

Taking T2S to the world

Though seen as a project of the Eurozone, T2S is attracting interest beyond its borders

TARGET2-Securities (T2S), the securities-settlement platform designed to harmonise Europe's settlement infrastructure, is scheduled to start operations on 25 June 2015, less than a year from now, with first-stage migration scheduled to be completed in 2017. Among first-stage participants will be some – not all – of the CSDs of the euro area, as well as Switzerland's SIX SIS. This is a non-compulsory harmonisation project that is not limited to the Eurozone, nor even to the EU, nor indeed to the single currency. Designed to achieve harmonisation, T2S is capable of setting aside all of Europe's borders to provide access to Europe-wide settlement for European and non-European investors and their intermediaries alike.

"The question is, where do we stop?" says Jean-Michel Godeffroy, chairman of the T2S Board at the European Central Bank. "We

stop not so much at the borders of Europe, but at the borders of the part of the world that applies more or less the same financial legislation as Europe. It is a condition of participation in T2S that a jurisdiction's legislative infrastructure is compatible with the relevant EU legislation." Not surprisingly, Switzerland's legislation is compatible with the EU. Godeffroy continues: "My expectation is that T2S will expand further, but that probably the borders of its expansion will be the European borders because of this legislation issue."

A number of CSDs outside the Eurozone have committed to joining T2S, which suggests that the project has an inherent flexibility subject to the core requirement of legislative compatibility. Summarising the project's early planning stages, Godeffroy says: "T2S was meant to be a solution to



Jean-Michel Godeffroy | ECB

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fragmentation within the euro area. Then the Council of Ministers decided that it would be open to non-Euro settlement in the EU. Once this step was taken, there was a request from Switzerland, from SIX SIS, and we decided to expand T2S to non-EU countries in Europe.”

This openness has attracted significant interest. “Outside the euro area, we have a number of CSDs, in Switzerland, Hungary and Romania for example, as well as Switzerland, who are going to participate in T2S. For the moment, they will settle in euros,” says Godeffroy.

Beyond the euro

Perhaps most striking is that harmonised settlement in Europe through T2S can be achieved in more than one currency. Godeffroy says: “We have a special case in Denmark. This is because Denmark will bring their own currency into T2S. They will be settling in euros but also in Danish krone.” Denmark will be joining T2S in 2018, after the first migration is complete. “That is their decision,” says Godeffroy. “It is also a way to give them some time to prepare for

T2S. They are committed to joining, but not until 2018.”

There are gaps in T2S, but these too can be accommodated within T2S. “We are missing the Irish market, which settles in Euroclear UK & Ireland, which is not participating,” he notes. “We are missing Helex, in Greece, because they are not participating at present, and we are missing Cyprus because Cyprus uses the Helex platform. But these are relatively marginal.”

Denmark’s commitment-in-advance to join T2S in 2018 is unusual. Godeffroy has heard “positive news” from Scandinavia and eastern Europe about other countries’ interest in joining the platform, but so far, this interest falls short of commitment. “We do expect other countries to follow, but they have no incentive to make a decision now. I think they prefer to wait and see,” says Godeffroy. “Until 2017 we are fully booked and cannot take anybody else on board, so a number of countries outside are looking carefully to what happens; in some cases it’s very likely that they will join T2S if it functions well. But for the moment, there is a lot of wait and see.”



First movers

Much depends upon a successful run-up to the first migration, from now to June 2015, and upon a successful first-stage migration between 2015 and 2017. But CSDs adopting a wait-and-see policy should not leave it too long before they reveal their own interest in joining. The first-stage migration is “fully booked”, as Godeffroy puts it, and it just might be the case that bookings are already

The ECB has already received expressions of interest from outside Europe, particularly from Asia. “We have already started discussions with a number of actors in Asia to see whether T2S as an infrastructure could not be a solution to support their plans for integration at the regional level,” he says. The intention of these discussions is not to add Asian countries to T2S as it will exist in Europe. Time-zone differences and other

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being taken for the second stage. Godeffroy expects to see new official interest by the end of 2015. Why so? “Because on the one hand we will have some idea of whether T2S functions properly or not – that is of course very important to give newcomers confidence before they sign a contract with us – and on the other hand, by then we will probably indicate that we are preparing a new wave. By the end of next year, or the beginning of the year after, there will be an incentive for CSDs to declare their interest, so that they can be earmarked for migration in 2018 or 2019.”

If T2S opens the way to harmonised securities settlement across Europe in its broadest sense, two further questions arise. “Once T2S is the European solution, what will the interface be with the rest of the world?” Godeffroy muses. “Is there a possibility that T2S might be used in other parts of the world?”

incompatibilities, including divergence in legislative structures, would make any such initiative challenging. “What is perhaps a possibility would be to clone our system and thus to help other regions that want to integrate,” Godeffroy suggests.

One consideration here is that providing a “T2S Asia” cloned version of “T2S Europe” would generate revenue. “We could avoid a price increase in T2S, and possibly even achieve a reduction of the T2S fee,” says Godeffroy. Region-to-region harmonised securities settlement, between settlement engines that share a common parent, would clearly also deliver operational efficiencies. Summarising the view from the ECB in mid-2014, Godeffroy says: “The main message is that things are progressing well, although we are now in a rather tense period, because a lot of things have to be done before the first migration wave begins next year.” •