



ISSA
Mutual Fund Trading &
Settlement Roundtable

Bruno Zutterling
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European Fund Market Structure



European fund market is facing structural differences between countries



Post-trade structures & systems

- CSD or swift or checks ?
- Book entry and/or physical ?
- DVP or FOP ?

→ Difficulty to adopt the same post trade model

Business

- Assets and volumes are in domestic markets
- Financial equilibrium between market players is different in each country
 - Asset managers/Distributors* for distribution fees
 - Asset managers & Distributors/banks for post-trading & admin. fees

→ Difficulty to accept the same business model

*Distributors = generic term for distributors, IFA, institutional investors

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Structural Differences

Political matters

- Trend towards merging national financial supervisory structures into 1 or 2 per country, but there were 33 national financial supervisory structures for 15 countries in mid-2003 (ECB data)
- One of the missions of remaining supervisory bodies will stay to control domestic banks, insurance and asset managers, and to protect retail investors
- Difficulties to drop domestic objectives

Regulatory framework

- Taxation regulations
- Roles and responsibilities are not the same in each country between market players.
 - TA / centralisateurs / depot banks
 - Distributors do not have the same legal constraints towards retail investors
- Difficulties to agree on similar functionalities



Be pragmatic: single & fluid European market in how many years?

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Cope with the “Multi-Domestic” European Landscape

First option: Adapt market player attitude

- For fund providers :
 - Register their funds in every country
 - Register their funds in offshore places
 - Mix local & offshore registration
- For distributors :
 - Restrict offer to their customers
 - Manage both domestic systems and cross-border systems
 - Use a pan-European hub
 - Mix the 3 above-mentioned strategies
- For banks :
 - Build strong network with/without local presence
 - Increase capacity to offer value added services to funds and investors

Second option: Build a multi-domestic European infrastructure

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What are our choices?

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 **Underlying ideas**

- Be neutral as a market infrastructure provider
- Build a solution accessible to everybody but providing an STP transaction HUB to the most automated distributors.
- Work with market player & market bodies on long-term evolution
 - Use existing domestic infrastructures where suitable and automated
 - Set up fund processes as similarly as possible as those for other financial instruments.


Split the value chain into 3 segments

- Order-processing
- Settlement
- Custody

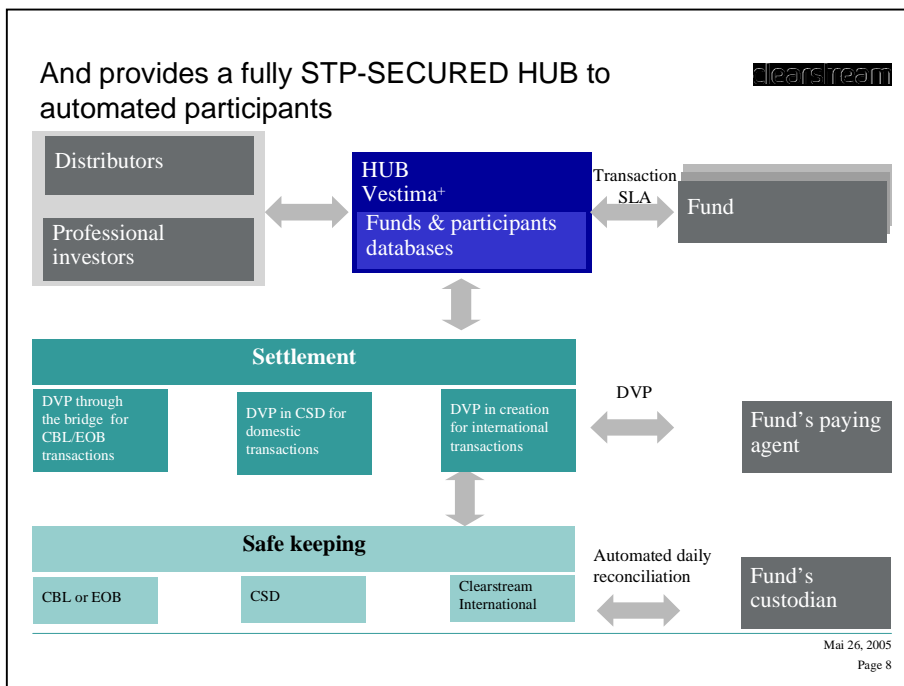
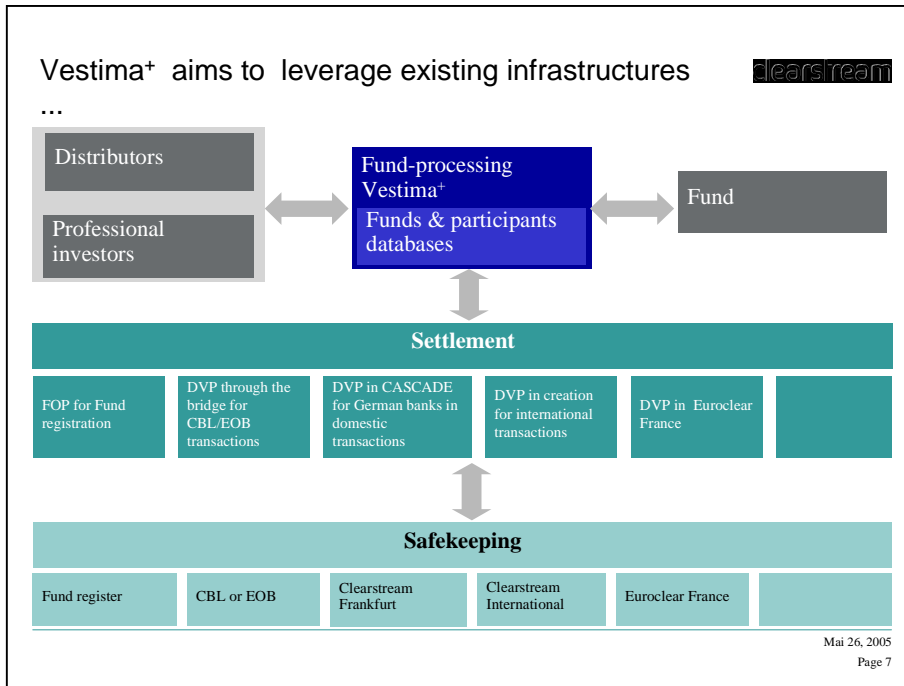
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What have been our choices?

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- **Be flexible enough to offer automation wherever market players are located.**
 - **Open each part of the value chain to other providers.**
 - Orders processed through Vestima+ but settlement done in CSD
 - Orders processed through Vestima+ but safekeeping in fund register
 - **Open each part of the value chain to the relevant entities.**
 - Order management functionalities to distributors & professional investors.
 - Reporting functionalities to distributors and fund providers

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Remaining & Long-Term Issues

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- **Data Referential**
Automated collection & update, responsibilities ; ..
- **Transfer of shares among distributors**
- **Settlement of funds**
- **Convergence issues**
 - Regulatory framework, operational processes
 - Taxation regulations
 - etc.

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Thank you!

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