

Yves Mersch: Reaching for perfection – building the market infrastructure of tomorrow

Opinion piece by Mr Yves Mersch, Member of the Executive Board of the European Central Bank, published in Eurofi Magazine, 7 September 2016.

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Last year the Eurosystem launched TARGET2-Securities, or T2S, a pan-European platform for securities settlement in central bank money. This is a major advancement in Europe's securities infrastructure, allowing banks to carry out cross-border securities transactions in the same way as they make domestic transactions, and at lower cost. It also enables banks to manage their collateral more effectively by creating a single, centralised pool of liquidity. With T2S, banks can move collateral quickly and easily to where it is needed, rather than it getting blocked in local markets where it is not being used.

T2S is just one part of the infrastructure that forms the backbone of Europe's financial market. The Eurosystem has been working hard over the last decade to ensure this infrastructure is sound and efficient. What's more, it forms the foundations of the capital markets union (CMU) by providing the technical network through which capital can move freely around the EU. The free movement of capital means greater access to financing for Europe's businesses and more diversified investment opportunities for investors. Continuing with the example of T2S, this platform makes it much easier for a bank based in Portugal, for example, to buy securities in Latvia and to use them as collateral for transactions in France. T2S therefore makes it technically and physically possible to achieve the objectives of CMU: mobilising capital wherever it is found in the EU.

Moreover, the Eurosystem's work to build a strong financial market infrastructure has been the trigger for regulatory change in Europe. For example, as T2S was being developed, it became clear that greater harmonisation across borders would amplify the benefits of the securities settlement platform. T2S has thus driven an extensive harmonisation agenda, bringing together the market to align rules and practices. The CSD Regulation laid down harmonised rules and requirements, which have created a more level playing field in the post-trade arena.

Despite all the work done so far, new challenges are constantly emerging that require the Eurosystem to adjust and enhance the financial market infrastructure further. Even a safe and efficient market infrastructure can be enhanced and complemented with additional functionalities and features. For example, as digitalisation changes the way the financial industry operates, so too must the infrastructure which supports it adapt to the ever-changing environment. The Eurosystem is keen to embrace the opportunities that these changes bring to provide new and enhanced services and functionalities.

One innovation currently being investigated by the Eurosystem is distributed ledger technology (DLT). DLT offers the possibility to share records of information across defined networks, which could potentially revolutionise the way asset ownership is recorded or how products are ordered and delivered. It is, however, still a very new technology requiring further testing, which prevents, for example, large-scale use within the Eurosystem's market infrastructure. However, the Eurosystem is currently assessing and reflecting what its potential impact on the financial market infrastructure could be and what possibilities it could present in terms of new services.

The Eurosystem is also currently looking into ways in which the three cornerstones of the financial market infrastructure – money, collateral and securities – could be brought closer together to improve efficiency. For example, a market consultation has been held to ask the market for its views on ways in which TARGET2, the Eurosystem's real-time gross settlement system, and T2S can be streamlined to increase overall effectiveness, potentially

by creating a single interface for both systems. The Eurosystem greatly values the input of the market itself and experience has proven that this combination of public and private partnership produces the best possible results.

Innovation is not a threat to the existing infrastructure, but an opportunity to make it even better. That is why the Eurosystem welcomes innovation in all areas and why it will continue to stay abreast of changes in the market in order to ensure it is delivering the safest, most efficient infrastructure possible.