



**Link<sup>Up</sup> Markets**  
DIRECT CROSS-BORDER ACCESS

**Emerging Markets Workshop**  
Lima  
September 8th 2009

**BME X**  
BOLSAS Y MERCADOS ESPAÑOLES



**Fragmentation**  
**+ Transparency**  
**+ Best execution**  
**Market Integrity**

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**CRISIS**

CDOs  
Dark Pools  
Opacity  
Conduits  
Leverage  
OTC  
Crossing Networks  
CDSs  
Subprime

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**Summit - Financial Markets of the World Economy**

- G 20
- Financial Stability Board
- De Larosière report

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**REGULATED MARKETS**

- +Technology
- +Transparency
- +Integration
- +Risk Management
- +Contingency Plans & Business Continuity
- + Simplify cross border transactions





- Successful launch in March 2009 with just 12 months time-to-market
- 6 CSDs live: CBF, Helix, Iberclear, OeKB, SIX SIS, VP and VPS in progress
- 2 new members – CSE and Strate – joined already, strong interest from other CSDs globally with highest focus in Europe
- Link up Markets lowers cross border costs by 80%





**Without**

**With Link up Markets**

**DIRECT CROSS-BORDER ACCESS via local CSD infrastructures**

- Single point of access for CSDs to participating markets
- Reuse of efficient local infrastructures
- Absorbing differences in market standards
- Continuous harmonisation of market practices
- Flexible extension of market coverage in Europe and beyond

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**An example**

**Client Country A** (Buys securities) → **Trading Platform Country B** → **Client Country B** (Sells securities)

**Link Up Markets** (Central Hub) connected to **Format Country A** and **Format Country B**, which in turn connect to **Client Country A** and **Client Country B** respectively.

**Investor CSD:**

- Settlement on accounts in each Issuer CSD (omnibus or segregated)
- Handling of corporate actions, income payments and tax services on individual customer accounts

**Client:**

- Single account relation with Investor CSD
- Use existing systems/interfaces
- Cross-border DvP settlement
- Payment via Target 2 or cash correspondent

**Issuer CSD:**

- Settlement on Investor CSD accounts
- Support to Investor CSD for corporate actions, income payments and tax services
- Support to Investor CSD for market specific services


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### Driving harmonisation

<div style="border: 1px solid black; padding: 5px; width: fit-content; margin-bottom: 20px;"><b>Technical harmonisation</b></div> <div style="border: 1px solid black; padding: 5px; width: fit-content; margin-bottom: 20px;"><b>Process harmonisation</b></div> <div style="border: 1px solid black; padding: 5px; width: fit-content;"><b>Service harmonisation</b></div>	<ul style="list-style-type: none"> <li>➤ Common format based on ISO message types</li> <li>➤ Incentive for CSDs to converge towards common format             <ul style="list-style-type: none"> <li>➤ Introduction of ISO message formats in Greece</li> <li>➤ Introduction of MT56x in Spain</li> </ul> </li> <li>➤ Support of SWIFT connectivity</li> <li>➤ Contribution to removal of Giovannini barriers 3, 4 &amp; 7 as medium term objective</li> <li>➤ Issuer CSDs deliver consistent service scope and quality to Investor CSDs</li> <li>➤ Implementation of standardized link agreements</li> </ul>
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### Outlook

Current focus	Potential future extensions
<ul style="list-style-type: none"> <li>➤ 8 markets representing 50% of European securities processing volume plus Strate (South Africa)</li> <li>➤ Format conversion for settlement messages</li> <li>➤ Best-in-class CSD services</li> </ul>	<ul style="list-style-type: none"> <li>➤ Extend market coverage – in Europe and beyond</li> <li>➤ Shift focus towards asset servicing</li> <li>➤ Enhance service scope, potentially in co-operation with non-CSD partners</li> <li>➤ Leverage infrastructure, e.g. interface to Eurosystem applications</li> </ul>

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**Background (I)**

- Link-Up Capital Markets S.L. company set-up
- Head Office in Madrid
- Founding partners hold equal rights (Class A units)
  - 1 stake (GER, SWI, SPA, GRE)
  - ½ stake (DMK, NOR, AUT)
- CEO: Tomas Kindler
- Targets:
  - To hold the licence and operate the software
  - Offer service to member CSDs
  - Cover all costs

**Background (II)**

- “Joint – Venture” 7 founding partner CSDs:
  - CBF - Germany
  - SIS - Switzerland
  - OeKB - Austria
  - VP - Denmark
  - HELEX - Greece
  - VPS - Norway
  - IBERCLEAR – Spain
- Open to new partners, e.g. Cyprus (Nov 08) or Strate (Sept 09)

### Articles of Association


#### ➤ Conditions to be a Partner:

- ✓ To carry out CSD functionalities, i.e. domestic issuer
- ✓ Adequate regulation & supervision
- ✓ Adequate anti-money laundering regulation
- ✓ To be approved by the Company Board

#### ➤ Non founding partners:

- ✓ Class B stakes (incl Cyprus & Strate) : no voting rights in 5 years

### Business opportunities as an Issuer CSD

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- Become counterparty of foreign Investor CSD
    - Expansion of customer base
    - Direct holdings at lower scale
  - Attract more inflow by providing efficient services
    - “As close to market as possible”
    - Upgrade of existing CSD links to full service
    - Participate in market harmonization efforts
  - Position yourself as gateway into the region
    - Own domestic market
    - Single window into own regional network

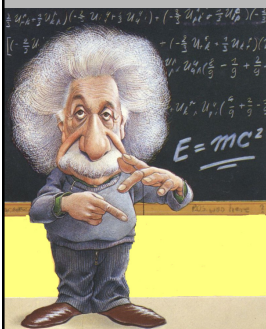
**Business opportunities as an Investor CSD**



- Transform business model to become specialised custodian for outbound business
  - Diversify services
  - Generate new revenue stream
  - Build cross-border capabilities in-house
- Streamline existing cross-border business
  - Direct access to markets at domestic CSD cost
  - Simplify setup and maintenance of links
  - Harmonization as a result rather than a pre-requisite
- Access 50% of European market via single technical link



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**“If you are looking for different results don’t do the same thing over and over again”**



**“Where there is little justice it is dangerous to be right”**



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