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European Central Bank
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Dear Daniela,

ECB consultation on a glossary of terms related to payment, clearing and settlement systems – ECSDA response

ECSDA welcomes the initiative of the ECB to compile, and consult upon, a glossary of terms in the area of clearing and settlement and we are pleased to provide our comments on the consultation.

Please note that ECSDA has only provided comments on those terms that are relevant for securities clearing and settlement.

Generic comments

Our detailed comments on the definitions follow in the Annex below, but there are several generic comments that we have on the Glossary itself.

- i. ECSDA would appreciate some clarification on the use of that ECB foresees for the glossary; more specifically whether or not it will replace existing glossaries and terms of reference (e.g. Blue Book, BIS, CPSS/IOSCO). We are not in favour of adding yet another source of definitions (which would appear to be applicable to the euro-area only) but would rather support a reduction of the number of available sets of definitions, although we recognise that this will require consultation with these bodies. The definitions that result from this consultation will carry significant weight and authority with other public authorities, not least because they have been published by the ECB. It would be helpful of the final document were to declare explicitly the intention behind, and the likely use of, the glossary. In addition, we believe that the glossary should cover the EU and not be limited to the Eurozone.
- ii. ECSDA also believes it would be beneficial to indicate in the glossary the source of each definition, and which terms are new.
- iii. Depending on the use of the glossary, ECSDA's comments on the terms could be more or less relevant depending on the context for which they are designed. For example, if the terms in the glossary are used to describe operational processes, ECSDA may provide different comments than if the terms were used in a legal or regulatory context.
- iv. We note that the definitions of some of the terms proposed by the ECB do not correspond to the definitions used in the framework of the Code of Conduct on Clearing and Settlement, nor to the definitions included in the Commission Services Working Document on Definitions of Post-trading Activities (October 2005). We therefore, propose that the ECB amends its definitions to take into account these other definitions, or at least that reference is made to other (sources of) definitions that are used in a specific context.

- v. We are of the view that terms describing services or functions performed in the area of securities clearing and settlement should not include references to the institutions that perform these functions as these may differ from one member state to another. This view is reflected in the detailed comments ECSDA provides on the definitions below.
- vi. We believe that some terms and definitions could be removed from the Glossary as they are too generic or overlapping. These are also indicated in the detailed comments.
- vii. In any disclaimer that is published with the final glossary it would be helpful to recognise that use of common definitions can be limited by the diversity of European infrastructure and applicable legal regimes.

Detailed comments

We describe in the Annex below our detailed comments on the definitions related to settlement. Where applicable, we have added the terms and definitions ECSDA uses in the frame of the Code of Conduct. Should the ECB feel unable to take on board all of these comments we would request that priority is given to the inclusion of those definitions (marked) which originate from the Code of Conduct and/or the Commission document of 2005.

If you have further questions please do not hesitate to contact me.

With best wishes

Yours sincerely

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Annex – Detailed comments on the Draft Glossary

Term	Definition	
<u>Account providing (Commission definition, ECSDA Glossary Code)</u>	<u>The maintenance of securities accounts.</u>	
Asset servicing	Services provided in connection with the custody and/or safekeeping of financial instruments such as corporate actions, events, redemption, etc. See also Central securities depository (CSD), Custodian.	Deleted: by a CSD or a custodian
<u>Asset servicing (Commission definition, ECSDA Glossary Code)</u>	<u>Securities administration activities performed for others, e.g., processing of corporate actions, tax reclaims and portfolio valuation.</u>	
Beneficial ownership/interest	The entitlement to receive some or all of the rights deriving from ownership of a security or financial instrument (e.g. income, voting rights etc). <u>Depending on the Holding System prevailing, the governing law defines the ownership vis-à-vis the account holder.</u>	
Business continuity	Arrangements aimed at ensuring that a system or process meets <u>sufficient</u> service levels even if one or more components of the system fail or if it is affected by an abnormal event.	Deleted: agreed
Cash settlement agent	The entity whose assets or liabilities are used to settle the payment obligations arising from funds transfer systems or from securities transfers. <u>For example, commercial banks, central banks and CSDs may act as cash settlement agents.</u>	Deleted: within a CSD
Central securities depository (CSD)	An entity that: 1) enables securities transactions to be processed and settled by book entry and; 2) plays an active role in ensuring the integrity of securities issues. Securities can be held in a physical (but immobilised) or dematerialised form (i.e. so that they exist only as electronic records).	Deleted: C Deleted: can
<u>Central securities depository (CSD) (ECSDA definition)</u>	<u>A CSD is an entity that at least establishes securities in a book entry form and may also offer central settlement services under the provision of a law or a regulation from the relevant competent authority.</u>	Formatted: Font: (Default) Arial, Not Bold Formatted: Font: (Default) Arial, Not Bold, Underline
Clearing	The process of transmitting, reconciling and, in some cases, confirming payment of securities transfer orders prior to settlement, possibly including the netting of orders and the establishment of final positions for settlement. Sometimes the term is used (imprecisely) to include settlement.	Formatted: Font: (Default) Arial, Not Bold, Underline, Font color: Blue Formatted: Font: (Default) Arial, Not Bold, Underline
<u>Clearing (Commission definition, ECSDA Glossary Code)</u>	<u>The process of establishing settlement positions, including the calculation of net positions, and the process of checking that securities, cash or both are available. [3]</u>	Formatted: Font: (Default) Arial, Not Bold
<u>Collateral management (ECSDA Glossary Code)</u>	<u>Collateral management services include the process used to control the correspondence between the market value of the collateral and the required value of the collateral. The service will generally also include generation and processing of collateral movements.</u>	
Common depository	An entity that provides the two ICSDs with safekeeping and asset servicing for physical papers ("global notes") that cover all or part of the issue of international debt instruments (e.g. Eurobonds). See also <i>Specialised depository</i> .	Deleted: , usually a credit institution,
<u>Trade confirmation</u>	The process whereby the terms of a trade are verified either by directly involved market participants or by a central entity.	Deleted: C
Cross-border settlement	Settlement that takes place in a country other than the country in which one or both parties to the transaction are located. Antonym: <i>Domestic settlement</i> .	
<u>Cross-border payment transaction</u>	Transaction where the payer's and the payee's financial institutions are located in different countries.	Formatted: Font: (Default) Arial, Not Highlight
Cross-system settlement	Settlement of a <u>transaction</u> through a link between two separate payment systems or securities settlement systems.	Formatted: Font: (Default) Arial, Not Highlight Deleted: trade

CSD link	A set of technical and legal arrangements between two CSDs, most notably an investor CSD and an issuer CSD, for the cross-system transfer of securities. See also <i>Investor CSD, Issuer-CSD, relayed link, direct link, indirect link</i> .
Custody	The holding and administration of securities and other financial instruments on behalf of others. See also <i>Safekeeping services</i> .
Depository	An agent with the primary role of recording the (direct or indirect) holding of securities.
Direct holding system	An arrangement for registering ownership of securities (or similar interests) whereby each and every final investor in the security is registered by a single body (for example, the issuer itself, a CSD or a registry). In some countries the direct holding system is mandatory by law. Antonym: <i>Indirect holding system</i>
Direct link	An account opened by a CSD, referred to as the investor CSD, in the books of another CSD, referred to as the issuer CSD, in order to facilitate the transfer of securities from participants in the issuer CSD to participants in the investor CSD. In some cases the link may be operated by an intermediary that acts only as a technical service provider, without affecting securities ownership or legal issues; in such cases the link is known as an "operated direct link". See also <i>Investor CSD, relayed link</i> .
Eligible assets, eligible collateral	Assets which can be used as collateral in order to obtain credit from the Eurosystem
Establishing securities in book-entry form (Commission definition, ECSDA Glossary Code)	<u>The initial representation and subsequent maintenance of securities in book-entry form through initial credits and subsequent credits or debits to securities accounts, on the basis of: (a) the information provided by the issuer or its agent; or (b) the number of securities on deposit.</u>
Fail, failed transaction	A transaction that does not settle on the contractual settlement date, but may be retained and may settle thereafter.
Final investor	<u>The final recipient of rights in securities (e.g. ownership, voting rights or dividends) held on a securities account – see also <i>Direct holding systems and Indirect holding system</i></u>
Global custodian	A custodian that provides its customers with custody services in respect of securities traded and settled in several countries around the world. <u>We do not believe this term is needed given the resulting need to define: agent bank, sub custodian, investment firm etc.</u>
Indirect link	A link between two CSDs through an intermediary, whereby the two CSDs do not have any direct contractual or technical arrangement. See also <i>Relayed link</i> .
Integrity of a securities issue	The result of legal requirements and securities accounting procedures which ensures that the number of securities issued, e.g. is equal to the total number of securities in circulation (i.e. validly booked in investors' accounts) at any time.
Internal settlement	Settlement that is effected through transfers of securities and/or funds on the books of a bank or investment firm.
International central securities depository (ICSD)	A central securities depository (CSD) which was originally set up to settle Eurobonds trades and which is now also active in the settlement of internationally traded securities from various domestic markets, typically across currency areas. At present, there are two ICSDs located in EU countries: Clearstream Banking Luxembourg and Euroclear Bank Brussels
Interoperability	The set of arrangements/procedures that allows participants in different systems to exchange and settle payments or securities transactions.

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To be distinguished from "custodian".

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Interoperability (Code of Conduct)	Interoperability means advanced forms of relationships where an organisation is not generally connecting to existing standard service offerings of the other organisations but where they agree to establish mutual solutions.	
Investment Firm	We suggest checking this definition with that in MiFID for consistency	
Investor CSD	A term used in the context of CSD links. The investor CSD – or a third party acting on behalf of the investor CSD – opens (an) accounts in another CSD (the issuer CSD), so as to enable the cross-system settlement of securities transactions. See also <i>Direct link, Issuer-CSD (issuing CSD), relayed link</i> .	Deleted: omnibus
Issuer-CSD (issuing CSD)	In the context of links between CSDs, designates the CSD in which securities are issued (or immobilised). The issuer CSD has an account in its books, in some cases, in the name of the investor CSD(s) for the transfer of securities to the investor CSD(s) (or to a third party, e.g. an intermediating CSD, acting on behalf of the investor CSD and its clients). See also <i>Direct link, Investor CSD, relayed link</i> .	Deleted: omnibus
Settlement matching	The process used for comparing the settlement details provided by the counterparties of the transaction in securities or financial instruments in order to ensure that they agree on the settlement details of the transaction.	Deleted: M Deleted: buyer and the seller of Deleted: terms
Member	A participant in a system which also owns a stake in the system. This definition is incorrect: participants are not necessarily owners of a system. We recommend not to use this term since each CSD will refer to its participants in a different way (participants, members, users, clients etc)	
Payment System Participant	An entity which is identified/recognised by the transfer system and which is allowed to send, and is capable of receiving, transfer orders to/from the system, either directly or indirectly. See also <i>Direct participant, Indirect participant, Remote participant</i> .	
Provisional settlement	The discharging of an obligation by means of a transfer of funds and/or a transfer of securities which is dependent on the fulfilment of certain conditions and can therefore be rescinded by one or more parties. See also <i>Settlement</i> . Antonym: <i>Final settlement, final transfer</i> . See ECSDA definition of Settlement	
Registry /Registrar	An entity that records the ownership of securities on behalf of the issuer	
Registration	The documenting of the ownership of securities in the records of the issuer or its agent.	Deleted: in a registry or a CSD.
Securities settlement system (SSS)	A system which permits the transfer of securities, either free of payment (FOP) or against payment (delivery versus payment)	
Settlement	The completion of a transaction or of processing in a transfer system, such that participants meet their obligations through the transfer of securities and/or funds. A settlement may be final or provisional. With the exception of a zero net balance, settlement requires the opening of accounts by competent institutions (see settlement account). See also <i>Final settlement, final transfer, Provisional settlement, Gross settlement, Net settlement</i> .	
Settlement (Commission definition, ECSDA Glossary Code)	The act of crediting and debiting the transferee's and transferor's accounts respectively, with the aim of completing a transaction in securities See also <i>Final settlement, final transfer, Provisional settlement, Gross settlement, Net settlement</i>	
Settlement system	A system used to facilitate the settlement of transfers of funds, assets or financial instruments. See also <i>Funds transfer system, Securities settlement system</i>	

Specialised depository	An entity that provides ICSDs with safekeeping and asset servicing for physical certificates (“individual notes”) that represent shares in international debt instruments (e.g. Eurobonds). See also <i>Common depository</i> , <i>custodian</i> .
<u>Verification (Commission definition, ECSDA Glossary Code)</u>	<u>The process of comparison and reconciliation of transaction or settlement details to ensure that there is agreement on these details</u>

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