

# Target 2 for Securities

---

GTS Client Webinar

**November 19, 2008**



# Agenda

---

## **Citi**

- T2S status
- Citi view regarding the last AG meeting
- Progress on Focus items
- Business Model considerations
- Market Assessment

## **ECB**

- Major T2S objectives
- Decision to build T2S
- CSDs support T2S
- Past and future milestones
- T2S Governance
- The challenges ahead
- CSD conditions

## **Q + A**

## A brief look backwards

---

Apr 2	End of market consultation period regarding the User Requirements Document
Jul 4	CSDs responded favourably to the ECB to continue with T2S
Jul 17	ECB Governing Council decided to develop T2S
Sep mid	T2S Advisory Group Nomination Committee reviewed applications
Sep 22	ECB announced new T2S Advisory Group members (Citi has been re-elected)
Oct 9/10	T2S Advisory Group meeting in Lisbon

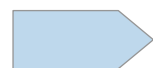
## Next steps

---

- The National Central Banks of France, Germany, Italy and Spain (3CB+) will develop the T2S infrastructure
- Binding contractual agreements between CSDs and ECB for the specification and development phase of T2S are scheduled for the end of 1<sup>st</sup> quarter 2009
- Draft Pricing structure expected during the first half of 2009
- Current Governance structure will cease by the end of 2009
- T2S Market side testing may commence by the end of 2011
- Anticipated live date of T2S - 2012/2013

# Advisory Group Meeting – Lisbon

---



Mandate of the reformed AG is till the end of 2009 covering the specification and development phase

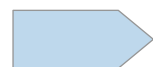
***Citi has been re-elected into the AG***



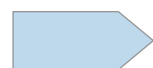
AG Sub-groups will be established with focus on:

- Changes to the User Requirements Document (URD)
- Message standardisation
- Testing and migration
- Process efficiency
- Corporate Actions

***Citi will nominate members for all sub-groups***



A Task Force on contractual issues between the Eurosystem and the CSDs will be established



National User Groups (NUGs) will be closely involved in the development of T2S

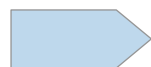
***Citi is represented in all NUGs***

# Advisory Group Meeting – Lisbon continued

---



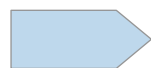
The [URD change management process](#) has been drafted and is aimed to provide a stringent control over any changes in the URD as this document is the basis for the contractual relationship between the CSDs and the Eurosystem



[Conditional agreement](#) has been provided by all of the euro CSDs for the development of T2S.

Conditions are mainly around:

- Single legal contract
- Single point of contact for all Eurosystem matters
- Pricing and related pricing structures of T2S
- Governance structure
- Choice of settlement location



[AG meetings](#) scheduled to take place now every 2 months.  
Next one is scheduled for Nov 25, 2008 in Luxembourg

# Items in Focus

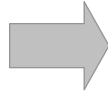
---

Membership by CSDs is optional – is the ECB not planning to make membership of T2S mandatory?



The euro CSDs expressed their continued support to develop T2S.

Definitive costing model and quantification of savings – in principle settlement cost (€ 0.29) has been publicised as part of the feasibility study. What about the detailed economic analysis?



Some principles outlined:

- only one pricing policy for all CSDs
- potential benefits for CSDs joining early
- unbundling and separate pricing of service classes
- embedded reserve to cover for future fluctuations

Connectivity options for users – options for users to have direct technical access to T2S and under what conditions?



Direct technical connectivity is a feature of the design of T2S. How this will translate into practice with CSD approvals required to be able to link to T2S will need to be discussed closer to the testing period of T2S.



Place of matching of transactions for T2S settlement – CSDs requesting ability to retain option of matching in CSD as well as T2S. Is this not in conflict with an economical solution?



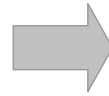
While it has been agreed that CSDs can match intra-CSD transactions, all cross-border transactions must be matched in T2S. The question remains, why are many matching engines required?



# Items in Focus continued

---

Can CSDs 'restructure/downsize' settlement functionality in their systems?



CSDs with non-domestic or non-harmonised settlement business may not be able to downsize their infrastructure.



Euroclear Single Settlement Platform vs T2S?



Euroclear expressed their continued support for the development of T2S. At the same juncture introduced the concept of the User Choice Model.



Can ECB deliver the promise?



Too early to comment. Certainly the commitment of the Eurosystem has been expressed to deliver on time and within cost.

What will be the legal entity of the T2S operator?



In discussion at the ECB.

What will be the future Governance Structure of T2S?



Governance Structure till the end of 2009 in place. Post 2009 structure will also be dependent on the Legal Vehicle decision.

# Business Model considerations

---

## ★ **Settlement Agent for MTFs, CCPs and smaller Exchanges** (e.g. Turquoise, EuroCCP)

- Provision of direct access into the euro domestic market
- Citi acting as settlement agent and custodian
- Providing GCM only services

## ★ **Asset Services only**

- Provision of service without need to shadow record securities settlements on our books
- Different service levels addressing different client needs
- Adequate pricing of risk

## ★ **European Multiple Market Access (EMMA)**

- Covers the Euronext (B, F, NL) markets pre-empting Euroclear's Single Platform
- Single cash and/or single Safekeeping account for all markets possible
- Single access channel to all three markets

## Market assessment

---

- More Alliances between CSDs (e.g. Link up Markets) can be envisaged in addition to CSD/Custodian engagements
- Settlements within the eurozone will become a commodity Product, therefore there shall be an impact on pricing as well as a settlement concentration to volume providers
- Potential overlap of service provisions of CSDs and Custodians in the areas of Settlements and Asset Services
- Drive towards Value Added Services and/or specialization across the markets. Envisaged focus areas are Issuer Services, Collateral Management, Asset Services and intra-eurozone 'Global'-Custody

## Addressing the future

---



- **Liaising closely with clients**
- **Member of the T2S Advisory Group**
- **Participation in all T2S AG Sub-Groups**
- **Represented in all NUG's**
- **Continue to review our business model**
- **Identifying new business opportunities**

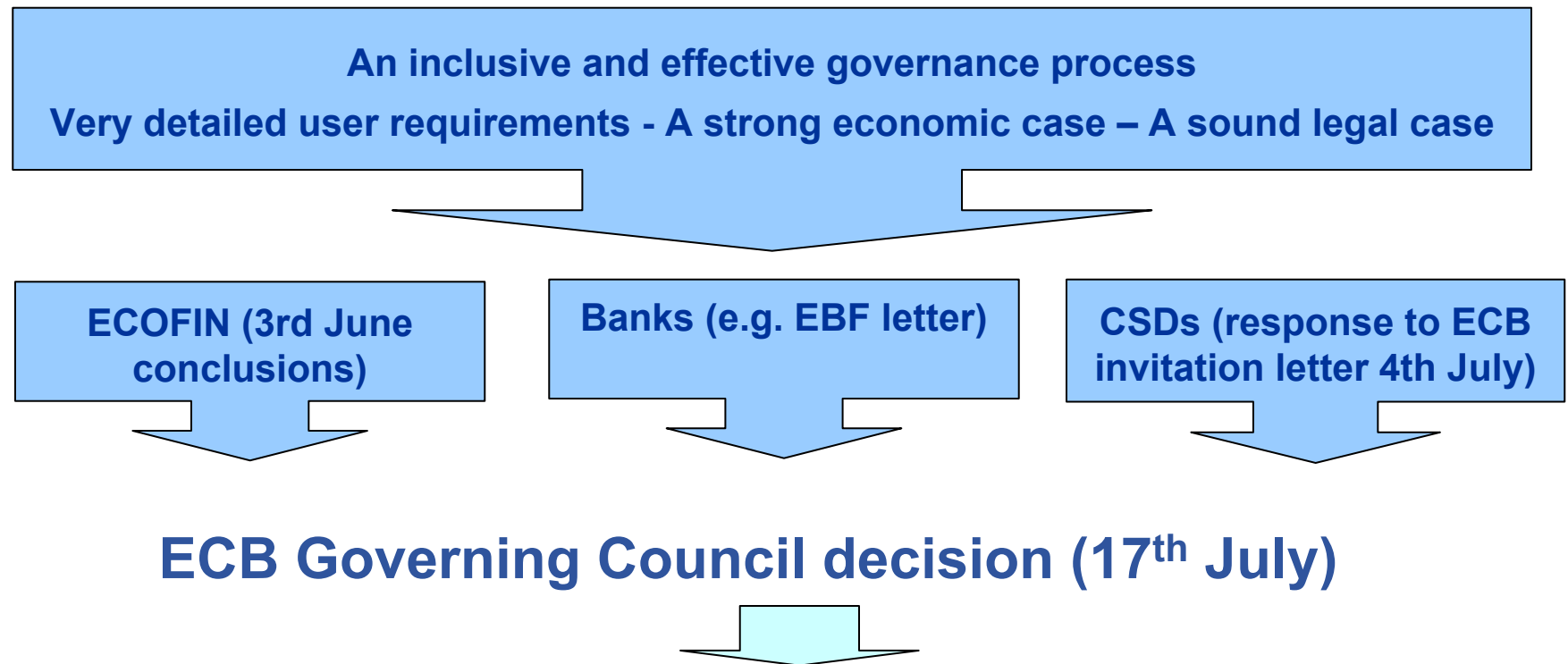
# TARGET2-Securities: Project status and next steps

**Helmut Wacket**  
**Secretary of the T2S Advisory Group**  
DG-Payments and Market Infrastructure  
European Central Bank

## The major T2S objectives

- Making cross-border settlement fees as inexpensive as domestic fees.
- Reducing users' collateral/liquidity needs.
- Harmonising settlement to overcome current fragmentation and make Europe a true Single Market.
- Create new opportunities for competition.

# Decision to build T2S



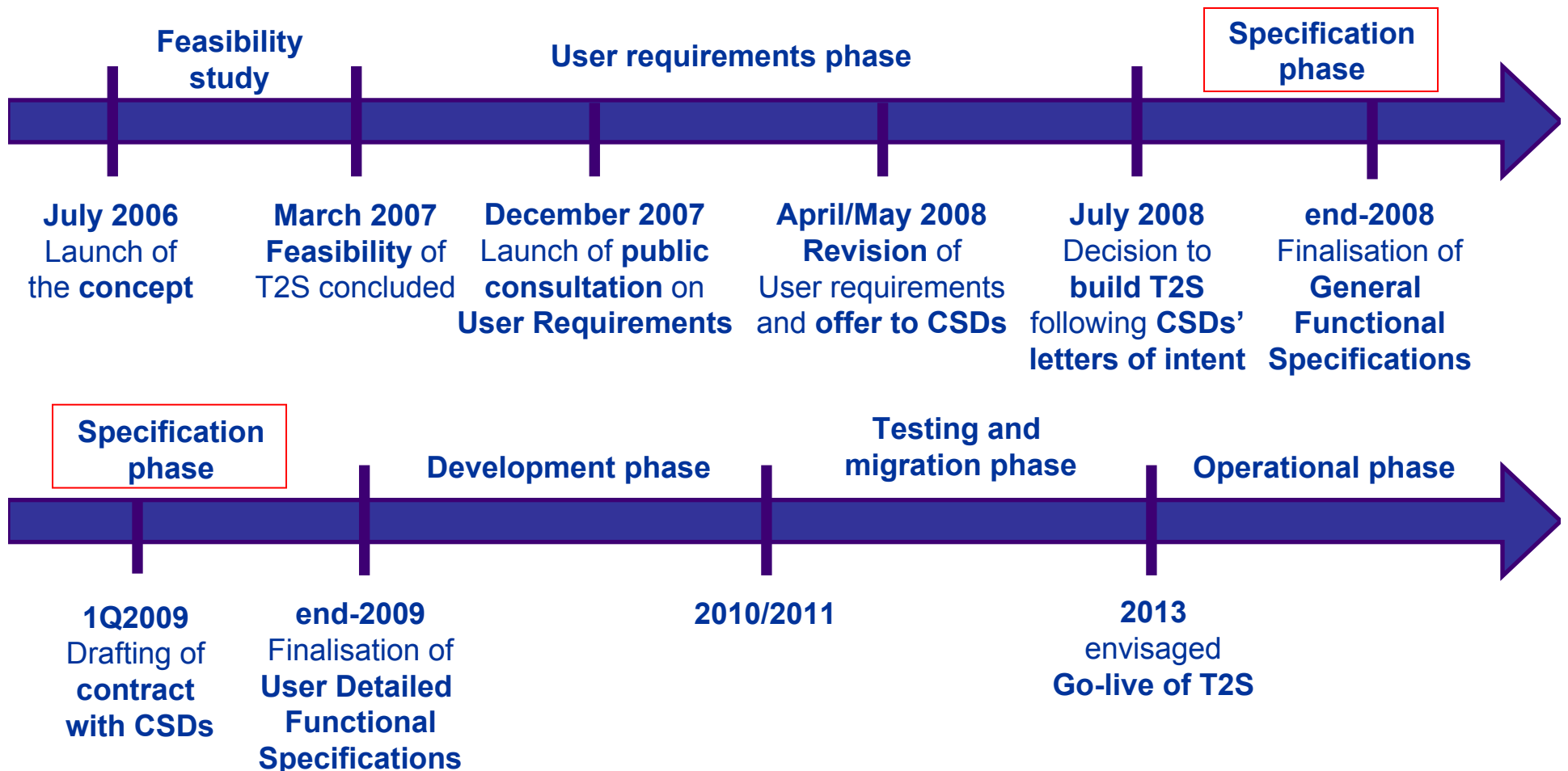
**Provides certainty to all actors that T2S will be built**

## CSDs support T2S

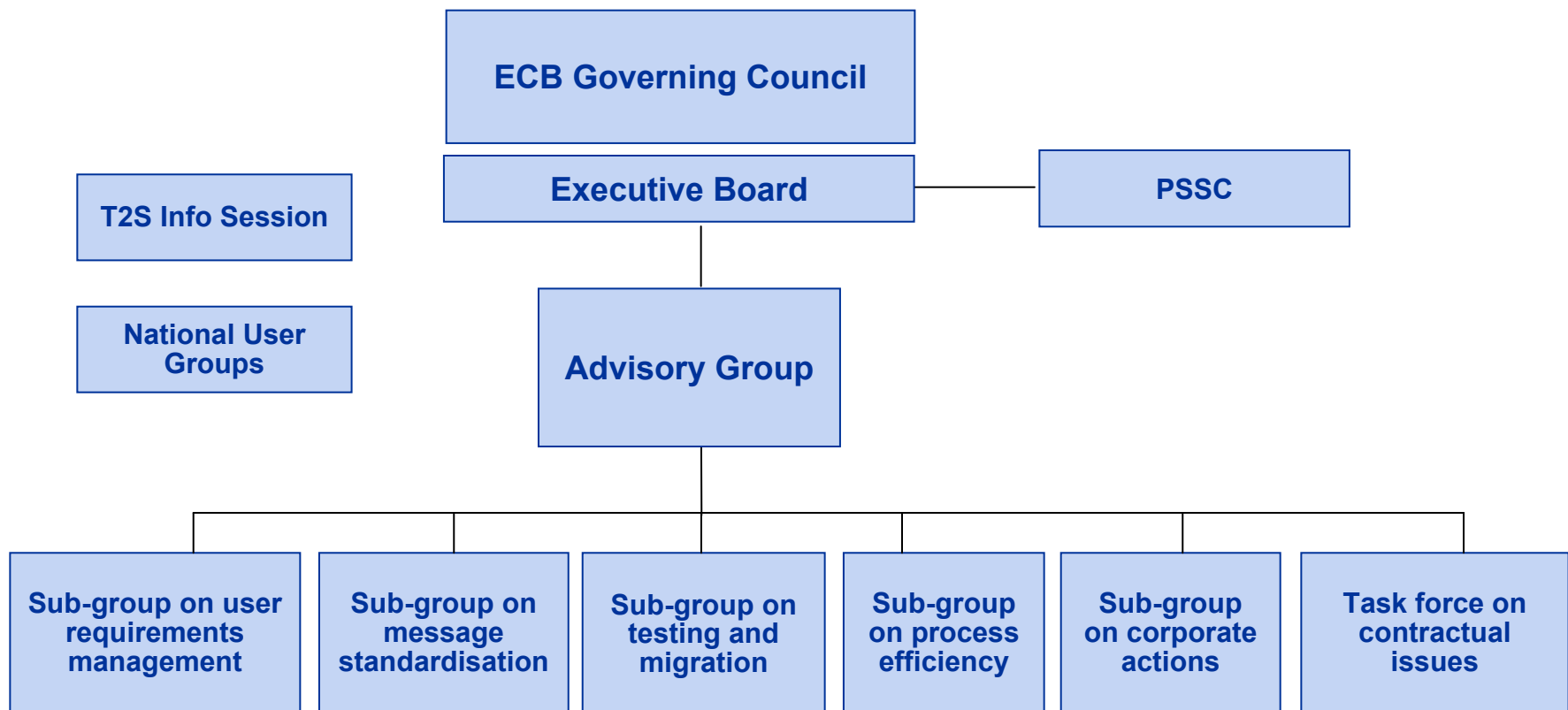
- All euro area CSDs have expressed their intend to use T2S once it is in operation, based on certain conditions. The Eurosystem is currently assessing these conditions.
- T2S is open to all European non-euro area Central Securities Depositories and currencies, subject to agreement between the concerned parties.
- Some non-euro area CSDs will use T2S:
  - DK (for euro and Danish crown settlement),
  - UK, SE and CH for euro (their national currency to be assessed);
  - Others may follow.

# Where are we?

## Past and future milestones



# T2S Governance for the specification phase



# The challenges ahead

- **Building T2S:**
  - In time: 2013 at the latest
  - Within budget: approximately € 200 million
  - According to the User Requirements Documents as agreed with the market
  - Governance to be further discussed for next phases
- **Bring settlement volumes into T2S to achieve cost recovery with low fees:**
  - Binding contract with CSDs
  - Impact of further evolution of market infrastructure

# The challenges ahead

- Drafting the General Functional Specifications (GFS) and the User Detailed Functional Specifications (UDFS), in line with User Requirements Document (URD); the draft GFS to be delivered at the start of 2009
- A precise budget with a 3CB+ commitment
- A general migration plan
- Contractual arrangements between Eurosystem and CSDs
- The AG will drive the T2S-related harmonisation work:
  - Harmonisation of T2S related processes
  - Harmonisation of corporate events
  - Drive harmonisation in other post trading activities

# The challenges ahead

## Satisfying the CSD conditions formulated in their commitment letters of 4 July 2008

- Governance
- Pricing
- Choice of settlement location

## Governance:

- **CSDs would like to receive assurances on:**
    - Commitment to a project plan with interim milestones
    - Certainty on T2S cost allocation – Does one CSD bear the risk of another CSD withdrawing?
    - Influence on change management process
    - Involvement on functional specifications definition
    - T2S remaining within its scope
  - **Create separate legal entity to cater for an efficient structure with sound and transparent relationships**
- **The Eurosystem is working on the future T2S governance arrangement**

# CSD conditions

## Pricing

- **Assurance on pricing which allows reducing CSD's current cost**
- **The question on degressivity**
  - The Economic Impact Analysis calculates T2S savings for banks/custodians to range between 89-110 mio euro.
  - T2S settlement fee 21/32 cents per transaction
  - Under 2007 conditions – this means settlement fee in 2012/2013 will be significantly lower
  - **The Eurosystem is working on the future T2S pricing**

# CSD conditions

## The choice of settlement location (User Choice Model - UCM)

- **The user may choose whether it wishes to settle via the CSD's proprietary settlement system or via T2S**
  - **The ECB appreciates the UCM..., but**
    - Has a number of technical questions waiting to be answered;
    - Wonders whether the UCM re-introduces fragmentation thus maintaining back office complexities and avoiding liquidity pooling
    - Expects to see mitigation measures for the conflict of interest in the CSDs concerned;
    - Fears that the co-operation model with CSDs may be affected.
- **The AG will assess the UCM at its next meeting**

---

**THANK YOU**