

TARGET2-Securities

Marc BAYLE
T2S Programme Manager
ECB

Frankfurt, 5 November 2007

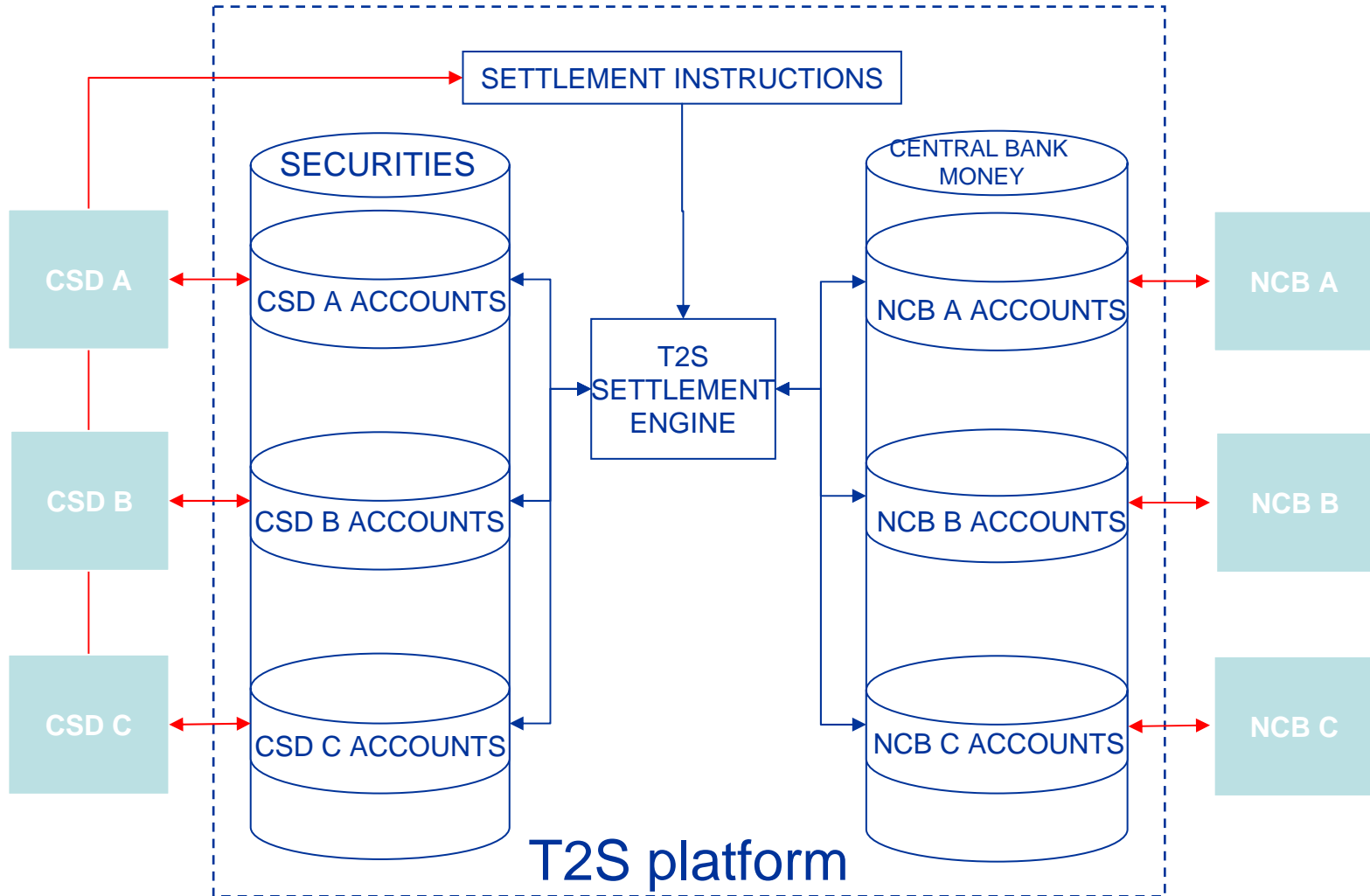
What is T2S?

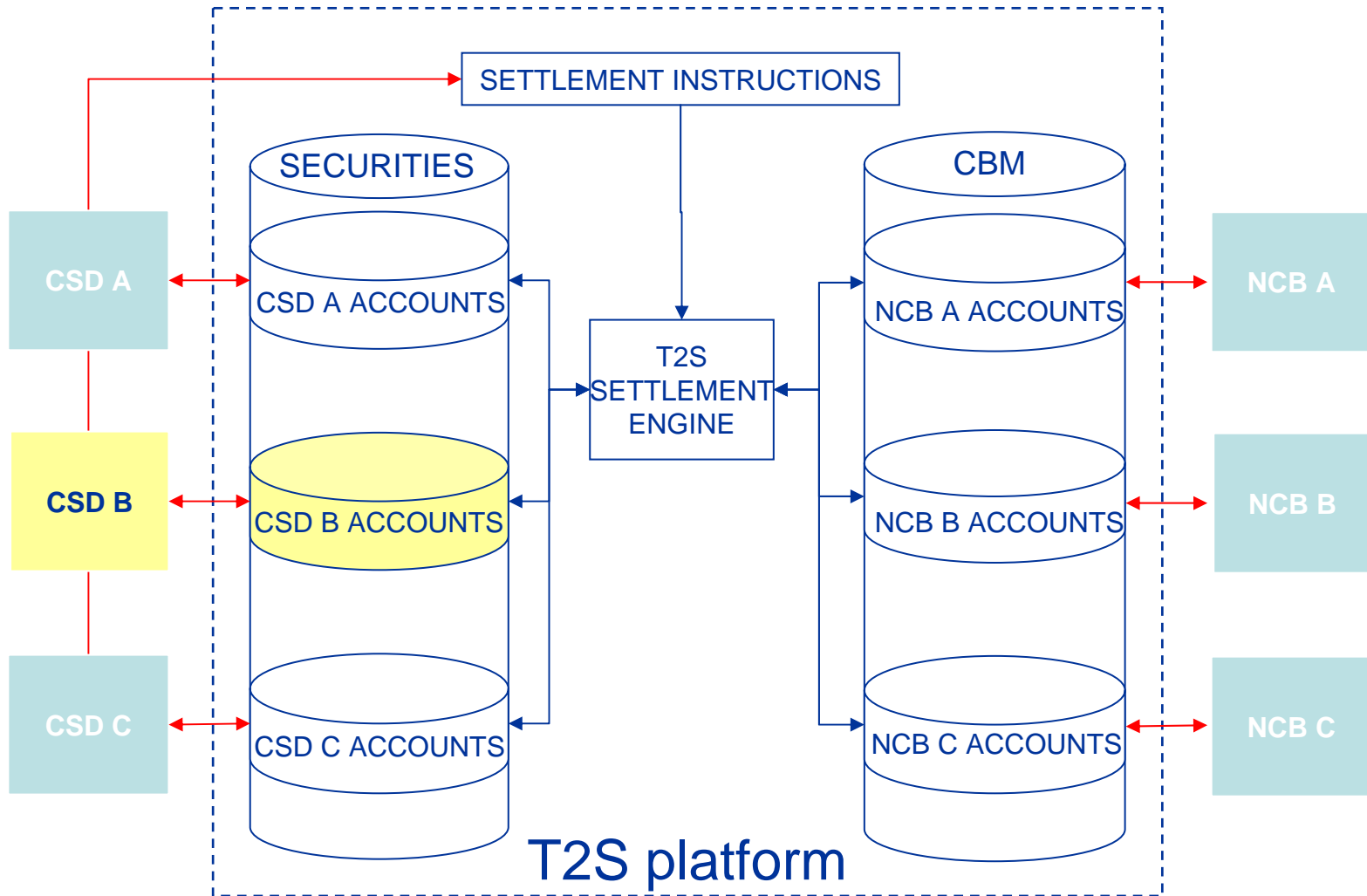
A project for...

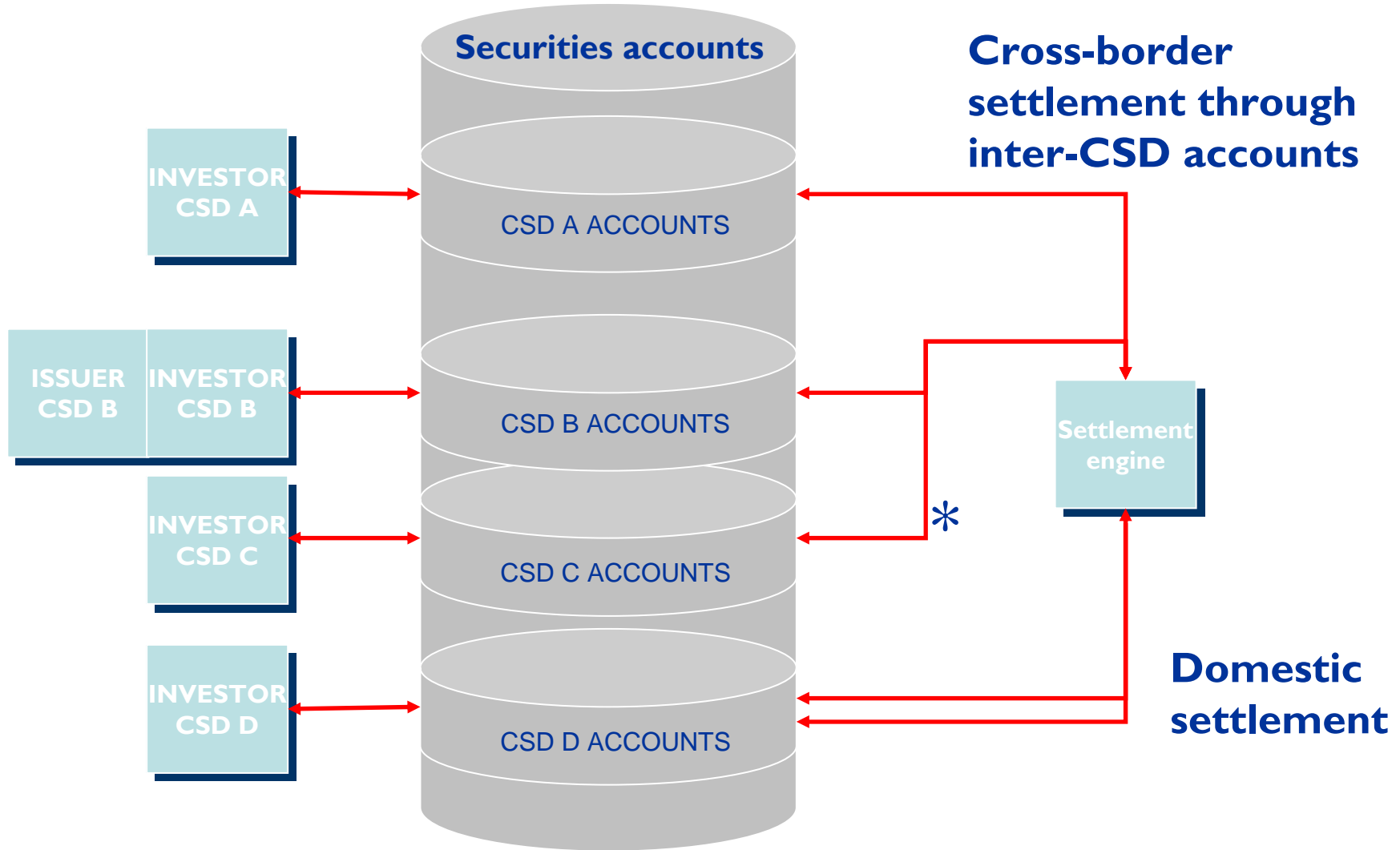
- ... Europe, implementing the Lisbon agenda
- Supporting to the integration of the market infrastructure
- Making cross-border transactions, domestic ones in Europe
- Enhancing competition in a financial service segment largely based on national monopolies

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

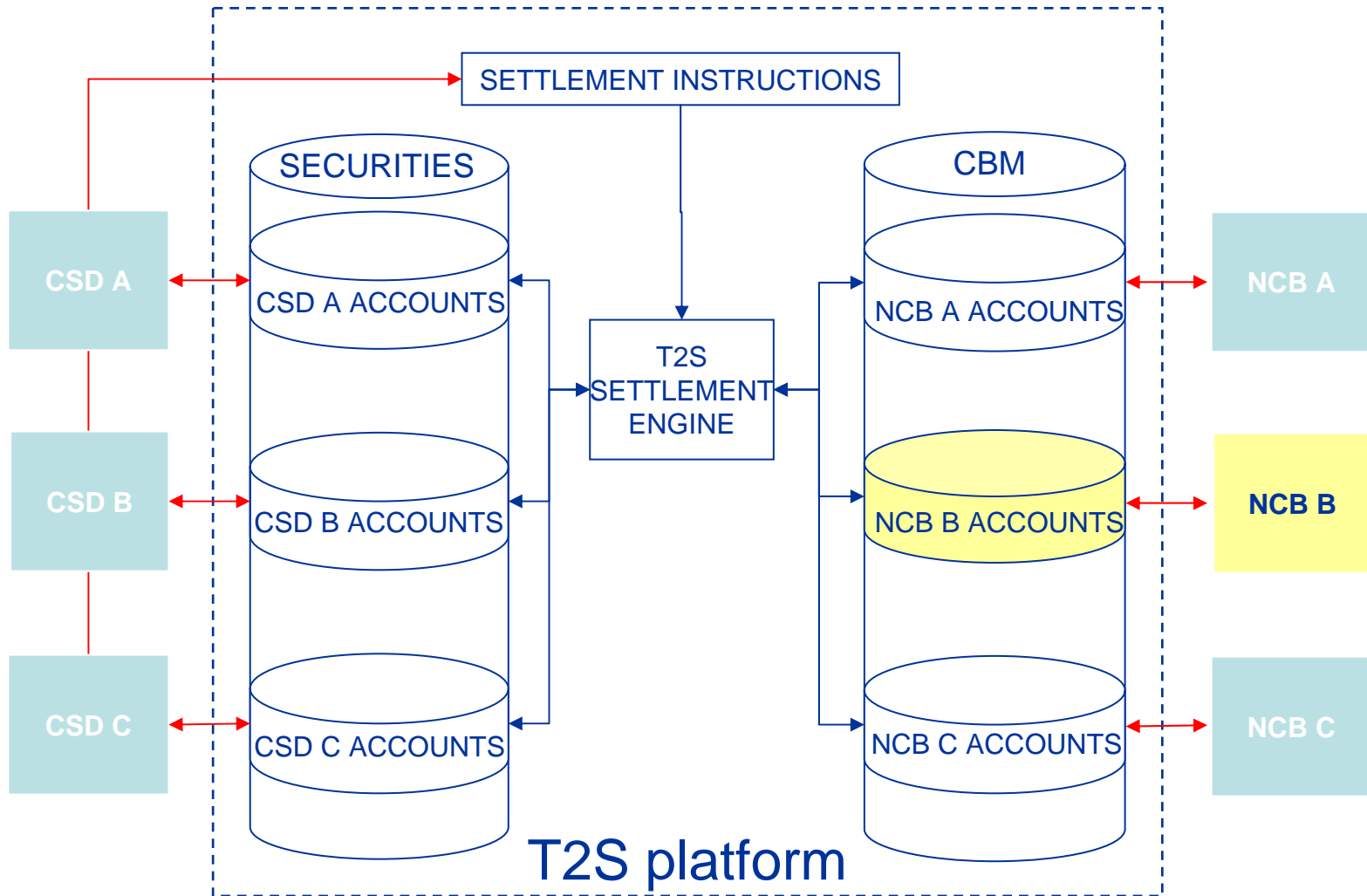
What is T2S?





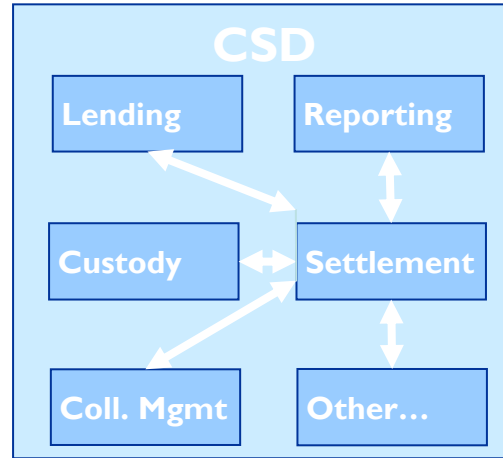


*/ Automated real-time realignment where necessary with issuer CSD



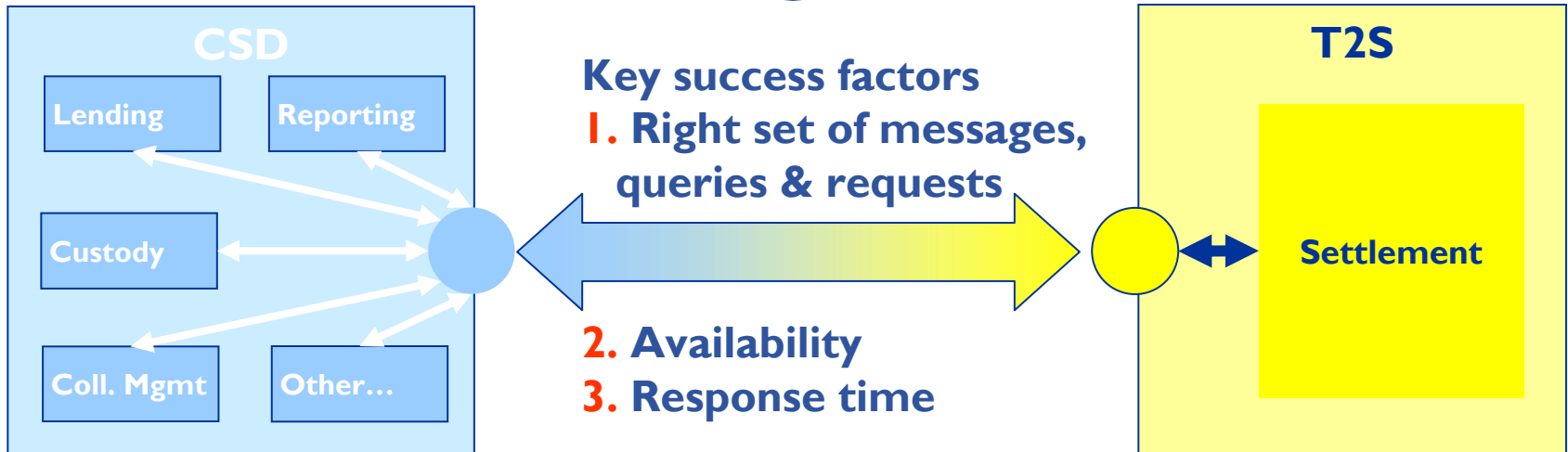
What will change?

Today's world

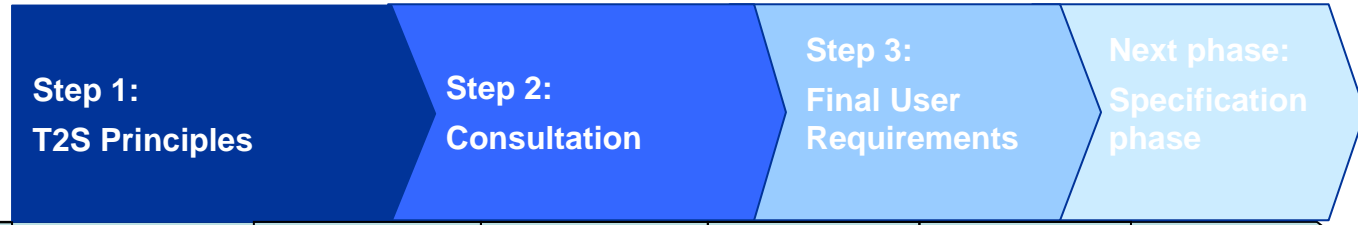







T2S does not segregate custody and settlement


T2S world



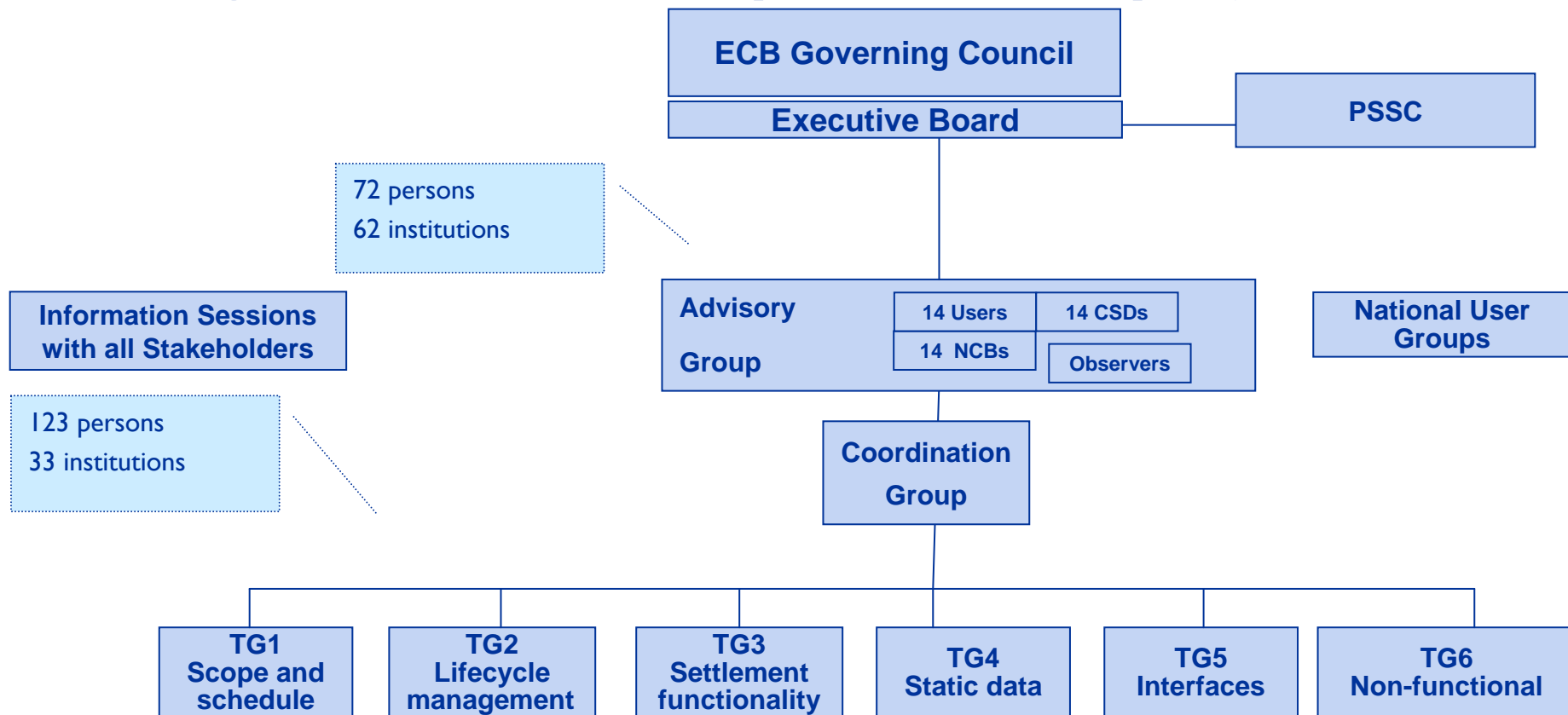
Project Plan



	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008
Governing Council's decision to move to next phase	 8.03.07					
Public Consultations on the General Principles						
Elaboration of the User Requirements						

 **Drafting**  **Public consultation**

T2S governance: First phase of the project



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

Harmonization is being achieved...

- 188 experts from more than 80 institutions are working towards a common settlement process for Europe in 2013.
- Consensus is emerging and technical solutions are being identified to support this common settlement process.



T2S User Requirements

Developing a common infrastructure is a very useful tool in creating pressure for harmonisation decisions

Harmonization examples (1)

Before T2S URD	After T2S URD
<ul style="list-style-type: none"> • <i>Matching</i> is binding in some countries but not in others 	<ul style="list-style-type: none"> • Binding matching with a hold and release mechanism
<ul style="list-style-type: none"> • <i>Amendment</i> of instructions: rules vary per system 	<ul style="list-style-type: none"> • Specific deadlines (matching time / settlement time) and procedures for amending specific fields (matching / non-matching)
<ul style="list-style-type: none"> • <i>Settlement and optimisation</i> procedures vary per system • Gross real-time settlement with immediate and irrevocable transfer not available in all systems • Cross-CSD settlement complex and costly 	<ul style="list-style-type: none"> • Use of same settlement and optimisation procedures with gross real-time settlement and immediate and irrevocable transfer • Available both for intra-CSD and cross-CSD transactions

Harmonization examples (2)

Before T2S URD	After T2S URD
<ul style="list-style-type: none"> • Different central bank money settlement procedures (interfaced, guarantee, integrated models) • Hardly any use of central bank money for cross-CSD settlement. Increased exposure. 	<ul style="list-style-type: none"> • All transactions are settled in central bank money through similar cash settlement procedures on T2S dedicated accounts • Settlement banks may centralise all settlement transactions per currency on one T2S cash account
<ul style="list-style-type: none"> • Only a few markets have access to auto-collateralisation • Different procedures used for auto-collateralisation from one CSD to another. 	<ul style="list-style-type: none"> • Wide and same access to auto-collateralisation for all euro markets • Same procedures for auto-collateralisation

Harmonization examples (3)

Before T2S URD	After T2S URD
<ul style="list-style-type: none"> • Different levels of prioritisation for different types of transactions 	<ul style="list-style-type: none"> • Same levels of prioritisation for same types of transactions: 1- CSDs and NCBs; 2- CCPs, stock exchanges and MTFs; 3- OTC
<ul style="list-style-type: none"> • Different account structures in every system 	<ul style="list-style-type: none"> • Uniform data model for securities accounts and accounts identification
<ul style="list-style-type: none"> • Each network provider or each proprietary network rely on different protocols 	<ul style="list-style-type: none"> • Use of a single communication protocol (Giovannini protocol)
<ul style="list-style-type: none"> • Different messages with proprietary syntaxes for similar operations (according to national practices) 	<ul style="list-style-type: none"> • Use of a single set of messages under the same standards (ISO 20022) for common business flows

Harmonization examples (4)

Before T2S URD	After T2S URD
<ul style="list-style-type: none"> • <i>As many interfaces as CSDs</i> 	<ul style="list-style-type: none"> • Use of a single interface to access T2S (direct connectivity)
<ul style="list-style-type: none"> • <i>As many reports as CSDs</i> • <i>Lack of consolidated view on securities accounts/business</i> • <i>No equal access to settlement data for all players</i> 	<ul style="list-style-type: none"> • Use of a single set of reports and queries facilities
<ul style="list-style-type: none"> • <i>Different schedules are an obstacle to cross-border settlement</i> 	<ul style="list-style-type: none"> • One common schedule for all settlement processes

... but more harmonization may be needed

- The “Lean T2S” concept is taking shape. This means that:
 - T2S maintains central services (e.g. validation, matching, reporting)
 - T2S does not provide specific functionality to support national specificities.
 - But T2S does not impede the maintenance of national specificities at CSD level.
- Will these specificities have disappeared by 2013?
- T2S will serve as an economic incentive to remove them, since securities may alternatively be settled in another CSD.
- How can we support “the lean use of the lean T2S”?

Examples of remaining harmonization needs

- Handling of repo transactions
- One settlement procedure for all direct holding countries
- Settlement procedures for multilateral instructions
- Rules for partial settlement
- Recycling of failed transactions
- Account segregation level and account restrictions
- Period for data archiving
- Collateral management procedures by NCBs (repo/pledge)

How will T2S impact you?

- T2S is doable. The next question is: How much will it cost?
- Once the User Requirements are published, all parties (market participants, CSDs, Eurosystem, 3CB+ Central Banks) are expected to:
 - Analyze the costs of implementing T2S, and
 - Identify business opportunities in the future scenario and take a position.
- Agreement is being sought on a common methodology to estimate the cost and the savings

The economic case: What are the real benefits of the project for the markets?

The market gains from T2S across the EU will outweigh any potential loss from early write-offs of investment in platforms through the following facilities:

- Possibility to choose one CSD as preferred access point to T2S

interface costs reduction + more competition

- To pool securities and central bank money in a single platform

reduced collateral/liquidity needs + lower funding costs.

The 3 big wins of T2S

1. Harmonizing settlement to make Europe a Single Market
2. Reducing users' collateral/liquidity needs and funding costs through a single pool securities and central bank money, thus .
3. Making cross-border settlement fees as inexpensive as domestic fees

Next steps (until May/June 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
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

- Market participants are giving clear indications that they want T2S to happen.
- CSDs may opt out from T2S, but ...
- ... which option would be available to users who want to opt in while “their” CSD opts out?

The definition of “success” for T2S is:

Market participants need to maintain a single account with a single CSD to settle any security issued in Europe with any other user

THANK YOU

