

Yves Mersch: Keynote speech Euro Finance Week

Keynote speech by Mr Yves Mersch, Member of the Executive Board of the European Central Bank, at the 18th Euro Finance Week 2015, Frankfurt am Main, 18 November 2015.

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Ladies and gentlemen,

It is my pleasure to welcome you to the Euro Finance Week and to today's three conferences. Depending on which conference you will be attending, you will be focusing on TARGET2-Securities, payments or the digital revolution in banking. However, clearly, **all three of these topics are very closely related and are all big issues right now in Europe and for the Eurosystem.**

This morning, I would just briefly like to mention **two big initiatives** in Europe for which each of these three topics are highly relevant: the capital markets union and the Eurosystem's vision for 2020.

Initiative 1: CMU

The capital markets union, or CMU, will **boost private risk-sharing across borders, making public risk-sharing less necessary and giving greater protection to taxpayers.** The ECB and the Eurosystem fully support the development of a European capital markets union and welcome the action plan published by the Commission on 30 September. In this action plan, the Commission has detailed the concrete steps needed to achieve the goal of CMU.

Of course, one ingredient that is essential for capital to flow quickly and efficiently around Europe is a strong market infrastructure. This is where **the Eurosystem has already laid the foundations for the capital markets union** with the development of TARGET2 and, most recently TARGET2-Securities, or T2S.

TARGET2 is the long-established interbank payment system processing cross-border payments in real time. T2S is Europe's new single securities settlement platform. It went live on 22 June of this year. **T2S moves us closer to the goal of CMU** because it enables banks to hold a centralised pool of collateral, **making it easier to move capital** around to where it needs to be. The post-trade harmonisation agenda that accompanied the development of T2S has **also removed many of the barriers to efficient cross-border clearing and settlement** – with many of the remaining ones having been taken up under the Commission's action plan.

The financial crisis hit the financing of SMEs particularly hard. This is why **the ECB and the Commission are fully behind measures that make it easier for the European SME sector to gain access to financing.** In addition to the CMU proposal, other policies that support the competitiveness of European SMEs relate to integration and innovation in the retail payments market, particularly for payments in euro. The establishment of the Single Euro Payments Area (SEPA) has given Europe **harmonised and efficient payment methods that help facilitate growth for SMEs.** Innovative retail payments services such as instant payments, a topic I will further address in a few moments, can free up cash flow and improve liquidity.

Looking to the future, a strong market infrastructure within a capital markets union moves us closer to a true Single Market in Europe and further integration in the euro area. This is why the Eurosystem fully backs the creation of CMU. **We welcome the early actions laid out in the Commission's action plan and believe sustained effort and an ambitious agenda will be required beyond these initial steps, together with a long-term vision,** in order to make full CMU a reality.

Continuing to look ahead, I would now like to turn to the second initiative I mentioned at the start.

Initiative 2: Our vision for 2020

This second big initiative currently underway is the Eurosystem's vision for 2020 – our strategy for market infrastructure that is to be progressively developed and delivered over the next five years.

I would like to briefly outline **the three main pillars of the Eurosystem's vision for 2020**, which summarise what we want to achieve over the next five years in the field of market infrastructure.

The first point of action is to **explore synergies between TARGET2 and T2S**. We will consolidate the technical infrastructure so that TARGET2 can benefit from state-of-the-art features currently available in T2S. We will adapt both platforms to keep up with technological change.

The second goal under our vision is to **develop a pan-European instant payments solution**. Digitalisation is changing consumers' expectations and people are right to ask themselves why, if they can send an email to the other side of the world in a split second, do they have to wait hours or even days for a bank transfer to go through. It is true that some national solutions have emerged, but they do not have pan-European reach.

To prevent silos and closed loop solutions, the Eurosystem envisages that instant payment services should be built on three layers: the scheme layer, the clearing layer and the settlement layer.

A common scheme for instant payments should harmonise how payment service providers interact with their customers and with other payment service providers. We are expecting the Euro Payments Council to deliver its proposal for the design of a SEPA credit transfer scheme for instant payments by next week. Although the scheme will not be legally binding, we expect that payment service providers that want to offer instant payments in euro based on credit transfer will adhere to the new scheme. There should be no national solutions protecting specific market actors.

Regarding the clearing layer, the question that has to be tackled is what kind of infrastructure will provide a viable solution for pan-European instant payments throughout the Single Euro Payments Area. On the one hand, we might want to avoid the emergence of a monopoly; on the other, interoperability between clearing infrastructures for instant payments could prove very challenging.

With regard to the settlement layer, the Eurosystem will enhance TARGET2 services in the field of instant payments. While following this three-layer approach for instant payments, we are fully aware that distributed ledger technologies, of which Blockchain is probably the best-known example, have the potential to have a profound impact on both the payments and the post-trade industry. Can they make our industry more efficient? This will be discussed in some of today's panel sessions and I am looking forward to hearing your views.

Coming back to the three main pillars of our vision, the third aspect is the **harmonisation of collateralisation techniques and procedures**. Collateral management has become increasingly important since the financial crisis. The Eurosystem will look to harmonise and optimise its own internal procedures to make assets available for banks for intraday credit operations in TARGET2 and for monetary policy operations. If the harmonisation agenda is successful, we will consider the business case for a common Eurosystem collateral management system to ensure that our service keeps up with technological change.

Exploring synergies between TARGET2 and T2S. Developing a pan-European instant payments solution. Harmonising collateralisation techniques and procedures. These are our three key objectives for the immediate future. We have seen the great value of working together with the market to develop solutions. As we now work towards making this vision a reality, **we will do so in close collaboration with the market**, as we did with T2S, benefitting

from its unique viewpoint and enabling us to ensure Europe's market infrastructure is tailored to meet the needs of the market.

Conclusion

In conclusion, I have mentioned two big initiatives – the capital markets union and our vision for 2020. We have achieved much, but there is still a great deal left to do.

These projects are good for Europe and good for its citizens. Why? Because if we achieve a capital markets union, supported by strong infrastructure, we will unlock funding across the European Union, creating stronger businesses, economic growth and greater financial stability. It will make the EU a more prosperous place.

This morning I have touched on issues that will be discussed in much greater depth during all three of today's conferences. I would like to take the opportunity now to wish you all a very enjoyable day, with many thought-provoking discussions and seminars.

Just before I close, I would like to repeat what I said earlier this week in Paris: that I am deeply shocked by those atrocious attacks. I, again, express my solidarity, my compassion, and my sincere condolences to the families and friends of the victims.

I would also like to mention that we should shy away from drawing premature conclusions about whether the terror attacks will have any economic impact. We have no indication of any economic pessimism as a result of the Paris attacks, let alone weaker hard data. Doom-and-gloom talk is not warranted at this stage.

Thank you.