

CHARLIE MCCREEVY, EUROPEAN COMMISSIONER FOR INTERNAL MARKET AND SERVICES, OUTLINES THE CHANGES HE WOULD LIKE TO SEE TAKING PLACE IN THE PAN-EUROPEAN SETTLEMENT MARKET, CHANGES THAT SHOULD IDEALLY BE DRIVEN BY THE INDUSTRY ITSELF.



FREE UP THE MARKET



closely will know, there is no one single reason. There is a large range of factors that add costs to cross-frontier trading in shares. In a single market and particularly a single currency zone, we need to get these inefficiencies out of the market.

I said last year that improving the effectiveness of clearing and settlement in the EU was one of my priorities. Competition Commissioner Neelie Kroes and I published documents on the web a few weeks ago that reflected the ongoing work and issues we were examining. No one has contested the basic premise of our analyses – namely that there are important economic gains to be had from improving the efficiency of cross-border clearing and settlement. What has proved more elusive is finding the best way of achieving this.

Working with the market

The fact that there are many reasons why cross-border clearing and settlement is more expensive than purely domestic transactions makes any policy response complex. What is clear is that there is no single

Like the rest of the financial industry in the EU there have been important changes in the structure of stock markets and in clearing and settlement in recent years. And there will be more changes as economic actors respond to new market opportunities, and as European capital market integration accelerates. We have already seen a certain amount of consolidation in clearing and settlement, but it is fair to say that you can still see the national systems from which some have evolved.

The Commission has for a number of years now been examining the reasons why cross-border clearing and settlement is so expensive by comparison with national systems. As most people who follow this

measure I can propose that would bring about the necessary changes. We have to continue with an approach that is varied, proportionate and cognisant of the ongoing changes taking place in the market.

Firstly, there is the impact of the Market in Financial Instruments Directive (MiFID). This directive, which comes into force in November 2007, provides competition to the trading of shares on stock exchanges for the first time. The monopoly enjoyed by exchanges will disappear, which will be a major change.

In addition, article 34 of that directive provides that investment firms from one member state have the right of access to counterparty clearing and settlement systems in another member state. This should reduce costs.

Secondly, all regulated markets must offer their members or participants the right to designate the system for the settlement of

transactions. This will introduce more competition and drive down costs. Regulated markets should exercise these rights. Thirdly, the work on the renewal of the so-called 'Giovannini barriers' has started to produce some good results.

For example, industry agreement has been reached on the protocol to eliminate national differences in IT and interfaces used by clearing and settlement providers. Use of ISIN codes and standards for settlement finality will all help to integrate systems and drive down costs by squeezing out unnecessary intermediary interventions.

Speed up the process

There has been some progress, but not enough. There are still enormous gains to be made by finding solutions to some of the other remaining 'Giovannini' barriers. I am urging member states to speed up work on these. Dismantling unnecessary national requirements in relation to legal and tax issues would make a huge contribution.

The mandate of the CESAME group expires in 2008 so a real effort is needed to finish this work by the end of 2007.

Another important consideration that needs to be factored in is the announcement on 7 July 2006 by the European Central Bank in relation to settlement services for securities transactions in central bank money. This could lead to the processing of both securities and cash settlements on a single platform through common procedures.

The implementation of such a facility could allow large savings as a result of the high level of technical harmonisation that this facility would entail for all market participants and would represent a major step towards a single Eurosystem interface with the market.

A lot is happening and there is even more to come. So I find myself gazing into my crystal ball and trying to see what all these changes mean for the future of clearing and settlement. One thing I am absolutely sure about is that whatever we do, we should work with the grain of the market. The role of the Commission is not to pick winners or dictate a particular outcome. Nor is it to determine the final architecture. I am convinced that if the Commission were to propose any kind of a regulatory measure, we could slow down, or even block, the restructuring process already underway, possibly even for years. A regulation now would be a distraction to market participants. It could lead to an outcome far less optimal than letting things evolve and then assessing what, if anything, is necessary at EU level.

An industry-led solution is the best outcome for improving the efficiency of clearing and settlement.

Industry leadership

We all agree that improved price transparency and increased competition are the only way to achieve the efficiency necessary for capital markets in the EU. I therefore welcome the undertaking I have received that the clearing and settlement industry is prepared to work on an ambitious and achievable code of practice, which can deliver real benefits and which will work with the market changes currently underway.

In this code of conduct I want the industry to commit itself unequivocally to delivering the following results:

- By the end of this year a series of measures to improve price transparency will be in place.
- By 30 June 2007 agreement will be reached on a roadmap and conditions for ensuring effective rights of access on a fair, transparent, non-discriminatory basis.
- By 30 December 2007, there will be separate accounting of the main clearing and settlement activities.
- By the same date there will be price unbundling of the main services and activities.
- These principles have already been applied in many network industries in the EU.

This is an ambitious agenda. It will be backed up by a strong procedure for verification and external auditing of the commitments made. Other stakeholders will be involved in the process. It will initially apply to cash equities. It should also be extended in time to cover other instruments such as derivatives and I expect full cooperation from the industry on this and a clear timetable.

The ball is in the industry's court. Can it voluntarily put changes in place and implement them? If it fails, regulators always have measures at their disposal to force changes through. But as I have said on many occasions, an industry-led solution is the best outcome for improving the efficiency of clearing and settlement in the EU. This is their opportunity to show they can contribute to the solution.

We want dynamic, integrated capital markets in the EU – not segmented ones, and we are determined to achieve them – for all our consumers, investors and companies, and to strengthen the European economy. FBA

CHARLIE MCCREEVY

Charlie McCreedy worked as a chartered accountant until 1977 when he was first elected to Dáil Éireann (the Irish parliament) for the constituency where he was born – County Kildare. He resigned his seat to become a member of the European Commission. Between 1992 and 2004 he held various cabinet posts in Irish governments, including Social Welfare, Tourism and Trade, and latterly as Minister for Finance.



Innovation or regulation?

For news of the latest in banking technology and regulation, visit www.banking-gateway.com