

TARGET2-Securities

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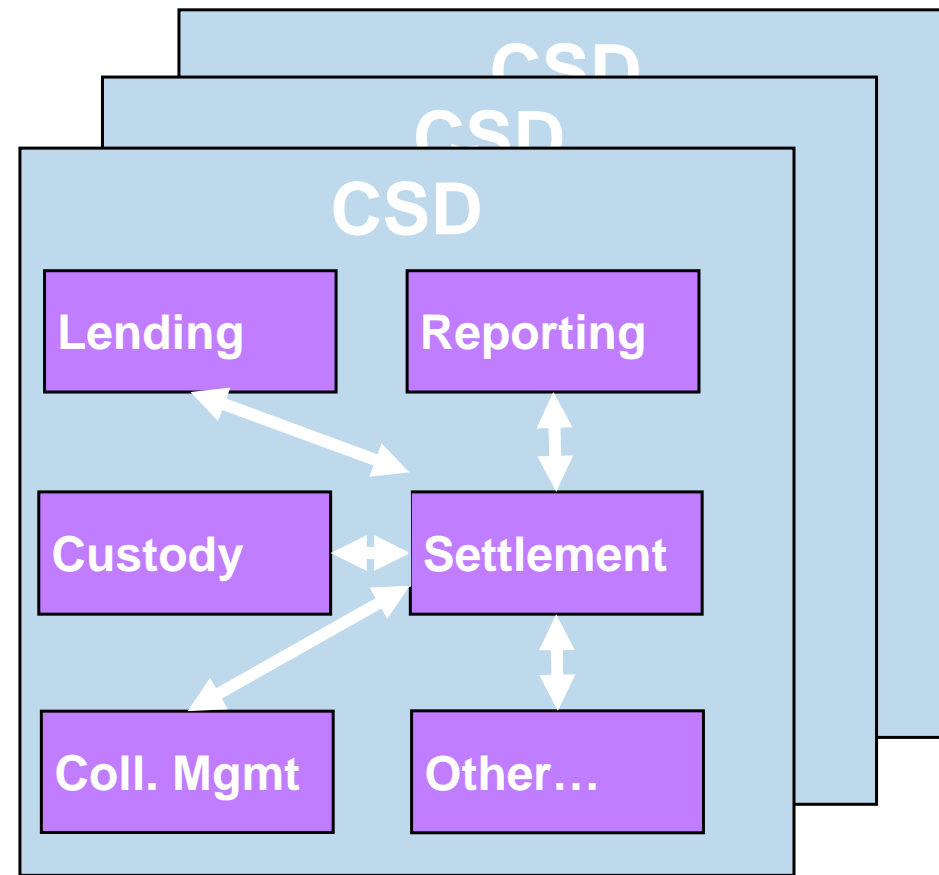
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What is T2S?

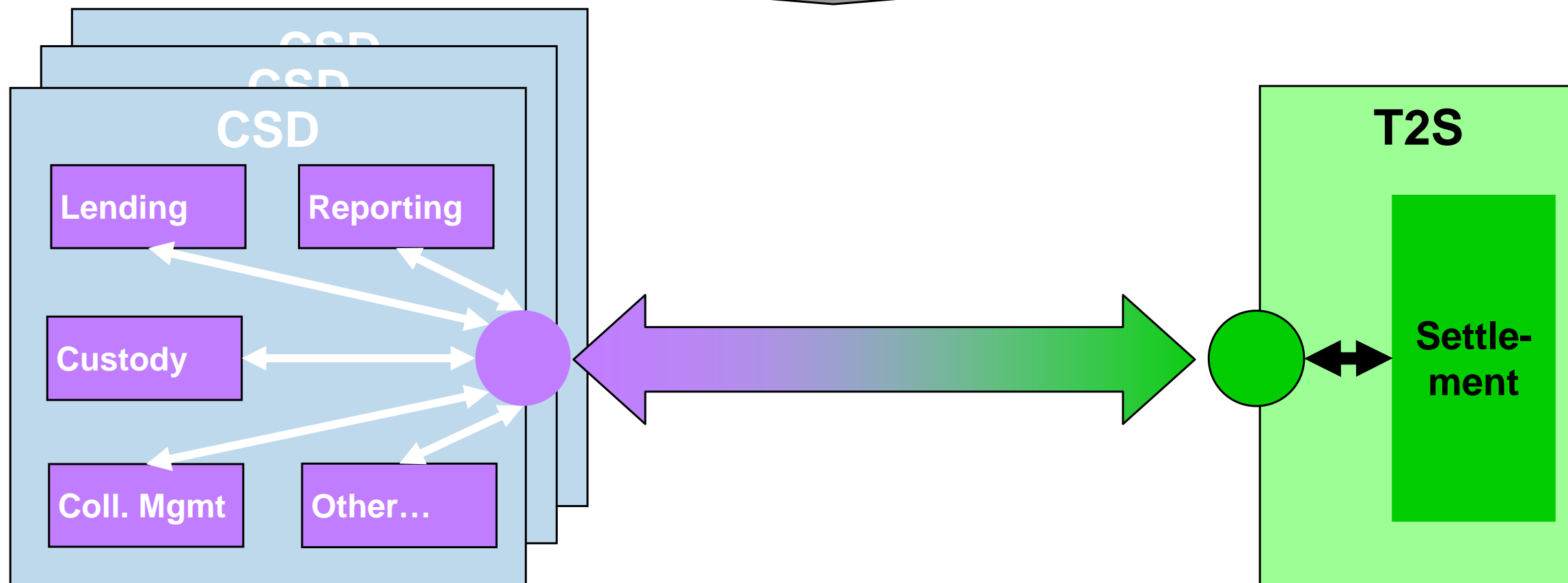
- European Central Bank (ECB) proposal for a single settlement platform for settlement of euro denominated securities in central bank money
- Non-euro currencies would also be supported
- CSDs would outsource settlement functionality to T2S while maintaining contractual relationship with users
- CSDs would continue to perform non-settlement related functions (issuance, corporate actions, custody ...)
- Optional for CSDs to join
- Direct technical connectivity possible (instructions and reporting)
- Development would be undertaken by Eurosystem

A CSD outsourcing opportunity

Today's world



T2S world

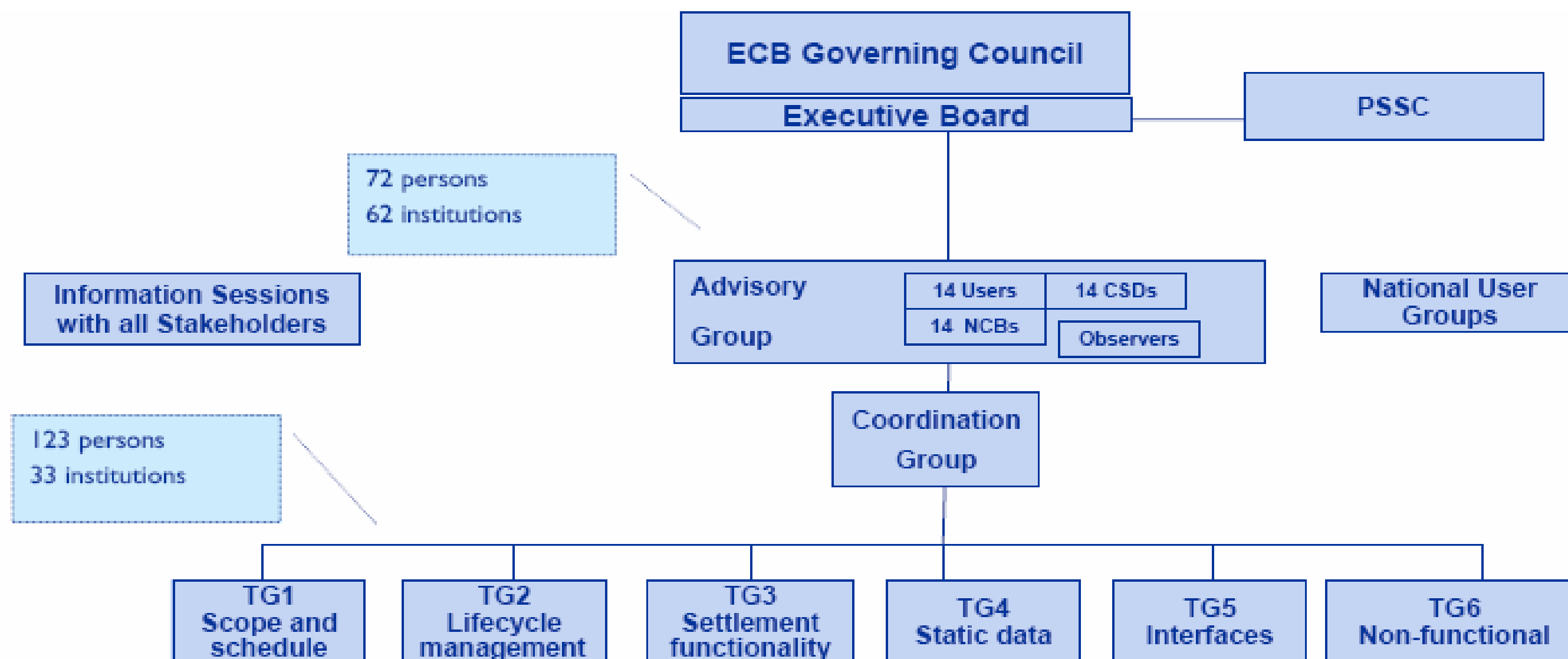


Timeline

- July 2006 ECB announce it would “evaluate opportunities to provide settlement services for securities transactions”.
- March 2007 ECB confirm start of public consultation phase
- July-September 2007 6 mini consultation papers reviewed by market
- November 2007 draft user requirements agreed by Advisory Group
- December 2007-March 2008 user requirements to be reviewed by market
- July 2008* ECB make decision as to whether to implement T2S
- 2012/2013 implementation*

* To be confirmed

Current Governance structure (until June 2008)



- 188 experts coming from 77 institutions
- All CSDs settling in euro participate
- 33 custodian banks

Citi involvement in T2S



Active participation to ensure maximum information and influence in respect to the direction and quality of the T2S project



Internal T2S project group established



Representation on each of the Technical Groups and the Advisory Group



Direct participation in the ECB T2S project team



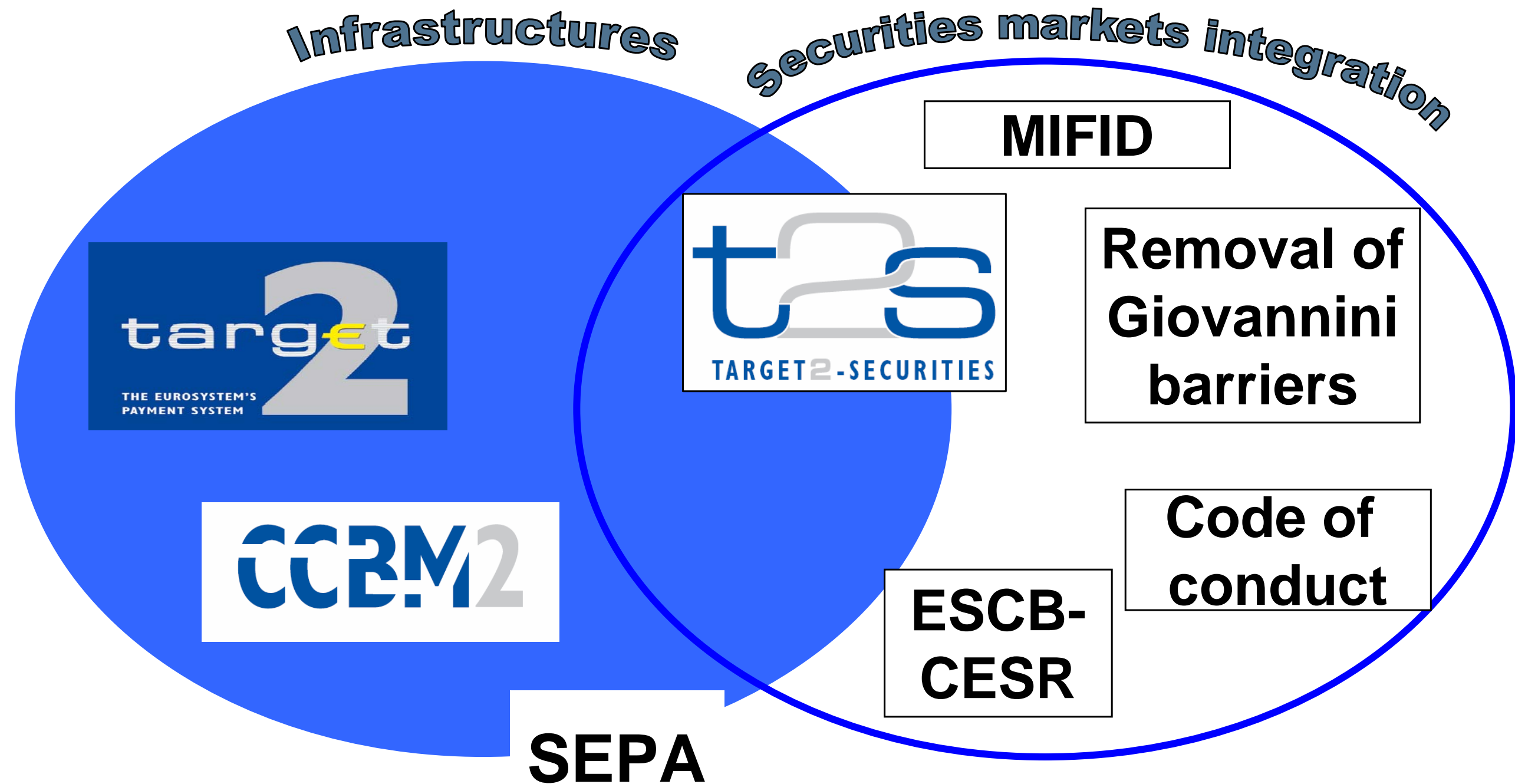
Participation in relevant National User Groups as well as within European banking Federation

The need for change – EU/ECB

***Create an
integrated
euro
Capital
Market***

- Euro region still dominated by country specific securities settlement systems
- Lack of harmonisation across markets
- High cost of settlements, specifically cross CSD
- Increased risk and complexity of cross CSD settlements
- Consolidation of Assets and Liquidity across markets

Why the need for change



T2S is part of a larger market integration initiative

Stated benefits of T2S

***Potential
economic
benefits***

- Provide a single settlement platform for settlement of euro denominated securities in central bank money in both euro and potentially other currencies
- Reduced cost and exposure of cross-CSD settlement via a single settlement platform and standardized communication protocols.
- Improved funding and liquidity management by use of single platform
- Accelerated harmonisation of market practices across all T2S markets

T2S Focus Items

Answers

required

medium

term

- Membership by CSDs is optional – is ECB not planning to make membership of T2S mandatory?
- Definitive costing model and quantification of savings – in principle settlement cost (€ 0.29) has been publicised as part of the feasibility study. What about the detailed economic analysis?
- Connectivity options for users – options for users to have direct technical access to T2S and under what conditions?
- Place of matching of transactions for T2S settlement – CSDs requesting ability to retain option of matching in CSD as well as T2S. Is this not in conflict with an economical solution?
- Can CSDs ‘restructure/downsize’ settlement functionality in their systems?
- Euroclear Single Settlement Platform vs T2S?
- Can ECB deliver the promise?
- What will be the legal entity of the T2S operator?
- What will be the future Governance Structure of T2S?

Addressing the future



- Liaising closely with clients
- Internal status communications
- Reviewing and responding to the T2S URD
- Preparing an impact assessment
- Reviewing our business model
- Identifying new business opportunities

Thank you...

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TARGET2-Securities

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Why develop T2S?

Current Situation

- **European settlement infrastructure is fragmented**
- **Each country operates slightly differently for legal and historic reasons**
- **Mergers of CSDs have so far not delivered sufficient integration and harmonisation of settlement processes**

T2S

- **Will be a catalyst for harmonisation**
- **Will provide sufficient momentum to promote integration**

The alternatives

Multiple CSDs

Multiple settlement processes

- Will it deliver harmonisation?
- How much will have to be invested?
- Will it make European markets competitive in scale?

One CSD for Europe

One settlement process

- Is it desirable? How to mitigate competition concerns?
- Is it realistic?

Who is responsible what?

CSD applications

- ✓ Business relationships: issuers and investors
- ✓ Generate / calculate corporate events in due date on the basis of securities accounts balances
- ✓ Block balances / instruct T2S where applicable
- ✓ Report to issuers / investors

T2S application

- ✓ Provide real-time visibility on securities accounts balances
- ✓ Provide blocking facilities to CSDs
- ✓ Settle instructions resulting from corporate events

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

How does T2S facilitate competition in custody?

What options do I have to hold my “Nokias” in T2S?

1. With the local custodian (or a European custodian) like today.
2. With my local CSD *if* it processes corporate events in Nokias.
3. With NCSD Finland (multi-direct participation)

In all three cases, I may channel all settlement instructions to T2S using the same procedures

A single settlement process provides more choice on custody by reducing switching costs / scale considerations.

Are CSDs ready to serve securities issued in other CSDs?

- If yes, CSDs adopt increased operational risks (in particular, if there is no progress on harmonisation of corporate event processing)
- If no, integration of European settlement is not possible under any form at CSD level: What effective interoperability will be delivered? What is the purpose of CSD links that have been built?

The facts are:

- T2S does not force any CSD to follow this road.
- To deliver cross-border settlement, T2S requires that only one CSD is ready to act as investor CSD for a wide range of European securities
- CSDs may follow different strategies to be competitive in T2S: (a) serve local clients on international assets and/or (b) serve international clients on assets issued locally
- CSDs may wish to seek alliances with institutions which currently have expertise in serving these assets.
- This generates increased incentives (but no guarantee) to progress on harmonisation of corporate events and the Eurosystem is ready to support this harmonisation

Should I connect to T2S directly or indirectly?

- Can I hold in “my CSD” securities issued in other CSDs? Or do I have to open accounts with other CSDs?
- What costs will my CSD have in supporting indirect connectivity? What price difference will it imply?
- Do I want to invest to connect directly? Do I want to reduce switching costs from one CSD to another in order to press my CSD to reduce prices?

**It is too early to say
It is indifferent for T2S**

The business case for direct connectivity?

- Already the case in TARGET2
- To provide maximum flexibility
- A very strong driver for eliminating national specificities: since T2S does not build functionality to cater for national specificities and users don't want to be forced to undergo national specificities maintained at CSD level.
- No additional cost for T2S

We are happy to provide a choice at no cost

How does T2S achieve harmonisation? (1)

- Building on the work of others: in particular Euroclear
- Extending the geographical scope
- Leveraging on the Eurosystem's influence as a federal, public institution

How does T2S achieve harmonisation? (2)

Three routes:

- The project manager strategy: In building a common platform, you are forced to make choices: binding / unbinding matching.
- The political strategy: Don't develop a national specificity in T2S; Don't prevent others from maintaining it; Trust that in an integrated platform there will be a disincentive to maintain the national specificity: registered references
- Outside the scope of T2S, but possibly within the influence of the Eurosystem: harmonisation of corporate events.

T2S Market Communication & Consultation

- Frequent information session for the market on T2S
- Market representation in Technical Groups and Advisory Group
- Market consultation on:
 - Principles and Proposals
 - User Requirements
 - URD
- Open publication of documentation and market feedback in the ECB website

THANK YOU



Questions & Answers
