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Note on T2S National Specificities / Harmonisation

Introduction

The four securities sector associations European Primary Dealers Association (EPDA), European Securities Forum (ESF), International Capital Market Association (ICMA) and London Investment Banking Association (LIBA) continue to take an active interest in the T2S project given its potential for significant impact on their members' activities in the European securities markets.

We therefore welcome the opportunity to outline our position on national specificities to be supported by T2S and, more broadly, on the harmonisation of the European post trade environment.

Importance of Issue

The issue of national specificities is of key importance to the T2S project.

The overall objective and *raison d'être* of T2S is to allow transactions in all euro-denominated securities to be settled in a cheap and efficient manner on a single platform, thereby eliminating the bulk of the costs and inefficiencies associated with cross-border / cross-system settlement.

There is the risk that the continued existence of many of the current national specificities will vitiate the potential future benefits of T2S.

This risk exists both in the event that specific functionalities are built on T2S to cope with individual national particularities, and in the event that issuer CSDs maintain certain nationally-specific processes.

What is the Issue?

To reap the full benefits of T2S, a CSD user (directly or indirectly connected to T2S) will need (i) to be able to instruct T2S in a single, harmonised manner (with respect to both the content of instructions and formatting of instructions) for all euro denominated securities, and (ii) to have each type of instruction to follow a single transaction lifecycle.

If there are national specificities that require additional information in settlement instructions and that mandate specific processing by the country of issue of a security, then harmonised instruction formatting, and harmonised transaction lifecycles will not be possible. The need for T2S and/or CSDs to support national

specificities will mean that potentially significant cost savings will not materialise, to the detriment of T2S, CSDs and CSD users and all other intermediaries down to the final investor.

Linkage to other Complementary Initiatives

The authorities, including ECOFIN, repeatedly identify T2S as one of four complementary initiatives. The other three are (i) the process of dismantling the Giovannini Barriers, (ii) the Code of Conduct for clearing and settlement and (iii) the development of the ESCB-CESR Standards. All four initiatives share the objective of achieving a more efficient, integrated and safe post trading environment in Europe. To achieve this objective the highest possible degree of harmonisation of the legal, regulatory and fiscal environment as well as operational processes will be required.

General Recommendations

- National specificities are fundamentally incompatible with the vision of an integrated domestic market. By the time T2S is operational, currently existing national specificities should be removed.
- This would mean that T2S need not support any national specificities.
- CSDs (and their national regulators) should not impose specific additional processes relating to the settlement of transactions in securities for which they are the Issuer CSD.
- We expect that the economic case for T2S would be considerably strengthened by the adoption of this policy. Therefore, we strongly encourage the European Central Bank / Eurosystem to exert its undeniable influence in support of the efforts to harmonise and standardise post trading in Europe, in particular in the legal and regulatory area. This would be likely to make an important contribution to the achievement of the common objective.

Specific Recommendations

In particular, we recommend that the European Central Bank / Eurosystem actively supports :

- the process of law reform undertaken by The Legal Certainty Group set up by the European Commission and by Unidroit in regard of the Convention on Substantive Rules regarding Intermediated Securities;
- the implementation of the solutions to fiscal compliance barriers proposed by the European Commission's Fiscal Compliance Expert Group (FISCO);



- the acceptance of omnibus account structures / nominee concepts, including the recognition of appropriate rights for underlying holders, where required;
- the elimination of national specificities that need to be supported by CSDs such as the current registration process of Spanish equities;
- the dismantling of the Giovannini Barriers related to national restrictions on the location of clearing and settlement and on the location of securities.

Furthermore, we would appreciate the support of the ECB / Eurosystem in favour of the ongoing efforts to harmonise and standardise corporate actions processes with the aim to facilitate the interfaces between settlement and asset servicing processes and to render them more cost efficient.