Outside in

Switzerland is keen to ensure that its own financial sector is not left behind in the Eurozone's T2S project

As a non-EU member state and with the Swiss Franc (CHF) as its currency, market participants in Switzerland are facing an added layer of complexity when it comes to implementing TARGET2-Securities (T2S). Conceived by the European Central Bank (ECB) as a platform for central securities depositories (CSDs) to execute settlement instructions, T2S will provide delivery versus payment for securities against central bank money.

The first of four migration waves to T2S begins in June 2015, followed by wave two in March 2016, wave three in September 2016 and the final migration set for February 2017. SIX SIS , Switzerland's CSD, will be migrating as part of the first wave, along with CSDs in Greece, Italy, Malta and Romania. A direct connection from SIX SIS's operations centre in Switzerland will be made to the T2S platform, a solution dubbed T2S Direct.

T2S is an important project for the Eurosystem and for Europe and will affect every participant in the post-trade space. It will become a key component of the European market infrastructure and is designed to address the costly fragmentation of securities settlement market infrastructure. Put simply, the core intention of T2S is to enable efficient and integrated securities settlement.

Although conceived as a multicurrency system, to date only the euro will be available for settlement when T2S goes live; the CHF, for example, is not yet a T2S currency. The ECB hopes that T2S will be extended beyond the euro area, enabling the interested non-euro area central banks to connect to

An additional account operator solution offers greater flexibility for clients to accommodate their individual requirements.

Local input

A T2S Swiss National User Group (SNUG) has worked with SIX SIS on the details of the solution. The 14-member group includes representatives from SIX SIS, SIX Group and SIX SIC [Swiss Interbank Clearing], as well as the Swiss National Bank (SNB), Swiss Bankers' Association, UBS, Citi and Credit Suisse. Not present, however, are any direct representatives from the scores of private, cantonal and cooperative banks that characterise the Swiss market.

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>
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T2S with their currencies. Securities will be settled against euro as well as against any available non-euro currencies.

As both a domestic CSD and an international CSD, SIX SIS has opted to join T2S. With a direct connection to T2S, the CSD will make the settlement of Swiss and Liechtenstein securities in central bank money available for all T2S users. Swiss market participants will have to make the adaptations necessary to use the platform.

SIX SIS clients will have a choice between two T2S connectivity models – indirect connectivity participant or direct connectivity participant – and cash and securities account models under its T2S Direct solution.

"One of the main challenges for T2S implementation in Switzerland is related to the smaller banks," says Maike Bechtel of Citi and a member of the Swiss National User Group. "This group has put pressure on SIX SIS to ensure migration to T2S is seamless and not costly. At the same time, SIX SIS has had difficulty in getting the attention of these banks and convincing them that certain processes have to change." Larger banks, says Bechtel, have had dedicated teams working on T2S for a number of years and are well aware of the project and of SIX SIS's approach and requirements.

Gaining a consensus on T2S has been difficult given the number of banks in the market – there are 24 cantonal banks and

Robert Rickenbacher | SNUG

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328 cooperative banks. In early discussions with the banking sector about T2S, SIX SIS found disagreement between larger banks and smaller banks on the best approach to the initiative. However, by focusing on a core group of banks and working closely with them, consensus was reached on the best option for the Swiss market.

"The goal of the T2S SNUG is to make sure that Swiss market participants as a whole will be well prepared to join T2S in 2015," said Robert Rickenbacher, former chairperson of the SNUG. "The fact that Switzerland is a non-EU member with the Swiss Franc (CHF) as its currency adds a layer of complexity that other would-be participants do not face. SIX Securities Services continues to explore with the SNB and ECB the most suitable access option to T2S, using existing functionality and infrastructure in the form of SIX SIS Ltd – its subsidiary responsible for settlement."

Bechtel agrees, pointing out that as a non-Euro country, there have been challenges in finding ways to adopt the platform without affecting the local Swiss market. "Adhering to T2S rules and regulations is a challenge, particularly around corporate actions harmonisation rules," she says.

The Swiss experience of T2S is different from that of other countries, where the whole market is moving to T2S, she adds. "In Switzerland, only 5% of settlement is against the Euro. The market had to find a solution that enabled us to take T2S into one part of the market, which required the creation of a new position type and also a change in the settlement logic at banks."

SIX options

SIX SIS has pledged that existing customers will gain seamless access to T2S markets and central bank money settlement. Technical and operational impacts have been minimised for clients, although in the most recent SNUG meeting of February 2013 (meetings are held annually and reports posted online) concern was expressed about the lack of certainty around operational implications of the T2S connection. SIX SIS says it is rolling out a comprehensive plan to ensure that clients are fully apprised of the phases – planning, analysis, development and testing – in order to contribute to them. Its T2S link will use the same technology and client interface as is used for the domestic market, limiting impact on clients.

A direct connection to T2S will also give SIX SIS users and potential users easy access to international collateral pools and SNB multi-currency repo facilities. Direct, un-intermediated access to T2S will reduce process complexity and costs, according to SIX SIS. Users also will gain advanced cross-border asset →

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servicing capabilities, with expertise in equities and unbundled services, sourced from various providers. Because the offer is priced and delivered in an unbundled fashion, customers will be able to manage costs more easily.

T2S Direct will enable SIX SIS users to pool securities across all T2S markets. Tri-party collateral management functionality will enable optimal use of the assets as collateral. Cash pooling into a single account also will be possible because SIX SIS is incorporated as a bank and can provide banking services.

Action required

With the deadline for the first wave of T2S migration looming, T2S connectivity is the most urgent issue for Swiss market participants. At the same time, these firms should also be considering the new services and opportunities they can exploit via T2S. Those organisations that have decided to access T2S directly should be ensuring they are compliant, have analysed and understood all of the changes required for T2S. They also need to ensure that they understand the XML standards being used for T2S and that their systems can translate and map information from the back office into T2S messages.

"It is beyond doubt that T2S will not only significantly impact the infrastructure landscape, but also the strategic resource allocation of the banks acting as service providers," wrote SNUG member Florentin Soliva of UBS in a paper, Progress in the securities "post trading" area in 2010. "With the advent of T2S, settlement will turn into a barely profitable commodity product for the CSDs. Revenues will have to be generated primarily by other services. In addition, the vision of the 'T2S Model' will cause local custody providers to become irrelevant as the CSDs will take over this part of the service offering. Only a few CSDs will be in a position to take such a step or to evolve into European-wide single entry points." Soliva suggested that cooperation and consolidations were likely. By comparison, the Swiss infrastructure (SIX Group) was well positioned for this competition, he suggested. "The banks will be offered opportunities. Local agents as well as global custodians will have to strategically position their resources and activities in a timely fashion."

As a global player, UBS will continue to be engaged in these changes in order to seize any opportunities that may arise, said Soliva. "From a Swiss point of view, this does not only hold true for UBS but for the entire Swiss financial centre with regard to the positioning of the European cross-border business. For the players in the post-trading area, one of the most challenging tasks will be the partial transition of their one-stop-shopping service provision towards a highly efficient, low-cost modular service approach." •