

PORTUGAL IS THE T2S POSTER CHILD

The Portuguese transition to TARGET2-Securities (T2S), completed on time and without any noticeable disruption to the smooth operation of the financial markets, has become a byword for excellence in the management of a major infrastructural project. Dominic Hobson asked Maria Tereza Cavaco, Deputy Director in the Payment Systems Department at the Bank of Portugal, and Rui Matos, an Executive Board Member of Interbolsa and a Member of the T2S Advisory Group at the European Central Bank, how they did it.

Hobson: How long in advance did you start your T2S project?

Matos: The planning of the migration project goes back ten years, to the very beginning of T2S in July 2006. Our execution phase began three years before our planned migration date of 29 March 2016. We worked hard from that moment on, because the end-game was always a successful migration.

Cavaco: The internal project was initiated in January 2012, with the establishment of an internal, multi-skilled team, and the preparation of the feasibility assessment study. We were well prepared because we had followed the T2S project since 2008, via our participation in the T2S Advisory Group that brought together central securities depositories (CSDs), banks and central banks under the auspices of the European Central Bank (ECB). We also helped to organise and took part in regular national user group meetings.

Hobson: As you worked on the project, what was driving your strategic and technical choices?

Matos: From a strategic standpoint, we figured out very early that T2S would be a state-of-the-art settlement engine, offering all European markets centralised delivery-versus-payment (DVP) in central bank money. We understood that T2S would position Interbolsa at the forefront of European post-trade, in terms of both settlement and custody, which are the main services we offer. So we saw a huge opportunity in a successful migration. Our other important strategic decision was to choose SWIFT as our partner for our T2S project. When we took that decision, in early 2013, we were the first European central securities depository (CSD) to do so. But we were confident that SWIFT was the right T2S connectivity solution for Interbolsa, because we had used SWIFT before, and we knew its integration platform and T2S middleware connector would bring us unmatched benefits in terms of resilience and ease of maintenance.

Cavaco: Our strategic and technical choices were driven by the aim of providing the best service possible to our community as its members began to make

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use of T2S. For that, we had regular meetings with members of the Portuguese banking community and other relevant stakeholders, such as Interbolsa, the national CSD, and SIBS, the central payments utility for Portugal. We needed to understand their needs and to co-ordinate their efforts to ensure a successful implementation of T2S in Portugal.

Hobson: What were the major difficulties you faced?

Matos: Internally, the main challenge of such a big project was to maintain business-as-usual and the quality of the existing services to our clients. With only a small team, this was not easy to do. Externally, we had to motivate our stakeholders to start their project execution phase in good time. The banks had a lot of other projects to manage, and the difficulty was to persuade them to find the time to deliver on the various milestones and project deliverables. In the end, we were able to make it happen. The entire Portuguese community affected by T2S migrated successfully.

Cavaco: From a central bank perspective, the difficulties were not technical. They stemmed from the small size of our team, and the challenge of keeping up with all the activities both at the national level and in Frankfurt, where the project was being directed. The distance meant we could not get immediate answers to our questions. Domestically, there was no problem with the banks. The banks were very involved from the beginning. Our concerns, as Rui says, were not about the willingness of the banks to engage with the project but their ability to meet the deadlines and pass the milestones.

Hobson: How did you go about involving your community in the project?

Matos: On our side, we had well-planned and well-organised internal and external communications. We created a very transparent communication model, which involved the entire community in the project from the beginning. We organised a T2S market forum, workshops, training sessions, and a series of one-to-one meetings. We also implemented a 24/7/365 service desk for members of the community to contact

us. Open communication was absolutely key to the successful migration.

Cavaco: I agree. Success depended on close co-operation between our stakeholders - Banco de Portugal, Interbolsa and the banks – and we got it. In addition to the T2S market forum, we had a national user group, which brought together all the main stakeholders, and we still have it. We organised with Interbolsa a number of training and information sessions to explain to banks the different functionalities of T2S.

Hobson: What would you do differently if you could start the process all over again?

Matos: No project is ever perfect, but we would not do many things differently. This project was almost perfect, because we approached it in a very organised way, based on best practices in project management, and especially on avoiding distractions. The focus was always on the project itself. We stuck to the baseline. Sometimes you get incentives to do things differently, but we remained firm in pursuit of our objective. While others have postponed their migration, we were able to stick to the start-date set at the beginning.

Cavaco: Overall, the project went well, and we did not have any major difficulties. In retrospect, if one difficulty has to be mentioned, I would say that there were some internal procedures related to the choice of the network service provider, which was between SWIFT and SIA Colt, that took longer than expected because of the bureaucratic aspects of the decision. These procedures should have been completed in a shorter time-frame. Nevertheless, they did not impact the overall project, since we had enough of a time “buffer” to meet the critical milestones.

Hobson: What would be your advice to other communities that have still to migrate?

Matos: Avoid distractions. Keep your focus. Be transparent and communicate. Make sure your team controls and executes according to your plan. Focus on the stakeholders, and especially your clients, to

make sure they understand the processes that have to be transformed. These are the keys to a successful migration.

Cavaco: Good interaction and communication between the national central bank, the central securities depository, and the banking community is essential. It was vital for the banks to have well-trained people with the time to dedicate to the project. For us in particular, a driver of success was the fact that our internal project team was experienced and multi-skilled. We had people drawn from the payments, IT and markets – including collateral issues - units. To have a team that can take a broad rather than a narrow view of the project, because it incorporates a mix of skills, is a good piece of advice to other intervenient parties.

Hobson: What are the main advantages (and disadvantages, if any) of Portugal being one of the first communities to migrate?

Matos: The decision by other markets to postpone their migration to T2S was an advantage for us. It meant we migrated in a wave with few other depositories, so we had a lot of support from Frankfurt, and it went smoothly. We now have the further advantage of being one of the few CSDs in Europe to actually be on T2S, so we can - for the time being - offer top notch settlement and custody services to current and prospective clients.

Cavaco: Being in the second wave meant we could draw on the experience of those who were in the first wave, without being a live beta tester of T2S. Being early, but not first, has more advantages than disadvantages.

Hobson: What remains to be done? Is there work still to do?

Matos: There are a lot of challenges in the post-trade arena in Europe, all of which affect Portugal. The Central Securities Depositories Regulation (CSDR) still requires clarification and finalisation, but it will have an impact on securities settlement processes. In

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conjunction with the additional competitive challenges created by T2S, especially once the migration is complete, CSDR implies a structural transformation of the central securities depositories (CSDs) of Europe

Cavaco: As a central bank, we focus more on the cash payments side than on the securities business. T2S is working smoothly, so there are no big issues left over for us to address. From now on, we have to follow and implement the new releases of the T2S system, which are decided by the governance structure of T2S. Our job is simply to provide our community with the best service possible. For us, T2S is now in business-as-usual mode, because we are already used to the operation of the system. We work routinely with T2S in the way that we have long worked with the TARGET2 payments system. In fact, T2S is now part of the same unit as TARGET2.

Hobson: How well has the transition gone since 29 March, and what future challenges do you foresee?

Matos: For Interbolsa, the transition was very smooth and successful. Nevertheless, we have to look ahead, and we are focusing on the internationalisation of our settlement and custody business. We want to be recognised for our vast experience, the quality of the services we provide, and our client service culture. But we are also fully owned by Euronext, and in the Euronext group we have a clear strategy to offer all of the services that we supply, from trading through settlement and custody, to asset servicing, throughout Europe. We want to meet new client needs, and our message to both existing and prospective clients throughout Europe is, 'Why not try Interbolsa?' We have all the ingredients necessary to provide best-in-class services to both issuers and financial intermediaries, including, now we are part of T2S, a best-of-breed settlement platform. Until now, we have been purely a domestic CSD, but now we want to expand our services throughout Europe.

Cavaco: The transition was very successful. It went just as expected. There were no surprises. As a central bank, our challenge now is to ensure that the system continues to run smoothly. With three more

migration waves still to come, it is essential to keep the system running without any problems, so that other communities can join T2S without causing any disruption for the markets already on T2S.

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