

# Decision time

*Radar* asked Thomas Zeeb, CEO of SIX Securities Services, why as a non-EU institution, it has taken a proactive approach to engaging with T2S

**What is the value proposition for using SIX Securities Services to access T2S as a non-EU infrastructure? Are there different client groups that would benefit differently from using SIX?**

I don't think the benefit of using SIX is related to our being outside the EU in any way. It comes down to optionality in the account structures we offer our clients. The first point is that we need to give them a significant level of flexibility in how they want to conduct their Target2-Securities settlements.

Related to that is the management of collateral and cash across those different markets: for non-euro currency clients, whether Swiss or other, we can manage on the fly their needs for central bank settlement in Euro. On the collateral management

side, we can leverage the capabilities that we already have to shift collateral to where it needs to be. We already do that today. So a customer can buy securities in Norway and sell them in Paris and our system automatically makes sure their securities are available for delivery in the new location.

The final point is that, as a CSD, we do very well in looking after assets once they are in the portfolio, including on an international basis. Clients of course have the option of going through any T2S CSD, but the vast majority of those have little experience in cross-border settlements, let alone how to handle a corporate action out of a different country. The tax issues are complex and with a high degree of liability attached. You can't afford to get it wrong. To go from a standing start in three years to a point where →



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you can confidently operate in a cross border environment is, I think, unrealistic.

I'm convinced we're going to see a significant shake up and I think ultimately there will be three, possibly four, players who will remain relevant in the cross-border space.

**So when you developed your strategy for T2S, did you have the needs of existing clients in mind?**

First and foremost in our mind was, "What does this mean for the Swiss financial centre and the banks here?" Our aspirations in the cross-border environment notwithstanding, our core mission is still providing access to the international environment at least as the entry point, under Swiss law, for our participants here.

While the biggest players in the market have other alternatives – they can choose to go direct anywhere they want, though so far they haven't decided to do that – the small and medium-sized banks don't have the same options. Historically, part of our core responsibility as an infrastructure is to provide that access for the whole market.

The second thing we had in mind was how to leverage the collateral management capabilities that we already have, because we are the collateral manager for the Swiss central bank. And third, quite frankly it was an opportunity for us. I think SIS has always been considered, in the industry, as punching slightly above its weight, but never actually going for gold. It has given input into all kinds of working groups – ECSDA, the T2S working groups, the Giovannini working

groups before that – without really leveraging that experience.

### **What will your clients get out of it?**

**Z:** Over time, lower prices in the Eurozone.

### **That's it?**

**Z:** They get more efficient cash and collateral management as well as comprehensive asset servicing, but those are services that I already give already give them.... I would be surprised if we don't see a commensurate increase in asset servicing pricing and it will be justified, to a certain extent by increased compliance costs. There will be increased fixed cost overheads related to reporting and stress testing.

Our involvement is optional, because the Swiss central bank has not joined T2S with the Swiss franc. We could in theory say, "We're a Swiss CSD, it doesn't interest us." But then all of our Swiss customers who do cross-border business would have to find a different provider.

### **Is there a consensus amongst Swiss financial institutions about what they want from T2S or what they want you to do?**

**Z:** Not really. Ideally they want T2S to be a non-event in the same way that if I changed my sub-custodian in a particular market it wouldn't affect them. Of course, the issue with TARGET2-Securities is that you're moving from commercial bank money settlement to central bank money settlement. Account structures will most likely need to be adapted, which will have potential knock-on effects on settlement and reconciliation processes.

Banks need to make a fundamental choice: do they want to be a direct participant in T2S or do they want to go indirect via us or somebody else? Depending on that decision, they need to look at their own messaging and account structures. We provide them with the tools to do that, to determine whether they need to make programming changes, but so far the take-up on that front has been limited.

We're now gearing up for the next wave of awareness building at the more senior level of all of the banks. What we are saying is: "This is not simply an operational issue. It is something you've got to think about, because if you find that in Q4 2015, you can no longer settle, for example, Italian securities, what are you going to tell your customers?"

We know they have other things on their minds, but this is something that needs to be driven at a strategic level at least in the original decision-making. Operationally, we can then help them implement those decisions.

### **Is there anything from a collateral management point of view that you can offer your clients as a result of T2S?**

They do leverage off each other, but they're not linked in the sense that we are a provider of high quality collateral management services today that will become more relevant in T2S, yes, but are independent of T2S. As part of a joint project with the Swiss National Bank, we're creating the next generation of a collateral management platform that will bring significant new functionality to the market. Whether T2S was there or not, we would still be doing that. The one doesn't drive the other. •