



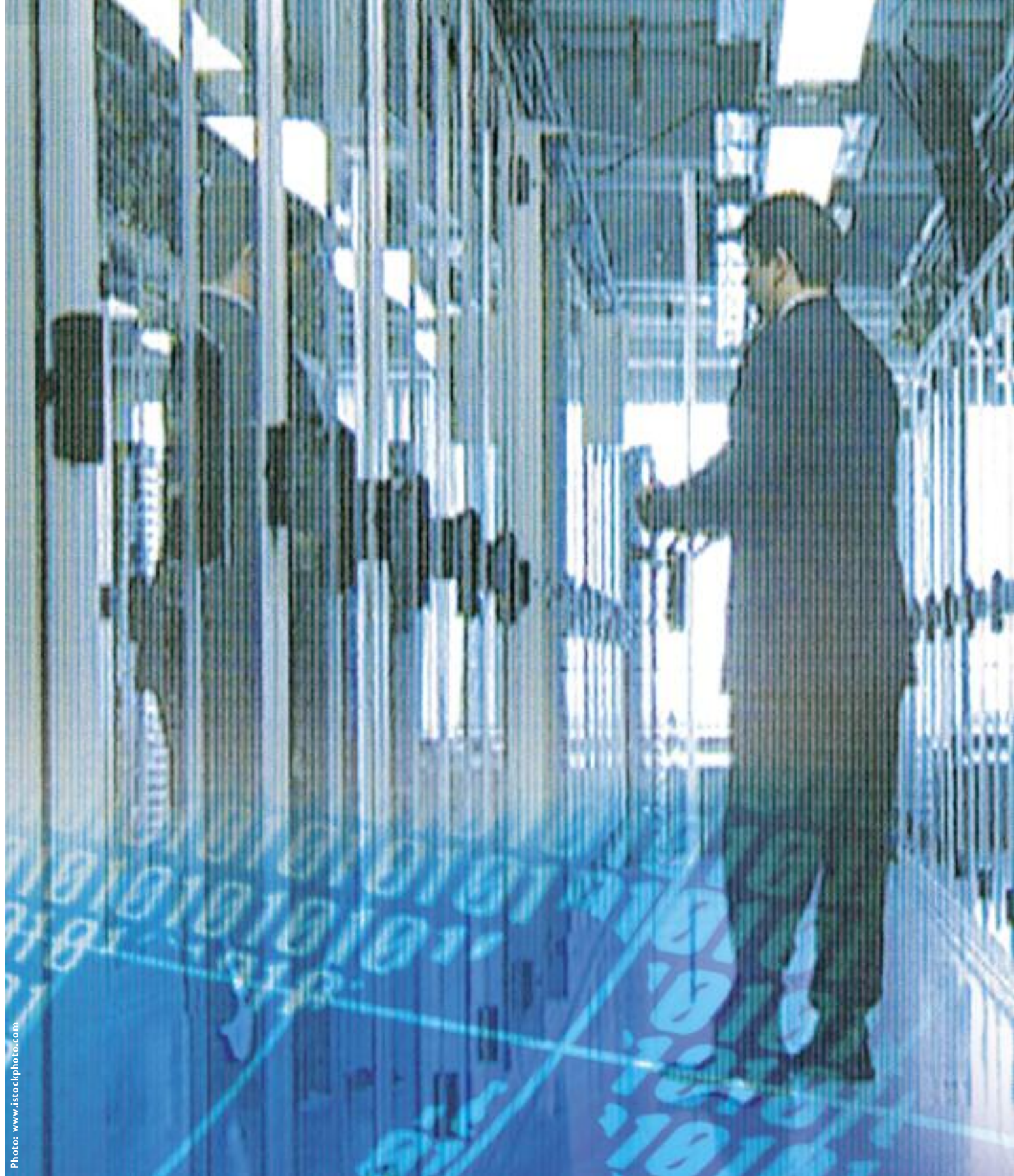
EUROPEAN CENTRAL BANK

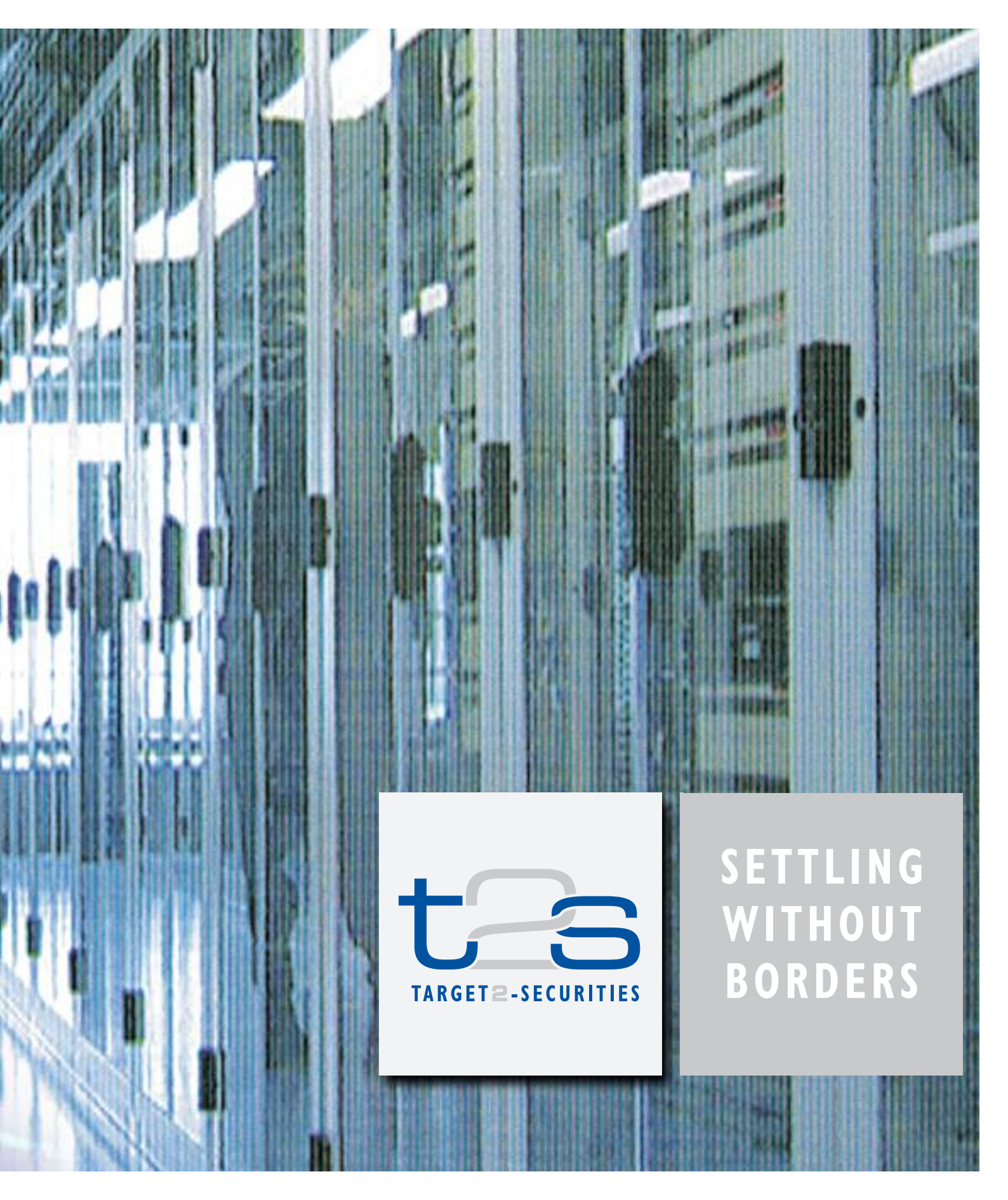
EUROSYSTEM



SETTLING
WITHOUT
BORDERS

**T2S:
HALF-WAY TO
DELIVERY**





SETTLING
WITHOUT
BORDERS

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INTRODUCTION

The TARGET2-Securities (T2S) vision – which is to create a “domestic” borderless market for securities settlement for Europe – was launched four years ago in the summer of 2006. The T2S settlement platform is scheduled to be user tested in January 2014 and operations are planned to begin in September 2014. So, at the time of publication, the project is exactly half-way to delivering T2S. The journey so far has not always been easy and, like all big projects, there have been ups and downs. But it is fair to say that a lot of progress has been made in the last four years. There is of course still much to be done in the coming years, not least on the development, testing and migration of the T2S platform, and many other tasks need completion to ensure that we reach our destination on time. This progress would not have been possible without the institutions and hundreds of individuals who have participated in this endeavour, from central securities depositories (CSDs) to banks and other market participants, non-euro area central banks and, of course, the Eurosystem. We will continue to rely on your help.

Given that we are exactly half-way through the project, it is an opportune moment to reflect on where we stand and to consider what we have already achieved, as well as what remains to be done. This is one of the purposes of this document. But there is another objective. At this half-way point, there is of course still some important open questions – in particular

regarding which currencies will participate in T2S, how large the settlement volumes processed in T2S will be, how CSDs will reshape their legacy systems to the future T2S world, and how much it will eventually cost to settle transactions in T2S. These are important issues which will ultimately determine the success of the project. Therefore, this document also provides some reflections on these and other crucial questions that have been raised by the market.

Before beginning, there are a number of aspects of the T2S project which should be highlighted.

First, it is important to emphasise that T2S is for Europe; participation is not restricted to the 16 countries in the euro area or even to the 27 countries in the European Union. It is for Europe as a whole. Very soon after the project got underway, T2S was designed, and is now being built, as a multi-currency securities settlement platform. This view was strongly supported by the ECOFIN Council in February 2007 when it backed the idea of T2S on the condition that the future system would be open to other currencies as well as the euro. Not only is it fair that all European countries should have the opportunity to participate, but also, the more CSDs and currencies that are in T2S, the greater the benefits for everyone. It is a win-win scenario. By pooling more securities settlement together in the same place, market participants will achieve lower transaction costs and unimpeded access to





an even wider range of securities. It will be another important step towards a truly integrated capital market on a European scale.

Second, T2S will be a revolutionary force in Europe's financial markets. It will fundamentally change the way things are done – in some areas quite dramatically, in others more gradually. But it will be a peaceful revolution. T2S does not favour any particular business model. Both large and small players will have the opportunity to benefit from T2S, by expanding their client base or range of services, by providing high-quality, customised services to niche markets, or through increased cooperation and consolidation with other players. The key to success will be thinking ahead and adapting to T2S in the best possible way. As with the introduction of any new technology – whether it be the introduction of mechanical looms during the industrial revolution or the computer in the mid-twentieth century – it is initially perceived, at least by some people, as a threat. But in the end, we all know that such new technologies, rather than reducing possibilities for growth and development, have always increased opportunities. The same is true for T2S. In fact, it will be those who choose not to be a part of the T2S revolution who will be the ones losing out.

Third, the CSDs' approach to the changes is particularly important for the success of T2S in improving the European securities markets. Most CSDs will utilise the new T2S infrastructure in an

efficient way and, to the largest extent possible, reshape and decommission their legacy settlement systems. A CSD that adapts efficiently so that T2S becomes an integral part of its IT architecture, rather than simply adding it as another layer on top of its existing systems, will be in the best position to offer high-quality services at the lowest prices in the future T2S world. By fully relying on T2S and minimising the replication of data and systems, CSDs and their users will benefit the most from T2S. Such a route will, of course, not be easy and will require a certain amount of initial investment by CSDs to reshape their existing systems. But now is the time to think long term and strategically plan this work, and to take initiatives that will leverage the benefits of T2S to the largest extent.

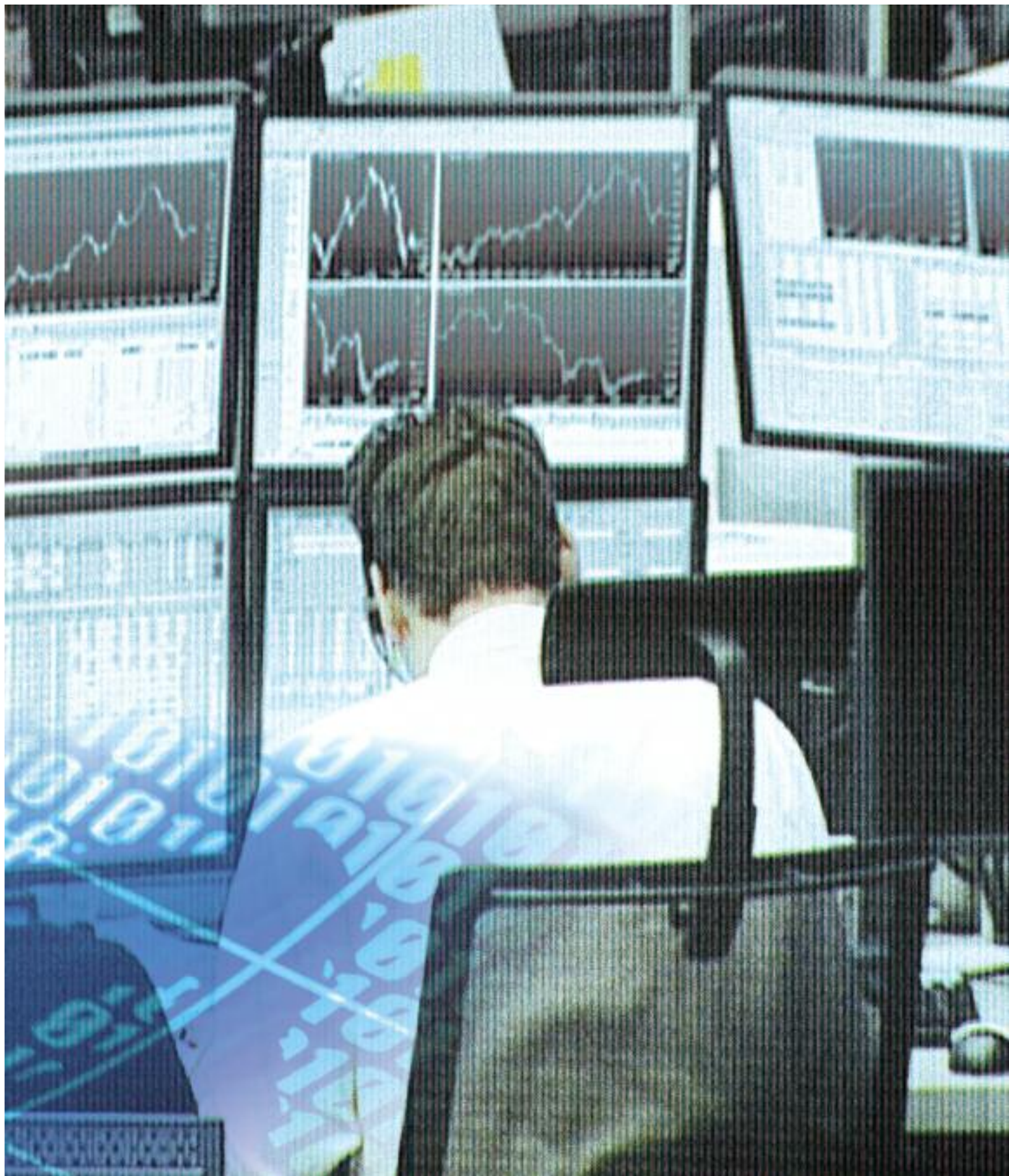
Finally, to support both CSDs in the process of adapting their legacy systems, and market participants in deriving the benefits, it is of course imperative that the T2S community – CSDs, market participants, but also, most importantly, public authorities – make further progress on harmonisation. As well as legal and fiscal barriers, the persistence of specific national market practices and regulations significantly hinders the ability of CSDs to decommission old systems and provides a justification for maintaining certain legacy infrastructures to deal with these specific processes. These national specificities also prevent the market from reaching a fully competitive level playing field for post-trading

activities in Europe, as local players will continue to have an advantage over foreign players in terms of knowledge and technology. T2S is not just an IT project; it has a much wider programme, driving forward the integration of Europe's capital markets. In the settlement world as elsewhere, national authorities should act to reform processes in order to reap the full benefits of market opening.

With these issues in mind, the document is structured as follows. For those who are new to the project, the first chapter briefly describes what T2S is and what the main benefits will be. The second chapter will then recap the main milestones that have been reached during the first four years of the T2S journey and what remains to be done in the next four years. The third chapter lists some of the key questions or doubts that have been raised about T2S at this critical stage.

Note: This paper reflects the current policies and status of the project as of 8 October 2010. For developments after this date, please also refer to the T2S website at www.t2s.eu





WHAT IS T2S AND WHAT ARE THE MAIN BENEFITS?

I. Tackling fragmentation in securities settlement

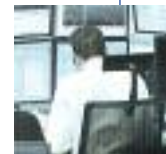
In the last decade, the European financial services industry has made considerable progress in reducing costs and risk, as well as in promoting competition within the Single Market. But there can be no doubt that significant further improvement is required, particularly in securities markets. Progress towards a mature Single Market has been achieved by a combination of market forces and action undertaken by the public sector. Some of this public sector action has been legislative in order to stimulate harmonisation across national borders, and some has involved the creation of a core infrastructure to support the competitive market. The Eurosystem has been active in the payments industry by providing a core, borderless infrastructure for real-time settlement in central bank money (i.e. TARGET2) and by supporting the banking industry in delivering pan-European payment instruments and infrastructures (i.e. SEPA).

However, much less progress has been made in integrating national securities markets because of differences both in market practices and in legal, regulatory and fiscal regimes. Thus, although Europe is comparable to the United States in terms of its economic size, its post-trading sector is

fragmented into numerous national markets. Whereas firms in the United States can operate in a single, large domestic market, in Europe they have to operate across many smaller, national markets and bear the higher costs of doing so. Because of this lack of integration, Europe lags a long way behind the United States in terms of both the volume of transactions and the cost of those transactions.

The cost gap is particularly large for cross-border securities settlement. The result is a significant cost burden for cross-border wholesale transactions and very significant limitations for retail transactions. The Lisbon agenda recognised the need to eliminate these gaps and to promote the welfare of European citizens by achieving fully efficient capital markets. The gap in the trading area is being forcefully addressed, in particular by the Markets in Financial Instruments Directive (MiFID), which is stimulating competition between trading platforms, whether traditional stock exchanges or new multilateral trading facilities. With regard to the post-trading sector, the ECOFIN Council¹⁾ concluded that "the continuous fragmentation of the

¹⁾ ECOFIN Council conclusions on clearing and settlement, Luxembourg, 9 October 2007: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ecofin/96349.pdf





sector leads to unnecessarily high costs, especially for cross-border securities transactions in the EU, which constitutes a considerable competitive disadvantage for European capital markets.”

Two significant measures are already being implemented in order to achieve progress. First, a great deal of work is under way with a view to harmonising practices, legislation, regulation and tax in order to remove the “Giovannini barriers”. In particular, the European Commission is finalising a draft proposal on market infrastructures dealing with central counterparties, clearing, derivative contracts and trade repositories (known as the European Market Infrastructure Regulation). The Commission is also working on the Securities Law Directive and the Central Securities Regulation which aim to eliminate legal uncertainties especially in a cross-border context. Second, all exchanges, central counterparties and CSDs have undertaken, under the “Code of Conduct for Clearing and Settlement”, to abide by various measures designed to stimulate fair and open competition. These include access rights, as well as seeking to ensure that clients are offered appropriate and transparent prices for unbundled services in order to put an end to cross-subsidies and the locking-in of clients.

Nevertheless, there is a crucial missing element: core, neutral and borderless securities settlement to crystallise the gains from harmonisation and to provide support for competition between service providers in the securities industry. T2S will foster the required transformation in intermediation between issuers and investors by stimulating the development by financial market participants of a competitive and efficient European market.

Although there have been successful mergers between CSDs in the past – and there may be more in the future – it seems that this process of consolidation by merger is unlikely to deliver an integrated market infrastructure for Europe in the near future. Accordingly, given the importance of making progress in this area, it is necessary to find a way of establishing a single settlement process for the European securities market.

T2S will meet this need.

2. What services will T2S offer, and to whom?

T2S is a technical platform for core, neutral and borderless securities settlement. T2S is core, because it will only deal with the most fundamental and commoditised aspect of the post-trading business: settlement. T2S is neutral in that it will not favour or discriminate against specific countries,

Figure I. T2S – A cooperative project between CSDs and central banks

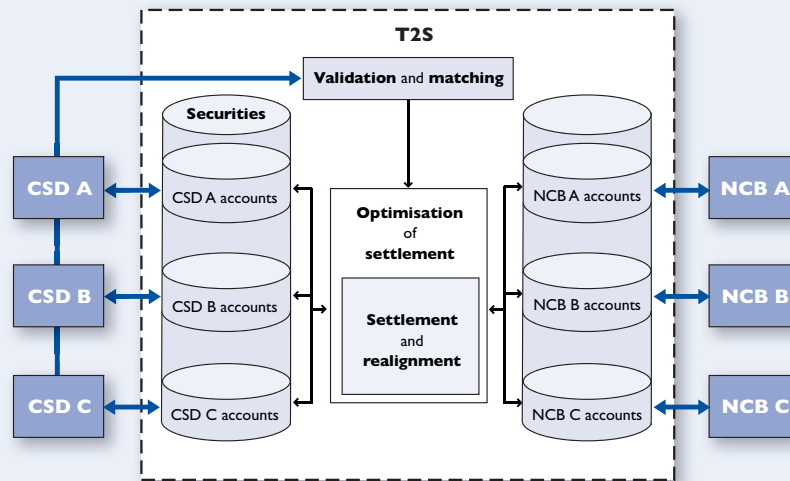


Figure I above provides a high level overview of T2S. CSDs will keep all of their clients' securities positions in T2S. Each securities account held in T2S will be attributable to only one CSD. CSDs will maintain legal relations with their customers, including custody and notary functions. T2S has legal relations only with CSDs, and not with banks, which access T2S services via their chosen CSD. Similarly, T2S will maintain dedicated central bank money accounts representing a bank's claims in central bank money on that client's national central bank. Each account may be used to settle transactions relating to the client's security accounts in one or more CSDs. This cash account structure will foster efficiency improvements for clients that use more than one CSD.

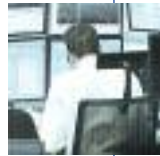
market infrastructures or groups. T2S is borderless, as it will make cross-border settlement identical in terms of safety and efficiency to domestic settlement.

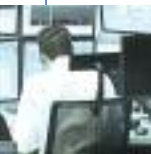
T2S will provide harmonised and commoditised delivery-versus-payment (DVP) settlement in central bank money in euro as well as other European currencies in virtually all securities circulating in Europe. It is expected, in time, to

become the single provider of core securities settlement services for CSDs.

Settlement in T2S will be very safe because it will involve payment in only central bank money.

The platform will be highly reliable, scalable and robust. This is vital considering the huge volumes of transactions that are settled even





in today's fragmented markets (with two million settlement instructions being processed every day), and will become more vital still as volumes increase. Much of the growth will be in cash trading and in collateral markets, which contribute greatly to liquidity but are low-margin activities. Such trades are only viable in risk/return terms if settlement is timely, reliable and inexpensive.

CSDs will represent the only gateways through which market participants can access T2S services and it will be the CSDs that contract with the Eurosystem for T2S services. Each CSD is invited to agree to move its settlement to T2S and offer its clients borderless settlement of trading and collateral operations. CSDs should be able, over time, to reduce their internal settlement-related costs substantially by reshaping and restructuring their own settlement processes.

CSDs will continue to operate, provide and improve efficient and safe services – particularly in relation to corporate actions and national requirements in areas such as registration, taxes, regulatory reporting, and some aspects of direct holdings by retail investors.

While T2S provides the core functionality to make settlement between two CSDs as

simple as domestic settlement, access to European securities via an individual CSD is dependent on that CSD being able and willing to accept securities issued in other CSDs. To use a railway analogy, T2S provides the “tracks” for cross-CSD settlement, but requires changes to the “trains” (i.e. the CSDs) to meet the demands of their “passengers” (i.e. user-banks) as regards this service. While T2S is, in itself, not sufficient to meet the passengers' demands, it creates incentives for the train companies to make the relevant changes.

T2S will provide DVP settlement in real time with auto-collateralisation and optimisation procedures, irrespective of which CSD and national central bank (NCB) provides the respective underlying securities and central bank money accounts. To facilitate safe cross-CSD settlement, it will provide realignment in real time when securities issued in one CSD are settled in another CSD. CSDs joining T2S will thus be able to offer their clients cross-border settlement in central bank money at the same cost as domestic services – a service that is not available today. Thus all settlements in T2S become “European domestic”.

CSDs' clients, central clearing counterparties (CCPs) and trading platforms can choose to have a direct technical connection to T2S.

The parties which choose direct connectivity will be able to input settlement instructions directly into T2S and supply and receive information relevant to processing and status. Direct connectivity can make it easier for market participants to operate direct memberships of multiple CSDs and for CSDs to reach a wider set of international securities, counterparties and clients. The market participants' legal relationship, however, will remain with the CSD(s) in which they choose to keep their accounts, regardless of the kind of connectivity the participants have chosen.

A market participant's decision on direct or indirect connectivity will depend, inter alia, on the willingness of the CSD to offer the service, the participant's technical competence and the pricing of such services by the CSDs. Offering both direct and indirect options provides maximum flexibility for financial market participants, entails no significant additional cost for T2S and may well both require and be a driver towards harmonisation.

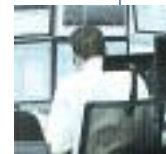
3. What are the benefits and who will benefit?

One of the key benefits of T2S is that it will deliver domestic European-wide settlement at low cost, reflecting the very significant economies of scale in this area. Once T2S is serving all countries in Europe, these

economies of scale should make the unit cost of settlement considerably lower than the lowest price charged by any European CSD at current volumes.

The low projected unit cost applies to both cross-border and national settlement. Indeed, with T2S, the settlement fee for a transaction in German securities in euro between German participants would be the same as the fee charged, for example, for a transaction in Spanish securities settled in Swiss francs even if the seller is from France and the buyer is from the United Kingdom. The fee will be the same because, with the T2S software, both transactions will be equally easy to settle from a technical perspective. T2S eradicates settlement borders, making it the new domestic infrastructure of Europe. It is thus expected that settlement volumes will increase once T2S goes live owing to dynamic effects. This shift to borderless markets in T2S will, in turn, deliver significant benefits to issuers and investors, particularly in smaller countries. Issuers will have access to deeper markets for raising funds and will not need to consider issuing in a different country, while investors will be able to benefit from portfolio diversification at lower cost.

T2S will create a single pool of assets – covering almost all the securities held by





participating CSDs – exchangeable for each other via central bank money at low cost, in real time, and in a very reliable settlement system. Market participants will be able to centralise euro liquidity in a single central bank cash account. Together, these features will create new options for commercial and investment banks in terms of managing collateral, optimising their funding costs and avoiding failed deliveries.

T2S will enhance competition among third-party collateral managers and liquidity providers, since it will be easier to unbundle such services from custody provision. From the indications given by market participants, the reduction in costs is likely to be substantial. This will feed through to reduced trading spreads and lower service prices, thereby improving welfare. There will be other dynamic effects on, and gains through, enhanced competition, specifically in the areas of custody and securities trading.

Furthermore, T2S will stimulate competition in the provision of settlement services. In the past, for most securities there were hardly any alternatives to using the local market CSD, directly or via a custodian or agent. CSDs were not set up to compete with one another, but to be the central infrastructure within each country. By lowering the barriers to entering new markets, T2S will create

competition between CSDs, as they seek to be the preferred gateway to T2S.

Some CSDs may respond by enhancing their asset servicing abilities both for their “domestic” securities and for securities which they wish to offer their clients but are “domestic” to another CSD. Others may choose to specialise in issuer services and/or services for individual investors.

Banks providing custody will need to consider their strategy, since their wholesale customers in particular (but, in time, also their retail clients) are likely to wish to reduce their number of suppliers by seeking partners with pan-European, or at least regional, services. The outcome of this process is very likely to be favourable in terms of service quality and price, particularly if accompanied by real progress on harmonisation through the Giovannini process, under the auspices of the European Commission.

The players who will benefit the most from T2S will be those that embrace T2S, innovate, and use its possibilities most efficiently. The ones to lose out will be those that try to maintain their existing infrastructure and services without adapting to the new environment. Although this could be the easiest path in the short term, it will probably lead to obsolescence in the medium and long



12. The Board of Directors of the Company is composed of the following members:

- Mr. [Name]
- Mr. [Name]
- Mr. [Name]
- Mr. [Name]
- Mr. [Name]
- Mr. [Name]
- Mr. [Name]
- Mr. [Name]
- Mr. [Name]
- Mr. [Name]



T2S JOURNEY: PAST, PRESENT AND FUTURE

I. Where have we come from?

T2S started in July 2006 when the Governing Council of the ECB announced that it would like to explore, together with the market, the feasibility of developing a single settlement platform for Europe. At that point in time, more than seven years had already passed since monetary union had been set in motion and while some steps forward had been made to integrate financial markets in terms of trading and investment, progress had been particularly weak in the area of securities settlement.

Between mid-2006 and mid-2007, the Eurosystem carried out extensive consultations with key players in the post-trading business – CSDs, custodians, central clearing houses, investment banks – as well as with public sector stakeholders, including the European Commission and the ECOFIN Council. The feedback received was generally very positive regarding the overall idea, although there was still much uncertainty about how it would work. So before deciding to go ahead with developing T2S, the Governing Council of the ECB decided there had to be more “flesh on the bones”. The T2S Advisory Group was therefore established, which was mandated to draft the T2S User Requirements Document (URD).

The URD was drafted with strong input from and in close cooperation with the market and was submitted for two public consultations before finalisation. In addition, the Eurosystem conducted a comprehensive cost-benefit analysis together with market participants and carefully analysed legal, technical and operational matters. Based on this thorough analysis and the positive feedback from banks and public authorities, as well as the intention of CSDs to commit to T2S, in July 2008 the Governing Council of the ECB decided to go ahead with investing resources in developing the platform. It also decided to assign the development and operation of T2S to the Deutsche Bundesbank, the Banco de España, the Banque de France and the Banca d'Italia, jointly known as the “4CB”.

The project then entered the specification phase. One of the main objectives during this period was to complete the technical documentation that would form the basis for the subsequent software development work. The two main technical documents were the General Functional Specifications (GFS), including the data model, and the General Technical Design. In parallel, there were also other activities in the specification phase to finalise some open issues in the URD and to carry out further work on some specific harmonisation topics,





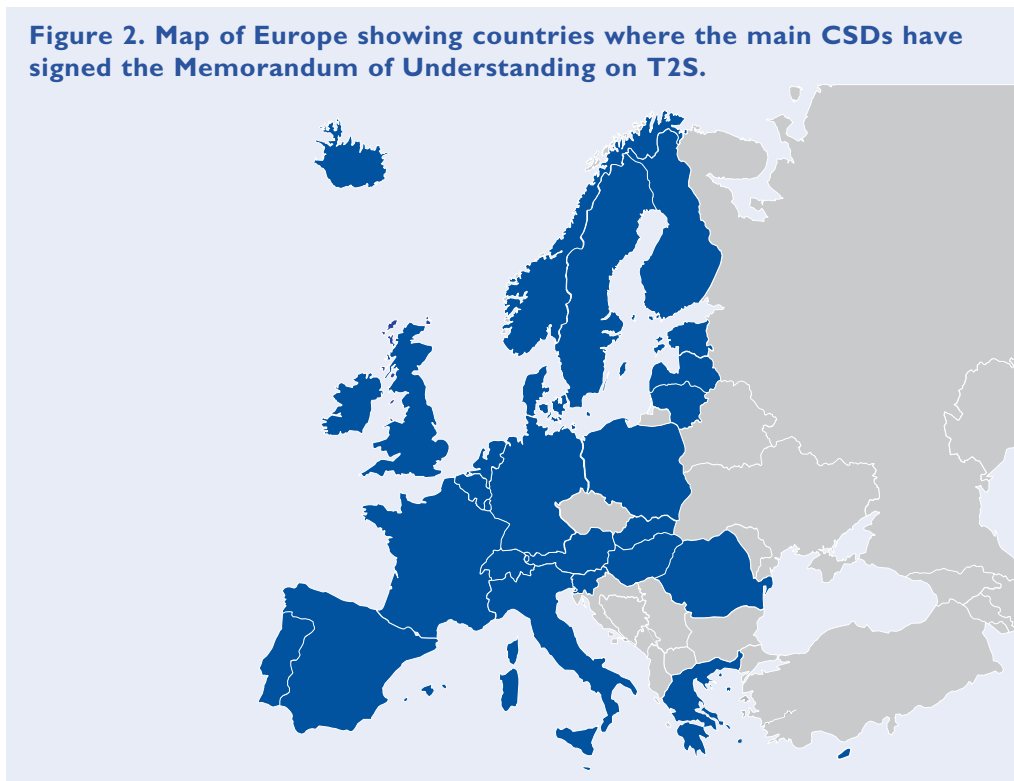
in particular on ensuring a high level of settlement efficiency and harmonised processing of corporate actions on flows

continued to evolve. The latest version of the GFS – based on the frozen URD – was published in May 2010.

After closing all the remaining open issues, the URD was officially frozen in February 2010 and these requirements are the basis for the first release of the T2S platform. A first draft of the GFS was ready in early 2009, but the document needed to be regularly updated and improved as the URD

Returning to the other activities in the specification phase, a final important workstream was to develop further the contractual relations with the CSDs who will ultimately be the legal counterparties to the Eurosystem for T2S and who will sign a contract to use T2S once in operation. The

Figure 2. Map of Europe showing countries where the main CSDs have signed the Memorandum of Understanding on T2S.



first step in this process was the signature of a Memorandum of Understanding (MoU) in July 2009. So far, 30 CSDs from across Europe have signed the MoU, which includes almost all of the CSDs in the EU as well as three from outside the EU (see Figure 2). The large number of CSDs signing the MoU indicated the strong market and political support for the T2S project. The MoU outlined the key rights and obligations of the CSDs and the Eurosystem for the subsequent negotiation of the contractual arrangements for T2S, i.e. the T2S Framework Agreement.

2. Where are we at the moment?

The negotiation of the Framework Agreement with the CSDs straddles the specification and development phases. Work began in autumn 2009 with the establishment of the CSD Contact Group, which is composed of senior representatives from the Eurosystem and the 30 CSDs that have signed the MoU. By mid-2010 the negotiations were rather well-advanced, although further work on a number of key topics such as governance is still required. In July 2010 the Governing Council of the ECB took note of an interim version of the Framework Agreement, which was then submitted for assessment by securities supervisors in order to determine whether there would be any regulatory hurdles to a

CSD signing the agreement. According to the current planning, negotiations will continue until the end of 2010, after which the agreement will be submitted to the Governing Council and then offered to CSDs for signature. It is anticipated that the signature of the Framework Agreement will take place around summer 2011.

There are several very important policy-related matters, in particular, governance and pricing, that need to be resolved before the CSDs will be in a position to sign the Framework Agreement. Much progress on these issues has been achieved in the last year and, as of autumn 2010, they are close to being finalised.

Governance

The future T2S governance arrangement will determine how decisions concerning the platform will be made and how disputes between the various parties will be resolved in the remaining part of the development phase and during operations. The four main stakeholder groups are the Eurosystem, the non-euro area central banks, the CSDs and market participants more widely (users, in particular banks or custodians, etc.). In the proposed future governance arrangement, each of the groups will have an appropriate and varying degree of influence over T2S. The aim is to balance the rights of the





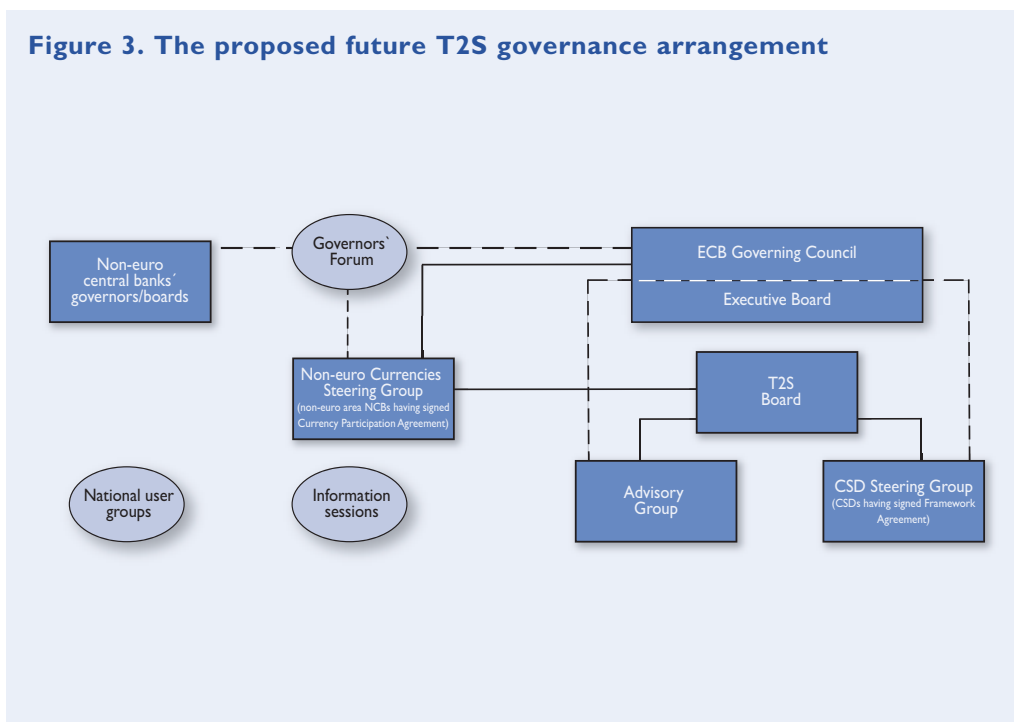
Eurosystem as system owner and operator with the rights of the CSDs which adopt T2S and those of the central banks (including Eurosystem central banks) which provide their currencies to T2S, while respecting the needs of securities market users – bearing in mind that the governance arrangement must facilitate timely decision-making and ensure a safe and efficient product.

Figure 3 provides an overview of the current proposal for the interaction of the

various stakeholder groups in the future decision-making process.

The Governing Council of the ECB, as the owner of T2S, will retain control over matters vital to its interests, in particular with respect to monetary policy and financial stability, but it will delegate a number of managerial, technical and operational tasks to the T2S Board. The T2S Board will be composed of representatives from the Eurosystem, the non-euro area central banks and independent experts from the private sector.²⁾

Figure 3. The proposed future T2S governance arrangement



All central banks (within and outside the euro area) will have complete control over their cash accounts. Non-euro area central banks will also be given assurances concerning their freedom to conduct an independent monetary policy and to exert their competences in financial stability matters. It is intended that the specific interests of the non-euro area central banks will be represented through the Non-euro Currencies Steering Group which will be composed of senior managers from all participating non-euro area central banks and chaired by one of them. If in exceptional circumstances there is a disagreement between one or several non-euro area central banks and the Governing Council on issues relevant to settlement in T2S in the respective currency, a Governors' Forum will be convened in order to find a solution. The right to convene a Governors' Forum will considerably limit the risk that the Eurosystem take decisions which go against the interests of the non-euro area central banks.

The CSDs will be granted full control over the management of their customers' securities accounts in T2S. In the governance framework, CSDs will be represented in the CSD Steering Group and a CSD representative chosen by the CSDs will chair this group. Members of the T2S Board and user members may participate

in the CSD Steering Group as observers. The CSD Steering Group will be mainly responsible for proposing amendments to the functioning of securities accounts. The CSD Steering Group may have direct access to the Governing Council in exceptional circumstances.³⁾

The T2S Advisory Group already exists today. It will retain its function as an advisory body to the Eurosystem. The group is composed of about 80 representatives from the various stakeholder groups (central banks, CSDs and market participants) and the chairperson of the T2S Board is (and will be) the chairperson of the T2S Advisory Group. It is (and will be) the main body through which market participants are able to express their views on T2S. The T2S Advisory Group also has direct access to the Governing Council in exceptional circumstances.

The decision-making process will be completely transparent with the involvement of all relevant stakeholders. Any member of

²⁾ This governance arrangement is not a new one. The Governing Council already delegates tasks to the T2S Programme Board, whose composition is similar to that of the future T2S Board.

³⁾ The precursor to the CSD Steering Group in today's governance is the CSD Contact Group, composed of CSDs and T2S Programme Board members, and chaired by the chairman of the T2S Programme Board.





the T2S Advisory Group, CSD Steering Group or Non-euro Currencies Steering Group will be able to make a proposal to change an aspect of T2S. If the proposal affects the functioning of securities accounts, it would fall under the remit of the CSD Steering Group. If the proposal relates to changes in the functioning of non-euro cash accounts, it would be in the remit of the Non-euro Currencies Steering Group, whilst if the proposal relates to changes in the functioning of euro cash accounts, it would be in the remit of the T2S Board. The resolutions taken by relevant governance bodies may be subject to a review by the T2S Board or the Governing Council, which could object to a resolution on the basis of specific criteria defined in advance.

As has been the case up until now, it should be emphasised that the whole decision-making process will continue to be fully transparent, with a high degree of involvement of all stakeholders, and the avoidance of unilateral and unexpected decisions. The T2S Advisory Group provides the necessary forum for accountability of the governance arrangement to the market users.

All documentation that forms the basis of the decision-making process will continue to be published on the T2S website

(<http://www.ecb.int/paym/t2s/html/index.en.html>).

Pricing

The pricing of T2S services is a key issue to be settled before CSDs are ready to sign a contract with the Eurosystem. To calculate the price list, three factors have to be taken into account: the expected settlement volumes, the costs of developing and operating T2S, and the range of services which will be charged for.

Forecasting settlement volumes many years into the future is a very difficult task, not least because of the financial crisis. The present volumes up to mid-2010 have been used as a basis. The negative impact of new CCPs being introduced in some markets and the consequences of possible changes in the way direct holding markets may adjust to T2S have been taken into account. In order to be as objective as possible, the decision was taken to use a growth forecast based on the estimations of all members of the T2S Advisory Group: approximately 5.5% on average from 2010 until 2020. This is much lower than the 10-15% historical growth rates in the years prior to the financial turmoil.

Although they have not yet been approved by the Governing Council, the Eurosystem has reasonably firm estimates of the development

and running costs of T2S. The provisional breakdown of costs was made transparent to the T2S Advisory Group in September 2010. The costs incurred by the four national central banks (4CB) developing the T2S business application are estimated at €256.4 million, and a further €90.2 million represents the costs of the ECB in developing the requirements, supporting the T2S Programme Board and coordinating the relationships with internal and external stakeholders. Running costs stem from two sources: €50.7 million per year incurred by the 4CB who will supply the IT infrastructure and operate T2S, and €9.3 million per year incurred by the ECB. In addition, the T2S Programme Board currently estimates the cost of capital to be €67.5 million and has proposed to set up a contingency provision of €36 million to cover costs that are difficult to quantify at this stage (e.g. minor changes and potential liability claims).

The last part of the pricing equation is the pricing structure, i.e. how many different settlement service items will be charged for, and what proportion of costs will be recovered by information services, i.e. reports and queries. The pricing structure has been discussed with the market on many occasions over several years, in particular through the T2S Advisory Group and the T2S Information Sessions. The main

challenge was to find a balance between the wish of the T2S Programme Board to have a resource-based pricing structure in order to ensure that T2S IT resources are efficiently used, and the strong preference of the market for a “lean” pricing structure. As part of the compromise, a number of items will be priced at zero at the beginning, on the understanding that this can be changed at any time to reflect resource issues if needed. The list of items, together with their price relative to the DVP charge, is shown in Figure 4. Once the headline DVP price is known, the indicative prices of the other items can be automatically calculated.

Information services – charges for data extracted from T2S in whatever fashion – represent an exception to this rule. They will represent 25% of T2S income, and detailed prices will be determined in the near future.

The biggest unknown factor is the geographical scope of T2S, i.e. which currencies will take part. We estimate that for each 100 transactions which will settle in euro in 2014, there will be an extra 86 transactions in the currencies of other European countries whose main CSD has signed the Framework Agreement (38 in pounds sterling, 27 in (non-euro) Scandinavian currencies, 14 in Swiss francs





and seven in other currencies). On this basis, the T2S Programme Board will propose to the Governing Council to set the T2S fee for DVP instruction as low as 15 cent if the currency coverage represents at least 120% of the euro volume, This price

Figure 4. T2S pricing structure

| SERVICE ITEMS | DVP WEIGHT FACTOR | EXPLANATION |
|--|-------------------|--|
| Settlement services (75% of T2S income) | | |
| Delivery versus payment | 100% | per instruction* |
| Free of payment/payment free of delivery | 60% | per instruction* |
| Account allocation | 20% | per instruction* |
| Matching | 20% | per instruction* |
| Intra-position/intra-balance movement | 40% | per transaction |
| Auto-collateralisation service with payment bank | 100% | per transaction, charged to the collateral provider |
| Internal T2S liquidity transfer | 60% | per transfer |
| Daytime settlement process | 20% | surcharge per instruction* |
| Intended settlement day failed transaction | 100% | surcharge per business day failed – both sides* |
| **Auto-collateralisation service with NCB | 0% | per transaction, charged to the collateral provider |
| **Instruction marked with “top/high priority” | 0% | surcharge per instruction* |
| **Cancellation | 0% | per instruction* |
| **Settlement modification | 0% | per instruction* |
| Information services (25% of T2S income) | | |
| A2A queries and reports | to be decided | |
| U2A queries | to be decided | |
| Message subscription services | to be decided | |
| Account management services | | |
| **Securities account | 0% | Fee options: a) monthly fee per ISIN in the account <u>or</u> b) monthly fee per account |
| **Fee per cash account | 0% | Monthly |

* Two instructions per transaction will be charged.

** The price for these items will initially be set at zero, presuming that actual usage will be within an expected consumption pattern. However, should there be an unexpected use of the IT system resources which adversely affects T2S performance, charging for these items will be reconsidered. Such a review will occur at regular intervals.

could even be lower if T2S covers all currencies of the European Economic Area and Switzerland. Even when fees for connectivity, matching and for CSD customer services are added, T2S fees will be lower than the average comparable fees levied by CSDs today for domestic transactions. The cost of settling cross-border transactions should decrease by about 90%.

CSD adaptation plans

CSDs that have signed the T2S MoU are thereby committed to assess the impact of T2S on their national systems and practices and subsequently prepare an adaptation plan. So far, the amount of progress made varies significantly from CSD to CSD. Some CSDs have reached an agreement with their local markets on the general principles that should guide their adaptation to T2S and, based on those principles, have already started discussing the technical implications with the relevant experts in the T2S team. Other CSDs have identified a list of tasks and workstreams related to their adaptation to T2S but have not yet started an in-depth analysis. The adaptation plans of individual CSDs that have made these publicly available can be found on the T2S website (<http://www.ecb.europa.eu/paym/t2s/stakeholders/csd/html/index.en.html>).

Each CSD is free to decide, in cooperation with its market, how to accommodate T2S in its procedures and systems. Nevertheless, to ensure a level playing field for CSDs using the T2S service, there are a number of conditions that need to be fulfilled. In particular, the participation model chosen by a CSD must be in line with the criteria established by the Governing Council of the ECB. The post-migration operating model:

- must pose no risks to other CSDs;
- introduce no barriers to efficient cross-CSD settlement in T2S;
- entail no potential free-riding behaviour at the expense of other CSDs; and
- support free and fair competition.

These are prerequisites to ensure that the CSDs' individual strategies make fair use of T2S opportunities and are not detrimental to other CSDs or to the European financial markets in general.

Overall, the information currently available on CSDs' adaptation plans shows that they intend to adapt to T2S in compliance with all of these conditions. Some national specificities which may represent obstacles to fulfilling these requirements are currently being addressed by the T2S team with the relevant stakeholders. The aim is to support these markets in adapting to T2S as smoothly





as possible, but without jeopardising the spirit of the project, which is committed to neutrality and harmonisation.

The CSDs from direct holding markets, in particular, have a number of fundamental decisions to make regarding their adaptation to T2S. Significant efforts have already been invested in the technical design of the T2S platform so that it is flexible enough to serve the needs of these markets. For example, the T2S platform can easily accept millions of end-investor accounts – if a CSD decides to keep these in T2S – at essentially zero cost to the CSD. There will be no charge for this. The T2S team believes that, from a cost-efficiency perspective, there are strong arguments in favour of a CSD keeping all end-investor accounts in T2S, as it would avoid the CSD being forced to maintain two settlement systems in parallel.

Nevertheless, if the CSD prefers to keep these end-investor accounts outside T2S in its legacy system, this is of course also technically feasible. At the request of the direct holding market CSDs, the T2S team is currently carefully studying this alternative adaptation model.

Connectivity

CSDs, NCBs and directly connected parties

will interact with the T2S platform by sending and receiving messages via a network. The T2S Programme Board has decided that a maximum of three network providers which meet demanding security, availability and operational standards will be licensed to offer services to T2S users. Having multiple network providers for T2S will mean that users will benefit from competition and choice. Competition is very important to guarantee that the costs of user connectivity are kept as low as possible, not only at the start of operations, but also over time. These additional connectivity costs are of particular concern for the CSDs, which will be accessing the remote T2S settlement engine from their reshaped infrastructure, as opposed to it being part of their internal IT system.

In order to select the network providers, a number of **business and technical criteria** are being developed. These have already been discussed several times with the market – in the T2S Advisory Group and the CSD Contact Group, as well as during T2S Information Sessions – and the feedback received is being given careful consideration. The business criteria are intended to cover issues such as financial strength, liability, data protection policy, technology risk management and pricing, while the technical criteria focus on security, reliability, service performance, service desk support and disaster recovery.

In order to ensure that there is a significant range of suppliers which can compete for a licence, the set of value added services that are required (on top of “pure” connectivity) has been kept relatively small. To ensure the availability of cost-effective connectivity solutions for the wide variety of T2S users in terms of volume requirements, it is envisaged that each network provider will have to offer a traffic-based pricing scheme, as well as a bandwidth-based pricing scheme.

If more than three network providers fulfil all of the business and technical criteria, it is currently intended that the final selection will be made on the basis of which companies provide the required services at the lowest cost.

The formal **selection process** will start very soon and will be managed by the Banca d'Italia on behalf of the Eurosystem and on the basis of the guidance given by the T2S Programme Board and advice from the Eurosystem Procurement Coordination Office. The process will be entirely open, objective and transparent. It is currently planned that the process will be formally initiated around the end of the year with the publication of the official tender notice, together with all relevant documentation. The network providers will have several months to submit their offers, after which time the Eurosystem will make its selection. Assuming

that the selection process runs as expected, it is planned that the licences will be awarded around mid-2011. Work will then begin, together with the network providers, to check that they fulfil the requirements, before they are allowed to sign contracts with the T2S users.

3. Where are we going in the future?

Key phases in the T2S Programme Plan

There are four key phases in the project – specification, development, testing and migration.

Specification phase:

July 2008 to January 2010

The specification phase started in July 2008 and finished in January 2010 with the publication of version 5.0 of the URD. This phase was devoted to drafting the technical documentation that will be used for programming the T2S software. The most important documents produced in this phase were the General Functional Specifications (GFS v4.0) and the General Technical Design.

Development phase:

February 2010 to December 2013

The development phase started in early 2010 after the technical documentation was finalised. During this phase, the User Detailed Functional Specifications will be drafted, the software for the T2S platform will be developed and tested





by the 4CB and non-functional testing will get underway. Towards the end of the third quarter of 2013, the internal acceptance testing by the whole Eurosystem will begin. The development phase will be completed, apart from bug fixing, at the end of 2013, when the platform will be ready for user testing.

User testing phase:

January 2014 to September 2015

At the start of 2014, T2S will be open for a period of multilateral testing by all external parties – CSDs, NCBs and banks which intend to be directly connected to T2S. The testing activities will comprise interoperability tests, community tests with banks and business-day tests. Testing will be completed after the full migration of the last group of CSDs, which is expected by September 2015.

Start of operations/migration phase:

September 2014 to September 2015

T2S will begin operations in September 2014, when the first group of CSDs join T2S. The migration of CSDs to T2S will take place gradually over the following year, in principle, in three migration waves.

A comprehensive **planning and reporting framework** has been established to ensure that all key stakeholders can monitor the progress of the Eurosystem against the plan and synchronise their own plans with the T2S plan. With regard

to internal project management information, the T2S project team reports on a monthly basis to the T2S Programme Board, and on a quarterly basis to the Governing Council. With regard to external project management information, the Eurosystem will report on a monthly basis to the CSDs and non-euro area central banks, and on a quarterly basis to the T2S Advisory Group.

Coordination within markets

For a smooth adaptation to T2S, there is a crucial need for coordination between the Eurosystem and CSDs/NCBs, and between the CSDs/NCBs and their market users and infrastructures. The T2S project plan will therefore indicate the relevant dates and milestones when CSDs/NCBs and market participants need to be prepared for a specific activity and/or ready to make a financial investment (so-called “synchronisation points”). The synchronisation points ensure that the Eurosystem, NCBs and CSDs are progressing at the same pace during the lifecycle of the project. The precise timing of the synchronisation points will be discussed and agreed with the market during the autumn of 2010.





FREQUENTLY ASKED QUESTIONS

1. Is the T2S project related to the initiatives of the European Commission?

We are working hand in hand with the Commission and in particular with regard to their objective to build an efficient Single Market for Europe. There is no risk of a duplication of efforts or inconsistencies: the Commission is working more on the legislative side, while the Eurosystem is working mostly on the infrastructure side. This two-pronged approach to reforming securities markets is proving to be highly effective and synergistic.

2. Is the Eurosystem the right body to manage this project? Can a public sector entity run this critical system efficiently and without too much bureaucracy?

T2S, like any large infrastructure project, will trigger tremendous economies of scale. For this reason, economists would call it a natural monopoly, since securities settlement is a mature business in which the most efficient set-up is to reap economies of scale and to allow the conditions to be put in place for a competitive environment in added value services based on a commodity product: settlement. Any natural monopoly, be it private or public sector, faces the same challenges of ensuring efficiency and minimising bureaucracy.

The advantage of having the Eurosystem operate such a monopoly is that the operator has no incentive to abuse its position by charging excessive rents. We take zero profit from this venture; all gains are passed on to the market.

The real guarantee against the development of excessive inefficiency and bureaucracy is the high level of transparency of the T2S project, which we intend to maintain in the future. Market participants have had, and will continue to have, ample opportunity to scrutinise and challenge the management of T2S, and to ensure that T2S remains lean.

3. How can you claim that T2S will stimulate competition if, in practice, it becomes a monopoly?

T2S is an infrastructure in the same way that railways, motorways, electricity grids and payment systems are infrastructures. An efficient single infrastructure, with huge economies of scale, is necessary if multiple providers are to compete to provide the related service. In the current environment, CSDs provide this single infrastructure at the domestic level. T2S will simply factor in the most commoditised part of their activities, settlement, at the European level, and introduce competition for the rest of the CSD business.





The Eurosystem will bear the risks of creating the “high-speed tracks” which no private entity would have the incentive to finance on its own, and then let the “train companies” – the CSDs – compete among themselves to provide services to investors and issuers, using these tracks.

4. Why have you not set up a separate legal entity to run this project?

T2S is a new and unprecedented project. In going ahead with implementing T2S, the Eurosystem is accepting significant financial and reputation risks. This helps to explain why the Eurosystem has expressed a preference to maintain full responsibility for the project.

Nevertheless, we broke new ground by choosing a completely new internal organisational structure when creating the T2S Programme Board. Many people are not fully aware of the extent of its role. In fact, the T2S Programme Board has, in practice, very similar powers to those of a Board of Directors in a separate legal entity.

The T2S Programme Board has extensive senior management expertise in the payment and securities settlement field. Two of the eight members are independent

(currently two former CEOs of non-euro area CSDs), and one member comes from a non-euro area central bank. Furthermore, it is foreseen that in the future: 1) CSDs will be able to propose candidates for the independent members; and 2) the number of members coming from non-euro area central banks will increase in relation to the importance of non-euro settlements in T2S. Therefore, we feel that the benefits of setting up a separate legal entity have already been achieved with the current organisational structure.

5. You have already announced a delay in your planning. How can you be sure that no further delays will occur?

There are typically two reasons for a project to be delayed: uncertainties regarding the scope, or an underestimation of the time required. The scope of T2S was defined during the first six months of the project (settlement only, all types of security, multi-currency). It has not changed since then. This is very reassuring because most IT projects which fail, or are substantially delayed, have serious problems of scope “creep”.

The delay in our planning was caused by an underestimation of the timing of some tasks. It should be remembered in this respect that T2S is a completely new concept – providing a lean

solution for over 20 markets – for which there was no possible comparison when the timetable was first prepared in early 2008. The duration of some tasks was underestimated. In particular, in order to get the technical specifications right, we needed much more feedback from the many markets which will use T2S than we initially anticipated. The harmonisation of requirements is a time-consuming business, as it involves compromise and, in some cases, proposing new market practices.

But we are now very confident that we will be able to follow the new timetable. A parallel can be drawn with another large IT project implemented by the Eurosystem: TARGET2 for large-value payments. For TARGET2, the Eurosystem similarly had to announce a ten-month delay, but in the end there was only one delay and we successfully opened the system in November 2007. TARGET2 has had an excellent track record and has helped to establish the technical credibility of the Eurosystem in the field of market infrastructures.

6. Is T2S a genuine outsourcing arrangement for CSDs?

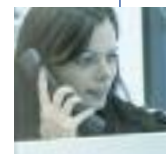
Yes, it is a genuine outsourcing arrangement, but of a unique kind. It is unique in two ways. First, CSDs will no longer have individual control rights, but multilateral control of a

shared environment with a single service level. CSDs will have to make decisions cooperatively in T2S. CSDs recognise and accept this and have already agreed on a double majority voting rule, based on the number of CSDs and the volume of settlement transactions.

Second, the building and operation of T2S is a public task of the Eurosystem, embedded in the EU Treaty. This is one of the very rare cases where the private sector is outsourcing tasks to a public entity. Therefore, T2S is also a new concept in the legal field, requiring new solutions. The legal nature of T2S and the resulting need for a special type of outsourcing arrangement has been one of the major negotiation points in the preparation of the T2S Framework Agreement that is being negotiated with CSDs.

7. Will CSDs lose control of their securities accounts in T2S?

CSDs will keep full control of, and full responsibility for, the management of their securities accounts. The day-to-day management of securities accounts (e.g. the opening and closing of accounts) will be the exclusive competence, and the legal responsibility, of the CSDs. It will be as if CSDs each have their own “apartment” in the T2S “building”. T2S will not have contractual relationships with the CSDs’ clients.





CSDs will also participate in the change management process concerning T2S. But a major difference in comparison with the current situation is that CSDs will have to make decisions collectively, rather than on their own.

The Eurosystem recognises the competence and expertise of the CSDs and will, in principle, implement their requests concerning changes in the functioning of securities accounts. It is only in clearly defined cases (under discussion with CSDs at present) that the Eurosystem could turn down the CSDs' proposal. If this happens, refusals will be very exceptional, fully documented and transparent, and include several levels of protection.

8. Will T2S really reduce settlement fees?

Absolutely! With T2S, the cost of settling cross-border transactions will be reduced by about 90%! This alone would represent a strong element in the business case for the project. However, we are conscious that some users have limited cross-border activity and we wish to avoid a situation in which domestically oriented participants in large countries, such as Germany, Italy or the United Kingdom, end up paying more with T2S than before. Our objective is still to charge less than 15 cent per DVP

settlement instruction. The final price, which will be announced next year, will depend on the number of currencies which are settled in T2S. We estimate that a 100% increase in traffic should result in an increase in T2S costs of less than 15% (resulting in a lower unit cost per transaction for the industry). The fee we will charge is therefore volume-sensitive. If T2S can settle in the major currencies of the European Economic Area and in the Swiss franc, the fee could be closer to 10 cent.

On top of this headline price, there will also be a matching fee, connectivity charges, information service fees and CSD fees (mostly for customer helpdesk services). All in all, we are confident that CSD fees with T2S will be lower than the average fee that CSDs charge today. We know that, at present, some CSDs grant substantial discounts to their large customers. T2S will not. Therefore, we cannot rule out that some large customers may be charged a little more for their domestic transactions when T2S is in operation. But large customers also benefit most from the reduction of cross-border fees. Therefore, we maintain that with T2S, all users should be better off than before, some of them by a very large margin.

9. Will T2S fees be “on top” or “instead” of the present settlement fees charged by CSDs?

T2S will fail if the T2S fees are simply a supplement to the present CSD fees, because this would mean that users will pay more for domestic settlement. But it is clear that the CSDs that embrace T2S and make the initial investment to reshape their systems in order to minimise any duplication of data will be those that are able offer the best pricing to their customers after the introduction of T2S. It is important to keep in mind that, with T2S, CSDs will start competing against each other. There is a clear risk that those who do not reshape and downsize their settlement infrastructure will simply drive themselves out of the market. There is anecdotal evidence that most CSDs are already strategically prepared for re-shaping towards T2S.

10. How much will it cost for market participants to adjust to T2S?

It is clear that, for CSDs, adjusting to T2S will require substantial investment. CSD clients that decide to connect directly to T2S will also have to invest. But we do not expect more than 20 or 30 banks to find it economical to do so in the short run. For all other market participants, little or no adaptation will be necessary, because those

participants will continue to rely on their CSDs or on their custodian banks for the provision of settlement services. They will benefit from T2S through competition effects because the fees they pay to CSDs or to custodians will decrease.

11. How can we be sure that the benefits of T2S are not retained by intermediaries, but are passed on to issuers and final investors?

Competition is the answer. Increasing competition among CSDs and among custodians is the only way to ensure that the benefits of T2S are passed on to issuers and final investors. We have already underlined that T2S will stimulate competition between CSDs; it is therefore unlikely that they will retain an excessive part of the savings generated by T2S. The European banking sector is already highly competitive, and it is unlikely that custodian banks would have any incentive not to pass on the benefits of T2S to their customers. Moreover, by removing national specificities, T2S will further increase the level of competition between custodian banks.





12. Lack of harmonisation in the securities market is a big issue for Europe today. Is T2S addressing this problem?

Yes, directly and indirectly. Directly because we have, from the beginning, chosen to build a “lean T2S” which does not take account of the national specificities which have built up in each country over the years and have often lost their original justification.

Indirectly because market participants know that the benefits of T2S, in terms of a reduction in liquidity costs and back-office costs, will be much greater if T2S works in a more harmonised environment; this works to promote change.

The T2S team devotes some of its resources to work on harmonisation, but we also need to make use of the knowledge and expertise of others. The T2S Advisory Group has been immensely useful in this respect and deserves to be praised for what it has already achieved.

In the coming months, the T2S Advisory Group will identify the priorities for future work on harmonisation, from the T2S perspective, and will put pressure on the relevant bodies to conclude their work

before T2S opens. This is a very important initiative which will undoubtedly have important benefits for the efficient functioning of Europe's securities markets.

13. Does T2S not cater for national specificities at all?

National specificities not only create inefficiencies for foreign investors and intermediaries, but, more importantly, they also protect national markets from competition. And it is competition that T2S wants to foster.

T2S will therefore not develop any functionality to cater for national specificities. If a CSD wants to maintain a particular specificity after T2S goes live, it will have to develop it in its own systems at its own cost. And this should not prevent users, domestic or cross-border, from gaining access to those securities without paying for these national specificities, by using another CSD. We are confident that this will create economic incentives for countries to keep national specificities to a minimum.

14. If T2S does not cater for national specificities, does this mean it has ignored the specific needs of direct holding markets?

No. We do not consider direct holding to be a national specificity, but see it rather as one of the two modalities for holding final customer accounts in Europe. Indeed, we have made significant efforts to ensure that T2S is compatible with the needs of the direct holding markets.

We have not only made it technically feasible for direct holding market CSDs to keep – literally – millions of end-investor retail accounts in T2S, at no additional cost, but we are also investigating how the “layered model” would work, in the event CSDs wish to keep such retail accounts outside T2S in their legacy systems. As long as we are reassured about the legal aspects of the layered model, we are very happy to allow it if there is a demand for such a model.

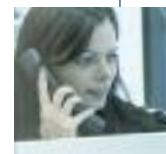
15. Non-euro area central banks are represented in the T2S Programme Board, but not in the Governing Council of the ECB. How can they be sure that they will keep control of their currency if they join T2S?

First of all, and to avoid any misunderstanding, non-euro area central banks will have complete control over the management of their accounts in T2S and the daily timetable for its use (e.g. extensions to cater for

domestic market issues). They will open and close accounts at their discretion, they will decide whether or not to grant overdrafts, and they will decide on the related collateral arrangements, etc. The most significant debate concerns change management. What if T2S evolves in a direction that a non-euro area central bank considers inappropriate? Withdrawing from T2S will always be possible, but it would be a long and costly process.

Under the current proposal, non-euro area central banks will have the possibility to discuss T2S issues in a specific group that they will chair: the Non-euro Currencies Steering Group. Moreover, if one or more non-euro area central banks consider that a change to the T2S platform would negatively affect their monetary policy implementation or could raise financial stability concerns, they would have the opportunity to discuss these concerns directly with the Governing Council, and to find a solution at the level of the governors.

It is envisaged that non-euro area central banks will be granted extensive rights, and this provides a very significant level of reassurance that T2S will not develop in a way which is detrimental to their interests. In going in this direction, the Eurosystem builds on decades of experience in central bank cooperation, both in Europe and across the world.





16. T2S is a Eurosystem project. Why should the United Kingdom join?

This issue is not only relevant to the United Kingdom, but to Switzerland and non-euro area countries in Scandinavia and in central and eastern Europe.

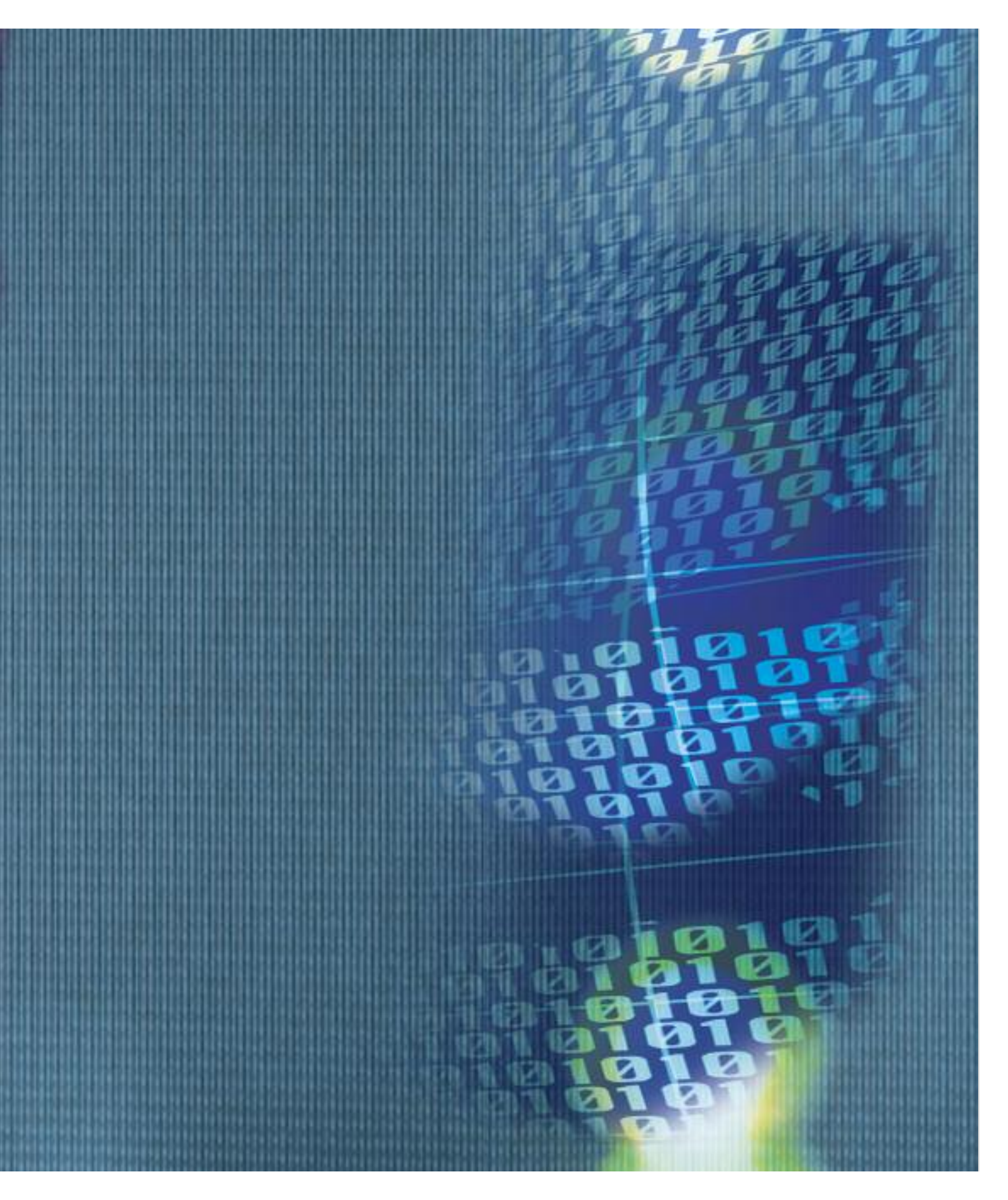
We cannot emphasise enough that T2S is not a project for the euro only. T2S has been conceived for multi-currency settlement. The Eurosystem is only the builder and operator of the platform. As far as central bank functions are concerned, all participating central banks will have the same rights (see question 15).

In the end, it comes down to economies of scale. Each market can join T2S at practically zero marginal cost, and in doing so reduces the settlement price for everyone.

By putting their volumes together in a single infrastructure, European countries make it possible to reduce settlement fees to a very low level, which is closer to the level in the United States. We should remember that we now live in a global economy, subject to global competition. To compete, Europe needs to have financial markets which are as efficient as those, for example, in the United States today. If the countries of Europe do not work together, we risk our continent missing out.

17. Will T2S become a CSD?

No, definitely not. The Eurosystem has made this clear from the start. Not only do we have no intention of becoming a CSD, but our legal mandate just would not allow it. The EU Treaty permits the Eurosystem to provide settlement services, but that is as far as it goes. None of the other activities performed by a CSD can be subsumed by T2S, either now or in the future.





CONCLUSION

We are currently half-way to delivering T2S. With the help of CSDs and market participants, we have already made significant progress. In the autumn of 2010, with less than four years to go until T2S begins operations, it is now imperative that CSDs and their markets start to prepare intensively for the revolution in Europe's post-trading landscape that will inevitably come. CSDs which do not adapt to the new environment, and are planning to keep the reshaping of their systems to a minimum, will face the risk that other CSDs that have prepared earlier and better will be able to offer more competitive services.

At this stage, it is still unclear what the currency coverage will be in T2S. We would like to emphasise that T2S is for Europe, to foster the emergence of a real Single Market for financial services, and all the CSDs and currencies in Europe are welcome on the platform. Not only does it further the goal of an integrated, borderless financial market, but, by having an even wider pool of securities available for settlement in T2S, settlement costs are further reduced and additional collateral and liquidity management efficiency gains can be achieved, equally in all countries, irrespective of whether or not they have adopted the euro.

It is also crucial that harmonisation is driven further forward, and T2S is highly committed to this aim. T2S and harmonisation go hand in hand. Harmonisation is a crucial element in realising the overriding goal of a competitive, borderless market.

Lastly, we would like to stress that the uniquely inclusive and transparent approach that has defined the T2S programme up until now will continue in the future. The future T2S governance model, which has been discussed intensively over the last few years, will ensure that all relevant stakeholders – central banks (both within and outside the euro area), CSDs and market participants – can exert significant influence on the performance and future direction of T2S.



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