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THE EUROPEAN UNION**

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from: Presidency
to : Delegations
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Subject: Proposal for a directive of the European Parliament and of the Council amending Directive 98/26/EC on settlement finality in payment and securities settlement systems and Directive 2002/47/EC on financial collateral arrangements as regards linked systems and credit claims
- Revised Presidency compromise

Delegations will find in annex the draft revised text of the above directive as it stands following examination by the Working Party at its meeting of 14 July and subsequent comments from Member States.

Changes introduced in relation to the Commission proposal (8646/08) appear in bold underlined text and deletions are denoted by [...].

Proposal for a

DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

amending Directive 98/26/EC on settlement finality in payment and securities settlement systems and Directive 2002/47/EC on financial collateral arrangements as regards linked systems and credit claims

(Text with EEA relevance)

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 95 thereof,

Having regard to the proposal from the Commission¹,

Having regard to the opinion of the European Central Bank²,

Having regard to the opinion of the European Economic and Social Committee³,

Acting in accordance with the procedure laid down in Article 251 of the Treaty⁴,

Whereas:

- (1) Directive 98/26/EC of the European Parliament and of the Council of 19 May 1998 on settlement finality in payment and securities settlement systems⁵ established a regime under which the finality of transfer orders and netting, as well as the enforceability of collateral security, are ensured in respect of both domestic and foreign participants.

¹ OJ C , , p. .

² OJ C , , p. .

³ OJ C , , p. .

⁴ OJ C , , p. .

⁵ OJ L 166, 11.6.1998, p. 45.

- (2) The Evaluation Report from the Commission to the European Parliament and the Council on the Settlement Finality Directive 98/26/EC⁶ concluded that Directive 98/26/EC in general is functioning well. It highlighted that some important changes may be underway in the area of payments and securities settlement systems and also concluded that there is some need to clarify and simplify Directive 98/26/EC.
- (3) The main change, however, is the increasing number of linkages between systems, which at the time when Directive 98/26/EC was drafted, used to operate almost exclusively on a national and independent basis. This change is one of the results of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC⁷, and the European Code of conduct for clearing and settlement⁸. In order to adapt to those developments, the concept of an interoperable system and the responsibility of system operators should be clarified.
- (4) Directive 2002/47/EC of the European Parliament and of the Council of 6 June 2002 on financial collateral arrangements⁹ created a uniform Community legal framework for the (cross-border) use of financial collateral and thus abolished most of the formal requirements traditionally imposed on collateral arrangements.

⁶ COM (2005) 657 final/2, 4.7.2006.

⁷ OJ L 149, 30.10.2004, p. 1. Directive as last amended by Directive 2007/44/EC (OJ L 247, 21.9.2007, p. 1).

⁸ "http://ec.europa.eu/internal_market/financial-markets/docs/code/code_en.pdf"

⁹ OJ L 168, 27.6.2002, p. 43.

- (5) The European Central Bank's Governing Council has decided to introduce credit claims as an eligible type of collateral for Eurosystem credit operations as of 1 January 2007, and in order to maximise the economic impact thereof, the European Central Bank recommended an extension of the legal coverage of Directive 2002/47/EC. The Evaluation Report from the Commission to the European Parliament and the Council on the Financial Collateral Arrangements Directive 2002/47/EC¹⁰ addressed this issue and subscribed to the opinion of the European Central Bank. The use of credit claims will increase the pool of available collateral and the harmonisation of the legal provisions in Directive 2002/47/EC would further contribute to a level playing field among credit institutions in all Member States. If the use of credit claims as collateral were to be facilitated further, consumers/debtors would also benefit as the use of credit claims as collateral could ultimately lead to more intense competition and better availability of credits.
- (6) In order to facilitate the use of credit claims, it is important to abolish or prohibit any administrative rules, such as notification and registration obligations, that would make the assignments of credit claims impracticable. Similarly, in order not to compromise the position of collateral takers, debtors should be able to validly waive their set-off rights vis-à-vis creditors. The same rationale should also apply to the need to introduce the possibility for the debtor to waive bank secrecy rules, as otherwise the collateral taker may have insufficient information to properly assess the value of the underlying credit claims. These provisions are without prejudice to [...] **Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers and repealing Council Directive 87/102/EEC.**
- (7) Member States have made no use of the option under Article 4(3) of Directive 2002/47/EC to opt out of the right of appropriation of the collateral taker. That provision should therefore be deleted.
- (8) Directives 98/26/EC and 2002/47/EC should therefore be amended accordingly.

¹⁰ COM (2006) 833 final, 20.12.2006.

(8a) The Council, in accordance with paragraph 34 of the Interinstitutional agreement on better law-making, should encourage Member States to draw up, for themselves and in the interest of the Community, their own tables, which will, as far as possible, illustrate the correlation between the Directive and the transposition measures and to make them public.

HAVE ADOPTED THIS DIRECTIVE:

Article 1

Amendments to Directive 98/26/EC

Directive 98/26/EC is amended as follows:

(0a) Recital (8) shall be deleted.

(0b) The following recitals shall be added:

"(24) In case of interoperable systems, a lack of coordination as to which rules on the moment of entry/irrevocability apply may expose participants in one system, or even the system operator itself, to the spill-over effects of a default in the other system. In order to limit systemic risk, it is desirable to provide that system operators of interoperable systems coordinate the rules on the moment of entry/irrevocability in the systems they operate.

(25) The arrangement entered into between interoperable systems cannot be considered as a system.

(26) An indirect participant is considered a participant on grounds of systemic risk, this does not limit the responsibility of the participant through which the indirect participant passes transfer orders to the system.

(27) The notion of 'business day' is introduced to cover both day and night time settlements so that it encompasses all events happening during the business cycle of a system."

(1) Article 1 is amended as follows:

(a) In point (a), the word "ecu" is replaced by the word "euro".

(b) In point (c), the second indent is replaced by the following:

“- operations of the central banks of the Member States or the European Central Bank in their function as central banks.”

(2) Article 2 is amended as follows:

(a0) In point (a), the first indent is replaced by the following:

“- between three or more participants, without counting the system operator of that system, a possible settlement agent, a possible central counterparty, a possible clearing house or a possible indirect participant, with common rules and standardised arrangements for the clearing (whether or not through a central counterparty) or execution of transfer orders between the participants,”

(a) In point (b), the first and second indents are replaced by the following:

"- a credit institution as defined in Article 4(1) of Directive 2006/48/EC of the European Parliament and of the Council including the institutions listed in Article 2 of that Directive,

- an investment firm as defined in point (1) of Article 4(1) of Directive 2004/39/EC, excluding the institutions set out in Article 2(1) thereof, or"

(b) In point (f) the words:

" 'participant` shall mean an institution, a central counterparty, a settlement agent or a clearing house."

are replaced by the following:

" 'participant' shall mean an institution, a central counterparty, a settlement agent, a clearing house or a system **operator**."

and the words:

"and on condition that the indirect participant is known to the system"

are deleted from the third sub-paragraph.

Point (g) is replaced by the following:

"(g) 'indirect participant' shall mean an institution, a central counterparty, a settlement agent, a clearing house or a system **operator** with a contractual relationship with **[...]a participant** in a system executing transfer orders which enables the indirect participant to pass transfer orders through the system; **provided, however, that the indirect participant is known to the system operator;**"

(c) Point (h) is replaced by the following:

"(h) 'securities' shall mean all instruments referred to in section C of Annex 1 to Directive 2004/39/EC;"

(c1) In point (i), the first indent is replaced by the following:

“- any instruction by a participant to place at the disposal of a recipient an amount of money by means of a book entry on the accounts of a credit institution, a central bank, a central counterparty or a settlement agent, or any instruction which results in the assumption or discharge of a payment obligation as defined by the rules of the system, or”

(c2) Point (l) is replaced by the following:

“(l) 'settlement account' shall mean an account at a central bank, a settlement agent or a central counterparty used to hold funds and/or securities and to settle transactions between participants in a system;”

(d) Point (m) is replaced by the following:

"(m) 'collateral security' shall mean all realisable assets, including[...], **without limitations, financial collateral referred to in Article 1(4)(a) of Directive 2002/47/EC,** provided under a pledge (including money provided under a pledge), a repurchase or similar agreement, or otherwise, for the purpose of securing rights and obligations potentially arising in connection with a system, or provided to central banks of the Member States or to the European Central Bank;"

(e) The following points (n) and (o) are added:

"[...] (n) **'interoperable systems' shall mean two or more systems whose system operators have entered into an arrangement between themselves that involves cross-system execution of transfer orders;**

(o) 'system operator' shall mean the entity [...] **legally responsible for the** operation of a system. A system operator may also act as a settlement agent, central counterparty or clearing house."

(3) Article 3 is amended as follows:

(a) Paragraph 1 is replaced by the following:

"1. Transfer orders and netting shall be legally enforceable and **binding on third parties** even in the event of insolvency proceedings against a participant[...], provided that transfer orders were entered into **the** system before the moment of opening of such insolvency proceedings as defined in Article 6(1). **This shall apply even in the event of insolvency proceedings against a participant (in the system concerned or in an interoperable system) or against the system operator of an interoperable system which is not a participant.**

Where [...]transfer orders are entered into a system after the moment of opening of insolvency proceedings and are carried out within the business day, as defined by the rules of the system, during which the opening of such proceedings occur, they shall be legally enforceable and binding on third parties only if[...] the system operator can prove that, **at the time such transfer orders became irrevocable,** it was not aware, nor should have been aware, of the opening of such proceedings."

(b) The following paragraph 4 is added:

"4. In **the** case of interoperable systems, each system determines **in** its own rules [...]the moment of entry **into** its system[...], **so as to ensure, to the extent possible, that the rules of all interoperable systems concerned are coordinated in this regard. Unless expressly provided for by the rules of the systems concerned,** one system's rules on **the** moment of entry shall not be affected by any rules of the other systems with which it is interoperable."

(3a) Article 4 is replaced by the following:

“Article 4

Member States may provide that the opening of insolvency proceedings against a participant shall not prevent funds or securities available on the settlement account of that participant from being used to fulfil that participant's obligations in the system (or in an interoperable system) on the business day of the opening of the insolvency proceedings. Furthermore, Member States may also provide that such a participant's credit facility connected to the system be used against available, existing collateral security to fulfil that participant's obligations in the system (or in an interoperable system).”

(4) In Article 5, the following subparagraph is added:

"In **the** case of interoperable systems, each system determines in its own rules[...] the moment of [...] **irrevocability, so as to ensure, to the extent possible, that the rules of all interoperable systems concerned are coordinated in this regard. Unless expressly provided for by the rules of the systems concerned,** one system's rules on **the** moment of **irrevocability** shall not be affected by any rules of the other systems with which it is interoperable."

(4a) Article 7 is replaced by the following:

“Article 7

Insolvency proceedings shall not have retroactive effects on the rights and obligations of a participant arising from, or in connection with, its participation in a system earlier than the moment of opening of such proceedings as defined in Article 6(1). This shall apply even as regards the rights and obligations of a participant in an interoperable system or of a system operator of an interoperable system which is not a participant.”

(5) Article 9(1) is replaced by the following:

" 1. The rights of a system **operator** or of a participant to collateral security provided to **them** in connection with a system **or any interoperable system**, and the rights of central banks of the Member States or the European Central Bank to collateral security provided to them, shall not be affected by insolvency proceedings against:

- **(i) [...] a participant (in the system concerned or in an interoperable system);**

- **(ii) [...] a system operator of an interoperable system which is not a participant;**

- **(iii) a counterparty to central banks of the Member States or the European Central Bank;**

or

- **(iv) any third party** which provided the collateral security.

Such collateral security may be realised for the satisfaction of these rights."

(5a) Article 9(2) is replaced by the following:

"2. Where securities (including rights in securities) are provided as collateral security to participants and/or central banks of the Member States or the European central bank as described in paragraph 1, and their right (or that of any nominee, agent or third party acting on their behalf) with respect to the securities is legally recorded on a register, account or centralised deposit system located in a Member State, the determination of the rights of such entities as holders of collateral security in relation to those securities shall be governed by the law of that Member State."

(6) Article 10 is replaced by the following:

"Article 10

1. Member States shall specify the systems, and the respective system operators, which are to be included in the scope of this Directive and shall notify them to the Commission and inform the Commission of the authorities they have chosen in accordance with Article 6(2).

The system operator shall indicate to the Member State whose law is applicable the participants in the system, including any possible indirect participants, as well as any change in them.

In addition to the indication provided for in the second subparagraph, Member States may impose supervision or authorisation requirements on systems which fall under their jurisdiction.

Anyone with a legitimate interest may require an institution to inform him of the systems in which it participates and to provide information about the main rules governing the functioning of those systems.

2. A system designated prior to the coming into force of national provisions implementing this Directive continues to be designated for the purposes of this Directive, as amended.

A transfer order which enters a system before the entry into force of provisions implementing this Directive, but is settled after that time is a transfer order for the purposes of the Directive as amended."

Article 2

Amendments to Directive 2002/47/EC

Directive 2002/47/EC is amended as follows:

(0) Recital 20 shall be replaced by the following:

"(20) This Directive does not prejudice the operation and effect of the contractual terms of financial instruments or credit claims provided as financial collateral, such as rights and obligations and other conditions contained in the terms of issue of such instruments, and any other rights and obligations and other conditions which apply between the issuers and holders of such instruments or between the debtor and the creditor of such credit claims."

(0a) The following recital shall be added:

"(23) The Financial Collateral Directive does not affect the rights of Member States to impose rules to ensure the effectiveness of financial collateral arrangements in relation to third parties as regards credit claims."

(1) Article 1 is amended as follows:

(a) Point (b) of paragraph 2 is replaced by the following:

"(b) a central bank, the European Central Bank, the Bank for International Settlements, a multilateral development bank as referred to in Annex VI, Part 1, Section 4 of Directive 2006/48/EC of the European Parliament and of the Council, the International Monetary Fund and the European Investment Bank;"

(b) In point (c) of paragraph 2, points (i) to (iv) are replaced by the following:

"(i) a credit institution as defined in point (1) of Article 4 of Directive 2006/48/EC including the institutions listed in Article 2 of that Directive;

(ii) an investment firm as defined in point (1) of Article 4(1) of Directive 2004/39/EC of the European Parliament and of the Council;

(iii) a financial institution as defined in point (5) of Article 4 of Directive 2006/48/EC;

(iv) an insurance undertaking as defined in point (a) of Article 1 of Council Directive 92/49/EEC and a life assurance undertaking as defined in point (a) of Article 1 of Directive 2002/83/EC of the European Parliament and of the Council;"

(c) Point (a) of paragraph 4 is replaced by the following:

"(a) The financial collateral to be provided must consist of cash, financial instruments or credit claims[...]."

(c1) In paragraph 4, the following point (c) is added:

“(c) Member states may exclude from the scope of this Directive credit claims where the debtor is a consumer as defined in Article 3-a of the Directive 2008/48/EC or a micro, small and medium-sized enterprise as defined in Article 1 and Article 2(1) of the annex to Recommendation 2003/361/EC or which were not created in a professional context, except if the collateral taker or the collateral provider of such credit claims are institutions referred under Article 1-2(b).”

(d) In paragraph 5, after the second subparagraph, the following sentences are added:

"For credit claims, the inclusion in a list of claims submitted in writing, or in a legally equivalent manner, [...] to the collateral taker is sufficient to [...] **identify the credit claim and to evidence the provision** of the claim provided as **financial** collateral **between the parties**.

Without prejudice to the previous subparagraph, Member states may provide that the inclusion in a list of claims submitted in writing, or in a legally equivalent manner is also sufficient to identify the credit claim and to evidence the provision of the claim provided as financial collateral against the debtor and/or third parties."

[...]

(2) Article 2 is amended as follows:

(a) Paragraph 1 is amended as follows:

(i) Points (b) and **(c) are** replaced by the following:

"(b) "title transfer financial collateral arrangement" means an arrangement, including repurchase agreements, under which a collateral provider transfers full ownership of, or full entitlement to, financial collateral to a collateral taker for the purpose of securing or otherwise covering the performance of relevant financial obligations;

(c) "security financial collateral arrangement" means an arrangement under which a collateral provider provides financial collateral by way of security in favour of, or to, a collateral taker, and where the [...] ownership of the financial collateral remains with the collateral provider when the security right is established;"

(ii) The following point (o) is added:

"(o) "credit claims" means pecuniary claims arising out of an agreement whereby a credit institution, as defined in point (1) of Article 4 of Directive 2006/48/EC including the institutions listed in Article 2 of that Directive, grants credit in the form of a loan."

(b) In paragraph 2, the second sentence is replaced by the following:

“Any right of substitution or to withdraw excess financial collateral in favour of the collateral provider or, in the case of credit claims, to collect the proceeds thereof until further notice, shall not prejudice the financial collateral having been provided to the collateral taker as mentioned in this Directive.”

(3) Article 3 is amended as follows:

(a) In paragraph 1, the following subparagraph is added:

"Without prejudice to Article 1(5), when credit claims are provided as financial collateral, Member States shall not require that [...] their creation, validity, perfection, priority, enforceability or admissibility in evidence[...] be dependent on the performance of any formal act such as the registration or the notification of the debtor of the credit claim provided as collateral. However, Member States may require the performance of a formal act, such as registration or notification, for purposes of perfection, priority or enforceability against the debtor and/or third parties."

(b) The following paragraph 3 [...] is added:

"3. Without prejudice to directive 93/13/EEC and national provisions concerning unfair contract terms Member States shall ensure that debtors of the credit claims may validly waive, in writing or in a legally equivalent manner:

(i) their rights of set-off vis-à-vis the creditors of the credit claim and vis-à-vis persons to which the creditor assigned, pledged or otherwise mobilised the credit claim as collateral; and

(ii) their rights arising from banking secrecy rules that would otherwise prevent or restrict the ability of the creditor of the credit claim to provide information on the credit claim or the debtor for the purposes of using the credit claim as collateral."

[...]

(4) Article 4 [...] is amended as follows:

(a1) **In paragraph 1, the following point (c) is added:**

“(c) credit claims, by sale or appropriation and by setting off their value against or applying their value in discharge of the relevant financial obligations.”

(a2) **In paragraph 2, point (b) is replaced by the following:**

“(b) the parties have agreed in the security financial collateral arrangement on the valuation of the financial instruments and the credit claims.”

(a3) **Paragraph (3) is deleted.**

(4a) In Article 5, the following paragraph 6 is added:

“6. This Article shall not apply to credit claims.”

(4b) The following Article is added after Article 9:

“Article 9a

The provisions of this Directive shall be without prejudice to Directive 2008/48/EC on credit agreements for consumers.”

Article 3

Transposition

1. Member States shall adopt and publish, by[...] **18 months from the entry into force of this Directive** at the latest, the laws, regulations and administrative provisions necessary to comply with this Directive. They shall forthwith communicate to the Commission the text of those provisions[...].

They shall apply those provisions **[...]6 months after the date in the previous subparagraph.**

When Member States adopt those provisions, they shall contain a reference to this Directive or be accompanied by such a reference on the occasion of their official publication. Member States shall determine how such reference is to be made.

2. Member States shall communicate to the Commission the text of the main provisions of national law which they adopt in the field covered by this directive.

Article 4

Entry into Force

This Directive shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

Article 5

Addressees

This Directive is addressed to the Member States.

Done at Brussels,

For the European Parliament
The President

For the Council
The President