



*Post-trade made easy*

[Euroclear](#) is a user owned and governed Belgium based financial services company that specializes in the settlement of securities transactions as well as the safekeeping and asset servicing of these securities. It was founded in 1968 as part of J.P. Morgan & Co. to settle trades on the then developing eurobond market.

Euroclear settles domestic and international securities transactions, covering bonds, equities, derivatives and investment funds. Euroclear provides securities services to financial institutions located in more than 90 countries.

In addition to its role as an International Central Securities Depository (ICSD), Euroclear also acts as the Central Securities Depository (CSD) for Belgian, Dutch, Finnish, French, Irish, Swedish and UK securities. Euroclear also owns EMXCo, the UK's leading provider of investment-fund order routing, and Xtrakter, owner of the TRAX trading matching and reporting system.

Euroclear is the largest international central securities depository in the world.

From its creation in 1968 until the end of 2000, the Euroclear System was operated by Morgan Guaranty Trust Company of New York (part of J.P. Morgan & Co), via the Belgian branch of that establishment, which had a team specially dedicated to the operation of the Euroclear System.

MGT transferred these activities to Euroclear Bank in 2001.

## **Acquisitions (2001-present)[[edit source](#) | [editbeta](#)]**

Euroclear has a non-exclusive partnership with Euronext (resulting from the merger of the stock exchanges of Amsterdam, Brussels, Lisbon and Paris), which enabled Euroclear in 2001 to acquire 100% of the capital of Sicovam, the French CSD, in 2002 100% of the capital of Necigef (Nederlands Centraal Instituut voor Giraal Effectenverkeer), the Dutch CSD, and in 2007, 100% of Caisse Interprofessionnelle de Dépôts et de Virements de Titres (CIK), the Belgian CSD. These local CSDs have accordingly been renamed as Euroclear France, Euroclear Netherlands and Euroclear Belgium, respectively. Euroclear also took a 20% stake in the capital

of LCH.Clearnet, the UK/French entity responsible for the clearing of Euronext, London Stock Exchange and other stock exchange transactions. Since December 2000, Euroclear has also assumed responsibility for the settlement of Irish government bonds (Gilts) following the decision of the Irish government and the Central Bank of Ireland to delegate this activity to Euroclear. In September 2002, Euroclear acquired 100% of the capital of CRESTCo, the CSD for UK securities and Irish equities, which now operates as Euroclear UK & Ireland. The CSDs of Finland (Suomen Arvopaperikeskus Oy (APK)) and Sweden (VPC AB), now operating as Euroclear Finland and Euroclear Sweden, respectively, were acquired by Euroclear in October 2008.

## **Governance[[edit source](#) | [editbeta](#)]**

The Euroclear group reshaped its corporate structure in 2000 and 2001, transforming the Belgian company Euroclear Clearance System (Société Coopérative) into Euroclear Bank SA/NV, which now operates the Euroclear System and provides the services previously contracted to Morgan Guaranty Trust Company of New York, Brussels branch. In 2005, a new Belgian holding company, Euroclear SA/NV, was created as the owner of all the shared technology and services supplied to each of the Euroclear CSDs and the ICSD.

Euroclear SA/NV is owned by Euroclear plc, a company organised under the laws of England and Wales, which is owned by market participants using Euroclear services as members.

Both Euroclear plc and Euroclear SA/NV have independent Boards of Directors composed of representatives of Euroclear users (major securities market participants), and of former user shareholders of merged companies (Euroclear France and Euroclear UK & Ireland).

The Euroclear plc Board makes the strategic decisions for the group. It decides in particular on the strategic investments and on joint ventures and alliances. Shareholder voting rights are limited to 5%. The Board is assisted by several committees comprising Non-Executive Directors. The Euroclear SA/NV Board has 24 Directors, all of whom are also members of the Euroclear plc Board. The Euroclear Boards set the policies and objectives of the Euroclear group, ensure their implementation by the Management Committee, and review its performance. These policies include, among others, pricing, risk management and membership admission..

## **Users[[edit source](#) | [editbeta](#)]**

The Euroclear group serves clients from more than 90 countries. Most are banks, broker-dealers, and other institutions professionally engaged in managing new issues of securities, market-making, trading or holding a wide variety of securities. Retail investors are able to have direct accounts in local CSDs, according to local laws, rules and procedures.

## **Supervision[[edit source](#) | [editbeta](#)]**

Incorporated in Belgium, Euroclear SA/NV is subject to the supervision of the Belgium Financial Services and Markets Authority (FSMA). In accordance with Article 8 of its Organic Law, the National Bank of Belgium (NBB) also has oversight of Euroclear SA/NV. Euroclear plc is authorised as a service company by the Financial Services Authority in the United Kingdom. Each of the Euroclear CSDs are regulated by the relevant authorities within their respective home countries.

## [How does Euroclear work?](#)

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### 1.1 The Euroclear System

The Euroclear System is operated by Euroclear Bank SA, a Belgian credit institution with its registered office in Brussels. From its creation in 1968 until the end of 2000, the Euroclear System was operated by the New York State bank Morgan Guaranty Trust Company of New York (MGT), via the Belgian branch of that establishment, which had a branch of activities (“Euroclear Operations Centre”) specially dedicated to the operation of the Euroclear System. MGT transferred this branch of activities to Euroclear Bank, a new Belgian credit institution that was set up in 2000 for the specific purpose of operating the Euroclear System. Euroclear has developed a non-exclusive partnership with Euro next (resulting from the merger of the stock exchanges of Paris, Amsterdam and Brussels), which enabled Euroclear in 2001 to acquire 100% of the capital of Sicovam, the French CSD and operator of the settlement system Relit and RGV, and in 2002 100% of the capital of Necigef, the Dutch CSD. On this occasion, Euroclear also took a 20% stake in the capital of Clearnet, the French credit institution responsible for the clearing of Euronext transactions, and in 2004 Euroclear will acquire most of the settlement and custody business of CIK, the Belgian CSD. Since December 2000, Euroclear has also assumed responsibility for the settlement of Irish government bonds (Gilts) following the decision of the Irish government and the Central Bank of Ireland to delegate this activity to Euroclear. In September 2002, Euroclear Bank acquired 100% of the capital of CREST Co, the British CSD which operates the real-time settlement systems settling UK, Irish and international securities through the CREST system, and money market instruments through the Central Money Markets Office (CMO). More details on the role of Euroclear Bank in the ongoing consolidation process in the European capital markets are given in the euro area chapter of this publication. Euroclear Bank provides both ICSD and securities settlement services, including new issues distribution. In addition, it provides other services such as custody, securities lending and money transfer. Acting as a limited purpose bank, it also provides the system participants with the banking services directly bound to the settlement activity, including credit, securities lending and borrowing and collateral management services. In 2001, the Euroclear Group had a turnover exceeding EUR 130 trillion and settled more than 161 million transactions (pre-netted). The total value of securities held in custody was almost EUR 8,000 billion. There are over 208,000 different issues of securities accepted in the Euroclear System issued by entities from over 110 different countries.

## 1.2 Oversight and prudential supervision

Incorporated in Belgium, Euroclear Bank is subject to the supervision of the Belgian Banking and Finance Commission (BFC). In accordance with Article 8 of its Organic Law, the National Bank of Belgium (NBB) is in charge of the oversight of the Euroclear System. Supervisors and overseers work in close cooperation in the implementation of their respective responsibilities at Euroclear Bank. Euroclear plc (see below) is also authorized as a service company by the Financial Services Authority in the United Kingdom. As a consequence of the ongoing consolidation process, a cooperative oversight framework based on Memorandum of Understanding (MoU) between interested authorities was created. The international cooperation, which is based on the lead oversight and lead supervision principle, currently involves relevant authorities from France, the Netherlands and Ireland. The cooperation agreements aim at allowing each authority to implement its own competencies, promote the efficiency of the controls through a homogeneous approach and streamline the requirements to Euroclear avoiding redundancies.

## 1.3 Governance

Euroclear is market-owned and market-governed. Euroclear Group reshaped its corporate structure in 2000 and 2001, transforming the Belgian company Euroclear Clearance System Société Coopérative into Euroclear Bank SA/NV, which now operates the Euroclear System and provides the services previously contracted to Morgan Guaranty Trust Company of New York, Brussels branch. Euroclear Bank is owned by Euroclear plc, a company organized under the laws of England and Wales (owned by market participants). Both Euroclear plc and Euroclear Bank have independent Boards of Directors. Composed of representatives of Euroclear users (major securities market actors), and of former shareholders of merged companies (Euroclear France and CRESTCo, the Euroclear plc Board makes the strategic decisions for the group. It decides in particular on the strategic investments and on joint ventures and alliances. As shareholders' voting rights are limited to 5%, widespread user governance of the Euroclear System will be sustained. The Board is assisted by several committees comprising Non-Executive Directors. The Euroclear Bank Board is composed of 18 Directors, 12 of whom are Non-Executive Directors and are also members of the Euroclear plc Board. The six Executive Directors represent the Bank's Management Committee. The Euroclear Bank Board sets the policies and objectives of the Bank, ensures their implementation by the Management Committee and reviews its performance. These policies include among others pricing, risk management and membership admission.

## 1.4 Participants

The Euroclear System currently has about 2,000 participants from more than 80 different countries, the vast majority of which are banks, broker-dealers and other institutions professionally engaged in managing new issues of securities, market-making, trading or holding the wide variety of securities accepted by the System. Applicants must meet four criteria to be admitted:— adequate financial resources;— technological ability to use the Euroclear System;— need to use the Euroclear System;— sound reputation in the market. In addition, internal anti-

money laundering measures of the applicant institution are considered prior to any admission.

## 1.5 Legal basis

Securities transfers through the Euroclear System are based on contractual arrangements supported by a specific statutory basis. Euroclear services are offered to the participants pursuant to the Terms and Conditions Governing the Use of Euroclear, as well as the Operating Procedures of the Euroclear System. Those terms and conditions include right of set off and right of retention on the participants' assets deposited in the Euroclear System. The rules of the Euroclear System, which are governed by Belgian law, explicitly refer to the provisions of Royal Decree (RD) no 62 dated 10 November 1967 facilitating the circulation of securities, as amended. The RD governs the deposit, transfer and pledge of securities held on a fungible basis. Banking services offered to the participants by Euroclear Bank (eg. credit, collateral management and treasury services) are governed by separate contracts. The credit contracts organizing the limited purpose of the credit lines as well as the related collateral arrangements also fall within this contractual framework. The legal environment sustaining Euroclear's activities also includes the provisions of the Law dated 28 April 1999, which implements the EU Settlement Finality Directive 98/26/EC into the Belgian legal framework, Euroclear having been officially designated as a system falling under the provisions of this Law. This Law addresses more specifically the issues related to the contractual irrevocability of transfer orders, the exclusion of the "zero hour" rule and the upholding of the enforceability of collateral arrangements.

## 1.6 Asset protection

The contractual and legal protections cover different types of risk, in particular by preventing the securities held by the participants from becoming part of the assets of the custodian or being attached by creditors of custodians or of participants.

RD no 62 organizes the co-ownership right of the participants in the book-entry pool of fungible securities credited to their account with Euroclear ("interest in securities"). More precisely, a participant has direct co-ownership rights, not over specific securities, but over all securities of the same type held in the Euroclear System on a fungible basis on behalf of all participants having a position in the relevant type of securities. As a result, each Euroclear participant has the enforceable right against Euroclear Bank to "revindicate" (obtain the return in kind) the same amount and category of securities that is standing to the credit of its Euroclear Securities Clearance Account, even in case of failure or insolvency of Euroclear Bank. Furthermore, if there were a shortage in the availability of securities to participants, securities of the same kind that are separately owned by Euroclear Bank would be taken out of its estate to be distributed to participants. Thus, Euroclear Bank has no ownership interest in securities held in the Euroclear System and securities held in the Euroclear System never become part of the estate of Euroclear Bank. Securities sub deposited abroad by Euroclear Bank as operator of the Euroclear System with a custodian or an SSS have to be held in an identifiable and segregated fashion in order to ensure that the depository does not acquire any ownership right over the securities. Formal legal opinions under the laws of 32 countries where assets are sub deposited confirm that the securities would not be part of the general assets of the depository or the local clearance system and that

those assets should not be subject to successful attachment by the creditors of those entities. This protection against the depository's failure complements the protection that Euroclear participants have under Belgian law for their securities held in the Euroclear System against the risk of bankruptcy of Euroclear Bank. If securities held in the system were lost as a result of Euroclear's negligence, Euroclear would be liable towards the participants that have suffered a loss caused by its negligence. Euroclear does not, however, accept liability for the negligence or willful misconduct of third parties, including sub-depositaries. Under the loss-sharing provision in the Terms and Conditions, the loss of securities caused by any event alien to any negligence on the part of Euroclear would be shared among the participants holding a position in the particular security issue in the Euroclear System. This loss-sharing mechanism has to date never had to be invoked. There are a number of procedures, controls and recourses in place making the materialization of such a loss for the participants actually highly unlikely. Euroclear Bank is also required to take all such steps as it shall reasonably deem appropriate (including the bringing of legal proceedings) to effect a recovery of any securities loss on behalf of affected participants. In addition, sub-depositaries as well as Euroclear itself maintain comprehensive insurance coverage that may be available to cover potential related damages.

## 1.7 Collateral protection

Banking services offered to the participants in connection with the use of the Euroclear System (eg credit, treasury services, collateral management services) are governed by separate contracts. As a rule, the credit extended by Euroclear Bank is secured through contractual pledges over assets held in participants' accounts with Euroclear. In addition, Article 31 of the Belgian Law of 2 August 2002 on the supervision of financial markets provides for a statutory lien in favor of the Euroclear System operator. Applicable to participants' assets (consisting of the balance of all securities in securities clearance accounts, and the balance of all cash in cash accounts) held in the Euroclear System (with the exception of assets held for customers and identified as such), Article 31 permits the recovery of all debts to the operator related to securities clearance and settlement activity, as well as the immediate realization of securities and cash, and the recovery of loaned securities. Euroclear has obtained several legal opinions from legal counsel under the laws of more than 42 countries representing the countries of incorporation of participants with whom Euroclear has most of its exposures confirming that under the conflict of laws rules of those countries, Belgian law should govern the validity and enforceability of Euroclear's security interest in the collateral and that underlying securities would not be subject to any successful attachment, levy, garnishment or other similar judicial procedure or other encumbrance by or in favor of any adverse claimant. In this respect it is also important to note that Euroclear is a designated system for the purposes of the application of the Settlement Finality Directive (in particular Article 9) and of implementing national legislation.

## 2 Operational aspects

### 2.1 Types of transactions handled

Over 190,000 national and international securities are accepted in the System, covering a broad range of internationally traded fixed and floating rate debt instruments, convertibles, warrants and equities. This includes domestic debt instruments, short- and medium-term instruments,

equities and equity-linked instruments as well as international bonds from the major markets of Europe, Asia-Pacific, Africa and the Americas. Euroclear participants can confirm, clear and settle trades by book-entry in more than 40 settlement currencies on a simultaneous DVP basis.

## 2.2 Operating hours

The Euroclear Overnight Securities Settlement Process (overnight process) includes two overnight securities settlement processing which take place before settlement date S (from 22:00 (S-1) until 23:30 (S-1) and from 01:00 (S) until 02:30 (S)). The overnight process is followed by early morning cash reporting which enables participants to manage their cash positions during the day. In addition to the overnight processing, since September 2000 a real-time settlement has been running each business day between 04:00 and 18:00.

## 2.3 Settlement procedures

About 90% of the transactions processed in the systems are settled in the overnight process. Settlement efficiency exceeds 99%. After each securities settlement processing, Euroclear provides participants with a report of settled and unsettled securities transactions and, at the beginning of each business day, with a report of positions resulting from the overnight processing. Settlement is effected trade by trade, with each specific instruction attempted independently according to its priority order. The number of transactions successfully settled is optimized through dynamic recycling of securities and cash positions throughout the securities settlement processing. In order to enable participants to settle as many matched transactions as possible, participants may specify the priority that controls the order in which their instructions are processed. They may also segregate or link instructions as back-to-back settlements.

Real-time settlement is possible for internal settlement and most cross-border trades. It allows for, upon receipt of the instruction from the participant, both the recycling of previously unmatched or unsettled transactions and the processing of new instructions for same day settlement. All instructions for real-time settlement which are not settled at the end of the process are automatically recycled for settlement in the next batch process but not vice versa.

## 2.4 Delivery versus payment

The Euroclear System achieves DVP by “gross simultaneous settlement of securities and funds transfer” (BIS “Model 1” classification). The system is based on the concept of book-entry settlement. 75% of the Euroclear turnover settles on its own books, 12.5% on the “Bridge” with Clearstream Banking Luxembourg (CBL) and 12.5% settles externally.

## 2.5 Internal settlement

Transactions between Euroclear participants are settled on a DVP basis on the books of Euroclear. On the settlement date, securities are transferred by book-entry from the securities account of the seller to the securities account of the buyer, provided that settlement conditions are met. Simultaneously, cash is transferred from the account of the buyer to the account of the seller. Securities and cash transfers between buyer and seller accounts are final and irrevocable.

upon settlement. Euroclear has relationships, with respect to cash, with cash correspondent banks in about 43 countries. They provide the link between Euroclear Bank and the national cash payment system(s) in the country of the currency. Since November 2001, Euroclear Bank has also offered its participants the possibility to settle transactions in central bank money (CeBM) during the real-time process. Euroclear's CeBM settlement service supports DVP settlement (Model 1), using securities deposited in the Euroclear System and cash deposited in the NBB. Settlement in CeBM is offered exclusively in euros. No credit facilities are offered on the CeBM cash account. Euroclear operates this account.

## 2.6 Cross-system settlement "Bridge" settlements

Participants can receive securities from or deliver them to a Clearstream member over the electronic Bridge with Clearstream. The linkage with Clearstream allows transfer of international securities (ie eurobonds) and of domestic securities that are eligible in both systems. Transfers are either against payment or free of payment. The settlement timing is the same as for internal settlements within the Euroclear System. In Clearstream as in Euroclear, there are several overnight processing before each settlement date. After each Euroclear or Clearstream processing, there is an electronic transmission of files to the other system. Receipts of securities from Clearstream are processed in the Euroclear overnight processing after receipt of Clearstream's proposed deliveries to Euroclear participants. Euroclear is informed of these proposed deliveries after completion of the Clearstream processing before the relevant Euroclear processing. After each overnight processing, Euroclear informs Clearstream of the acceptance or refusal of each proposed delivery. The receipt becomes final and irrevocable when Clearstream receives the acceptance feedback from Euroclear. If a receipt from Clearstream is accepted, securities are credited and, if the receipt is against payment, cash is debited as a result of the overnight processing. If the receipt is refused, eg. because the participant has insufficient cash available, the participant's instruction to receive is included in the following overnight processing until settled or canceled by the participant. After each overnight processing, Euroclear also informs Clearstream of proposed deliveries to Clearstream members which will be successfully or not included in the following Clearstream processing; a proposed delivery from Clearstream which fails to settle in the first Euroclear overnight processing may be proposed again by Clearstream for the second overnight processing.

### Settlements with local market participants

To provide settlement of trades with local counter parties, links have been set up with a number of local CSDs. These links allow settlement of external transactions in a wide range of domestic securities, eg., government debt, corporate debt, equities and equity-linked (such as warrants). Trades between a Euroclear participant and a counter party in a domestic market are settled either directly or indirectly via an agent with domestic CSDs in more than 30 markets in Europe (e.g. Belgium, France, Germany, Italy, the Netherlands, Spain, Sweden), North and South America (e.g. Argentina, Canada, Mexico, the United States), Asia-Pacific (eg. Australia, Hong Kong, Japan, Singapore) and Africa (Republic of South Africa).

Costs and risks involved in the settlement between Euroclear participants and local market participants are heavily influenced by local market practices. Trades settling via domestic market



links settle on a DVP basis only if DVP is provided in the local market. In the same way, settlement in the Euroclear System becomes final and irrevocable in line with the rules of the domestic market. As a rule, Euroclear Bank credits securities to participants only if it has actually received the securities for the account of such participants. Availability of securities is only given after this receipt is final and therefore any risk of unwind of the receipt has been eliminated.

## 2.7 Custody function

The securities deposited by the participants in the Euroclear System are typically sub-deposited with a network of more than 70 custodians (called depositories), who are banks, central banks or SSSs generally located in the country of issuance or liquidity of the security, covering 32 markets. Some of those custodians in turn may sub-deposit the securities with their own sub-custodians, typically SSSs. International securities (such as eurobonds) are typically sub-deposited with banks that act as custodians for Euroclear Bank or as common depositories for Euroclear Bank and Clearstream Banking. These custodians may be authorized to sub-deposit the securities as necessary, generally with their own offices or subsidiaries in other locations. Securities deposited by participants in the Euroclear System are deposited with Euroclear Bank, as operator of the Euroclear System. Securities deposited in this way with Euroclear Bank may be sub-deposited with various depositories throughout the world. All Euroclear securities held by a depository or sub-depositories are credited to segregated custody accounts (in the name of Euroclear Bank) and labeled or otherwise appropriately identified as being held for Euroclear Bank as operator of the Euroclear System. For securities held in physical form in the vaults of the custodian, the Depositary Agreement also requires that the custodian segregates physically the securities held for Euroclear Bank from any security of the same issue that it would hold for its own account or for any other client. Euroclear Bank also enters into a Depositary Agreement with each depository which, as a rule, confirms, among other things, that it has no ownership interest in securities it holds for Euroclear Bank and that such securities are freely transferable, except (in certain instances) for a limited right of retention for safekeeping fees charged by the depository. Securities deposited in the Euroclear System may be in either physical, registered or in dematerialized form and are held on a fungible basis. Euroclear Bank offers a large number of custody services facilitating the exercise of securities holders' rights and corporate actions, including eg tax services, proxy voting, information on corporate events and processing for collection of income and redemption proceeds, market claims, and exercise of subscription rights.

## 2.8 Securities lending and borrowing

Euroclear Bank offers a securities lending and borrowing program which is fully integrated into its overnight settlement process. As a general rule, all securities accepted by the Euroclear System are eligible for securities lending and borrowing except those bound by liquidity, fiscal or legal restrictions. Standard borrowings are allocated whenever a borrower has insufficient securities in its account to make a delivery, provided sufficient securities are available from lending. Borrowings are reimbursed on the first overnight settlement process where securities are available in the borrower's account. In the program, all securities made available by lenders are aggregated in a lending pool. Securities are then distributed to borrowers and loans are allocated

among lenders according to standard procedures. Through the intermediation of Euroclear Bank, a borrower's name is never revealed to the lender and vice versa. This Euroclear "screen" between borrowers and lenders ensures confidentiality of participants' positions. Euroclear Bank guarantees to each lender the return of lent securities or their cash equivalent in the case of borrower default as well as the payment of the lending fees. Euroclear Bank also guarantees income and redemption proceeds and other entitlements on lent securities. The credit extended in the framework of this facility is fully collateralized.

## 2.9 Collateral management

Euroclear provides its participants with integrated collateral management services facilitating collateralization of all types of exposures from a single pool of collateral. Collateral services offered in the Euroclear System include marking to market, substitutions, margin calls and other monitoring associated with collateralized securities. Integrated collateral management supports standard market agreements for repos, securities lending, derivatives support and secured loans. A service agreement documenting these services must be executed between the collateral giver, the collateral taker and Euroclear, acting as collateral management service agent. A specific tri-party agreement is used for each collateral management product. Auto select, the collateral management securities substitution and selection module, runs eight times a day during the real-time settlement process.

This information is provided to you by CPSS – BIS – Red Book that can be found at <http://www.bis.org> .