



# Reassessing business strategies in a Changing Europe:

**a focus on Central and Eastern  
Europe, South-East Europe  
and CIS markets**



### Júlia Romhányi

**Head of CEE Global Securities Services, UniCredit**

Júlia started her career at the Budapest Stock Exchange and joined UniCredit in 1999 as Relationship Manager in the Custody Department. In 2010, Júlia was appointed as Head of GSS in Hungary.

Subsequently, in 2011, she became a Regional Head of GSS, being responsible for 7 CEE GSS locations.

Since 1 January 2015, Júlia has been Head of CEE GSS. In her new position, she has responsibility for coordinating and supporting activity in the following 11 GSS locations: Bosnia, Bulgaria, Croatia, Czech Republic, Hungary, Romania, Russia, Serbia, Slovakia, Slovenia, and Ukraine.

Júlia holds a MBA degree from the University of Economics in Hungary.



### Péter Csiszér

**Director of Strategy and Client Relations, KELER Zrt.**

Péter joined KELER – the Central Securities Depository in Hungary – in November 2010 as Director of Strategy and Client Relations. He is a member of KELER's management, responsible for client relations, sales, marketing,

PR, strategy, business development, product management and treasury. Péter started his career with Hungarian local brokerage houses in sales and trading positions. Prior to KELER, he spent 10 years with Citibank in various positions within the Global Transaction Services Division. Between 2006 and 2010 he was Vice President, head of Citi's Securities Services and Correspondent Banking businesses in the country.

Besides sitting on the Executive Committee of KELER, Péter is a member of the Assets and Liabilities Committee, the Project Committee and the IT Changes Committee within the firm. He is responsible for sales targets, revenues and operating expenses, along with sponsoring major strategic development projects and leading of project teams overseeing capital expenditure and successful delivery.

Previously, in addition to his management role at Citibank, Péter was also compliance officer of different business activities at Citi and was member of the Board of the Association of Investment Service Providers in Hungary.



### Martina Gruber

**Executive Board Member, Clearstream Banking AG**

Martina first joined Deutsche Börse Group in 1997 as a member of the Marketing and Sales department at Deutsche Börse Clearing (DBC), responsible for building up a relationship management function for their international securities business.

Martina began her professional career in consulting and worked for five years on projects in the financial sector in various countries, mainly for banks and leasing companies. Following five years managing the Funds Account Outsourcing area at Financial Markets Service Bank, part of HypoVereinsbank Munich, she returned to Deutsche Börse Group and became Executive Director, Clearstream responsible for Relationship Management Europe.

In September 2012, she was nominated as a Member of the Executive Board of Clearstream Banking AG. Based in Frankfurt, Martina is also Supervisory Board Chair for Deutsche Börse Commodities GmbH, a joint venture launched in November 2007 by Deutsche Börse AG and various partners.



### Attila Szalay-Berzeviczy

**Executive Director, Head of Group Securities Services, Raiffeisen Bank International AG**

Attila Szalay-Berzeviczy, Executive Director and Head of Group Securities Services at Raiffeisen Bank International AG, is one of the longest standing professionals in the European securities services industry.

Having pioneered the business in Hungary for GE Capital and Bank Austria Creditanstalt after the fall of the Iron Curtain, he has held various senior positions, among them the Global Head of Global Securities Services at UniCredit Group, the Chairman of the Managing Board at the Budapest Stock Exchange, and Member of the Managing Board of the Federation of the European Stock Exchanges (FESE).

He has actively contributed to the development of the Capital Markets in Central and Eastern Europe, recently serving as Senior Adviser to the CEO and President of the Warsaw Stock Exchange. Consequently, he was awarded the Knights Cross Order of the Republic of Hungary (the second highest ranking medal of Hungary) by the President and the Prime Minister.

The securities services marketplace in Europe will be subject to far-reaching transformation over the next 3-4 years as a result of a wide body of regulatory reform and major infrastructure projects. The implications of these reforms are extending into Central and Eastern Europe (CEE), South-East Europe (SEE) and Commonwealth of Independent States (CIS) markets as key clients revise their procurement strategies and their procedures for maximising asset safety and operational efficiency. These factors will also have a significant impact on the business strategies of infrastructure entities in these locations as changes under the CSD Regulation and the European Market Infrastructure Regulation (EMIR) take effect, and T2S is phased in via a staged migration through to 2017.

Against this background, several leading service providers have conducted a detailed review of their organisational structures since we last hosted a CEE strategy panel. During this time, there has been some consolidation in the sector - with Citi acquiring the CEE business of ING Securities Services - but there has also been interest from multi-market service providers eager to extend their activities in Emerging Europe.

In the infrastructure segment, we note continuing discussion around partnership agreements and collaboration in order to support CCP, CSD and trade repository services that align with the evolution of CEE, SEE and CIS capital markets and their linkage to a T2S Europe.



## Participants

**Péter Csiszér**, Director of Strategy and Client Relations, KELER

**Martina Gruber**, Executive Board Member, Clearstream

**Júlia Romhányi**, Head of Central and Eastern Europe, Global Securities Services, UniCredit

**Attila Szalay-Berzeviczy**, Executive Director, Head of Group Securities Services, Raiffeisen Bank International

**Bob Currie**, Editorial Director, Financial Services Research Ltd (Moderator)

**It is now more than 3 years since we last hosted a strategy discussion focusing on the development of the securities services segment in Central and Eastern Europe, South-east Europe and CIS markets. What have been the principal changes in your business strategies over this period? And how have changes in the regulatory environment and business climate shaped these decisions?**

**Júlia Romhányi:** UniCredit Group announced a 5-year strategic plan at the end of 2013 designed to guide our journey towards sustainable profitability for the 2013-18 period and thereafter. Under this plan, UniCredit has allocated significant investment towards IT upgrades, human resource developments and reinforcing the strength of risk management across our transaction banking services. Looking regionally, Central and Eastern Europe has been a focal point for UniCredit for many years and this will be integral to our strategic plans in times ahead. We identify healthy potential for business expansion in the CEE region.

In giving concrete substance to these objectives, UniCredit Global Securities Services (GSS) embarked on a detailed analysis of our business model at the start of 2014. We are now in the final stages of this study and, on the basis of this evaluation, we will define our future operating model across the 13 markets in which we are active in CEE. This will be based on steps to promote future growth, to enhance the flexibility of services that we extend to our customers and measures to drive further automation across the transaction lifecycle. We have also completed enhancements to our electronic banking system, Business Net Securities, which allows clients to access their cash and securities accounts through a web-based electronic platform in 11 UniCredit markets in near to real time. The major focus for this system, however, is to move from manual to electronic instruction capture for our domestic client base. We also identify demand from international clients for such a tool.

Alongside this, we are investing heavily

in our human resources, recognising the importance of having a leading team to deliver this package of solutions to the customer. With this in mind, we have made new appointments to our securities services teams in the Czech Republic and in Hungary. We have also launched an important programme called the GTB Academy, which aims to support sustainable development in the GTB area by providing a comprehensive learning framework for our employees. As the landscape has changed significantly, we need to make sure that we have people who can drive changes and innovation and are willing to adapt in order to excel in servicing our customers.

Effective risk management and high standards of asset protection have always been a priority for UniCredit. We are traditionally a risk-averse bank that has placed an emphasis on banking stability and asset safety. In evolving our risk management strategy, we have introduced a harmonised risk policy specifically for GSS across our 13 CEE markets, ensuring that we apply a common policy across these locations with respect to NAV calculation, management of corporate actions and other key areas that pose significant risk across the life of a transaction.

**Attila Szalay-Berzeviczy:** The securities services landscape in Central and Eastern Europe has changed substantially from that which prevailed during the 1990s and the early part of the 2000s. A wide array of new legislation was introduced during this period which has substantially changed the environment for delivery of securities services. There have also been changes in the competitive environment, with ING Securities Services selling its securities services business to Citi in CEE and CIS markets during 2013. Alongside this, several new providers have taken the decision to offer securities services in the region.

During this period, Raiffeisen has made important refinements to its approach to securities services delivery. During the 1990s, Raiffeisen was principally a global custodian for domestic customers active in the region, supporting their outbound investments into international markets. However, the bank





did not have a major footprint in the sub-custody and clearing market at this time. Today, these are both central components of our revenue stream. We remain a leading custodian for CEE domestic investors, but we have also extended our presence in the sub-custody and clearing marketplace and continue to attract new business from global custodian and global investment bank clients. RBI has identified this as a priority area for business expansion.

To support this, Raiffeisen has adapted its internal structure and governance. Nine out of 15 countries in which we have a presence in the CEE are now EU members. In linking across these locations, we took the decision to establish a centralised regional operations centre in Vienna and we will establish a direct connection to the CSD in these locations whenever this is possible. So rather than installing individual IT systems in each of these countries and employing operations teams in each location, we have now centralised these activities through a single IT platform and a centralised operations division within the GSS Operations Centre in Vienna, which is part of Raiffeisen Service Center (RSC), a majority-owned subsidiary of RBI located in Vienna. This restructuring has now been completed in five CEE markets.

**Martina Gruber:** Clearstream's operational strategy for the CEE is well established. Typically we continue to select the best sub-custodian available in each market in which we are active. To maximise standards of asset safety, we have established accounts directly in our own name at the CSD whenever this is practical, often using our agent bank to support this activity via an operated account model.

With T2S, the securities services landscape in the EU will change radically and this will have important implications for the CEE region, regardless of whether or not CSDs in individual countries have connected to the T2S platform. We want to be the gateway to T2S for CEE / CIS customers. Clearstream has committed major investments to this project and our preparations will reshape how we manage activity in a number of

CEE markets. Specifically, Clearstream will concentrate all activities in T2S countries on the CSD settlement platform. We are taking a harmonised approach to connectivity, so that customers can communicate via a single channel of choice regardless of whether they are doing business within or outside T2S. We have extended our EU securities processing activities in Prague and Singapore to cover all time zones. Our philosophy is to have a central management for settlement, asset servicing etc. covering the different operational sites to ensure we apply the same standards in each location, notably Frankfurt, Luxembourg, Prague and Singapore.

From a risk management perspective, we aim to minimise the length of the intermediary chain by linking directly to the CSD whenever this is practical. However, we continue to develop our relationship with our agent banks in each CEE market to support business expansion and to optimise the quality of service that we offer to our customers. With T2S implementation, this relationship will remain crucially important: settlement activity for euro-denominated securities will be centralised via the T2S platform, but we will make extensive use of local agent banks to support asset servicing requirements in these locations in order to remain close to the local markets.

Additionally, we continue to evaluate opportunities to extend our presence into new locations or new segments where business potential warrants this. For example, we were the first ICSD to add Romanian municipal bonds to our list of eligible assets. And as far as new markets are concerned, Armenia and Georgia will be pilot markets for Clearstream's new Emerging Market Access model, which will support an accelerated time-to-market delivery while providing more flexibility in terms of operational processing.

**Péter Csiszér:** KELER group is 22 years old now and for most of this time our priority has been to provide high-quality CSD and CCP services for the Hungarian capital market. Although KELER's financial results have been constantly solid, for some

years it has been questionable whether the development of the local capital market can support KELER's long term growth strategy. Six or seven years ago, we started exploring potential new business streams in order to diversify the group's business model and to establish a more balanced flow of revenue. As a result, many new services have been developed since then and there are more to come in the near future.

The ECB's decision to establish a centralised securities settlement platform in the EU from 2017 has also been an important milestone in this evolution. In 2012, KELER's Board of Directors made a joint announcement with the National Bank of Hungary (NBH) confirming that KELER will enter T2S,

next spring, in order to secure a safe take off with T2S in September 2016.

More broadly, KELER has initiated a strategy to diversify its revenue generation beyond domestic settlement activity and notary business for the Hungarian capital market. With T2S implementation, we aim to expand our cross-border securities services business, taking advantage of the level-playing field that T2S will establish for competition in CSD services and the greater harmonisation that this will bring to securities processing across European markets.

Besides our T2S strategy, we have been focusing on a number of other develop-

KELER has launched its Strategic Modernisation Programme, which includes a project to replace most of the multiple IT platforms that we have employed in the past and to centralise our activity on a single CSD platform. The installation of this new platform, the BaNCS platform supplied by Tata Consultancy Services, will be the largest single IT investment that KELER has made in its history. We plan to go live with the system next spring, in order to secure a safe take off with T2S in September 2016.

thus making Hungarian securities available via the T2S settlement system. However, the cash-leg of HUF-denominated securities transactions will continue to settle outside of T2S – typically through the HUF-clearing accounts that sub-custodian banks and KELER hold with the NBH.

In preparing for these developments, KELER has launched its Strategic Modernisation Programme, which includes a project to replace most of the multiple IT platforms that we have employed in the past and to centralise our activity on a single CSD platform. The installation of this new platform, the BaNCS platform supplied by Tata Consultancy Services, will be the largest single IT investment that KELER has made in its history. We plan to go live with the system

As another business stream, KELER has installed a new online platform to manage order routing and settlement of collective investment funds and we identify strong future growth potential in this area. Through our partnership with REGIS-TR, KELER is providing trade reporting services for derivatives transactions in the Hungarian market. We are in the process of extending this reporting service to the transactions conducted in wholesale energy markets and we are also issuing Legal Entity Identifiers for our clients, the reporting parties.

**In which CEE locations have you noted significant business expansion over the past 4-5 years? And in which service areas?**



**Júlia Romhányi:** Several markets have delivered significant business growth over this time. Investment in collective investment funds has continued to grow in the Czech Republic and in Hungary, particularly from the retail investment community which is looking increasingly at mutual funds as a long-term savings vehicle and source of investment return. To support this additional activity, UniCredit has expanded its processing teams in these locations. In addition, there has been noticeable growth in transaction volumes and assets under custody in Serbia and in Slovenia, particularly with respect to fixed income instruments.

We continue to recognise opportunities for expansion in the Russian market. However, important reforms in this market are still ongoing and we believe that this is an opportunity for the medium and longer term rather than one that will translate into major revenue growth over the next 2-3 years. An additional factor supporting this view is that the international sanctions that have been imposed on Russia in connection with the Ukraine conflict have provided a significant brake on flows of international investment into the Russian capital market.

More generally, we recognise potential to increase our market share in supporting domestic institutional investors not just in the larger CEE markets such as Poland, Hungary and the Czech Republic, but also in the smaller and emerging CEE markets where we believe that the growth of pension funds, insurance companies and collective investment funds is likely to drive significant expansion of domestic institutional money into regional capital markets.

**Attila Szalay-Berzeviczy:** There has been little dramatic shift in the composition of CEE investment flows during the period under consideration. The larger CEE investment markets, notably Poland, Austria, Hungary, the Czech Republic and Russia, remain the largest CEE markets. For Raiffeisen, the primary success stories have been Russia, Romania and Hungary. Romania is perhaps the most exciting market currently, given the programme of reforms

that is being driven by the Bucharest Stock Exchange in association with the local financial authorities. There is strong commitment from these parties to reform the market and to make it more attractive as an investment destination to both international and domestic investors. The government also seems to be buying into this project – there appears to be significant political will behind these changes and a healthy pipeline of new listings that will potentially come to market over the next 24 months.

The Balkan states have remained relatively dormant over the past 2-3 years, principally as a result of the macro-economic conditions prevailing in these locations. There has been some investment interest in sovereign debt issuance but we see little signs of a breakthrough in the equity markets. The Bulgarian, Macedonian and Zagreb Stock Exchanges have established a joint stock company, named SEE Link, to encourage capital markets development in South East Europe (SEE) and to provide a regional infrastructure for trading securities listed on the three exchanges. However, I do not anticipate that this will translate into an immediate upturn in listings or trading activity. It is necessary to have a sound macro-economic backdrop and a solid pipeline of privatisations before we can expect these capital markets to jump forward and at the present time these conditions are still lacking. Potentially Serbia may have future opportunity to join the European Union, but EU membership on its own, without these broader pre-conditions, is unlikely to result in a sharp improvement in dynamism for this market.

On balance, Poland remains a shining star. There was some contraction after the Polish government's interventions in the pension fund sector, just as was the case in Hungary. But now the Polish equities market again appears to have recovered its momentum. The question is how long it will last, given that there will be parliamentary elections this year. The Warsaw Stock Exchange has seemingly put its expansionist ambitions in the CEE region on hold and it is now concentrating on driving organic

growth through expanding listings and trading activity in the Polish market.

**Martina Gruber:** From an ICSD standpoint, the CEE and CIS regions have provided solid opportunities for business expansion. During the past five years, we have experienced a significant increase in our securities services revenues and our assets under custody have almost doubled, driven particularly by our expansion in Poland, the Czech Republic, Slovakia and Slovenia. The dynamism of the Polish market, along with legislative changes in Poland which have permitted securities to be held in omnibus accounts, has enabled us to expand our business there. In Slovakia, the Eurosystem's decision to allow Slovak government bonds to be used as collateral in ECB monetary policy operations has stimulated activity in these instruments through Clearstream's collateral management services under the Global Liquidity Hub.

**Attila Szalay-Berzeviczy:** I am encouraged by the pace and depth of market reforms that have been implemented in Russia in recent times. The introduction of a single CSD, the National Securities Depository (NSD), was crucial in bringing the Russian market into line with international best practice. We are now waiting for NSD to open its doors to foreign banks which want to become direct members. Currently, NSD supports cross-border links via Clearstream, Euroclear and OeKB but we would like to see Raiffeisen joining to this group.

However, considerable progress has been made by the market authorities and we are no longer challenged, to the extent we were in the past, by burdensome account opening and registration requirements that required that we submit large amounts of supporting documentation on behalf of our clients. Moreover, as the Russian market has evolved, this has provided us an effective conduit as a sub-custodian to a number of other CIS states.

**Martina Gruber:** Clearstream will continue to extend its coverage of the Russian market. To date, the majority of non-resident transactions in Russian equities

settle on a free of payment basis with the cash element settling offshore. However, it is possible to settle transactions onshore on a delivery against payment basis in RUB or USD. We envisage that this facility will be used more extensively in times ahead and we will be developing the USD settlement capability for Clearstream customers.

**Péter Csiszér:** The performance of the Hungarian capital market has been important in steering the decision of KELER's Management to further diversify and expand our services internationally. With this in mind, we are currently in the process of adapting from being predominantly a locally-focused infrastructure provider supporting the domestic market to an internationally-capable service provider that is well positioned to support cross-border clients across a range of product areas.

In the securities services arena, the launch of T2S will be important in facilitating this process. We conducted a review of the potential opportunities this would create for KELER, along with the investment that would be required to make the necessary IT changes and to establish the required connectivity. The investments that we will make in preparing and linking to T2S will have major benefits in their own right – for example, through replacing multiple satellite IT systems with a single centralised platform. This, we believe, is sufficient justification for committing to the T2S project. We concluded that T2S will open doors for new business and there is significant potential for those CSDs that successfully adapt and invest in new developments. Geographically, the main focus of our efforts to expand will be in CEE markets entering T2S in the first four waves, along with the Czech Republic and Poland.

**How do you view the recent evolution of the largest CEE markets? Several of these, for example Czech Republic and Hungary, have offered relatively limited trading activity and a relatively narrow range of liquid, listed stock when compared with the apparent potential that these markets appear to offer?**





**Attila Szalay-Berzeviczy:** This has been the case in the Czech Republic for a number of years. There has been little significant increase in the market capitalisation of the Prague Stock Exchange (PSE) or levels of trading activity on this execution venue. Some preliminary moves were made to encourage development of the work-based pensions sector in the Czech market, but the initial government weight behind this project appears to have subsided.

Although Poland and Romania still have some attractive privatisations to come, in other larger CEE markets the main flow of privatisation activity appears to be behind us. Significantly, when prominent CEE companies – like the Hungarian airline company

companies have tended to access funding principally through bank loans and through bond issuance – similar to the dominant trends found in the German and Austrian markets.

In contrast, in Poland equity issuance is much more common. Companies have tended to use private placement and public listings of stock in order to raise development finance in a manner similar to that commonly found in Anglo-Saxon capital markets. This has provided an instant stimulus to the development of the Polish equity market. When Polish businesses reach a certain stage in their development, often they will look to list their shares on the Warsaw Stock Exchange. This trend has

There has been little dramatic shift in the composition of CEE investment flows during the period under consideration. The larger CEE investment markets, notably Poland, Austria, Hungary, the Czech Republic and Russia, remain the largest CEE markets. For Raiffeisen, the primary success stories have been Russia, Romania and Hungary. Romania is perhaps the most exciting market currently, given the programme of reforms that is being driven by the Bucharest Stock Exchange in association with the local financial authorities.

Wizzair - have chosen to list their stock in recent times, in several instances these have elected to list offshore, for example on the London Stock Exchange, rather than doing so on their national stock exchange.

**Júlia Romhányi:** The Polish capital market has huge scale when compared to the other CEE markets. The market capitalisation of the Warsaw Stock Exchange is now roughly equivalent to the market capitalisation of eight stock markets in the CEE region aggregated together.

**Attila Szalay-Berzeviczy:** To understand the evolution of CEE capital markets, we need to look more closely at the dominant financial culture prevailing in these markets. In the Czech Republic and Hungary,

become common not simply as a fund-raising mechanism, but as a rite of passage for Polish emerging companies.

#### **How are global custodians and global broker-dealers adapting their strategies for purchasing securities services in the CEE and CIS regions?**

**Júlia Romhányi:** Inevitably the launch of T2S is pushing network management groups within these organisations to review their procurement strategies. To be appointed, an agent bank needs to have a strong credit rating and a favourable outlook for its long-term financial stability. Network managers assess standards of asset safety, asset servicing capabilities and flexibility of service

delivery, along with the agent bank's ability to provide liquidity in the market when this is needed. Typically, they are also looking to establish whether the service provider has a sustainable business model and a long-term strategy for the region.

For a service provider, the task of responding to this continuous stream of RFP and due diligence questionnaires can place heavy demand on resources. At UniCredit, we have estimated that for the five biggest global custodian clients that we support, we have completed over 120 different documents and thousands of pages of content over the past 12 months in just one market. This is replicated across all markets in which we service our clients. The strong focus on asset safety and asset servicing ca-

demands and this all brings extra cost into the service relationship. Clearstream has chosen to link directly to the CSD in markets where this is practical and where there is a logical business case for doing so. In Hungary, for example, we have a direct link to KELER. However, we employ an agent in this market and they provide an operated account service and meet our asset servicing needs in this location. This setup has now also been implemented for Romania, Bulgaria and Slovakia and we are working on rolling it out in Poland.

T2S will create a more harmonised settlement environment for the European Union which will also facilitate a more efficient movement of collateral across T2S markets. By utilising a single central bank money

When T2S is implemented, securities settlement across the respective markets will take place on a single system. This settlement system will enable market participants to centralise holdings in one investor CSD such as Clearstream's CSD in Germany, thus creating a single pool of liquidity to satisfy exposures across the T2S area, for example with national central banks. Clearstream's Global Liquidity Hub will allow clients to create an even larger single virtual collateral pool spanning Clearstream's ICSD and its CSDs. It will also enable new forms of transactions such as central bank money triparty repos.

pabilities has required that we complete a wide range of requests for information and ongoing reporting to our customers. This involves a significant workload and a high level of cost for us as a service provider. As a securities services community, we need to get better at helping our clients to understand the costs involved and how this process can potentially be managed more efficiently.

**Martina Gruber:** As a service provider, we are registering a growing demand from the customer side to open accounts in the client's name and to ensure segregation of assets. Greater segregation entails more complex reconciliation and reporting

(CeBM) cash account in T2S – rather than managing commercial bank money (CoBM) settlement liquidity in separate accounts on a market-by-market basis as many do today – customers may be able to reduce their average daily cash or credit requirements substantially in a T2S environment. Importantly, when T2S is implemented, securities settlement across the respective markets will take place on a single system. This settlement system will enable market participants to centralise holdings in one investor CSD such as Clearstream's CSD in Germany, thus creating a single pool of liquidity to satisfy exposures across the T2S area, for example with national central banks. Clearstream's Global Liquidity Hub

will allow clients to create an even larger single virtual collateral pool spanning Clearstream's ICSD and its CSDs. It will also enable new forms of transactions such as central bank money triparty repos.

**Péter Csiszér:** From a CSD standpoint we note that global custodians and global broker-dealers are reassessing their operating models and their modes of access to the market as T2S goes live. We have opened direct accounts for some clients, including Clearstream, although we are not yet at the stage of seeing a huge surge in direct account opening. This may pick up further when T2S migration waves are completed. The release of T2S will improve interconnectivity between CSDs, dictating that a client may be able to link to fewer CSDs in the T2S zone and to benefit from the investor CSD services that these can offer.

If we examine how CSDs will be linked to T2S, we are each likely to be slightly different in terms of the range and flexibility of services that we offer, how we structure our connections to T2S, and what we can provide on the back of the basic settlement service. This will be a differentiating factor between CSDs in a T2S Europe. With this competition, it is likely that an efficiency game will develop in the CSD segment – and each CSD will need to assess whether it has the best operating model in place to meet client needs within the new environment.

### **Is centralisation of operations and use of a regional operations centre a requirement now in order to be a leading provider in the CEE marketplace?**

**Attila Szalay-Berzeviczy:** It has made sense for RBI to establish a centralised operations processing centre in Vienna, but it would be wrong to assume this is a necessity – or that any provider will dominate the region simply because it has centralised its operations in this way.

To be a dominant sub-custodian in the CEE and CIS regions, we need to be responding

to changes in the procurement strategies employed by global custodian and global investment bank network management groups. Typically, a primary consideration is to ensure that prospective agent banks have a high level of financial stability. A second is to ensure that potential service providers offer high levels of operational efficiency and have taken necessary steps to mitigate operations risk – something that we deliver via our regional operations centre model, but we recognise that this may be possible via other operational arrangements. A third, and related consideration, is that the service provider must have a long-term commitment to the business and a business strategy that will deliver innovation and service excellence in the longer term.

Significantly, over the past 3-4 years fee negotiations have become less and less a stumbling block in the appointment process. During this period, I have been involved in very few fee discussions which have caused me high levels of stress – and this marks a change from previous times, when tense pricing discussions were all too common when it came to winning or retaining a mandate.

**Júlia Romhányi:** A range of different business models are available and are currently being employed in the CEE and CIS regions. The key is to be able to meet the client's service requirements and expectations, offering flexibility and high quality service. Each individual service model has its advantages and disadvantages and we are currently conducting detailed analysis at UniCredit to identify which will work best for us in the future. An important factor in long-term planning is the ability to adapt quickly to the ever changing needs of both investors and market infrastructures, as well as to continuous changes in the regulatory environment. Whichever decision we take, we do not aim to stick rigidly to a single service model. Rather, whenever possible, we will offer choice to our clients, enabling them to draw on a range of service options. It is important to make decisions quickly and to respond promptly to shifts in client preferences or to any contingency scenarios that might arise.

**Martina Gruber:** The launch of T2S may cause us to think differently about how the CEE and CIS regions fit into the European securities services environment. We are moving towards a Europe in which CEE and CIS countries are closely interconnected with the T2S area, whether or not they link to T2S by 2017. Some countries, for example Slovakia, will join T2S and have adopted the euro as their national currency. Others, such as Hungary, are EU members but have not adopted the euro. Although the Hungarian CSD has committed to T2S, the cash leg of securities transactions will continue to settle outside of T2S. Additionally, there are countries which are neither in the Eurozone nor one of the 23 participants that will join T2S by 2017. For such countries, linkages to the local infrastructure will continue to be necessary, although investors and intermediaries will have the choice between various models. At Clearstream, we aim to offer our clients a single, central access point to all relevant markets, including CEE and CIS countries that will continue to operate outside of T2S. In future, thanks to our strategy of offering harmonised services for all Clearstream entities under T2S, all our clients – be they CSD or ICSD users – will benefit from comprehensive market coverage supported by superior asset servicing.

**Attila made the point that CEE is one of the most over-banked regions in the world from a securities services standpoint. Given current activity levels, does it make sense for each CEE market to have its own CSD and, for those that have committed to T2S, each to be building its own individual link into T2S?**

**Péter Csizsér:** On taking the decision to connect to T2S, KELER has always taken the view that we wish to build our own connectivity, rather than sharing technology or engaging in partnership arrangements with other CSDs. We believe that these steps will bring major benefits to KELER's customers through rationalising our internal systems and operating model, even before we have generated any additional business through the opportunities that T2S will create. In embarking on this path, it is important that

we have the freedom to pursue our own independent strategy, rather than moving in lockstep with another organisation – as would be the case if we developed T2S connectivity through partnering with another CSD.

**Júlia Romhányi:** It is difficult to find a common strategy and a common understanding across 24 T2S CSDs. However, the size of these markets, especially in CEE, does not justify sustaining such a large number of independent CSDs – and some markets even have more than one CSD. Consequently, it is likely that there will be collaboration or consolidation in this sector when T2S is fully implemented. This is also very much the case in CEE, where CSDs must work together to establish a common solution for the region.

**Attila Szalay-Berzeviczy:** Raiffeisen's operating model was designed to perfectly service a region with many national CSDs on the ground. Our GSS Operations Center currently merges nine countries into one single market. This approach delivers value in a situation where we need to support multiple markets with a relatively low level of standardisation in difficult operational terrain. In the initial stages we have concentrated on linking EU markets, because these are effectively borderless from a capital markets standpoint. However, we are gradually rolling this capability out beyond the EU markets.

**How do we see CEE markets evolving in the 4-5 years ahead?**

**Martina Gruber:** From Clearstream's standpoint, the biggest change will come with the launch of T2S. This will be a game changer, generating more active competition between CSDs within an increasingly harmonised post-trade landscape. It is also likely to increase competition between CSDs and CSD participants as some CSDs seek to extend their service coverage in the asset servicing space. We identify a lot of opportunities in this environment. We will develop a single interface for our customer base, enabling customers to manage their CeBM





settlement activity across the T2S area via a single cash and securities account. They will also be able to use this common interface to connect to all markets in which they wish to operate in a commercial bank money ICSD environment. This model will facilitate the efficient movement of collateral across this broad range of markets. When we factor in the extensive Eurobonds liquidity held in Clearstream and the wide pool of collateral that can be mobilised within the Global Liquidity Hub, we estimate that we now support the largest pool of liquid collateral that is available in the global market.

To support our CEE activity in a T2S environment, Clearstream will enter into local market partnerships across Eurozone mar-

reporting services in the Hungarian market. As REGIS-TR evolves, it is also offering trade reporting services for energy trading in line with the Regulation on Energy Market Integrity and Transparency (REMIT). This requires market participants to report wholesale energy market contracts within the EU to a Registered Reporting Mechanism (RRM). REGIS-TR's RRM enables participants to report trades executed on various markets from a single source, thereby providing a comprehensive overview and consolidated reporting of their trades.

**Péter Csizsér:** I agree that T2S will be a game changer. KELER's strategy for the next 4-5 years is closely linked to the implementation of the T2S project. We have based

UniCredit Global Securities Services (GSS) embarked on a detailed analysis of its business model at the start of 2014. We are now in the final stages of this study and, on the basis of this evaluation, we will define our future operating model across the 13 markets in which we are active in CEE. This will be based on steps to promote future growth, to enhance the flexibility of services that we extend to our customers and measures to drive further automation across the transaction lifecycle.

kets that have committed to T2S. Under this model, euro-denominated securities will settle via T2S and our local sub-custodian partner will support asset servicing requirements for these securities in the local market. For non-T2S markets, we will service client activity with the support of our local sub-custodians. In many cases, this means linking directly to the CSD and utilising an operated account service from the sub-custodian which meets the standard we are developing for T2S markets.

We continue to extend the trade repository and reporting services offered by REGIS-TR, the joint venture between Clearstream and Iberclear, across Europe. In Hungary, for example, we have established a relationship with KELER to support trade repository and

our strategy on several key assumptions. First, that T2S will be rolled out successfully according to the timeline that the ECB has mapped out. Second, T2S will establish a level-playing field for the delivery of CSD services and this will generate competition in the CSD sector on a level that we have not seen previously. Third, we believe that T2S will create a more harmonised, efficient and attractive investment environment for global investors, thus providing potential for growth in domestic and cross-border settlement volumes and associated securities services activity.

Importantly, we believe that T2S will just be the beginning. When T2S is live and the efficiencies that it can deliver become apparent to the market, we believe that more

CSDs will wish to join the project. Several markets have taken a “wait and see” approach, monitoring the progress of the project launch and taking a further decision in 2018-19 when they have seen the platform up and running. We believe that many of these CSDs, on the basis of dialogue with their national central banks and key industry stakeholders, will wish to join T2S and take advantage of these benefits.

Taking these considerations into account, we have decided to embrace these new opportunities and to invest in our T2S capability from an early stage. We expect to offer a high level of flexibility in our service portfolio, supported by attractive settlement pricing, recognising that this will be important as a CSD in extending our reach beyond our national borders.

Alongside these developments at CSD level, KELER CCP has invested heavily in developing its clearing capability for energy trading markets in addition to the traditional services that it offers for the capital market. In doing so, we offer a central counterparty service and, as a clearing bank, we provide general clearing member services in this area. This is a dynamic market and we have seen a stream of new entrants to the energy trading sector in Hungary and the CEE region, thus driving consistent growth in clearing activity through the CCP.

Strategically, we anticipate that consolidation in the CCP sector is inevitable and this is likely to proceed more rapidly than in the CSD layer. Given the size of CEE markets, it makes little sense for individual markets to be maintaining their own independent central clearing capability, each of which needs to be fully capitalised and supported with regular IT and service upgrades. Central counterparty clearing is a scale driven, low margin business and it makes sense to aggregate activity across these locations.

**Júlia Romhányi:** For UniCredit, Central and Eastern Europe is a key area to our growth strategy in times ahead. We have developed and maintained a strong securities services brand in CEE for many years and we will

continue to invest in business expansion in this region. While no one can predict with certainty the direction in which markets will evolve, there can be no doubt that the status quo is unlikely to be an acceptable strategic option. We currently offer securities services in 13 markets via UniCredit subsidiaries in each of these locations. Through this structure we have a strong, on-the-ground presence, with deep market knowledge and experience in each location and an active presence in key industry groups and market associations.

UniCredit GSS has made a number of important changes at executive level in order to attune the group structure to our future growth aspirations. A new Head of Global Securities Services, Susanna Schefold, took her position on 1 August. The business is coordinated by the GSS Executive Committee (where Risk Management, Product Development, Network Management, Sales and Relationship Management are equally represented, as well as Poland, Austria and CEE) thus providing a comprehensive forum through which we can define the future direction of the GSS business line.

In planning ahead, investments in technology and digitalisation, as well as steps to drive further innovation and flexibility across our products and services, will have key focus in coming years, recognising that all banks need to find ways to increase efficiency and reduce manual intervention in post trading processing. We see strong opportunities through improving the coordination between sales and product lines in order to increase our cross sell ratios. We are market leader in the region – both, in the international and domestic client segment – and we will focus on existing relationships to exploit maximum potential across all product lines and all markets. We have identified continued demand from clients for liquidity provision and we are reviewing how best we can support our client base in providing liquidity at acceptable cost and in line with our risk appetite. We are also exploring opportunities to extend the range of cash management services that we currently offer to our clients.

**Attila Szalay-Berzeviczy:** I do not anticipate a radical overhaul of securities services provision in CEE and CIS markets over the forthcoming 4-5 years. Although CSDs and CSD participants have been framing out their strategies for business development in a T2S Europe, it is activities in the trading layer, above all else, that will really define the future direction of CEE capital markets. Currently, there are three major financial capitals in CEE, notably Vienna which is a regional universal banking centre, Warsaw

which has established a strong infrastructure for equity issuance and trading, and Moscow which is at an earlier stage in its capital market development but has major size and potential. These are well established positions and CEE markets are likely to remain segmented around these foundations for at least the next 3-5 years. Even with the implementation of T2S, no market infrastructure entity is likely to find it worthwhile to drive consolidation in these segments in the near term. ■



**Júlia Barbara Romhányi**  
Head of CEE Global Securities Services

UniCredit  
HU-1054 Budapest Szabadság tér 5-6.  
Hungary

Telephone: +36 1 301 1923  
Email: [julia.barbara.romhanyi@unicreditgroup.hu](mailto:julia.barbara.romhanyi@unicreditgroup.hu)  
Website: [www.gss.unicreditgroup.eu](http://www.gss.unicreditgroup.eu)



**Attila Szalay-Berzeviczy**  
Executive Director  
Head of Group Securities Services

Raiffeisen Bank International AG  
Am Stadtpark 9, 1030 Vienna,  
Austria

Telephone: +43 1 71707-8252  
Email: [attila.szalay-berzeviczy@rbinternational.com](mailto:attila.szalay-berzeviczy@rbinternational.com)  
Website: [www.rbinternational.com](http://www.rbinternational.com)



**Péter Csiszér**  
Director of Strategy and Client Relations

Keler Zrt  
1074, Budapest, Rákóczi út 70-72.  
Hungary

Telephone: +36 1 374 6274  
Email: [csiszer.peter@keler.hu](mailto:csiszer.peter@keler.hu)  
Website: [www.keler.hu](http://www.keler.hu)



**Martina Gruber**  
Executive Board Member

Clearstream Banking AG  
The Cube  
Mergenthalerallee 61  
65760 Eschborn  
Germany

Tel. +49 69 2 11-1 121 04  
Email: [martina.gruber@clearstream.com](mailto:martina.gruber@clearstream.com)  
Website: [www.clearstream.com](http://www.clearstream.com)