

Yves Mersch: The future of Europe's financial market infrastructure – the Eurosystem's Vision 2020

Speech by Mr Yves Mersch, Member of the Executive Board of the European Central Bank, at the Sibos conference, Singapore, 14 October 2015.

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Ladies and gentlemen, members of the panel,

The beauty of innovation is that it never ends. Even the best ideas can be enhanced and complemented. The Eurosystem, the euro area's network of central banks, has developed two major innovations in the field of financial market infrastructure over the past 15 years: TARGET (now TARGET2) and TARGET2-Securities, or T2S.

Both platforms have significantly improved the way payments and securities are processed in Europe. However, as we look to the future, we see room for further enhancements and consolidation.

As we think about where we want to go next, I should stress that our vision for market infrastructure integration is not, nor should be, ours alone. Following the success of our collaboration with the market during the development of T2S, we intend to take the same approach going forwards – to work together with the market to identify what its needs are and to draw on the expertise in both the public and the private sectors. Through collaboration we will define where European market infrastructure should be heading.

As we think about future innovation, allow me to look briefly at past innovations. The digital camera, the mobile phone and the internet were three revolutionary innovations of the last century. But the reason why so many of us now have a smartphone in our pockets is because the innovation did not end there – someone had the idea to combine these tools into a single device.

The Eurosystem's vision for 2020 is not so different. Over the coming years, we will seek to draw on the synergies between TARGET2 and T2S. One idea is to consolidate some components of the technical infrastructure and maybe even form a single platform. This will allow TARGET2 to benefit from some of the state-of-the-art features of T2S, such as the implementation of ISO 20022 standards. Migration to ISO 20022 in TARGET2 was originally planned for November 2017, but upon the banks' request, we have postponed implementation and will work together with the market, under the umbrella of our Vision 2020, to find the most appropriate method and timing for migration.

The enhancements we envisage for Europe's financial market infrastructure will benefit users from a technical perspective in that they will have access to all available services via a single gateway. Moreover, these enhancements will provide an opportunity to further increase the resilience of the system.

As regards the business benefits for users, we will seek to enhance the services currently provided by TARGET2, for example by further optimising liquidity-saving mechanisms. In addition, it could be possible to add statistical tools to support banks with their regulatory reporting.

In other words, just as new apps are constantly being developed for smartphones, so too will we be able to add new functionalities to the platform to meet emerging market needs and requirements. These functionalities will benefit from being designed for a single, harmonised platform.

As we consolidate the financial market infrastructure in Europe, another area requiring further attention is that of collateralisation. With increased regulation following the financial crisis, collateral requirements are higher than ever. This is why it is so important that banks and

financial institutions are able to manage their collateral in an efficient way and why the optimisation of liquidity-saving measures presents such a benefit to market participants. With T2S, it is now possible to have a single, centralised, pool of collateral, making it much simpler and faster to move collateral from where it is to where it needs to be.

This then brings to the fore the issue of harmonising our own collateralisation techniques and procedures. As we look to the future, the Eurosystem will seek to drive harmonisation forwards, particularly as regards Eurosystem operations for the mobilisation of marketable assets, as well as the handling procedures for non-marketable assets.

We live in a fast-paced world, and customers have come to expect instant services in all aspects of life, including from their banks. This is why part of our vision for 2020 is to support the development of pan-European instant payment services, so that customers can send and receive payments at the same speed with which they can send and receive e-mails. The Euro Retail Payments Board is a multi-stakeholder body which helps foster the development of an integrated, innovative and competitive market for retail payments in euro. This summer it mandated the payments industry to design a scheme for instant payment services by November 2015. The Eurosystem could also consider a possible service expansion in this context, at least on the settlement layer, in order to meet the needs of potential future instant payment providers.

TARGET, T2S and SEPA have been important milestones on our journey towards European integration. The Eurosystem's Vision 2020 will set out the next steps. The actions we take over the coming years will complement the European Commission's project to establish a Capital Markets Union in Europe – a project which the ECB and the Eurosystem fully support. In fact, T2S and its harmonisation agenda have already laid the groundwork for such a union. With the action plan published at the end of September, the European Commission has transformed its vision into concrete steps. I am confident that through our joint efforts and complementary initiatives we can deepen financial integration and complete the Single Market in Europe in a lasting way.

I have briefly outlined a few components of the Eurosystem's Vision 2020. Let me summarise the three main points:

- The Eurosystem is exploring synergies between TARGET2 and T2S, with the ultimate goal of achieving a consolidated Eurosystem market infrastructure.
- We are assessing new service opportunities arising from bringing the two infrastructures closer together. In particular, we are considering enhancements to the TARGET2 services in the field of instant payments.
- The Eurosystem will increase harmonisation of its own collateralisation techniques and procedures. We will also consider the business case for a common Eurosystem collateral management system.

As part of this morning's panel, we will delve a little deeper into this vision and will discuss some of the challenges we can expect the future to bring.

I would like to welcome the panel members and Marc Bayle who will moderate this session.