



EUROPEAN CENTRAL BANK

EUROSYSTEM



T2S OnLine

QUARTERLY REVIEW
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Jean-Michel Godeffroy

EDITORIAL

Goals are achieved with effort, commitment and strong teamwork. The Advisory Group was established in the very early days of the T2S project and represents the whole T2S community. This group is characterised by three words – “effort”, “commitment” and “teamwork” – and these are one of the reasons why the T2S project has come this far. Henry Ford once said: “If everyone is moving forward together, then success takes care of itself”. This is particularly apt as regards T2S, as our success requires that everyone moves forward together – the Eurosystem as developer, owner and operator; CSDs as our main counterparties and clients, together with non-euro area central banks; and market stakeholders more broadly as final beneficiaries of this single European settlement engine. I would therefore like to use the editorial of this issue of T2S Online to highlight the work done by the Advisory Group and report on the discussions which took place during our last meeting on 30 June and 1 July in Bucharest.

As a general remark, good discussions were again had at this meeting of the Advisory Group (see the full summary for a more detailed account).

The current draft of the Framework Agreement was shared with the Advisory Group beforehand to facilitate discussions during the meeting. Some concerns were raised regarding the role of the Advisory Group in the new governance structure. However, as I said during the meeting, the role of the Advisory Group has always been – and will continue to be – crucial. In a way, I see the Advisory Group as a kind of parliament for the T2S project. It is a forum in which broad discussions can take place and all views can be put forward and freely discussed. The European Parliament is sometimes referred to as the “voice of the people”. I would say that the Advisory Group is the “voice of stakeholders”, ensuring that T2S continues to meet the needs of the market. This has been the role of the Advisory Group thus far and it will continue to be the role of the Advisory Group once contractual agreements are signed with the CSDs joining T2S. Of course, the relationship between the CSDs and the Eurosystem will change with the signing of those agreements, as we will be bound by our contractual rights and obligations. *CSDs will become our contractual counterparties, and we will strive for solutions in line with the Framework Agreement. However, the role of the Advisory Group as the “voice of stakeholders” will remain.*

Although the T2S user requirements were officially frozen in February 2010, the Advisory Group recently discussed some changes that it considered important for the smooth functioning of T2S. In accordance with the current change management process, the Advisory Group asked the 4CB to assess the impact of these changes in terms of cost and time. The 4CB indicated that some of the changes requested would not only have an impact in terms of cost, but also place serious strain on the current timetable. Nevertheless, *the Advisory Group insisted that the implementation of these requests was essential for the efficient functioning of T2S, even if they placed strain on the current schedule.* The T2S Programme Board has taken note of the strong views of the Advisory Group and adopted the changes requested, after having checked that the impact on the current programme plan will remain reasonable (with the precise impact still under investigation). Under the future governance structure, CSDs can be expected to play a greater role in accepting or rejecting proposed changes, but they have always made it clear that the views of users will be critical in their assessment, as is already the case today at national level.

EDITORIAL

The most vibrant discussions at the last Advisory Group meeting were – again – related to the reshaping of CSDs' infrastructure for T2S. I addressed this topic in the [winter issue](#) of T2S Online and I am pleased to see that this is becoming a key discussion point in the market. Discussions need to take place between each CSD and its users in order to agree on the form of adaptation that is most suitable for the CSD in question with a view to meeting the needs of the market and fostering a competitive position within T2S. Now that the fees for T2S services have been defined and the technical details of the UDFS have been published, there is no reason to postpone this discussion. At the European level, discussions have already begun. The Advisory Group is, in my view, the natural place at the European level to share experiences and report on progress achieved on this issue.

My final remark regarding the last Advisory Group meeting concerns work on harmonisation. [The Advisory Group has repeatedly asked for T2S to be more involved in harmonisation work, and we have addressed this request by establishing the Harmonisation Steering Group, which has already submitted its first progress report on harmonisation to the Advisory Group.](#) The Advisory Group fully supports this report and has asked me to flag to the European Commission the most important areas of the proposed CSD legislation which will have an impact on T2S [\[letter\]](#). For more information on this new body, see “Introducing the Harmonisation Steering Group” in this issue of T2S Online.

I hope you enjoy this issue. In particular, I would like to draw your attention to our interview on T2S with Hugo Frey Jensen, Governor at Danmarks Nationalbank.

Jean-Michel Godeffroy
Chairman of the T2S Programme Board

T2S PROJECT UPDATE

Framework Agreement

The negotiations on the Framework Agreement, i.e. the contract that defines the rights and obligations of the Eurosystem and the CSDs, have been progressing well and are now close to finalisation. Intensive discussions have taken place in recent months on all key aspects of the contract. Both parties have been able to settle many open issues and it is anticipated that the remaining aspects will be settled in dedicated workshops over the summer – which will again be a busy one. In June a draft of this contract was shared with the Advisory Group and the European Securities and Market Authority (ESMA) and their initial feedback was taken into account (see also the [editorial](#)). The Advisory Group and ESMA may provide further comments over the summer so that this input can be taken into account when finalising the negotiations with the CSDs in September 2011. Following their meeting on 21 July, the Governing Council issued a [press release](#) confirming its intention to offer the Framework Agreement to the decision-making bodies of the CSDs in October 2011 and inviting them to decide whether to sign the contract before the end of 2011.

Currency Participation Agreement

The Currency Participation Agreement governs the relationship between the Eurosystem and the non-euro area central banks that will make their national currency available for securities settlement in T2S. Over the past twelve months, intensive and constructive negotiations have been conducted with Danmarks Nationalbank, Sveriges Riksbank, Norges Bank, the Swiss National Bank, the Bank of England and the Central Bank of Iceland. The Currency Participation Agreement is to be finalised in parallel with the Framework Agreement and will thus be offered to the non-euro area central banks in October so that the Agreement can be signed before the end of the year. Clarity on the currencies available in T2S will benefit CSDs in their decision-making regarding the Framework Agreement. For more information, see our interview with [Governor Hugo Frey Jensen](#) from Danmarks Nationalbank.

Connectivity

After intensive discussions with market participants, the Programme Board decided earlier this year that T2S actors will be able to connect to T2S via two mechanisms, i.e. either via a value-added connection or via a dedicated link. In early July the selection process for (up to) two value-added network service providers was launched by the Eurosystem. The process is being managed by the Banca d'Italia on behalf of the Eurosystem. The full documentation is available on their [website](#). Discussions on the selection process for the dedicated line provider are still ongoing and are anticipated to be finalised later this autumn.

Derogation from CSD eligibility criterion granted to VP Securities

In 2010 VP Securities, the Danish CSD, issued a request for a derogation from CSD eligibility criterion 5 in order to be able to settle a very limited number of delivery-versus-payment transactions in central bank money outside T2S. The Programme Board had intensive discussions with VP Securities, consulted the Advisory Group on the matter and, with the Advisory Group's consent, suggested to the Governing Council that it grant a derogation. The Governing Council agreed to the derogation in April 2011. Compliance with the derogation will be carefully monitored by VP Securities, Danmarks Nationalbank and the Programme Board.

T2S PROJECT UPDATE

Signature of the L2/L3 Agreement and payment of the first instalments

In April 2011 the Governing Council and the 4CB (Deutsche Bundesbank, Banque de France, Banco de Espana, Banca d'Italia) signed the contract regarding the development and operation of T2S, referred to as the L2/L3 Agreement. This contract defines the legal relationship between the Eurosystem and the 4CB as provider of the T2S platform. As specified in this contract, the first two instalments for the 4CB's development work in the amount of €104.5 million were due and paid at the end of May 2011. At the same time, the Eurosystem national central banks that are prefinancing the project made a payment of €31.5 million to the ECB by way of compensation for the cost it incurred between January 2008 and December 2010.



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



Hugo Frey Jensen, Governor of Danmarks Nationalbank

INSIGHT

INTERVIEW WITH HUGO FREY JENSEN, GOVERNOR OF DANMARKS NATIONALBANK

1. Danmarks Nationalbank has been positive about T2S since the idea was launched in 2006. As early as 2009 DNB indicated its interest in settling Danish kroner as well as euro in T2S. What were the main reasons for your early interest?

Today the cost of cross-border settlement is out of proportion to domestic settlement, which is hindering the efficient integration of the European capital markets. The Danish market has therefore been positive about T2S since the beginning and supports its aim to establish a trans-European securities settlement system in which cross-border transactions can be effected just as efficiently as domestic transactions.

Against this background, VP Securities, as a Danish user-owned and governed central securities depository, has announced its intention to participate in T2S in both euro and kroner. Danmarks Nationalbank has likewise committed itself to making liquidity in kroner available for settlement in T2S.

2. How will T2S benefit Denmark and how will Denmark benefit T2S?

Cheaper cross-border settlement would benefit both Danish investors and issuers, especially of bonds, including mortgage bonds. The bond market, which accounts for the largest percentage share of the Danish securities market, is large, even by international standards. The total issue of bonds at the end of 2010 amounted to a market value of DKK 4,049 billion (€543 billion) and turnover for 2010 amounted to DKK 35,438 billion (€4,757 billion).

A better distribution channel to investors in Europe will benefit issuers of bonds and the market as a whole, and the inclusion of a market of that size will benefit T2S.

3. What would be the disadvantages for countries like Denmark should their national currency not be settled in T2S?

T2S will be the benchmark for securities settlement, issuance practice and corporate actions. The disadvantages for the Danish market were it not to join T2S with the Danish krone could be that the existing barriers to efficient cross-border clearing and settlement, known as the Giovannini barriers, would be maintained instead of removed.

4. What do you view as the main criteria for evaluating the currency participation agreement?

Like every other agreement, the currency participation agreement should correctly and fairly describe the rights and obligations between us as central banks. The agreement has to ensure fair governance for the participating non-euro area countries.

INSIGHT

5. T2S governance has raised some debate regarding the outsourcing of national currencies in a platform run by the Eurosystem. What is your view on this matter?

Danmarks Nationalbank has outsourced the hosting and application development and maintenance of our RTGS system to an external IT service provider and our collateralisation system is operated by VP Securities. Moreover, we participate in TARGET2, which operates euro accounts for our Danish participants in TARGET2-Danmark. Thus, [we are fully comfortable with outsourcing Danish kroner to T2S, operated by our colleagues in the 4CB.](#)



BAYLE'S VIEW

THE GENERAL APPROACH TO T2S USER CONNECTIVITY

CSDs, central banks and their participants will be able to make use of the T2S services via two communication channels, i.e. either through a value-added connection or through a dedicated link.

The selection process for the T2S network service providers (NSPs) offering the value-added connections has recently been launched with the publication of the official tender notice and the detailed selection documents on the website of the Banca d'Italia (and a related communication on the ECB's website). Indeed, in accordance with the work allocation for T2S within the Eurosystem, the Eurosystem has mandated the Banca d'Italia to conduct the selection process and to sign a "licence agreement" with each selected NSP. For the purpose of the selection process, the interested NSPs will have to fulfil a comprehensive set of technical and business criteria, and will be asked to quote their maximum price for each connectivity service. The combination of these prices from each NSP, weighted according to the estimated importance of the various connectivity services, will result in a ranking of all NSPs, which will consequently be used to identify the two NSPs that will obtain a licence (provided they fulfil all other criteria). CSDs, central banks and their participants that want to use the T2S services through a value-added connection will have to choose one of these NSPs, but may freely negotiate the price of their connectivity services (up to the maximum quoted by each NSP). It is currently planned that the licences will be granted towards the end of this year.

Value-added connection or dedicated link?

Because the cost of value-added connections is typically based on data volumes actually transmitted, such connections are mainly intended to support entities with standard communication needs. Entities that expect to exchange large data volumes with the T2S platform, in particular to support real-time additional services like securities lending-borrowing, are likely to find the dedicated link a more cost-effective alternative. Via this type of connection, the value-added connectivity services are not delivered by an NSP, but are offered directly in T2S (by the Eurosystem) and in the systems of the T2S actors using such a connection. Besides the one-off implementation costs, entities using a dedicated link will only incur costs relating to the basic (mainly physical) connectivity, which are determined by capacity (i.e. bandwidth) rather than volume.

Two alternative options for the basic connectivity

With respect to this basic connectivity, the Eurosystem is considering two alternative options. One option would be to provide a so-called "concentrator", consisting of a few access points close to the T2S data centres. Dedicated link users will then need a provider of their choice to reach the concentrator. The other option would be for the Eurosystem to provide end-to-end connectivity services directly via CoreNet, the Eurosystem's existing communication network, which has access points distributed all over Europe. The Eurosystem intends to make a choice between these two options before the end of this year.

BAYLE'S VIEW

Ensuring high quality, cost-effective connectivity

With this overall T2S connectivity strategy, the Eurosystem provides CSDs, central banks and their participants with the option to select the communication channel that best allows them to meet their individual T2S business needs. **The Eurosystem believes that the competition thus created between NSPs and between communication channels is the best guarantee of high quality, cost-effective connectivity solutions for T2S.**



Marc Bayle, T2S Programme Manager and Head of the T2S Programme Office

INTRODUCING THE HARMONISATION STEERING GROUP

Market participants expect T2S to foster post-trade harmonisation. Consequently, the T2S community has launched and/or contributed to several harmonisation initiatives since the start of the project, for instance the agreements concerning the T2S User Requirements Document, message standardisation, process efficiency and work on corporate actions, to mention just a few [see <http://www.ecb.europa.eu/paym/t2s/harmonisation/activities/html/index.en.html>].

In March 2011 the T2S Advisory Group created the [T2S Harmonisation Steering Group](#). The group is chaired by Yvon Lucas and it comprises senior members of the T2S Programme Board and the Advisory Group. The Harmonisation Steering Group will support the Advisory Group in formulating and monitoring the T2S harmonisation agenda.

In this issue of T2S OnLine, we are pleased to introduce the people in this group and to highlight the key issues on their agenda.



Yvon Lucas, Chairman and member of the T2S Programme Board:

“There is a broad consensus on the fact that harmonisation of post-trade processes is key for reaping the full benefits of T2S. The Harmonisation Steering Group has been created by the Advisory Group in order to steer T2S harmonisation activities. It will provide guidance to the Advisory Group, for example with regard to which issues to prioritise, and it will also follow the implementation of harmonisation principles in all relevant markets.”

Currently, the key priorities on the harmonisation agenda are: T2S messages; the T2S settlement day schedule; corporate actions on flows; legal harmonisation; the settlement discipline regime; and settlement cycles. [See <http://www.ecb.europa.eu/paym/t2s/progress/pdf/hsg/2011-t2s-harmonisation-list-rolling.pdf?36e392638beb44a37927f75725b60af9>]

In addition to the Chairman, the group consists of 12 members representing the T2S community, as well as a rapporteur from the T2S Programme Office and an observer from the European Commission.

- Lucas, Yvon (T2S Programme Board and Chairman)
- Kalogeropoulos, George (ECB T2S Programme Office and Rapporteur)
- Godeffroy, Jean-Michel (T2S Programme Board)
- Wacket, Helmut (ECB T2S Programme Office)
- Bodart, Paul (Bank of New York Mellon)
- Hennebelle, Isabelle (Goldman Sachs)
- Lomas, Stephen (Deutsche Bank)
- Merere, Joël (Euroclear)
- Benito, Jesus (Iberclear)
- Carabelli, Paolo (Monte Titoli)
- Levi, Jane (AFME)
- Vainio, Hanna (Euroclear FI)
- Limburg, Ludy (Royal Bank of Scotland)
- Wolf, Andreas (Clearstream Banking)
- Observer Schieble, Christoph (European Commission)

You can follow the work of the Harmonisation Steering Group on our website at <http://www.ecb.europa.eu/paym/t2s/governance/ag/html/hsg/index.en.html>

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 community. 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, 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 to see how this works, www.t2s.eu). For those requiring more specialised information, the Insight section will offer 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 t2-s@ecb.europa.eu



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