Upcoming priorities for EU securities post-trading

Jochen Metzger

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Is EU post-trading fit for the platform age?

Rapid technological developments are reshaping many industries around the world – including more and more segments of the financial markets. The rise of exchange-traded funds is redefining how individuals and institutions invest, new providers and the spread of new technologies are changing the ways in which people make payments, and, last but not least, the emergence of potentially highly disruptive technologies based on distributed digital ledgers (DLT) may affect and eventually transform every stage of the trading-clearing-settlement value chain. And, of course, these powerful trends are also affecting the economies of the European Union.

That's why, at the moment, the European post-trade landscape is facing two major challenges. The first is the long-existing challenge to facilitate cross-border trading and securities settlement in Europe – the pivotal challenge standing in the way of finally establishing a truly integrated European capital market. Much has been achieved in this regard in recent years. On the regulatory side, CSDR, EMIR and MiFID II have strengthened the European securities markets structure considerably. On the technical side, the Eurosystem platform T2S will continue to act as a powerful driver for much-needed cross-border activities between different markets.

"We should apply the lessons learned from regulating stock exchanges to the platform economy."

\- JOCHEN METZGER

We are now at a point where we have a very well-balanced and efficient set-up in Europe consisting of sophisticated Eurosystem platforms and established market structures. Thus, the way forward with the most potential to further improve the European post-trading landscape is clearly the removal by the European Commission of the remaining Giovannini Barriers as identified by the European Post Trade Forum rather than the introduction of additional technical platforms.

The second challenge is the emergence of new disruptive digital technologies and the platform economy. Tokenisation and DLT promise to fundamentally challenge established solutions and infrastructures in trading and post-trading. We don't know when precisely this challenge will materialise, but we do know that these technologies and the associated platforms will play an important role sooner or later. The Australian stock

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>>> exchange operator ASX, for example, is in the process of developing a brand new fully-fledged post-trade system based on DLT. Working in collaboration with Deutsche Börse, the Bundesbank has successfully tested prototypes for securities settlement based on blockchain technology. Facebook and its partners are planning to launch a digital currency based on a permissioned blockchain next year.

These powerful developments – and their proper regulation – require our utmost attention. We should not be shy about applying the lessons learned from regulating stock exchanges and other financial market facilities to the platform economy. In doing so, we should enable and encourage innovation but pay close attention to potential risks to financial stability. Successfully managing this balancing act will ensure that we bring the EU post-trading system into the age of the platform economy. ●

Guillaume Eliet

Head of Regulatory, Compliance & Public Affairs, Euroclear S.A.

Post-trade infrastructure: the cornerstone of CMU

Even if most of post-trade legislation was adopted in the aftermath of the financial crisis and thus before the CMU was conceived, it is clear that Central Securities Depositories (CSDs) already contribute in many ways to achieve the CMU objectives. Smooth and safe settlement of securities trades is one of the conditions to ensure confidence in market trading activity, which in turn creates liquid capital markets. By implementing T2S and the CSD Regulation ("CSDR"), that have progressively built an unprecedented level of safety, harmonisation and freedom amongst EU issuers and investors, the European CSDs can already offer a deep and reliable framework for the circulation of securities across Europe.

However, substantial work still needs to be done to achieve full end-to-end access, as well as operability across the different pieces of post-trade legislation and lastly to address the remaining areas of fragmentation.

In this respect and to move forward in a constructive way, three recommendations can be made.

First, avoid rushing into a large review of the CSDR before being able to assess whether the expected benefits have been realised. Even if a review is scheduled for this year, some important pieces of this legislation will enter into force next year (for example settlement discipline regimes) and many CSDs are still in the middle of their authorisation processes. We should therefore resist to the temptation to reopen too quickly this regulation, except to correct or clarify well identified issues that currently hamper smooth post-trade services.

Second, take advantage of the implementation period to foster more convergence in the supervisory approaches across EU jurisdictions. Settlement and safekeeping of securities remain largely domestic industries, and therefore a homogeneous application and supervision of the new regime is a precondition to the development of cross-border services; services that are efficient and truly competitive.

> *"CMU 2.0 will not be achieved without a strong and explicit political message from the European Council and the Parliament."*
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> \- GUILLAUME ELIET

Lastly, tackle the well-known barriers that remain the main obstacles to the creation of a unified capital markets zone and which were already identified by the Group chaired by the late Alberto Giovannini 18 years ago. It has been obvious during the past years that certain barriers were too sensitive from a political standpoint. However, for all of the domains where harmonisation is needed, it is now up to our national governments to take the lead and to express a strong and unified political vision. CMU 2.0 will not be achieved without a strong and explicit political message from the European Council and the Parliament. This needs everyone to be convinced that deep, liquid and secure capital markets are key to the development of businesses, jobs and innovation, but also an essential protection of Europe sovereignty. ●

Gesa Benda

Head of Collateral Management Product, BNY Mellon

CMU and post-trade – the collateral management dimension

As Chair of the Collateral Management Harmonisation Task Force for Europe, my objective is to drive progress towards more efficient management of capital and liquidity in a pan-European financial market.

At times, it feels like an uphill marathon to arrive at a more integrated post-trade environment, but it does not have to be that way.

The Taskforce has already achieved many milestones. Our work is focused on developing an efficient and effective collateral market infrastructure, which is closely linked to Eurosystem projects that aim at improving the integration between cash and collateral.

Our goal in Phase 1 was to harmonise business processes, workflows and messaging in the areas of triparty collateral management, corporate actions for bonds, and billing processes.

We have created harmonisation standards that will enable the implementation of a single, harmonised triparty model, applicable to commercial banks and central banks across Europe. The work of the Task Force will continue, and we plan to cover not only corporate actions for equities, but also tax processes, and workflows relating to bilateral collateral management.

"Growth in Europe will be stifled and we will fall behind other capital markets."

- GESA BENDA

So why is this work an up-hill marathon?

Without better alignment between operational efficiencies and necessary legislative revision, growth in Europe will be stifled and we will fall behind other capital markets.

What we need is progress towards the dismantling of the barriers identified by the European Post Trade Forum (EPTF), and in particular the public sector barriers.

It is crucial to have immediate access to collateral in case of a counterparty default. Safeguards in the collateral management ecosystem are a major contribution to the stability and integrity of the European financial market. We need progress in the harmonisation of insolvency frameworks across Europe and need to remove inconsistencies and uncertainties in securities laws, to enable harmonised rules for the liquidation of collateral.

Another severe impediment are the differences in withholding tax rules, and the absence of efficient relief-at-source systems.

Current changes in AIFMD and UCITS rules relating to the books and records of a fund depositary could – if implemented without due care to the specificities of the triparty collateral model - have the effect of preventing funds from participating in collateral management activity.

So what is the collateral management ecosystem of the future in Europe?

The transformation to a digital market infrastructure has already started. We are seeing a number of collateral tokenization or digital asset initiatives, some aimed at overcoming inefficiencies in the European post-trade settlement environment.

Global co-ordination in the development of a harmonised regulatory framework for the treatment of digital assets is required. And a Settlement Finality Directive that dates back to 1998 is clearly not able to stand up to today's market demands.

But having identified the challenges, it is within our reach, for both the public and private sector, to create a more harmonised and integrated post-trade environment. ●

Eric Derobert

Global Head of Communications & Public Affairs, CACEIS

Technology innovation driving change in asset servicing

The asset servicing industry is constantly innovating. Whether it is launching a complex global file exchange platform or just automating a mundane operational task; innovation is answering the market's calls for efficiency.

Tech-driven innovation has a big influence on our industry, offering the means to beef up responses to future challenges: increasingly integrated post-trade services, rising volumes within a fixed-cost structure, tighter productivity goals, investor cost pressures and strengthening competition - all within a low interest rate environment and with stricter capital adequacy requirements.

The beginnings of a transformation is occurring which seems to fly in the face of harmonisation trends as new platforms and asset classes emerge which demand an ever-broadening 'aggregated >>>

>>> view' across invested assets. Asset servicing companies' role here is the consolidator, offering full industry connectivity, including to Fintechs, as part of a seamless client experience across platforms, services and assets.

Besides new platforms and assets, there are various technologies that asset servicing companies are incorporating into their business which open up opportunities for further development. Many companies are actively studying Blockchain (or distributed ledger technologies) but are slowly coming to realise its limitations when attempting to replicate the functionalities of the complex internal systems asset servicing companies have developed over the years.

Robotic process automation (RPA) on the other hand, is already being applied throughout our industry to automate repetitive, low value-added tasks - essentially using computers to operate in-house systems designed for humans. Running 24/7 and flagging any issues to employees, RPA offers huge potential especially for reducing human error (operational) risk. It is effective, its applications are wide ranging and frees up staff for tasks where human intervention is essential.

"We will see asset servicing take a significant step forward to the benefit of the entire value chain."

\- ERIC DEROBERT

Additionally, Big Data software, which identifies patterns in huge databases, is already more than a promise. With asset servicing positioned as data hub, centralising its own generated data, external data feeds and historical data, Big Data technology provides free-form insight on the efficacy of marketing campaigns, optimal fund launch timing, investor targeting, stress testing, sales volume prediction and management information system features, along with generating standard regulatory, tax and management reports. It is transforming our industry, and in turn, asset management.

Such innovation is central to asset servicing's future and is driven by employees, clients, regulation, strategies and new technology ideas. Asset servicing companies such as CACEIS are a trusted third party and will remain a central industry feature especially by ensuring security across new investment fields. If we can properly harness data to give granular insight on key areas, while massively streamlining processes by leveraging RPA, we will see asset servicing take a significant step forward to the benefit of the entire value chain. ●