

## ANNEX B

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### GROUP OF THIRTY AND INTERNATIONAL SECURITIES SERVICES ASSOCIATION RECOMMENDATIONS

#### **A. Original Group of Thirty Recommendations (revised by International Securities Services Association)**

The Group of Thirty (G30) is a private sector group concerned with the workings of the international financial system. To address problems, G30 formed a committee of members of the banking and brokerage industries, stock exchanges, and clearing organizations. The objective was to create the impetus for change. In 1989 they published a list of nine recommendations in their report *Clearance and Settlement Systems in the World's Securities Markets*.

The International Securities Services Association (ISSA) was formed in 1979 by a group of international banks involved in the securities industry with four principal objectives:

- (i) to promote progress in securities administration;
- (ii) to contribute to a common language among securities administrators and to open communication channels among them;
- (iii) to develop personal contacts among securities administrators;
- (iv) to enlarge the professional knowledge of securities administrators.

The following G30 recommendations, as updated by the ISSA, have formed a standard by which the settlement systems of countries are judged internationally.

**Recommendation I.** All comparisons of trades between direct market participants (i.e. brokers, brokers/dealers, and other exchange members) should be accomplished by T+0 (on the trading day). Matched trade details should be linked to the settlement system.

**Recommendation II.** Indirect market participants (such as institutional investors and other indirect trading counterparties) should achieve positive affirmation of trade details on T+1 (one working day after the trading day).

**Recommendation III.** Each country should have in place an effective and fully developed central securities depository, organized and managed to encourage the broadest possible direct and indirect industry participation. The range of depository-eligible instruments should be as wide as possible. Immobilization or dematerialization of financial instruments should be achieved to the utmost extent possible. If several central securities depositories exist in the same market, they should operate under compatible rules and practices with the aim of reducing settlement risk and enabling efficient use of funds and available cross-collateral.

**Recommendation IV.** Each market it is encouraged to reduce settlement risk by introducing either real-time gross settlement or a trade netting system that fully meets the Lamfaluss recommendations.

**Recommendation V.** Delivery versus payment (DvP) should be employed as the method of settling all securities transactions. DvP is defined as (a) simultaneous, (b) final, (c) irrevocable, and (d) immediately available exchange of securities and cash on a continuous basis throughout the day.

**Recommendation VI.** Payments associated with the settlement of securities transactions and the servicing of securities portfolios should be made consistent across all instruments and markets by adopting the "same day" funds convention.

**Recommendation VII.** A rolling settlement system should be adopted by all markets. Final settlement for all trades should occur no later than T+3.

**Recommendation VIII.** Securities lending and borrowing should be encouraged as a method of expediting the settlement of securities transactions. Existing regulatory and taxation barriers that inhibit the practice of lending and borrowing securities should be removed.

**Recommendation IX.** Each country should adopt the standard for securities messages developed by the International Organization for Standardisation (ISO Standard 7775). In particular, countries should adopt the International Securities Identification Number system for securities issues as defined in the ISO Standard 6166.

## **B. The new Group of Thirty recommendations: *Global Clearing and Settlement—A plan of action*<sup>24</sup>**

### **The 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 stakeholder interests.
20. Encourage consistent regulation and oversight of securities clearing and settlement service providers.

<sup>24</sup> See Annex A to Section 4 of the G30 *Global Clearing and Settlement—A Plan of Action*.

The new G30 recommendations were released in January 2003. They devised a three-pronged strategy including:

- i. technical and business practice standards intended to strengthen connections across borders and systems;
- ii. stronger risk management including the stronger legal guarantees necessary to provide a solid legal basis for clearing and settlement;
- iii. improved governance by private boards supported by official supervision and fair and open access to systems.

Some recommendations call for the creation of specific standards and others call for application of higher standards. A 5–7 year time horizon is proposed; meeting this schedule will require a prompt start on implementation by those responsible for initiating actions in each area. Initial goals are specified in each recommendation so that the locus of first actions should be clear to both the private and public sector.

G30 also announced its plan for monitoring and promoting implementation of the recommendations as well. G30's monitoring committee expressed appreciation that ISSA, Society for Worldwide Interbank Financial Telecommunication (SWIFT) and the United States Securities Industry Associations are willing to be part of this effort.

### **International Securities Services Association's Reaction**

ISSA assisted G30 recommendations by assuming a monitoring responsibility for 6 of the G30 20 recommendations, namely:

**Recommendation 2.** Harmonize messaging standards and communication protocols;

**Recommendation 3.** Develop and implement reference data standards;

**Recommendation 6.** Expand the use of central counterparties;

**Recommendation 7.** Permit securities lending and borrowing to expedite settlement;

**Recommendation 8.** Automate and standardize asset servicing processes, including corporate actions, tax relief arrangements, and restrictions on foreign ownership;

**Recommendation 18.** Promote fair access to securities clearing and settlement networks.

In December 2003, ISSA's European members suggested in the European Assembly in Madrid that recommendation 20 (encourage consistent regulation and oversight of securities clearing and settlement service providers) should be promoted as well. ISSA is also expected to coordinate subsequent work by involving other specialist organizations such as SWIFT.

G30 describes ISSA's mandate as a monitoring body as follows.

**First:** ISSA should 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 undertaken by other industry groups or supervisory organizations, at the national, regional or global level.

**Second:** If 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.

**Third:** Matters of continuing concern should be brought before the high-level G30 monitoring committee for further follow-up.

In June 2004 at its general meeting in Walsburg, Switzerland, ISSA summarized how the five recommendations (No.2, 3, 6, 7, and 8) should be addressed. They have not made detailed discussions with relevant specialist organizations nor with experts yet. Their preliminary views are the following.

**Recommendation 2:** ISSA will act as sponsor as requested, but since this is essentially a recommendation about SWIFT standards, ISSA plans 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.

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

**Recommendation 6:** Establishing whether or not a market has a central counterparty (CCP) is the easy part. To add value, ISSA could perhaps try to describe a model CCP and establish a tool or checklist to assist new markets with their decisions whether or not to build a CCP on their own. A few years ago, the United States' Depository Trust and Clearing Company 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, ISSA does 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 the Committee on Payment and Settlement Systems of the International Organization of Securities Commissions only recently may have to be tied into the work.

**Recommendation 7:** Beyond simply listing the markets that do or do not allow securities lending and borrowing to avoid settlement failures, ISSA believes 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 ISSA is confident that it will also get the US-based Risk Management Association on board.

**Recommendation 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.

Many market intermediaries in ASEAN+3, such as financial institutions and securities houses, participate in ISSA activities as member institutions. However, the activities of ISSA, especially those in Asia, might have been limited mostly to those of stock transactions. Apparently very little discussion has been made on bond transactions in Asia. Also, market participants and intermediaries in Singapore, Hong Kong, and Tokyo told us that current settlement systems in Asia are still far from implementing these recommendations.