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31st March 2008

Target2-Securities: User Requirements Document

Dear Jean-Michel,

Further to our letter of 26th September 2007 we wish to thank you for the opportunity to comment on the Target2-Securities (T2S) User Requirements Document. UBS fully supports the basic concept and the laudable aims of the T2S project as a whole and we have consistently expressed a commitment to work closely with you on this initiative.

The purpose of this letter is to provide some high level feedback on the User Requirements document (URD). You will also find enclosed a copy of our detailed URD review. Please be aware UBS has also actively contributed to the feedback provided by the UK National User Group, the Swiss National User Group and the EBF Task Force.

The URD is well structured, of a high quality and consistent. In general, processes are accurately described and provide a very valuable description of the proposed domestic and cross-border settlement processes in Europe. Please see below a summary of the issues we would like to draw to your attention;

Direct Connectivity

T2S aims to have clear demarcations between services offered through T2S and those directly provided through the CSDs (principles 3 and 11), namely a lean settlement process. We would therefore suggest a clear separation of the costs associated with the settlement process and additional requirements which are required for direct connectivity. This would ensure that the additional costs of direct connectivity would be borne by those who wish to utilise this service.

Matching Process

Regardless whether the users may have the choice for matching location between the CSD and T2S or not and which approach might be the better one, matching itself is by definition not a component of the settlement process. Therefore we suggest that T2S makes a clear demarcation between matching and settlement and that the prices for both services are unbundled. We consider T2S to be the basis for an equal level playing field for providers of matching services.

Settlement Timetable

The timetable does not currently take into account the corporate action processes which have to be carried out by the CSDs. According to the standards for the elimination of the Giovannini Barriers, payments (cash and securities) should be executed as early as possible on the pay date. The pay date should be one business day after the record date. This means that CSDs have to perform the calculations and corporate actions instructions after the "end of day reporting" (on record date) and before the "new validations on the instructions received" (on pay date). We would question whether the current timetable has a window which is long enough that will allow for all corporate actions events to be processed by the CSDs.

In addition, it also creates inconveniences for those players which are active in the US markets, as they will still be operating with the old settlement date.

Furthermore it is also not evident to us why daytime settlement starts so early in the day. In our opinion daytime settlement makes only sense when new liquidity can be transferred from T2 into T2S, i.e. after 07.00.

For all the above reasons we would prefer a timetable along the following lines:

End of day reporting:	18:45
Maintenance window:	18:45 – 23:00
Change of settlement date:	23:00
New validations of the instructions etc.:	23:15 – 24:00
Night time settlement:	24:00 – 07:00

This timetable grants sufficient time for the corporate actions processing (from 18:45 – 23:00) and it avoids the early change of settlement date.

Corporate Actions

We suggest a differentiation between corporate actions and settlement processes and therefore request a clear separation of the pricing for corporate actions bookings and settlement. In some countries corporate actions bookings are free of charge (e.g. Switzerland). We propose that this issue is considered and outlined in the Economic Impact Analysis.

We are also concerned about the lack of detail on how corporate events would be synchronised with settlement.

Governance

For the next phase of the project we see the governance arrangements aligning to the NCBs, infrastructures and users (institutions) committed to the project. We would like to emphasise the importance of the continued involvement of the users in the future governance structure, at least equivalent to what currently exists in the Advisory committee.

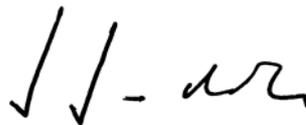
Generally we see in T2S a significant opportunity for a single European capital market and the harmonisation of its post trading infrastructure.

Please do not hesitate to contact us if you have any questions. We look forward to further discussions with you on these topics.

Yours sincerely,



John Stewart
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Global Head of Equity Operations



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