



EUROPEAN CENTRAL BANK

EUROSYSTEM



# T2S OnLine

QUARTERLY REVIEW  
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Jean-Michel Godeffroy

## EDITORIAL

### T2S: A QUIET REVOLUTION IN EUROPEAN POST-TRADING

I am very happy to introduce the first issue of our T2S OnLine quarterly review. T2S OnLine will bring you up to date on the project and demonstrate that T2S is “on line”. As a rule, as is indicated by its name, the newsletter will only be available online, on the T2S website. For SIBOS, however, we have decided to make an exception and publish a printed version as well.

T2S is now well known among securities specialists in Europe. But, as SIBOS is being held in Hong Kong, it might be useful for me to say a few words on what it actually is. T2S was conceived on 6 July 2006, when the ECB announced that the Eurosystem (the ECB and the national central banks of the euro area) was ready to provide settlement services for securities transactions in central bank money, which would lead to the settlement of both securities and cash on a single platform through common procedures.

Right from the start, T2S was seen to be revolutionary. It was based on an entirely new concept: a proposal for private-sector central securities depositories (CSDs) to outsource the running of their clients’ securities accounts to a technical platform run by the Eurosystem. Thus far, some central banks had agreed to outsource the management of their clients’ cash accounts to CSDs in order to allow for an efficient delivery versus payment (DvP) in a single technical platform (according to the “integrated model”). T2S will reverse this, namely to insource securities accounts to the central banks.

The flexibility of this technical solution gives the T2S revolution its European dimension. The continent has long been burdened with too many settlement platforms, preventing the market from reaping the full benefits of economies of scale. With the T2S model, only one single platform will be needed and all securities transactions will be treated as “domestic”, regardless of the location of the CSD, issuer or investor. Recent studies have shown that the cost of a cross-border transaction for equities in Europe is, on average, close to € 3. T2S will bring this cost down to about 15 cent!

*Of course, like any revolution, T2S raises not only hopes, but also fears.* For example, in some countries, market participants with limited cross-border activities fear that domestic fees will rise. Let me be clear: the aim of T2S is not only to substantially reduce average settlement costs in Europe, but also to lower settlement costs for each and every market participant in Europe. I would like to invite those who feel that they would be worse off with T2S to look at their total costs, including fixed fees, telecommunication fees, inquiry fees, etc. And, if thereafter, they still believe that T2S does not offer them any benefits, I would invite them to write to me directly.

*On the whole, however, enthusiasm remains high and fears are fading away.* This was particularly apparent on 16 July of this year with the signing of a Memorandum of Understanding between the Eurosystem and 27 CSDs from 25 countries, a move fully supported by market participants. Looking back at the start of the revolution on 6 July 2006, I think there are two additional features of T2S that have perhaps not yet been fully addressed. The first relates to the multi-currency component of T2S. Originally, the idea was for T2S to be restricted to the euro, on the cash side, and to euro area securities. The Ecofin Council explicitly asked us not to limit



ourselves to the euro area. The large number of CSDs that have signed the Memorandum of Understanding shows that interest goes beyond the euro area on the securities side. On the currency side, three non-euro area national central banks have already expressed their interest and I am aware that other central banks are also seriously considering the possibility of bringing their currency into T2S.

In the end, T2S may be able to settle almost all securities in Europe, in several – if not all – of the most traded currencies in our part of the world. Furthermore, the choice of currency will not be restricted, unlike the situation today, where one CSD typically organises DvP settlement with one central bank. The securities in T2S could be settled against any of the currencies in T2S. T2S is geared to DvP and Europe, just as CLS is geared to PvP and the world. But the two concepts are indeed closer than I had previously thought.

A second element of this revolution concerns the role of central banks in securities settlement. For the last 20 years, central banks have moved away from securities settlement, shifting their CSD activity for government securities to the private sector.

With T2S, central banks have come back into the picture with a new focus, settlement in central bank money. This is the commoditised element, where competition achieves very little and economies of scale matter most. It is also the aspect that is most relevant for financial stability, something that is all the more important these days! Here again, I cannot avoid making a comparison with what happened in the field of payments 20 years ago, when central banks progressively re-invested in the payment processing field through the generalisation of the RTGS systems. This was done for reasons of both efficiency and financial stability. Even if the T2S concept is deeply rooted in the European context, it could be followed by similar initiatives elsewhere. In the end, T2S might turn out to be an even bigger revolution than we first thought!

At the same time, *T2S is a quiet revolution, without any obligation, and with the public and private sectors working hand in hand.* This is due to the Eurosystem's strategic choice in favour of both transparency and working in close association with the private sector through the T2S Advisory Group.

This emphasis on transparency leads me on to the first article in this inaugural issue of T2S OnLine. Helmut Wacket, Head of the ESM Section, gives us a round-up of the latest progress on the T2S project. In the Insight section, we also have a specialist article written by Petra Senkovic, who is currently putting together the legal framework for the next phase of the T2S project. T2S Programme Manager, Marc Bayle, gives us his view on how the Eurosystem's T2S development team has been further strengthened over the summer. Finally, we will introduce the members of the T2S Programme Board.

We hope you enjoy reading T2S OnLine!

Jean-Michel Godeffroy, Chairman of the T2S Programme Board

# T2S PROJECT UPDATE

## MAJOR ACHIEVEMENTS

### T2S Programme Board

The most important milestone in spring 2009 was the set up of the T2S Programme Board, a streamlined management body that will develop proposals for the Governing Council<sup>1</sup> on key strategic issues and execute tasks of a technical nature. This new governance structure will ensure that T2S meets the needs of the market and is delivered not only on time, but also within the agreed budget. To fulfil its mandate, the Programme Board immediately got to work on the relevant issues.

### CSD support and MoU signing ceremony

On 16 July 2009, the CSDs and the Eurosystem signed the T2S Memorandum of Understanding (MoU). This was a remarkable event as the MoU was signed by 27 CSDs from 25 countries, and it represents a major step in strengthening the relationship between CSDs and the Eurosystem. The CSDs in all euro area countries signed the MoU, as well as nine non-euro area CSDs in Denmark, Estonia, Latvia, Lithuania, Romania, Sweden, the United Kingdom, Iceland and Switzerland. The CSDs of Denmark, Lithuania and Sweden – with the consent of their central banks and the support of their markets – also confirmed their

intention to provide for the settlement of their national currencies in T2S, in addition to settlement in euro. The signing of the MoU reaffirms the CSDs' support for the T2S programme.



### Building T2S for market stakeholders!

The T2S team has always insisted that T2S is all about maximising the safety and efficiency of the settlement of securities transactions and is built for market stakeholders. It is therefore reassuring that the market sentiment with regard to T2S is excellent. Recent interaction with market participants (T2S Advisory Group, its sub-groups, conferences and bilateral meetings, etc.) suggests that market participants have started to build their business plans and investments on the assumption that they will use T2S as the technical platform for the settlement of their securities transactions as early as 2013. In addition, other T2S stakeholders, such as industry associations, public authorities and issuers, emphasise the envisaged go-live date of T2S as a major milestone on the way to achieving an integrated EU securities market.

<sup>1</sup> The Governing Council of the ECB comprises the members of the Executive Board of the ECB and the governors of the national central banks of the Member States that have adopted the euro. It is the main decision-making body of the ECB in charge of adopting guidelines and decisions necessary to ensure the performance of tasks entrusted to the Eurosystem and to formulate the monetary policy of the euro area.

## T2S PROJECT UPDATE



### **T2S is all about further European harmonisation**

It is no secret that European harmonisation is one of the core tasks of the Eurosystem and we are thus pleased that market participants have repeatedly emphasised this as a key aspect of T2S. The Governing Council has therefore mandated the T2S Advisory Group to continue the work on harmonisation in the field of T2S-related securities settlement, and to support implementation efforts in the market.

The T2S Advisory Group monitors developments in the work of CESAME2<sup>2</sup> and other fora and complements it where action is required at a pan-European level. Given the importance of the T2S programme for the integration of the securities market in Europe, the Chairman of CESAME2 – who is also a member of the T2S Advisory Group – has invited the Chairman of the Programme Board to become a member of CESAME2. This close interaction will ensure that work performed in the T2S environment does not duplicate that of other initiatives and is coherent with the general framework defined by CESAME2.

## **WORK PROGRESS AND UPCOMING DELIVERABLES**

### **T2S programme plan**

To clarify the strong interdependencies between the different T2S work streams, one of the first main objectives of the Programme Board has been to set up a single, detailed T2S programme plan for the ECB and the 4CB (Deutsche Bundesbank, Banco de España, Banque de France and Banca d'Italia). The plan will reflect the fact that some issues have become clearer over the past few months. It will also take into account the fact that some processes have not been finalised in accordance with the initial plan (e.g. the preparation of the General Functional Specifications) but that some tasks have been re-arranged to still allow a go-live date of June 2013. Once the Programme Board has fully assessed the plan, it will be shared and discussed with the T2S project managers appointed by the CSDs since the most critical milestones of the final T2S programme plan will become part of the Framework Agreement to be concluded between the Eurosystem and the CSDs.

### **User Requirements Document**

Since the approval of version 4.0 of the User Requirements Document in July 2008, 187 requests for changes have been approved by the T2S Advisory Group. Many of these change requests were minor ones and could be considered to be “fine-tuning”. In June 2009 the T2S Advisory Group agreed with the Programme Board that the User Requirements Document should be regarded as “frozen” and change requests will only be accepted if they are indispensable for the smooth go-live and functioning of T2S in its start-up phase. Other change requests should in principle only be considered for, and implemented in, the second T2S software release.

### **General Functional Specifications**

After having received market feedback on the General Functional Specifications in spring 2009, experts from the ECB's T2S team and the 4CB have worked intensively to find solutions for the issues identified. Publication of a final version of the General Functional Specifications is currently envisaged for early November 2009.

# T2S PROJECT UPDATE

## **General Technical Design**

The General Technical Design of T2S is currently being validated and is expected to be finalised by the end of October 2009. Both the General Functional Specifications and the General Technical Design will then be validated with reference to the User Requirements Document and cost estimations.

## **User Detailed Functional Specifications**

On the development side, the 4CB have started preparing the User Detailed Functional Specifications, in particular with respect to: (i) the definition of the main building principles of the documentation; and (ii) the specification of messages to be exchanged between T2S and its users.

## **Pricing issues**

During 2009, workshops have been organised between the Eurosystem and CSDs to discuss T2S pricing issues. These workshops have deepened mutual understanding of pricing objectives and constraints. The main deliverables that the Eurosystem will have to provide to CSDs (and the market more widely) by early 2010 include:

- a T2S price list, i.e. a list of services for which the Eurosystem will charge the CSDs, and which is intended to remain stable throughout the amortisation period from 2014 to 2020;
- the volume projections used to determine the unit prices contained in the T2S price list; and
- the total cost of ownership for developing T2S and operating it during the six-year amortisation period.

The Programme Board has sought market opinion on possible volume discounts in T2S, with three options being considered: (i) no discounts; (ii) discounts at CSD level; and (iii) discounts calculated at the user level. The outcome will be discussed in the September T2S Advisory Group meeting.

## **Advisory Group & external governance**

The establishment of the Programme Board as a component for T2S internal governance also has an impact on external T2S governance, in particular as regards the interaction of the Programme Board with the CSDs and their users. It should be stressed that the current structure of the T2S Advisory Group has proven to be excellent in terms of promoting cooperation between the Eurosystem, the CSDs and their users, and the assistance it has provided to the ECB's decision-making bodies has been highly appreciated. As the T2S Advisory Group's mandate expires at the end of this year, the Programme Board has proposed that the T2S Advisory Group could evolve into the main T2S user forum, e.g. a pan-European T2S user group. Members of the T2S Advisory Group agreed that it might be sensible to continue the current T2S Advisory Group until the conclusion of an appropriate contractual agreement between the CSDs and the Eurosystem. A proposal for a new T2S Advisory Group mandate and a possible revised structure will therefore be formulated by September 2009 for discussion.

## T2S PROJECT UPDATE

The idea of establishing a new CSD contact group as a link between the Programme Board and the chief executive officers of the CSDs has been welcomed by the T2S Advisory Group. Such a group should play a prominent role in view of future CSD contractual relationships with the Eurosystem. In this regard, it is important that users have a similar forum where matters of core concern can be discussed at an early stage. Users have therefore asked for a clear and transparent allocation of tasks between the T2S Advisory Group and the CSD contact group.

### **Eligibility of central securities depositories**

The criteria for CSDs to be eligible in T2S, in particular if their central bank does not (yet) allow their main operating currency to be integrated into T2S, are currently under discussion within the T2S Programme Board. A final decision by the Governing Council is expected by the end of October 2009.



Helmut Wacket, Head of the External Stakeholders Management Section in the T2S Division

### **T2S and the 4CB**

Since the introduction of the euro on 1 January 1999, the Eurosystem has been offering services in an increasingly cost-effective way, mainly by allocating certain tasks to a group of a few central banks who perform these for the benefit of the whole system. Following this approach, the Governing Council of the ECB has assigned the development and operation of T2S to four central banks, namely the Deutsche Bundesbank, Banco de España, Banque de France and Banca d'Italia, commonly referred to as the 4CB.

More specifically, the 4CB will - based on the User Requirements agreed between the Eurosystem and the market - prepare the functional specifications, upon which they will also develop the T2S application. In addition, the 4CB will put in place the technical infrastructure that will host the application and will operate the T2S system within a framework to be agreed with the Eurosystem. Furthermore, the 4CB will support the Eurosystem in its relationship with the market in a variety of ways, in particular for user testing and migration.

## INSIGHT

### T2S legal architecture

T2S presents a further challenge in the form of creating an appropriate legal framework for its design and operation. It will operate under the existing legislative and regulatory framework with two distinct legal dimensions: (I) the internal Eurosystem-related legal framework and, (II) the external contractual framework with the central securities depositories (CSDs) and the non-euro area central banks.

(I) The main legal instrument concerning T2S will be the T2S Guideline, a legal act that is internal to the Eurosystem and addressed to the euro area central banks. The T2S Guideline will represent the culmination of the previous decisions of the Governing Council of the ECB, in particular that of 17 July 2008 to launch the T2S project and that of 19 March 2009 on the establishment of the T2S Programme Board. *The T2S Guideline will set out fundamental rules concerning the governance of T2S, which comprises three levels.* On the first level of governance, ultimate decision-making in relation to T2S is vested in the Governing Council, which assumes overall responsibility for T2S and, under Article 8 of the Statute of the European System of Central banks and of the ECB, is the ultimate decision-maker for the whole Eurosystem. On the second level of governance, the T2S Programme Board was established as a streamlined management body of T2S, preparing decisions of the Governing Council, and taking decisions on its behalf in a limited number of instances. Finally, the third level of governance is composed of the four national central banks (4CB) that will develop and operate T2S. The T2S Guideline will further specify the roles and responsibilities of the T2S Programme Board and of the 4CB, and their interrelationship, as well as basic procedures concerning the management of T2S and its fundamental principles.

Additional details concerning the relationship between the Programme Board and the 4CB, in particular procedural and technical aspects, will be contained in the Level 2/Level 3 Agreement. Both legal acts are under preparation with the aim of being finalised by the end of this year.

(II) *The external legal relationship with the CSDs will be governed by contracts between the Eurosystem and the CSDs that will be fully harmonised (known as the Framework Agreement).* Pursuant to the Memorandum of Understanding of 16 July 2009, the Task Force on T2S Contractual Issues will have the task of facilitating the drafting of the Framework Agreement, which will be negotiated between the Programme Board and the CSDs.

Finally, the Programme Board will negotiate currency-participation agreements with the non-euro area central banks concerning terms and conditions for the use of currencies other than the euro in T2S. Non-euro currencies are also eligible for use in T2S, provided that the central banks or other authorities responsible for such currencies enter into an appropriate currency agreement with the Eurosystem, upon approval of the Governing Council.



Petra Senkovic, Adviser, Head of the T2S Legal team

## BAYLE'S VIEW



### Building a strong Eurosystem team

During the last few months, I have made it a top priority to build a strong sense of team spirit and develop synergies between the teams at the ECB and the 4CB. Of course, being able to draw on such a wide diversity of experience and skills from across the Eurosystem has already been very beneficial for T2S. In particular, the depth of experience of the 4CB gained from preparing for and building the infrastructure for TARGET2 has proved invaluable. But at the same time, with the T2S team located in several different countries, there is also the risk that the team may not function as effectively as it would if it were together in a single location.

In order to foster the sense of a "T2S community" in the Eurosystem, we organised a team-building exercise at the managerial level and promoted interaction at the expert level. But, until recently, coordination between the ECB and the 4CB experts was still mainly via comments on documents which were then sent by e-mail, the process being channelled through special "liaison officers". The ECB's T2S team and the 4CB team realised that closer personal contacts would make it easier to solve business issues. We have therefore reinforced direct contact, in particular at expert level, in order to strengthen the common vision of T2S and stronger incentives to strive for excellence.

So far, the closely-knit group of experts from the ECB's T2S team and the 4CB team has been focusing on ironing out the remaining wrinkles in the General Functional Specifications which will be finalised in the coming weeks. I am happy to report that this new set-up has so far proved to be very successful. It has fostered frank discussion between the various experts, increased mutual understanding and trust, and made it much easier and quicker to resolve issues. By making such meetings a regular feature, even in the latter stages of T2S, I am confident we are on the way to building an outstanding Eurosystem team.

### Come and meet us at SIBOS in Hong Kong!

The Eurosystem will again be exhibiting at SIBOS from 14-18 September 2009, with T2S taking a prominent role. With the recent signing of a Memorandum of Understanding with 27 CSDs from 25 countries, we have much to celebrate.

While I am at SIBOS, I would be very happy to meet anybody who wants to know more about the project. As I very often repeat, this project is being built by the Eurosystem on a not-for-profit basis, i.e. solely for the benefit of the users, and only through strong collaboration with all stakeholders can we fulfil our desire to build a truly state-of-the-art settlement system.

We plan to have a **special focus session on Tuesday,**

**15 September, from 2 p.m. to 3 p.m. in room S226-S227**, which will be chaired by the Chairman of the T2S Programme Board, Jean-Michel Godeffroy. I will be providing an update on the latest project developments, which will be followed by a panel discussion between several CSDs and large banks on how they plan to adjust their business models in the light of T2S. We will also be having a **T2S cocktail reception** in order to have discussions on a more informal level. This will take place at the **Eurosystem stand 3G19**, starting at **4 p.m. on 16 September.**

I very much hope to see you there!



Marc Bayle, T2S Programme Manager

## INTRODUCING THE T2S PROGRAMME BOARD

The T2S Programme Board was established on 19 March 2009. It consists of eight members and four alternates. The members are appointed for a renewable term of 18 months and do not represent their respective institutions, but act exclusively in the interests of the Eurosystem and the T2S programme. We are pleased to introduce you to the T2S Programme Board's eight members.



Jean-Michel Godeffroy,  
Chairman, ECB



Pierre Beck,  
Banque Centrale du  
Luxembourg



Yvon Lucas,  
Banque de France



Michael Michalopoulos,  
Bank of Greece

### **The four alternates are:**

Walter Hoffenberg, Oesterreichische Nationalbank;

Jochen Metzger, Deutsche Bundesbank;

Jesús López Pedruelo, Banco de España; and

Alfons Vaes, Nationale Bank van België/Banque Nationale de Belgique

## Objectives

Based on its mandate, given by the Governing Council, the T2S Programme Board ensures that the T2S Programme is implemented:

- in accordance with market expectations, as reflected in the User Requirements Document dated 21 May 2008, and amended from time to time;
- within the budget defined by the Governing Council;
- no later than June 2013.



Franco Passacantando,  
Banca d'Italia



Anders Reveman,  
former CEO of VPC AB



Iain Saville,  
former CEO of  
CRESTCo Ltd.



Jan Schüllerqvist,  
Sveriges Riksbank

## Responsibilities

In view of meeting its objectives, the T2S Programme Board is responsible for:

- submitting proposals to the ECB's decision-making bodies on T2S issues that are of a strategic nature and might have an impact on the timely and successful implementation of the T2S programme within the agreed parameters;
- managing the T2S programme on a daily basis;
- managing relations with T2S clients and external stakeholders;
- reporting on the T2S programme to the ECB's decision-making bodies on a regular and structured basis; and
- interacting with the 4CB.

# T2S IS OnLine FOR YOU

## What is T2S OnLine?

T2S OnLine is a quarterly review that will provide you with first hand information about the T2S programme. It will give you project updates, insights into T2S and details on the current outlook, but one should not forget that behind any project there are people. Therefore, in each issue, T2S OnLine will take you closer to the people of the T2S team, starting with the editorial of the Chairman of the T2S Programme Board. We hope you will find T2S OnLine to be an enjoyable tool for obtaining up-to-date information about T2S.

## Where can you find T2S OnLine?

T2S OnLine can, of course, be found online<sup>1</sup> where you will also find additional information about the T2S programme. For the first issue of T2S OnLine and given the upcoming SIBOS exhibition, we thought that a leaflet would help create greater awareness. However, as of autumn 2009, starting with the second issue, T2S OnLine will be available exclusively on the web, with the option to print if you would still like to have a hard copy.

## How can you use T2S OnLine?

The best way is to read it from top to bottom in order to absorb all of the information on T2S. However, T2S OnLine is designed to allow for a quick read – by simply hovering with the cursor, for example, relevant information will pop up automatically (visit the webpage<sup>1</sup> to see how this works). For those requiring more specialised information, the Insight section will offer one or two articles on subjects of particular interest.

## How can you contribute?

As with the project itself, we would also welcome your views on T2S OnLine. If you have any comments or if you would like to propose a subject for the Insight section, we would be very happy to hear from you. You can contact us by e-mail at [T2S-team@ecb.europa.eu](mailto:T2S-team@ecb.europa.eu)



Elin Amundsen and Stefania Secola, T2S team

<sup>1</sup> <http://www.ecb.europa.eu/paym/t2s/html/index.en.html>

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