

First wave of T2S: why are you there?

TARGET2-Securities (T2S) is scheduled to go live in June 2015, with the first migration wave of CSDs including SIX SIS Ltd, Monte Titoli, Bank of Greece, Malta Stock Exchange and Romania's Depozitarul Central. *Radar* spoke to three of these CSDs about their progress towards T2S implementation and why they sought to be part of the first wave.

How close are you to completing your preparations for T2S?

Christophe Lapaire: We are progressing very well. We are fully aligned with the ECB plan and with our own. At the end of September the ECB finalised its acceptance testing and that means that the software is ready and open for testing by the CSDs. In October we initiated the interoperability-testing phase, which will end in CSD acceptance testing at the end of the year. Of course from a client perspective, the most

Participants

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Christophe Lapaire | SIX Securities Services

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Christophe Lapaire, SIX Securities Services

important thing is community testing, which will kick off in March 2015 for first-wave CSDs.

Mauro Dognini: Monte Titoli is in a strong position. We have started functional testing and will continue to work closely with our clients over the next seven months to make sure everyone is ready and we can offer a single point of entry into all of the T2S markets.

Robert Vella-Baldacchino: Malta Stock Exchange (MSE) is well advanced in its technical readiness and preparations for the T2S planned go-live on 22 June 2015. Technical infrastructure and project planning started soon after the MSE’s decision to join the first wave of migrating CSDs. Our CSD software was totally renewed over a year ago in preparation for interfacing between T2S and MaltaClear®, the MSE’s security settlement system.

The MSE has also recently participated in a T2S “Migration Weekend Dress Rehearsal” to demonstrate the successful technical data interface between T2S and the MaltaClear database. The MSE has publicly dis-

seminated its MSE T2S Adaptation Plan and consulted widely with the Maltese market T2S National User Group, issuers serviced by MSE-CSD and the MSE College of Stock-brokers.

Through its adoption of the so-called “layered model”, the MSE will be grouping all end-investors’ CSD accounts in a technical omnibus T2S account opened on the T2S platform. Technical T2S participant accounts have already been opened in the names of all other MaltaClear clearing members, stockbrokers and banks. Following further business functional testing, the MSE is now looking forward to the start of business users community testing after 5 March 2015.

Is your impression that, across the board, the first-wave CSDs are progressing according to the ECB plan and are on schedule?

Lapaire: We are encountering a number of technical issues with T2S, but this is not surprising in the context of such a complex project. Defects are reported to the ECB



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Robert Vella-Baldacchino, Malta Stock Exchange



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and taken care of as with any large-scale software implementation project.

The various first-wave CSDs have very different contexts. Three out of five of them will connect as users to the T2S software directly. Monte Titoli and SIX SIS, however, have large-scale businesses and need to connect application-to-application, which is a more complex process.

What makes you well placed to be part of the first wave of T2S?

Dognini: We remain a committed champion of T2S and have been investing in our technology and readiness since its inception in 2006. To ensure readiness as a first wave participant we have invested in our technology and infrastructure throughout that time. Our agile technology has allowed us to develop our new asset servicing capabilities along with our collateral management platform, placing Monte Titoli in a unique

position to service new and existing customers when the T2S regime is introduced in June 2015.

London Stock Exchange Group has also recently launched a new Luxembourg-based CSD, globeSettle, which will leverage the IT and operations expertise of Monte Titoli. Through the two CSDs, London Stock Exchange Group is able to provide customers with greater choice and flexibility.

Vella-Baldacchino: To ensure a seamless interface between the domestic and international markets, MaltaClear some years back linked up its clearing and settlement with Clearstream. The MSE is also a partner exchange of Germany's Deutsche Börse via its XETRA technology. Joining the Eurosystem T2S project was thus both a natural development of MSE's strategy as well as the next obvious milestone.

As a lean and agile organisation, the MSE appreciates the benefits accruing

from outsourcing clearing and settlement to T2S. MaltaClear processes and procedures can be expediently adapted to ensure compliance with T2S specifications and requirements together with European best practice standards.

Lapaire: Since the very beginning, SIX Securities Services has clearly communicated that it wants to be part of the first migration wave. That was a strategic decision. SIX is not the most important CSD in terms of volumes, because the Swiss Franc will not be part of T2S, but we are actually number one in terms of market coverage. SIX covers 68 markets, providing comprehensive asset and tax services in addition to the traditional CSD service. That makes us quite unique.

With such a business mix, it was very important for us not to enter T2S at a later stage with much higher volumes. We will keep our proprietary settlement application, and add the T2S layer on top. That makes us different as well. We will not outsource our settlement functionality, as other CSDs are doing. Clients must remain the centre of our focus, and clients are expecting to get the same service after the implementation of T2S.

What are the benefits to your market of being part of the first wave of T2S?

Vella-Baldacchino: The benefits to the MSE of forming part of the first wave of T2S are manifold. But the most prominent advantage to Malta lies in its achievement of an internationally recognised optimal standard of clearing and settlement through a comprehensive state-of-the-art technology infrastructure owned by the Eurosystem. The MSE will be able to look forward confidently to focussing its resources on serving particular customer needs and niches that

are often overlooked by larger competitors and organisations. Following successful T2S migration in June 2015, the MSE is also looking forward to furthering its regional and international strategy by consolidating its international market links and developing new interoperable networking opportunities.

Lapaire: First of all, it is about reducing complexity and risk for SIX Securities Services and our clients. The Swiss market is in T2S, but the Swiss Franc is actually not an eligible T2S currency. Settlements in euros for the Swiss markets will be well below 10 percent of Swiss market volume. Migrating with lower volumes means clients will be in a position to better focus on harmonising standards in settlement and corporate actions. Second- and third-wave migration CSDs will have to deal with onboarding much larger volumes when migrating with their community.

Dognini: Being a first-wave participant in T2S enables us to assist a broader, more international range of customers. We are already developing our collateral management services, which can be integrated within our core business. We also believe there are opportunities to increase our volumes along with our range of clients, benefitting from our first mover advantage.

Have you identified any potential 'unintended consequences' of T2S implementation?

Dognini: Monte Titoli has been working closely with regulators and customers since the beginning of the project so we haven't, as yet, experienced any surprises during implementation.

Lapaire: I'm not sure the consequences are →

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unintended. What is clear is that not everybody realises the consequences of T2S for the time being. T2S is setting new standards in post-trade and this will affect the business models of all participants – not only the CSDs, but potentially also global custodians and larger players. The market is currently focusing on technical implementation, but the potential of T2S will only be revealed after upcoming regulatory changes, such as the Central Securities Depositories Regulation (CSDR), which are in the pipeline.

Today T2S is on the radar screen of COOs and CTOs, but soon it will be on the radar screen of CFOs and CEOs. The technical aspects will recede into the background and the benefits will be unveiled once these different pieces of legislation are implemented. And they will be implemented. It's not a question of if; it's a question of when.

Vella-Baldacchino: As the adage goes, “There is no gain without some degree of

pain.” The T2S implementation is no exception. Indeed, market users may query the scope of the changes that T2S implementation will bring with it. Much of that is the natural instinctive apprehension that accompanies any market change. The recent Europe-wide switch of the settlement cycle in cash markets from T+3 to T+2 initially raised some concerns, but the benefits of conforming with a European settlement standard, now also enshrined in the EU Central Securities Depository Regulation, prevailed.

T2S implementation will also definitely enforce orthodox settlement practice which the Maltese market by and large already upholds as is evident in its strong track record of negligible market transaction settlement fails on the MSE. All in all however, there is no doubt in our minds that the net benefits of T2S implementation by far outweigh any potential – and inevitable – unintended consequences. •