
AFME response to the ECB market consultation on a potential mechanism for the issuance and initial distribution of debt securities in the European Union (EDDI)

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Executive Summary

AFME welcomes the opportunity to respond to the preliminary market consultation proposing a European mechanism for the issuance and initial distribution of debt securities in the European Union.

AFME represents a broad array of European and global participants in the wholesale financial markets, our membership includes pan-European and global investment firms as well as key regional banks, brokers, law firms, custodian banks, investors and other financial market participants¹. Our response to this Consultation Paper reflects the views of the stakeholders within AFME's Fixed Income, Primary Dealers division (namely the top 25 investment firms trading in European Sovereign debt) and our Post-Trade division.

We note that, given the early stage of this initiative, the Consultation Paper speaks in relatively general terms about the proposal, and many of the specifics relating to both the business case with regard to the pre-issuance component and the functioning of the mechanism require further clarification in order to fully comprehend the impact on market functioning. Should the project progress to the next stage of development, AFME urges the ECB to engage further with all relevant stakeholders at the earliest opportunity.

AFME advocates for stable, competitive, sustainable European financial markets that support economic growth and benefit society. To this end we welcome the ECB's desire to act as a facilitator and driver of harmonisation. We fully support exploring efforts towards greater harmonisation and standardisation of European markets. We believe issuers should have unhindered cross-border access to a large and broad investor pool, with consistent and reliable issuance processes across jurisdictions and platforms. Operationally, processes should be well thought-out, safe and efficient throughout the lifecycle from issuance to clearing and settlement.

At the same time, we believe that careful consideration must be given as to the most effective and efficient way to drive harmonisation and equal access to European debt securities markets. AFME questions whether the addition of another layer of infrastructure to the pre and Post Trade landscape is the optimal solution. As this paper does not address the cost of this layer and how it may be apportioned back to users, clarity on this point at the earliest stage will be essential to evaluate participation and likely volumes. To be successful, EDDI must be a voluntary initiative contributing to a more competitive environment and must not prohibit or restrict existing activities. We strongly believe that usage should not become mandatory at any point in the future. Adoption will be driven by efficiency gains to market participants. Mandatory adoption would also remove the ability of banks to continue to provide value added services.

If there is a purely additive cost to overall settlement, users would need to be assured of the added value that this layer would provide over and above those solutions that already exist. It should be noted that there are several private sector initiatives (e.g. MARS and IPREO) that can resolve some of the issues acknowledged by

¹ AFME is listed on the EU Register of Interest Representatives, registration number 65110063986-76.

the ECB in the Consultation Paper. The benefits of implementing any component of EDDI should be appropriately weighed against the cost and implications of introducing a new service; and policy makers should consider where EDDI objectives can be achieved via existing frameworks.

EDDI may be beneficial for the European debt security market where it results in improved efficiency in the pre-trade and post-issuance process. Further information is required on many aspects of the proposed EDDI framework to thoroughly assess if EDDI will add value to the current landscape. Further clarification is required in relation to the following elements:

- the functioning of the issuance process, for example will investors still leave orders with banks or directly input them into a front-end tool from EDDI?
- Will there be an overarching CSD issuing all EDDI-issued debt instruments or will there be a number of CSDs that would act as joint issuer CSDs?
- How would the Bill & Deliver process operate? Would it continue to be undertaken by the underwriters or conducted via the platform?
- Who will own the EDDI data and take responsibility for the functioning of the system?

Also, of relevance is the changing Post-Trade landscape, including the relatively recent introduction of the T2S settlement engine as well as the Central Securities Depositories Regulation. The full long-term effects of these initiatives are yet to be seen, although the recent price rise for T2S settlement is evidence that a thorough impact assessment must be undertaken. In addition, it is essential that the existing competitive landscape with investor CSDs and custodian banks providing similar services to the benefit of investors should be preserved. Consequently, custodians and investor CSDs should enjoy equal access to EDDI.

Our members strongly recommend that before a decision is taken to move forward with the development of EDDI, extensive data-gathering is undertaken to ascertain that there is sufficient demand amongst market users for a new issuance platform to make this project viable. Furthermore, given the ambitious nature of the initial EDDI proposal market actors will need sufficient time to provide feedback on the proposal, and also a realistic implementation timeframe for any agreed approach.

AFME remains at the ECB's disposal to discuss further any aspect of this Consultation Paper including the opportunity to discuss in more detail the intended scope and functionality of the proposed EDDI mechanism.

Current debt securities distribution ecosystem

Question 1: Please provide your views on the description of the European ecosystem for the issuance of debt instruments, in particular as regards whether you deem other actors, elements or processes relevant to complete the picture.

The description of the market landscape as given in section 2 is generally appropriate. However, we would like to point out that some of the Post-Trade models that are depicted may not exist in reality (Issuer CSD – Local Custodian – Local Custodian – Investor), while other models (global custodians being direct participants in a CSD) are not reflected.

However, the chart omits the challenges of having to deal with multiple jurisdictions with different legislation and tax systems. The chart should also allow for the range of services that banks provide throughout the issuance process, which is currently not fully described. Chart 1 also places great emphasis on the Post-Trade mechanism. Whilst there are different systems for the issuance in each Member State, it should be noted that the current system operates smoothly and does not hinder the European participation of investors in debt securities issues across the EU. Moreover, the costs incurred due to the Post-Trade systems are deemed less significant compared to other types of issuing costs (such as legal advice or prospectus).

The picture should also include the totality of the tasks performed by issuing banks in the context of new issuance preparation which can be highly diverse and complex. They depend largely on the type of issuer and its financing needs, and include advice on capital structure, the use of various financial instruments, the structuring of financial instruments and their placement, the documentation of securities issues, as well as investor selection and placement. Other important stakeholders in the issuance process, such as supervisory authorities, legal advisors and auditors are not mentioned in the overview so far.

Furthermore, the picture does not reflect that local custodians cater for a significant portion of the tax services related to income. This is particularly relevant when it comes to coupon payments, where every country has nationally defined processes. This increases complexity for investors when they want to estimate the cost of doing business in a given country or with a given market.

AFME would like clarity regarding the definition of "neutrality" in the introduction. The ECB itself notes in section 6 that EDDI will have an impact on the market. Some significant steps under the EDDI initiative would not be neutral in terms of competition. The ECB, as a public-sector body with its exceptional position, would provide an alternative service to existing services provided by the private sector. The following questions arise: as to whether the ECB will provide the service on the same grounds as private sector entities (e.g. the usual full-cost-recovery approach of the ECB versus regular profit/loss approach of the private sector); who will pay for any losses if not enough issuers or issuances are acquired?; and by whom will EDDI be regulated and supervised?

At this stage it appears that the ECB would have a competitive advantage and as a result, specific criteria will be required to handle this. Further, and specifically in relation to figure 4, the question arises as to whether issuers and investors should have direct access to EDDI. If not, our members foresee elements of disintermediation. We are aware that issuers avoid the euro market due to the current market structure and standards.

Issue at stake

Question 2a: Do you think that there is a structural issue in the current debt issuance and distribution in the EU, seen from the perspective of a single capital market? If so, what is your view regarding the underlying causes of this structural issue?

In comparison to other currency areas such as the US or Japan, the noticeable difference is that the Eurozone is not a single jurisdiction, but 19 separate jurisdictions with national market practices and national infrastructures. AFME members also note that the European Debt Capital Market (DCM) is far more competitive than the US DCM market, with market share much less concentrated into top banks. This competitive landscape may lead, at the margin, to some inefficiencies in terms of process at various underwriters but fundamentally benefits issuers from the perspective of choice and price.

AFME acknowledges that this initiative could potentially improve the efficiency of the syndication process nevertheless, members do not consider the current levels of fragmentation to have an adverse effect on the market or the issuers within the syndication process.

With regard to Post-Trade, the issues leading to a lack of harmonisation of market practices are addressed in some detail in the European Post Trade Forum (EPTF) Report 2017, and include, amongst others: lack of convergence and harmonisation in information messaging standards; fragmented corporate actions and general meetings processes; unresolved issues regarding reference data and standardised identifiers; and national restrictions on the activity of primary dealers and market makers. The last point relates to primary dealers and market-makers often being required to set up local securities operations and the settlement of primary-market transactions in the local settlement system. The EPTF report suggested that T2S might resolve this issue although the EDDI proposal indicates that this is not yet resolved. There are over 30 domestic CSDs in Europe, which investors and intermediaries must connect to. To a large extent, these domestic CSDs are not fully interoperable or sufficiently competitive. The end result is that, for end investors, the cost and complexity of accessing domestic CSDs is not fully optimised.

The T2S Harmonisation Steering Group (HSG) also has areas of focus which are relevant but have yet to be resolved i.e. Location of securities accounts/conflict of laws and Place of issuance. The EPTF² report states that “The EU lacks a single conflict of laws rule for ownership rights in book entry securities (EPTF barrier 11). Several EU legal acts (Settlement Finality Directive, Financial Collateral Directive (FCD) and the Banks Winding Up Directive) already contain conflict of laws rules on ownership rights in securities referring, essentially, to the place of the relevant account/register. However, the formulation of the conflict of laws provisions of the aforementioned directives is not identical and might create confusion as to the notion of the relevant account. As a result, the law of the relevant account concept itself is not always clear in its application.”

It is unclear how the new layer will automatically resolve these complex areas in the absence of legislation or if the Harmonisation agenda can realistically deliver such outcomes.

Question 2b: Do you face problems or see problems for issuers when reaching out to a pan-European or international investor base? If so, please specify.

AFME considers that further detailed studies will be required to ascertain the extent of the challenges within the current issuance process. Members highlight that initiatives are currently being developed by underwriter banks to improve harmonisation in relation to key deal terms. AFME believes that the largest

² https://ec.europa.eu/info/sites/info/files/170515-eptf-report_en.pdf

barrier to a harmonised European DCM market is the lack of standardised EU tax and securities law. In addition, new issues require different selling and distribution restrictions depending on the market of distribution, and different levels of disclosure are required for different markets (e.g. Bank of Italy ticket reporting.)

In addition, investors rely on Know Your Client (KYC) and Due Diligence processes conducted by underwriter banks. This would not be possible if there is no bank settling the deal, and many investors are resistant to placing “direct” orders to issuers absent an intermediary bank. AFME consider that issuers, investors, and underwriters all benefit from the current shared ecosystem and from the feedback/allocation loop. To establish a more informed view of the challenges that issuers face when engaging with a pan-European or international investor base, AFME suggests that the ECB discuss question 2 in more depth directly, and collectively, with key capital markets investors.

We also note that the majority of issuers are global and not just EUR/EU market issuers. Therefore, further clarity on the scope of currencies eligible for issuance in EDDI is required.

Given perceived problems in the issuance through domestic CSDs, many issuers use the ICSDs as a way of overcoming specific national practices, and of reaching a pan-European and global investor base. If an issuer wants to reach a pan-EU investor base, they will issue via the ICSDs. If an issuer wants to reach predominantly the investor base in its home market, the local CSD provides the solution. This should not be perceived as a problem. The ICSD model already provides this valuable and important service to issuers and investors and should continue to do so.

Question 2c: What are the main considerations for issuers and/or their agents/dealers when choosing a place of issuance and a service provider?

The choice of service providers and markets is made from the point of view of placement, but above all cost and process efficiency. In doing so, the well-functioning handling of secondary market transactions is less important than the flexibility and speed of work of approval by authorities and the effort required to fulfil issuance compliance obligations. The choices of issuance location and law are driven by the requirements of the issuer and are informed by the respective investor base. In the context of cross-border corporate bond syndication/settlement, members cite competitive efficiency as the main reason for choosing a certain location for issuance. Withholding tax procedures are also criteria for the selection of the location of issuance as they add significantly to the overall costs.

From the perspective of the CSD, freedom of choice is already provided as per Art. 49 of the CSDR. It is typical that issuers would opt for banks from their home jurisdiction, as local knowledge and experience is seen as beneficial. The same also applies, to an extent, to investors. If legal frameworks in the EU were aligned, this may be different. As for costs on the issuance side, one should take total costs into account – these are marginal in the Post-Trade area. The existing settlement platforms work well and efficiently.

Question 2d: What is your view on the statement that there is a need to improve competition and level playing field conditions regarding the access of banks, investors and CSDs to debt securities?

We do not see any competitive deficiencies in the issuance process; a competitive market is in operation, with multiple international banks competing for syndication activity/mandates. Indeed, the introduction of EDDI may produce an unlevel playing field. AFME agrees that improved competition, market access, and a

level playing field, with respect to the provision of CSD, and in particular domestic CSD services, would be desirable. At the same time, it is also important to maintain and promote existing competition between investor CSDs and custodians, and hence custodians should enjoy similar access as investor CSDs and be able to compete with CSD groups that include issuer and investor CSDs.

Question 2e: Would the improvement in the neutrality, harmonisation and pan-European reach support and develop further the issuance of debt in euro?

AFME welcomes further steps to tackle both the lack of harmonisation in market practices in issuance processes. These would further develop the issuance of debt in euro, providing that they complement and do not hamper existing pan-European and global solutions (such as the issuance of Eurobonds in the ICSDs). We would like to emphasise that any initiatives should be based on complementing the current market infrastructures, not seeking to eliminate them or adding additional cost to the process without a meaningful cost/benefit analysis to support the action.

Possible actions - Harmonisation

Question 3a: Do you think that there is a need for further harmonisation and standardisation in the area of debt securities issuance?

AFME has been a key proponent of further harmonisation and standardisation in many areas. Any proposed harmonisation and standardisation initiatives must deliver benefits for issuers and investors, and must ensure compliance with existing market standards, such as the CAJWG Standards, the CASG Standards, and the Collateral Management Harmonisation Task Force (CMH-TF) Standards.

Some members see possible scope for harmonisation in the auction process, whereby currently different processes and systems are used by various issuing entities. However, without further clarity about the pre-issuance process, we cannot establish to what extent harmonisation would benefit the market. Furthermore, AFME acknowledges that a harmonised process could assist Primary Dealers in effectively managing any potential conflicts of interests associated with managing firm orders alongside investor orders and provide greater visibility to issuers relating to underlying investor demand.

In relation to the above, AFME urges the ECB to consult with EU Debt Management Officers (DMOs) on the proposal outlined within this Consultation Paper and ensure they provide feedback on the development of the EDDI platform from conception, even if the ECB does not initially intend to include Sovereign bond issuance within scope of the EDDI framework. If EDDI is only intended to target syndications, further dialogue and input should be sought via the DCM/syndication teams of Primary Dealer banks.

Question 3b: Should the work on harmonisation/standardisation cover the full transaction chain, i.e. from pre-issuance to post-trade?

Without having a clear understanding of what is meant by pre-issuance harmonisation, specifically around EGB issuance via auctions, it is difficult to establish if harmonisation/standardisation should be applied across the full transaction chain. We would like to highlight that various solutions are available and there are also new market-driven initiatives, e.g. project "MARS". Creating a new debt issuance platform would not solve the problems discussed above, but it would rather negatively impact an existing, well-functioning market.

Question 3c: What are your views regarding the pre-issuance harmonisation items/topics? Which processes should be looked at?

As highlighted above, in respect of the pre-issuance component of the ECB's proposal, it is not clear if it will resolve issues that are not already being addressed by private initiatives, including MARS and IPREO. Furthermore, members consider that MARS offers more value to the wider market than the EDDI pre-issuance component as it is a global and multi product venture. The ECB may want to give careful consideration as to the prioritisation of the issues in this area, such as withholding tax reclaim procedures, and national legal and regulatory divergences. Whilst the ECB has acknowledged that there are issues with divergent national fiscal and legal provisions and suggest that EDDI can act as a catalyst to resolve these divergences, addressing those issues in a more direct manner may prove more appropriate.

AFME considers it crucial for any order system as part of EDDI to link to the existing ecosystem to avoid further fragmentation. Additionally, pre-issuance includes certain high-touch human interactions (such as negotiation, consultation, considered judgements and accompanying advice features) that are not as readily automated. For this reason, prescription by rule and standardisation may be impractical and have certain disadvantages. Thus, Issuer DMOs might prefer to retain the flexibility of these aspects of the pre-issuance stage in order to achieve the optimal execution outcome.

Question 3d: What would you consider the best way forward, for example in terms of methodology and governance, for fostering harmonisation in this area?

AFME considers that the logical way forward is to use the existing AMI-SeCo sub-group structure (e.g. HSG, CSG, CASG or variant thereof) rather than creating a different structure. Key stakeholders must be represented in any governance structure from the start of any process. We believe this method would be more effective than working with National Stakeholder Groups (NSG) or mandating them to implement and validate the harmonisation of markets.

AFME supports the use (to the greatest extent possible) of the methodology used as part of T2S harmonisation process, with the principle of standards as best practice.

Question 3e: Is there a need to reinforce and/or support with EU regulation any harmonisation efforts in the area of pre-issuance?

The description given in section 4.1 suggests there are gaps in processes between pre-issuance and Post-Trade that could cause delays in the issuance process. However, a large amount of automation already exists. Moreover, planned market-driven solutions are planned to address some of the perceived gaps.

If the ECB were to go ahead with this initiative, further clarity is required on how the platform would address a potential market failure which requires the intervention of the ECB.

Question 3f: Do you see any other efforts that could help resolve the current market fragmentation?

AFME strongly endorses efforts to dismantle the barriers identified by the European Post Trade Forum (EPTF) which have been discussed in detail in the AFME's 2018 White Paper "A Roadmap for Integrated,

Safe and Efficient Post Trade Services in Europe.”³ In particular, we would recommend focusing on eliminating inefficiencies in withholding tax collection refund procedures, and removing inconsistencies and uncertainties in securities law.

Inefficient withholding tax collection refund procedures, identified originally in the 2001 Giovannini Report, represent a significant deterrent to cross-border investment. According to CEPS, the estimated cost of these inefficiencies is EUR 8.4bn per year, which is transferred to end investors. The EPTF Report proposes a number of areas of policy action ultimately intended to create conditions for a harmonised relief-at-source system. These actions include electronic processing and standardisation of formats; recognition of power of attorney and self-declaration of residence, together with a memorandum of understanding among national fiscal agencies for data sharing on fiscal residence and tax reporting with a common identification system.

The resolution of the conflicts of law issue with regards to securities is a priority issue. Without a common European practice for the determination of securities ownership, there remains the question of the true owner in a cross-border transaction.

In regard to any intended international reach we question how EDDI would include US investors who are bound by the 40-day seasoning rule (restriction for sale due to the unavailability of Section 4(a)(3) of the Securities Act.)

Possible actions - Provision of a European market infrastructure service

Question 4a: Do you think that the establishment of a European market infrastructure service could potentially address the lack of neutrality and pan-European reach in the current debt securities market? If not, what other solution would you propose?

A competitive environment is a critical pre-condition for any positive evolution of European market infrastructure. A competitive environment means both a state of competition between existing service providers, and the possibility for new service providers to enter the market. In particular, a level playing field for competition between all players should be ensured through authorising direct access to all concerned participants.

A new, neutral, pan-European service provider may provide additional possibilities to issuers and may contribute to a more competitive environment. However, further consideration must be given to whether these goals can be delivered with the existing infrastructures.

It is critical that the establishment of any new service should provide additional possibilities to market participants and should not lead to any prohibition on the use by market participants of any existing services.

Question 4b: Do you think that this service, as described above, exists today in the EU? If not, should it be offered by a private entity or a public entity, and why?

A private sector solution (i.e. MARS) is currently being built to automate the existing manual pre-issuance process. Once this framework is established, it is envisaged that a large portion of the market will use this platform. This means the pre-issuance toolkit outlined in the ECB’s proposal may be a duplication of an existing toolkit for issuers and investors. To this end, AFME members seek further clarity on the element of

³ <https://www.afme.eu/globalassets/downloads/publications/afme-ptd-roadmap-for-integrated-safe-and-efficient-pt-services.pdf>

the EDDI initiative which 'brings something that does not exist today' to the market and will not interfere with private sector initiatives.

In respect of the post-issuance component, we agree there may be benefits to developing a centralised debt security distribution model although it would be necessary to quantify the costs and benefits before any decision is made. There is concern that the current proposal may only add another layer of cost, and ultimately result in a lengthy project where real benefits fail to materialise to users.

Question 4c: Is there a need to combine both approaches, i.e. a Europe-wide harmonisation initiative and the provision of a European market infrastructure service, and why?

It is not entirely clear that there is a need to combine these approaches and without further analysis we remain to be convinced. Moreover, we believe that the ECB should further pursue its path on driving harmonisation in the industry without prescribing specific infrastructure to be used for this. Such harmonisation activities should also place greater emphasis on the remaining Post-Trade topics identified by the Harmonisation Steering Group and EPTF report, for example a standard withholding tax reclamation process.

Question 4d: Do you see a need for the Eurosystem to support those actions? If so, how?

The main problems relate to issuance in domestic CSDs, and the benefits for an issuance process in central bank money rather than commercial bank money. Significant investment has been made already into TARGET2-Securities (T2S). Any new service offering should be closely connected to T2S. Therefore, support from the Eurosystem will be important providing that these objectives can be achieved without adding significant additional cost.

EDDI: high-level description of the scope

Question 5a: What is your view regarding the inclusion of the pre-issuance and post-trade functions in a potential EDDI initiative?

Given the scale of what the EDDI proposal is seeking to achieve, it may be more efficient for the ECB to prioritise those issues that it is looking to address and focus on one or two of the most pressing issues.

On the pre-issuance component of the ECB's proposal, it is not clear if it will resolve any issues that are not already being addressed by private initiatives. Furthermore, these private sector initiatives offer more value to the wider market than the proposed EDDI pre-issuance component given their global and multi product scope.

There may be benefits from the development of a centralised debt security distribution model. However, at present, it appears that EDDI may only add another layer on top of central securities depositories (CSDs) and ultimately result in a lengthy project where real benefits to users fail to materialise. It should be clarified that in any case, EDDI will provide direct access to all participants including custodian banks.

Question 5b: What is your view regarding the concept of the optional and voluntary usage of the two EDDI components for all relevant EDDI stakeholders/users?

AFME supports the voluntary usage of the two EDDI components, if this will contribute to a more competitive environment and will not prohibit or restrict existing activities.

The topic of cost (who pays for the system) and the safeguarding of the data system including clarity on who will own and manage the EDDI data is of paramount importance and requires further explanation that should be addressed at an early stage. If costs are based on the principle of cost recovery, a robust and transparent cost benefit analysis will be required that can be shared with the wider marketplace.

In order to ensure that EDDI contributes to a more competitive environment, it is imperative that the framework is based on a principle of optionality at all levels. Members are highly concerned that the ECB may change its position on optionality in the future. Members do not encourage the development of a mandatory framework which would prohibit the ability of dealer banks to continue to provide value added services and counteract the aims of the initiative i.e. to create a level playing field. Should the framework be considered efficient by the market, market participants will move towards adopting the EDDI model.

Question 5c: What do you think are the relevant debt issuers that could benefit from, or would be interested in, issuing via EDDI and why?

The ECB states that all 'eligible and compliant debt issuers' could potentially assess whether they wish to issue via EDDI. This infers that EDDI will not only be offered to supranational and intergovernmental issuers with a European scope. Members anticipate that practically, only supranational and intergovernmental issuers will benefit from this component should they wish to arrange their own debt instruments. For all other debt issuance, members deem private initiatives best placed to develop efficient pre-issuance tools.

Question 5d: Should access to EDDI be restricted to certain classes of issuers? If so, why?

No. Despite the fact that private initiatives may be best placed to develop efficient pre-issuance tools, it would be difficult to justify such a restriction on competitive grounds.

Question 5e: How would the benefits of EDDI change if access to EDDI were restricted to certain classes of issuers, e.g. public or supranational, sub-sovereign and agency (SSA) issuers?

Although some issuers may favour private initiatives, restrictions on issuers would reduce the competitive benefits arising from EDDI and question the viability of the platform.

Question 5f: Should access to EDDI be restricted to certain CSDs?

No. There is no justification for such a step. On the Post-trade side, access to EDDI should not be restricted to CSDs. Custodian banks, paying/ issuing agents play an important role in the issuance and post-issuance processes and should therefore have equal access to EDDI post-trade, as is currently the case. This level playing field should exist independently of the EDDI platform.

Question 5g: In your view, which criteria should an EDDI service meet in order to be attractive for your institution?

AFME members believe any future EDDI service should be based on the following characteristics:

- Direct technical connectivity by issuer agents to the EDDI platform (pre-issuance and post-trade components)
- Direct technical connectivity by dealers to the EDDI platform (pre-issuance component)
- Integration of KYC process of investors which is usually outsourced to syndicate banks by issuers (pre-issuance)
- Direct access by custodians to the EDDI platform (as investor CSDs)
- Reuse to the greatest extent possible of the communications infrastructure of existing TARGET services
- Synergies in the use of EDDI and of other TARGET services (use of same T2 cash account, etc.)
- Further legal/ supervisory law harmonisation (e.g. securities law, prospectus liability, withholding tax procedures) as prerequisite of EDDI
- Clear, transparent, non-subsidised pricing structure.

EDDI's potential impact on the market

Question 6a: What are your views on the expected impact of EDDI on the market in general and on your institution in particular?

Positive impact:

- Contributes towards increased standardisation and lower cost in issuance in domestic CSDs
- Places domestic CSDs in a more competitive environment

Negative impact

- Additional layer of cost for unknown (at this stage) benefit.
- Common depository functionality: this functionality may cease to exist for debt instruments that are issued in EDDI instead of the ICSDs. This implies that the costs of those services within the infrastructure would also need to change.

Minimal impact:

- Issuance in the ICSDs. Issuance in the ICSDs already reaches pan-European and global investors, and as the ICSDs support issuance in multiple currencies, while EDDI will be limited to a very small number of currencies.

There are many elements where it is difficult to determine the impact. We list below areas where further transparency is required:

- What instruments will be in scope?
- Which issuance processes will be in scope?
- How will investors access the EDDI system for issuance and Post Trade?
- Where does responsibility lie with KYC/onboarding of investors?
- Is a phased approach to implementation anticipated (i.e. an initial launch with specific instruments with a widening of scope at a later stage)?
- Who will EDDI be contracting with and which risks are intended to be borne by the ECB?
- If order input/Bill & Deliver is undertaken via the platform, what does this mean for the banks' and issuers' AML, KYC and other regulatory responsibilities when issuing securities

Question 6b: Which other elements do you consider relevant regarding the potential impact of EDDI, beyond what is described above?

It should be clarified how EDDI can be beneficial for the whole of the markets in the context of:

- The broader CMU agenda
- As an appropriate issuance mechanism for a European safe asset
- The potential to encourage further European regulation in areas such as conflict of laws.

AFME would welcome further dialogue with the ECB on this last question.

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