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Back office in leading role

The nuts and bolts of trading are coming under greater scrutiny from regulators trying to improve the financial system, reports **Jeremy Grant**

Xavier Rolet, chief executive of the London Stock Exchange, and Sir Howard Davies, former chairman of the UK's Financial Services Authority, were the keynote speakers at a recent all-day event held in London for the trading community.

It was a sign of how far the mundane world of securities middle- and back-office processing, as well as risk and compliance, have come that such high-profile figures would agree to address the audience, organised by SunGard, a company that specialises in IT software.

However, in the two years since the financial crisis erupted, a sea-change has been under way in the way banks, brokers and traders arrange their IT to deliver far more efficient risk management and data disclosure.

Trading desks are adopting systems that will knit together their "front office" operations – the trading of securities and derivatives – together with the valuation, compliance and other middle- and back-office functions that previously would have been something of an afterthought.

Now, institutions need these functions to work seamlessly in "real time" – by using a process often referred to in the industry as "straight through processing" (STP).

That is being made all the more urgent, as the growth of algorithmic trading adds to the complexity.

The latest example came this month, when T Rowe Price, one of the largest US investment managers, started installing a system provided by Portware, a trading

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Financial Markets series

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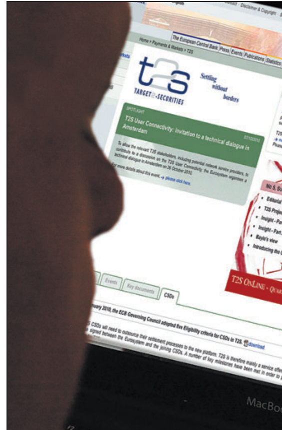

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Vast amounts of data will be churned out as the new regulatory landscape takes shape Dreamstime

Back office finds itself in the limelight

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technology company, to integrate its global equities trading platform with the processes that take place once trades are done.

Portware says interest from asset managers has "increased sharply, as firms attempt to rationalise internal work flows and drive efficiencies at every point in the trade life cycle".

That is because regulators, as they seek to make the financial system safer, are requiring a complete remaking of market structures, including moving over-the-counter derivatives more on to formal trading platforms – and away from the world of bilaterally traded deals done privately between banks.

Regulators are also requiring greater use of clearing houses to process OTC derivatives as a way of reducing "counterparty risk" – that is, the risk that one of the parties to a trade defaults.

At the same time, a vast amount of data will be churned out, as the new regulatory landscape takes shape, requiring greater transparency and reporting of derivatives prices to trade repositories – essentially electronic data warehouses – and more data collection by regulators.

That is only likely to intensify as a result of the "flash crash" in the US on May 6, when the Dow Jones average plunged.

The US Securities and Exchange Commission has proposed a rule that would set up a new consolidated audit trail system, including a "central repository" that would capture every share trade done across the multiple platforms that operate in the US.

Till Guldemann, vice-chairman of SunGard data systems, comments: "Regulators, investors and managers have changed their views of how financial institutions ought to be run and how the markets ought to be controlled.

"They demand more disclosure, improved risk management and more capital. Market infrastructures need to bring more resilience to the system."

Yet there is a huge amount of work to be done to ensure that financial institutions are able to put this into practice.

Traditional methods of monitoring risk are not sophisticated enough to allow a detailed, real time, understanding of exposures, for example.

Gert Raeves, the senior vice-president of business development at GoldenSource, a data management company for the securities and investment management industry, says: "Traditional siloed methods of managing risk left institutions vulnerable, as there was no real front-to-back transparency of data within the firm.

He adds: "Toxic assets went unchecked – with the huge amounts of data required to settle these complex transactions acting as a barrier to data capture and regulatory compliance – and no department could safely say that they knew their entire risk exposure to a particular counterparty.

"It's this previous failing that shows firms how data – static and transactional – need to be visible from a single source of truth within a company, in order even to pay lip service to new regulatory requirements."

> 'Data – static and transactional – need to be visible from a single source of truth within a company'

The same need to streamline processes is evident in management of collateral, an area of transaction services also affected, because collateral is a key part of the operations of a clearing house.

It is something that market participants need to think about, because they must post collateral to clearing houses as part of default management.

A SunGard-sponsored study on collateral management revealed this month that more than 60 per cent of respondents – mostly senior management and operations executives from banks and asset management firms in Europe, North America and Australia, working in the areas of OTC derivatives, securities lending or repos – said that a "cross-silo view is important for collateral management".

Josh Galper, managing principal of Finadium, a consultancy that carried out the study, comments: "Because regulators worldwide are focusing on expanding capital requirements, this means that banks and their clients will face new challenges in maintaining liquidity for their trading operations.

"Making sure that the right collateral has gone to the right counterparty, including central credit counterparties, will help keep liquidity intact."

Yet the question remains: How many business are confident enough about exactly how this landscape will be shaped to allocate investment to the right areas with confidence?

Marshall Millsap is managing director and head of transaction services global market infrastructures at JPMorgan.

He says: "There will be more need for collateral management among end-users of OTC instruments who will either be compelled to use a clearing house or will want to use one because there will be more clearing houses. But it's not clear how many [clearing houses] we are going to have."

Jon Anderson, head of valuations and OTC derivatives at GlobeOp, a company that provides middle- and back-office risk and reporting services to hedge funds and asset managers, says that many "buy-side" firms cannot afford the middle- and back-office systems that a bank may have – what he calls "the pipes" – yet they are required to apply the same types of controls to their systems.

"What they are really grappling with is the lack of clarity around how those pipes are going to work and who is going to manage that for them.

"As we move OTC derivatives to a centrally cleared process – as that gets better defined – it will be about getting the mechanics right and scaleable and doing it today, not the day after, as these things become clear."

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Trade finance may become a casualty

Impact of Basel III
The industry is worried about the effect of several provisions, writes **Brooke Masters**

Global banking rules intended to make the financial system safer could undermine cross-border businesses by making trade finance much more expensive, warn bankers, lawyers and policymakers.

The Basel Committee on Banking Supervision, which sets rules that national banking regulators implement, announced a comprehensive reform package in September that raises capital requirements and, for the first time, sets global standards for overall borrowing, known as leverage, and liquidity.

The "Basel III" rules are designed to make banks more resilient and prevent a repeat of the financial crisis, but several provisions combine to make trade finance, already a low-margin business, much less profitable.

Portions of the leverage rule, new risk-weighting requirements and the rules for liquidity raise the costs of trade finance for banks. The combination could drive many smaller banks out of the market and prompt large banks to cut back their lending, bankers and policymakers say.

Banking groups and policymakers are lobbying for changes to the proposals, as is Lars Thunell, head of the IFC, the World Bank's private sector arm. They point out that outsourcing by companies in the developed world is a critical source of jobs and investment and trade finance is an essential part of the process.

Mike Rees, chief executive of wholesale banking at Standard Chartered, the world's second biggest provider of trade finance after HSBC, says: "If they want to promote economic growth, the Basel Committee should encourage trade finance, one of the few things that creates jobs in a global economy."

The Basel III reforms hit at trade finance in several ways. The rules sharply increase the risk-weighting of lending between financial firms – an essential element of trade finance because it involves the importer's bank lending money to the exporter's bank, often through a letter of credit.

The Basel III rules risk making it uneconomic to provide transaction banking services, warns Brian Stevenson, head of transaction banking at RBS: "Tougher operational risk capital and liquidity requirements could make the business of providing services to financial institutions inefficient if they went too far."

Much of trade finance is also supported by export credit guarantees, which are essentially government credits and therefore in theory low-risk. But the new rules also tighten the definition of what counts as a government guarantee; some export credit agencies may not qualify.

'Trade finance is one of the few things that creates jobs'

Mike Rees, Chief executive – wholesale banking, Standard Chartered Bank

Simon Gleeson, partner at Clifford Chance, the law firm, says: "An enormous number of letters of credit are guaranteed by a form of government support, which should mean they carry a zero per cent risk rating. But Basel III is much tighter about what can count as a government-backed credit and many export credit agencies have been privatised."

Basel III's new leverage ratio will also bring trouble for trade finance, when it takes effect in the latter part of this decade.

The rule seeks to prevent banks from gaming the risk-weighting rules by requiring banks to hold top quality core tier one capital equal to 3 per cent of their total assets, including those traditionally held off-balance sheet.

Trade finance commitments count in full toward the ratio, a fivefold increase over the current capital requirements.

The part of the liquidity proposals that would require banks to match long-term obligations with long-term funding and vice versa, could also penalise trade finance.

Bankers say they understand why regulators are trying to crack down on dependence on short-term funding but they also say that it is unfair to lump trade finance – which is well collateralised and not self-renewing – with other short-term funding, such as working capital and liquidity guarantees.

A transaction banking subgroup within the US Bankers Association for Finance and Trade is lobbying the Basel Committee in an effort to persuade regulators to soften the rules.

Donna Alexander, the group's chief executive, writes: "The financial crisis was not driven by transaction banking. Just as too much risk is undesirable, regulations that go too far in their attempt to purge certain risks from bank loan portfolios have the potential to hamper recovery."

But it is not clear whether their concerns are being heard.

Olivier Berthier, solutions director in the transaction banking arm of Misys, says: "Trade finance may become one of the casualties of the new regulation."

Additional reporting by Patrick Jenkins.

Currency markets ready for the next big thing

Foreign exchange
Systemic role leaves no margin for error, writes **Jennifer Hughes**

When the foreign exchange, or FX, markets survived the crisis with barely a hitch, bankers and regulators heaved a sigh of relief.

But the market's success has earned it no respite. Regulators are turning their attention to other corners of the trading world that fared less well and this is putting FX settlement processes under the spotlight.

Currency trading occupies a peculiar place in the markets. Daily trading is lightly regulated, but its importance as the core of the payments system gives it a role at the heart of the global economy that no other asset class can lay claim to.

If payments – from tourists drawing funds from an ATM to the payrolls of multinational corporations – stop flowing across borders, then the collapse of the financial system would not be far behind.

One result of the market's success is the recent interest in FX bankers, who were long mocked for being merely "spot monkeys" compared with the cutting-edge wizards of the credit derivatives world. The other upshot is a renewed focus on what FX can teach the rest of the world.

Traiana is a post-trade services provider that is operating a system designed to aggregate smaller trades to smooth the settlement process. It began with FX, but is beginning to offer it for other markets, including equities and futures.

Gil Mandelzis, its chief executive, says: "I'd like to think that part of the reason that this market continues to grow and withstood the shocks so well, was because of some of the robust post-trade infrastructure we have."

The ongoing growth of the FX market was shown last month in the triennial report from the Bank for International Settlements.

This showed 20 per cent growth, with $4,000bn now traded daily and, within that, a 50 per cent rise in spot trading for immediate delivery. The figures are considered a testament to participants' faith that the market is robust.

Mr Mandelzis adds: "People are starting to acknowledge that the world of FX, which was so technologically behind a decade ago, has built some very advanced infrastructure."

For its FX service, Traiana has partnered with CLS Bank, the institution at the heart of the FX market. CLS matches trades for settlement, which for FX is often a bigger danger than counterparty risk because of the short-term nature of the trades and the huge sums involved in the interbank market.

Bankers privately admit that, to start with, CLS, set up in 2002 at the behest of central banks, was viewed as an unwelcome tax on the industry.

Now, the system, which stops banks making payments when the counterparty has not put up the matching funds, is viewed as a lifesaver.

"Look at Lehman and you can see why everyone changed their mind," says one close observer.

However, for those inside the business, CLS's existence and the growing range of currencies it handles are virtually part of the furniture. For them, the focus is on what comes next.

Richard Kiel, global head of post-trade services, sales and trading at Thomson Reuters, says: "The immediate driver for change in post-trade for foreign exchange is directly related to the pending changes in regulation."

He warns that although counterparty risk is a smaller factor for FX than other asset classes, regulators' focus on the topic will pull in many common currency instruments, such as options and forward contracts.

This brings its own challenges peculiar to currency trading because of its cross-border nature.

"The immediate challenge will be in implementing a scaleable and flexible technology platform that can provide interoperability across borders as well as asset classes," says Mr Kiel.

"Our clients can't afford for us to wait until the regulations are final; we're working on this right now."

Gil Mandelzis: 'We have very advanced infrastructure'

Mixed messages: Many argue that the complex, interconnected global network that makes up the market only needs one global trading repository per asset class Alamy

Regulators show united front

Derivatives
Greater transparency is difficult to achieve, writes **Philip Stafford**

It said much for the united front among regulators that tough measures unveiled by Brussels last month to clamp down on the often opaque world of privately-traded derivatives had far more in common with their US counterparts than many expected.

Over-the-counter derivatives have been in the sights of global regulators since the difficulties of AIG, the US insurance group.

In September last year, the G20 group of industrialised countries agreed that trading in over-the-counter (OTC) derivatives be shifted on to transparent electronic platforms, including exchanges. They also pledged that as many as possible of the standardised, or commonly used OTC instruments, on the market would be processed through clearing houses.

Global leaders also agreed that OTC trades should be reported to electronic data storage facilities known as trade repositories and be made available to regulators. By sending trades to repositories, the aim was to bring transparency to a market where prices of OTC deals were mainly known only to the club of dealer banks that traded them.

Left to work out the details, regulators have largely favoured making the market as simple as possible.

"The market wants simplicity. Participants don't want to hold data in several repositories," says Tony Freeman, executive director, industry relations and market growth at Omgeo, a post-trade services group.

The European Commission proposals also suggested a closer alignment between US officials and their European counterparts over the number of trade repositories for the world.

US officials had frowned on European calls for their own trade repository – or repositories – to ensure that European regulators can see, in their jurisdiction, who has been trading what, when, and at what price, should there be another blow-up like Lehman Brothers.

Many have argued that the complex, interconnected global network that makes up "the market" only needs one global trading repository per asset class.

There have also been concerns that separate facilities in Europe and the US would risk creating a distorted picture, with trades either going unreported or being double-counted after being confirmed on multiple repositories.

Proponents have argued that a single repository for each asset class is the best approach, with information shared with all relevant regulators globally to avoid fragmentation of data.

The market has been moving in that direction. In April, TriOptima, the European securities post-trade group owned by Icap, made publicly available data showing details of interest rate swaps contracts.

The Depository Trust & Clearing Corporation (DTCC), has also backed a single depository with access to regulators. It operates the global repository for the global credit default swaps market and holds virtually all CDS contracts in the worldwide market, valued at more than US$2,630bn.

To that end, DTCC launched a subsidiary based in the UK to manage its equity derivatives reporting repository and will also hold a data set of CDS transactions that is identical to that held in the US-based warehouse.

The group also pointed out a technical problem of multiple trade repositories – especially in the same asset class – in a market in which the standard practice is to assign a unique identity to each OTC trade.

"Our repository has played a leading role in increasing market transparency, and we've been a staunch advocate of ensuring that regulators across the globe have unfettered access to data in our repositories," a DTCC representative says.

Such a move is supported by the International Swaps and Derivatives Association, the global trade association for OTC derivatives. In the wake of European Commission proposals on markets infrastructure last month, the ISDA approved steps to harmonise processes on a global basis.

It said: "We welcome moves to increase transparency of derivatives markets to supervisors through internationally consistent reporting to trade repositories."

In spite of the good intentions, the market shows some signs of fragmenting. Bolsas y Mercados Españoles (BME), the Spanish bourse operator, launched its own trading repository for Spain. The group intends it to be the first step of a pan-European project to create a reporting system for OTC derivatives, and it has received backing.

BBVA and Banco Sabadell, the Spanish lenders, have signed up to the initial trial period, while other European institutions are expected to join the test.

Clearstream, the post-trading services arm of Deutsche Börse group, has also joined the project.

Initially focusing on interest rate derivatives, it will broaden out to include underlying assets such as equities, currencies, commodities and debt.

For the present it is regarded as a small, Spain-focused project.

However regulators on both sides of the Atlantic will be watching its progress closely.

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Competitive market requires deep pockets

Interoperability

Standardised clearing may not be desirable, writes **Philip Stafford**

For all the economic benefits created by competition in the past few years among exchanges, traders complain that the overall cost in European equities markets can remain up to eight times higher than in the US.

Many locate the cause of this disparity in the post-trade services of clearing and settlement – an unglamorous and little followed part of the overall equity market structure. Clearing houses stand between buyers and sellers in a trade, ensuring that trades are confirmed and stepping in to complete a transaction if either party defaults.

Europe is awash with post-trade providers with no fewer than 21 members of the European Association of Clearing Houses. Aiming to simplify this complex landscape, the European Commission in recent years has insisted that clearers create links with each other to give traders a choice about where their trades are sent.

It was hoped the process, known as interoperability, could bring down the cost of trading. But in spite of pressure from regulators and market users, the clearing services market shows few signs of consolidating. As the Commission's promptings have not been obligatory, progress has slowed considerably.

Experts say that technologically speaking, achieving interoperability is fairly straightforward. The problem is that the objectives of regulators, CCPs and users of post-trade services are not the same and rarely overlap.

Some bilateral agreements have been made, such as Britain's LCH.Clearnet forging a deal with X-Clear of Switzerland. There are indications that more could soon follow. Regulators in the UK, Netherlands and Switzerland are putting the finishing touches to guidelines on interoperability between LCH.Clearnet, EMCF, a Dutch clearer and X-Clear.

"There will be interoperability – it will be a reality," says Jan Booj, chief executive of EMCF. "It could be in the first quarter [of 2011] once we get regulatory approval. It will be as envisaged by market participants."

For those market participants, such as investment funds, the need is clear. Although the same stock can be traded in different places, whether exchanges or multilateral trading facilities, they still do not yet have a corresponding choice over the clearer that guarantees the trade. Such freedom, they say, will improve standards and cut costs through open competition between CCPs.

But in the wake of the financial crisis of 2008, regulators are less concerned with promoting competition than in mitigating risk. They have been examining whether stronger links between clearing houses could lead to a concentration of risk and a domino effect if one clearer falls.

Settling in New York: the cost in European equities markets is up to eight times higher than in the US Bloomberg

Clearers say regulators have been too cautious, arguing that the industry is by nature risk-averse and was one of the few areas of the global financial system that withstood the strain put on it by the collapse of Lehman Brothers.

But clearing houses based in different legal jurisdictions do behave differently and have different attitudes to risk. If one lender goes bust, they all behave differently.

Xavier Rolet, chief executive of the London Stock Exchange, and the International Swaps and Derivatives Association are among the many who have called for harmonisation of standards across Europe for clearing houses' regulatory capital and risk management policies.

But other CCPs have argued that one of the ways to distinguish one clearing house from another in the market is their different standards of risk. Harmonising standards would mean competing mainly on price.

"The chances of the industry voluntarily agreeing to this are about nil," says Tony Freeman, executive director, industry relations and market growth at Omgeo, a post-trade services group.

While clearing houses and market participants are in favour of greater competition, it appears that the market would prefer a better balance. An opinion poll conducted at a Euro CCP event this week found that 45 per cent of its audience preferred three clearing houses in Europe, while 30 per cent were in favour of more.

Complicating the issue further has been the trend for exchanges to own post-trade businesses. The NYSE Euronext is building its own clearing house and has served notice on LCH.Clearnet, as exchanges look at business in both the equities and derivatives markets.

For an established exchange, owning a clearing house generates extra revenues in the form of clearing fees on top of trading fees. For them, there is little to gain by sharing the flow of largest equities with another clearing house.

The fierce competition is creating a market that requires deep pockets to sustain it. The Depository Trust & Clearing Corporation (DTCC), the US-based clearer, set up Euro CCP to clear European equities in 2008, but has seen its subsidiary report two consecutive years of losses and injected €30m this year to date to meet UK regulators' capital requirements.

Euro CCP has called for legislation to force trading venues to give non-discriminatory access to others.

Clearly, full interoperability remains some way off.

Middle office is crucial to accurate settlement

Guest Column

MARIANNE BROWN

In Europe the next area of scrutiny, through "Mifid II"*, will be pre-trade transparency.

In particular, it is expected that this initiative will examine the merits of bringing the same level of transparency to non-equity and over-the-counter (OTC) markets, currently enjoyed by equity markets as a result of Mifid I.

Policymakers' focus on downstream processes – such as clearing and settlement – and upstream processes – such as pre-trade transparency – is to be applauded. We must remember that without a robust middle office, operational risk cannot be wholly mitigated.

The role of the middle office is to control and process those transactions that have been executed by traders and portfolio managers in the front office, so that they can be cleared and settled.

Here, important trade details such as the security type, buy or sell, date, deal price and the number of securities bought or sold are verified, broken down and allocated to different funds, and trades are confirmed and affirmed between trade counterparties.

This process of trade confirmation, or "verification" should – ideally – occur as soon as possible after execution.

An old saying states that "nothing good ever happens between execution and settlement". The truth is that there is a reduced chance of trade failure, if you lock in your trade with your counterparty as quickly as possible.

In fact, recent analysis that we have conducted with the research unit of Global Custodian, a trade publication, shows that if the details of a trade are verified on the same day that it is executed – so-called "same-day affirmation" – it will have a much higher chance of settling on time and be much less likely to fail.

This can be seen by examining settlement performance in markets where levels of same day affirmation (SDA) are high.

> 'Focus by policymakers on the downstream processes of clearing and settlement has been a healthy exercise'

Countries with SDA rates above 90 per cent (India, Taiwan, Hong Kong, Japan, Singapore and Korea) consistently collect the most impressive settlement efficiency scores; those countries with SDA rates below 70 per cent (Brazil, Italy, South Africa and the US) consistently have below-average settlement efficiency scores.

The issue of timely trade affirmation and settlement efficiency is even more pertinent, given the proposed implementation of a uniform, pan-European settlement system called Target2Securities (T2S) planned for 2014 and led by the European Central Bank (ECB).

This will force the debate over harmonisation of settlement cycles across Europe.

Currently, Germany settles two days following trade execution (in a so-called T+2 cycle) whereas the rest of Europe settles three days after trade execution (T+3). To live up to its mandate, T2S would benefit from one, harmonised settlement cycle across the EU and most people in the industry believe this should be T+2.

This trend is receiving further impetus from a French legislative initiative to mandate T+2 during 2012. For any market considering reduced settlement times, a robust middle office and timely confirmation of trade details is an essential prerequisite.

Focus by policymakers on the downstream processes of clearing and settlement has been a healthy exercise, in that it has raised awareness of the importance of post-trade infrastructures to the safety of the financial markets.

However, what is yet to be made clear is that the speed and efficiency of the clearing and settlement process is determined by the accuracy and timeliness of middle office functions.

**Mifid is the Markets in Financial Instruments Directive, which set out new rules allowing competition in share trading across the European Union. Mifid II is a new version that will emerge by 2012, once the European Commission has finished its current review of the directive.*

Marianne Brown is chief executive of Omgeo, a post-trade services provider

EU plan to cut cross-border costs is delayed

Settlement

The aim is to create a single platform for trades, says **Jeremy Grant**

Every so often, like the white smoke from the Vatican that announces a new pope, a newsletter pops up on the European Central Bank (ECB) website reporting progress on a securities post-trade project called Target2Securities or T2S.

T2S envisages the creation of a single platform for cross-border and domestic European Union securities settlement against central bank money.

It is part of a wider project to harmonise cross-border processes and reduce capital market transaction costs to make the EU more competitive with the US.

T2S would affect the 15 nationally based central securities depositories (CSDs), which settle trades but also perform custody functions such as safekeeping of securities.

Currently, CSDs in each country carry out settlement, which can be expensive where cross-border transactions are involved. T2S's single platform would remove the role of so-called "agent banks" that handle much of the complexity of cross-border settlement – and charge for it.

T2S will affect the 15 national CSDs, which settle trades but also perform custody functions such as safekeeping of securities.

Yet, in the past couple of quarters the ECB newsletters, never known for their racy content, have revealed that making progress on T2S is proving to be a case of "two steps forward, one step back".

Work started on T2S in August 2008 after the ECB decided to press ahead with the project. But in January the team running it was forced to admit to a delay of about a year beyond its original implementation date of 2013.

The initial phase of T2S, involving deciding what features the system would provide, was already four months behind schedule.

A four-month buffer was built into the planning, but it was unlikely this could be made up and likely further delays to the whole project meant it would now not be completed until nine to 12 months after the original deadline.

More recently, progress has been made in coming up with a rough estimate of what settlement services will cost end-users. In September, a newsletter published suggested fees for using T2S.

> The big outstanding issue is whether the UK will be involved . . . the Bank of England wants more clarity

The newsletter said: "Assuming that the central banks of Denmark, Sweden and Norway, which have indicated their interest, authorise settlement of their national currencies in T2S, the T2S solution could offer a delivery-versus-payment (DvP) settlement price of 20 cent.

"If all of the 30 European CSDs that have signed the T2S memorandum of understanding join T2S, including the respective currencies, the fee for DvP settlement charged by T2S would amount to only 13 cent per settlement instruction."

The T2S project team arrived at the 20 cents figure after estimating the total running costs of T2S and taking into account the costs incurred by the four national central banks that will implement the project, with the ECB as project manager.

The banks are Germany's Bundesbank, Banque de France, Banca Italia and Banco de España.

The team then made some volume predictions based on figures provided by the CSDs. However, the figures were proposed only for "discussion", it said.

"It should be noted that these figures are very preliminary: T2S costs still require the approval of the Governing Council of the ECB, the T2S pricing structure is still being discussed with market participants, and estimates of future T2S settlement volumes are still being assessed by the T2S Programme Board and may therefore change over time," it said.

The figures are also not what settlement will ultimately cost market participants. CSDs are likely to charge a fee for services they will retain – such as arranging connections via the Swift network.

It is also likely that broker-dealer costs will come on top of that. But the overall cost is still expected to be lower than the current system.

Nonetheless, the big outstanding issue is whether the UK will be involved. This is crucial to the eventual outcome on costs, since London accounts for the vast bulk of securities trading in Europe and, if the country took part, costs to end-users would fall significantly.

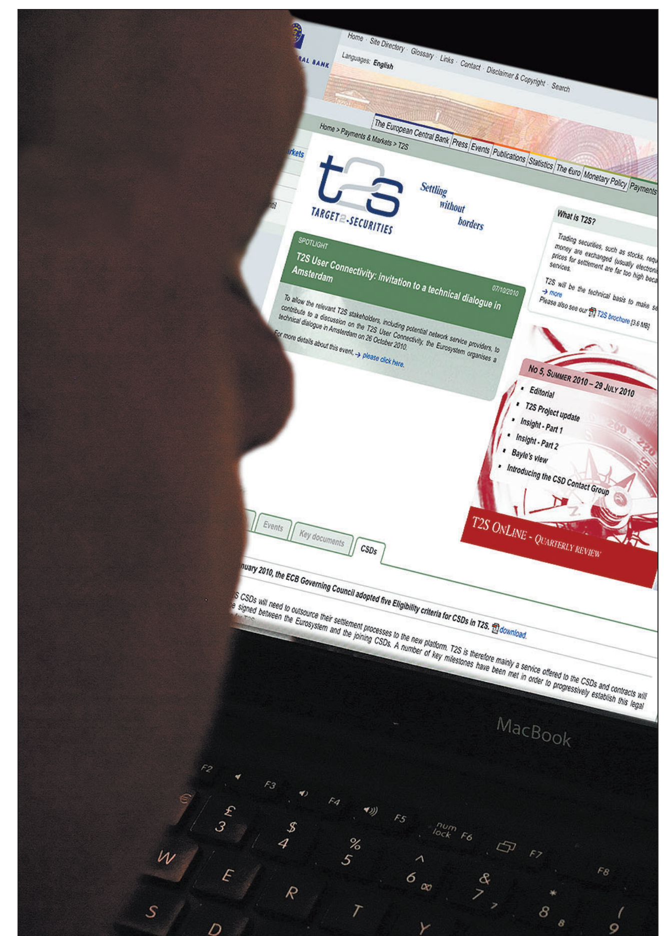
So far all the Bank of England has said – publicly, at any rate – is that it wants more clarity on how T2S will be governed, before it decides whether to join.

Meanwhile, the project is complicated by unresolved questions over what impact on the final price investors will pay to use T2S will be caused by the fact that CSDs will not be able to decommission their settlement systems.

Meanwhile Euroclear, Europe's largest private sector provider of settlement services, is building a separate settlement and custody platform for central bank money. It will cover sterling and Scandinavian currencies as well as the euro, whereas T2S will only cover the euro.

This is part of private sector efforts to remove some of the so-called Giovannini Barriers to lower-cost cross-border settlement that were identified by a special EC-commissioned working group in 2001.

A third project is Link Up Markets, a joint venture unveiled in 2008 between seven CSDs, led by Deutsche Börse's Clearstream.



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