

T2S WILL DELIVER

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I would very much like to thank my friends at Monte Titoli and the London Stock Exchange Group for inviting me to speak at this very interesting event on T2S today.

When we initially presented the T2S concept back in the summer of 2006, it generally triggered a lot of enthusiasm among the banks but also many questions and concerns in the world of CSDs. There were doubts whether a public authority, like the Eurosystem, would be able to complete such an ambitious project. Nevertheless some CSDs, such as Monte Titoli, shared our vision and trusted us right from the beginning. Such support has been essential to consolidate the T2S idea and to make it credible.

Like all major European endeavours, T2S require solidarity to succeed and Monte Titoli has played an important part in building this sense of solidarity between the Eurosystem and the CSDs. I would like to thank warmly Monte Titoli and the London Stock Exchange for their support during the last years.

Has Monte Titoli made the right choice in trusting us since 2006? Is Monte Titoli making the right choice in migrating to T2S as early as technically feasible, i.e. in June 2015. In my speech today, I would like to explain why I think Monte Titoli has placed itself very well in view of reaping the T2S benefits.

In more concrete terms, I would like to take the opportunity of this speech to express our determination to deliver T2S on time, and also to express our conviction that T2S will deliver the wide range of benefits that have been promised.

The first message I would like to pass is that I am convinced that we will deliver the T2S platform on time and in line with what the market wants. The project is of course a very large and complex one: many different stakeholders are involved; total investment costs are likely to approach 400 million; from the start of specification to the go-live, the project will have taken 7 years.

All of us know that accidents can always occur during development or during testing of such huge projects. It would therefore be very presumptuous on my side to express any unconditional assurance

concerning the delivery of T2S. But, in recent months, I have seen more and more traffic lights going to the green colour and this is very reassuring.

Let me start by the situation on the legal documentation. We have now finalised a model contract with CSDs, the Framework Agreement, and another one with the non-euro central banks, the Currency Participation Agreement. I know that some CSDs consider that the Framework Agreement is too favourable to the Eurosystem. But I can tell you that many of our lawyers complain that the Eurosystem is exposed to too many risks. It was not easy to find compromises on all issues because the agreement is unique in many respects. The negotiations lasted for more than two years and it would not be reasonable to re-open it. The negotiation is over; but if there are parts which are perceived as ambiguous, I think we should urgently clarify them.

The technical documentation is also on a firm footing. CSDs have until June to finalise their feasibility analysis and we feared that some showstoppers which we had yet not been identified come to the surface during this stage. We have already received many requests for clarifications, but no indication that the software would have to be substantially amended in order to make T2S work. This is extremely good news! Moreover, the suppliers of the T2S software – the so-called 4CB – are proceeding well with the development work and appear comfortable with the current timing. They have already developed 60% of the software and they have already successfully tested 15% of it.

On connectivity, which was a big issue last year and a serious risk to the project's timing, we are now also back on the right track. The value added network providers have been selected. SWIFT and a consortium composed of SIA and Colt have won it. The Governing Council has also decided to use the very secure CoreNet3 system as a basis for the dedicated links solution which will be run in parallel with the SWIFT and SIA/Colt. We have almost finished specifying the dedicated links solution. It is taken a bit more time than anticipated because we want to be absolutely certain that the dedicated link solution cannot be seen as competing unfairly with the two value added network which have been chosen. My understanding is that the combination of the three solutions will end up with a very inexpensive solution for market participants.

The only major indicator which is not – yet – green is the answer to the question: “Will the CSDs sign the T2S Framework Agreement?” I am reasonably confident that all major CSDs in the euro area will sign by June at the latest. In any case, we have always made it clear that the CSD adoption risk is a risk for the Eurosystem which we are not sharing with the CSDs. We will commit to deliver T2S as soon as the first CSD signs the Framework Agreement end of April 2012, and we will not change our fees if some CSDs in the euro area do not sign.

Outside the euro area, the short term perspectives are less favourable because non euro currencies will not join at the beginning. But market participants in Scandinavia want to join, albeit at a later stage. In Switzerland and in the UK market participants are divided but can be convinced if T2S works well, as I expect. Central and Eastern Europe will join at the latest when these countries adopt the euro.

In this context, I hope you understand why I am convinced that the Eurosystem will deliver T2S in 2015, as promised. My second message for you today concerns what T2S is going deliver. In other words, will

T2S deliver the benefits that we have promised? I would like to highlight what I see are the main advantages T2S will bring to you.

The *raison d'être* of T2S is to strengthen further the single market, forever doing away with the concept of cross-border transactions. With T2S, cross-border settlement will be just as fast and safe as domestic settlement. The same fee will be applied to both cross-border and domestic transactions, implying very large reductions of around 90% in cross-border settlement fees from day 1! Trading “foreign” securities and carrying out “cross-border” repos will become cheaper, safer and easier. In itself, this benefit is so important, financially for the market, and also from a public policy perspective, that it makes the T2S business case unchallengeable.

For domestic transactions, I also expect that in most countries – the smaller markets, which cannot yet reap economies of scale – T2S will trigger a price reduction right from the start. For CSDs in bigger countries, I realise that it may be more challenging to lower their production costs for domestic transactions immediately. There are several reasons for this: T2S is complex and therefore expensive to build; CSDs have to invest to adjust to T2S; in some cases; the settlement engines used by CSDs are rather old and therefore largely amortized; in other countries, the CSDs rely relatively little on settlement fees and more on other sources of revenues. For all those reasons, I cannot guarantee that in 2015/2016, T2S will trigger a reduction of the domestic settlement fees in all markets.

I know that Monte Titoli already today offers some of the best prices in Europe and I would like to encourage them to find a solution which would avoid that some of their customers pay more with T2S than they paid before.

But I would like to underline that no CSD is so big that it cannot benefit from the economies of scale that T2S will bring. It is clear to me that, in the medium term, domestic settlement costs will be lower for everyone with T2S than without. And, in the fullness of time, as T2S proves itself to be a success, more and more settlement volumes – including from non-euro area countries that did not join T2S in the first phase – will inevitably migrate over to the platform, leading to even lower settlement fees.

The second main advantage of T2S that I would like to highlight today are the efficiency gains in back office processing. Many studies have shown that the reduction in custodians' back office costs is one of the key sources of gains resulting from harmonised, borderless settlement. In the current fragmented environment, where local settlement procedures differ significantly, custodians tend to maintain separate back offices in order to interact with each CSD, or else employ a local sub-custodian to carry out the task on their behalf. The single technical T2S platform will not be enough to allow banks to reap all benefits of back office consolidation. This is why the Eurosystem has agreed to become heavily involved in the harmonisation work which has been progressing too slowly after the fundamental Giovannini principles were issued in 2001. But we put two basic conditions to this in order to make the work effective: harmonisation work monitored by us will cover only issues which are closely related to T2S and only the countries which are fully committed to T2S.

The third main advantage of T2S is that it will make markets safer. In today's environment, reducing counterparty and settlement agent risk is more important than ever. T2S will reduce such risk because it

will only settle in central bank money – the safest settlement asset. Furthermore, by virtue of improving the efficiency of cross-border transactions, T2S will reduce the number of possible “weak links in the chain” by keeping the number of intermediaries involved to a minimum. T2S will also improve banks’ liquidity risk management by generating significant collateral savings. This is particularly important at a time when market and regulatory trends are increasing the demand for collateral. To summarise, on a broad macro level, T2S will reduce systemic risk thanks to its highly efficient settlement engine, with real-time gross settlement finality in central bank money, even for cross-border transactions.

The last of the T2S benefits on which I would like to insist is the creation of new business opportunities. For example, T2S will encourage new types of cooperation amongst the post-trading players, leading to better service to end users. More generally, by breaking down country barriers, T2S will make possible tomorrow what is not possible today! By introducing competition in the post-trade sector, T2S will create significant business opportunities.

T2S will be highly complementary to the forthcoming CSD Regulation in opening up the post-trade market to competition as never before. T2S will tackle the technical and market practice barriers; the CSD Regulation will dismantle the legal barriers. Users will never have had more choice on where to trade, clear and settle their transactions.

Those CSDs which bet on T2S, those which move first and decisively to T2S, will be in the position to exploit new business opportunities that T2S will trigger, in particular any gaps that might appear on the T2S map of Europe. Not all CSDs will participate in T2S, in particular outside of the euro area. I would like to encourage CSDs, existing one or new ones, to offer T2S services in particular in the parts of Europe where the local CSD has preferred not to join. In doing so, they would be contributing to a very strong request of the EcoFin Council, according to which T2S should be available everywhere in Europe.

It is now time to conclude. The story of T2S and Monte Titoli is a story of mutual confidence. Building such solidarity between the public and the private sectors is the basis of all successful European projects.

I am convinced that T2S will deliver on time and in line with what the market wants. We are making substantial progress. The main risks to the project that arose during 2011 are resolved and I am increasingly optimistic for the way ahead.

T2S will also deliver the benefits we have promised. It will create a truly integrated market; it will reduce settlement costs; it will generate large efficiency gains for banks; it will make markets safer. Ultimately, we will make Europe a better place to invest.

By being at the forefront, by being a first mover, Monte Titoli will be in a very good position to reap the many rewards that T2S will bring. By adopting T2S at an early stage, Monte Titoli have shown that they are willing and able to adapt to change. Getting in place the right structure and people, having the right mentality, will be crucial for the success of a CSD in the future competitive environment. Given

everything I have seen so far, I am confident that Monte Titoli and their parent company, London Stock Exchange, will do very well in T2S.

Thank you very much for your attention. I am looking forward to the rest of today's discussions.