

# Clearstream Banking

TARGET2-Securities and the impact on CSDs

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# Background of TARGET2-Securities (T2S)

## Why does Europe need T2S?

Taken from  
ECB Presentation\*

### Motives for the T2S-Project

- Europe's securities markets are too fragmented and inefficient
- There is a lack of competition in services related to settlement
- Europe needs a single pool of securities to stimulate competition and harmonisation
- There is no other realistic Europe-wide approach to create this single pool



**Making Europe a better place to invest and trade  
(in line with the Lisbon agenda)**

\* Source: European Central Bank presentation „T2S:  
Settling without borders in Europe”, January 2012

# T2S is to be built and operated by the Eurosystem

Why is the Eurosystem suited to run the T2S platform?

Taken from  
ECB Presentation\*

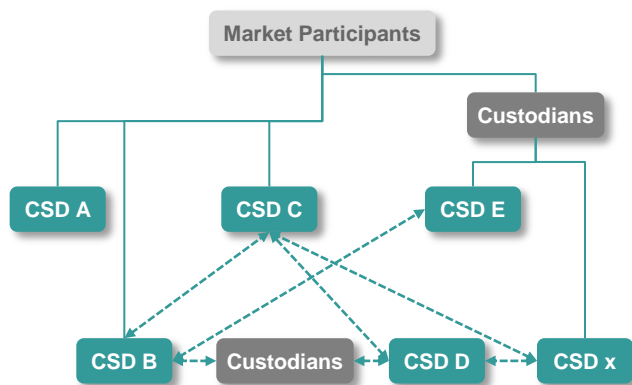
- Settlement in central bank money one of its core functions
- Commitment of the Eurosystem to efficient and integrated financial markets in the EU
- Neutrality of the Eurosystem as a supranational organisation
- Possible facilitator in balancing different requirements
- No own economic interest, cost recovery principle
- TARGET and TARGET2 experience in successfully designing and implementing Europe-wide infrastructures

\* Source: European Central Bank presentation „T2S:  
Settling without borders in Europe”, January 2012

# Current and Future EU Settlement Landscape

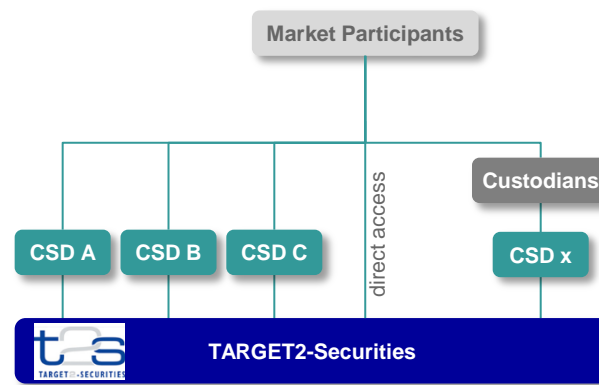
Future settlement landscape with T2S will provide one integrated process for domestic and cross-border settlement

## Current EU Settlement Landscape\*



←--- Links

## Future EU Settlement Landscape with T2S\*



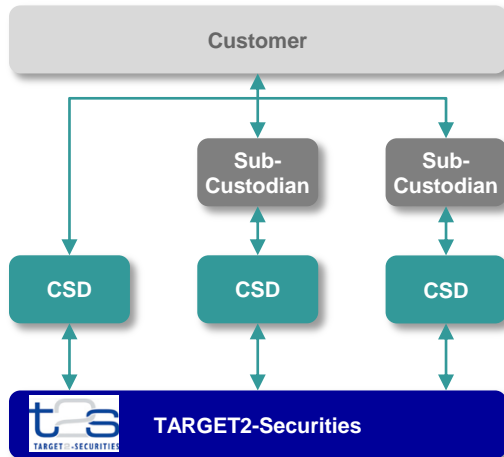
- Currently market participants are required to maintain links with several service providers
- The European post-trade landscape is historically fragmented with each country having its own CSD, processes and legislations
- Settlement of cross-border transactions may require involvement of intermediaries

- Market participants can connect to many different service providers via a direct or indirect connection
- Harmonized processes and infrastructure
- Reduced risk in cross-border settlement due to real-time settlement in Delivery versus Payment transactions in Central Bank Money
- Improved liquidity and financial stability

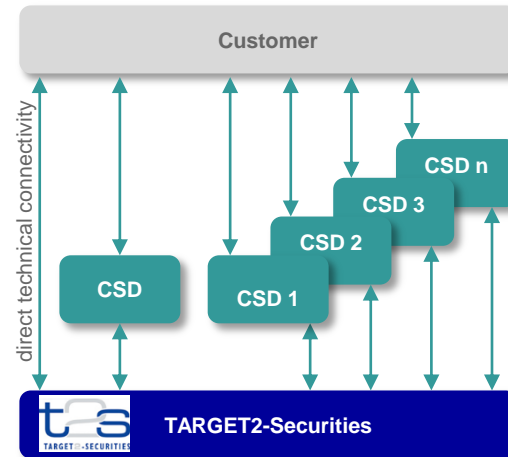
\* Graphic: European Central Bank presentation „T2S: Settling without borders in Europe“, January 2012

# T2S Participant Interoperability Opportunities

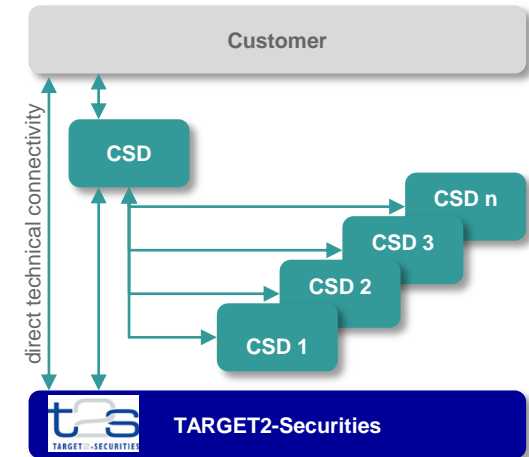
Participants can interoperate indirectly or directly with T2S



- Customers connect indirectly to T2S via CSDs
- Need to retain existing relationships with multiple service providers
- Minimizes the impact of T2S on the established structures and relationships



- Customers **connect directly** to T2S providing the most proximity to the settlement engine
- Requires substantial investments
- Connection to CSDs is still required for non-core settlement services



- Customers **connect indirectly** to T2S **via a CSD**, which may replace existing links to agents, custodians and local CSDs
- Significantly reduces operating costs
- Considered as most optimized solution for majority of participants

# Clearstream joins T2S

Clearstream will be the largest participant and will account for nearly 40% of all T2S volumes in the Eurozone

- Clearstream's German CSD and LuxCSD were among the very first to sign the T2S Framework Agreement
- Clearstream's German CSD business will connect to T2S and offer settlement in central bank money across a wide range of European markets
- Clearstream's view is that T2S offers the industry an opportunity to create a more efficient, secure and standardised post-trade space
- Clearstream believes that the participation in T2S will bring tangible benefits to its customers
- Clearstream is embracing the changes to improve access to European markets, provide innovative and differentiated services and build on our competitive offering in the global collateral management, securities lending, custody and settlement processing areas



More information on T2S, including the press release and related FAQ document, is available on our website [www.clearstream.com](http://www.clearstream.com)

# CSD Commitment towards T2S

## T2S Framework Agreement: CSD signing status

AS OF JUNE 2012

Country	CSD	Signing 08 May	Signing 30 June
Austria	OeKB		✓
Belgium	Euroclear Belgium		✓
Belgium	National Bank of Belgium NBB-SSS	✓	
Bulgaria	Central Depository AD		✓
Cyprus	Cyprus Stock Exchange		✓
Denmark	VP SECURITIES A/S	✓	
Estonia	AS Eesti Väärtpaberikeskus		✓
Finland	Euroclear Finland Oy		✓
France	Euroclear France S.A.		✓
Germany	Clearstream Banking Frankfurt	✓	
Greece	Bank of Greece SSS (BOGS)	✓	
Hungary	Központi Elszámolóház és Értéktár Zrt. – KELER		✓
Italy	Monte Titoli S.p.A.	✓	
Lithuania	Lietuvos centrinis vertybinių popierių depozitoriumas		✓
Luxembourg	LuxCSD	✓	
Luxembourg	VP Lux	✓	
Malta	Malta Stock Exchange PLC		✓
Netherlands	Euroclear Nederland		✓
Portugal	INTERBOLSA		✓
Rumania	Depozitarul Central S.A.	✓	
Slovakia	Centrálny depozitár cenných papierov SR, a.s.		✓
Slovenia	KDD – Central Securities Clearing Corporation Inc.		✓
Spain	Iberclear – BME Group	✓	
Switzerland	SIX SIS LTD		✓

- Nine CSDs signed the T2S outsourcing contract for securities settlement in Euro in May 2012
- In addition to the first group, another fifteen CSDs have announced that they will join T2S in June 2012
- This brings the total number of CSDs participating in T2S, to 24, including almost all CSDs based in the euro area as well as six CSDs based outside the euro area

# Impact of T2S on Financial Markets Participants

Significant impact is foreseen for all involved participants

	Banks / Custodians	CSDs
Strategic	<ul style="list-style-type: none"> <li>▪ Reassessment of business strategy</li> <li>▪ Increased competition requires revision of service offering</li> <li>▪ Define potential for strategic partnering with CSDs</li> </ul>	<ul style="list-style-type: none"> <li>▪ Strategic repositioning in order to define approach and involvement in T2S</li> <li>▪ Revision of service offering</li> <li>▪ Elaborate potential for further harmonization</li> </ul>
Operational	<ul style="list-style-type: none"> <li>▪ Adaptation of internal processes required aligning to T2S and participating CSDs:                             <ul style="list-style-type: none"> <li>➤ New message types</li> <li>➤ Settlement processes</li> <li>➤ Reporting</li> <li>➤ Connectivity to Custodians and CSDs</li> <li>➤ ISO 20022 compliance</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Assessment and potential reorganization of operations</li> <li>▪ Assessment of current services offered</li> <li>▪ ISO 20022 compliance</li> <li>▪ Adapting for new messages types</li> <li>▪ Changed account structure</li> </ul>



# Impact of T2S on Financial Markets Participants

Clearstream will absorb most of the technical impact

	Banks / Custodians	CSDs
Infrastructure	<ul style="list-style-type: none"> <li>Required to redefine the functional and technical architecture</li> <li>Implementation roadmap development</li> <li>Application portfolio churn</li> </ul>	<ul style="list-style-type: none"> <li>Revision of infrastructure</li> <li>Required to redefine the functional and technical architecture</li> <li>Implementation roadmap development</li> </ul>
Implementation	<ul style="list-style-type: none"> <li>Aligning of T2S activities with ongoing programmes</li> </ul>	<ul style="list-style-type: none"> <li>Able to connect to multiple CSDs outside their geographic borders</li> </ul>
Testing	<ul style="list-style-type: none"> <li>Considerable functional and connectivity test efforts required</li> </ul>	<ul style="list-style-type: none"> <li>Large test efforts required</li> <li>Potential impact on cross-CSD interactions</li> </ul>

# T2S Benefits and Challenges

T2S strives for harmonisation in the settlement landscape

## T2S Benefits

- Reduce cross-border settlement fees
- Interconnected service providers, enlarging choice for end user
- Increased asset accessibility
- Real-time gross settlement (with direct connection to cash accounts at NCBs)
- Harmonisation of cross-border settlement resulting in reduction of operational risks
- Catalyst for further market harmonisations
- Increased liquidity and stability

## T2S Challenges

- Significant investments will be required to make the necessary adaptations
- Redefinition of operating strategy and business model required
- Participation of a large number of service providers is required
- Potential project risks which can materialise, e.g. further delays
- Remaining uncertainty present in scope defining documents and communications made by the ECB

**Although adaptation towards T2S requires significant efforts, the benefits T2S provides are expected to dominate**

## Impact for CIS CSDs

Still time to assess:

- Do we as CIS CSD have accounts with T2S impacted EU-zone CSDs?
- In what function do we use the EU-zone CSD (settlement of multi-listed securities? Plain custody? ...)
- What will the impact be on the settlement flow of these multi-listed securities?
- Do we as CIS CSD have accounts with ICSDs and what will the impact be for our business with that ICSD?

**ICSDs like Clearstream are well placed to consult on your impact and eventual benefits CIS CSDs may have by accessing T2S through an ICSD.**