

# The Group of Thirty

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## PRESS RELEASE

*The Group of Thirty is the consultative group on international economics and monetary affairs. Founded in 1978, the Group of Thirty is a private, nonprofit, international body composed of senior representatives of the private and public sectors and academia.*

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## **G30 Proposes Major Reforms for Global Securities Markets**

Blueprint released to increase safety, reduce investor costs and strengthen market efficiency for international clearance and settlement of securities.

London & Washington DC, January 23, 2003: Terrorist attacks, market shocks, surging volumes and ongoing structural change all place the global system of clearance and settlement of securities transactions under stress and at risk. The system, now involving trillions of dollars of transactions, requires reforms not only to boost safety, but also to cut investor costs and to raise market efficiency, said the Group of 30 in a report published today: *Global Clearing and Settlement: A Plan of Action*.

"We are making 20 reform recommendations, which when implemented, will significantly improve the safety and efficiency of international securities markets," said Sir Andrew Large, Deputy Governor of the Bank of England and Chairman of the G30 steering committee that determined the reform agenda.

The G30, involving leaders from central banking and private finance, published the report calling for comprehensive reform of the cross-border clearing and settlement process that involves the ways in which the ownership of securities is transferred from one investor to another and the related payments for such activities. G30 Chairman Jacob Frenkel said that, "given rapid growth of debt, equity and derivatives trading, the wrong combination of market shocks and financial dislocations might be sufficient to overtax the infrastructure on which the functioning of global markets depends."

Sir Andrew, speaking at a press conference in his private capacity and not on behalf of the Bank of England, stressed that the proposals, "call for market led change. We've built on best practice standards that conform to public policy needs and that can strengthen the growing and complex global network of companies and arrangements that govern securities clearance and settlement."

In the report's introduction Jacob Frenkel and Paul A. Volcker, Chairman of the G30 Trustees, stressed that the G30's plan of action "is ambitious but it reflects the aspirations of market participants, gives direction to work that is already underway and provides specific guidance for tackling new areas. Its fundamental logic is that a globally linked marketplace should be subject to global norms. To ensure that the issues raised receive the continuing attention they deserve, the Group of Thirty will monitor progress on cross-border reforms going forward."

The report noted that from 1980 to 2001, U.S. gross activity in foreign securities grew more than 100-fold from just \$53 billion to nearly \$5.8 trillion. Foreign gross activity in U.S. securities also increased more than 100-fold from \$198 billion in 1980 to \$20.2 trillion today. And, there has been similar growth over the period 1990 to today in cross-border holdings of securities between the U.S. and the rest of the world. Sir Andrew said that the G30 recommendations are primarily targeted at the major mature securities' markets.

Sir Andrew heads the steering committee with Mr. John Heimann and Sir David Walker serving as vice chairmen and it involves 11 members of the G30 itself and 12 other leaders of international finance. The study, which includes an extensive survey of participants in all phases of the clearance and settlement process conducted by PricewaterhouseCoopers (PwC), took more than two years to complete and Mr. Frenkel and Mr. Volcker pointed-out that “if accurately valued, it would certainly constitute a multi-million dollar enterprise.”

Mr. Phil Rivett, head of PwC’s Global Banking and Capital Markets practice, noted, “PwC assisted the G30 Steering Committee and our discussions with users and providers of clearing and settlement services globally has demonstrated that they are anxious for the emergence of global standards, which is the basic thrust of the G30 study.”

Today’s G30 report followed a landmark G30 study on clearance and settlement issues in 1989 that led to numerous reforms. The new study was started well before the terrorist attacks of September 11, 2001, but these served, as Sir Andrew stated, “to underscore the longstanding concern that critical operations must continue following a disaster, with a high level of integrity and sufficient capacity. We highlight ongoing work in this area, while calling on the public and private sector to cooperate on further study of disaster recovery and business continuity planning.”

Increasing access to information, combined with new technologies, are enhancing portfolio diversification opportunities and raising the attractiveness of buying foreign equities, “but investors have very little insight into the risks, costs and inefficiencies of the current cross-border system of clearance and settlement. We are talking about the central nervous system of global finance, whose health is of vital economic significance,” said Sir Andrew.

He added, “our report is adding transparency to the global system, which is essential if there is to be reform. There has been inadequate understanding of the operational risks in today’s global system due to its segmentation, its unreliable connectivity for lack of globally recognized technical standards, and the absence of uniform business processes. Our recommendations address these key issues.”

The report noted that the risks, the high costs and the inefficiencies partly reflect the reality that cross-border clearance and settlement of securities still takes place market by market and country by country. Processes are governed by national regulatory authorities, national laws, local systems, customs and market practices. Accordingly, the main focus of the reform proposals is on building a strengthened, interoperable global network; mitigating risk; and, improving governance.

The report proposes that standards be developed and adopted globally to create the potential for a far more integrated cross-border systems. This network interoperability and access to the system for all financially qualified participants is seen as creating conditions for more efficient levels of services, as well as encouraging competition and innovation in the provision of services.

The recommendations involve the evaluation of risk management practices against a “best practices” framework, enhanced efforts to ensure business continuity and disaster recovery. A greatly strengthened legal framework is proposed to increase market confidence and ensure legal certainty in such basic areas as the finality and close out of transactions.

Sir Andrew stressed that there is also a set of proposals aimed at strengthening governance arrangements in the interest of delivering the proposed improvements. He said, “strengthened governance requires enhanced performance by boards and management of private firms along with consistent and effective official supervision and action by public authorities to remove barriers to competition and innovation.”

The G30 has agreed to monitor progress on the reforms proposed in the report, placing its weight and influence behind reform in this complex area. It sees full implementation of the recommendations being spread over a five- to seven-year period and that the costs to firms of improving technology, for example, will be less burdensome because this realistic timeframe is in keeping with normal replacement cycles for systems and software.

Sir Andrew pointed out that, “it is not going to be easy to secure reform in a world where investors and financial services firms are increasingly seeking to operate globally, but where none of the numerous organizations responsible for clearance and settlement has a global reach and comprehensive scope. But the importance of the clearance and settlement processes as the central nervous system of global finance is clear, and there is a compelling need for all institutions that are engaged to ensure that they contribute to securing the system’s health.”

### **Global Clearing and Settlement: A Blueprint for The Future**

*Improving the safety and efficiency of international securities markets.*

Available from The Group of Thirty, [www.Group30.org](http://www.Group30.org)

Attachments:

1. Members of the G30 Steering Committee.
2. Members of the G30.
3. Summary - the G30’s 20 recommendations for reform.

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and Settlement of Securities Transactions**

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John Walsh	Executive Director, Group of Thirty

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Sir Andrew Large assumed the G30 Steering Committee chairmanship when he served as Deputy Chairman, Barclays PLC. He was appointed Deputy Governor, Bank of England as from September 1, 2002.

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*Summary of Recommendations*

**THE REPORT'S TWENTY RECOMMENDATIONS**

**CREATING A STRENGTHENED, INTEROPERABLE GLOBAL NETWORK**

1. Eliminate paper and automate communication, data capture, and enrichment.
2. Harmonize messaging standards and communication protocols.
3. Develop and implement reference data standards.
4. Synchronize timing between different clearing and settlement systems and associated payment and foreign-exchange systems.
5. Automate and standardize institutional trade matching.
6. Expand the use of central counterparties.
7. Permit securities lending and borrowing to expedite settlement.
8. Automate and standardize asset servicing processes, including corporate actions, tax relief arrangements, and restrictions on foreign ownership.

**MITIGATING RISK**

9. Ensure the financial integrity of providers of clearing and settlement services.
10. Reinforce the risk management practices of users of clearing and settlement service providers.
11. Ensure final, simultaneous transfer and availability of assets.
12. Ensure effective business continuity and disaster recovery planning.
13. Address the possibility of failure of a systemically important institution.
14. Strengthen assessment of the enforceability of contracts.
15. Advance legal certainty over rights to securities, cash, or collateral.
16. Recognize and support improved valuation and closeout netting arrangements.

**IMPROVING GOVERNANCE**

17. Ensure appointment of appropriately experienced and senior board members.
18. Promote fair access to securities clearing and settlement networks.
19. Ensure equitable and effective attention to stakeholders' interests.
20. Encourage consistent regulation and oversight of securities clearing and settlement service providers.