



EUROPEAN CENTRAL BANK

EUROSYSTEM

2023 T2S Cost Recovery Analysis

AMI-SeCo meeting

June 2023



Alex Exarchos
ECB DG/MIP financials team

Overview

- 1 Recap of the 2018 T2S Pricing Review
- 2 Key Assumptions of the 2023 Analysis
- 3 Outcome of the 2023 Analysis

Recap of the last (2018) T2S Pricing Review

The outcome of the 2018 T2S Pricing Review resulted in:

- i. **basis DvP price:** increase from 15 eurocent to 19.5 eurocent per settlement instruction to reflect the updated costs and revenues situation with an additional 4 eurocent surcharge to reflect the lower than anticipated volumes (total of 23.5 eurocent)
- ii. **cost recovery period:** extension from 8.75 years (31.03.2024) to 14.5 years (31.12.2029)
- iii. **estimated volumes growth baseline (p.a.):** +3.4% (2018-2022) and +3.7% as of 2023 with a volumes starting point of 128 million transactions (2017)

Brief description of the Q4 2022 T2S pricing and cost recovery model revisiting

- The T2S pricing and cost recovery model was first updated to reflect all revenue and cost actuals until December 2022
- Then, the forecasted costs, volumes and revenues per year as of the year 2023 were inserted, based on a number of key assumptions detailed in the next slide
- By keeping the current values of the basis DvP as well as all the other T2S settlement and information prices (as per current T2S FA, Schedule 7) the model calculated a figure for the cost recovery period

Key Assumptions of the 2022 analysis

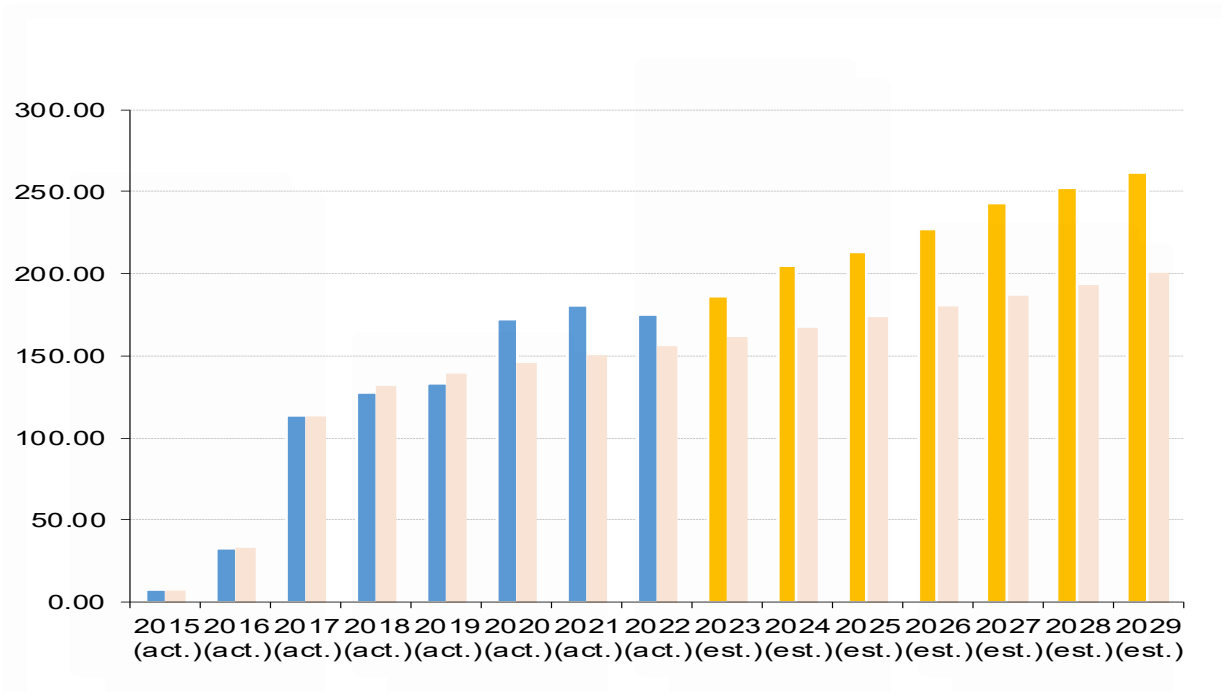
- i. **Basis DvP price:** 23.5 eurocent per settlement instruction
- ii. **All other T2S settlement and information prices** also remain at their present level
- iii. **Volumes baseline:** circa 175 million transactions in 2022
- iv. **Estimated volumes growth rate (p.a.):** +3.7% (as per the latest market survey information and based on the growth observed in the years 2020-2021)
- v. **Estimated # of transactions for the new joiners in 2023:** (please see next slide)
- vi. **Costs baseline:** operational costs of 4CB, CR costs, ECB operational costs and cyber resilience enhancements, 1st line, 2nd line, and TS-CRIS-F costs (conservative estimation)

Estimated transactions 2023-2029 of the T2S new joiners*

Year	Total T2S new joiners' estimated transactions
2023	4,874,340.00
2024	16,845,876.62
2025	18,244,153.55
2026	24,755,473.49
2027	33,574,179.75
2028	34,816,424.40
2029	36,104,632.11

*i.e. SKDD (Croatian CSD), Euroclear Finland, CD AD (Bulgarian private CSD), BNBGSSS (Bulgarian NCB operated CSD) to join in 09/23, and Euroclear Bank to join in 11/23

Transactions (mil.) 2015-2029 (general application of +3.7% annual volumes' growth in 2023-2029)

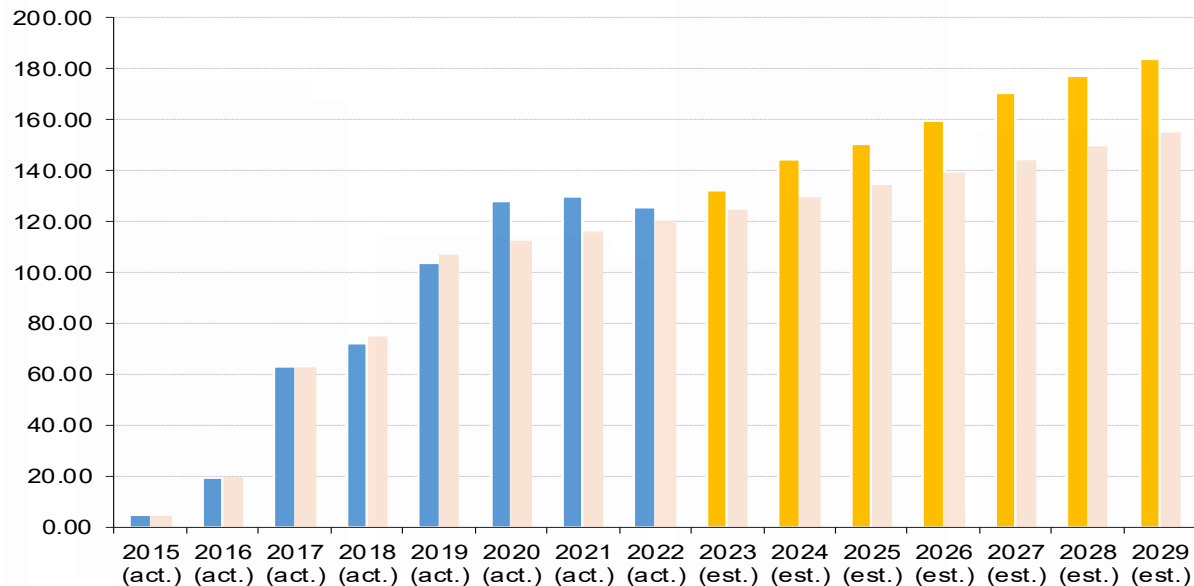


Actual transactions as per 2022-3 T2S pricing and cost recovery review

Projected transactions as per 2022-3 T2S pricing and cost recovery review

Projected transactions as per 2018 T2S pricing and cost recovery review

Revenues (EUR mil.) 2015-2029 (based on general application of +3.7% annual volumes' growth in 2023-2029)

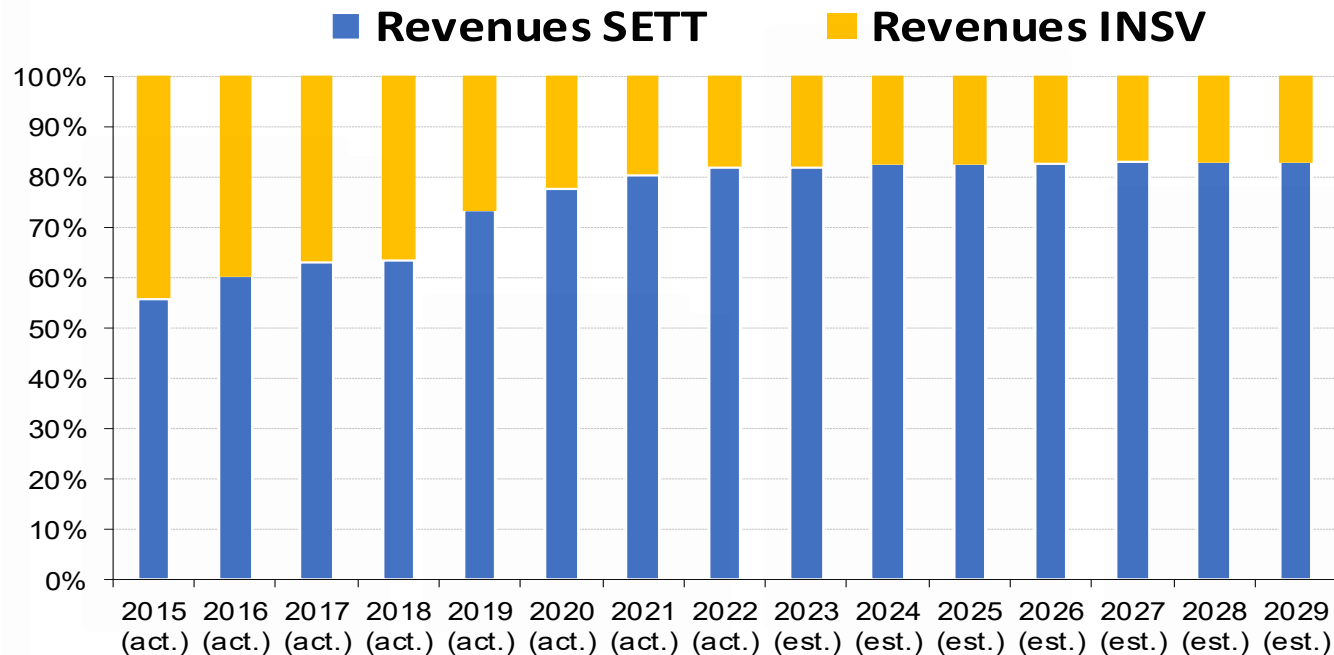


Actual revenues as per 2022-3 T2S pricing and cost recovery review

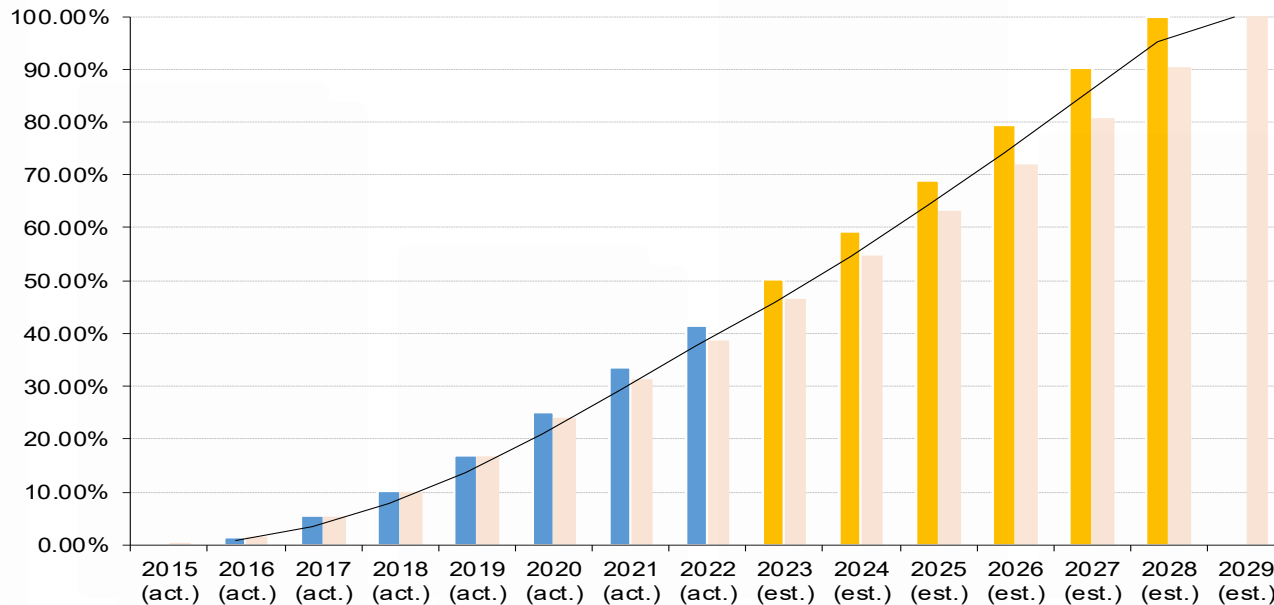
Projected revenues as per 2022-3 T2S pricing and cost recovery review

Projected revenues as per 2018 T2S pricing and cost recovery review

Revenues % information vs. settlement service items 2015-2029 (based on general application of +3.7% annual volumes' growth in 2023-2029)



Cost recovery progress 2015-2029 (%)



Actual cost recovery progress as per 2022-3 T2S pricing and cost recovery review

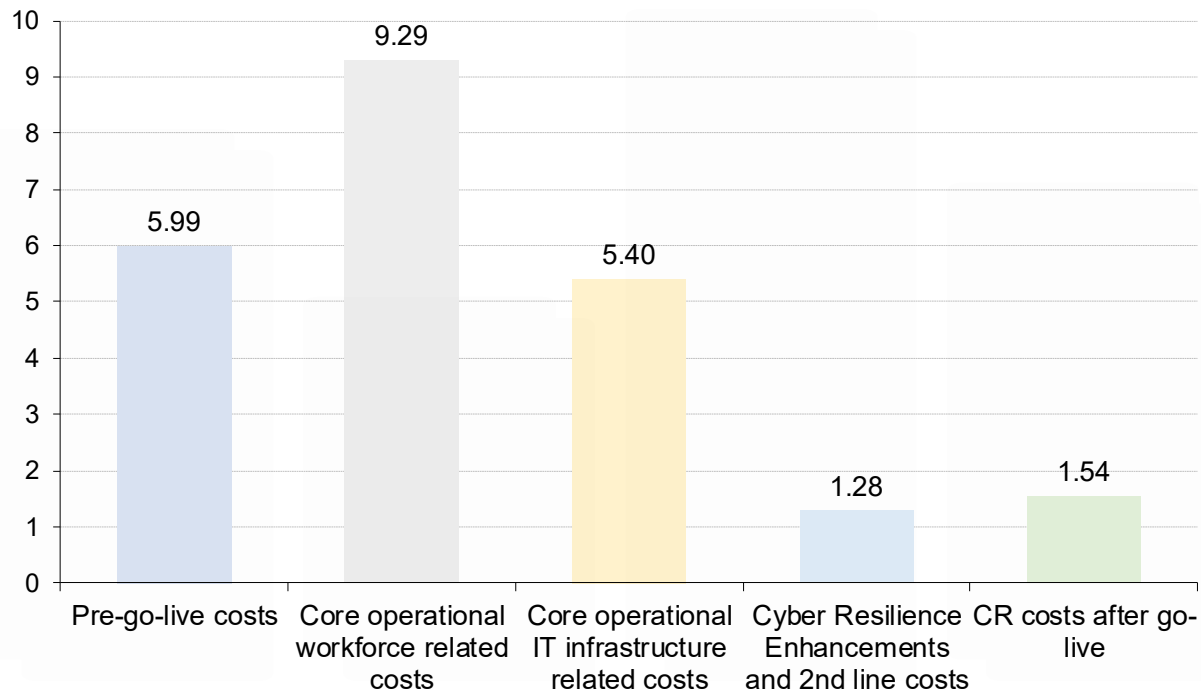
Projected cost recovery progress as per 2022-3 T2S pricing and cost recovery review

Projected cost recovery progress as per 2018 T2S pricing and cost recovery review

Sensitivity analysis (impact of change of the general volumes growth rate on the cost recovery period)

- After inputting the latest cost, volumes and revenues data in the T2S cost recovery model, we observe that a change of our volumes' growth rate main assumption by 1% - ceteris paribus - changes the estimated full cost recovery by approximately 6 months
- This means that if the volumes' growth rate were to be adjusted to 2.7% full cost recovery would be reached in Q2 2029
- Similarly, if the volumes' growth rate were to be adjusted to 4.7% full cost recovery would be reached in Q2 2028

Cost as a percentage of DvP price (23.5 cents)



Outcome of the analysis and proposal on the way forward

- i. **Cost recovery period:** 14.5 years – should remain unchanged based on the current information, noting that as per updated input and calculations of the model, full cost recovery is expected by Q4 2028
 - At this point in time it is still however recommended to keep the same targeted cost recovery period, given the inherent uncertainty of the estimations, the fact that after the recalculation of the model we are still close to the existing cost recovery period and the potential negative operational and administrative impact a very small change of the recovery period – or the prices; see also below – would generate
- ii. **All T2S prices also to remain unchanged at least until the next update of the T2S cost recovery and pricing model:** same reasoning as above

Q&A on the 2023 T2S Cost Recovery Analysis

