

The Swedish National T2S User Group

April 1, 2008

European Central Bank
Attn.
T2S Project Team
Kaiserstrasse 29
D 60311 Frankfurt am Main
Germany

T2S URD Consultation feedback from Swedish NUG

Dear Sirs,

The Swedish NUG has chosen not to comment in detail on the T2S URD but we would like to comment on some particular areas of concern out of a Swedish perspective and hopefully also of importance to the overall T2S project.

General

The Swedish banks have for a long time been strongly in support of a consolidated infrastructure and have also been very active in the consolidation process in the Nordic countries. It is therefore natural for us to be supportive of an initiative that will further drive consolidation in Europe and by that increase efficiency in cross-border trading.

Governance

The possibility to influence is of utmost importance and this is an area of concern for us. Banks, being the core users of CSDs and as such, must be part of any potential additional T2S governance structure being put in place for the next phase. Market infrastructures such as regulated markets should also be included in the governance structure of T2S in order to ensure a smooth operation of the entire value chain.

When creating the governance structure for T2S in production it is important to create a governance structure that make it possible for all countries to have influence.

Business case

It is absolutely essential that T2S contributes to bring down the cost for the industry and to enable cross border transactions at a lower cost than today. Still the picture is unclear and we see this as a major hurdle to overcome before it is possible to commit to T2S. For the industry it is very important to look at the full cost for the infrastructure which would include the cost for the local CSD as well as the cost for participants in setting up interfaces.

Change in the role and responsibility of the CSD

T2S would change the role and responsibility of the CSDs dramatically. Although T2S is marketed as a system project where CSDs outsource part of their systems to T2S, it is unlikely that the CSDs can monitor and take responsibility for the settlement process in the same way as today. In the specifications, CSDs are not given access to monitor the dedicated central bank money accounts. In addition, the balances on the central bank money accounts are to be used for the settlement of all securities and participants in T2S, where each participant can be

connected to T2S via one or more of the CSDs. The CSDs are responsible for the securities accounts, but since there is one common settlement process and common dedicated central bank money accounts, the monitoring have to be centralised. With one single process and common system structure, it will not be possible to have different rules at the respective CSDs in T2S. Hence, individual CSD must no longer determine local settlement rules.

The changing roles between banks and CSDs

T2S will give the CSDs a possible mandate to move up value chain. However large investments may be needed and there are well established competitors.

In order to enable CSD to compete like custodian, most likely CSDs have to internalise and net settlement transactions in their systems. In the separate work on the Code of Conduct within the ECSA framework, it has been established that very few of the known requested links between infrastructures have been user driven.

T2S platform also enables CSDs to act as ICSD, offering all European securities. However, this brings about a need to establish links to all other CSDs in order to handle corporate actions and other asset services. Likely, in order to be competitive, local agents have to reshape their business and become global custodians. In addition there will be a requirement to lower the production cost.

This will in the end mean competition both between CSDs and Custody banks and between CSDs. The changing roles and increased competition may lead to lower costs for the participants but may also in a longer perspective lead to a situation with higher concentration to a few large participants and CSDs, a situation which not necessarily guarantees high competition and low costs. In addition, it is also essential to look into the situation were CSDs, when they move up the value chain, take on new risk as this will also create a demand for capital increase for most CSDs.

T2S should ensure a level playing field between directly connected custodians and CSDs, including functionalities available and cut-off times.

Asset Servicing

Splitting Asset Servicing and Settlements will not be efficient. The functions related to clearing & settlement may be more harmonised in the T2S platform but the processing of corporate actions are likely to become more complex. Although T2S is planned to include functionality enabling processing of corporate actions, the T2S platform may not be optimised for interaction with all corporate action systems.

There is a risk that the T2S project will bring less focus on harmonisation and development in corporate action processes. Harmonisation within the areas of asset services could potentially bring about greater costs savings and reduction in risk compared to the area of clearing & settlement. In fact, the major obstacles today in connecting to local CSDs are related to the handling of corporate actions, tax matters and legal issues. It has been stated by EBF that every other post trading development initiatives should be on hold.

Investor Accounts

Shareholder accounts and the registrar of beneficial owners is an essential part of the structure of the Swedish banking market. The services provided to the retail market are extensive and the Swedish market is extremely dependent on an efficient process for the Investor Accounts.

In principle all branch offices of the banks have access to the accounts and can generate changes of static data, transfer of holdings, pledges and numerous other activities. Reports are generated to authorities as well as issuers.

This is a structure that has to be supported by T2S and it is not clear if T2S will be able to support the services needed as well as the business case in transferring 4 million accounts to T2S.

Issuer Services

System and processes for issuing services are extensive in the Swedish CSD and form an integrated part of the structure. The Issuers' choice of CSD will be dependent upon matters such as cost, local legislation, specific issuer services and their investors cost and access. Hence, Issuers may force upon Issuer CSDs to develop links to other CSDs and/or connect to T2S.

Risk

Although more efficient use of central bank money, T2S also brings about a dependency on participants in other markets. Failures of participants in one market, for example bankruptcy or simple mistakes and errors in producing payment capacity in time, will also affect the settlement of securities in the other markets, which today are unaffected. Hence, the centralisation of the settlement process brings about higher efficiency but also higher complexity and dependency on failures of any participant. This also stresses the need for a common set of rules and regulations and centralised monitoring of the settlement process.

Concentration to one settlement platform increases the impact in case of failures in that platform and the communication network used.

The risk for the project and implementation would increase significantly if CSDs and market participants are forced upon the T2S platform. In addition, the fact that CSDs are expected to compete with each other at the same time as they need to agree upon functionality and prioritisation increases the project risk as T2S changes the competitive environment.

Summary

The Swedish NUG supports the project and will continue to follow it closely. Due to the number of open questions it is not possible for the Swedish NUG to give a clear commitment to include the Swedish currency at this stage. We will actively continue to work with the project and take part in the developments of functionality that are beneficial for the financial markets.

Yours sincerely,

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