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Deutsche Bank



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VIA EMAIL

Mr Jean Michel Godeffroy  
Director General Payment Systems and Market Infrastructure  
European Central Bank  
Kaiserstrasse 29

D-60311 Frankfurt am Main

3 April 2008

**TARGET2-Securities (T2S) User Requirements Document (URD) and Economic Impact Analysis consultation**

Dear Mr Godeffroy,

The undersigned institutions are writing this letter in response to the European Central Bank's invitation to comment on the current T2S public consultation. The following pages set out common, high-level positions shared by a representative mix of institutions across the clearing, settlement and custody value chain. In this regard, State Street represents the global custody perspective, Deutsche Bank represents a multi-market securities services provider, and Clearstream the ICSD perspective. The contributing institutions may also choose to complement this letter with their own individual commentary submissions to the consultation.

We have undertaken this particular collaborative effort in order to elevate awareness of core concerns that are on the minds of multiple service-provider constituencies following review of the consultation materials. We believe this holistic approach will assist the European Central Bank and the T2S Project Team in focusing further analysis on certain outstanding issues of critical importance as the industry assesses the value of moving forward with the T2S initiative.

We recognize and welcome the extensive work produced for this consultation by the T2S Project Team in cooperation with infrastructures and market participants. We also appreciate the European Central Bank's demonstrated willingness to listen to input from

all parties that would be affected by the implementation of T2S. Provided that the concerns set forth in this letter are fully addressed, the undersigned institutions remain optimistic that the proposed technical platform has the potential to impart benefits to cross-border settlement across Europe.

The individual institutions remain open for further dialogue on the enclosed commentary.

Yours sincerely,

On behalf of Deutsche Bank	
Roger Harrold Global Head of Domestic Custody Services Deutsche Bank  Telephone: +65 64238235 E-mail: roger.harrold@db.com	Stephen Lomas Head of Western Europe & Middle East Domestic Custody Services Deutsche Bank  Telephone: +49 (69) 910-63300 E-mail: stephen.lomas@db.com
On behalf of State Street	
Robert Almanas Head of Non-US Operations State Street Bank and Trust Company  Telephone: +1-617-985-0713 E-mail: rcalmanas@statestreet.com	Amy Gutschenritter Head of Strategic Services & Initiatives State Street Bank and Trust Company  Telephone: +1-617-985-7868 E-mail: agutschenritter@statestreet.com
On behalf of Clearstream Banking Luxembourg	
Thomas Zeeb Head of Customer Relations Europe, UK & USA Clearstream Banking Luxembourg  Telephone: +352 2 43 3 2425 E-mail: thomas.zeeb@clearstream.com	Mark Gem Head of Business Management Clearstream Banking Luxembourg  Telephone: +352 2 43 3 6761 E-mail: mark.gem@clearstream.com

**Encl.**

Copy: Mrs Gertrude Tumpel-Gugerell, Member of the Executive Board (ECB)

## **T2S Consultation: Key Positions**

1. **Need for a further articulated business case:** The current consultation process on the URD and Economic Impact Analysis brings the industry to a pivotal point with respect to assessing the value of moving forward with the T2S initiative. Demonstrating a clear business case for the project, which would ideally not be limited to a general macro-economic analysis, should be the time-critical priority for the ECB.
  - In order for market infrastructures and their users to unambiguously comprehend the expected benefits and economic impact of T2S, the ECB should factor in (to the fullest extent possible) the complete end-to-end costs of cross-border securities settlement and related services in a T2S environment. The T2S platform will not exist in isolation and the ECB should give adequate attention to the costs for essential asset servicing functionalities and specific national settlement facilitation procedures. The ECB should also provide reasonable assurance that domestic tariff structures are not negatively impacted by the introduction of T2S i.e. due to dis-synergies in existing processes or a pricing model leading to cross-subsidising of smaller markets by communities already achieving substantial economies of scale.
  - The ECB bases its economic analysis, in part, on the assumption that T2S implementation will foster enhanced competition in cross-border custody and securities trading services. It is expected that T2S will prompt innovation in the business models of the infrastructure and intermediary layers. However, the ECB may overestimate the pro-competitive effects of T2S, particularly in asset servicing. From a practical and cost-effective perspective, the complexities of national tax regimes, timeliness specificities surrounding corporate events, and value-added services in demand will continue to require end-investor accessibility to multiple interfaces at local market levels. Equally, the pro-competitive benefits of T2S would be substantially limited by the retention of the repatriation principle in CCBM, as this would decouple the free movement of cash liquidity from the underlying collateral transactions, and would potentially lock users into multiple local market interfaces. Additionally, there is the potential that T2S could lead to unintended competitive distortions or increased systemic risks.
  - The ECB should consider further economic impact analysis relative to settlement infrastructures currently offering multi-currency services. As a prime example, both euro and non-euro settlement services comprise the settlement infrastructure for the UK and Ireland markets. There will be significant cost implications for users resulting from the fragmentation of the settlement links, functionalities and operational procedures in place today.
2. **Untapped service optimisation and harmonisation opportunities:** The ECB's desire to develop T2S as a "lean system" needs to be reconciled with market participants' desire to obtain "best-of-breed" settlement functionality in all markets impacted by the T2S environment.
  - There is a concern that opportunities for harmonisation are not incorporated to maximum effect in the current URD. For instance, actual usage of night-time settlement in all connected CSDs is not sufficiently secured, and it appears that

national central banks will continue to offer auto-collateralisation services under different legal standards and service levels. These elements should be harmonised in order to safeguard a consistent and equitable operating environment for all market participants.

- While we welcome ECB's stated intention to have T2S serve as a spark for additional harmonisation in markets practices, it is not clear whether a single technical platform for settlement will offer the necessary conditions to create further harmonisation automatically. For example, settlement and asset servicing functionalities are more closely linked now than they would be post T2S implementation. Absent close involvement by the ECB in making T2S work effectively with its surroundings, the strain on critical interdependencies will not be alleviated and investors will continue to pay for non-harmonised processes.
- It remains unclear and we would like the ECB to further elaborate on how it intends to engage and synchronize with concurrent initiatives by market infrastructures and participants on the harmonisation of systems, market practices and the legal/regulatory and fiscal frameworks (e.g. removal of Giovannini barriers). The ECB is focused on the identification of harmonization efforts that would facilitate the use of T2S. We believe the ECB should play a much broader role, together with the public and private sector, in progressing European harmonisation initiatives, supported by transparency around costs and benefits.

3. **Transparency and responsiveness to changing landscape:** We very much appreciate the ECB's commitment to keep the market involved with T2S development. The ECB should expect active user participation in the T2S governance framework pre- and post-implementation.

- The ECB's stated commitments to transparency and full compliance with the Code of Conduct on settlement servicing costs and prices should also encompass performance accountability relative to T2S operating requirements and standards.
- The ECB should ensure that the Eurosystem's intended ownership rights over T2S do not result in the crowding out of future user governance opportunities and limit the necessary harmonization in other areas related to settlement services in Euro Central Bank Money.
- The ECB should affirm that it will continue to manage T2S in collaboration with a representative balance of stakeholders so that the envisioned service will adapt effectively over time in alignment with user needs and changing conditions. The T2S environment should be supported by effective steering committees and working groups that afford the industry a strong voice in shaping the priorities of the T2S service and will ensure that the CSDs can maintain sufficient control over their settlement infrastructure in order to deliver appropriate services to their clients.