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Dear Marc

T2S User Requirements

The Association of Private Client Investment Managers and Stockbrokers (APCIMS) welcomes the harmonisation of settlement processes where this makes markets more efficient and helps reduce costs. We also support any moves towards harmonisation of clearing and settlement in a pan-European market and therefore welcome the opportunity to respond to the ECB's proposals.

At the same time it will be important for the ECB to recognise that, as made clear in the ECOFIN conclusions of 27 February 2007, "The success of the project will hinge upon its capacity to satisfy market needs of all affected parties".

Background to APCIMS

APCIMS is the UK organisation that represents those firms who act for private investors offering them services that range from execution-only trading through to portfolio management for high net worth individuals. Our 217 member firms operate from more than 500 locations in the UK, Ireland, Isle of Man and Channel Islands. APCIMS members employ 22,000 regulated staff and latest figures indicate that they hold over £410 billion of assets on behalf of private investors and undertook in excess of 22 million trades on their behalf in 2007.

The vast majority of our members are also members of Euroclear UK & Ireland (EUKI) and most of the securities that are traded by our member firms on behalf of their clients are in Sterling.

Summary of issues

APCIMS is represented on the UK National User Group (UKNUG) and we support the response that the UKNUG has submitted to the ECB. We have not commented on the detailed proposals in the User Requirements but, given the nature of our member firms' business, we wish to highlight directly to the ECB a number of issues that could potentially impact on our member firms as follows:

- The impact of T2S on non-Euro markets, including Ireland;
- The impact on Euroclear and its operations;

- Cost-Benefit Analysis;
- Governance; and
- Legal issues

The impact on non-Euro markets

As stated at the outset of this letter, T2S will only be successful if it satisfies the market needs of all affected parties. Whilst we understand that, initially, T2S is only expected to provide settlement functionality only in Euro-denominated securities whilst also building the possibility of future multi-currency settlement functionality from the outset. However any decision for a national marketplace to join T2S of course depends upon the relevant national central bank (NCB) becoming a member of Target2-Payments.

The Bank of England and therefore Sterling are not likely to be amongst the NCBs and currencies that will join T2S from the outset and therefore the ECB needs to be fully aware of the potential impact that this will have on those markets, particularly the UK and Ireland where Sterling remains, in the case of the UK, the predominant currency of trading.

The Irish market, given its close trading links and historic relationship with the UK market, trades securities in both Sterling and Euro. If Sterling is not in T2S then settlement which is currently centralised in EUKI may end up being fragmented with severe liquidity issues for firms who buy securities in one currency and sell them in the other.

Even if EUKI builds an interface to T2S, the vast majority of UK trades will continue to be traded and settled in Sterling. EUKI will have to maintain a Sterling settlement facility which will add costs to its operations which will no doubt be passed on to its members.

The impact on Euroclear and its operations

As well as the potential impact of Sterling not being in T2S on EUKI and its members, there are a number of other potential implications that need to be considered in the development of T2S. These include:

- Direct connectivity – Many users support direct connectivity to T2S but further clarification is needed as to how this will work in practice. For example will CSDs be the final determinant of who can have direct access?
- Matching – It is not clear at present whether matching would occur at CSD level or at T2S. Many of the bigger institutions will no doubt favour matching at T2S but CSDs such as Euroclear will need to replicate all settlement movements in order that they can continue to provide custody services and agree securities balances with their users and registrars. Duplication of effort will add cost.
- Bilateral and unilateral cancellation – T2S only allows bilateral cancellations. However, at present this is not the case across all markets and with all instruments. Greater consultation with the user community is needed to ensure that functionality is built into the system, to ensure that current practices can continue.
- Transfer of securities – It is unclear how securities will be transferred if the securities are held in the CSD but settlement is made within T2S. How would the register be updated for UK and Irish securities, especially if the trade is not fed from the CSD?
- Night-time settlement – Clarification on whether T2S's night-time settlement would remain only for the Euro area and what the implications are for CSDs such as EUKI who currently do not offer night-time settlement and, presumably will not for Sterling going forward.

- Corporate events – There remains a lack of detail as to how corporate events would be synchronised with settlement, notably in relation to how balances are to be obtained from CSDs.

Cost-benefit analysis

Much work is being done by the ECB in respect of the costs and benefits to potential T2S users, but the focus has been on the bigger banks and custodians who are predominantly trading in Euros. The ECB needs to consider the impact of T2S on the costs of CSDs such as Euroclear and, more particularly, what impact that will have on members of Euroclear, particularly those trading in Sterling who are based in both the UK and Ireland.

Governance

The governance structure of T2S will be critical and APCIMS supports the continuing involvement of users in the future governance structure of the T2S project and also supports an ongoing role for the existing Advisory Group.

As the Council of Ministers made clear in February 2007, “The governance structure, for the development and the future operation of T2S respectively, should provide solutions for the handling of potential conflicts of interest (to that effect a separate legal entity could be considered as a way of distinguishing between the operation and supervision of the system)”. APCIMS strongly supports this view and believes that the private client investment management and stockbroking community also needs to be properly represented.

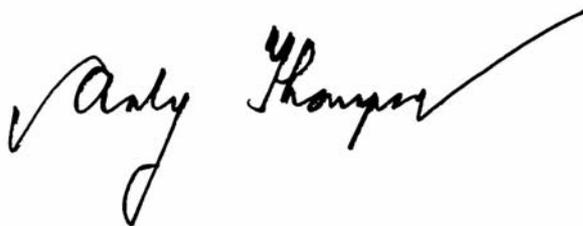
Legal issues

There are a number of legal issues that, not surprisingly, remain to be resolved at this relatively early stage of the T2S project and APCIMS supports the issues that have been highlighted in the “Legal Background” section of the UKNUG’s response letter.

Issues such as: who will own and operate the system; with whom would T2S users contract; under which country’s law would it operate; and the legal basis for settlement, are all fundamental.

We hope that you find these comments helpful and look forward to working with the ECB, through the UKNUG, to help resolve them.

Yours sincerely

A handwritten signature in black ink that reads "Andy Thompson". The signature is written in a cursive style with a long, sweeping underline.

Andy Thompson
Head of Operations