



TARGET2-Securities

- update -

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Outline

- 1. What is T2S?**
- 2. What can T2S do?**
- 3. Expected effects of T2S on post-trading**
- 4. First phase of the project: T2S governance**
- 5. The project: principles and proposals.
Consultation process**
- 6. Moving forward**

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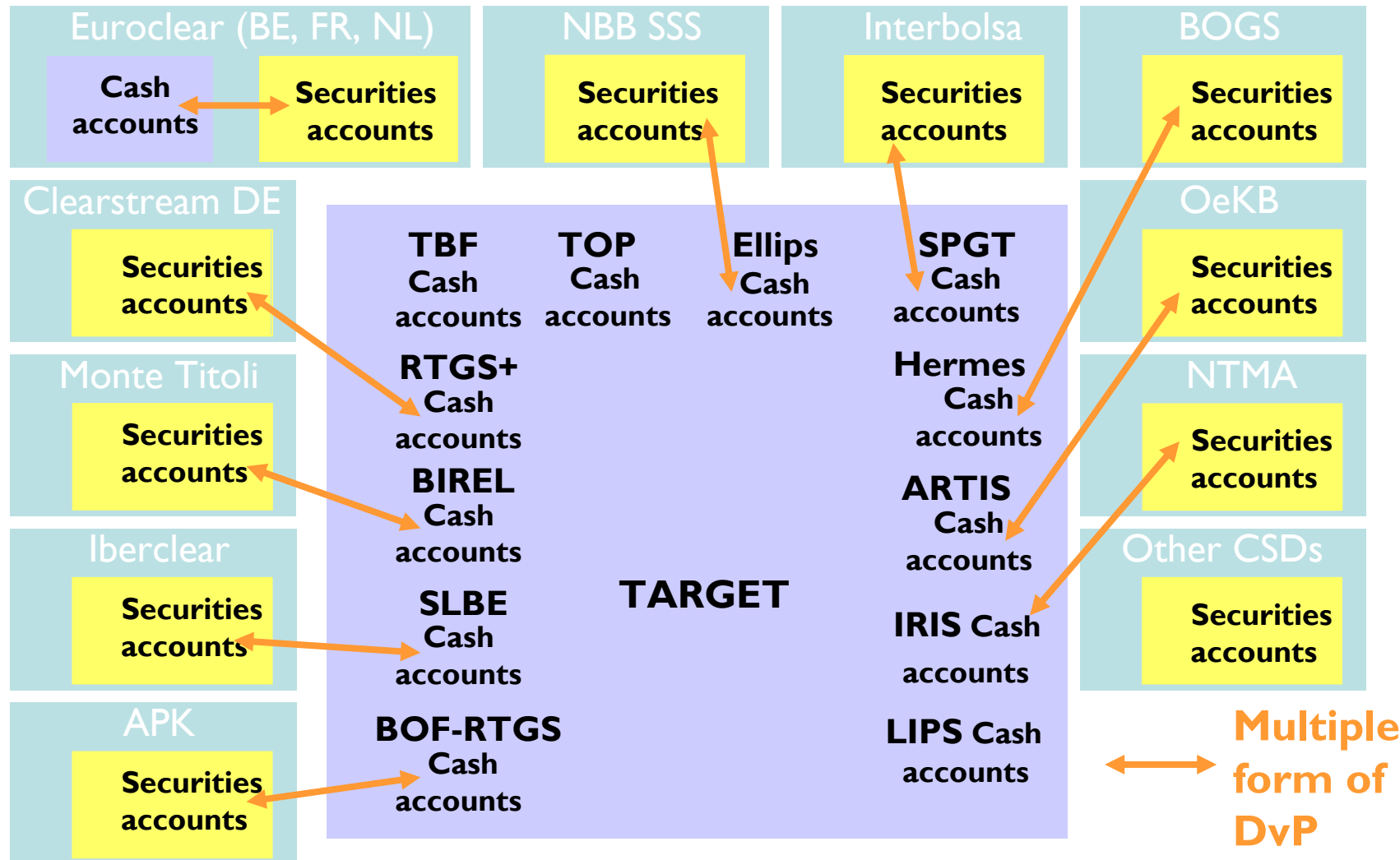
What is T2S?

A project for...

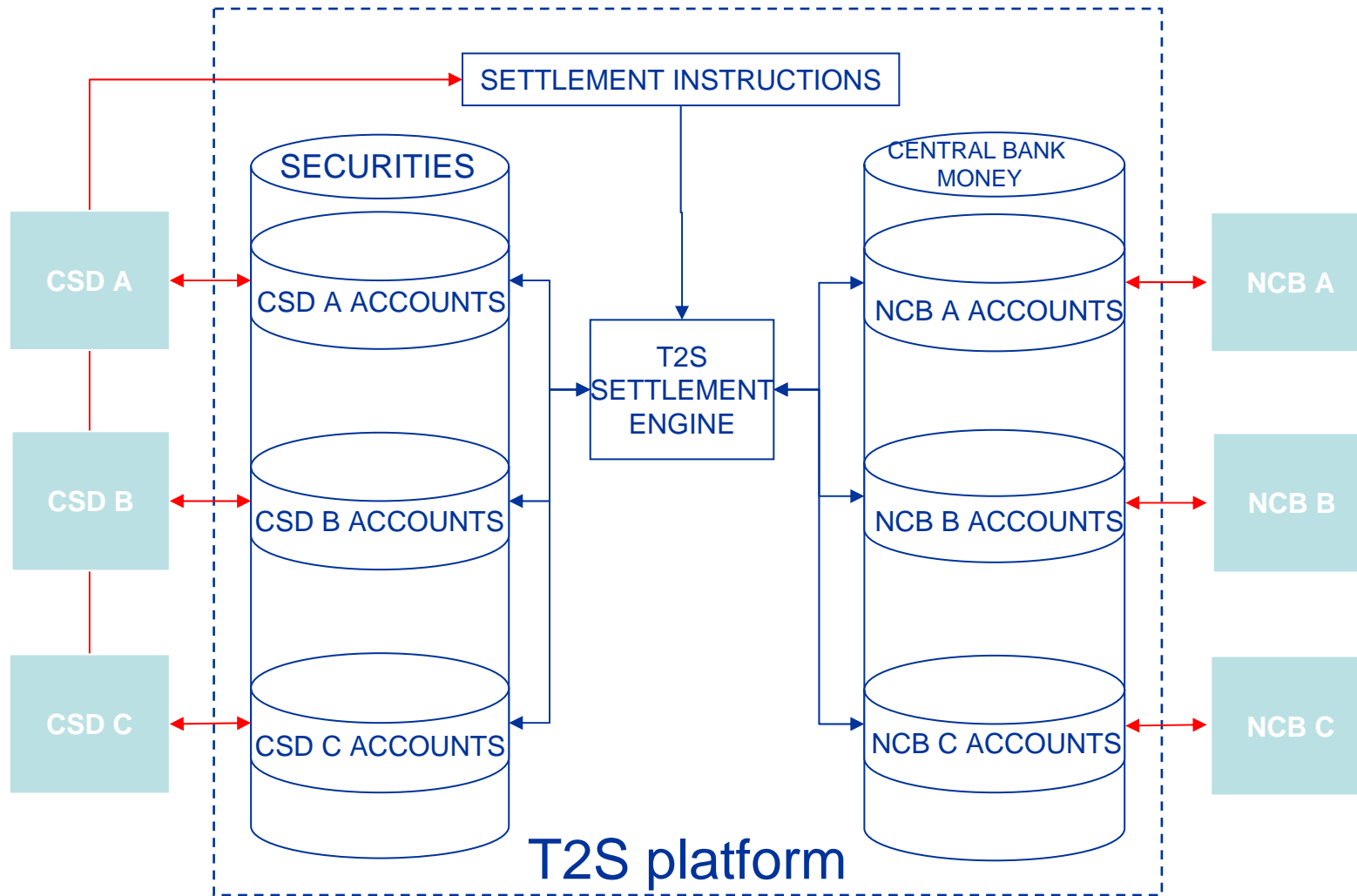
- ... Europe, implementing the Lisbon agenda
- Supporting to the integration of the market infrastructure
- Making cross-border transactions, domestic ones in Europe
- Enhancing competition in a financial service segment largely based on national monopolies

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

Today's situation in securities settlement



What is T2S?



Outline

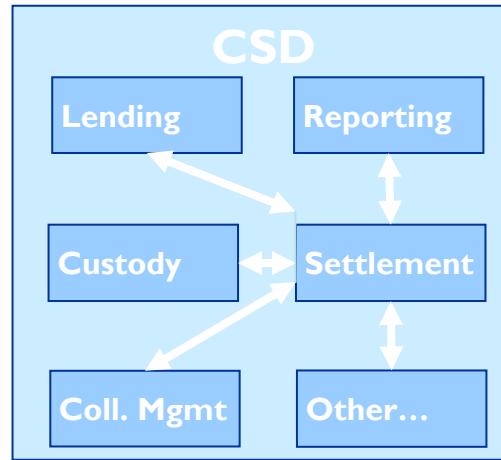
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What can T2S do?

- Provide a single venue where all EU securities can be exchanged for *euro*.
- Reduce cost of cross-CSD settlement via a single settlement platform and standardized communication protocols.
- Eliminate financial exposure in cross-CSD settlement through central bank money settlement.
- Provide position takers with the ability to optimise the financing of long positions and borrowing for short sales across all EU securities in *euro* (and other currencies over time).
- Increase efficiency of collateral management by the intraday transfer of collateral in securities among CSDs over a wide time window
- Support capital markets to provide efficient and stable intermediation between buyers and sellers.
- Reduce complexity and associated operational costs and risks by harmonizing market rules and practices for settlement and settlement related corporate events.

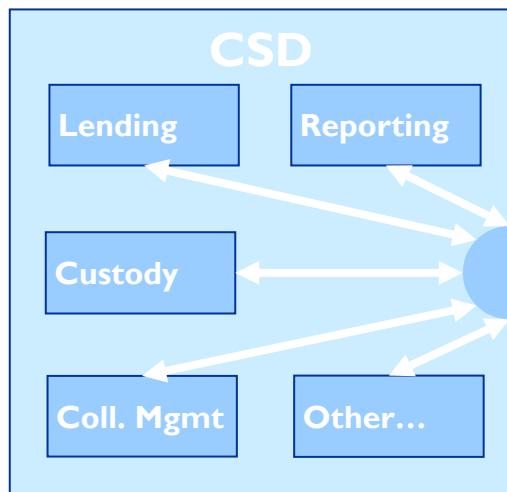
What will change?

Today's world



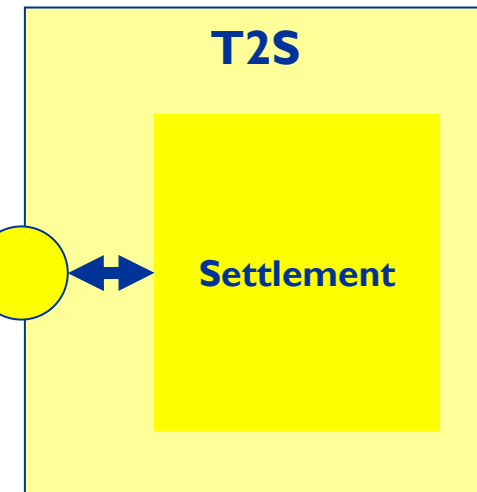
T2S does not segregate custody and settlement

T2S world



Key success factors
1. Right set of messages, queries & requests

2. Availability
3. Response time



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Expected effects of T2S on post-trading

- Increased efficiency in securities finance, reduced cost of funding and collateral management have positive effects on liquidity.
- Dynamic effects on trading volumes and liquidity due to
 - increased competition in trading
 - better pricing of securities
 - unencumbered access to settlement
- Further savings from reduced fail rates from simplified processing, reduction in operational errors and easier management of funds.
- Acceleration in the harmonisation of settlement related asset servicing.
- Enhanced competition in servicing assets will help investors to reduce cost.
- Reduction in intermediaries' back-office costs through economies of scale

Expected effects of T2S on post-trading

In a nutshell:

- Increased market liquidity and access to wider investor base lead to

lower cost of capital for issuers

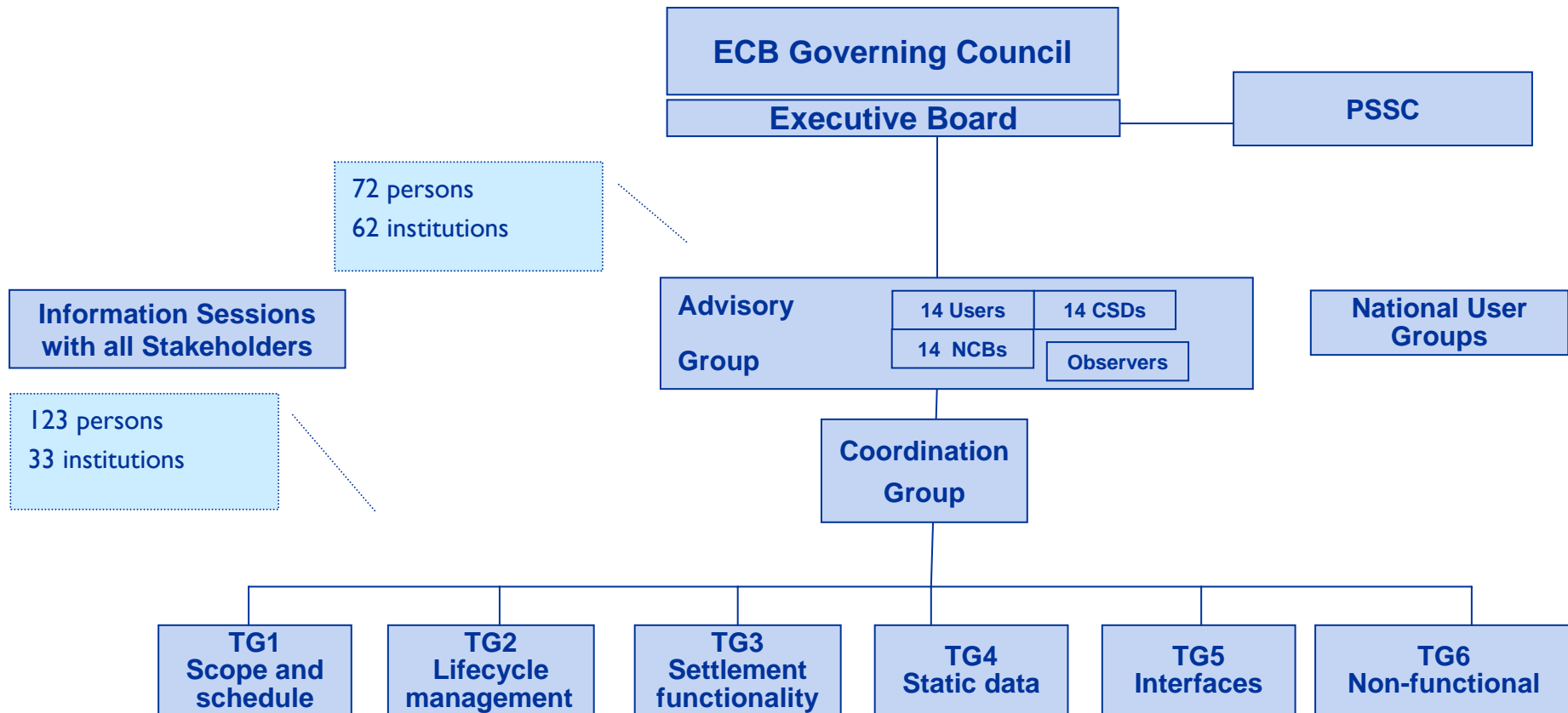
- Increased market liquidity and lower cost of portfolio diversification lead to

better return for investors

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First phase of the project: T2S governance



- 188 experts coming from 77 institutions
- All CSDs settling in euro participate
- 33 custodian banks

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The project: principles and proposals

- T2S will be a single IT platform enabling the settlement of securities in central bank money over the euro area/EU/EEA.
- CSDs would “outsource” operation of their securities accounts to T2S, which would process their settlement instructions on these accounts.
- CSDs would keep their customer base and continue to perform non-settlement related functions (issuance, corporate actions, custody ...).
- Settlement in commercial bank money out of the T2S scope.

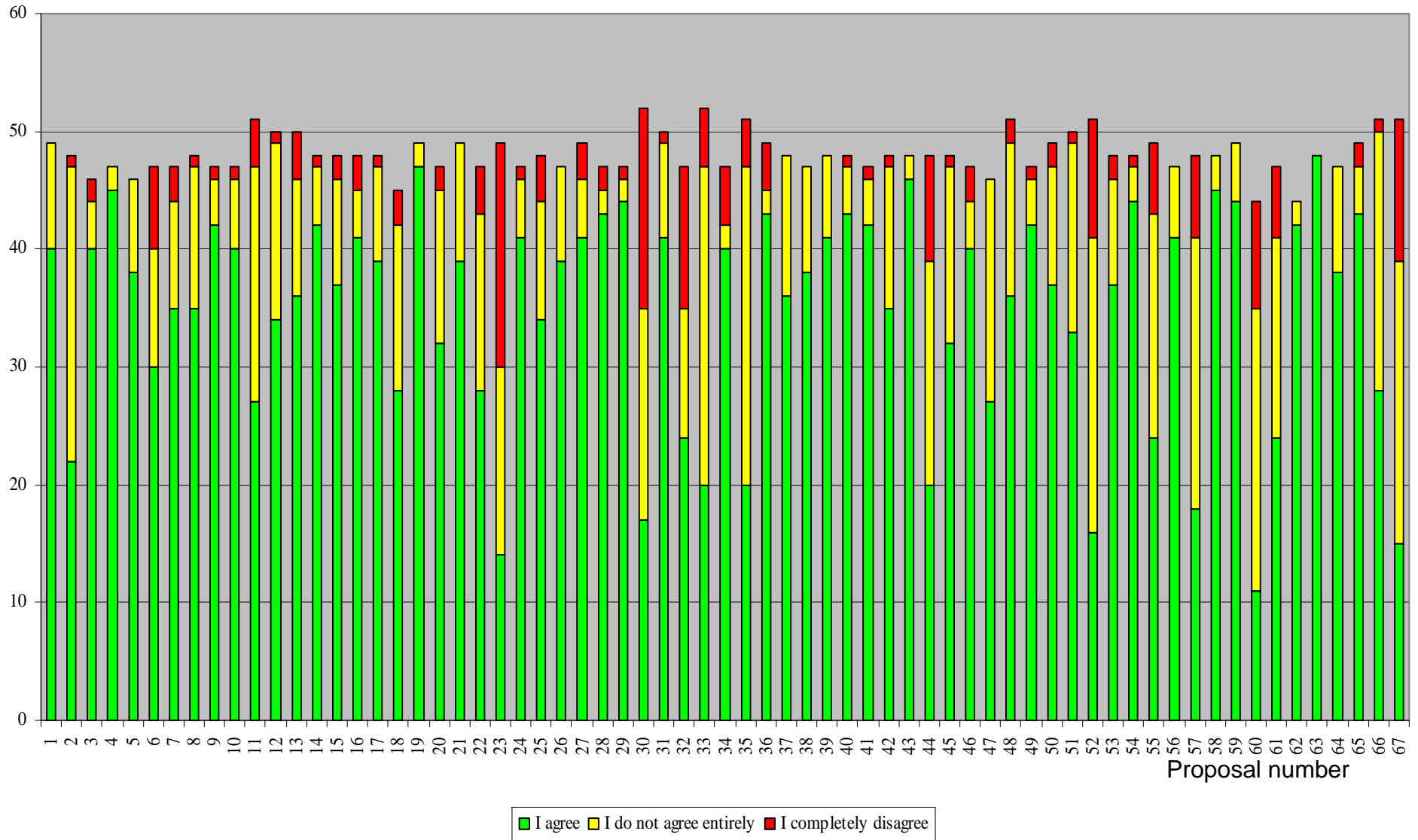
Principles and proposals

- A public consultation on the document “T2S: general principles and high-level proposals”, defining the nature and scope of TARGET2-Securities (T2S), has been launched on 26 April 2007.
- Market participants were invited to comment by end June 2007. We got 57 responses.

Principles

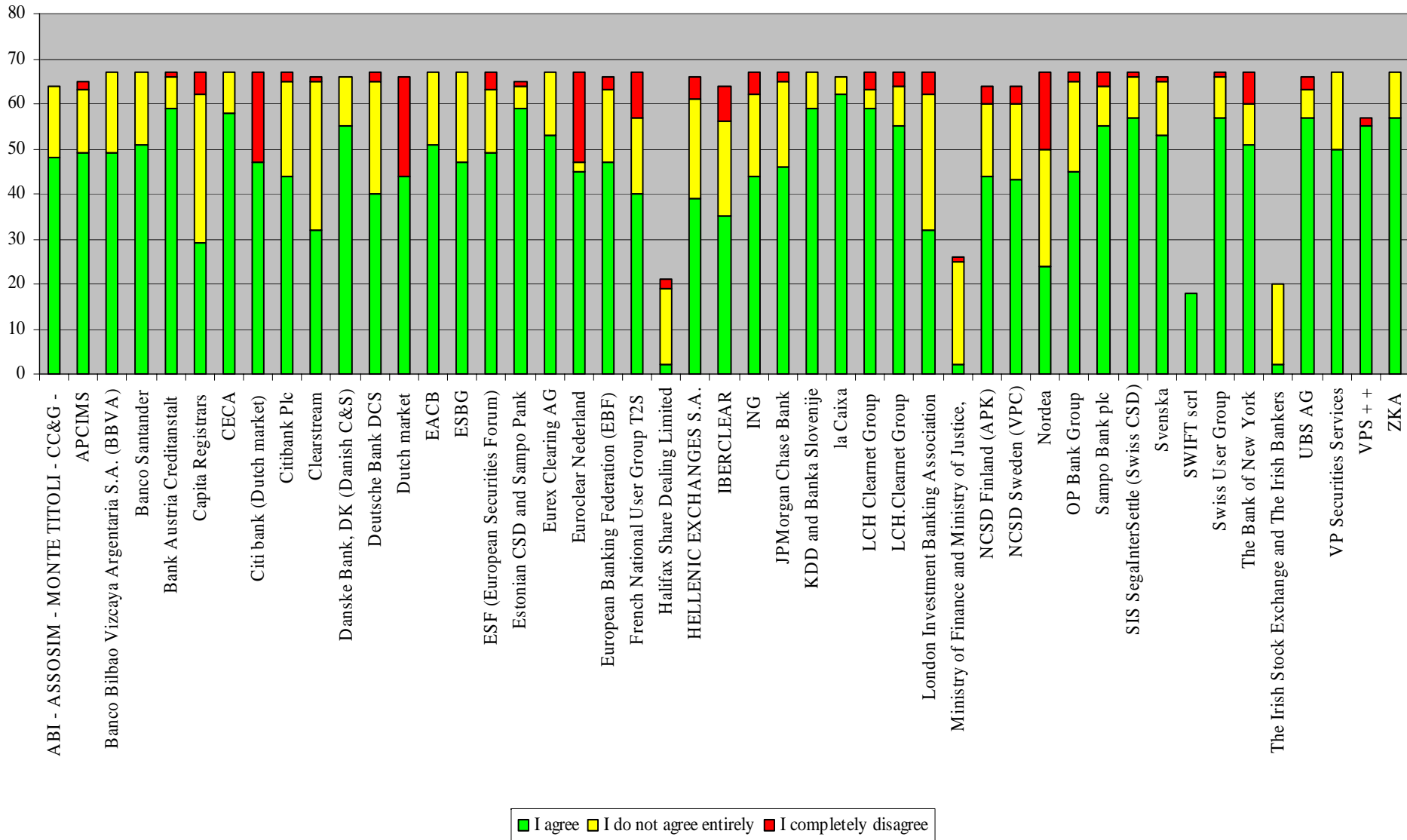
- Revision of text of the principles as “key cornerstones” of T2S defined by the ECB Governing Council
- Main purpose of revisions: Achieve common understanding
- These clarifications result from:
 - Consultation process (in particular 25 June Info session)
 - Issues raised at TG level
- Next step: ECB Governing Council to validate the clarifications proposed by the AG

Satisfaction per proposal

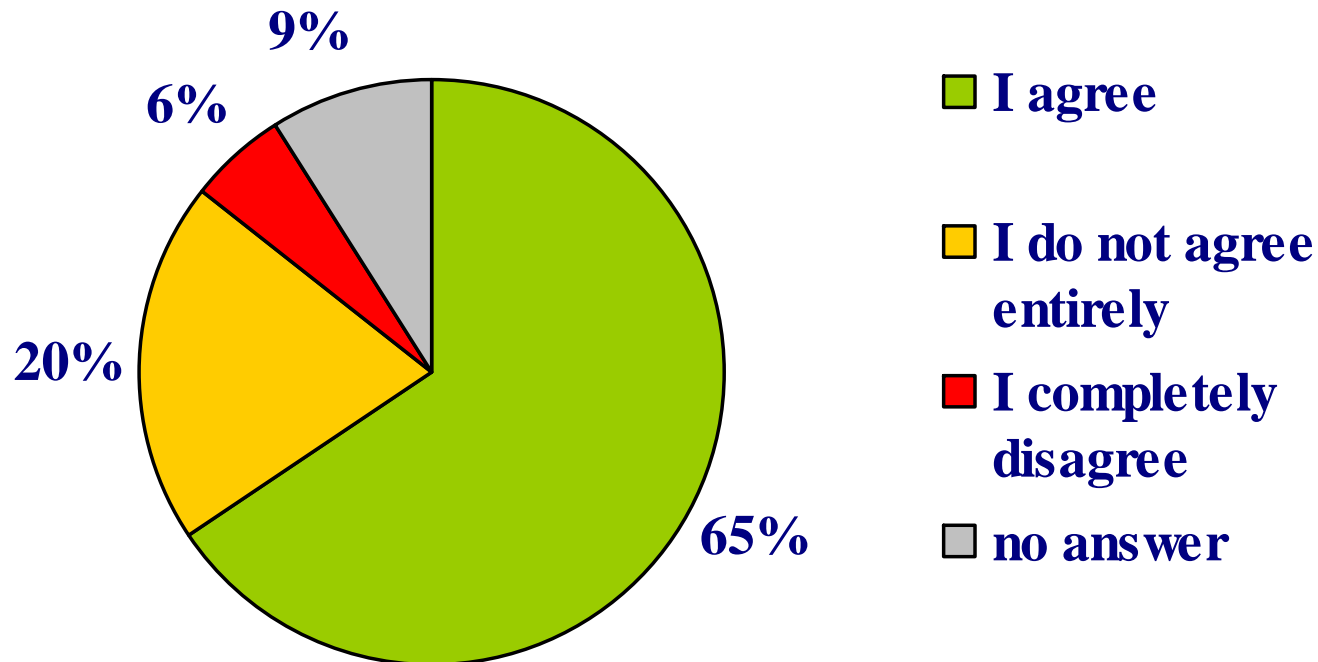


Proposals

Number of proposal agreed/ disagreed to



Statements on proposals



Proposals - Before the AG

- Assessment of comments by the AG to provide guidance to the TGs
- The Project Team classified each of the 67 proposals into 3 groups before submitting them to the AG:

35 Green Proposals:

The AG was invited to validate them as they were originally drafted (sometimes with minimal editing changes)

18 Yellow proposals:

Further debate was deemed beneficial before taking a decision. The AG was invited to mandate a specific TG to further analyse the topic. The AG would then reconsider the proposal at its September meeting.

14 Red Proposals:

The AG was invited to change the proposal

After the AG meetings in July/August and September 2007:

65 Proposals agreed

2 Proposals not yet agreed but to be concluded during the October meeting of the AG, i.e.

- Mandatory/optional night-time settlement
- Central matching

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Moving forward

- A lot of work has been already done, with a high level of market participation and commitment.
- Large economic benefits for Europe expected: a dynamic in the spirit of the Lisbon agenda.
- In line with the Commission recommendations that rigorous cost/benefit analysis is carried out at all stages, a revision of the costs and savings, and the methodology to calculate them, has been initiated.
- More than 50% of the trades are likely to have some cross-border elements – with costs being very high: T2S will bring their settlement costs at a domestic level.
- Economy of scale and harmonisation will bring down back-offices costs substantially.

Next steps (until May 2008 at the latest)

1. Finalization of the User Requirements.

2. Economic analysis: Intended to be performed at all stages of the project.

- T2S internal cost basis and the resulting cost per transaction
- Estimation of the adjustment costs
- Identification and estimation of any additional costs
- Estimation of the microeconomic yearly savings

3. Definition of the governance structure for the next phase of the project (the Advisory Group initiated discussions in September 2007).

4. Legal topics under investigation:

- Assessment of national legislative and regulatory regimes
- Legal setup and governance
- T2S external legal/contractual issues
- ESCB internal arrangements

5. Market Consultation.

An outstanding critical issue: The CSDs' participation in T2S

- **What kind of information would the CSDs need before joining T2S?**
- **What degree of commitment to the T2S project will the CSDs have?**

What else is needed?

- T2S is not enough in its own - removal of the Giovannini barriers: harmonisation of market rules and practices.
- Compliance with the Code of Conduct: open access between all infrastructure components in trading/clearing/settlement.
- Whole-hearted co-operation between the Eurosystem, markets and regulators (ESCB/CESR).



THANK YOU

