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T2S: from issuer to investor

Questions by: Mehdi Manaa, Head of the Market Infrastructure Development Division, Directorate General Market Infrastructure and Payments, European Central Bank

In this paper Mehdi Manaa asks representatives of issuers (Susannah Haan, Patrick Renard and Markus Kaum), investors (Vincent Dessard and Mick McAteer), banks (Adolfo García, Stephen Lomas and Pierre Colladon), CSDs (Valérie Urbain, Robert Head, Mathias Papenfuß and Paolo Cittadini), and one CCP (Diana Chan) how TARGET2-Securities (T2S), Europe's future common platform for the settlement of securities transactions, will change the securities chain from issuer to investor and the interactions along the chain. The respondents answer specific questions, for example on how issuer services offered by banks and CSDs, and the relationship of banks and CSDs with issuers, are going to change with T2S, or on how T2S will impact the interactions and relationships between investors and their intermediaries. For the first time, this Special Series issue sheds a more detailed light on the expected changes along the securities chain by giving the floor to those most affected by the change.



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The “T2S Special Series” is a series of papers aimed at informing interested stakeholders about issues related to T2S. It should not be reported as representing the views of the European Central Bank (ECB). The views expressed are those of the contributors and do not reflect those of the ECB.

Introduction

Why T2S? From the beginning, we have been clear about the fact that the ambition of the Eurosystem with T2S is not just to deliver one more piece of financial market infrastructure. Our ambition with T2S is to contribute to the European architecture by providing the context that will enable a more integrated and more efficient European market. In other words, the ambition of T2S is to bring benefits not only to the financial sector but also, and primarily, to the “real economy” and its actors, including issuers and investors.



Mehdi Manaa

These days, you are probably hearing a lot about T2S and the progress made towards the delivery of the platform, but where are we with regard to our primary goal? It is the precise aim of this publication to answer this question. The distinguished respondents featured here are representatives from the different components of the issuer to investor chain. Together with them we will try to explore from different angles the changes and benefits that T2S is expected to generate and how they will propagate until reaching the issuers and the final investors. In order to meet the expectations of different readers, we have tried to cover business as well as technical and regulatory considerations.

The answers of our respondents confirm once again that T2S is an important “game changer” in the post-trade industry. Important changes always face resistance at the outset. Luckily, T2S has had more support than resistance. Thanks to the support of market participants, we have managed to run this ambitious project successfully thus far. The migration of the first wave of CSDs and central banks to T2S is scheduled for June 2015, less than nine months from now. When important changes are on the horizon, they become a source of hope and doubt. In this paper, you will hear some of the hopes and doubts of our respondents, but, fortunately, they have expressed more hopes than doubts. This reassures me that T2S will be a success.

Collectively, including all actors in the chain from the issuers to the investors, we will manage to launch T2S successfully and to make sure that its expected benefits materialise and extend to all actors, making Europe a stronger and a better place to invest.

I hope that you will enjoy reading this publication.

Mehdi Manaa

Patrick Renard, Director Shareholder Services, Air Liquide



Patrick Renard

Air Liquide has always considered it essential to have a close relationship with its shareholders. Could you explain why this is important for you?

In 1902, when Air Liquide was a small innovative start-up, private subscribers backed its early-stage development. This was the start of a strong relationship between Air Liquide and shareholders who believed in its potential.

Indeed, individual investors are the cornerstone of any long-term investment policy. For a company, individual shareholding provides stability, independence, and a long-term vision required for investment decisions.

How have you managed this relationship so far?

Through its Shareholder Services, Air Liquide offers a dedicated management service for the 400,000 shareholders of the Air Liquide Group, in particular those that are registered shareholders. 26 advisors in Shareholder Services are tasked with providing support and knowledge in every aspect of securities management. The Shareholders Lounge at the Air Liquide's Head Office is a unique place that offers the opportunity for us to meet with the registered shareholders.

Being a registered shareholder brings many advantages. Those registered benefit from direct contact with Air Liquide (key information such as the letter to shareholders and the Shareholder's Guide are sent directly to the address of their choice) and from a loyalty bonus of +10% on the dividend value received and on the number of free shares allocated (Air Liquide regularly issues free shares to all its shareholders, allowing them to expand their portfolio over time).

Registered shareholders can also access their securities account at any time through their online share account, available at www.airliquide.com, Shareholders section, or on the Shareholder App for iPad. They can sell or buy orders, consult their portfolio, etc. The App also offers the opportunity to make calculations through tax simulators (for French fiscal residents only), and keeps shareholders permanently up to date with the latest news from Air Liquide Shareholder Services. Throughout the year, Shareholder Services organises around 20 events to facilitate an even closer relationship with registered shareholders: meetings with shareholders in France and in Europe, special evenings, mini-exhibitions at the Shareholders Lounge related to the Group's activities, lectures to finance students, partnership with the "Château de Versailles" for an annual prize draw, etc. Registered shareholders reap many benefits and in return Air Liquide has the chance to know them better, which is the key to establishing a long-term and customised relationship.

How do you expect T2S to influence your relationship with your current and future shareholders?

We are working to gradually expand our individual shareholder base in Europe, where the Group has developed its activities. With T2S, settlement of a foreign security will be as simple and fast as it is for any domestic stock. As a result of this we can demonstrate to European investors how easy it is to become an Air Liquide shareholder, while we at Air Liquide continue to ensure that we know who our shareholders are and maintain a close relationship with them.

Robert Head, T2S Product Manager, BNY Mellon CSD



Robert Head

T2S influenced the decision of BNY Mellon to establish a CSD. Did you consider the services that can be offered to issuers in this context, and how did these services influence the business case supporting your decision?

The provision of services to issuers was certainly an important factor in the decision by BNY Mellon to establish a CSD. BNY Mellon CSD offers issuer CSD services, and the essential characteristic of an issuer CSD is that it offers services both to issuers and to investors.

It is generally accepted that T2S will have a major impact on the provision of services by CSDs, and by CSD participants, to investors.

BNY Mellon believes that T2S, together with the associated regulatory and market practice change, will also have a major impact on the provision of services to issuers, and will challenge some current issuance models.

BNY Mellon, in particular through its corporate trust and depositary receipt businesses, has a privileged relationship with many issuers across Europe.

We believe that the services offered by BNY Mellon CSD will complement the set of services that BNY Mellon already offers to issuers, so that BNY Mellon will be better able to mitigate the effects of change for issuers, and will be better able to provide solutions in the changed European landscape, including alternative issuance models.

Compared with today's world, what will T2S allow CSDs and other service providers to do better in terms of services to issuers?

T2S is fundamentally two things. It is a highly efficient and secure piece of core market infrastructure, and it is a piece of pan-European infrastructure.

Issuers whose securities are recorded on the T2S platform will benefit from the efficiencies and security, and from the easy access to a very wide range of investors.

But this is by no means the end of the story.

T2S will provide the opportunity for CSDs and for other agents to provide value-added services to issuers. At the same time, T2S may well bring about significant change for some issuers. The competitive environment of T2S will cause many CSDs and CSD participants to review their service offering, and their tariff structures. The T2S harmonisation agenda will also bring about significant operational change.

As a piece of core market infrastructure, T2S will in itself have relatively little direct impact on issuers. However, the full market-changing effects of T2S will have a major impact.

We believe that in the context of competition between CSDs in T2S the provision to issuers of value-added services will be a critical deciding factor.

We believe that T2S will create the possibility for CSDs to offer faster, more efficient, and less risky issuance processes. We see a major opportunity for CSDs to provide services that mitigate the impact on issuers of market practice change. We see regulatory change, such as the forthcoming revision to the Shareholder Rights Directive, as giving increased rights to shareholders and as imposing additional obligations on issuers; as a result, we believe that there will be an increased demand from issuers for services relating, for example, to shareholder transparency, and to shareholder voting processes.

We see T2S as providing core infrastructure that will facilitate the provision of such services.

BNY Mellon is familiar with investor contact as a bank, but how do you see your relationship with investors as a CSD?

It is indeed the case that market infrastructures, such as CSDs, and intermediaries have different regulatory statuses and different roles.

For example, BNY Mellon as an issuer CSD functions as an interface connecting issuers and investors, and as such has to establish operating procedures that aim to protect the interests and requirements of both issuers and investors.

But we also see BNY Mellon CSD as a service provider, and we see the success of BNY Mellon CSD as being critically dependent on the quality of its service offering, and on the quality of its relationship with its participants. In this respect, the objective of BNY Mellon CSD is comparable to the overall objective of BNY Mellon as a bank and intermediary – i.e. to offer high quality standards to its clients.

From the point of view of the BNY Mellon group, we believe that the service offering of BNY Mellon CSD is a valuable enhancement to our existing service offering; it will enrich our relationship with our clients, in particular by offering additional services to existing clients; we do, for example, believe that our CSD offering will be attractive both to clients that are already participants in one or more CSDs, and to types of client that so far have been excluded from direct CSD access.

Adolfo García, Head of Securities Forums, Banco Santander



Adolfo García

In preparation for T2S, the Spanish market has initiated an ambitious regulatory reform which will, among other things, change the registration process. How will this change impact issuers, investors and the management of the relationship between the two?

With the forthcoming introduction of the reform, the Spanish market will continue maintaining the registration component, which is structured in two tiers:

1. a central registry managed by Iberclear;
2. a detailed registry managed by Iberclear's entities.

On the other hand and in order to comply with European regulations in terms of segregation and asset protection, the reform introduces a new account structure that the participants of CSDs must adhere to. This can comprise:

- one or more proprietary accounts;
- one or more third party accounts;
- individual accounts;
- special individual accounts for financial intermediaries.

This account-segregating structure has to be built under a CSD membership owing to the fact that the individual accounts opened directly with the CSD will be very restrictive and only applicable to public sector entities.

The reform will, then, not change the registration component of the Spanish market but the way in which it is provided throughout the settlement process. Yes, in October 2015 there will be elimination of the RRs (the current 15-digit registration references), which will be replaced by a settlement based on securities balances.

Furthermore, a new optional settlement procedure is being designed to ease the provision of the still compulsory registration details late in the settlement process. In order to benefit from that procedure it is necessary to be identified or considered as coming under a special category of institutional investor called "financial intermediary", which allows registration details to be provided up until the end of the settlement cycle, i.e. up to the settlement date, instead of the current deadline, which is one day after the trade date.

Are there other elements of the reform that are expected to impact issuers and/or investors? What will their impact be?

With the combination of changes to do with the reform and T2S, I would highlight three elements that will have a positive impact on issuers.

1. Iberclear's register will follow the international standards defined by the Corporate Actions Joint Working Group and the ex-date will be prior to the record date in a settlement cycle minus one business day. With this new date framework, most trades that are entitled to participate in the corporate action event since they were effected before the ex-date will already have been settled on the record date.

2. The local CSD is already able to provide issuers of registered and bearer shares, if they so wish, with daily information on the transactions entailing a change in their register books. The information on trades and settled transactions will become available after the implementation of the first phase of the reform in early October 2015. In the past, this information was only available to issuers of registered shares. The data details to be provided have been decided upon in meetings with the relevant local market associations and include additions, removals or transfers from the register so issuers can update their record books.

3. Furthermore, issuers are already allowed to submit requests to the local CSD for notification of ownership so that they can access the shareholder identification data when necessary. Until recently the service was only available at the time of shareholders' general meetings.

In addition to what the Spanish reform will bring, what will T2S bring to issuers, investors, or institutions like Santander, which provide services for the two?

So, Spain has now embarked, against the clock, on an official project. The task complexity and cost ahead in terms of system and legal changes is high and the deadline is not self-imposed by the market but by T2S. If T2S has one merit it is to trigger harmonisation in the pan-European securities post-trading field. And if there is one market where that process is already bearing fruit, it is Spain, with its self-imposed reform to adapt to T2S well before the platform operates in the country.

T2S means as well a whole reshaping of markets, CSDs and users, but it will also reach out to issuers who, besides, will benefit from key changes in the choices they can make, thanks to the CSD Regulation.

We look forward to the new competition scenario affecting all participants in the chain in a more efficient environment, and to the promise of reduced settlement prices – we are waiting to see if this cost reduction dream comes true wave after wave. Santander will offer services that adapt to all these many changes taking place at the same time, and is already presenting these services to clients.

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



Mick McAteer

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

Let me start by saying that I am very pleased to provide comments on the impact of T2S from the perspective of the end-investor.

T2S is a very important initiative aimed at improving the critical infrastructure that supports our financial markets and the development of a single European market for securities services. There is general agreement in civil society that, in addition to the reforms aimed at improving financial stability and managing systemic risk, financial markets need to be reformed so that they begin to function well for end-investors and the real economy, not just for the operators and agents in the market.

To come back to your question, I am convinced that financial markets cannot function properly without the right infrastructure. But if the infrastructure is to help make markets work for the end-investor and real economy, then it must be efficient, cost-effective, stable and resilient, transparent, and well-governed, and must promote genuine competition and innovation.

Set against those criteria, *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 benefit. 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.

Do you think there is a risk of these benefits not materialising, and what would you recommend to avoid such a risk?

Of course, the benefits outlined above are, for now, theoretical. There is no guarantee that T2S will automatically produce the right market outcomes for end-investors and the real economy. There are a number of primary risks.

Firstly, there is the obvious risk of the reforms not being implemented effectively. This could happen for a number of reasons, including poor project management and lack of public support from stakeholders. But drawing on our experience of previous attempts to reform other parts of the financial system, the main risk to effective reform is the undue influence of the vested interests of stakeholders, whose primary goal is to ensure reform works in their interest rather than in the public's interest.

Secondly, it is important that policymakers and regulators not presume that more competition and choice and innovation automatically translate into better outcomes for end-investors. As the experience of the past two decades in financial markets shows all too clearly, there is a huge difference between the illusion created by an increase in competitive activity and innovation, and real competition and innovation that work in the end-investor's interest.

Thirdly, linked to the previous point, improvements in one part of the financial market supply chain are not always transmitted through the supply chain to benefit the end-investor. For example, we have seen major developments and much activity in the primary, wholesale and institutional markets but it must be said that these have not resulted in better outcomes for end-investors (such as retail investors or pension funds).

How do we avoid these risks? We would suggest a number of recommendations.

The first recommendation relates to the governance of T2S. To improve the chances of the reforms being implemented properly (and to promote confidence in the reforms), it is critical that there be meaningful public interest representation on any relevant governing bodies that are in charge of overseeing the reforms and of ongoing monitoring. Public interest representation is not a "nice-to-have". Independent challenges are critical to avoid "group think" and to ensure that policymakers do not lose sight of the ultimate objective of the reforms. Moreover, transparency is paramount. Full disclosure on the operations of T2S should be the default position – there are very few genuine reasons for withholding information on commercial sensitivity grounds.

To address the second and third risks, it is important that policymakers and regulators adopt a more sceptical approach to competition and innovation. Creating the conditions for competition, more choice and innovation is not sufficient. Markets have to be made to work, which requires a more robust, courageous approach to monitoring and regulation. Policymakers and regulators must also adopt an appropriate set of tests to judge whether the reforms are working for the end-investor. We judge competition and innovation to be serving the public interest if the following tests are passed:

- a hitherto unmet need is met efficiently
- there are reduced costs/enhanced value for end-investors
- there are safer, more resilient markets/better risk management
- access to markets/services is improved
- there is a more efficient allocation of resources within markets.

These tests provide a better performance framework for assessing the T2S reforms. However, it is important that financial market policymakers and regulators adopt a "holistic" market/supply chain approach to assessing reforms. We need to be confident that any improvements in the interactions between T2S and the

immediate customers in the system (perhaps through reduced settlement costs) are passed through the supply chain to the end-investor – for example, in the form of reduced total investor costs or enhanced value.

What communication would you recommend to promote T2S to investors and who should be in charge of that?

Investors and their representatives (such as consumer groups and NGOs) have a responsibility to contribute to more fundamental, longer-term reforms aimed at making markets work for investors and the real economy. We cannot remake markets without reforming the critical infrastructure.

Unfortunately, market infrastructure is often overlooked because of the attention given to more high-profile financial market failures and the ongoing financial crisis. Therefore, it is important that policymakers and regulators make a greater effort to communicate the significance of the T2S reforms to investors and public interest representatives, and the potential benefits if the reforms are implemented properly. In terms of who should be in charge of communicating with investors, we do not have a single agency in mind at this stage. However, the first step is to create a sustained stakeholder engagement programme to reach out to investors and their representatives

Valérie Urbain, Chief Executive Officer, Euroclear Belgium, Euroclear France and Euroclear Nederland



Valérie Urbain

What do the CSDs of ESES (Euroclear Settlement of Euronext-zone Securities) currently offer in the area of the management of the relationship between issuers and investors?

In recent years we have continued to work on developing the proximity between investors and issuers in the ESES markets. With one unique CSD platform across Belgium, France and the Netherlands, mirroring the Euronext Single Order Book, issuers in any of these countries can access the investor base in all three markets from a single location, thus benefiting from a real “network effect”. If one also considers the interoperability recently developed between Euroclear Bank and ESES, this investor pool is now even greater as it includes investors from Europe and beyond. The fact that a number of large French issuers have chosen to issue securities denominated in renminbi is an indication of the broader investor base that ESES issuers can now target.

As an issuer CSD, we also have a longstanding and proven track record of facilitating the issuance process for local issuers and their agents. Indeed, by listening to the needs of both investors and issuers/issuer agents we have found ways to make their lives easier. For example, we have developed the Plug & Clear solution in close collaboration with Euronext. This is a product which enables issuers and agents of warrants and certificates to automate the processing of these securities during the entirety of their lifecycle. We also participate in a number of market initiatives in Belgium and France that help keep small and medium-sized enterprises (SMEs) informed about the best way to obtain financing from the market. We remain convinced that CSDs have a role to play in the SME space by demystifying the issuance process and helping these firms raise their required capital.

As far as the direct relationship with issuers is concerned, we have, for a number of years, offered the TPI (Titre au Porteur Identifiable) service in France which allows issuers to identify their primary shareholding groups. In a similar vein, we recently launched a general meeting notification service in the three ESES markets that further improves transparency and good corporate governance, in line with the upcoming Shareholder Rights Directive.

With T2S, do you see opportunities to change what you are currently offering and make it larger or more efficient, and, if so, why?

The most obvious effect of T2S will be the development of a single large pool of counterparties created by the interconnected network of 24 participating European markets. This will result in both challenges and opportunities for CSDs. On the one hand we are likely to see a concerted effort to attract investors as CSDs with sufficient technical capabilities begin to offer access to a large number of T2S markets from a single location. On the other hand, there will be a drive to attract issuers from other markets. This trend will be driven by the new CSD Regulation which will facilitate the on-boarding of issuers by non-domestic CSDs, effectively allowing issuers to choose their place of issuance.

By extending their reach to offer access to all T2S markets, the ESES CSDs will also increase the level of asset servicing they provide. The Euroclear Group

believes in offering clients the choice and flexibility of settling in central bank money and/or commercial bank money. As such, the standard of asset servicing on offer by the ESES CSDs and Euroclear Bank needs to be of similar quality and functionality. This philosophy also applies to the increasingly important collateral management space. The interoperability we have recently developed between Euroclear Bank's proven collateral management platform and the ESES CSDs certainly supports this trend.

In the mid to long term, we feel that the differentiating factor between CSDs will be the ability to offer a variety of true added-value services, covering the largest number of T2S markets possible through one location. And, in this respect, we feel ESES is in a strong position.

What are the major changes that you expect in the area of corporate actions processing with the introduction of T2S?

As T2S commoditises cross-border settlement between the 24 participating CSDs in the euro area, asset servicing will become increasingly important. Investors will continue to look for cost-effective solutions that service all their needs from one location. As already mentioned, CSDs that want to thrive in the new environment will need to develop asset servicing and, in particular, an efficient corporate actions service for all 24 T2S markets.

Recently we have seen a handful of new CSDs spring up to position themselves for the new opportunities that T2S will present. But, longer term we believe there will be some consolidation in this area as the CSD business requires sufficient scale in order to remain truly cost effective and relevant to its users.

At Euroclear, we continue to advocate an open architecture model which leverages our strength and proven track record as a multi-market infrastructure provider for European issuers, and investors, offering asset servicing and collateral management services across the T2S markets (and beyond) and across asset classes.

Mathias Papenfuß, COO and Member of the Executive Board, Clearstream



Mathias Papenfuß

What type of interaction do you have today with issuers and how do you expect this to evolve with the introduction of T2S?

Clearstream offers issuers a wide range of products and services for debt, equities, investment funds, warrants and structured products. It provides the infrastructure which enables issuers to reach investors anywhere in the world at the best price.

Issuers particularly appreciate the following about Clearstream:

- we are an established market infrastructure with a proven track record;
- we offer specific products for the primary market (issuance and distribution services);
- we strive to go beyond pure operational processing through our flexibility and innovation, i.e. we also offer market intelligence and advice.

Our extensive distribution network provides access to investors via 2,500 financial institutions from 110 countries. This network is used by over 14,000 supranational, sovereign, financial and corporate issuers in almost 100 denomination currencies. Currently, these distribution channels connect issuers to over 50 major CSDs worldwide.

In Europe, this network will be further enhanced when Clearstream joins TARGET2-Securities as an issuer CSD in 2016.

T2S will transform the European issuance landscape from a purely domestic to a pan-European/global model, as issuers and investors diversify and expand beyond their home base. Via its Global Issuer Hub, Clearstream will be uniquely situated to give issuers the widest possible choice of services through our CSDs (Clearstream Banking Frankfurt and LuxCSD) and our ICSD (Clearstream Banking Luxembourg), in central bank or in commercial bank money and all through a single access point.

In addition to T2S, we welcome regulatory initiatives such as the CSD Regulation, which provides issuers with a free choice of CSD (note that there are still some obstacles to be addressed in national laws to enable issuers to reap the full benefits of inter-CSD competition).

How do you expect the benefits of T2S to be distributed along the chain from issuers to investors?

T2S will bring benefits for both issuers and investors because its pan-European reach will result in increased liquidity in primary and secondary markets. On the one hand, issuers will benefit from improved investor reach as they will have access to foreign investors. On the other hand, investors will have the possibility to invest in T2S-eligible securities in the same way as they do in domestic securities today. All this reduces funding costs for issuers and the trading as well as settlement prices for investors. In addition, it also supports issuers' yield curves and provides more transparency for new issuance pricing.

T2S enables issuers to concentrate issuance, including global issuance, through a single portal if they choose Clearstream Banking Frankfurt or LuxCSD (as both have a link to the ICSD Clearstream Banking Luxembourg).

Ultimately, T2S should result in cost reductions for investors (cross-border settlement, harmonisation at EU level, etc...)

What are the major changes that you expect in the area of registration and shareholder transparency with the introduction of T2S?

Upcoming regulations aim at increasing transparency in the custody chain and at improving the asset protection framework for investors, but no specific change will be triggered by T2S per se.

Our German central securities depository (Clearstream Banking Frankfurt) has a well-established registration service that can be leveraged by European issuers. Issuers and holders of registered shares can use these registered share services (also known as CASCADE-RS) to register and transfer shareholder data.

Our issuer services for registered shares include corporate actions, transmission stops, the migration of share registers and the evaluation of both registered and unregistered positions.

With respect to registration, retail investors will continue using familiar banks (most likely in their jurisdiction) and those banks will choose the CSD. The same applies to issuers and we expect it will take time before old habits are adjusted to the new opportunities under T2S.

Stephen Lomas, Global Head of Global Transaction Banking Market Policy, Deutsche Bank



Stephen Lomas

Intermediaries are at both ends of the issuers to investors chain. In the T2S environment, at which of these two ends do you see more opportunities for Deutsche Bank to offer new services?

We have clients at both the issuer and the investor end of the chain, but we see the biggest benefits from our services as being for investors.

We have approached T2S as part of a wider European picture, by incorporating the changes to the regulatory framework and adjustments in client requirements into our strategy and programme of work. In this context, we see T2S as a key enabler for our clients in meeting these new challenges, through new services being introduced by service providers.

Mainly, the enhanced scope of services comes in the form of:

1. unbundling existing services within the custody model, i.e. providing the option of asset servicing only;
2. becoming more flexible on CSD account structures to address asset protection concerns;
3. focusing on the mobilisation of liquidity and collateral in the T2S markets;
4. allowing our clients to use the new settlement functionality that T2S delivers.

From an issuer perspective, although T2S streamlines the cross-border settlement process, it does not address cross-border issuance in all respects. We see some of the remaining barriers being removed by the CSD Regulation and potentially by securities law legislation, so we believe we will see further solutions over time. As the benefits of T2S evolve, we will continue to look to introduce additional value-added services to maximise these advantages for our client base.

Once T2S is live, what are the components of the issuer to investor chain that will still require further improvements, and what would be required on top of T2S to make them more efficient?

There are a number of areas that will still require harmonisation once T2S is live, if we are to achieve a simplification of the European landscape for our clients.

1. Firstly, asset servicing. Although standards exist, not all markets have been able to fully comply with those standards in line with T2S. It is of paramount importance that this be rectified, so that we can move on to the next step in harmonisation in Europe. In the meantime, we as agents need to continue to shield our clients from these market nuances as part of our service offering.
2. Secondly, there needs to be an extension of the reach of T2S into a wider set of markets. And as new currencies come onto the platform, agent banks need to make this multi-currency environment as seamless and efficient for our clients as possible, providing integrated foreign exchange and banking solutions to further optimise liquidity.
3. Thirdly and most importantly, we need time to really see the benefits of T2S establishing themselves in the market, allowing providers to further improve their service offerings once the system is up and running.

We need to focus on bringing the full benefits of the existing platform implementation, and to continue to do so through service evolution and T2S market expansion, whilst at the same time working with infrastructures to plan the next steps in European market harmonisation.

Do you expect the benefits of T2S to stop at the boundaries of Europe or do you think that T2S will also make Europe more attractive to non-European issuers and investors?

We strongly believe that the entire industry needs to be looking “beyond T2S”, both to reap the immediate benefits of the platform, and to position themselves for the long term.

This industry vision needs to recognise that regulatory requirements and client demands are common globally, and where T2S is an enabler in Europe, other markets and regions must also adapt, either through different approaches, alternative platforms, or even the adoption of the T2S platform in the longer term. At Deutsche Bank, we are already involved in initiatives in Asia to streamline settlement processes and increase cost efficiency. For example, we are providing a seamless settlement backbone to the seven ASEAN (Association of Southeast Asian Nations) markets involved in their own cross-border initiative. The key driver behind the ASEAN markets taking this approach was the aim of reducing complexity, and of creating an environment that would increase investment into these markets. This is a clear example of another region looking to adopt the principles of T2S, and as such shows that Europe is clearly moving in the right direction.

However, T2S is not the end of the road; we must continue to harmonise, whilst adapting to, and driving, legislative initiatives. We must continue to increase the benefits of the platform for the region, and increase the opportunities for other regions to follow – for the ultimate benefit of the global investment community.

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



Vincent Dessard

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 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.

In your opinion, will T2S create more opportunities for issuers or for investors?

In the opinion of asset managers, both issuers and investors could benefit from T2S, though rather from an indirect perspective.

The benefits that we see for the end-investors are:

- improved safety in settlement thanks to the shortening of the settlement cycle;
- a standardised settlement process and standardised settlement timing;
- the streamlining of some order execution rules.

How does market integration affect the relationship between issuers and investors and how do you see T2S contributing to that?

From the point of view of asset managers, there is limited asset manager intervention in the process of issuance of the underlying assets of the funds.

The level of connection and participation in the issuance process between asset managers and issuers very much depends on the structure and business model of the asset manager.

We see an increased participation, for example, when the securities are traded in a secondary market.

The implementation of T2S could facilitate standardisation of the information available, in turn facilitating asset managers' analysis and choice of investments.

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



Markus Kaum

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.

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 at global and local custody banks, are also improved in order to deliver state-of-the-art operations to issuers and investors.

Although I would not expect a tidal wave of regulatory changes as a result of the introduction of T2S, there are certain areas where regulatory changes are needed in order to improve the current situation with respect to cross-border security transactions, especially as regards the free exercise of rights of investors that have acquired a security. For instance, from the point of view of an investor in registered shares, the transfer of the shareholder data from the end-investor to the issuer is very well organised domestically in all major European markets but there are severe, sometimes insurmountable problems when it comes to the transfer of those end-investor data across borders. The introduction of T2S may even lead to a greater lack of transparency, especially in situations where competition among CSDs will lead to issuers or investors moving out of their traditional markets with respect to either central or investor custody of securities. As a result of both issuer and investor demand for the unhindered exercise of shareholder rights across borders – which is based on the mutual knowledge of investors and issuers – I expect regulatory change to bring pan-European clarification that end-investor data has to be forwarded from the bank the end-investor banks with to the issuer. This can be achieved very easily, and hopefully will be achieved within the context of the revision of the Shareholder Rights Directive.

As a further but more indirect result of increased cross-border investment in Europe I would expect formalities to be harmonised and regulated on a European level. For example, currently the proof of entitlement presented by an end-investor (shareholder) to an issuer, showing that a certain person is indeed a shareholder, is not harmonised within Europe. A certificate issued by a bank in one Member State to one of their customers may not be recognised by an issuer in another Member State due to formalities. End-investors will no longer accept that they cannot exercise their shareholder rights across borders owing to such differences in formalities.

What particular changes do you expect in the area of corporate actions and general meetings?

The market standards both on corporate actions and on general meetings have been worked out by cross-border and cross-sector working groups with the participation of representatives of all market participants. They are thus the result of thorough discussions and interactions between all parties concerned and are very good sets of standards indeed. We are well on the way towards successful implementation of these standards but for some aspects of the standards to be fully operational and in order to achieve all the benefits it may be necessary to formally elevate the standards from voluntary self-regulation to some form of mandatory regulation. This could be done by using them as a basis for a Level 2 initiative by the European Commission once the proposed revision of the Shareholder Rights Directive has successfully completed the legislative process.

Both sets of standards are very good and are a practical solution to solving some cross-border problems in capital markets in Europe. I would expect the improvement in the service level offered to end-investors by their banks to be greater in the area of exercising shareholder rights with respect to general meetings. This is due to the current status, where it is almost impossible – because the service is either not offered at all or only at very high prices – for private end-investors, and costly or cumbersome for institutional investors, to exercise their shareholder rights.

But I would also expect better servicing in the area of corporate actions. To name one example: an end-investor banking with a bank in one Member State may have to wait up to 60 days to receive the dividend paid out by an issuer in another Member State, a dividend that would be paid out to investors in that same Member State the day after the general meeting. This unequal treatment will not be accepted by investors in Europe any more once T2S and the market standards are fully implemented.

Do you see other possible changes as a result of T2S in the context of the relationship between issuers and investors?

As already mentioned above: T2S increases the implicit risk that even the current level of mutual knowledge of issuers and investors may be negatively affected when the introduction of another settlement level cuts off end-investors or issuers from the current data transfer technology. In order to avoid the future judgement that improving settlement efficiency has led to increased opacity and more burdens for the free exercise of shareholders rights, the European Central Bank and all market participants concerned should support and encourage the establishment of systems which automatically transfer all information needed by end-investors on the corporate actions and general meetings of an issuer from this issuer to all end-investors. At the same time it is necessary to set up regulatory frameworks and state-of-the-art technology which allow for the automated, accurate and quick transfer of end-investor data to the issuer. If this is not part of T2S – as I currently understand it, it isn't – it must be established in parallel using the same technology, data formats and data fields to the greatest extent possible. Acceptance of T2S and its use both by end-investors and issuers will be significantly increased if such a solution is established in parallel.

If T2S works well and such a technical solution is established, and the market standards are implemented across Europe, relationships between issuers and investors will be significantly improved and, finally, a single European market for the free exercise of end-investor rights will be established.

Paolo Cittadini, Chairman, Monte Titoli SpA

Monte Titoli made the choice of joining T2S from the first migration wave, which requires all market actors to proceed with their adaptation to T2S at high speed in order to be ready on time for the launch. Have the issuers been involved in this process, and, if so, how?

We opted for a no-impact implementation for issuers.

Being in the first wave, we knew our timeline was extremely tight. That's why we chose to avoid any change in the service provided to our issuers.

That was possible because we have a modular system architecture and a specific processing module dedicated to the custody service. We were therefore able to integrate our system with the T2S platform while leaving unchanged the interface with the issuers.

From a technical point of view, this means the issuers can keep on using their current communication protocols and procedures, also in the T2S environment.

At the same time, they have been involved in the harmonisation process required by T2S. Just as an example, last June we completed our work towards compliance with the so-called corporate actions on stock (CAoS) standards defined at European level and the issuers gave us important support, both in the definition and the implementation of such standards.

In this regard I would like to underline that Monte Titoli (MT) has a direct relationship with its issuers, not only because they have an account in MT but also because we work in close collaboration with ASSONIME, the association of Italian issuers.

This relationship proved to be successful when we had to remove a specificity of the Italian market and change the account code structure used in MT. The solution used to harmonise our security account code was agreed in close collaboration with them. This allowed us to progress smoothly and to be among the first to be fully compliant with the standards on CAoS.

Last, from the contractual point of view, we have inserted some specific provisions for issuers in view of T2S, in order to better reflect the new context. And, also in this case, we worked in close collaboration with ASSONIME.

Do you think that T2S will make it easier to attract issuers and investors outside Italy? By when do you see this happening (if yes) or what would be needed in addition to T2S to make this possible (if no)?

First of all I have to say that T2S offers a network that allows issuers to overcome national boundaries and reach investors on a pan-European basis. For the first time, issuers will be able to centralise their securities in a post-trade platform where over 2,000 banks (all of them operating in the euro area) are connected.

This is extremely important for issuers in order to place their securities in the market.



Paolo Cittadini

Equally importantly, T2S offers a centralised platform where issuers can make their securities available for collateral operations with the European Central Bank. Actually, thanks to the possibility of using their securities as collateral, issuers are in a position to negotiate better conditions when issuing a new security in the market. Being in the first wave, we are in talks with some international issuers with a view to providing them with an access point to T2S for this specific reason. Having said this, I think we should also consider that T2S is a technical platform and cannot solve all the issues of a fragmented market. In fact, with specific reference to issuers, I think there are still some obstacles to allowing issuers to freely choose the CSD in which they issue their securities. In this regard, it is very important that the CSD Regulation has included the principle that issuers shall have the freedom to issue securities in any CSD authorised in the EU. At the same time, in many countries issuers are required by national law to issue certain types of security (notably shares) within their national CSDs. Moreover each issuer is used to the practices and procedures of its own country, and adapting to other practices and procedures always has a cost.

Harmonisation in this area is far from being realised and consequently for the near future we see the link between an issuer and its national CSD as being quite strong.

Let me quickly touch on the Eurobonds question. Being part of the London Stock Exchange Group we have also seen that T2S provides the opportunity to enter the Eurobond market, which at the moment can be considered as a duopoly, and the ICSD we are developing in Luxembourg will be a vehicle for this.

As regards investors, our experience is quite different. We have received from three important custodians and market operators the request to participate in our system in view of T2S. Currently such operators use local agents as intermediaries. Certainly the possibility of being a directly connected party (DCP) and the possibility of experimenting with T2S from the very beginning has played a fundamental role in their decision to participate in Monte Titoli.

I would also like to point out that T2S is a platform offering settlement services and this explains why there will be more competition among CSDs on the investor side rather than on the issuer side. In other words, fragmentation in the issuance process can still be considered a barrier.

What are the major changes that you expect in the area of asset servicing with the introduction of T2S?

As mentioned before, some important changes are already in progress and are basically due to the harmonisation process that is affecting the processing of corporate actions.

More importantly it is becoming evident that CSDs will progressively move up the value chain in that they will cover some of the services currently provided by local agents/custodians. This implies that they will develop or strengthen their capabilities in asset servicing. It can be seen as a transformational process for entities used to operating mainly at national level, above all because in doing this they have to take into account not only their domestic securities but also the foreign pan-European range of financial instruments. As an example, the offer of comprehensive fiscal support allowing for the option of relief at source must be

considered a given. That's why MT is focused on this service because it is fundamental for attracting new market operators.

It also has to be considered that, with the introduction of T2S, several operational models are also under evaluation by market operators. In this regard MT is offering the possibility of the "Account Operator" model, where a participant can settle on its own (through direct connectivity in T2S) but at the same time it can rely on a third party for asset servicing.

I think that this situation can also be seen as an opportunity for cooperation between custodians and CSDs in order to support market operators in the best way possible.

Susannah Haan, Secretary General, European Issuers



Susannah Haan

To what extent are issuers following the T2S Programme?

Most issuers are not really following the programme – only a minority among my members are interested.

Do you think that they have access to the right level of detail and documentation regarding T2S?

No, I don't think that they have access to the right level of detail – companies want high-level summaries of the key points relevant to them; normally there is too much technical detail for the subject to be accessible to most issuers, hence in part the lack of interest. What would be useful would be a one-page summary from time to time, written in business language that issuers can understand, i.e. not too much technical jargon, and more focused on the issues that companies care about.

Do you think that this will allow them to measure the changes and opportunities that T2S implies for issuers?

As to whether we will be able to measure the changes – the danger for us is that T2S may lead to more cross-border settlement and that more cross-border transactions will mean less access to information for issuers, and so companies will continue to lose information on their shareholder base as it becomes more international. So T2S could be more of a threat than an opportunity from the issuer perspective. This we can measure via anecdotal evidence; probably the CSDs would have better access to information on the market as a whole.

We have supported the principle of an issuer's right to shareholder identification in the EU Shareholder Rights Directive, in order to help counteract the potentially negative effects of T2S on issuers, but unfortunately we do not believe that the draft proposal made on 9 April is workable. See our initial comments at http://www.europeanissuers.eu/_mdb/position/276_20140527_EI_One_Pager_SH_ID.pdf – we are working on some additional comments for the autumn.

Pierre Colladon, Senior Adviser for Strategy for Market Infrastructures, Société Générale Securities Services



Pierre Colladon

How do you expect T2S to change the way you provide issuer services?

T2S is a tool. It is a pipe facilitating pan-European securities flows. This pipe is part of a broader landscape including a legal and regulatory framework and the implementation of European standards for corporate actions and general meetings. It is the combination of all these building blocks that lays the foundation of the European market landscape and consequently of the way in which Société Générale Securities Services (SGSS) provides services to issuers.

For instance, the CSD Regulation will introduce the possibility for an issuer to freely choose its issuer CSD for a given security. This is not entirely new for SGSS. We offer foreign issuers the possibility to issue securities via our main CSD, i.e. Euroclear. Clients and prospective clients are particularly interested in Euroclear's value-added services around "TPI" (Titres au Porteur Identifiable) facilities to identify investors in bearer shares.

The current limitation is that foreign issuers must have permission under their local regulatory or legal framework to use a non-domestic issuer CSD. The CSD Regulation will permit this systematically: any European issuer will be able to choose any European issuer CSD. As a major European custodian, SGSS has the capacity to offer global access to the T2S area and the required local expertise to meet this kind of client demand.

From the perspective of SGSS as a provider of global banking and investor services covering not only securities services but also investment banking services, the scope for customisation of corporate events for issuers on a European level is now much wider.

The second legislative development is the current revision of the Shareholder Rights Directive (SRD). One of the aims of this revision is to permit the identification of investors from a cross-border perspective and in a bearer shareholding environment. Currently not all T2S CSDs offer this capacity to identify shareholders and, in some cases, local legal obstacles such as bank secrecy may block the door in this domain. The SRD would facilitate this, however, by overcoming local legal obstacles. But today this piece of the directive is far from being transposed. Years will pass before definitive implementation.

At the same time, T2S will offer the opportunity for any investor to easily place its holdings in any T2S country depending on the flexibility provided by their custodian, differences in terms of legal certainty, etc.

SGSS has already enhanced its offer to issuers, offering the identification of more than 95% of their shareholders through value-added services provided by SGSS and its partners. This clearly means that when T2S goes live, and whatever the level of implementation of the SRD, SGSS will already be able to identify shareholders for issuers who subscribe to our issuer agent services.

The regulatory stream is completed by standardisation in domains such as corporate actions and general meetings, and SGSS has participated actively in the definition and implementation of these European standards. For instance, we chair two

important Market Implementation Groups in Europe and we participate in groups such as the T2S Harmonisation Steering Group, the Corporate Actions Joint Working Group, the T2S Corporate Actions Sub-Group and of course the Joint Working Group on General Meetings.

The aim of the standards is to allow investors to easily benefit from proceeds of corporate actions and, in a second step, to facilitate participation in general meetings, for instance by offering to issuers secured electronic platforms such as Votaccess and integration of these platforms in the European financial landscape.

The management of corporate actions and general meetings is a crucial process that covers the whole chain from issuers to investors. How do you expect this to change with the introduction of T2S?

It is necessary to distinguish between corporate actions and the general meeting process, as the former result in credits or debits in securities or cash that will be processed via T2S, whereas the latter is totally independent from T2S.

This is reflected in the monitoring done by T2S bodies with regard to the two sets of European standards for these two processes. On the one hand, the implementation of European standards defined by the Corporate Actions Joint Working Group (CAJWG) is one of the priority 1 activities (for transaction management) and the priority 2 activities (for corporate actions on stock) set out in the fourth T2S Harmonisation Progress Report whereas, on the other hand, the implementation of European standards defined by the Joint Working Group on General Meetings is not monitored.

This difference means that the processing of corporate actions will have to be harmonised before the migration to T2S, and the general meeting process should follow this move in a further step.

The CAJWG standards and their catalyst for implementation, T2S, are the two fundamental factors that have driven and continue to drive the current move towards corporate action automation.

Indeed, European standards are a major opportunity for automation. They define common processes for European countries which invite global or regional players to use or develop common tools to operate them – and some of these standards make automation compulsory.

For example, in the case of optional events, standards permit custodians to send their clients' options back to the issuer CSD up to the "market deadline". Custodians will define their own internal deadline to gather all responses from clients and pass them through to the CSD. Competition will lead them to fix their deadlines "as close as possible" to the market deadline.

"As close as possible" is a request for efficiency and has clear consequences for the custodian model. The more efficient the model, the smaller the gap between the deadline for client instructions and the market deadline for the event.

This efficiency can be achieved via two means: automation and location of holdings. A fully automated and integrated process mitigates risk and reduces delays between reception of instructions and sending them on to the next actor in the chain.

A judicious choice of location of holdings increases the proximity with the issuer CSD. T2S motivates custodians, and to an extent their clients, to review their model.

The closer to the issuer CSD you are, the sooner you receive information from the initial source and the later – owing to fewer deadlines being stacked up on each other – you can send back your instructions with respect to the official market deadline.

For an organisation like SGSS, these questions concern the management of thousands and thousands of corporate actions per year touching millions of securities accounts. In this context automation is part of our DNA and the implementation of CAJWG standards plus the advent of T2S have been in fact two major catalysts for enhancing our model.

With our “multi local custody” offer, we aim at providing clients with direct asset servicing access to each domestic market throughout the T2S zone, together with relationship management. We are working closely with clients in order to help them manage market-level specificities that will remain in the T2S world. The advantage of this “glocal” approach is to combine talents, bringing together the global capability of a multi-market pan-European and indeed global custody specialist with our longstanding local expertise as a sub-custodian across multiple European markets. For the clients that we serve, what is particularly important is not the pipe provided by T2S but the services built around it, specifically the asset servicing element.

This approach will also offer clients intending to self-settle in T2S the possibility to separate out the asset servicing component, enabling the client to buy asset servicing only, on a market-by-market, service-by-service basis through SGSS’s Pure Custody product.

On a European level, the general meeting process should follow this move in a later step. It is commonly observed that more than 40% of shareholders are non-residents. As a facilitator of European financial market integration, T2S could lead to an increase in this proportion and from this perspective SGSS believes that the general meeting process is clearly a field in which improvements can and should be made.

However, even if this is the aim of the Joint Working Group on General Meetings’ standards, on a European level, their implementation has suffered major delays due to limited resources mobilised on a mass of regulatory or infrastructure projects and due to shifting priorities.

Furthermore, the prospect of T2S implementation has not had a catalyst effect on these standards as they are not strictly required for T2S to function.

The general meetings field is generally considered as sensitive and complex. Sensitive, because it may have a direct impact on the governance of a company and complex, because technical harmonisation is subject to agreement on core principles that cannot be achieved by a purely technical approach. SGSS in that field has a two-pronged approach.

The first prong is to facilitate the general meetings for French issuing companies by promoting secured electronic platforms such as Votaccess. The future development of this voting platform will include opening the channel to foreign investors via direct access or access through Euroclear playing the role of relay in an investor CSD/issuer CSD framework.

As issuer agent and custodian SGSS has already made the necessary connection

to this core platform. In the short term, the next step will go in the direction of opening channels to electronic voting to institutional investors, including foreign investors.

An imaginative approach may lead to broadening this platform in the direction of foreign issuers looking for an efficient way to process electronic votes. Potentially this could include interconnection with other issuer CSDs or voting platforms.

This brings us to the second prong of SGSS's approach.

As a custodian we of course have partnerships with proxy providers to offer services to clients who wish to participate in general meetings in foreign countries/on foreign securities. We will continue down this road whilst keeping an eye open for any opportunity for alternative, emerging solutions.

As T2S in itself does not provide a solution in this field, a number of other initiatives will help the development of proxy and general meeting services. The current review of the SRD is a good example.

For SGSS, T2S is clearly not the target but a door to the beginning of a new chapter in this long European construction story.

With T2S, do you also expect changes in the area of registration and shareholder transparency, which could be important in the management of the relationship between issuers and investors?

Shareholder transparency is a big concern for issuers, particularly as regards not being able to identify investors when passing a border.

Bearing in mind that more than 40% of shareholding is currently non-resident and that T2S aims to develop the cross-border flows in Europe, issuers may feel uncomfortable with the implementation of this platform.

With that in mind, SGSS as an issuer agent has developed a specific added-value service with partners that permits an issuer to identify the lion's share of its shareholders even with the current obstacles. The result is generally up to 95%, if not close to 99%, shareholder identification.

As already mentioned, it is not T2S that will enable the achievement of this kind of goal but other initiatives. The SRD review is an example.

The same concern as previously mentioned for issuers is also true for the registration process. One of the core difficulties of this process is linked to the different purpose it may serve from one country to another. In some countries, it is just a process to identify owners of a company purely from the perspective of holding a shareholder meeting; in which case the process is generally triggered on the record date. In other countries, the underlying requirement is linked to the permanent identification of the shareholder base, bearing in mind that the name reported in the company registry is that of the final beneficial owner. This last process is strictly connected with settlement and thus cannot afford any gaps between transaction settlement and registry updates.

Owing to these differences, we do not see, in the short term, any change concerning the registration process. However, in the longer term, this process will have to find

a more efficient system for re-registration, the level of efficiency being higher if the re-registration is directly linked to, and synchronised with, settlement and change in beneficial ownership of securities.

Whatever the developments may be in this domain, SGSS has a very high level of expertise in efficient systems for registration and we can also offer a registry management service on behalf of issuers who wish to outsource this function. We have a wide footprint as a leading custodian and a deep understanding of T2S, and our commitment to meeting the needs of issuers in this field remains strong.

Diana Chan, Chief Executive Officer, EuroCCP



Diana Chan

What is the current position and role of a central counterparty (CCP) in the issuer to investor chain, which can be very long in certain cases?

I believe a CCP is largely invisible to stock issuers and investors because we don't deal directly with them and only serve the financial intermediaries they use.

Our role is to protect brokers that bring the investors' orders to the market, and in that way we indirectly protect the investors. A CCP provides the assurance that a deal struck at today's price will settle at the agreed price when stock and money change hands several days later, even if one of the brokers in the deal becomes insolvent in the meantime. A market with a CCP becomes a safer place to trade, and more trading creates liquidity. Even though we work mainly in the background, CCPs' services make markets safer and more liquid, which are both important features for investors.

As for issuers, a CCP that can clear trades in the same stock executed on different exchanges and multilateral trading facilities (MTFs) helps increase the liquidity of the issue. Firms can trade the stock on multiple platforms and use the same CCP to net all the trades into a single settlement, which is very cost effective and encourages more trading in the issue.

Do you expect T2S to offer new business opportunities that may change the current position of CCPs?

T2S is very relevant to CCPs because we are heavy users of settlement services. Before I talk about new business opportunities, I would like to highlight the benefits we anticipate for our current business.

As a pan-European CCP, we settle transactions with our clients in 15 CSDs; each CSD works in a different way, which increases operational risk for us. But as the CSDs eventually join T2S, settlement will be increasingly harmonised and settlement operations for firms active in multiple markets will become less complex. We expect that, as a result, there will be fewer trades that fail to settle on the due date. More efficient settlement means a reduction in the overall cost of stock transactions, which will benefit investors.

As for new business opportunities, T2S could encourage growth in the trading of some securities and more business volumes for CCPs. One example is exchange-traded funds (ETFs) – which are much more widely traded in the United States, where their creation and redemption occurs efficiently in a single CSD. T2S will provide a single platform for the settlement of the securities from different markets that constitute an ETF, and we might see some significant growth in that sector.

T2S will make cash management more efficient, as a CCP will be able to use a single cash account at their choice of central bank to cover all settlements in all T2S CSDs. T2S could also transform the way collateral required by CCPs is managed and mobilised, which is especially relevant to derivatives clearing for investors active in that sector.

And do you expect T2S to trigger regulatory changes that may influence the role of CCPs along the issuer to investor chain?

It is difficult to predict regulatory changes but I can safely say that T2S is probably one of the triggers for changes such as the introduction of the CSD Regulation. The Regulation creates the essential legal framework in which CSDs can compete to provide issuer and investor services. A CCP will, like other CSD service users, benefit from this competition and in turn become more able to provide better services to its financial intermediary clients.

Over time, we can expect T2S to be the catalyst for harmonisation of many challenging aspects of corporate actions and events, improving straight-through processing and removing much labour-intensive work when a transaction fails to settle as expected around a record date. Some aspects of harmonisation may require legislative changes in the local markets.