



# CEBS Call for evidence on custodian banks

Presentation at public hearing |  
24 March 2009, London

**CEBS**

Committee of European  
Banking Supervisors

## Mandate

The ECOFIN mandate to finalise the ESCB-CESR Recommendations included a carve out of the custodian banks from the scope of these Recommendations.

However, the mandate asked CEBS

*‘to further review, in cooperation with CESR, the coverage of risks borne by custodians, taking into account that some CSDs/ICSDs/CCPs are also subject to the CRD, so as to ensure a level playing field while avoiding inconsistencies in the treatment of custodians and double regulation by end 2008.’*

## Conclusions

Following a gap analysis comparing the ESCB-CESR Recommendations and banking regulation, CEBS concluded that:

- the draft recommendations relevant to custodian banks that simply act as participants in the system are generally covered in the Capital Requirements Directive and/or other banking regulations.
- Some of the draft recommendations relevant to custodian banks which internalise settlement or carry out CCP-like activities are not met or only partially/indirectly met by banking regulation.

## CEBS follow-up work

In light of the identified gaps, further work was needed to assess the materiality of these gaps.

- CEBS designed a questionnaire for regulators and market participants to assess the materiality of custodian banks internalising settlement or carrying out CCP-like activities. The consultation opened in early February and closed in early March 2009.
- Responses were received from 16 institutions and 17 CEBS members

# Draft results of the Call for evidence

## *Internalisation of settlement*

- the practice of internalisation does not currently appear widespread across the custodian bank community;
- there is great variety as to the materiality of internalisation of settlement from the point of view of the institution;
- internalisation appears more widespread for OTC traded products.

## *Draft Conclusion*

- little evidence that intervention at a European level is needed
- in markets and for those custodian banks where the volumes of internalisation reach material levels, procedures in line with the ESCB-CESR RSSS should be adopted.

# Draft results of the Call for evidence

## *CCP-like activities*

- A number of custodian banks act as GCM – the activity is not always part of the bank's custody business but may be carried out by other parts of the group.
- The responses on GCM's risk management varied in detail

## *Draft Conclusion*

- further work could be initiated to understand different risk management practices amongst GCM
- such an assessment would be of relevance to all clearing members that fall within CEBS members' scope and not be restricted to custodian banks

# Timeline

## Key dates:

- Public hearing to present preliminary results of the analysis – 24 March 2009
- Finalisation and endorsement of the ‘call for evidence’ report by CEBS
- Report to be published – early April 2009

# Questions to participants

## *Settlement*

- What is the driver for the internalisation of OTC transactions (i.e. no CSD exists)?
- Are trades of foreign market participants (that are not participant in the national CSD) associated with a higher degree of internalisation?

## *Clearing*

- To what extent do the CCP rules determine the GCM's risk management?
- What other requirements are GCMs subject to other than EU banking regulation? (i.e. local guidelines, etc)





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