

Deutsche Börse Group's Response  
to the European Central Bank

consultation on the

**Eurosystem's Vision for the Future of  
Europe's Financial Market Infrastructure**

Deutsche Börse Group (DBG) welcomes the opportunity to contribute to the recent consultation issued by the European Central Bank, and more specifically from the Eurosystem, aimed to consider the options at hand to develop a vision for its future market infrastructure services.

DBG is operating in the area of financial markets along the complete chain of trading, clearing, settlement and custody for securities, derivatives and other financial instruments and as such is mainly active with regulated Financial Market Infrastructure (FMI) providers. Among others, Clearstream Banking S.A., Luxembourg, and Clearstream Banking AG, Frankfurt/Main, who act as (I)CSDs as well as Eurex Clearing AG as the leading European Central Counterparty (CCP), and Eurex Repo GmbH which is a leading provider for international financing in the secured money market business (repo and securities lending), are all directly or indirectly users and/or providers of TARGET2, T2-S and other forms of Real-time gross settlement systems (RTGS) within the EU.

Before commenting on the specific questions raised in the consultative report in more detail, we would like to take the opportunity to emphasize some introductory key aspects on this Consultation Paper which we deem to be of particular relevance.

## 1. Introduction

### a. **Irrespective of any technical consolidation, TARGET2 and T2-S should remain clearly distinct services.**

TARGET2 is a designated payment system under the Settlement Finality Directive (Directive 98/26/EC) while T2-S is an IT platform used by CSDs and their participants for securities settlement, an activity regulated by the CSD Regulation (EU Regulation 909/2014). In the euro area, the use of TARGET2 is mandatory to carry out central bank money payments involving securities settlement. On the other hand, participating in T2-S is voluntary and does not directly mirror euro area markets (i.e.: some non-euro area markets have joined the project). A technical consolidation of both platforms should not result in a situation where users of one service are disadvantaged by the fact that they are not users of the other service.

### b. **Concentration risk must be avoided**

The technical consolidation of the TARGET2 and T2-S platforms is indeed an opportunity to produce synergies, but the Eurosystem should also assess the concentration risk that such consolidation will bring to the entire market. Relying on the same technical architecture could make both services (TARGET2 and T2-S) more interdependent, widen the scope of impact of any cyber threats, and in some cases increase the systemic impact of an outage or other operational failure.

**c. Legal implications and impact on current governance structures resulting from the consolidation**

There are important differences between the rules applying to TARGET2 and the rules applying to T2-S.

T2-S in particular is governed by a framework agreement which provides the legal basis for the provision of services to CSDs by the Eurosystem. Any technical consolidation between TARGET2 and T2-S should be supported by a clear understanding of the regulatory implications, such as whether regulatory adaptations (e.g. the introduction of additional safeguards) will be required. At this stage, it is not clear -for instance- if further integration between TARGET2 and T2-S would require changes in the T2-S framework agreement.

The governance arrangements resulting from the T2-S framework agreement are also different from those of TARGET2, and potential impacts of a technical consolidation on governance aspects would have to be assessed (e.g. in relation to change management and the release of new technical functionalities).

**2. Detailed response to the Consultative Report questions**

**|| :** Should the Eurosystem harmonise the user interface for Eurosystem services? If so, what would you identify as the specific benefits to your institution? If not, what would be your reason for not harmonising the user interface?

Generally, Financial Market Infrastructures (FMIs) have a different perspective than most users of the TARGET2 and T2-S services. Most specifically from a CSD perspective we fail to identify any specific benefits for FMIs having a single user interface for accessing both T2-S and TARGET2 as the use of either interface is for different purposes/services. One FMIs could be accessing TARGET2 in a role similar to a bank, while participating to T2-S under an SSS role. Clearly the contractual and legal arrangements which govern such roles should remain different and separate.

Non FMI users might definitely identify positive aspects, when those users are required to work on both platforms. Particularly, since there seems to be a gap between the “user friendliness” of TARGET2, against the reported burdens of using the T2-S interface from a user perspective. Therefore we see mostly benefits for RTGS users due to the reduction of costs associated with the maintenance of the platform connectivity and training of end-users.

**|| :** Are there further considerations that the Eurosystem should take into account in deciding whether or not to harmonise the user interface?

Please refer to our answer to Q1.

**Q3: Do you agree with the listed findings on the provision of multi-currency RTGS services? If not, please explain.**

From an FMI perspective, the possibility for non-EUR central banks to use a future integrated TARGET2 platform instead of maintaining their own RTGS could potentially have some benefits in creating incentives for these non-EUR central banks to take part in T2-S, thereby facilitating CSD central bank money settlement in more currencies. That said, T2-S already allows for multi-currency settlement for central banks using their own RTGS, so the benefits are nevertheless expected to be limited.

For a CSD (and sometimes for market participants), the access to central bank money of non-domestic central banks is not so much restricted by technical access requirements but rather by pre-requisites defined by the central banks themselves and/or by local regulations. It is indeed common that central banks do not accept any non-resident entities to hold accounts with them in their local currency. In these situations, CSDs may today obtain access to such other central banks only via their home central bank. Without addressing satisfactorily all other barriers, the use of the single platform for non-EUR currencies may actually bring limited benefits, as most actors will not be in a position to benefit from it and will likely continue to use commercial bank money channels to fund their securities settlement activity.

Having said the above, it could however be beneficial to have non-EUR currency dedicated cash account (DCA) for settlement of non-EUR securities (e.g. DKK) within the context of T2-S. A multi-currency RTGS platform would enable support for non-EUR credit operations through Correspondent Central Banking Model (CCBM). Clients of the CSDs based in non-EUR countries could obtain credit from their local central bank by mobilising eligible collateral deposited at a foreign (I)CSD like Clearstream or other through the CCBM mechanism.

As an example: A Danish bank obtaining credit in DKK through TARGET2 from the Central Bank of Denmark as its Home Central Bank (HCB) using eligible collateral at Clearstream Banking Luxembourg and using the Banque centrale du Luxembourg as a Correspondent Central Bank (CCB).

**Q4: Would you expect your institution to use multi-currency RTGS services?**

From an FMI perspective, be it a CCP or a CSD, we see a possible advantage in the prospect of multi-currency RTGS services, this is mainly the case due to the fact that FMIs are servicing clients also outside the Eurozone.

The future use of multi-currency RTGS services will be highly dependant on the time-frame, the technical and legal prerequisites such services will require. The rules and requirements imposed today by central banks within the EU in this respect would also need to be harmonised as already mentioned in our answer to Question 3 above.

**Q5:** Would you expect your institution to use the additional fields that ISO 20022 payment messages support? If so, please describe the types of additional payment fields, and the purpose for which they would be used.

The FMIs within our Group are currently using ISO 15022 either as a Directly Connected Participants (DCP) and/or as an Indirectly Connected Participants (ICP); therefore we see some substantial implementation efforts for future adaptation of services with any possible introduction of ISO20022.

#### Generic comments

Concerning the use of ISO 20022, it is extremely important that any future action in this regard by the ECB and the Eurosystem follows without deviation or exemptions the principles set out in the 'Market Infrastructure Standardisation Charter for ISO 20022'. This Charter addresses important principles about versions, variants, market practices, etc.

In line with the above, and for the benefit of the market, it is also crucial that the ECB considers avoiding the use of any 'extensions' in ISO20022. If specific needs are not addressed in the messages, appropriate change requests need to be sent to ISO for further development worldwide and not in (regional) isolation.

In terms of any migration approach to be eventually decided upon, we would have a strong preference in a 'big bang' approach for the messaging changes. Splitting the implementation message by message over the years will increase costs (due to the non mutualisation of costs) and is therefore an approach we would suggest to discourage.

In terms of technical protocol, we would suggest the ECB to push the service providers to re-use the communication protocols which have been readily developed for T2-S. This would leverage on an existing and tested protocol which the industry is currently adopting. Having to adapt to a different communication protocol would increase the complexity and costs of the entire industry. As an example, we should push a provider like SWIFT to re-use the 'T2-S Value Added Network' for any future TARGET2 solution.

#### Fields-specific comments

We expect to use additional fields as supported in ISO 20022 messages to replace Clearstream specific rules currently used in ISO 15022 messages in the context of TARGET2.

Please find below some example rules for illustration purposes:

**MT103** (single customer transfer via TARGET2)

:53b: The account number line of this field contains the sender's Clearstream Banking account number to be debited (example: :53B;/CEDEL 12345).

:56a: This field contains the institution to which the funds are to be paid in the country of the currency, for account of the Account With Institution indicated in field :57a:, in favour of the Beneficiary Customer indicated in field.

:59a: This field is to be used only if the funds have to be paid through a financial institution in addition to the "For account of" party (indicated in field 57a) and the "In favour of" party (indicated in field :59a:).

:70: This field contains the Beneficiary Customer whose account is to be credited at the Account with Institution indicated in field :57a:.

### MT200

:72: Clearstream Banking treats any information in this field as narrative. ERI can be included in the following circumstances only:

- The payment currency specified in field :32A: is euro (EUR).
- The original/charges currency mentioned in this field is an EMU national currency unit.

If ERI is provided, the first line must contain the code word "OCMT" between slashes "/", followed by the ISO code of the original currency and the original amount. If charges are included, the second line must contain the code word "CHGS" between slashes "/", followed by the ISO code of the currency of the charges and the amount of the charges.

If no /OCMT/ line is provided, then a /CHGS/ line is not allowed. Each line, if supplied, must be complete.

### MT202

:53a: (Senders correspondent) - The account number line must contain a slash "/" followed by the sender's Clearstream Banking account number to be debited.

**Q6: Do you agree with the Eurosystem's expectations in terms of participants' accounts management?**

Yes, we expect the RTGS account to remain the "pivot" account where participants centralise the management of their liquidity while other account types are used to set aside cash for dedicated uses.

Should the framework for participants' accounts management change in the future, alternative models should be evaluated which will consider the requirements for dedicated accounts. Any such changes may require technical changes in CSD systems and/or amendments to the T2-S framework agreement, and would require due consultation.

**Q7: Could you indicate which services T2 must retain or enhance regardless of their usage?**

We generally agree to the findings raised in the assessment of the use of current services undertaken by the Eurosystem on the Single Shared Platform of TARGET2. Moreover we are of the opinion that all current TARGET2 services must be kept available for any future solution.

Enhancements to TARGET2 should however be strongly considered on the reporting side (historical data and intraday liquidity). And overall platform performance should also be improved where possible.

#### **Reporting enhancing**

FMI using TARGET2 should be able to retrieve a report showing credit/debit movements with the relevant timing for a selected business day.

FMI should be able to export this report in CSV and Excel format.

3-months data should be available.

#### **Performance**

Performance is an important element which must also be improved: Currently accessing certain TARGET2 functionalities requires approximately a minute response time prior to obtaining any result. In times where real-time and DvP are the norm, such response times are simply too long.

Finally, given the dependencies between TARGET2 and T2-S, GDB is very keen to continue its supporting role in the Eurosystem's review and prioritisation of enhancements, and in particular in advising on decisions, practices or policies that have implications for the T2-S users.

**Q8: Conversely, could you indicate which services should be reassessed or not be considered in the context of the Eurosystem's vision?**

Please refer to our answer to Q7.

**Q9: Which of the current liquidity management tools does your institution currently use?**

Our Treasury is currently using the following tools:

- Liquidity Transfer: Standing and Current Order
- Cash Reservation: Standing and Current Order

**Q10: Which of the current liquidity management tools does your institution intend to use in the future?**

Please refer to the services mentioned in our answer to Q9.

**Q11: Would your institution require RTGS services that are not listed as potential enhancements?**

We assume this mostly applies to banks, hence have no opinion in this regard.

**Q12: Does your institution have a requirement of extended opening hours for RTGS services? If so, for what purpose would the extended opening hours be required? What would be the required extended opening hours?**

We generally agree with the findings raised in relation to the possible drivers for extending the current RTGS systems opening hours. Irrespective of the final solution envisaged by the Eurosystem, any change in opening hours, would require sufficient lead time for implementation, this in order for the market, the FMIs and its users to adapt our/their processing and services.

FMI customers would benefit generally from extended opening hours. At CSDs, the client cut-off times for instructions for DVP securities settlement in EUR are determined by the cash deadlines of TARGET2.

Extended hours would lengthen the settlement window for DVP security settlement instructions in EUR, and the ICSD could benefit from opening hours for all transaction types during night-time for funding in central bank money by overseas clients (e.g. APAC).

Extending opening hours with additional windows during weekends would open an opportunity for (I)CSD clients to optimize cash balances.

**Q13: Does your institution have analytical requirements that could be provided as services? If so, please provide a brief description.**

We assume this mostly applies to banks, hence have no opinion in this regard.

**Q14:** Are there services that the Eurosystem should provide as part of its RTGS services to support the compliance of your institution with regulatory requirements? If so, please list them. If not, are there specific reasons that such services could not be provided?

Compliance requirements are currently met within the FMIs through internal systems and procedures. We would nevertheless welcome any enhancements in the RTGS services which could alleviate compliance checks to meet current and future compliance requirements.

**Q15:** Have you identified an additional functionality that the settlement procedures for ancillary systems should cater for? If so, please describe.

Against the background of a reduction of the role of settlement procedures for ancillary systems through T2-S we have not identified additional functional requirements.

**Q16:** Are there additional optional services that the Eurosystem should provide for ancillary systems?

We have no opinion in this regard.

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We hope our comments will be considered helpful in developing the final Eurosystem guidelines to build a vision for evolving its market infrastructure services. Should the above comments have triggered any questions, we kindly ask you to reach to the following contacts for clarifications:

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