

ISSA Working Group update – Regulatory impact on the securities services chain

Florence Fontan, ISSA Working Group Leader and Global Head of Public Affairs at BNP Paribas Securities Services, presented the ISSA Working Group Report on the „Regulatory Impact on the Securities Services Chain.“ The objective of the report was to identify key regulatory trends and their impact on various industry actors. The overview of regulatory changes was divided into „5 Buckets“:

- banking
- shadow banking
- investor protection
- market organization and
- tax and other authorities

as well as geographic regions. An interesting addition was the discussion of potential opportunities, just before the concluding observations summarized overarching impacts.

The image shows the cover of a report. At the top, it reads 'International Securities Services Association'. Below this is a graphic of a globe made of horizontal lines. To the right of the globe, the text reads '16th ISSA Symposium' and 'Working Group 1 Regulatory impact on the securities services chain'. At the bottom left, it says 'Florence Fontan BNP Paribas Securities Services'. At the bottom right, it says 'June 2012'. The ISSA logo is at the bottom right corner.

Agenda

1. Objective of the group
2. Key regulatory trends
3. Impact on the various actors
4. Conclusion

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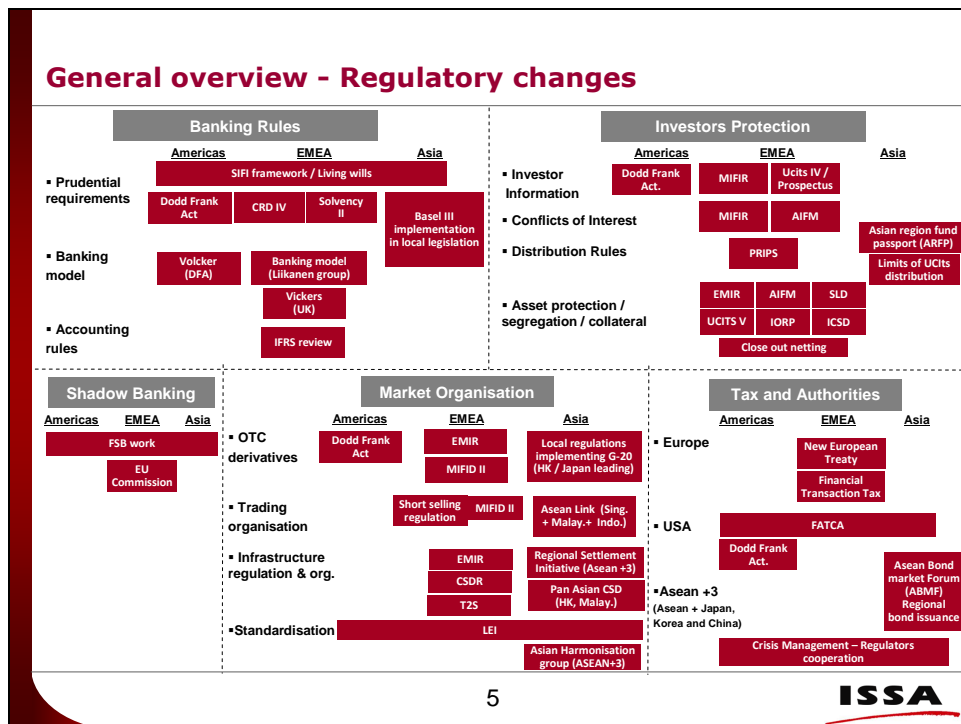
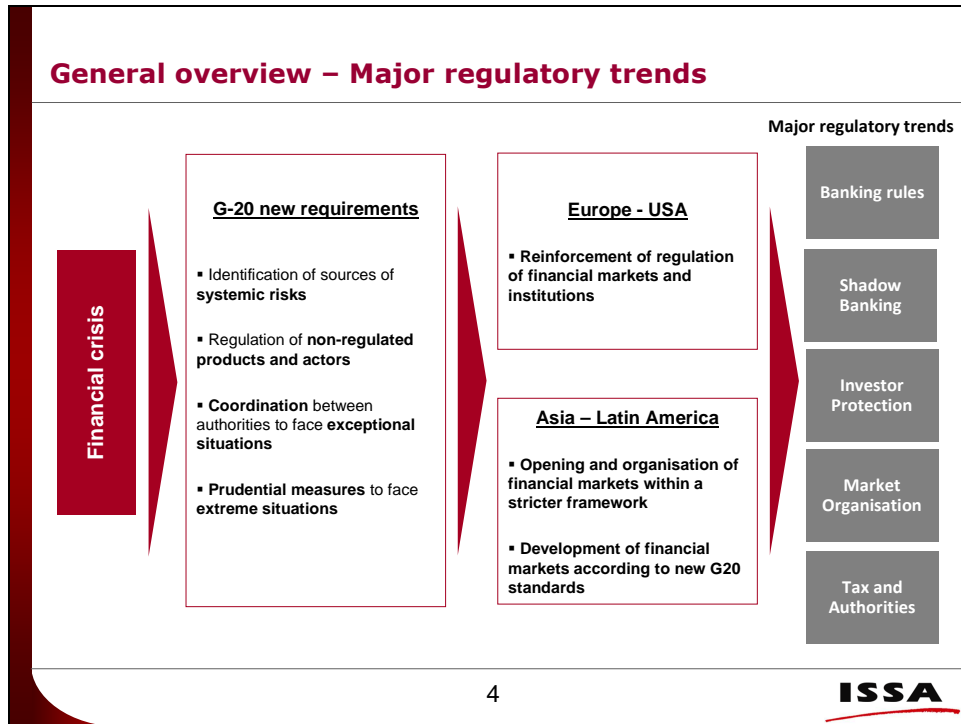
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3 major regulatory trends are particularly critical for our industry

- **Banking rules - BASEL 3**
 - Increased capital requirements on risks
 - Liquidity ratio
 - Custody, which provides client cash balances may be seen as more attractive
 - Increased need for market financing to finance the economy
- **Market organisation in particular for OTC derivatives**
 - Use of infrastructures pushed by regulation (EMIR, Dodd Frank)
 - A tiered market organisation where Financial Intermediaries should remain the risk absorber
 - Increased need for High quality collateral
 - Squeeze on collateral may impact volumes and creates opportunities for intermediaries and FMIs
- **Investor protection and transparency**
 - Increased risk to be taken by Financial Intermediaries to protect investors
 - Increased demand for transparency and reporting towards investors & regulators

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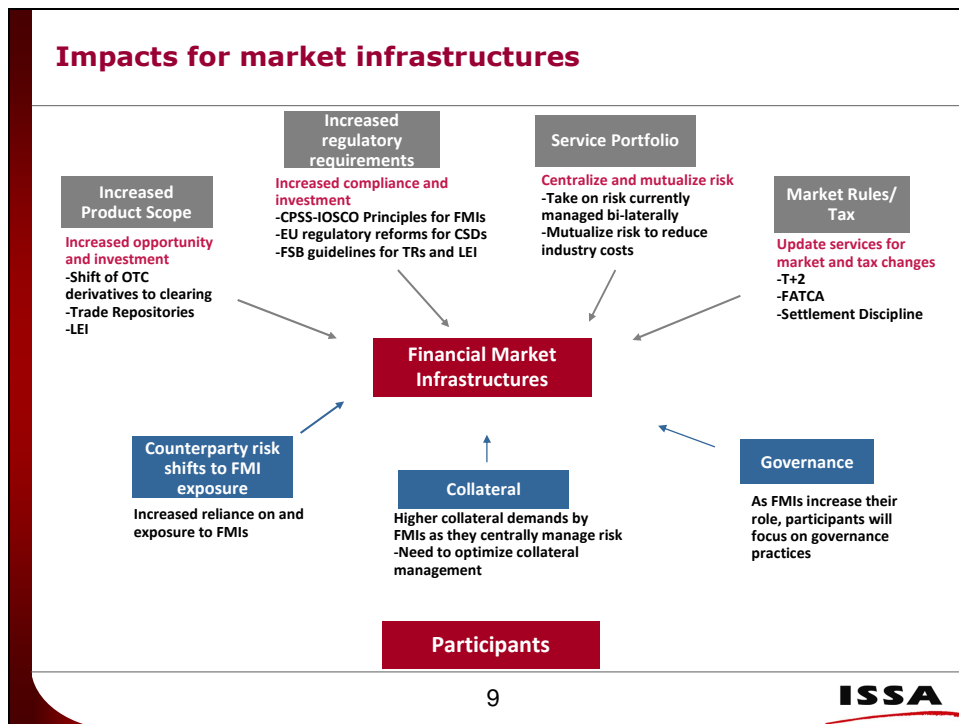
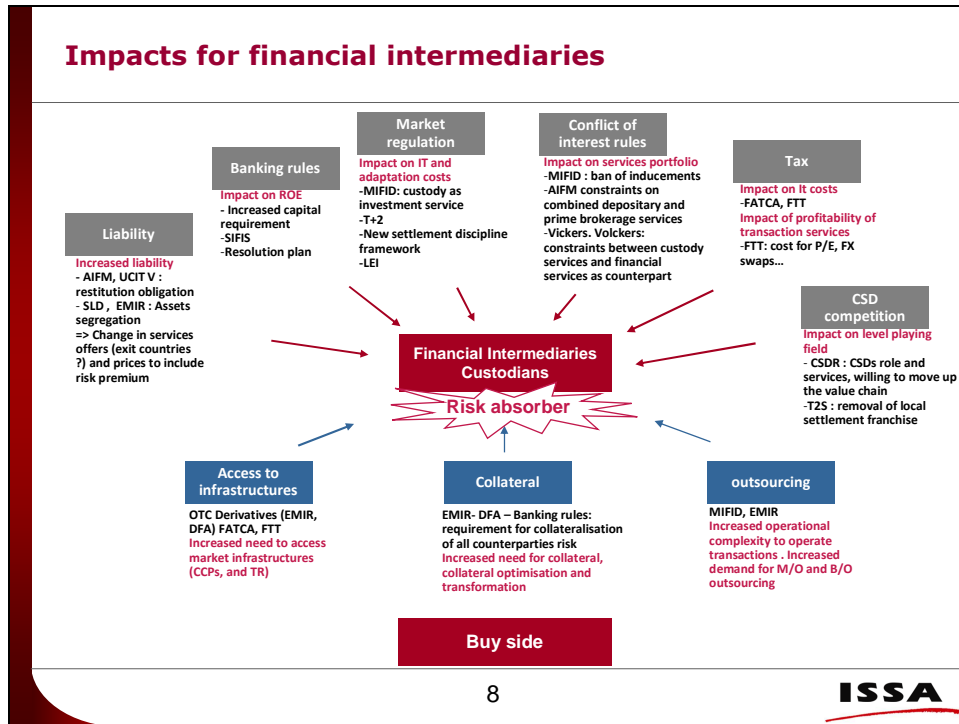
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Impact on custodians and clearers

- **Increased costs and risks**
 - Cost of regulatory compliance and IT adaptation (FATCA, T+2, EMIR...)
 - Cost of new liabilities (AIFM...)
 - Cost of capital
 - Knock-on costs of FMI reforms - capital and margin
- **Opportunities for services and products**
 - Outsourced services
 - Collateral optimization and transformation
 - Access to market infrastructures
 - Products to enable clients with Trade Repositories
 - Transparency services
- **Probable Outcome**
 - ROE of major custodians already low (approx. 8% for US “pure plays”)
 - Impact will vary firm to firm depending on how they are positioned
 - Focus on cost reduction
 - Will attempt to pass along increased costs to clients

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Impact on FMIs

- **Increased costs and responsibilities**
 - FATCA
 - T2S: settlement revenues move to ECB
 - T+2 and LEI implementation costs
 - CPSS IOSCO principles (compliance costs, capital and liquidity requirement)
- **Increased competition**
 - EU CSD regulation to spur CSD competition
- **Opportunities**
 - OTC derivatives clearing for those well positioned
 - Trade repositories and LEI
 - Pan-European CSD services
 - Collateral management and transformation
- **Probable outcome**
 - Increased regulatory reliance on infrastructures
 - Impact will vary greatly depending on how positioned
 - Large number of European CSDs unlikely to survive in current form

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Conclusion

- Cost of regulation will be high for all actors in the chain
- Infrastructures will play a greater role in financial markets but not all will benefit from this trend. Competition and rationalisation is expected. Potential new entrance as well.
- Financial intermediaries will face important challenges. Strong focus on cost is expected especially in current low growth environment. Regulation is also source of business opportunities and business model may evolve.
- Some overall benefits to ISSA core constituency
 - Improved and more efficient processing (dematerialization and buy-in procedures in Europe, T+2 in Europe and potentially US)
 - Improved transparency - OTC derivatives data
 - Increased use of central clearing for OTC derivatives
- Potential Risks and Challenges
 - Regulatory arbitrage
 - Balancing short term cost of regulation versus efficiency, profitability and financial stability

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Appendix

WG1- Working Group Members
Regulatory impact for the actors in the securities chain

Florence Fontan, BNP Paribas Securities Services – Chairman
Bruce Treff, Citigroup
Ioannis Tzouganatos, Citigroup
Neil Henderson, DTCC
Jo Van de Velde, Euroclear
Henry Raschen, HSBC
Jong-Hyung Lee, Korea Securities Depository
Richard Young, Swift
Urs Staehli, UBS