

The TARGET2-Securities (T2S) project

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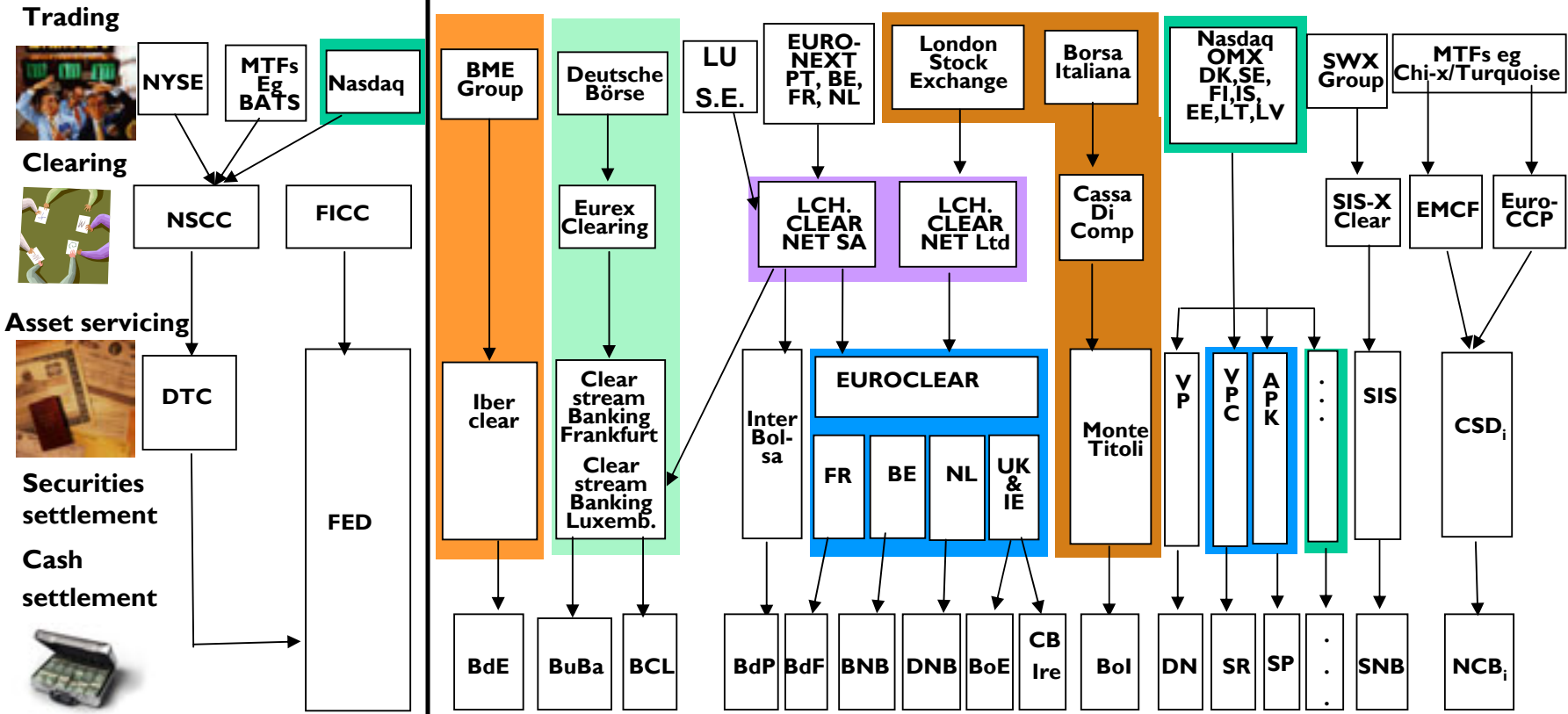
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Why does Europe need T2S?

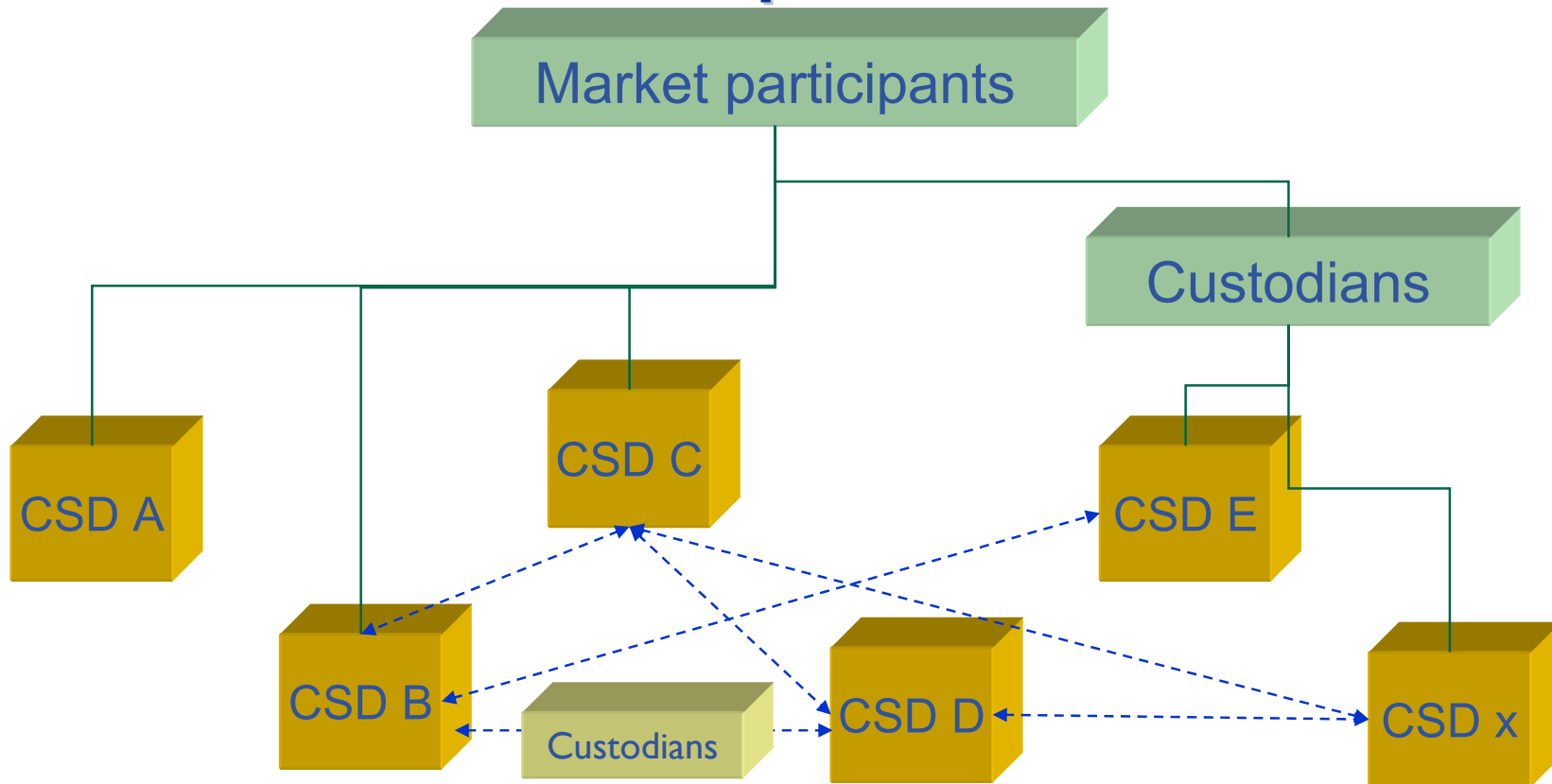
- Europe's securities markets are too fragmented and inefficient.
- Europe needs a single pool of securities to stimulate competition and harmonisation.
- There is no other realistic Europe-wide approach to creating this single pool.

**Making Europe a better place to invest and trade
(in line with the Lisbon agenda)**

Comparison of the US and European post trading landscape



The current landscape of EU settlement

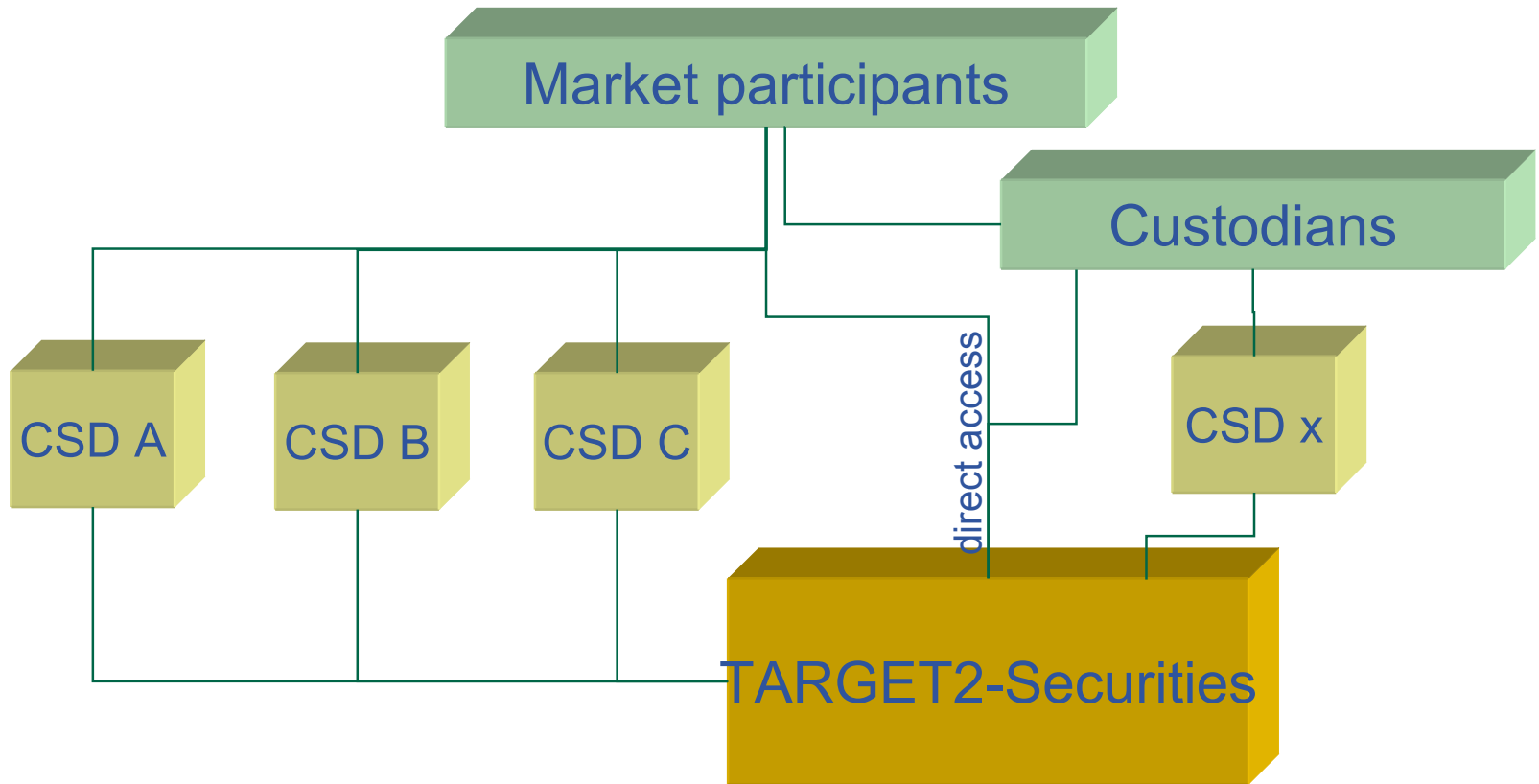


←-----→ links

No integrated cross-border settlement process

- 19 CSDs in Euro Area
- 2 ICSDs
- 16 Other EU CSDs

The future landscape with T2S



One integrated settlement process (domestic and cross-border)

One technical platform used by CSDs for securities settlement

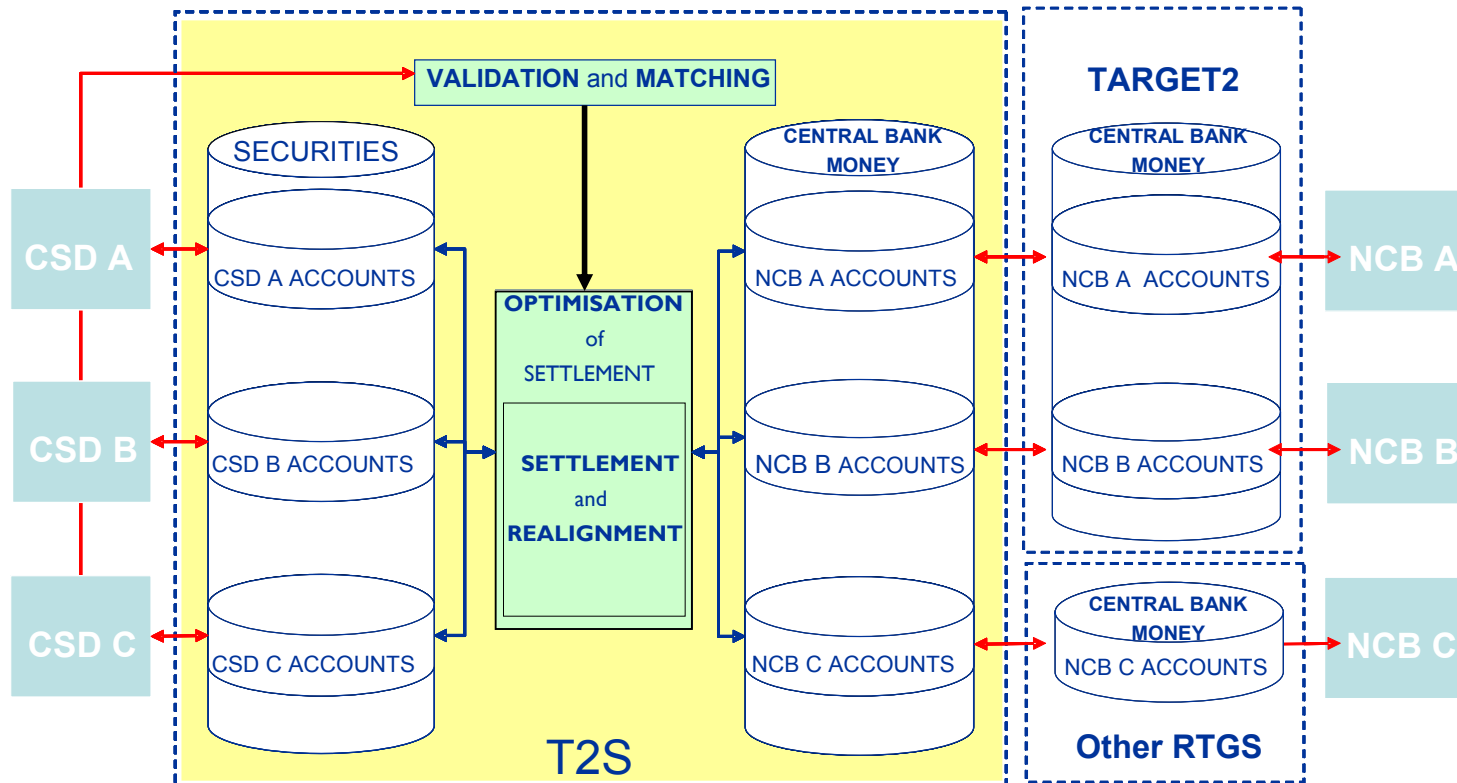
Why is the Eurosystem suited to run T2S?

- Settlement in central bank money one of its core functions
- Commitment of the Eurosystem to efficient and integrated financial markets in the EU
- Neutrality of the Eurosystem as a supranational organisation
- Possible facilitator in balancing different requirements
- No own economic interest, cost recovery principle
- TARGET and TARGET2 experience in successfully designing and implementing Europe-wide infrastructures

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What is T2S? - A cooperation between CSDs and NCBs



Bringing on one technical platform all securities and cash accounts to settle all securities transactions

What is T2S? – A new concept

- T2S will be a single IT platform enabling settlement of securities in central bank money in the euro area/EU/EEA.
- CSDs will delocalise their securities accounts to T2S, which will perform the processing of their settlement instructions on these accounts.
- CSDs will keep their customer base and continue to perform non-settlement related functions (e.g. issuance, corporate actions, custody, etc.).
- Settlement in commercial bank money is out of the scope of T2S

What is the economic logic?

Settlement

T2S

- ✓ Volume-based
- ✓ More commoditised
- ✓ Closer to central bank expertise
- ✓ Benefits from achieving a single pool of liquidity/collateral
- ✓ Settlement fees (in particular CSD component) not the largest chunk of the costs, but cross-border fees are high

Scale

Custody/Corporate events

CSDs

- ✓ Value-based
- ✓ More innovation / calls for harmonisation
- ✓ Less central bank involvement (in particular for equities)
- ✓ Large cost-saving opportunities

Competition

What is the scope of T2S?

T2S concerns only the settlement function of CSDs!

Type of intermediation

Notary function

Registration of issuer indebtedness and investor holdings

issuer / investor

Custody and asset-servicing function

e.g. coupon payments, redemptions, stock splits

Settlement function

Change of ownership among investors

buyer / seller

Banking function*

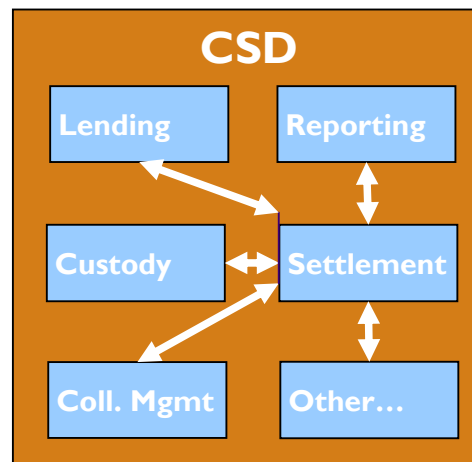
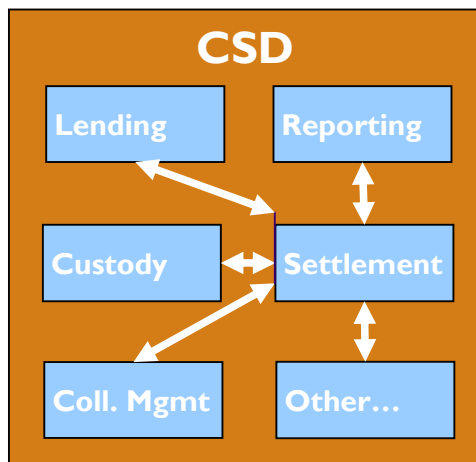
e.g. lending and borrowing

lender / borrower

*only in some (I)CSDs

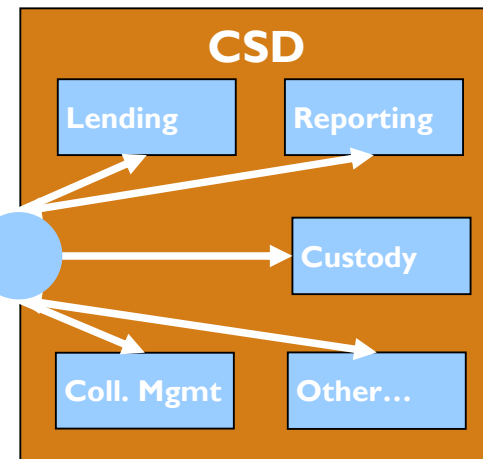
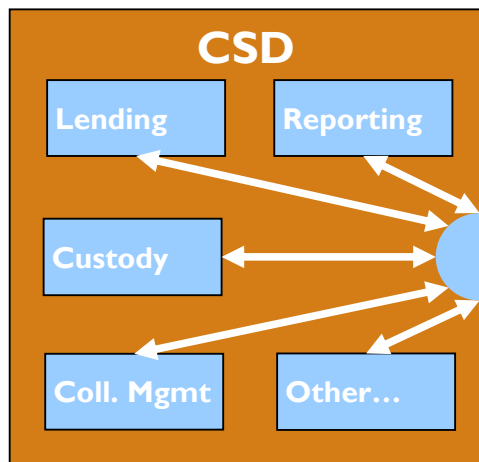
What is T2S?

It is a service to CSDs, not a CSD.



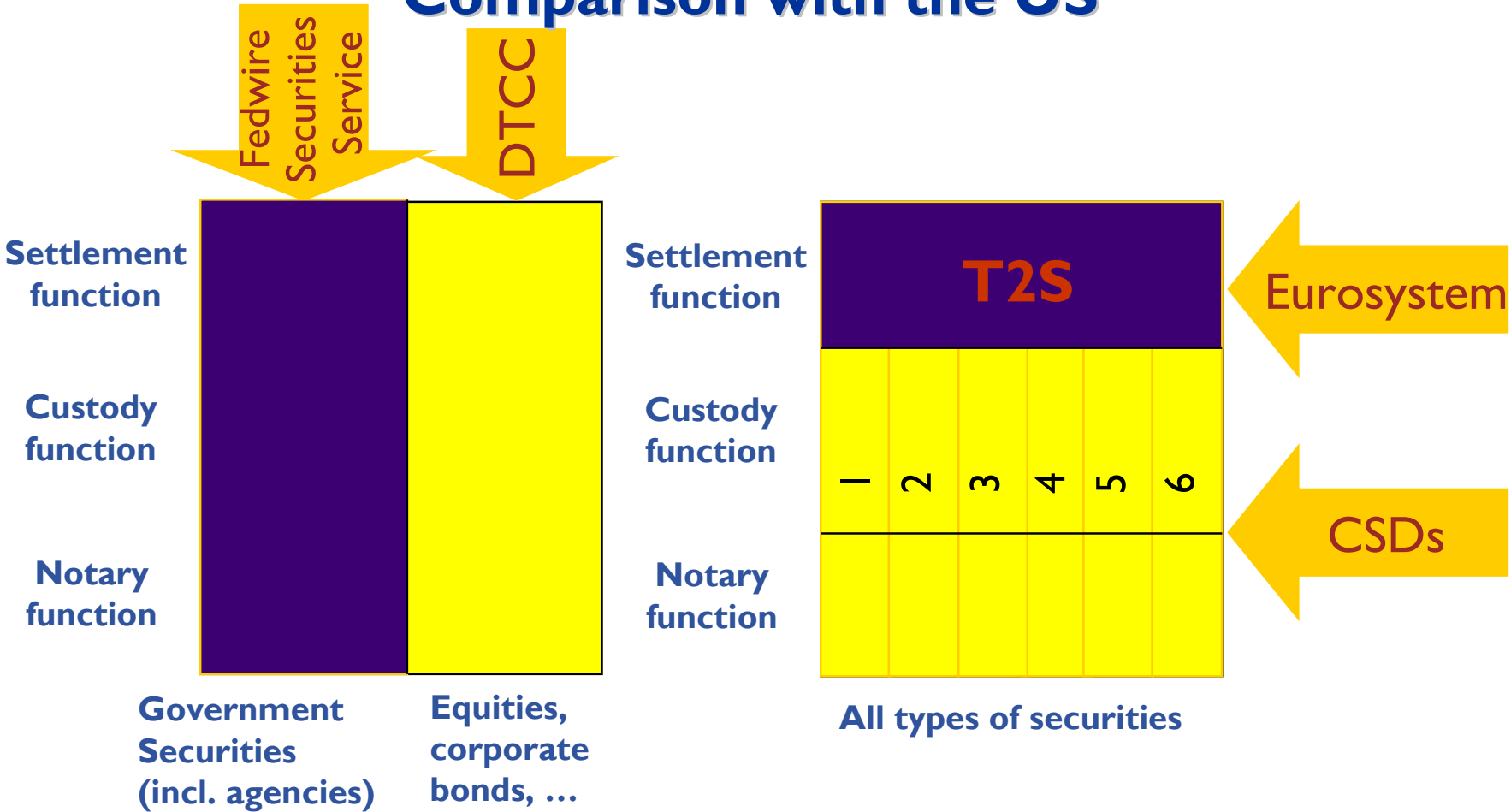
Today

T2S world



What is T2S?

Comparison with the US

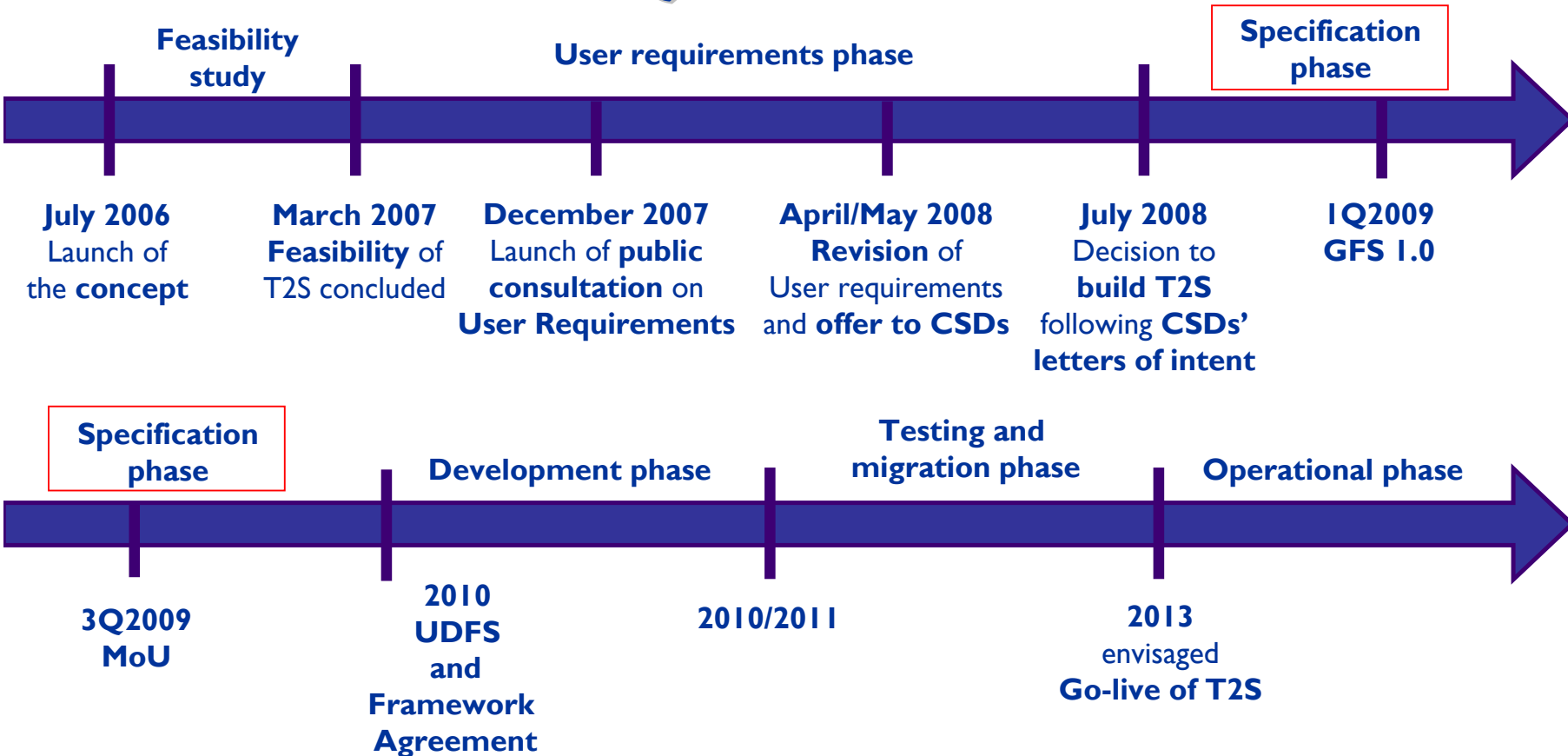


A new concept

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We are in the specification phase until Q1 2010



T2S Specification phase

Finalisation of technical documentation

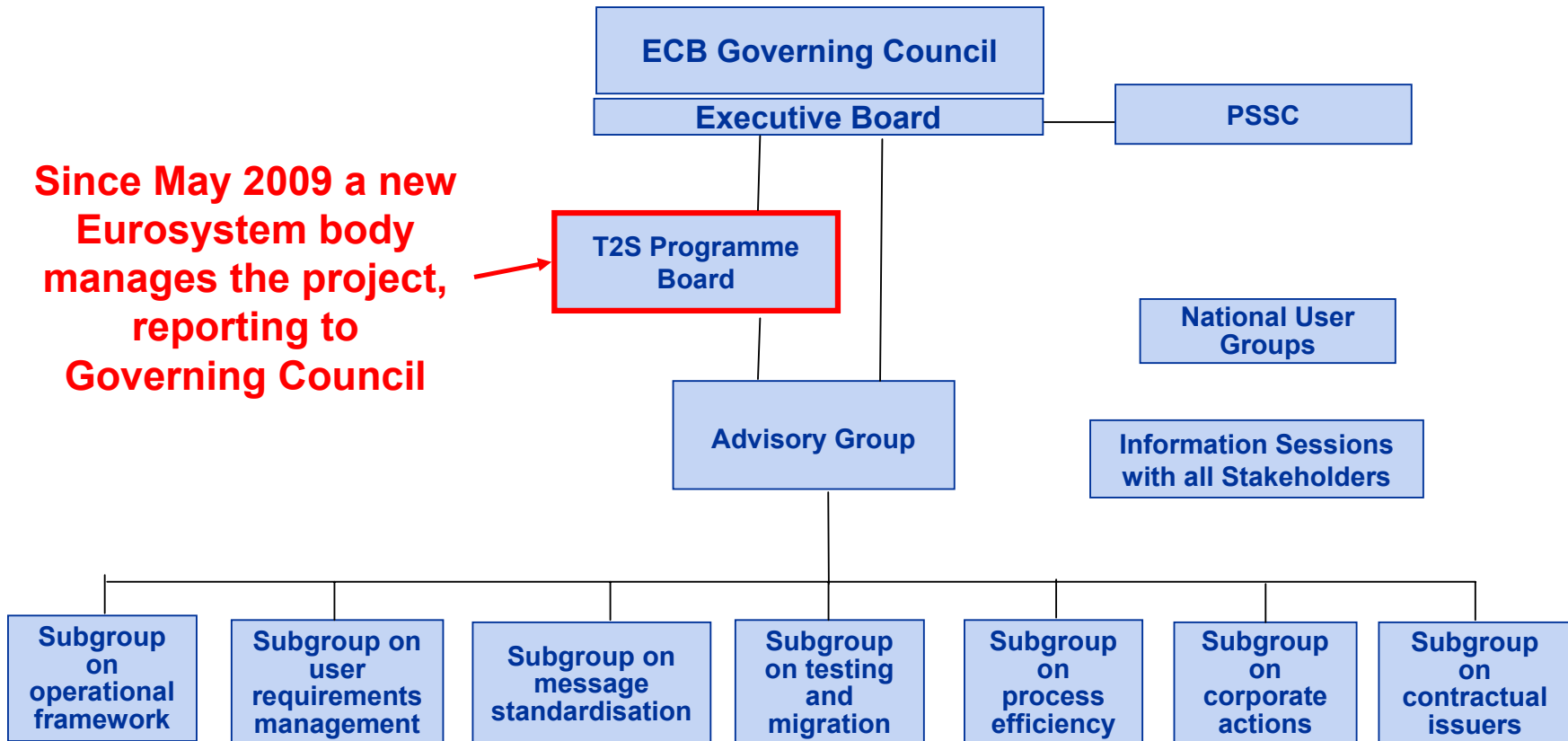
- The User Requirements Document (URD) which defines the features that the market requires from T2S has now been largely “frozen”.
- The final version of General Functional Specification (GFS) which provides the system design published in November 2009.
- The User Detailed Functional Specification (UDFS) published in Q1 2010

Contractual arrangements with CSDs

- 28 CSDs signed a Memorandum of Understanding
- Preparation of formal contract to be signed in first half 2010

T2S Governance: First phase of the project

Since May 2009 a new Eurosystem body manages the project, reporting to Governing Council

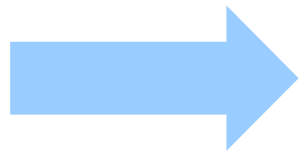


T2S programme Board

- **Composition**
 - 8 members (including two former CEOs of CSDs) and 4 alternates
- **Objective**
 - To ensure the Eurosystem delivers T2S on time, within budget and according to market needs
- **Important principles**
 - Represent the interests of the T2S project and the Eurosystem (and not of their own institution)
 - Governing Council remains ultimate decision-maker
 - T2S Programme Board is supported by the T2S Project Team
- **Responsibilities**
 - Preparation of strategic Governing Council decisions, daily management of T2S Programme and reporting, managing relations with 4CB/CSDs/other external stakeholders, validation of 4CB deliverables

External governance

- T2S Advisory Group is currently the only external governance forum
- Future external governance arrangement needs to take into account
 - The role of the T2S Programme Board
 - Future contractual relations between CSDs and the Eurosystem



External governance needs to be adapted for Development Phase (starting Q1 2010)

Future external governance

- **New forum for bilateral discussions between CSDs and the Eurosystem**
 - To prepare the Contractual Agreement for the Development Phase and the Framework Agreement for the Operational Phase
 - To discuss policy as well as technical matters of common concern
- **Future role of the Advisory Group**
 - Many aspects still to be settled (mandate, composition, reporting lines etc)

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The next steps

Technical documentation

- URD, GFS, GTD and UDFS

Legal

- T2 Guideline
- Preparation of contractual arrangements between Eurosystem and CSDs

Pricing structure

- Analysis of Total Cost of Ownership, volume estimates and the resulting price structure

Governance

- Establishment of a forum for bilateral CSD-Eurosystem discussions, and adaptation of the Advisory Group

Future challenges

- **Building T2S**
 - On time: 2013 at the latest
 - Within budget
 - According to market needs (User Requirements: >800 pages)

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T2S benefits for Depozitarul Central S.A and NBR

- T2S provides:
 - a core, neutral and technically advanced infrastructure supporting various CSD business models in a pan-European operational framework
 - the possibility to avoid huge investments to meet new technical and business requirements
 - a state-of-the-art business continuity concept
 - economies of scale at a European level
- T2S offers new business opportunities:
 - beyond domestic borders and across all EU/EEA countries
 - to focus on value-added products and services

T2S benefits for Romanian custodians

- Reduced settlement fees stemming from *economies of scale* and *increased competition* among CSDs.
- Back-office cost savings from *harmonised single settlement process* for all European securities and settlement centralisation with one single CSD.
- Single pool of collateral and liquidity, accessible in real-time.
- New business opportunities.

T2S benefits for Romanian issuers

- Main benefit: lower fees from
 - increased competition,
 - European harmonisation, and
 - cost reductions at CSD and custodian level, in particular for cross-border business
- Simpler management of multiple shareholder bases;
- Opportunity to reach a wider investor base for equities, bonds, commercial paper, etc.

 **Reduction in cost of capital**

T2S benefits for Romanian investors

- Main benefit: lower fees from:
 - increased competition,
 - European harmonisation and
 - cost reductions at CSD and custodian level, in particular for cross-border business
- Possibility to manage a diversified securities portfolio across Europe through one single CSD at low cost.



Increase in return on financial investments

Conclusion

The five big wins of T2S

- Making cross-border settlement fees as inexpensive as domestic fees
- Reducing users' collateral/liquidity needs
- Harmonising settlement to make Europe a true Single Market
- Create new opportunities for competition
- Market users will only need an account at one CSD to settle any transactions in securities within T2S

The Eurosystem and the market believe in T2S and are ready to take the challenge and invest in it.

