
“REGULATION IN ACTION: T2S Roll-Out”

A View from Europe

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The post-trade settlement world as we would like it... and the way it is in Europe



1. Limited consumption of credit and collateral
2. Collateralization of settlement lines with existing pools
3. Free settlement credit, also in times of market stress
4. Best settlement efficiency in a low friction environment
5. Integrated & efficient collateral management
6. Simple and standardized operational environment
7. Optimal set up to respond to regulation

The fragmented landscape limits cash and collateral netting

Collateral pools are split across commercial / central bank money

CB money settlement services are limited

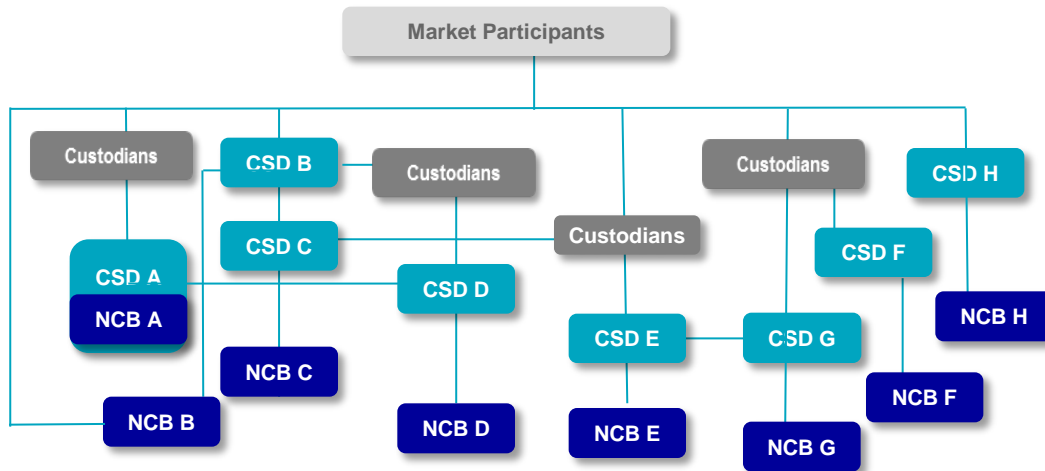
Settlement efficiency high within (I)CSDs but lower cross border

Integrated collateral management is available only at ICSDs

Multiple accesses and varying processes for European markets

Direct accounts at infrastructure uncommon for international players

Current Landscape in Securities Settlement in Europe/EURO-zone

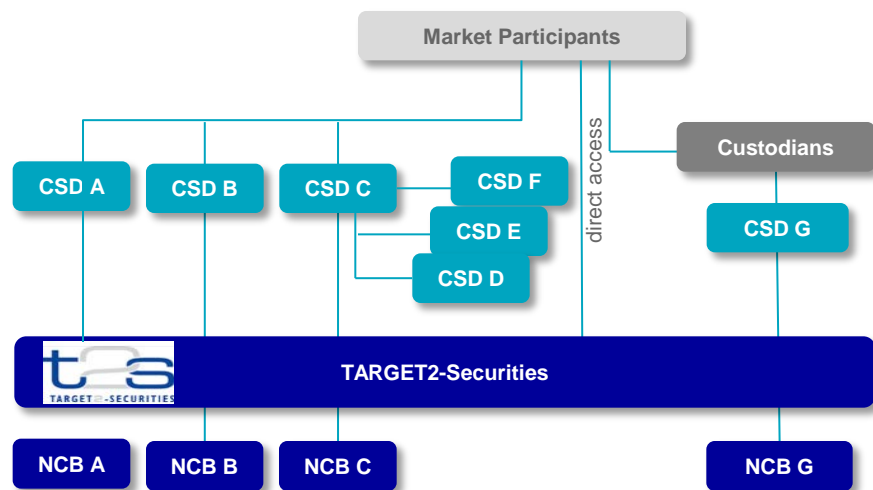


What is the problem with the current landscape?



- Does not support the European rule of **free capital movement** within the EU
- Separate connection** to each market, which are either expensive or require more complicated links (with ICSDs or agents)
- Different rules** and **inhomogeneous** processes: real-time vs. near-real-time vs. batch, night-time vs day time, etc.
- Liquidity** has to be kept **locally** in different locations – for each market – despite of the same currency
- Cash processing** of the transactions **differs** market by market (interfaced vs. integrated models)

The Future Settlement Landscape in Europe/EURO-zone



One integrated settlement process
(domestic and cross-border)

One technical platform used by
CSDs for securities settlement

- Market participants can **connect** to many different service providers via a **direct or indirect** connection
- Equal price** for domestic and cross-border transactions
- Reduced risk** in cross-border settlement due to real-time settlement in DvP transactions in Central Bank Money
- CSDs can act as both **Issuer and Investor CSDs**, to provide access to all T2S securities for their customers

What is T2S actually?

T2S is neither an EU policy or directive, nor an additional CSD or a replacement of a CSD, but...



Is a **technical platform**, built by 4CB (co-operation of Deutsche Bundesbank, Banque de France, Banca d'Italia and Banco Espana), integrated with ECB's RTGS system TARGET2



Provides **harmonized process and infrastructure** for domestic and cross-border real-time securities settlement in CeBM in multiple currencies (starting with Euro)



CSDs will **outsource** securities settlement and accounting to T2S, but remain legally **responsible** for these activities



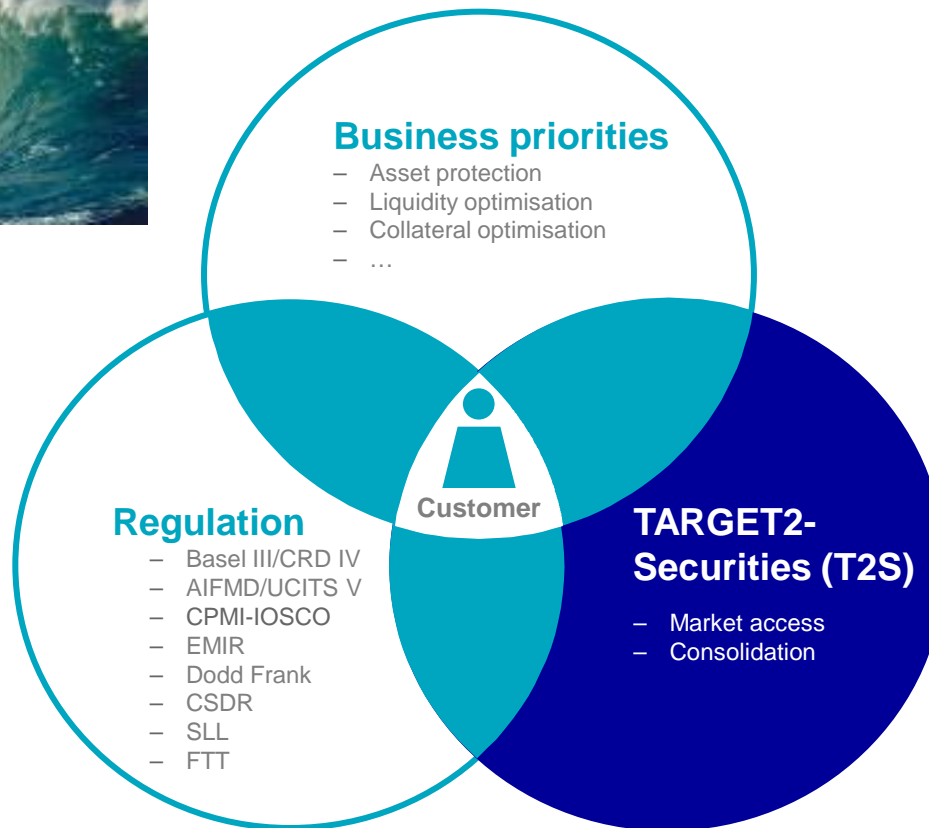
Asset Services (Corporate Actions, Tax and Proxy Services) are outside of T2S and **remain** core services of the CSDs



Reduces cross-border settlement **fees**, promotes **transparent pricing**, increases **liquidity and stability**

Market participants in the “Regulatory Tsunami”

New regulations trigger business re-prioritisation and impose capital burdens while the right approach to T2S can reduce the impact



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T2S potential benefits

- simplified operations
- increased competition
- improved liquidity and collateral management
- reduced settlement cost

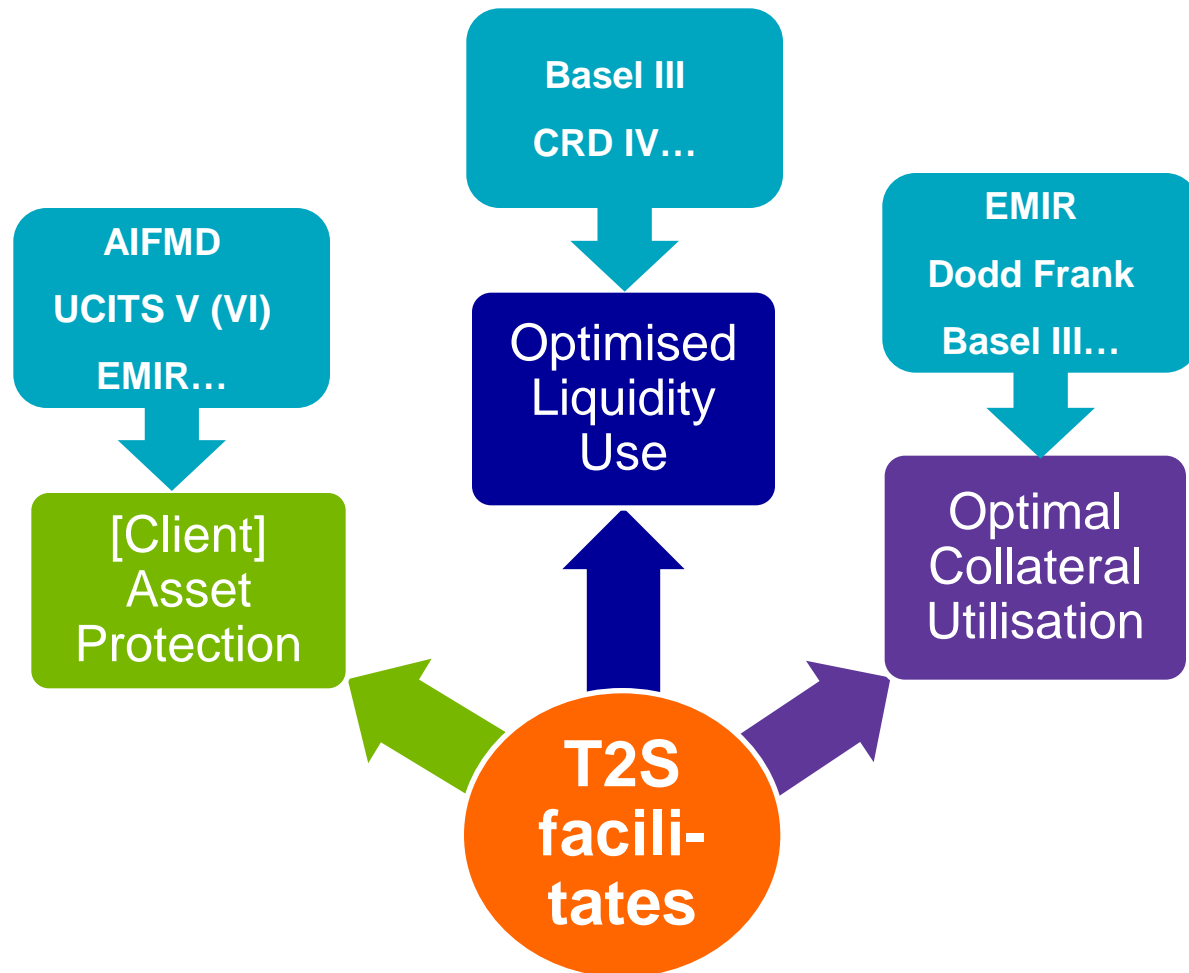
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Regulatory burden

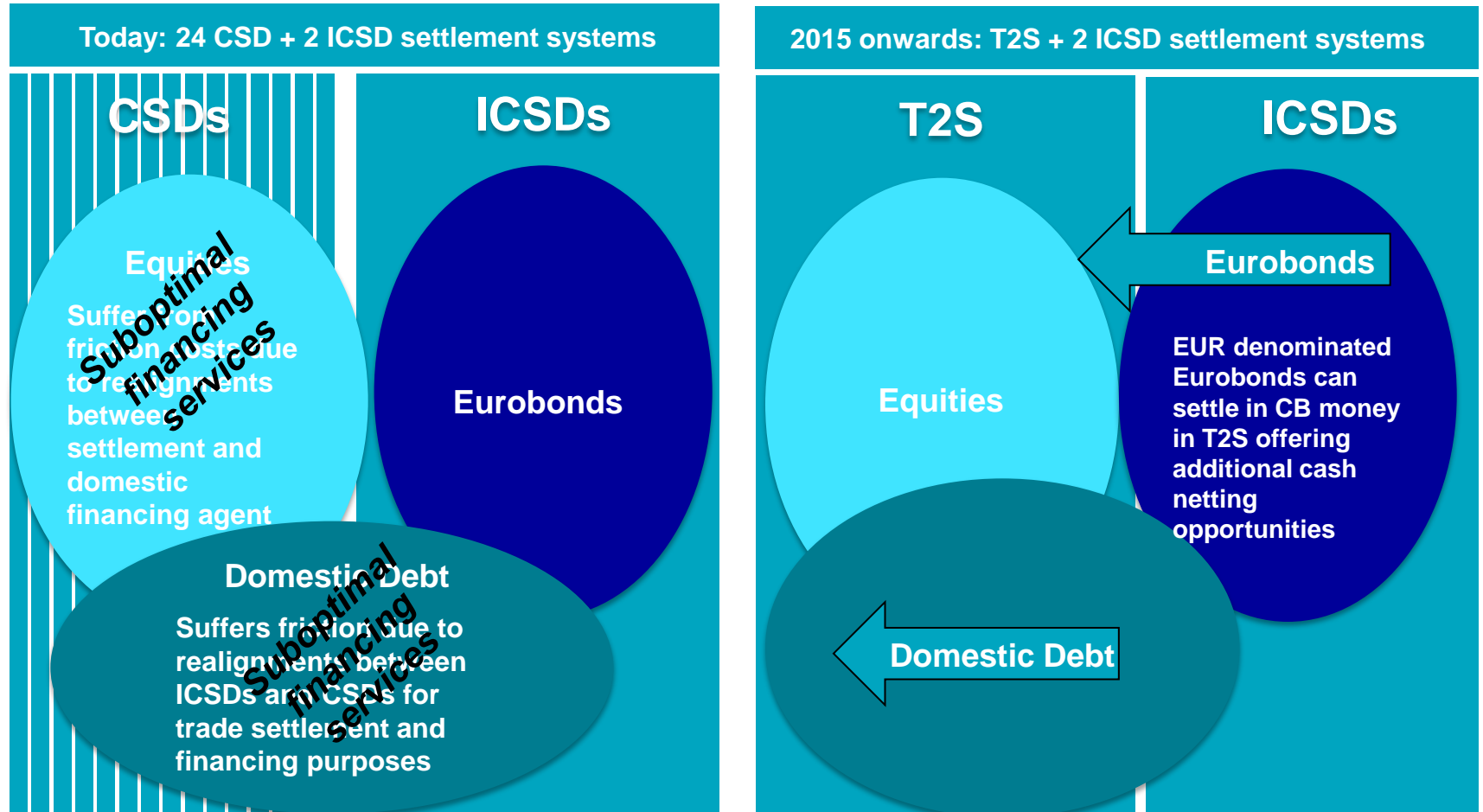
Increase in:

- capital requirements
- collateral requirements
- liquidity requirements
- operating cost pressure

T2S facilitates business solutions in core areas affected by regulation



Best settlement efficiency in a low friction environment - The potential for liquidity shifts



Lessons to be learned for EurAsian CSDs

- At Clearstream, differences between **CSD** and **ICSD** will slowly disappear
 - ✓ «One Clearstream»
- CSDs in Europe will need to invest heavily in **Corporate Actions, Tax and Income Services**
 - ✓ CSD will loose the CeBM settlement function
- Role of «**Agent Bank**» will change
 - ✓ Agent Banks becomes «Operator»
- Role of «**CSD**» will change
 - ✓ CSDs needs to invest in Asset Servicing
- Settlement in **Central Bank Money** will become the norm
 - ✓ Safest and Cheapest Money
- T2S may lead to a **consolidation of European CSDs**

