ISSA

International Securities Services Association

ISSA Symposium 17
20 – 23 May 2014

ISSA Working Group

Discussion Paper
on

TRANSPARENCY IN SECURITIES TRANSACTION AND CUSTODY CHAINS

22 April 2014

Summary

This paper serves as a discussion paper to provoke industry-wide discussion into the question of transparency in securities transaction and custody chains.

Compliance has become a significant focus of the financial services industry. The Working Group set out to explore trends in the attitudes of regulators and enforcement authorities to determine the vulnerabilities that may emerge in the industry with a focus on the risks associated with transparency.

The Working Group has explored the role of regulated financial institutions in the intermediation of securities transactions and the risks posed to them in areas such as sanctions compliance, money laundering, terrorist financing, market abuse, tax evasion and capital flight. The global system under which securities are safe kept and settled is based to a large extent on a clear distinction between beneficial and legal ownership. The practice of co-mingling fungible interests brings benefits to the market and to end investors because it creates large economies of scale, low transactional costs and promotes a degree of liquidity and mobility of securities and collateral that has become a cornerstone of market stability. However, in order to achieve that, the global system intermediates many players into securities custody chains and by its nature transforms the legal ownership of securities interests multiple times. The industry has a record of strong compliance standards and has protected investors' interests effectively in the most turbulent of times. To maintain that record, the Working Group has considered what actions might be taken now to drive standards. In considering whether the industry could or should do more to address the issue of transparency in securities processing, it is important to emphasise that no securities regulator or enforcement authority has suggested that today's standards require reform.

The paper discusses the attitude of regulators and looks at how their attitudes may develop in future. In particular, it examines the standards of transparency that now apply in correspondent banking and asks whether securities settlements conform to the same principles and, if not, what measures if any should be taken by the industry.

The analysis has led the Working Group to formulate the following question for discussion at the ISSA symposium: Is existing best practice, however defined, sufficient to protect the industry's business model going forward? Are we doing enough or should thought be given to the development of industry standards that would provide a level of assurance beyond what scrutiny alone can deliver? What forms might those standards take?

PART 1

The Challenges

1.1 The Benefits of Intermediation and the Costs of Transparency

The issue of transparency in the execution of securities transactions, settlement and custody is not new. The omnibus account holding system and the preponderance of the nominee principle in many jurisdictions mean that many transactions are based not on the transfer of rights from the buyer to the seller but on the transfer of entitlements between the nominee accounts of the ultimate custodians who legally own the beneficial entitlements of the buyer and the seller.

Registering securities in the names of brokers and custodians facilitates the clearing and settlement of transactions. Arguments in favour of the nominee system are that it enables financial institutions to co-mingle the ownership interests of beneficial owners and then to concentrate those holdings in the custody chain whereas its benefits are numerous:

- The costs of safekeeping benefit from the economies of scale of combining securities interests into the hands of only a handful of significant intermediaries; global custodians, agent banks and (I)CSDs.
- The mobility of securities exchanges across geographies and different markets is enhanced by allowing trading and settlement of securities to be effected globally free from the constraints of national depository and market windows.
- The mobility of collateral and hence the practicality of securities as a collateral class is accelerated.
- The execution of corporate events is made cheaper and easier.

It is on the basis that the concentration of ownership interest can give rise to significant economic benefits that projects such as T2S have been launched. If securities exchanges could be executed only at the upper tier, then it is self-evident that attempts to build scale in securities settlement and clearing would be futile.

There are, on the other hand, arguments against the nominee model:

- The benefits of the omnibus account can be challenged in respect of custody costs. In an intermediated custody chain, corporate events need to be processed multiple times leading to redundant cost, poor deadlines and increased operating risk. Advances in technology, the argument runs, could enable the bulk processing of end investor instructions at the upper tier.
- Where nominees are not recognised by local law, the account holder may be viewed as a single owner under local law / jurisdiction leading to complications where underlying clients vote in different manners on corporate actions or proxy voting, and may lead to misleading filings of substantial share ownership by intermediaries.

But many sophisticated investors recognise these challenges and do have opportunities to elect either to hold their positions under omnibus structures and seek the benefits outlined about – or to insist on local designated accounts if they have major concerns.

But the most common criticism of the omnibus model is that it reduces transparency by substituting a record of the end investor's identity for a record of the custodian's or the broker's identity. Therefore:

- Issuers cannot easily identify their shareholders, reducing the utility of shareholder registers and requiring complex disclosure processes.
- The management of the risks arising from money laundering, terrorist financing, market manipulation, tax evasion and capital flight becomes more challenging as a result.

1.2 Trends in Compliance

Under current compliance standards custodians, depositories and clearing agents must perform customer due diligence for all accounts and extended due diligence on those customers deemed to be higher risk. They must also be alert for unusual account activity that might cause them to suspect fraud, money laundering or violation of other applicable regulations.

Traditionally, the lack of visibility of custodians and securities settlement agents over the principals of the securities transactions they process has been mitigated by the principle of "equivalent regulation". Where a securities intermediary is a regulated financial institution (and so is "equivalently regulated"), it does not generally disclose to its custodians, settlement agents and depositories for whom it is acting on the basis that it itself has performed due diligence and KYC on its own clients.

In comparison to other areas of financial services, there has been relatively little discussion at policy-making level about how compliance risks should best be managed in the context of the nominee account. Probably the most comprehensive discussion of "equivalent regulation" can be found in IOSCO's 2004 paper *Principles on Client Identification and Beneficial Ownership for the Securities Industry*. The objective of that paper was to ensure that securities service providers identify their clients and beneficial owners in order to prevent fraud and market abuse whilst acknowledging that policy goals relating to money laundering and terrorist financing would also be served. The paper argues that securities services providers should be compelled by regulation to identify clients and beneficial owners but also to put in place "specific Client Due Diligence policies for omnibus accounts". IOSCO stopped short of recommending that securities service providers look behind their regulated omnibus account holders because "*the other financial institution is the (service provider's) client, it is not "relying" upon the other financial institution to conduct due diligence of the financial institution's clients. Therefore the service provider will not be required to "drill down" through the financial institution to identify and verify all of the financial institution's clients*". That this sentence is far from clear suggests that IOSCO did not have a large degree of consensus on the topic. What it instead required is that the securities service provider perform due diligence on the financial institution itself. Specifically, IOSCO recommended that when dealing with foreign holders of omnibus accounts, providers should be required to:

- Understand the business and professional reputation of the omnibus account holder;
- Assess to adequacy of the omnibus account holder's Client Due Diligence process;

- Assess the regulatory and oversight regime of the country of the omnibus account holder in order to establish that it is subject to equivalent client due diligence standards.

Partly as a result of how the IOSCO recommendations have been translated into national regulation, securities intermediaries are of course bound by very high compliance standards. KYC is practised on regulated and unregulated customers alike who are weighted by country and other risk factors. Transactions are routinely screened against SDN (Specially Designated Nationals) and PEP (Politically Exposed Persons) lists and customers. Regulated customers are as professionals required under the terms of participant agreements not to cause their custodians, settlement agents and depositories to violate laws and regulations which intermediaries routinely communicate to their participants.

Other regulators have explicitly endorsed this approach. For example, FinCEN and the SEC jointly issued a rule under the PATRIOT Act in May 2003 specifying that "with respect to an omnibus account established by an intermediary, a broker dealer is not required to look through the intermediary to the underlying beneficial owners, if the intermediary is identified as the accountholder." Similarly, in guidance issued in October 2003, the US Treasury and the SEC made clear that even when broker-dealers have information regarding a financial intermediary's underlying customers, they should treat the intermediary itself – that is the holder of the omnibus account – as the sole "customer" for purposes of the customer identification program rule. FinCEN and the CFTC issued almost identical guidance in February 2006.

However, the fact remains that only the first regulated intermediary in the chain is obliged to identify the beneficial owner and to perform detailed due diligence on that person or entity. The regulatory guidance, though explicit on exempting securities intermediaries from any requirement to look through their regulated customers, has been silent on the consequences of a violation caused by the unidentified client of a regulated account holder. There are signs that regulators are increasingly likely to challenge the principle of "equivalent regulation" in the area of beneficial ownership identification. The principle indeed relies on a number of factors which are increasingly challenging to enforce especially in a cross-border context:

- Not all regulations and regulators are equal;
- Depending on requirements, financial institutions have varying standards and different attitudes to control frameworks;
- Even where standards are genuinely equivalent, the competence of financial institutions to uphold them is not equivalent;
- When financial institutions do know the clients whose business they put through a securities intermediary, they may have less insight into the business lines and geographies which their securities business supports internally.

A joint report of the FATF and Moneyval was published in 2009 on the risks of the money laundering and terrorist financing in the securities sector. The report specifically highlights that a vulnerability to money laundering exists because "*a securities intermediary may not know the beneficial owner of an investment if held in an omnibus account maintained for a (foreign) financial institution*". To an extent, this finding has been left hanging. In some jurisdictions there has been an explicit debate on whether securities intermediaries should be required to identify the beneficial ownership of assets deposited and transacted on omnibus

account but that has not so far resulted in any jurisdiction that permits nominee accounts to actually require it.

1.3 The Clearstream case was intended as a warning to the industry

In the context of a settlement reached with Clearstream in 2014, US Treasury pinpointed the concern that Moneyval had expressed in 2009. The issues in the Clearstream case centred on the extent to which Clearstream, as an intermediary, was required to look beyond its own customer, a regulated financial institution in the EU to determine the probable beneficial ownership of securities that it had been instructed to transfer. According to US Treasury, "Clearstream (following its decision to terminate its business with Iranian clients in 2007), transferred securities entitlements free-of-payment from the Central Bank of Iran's account at Clearstream to a European bank's newly-opened custody account at Clearstream. This new custody account allowed the Central Bank of Iran to continue holding its interests in the securities through Clearstream." In this context, US Treasury was of the view that the case "should serve as a clear alert to firms operating in the securities industry that they need to be vigilant with respect to dealings with sanctioned parties, and that omnibus and custody accounts require scrutiny to ensure compliance with relevant sanctions laws."[1] That message has been repeated by US Treasury at various securities industry conferences during 2014.

1.4 Effective tax collection

Is the US Treasury attitude in the above mentioned case a harbinger of standards to come? There is undoubtedly a growing public pressure towards greater effectiveness of tax collection cross-border which also has the potential to challenge the widespread use of the nominee concept. Gabriel Zucman Assistant professor, London School of Economics and visiting scholar, UC Berkeley proposes in his well-received 2013 book *La Richesse Cachée des Nations "to create a global register of securities indicating on a named basis the ultimate owner of each share and each bond*". In his vision, the CSDs and ICSDs would operate the system and report securities balances directly to the IMF.

The most far-reaching reform in this area is FATCA which is constructed to preserve the current securities law environment. Equally in Europe, public initiatives such as the Securities Law Directive and Target2 Securities preserve and promote the use of the omnibus system. However, political pressure to introduce final owner accounting exists at EU level and proposals have been discussed at Ecofin level under the Finnish Presidency. The challenges associated with effective tax collection and with the FTT can, in the minds of at least some influential authorities, be resolved through the abolition of omnibus accounting. Market abuse, insider trading and securities fraud are, as the 2009 FATF / Moneyval report noted, crimes that are specific to the securities industry. The challenges faced by enforcement authorities in the

[1] US Treasury (OFAC) Press Release, 23 January 2014: http://www.treasury.gov/press-center/press-releases/Pages/jl2264.aspx

detection and prosecution of cases of market abuse have led to greater demands for transparency across the intermediation chain. In the EU, the Market Abuse Directive which was adopted by parliament in January 2014 and which is scheduled for transposition in 2016 seeks to extend market abuse protections more explicitly to the OTC markets. Amongst other things, the directive will criminalise the "aiding and abetting" of abuse. In the United States, with its Rule 613, the SEC has issued requirements for securities broker-dealers to establish a "consolidated audit trail" of securities transactions forcing the communication of the identities of the buyer and the seller to each intermediary involved in the execution of a trade. The requirement does not, however, extend to the settlements of the trades.

None of this allows us to conclude that existing systems are inadequate. Within the system of equivalent regulation there are checks and balances that protect participants and the public from abuse. Securities intermediaries apply KYC to regulated as well as unregulated customers.

Even if the regulatory pressure for reform does not materialise, there is a case for asking whether greater transparency would be appropriate. The cost of enforcement actions in the United States and in the EU both in financial and in reputational terms is rising significantly. The cost of a single failure of market abuse, sanctions or money laundering compliance can lead to three figure penalties which must also be factored into banks' calculations of their operating risk capital requirements.

The efficiency and ultimately, the commercial viability of cross-border securities custody and settlement arrangements rely on the ability to transfer legal title independently of the upper tier by ensuring the fungibility of entitlements. Building greater transparency into the system would be one way of forestalling public pressure for reform.

1.5 Correspondent Banking

Significant differences now exist between how the securities and the correspondent banking sectors address the issue of transparency. Perhaps because regulators and enforcement authorities are more familiar with cash banking, the correspondent banking industry has experienced significant pressure over the past 10 – 15 years to provide greater levels of transparency in the execution of payment transactions.

The days have long gone since payment messages would identify a beneficiary as "one of your clients". To a large extent, the trend towards greater transparency was driven by sanctions compliance.

The introduction of the MT202 cover message in 2009 harmonised the transmission of payer and final beneficiary details in bank – to – bank cover payments. An MT202 COV is designed for use when two financial institutions effect a payment through correspondent banks in a third country, most typically in the US Dollar, Euro, Swiss Franc, Sterling, Yen and, more recently Renminbi. Consequently, final payer and beneficiary details are known not only to the two financial institutions directly effecting the payments in their books but also to their correspondents. The development of the standard was arguably driven by the prevalence of so-called "stripping" cases in enforcement actions taken against correspondent banks by US Treasury in sanctions cases.

The development of the MT202 COV has led the rapid development of "screening" software solutions aimed at the Financial Institutions Groups of the principal banks and, increasingly, the organisations of their financial institutional customers as well. Screening software and screening services typically scan payment messages, most notably MT-1XX and Mt-2XX series messages, for references to sanctioned parties, designated persons, politically-exposed persons and so forth. It is this aspect of the cover payment standard that has required substantial investments not least in having to acquire the capability to assess data on substantial numbers of parties who are not otherwise known to the financial institution. Ultimately, an even greater cost may prove to be the regulatory exposures that could come bundled with knowledge of that data.

Service providers in the area of transactions screening do not typically provide services in respect of securities messages (MT-5XX). In this, they are responding rationally to economic incentives. In the securities space, financial institutions have not articulated a strong demand for such products and where screening controls are in place they are usually the bespoke efforts of in-house teams. Another explanation lies in the fact that settlements of securities transactions do not contain the data that would permit the use of screening tools.

A second area where practices in the correspondent banking sector differ from those of the securities services sector is in the articulation of common KYC and due diligence standards. The developments of the Wolfsberg Group have recently focused on the representations that financial institutions should be expected to make when maintaining correspondent accounts. These messages codify explicitly what is to be understood by the notion of "equivalent regulation". In its "Anti-Money Laundering Principles for Correspondent Banking", the Group articulated the following principles:

- Foreign correspondent banking relationships should be subject to specific formal governance oversight;
- Foreign correspondent banking relationships should be subject to "appropriate" due diligence";
- Financial institutions should not rely solely on the fact that a foreign correspondent is subject to an internationally-recognised regulatory environment and must consider the particular risks that it poses;
- The financial institution should assess the foreign correspondent's geographic risk, its branches, subsidiaries and affiliates, its ownership and management structures, its underlying business, its customer base, the products and services offered, its regulatory history and the effectiveness of its anti-money laundering controls;
- The downstream relationships of the correspondents should be understood.

There are notable parallels between the situation of a correspondent bank offering services to foreign financial institutions and the situation of a securities intermediary offering omnibus accounts. An equal amount of value is transferred cross-border by securities intermediaries in the form of settlement messages than by the cross-border payments industry.

In that sense, it is meaningful to test the securities processing industry against the standards set by the Basle Committee on Banking Supervision when setting out its case for the development of standards governing cover payments involving intermediate financial institutions.

Existing messaging practices do not ensure full transparency for the cover intermediary banks on the transfers they facilitate… Lack of originator and beneficiary information for funds transfers can hinder or limit a cover intermediary bank's ability to accurately assess risks associated with correspondent and clearing operations. The cover intermediary bank would also be unable to screen transactor information against locally applicable lists of individuals or entities whose assets, under local law, must be blocked, rejected or frozen. This could be particularly problematic where the list of the intermediary bank's country is more comprehensive than the list of the originator's (or beneficiary's) country… To comply with locally applicable requirements, such as the blocking, rejecting or freezing of assets of designated individuals or entities, cover intermediary banks thus might need to receive originator and beneficiary information.

Basel Committee on Banking Supervision; *Due diligence and transparency regarding cover payment messages related to cross-border wire transfers*, May 2009.[2]

What should capture our attention here is that the situation of a financial institution settling a securities trade is similar to that of an intermediate financial institution; assets can be transferred between parties whose identities are not known to the institution. What probably distinguishes the two situations most is the fact that payments are made for almost any purpose and in almost any context whereas securities trades and transfers are made in a much more homogenous environment and often but not always on regulated trading forums. But it would certainly be reasonable to conclude that the comparison contains more similarities than differences.

PART 2

Potential Approaches

In considering whether the industry could or should do more to address the issue of transparency in securities processing, it is important to emphasise that no securities regulator or enforcement authority has suggested that today's standards require reform. Further, the cost and potential extra liability that might result from adopting new compliance standards should be considered in the evaluation of any new compliance standards

The overarching question is whether the standards that are applied today are sufficient to meet the challenges. If so, then what, if anything, should the industry do to face its compliance challenges more effectively.

Our situation is analogous to that of the correspondent banking industry in 2009. In response, in particular, to concerns regarding terrorist financing, participants took the path of articulating standards of best practice to which correspondents would be expected to comply. The regulators, on the other hand took the view that data on the underlying principles to payment transactions needed to be transmitted up the settlement chain. For securities custody and

[2] http://www.bis.org/publ/bcbs154.pdf

settlement providers, the question is then whether we should focus on defining best practice or whether additional tools should be considered.

2.1 Defining Standards of Best Practice

In considering the question of best practice in today's industry model, the standard must ultimately be that the intermediaries served by a custodian, depository or settlement agent must put their provider in a position to comply at all times with its own standards, applicable laws and regulations.

It is clear that the notion of "equivalent regulation" is in and of itself insufficient to guarantee that this standard will be met. The first question which must then be answered is whether the standard can be achieved by defining better what is meant by "equivalent regulation", what standards that implies and what representations should be sought from market participants.

The payments industry did take steps to regulate this issue better through due diligence approaches and notably through the Wolfsberg Principles. But the payments industry was also confronted with regulatory guidance requiring the development of messaging standards. In the case of securities, we have not crossed that frontier and have the opportunity to ask whether the development of due diligence standards might not be an adequate response to the challenges of transparency.

Representation and certification go hand in glove with such an approach. Securities intermediaries could control access to products permitting the co-mingling of ownership interests in the context of cross-border securities operations by ensuring the application of certain standards. This could be achieved in part by questionnaires and certification requirements and in part by due diligence standards.

1. Do the 2014 Wolfsberg Principles (see separate document) for Correspondent Banking represent a model that could be adapted by the securities industry?
2. What are the principles that are specific to securities intermediation?
3. Should ISSA be prepared to draft and promote such principles?
4. How should such principles be implemented in our industry?

A related question is that of a KYC utility or registry and the degree to which common standards across the industry can facilitate gains in the effectiveness of KYC. Requirements today are onerous and many institutions in the securities services space and elsewhere struggle with customer identification programmes. Common standards would permit the pooling of information into registry products that are increasingly used between correspondent banks and broker-dealers.

2.2 Account Structure

A potential accompaniment to the definition of best practice principles would be to regulate better the use of the omnibus account. The extreme version of this solution would be to move away from the nominee / omnibus model completely, as has been done in some domestic

markets. Leaving aside the question of the benefits of the omnibus model, one difficulty with this approach is that it would only identify the principals behind securities transactions rather than the successive layer of the intermediation chain if the industry put in place additional features.

A better approach might be to regulate the conditions under which securities intermediaries offer omnibus accounts. At present, omnibus accounts are generally offered only to regulated financial institutions. The questions that might be considered here are:

1. Should the omnibus account be restricted only to those financial institutions whose control frameworks are adapted to securities intermediation?
2. What would be the salient characteristics of those frameworks?
3. Should the omnibus account be restricted to financial institutions subject to "internationally recognised" regulations?
4. Should the omnibus account be restricted to those financial institutions who have "signed up" to commonly-recognised best practice principles such as ISSA might develop?

2.3 Tools and Messaging Standards

Mutual representation and the regulation of entities having access to the correspondent banking system were not ultimately sufficient for the payments industry. In the event that the industry decides or the regulators impose the development of technical standards to equip the securities industry with tools, the question of which solution would be most effective and most efficient would need to be addressed.

There are at least two basic methodologies that could be envisaged. The first, modelled on the cover payment standard would be to transmit the identities of the ultimate buyer and seller of a security up through the custody chain. The second would be modelled on the SEC's concept of a consolidated "audit trail" in which each intermediary would transmit details of its own customers to its settlement agents with a view to enabling the authorities to walk back down the trail.

In the first model, the buyer's identity would be distributed as a complementary piece of data to all intermediaries in the chain. In the second only the data on the adjacent intermediaries would be transmitted.

2.3.1 Cover Messaging

The closest that the securities industry comes to matching the standards that prevail today in the correspondent banking arena is in the use of second level matching. Local markets are increasingly requiring the use of second level matching which has the effect of providing dealers and agent banks with a level of transparency on the identity of the client of the counterparty when acting as a custodian or clearing / settlement agent. However, it does little to provide transparency in the case of cross-border transactions because the party on whose

details second level matching will be performed would typically be a custodian bank and not the principal to the trade.

An alternative approach would be to include systematically details of the principals to securities transactions in all upstream settlement messages. Such a development could represent the equivalent of an MT202 COV message standard in the MT5XX series of messages. One notable benefit of such an approach, as it has been for the correspondent banking industry, would be to enable meaningful screening of transactions by providers.

1. How feasible would the introduction of such messaging standards be?
2. Would such standards be compatible with banking secrecy rules?
3. Would this level of transparency weaken asset protection in the area, for example of the prohibition of upper tier attachments and bankruptcy protection?
4. What are the indirect costs of such a development in terms of the processing of the data that would be transmitted, the development and the resourcing of screening solutions?
5. To what extent could the market leverage or re-use the standards development in the MT202COV? Could individual firms leverage the investments made in scanning technologies and processing capacity by their Financial Institutions Groups?

The industry today in fact copes with the transmission of a great deal of information relating to final beneficial ownership in the context of tax processing. In an exemption or a reclaim procedure, custodians typically transmit beneficial ownership data and related certification upstream to the tax authorities of the issuer’s country. In that sense, a parallel information chain with richer information than that contained in the accounting of securities balances can be said to exist. Do tax processing standards and practices signpost an approach which could be taken more broadly?

The costs of such an approach should not be underestimated. The development of the standard in terms of message formats is not likely to prove the greatest cost. The transmission of end buyer and seller information down the settlement chain would require providers to screen substantial amounts of data on parties who are not their clients. That would require both substantial operational and IT investments and inevitably slow down execution. In addition, providers would need to consider the risk exposures that would flow from holding this data.

But the converse may also prove to be true; if the regulators require that securities providers screen transactions in the same way that payment banks do, then what would be the most efficient way of obtaining the necessary information?

In considering the case for the a securities equivalent to the MT202 message:

1. Would such a system amount to a parallel accounting of securities balances?
2. Would parallel accounting be more or less feasible than an adaptation of messaging standards?
3. Would such a system weaken asset protection in the area, for example of the prohibition of upper tier attachments and bankruptcy protection?
4. What would the costs and risks be of transmitting and processing information on end buyers and sellers?

2.3.2 Audit Trail

The alternative approach identified by the Working Group is modelled on the SEC Rule 613 which is applied only at the trading level and only within one jurisdiction, the United States. Nonetheless, it contains potential advantages over the cover messaging approach.

In order to provide the means to tackle cases of market abuse, SEC Rule 613 requires securities exchanges and market participants to create, implement, and maintain a consolidated order tracking system, or consolidated audit trail, with respect to the trading of securities, that would capture customer and order event information across all markets, from the time of order inception through routing, cancellation, modification, or execution.

The defining feature of the system is that participants do not need to acquire all of the counterparty information themselves replicating it redundantly along the transaction chain but acquire only sufficient information to ensure that the required information can be made available to regulators and authorities from the system when viewed as a consolidated whole.

The principal benefit of this approach over the cover message approach is that it limits the flow of data, the costs of screening and processing that data and limits the regulatory and legal risks that flow from acquiring information on parties who are not in a contractual relation with the institution.

The system is expected to be effective domestically. In considering whether such a model could serve as a template for the securities services industry, one downside on a cross-border level might be that there is no one regulatory agency with the authority to acquire the information from each intermediary to obtain a consolidated view of the principals and the actors involved in a given transaction.

1. Would such a system be feasible at the post-trade level?
2. To what extent does the provision of concrete information on the customers' customers mitigate operational risks?
3. How might the absence of a single authority be addressed? Is self-regulation a potential answer?

Conclusion

In conclusion, because of recent market evolutions there may be a case for developing best practices or standards to provide greater levels of transparency in order to protect the industry and satisfy the expectations of the authorities. Any evaluation of this should include not only the cost of implementing such new standards but also an assessment of any additional liability that may result.

The industry could and perhaps should do more to establish the principles to which securities intermediaries would be expected to adhere and the representations to complement them. If properly implemented, such a standard could forestall and pre-empt the calls for further transparency and the costs and risks that such a direction would bring.

In the event that it would not, the options available involve investment and complexity. Nonetheless, it is also clear that no actor can implement tighter standards alone. The system of intermediation enables over USD 120 Trillion of securities in issuance to be concentrated into (I)CSD accounts by a relatively small number of financial institutions intermediating the interests of the global economy as a whole. The case for protecting that model should arguably be developed and communicated alongside measures to reinforce it and address the challenges of transparency.