

What's New In the Markets

TARGET2 Securities

TARGET2 Securities (T2S) is a European wide initiative launched in 2006 by the European Central Bank (ECB) aimed at creating a single technical platform for the settlement of securities in euros and potentially in other currencies as well. The settlement platform will be operated by the Eurosystem with the primary objective of reducing the cost of cross-border securities settlement within the euro area and to create a single euro capital market.

Under the new infrastructure, Central Securities Depositories (CSDs) could outsource its relevant settlement functions to T2S and the database of accounts and securities positions would be maintained in T2S with no need for duplication of records in the CSDs. The CSDs will still maintain their contractual relationships with users and continue to perform asset servicing via market-specific applications that access the central T2S database. Securities transactions and positions will be kept in T2S while the related cash movements of a settlement will be processed via T2S dedicated cash accounts within T2S but linked to the relevant Target2 Central Bank account of the settlement parties. All settlement related cash activity will be in Central Bank money only.

A key component of this major undertaking is to achieve maximum harmonization across the eurozone* of the rules, regulations and processes surrounding the settlement of securities. The ECB will be working closely together with the relevant committees like CESAME II and CESR to overcome the harmonization barriers which are currently characterizing the fragmented European landscape.

During the period of December 2007 until April 2008 the ECB reached out to market participants for feedback on its T2S User Requirements Document of about 800 pages. That document was revised with all the input received and eventually presented to the ECB Governing Council for review. At the same juncture, the CSDs in the eurozone provided feedback to the ECB as to whether they will continue to support the development of T2S. The feedback provided was largely positive and mostly associated with conditions like availability of a pricing structure, agreement on the governance structure of T2S and that the legal and contractual construct needs to be in place early 2009. The ECB Governing Council then decided on July 17 2008 to develop the system with a target live deadline of 2013 latest.

Citi and T2S

Citi will continue to play an important role in the process as a member of the ECB's T2S Advisory Group. We will continue to pragmatically support with subject matter experts specific sub-groups to be established during the next AG meeting. Citi is uniquely qualified to contribute to such an important project for the future integrated securities settlement infrastructure because of the firm's direct membership in the CSDs of nearly all the euro area markets, and its depth of experience in all aspects of securities services. With more than 80 years of experience providing securities services in over 53 countries around the globe, Citi is uniquely positioned to work with the ECB, market authorities and market participants to help our clients addressing market changes adequately. Citi takes this role seriously and will continue to work closely with the ECB and other market leaders.

* The eurozone consists of the following countries: Andorra, Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxemburg, Malta, Monaco, Montenegro, Netherlands, Portugal, Slovenia, Spain

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TARGET2 Securities (cont.)



What's New

- A new T2S Advisory Group was established by the ECB.
- Sub-groups and a task force of the T2S AG have been established engaging all market participants.
- Citi is reviewing its business model to identify the risks and opportunities provided with T2S.
- The Central Securities Depositories are also reviewing their business models.

What's the Impact?

- Citi has been re-elected as a full member. The first meeting took place October 9-10th 2008 addressing the development phase of the T2S platform.
- Citi is nominating members for all sub-groups reconfirming its continued pragmatic support for the development phase of T2S.
- Settlement will be a commodity product with the implementation of T2S and focus needs to be on value-added products.
- Some overlap between Custodian Banks and CSDs can be expected.