

Yves Mersch: Introductory statement on TARGET2-Securities (T2S) before the Committee on Economic and Monetary Affairs (ECON)

Speech by Mr Yves Mersch, Member of the Executive Board of the European Central Bank, at the Public Hearing on TARGET2-Securities (T2S) before the Committee on Economic and Monetary Affairs (ECON) of the European Parliament, Brussels, 16 June 2015.

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Mr Chairman,

dear members of the Committee on Economic and Monetary Affairs,

ladies and gentlemen,

I am glad to be here today to discuss TARGET2-Securities, or T2S – the new securities settlement engine in Europe. The European Parliament has played an essential role in this project and strongly supported it from the beginning.

We are only three days away from the first migration weekend, during which the first European markets will migrate their securities settlement business to the platform. T2S will be live as of 22 June. Over the next two years it will come more and more into life as a total of 21 markets migrate to the new single platform.

T2S is the largest market infrastructure project undertaken by the Eurosystem to date. I would today like to emphasise the progress we have achieved on our journey from TARGET in 1999 to T2S today, and how this provides a good example for further integration in the context of the capital markets union.

TARGET

In 1999, with the launch of the euro, there was an immediate need for a large-value payment system that could process all payment flows related to monetary policy operations in euro. TARGET was launched on 1 January after only four years of development. Owing to the time constraints, it was not possible to develop a fully integrated system, but only to link the existing systems in Europe. In order to build a truly integrated system, the TARGET2 project was initiated and TARGET2 started operations in 2007. Today it is one of the largest payment systems in the world, reaching around 56,000 banks worldwide, in addition to the central banks of the EU. In 2014 over 90 million payments were settled, with a turnover of €492 trillion.

The use of TARGET2 is mandatory for the settlement of all payment orders related to monetary policy operations in euro, and is therefore an essential component of our monetary policy execution. It has enabled us to create a single money market for the euro area, as all euro cash payments are settled in a streamlined way across Europe.

TARGET2 is used for payments related to both monetary policy and other operations in the interbank market. However, the infrastructure for transferring financial assets for trading and collateral operations was left fragmented. While the cash side had reached a high level of integration, securities still had to be settled in over 30 different systems in Europe.

T2S

Discussions were therefore initiated with the market on how to integrate the securities landscape, especially in a financial market where securities are used more and more as collateral to generate liquidity. The idea was put forward that the Eurosystem could provide settlement services for securities transactions in central bank money. The European Parliament and Council were among the first to support this idea. Thanks to your

recommendation, the scope of T2S was extended and it has been built as a multicurrency system.

The objective of T2S was to create an integrated infrastructure which would support capital markets on a European scale. Until now, the securities landscape in Europe has been characterised by numerous securities settlement systems, divergent laws governing securities depositories and different rules for post-trade processes. This is highly inefficient, increases risks and leads to a significant waste of resources. T2S has started a process that will change this completely. T2S will in fact bring numerous benefits, including the following.

1. Processing costs for cross-border transactions will decrease drastically.
2. It will foster safety and financial stability by settling securities directly in central bank money.
3. It will allow for economies of scale without requiring that securities depositories be merged. In the T2S model, securities depositories are the gateways through which market participants can access securities in T2S. Securities depositories will maintain all other functions such as their notary role, asset servicing and services for issuers.
4. Last but not least, T2S will facilitate collateral management for market participants as it will make it easy to transfer collateral across borders. This is a key feature because demand for collateral has increased since the financial crisis, owing to both market conditions and new regulation.

T2S governance structure and the first migration wave

I would like to spend a few moments on the governance structure of T2S as I believe that it is one of the reasons for the success of the project.

If I were to show you the T2S governance chart, you would probably describe it using the word “complex”. I would tend to agree that a four-level governance structure with hundreds of institutions involved is complex. However, it has proven its effectiveness in resolving difficult matters in a swift and efficient manner, keeping in mind the common goal of ensuring the timely and successful launch of T2S.

In the past few weeks the commitment of those forming the T2S governance structure has become apparent once more. You might have heard some rumours that the T2S platform was not stable enough to go live. However, the reality is that the platform has been declared stable and ready to go live both by the T2S Board in charge of steering the project and by the central securities depositories in the steering body (the T2S CSD Steering Group). We are conscious that T2S will have an immense impact on the financial market and it is of key importance for us that the migration goes smoothly. After assessing the status of the platform – its stability and readiness for production mode – I can assure you that it is ready for the migration and launch this coming weekend.

However, going live requires more than just the Eurosystem being ready; we also need the migrating communities to be ready. The first T2S migration wave was to include five securities depositories and their communities: Bank of Greece Securities Settlement System (BOGS), Depozitarul Central (Romania), Malta Stock Exchange, Monte Titoli (Italy) and SIX SIS (Switzerland). Four out of those five markets, namely Greece, Malta, Romania and Switzerland, have confirmed their readiness to migrate as scheduled on 22 June 2015.

As far as the Italian market is concerned, a solution has been put forward which has eased the strong discomfort that has recently been signalled by the Italian banks regarding migration on 22 June 2015.

Following a formal request by Monte Titoli, the Italian securities depository, it and its community will be given an extended period of testing and will migrate only on 31 August

2015. This solution will not only help the Italian market, but will also ensure that difficulties in one market cannot spill over to other markets and have implications for the financial market as a whole.

This proposal has been discussed within the governance structure and is supported by the remaining securities depositories joining T2S. A detailed activity plan is now being developed for the migration of the Italian market on 31 August 2015 and the possible impact on the scheduled activities for the subsequent migration waves is being assessed. This solution for the migration of the Italian market is due to be approved by the ECB's Governing Council tomorrow.

Harmonisation agenda, CSD Regulation and capital markets union

Let me now turn to the other initiatives surrounding T2S, namely the harmonisation agenda, the CSD Regulation and the capital markets union project. In addition to the concrete benefits brought about by T2S, a push has been given to the European post-trade industry to harmonise market practice, rules and standards. This is a market-driven process that will enable T2S to realise its full potential, in terms of efficiency and achieving a level playing field. The market is in the driving seat, but the ECB strongly supports this initiative and provides the secretariat function. The objective is to create a single rulebook for post-trade processes, which will help contribute to financial integration in Europe.

On the regulatory side, remarkable progress has also been made with the adoption of the CSD Regulation. This new piece of EU legislation complements the operational integration provided by T2S and gives further momentum to the post-trade harmonisation efforts. It has removed a number of the barriers to reaching a fully integrated market and is thus very much welcome.

The next step forward will be the capital markets union (CMU), for which we have high expectations. If well designed and thoroughly implemented, CMU could bring significant benefits to the EU. T2S and the implementation of the CSD Regulation have already removed a number of the market infrastructure barriers. CMU has the potential to remove the remaining ones. Beyond market infrastructures, the aim of CMU should be to integrate financial markets in such a way that investors and issuers of financial instruments have equal access to these markets, under equal conditions. Similarly to the harmonisation agenda surrounding the development of T2S, CMU will require both market-led efforts towards greater harmonisation and legislative action to dismantle key cross-border barriers in a wide range of areas. This will help set the right framework conditions for these markets to develop and integrate. In fact, TARGET2 and T2S show that genuine integration, rather than mere coordination, is essential to have well-functioning markets which can fully play their role in supporting the economy.

Thank you for your attention. I am now looking forward to our discussion.