

Gertrude Tumpel-Gugerell: Priorities for EU infrastructures and prospects of transatlantic infrastructures

Speech by Ms Gertrude Tumpel-Gugerell, Member of the Executive Board of the European Central Bank, at the EUROFI Conference, Nice, 12 September 2008.

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Question 1: What are the priorities to develop the competitiveness of EU securities infrastructures?

Answer 1: Firstly, from a central bank perspective a clear priority for EU securities infrastructures is to overcome the current fragmentation which leads to unnecessarily high costs, especially for cross-border transactions.

I see T2S as a good example of this. T2S, as a neutral and borderless shared settlement infrastructure, will yield positive scale effects, and it will promote competition in asset servicing, as CSDs strengthen their offerings in services other than settlement.

Secondly, harmonisation, harmonisation will lead to further cost savings, transparency and foster competition in the value chain. We will see significant initiatives in harmonisation efforts throughout the securities life cycle, assisted by the catalytic effect of T2S.

The Eurosystem, itself, will initiate work of the T2S advisory Group together with market participants to develop action plans for harmonising both settlement-related processes and processes related to corporate actions.

Thirdly, in order for securing the competitive market place of the single market and thereby maintain and attract issuers and investors to Europe, we need to re-think the risks to the robustness and resilience of the entire financial system, which includes securities infrastructures.

First of all we need a single set of standards consistently implemented in the European Union. In this respect, I welcome the request of ECOFIN to ESCB and CESR to finalise their recommendations. (this will also facilitate harmonisation and avoid regulatory arbitrages that can lead to the “race to the bottom”).

Second, the current financial crisis is showing how fast problems in one market can spread over to other markets. In consequence, the operational processes, risk management policies and procedures of each system are more related to those of other systems.

Therefore priorities should be made to obtain a holistic and systemic European (and maybe global) approach to widening our risk assessment concepts and our coordination with other market participants within the value chain, so that risk and crisis management procedures can be optimised.

After the publication of the CPSS report on interdependencies, central banks are currently investigating if and if so how there is a need to revise the regulatory framework consistently with the new challenges stemming from the growing interdependencies. Enhanced co-operation between the relevant authorities is surely one of the answers.

Question 2: What are the main expected impacts of transatlantic infrastructures on the competitiveness of European markets and on EU stakeholders? Could global infrastructures emerge one day?

Answer 2: At the trading level, significant changes in market structures are underway and several European and transatlantic cooperation and mergers have already taken place or are foreseen. Stock Exchanges and the new MTFs (multilateral trading facilities) are extending

the range of instruments offered on their trading platforms to create genuine competition. This offers the potential for lower costs for intermediaries and all classes of investors.

It also improves the prospects for retail investors to diversify their securities portfolios across Europe, increasing the potential returns on investments and diversifying their exposure to financial risks. Issuers should also benefit from greater market depth for their fund raising.

I think we should carefully reflect on three issues:

1. How to draw a balance between regional and global needs? Or in other terms, is a transatlantic infrastructure the best (soundest and more efficient) answer to a “regional” market? Or will a network of interoperable regional infrastructure better fit?
2. A global market does not necessarily require only one global infrastructure. On the contrary competition among a few can be beneficial for the users.
3. So far transatlantic infrastructure has been a US-based infrastructure also serving European markets. The higher integration of US markets provided undoubtedly a competitive advantage to them in doing so.

But nothing prevents a transatlantic infrastructure offering services in Europe and then expanding to other regions.

The first two questions are for all market participants and regulators. The last one is more for EU (potential) provider. [T2-S has the potential for being one of this – in the future – transatlantic infrastructure.]

The impact of the transatlantic infrastructures also requires changes in the way national authorities operate, being it regulators, supervisory authorities or overseers, since systemic risks extend beyond national borders.

In this aspect, we need to establish effective co-operation arrangements among national and transatlantic supervisory authorities to develop common practices of supervisory structures in financial services, including common reporting and risk management standards without losing sight of legitimate regional supervisory priorities.

We could make a parallel to the success of the CLS system, which indicates the possible benefits in reduced risk and increased efficiency in global financial services. CLS also suggests that we should not lose sight of the global dimension; in particular, Asia is a large and rapidly growing part of the financial markets.

I can understand that the market participants with global businesses would like to see progress towards a global infrastructure; but they have also been very clear in telling us that the major cross-border costs in securities markets arise from lack of harmonisation. It is for that reason the Eurosystem has pledged to engage with market users to start harmonisation efforts firstly within the field of settlement and corporate action processes. Market users were right to say that consolidation should not be attempted without harmonisation. Global – and transatlantic – harmonisation have to be achieved before single securities infrastructures can be introduced.

Question 3: What evolutions are required in post-trading arrangements to support the development of transatlantic trading infrastructures ie NYSE-Euronext, Nasdaq-OMX?

Answer 3: The first area is harmonisation to ensuring transatlantic and global infrastructures are properly overseen and regulated while accommodating legitimate regional supervisory priorities. I see two challenges here: first, regulators and overseers generally tend to lag behind financial innovation and integration; and second, Europe currently still lacks a common regulatory and supervisory structure and framework, which would be an important pre-requisite in achieving a regulatory level playing field. In cases of transatlantic mergers

like the NYSE Euronext merger, the risk of a potential “regulatory spill-over” of existing or future US legislation and regulations would be smaller with the existence of a European SEC than without it. So I think the truism that we have to get the European house in order to be prepared for the global challenges is also true when it comes to securities infrastructures.

Furthermore, there will doubtless be work to enhance or develop relatively efficient settlement links or bridges between the two US settlement engines and various CSDs in Europe, to provide a degree of integration of post trading functionality.

The global challenges may be more profound in asset servicing than in settlement – however, I believe that T2S will be of value in simplifying and helping to produce safer and more efficient solutions as the core and central functionality of the financial system.