



EUROPEAN CENTRAL BANK

EUROSYSTEM

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# **European Distribution of Debt Instruments (EDDI)**

Money Market Contact Group (MMCG) meeting

3 December 2019

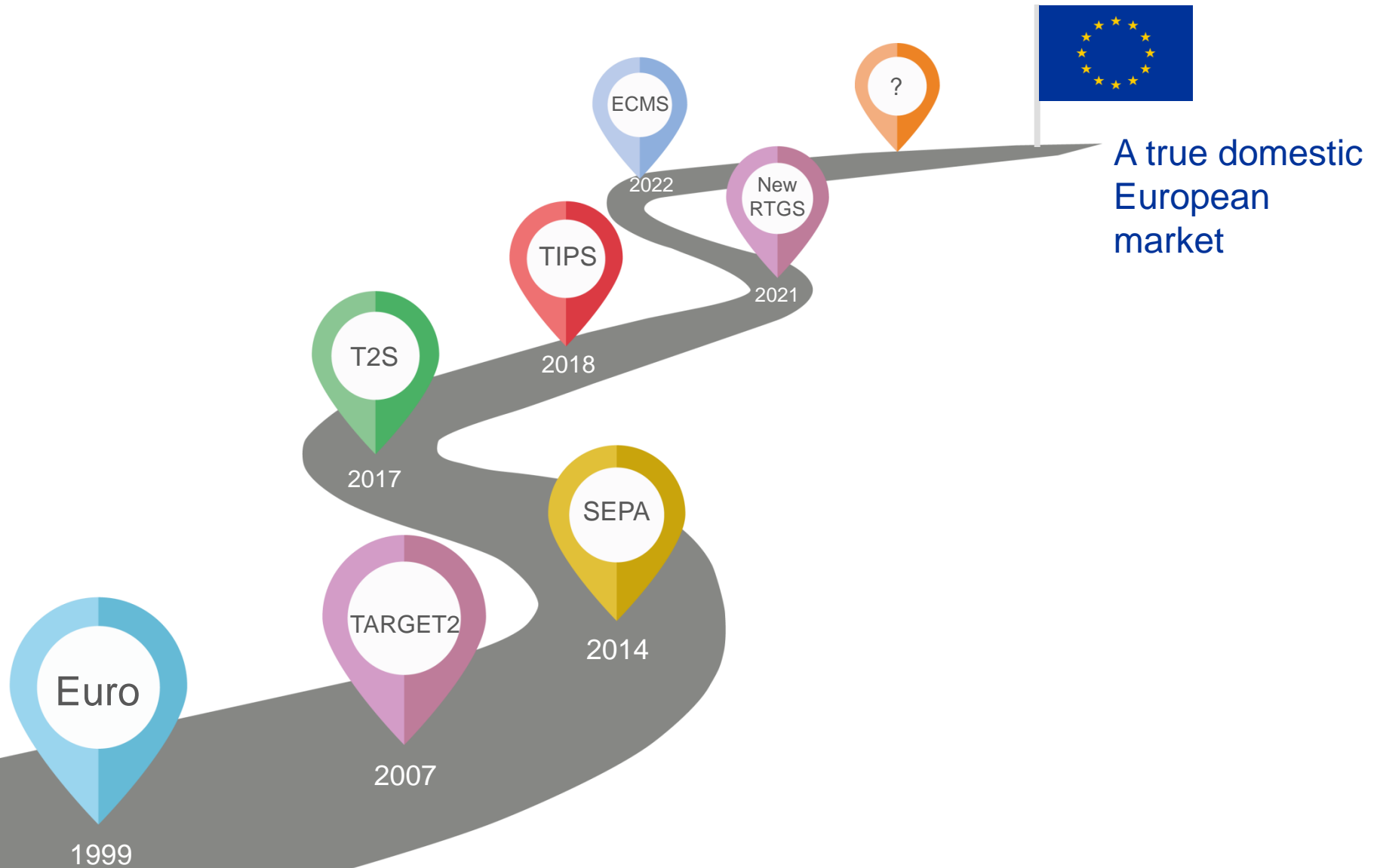
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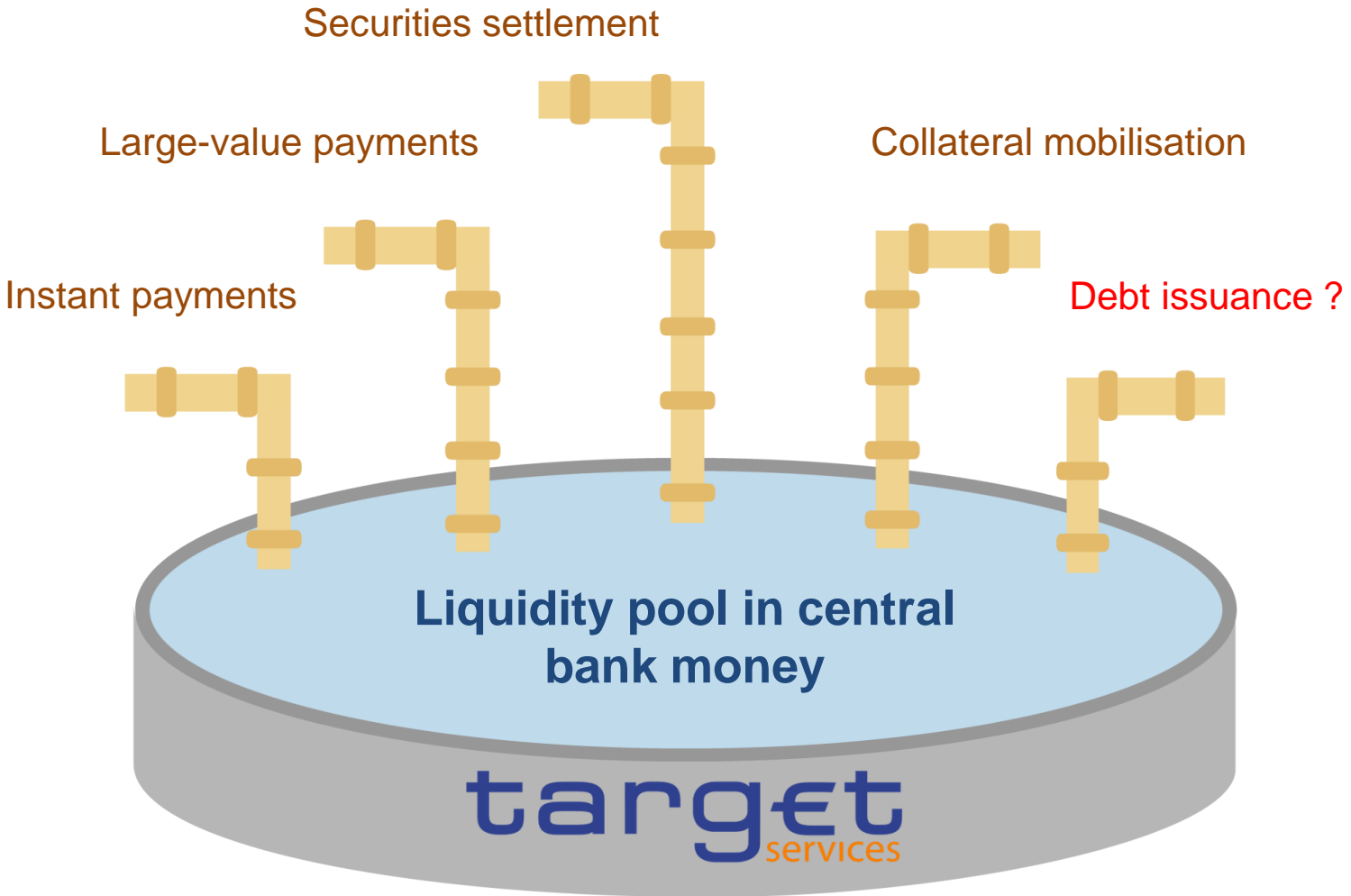
**2** EDDI – a pan-European initiative for securities issuance

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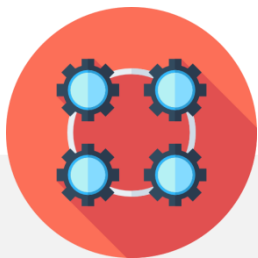
# A true domestic European market



# A single European Framework in Central Bank Money



## 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

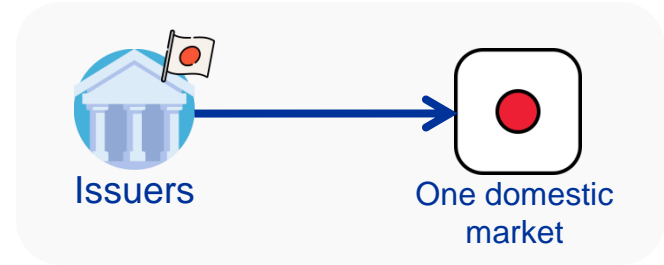
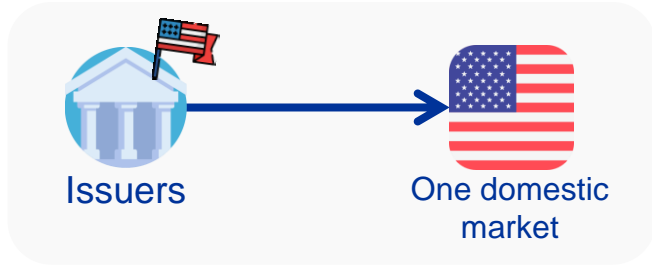


There should be **no cross-border dimension** but only a domestic one

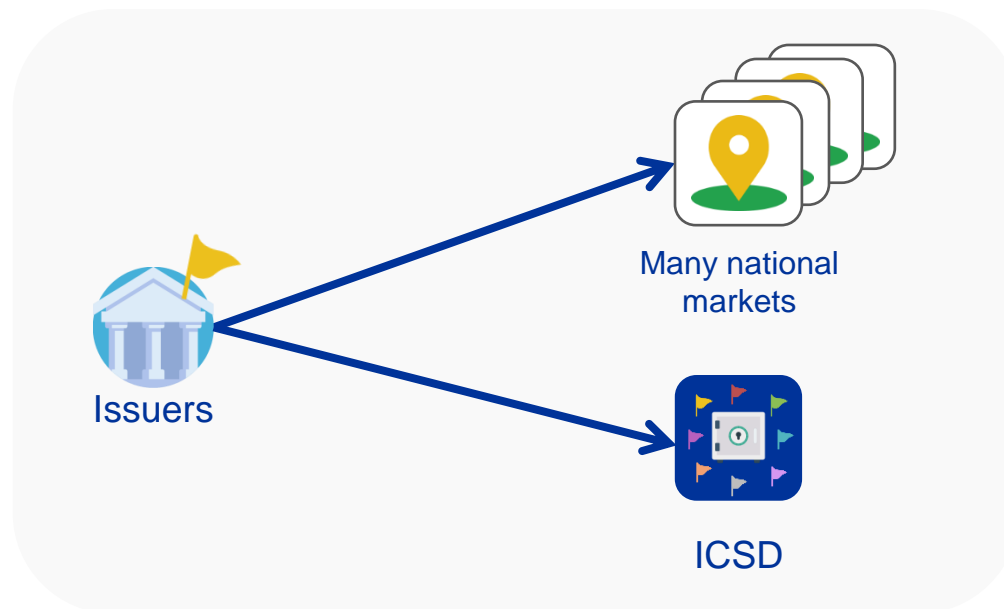
As a **result**, the market is:

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

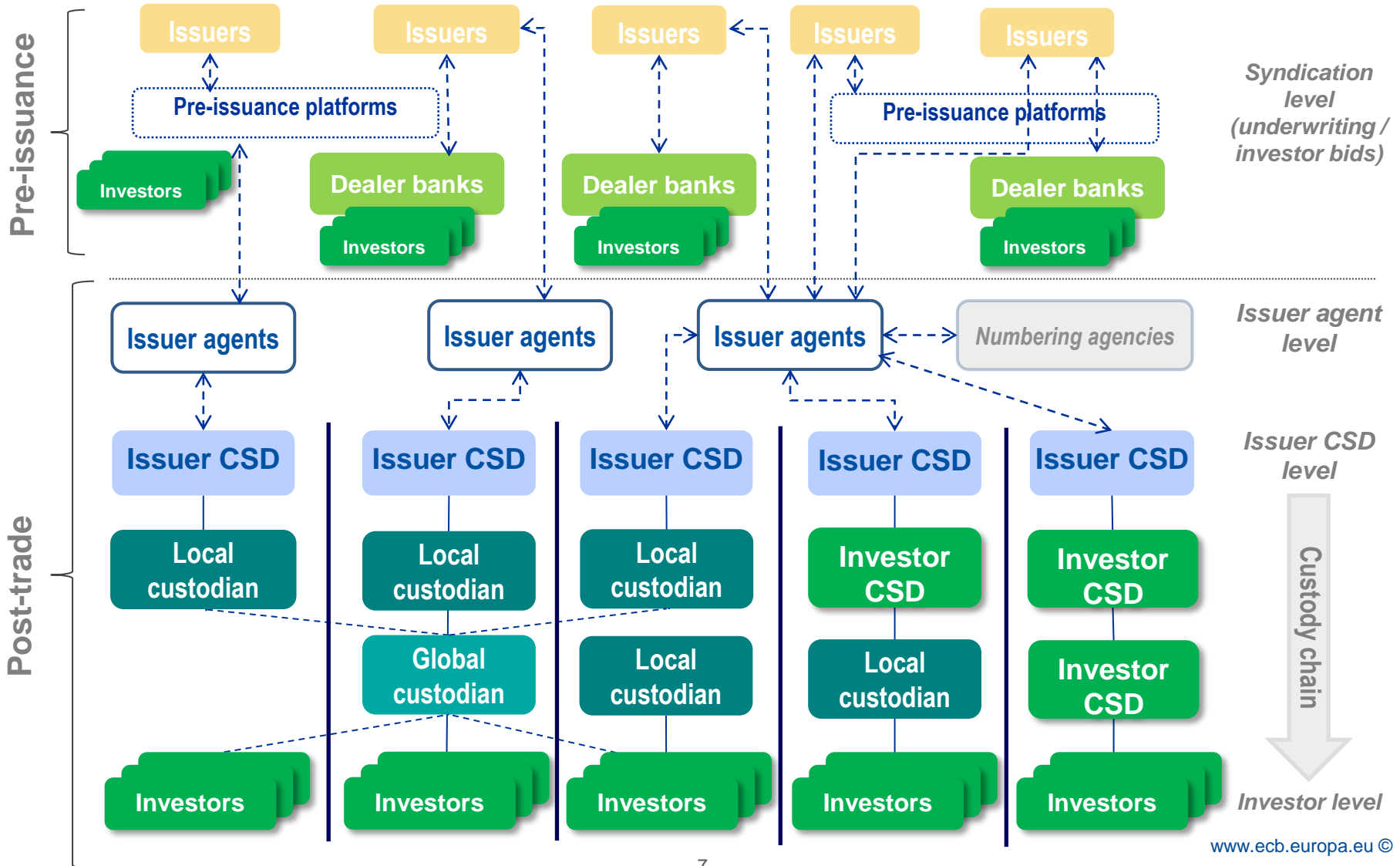
## In US or Japan



## In the EU



# Overview of existing sec. distribution ecosystem



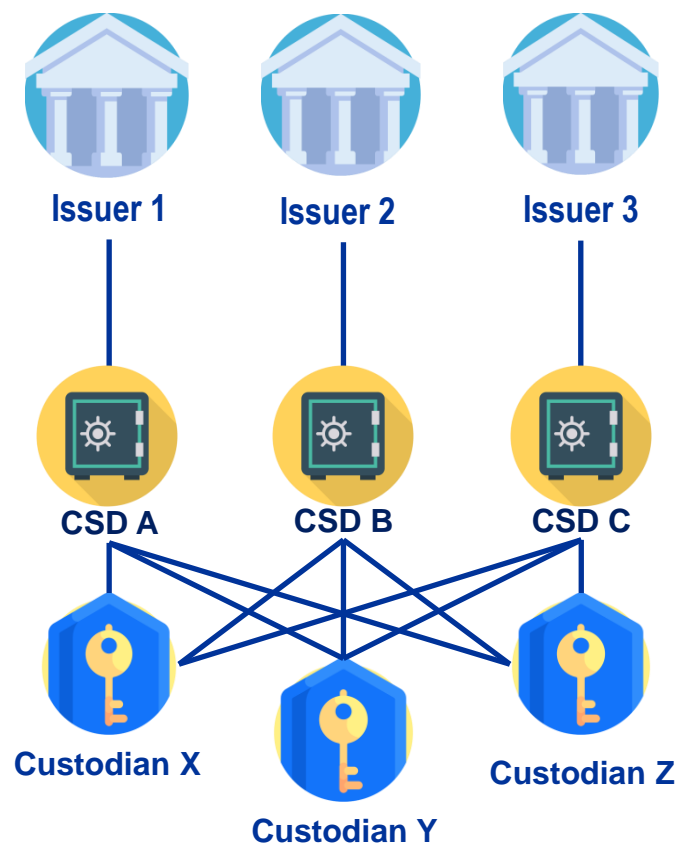
# Current limitations for market actors

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
- Forces connection to “home location”





# Current limitations with reference to financial indicators

- Financial Integration Report: **bonds** issued by a euro area issuer are **1.7 times** more likely to be held by **domestic** than by other euro area investors<sup>1</sup>
- Primary issuance: only about **5% of debt securities** eligible as Eurosystem collateral are **issued with a non-domestic CSD**<sup>2</sup>
- T2S settlement statistics: only around **1% of transactions** settled in T2S are taking place **between counterparties of different CSDs**<sup>3</sup>

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

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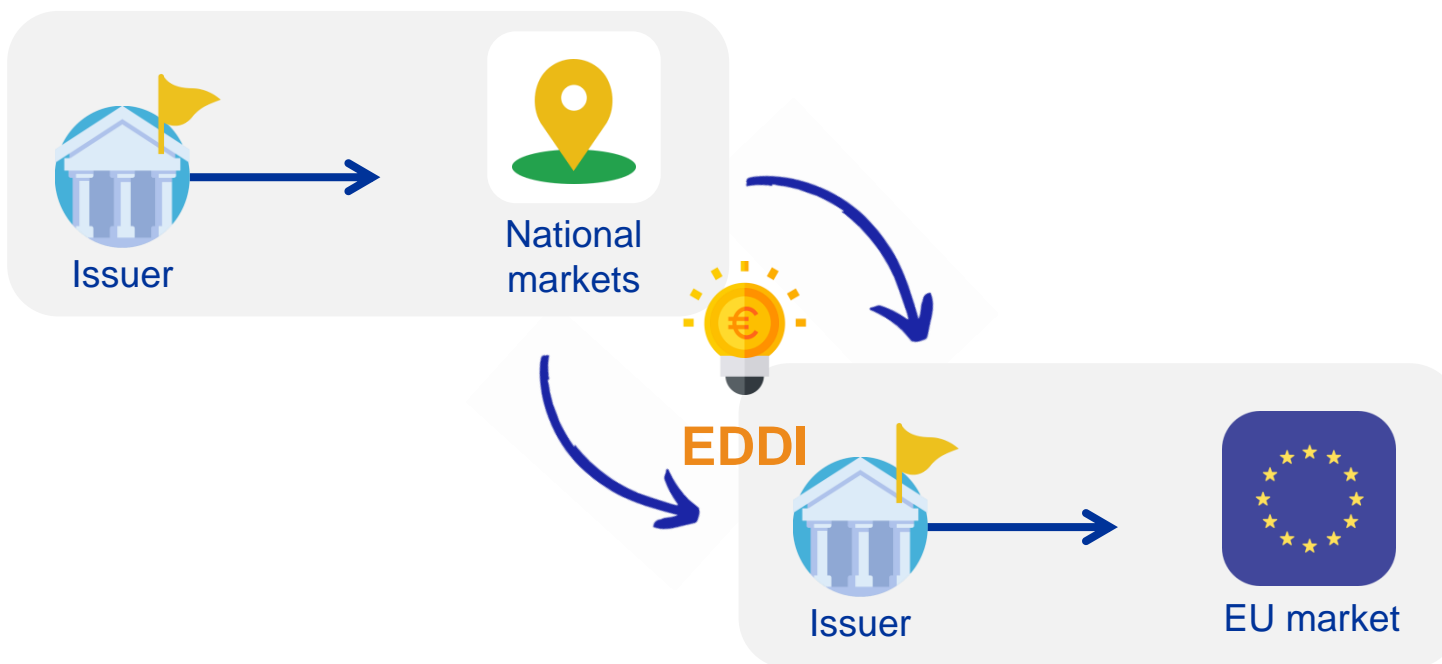
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3 Market consultation

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

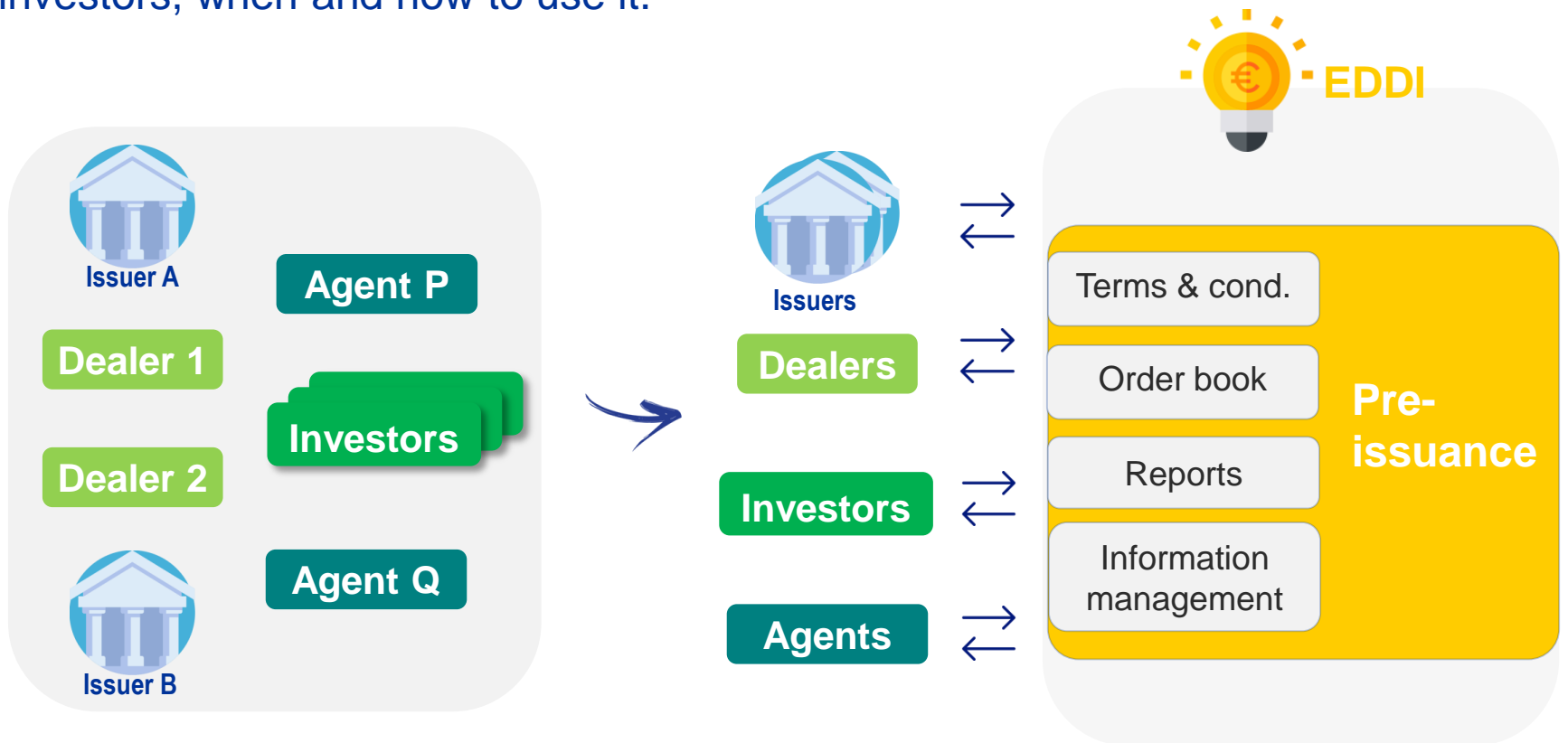


EDDI aims to **support integration** in the current issuance and initial distribution ecosystem in the EU by providing new choice of location of issuance, **not a new layer** in the transaction chain.



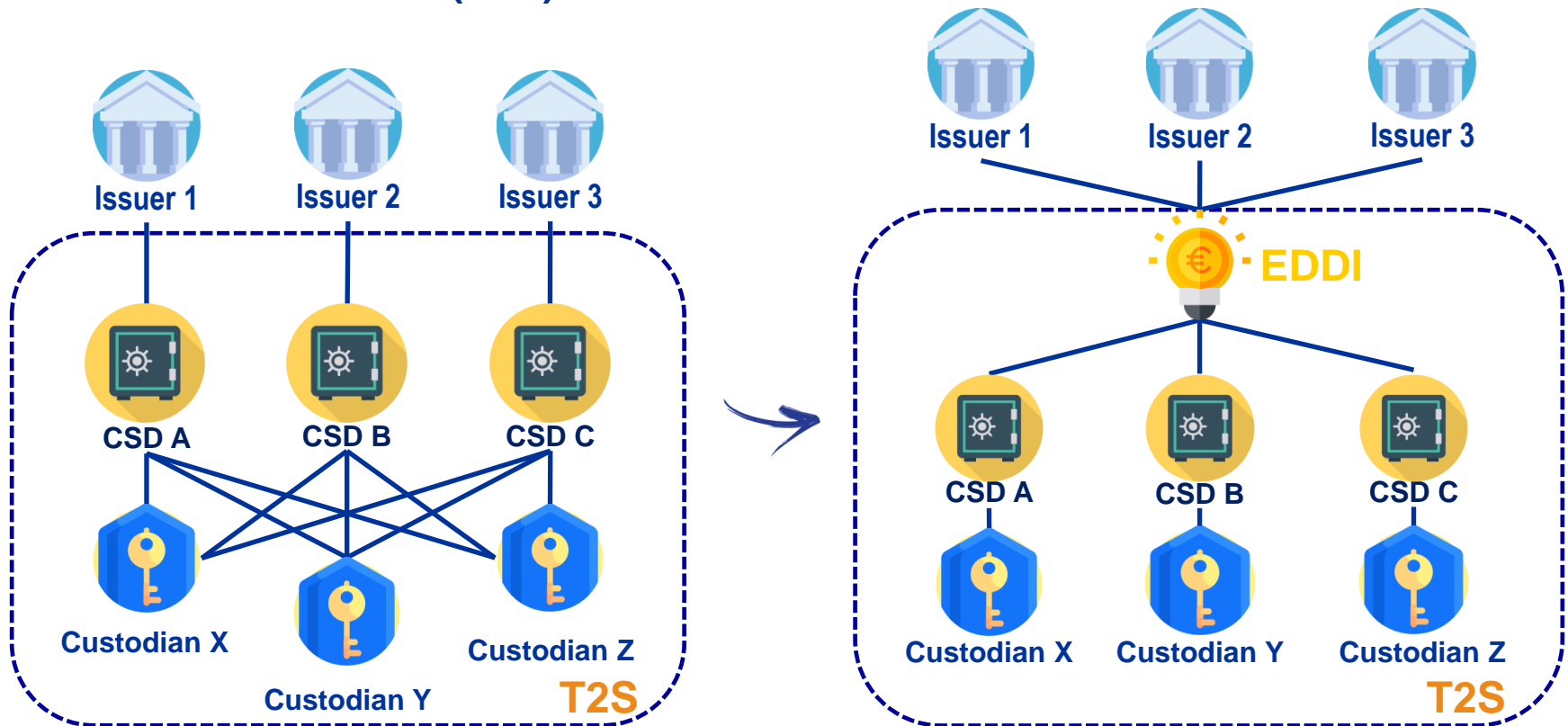
# Pre-issuance

EDDI **standardised technical toolkit** to support the debt issuance process of existing market actors. Up to issuers and their counterpart, i.e. issuer agents, investors, when and how to use it.



# 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). Operational synergies with TARGET Services and in particular **TARGET2-Securities (T2S)**.



# Scope and usage of the EDDI service



## Instruments

- EDDI shall support **debt instruments only**
- Instruments to comply with a potential **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

# 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) – **not on fiscal laws**

## Clarifications - I

- **No disintermediation.** EDDI does not impose specific issuance business models
- **Not an additional layer but rather an additional option** for pan European issuance
- **Level playing field/Competition?** Accessibility to and/or interoperability with all eligible market actors: issuers, intermediaries, infrastructures (CSDs and issuance platforms). Open to all eligible CSDs (Central Securities Depositories).
- **Regulatory compliance?** Any potential solution can only be fully EU law compliant
- **Innovation?** Single neutral service with open access would encourage, not impede, innovative service development, e.g. Fintechs



## Clarifications - II

- **Absolute legal/fiscal harmonisation** prior to initiative in issuance? It is the other way round: A public/private governance arrangement initiative can only foster further minimum harmonisation in key areas (e.g. withholding tax procedures)
- **Costs?** Too early, requires formal investigation but no big costs are expected. Synergies and savings could be foreseen
- **Cyber risks?** Eurosystem already invests heavily in TARGET Services cyber resilience, independently of EDDI

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# Market consultation

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

- From 28 May 2019 to 9 July 2019: 70 responses received from a wide variety of market actors (issuers, investors, banks, CSDs and Fintech companies etc.)
- 56 (public) responses published  
[https://www.ecb.europa.eu/paym/pdf/consultations/Communication\\_results\\_market\\_consultation\\_EDDI.pdf](https://www.ecb.europa.eu/paym/pdf/consultations/Communication_results_market_consultation_EDDI.pdf)
- ***No clear majority either in supporting strongly or disagreeing outright with the key messages of the consultation***
- ***Strong agreement on the need for harmonisation in the full transaction chain***
- ***In order to complete their impact analysis, majority of respondents would welcome further information on implementation model, details on service, legal set up, fee structure and timelines.***

# Market consultation

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

## Next steps

- **The Eurosystem will keep market participants informed regarding the progress of its work with a view to determining any follow-up actions on this initiative**
- **In doing so, the Eurosystem will take into account all relevant legal, regulatory and statutory considerations**
- **No announcements are expected before Q1 2020**



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**Thank you for the attention!**



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