

## Consolidation or competition: What's right for Europe's securities market?

Wednesday 17 September – 09:00-10:00

### Settlement is no island

The best execution provision of MiFID demands that investors be given access to the best price for execution; shouldn't they expect the same for their clearing and settlement requirements?

Hal McIntyre, managing partner, The Summit Group, made clear in his introduction that the panel on 'Consolidation or competition: what's right for Europe's securities markets?', would concern itself only with equities, not bonds, and review settlements not CCPs or exchanges. Jeffrey Tessler, president and CEO, Clearstream remarked, however, that, "what happens in settlements depends very much on the progress of exchanges and CCPs." He also cautioned that, "Any attempt to predict the future is bound to fail. What we would have forecast to happen five years ago in terms of developments in European securities markets and settlements is clearly not what has happened." As Jan Bart de Boer, chairman of the supervisory board of Fortis EMCF pointed out, "While a grand scheme is a nice idea it is simply not practical. Change is happening at exchange, CCP and CSD/settlements level all the time but at a different pace and in some cases in a different direction, bringing consolidation in some areas and competition in others."



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The idea that consolidation and competition would co-exist was also confirmed by Pierre Francotte, CEO, Euroclear in relation to the question of the impact of initiatives such as T2S and the Code of Conduct. "Interoperability provides the basic conditions within which competition can flourish and lead to reduced costs, innovation and improved services. However, consolidation of the kind that T2S will bring about is the only basis on which significant costs can be removed from the system."

Paul Bodart, executive vice president, Bank of New York Mellon represented a client keen to get the benefits of both kind of initiatives. "The best execution demands of MiFID require our clients to seek the best price for their execution by using different trading venues. They should not then be required by their custodian to use a specific 'silo' for clearing and settlement. I want to have access to the best CCP and the best CSD irrespective of the trading venue on which my clients have traded."

The other panel members sympathised with this desire, and also agreed that recent years had seen a fast pace of change in the European settlements landscape. However, they still saw significant barriers to actually bringing it to fruition, not least the 'infamous' Giovannini barriers, which remain a real obstacle in some markets.

### Limited horizons

This may explain why expectations of where the settlements business might be by 2015 were relatively modest. All agreed that T2S would be implemented by then with Tessler expecting that clients will be offered a range of interoperability options to maximise their use of it. Francotte cautioned that many customers of T2S will have changed their business models by that date and therefore their requirements for access may be quite different from those expected today. He also envisioned an environment in which volumes were much higher and costs of individual settlements were much lower. The most radical

future view was expressed by de Boer. He commented that trading in large capitalisation stocks already subsidised that in smaller less liquid names. He envisaged a situation in which this subsidy was eliminated. As he said, "new specialist trading venues are focusing on the most liquid securities and new CCPs are following them. There is no reason to suppose that new specialist CSDs might not follow offering very cheap services but for a limited number of highly traded securities."

The panelists were generally sanguine about the futures of their institutions and ability to offer valuable services to their clients. Even in an environment where settlement revenues measured in price per trade would be reduced by T2S implementation, transaction growth would provide some offset. For the ICSDs, the central bank money settlement business was only part of a broadly diversified revenue base. Francotte suggested that in areas as wide ranging as issuer services, corporate actions and global cross-bor-

der clearing there remained significant opportunities for radically improved services and the higher fees these could command. Meeting these needs might involve changes to business models, but he felt, and Bodart confirmed, that clients would be willing to pay if the price and service quality were right.

### Evolutionary progress

The overall conclusion of the panel seemed to be that the market for equity settlements would see a process of cycles where periods of fragmentation generating greater competition are followed by consolidation as the market and clients determine which offerings and business models offer genuine value. Similar cycles will occur in other areas of equity trading but the timetables will not be coordinated resulting in messy rather than planned evolution. However out of this 'mash up' could emerge what is actually needed; the infrastructural support required by a properly integrated pan-European capital market. <<