EUROPEAN CENTRAL BANK
EUROSYSTEM

2015 T2S financial statements explained

This note gives a short introduction to the 2015 T2S financial statements. Further explanations and details can be found in the financial statements.

Full cost recovery

Target2-Securities (T2S), which was launched in June 2015, is a pan-European platform for securities settlement that offers centralised delivery-versus-payment (DvP) settlement in central bank money. As a single market infrastructure solution, T2S has effectively removed barriers for cross-border settlement and increased harmonisation in the securities settlement business, thus contributing to greater financial market integration in Europe.

T2S operates on a full cost recovery basis and its financial equilibrium requires that all the costs incurred are covered by the revenues generated by the volumes settled on the platform over the course of the defined cost recovery period. The revenues will cover the amounts owed to the national central banks that are pre-financing T2S, namely the costs incurred relating to the development and initial operation of the platform. The T2S pricing policy was decided by the Governing Council of the European Central Bank (ECB) in November 2010.

2015 T2S financial statements

In 2016 the Market Infrastructure Board (MIB) decided to provide the T2S stakeholders with a report on the T2S financial situation from year to year. The 2015 T2S financial statements have been prepared in accordance with specific accounting policies developed on the basis of generally accepted accounting principles. For the sake of readability, the T2S financial statements take the form of a profit and loss report (T2S operating statement) and a balance sheet report (T2S financial situation report). The T2S financial situation report shows the accumulation of assets and liabilities relating to the T2S platform over time. Further information is provided in the financial statements.

The financial report on T2S activities in 2016 is expected to be published before the end of 2017.

The T2S operating statement (annual expenses and revenues accounts) reports a deficit of €47,652,194 at the end of 2015. This is attributable to a number of external and internal factors that have pushed up costs and dampened revenue growth.

Until 2015 the development costs had remained stable, but delays in the migration of some T2S participants (Monte Titoli in 2015 and Euroclear ESES, which had initially planned to migrate in early 2016) have prolonged the overall migration period and necessitated additional work to guarantee a smooth migration and the stability of the platform. This has resulted in higher costs than originally anticipated. Once the migration of the final wave is complete, operating costs are expected to fall.

By contrast, the revenues collected in the financial year 2015 were low for two main reasons. First, only one wave of central securities depositories (CSDs) migrated in 2015 (constituting only around 15% of the total transaction volumes expected after the end of the overall migration period in 2017); and second, the majority of the transactions benefited from special fee waivers and fee reductions granted to CSDs that had signed the T2S Framework Agreement with the Eurosystem by 30 June 2012. Revenues were also generally lower than expected as a result of lower settlement volumes. In fact, the volume of transactions settled in T2S was around 20% below the level initially anticipated owing to the financial crisis.

Given the volumes reported by European CSDs and the volumes settled in T2S, as well as the latest evaluation of the cost recovery prospects, the revenues collected are expected to fully cover the annual operating costs in two to three years after the end of the migration period.

Steering the cost recovery

In the first half of 2016 the Eurosystem launched a review of the T2S operating costs. The Governing Council of the ECB continues to monitor the cost recovery prospects and will take the necessary measures to comply with the full cost recovery principle. Depending on market trends over the next few years, the Governing Council may decide to adjust the price list after 2019 and/or to extend the cost recovery period.