

Introduction

1. T2S should allow settlement of all securities (equities, fixed income, funds and Eurobonds) that meet following criteria:
 - Identified by an ISIN;
 - Held in “CSD participating in T2S”;
 - Book entry settlement;
 - Fungible (from a settlement perspective), i.e. no need for additional identifier during the settlement process.
2. T2S should be delivered by 2013 (Final Governing Council decision in summer 2008)
3. T2S should offer a DVP settlement under an integrated model in central bank money .
4. T2S should be operated by the Eurosystem and based on T2 architecture and concepts
5. T2S is fully compliant with the principles of the Code of Conduct
6. Each CSD is free to outsource the settlement process to T2S which remains an operational / technical system mainly.
7. T2S is not a legal entity and each participant will maintain a contractual relationship with the CSD(s).

T2S objectives are:

1. To consolidate all the SSS systems operating in Europe in one technical engine.
2. To build a European Financial market by reducing costs of cross-border settlement which are much higher than domestic settlement cost. Domestic cost cannot increase because of T2S.
3. To be a driving force to help in the Giovannini barriers removal: GB1 (standard and interface), GB3 (Corporate Action harmonization), GB9 (national restriction on the location of securities), GB13 (transfer of ownership).
4. To concentrate / reduce liquidity and collateral need for settlement purposes in one place.

T2S, an opportunity for LCH.Clearnet in Euro zone countries

LCH.Clearnet expressed its supports to the T2S initiative and project for euro denominated securities settling in Central bank money activity.

T2S would allow LCH.Clearnet rationalizing its multiple settlement links with (I)CSDs EOC (EF/ENL/EBE), BNB, Interbolsa, Montetitoli) and benefiting from a unique settlement platform with harmonised procedures and timing.

T2S would offer opportunities to the CCP to clear additional markets while minimising the investments effort. The real benefit would therefore be reached if T2S receives the large support and early commitment from the CSDs of Europe and particularly from Euroclear group.

As far as the UK market is concerned (euro settlement in commercial bank money and in GBP) the benefit in getting it to join T2S is more challenging (introduction of overnight, maintenance of current links , multiplication of collateral needs).

It is also worth mentioning that LCH.Clearnet will continue to settle in commercial bank money via Euroclear Bank and Clearstream Banking Luxemburg and efficient realignment with these external (I)CSD will still be required.

T2S should operate on HARMONISED and best practices.

This is a fundamental condition to guarantee that T2S will run and settle at the lower cost. Any national specificities should be disregarded.

LCH.Clearnet is fully supporting the following harmonisation efforts:

1. Harmonization of the settlement cycle in T2S. T+2 or T+3 will facilitate CCP netting across multiple trading venues as well as Corporate Action processing. A harmonized life-cycle should be achievable by T2S horizon (2013).
2. Corporate actions procedures should be identical across all issuer CSDs (or reference CSD) in T2S : ONE EVENT = ONE process based on recommended European Standards. The Issuer CSD rules have to be followed by all the other "investor" CSD where the ISIN is eligible
3. Thresholds on partials should also be harmonised across participating CSDs and CCPs.
4. T2S Instructions that do not require matching, should only use one process preferably ONE message including both legs of the counterparts .

UR impact analysis

Hereafter the summary of key elements and concerns that are raised by LCH.Clearent to guarantee efficient clearing services in T2S:

1. LCH.CN confirms that all cleared CCP instructions (regardless the types of netting results (DVP/DWP/Cash only/Fop) will settle within the DVP window and ended by 4pm. LCH.CN would not use the additional Fop window (from 4pm to 6pm) to settle CCP instructions against its participants.
2. The only possible exception could arise when LCH.CN has to settle a last rebalancing movement (Fop) outside T2S to an (I)CSD (EB or CBL) , this last process should take place very closely to the end of DVP window. Further discussion will be requested with these "external" ICSDs and T2S team. Objectives are to empty the CCP accounts before the 4pm deadline either will participating CSDs in T2S or with external (I)CSD
3. Fails still pending by 4pm and having reached the end of recycling period should be automatically cancelled by T2S and reported immediately to the CCP.
4. LCH.CN requests to receive "the T2S reports" that summarise the results of settlement activity up and to 4pm as close as possible after the end of DVP window . These reports should include the final status (i.e. settled or cancelled) and the still pending instructions recycled into the next settlement day.

➤ *We request T2S to investigate how reports referring to the DVP window can be sent immediately after that window .*

5. End of day fails management (Option 1 or Option 2)

LCH.CN is not convinced that LNB (as last resort) would improve the settlement efficiency.

LCH.CN requests that any LNB service be handled on a transparent manner (i.e. no impact on the T2S schedule) and all settlement instructions should enter in the T2S system until the 4pm deadline.

➤ *Whatever the option retained, T2S should guarantee that the last partial will be a dynamic and continuous process that would ensure that any delivery of securities on the CCP account will be re-delivered towards the buyers ensuring to flat the account. As a result the last optimisation mechanism (including partialling) would be processed a few minutes beyond 4pm to settle all pending recycled instructions that can settle (provision of securities and cash). LNB (should it be offered by a particular CSD) should not jeopardize the optimisation process (including partialling)*

6. Partialling : number and thresholds

LCH.CN outlined that 2 partials would not be enough especially when settlement involves an external (I)CSD outside T2S.

Possible alternative would be to trigger “optional” partials between the overnight and the last end of day partial:

➤ *We request T2S to investigate how additional partial would be handled in T2S.*

Thresholds:

LCH.CN indicates that threshold in percentage should not suit for bonds securities. LCH.Clearnet requests and supports the harmonization of market practices in that area.

A fixed amount is the preferred option.

Regarding equity activity the only acceptable option would be “1” in unit (i.e. zero if expressed in percentage)

7. LCH.Clearnet wants the T2S securities accounts to be largely self collateralizing, using the purchase/sale transaction flow in priority whilst limiting the use of collateral on stocks.

8. Account structure in T2S versus ESES / SP (technical OSA and local record)

How the current Euroclear concept (OSA linked with N CSDs) can be offered in T2S? .

The approach of investor CSD / Issuer CSD might be a solution but would require that Euroclear defines a “CSD” (as a legal entity) that includes all the existing CSDs of Euroclear group.

➤ *We invite T2S to meet Euroclear to find a acceptable solution (local record) that would allow to offer the same flexibility as the OSA (i.e.: one single account to settle securities issued in several CSDs).*

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