

Improving tri-party **settlement** interoperability and extending the ICSD **real-time** processing day



In the second in a series of interviews in this issue, **Arnaud Delestienne**, Head of Core Product Management, Clearstream, speaks to *FSR* about ongoing initiatives designed to improve interoperability between tri-party collateral service providers and to deliver enhancements to the settlement link, or “Bridge”, between Clearstream and Euroclear ICSDs



Arnaud Delestienne,
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In July 2013, The ICMA European Repo Council signed a Memorandum of Understanding with Clearstream, Euroclear and Eurex Clearing, which engages these three post-trade infrastructure providers in a joint project enabling their systems to work together to increase the efficiency of the repo market. A programme of enhancements to the settlement link between Clearstream and Euroclear ICSDs, the Bridge, has now been announced. What form will this take?

The first phase of Bridge enhancements have been scheduled for implementation in September 2015. This will introduce a currency-driven deadline model and extend the end-of-day close for settlement via the Bridge to 18:30 CET, which builds upon recent business day extensions at both Clearstream and Euroclear.

Phase 1 will deliver an extension of deadlines for mandatory settlement via the Bridge from its existing close at 13:00 CET. For major currencies, notably EUR, USD

and GBP, this input deadline will be pushed back to 15:00 CET, while input deadlines for optional settlement will be extended until 17:25 CET for counterparties that have agreed to utilise this option.

For a second set of currencies, including a number of Emerging European and Asian currencies, the input deadline for mandatory settlement will be extended slightly to 13:20 CET.

For free-of-payment (FoP) transactions, settlement will now be possible throughout the day up to a final input deadline of 17:25 CET. With this development, the previous distinction between mandatory and optional settlement deadlines for FoP transactions will be abolished, which will facilitate same-day realignments of securities positions between clients of both systems.

Clearstream and Euroclear ICSDs have also agreed to the introduction of some additional matching and settlement file exchanges after 12:00 CET, thereby driving an improvement in settlement turnaround times from 60-120 minutes under existing

arrangements down to 35-90 when Phase 1 has been completed.

Further enhancements have been scheduled during Phase 2 of the project which are likely to reduce settlement turnaround to a 20-minute average (ie a 10-40 minute expected turnaround). The matching process will also be improved substantially, reduced from 30 minutes currently down to less than 2 minutes. Finally, further enhancements will be brought to the Bridge windows and deadlines to ensure we continue to maximise interoperability in light of local currency deadlines and ICSD business day timelines. On the Clearstream side, we already have the technology capability to deliver matching and settlement on a real-time basis, and we will continue to push toward this standard subject to agreement from other parties to the project.

The final technical specifications that will be delivered under Phase 2 of the project are still under negotiation. A major priority is to reach agreement regarding the technology that will be employed to support the Bridge upgrade. As independent companies with our own internal technology and operational models, it is important for Clearstream and Euroclear to find common ground on how the objectives of the Bridge upgrade will be delivered and which technology should be used to support these, as well as any future, enhancements.

While constant refinements have been made to Bridge activities over time, the Bridge is now 20 years old (the overnight Bridge was launched in 1993) and the last major remodelling was in 2004 with the introduction of daytime Bridge settlement. Given the magnitude of these proposed amendments under Phase 1 and Phase 2, it is vital to ensure that the market is supportive of what we will be delivering and that we have taken all necessary steps to avoid potential disruption for our clients. The Bridge is a conduit for settlement of a wide range of assets, in a large number of markets, between the ICSDs and it is vital that the market is not disrupted by a potential failure of this link while these upgrades are being introduced.

Euroclear and Clearstream will be heavily involved during 2016 in linking their group CSDs to the TARGET2-Securities platform (during Migration Wave 2 for ESES and Migration Wave 3 for CBF and LuxCSD). Thus, it will be towards the end of 2016 and after that both parties will have resources available to implement Phase 2 of the Bridge enhancements. With this, we expect to drive a stronger alignment between CeBM and CoBM settlement environments in Europe.

Earlier in 2014, Clearstream announced a wider programme for business-day extension. This began in April by extending the Clearstream ICSD real-time processing day by two hours. What plans do you have for further extension?

Prior to confirmation of this set of upgrades to the ICSD Bridge, Clearstream previously announced that it would be introducing a phased extension to the settlement day for the Clearstream ICSD. This will deliver improved cash and securities deadlines for internal settlement activity and for external settlement with local counterparties in the America's timezone. In April 2014, the deadline for internal and domestic US transactions was rolled back two hours until 20:00 CET, with the USD cash deadline also extended to 20:00 CET to bring this closer to local market deadlines.

By 2016, Clearstream aims to offer settlement throughout the full US business day. Among other benefits, this will enable Clearstream to offer substantially improved access for global customers to the US market and other markets in the America's timezone and we will offer our clients optimised collateral management services via our Global Liquidity Hub.

This will also lay the foundations for further extension of ICSD Bridge settlement later in the American operating day if agreement can be secured with other key parties to these settlement Bridge enhancements. ■