

International Securities Services Association



Strengthening the Global Financial Infrastructure Current European Issues

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ACSDA General Assembly 2010

ISSA

Agenda



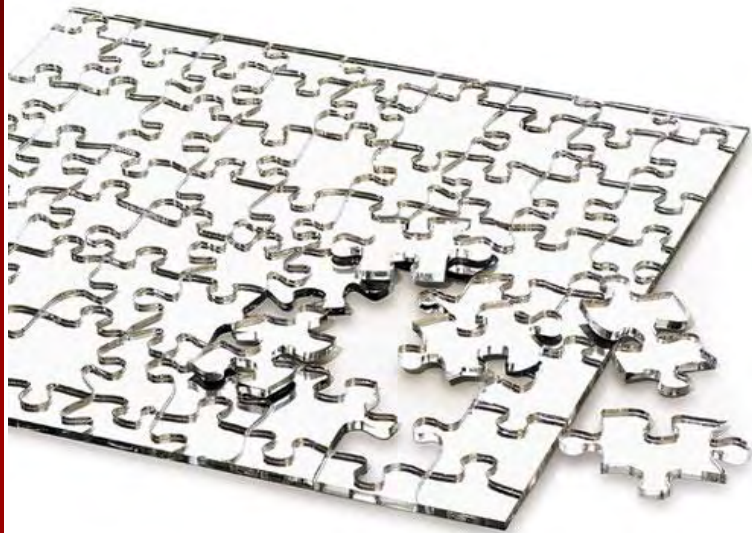
1. TARGET2 Securities

→ Europe's key infrastructure project

2. Harmonizing Settlement Cycles Across Europe

→ A vital success factor for T2S

1. TARGET2 Securities



An Evolving Cross-border Infrastructure

TARGET Trans-European **A**utomated **R**eal-Time
Gross Settlement **E**xpress **T**ransfer



TARGET1 Linked the national central banks' euro payment systems (1999)

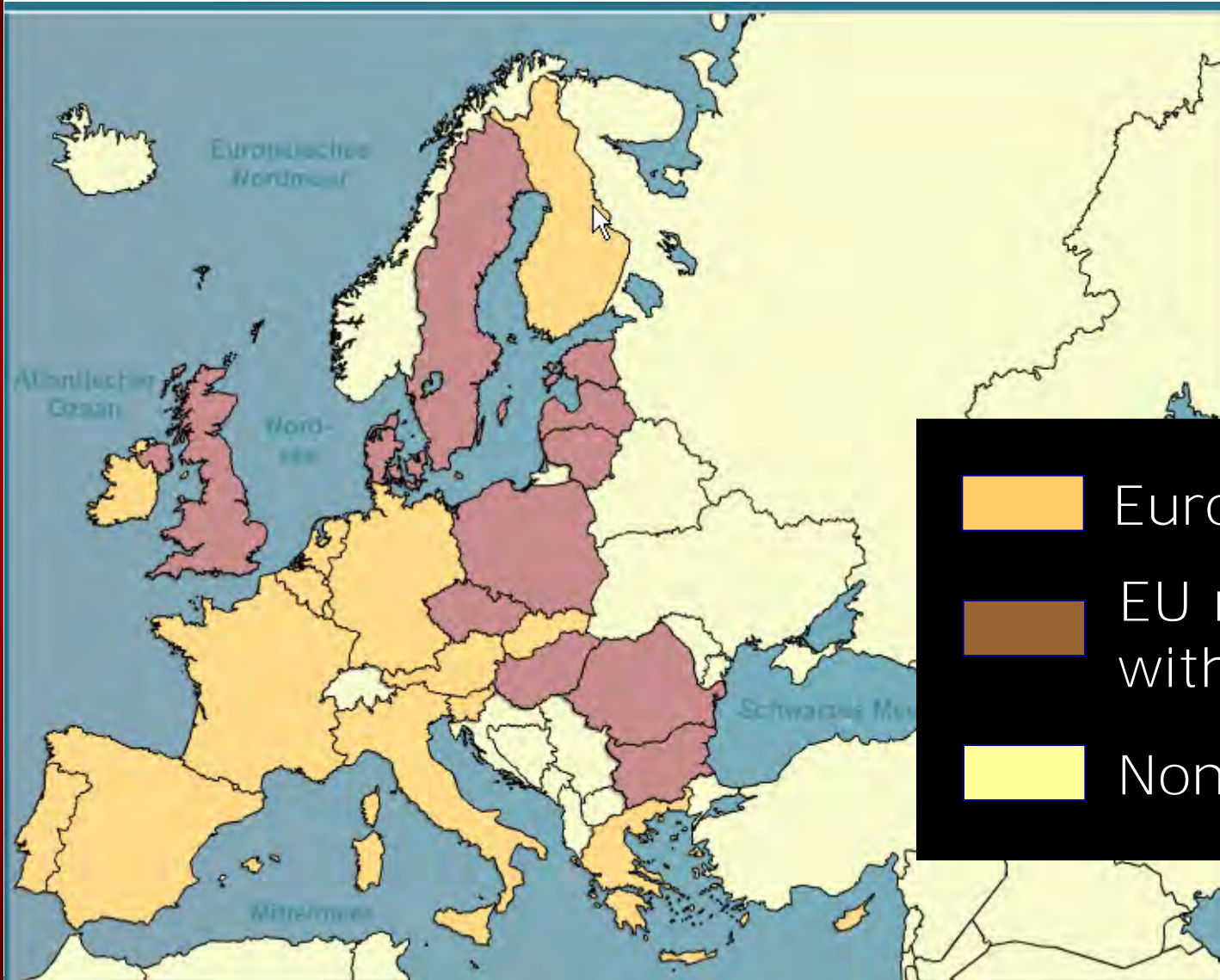


TARGET2 Replaced the national payment systems with a single platform for all central bank euro payments in the European Union (2007)



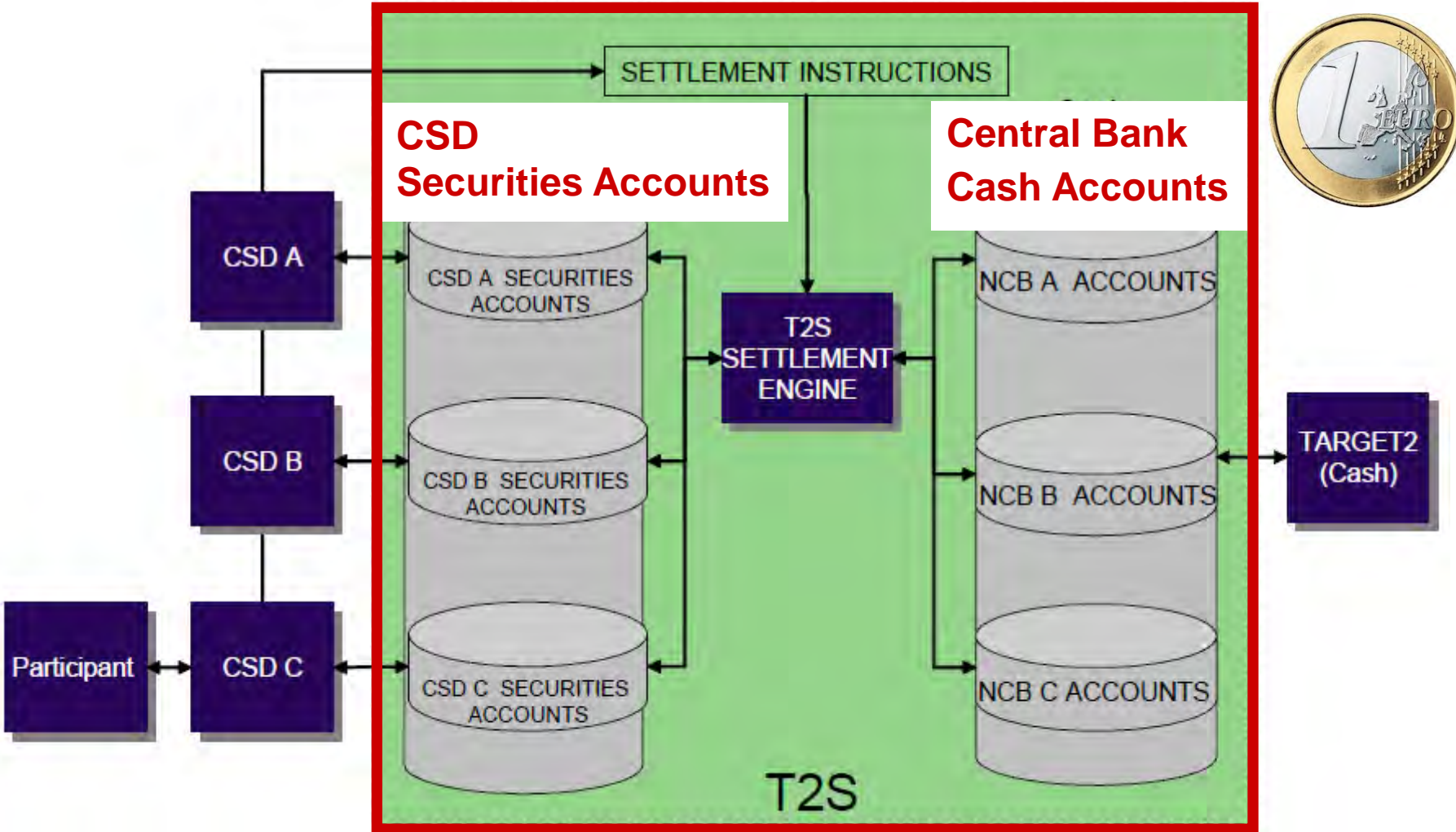
TARGET2 Securities Extends the single payment platform to include securities settlement (2014)

Euro Zone 2010



-  Euro Zone: 16
-  EU members without Euro: 11
-  Non EU countries

The Essence of T2S



NCB = National Central Bank

Current T2S Discussion Points



- ◆ Role of the European Central Bank: T2S operator and regulator?
- ◆ Governance structure of T2S?
- ◆ Will T2S really make settlements cheaper?
- ◆ Impact on market structure: role of CSDs and Custodians?
- ◆ Variations in local market practice: accommodate or eliminate?

2. Harmonizing Settlement Cycles

Yes, we want a common settlement standard!

But.....

Which side of the market?

→ Market and client side

Which type of trading?

→ On-exchange yes
Over-the-Counter no
Securities financing no

Which securities?

→ Equities yes
Derivatives no
Bonds yes (but mostly OTC)

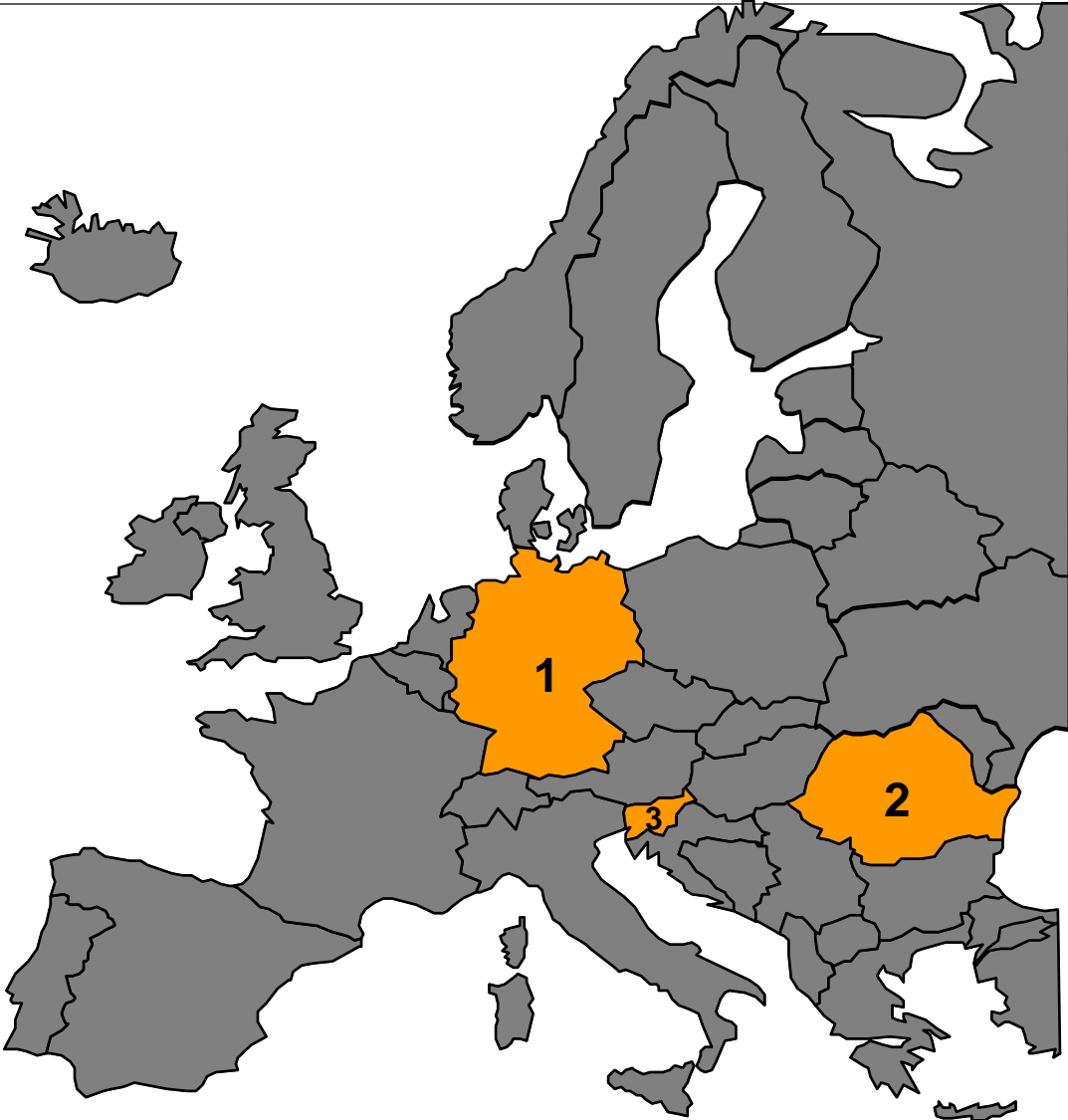
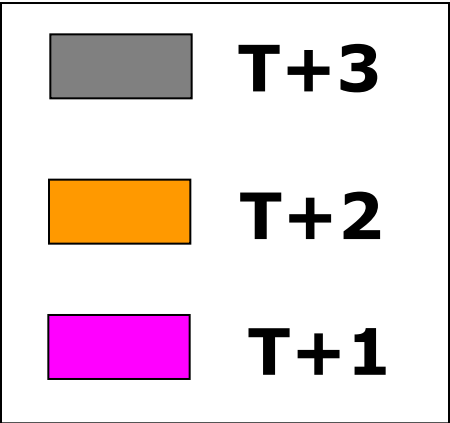
When: before, or at launch of T2S?

→ Not decided

How: market by market or "Big Bang"? → Not decided

..... And now, which standard?

Settlement Cycles in Europe



- 1 Germany
- 2 Bulgaria
- 3 Slovenia

Reduction to T+2?

In favor

- ◆ Only 3 markets affected
- ◆ Reduces counterparty risk
- ◆ Fewer trades with pending corporate actions
- ◆ Less cost for providing collateral to CCP
- ◆ Enforces market discipline

Against

- ◆ > 24 markets affected
- ◆ Fail rates will increase
- ◆ Failed trades cause more complexity in adjusting pending corporate actions
- ◆ Higher daily running cost ("doing the same faster")
- ◆ Requires expensive process automation

Europe's View on T+1



T+1

Stay away!!

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