

Call for action:

T2S inspired proposals for lower fees & improved efficiency

UBS Investment Bank views TARGET2-Securities as a catalyst to reduce post-trade costs and to harmonise market process across Europe. **Dr Robert Barnes**, Managing Director for Equities at UBS Investment Bank and Chief Executive of UBS MTF, believes it is now time for agent banks and CSDs to frame out the next stage of the business case, offering lower fees and improved market efficiency to the user community



In issuing this call for action, Dr Barnes makes it clear that UBS wishes to work in a spirit of partnership with exchanges and clearing and settlement entities in order to promote liquidity and new business. "In doing so, we wish to thank the European Central Bank and the European Commission for providing a framework within which we can behave as entrepreneurs," says Barnes. "We see T2S as a catalyst to reduce post-trade costs and harmonise process.

Now, he suggests, is the time for agent banks and CSDs to seize the opportunity to make the next stage of the business case to the user community. It is time for incumbents

and new entrants to volunteer proposals for lower fees and improved market efficiency. Why does this matter? Because lower fees increase liquidity, minimise market impact and, ultimately, improve investment performance for issuers and end investors. And the willingness of CSDs and agent banks to listen and respond to this request is evidence of their commitment to promote best practice and is central to the growth of market liquidity across Europe.

Domestic and cross-border settlement

Robert Barnes notes that settlement has two aspects: (i) those subject to legal and fiscal constraints per country; and (ii) those not constrained by domestic frameworks.



Dr Robert Barnes,
Managing Director for Equities,
UBS Investment Bank and
Chief Executive, UBS MTF

T2S offers potential to enable settlement providers to operate across a pan European level, rather than just a national level, for those aspects of the settlement process not constrained by domestic legal and fiscal differences. Consider that UBS Investment Bank today uses nine agent banks to service settlement with 27 CSDs across Europe. With T2S, UBS may still require agent banks for asset servicing – to handle corporate actions management, for example, which is out of scope of T2S. The prize for agent banks, CSDs and new entrants is to capture more business, as a global bank like UBS may look to reduce the number of providers it employs from nine to three or two across today's 27 markets, and to capture business as more countries enter the European Union or the T2S model expands world-wide.

Clearly, there are issues to be addressed in managing this transition. One is the fact that access to T2S comes through national CSDs, and T2S participation by CSDs is voluntary. A second is that projects like T2S need management of on-time delivery and value-for-money. A third is the need to minimise negative unintended consequences – we should ensure, for example, that the gains delivered by the T2S project

less than today's combination of agent and CSD fees.

Second, UBS welcomes creative fee incentives for the balance of asset services notionally out of scope of T2S up the value chain.

Third, generally UBS will appreciate tariffs that reward scale, like volume discounts and a cap on aggregate fees.

Indeed, UBS is platform-neutral and pro-competition. "We will evaluate initiatives on the basis of economic and functional criteria, and successful offerings must be compelling on both," explains Barnes. "We believe T2S is an opportunity to reduce post-trade costs and, for us, a bank with international cross-border activity, that means lower fees. Reduced fees, improved efficiency, and a landscape embracing meaningful competition will increase liquidity, minimise market impact and ultimately improve investment performance for issuers and investors."

Now is the time for agent banks and CSDs to seize the opportunity to make the next step of the business case, concludes Barnes: "If you share our entrepreneurial spirit and wish to take advantage of the opportunity offered by the European Central Bank and

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do not derail progress made elsewhere by initiatives led by national CSDs, Euroclear and Clearstream among others.

Minimum conditions

In forwarding this call for action, Barnes advances some minimum conditions for a successful proposal.

First, post-T2S, the fees for settlement (including agent and CSD and T2S) must be

the European Commission, we urge you, the CSDs and agent banks, incumbents and new entrants, to volunteer proposals to us as users for lower fees and improved efficiency." ■

For those wishing to answer this call to action, please contact Ben.Parker@ubs.com to coordinate engagement.