

# How does T2S feed into the European Commission's plan for a capital markets union in Europe?

T2S was launched earlier this year and is now fully operational. But that is not the end of the story. T2S fits into and drives forwards Europe's wider plans to complete its Economic and Monetary Union. Europe has achieved a great deal, not least the single currency, but there are still some areas where further work is needed if we want to break down the remaining barriers to a true Single Market in Europe.

## Free flow of capital in Europe

The European Commission's proposal for a capital markets union seeks to address one field where such barriers still exist. On 30 September 2015 the Commission published an action plan outlining the concrete steps it will take to establish this union. The goal is to ensure that capital can flow between Member States as freely as it does within them. The capital markets union will give Europe's businesses and investors easier access to a wider range of funding sources and will increase the amount of investment financing available within the EU. In addition, it will help make the financial system more stable, as greater funding choices will mean less reliance on banks as the main source of funding. This diversification of risk will make it easier for the economy to absorb any future shocks to the banking system, for example.

## A strong capital markets union needs a strong financial market infrastructure

In order for businesses and investors to be able to access these additional sources of financing – wherever in the EU they might be found – it is essential that there is a strong and integrated financial market infrastructure in place. This is where T2S feeds into the capital markets union.

T2S provides a centralised platform for securities settlement, making it easier to move securities around the EU and to make full use of the liquidity available across the EU as a whole, unlocking capital that can be used for investment. It has consolidated Europe's securities settlement infrastructure and increased competition between providers of post-trade services. Before T2S, issuers and investors had to navigate over 30 different securities settlement systems, which meant securities settlement stayed relatively fragmented along national lines and the national central securities depositories had more or less a monopoly by default. Now, it is much easier for these providers to offer the same services across national borders, meaning much more choice for investors and issuers and lower costs.

## Continuing the T2S harmonisation agenda

Another way the T2S project feeds into the capital markets union project is through its wider harmonisation agenda. During the development of T2S, 24 harmonisation activities were identified that would improve the efficiency of the platform. Some of these were essential to T2S functioning properly, while others were non-essential for the launch of T2S, but still important steps for achieving a level playing field in the post-trade industry. Some of these non-essential (or “priority 2”) activities still need to be completed in order to remove the remaining barriers to efficiency in the European market.

The European Commission's action plan takes up the T2S harmonisation agenda and addresses many of the priority 2 activities that have not yet been completed, such as those relating to conflicts of law, withholding tax procedures and cross-border shareholder transparency. T2S provided the concrete incentive that was needed to get this much-needed harmonisation process underway and participation in T2S has increased the incentive and enthusiasm to keep working to complete the remaining activities. The baton is now being taken up as part of the capital markets union agenda.

## T2S has laid the foundations for the capital markets union

The Eurosystem fully supports the European Commission's capital markets union plan, as demonstrated by our commitment to delivering T2S and our role in driving forwards the harmonisation agenda. T2S has provided an important pillar upon which to build the capital markets union. Not only has it moved Europe closer to having a fully integrated financial market infrastructure that makes the free flow of capital possible, but it has also been the catalyst for a harmonisation process that has already made good progress and that enjoys the full support of the market. Ultimately, the completion of the capital markets union will move us another step closer to our goal of a true Single Market in Europe.