



Most of you have been long enough in our business to know that ISSA was tightly involved with the old G30 recommendations of 1989, both in their creation, and in several monitoring and "driving-for-change" initiatives over the ten years that followed. It was therefore never a question of whether or not ISSA should support the new initiative, but only a question of how far we could go.

As you know, the new G30 recommendations were released at the end of January last year. G30 held a first public conference in London in May. ISSA participated and offered to assist the G30 initiative with taking monitoring responsibility for six of the twenty recommendations, namely

ISSA's proposal to G30

May 2003:

G30 Recommendation	Assignment to ISSA
1. Eliminate paper	NO - tbd
2. Messaging standards	YES
3. Reference data standards	YES
4. Synchronize timing between systems	NO - suggest BIS/IOSCO
5. Automate institutional trade matching	NO
6. Expand the use of central counterparties	YES
7. Securities lending and borrowing	YES
8. Asset servicing processes	YES
9. Financial integrity of service providers	NO - suggest BIS/IOSCO
10. Risk management practices of service users	NO - suggest BIS/IOSCO
11. Finality	NO - suggest BIS/IOSCO
12. Business continuity and disaster recovery	NO - tbd
13. Failure of systemically important institution	NO - tbd
14. Enforceability of contracts.	NO - suggest BIS/IOSCO
15. Legal certainty	NO - suggest BIS/IOSCO
16. Valuation and closeout netting	NO
17. Experienced and senior board members	NO
18. Fair access to clearing and settlement networks	YES
19. Equitable attention to stakeholders' interests	NO - suggest BIS/IOSCO
20. Consistent regulation of service providers	YES

- number 2 - messaging standards
- number 3 - reference data standards
- number 6 - use of central counterparties
- number 7 - securities lending and borrowing
- number 8 - asset servicing processes, namely corporate actions, tax issues and foreign ownership restrictions
- and number 18 - fair access to clearing and settlement networks.

In last year's European ISSA meeting in Madrid, our members felt that number 20 (on consistent regulation of service providers) should be addressed by ISSA as well. So we expanded our offer accordingly.

We also stated that ISSA would seek the help of specialist industry associations where it was required, logical or useful. And lastly, we said that, if other organizations stepped up and claimed a leading role for any of those seven recommendations for themselves, we would not stand in the way.

In anticipation of an expected mandate, the ISSA board then began to draft an action plan for an initial status survey, including what should be accomplished in order to declare a recommendation as met, and what methods or tools might be used to determine the gaps and the steps to close them.

It became obvious very quickly that simple yes/no questionnaires would be of little use this time around. Substantially more analytical work is required to cover all the features packed into each of the new recommendations. After all, the G30 report runs some 140 pages.

Just take one example for illustration: the old recommendation number 7 stated: "Rolling settlement should be adopted by all markets. Final settlement should occur on T+3 by 1992."

Not much effort was required to determine whether a market was in compliance or not!

By contrast, the new number 3 reads:

"Market participants should collectively identify, develop and adopt universal securities, counterparty and relevant generic reference data standards that fully meet the needs of all relevant users. Issuers, exchanges and other originators and distributors of data should make all relevant information available to the market, in compliance with these standards for a fair price and on a timely basis."


Well, can anybody tell me quickly and in less than twenty words what the degree of compliance is in Mexico, or in Australia, or in Switzerland? You get the feeling.

A very difficult aspect as far as monitoring efforts are concerned, is the fact that the new recommendations generally have no measurable targets. We suspect that market evaluations will involve a large degree of judgment calls in many cases.

A few weeks ago, the G30 office did in fact formally request ISSA's collaboration. ISSA is now requested to take the lead in monitoring *five* of the recommendations, they are shown here.

G30 assignment to ISSA

- 2. Messaging standards
- 3. Reference data standards
- 6. Expand the use of central counterparties
- 7. Securities lending and borrowing
- 8. Asset servicing processes




Recommendations 18 and 20 which we had also volunteered for, were assigned to G30's own internal Monitoring Committee. We have no issue with that.

We are also expected to involve and coordinate the work at hand with some other specialist industry bodies, such as SWIFT. We are happy with that, as we had foreseen to do this anyway and initial contacts had already been made with a number of organizations.

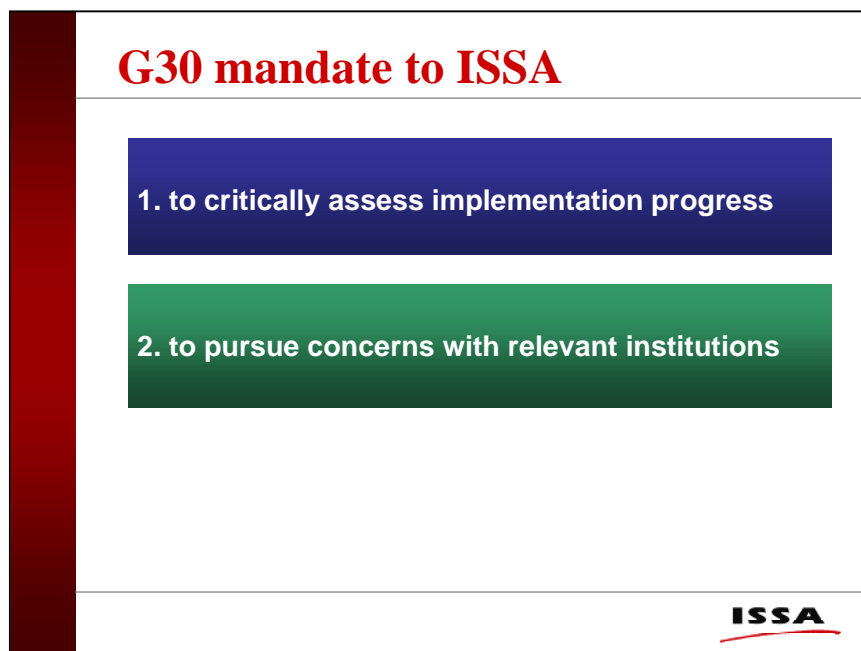
G30 described our mandate as a monitoring body as follows:

G30 mandate to ISSA

- 1. to critically assess implementation progress



First, to critically assess the adequacy of implementation measures in terms of their timeliness, their consistency with the spirit of the recommendations, and their consistency with initiatives being undertaken by other industry groups, or supervisory organizations, at national, regional or global level.



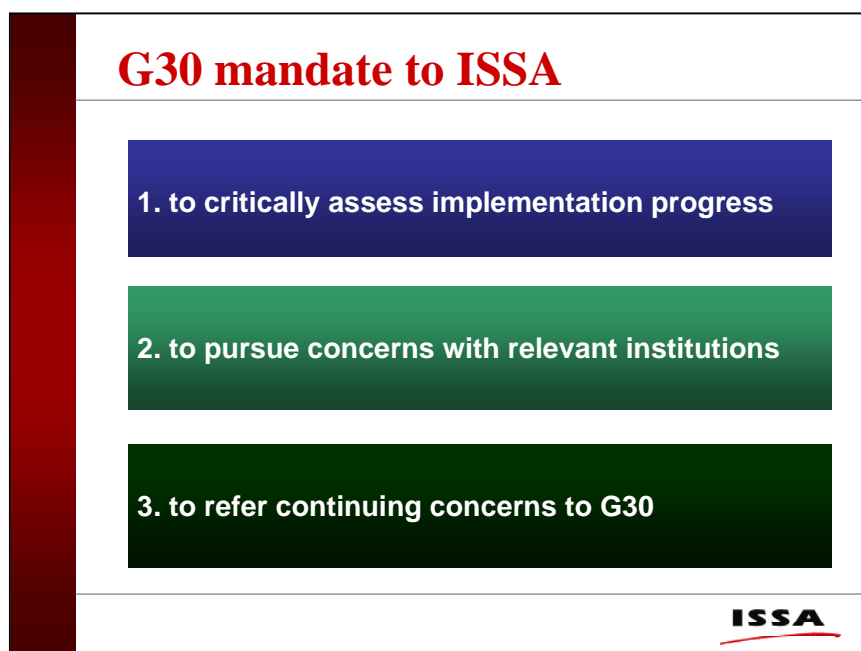
G30 mandate to ISSA

1. to critically assess implementation progress
2. to pursue concerns with relevant institutions

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Second, in case a monitoring organization has concerns about the pace or direction of implementation, it should take up those concerns directly with the relevant institutions or industry bodies.



G30 mandate to ISSA

1. to critically assess implementation progress
2. to pursue concerns with relevant institutions
3. to refer continuing concerns to G30

ISSA

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And third, matters of continuing concern should be brought before the high level G30 Monitoring Committee for further follow up.

In a nutshell I would now like to summarize how the *ISSA board* thinks our five recommendations should be addressed. We have not had detailed discussions with the relevant specialist organizations yet, nor with yourselves as the ultimate experts, so this is just a preliminary view:

G30 assignment to ISSA

- 2. Messaging standards
- 3. Reference data standards
- 6. Expand the use of central counterparties
- 7. Securities lending and borrowing
- 8. Asset servicing processes

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Number 2: ISSA will act as the sponsor as requested but, since this is essentially a recommendation about SWIFT standards, we plan to work in close cooperation with SWIFT and the national SWIFT Securities Market Practice Groups to collect the necessary data.

Discrepancies in the application of SWIFT standards could then be pointed out and brought before an ISSA/SWIFT working group. Where discrepancies are caused by market constraints, ISSA could try to achieve harmonization of business practices, thus paving the way for the ISO standard to be used in its pure form wherever possible.

Number 3: This recommendation attempts to cover an extremely broad and complex field. We suspect it may not be possible to ever declare it fully implemented in its present wording. We will definitely need to work with specialist groups and define priorities. Much could be gained already simply by establishing a clear picture on who is doing what today, where efforts are duplicated and where more effort is required to really address the key issues. But even that is a challenge in itself!

Number 6: Establishing whether or not a market has a central counterparty is the easy part. To add value, ISSA could perhaps try to describe a model CCP, and to establish a tool or checklist to assist new markets in their decision whether or not to build a CCP on their own.

I remember that, a few years ago, DTC compiled an excellent reference guide for emerging markets, to help them setting up a clearing house. Something similar could be considered, but this needs to be checked with the central counterparty and clearing house associations for feasibility. Also, we do not want to duplicate work that might already exist.

The Association of European Clearing Houses expressed its basic willingness to assist with work related to Recommendation 6 in the European markets. Obviously, the new standards for central counterparties, released by CPSS-IOSCO only recently, may have to be tied into the work.

Number 7: Beyond simply listing the markets that do, or do not, allow securities lending and borrowing to avoid settlement fails, we believe that a monitoring survey should seize the opportunity to create a better understanding of the securities lending and borrowing procedures where they exist, where the remaining obstacles are and how they could be overcome.

Two of the three international securities lending associations have already agreed in principle to cooperate, and we are confident that we will also get the US based Risk Management Association on board.

Lastly, **number 8:** This recommendation covers three distinct sub topics: corporate actions, tax relief arrangements, and foreign ownership restrictions. All three are of core interest to the ISSA membership.

We propose to set up separate working groups.

In all areas, extensive information already exists. The first task will be to gain an overview of who is doing what, in order to then define and address the priority issues in a coherent fashion across the existing initiatives.

This is where we stand. Once an action plan is laid out in more detail, we will need the support and local expertise of our members to add the flesh to the bones.

We do have some questions for the Group of Thirty as well, perhaps there will be more clarity after the symposium, or hopefully after the next G30 meeting, which will take place on July 19 in Amsterdam.

In our preliminary work, we wondered for instance about the following:

- What is the nature and extent of concrete activity envisaged by G30's own Monitoring Committee? Is there any at all in the fact finding phase of the project? Although a description has been issued, we are still not very clear on whether it intends to take on a more proactive global project management role, which we would very much welcome. It should be remembered that, before progress of something can be monitored, a status quo needs to be established. And this is not an easy exercise.
- The expected rating methodology, if any is foreseen. As I mentioned, it will be largely impossible in most cases to measure compliance against a clear-cut yardstick. So when is a recommendation met fully, or largely, or to some extent?
- The tasks ahead promise to be massive and complex. Does the G30 have a view on an order of priority for tackling the 20 recommendations?

Another important issue for ISSA remains: When we first announced our support, we also said that ISSA would no longer follow up on some of our own Recommendations 2000.

A fresh update on those was planned for launch last year, but we had kept it on hold precisely because the new G30 recommendations were imminent, and the speed and direction of that initiative was not yet known.

Meanwhile, discussions on this issue have continued, up to the latest board meeting which was held yesterday afternoon.

ISSA Recommendations 2000

1. Governance
2. Technology - core processing
3. Messaging and standards
4. Market practices
5. Settlement risk
6. Market linkages
7. Investor protection
8. Legal infrastructure

■ within G30 context ■ follow-up separately

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We came to the conclusion that the recommendations shown in the dark boxes are fully mirrored in the new G30 recommendations, and we propose to our members to cede follow-up work on those to the organizations taking care of the G30 recommendations - which of course includes ourselves! And therefore, many aspects highlighted in the ISSA recommendations will flow back into our remit, just under the G30 label.

This step was not taken lightly. The board knows and appreciates that many ISSA members have spent considerable time and energy on the promotion of the ISSA Recommendations 2000, and on the first compliance survey back in 2001. That work of course is not lost. By the way, the market profiles compiled in that survey, are still among the most frequently visited sections of our website.

However, the ISSA board considers it an absolute industry priority to reduce, or collapse, the too many sets of best practice recommendations and standards that are around, down to a manageable number with coherent contents. Remember the slide I showed yesterday with the proliferation of standards banks must cope with in other areas?

Your opinions on these thoughts would be appreciated and we will touch on this issue again in tomorrow's general assembly session.

The G30 Goals

Where we are:	Where we want to be:
<ul style="list-style-type: none"> Inflated costs Significant operational risk Significant investor risk Manual handling Segmented markets Disparity in regulations Unequal access to markets Inconsistent regulatory oversight 	<ul style="list-style-type: none"> Lower cost Reduced operational risk Reduced investor risk STP Fully interoperable markets Harmonized regulations Fair market access Uniform, consistent oversight of market participants

Source: "G30 Leadership Goals & Key Priorities" (JPMorgan)



The new G30 recommendations, as complex as they are, deserve to be taken seriously. They create a framework that will enable the automation of the securities transaction life cycle. They will result in stronger governance of the vital infrastructure components, and they will strengthen the capital market infrastructure. All of this results in overall risk reduction. Both direct market participants and end-investors will profit from the improvements.

ISSA is committed to contribute to their success.