

THE NEW T2S PRICING PROPOSAL



One of the guiding principles of T2S is that it should fully recover its development and running costs, namely:

- (i) the costs incurred by the four central banks (Deutsche Bundesbank, Banca d'Italia, Banque de France and Banco de España) involved in the development and operation of the settlement platform;
- (ii) the ECB's costs for coordinating activities and supporting the T2S Programme Board;
- (iii) the cost of capital;
- (iv) the funding of a contingency reserve.

To this end, in early September 2010, the T2S Team presented the T2S Advisory Group with different scenarios for a provisional price calculation that take account of the various geographical reaches of T2S and of different cost recovery periods. The result of this mathematical exercise was a proposed price range of between 12 and 24 cent. The T2S Programme Board then asked the T2S Advisory Group for its advice in defining the pricing policy for T2S.

In light of the market feedback, the T2S Programme Board has decided to refine certain parameters for the T2S pricing proposal.

Weighting of settlement services in generating annual revenues:

The T2S Programme Board has decided to propose that 75% of T2S revenues are generated from settlement services and 25% from information services. This share of revenues from settlement services is still high in comparison with current market practice but reflects a compromise between different views expressed by market participants.

T2S cost recovery period:

The September pricing proposal contained two options for the cost recovery timeframe: i) within six years of full operation (and one year migration); or ii) within seven years of full operation (and one year migration). Given that the software underlying such market infrastructures is normally operational for a very long time before the advent of a new software generation, the T2S Programme Board has decided to propose a cost recovery period of seven years of full operation (and one year migration).

Currency coverage of T2S:

The September proposal contained five different scenarios regarding the currency coverage of T2S. However, the T2S Programme Board considered that it was more appropriate to separate the pricing proposal from the participation of specific non-euro currencies. It has therefore made the conservative

assumption that non-euro currencies would add only 20% in terms of settlement volumes, compared with euro volumes.

Taking the above changes into account, the T2S Programme Board will propose to the ECB's Governing Council, early next year, that **the price for a DvP instruction in T2S be set at 15 cent.** This new pricing proposal remains consistent with the principle of full cost recovery, while also coinciding with the objective that T2S has always pursued, i.e. to achieve a settlement fee that is lower than any current domestic fee, even if the cost of CSDs are added to the T2S fee. To reassure both the market and CSDs, the T2S Programme Board will also propose that this fee be maintained unchanged until the end of 2018 under the following conditions:

- non-euro currencies add at least 20% to the euro settlement volume;
- the securities settlement volume in the EU is not more than 10% lower than the volumes projected by the T2S Programme Office, which in turn are based on market advice;
- tax authorities confirm that the Eurosystem will not be charged VAT for T2S services.

The T2S Programme Board acknowledges that there are many unknowns regarding future developments, which make a price guarantee beyond 2018 difficult. There are, however, factors suggesting more positive developments, in particular the probable increase in volume due to dynamic effects generated by T2S. Moreover, the Programme Board is confident that the volume generated by non-euro currencies will be significantly higher than 20% of the euro traffic. As a result, the T2S Programme Board believes that the upside effects are significantly stronger than the downside risks and emphasises its objective **to further lower settlement fees beyond 2018.** Nevertheless, the Programme Board will propose to the Governing Council to commit that, even in the most unfavourable case, settlement fees will not increase by more than 10% p.a. for the four years after 2018.

