

02 February 2009

Call for evidence for custodian banks

Introduction

1. Following the delivery of the report on custodian banks to the ECOFIN¹, CEBS has committed to undertake further work to establish the materiality of custodian banks internalising settlement activities or carrying out Central Counterparty (CCP)-like activities.
2. The report identified certain gaps with regards to these activities in the current applicable banking regulations, in comparison to the ESCB-CESR draft Recommendations. CEBS has now designed the following questionnaire for market participants in order to explore this further. The results will inform CEBS of the materiality of such activities. In parallel CEBS has also asked its members and observers to report on their assessment of such practices in a separate questionnaire.
3. **Please send your responses by 4 of March 2009 to the following address: cb@c-eps.org.** Responses received will be published on the CEBS website unless respondents explicitly request otherwise.
4. **A public hearing will take place on Tuesday 24 March 2009 from 10.00 am to 1.00 pm at the CEBS's premises** in order to allow all interested parties to put forward their views on the draft outcome of the responses to the questionnaire.

Questionnaire

Questions relating to internalisation of settlement

1. Of those Central Securities Depositories (CSD) you have access to, how many of them allow you to hold an omnibus account (the pre-requisite for internalising settlement)?

¹ <http://www.c-eps.org/getdoc/4aac2440-fa01-436a-a42d-596f27859b8a/CEBS-2008-18-12-Final-response-to-ECOFIN-on-custod.aspx>

2. What percentage of trades to be settled that enter your system is passed on to a CSD, and what percentage is internally settled?
3. Do you aggregate all your clients in such omnibus accounts where they exist? If not, how many of your clients are held in such accounts and how do you decide whether or not they should be included (please also indicate the total number of clients)? Does the allocation depend on the underlying nature of the client (i.e. institutional, retail, ...)? If yes, please indicate the nature of the clients.
4. How do you monitor the trades that get settled internally? Do you have specific rules and procedures relating to these processes?
5. Do you inform your customers explicitly when you internalise settlement rather than passing trades on to the CSD? How much information do you provide to your client on the process of internalisation?
6. Is there a difference in the degree of internalisation between different product classes (e.g. homogenous products, such bonds, versus more heterogeneous products, such as equities) and/or different type of trades (e.g. exchange traded versus OTC)?

Questions relating to CCP-like activities

7. Do you undertake any activity whereby you take on the counterparty risk of a party to a trade and assume all losses that may derive from such a position? If yes, is the volume of such activity significant to your business? Are your clients aware of such activity?
8. Do you provide services whereby you act as an intermediary between a client and a CCP (i.e. you act as General Clearing Member)? If yes, is such activity significant to your business?
9. In either of the above cases, how do you monitor and protect yourself and your clients from the risks arising from such activities?
10. Do you differentiate between products (including derivatives) and trading types when deciding whether to provide such services?