

Jean-Michel Goddefroy's interview with the Romanian media company Mediafax (26 July 2010)

- Why does Europe need TARGET2-Securities (T2S)?

The European Union is fully committed to market integration. Despite the high level of integration achieved as a result of the introduction of the single currency, the settlement of securities transactions remains fragmented along national borders and settlement between different European countries is still complicated and costly. T2S will help to overcome this fragmentation by providing an integrated, highly robust, and state-of-the-art single technical platform for the core, neutral and borderless settlement of securities transactions in multiple currencies. Indeed, it will make cross-border settlement identical to domestic settlement, in terms of cost, risk and technical processing.

- Do you think it is necessary to issue an EU Directive that would regulate the activities of central depositories and if so, what would you expect the directive to address?

If I am correctly informed, the planned Securities Law Directive will not cover the CSDs. Instead, the EU Commission intends to issue a regulation which would *inter alia* provide for a common understanding of what a CSD actually is, what its core functions are, and what services it would be able to offer on a cross-border basis. For further information, I would like to refer you to the EU Commission.

- Do you think that in the following years there will be a trend to further consolidate the post-trading services in the EU and if so, what efficiencies will it bring and what would be the impact on systemic risk?

In the past years, there have been important mergers between European CSDs and several market-led initiatives to consolidate the settlement infrastructure in specific regions of Europe. Thus, one cannot deny that there has already been a certain level of consolidation in the field of settlement. Yet it is clear that the benefits of this consolidation are limited to the customers of these infrastructures and to the countries they serve. Due to the co-existence of very different business models, it is unlikely that market initiatives on their own will be able to create a fully integrated settlement infrastructure for the whole of Europe. And this is where T2S comes in, bringing about considerable economies of scale at the European level to the benefit of the whole market, as well as increasing the level of processing efficiency as a result of the introduction of harmonised procedures, a single operating schedule, and the possibility for banks to optimise their collateral and liquidity management. By offering real-time delivery-versus-payment in central bank money, and by enabling counterparties to use all their assets to back the successful settlement of transactions across Europe, T2S will substantially reduce settlement risk.

- Do you think T2S will drive also to a harmonisation of the national rules and procedures? What are the key items that require harmonisation? What do you believe to be the consequences for those countries which will fail to harmonise?

T2S places a very high value on ensuring that the voice of the market is heard. In particular, the T2S Advisory Group has been extremely beneficial in agreeing on a level of harmonisation that is required to reap all the benefits of T2S. T2S brings *de facto* harmonisation to settlement. By offering a single settlement engine and common processing standards, T2S will encourage all participating national markets to reduce

their national specificities to the minimum. I believe that those markets that adapt quickly to a world with T2S will have good chances to remain in a good competitive position.

- What are the major milestones to be achieved before T2S goes live? When will T2S become operational? How do you intend to roll out T2S to multiple countries?

Technical documentation is well advanced and the system is now being developed. T2S is envisaged to be ready for testing with CSDs in January 2014 and ready to become operational in September of the same year. The migration to the new platform will take place in a number of consecutive waves of CSDs, the composition of which is currently under discussion.

The legally binding agreements between the Eurosystem, the participating CSDs and the non-euro area national central banks that intend to use T2S for the settlement of securities transactions in their currencies are expected to be signed in the second quarter of 2011: this will mark a new stage of the project.

Some important policy issues that are pertinent for the finalisation of the agreements, in particular the future T2S governance and T2S pricing structure are about to be settled. The Eurosystem hereby involves all relevant stakeholders closely.

- How will T2S ensure a level playing field for all central depositories, big and small, which will join T2S?

One of the general principles on which T2S is based is its neutrality towards all participating CSDs. CSDs that will join T2S will be asked to comply with five eligibility criteria. One of the main objectives of these criteria is precisely to ensure a level-playing field by preventing any free-riding behaviour on the part of some CSDs to the detriment of others. Furthermore, T2S will supply common services and facilities to all participating CSDs based on a common pricing structure.

- For those central depositories which have agreed to join T2S, what value-added services do you believe they should focus on and build in order to remain competitive?

I am happy to say that, as at today, 30 CSDs from 28 countries have formally signaled their intention to join T2S by signing the T2S Memorandum of Understanding. While T2S will offer new business opportunities and access to new markets, each of these CSDs will have to make its own strategic decisions about its future activity and what services it will offer.

- How do you envisage Depozitarul Central's involvement to collaborate to the successful implementation of T2S?

Depozitarul Central has been one of the first CSDs to realise that the T2S initiative cannot be ignored and that it is important to understand at an early stage how to benefit from it. By signing the T2S Memorandum of Understanding in July 2009, Depozitarul Central has committed, like the other signatories, to start assessing the impact of T2S on its current infrastructure and negotiating its contractual agreement with the Eurosystem. This is being done within the CSD Contact Group and its substructures. Moreover, all interested CSDs are involving their national communities in their plans and discussions through the National User Groups, ensuring that all possible concerns regarding their

local communities are flagged and addressed at an early stage. In this respect, I welcome the recent creation of the Romanian National User Group.

- How do you see Depozitarul Central's positioning in respect to other central depositories joining T2S?

It is difficult for me to answer this question. As I said, I noted that Depozitarul Central was quicker than most CSDs to show an interest for T2S, in particular in this region of Europe. With T2S, CSDs will be able to offer services beyond the borders of the country where they are incorporated. I understand that this is part of their strategy.

- Do you believe that, given the commitment of Depozitarul Central, they could play a role in allowing smaller regional depositories to use Depozitarul Central's capabilities/gateway to access T2S?

Indeed, with T2S Depozitarul Central will have the possibility to offer settlement in T2S to its customers, and to structure and extend its business according to its own business policy. That can include offering services to other CSDs of the region, or even directly offering settlement services to financial institutions located in other countries. But in order to be able to expand abroad, it is also important to satisfy one's own market. This is why the National User Group was created. This is also why they are discussing with the National Bank of Romania what help they can provide to them, in euro and perhaps also in lei.

- What are the drivers which will distinguish the winners from the losers amongst the central depositories in the unified T2S environment?

It is very simple. T2S is a revolution in the world of CSDs. The winners will be those who adjust very quickly to this new reality and are able to transmit the benefits of T2S to their (already existing and new) customers. The losers will be those who have not understood what happens or who try to delay adjustment. This is a Darwinian process where the losers are not necessary small and the winners are not necessary big.

- What do you expect the benefits of T2S to be a) for end investors b) for intermediaries c) for central depositories?

Starting with the CSDs, as I said before, we will offer them a state-of-the-art and highly robust settlement engine that will enable them to pool together settlement volume across the whole of Europe. This will open up new business opportunities for them, and they will be able to concentrate on value-added services; they will be able to offer efficient settlement services in central bank money, and their market share in the settlement business will probably increase; moreover, they will be able to compete efficiently across borders. Turning to intermediaries, European banks have been the strong supporters of T2S from its very inception, as they will be the main beneficiaries of the lower settlement fees, especially in the cross-border area where we expect T2S to cut actual prices by up to 90%. They will also benefit from the competition among CSDs and the possibility offered by T2S to streamline their interfaces and centralise their settlement activities: potentially, once T2S is live, a bank will be able to access all securities in Europe through a single CSD, thus dramatically reducing the complexity and cost of operations. Finally, the savings in the settlement costs are foreseen to be passed on to end investors. In addition, the latter will be able to benefit from more diversified portfolios, while issuers

will benefit from a more diversified investor base. As a result of reduced settlement costs, increased competition and greater harmonisation, T2S will therefore have a positive impact on European economic growth in general. Again, the winners will be those who accept this new European reality. The losers will be those who try to keep their local monopoly.