

## Insideview

# Target2-Securities – Who Will Benefit?

Interview with Ole Petersen and Frank Striegel,  
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**Target2-Securities (T2S) is a project of the Eurosystem (central banking system of the Euro area) aiming to create a common platform to settle securities transactions in central bank money. This platform is another step of the European Union towards harmonization of capital markets and enhancement of competitive conditions in the Euro area. T2S is planned to go live in 2013 and to operate on a full cost-recovery and non-profit base.**

### **First, please give us an overview of the current landscape for post trading in Europe.**

The current landscape of Europe's post trade industry is characterized by 27 segregated national markets which are linked via complex structures. Each country is mainly focused on its own settlement system which leads to inefficient and expensive crossborder trading. For an international trade, a European investor has to pay up to 10 times as much as for a trade within the national borders.

The Giovannini reports<sup>1</sup> have identified the non-harmonized IT-landscape as well as the coun-

try-specific legal regulations as the key barriers in Europe's post trade market. To remove these barriers will be a difficult process, but necessary to overcome the current fragmentation.

### **How will Target2-Securities (T2S) bring about market integration in this landscape?**

T2S will enable a uniform securities settlement landscape which enables participants to perform fast cross-border transactions at low costs. T2S will be a technical platform providing borderless and neutral settlement services in central bank money to the participating Central Securities Depositories (CSDs). Cross border settlement will become as efficient as domestic settlement, hence harmonization of the European post trading is fostered.

With a principle for simplicity, European countries can easily adopt and integrate T2S in its specific landscapes.

### **Which advantages will the financial market players have once T2S is in place?**

T2S can be seen as a catalyst of harmonization



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of market rules and practices in the post trade area in Europe, the result being reduced complexity, operational costs, and risks.

Commoditized, low cost settlement services will be delivered to the CSDs. The CSDs should be able over time to reduce their internal costs by restructuring and downsizing their own settlement processes and focusing on value added services to their customers.

Issuers will profit from a wider reach of investors and higher liquidity of securities and cash. Investors will be able to reduce the cost of a diversified cross border portfolio and benefit from an increased choice of intermediaries.

Custodians will be able to use a single CSD to



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access multiple markets, thereby saving costs. Reduced risks and lower costs because of increased efficiency of collateral management will be possible.

The global credit crisis puts even more focus on Europeanwide initiatives such as Target2-Securities and for example the harmonization of regulation of financial markets in Europe. Based on our studies and projects within the T2S environment IBM believes that the financial market in Europe will change substantially in the next years. Gainers will be those financial institutions, which adapt their processes and business models to the new conditions.

**Thank you for this interesting conversation.**

*1) In 2001 and 2003, initiated by the European Council the two Giovannini reports – under the lead of Alberto Giovannini - analyzed the clearing and settlement processes and identified 15 barriers which need to be removed in order to achieve integration.*