T2S: How well has the message been received?

In June this year, Global Custodian created a survey to explore the benefits of TARGET2-Securities (T2S). It looked at how the market would access the new centralized securities settlement platform, aspects of the platform it wanted to use, and how participants’ business models would change around T2S and their confidence in their ability and that of others to deliver. This roundtable debates the findings of the survey from the perspective of a regulator, the international central securities depositories and an agent bank.

Janet Du Chenne: We at Global Custodian, as well as many other organizations, have presented T2S as having important implications for the industry. We have been promoting it for some years. Yet around 10% of the people we spoke to professed no knowledge of T2S; a further 10% saw no value to them from it, and more than half of the remainder regarded its benefit as being limited to “centralized access to settlement in the region.” Are we deluding ourselves about the extent of likely behavior change and benefits, or have we simply done a poor job at getting the message across?

Mike Clarke: I don’t think we have made a poor message of it. We have got to look at the wider context of where we are. Since the crisis there has been such a huge amount of regulatory and infrastructure change. We believe that a lot of clients are focused on the comply-first approach, so TARGET2-Securities becomes compliance and that compliance leads with that centralized access.

Edwin de Pauw: TARGET2-Securities (T2S) in isolation will bring about a consolidation of settlement platforms across 23 markets. However, the real benefits of T2S will become apparent when we have harmonized asset servicing and settlement across markets. This will be the moment when we can truly talk about a single post-trade European settlement landscape. Clients today are in a ‘wait and see’ mode as they already have a lot on their plates and because there is no set date when they will be able to reap the benefits of T2S. The feedback we are receiving from our clients is that they plan to adhere to the minimum T2S requirements imposed by CSDs (central securities depositories) but will not commit to a future business model until as late as possible.

Mehdi Manaia: I don’t find the survey results too bad. However, I wouldn’t say the benefits of T2S are “limited” to “centralized access to settlement in the region.” A centralized settlement platform is an enormous improvement especially when you consider that the cost of fragmentation is huge today. T2S will remove this. The benefits of T2S are not well measured today because people are simply used to the current situation, which is not a bad thing, because it means that there is more room for a change in behavior and additional benefits once everyone realize the substantial benefits of the centralized access compared to the current cost of the fragmentation.

Clarke: The other perspective is that by far the biggest benefit you can get from T2S in the short term is in cash liquidity and the fact that you can move from what is today a very siloed infrastructure approach across the markets, where you have got to have direct access and be connected to each central bank, and in the future you can be connected to one central bank and access the T2S markets and have a single pool of cash for a sale in Italy, helping you to fund a transaction in Germany. This is the aspect of T2S that’s not really coming out.

De Pauw: Thanks to T2S, we will move from the current environment, where financial institutions need to maintain multiple euro cash accounts with the different central banks in the eurozone, to a situation where they will be able to operate a single euro cash account for transactions in central bank money. Whilst from a settlement perspective, the main principles have been properly understood, clients are only now discovering some of the the concrete benefits that T2S will deliver, for example, the ability to pool collateral inventories to generate liquidity through mechanisms such as self-collateralization.

Philip Brown: I am actually quite surprised at the output of the survey. We are eight years into this now, and it has been the main topic of conversation for most of those years for most of us that are in the business. We had a seminar in Frankfurt last year with about 130 people from the German market and 57% of the attendees saw T2S as a positive, and 100% of them knew what it was.

Much of the issue will, I’m sure, revolve around which markets you are talking about. Certain custodian banks and CSDs in certain markets have done a very full job in terms of advising their clients and participants on what T2S is all about and what the benefits are.

Clarke: We would echo a lot of that. The further up the chain you are away from what is happening with T2S, the more distanced you are from the change itself. There are certain sectors that have decided to wait and see where the benefits come once T2S is up and
running, but there is no immediate change for them to make. We also think people are being challenged, including the larger banks that we deal with, the brokers and the global custodians, who are bombarded with many regulations at the moment. So the real change in the market and accessing the benefits of T2S, this will come later because of that combination of distance and the regulation impacting the larger players.

**Brown:** I agree with Mike—there is definitely a bandwidth problem. If you want to really extract the benefits from it, there is a lot to do in this project and it is not that far away now. If you work back from your investment budget, which you have to agree on now for 2015, now is the time that you need to start making decisions. I think that level of urgency is really missing.

**Robert Kay:** Looking at the responses, for many people this is still a project. It is driven by something that people know is going to happen, but they are not quite sure what the implications of it are going to be. I think the key is to get the businesses engaged and to Philip’s point, although I think the IT department certainly need to have a two-year view to get people who are running day-to-day liquidity to understand the implications of something that is going to happen even in 2015, that even in December 2014 is very difficult. So you’ve got different time horizons between whether you are looking at this as an IT project and whether you are looking at this as having a business impact.

**Clarke:** That is a hugely interesting point about the technical aspect, Robert. T2S is a technical platform, and as such, I do think there are some who believe because it is a technology play it is just about connecting. We think beyond that, if you look at your business, T2S enables you to do so much more, it enables you to react and to work with the regulations coming to you, it enables you to look at how you mobilize assets across the region because of the fact that it is now that common platform.

**Brown:** What has encouraged me is that this year for the first time the network management people have brought treasury people and liquidity and funding people into the client meetings. They have started to connect the dots now between what this does on the cash side and to their funding requirements and what it does on the settlements side, and that is a really positive sign. T2S is switching from being a back-office problem to being something that deeply affects the front office and business side of the banks, and that will give it more momentum.

**Du Chenne:** T2S has a phased implementation plan in a series of waves, so of the respondents to the survey who have an implementation plan, more than half expect to realize benefits after waves three and four. Is the phased implementation too cautious, and does it risk delaying the benefits to participants too far into the future?

**Manaa:** We have been cautious on purpose. T2S is a very ambitious project and as with ambitious projects there are always risks as well as obstacles and barriers. As central bankers we are cautious and risk adverse by nature. We are convinced of T2S and its benefits for Europe, so we want it to happen. This is why we have been cautious in certain areas, and indeed, the phased approach for the migration is one element to control the risk and to make T2S happen successfully. We prefer to have a stable and secure platform to reap the benefits in the long term rather than have the benefits quickly but at the cost of risks.

**De Pauw:** At Euroclear, we are also experiencing the T2S migration from a client perspective. For example, Euroclear Bank is a large client in many of the CSDs in Europe and is therefore impacted indirectly by decisions taken by those CSDs. Today, we have three T2S migration projects running in parallel for Waves 1, 2 and 3 with different CSDs. If one considers the impact on the clients of the migrating CSDs, the distribution of the waves seems appropriate. The gap between waves is not long enough to lose momentum, nor is it short enough to necessitate an unacceptable concentration of “settlement expertise” at any given moment in time.

**Manaa:** We have the right approach to succeed. Good progress is being made and the benefits are starting to appear little by little. However, in order to see the true value of T2S, we need to see more CSDs joining and an increase in the number of brokers. This will probably be achieved by the migration of the...
Wave 3 CSDs.

**Clarke:** We have done a lot of work with our clients on having a plan in place in how they position themselves in that post-T2S environment. All it then becomes is a journey as to how you start to make each change. We would reiterate that you just make sure that you work now and you understand what your end picture is and make each decision a journey towards that end picture rather than just wait and see what happens until Wave 3.

**Du Chenne:** Turning to connectivity, in our survey 30% of respondents expect to connect to CSDs via an ICSD, a further 30% expect to use an agent bank or a domestic custodian, and only 15% expect to connect directly to issuer CSDs. What are the implications for settlement businesses of both ICSDs on the one hand and agent banks on the other, and the second part is will both groups gain or one group gain at the expense of the other?

**De Pauw:** It is clear that most settlement service providers are aware that their business may come under pressure from the further commoditization that T2S will bring about. Most of them are therefore focusing on enhancing their multi-market asset servicing capabilities. Additionally we are seeing agent banks promoting open account operator models because they are anticipating more clients wanting to connect directly to the T2S settlement platform. We are also seeing the number of providers increasing and a number of newcomers springing up, especially in the CSD space. But, given that they are serving different client segments, I think that both agent banks and ICSDs stand to gain from the new landscape as there will be greater efficiencies and reduced cost within T2S and Europe will also be better position on a global level.

**Clarke:** From an agent bank perspective, we bring that local market knowledge and expertise to the table by being very close to the regulators in each of these markets. So while asset servicing remains un-harmonized, global custodians will always need that closeness to market.

We also need to look at the wider banking facilities and whether we can we take the liquidity opportunities that come through the harmonized settlement opportunities, such as the link to the central bank funds. And that level of service is where the agent banks help.

**De Pauw:** It is unlikely to be quite as clear-cut as the question suggests. There are areas where providers have a clear advantage depending on their client base and the products and services those clients require. But, on the whole I expect to see providers, especially local ones, diversifying their offering into smaller, more niche services. Clients will be offered even greater flexibility. If the offerings of two distinct providers complement each other, it may well be that firms will choose to work with both cherry-picking the products where one of those two providers excels.

**Manaa:** T2S will create a more competitive and efficient environment, but I don’t expect that one group will win over another. There will rather be competition within groups. It won’t be vertical between the different components of the chain but rather horizontal. So for each component (ICSDs, agent banks, etc.) there will be competition, and those with the best offers will win.

**Clarke:** It will be the client needs that drive this, and it is the bringing together of complementary solutions and finding the right value-add solutions for clients that will win out over time. It is very black and white to say agent banks versus ICSDs; I think there is going to be a lot of bringing complimentary solutions together, and inevitably there are going to be some winning ICSDs and some winning agent banks.

**Manaa:** It will be about transparency in the infrastructure. This, together with the solutions of the different service providers, will allow for complementarity as well as for partnerships where most beneficial.

**Brown:** Our view is that the relative importance of the ICSD will diminish compared to the CSD business, for a few reasons: those domestic assets that have liquidity today in the ICSD in order to access collateral and repo products in the ICSDs will migrate back to the domestic markets, because they will be able to access those same products in those domestic markets. Plus, on top of that, they will be able to gain from the funding and liquidity benefits from T2S and from settling in central bank money. Finally, calculating the benefits related to credit provision in commercial bank money versus central bank money will make a move back to CSDs more likely in our opinion.

**Clarke:** Again, your connectivity and who you choose as your partner for that access will depend on what your needs are, e.g., credit needs or asset servicing. So the switch moves away from settlement and toward the value-added services and what it is you are really going to get. That will look toward how you make these models work and that will mean that in some instances agent banks will work in partnership with CSDs to provide a harmonized model where you have got asset protection of a CSD but local market servicing coming from a custodian bank.

**Brown:** That is correct because part of the reason why you might not get a clear view from the survey on this question is that people haven’t figured out what they are going to do yet and that will almost drive their connectivity decision.

But starting from the question of connectivity and then deciding what services you add is not the right way. Clients are going to have to think about what is going to be really critical for their business and then what services do they need to access and therefore what is their best access methodology.

**Mike Clarke** works for Deutsche Bank’s Global Transaction Banking division in the Product Management group supporting Investor Services. He is the Global Product Manager responsible for Client and Product solutions in Europe post T2S. Clarke specialises in developing business related analysis in regard to securities trading and post-trading environments, providing product management leadership throughout the clearing & settlement, custody landscape in Europe. He previously worked at Broadridge Financial Solutions, and Pershing, where he had global product management and product delivery roles in post-trade services.
Kay: Looking at the survey is it clear that this is a project and not a product. People haven’t decided what they are going to buy, they don’t necessarily fully appreciate all of the benefits as we have discussed, and therefore, it is very difficult for them to say, “Well this is what we are going to do.”

You are going to have to give people real live examples. For example, Bank of America Merrill Lynch may make some change, and suddenly that means that they can do a lot of trades that other people can’t do because of some of the liquidity and collateralization options that they are then able to exploit. Then once they start doing those trades, it won’t take very long for Morgan Stanley to realize they need to be able to do those trades to stay competitive.

I agree with Philip that there is a natural reason from a security point of view why if you take away the rather unusual advantages that the ICSDs have enjoyed in terms of the provision of liquidity and the products that they have managed to create, looked at from an issuer point of view quite clearly there is a logic which would demand that some of that goes back to whether CSDs can indeed replicate those services that the ICSDs are currently offering.

However, if the large investment banks choose to leave all of those assets in the ICSDs, that is where they are going to remain and that is going to be an interesting driver and a possibility that more business is going to go into the ICSDs because that is a convenient one-stop shop.

Brown: It is about what happens when you move from a commercial bank money to a central bank money structure and the impact of the credit available from the Eurosystem; the fact that the balances that banks keep on their accounts at the national central banks for Reserve Asset and other purposes also count toward your collateral margining purposes; the fact that there is an auto-collateralization service inside the national central banks of the euro system; the fact that under Basel III you are going to get balance sheet relief by being in central bank money relative to commercial bank money—all of these kinds of things are what we think will drive the change.

Du Chenne: In terms of account structures, 40% of survey respondents have not yet decided on the account structure that they expect to operate and more than 50% are not sure what are the services—e.g., full service custody, asset servicing, etc.—they will purchase. Do clients really understand the opportunities and the potential benefits available as a result of the implementation of T2S, and does lack of decisions in key areas indicate a real lack of preparedness or a potential reluctance to change historic practices and relationships?

Clarke: Deutsche Bank addresses products and products initiatives by asking what the market problem is. And if the problem is the regulation is driving the need to get some balance sheet relief then that will drive that move.

We need to take that step back as we try and do on the product side and say what is the problem that this causes, how does this change the problems that our clients have today? And therefore what are the right things as an industry that we need to provide to be able to give that access. What we will see is the evolution will come once we have grasped the problem when the regulations have come into play.

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Clarke: You have got to look at this in a slightly different way as to what drives account structure change in response to what is happening in the market. Regulations like AIFMD (Alternative Investment Fund Managers Directive) and UCITS V are really driving toward asset protection and therefore segregation of assets.

For me T2S is not a driver for the change; T2S is an enabler that allows people to look at that bigger picture and look at that longer-to-medium-term view of what is happening.
in that regulatory picture, what is happening in terms of securities and cash liquidity. It is our role in the implementation of T2S and in the planning of the longer-term journey to work with our clients so they understand all of those moving parts and make the right longer-term decisions for account structure.

De Pauw: It’s fair to say that there is still a lot of uncertainty surrounding some of the recent and upcoming regulation and how exactly it will be translated into local law. If you also consider that development roadmaps are already full of other initiatives, it seems reasonable to assume that institutions will wait as long as they can before deciding on how they will access T2S. Indeed, if you are currently holding your assets with an agent bank or ICSD, the best way to minimize the impact of T2S, for the time being, is to stay where you are. When the regulatory uncertainties have been clarified and you know where and how you want to hold your European assets, you can make the decision about how best to access T2S to meet your needs.

Brown: What we are seeing is a knowledge gap, and, in the absence of better information and better knowledge, customers have insufficient information to think creatively about what their structure might look like in the future so they are not aware of what the possibilities might be.

As we spend more time as an industry explaining what the opportunities are, and what the different models are that might be available, people will be clearer on the kind of model that they want and there will be a different palette of models that people take depending on the needs of their particular business.

Clarke: T2S isn’t necessarily driving people to change their account structure. Again, it comes down to T2S being the enabler to react to the challenges that we have seen. So as a global custodian you are looking at it and saying, “My primary focus is on asset protection;” that is driving a change in model, and it is driving a change from a traditional omnibus structure into an account operator structure.

People are looking to maximize liquidity benefits and gain access to their own central bank money. That is causing a change—they need to be segregated so that they can link their own central bank money into the settlement process.

Kay: What I am interested in is whether even given the fact that some of the regulations are not yet certain, the sorts of discussions you are having with what I would call the more sophisticated end of the client base are around some very real benefits, some very tangible benefits that they will derive even if you can’t necessarily precisely quantify them by these changes or whether it is still relatively general from your point of view.

Brown: It is becoming much more specific: where we are the ICSD, we, just like our clients, have large custody positions in domestic markets, so we also have to had to figure out what our supply chain looks like under T2S. We knew there were benefits beyond settlement but wanted some expert analysis. This year we have been working with Oliver Wyman to try and value some of the hidden benefits at a client level, instead of looking at it at an industry level. We have worked through the analysis with a few clients, where it showed that the hidden benefits are multiples of the benefits in the settlement and custody fee space, and the clients have validated the numbers and said that they are good numbers. So, we are starting to get to a position now where we can say, “Let’s have a look at your business and how you transact your business and what kind of volumes you do, and then we will try and figure out, based on how you are structured, what that will mean to you in terms of savings.”

Clarke: We would echo that. Liquidity is key across all of the sectors that we are talking to, but we are seeing particular themes, be it a combination of asset protection with local market expertise, or be it purely focused on liquidity, with mobilization of collateral to create more liquidity. It depends on their balance of business and exactly what they are looking to do, so if you are highly focused on using an integrated brokerage product and you are through an omnibus account through a single provider with an end-to-end solution, using your own liquidity actually breaks your model because you are going from something that is highly efficient in an omnibus structure to a segregated structure where your cost of every transaction goes up. So you need to take a step back and look at that business case and you need to look at your individual view of what your business is.

Du Chenne: Looking at the survey, we have around 50% of respondents saying that they expect to use some element of new functionality available under T2S, with less than 10% saying they definitely will not be using them, 30% of respondents say there is a very high likelihood of them using the settlement matching functionality, and over 60% have usage of this as likely or higher. This is more than twice the proportion very likely to use other functionality, e.g., partial settlement. Has T2S been presented or perceived too narrowly if we look at these results?

Manaa: It depends on which user you are talking about. Some of the functionalities or changes introduced by T2S will be totally transparent to some users. Partial settlement, for example, will probably be used by all or most of the CCPs (central counterparties). It will increase the settlement rate, and this will be beneficial to all. Partial settlement will either be automatic with T2S or it will be instructed by the user’s service provider.

De Pauw: The benefit from improved matching is obvious to almost everyone. The benefits of other functionalities, such as partial

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settled and “hold and release mechanisms,” are less apparent but still fairly clear to market infrastructure, CCPs and the CSDs which already leverage these functionalities today. I would argue that these specifics are also clear to global custodians. But, I’m not so sure that the remainder of the market place really understands them yet. So, I think there will be a period of discovery, to sample and understand the benefits one can get out of these settlement functionalities. What we also need to take into account is that settlement is only a tiny component of the post-trade process. So, if you really want to talk about an efficient securities market in Europe then you need to look at the process all the way from the initial trade through to settlement. Which effectively means that there are a number of different layers in the process that need to be better connected before the securities market can be considered as truly efficient.

Manaa: The users need to be exposed to the platform to be able to see which functions are useful for them. Based on their experiences they may require additional changes so the scope of T2S will be fine-tuned according to the different needs.

Brown: The scope is pretty rich in terms of the settlement layer and value-added services that sit around settlement, whether they are custody related, collateral related or cash related. The market is perfectly positioned to deliver those value-added services, so I think the scope of T2S, given the time it has taken to get us to where we are, looks fine to me.

Clarke: Over time, some of the functions of T2S will become more apparent to people as to the opportunities that they can bring. This includes hold and release, which has been a custodian function. Potentially you can sit back as a broker-dealer and actually push your instructions into the market on a hold status for my standard settlement, releasing them later, and you can then make sure that when you’re pushing my securities lending transactions or your borrowings transactions through you know that they will get priority to go through as you can push them as release straight away.

Kay: Yes, the settlement side of that is very clear. Some of the other things are not necessarily so clear, or again, may not be directly under the purview or responsibility of the person answering the question, and therefore they are focusing on the things that they are familiar with. I think people’s usage of this will be driven by a realization of benefits and that will come in part by the smart people anticipating what those benefits may be, positioning themselves to exploit them and being like an early mover.

So the moment one custodian bank is coming out and telling its clients it can do something better, whether it is in asset protection or some other aspect of servicing or settlement performance, then one of their major competitors is able to do it; that is when those major competitors will start to think about what they can do. Hopefully they are all thinking about it, but I suspect that in many cases they will wait for the other guy to move first and prove it.

Clarke: T2S for me is this toolbox of things that we can use to bring more efficiencies to the market but it has got to be to solve the right problems, and it is only going to work commercially if our clients are prepared to pay for those services that solve their problems.

Du Chenne: If we look at the further benefits of T2S, around 45% of respondents expect to use their own central bank as their source of payments liquidity post T2S, 23% expect to use their agent bank as their payment source for T2S and the remainder, around 1 in 3, have not yet decided. What changes if any might be expected to be seen vis-à-vis the role of central banks post T2S?

Clarke: As an agent bank most of our client base doesn’t have central bank relationships. If you are traditionally in an agent bank’s omnibus structure at the CSD, there are certain cost benefits if you are buying other products through that agent bank, so we have an integrated direct market access product that is cost efficient because it utilizes that omnibus structure—if you say I want to use my own liquidity now we have to move you away from an omnibus structure into a segregated structure, and being in a segregated structure introduces additional costs into the settlement process.

So you have to weigh up how important is the income through to your intraday liquidity as much as you are benefiting on the settlement side, so it is key to do a business case and to understand the different products, the range of business that you are servicing, and it is not a one-size-fits-all solution either.

De Pauw: One immediate benefit that will come from T2S will be the ability for clients to settle euro transactions in central bank money out of a of a single cash account. So, it is not surprising that 45% of survey respondents have decided to use their own central bank as the main liquidity provider for their settlement activity. However, for some clients it is not only about obtaining Euro liquidity. As Mike rightly says, there are also asset servicing requirements to consider. So, I am not surprised that 23% expect to continue to use their agent bank to access T2S because their needs are not solely, or sufficiently, focused on settlement activity.

Manaa: I don’t think that the central banks will change their roles in the post-T2S space. On the contrary I think most central banks will continue with their current roles. However, as settlement in central bank money is at the core of T2S and as providing credit whenever it is needed for security settlement is a key function by central banks, this central banking role will therefore become even more important in the post-T2S environment.

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Clarke: And when it comes to things like liquidity, if we are going to succeed in working with the central banks and allowing people to benefit from T2S we have to look at the things we are providing around simple cash liquidity for settlement: can we tie it into payments, can we tie it into FX, can we give holistic views of cash across multiple providers, can we give investment options? All of those things I think will play a key role in the commercial bank money world on top of that central bank relationship, because we will have to be able to distinguish ourselves from just a centralized pool for those clients who already have central bank access.

Asset servicing providers still need to withhold the tax and pay the local tax authorities, and if you are plugged in not via the agents’ liquidity but via your own liquidity, the question then becomes how quickly can I recycle those funds?

Brown: I think what is most interesting from the results of your survey is just the fact that 45% are saying they might use a central bank, because if you had asked that question four or five years ago, anybody who wasn’t a European bank would have outright said “no,” because they didn’t see any benefit from being in central bank money as they thought that commercial bank money was the best way to go forward. And what we now see is this sea change in the relative view of commercial versus central bank money because of other impacts like regulatory change; so I think what is more interesting from the result is the direction it displays rather than the absolute numbers.

Kay: In terms of the answers to the question, that was the one that was most surprising. And as you say it either demonstrates misunderstanding—in other words they don’t understand how complicated, to get to your point, that might be and the offsets might be—and it may well be that they are looking at it rather simplistically and saying that central bank money has got to be better than commercial bank money, which in and of itself represents something of a change of view but may just be, “Okay, it is better, therefore I will use it without necessarily understanding all of the ramifications throughout the entire transaction flow and business flow that that decision might have,” and I suspect as people get more into it you may find a more nuanced answer to that, and perhaps the 30% who don’t know are probably the most honest.

Clarke: If you are in your own liquidity you have your destiny in your hands, and from a regulatory point of view you are not reliant on a commercial bank, so it has its benefits in doing so but then it is only your money; whereas using a payment bank you have got a pool of funds and credit facilities that grease the wheels of settlements, if you go by yourself you are by yourself; if the funding isn’t there, it is not there and I think all of those things need to just really be appreciated and looked at, and the answer is going to be right for some clients and the answer is going to be remain in commercial bank money for some other clients.

Brown: One of the things that may have driven this response is all the work that has been done at the moment around recovery and resolution planning by banks because they do have to respond to their regulators on where they are going to get credit from and how they are going to fund themselves through a stress scenario, and central bank money is one of the solutions to both of those questions; so I think that answer reflects a lot of the work that has been done now on the regulatory side.

Clarke: Moving on to the next question about companies plans and processes for T2S, we learned that 47% of survey respondents don’t have an active T2S plan or process in place yet including one-third of those respondents expecting to be active users of T2S in some form, one-third of all respondents are very or extremely confident in their own ability to be ready for T2S, a slightly lower proportion are equally confident of their settlement providers, whereas 44% are as confident about their payments providers’ readiness. Should we be concerned about the state of readiness of the prospective participants, or are these figures better than what you would expect?

Manaa: From a technical perspective, I expect all participants will be ready on time whether they will be directly connected to T2S or going through a CSD or a custodian or an agent bank. I am confident and we see more and more evidence that all market actors will be ready on time and to be able to connect and interact with T2S.

Clarke: Some of the information coming through from infrastructure and from providers has been late to the table. There are still some unknowns that are there in this journey, but they will become much more clear and people will get a better sense of readiness when we know about pricing as we get closer toward testing, as people fully understand fully how their messages will change.

As an industry we need to take a step back and think about this result and what we can be doing better in transparency toward what it is we are doing, where we are and the services that we will offer, when those services will be available, what those services will look like and what they will be costing.
De Pauw: Euroclear has published detailed service descriptions of how T2S will impact our clients and indeed the various segments of the post-trade landscape. We have also arranged regular workshops in each of our core markets to walk our clients through the expected changes in more detail. We field questions from our clients and in parallel we closely monitor their levels of readiness. We still have some time ahead of us but providers should be turning their attention to explaining the impact of T2S on their clients in as much detail as possible. Providers should also be keeping track of how their clients are preparing for T2S, how the testing process is going and whether it is successful, as well as offering assistance when necessary.

Manaa: Things have to go through different layers of the chain. Two years ago the question was still whether T2S would come or not, and last year at Sibos it was whether it would be on time or not. Today, people are convinced that T2S will happen and the Eurosystem is on track to deliver T2S according to the plan. Now we are moving to the last layer of the chain—the level of the CSDs. Their plans and readiness will be propagated little by little through the rest of the chain. I am hoping that all of them will be in a position to benefit from T2S as soon as possible. I am not doubting their ability to interact and to technically connect to the T2S platform. However, as for the business aspect, it is up to each of them to make the right decision.

Clarke: It is exactly how far you are in the chain away from T2S. One of the things we are doing as an agent bank is taking the time pressure from our clients by saying “you don’t have to make the decision from day one, you can continue as you are given there is a bigger picture.” So we think as long as we get through to clients that the Eurosystem is ready, the CSDs are ready, the agent banks and ICSDs are ready and the market as a whole is well on the way to being ready, it is not a question of if we will be ready; T2S is happening now and we are going to be ready.

Clients use a global custodian, an agent bank or an ICSD to connect, so they are further away from that change. Again, not being part of that means that you may not see the benefit. Clearly we as an industry need to be consulting with our clients as to these additional benefits as they come through.

De Pauw: The primary focus should be on the level of readiness of the diverse settlement infrastructures involved although, as you say, the CSD status reports today are encouragingly positive. The next step should be to look at the impact and readiness of the firms that are direct members of the CSDs. CSDs are clearly aware of the pressure on their members and, like Euroclear, are taking all possible steps to minimize the impact of T2S migration on their members. To illustrate, we are not imposing a mandatory migration to the ISO 20022 messaging standards on our clients.

Brown: I find it very surprising that the clients think they are better prepared than those experts in domestic markets that service them today.

I would have thought the response should be, particularly from those who are using the big banks as their agents, that “I am very comfortable, my agent is communicating to me what they are doing,” because we all know that is the case, so I am surprised about that.

Clarke: We were surprised by the same fact in terms of the readiness of providers. We can understand it from certain perspectives because some information has been late coming to the table, so if you look toward pricing structures coming through from CSDs, do we know all of the pricing structures for Wave 1 yet? Are they actually out there yet in terms of the full pricing structures? No. So I think there is a level of when the information is coming to the table that may make people nervous, so I can understand that and I think as a provider we are very active in talking to our clients and working through where we are in the process.

In terms of people’s confidence in their own readiness, if people are taking that wait-and-see approach and waiting toward Wave 3, we can kind of understand that as well because I am going to be ready for Wave 1 because my provider will shield me from that, I am going to be ready for Wave 3 because I have still got two years to get there, so I think that is where we see the balance in these numbers.

Brown: And I think also readiness needs to be defined. Does it mean readiness to attach, to connect to my local CSD to do my domestic settlement or something else? So if you are asking the question, say in Italy, which is going to be a Wave 1 market, let’s imagine that they have already shown clients a web front-end, and they said it is just going to function like it does today but it will have a slightly different kind of niggles on the way in, then the clients probably feel they are ready. If the question is “Are you ready to do cross-border business through that same link?” you might get a different response, and if the question is “Have you prepared your supply chain to be able to maximize your liquidity and funding and collateral benefit and access securities lending on a cross-border basis and figured out what your cash payment bank services are going to be?” you will get an even different answer.

Kay: I would agree. What the survey is saying is people are looking at this relatively narrowly, and they are looking at it as something where much of what is going to happen is quite a long way in the future even if something immediate is going to happen within the next 12 months.

Yes, they are relatively confident that they know what to do, but to your point there is a lot more that they should be looking at and over time will be looking at. Whether they are prepared for that, if you haven’t posed the problem “Do I have to worry about it?” then of course you are prepared for it.