

**CLEARANCE AND SETTLEMENT
IN THE MARKETS OF THE MEMBERS OF THE
TECHNICAL COMMITTEE**



**AN UP-TO-DATE REPORT ON THE IMPLEMENTATION OF THE GROUP OF THIRTY
RECOMMENDATIONS**

IOSCO General Secretariat
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INTRODUCTION

At the February 9 and 10, 1993 Trinidad meeting of the Technical Committee it was decided that the General Secretariat should prepare an up-to-date report indicating where the markets represented in the Technical Committee presently stand on the Group of Thirty (G30) recommendations on clearance and settlement.

A substantial status report on clearance and settlement systems was produced by the G30 at the end of the Autumn of 1992. This status report on the implementation of the G30 recommendations included data on all the countries of the members of the Technical Committee.

In May 1993 the General Secretariat prepared a first report on the implementation of the G30 recommendations in the countries of the Technical Committee members. This first implementation report presented the data collected in 1992 by the G30 for the countries of the Technical Committee members. This data was completed by the subsequent information provided by the members of the Technical Committee themselves.

This second implementation report, prepared by the General Secretariat, presents the additional information provided by the members of the Technical Committee during the Summer of 1994.

Section 1 contains the nine G30 recommendations on clearance and settlement systems.

Section 2 presents a summary table on the implementation of the G30 recommendations in all the countries of the Technical Committee members. This short form table was prepared, on the basis of the detailed data contained in Sections 3 to 16, to provide at a quick glance global information on a comparative basis. This comparative table was reviewed by the members of the Technical Committee.

SECTION 1

**Group of Thirty
Clearance and Settlement**

Recommendations

1. By 1990 all comparisons of trades between direct market participants (that is, brokers, broker/dealers, and other exchange members) should be accomplished by T + 1.
2. By 1992 indirect market participants (such as institutional investors or any trading counterparties that are not broker/dealers) should be members of a trade comparison system that achieves positive affirmation of trade details.
3. Each country should have an effective and fully developed central securities depository, organized and managed to encourage the broadest possible industry participation (directly and indirectly), in place by 1992.
4. Each country should study its market volumes and participation to determine whether a trade netting system would be beneficial in terms of reducing risk and promoting efficiency. If a netting system would be appropriate, it should be implemented by 1992.
5. Delivery versus payment (DVP) should be employed as the method for settling all securities transactions. A DVP system should be in place by 1992.
6. 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 conventions.
7. A "rolling settlement" system should be adopted by all markets. Final settlement should occur on T + 3 by 1992. As an interim target, final settlement should occur on T + 5 by 1990 at the latest, except where it hinders the achievement of T + 3 by 1992.
8. 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 securities should be removed by 1990.
9. Each country should adopt the standard for securities messages developed by the International Organization of Standardization (ISO Standard 7775). In particular, countries should adopt the ISIN numbering system for securities issues as defined in the ISO Standard 6166, at least for cross-border transactions. These standards should be universally applied by 1992.

SECTION 2

**Comparative Summary Table on the Present Implementation of
G30 Recommendations on Clearance and Settlement in all
the Countries of the Members of the Technical Committee¹**

COUNTRIES	GROUP OF THIRTY RECOMMENDATIONS ON CLEARANCE AND SETTLEMENT								
	1	2	3	4	5	6	7	8	9
Australia	Yes	No	No	Yes	No	No	No	Yes	P
Canada	Yes	Yes	Yes	Yes	Yes	No	P	Yes	P
France	Yes	Yes	Yes	Yes	Yes	Yes	Yes	P	Yes
Germany	Yes	No	Yes	No	Yes	Yes	Yes	Yes	P
Hong Kong	Yes	No	Yes	Yes	Yes	No	Yes	Yes	No
Italy	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No
Japan	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	P
Mexico	Yes	No	Yes	Yes	Yes	Yes	Yes	P	No
Netherlands (The)	Yes	No	Yes	Yes	Yes	Yes	No	Yes	P
Spain	Yes	Yes	Yes	No	Yes	Yes	P	Yes	Yes
Sweden	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	P
Switzerland	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
United Kingdom	Yes	P	P	No	P	Yes	P	Yes	Yes
United States	Yes	Yes	Yes	Yes	Yes	No	No	Yes	No

Yes = The G30 recommendation has been implemented.

No = The G30 recommendation has not presently been implemented.

P = The G30 recommendation has, at the present time, only been partially implemented.

The data contained in the Summary Table should be interpreted in light of the detailed notes contained in Sections 3 to 16 of this report.

SECTION 3

AUSTRALIA

Australian Securities Commission

Has not yet responded to the 1994 consultation.

SECTION 4

CANADA

Ontario Securities Commission

Recommendation No. 1

Target Date: 1990
Status: Completed
Comment: Accomplished for majority of trades.

Recommendation No. 2

Target Date: 1992
Status: Completed
Comment: - Uniform Settlement Rule approved by SROs for implementation in 1992.
- T + 3 changes in progress.

Recommendation No. 3

Target Date: 1992
Status: Completed
Comment: Review of national network linkages underway.

Recommendation No. 4

Target Date: 1992
Status: Completed
Comment: In place where appropriate.

Recommendation No. 5

Target Date: 1992
Status: Completed
Comment: - DVP exists in Canada.
- Same day finality of payment not yet in place.

Recommendation No. 6

Target Date: No date
Status: 1995

Comment: A large value transaction system (LVTS) which will address issues of certainty, finality, and default, is under development.

Recommendation No. 7

Target Date: T + 5: 1990

T + 3: 1992

Status: T + 5: Completed

T + 3: 1995

Comment:

- T + 3 settlement is viewed to be the result of the eight critical path projects.
- All activities are in progress and equity clearing systems are in development (Implementation - 1995/96).
- Debt Clearing System implemented.
- Requirement to synchronize date with the United States (June 1995).

Recommendation No. 8

Target Date: 1990

Status: Completed

Comment: Few changes are planned in this area as the market is active and well structured.

Recommendation No. 9

Target Date: 1992

Status: Adoption time frame dependent on market and competitive pressure.

Comment:

- Adoption of standards will be gradual.
- ISIN is now in use for certain non-North American issues. Use of ISO standards is being encouraged through the G30 Working Committee's education and communication efforts (represented at Association of National Numbering Agencies by CDS).
- Actively participating in Securities Standards Advisory Board (Trade Confirmation/Settlement Messages).

SECTION 5

FRANCE

Commission des opérations de bourse

STATUS REPORT FOR FRANCE

I. Developments Until 1994

In order to process higher trade volumes swiftly and cost-effectively, the Paris authorities began dematerializing securities in 1984 and, by 1988, had completed the process. The present system is built on book entry transfers through a central depository, SICOVAM (Société Interprofessionnelle pour la Compensation des Valeurs Mobilières). Only duly approved participants may open securities accounts with SICOVAM, which records all transactions between participants as well as all outstanding securities in each issue.

In a second stage, a new clearance and settlement system, called "Relit" was introduced, based on a delivery versus payment (DVP) and standard settlement procedures. Relit is designed to enhance market safety and ensure that settlement operations have no adverse impact on participants' cash and securities positions. It has helped to cut costs and raise productivity, both in the market generally and at the level of each participant.

SICOVAM plays two important roles: it manages the system through which transactions are cleared, and acts as a central depository. Nowadays, all transactions in securities are cleared and settled in France through RELIT, the automated DVP system operated by SICOVAM.

The system's first basic principle is simultaneous payment and delivery. Settlement is made between buyers and sellers on the same business day through an exchange of cash for securities. Relit's second basic rule is compliance with the standard time-frames for settlement established by the market authorities. These time-frames are compatible with practices on major foreign markets.

Both conditions are in keeping with the recommendations of the Group of Thirty.

RELIT processes two sub-systems: "Dénouement" for on-market trading and "SLAB" for off-market block transactions carried out by securities professionals.

The first one handles transactions on the central market. Transactions in equities are matched at T or T + 1 and settled at T + 3 or three days after the transactions days. Securities transactions on the monthly settlement market (RM, règlement mensuel) are matched continuously and settled five days after the expiring date of the monthly settlement period.

In the second sub-system of RELIT, such transactions are settled on the transaction day of trade (T) or on any day agreed by the two parties to the transaction between T and T + 30.

A. *Implementation of Relit*

Implementation of Relit began at the end of 1990, and the system is now fully operational. Milestones included:

- . October 1990: The system begins processing transactions on the cash settlement market.
- . October 1991: All transactions on the monthly settlement market shift to Relit.
- . March 1992: The standard time-frame for delivery versus payment is cut from T + 5 to T + 3 for cash market transactions.
- . April 1992: The last securities processed through the former system shift to Relit.
- . June 1992: Relit begins processing Ecu-denominated securities.
- . October 1992 - December 1993: Growth in the service offered by SLAB, a Relit's sub-system.

Off-market transactions are settled the same day (T) or between T and T + 30 as agreed by the participants both in French Francs and Ecus.

B. *How Does it Work?*

In technical terms, Relit is made up of four systems which handle trade comparisons, clearing, lending/borrowing facilities, and settlement:

- . ISB (Inter-Sociétés de Bourse), to clear transactions between member firms through netting and guarantee settlement. In Paris, there is not need for trade matching since all transactions made through the electronic trading system CAC are locked in.
- . SBI (Sociétés de Bourse Intermédiaires), for bank-to-member firm transactions including trade confirmation and affirmation. Trade confirmations not answered within a specific time-frame are considered accepted and sent on to final settlement automatically.
- . SLAB (Système de Livraison par Accord Bilatéral), for matching and preparation or clearing operations by all participants. SLAB is also used for transactions that are the subject of mutual agreement (on primary and grey bond markets, operations by mutual funds, and repos, for example).

- "Dénouement" for final settlement and accounting, guaranteeing delivery versus payment and applicable to all market participants.

Relit has also developed a sophisticated telecommunication network, SIT Bourse. This is based on the cash clearing network used by French banks, to which all participants are now linked.

ISB is managed by the Société des Bourses Françaises, while SBI, SLAB, Dénouement and the SIT Bourse (tomorrow SIGMA) network are managed by SICOVAM, France's central depository.

C. *Recent Development in 1993*

- The services offered by the SLAB DVP system for off-market transactions, designed at the outset for processing international re-deliveries and outside purchases and sales of mutual fund shares, have been diversified. The system is now also used to process various types of wholesale transactions in French Francs and ECUs by securities professionals. This system enables the French Treasury Bond dealers to settle their transactions up to four times a day.

- The SIRE (Integrated ECU Settlement System) which was inaugurated on May 3, 1993, enables institutions operating in ECUs to manage their cash entirely in ECUs, both for negotiable debt securities (settlement in Banque de France) and for French Treasury Bonds (settled in SICOVAM). This system is based on alternating processing cycles.

- By establishing a closing service for domestic and international bond issues, SICOVAM guarantees operators settlement at the agreed date and continuous control through a monitoring facility. It ensures access to primary and grey markets. Transactions are settled on the closing day of the offering: the lead manager then receives the funds, with securities automatically delivered to the intermediaries the same day. This system was also used successfully to settle subscription to public tenders offers of privatized companies, BNP and Rhône Poulenc.

- Since February 2nd, 1993, SICOVAM provides a service for managing delivered repos from 24 hours up to a year. This service automatically handles calculation of interest and return at the agreed date. A reporting system keeps both parties informed of the result of settlement advice of due date and confirmation of matching prior to return of securities.

With SLAB, off-market transactions may include: purchases or sales by investment funds (UCITS) and clearing of transactions by non-residents.

II. Status as of December 1993

Recommendation 1: Comparison by T + 1 for Direct Market Participants

Under the French system, trade comparison takes place on T. Since July 1992, virtually all transactions in listed securities in France have taken place through the CAC computerized trading system.

Most of the transactions between direct participants through ISB are matched on day T, and the others on T + 1.

Recommendation 2: Trade Comparison for Indirect Market Participants

Trades comparison for indirect market participants are realised by SBI a Relit system.

The member firm to-bank system (SBI) reflects the particular structure of the French market in which banks, most of them far bigger than member firms, account for the main part of transaction volumes, even though they are not yet members of the Exchange. With SBI, trade confirmation must be received not later than the day before the planned settlement day. In practice, for the first half of 1994, 96% of contract notes are now issued at T and 95% of trades matched at T + 1.

Recommendation 3: Central Security Depository

France's central securities depository is SICOVAM, founded in 1949, whose functions already correspond to those cited by the G30. As noted above, dematerialization took place in 1984 in France.

Today, SICOVAM operates a dematerialized securities management system, handles the securities account of its members, and has developed links with foreign depositories. Most securities are registered with SICOVAM and the few exceptions are little traded and intended to be hidden. Virtually, all new listings are registered with SICOVAM.

Recommendation 4: Netting

Transactions between member firms are netted through the ISB system operated by the clearing house of the Paris Bourse, the Société des Bourses Françaises (SBF). The system not only reduces the amount of processing involved, by also guarantees final settlement of trades between member firms in the event that one of them defaults.

The fundamental principles involved are noted below:

- Acting as the sole counterparty for member-firm trading, the SBF may replace any defaulting firm;

- Guarantee deposits cover the clearing house from the market risk borne by each member firm.

To ensure settlement in the event of temporary default by a counterparty, the SBF has access to automatic securities lending facilities. Buy-in procedures round out the system and guarantee that all remaining fails are resolved within a standard time-frame.

Regulations adopted in January 1992 distinguish between different types of member firms:

- Member firms with pure broker-dealer status are involved only in trading and do not act as clearers;
- Member firms may also opt to act as clearers for broker-dealers; as members of the clearing house, such clearers are responsible to this organization for all trades executed by broker-dealers.

This change in regulations allows for organizational streamlining without weakening the safeguards provided by the clearing house.

Recommendation 5: Delivery Versus Payment (DVP)

Provision for simultaneous delivery versus payment on the same-day basis was built into Relit. On the settlement date agreed by parties to a transaction (T + 3 for bourse operations), SICOVAM verifies that securities and cash are available in the accounts of the seller and buyer and proceeds with final settlement. It updates the securities accounts of its members and orders same-day payment through instructions sent to the Banque de France. In the case of Ecu transactions, cash settlement is made through clearing members of BIS.

Relit has been in service at SICOVAM since 1990.

Recommendation 6: Adoption of the Same-Day Funds Convention

This is ensured through the linkage SICOVAM-Banque de France. Insofar as participants are aware each morning at their theoretical cash inflow and outflow, they are able to anticipate their cash position and to make use of funds on the day of settlement. With Relit, cash movements are credited to or debited from their Banque de France account before the close of business day, which makes for "same-day funds" in practical terms.

Recommendation 7: Rolling Settlement on T + 3

Since March 1992, the standard time-frame for final settlement of cash transactions has been T + 3. Nevertheless, for trades on France's monthly settlement market (RM), settlement is usually on the last day of month.

Since June 1992 off-market transactions, or executed in special term agreed between two parties, and matched through the SLAB system can be settled on the same day T.

Recommendation 8: Securities Lending and Borrowing

Relit's clearing function between member firms includes an automatic stock lending facility to ensure swift delivery of missing securities to the buyer, should a failure occurs for transaction through ISB or for primary dealers' operations (SVT). Extension to other participants is planned.

At the present time, a number of clearing members have signed an agreement with the Société des Bourses Françaises under which they agree to lend to the SBF, if needed, some of the securities deposited at their SICOVAM account without money collateral.

In 1987 the SICOVAM was authorized to record off-market securities loans. In 1993, the SICOVAM has recorded 4 129 off-market securities loans.

Recommendation 9: ISO Message Standards and ISIN Numbering

RELIT is designed to accept the ISIN number. Introduction of ISO Standard 7775 is outstanding and ISO Standard 6166 is already in use for cross-border transactions.

As of December 31, 1993, 15% of ISIN code numbers for foreign securities were listed with complete description in the data base.

Through the AFC (Agence Française de Codification), the SICOVAM attributes single-value codes to both French and foreign securities for domestic purposes, disseminating these together with ISIN numbers. SICOVAM is recognized by the ISO (International Standards Organization) as the national agency responsible for overseeing ISIN number attribution for French securities.

III. Further Developments

Since June 30, 1994, most of operators are dealt with during the night before the final settlement day. SICOVAM is thus able to send most of the results of the process to its members early in the morning of the final settlement day. SICOVAM members then have a few hours to adjust their positions through ultimate securities lending. The final results are available at 3:30 p.m. Cash treasury managers may then in turn adjust their position with the Banque de France before 5:30 p.m., close of the Banque de France business day.

RELIT will soon make a new step towards clearing and settlement on a real time basis with various settlements per day to answer the need of the markets. This prompt settlement process will be complemented by services providing an added value such as securities lending and borrowing and money lending with collateral.

SECTION 6

GERMANY

Federal Ministry of Finance

As far as Germany is concerned, the evaluation made in the comparative summary table in the last report on the implementation of the G30 Recommendations is still accurate.

I would like to draw your attention to some new developments which the German Central Securities Depository DKV (Deutscher Kassenverein AG) has reported since 1993:

- During 1993 the technical facilities were created for including also pending items of stock exchange transactions for the Same Day Settlement processing. In this way, settlement can even be implemented within the limit of T + 2, if the inputs of securities credits were entered overnight for an immediate further disposal.
- Since September 1993, DKV settles stock exchange transactions in the European currency ECU with a settlement period corresponding to the international standard of trade day + 7 calendar days. The cash clearing is implemented through one of the three German banks clearing in ECU alternatively. With the intention of extending the settlement service in ECU to cross-border transactions, DKV is currently preparing connections via AKV with CEDEL, Luxembourg and EUROCLEAR, Brussels.
- In consideration of the significance the Deutschmark has gained as an issuing currency, it was the international issuers' intention to give out also large-scale global DM bonds, being negotiable in various countries at the same time and transferable between domestic and international custody and/or clearing systems without any delays in time.

As a result of this settlement procedure, foreign investors can now deal in DM bonds without being forced to leave the home country they are familiar with. In order to create the prerequisites for a global settlement, DKV developed, in cooperation with issuers and issuing houses, a new system during the year under review. It consists in a DM issue evidencing ownership by means of two global certificates deposited with different custodians; one of the certificates complying with the legal and securities-specific technical requirements of the German market, and the other certificate with the rules and regulations of the foreign market. Obviously, the terms and conditions of the bonds are same for the two certificates. The two global certificates have no fixed but floating nominal amounts ("up-to-certificates"). The aggregate nominal value of the two certificates adds always entirely up to the total volume of the issue.

SECTION 7

HONG KONG

Securities and Futures Commission

The summary table presented at the 1993 Amsterdam meeting continues to reflect the present status in Hong Kong.

SECTION 8

ITALY

Commissione Nazionale per le Società e la Borsa

Has not yet responded to the 1994 consultation.

SECTION 9

JAPAN

Securities Bureau of the Ministry of Finance

A change has been made concerning G30 recommendation 9.

Standardized Securities Code and Message Types

The new securities code system consistent with ISIN was implemented in July 1993. The stock exchanges and some other institutions such as custodians and securities companies began to use the new securities code along with the former securities code for communication between overseas institutions.

SECTION 10

MEXICO

Comisión Nacional de Valores

Recommendation 2

In the Mexican market transactions are "locked-in". Therefore, the broker is responsible for the confirmation of indirect participants transactions.

Recommendation 3

Indeval.

Recommendation 6

It is carried out by the Mexican Stock Exchange.

Recommendation 7

T + 2.

Recommendation 8

Securities lending has been authorized to cover short positions of brokerage firms.

Recommendation 9

Indeval has developed a project to standardize codes for securities issues, which is being analyzed.

SECTION 11

NETHERLANDS (The)

Securities Board of The Netherlands

With reference to recommendation 8 ("Securities Lending and Borrowing") we can inform you that in 1993 a central lending facility has become operational.

Concerning the item on future developments mention can be made of a decision of the Council of the Amsterdam Stock Exchange to merge Effectenclearing (the securities clearing corporation) and Necigef, Nederlands Centraal Instituut voor Giraal Effectenverkeer B.V., (the central securities depository of The Netherlands) in one CSD. A linkage of this CSD to Euroclear/Cedel will be planned.

SECTION 12

SPAIN

Comisión Nacional del Mercado de Valores

We can inform you that, with respect to the previous implementation report, the main change in Spain has been the fulfilment of recommendation no. 8; that is, securities lending and borrowing as a method of expediting the settlement of securities transactions is being implemented in July 1994.

As for recommendation no. 4, a study has in fact been carried out to determine whether a trade netting system would be beneficial in the terms expressed in said recommendation. The conclusion has been that such system would not be appropriate.

SECTION 13

SWEDEN

Swedish Financial Supervisory Authority

We would like to confirm that the information given in the status report regarding the clearance and settlement systems on the equity market in Sweden is still correct and adequate.

However, we would like to make the following complement to the above status report. In May 1993 the Financial Supervisory Authority approved the new VPC system for clearance and settlement of money market instruments and bonds. Basically, the system works in a similar way as has been described regarding the system for clearance and settlement of the equity market. However, there are a few differences. One is that the time lag between trade and settlement differs. For money market instruments the lag is T + 2, for bonds the lag is T + 5, while for equities the lag is T + 3. The idea is to achieve a scheme where the lag is the same for all three different instruments i.e. equities, money market instruments and bonds before the end of this year. In the calculation of the net cash payment the two different systems, i.e. the system for clearance and settlement of equities and the corresponding system for money market instruments and bonds are separated. This reduces the risk for disruptions.

SECTION 14

SWITZERLAND

Swiss Stock Exchange

Status Report for Switzerland

Update of the G30 1992 Reports as of July 1994

The comparative Summary Table as shown by the Autumn 1992 G30 report is still valid from a Swiss point of view. Switzerland, in 1992, fulfilled all nine recommendations set up by the G30 and, with many improvements made in the two years since 1992, those recommendations are even more surpassed today than they were in 1992.

This paper represents a short summary and describes the changes that have been taken place since 1992.

SECOM

SECOM is the clearing and settlement system of SEGA, Swiss Securities Clearing Corporation, the central clearing and settlement organization and central depository in Switzerland.

SECOM has been successfully launched on October 4, 1993. After a transition phase of some 5 months all market participants (banks, brokers, share registers) are connected online to the SECOM host, either via a C/C facility (Computer-to-Computer interface) or via a MAX User Device (Maximal Access to eXtended settlement services), SEGA's low-cost software package for the user interface. All settlement and clearing functions are executed on an online and realtime basis, and the system is available 24 hours a day.

Only the domestic clearing and settlement are handled by SECOM in this first phase of the SECOM implementation. In a second phase (SECOM Version 2) all international functionalities will be offered to market participants, including clearing and settlement of cross-border transactions against CHF and foreign currencies. Those functionalities are developed for INTERSETTLE (see separate chapter), which is the Swiss organization for cross-border clearing and settlement. The implementation of this SECOM Version 2 will take place on October 3, 1994.

In a third step the SECOM system will be linked to the SIC system, the Swiss Interbank Clearing system as the Swiss Central Bank's online/realtime money transfer system for CHF. This system will operate on a trade by trade basis. The interface between these two much advanced and sophisticated systems, both operating on an online/realtime basis around the clock, will result in genuine DvP, which means simultaneous, final and irrevocable delivery versus payment in same day funds on the Swiss market. The implementation is planned for January 1995.

A further interface will be constructed between SECOM and the central EBS system, the Electronic Stock Exchange of Switzerland. Transactions traded at the central Electronic Stock Exchange will be matched in realtime mode and confirmed to the trading parties. In the very same second the trade date will be delivered to the SECOM clearing and settlement system.

The transaction will then be settled via SECOM, again within seconds, as a simultaneous, final and irrevocable DvP transaction. It is planned to start this interface in March 1995.

With this SECOM - SIC - EBS network it will become possible to reduce the settlement period on the Swiss market from T + 3 to T + 1 or even same day settlement.

INTERSETTLE

INTERSETTLE, Swiss Corporation for International Securities Settlements, will start operations on a full scale on October 3, 1994. All functionalities required by INTERSETTLE will be available on that date in the central SECOM system. For the startup process INTERSETTLE has defined a selected group of 10 pilot banks which will test the system in the first months of operations. New participants will be accepted as of the beginning of 1995.

For the clearing and settlement of cross-border transactions INTERSETTLE selected 12 Custodian Banks. Those INTERSETTLE Custodian Banks represent all markets on a worldwide basis. A user of the INTERSETTLE system can therefore settle all his worldwide trades through one single interface into the SECOM system, the international transactions being handled by INTERSETTLE and the domestic transactions by SEGA.

EBS

EBS, the central Electronic Stock Exchange of Switzerland, has started testing its application. It is planned to go live with EBS on March 24, 1995. A migration phase of a few months time will allow the system to take over all market segments from the traditional stock exchanges in Switzerland.

Registered Shares

A decision by the Swiss Admission Board ("Schweizerische Zulassungsstelle") made clearing and settlement through the book entry system of SEGA mandatory for all listed registered shares in Switzerland. Companies with registered shares are required to build up their interface to SEGA until the second half of 1994 ("Dispo positions only") for until mid-1997 (including "registered positions").

Today, out of a total of 90 listed companies with registered shares, more than 70 have joined the SEGA book entry transfer system.

SECTION 15

UNITED KINGDOM

HM Treasury - Securities and Investment Services Group

UK STATUS REPORT - AUGUST 1994

1. *All comparisons of trades between direct market participants (that is, brokers, broker/dealers, and other exchange members) should be accomplished by T + 1.*

Current Status

Achieved. The Stock Exchange's checking system, which matches approximately 96% of bargains by T + 1, has been in place since 1974. In addition, the Stock Exchange's SEQUAL system provides real-time market side trade matching resulting in comparison on T.

Projected CREST Status

Achieved. Trade confirmation processes continue, with the possibility of real-time processing services such as SEQUAL replacing the overnight checking matching service. The CREST system will not include any special trade confirmation features: delivery instructions will be matched or positively accepted as part of the settlement process.

2. *Indirect market participants (such as institutional investors or any trading counterparties that are not broker/dealers) should be members of a trade comparison system that achieves positive affirmation of trade details.*

Current Status

Partly achieved. Some UK institutions and, in many cases, overseas institutions are participants in ETC (Electronic Trade Confirmation) systems for the comparison and affirmation of trade details and allocations with their brokers. In addition, some UK institutions (and/or their custodian banks) are participants in the Stock Exchange's INS (Institutional Net Settlement) service permitting positive acceptance of trades with their brokers prior to market settlement.

Projected CREST Status

Partly achieved. ETC services will continue. The INS service will cease when CREST is initiated, and trade confirmation between institutional investors and brokers will switch to alternative routes.

3. *Each country should have an effective and fully developed central securities depository, organized and managed to encourage the broadest possible industry participation (directly or indirectly).*

Current Status

Partly achieved. Since 1979, the Stock Exchange's Talisman system has provided a dematerialized depository for dematerialized holdings of UK equity and corporate debt securities held by market principals (market makers and principal broker/dealers). Investors, who are excluded from holding stock within Talisman, continue to hold stock in certificated form directly or through custodians.

Projected CREST Status

Partly achieved. CREST will also record participants' stock positions in dematerialized form, in computerized stock accounts held in individual names, which may be nominees. The broadest possible industry participation will be provided for: market members, institutions, custodians, registrars and payment banks will be allowed direct participation. In addition, other types of investors will be permitted indirect participation.

4. *Each country should study its market volumes and participation to determine whether a trade netting system would be beneficial in terms of reducing risk and promoting efficiency.*

Current Status

Inappropriate. In the UK, all securities are settled-as-dealt (i.e., on a trade-for-trade basis). Netting of securities has been considered in depth by the UK securities industry and agreed to be inappropriate. Payments resulting from securities settlement processes are netted.

Projected CREST Status

Inappropriate. The considerations above apply. CREST will reduce the amount of payment netting, since there will no longer be a central counterparty. This is consistent with the reductions in systemic risk which are the objective of CREST.

5. *Delivery versus payment (DVP) should be employed as the method of settling all securities transactions.*

Current Status

Partly achieved. A DVP facility has existed in Talisman since 1979. However, although payments are made in cleared funds on settlement day, the Talisman deliveries of book entry stock are subject to registration of the delivered securities by the registrar, on average three days later.

Projected CREST Status

Achieved. The CREST system of securities delivery and assured payments will provide an effective form of DVP. The delivery of securities between CREST accounts will generate two instructions: a register update request and a payment instruction. The register update request will require the company registrar to respond within two hours confirming legal transfer of the stock. The payment obligation (on the purchaser's settlement bank to pay the vendor's settlement bank will be discharged by the settlement banks on the same day). These payments will be netted between the settlement banks across accounts held at the central bank.

The introduction of real-time gross settlement at the end of 1995 will offer an opportunity to improve payment security still further through real-time collateralized payments between settlement banks. CREST will include an RTGS interface at the earliest practicable opportunity.

6. *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 conventions.*

Current Status

Achieved. Since 1979, payments to and from the Stock Exchange in respect of Talisman settlement have been in same day funds. Payments are made by electronic transfer through the clearing banks' CHAPS inter-bank payment system or within individual banks by intra-branch transfers. Both methods utilise same day funds.

Projected CREST Status

Achieved. CREST will continue payments in same day funds. In due course, Real Time Gross Settlement of funds will improve the security of payments.

7. *A "rolling settlement" system should be adopted by all markets. Final settlement should occur on T + 3.*

Current Status

Partly achieved. 10-day rolling settlement was introduced on July 18, 1994. Upon agreement between trading parties, faster settlement can be arranged for any number of days from T + 2 to T + 9. The intention is to move to standard settlement at T + 5 in 1995.

Corporate debt issues are settled on T + 7 calendar days (in harmony with the Eurobond markets). Gilts and money-market instruments are settled on T + 1 business day.

Projected CREST Status

Partly achieved. CREST will permit faster rolling settlement, including same day settlement. The intention will be to shorten standard settlement still further, from T + 5.

8. *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 securities lending should be removed.*

Current Status

Achieved. Lending and borrowing of securities has been permitted, regulated and encouraged in the UK since 1967. Talisman provides comprehensive facilities for the agreement, settlement, revaluation, management and return of stock loans. Securities positions held within Talisman can be used by borrowers as collateral for stock loans. Practices are being adapted to meet shorter rolling settlement planned for 1995.

To encourage activity, the Stock Borrowing and Lending Committee publishes a public information booklet explaining the principles involved and the regulation of securities lending and borrowing.

Projected CREST Status

Achieved. CREST will include functionality permitting settlement, revaluation and return of stock loans. The provision of collateral within CREST will be provided by the automated Deliveries by Value (DBV) system, with improved visibility and control of collateral.

9. *Each country should adopt the standard for securities messages developed by the International Organization of Standardization (ISO Standard 7775). In particular, countries should adopt the ISIN numbering system for securities issues as defined in the ISO Standard 6166, at least for cross-border transactions.*

Current Status

Achieved. Messages complying to the ISO Standard 7775 are not entirely suitable for use between participants and central settlement systems. However, they are suitable and are used widely in communicating settlement information between UK-based domestic and global custodian banks and their institutional investor customers. ISITC Europe message formats (based on the ISO Standard 7775) are also being introduced.

ISO Standard 6166 ISIN numbers were introduced throughout the Stock Exchange's Talisman equity settlement system in early 1992. The SEQUAL system has used ISIN numbers since it was introduced in 1988.

Projected CREST Status

Achieved. CREST messages will be based on the ISO Standard 7775 and use the ISIN numbering system to identify securities.

SECTION 16

UNITED STATES

Securities and Exchange Commission

The summary table on the present state of implementation of the G-30 clearance and settlement recommendations remains generally accurate although it should be noted that effective June 1st, 1995, the U.S. will have implemented fully Recommendation 7, which endorsed a "rolling settlement" system with final settlement occurring on the third business day after trade date (so-called "T + 3").

On October 6, 1993, the Exchange Commission adopted a rule that requires settlement of broker-dealer securities transactions by T + 3. The rule becomes effective on June 1st, 1995. The Commission exempted from the rule purchases and sales of "exempted securities" as defined by the Securities Exchange Act of 1934 (i.e., government securities and municipal securities), commercial paper, bankers' acceptances, and commercial bills. Trades in many of these "exempt" securities already settle on a next day (e.g., government securities) or same day basis (e.g., commercial paper), and we expect that trades in municipal securities will be subject to a T + 3 timeframe in June 1995.¹

As you may know, the conversion to a same-day funds settlement system for corporate and municipal securities transactions in the U.S. is being planned for the end of 1995 or the beginning of 1996. This will allow the industry to complete the conversion to T + 3 settlement before undertaking a further system change.

The Depository Trust Company ("DTC") and the National Securities Clearing Corporation ("NSCC") have completed the design phase of their same-day funds settlement systems and soon will begin to implement the changes necessary to convert from settlement in next-day funds to settlement in same-day funds. The conversion of principal and interest payments to same-day funds and the timing of payments to depositories by paying agents so that the depositories can pay participants in same-day funds on payment date is an issue that DTC and NSCC are still studying.

We will continue to work toward implementation of the G-30 recommendations in the U.S.

¹ See Report of the Municipal Securities Rulemaking Board on T + 3 Settlement for the Municipal Securities Market (March 17, 1994).

