



TARGET2-Securities

Jean-Michel Godeffroy
Director General
Payment Systems and Market Infrastructure
European Central Bank

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Introduction

In July 2006, the Governing Council of the ECB announced that the Eurosystem would “evaluate opportunities to provide settlement services for securities transactions”.

Banks were generally very positive; CSDs were more cautious, sometimes even sceptical.

In March 2007, the Governing Council considered that the project is feasible, and asked for the user requirements to be prepared

Banks and CSDs agreed to work with the Eurosystem to define the user requirements of T2S.

The final decision (Market + Eurosystem) is expected early 2008.

Introduction

The present phase should be a technical one :
Is the Eurosystem, with help of the market, able to deliver
a project which is good for Europe ?

- However, we still find here and there hostile comments vis-à-vis T2S from a policy perspective.
- The contrast between, on the one hand the strong market momentum behind T2S and, on the other hand, some dogmatic comments about the legitimacy of this project reminded me of an Arab proverb:

Introduction

“The dogs bark, but the caravan moves on”






The dogs:

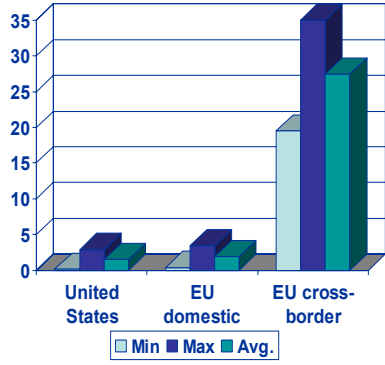


The ECB should restrict itself to monetary policy





Fact is, securities settlement costs are too high

- EU domestic costs range from 0.40 to 4 €;
- ... and are higher than in the US (0.10 to 2.90 €);
- EU cross-border costs higher than domestic ones (20 € or more).




Region	Min	Max	Avg.
United States	0.10	2.90	~1.00
EU domestic	0.40	4.00	~1.50
EU cross-border	20.00	35.00	~27.50

Source: Oxera, LSE, CEPS

Should the ECB/ Eurosystem follow Machiavelli's advice ?
“There is nothing more difficult to take in hand,
more perilous to conduct, or more uncertain in
its success, than to take the lead in the
introduction of a new order of things.”



The dogs:

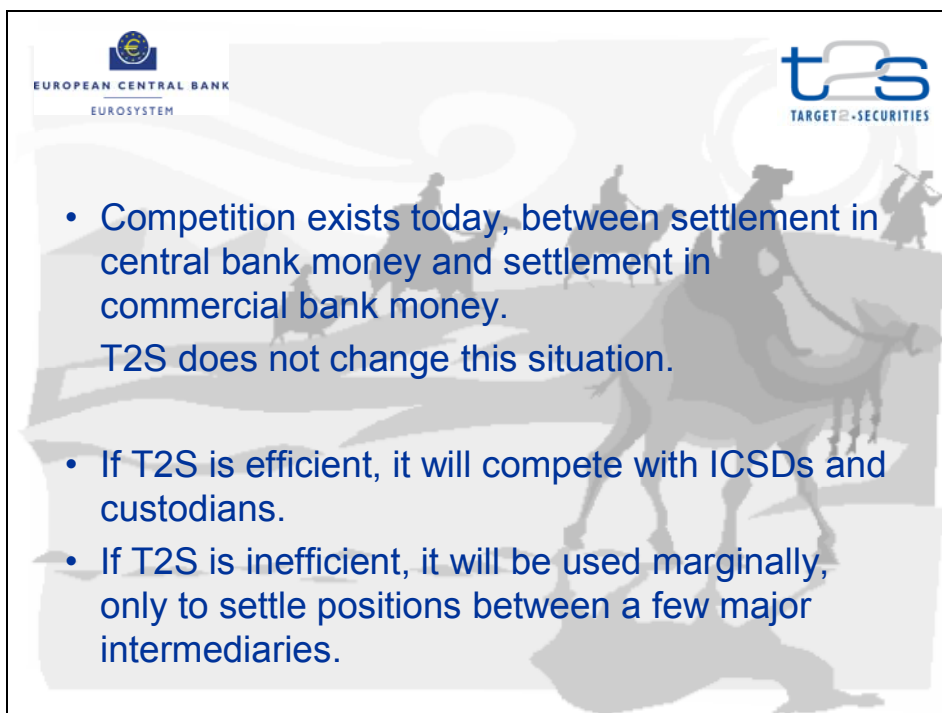


The ECB wants to monopolise securities settlement



The slide features the European Central Bank Eurosystem logo on the top left and the Target2-Securities logo on the top right. The background is a stylized illustration of a caravan of camels and riders in a desert landscape, with a large sun or moon in the sky. The text is overlaid on this background.

- Competition between CSDs is very limited today.
- T2S aims at replacing many national monopolies by a consolidated European platform.




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- Competition exists today, between settlement in central bank money and settlement in commercial bank money.
T2S does not change this situation.
- If T2S is efficient, it will compete with ICSDs and custodians.
- If T2S is inefficient, it will be used marginally, only to settle positions between a few major intermediaries.


- T2S (and the Code of Conduct) places external pressure on the CSDs to review their settlement practice.
- Efficient economies do not require competing networks of motorways. They require one efficient motorway network, which is used by competing transportation companies.

The dogs:

In a market economy, securities settlement should be a matter for the private sector



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A long central bank tradition in providing (CSD and) settlement facilities

	Central Banks acting as CSD/SSSs today	Central Banks acting as CSD/SSSs in the last 20 years	Central Banks <u>never</u> involved in CSD/SSSs
Non €-area	USA	UK	Canada
	Japan	Most new EU Member States	Switzerland
	Poland		Sweden
€-area	Belgium	France	Luxembourg
		Spain	Germany
	Portugal	Italy	Austria
	Greece	Ireland	
		Netherlands	
		Finland (major shareholder)	



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In some cases, public intervention has ensured European success



The slide features a background illustration of a caravan of camels and riders in a desert landscape. In the top left corner, the logo of the European Central Bank (ECB) and the Eurosystem is displayed. In the top right corner, the logo for Target2 Securities (T2S) is shown. The central focus is the 'target2' logo, where the 't' and 'e' are in black, and the 'r' and 'g' are in orange. To its right is a blue square containing a large white '2' and the text 'target2 THE EUROSYSTEM'S PAYMENT SYSTEM'.

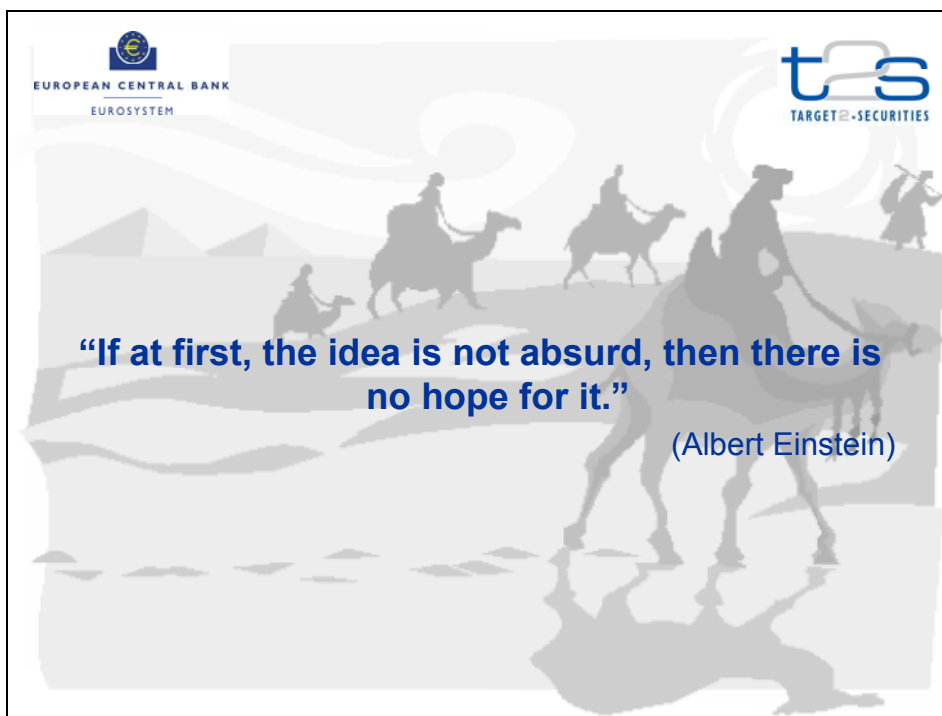
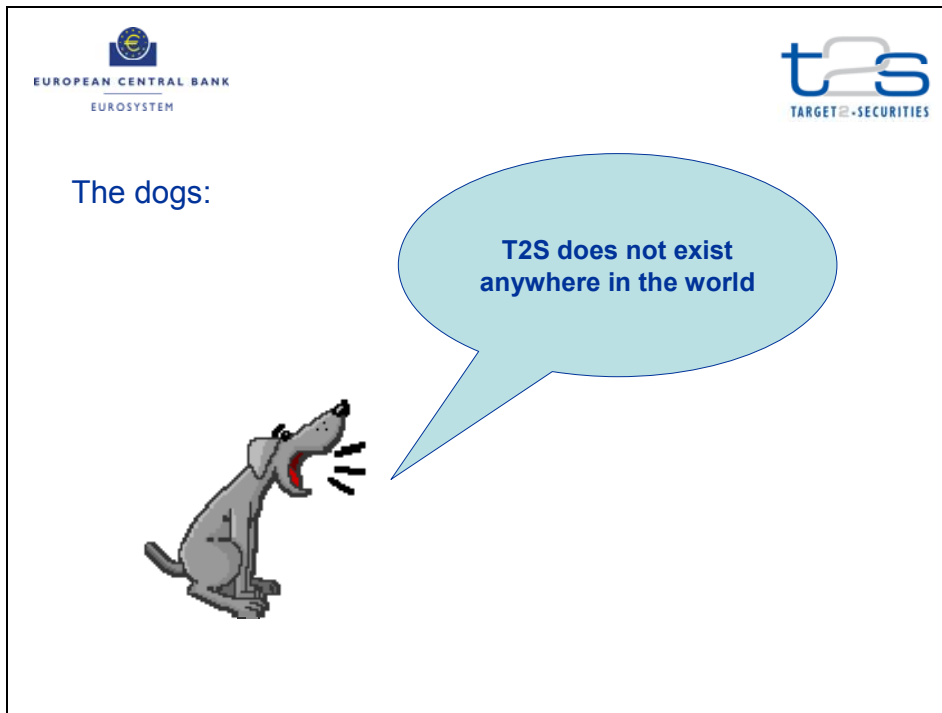
Also in the field of market infrastructures

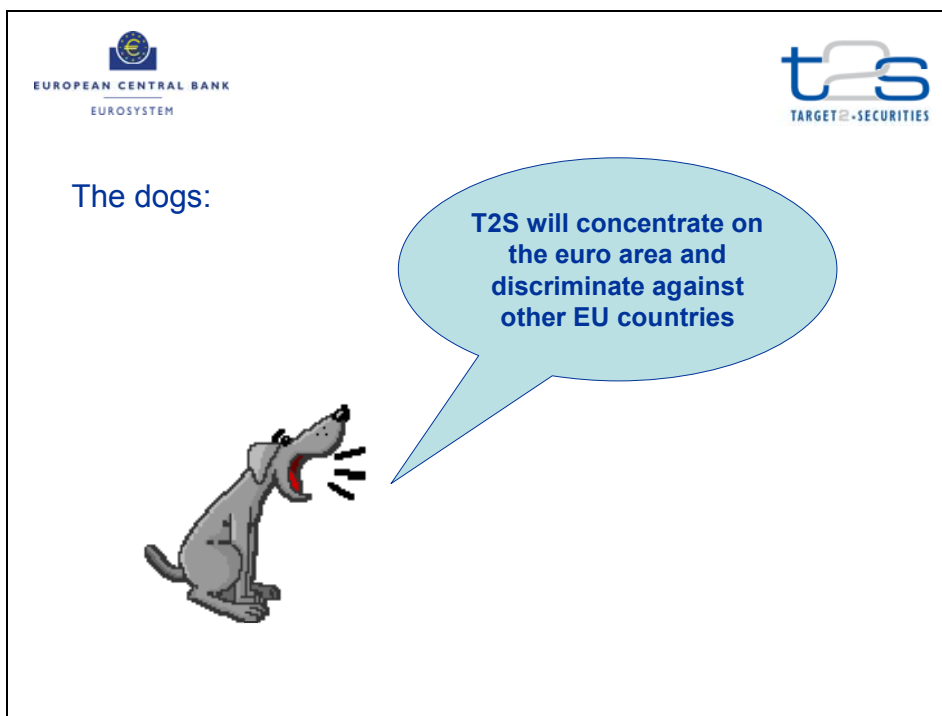
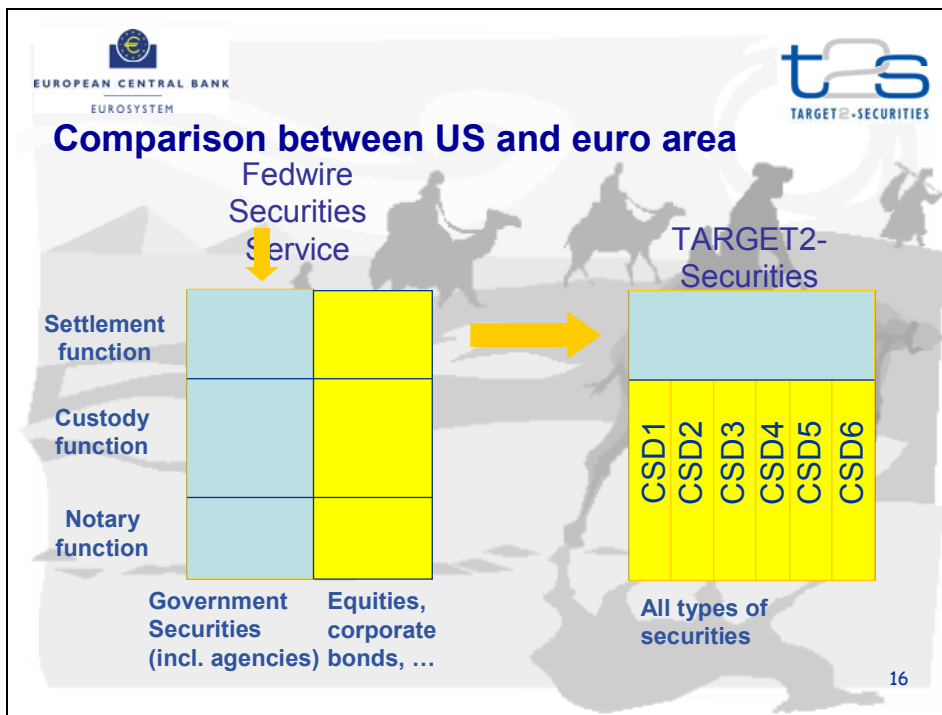


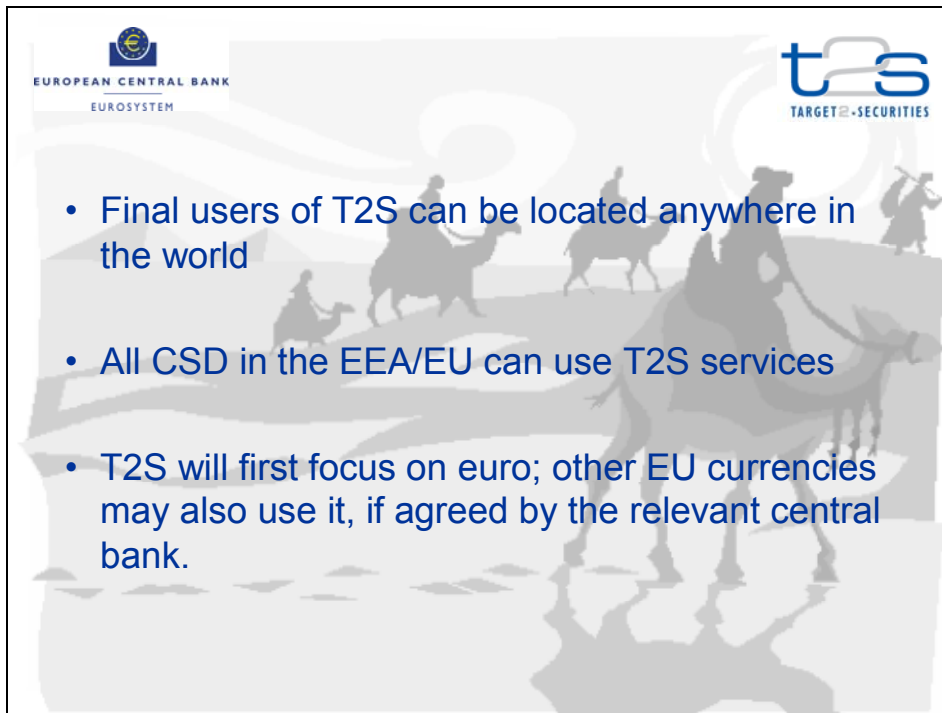
This slide uses the same background illustration as the first slide. It features the ECB and Eurosystem logo in the top left and the T2S logo in the top right. The central focus is two logos: 'EURO TUNNEL' on the left, which consists of a blue and red circular graphic with the text 'EURO TUNNEL' inside, and 'TAURUS' on the right in a large, bold, black sans-serif font.

The private sector could also fail ...









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t2s
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- Final users of T2S can be located anywhere in the world
- All CSD in the EEA/EU can use T2S services
- T2S will first focus on euro; other EU currencies may also use it, if agreed by the relevant central bank.



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t2s
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The dogs:

ECB lacks expertise



- The facts are:
 - The leader of the project team is an ECB manager who has worked 10 years in a CSD
 - The ECB has hired 3 high level consultants who are former CEOs of CSDs
 - One fifth of the project team is composed of experts or consultants who have worked for a CSD
 - The project team work is reviewed by technical groups and by the Advisory Group where private market participants have the majority.



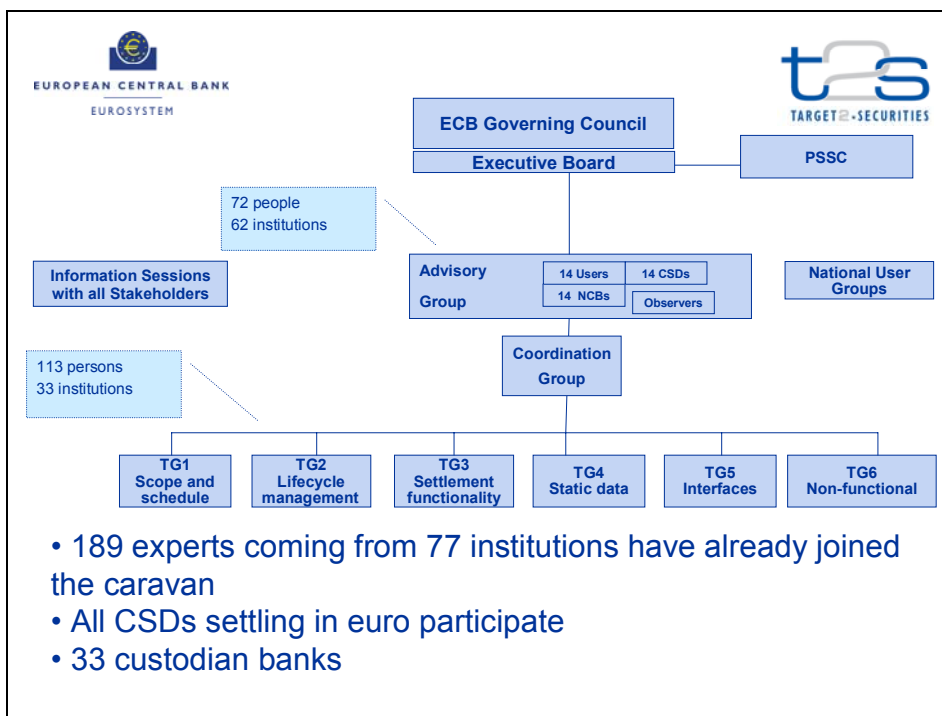
The dogs:

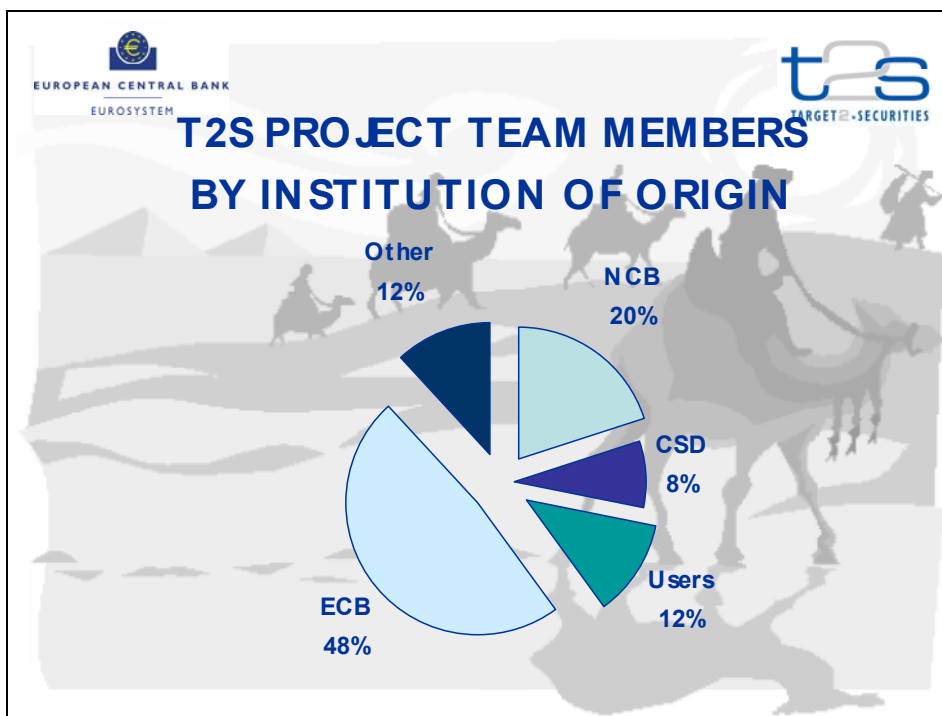
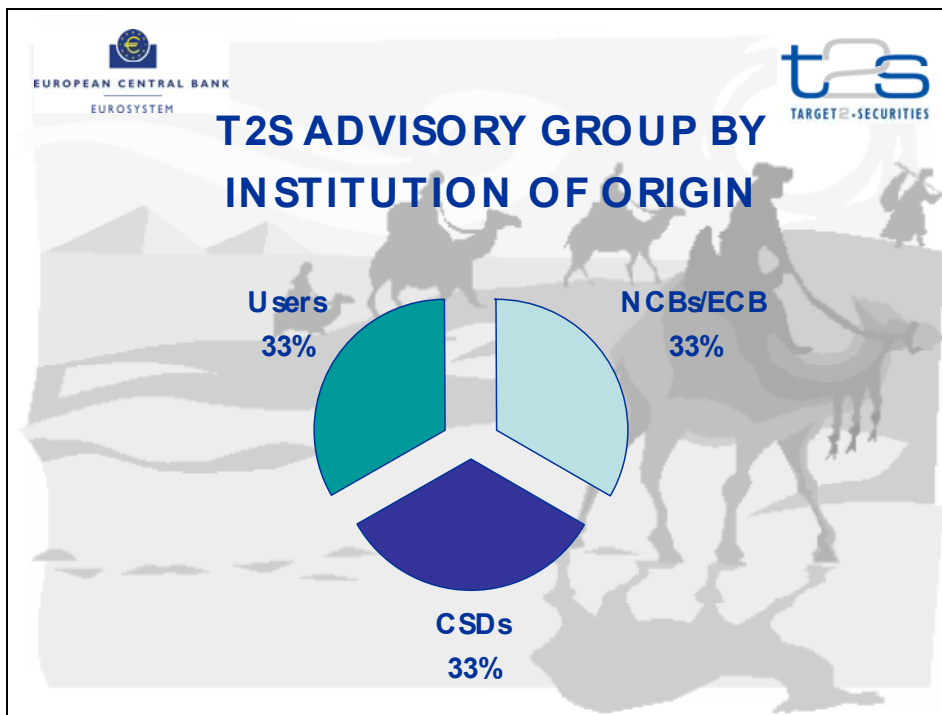


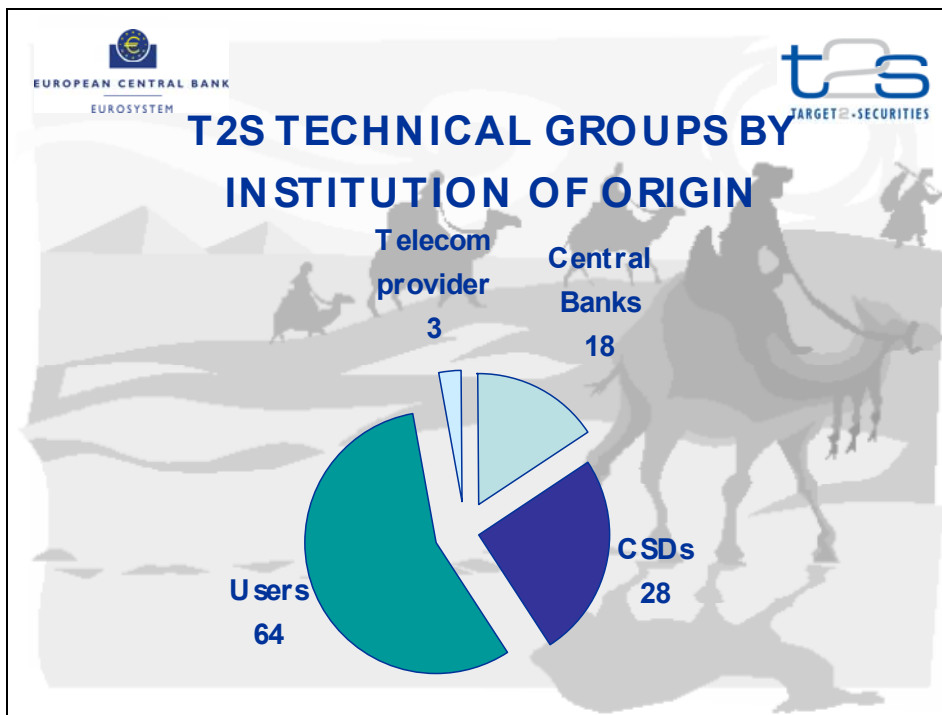
The market influence is weak: in the end, it is the ECB who decides

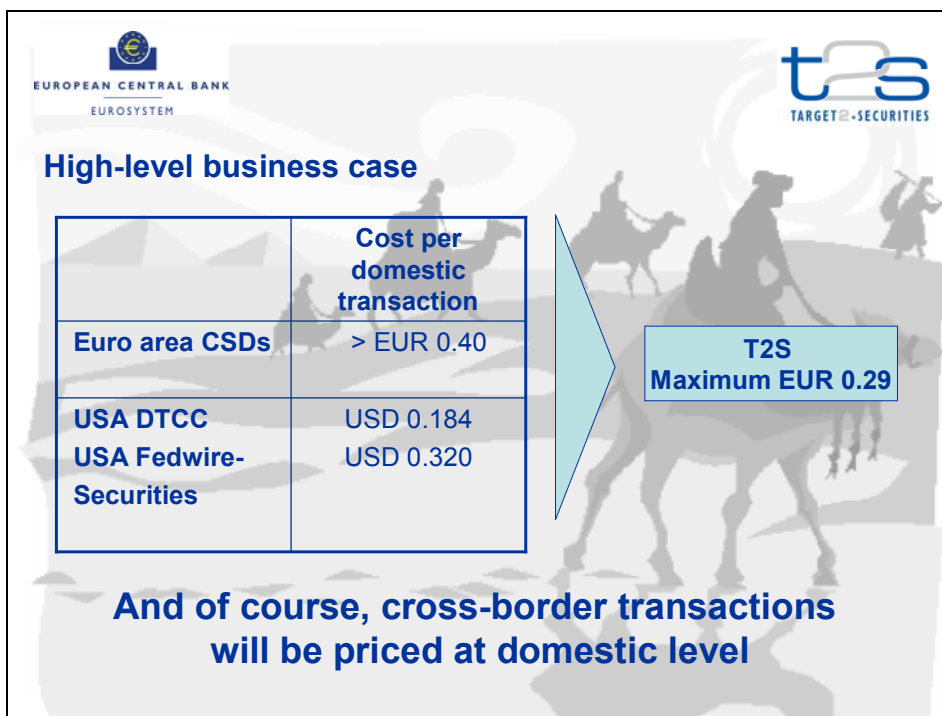
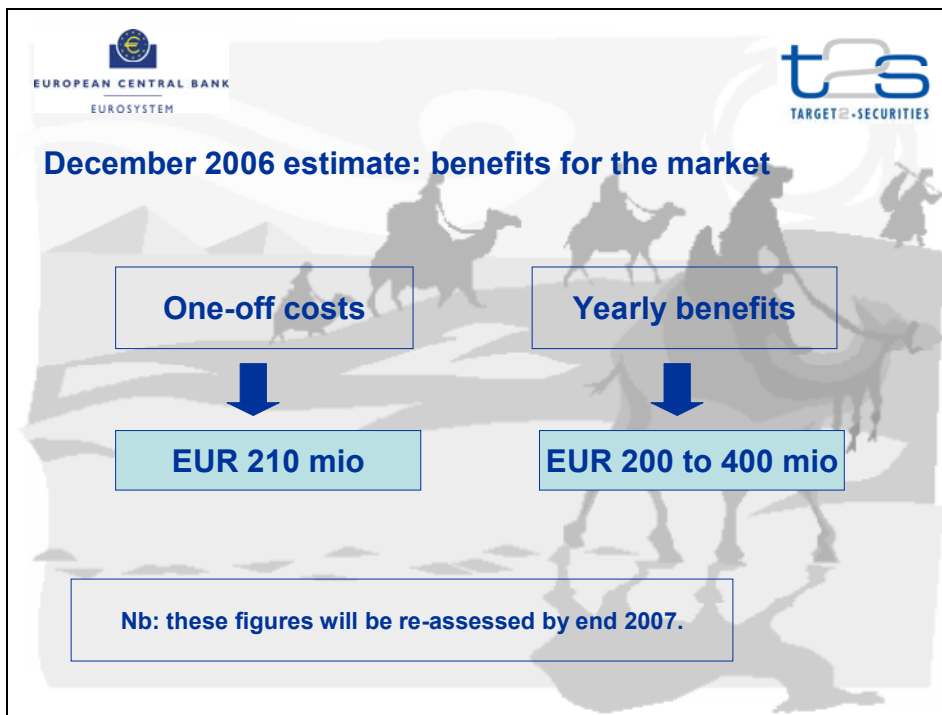
It is true that the Governing Council of the ECB takes the final decisions. But:

- Clear decision-making is a key requirement for a project of this size.
- The process leading to the final decision is fully transparent; in particular the Governing Council decides on the basis of the conclusions of the advisory group.












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The dogs:

This initiative is not market neutral:
big custodians will win,
CSDs will lose



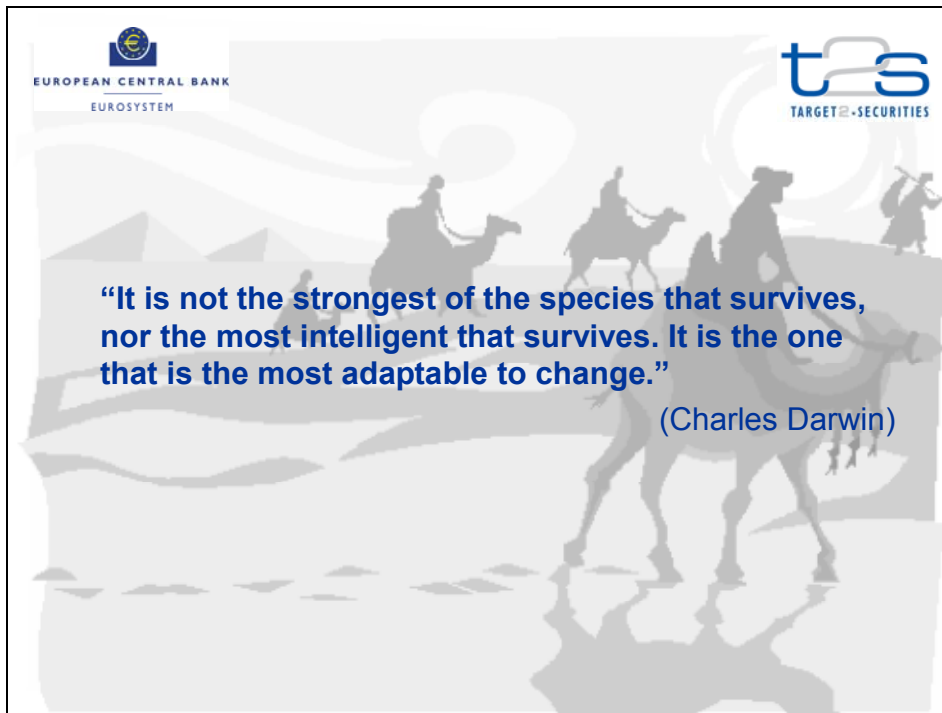

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T2S aims at the macro-economic benefits for Europe.

Europe will win.

This does not necessarily mean that every institution will win...



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**“It is not the strongest of the species that survives,
nor the most intelligent that survives. It is the one
that is the most adaptable to change.”**
(Charles Darwin)

The slide features a background illustration of a caravan of camels and riders in a desert landscape. The logos for the European Central Bank and Target2-Securities are positioned in the top corners.



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Conclusion :



**“All the forces in the world are not as powerful as an idea whose time
has come.” (Victor Hugo)**

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