



NEWSLETTER

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EUROPEAN CENTRAL BANK

EUROSYSTEM



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THE EYES OF EUROPE ARE UPON US

EDITORIAL

This is the first edition of what will be a regular, bi-monthly newsletter, reflecting the Eurosystem's wish to communicate regularly and openly on the Target2-Securities (T2S) project.

In the previous phase, we went further than our usual procedures by sharing draft papers with the market (i.e. before submitting them for decision to the Eurosystem decision-making bodies). In this newsletter we will build further on the level of transparency in our communication. The last you may have heard on T2S issues concerned the decisions that were taken by the ECB's Governing Council in March and April. These decisions were the result of considerable work and discussions with the market, and can be summarised as follows:

- Assessment of the feasibility of T2S, so that the project could move to the next phase (the definition of user requirements);
- Agreement on the shape of governance during the definition of user requirements phase of the project; and
- The conduct of a market consultation on the existing "Principles and Proposals" document which brings together what we already know about T2S and what is yet to be analysed and decided on.

What has happened since then?

On the Eurosystem side, the necessary investment, in terms of structures and measures, has been made for this definition phase of the project.

A strong Project Team, headed by Marc Bayle, has been set up at the ECB. It contains experts from central securities depositories (CSDs), users and central banks. In addition, three former CEOs of CSDs, Anders Reveman, Iain Saville and Hugh Simpson, are advising on the handling of a project of this nature. Support is also being provided by an additional team comprising staff from the Banca d'Italia, Banco de España, Banque de France and Deutsche Bundesbank (the "3CBPlus"), which are ready to develop and operate T2S.

The Project Team is responsible for drafting the user requirements; we will be very active in gathering input from the market on what features T2S should provide.

The Advisory Group and the technical groups will play a key role in advising us in this respect. I am very pleased to announce that, in total, 189 persons from 77 institutions will participate in these groups. In addition, most of the participant countries (a number of them outside the euro area) have set

up national user groups, which involve over two hundred experts. There has been a strong interest in participating in this governance structure. Although it has not been possible, for practical reasons, to include everyone directly, mechanisms have been set up so that all interested institutions can follow the project and make their voice heard (participation of representatives of trade bodies in the Advisory Group, publication of agendas and action points of the Advisory Group and technical groups on the ECB's website, open sessions and, of course, written feedback in response to market consultations).

This level of interest shows that market participants share the Eurosystem's conviction that T2S is a very important development that can transform the way securities are settled in Europe, leading to greater integration, higher efficiency and more competition.

The Eurosystem is well placed to be the neutral, independent authority driving the process of reconciling competing interests in order to achieve very necessary changes.

A vital early stage is the ongoing market consultation on the "T2S: Principles and Proposals" document, which is a very important channel for stakeholders to express their opinions (available under <http://www.ecb.int/ecb/cons/shared/files/t2s-us-070426.pdf>). The deadline for feedback is 27 June 2007, and the comments and suggestions made will have a considerable influence on our work in the coming months. The common response template for feedback should be sent to ecb.secretariat@ecb.int. The publication of this newsletter coincides with an open session to be held at the ECB in which market players can voice their views and any doubts that may have arisen concerning the market consultation can be clarified.

In this newsletter you will find two articles. One shows how the governance structure for this new phase of the project has been put in place. Another shows the foreseen interaction of the various technical groups with market players during the summer months to allow the necessary resources to be planned.

The coming months will, indeed, be very important in defining the shape of the settlement services in Europe. I hope you will find this newsletter a useful supplement to the market groups and the ECB's website in giving you the information and opportunities you need to help us obtain the best solution for the market from this vital and exciting project.

TARGET2-SECURITIES GOVERNANCE: A BRIEF DESCRIPTION

There has been a great deal of debate and activity following the Eurosystem’s announcement on 7 July 2006 that it was evaluating ways of providing settlement services for securities transactions, to respond to the need for further integration in market infrastructures.

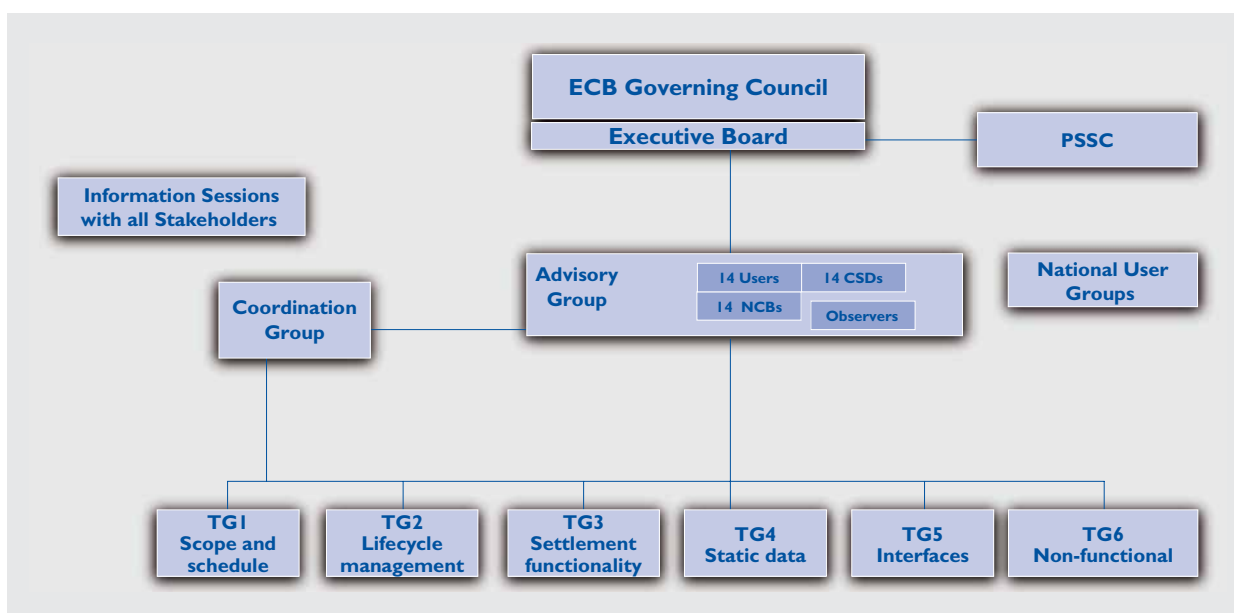
The aim of TARGET2-Securities is to provide CSDs with harmonised, efficient and secure settlement of securities transactions in euro central bank money. Clients’ business and legal relationships will remain with the CSDs, and CSDs will continue to provide their customers with the same range of services that they currently provide. Accordingly, T2S needs to provide the features required to support each CSD in its provision of services in areas such as asset servicing.

There thus needs to be close and effective cooperation between the Eurosystem, the central securities depositories and other market participants in designing the new service.

This cooperation has already been in place, right from the very early stages of the project, through “Tri-party meetings” and bilateral contacts (including non-euro countries) designed to consult the markets on the feasibility study.

Following its decision that fully articulated user requirements should be prepared by the end of 2007, the Governing Council has set up the governance structure for the current phase of the project, designed to allow all institutions interested in the project to participate in the definition of the User Requirements.

The T2S governance structure has three layers, with two layers supporting the decision-making bodies of the ECB.



The **Technical Groups (TGs)** are composed of highly skilled professionals, nominated by relevant institutions (central banks, CSDs, market participants, and telecommunications providers). Six TGs have been established. Each TG is responsible for assisting the Eurosystem in preparing a specific aspect of the User Requirements:

- **TG1: Scope and Schedule**, co-chaired by Uwe Dreger (Deutsche Bank) and Chris Rowland (JP Morgan). Contributing to the work of the relevant T2S Drafting Group in the ECB, TG1 aims at preparing and delivering this part of the user requirements (UR) dealing with the scope of businesses (including securities categories, currencies and external interaction etc) covered and offered by T2S. It also aims at contributing to the schedule of the T2S business day.



TG1: Scope and Schedule

- **TG2: Lifecycle management and matching**, chaired by Paolo Carabelli (Monte Titoli). It will define the list of instruction types and the rules for creation, e.g. the validation, matching, cancellation and eligibility of instructions. Furthermore, the Technical Group will be responsible for all statuses during the lifecycle of an instruction within T2S (validated, matched, unmatched, settled, etc.).



TG2: Lifecycle management and matching

- **TG3 Settlement Functionality**, chaired by Alain Pochet (BNP Paribas). It will deal with settlement needs (prioritisation, recycling, optimisation, liquidity management, booking etc.) for both ordinary and specific trading-related settlements as well as non-trading related settlements.



TG3: Settlement Functionality

- **TG4: Static data**, chaired by Karla Amend (Clearstream). It will work on definition of roles and access rights of participants, static data structure of securities and participants' accounts, specific regional data needs, links with TARGET2 account structure and interactions with external static data.



TG4: Static data

- **TG5: Interfaces**, chaired by Siegfried Vonderau (Deutsche Bundesbank). It is responsible for listing and describing the flows of messages and instructions exchanged with other platforms to perform settlement business transactions, online queries and reports as well as for addressing the interactions with T2S that CSDs require to perform their non-settlement business.



TG5: Interfaces

• **TG6: Non-functional requirements**, chaired by Lorenzo Giammo (Banca d'Italia). It will cover issues like volume assumptions, service level definition, business continuity requirements, testing procedures and the organisation of the migration phase.



TG6: Non-functional requirements

The **Coordination Group** has a co-ordination role between the Technical Groups and the Advisory Group. It is composed of the TG chairs, the Project Team Head and the chair of the Advisory Group (AG). It is responsible for ensuring that there are no gaps or overlaps between the products of the TGs. It also advises the AG chair on the agenda for AG meetings.

The **Advisory Group (AG)** is composed of 52 experts drawn from the central banks, private banks and the central securities depositories (CSDs) plus 20 observers representing, inter alia, non-euro area central banks and market participants; it also includes the chairs of the TGs. The AG reports directly to the Governing Council, typically through the submission of documents.

The members of the TGs and the AG have been selected by a **Nomination Committee** made up of the chair: Mrs. Tumpel-Gugerell, Member of the Executive Board of the ECB in charge of securities settlement, and by the Secretary Generals of the three European credit sector associations, the Chairman of the European Central Securities Depositories Association (ECSDA) and the Chairperson of the European Association of Central Counterparty Clearing Houses (EACH).

In total, these groups involve 185 people - but they are only part of the overall team.

The **TARGET2-Securities Project Team** works closely with the TGs and AG; it is responsible for drafting the User Requirements and providing secretarial support to the Technical Groups. Based at the ECB premises, its staff members' expertise ranges across central banking, CSDs, private banks, standards and IT.

At country level, there is a National User Group organised by the relevant euro central bank. Where they so wish, non-euro countries may also organise their own National User Group. The National User Groups' role is to provide feedback to the TGs and the AG on specific papers issued for consultation; they may also send proposals to the AG.

The Eurosystem is fully aware of the importance of TARGET2-Securities for a wide range of stakeholders (market participants and authorities), not all of which can practically participate directly in the governance structure. This is being addressed through information sessions with stakeholders, organised regularly in order to keep market participants updated and to gather input from those institutions which are not represented directly in the governance structure.

The Eurosystem is committed to providing information and publishing documentation related to the TARGET2-Securities project in a transparent way. As part of this, all documents to be discussed by the AG and all decisions on TARGET2-Securities will be published promptly, and can be found via the TARGET2-Securities page on the ECB website <http://www.ecb.int/paym/html/index.en.html>. In addition, a dedicated e-mail address (t2-s@ecb.int) where all queries can be posted, has been created, and we will endeavour to respond fully and promptly.



T2S Project Team

TARGET2-SECURITIES: SHORT-TERM WORKING PLAN

On 26 April 2007, the Governing Council of the ECB approved the launch of a consultation with all stakeholders on the TARGET2-Securities user requirements (hereafter the “user requirements”). The source document, entitled “T2S consultation paper: General principles and high-level proposals for the user requirements” is available on the ECB website (www.ecb.int/ecb/cons/shared/files/t2s-us-070426.pdf). The deadline for comments is 27 June 2007.

The consultation paper sets out a number of proposals that define the nature and scope of TARGET2-Securities, on which market participants have been invited to comment. The input gathered will be assessed for possible incorporation into the draft user requirements, which are planned to be finalised by the end of 2007.

A further consultation with all stakeholders on the draft user requirements will be launched at the beginning of 2008. Thereafter, the final version of the user requirements will be submitted to the ECB’s decision-making bodies for approval.

Alongside these two consultations, it is envisaged that some smaller “mini-consultations” will be held.

What is the difference between a consultation and a mini-consultation? There are three major differences: the range of addressees, the scope of queries and the required reaction time.

In terms of the range of addressees, a consultation is intended to address all stakeholders interested in providing feedback, whereas a mini-consultation will approach the national user groups on TARGET2-Securities only. Technical Group 5 will additionally launch a survey directed at central securities depositories (CSDs) to gather information on their specific reporting needs.

With regard to the scope of queries, unlike consultations, which will deal with aspects of a more general nature, the purpose of mini-consultations will be either to gather opinions on specific technical issues or to gain insight into matters that are approached differently from one country to another.

Finally, the required reaction time will be shorter in the case of a mini-consultation – approximately three weeks – than in that of a consultation, where stakeholders will have several months to reply.

Mini-consultations are intended to be very flexible tools that the technical groups can use to obtain further information on specific topics as they arise in the course of discussions. The table below shows the tentative contents and dates of the mini-consultations envisaged by

the technical groups. As consultations imply a cost to market participants, the final decision on whether to go ahead will lie with the chairpersons of the technical groups, who will evaluate the need to hold them.

Technical Group	Mini-consultation	Start date	End date
TG1: Scope and schedule	• T2S Scope of businesses.	16/07/07	13/08/07
	• T2S Schedule of the Operational Day.	31/08/07	20/09/07
TG2: Life cycle management and matching	• List of instruction types, description of life cycle of an instruction/rules for handling instructions, non-trading-related instructions, validation, matching rules, rules for trade enrichment, hold and release mechanism, instruction maintenance, cancellation rules, settlement eligibility.	18/07/07	10/08/07
TG3: Settlement functionality	• Ordinary trading-related settlements	23/07/07	20/08/07
	• Non-trading-related settlements		
	• Specific settlements and settlement of specific categories of securities		
	• Specific issues related to cross-CSD settlements		
TG4: Static data	• Securities reference data	11/07/07	01/08/07
	• Participants' account structure		
TG5: Interfaces	• Survey to the CSDs: to collect information on regular reporting requirements of CSDs and their participants vis-a-vis T2S.	18/06/07	29/06/07
	• Mini-consultation: list of use cases, message flows, queries, regular reports, interfaces with other systems.	24/07/07	17/08/07
TG6: Non-functional requirements	Information about the T2/T2S interface:	25/07/07	13/08/07
	• Queries on expected capacity		
	• Queries on required service level		

The input of national user groups is crucial to the accurate and timely preparation of the TARGET2-Securities user requirements. The institutions participating in these

groups are kindly requested to ensure that the relevant staff is available during the mini-consultation periods.

T2S NEWSLETTER - SUBSCRIPTION FORM

Starting from its second issue, the T2S newsletter will be distributed by ordinary mail. If you are interested in subscribing, please fill in the table below and submit this sheet to the ECB by no later than 30 June 2007, in any of the following ways:

- At the tri-party meeting on 25 June:
Please leave it at the reception desk in front of the meeting room,
- Fax it to number: +496913445350, or
- E-mail it to: t2s@ecb.int

Institution:	
Recipient's name	Delivery address
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