



FINAL DRAFT

12/09/2007

Version 1.0

Task force Unbundling of Services

Glossary

– Definitions of Services relevant to the Code of Conduct –

Version 1.0



FINAL DRAFT

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Table of Contents

1. Introduction.....	3
1.1 Implementation of the Code of Conduct	3
2. Glossary.....	4
2.1. A.....	4
2.2. B.....	4
2.3. C.....	4
2.4. I.....	5
2.5. S.....	5
2.6. T.....	6
2.7. U.....	6
2.8. V.....	6
3. Sources	7



FINAL DRAFT

12/09/2007

Version 1.0

1. Introduction

1.1 Implementation of the Code of Conduct

On 7 November 2006, the three major European industry organisations in the area of trading, clearing and settlement, represented by the Federation of European Securities Exchanges (FESE), the European Association of Central Counterparty Clearing Houses (EACH) and the European Central Securities Depositories Association (ECSDA) agreed on a Code of Conduct for Clearing and Settlement for cash equities, which was presented to and signed by EU Commissioner Charlie McCreevy on the same day. The exchanges, clearing houses and central securities depositories signing the code share the objective of achieving greater efficiency and further integration of European capital markets. The objective of the Code of Conduct – in line with the objectives of the European Commission – is therefore to allow investors to trade, clear and settle cash equities in Europe within a consistent, coherent and cost-efficient European framework.

In this respect, the ultimate aim is to offer market participants the freedom to choose their preferred provider of cash equity services separately at each layer of the transaction chain (trading, clearing, and settlement) and to make the concept of “cross-border” redundant for cash equity transactions within Europe. To this end, the Code defines cornerstones aimed at the improvement of open and transparent access to post-trading services with a view to achieve greater interoperability.

According to the Code of Conduct, the organisations committed themselves to implement measures on “price transparency”, “access and interoperability” and “service unbundling and accounting separation”. As a next step industry services will be unbundled and the corresponding accounting will be separated by end of December 2007.

As a basis for the implementation of CSD Service Unbundling, this glossary includes all relevant definitions, referring exclusively to the context of the Code of Conduct. The glossary is mainly based upon the “Report on Definitions” by the European Commission (CESAME meeting 24th October 2005) and was expanded by the participants of the Task Force Unbundling. This document will be updated as needed.



FINAL DRAFT

12/09/2007

Version 1.0

2. Glossary

2.1. A

Account providing

The maintenance of securities accounts. [3]

Asset servicing

Securities administration activities performed for others, e.g., processing of corporate actions, tax reclaims and portfolio valuation. [3]

2.2. B

Establishing securities in book-entry form

The initial representation and subsequent maintenance of securities in book-entry form through initial credits and subsequent credits or debits to securities accounts, on the basis of: (a) the information provided by the issuer or its agent; or (b) the number of securities on deposit. [3]

Book-entry-settlement

The act of crediting and debiting the transferee's and transferor's accounts respectively, with the aim of completing a transaction in securities. [3]

2.3. C

Cash Equities

Cash equities are securities which are negotiable on capital markets and are defined as shares in companies and other securities equivalent to shares in companies, partnerships or other entities, and depositary receipts in respect of shares. [4]

Central Counterparty (CCP) Clearing

The process by which a third party interposes itself, directly or indirectly, between the transaction counterparties in order to assume their rights and obligations, acting as the direct or indirect buyer to every seller and the direct or indirect seller to every buyer. [3]



FINAL DRAFT

12/09/2007

Version 1.0

Clearing (Central Securities Depository – CSD)

The process of establishing settlement positions, possibly including the calculation of net positions, and the process of checking that securities, cash or both are available. [3]

Collateral management

Collateral management services offered by a CSD include the process used to control the correspondence between the market value of the collateral and the required value of the collateral. [2] The service will generally also include generation and processing of collateral movements.

Credit provision

A CSD may provide credit lines in commercial bank money for short term (intraday or intra night) use, with as main purpose to facilitate the technical settlement process, thereby increasing settlement efficiency. Such credit provision in commercial bank money implies that the CSD providing such credit lines possesses a banking licence and performs related banking activities. [4]

2.4. I

Investor CSD

The CSD that holds an account with the issuer–CSD is often referred to as investor-CSD. [3]

Issuer CSD

The CSD which has established securities of a certain issue in book-entry form and which provides the account is often referred to as issuer-CSD for that issue. [3]

(Addendum: The Code of Conduct comprises the provision of “settlement and custody services by parties offering issuer CSD services” (p.3, II.6))

2.5. S

Securities lending and borrowing services

Securities lending and borrowing services offered by a CSD facilitate the temporary transfer of securities from a securities lender to a securities borrower, thereby increasing settlement efficiency. The service is generally performed on a collateralized basis. [5]



FINAL DRAFT

12/09/2007

Version 1.0

(Book-Entry) Settlement

The act of crediting and debiting the transferee's and transferor's accounts respectively, with the aim of completing a transaction in securities. [3]

2.6. T

Trading

Trading is the process whereby two counterparties reach an agreement with regard to buying and selling securities. Each trade can be considered as a contractual agreement between a buyer and a seller, who agree to exchange a certain amount of securities for a certain amount of cash. [1]

2.7. U

Unbundling

Unbundling is the separate offering of services (as defined in article 39 of the Code of Conduct) which will allow any customer to purchase a single service without compelling that customer to purchase also another single service. In order to allow automated processing of CSD services, it is a prerequisite for any direct customer of a CSD to open and hold an account with the CSD. [4]

2.8. V

Verification

The process of comparison and reconciliation of transaction or settlement details to ensure that there is agreement on these details. [3]



FINAL DRAFT

12/09/2007

Version 1.0

3. Sources

- [1] European Central Bank
- [2] European Commission: Code of Conduct
- [3] European Commission: Report of Definitions, 2005
- [4] ECSDA Task force “service unbundling”
- [5] The International Securities Lending Association, “An Introduction to Securities Lending”, 2004