

TARGET2-Securities: Project status and next steps

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Contents

- What is T2S?
- Where do we stand?
- What are the challenges ahead?

What is T2S?

A project for...

- ... Europe, implementing the Lisbon agenda
- Supporting to the integration of the market infrastructure
- Making cross-border transactions, domestic ones in Europe
- Enhancing competition in a financial service segment which is largely based on national monopolies at the moment

**Making Europe a better place to invest
and trade**

Two projects complementing and completing the market infrastructure for the Euro

Infrastructures

Securities markets integration



MIFID

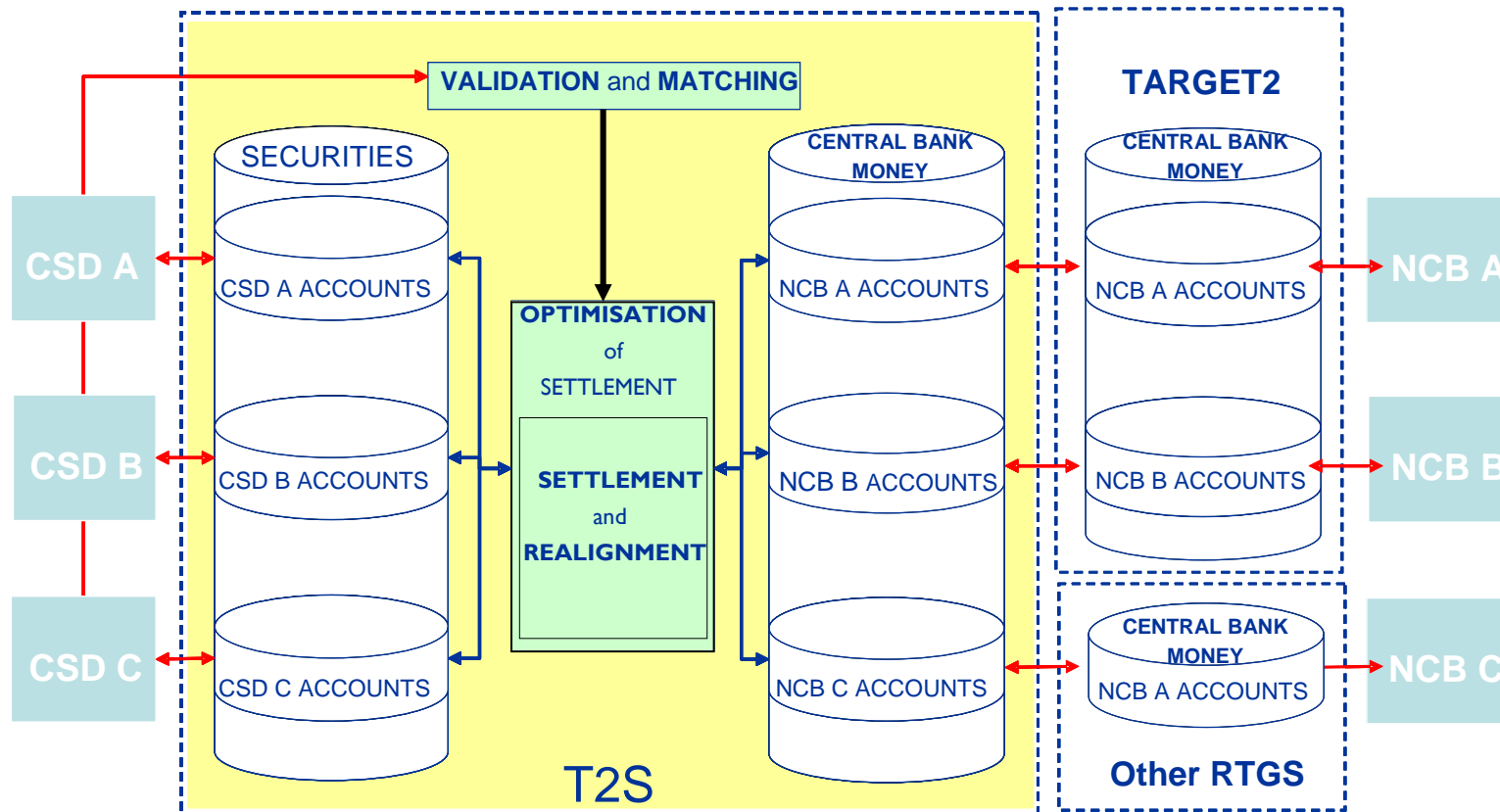
**Removal of
Giovannini
barriers**

**Code of
conduct**

**ESCB-
CESR**

The Eurosystem provides an essential contribution to the European Lisbon strategy in close cooperation with markets

T2S - A co-operation between CSDs and NCBs

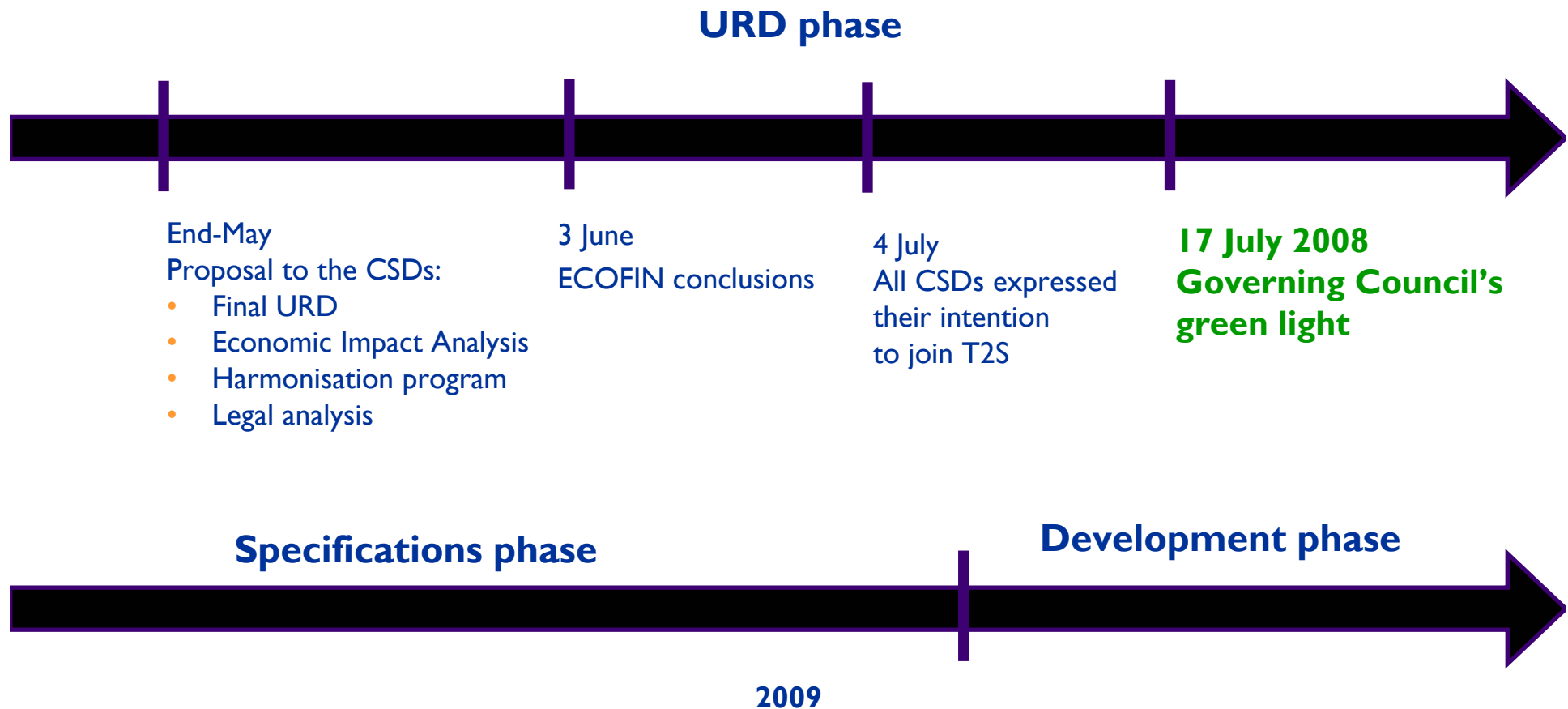


Bringing all securities and cash accounts on one technical platform to settle securities transactions

The big wins of T2S

- **Making cross-border settlement fees as inexpensive as domestic fees**
- **Reducing users' collateral/liquidity needs**
- **Harmonising settlement to make Europe a true Single Market**
- **Create new opportunities for competition**

Where do we stand?



What has been done? - Proposal to CSDs

The final User Requirements Document (URD):

- The user requirements define the features required by CSDs and financial market participants for core, borderless and neutral settlement of securities in Europe.
- Draft URD published on 18 December 2007
- Public consultation launched until 2 April 2008 for the CSDs, issuers and financial market participants to provide in-depth analysis.
- URD revision by the Project Team in cooperation with the Advisory Group (AG) and the Technical Groups (TGs)

What has been done? - Proposal to CSDs

Governance for the Specifications phase:

- Current T2S governance arrangement remains largely unchanged for the Specification Phase, i.e. until end 2009.
- New T2S AG (with its three constituencies) who may establish sub-groups.
- Support of T2S and participation in the future governance go hand in hand.

Other governance options will be studied during the Specification Phase, including the establishment of a separate legal entity.

What has been done?

Results of the economic impact analysis - settlement fee per instruction -

Settlement fee per instruction compared under 2007 market conditions:

	Scenario 1	Scenario 2	Scenario 3
Current average fee:	73 cents	62 cents	73 cents
T2S fee 2007 conditions	32 cents	21 cents	57 cents
CSD add-ons	7 / 24 cents	6 / 24 cents	7 / 24 cents
Total settlement fee	39 / 57 cents	26 / 44 cents	64 / 82 cents
Benefit settlement fee	34 / 16 cents	36 / 18 cents	10 / (8) cents

What has been done?

Results of the economic impact analysis - user savings -

Custodians / Banks savings with T2S in operation (rounded to Euro Mio p.a.)

	Scenario 1	Scenario 2	Scenario 3
Back office savings	48 Mio	58 Mio	24 Mio
Required investments	(13) Mio	(16) Mio	(7) Mio
Collateral savings	53 Mio	68 Mio	26 Mio
Total savings Euro Mio p.a.	89 Mio	110 Mio	44 Mio

What has been done?

Results of the economic impact analysis - Overall results of the static cost analysis-

T2S EIA static cost analysis (rounded to mio euro p.a.)

	Scenario 1	Scenario 2	Scenario 3
ECB Study	145 – 207	223 – 338	30 - 61
Re-scaled Clearstream study	376	584	n.a.
Re-scaled Euroclear study	274	390	n.a.

Even in the worst case scenario (euro area – 50%) the T2S business case remains positive

What has been done?

Results of the economic impact - including dynamic effects – (in mio euro per annum)

		Static impact	Dynamic impact
Scenario 1 Euro area only	ECB survey (net impact, minimum)	145	1,119
	Rescaled Clearstream study (gross benefits)	376	2,891
	Rescaled Euroclear study (gross benefits)	274	2,110
		Static impact	Dynamic impact
Scenario 2 Euro area + UK, Swiss, Sweden and Denmark	ECB survey (net impact, minimum)	223	1,594
	Rescaled Clearstream study (gross benefits)	584	3,993
	Rescaled Euroclear study (gross benefits)	390	2,914

What has been done? - Proposal to CSDs

Harmonisation:

- The ECB Governing Council supports harmonisation efforts in the context of T2S to increase the benefits that such a single platform could bring to market participants
- Market participants have repeatedly stressed the importance of harmonisation in market-, legal and regulatory practices.
- The Governing Council had already mandated the future Advisory Group to work on harmonisation
- The Advisory Group should liaise with other bodies that have already started working on harmonisation in order to support and to foster this work.

What has been done? - Proposal to CSDs

Legal:

- The legal assessment confirms the legal feasibility analysis undertaken a year ago – done by ECB legal team and reviewed by LEGCO.
- An outline of the contractual arrangements to be elaborated between the CSDs and T2S will be provided to the CSDs - done through a task force with legal and technical experts from Eurosystem and CSDs.

**Remains to be done: CSDs – Eurosystem legal commitment
(deadline 1st quarter 2009)**

What has been done?

The Decision of the Governing Council

- Commitment of all euro area CSDs and political support from EU Council and EU Commission
- Governing Council commitment until completion
- The T2S software will be built by the Eurosystem Banco de España, Banque de France, Banca d'Italia and Deutsche Bundesbank.
- Contractual arrangements will have to be proposed to the Eurosystem and the CSDs by March 2009.
- Green light to the harmonisation work.

Contents

- What is T2S?
- What has been done since our last presentation?
- What are the challenges ahead?

The challenges ahead

- **Drafting the General Functional Specifications (GFS) and the User Detailed Functional Specifications (UDFS), in line with User Requirements Document (URD)**
- **A precise budget with a 3CB+ commitment**
- **A general migration plan**
- **Contractual arrangements between Eurosystem and CSDs**

T2S governance needs to fit for the next phase

- **The Advisory Group remains but its mission changes radically.**
- **A long term governance solution has to be elaborated in the course of 2009.**
 - The system will be owned and operated by the Eurosystem
 - An adequate way to associate non euro NCBs and CSDs have to be found.
 - A separate entity is an option.

The challenges ahead

The AG will drive the T2S-related harmonisation work

- Harmonisation of T2S related processes
- Harmonisation of corporate events
- Drive harmonisation in other post trading activities

Next step for harmonisation: an action plan by November 2008

The User Choice Model of Euroclear

- **The ECB appreciates the UCM concept, but ...**
 - has a number of technical questions waiting to be answered;
 - expects to see mitigation measures for the conflict of interest in the **CSDs** concerned;
 - wonders whether the model will be generalised
 - fears that the co-operation model with the **CSDs** will be affected