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Email

Brussels, 2 April 2008

To the attention of:

Mr. Jean Michel Godeffroy
Chairman of the T2S Advisory Group
Director General Payment Systems and Market Infrastructures
European Central Bank
Kaiserstrasse 29
D-60311 Frankfurt am Main

Subject: T2S Consultation on the User Requirements Document (URD) published in December 2007

Dear Jean-Michel,

Following our answer to the Eurosystem Consultation on the 'General Principles and High-Level Proposals for the User Requirements' in June 2007, I would like to share the views of the European Association of Cooperative Banks (EACB) on the final User Requirements Document (URD) produced by the TARGET2-Securities Advisory Group.

Without going into technical details, the following comments reflect the views of co-operative banks in relation to the content of the URD, the process that led to its adoption, the economic aspects as well as future developments in relation to T2S.

1°) Comments on the URD

- First of all, **the EACB would like to congratulate the Eurosystem for the inclusive and transparent way in which the T2S User Requirements were drafted.** From the beginning of the TARGET2-Securities project, the EACB has been working to make it a success by ensuring the involvement of its member organisations. Thanks to its participation in the Advisory Group, the EACB has actively contributed to the definition of the User requirements and is overall very satisfied with the outcome of the AG deliberations. Not only were most of our comments taken into account, but decisions on the main components of the User requirements were systematically reached by consensus. The EACB notably supports the provisions on cash accounts, night time settlement and the migration process.



- On the location of **matching**, although the EACB is pleased that a compromise solution was found by the AG, our view remains that, in order to achieve maximal costs savings, the maintenance of independent matching systems by market infrastructures should be avoided as much as possible and that matching should occur at T2S level whenever possible.
- Regarding the provisions of the URD on **direct connectivity**, and especially Chapter 4 on “Role Requirements”, the EACB would like to stress that, provided that there are no legal obstacles, CSDs are expected to give users the possibility to opt for direct connectivity with T2S if they so request. Most importantly, while the EACB recognises that only CSDs can decide to allow users to connect directly to T2S, direct connectivity should be granted on the basis of clear, transparent and objective criteria shared by all CSDs. The EACB stands ready to discuss the definition of such criteria with the Eurosystem and CSDs in the future.
- Finally, on a number of issues (such as the respective responsibilities of the T2S helpdesk and the CSDs’ helpdesks, or the schedule for migration plans), the EACB considers that it is too early to comment at this stage and expects to be able to discuss these issues during the development phase of the project.

2°) Comments on the economic aspects

- In relation to the economic impact assessment, the EACB welcomes the methodology proposed for consultation. The support of co-operative banks to the T2S project rests on the expected cost savings it will generate, and it is therefore very important that the cost estimates produced by the Eurosystem are as accurate as possible. In this respect, the EACB would like to stress that, **when estimating the costs and benefits of T2S in relation to banks, the variety of existing business models must be taken into account**. In particular, co-operative banks want to ensure that their specificities (strong domestic retail base, decentralised networks of branches) will be reflected in the cost estimates, whether banks are considered as ‘active’ or ‘less active’ T2S users. The EACB agrees with the Eurosystem that the national central banks (NCBs) should be responsible for collecting estimates from a variety of users, based on the composition of the National User Groups (NUGs) since the benefits and costs of T2S should be evaluated at the level of the whole community of users.
- On the **future pricing principles** of TARGET2-Securities, the EACB would like to recall its letter of 14 March 2008 in which four key principles are identified, namely neutrality, price transparency, the need to allow for innovation and the need to secure cost reductions at the domestic level, on top of the cross-border level. Regarding price transparency in particular, the EACB welcomes the intention of the Eurosystem to apply the relevant provisions of the Code of Conduct for clearing & settlement. Price transparency is expected to benefit users in terms of increased visibility on costs and harmonisation of settlement prices across asset classes.
- As far as the synergies between the different Eurosystem platforms are concerned (T2, T2S and CCBM2), it is important to ensure that there will be **no cross-subsidisation between TARGET2-Securities and TARGET2**.



3°) Comments on the future development of T2S

- Regarding the harmonisation of settlement practices, **the EACB fully supports the initiative to research in detail which regulatory barriers and market practices could be harmonised further in order to maximise the expected benefits of T2S.** Clearly, this initiative should be closely coordinated with relevant bodies such as CESAME II. The EACB is itself directly involved in the work aimed at harmonising market practices in relation to corporate actions and we hope that the advent of T2S can be a catalyst in support of further harmonisation, leading for instance to a progressive harmonisation of CSD deadlines.
- Finally, with the objective of reaping maximum cost efficiencies, **the EACB would like to call on all CSDs of the euro area to join TARGET2-Securities.** We expect a clear message of interest to be publicly conveyed by CSDs before July 2008 and the ECB Governing Council's decision whether or not to go ahead with the development phase of the project.

In conclusion, we would like to express our support to the URD. The EACB welcomes the decision of the Governing Council to maintain the tri-partite governance arrangement until the end of 2009 and intends to remain fully involved in the next phase of the TARGET2-Securities project.

I remain at your disposal should you have any questions.

Yours sincerely,

Hervé Guider
General Manager