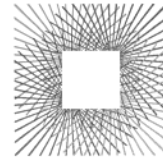


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*The* **BANK**  
*of* **NEW YORK**

Dear Jean-Michel,

I am writing following the recent transmittal to your services of the official BNY response to the Eurosystem consultation paper on the General Principles and High-Level Proposals with respect to the TARGET2-Securities (T2S) User Requirements.

From the public discussions on T2S, I perceive two fundamentally different visions of the T2S project.

One vision is that T2S is fundamentally just a technical platform that supplies technical services to CSDs. In this vision, T2S may bring benefits to market participants; it may reduce costs, and it may contribute to harmonisation; but such benefits are relatively marginal as T2S does not bring about any substantive changes in the existing structure and mode of operation of European securities markets.

The alternative vision is that T2S will function for market participants (i.e. for CSD users) as an element of core centralised European securities market infrastructure. Under such a vision, there will be substantive changes, very significant cost reductions, and considerable increases in efficiency, as T2S will contribute to eliminating the segregation between different European securities markets, and to creating a single, unified European securities market.

I share this second vision of T2S, and am confident that the European Central Bank also shares this vision.

I believe, however, that there are risks that the T2S project will not realise this vision.

To my mind, there are two key pre-conditions for the success of T2S. The first is that the principles of the T2S do not artificially restrict the development of functionalities within T2S that would be in line with this vision; the second is that the functionalities of T2S do actually provide market participants (i.e. CSD users) with a usable piece of centralised infrastructure.

### Principles of T2S

I have a concern that some of the principles, notably Principles 3, 5, and conceivably 20, as well as Proposal 67, are – in their text, or in their explanatory comments - excessively restrictive, and hamper the realisation of the vision.

The fundamental point is that a limitation on technical functionalities, coupled with a preservation of existing national market particularities, will necessarily maintain segregation between national markets.

I fully understand that for pragmatic and project management reasons there will be a strong desire to limit the technical complexity of T2S, as it is built in 2013. It is, however, critical that the planning of the T2S project ensures that the T2S system will have the possibility to continue to develop after initial implementation. There should not be Principles in place whose application would tend to restrict the future evolution of a centralised infrastructure, and the future creation of functionalities that would be of benefit to the European securities market as a whole.

#### Functionalities of T2S

I have a concern that the specific functional requirements that will be necessary so that market participants (i.e. CSD users) can operate in reality in a unified European securities market will not be realised.

Such key functional requirements include : (i) the possibility of direct technical access (as set out in Principle 11) for accounts held at multiple CSDs, and (ii) a harmonised and efficient process for managing corporate events.

There are four fundamental considerations : (i) any – de jure or de facto – restriction on CSD users accessing T2S directly will tend to maintain the segregation of national securities markets; (ii) the cost and complexity of managing unharmonised corporate event processes may well create a de facto restriction on CSD users accessing T2S directly; (iii) changes in ownership of securities as processed on T2S will cover not simply settlement of security transfers related to market transactions, but also the transfer of securities and resources linked to corporate event processing; and (iv) in an environment of multiple CSDs and of multiple issuer agents, there will be cost and efficiency benefits for corporate event processing if there is a harmonisation of national particularities, and a use of a centralised messaging infrastructure.

To conclude, I would like to express my hope that these comments will be of use for the many crucial decisions on the future shape of T2S that will be taken during the coming months.

I wish to assure you of The Bank of New York's continued interest in the T2S project, and of our commitment to be an active participant in the forthcoming discussions on User Requirements.

I wish to thank you and the European Central Bank for the openness that you have shown, and for your willingness to engage in public consultation on the T2S project.

Very sincerely,



Paul Bodart