

## Insideview

# Trends in European Securities Settlement

INTERVIEW WITH TOMAS KINDLER, LINK UP MARKETS

**Securities settlement is said to be inefficient for cross-border transactions in Europe. Different initiatives like the Code of Conduct for Clearing and Settlement, TARGET2-Securities (TS2) and Link Up Markets aim to improve European post-trading processes.**

**First, please give us an insight on your view of the current European post-trading landscape.**

While domestic post-trading in Europe is generally considered to work well and to be cost competitive, customers indeed face significantly less efficient processing and higher cost for cross-border securities settlement and safekeeping of foreign securities. Driven by a lack of interoperability and harmonization, investors typically need intermediaries for an efficient access to foreign markets. These obstacles have been identified as so-called Giovannini barriers. While some improvements in their removal have been achieved over the last eight years, the overall progress is disappointing and in many cases stops at recommendations only. Looking at concrete implementation initiatives removing the obstacles and improving efficiency, two approaches have

crystallized: the consolidation route taken by Euroclear's Single Platform and the European Central Bank's T2S and the interoperability route taken by Link Up Markets and fostered by the EU Commission. Both approaches are not mutually exclusive and could complement each other.

**How will Link Up Markets improve the efficiency of European securities processing?**

Link Up Markets is a pragmatic approach to improve interoperability between Central Securities Depositories (CSDs). The project is going live on March 30, only 12 months after the initial announcement, and implementation cost are very reasonable.

Rather than building another CSD or settlement engine, Link Up Markets is providing a central "adapter" for the CSDs to "plug in" and leverage their domestic infrastructures. The current "spaghetti model" of mostly inefficient bilateral CSD links is replaced by a single access per CSD to all other participating markets. As opposed to consolidation initiatives, harmonization is not a prerequisite for the



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launch but an ongoing objective. Link Up Markets is committed to be a catalyst for standardization, fostering the implementation of the Giovannini protocol and harmonizing the services of the participating CSDs.

**How does Link Up Markets harmonize with TARGET2-Securities and the Code of Conduct for Clearing and Settlement?**

While many of the access requests raised under the Code might never be implemented, Link Up Markets is recognized as a showcase for interoperability between CSDs.

Acting as a facilitator to T2S, Link Up Markets will prepare both the CSDs and the market participants for a world with T2S, and will deliver part of the benefits much ahead of 2013. Assuming the local settlement systems are replaced by T2S, Link Up Markets will complement the service scope by asset servicing

and other CSD services and will deliver the necessary CSD interaction.

**What are the key benefits of the Link Up Markets concept for your customers?**

Rather than being present in all markets themselves or managing their network of intermediaries, customers have a single window to all participating markets via their CSD of choice. Existing CSD accounts can be leveraged with basically no adaption cost. We estimate that – depending on market and service requirements – customers could save up to 80% by using a Link Up Markets CSD as their cross-border settlement and custody service provider. Fees on existing CSD links that are migrated to Link Up Markets are reduced in the area of 30%, underpinning the value of improved interoperability.

The current eight members of Link Up Markets reflect 50% of the European securities processing volume and we are in discussion with various CSDs to extend market coverage, in Europe and beyond.

**Thank you for this interesting conversation.**