EVENT REPORT

EUROPEAN CAPITAL MARKETS INSTITUTE

* * *

European institutions have been working since long time to harmonise rules and integrate market infrastructure. Settlement cycles have been increasingly converging across asset classes and Europe is becoming a leading region for the resilience of its back office, in particular as a result of the pressure to build a pan-European infrastructure. Much has been done, but the Europeanisation process is still incomplete. The event will discuss progress of two paramount initiatives: the Target-2 Securities (T2S) and the Central Securities Depositories Regulation (CSDR). After 9 years of planning, preparation and testing, the Target-2 Securities (T2S) system will go live in June 2015 offering a pan-European technical platform for DVP settlement that may facilitate cross-border securities transactions. A year away from being fully operational, the event will discuss the pending issues with T2S (such as pricing) and its interaction with ongoing financial reforms. The Central Securities Depository Regulation, instead, is the latest of a number of legislations impacting how securities are traded, cleared and settled in Europe. Among other rules, it will harmonize securities settlement periods and introduce operational requirements for CSDs. Overall, these two initiatives aim at creating a truly European post-trade infrastructure by reducing legal uncertainty and increasing competition. Another piece in the complex puzzle of a fully integrated European financial system.

Speakers

- **Ilse Peeters**, Director Public Affairs, Euroclear S.A.
- **Dirk Bullmann**, Adviser DG General Market Infrastructure and Payments, European Central Bank
- **Gaël Nicora**, Asset Servicing Business Executive, The Bank of New York Mellon SA/NV
- **Tony Freeman**, Executive Director of Industry Relations, OMGEO
- **Agata Malczewska**, Financial Markets Infrastructure, European Commission
- **Godfried De Vidts**, Director European Affairs, ICAP [Moderator]

* * *

IMPORTANT NOTICE: The views expressed by the speakers are their own individual views and do not necessarily reflect the views of their companies or institutions. The content of this event report is not a transcription from the speeches delivered by the speakers and should instead be understood as the interpretation of their views by the author. This report was authored by Cosmina Amariei and Federico Infelise. Contact ecmi@ceps.eu with any comments or questions.

The event was opened by **Diego Valiante** (ECMI), who introduced the moderator **Godfried de Vidts** (ICAP). Godfried de Vidts introduced the topic with a brief overview of the developments towards the current state of play in the European post trade infrastructure starting with the Giovannini reports of the early 2000s. He pointed out that while price improvements are a key aspect of the process, the main value added will come from a more efficient system per se. He then moved on to open issues surrounding the CSD Regulation (CSDR) and the phasing-in of the Target2-Securities system (T2S). He mentioned the open issues relating to the mandatory buy-in introduced by the CSDR. He further made the point that CSDR does not put in place sufficient emergency procedures in case the mandatory buy-in results in systematic instability. In general he pointed out the need for consistency of the two regulatory initiatives with for instance MiFID II and EMIR.

The first speaker, **Agata Malczewska** (EC) mentioned that that the CSDR together with the Target2-Securities system constitutes a big step forward in a process that has been going on for more than 15 years. The Giovannini reports did not trigger satisfactory response by the market nor by regulators. Fragmentation persisted and prevented Europe from moving to a cheaper, safer and more efficient post-trade infrastructure. With the new system Europe will move towards such a system with issuers being able to benefit from open access to and between CSDs. She further mentioned that the settlement industry has been very responsive to consultation in the context of the CSD development, which helps to inform the process and encourages them to continue during the phase of implementation.

Dirk Bullmann (ECB) points out that the ECB has been continuously improving T2S in close collaboration with the industry since the launch of the project in 2006 and most doubts among market participants have been overcome. T2S is the largest markets infrastructure project the Eurosystem has ever conducted and its impact on markets should not be underestimated. While T2S would be operational without the CSD Regulation, it is a complementary piece of legislation and the ECB has hence been supportive of the initiative from the beginning. Only the interplay of the two initiatives will create the synergies that will increase competition, and render markets safer and more efficient. It will be an important part of a single market in securities trading, since it will for instance allow to operate only one collateral pool and optimize the back office. He outlined that the project has left the planning phase and currently the system is being tested in the so called Eurosystem Acceptance Phase. A pilot phase with a few CSDs will soon begin. Further Mr Bullmann mentioned that the prices were calculated on the settlement volumes before the crisis which are now 20% lower and he does not deem the prices too high. The ECB intends to review the pricing in 2018 but has no intention of doing so earlier.

The third panelist, **Ilse Peeters** (Euroclear), underlined that both projects are welcomed, but that both are not complete. Also some aspects such as safety measurements are not new since CSDs have been adhering to international standards for a while and no CSD has come under pressure during the crisis. Nonetheless she sees T2S as an opportunity as it will allow CSDs to offer more services especially across borders. She pointed out that one of the short-comings of this regulation is that is does not simplify mergers and acquisitions sufficiently, which could hamper pan-European consolidation in the CSD industry and the anticipated results might not materialize. To what degree a CSD regulation could achieve this and to what degree harmonization of securities laws across the EU is needed, will need to be addressed. She makes the point that small CSDs will face difficulties as CSDR is implemented. The record keeping obligations in CSDR alone could result in prohibitive costs for some of the smaller CSDs.

Gael Nicora (BNY Mellon) equally made the point that it is unlikely that the costs will be brought down to the levels seen in the US. His argument is that settlement is merely one part of the back office and is not the most costly aspect of post trade services. The main cost factor and greatest operational risk, rest in services related corporate action such as taxation. Further hamonisation will be needed to bring down costs in this area. While T2S attempts to decouple settlement from the post trade value chain, the CSDs will most probably need to continue settlement as they need the data to offer services around settlement such as corporate action. He echoes market participants that prizes might eventually go up due to the changes and predicts that in a few years' time the question will be raised whether the Eurosystem should harmonize further aspects. He would support a move to for instance tell issuers how and when to provide information to CSDs, as currently there are different systems in use. He further pointed out that the BNY Mellon is now also becoming a CSD and the main reason for this step is the European Market Infrastructure Regulation (EMIR), which makes it effectively mandatory to become a CSD in case you want to hold collateral for a transaction.

Tony Freeman (OMGEO), makes the point that the legislation is not well designed as it has multiple targets such as cost efficiency, competition and market integrity. Focusing on one aspect would make it a better policy tool. He mentions the lack of a uniform definition of OTC trades and that the market is not sure whether OTC trades will need to move to T+2 or not. Also some of the most difficult transactions, involving offices in different time zones around the globe might proof difficult to fit into T+2. He is convinced that unforeseen difficulties will come up and that a revision of CSDR is merely a matter of time. Mr Freeman further agrees that harmonisation beyond settlement will be needed in order to achieve a truly internal market for post trade services.