The European Distribution of Debt Instruments (EDDI) initiative

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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 private risk sharing
- Providing a **buffer** against systemic shocks
- **Neutral** and provides a level playing field
In US or Japan

Issuers → One domestic market

In the EU

Issuers → Many national markets → ICSD
Overview of existing sec. distribution ecosystem

Pre-issuance

Issuer CSD

Pre-issuance platforms

Issuer agents

Issuer CSD

Local custodian

Global custodian

Investors

Dealer banks

Investors

Issuer agents

Issuer CSD

Local custodian

Global custodian

Investors

Dealer banks

Investors

Issuer agents

Issuer CSD

Local custodian

Global custodian

Investors

Pre-issuance platforms

Syndication level (underwriting / investor bids)

Issuer agent level

Issuer CSD level

Custody chain

Investor level
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
- Creates monopolistic landscape/silos
Potential for improving Financial Integration in the EU debt market

- **Financial Integration Report**: on average, European investors hold 1.6 times more domestic bonds than other euro-area bonds\(^1\)

- **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
Major developments in the securities trading and post-trade layer towards European integration

**Regulation**
- CSDR
- MIFID
- EMIR

**Infrastructure**
- TARGET2
- TARGET2-Securities (T2S)
- TARGET Instant Payment Settlement (TIPS)
- Eurosystem Collateral Management System (ECMS)

**Harmonisation**
- T2S Harmonisation agenda (ISO Messages, T+2, settlement finality, T2S corporate actions)
- Market Standards for Corporate Actions Processing
Remaining gap towards a true EU domestic market

No pan-European issuance channel
Unlike other currency areas, issuers and investors in the euro area have to resort to either national or international channels to issue and distribute debt instruments.

Lack of harmonisation and process integration
The current solutions supporting (pre-) issuance and initial distribution activities are neither interoperable nor standarised.
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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.
The three elements of EDDI are interdependent and complementary.
Pre-issuance

EDDI **standardised technical toolkit** to support the debt issuance process of existing market actors

Issuer A  Dealer 1  Investors  Agent P
Issuer B  Dealer 2  Investors  Agent Q

Issuers

Dealers

Investors

Agents

Pre-issuance

EDDI

Terms & cond.
Order book
Reports
Information management

www.ecb.europa.eu ©
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)
Harmonisation

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

- Standardised/single order book
- Standardised Investor ID, e.g. LEI
- 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
- Renew EU attention on withholding tax procedures (CMU)
Payments, securities and collateral in Central Bank Money

- Retail/large value payments
- Multi-currency services
- Harmonised settlement procedures
- Optimised liquidity management
- Debt issuance and its initial distribution
- Monetary policy operations
- Single gateway for collateral management

Payments, securities and collateral in Central Bank Money
Benefits of EDDI

**Harmonisation**
From pre-issuance to post-trade procedures

**Interoperability**
with external platforms and private solutions

**Neutrality**
Level playing field for issuers, CSDs and custodians

**Safety and efficiency**
of Central Bank Money settlement

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Scope of EDDI

**Instruments**
- EDDI shall support **debt instruments only**
- Instruments need to be in line with a **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
- Appropriate **governance arrangements** (like T2S)
Four options to issue debt

- The usage of the EDDI components (pre-issuance and post-trade) will be **flexible and modular**, depending on the issuers’ needs

- EDDI allows issuers who opt to use **other tools** for the pre-issuance to benefit from EDDI for the post-trade (and vice-versa)

- Issuers shall continue to **define their placement methods**, e.g. syndication

- **Disintermediation is not an EDDI objective**

* Can be inside or outside T2S
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Q1: Why are issuers interested in EDDI if the market works today?

- Issuers face today procedures that have not changed since decades and still heavily rely on manual interaction and low level of automation. A standardised and innovative European solution is long overdue.

- There is limited extent of harmonisation – lot of operational efficiency (and potentially cost savings) to be gained.

- A truly European reach and a standardised and neutral issuance and distribution channel should foster the attractiveness for issuing in EUR and support a single liquidity pool in the TARGET Services (in Central Bank Money).

- Creation of an EU benchmark debt instrument via the support of the European Debt Instrument (technical) standard.
Q2: European investors seem to have access to all securities in Europe. What is the problem?

- Debt instruments issued in different national markets are subject to different procedures and costs
- No EU wide standard, no overview, no common communication/data flow channel
- Different level of risk, cost and information, due to current network of intermediaries and infrastructures to reach out to the “home” location of issuance
- Investment limitations in non-domestic ISINs (could be solved by European Debt Issuance (technical) standard and common ISIN prefix)
- Confusion for international investors (and also issuers) about European debt issuance market. Some may restrain from investing in EU still, i.e. No European domestic market
Q3: Will EDDI affect the current relationship between issuers and dealer banks?

- No. EDDI is a technical toolkit to be provided, on a voluntary basis, to issuers and other market participants authorised by them (e.g. agents, banks, investors) in order to support them in the efficient processing of a debt issuance.

- Dealer banks may continue to provide the value added services they offer to issuers: underwriting, investors relationship, due diligence, secondary market liquidity, etc.

- EDDI does not aim at disintermediation. It is up to the issuers to choose the issuance business models that best serve their needs, with or without the usage of the EDDI components.
Q4: Will EDDI interfere with private sector initiatives?

- No. EDDI brings a new service that **does not exist today**.
- The EDDI scope (pre-issuance, post trade and harmonisation in a multilateral European governance) is wider than existing initiatives.
- The EDDI service will be **compatible with alternative issuance platforms**
- As EDDI will be offered in a **modular approach**, issuers will be able to continue using other pre-issuance tools available in the market and still benefit from the pan-European reach offered by the EDDI post-trade.
- The ECB cannot offer the post-trade part of EDDI without the close collaboration with the existing national CSDs. The EDDI post-trade will only **complement the features already offered today** by the Eurosystem to European CSDs via the T2S platform.
Q5: Will debt issuance become more expensive due to EDDI? Does it increase complexity of the issuance process?

- No. EDDI will not be an additional layer of operations but an additional option offered to issuers to issue in the domestic EU market.

- The users of EDDI will have the option to control and affect the costs of the service by defining the concrete requirements and system specifications (via EDDI governance).

- Not-for-profit service but full cost recovery.

- EDDI will provide for the first time a single front-to-end service for the issuance and initial distribution of debt instruments in Europe.

- Some benefits of EDDI may not result in immediate cost savings but should be considered for the long term cost-benefit assessment:
  - standardisation and harmonisation;
  - Potentially shorter settlement cycles;
  - single liquidity pool in EU in CeBM;
  - increased relevance of EU as place for foreign investments.
Q6: Is EDDI offered only to supranational/intergovernmental issuers with a European scope?

- No. All eligible and compliant debt issuers could potentially assess whether they wish to issue via EDDI.

- Regardless of whether they use EDDI or not, all issuers could indirectly benefit from EU wide harmonisation fostered by EDDI standards.

- The establishment of technical standards and harmonisation of procedures will potentially lead to cost reduction and efficiency gains for the whole European financial market community.

- Issuing via EDDI and in line with European standards could attract more international investors who do not yet reach some issuers today.
Q7: Could EDDI create a two (or more) tier issuer landscape; premium debt via EDDI and the rest?

- Possibly. Regardless of the establishment of EDDI or not, there is already a tiered system, which is inherently linked to the differences of quality (e.g. level of risks) between securities.

- EDDI would never change the quality of asset itself but it may create a European benchmark technical standard which should support all issuers, independently of their ranking. This is presumably what all European stakeholders aspire to.
Q8: Will the creation of EDDI affect the role of smaller Issuer CSDs?

- Current status quo, also influenced by CSDR, T2S etc. already opens up the competitive environment in Europe.

- The concept of EDDI is that the existing national CSDs, big or small, will be part of the EDDI post-trade offering to the market.

- It is true that, in the case of securities issued via EDDI, the new model opens up the location of issuance to more competition.

- Improving competition in the market infrastructure layer cannot be considered a con but a pro for the EDDI initiative.
Q9: The real issue is divergent national legal provisions. Should efforts for a European solution aim to overcome these limitations first?

- The question *law of instrument* with different *law of issuance* may exist today in the context of cross-border transactions in T2S or in some multi-issuance models.

- However, *no concrete evidence* has ever been provided from the T2S stakeholders (i.e. NCBs, banks, CSDs, associations in the T2S Advisory Group) on the barriers to issuance or investment (CMU exercise).

- However, we may identify that some national regulatory and legal aspects may require adaptation in order to provide a fully efficient EDDI interaction. *EDDI could only support, as a catalyst, further if not complete, harmonisation in this area*. 
Q10: The real issue is divergent fiscal national procedures. Should efforts for a European solution aim to overcome these limitations first?

- These limitations do exist but waiting to be waved voluntarily and without a European wide initiative is usually proven ineffective. **A European** project with a multilateral stakeholders governance arrangement **creates momentum** for all actors, private and public, to take action (similar to T2S harmonisation agenda)

- EDDI could be launched with existing Withholding Tax Procedures but the launch of **EDDI could provide the catalyst** for a more focused and prioritised discussion on WHT within the context of the CMU agenda
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A potential new service for the issuance and initial distribution of debt instruments in the EU
Deadline: 9 July 2019
Next steps

21 June

ECB market event

9 July

Deadline for market consultation

Q4 2019

Eurosystenm to consider the follow actions
Thank you for the attention!

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