

Fixed Income & Collateral Working Group

Position Paper on the harmonization of securities issuance processes across Europe

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1. Objective of the document

To outline the issue in order to escalate it to post-trade harmonization governance in Europe.

2. Explanatory statement

Members of the working group outlined the lack of harmonization of securities issuance in Europe, affecting all financial instruments and issuer CSDs..

Efforts have been already made on post-trade processes in Europe in relation with securities issuance processes, notably:

- Generalization of the use of standard numbering (ISIN);
- Harmonization of settlement processes through T2S.

Yet, the issuance of securities in the T2S area and at ICSDs relies on market-specific technical and operational protocols with rules that may differ by type of security and market.

The following examples were mentioned, in a non-exhaustive way:

- French market:
 - the creation of French money market instruments 'NeuCP' is instantaneous and based on Euroclear France proprietary messaging;
 - the creation of bonds, warrants or equities is performed by Euroclear France based on term-sheets, or using the Plug&Clear platform (structured data file protocol).
- On international markets, for Euro Commercial Papers (settled through ICSDs), the use of EPIM is mandatory, which involves a platform-specific format;

- Eurobonds are issued according to standardized data or a term sheet. Final terms are necessary (Euroclear Bank);
- German and Italian markets : the protocol seemingly involves the sending of a term sheet, and formats that differ from other markets – required by Clearstream Banking Frankfurt and WM for the German market.
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3. Harmonization issues

The following elements differ by market and type of security:

- Format of term sheets;
- Data formats & messaging standards – the use of ISO messaging would facilitate the processing;
- Platforms & Connectivity ;
- Deadlines and workflows

These differences do exist at several levels:

- by type of security: Bonds, Money Market Instruments, Equities, Funds;
- by market.

4. Assessment of harmonisation challenges

- a. The lack of harmonization affects all instrument types (equities, bonds, funds, money market instruments, EMTN, warrants etc);
- b. Fixed income securities appear more critical, with high volumes issued, a number of multinational issuers acting on several European markets and ever more global investors.
- c. Besides volumes, these differences in issuance processes in Europe represent a barrier to the development of financial markets in Europe:
 - Barriers to the entry of issuers in markets where they are not domiciled;
 - Operational complexity, source of higher risks;
 - Higher workload for market participants, notably related to diverse levels of automation;
 - Obligation for investors to monitor an issuance in several markets.

5. Link with existing harmonisation issues

The above mentioned lacks of harmonization can be linked to several barriers already identified by previous initiatives :

Giovannini reports

- Barrier 1: National differences in information technology and interfaces

- Barrier 2: National clearing and settlement restrictions that require the use of multiple systems
- Barrier 8: National differences in securities issuance practice

European Post-Trade Forum (EPTF) report – 15 May 2017

EPTF 2: Lack of convergence and harmonisation in information messaging standards

Conclusion

Members of the working group call for an European initiative to harmonizing issuance processes on primary markets in order to bring the appropriate response to the above mentioned issues.

About AFTI

The French Association of Securities Professionals (AFTI) is the leading association for post-market activities in France and in Europe. AFTI is made up of over 80 members and covers a wide range of activities including market infrastructures, custodians and depositories, securities services providers, issuers and report/data providers.

AFTI represents a total of nearly 28,000 employees in Europe, including 16,000 in France. Active members represent 26% of the European custody business, with €55.6 trillion in assets under custody and 25-30% of the European fund depositories and fund administrators.

In 2017, French market infrastructures settled 29 million instructions (CSD) and cleared 730 million transactions (CCP).

