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**Comments on the Preliminary Project
Report for The Inter-Connected Stock
Exchange of India Limited**

**Financial Institutions Reforms and
Expansion (FIRE) Project**

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**Financial Institutions Reform and Expansion (FIRE) Project
US Agency for International Development (USAID/India)**

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September 19, 1997

Mr. Joseph Massey
Managing Director
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Silver Arcade
147, Naroshi Road
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Subject: Price Waterhouse LLP Review of the "Preliminary Project Report" by C.C. Chokshi & Co.

Dear Joseph:

Under the USAID sponsored Financial Institutions Reform and Expansion (FIRE) project, Price Waterhouse LLP (PW) Capital Markets Consultants Mr. Bill Gorman and Mr. Frank Wolf have reviewed the "Preliminary Project Report" by C.C. Chokshi & Co. (CCC) which you forwarded to us in the form of a Microsoft Word file "ISEL.DOC."

We did not review and have not commented on the financial projections provided to us in the Excel file ("ISEL.XLS"). The only financial information we have commented on is that presented in the text of the ISEL.DOC file.

PW has not independently verified information, financial or other, in the preliminary project report we reviewed. Therefore, PW does not make any representation or warranties as to the accuracy or completeness of the information presented by CCC and shall have no liability for any representations (expressed or implied), or omissions concerning their report.

In reviewing the document, PW/FIRE's purpose was to give meaningful comments which the Inter-Connected Stock Exchange of India Ltd. (ICSE) can convey to CCC and/or incorporate into the document in order to improve the proposed business plan for ICSE and the inter-connected market system (ICMS) you propose.

PW/FIRE thinks the document is a good start for ICSE, but it still requires additional work in some areas. Our main comment is PW/FIRE sees the proposed ICMS as a platform to introduce needed reforms into the Indian markets. Being the catalyst of change can be ICSE's distinguishing characteristic in its competition with existing exchanges.



Since PW/FIRE's comments are quite extensive and detailed, they are preceded by a table of contents to assist the reader in understanding the organization of our comments.

Please see the attached marked up copy of the project report we reviewed for additional comments and edits not outlined in this letter.

After review of the PW/FIRE comments and finalization of the project report, PW/FIRE suggests the following next steps for ICSE:

1. Put together assumptions and spreadsheets in a professional looking presentation.
2. Create a summary document for presentation to the regional stock exchanges (RSEs) on benefits of ICSE and the costs.
3. Do presentations ("road shows") for RSEs, NSDL, etc. on ICSE.

We think ICSE has a significant opportunity to design and implement a market that will bring reforms to the Indian capital markets that will benefit the Indian investor. We look forward to being of more assistance.

Please contact me at 496-3599 or 497-3216/38, fax 496-3555 with any questions or comments. Thank you.

Sincerely,

W. Dennis Grubb
Principal Consultant

- Attachments:
1. PW/FIRE Comments on ICSE Project Report
 2. G30 Recommendations
 3. G30 Recommendations as revised by the International Society of Securities Administrators (ISSA), June 22, 1995
 4. Marked up ICSE Project Report

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I. REFORMS ICSE SHOULD OFFER TO THE INDIAN CAPITAL MARKETS

The following are reforms the Price Waterhouse FIRE Project thinks ICSE could undertake which will benefit the Indian investor, market transparency and efficiency, and differentiate ICSE from NSE and BSE. Some of these are touched on in subsequent sections, but we wanted a definitive list up front of measures we recommend ICSE undertake.

1. ICSE should require best execution regardless of which regional stock exchange (RSE) broker places an order. This would necessitate a consolidated quotation system which gathers for display all quotations on a given security available over all RSE member exchanges enabling a customer to get the best execution available. A public display of all transaction executions is needed and there should be a system check to determine that best execution has been obtained.

Guaranteeing best execution means that the member RSE that can consistently offer the best BBO will get to keep part of the bulk of all transaction fees and therefore, the cards on that exchange will command the highest price. Also, since this creates one segment among all exchanges, brokers would not have to split the Rs. four lakhs base minimum capital between two segments which may limit trading opportunities.

2. ICSE and member RSEs should be put on the same settlement cycles which should then be matched with the settlement cycle of either BSE (Mon - Fri) or NSE (Wed - Tue). Harmonized settlement cycles will contribute to the creation a deeper, more liquid market. We realize ICSE talks about creating arbitrage opportunities for RSE brokers (see point 8 of paragraph 1.11 and paragraph 4.46 of the project report). However,

- * Arbitrage opportunity results from inefficient, fragmented markets¹ which is what is already occurring in India. Such inefficiencies do not benefit the investor. They only benefit those with special knowledge, special information, and special contacts who can exploit the inefficiencies. **Therefore, ICSE should seek to eliminate arbitrage opportunities as much as possible if it is fulfilling a needed role in the Indian capital markets.**

¹ The following is an example, using Reliance shares, of what is meant by "fragmented markets." There is a different price for Reliance on NSE and BSE. On NSE there is a difference in price between physical shares and dematerialized shares of Reliance. On BSE, there may be differences in price between Reliance shares traded normally on BOLT and those traded in the Sunshine Segment. In addition, there will be a different price for Reliance on the Over the Counter Exchange of India (OTCEI) when they start trading in permitted securities as they have announced. In addition to these different prices within Mumbai, there are 20 more prices for Reliance on the 20 other exchanges outside of Mumbai. All these different prices are for a share which represents the same percentage of ownership in the company. There should not be such a fragmentation of markets for a single share.

* It might be more useful and important to stress how ICSE can position itself to achieve a greater percentage of the delivery business (i.e., stress real trading and settlement). After all, when rolling settlement and derivatives trading arrive, the nature of arbitrage in the Indian markets will change.

3. ICSE should create a tie into BSE and/or NSE for a truly national market system. This would require RSE brokers to be able to execute on BSE and/or NSE and vice versa. If this tie in were achieved, BSE and NSE could be included on the consolidated tape and display of transaction executions.

The question is how to get BSE and/or NSE to agree to tie in to ICSE. Paragraph 4.10 says 5,000 BSE companies trade very infrequently. Perhaps BSE would release these to ICSE, especially if there were a way to afford BSE brokers access to trade them when desired. This could be the start of a full tie in with BSE.

4. Settlement on ICSE should require ownership transfer at trade settlement to decrease the amount of bad paper in circulation.
5. ICSE should offer depository settlement on , the National Securities Depository Ltd. (NSDL).
6. ICSE should bring physical and dematerialized shares on to the same settlement cycle to further reduce market fragmentation. This would most likely entail having physical deliveries be recorded in a settlement account at NSDL for book entry ownership transfer. This could be accomplished by a method such as that outlined below:

Delivering broker receives shares from investor and sends them to registrar. Registrar confirms to broker within five days if shares eligible for transfer. Shares eligible for transfer are recorded in an electronic settlement account of the delivering broker at the depository. On settlement day, shares are transferred into the depository settlement account of the receiving broker. Receiving investor could then have the broker transfer shares into the customer's depository account or the customer could request physical shares from the registrar.

Bringing physical and dematerialized shares onto the same settlement cycle would mean there would not be separate prices for physical and dematerialized shares. Ownership transfer in the depository for all shares, physical or dematerialized, could avoid the stamp tax, the other possible price differential between physical and dematerialized shares.

Combining the physical and dematerialized markets into a seamless whole, rather than segregating them, will lead to a larger, deeper, more liquid market for a share rather than multiple fragmented markets.

7. ICSE should offer better and more complete company information to investors. Indian investors, particularly regional retail investors, face incomplete and uneven distribution of relevant company information. ICSE could have a competitive advantage in providing more complete company information to all member RSEs than NSE or BSE provide. This will be particularly important service if ICSE wants its regional companies to take off on a national scale.
8. ICSE should offer a better investor grievance redressal system than NSE or BSE that leverages having exchange personnel and infrastructure in the 12+ centers of the member RSEs.
9. ICSE should require negotiated deals to be reported to the exchange within 15 minutes or less (it is 90 seconds in the US). On BSE they do not have to be reported until the end of the day.
10. RSE brokers should be required to time stamp both customer orders and proprietary orders at time of receipt as well as at time of execution. This creates an audit trail which assists the exchange(s) and the regulator in investigating cases of front running and other illegal trading activities.

Separately, PW/FIRE is proposing a system to SEBI to accomplish ownership transfer at trade settlement and to bring physical and dematerialized shares onto the same settlement cycles as we maintain these steps are crucial to the long-term success of the Indian capital markets.

II. WHOM DOES ICSE SERVE?

It is important that ICSE define precisely who the exchange proposes to serve.

1. In many places, the paper makes it sound like ICSE is a last attempt by RSE brokers to survive a business downturn rather than a well thought out business that sees an opportunity to provide superior service to the Indian investor. This is not a tone that lends credibility to an assertion that ICSE is being established accommodate the Indian investor as its primary goal
2. Paragraph 1.08 should be written with greater emphasis on benefits and less as an apologia for small brokers. Why not mention how ICSE sees the future and where the market is likely to go in the next few years? By mentioning the past, present and future, ICSE can show how it is positioning itself to meet market needs.
3. The paper talks about why ICSE is needed to "save" the RSE broker but it does not say why the RSE broker should be saved. One possible reason, which is not mentioned, is that because of infrastructure problems, local customs, etc. there are no brokers in India with a nationwide reach. Therefore, regional brokers are still required in order to provide services to investors in regional centers. ICSE provides a platform for the RSE broker to expose his client's orders to a national market.

4. The paper also needs to stress the benefit of ICSE to the investor because he/she is the ultimate customer, not the RSE broker. This is practically ignored in the paper. Without investors, there is no need for a market. **The technical feasibility is not what will determine the success of ICSE. It will be the benefits an interconnected market system (ICMS) brings to investors which will make them want to place their trades on ICSE rather than the National Stock Exchange (NSE) or the Bombay Stock Exchange (BSE).**

5. Paragraph 3.16 stresses declining volumes and a lack of clients. Why have the clients left?
 - * Poor delivery/settlement?
 - * Various scams?
 - * NSE offered a larger, more liquid, more efficient, more transparent market?

Has this problem been analyzed? How will ICSE attract these investors back?

6. Perhaps ICSE should indicate what is happening to the BSE and NSE. Most of the business of these other "national" exchanges is "squaring off,"² not delivery based. An analysis of market changes might strengthen ICSE's case for being a needed alternative.

7. In looking at the future, ICSE should anticipate the coming of "rolling settlement," especially the possible effect on the "squaring off" trading strategy. Rolling settlement is beneficial for investors who take delivery rather than those engaged in squaring off.

8. The section on objectives, paragraph 1.10, should be strengthened.

9. Paragraph 4.31 references a belief that NSE and BSE have taken over almost 50% of the RSEs' volume. What is the reality? Has this issue been studied or is the evidence anecdotal? Why not illustrate with a graph?

10. The 4% response rate for the surveys distributed to RSE brokers is not encouraging.

² "Squaring off" refers to a broker entering buys and sells during the account period settlement period so that he/she is in a net zero deliver or receive position at the end of the account period settlement cycle. Most transaction volume in India is related to this speculative trading in which shares are not delivered. Rather, traders speculate on price movements within the account period before netting out their position to zero.

- * Why was there a low response?
- * If the RSE brokers are not giving ICSE priority, who is?

III. TRADING ON ICSE

1. Item 6 in paragraph 5.16 speaks of appointing specialists (presumed herein to be a type market maker obliged to give two way quotes) to ensure "trades are not shifted from one exchange to another."

- * How will appointing specialists avoid this shifting?
- * Since short selling is prohibited, how will these specialists operate?
- * Why is this shifting considered undesirable?

This subject of market makers should be carefully explored.

2. The description of trading given in paragraph 5.17 is confusing, awkward and does not describe true interconnectivity.
3. The broadcasting scheme described in paragraph 5.18 and 5.20 calls for a broadcast of the 30 most active scrips every two seconds. Other markets use other techniques to ensure full coverage of all scrips. It might be useful to explore these other techniques. Another approach to maximize coverage would be to employ message compression.
4. Paragraph 5.21 states it will be necessary for ICMS to identify whether an order is for the local exchange of ICMS. Is this true? If yes, why would ICMS ever see orders intended only for the local market? This paragraph is confusing.
5. Paragraph 5.28 discusses the auction process. Why not establish an efficient stock lending/borrowing scheme thus eliminating the need for auctions?
6. ICSE may want to highlight the advantages of trading on ICSE over the proposed BOLT expansion. BOLT will require separate screens, non-interconnected networks, RSE broker has to tie up with a BSE broker, RSE broker cannot do a trade directly on BOLT, and only BSE broker can see more than one exchange's orders. ICSE members will be able to see the books of all members on one screen and could execute on any exchange if the requirement for best executions supported by a consolidated quotation system is provided.

IV. ICSE TRADE CLEARANCE AND SETTLEMENT

1. ICSE should determine if it will be joining the National Securities Clearing Corporation Ltd. (NSCCL), NSE's wholly owned clearing corporation, because this is a big factor in how the exchange will be perceived. The two main advantages of utilizing NSCCL would be (i) cost effectiveness of not building a duplicate system and (ii) easier hook into NSDL. The disadvantage

is it would eliminate the opportunity for ICSE to implement settlement reforms which NSE/NSCCL did not want to implement.

2. In regards to a clearing corporation taking the other side of each trade, one assumes this removes counterparty risk, and it should as far as defaults. However, there is still the risk of bad paper and a clearing corporation cannot not guarantee delivery of good paper. NSCCL, who tried to do this, has discontinued the guarantee of rectification of company objections at transfer.

A clearing corporation should only guarantee settlement. This means, however, that an RSE broker trading on ICSE still takes on counterparty risk as far as receiving bad paper from a counterparty he receives shares from through the clearing corporation. As a result, brokers may continue to opt for delivery outside the clearing corporation just as the institutions do on BSE even though they lose the benefit of the trade guarantee fund. Therefore, a clearing corporation will never fulfill its full benefit to the Indian markets until a system is devised to ensure good paper is delivered in the first place. One way to do this is to have ownership transfer occur before trade settlement.

If ICSE has its own clearing corporation, it needs to come up with a method of getting rid of bad paper because otherwise brokers may not want to take the counterparty risk which can lead to broker to broker deliveries outside the clearinghouse.

Perhaps to rectify company objections, the clearing corporation could purchase fresh paper from the market through auction to make the receiving broker whole. The originating broker could be required to pay the clearing corporation for the purchase of the fresh paper plus be fined and be forced to take back the bad paper. Also, as suggested by ICSE for auctions, in the case of replacement paper being bought at a lower price than the original transaction price, the clearing corporation could keep the difference as a further penalty on the introducing broker. This would require rules on how soon after settlement the receiving party must register their shares or ask for rectification (e.g., say within one year).

3. If ICSE creates its own clearing corporation separate from NSCCL, the project report should develop how having regional clearing houses at each member RSE will provide better trade clearance and settlement services to RSE brokers and investors than NSE or BSE will be able to provide on a national level. ICSE's advantage is its potential ability to provide a local window at the site of each participating RSE. BSE provides the service only in Mumbai. NSE will be in only a few regional sites. Neither BSE nor NSE can provide full service outside of Mumbai.
4. Have you done any empirical calculations on how large the ICSE trade guarantee fund needs to be or were the initial contribution and turnover related contributions proposed in the paper arrived at arbitrarily?

5. The table in paragraph 5.32 indicates all mark to market losses over and above Rs. 50,000 are to be paid in cash before the next trading session. The clearing corporation should also pay out notional mark to market gains just as it collects notional mark to market losses. Existing exchanges in India do not pay out mark to market notional gains. They only collect notional losses. This could be a competitive advantage for ICSE.
6. The settlement cycles of RSEs should be harmonized with ICSE.
7. If setting up its own clearing corporation for trade clearance and settlement, ICSE should do everything within its power and ability to comply with the G30 Recommendations and the G30 Recommendations as revised by the International Society of Securities Administrators (ISSA) June 22, 1995. This includes moving to rolling settlement and establishing delivery versus payment (DVP). The G30 Recommendations and G30 Recommendations as revised by ISSA are attached for your reference.
8. Paragraph 4.03 speaks of automated trading delivering the following advantages: "...no delays in settlement, clearance and share transfers, etc." This is misleading. Automated trading simplifies clearance but does nothing for share transfer and very little for settlement.

V. ACCESS TO DEPOSITORY SETTLEMENT

Regardless if ICSE utilizes the services of NSCCL or not, it needs a hook into NSDL from the start so ICSE is posed to continue to offer a relevant trading market when trading volumes shifts from the physical to dematerialized shares. This shift may not happen for a while, but it will happen eventually and ICSE brokers will need access.

1. Is ICSE considering an equity stake in NSDL? A seat on the NSDL board? Have you had business management discussions with NSDL?
2. Paragraph 5.26 speaks of ICSE joining NSDL through one of its members.
 - * Is this a practical approach?
 - * How does participation through a member affect that member's financial and other requirements?
 - * Will this be acceptable to NSDL?
 - * How will the risk be managed?

Depository access is an extremely important issue. It should be explored thoroughly and resolved as quickly as possible.

VI. MINIMUM STANDARDS TO BE MET BY ICSE MEMBER EXCHANGES

The minimum standards for RSEs to become members of ICSE should be discussed exhaustively in one section of the project report rather than be sprinkled throughout the paper. The standards could include the following, some of which are already mentioned in the paper:

1. Harmonized bye-laws and business rules;
2. Automated/screen based trading capability;
3. Minimum surveillance capabilities/personnel/systems;
4. Risk containment systems such as margin collection procedures/requirements;
5. Harmonized settlement cycles;
6. Trade guarantee funds for trades on the member RSEs if settlement cycles are not harmonized and the ICSE clearing corporation or NSCCL does not clear all trades;
7. Common messaging standards;
8. Common scrip names, scrip IDs and symbols;
9. Standardized scrip related parameters such as market lots, tick size, circuit filter percentages, circuit breaker percentages, etc.;
10. Standard calendar and trading hours; and
11. Integrated trading mechanisms.

Also, indicate if these minimum standards must be met before an RSE can join ICSE.

VII. ICSE COST AND REVENUE ESTIMATES

Concerning financial information presented in the project report, PW has made no comment on nor evaluation of the reasonableness of the estimated revenues or expenses of ICSE presented. Nor did we audit the mathematical accuracy of calculations presented. ICSE should confirm that CCC has independently audited the accuracy of the financial information and the calculations presented in the project report.

Given the above, PW/FIRE has the following comments on the cost and revenue information presented in the project paper:

1. The paper asserts ICSE is more cost effective for a broker than NSE and BSE. This section needs illustrative examples so an RSE broker can say, "look, it is cheaper for me to join ICSE rather than tie up with BOLT or join NSE." Can you provide that analysis? Have you done the analysis?
2. ICSE's costs are mostly fixed and the fees generated are mostly variable depending on turnover. There is no mention what ICSE will do if fees generated are too low to meet expenditures or, on the other hand, are much higher than expenditures.

In the case fees generated are too low to cover operating costs, what will ICSE do to cover the short fall? Assess a surcharge to members? Draw on a line of credit?

In the case where ICSE generates revenues in excess of operating costs, what will ICSE do with the money? Return it to the brokers on a prorated basis? Return it to the RSEs? Keep it for revenues?

3. No sensitivity analysis is done to show what happens to ICSE turnover revenues if the predicted turnover of Rs. 300 crores/day is increased or decreased by 33% or some such factor.
4. Why are variable fees proposed on the basis of turnover rather than the number of trades? It costs the same amount of money to process a single trade for Rs. one lakh as for a single trade of Rs. 10 lakhs. Is it just that RSE brokers are used to paying fees based on turnover or is there another reason for using turnover as a basis?
5. Paragraph 4.43 talks about ICSE charging Rs. 10.00 per Rs. one lakh transaction value. However, in table 9.6 on p. 101, the charge per Rs. one lakh seems to start at Rs. 8.61 in 1998-99 and decreases to Rs. 4.64 per Rs. one lakh in 2003-04. This is a key revenue assumption which should be clarified.

VIII. INTERMARKET REGULATION

Intermarket regulation of 12-14 exchanges is going to be difficult to implement. The concept paper does not make suggestions on how this will be done. In table 8.4 on p. 84, it is indicated that the most senior surveillance person proposed at ICSE is only at the executive level which is four levels below the Director. A low level employee like this will have little latitude to operate independently and share sensitive information on a confidential basis with other exchange surveillance personnel. This independence of authority of surveillance personnel at ICSE and the member exchanges is something which must be provided for but which is currently ignored as ICSE is proposed.

IX. OTHER TECHNICAL COMMENTS

1. Paragraph 3.06 should also note how automated trading has led to changing trading patterns.

2. ICMS should offer information on NSE and BSE prices from day one rather than in five years as proposed in paragraph 4.16.
3. Paragraph 4.08 speaks to company listing preferences. It might be worthwhile to add the statement, "ICMS will be a national exchange with a local reach." Indeed, this is its sine qua non. A phrase along such lines could become ICSE's marketing slogan and one line definition.
4. Will companies list on ICSE? It appeared as though they would not and listing fees are not included as part of revenues, but paragraph 4.26 leads the reader to believe companies will seek listing on ICSE.
5. Why does ICSE propose additional trading floors? Only terminals will be needed in a new area. We suggest RSEs or ICSE add terminals, not floors.
6. You should expand the description of your back up systems because it is not clear if they will be at the same site, different site, etc. Put a complete and thorough discussion of back up/redundancy/contingency planning and systems in one section.
7. When you talk about capacity utilization in paragraph 9.32 and table 9.10 on p. 103, you do not address the peak load capacities.
8. Is the Telegraph Act of 1888, which forbids the interconnection of networks, going to present a problem for ICSE? If so, indicate how ICSE plans to address this.

X. COMMENTS ON GENERAL REPORT PRESENTATION

1. Every draft should be dated so it is clear that everybody is referring to the same version when making comments.
2. When submitting a report or spreadsheets to an independent entity to review, a complete hard copy should be provided in addition to a computer file.
3. The table of contents should be taken down to at least one or two more levels to be a more useful guide to the document for the reader.
4. The paper should start off with an executive summary which summarizes all of the salient points a reader needs to know in 3-5 pages. The "Introduction" (paragraphs 1.01 to 1.17) which currently opens the paper is background material and should come after the executive summary.
5. Put discussions of all related topics in one place and do not repeat what has already been said. In many places the paper discusses topics which were already partially discussed elsewhere or it repeats things which were already stated earlier. You want the document to be easy to read. The audience should not have to work to make sense out of it. Examples of topics which

should be consolidated in one place include: minimum standards required of RSEs to join ICSE, fees to be charged by ICSE, positioning of ICSE against BSE and NSE, benefits of ICSE to RSE brokers, and extending the reach of ICSE through additional trading floors (ATFs).

6. The first time an acronym is used, it should be spelled out so the reader knows what it is. A list of acronyms should also be presented at the beginning of the paper before the table of contents, so the reader can refer back if he/she does not remember what the acronym stands for.
7. Accepted convention is numbers one through nine should be spelled out and numbers over 10 are indicated using numbers.
8. It might be useful to perform a Strengths, Weaknesses, Opportunities, Threats (SWOT) analysis of ICSE.
9. Section 3, "National Relevance of the Project," and Section 4, "Market Analysis & Marketing Strategy" should be consolidated because, as written now, there is a lot of overlap. Both switch back and forth between what is now and what is proposed.

ATTACHMENT 1
G30 RECOMMENDATIONS

Group of Thirty (G30) Recommendations

1. All comparisons of trades between direct market participants (i.e. brokers, broker/dealers and other exchange members) should be accomplished by T + 1.
2. Indirect market participants (such as institutional investors, or any trading counterparties which are not broker/dealers) should be members of a trade comparison system which achieves positive affirmation of trade details.
3. Each country should have an effective and fully developed central securities depository, organized and managed to encourage the broadest industry participation (directly or indirectly).
4. Each country should study its market volumes and participation to determine whether a trade netting system would be beneficial in terms of reducing risk and promoting efficiency. If a netting system would be appropriate, it should be implemented.
5. Delivery versus Payment (DVP) should be employed as the method for settling all securities transactions.
6. Payments associated with the settlement of securities transactions and the servicing of securities portfolios should be consistent across all instruments and markets by adopting the "same day" funds convention.
7. A "Rolling Settlement" system should be developed by all markets. Final settlement should occur on T + 3. As an interim target, final settlement should occur on T + 5 at the latest, save only where it hinders the achievement of T + 3.
8. Securities lending and borrowing should be encouraged as a method of expediting the settlement of securities transactions. Existing regulatory and taxation barriers that inhibit the practice of lending securities should be removed.
9. Every country should adopt the standard for securities messages developed by the International Organization for Standardization (ISO Standard 7775). In particular countries should adopt the ISIN numbering system for securities issues as defined in the ISO standard 6166, at least for cross border transactions.

ATTACHMENT 2

G30 RECOMMENDATIONS

AS REVISED BY

THE INTERNATIONAL SOCIETY OF SECURITIES ADMINISTRATORS (ISSA)

JUNE 22, 1995

Group of Thirty (G30) Recommendations
as revised by the International Society of Securities Administrators (ISSA)
June 22, 1995

1. All comparisons of trades between direct market participants (i.e. brokers, broker/dealers and other exchange members) should be accomplished by T+0. Matched trade details should be linked to the settlement system.
2. Indirect market participants (such as institutional investors and other indirect trading counterparties) should achieve positive affirmation of trade details on T+1.
3. Each country should have in place an effective and fully developed central securities depository, organized and managed to encourage the broadest possible direct and indirect industry participation. The range of depository eligible instruments should be as wide as possible. Immobilization or dematerialization should be achieved to the utmost extent possible.

If several CSDs exist in the same market, they should operate under compatible rules and practices, with the aim of reducing settlement risk and enabling efficient use of funds and available cross-collateral.

4. Each market is encouraged to reduce settlement risk by introducing either Real Time Gross Settlement or a trade netting system the fully meets the "Lamfalussy-Recommendations".
5. Delivery versus Payment (DVP) should be employed as the method of settling all securities transactions. DVP is defined as follows:

Simultaneous, final, irrevocable and immediately available exchange of securities and cash on a continuous basis throughout the day.
6. Payments associated with the settlement of securities transactions and the servicing of securities portfolios should be consistent across all instruments and markets by adopting the "same day" funds convention.
7. A rolling settlement system should be adopted by all markets. Final settlement for all trades should occur no later than T+3.
8. Securities lending and borrowing should be encouraged as a method of expediting the settlement of securities transactions. Existing regulatory and taxation barriers that inhibit the practice of lending securities should be removed.
9. Every country should adopt the standard for securities messages developed by the International Organization for Standardization (ISO Standard 7775). In particular countries should adopt the ISIN numbering system for securities issues as defined in the ISO standard 6166.