

# Recommendations 2000

## Status Report 2001



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## **ISSA Recommendations 2000 Status Report 2001**

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Contact:

International Securities Services Association ISSA  
c/o UBS AG  
FNNA OW6F  
P.O. Box  
8098 Zurich, Switzerland

Phone +41 1 235 74 21  
Fax +41 1 236 14 74  
[issa@issanet.org](mailto:issa@issanet.org)  
[www.issanet.org](http://www.issanet.org)

# International Securities Services Association ISSA

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The general objectives of the Association are:

- to promote progress and transparency in the securities services industry
- to open communication channels between and develop personal contacts among securities services providers
- to increase the professional knowledge of securities industry participants and the investment community
- to work together with other financial sector industry organisations

This report was authored by the ISSA executive board. At the time of publication of the report, the board was composed as follows:

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# 1. Introduction

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## 1.1 Objectives of this Report

The ISSA Recommendations, published in 2000, are intended to make markets safer, more transparent and more efficient. They cover legal and regulatory frameworks, the effective and efficient use of technology and the maintenance of high standards of operational performance. These are the key areas that the ISSA membership sees as critical for development work in our increasingly global asset servicing industry. These issues need to be addressed by each country or region if we are to maintain the industry's momentum and achieve further progress over the next five years.

This report presents the results of an independent, user driven survey, which ISSA facilitated during 2001, following publication and distribution of the recommendations in the previous year. It evaluates each country's status against both the spirit and letter of the ISSA Recommendations 2000. It identifies the major priorities of the ISSA membership as they work with the different markets to improve the risk profile, competitiveness and efficiency of the different infrastructures around the world. This work is the result of a joint effort to which ISSA's members and correspondents in 44 countries contributed on a voluntary basis. Future updates are planned, and it is hoped that this work can be combined with other parallel initiatives undertaken by groups such as G30.

Although much of the basic research is presented in this paper, the individual market profiles themselves have been published separately on ISSA's website ([www.issanet.org](http://www.issanet.org)) due to their size. They are freely accessible to all interested parties.

The information in this report is structured as follows:

This introduction explains the document's objective, the project outline and its working methodology. It also puts the ISSA Recommendations into context with other initiatives that are ongoing at this time.

Section 2 provides an overview of the individual country advances and the most common shortcomings identified in the survey. The shortcomings identified should drive the industry agenda as we move forward.

Section 3 details an action plan and recommendations for prioritisation.

Three appendices complete the report:

- Appendix I: Wording of the ISSA Recommendations 2000
- Appendix II: Notes from the second validators' workshop (November 27, 2001) concluding the 2001 status report.
- Appendix III: Contributing and validating institutions.

The ISSA board is extremely grateful for the support received from the contributing and validating institutions without which this report could not have been completed. We hope that this initiative will make a significant contribution to the development of the global capital market infrastructures, and the service provided to their institutional users and intermediaries, as well as the investor community.

## **1.2 Overview of the Process**

The ISSA Recommendations project was launched in 1999. The ISSA executive board, in consultation with the markets, agreed to a full revision of the nine G30 Recommendations on Securities Clearance and Settlement which were originally published in 1989 and subsequently amended by ISSA.

The first phase of the new project was concluded with the finalisation and ratification of the eight recommendations during the 10th ISSA Symposium in May 2000.

The second phase consisted of their worldwide publication and the subsequent awareness campaign.

This report concludes the third phase in which all ISSA members and some third parties were invited to prepare status reports for their respective local markets, based on a set of 45 key questions. A group of validators, drawn mostly from among the user community (universal banks, global custodians, and broker dealers) within ISSA's constituency, reviewed each market report for completeness and clarity, giving particular emphasis to the needs of the cross-border investor. Where necessary, gaps and areas of conflict were reconciled in a dialogue between authors and validators. Many of the 45 questions used in the survey cover complex topics. They were deliberately worded in a way as to elicit explanations, rather than simple "check the

box" answers. Hence the ISSA board made a conscious decision to refrain from any attempt to score, rate or rank the markets based on the results of this global survey.

The completed market questionnaires, in their totality, would exceed 550 pages in printed form. Due to the volume, they are made available in electronic format only. As noted above, the market profiles can be accessed on [www.issanet.org](http://www.issanet.org). ISSA have been asked by the validator group to maintain and update this database in the future.

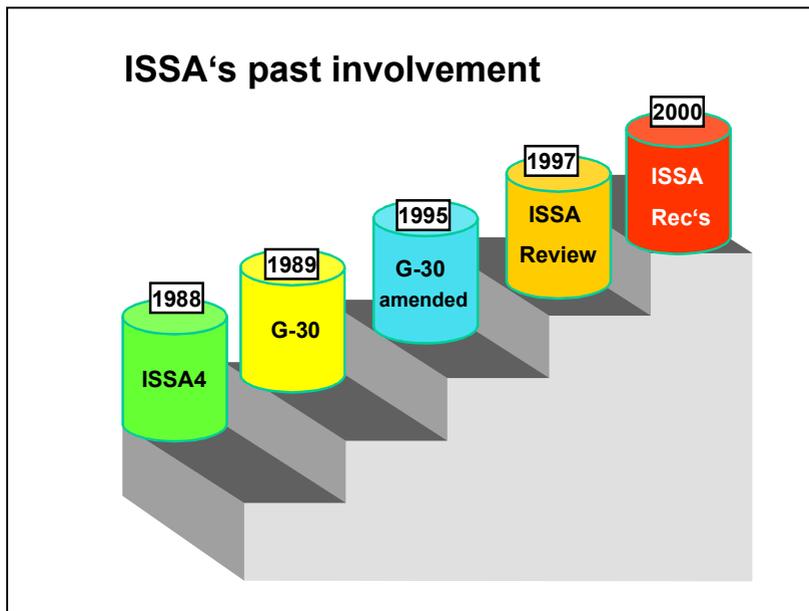
The validators' group was also asked to identify in the markets reviewed areas for potential improvements that would increase transparency, decrease risk, or remove inequality between the treatment of cross-border and domestic investors.

Those items were summarised, cross-referenced to the respective recommendations, and assigned to a logical party to take ownership and action. The resulting document is presented in electronic format on the ISSA website (the "Market Key Issues Schedule"). It is considered by the ISSA board as an integral and significant element of the Recommendations 2000 initiative. However, the board is fully aware that the list cannot claim to be complete, that some of the issues raised may be controversial or may be viewed differently by the respective local markets. It represents, however, the perception of a large group of cross-border market participants. Additions, clarifications, suggestions or comments of any kind are always welcome and encouraged.

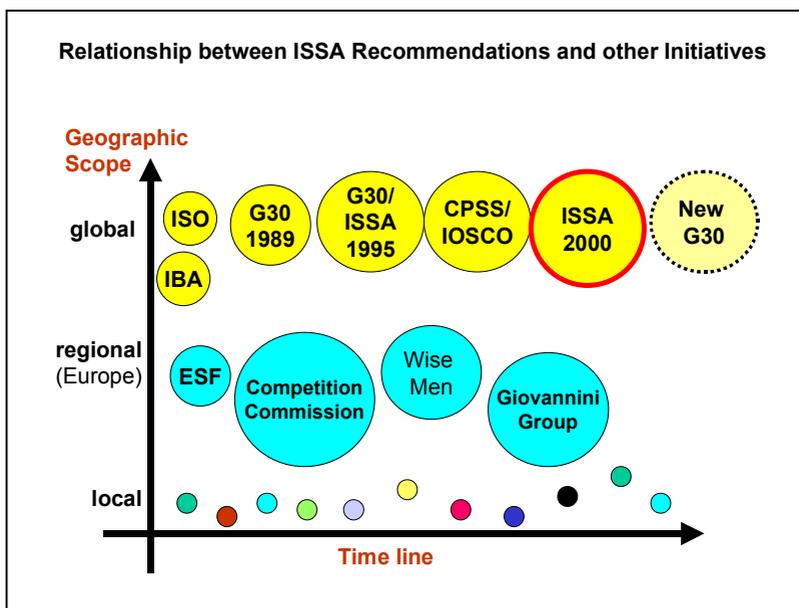
ISSA intends to facilitate an ongoing dialogue among all interested parties with regard to the recommendations' subject matter. Where appropriate, new information gleaned from the process will flow into the market profiles, thereby continuously raising their value.

### 1.3 Relationship Between the ISSA Recommendations and Other Initiatives

ISSA has been a key driver for advances in the post trade securities processing world for many years. Our first review of markets and associated recommendations pre-dates the first G30 report (and indeed was seen by many as the forerunner). It was in early 1988 that the first set of ISSA recommendations was published.



The most recent ISSA recommendations project was launched in 1999. This timing was coincident with similar initiatives of global, regional or sectoral scope but completely independent. Most notably, these are the consultative report on Recommendations for Securities Settlement Systems prepared by the joint BIS CPSS/IOSCO Task Force, and the renewed Group of Thirty effort in clearing and settlement.



While there is some overlap between the work of CPSS/IOSCO and ISSA, the two initiatives always complemented each other. They share a common goal, namely making markets safer, more transparent and more efficient. However, the focus of each group is quite different. The regulators and central bankers tend to have the stability of entire financial systems in a macro-economic context on their minds. ISSA is not a regulator. The ISSA membership covers a broad scope of market practitioners representing all provider segments along the value chain. ISSA and CPSS/IOSCO became aware of one another's initiative very early on in the drafting stage. The two secretariats met and informally exchanged views and mutual project updates on several occasions.

The G30 report, which is currently in production, is likely to have even greater convergence with the key themes of the ISSA recommendations than the CPSS/IOSCO work. ISSA will have focused more on issues of operational criticality as well as core issues of governance, stability and structure. The G30 is likely to tackle issues from a different perspective, focusing on issues of efficiency, transparency, safety and openness to competition. Several of the key ISSA members involved in the recommendations are also involved in the G30 work. It would appear that the ISSA and G30 works are likely to converge and complement each other. The combined

work will be a powerful tool from a broad spectrum of market participants, calling for progress to enable continued growth in capital markets both within countries and across borders.

In Europe, mention should be made of the Giovannini Group, which is advising the European Commission on practical solutions to improve capital market integration in the European Union. The group conducted a comprehensive analysis on the state of cross-border clearing and settlement in the equity, fixed income and derivatives markets in all European Union member countries. Their work looked at the existing infrastructure, governance of the utilities forming that infrastructure, legal, regulatory and tax impediments in today's cross-border operating environment, and the impact of technology. The analysis considers the requirements against which the efficiency of possible alternative arrangements for clearing, settlement and depository services can be assessed. A follow-up report by the Giovannini Group will describe a range of alternative arrangements for an integrated capital market for the European Union. The report is expected to shape the policy making of the European Commission. Although the survey was geographically confined to the European Union member countries, the nature of the issues examined overlaps to a large extent with the scope of the ISSA recommendations. While the Giovannini questionnaire was not addressed to ISSA, many European ISSA members responded to it individually on behalf of their respective institutions.

Looking at initiatives confined to a particular service provider segment within the capital market infrastructure, the Global Association of Securities Clearing Houses (CCP 12) is exploring collaborative opportunities and minimum standards to improve risk management, best practices and process harmonisation for clearing houses and central counterparties. The various regional central securities depository associations have undertaken similar efforts.

ISSA, as noted above, was instrumental in developing the "original" G30 recommendations. It has consistently supported and is now actively supporting, the ongoing G30 initiative. The ISSA executive board is firmly of the opinion that co-operation is vital to ensure clarity of message to the global market place. Diverging or competing sets of best practice recommendations will have a negative effect on market operators. Neither ISSA nor any other organisation in this field should feel proprietary about their work, especially as they often source their value-added knowledge and skill base from similar organisations around the world. Pooling resources and sharing the results among like-minded bodies will enable us all to leverage the existing resources to the advantage of the industry at large. To promote

such convergence, the ISSA executive board has therefore formally entered into a dialogue with G30 to seek convergence, and to explore a mutually beneficial form of co-operation.

In addition to the above, work on operational risk being undertaken under the auspices of the BIS ("Basel II") will be monitored as it will impact the allocation of capital to custody and settlement activities.

We also need to monitor the impact of anti money laundering and anti terrorism legislation in several countries as the new mandated controls will require new functionality at infrastructure and user levels and may adversely impact the move to greater Straight Through Processing.

## 2. Summary and Conclusions

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There can be no doubt that the global capital market infrastructure underwent an impressive amount of development and improvement over the last several years. However, the present status survey conducted by ISSA in 44 markets revealed a number of recurring problems or deficiencies as well.

This section summarises the level of compliance with the recommendations, based on analysis of the completed market questionnaires. Further, areas of significant progress and major shortcomings are summarised.

### **Recommendation 1: Governance**

**Securities Systems have a primary responsibility to their users and other stakeholders. They must provide effective low cost processing. Services should be priced equitably.**

### **Areas of Convergence and Progress**

There is growing evidence of open governance in many Securities Systems with independent user based boards, audit and compensation committees. Most markets indicate that there is no cross subsidisation across instruments, but this is more due to the essentially domestic nature of most CSDs rather than outright policy decisions on this matter.

Increasingly, the Internet is used to relay information to stakeholders alongside newsletters, physical meetings etc. The growing transparency of the market infrastructure towards both its direct and indirect membership is a welcome development.

There appears to be a strong commitment to ensure good communication with the user community in all markets.

## **Risk or Deficiency Items**

In many Securities Systems, stock exchanges and central banks have an important governance role. The depositories are often branches of the trading organisation.

The growth of the concept of exchanges as shareholder value-driven organisations was noted; in some cases these exchanges own the local central depository (monopoly). There is no evidence of user concern at this development in those countries. Examples were provided of possible conflict between the allocation of costs to settlement and custody activities.

### **Recommendation 2: Core Processing**

**Securities Systems must allow the option of network access on an interactive basis. They should cope with peak capacity without any service degradation, and have sufficient standby capabilities to recover operations in a reasonably short period within each processing day.**

## **Areas of Convergence and Progress**

All markets describe their systems as able to handle day-to-day and peak volumes as well as the levels of market volatility experienced in the 12 months of review (approximately from mid 2000 through mid 2001).

Many mature markets described the need to alter their regularly scheduled processing times in the past 12 months as a reaction to problems in the market (e.g. initiated by participants, exchanges, registrars). There are few examples of a market driven outage that led to any material delays. (The events of September 11 in New York post-dated the survey for the USA). The alterations typically are extensions of the regular processing day to ensure orderly settlements within the processing day. This demonstrates the flexibility of the Securities Systems as well as decision-making processes, which meet the needs of the users.

Most securities systems allow interactive access by participants.

## **Risk or Deficiency Items**

Only one market advised of the successful use of their backup/recovery systems in the past 12 months. All other markets have stated that they have not encountered a situation in the past 12 months requiring them to implement their backup/recovery plan.

The industry was very diligent in preparation for the Year 2000 in respect of application systems and in development and testing of validation and recovery processes. Given the World Trade Center tragedy, most markets consider that similar attention and diligence should be applied to ensure that backup/recovery plans are in place and tested for critical systems, procedures and physical sites. However, there is little tangible evidence as to how this is to be achieved. Furthermore, it was noted that there was a special focus needed on the key third party critical points of failure which could include those at major participants, major vendors, data suppliers, telecommunication vendors etc.

100% of the markets responded that their major participants are linked electronically. It is likely that such communication, critical to securities processing, relies on systems/facilities external to the financial services industry. There is clearly a need to consider the backup/recovery plans of key external/third party providers.

Industry organisations and major external vendors on which utility services depend (e.g. in the US: the Securities Industry Association, Futures Industry Association, Bond Market Association), should plan to establish and enforce standards/best practices for backup/recovery of the critical Securities Systems. It is important that these standards be compatible and that they recognise the interaction between different areas of the financial infrastructure.

There is a major need for more openness on contingency plans within each market and across markets. This will ensure that there is greater sharing of best practise and a clearer understanding of the likely impact of any event risk that may arise.

### **Recommendation 3: Messaging and Standards**

**The industry worldwide must satisfy the need for efficient, fast settlement by full adherence to the International Securities Numbering process (ISO 6166) and uniform usage of ISO 15022 standards for all securities messages. The industry should seek to introduce a global client and counterpart identification methodology (BIC - ISO 9362) to further facilitate straight through processing. Applications and programmes should be structured in such a way as to facilitate open interaction between all parties.**

### **Areas of Convergence and Progress**

Most markets plan compliance with the ISO 15022 standards for message format by November 2002 as scheduled by SWIFT. However, in many cases there is an absence of clear plans as to how this is going to be achieved.

### **Risk or Deficiency Items**

Most markets have local standards for product identification. Few markets, however, have local standards for client and counterpart identification. There is a lack of clarity as to the plans of markets for their moves to ISO 15022. SWIFT has a role through their national advisory groups and best practices process in ensuring that there is clarity in the planning and status of a market given their impact on the different points of connectivity.

SWIFT has a further role as the possible catalyst for the extension of the use of BICs among the non-SWIFT user population. This would need SWIFT members to agree to develop a utility that assigned such codes to all market participants.

There is agreement that standards for messages, product identification and client/counterpart identification are key to achieving straight through processing. Without such standards the full benefits of straight through processing for local and cross border transactions will not be realised and we will continue to process a high percentage of exceptions. Processes developed for cross-border straight through

processing (such as GSTP or Omgeo) will promote and to a degree enforce the standards. Shortened settlement cycles will make standards necessary. Market participants should plan to adopt these standards. For many, adoption will include mapping their current local standards to global standards for cross-border activity. Progress is expected to be slow.

#### **Recommendation 4: Uniform Market Practices**

**Each market must have clear rules assuring investor protection by safeguarding participants from the financial risks of failed settlement and ensuring that listed companies are required to follow sound policies on corporate governance, transfer of economic benefits and shareholder rights.**

### **Areas of Convergence and Progress**

#### **Protection Against Delivery Fails or Counterparty Default**

Securities lending and borrowing is available without restrictions in most major markets, but is less prevalent in other markets. CSDs typically operate either a centralised service to bridge settlement fails, or facilitate the movement of loaned positions and related collateral where transactions are concluded directly among market participants. A number of markets are in the process of removing barriers which are typically either regulatory or fiscal.

About half of the markets surveyed operate a central counterparty or similar process which enables them to mark failed broker trades to market and collect margin from the failing party to protect the suffering counterparty's interest. The remaining systems have adopted alternative measures to prevent non-performance by a broker, and, in some cases, other counterparties. These include prematching and locking-in of prematched trades, blocking sold shares upon receipt of delivery instructions, strict adherence to the DVP principle, imposition of stiff penalties for non-performance, mandatory buy-in/sell-out, and acting as central counterparty and guarantor. A few markets, both well established and emerging, have no such measures in place, stating no perceived need due to a long history of insignificant fail rates. This approach is questionable given the increased chance of event risk in markets.

Some form of central guarantee fund or compensation fund to protect suffering counterparties has become a standard feature in most markets. However, hardly two markets are alike in terms of where the fund is maintained (exchange, clearing house, CSD, several funds), how it is alimented, to whom it extends (e.g. broker/broker trades or broker/client trades), what instruments it embraces (equities, derivatives, debt), what damage situations it covers (failed trades, counterparty default, loss of securities, misconduct by involved parties, etc.), at what point in time protection sets in (from the moment a trade has matched, from the moment settlement as contracted has failed, etc.), and whether it is supplemented by additional measures such as insurance coverage.

Clarity on coverage and standards on the level and scope of such guarantee funds are critical missing elements.

### **Transfer of Ownership Rights / Registration**

Markets have become increasingly dematerialised and the CSD often acts as registrar, particularly in newer markets. Registration is then performed electronically and is an integral part of settlement. Where registrars are separate from CSDs, they are often linked to the CSD electronically. In a few markets, the function of transfer agent/registrar does not exist; all shares are kept in the (nominee) name of the CSD and participants are responsible for maintaining accurate ownership records. In some markets, registration merely serves to enable shareholders to have the right to vote.

The point in time when the right to entitlements moves from seller to buyer is clearly defined in all markets. In most cases, this occurs at the moment the deal is struck. In a few markets, benefits are vested in the buyer only at the point of settlement, or even registration (which may or may not coincide with settlement completion). At least one major market uses different conventions depending on whether a trade has been dealt on-exchange or off-market.

### **Corporate Actions and Proxy Voting**

Most markets have some level of guidance on the adherence to mandatory time periods between the announcement of a corporate action or other key event, and its completion. Clear legal requirements across the globe, however, exist only with regard to the lead-time between the announcement of shareholders meeting, the meeting date, and the time frame within which dividends must be paid. For other events,

guidelines may exist on the level of laws or in exchanges' listing rules, however, rarely on a comprehensive basis. Newer markets tend to be more prescriptive than established ones. While there is clearly no harmonisation of time frames across markets, there is a trend towards addressing the issues in national company acts.

In virtually all markets, issuers are obliged to publicly announce voluntary corporate actions in at least one public newspaper and increasingly to the central market utilities and/or the market regulator. However, issuers are typically neither required to provide information electronically, nor in a standardised format. Standardisation is typically achieved only after the local Securities System or a private sector vendor has reformatted the data for onward dissemination.

As a rule, proxy voting is possible both for local and foreign shareholders in most markets. Rules on whether or not shareholders or proxies are required to be physically present to vote vary by market and often by issuer. Smaller and newer markets tend to require physical presence more often than others do. Voting via Internet is a new development under consideration in a number of markets, already enabled by only a few. In some larger markets shareholder enfranchisement is achieved through "e-voting" which to the extent supported by law, represents an efficient forward looking approach.

### **Risk or Deficiency Items**

Securities lending and borrowing is still not a universally accepted practice; sometimes barred entirely, and sometimes hampered by restrictions. These typically fall into one of three categories, 1) borrowing ceilings or prohibitions imposed on non-resident market participants; 2) tax impediments making securities lending and borrowing economically unattractive; 3) heavy bureaucratic procedures that impede active management of financing requirements.

Cross-border investors' due diligence processes should carefully assess the nature of guarantee funds, the extent of protection they provide, and whether the absence of a guarantee fund may be offset by alternative measures affording equivalent protection. Guarantee funds usually cover on-exchange broker to broker activity, but do not necessarily cover other parties to the transaction flow.

Shareholders need to pay particular attention to the registration practice in all markets where they invest. There are markets where shareholder records are updated only

shortly before a record date. This may entail the risk of being informed of problems in a timeframe within which it is too late to take action; particularly where a market has foreign ownership limitations in force and a ceiling has been reached. Inability to collect entitlements or participate in corporate actions may be the consequence.

There is a serious lack of consistency in „cum“ versus „ex“ trading rules and institutionalised mechanisms to resolve entitlement claims between counterparties. There is also no consistency in the degree to which Securities Systems offer automatic compensation systems, or facilitate the resolution of claims between buyers and sellers.

There is also a lack of harmonisation of lead times in the announcement of corporate actions and their completion, both between different types of actions within a market and across markets. With two or three notable exceptions, markets seem to believe that deadlines to reply to voluntary corporate actions are generally adequate for all investors including those operating through multiple layers of intermediaries. However, the question was frequently not answered and the responses received indicate that local market operators do not perceive this as an issue of concern. Furthermore, there was criticism from the validator group of the lack of adequate time allowed for cross-border investors to respond to voluntary corporate action announcements.

Much corporate action information is available electronically. However, standards associated with the related central databases are not consistent. Neither is the scope of the content of the messages. There are also issues relating to the interpretation of the data and the adequacy of the language and information provided. Dissemination is often via exchanges' websites. However, it is not always accessible to the public at large, or provided in a format suitable for easy onward processing via the industry's established STP tools. Few markets have a truly central and specialised data aggregator and disseminator. The lack of corporate action information and terminology in a consistent format across markets creates the potential for major risk for all parties in the investment flow.

### **Recommendation 5: Reduction of Settlement Risk**

**The major risks in Securities Systems should be mitigated by five key measures, namely:**

- **the implementation of real delivery versus payment**
- **the adoption of a trade date plus one settlement cycle in a form that does not increase operational risk.**
- **the minimisation of funding and liquidity constraints by enabling stock lending and borrowing, broad based cross collateralisation, the use of repos and netting as appropriate**
- **the enforcement of scripless settlement**
- **the establishment of mandatory trade matching and settlement performance measures.**

### **Areas of Convergence and Progress**

Market settlement periods are generally decreasing. T+1 is being planned for several markets. While most markets generally do not appear to see a move to T+1 as a problem for domestic investors, many are conscious of the need to accommodate the needs of the international investor community. There are markets, however, that did not include the international component although they indicated plans for a change to T+1. Given its impact, the requirements of T+1 must be clearly laid out.

Scripless settlement (book-entry transfer) is becoming the norm although the bulk of markets still utilise immobilised paper. Use of global notes is increasing. The reason for not fully dematerialising typically is of a legal rather than an operational nature. Existing laws often define a security as a "document" or similar term, requiring the existence of a tangible instrument. Comments would indicate that the value of a move to a dematerialised environment is not seen as a priority.

### **Risk or Deficiency Items**

Although there are a series of markets operating BIS Model 1 DvP, the bulk of markets operate Model 2 or Model 3. Few markets have concrete plans to move to Model 1. Some markets have optional use of Model 1, but this option is rarely used. The critical issue for the market is to ensure that there is simultaneity in the exchange of cash and

stock in the settlement process and that there is undoubted finality applied to those transfers.

There are many markets with no clear standard on trade matching, especially for indirect market participants. The latter tend to match close to the settlement rather than trade date. It was noted that the driver for trade matching on the market side was regulation (requiring matches at a point close to the trade). On the client side, the driver was settlement date driven. This disparity caused operational friction between different parties.

There was an absence of comment on the use of stock lending and other funding mechanisms as risk mitigation tools. However, most markets enabled turnaround trades and some commented on the right to sell short.

#### **Recommendation 6: Market Linkages**

**Convergence of Securities Systems, both within countries and across borders, should be encouraged where this eliminates operational risk, reduces cost and enhances market efficiency.**

#### **Areas of Convergence and Progress**

The majority of Securities Systems have links from the local trading platforms that enable a direct feed of trades through to them to other Securities Systems.

There is growing convergence of infrastructure, but many countries still operate several unlinked Securities Systems. The issue is more one for the OECD and older established markets; emerging markets tend to be equity centric and have addressed this issue.

#### **Risk or Deficiency Items**

There are several markets where there are links into the payment mechanism. However, the majority of markets do not link into RTGS systems, either due to the

absence of such a system or the preference to use end of day fund systems. Most markets do not appear to be planning such a change.

There is little tangible evidence of commitment to convergence of infrastructure across borders, although there are multiple examples of inter-depository linkages (usually on a free of payment basis).

### **Recommendation 7: Investor Protection**

**Regulators in each country should review whether locally domiciled institutions have a process in place that enables them to comply with the laws and regulations of the countries where their investments are placed. In turn, foreign investors should always be treated in like fashion to indigenous investors, especially in respect of their rights to share-holder benefits.**

### **Areas of Convergence and Progress**

In a few markets only, regulators actively monitor local custodians engaged in cross-border investments for their compliance with the laws and regulations of the home-market of the investment. Increasingly though, custodians undertake extensive RFP (Request For Proposal) and physical due diligence reviews in order to gather necessary information.

Most markets have some Foreign Ownership Limitations on selected industries of national interest. The process of communicating ceilings and granting benefits on holdings not re-registered varies.

Sales and income proceeds can be freely repatriated in most markets. Markets with repatriation restrictions apply differing and occasionally burdensome procedures.

The number of double taxation treaties concluded between countries keeps steadily increasing, yet the vast majority of countries provide treaty benefits solely through a process requiring a burdensome substantiated tax reclamation.

## **Risk or Deficiency Items**

Information shortage exists due to the fact that few Securities Systems accept the rigours of the Custodian RFP process. The formal nature of individual Global Custodian RFP's can leave gaps as the high risk "grey" areas of many markets may not be adequately explored other than by those agents willing to invest in detailed onsite discovery. This means that some risk issues are not adequately aired and may result in investors and agents having a less than prudent awareness of the rules and regulations in the home market of their investments.

Foreign Ownership Limitation (FOL) processes are very diverse and follow different set-ups. Whereas clearly identified share classes limit the risk upfront, the imposition of limits on undifferentiated share classes carries the risk of becoming aware of a limit problem only after the trade has been made. Further, some markets make the receipt of economic benefits dependent on the successful registration within the FOL ceilings. Investor education and information on these "danger zones" needs definite improvement.

There are several examples of burdensome procedures for repatriation of sales and income proceeds, ranging from registration with the local central bank to a process that results in extensive holding periods prior to repatriation. This constitutes one of major impediments in reaching Straight Through Processing in markets with "exchange controls".

Serious concern continues to be expressed about the difficulty of obtaining best treatment of withholding taxes. Withholding tax procedures are diverse, ranging from straight-forward relief at source payments based on the recipient's address, to requiring extensive documentary evidence involving beneficial ownership disclosure and investor home country tax authority confirmations.

Procedures involving tax reclamation post dividend or interest receipt are more common than upfront relief or exemption situations. Upfront relief situations often result in complex sub-account segregation requirements that may be detrimental to efficient Straight Through Processing in underlying securities transaction settlements. In addition, inconsistency in the application of Double Taxation Treaties in extended custodian chains may lead to differing end-results for the same entitlement.

### **Recommendation 8: Legal Infrastructure**

**Local laws and regulations should ensure that there is segregation of client assets from the principal assets of their custodian and no claim is possible on client assets in the event of custodian bankruptcy or a similar event. Regulators and markets, to further improve investor protection, should work:**

- **to ensure clarity on the applicable law on cross border transactions**
- **to seek international agreement on a legally enforceable definition of finality in a securities transaction**
- **to ensure that local law fully protects the rights of beneficial owners**
- **to strengthen securities laws both to secure the rights of the pledgee and the protection accorded to client assets held in Securities Systems.**

### **Areas of Convergence and Progress**

In the preponderance of markets, segregation of client assets and participant proprietary assets on the level of the CSD is mandated by law or regulations. In markets where segregation is on a voluntary basis, securities may be either registered in the name of the beneficial owner or the local law assumes that the end investors own the securities. In the latter case, protection of clients' assets in the event of insolvency of a custodian or depository is mainly based on the treatment called for in local bankruptcy laws or from trust and fiduciary laws.

The laws of about half of the markets analysed recognise the existence of beneficial owners who may differ from the legal owner of a security; in some cases this concept is dealt with under fiduciary laws. A fair number of markets do not recognise beneficial ownership and this is a material problem.

Approximately half the markets have clearly defined settlement finality; European Union countries increasingly have adopted the EU Settlement Finality Directive.

Pledge rights are common in most markets, yet a fair number impose conditions, such as notification prior to executing a forced sale.

Depository loss sharing arrangements often call for a pro-rata liability on the part of participants. In a number of markets depositories resort to insurance coverage, stringent risk management procedures or guarantee schemes. In some important markets, there are no particular guarantee mechanisms in place.

### **Risk or Deficiency Items**

It is clear that a lack of mandatory segregation of assets should not to be regarded as a disadvantage per se, as long as local bankruptcy laws fully protect a client's assets and take the custodian's records as the basis for establishing beneficial ownership.

A lack of recognition of the nominee principle and the distinction between legal and beneficial owner, creates a potential credit risk on foreign custodian banks, in whose name local securities may be registered. They could be considered as beneficial owners and the assets subject to seizure in case of third party claims against such foreign custodians. Resorting to extensive sub-account segregation to avoid this, although possible in some markets, is not cost-efficient.

A clear definition of settlement finality is lacking in too many markets and - where available - not widely known. The time span between custodian settlement notification and ultimate final and irrevocable settlement may expose custodians and their clients to risk.

Home markets with multiple Securities Systems that operate differing finality regulations (usually by way of their rulebooks rather than local legislation) create further risk. Securities Systems should be encouraged to use a common approach or at least to provide sufficient transparency to ensure user understanding of the position.

It is important to note that the issuer or its country of domicile no longer dictates the locus of trade settlement. This means that a single security with a unique ID may be able to be settled in multiple locations. The bulk of market participant processes are not structured to accommodate multiple settlement locations for the same security and work is needed to identify how to tackle this growing problem.

Conditional rights of pledgees are sub-standard in many markets. Avoiding restrictive enforcement procedures in favour of a fast reaction capability would provide an improvement.

### 3. Action Plan and Prioritisation

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Based on the markets' self-assessment supplied by the local contributors responding to the ISSA questionnaire, the validators identified the action plan and priorities detailed below. In coming to their conclusions the validators focused on three key areas of work:

1. The reports submitted by the different markets on their position on the recommendations.
2. The analysis by the ISSA secretariat of the key deficiency items raised in the different countries (as published on the ISSA website).
3. The summary text in Section 2 of this report. This was produced by the board sub group tasked with the monitoring process taking account of input from the validators group.

We provide below our proposed action plan. The plan weighted the different issues and prioritised them according to three criteria, namely scale of risk, complexity of implementation and the number of entities involved or impacted by the recommendation.

Thus, as an example, a recommendation to agree the applicable law to a transaction would be:

- Material in terms of risk reduction as it would enable clarity as to the applicable law in a transaction, which involved cross-jurisdictional impact. This could be through the parties to the trade, the exchanges used to undertake the trade or the intermediary infrastructure used to complete the trade.
- Implementation would be complex as it would require agreement on the applicable law by all the parties involved in the jurisdictions impacted and the enactment of the appropriate legislation in their statute books.
- The number of entities involved would be high as noted above.

The prioritisation would need to be for a term resolution (although this should be in incremental steps and some action could be decided upon immediately) as any other objective could be deemed impractical. The key action points identified as a result of

the analysis are explained below to help forward planning and further debate on implementation options.

It was felt though that there were two overarching priorities and these were:

- The need to move forward on corporate actions. ISSA has been a long-term promoter of the use of standard messages in communicating corporate actions. Work is taking place in the USA on the creation of an improved infrastructure to remove the risk of mis-interpretation of a company's announcement by the custodian and broker back offices. Although there will always be unique features to certain complex corporate actions, there is a need to ensure that we enable standardisation of the communications process to the maximum extent possible. Given the work being undertaken in the USA, it would be valuable if the USA shared their work to enable it to be brought for proof of concept in other markets.
- The need to revisit the level of contingency available within the securities settlement systems and the connected infrastructure. This will include the trading environment, the clearing systems, matching environment and the payment systems as well as physical, telephone and other communication structures. There is a need to balance cost and risk. The September 11 events changed the traditional paradigm. For example, there is a need to re-visit the types of contingency systems that may be required to restore operations within a business day. Obviously, contingency planning requires differentiating between high volume and high value systems that create global systemic risk (e.g. major government debt systems which are key to collateral management processes and liquidity management in general) and low volume and low risk systems (e.g. a small equity based market). Last but not least, the issue of providing adequate physical work space for staff to continue/resume work after a disaster event, beyond IT infrastructures and interfaces, needs to be addressed.

Our full analysis shows the following key issues for the markets:

**Recommendation 1:**

Key areas	Risk impact	Implementation	Breadth of impact
None identified			

**Recommendation 2:**

Key areas	Risk impact	Implementation	Breadth of impact
<ul style="list-style-type: none"> <li>Plans needed to upgrade contingency arrangements for the infrastructure following the lessons of September 11<sup>th</sup></li> </ul>	Major. Critical to market stability.	Major spend and acceptance by the industry of the cost of the investment.	Material, impacts the entire market.
<ul style="list-style-type: none"> <li>It is also important that markets are open about their contingency plans and agree to share experience and best practise.</li> </ul>	Material, as such a process helps eliminate the risk of contagion or systemic failure.	Moderate, as it is only sharing of known data.	Moderate, as organisations such as ISSA can facilitate the process.

**Recommendation 3:**

Key areas	Risk impact	Implementation	Breadth of impact
<ul style="list-style-type: none"> <li>Plans needed to ensure market awareness of the move to ISO 15022 in different markets.</li> </ul>	<p>Material. Critical to STP.</p>	<p>Material. Needs re-engineering of connectivity by all participants to the Securities System.</p>	<p>Material. Global market issue.</p>
<ul style="list-style-type: none"> <li>SWIFT should also agree to offer BICs to non-members.</li> </ul>	<p>Material, as it extends standards to all parties.</p>	<p>Simple, as long as SWIFT members agree to give the service their financial backing.</p>	<p>Material. Would extend the reach of STP.</p>

**Recommendation 4:**

Key areas	Risk impact	Implementation	Breadth of impact
<ul style="list-style-type: none"> <li>Improved adherence to global, rather than local, standards.</li> </ul>	<p>Important issue. Critical to STP as data quality is a major cause of exception processing.</p>	<p>Material. Impacts all parties to the securities information process from pre-trade through to post trade.</p>	<p>Material impact on the entire market.</p>
<ul style="list-style-type: none"> <li>Improved information and standards on the scope of market guarantee funds.</li> </ul>	<p>Important issue. Key to assessment of market settlement risk.</p>	<p>Moderate implementation effort. Simple to ensure the clarity needed. Implementation of new standards may lead to restructuring of the funds and may require added capital and/or changed market processes to support them.</p>	<p>Wide impact. Direct participants to all settlement systems (and possibly trading systems as well).</p>

<ul style="list-style-type: none"> <li>Proxy voting via the internet.</li> </ul>	<p>Important. Enables the implementation of best practise in respect of corporate governance.</p>	<p>Complex, as a distributed environment outside normal constituency of Securities System. Corporate secretaries and local law as well as the creation of the needed infrastructure (can be through the Securities System or by way of the private sector).</p>	<p>Complex. The catalyst for this will best come with the agreement of the corporate sector to embrace and support such an initiative.</p>
<ul style="list-style-type: none"> <li>Registration procedures need to be improved (although the ISSA constituency is neutral on dematerialization versus immobilisation).</li> </ul>	<p>Material. Common standards will remove risk of any lost entitlements or ambiguity on market claim entitlements.</p>	<p>Moderate. Market rules in each market need to be changed to protect the investor from loss of security or entitlements from the point of trade.</p>	<p>Moderate. Local market issue.</p>
<ul style="list-style-type: none"> <li>Standardisation of corporate action information.</li> </ul>	<p>Critical. Major area of risk and loss for the market.</p>	<p>Material. Major IT and business project.</p>	<p>Material. Global co-ordination, vendor and market participant issue needing local market co-operation.</p>

**Recommendation 5:**

Key areas	Risk impact	Implementation	Breadth of impact
<ul style="list-style-type: none"> <li>Need to adopt common trade matching standards for both street and market side.</li> </ul>	<p>Important. An issue of market rules within the remit of each of the market bodies.</p>	<p>Average. Rule book changes needed and commitment to their implementation.</p>	<p>Moderate. All parties to the trade impacted, but not necessarily systems and workflows.</p>
<ul style="list-style-type: none"> <li>Markets need to ensure simultaneity (of cash and stock) and finality in settlement.</li> </ul>	<p>Material. Eliminates capital risk at the point of settlement.</p>	<p>Material, as it requires a link between cash and securities systems and also possible legal changes.</p>	<p>Material, as it impacts payment systems and the legislature.</p>

**Recommendation 6:**

Key areas	Risk impact	Implementation	Breadth of impact
None identified			

**Recommendation 7:**

Key areas	Risk impact	Implementation	Breadth of impact
<ul style="list-style-type: none"> <li>Improved transparency of the rules and regulations for all markets.</li> </ul>	<p>Potential high risk although dependent on low frequency adverse event risks.</p>	<p>Moderate. Dependent on information made available by each Securities System.</p>	<p>Moderate. Although transparency could lead to calls for changes in rules and legislation which could be complex.</p>
<ul style="list-style-type: none"> <li>Improved structures to enable collection of withholding tax by non-residents.</li> </ul>	<p>Moderate risk impact. Creates loss of income to investors.</p>	<p>Complex. Fiscal authorities need to agree market sensitive procedures to enable automation of processes and harmonisation of rules.</p>	<p>Impacts the entire universe of foreign investors.</p>

**Recommendation 8:**

Key areas	Risk impact	Implementation	Breadth of impact
<ul style="list-style-type: none"> <li>Recognition of the concept of beneficial ownership within local laws.</li> </ul>	<p>Material. Possible loss of assets by foreign investors.</p>	<p>Complex, as it involves changes to fundamental property laws.</p>	<p>Complex, as it involves regulators and governments.</p>
<ul style="list-style-type: none"> <li>Clarity of law of finality.</li> </ul>	<p>Material. There is a possible loss of assets by investors in the event of the bankruptcy of another party to the settlement process.</p>	<p>Complex where legal change is needed. Although a simple start would be to define the rules for finality within each settlement system.</p>	<p>Complex, as this involves governments and regulators in the complex area of insolvency law (and often cross border).</p>



## **Appendix I: Full Wording of the ISSA Recommendations 2000**

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The ISSA Recommendations 2000 are listed below. A comprehensive document describing the background, explanatory text, monitoring questions and a glossary, was published in June 2000. It is available in hardcopy format (46 pages) from the ISSA Secretariat. A softcopy can be downloaded from ISSA's website [www.issanet.org](http://www.issanet.org).

Note: The wording of Recommendation 7 has been slightly amended from the original version of June 2000. The change has been made due to suggestions received during the second network managers' meeting, and in response to feedback received from many contributors to the first global status survey. (see Appendix II, item 6.)

The recommendations refer to "Securities Systems", these cover depositories, settlement and clearing systems. The term "users" of a securities systems encompasses customers and all other parties to whom the securities system owes a duty of care.

### **1. Governance**

Securities Systems have a primary responsibility to their users and other stakeholders. They must provide effective low cost processing. Services should be priced equitably.

### **2. Technology: Core Processing**

Securities Systems must allow the option of network access on an interactive basis. They should cope with peak capacity without any service degradation, and have sufficient standby capabilities to recover operations in a reasonably short period within each processing day.

### **3. Technology: Messaging and Standards**

The industry worldwide must satisfy the need for efficient, fast settlement by full adherence to the International Securities Numbering process (ISO 6166) and uniform usage of ISO 15022 standards for all securities messages. The industry should seek to introduce a global client and counterpart identification methodology (BIC - ISO 9362)

to further facilitate straight through processing. Applications and programmes should be structured in such a way as to facilitate open interaction between all parties.

#### **4. Uniform Market Practices**

Each market must have clear rules assuring investor protection by safeguarding participants from the financial risks of failed settlement and ensuring that listed companies are required to follow sound policies on corporate governance, transfer of economic benefits and shareholder rights.

#### **5. Reduction of Settlement Risk**

The major risks in Securities Systems should be mitigated by five key measures, namely:

- the implementation of real delivery versus payment
- the adoption of a trade date plus one settlement cycle in a form that does not increase operational risk.
- the minimisation of funding and liquidity constraints by enabling stock lending and borrowing, broad based cross collateralisation, the use of repos and netting as appropriate
- the enforcement of scripless settlement
- the establishment of mandatory trade matching and settlement performance measures.

#### **6. Market Linkages**

Convergence of Securities Systems, both within countries and across borders, should be encouraged where this eliminates operational risk, reduces cost and enhances market efficiency.

#### **7. Investor Protection**

Regulators in each country should review whether locally domiciled institutions have a process in place that enables them to comply with the laws and regulations of the countries where their investments are placed. In turn, foreign investors should always

be treated in like fashion to indigenous investors, especially in respect of their rights to shareholder benefits.

## **8. Legal Infrastructure**

Local laws and regulations should ensure that there is segregation of client assets from the principal assets of their custodian and no claim is possible on client assets in the event of custodian bankruptcy or a similar event. Regulators and markets, to further improve investor protection, should work:

- to ensure clarity on the applicable law on cross border transactions
- to seek international agreement on a legally enforceable definition of finality in a securities transaction
- to ensure that local law fully protects the rights of beneficial owners
- to strengthen securities laws both to secure the rights of the pledgee and the protection accorded to client assets held in Securities Systems.



## **Appendix II: Summary of Second Network Managers Meeting**

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The meeting was held in New York on November 27, 2001.

### **1. Welcome and update on work to date (Judith Smith)**

- Since the last meeting in April 2001, 43 out of the 53 market questionnaires have been completed and all but 5 have been validated.
- In today's meeting the draft of the ISSA report will be discussed, and an improved version will be circulated for final edits following the meeting. An action plan will be developed from today's discussion.

### **2. Group of Thirty relationship with ISSA (Josef Landolt)**

- Prior ISSA involvement with the Group of Thirty (G30) has been as follows: In 1988, ISSA developed the ISSA 4 Recommendations which formed the foundation for the G30 Recommendations on Securities Clearance and Settlement Systems in 1989. The G30 recommendations were amended in 1995 by ISSA. ISSA undertook a compliance status update in 1997. In 1999 the ISSA Executive Board conducted a review of the nine G30 recommendations published in 1989. The reviewing process resulted in the finalisation and ratification of the eight ISSA Recommendations 2000, which were published worldwide and were further championed in an awareness campaign.
- Josef Landolt reviewed the relationship between the ISSA Recommendations and other initiatives: European initiatives such as the European Securities Forum (ESF), the Giovannini Group, documentation compiled by the EC Competition Commission and the Wise Men; global initiatives, standards and recommendations such as those published by ISO, the International Bar Association, CPSS/IOSCO and G30. They vary in terms of scope, asset classes and geographic regions covered.
- Many ISSA members have actively contributed towards developing the Recommendations 2000 which were formally approved by the membership during the last ISSA Symposium.

- How will ISSA go forward?
  - G30 plans to publish their recommendations in early 2002. ISSA will continue to work with G30.
  - ISSA will compare and consolidate their recommendations with G30's.
  - A recent conversation with Sir Andrew Large confirmed ISSA's likely role as the monitoring body for the new G30 recommendations.
  - The upcoming G30 Offsite Workshop will have significant representation from the ISSA Board.
  - A comparison matrix of the G30 vs. ISSA Recommendations 2000 (prepared by G30) shows the differences between the current and previous recommendations. They are not substantial.

### **3. Validation of the Conclusions: Part 2 of the Draft Report (Urs Stähli)**

Urs Stähli reviewed the summary conclusion from each recommendation, focusing on a few key issues.

#### *Recommendation 1: Governance:*

- Increased evidence of open governance and a decrease in vertical silos.
- Decreased cross subsidisation across instruments.
- Growing use of the Internet (and other electronic means of information distribution) increases transparency of the market place.

#### *Recommendation 2: Core Processing*

- As was to be expected, we have seen significant systems development in the past decade.
- Alterations of processing schedules demonstrate flexibility of processing and service providers meeting the needs of their users.

#### *Recommendation 3: Messaging and Standards*

- Most markets plan compliance with ISO 15022 but there is no guarantee as to when full compliance will be achieved.

#### *Recommendation 4: Uniform Market Practice*

- Protection against delivery or counterparty fails:
  - There are no consistent procedures in securities lending and borrowing across markets.
  - There are no consistencies on how central guarantee/compensation funds are managed or administered.
- Transfer of ownership:
  - The point in time the right to entitlements moves from seller to buyer is clearly defined in all markets. However, there are markets which use different conventions depending on whether a trade has been dealt on-exchange or off-market.
- Corporate actions:
  - There is significant loss potential in current corporate action processing.
  - ISSA has initiated a pilot program, lead by Morgan Stanley, in conjunction with other industry groups, to standardise information distribution methods, timing, etc. The pilot will focus on a few event types in the US in order to prove the concept prior to extending it to other markets and event types.

#### *Recommendation 5: Reduction of Settlement Risk*

- T+1 may result in increased operating risk.
- There is a question whether STP is sufficient to achieve the benefits as stated in the US Securities Industry Association's analysis, or whether shortened settlement cycles are also necessary.
- There are mixed opinions on the importance of full dematerialisation as opposed to immobilisation of securities, in order to reduce settlement risk to the greatest extent possible.

#### *Recommendation 6: Market Linkages*

- The value of a linkage depends on its features. How much volume does it capture? Is there an incentive to use it? Is implementation - which will almost always cause temporary disruption - worth the efforts and risks?

#### *Recommendation 7: Investor Protection*

- The recommendation is intended to address the complex issues of: money laundering, “know your customer”, client privacy, voting rights, and double taxation. Its wording has created confusion among many respondents to the first compliance survey conducted by the ISSA Secretariat over the course of this year. The ISSA Executive Board will propose a revision. (Discussed later in the meeting.)

#### *Recommendation 8: Legal Infrastructure*

- There are a fair number of markets where depositories resort to insurance coverage, stringent risk management procedures or guarantee schemes. In some important markets, there are no particular guarantee mechanisms in place.

### **4. ISSA Action Plan and Priorities (John Gubert)**

- The slides shown pick up key areas that still warrant discussion.
- The priorities to be spelled out in the report should focus on a 12-18 month time horizon and take into account practicality and what can realistically be achieved.
- Define risk impact
  - Breadth of impact
  - Identify key issues

The final version of the draft table presented in the meeting is included in Section 3 of this report.

Discussion points and conclusions included the following:

#### *Recommendation 1: Governance*

- Roles of stock exchanges and central banks in settlement
- Depositories as shareholder value organisations
- Cost allocation between settlement and custody

High priority issues: none identified.

### *Recommendation 2: Core Processing*

- Need for interactive process
- Greater focus on 3<sup>rd</sup> party critical points of failure

High priority issues:

- Proof of resilience of back-up facilities
- Stance on contingency post September 11
- Back-up standards of Securities Systems and major suppliers and key participants

Encourage the markets to be more open with respect to their contingency arrangements. Within ISSA, there should be a dialogue among members on actions being taken in markets. Greater detail is needed for understanding back-up issues. ISSA to start drawing up a list of those issues to tackle. Ask the membership to share the key issues to examine in connection with contingency, back-up standards, and roles to be played by major suppliers and key participants. Which industry organisations in what markets are working on these issues, for their markets?

### *Recommendation 3: Messaging and Standards*

- Need for plans for market convergence to ISO 15022
- Absence of client and counterparty identification
- Continued usage of local standards

High priority issue: Combine standards with interoperability

Action steps: SWIFT to be asked to publish more frequently what infrastructure element plans are on how to move to ISO 15022.

ISSA to inquire with SWIFT on how they allocate BIC; also for non-SWIFT members. (Ray Parodi takes care of this issue).

#### *Recommendation 4: Uniform Market Practices*

- Measures required to minimise failed trades
- Protection of buyer for entitlements, especially on cum / ex compensation rules
- Physical presence / absence of voting
- Removal of securities lending restrictions
- More due diligence to determine the value/coverage of guarantee funds and equivalents
- Timing of registration to ensure it does not lag settlement
- Formalising guidelines for timing of corporate actions
- Standardisation of corporate event data

Action steps: Last two bullets seen as high priority issues; being addressed in the USA through an ISSA pilot exercise.

#### *Recommendation 5: Settlement Risk*

- Need to ensure overseas investors' needs are represented in planning for T+1
- The criticality of dematerialisation versus the adequacy of immobilisation

High priority issue: BIS Model 1 DVP as an imperative. Simultaneity, finality, irrevocability are the critical issues with regard to the "model" question.

Action step: Definition of interoperability. The GSTPA's etc. proof of concept for interoperability. Reiterate to the industry.

Important item to note: standards to be adopted for trade matching. T+0 for any sort of trade matching plus interoperability among trade matching mechanisms.

#### *Recommendation 6: Market Linkages*

- Merger of processing for debt and equities in OECD markets
- Value of linkages cross markets versus merger
- Lack of attention to RTGS links.

High priority issues: None identified

### *Recommendation 7: Investor Protection*

- Distinct share classes versus foreign ownership limitations - must be enforceable without the need to physically segregate
- Exchange controls on financial institutions
- Problems of tax reclamations

High priority issues: None identified to be tackled within the ISSA constituency

### *Recommendation 8: Legal Infrastructure*

- Importance of mandatory segregation
- Lack of nominee structures to protect beneficial owners
- Absent settlement finality

High priority issues: None identified to be tackled within the ISSA constituency

## **5. Discussion: Did the group miss any issues?**

Additional aspects mentioned included:

- Cross border settlement  
The place of settlement needs to be agreed when the trade is made. Standards to address this particular issue need to be created, but this is especially difficult since GSTP has problems with a scripted trade. This issue falls under standards, laws, and interoperability.
- Central Banks changing the capital requirements for banks (credit limits)
  - What is adopted for banks will be adopted by brokers.
  - Capital requirements are changed depending on scope of risk potential
  - This issue should be placed on a watch list since too little is known to make a judgement on its impact.

## 6. Revisiting Recommendation 7 (Ray Parodi)

Ray Parodi reported that many respondents to the first global compliance survey had asked for clarification of terms, and for guidance as to the exact intent of Recommendation 7. Some of the validators, too, had experienced uncertainties as to the correct interpretation.

Two alternative, improved versions drafted by the ISSA board working group, were presented for discussion. The wording was changed as follows, for adoption with immediate effect:

<b>Recommendation 7 - old</b>	<b>Recommendation 7 - revised</b>
<i>Investor compliance with the laws and regulations in the home countries of their investments should be part of their regulators' due diligence process. Investors, in turn, should be treated equitably in the home country of their investments especially in respect to their rights to shareholder benefits and concessionary arrangements under double tax agreements.</i>	<i>Regulators in each country should review whether locally domiciled institutions have a process in place that enables them to comply with the laws and regulations of the countries where their investments are placed. In turn, foreign investors should always be treated in like fashion to indigenous investors, especially in respect of their rights to shareholder benefits.</i>

## 7. Next Steps (John Gubert)

- Produce notes/minutes
  - Schedule of country key issues to be completed
  - Update draft report and account for final feedback to be submitted by the validators
  - Circulate new draft within one month, offer comment period of another month
  - Final report (booklet and internet version) to be published within the first quarter 2002
- The ISSA Executive Board will continue its ongoing dialogue with G30 to help develop their recommendations and ensure compatibility.

## Appendix III: Contributing and Validating Institutions

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### Contributors to the ISSA Survey

The market profiles used for this report were contributed on a voluntary basis by the institutions listed below, over a period stretching most of 2001. In some cases, the input was the result of a local working party convened by the designated ISSA contact. The ISSA Secretariat does not always know the identities of those additional institutions. We would like to extend our sincere thanks to all contributors whose names may not be included below. Their omission is not intentional.

The market profiles, in their totality, would form a document exceeding 550 pages in printed form. Due to the volume, they are not available in hardcopy format.

<b>Market</b>	<b>Institution(s)</b>
Argentina	Caja de Valores S.A.
Australia	Australian Stock Exchange; The Reserve Bank of Australia; Austraclear Limited; Westpac Custodian Nominees Limited; National Australia Bank Limited
Austria	Oesterreichische Kontrollbank AG
Bermuda	The Bermuda Stock Exchange Ltd.
Brazil	Brazilian Clearing and Depository Corporation
Bulgaria	Central Depository AD
Canada	The Canadian Depository for Securities Limited; CIBC Mellon; Royal Trust
Chile	Depósito Central de Valores S.A., Depósito de Valores
China	HSBC; China Securities Depository and Clearing Co. Ltd.
Colombia	Cititrust SA
Denmark	Vaerdipapircentralen AS; Danske Bank

Finland	HEX plc
France	BNP Paribas Securities Services; CCF
Germany	Clearstream Banking AG; Deutsche Bank AG; Dresdner Bank AG
Hong Kong	Hong Kong Exchanges and Clearing Limited
Hungary	KELER Ltd.
India	Stock Holding Corporation of India Limited
Indonesia	Indonesian Central Securities Depository
Japan	Nomura Securities Co., Ltd; The Fuji Bank, Limited; Tokyo Stock Exchange; Japan Securities Depository Center
Korea	Korea Securities Depository
Latvia	Latvian Central Depository
Lithuania	Central Securities Depository of Lithuania
Luxembourg	Kredietbank S.A Luxembourgoise; Clearstream Banking
Malaysia	Kuala Lumpur Stock Exchange
Mexico	Citibank Mexico SA
Netherlands	KAS Bank; ING Bank
New Zealand	New Zealand Stock Exchange; National Nominees Limited
Norway	Den norske Bank; Verdipapirsentralen
Pakistan	Central Depository Company of Pakistan Limited
Peru	CAVALI ICLV S.A.
Philippines	Philippine Central Depository, Inc.
Poland	National Depository for Securities KDPW S.A.
Russia	Citibank T/O
Slovenia	KDD Central Securities Clearing Corporation
South Africa	STRATE Ltd.
Spain	IBERCLEAR

Sweden	SEB Securities Services; Swedish Securities Dealers Association; VPC AB
Switzerland	SIS SEGA INTERSETTLE AG
Taiwan	Taiwan Central Securities Depository Co., Ltd.
Thailand	Thailand Securities Depository Co., Ltd.
Turkey	TAKASBANK
UK	HSBC Holdings plc; CRESTCo Ltd
USA	JP Morgan Chase Bank
Venezuela	Citibank NA

## **Validating institutions**

The custody network management teams of the institutions named below, shared the task of reviewing and validating all market profiles. They also identified the list of items that are potential areas of concern to cross-border investors and which would warrant consideration by the local market operators or regulators.

Bank of New York

BNP Paribas Securities Services

Brown Brothers Harriman

Citibank

Credit Suisse Group

Deutsche Bank

Goldman, Sachs

HSBC

JP Morgan

Morgan Stanley

Northern Trust

State Street

UBS

Although the validations were done with professional care, neither the institutions listed below nor ISSA accept any responsibility for the accuracy or completeness of the information in this document.

International Securities Services Association ISSA

c/o UBS AG

FNNA OW6F

P.O. Box

8098 Zurich, Switzerland

Phone +41 1 235 74 21

Fax +41 1 236 14 74

[issa@issanet.org](mailto:issa@issanet.org)

[www.issanet.org](http://www.issanet.org)

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