



March 19, 2008

European Central Bank
Attn.: Mr. Marc Bayle
T2S Project Team
Kaiserstrasse 29
D 60311 Frankfurt am Main
Germany

T2S URD Consultation feedback from Citibank

Dear Marc,

Since the launch of the URD in December 2007, our experts across the various markets in Western Europe analysed the document and we are now in a position to share our findings, comments and suggestions with you.

Attached you will find your requested feedback format. Our aim was to keep the wording short and to the point. Please feel free to contact us in case there should be any further clarification required.

We would like also at this point, to draw your attentions to some particular areas of concern, which we believe, are of utmost importance to the overall T2S project.

The **Governance** structure of the T2S project has demonstrated that the involvement of all the relevant market participants in the discussion is critical. Therefore, we are looking forward to continue the cooperation with the ECB through the T2S Advisory Group as well as any other or additional structure which may be under consideration for the next phase of the project.

We also reiterate the point made during the last T2S Advisory Group meeting that Banks, being the core users of CSDs and as such T2S, must be part of any potential additional T2S governance structure being put in place for the next phase.

We have also discussed in depth the situation regarding multiple **matching** locations i.e. the option to match at CSD level or T2S level. Such a compromise is in conflict with the T2S principles of a lean and economic infrastructure for the euro markets. Matching is a fundamental part of securities settlement and should be concentrated in one location following a unified, harmonised and single set of rules. It is also difficult to understand how n-number of matching systems can operate more economically than a single matching system covering all the markets. We do envisage the need for the ECB to scrutinize this compromise with the aim to centralise matching in T2S. In that context we do understand that CCP transactions and transactions which may result from corporate events may be submitted to T2S with a matched status already for processing.

Regarding the criteria and rules to be applied for **settlement optimisation** it would be helpful to gain some more clarity around this issue.

With reference to the possibility of **direct technical connectivity** requiring the consent of the relevant CSD, we must stress the importance of a harmonised procedure across the T2S-CSDs. We are direct participants in nearly all of the euro-CSDs and therefore expect that one application for direct connectivity should suffice and cover all the CSDs which will be outsourcing their settlement function to T2S. This could be considered like a T2S European passport.



In the same context of harmonisation, there are two other items which we would like to highlight. The first being **night time settlement** which in principle shall be obligatory for all T2S participating CSDs otherwise it may defeat the stated expectation of efficiency. The second point relates to **re-cycling** of settlement instructions. This subject should also be addressed as part of the harmonisation efforts and should not be dependent on local CSD rules as presently stated in the URD.

As can be seen from above points, **harmonisation** of securities settlement rules and regulations is fundamental and needs to be addressed in order to create an efficient domestic euro settlement market. With T2S being seen as a key driver to accelerate these efforts across the multiple markets harmonisation must be one of the major focus items for the ECB and the T2S project team. We would like to understand how the ECB intends to pursue this important issue.

Considering the anticipated neutrality of the T2S platform and importance of ensuring an equal level playing field between the various market participants in particular between Investor CSDs and Custodian Banks. We are not comfortable at all with the outlined **relayed link** concept. This is not only positioning T2S against principles outlined before but it also generates a level of unnecessary complexity. We are in agreement with a lean T2S and therefore this functionality should not be supported.

Another important aspect is to cover as many securities as possible in order to achieve high settlement volumes with the associated positive benefits for the market participants. Considering the on and off discussion regarding **Eurobonds** to be included in the scope we are of the opinion that they have to be incorporated in the scope of T2S also due to the fact that they are fungible securities with a valid ISIN and therefore fulfill all the criteria set in the URD.

Regarding the generation of **liquidity**, we believe that a similar concept to the 'Delivery by Value' (DBV) functionality as currently performed in the UK market would be beneficial to users of T2S. A separate paper will be submitted to you by Citi in due course to outline the potential benefits.

Other items of equal importance such as the Legal construct, Economic Impact Analysis and CSDs commitment to join T2S are already well known having been discussed at length within the T2S Advisory Group and as such have not been referred to in this letter.

In closing this letter we would like to express our demand for a **T2S planning reliability**. Though the time horizon for T2S is four to five years away it is of utmost importance to know whether T2S will be developed and migrate into live operation and which CSDs will be joining. Such a planning reliability can only be achieved through firm, undisputable and legally binding commitments between the CSDs and the ECB. Such commitments will enable market participants to arrange for the necessary investment levels and to enter into the indispensable dialogue with CSDs.

We appreciate the open communications policy which the ECB has demonstrated so far and we are therefore looking with interest forward to your considerations and response.

With kind regards

Juergen K. Zeuss