TARGET2 – Securities

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I. Why?
Why?

European Integration:

• Cross-border securities settlement in the EU up to 6 times more expensive than domestic settlement.

• Domestic settlement in EU up to 8 times more expensive than in the USA.

• Banks are asking for a single settlement platform for European securities.

• Public authorities committed to act (Lisbon agenda).
  - Lifting the “Giovannini barriers”
  - Code of Conduct
  - TARGET2-Securities
The current initiatives:

How many more years would the market need before they find a solution for the euro area?
Why?

TARGET2-Securities:

Level playing field: Same conditions for the provision of DVP settlement in central bank money of securities transactions in euro to all Eurosystem counterparties.
Efficiency:
Market preference for securities and cash to be settled through the same technical IT platform.

Financial stability:
The Eurosystem expresses strong reticence to outsource settlement in central bank money to third parties (as envisaged by Euroclear). The Eurosystem wants to keep full control of their accounts at all times, in particular in time of crisis.
### Why?

### A long central bank tradition

<table>
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<tr>
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<th>Central Banks involved in Securities Settlement</th>
<th>Central Banks involved in Securities Settlement in the last 20 years</th>
<th>Central Banks not involved in Securities Settlement in the last 20 years</th>
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<td><strong>Non €-area</strong></td>
<td>USA</td>
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<td>Japan</td>
<td>France</td>
<td>Luxembourg</td>
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<td><strong>€-area</strong></td>
<td>Belgium</td>
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<td>Greece</td>
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<td>Portugal</td>
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<td>Netherlands</td>
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<td>Finland (as a major shareholder)</td>
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Fedwire Securities Service

Settlement function

Custody function (e.g. corporate actions)

Notary function (issuance, ...)

Treasuries

Equities, corporate bonds, ...

TARGET2 Securities

All type of securities

Why?

Comparison between US and Euro area
II. How?
How?
Flow of trades

How?
How?

Euroclear FR (BE, NL*)
- Securities accounts
- Cash accounts

NBB SSS
- Securities accounts

Interbolsa
- Securities accounts

BOGS
- Securities accounts

Clearstream DE
- Securities accounts

Monte Titoli
- Securities accounts

Iberclear
- Securities accounts

APK
- Securities accounts

TBF
- Cash accounts

TOP
- Cash accounts

Ellips
- Cash accounts

SPGT
- Cash accounts

Hermes
- Cash accounts

ARTIS
- Cash accounts

IRIS
- Cash accounts

LIPS
- Cash accounts

RTGS+
- Cash accounts

BIREL
- Cash accounts

SLBE
- Cash accounts

BOF-RTGS
- Cash accounts

Multiple form of DvP

*planned for BE and NL
How?

- Euroclear FR (BE, NL*)
  - Cash accounts
  - Securities accounts

- Clearstream
  - Securities accounts

- Monte Titoli
  - Securities accounts

- Iberclear
  - Securities accounts

- APK
  - Securities accounts

- NBB SSS
  - Securities accounts

- Interbolsa
  - Securities accounts

- BOGS
  - Securities accounts

- OeKB
  - Securities accounts

- NTMA
  - Securities accounts

- Other CSDs
  - Securities accounts

TARGET2

OeNB, NBB, BBK, BdE, BoF, BdF, BoG, CBFSAI, Bdl, BcL, DNB, BdP

Two forms of DvP

*planned for BE and NL
How?

TARGET2

TARGET2-Securities

Sub-cash accounts

Securities accounts

Cash accounts

OeNB, NBB, BBK, BdE, BoF, BdF, BoG, CBFSAI, BdI, BcL, DNB, BdP

One form of DvP

Euroclear (BE, FR, NL)  NBB SSS  Interbolsa  BOGS

Clearstream DE

Monte Titoli

Iberclear

APK

OeKB

NTMA

Other CSDs
III. When?
No decision has been taken yet:
The Eurosystem is “exploring” the issue

Preliminary answers (see ECB website):
• 13 banking communities
• 15 market infrastructures (CSDs and CCPs)
• 3 European associations of banks
III When?

Preliminary reactions of market to TARGET2-Securities:

Very positive reactions from banks
- almost unanimous support
- preference for all transactions
- need for both real-time and batch settlement seen but some emphasis on real-time
- possibility of direct technical access
- need for TARGET2-Securities to decrease fees for end customers
III When?

Preliminary reactions of market to TARGET2-Securities:

CSD reserved their position as long as more information is provided on:

– Scope of project (assets and services)
– Direct versus indirect connectivity
– Timetable
– Implications on costs and revenues of CSDs
III When?

Preliminary reactions of market to TARGET2-Securities:

- very positive reaction by most banks
- interest in T2S also outside the euro area
- CSDs “wait and see” attitude (with some CSDs more supporting than others)
- clear need for more elaborate proposal for next round of discussions (including timetable and road map)
III When?

Decision of the Governing Council expected February 2007

After the result of a feasibility study:

- Banks effectively demand these services and CSDs are ready to accept outsourcing to the Eurosystem.
- No legal or technical obstacles to build T2S
- The Eurosystem can provide the services at a good price