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Mr Jean-Michel Godeffroy
Director General Payment Systems and
Market Infrastructure
European Central Bank
Kaiserstraße 29
60311 Frankfurt am Main

Cc: Mr Marc Bayle – T2S Programme Manager

ecb.secretariat@ecb.int

10178 Berlin
Burgstraße 28
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Comments of the Zentraler Kreditausschuss on the Eurosystem Consultation on the draft User Requirements for TARGET2-Securities

Dear Mr Godeffroy,

Thank you for the opportunity to comment on the draft User Requirements and the Economic Impact Analysis of 18 December 2007. As you know, the ZKA was closely involved in the work of the German National User Group, which submitted its response on 27 March 2008. We fully support the User Group's conclusions and will confine ourselves in these comments to addressing a few selected points. For ease of reference, we have also summarised our views in the Excel template provided (see enclosure).

The ZKA has played a constructive role in the Eurosystem's project to establish the TARGET2-Securities platform from the outset and continues to support the objectives of making securities settlement more efficient, secure and inexpensive and of moving forward the integration of Europe's financial markets. The momentum and progress on T2S achieved to date are due in no small part to the support of the banking community. This support was expressed at various critical moments in the course of the project but at the same time has always been linked to certain conditions concerning the design of T2S. We would therefore

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like to use this opportunity to highlight certain conditions associated with the User Requirements and Economic Impact Analysis and also to outline a few other concerns.

- **Business Case**

The underlying business case of T2S is crucially important for the banks in their capacity as future users of the system. Given that T2S is intended not only to reduce the cost of cross-border settlement but also to replace national settlement platforms, end-to-end costs for settling domestic transactions should not exceed the domestic prices applying in 2013. These end-to-end costs should include the cost of using both the T2S platform and the functions which will continue to be undertaken by national CSDs. The oft-mentioned figure of 29 euro cents should be verified on the basis of the Economic Impact Analysis. To provide users with planning certainty, the result could be set as a ceiling. Although the German banks have accepted the compromise reached on the matching issue, we nevertheless believe that harmonising matching in T2S would further strengthen its business case. We would also point out that the requirements in Chapter 9 and Annex 10 on connections with external CSDs seem excessively complex and costly. It is true that, on the one hand, T2S aims at inducing as many CSDs (and thus markets) as possible to participate in the project. On the other hand, however, the business case of the project should not be weakened by the time and expense involved in establishing links with external CSDs unless this is unavoidable because other currencies are involved, for example.

- **Level playing field**

To achieve the desired objective of promoting more competition in the area of securities settlement the T2S platform must be competitively neutral. When it comes, for instance, to direct access – a highly important issue for the banks – CSDs must not be allowed to set framework conditions which will prevent a level playing field between custodians and CSDs. A further example is fails management, where the same deadlines should apply to all participants.

- **Harmonisation**

Harmonisation has a key role to play in establishing an integrated internal market for financial services. We believe that further efforts are needed in this area alongside those already underway by the Eurosystem and market participants. All participating CSDs should undertake to offer their clients a hold and release mechanism, for example. Night time settlement should also be provided by all CSDs in the same form. Efficient standards already achieved in national markets should be used as best practice. Although not an issue directly linked to T2S,

harmonisation of arrangements for providing collateral to central banks offers enormous cost-cutting potential for the banks and is therefore vitally important, in our view.

- **Cash accounts**

We believe it should be possible to link a dedicated cash account to the RTGS account at any central bank. The condition that the RTGS account must always be at the same national central bank as that holding the T2S account is at odds with the objective of enabling all securities transactions in Europe to be settled through one T2 account. It is also important to be able to prioritise certain cash accounts. We consider this function existing best practice for market participants which use one or more banks as cash providers (see letter of 3 March 2008 from the German National User Group to the Advisory Group, a copy of which is enclosed). We do not consider this function a national specificity since it offers benefits to all participants and is less regionally limited than the rules on repo transactions, for example.

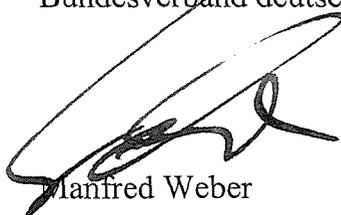
- **Cash forecast**

A more extensive cash forecast than that outlined in the User Requirements would be greatly advantageous to liquidity management. One possible improvement would be to inform T2S users how much central bank cash they could generate by auto-collateralisation.

May we conclude by reiterating our belief that the involvement of the market has been one of the main contributing factors to the project's success. We therefore urge the ECB to continue to pursue this tried and tested strategy and would be happy to discuss the issues raised in our comments at any time.

Yours sincerely

on behalf of the Zentraler Kreditausschuss,
Bundesverband deutscher Banken



Manfred Weber
Chief Executive



Herbert Jütten
Managing Director

Enclosures