T2S: Settling without borders in Europe

London School of Economics
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Vice-Chairman of the T2S-Board
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T2S: Settling without borders in Europe

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Spot on T2S
Purpose and Benefits of T2S

Single IT Platform

Entirely New Concept

Solution to Fragmentation

Core-neutral Borderless securities settlement
Harmonised Commodity DVP in CeBM
Reversed integrated model
Multi-currency dimension
Fragmented Infrastructure
Purpose and Benefits of T2S

EUROPE

Trading
- BME Group
- Deutsche Borse
- Nasdaq OMX Nordic
- NASDAQ OMX Nordic
- MTFs e.g. Chi-X/Turquoise
- LU S.E.
- Euronext
- Borsa Italiana
- SIX Group
- NYSE
- MTFs e.g. BATS
- Nasdaq

Clearing
- Eurex Clearing
- EMCF
- Euro-CCP
- LCH Clearnet SA
- LCH Clearnet Ltd.
- Cassa Di Comp.
- SIX Clear
- NSCC
- FICC

Securities Settlement & Asset servicing
- Iberclear
- VP
- CSDx
- InterBolsa
- Euroclear
- SIX
- DTCC
- FED

Cash Settlement
- BE
- FI
- FR
- NL
- SE
- UK
- IE
- SNB

UNIVERSAL STATES

Target2
Non-integrated, cross-border settlement
Scope of T2S
Purpose and Benefits of T2S

A Service offered to CSDs for Settlement only

- Registration of issuer indebtedness and investor holdings
- Change of ownership among investors
- Notary Function
- Settlement Function
- Custody/asset-servicing Function
- Banking Function

Examples:
- E.g. coupon payments, redemptions, stock splits
- E.g. lending and borrowing only in some (l)CSDs
Purpose and Benefits of T2S

One integrated settlement process
(domestic and cross-border)
General Principles of T2S

(published in 2011)

- (1) The Eurosystem shall take on the responsibility of developing and operating T2S by assuming full ownership
  ...

- (3) T2S shall not involve the setting-up and operation of a CSD, but instead serves only as a technical solution for providing settlement services to CSDs
  ...

- (5) The respective CSD customers’ securities accounts shall remain legally attributed to the CSD and the respective central bank customers’ cash accounts shall remain legally attributed to the central bank.
  ...

(7) Securities account balances shall only be changed in T2S
(8) T2S shall settle exclusively in central bank money
...
(12) CSDs’ participation in T2S shall not be mandatory
(13) All CSDs settling in central bank money and fulfilling the access criteria shall be eligible to participate in T2S
(14) All CSDs participating in T2S shall have equal access conditions
...
T2S Benefits
Purpose and Benefits of T2S

T2S will benefit all market participants
Market integration
A new securities settlement landscape

Three streams shaping the new European securities settlement landscape
# T2S harmonisation Dashboard

**Status: 15 October 2013**

## Activities - Priority 1

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## Activities - Priority 2

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# Purpose and Benefits of T2S

# Functioning of T2S

# Project Governance
The Technical Infrastructure
Main Functionalities of T2S
Functioning of T2S

- Optimised settlement model
  - CSD securities
  - CeBM cash

- Real-time gross settlement (RTGS), combined with
  - Auto-collateralisation
  - Continuous Optimisation
  - Recycling mechanisms

- In addition, T2S provides i.a.
  - Matching services
  - Conditional securities delivery
  - Automated real-time realignment of cross-CSD positions
  - Single account repository
  - Standardised interfaces
  - Message subscriptions & reporting
Optimisation Features
Functioning of T2S

- **Technical netting**
  - Reduction of the need for cash and securities on transactions to minimize the use of resources
- **Auto-collateralisation**
  - Creation of extra liquidity for settlement via collateral on flow and stock
- **Partial settlement**
  - Splitting of transactions in the case of limited availability of resources
- **Additional optimisation algorithms**
  - Consideration of all transactions with equivalent ISINs to identify chains of transactions, empty circles, etc.
CSD Reshaping to T2S
Functioning of T2S

CSD infrastructures require adaptations to integrate with T2S

CSD
- Lending
- Reporting
- Custody
- Coll. Mgmt.
- Others…

T2S
- Settlement

Re-shaping
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3 Project Governance
T2S Governance since 1 July 2012
Status-quo of T2S

Central Bank Decision-Making Bodies:
- Non-euro central banks’ governors / boards
  - ECB Governing Council
  - T2S Board
  - Non-euro Currencies Steering Group (NECSG)
  - ECB

Steering Level Bodies:
- ECB Governing Council
- T2S Board
- CSD Steering Group (CSG)
- National User Groups (NUGs)
- Advisory Group (AG)

Market advisory bodies:
- Non-euro central banks’ governors / boards
- ECB
- Non-euro Currencies Steering Group (NECSG)
- ECB Governing Council
- T2S Board
- CSD Steering Group (CSG)
- National User Groups (NUGs)
- Advisory Group (AG)

Technical Groups:
- Operations Managers Group (OMG)
- Project Managers Group (PMG)
- Change Review Group (CRG)
- ECB

Reporting:
- ECB to Non-euro Currencies Steering Group (NECSG)
- ECB to T2S Board
- ECB to CSD Steering Group (CSG)
- ECB to National User Groups (NUGs)
- ECB to Advisory Group (AG)

Escalation:
- ECB to Non-euro Currencies Steering Group (NECSG)
- ECB to T2S Board
- ECB to CSD Steering Group (CSG)
- ECB to National User Groups (NUGs)
- ECB to Advisory Group (AG)

CRG reporting to CSG:
- Change Review Group (CRG) to CSD Steering Group (CSG)

Technical Groups reporting to T2S Board:
- Operations Managers Group (OMG)
- Project Managers Group (PMG)
- Change Review Group (CRG)
Icelandic Securities Depository

24 CSDs signed the T2S Framework Agreement
T2S under development

- Preparation Phase
- Specification Phase
- Development & Internal Testing Phase
- User Testing Phase
- Migration Phase
- T2S Go-Live

We are here
Thank you for your attention

www.t2s.eu

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