

GENERAL PRINCIPLES OF TARGET2-SECURITIES

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. When designing T2S, any reuse of the T2 solutions for T2S will always be subject to the full adequacy of these solutions to the T2S users’ needs.

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.