T2S project update

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OMG meeting
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I. What is T2S and why does Europe need it?

II. Project timeline and major milestones

III. T2S benefits
What is T2S?

A single IT technical platform

An entirely new concept

A solution to the current fragmentation

Reversed integrated model

Multi-currency dimension
Why does Europe need T2S?

• Europe’s securities markets are too fragmented and inefficient.
• Lack of competition in services related to settlement.
• Europe needs a single pool of securities to stimulate competition and harmonisation.
• There is no other realistic Europe-wide approach to creating this single pool.

Making Europe a better place to invest and trade (in line with the Lisbon agenda)
The current scenario
The current EU settlement landscape

No integrated cross-border settlement process

- 19 CSDs in Euro Area
- 2 ICSDs
- 16 Other EU CSDs
The future landscape with T2S

Market participants

Custodians

CSD A  CSD B  CSD C  CSD x

TARGET2-Securities

One integrated settlement process (domestic and cross-border)

One technical platform used by CSDs for securities settlement
**What is the scope of T2S?**

**T2S concerns only the settlement function of CSDs!**

<table>
<thead>
<tr>
<th>Function</th>
<th>Description</th>
<th>Type of intermediation</th>
</tr>
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<tbody>
<tr>
<td>Notary function</td>
<td>Registration of issuer indebtedness and investor holdings</td>
<td>issuer / investor</td>
</tr>
<tr>
<td>Custody and asset-servicing function</td>
<td>e.g. coupon payments, redemptions, stock splits</td>
<td></td>
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<tr>
<td><strong>Settlement function</strong></td>
<td>Change of ownership among investors</td>
<td>buyer / seller</td>
</tr>
<tr>
<td>Banking function*</td>
<td>e.g. lending and borrowing</td>
<td>lender / borrower</td>
</tr>
</tbody>
</table>

*only in some (I)CSDs
What is T2S? How is it going to work?

Bringing on one technical platform all securities and cash accounts to settle all securities transactions
In a nutshell:

T2S is a quiet revolution!
Why is the Eurosysten suited to run T2S?

- Settlement in *central bank money* one of its core functions
- Commitment of the Eurosysten to *efficient and integrated* financial markets in the EU
- **Neutrality** of the Eurosysten as a supranational organisation
- Possible *facilitator* in balancing different requirements
- **No own economic interest**, cost recovery principle
- TARGET and TARGET2 *experience* in successfully designing and implementing Europe-wide infrastructures
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Past

Preparation phase

Feasibility study
- July 2006: Launch of the concept
- March 2007: Feasibility of T2S concluded

User requirements
- December 2007: Launch of public consultation on User Requirements
- April/May 2008: Revision of User requirements and offer to CSDs

Specification phase
- July 2008: Decision to build T2S following CSDs’ letters of intent
Decision to build T2S following CSDs’ letters of intent

26 January 2009
General Functional Specifications version 1.1

16 July 2009
27 CSDs signed the Memorandum of Understanding

November 2009
General Functional Specifications version 3.0
Since May 2009 a new Eurosystem body manages the project, reporting to Governing Council.
T2S programme Board

- **Composition**
  - 8 members (including two former CEOs of CSDs) and 4 alternates

- **Objective**
  - To ensure the Eurosystem delivers T2S on time, within budget and according to market needs

- **Important principles**
  - Represent the interests of the T2S project and the Eurosystem (and not of their own institution)
  - Governing Council remains ultimate decision-maker
  - T2S Programme Board is supported by the T2S Project Team

- **Responsibilities**
  - Preparation of strategic Governing Council decisions, daily management of T2S Programme and reporting, managing relations with 4CB/CSDs/other external stakeholders, validation of 4CB deliverables
External governance

• T2S Advisory Group is currently the only external governance forum
• Future external governance arrangement needs to take into account
  - The role of the T2S Programme Board
  - Future contractual relations between CSDs and the Eurosystem

External governance needs to be adapted
T2S pricing policy

- Consultation of AG members during the summer
  - Majority in favour of no volume discounts
  - Many users in favour of user discounts
- Discussion in the Programme Board in September
- Information of the AG
- Proposal to apply no volume discounts in T2S
T2S communication

- **Redesign of T2S website**
  - More user friendly
  - Work in progress
  - Publication of all relevant information
  - „Spotlight“ on latest information

- **T2S OnLine**
The vision is taking shape

An impressive number of CSDs – 27 in total located in 25 countries – signed the Memorandum of Understanding (MoU) on 16 July thus reinforcing their strong support for T2S.

This included not only all CSDs that exist in the euro area, but also seven CSDs located in EU countries outside the euro area – Denmark, Estonia, Latvia, Lithuania, Romania, Sweden, UK – and two CSDs located in countries outside the EU – Iceland and Switzerland. The CSDs of Denmark, Lithuania and Sweden – with support of their central bank and the market – also signed up for settlement in T2S in their domestic currency as well as in euro.

In early September, VPS (the Norwegian CSD) informed (an) letter, 65.9 KB) that it also decided to sign the MoU, and the Norges Bank (letter, 612 KB) declared its intention to allow also for settlement in Norwegian kroner in T2S.

We welcome them in the T2S community.

What is T2S?

Trading securities, such as stocks, requires “settlement”, meaning that securities and money are exchanged (usually electronically) between buyer and seller. In Europe, prices for settlement are far too high because there is still no single market for these services.

T2S will be the technical basis to make settlement in Europe faster and cheaper.

T2S Online

A quiet revolution in European post-trading

by Jean-Michel Godetmay

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 time”. As a rule, as it is indicated by its name, the newsletter will only be available online, on the T2S website.

EDITORIAL
T2S is OnLine

• Quarterly updates
• First hand information
• You can contribute
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T2S benefits for USERS

• significantly lower settlement fees for domestic and, in particular, cross-border transactions

• enabling market participants to optimise collateral and liquidity management

• reducing back-office costs by allowing market participants to streamline interfaces and centralise settlement activity

• providing new business opportunities, and access to new markets for asset-servicing
T2S benefits for PROVIDERS

• access to a technologically advanced, state-of-the-art, and highly robust settlement engine

• savings from no longer needing to invest in costly and risky IT projects to update their settlement infrastructure

• ability to take advantage of economies of scale from pooling together settlement volume across the whole of Europe

• providing new business opportunities, and access to new markets for asset-servicing
T2S benefits for EUROPE

• fostering a higher level of **competition** in Europe’s post-trade industry

• contributing to **harmonisation** of clearing and settlement in Europe, thereby promoting a Single Market for financial services

• reducing in the **cost of capital** for firms, thereby contributing to **economic growth**

• positive impact on **financial stability** by reducing settlement risks on cross-border transactions
Conclusion
The 5 big wins of T2S

Cross-border settlement as inexpensive as domestic

Reduced users’ collateral/liquidity needs

Harmonising settlement to make Europe a true Single Market

Users will only need an account at one CSD to settle any transactions in securities within T2S

Create new opportunities for competition
The Eurosystem and the market believe in T2S and are ready to take the challenge and invest in it.