

Elias Kazarian
European Central Bank

Christoph Crüwell
Committee of European Securities Regulators

**JOINT WORK OF THE EUROPEAN SYSTEM OF CENTRAL BANKS AND THE
COMMITTEE OF EUROPEAN SECURITIES REGULATORS IN THE FIELD OF
CLEARING AND SETTLEMENT**

Arvopaperivälittäjien yhdistys (The Finnish Association of Securities Dealers, later FASD) wish to submit the following comments with regards to the joint work of the ECB and CESR in field of clearing and settlement systems.

In general FASD is in favour of initiatives aimed at harmonizing securities clearing and settlement arrangements. The process of harmonization and consolidation is already taking place in Europe. However, there are no easy quick solutions for a complex landscape, and structural differences should carefully be taken into account. One should bear in mind, that there is not necessarily any single structural model that would fit all and be the most efficient in all national markets.

Nature of the recommendations

In our view the markets and market practises are so heterogeneous on European level, that we believe it is fairly difficult to introduce general standards. In consequence, we believe that these standards should rather be issued as European level recommendations. On the other hand, there are number of topics that relate to national legislation and taxation, and legal and regulatory issues can effectively be harmonized only by Union level binding legislative measures.

Addressee of the recommendations

We believe that the regulators, systems and the operators are the natural appropriate addressees for any standards. National regulators/supervisors may then implement the recommendations on national level. Once regulators, systems and operators are committed in standards, users would have sufficient incentives to comply. This approach would not increase the cost for service providers, and does not create disincentives for market change.

Scope

In our view, the Group should have focus on central securities depositories, CCPs and registrars, rather than custodians. Referring what we said above, we believe in this order service provider would not be excessively burdened and markets would have incentives to comply with the change.

With regards to securities covered, we believe there is no rationale for differentiated treatment of diverse classes of securities in clearing and settlement. Rules must be drafted in a fashion that the obligations wont be unreasonably onerous in relation to the needs.

Objectives

Risk mitigation as such can be regarded as an important objective. Once the goal is to attain harmonized rules that enable swift functioning of cross border markets, it is clear that this risk management plays a crucial role.

Harmonized processes are likely to enhance market efficiency, as duplicated functions may be removed.

FASD stresses the importance of creating level playing field between participants and service providers, irrespective of the legal status and geographical location. Although conditions must be equal to all participants, requirements should not be disproportionately burdensome with regards to the size of the Finnish markets.

Market infrastructure of as today in European Union varies to a great extent from member state to state. It is desirable that there would be more harmonized market infrastructure, but this might not be the area best suited for regulation. The market participants have natural incentives to develop the market infrastructure as coherent as possible. On the other hand, the competitive conditions or other market failures might prevent market-based development, and regulation could be considered as a device to advance the development.

Access conditions

In general, the access to clearing and settlement and CCP facilities is the key issue for cross border operations, and guidance addressed to the operators of clearing systems is needed. Finnish service providers have faced clear difficulties when the firms have applied remote membership in European wide clearing institutions.

Central service providers may set such technical conditions, which are in fact discriminatory. The transparency of access conditions has in some cases been insufficient, thus it has been difficult to assess whether those conditions have been applied in equal manner.

For the risk management rationale it is obvious some conditions may be set. On the other, the requirement to have an investment firm licence sets already criteria to market access. In Finland a clearing institution must accept as a clearing member any firm that fulfills the access conditions.

Consequently FASD believes, that a requirement of transparency in field of access conditions would be an important step towards better functioning cross border markets. These problems are critical for smaller players. We see that investment firms, irrespective of their size, should be guaranteed equal access to remote membership in clearing institutions.

Risks and weaknesses

Among the weaknesses in regulatory level the differences in taxation do create a serious impediment for the functioning of cross-border straight-trough processing. The Group should consider European level instruments to attain more harmonized capital gain, corporate, stamp duty and dividend taxation.

Settlement cycles

From a brokers point of view the settlement cycle should be rather short. The use of capital would be more efficient, and the evaluation of customers would take place right at the time of when trade is agreed. Currently customers' financial situation may change during the settlement period.

Structural issues

The current situation in Finland, when the central securities depository is simultaneously a public utility and a profit driven business entity is rather confusing. This is not the interest of the market and might give rise to cross-subsidies and market disturbances. We think there might be rationale for some public intervention and we would like to see CSDs being subject to increased market control and competition.

FINNISH ASSOCIATION OF SECURITIES DEALERS

Markku Savikko
Managing Director

Facts about FASD, the Finnish Association of Securities Dealers

- The Finnish Association of Securities Dealers is the co-operation and self-regulatory organisation of the Finnish investment services industry.
- The association accepts as its members broker/dealers and other licensed financial services firms engaged in public securities business.
- FASD has 39 member firms, representing majority of licensed investment firms in Finland.

FASD members as of November 2001:

- Aktia Savings Bank Ltd
- Alexander Corporate Finance Ltd
- Alfred Berg Asset Management Ltd
- Alfred Berg Finland Ltd
- Aurator Asset Management Ltd
- BBL Finland Ltd
- Carnegie Asset Management Finland Ltd
- D. Carnegie Ltd, Finland Branch
- Conventum Securities Ltd
- Den Danske Bank, Helsinki Office
- Evli Bank Plc
- Deutsche Bank, Helsinki Branch
- Evli Corporate Finance Ltd
- Evli Options Ltd
- Evli Fixed Income Securities Ltd
- Evli Asset Management Ltd
- eQ Securities Ltd
- Fides Asset Management Ltd
- FIM Securities Ltd
- FIM Asset Management Ltd
- Eficor Securities Ltd
- Gyllenberg Asset Management Ltd
- Gyllenberg Private Bank Ltd
- Icecapital Securities
- Mandatum Bank Plc
- Mandatum Securities Ltd
- Mandatum Stockbrokers Ltd
- Nordea Bank Ltd
- Nordea Securities Ltd
- Nordea Asset Management Ltd
- Opstock Securities Ltd
- Sampo Asset Management Ltd
- Seligson & Co Asset Management Ltd
- Enskilda Securities Ltd
- SOFI Securities Inc.
- Svenska Handelsbanken
- United Bankers Asset Management Ltd
- United Bankers Ltd
- Ålandsbanken Ltd