

26 June 2007

The Secretariat
European Central Bank

Dear Sir / Madam,

We welcome the opportunity to respond to the TARGET2 Securities (T2S) consultation.

Capita Registrars provides a wide range of services (including registration and corporate actions) to over 1400 listed companies in Ireland and the UK. We are currently members of the Irish and UK CSD, CREST and, consequently, we are extremely interested in the possibility of a European wide settlement system proposed by the ECB and are enthusiastic regarding the objective of reducing cross border costs in this area.

Overall, we welcome the idea of a European wide solution to settlement functions but, as yet, we are unable to provide a definitive opinion on whether the proposed solution should be progressed as so little information is available in relation to the areas we are most interested in, namely registration and corporate actions. From the documentation available so far we could not support the proposal as it seems to have negative impact for our clients although we would welcome the opportunity to discuss our issues with you to ensure that, should a solution be progressed, all sectors of the market receive benefits.

We understand that, at this stage, no decision has been taken on whether T2S is desirable and we feel that this is positive news in the absence of concrete benefits and detail. We are, however, concerned that the tone of the recent documents is that the project has been agreed by the market even though this is not the case. We would ask that this is addressed in future consultations.

In addition to the feedback form, we would like raise 9 main issues that will determine our final view on the proposal and whether we will encourage our CSD to take part in the system or remain independent.

1. Clarity. We are concerned that at this stage there is still hardly any detail relating to issuers and the impact on them. The feasibility study and the consultation do not provide enough information on either registration or

corporate actions. Settlement cannot be divorced from these two issues and it is vital that the ECB take this into account as soon as possible.

In relation to the spreadsheet and the consultation we are worried that the responses may be used to determine support for the proposal rather than determining the real requirements. This is because the proposals at this stage are so high level it is very difficult to completely agree or disagree until all details are known. Consequently, we would like to state that our answers at this stage are indicative only and subject to change once we obtain greater detail.

When will the ECB provide proposed solutions for registration, corporate actions and all other issuer activities?

2. Corporate Actions. The little information that is available regarding corporate actions shows a lack of understanding regarding the complexity of the associated processes. The papers seem to address corporate actions from a very limited perspective and for issuers to be comfortable with T2S much more is needed. For example, the feasibility study does not recognise that corporate actions are real time, intra day, reliant on settlement and time critical. Equally, some corporate actions are multi currency. We do not understand how these will be processed in T2S.

Please can you provide an indication of which user requirements paper will include such detail?

3. Finality. In Ireland, finality (i.e. registration) occurs very quickly after settlement (as Electronic Transfer of Title has not been enacted in Ireland in the absence of a local CREST platform). This must continue. The current consultation and previous feasibility study suggests that finality will be an end of day process and we believe that this would not be an acceptable solution. This is because finality is a key requirement for all market participants and the risks inherent of delaying finality from today's situation would mean a backward step for the market.

Please can you confirm that the ability for time critical registration will be available at no extra cost than today?

4. Fragmentation/Liquidity. We note from the paper that all euro settlement will be via T2S but that settlement in other currencies will be via other platforms. Although we understand the logic behind this, we are concerned how this will impact settlement liquidity for our issuers. As you know, many Irish securities are also traded in London against sterling and many market participants have significant US investment. The CREST settlement system allows multi currency settlement and this has provided excellent settlement liquidity for our securities. If holders will now have to fragment their holdings on a currency

basis we fear this will lead to less settlement efficiency and potential impacts on liquidity. This is an important issue that needs to be addressed.

Can the ECB please provide details of how the system will provide multi currency settlement so as to avoid the fragmentation and loss of settlement efficiency that a purely euro system will create for many securities?

5. Shareholder transparency. Reading the consultation paper, it is clear that the proposal has great benefits for global custodians and that it is expected to see a consolidation towards their accounts. In the past this has led to a degree of internalisation and fewer transactions being settled across fewer accounts. This creates a loss of transparency for the issuer and we would be interested in the ECB's view of this issue. At first sight it appears that the consequences of the proposal would be at odds with the recent EU directive on shareholder rights and its future aims in this subject.
6. Benefits. We are most concerned that the feasibility study vastly overplays the benefits of the solution. It is clear that CSDs will not be able to decommission their systems and will have to spend considerable sums of money to be part of the system. Consequently, although global custodians will clearly benefit we cannot see benefit for the issuer community at this stage. Conversely, the consultation and feasibility analysis suggests that for issuers:
 - a. costs may increase due to extra layers in the settlement process and CSD costs increasing. Overall, there is a risk that CSDs' current pricing models will change as a part of their cost recovery mechanism is removed whilst all functionality (paper interfaces, corporate actions, multi-currency settlement, etc.) must be maintained. T2S may achieve a reduction in "Eurozone cross-border" settlement costs but potentially at the expense of the larger volume domestic and "non-Eurozone cross-border" costs increasing and therefore overall costs increasing;
 - b. settlement efficiency and shareholder transparency may reduce for our client base; and
 - c. corporate action risk will increase due to the extra link in the chain. i.e. unlike today, CSDs will have to set an election deadline prior to the issuer deadline meaning investors have less time to make a decision and respond potentially impacting the success of the event. Please note that there are strict rules relating to the announcement of results for such events and any time delays in the process will have a negative impact.

It should be stated that we are in favour of consolidation and harmonisation and would like to see more done in this area. Therefore, whilst we do not see particular benefits at this stage we would welcome the opportunity to work with the ECB to see how best to progress in this area and identify potential benefits.

CAPITA

REGISTRARS

7. Scope. We note that the scope of the project has increased since the feasibility study. Does this mean a new feasibility study will be published during / post the user requirement phase?
8. Timetable. Although we note and applaud the ECB's drive to move forward, we are concerned that the consultation phase favours the larger players. This is due to the very aggressive timetable suggested by the ECB and the fact that smaller market participants simply do not have the resources to take part in the process to the same degree as for larger firms. Added to the fact that the consultation process is throughout the summer period we would request that the ECB follow the standard practice for consultation, namely 2 – 3 months of consultation per paper.

Could the ECB please confirm that all consultation papers will have a minimum of 2 months for response?

9. Harmonisation. The ECB rightly concludes that cross border processing is expensive. Whilst the T2S initiative will help in this regard for settlement, it does not help matters where the real costs are, namely corporate actions and tax. We would be interested in the ECB's views on this matter.

We hope our response is of help and we look forward to your reply addressing the outstanding issues that we have. We would be delighted to discuss these points in more detail and provide assistance to you in relation to issuer activity.

Yours sincerely,



P.G. O'Donoghue
Managing Director