THE RETREAT FROM GLOBALISATION: THREATS AND OPPORTUNITIES FOR FINANCIAL MARKET INFRASTRUCTURES

Cross-border payments and securities transactions have grown sharply since the 1970s, as exchange controls were relaxed and barriers to trade across borders were lowered. Financial market infrastructures (FMIs) have evolved in line with the growing volumes of cross-border activity. Much of this progress was dependent on official support, and often driven by it. Is the recent geopolitical developments in Europe and the United States mark a halt to the long process of globalisation, and assess the threats and opportunities less open economies might present to FMIs

As the financial markets are one of the most globalised industries in the world, a retreat from globalisation by any country would have a significant impact on the industry in that country, both regionally and internationally. If the overall context of globalisation is reconsidered, it could have an impact on the momentum for consolidation and harmonisation in Europe, particularly in market infrastructures.

In considering globalisation in the securities markets, distinctions must be made between markets from geographical, product and processes points of view. Geographically, **there are three main financial zones in the world:** the **US**, which is highly integrated, and **Europe** and **Asia**, which are both very fragmented. In the latter two zones, there is strong will for integration, but very different levels of progress, given their diverse geopolitical and economic situations. Concerning products, **it is obvious securities markets cannot be compared with derivatives markets**. The former remain highly domestic, whereas the latter, especially for OTC derivatives, are generally more global. If there is a risk of retreat from globalisation – notably given the possible consequences of Brexit – it would mainly be in the OTC derivatives markets. From a financial transaction processing view, it is important to point out that, in general, the lower we go in the value chain, the more the domestic nature of the market stands out, especially in the securities field.

If as result of Brexit, the European authorities insist that EU-based market participants clear transactions on euro denominated products with CCPs based in Continental Europe – rather than in London – this will fragment or increase the fragmentation of the markets concerned, which will correlatively increase costs and risks.

In the securities field, the value of globalisation mainly lies in the easy access to different markets around the world it gives to investors. This has led to the development of cross-border investments in markets that were essentially very domestic. Efforts have been made to facilitate greater globalisation in the securities field via harmonisation and standardisation, including moves by the Financial Stability Board, the Committee on Payments and Market Infrastructures, Iosco and ISO. Regional industry groups and public authorities are also engaged in harmonisation and standardisation initiatives.

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> Gaining access to payments market infrastructures across Europe is not an issue for banks such as Societe Generale. However, the underlying political environment is important and if protectionist measures are introduced anywhere in the world, the impact will be less trade and fewer payments. ”

Frantz Teissèdre
Head of Interbank Relationships

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Any threat to globalisation would have the most impact on the ability and desire to make cross-border investments. Any inward turn economically could lead to a constriction of cross-border investment, limiting transactions on the various markets concerned. **This kind of reduction in business could impact the ability and motivation of stakeholders (including financial market infrastructures) to continue to invest in improving cross-border processes.** On the other hand, it could justify stakeholders in further pursuing the standardisation efforts already undertaken to support and attract cross-border investment, in preparation for a less constrained future.

We want to remain optimistic and to believe the industry will continue its harmonisation and standardisation initiatives to facilitate greater cross-border investment, at least in Europe where these efforts may compensate for a contraction of international business by delivering greater efficiency. The goal should be the construction of a European market architecture like that underlying the finance industry in the US, which is based on an optimum number of market infrastructures, notably at the post-trade level. **In Europe, the post-trade environment is still excessively fragmented and the back-office sector remains mainly domestic.**

The harmonisation of processes and of the regulatory framework should be encouraged to bring about the constitution of an effective single European financial market supported by financial market infrastructures that are regional and therefore limited in number. **These infrastructures should be**

backed by the resources needed to ensure the processing of financial transactions at lower costs and under optimum conditions of speed, security and transparency.

> "The movement toward an integrated European financial market and the consolidation of its infrastructures has been under way for nearly 20 years, although at a rate that has often been considered insufficient given the economic stakes in play. This movement mustn't be called into question and should continue at a faster pace in the coming years. It is supported by industry and by the European Central Bank, and notably by Europe's political leadership, who have made it one of the pillars of their project for a Capital Markets Union. It makes no sense to call the foundations of this initiative into question at a time when Europe needs to discuss reforming it."
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> **Eric de Nexon**
> Head of Strategy for Market Infrastructures

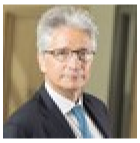
Payments platforms view

International payments flows continue to grow and there is no evidence of a retreat from globalisation. For example, SWIFT payments traffic grew by 7%[1] globally in 2016 and early figures from the first half of 2017 indicate continued growth around the world.

One of the **main topics concerning the payments industry** and its market infrastructures **is the UK's impending exit from the European Union**. We do not believe that Brexit will have a negative consequence on euro payments infrastructure flows because the main UK banks have branches established in the European Economic Area, so they are permitted to be in the euro payments systems. This will continue to be the case after Brexit.

In correspondent banking, **a retreat from globalisation in the medium or long term could have a negative impact on payments infrastructures**, particularly if commercial exchanges decline because of protectionism. Many correspondent banks are now focused on de-risking, withdrawing from certain countries when the business benefits they receive no longer match their expectations because of the weight of compliance costs due to ever increasing KYC, AML and sanctions management requirements. De-risking is currently a much more serious topic for the payments industry as a whole than a retreat from globalisation.

[1] Data from 2016 - IR 758: CEO REPORT – BOARD MEETING OF 15 MARCH 2017



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