



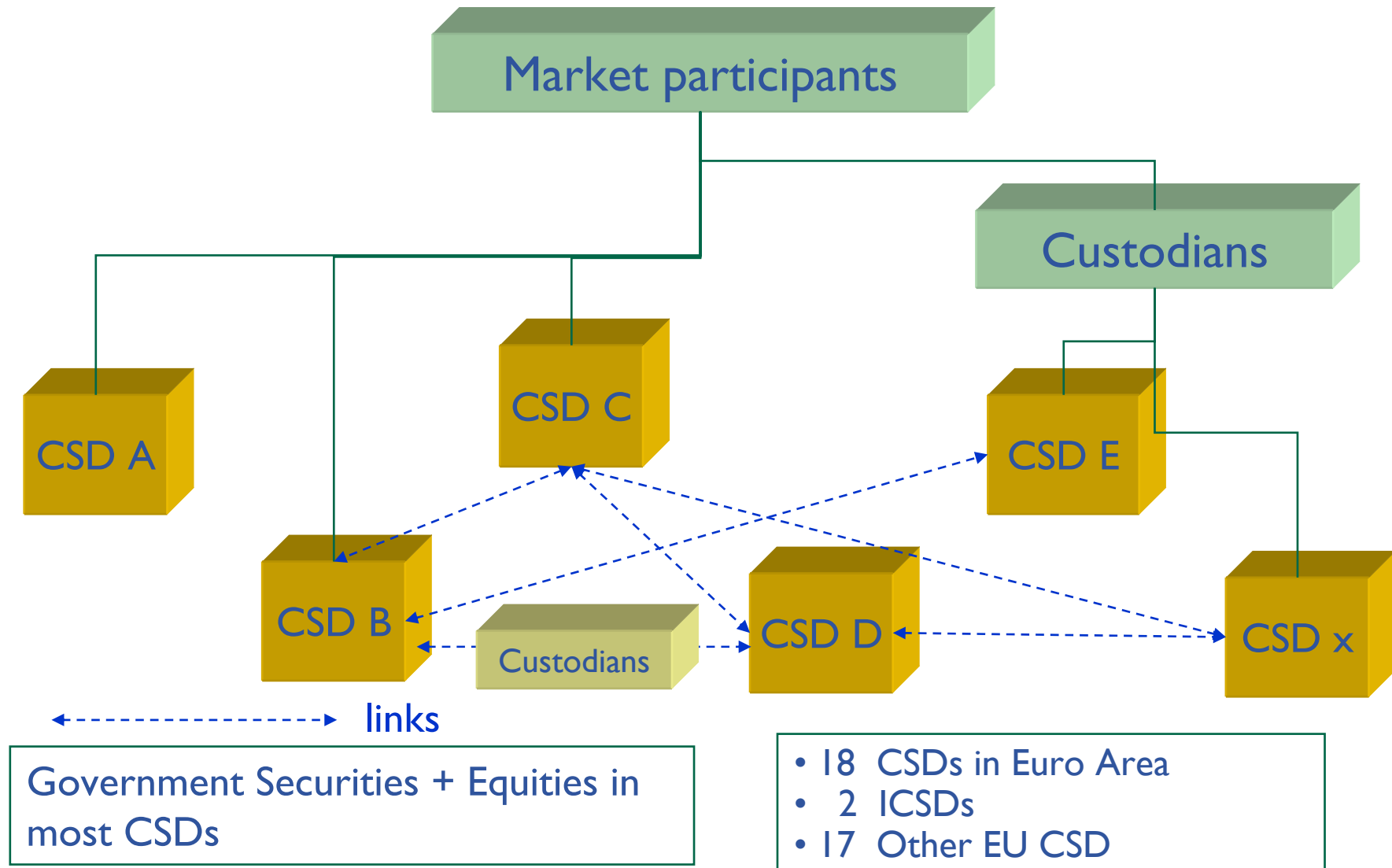
# TARGET2-Securities

**Jean Michel Godeffroy**  
Payment systems and market  
infrastructure **Director General**  
European Central Bank

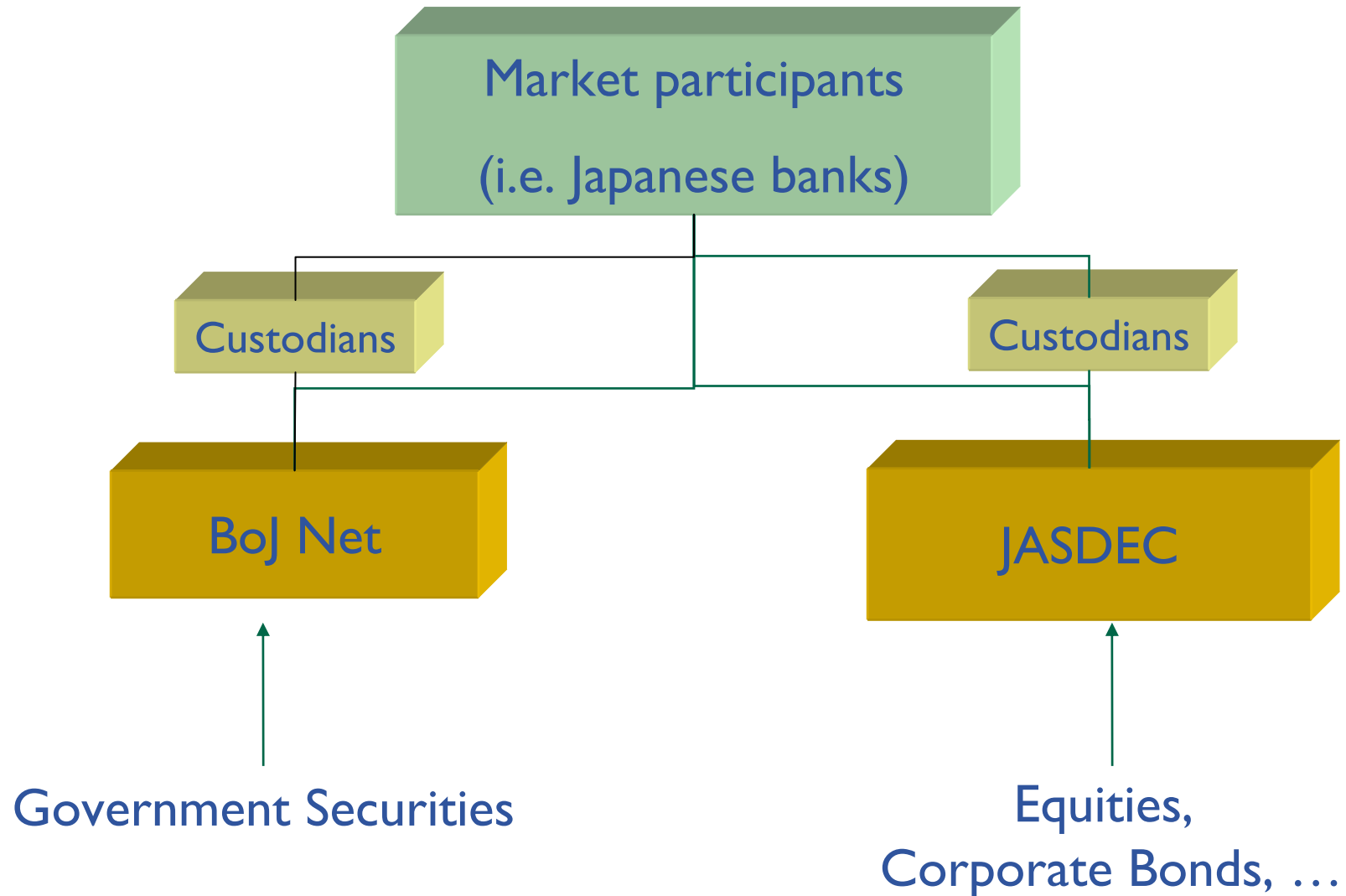
**Marc Bayle**  
T2S Programme Manager  
European Central Bank

Tokyo, 10 October 2007

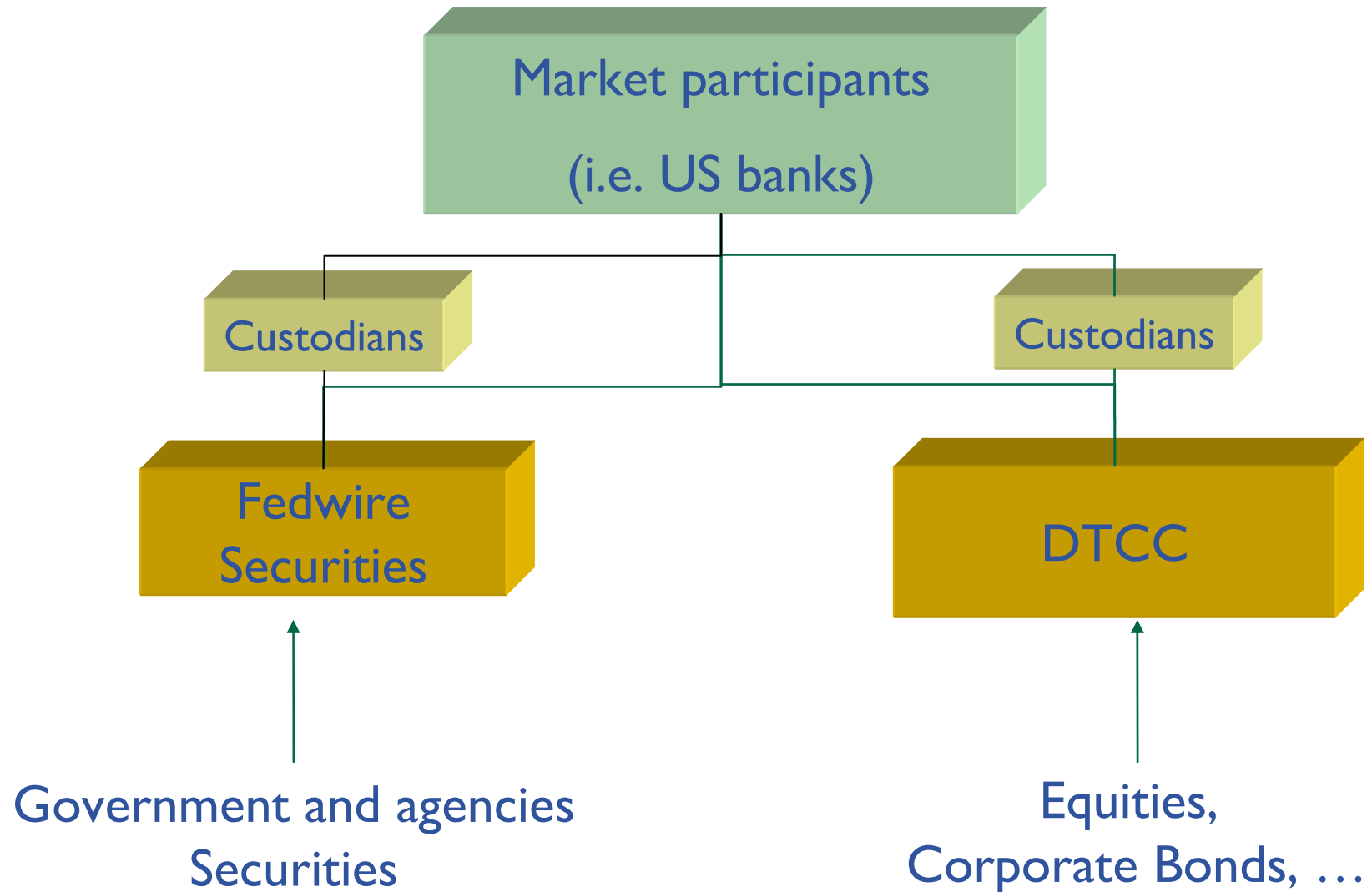
## The landscape of EU settlement



## The landscape of Japan settlement

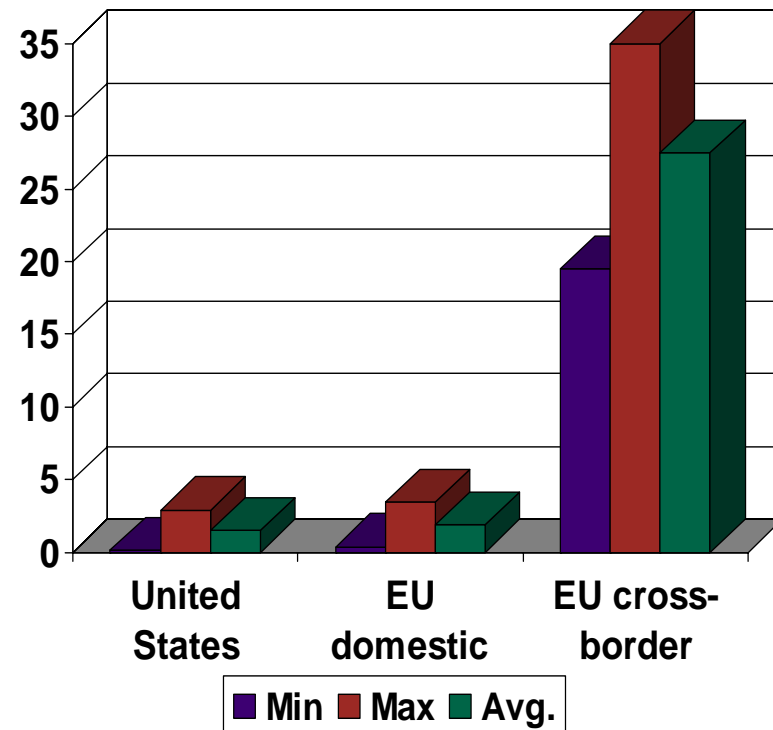


## The landscape of US settlement



# Too high settlement costs

- EU domestic costs range from 0.35 to 3.43 €;
- ... and are higher than in the US (0.10 to 2.90 €) or other major market like Japan;
- EU cross-border costs higher than domestic ones (19.5 to 35.0 €).



Source: Oxera, LSE, CEPS

## Need for change

Eight years after the introduction of the euro, EU capital markets and the euro area still lack an efficient, integrated securities infrastructure that would support the operation of a single financial market.

 **The Eurosystem proposes TARGET2-Securities (T2S) as a step towards the development of a more efficient euro market infrastructure.**

## Why the Eurosystem is in a unique position to drive T2S

- Commitment of the Eurosystem to efficient and integrated financial markets in the EU
- Neutrality of the Eurosystem as supranational organisation
- Possible facilitator in balancing different requirements
- No own economic interest, cost recovery principle
- TARGET and TARGET2 experience in successfully creating and implementing Europe-wide infrastructures

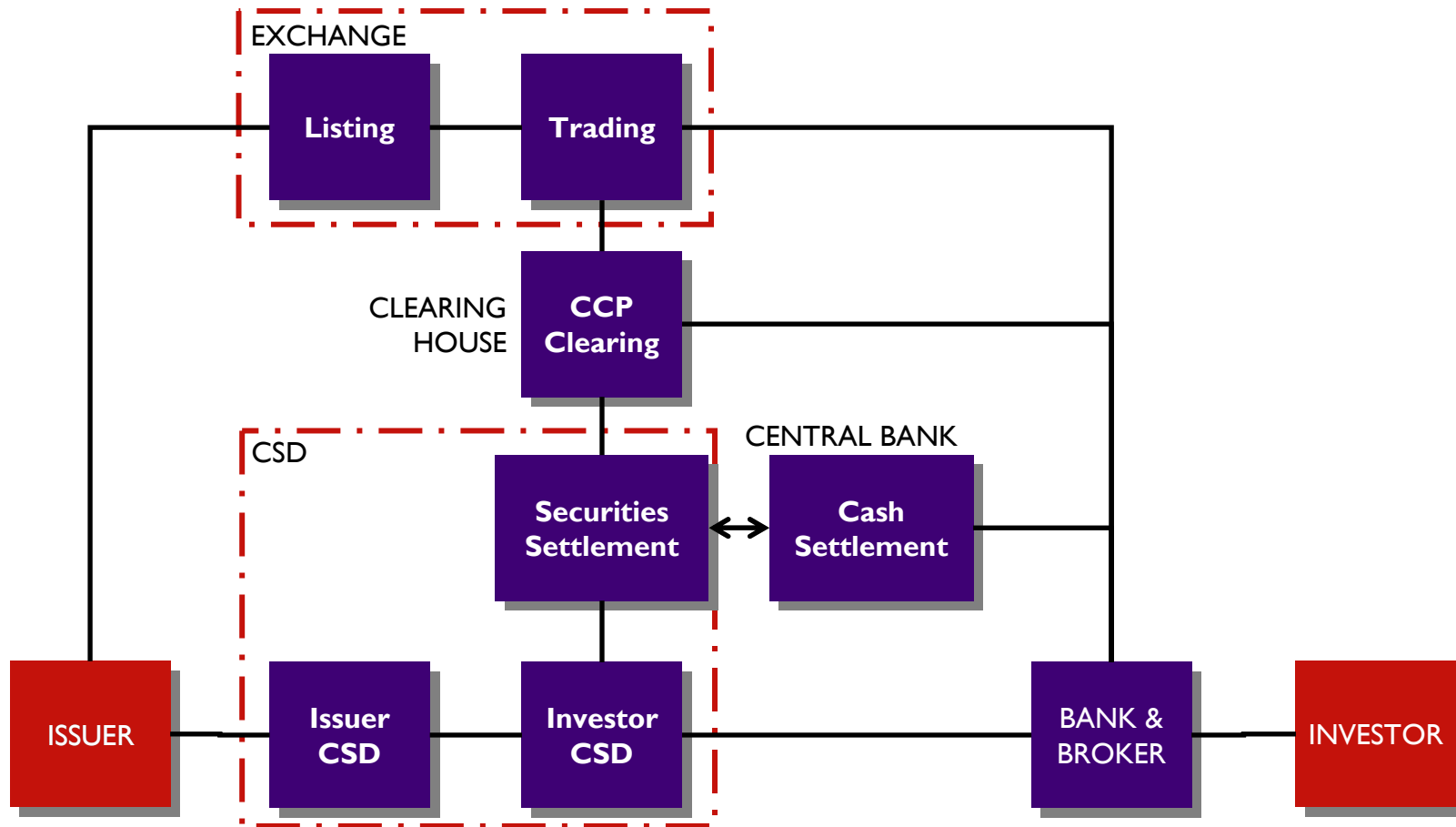
# T2S project

## Agenda

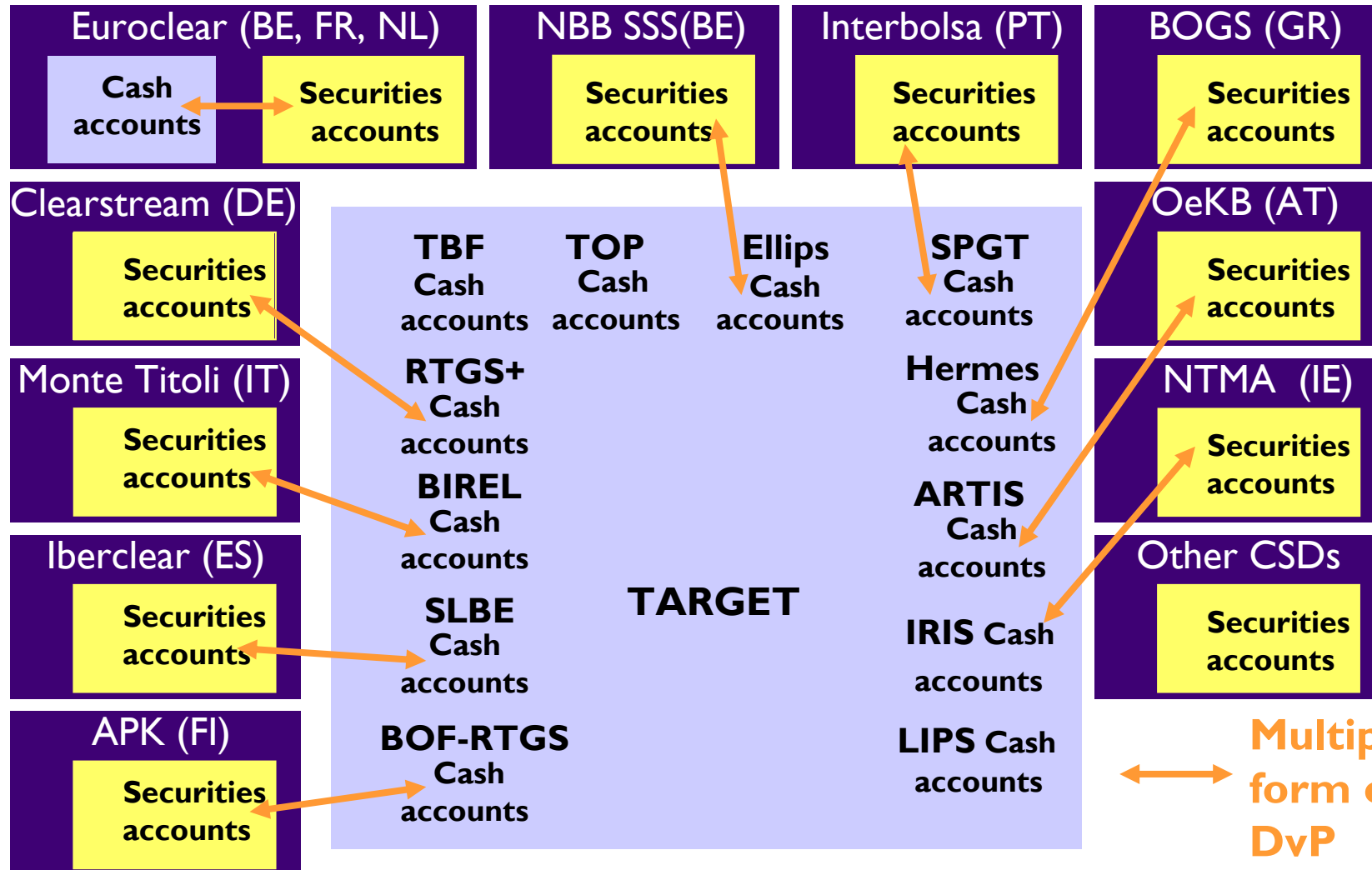
- 1. Principles**
- 2. Benefits**
- 3. Next steps**




# I. Principles: today



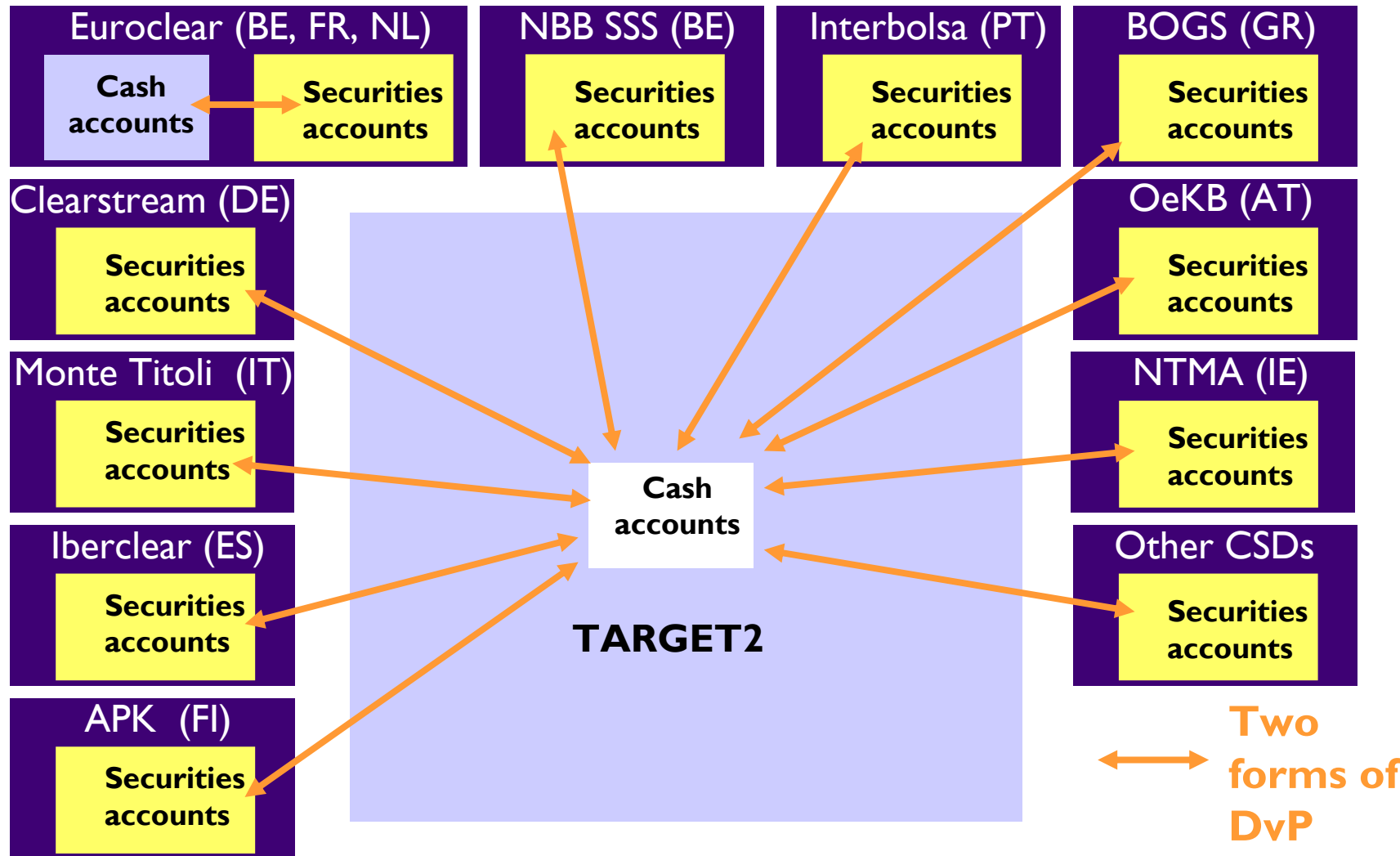
# I. Principles



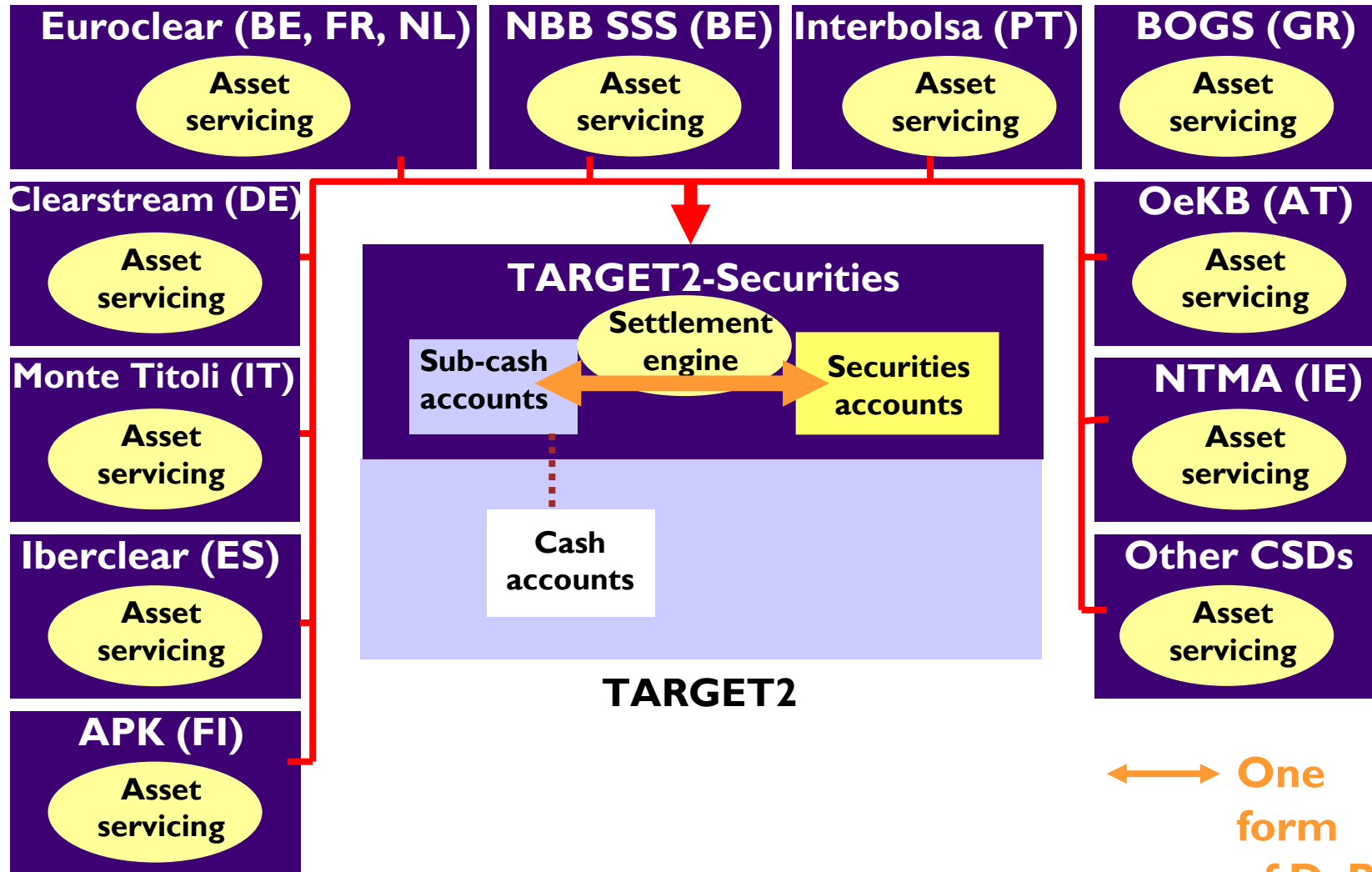

**Multiple form of DvP**

\*planned for BE and NL

# I. Principles: in 2008 with TARGET2



# I. Principles: in 2013 with T2S



↔ One form of DvP

# I. Principles

## T2S concerns only the settlement function of CSDs!

|                                      |                                                           |                       |
|--------------------------------------|-----------------------------------------------------------|-----------------------|
| Notary function                      | Registration of issuer indebtedness and investor holdings | issuer / investor     |
| Custody and asset-servicing function | e.g. coupon payments, redemptions, stock splits           |                       |
| <b>Settlement function</b>           | <b>Change of ownership among investors</b>                | <b>buyer / seller</b> |
| Banking function*                    | e.g. lending and borrowing                                | lender / borrower     |

\*only in some CSDs

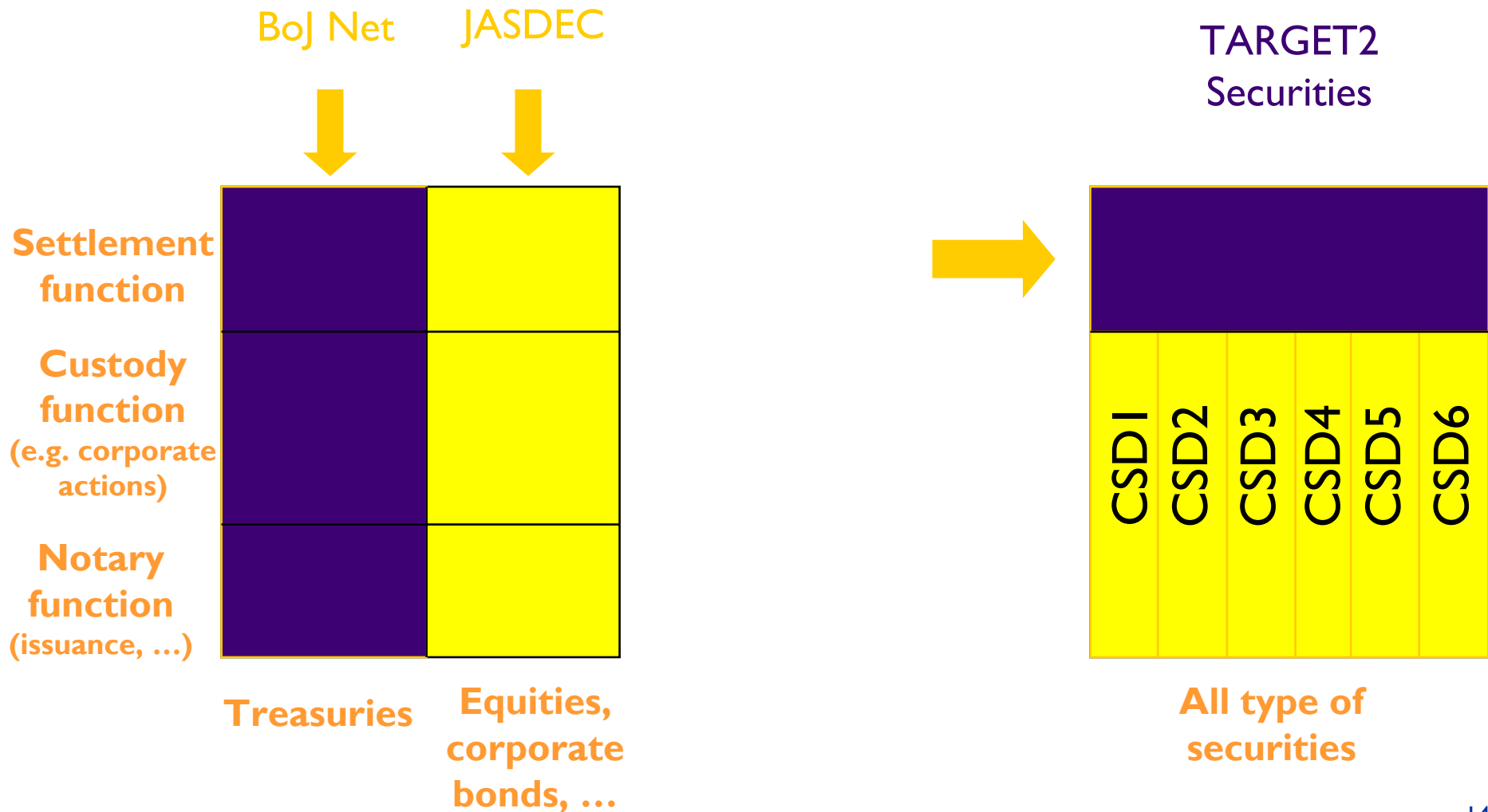
# I. Principles

## A long central bank tradition

|            | Central Banks involved in Securities Settlement | Central Banks involved in Securities Settlement in the last 20 years | Central Banks <u>not</u> involved in Securities Settlement in the last 20 years |
|------------|-------------------------------------------------|----------------------------------------------------------------------|---------------------------------------------------------------------------------|
| Non €-area | Japan                                           | UK                                                                   | Germany                                                                         |
|            | USA                                             | France                                                               | Luxembourg                                                                      |
| €-area     | Belgium                                         | Spain                                                                | Austria                                                                         |
|            | Greece                                          | Italy                                                                |                                                                                 |
|            | Portugal                                        | Ireland                                                              |                                                                                 |
|            |                                                 | Netherlands                                                          |                                                                                 |
|            |                                                 | Finland (as a major shareholder)                                     |                                                                                 |

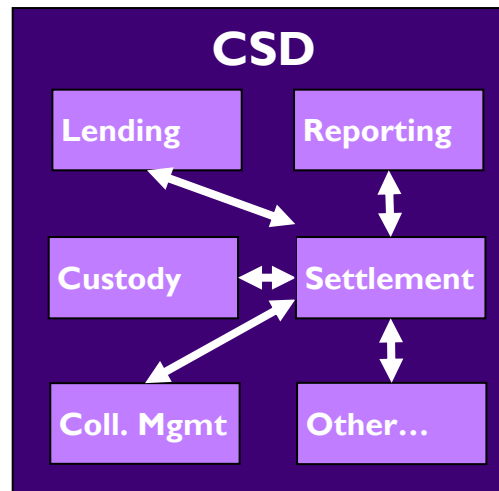
# I. Principles

## Comparison between Japan and Euro area



# I. Principles

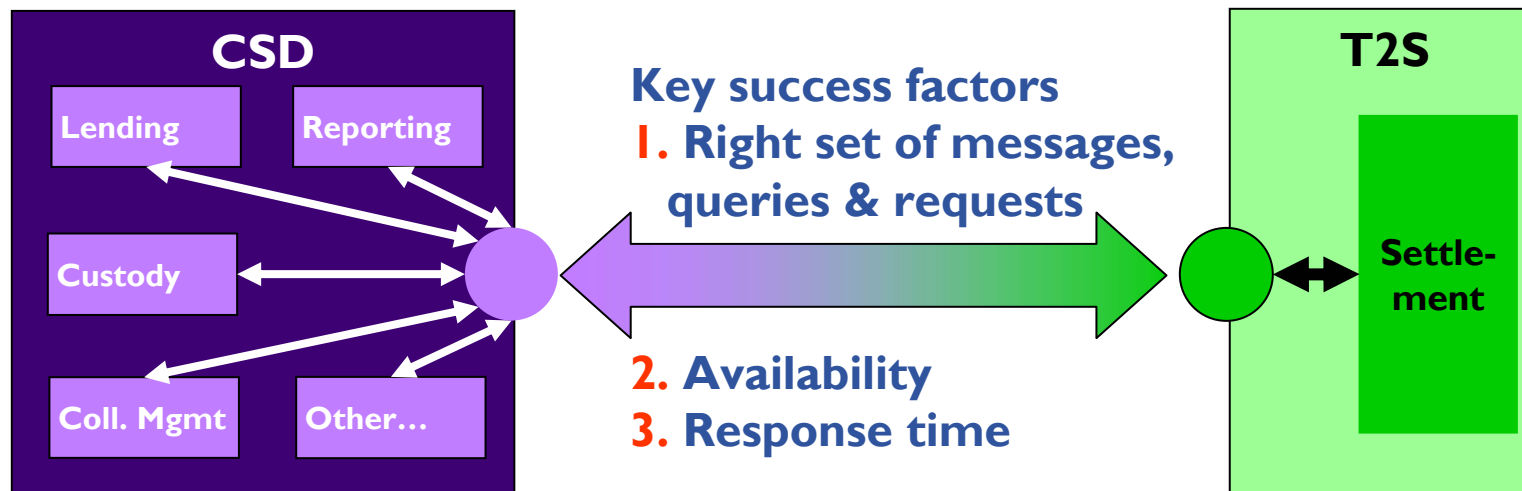
What will change?



T2S does not segregate custody and settlement

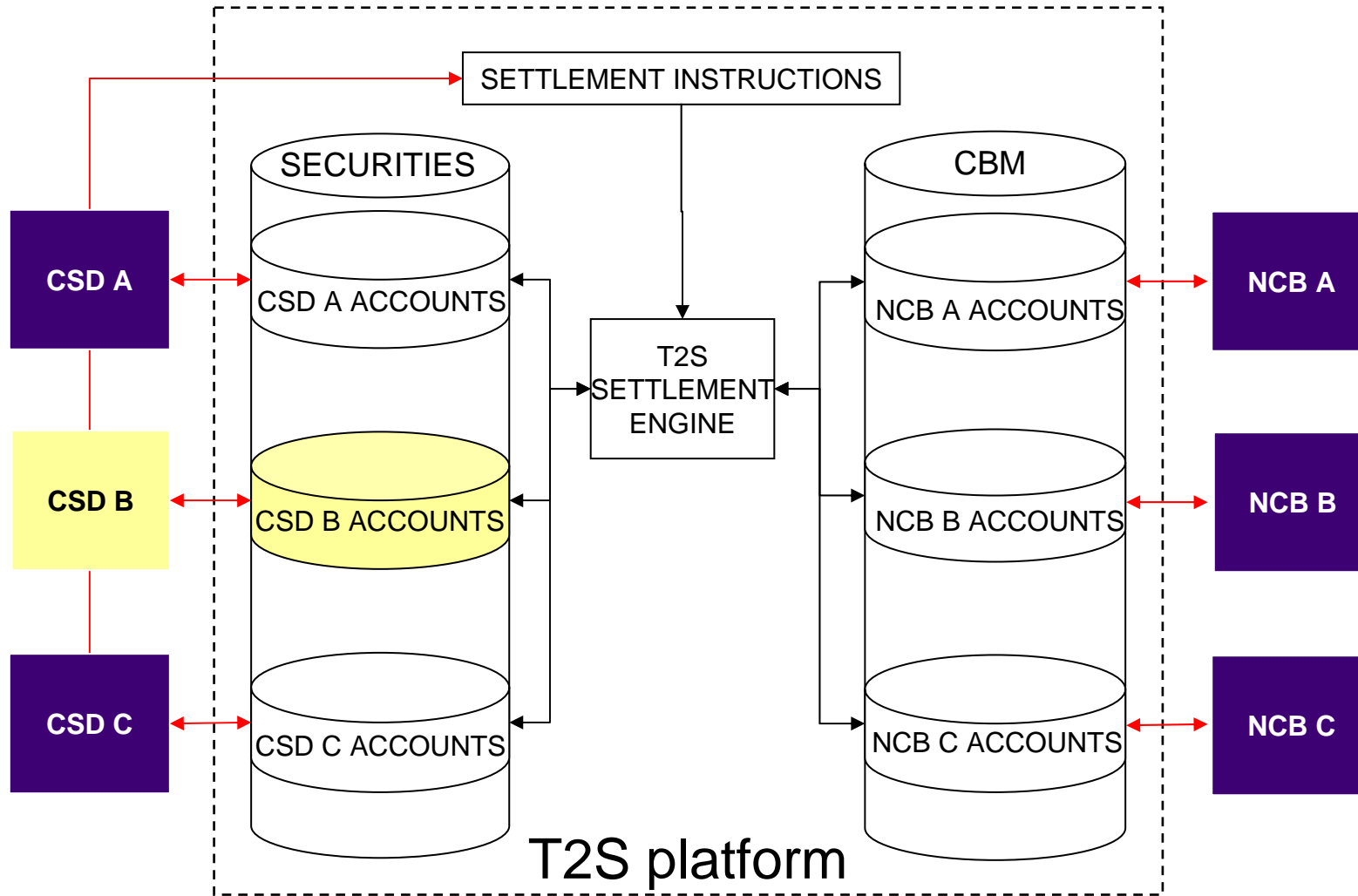
Today

T2S world

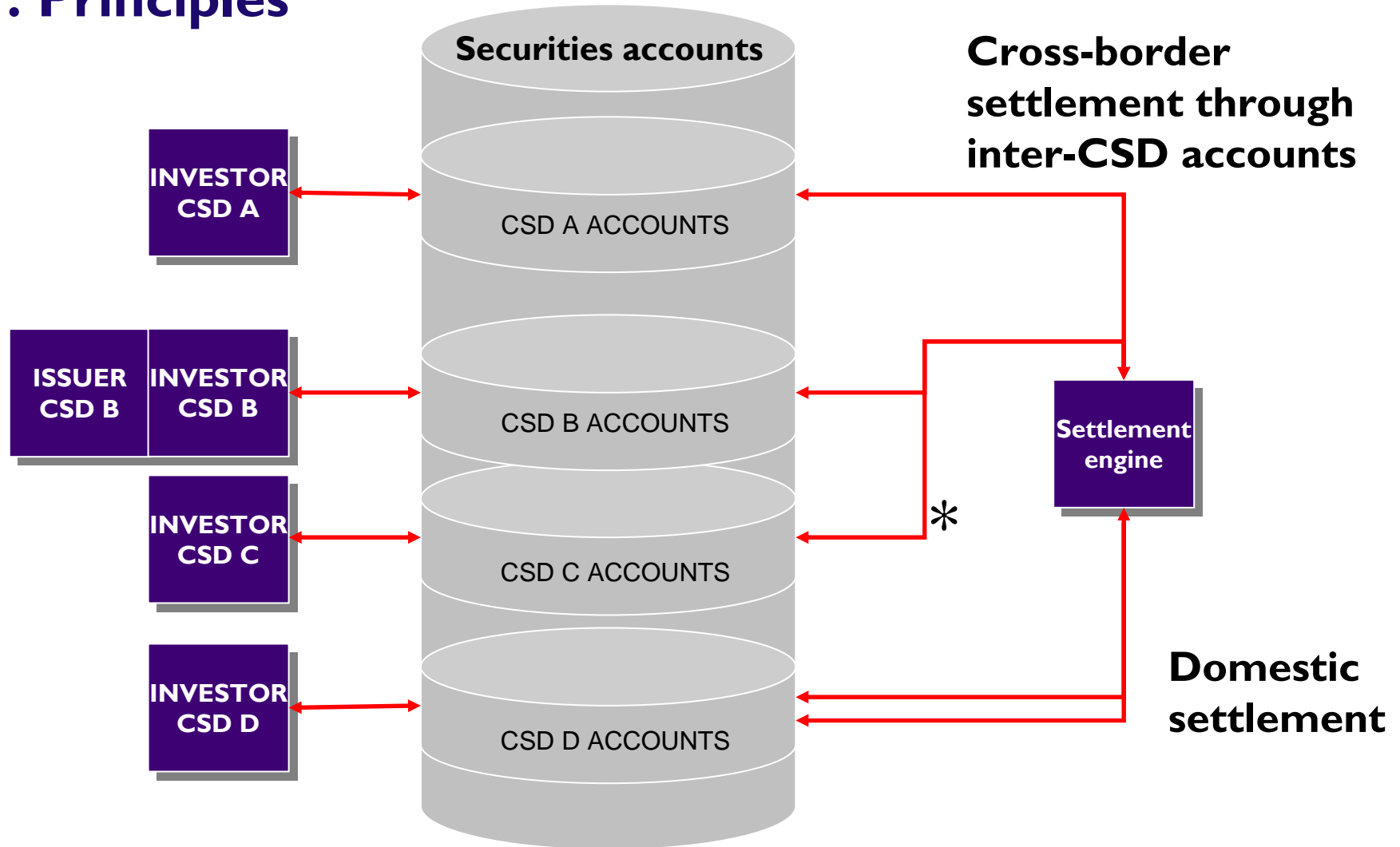




# I. Principles

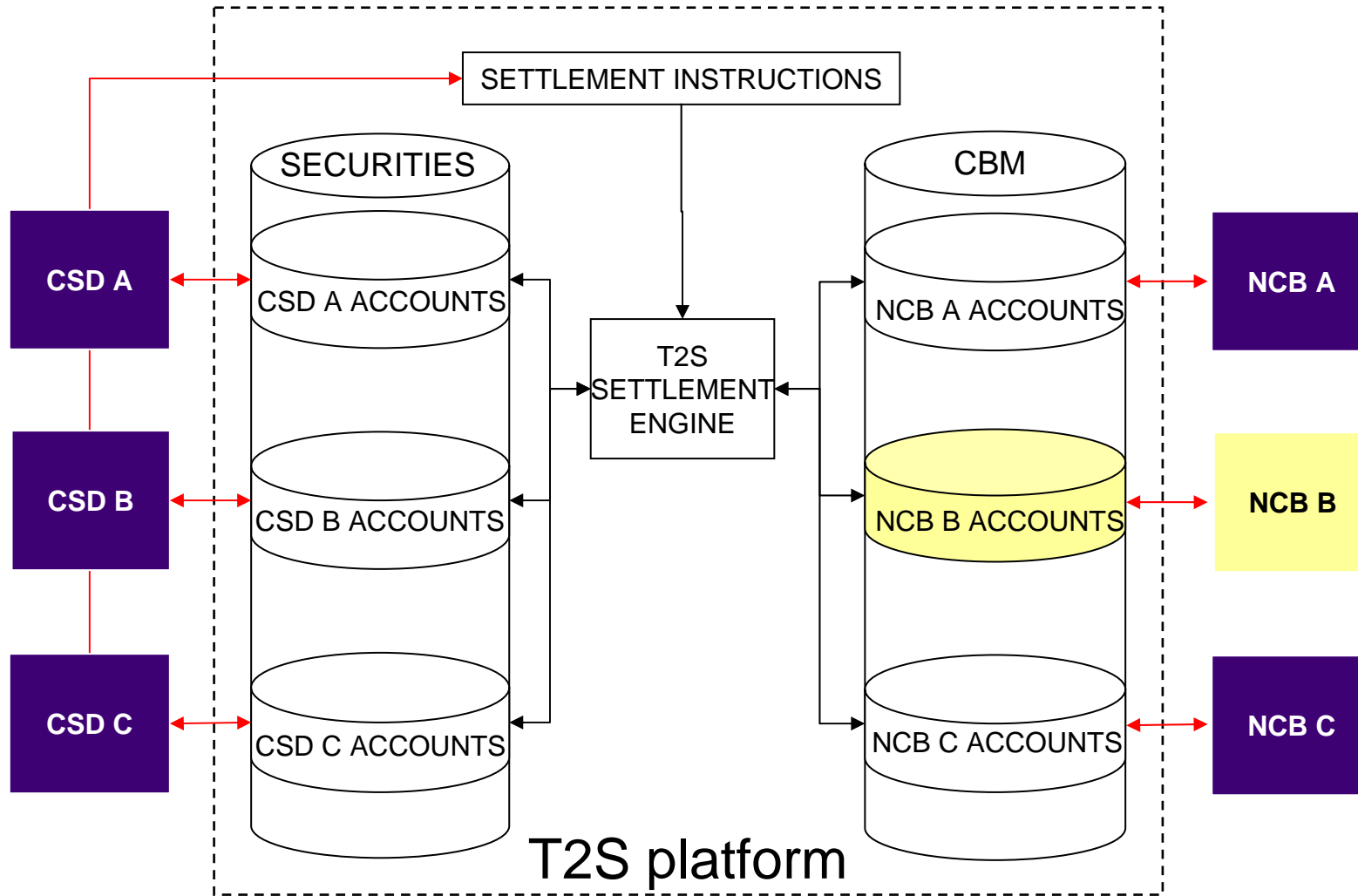


# I. Principles



\*/ Automated real-time realignment where necessary with issuer CSD

# I. Principles



# T2S project

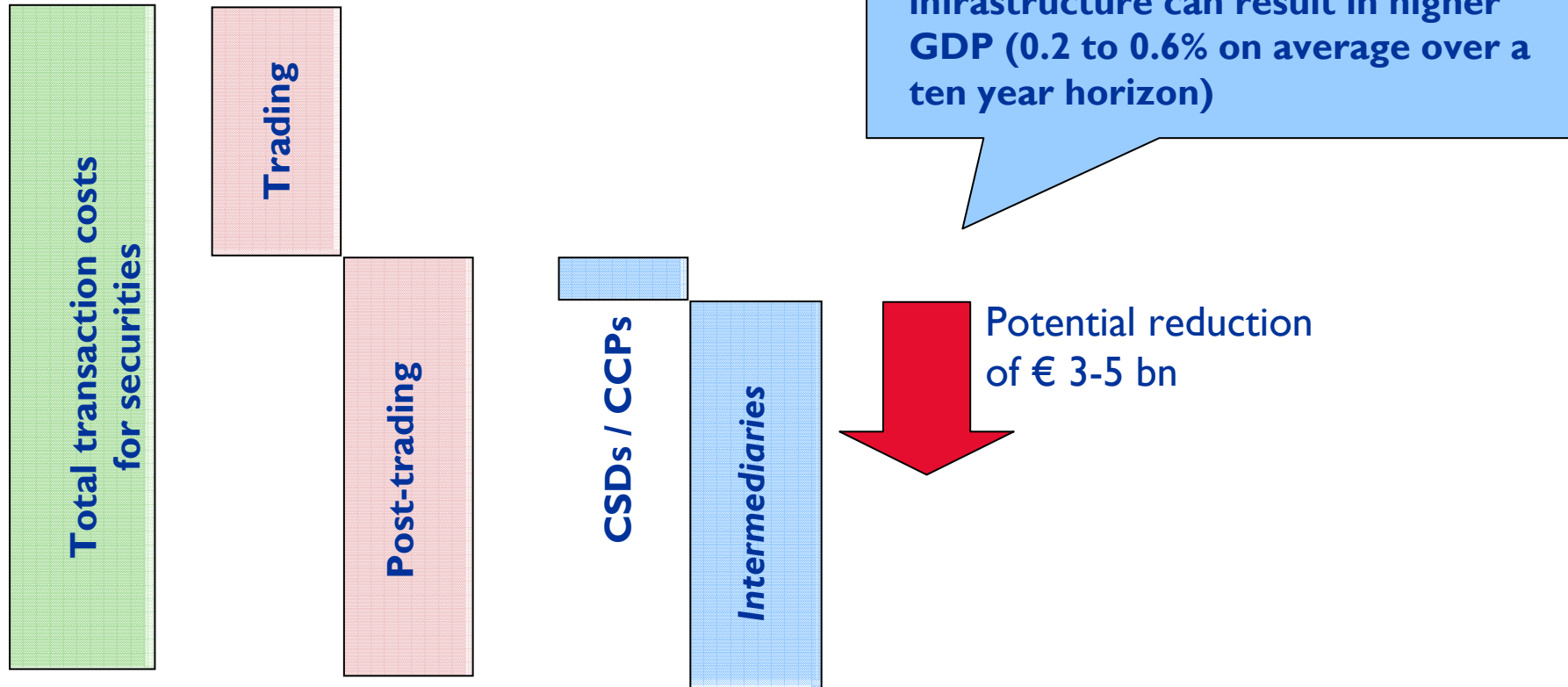
## Agenda

1. Principles
- 2. Benefits**
3. Next steps

## 2. Benefits

### Overall impact of an integrated market infrastructure

€28 bn/ year



Source, European Commission (2006); Mercer Oliver Wyman-Morgan Stanley (2003)

## 2. Benefits

### Main Macroeconomic impacts (I)

- Increased efficiency in securities finance, reduced cost of funding and collateral management have positive effects on liquidity
- Dynamic effects on trading volumes and liquidity due to
  - increased competition in trading
  - better pricing of securities
  - unencumbered access to settlement
- More trading volumes lead to lower T2S unit processing costs – a virtuous circle
- Further savings from reduced fail rates from simplified processing, reduction in operational errors and easier management of funds
- Acceleration in the harmonisation of settlement related asset servicing

## 2. Benefits

### Main Macroeconomic impacts (2)

- Potentially more competition in servicing assets will reduce cost for investors
- Reduction in intermediaries' back-office costs through economies of scope (beneficial for Investors due to increased competition between intermediaries)
- Ultimately:
  - Increased market liquidity and access to wider investor base lead to lower cost of capital for issuers
  - Increased market liquidity and lower cost of portfolio diversification lead to better return for investors

**Today's cross border in Europe will be tomorrows domestic**

## 2. Benefits

### Main microeconomic impacts

#### Current situation:

- A chain of intermediaries depending on several factors
  - e.g. location and nature of the end investor

#### Future situation:

- T2S will impact components at each level and may shorten the chain:
  - Market pressure to contain costs
  - New competition among CSDs
  - Highly competitive market => benefits will be passed on



## 2. Benefits

### Impact on different stakeholders

| T2S Feature/Benefit                                                                                     | Issuer | Investor | Custodian | Broker | Exchange | CCP | CSD | NCB |
|---------------------------------------------------------------------------------------------------------|--------|----------|-----------|--------|----------|-----|-----|-----|
| Single settlement platform, standardized communication: reduced cost of cross-CSD settlement            | ✓      | ✓        | ✓         | ✓      | ✓        | ✓   | ✓   |     |
| Central bank money settlement: eliminate financial exposure in cross-CSD settlement                     | ✓      | ✓        | ✓         | ✓      | ✓        | ✓   | ✓   | ✓   |
| Efficient securities transfers among CSDs: lower competition barriers in trading and securities finance | ✓      | ✓        | ✓         | ✓      | ✓        |     |     |     |
| Intraday transfer of securities collateral: increased efficiency of collateral management               | ✓      | ✓        | ✓         | ✓      | ✓        | ✓   |     | ✓   |
| Harmonisation of market rules and practices: reduced complexity, operational costs and risks            | ✓      | ✓        | ✓         | ✓      | ✓        | ✓   | ✓   | ✓   |
| Non-discriminatory common platform: level the playing field for commercial service providers            | ✓      | ✓        | ✓         | ✓      | ✓        | ✓   | ✓   |     |

# T2S project

## Agenda

1. Principles
2. Benefits
- 3. Next steps**

## 3. Next steps

### Governing Council 8 March 2007 decision

- *Feasible to build T2S*
- *Move to next phase (user requirements)*
- *Decision on development phase: early 2008*

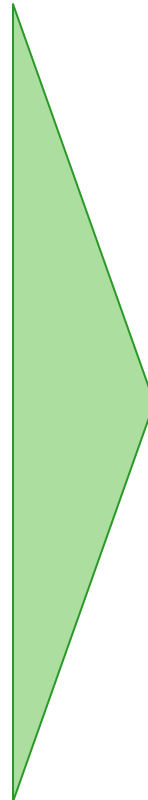
also

- *T2S on TARGET2*
- *Regular and transparent interaction with stakeholders*
- *Centralised collateral system to replace the current procedures*

## 3. Next steps

### Objectives of the next phase

- Consult the market on principles, needs and expectations
- Define the T2S User Requirements
  - In cooperation with all T2S stakeholders
- Prepare decision of CSDs to commit to T2S or not
- Prepare alternative access when a CSD does not want to join T2S, while some of its participants do
- Keep all stakeholders involved in the process
- Refine the cost/benefit evaluation

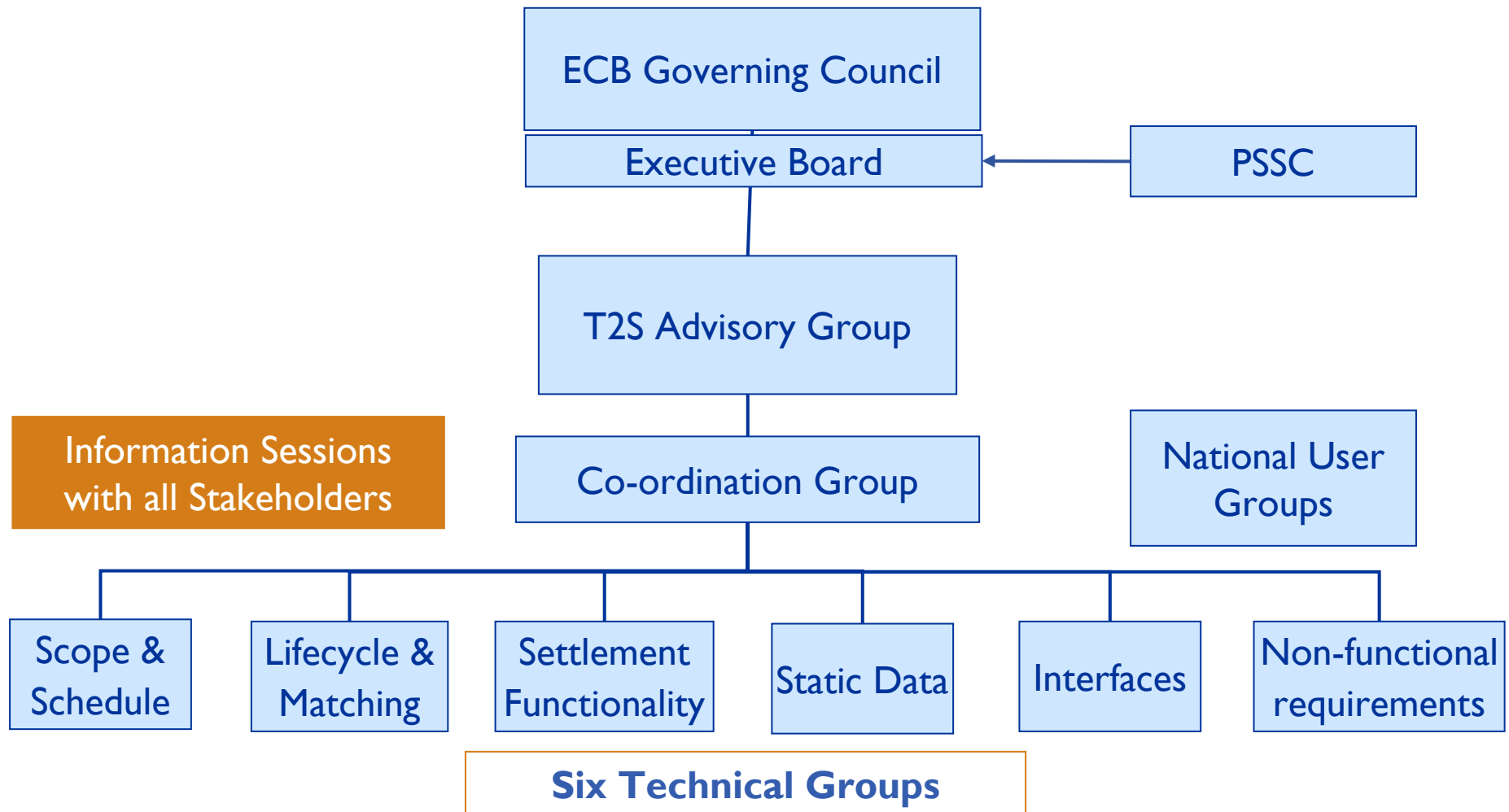


### Deliverables of the next phase

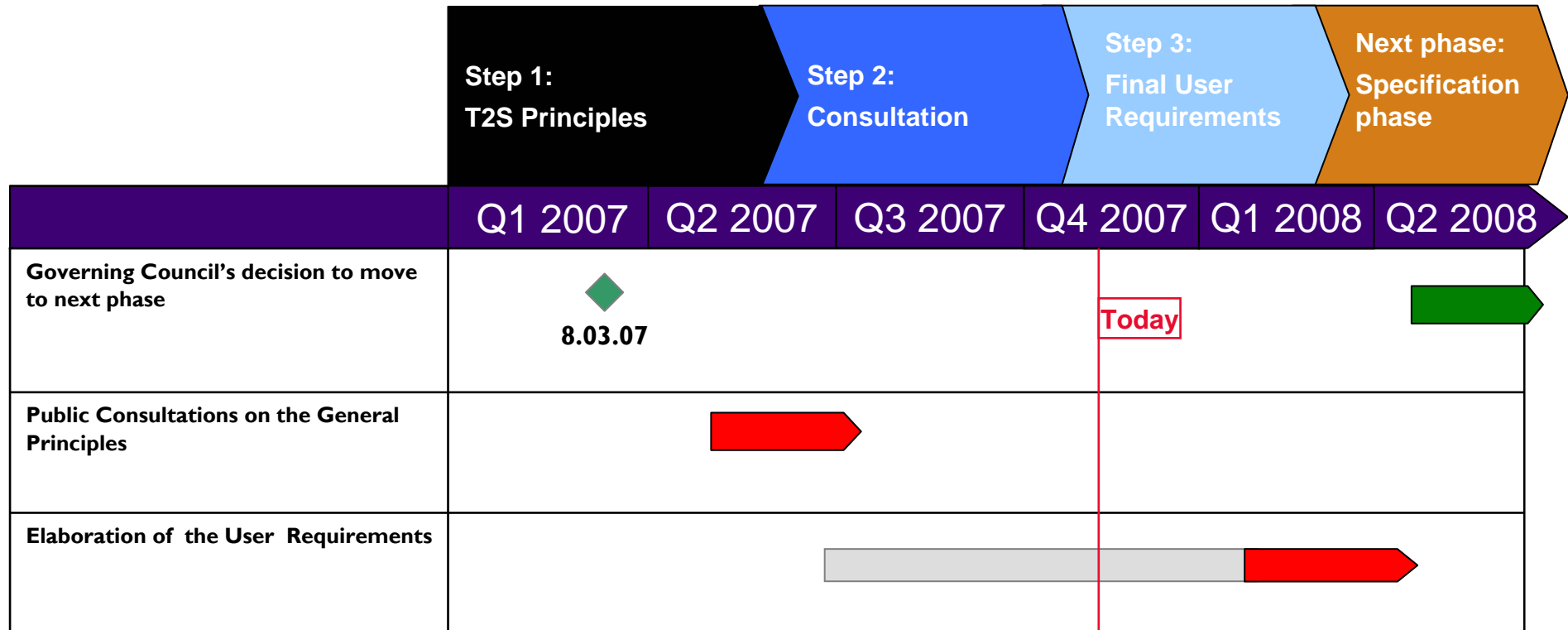
- T2S Principles
- T2S Functional User Requirements
  - Series of Consultation Papers
  - Final User Requirements
- T2S Non-Functional and Legal Requirements
- Revised T2S business case
- General functional specifications?



### 3. Next steps

Governance for this phase

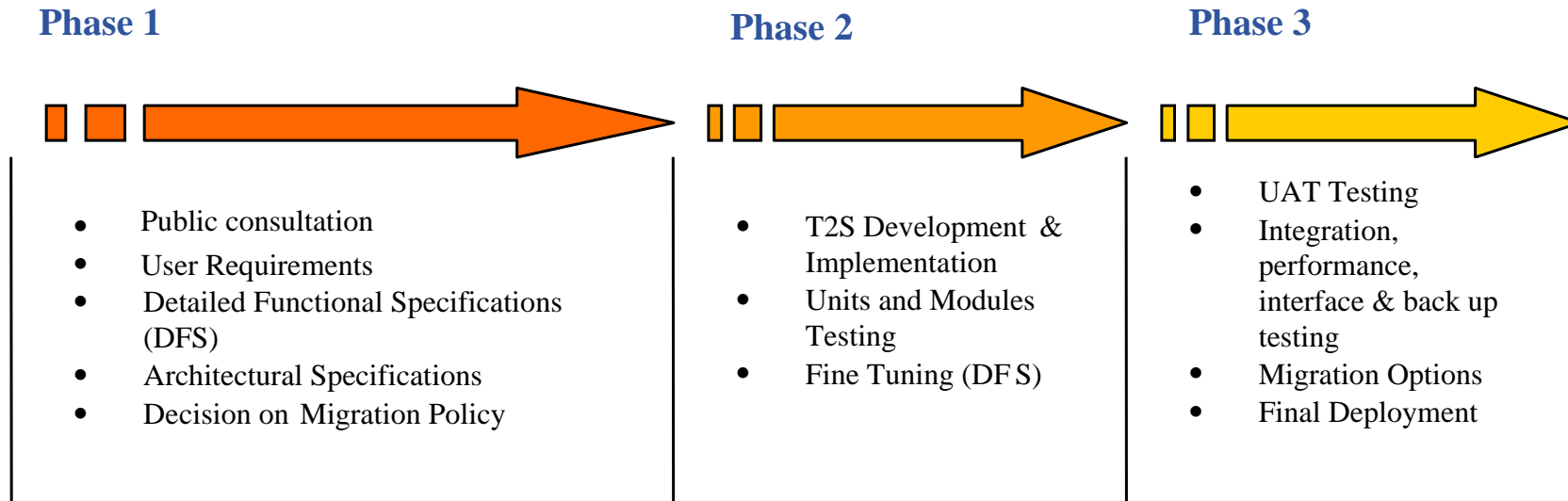


# 3. Next steps



 **Drafting**     
  **Public consultation**

### 3. Next steps



March 2007

Governing  
Council  
Decision

March  
2013

T2S  
Production

