Vítor Constâncio: Securities settlement in 2020 – T2S and beyond

Speech by Mr Vítor Constâncio, Vice-President of the European Central Bank, at the ECB's conference on "Securities settlement in 2020 – T2S and beyond", Frankfurt am Main, 4 October 2011.

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I am very pleased for the opportunity to be with you here today. As you might know, the President's visit to the European Parliament for the last Monetary Dialogue of his tenure was rescheduled at the last minute, so it was not possible for him to participate tonight. He sends his apologies and wishes you a very interesting and fruitful conference.

In my remarks this afternoon, I would like to focus on the importance of strengthening the Single Market, the various initiatives currently being pursued for this purpose, and how T2S fits into the wider picture.

The Single Market, and the Single Financial Market in particular, has been one of the great success stories of the EU. Since the project began with Jacques Delors's White Paper in 1985 and almost 20 years since the 1992 programme was completed, it has delivered enormous economic, financial and social benefits to the citizens of Europe.

The euro has played a major role in delivering the benefits of a Single Market. It has ensured price stability, removed exchange rate uncertainty and reduced transaction costs. All this is conducive to an integrated market.

In times of urgency, we may sometimes take for granted the benefits that the Single Market has already brought. Freedom of goods, freedom of services, freedom of capital, and freedom of people.

Indeed, in recent years we have been observing sometimes less focus on the need for further progress in the Single Market and even protectionist tendencies, which were also exacerbated by concerns raised by the financial crisis. However, the financial crisis should instead serve as a powerful reminder that only a fully fledged integrated single market can provide the resilience that we need to withstand future shocks. The Single Market Act, launched in April by the European Commission is therefore very much welcomed to provide impetus to the reinforcement of the project. This is also what is wished by citizens, since the very recent Eurobarometer survey of 26 September shows that there are still important gaps between expectations and the reality of the single market: information gaps affecting citizens and authorities, gaps in the implementation of European policy, and gaps in the European legislative framework.

Against this background, I would like to highlight the progress made in the Single Financial Market. Some initiatives were started before the crisis and are still in progress. Others have been launched since the outbreak of the crisis. I would like to briefly mention just some of these important developments.

First, Europe's new supervisory structure, based on the European Systemic Risk Board and the three European supervisory authorities, is a major step forward in ensuring that the financial system as a whole is supervised in a more harmonised and coherent fashion. It reflects the full acknowledgement that the externalities deriving from the financial system are no longer national. They are increasingly interconnected across the European market and beyond.

Second, there is also a new set of new legislation to reform financial markets. It is a comprehensive package covering not only the trading level, but also – for the first time – the infrastructures for clearing and settlement. Nothing is being missed out. MiFID – which deals with trading and investment services – is currently being updated. A new regulation on clearing houses – called the European Market Infrastructure Regulation (EMIR) – is also being proposed. The objective of MiFID and the EMIR is not only to make markets safer, sounder and more transparent in the wake of the financial crisis; they also aim to create a level playing field in Europe, to remove barriers to competition, and ultimately, to strengthen the financial market integration process.

On the settlement and issuer services side, a proposal for a new legislation on CSDs is expected soon. This will help to ensure a level playing field between the different business models operating across Europe. And on the custody side, the proposed Securities Law Directive will also help provide legal certainty and facilitate cross-border business.

T2S fits extremely well into the financial market reform process. It very much complements the regulatory initiatives being pursued by the European authorities to significantly strengthen the Single Financial Market and its infrastructure. T2S will – for the first time – create a single market in the settlement services space. Combined with legislation on CSDs and CCPs as well as MiFID, T2S will stimulate a new competitive environment in post-trading.

Over the longer term, T2S will deliver significant benefits to the European economy.

First, in T2S it will be as easy to settle cross-border transactions as domestic ones. This will enhance the ability of issuers and investors to reach across national borders. It will lower the cost of capital for issuers. It will allow investors to diversify their investments.

Second, T2S will be an indispensable tool for banks to optimise their collateral management. It will eliminate the need to hold multiple buffers of collateral across various CSDs. It will eliminate the need to shift securities across borders in order to use them. The savings in collateral will be very significant. This is, of course, a huge benefit for market participants at a time when demand for collateral is ever increasing.

Third, T2S will foster harmonisation in the post-trade world. The T2S platform is, of course, not sufficient in itself. But it is a necessary condition. And it will play a crucial catalyst role going forward.

The Governing Council made an initial proposal for T2S back in 2006. After receiving positive feedback from the market, it decided to go ahead with developing the platform in 2008. I want to emphasise that the Governing Council remains as committed as ever to delivering T2S as a key component of the European market infrastructure, particularly for the purpose of the adequate implementation of the single monetary policy.

Accordingly, let me reassure you that the Governing Council will do all it can to make sure that T2S will be a resounding success.

I am happy to say that, during the crisis, the current market infrastructures in Europe proved their resilience. In the future, T2S will be a core part of Europe's financial market infrastructure. It must, therefore, also be extremely robust and resilient. As a central bank, we have all the incentives to make this so.

Because T2S is a single platform settling in central bank money, it will further promote the financial stability of market infrastructures. It will provide additional resilience to cross-border settlement, which is still somewhat lacking today. And settlement in central bank money is the safest form of cash settlement. T2S will only settle in central bank money.

To be a success, the economics underlying the business case for the project must also be favourable. T2S must deliver the cost efficiencies that we have promised. I am very confident that, in the longer term, T2S will produce significant reductions in post-trading costs. Not least because of the new element of competition that T2S will create in the market and its dynamic effects. Over time I expect settlement costs to decrease to levels comparable to those in the United States.

But even more important than delivering such cost efficiencies, T2S will create new opportunities for "value creation".

T2S will standardise and commoditise settlement. Private sector companies will now be in a position to innovate products that add more value for their clients. It will lead to the creation of new products that have not even been thought of today. Ultimately, this stimulation to innovation and a higher quality of service could be the real benefits of T2S.

The overall theme of the conference is what we envisage for “Securities settlement in 2020: T2S and beyond”. As you well know, the Europe 2020 strategy launched by the Commission in March 2010 aims at delivering a European economy with high-levels of employment, research and innovation, education, environmental and energy standards, with much less poverty and social exclusion. A much stronger economic governance framework should also ensure closer fiscal integration and sound public finances as a pillar of EMU. Accordingly, I very much hope that your reflections in this conference will help developing the key features of the securities market infrastructure that we need in 2020 to support our economy, as well as safeguarding financial stability.

I hope you enjoy the rest of the conference. Thank you for your attention.