Policy Department
Economic and Scientific Policy

Clearing & Settlement–Target2–Securities Workshop
This workshop was organised on 12 April 2007 on European Parliament premises in Brussels on behalf of the European Parliament's Economic and Monetary Affairs Committee (ECON).

This paper is only published in English.

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Manuscript completed in April 2007.

The European Parliament gratefully acknowledges the kind permission of the speakers to publish their presentations.

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Workshop
Clearing & Settlement and Target2-Securities

12 April 2007
European Parliament Brussels
Room ASP 3G2, 9h00-13h00
Interpretation - EN DE FR until 12h30

09.00 - 09.15 Introduction
Pervenche Berès (MEP), Chairwoman of ECON

09.15 - 10.15 Session I - Framework, Risks and Regulation

Chair: Pervenche Berès (MEP)

Topics discussed: Outline, main problems
International comparisons and best practices
Supervision issues (cross-border)

Experts:
- Fabrice Demarigny, Secretary General, CESR
- Didier Davydoff, Director, OEE (European Savings Institute), Member of ECON Panel of Financial Services Experts

10.15 - 11.45 Session II - Business Environment and Competition

Chair: Piia-Noora Kauppi (MEP)

Topics discussed: Code of Conduct vs. Regulation
Competition issues: prices-costs-volume
Internal Platforms (e.g. Turquoise initiative)

Experts:
Infrastructures:
- Jukka Ruuska, FESE Chair and CEO of OMX
- Anso Thire, Managing Director, Head of Public Affairs and Strategy, Euroclear
Users:
- Phil Davies, Managing Director, Head of European Equities Operations, Goldman Sachs
- Bernard Delbecque, Director of Research and Economics, EFAMA

11.45 - 12.55 Session III - Target2-Securities
(presentations with interpretation, discussion as of 12.30 only in EN)

Chair: Margarita Starkeviciute (MEP)

Topics discussed: Governance issues, the business case, competition issues

Experts:
- Jean-Michel Goddefroy, Director General Payment Systems and Market Infrastructure, ECB
- Ruud Sleehoff, Chairman of the European Banking Federation Target2 Task Force, Senior Vice President, ABN Amro
- Diana Y. Chan, Managing Director, Citigroup Global Transaction Services (for the US experience)

12.55 - 13.00 Closing remarks - tbc
Session I
Framework, Risks
& Regulation
Fabrice Demarigny
Secretary General

The Committee of European Securities Regulators
CESR
Cross-border transactions are more costly in Europe than in the US. However:

- The US are one country, Europe is composed of 27 countries
- Domestic transactions are less costly than cross-border transactions
- When netting is taken into consideration, the cost of transactions realised outside Euroclear and Clearstream is similar to the cost of transactions in the US
- Hence any decrease of settlement costs should result in lower costs than in the US for many transactions
European securities markets are organised according a vertical “silos” model:

• Spain, Hungary, Austria, Germany: Organisations belonging to the same group run both regulated markets organising securities trading and CSDs.
• In practice, Euronext and the London Stock Exchange, whose post-market activity is operated by Euroclear, are also de facto vertical silos.
• Hence, further integration of post-trading operations depend on consolidation of European Stock Exchanges
• The harmonisation of Euroclear Settlement for Euronext Securities shows that integration can only be available to a limited number of markets.

Will competition enhanced by the Code of Conduct will diminish post-trading costs more efficiently than integration?

At this stage, the Code of Conduct covers post-trading activities, only in cash equities

All post-trading services are covered:

• Clearing and central counterparty by CCPs
• Settlement and custody services by CSDs
• Trading activities
Measures of the Code of Conduct fall under three categories

* Price Transparency:
  • Understand prices and services, including rebates
  • Facilitate comparison and reconciliation of billings with tariffs

* Access and Interoperability
  • Access granted on the basis of non-discriminatory criteria and prices
  • Obligation to satisfy efficiently a request for interoperability from any organisation

* Service Unbundling and Accounting Separation. BUT A SERIOUS LIMITATION:

  « Unbundling does not preclude Organisations offering special prices for the purchase of several unbundled services together »

Time schedule: gradual and flexible

* Price Transparency: end of 2006. Done?

* Access and Interoperability: end of June 2007. Half-done?


Latter on: derivative products?

Remaining Giovannini barriers have still to be removed
Assessment of the European Credit Sector Association (ECSA) Users Task Force on Transparency (1)

* Recognise the short space of time between the signing of the Code and the deadline for implementation
* General Assessment: Implementation of the Code « in letter » has been completed
  - Full disclosure of tariffs on the websites of Market Infrastructures
  - Amendments to tariffs are documented
  - Single invoicing at group Level
  - Some Market Infrastructures have enabled users to calculate level of fees they should expect
  - Information surrounding rebates and discounts is clearer

Assessment of the European Credit Sector Association (ECSA) Users Task Force on Transparency (2)

Progress are still necessary:

- Complexity of tariffs hampers comparability
- Scenarios, examples and calculators are not always in effect nor consistent across MIs
- Users are not always consulted before tariff changes
There are two ways to tackle competition issues

* The Code of Conduct: transparency, access, unbundling to enhance competition among profit oriented market infrastructures. Self regulation as an alternative to a directive.

* Target2 Securities: Recognising that some post-trading services are fragmented monopolies and involving a public institution in charge of the general interest of the market

Are these two approaches contradictory or rather complementary (interoperability) ?

* T2S will be offered to all CSDs

* T2S will be single platform for settlement of domestic and cross-border transactions

Derivatives: There is a lot of competition for order flows between regulated markets and with OTC trading.

Is this competition fair ?

When Clearing subsidizes trading: the case of market makers in some options markets.

• Some market makers pay a fixed clearing fee capped at a very low level

• On some markets they are even exempted from clearing fees

The Code of Conduct should be extended to derivative markets
European Parliament

Latest developments and assessment of the Code of Conduct

Workshop
Clearing and settlement and Target2-Securities

12 April 2007

Didier DavydoFF, director of the European Savings Institute
Agenda

• Intend to cover following issues:
  • Conclusions of Bourse Consult Report, December 2005
  • How debate on C&S has evolved since then
  • Effects of Code of Conduct, MiFID and exchange consolidation
Conclusions of Bourse Consult Report Dec 2005 - 1

• National & European Regulators need to concentrate where they can make an immediate difference rather than take the path of a directive

• Govts should dismantle remaining Giovannini barriers

• Regulators should take steps to alleviate problems caused by vertically integrated silos (via competition policies and introduction of common standards)

• Regulation of C&S organisations on a pan-European basis needs to be rationalised

Conclusions of Bourse Consult Report Dec 2005 - 2

• Users of C&S services must live up to their responsibilities

  • Users must make user governance work

  • Users need to be actively involved in development of harmonised standards for settlement

  • Users need to find a way to present a united view of what they want - possibly by creating a European-wide industry body

  • We also said priority should be given to consolidating CCPs and settlement should be given a lower priority
Evolution of debate on C&S - at Regulatory Level

- There has been little movement on consolidating CCPs - indeed the development of new MiFID trading platforms is resulting in creation of additional CCPs
- On settlement, ECB is proposing creation of T2S for Eurozone
- EU Commission has proposed Code of Conduct in place of Directive

Evolution of debate on C&S - at Market Level

- Exchange consolidation now well underway - but on a Transatlantic basis rather than a pan-European basis
- Proposed merger of CME/CBOT in the US has woken people up to potential hazards of a monopoly exchange owning its own clearing house (hence bid for CBOT from ICE)
- Management changes at Deutsche Börse suggest there may be a reappraisal of importance of clearing & settlement within the group
Where do we go from here?

- MiFID and Code of Conduct have shaken up the equilibrium. But for ambitious and welcome targets to be met, needs to be support from Govts (still waiting for removal of all Giovannini barriers) and users

- Must realise that financial markets are global - Europe is not the whole picture. Exchange consolidation is best example of this.

- If we concentrate too much on long established and highly visible markets such as equities danger of missing important developments eg:

  - Need to open up govt bond trading in Europe; and

  - Rapid development of markets such as OTC derivatives
Session II
Business Environment & Competition
European Parliament
Clearing & Settlement and
Target 2 Securities workshop
12 April 2007
Jukka Ruuska
President
Federation of European Securities Exchanges (FESE)

<table>
<thead>
<tr>
<th>FESE</th>
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<tbody>
<tr>
<td><strong>FESE</strong>: 40 exchanges across the EU, Iceland, Norway &amp; Switzerland</td>
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<tr>
<td><strong>FESE Aim</strong>: global competitiveness of European exchanges</td>
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</tbody>
</table>
**FESE & the Code**

**FESE role in the code of conduct**
- FESE very much involved but clearing houses and CSDs more directly concerned
- Different post-trading arrangements … but all FESE members have a common interest in efficient post-trade services
- Competitiveness requires efficient, secure and cost effective post-trade services
- Objectives of FESE members with the Code
  - Strong European capital market
  - Trading within a consistent, coherent and efficient European framework.
  - To offer market participants freedom of choice in Trading, Clearing and Settlement

**Soft-law approach**

- Regulate post-trading services with soft-law

  **Advantages:**
  - greater involvement and accountability of signatories
  - more rapid implementation
  - more limited regulatory costs

  **Disadvantages:**
  - only signatories are subject to the code
  - Monitoring compliance is not an easy matter
Involvement

- **Involvement and accountability** of signatories
  - All FESE members have signed the code
  - Most of the transparency requirements implemented 6 weeks after the signing of the code (see FESE website)
  - To deliver the road map on access and interoperability by June
    - A specific organisation in common with EACH and ECSDA
    - An external consultant
  - Work on unbundling and accounting separation to start shortly

Implementation & Costs

- **More rapid implementation**
  - 4 months after deciding for a code of conduct, this instrument was signed

- **More limited regulatory costs**
  - Important to limit as much as possible the costs of regulation
  - The industry is currently facing important cost to implement the FSAP measures including MiFID
  - Regulatory costs are in fine paid by consumers
  - Need for costs and benefit analysis
Level playing field

- **Only signatories are subject to the Code**
  - An element of soft-law … but a functional approach is important
    (i.e. those providing the same services should be regulated in the same way)
  - Diversity in market structures as well as trading and post-trading arrangements needed
  - To allow for true competition and innovation, providers of the same services must be subject to same or equivalent principles
  - Market participants providing trading and post-trading services arrangements similar to the so-called “infrastructures” should respect the principles of the code

Monitoring

- **An adequate monitoring of compliance is key**
  - FESE is in favour of a transparent and encompassing monitoring
  - FESE developed a close dialogue with Users on the implementation of the Code
  - Value in involving more closely the European Parliament in the monitoring process
  - Granting the European Parliament an observer status in the Commission’s ad-hoc monitoring group (MOG)
Conclusions

• **Support to a soft-law** approach

• FESE calls for a **more transparent and encompassing monitoring** mechanism including the European Parliament as observer

• Need to ensure a **level playing field**: all entities providing the same services are subject to the same rules
Clearing & Settlement and Target2 - Securities

Anso Thire
Managing Director, Head of Public Affairs and Strategy - Euroclear
12 April 2007

The Key Messages

- The Code is delivering more quickly than legislation.
- The Public Sector Giovannini Barriers need to be removed.
- Expect further integration of clearing & settlement industry.
The Code of Conduct

- Pricing transparency largely delivered
  - But more to be done on comparability.
- Access & Interoperability
  - Good progress being made.
  - On track for delivering an effective protocol end June 2007
- Unbundling and accounting segregation
  - Work underway to deliver by end 2007.

The Giovannini Barriers

- Good progress being made by the market
- But legal and fixed barriers need to be removed
- And that will probably require legislation
An Industry in transition

- Volume growth and regulatory changes
- Leading to greater competition and further consolidation
- Settlement systems need to invest to
  - Handle volume increases
  - Serve consolidation and fragmentation trends
  - Generate economies of scale
- Survival of the fittest ....

The Code of Conduct

- Pricing transparency largely delivered
  - More to be done on comparability
- Access & Interoperability
  - Good progress being made
  - On track for end June 2007 delivered
- Unbundling and Accounting segregation
  - Work underway to deliver by end 2007
Clearing and Settlement

Presentation to the Committee on Economic and Monetary Affairs, European Parliament

Phil Davies
Managing Director, European Equities Operations
Goldman Sachs International

12 April 2007
Agenda

I. Volumes and costs in trade processing

II. Market models – direct versus indirect

III. Code of Conduct
I. Goldman Sachs volumes and costs
Goldman Sachs indexed volumes and costs in trade processing, 2004 to 2007*

* 2007 figure derived by using first quarter data to project full year
Goldman Sachs indexed volumes and costs in trade processing, 2004 to 2007*

Indexed Value
Exchange Unit Cost
Clearing Unit Cost
Settlement Unit Cost

Year
2004 2005 2006 2007

* 2007 figure derived by using first quarter data to project full year
European trade processing expenditure
The total external cost of trade processing in Europe split by function

2004 total spend on securities trading and settlement €81 million.

2006 total spend on securities trading and settlement €114 million.
II. Market models – direct versus indirect
Goldman Sachs’ participation in cross-border post-trading across Europe

In European markets where GS participates, we optimise cost and efficiency by being direct participants in only two markets – UK and Switzerland. In other markets it is necessary to incur cost through the use of third party intermediaries.

See next slide
Relative external cost comparisons across Europe

Using the models from the previous page and the example of a €50,000 client trade, we can see the relative cost difference for each trade component across each model for the major European markets. The differences are greater when using less mature markets.

External cost impact of third party intermediaries for a €50,000 trade in 2007

- The dynamics (number of executions and allocations) of a €50,000 client order are used.
- The numbers represent the ratio between the different components and models, for such an order.
- Poland, Hungary, and the Czech Republic have been excluded from Model 4.

N.B. This comparison takes no account of value and does not represent actual numbers, but rather the proportional differences between the models from the previous page.
III. Code of Conduct
Code of Conduct – a user perspective

Successes to date

- The progress made by the infrastructure in regards to Price Transparency is encouraging. However work needs to be done to make these fee structures comparable
- Has created momentum within Europe behind broad principles about how interoperability and access can be achieved

Key priorities

- Implementation is key
- Access and Interoperability will be key deliverables for infrastructure organisations in terms of competition and user choice
- Effectiveness of the Monitoring Group to deal with implementation of the Code e.g. SIS X-Clear and LCH Clearnet are both signatories but have not yet agreed how to interoperate over clearing Swiss trades

The path ahead

- Proposed LSE feed to SIS X-Clear demonstrates a good example of intentions around access and interoperability. The Code should lead to more of the same
- Provides a framework for access and interoperability conversations to occur between providers
- Although the protocol provides the framework for discussion, it will often be difficult to create a viable business case to deliver interoperability and access
# Code of Conduct impacts on Giovannini Barriers

<table>
<thead>
<tr>
<th>Giovannini Barrier</th>
<th>Code of Conduct</th>
<th>Comments</th>
</tr>
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<tbody>
<tr>
<td><strong>Private</strong></td>
<td><strong>Public</strong></td>
<td></td>
</tr>
<tr>
<td>1 Differences in IT and interfaces</td>
<td>2 Restrictions on location of Clearing and Settlement</td>
<td>Will be impacted by Code of Conduct</td>
</tr>
<tr>
<td>3 Differences on corporate actions rules</td>
<td>5 Impediments to remote access</td>
<td>Will be impacted by Code of Conduct</td>
</tr>
<tr>
<td>4 Intra-day settlement finality</td>
<td></td>
<td>MIFID covers aspects of this as well as the Code</td>
</tr>
<tr>
<td>6 Differences in standard settlement periods</td>
<td>9 Restrictions on location of securities</td>
<td></td>
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<tr>
<td>7 Operating hours and settlement deadlines</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8 Differences in securities issuance</td>
<td>10 Restrictions on primary dealers</td>
<td>Barrier rolled up into barrier 2</td>
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<tr>
<td></td>
<td>11 Restrictions on withholding agents</td>
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<td></td>
<td>12 Restrictions on tax collection</td>
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<td></td>
<td>13 Absence of EU wide framework of laws for treatment of ownership</td>
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<td>14 Differences in legal treatment of netting</td>
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<td></td>
<td>15 Differences on how to solve conflicts of laws</td>
<td></td>
</tr>
</tbody>
</table>
EFAMA

23 Countries:
- 19 EU Members
- Liechtenstein
- Norway
- Switzerland
- Turkey

43 Corporate Members

= EFAMA represents more than EUR 14 trillion of which EUR 7.6 trillion through over 47,000 investment funds
EFAMA’s Mission

is the representative association for the European investment management industry. Its mission is:

- To support a high level of investor protection through the promotion of high ethical standards, integrity & professionalism across the industry.
- To promote the completion of an effective single market for investment management and the creation of a level playing field for competing savings/investment products.
- To strengthen the competitiveness of the industry in terms of cost & quality by seeking & obtaining improvements in the legal, fiscal and regulatory environment.

Clearing and Settlement Code of Conduct

- The Code is an important step forward
  - Appropriate goals: enhancing transparency and increasing competition will benefit investors and promote the competitiveness of the European economy.
  - Right approach: self-regulation will accelerate changes and phasing implementation is sensible.
- The challenge: self-regulation is not legally enforceable
  - The EU Commission should take the leading role to ensure proper oversight and enforcement of the Code.
  - The monitoring process should be fairly strict and transparent (the initial work of the MOG is encouraging).
  - If needed, EU regulation should be reconsidered.
  - The contribution of investment managers should not be over-estimated: in general, they do not interact directly with the C&S industry.
Giovannini Barriers

- The 15 Giovannini barriers should be eliminated
- Elimination of Barrier 1 (national differences in information technology and interfaces used by C&S providers) is essential
- EFAMA welcomes the proposal developed by SWIFT and the SMPG to encourage the use of the ISO 15022 and ISO 20022 standards by all infrastructures and participants involved in C&S
- ISO 20022 should also become the single European standard for fund processing

Specificity of Investment Funds

- Investment funds should not fall under the EU Commission’s overall policy on post-trading activities
  - The investment fund market functions more like a continuous primary market
  - Funds are not fungible because different different rights linked to specific distribution agreements are attached to them
- Major CSD providers have established systems for the treatment of cross-border funds that are distinct from their equity C&S systems
- Target2-Securities should not cover the C&S of funds units/shares
**Fund Processing Standardization**

- The current inefficiencies and risk levels in fund processing are excessive
- EFAMA created the Fund Processing Standardization Group to outline possible actions to move toward more efficient and less risky fund processing arrangements
- The first FPSG recommendations issued in 2005 promote convergence towards industry-wide standards
- As for the Code of Conduct, implementation is key
- If no substantive results can be achieved within a reasonable time frame, EFAMA will review the situation with the EU Commission

**Multilateral Trading Facilities**

- MTFs will inject fresh competition into the European investment services industry
- Dispersion of liquidity among trading venues should be okay as long as investors have access to information on market prices and volumes from all venues
- This market transparency is the pre-condition for best execution
Thank you for your attention

To know more about the FPSG recommendations, please visit EFAMA’s website at: www.efama.org/50Standards/index_html#3

If you have questions or remarks, please contact me: + 32-2-513 39 69 & info@efama.org
Session III
Target 2 Securities
Clearing & Settlement and TARGET2-Securities

Jean-Michel Godeffroy
Director General
Payment Systems and Market Infrastructure, ECB

European Parliament
Brussels, 12 April
2007

Outline

• The ECB/Eurosystem interest in securities clearing and settlement

• User requirements vs oversight

• TARGET2-Securities
The ECB/Eurosystem mandate is clear for payment systems but not explicit for securities settlement...

Article 105 (2) of the EU Treaty

The basic tasks to be carried out by the ESCB shall be:
- …
- …
- …
- …
- to promote the smooth operation of payment systems

However, payment systems cannot function “smoothly” if SSSs do not also function smoothly

- All modern payment systems work with central bank credit collateralized by securities
- All modern SSSs work on the basis of Delivery versus Payment (DvP)

In each SSS there is an embedded payment system
Major funds transfer systems in euro
(2005, billions of euro per working day)

1. TARGET 1922
2. Euroclear France 433
3. Euroclear Bank 393
4. CLS 324
5. Monte Titoli 213
6. Iberclear 174
7. Euro 1 167
8. Clearstream Frankfurt 80
9. Clearstream Luxembourg 70
10. PNS 61

Source: “Blue Book”, ECB

The links between securities settlements and payment systems

The ECB/Eurosystem mandate to promote “the smooth functioning of payment systems” inevitably extends to Securities Settlement Systems (SSSs)

- Problem in SSS
- Disruptions in the processing of payment flows
- Problems in Collateralisation
- Liquidity problems in TARGET
- Problems with monetary policy
The ECB/Eurosion interest in securities clearing and settlement

User requirements vs oversight

TARGET2-Securities

The ECB/Eurosion “promotes the smooth operation of payment systems”. Therefore it needs to “oversee” the payment arrangements which are embedded in SSSs.

However, the cash and the securities side of SSSs cannot be separated in a DVP environment. Therefore oversight has to be conducted jointly with securities supervisors (CESR in the EU context)
• At global level the CPSS/IOSCO standards of 2001 set a general framework for co-operation between central banks and securities supervisors.

• The ESCB/CESR group tried to implement CPSS/IOSCO Standards in an harmonised way. Work has been blocked for almost 2 years.

• 6 years after the adoption of CPSS/IOSCO Standards either:
  - they are not implemented in the EU; or
  - they are implemented in a non harmonised way

→ major failure for Europe!

What can the ECB/Eurosystem do if ESCB/CESR work cannot be concluded

• In the long run: TARGET2 Securities

• In the short term: the ECB/Eurosystem user standards will be an “ersatz” of oversight standards. But they are:
  - unilateral
  - incomplete
Outline

- The ECB/Eurosysten interest in securities clearing and settlement
- User requirements vs oversight
- TARGET2-Securities

Why T2S?

Source: Oxera, LSE, CEPS
Why the ECB/Eurosystem?

- Eight years after the introduction of the euro, the market has delivered little
- The ECB/Eurosystem is committed to efficient and integrated financial markets in the EU (Lisbon agenda)
- Neutrality of the ECB/Eurosystem:
  - between market participants
  - between financial centres
  - cost recovery principle
- TARGET and TARGET2 experience in successfully creating and implementing Europe-wide infrastructures

What is T2S?

The concept: securities and cash accounts in one platform
T2S does not segregate custody and settlement

A long central bank tradition in providing (CSD and) settlement facilities

<table>
<thead>
<tr>
<th>Area</th>
<th>Central Banks acting as CSD/SSSs today</th>
<th>Central Banks acting as CSD/SSSs in the last 20 years</th>
<th>Central Banks never involved in CDS/SSSs</th>
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</thead>
<tbody>
<tr>
<td>Non €-area</td>
<td>USA</td>
<td>UK</td>
<td>Canada</td>
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<td></td>
<td>Japan</td>
<td>Most new EU Member States</td>
<td>Switzerland</td>
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<td>Poland</td>
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<td>Sweden</td>
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<td>€-area</td>
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<td></td>
<td>Netherlands</td>
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<td>Finland (major shareholder)</td>
</tr>
</tbody>
</table>

Central Banks never involved in CDS/SSSs in the last 20 years:
- Germany
- Spain
- Austria
- Switzerland
- Canada

Central Banks acting as CSD/SSSs today:
- USA
- UK
- Japan
- Poland
- Belgium
- France
- Greece
- Ireland
- Netherlands
- Finland (major shareholder)
Comparison between US and euro area

Governance framework: Principles

1. Balance between wide representation and efficiency

2. Maintain high level of openness and transparency

3. Reflect financing and risk-taking in decision-making
Proposed governance for the project phase

- ECB Governing Council
- T2S Steering Group Plenary
- National User Groups
- Co-ordination Group
- Technical Group

The provisional timetable of the project

**Phase 1**
- Public consultation
- User Requirements
- Detailed Functional Specifications (DFS)
- Architectural Specifications
- Decision on Migration Policy

March 2007

**Phase 2**
- T2S Development & Implementation
- Units and Modules Testing
- Fine Tuning (DFS)

March 2013

**Phase 3**
- UAT Testing
- Integration, performance, interface & back up testing
- Migration Options
- Final Deployment

Governing Council Decision

T2S Production
Conclusion

Complementarity between the initiatives of the Commission and those of the ECB/Eurosyste
TARGET2-Securities
The view from Europe’s banks

Ruud Sleehoff

Chairman, EBF TARGET2-Securities Task Force
Senior Vice President, Head of Market Infrastructures, ABN AMRO

European Parliament Workshop on Clearing & Settlement and TARGET2-Securities
Brussels, 12 April 2007

Banks say “yes, to…”

…but with conditions attached”
On governance

• Banks deserve to be closely involved in the decision making.
• Streamlined and efficient governance processes.
• Full transparency on decisions and new developments vis-à-vis stakeholders.

On the business case

• Economic feasibility is conservative.
• More detailed study is needed.
• Business case also needs to be made for the banks.
On competition

- T2S will deliver competition.
- Banks vs. CSDs
- Direct access and choice of CSD to access the platform (indirect access) are key to delivering this competition.

The EBF welcomes the balanced debate within the European Parliament today

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European Parliament Workshop on Clearing & Settlement and TARGET2-Securities

The position of European banks on T2S

Key messages

- Potentially strong support … assuming the following conditions are met:
  - thorough and transparent consultative process;
  - direct technical access for banks will be a possibility;
  - a level playing field between all custody and banking service providers;
  - a flexible and manageable system; and
  - an attractive service implemented and offered at a reasonable cost.

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<tr>
<th>On governance</th>
<th>On the business case</th>
<th>On competition</th>
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<tr>
<td>Banks deserve to be closely involved in the decision making.</td>
<td>Economic feasibility is conservative.</td>
<td>T2S will deliver competition.</td>
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<tr>
<td>Streamlined and efficient governance processes.</td>
<td>More detailed study is needed.</td>
<td>Banks vs. CSDs.</td>
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<td>Full transparency on decisions and new developments vis-à-vis stakeholders.</td>
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Summary

- Banks stand ready to fully support the project when their conditions are met.
- Banks call for representation in the governance of the Project commensurate to their significance as users of the new settlement platform.
- A clear business case for providers and clients should be forthcoming.
- Healthy competition among CSDs and banks will deliver a more dynamic and cost-effective settlement business for Europe.

...the EBF very much welcomes the balanced debate on T2S that is now underway within the European Parliament and other European fora.
I am honoured to be invited to speak about the US experience as a representative from Citi, a global provider of securities issuance, distribution, trading, custody and funds services. Although our headquarters are in the United States, Citi has been present here in Europe since 1902. If Citi were a private person, we would be 4th generation European. We are now present in 21 of the 27 EU Member States, employing 39,000 people.
T2S gives opportunities for growth & competition:

- The cost versus benefit analyses of TARGET2-Securities (T2S) typically focus on the project’s impact on an institution’s current business, whether it is a CSD or a market participant. While this approach is absolutely necessary, it is only part of the picture.

- Each market participant, depending on its current business, has different strategic options that will be created through T2S. A CSD, too, will have different strategic options in the new T2S environment.

- The changes brought about by T2S could be used by each institution to grow and compete for new clients, new products, or both - through alliances and partnerships in entirely new business areas. Investors will benefit through innovation and more competition.
No Member State will be left behind by T2S:

- The leadership of the European Central Bank in the T2S initiative means that both large and small Member States, within the euro and non-euro area, will be able to join and benefit from T2S.
- An inclusive solution such as T2S could make Europe a more easy place for intermediaries to do business in, because it will lower the barriers to operating in multiple markets. An inclusive solution will also be more efficient for securities issuers, and more attractive for investors.
Here are some highlights of CSDs in the US:

- The Depository Trust Company, DTC, is the result of the consolidation of a number of CSDs. It has often been cited as an efficient and low cost example. The second CSD in the US is the Fedwire Securities Service, which holds securities issued by the US government.

- While there are some differences in ownership and membership criteria, the more important aspects lie in their common features.

- Both are run as not for profit infrastructures. They do not compete with each other, and do not compete with their users. Competition is at the level of financial services intermediaries. There is a large number of service providers on a level playing field, serving investors through differentiation on price, service quality and innovation.
The strongest features of CSDs in the US include:

- Very large economies of scale through specialisation and consolidation.
- A utility business model that is not motivated by profits nor share price.
- A “user pays” transparency and equitable pricing policy that does not favour one category of users over another.
- Users are free to choose the bank they use to handle cash related to settlement. There is no concentration of credit risk exposure in a CSD that is also a bank.
There are some important differences with the current situation in Europe

- It must be stressed that the US market structure was born out of different circumstances at a different time. However, the US experience may still illuminate certain aspects of market organisation in Europe.

- The CSDs were created several decades ago when the typical business model for CSDs were not-for-profit utilities owned by users. That made consolidation much easier than the diverse business models in Europe today.

- CSDs had to register with a single securities regulator and be subject to common regulations. This common regulatory framework facilitated eventual consolidation of the CSDs.

- Through the Securities Act Amendments of 1975, the US Congress made a firm and clear public policy to create a unified national market.

In conclusion, I would highlight that in Europe today, not only is the political organisation different, many CSDs have transformed into for-profit enterprises.

CSD consolidation in the US has taken nearly 30 years. Hopefully, advancements in technology and the need for a more internationally competitive European Union opens up completely new possibilities, for initiatives such as T2S to achieve efficiencies in a much shorter timeframe in Europe.

Thank you very much for your attention.