

Post-trade in Europe – the need for speed



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75 years after the creation of the European Coal and Steel Community, the precursor to the European Union, European capital markets are still far from the vision the union promised. A multitude of different legislations, tax regimes, technology platforms, and differing national interests are hindering the European capital markets from living up to their full potential.

Strides have been made to standardise and streamline settlement processes across Europe, create a level playing field among service providers, and reduce the risk, cost, and complexity of cross-border transactions – the launch of TARGET2-Securities (T2S) and the Central Securities Depositories Regulation (CSDR) come to mind in this regard.

Can Europe turn into the global capital market of choice for investors and issuers alike? And what can the post-trade industry do to help?

T2S – the empty highway

Before the launch of T2S, the initiative was seen as crucial for reducing costs and enhancing cross-border settlement efficiency in Europe – a basis for robust European capital markets. However, a few years on, it has become clear that some expectations were overly optimistic, and not all objectives have been fully met. The settlement market remains somewhat ineffective and fragmented. Despite its potential and the various efforts from the CSD community to allow for links and find practical solutions to overcome diverse national practices, T2S has remained an "empty highway" to a large extent.

A significant percentage of settlement flows still occur off-platform, often internalised within individual banking systems, and cross-border activity is still very limited. This complexity results in duplicated solutions, fragmented processes, and ultimately, risk and cost inefficiencies for market participants.

Delivering Europe via one securities account

Ever since the launch of T2S in 2015, Clearstream has been deeply committed to its mission and made significant investments in the development of our Pan-European CSD solution. A continuous expansion of market and asset class coverage has formed a one-stop-shop access via one securities account across the European capital market.

Today, Clearstream's CSD is directly connected to 19 T2S markets and regularly handling over 50% of entire T2S settlement volumes. It accepts all T2S-eligible securities, settling most major traded and cleared flow across Europe and is growing its coverage with demand. The platform is harmonised with that of the ICSD, thus consolidating assets held in both the ICSD and the CSD via one collateral management engine and one data analytics solution.

The benefits of the Pan-European CSD solution are threefold. Firstly, clients enjoy economies of scale as well as cost efficiencies by running a central access to multiple markets. Secondly, capital requirements are optimised through the use of central



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bank money. Thirdly, netting effects at the settlement layer supported by auto-collateralisation, balance sheet netting, and cleared flow netting benefits can be realised. Today, the Pan-European CSD model is a reality and is delivering significant efficiencies to banks and brokers across the European investment spectrum, from institutional to retail players, paving the way for increased harmonisation and regional scale.

Competitive European capital markets

The vision of the much-discussed Savings and Investments Union (SIU) aligns greatly with the Pan-European CSD solution and is pivotal for unlocking the growth and innovation potential that sits between borders today. Harmonisation is essential to this initiative, as it removes barriers within the single market and simplifies regulatory frameworks. This creates a more integrated and efficient environment, reducing complexities and enhancing competitiveness.

The SIU must balance harmonisation with flexibility, addressing the unique needs of different regions while promot-

ing a unified approach. By leveraging and boosting existing success stories such as T2S, the Pan-European CSD solution, digital securities platforms like D7, and the European all-stars Eurobonds and funds, while investing in digitisation and simplification, the SIU can build depth, credibility, and trust in Europe's financial future. At the same time, this can act as a springboard for more operationally- and cost-efficient European capital markets as it aligns with another core initiative of the securities services industry: T+1.

Accelerating the settlement cycle

Implementing a T+1 settlement cycle in Europe is a crucial step towards enhancing market efficiency, reducing counterparty risk, and unlocking liquidity. By shortening the settlement period, market participants can benefit from faster transaction completions, which in turn lowers the capital and collateral requirements, making the market more dynamic and competitive.

However, the transition to T+1 is not without its challenges. Today's securities settlement ecosystem in Europe (based on global custodians, wealth managers, and broker-dealers appointing a sub-custodian to represent them at depository level in each market) is complex, often involving as many as ten local market entities and relies on the provision of discretionary intraday credit by local custodian banks to facilitate settlement. As a result of this complex web of accounts and relationships, today's financial institutions are faced with a number of avoidable costs.

The complexity of the European market, with its multiple jurisdictions, diverse market practices, and numerous financial market infrastructures, makes the shift more intricate and costly compared to North America. According to a paper from Firebrand Research, smaller buy-side firms face implementation budgets of more than US\$200,000, while larger global custodians could incur costs up to US\$36 million. Furthermore, 28% of surveyed firms haven't even begun their preparations.

Pit stop to get ready

Despite these obstacles, leveraging lessons from other regions and investing in advanced automation systems can facilitate a smoother transition, ultimately leading to a more efficient and resilient European financial market. Firms need to evaluate their biggest pain points now and take proactive steps to mitigate the challenges and ensure they're ready for T+1.

Three key areas should be tackled for a smooth transition: minimising settlement fails, automating set-ups, and enhancing securities financing. From digitising issuance in the first place via Clearstream's D7 platform, to settlement prediction tools that avoid failures in advance, to collateral management automation with Clearstream's OSCAR solution, and a consolidated single liquidity pool – the tools are already there. Market participants need to kick off their readiness planning now for a well-managed transition.

A vision of harmonised capital markets

Given the convergence of operational, cost mitigation, and wider political factors, now is the right time for market participants to reevaluate the nature of their securities connectivity to Europe. There is a strong momentum to review the cost of a trade end-to-end, and to challenge legacy set-ups and processes.

A stable, secure, agile, and interconnected market will attract global investors and unlock the vast potential of a truly integrated European capital market. Clearstream remains strongly committed to that cause. The vision remains within reach, but it needs continued joint action from all of us to transform this vision into reality. ■

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