

EUROPEAN DEBT DISTRIBUTION – SCOPE FOR IMPROVEMENTS?

Presentation to ECB DIMCG

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A PUBLIC ISSUER'S FOCUS

Final objective is to minimize execution risk:

- **Operational risk**
- **Maximum investor outreach**
- **Transparency of processes**
- **Efficient and fast processes**
- **Reliability and continuity**
- **Cost and resources of processes, fees**
- **Data protection**

...and to further develop a European 'domestic' market

CURRENT ISSUES – A PUBLIC ISSUER’S PERSPECTIVE (1)

Main issues for debt distribution today:

- **Lack of Digitisation** Outdated communication and market place: compare with distribution for goods and services, e.g. Amazon
- **Too slow** Long settlement periods: t+1 or instant is missing
- **Fees** High fees, no fee competition
- **Bank-to-issuer** Banks focus on bank-to-investor efficiency; bank-to-issuer seems out of scope [example: Direct Books initiative]
- **Bias in services** Guiding principles for providing an efficient market infrastructure are neutrality and harmonisation
 - Private and national service providers are biased, can't be neutral.
 - Harmonisation is in the interest of issuers and investors; no incentive for service providers to push for harmonisation

CURRENT ISSUES – A PUBLIC ISSUER’S PERSPECTIVE (2)

- **Banks’ role** Acting as intermediary. Providing tech not necessarily a bank role, rather creates dependencies for issuers and investors
- **Private initiatives** No private initiative came up with a market standard, pan European platform where issuers and investors efficiently meet and are not subject to dependency risks (commercial, monopolistic, continuity, geopolitical)
- **Fragmentation** Pre-issuance and post-trade services for debt distribution are splintered with a multitude of proprietary systems acting according to their own rules, legal statutes, and links between them
- **Fragmentation data** Importance of data collection, analytics, ownership for overall market efficiency not addressed so far
- **One-stop platform** A front-to-end digital debt distribution infrastructure for all debt distribution techniques (syndication, private placements and auctions) is missing. European financial markets lag years behind digital distribution for goods and services: e-bay, Amazon, AirBnB
- **Collateralisation** Access to high quality collateral fragmented

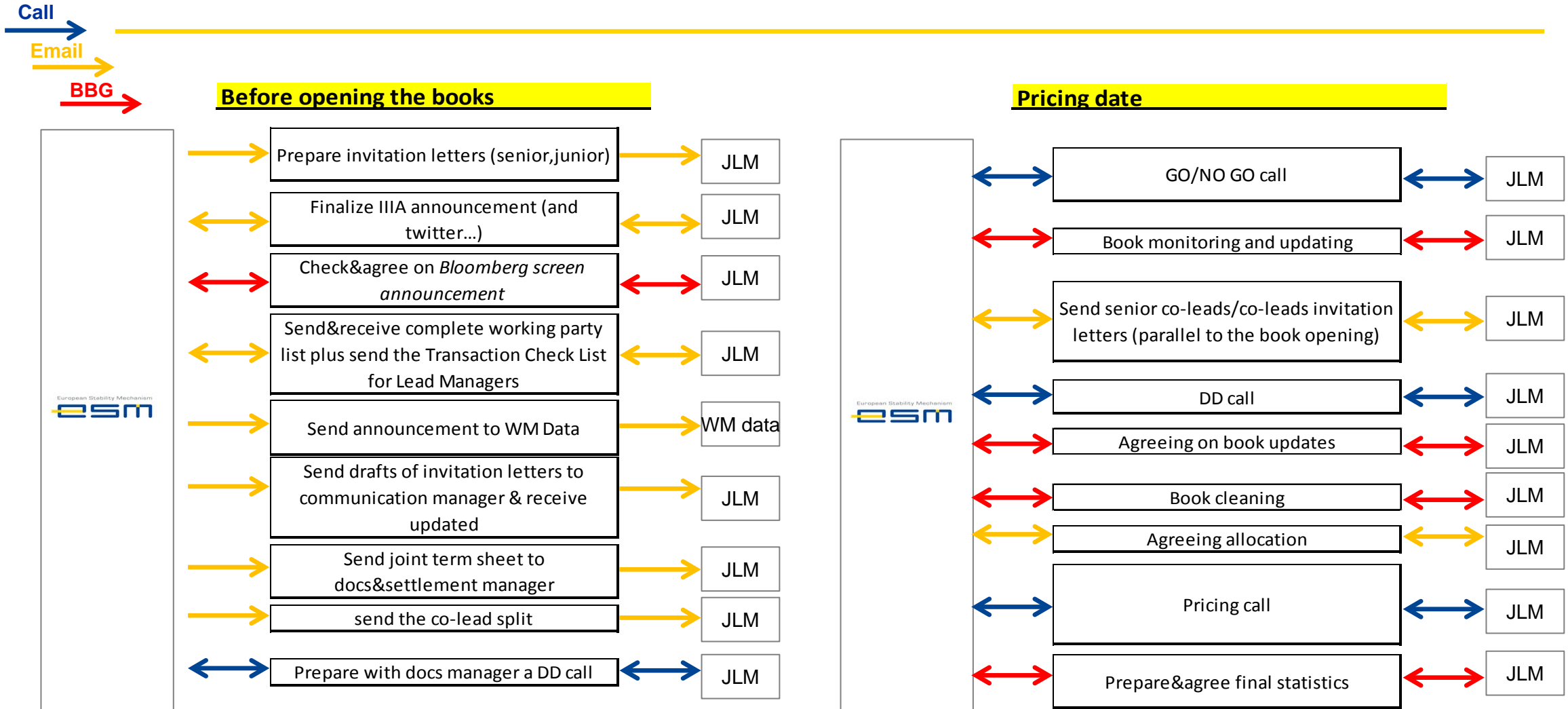
ISSUES AT STAKE – DIMCG ACTION POINTS BY AREA

- **Pre-trade processes**
- **Post-trade processes**
- **Governance risks**
- **European ‘domestic’ capital market**

PRE-TRADE PROCESSES

- Manual work, several media-breaks and a lack of standardisation
- Use of different communication channels, lack of coordination in the communication regularly leads to misunderstandings and multiple investor outreach
- Issuers receive order books in different formats which makes automated processing difficult to impossible and creates technical issues
- Investor identification remains an issue. Content of order books often unclear. Consolidation time consuming
- Outdated tech complexity: log-ins, data imports, browsers, fire-walls,...

PRE-TRADE: AS IS SITUATION



PRE-TRADE – DIMCG TO LOOK AT....

... the pre-trade processes and assess potential for harmonization, standardization and digital automation. It should evaluate scope and magnitude of cost savings and risk reduction compared to the legacy infrastructure

- Standardized order book including direct investor access
- investor identification and on-boarding
- Automation of announcements, final term sheets, legal docs
- Reduce e-mails, as they are inefficient and a security risk
- Ownership and usage of data
- Acceleration of processes (allocation, distribution of information)
- ISIN usage and centralized ISIN administration
- Digitization and streamlining of processes
- Blockchain to be considered for technical solutions?

POST-TRADE PROCESSES – THE ISSUER’S PERSPECTIVE (1)

DIMCG should assess risks and costs of current splintered post-trade processes

DIMCG should consider digital issuance techniques as potential drivers for leaner processes and structural improvements

- Issuer’s objective
 - **Reach all potential investors, no access burdens depending on their location**
 - **Smooth and safe settlement process, no liquidity risk on the settlement day**
- Issuer’s ideal
 - **STP from pre-issuance to post trade and settlement**

POST-TRADE PROCESSES – THE ISSUER’S PERSPECTIVE (2)

- Issuer’s current
 - **Efficiency of issuer-to-investor and investor-to-issuer depends on respective locations**
 - **Post-trade processes are complex**
 - **Multiple settlement chains create settlement and liquidity risk**
 - **Transaction cost depending on the location of actors**
- Evolution to dematerialized issuances, modern management of data and docs, may allow for leaner set-up

EUROPEAN ‘DOMESTIC’ CAPITAL MARKET

DIMCG should tack stock of divergent conventions and assess scope for harmonisation. DIMCG should analyse the impact of multiplicity of national issuance processes on financial integration

- European financial markets are still fragmented and not sufficiently harmonized in their infrastructure and conventions.
- Lack of harmonisation makes euro denominated debt less attractive to international investors
- Country specific infrastructures lead debt issuers to prefer their domestic dealers and agents and complicates settlement processes
- This cements the fragmentation of the EA capital market for debt instruments
- It prevents the national eco-systems to converge to a European “domestic” market and to become deeper, more liquid, and more resilient
- Finally it prevents the euro from taking a stronger role in the international monetary system

GOVERNANCE RISKS

DIMCG should evaluate critical dependency risks and propose risk mitigation measures

- Globalisation requires harmonisation and standardisation
- Digitisation allows for standardisation
- Both come along with increased commercial and geopolitical dependency risks
 - Change of ownership, business model
 - Data protection and usage/analytics
 - State interventions

GOVERNANCE RISKS – THE ISSUES IN DETAIL (1)

Proliferation of platforms leads to risks of discontinuity and prevent harmonisation or risk of monopolisation

- Platforms evolving in the private sector will not be aligned, forcing participants to deal with different standards and systems.
- In case one provider will become the major one, it will create a de-facto monopoly. This provider will set the standards and fees, which might not be in the best interest of issuers (booking.com).

Data ownership, intelligence and control is of high importance.

- Digital financial systems are collecting large amount of confidential private data.
- This data and the control of it will gain strategic importance for general market intelligence, best access to investors and debt distribution capacities.
- This data have the potential to become a key capacity for public debt distribution.
- This data and the ownership needs to be protected.

GOVERNANCE RISKS – THE ISSUES IN DETAIL (2)

Political dependency can expose European issuers and investors to high operational risk and cost.

- Critical debt infrastructure provided by non-European banks implies exposure to geopolitical decisions (such as embargos) beyond control of European financial actors. Particular relevance in times of crisis.

DIMCG ACTION POINTS – THE ISSUER’S PERSPECTIVE

Pre-trade

- DIMCG should look at the pre-trade processes and assess potential for harmonization, standardization and digital automation
- DIMCG should evaluate scope and magnitude of cost savings and risk reduction compared to the legacy infrastructure

Post-trade

- DIMCG should assess risks and costs of current splintered processes
- DIMCG should consider digital issuance techniques as drivers for leaner post-trade processes and structural improvements

European ‘domestic’ market

- DIMCG should tack stock of divergent conventions and assess scope for harmonisation
- DIMCG should analyse the impact of multiplicity of national issuance processes on financial integration

Governance risks

- DIMCG should evaluate critical dependency risks and propose risk mitigation measures



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