



We can see (more) clearly now.

While the eurozone crisis continues, there is at least some more concrete news on the regulatory initiatives we have covered in recent months. This is reassuring as we see greater clarity and certainty on regulatory requirements and can push ahead with our various strategic initiatives.

First and foremost, as you will discover in this issue, the main news for us has been the European Commission's proposal to finally issue a CSD Regulation ("RCSD"). In terms of the impact of the proposal on SIX Securities Services, there is probably not much to add to what we described in our last issue.

The contents of the RCSD can also be linked to our approach to T2S. This month our Board will discuss and define the approach we plan to take. In addition, we have also received assurances from the ECB that as long as we meet the deadline for signing the Framework Agreement as a participating CSD, then they will remain open to the manner in which SIX Securities Services connects to the T2S Platform.

Another bit of good news is that EMIR has finally been agreed by the EU institutions, which also means that progress can be made on other fronts: the EU is a step nearer to meeting the end-2012 G-20 commitments, and ESMA now has a firm text on which to base its Technical Standards.

To complete the regulatory picture, around Easter we expect the revised CPSS-IOSCO Principles for Financial Market Infrastructures and the accompanying Assessment Methodology to be published.

You will find all this and more in this quarter's edition of Oversight. Looks like it's going to be a busy year.

Thomas Zeeb
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SIX Securities Services

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Oversight

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Welcome to Oversight - our quarterly update on market policy developments and the regulatory landscape. If you would like to subscribe to this newsletter electronically please send an e-mail to oversight@six-group.com

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The EU Legislative Programme on Market Infrastructures

The Commission proposal on CSD Regulation was issued, while The Council and European Parliament have agreed the text of EMIR while the MiFID proposals continue to be negotiated.

General Outlook

Changes since the last edition of Oversight are highlighted in bold in the table below:

Segment of the Value Chain	Measure	Proposed (Published)	Adopted (Finalised)
Trading	Review of MiFIDII/MiFIR	20 October 2011	End - 2013 ?
Clearing	EMIR	15 September 2010	Q1 2012
Settlement	RCSD	7 March 2012	End - 2013 ?
Underpinning Law	Securities Law Directive (SLD)	Q4 2012	End - 2015 ?

Regulation on Central Securities Depositories (RCSD)

The European Commission issued its long-awaited proposal on 7 March. The content pretty much followed the version leaked in October, most of which is palatable, except the proposal to compartmentalise the so-called "banking-type services". Essentially, this will force CSDs in Europe to split services such as cash accounts, principal securities lending and commercial bank settlement into a separate legally incorporated subsidiary unless it obtains a derogation to maintain its existing structure. This separation will not only be inefficient, requiring a separation of hitherto integrated risk management processes, but also flies in the face of global efforts to mitigate systemic risk by consolidating risk management in infrastructures such as CSDs and CCPs. It is also inconsistent with the potential effects of T2S in shifting CSDs down the value curve to offer competitive post-trade services, as well as existing EU proposals such as EMIR which do not force CCPs to become banks.

Other harmonising aspects of the proposal, such as introducing T+2 settlement, freedom of issue into a CSD of choice, common authorisation, supervision and risk management requirements, together with the treatment of Third Country CSDs, are broadly welcomed.

EMIR

The Trialogue held between the European Parliament (EP), the Commission and the Council finally agreed to a compromise deal on the text of EMIR on 9 February. The main sticking point was the role of ESMA in intervening in disputes between regulators - notably where the supervisor college disagreed over the authorisation of a CCP. The EP had been arguing, in particular, for more powers for ESMA in this specific respect as well as more generally. The agreement



Keeping track of the flood of regulation remains a challenge.

was ratified by the Ecofin Council on 21 February, and returns to the EP for a plenary vote at the end of March. Meanwhile, on 16 February ESMA launched its long-awaited consultation on the Technical Standards underpinning EMIR (lasting until 19 March), covering aspects such as the clearing obligation, access to CCPs, organisational requirements such as governance, and risk management including margining practices, default fund, liquidity risk and stress-testing, as well as reporting to Trade Repositories.

ESMA held an initial hearing in Paris on 6 March. Further Technical Standards will need to be developed by the EBA in relation to the Technical Standards pertaining to capital requirements, and this will be complemented by the work of all three European Supervisory Authorities which will cover risk mitigation techniques, including capital requirements and collateral aspects, for OTC derivatives that are not cleared by a CCP.

We have been closely following the issue of authorisation of Third Country CCPs. SIX x-clear Ltd

will need to be licensed again by ESMA during the course of 2013. The recently agreed text of EMIR makes it clear that the Third Country must provide a regime that is effectively equivalent to that of the EU, including provisions for mutual recognition.

Revision of the Market in the Financial Instruments Directive (MiFID II/MiFIR)

Following the proposal issued in October, discussions have continued in the Council under the Danish Presidency, and the EP has begun its consideration of the texts. The EP held a hearing in December and launched a questionnaire, which solicited no fewer than 194 responses. The main items of discussion and controversy appear to arise around whether a new category of trading venue - the OTF - should be introduced. The degree of supervisory requirements imposed on high frequency traders, including an obligation (if algo-trading) to make continuous markets; and notably the Third Country (TC) aspects. The latter mean that where TC entities offer services to retail investors, they have to offer these via a locally-

incorporated Member State entity. Where a TC does not offer reciprocal access, the current access of its firms to the EU market will only be grandfathered for a period of four years: these have been roundly condemned by a number of organizations. Agreement on the texts between the European institutions is not expected until the end of the year.

Securities Law Directive

The appearance of this further initiative has been delayed until the end of the year. Our understanding is that the European Commission is engaged in an extensive re-write of the proposal.

If you would like to find out more on EU market infrastructure legislation or on any other topic, please contact: Alex Merriman, Head of Market Policy, SIX Securities Services (Alexander.Merriman@six-group.com) or at +4158 399 4583. Previous editions of Oversight and other regulatory information about us are also available at: www.six-securities-services.com.

Market Infrastructure Initiatives by the European Central Bank (ECB)

Milestones have been reached in the T2S project, while the UK Government has challenged the ECB's Oversight Policy a second time.

Target 2 Securities (T2S)

Besides the SIX Group Board narrowing down the options for SIX Securities Services' connection to T2S to a cross-border option from our operational centre in Olten, and the option to establish a CSD in the eurozone, we also announced our intention of being part of the first migration wave, when T2S opens for business in June 2015. The SIX Group Board meeting on 10 April should confirm which option is adopted. Discussions with the ECB on the framework agreement (FWA) continue, with a signature also expected by the end of April.

ECB Oversight Policy for Infrastructures - Further Challenges by the UK

We commented extensively last time on the ECB's Oversight Policy issued in July. Following the appearance of the ECB's paper entitled "Standards for the Use of Central Counterparties in Eurosystem Reserve Management Operations" in November, covering the clearing of current and future foreign currency instruments employed in reserve management, the United Kingdom has launched a further challenge before the European Court of



T2S: A critical future date will be the conclusion of a Framework Agreement by participating CSDs with the ECB.

Justice. This took place in late January, and we are awaiting details once these are published in the Official Journal. These can be expected to raise similar grounds of objection as the first legal challenge.

Other Legislative and Regulatory Initiatives Impacting Market Infrastructures and the Value Chain

This Quarter's focus falls on a number of G-20 Initiatives, including OTC Derivatives, an update on the CPSS-IOSCO work and Shadow Banking

Swiss market progress on meeting G-20 Commitments for OTC Derivatives

The Federal Department of Finance through its International Affairs unit – SIF - launched a Consultation just before the end of 2011. Swiss market participants including SIX Group were asked to describe their preferred solutions for meeting the requirements in respect of the trading, clearing and reporting of OTC derivatives, and in the absence of any solution, what their assessment of the resulting impact would be. The Swiss authorities intend to issue an interim report in the summer, and move towards drafting legislative clauses by year-end.

Globally, there are concerns that many jurisdictions will not meet the end-2012 deadline, and that clearing fragmentation will occur, with a number of jurisdictions keen to develop their own national solution. This could inhibit one of the aims of the G-20 policy, which is to enhance transparency of the OTC market.

Reporting of OTC derivatives data and aggregation requirements

In its follow up work, CPSS-IOSCO have published their final report on the OTC derivatives data that should be collected, stored and disseminated by trade repositories (TRs). The report supports the view that TRs, by collecting such data centrally, would provide authorities and the public with better and more timely information on OTC derivatives. The report notably explores the issues around the establishment of a unique Legal Entity Identifier (LEI), which is strongly supported by authorities and interested parties around the globe. However, the necessary technical specification for the LEI, and endorsement by an international standards body is still lacking. Moreover, CPSS-IOSCO falls short of recommending how best to address current data gaps and to define authorities' access to TRs, and this will be the subject of follow-up work during 2012.

Market Infrastructure Initiatives under the auspices of CPSS – IOSCO

We are expecting the BIS Board meeting in Beijing around Easter to approve a package of infrastructure-related proposals, namely:

- The Revised Principles for Market Infrastructures
- A revised Assessment Methodology for their implementation
- Key Attributes of recovery and resolution plans for CCPs.

Preliminary work on how these will impact SIX Securities Services can be expected in the remainder of 2012, with roll-out during 2013.

Financial Stability Board Workstreams on Shadow Banking

Another aspect of the G-20 follow-up work into the causes of the financial crisis lies in examining whether the effect of widespread financial disintermediation means that finance is occurring through a range of non-bank intermediaries (for instance hedge funds) and products (such as securitization), collectively known as "shadow banking". Our interest lies primarily in the workstream, chaired by the UK FSA, which is examining securities lending and repos, including possible measures on margins and haircuts. This task Force is due to report by the end of 2012. The European Commission is following this work closely and has just announced the details of a conference to be held on 27 April in Brussels, following the publication of its own communication on these issues.

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