

# ISSA Regional Meeting Europe

## 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 Paris June 22, 2001" in yellow. To the right of this box is a small image of a highway at night with light trails. Below the highway image is the text "www.issanet.org" in red. On the left side of the slide, there is a vertical blue bar with the ISSA logo at the bottom, which includes the text "ISSA INTERNATIONAL SECURITIES SERVICES ASSOCIATION".

Ladies and Gentlemen, dear Colleagues

On behalf of ISSA, welcome to this year's meeting in the European region. This is the second in a series of three events we set up for our members and guests this year. Our Asian colleagues met in Hong Kong in early May. Their focus was on various STP initiatives and the need for all market users to step up cooperation in order to reap full benefits. The meeting for the American region will be held in September in New York. The core topic there will most likely be on T+1 and related issues. Our focus today will be the future shape of "Financial Market Europe".

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 Paul Kleinbart for having shared his views on the current state of our industry in a more humouristic way.

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 Jacques-Philippe Marson for having agreed to host today's meeting, and to act as Chairman of the Day.

Thanks must also go to Guy Ogier at BNP Securities Services and his team for having 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!

	<h2>Agenda</h2>
	<ul style="list-style-type: none"><li>◆ Introduction to ISSA</li><li>◆ Participation at key events</li><li>◆ Update: Recommendations 2000</li><li>◆ Europe in search of new structures</li></ul>

I will address the following points in the next few minutes:

- 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 more attention.
- 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 I would like to finish with just a few personal remarks on the European landscape and our way forward.

## 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

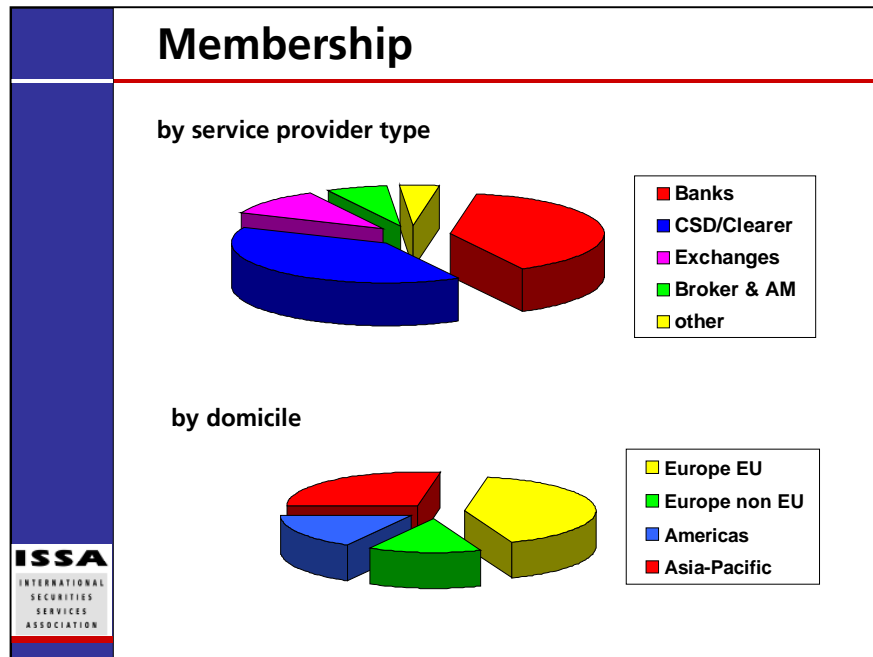


ISSA was founded in 1979 and is incorporated in Switzerland. We are a private association of banks, clearing organizations, central depositories, stock exchanges, brokers, asset managers and similar institutions. Unlike other trade bodies, our members do not represent one industry sector only. It was 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.

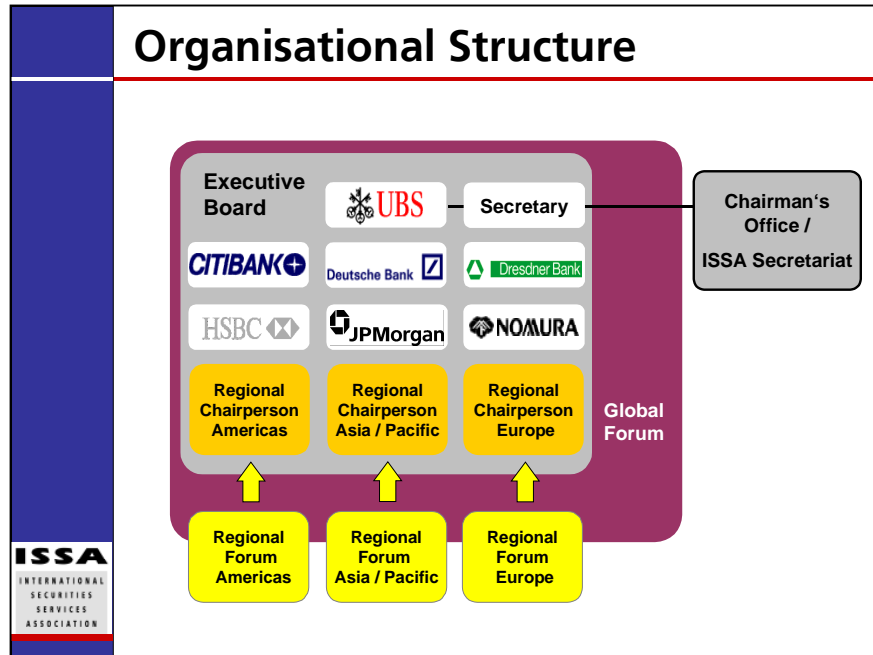
Our members, as diverse as their backgrounds may be, share the idea of promoting progress in the securities services industry. Our common interest is the improvement of infrastructures that are supporting our domestic and international capital markets. Efficient securities clearing and settlement mechanisms 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, 53 of our member firms are domiciled in the European Region.



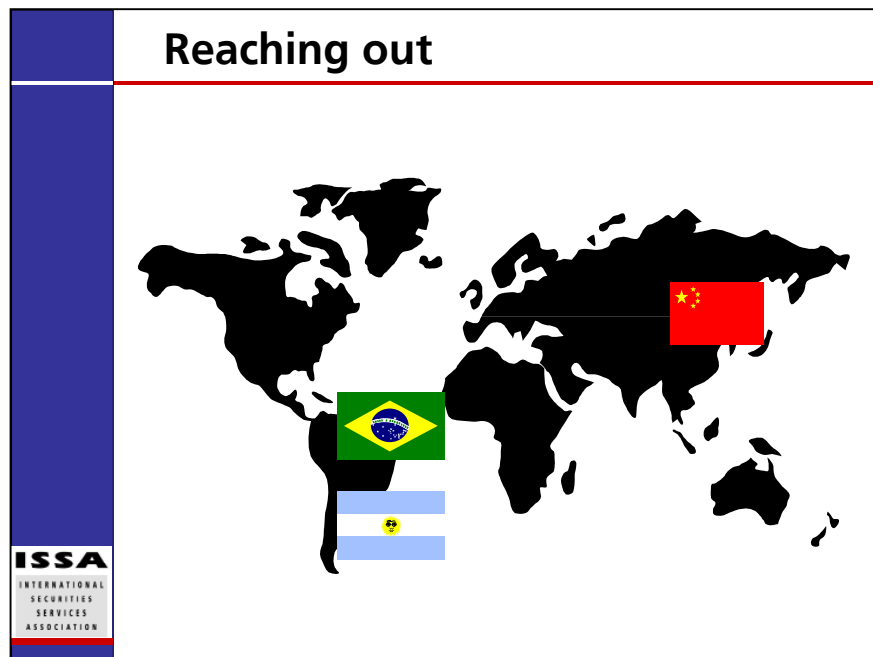
Our membership is divided into three regional forums. Each forum is headed, normally for a two year term, by a chairman (or chairwoman) who represents his or her region in the executive board. The remaining and permanent board members represent ISSA's founding and sponsoring members.

This organizational structure became effective in 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. 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

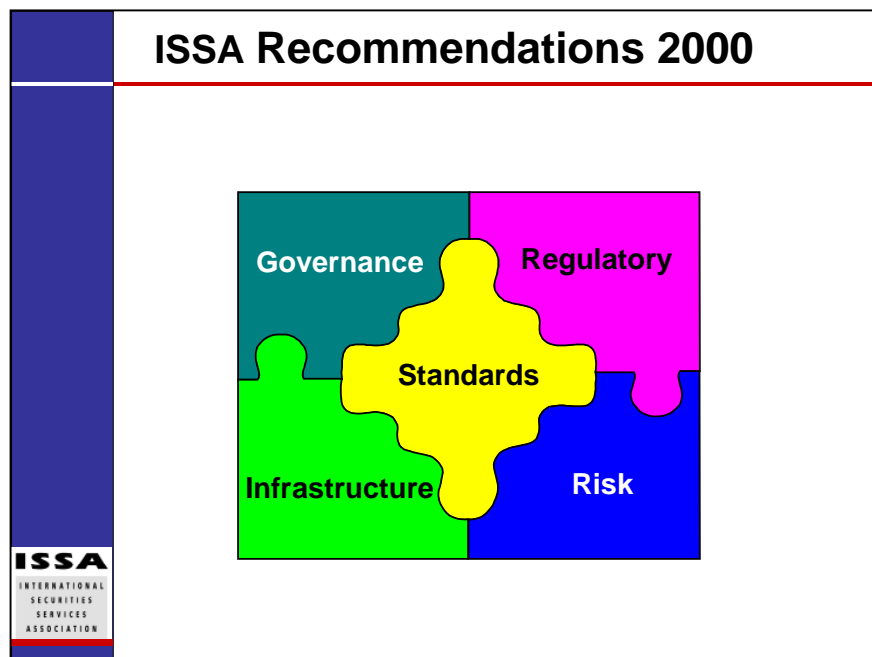
leading all the way up to our current ISSA Recommendations project. Both events yielded valuable insights and contacts for both sides and we will follow up again in time for our New York ISSA meeting.

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.

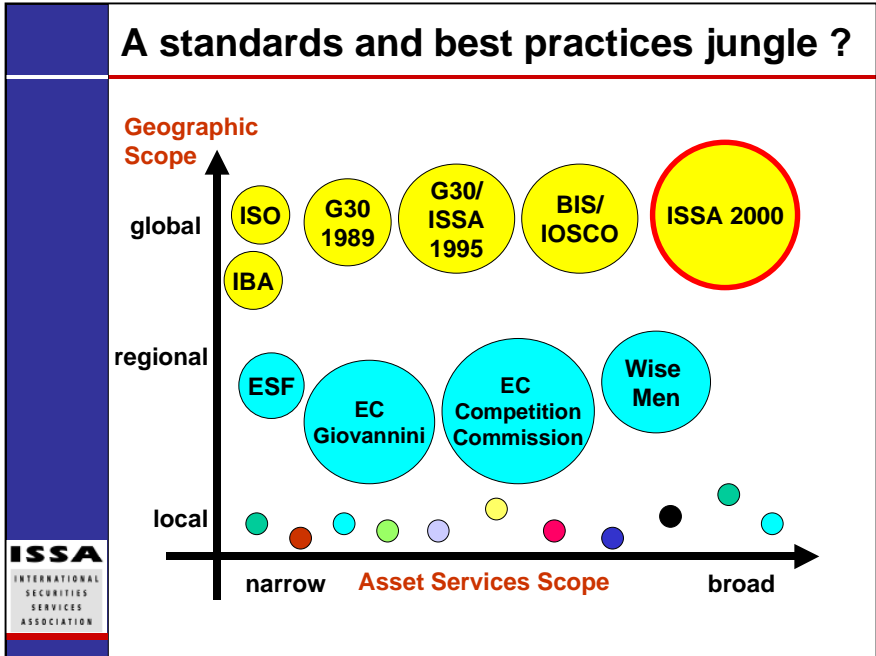
On my way to Beijing, I used the opportunity to establish contacts with the Shanghai Stock Exchange, and with the Shanghai Securities Central Clearing and Registration Corporation. The technical features in place in the Shanghai financial market are perhaps one of China's better kept secrets. They could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

### ISSA Recommendations update



It is not my objective today to go through the ISSA Recommendations 2000 in detail. 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.

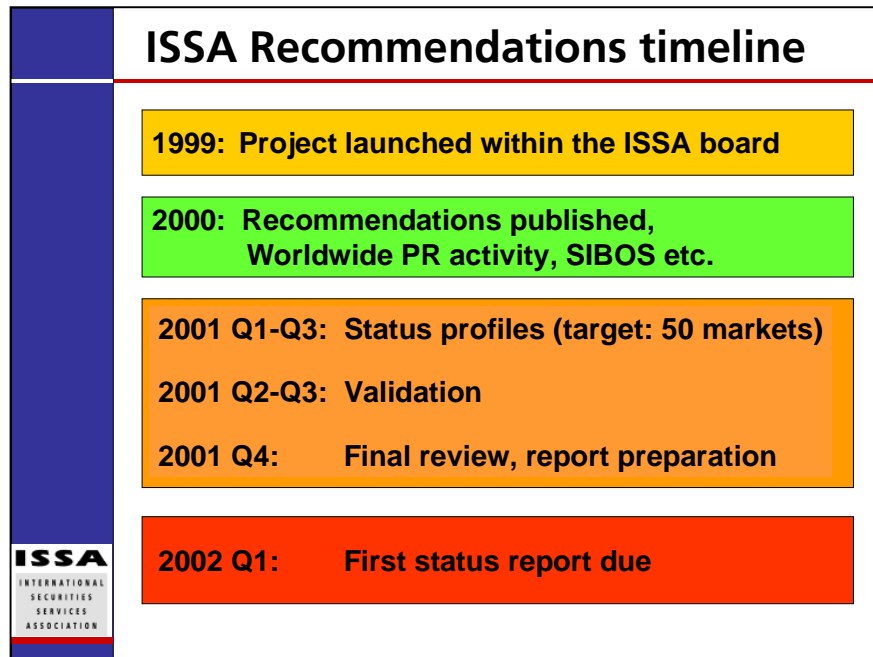
I would rather like to make a few remarks on where we stand today with our project, and how we see the recommendations in the light of a series of similar initiatives that are now keeping many of us busy.



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. The International Bar Association is another body whose recommendations blend with those of ISSA. 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 is in the midst of a major new 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. For instance, 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 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 and other magazines and in various conferences around the world. Looking ahead, the CSD6 conference in Sydney and the SIBOS event in Singapore feature panel sessions to which I have been invited and where I will be able to present certain aspects of our work. Last but by no means least, several of our members gave the recommendations valuable publicity through their own client newsletters. All in all, we believe that we have been very successful so far and that ISSA's status as a recognised industry body has profited. Our belief is underscored by the fact that the Group of Thirty has included the ISSA Recommendations in their inventory of important building blocks to be used in their current market analysis. Moreover, ISSA board members are directly involved in two of the three working groups set up by the new G30. We will thus be able to leverage our work to the advantage of ourselves, but ultimately to the advantage of the industry at large.

A third and very crucial phase is now in progress. All our members were asked to prepare status reports for their respective local markets. A first batch have been completed. We also set up a group of so-called validators, drawn mostly from among our global custodian bank members. Their task is to review each market report from the perspective of an overseas investor. By using this methodology, we want to ensure that aspects particularly relevant to cross-border investors are not neglected. This is not a policing exercise, but an attempt to create added value and enhance the usefulness of the result. Each market, irrespective of its level of development, will be subject to such a review. The validators will also draw up a schedule of the top two or three risks items that concern them in each market. This will provide a further sounding board for the key priorities of the market place. The results of that poll will be included in the ISSA work.

The final document is scheduled for publication in early 2002, although the individual market profiles will be made available on our website as soon as the validation phase is completed. The documents will be freely accessible, in line with ISSA's general policy of open communications.

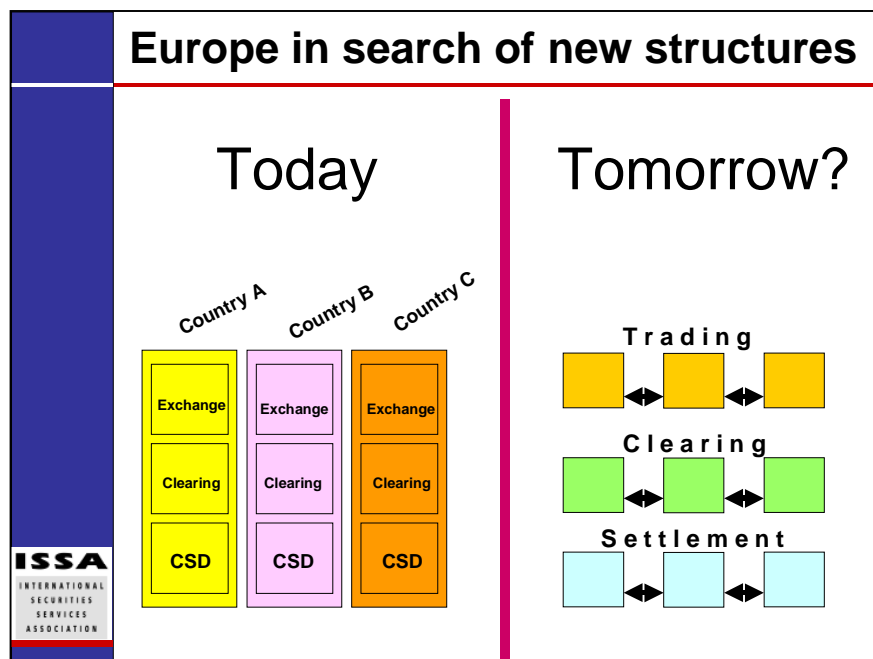
I would like to take this opportunity to ask our members in the audience for your continued support in supplying the local market profiles. Thank you very much in advance. Our final report will be a major accomplishment, because many interest groups have released best practice recommendations but few are prepared to actually follow up with user driven analyses of the markets' performance against those recommendations.

### **ISSA Corporate Actions Work**

While comparing other recent best practices initiatives we found that everyone's eyes are currently focussing on clearing and settlement. The whole area of subsequent asset servicing tends to get neglected. However, most custodians would agree that the area of greatest risk nowadays is not in settlements, but in corporate actions. Old ISSA hands in the audience will remember that, back in 1992, an ISSA working group made proposals to the industry for standards, risk reduction and greater efficiency in corporate actions processing, and for facilitated exercise of voting rights for cross-border investors. No ISSA publication to date has ever generated a higher degree of attention with data vendors and standards bodies and a number of national study groups convened in its wake. However, truly significant progress on a global basis has not been achieved yet. We addressed some desirable standards in Recommendation 4.

In yesterday's board meeting, this topic was revisited again. We decided that ISSA should once again consider a focussed effort and contribution to the industry, by developing some sort of a global "requirements check list" targeted at investment banks and issuers. The list would specify the minimum requirements in terms of information content, notification and reply time allowance etc., required by custodians to process corporate actions in an orderly fashion. The precise course of action and time frame will be defined over the coming weeks.

## A quick look at European developments



It is time to move to the essence of today's conference, the changing face of the market place Europe and the role we can play in actively shaping it. We now see the beginning of converging business processes on one hand, and a geographic expansion on the other. I do not intend to discuss the pros and cons of horizontal versus vertical market integration, or other business models here. I just note that the horizontal model is the one being lobbied for, whereas vertical convergence has actually begun to happen. The European securities market infrastructure right now stands at a crossroads and the end of the road in either direction is not yet in sight. Our own members are deeply divided over which turn to take. 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.

A this point, let me just make one appeal to the CSDs and exchanges directly, but also to the commercial and investment bank executives who sit on their boards: We must jointly implement a solution for Europe that is in the best long term interest of the industry overall, even if that may not be in the best short term interest of a particular market player. It is our hope that this afternoon's group discussions may make a contribution to a deeper mutual understanding of the issues involved. The more technical questions are in good hands with industry bodies like the GSTPA, ISITC and others. But we firmly believe that ISSA has a role in providing a forum to explore the more strategic issues that are affecting all our daily business lives.

## Closing

Ladies and gentlemen, I now hand over to our chairman of the day, Jacques-Philippe Marson, 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.