INDEX

account holder see securities account account provider see securities account accounting see double entry accounting acquisition see securities 'Anglo-American' approach to regulation Geneva Securities Convention and, 140German legislation compared, 257-8 proliferation, 24-5 assets segregation see segregation of assets Austria pooled holding model, 33 bankruptcy see insolvency bank bearer securities, 124 as central securities depository (CSD), 220, 248-9, 251-4 central securities depository (CSD) and, 5, 28-9, 33, 34, 37-8, 72 certificated securities, 4-5, 105-6, 138 clawback claim, 244-5 earmarking (designating entry), 232 failures, 15-16, 163, 198, 243 financial crisis of 2007/08, 241 governing law, 11–12 harmonisation process and, 25 as intermediary, 94, 135, 181, 186 - 8maintenance of securities accounts, 7,186-8 portfolio holdings, 9

as registrar, 235-6 reliance on soundness of, 7 'repledge' transaction, 172-3 Reserve Bank Account see Reserve Bank Account shortfall protection under US law, 176-7, 179, 186-8 threat of insolvency, 7, 24-5 trust model of holding, 140 see also central bank bearer securities abolishment, 220, 230 collective custody, 290 continued use, 219 continuing use of term, 32-3 form of, 217 global certificate, 290 holding, 112, 124 as moveable property, 4 ownership, 219-20 reversion to physical nature, 219-20 rights as to, 47-8 sole proprietor, 50-1 see also certificated securities Belgium Geneva Securities Convention application: generally, 229; insolvency of financial intermediary, 233-5; investors' rights, 230–1; investors' rights as to issuer, 235; scope, 229-30; segregation of accounts (upper-tier attachment), 233; transfers, 231-3 introduction to, 217 insolvency protection insolvency of CSD, 227-8

396

INDEX

Belgium (cont.) insolvency of financial intermediary, 225-7, 233-5 intermediated securities insolvency protection: insolvency of CSD, 227–8; insolvency of financial intermediary, 225-7 investor protection, 224-8 investors' rights, 221-2 investors' rights as to issuer, 228-9 legal framework generally, 217-21 segregation of accounts (uppertier attachment), 224-5 transaction chain, 222-4 transfer, 222 investor protection, 224-8 investors' rights, 221-2, 230-1 investors' rights as to issuer, 228-9, 235 loss sharing schemes, 243-4 private international law rules, 235 - 6proposed EU legislation comments on, 190 segregation of accounts (upper-tier attachment), 224-5, 233 speed of legislative responses, 7 - 8summary of issues, 237 transaction chain, 222-4 transfer, 222, 231-3 book entry change from certificated securities, 27-8,255 control agreement and, 143 credits/debits, 138-41 designating entry (earmarking) see designating entry (earmarking) effect, 197-8 EU harmonisation process, 158 as evidence of ownership, 197, 256, 257, 260 global certificate as basis, 248-9, 255 harmonising of validity requirements, 18

'indirect' holding model, 198, 252-3, 254 - 5innocent acquisition, 151-3 integrity, 202 maintenance, 200 as mandatory holding method, 101 multiple, 245-6 register see central securities depository (CSD) residual category, 219 reversal acquirers' protection from, 82-5 effects of, 148 Principle, 82 unilateral correction, 300-1 rights as to, 281, 284 risk, 7 securities constituted/represented by, 202, 246, 270, 271-3, 284 segregation of assets, 207 see also double entry accounting Brazil transparent holding model, 14, 34 broker collateral, 186-8 credits/debits, 277-8 cross-border clearing costs, 44 harmonisation process and, 25 insolvency, 24-5, 185-6 as intermediary, 94, 186-7 'repledge' transaction, 162-3 shortfall protection under US law, 162, 165-82 trust model of holding, 140 voting rights, 186-8 Canada security entitlement holding model, 32 capital market expansion securities' role, 3-6 central bank as central securities depository (CSD), 218-19 collateral deposit, 236

INDEX

harmonisation and, 11, 25, 72 repos transaction, 147 central securities depository (CSD) acceptance of use of, 6 accounts see securities accounts acquisition by Spain, 281-3 bank and, 5, 28-9, 33, 34, 37-8, 72, 220 central bank as Belgium, 218-19 credit Spain, 281-3 cross-border clearing costs, 44 cross-border relationships, 248-9 deposit of documents with, 219 direct holding Spain, 248-9, 270-9 Switzerland, 289-90 direct/indirect divide, 50 holding chain, 29, 124, 229 holding models, 30-5, 50-1 insolvency Belgium, 227–8 integrity, 201-2 as intermediary, 29-30, 94, 200 introduction of, 28-9 reliance on soundness of, 7 structure Spain, 273-4 centralised/collective custody co-ownership, 251, 252-3 concept, 289-90 introduction of, 28-9 legislative responses, 292-3 certificated securities as alternative to intermediation, 100 - 2centralised/collective custody see centralised/collective custody direct/indirect divide, 50 as evidence of holding/ownership, 4, 47, 97, 189, 228-9, 235, 254-5 global certificates, 290 negotiability principle, 60 obsolescence, 4-5, 27-8, 32-3, 49, 105-6, 135, 138, 253, 255, 272, 353

397

ownership rights, 8 possession of certificates, 75-6 relevance under Convention, 17 as representation of securities, 270 risks, 6-7, 249-50 role in capital market expansion, 5 transfer, 271 see also bearer securities; global certificate; jumbo certificate China transparent holding model, 14, 34 clawback claim Madoff clawback procedure, 244-5 Clearstream co-ownership, 251-4 deposit with, 248-9, 254-5 system, 72 co-ownership centralised/collective custody, 251, 252 - 3innocent acquisition and, 255-6 collateral deposited with central bank, 236 held by broker, 198 collective custody see centralised/ collective custody communication holding chain, 124 conflicting law private international law and, 39-41 contractual rights exercise, 81 override of proposed EU legislation, 77-81 Spain, 279-80 validity, 298-9 control agreement Switzerland, 301-2 transfer of securities, 143-4 Convention see Geneva Securities Convention corporate rights of holders, 98-9 Spain, 280-1 costs legal risk and uncertainty, 41-5 model for splitting excess-cost, 43-5 quantification, 42-3

398

INDEX

credit brokers, 277-8 central securities depository (CSD), 281 - 3transfer of securities, 138-41 transfers, 300-1 CREST members, 37-8 operation, 31-2 system, 72 cross-border aspects clearing costs, 44 compatibility of regulation, 60-1 recognition of rights EU securities law, 87-9 Principle, 87-8 Switzerland, 307-8 relationships between CSDs, 248-9 debit broker, 277-8 transfer of securities, 138-41 dematerialised securities acceptance, 6 automatic change to, 220 concept, 290-1 credits/debits, 102 efficiencies, 7 exclusive right, 197 form of, 217, 218-19 full dematerialisation, 249-50, 270, 289, 290-1 innocent acquisition, 150-1 insolvency protection, 225-7, 230 - 1introduction of, 31-2, 218-19 legal characterisation, 17-18 legal recognition, 32-3 legislative responses, 7-8, 138, 229–30, 272, 291–3 mandatory dematerialization, 101 as ownership right, 221-2 private international law, 235-6 relevance under Convention, 17 rights as to, 221-2, 228-9, 246 segregation of accounts, 224-5 transactions, 222-4 trend towards, 102

designating entry (earmarking) control agreement and, 144 priority, 154 transfer of securities, 142-3, 232 direct holding model meaning, 50-1 proprietary rights, 275-6 Spain, 248-9, 270-9 Switzerland, 289-90 disposal see securities domestic law see national law double entry accounting Geneva Securities Convention, 209-10 Legal Certainty Group (LCG) Recommendation, 210–12 method, 209 earmarking see designating entry (earmarking) EU securities law 28th regime, 53-9 conceptual approach disadvantages, 45-6, 61 functional (market-driven) approach advantages, 61-2 conceptualisation of securities, 46 - 8criticisms, 45--6, 53 harmonisation process and, 55 - 9proposed legislation, 66-8 remit, 53-5 harmonisation governing law as issue, 9-12 measurement of advantages, 61 priorities, 13 process, 19-20, 22-7 summary of issues, 60-2 see also Geneva Securities Convention proposed legislation application, scope of, 68-73 consultation: process, 65-6; text of document, 350-94 current progress, 65-6, 89 desirability, 89

INDEX

399

functional (market-driven) approach, 66-8 investors' rights see investors Principles: importance, 65-6; Principle 2: account providers' shared functions, 68-73; Principle 3: account-held securities, 78; Principle 4: acquisition/disposal methods, 73, 75-6, 81-2; Principle 5: acquisition/disposal legal effectiveness, 73-4, 76-7, 79; Principle 6: effectiveness in insolvency, 85-7; Principle 7: reversal of book entries, 82; Principle 8: protection of acquirers against reversal, 82-5; Principle 9: priority, 74-5, 79-80; Principle 15: cross-border recognition of securities rights, 87-8; Principle 17: facilitation of ultimate account holder's position, 80-1; Principle 18: non-discriminatory charges, 88-9; Principle 20: exercise of rights on contract basis, 81; Principle 21: account providers' status, 68; role, 65-6 regulatory context, 68-73 scope of application, 68-73 shortfall provisions, 188-90 see also Table of legislation Euroclear collateral, 236 deposit with, 219, 220, 233 recognition, 218-19 system, 72 financial crisis of 2007/08 legislative responses, 241 France central securities depository (CSD), 72 EU securities law, 72 full property interest holding model, 32 - 3Geneva Securities Convention

bundle of rights concept, 245-6 compatibility, 244-6 definition of owner, 244-5 loss allocation, 241-3 summary of issues, 244-6 introduction to, 240-1 loss allocation, 243-4 'property-based' holding model, 50 proposed EU legislation bundle of rights concept, 245-6 compatibility, 244-6 definition of owner, 244-5 loss allocation, 241-3 summary of issues, 246-7 segregation of assets, 204-6 speed of legislative responses, 7-8 full property interest holding model description, 32-3 Geneva Securities Convention 'account holder' defined, 113-14 'Anglo-American' approach to regulation and, 140 history, 12-16 integrity provisions see integrity 'intermediary' defined, 94 'intermediated securities' defined, 229 - 30investors' rights see investors objectives, 16-19 principles, 16-19 shortfall provisions see shortfall Swiss law compared see Switzerland text, 319-53 transparent holding model, 14 see also EU securities law, harmonisation; specific jurisdictions; Table of international instruments Germany 'Anglo-American' approach compared, 257-8 co-ownership concept characteristics, 251-4 problems, 254-6 Geneva Securities Convention account holders' rights, 258-9

400

INDEX

Germany (cont.) functional (market-driven) approach, 257–8 transfers, 260-1 introduction to, 248-51 pooled holding model, 33 'property-based' holding model, 50 proposed EU legislation account holders' rights, 263-4 functional (market-driven) approach, 262-3 transfers, 264-5 global certificates as basis for book entry, 248-9, 255 introduction, 290 introduction of, 101-2 legislative responses, 292–3 terms generally, 101-2 good faith acquisition see innocent acquisition governing law as issue in harmonisation process, 9 - 12Greece transparent holding model, 34 harmonisation see EU securities law holder see securities accounts holding system description, 3-6 description of legal framework, 27 - 8'direct'/'indirect' models, 50-1 double entry accounting see double entry accounting holding chains communication along, 124 discharge of obligations, 229 length, 29 integrity see integrity liability Spain, 278-9 matching with accounts, 75-7, 196 - 7models, 30-5 PRIMA and, 36-8

segregation of assets see segregation of assets simplified holding chain (figure), 93 tiered structure, 36-8 see also securities accounts; specific jurisdictions immobilised securities acceptance, 6 efficiencies, 7 exiting from system, 230 innocent acquisition, 150-1 insolvency protection, 225-7 introduction of, 5 legislative responses, 7-8, 138, 194-5, 229-30 as ownership right, 221-2 regime, 219 reversibility, 219-20 rights as to, 17–18 segregation of accounts, 224-5 shift to dematerialization, 220 transactions, 222-4 'indirect' holding model book entry, 198, 252-3, 254-5 meaning, 50-1 inflation securities, 203-4 innocent acquisition co-ownership and, 255-6 compatibility of regulation, 39 - 40dispositions, 294, 298 electronic registration and, 272 harmonisation, 24 legal certainty, 47-8 national law, 30-1 obtaining possession by, 169 priority and, 154-5 priority for protection, 13 property law, 48, 49-50, 61 proprietary rights, 280, 285 protection, 3, 4, 137, 139, 141, 146, 147, 148-9, 155-7, 158, 232-3, 271, 285-6 Switzerland, 304-6 transfer of securities, 150-3

> insolvency account providers, 241 central securities depository (CSD), 227-8 clawback claims, 244-5 collective custody, 289-90 effectiveness of transfer on issuer's bankruptcy, 147 filings for bankruptcy, 15-16 foreign bankruptcy trustee, 235 intermediaries, 225-7, 233-5 priority, 195 securities accounts, 85-7 sharing of loss see securities loss threat to investors, 3, 4, 7, 24-5 integrity definition EU securities law, 200-2 exclusive right, 197-8 Geneva Securities Convention, 199-200 inflated securities, 203-4 matching of accounts with holdings, 196-7 overview, 195-6 universal concept, 198 implementation double entry accounting: Geneva Securities Convention, 209–10; Legal Certainty Group (LCG) Recommendation, 210–12; method, 209 methods, 204 segregation of assets: French Law, 204-6; Geneva Securities Convention, 206-7; Legal Certainty Group (LCG) Recommendation, 207–8; method, 204 summary of issues, 212-13 introduction to, 193-5 investors' exclusive right to, 197-8 intermediary certificated securities, 4-5 definition Geneva Securities Convention, 94

INDEX

401

governing law, 11-12 holder and, 92-4 insolvency account holder protection as securities law objective, 60 Belgium, 225-7 Switzerland, 233-5 obligations, 97-8 reliance on soundness of, 7 shortfall protection under US banking law, 186-8 transfer agreement with and for benefit of, 144-5 use of term, 29-30 see also banks; brokers; central securities depository (CSD) intermediated securities creation process, 295 definition, 229-30 governing law issue, 9-12 holding system see holding system legal certainty see legal certainty new legal issues and risks, 6-9 property law and see property law regulatory models, 30-5 see also dematerialised securities; entries at securities; specific jurisdictions investor account holder distinguished clarity of legislative distinction, 113 Geneva Securities Convention, 113 - 17proposed EU legislation, 117-18 scope of legislation as to, 113 meaning of 'investor' Geneva Securities Convention, 109-10, 112-13 lack of legislative definition, 108 national law, 112 proposed EU legislation, 110-11, 113 scope of legislation as to, 108, 109 nominee distinguished Geneva Securities Convention, 118-19

402

INDEX

investor (cont.) proposed EU legislation, 119-21 scope of legislation as to, 118 rights as account holder: 'downstream' rights (issuer to account holder), 122-5; scope of legislation as to, 121–2; 'upstream' rights (account holder to issuer), 125 exercise, 121, 132-4 holding system integrity, 197-8 main issues, 105-8 summary of issues, 132-4 through nominee: Geneva Securities Convention, 126, 131–2; national law, 131; proposed EU legislation, 130–1, 132; recognition of nominee, 126; scope of legislation as to, 125 threat from insolvency, 3, 4, 7, 24 - 5'ultimate account holder' distinguished, 113-14 issuer insolvency, 3, 4, 147 Japan pooled holding model, 33 jumbo certificate acceptance, 6 relevance under Convention, 17 legal certainty calculation of uncertainty cost, 61 importance, 27-8 uncertainty and legal risk, 41-5 Legal Certainty Group (LCG) Recommendations double entry accounting, 210-12 segregation of assets, 207-8 legal risk and cost of uncertainty, 41-5 quantification of risk and cost, 42-3 sharing, 81-5

Lehman Brothers failure, 15-16, 198, 243 Lex societatis see national law loss see securities loss Luxembourg loss sharing schemes, 243-4 speed of legislative responses, Madoff clawback procedure use of, 244-5 national bank see central bank national law conflicting law, 39-41 downstream rights (issuer to account holder), 123 'investor' determined, 112-13 legal certainty and, 27-8 'legal holder' determined, 112-13 regulatory models, 30-5 rights exercised via nominee, 118-21, 131 speed of legislative responses, 7-8 upstream rights (account holder to issuer), 125, 132-3 negotiability principle importance, 60 nominee investor distinguished see investors rights exercised via Geneva Securities Convention, 126, 131-2 national law, 118-21, 131 proposed EU legislation, 130-1, 132 recognition of nominee, 126 scope of legislation as to, 125 Nordic countries 'property-based' holding model, 50 transparent holding model, 14, 34 ownership bearer securities, 219-20 book entry as evidence, 197, 256, 257, 260

INDEX

403

certificated securities, 8 certificated securities as evidence, 4, 47, 97, 189, 228-9, 235, 254 - 5definition of owner, 244-5 dematerialised securities as ownership right, 221-2 immobilised securities as ownership right, 221-2 recognition of full ownership, 116 registered securities, 218 see also co-ownership paper securities see certificated securities physical securities see certificated securities 'place of the relevant intermediary approach' see PRIMA pooled holding model description, 33 portfolio holding Swiss banks, 9 PRIMA holding system and, 36-8 property law and, 51-3 priority application, 195 EU securities law, 74-5, 79-80 innocent acquisition and, 154-5 Switzerland, 305-6 transfer of securities, 153-7 private international law conflicting law, 39-41 PRIMA see PRIMA securities market and, 36-41 pro-rata sharing of loss see securities loss property-based holding model as 'direct' model, 50 property law application to securities, 46-8 intermediated securities and, 48 - 50PRIMA and, 51-3 proprietary rights innocent acquisition, 280, 285 Spain, 275-6, 280

registered securities ownership, 218 registration of securities see securities 'repledge' transaction use of, 162-3, 172-3 repos transaction central banks, 147 Reserve Bank Account calculation, 173-5 requirement for, 172, 181-2 rights see investors; securities; securities accounts risk book entry, 7 certificated securities, 6-7, 249-50 legal risk see legal risk sharing of transfer risk, 81-5 Savigny, Friedrich Carl von concept of securities, 47-8 negotiability principle, 60 securities acquisitions and disposals see transfer below bearer see bearer securities book entry see book entry certificated see certificated securities cross-border recognition of rights, 87-9 dematerialised see dematerialised securities exercise of rights facilitation, 80-1 Principle, 80-1 forms of, 217 global certificates, 290 inflation, 203-4 market-driven approach to conceptualisation, 46-8 negotiability principle, 60 as property, 46-8 registered see registered securities registration banks as registrars, 235-6 representation, 270-3 rights conferred, 78 segregation see segregation of assets shortfall see shortfall

404

INDEX

securities (cont.) transfer description of legal framework, 27 - 8disposal rights: exercise, 99; restrictions, 99-100 effectiveness, 147-50 harmonisation and non-Convention law, 157-8 innocent acquisition, 150-3 legal effectiveness, 73-4, 76-7, 79 matching of accounts with holdings, 75-7 methods: agreement with and for benefit of relevant intermediary, 144-5; choice of methods, 141; control agreement, 143-4; credits/debits, 138-41; designating entry (earmarking) see designating entry (earmarking); main issues as to, 135-7; proposed EU legislation, 73, 75–6 priority, 153-7 rights and interests transferred, 145 - 7risk sharing, 81-5 see also specific jurisdictions types, 217 securities accounts alternatives to restriction of right to use, 101-2 right to use in principle, 100–1 charges, non-discriminatory, 88-9 contracts override of proposed EU legislation, 77-81 credits/debits, 138-41 holders 'account holder' defined, 113 - 14intermediaries and, 92-4, 97-8 investors distinguished see investors protection as securities law objective, 60 rights: conferral, 78, 95-6; corporate law and, 98-9;

exercise, 81, 96-7, 99; facilitation of exercise, 80-1; intermediaries' obligations, 97-8; main issues, 90-2; nature of, 94-5; restrictions, 99-100, 103; summary of issues, 103 shortfall protection under US law, 165-82 sole proprietor, 50-1 'ultimate account holder' defined, 113-14 use of term, 29-30 voting rights, 165-82 see also investors insolvency, 85-7 matching with holdings, 75-7, 196-7 non-discriminatory charges, 88-9 providers insolvency, 241 other persons sharing functions, 68-73 priority, 74-5, 79-80 status, 68 use of term, 29-30 reversal of entries acquirers' protection from, 82-5 Principle, 82 shortfall see shortfall transfers see securities securities law current challenges, 60-2 securities legislation see also EU securities law securities loss pro rata principle, 87 sharing at bankruptcy, 185-7, 241-3, 276-7, 281-3, 297 securities market costs see costs internationalisation, 35-6 market practice, 28 private international law and, 36 - 41see also holding system security entitlement holding model description, 32 as 'indirect' model, 50

INDEX

405

security interest Switzerland, 302-3, 306-7 segregation of assets French Law, 204-6 Geneva Securities Convention, 206 - 7Legal Certainty Group (LCG) Recommendation, 207-8 method, 30, 204 shortfall attitudes to problem, 163 causes, 162-3 Geneva Securities Convention, 164 - 5introduction to, 160-2 proposed EU legislation, 188-90 US law account holder protection, 165-82 banks as intermediaries, 186-8 compliance with Convention, 182 - 6voting rights of account holders, 186-8 sole proprietor ultimate account holder as, 50 - 1Spain Geneva Securities Convention acquisitions/credits, 281-3 compatibility, 281 conceptual framework, 279 contractual rights, 279-80 corporate rights, 280-1 proprietary rights, 280 transfers/title, 283-6 holding system central securities depository (CSD), 273-4 direct proprietary rights, 275-6 features, 274-5 liability, 278-9 representation of securities, 270 - 3transfers, 276-8 introduction to, 269-70 transparent holding model, 14, 34

Switzerland cross-border recognition of rights, 307-8 Federal Intermediated Securities Act (FISA) content, 293-4 history, 291-3 intermediated securities provisions, 294-6 objectives, 291-3 structure, 293-4 terminology, 293-4 see also Table of legislation holding system integrity, 296-7 introduction to, 288-9 portfolio holdings by banks, 9 previous law, 289-91 priority, 305-6 security interests, 306-7 speed of legislative responses, 7-8 summary of issues, 308-9 transfers control agreement, 301-2 credit, 300-1 general provisions of FISA, 297-8 good faith, 304-6 methods, 299-300 power to dispose, 303-4 security interest in favour of custodian, 302-3 validity of contract, 298-9

title

transfer *see* securities, transfer transfer *see* securities credit, 300–1 transparent holding model description, 34 Geneva Securities Convention, 14 trust model of holding description, 31–2, 140 as 'indirect' model, 50 trustee in bankruptcy clawback claims, 244–5 priority, 235

'ultimate account holder' definition, 113–14 investor distinguished, 113–14

406

INDEX

uncertificated securities see dematerialised securities undivided property interest holding model description, 32-3 UNIDROIT Convention see Geneva Securities Convention United Kingdom central securities depository (CSD), 72 CREST see CREST recognition of full ownership, 116 recovery of shortfall, 243 regulatory model, 31-2, 50 segregation of assets, 205 as third jurisdiction, 112-13 trust model of holding, 31-2, 50 see also 'Anglo-American' approach to regulation United States security entitlement holding model, 32, 50 shortfall account holder protection, 165-82 banks as intermediaries, 186-8 compliance with Convention, 182-6

voting rights of account holders, 186-8 speed of legislative responses, 7-8 see also 'Anglo-American' approach to regulation voting rights 'account holder' defined, 113-14 attribution, 251-2 conferral, 121-2, 164, 258-9 denial, 103 enforceability, 3 entitlement, 117 exercise, 14-15, 39, 95-6, 97-9, 111, 118-20, 125, 126, 131-2, 228, 235, 353-4, 358-9 exercised via nominee, 126-30 foreign nominee, 125 grant of, 115 Lex societatis, 112–13 over-voting, 203-4, 245-6 procedures, 98 shortfall protection under US law, 165-82 splitting, 119, 280-1 'ultimate account holder', 113-14 US law, 186-8 voting capital, 209