

CORPORATE FINANCE

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Settling the issue of global clearing

One snag that causes kinks in 24-hour trading is clearing and settlement. But electronic links worldwide, to tackle this problem and keep up with the rapid pace of crossborder trades in equities, are proliferating between trading centres. Financial Telecommunications of the UK, or Fitel, for example, offers a continuous real-time communications system and database called Equinet, which links all those involved in the clearing and settlement process.

Perhaps surprisingly, Fitel has no direct competitors as yet. And the company is building up an impressive client list, which it believes will eventually include all the major global trading houses. "A chain is only as strong as its weakest link," says Fitel's chief executive, Graciela Chichilnisky, speaking about improving the process of worldwide settlement through plugging information gaps.

In the US, for example, some 90% of all securities transactions with a five-day settlement period are cleared and settled through the National Securities Clearing Corporation and its affiliate, the Depository Trust Company.

The NSCC's recently formed international arm, the ISCC, is exploring arrangements for bilateral clearing and settling of international securities with exchanges around the world. One leg of a bilateral link with the London Stock Exchange's settlement services division was started last October. This eastbound leg of the link allows US dealers who are ISCC members to settle transactions in UK securities through Talisman, the London exchange's clearing system. (The westbound leg, which will allow UK dealers to settle their US transactions, will probably be up and running by the middle of this year, says ISCC president John Kinnaman.)

Seven firms now take advantage of the clearing link between the ISCC and the London exchange. In the period between the second week of December 1986 and March 3, 1987, 1,200 sterling-denominated trades totalling £250,000 and 200 dollar-denominated trades totalling \$23 million have been settled via the link between the two systems. Kinnaman estimates that the seven firms have reduced their transaction cost per UK security from \$35-50 to about \$10.

Similarly, the London exchange has a bilateral link with the Midwest Clearing Corporation, a sort of westbound leg. This arrangement allows trades in North American securities to be settled from London in Chicago. "UK brokers appear as if they were locals in Chicago, as if they were part of the hometown. When the eastbound link is up, Chicago brokers will appear as if they were locals in London," explains Bernard Till of the foreign securities' team at the London exchange's settlement services division.

ISCC is also talking with the Japan Securities Clearing Corporation (JSCC), Euroclear and Cedel. ISCC will soon link up with Cedel to access its clearing services for German equity and corporate bond issues. Cedel will give ISCC a series of ISCC participant accounts in order to link up with the Deutscher Auslands Kassenverein.

Another clearing arrangement is between the American Stock Exchange and the European Options Exchange in Amsterdam. "We have a licensing agreement with the EOE on our major market index option, so that it can be traded during European trading hours," says Richard Liebler of the Amex. "An interface between EOE and our own clearing corporation allows trades to be settled here, so that investors would not have to clear and settle trades separately, with two different places."

The exchange in London is reviewing its entire system of trading and settling foreign securities as part of an aggressive push to internationalise itself. The exchange's trading system for foreign equities, Seag International will soon be upgraded to include areas such as last-sale information. "We are reviewing all the settlement practices in London which underlie trading of foreign shares in London," Till stresses. "The whole system should be replaced within 18 months." The exchange hopes to have a depository trust company - named Taurus - in place by 1989.

The London exchange is negotiating with the French clearing agency, the Madrid Stock Exchange, the JSCC and the Canadian Depository for Securities, among others. It has links with exchanges in Johannesburg and Melbourne, which allow securities to be settled through its own Talisman system in London or in South Africa or Australia. Issues denominated in US dollars or sterling can be settled in London, whereas those denominated in any other currency (including rands or Australian dollars) have to be settled in their country of origin.

Another name, Pershing Keen, recently joined the list of clearing and settling houses in London, which includes Brokers Services and FICS. Pershing, the settlements arm of securities broker Donaldson, Lufkin & Jenrette, started this new operation by acquiring the settlement unit of the British company Laurence Keen. Pershing Keen, has three UK firms as members. These firms can settle their foreign securities, denominated in any of the major world currencies, in London.

Luis Blanco, deputy chairman of Pershing Keen, says the new unit hopes to expand its clientele eventually to include US dealers. He says the firm's ultimate goal is to set up a truly global clearing and settlements operation.