

Yves Mersch: Comments at Financial Services summit

Comments by Mr Yves Mersch, Member of the Executive Board of the European Central Bank, at Cumberland Lodge Financial Services Summit, Windsor, 10 November 2016.

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Introduction

- ♦ Sustainable economic growth in the real economy depends on the soundness of financial services and their providers;
- ♦ This simple truth has been amply evidenced by the collapse of credit during the financial crisis and the subsequent recession. One important type of financial intermediary are central counterparties (CCPs);
- ♦ Second, the financial ecosystem is – like the rest of the world – experiencing rapid change due to technical innovation;
- ♦ I would like to give a clear signal that innovation should be embraced as the improvement of financial services can boost the real economy; but I also would like to give a warning that a certain level of caution is needed when technological innovations are applied to financial markets in order to avoid any negative consequences.

(i) Central counterparties

- ♦ CCPs are systemically relevant. They have been in the focus of regulators and central banks since the financial crisis.
- ♦ The growth in central clearing makes CCPs nodes for risk in the system. This is why we have carried out considerable work at international level to promote that they operate in a safe and resilient manner.
- ♦ In 2012 global standard setting bodies (CPMI-IOSCO) adopted key risk mitigation requirements – the Principles for Financial Market Infrastructures – which raised the bar worldwide for CCP supervision. A global CCP work plan has recently been launched to further strengthen the resilience, recovery planning and resolution of CCPs, which will lead to further guidance being released in the near future.
- ♦ Under EU law, each CCP is overseen by a college of supervisors, involving all authorities that have a relevant interest in its prudent risk management. The colleges act as forums for information-sharing, ensuring a high level of transparency in the way CCPs operate, which can prove especially valuable in the event of a crisis.

Brexit creates uncertainty, and raises doubts as to the future of this framework

- ♦ The prospect of the UK's exit from the EU creates uncertainty regarding the future of the supervision of non-euro area CCPs that clear significant amounts of euro currency.
- ♦ We do not know what the future relationship between the EU and the UK will be, and I do not wish to speculate on this matter.
- ♦ We cannot be complacent with regard to the regulatory, supervisory and oversight framework for financial market infrastructures. While it has been considerably enhanced and strengthened since 2008, its continued development should be ensured when necessary.
- ♦ We are ready to explore all options within our mandate to ensure we can continue to fulfil our responsibilities under the Treaty, i.e. promoting the smooth operation of payment systems and ensuring the effective transmission of monetary policy, for which the stability of the centrally-cleared repo segment of euro money markets is crucial.

(ii) Technical innovation

- ♦ Let me now turn to the second point. How the financial ecosystem is experiencing rapid change due to technical innovation.
- ♦ The Eurosystem is responsible for operating two of the systems that form the backbone of financial markets in Europe, namely TARGET2, the real-time gross settlement system for the euro, and TARGET2-Securities (T2S), a service for the integrated settlement in central bank money of securities transactions. The smooth operation of these services is crucial for maintaining confidence in the euro and to support monetary policy operations. Furthermore, it plays a central role in ensuring the stability of the European financial system and in boosting economic activity.
- ♦ The Eurosystem market infrastructure is designed to meet the highest levels of safety and efficiency. Efficiency covers multiple dimensions: of course it means low costs for institutions that use the infrastructure, but it also implies the opportunity for them to benefit from a range of functionalities that bring added value to the services offered along the value chain.
- ♦ The Eurosystem is continuously looking for ways to improve the efficiency and lower the costs of its market infrastructure. It also considers how best to respond and take advantage of technical innovation and meet new user needs, while staying ahead of evolving risks such as cyber risk. In this regard there is also a need to assess if technical innovation can create opportunities to improve financial services.
- ♦ Nevertheless, a certain level of caution is needed when technological innovations are applied to financial markets. For innovations to be used in the financial system an essential requirement is that they are proven safe in order to avoid any negative consequences. Consequently, if and when innovations are proven to enhance the provisions of financial services without harming safety, they should be explored.

ECB working as a catalyst for market integration

- ♦ As a public authority the ECB will keep a watchful eye on technical innovations and assess their possible impact on financial markets. We do this work together with standard setting bodies.
- ♦ The first condition is that innovations are proven to be safe before they find their way into the market.
- ♦ Second, it is equally important to ensure that innovations are adopted to increase efficiency instead of becoming a hurdle to financial integration and efficiency. In its catalyst function, the ECB uses its position as “honest broker” to facilitate the harmonisation of standards among market participants and the interaction of the industry with other public authorities.
- ♦ The ECB stands ready to work together with all interested parties in its catalyst capacity to move towards interoperability of any developed services.

Thank you.