

# A “domestic European market”

**Keynote speech by Marc Bayle de Jessé, Director General Market Infrastructure and Payments, ECB, at the Central Bank Payments Conference, Amsterdam, 27 June 2017**

**Ladies and gentlemen,**

Amsterdam has a very rich history, which you can experience through the numerous museums in the city or simply by walking through the “Grachten”. The city also has a long history of financial services. 415 years ago, in 1602, the Amsterdam Stock Exchange was established by the Dutch East India Company, and three decades later Amsterdam had an established secondary market<sup>1</sup>. What better place to discuss the future financial market infrastructure for securities, collateral and European issuance than the cradle of securities issuance and trading? In addition, in my speech today I will cover an area where progress is needed in order to improve the efficiency of the European market infrastructure: instant payments.

As you are aware, central banks’ typical roles in the areas of payments and market infrastructures revolve around oversight, operation and catalyst activities. A particular feature of the Eurosystem, though, is that these tasks are approached from the European perspective, not from a national one. In this context, we aim to foster a truly integrated European financial market – removing the remaining barriers to the free flow of financial assets. Ultimately, our vision is a “domestic European market”, where it makes no difference whether payers and payees, and issuers and investors, transact with counterparts in their own country or in another EU Member State.

**Let me start with payments, more specifically instant payments.** In a modern society, users expect a fast and seamless payment experience that creates the same benefits in terms of safety and finality as cash – around the clock, throughout the year. Instant payments provide this experience and are available 24/7/365, meaning the beneficiary receives the funds, and is able to re-use them, within a matter of seconds after payment is initiated. Payment service providers (PSPs) in Europe and worldwide have started to recognise this user demand. When some European instant payment solutions were starting to emerge, focusing on national communities, the Euro Retail Payments Board (ERPB) identified a strategic need for instant payments being available on a pan-European basis. The ERPB invited the European Payments Council (EPC) to develop a payment scheme based on SEPA credit transfers, called SCT Inst, to avoid the fragmentation of credit transfers and direct debits that SEPA overcame re-emerging with instant payments.

To facilitate pan-European reachability, including with regard to the clearing of instant payments, the Eurosystem supports industry efforts to establish interoperability between automated clearing houses (ACHs). In particular, the Eurosystem is enhancing TARGET2 functionalities to ensure harmonised ACH settlement by November 2017. However, despite this expansion of TARGET2 services, achieving interoperability among ACHs has proved to be an arduous process. While operational complexities of instant payments in terms of risk mitigation and settlement procedures for ACHs could be overcome, diverging access policies remained a particular challenge for interoperability between ACHs. Moreover, it has become clear that not all ACHs will offer instant payments to their participants. It therefore remained questionable whether reachability for instant payments across SEPA would become a reality.

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<sup>1</sup> For more details, see: <http://www.economist.com/news/finance-and-economics/21576423-home-worlds-first-stock-exchange-now-high-frequency-heartland-dutch>

That's why the Eurosystem decided to act. Last week the ECB's Governing Council approved the launch of the TARGET instant payment settlement (TIPS) service.

TIPS is based on six key principles:

- it will follow the participation criteria of TARGET2;
- it will settle exclusively in central bank money;
- it will allow operations on a 24/7/365 basis;
- it will support participants in compliance with the SCT Inst scheme;
- it will operate on a full cost-recovery, but not-for-profit basis;
- it will provide efficient instant payment settlement services in euro, and will also be technically capable of settling other currencies.

TIPS will create the infrastructure needed for settling instant payments in central bank money across Europe. It could thus help achieve pan-European reach and prevent any new fragmentation from emerging as a consequence of solutions being developed at national level which may offer no or only limited cross-border reach. In addition, as TIPS is part of the TARGET system, the balances that PSPs hold in central bank money for TIPS will apply towards their minimum reserve requirements. Moreover, TIPS will offer instant settlement, thus eliminating credit risk for all involved participants. Finally, TIPS will give PSPs more choice – they will be able to connect directly to it as a participant or they could become a reachable party by utilising the services of another PSP. PSPs can decide to channel their payment transactions for instant payments through an agent, including their respective ACH. Thus, TIPS can complement the services offered by ACHs – especially in those national markets where the ACH does not offer euro clearing services for instant payments at all or not on a cross-border basis.

The ambitious timeline foresees TIPS becoming operational in a little more than one year, towards the end of 2018. In this context, we welcome the announcement SWIFT made in mid-June that SWIFTNet will be ready for instant payments in 2018, in time for the start of TIPS.

I would also like to point out that TIPS is not the first example of the Eurosystem complementing the private sector's service offerings in a meaningful way. The most recent example, in terms of settlement services, is TARGET2-Securities (T2S).

### ***The European securities settlement infrastructure***

In 2006, eyebrows were raised when we first announced the idea of building a European securities settlement service. The plan was to integrate securities accounts and cash accounts on a single platform which would settle using central bank money. Today, no one questions T2S. The operational benefits of T2S, as well as its catalyst effect on the securities post-trade infrastructure of the EU, is widely recognised by the market. In fact, T2S and the Central Securities Depositories Regulation (CSDR) have become the two key determinants in any strategic consideration regarding post-trading. Take, for example, the capital markets union agenda of the European Commission, where some of the main cross-border barriers we identified in the T2S harmonisation agenda are now firmly on the EU public authorities' financial market integration agenda.<sup>2</sup> The prospects of a legislative proposal on securities law to increase legal certainty on securities ownership in the cross-border context, of a code of conduct for efficient withholding tax procedures, and the revision of the Shareholder Rights Directive to tackle the lack of transparency between companies and shareholders, are a case in point. I don't think I'm exaggerating when I say that the T2S community has made significant contributions to all these initiatives.

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<sup>2</sup> See the European Commission Communication on the Capital Markets Union mid-term review, 8 June 2017, available at:

[https://ec.europa.eu/info/sites/info/files/communication-cmu-mid-term-review-june2017\\_en.pdf](https://ec.europa.eu/info/sites/info/files/communication-cmu-mid-term-review-june2017_en.pdf)

**The impact of T2S goes well beyond the functioning of T2S and T2S markets.** Take, for instance, the momentum built by T2S around the adoption of the ISO 20022 messaging standard beyond retail payments, the smooth migration to the T+2 settlement cycle in Europe, or the catalyst effect caused by the adoption of the T2S corporate action standards. T2S does not, and could not, impose any of these standards on the EU market, as it is not a regulatory initiative. However, thanks to the robust T2S governance and the collaborative approach the Eurosystem has been following with T2S, there is strong cooperation between T2S stakeholders from 23 EU markets, involving central banks, market infrastructures and market participants. Under the leadership of the T2S Advisory Group, which has in the meantime been replaced by the Advisory Group on Market Infrastructures on Securities and Collateral (AMI SeCo), T2S harmonisation standards were mutually agreed upon and pushed forward for implementation. Much has been achieved, but there is still more to be done. In fact, AMI SeCo has now started to look into collateral management harmonisation needs. Similar to the approach taken when defining the T2S harmonisation agenda, the expectation is that AMI SeCo will define specific collateral management harmonisation standards and/or best market practices. I have no doubts that AMI SeCo will continue to create strong private and public sector impetus for change, cooperation and integration – all to the benefit of people across Europe.

One of the key benefits of T2S is that even securities that have not been issued in participating central securities depositories (CSDs) can be settled on its platform. This also includes the possible settlement of international securities which are issued in the two international CSDs, Clearstream Banking Luxembourg and Euroclear Bank (often referred to as Eurobonds), something that they have already offered their clients. Settling all such securities in T2S would allow market participants to use a single harmonised settlement model in central bank money in Europe. It would also give them the possibility to consolidate collateral pools, which would result in liquidity savings when settling securities transactions in euro. I do not deny that implementing this proposal may require some refinements in the settlement process for external securities on the platform. However, I am sure it is worth the effort, and I do not believe it would challenge the significant role current market infrastructures and their users are playing in providing added value services to those who look for capital and those who provide capital in Europe.

**In developing this idea further, and taking into account that the Eurosystem is one of the biggest collateral takers in the world, some of you might be aware that we are also considering if and how the single T2S platform can be used for mobilising marketable collateral for Eurosystem credit operations.** In theory, implementing such a policy would seem to allow Eurosystem counterparties to benefit from greater efficiency in terms of collateral and liquidity management. Additional efficiency gains could also be achieved through further harmonisation, e.g. cut-off times, messaging and a very efficient mobilisation of collateral with central banks. Together with a common Eurosystem collateral management system and enhanced real-time gross settlement (RTGS) and liquidity management services in euro, the Eurosystem would be able to offer market participants the fully integrated “trinity” of Eurosystem services in payments, securities settlement and mobilisation of collateral.

#### ***Market access and securities issuance in the European Union***

Despite the launch of T2S and the significant progress made in implementing the T2S harmonisation agenda, along with the adoption of the Central Securities Depositories Regulation standards on market access, securities issuance has remained a largely national business across the EU. This is often the result of legacy structures, entrenched business models and national rules (e.g. legal and fiscal).

Although today cross-border access is, to some extent, possible in current national or international securities issuance frameworks, we still do not have a truly euro area-wide and pan-European framework. This restricts the European investor base for issuers who do not have access to the full liquidity of EU capital markets. The result is suboptimal credit allocation and risk-sharing across borders, which could raise issues of financial stability in times of crisis and

also hamper cross-border investment in times of economic recovery.

Therefore, for a truly integrated market, an EU-wide framework to support securities issuance and distribution could be considered to ensure equal and unrestricted access for economic actors. We are becoming aware that some market stakeholders, including issuers, intermediaries and infrastructures, know the frictions that the current market setup generates. They seem ready to explore further the possibility of establishing a centralised, harmonised service for pan-European access to high-rate debt securities. We understand that these entities are open to the idea of working in collaboration with the Eurosystem on these matters.

Today, a number of supranational issuers established in the European Union are issuing considerable amounts of debt in order to finance, for example, infrastructure projects, or to provide financial support to Member States. These entities rely on intermediated access to investors' liquidity via international or, in certain cases, national CSDs. In some cases, the US infrastructure is used. This issuance model is functioning, but in a suboptimal way, as it maintains the hierarchy and the barriers between market infrastructures, both on the side of issuers as well as of investors, and also across European borders. We need a viable alternative!

A safe, efficient and effective securities distribution mechanism would ensure a level playing field in terms of access to all T2S CSDs, and potentially also non-T2S CSDs. Such a mechanism could provide the necessary impetus for further integration in this area. The mechanism could be a centrally operated service built on a full cost recovery basis and available to all relevant issuers and CSDs. The CSD participants, i.e. European intermediaries, would maintain their established relationships with CSDs and continue to serve their national, regional or international clients according to their respective business models. The scope of assets could cover high-rated securities issued by these supranational institutions. The service could focus on the initial distribution of and access to these securities. A securities market access mechanism could facilitate access to these high quality marketable assets. It could also further enhance collateral mobilisation and pooling in the EU and foster the liquidity-saving mentioned earlier.

### ***Conclusion***

TARGET2 and T2S are key milestones on our way to a fully integrated European financial market. But we have not yet reached our destination and there is no time for complacency. Further integration efforts are needed to address existing and newly emerging challenges and to enable us to reap the full benefits of a European financial market that can be considered truly domestic.

In its strategic vision, the Eurosystem is fully aligned with other EU institutions promoting the capital markets union agenda.

With the start of TIPS operations in 2018 and the development of new and enhanced RTGS services the Eurosystem is paving the way to the next milestones on the journey towards financial market integration. The potential of a future securities market access mechanism would be an additional contribution to this goal. Market participants would also benefit from further efficiency gains if T2S could be leveraged for the settlement of the broadest possible set of securities and for taking Eurosystem collateral.

Based on the positive experience gained during T2S implementation and the realisation of the T2S harmonisation agenda, we are determined to continue our close and fruitful cooperation with other authorities and private sector entities.

I assume that many of you will take the opportunity to visit the Vincent Van Gogh museum during your stay in Amsterdam, so let me remind you of a famous quote of his which neatly encapsulates our integration efforts: "great things are done by a series of small things brought together." The Eurosystem is committed to fulfilling its mandate of promoting the smooth functioning of payments and market infrastructures and of contributing to a truly integrated financial market in Europe.