

# Preaching to the choir?



Most coverage of T2S in the media has focused on the views of financial intermediaries. Do their clients share their enthusiasm? The ECB has asked them.

Earlier this year, the ECB published a series of interviews conducted by Mehdi Manaa, Head of the Market Infrastructure Development Division, Directorate General Market Infrastructure and Payments, European Central Bank with representatives of different segments of the value chain: issuers, investors, banks, CSDs and CCPs.

The questions covered business as well as technical and regulatory considerations. The excerpts below suggest that at the start of the securities transaction chain, appreciation of the consequences of T2S is far from uniform.

## The investor

*Mick McAteer, Director of The Financial Inclusion Centre/Chairman of the Financial Services User Group (FSUG)*

### In your opinion, what benefits could investors expect from T2S?

In theory, T2S should deliver tangible benefits for end-investors. The European financial market infrastructure is, let's be

frank, ridiculously complex and fragmented – certainly compared with the US system. T2S, if implemented properly, should address much of the unnecessary complexity and fragmentation in our market infrastructure and lead to a streamlining of the critical processes involved in market transactions. Furthermore, in theory, there should be more competition amongst central securities depositories (CSDs). This could result in significant reductions in settlement costs which, if other parts of the market supply chain are working and regulators are supervising markets effectively, could in turn lead to reductions in costs for the real customers of financial markets – end-investors and real economy firms.

Similarly, in theory, T2S should contribute to the development of more stable and resilient financial markets. The less fragmented infrastructure and more streamlined processes should also allow for better monitoring of financial markets and in turn more effective systemic risk management.

There is an additional, less obvious ben-

efit. Complexity and fragmentation are the enemies of transparency and accountability. A more streamlined, less fragmented market infrastructure should be more transparent and that means it should be easier for society and its representatives to hold the various market operators and supervisors to account. Transparent and accountable markets are more efficient and sustainable in the long term and inspire greater confidence.

*Vincent Dessard, Senior Policy Advisor,  
European Fund and Asset Management  
Association (EFAMA)*

### **How do you expect T2S to influence fund and asset management?**

From the fund and asset managers' industry perspective, we do not expect T2S to directly influence asset management activities. Indeed, most asset management activities fall neither within the scope of the CSD Regulation nor within that of T2S.

The direct impact will be restricted to

### **The issuer**

*Markus Kaum, Head of Division at  
MunichRe/Chairman of Joint Working Group  
on General Meetings*

### **Do you expect T2S to trigger regulatory changes that will affect issuers?**

Most market participants currently see T2S as a settlement engine, which will not change the regulatory environment. I personally believe that T2S will provide better efficiency and increased speed for cross-border security transactions and that both effects may expose national or certain service providers' inefficiencies, as the users will be able to make an unhindered assessment of such services. Some intermediaries argue that, in order to reap the full benefits of increased efficiency and speed within T2S, "regulatory changes" may be required even before T2S is fully operational. These calls for regulation seem to mainly concern legislative proposals which have turned out not to be acceptable to investors and issuers across Europe so far.

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*Mick McAteer, Financial Services User Group*

exchange-traded funds (ETFs), which will adopt the T+2 settlement cycle. However, indirectly, there will be an impact:

- on the buying and selling of the underlying assets;
- on collateral: in a more remote manner, T2S could impact negatively the quality of the collateral delivered to hedge derivatives (both for bilateral and for centrally cleared transactions) as it will facilitate access to central bank funding through delivery of high quality assets against credit line facilities.

As an issuer representative I would argue in favour of first implementing T2S fully before discussing the regulatory changes that some market participants believe to be necessary. Both as an issuer and investor we strongly favour the approach of T2S achieving the envisaged results mainly by improving market infrastructure. While T2S itself provides a new level above existing national market infrastructures, all the envisaged benefits will only be achieved when existing market infrastructure and IT technology, especially

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