



DANISH BANKERS ASSOCIATION

To
European Central Bank
Secretariat Division
Kaiserstrasse 29
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Germany

T2S Consultation Paper: Principles and High Level Proposals

Please find in this letter a joint contribution from the Danish National T2S User Group (NUG) on the T2S Consultation Paper: Principles and High Level Proposals that was released for public consultation on 26 April 2007. The Danish NUG represents all major users in the Danish capital market, including mortgage banks, banks, institutional investors, VP Securities Services and Danmarks Nationalbank.

We welcome the consultation and the opportunity to contribute to the T2S project. You will receive individual responses from individual organizations in the NUG to the 67 proposals. This letter addresses a number of issues of major common importance to the NUG.

Settlement in other currencies than EUR

As Denmark has not adopted the euro, we must be able to maintain our well functioning domestic currency clearing and settlement system in parallel with the future euro settlement facilities provided via TARGET2 and T2S. Domestic clearing and settlement benefit from highly efficient liquidity saving techniques for collateral management, which we consider as key assets also after the introduction of TARGET2 and T2S. The majority of securities transactions in euro (in volume as well as in value) are settled via night-time batch procedures. We therefore welcome indications that we will be able to participate in the envisaged T2S night-time settlement. Finally in order to provide legally mandatory securities services the Danish CSD need access to maintain its securities holdings as well as static data also on 1 May which is the only Danish banking day for settlement in DKK and corporate actions outside the TARGET calendar.

Single investor account setup

A key characteristic of the Danish securities infrastructure is the single investor account setup which provides the backbone of a number of current very efficient "end-to-end" value chain functionalities. In order to allow us to maintain at a minimum this current level of functionality, we strongly encourage you to design single investor account structure as part of the core functionality in T2S.

As you know, the single investor account structure is used also in the other Nordic countries, in Greece as well as in many markets in Eastern Europe.

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In our view the transaction cost is independent of the account structure, but the use of single investor accounts will result in a larger number of T2S transactions which again equates to smaller unit costs.

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Communication and interfaces

In order to maintain the current service level the NUG finds that a push-interface with real time update between the T2S platform and the CSD/users is crucial. In our view the push-interface has several advantages vis-à-vis the request based setup and both types of interfaces should be offered to the users. Since we need to have both a domestic system as well as T2S implemented in our infrastructure it is of paramount importance, when for instance processing corporate actions, that the accounts in the Danish CSD are updated continuously via a real time feed from the T2S platform. In conclusion, a push-interface seems of major importance for all CSDs that maintain securities balances on their own separate platform.

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Mortgage bonds

The Danish mortgage bonds market contains some elements and characteristics which are specific for the construction of the product and hence also for the systemic treatment in the Danish CSD. The T2S system should be able to handle the characteristics of Danish mortgage bond structure for instance:

- The issuance of bonds is a continuous process with daily tap issuance – directly linked to the demand for loans to finance real estate.
- The mortgage bonds are issued, traded and redeemed in nominal values with decimals.
- Drawing for redemption is a mark up on the basic ISIN and is in compliance with upcoming ECSDA corporate action recommendations. It is important that the settlement system is able to distinguish marked and non-marked bonds within the same ISIN.

The issues presented in this letter represent the common view of the Danish NUG and are the primary concerns of the Danish market participants. The joining of T2S should ideally not compromise any existing functionalities in any European market. The Danish NUG follows the T2S project closely and is at your disposal for cooperation on the topics presented in this letter as well as on any other issues.

Yours sincerely,

The Danish National User Group