

Yves Mersch: Post-trade harmonisation and financial market integration in Europe

Closing remarks by Mr Yves Mersch, Member of the Executive Board of the European Central Bank, at the conference “Post-trade harmonisation and the integration of financial markets: a joint effort”, organised by the European Central Bank and the European Commission, Frankfurt am Main, 19 March 2013.

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Ladies and gentlemen,

We have come to the end of today’s very intense programme. I now have the pleasure of sharing with you some thoughts on the main messages that have emerged in the course of today.

Financial integration remains at the core of the European agenda. For the future of Europe, it is important that the Single Market project is taken forward with the full determination of all of us, even in times of difficulty. As President Mario Draghi remarked this morning, “in times of severe economic challenges, it is particularly important that our commitment to achieve a truly single European market is reaffirmed”.

From the Eurosystem’s perspective, financial integration is of great importance. First, it is vital for the single monetary policy of the euro area: monetary policy is implemented through the financial system, which has to be as efficient as possible in order to guarantee a smooth and effective transmission of monetary policy impulses. A highly integrated financial system ensures that impulses diffuse homogeneously across the whole euro area.

Second, financial integration has implications for the stability of markets. Integration results in increasing interconnections and cross-border activity. A higher level of integration will therefore be beneficial for our economy, enabling investors to find profitable investment opportunities whenever and wherever they arise. It will also enhance competition among financial intermediaries and among financial infrastructures and, as a consequence, reduce the costs of intermediation. However, highly interconnected systems could also be more prone to systemic risks. To avoid those risks, integration initiatives are being undertaken which place a very strong emphasis on the safety and resilience of financial markets and infrastructures.

Let me now turn to post-trade harmonisation, the central theme of this conference. The harmonisation of market practices, rules and standards in post-trading is a necessary component of financial integration. Inefficiencies and barriers in clearing and settlement make market access difficult for investors and for issuers. The European securities market cannot be said to be fully integrated if post-trade arrangements are not harmonised, ensuring safety, full competition and the absence of barriers across national markets.

This is why both authorities and industry players are making great efforts to achieve post-trade harmonisation. Today, we have been offered a comprehensive overview of what is currently happening in Europe at the post-trade level. On behalf of Commissioner Barnier, Mr Paulis highlighted how, with the crisis, the speed of financial reforms has accelerated. Many participants have underscored the importance of transparency to achieve safer post-trading and to increase the existing level of competition in the industry.

We have heard an interesting discussion on the legal initiatives currently being undertaken at EU level to remove the barriers that are hindering the single market objectives. MiFID is being revised to increase investor protection and improve the functioning of EU capital markets. EMIR entered into force in summer 2012, requiring standard derivative contracts to be cleared through central counterparties and establishing stringent organisational, business conduct and prudential requirements for central counterparties. The European Commission’s

proposal for a CSD Regulation improving securities settlement is under scrutiny by the EU legislators; it will enhance the legal and operational conditions for cross-border settlement in the Union in general, and a strong emphasis has been placed today on the importance of its timely adoption. I noted that the majority of the audience saw the need to adopt the CSD Regulation at the latest by the start of 2014, also with a view to allowing sufficient time for the technical standards. The representatives from the Parliament and the Commission have highlighted the importance and feasibility of this objective. Finally, another initiative is in the pipeline to harmonise the securities law legislation, establishing an EU-wide framework for the ownership of securities and increasing legal certainty in cross-border environments. Combined, the review of MiFID, the EMIR, the CSD Regulation and the securities law legislation are consistently building a harmonised legal framework for the whole securities transaction chain – from trading to clearing to settlement.

Important progress is also being made at the operational and business levels. The most notable example mentioned by many today is T2S, a project with huge potential for market integration. T2S will enable the participating CSDs to focus on value-added services while the basic settlement service is provided via the single T2S platform. T2S will thereby make it easier for business to move from one CSD to another. The actors that harmonise in T2S have a greater chance of reaping the full benefits of T2S and widening their business. Conversely, the European CSDs that do not harmonise may see the securities issued via their CSD being settled predominantly in another CSD participating in T2S.

An area of opportunities mentioned several times by speakers today is collateral management. Some of the regulatory initiatives I mentioned before, aiming to enhance safety in financial markets, are generating greater demand for high-quality collateral. At the same time, the crisis is making this collateral scarcer: there has been a shift from unsecured to secured funding and greater recourse to central bank liquidity. The increased demand for collateral is prompting market participants as well as the Eurosystem to develop innovative ways to make better use of existing collateral, i.e. to make assets more easily available, when and where they are needed. Harmonisation in this area is crucial to facilitate the efficient mobilisation of collateral across Europe. Examples are the auto-collateralisation functionality that will be offered by the T2S platform and the several initiatives underway to establish tri-party settlement interoperability.

It has clearly emerged from the discussion today that post-trade harmonisation is gaining momentum and achieving concrete results.

The example we heard about in more detail is the progress made on the T2S harmonisation agenda. The T2S Community and the post-trade industry have engaged in the implementation of harmonised standards and market practice in areas such as cut-off times, ISO messages, corporate actions processing, account numbering and settlement finality. As Jean-Michel Godeffroy illustrated earlier today, there is an ambitious plan in place for the coming months and a sound record of achievement so far. I noted that the audience expressed moderate optimism that the “priority one harmonisation topics” would be achieved by the launch of T2S.

However, there is still a lot of work to be done in order to complete all these projects. It was very interesting in this regard to hear about the experience of Professor Giovannini, whose very name is closely associated with harmonisation and market integration. In particular, he analysed the problems faced by the Giovannini Group in the early 2000s. These reflections are very important for us now to learn from past experiences and to be able to achieve concrete results going forward.

The large participation at this conference today, with distinguished speakers and almost 250 participants from all over Europe, is testimony to the joint willingness of both the European and national institutions and market players to achieve post-trade harmonisation, and thus contribute to financial integration in Europe. Let me stress once more that the cause to which this process is contributing – the Single Market – is one of making Europe stronger

and more attractive for national as well as cross-border investment, thus activating and sustaining growth.

To conclude, I wish to thank you all very much for your participation. Particular thanks go to all speakers and panellists for making the discussions so lively and thought-provoking. Finally, I would like to take this opportunity to thank all those, from both the European Commission and the ECB, involved in preparing this very interesting conference.