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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 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 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. ●