Interview: Marc Robert-Nicoud, Clearstream

Dan Barnes interviews Marc Robert-Nicoud, member of the Executive Board responsible for strategy at Clearstream, on the key issues concerning T2S

ISS: When will we know whether TARGET2-Securities (T2S) has delivered value for money, and what would be the appropriate measures to use?

MRN: It is difficult to measure something as transformational as T2S. If we measure its value simply by looking at the impact on settlement fees, we fail to capture the true benefits of T2S: the efficiencies that it creates in the market. This is not measured by transaction fees or by basis points charged on assets under custody but rather by the greater efficiency T2S enables in terms of operational synergies as well as regulatory capital and collateral management. We have commissioned a study from Oliver Wyman [Box 1] that quantifies these benefits.

ISS: What will Clearstream have gained from the process and from the completed project?

MRN: Clearstream's interests are aligned with our customers' interests. What we are trying to do is to extend the services that we already provide to a wider scope of financial instruments and markets. T2S is a way for us to access markets that have decided to join the project in a more efficient way and on a level playing field.

Central Securities Depositories (CSD) will have equal access to T2S and will therefore compete on the services they provide. For instance, at Clearstream, we have been providing our customers with a high level of securities services on the assets that customers choose to place under custody with us. While these services arose from our core international and German markets, with T2S, we can now increase our service level for all participating European markets. For example, we already service French, Italian and Spanish securities but with T2S we will have a more direct access to those markets and will offer customers a more integrated environment to hold and mobilise these securities.

Customers who eventually want to rationalise the many market access points they now use and concentrate their operations will notice

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that we at Clearstream offer a wider range of instruments and better coverage of markets than many of our competitors. T2S allows us to extend our entire service offering to all European markets.

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ISS: What impact is T2S having on the custody/CSD space and how do you see the changes playing out in the longer term?

MRN: Throughout the T2S discussions there has been talk of consolidation in the CSD landscape, but I am not sure that it will happen this way. The first ECB communication on T2S was a comparison of the US and EU markets, with the US being very streamlined and clear cut while Europe was spaghetti with 27 CSDs.

I am not sure we will see a consolidation in the number of CSDs; over the last year we have even seen the creation of additional CSDs. I think you will rather see a consolidation of volumes. Each market will have one or more CSDs and maybe some CSDs will have a niche market. The question is: where will customers bring the bulk of their European business? What will be their main access to the T2S markets? That is where we will have consolidation - players will say they don't want to have 27 access points if they could have just one or two.

When T2S was created after the Giovannini Barriers were identified, the idea was not to have fewer CSDs; the ECB was rather driven by an agenda of harmonisation and stimulating growth in Europe. The Lamfalussy Group thought that a huge opportunity would be missed if Europe was not able to integrate its market in the same way that it integrated its currency, and T2S can be seen as part of an overall EU effort to reduce trade barriers.

One of the success factors has been the sponsorship of the ECB and the Eurosystem. It means that discussions are not entirely multilateral, they are happening under the framework provided by the ECB. Other regions don't have the same institutions surrounding their discussions, which is likely to make similar efforts more difficult.

Continued overleaf…

ISS: The creation of a single platform does not remove all of Europe's post-trade complexities; what further efficiencies need to be delivered and when might these changes happen?

MRN: There is a lot that needs to be done regarding harmonisation between countries, for example in the areas of taxation and company law. The difficulty partly lies in the practical difficulties of harmonising very different traditions and probably, at some level, resistance to losing some market sovereignty through harmonisation at the European level. This is by no means unique to the EU; we have witnessed similar problems in Asia and South America. I guess an international model that has no nationality would be more readily acceptable by all regions. Since regulators tend to push for control over their markets, they would probably not like to have to rely on key infrastructure or processes supervised by regulators of other countries and would rather opt for a neutral, international solution.

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ISS: Could T2S be extended beyond Europe?

MRN: Every now and then there are discussions about moving T2S beyond Europe, but we should first acknowledge that not all of Europe is participating yet. I would expect some of the next T2S migration waves to extend T2S in Europe beyond the Eurozone, but I think it's too early to consider anything beyond that. Extending T2S beyond Europe might not be a straightforward case, but although there is no reason to rule it out completely, it remains an abstract discussion. In any case, Clearstream would support any extension of T2S beyond Europe when the time is ripe.

ISS: Do your banking clients say how satisfied they are with T2S progress?

MRN: The top-line message is that they are supportive. As the CSD of Germany, the largest CSD participating in T2S, Clearstream has been active in ensuring the voice of the participating CSDs is heard at the T2S table. We have also been sharing a lot of information with our user groups as early as possible. The sharing of information was appreciated by many customers; they felt involved and had the possibility of giving feedback.

As a result of this close cooperation with customers, we were able to reach an agreement about sharing the costs of T2S. Clearstream made a huge effort to reach out to customers. Many of the customers in what could loosely be defined as the international customer group appreciated that we reached out to them with the changes that T2S will bring along and the benefits that they could get from it. For them it is less an issue of what will happen in individual domestic markets and more a question of the advantages of having a single point of entry into all T2S and non-T2S markets and the resulting benefits in terms of consolidated cash and securities accounts. In the study we conducted with Oliver Wyman, the consultancy concluded that there were significant benefits for firms that engaged well with the transition and that part of doing it well, is doing it now.

This goes back to the initial statement I made; they understood that the success of T2S should not be measured in terms of transaction costs but in much greater efficiencies from a collateral and capital perspective. Our customers could see the benefits and hence were willing to put cash on the table to help pay for the migration.

The study 'The T2S Opportunity - Moving Now to Unlock the Full Potential', commissioned to and supported by Oliver Wyman, focuses on the TARGET2-Securities (T2S) benefits banks can unlock by consolidating their securities and cash holdings in Europe directly on CSDs and central banks, thereby being able to delay their settlement-related exposures, pool collateral for settlement but also tri-party purposes, net more cash settlements, and to simplify operations. The underlying market analysis and expert interviews were conducted between March and May 2014. The study summarises the findings as a basis for further discussion.

According to the study, as a prerequisite for achieving the full benefits, banks need to fundamentally rethink and change their current operating models in the post-trade area, particularly around settlements. Given planning, budget and implementation cycles, banks need to take action now to unlock the potential in time for T2S going live and the regulations fully kicking in. As T2S will impose adaptation costs on market participants in any case, there is a window of opportunity to leverage the change to achieve the full savings potential of consolidating assets.

Quantitative case studies show that banks can realise significant capital, funding and operating cost savings by de-layering and consolidating assets. Based on conservative assumptions, the study estimates the savings potential in three high-level case studies:

- **A broker-dealer with EUR ~100bn trading assets & liabilities across major T2S markets could save up to EUR ~70mn**
- **A global custodian with EUR ~ 400bn in assets under custody across major T2S markets could save up to EUR ~ 50mn**
- **A regional bank with EUR ~ 140bn in securities deposits across major T2S markets with a home market bias could save up to EUR ~30mn**

T2S will trigger fundamental changes in the post-trade landscape, far beyond the initial scope of pan-European settlement in central bank money, and enable cost efficiencies which banks must consider to support their savings agendas and stay competitive. T2S will enable banks which take action to reap significant benefits from consolidating assets, direct access and use of central bank money.

T2S will go live in 2015 with four major on-boarding phases for the participating central securities depositories (CSDs) from June 2015 to February 2017, with the majority of volumes being migrated in 2016, bringing benefits soon for early adopters. Institutions delaying a proactive T2S strategy risk being hindered by their current providers and losing competitive edge as savings accrue to first-movers. Banks should act now – or they risk missing the T2S opportunity.