

ECSDA comments on the future market infrastructure services of the Eurosystem

On 15 February 2016, the Eurosystem issued a [consultative report](#) on its real-time gross settlement (RTGS) services entitled “Eurosystem’s vision for the future of Europe’s financial market infrastructure”. This paper contains some comments on this report, focusing on those aspects which are most relevant from the perspective of central securities depositories (CSDs).

Executive Summary

In the context of the Eurosystem 2020 vision, consideration should be given to the evolution of real-time gross settlement (RTGS) services and how these can continue to serve the needs to the market. ECSDA agrees that potential technical synergies between the TARGET2 (T2) payment system and the TARGET2-Securities (T2S) platform for securities settlement should be explored, and welcomes the involvement of users in this forward-looking exercise.

From a CSD perspective, ECSDA recommends that the following considerations should be taken into account by the Eurosystem when investigating potential changes to its current RTGS system:

- 1. Further technical consolidation between T2 and T2S may have regulatory implications, as well as an impact on current governance structures.**

T2 is a designated payment system under the Settlement Finality Directive (Directive 98/26/EC) and T2S is an IT platform used by CSDs for securities settlement, an activity regulated by the CSD Regulation (EU Regulation 909/2014). There are important differences between the rules applying to T2 and the rules applying to T2S. The T2S project in particular is governed by a framework agreement which provides the legal basis for the provision of services to CSDs by the Eurosystem. Any technical

consolidation between T2 and T2S should be supported by a clear understanding of the regulatory implications, such as whether regulatory adaptations (e.g. the introduction of additional safeguards) will be required. At this stage, it is not clear to ECSDA, for instance, if further integration between T2 and T2S would require changes in the T2S framework agreement.

The governance arrangements resulting from the T2S framework agreement are also different from those of T2, and potential impacts of a technical consolidation on governance aspects would have to be assessed (e.g. in relation to change management and the release of new technical functionalities).

2. Irrespective of any technical consolidation, T2 and T2S should remain clearly distinct services.

Whereas T2 is a payment system, T2S is not a CSD. In the Euro area, the use of T2 is required for securities settlement to occur in central bank money. Participating in T2S, on the other hand, is voluntary and does not directly mirror Euro area markets (some non-Euro area markets have joined the project, whereas some CSDs established in the euro area are not currently taking part). A technical consolidation of both platforms should not result in a situation where users of one platform are disadvantaged by the fact that they are not users of the other platform. For instance, CSDs whose central bank has an own RTGS system should not be penalised with reduced functionality compared to CSDs whose central banks operate with T2.

3. Concentration risk must be taken into account.

A technical consolidation of the T2 and T2S platforms could be an opportunity to strengthen information security and resilience against cyber threats, but the Eurosystem will also need to consider the impact of such consolidation on concentration risk. Relying on the same technical architecture could make both platforms (T2 and T2S) more interdependent and in some cases increase the systemic impact of an outage or other operational failures.

1. Technological opportunities

ECSDA agrees that a technical consolidation of the T2 and T2S platforms could benefit users, in particular through lower running costs.

As regards section 1.1 on the migration of RTGS services to ISO 20022, ECSDA acknowledges that migrating from ISO 15022 to 20022 could present important business opportunities for market participants in the field of large-value payments. This would contribute to the objective of harmonising message standards as part of the Capital Markets Union, in line with the removal of “Giovannini barrier 1”. However, market participants are expected to want to retain the possibility to use other communication standards when interacting with CSDs outside the context of direct T2 and T2S participation. ECSDA members support initiatives aimed at developing ISO20022 compliant messages in other fields than payment and securities settlement (e.g. for corporate actions processing, shareholder transparency information...) but note that, as of today, alternative standards are sometimes better suited to meet the needs of market participants.

As regards section 1.3 on cyber resilience (p. 5), we expect that the Eurosystem will also need to consider the impact of such consolidation on concentration risk. Relying on the same technical architecture could make both platforms (T2 and T2S) more interdependent and in some cases increase the systemic impact of an outage or other operational failures.

2. Functional opportunities

2.1 Harmonised interface(s) to Eurosystem services

Q1. Should the Eurosystem harmonise the user interface for Eurosystem services? If so, what would you identify as the specific benefits to your institution? If not, what would be your reason for not harmonising the user interface?

No comments.

Q2. Are there further considerations that the Eurosystem should take into account in deciding whether or not to harmonise the user interface?

No comments.

2.2 Multi-currency services

Q3. Do you agree with the listed findings on the provision of multi-currency RTGS services? If not, please explain.

From a CSD perspective, the possibility for non-EUR central banks to use the T2 platform instead of maintaining their own RTGS could potentially have some benefits in that it would create incentives for these central banks to take part in T2S, thereby facilitating CSD central bank money settlement in more currencies. That said, T2S already allows for multi-currency settlement for central banks using their own RTGS, so the benefits are expected to be limited.

Q4. Would you expect your institution to use multi-currency RTGS services?

See our response to Q3.

2.3 Remittance and other key payment data

Q5. Would you expect your institution to use the additional fields that ISO 20022 payment messages support? If so, please describe the types of additional payment fields, and the purpose for which they would be used.

No comments.

2.4 Accounts management

Q6. Do you agree with the Eurosystem's expectations in terms of participants' accounts management?

Yes, ECSDA expects the RTGS account to remain the "pivot" account where participants centralise the management of their liquidity while other account types are used to set aside cash for dedicated uses.

3. Business opportunities

3.1 Assessment of the use of current services

Q7. Could you indicate which services TARGET2 must retain or enhance regardless of their usage?

No comments.

Q8. Conversely, could you indicate which services should be reassessed or not be considered in the context of the Eurosystem's vision?

No comments.

3.2 Liquidity management tools

Q9. Which of the current liquidity management tools does your institution currently use?

No comments.

Q10. Which of the current liquidity management tools does your institution intend to use in the future?

No comments.

Q11. Would your institution require RTGS services that are not listed as potential enhancements?

No comments.

3.3 Opening hours

Q12. Does your institution have a requirement of extended opening hours for RTGS services? If so, for what purpose would the extended opening hours be required? What would be the required extended opening hours?

It is not entirely clear to ECSDA at this stage whether an extension of the opening hours of the RTGS would have an impact on CSDs and on T2S.

3.4 Enhancing data analysis and business intelligence services

Q13. Does your institution have analytical requirements that could be provided as services? If so, please provide a brief description.

No comments.

3.5 Regulatory compliance

Q14. Are there services that the Eurosystem should provide as part of its RTGS services to support the compliance of your institution with regulatory requirements? If so, please list them. If not, are there specific reasons that such services could not be provided?

As far as CSD participants are concerned, anti-money laundering (AML) and know-your-customer (KYC) checks are typically performed before payment instructions are sent to T2, so we assume that the “regulatory compliance” functionalities would rather be of interest to payment banks.

3.6 Settlement of ancillary systems

Q15. Have you identified an additional functionality that the settlement procedures for ancillary systems should cater for? If so, please describe.

No comments.

Q16. Are there additional optional services that the Eurosystem should provide for ancillary systems?

No comments.

About ECSDA

The European Central Securities Depositories Association (ECSDA) represents 41 central securities depositories (CSDs) across 37 European countries. As regulated financial market infrastructures, CSDs play a vital role in supporting safe and efficient securities transactions, whether domestic or cross-border. If you have any questions on this paper, please contact Soraya Belghazi, Secretary General, at info@ecsd.eu or +32 2 230 99 01.