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## T2S benefits: much more than fee reductions

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*The T2S single settlement platform will have a transformational effect on Europe's financial markets, delivering a wide range of benefits. For the first time, it will create an integrated market for settlement. It will also make markets safer and more efficient. Much attention has been focused so far on the efficiency gains achieved from reductions in settlement costs, but it is important to emphasise that T2S will also generate major collateral savings for the banks, enable custodians to streamline their back offices, and provide new business opportunities for all players in the future competitive post-trade environment. Furthermore, T2S will play a significant role in strengthening the resilience and safety of the financial system.*

The "T2S Special Series" is a publication aimed at informing the interested stakeholders about issues related to the T2S.

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The views expressed are those of the author(s) and do not necessarily reflect those of the ECB.

## Introduction

T2S will constitute a major infrastructural change in Europe's financial markets. To be a success, it will require short-term investment by the financial community, in particular by central securities depositories (CSDs). At a time when many companies' budgets for IT projects are under strain, it is important to emphasise that T2S will deliver significant benefits to financial markets and to Europe's economy in the medium to longer term. It will create an integrated market for settlement. It will make settlement more efficient and safer.

T2S constitutes a major infrastructural change for Europe's financial markets

Until now, attention has generally been focused on the efficiency gains from T2S, in particular how T2S will reduce settlement costs. Of course, this is an important issue, and the economies of scale brought about by T2S will enable CSDs to reduce settlement fees. Cross-border fees will certainly be reduced in the short run, while domestic fees will decrease once initial CSD investments have been amortised and savings on decommissioned infrastructure can be reaped.

Settlement fee reductions resulting from T2S

However, reducing settlement costs is only one of the benefits of T2S, and there are many others that also deserve our attention, particularly in today's risk-conscious environment. In particular, T2S will also provide banks with significant savings in collateral and liquidity. Since the start of the crisis and the subsequent rise in secured financing not only for central banks but also for private repo transactions, using collateral as efficiently as possible has become a major preoccupation.

Collateral savings are particularly important in today's risk conscious environment

In addition to these collateral benefits, the lean T2S concept, combined with extensive harmonisation, will also enable banks to streamline and potentially consolidate their back offices, facilitating straight-through processing. A reduction in the complexity of post-trade activities in Europe implies major cost savings for banks.

Lean T2S and harmonisation

T2S will also lead to a "sea change" in the competitive environment of Europe's post-trading space, leading to significant gains in pricing and service quality along the whole value chain.

"Sea change" in the competitive environment

Finally, T2S will make a significant contribution to making settlement safer by reducing counterparty and settlement agent risk and by implementing an extremely robust business continuity solution.

Making markets safer

The aim of this paper is to emphasise that the T2S single settlement platform offers a full range of benefits, not only providing advantages in terms of price, but also in terms of risk reduction, collateral savings, back office streamlining, increased competition and new business opportunities.

Rebalancing the discussion on T2S benefits

## Competition and business benefits

The European securities market landscape is in the midst of significant legislative change, affecting trading, clearing and settlement. The aim of such change is to make securities markets more efficient and safe. For a few years now, national CSDs have already been subject to certain European rules – namely the Code of Conduct – which have sought to increase openness and competition. Nevertheless, CSDs today still operate in a largely monopolistic national environment and there is ample room for increased competition. The new European legislation on CSDs will introduce changes that are considerably more radical. It is likely that within a few years issuers will have

Significant legislative change

1 The Giovannini barriers are a list of 15 barriers to efficient cross-border clearing and settlement. They are available at [http://ec.europa.eu/internal\\_market/financial-markets/docs/clearing/first\\_giovannini\\_report\\_en.pdf](http://ec.europa.eu/internal_market/financial-markets/docs/clearing/first_giovannini_report_en.pdf)

the choice of which CSD of issuance to use, and CSDs will be able (and indeed have the legal right) to settle securities issued in another CSD more easily. Market participants are expected to have a much greater freedom of choice regarding where they trade, clear and ultimately settle.

T2S will be highly complementary to the legislative push for competition, as it will help remove many of the technical and market practice restrictions. The combination of T2S and the new European legislation will therefore progressively transform the securities settlement landscape in Europe.

T2S is complementary to the new European legislation

T2S will foster competition between what are currently national monopolies by separating the “infrastructure” from the “service”. Examples of this process can be observed in a variety of European industries, in particular in the rail, telephone and utilities industries. Using an analogy from the rail industry, it does not make sense for train companies to build duplicate rail networks for their trains. It is much more efficient for the tracks to be supplied by a single provider (potentially operated by the public sector to prevent the charging of monopoly rents). Private sector train companies can then compete for customers by providing the best services using those tracks. T2S represents the single set of “railway tracks” for Europe’s settlement industry. CSDs will operate the trains.

Breaking up monopolies: separation of the “infrastructure” from the “service”

What will be the consequences? First, instead of being locked into a single national silo, customers will have much more freedom of choice regarding where they want to trade and settle. CSDs will need to compete to become their customers’ preferred gateway to T2S. Second, CSDs may be tempted to “move up the value chain” in order to compensate for the revenue shortage triggered by T2S. Third, new CSDs might be set up as a result of the new European legislation and the reduction in barriers to entry triggered by T2S. Fourth, CSDs are likely to enter into more competition with custodians. CSDs might also seek different ways of cooperating with each other, with a view to broadening their customer bases.

Freedom of choice and greater competition

The Markets in Financial Instruments Directive (MiFID), which came into force in the European Union in 2007, dramatically changed the trading and clearing landscape. It brought the monopoly of national stock exchanges to an end and led to the setting up of new multilateral trading platforms and Central Counterparty Clearing Houses (CCPs). The introduction of choice and competition led to significant cost reductions in trading and clearing. With the arrival of T2S, we might now see a similar process happening on the settlement side.

Will the impact of T2S be similar to that of MiFID?

From a legal perspective, T2S is not a monopoly: no CSD or currency is forced to participate. But if T2S is efficient, it will correspond to what economists call a “natural monopoly” in the newly unified European market, because of the significant economies of scale and the network externalities it will entail. In the future, no one will be able to prevent a given security from being settled in T2S. If the issuing CSD of a given security does not participate in T2S, it will be possible for another CSD in T2S to act as an investor CSD, and to bring that security into T2S. Once economies of scale have materialised, and as long as T2S remains efficient, it is likely that most traded European securities will be settled in T2S, and that the existence of parallel settlement channels will be seen by market participants as an unhelpful means of splitting liquidity.

Most traded securities will gravitate to settlement in T2S

Looking at the issue from the currency angle, the absence of a national currency will be overcome by market dynamics. In equities markets, the currency of denomination is not necessarily a key consideration: equities can be traded in any currency and international investors may indeed wish to settle in a currency different than the local

The market will find ways to overcome the absence of currencies in T2S

denomination of the equity. Thus it is likely that the market will increasingly trade European “blue chip” stocks in currencies that allow settlement in T2S.

The optimal time to join T2S will to a large extent be determined by this new competitive environment. With CSDs and custodian banks competing in their aim to become a “gateway to T2S” from its inception, it will be more difficult for late joiners to acquire market share afterwards.

First mover advantages in T2S

Although joining T2S requires investment in the short run, the costs of remaining outside T2S could be considerable over the longer term. A market choosing not to join T2S will miss a major opportunity to improve efficiency, integration and competition in its post-trading market. Its banking sector will not be able to benefit from back office streamlining, nor from savings in collateral or liquidity at a time when these are at a premium. Even more importantly, markets remaining outside T2S will be left out of the T2S harmonisation process at a time when it is rapidly gaining traction.

Considerable costs of being outside T2S

An increasing divergence could emerge between T2S markets and non-T2S markets. We envisage the development of a fully harmonised economic zone composed of T2S markets, in which the possibilities for straight-through processing are maximised. The post-trading costs in T2S markets will fall, and liquidity will increase. To foreign investors and intermediaries, non-T2S markets will appear increasingly isolated, with their non-harmonised procedures and cumbersome national specificities. As a result, it is likely that non-T2S markets will become relatively less attractive to both issuers and investors. Issuers from non-T2S markets will have strong incentives to start issuing their securities outside their own market, in T2S, in order to tap this additional liquidity.

Non-T2S markets will begin to look increasingly isolated

The decision not to be among the first joiners of T2S will not be easy to reverse. Because of the need to have a stabilisation period after the first migration round in 2015-2016, the earliest date for a second group of countries to join T2S will probably be 2018. This means that a market choosing to remain outside T2S will have to do so for three years at the very least, even if it reconsiders its decision in the meantime.

Markets which decide to be “out” at the start will not be able to join until 2018 at the earliest

As we have seen with the implementation of the MiFID, developments in financial markets can be very rapid, with huge implications for existing business models, which can become quickly outdated. The changes triggered by T2S will probably not be immediately apparent in 2015 when it becomes operational. But it is likely that these changes will accelerate over time, and the effects will be long-lasting. Once business from a market has crossed the border, it may not so easily return, even if that market joins T2S at a later stage.

Once business crosses the border, it may not so easily return

## Collateral and liquidity savings

Today, investors with diversified portfolios hold their securities, typically through custodians, with different national CSDs (e.g. stocks issued in France will be held in Euroclear France, stocks issued in Spain will be held in Iberclear, etc.). This is because the liquidity for those securities lies within those CSDs, and because cross-CSD settlement, involving an investor holding his/her securities with a single CSD, which then acts as an “investor CSD” in other markets, is inefficient and costly. Although there has been some pooling of securities among international CSDs/global custodians, the amounts are limited and settlement can only take place in commercial bank money, not central bank money.

Fragmented infrastructure creates inefficiencies for collateral and liquidity management

As a result of this fragmented environment, banks usually need to hold significant excess collateral, because they cannot reuse surplus collateral and liquidity if they have a long position in a settlement system. At the same time, they need to maintain a precautionary buffer of collateral and liquidity for days when they will be short in this market.

Surpluses of collateral and liquidity remain unused

T2S will abolish this need for market participants to hold multiple buffers of collateral and liquidity when settling in several European markets. T2S will make it possible for banks to have a single buffer for the entirety of their European business. A single pool of assets and liquidity will automatically net short and long positions in various markets, thus generating significant collateral savings. Banks and intermediaries will be able to manage their collateral much more efficiently, optimise their funding costs and avoid failed deliveries.

T2S will provide banks with a single collateral buffer for all their euro business

Furthermore, the cross-border management of collateral is generally associated with additional costs, for example owing to the additional time lag in moving collateral from one securities account to another, but also owing to differences in time schedules among CSDs. These delays fundamentally impede the quick cross-border movement of collateral, resulting in collateral being left unused. With T2S, CSDs will use a common settlement time schedule and optimisation mechanisms, ensuring real-time cross-border settlement and the immediate re-use of collateral on a cross-border basis.

Possibility to use cross-border collateral in real-time

Additional collateral and liquidity savings will be generated by T2S working in combination with TARGET2 – the Eurosystem’s single platform for large value cash payments in central bank money. These benefits are complementary to those already achieved by TARGET2.

Further synergy between T2S and TARGET2

In principle, TARGET2 could already enable banks to have a single cash account for the euro area. However, it is still necessary to assign liquidity to certain CSDs owing to the uncertain results of settlement processes, and thus to allow certain liquidity buffers for each settlement engine. These buffers obviously cannot become negative, so the aggregate amount of cash holdings required is very likely to be greater than if a banking group could have a “truly” single cash account for settlement purposes. The problem is aggravated by the non-harmonised scheduling that only T2S can resolve, in particular ensuring the simple, swift and cheap movement of collateral within Europe.

Use of a single cash account for all settlement activity in T2S

In addition, T2S will render ubiquitous a market feature that is so far available only in a very few European countries: namely the central bank “auto-collateralisation” mechanism. Bank treasurers in countries that do not currently have auto-collateralisation may not fully realise how revolutionary such a tool is. Auto-collateralisation allows the buyer to use the central bank eligible debt securities he is buying as collateral to obtain the central bank intraday credit needed to pay for the purchased securities; this procedure is called auto-collateralisation on flow. The buyer only needs to have sufficient cash on an intraday basis to cover the “haircut” on the collateral. It is also possible for the buyer to use an earmarked stock of securities as collateral to obtain the central bank intraday credit to buy assets which may not be central bank eligible collateral; this procedure is called auto-collateralisation on stock.

Highly efficient auto-collateralisation mechanisms extended to all T2S markets

This auto-collateralisation feature in T2S will significantly reduce the need for pre-funding of cash accounts, both for daytime settlement and, in particular, for night-time settlement. Experts have estimated that night-time settlement could continue to run successfully for a long period, even without any liquidity on the cash

Significant reduction in need for pre-funding of cash accounts during night-time settlement

accounts, because of this auto-collateralisation functionality. Furthermore, because the securities being bought can be used immediately as collateral, it will release for alternative use a large amount of collateral on stock that is normally needed as a buffer. Owing to the significant positive externalities that it creates for settlement efficiency and systemic stability, the Eurosystem has agreed with market participants that use of this auto-collateralisation feature in T2S will not incur fees.

For the Economic Impact Assessment carried out in early 2008, the ECB conducted a survey of market participants who were asked to estimate the monetary value of the savings in collateral and liquidity that T2S would deliver. For the euro area markets, the monetary value of collateral savings to be made each year by the banking industry was estimated to be around €50 million. Since 2008 and the deepening of the economic crisis, the importance of secured financing markets has increased immensely. Furthermore, the demand for collateral has increased as a result of greater use of central clearing. As a result, the opportunity cost of collateral should also have increased significantly. The value of the collateral and liquidity savings that T2S will deliver is likely to be several times higher than that estimated when the Economic Impact Assessment was carried out in 2008. The ECB is currently carrying out a quantitative analysis of the matter and will publish the results in due time.

Value of collateral savings generated by T2S likely to far exceed €50 million per year

## Operational efficiency benefits

Many studies have shown that the reduction in custodians' back office costs is one of the key sources of efficiency gains resulting from harmonised, borderless settlement. In the current fragmented environment, where local settlement procedures differ significantly, custodians tend to maintain separate back offices in order to interact with each CSD, or else employ a local sub-custodian to carry out the task on their behalf. The single technical T2S platform, combined with a high degree of harmonisation in the securities settlement process, will make it much easier for custodians to consolidate these separate back offices into a central back office and achieve a very high degree of automation.

The reduction in back office costs is a major benefit of T2S

The T2S project was designed from the beginning to make cross border settlement as efficient as domestic settlement, while avoiding the introduction of national specificities into the system's operational blueprint. T2S will trigger harmonisation in many crucial areas, prompting for example the adoption of a common interface, common message formats, a common set of rules for intraday settlement finality and a harmonised daily timetable and calendar. In the process, T2S will help remove Giovannini barriers 1, 2, 3, 4, 5 and 7. Being part of T2S will thus immediately increase operational efficiency for its users.

T2S will force harmonisation in many crucial areas

Nevertheless, there are currently still significant differences between the settlement practices of different CSDs and other market participants that will make use of T2S. Without a high degree of harmonisation in procedures and market practices, market participants will not be able to reap the full benefits of a single IT platform. Even with T2S, they could still be forced to resort to costly manual procedures, as well as resort to local intermediaries for certain tasks in some markets.

T2S needs harmonisation in order for banks to reap the full benefits of a single platform

In order to break down these remaining barriers, in 2011 a Harmonisation Steering Group was established, composed of senior level representatives from the financial sector and the public sector. This group supports the T2S Advisory Group in formulating and monitoring the T2S harmonisation agenda. Its objective is to ensure that the harmonisation needs of T2S are met in time for its launch, thereby

The T2S Harmonisation Steering Group is taking the lead in harmonisation work

increasing efficiency and enabling all participants to reap the full benefits of the single platform.

The Harmonisation Steering Group is currently monitoring and guiding progress towards the following high-priority objectives: establishing harmonised rules for settlement finality in T2S, implementing the T2S corporate actions standards, creating the opportunity for foreign intermediaries to hold securities in omnibus accounts, establishing agreed technical procedures for smooth cross-CSD settlement, introducing a harmonised settlement discipline regime, harmonising the settlement cycle, and completing the technical implementation of registration rules and procedures.

Harmonisation Steering Group focuses on certain key harmonisation deliverables

All these objectives are of critical importance, and need to be met prior to the launch of T2S. In July 2011, upon the initiative of the Harmonisation Steering Group, the T2S Advisory Group took some of these key post-trade issues to the European Commission to alert it to interdependencies between the foreseen EU CSD Regulation on the one hand and post-trade harmonisation, financial integration and the success of T2S on the other. The T2S Advisory Group publishes semi-annual progress reports on harmonisation, which provide the following: a detailed analysis of the status of each harmonisation activity; information on the relevant actors involved in the definition, monitoring and implementation of standards in the EU; and the envisaged deadlines.

Close monitoring of harmonisation progress and process of referral to other bodies

The Harmonisation Steering Group and the T2S Advisory Group have also established a post-trade harmonisation monitoring tool covering each national T2S market, which will help identify gaps between T2S/EU standards and national market practices, and flag corrective actions to all relevant stakeholders. The tool will benefit from the active involvement of the T2S National User Groups and the national central banks which coordinate them.

Identification and closure of harmonisation gaps in each national market

In 2011 the “Task Force on adaptation to cross-CSD settlement in T2S” was also established, comprising experts from CSDs, banks and central banks. Its mandate is to work on developing commonly agreed technical solutions for adaptation to cross-CSD settlement in T2S, with the aim of increasing the efficiency of cross-CSD settlement for the CSDs and their participants on a non-discriminatory basis.

Technical work to facilitate cross-CSD settlement in T2S

As regards the financial impact of T2S, the ECB’s Economic Impact Assessment, published in 2008, estimated that T2S will result in annual back office cost savings of €48 million per year. The benefits to be gleaned from the wider harmonisation of the post-trade industry, which is being driven by T2S, are likely to be many times this amount.

It is estimated that back office savings will amount to at least €48 million per year

## Safety benefits

In today’s environment, the priority of the European authorities is to make financial markets safer. During the crisis, the existing market infrastructure proved to be quite resilient, but this is no reason for complacency. Reducing counterparty risk and risk on the settlement agent are more important than ever. T2S will reduce counterparty and settlement agent risk because it will only settle in central bank money – the safest settlement asset. Settlement in commercial bank money is always subject to the risk that the settlement agent may fail.

Settlement in central bank money reduces counterparty and settlement agent risk

Furthermore, on a broad macro level, T2S will reduce systemic risk by having a highly efficient settlement engine, with gross real-time settlement finality in central bank

Reducing risk in cross-border transactions

money even for cross-border transactions. This is a significant benefit as at present a large part of cross-border transactions are still settled in commercial bank money and therefore exposed to safety concerns. Furthermore, by virtue of improving the efficiency of cross-border transactions and by allowing banks to have direct connectivity, T2S will reduce the number of possible “weak links in the chain” by keeping the number of intermediaries involved to a minimum. In today’s fragmented environment, there are normally multiple custodians and sub-custodians involved in a cross-border transaction. T2S is also pushing for harmonisation that will ensure consistent treatment of settlement finality in T2S, which is especially important when settlement occurs across two CSDs.

Lastly, T2S will reduce operational risk. It will have an extremely robust business continuity solution, with data centres in four sites in two countries, with the operational standards that are already applied in the TARGET2 system. T2S information security will comply with the highest industry standards.

Reducing operational risk with a highly resilient business continuity concept

## Price benefits

Because T2S is a single technical platform that will potentially be able to settle all securities transactions in Europe, it paves the way for significant economies of scale. The Governing Council of the ECB has decided that the fee for a DvP instruction in T2S will be only 15 cent and that it will be the same for both cross-border and national settlement.

T2S paves the way for significant economies of scale

According to the ECB’s Economic Impact Assessment, which was based on data provided by market participants, the average cost of domestic CSD settlement in the euro area was 73 cent in 2008. The equivalent cost using T2S, assuming that it would be in operation in 2008 and that CSDs would have the will and the means to efficiently adapt their current systems to it, was at the time estimated to be in the range of 39 to 57 cent for domestic transactions in the euro area only scenario. This price estimate included T2S settlement and information service fees, connectivity service fees, and the CSD add-on fees. Thus, right from the start, T2S was expected to deliver price reductions for domestic transactions, or at least not lead to increases. In the case of cross-border transactions, which today are up to ten times more expensive than domestic settlement, the cost savings produced by T2S will be very large indeed.

T2S should deliver cost reductions for both domestic and cross-border transactions

On the basis of the above figures, the Economic Impact Assessment estimated that T2S would result in annual savings in settlement fees at the CSD level of between €56 million and €118 million (euro area only scenario), with the exact figure depending on the level of CSD add-on fees. With the participation of non-euro area countries and given T2S’s economies of scale, annual savings could be even greater.

Settlement cost savings of between €56 million and €118 million per year

It should be stressed that the connectivity costs for T2S are unlikely to be a major factor in the T2S pricing equation. The most recent information indicates that these will be much lower than previously anticipated by CSDs and market participants.

T2S connectivity costs will be much lower than expected

Ultimately, the way that a CSD adapts to T2S, together with the size of its add-on fee, will determine its competitiveness in the future post-trading environment. CSDs have various options when it comes to adapting to T2S. At one extreme, some CSDs may try to limit their investment costs by simply adding T2S processes to their current processes. This would probably mean the addition of T2S fees to their current fees for domestic settlement.

A CSD’s add-on fee will determine its competitiveness in the future T2S world

On the other hand, rather than making incremental adjustments a CSD could decide to recreate its existing functions now, according to what markets want in the long term and in a way that complements the services provided by T2S. This approach would require investment in the short run, but would result in substantially lower running costs in the long run. It would also significantly strengthen CSDs' future competitiveness. For a CSD that has already amortised the costs of its platform, from a short-term perspective doing the minimum possible might seem favourable, but at some point investment will be needed to avoid a market burdened with outdated settlement infrastructure. The discussions that CSDs will be having with market participants in their preparation for the T2S go-live will provide them with the opportunity to incorporate T2S into their long-term investment planning. In the coming years, the settlement infrastructure of each CSD will in any event require maintenance and further investment. This should ease the burden of T2S adaptation costs.

CSDs need to consider the long term when adapting to T2S

Smaller market participants often express concern that with T2S domestic transaction fees will increase. Given their largely domestic focus, these participants question the benefits of T2S for their individual business models. However, if CSDs adapt in an efficient manner, in particular avoiding processes that are no longer needed, it will certainly be possible for them to offer securities settlement services for a fee no higher than today's domestic fee. This may possibly require CSDs to amortise investment costs gradually over time, rather than trying to recoup them during the first few years of T2S. In any event, individual CSDs and markets will have a strong incentive to engage in efficient "reshaping" and pricing. Participants will carefully review the services offered by CSDs in the future, and CSDs offering services at uncompetitive prices will lose customers, thus increasing the cost burden for their remaining customer base. Since small, local participants are not usually in a position to choose between CSDs and transfer business to those that are more efficient, they have a vested interest in "their" CSDs attracting international customers, as they can then benefit from the economies of scale that large international customers generate. In a competitive T2S environment, it is therefore in the interest of CSDs to efficiently reshape their services and thereby ensure that they remain competitive.

Smaller market participants should not face higher domestic settlement costs

The size of banks' adaptation costs should also be carefully assessed in the light of how they plan to connect to T2S. Most banks will be connecting to T2S indirectly via their CSD and will thus scarcely be affected by the new ISO 20022 Standard that T2S will use from the start. Their adaptation costs are likely to be low. Only banks that decide to directly connect to T2S, and therefore be ISO 20022 compliant, will need to make significant investment.

Banks connecting indirectly to T2S will not face significant adaptation costs

## Conclusions

The objective of this paper was to emphasise that the T2S single settlement platform offers a full range of benefits, giving rise not only to pricing benefits, but also to reduction in risk, collateral savings, back office streamlining, and competition and business benefits.

The savings in collateral that will be delivered by T2S are likely to be significant. T2S will reduce the amount of idle collateral being held at multiple CSDs and CCPs, significantly improve cross-border collateral use, increase settlement efficiency, and reduce the number of failed transactions. At a time when the demand for high quality collateral is ever-increasing as a result of the crisis and forthcoming regulatory developments, these collateral savings will be extremely valuable.

T2S will generate significant collateral savings, which is crucial in today's risk-conscious environment

T2S will also generate cost savings for the financial industry through the streamlining of multiple back offices across Europe. Combined with the drive for further harmonisation, T2S will be a major step towards a fully automated settlement process.

T2S will deliver large back-office cost reductions

T2S will make markets safer by reducing counterparty and settlement agent risk, and by providing a robust business continuity solution.

T2S will reduce settlement risk

Of course, although the other benefits are important, the reduction in settlement fees remains a key objective of the T2S Programme. In this respect, T2S has already laid the groundwork with a very lean and low price list, to add to the economies of scale that the single platform will produce. But in order to achieve reductions as early as possible as well as over the long run, efficient reshaping by CSDs will be necessary.

Reduction in settlement costs remains a key objective

CSDs have very strong incentives to ensure that their add-on fees are as low as possible. The combination of T2S and the new CSD legislation will dramatically change the competitive environment for European CSDs, and this will be characterised by a higher degree of freedom for all participants. Customers will not be forced to use national infrastructure. At the same time, CSDs will have the freedom to expand into other markets and some may decide, for strategic reasons, to “move up the value chain”. The CSD regulation will also grant issuers the opportunity to issue assets in the CSD of their choice. The rules of the game are changing, and this opens up new prospects for all CSDs. The outcome will depend on how quickly and efficiently CSDs adapt. It will be a Darwinian process in which size is not necessarily a guarantee of success, but rather strategic flexibility. It is unlikely that all CSDs will continue to pursue their business in the current form; only the fittest will succeed – those that are able to adjust to T2S according to market needs.

T2S will set in motion a Darwinian process in which only the most adaptable CSDs will survive