The T2S Project

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European Central Bank
The aim of Financial Integration in Europe is to create a single European financial market and to increase growth and prosperity of Members States by generating new investment opportunities and strengthening the EU banking sector and ensuring continuous development of the EU economy.
Important dates for **European Financial Market Integration**: 

- **1999.** Launch of Euro
- **1999.** Establishment of TARGET (large-value central bank payment system)
- **2007.** Establishment of TARGET2
- **2008.** Establishment of SEPA
- **2015.** Go Live of TARGET2-Securities
Why T2S? - Fragmented Infrastructure
T2S Key facts, Purpose and Benefits
T2S Programme
T2S Key facts, Purpose and Benefits

Concept

➢ T2S is a technical solution to support Central Securities Depositories (CSDs) by providing core, borderless and neutral settlement services.

Objective of T2S

➢ To achieve harmonised settlement in Central Bank Money (CeBM) in euro and other eligible currencies for substantially all securities in Europe.

Technical Settlement Only

➢ Integrated settlement model, BUT the CSDs participating in T2S, and the Central Banks (CB) who make their currencies available for settlement in T2S, will keep full control over the business and contractual relationships with their customers.

Role of Eurosystem

➢ The Eurosystem will manage and operate the business application and the technical solution which provides the T2S Services.
A service offered to CSDs for settlement only
T2S Key facts, Purpose and Benefits

- Notary Function
- Custody/asset-servicing Function
- Banking Function
- Settlement Function

- Registration of issuer indebtedness and investor holdings
- Change of ownership among investors
- e.g. coupon payments, redemptions, stock splits
- e.g. lending and borrowing only in some (I)CSDs

Entirely new concept
State-of-the-art settlement engine in central bank money
Delivery-versus-payment
Settlement without borders
Integrated domestic and cross-border settlement
T2S Key facts, Purpose and Benefits

Technical platform of all securities (single pool) and cash accounts to settle all securities transactions in central bank money
24 CSDs (nearly 100 % of EUR settlement volume) have signed T2S Framework Agreement with the Eurosystem

Danmarks Nationalbank has signed Currency Participation Agreement with the Eurosystem allowing for settlement in DKK on the platform as of 2018

T2S is an open system: more CSDs and currencies can join
✓ **T2S core system architecture based on “2 regions / 4 sites” concept**

✓ **The four sites are fully equivalent and equipped with the same technical resources: processor, storage, network interface, software, etc.**
T2S Governance
Who is involved?

Central Bank Decision-Making Bodies
- ECB Governing Council
- ECB Governors’ Forum
- T2S Board
- CSD Steering Group (CSG)

Steering Level Bodies
- Non-euro central banks’ governors/boards
- Non-euro Currencies Steering Group (NECMSG)

Market advisory bodies
- National User Group (NUG)
- Advisory Group (AG)

Technical Groups
- Operations Managers Group (OMG)
- Project Managers Group (PMG)
- Change Review Group (CRG)

Reporting
- Escalation
- CRG reporting to CSG
- Technical Groups reporting to T2S Board
Full & transparent involvement

- The T2S User Requirements and all technical documentation are negotiated and agreed with market participants

- Procedures are jointly discussed and agreed with market participants, e.g. operational procedures and information security requirements

- Extensive testing is preformed prior to go-live (within the Eurosystem (IAC and EAT) and later together with all stakeholders, CSDs and users (pilot and user testing).

IAC ---→ Internal Acceptance Testing
EAT ---→ Eurosystem Acceptance Testing
T2S Governance

**T2S Board**
Chair: ECB senior manager + 9 members from other Eurosystem NCBs + 1 member from a non-euro area central bank + 2 non-central bank board members (all members are appointed by the Gov. Council)

**Non-euro Currencies Steering Group**
Senior managers from all non-euro NCBs that signed the Currency Participation Agreement

**Governors Forum**
Governors of non-euro NCBs with their currencies available in T2S. Plus an equal number of members of the ECB Governing Council

**CSD Steering Group**
CEOs/ Board members of CSDs that signed the Framework Agreement + T2S Board members and up to 6 user representatives as observers

**Advisory Group**
“T2S Parliament” (95 participants) Participating CSDs and users in equal number + relevant public authorities (ECB, euro NCBs, non-euro NCBs) + observers (EU Commission, regulators, oversight, 4CBs, etc.)
T2S Governance
T2S Board

13 members (including ECB, Eurosystem’s NCB, non-euro area CB, non-central bank managers)

Members represent the interests of the T2S project and the Eurosystem. They are supported by the T2S project team at the ECB

Delivery of T2S by the Eurosystem be ensured to occur on time, within budget, and according to market needs

Elaborating proposals for Governing Council decisions, managing the T2S programme, reporting, managing revisions with stakeholders, validating 4CBs’ deliverables
Table of Contents

- T2S – Key facts, Purpose and Benefits
- T2S Governance
- T2S Contractual liability
- T2S Programme Plan and Status
- Testing phases
- T2S Migration and Operations
- Conclusion
T2S Contractual liability - the **actors**

- 4CB
- L2-L3 A
- CPA
- Eurosystem CBs (T2S)
- CPA NCBs
- Eurosystem NCBs (T2)
- CSDs
- 3CB
- FA
- Central Banks
- National Central Bank
- Currency Participation Agreement

CB → Central Banks
NCB → National Central Bank
CPA → Currency Participation Agreement
T2S Liability – the general principles

- **Principle** of Liability: *duty of reasonable care* (incl. obligation to mitigate damages)

- **Extent** of Liability: duties and obligations provided in the relevant agreement(s); *force majeure*: standard clause

- **Damages covered**: Direct (consequential, reputational etc. explicitly excluded)

- Liability for fraud – wilful misconduct: **Unlimited**

- Liability for gross/ordinary negligence: **Caps & limitations** apply
T2S Liability – important caps and limitations

- **Framework Agreement (FA)**
  - Ordinary negligence cap: EUR 30 mio/ calendar year (Eurosystem)/ 12 months’ fees (per CSD)
  - Gross negligence cap: EUR 500 mio/ calendar year (Eurosystem)/ 5X12 months’ fees (per CSD)
  - No Eurosystem liability for CSD early termination of FA
  - CSDs hold Eurosystem harmless from third party claims

- **Currency Participation Agreement (CPA)**
  - Ordinary negligence cap: EUR 20 mio/ calendar year (Eurosystem)/ EUR 2 mio/ calendar year (CPA NCB)
  - Gross negligence cap: EUR 100 mio/ calendar year (Eurosystem)/ EUR 20 mio/ calendar year (CPA NCB)
  - Eurosystem holds CPA NCB harmless from DCA holder claims
  - No Eurosystem liability for early termination of CPA
The T2S Programme Plan

Current status of T2S

Software development complete

4CB have completed testing and delivered software to Eurosystem

All Synchronisation Points (SPs) scheduled have been met so far

Synchronisation points (SP) Definition

Monitoring milestones, represent the checkpoints between the processes of T2S Programme and the internal processes of the CSDs/NCBs restructuring/adaptation project plan.
Key milestones until go-live

Current status of T2S

- All T2S stakeholders (Eurosystem, central banks, CSDs, banks) to be ready in time for testing and migration to T2S

**Challenge**

**SP 5: Start of Eurosystem Acceptance Testing** (31 Mar 2014)
4CB to deliver the T2S software

**SP 6: Eurosystem Ready for User Testing** (1 Sept 2014)
Eurosystem to set up User Testing environments and deliver relevant training material and testing documentation

**SP 16.1: Ready for T2S Go-Live** (22 June 2015)
First-wave CSDs and Eurosystem NCBs to be ready for migration (four migration waves planned)

**Synchronisation points (SP) Definition**

--- Monitoring milestones, represent the checkpoints between the processes of T2S Programme and the internal processes of the CSDs/NCBs restructuring/adaptation project plan.
Table of Contents

- T2S – Key facts, Purpose and Benefits
- T2S Governance
- T2S Contractual liability
- T2S Programme Plan and Status
- Testing activities & phases
- T2S Migration and Operations
- Conclusion
Testing activities & phases

- **Preparation Phase**
  - July 2006 to July 2008

- **Specification Phase**
  - July 2008 to August 2011

- **Development Phase**
  - February 2010 to December 2013

- **User Testing Phase**
  - January 2014
  - Start of user testing

- **Migration Phase**
  - September 2014
  - Go-live
Eurosystem Acceptance Testing (EAT) started on 31 March 2014 as planned

- Formal tests carried out by the Eurosystem to ensure that the T2S Platform is of the required quality and is compliant with the legal documentation outlining the scope for the T2S Platform.
- 20 January 2014 - 4 Central Banks had established the first connection between the ECB and T2S.
- From now until September 2014 - A first critical phase of EAT testing activities will run;
- 1 October 2014 - T2S application will finally be delivered to the CSDs for the user testing phase.

T2S User testing (January 2014 – January 2017)

- Multilateral testing by all external parties – CSDs, national central banks and banks;
- The objective: ensure that the T2S platform fully meets the user requirements.
- The successful completion of the user testing will enable CSDs, central banks, directly connected T2S parties and (other) holders of T2S dedicated cash accounts to migrate to and operate in T2S.
- Testing will be completed after the full migration of the last group of CSDs expected by February 2017.
### EAT preparation

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<thead>
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<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>Q1</th>
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### EAT execution

<table>
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<tr>
<th></th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
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<tbody>
<tr>
<td></td>
<td>critical phase</td>
<td>cycle 1</td>
<td>cycle 2</td>
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### EAT general preparation

(without connection to T2S)

- governance
- infrastructure
- specification

### EAT technical preparation before execution

(with connection to T2S)
User Testing Phase (May 2014 - January 2017)

- May 2014 marks the beginning of the User Testing Phase. The first step is SP7 – Ready to Start Connectivity Set-up. Connectivity Testing will follow once set-up has been completed, starting at the latest in August 2014.

- In Q3 2014, the specific user testing phases will begin – involving those CSDs, national central banks and banks which intend to be directly connected to T2S. The purpose of the different phases is to gradually increase the number of T2S actors involved and expand the scope of testing.

- The objective of the user testing phase as a whole is to ensure that the T2S platform fully meets the user requirements. In addition, the successful completion of the user testing will enable CSDs, central banks, directly connected T2S parties and (other) holders of T2S dedicated cash accounts to migrate to and operate in T2S.
Table of Contents

- T2S – Key facts, Purpose and Benefits
- T2S Governance
- T2S Contractual liability
- T2S Programme Plan and Status
- Testing phases
- T2S Migration and Operations
- Conclusion
Migration waves (endorsed by ECB GvC November 2013)

Wave 1
- Bank of Greece Securities Settlement System (BOGS)
- Depozitarul Central (Romania)
- Malta Stock Exchange
- Monte Titoli (Italy)
- SIX SIS (Switzerland)

Wave 2
- Euroclear Belgium
- Euroclear France
- Euroclear Nederland
- Interbolsa (Portugal)
- National Bank of Belgium Securities Settlement Systems (NBB-SSS)

Wave 3
- Clearstream Banking (Germany)
- KELER (Hungary)
- LuxCSD (Luxembourg)
- Oesterreichische Kontrollbank (Austria)
- VP Lux (Luxembourg)
- VP Securities (Denmark)

Wave 4
- BNY Mellon CSD (Belgium)
- Centrálny depozitár cenných papierov SR (CDCP) (Slovakia)
- Eesti Väärt haberikeskus (Estonia)
- Euroclear Finland
- Iberclear (Spain)
- KDD - Centralna klirinško depotna družba (Slovenia)
- Lietuvos centrinis vertybių popierių depozitoriumas (Lithuania)
- LCD - Latvijas Centrālais depozitārijs (Latvia)
The objective of the migration phase is to ensure a **smooth transition of data to the T2S system** and the consequent adaptation of the processes and technical environments of all T2S Actors, i.e. CSDs, central banks, directly connected T2S parties and (other) holders of T2S dedicated cash accounts.

<table>
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<tr>
<th>Phase</th>
<th>Description</th>
<th>Status</th>
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<tbody>
<tr>
<td>Concept</td>
<td>Elaboration of migration strategy and generic migration plan</td>
<td>Completed</td>
</tr>
<tr>
<td>Preparation</td>
<td>Detailed planning &amp; preparatory work for the preparation of the individual migration&lt;br&gt;Fulfilling the entry criteria for migration execution</td>
<td>In progress</td>
</tr>
<tr>
<td>Implementation</td>
<td>Execution of migration activities prior to and during the migration weekend</td>
<td>Not started</td>
</tr>
<tr>
<td>Closing</td>
<td>Reporting on the results of the migration and reflection on “lessons learned”&lt;br&gt;Monitoring after the migration weekend during the stabilisation period</td>
<td>Not started</td>
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Migration to T2S will be performed in two steps:

- **Pre-migration phase:**
  - Planned typically for 3 months, until the migration weekend
  - As a guiding principle, all static data which can be migrated before the migration weekend should be migrated before the migration weekend
  - Data will be migrated to T2S according to the agreed schedule applicable to each migration wave

- **Migration weekend:**
  - Is assumed with 58.25 hours (from Friday 06:45 p.m. until Monday 05:00 a.m.)
  - Dynamic data and delta of static data (new data or updates to the existing data) will be migrated during the weekend
  - Data will be migrated to T2S according to the agreed schedule applicable to each migration wave
T2S Operational Phase – Actors and Decision Making

Diagram showing the interaction between DCPs, CBs, CSDs, ICPs, NSPs, ECB, and T2S Service Desk. The diagram highlights the decision-making flow and the prioritization of incidents.
Table of Contents

- T2S – Key facts, Purpose and Benefits
- T2S Governance
- T2S Contractual liability
- T2S Programme Plan and Status
- Testing phases
- T2S Migration and Operations
- Conclusion
Conclusion

- T2S will be owned and operated by the Eurosystem
- T2S will be a state-of-the-art settlement engine for securities settlement in central bank money. It uses the latest technology and high security and safety standards.
- Concept of 2 regions/4 sites ensures full business continuity
- Excellent track record of TARGET2

The likelihood of a liability event in T2S is very low.

Loss or damage likely to result in interest compensation only, as T2S is not a CSD.
Thank you for your attention!

www.t2s.eu

@T2SECB