The Greek Equity Direct Holding Market

A Preliminary Draft Assessment
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1. Is there a possibility to put all data in T2S?

It is a matter of "economics". The direct holding system per one market-executed trade will require "many" T2S instructions to accommodate the current "Greek Matching-Allocation-Shift-Transfer-Enrichment Process" all the way to "Final Settlement into the End Investor Accounts". It will result in extra costs, which is expected to be passed on to the custodian banks.
In addition to the numerous end-investor accounts, which must be accommodated for the regular matching/settlement reasons, additional data exists in the current CSD system to support functions of "Registry", "Extended Notary Function" and "Local Tax" which are independent of any matching/settlement functions. Custodian member banks must supply all data for a new account - end investor always - for ALL functions to enable settlement at the HCSD.

2. Cost Implications for the different procedures?

The fact that the Greek market operates under a Direct Holding system in which holdings within the end client accounts - kept at CSD level - are by law required and accepted as shareholder proof, is expected to introduce the following cost disadvantages vis-à-vis indirect holding markets. In particular:

(1) The number of instructions for the settlement process is higher in comparison to those of other markets of comparable size using indirect holding system. Since the system used in Greece, is endorsed by the law and the market as suitable and by ECOFIN as acceptable, a lower charging fee policy should be applied in order NOT to put it under disadvantage.

(2) Currently the model of settlement used in Greece makes efficient use of equities held by investors which are used as collateral for the evaluation of the trading limits of the ATHEX members, as collateral on hold for increasing settlement efficiency and as a means to reduce the cost of financing for settlement. The eligible collaterals to be used by T2S does not include stocks and therefore, will increase the overall cost of settlement for Participants, and eventually their clients.

(3) Current law and regulation requires one investor account per physical or legal entity to be kept at CSD level. The mapping of those accounts in T2S will increase the actual number of accounts by a factor of 3 at T2S. As we understand that for each Account Operator and for a unique end investor currently at the CSD, a different T2S account needs to be opened and maintained by the CSD at T2S. This will increase the cost of opening and maintaining accounts at T2S and will be transferred to Participants.

(4) The relatively high number of T2S instructions required to achieve "matching-enrichment-transfers" among HCSD operators for every market executed trade, which is currently done at zero cost to Custodians, will result in

additional and substantial Instruction Fees. This will get economically worse in case the matching functions were to take place in T2S.

(5) The market practice for retail clients (which hold today around 40% of the market capitalization) of having several Account Operators with different holdings in each of them will prove expensive (see #8 and #3) under the pricing policy of T2S.

(6) All Corporate Actions that today are handled by the CSD, during night processing, and which appear at the start of day as new balances in the investor accounts will be treated within T2S as Settlement Instructions. Their cost today, in the order of 4 €cents per account charged to the issuer, will increase <u>by 7 times at least</u> (according to the 29 €cents T2S Instruction Cost estimation).

(7) Cost for messages which is today included in the service fee charged by the CSD to us is expected to increase by the related amount of telecommunication cost and message traffic between the CSD and T2S for our clients.

(8) From official CSD monthly figures, account holdings with a net worth below €3.000 that is about half a million accounts, are not charged by the CSD. Those investors will be required to pay the increased cost due to all of the above reasons. This will in effect distort the business model employed by most local custodians that serve at large extent retail clients and will benefit only large institutional investors.

In effect, the increased local settlement and related cost will subsidise any possible reduction in the cross-border settlement cost. Furthermore, if we were to price things accordingly, we expect that it will have a negative impact to the local retail market.

3. Possibilities to harmonize the allocation process?

The "allocation-shift-transfer-give up-enrichment-matching" process we believe is idiosyncratic to the "direct holding market" which is geared towards the final determination of the "end investor a/c at the CSD level" with the obvious purpose to avoid fails. On the other hand, the omnibus a/c markets deal with tremendously fewer accounts at the CSD level, exploiting internalization within the bank systems, and allow for "different" matching-settlement processes at their CSD level.
Again, we believe the question is not whether the "allocation process of the Greek direct holding system" can be harmonized/simulated with the T2S instructions. Yes, it looks like it does, given the currently issued URD. It is the pricing model, which will place the Greek Direct Holding Market into an economic disadvantage relative to the non-direct holding markets that will employ T2S. Finally, it is also unknown at this moment, how "user friendly" the direct holding simulation at T2S will be and this need to be investigated and resolved too.