

The future at your fingertips – the European market infrastructure of tomorrow

Vision is the art of seeing what is invisible to others.

- Jonathan Swift

The market infrastructure of the Eurosystem is working well, but further measures are needed to deepen market integration, increase operational efficiency and address the challenges of new technology. The three priorities identified by the Eurosystem, writes Yves Mersch, a Member of the Executive Board of the European Central Bank (ECB), are the consolidation of its payments (TARGET2) and securities (T2S) settlement services, the creation of pan-European Instant Payments, and the development of a common collateral management system.

Like plumbing, electricity and telecommunications, a financial market infrastructure is at its best when largely invisible. Like plumbing, electricity and telecommunications, it spans not only the physical applications but also the operating procedures, management practices and development policies that interact with market and societal demands. And like plumbing, electricity and telecommunications, it needs constant care, maintenance and development to keep pace with technological advances and the changing needs of users.

The reason why this text seeks to shift the financial market infrastructure of the Eurosystem

from “invisibility” and place it in the limelight is that, to ensure its smooth functioning now and in the future, further efforts are needed to bring about deeper integration and increase efficiency. Additionally, the challenges emerging from technological innovation and their potential future use in the financial market infrastructure will have to be addressed.

From strategic reflection to strategic action

One year ago, the Eurosystem put forward some initial reflections on the strategy for the future development of its market infrastructure.



These strategic reflections are geared towards keeping pace with market developments and deepening European market integration in line with the Capital Markets Union (CMU) initiative launched by the European Commission.¹ They are also aimed at reaping efficiency gains through technological consolidation and reviewing the service portfolio against changing business needs and new technologies.

In response to these strategic reflections, the Eurosystem has developed three key

action points. The first is the consolidation of TARGET2 and TARGET2-Securities (T2S); the second is instant payments; and the third is a common collateral management system for the Eurosystem.

For all three action points, the goal of the Eurosystem is to work in close co-operation with the market in order to benefit from its knowledge and experience as well as to ensure that the future financial market infrastructure of Europe fully meets the needs of users.

¹ See Natasha de T eran, "The CMU promises a joined-up approach to integrating EU capital markets," p.50.



infrastructure that enables collaboration across securities markets

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“Retail payments should be made available by service providers in the same way as any other digital content – 24/7, instantaneously and across borders.”

- Yves Mersch, Member of the Executive Board of the European Central Bank (ECB)

The consolidation of TARGET2 and T2S

TARGET2 and T2S offer similar services in the area of payments and securities settlement. But as they were developed at different points in time, they operate on separate platforms and use different technical solutions and environments. Hence, it is logical, with the go-live of T2S, to seek to draw on the synergies between both systems.

Consolidating the technical and functional components of TARGET2 and T2S services will allow TARGET2 to benefit from some of the state-of-the-art features of T2S, such as the implementation of ISO 20022 standards. It will also allow for further improvement of cyber-resilience and the establishment of a single access channel for market participants to connect to the Eurosystem market infrastructure. Last but not least, it could also lead to more cost-efficiency both in the running and further enhancement of both systems.

To identify market needs and find the most appropriate solutions to address them, the Eurosystem released a consultative report on real-time gross settlement (RTGS) services in February 2016.² TARGET2 users and other interested stakeholders were invited to share their views on the future provision of RTGS services.

More than 120 institutions from 22 European countries sent their feedback, welcoming the opportunity to contribute their ideas to the plans of the Eurosystem to review its RTGS functionalities and services. Overall, the respondents showed strong support for the Eurosystem plan to

² European Central Bank, *Eurosystem's vision for the future of Europe's financial market infrastructure, RTGS services – consultative report*, February 2016.

consolidate the TARGET2 and T2S platforms as a means of achieving greater efficiency and supporting innovation.

Respondents to the consultation were in favour of the idea of a harmonised interface and a single gateway to the payment and securities settlement services provided by the Eurosystem. They expect it to bring clear benefits in terms of cost savings and simplification for end-users. Many respondents provided positive feedback on the idea of having multi-currency RTGS services.

The market also provided positive feedback on operating hours possibly being extended, liquidity management tools and data analysis services. This feedback is being further assessed to establish the extent to which more sophisticated services in the area of liquidity management, business intelligence and compliance with regulations are required.

Instant payments

In the retail payments domain, the emergence of instant payments in a number of countries around the world reflects the expectation of users that retail payments should be made available by service providers in the same way as any other digital content – 24/7, instantaneously and across borders. In Europe, instant payment solutions have emerged or are being developed in a number of national markets. However, no instant payment solution is available yet for the euro at pan-European level.

For the Eurosystem, the biggest challenge of digitalisation in the payments industry is to ensure that the introduction of innovative payment products and services does not reintroduce fragmentation into the European market. That

is why the Eurosystem, in conjunction with the European legislator and the Euro Retail Payments Board (ERPB), is attempting to foster the development and implementation of pan-European solutions.

In order to ensure that at least one pan-European instant payment solution for euro that is open to any payment service provider in the European Union (EU) becomes available, the ERPB called on the market to develop a pan-European scheme for instant payments based on the Single Euro Payments Area (SEPA) credit transfer. The scheme is due to be implemented by November 2017. By that time, end-user solutions for instant payments in euro should be made available at pan-European level by payment service providers.

This means that by November 2017 the European financial market infrastructure has to be ready to clear and settle instant payments on a pan-European scale. The Eurosystem has steered the work of the industry to identify the business requirements for settlement and risk mitigation, clarify the access criteria for payment service providers and other infrastructures, and define the elements for a framework for automated clearing house (ACH) inter-operability.

To meet the objective of achieving pan-European reach for instant payments without obliging payment service providers to participate in more than one ACH, the industry signalled its willingness to set up a number of links between ACHs. The setting-up of links is subject to a commercial decision by the ACHs and does not come without challenges.

The Eurosystem is prepared to support industry efforts to provide a pan-European reach for instant payments. The settlement of instant payments in euro between different ACHs could

be achieved by enhancing one of the existing ancillary system interface models in TARGET2.

At the same time, the Eurosystem will study the feasibility of establishing a more centralised real-time settlement service of pan-European instant payments in central bank money. Such a centralised service could guarantee pan-European reachability for instant payments; give users the possibility to use their credit lines stemming from their collateralised positions in TARGET2; eliminate credit risk, thus leading the way to faster and more efficient settlement; and give market players more choice.

A common Eurosystem collateral management system

As the banking and financial markets of the euro area become increasingly integrated, demand for more efficient collateral management arrangements is increasing. To date, collateral management in the Eurosystem is somewhat fragmented, as each national central bank has its own procedures and systems in place. As a consequence, some collateral management services are not provided in a fully harmonised manner.

This is something the Eurosystem seeks to address. As we look to the future, the Eurosystem will drive harmonisation forwards, particularly regarding Eurosystem operations for the mobilisation of marketable assets, as well as the handling procedures for non-marketable assets. There may even be a business case for a common Eurosystem collateral management system, since the market is becoming increasingly reliant on cross-border collateral flows for secured funding and treasury management operations.

A common governance framework

Settlement of payment transactions in central bank money, securities settlement and collateral management are the three cornerstones of the market infrastructure of the Eurosystem. Between these three cornerstones, services for the provision of liquidity, the provision of credit and the mobilisation of collateral are provided to the financial markets with the aim of ensuring the safety and efficiency of payments, securities and derivatives. This in turn helps to support monetary policy operations and the stability of the financial system.

To guarantee that this process continues to run smoothly, the Eurosystem has developed three action points. As there are strong business and technical synergies and interdependencies between the three action points, a common governance set-up for further work is required. This will be provided by the Market Infrastructure Board (MIB), the management body for the operation and development of Eurosystem market infrastructures. In addition, the Eurosystem seeks to continue its interaction with market participants with the aim of ensuring that Eurosystem services meet market needs.

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