



**Cooperation in Post-Trade Services for Cross
Border Transactions among the OIC Member
States' Clearing and Settlement Institutions**

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Global Trends

- * Cross-border movement of capital and funds
- * Increased cross-border securities trading
- * Economic and political integrations
- * Disappearance of geographical borders
- * Single currency in the European Union (EURO)
- * Single settlement platform in the European Union (TARGET2 Securities System)
- * Integration among stock exchanges and clearing institutions
- * Full automation and STP
- * CCP Mechanism

How should a securities settlement system be? I



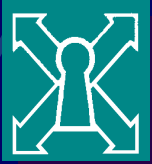
- * Full automation and STP (together with the implementation of international standards)
- * Delivery versus Payment Principle (DvP)
- * Well designed, clear, comprehensible and transparent legal infrastructure
- * Corporate governance structure providing balance between the interests of public and shareholders
- * Properly managed operational risk, business contingency and disaster recovery plan
- * Protection of investor assets



How should a securities settlement system be? II

- ✱ Securities Lending/Borrowing practices
- ✱ Efficient Cross-border settlement practices
- ✱ Central Counterparty practices
- ✱ Providing accurate and timely information to the institutions rating Central Settlement and Custody institutions as well as market participants and auditors.

Compliance to the International Recommendations



- ✓ Full automation in communication and data gathering
- ✓ Message standards and communication protocols
- ✓ Central Counterparty" practice (in futures transactions)
- ✓ Securities Lending/Borrowing practice
- ✓ Risk management and control processes
- ✓ Synchronized transfer of cash and securities
- ✓ Efficient business contingency and Disaster Recovery Planning
- ✓ Fair and easy access to the system
- ✓ Impartial, open and efficient corporate governance
- ✓ Standard regulation and supervision



COOPERATION PURPOSE



Why is cooperation vital? I

- * Rapid movements of capital funds among the international markets
- * To increase the efficiency of clearing and settlement systems
- * Consistent regulatory and technical infrastructure for the market players at international level.



Why is cooperation vital? II

- * In this framework post-trade institutions should cooperate in order to achieve;
 - Efficient and effective settlement systems
 - Effective risk management and corporate governance structures
 - Security in settlement systems
 - Increasing volumes of cross-border transactions.



Efficient and effective settlement systems

- * Through achieving efficient and effective settlement systems, national differences which create obstacles to cross-border trade will disappear.
- * Efficient and effective settlement systems can be achieved by cooperating in order to comply with the international standards of clearing and settlement.

Effective risk management and corporate governance structures



- * Globalization in capital markets and cross-border market integration increased the importance of the integrity of settlement and custody systems paving the way to the need for an effective risk management and corporate governance structure.
- * Within this context, being at the center of post-trade processing of securities transactions, all post-trade institutions should cooperate to have transparent and efficient corporate governance mechanisms alongside their technical capacity.



Why is Corporate Governance Important for Securities Clearing and Settlement Systems?

- * CSDs and SSSs are centralised institutions and they carry crucial responsibility for the efficient operation of national capital markets.
- * The operation of these institutions do not only affect their shareholders but also affect the participants of the national capital market and payment systems that they operate.



The Need for the Reorganisation of Corporate Governance Structures for Securities Clearing and Settlement Systems

- * The alteration of ownership structures from mutualised, member-owned companies into
 - * for-profit, shareholder-owned companies.
 - *
- * Increasing alliances & mergers among exchanges and other institutions involved in post-trade processing of securities transactions.
- * Increasing volume of cross-border trading which necessitates that clearing&settlement process to be robust, efficient&risk-averse.



Determinants of Corporate Governance Structures for Securities Clearing and Settlement Systems

- * The legal and regulatory structure of securities clearing and settlement systems
- * The ownership structure
- * The services provided by the securities clearing and settlement systems
 - The services provided by CSDs
 - The services provided by CCPs



Security in settlement and custody systems

- * Globalization in capital markets makes the concept of “security in settlement” most vital than ever for market participants.
- * Within this context, post-trade institutions should cooperate to implement security mechanisms in clearing & settlement systems such as:
 - DvP mechanism
 - Establishment of effective risk and collateral management mechanisms.
 - Establishment of guarantee funds
 - Establishment of investor protection funds.



Increasing volumes of cross-border transactions

- * All post-trade institutions serving to capital markets should cooperate in order to implement the internationally accepted standards and recommendations in order to reduce the causes of fragmentation and inefficiencies based in market practice/regulatory requirements, tax procedures and issues of legal certainty.
- * These would enhance the safety and efficiency of the global settlement process and thus, cross border transactions among markets can reach a higher level.



COOPERATION SUBJECTS



Establishment of correspondent business relations among settlement and custody institutions I

- * Mutual opening of securities accounts among settlement and custody institutions operating in the member countries of the OIC will serve to the greater goal of increasing volumes of cross-border transactions.



Establishment of correspondent business relations among settlement and custody institutions II

- * Contentful Agreements and powerful linkages among post-trade institutions, beyond MoUs should be signed.
- * These agreements will serve the goal of improving performance and international competitiveness of the institutions in settlement transactions through mutual exchange of information, know-how, compliance to international standards and training activities.

Establishment of exchange traded funds (ETF) comprising of Islamic finance instruments



- * Establishment of indexes comprising of blue-chip stocks traded in the member countries
OIC
- * Establishment of exchange traded funds (ETF) based on these indexes and precious metals.
- * Issuance of ETFs in these countries' stock exchanges.



The role of Settlement and Custody Institutions on ETF Mechanisms

- ★ The role in the safekeeping of the portfolio assets of the international ETFs to be established
- ★ The realisation clearing and settlement transactions of international ETFs that are traded in OIC member countries.
- ★ Creation and redemption transactions of international ETFs



Issuance of Islamic Depository Receipts (IDR)

- * Issuance of Islamic Depository Receipts (IDR) for the stocks of OIC member countries' companies and trading of these IDRs in the OIC markets.
- * Through the opening of mutual correspondent accounts, the settlement and custody transactions of these IDRs will be realised.



PATHWAY TO FOLLOW



- * A draft plan to increase cooperation among OIC post-trade institutions can be prepared and begin to be implemented.
- * A Task Force can be established between OIC member states' settlement and custody institutions to determine the actions to be taken for cooperation as well as to study on the cooperation issues.



Cooperation Subjects to be Studied by the Task Force

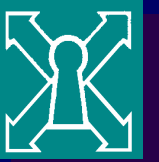
- * Determination of the barriers causing obstacles to cross-border transactions
- * Determination of the means to remove these barriers.
- * Harmonization of OIC member states' post-trade operations.
- * Harmonization of OIC member states' post-trade regulations.
- * Endeavouring to harmonize OIC member states Capital Market Instruments Tax Regime



A LOOK TO THE FUTURE



- * The recent economic crisis that we are living through will end in a new global economic balance in which the major market players can change (i.e. the strong economies will weaken and new players will come to the stage)
- * OIC post-trade institutions should cooperate as much as they can in order to use the current crisis as an advantage to emerge as a new regional power in capital markets.
- * Through this cooperation, OIC post-trade institutions can have the chance to increase their competition power among other post-trade institutions operating in the world



THANK YOU