INTRODUCTION

On 8 March 2007, the Governing Council of the ECB assessed the feasibility of TARGET2-Securities (T2S) and decided that the project was feasible. Therewith, it launched the next step of the project, i.e. the definition of the user requirements, and requested that the preparation thereof be conducted in close cooperation with market participants. In addition, it requested the publication of a progress report by October 2007. On 26 April 2007, the Governing Council launched the first public consultation on the general principles and the high-level proposals defining the nature and scope of T2S and approved the setting-up of a governance structure for this phase of the project. This marked the start of the user requirements phase.

Section 1 of this progress report reviews the outcome of the public consultation on the T2S principles and proposals. Section 2 gives an overview of the progress achieved in the various work streams and Section 3 assesses the level of support from market participants. Section 4 outlines the steps for finalising the user requirements phase. Section 5 concludes.

I OUTCOME OF THE PUBLIC CONSULTATION ON THE T2S PRINCIPLES AND PROPOSALS

The Eurosystem conducted a two-month public consultation on the “General principles and high-level proposals for the user requirements” and requested feedback by 26 June 2007. A total of 57 responses were received, slightly more than half of which came from banks or banking federations. Central Securities Depositories (CSDs) and other market participants with different affiliations each sent about one-fifth of the responses. In view of the fact that about 40% of the responses were sent by associations or groups of users, the actual number of institutions involved in the market consultation was significantly higher than the number of responses submitted. This large volume of comments has been extremely valuable and highlights the success of the public consultation.

1.1 REMARKS ON THE T2S PRINCIPLES

Even though the general principles established by the Governing Council as a basis for T2S were originally not intended for public comment, about 15 institutions or groups of institutions provided constructive comments and drafting suggestions in order to improve the clarity of the principles. Some issues were also raised at the level of T2S Technical Groups (TGs) with the aim of clarifying the principles.

The suggestions received during the public consultation, as well as the input from the TGs, were discussed by the T2S Advisory Group (AG) during its meeting of 31 July – 1 August 2007. As the T2S principles are the responsibility of the Governing Council, the AG was not asked to subscribe to the principles themselves but to agree on the proposed clarifications. The Governing Council subsequently approved these clarifications to generate a clear common understanding as a basis for the future work. The main clarifications involved the following principles:

**Principle 2:** T2S shall be based on the TARGET2 platform and will hence provide the same levels of availability, resilience, recovery time and security as TARGET2.

It was clarified that “T2S on T2” should be understood as an open concept and should not impose constraints on the user requirements. The objective of this set-up is to exploit
synergies and provide an efficient solution for CSDs and their users.

**Principle 5:** The T2S settlement service will allow CSDs to offer their participants at least the same level of settlement functionality and coverage of assets in a harmonised way.

It was made clear that T2S will provide at least the same level of settlement functionality as today. There will therefore be no reduction in settlement functionality, but T2S may not cover all services currently provided by CSDs if said services are not core functionalities benefiting the entire user community.

**Principle 11:** T2S shall allow users to have direct connectivity to its platform.

The term “direct access” in the original version was widely misunderstood. Instead, “direct connectivity” was considered a much clearer term as it underlines the fact that CSDs will retain the business and legal relationships with their customers. Direct connectivity shall only be considered in the context of the technical interface that the user will need to maintain, whether it be with the CSD or directly with T2S. The processes for user instructions will be identical for both connectivity options.

**Principle 16:** All CSDs connecting to T2S shall have a single calendar of opening days and harmonised opening and closing times for settlement business.

It was clarified that, within the T2S calendar, a CSD that closes on a national holiday would need to provide a minimum level of service to ensure continued provision of the core T2S services.

**Principle 19:** T2S services shall be compatible with the principles of the European Code of Conduct for Clearing and Settlement.

It was clarified that T2S shall be compatible with the European Code of Conduct for Clearing and Settlement with regard to price transparency, the unbundling of services and accounting separation. T2S will therefore enable CSDs to continue complying with the Code.

All changes to the principles are listed in Annex 1: General principles of T2S.

### 1.2 Comments on the T2S Proposals

The focus of the April 2007 public consultation was on the 67 high-level proposals that will provide a basis for the drafting of the T2S user requirements. As illustrated by the chart, the feedback from the market was very positive, with 65% of the comments received expressing full agreement with the proposals. This suggests that the thrust of the project is appropriate. About a quarter of the responses either partially or completely disagreed with the proposals, necessitating a close review of said proposals by the AG.

The few critical comments that were received centred around approximately a dozen proposals, with many respondents complaining about a lack of detail or a lack of definition. The ECB’s T2S project team worked on all the proposals and presented a list of suggestions to the AG at its meeting of 31 July – 1 August 2007 for validation. The AG agreed to about half of the proposals where only minimal changes were made. These proposals constitute the guidance for the TGS in...
drawing up the User Requirements Document. The other half of the proposals were allocated to the relevant TG for further analysis and to find a way to accommodate the comments received through the public consultation. Suggestions for these proposals were submitted to the AG for its meeting on 20-21 September 2007. By the end of the meeting, the AG had already agreed on 65 proposals, with only two remaining open. However, several proposals still need to be reviewed with respect to direct holding countries because of their specific requirements.

Within the AG, agreement on the most controversial proposals was reached as follows:

- the public consultation revealed a strong preference of the market to settle the cash leg of T2S settlements on T2S dedicated cash accounts. The option of settling on the general TARGET2 RTGS account was discarded. An overview of the euro liquidity available in the TARGET2 RTGS account and the T2S dedicated cash accounts will be provided;

- the T2S interface shall be based solely on the technical standard ISO 20022. This standard will be released in 2010 and will be the single future standard in this area. Since the launch of T2S is planned for 2013, adoption of the future standard will avoid double development and migration costs;

- harmonisation and standardisation decisions in the T2S set-up shall be guided primarily by the principle of maximising efficiency. Minimising the overall market impact was deemed to be of secondary importance. The principle of the equal footing of these two principles was discarded to accommodate the strong preference of the market to improve efficiency.

The two proposals that have remained open concerned night-time settlement and central matching in T2S:

- with a view to harmonising settlement practices, a large majority of market participants were in favour of mandatory settlement during the night. This view was also shared by the majority of the AG members. Countries that currently do not settle during the night requested further clarification and were still analysing the costs and benefits of night-time settlement. The AG will have taken a final view on the issue at its October 2007 meeting;

- the majority of market participants asked for a central matching of settlement instructions within T2S as this was considered the most efficient option. It was proposed that a central matching facility be located within T2S. In parallel, CSDs have expressed their intention to present an alternative matching model to the AG. The AG will have taken a final view on the issue at its October 2007 meeting.

2 PROGRESS IN THE DIFFERENT T2S WORK STREAMS

2.1 DEFINITION OF THE USER REQUIREMENTS

On 26 April 2007, the Governing Council of the ECB decided on the organisation of the first phase of the T2S project. This decision encompassed the governance structure for the user requirements phase (see Section 2.4 below). It also assigned the preparation of the T2S user requirements to the AG which divided up the work between six different TGs, each one of them tackling one specific area of the project. In addition, the national communities established a total of 18 National User Groups (one in each euro area country, as well as in Denmark, Sweden, the United Kingdom, Switzerland and Norway) to provide input into consultations on technical issues raised by the TGs.

The AG and all the TGs started the preparatory work in early summer 2007 and have been working very hard since then. The TGs have conducted a total of seven “mini-consultations” in which the TGs asked for feedback from
the National User Groups and from European associations in order to draw from the wealth of experience in the various markets, as well as to become aware of the needs and practices of the various markets. Other ad-hoc consultations have also been conducted. The T2S project team shared the latest developments with a wider audience, not represented in the AG, during an information session in June and in August 2007. In this context, it should be mentioned that the high degree of transparency regarding T2S is very much appreciated by the market. All documents discussed by the AG, all mini-consultations and most of the documents submitted to the TGs are publicly available on the ECB’s website.

The rapid pace of the work had been a cause for concern among several market participants who were worried that the quality of the work would suffer due to the short window of opportunity for commenting on T2S-related documents, particularly during the summer vacation period when many of the market experts were not available. The AG addressed this issue at its meeting of 31 July – 1 August 2007 and it was agreed that the planned three-week window for mini-consultations would be extended by an average of two weeks during the summer period. This extension of deadlines was greatly appreciated by the market.

The mini-consultations were finalised by the end of September 2007 and the preparation of the user requirements is currently progressing according to the defined master plan for the project (see Section 3).

2.2 ECONOMIC IMPACT ANALYSIS FOR T2S

The decision of the Governing Council of 8 March 2007 on the feasibility of the T2S project was based, inter alia, on the economic feasibility of the project (see the document entitled “TARGET2-Securities – Economic Feasibility”). In this context, the estimated one-off costs of this project were €200 million, compared with benefits in excess of €225 million per year for the financial industry. In addition, an analysis of the impact on CSDs, intermediaries, issuers, investors and the market was carried out, which confirmed the macroeconomic benefits for the market in general. Market participants, and CSDs in particular, asked for this analysis to be refined and complemented by a microeconomic analysis. The Eurosystem responded positively to this request and prepared a general methodology for the calculation and quantification of the economic effects of T2S. An initial discussion on this methodology took place at the October 2007 meeting of the AG.

2.3 LEGAL PREPARATIONS

Following the decision of the Governing Council to proceed with the next phase of the T2S project, various legal work streams need to be accomplished during the current user requirements phase.

The legal work is conducted by the DG Legal Services of the ECB, in coordination with the T2S project team and, where necessary, with the Legal Committee of the ESCB (LEGCO). It is based on the parameters set out by the Governing Council of the ECB in its decisions of 8 March and 26 April 2007 and takes into account the legal feasibility report of March 2007, as well as the ongoing activities of the AG and the six TGs entrusted with the elaboration of the draft user requirements.

As a general point, it is important to stress that the scope and substance of the legal work streams are dependent both on decisions that still need to be taken at the policy level (e.g. the degree of commitment expected in relation to CSDs’ participation in the T2S development phase) and on the further specification of the technical details of T2S.

At this stage of the project, the legal work is focused largely on preparatory work and stocktaking in relation to the legal and regulatory environment under which T2S is expected to operate, in particular by identifying any major legal obstacles to the T2S set-up.
Throughout the third quarter of 2007, an extensive and comprehensive stocktaking exercise, involving the DG Legal Services of the ECB and LEGCO, was undertaken. With regard to substantive EU and national legislation that could have a bearing on the legal feasibility of T2S, a full legal assessment is being undertaken with a view to identifying any obstacles and adapting the T2S legal framework, as well as to making proposals for legislative amendments or further harmonisation efforts, if necessary. Topics requiring special attention, such as the legal aspects of direct holding systems, will be discussed in dedicated meetings in the Member States concerned. A further component of the analytical legal work concerns the various regulatory requirements at the national and the EU level that are of relevance to T2S, including settlement procedures, data storage requirements, the regime for outsourcing, reporting requirements (e.g. money laundering) and auditing requirements.

Another important part of the legal work involves the provision of ongoing legal support and advice to the TGs and the T2S project team on issues that arise from the technical discussions. Finally, the T2S legal team was closely involved in the development of the governance structure for the current user requirements phase, which covers the rules of procedure for the AG and the other bodies involved in the current governance structure, for example).

At this stage, no major legal obstacles have been identified that might compromise the T2S project. In a few jurisdictions, secondary settlement regulations might need to adapted, depending on the exact features of T2S.

### 2.4 Possible future governance of T2S

The current organisation of the T2S project was chosen to ensure a wide representation of stakeholders, as well as in order to be able to take account of a large variety of views and to generate more support for the project. However, it emerged during the first three meetings of the AG that this set-up will be difficult to sustain in the future. The number of participants in the AG has grown to 68 and more applications, which are sometimes difficult to refuse, have been received. With Malta and Cyprus adopting the euro as their national currency on 1 January 2008, the number of participants in the AG will exceed 70. Although the large number of participants has not prevented fruitful exchanges of views during meetings, it has generated genuine organisational problems. There is therefore a strong business case for significantly reducing the number of participants in the body that will take over from the AG in the next phase.

The AG and the Payments and Securities Settlement Committee (PSSC) both started to discuss the future governance of T2S in September 2007. To begin with, the two bodies took stock of the present governance arrangement and tried to identify the objectives of the various stakeholders for the next phase. The further debate will be based on the general framework that was defined by the Governing Council of the ECB in March and April 2007 and will consider the expectations of public institutions, such as the EU Council of Ministers of Economic Affairs and Finance (ECOFIN), the European Commission and the European Parliament. It is planned to submit a proposal for the T2S governance of the next phase to the Governing Council in early 2008.

### 3 Finalisation of the User Requirements phase

The TGs are currently in the process of finalising their contributions to the User Requirements Document. These contributions will be consolidated by the T2S project team. An initial discussion of parts of the User Requirements Document took place during the AG meeting of 23-24 October 2007 and final approval is to be given during the AG meeting of 28-29 November 2007. Once the agreements of this meeting have been incorporated into

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1. The Rules of Procedure for the Advisory Group are attached for information (see Annex 2).
the draft User Requirements Document, it is anticipated that it will be submitted by the AG to the ECB’s decision-making bodies immediately thereafter. The Governing Council of the ECB will be invited to release the User Requirements Document for a three-month public consultation period starting in December 2007/January 2008. Depending on the outcome of this consultation, the User Requirements Document should be finalised by the AG in spring 2008.2

4 SUPPORT FOR T2S IN THE MARKET

The general situation with regard to support for T2S has changed little since the project work has intensified. Most banks and custodians strongly support the project in view of the savings that they expect to realise through improving their access to foreign markets and streamlining their back-office processes. CSDs remain more cautious, although most of them continue to provide constructive feedback.

The Eurosystem is in permanent discussions with the market and will focus in the coming weeks on the following issues in particular:

- the extent to which the efficient use of T2S functionalities will allow CSDs to downsize their present settlement infrastructure and reduce costs;

- the extent to which users and CSDs will provide their assessment of the project before the Governing Council of the ECB decides to enter into the next phase of the project.

5 CONCLUSION

The preparatory work for the delivery of the T2S user requirements is progressing very rapidly in all areas and according to the anticipated project plan. The Eurosystem has received valuable input from the public consultation on the general principles and high-level proposals, which is being taken into account in the definition of the draft user requirements. Despite the high speed of the work and the strong commitment of most of the parties involved, the CSDs still have certain reservations about supporting the project. The Eurosystem has launched an initiative to analyse the conditions required for the market participants to grant the necessary level of commitment in order to be able to proceed with the project. Besides the economic benefits, the CSDs’ future involvement in the T2S governance may be a factor that will influence their level of support.

2 It should be noted that the T2S planning is synchronised with the CCBM2 project plan for the finalisation of the user requirements phase, in compliance with the Governing Council’s request for work on both projects to be conducted in parallel (see also the press release dated 8 March 2007).
The general principles constitute the main cornerstones of TARGET2-Securities (T2S). They were approved and published by the Governing Council of the ECB on 26 April 2007. Comments received on the principles sometimes suggested a need for clarification. Revisions affected the supplementary text on the principle, affecting the headline principle only in rare cases. While not being asked to endorse the principles, the Advisory Group agreed in its meeting of 31 July – 1 August 2007 to suggest the following clarifications of the principles to the Governing Council. The Governing Council has agreed to the clarifications suggested by the Advisory Group. This is therefore the final version of the T2S general principles.

Principle 1: The Eurosystem shall take on the responsibility of developing and operating T2S by assuming full ownership

In line with the Governing Council's decision of July 2006, the proposed platform will be fully owned and operated by the Eurosystem. For the definition of the user requirements, a governance structure has been set up that allows for a wide involvement of market participants. The Eurosystem is committed to continue keeping market participants closely involved in the different phases of the project.

Principle 2: T2S shall be based on the TARGET2 platform and will hence provide the same levels of availability, resilience, recovery time and security as TARGET2

The Governing Council decided that T2S will be developed and operated on the TARGET2 platform. Four Eurosystem central banks (the Deutsche Bundesbank, the Banco de España, the Banque de France and the Banca d’Italia, otherwise known as the 3CB+) are ready to develop and operate T2S on TARGET2 via the Single Shared Platform. Use will be made of the valuable experience and knowledge that is available in the market. The intention is to exploit synergies and provide an efficient solution to central securities depositories (CSDs) and users. In addition, enhanced liquidity management mechanisms will be provided as a result of the proximity between T2S and T2. The existing operational structures and support organisation, telecommunications infrastructure, business continuity and disaster recovery arrangements shall be reused to the maximum extent possible.

“T2S on T2” must be understood as an open concept that will not impose constraints on the user requirements.

Principle 3: T2S shall not involve the setting-up and operation of a CSD, but instead will serve only as a technical platform for providing settlement services to CSDs

T2S is purely an IT settlement service operated by the Eurosystem and provided to CSDs for the benefit of their customers. It therefore neither constitutes a CSD in itself, nor is it planned that T2S will become one in the future. The scope of T2S is restricted to settlement, including settlement instructions resulting from corporate actions or portfolio transfer, for example. This therefore excludes the possibility of T2S engaging in any asset-servicing businesses (such as event set-up, computation of benefits and response management of corporate actions).

Principle 4: The respective CSD users’ securities accounts shall remain legally attributed to each CSD

Each CSD will continue to be legally responsible (under their applicable laws) for opening, maintaining and closing the securities accounts...
of its users in T2S and, where relevant, those of the clients of these users as well. The securities account balances will be stored within the T2S platform and will be available to CSDs and their users on a real-time basis.

**Principle 5: The T2S settlement service will allow CSDs to offer their participants at least the same level of settlement functionality and coverage of assets in a harmonised way.**

The aim of the development of a common settlement platform is to enable CSDs to use T2S to perform their entire settlement processing in a harmonised way. The centralised platform should cover the full functionality needed for such a harmonised service and should enable an enhanced management of liquidity. If this is not achieved, CSDs will be forced to maintain duplicate settlement infrastructures, with a cost impact through both duplication and reduced economies of scale. The objective of T2S is to provide a level of functionality that frees CSDs from maintaining securities balances on a separate platform or from duplicating processes.

The scope of eligible instruments in T2S shall comprise all securities that have an International Securities Identifying Number (ISIN) and are held by a CSD operating in T2S.

**Principle 6: Securities account balances shall only be changed in T2S.**

T2S will process all changes on securities account balances that relate to settlement activities of CSDs on the basis of the instructions it receives. Examples of this are settlement instructions generated via primary and secondary market transactions, corporate actions, and lending and collateral management activities.

**Principle 7: T2S shall require participating CSDs to be designated under the Settlement Finality Directive (SFD) in their respective jurisdiction.**

Participating CSDs will have to be designated as securities settlement systems under the SFD and notified by the competent national authority to the European Commission in order to benefit from protection under the SFD. Consequently, transfer orders processed in T2S will acquire adequate protection under the relevant laws and rules of the individual CSDs that are designated under the SFD. Furthermore, the proprietary aspects and the finality of transfers of securities will be determined in accordance with the laws of the country in which the CSD that has opened the securities accounts is located.

**Principle 8: T2S shall settle exclusively in central bank money.**

As stated above, T2S is a service for enhancing the efficiency of securities settlement across Europe while at the same time keeping central banks’ cash account management within the central banks. Its scope is therefore limited exclusively to central bank money and does not extend to the settlement of commercial bank money.

**Principle 9: The primary focus of T2S shall be settlement services in euro.**

The primary focus of the Eurosystem is to ensure efficient and sound settlement services in euro. As a result, the focus of T2S is to provide settlement services in euro central bank money. The extension of T2S to other currencies is possible (see Principle 10).

**Principle 10: T2S shall be technically capable of settling currencies other than the euro.**

T2S will be technically capable of providing settlement not only in euro central bank money but also in non-euro central bank money. For the activation of this service, the explicit request by the relevant non-Eurosystem central bank(s) in coordination with the local market community is required. Non-Eurosystem central banks would be expected to adapt to a harmonised standardised interface.
Principle 11: T2S shall allow users to have direct connectivity to its platform

CSDs will retain the business and legal relationship with their participants. All securities account balances will be stored in T2S, irrespective of the choice of connectivity. From a T2S point of view, the connectivity choice refers solely to the way in which users will interface with T2S in order to send and maintain settlement instructions, as well as to access reporting facilities. Irrespective of the way in which they connect to T2S, users’ instructions will be subject to equal processes within T2S. The connectivity choice will also be neutral to CSDs, since all the necessary information, even from directly connected users, will be available to CSDs.

Principle 12: CSDs’ participation in T2S shall not be mandatory

CSDs’ participation in T2S is a business decision on the part of the CSDs and their local market community. When deciding whether or not to join T2S, CSDs are expected to follow the interests of their shareholders and users.

Principle 13: All CSDs settling in euro central bank money shall be eligible to participate in T2S

All CSDs settling in euro central bank money and designated under the SFD are invited to join T2S, regardless of their location inside or outside the euro area.

Principle 14: All CSDs connecting to T2S shall have equal access conditions

The criteria for CSDs to access T2S will be public and non-discriminatory. All participating CSDs will have access to all T2S services. A single, transparent and publicly available fee schedule will be applied (see also Principle 19 on compliance with the Code of Conduct). In line with European principles of competition, the Eurosystem will provide its services to connected CSDs on a non-discriminatory pricing basis (in a similar manner as for other existing Eurosystem infrastructures, such as TARGET2).

Principle 15: All CSDs connecting to T2S shall do so under a harmonised contractual arrangement

With reference to their contractual relationship with T2S, all CSDs receiving the same service level will be subject to a harmonised contractual arrangement. This means that all CSDs willing to participate in T2S will adhere to the same harmonised conditions for the platform’s core functions. If specific optional services were to be provided to a CSD, they would need to be covered by a specific contractual arrangement. Any other CSD willing to use such specific services would also be eligible to apply under the same harmonised conditions for the specific optional services.

Principle 16: All CSDs connecting to T2S shall have a single calendar of opening days and harmonised opening and closing times for settlement business

The participating CSDs shall adopt the T2S calendar. This will be the same as the TARGET2 calendar. Settlement (delivery versus payment (DvP) as well as free of payment (FoP)) via T2S shall not be possible outside this calendar. Within the T2S calendar, a CSD which closes due to a national holiday would need to provide a minimum level of service (e.g. to allow the realignment of settlement carried out in other CSDs).

The opening and closing times will cover daytime and night-time settlement. They will be compatible with, though perhaps not identical to, TARGET2 operating hours. Further consultation will be conducted on the exact cut-off times within the single T2S operating timetable – different cut-off thresholds might for instance be required for specific operations (DvP notification submission, automatic lending operations, etc.).
Principle 17: T2S settlement rules and procedures shall be common to all participating CSDs

To minimise costs and simplify processes, T2S will aim to harmonise all rules and procedures related to the services it provides.

For example, T2S will provide a single set of harmonised matching rules and procedures which must be observed by instructing parties. These will be based on the European Central Securities Depositories Association (ECSDA) report on matching standards. In addition to these harmonised rules, CSDs may maintain additional domestic rules, provided that such rules do not conflict with those of T2S.

Principle 18: T2S shall operate on a full cost-recovery and not-for-profit basis

The Eurosystem will price the development and operation of T2S on a full cost recovery and not-for-profit basis. While delivering a very high level of service in terms of quality, security and availability, T2S will also seek to be as cost-efficient as possible.

Principle 19: T2S services shall be compatible with the principles of the European Code of Conduct for Clearing and Settlement

T2S will be compatible with the principles of the European Code of Conduct for Clearing and Settlement with regard to price transparency, the unbundling of services and accounting separation. By being compatible with the Code of Conduct, it will enable CSDs to continue to comply with it too.

Principle 20: T2S shall support the participating CSDs in complying with oversight, regulatory and supervisory requirements

The setting-up of T2S will aim to allow the participating CSDs to comply with the relevant regulatory, supervisory and oversight requirements, as well as to strive for a high degree of harmonisation in meeting those requirements.
ANNEX II

ADVISORY GROUP

Rules of Procedure

In its meeting of 26 April 2007, the Governing Council of the ECB decided on the governance arrangements for the user requirements phase of the TARGET2-Securities (T2S) project, which started on 1 May 2007 and is expected to end on 30 April 2008. The Advisory Group (AG) forms part of these governance arrangements. In the following, the Rules of Procedure of the AG are set out in detail on the basis of the Governing Council decision.

1. Mandate and competences:

1.1. Pursuant to the Governing Council decision, the AG shall be established for the duration of the T2S user requirements phase.

1.2. The AG shall have the following mandate:

i. delivery of the first draft of the user requirements to the Governing Council by 30 November 2007 at the latest;

ii. summary of the comments made during the public consultation and submission of the final user requirements by 30 April 2008 at the latest;

iii. provision of guidance to the Technical Groups (TGs) in line with the general guidance of the Governing Council;

iv. designation of TGs’ chairpersons;

v. the requesting of guidance from the Governing Council at any point in time during the user requirements phase;

vi. provision of assistance to the Eurosystem when reviewing the economic impact assessment of the T2S project;
vii. amendment of the list of the TGs and/or modification of their mandate(s);

2. **Composition:**

2.1. The AG shall be composed of the Chairperson, the Secretary, full members and observers.

2.2. Whenever deemed appropriate, the Chairperson may at his/her discretion invite additional experts to meetings of the AG on an ad hoc basis and shall inform the AG thereof.

3. **Full members:**

3.1. Full members are entitled to take part in decisions taken by the AG.

3.2. Initially, the number of full members shall be 42 persons. Each group eligible for full membership pursuant to Article 3.3. shall be allotted the same number of members. Upon adoption of the euro by one or more Member State(s), the number of members in each group shall be increased accordingly.

3.3. A representative of any of the following groups shall be eligible to be a full member of the AG:

i. **Central banks**
   The ECB and each national central bank (NCB) of the euro area shall be represented by a full member. Upon adoption of the euro by a Member State, the respective NCB shall also participate as a full member in the AG as of the date of entry into the euro area.

ii. **Central Securities Depositories (CSDs)**
    Each NCB of the euro area may designate one CSD, provided that such a CSD settles all or part of its transactions in euro and represents that it envisions the possibility of joining T2S in due time. The Nomination Committee (NC) shall complement the CSD representation on the basis of applications received by the Secretariat.

iii. **Users**
    The NC shall select members from the user community on the basis of applications received by the Secretariat pursuant to a predefined key:

    - two full members shall represent banks in the euro area which mainly use the securities settlement industry to serve their local customers;
    - one full member shall represent a central counterparty;
    - the other full members shall represent major banks active in the securities business in euro, irrespective of their place of incorporation.
4. Observers:

4.1. Observers shall be entitled to participate in the meetings of the AG, but shall not participate in its decision-making process.

4.2. Representatives of the following groups shall be eligible to be observers of the AG:

i. Central banks
   - NCB of a country in which the euro has not yet become legal tender but whose application to adopt the euro has been accepted;
   - NCB located outside the euro area, provided that at least one CSD from the country concerned participates as a full member or an observer of the AG;
   - one joint representative for the central banks that are ready to develop and operate T2S (3CB+).

ii. CSDs
   - CSD which is operated by an NCB;
   - any other CSD of a euro area or non-euro area country that is not a full member, on the condition that it settles all or part of its transactions in euro and that it represents that it envisages the possibility of joining T2S in due time;
   - A CSD eligible for observer status shall inform the Secretary about its wish to participate in the AG.

iii. Users
   - each of the three European Credit Sector Associations (EACB, EBF, ESBG);
   - Federation of European Securities Exchanges;
   - European Association of Clearing Houses (EACH) (two observers).

iv. Public authorities
   - public authorities that have a vital interest in T2S and can contribute to the work of the AG. This group comprises the European Commission and the Committee of European Securities Regulators.

v. Chairpersons of the TGs
   - Each chairperson of a TG who is not member of the AG.

5. Nomination procedures:

5.1. The following nomination procedures shall apply for full members and observers:

i. A central bank representative shall be nominated by the Governor/President of the central bank concerned pursuant to the applicable central bank statute.
ii. The observer representing the 3CB+ shall be nominated by consensus of the four central banks concerned.

iii. A CSD representative shall be nominated by the head of the CSD concerned.

iv. A user representative shall be nominated by the respective organisations on the basis of applications ad personam. They shall be designated by the NC in line with the applicable NC procedures and criteria.

v. Public authority representatives shall be nominated by the respective organisations on the basis of applications ad personam. Public authority representatives can only be nominated as observers. They shall be designated by the NC upon the proposal of the Chairperson of the NC.

5.2. Each nominee shall have the appropriate level of seniority and the relevant technical expertise.

5.3. Any nomination shall be confirmed in writing to the Secretary.

6. Participation:

6.1. Full members and observers in the AG shall participate in the AG strictly on a personal basis.

6.2. A full member shall be entitled to designate an alternate (with an equivalent level of seniority and expertise) who shall, in exceptional circumstances, attend the AG in case of absence of the former and may express views or vote on his/her behalf by way of a proxy note. The full member concerned shall inform the Secretary thereof sufficiently in advance.

6.3. Whenever a full member or observer has left the entity he/she represents, his/her membership shall cease with immediate effect.

6.4. The chairperson of the AG shall request the responsible nominating organisation or the NC, as the case may be, to designate a substitute member each time a full member or an observer resigns or his/her membership ceases, in accordance with the applicable nomination procedure set out in Article 5.

7. Chairperson:

7.1. The Chairperson shall be a senior manager of the ECB and shall be appointed by the Governing Council. The Chairperson shall be entitled to designate an alternate to replace him/her in exceptional circumstances.

7.2. The Chairperson shall be responsible for organising the meetings of the AG and chairs those meetings. In this function, he/she shall decide on the agenda of the meetings, taking into account contributions from the Coordination Group (CG) and members of the AG, and shall decide on the documents to be sent to the AG.
The Chairperson shall present a proposal to the AG if an amendment to the mandate(s) or to the list of TGs is proposed by the CG.

7.3. The Chairperson shall decide whether a subject belongs to the field of competence of the AG and shall inform the AG accordingly if he/she decides that a matter does not fall within its field of competence.

7.4. The Chairperson shall perform all functions as provided for in the Governing Council decision (such as the ex officio chairing of the CG), as well as all other functions subsequently delegated to him/her by the AG.

7.5. The Chairperson shall be the only person to represent the AG externally. The AG shall be informed in an appropriate manner prior to any relevant external representations undertaken by the Chairperson on behalf of the AG. Any external communication of the AG shall be brought to the attention of the AG sufficiently in advance.

8. Secretariat:

8.1. The Secretary of the AG shall be a highly experienced ECB staff member and shall be appointed by the Chairperson of the AG. The Chairperson of the AG may designate an alternate to replace the Secretary in exceptional circumstances.

8.2. The Secretary shall be provided with secretarial support by the ECB.

8.3. The Secretary will work under the guidance of the Chairperson. The Secretary’s task shall involve in particular:

i. assisting the Chairperson in his/her duties;
ii. organising meetings and preparing the minutes of the meetings;
iii. assisting in the drafting of documents adopted by the AG;
iv. acting as coordinator for consultations;
v. organising external communication in relation to the work of the AG and the other groups (such as the publication of AG documents);
vi. executing all other functions assigned to him/her by these Rules of Procedure or the AG or the Chairperson, as the case may be.

8.4. The Secretary shall be an ex officio member of the CG.

8.5. The Secretary shall not be entitled to take part in the decisions of the AG.

9. Working procedures:

9.1. As a rule, the AG shall meet every two months. Additional meetings may be called by the Chairperson, the dates of which will be communicated sufficiently in advance to the AG. In principle, meetings shall take place at the premises of the ECB.
9.2. The working language shall be English.

9.3. Brief conclusions on the main outcome of an AG meeting shall be provided by the Secretary and circulated to the members of the AG on the working day after the meeting. The members of the AG will provide comments within one working day and the revised conclusions shall be published on the ECB’s website thereafter. The summary of an AG meeting shall be drafted by the Secretary and circulated to the members of the AG within five working days of the meeting. Comments on the draft summary shall be received within five working days. The final summary shall be published once it has been approved by the AG. The summary shall indicate the topics that were under consideration, as well as the results of the discussions.

9.4. The AG shall work in an open and transparent manner.
   The agenda of a meeting and the documents to be discussed will be circulated to the members and published on the ECB’s website at least five days before the meeting.
   Comments and other submissions received by the Secretary no later than three days before a meeting shall be distributed to the AG and, in principle, shall also be published on the ECB’s website. Documents of a confidential nature (such as documents received from market participants on the condition of confidentiality or documents deemed confidential by the Chairperson) shall not be published.

9.5. Decisions of the AG shall take either the form of an advice that is sent directly to the ECB’s decision-making bodies (i.e. the Governing Council and the Executive Board) or of decisions concerning the organisation of the work of the TGs.

9.6. As a rule, any advice to the ECB’s decision-making bodies shall be adopted by way of consensus among the AG’s members taking part in the AG’s decisions. Whenever no consensus can be reached, the Chairperson may decide to measure the degree of support for a specific advice by asking all full members of the AG taking part in the AG’s decision whether they agree or disagree with a proposal.
   In case there are several proposals for advice on the same subject, only those proposals that are supported by at least seven full members of the AG (or their alternates) shall be submitted to the ECB’s decision-making bodies. Full members are not allowed to support more than one proposal on the same subject.

9.7. In principle, decisions of the AG concerning the organisation of the work of the TGs (including the designation of a TG chairperson) shall be taken by consensus, or by simple majority vote, if no consensus is reached.
   As an exception to this rule, decisions concerning the amendment of the list of TGs and/or the modification of the mandates of a TG require a majority of 60% of the AG’s full members.

9.8. The AG shall ensure that a wide range of market participants and authorities can provide input to the AG and that they are informed of its deliberations. To this end, the AG shall use appropriate means to consult market participants, authorities, as well as all other stakeholders and interested parties (e.g. through public consultations, round-table discussions, dedicated meetings and information sessions, or the publication of feedback statements following consultations). The
Secretary shall act as coordinator for any such consultations and may seek the support of the ECB project team. The AG may directly submit proposals to any formally established National User Group (NUG) for comments, if deemed appropriate, as well as to NCBs in countries where no formally established NUG exists. All consultations shall, as a rule, provide for a window of no less than three weeks for comments, unless the Chairperson of the AG decides otherwise. A resolution of an NUG received by the Chairperson of the AG or of a TG may be discussed by the AG or the TG respectively.

10. Reporting lines and relationship with ESCB Committees:

10.1. The Governing Council may provide general guidance to the AG, either on its own initiative or upon request.

10.2. The AG shall submit its advice directly to the ECB’s decision-making bodies for their consideration.

10.3. The AG may provide guidance directly to a TG via the respective chairperson as work to be undertaken pursuant to the mandate, either on its own initiative or upon his/her request.

10.4. The Chairperson shall debrief the AG on the discussions and conclusions of the CG.

10.5. Through the Chairperson, the AG may consult an ESCB Committee or its subgroup(s) on specific technical issues within the field of competence and expertise of that Committee (such as market impact analyses or legal issues in relation to T2S). In principle, a minimum period of three weeks for any such consultation shall be given, unless special circumstances require a shorter period. The Chairperson shall also ensure that the AG’s work does not overlap with the mandate of an ESCB Committee.