

T2S: Settling without borders in Europe

**Panel discussion: Lessons from regional or sub-regional
integration of payment and settlement systems**

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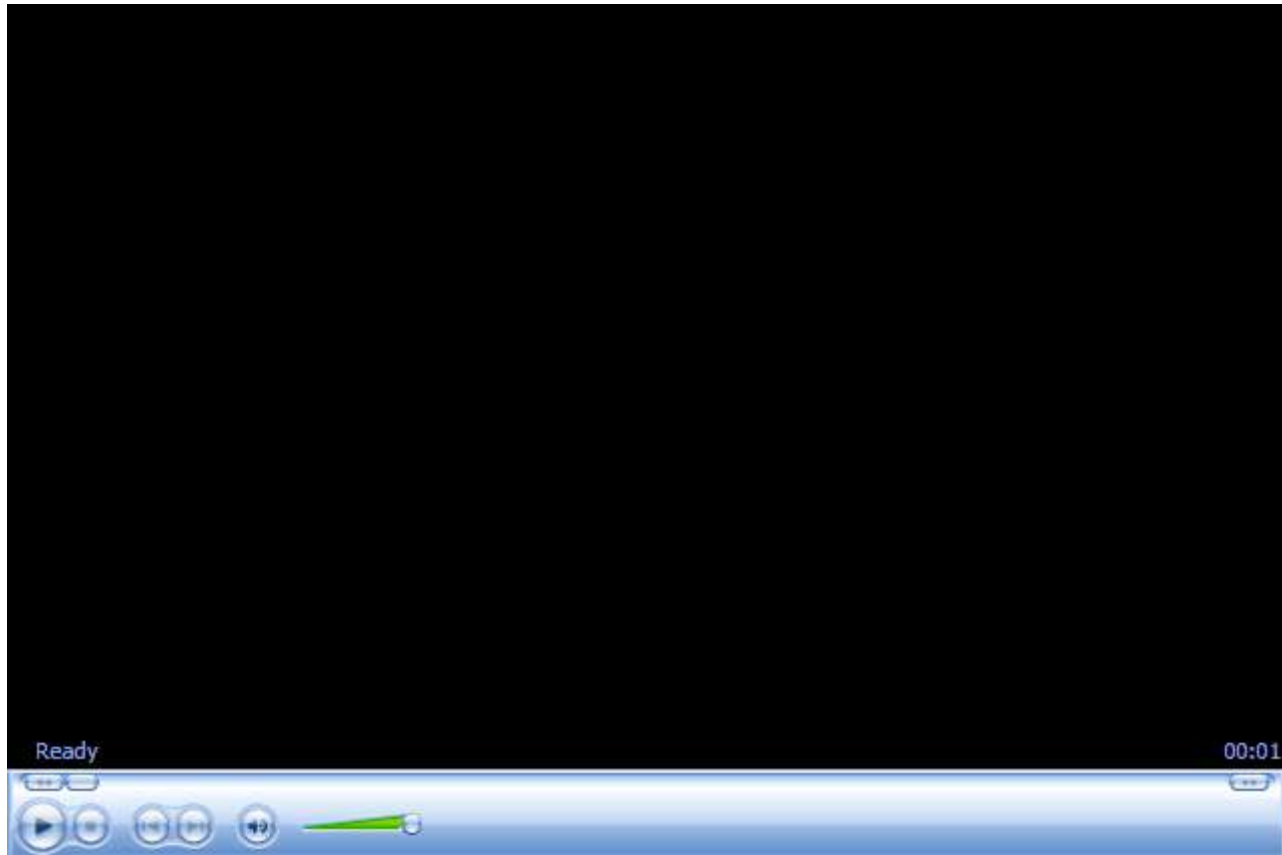
“It’s about time. It’s about change.”

Barack Obama, 2008



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What is T2S?



Scope of T2S

T2S is not a CSD but a service offered to CSDs for settlement only!

Type of intermediation

Notary function

Registration of
issuer indebtedness
and investor holdings

issuer / investor

Custody and asset-
servicing function

e.g. coupon payments,
redemptions, stock splits

**Settlement
function**

**Change of ownership
among investors**

buyer / seller

Banking function*

e.g. lending
and borrowing

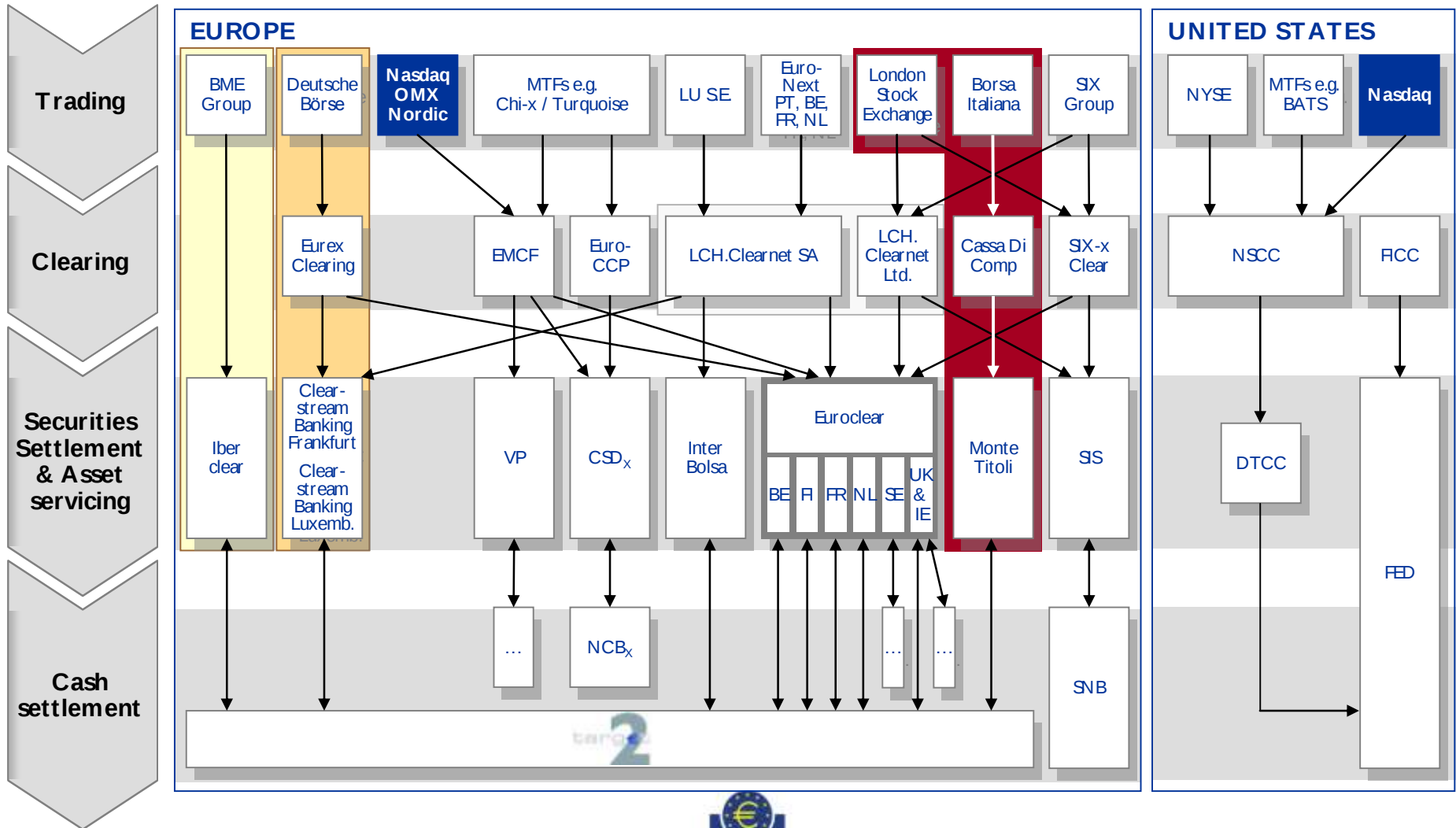
lender / borrower

*only in some (I)CSDs

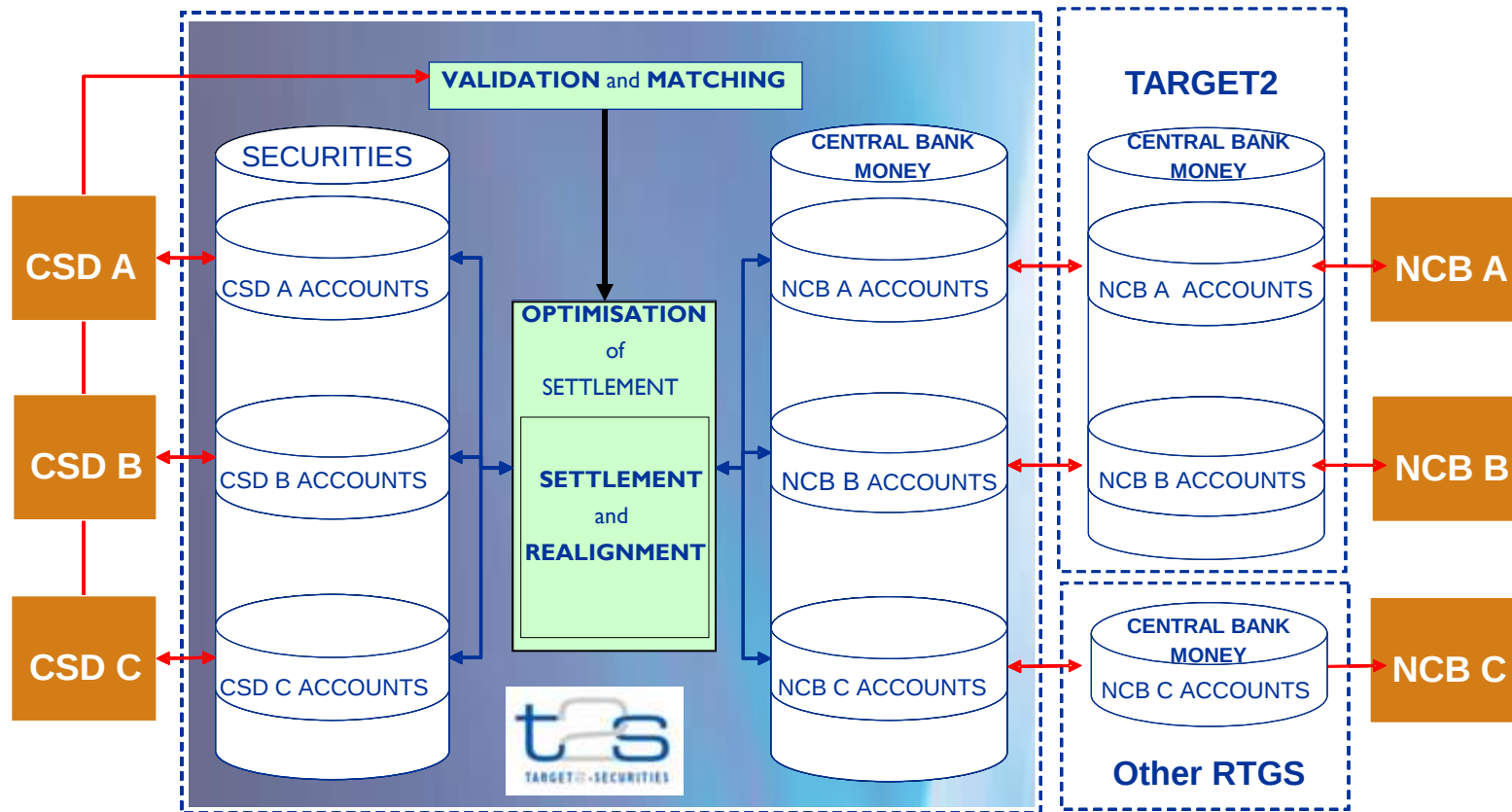


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Fragmented infrastructure



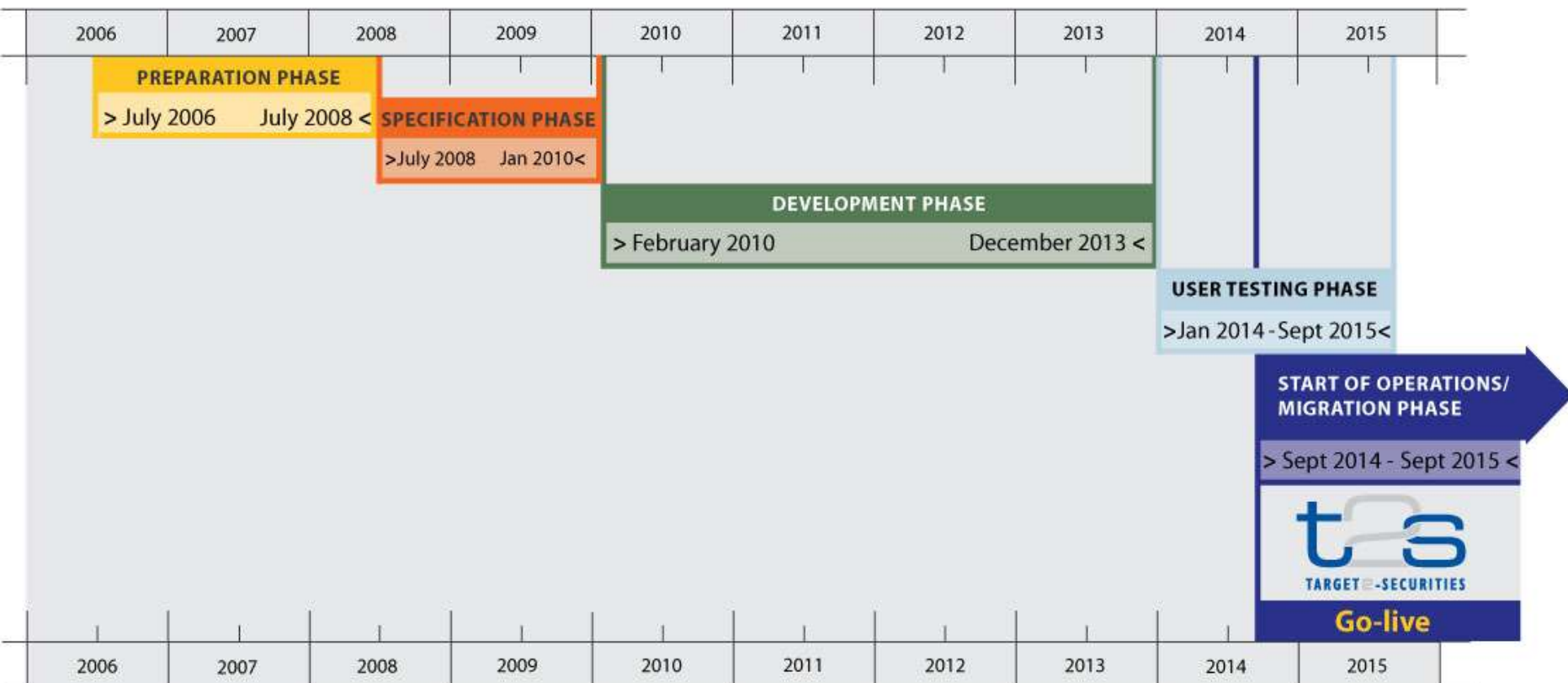
T2S: how will it work?



T2S will bring on one technical platform all securities and cash accounts to settle all securities transactions in central bank money

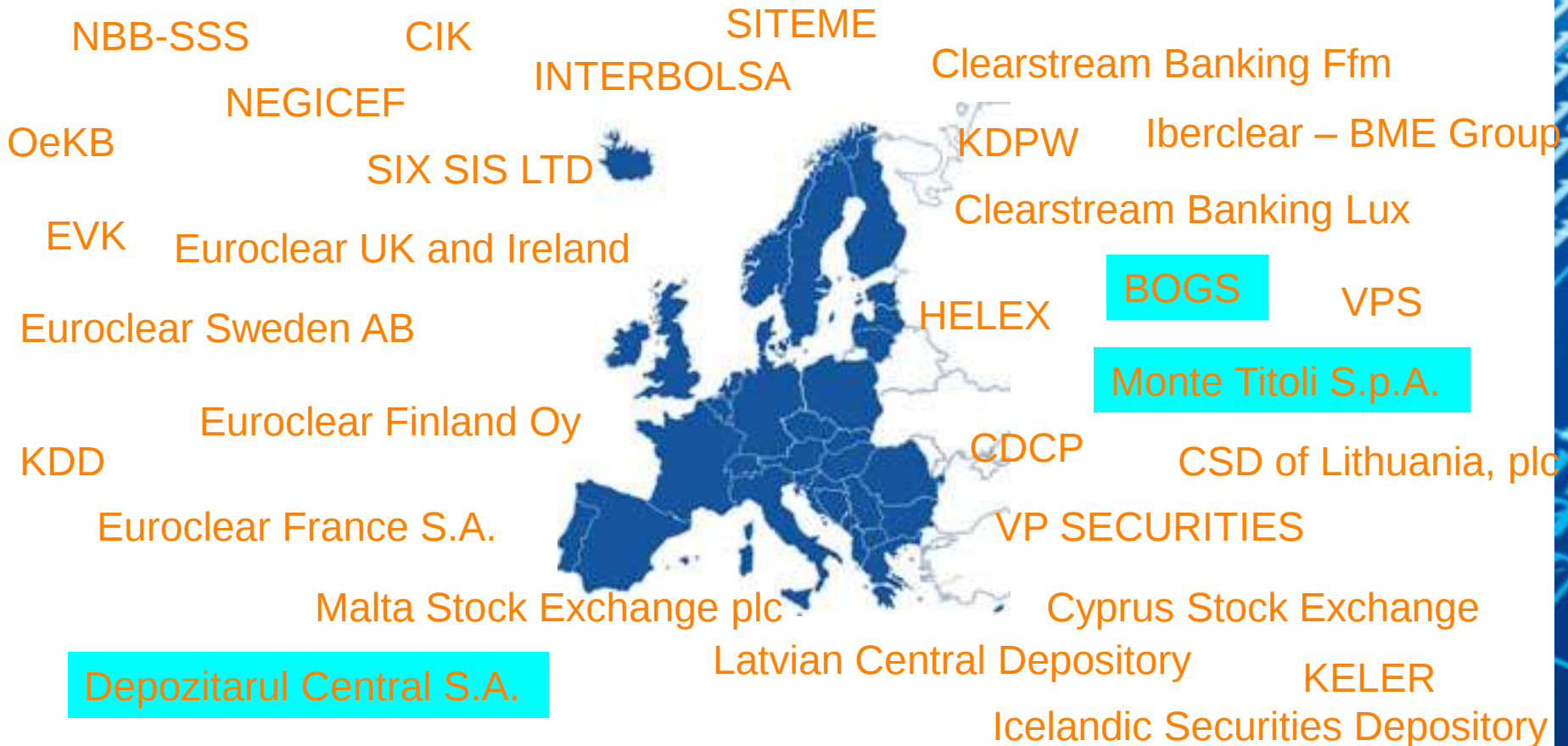


T2S project plan



T2S community

30 CSDs are working towards joining T2S



**Settlement in euro and the
three Scandinavian
currencies**

“Yes, we can.”

Barack Obama, 2008



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T2S: lessons for regional integration

T2S experience:

- business case for an integrated system?
- organisational and operational challenges
- management of liquidity and settlement risks



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Business case for an integrated system

- Settlement will take place in real time and in **central bank money**
- **Cross-border settlement** will become as cheap and safe as domestic settlement
- T2S will bring about liquidity, collateral and back-office savings
- T2S will be a **multicurrency** platform, extending beyond the euro area: general concept applicable also to regions where no monetary union is in place
- T2S will harmonise settlement-related aspects, but also trigger **harmonisation** in other fields, complementing other regulatory and market initiatives for making the European market more integrated and competitive at the global level
- T2S will open up the European market for **competition**, thus creating new business opportunities and benefiting everyone, from CSDs to end investors



Why is the Eurosystem suited to run T2S?

- Settlement in **central bank money** one of its core functions
- Commitment of the Eurosystem to **efficient and integrated financial markets in the EU**
- Private initiatives proved unlikely to deliver an integrated market infrastructure for all Europe (too many different business models and market practices)
- **Neutrality** of the Eurosystem as a supranational organisation
- Possible **facilitator** in balancing different requirements
- **No own economic interest**, cost recovery principle
- TARGET and TARGET2 **experience** in successfully designing and implementing Europe-wide infrastructures



Organisational and operational challenges

➤ **GOVERNANCE**

- how to involve all types of stakeholders in order to build a system capable of evolving according to market needs and ensuring a level playing field
- Particular challenges in negotiating conditions with CSDs (that need to retain control over their securities accounts) and non-Eurosystem NCBs (which need to preserve their monetary policy and financial stability prerogatives over their currencies)

➤ **PRICING OF T2S SERVICES**

- Recent decision to set the price of a DvP instruction at 15 euro cent

➤ **RESHAPING OF CSD INTERNAL SYSTEMS FOR INTEGRATING T2S**

- Ongoing debate with CSDs on how they can reshape to T2S without redundant replication of systems and data, to the benefit of their users

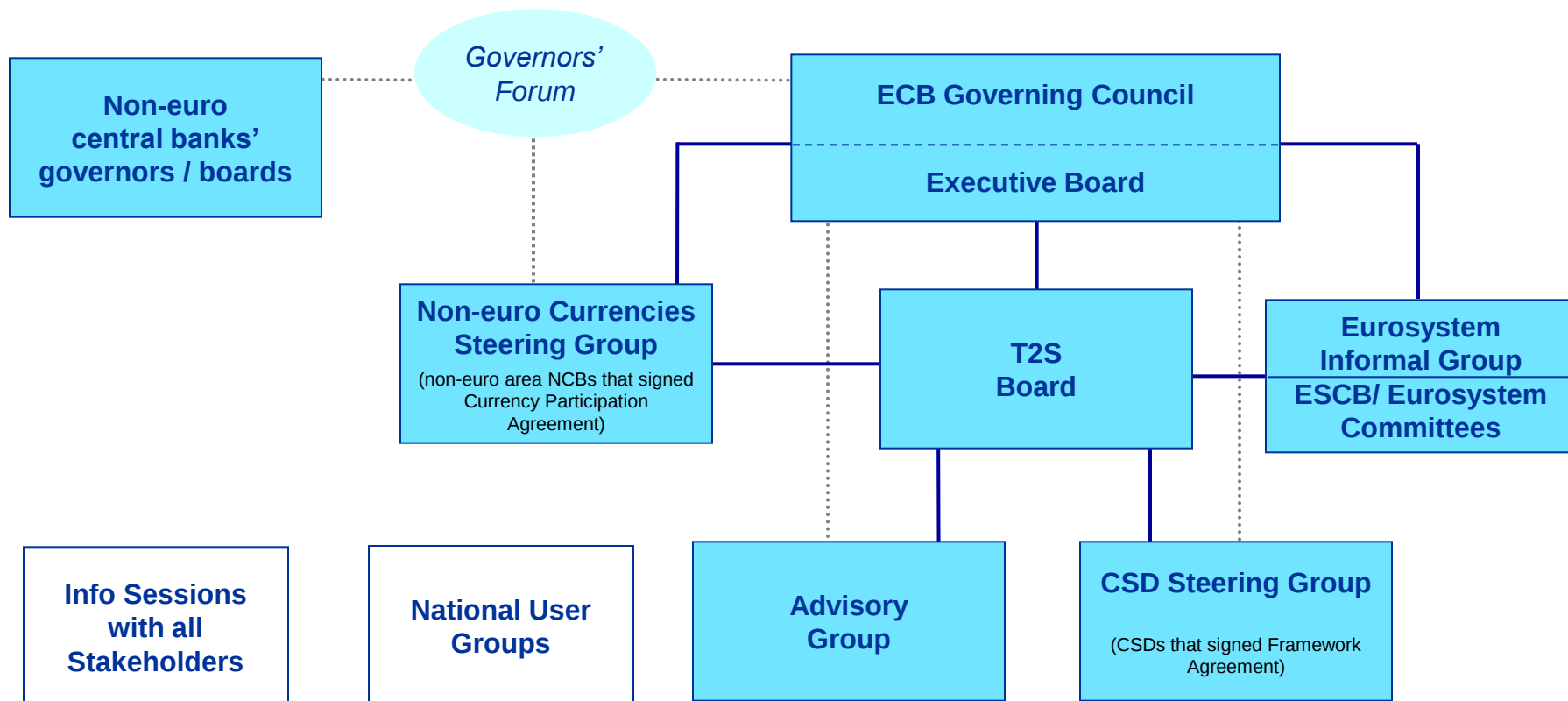
➤ **HARMONISATION OF MARKET PRACTICES**

- Considerable work ahead, to ensure that T2S benefits can be fully reaped



Proposal for future governance

Valid for the remainder of development/testing as well as during live operations



Management of liquidity and settlement risks

- Settlement will take place in **central bank money** exclusively
- **Delivery-versus-payment** settlement in RTGS mode
- Sophisticated **liquidity saving** features (optimisation, autocollateralisation)
- Most advanced standards of resiliency, availability, business continuity and **security**



- T2S will significantly reduce the risks that still affect cross-border settlement today
- T2S will enable banks to optimise their liquidity and collateral management
- T2S will promote greater diversification and sharing of risk
- T2S will ultimately have a positive impact on financial stability



Could T2S be a model for other regions?

- Multi-currency dimension
- Caters for direct as well as indirect holding markets
- Preservation of rights of involved stakeholders
- System functionality provides for high degree of flexibility





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