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cc: Marc Bayle – T2S Project Manager

Brussels, 27 June 2007

Dear Jean Michel,

EBF response to the T2S Consultation Paper: General Principles and High Level Proposals for the User Requirements

Please find enclosed the European Banking Federation's (EBF)¹ response to the ECB's consultation on the user requirements for TARGET2-Securities (T2S) launched on 27 April 2007. We welcome the opportunity to comment on the functional and non-functional high level proposals. Please find our detailed comments enclosed in the required format.

We regret however not being formally invited to comment on the general principles for T2S, which we thought would have been a useful exercise for the ECB. Therefore, we will send our views on the substantive remarks on the general principles to you ahead of the forthcoming Advisory Group meeting.

Overall the EBF was in complete agreement with 70% of the high level proposals; does not agree entirely with 24%; completely disagreed with 5% and was unable to give an answer due to a lack of clarity on one proposal (proposal 18).

However, in coming to our final position there was an extensive debate within our membership around definitional questions and implicit intentions. In general, we felt that the proposals lacked clear definitions up front. This means that our responses are based on a number of assumptions which we clearly state in the comments. If these assumptions are not in line with the ECB's view then we reserve the right to modify our responses accordingly.

¹ The European Banking Federation (EBF) is the voice of the European banking sector representing the vast majority of investment business carried out in Europe. It represents the interests of over 5,000 European banks, large and small, from 30 national banking associations, with assets of more than €20,000 billion and over 2.3 million employees.

During the T2S Information Session of 25 June, it was stated that the ECB will consider drafting a glossary which will specify the underlying concepts and definitions. We fully support this development. For example, we feel that as a minimum the following definitions would be highly desirable, if not critical to a complete understanding of the high level proposals:

- “Participant” (proposal 4);
- “Investor” (proposal 7);
- “End-investors” (proposal 8); and
- “System operator” (proposal 17).

We look forward to the elaboration of the glossary as well as carrying forward the other constructive suggestions arising from the recent Information Session, such as an elaboration of the legal aspects of T2S.

In the meantime I, and the EBF’s T2S Advisory Group member, Mr. Ruud Sleenhoff, remain at your entire disposal to follow up on this or any other point regarding the definition of the user requirements for T2S.

Yours sincerely,



Guido Ravoet

Encl. 1

Draft feedback to consultation paper

Document Title	T2S Functional and Non-Functional High Level Proposals
Document Reference	R7113DER
Issued for review	EBF review completed
Deadline for review	EBF review completed

Proposal Nr.	Statement	Comment	Institution	Confidential
1	I agree	One to one transfer of account structure possible. CSD is in charge of mapping structure. Regarding structure of securities accounts, these are to be build from scratch. This kind of harmonised structure should simplify communication between CSDs. As in cash there will be need for a mapping table. Banks must incorporate this when accessing T2S directly.	European Banking Federation (EBF)	No
2	I do not agree entirely	We advocate that T2S should not be directly linked to T2 functionality and seek clarification on which actors the optionality referred to applies.	European Banking Federation (EBF)	No
3	I agree		European Banking Federation (EBF)	No
4	I agree		European Banking Federation (EBF)	No
5	I do not agree entirely	In addition to this proposal we would like to have functionality that enable to put limits on indirect participants holdings. In certain markets such a structure does not exist.	European Banking Federation (EBF)	No
6	I agree	We understand that a securities account would be allocated to a single CSD to reflect the legal relationship between the bank and the CSD. However, participants (banks) would like, in addition, to benefit from a single technical account to allow one consolidated vision of all securities positions and to benefit from a single identification code for settlement instructions.	European Banking Federation (EBF)	No
7	I agree	On the assumption that we are mapping to the relevant CSD account structure.	European Banking Federation (EBF)	No
8	I agree	As with 7, clarity around how that definition would be made is required	European Banking Federation (EBF)	No
9	I agree	The securities account structure should provide for segregation in compliance with local laws. Segregation at CSD level should cover proprietary and non proprietary for example but should not impose further segregation if it is not requires by local law. In addition this segregation could be implemented either through different account or through flagging within the same account.	European Banking Federation (EBF)	No

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10	I agree	To increase settlement efficiency, we favour the option of "flagging", within the securities account, holdings eligible for the self collateralisation rather than transferring those securities in a dedicated account. Furthermore, clear explanation is needed on definitions of auto-collateralization, self-collateralisation and pledge facilities.	European Banking Federation (EBF)	No
11	I agree	Clarify whether or not reference data should include sufficient info to allow for corporate actions settlements processing such as market claims, transformations of pending/failed trades etc which would take place in T2S	European Banking Federation (EBF)	No
12	I agree	Although agree on the principal that only issuer CSDs should be able to amend Securities Reference Database, other Users should have access to the data from a read only perspective to ensure common static data. Ultimately one and only one CSD should be responsible for amending the Database.	European Banking Federation (EBF)	No
13	I agree	In principle the same data should be required regardless whether the instruction is sent directly or via the CSD.	European Banking Federation (EBF)	No
14	I agree	Agree on the assumption that Users authorised to instruct TS2 direct will have some control over their account albeit via relevant CSD	European Banking Federation (EBF)	No
15	I agree	As per 14.	European Banking Federation (EBF)	No
16	I agree		European Banking Federation (EBF)	No
17	I agree	But who will be responsible and who will decided on these harmonised rules? There is need for a procedure describing how this would work.	European Banking Federation (EBF)	No
18		Impossible to come to a view based on the proposal as stated. Any CSD participating to T2S should no longer have any harmonised deadlines for settlement in central bank money, but should comply with T2S ones. It is unclear why cross border settlement would take place outside T2S. We stress that based on principle 8, T2S should only settle in central bank money and there should be no commingling of central bank money and commercial bank money within T2S and at CSD level. It is also important to emphasise that in this context it is of the utmost importance to have Giovannini Barriers 4 and 7 eliminated.	European Banking Federation (EBF)	No
19	I agree	Static data should use existing and future ISO standards.	European Banking Federation (EBF)	No
20	I agree	NCB hours must also be harmonised if not already done, with aim being to not degrade the operating hours / cut off times in place today. Consideration of T2 (cash) versus T2S closing times is necessary.	European Banking Federation (EBF)	No
21	I do not agree entirely	During night time settlement period, settlement should only affect T2S cash account and there should be no impact on T2 RTGS account.	European Banking Federation (EBF)	No

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22	I agree	We agree with the proposal, except that T2S for its day time period should stop before T2 cash.	European Banking Federation (EBF)	No
23	I completely disagree	CSDs having option to opt out of night time cycle creates issues where direct users want to use overnight cycle and also between CSDs for cross border. Harmonisation of settlement processes and timelines requires all set cycles/processes to be agreed and mandatory. A single harmonised process is required.	European Banking Federation (EBF)	No
24	I agree	There should be only one set of core settlement deadline. T2S should be build on a harmonised basis to contribute to the removal of Giovannini barriers. Furthermore, the definition of "core" needs to be explained. What is the difference between core settlement services and non-core settlement services?	European Banking Federation (EBF)	No
25	I agree	T2S should not replicate each CSD specificities. Experience has demonstrated that interim deadlines do interfere with core settlement deadlines and may create additional delays in the various processes. Should a CSD want to introduce additional deadline it will have to first justify that it does not interfere with T2S settlement processes and would not delay reporting for example. User requirements are also an important factor in coming to a view on CSDs deadlines.	European Banking Federation (EBF)	No
26	I agree	We agree for their processes as issuers CSDs and in particular for corporate actions processes. However, for their services as investor CSDs T2S should not create an unlevel playing field between investor CSDs and global custodians.	European Banking Federation (EBF)	No
27	I agree		European Banking Federation (EBF)	No
28	I agree	But it should be clarified that throughout the day means settlement day and not only daytime settlement.	European Banking Federation (EBF)	No
29	I agree	But there are different cut-off times certain markets for different processes. "One harmonised set" should therefore mean a uniform cut-off time for each process.	European Banking Federation (EBF)	No
30	I completely disagree	We advocate only one set of matching rules for T2S with the exception of exchange and CCP transactions. Optional matching systems (CSD or TS2) will create confusion, additional work decrease matching and settlement efficiency. Impractical to agree place of settlement at either point of trade or during pre match.	European Banking Federation (EBF)	No
31	I agree		European Banking Federation (EBF)	No
32	I do not agree entirely	See exceptions highlighted in response to proposal 30.	European Banking Federation (EBF)	No

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33	I do not agree entirely	In principle we agree with the proposal but the final ECSDA standard has to be reviewed in the context of T2S. We suggest that ECSDA standards could cover all aspects of the cancellation rules.	European Banking Federation (EBF)	No
34	I agree	See proposal 30. All OTC instructions sent to T2S will be unmatched as no matching should be allowed at CSD level and should be matched within T2S as soon as possible.	European Banking Federation (EBF)	No
35	I do not agree entirely	Need more clarity as to definition of enrichment before an opinion can be given. The information that can be changed has to be clearly defined but the matching fields themselves should not be allowed to change.	European Banking Federation (EBF)	No
36	I agree		European Banking Federation (EBF)	No
37	I do not agree entirely	Added functions, i.e. chaining, linking, blocking and deblocking are called for.	European Banking Federation (EBF)	No
38	I agree		European Banking Federation (EBF)	No
39	I agree	See comments on proposal 11.	European Banking Federation (EBF)	No
40	I agree		European Banking Federation (EBF)	No
41	I agree	Local legal and regulatory environment allows for auto collateralisation either on a repo or pledge mechanism. We consider that the legal framework for autocollateralisation should move to common Eurosystem rules over time.	European Banking Federation (EBF)	No
42	I agree	More detailed information would be highly desirable.	European Banking Federation (EBF)	No
43	I agree		European Banking Federation (EBF)	No
44	I do not agree entirely	Further explanation is necessary and assumptions need to be clarified before coming to a definitive view.	European Banking Federation (EBF)	No
45	I do not agree entirely	There should be only one settlement model and not two models in parallel with users having to choose its mode. We seek clarification on the use of batch vs. real time settlement. We advocate against manual intervention in the choice of settlement model.	European Banking Federation (EBF)	No
46	I agree	Recycling should take place both during night and day settlement cycle. There should be one harmonised recycling rules for T2S and all CSDs participating to T2S	European Banking Federation (EBF)	No

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Proposal Nr.	Statement	Comment	Institution	Confidential
47	I do not agree entirely	Shaping criteria would have to be in agreement and harmonised with relevant CCPs that already support this when one party is a CCP. However, there are limitations to shaping for all other OTC transactions (including account transfers against payment) and the involved parties should agree on a transaction basis.	European Banking Federation (EBF)	No
48	I agree	A harmonised set of rules also required for shaping and partial settlement	European Banking Federation (EBF)	No
49	I agree	Further clarity is sought on optimisation. If settlement in circles is to be employed then continuous optimisation would be highly desirable. The number of optimisation should at least be: middle of night time cycle; end of night time cycle; end of morning; beginning of afternoon; before the end of day time settlement.	European Banking Federation (EBF)	No
50	I agree	We question the market need/ appetite for investor CSD functionality. Indeed global custodians in a competitive environment do already offer the same type of services. We believe this concept will generate significant complexity for T2S and will increase the costs. In addition CSDs who want to act as investor CSDs will also have to invest significantly which will raise again the cost for banks.	European Banking Federation (EBF)	No
51	I agree	Links between CSDs are today not used and source of operational issues. We do not see any need to provide links between T2S and non participating CSDs. It could increase costs and create disincentives to join T2S. T2S being a technical outsourcing solution for CSD, a CSD can not ask for interoperability with T2S but will require interoperability with another CSD. In order to comply with Code of Conduct, we suggest that if a CSD not connected to T2S requires interoperability with a CSD connected to T2S, the CSD should propose a standard access, i.e. opening an account in its books.	European Banking Federation (EBF)	No
52	I do not agree entirely	As mentioned previously, direct users may need some static data control over their accounts albeit via the relevant CSD	European Banking Federation (EBF)	No
53	I agree		European Banking Federation (EBF)	No
54	I agree		European Banking Federation (EBF)	No
55	I do not agree entirely	Access is formally granted by CSDs. However, a CSD should not prevent one of its participant to access T2S directly if it requests to do so.	European Banking Federation (EBF)	No
56	I agree	Instructions should be queued by T2S during maintenance windows	European Banking Federation (EBF)	No

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57	I do not agree entirely	Depends on details and final definitions. Direct users may require access to some of this functionality. N.B. The second paragraph of the explanation of the proposal contradicts the granted access of non-CSDs and should therefore be eliminated.	European Banking Federation (EBF)	No
58	I agree		European Banking Federation (EBF)	No
59	I agree		European Banking Federation (EBF)	No
60	I do not agree entirely	Depends on accuracy of volume projection	European Banking Federation (EBF)	No
61	I do not agree entirely	T2S should be able to handle settlement peak. However, settlement peak should be defined as 400% of average settlement volume. In addition as settlement is T+3, T2S will need to be able to cope with settlement peaks over 3 days.	European Banking Federation (EBF)	No
62	I agree		European Banking Federation (EBF)	No
63	I agree		European Banking Federation (EBF)	No
64	I agree		European Banking Federation (EBF)	No
65	I agree		European Banking Federation (EBF)	No
66	I do not agree entirely	Migration should be performed SSS by SSS, which do not necessarily overlap with a market by market migration. For example French, Dutch and Belgian equities should migrate at the same time as processed on the same SSS. In Greece equities and bonds are processed on 2 different SSS and could be disconnected for the migration. In any case the migration phase should be as short as possible and should concentrate the "big" markets at the beginning to achieve critical mass as quickly as possible.	European Banking Federation (EBF)	No
67	I completely disagree	Who will make decisions? The aim should be to realise the optimal solution in terms of desired functionality on the T2S settlement system. Will large volume markets dictate the functionality in T2S while the use of other principles (from smaller markets) could result in a system which would deliver a higher quality? Furthermore, we completely disagree with the following part of the proposal, "[...] of minimising the overall market impact." From a user's perspective best practice should be the principle and markets with best practice should not be forced to pay for downgrading their services.	European Banking Federation (EBF)	No