To Members of the Market Infrastructure Board

T2S pricing review – Market advice

Dear Members of the MIB,

As envisaged by the T2S Framework Agreement, AMI-SeCo’s market advice has been sought on the MIB draft proposal for T2S pricing review in preparation of further submission to the ECB decision-making bodies.

The AMI-SeCo held in this regard a preparatory workshop with a subset of members on 8 May 2018 to gather input on this dossier. On this basis, a proposal was submitted for consideration by AMI-SeCo in an ad hoc meeting on 17 May 2018.

Considering this proposal, the AMI-SeCo raised the following points as part of its market advice to the MIB.

The AMI-SeCo generally supported the revised proposal for T2S pricing, revolving around the following elements:

- no change to the weighing of the pricing structure;
- extending the cost recovery period to 14.5 years;
- volumes starting point: 128.5 million transactions for 2017;
- estimated volumes growth baseline (p.a.): +3.4% (2018-2022); +3.7% as of 2023;
- annual 4CB operational costs (revised and including the T2-T2S consolidation as well as cyber resilience): €76.7m (2015-2018); €61.4 m (as of 2019); €55.2m (as of 2022);
- estimated theoretical DvP price after cost recovery: 0.05 per instruction;
- regular monitoring of the cost recovery speed without fixing specific intervals for new pricing revisions which would rather be based on common observations on the recovery trends.

AMI-SeCo recognised that the T2S transaction price will need to be adjusted as a result of different developments and measures which influenced the current DVP price (15 eurocent), namely: 1.2 eurocent linked to cyber-resilience related initiatives, 0.8 eurocent linked to the loss of revenues due to the delayed migration, 2.5 eurocent deriving from the new cost situation (including cost of delayed migration as well as the benefits from the T2-T2S consolidation) and 4 eurocent due to lower volumes compared to those anticipated by the market at the time of setting the reference price of 15 eurocent. As a result, the new DVP price would reach 23.5 eurocent.

AMI SeCo suggested:

- Clarifying that the 15 eurocent (current DVP price) and the proposed 1.2 eurocent increase (cyber resilience) represent business as usual while the proposed 0.8 eurocent increase represents a correction linked to the loss of revenues due to the delayed migration.

- Clarifying that adjustments to the DVP price can be made in both directions, depending on volume developments over a significant period.

The AMI-SeCo further suggested to present the proposal distinguishing between 19.5 eurocent determined by the current volumes and costs situation and a 4 eurocents add-on linked to the volume developments, while the 23.5 eurocent remain the basis for the pricing structure.

Going forward and beyond the current discussion on the T2S pricing review, AMI-SeCo supported discussing actions to increase volumes in T2S. I will keep you updated of the outcome of these discussions.

Yours sincerely,

Marc Bayle de Jessé
Chair of the Advisory Group on Securities and Collateral