

TARGET2 – Securities

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I. Why?

Why?

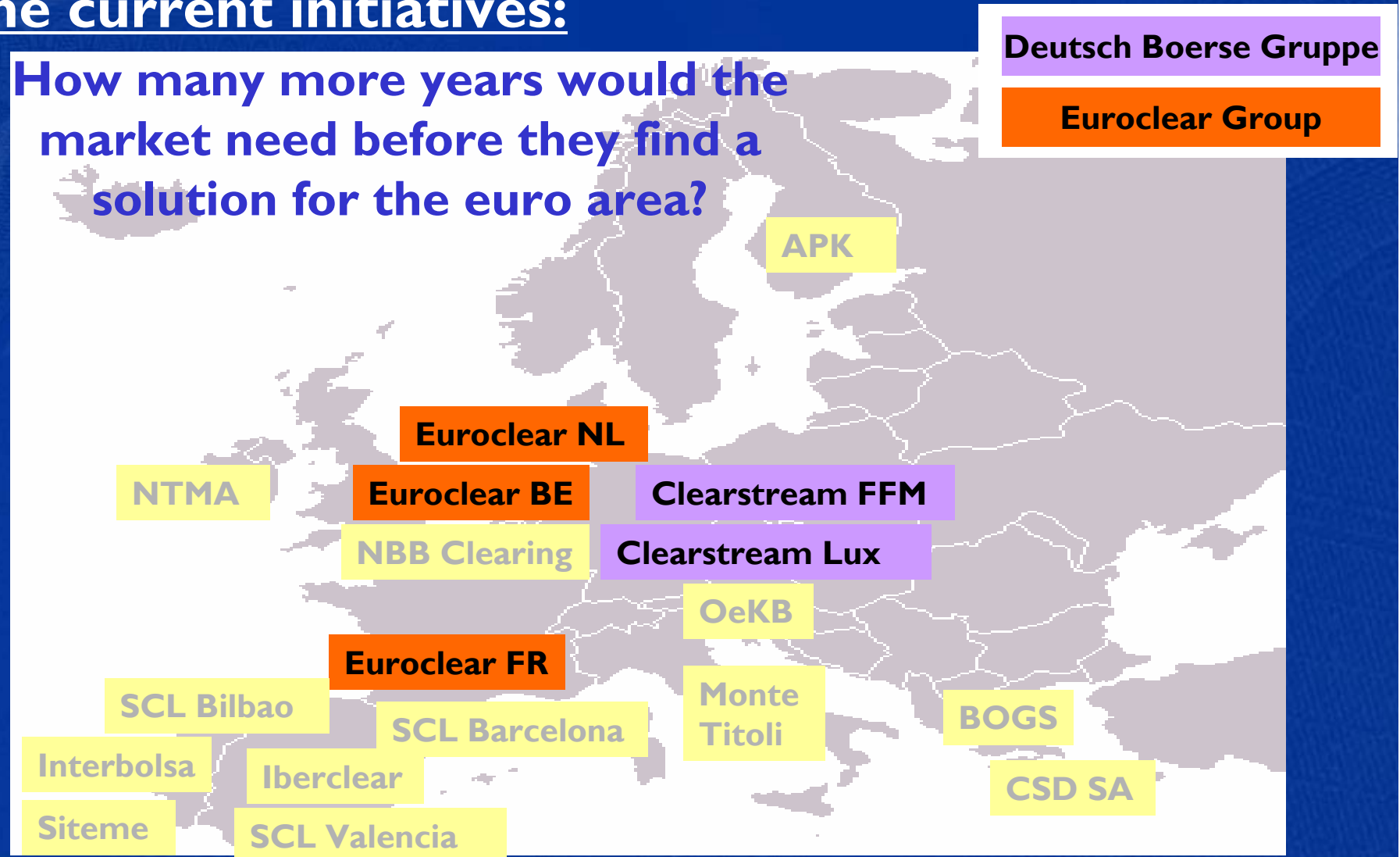
European Integration:

- **Cross-border securities settlement in the EU up to 6 times more expensive than domestic settlement.**
- **Domestic settlement in EU up to 8 times more expensive than in the USA.**
- **Banks are asking for a single settlement platform for European securities.**
- **Public authorities committed to act (Lisbon agenda).**
 - **Lifting the “Giovannini barriers”**
 - **Code of Conduct**
 - **TARGET2-Securities**

Why?

The current initiatives:

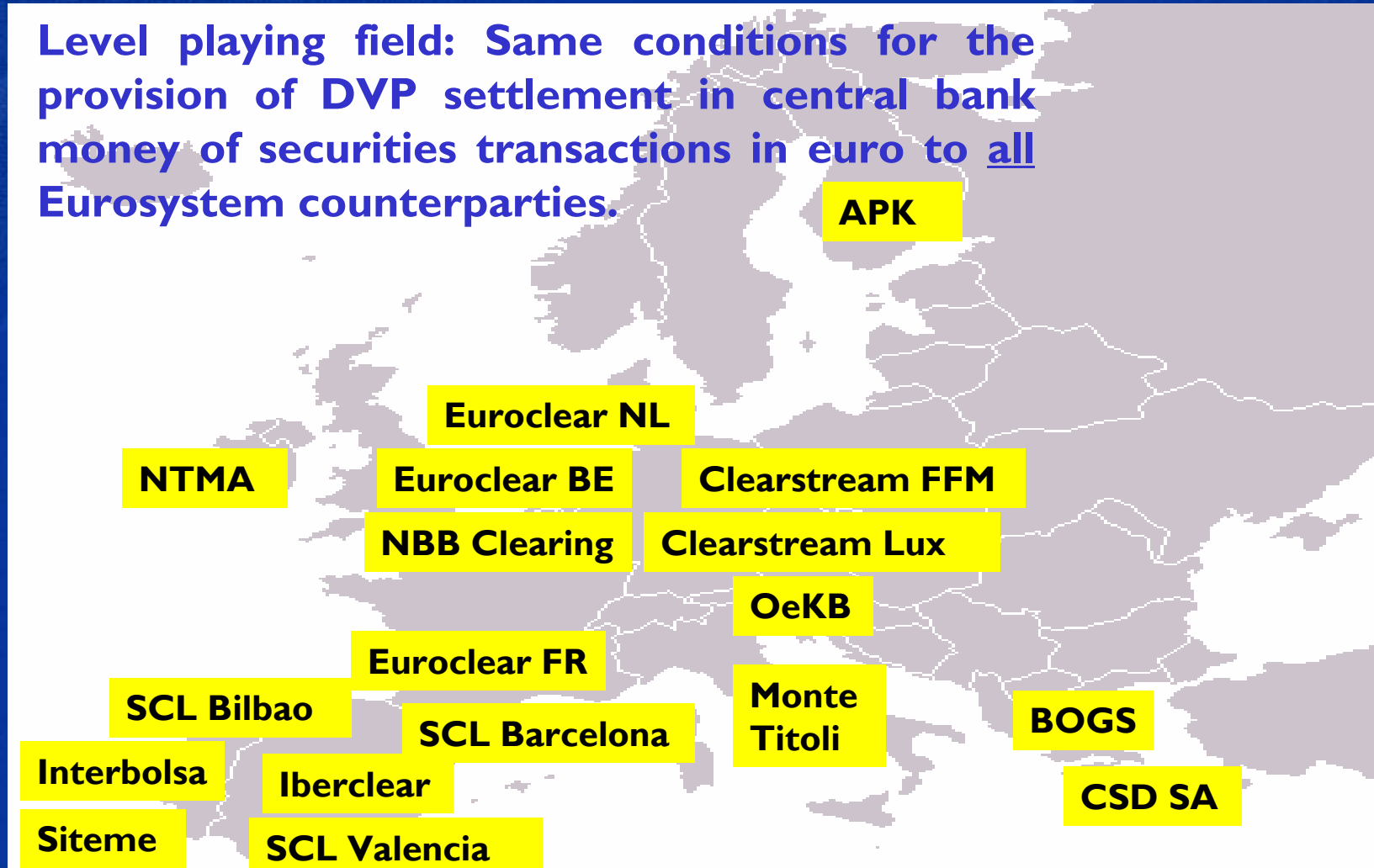
How many more years would the market need before they find a solution for the euro area?



Why?

TARGET2-Securities:

Level playing field: Same conditions for the provision of DVP settlement in central bank money of securities transactions in euro to all Eurosystem counterparties.



Why?

Efficiency:

Market preference for securities and cash to be settled through the same technical IT platform.

Financial stability:

The Eurosystem expresses strong reticence to outsource settlement in central bank money to third parties (as envisaged by Euroclear).

The Eurosystem wants to keep full control of their accounts at all times, in particular in time of crisis.

Why?

A long central bank tradition

	Central Banks involved in Securities Settlement	Central Banks involved in Securities Settlement in the last 20 years	Central Banks <u>not</u> involved in Securities Settlement in the last 20 years
Non €-area	USA	UK	Germany
	Japan	France	Luxembourg
€-area	Belgium	Spain	Austria
	Greece	Italy	
	Portugal	Ireland	
		Netherlands	
		Finland (as a major shareholder)	

Why?

Comparison between US and Euro area

Fedwire Securities Service



TARGET2 Securities



Settlement function

Custody function
(e.g. corporate actions)

Notary function
(issuance, ...)

Treasuries

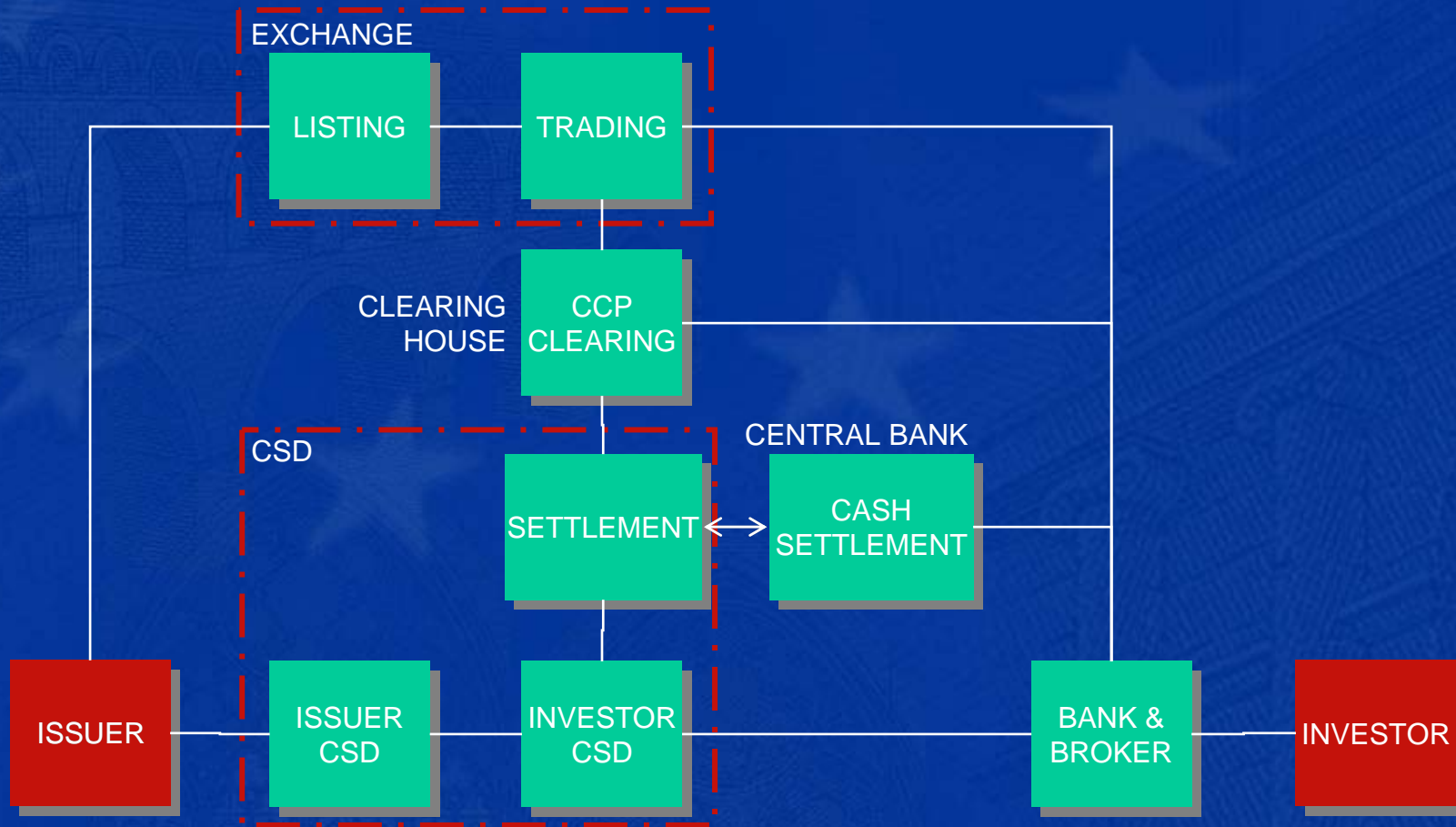
Equities, corporate bonds, ...

CSD1	CSD2	CSD3	CSD4	CSD5	CSD6

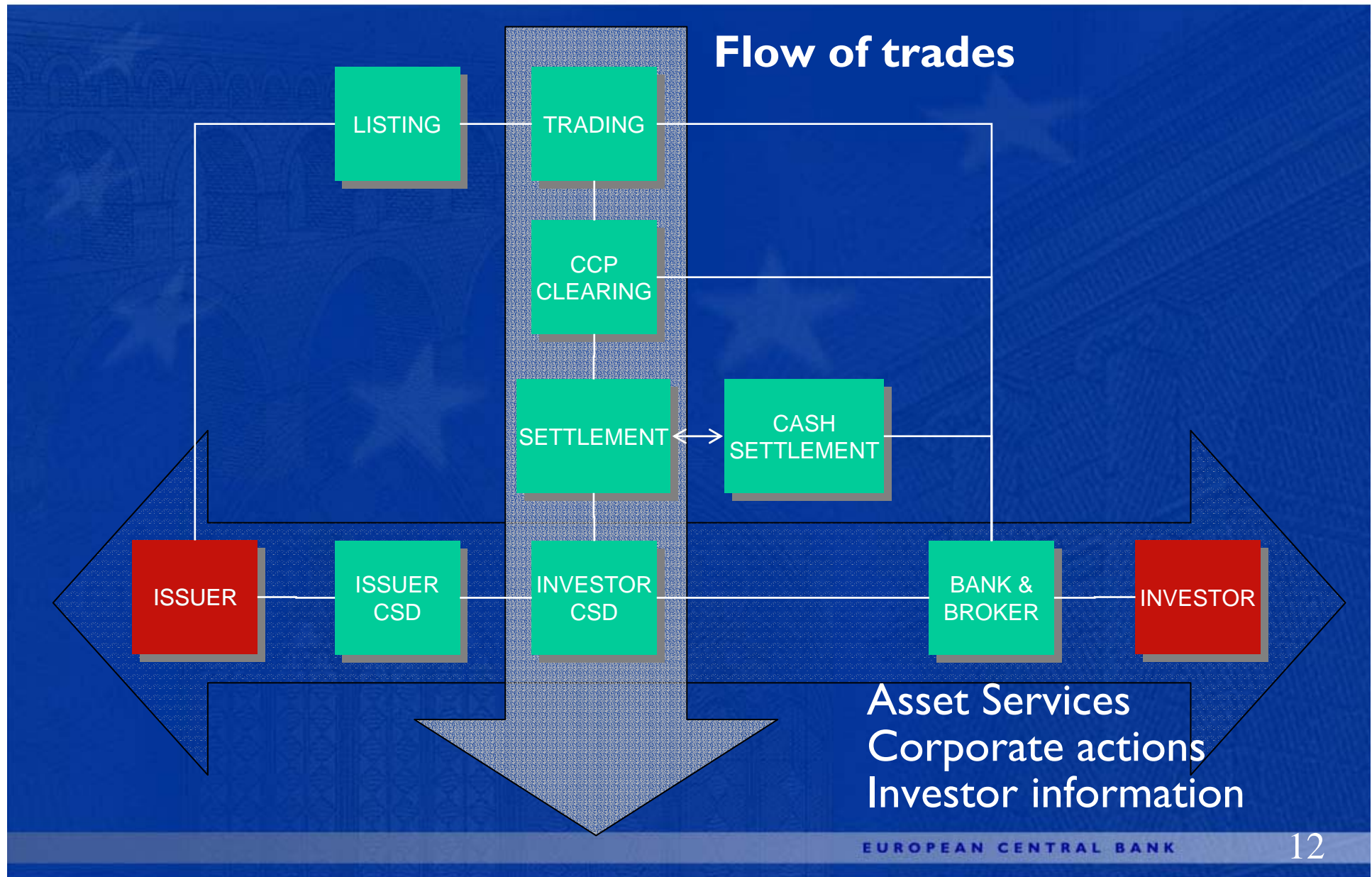
All type of securities

II. How?

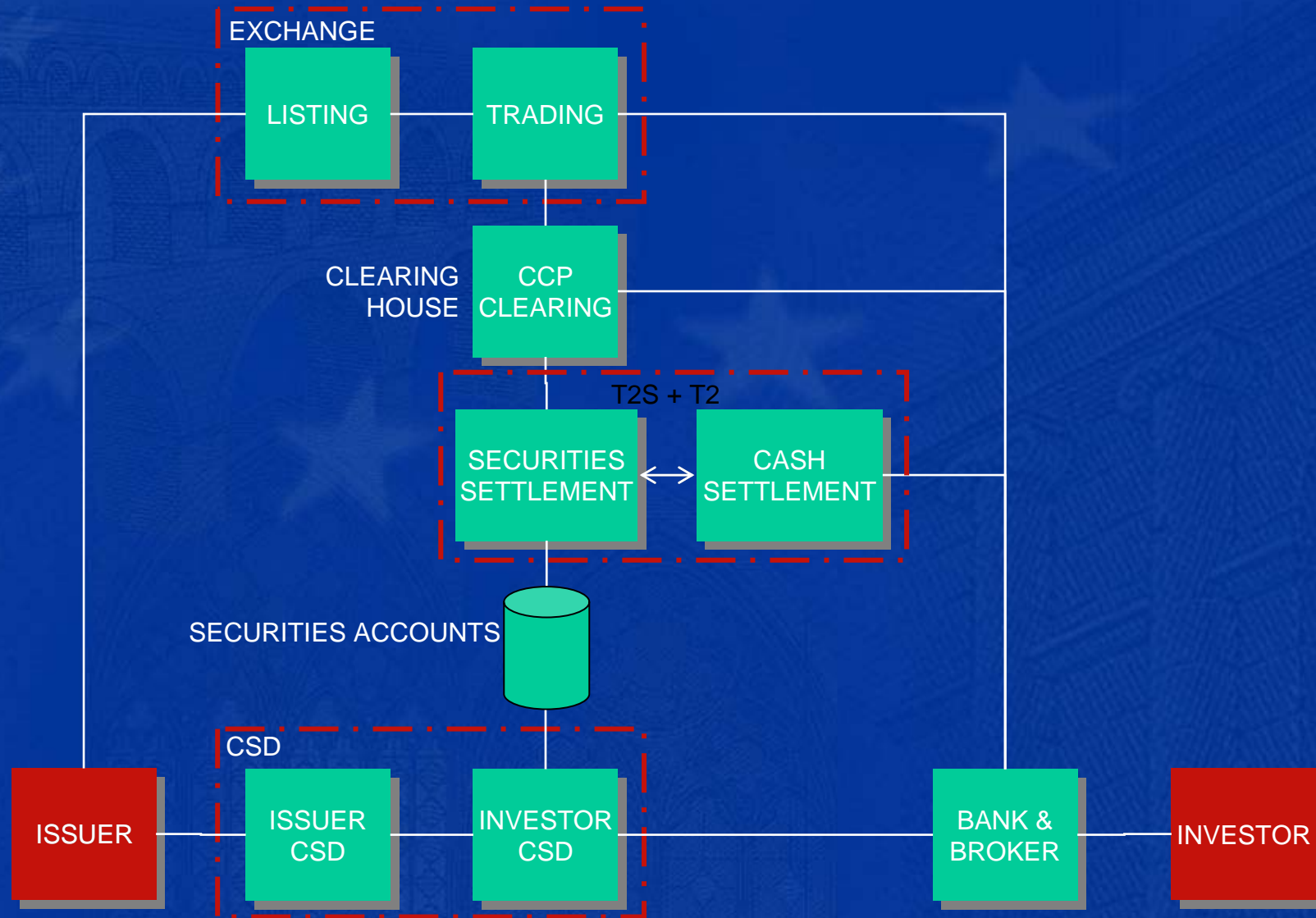
How?



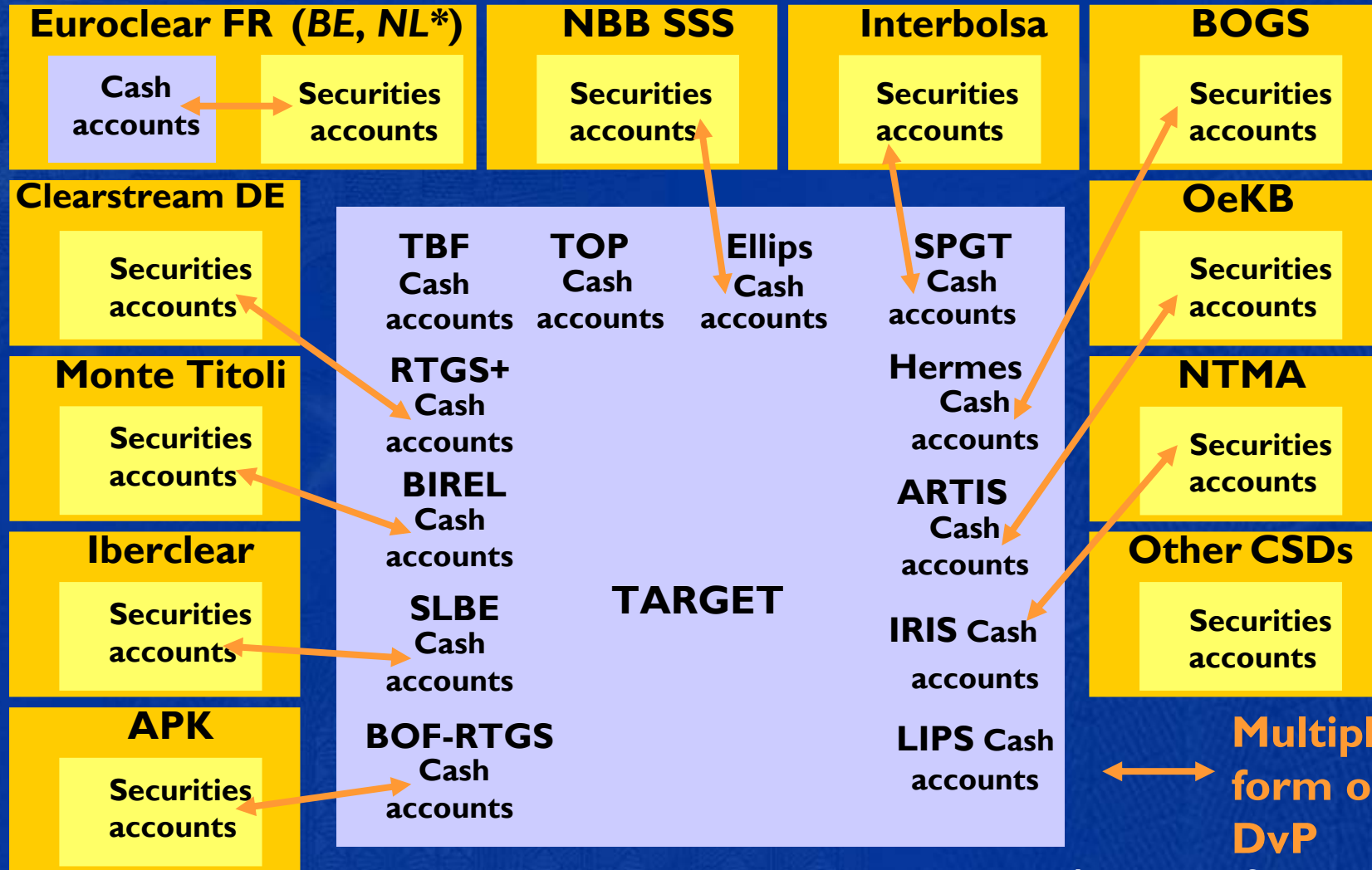
How?



How?

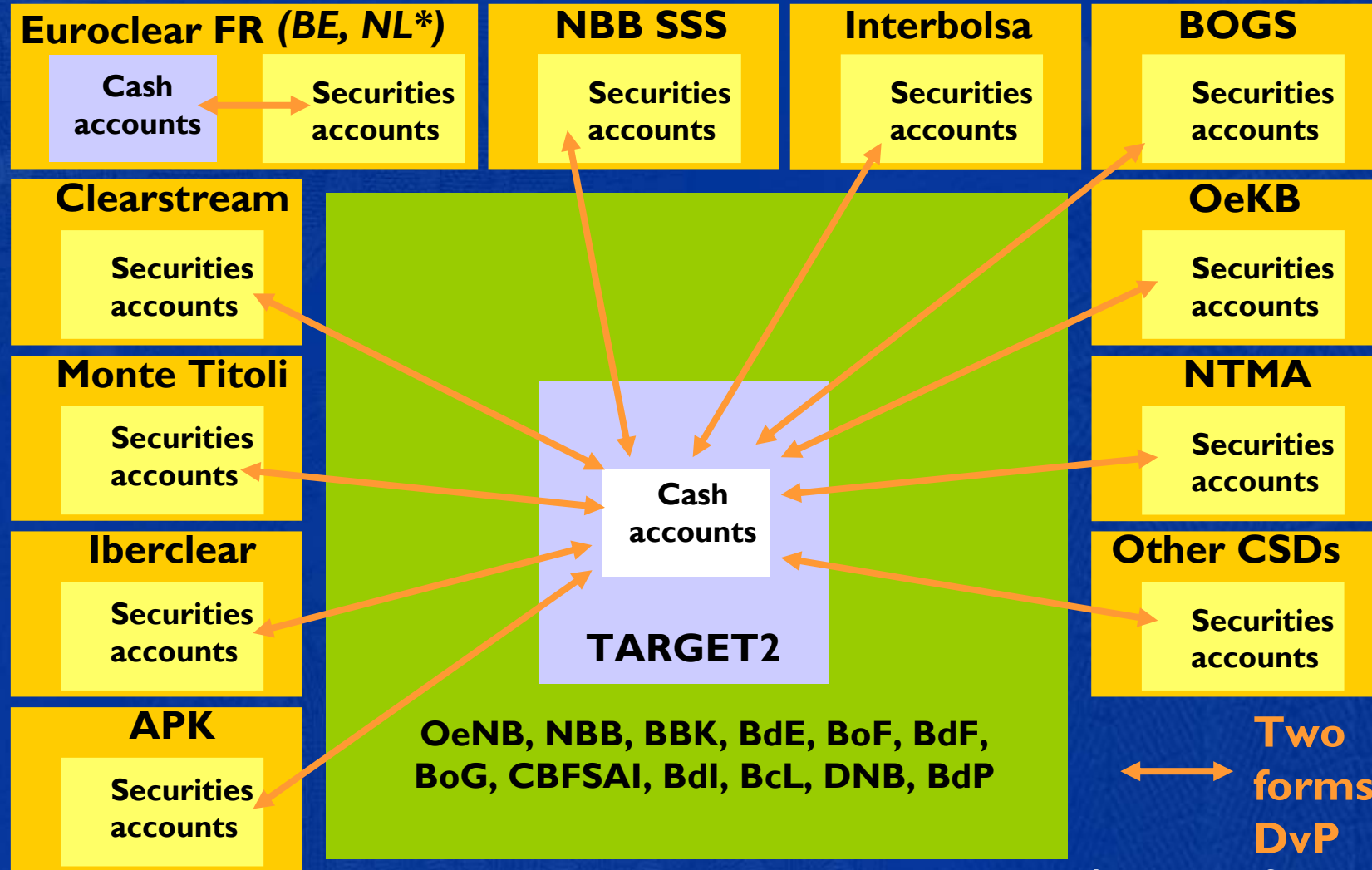


How?



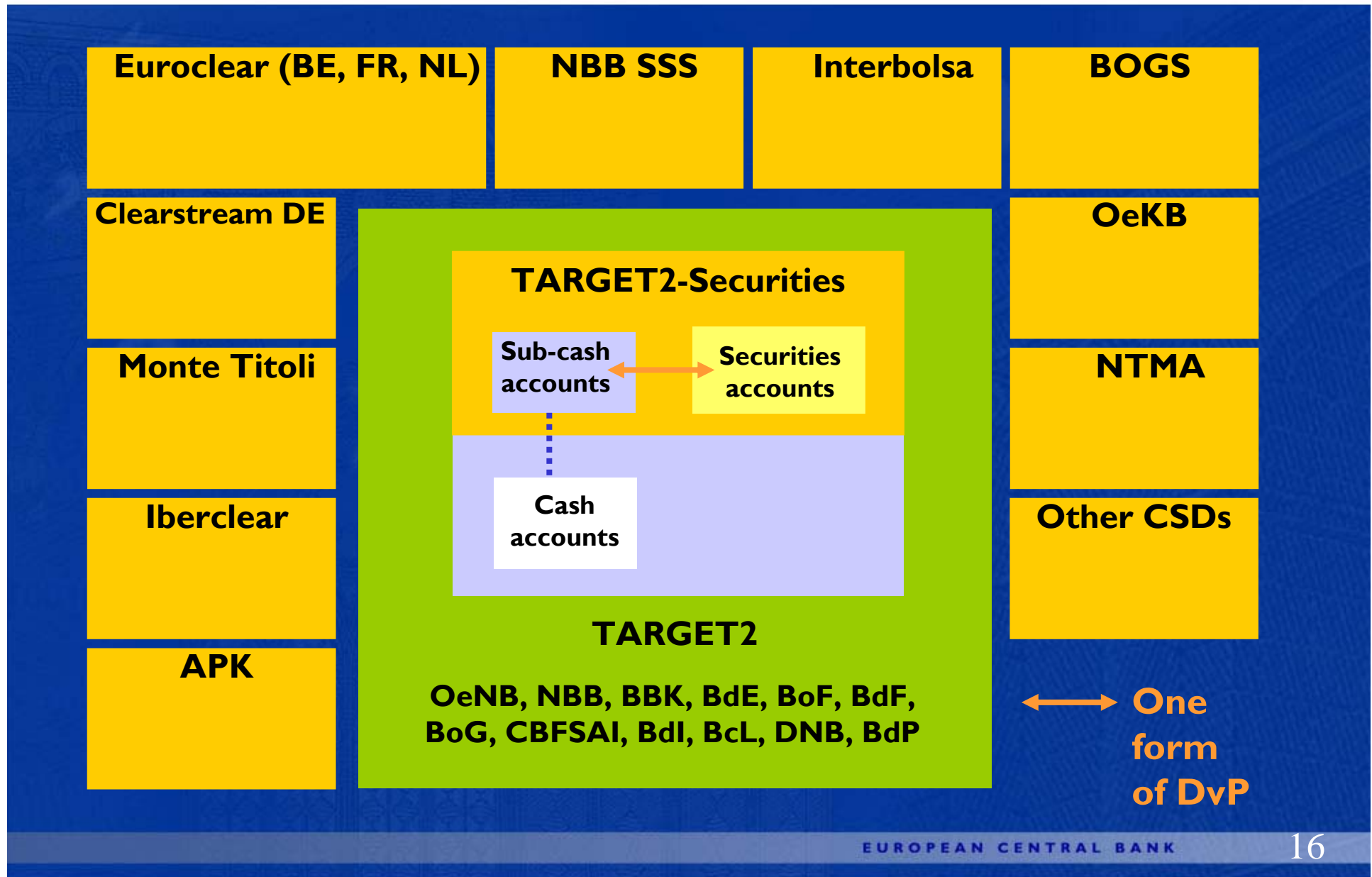
**planned for BE and NL*

How?



**planned for BE and NL*

How?



III. When?

III When?

No decision has been taken yet:

The Eurosystem is “exploring” the issue



Preliminary answers (see ECB website):

- **13 banking communities**
- **15 market infrastructures (CSDs and CCPs)**
- **3 European associations of banks**

III When?

Preliminary reactions of market to TARGET2-Securities:

Very positive reactions from banks

- almost unanimous support
- preference for all transactions
- need for both real-time and batch settlement seen but some emphasis on real-time
- possibility of direct technical access
- need for TARGET2-Securities to decrease fees for end customers

III When?

Preliminary reactions of market to TARGET2-Securities:

CSD reserved their position as long as more information is provided on:

- Scope of project (assets and services)**
- Direct versus indirect connectivity**
- Timetable**
- Implications on costs and revenues of CSDs**

III When?

Preliminary reactions of market to TARGET2-Securities:

- very positive reaction by most banks
- interest in T2S also outside the euro area
- CSDs “wait and see” attitude (with some CSDs more supporting than others)
- clear need for more elaborate proposal for next round of discussions (including timetable and road map)

III When?

**Decision of the Governing Council expected
February 2007**

After

the result of a feasibility study:

- **Banks effectively demand these services and CSDs are ready to accept outsourcing to the Eurosystem.**
- **No legal or technical obstacles to build T2S**
- **The Eurosystem can provide the services at a good price**