

Future infrastructure developments in the securities industry? - SESA in the pipeline?

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28 April 2011

Where are we heading?

Are we just harmonizing some parts of current environment or moving towards something redesigned and restructured?

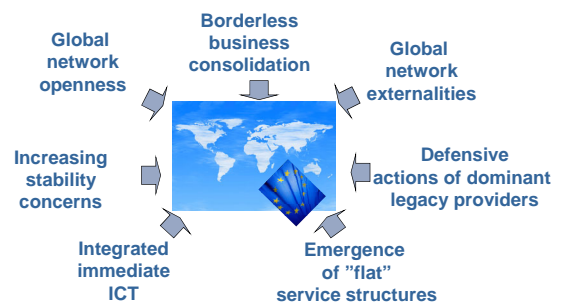
What would be a fruitful combination of market development and EU regulatory and authority ambitions?

Unsatisfactory situation of today

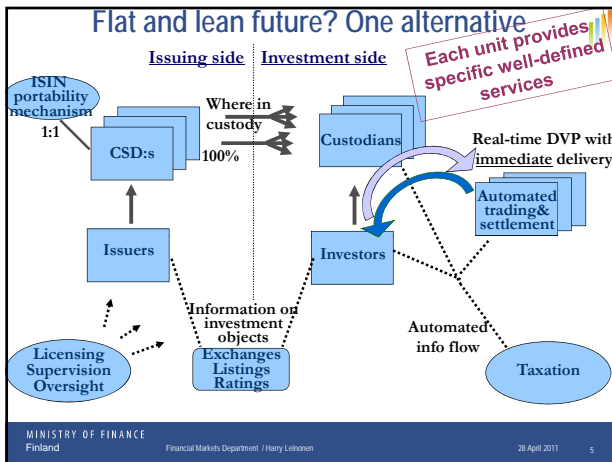
- lack of competition among non-interoperable silos
- cross-border barriers hinder internal markets
- too many national specificities/dialects increase costs
- outdated legacy structure from paper/batch era
- higher operative and stability risks than necessary
- too expensive and inefficient for end-users

The legacy infrastructure/stakeholders are locked in by current technology, lack investment incentives when margins/revenues will not improve

Major development trends



Moving to next generation of production technology?



- ### Basics of lean and flat
- Direct "same-level" connections (no tiering-hierarchy)
 - Common interoperable data = ISO 20022
 - Common keys and addresses = access to the available data in the "cloud" network
 - Instantaneous real-time end-to-end
 - Operations split into fundamental objects/modules
 - Common reusable module dictionary
 - Increased data availability and transparency
- Re-engineering and restructuring is necessary for increased efficiency based on modern technology**
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- ### Consequences of immediate settlement (as part of the end-to-end trading)
- "Naked" short-selling impossible, trading only possible by presenting necessary assets
 - Any lending to be done before corresponding trade
 - Investors and custodians will always meet liquidity (availability) requirements for book-entry securities
 - Custodians have to ensure sufficient intraday money (currency) liquidity
 - Assets will net continuously, received assets can be used immediately for next trade
 - The need for CCPs will disappear
- Securities trading back to basics, selling requires possession, possession switches immediately**
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- ### Immediate settlement reduces risks
- Non-delivery situations disappear
 - Settlement and other errors detected immediately
 - Simple independent processes
 - Single point of failure situations can be avoided
 - Short-sellers need to secure lending facilities (collateralize?)
 - Float will disappear
 - Settlement and liquidity risks decrease
- Overall and end-users/investors risks decrease and over-all service level improves**
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ICAN

International Custody Account Number

- Basics for STP (straight-through-processing), end-to-end addressing (compare with IBAN)
- Possible structure (inline with IBAN)
 - ICAN (fixed data label identifier)
 - Country-code (ISO)
 - Check digits (two as for IBAN)
 - BIC (Bank Identification Code, ISO)
 - Current custody account identifier

The dream of STP is futile without an ICAN

Other necessary database references

- ISTI International security transaction identifier (compare with UPS etc parcel identifiers)
- RFSI Sending investor reference
- RFRI Receiving investor reference
- RFSC Sending custodian reference
- RFRC Receiving custodian reference

STP database access can only be achieved using a common system of references

ITID

International tax payer identifier

- Automated tax collection requires a common identifier
- The IBAN structure could be reused
 - ITID (fixed data label identifier)
 - Country code
 - Check digit
 - TIN National taxpayer identification number
- Common incentivizing policy = higher taxes for unidentified tax objects/subjects

Tax collection automation and efficiency require at least EU-wide cooperation and common policy stances

SESA = Single Euro Securities Area

The benefits of a SESA undertaking would probably exceed those of SEPA

SEPA experiences can be used to improve SESA implementation efficiency

Are there any other alternative routes?

Structural alternatives?

a) Following current trend towards stronger silo-based monopolies/oligopolies in EU

More openness, transparency and competition will be required

b) Open competitive and interoperable network

- clear-cut industry structure
- common interoperable standards
- increased competition, openness and portability
- increased transparency
- common license, supervision etc requirements

*Is there a choice?
Who makes the choice?*

Introduction of an efficient change and implementation process

- Legacy providers have often an interest to block developments (better off without investments)
- Re-engineering need to start almost from scratch (legacy solutions should be scrutinized, a long row of small steps can be more costly than one large jump)
- End-customers (issuers and investors) need to get their voices heard
- Clear division of tasks: private vs public

Introducing new technology grows more difficult in an integrated world with more interfaces and stakeholders without clear-cut interface designs

Lessons to be learned from the SEPA-process?

Typical counter arguments

- Technically impossible
- No experiences of immediate settlement
- Expensive investments
- Risk for liquidity drainage
- Different legal structures
- No end-customer need
- Larger risks with higher speed
- Technology already applied by mobile ops, air carriers, e/m commerce vendors
- Implemented already in some countries, software available
- Low-cost internet technology, re-usable modules, automated back-office
- Directly reusable liquidity
- Transaction-based jurisdiction choice
- Investors receive and place immediate funds&assets
- Reduced settlement risks and collateral need, simpler process

The days of paper-based processing paradigms are gone and restructuring is inevitable?!



When is the time to plant?