

# ISSA Regional Meeting Asia Pacific

## Opening Remarks and ISSA Information Items

Josef Landolt, Chairman ISSA



The slide features a blue header with the text "International Securities Services Association ISSA" in red. Below this is a large blue box containing the text "Regional Meeting Hong Kong May 10, 2001" in yellow. To the right of the blue box is a small image of a glowing blue road or path. Below the blue box, the text "Josef Landolt, Chairman" is written in red. In the bottom left corner, there is a small ISSA logo with the text "INTERNATIONAL SECURITIES SERVICES ASSOCIATION". In the bottom right corner, the website "www.issanet.org" is displayed in red.

Ladies and Gentlemen, dear Colleagues

On behalf of ISSA, welcome to this year's meeting in the Asia-Pacific region. This is the first in a series of three events we set up for our members and guests this year. Our European colleagues will meet in Paris in June; and the meeting for the American region will be held in September in New York.

I would like to particularly welcome those of you who have not attended an ISSA conference before, and I thank you for having accepted our invitation. I am confident that last night's excellent dinner made everybody feel welcome. Mentioning last night, I would like to express my thanks again to Charles Lee and Stephen Ip for having shared their views on the current state of our industry and on the issues that need to be addressed by us all. We always see our welcome dinner as an opportunity to build bridges, and to exchange thoughts on topics that extend beyond the horizon of our daily routine.

At this moment, I would also like to thank Walter Reisch for having agreed to step in as the host of today's meeting, in succession of Stewart Shing who had originally committed to organize the event but who has meanwhile left Hong Kong Clearing.

Wal has also agreed to complete Stewart Shing's term as chairman of the ISSA Asia Pacific forum, until it becomes due for renewal at the next ISSA Symposium. I will come back to this point later on. On behalf of my colleagues, let me welcome Wal to the ISSA board and thank

him for having accepted this mandate. After all, it implies additional work but no additional compensation!

Thanks must also go to Lorraine Chan of Hong Kong Exchanges and Clearing. She and her team have taken care of all the organizational details necessary to make last night enjoyable, and to set up the perfect framework for today. It is now up to all of us to fill the frame with meaningful content. Again, and also on behalf of my board colleagues and my secretariat staff in Zurich, "thank you" to our hosts!



The slide features a blue vertical bar on the left side. At the top of this bar is the ISSA logo, which consists of the letters 'ISSA' in a bold, sans-serif font, with the words 'INTERNATIONAL SECURITIES SERVICES ASSOCIATION' stacked vertically in a smaller font below it. A red horizontal line is positioned just below the 'Agenda' title. The agenda items are listed with red diamond symbols.

## Agenda

- ◆ Introduction to ISSA
- ◆ Participation at key events
- ◆ Update: Recommendations 2000
- ◆ Europe in search of new structures

I would like to address the following points in the next half hour:

- For the benefit of those delegates who are less familiar with ISSA - and the participant list tells me that this is a solid majority - I will give a brief background on ourselves. This will include an announcement to our members with regard to a slight organizational change in the selection of our regional board members.
- I will then report on recent marketing activity to reach out into countries where we have sensed a keen interest in our work, but where our contacts needed improvement.
- This will be followed by a status update on our current key project, namely the ISSA Recommendations 2000. I will put this into context with recent similar initiatives many of you are certainly involved in.
- And lastly, I would like to give you a quick assessment of current developments in clearing and settlement in Europe.

## Introduction to ISSA

### Origin and Objectives

- ◆ Founded in 1979 by UBS and Citibank


**Promote progress in the securities services industry**

**Open up communication channels between and develop personal contacts among securities services providers**

**Increase professional knowledge of securities industry participants and the investment community**

**Work together with other financial industry organisations**

- ◆ Incorporated as an association under Swiss law in 1989
- ◆ 94 members in 45 countries, 2000 subscribers worldwide

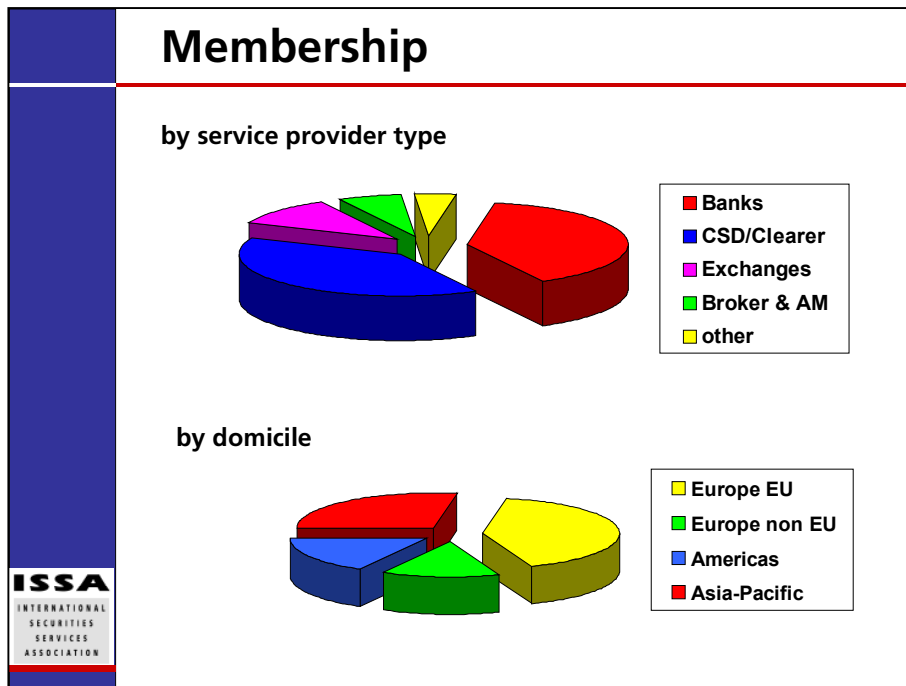


ISSA was founded in 1979 and is incorporated in Switzerland. We are a private association of banks, clearing organizations, central depositories, stock exchanges, brokers, asset managers and similar institutions. Unlike other trade bodies, our members do not represent one industry sector only. It was the wish and the vision of ISSA's founders to create a discussion platform embracing all sectors along the securities services value chain. We believe that, in today's globalized financial markets even more than ever, the resolution of problems that affect our industry, requires the full view and an open dialogue across the entire transaction processing chain.

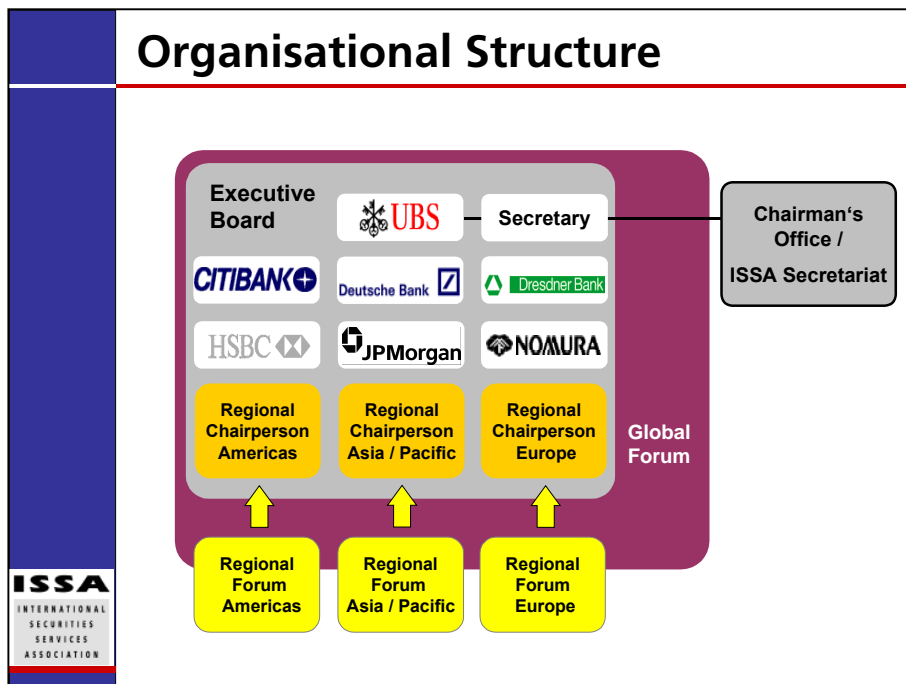
Our members, as diverse as their backgrounds may be, share the idea of promoting progress in the securities services industry. Our common interest is the improvement of infrastructures that are supporting our domestic and international capital markets. Efficient securities clearing and settlement mechanisms are vital ingredients to any capital market. Unfortunately, we all work in highly specialized areas that remain mostly invisible to the public. The post trading service providers have little opportunity to differentiate themselves in the perception of the end-investor.

It is therefore appropriate for the infrastructure operators to tackle industry-overarching problems in a collegiate manner. ISSA facilitates this process by providing discussion platforms - like our meeting today - and by launching global initiatives.

Our ISSA Recommendations 2000 project is a case in point. I will revert to it later on.



Our membership currently includes 94 institutions in 45 countries which are represented by senior level executives. Custodian banks and central depositories are the largest groups. Currently, 26 of our member firms are domiciled in the Asia Pacific Region.



Our membership is divided into three regional forums. Each forum is headed, normally for a two year term, by a chairman (or chairwoman) who represents his or her region in the

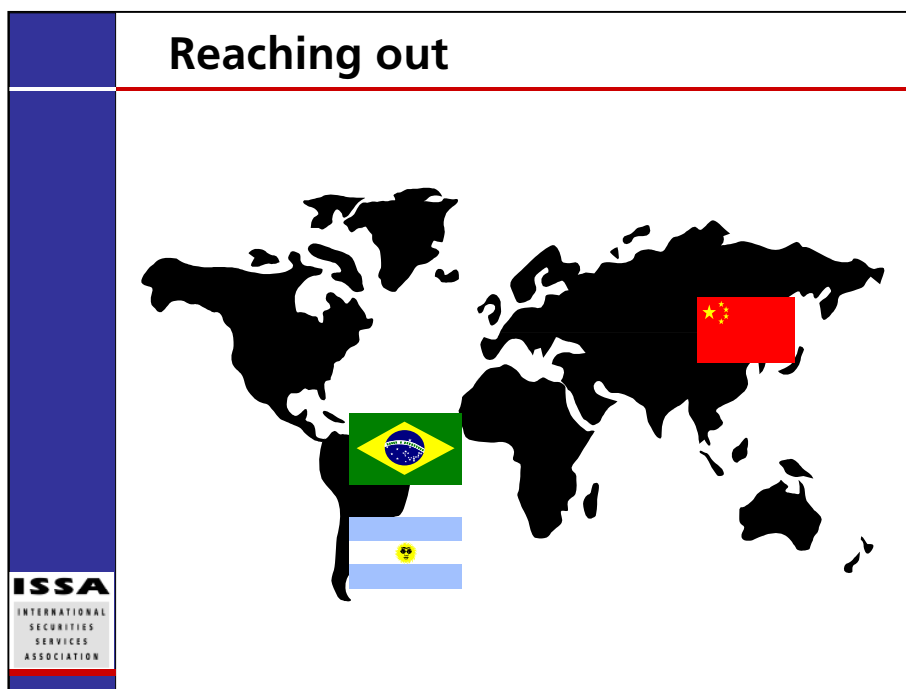
executive board. The remaining and permanent board members are the founding and sponsoring institutions of ISSA.

This organizational structure became effective as of January 1, 1999. It was the board's expectation that the regional forums would organize themselves as pro-active bodies, able to initiate regional initiatives, reinforce mutual contacts in the region and to elect their chairperson independently.

Practice, however, has shown that additional time is required to fulfil that expectation. Unforeseen changes in the regional board representation have further slowed down the process. We therefore decided that the next renewal of the regional board, for the period mid-2002 to mid-2004, would be facilitated by the current board. We will be approaching and proposing candidates who would then be subject to confirmation by the members of their respective region. This way, the ultimate decision still lies in the hands of the region and it is free to organize itself at a pace it sees appropriate.

### Recent Marketing Activity

ISSA's staff resources are limited and we prefer to keep our travel expenses limited. We have to admit that, compared to other organizations, ISSA's public profile has been rather low key in the past. However, we do engage in self-promotion at select occasions we consider especially worthwhile. I would like to brief you of two recent publicity efforts in our own cause.



You may have concluded from the pie chart I showed a moment ago, that ISSA is somewhat underrepresented in the Americas. This is not true for Canada and the USA where we have the major market forces on board, but Latin America is in fact a weak spot. We seized two recent opportunities to reinforce our ties to that region: Judy Smith, who chairs our Regional Forum for the Americas - she is here today - spoke on behalf of ISSA on risk controls in cross-border clearing, settlement and depository services at a special seminar held by

ACSDA in Buenos Aires last December. ACSDA is the American Central Securities Depositories Association. I doubled up in March with an address to the ACSDA General Assembly in Brazil, focussing on ISSA's past involvement with the Group of Thirty and leading all the way up to our current ISSA Recommendations project. Both events yielded valuable insights and contacts for both sides and we will follow up again in time for our New York ISSA meeting.

In the beginning of April, I accepted an invitation to deliver a key note address to the China Capital Markets Summit in Beijing. The overall conference topic was China's soon to be expected entry into the World Trade Organization, and recommended preparatory measures for its capital market. ISSA was asked to highlight issues of importance to foreign investors in the area of securities clearing, settlement and custody. Most of the country's broker and asset management companies were present. The conference was an ideal platform to raise awareness to our recommendations.

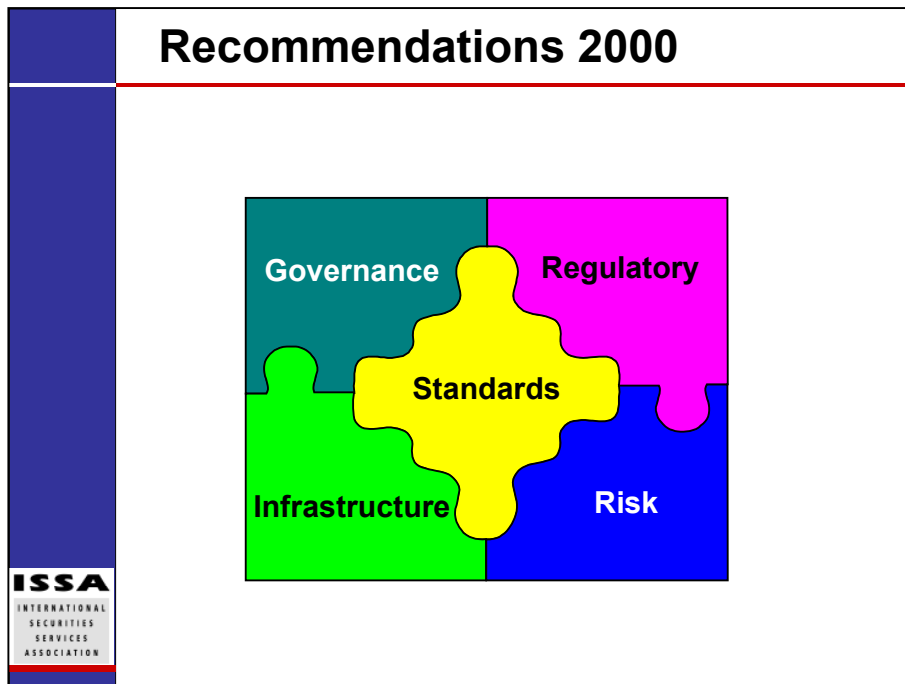
It was ISSA's first official appearance in China and I can report, without indulging in too much self-praise, that our presentation was followed with great interest by the delegates and even received prominent media coverage.

On my way to Beijing, I used the opportunity to establish personal contacts with the Shanghai Stock Exchange, and with the Shanghai Securities Central Clearing and Registration Corporation. The technical features in place in the Shanghai financial market are perhaps one of China's better kept secrets. They could easily stand up to comparison with any other market in the world.

Just coinciding with my visit, the formation of a new holding company embracing the SSCRC and its sister company in Shenzhen was announced. I understand that the two separate domestic securities markets have begun a process of harmonization and may eventually converge.

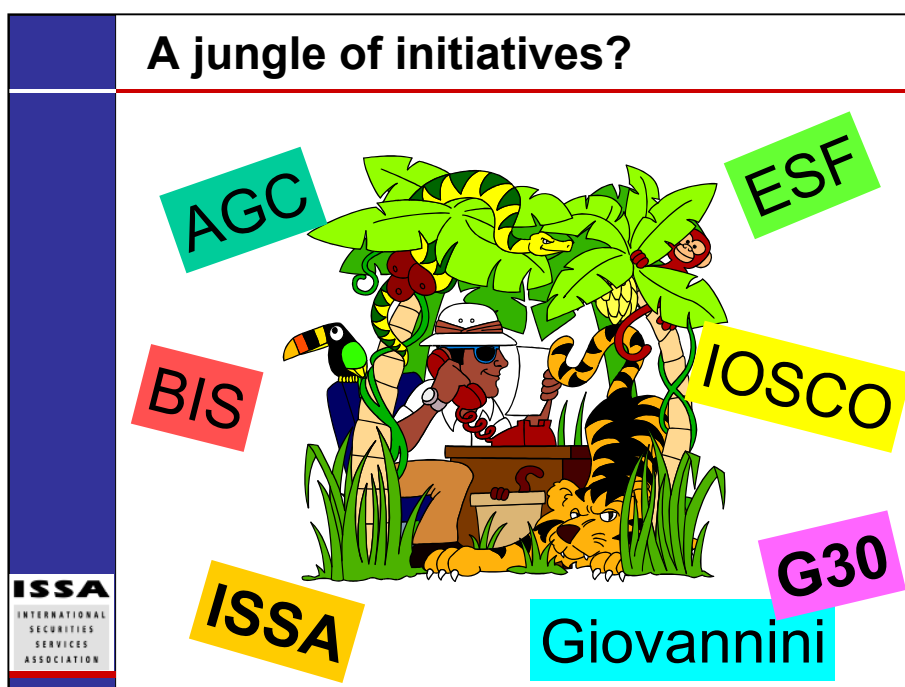
I am very happy that, despite the short notice, both the SSCRC and the new holding company, China Securities Depository and Clearing Corporation Limited, accepted my invitation to join us today. A special welcome therefore to Ms Jin and Mr Wang and their colleagues.

## ISSA Recommendations update



It is not my objective today to go through the ISSA Recommendations 2000 in detail. For those of you not familiar with them: they are a set of eight best practices recommendations covering five critical areas we believe the capital market operators worldwide must address jointly over the period of the next five to ten years. The five key areas are highlighted in this slide, the full documentation is available on our website or from our secretariat.

I would rather like to make a few remarks on where we stand today with our project, and how we see the recommendations in the light of a series of similar initiatives that are now keeping many of us busy.



The year 2001 seems to have become the “Great Year of Fact Finding Missions”. The securities markets in general, and the central depositories in particular, have been flooded with questionnaires recently. Besides ISSA, the joint BIS/IOSCO task force, the Association of Global Custodians, and Thomas Murray Consulting have launched global projects. My list may not be complete. In Europe, the European Securities Forum, the Giovannini Group and the European Competition Commission are also doing research by questionnaire on how the securities markets work, where they are headed and what kinds of cost and risk the market participants and end-investors incur. The Group of Thirty just announced a major review of clearing and settlement issues as well. All those requests are very time consuming to comply with.

How should we react?

First of all, we should acknowledge that those initiatives do not compete against each other but share a common goal, namely making markets safer, more transparent and more efficient. That in itself is laudable. It is the focus of each group that is different. ISSA and CPSS/IOSCO became aware of one another's initiative very early on in the drafting phase. The two secretariats shared and exchanged views on several occasions. The regulators tend to have the stability of entire financial systems in a macro-economic context on their minds. This is clearly a different perspective from ISSA's. ISSA is not a regulator. We have no backing or mandate from any regulatory body, not even a rule book which our own members are required to comply with.

The ISSA Recommendations project was initiated in 1999. I remember giving an outline of our project during the last regional meetings. The first phase was concluded with the finalization of the recommendations during last year's ISSA Symposium, with your help. The second phase consisted of their worldwide publication and the subsequent awareness campaign. We were present at SIBOS, in Global Custodian Magazine, at various conferences, and some of our members gave the recommendations valuable publicity through their own client newsletters. We believe that we have been successful so far.

A third and very crucial phase is now in progress. We asked all our members to prepare status reports for their respective local markets. We also set up a group of so-called validators, drawn mostly from among our global custodian bank members. Their task will be to review each market report from the perspective of an overseas investor. They are expected to add, highlight or clarify issues as necessary. By using this methodology, we want to ensure that aspects particularly relevant to cross-border investors are covered. This is not a policing exercise, but an attempt to create added value and enhance the usefulness of the reports. Each market, irrespective of its level of development, will be subject to such a review.

I would like to take this opportunity to ask our members in the audience for your continued support in compiling the market profiles. Thank you very much in advance. The full report will be a valuable addition to the ISSA Handbook. It is scheduled for publication in early 2002.

As I said, we are very much aware of a number of other lengthy questionnaires the industry is, or may soon be, burdened with. However, ISSA has had a long headstart. Moreover, ISSA has been involved heavily with the original G30 recommendations ever since 1988. Our board

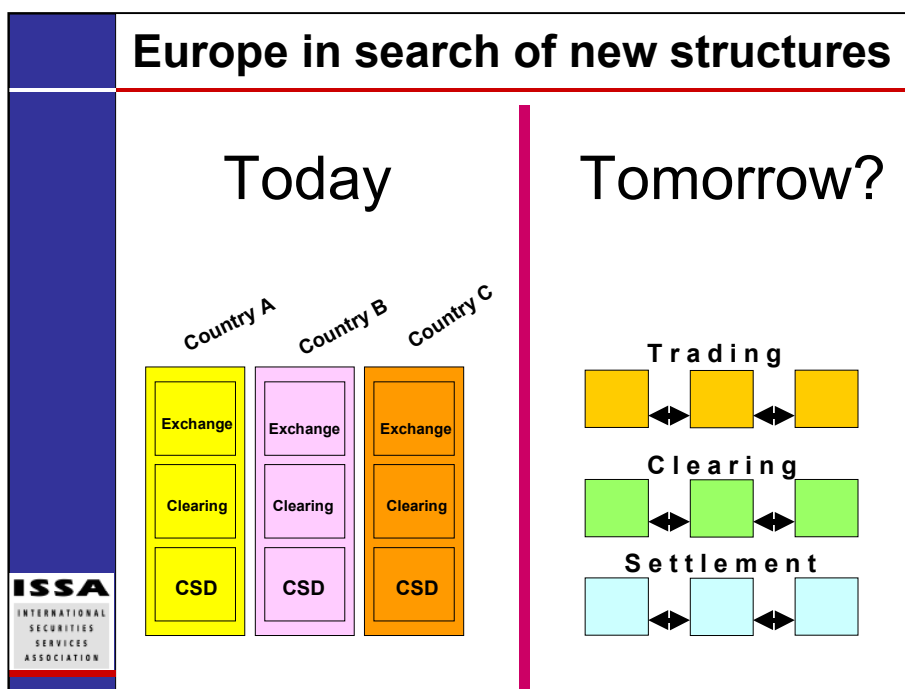
therefore feels that we are in a unique position to leverage our work to the advantage of ourselves, and ultimately to the advantage of the industry at large.

It is our intention to enter into an active dialogue with the new G30, and continue the one we already started with BIS/IOSCO. We want to prevent duplication of effort wherever possible. We also decided to make the validated market reports publicly available on our ISSA website even before the final document is ready. To relieve our members to some extent from having to answer the same questions repeatedly, we want to offer all interested parties a freely accessible, central repository for public market information. You will be informed in more detail as the first validated market profiles become available later this summer.

### A quick look at European developments

Having traveled to Hong Kong from Switzerland, and having mentioned the Americas and China, I believe it is appropriate to briefly touch on Europe as well. I would like to give you a quick assessment of current developments there.

Europe is right now in a phase of intense competition between two models of convergence. The United States' capital market went through a similar transition in the late eighties and nineties, and the Asia-Pacific region may be faced with the same issue in the near or mid-term future:



The first model is the one of vertical integration, where exchanges, clearing companies and the depository within one country merge and form one "processing silo". This approach generally appeals to the traditional exchanges realizing that trading alone does not generate sufficient revenue anymore to compete successfully with cheaper, internet based trading places. So they expand into some sort of "financial services group". A vertical silo provides the clearer and depository with captive business from the exchange that sits at its top. Many

market users feel, however, that an exchange should not dictate its users the settlement location. That should be left up to free competition.

The ongoing formation of a pan-European marketplace, with a common currency, has convinced most market players in Europe that nationally organized financial markets are becoming a thing of the past. National markets force internationally active market participants to spend significant amounts of money to maintain multiple infrastructures in each country. The European Securities Forum, a group of two dozen major investment banks doing business in Europe, are therefore promoting the model of horizontal integration. In this model, the national silos are replaced by a more open architecture along three functional levels: Trading, clearing, settlement and custody. Each market player can thus gain access to a pan-European service range through one single point of entry.

At this time, it is quite impossible to predict which model will prevail and by when. The formation of vertical national silos is in progress. It is possible that, as greater legal and process harmonization occurs in Europe, a number of national silos may combine into regional silos. That may be the end state. On the other hand, it may only be an interim step on the way to the second model. We might also see additional business models yet emerging.

One thing is certain: due to competitive pressures, Europe will have fewer operators of settlement systems in three to five years, but not necessarily fewer systems. The existing technology platforms will be kept until they reach the end of their useful life cycle. While they are aging, progress will hopefully be made in realizing standard interfaces between the different system platforms.

In this part of the world, a political union like the European Union is not in sight. However, similar developments on an operational level are beginning to emerge. You are certainly aware that the Asia Pacific Central Securities Depository Group is working actively on issues of international co-operation. Looking at securities and derivative exchanges, we have recently seen alliances across national borders, such as between Australia and Singapore. We also see consolidation within local markets. Last year's formation of our host, the Hong Kong Exchanges and Clearing group of companies is a case in point.

I would urge you to follow the developments in Europe carefully. By watching the European re-orientation from a safe distance, your region may be able to draw valuable conclusions for your own future.

## **Closing**

Ladies and gentlemen, it is time to hand over to our chairman of the day, Wal Reisch, to guide you through today's program. The outcome has not been pre-arranged. Today's success depends on your active participation. Please do join the discussions and do not hesitate to make your opinions heard. I am looking forward to an exciting day.

Wal, the microphone is yours!