Yves Mersch: Shaping the future of Europe's financial market infrastructure

Opening remarks by Mr Yves Mersch, Member of the Executive Board of the European Central Bank, at the Information session on the consultative report on RTGS services, Frankfurt am Main, 22 March 2016.

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Introduction

In my opening remarks I want to address three issues. First, I will set out the main drivers of change that have been shaping Europe's financial market infrastructure in general and the RTGS system in particular. Second, I will address the consequences of these drivers for change that the Eurosystem will have to tackle in its roles as operator, overseer and catalyst. And third, I will present the Eurosystem's concept for evolving its market infrastructure beyond 2020.

1. Key drivers of change in Europe's financial market infrastructure

Change in Europe's financial market infrastructure landscape has been driven by two big objectives: integration and increasing efficiency. With the advent of the euro as a common currency, integration was at the heart of the Eurosystem's strategy for building its RTGS system and the Correspondent Central Banking Model (CCBM) in the 1990s. The elimination of differences between national and cross-border retail payments in euro was a key ambition behind the creation of the Single Euro Payments Area (SEPA). Last but not least, T2S, the single pan-European platform for securities settlement in central bank money, has consolidated the most fundamental part of the securities value chain: settlement. We are now seeing market consolidation in trading and clearing as well.

In parallel to the efforts to move towards an integrated market infrastructure, the Eurosystem has taken steps to increase the efficiency of its market infrastructure. This has been facilitated by technological progress and innovation. At the same time, we have to take into account that digitalisation and the social diffusion of real-time information and communication has fundamentally changed end user expectations. Access to and use of financial services anytime, anywhere, via multiple devices/access channels is taken for granted now. This not only has consequences for the service layer, but also for the underlying clearing and settlement layers. A further impact on certain functionalities within the market infrastructure may be expected from distributed ledger technologies (DLTs). We are committed to analysing whether these technologies could lead to lower costs and a more resilient market infrastructure. But we also have to consider how they may affect financial intermediation in general, the role of banks and other market participants, as well as our rules and procedures as regulators.

2. Consequences for the central bank in its three roles as operator, overseer and catalyst

The Eurosystem fulfils its statutory task of promoting the smooth operation of payment and settlement systems in three distinct roles: as operator, overseer and catalyst. These three roles are not going to change. What does change is what we need to do in each role.

As an operator, the Eurosystem is committed to assessing the opportunities presented by new technologies to enhance the different services it provides to the financial services community. The current exercise of consolidating the two infrastructures operated by us is an excellent starting point for this. With this exercise, we aim to bring benefits to TARGET2 end users by offering them the state-of-the-art features available in T2S. We are convinced that increasing the efficiency of our market infrastructure will ultimately support the efficiency of the financial services community.

As an overseer, the Eurosystem needs to arrive at a common understanding of which developments could potentially affect the overseen entities. The digitalisation of the financial industry means that the security requirements for the overseen instruments and infrastructures need to be adapted and enhanced accordingly. Furthermore, the emergence of new service providers requires reflection on issues such as how to ensure a level playing field for newcomers and long-established players, as well as an appropriate level of protection for the users. Service providers from outside Europe offering global solutions present a further challenge that has to be tackled. Last but not least, the effects of digitalisation and new technologies also need to be studied in the context of cyber resilience, in both our operator and overseer functions. The objective continues to be to have resilient infrastructures and smoothly functioning payment systems which guarantee the proper transmission of monetary policy.

As a catalyst, the overarching goal is still to fulfil our tasks as laid down in the Treaty and to support the creation of truly single European market for payments and securities. We strongly believe that the Single Market brings improvements in efficiency and contributes to economic growth. Hence, our main focus here is to ensure that technological innovation does not lead to disruption or re-fragmentation in the market.

3. The Eurosystem's vision for evolving its financial market infrastructure services

To address the need for Europe's financial market infrastructure to continuously evolve and keep pace with market developments and technological progress, the Eurosystem has developed three key action points it will work on in the run up to 2020 and beyond.

The first, which we are here to discuss today, is to explore synergies between TARGET2 and T2S, with the goal of achieving a consolidated market infrastructure for large-value payments and securities settlement.

The second action point is to prepare for the enhancement of TARGET2 services with instant retail payments, at least in the settlement layer. Currently, business requirements for the settlement of instant payments and credit risk management across payment systems are being gathered from market participants. We also need to assess whether interoperability arrangements between automated clearing houses can ensure full pan-European reachability for instant payment scheme participants in the EU and if and to what extent risk mitigation measures have to be harmonised across automated clearing houses to facilitate interoperability.

Third, there are plans to review the harmonisation of Eurosystem arrangements and procedures for collateralisation. Further progress is needed in this area before the business case for a common Eurosystem collateral management system can be reconsidered.

Conclusion

Europe's financial market infrastructure has been built on the basis of a collective approach, driven jointly by the public and the private sector. In all three action points for the market infrastructure beyond 2020, the Eurosystem will continue to work closely with the market in order to benefit from its knowledge and experience as well as to ensure that Europe's future financial market infrastructure fully meets the needs of its users.

Please have your say – whether today in this information session, in the existing users' fora or by written procedure. Your input is needed. Let us jointly write the script for the future of the Euroystem's RTGS services.

With this, I hand over to the Chair of the meeting.