




# Asofiduciarias Workshop

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# Content

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## Evolution of the Securities Custody Market

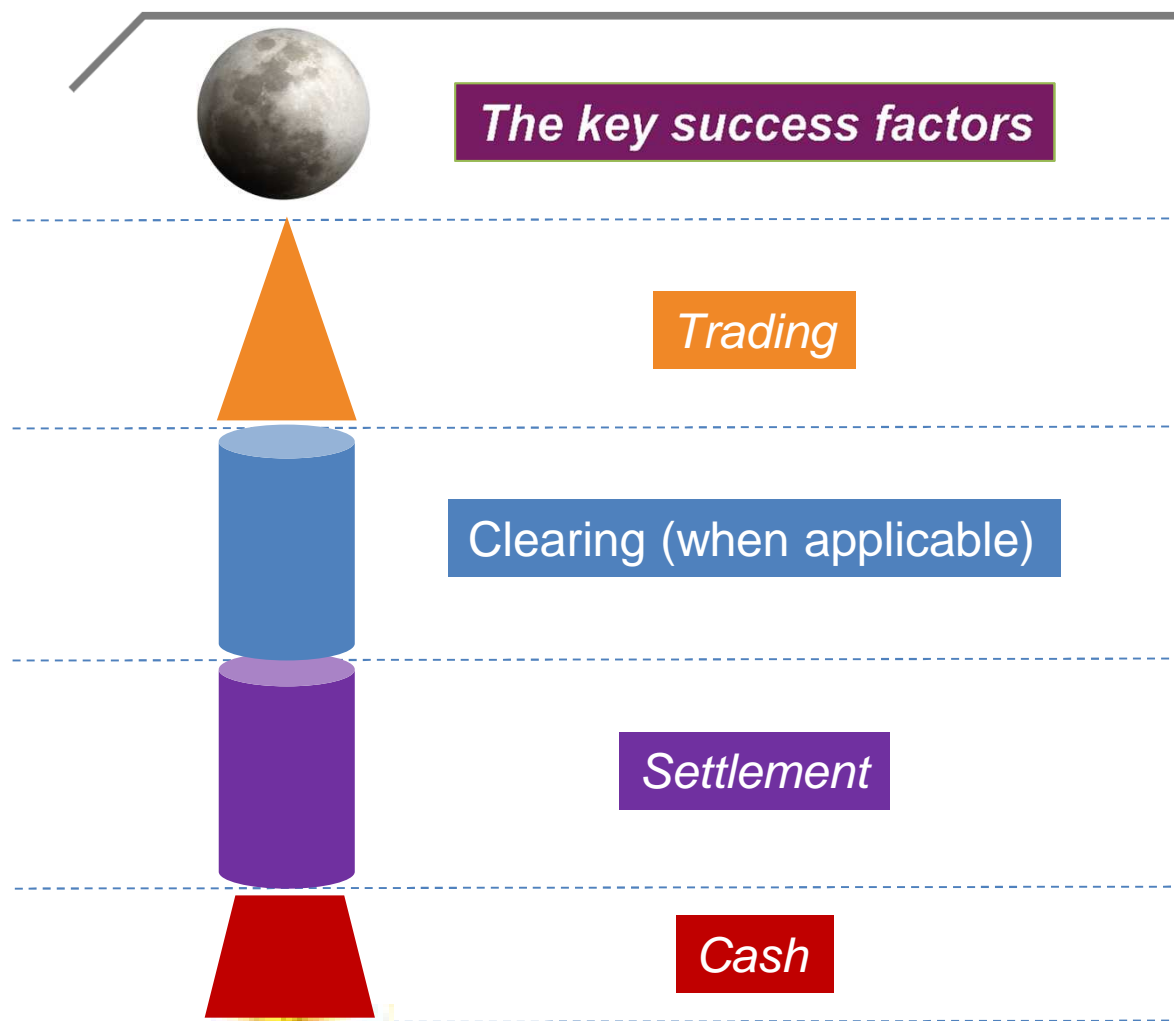
Evolution of the Regulation

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Lessons Learned



# Value chain of a security



To get an attractive market, the 4 steps must be considered:

- **Trading** : solid regulatory framework
- **Clearing** : central counterparty securing the transactions
- **Settlement** : real time gross settlement system
- **Cash** : Central Bank Money



# Structure Evolution

## Before the Custodian Role

- ✓ When securities existed only in paper form, investors keep them, either be their own premises or those of a safekeeping service provider
- ✓ Severely delayed settlement of securities transactions rised to liquidity problems in the financial markets.
- ✓ One single participant performed all the steps in the chain

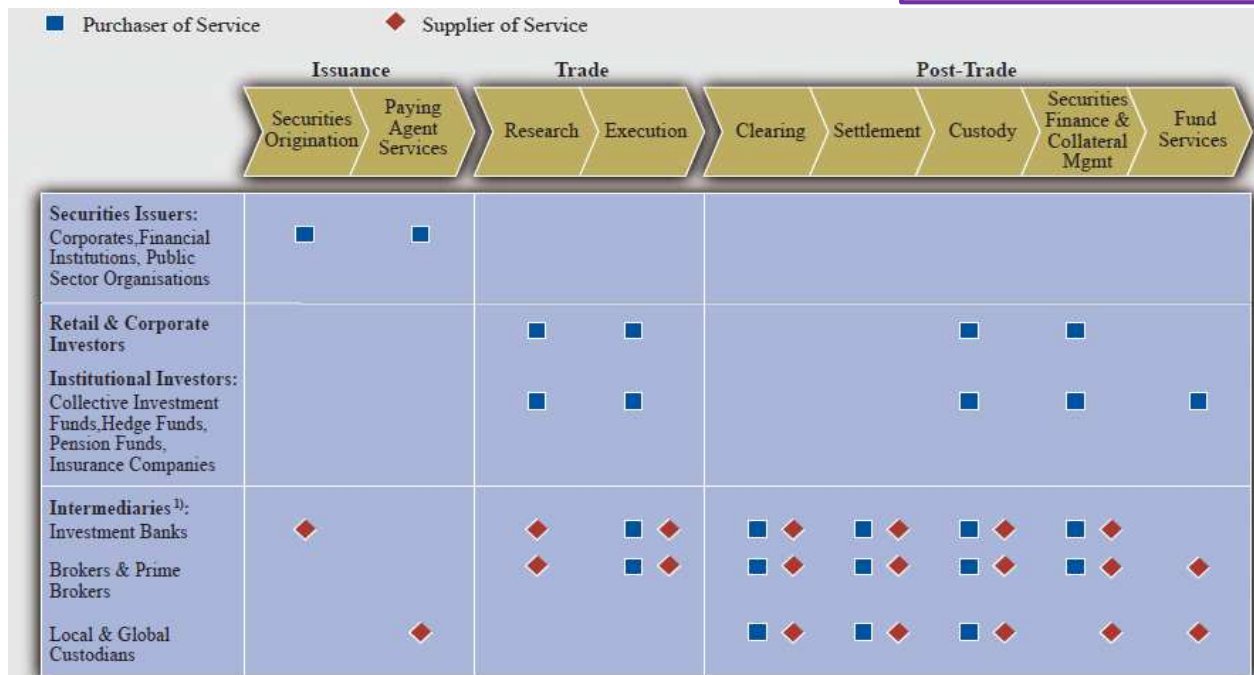
*Public and regulatory pressure to secure the market*



*Automatization and pressure Cost*

## After the Custodian Role

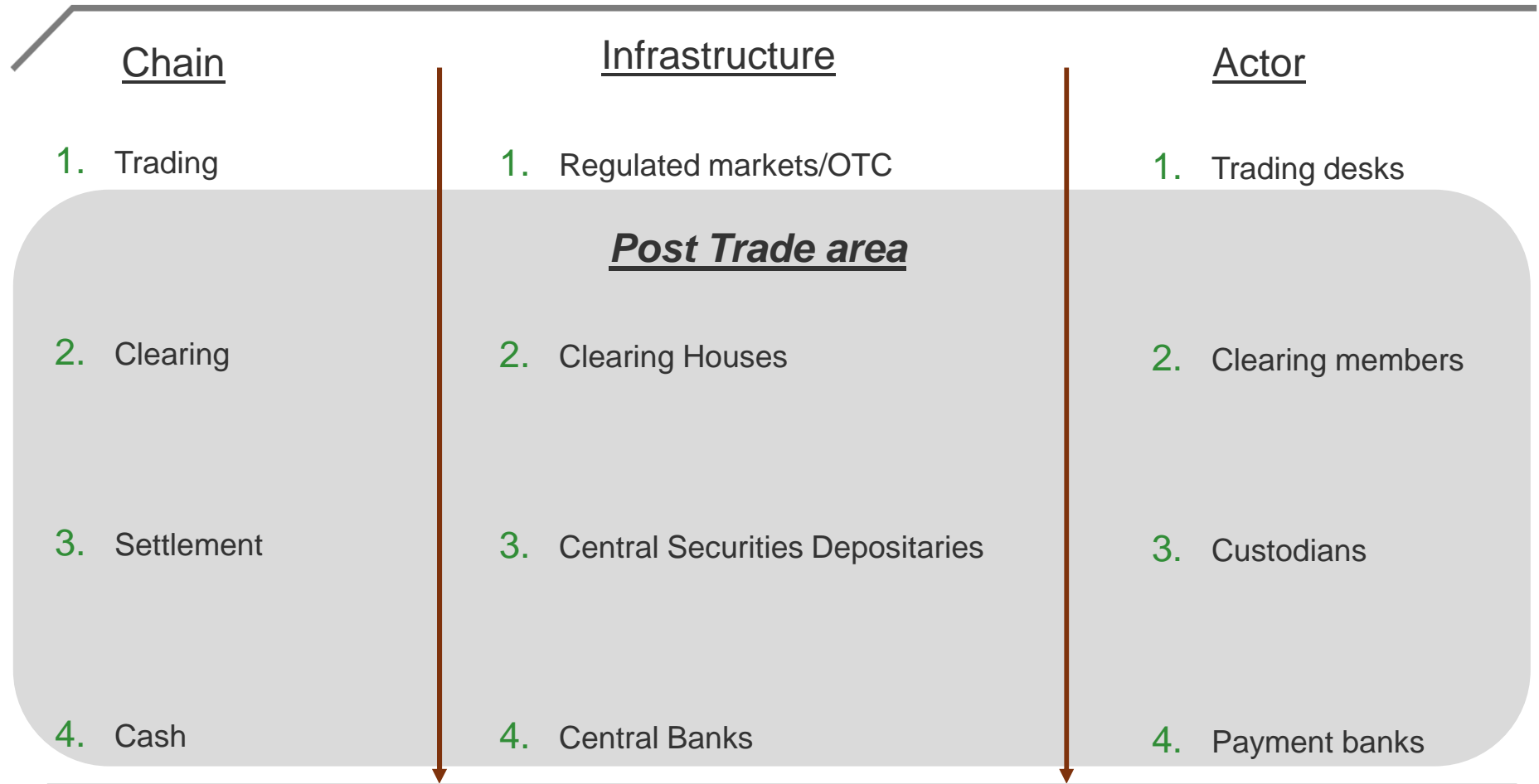
- ✓ Custodian have economies of scale to provide services to their customers at a price that is less than what the customer would spend
- ✓ Specialized services that cater to different customer segments.



\*Source: ECB Occasional Papers : The Securities Custody Industry



# The memberships



All roles can be played by the same actor or alternatively an actor can cherry picking any of this role. But the more efficient model is the one when 1 entity performs the trading activity while all Post trade tasks are performed by a third party(custodian)

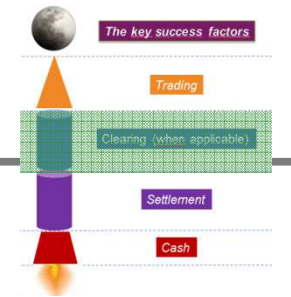


# Main actors in the financial industry

Important ● Medium ○ Low ○	Sell side (Broker, Dealers, Bks...)	Buy Side (asset managers, insurance companies, Pension Funds,...)	Corporate (issuers)
Settlement volumes	●	○	○
Asset servicing	●	●	○
Domestic positions	○	●	●
International positions	●	○	○
Local proximity	●	○	●
Local context	●	○	●
Real time reporting	●	○	○
Harmonised reporting	○	●	○
Accounts structure	proprietary account	○	proprietary account
Accounts ownership	client	Omnibus account	client
Reporting flows	CSD → client (CSD format)	CSD → custodian → buy side (CCSD format) (flexible format)	CSD → custodian → client (CSD format) (flexible format)



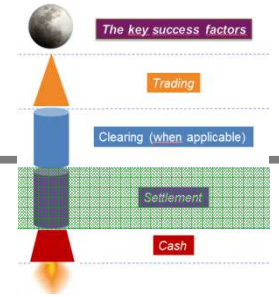
# Clearing - CCP main features



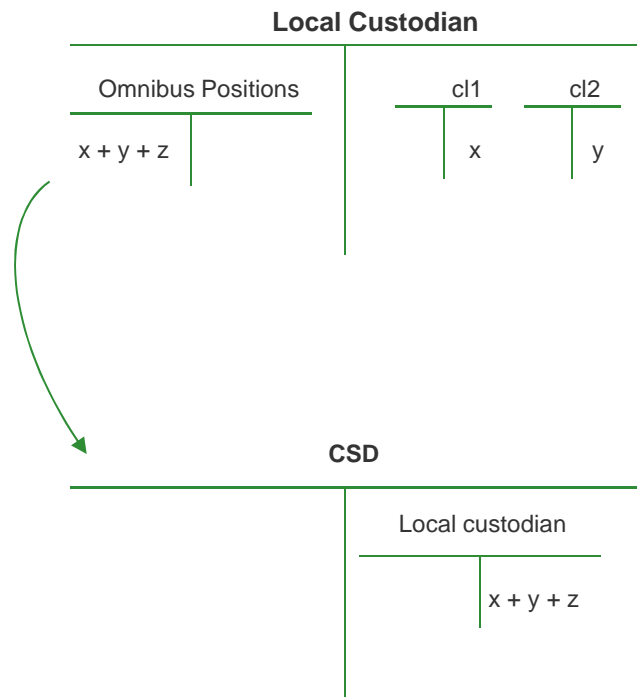
The role of the CCP has been key in these last years in Europe as intermediate of the Market



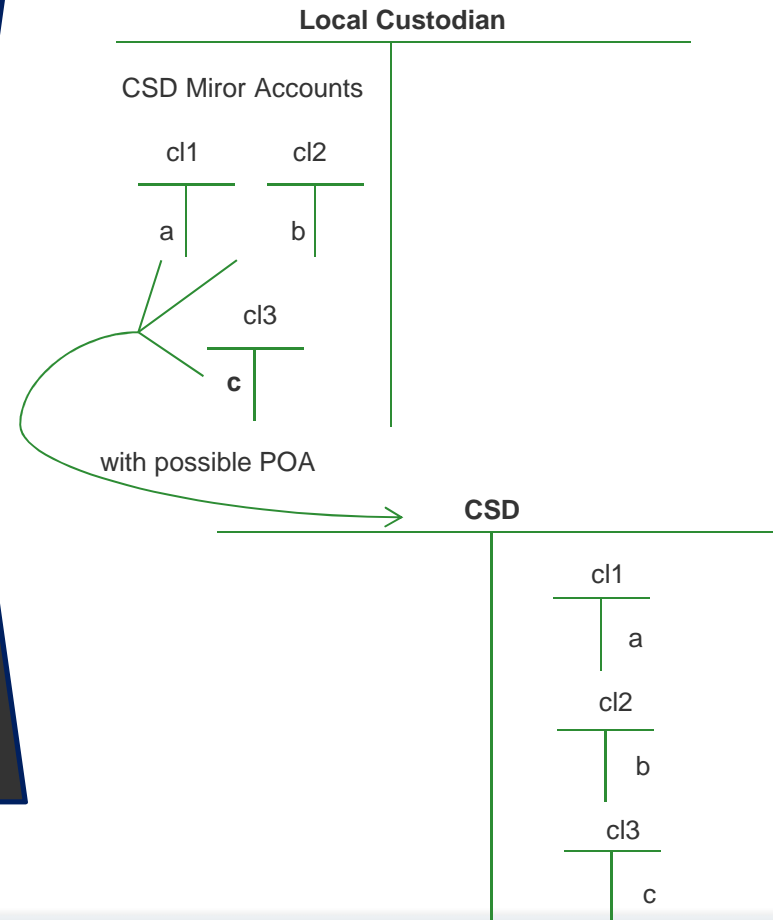
# Securities Accounts Structures : 2 open options



## ■ Omnibus Model

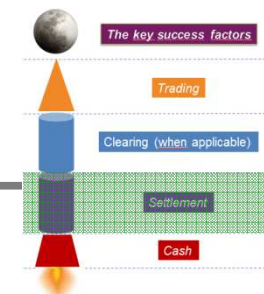


## ■ Segregated Model





# Securities Accounts Structure : 2 options

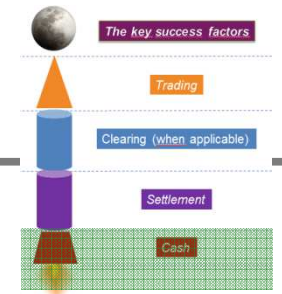


	Omnibus Model	Seggregated Model
Segregation at custodian level	X	X
Segregation at CSD level	X	X
Control of positions (securities & cash)	X	
Shareholders identification	X	X
Reporting	CSD → custodian → client (flexible format)	CSD → client (CSD format) ↳ custodian view
Account opening	Custodian name	Client name (with possible POA to the custodian)

> In any case the model should be compliant with the local laws (≠ across countries)

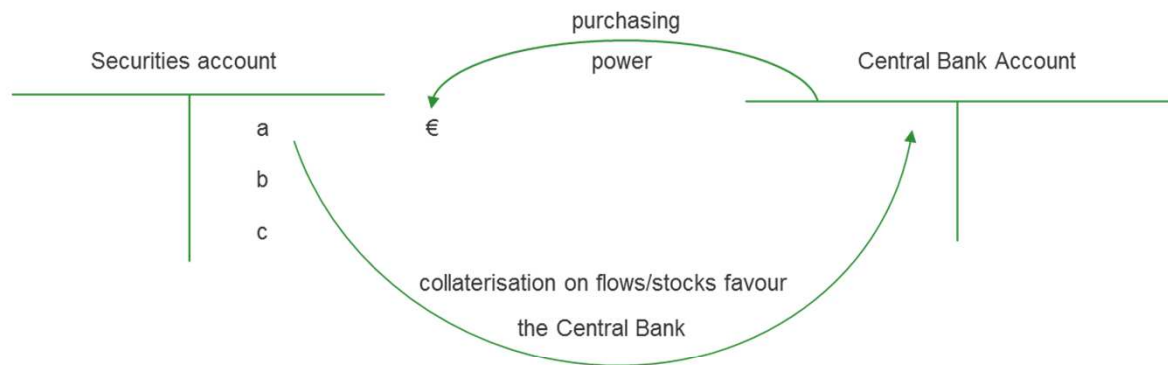


# Cash Accounts Structure



To protect the asset of its clients, the custodian has a bank status in Europe, managing the cash part of the operation

- CSD level



- Custodian level



# The depositary function

- Control of the investment policy of the funds (based on an accounting inventory received)
- Specialist dedicated to control and vigilance of the investment policies
- Making these tasks mandatory before the fact implies huge investments, bears operational (missing deadlines) and legal risks (settlement may exist as soon as the bargain is struck , i.e. before the depositary is aware of the payment)
- Monitor the compliance of coefficients and investment limits (legal and internal)

Alternative funds are not only private equity funds (low volumes) but also non UCITS funds (high volumes) investing on listed companies. A before the fact approach will jeopardize the development of such securities



# Automatization - The Straight Through Processing

## The Solution?

- Capacity to treat a transaction without any manual intervention
- Not only a matter of automatization but essentially the way to deliver to the clients the best service at the cheapest possible price while keeping under control the risks
- 80% of the operations are STP→20% of the back office costs  
20% of the operations non STP→80% of the back office costs

## Why is important ?

- Get more quickly the confirmation of the transactions
- Reduce the timeframe between trading and settlement
- Limit the settlement fails
- Produce the reporting very rapidly

- Reduction of the credit risk
- Reduction of the operational risk



- Decrease the overall price of a transaction
- Comply with regulation

## How to achieve it ?

- Barriers**
  - No integration front-back
  - Too many standards leading to fragmented solutions
- Levers to use: promoting local best practices**
  - A single set of standards commonly agreed by the industry
  - Messaging ISO : 15022/20022
  - Settlement discipline
  - Streamlining the IT model : adaptability to volumes and products to allow a real time monitoring of the transactions
  - Highly skilled profiles



# Content

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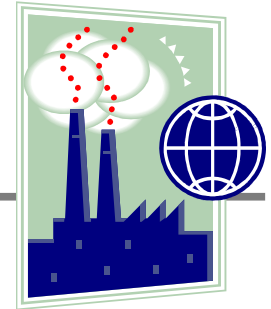
Evolution of the Securities Custody Market

**Evolution of the Regulation**

Lessons Learned



# An Evolving Regulatory Environment



**Trading**

MIFID

**Clearing**

EMIR/DFA

**Settlement  
Custody**

CSDR  
T2S  
AIFM / UCITV

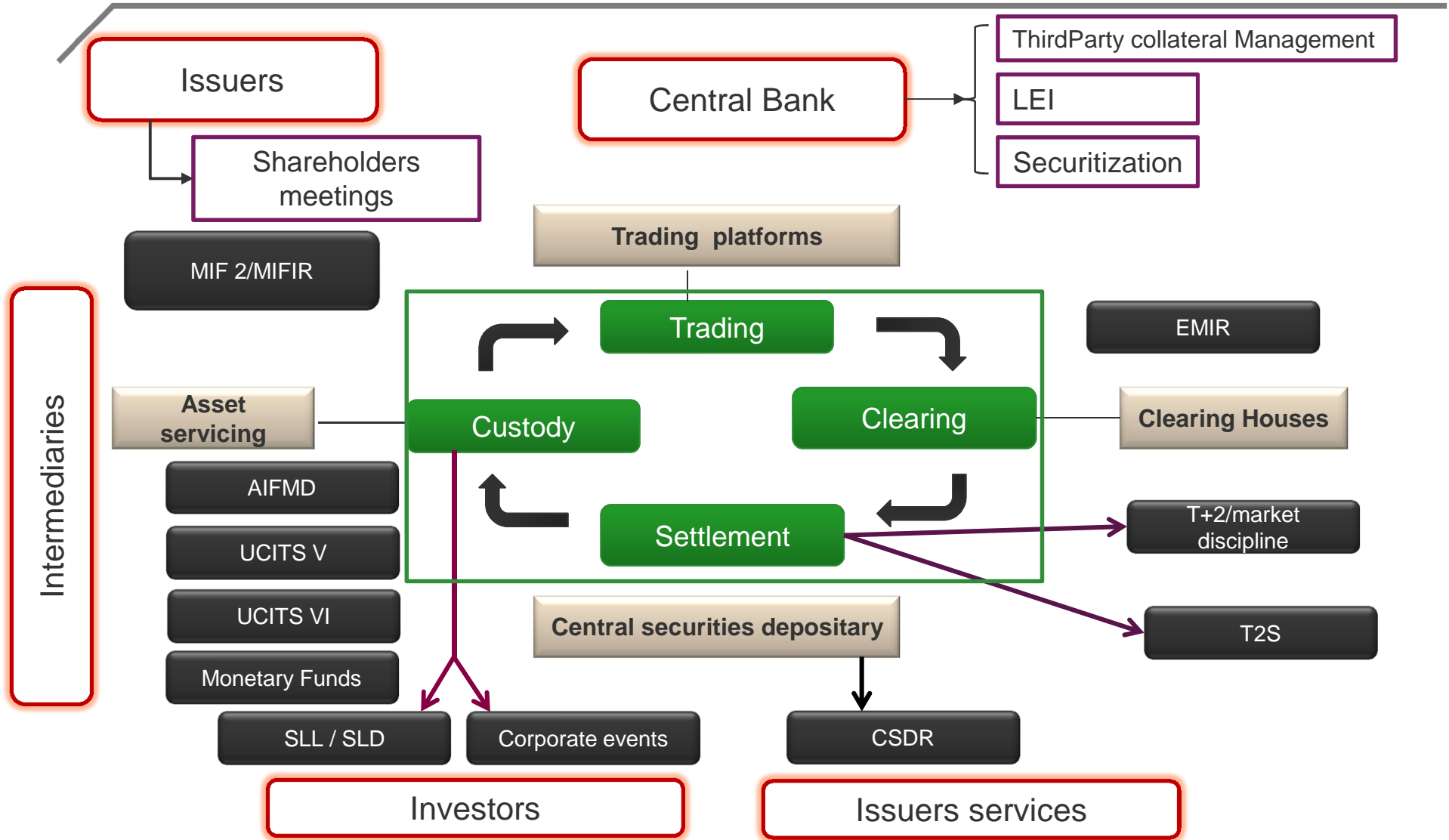
**Cash**

T2  
Euro

- Push to mandatory use of Market Infrastructures for all financial actors
- Increase need for collateralisation for both buy and sell-side players
- New constraints for Market Infrastructures
- Increased competition between Market Infrastructures
- New Market Infrastructures



# Main On Going Projects



# Content

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Evolution of the Securities Custody Market

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Evolution of the Regulation

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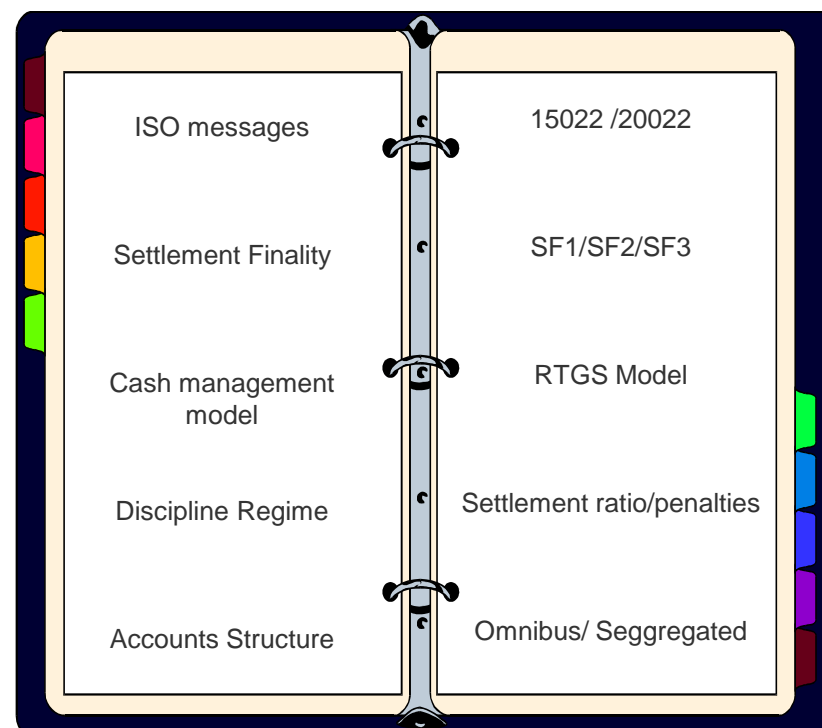
**Lessons Learned**





# Lessons Learned - Post Trade in Europe

- More and more regulated activity because of the financial context
- Must comply with the treatment of the worldwide financial crisis and the on-going European financial integration
- Rely on state of the art market infrastructures
- Strong proximity with the central banks
- Is one of the key success factor of the financial industry and instrumental in the animation and the leadership of a financial region.
- Seeking responses to the crisis regulatory tsunami to reinforce the market stability but that could jeopardize the current economic models
- Profound changes are scheduled in Europe to achieve the financial integration



> The financial crisis (since 2008) confirmed the importance of the securization of the operations and therefore a renewed interest for the post trade



# THANK YOU!

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