

Comments from Bank of Finland
on 15 December 2009

Dear Jean-Michel,

This time I prefer to comment on confidential basis since there was no time to consult stakeholders properly.

I would like to reiterate that FINNUG saw that it was important that CSDs commit to bring substantially all securities used internationally to T2S (who would interest for example in Finnish securities if Nokia was kept elsewhere). However, there may be now or in future securities which are lodged in the CSD for other purposes than trading e.g. locked management options in the form of securities, and there are surely many other examples depending on each CSD's role in its home country.

Whether a participating CSD settles exclusively in T2S was the main debate in the AG. I believe we should make sure first of all that non-EEA CSDs would have access only on exclusive use basis. This should be understandable due to legal reasons. How should we then treat those located in the EEA? I think these calls for more analytical approach. One should study for which reasons a CSD chooses not to settle only in T2S. If it is due to unsuitability of the T2S pricing structure or lack of technical/functional efficiency (which both may affect negatively at least direct holding markets I am afraid) one should understand that part of the volumes may need to be handled on CSD's legacy system. Today one cannot confirm whether there is a real need to do so but neither can a CSD in direct holding market fix its migration plan on the basis of the information available. For indirect holding markets the issue should be much easier.

Obviously I would favour all CSDs making full use of T2S and T2S will need maximum volumes but if the first version at least will start with limited functionality it is not possible to force any CSD to lower its service level. Studies show clearly that the contribution of the financial sector to the economic growth potential relies most on the quality of its services (in fact more than cost level).

The prospects would look better if we made our utmost to bring all EU currencies to T2S. It will be more difficult to drop the connection than to strengthen it. Therefore the optimal solution may call for possibility to a transition period of two or three years.

Hope these thoughts may be of assistance. In the end I do not think they differ substantially of what the user group might have said. For it the main concerns are pricing (corporate actions, account holding, maintenance of static data for accounts, restriction bookings) and practical usability of end-investor accounts in T2S in case Euroclear Finland decided to adopt the layered solution like other DH CSDs.

Kind regards
Kari