



Conversation with Francesco Vanni d'Archirafi

Francesco Vanni d'Archirafi - Chairman, Euroclear Group

David Wright - President, EUROFI

David Wright

Ladies and gentlemen, my next guest is a very distinguished person: Francesco Vanni d'Archirafi, who has been working in the finance industry for many years. He was the former CEO of Citi Holding and Citi Transaction Services in New York. He had a 38-year career, if I am not wrong, in Citi. He is now the chairman of the Euroclear Group. This is a crucial role, as everybody knows from today's newspapers.

We are going to talk more broadly about how the European markets are working and some technology issues. Francesco, first of all, we greatly welcome you being here. Thank you for your support of Eurofi. First of all, tell us how you see capital markets in Europe today. Are we making the sort of progress that your firm, Euroclear, would like to see?

Francesco Vanni d'Archirafi

Thank you, David. It is a pleasure to be here. I made a big mistake, which was not to ask you who was speaking before me. J. Berrigan said everything, and D. Schwimmer is also very aligned with my views. So there is very little I can add.

What I see is a huge opportunity, but with a very difficult execution like J. Berrigan mentioned. I have spent the last day and a half here and I have never seen so much alignment on the long list of things that need to happen to move forward with ambition. I always say, let a crisis not go to waste. I think we are in one of those moments. I started with Euroclear during Covid in September 2021, then there was the full-scale invasion of Ukraine in 2022 and we now have another terrible war in the Mediterranean. In the US, there is also an election cycle which might create even more momentum for all these discussions.

Europe has always moved forward during difficult times. I am an eternal optimist and after all the presentations, the panels and the discussions that I have heard I keep this optimism. I know J. Berrigan has a lot of scars, but we need political leadership that do not only understand the opportunities and the risks, but also enables the Commission to drive change and executes it.

I will not repeat everything that has been said in the last two days but, for me, an important moment was Christine Lagarde's speech on 17 November. Europe is facing challenges with demographics, deglobalisation and decarbonisation. For demographics, there are going to be fewer workers for every person that is not working, and a tipping point is set to begin in 2025. That is a challenge, but it could also be an opportunity if we can use saving products. We need the equivalent of the 401(k) plans. We need the pillars on the pension that other countries have recently implemented. For example, we know Sweden very well as we own the depository. They have been able to engage the citizens as investors in the capital markets, which allowed small and medium-sized enterprises to benefit from stronger local capital markets. If we were to do that at the European level, we would move forward at scale.

For my benefit, I did a list of all the initiatives that are happening with the Capital Market Union (CMU) as a focus. I just want to read it because I think it is impressive. Obviously, a fellow Italian is going to deliver a report very soon, Enrico Letta. When Enrico speaks, he talks about the single market being like a big dream. I have been personally very close to at least part of that development, and it is a huge success. Nobody would have said that we would be able to move people, goods, and services around the

biggest single market in the world like we do today, although it is not so much a success in the financial services indeed. I am sure the Eurogroup will also present a long list of recommended policy initiatives to the next Commission. In the second quarter, there will be the European Securities and Markets Authority (ESMA) task force on the effectiveness of the EU Capital Markets and the Advisory Group on Market Infrastructures for Securities and Collateral (AMI-SeCo) post-trading recommendations.

Then another Italian leader – Mario Draghi – will come after the elections with a very important report, which is centred on everything we are talking about. Many industry and think tank reports on the CMU are also being drafted as we speak. Then we have the elections, then we have Eurofi in Budapest, then we have the parliamentary review of the next Commission, and there we will start to know if the new commissioners are up to the task. I think D. Schwimmer said that we need the ambition. It is not like we are inventing something new. We know why the capital markets in the US are very strong and deep. This is important as it is not about the intermediaries or the financial market infrastructures. It is all about innovation and economic growth to the benefit of society at large. If we do this right, the benefits will be huge for all European citizens.

David Wright

I very much share your sentiment in this interview so far, that we have a convergence of interests, a convergence of analysis, and a sense of some people calling it a crisis, but that others would say it is urgent to move. In terms of the infrastructure world that you live in here, are there any specific measures that you feel are necessary? What about being ambitious on moving to T+1 or even T+0? Is that not an ambitious aim that, for example, should be in the political package you are referring to for the new Commission?

Francesco Vanni d'Archirafi

I think the train has left the station, in a sense. The US is going to T+1 on 28 May, there is no question about that. Although our European ecosystem is a bit more complex, the question is about when and how this will take place, not if, as has been said in many panels over the last two days. The issue is not the infrastructure providers or the big players of the ecosystem. This is not a technology issue either. It is really about making sure that the entire ecosystem is able to deliver. If you cannot get there, what is going to happen is that all the small intermediaries running their business on a spreadsheet will have to pass that business to the bigger players. That is going to be a huge force for consolidation, which might be good or bad. I am not going to be the judge of that. But we need to make sure that the entire ecosystem is prepared.

Then another point I would make is that our friends from across the channel are also thinking about when moving to T+1, and we have heard the same from the SIX representative for Switzerland. There needs to be alignment between our countries, otherwise it could be a major headache.

David Wright

That is to T+1. Do you think T+0 is a way off? Do we need that?

Francesco Vanni d'Archirafi

I think T+0 is a bit aggressive. Our experts at Euroclear say that we are ready for T+0, but probably the rest of our ecosystem is not. By our ecosystem I mean our clients and our suppliers. If it was so easy, the US would have gone to T+0 directly. When we talk to our Asian clients, they are even worried about T+1. Compared to T+2, T+1 means that you lose 80% of the time to settle. That is a huge change for everybody. The window becomes very small. Then you start talking about cross-border and FX. It really pushes the limit for now. But I think we will eventually go there. There are new technologies, like distributed ledger technologies (DLTs), blockchains, artificial intelligence and quantum computing. When you go down the list, these are all accelerators of change. Here again, I do not think it is a technology issue but an ecosystem issue.

David Wright

How do you look at these new technologies you just referred to in terms of Euroclear? Do you see them as huge opportunities or risks? For example, would you expect some quite bold moves on technology on CMU in the next political cycle, to drive forward the integration of the capital markets in Europe?

Francesco Vanni d'Archirafi

I think technology is a facilitator and an enabler. It creates the urgency that we need because if somebody else uses the technology better than you do, they will have a competitive advantage.

Let me give you an example with DLT. We have put our DLT platform together and we have issued for one of the biggest global issuers under our DLT platform. I remember one or two years ago, blockchain and DLT were going to solve everybody's problems. The reality is that DLT fragments the market, because the tokens issued are usually locked on siloed DLTs with no secondary market liquidity. What we do to avoid that problem is to flip the security token to our legacy infrastructure as soon as the issue is funded and underwritten. This means that, until there is a secondary market liquidity on chain, we will run the two infrastructures at the same time. Liquidity is what attracts issuers and investors. Until you can generate that liquidity on the DLT chain, I think it will be an example of a very powerful technology but that is not necessarily doing what everybody was expecting.

In the last 12 months, DLT has been overshadowed by Gen AI as a topic of discussion. That shows you how quickly technologies come. They find their place where they can be used as a competitive weapon by bringing important opportunities or disruption, like it is the case for AI.

I think D. Schwimmer mentioned that AI works for your labour force, it works for your clients, it works for your suppliers, and we are aligned with that. It is probably

one of those situations where you need to co-create. As a systemic and highly regulated financial market infrastructure, we cannot bet on a new technology. We have to understand it, use it intelligently, and use it responsibly. I think that is the term I like. New technologies should be used responsibly for the benefit of our ecosystem.

David Wright

Francesco, thank you so much for being with us.

Francesco Vanni d'Archirafi

I am delighted to be here.

David Wright

It has been really enlightening to talk to you. Thank you for your support of Eurofi.

Francesco Vanni d'Archirafi

Thank you very much. And next time, I will have a better look at the agenda.