



# T2S financial statements for the fiscal year 2016

December 2017 (updated in May 2018)

## T2S operating statement (amounts in €)

	Notes	2016	2015 <sup>1</sup>
<b>Revenues</b>	1	<b>15,316,323</b>	<b>2,223,942</b>
T2S fees charged to customers	1.1	15,295,296	2,223,942
Other income	1.2	21,027	
<b>Expenses</b>		<b>(102,049,333)</b>	<b>(49,876,136)</b>
Services provided by the 4CB	2	(82,551,759)	(41,621,906)
Services provided by the ECB	2	(8,751,811)	(5,197,790)
Insurance costs and other expenses	3	(1,658,626)	(987,500)
Amortisation of T2S platform	4	(9,031,016)	(1,969,171)
Interest charged by NCBs	5	(56,121)	(99,769)
<b>Net surplus (deficit)</b>		<b>(86,733,010)</b>	<b>(47,652,194)</b>

## T2S financial situation (amounts in €)

	Notes	2016	2015
<b>Assets</b>		<b>401,771,056</b>	<b>400,273,652</b>
T2S platform	6	390,127,267	397,410,774
Current accounts		7,122,184	244,397
Accounts receivable	7	150	1,244,609
Accrued income	8	2,926,455	678,872
Prepaid expense	9	1,595,000	695,000
<b>Liabilities</b>		<b>401,771,056</b>	<b>400,273,652</b>
Pre-financing of T2S by the Eurosystem	10	469,069,077	408,286,633
Provisions for 4CB expenses	11	41,336,214	13,333,514
Accrued expense	12	25,750,969	26,305,699
Accumulated surplus (deficit)	13	(134,385,204)	(47,652,194)

<sup>1</sup> The figures presented in the operating statement for 2015 comprise revenues and expenses incurred following the launch of T2S, from 1 July 2015 to 31 December 2015. During the development phase of T2S, all costs were capitalised (see explanatory notes below) and there were no revenues.

## Explanatory notes

The notes on the 2016 T2S financial statements below provide explanations and additional information about the figures in the T2S operating statement and the T2S financial situation report for 2016<sup>2</sup>.

## Notes on the accounting policies

The T2S financial statements have been prepared in accordance with specific accounting policies developed by the T2S Board (Market Infrastructure Board). These policies are based on generally accepted accounting principles.

The T2S financial reporting framework covers standards for the annual T2S operating statement (expense and revenue accounts), the annual T2S financial situation report (asset and liability accounts) and the related disclosures.

## T2S platform

Owing to their integral characteristics, both the hardware and software of the T2S system are treated homogeneously and represented as a single tangible asset under "T2S platform". The latter represents the carrying amount of the T2S platform. The value of the T2S platform is made up of the capitalised development costs paid to the European Central Bank (ECB) and the four service-providing central banks (4CB), capitalised interest incurred during the construction phase and any additional development costs incurred during the operational phase, e.g. for new releases, after deduction of accumulated amortisation amounts and any impairment losses. Impairment tests take place annually as at the end of the migration phase (September 2017); impairment losses are recorded when the book value is lower than the asset's expected recoverable amount.<sup>3</sup>

## Amortisation

The amortisation method reflects the pattern in which the asset's future economic benefits are expected to be consumed. The method is based on the (expected) share of settlement volumes in T2S that is proportional to the originally expected volumes brought by the respective migration waves from June 2015 to September 2017, and on 100% of the expected volume to be processed in T2S from September 2017 to September 2027 (ten years after the end of migration). The volume estimates are calculated on an annual basis and

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<sup>2</sup> For an introduction to, and further information on the T2S financial statements, please refer to the [explanatory note](#) for fiscal year 2015, which was prepared in parallel with the 2015 T2S financial statements.

<sup>3</sup> The recoverable amount of an asset is the greater of its 'fair value less costs to sell' and its 'value in use'.

100% is considered to have been achieved after the final migration wave of September 2017.

## Pre-financing of T2S by the Eurosystem

This item relates to the amounts owed to the Eurosystem national central banks (NCBs) that are pre-financing T2S, namely the covered costs incurred for both the development and the operation of T2S. This liability effectively reflects the expectation that the participating central banks will eventually be reimbursed for the development and operational costs included in the T2S pricing envelope (the total amount to be recovered through fees, including capital cost). The reimbursement will be funded by cash surpluses generated from T2S usage fees paid by T2S customers (central securities depositories (CSDs) and Eurosystem central banks). Reimbursement will begin once the collected fees exceed the annual operational expenses.

## Operating statement

During the operational phase, the T2S operating statement shows a net surplus or deficit, depending largely on whether the T2S fees are sufficient to cover the T2S operational costs, the amortisation of the T2S platform, impairment losses, if any, and other expenses. A deficit could trigger an extension of the amortisation period and/or a price increase in order to reach full cost recovery within the given cost recovery period (see section 1.2). No decision will be taken by the Governing Council of the ECB in this respect until 2018, i.e. until the migration phase is completed.<sup>4</sup> A surplus would make it possible to repay the pre-financing loan given to T2S by the Eurosystem central banks (see section 1.1.3). The yearly surplus/deficit is reflected in the net accumulated surplus/deficit account.

## Income/expense

Income and expense items are recognised once earned/incurred. In the operational phase of T2S, all operational costs are expensed as incurred to the T2S operating statement, while additional development costs (e.g. for new releases) are capitalised to the T2S platform and reported in the T2S financial situation report.

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<sup>4</sup> See also T2S Framework Agreement, Section 2 (T2S pricing policy) of Schedule 7 (Pricing).

## Accrued income and expenses

Procedures are in place to calculate and establish, at each year-end, the costs incurred by T2S but not yet reimbursed to the service providers, as well as income not yet collected but earned in the reporting year.

## Post-balance-sheet events

This refers to relevant events that occurred after the reporting period which have a material impact on the reports for that period.

## Cost recovery

In 2010 the Governing Council of the ECB decided that T2S would be developed and operated under the principle of full cost recovery. The T2S Board regularly monitors developments that may affect the prospects of cost recovery. The cost recovery target is based on: i) the T2S pricing policy (see Schedule 7 (Pricing) of the T2S Framework Agreement and of the Currency Participation Agreement)<sup>5</sup>; ii) a given cost recovery period; iii) the total costs for developing and operating T2S; and iv) the usage of T2S resources which generate revenues for T2S.

While the use of T2S resources is dependent on market dynamics, the Governing Council of the ECB aims to steer costs and adjust pricing in order to ensure that T2S is in a position to recover all, and only, its total costs in the long term. It is envisaged that the current baseline price of 15 euro cent per delivery-versus-payment (DVP) instruction will remain fixed until at least the end of 2018, which is one year after the end of the migration period during which all signatory CSDs move to T2S. Following the end of the migration phase, the T2S Board will analyse the relevant factors and advise the Governing Council of the ECB on how best to achieve cost recovery.<sup>6</sup>

## Notes on the Financial Statements

### 1 Revenues

The revenues for 2016 consist of T2S fees charged to customers and other income.

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<sup>5</sup> Both documents are available on the T2S website, [www.t2s.eu](http://www.t2s.eu), under "Legal documents" in the section entitled [Key documents](#).

<sup>6</sup> See T2S Framework Agreement, Section 2 (T2S pricing policy) of Schedule 7 (Pricing).

## 1.1 T2S fees charged to customers

The account “T2S fees charged to customers” shows the net revenues earned in 2016 by T2S. Discounts were applied until November 2016, under the “fee holiday” regime (reduction of the monthly fees by one third) to the 9 CSDs that signed the contract with the Eurosystem (the T2S Framework Agreement) by 30 April 2012. For those CSDs, as well as for the other 13 that signed the contract by 30 June 2012, the prescribed one-off joining fee<sup>7</sup> is also waived.

### *T2S revenues (amounts in €)*

	2016	2015
Gross revenues	18,767,583	4,390,581
Discount for fee holiday	(3,472,287)	(2,166,639)
<b>T2S fees charged to customers</b>	<b>15,295,296</b>	<b>2,223,942</b>

## 1.2 Other income

The other income received in 2016 relates to charges for late payments of T2S fees.

## 2 Services provided to T2S

As of its launch in mid-2015, T2S incurs annual operational costs which are paid to the service providers: to the 4CB for the running and maintenance of the T2S platform and to the ECB for its coordination activities. The costs for 2016 amounted to €91,303,570. These amounts include a provision for the costs from the 4CB service provider being higher than initially budgeted for (see note 11).

## 3 Insurance costs and other expenses

According to Article 32 (Liability rules) of the T2S Framework Agreement, “*The Eurosystem shall also be liable to the Contracting CSD for a claim of a Contracting CSD’s customer against the Contracting CSD in connection with T2S Services [...], resulting from the Eurosystem’s gross or ordinary negligence in performing its duties and obligations [...].*” The same article details the scope and limits of such liability.<sup>8</sup>

Upon the request of the Governing Council of the ECB, the T2S Board sought coverage on the insurance market and defined a liability insurance policy for gross negligence in the provision of T2S services. The first policy period covered one year starting from the T2S launch date (22 June 2015). The total cost of insurance for 2016 amounts to €1,658,626, of which €695,000 was deferred

<sup>7</sup> See T2S Framework Agreement, Section 5.9 (One-off joining fee) of Schedule 7 (Pricing).

<sup>8</sup> See also Article 28 (Liability rule) of the Currency Participation Agreement.

from 2015 to 2016. The second policy period is from June 2016 to December 2017. The total expenses for insurance premium charges received in 2016 amount to €2,558,626. Of this amount, €797,500 is expensed in 2016 and €1,595,000 deferred to 2017, appearing in the T2S financial situation report as prepaid expenses. The insurance services were managed via a broker, who charged €166,126 for these services. These costs were fully expensed in 2016.

#### 4 Amortisation

See note 6, “T2S platform”.

#### 5 Interest charged by national central banks

T2S owes interest to the Eurosystem NCBs for the loan that financed both the development of the platform and the commencement of T2S operations. The Eurosystem (pre-)financing effectively covers the liabilities of T2S vis-à-vis the T2S service providers (the 4CB) and the ECB for its T2S coordination functions.

Interest is accrued at year-end based on the annual weighted average balance of the pre-financing liability and on the annual average rate applied to the ECB’s main refinancing operations (MRO rate). The accrued interest is compounded at year-end on the principal amount of the pre-financing of T2S by the Eurosystem.

The table below shows the balance of the Eurosystem’s pre-financing of T2S. The increase is due to additional pre-financing payments to allow T2S to pay its operational costs to the service providers, and to the respective increase in interest owed by T2S.

*Pre-financing payments for 2016 and respective compound interest (amounts in €)*

<b>2016 opening balance</b>	<b>408,286,633</b>
Payments for pre-financing	60,726,323
Accumulated interest	56,121
<b>Closing balance</b>	<b>469,069,077</b>

#### 6 T2S platform

As at the end of 2016, the T2S asset value comprised: (i) capitalised costs incurred during the development phase up to the launch date, (ii) accumulated amortisation, (iii) capitalised interest incurred during the development phase, and, (iv) additional development costs related to change requests.

The amortised amount for 2016 of €9,031,016 (2015: €1,969,171) reflects the share of volumes that were migrated by the end of 2016, i.e. around 25% of the

expected total T2S volumes according to the 2017 revised estimates for reported volumes.

*Changes to the value of the T2S platform in 2016 (amounts in €)*

<b>Year</b>	<b>Event</b>	<b>Amount</b>
2016	Opening balance	397,410,774
2016	Capitalisation of development costs	1,747,509
2016	Amortisation	(9,031,016)
<b>2016 T2S platform closing balance</b>		<b>390,127,267</b>

No impairment test was conducted in 2016. The T2S Board decided to start impairment testing after the end of the migration phase (end-2017), when the information on the full potential of T2S revenues will be available.

## **7 Accounts receivable**

As at 31 December 2016, the accounts receivable balance reflected customer balances outstanding at year-end. The outstanding amounts were paid in the course of 2017.

## **8 Accrued income**

Accrued income reflects T2S revenue in December 2016, which had not yet been billed at year-end 2016.

## **9 Prepaid expense**

See note 3 *Insurance costs and other expenses*.

## **10 Pre-financing of T2S by the Eurosystem**

The balance of the pre-financing of T2S corresponds to the loan that T2S received from the Eurosystem NCBs to cover the costs of developing, running and maintaining the T2S platform, plus the accumulated interest on the loan (see note 5). The cost recovery target (see section 1.2) corresponds to the full balance of the pre-financing. On 31 December 2016, the outstanding loan with the Eurosystem amounted to €469,069,077 (2015: €408,286,633).

## **11 Provisions for 4CB expenses**

An annual provision was set aside to cover for an expected increase in service provider costs during the migration phase, relating to an increased use of resources for testing and migration activities. For fiscal year 2016, €28,002,700

was set aside, which brings the total of 'services provided by the 4CB' to €82,551,759, for the fiscal year. As at 31 December 2016, the total provision amounted to €41,336,214 (2015: €13,333,514).

## 12 Accrued expenses

Accrued expenses relate to operational costs incurred in 2016 for which no invoice had been received by year-end. On 31 December 2016, a total amount of €25,750,969 was accrued (2015: €26,305,699).

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