



E U R O P E A N C E N T R A L B A N K

OPINION OF THE EUROPEAN CENTRAL BANK

at the request of the Finnish Ministry of Finance

on a draft legislative proposal concerning centralisation of book-entry registers at the central securities depository

(CON/00/08)

1. On 15 March 2000 the European Central Bank (ECB) received a request from the Finnish Ministry of Finance for an ECB Opinion on a legislative proposal concerning centralisation of book-entry registers.
2. The ECB's competence to deliver an opinion is based on Article 2, paragraph 1, fifth indent of the Council Decision (98/415/EC) of 29 June 1998 on the consultation of the ECB by national authorities regarding draft legislative provisions, as the legislative proposal contains provisions concerning securities settlement systems in Finland and thus affecting to some extent the efficiency and soundness of clearing and payment systems. In accordance with Article 17.5, first sentence, of the Rules of Procedure of the European Central Bank, this ECB Opinion has been adopted by the Governing Council of the ECB.
3. The Finnish book-entry system was created at the beginning of the 1990s as a decentralised system. There is one central securities depository, the Finnish Central Securities Depository, which aims at ensuring the security of operations and readiness to handle all types of book-entries. The Finnish Central Securities Depository provides centralised services relating to the handling and settlement of book-entries. It keeps an issuer-specific list of holders of equity securities.

Book-entry debt registers have already been centralised at the Finnish Central Securities Depository. However, book-entry equity registers are currently still decentralised to six book-entry registrars, which maintain book-entry registers containing book-entry accounts as well as lists of holders of rights and of types of book-entries. Out of the six book-entry equity registers five are run by private financial institutions and one is run by the Finnish Central Securities Depository.
4. The legislative proposal aims at reforming the Finnish book-entry system such that the present book-entry equity registers will also be centralised at the Central Securities Depository, which will become the only book-entry registrar licensed by the Finnish Ministry of Finance. This centralisation is proposed in order to acquire economies of scale relating to data technology.

5. The ECB welcomes the legislative proposal to consolidate the registrar function in Finland into one centralised book-entry system. This measure will increase the safety and efficiency of securities settlement and, thereby, contribute to financial stability in Finland. A centralised book-entry system will shorten the time needed to settle securities transactions, as information on securities holdings will be obtained directly from the system, i.e. there will be no need to wait for confirmation from the registrars. The shortening of the settlement period will also reduce the counterparty risk.

The legislative proposal would also facilitate further integration of the Finnish securities markets into the euro area as the proposed solution will be in line with the structure of the majority of the euro area securities settlement systems. However, the ECB wishes to note that it does not have competence to analyse the legislative proposal from the point of view of Community competition law.

6. The legislative proposal would result in changes in eight different national laws, all of which concern the Finnish book-entry system. Some provisions in those eight laws relate either to Suomen Pankki or to the ESCB-related tasks of Suomen Pankki. However, the amendments proposed do not change the substance of these provisions.

In addition the ECB notes that Section 3 of the Act on the Bank of Finland (214/1998) stipulates that Suomen Pankki shall participate in maintaining the reliability and efficiency of the payment system and overall financial system and participate in its development. In the opinion of the ECB, this should be understood as including the securities settlement systems in Finland.

7. The ECB notes that the legislative proposal would also change the existing unlimited secondary liability of the Finnish Central Securities Depository. This liability will be transferred to a special fund to be financed by the account operators and limited to EUR 25,000 per case of damage. Furthermore the “force majeure” rule will apply. These changes have to be analysed further by the ECB when making assessments against the ESCB Standard 1 on legal soundness of link arrangements allowing for cross-border use of collateral between the Finnish Central Securities Depository and other securities settlement systems for the Eurosystem monetary policy and intraday credit operations.
8. The ECB confirms that it has no objection to this ECB Opinion being made public by the competent national authorities at their discretion.

Done at Frankfurt am Main on 5 May 2000.

The President of the ECB

[signed]

Willem F. Duisenberg