



European Central Bank
Marc Bayle
Director General
DG Market Infrastructure and Payments
60640 Frankfurt am Main
Germany

Sent by email

4 May 2018

2018 T2S pricing review proposals

Dear Mr Bayle,

We noted with interest the draft proposals in relation to the ongoing T2S pricing review which the ECB shared with AMI-SeCo members for review and discussion. We have reviewed the related slides and further discussed them within ICMA with members of the ERCC Committee and the ERCC Operations Group. Ahead of the discussion at the upcoming workshop on this topic, we would like to already share with you some feedback on behalf of our members. As a member of the AMI-SeCo, Nicholas Hamilton, co-chair of the ERCC Operations Group, will attend both the dedicated workshop on 8 May as well as the subsequent regular AMI-SeCo meeting on 17 May and will be available to further explain and discuss the comments below.

First of all, on behalf of ERCC members we would like to reiterate our continued strong support for the T2S project. The single T2S platform and the accompanying harmonization agenda have the potential to create substantial value for our members and the market more broadly and can play a key role in the further integration of financial markets in Europe. We also understand that the project will of course have to recover the significant development costs and fully fund itself in the long-term through revenues.

We would like to caution however that currently firms are only starting to develop a deeper understanding for the opportunities that the single T2S platform offers to them and to review their operational arrangements accordingly. As has been stressed by market participants on different occasions, e.g. at a recent [panel discussion at the latest ERCC AGM](#), the full value of T2S has clearly not yet been unlocked. The conclusion of the T2S migration last year, while rightly described in the ECB's latest Financial Integration Report as an important milestone, was in fact only the first step in a longer process. Following the successful (technical) migration, it will now be important to positively

encourage users to shift settlement activity to T2S and to realise the potential of the platform as a central hub for settlement activity in euro (and beyond). We are concerned that the proposed increase in settlement fees might be perceived as a wrong signal at this critical point in time and could prove to be counterproductive in terms of generating additional T2S flow.

That said and more important than any discussion on fees, the ERCC believes that the key focus at this stage needs to be on the T2S value proposal and ways to increase settlement flows in T2S (and hence revenue). In this context, we welcome and actively support initiatives that are already under way and will add value to T2S. This includes the project pursued jointly with the ICSDs to make eligible Eurobonds available for settlement in T2S, as well as the development of the Eurosystem Collateral Management System (ECMS) by 2021 and the supporting work streams on collateral management harmonisation. These initiatives will help to unlock the value of T2S.

However, we also believe that more should and can be done in this respect. As the recent EPTF report has clearly highlighted, significant national barriers persist to a more integrated post-trade environment in Europe. Removing these barriers should be a crucial part of the CMU agenda. While we appreciate that most of the barriers identified by the EPTF are not for the ECB directly to resolve, it still has a powerful voice in the relevant discussions with public authorities which it should use to the fullest possible extent to drive the agenda.

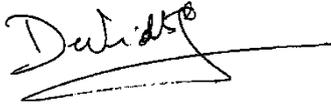
Another specific issue that should be addressed with urgency is the continued uncertainty in relation to balance sheet netting in T2S, as explained in more detail in a separate ERCC letter sent to you on 16 November 2017. The industry is currently seeking a solution to this issue, but any support that the ECB can offer in this context would clearly be very welcome, not least as the success of this initiative is in the common interest of both industry and the Eurosystem.

As regards the pricing proposal more specifically, we thank the ECB for the detailed information provided, but would welcome additional information on the following aspects in order to help users understand the proposal and the feasibility of alternative options:

- More detailed information on T2S settlement volumes, in particular the split between asset classes and the main drivers for the shortfall in volume as compared to the initial estimates.
- More granular details on the 4CB operational costs and the reasons for the significant increase as compared to the initial estimates; and whether there are opportunities to realise further cost efficiencies, beyond the anticipated consolidation of the T2 and T2S platforms.
- Based on which criteria has the (revised) length of the cost recovery period been decided and has a further extension been considered which would allow settlement fees to remain stable?
- Finally, from a broker-dealer perspective, we note that most CSDs have not reduced their own settlement/transaction fees following their transition to T2S (even though settlement is now outsourced to T2S). As a result, the overall settlement costs for CSD participants have not decreased, which diminishes the incentive for moving additional flows into T2S and impacts the business case for users on which T2S was established. More transparency is required on the total cost of settlement to CSD participants (which includes T2S and CSD fees), with a view to reduce the overall cost of transactions to CSD participants.

The ICMA ERCC stands ready to provide any clarification of its views and would be happy to meet you to discuss further if and as required.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'De Vidts', with a long horizontal line extending to the right.

Godfried De Vidts

Chairman ICMA European Repo and Collateral Council

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