EUROPEAN CENTRAL BANK
EUROSYSTEM

Presentation

European Distribution of Debt Instruments (EDDI) initiative

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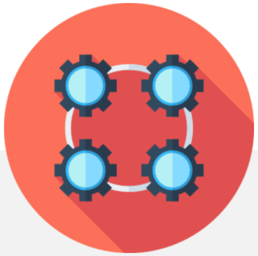
Table of contents

In a single capital market within a currency area:



Issuers and investors should interact within a **single process**

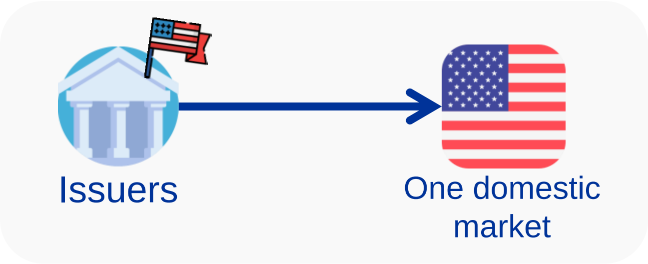
Risks and costs should be **independent on the location** of counterparties

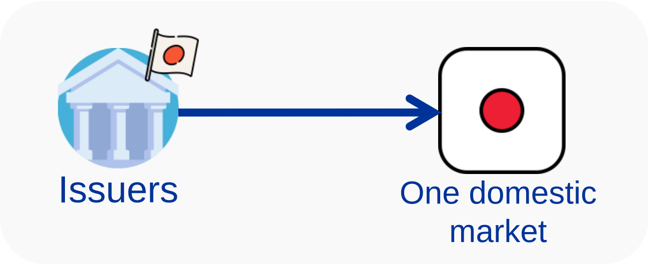
There should be **no cross-border dimension** but only a domestic one

As a **result**, the market is:

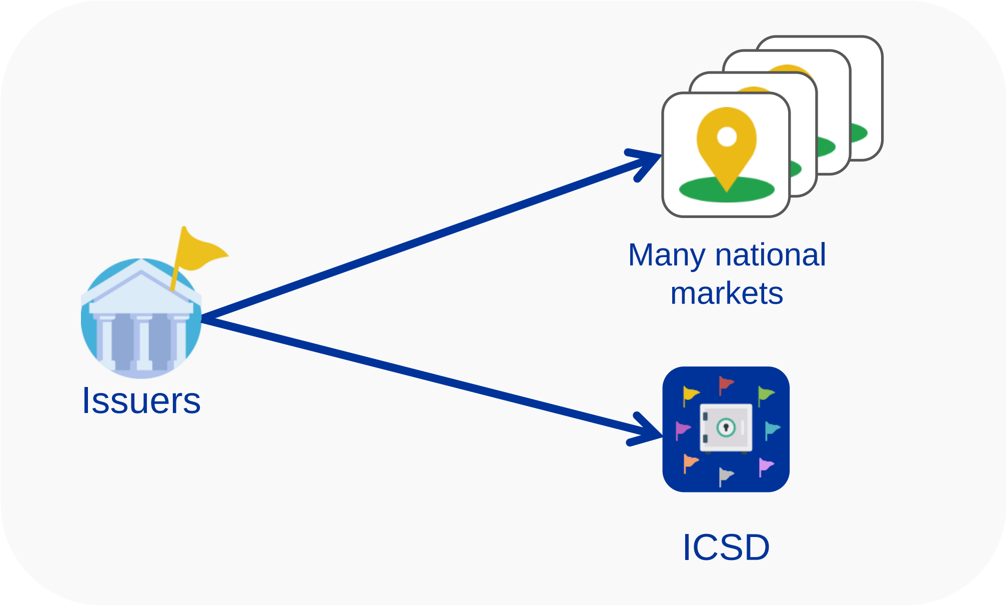
- **More attractive** to foreign investors
- **More resilient** due to private risk sharing
- Providing a **buffer** against systemic shocks
- **Neutral** and provides a level playing field

In US or Japan

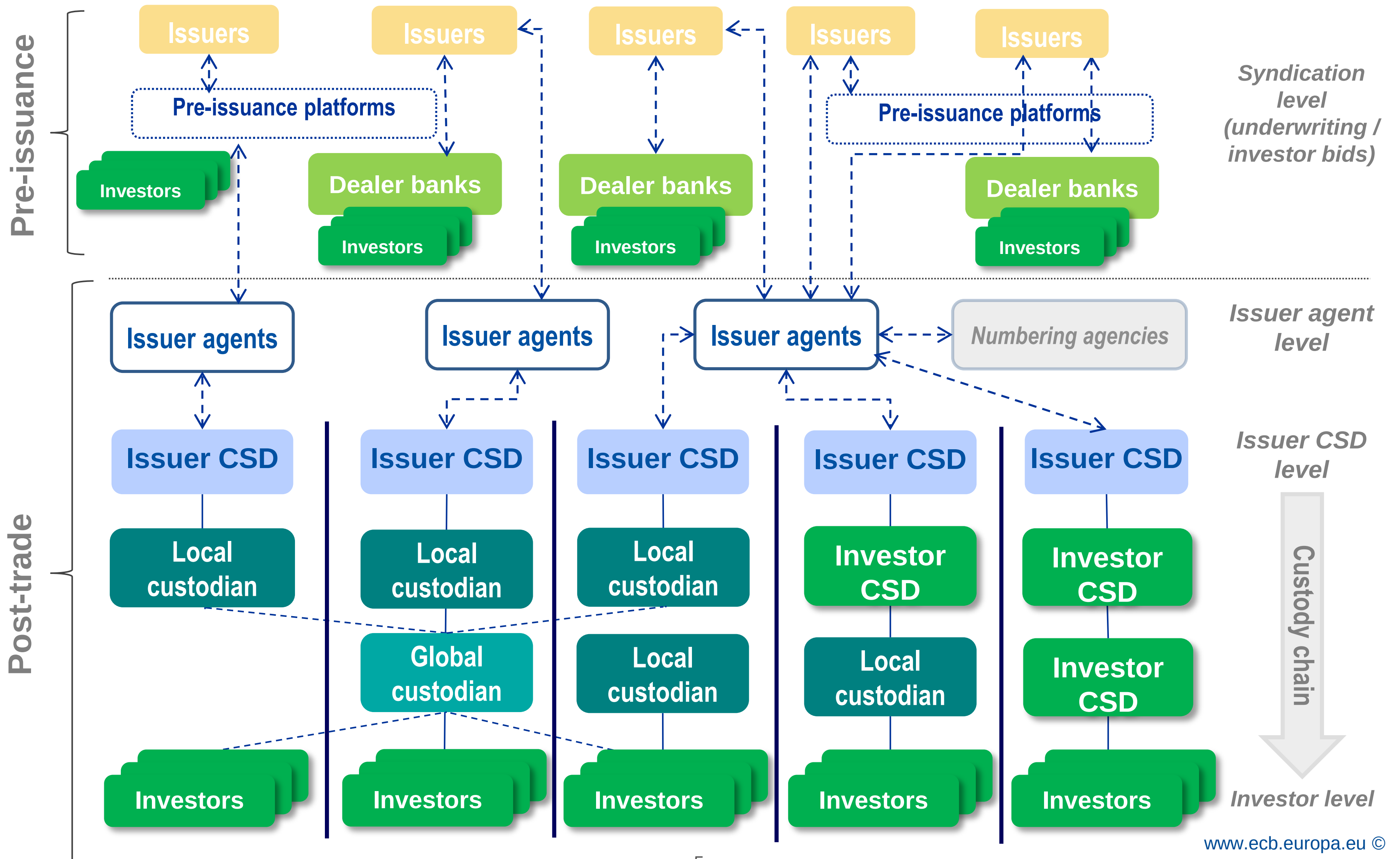




In the EU



Overview of existing sec. distribution ecosystem



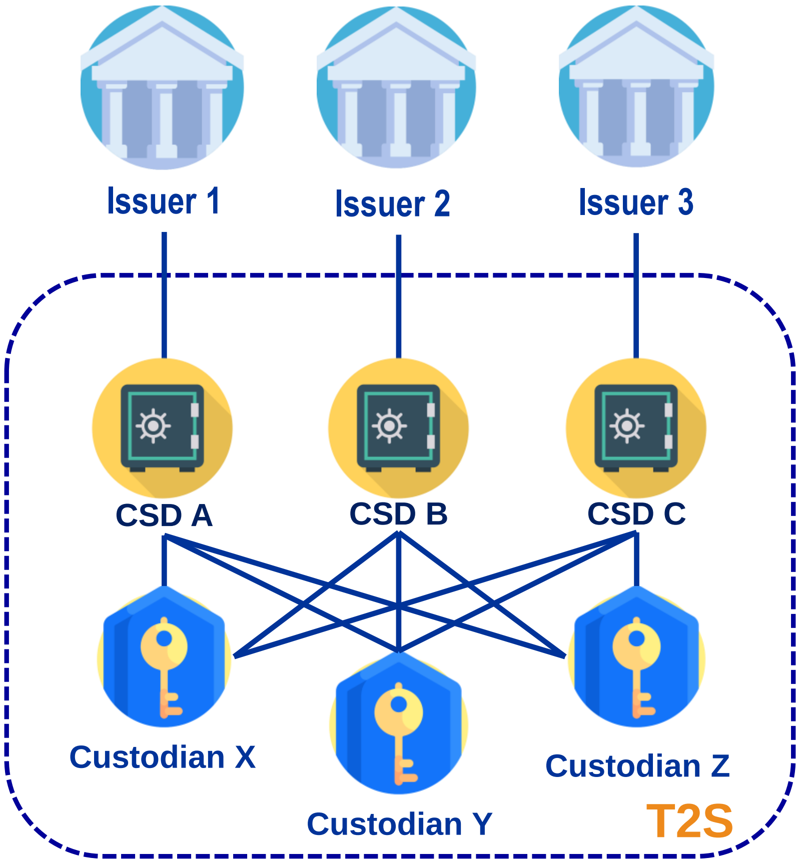
Current limitations for market actors

Debt issuance restrained to **one issuance location**

- Prevents issuance in a neutral and EU-wide way
- Reinforces home bias / lack of euro area risk sharing
- Could be a barrier to pan-European investment

Market actors need to connect to **many issuance locations**

- Implies complexity and higher costs
- Creates challenges for the pooling of liquidity and collateral
- Creates monopolistic landscape/silos



Potential for improving Financial Integration in the EU debt market

- Financial Integration Report: **bonds** issued by a euro area issuer are more than one and half times more **likely to be held by domestic** than by other euro area **investors**[1]

- Primary issuance: only about **5% of debt securities** eligible as Eurosystem collateral are **issued with a non-domestic CSD**[2]

- T2S settlement statistics: only around **1% of transactions** settled in T2S are taking place **between counterparties of different CSDs**[3]

1: ECB, May 2018
2: Information based on the Eurosystem eligible collateral database.
In addition, about 20% are issued with the ICSDs which can also be considered as non-domestic
3: T2S Annual Report, 2018

Major developments in the securities trading and post-trade layer towards European integration

Regulation

- CSDR
- MIFID
- EMIR

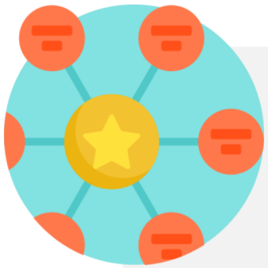
Infrastructure

- TARGET2
- TARGET2-Securities (T2S)
- TARGET Instant Payment Settlement (TIPS)
- Eurosystem Collateral Management System (ECMS)

Harmonisation

- T2S Harmonisation agenda (ISO Messages, T+2, settlement finality, T2S corporate actions)
- Market Standards for Corporate Actions Processing

Remaining gap towards a true EU domestic market



No pan-European issuance channel

Unlike other currency areas, issuers and investors in the euro area have to resort to either **national** or **international channels** to issue and distribute debt instruments.

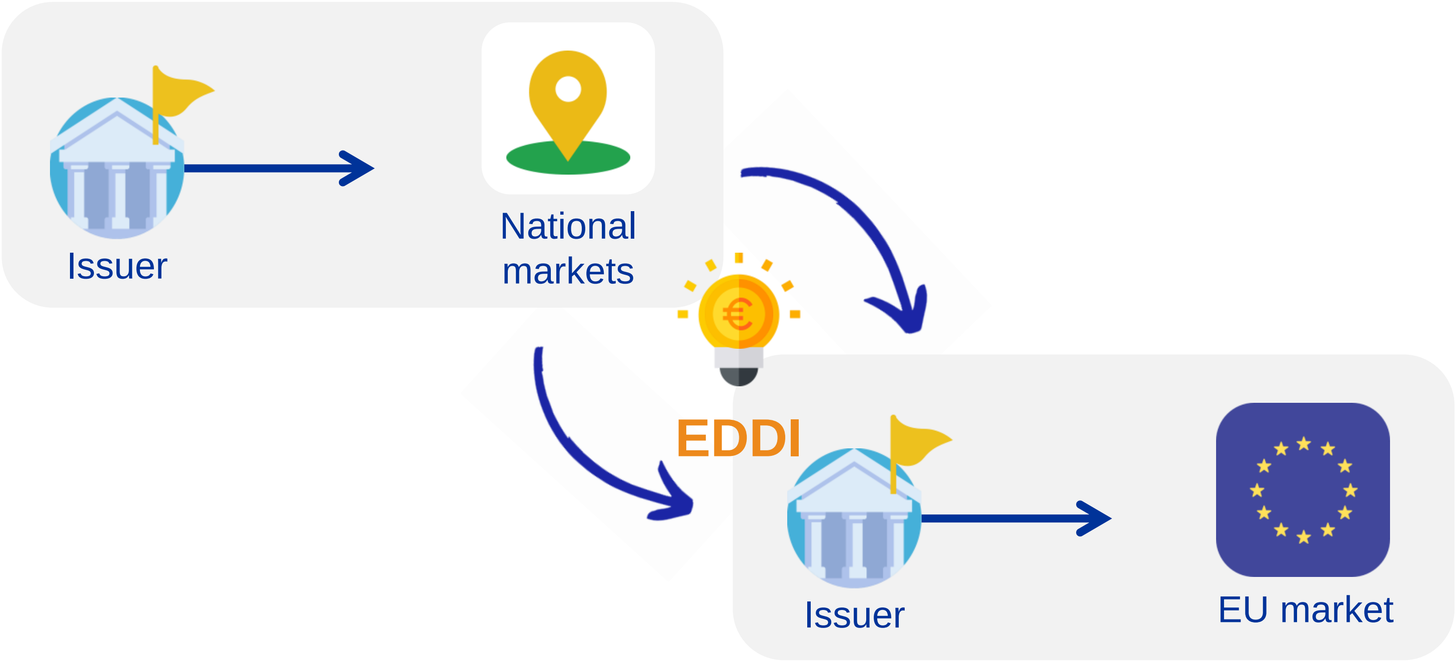
Lack of harmonisation and process integration

The current solutions supporting (pre-) issuance and initial distribution activities are neither **interoperable** nor **standarised**.

Table of contents

European Distribution of Debt Instruments (EDDI) – a pan-European gateway for debt securities

EDDI aims to **support integration** in the current issuance and initial distribution ecosystem in the EU by providing new choice of location of issuance



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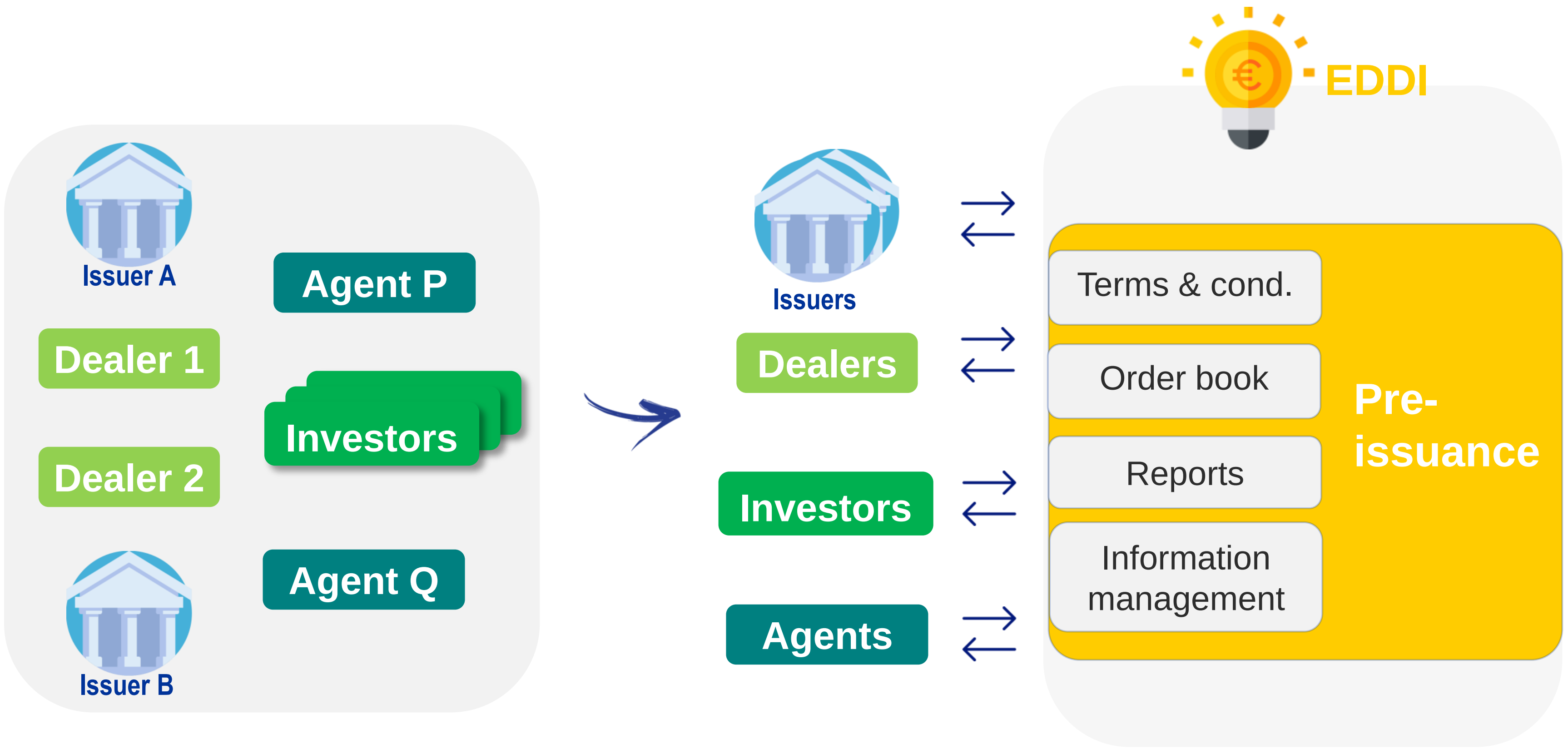
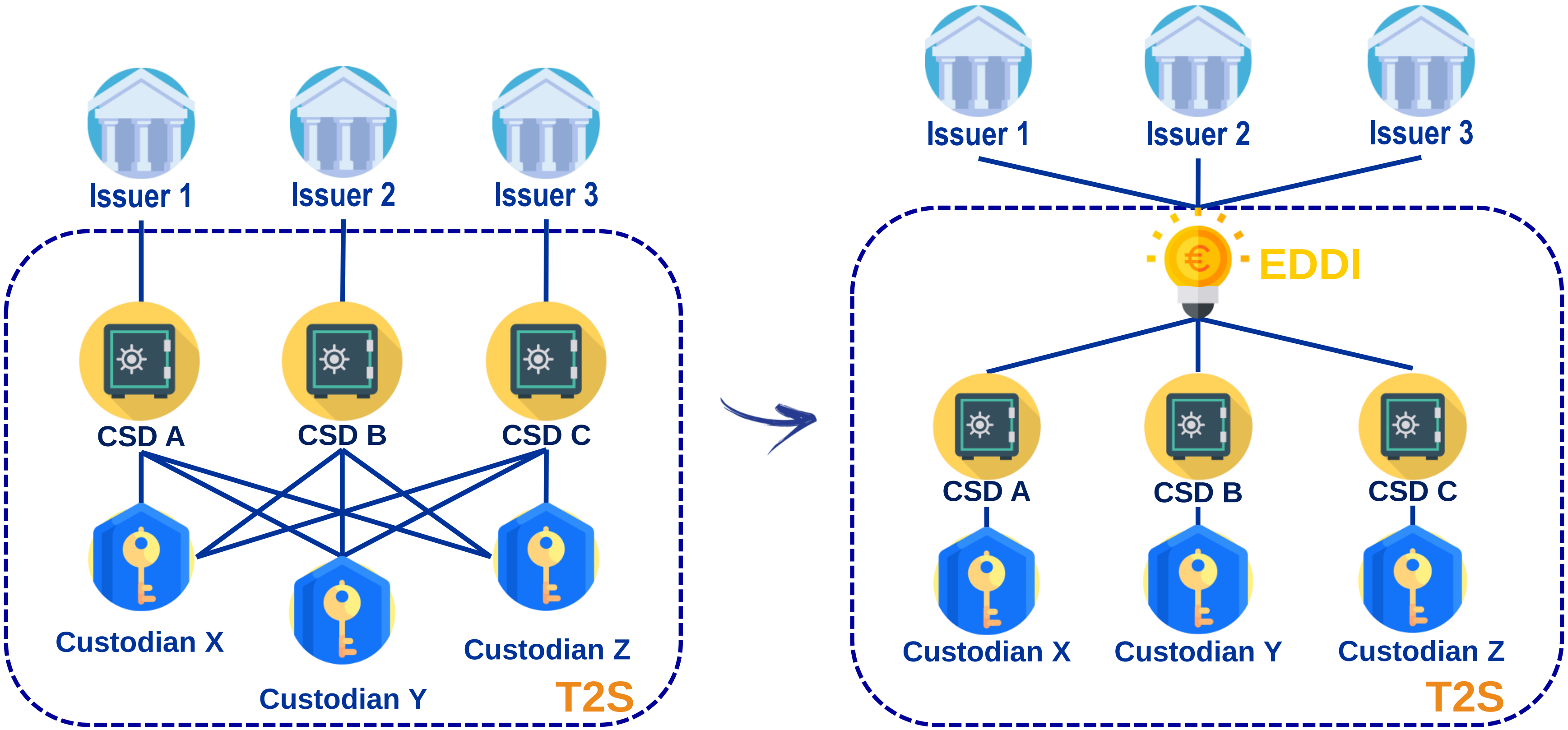
Pre-issuance

EDDI **standardised technical toolkit** to support the debt issuance process of existing market actors



Post-trade

EDDI facilitates CSDs to provide a **service** to European issuers to issue debt securities into **all national markets on an equal basis** (i.e. a domestic EU market)



Harmonisation

EDDI would bring **standardisation** due to its specification/implementation.

- Standardised/single order book
- Standardised Investor ID
- Common interfaces
- Usage and assignment of EDDI (European) ISIN prefix
- Timelines and cut-off times

EDDI could also support **further harmonisation and standardisation**:

- **A European Debt Instrument (technical) standard**
    - Standardised term sheet template
    - Harmonised rounding and day-count conventions
- Revisit withholding tax procedures initiatives (CMU)

The three elements of EDDI are interdependent and complementary

Pre-issuance

Post-trade

Harmonisation

Payments, securities and collateral in Central Bank Money

Instant payments

Multi-currency services

Harmonised settlement procedures

Optimised liquidity management

Debt issuance and its initial distribution

Monetary policy operations

Single gateway for collateral management

Benefits of EDDI

Harmonisation

From pre-issuance to post-trade procedures

Interoperability

with external platforms and private solutions

Neutrality

Level playing field for issuers, CSDs and custodians

Safety and efficiency

of Central Bank Money settlement

Eurosystem service

Reliable provider of market infrastructures

Table of contents

Scope of EDDI

Instruments

- EDDI shall support **debt instruments only**
- Instruments need to be in line with a **European debt instrument (technical) standard**

Stakeholders

- The EDDI service shall be provided to debt **issuers (for pre-issuance)** and **CSDs (for post-trade)**
- Issuers may grant **technical access** to **investors, dealer banks** and **agents** for pre-issuance activities

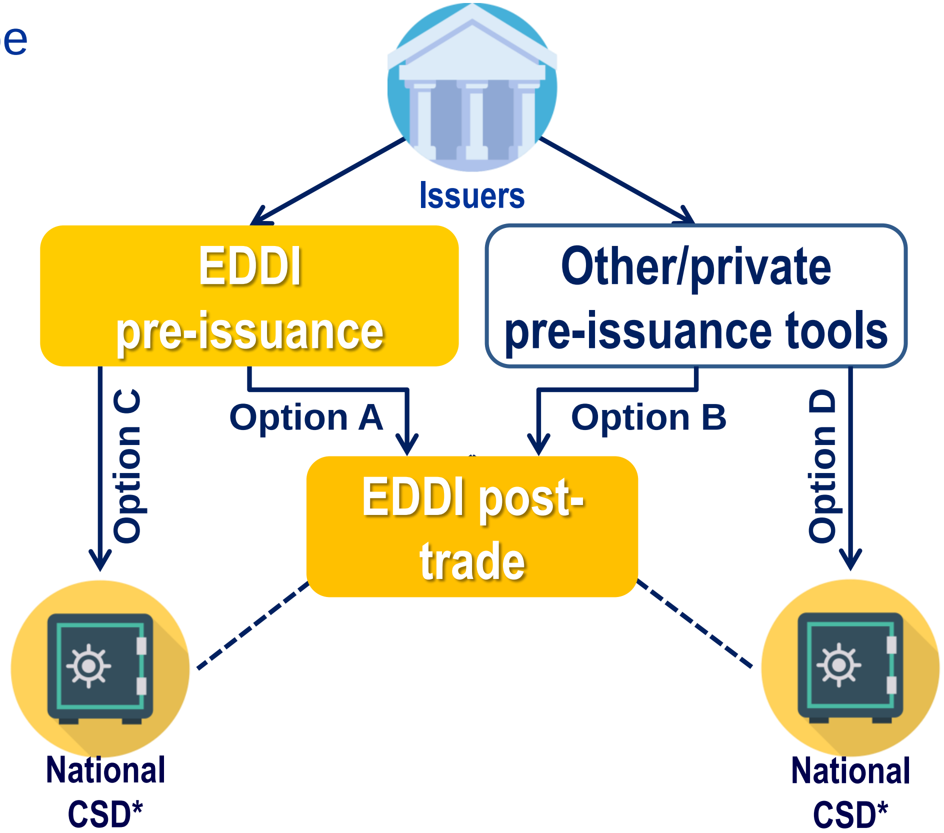
Options to use EDDI

- The usage of the EDDI components (pre-issuance and post-trade) will be **flexible and modular**, depending on the issuers' needs

- EDDI allows issuers who opt to use **other tools** for the pre-issuance to benefit from EDDI for the post-trade (and vice-versa)

- Issuers shall continue to **define their placement methods**, e.g. syndication

- **Disintermediation is not an EDDI objective**



* Can be inside or outside T2S

Table of contents

Q1: Why are issuers interested in EDDI if the market works today?

- Issuers face today procedures that **have not changed since decades** and still heavily rely on manual interaction and low level of automation. A standardised and innovative **European solution is long overdue**
- There is limited extent of harmonisation – lot of **operational efficiency (and potentially cost savings) to be gained**
- A truly European reach and a standardised and neutral issuance and distribution channel should foster the **attractiveness for issuing in EUR and support a single liquidity pool in the TARGET Services (in Central Bank Money)**
- Creation of an EU **benchmark** debt instrument via the support of the European Debt Instrument (technical) standard

Q2: European investors seem to have access to all securities in Europe. What is the problem?

- Debt instruments issued in **different national markets** are subject to **different procedures and costs**
- **No EU wide standard**, no overview, no common communication channel
- **Different level of risk, cost and information**, due to current network of intermediaries and infrastructures to reach out to the “home” location of issuance
- Investment limitations in non-domestic ISINs (could be **solved by European Debt Issuance (technical) standard** and **common ISIN prefix**)
- Confusion for international investors (and also issuers) about European debt issuance market. Some may restrain from investing in EU still, i.e. **No European domestic market**

Q3: Will EDDI affect the current relationship between issuers and dealer banks?

- No. EDDI is a **technical toolkit to be** provided, on a voluntary basis, to issuers and other market participants authorised by them (e.g. agents, banks, investors) in order to support them in the efficient processing of a debt issuance
- Dealer banks may continue to provide the **value added services they offer to issuers:** underwriting, investors relationship, due diligence, secondary market liquidity, etc.
- **EDDI does not aim at disintermediation.** It is up to the issuers to choose the issuance business models that best serve their needs, with or without the usage of the EDDI components

Q4: Will EDDI interfere with private sector initiatives?

- No. EDDI brings something that **does not exist today**.
- The EDDI scope (pre-issuance, post trade and harmonisation in a multilateral European governance) is wider and complete end to end, compared with existing proposals.
- The EDDI service will be **compatible with alternative issuance platforms**
- As EDDI will be offered in a **modular approach**, issuers will be able to continue using other pre-issuance tools available in the market and still benefit from the pan-European reach offered by the EDDI post-trade
- The ECB cannot offer the post-trade part of EDDI without the close collaboration with the existing national CSDs. The EDDI post-trade will only **complement the features already offered today** by the Eurosystem to European CSDs via the T2S platform

Q5: Will debt issuance become more expensive due to EDDI? Does it increase complexity of the issuance process?

- No. EDDI will not be an additional layer of operations but an **additional option** offered to issuers to issue in the domestic EU market
- The users of EDDI will have the option to control and affect the costs of the service by defining the concrete requirements and system specifications (via EDDI governance)
- **Not-for-profit service but full cost recovery**
- EDDI will provide for the first time a **single front-to-end service** for the issuance and initial distribution of debt instruments in Europe
- Some **benefits of EDDI** may not result in immediate cost savings but should be **considered for the long term cost-benefit assessment**
  - standardisation and harmonisation;
  - Potentially shorter settlement cycles;
  - single liquidity pool in EU in CeBM;
  - increased relevance of EU as place for foreign investments

Q6: Is EDDI offered only to supranational/intergovernmental issuers with a European scope?

- No. All eligible and compliant debt issuers could potentially assess whether they wish to issue via EDDI
- Regardless of whether they use EDDI or not, all issuers could indirectly **benefit from EU wide harmonisation fostered by EDDI standards.**
- The establishment of technical standards and harmonisation of procedures will potentially lead to **cost reduction and efficiency gains for the whole European financial market community**
- Issuing via EDDI and in line with European standards could **attract more international investors** who do not yet reach some issuers today

Q7: Could EDDI create a two (or more) tier issuer landscape; premium debt via EDDI and the rest?

- Possibly. Regardless of the establishment of EDDI or not, there is **already a tiered system**, which is inherently linked to the differences of quality (e.g. level of risks) between securities
- EDDI would never change the quality of asset itself but it may create a **European benchmark technical standard which should support all issuers, independently of their ranking.** This is presumably what all European stakeholders aspire to

Q8: Will the creation of EDDI affect the role of smaller Issuer CSDs?

- Current status quo, also influenced by CSDR, T2S etc. already opens up the **competitive environment** in Europe
- **The concept of EDDI is that the existing national CSDs, big or small, will be part of the EDDI post-trade offering to the market**
- It is true that, in the case of securities issued via EDDI, the new model **opens up the location of issuance to more competition**.
- **Improving competition** in the market infrastructure layer cannot be considered a con but a pro for the EDDI initiative

Q9: The real issue is divergent national legal provisions. Should efforts for a European solution aim to overcome these limitations first?

- **Potential gaps between law of instrument and law of issuance** may exist today in the context of cross-border transactions in T2S or in some multi-issuance models.
- However, the concrete evidence provided from the T2S stakeholders (i.e. NCBs, banks, CSDs, associations in the T2S Advisory Group) to the EC services in the context of CMU has been negligible.
- We may identify that some national regulatory and legal aspects may require adaptation in order to provide a fully efficient EDDI interaction. **EDDI could only support, as a catalyst, further if not complete, harmonisation in this area**

Q10: The real issue is divergent fiscal national procedures. Should efforts for a European solution aim to overcome these limitations first?

- These limitations do exist but waiting to be waved voluntarily and without a European wide initiative is usually proven ineffective. **A European** project with a multilateral stakeholders governance arrangement **creates momentum** for all actors, private and public, to take action (see T2S harmonisation agenda)
- EDDI could be launched with existing Withholding Tax Procedures but the launch of **EDDI could provide the catalyst** for a more focused and prioritised discussion within the context of the CMU agenda

Table of contents

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Market consultation

A potential new service for the issuance and initial distribution of debt instruments in the EU

Deadline: 9 July 2019

Next steps

21 June — ECB market event

9 July — Deadline for market consultation

Q4 2019 — Eurosystem to consider the follow actions

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Thank you for the attention!

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