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“Plumbers and visionaries: Securities settlement and Europe’s financial market”: A round-table discussion with the author, Peter Norman. Held on Thursday, December 13, 2007 at Bakers’ Hall, Harp Lane, London, EC3R 6DP, from 12:30-2:15pm.

The idea for a book on the visionaries behind the origins of European securities settlement emerged from a lunch in the City. After three years’ work it turned into a path-breaking account of the past, present and future of this less visible yet vast and critical segments of global capital markets. It is certainly vast –Euroclear has a turnover of €450 trillion while DTTC of the US \$1.5 quadrillion. While buying and selling securities may be the glamour end of the business, there is no deal until delivery and payments is complete. Settlement has been transformed by dynamism of technology, financial innovation, liberalisation and the spread of market forces.

Since the 1870s settlement was paper-based but the volume of documentation eventually overwhelmed Wall Street and European markets. In 1968 Euroclear was set up in by Morgan Guaranty Trust Company in Brussels to settle domestic and international securities dealing with national central securities depositories (CSDs). But the market was not competition-free and three years later Cedel entered the market. The author said the relationship between the two was, frankly, “poisonous“ from an early stage. On top of that, the industry was very tribal with participants insisting on using technical language that made it for outsiders to understand. This early development came against the turbulent backdrop of the 1970s with the collapse of Bretton Woods and the global debt crisis.

The second part of the book takes the story from the 1980s though Big Bang in the UK, the 1987 stock market crash up to the launch of the euro in 1999. The 1987 crash exposed weaknesses in the infrastructure of the US, UK and France and led to the Group of Thirty report that made many recommendations including:

- Shortening the time between trade and settlement and putting in place delivery versus payment (DVP) for all securities transactions; and
- Each country having an effective and fully developed CSD.

The second, and contradictory, pressure came from the fact that the European Community was heading down the path to the creation of the euro. Neither the European Monetary Institute nor the European Central Bank looked at settlement other than via financial stability and collateral for monetary policy decisions. It did not feature until Lamfalussy in 2001.

The third part takes the industry from the launch of the euro. The effort taken up by the euro had left little in the way of European settlement infrastructure. The period saw lots of micro changes but little at the macro level. The “testosterone-fuelled” rivalry continued between Euroclear and Cedel, which in 2002 became a division of Deutsche Borse and renamed Clearstream; Euroclear separated from JP Morgan; hopes of a

Euroclear/Clearstream merger came and went; Euroclear operated as CSD for Dutch, French, Irish and UK securities. Europe finally took up the issue with the Lamfalussy Process; the 15 barriers to cross-border trade identified by the Giovannini group; the reforms proposed by Charlie McCreevy; and the Fair and Clear rival to Euroclear proposed by BNP Paribas.

Now that McCreevy has decided not to issue a directive on the issue, what options are on the table? There is Euroclear's model of a domestic service for Europe, the free market code of conduct orchestrated by McCreevy and signed by the three main trade bodies, FESE, EACH and ECSDA, and the European Central Bank's more interventionist Target 2 Securities platform for the cross-border and domestic settlement of securities against central bank money. The jury was out on the latter two, the author said.

He was particularly concerned by T2S, saying it was technically unprecedented, uncoded and made the ECB's reputation vulnerable to tarnishing in the same way Johnson Matthey and now Northern Rock hurt the Bank of England. He was also concerned by its motives. The author pointed out the idea emerged after Jean-Michel Godeffroy of the ECB was asked to "think the unthinkable". It resulted from a division between those Eurosystem central banks who wanted an integrated model of settling securities that required central banks to outsource the cash element to a CSD, and those who wanted an interface model that allowed central banks to keep that function. It is a quasi-theological dispute. Some members pointed out T2S was a response to a failure of the private sector to come up with a model and the dangers of a private sector monopoly.

Were opportunities missed? Certainly, the author said, particularly during 1999-2003 when the collapse of bank profits post-9/11. In particular there was the missed chance of a merger between Euroclear and Cedel and the proposed Central Securities Institution to interlink domestic CSDs. Looking forward, T2S will be the focal point, the author said. It is bound to go ahead because there would be too much loss of face at the ECB were it to be dropped. He said he wanted to see more details of T2S's governance structures. The ECB's opening consultation – it began during the dead month of August 2006 – was appalling and the latest round begins this month. Big banks like the proposal but want to see the detail. Doubtless this very important area that be another that falls to be decided during the French presidency of the EU in the second half of 2008.