

Carl-Ludwig Thiele: Closing remarks - Focus Session by the European Central Bank and Deutsche Bundesbank

Closing remarks by Mr Carl-Ludwig Thiele, Member of the Executive Board of the Deutsche Bundesbank, at the Focus Session by the European Central Bank and Deutsche Bundesbank, Frankfurt am Main, 28 March 2017.

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Ladies and gentlemen

You were invited to this Focus Session today by the European Central Bank and the Deutsche Bundesbank. As is customary at these sessions, discussions centred around our common objective of improving the security and efficiency of payments and securities settlement operations.

A joint task is most certainly what this is, in our opinion. It is for that reason that we seek to promote dialogue between central banks and market participants and between infrastructure providers and users. You will be aware, I imagine, that the term “central bank” originally came about on account of the central role which the institution plays in the world of payments. The other functions performed by central banks – issuing currency and acting as the lender of last resort – didn’t come along until later.

That central role is one we continue to perform to this day. And I don’t mean that in the sense of being a central agent wielding control over developments, but more in terms of bearing a high degree of responsibility for efficiency and security in the payments and settlement space.

Our mission is to serve the market with secure and efficient infrastructures. And with a stable currency and robust supervision, too, of course.

The most important asset we can draw on in this regard is trust. And trust is forged by acting credibly and transparently and in the spirit of mutual understanding. Technology alone will not nurture trust – I’m certain of that.

That’s why events like today’s, which promote lively interaction, are so important to us. What can we take away from today’s Focus Session?

1. What does the market need?

We spoke today about the needs of the market.

One major talking point, of course, was instant payments. The market consultation on TIPS, which will pave the way for settling instant payments in safe central bank money, was the cue for our discussion today.

I would use the words approving and encouraging to sum up the outcome of the consultation. Judging by your market responses, I am confident that we can come up with solutions which will also be attractive in terms of the cost of settlement.

One major hurdle which instant payments face is the question of liquidity management. In addition, due to the new regulations and due to the general interest in reducing exposures markets will need more collateral in the future.

That is why the Eurosystem will roll out solutions which help the market cope with the liquidity

challenges.

Our thoughts are not confined to the Eurosystem, of course. Multi-currency capability is an enduring system feature which might prove worthwhile in the integration of European markets, for example.

The issue of TARGET2 and T2S consolidation was another area in which we discussed the outcome of the consultation. Ladies and gentlemen, your numerous contributions today were insightful and thought-provoking. The Eurosystem is currently liaising with the potential users of our services to formulate a set of user requirements. We cannot, of course, make every wish come true, nor would it be right for us to do so, because at the end of the day, we are a provider that needs to cover its costs, and those wishes will have to be paid for.

The trick will mainly be to use consolidation as a way of driving down costs. Investment in consolidation will push costs higher initially, but over the medium-term horizon, it will yield significant savings in the running of T2 and T2S.

All our projects can't go live overnight, of course, and building Rome in one day is something we can't be expected to achieve, either.

2. Technical innovation

Another topic we spoke about today was innovation and transformation. There are a great many technological innovations which could potentially unleash change in the market. Blockchain, distributed ledger technology, cloud computing, big data analytics and artificial intelligence are already firmly established in the way we think and, in some cases, how we act, too.

Plato once said that "necessity is the mother of invention". But in the case of blockchain, it is the exact opposite we are seeing. The invention, ie blockchain, has already been born. Now people in many quarters are looking for the necessity – that is, for specific areas where it can be put into practice.

The initial sense of euphoria over the potential which blockchain and distributed ledger technology offer has now given way to disillusionment over the problems surrounding their practical implementation.

Central banks, too, are testing a variety of ways in which the potential offered by blockchain can be harnessed. At the Bundesbank, it's all about moving further along the learning curve. We are running hands-on, practical experiments to explore whether, and if so, how, a blockchain-based application can feasibly be used to settle securities transactions.

The prototype we have developed in conjunction with Deutsche Börse works. It can settle payments, both delivery-versus-payment (DvP) and free-of-payment (FoP) securities transactions, and it can process straightforward capital measures such as interest payments and redemptions of maturing bonds.

The challenge we are facing now is to engineer the prototype to a degree that yields robust insights into its performance. Being a provider of market infrastructure, we are naturally curious to know whether the technology is scalable, what it will really cost when it's up and running, which technical issues might crop up when settling large numbers of trades, and much more besides.

In our view, it has not yet been proven beyond doubt that blockchain-based settlement systems are superior to the methods in use today. That's why we're open-minded about this issue – as I said earlier, we are looking to learn more. But we're not looking to compare apples and oranges,

hence our efforts to base the experiment on today's real-world conditions. Blockchain needs to fit into the real world, not vice versa.

Earlier on, I mentioned the sense of disillusionment which has now clouded many blockchain projects. But let me reiterate our commitment to exploring these issues with an open mind – it would be wrong to overlook any opportunities that might arise.

Just remember: the first motorised seagoing vessels lagged behind the fastest sailing boats of the day. But field testing improved that technology to such an extent that no-one today would seriously regard sailing boats as a realistic means of transporting goods by sea.

Remember, too, that we tend to follow set behavioural patterns and pigeonhole issues according to our existing business models and processes. It might be that we don't yet grasp the merits of a new technology because they only really come to the fore in different business models or processes. Perhaps merely discussing the new technology will spark the emergence of new business models and more efficient settlement models.

In short, new technologies – and by that I mean blockchain and beyond – offer opportunities which we need to explore with an open mind, but without losing touch with reality.

3. German market migrates to T2S

T2S showed us just how complex innovations can be in the settlement world. We all breathed a huge sigh of relief when the German market, with its central securities depository Clearstream Banking AG, migrated to the single shared platform (SSP) as scheduled at the close of business on 6 February 2017. Transition work went smoothly, as did the first days of business.

It truly was a resounding success – a masterpiece in cooperation across an entire industry. It's always the case that success has many fathers, and that *bon mot* really is quite apt when it comes to the settlement of securities which, after all, is a network industry.

Every single stakeholder – the 4CB, Clearstream, all the banks and other customers of Clearstream – had to migrate simultaneously and adjust their systems accordingly. That's why thanks are also due to everyone involved. I firmly believe it was an impressive accomplishment.

All in all, 18 central securities depositories and their markets have now migrated to T2S since the platform was launched in June 2015. This means that T2S is a major step closer to the vision of it becoming a hub for European securities settlement.

This migration was particularly noteworthy because the size of the German market effectively doubled the volume of business settled via the T2S platform.

T2S has demonstrated that it can cater for whatever standards market participants expect a European securities settlement platform to meet.

For German market participants, the SSP not only eases settlement by standardising and harmonising procedures but also offers them opportunities to optimise their liquidity and collateral management.

4. Invitation to reception

Ladies and gentlemen

Today's Focus Session was a very special one for me. We made a conscious decision to host this session, following the German market's transition to T2S, here in Frankfurt am Main. The migration of Wave 4 to the SSP marks a huge step forward for each and every one of us. Of course, that's an achievement we need to celebrate.

However, today's session did more than just dwell on past achievements – we also looked to the future and the challenges it holds in store. Because as a Chinese saying goes, the roads of tomorrow must be built today.

We, the central banks, organised this Focus Session for you, the market participants. You engaged with us, and you debated with us. Thank you all for getting involved. My gratitude also goes out to all those who made our Focus Session such a success – everyone who spoke and participated in discussions, and of course the many helping hands in the background whose job it was to prepare and organise today's event.

Ladies and gentlemen

Securities settlement and payments are a network industry. What would be more apt, then, to network at a joint reception to which you are now all cordially invited.

Join me there in celebrating the successful migration of the German market to T2S.

Thank you for your attention.