



19 January 2007

## **Target 2-Securities Comments on the Feasibility Study and related aspects**

Pursuant to the tri-party meeting of 15 January and based on discussions held with ESF members since, we welcome the opportunity to comment on the current state of the feasibility study and related aspects, in particular the decision making process.

We very much appreciate the substantial work performed by the ECB pre-project team within a short period of time and we recognize the promising initial results of the individual parts of the feasibility study in general and of the economic analysis in particular. Moreover, the developing openness and receptiveness in the process of consulting with the market is highly esteemed.

However, in our view there is a considerable risk that the complexity of the proposed undertaking might be underestimated. We therefore strongly recommend an in depth analysis of at least the following aspects prior to submitting the case to the ECB Governing Council for deliberation and decision:

- the validation of key assumptions (e.g. participation of CSDs in T2S, the entire decommissioning of settlement systems at CSD level)
- the operational and technical segregation of the settlement functionality from other post trading functionalities, including but not limited to securities lending services, and the respective impact on the Eurosystem and on the CSDs operationally and economically
- the relationship of developing the T2S platform with the removal of the Giovannini Barriers.

We are proposing this course of action because we believe that the likely impact of the project on the post trading landscape in Europe is so substantial that any decision to proceed should be well grounded on a comprehensive and detailed basis.

We will provide further contributions to your thinking on these topics in the weeks to come.

An approach that we would recommend could therefore be that the ECB Governing Council takes note of the feasibility study and mandates the pre-project team to conduct a formal public consultation. Having received responses and considered them, the

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Governing Council could then take a decision whether or not to proceed with T2S taking into account the well developed views of all constituencies participating in the consultation.

The possible co-financing of T2S by the market and the issue of a separate legal entity for T2S are in our view important questions to be answered, however, at a later stage, i.e. subsequent to the decision on the scope and the structure of T2S.

For the envisaged meeting 'en petit comité' of 1 February, we think it is essential to invite market user representatives from the different banking constituencies, i.e. universal banks, investment banks, global custodians.

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