

Gains from integrating the European post-trade infrastructure – the case for Target 2 Securities

The aim of Target 2 Securities (T2S) is to make cross-border securities settlement transactions across Europe in central bank money as secure, efficient and cheap as domestic settlement transactions are today. Consequently, T2S will represent a genuine opportunity to achieve costs which are among the lowest in the world, benefiting financial participants. For example, Europe is comparable to the United States in terms of its economic size.

But whereas firms in the United States operate in a single, large domestic post-trade environment with one supplier of post-trade services regardless of where the trade is effected, in Europe firms have to operate across many smaller, national markets and bear the higher costs of connecting to all of these markets either directly or via expensive intermediaries.

As a result of this lack of integration, Europe lags way behind the United States in terms of both the volume and cost of transactions. The cost gap is particularly large for cross-border transactions, with estimates suggesting that the difference can be as much as several hundred percent.

Involving market participants

The Eurosystem takes the view that today's challenges are best tackled by involving market participants in solving the current economic and financial gaps. The Eurosystem is acting as a market catalyst and playing a unique facilitation role, bringing together market participants to create a truly integrated European financial market.

The Eurosystem continues to play an active role in the payment industry by providing – in the form of Target 2, which went live

on 19 November 2007 – borderless core infrastructure for real-time settlement in central bank money. Further support for the single market will come from the streamlining of collateral management systems through the CCBM2 (Collateral Central Bank Management) project. T2S will build on the newly released Target 2 system and bring payments associated

with securities settlement together with pure cash settlements across the European Union.

The Lisbon agenda clearly demonstrates that not only must Europe do better, it can do better. We can say that we want Europe to be the best and most secure place to issue and trade securities and that we want it to be the most competitive economy in the world. However, Europe lacks a common post-trade "plumbing" system, whereas the United States created it years ago. Target 2 Securities joins other European initiatives, such as the Code of Conduct and the Markets in Financial Instruments Directive (MiFID), in helping to fulfil the objectives set out by the Lisbon agenda for the provision of better services to issuers and investors. We firmly believe that T2S will speed up market integration and foster competition.

Creating valuable impetus and removing barriers

The T2S settlement platform will act as a driver to promote harmonisation within the European securities industry, creating opportunities for cost savings and allowing market participants to select and choose post-trade partners irrespective of their location within the single market. The impact of T2S on harmonisation is already being felt, building on valuable work by the CSDs. The ICSDs' experience in bringing together several national CSDs has created valuable impetus in this respect.

The Eurosystem, inter alia through the T2S project, will play a leading role in working with market participants to harmonise market practices at the European level for the benefit of those participants. This work

Dr. Gertrude Tumpel-Gugerell, Mitglied des Executive Board der Europäischen Zentralbank, Frankfurt am Main

Eine gemeinsame Plattform für alle Wertpapier-Settlements in Zentralbankgeld, harmonisierte Regularien, geringere Komplexität – die Versprechen der EZB klingen gerade im Hinblick auf die derzeit noch fragmentierte und ineffiziente Abwicklungslandschaft in Europa durchaus verlockend. Doch regt sich auch Widerstand in der Branche. Namhafte private Zentralverwahrer haben sich in den vergangenen Monaten zunehmend reserviert gegenüber dem Konsolidierungsprojekt der EZB geäußert. Selbst von einigen Banken, die von der Plattform allein wegen geringerer Transaktionskosten profitieren würden, wird auf den Eingriff in den bestehenden Markt der privaten CSDs zurückhaltend reagiert – man fürchtet um den Wettbewerb. Gleichzeitig ist die Teilnahme aller Zentralverwahrer wichtig für den ökonomischen Erfolg von T2S, da sonst schnell die Mengeneffekte ausbleiben würden. Bis April 2008 läuft nun die Konsultation. Die Autorin weiß das EZB-Projekt derweil zu verteidigen: Trotz des bestehenden Wettbewerbs sei bislang zum einen kein paneuropäischer Markt entstanden. Dem will die Zentralbank auf die Sprünge helfen. Und zum anderen sei T2S keineswegs inkompatibel mit privaten Initiativen, sondern bereite vielmehr ein Level Playing Field für alle Marktteilnehmer. (Red.)



is likely to remove even more barriers of the kind already identified by the Giovannini Group, as well as helping users to identify the irreducible costs of unresolved barriers in the new efficient borderless settlement environment. This work will also increase the pressure for swift action to harmonise practices that do not constitute pure settlement activities, especially in relation to corporate activities, taxes, laws and regulations.

Harmonized functionality

The new securities settlement platform will harmonise the real-time life cycle management functionality for settlement instructions both for day and night time windows. Market participants will therefore follow one common set of harmonised settlement procedures irrespective of whether they are settling securities domestically or cross-border.

The new settlement platform will provide a neutral, borderless, core infrastructure crystallising the gains from harmonisation and providing support for competition between service-providers in the post-trade industry for securities. This will foster the changes required in intermediation between issuers and investors by providing impetus for financial market participants' development of a competitive, efficient and secure European financial market.

Creating a single pool of assets within Europe

Furthermore, Target 2 Securities will also create a single pool of assets within Europe, essentially all of the securities held by participating CSDs, exchangeable for each other via central bank money at low cost, in real time and in an extremely reliable manner.

Market participants across Europe will therefore be able to pool all of their securities in a single platform, just as cash is now pooled in Target 2, without the need to distribute and allocate securities and central bank money within several independent national platforms. This will increase the efficiency of collateral management and reduce market participants' collateral and/or liquidity needs.

Target 2 Securities will therefore have the effect of reducing market participants' costs and contributing to the optimal allocation of investment opportunities. This will also allow for the faster re-use of securities, as well as central bank money – again, for the benefit of market participants. The use of Target 2 and T2S will

spread and lower service prices, thus improving welfare.

Building a level playing-field

Europe will benefit from T2S. Commercial service-providers will benefit from the level playing-field that a common platform, harmonised rules and practices and reduced complexity will bring. Issuers will benefit from lower capital costs. Investors will benefit from better returns. In a nutshell, the CSDs and their users will benefit from the overall economic efficiency of the securities settlement industry.

We know that the success of the project will depend on its ability to satisfy the needs of stakeholders. For this reason, our

objective is to enhance the comprehensive user requirements supplied by stakeholders by means of the next market consultation process due to take place over the coming months. The ECB is listening carefully to the views of the market. The current public consultation gives market participants three months in which to provide any additional comments and suggestions they may have regarding the T2S user requirements.

The finalisation of the T2S user requirements is a central

element of this project, but it is not the only one. In a second phase the legal issues arising from the T2S project will need to be investigated and the future governance structure of T2S will have to be looked at.

With T2S, there will no longer be a need for cross-border settlement of securities across Europe; instead, there will just be one domestic securities settlement for the whole of the single market.

Der Beitrag basiert auf einer Rede von Frau Tumpel-Gugerell in Dublin.

Enhancing competition

"It is true that some private initiatives resulted in the merger of central securities depositories (CSDs) in different countries under common ownership. Clearstream and the Euroclear Group are examples of such mergers. However, while the international central securities depository part of these groups developed a dominant position as sole suppliers of cross-border settlement, no pan-European domestic market emerged and post-trading continued to be fragmented along national lines.

[...]

T2S is not incompatible with private initiatives; indeed, they can complement one another. The facility will be based on

integrated processes whereby cash – euro central bank money – and securities accounts will be located on the same platform.

Moreover, it will enhance competition as it will enable all CSDs using this common platform to compete with each other in terms of business efficiency in functions other than the settlement of securities. The Eurosystem supports this kind of healthy competition, which is to the advantage of both issuers and investors, as well as users of market infrastructure."

Die beiden Passagen stammen aus einer Rede von Gertrude Tumpel-Gugerell in London.

eliminate the risk currently associated with cross-border settlement, thereby providing for efficient and stable intermediation between buyers and sellers within the capital market segments.

These new features will therefore create valuable new options for commercial and investment banks as regards the management of their collateral and the optimization of their funding costs. The indications given by market participants suggest that this is likely to lead to very significant reductions in costs. This will feed through to increased trading activity, reduced trading