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European Distribution of Debt Instruments (EDDI)

Money Market Contact Group (MMCG) meeting
3 December 2019
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A true domestic European market
A single European Framework in Central Bank Money

Liquidity pool in central bank money

- Securities settlement
- Large-value payments
- Instant payments
- Collateral mobilisation
- Debt issuance?
In a single capital market within a currency area:

Issuers and investors should interact within a single process

Risks and costs should be independent on the location of counterparties

There should be no cross-border dimension but only a domestic one

As a result, the market is:

• **More attractive** to foreign investors
• **More resilient** due to increased private risk sharing
• Providing a **buffer** against systemic shocks
• **Neutral** and provides a level playing field
Current Status in currency areas

In US or Japan

Issuers → One domestic market

In the EU

Issuers → Many national markets
Issuers → ICSD

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Current Status in issuance and distribution of debt

Overview of existing sec. distribution ecosystem

Pre-issuance platforms
- Issuers
- Pre-issuance platforms
- Issuer agents
  - Issuer CSD
    - Local custodian
    - Global custodian
    - Investors
- Issuer agents
  - Issuer CSD
    - Local custodian
    - Global custodian
    - Investors
- Issuer agents
  - Issuer CSD
    - Local custodian
    - Global custodian
    - Investors
- Issuer agents
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    - Global custodian
    - Investors

Syndication level (underwriting / investor bids)
- Issuer agent level
- Issuer CSD level
- Custody chain
- Investor level

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Current limitations for market actors

Debt issuance restrained to one issuance location

- Prevents issuance in a neutral and EU-wide way
- Reinforces “home bias” / lack of euro area risk sharing
- Could be a barrier to pan-European investment

Market actors need to connect to many issuance locations

- Implies complexity and higher costs
- Creates challenges for the pooling of liquidity and collateral
- Forces connection to “home location”
Current limitations with reference to financial indicators

- **Financial Integration Report:** bonds issued by a euro area issuer are 1.7 times more likely to be held by domestic than by other euro area investors\(^1\)

- **Primary issuance:** only about 5% of debt securities eligible as Eurosystem collateral are issued with a non-domestic CSD\(^2\)

- **T2S settlement statistics:** only around 1% of transactions settled in T2S are taking place between counterparties of different CSDs\(^3\)

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1: ECB, May 2018
2: Information based on the Eurosystem eligible collateral database. In addition, about 20% are issued with the ICSDs which can also be considered as non-domestic
3: T2S Annual Report, 2018
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1. Why do we look into issuance?
2. EDDI – a pan-European initiative for securities issuance
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European Distribution of Debt Instruments (EDDI) – a pan-European gateway for debt securities

EDDI aims to **support integration** in the current issuance and initial distribution ecosystem in the EU by providing new choice of location of issuance, **not a new layer** in the transaction chain.
Pre-issuance

EDDI standardised technical toolkit to support the debt issuance process of existing market actors. Up to issuers and their counterpart, i.e. issuer agents, investors, when and how to use it.
Post-trade

EDDI facilitates CSDs to provide a service to European issuers to issue debt securities into all national markets on an equal basis (i.e. a domestic EU market). Operational synergies with TARGET Services and in particular TARGET2-Securities (T2S).
Scope and usage of the EDDI service

**Instruments**
- EDDI shall support **debt instruments only**
- Instruments to comply with a potential **European debt instrument (technical) standard**

**Stakeholders**
- The EDDI service shall be provided to debt **issuers (for pre-issuance)** and **CSDs (for post-trade)**
- Issuers may grant **technical access** to investors, dealer **banks** and **agents** for pre-issuance activities
Harmonisation

EDDI would bring **standardisation** due to its specification/implementation.

- Standardised/single order book
- Standardised Investor ID
- Common interfaces
- Usage and assignment of EDDI (European) ISIN prefix
- Timelines and cut-off times

EDDI could also support **further harmonisation and standardisation**:

- **A European Debt Instrument (technical) standard**
  - Standardised term sheet template
  - Harmonised rounding and day-count conventions
- Revisit **withholding tax procedures initiatives** (CMU) – not on fiscal laws
Clarifications - I

• **No disintermediation.** EDDI does not impose specific issuance business models

• **Not an additional layer but rather an additional option** for pan European issuance

• **Level playing field/Competition?** Accessibility to and/or interoperability with all eligible market actors: issuers, intermediaries, infrastructures (CSDs and issuance platforms). Open to all eligible CSDs (Central Securities Depositories).

• **Regulatory compliance?** Any potential solution can only be fully EU law compliant

• **Innovation?** Single neutral service with open access would encourage, not impede, innovative service development, e.g. Fintechs
Clarifications - II

• **Absolute legal/fiscal harmonisation** prior to initiative in issuance? It is the other way round: A public/private governance arrangement initiative can only foster further minimum harmonisation in key areas (e.g. withholding tax procedures)

• **Costs?** Too early, requires formal investigation but no big costs are expected. Synergies and savings could be foreseen

• **Cyber risks?** Eurosystem already invests heavily in TARGET Services cyber resilience, independently of EDDI
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Market consultation

A potential new service for the issuance and initial distribution of debt instruments in the EU

• From 28 May 2019 to 9 July 2019: 70 responses received from a wide variety of market actors (issuers, investors, banks, CSDs and Fintech companies etc.)

• 56 (public) responses published [link]

• No clear majority either in supporting strongly or disagreeing outright with the key messages of the consultation
• Strong agreement on the need for harmonisation in the full transaction chain
• In order to complete their impact analysis, majority of respondents would welcome further information on implementation model, details on service, legal set up, fee structure and timelines.
Next steps

• The Eurosystem will keep market participants informed regarding the progress of its work with a view to determining any follow-up actions on this initiative

• In doing so, the Eurosystem will take into account all relevant legal, regulatory and statutory considerations

• No announcements are expected before Q1 2020
Thank you for the attention!

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