical or desirable for the following reasons.

1. First, the request to avoid taking risks to the greatest practicable extent may not be achievable since all CSDs are exposed to operational risk, and most are also exposed to an element of custody and legal risk in the cross-border services which they offer their customers. Regulators should be vigilant that the risks taken are commensurate with the management expertise of, and the capital held by, the CSD, but they should not seek to eliminate risks.

2. Secondly, the management of CSDs are responsible to their boards of directors who in turn are responsible to their shareholders. Each CSD must therefore structure its business and services in way which delivers value to its customers and/or value to its shareholders (if the CSD is part of a group which is listed on a stock exchange). We do not believe that it is appropriate for regulators to act as shadow directors, deciding on which business activities a CSD should, or should not, pursue. Rather we believe that the regulators should work with each CSD to ensure that the risks of any existing or potential business opportunity are adequately controlled and mitigated. This would also avoid the need to define which activities are regarded as so-called “core” activities by a CSD and which are “non-core” on a level applicable to all EU countries – something which may prove unachievable in an acceptable timeframe for the Standards.

3. Thirdly, the specific application of institutional requirements runs counter to the philosophy of functional regulation

We note that paragraph 78 requires CSDs to have plans prepared to allow market participants access to CSD services even if the CSD becomes insolvent. One way forward here might be to ask national authorities to replace directly the operator of the settlement system in case of insolvency or to choose another counterparty as the provider of services (eg, the Italian

Consolidated Law on Financial Intermediation - Legislative Decree n58/98, which states that the authorities can replace the company managing the market in certain cases).

But, while we welcome the concept of allowing the continuation of business, we do not believe that this would be feasible without a fundamental review of, and change to, national insolvency laws. Consequently this standards should be addressed to national regulators and legislators.

Standard 7 DVP

No comments.

Standard 8 Timing of settlement finality

The ECSDA supports the need for real-time (or multi-batch) processing of settlement instructions particularly when dealing with cross-border links. But this standard needs to reflect that the different operational and access requirements of National Central Banks for the settling of the cash leg of transactions can inhibit the delivery of real-time settlement finality. Consequently, we believe that this standard needs to be addressed to the NCBs directly.

Standard 9 Risks controls in systemically important systems

The ECSDA notes that this standard has caused considerable confusion in the market, since it is unclear to what extent custodians that operate systemically important settlement systems should collateralise any credit which they extend for settlement purposes. We believe that similar standards should apply to (I)CSDs and agent banks in this area, since they are undertaking similar businesses. However, we also recognise the potential structural and risk profile changes which could be forced onto the market if (I)CSDs lowered their current collateralisation levels, or if some agent banks (for example) raised their levels.

Full collateralisation may be a good measure for addressing counterparty risks, but it is not always feasible. In such circumstances, the ESCB-CESR standards should consider alternative measures to mitigate those risks..

Standard 10 Cash settlement Assets

While supporting the aim of settling the cash leg in central bank money, the ECSDA notes that cross-border settlement of the cash leg is one of the major obstacles to cross-border DVP. Therefore, it should be recognised that unless the rules of the Eurosystem are changed, and unless Target 2 is introduced, commercial bank money must continue to be considered as a viable way of settling cross-border transactions.

We believe that to address the issue of the security of cash transfer adequately requires the active participation and support of each national central bank. We would therefore, encourage ESCB/CESR also to address this standard to all NCBs and to commercial banks where appropriate.

Standard 11 Operational reliability

ECSDA strongly supports the extension of this standard to custodians that operate systemically important systems. ECSDA believes that the greatest threat to financial stability results not from legal or credit risks, but from operational incidents caused either by internal or external threats. Consequently, ESCB/CESR should focus on the consistent application of Standard 11 across the market for settlement services. This is because Basel II[4] does not cover systemic risks from the settlement process, but focuses on operational risks and the capital required to support them. We believe that the ESCB-CSER standards should be seen as complementary by the authorities and the market.

The Standard requires (key element 6) that entities should only outsource clearing and settlement operations or functions to third parties after the prior approval of the relevant competent authorities has been obtained, "where applicable". If national authorities require such prior approval the operator of the settlement system is obliged to comply; otherwise no obligation arises from this Standard. If this is correct, the entire key element 6 should be deleted.

Standard 12 Protection of customers securities

The ECSDA believes that greater clarification is required in two areas.

First, on the requirements for segregation. While ECSDA believes that client assets should always be segregated from proprietary assets, there may not be the need to segregate between each client's assets as apparently suggested in paragraph 139. Some CSDs operate such segregation on a mandatory basis (such as APK, VPC, VP and the Greek CSD) and others on an optional basis (such as CREST). Rather than focusing on the particular issue of segregation, ESCB/CESR should focus on the underlying legal framework in each member state to assess how each customer's securities are protected when held ultimately in a CSD.

Secondly, the requirement for strict segregation (paragraph 139) may cause possible issues with the structure of relayed links. Requiring upstream segregation throughout a custody chain may run contrary to the PRIMA principle now adopted in several EU instruments and in the Hague convention. In a relayed link securities are held with the Issuer CSD for Middle CSD who in turn maintains a securities account for the Investor CSD. Requiring segregation on the level of the Issuer CSD between holdings of the Investor CSD and holdings of Middle

[4] See The Basel Committee on Committee on Banking Supervision: the new Basel capital Accord p 122-123.

CSD would be in contradiction with the principle that the law applicable to proprietary aspects of securities holdings is the law of the relevant intermediary. Such an upstream segregation requirement may also induce additional risks in the arrangement the possibility of a detrimental phenomenon sometimes referred to as "upper tier attachment".[5]

Standard 13 Governance

We particularly welcome that this Standard does not seek to recommend a particular governance structure for CSDs, ICSDs, CCPs or other systemically important providers of settlement services.

While we support this standard we note that it introduces the concept of custodians with a "dominant" position which risks creating confusion and conflict with competition law. We believe that the competition authorities are best placed to determine what dominance means in any specific sector, and what implications there are for institutions found by competition authorities to be in such a position.

Standard 14 Access

ECSDA would urge ESCB/CESR to ensure that this standard is consistent with Article 32 of the Investment services Directive. Currently, there is a slight inconsistency between the ESCB/CESR standards which permit denial of access on the basis of risk control, and the ISD which states that access can be refused on "legitimate commercial grounds".

Standard 15 Efficiency

No comment

Standard 16 Communication Procedures etc

The ECSDA welcomes the extension of the standards to providers of securities communications services and network providers but, since these are not regulated entities, the current vires of the standards is questionable.

The Standard should also apply to all systemically important custodians.

[5] See the Unidroit Study Goup Position Paper of August 2003 on *Harmonised Substantive Rules regarding Securities held with an Intermediary*, p. 18.

Standard 17 Transparency

The ECSDA supports the need for transparency of costs, services and risks among (I)CSDs and CCPs. But, as with Standard 13, we note that it introduces the concept of custodians with a "dominant" position. We believe that the competition authorities are already best placed to regulate such institutions.

Standard 18 Regulation, supervision and oversight

No comments.

Standard 19 Risk Controls in cross system links.

The ECSDA has two concerns with this standard as currently drafted.

1. First, we believe that cross-system links should be subject to exactly the same standards as domestic settlement; consequently we do not believe that a separate standard is needed for cross-border business.

2. Secondly, ESCB/CESR should provide greater clarity as to which links this standards refers. The functional approach to regulation supported by ESCB/CESR would suggest that, wherever possible, the standards should be applied across institutions.

IMPLEMENTATION

The ECSDA makes the following observations on the implementation of the standards.

1. First, to ensure that a level playing field between different institutions providing similar clearing and settlement services is introduced as a result of these standards, the standards themselves must be introduced by the regulators consistently (both in terms of content and of timing of implementation)

2. Secondly, we would urge all regulators and the ESCB to follow these standards (once agreed) and not to impose additional criteria (either at a national level or for monetary policy purposes as indicated in paragraph 9.2 of the standards). Such variances would in turn mean that the market will have to monitor assessment against a variety of standards. Regulatory consistency is essential to deliver a single European capital market

3. Thirdly, we believe that the standards should replace the "Standards for the use of EU securities settlement systems in ESCB credit operations" issued in January 1998 and also the existing CPPSS-IOSCO standards. There is no need for differing standards in the area of Clearing and Settlement which would confuse the market and add costs to providers of settlement services

4. Fourthly, the ECSDA agrees that compliance with the standard is best assessed through the completion of an "assessment methodology) and would welcome close involvement in the design and structure of such a methodology.