

Yves Mersch: The next steps in the evolution of the Eurosystem's market infrastructure

Opening remarks by Mr Yves Mersch, Member of the Executive Board of the European Central Bank, at the Eurosystem community session at Sibos, Geneva, 26 September 2016.

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Introduction

One year ago, the Eurosystem shared some initial reflections on the strategy for the future development of its market infrastructure. The rationale behind these strategic reflections was the need to keep pace with technological developments in line with the mandate of our Treaty to promote the smooth operation of payment systems.

Digitalisation of financial services

The digitalisation of financial services could result in new business models or products with disruptive potential in the financial sector. In particular, distributed ledger technology (DLT) has the potential to fundamentally change securities and payments business. However, this technology is still in its infancy. There are substantial functional, operational, governance and legal aspects which need to be carefully looked at before thinking about possible mass adoption. Hence, the Eurosystem cannot, at this stage, consider using DLT in the market infrastructure. Nevertheless, we are exploring whether its possible future use could bring benefits.

A multitude of different DLT approaches and models could jeopardise financial market integration by increasing fragmentation. Undue periods of market consolidation and standardization could hamper the smooth functioning of a Single Payments Area. We could be in a situation similar to the one that led to the establishment of T2S.

The next steps in the evolution of the Eurosystem's market infrastructure

The Eurosystem's strategic reflections on the future development of its market infrastructure centre around three components:

1. the consolidation of TARGET2 and TARGET2-Securities (T2S);
2. settlement services to support instant payments;
3. a Eurosystem collateral management system.

Now, these strategic reflections have entered into the next phase. Last week, **the Eurosystem decided to launch the investigation phase into these three components**. The aim is to **ascertain whether there is a business case for each**, to agree with the users on the scope of services and to prepare a cost-benefit analysis.

Let me say a few words now on each of the three components.

1. Consolidation of TARGET2 and T2S

TARGET2 and T2S are the cornerstones of the Eurosystem's market infrastructure for payments and securities settlement. But as they were developed at different points in time, they operate on separate platforms and use different technical solutions and environments. Hence, it is logical to seek to draw on the synergies between both systems. Modernising TARGET2, leveraging the possibilities which are already available in T2S and consolidating the technical and functional components of TARGET2 and T2S services are the primary objectives. The Governing Council strongly supports these objectives.

In addition, consolidating TARGET2 and T2S provides an opportunity to further improve cyber resilience, to enhance the services offered to users and to establish a single access channel. During the investigation phase of the project, which will run throughout 2017, we will follow up on this year's market consultation that was launched in February with the release of a consultative report on real-time gross settlement (RTGS) services.

2. Settlement services to support instant payments

For the Eurosystem, the biggest challenge of digitalisation in the payments industry is to ensure that the introduction of innovative payment products and services that are developed by the market does not reintroduce fragmentation into the European market. That is why the Eurosystem fosters the development and implementation of pan-European solutions.

One of the most prominent of these innovative services is instant payments. By November 2017 end-user solutions for instant payments in euro should be made available at pan-European level by payment service providers. This means that by November 2017 the European financial market infrastructure has to be ready to clear and/or settle instant payments on a pan-European scale. **The Governing Council has decided that it will launch and closely monitor an investigation with market participants on the necessity of extending settlement operating hours for a subset of its regular settlement services up to 24/7/365** to allow for real-time settlement of instant payments.

Instant clearing will be supported by the delivery of an enhanced TARGET2 functionality for the automated clearing houses. The project per se does not question the efforts of the ACHs to offer instant clearing. This is because instant clearing and instant settlement are complementary services (since the availability of instant settlement can make instant clearing less costly). It is true that they are also alternative services (since instant clearing may replace the need for instant settlement and vice versa).

Furthermore, the project is the best guarantee that a pan-European solution for the processing of instant payments will be available since TARGET2 is already a pan-European solution.

If deemed feasible, it is understood that real-time settlement of instant payments would be offered by the Eurosystem at full cost recovery. As this is a pressing topic, the aim of the investigation is to reach a decision on whether to go ahead with this by the end of the first quarter of 2017 in order to not delay the go-live of announced market initiatives.

3. Eurosystem collateral management system

As the euro area's banking and financial markets become increasingly integrated, demand for more efficient collateral management arrangements within the Eurosystem central bank community is increasing. To date, collateral management in the Eurosystem is rather fragmented as each national central bank has its own procedures and systems in place. As a consequence, some collateral management services are not provided in a fully harmonised manner.

As we look to the future, the Eurosystem will strive to drive harmonisation forwards, particularly regarding Eurosystem operations for the mobilisation of marketable assets, as well as the handling procedures for non-marketable assets, which still vary across the central banks. Furthermore, **the Eurosystem will investigate, throughout 2017, the business case for and the scope and cost of a possible common Eurosystem collateral management system** for managing eligible assets used as collateral in the Eurosystem credit operations.

Conclusion

The three components of the Eurosystem's strategy for the evolution of its market infrastructure

are interconnected, such as shared software components, shared network infrastructure, shared hardware components, the use of the future Market Infrastructure Single Gateway. At the end of the investigation into the business case for and the scope and cost of each one, a decision will be taken as to whether they will be developed into projects with different durations. You may rest assured that throughout the investigation and decision, we will live up to the Treaty and our mandate.

Thank you.
