Focus Session in Paris
Paris, 13 December 2017

Opening remarks by Denis Beau, Deputy Governor of the Banque de France

Ladies and Gentlemen,

Welcome to this focus session dedicated to the future of Eurosystem infrastructure services. The future looks indeed quite exciting at a time of growing digitization and globalization.

But before turning to the future, let me say a few words about the past and stress that we can already be proud of the results achieved at the current juncture. What a journey! Some of you in the audience may remember. Ten years ago, in November 2007, TARGET2 went live. From the inception of this new European and harmonized large value payment system, it has been a success and a reference for the market infrastructures worldwide. The harmonization of the European post market was then extended from cash to securities. T2S went live in June 2015 and the migration plan was completed by last September as agreed with the market.

Today, the sector is clearly engaged in a continuous process of consolidation under the influence of three major drivers:

- The global concentration of financial market infrastructures (FMIs) brings economies of scale;
- The strengthening of regulatory and oversight requirements may also speed up the concentration of FMIs around the ones that have the critical size to comply with the requirements;
- Further harmonization efforts are supported by the European Commission works toward a Capital Market Union and especially the contribution of the European Post Trade Forum (EPTF) to the elimination of national barriers.

Against this background and after T2 and T2S, what can the role of the Eurosystem be to further facilitate the deepening of European markets integration?

In my view, the answer is twofold: the Eurosystem has not only to consolidate its role as an operator of financial market infrastructures (1), but it should also strive to act more widely as a catalyst of private sector initiatives insofar they contribute to a safer and more efficient post market sector (2).

1) **The Eurosystem's ambition to consolidate its role as an operator of financial market infrastructures is reflected by the decision taken this year to develop three new projects.**

a) The Target Instant Payments System (TIPS) will provide a pan European solution for real-time gross settlement in central bank money of both domestic and cross-border instant payment instructions.

   As such, it will help accommodating the retail customer needs for instant payments while avoiding market fragmentation by promoting full reachability for instant payments within the SEPA area.

b) The consolidation of T2 and T2S will provide market participants across the Eurosystem with enhanced liquidity management procedures and align processes regarding access to the platforms, ISO 20022 messaging, multi-network provider, whilst preserving the specificities of each businesses.

   It will therefore contribute to enhance the payment services in central bank money for cash and securities which are at the heart of central banking while reducing the corresponding operational costs.

c) The Eurosystem Collateral management System (ECMS) will be primarily a Eurosystem service based on a single platform -not a market infrastructure- replacing the existing domestic systems of the 19 national central banks for collateral operations.

   After T2 and T2S have steered harmonization in the fields of payments and securities, ECMS will allow the Eurosystem to harmonize its own back office system for collateral management.

   More precisely, ECMS will bring greater operational efficiency within the 19 NCBs in mobilizing the eligible collateral by further automating processing, optimizing exchanges with communicating information systems and simplifying the procedures for mobilization of domestic and cross-border collateral.

   It will also ensure a level playing field for counterparties also from a technical perspective through the standardization of services in the context of decentralized structures for monetary policy implementation thereby working against the fragmentation of the money market.

   Furthermore, it will allow monetary policy and collateral decisions to be implemented in a timely and a harmonized way throughout the Eurozone; in other words, ECMS will both reduce the deadlines for the actual implementation of monetary policy decisions and provide a guarantee that the provisions of the General Documentation are implemented in a uniform manner.

Last but not least, ECMS will reduce the running and adaptation costs for managing collateral within the Eurosystem, in case of a change in instruments or procedures related to monetary policy implementation.

2) **But there is more to come. Together with the leaner frameworks brought by T2S and expected from ECMS, we are watching the emergence of several private initiatives, especially aiming to enhance collateral management processes as a consequence of new requirements set by financial regulations that can benefit from the role that the Eurosystem can play as a catalyst, beyond being a service provider and an overseer.**

   Allow me to outline briefly those stemming from the French financial community. There are first the mature ones: EuroGC+ which brings together the use of triparty services and central clearing of repo transactions; ESNI which promotes the use of high quality corporate loans as collateral on the interbank market via a collective special purpose vehicle that is simple, secure and transparent. There are also nascent initiatives (such as the trading platform Elixium for repos open to both the sell side and the buy side) and those which are still in the state of projects (such as the Rooster trading and settlement platforms foreseen by Orange and the Fintech Setl on the NEU-CP market).

   These developments are most welcome as far as they make the functioning of the financial system both safer and more efficient.

This is why the Banque de France as a member of the Eurosystem and as far as it is concerned is already encouraging them focusing in particular on their resilience regarding cybersecurity risk. It is a key challenge for financial market infrastructures, regardless the technology used, but especially in case a new and immature technology is deployed. To this regard, I would like to underline that the Eurosystem is fully dedicated (i) to ensure that cyber risk is addressed adequately by the FMI they oversee, (ii) while developing a fully fledge program for Eurosystem market infrastructures and platforms it operates. The Banque de France itself is also at the forefront of the fight against cyber-risk as we have been tasked with coordinating the preparation of a cyber resilience test for the financial sector at the global level to be conducted in 2019.

All these initiatives aim at facilitating a secured and efficient management of collateral by market participants under the pressure of financial regulation, which contributes to giving collateral a central role in preserving financial stability.

The Commission proposal to revise EMIR with regards to third countries CCPs provides a good example. If adopted, clearing services deemed as substantially systemic would have to relocate in the EU. Relocation may trigger collateral netting effects. But an improvement of the collateral management services provided to clearing members and their clients by CSDs and custodian banks could help mitigating such effects, by facilitating the mobilisation of idle collateral.

All in all, after the payments and securities areas, the benefits of financial integration are being extended to the collateral industry. This is a development that we must welcome and encourage.

You will not have too much of a day to analyze and discuss all the implications of these trends. I wish you a fruitful conference. Without further ado, I give the floor to Mehdi Manaa from the European Central Bank.