

Policy Department
Economic and Scientific Policy

Clearing & Settlement–
Target2–Securities
Workshop

This workshop was organised on 12 April 2007 on European Parliament premises in Brussels on behalf of the European Parliament's Economic and Monetary Affairs Committee (ECON).

This paper is only published in English.

Authors: Fabrice DEMARIGNY (Secretary General , CESR)
Didier DAVYDOFF (Director, OEE)
J. Lynton JONES (Bourse Consult)
Jukka RUUSKA (FESE Chairman)
Anso THIRE (Managing Director, Head of Public Affairs and Strategy, Euroclear)
Phil DAVIES (Managing Director, Head of European Equities Operations, Goldman Sachs)
Bernard DELBECQUE (Director of Research and Economics, EFAMA)
Jean-Michel GODDEFROY (Director-General, Payment Systems & Market Infrastructure, ECB)
Ruud SLEENHOFF (Chairman, European Banking Federation)
Diana Y. CHAN (Managing Director, Citigroup, Global Transaction Services)

Administrator: **MAKIPAA, Arttu**
Policy Department Economy and Science
DG Internal Policies
European Parliament
Rue Wiertz 60 - ATR 00L006
B-1047 Brussels
Tel: +32 (0)2 283 26 20
Fax: +32(0)2 284 69 29
E-mail: arttu.makipaa@europarl.europa.eu

Manuscript completed in April 2007.

The European Parliament gratefully acknowledges the kind permission of the speakers to publish their presentations.

The opinions expressed in this document do not necessarily represent the official position of the European Parliament.

Reproduction and translation prohibited without prior approval from the authors.

✉ Rue Wiertz – B-1047 Bruxelles - ☎ 32/2.284.43.74 Fax: 32/2.284.68.05
✉ Palais de l'Europe – F-67000 Strasbourg - ☎ 33/3.88.17.25.56 Fax: 33/3.88.36.92.14

E-mail: poldep-esc@europarl.europa.eu

Table of Contents

	Page n°
Programme.....	01
Session I - Framework, Risks & Regulation.....	03
Fabrice DEMARIGNY	04
Secretary General , CESR	
Didier DAVYDOFF	05
Director, OEE	
J. Lynton JONES	11
Bourse Consult	
Session II - Business Environment & Competition.....	15
Jukka RUUSKA	16
FESE chairman	
Anso THIRE	21
Managing Director, Head of Public Affairs and Strategy, Euroclear	
Phil DAVIES	25
Managing Director, Head of European Equities Operations, Goldman Sachs	
Bernard DELBECQUE	37
Director of Research and Economics, EFAMA	
Session III - Target 2 Securities.....	42
Jean-Michel GODDEFROY	43
Director, General, Payment Systems & Market Infrastructure, ECB	
Ruud SLEENHOF	54
Chairman, European Banking Federation	
Diana Y. CHAN	61
Managing Director, Citigroup, Global Transaction Services	



DIRECTORATE-GENERAL INTERNAL POLICIES OF THE UNION
- DIRECTORATE A -
ECONOMIC AND SCIENTIFIC POLICIES

Workshop
Clearing & Settlement and Target2-Securities
Programme

12 April 2007
European Parliament Brussels
Room ASP 3G2, 9h00-13h00
Interpretation - EN DE FR until 12h30

09.00 - 09.15 **Introduction**
Pervenche Berès (MEP), Chairwoman of ECON

09.15 - 10.15 **Session I - Framework, Risks and Regulation**

Chair: *Pervenche Berès (MEP)*

Topics discussed: Outline, main problems
International comparisons and best practices
Supervision issues (cross-border)

Experts: - Fabrice Demarigny, Secretary General, CESR
- Didier Davydoff, Director, OEE (European Savings Institute), Member
of ECON Panel of Financial Services Experts
- J Lynton Jones, Bourse Consult, London (Co-author of the Corporation
of London Report (The future of C&S in Europe)

10.15 - 11.45 **Session II - Business Environment and Competition**

Chair: *Piia-Noora Kauppi (MEP)*

Topics discussed: Code of Conduct vs. Regulation
Competition issues: prices-costs-volume
Internal Platforms (e.g. Turquoise initiative)

Experts: **Infrastructures:**
- Jukka Ruuska, FESE Chair and CEO of OMX
- Anso Thire, Managing Director, Head of Public Affairs and Strategy,
Euroclear

Users:

- Phil Davies, Managing Director, Head of European Equities Operations, Goldman Sachs
- Bernard Delbecque, Director of Research and Economics, EFAMA

11.45 - 12.55

Session III - Target2-Securities

(presentations with interpretation, discussion as of 12.30 only in EN)

Chair: *Margarita Starkeviciute (MEP)*

Topics discussed: Governance issues, the business case, competition issues

- Experts:
- Jean-Michel Goddefroy, Director General Payment Systems and Market Infrastructure, ECB
 - Ruud Sleenhoff, Chairman of the European Banking Federation Target2 Task Force, Senior Vice President, ABN Amro
 - Diana Y. Chan, Managing Director, Citigroup Global Transaction Services (for the US experience)

12.55 -13.00

Closing remarks - *tbc*

Session I

Framework, Risks & Regulation

Fabrice Demarigny

Secretary General

The Committee of European Securities Regulators

CESR





OBSERVATOIRE DE L'ÉPARGNE EUROPÉENNE

European Parliament

Latest developments and assesment of the Code of Conduct

Workshop

Clearing and settlement and Target2-Securities

12 April 2007

Didier Davydoff, director of the European Savings Institute



OBSERVATOIRE DE L'ÉPARGNE EUROPÉENNE

Background of the Code of Conduct (1)

Cross-border transactions are more costly in Europe than in the US. However:

- The US are one country, Europe is composed of 27 countries
- Domestic transactions are less costly than cross-border transactions
- When netting is taken into consideration, the cost of transactions realised outside Euroclear and Clearstream is similar to the cost of transactions in the US
- Hence any decrease of settlement costs should result in lower costs than in the US for many transactions

European securities markets are organised according a vertical “silos” model :

- Spain, Hungary, Austria, Germany: Organisations belonging to the same group run both regulated markets organising securities trading and CSDs.
- In practise, Euronext and the London Stock Exchange, whose post-market activity is operated by Euroclear, are also de facto vertical silos.
- Hence, further integration of post-trading operations depend on consolidation of European Stock Exchanges
- The harmonisation of Euroclear Settlement for Euronext Securities shows that integration can only be available to a limited number of markets.

Will competition enhanced by the Code of Conduct will diminish post-trading costs more efficiently than integration ?

At this stage, the Code of Conduct covers post-trading activities, only in cash equities

All post-trading services are covered:

- Clearing and central counterparty by CCPs
- Settlement and custody services by CSDs
- Trading activities

Measures of the Code of Conduct fall under three categories

* Price Transparency:

- Understand prices and services, including rebates
- Facilitate comparison and reconciliation of billings with tariffs

* Access and Interoperability

- Access granted on the basis of non-discriminatory criteria and prices
- Obligation to satisfy efficiently a request for interoperability from any organisation

* Service Unbundling and Accounting Separation. BUT A SERIOUS LIMITATION:

« Unbundling does not preclude Organisations offering special prices for the purchase of several unbundled services together »

Time schedule: gradual and flexible

* Price Transparency: end of 2006. Done ?

* Access and Interoperability: end of June 2007. Half-done ?

* Service unbundling and accounting separation: beginning of 2008.

Latter on: derivative products ?

Remaining Giovannini barriers have still to be removed

Assesment of the European Credit Sector Association (ECSA) Users Task Force on Transparency (1)

* Recognise the short space of time between the signing of the Code and the deadline for implementation

* General Assessment: Implementation of the Code « in letter » has been completed

- Full disclosure of tariffs on the websites of Market Infrastructures
- Amendments to tariffs are documented
- Single invoicing at group Level
- Some Market Infrastructures have enabled users to calculate level of fees they should expect
- Information surrounding rebates and discounts is clearer

Assesment of the European Credit Sector Association (ECSA) Users Task Force on Transparency (2)

Progress are still necessary:

- Complexity of tariffs hampers comparability
- Scenarios, examples and calculators are not always in effect nor consistent accross MIs
- Users are not always consulted before tariff changes

There are two ways to tackle competition issues

- * The Code of Conduct: transparency, access, unbundling to enhance competition among profit oriented market infrastructures. Self regulation as an alternative to a directive.
- * Target2 Securities: Recognising that some post-trading services are fragmented monopolies and involving a public institution in charge of the general interest of the market

Are these two approaches contradictory or rather complementary (interoperability) ?

- * T2S will be offered to all CSDs
- * T2S will be single platform for settlement of domestic and cross-border transactions

Derivatives: There is a lot of competition for order flows between regulated markets and with OTC trading.

Is this competition fair ?

When Clearing subsidizes trading: the case of market makers in some options markets.

- Some market makers pay a fixed clearing fee capped at a very low level
- On some markets they are even exempted from clearing fees

The Code of Conduct should be extended to derivative markets



OBSERVATOIRE DE L'ÉPARGNE EUROPÉENNE

European Parliament

Latest developments and assesment
of the Code of Conduct

Workshop

Clearing and settlement and Target2-Securities

12 April 2007

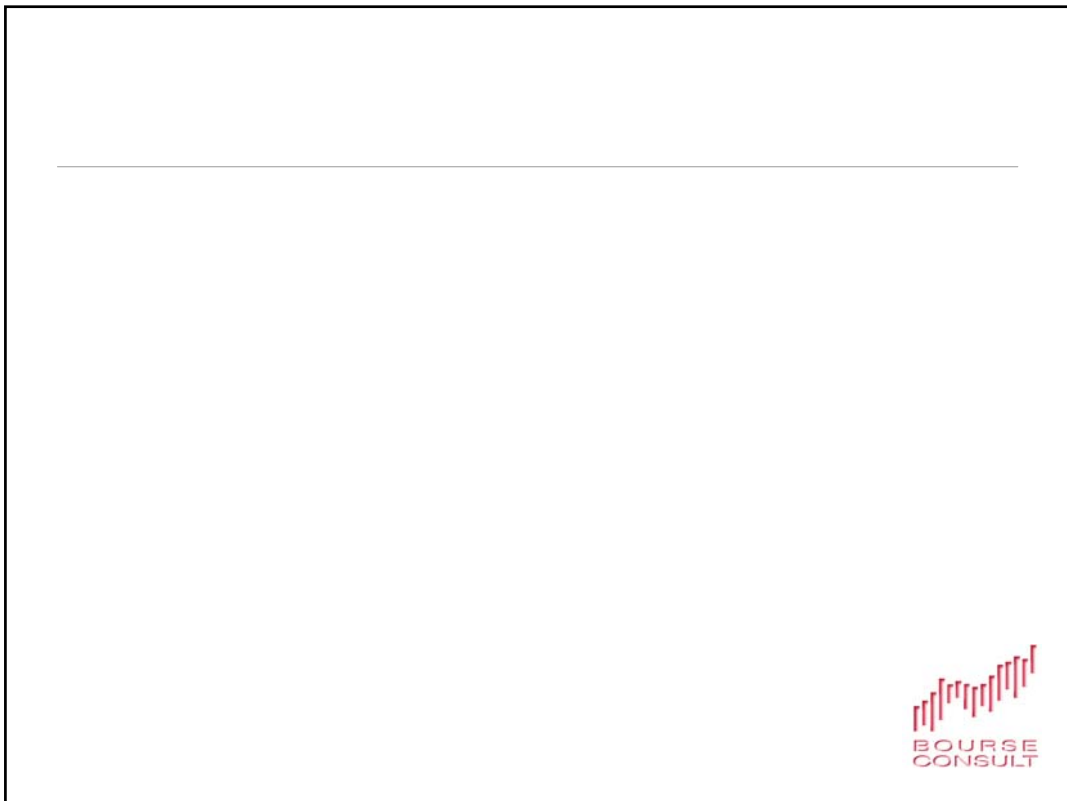
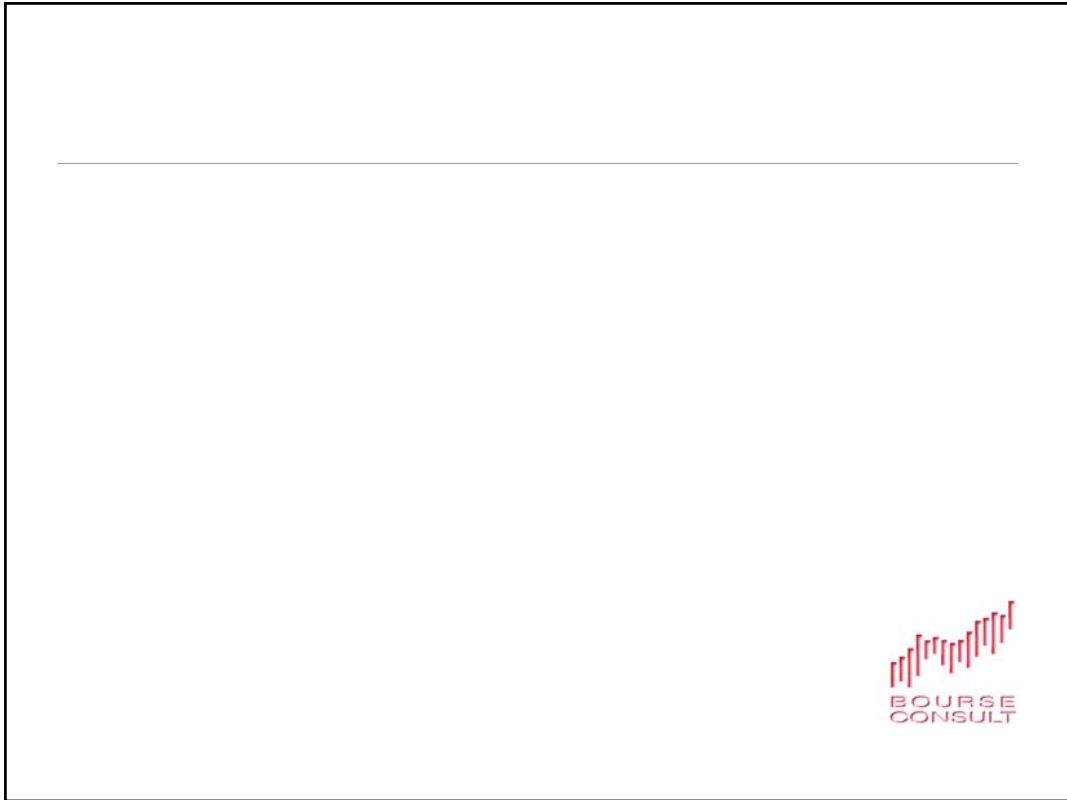
Didier Davydoff, director of the European Savings Institute

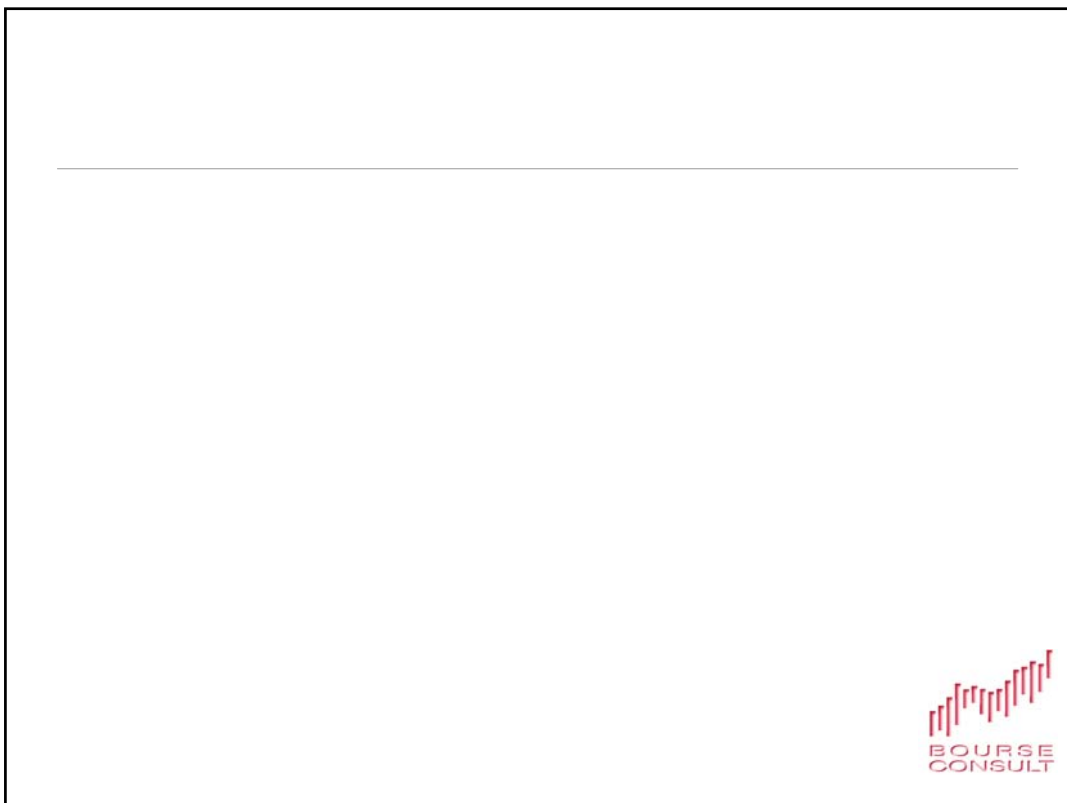
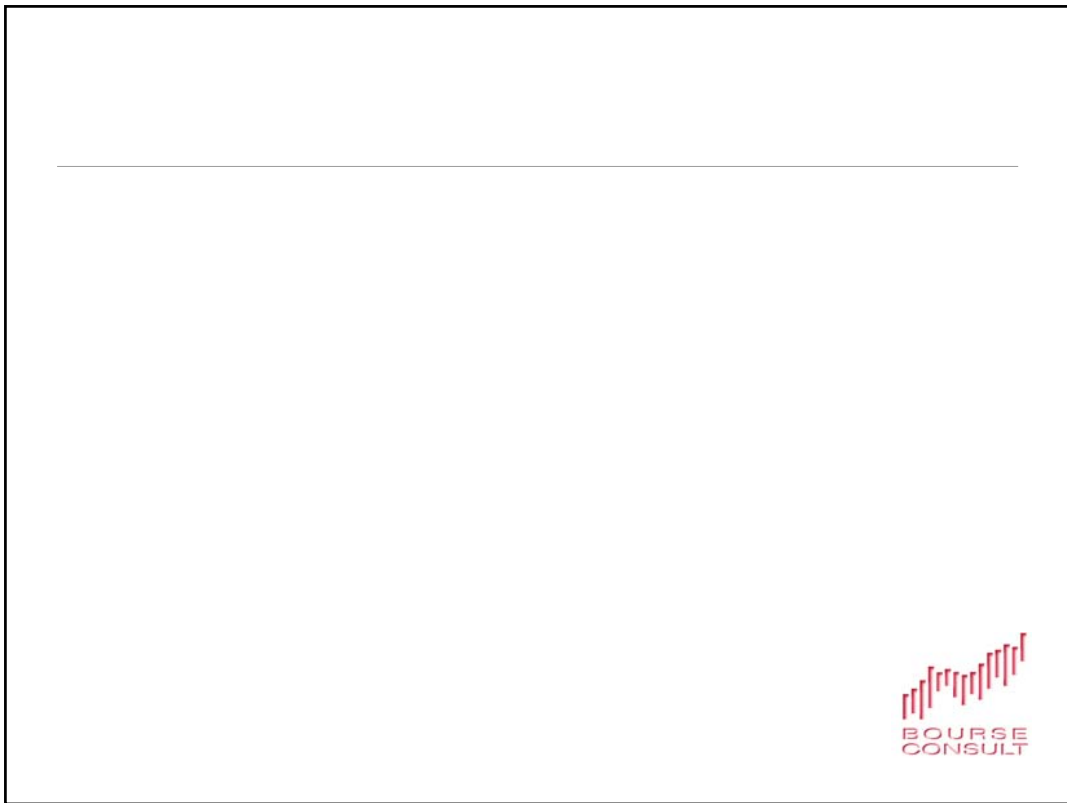
Clearing & Settlement & T2S Workshop

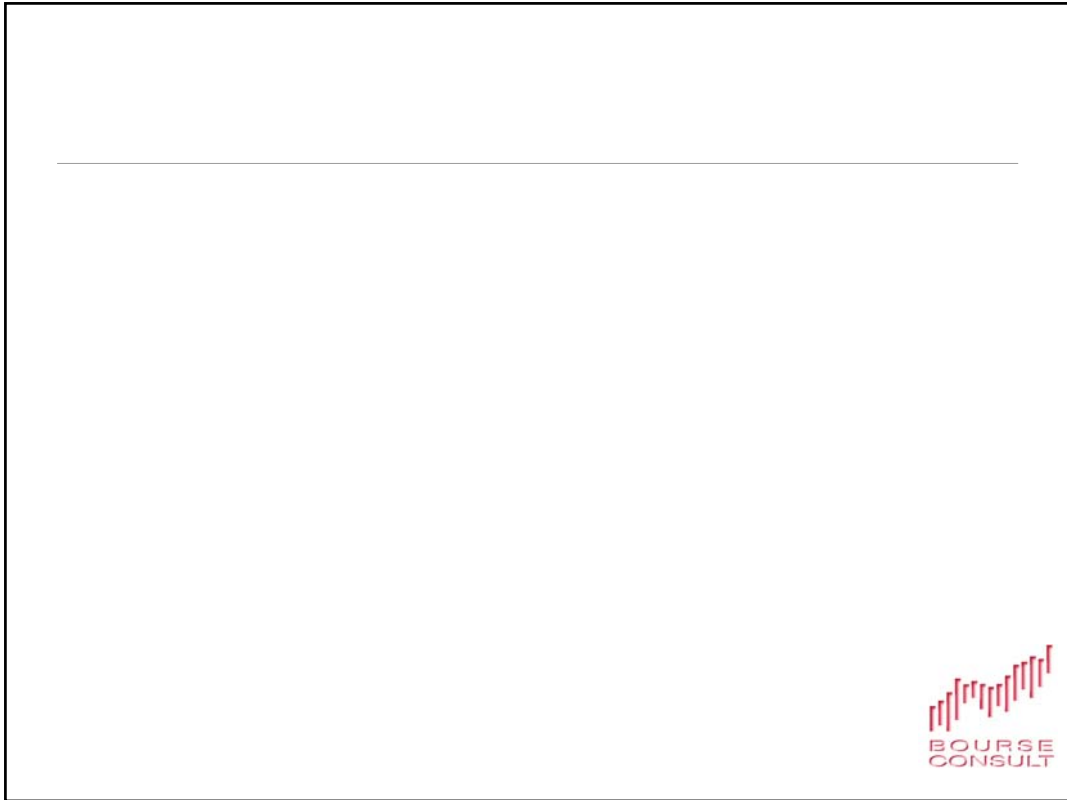
EP Brussels 12 April 2007

Lynton Jones









Session II

Business Environment & Competition

FESE:

FESE Aim

FESE role in the code of conduct

Involvement and accountability



More rapid implementation

More limited regulatory costs



Only signatories are subject to the Code



An adequate monitoring of compliance is key



Support to a soft-law

**more transparent and
encompassing monitoring
European Parliament as observer**

level playing field





Clearing & Settlement and Target2 - Securities

Anso Thire

Managing Director, Head of Public Affairs and Strategy - Euroclear

12 April 2007



The Key Messages

- The Code is delivering more quickly than legislation.
- The Public Sector Giovannini Barriers need to be removed.
- Expect further integration of clearing & settlement industry.

2

The Code of Conduct

- Pricing transparency largely delivered
 - But more to be done on comparability.
- Access & Interoperability
 - Good progress being made.
 - On track for delivering an effective protocol end June 2007
- Unbundling and accounting segregation
 - Work underway to deliver by end 2007.

3

The Giovannini Barriers

- Good progress being made by the market
- But Legal and fixed Barriers need to be removed
- And that will probably require legislation

4

An Industry in transition

- Volume growth and regulatory changes
- Leading to greater competition and further consolidation
- Settlement systems need to invest to
 - Handle volume increases
 - Serve consolidation and fragmentation trends
 - Generate economies of scale
- Survival of the fittest

5

The Code of Conduct

- Pricing transparency largely delivered
 - More to be done on comparability
- Access & Interoperability
 - Good progress being made
 - On track for end June 2007 delivered
- Unbundling and Accounting segregation
 - Work underway to deliver by end 2007

6



7



Clearing and Settlement

**Presentation to the Committee on Economic and
Monetary Affairs, European Parliament**

Phil Davies

Managing Director, European Equities Operations

Goldman Sachs International

12 April 2007



Agenda

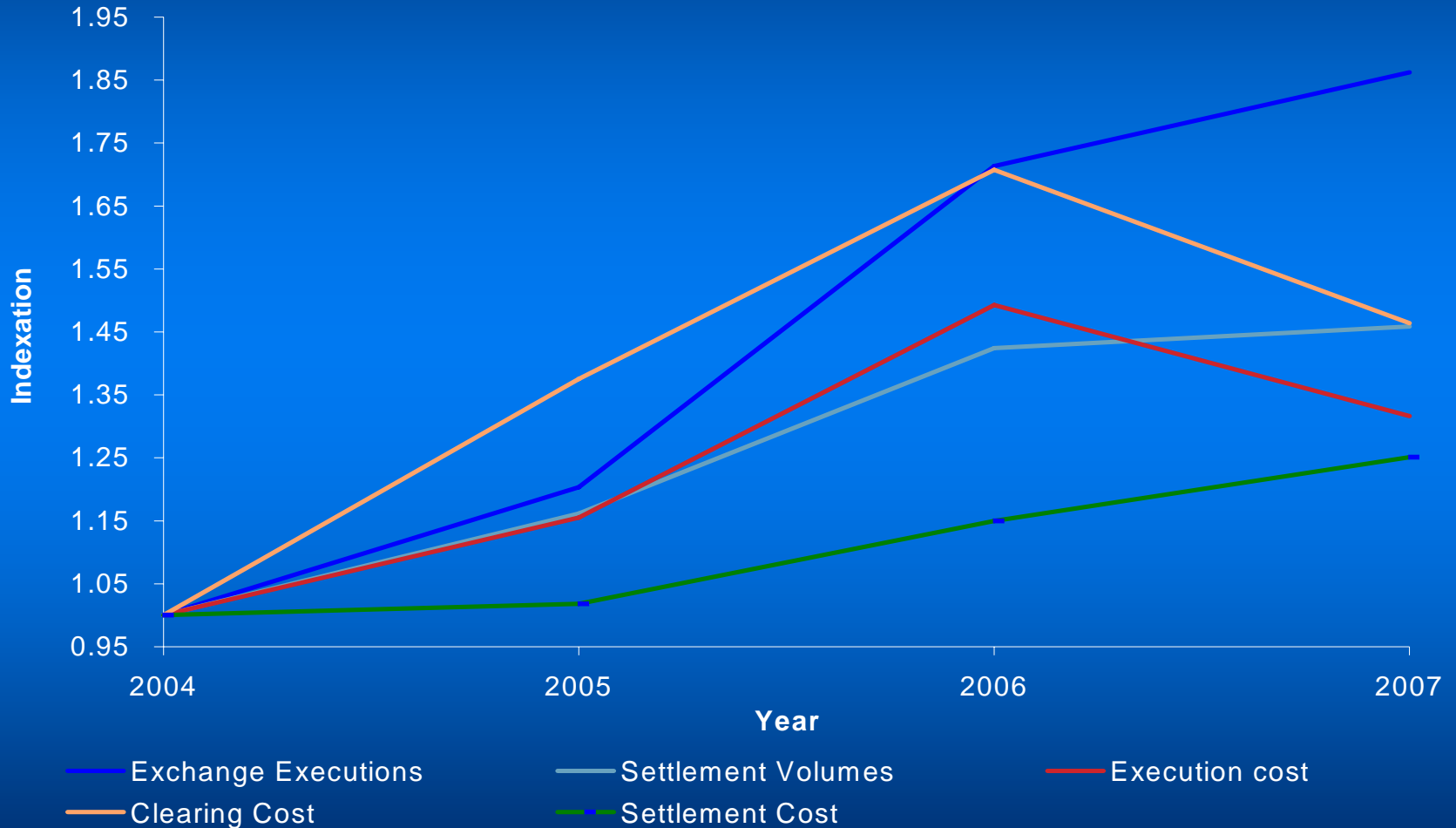
- I. Volumes and costs in trade processing
- II. Market models – direct versus indirect
- III. Code of Conduct



I. Goldman Sachs volumes and costs



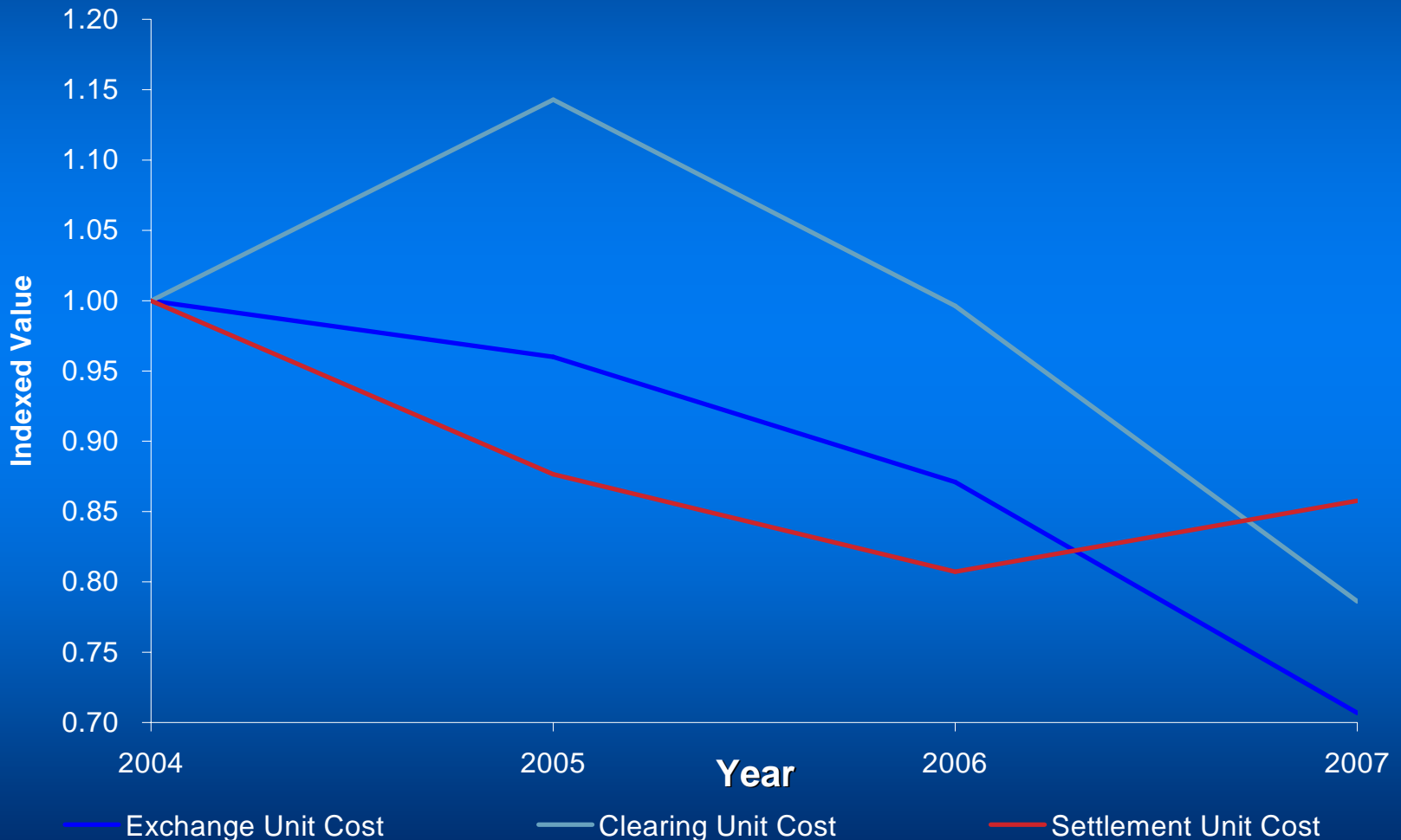
Goldman Sachs indexed volumes and costs in trade processing, 2004 to 2007*



* 2007 figure derived by using first quarter data to project full year



Goldman Sachs indexed volumes and costs in trade processing, 2004 to 2007*

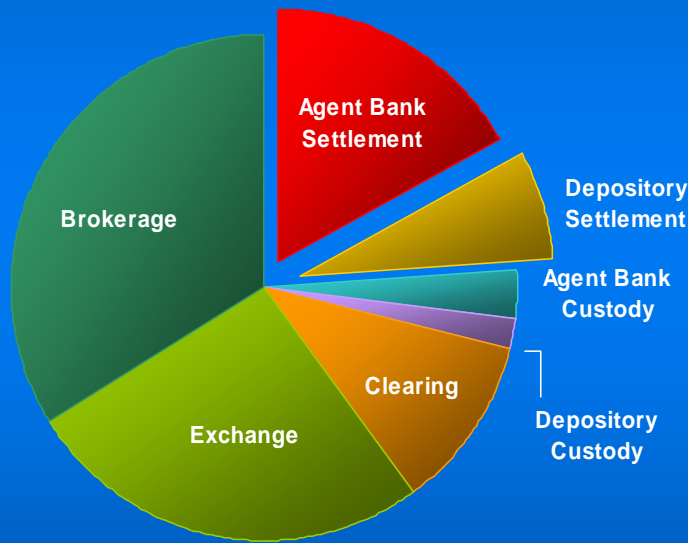


* 2007 figure derived by using first quarter data to project full year

European trade processing expenditure

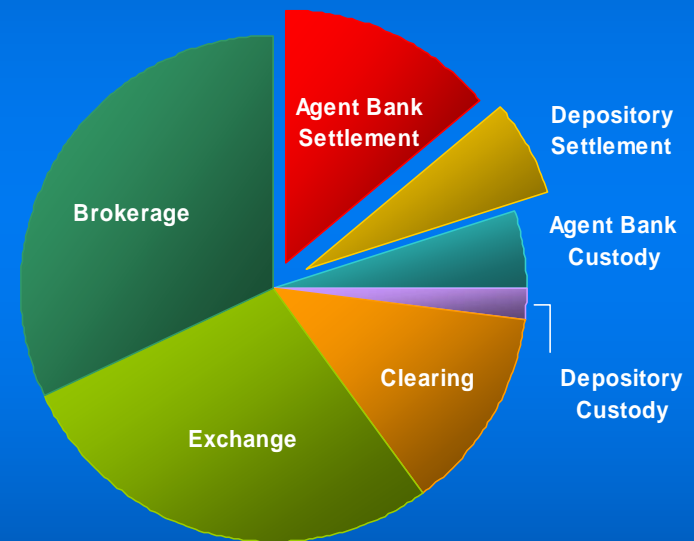
The total external cost of trade processing in Europe split by function

2004



2004 total spend on securities trading and settlement €81 million.

2006



2006 total spend on securities trading and settlement €114 million.



II. Market models – direct versus indirect



Goldman Sachs' participation in cross-border post-trading across Europe

In European markets where GS participates, we optimise cost and efficiency by being direct participants in only two markets – UK and Switzerland. In other markets it is necessary to incur cost through the use of third party intermediaries.

	Model 1	Model 2	Model 3 (a)	Model 4
Exchange Level	Goldman Sachs Member of Securities Exchange	Goldman Sachs Member of Securities Exchange	Goldman Sachs Member of Securities Exchange	Intermediaries Goldman Sachs
Clearing House Level ^(a)	Goldman Sachs GCM at Clearing House	Goldman Sachs GCM at Clearing House	Intermediary Goldman Sachs NCM at Clearing House	Intermediary Goldman Sachs
Depository Level	Goldman Sachs Direct participant at Depository	Intermediary Goldman Sachs	Intermediary Goldman Sachs	Intermediary Goldman Sachs
Total Unit Cost per Model	<i>See next slide</i>			

Key
 Model 1; UK, Switzerland
 Model 2; Germany, France, Holland
 Model 3; Finland, Sweden, Italy, Belgium
 Model 4; Austria, Denmark, Greece, Norway, Portugal, Spain, Poland, Hungary, Czech Rep

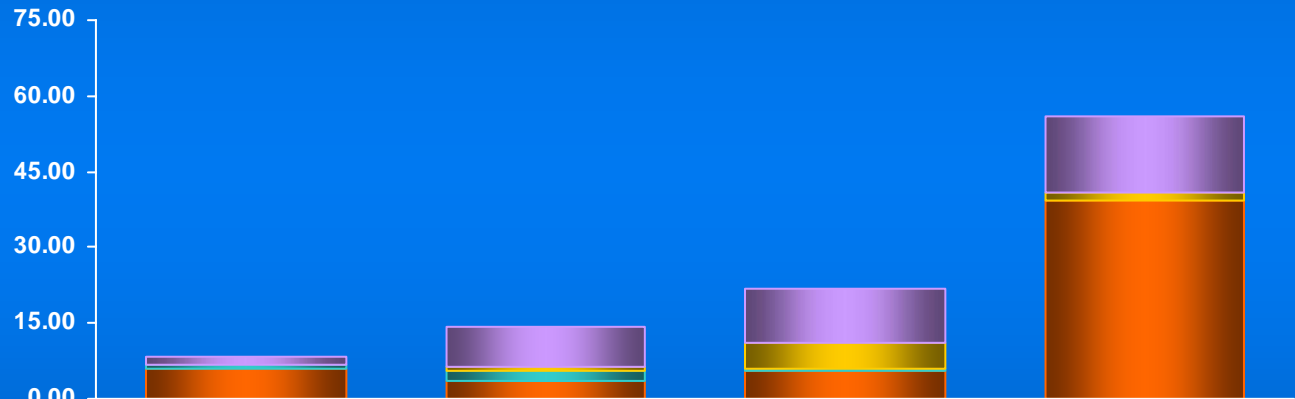


Relative external cost comparisons across Europe

Using the models from the previous page and the example of a €50,000 client trade, we can see the relative cost difference for each trade component across each model for the major European markets. The differences are greater when using less mature markets.

External cost impact of third party intermediaries for a €50,000 trade in 2007

- The dynamics (number of executions and allocations) of a €50,000 client order are used.
- The numbers represent the ratio between the different components and models, for such an order.
- Poland, Hungary, and the Czech Republic have been excluded from Model 4.



	Model 1	Model 2	Model 3	Model 4	
Client Settlement	1.31	7.83	10.80	15.30	35.24
Depository / Agent Bank Mkt Side	0.22	0.53	5.06	1.53	7.34
Clearing House	0.69	2.03	0.35	0.00	3.07
Exchange / Broker	5.93	3.72	5.52	39.18	54.35
Total	8.15	14.12	21.72	56.01	100.00
Markets Covered	UK and Switzerland	Germany / France / Holland	Belgium / Finland / Sweden / Italy	Austria / Denmark / Greece / Norway / Portugal / Spain	



III. Code of Conduct



Code of Conduct – a user perspective

Successes to date

- The progress made by the infrastructure in regards to Price Transparency is encouraging. However work needs to be done to make these fee structures comparable
- Has created momentum within Europe behind broad principles about how interoperability and access can be achieved

Key priorities

- Implementation is key
- Access and Interoperability will be key deliverables for infrastructure organisations in terms of competition and user choice
- Effectiveness of the Monitoring Group to deal with implementation of the Code e.g. SIS X-Clear and LCH Clearnet are both signatories but have not yet agreed how to interoperate over clearing Swiss trades

The path ahead

- Proposed LSE feed to SIS X-Clear demonstrates a good example of intentions around access and interoperability. The Code should lead to more of the same
- Provides a framework for access and interoperability conversations to occur between providers
- Although the protocol provides the framework for discussion, it will often be difficult to create a viable business case to deliver interoperability and access



Code of Conduct impacts on Giovannini Barriers

Giovannini Barrier	Code of Conduct	Comments
Private		
1	Differences in IT and interfaces	
3	Differences on corporate actions rules	
4	Intra-day settlement finality	
6	Differences in standard settlement periods	
7	Operating hours and settlement deadlines	
8	Differences in securities issuance	
Public		
2	Restrictions on location of Clearing and Settlement	Will be impacted by Code of Conduct MIFID covers aspects of this as well as the Code
5	Impediments to remote access	Will be impacted by Code of Conduct
9	Restrictions on location of securities	
10	Restrictions on primary dealers	Barrier rolled up into barrier 2
11	Restrictions on withholding agents	
12	Restrictions on tax collection	
13	Absence of EU wide framework of laws for treatment of ownership	
14	Differences in legal treatment of netting	
15	Differences on how to solve conflicts of laws	

12 April
2007
Brussels

Workshop Clearing & Settlement and Target2-Securities

Bernard Delbecque
Director of Economics and Research
EFAMA

Presentation to the European Parliament's
Committee on Economics and Monetary Affairs

Brussels, 12 April 2007



Slide n° 1



12 April
2007
Brussels

EFAMA

23 Countries:

-
-
-
-

43 Corporate Members



Slide n° 2

12 April

2007

Brussels

EFAMA's Mission

is the representative association for the European investment management industry. Its mission is :

- To support a high level of **investor protection** through the promotion of high ethical standards, integrity & professionalism across the industry
- To promote the completion of an effective **single market** for investment management and the creation of a level playing field for competing savings/investment products
- To strengthen the **competitiveness** of the industry in terms of cost & quality by seeking & obtaining improvements in the legal, fiscal and regulatory environment



Slide n° 3

12 April

2007

Brussels

Clearing and Settlement Code of Conduct

- The Code is an important step forward
 - ♦ **Appropriate goals:** enhancing transparency and increasing competition will benefit investors and promote the competitiveness of the European economy
 - ♦ **Right approach:** self-regulation will accelerate changes and phasing implementation is sensible
- The challenge: self-regulation is not legally enforceable
 - ♦ The **EU Commission** should take the leading role to ensure proper oversight and enforcement of the Code
 - ♦ The **monitoring process** should be fairly strict and transparent (the initial work of the MOG is encouraging)
 - ♦ If needed, **EU regulation** should be reconsidered
 - ♦ The contribution of **investment managers** should not be over-estimated: in general, they do not interact directly with the C&S industry



Slide n° 4

12 April

2007

Brussels

Giovannini Barriers

- The 15 Giovannini barriers should be eliminated
- Elimination of **Barrier 1** (national differences in information technology and interfaces used by C&S providers) is essential
- EFAMA welcomes the proposal developed by SWIFT and the SMPG to encourage the use of the **ISO 15022** and **ISO 20022 standards** by all infrastructures and participants involved in C&S
- ISO 20022 should also become the single European standard for fund processing



Slide n° 5

12 April

2007

Brussels

Specificity of Investment Funds

- Investment funds should not fall under the EU Commission's overall policy on post-trading activities
 - ♦ The investment fund market functions more like a continuous primary market
 - ♦ Funds are not fungible because different different rights linked to specific distribution agreements are attached to them
- Major CSD providers have established systems for the treatment of cross-border funds that are distinct from their equity C&S systems
- Target2-Securities should not cover the C&S of funds units/shares



Slide n° 6

12 April

2007

Brussels

Fund Processing Standardization

- The current inefficiencies and risk levels in fund processing are excessive
- EFAMA created the Fund Processing Standardization Group to outline possible actions to move toward more efficient and less risky fund processing arrangements
- The first FPSG recommendations issued in 2005 promote convergence towards industry-wide standards
- As for the Code of Conduct, implementation is key
- If no substantive results can be achieved within a reasonable time frame, EFAMA will review the situation with the EU Commission



Slide n° 7

12 April

2007

Brussels

Multilateral Trading Facilities

- MTFs will inject fresh competition into the European investment services industry
- Dispersion of liquidity among trading venues should be okay as long as investors have access to information on market prices and volumes from all venues
- This market transparency is the pre-condition for best execution



Slide n° 8

12 April

2007

Brussels

Thank you for your attention

**To know more about the FPSG recommendations,
please visit EFAMA's website at:
www.efama.org/50Standards/index_html#3**

**If you have questions or remarks, please contact me:
+ 32-2-513 39 69 & info@efama.org**



Slide n° 9

Session III

Target 2 Securities

Clearing & Settlement and TARGET2-Securities

**Jean-Michel Godeffroy
Director General**

Payment Systems and Market Infrastructure, ECB

European Parliament

**Brussels, 12 April
2007**

Outline

1

The ECB/Eurosystem mandate is clear for payment systems but not explicit for securities settlement...

2

However, payment systems cannot function “smoothly” if SSSs do not also function smoothly



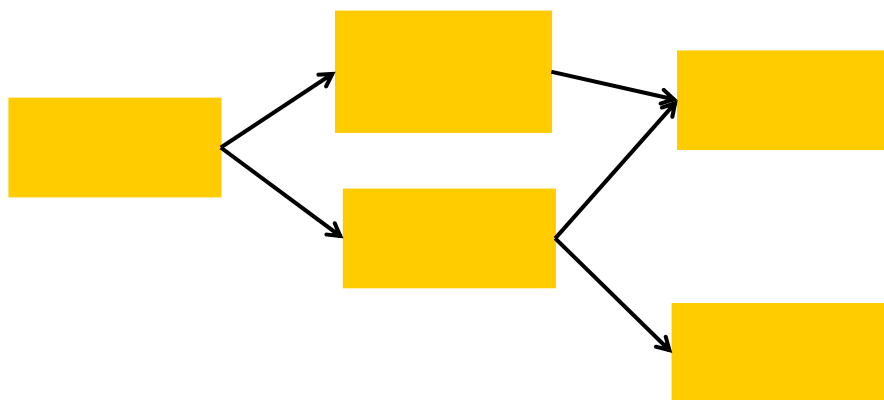
3

Major funds transfer systems in euro

(2005, billions of euro per working day)

4

The links between securities settlements and payment systems



5

Outline

6

7



8

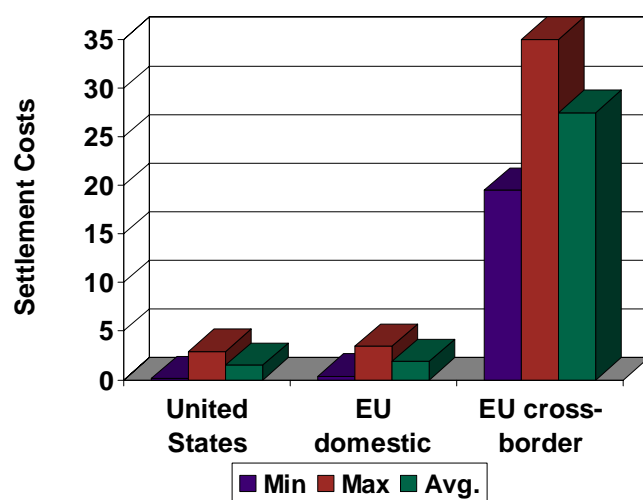
**What can the ECB/Eurosystem do if
ESCB/CESR work cannot be
concluded**

9

Outline

10

Why T2S?



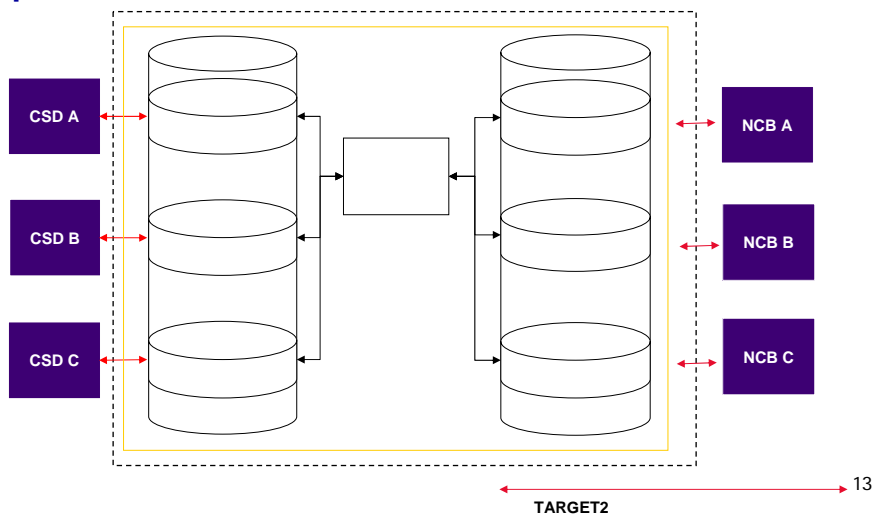
11

Why the ECB/Eurosystem?

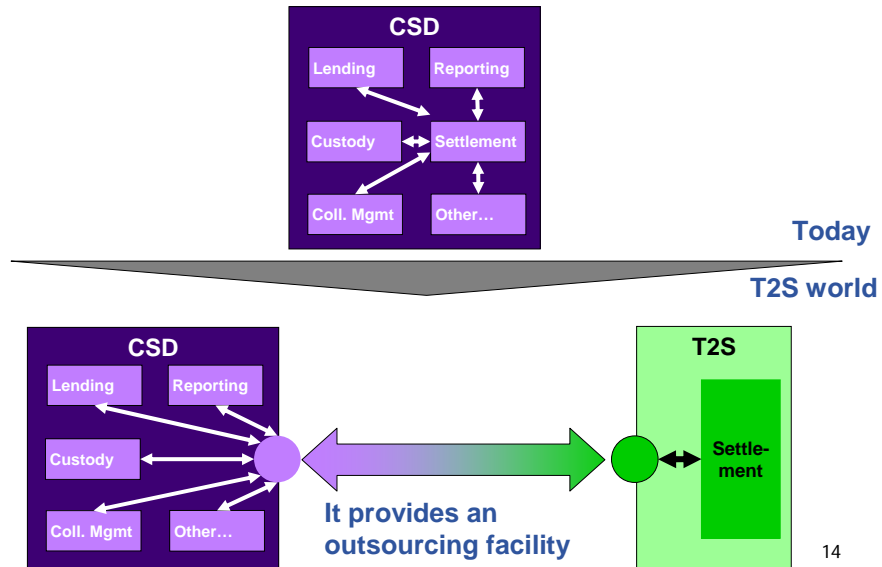
12

What is T2S?

The concept: securities and cash accounts in one platform



T2S does not segregate custody and settlement



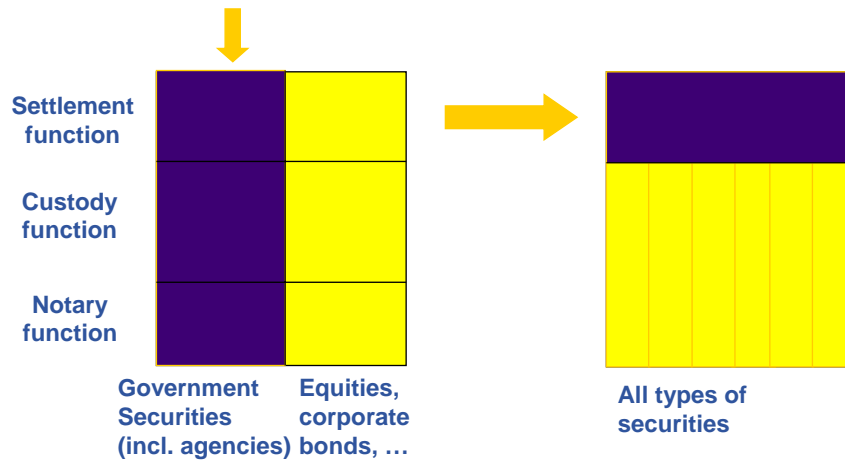
14

A long central bank tradition in providing (CSD and) settlement facilities

	Central Banks acting as CSD/SSSs today	Central Banks acting as CSD/SSSs in the last 20 years	Central Banks <u>never</u> involved in CDS/SSSs
Non €area	USA	UK	Canada
	Japan	Most new EU Member States	Switzerland
	Poland		Sweden
€area	Belgium	France	Luxembourg
		Spain	Germany
	Portugal	Italy	Austria
	Greece	Ireland	
		Netherlands	
		Finland (major shareholder)	

15

Comparison between US and euro area

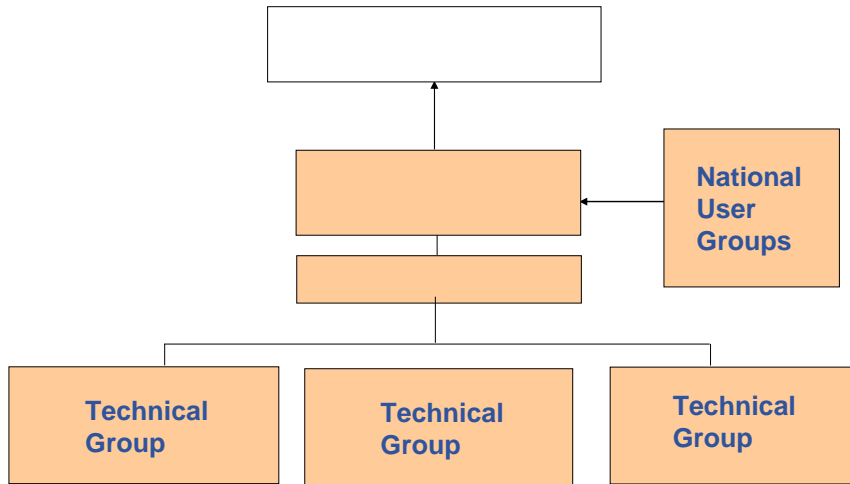


16

Governance framework: Principles

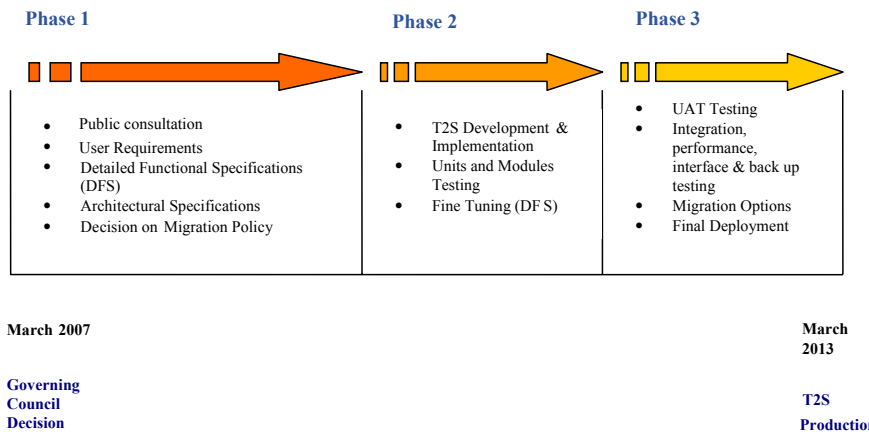
17

Proposed governance for the project phase



18

The provisional timetable of the project



19

Conclusion

20

TARGET2-Securities The view from Europe's banks

Ruud Sleenhoff

Chairman, EBF TARGET2-Securities Task Force
Senior Vice President, Head of Market Infrastructures, ABN AMRO

European Parliament Workshop on Clearing & Settlement and TARGET2-Securities

Brussels, 12 April 2007

Banks say “yes, to...”



...but with conditions attached”

- Banks deserve to be closely involved in the decision making.
- Streamlined and efficient governance processes.
- Full transparency on decisions and new developments vis-à-vis stakeholders.

- Economic feasibility is conservative.
- More detailed study is needed.
- Business case also needs to be made for the banks.

- T2S will deliver competition.
- Banks vs. CSDs
- Direct access and choice of CSD to access the platform (indirect access) are key to delivering this competition.

*The EBF welcomes the balanced debate within the
European Parliament today*

Ruud Sleenhoff - EBF T2S Task Force Chairman

ruud.sleenhoff@nl.abnamro.com

+31 20 628 13 79

European Parliament Workshop on Clearing & Settlement and TARGET2-Securities

The position of European banks on T2S

Key messages

- Potentially strong support ... assuming the following conditions are met:
 - thorough and transparent consultative process;
 - direct technical access for banks will be a possibility;
 - a level playing field between all custody and banking service providers;
 - a flexible and manageable system; and
 - an attractive service implemented and offered at a reasonable cost.

<i>On governance</i>	<i>On the business case</i>	<i>On competition</i>
Banks deserve to be closely involved in the decision making.	Economic feasibility is conservative.	T2S will deliver competition.
Streamlined and efficient governance processes.	More detailed study is needed.	Banks vs. CSDs.
Full transparency on decisions and new developments vis-à-vis stakeholders.	Business case also needs to be made for the banks.	Direct access and choice of CSD to access the platform (indirect access) are key to delivering this competition.

Summary

- Banks stand ready to fully support the project when their conditions are met.
- Banks call for representation in the governance of the Project commensurate to their significance as users of the new settlement platform.
- A clear business case for providers and clients should be forthcoming.
- Healthy competition among CSDs and banks will deliver a more dynamic and cost-effective settlement business for Europe.

...the EBF very much welcomes the balanced debate on T2S that is now underway within the European Parliament and other European fora.

European Parliament Workshop
Clearing & Settlement and TARGET2-Securities
12 April 2007

**TARGET2-Securities:
The US Experience**

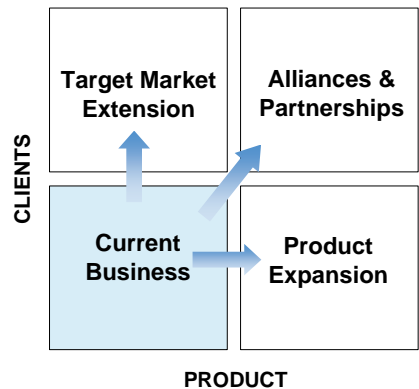
Diana Y. Chan
Managing Director
Global Transaction Services EMEA

April 12, 2007



I am honoured to be invited to speak about the US experience as a representative from Citi, a global provider of securities issuance, distribution, trading, custody and funds services. Although our headquarters are in the United States, Citi has been present here in Europe since 1902. If Citi were a private person, we would be 4th generation European. We are now present in 21 of the 27 EU Member States, employing 39,000 people.

T2S gives opportunities for growth & competition



- Cost-benefit of T2S should focus not only on current business
- T2S gives CSDs and market participants new strategic options

T2S – US Experience
April 12, 2007

2

T2S gives opportunities for growth & competition:

- The cost versus benefit analyses of TARGET2-Securities (T2S) typically focus on the project's impact on an institution's current business, whether it is a CSD or a market participant. While this approach is absolutely necessary, it is only part of the picture.
- Each market participant, depending on its current business, has different strategic options that will be created through T2S. A CSD, too, will have different strategic options in the new T2S environment.
- The changes brought about by T2S could be used by each institution to grow and compete for new clients, new products, or both - through alliances and partnerships in entirely new business areas. Investors will benefit through innovation and more competition.

No Member State left behind



- Public sector leadership of the ECB provides an inclusive solution
- T2S is open to large and small Member States
- T2S is open to euro and non-euro markets

T2S – US Experience
April 12, 2007

3

No Member State will be left behind by T2S:

- The leadership of the European Central Bank in the T2S initiative means that both large and small Member States, within the euro and non-euro area, will be able to join and benefit from T2S.
- An inclusive solution such as T2S could make Europe a more easy place for intermediaries to do business in, because it will lower the barriers to operating in multiple markets. An inclusive solution will also be more efficient for securities issuers, and more attractive for investors.

US Experience: CSD highlights



Feature	DTC	Fedwire Securities Service
Securities	Equities, corporate & municipal bonds	US Treasury & govt agency securities
Ownership	Users	Central bank
Membership	Financial institutions	Banks
Common Features	<ul style="list-style-type: none"> • Not for profit • Do not compete with each other • Do not compete with users • Competition is among the financial services intermediaries that service investors 	

NB: Main features are highlighted for simplicity.

T2S – US Experience
April 12, 2007

4

Here are some highlights of CSDs in the US:

- The Depository Trust Company, DTC, is the result of the consolidation of a number of CSDs. It has often been cited as an efficient and low cost example. The second CSD in the US is the Fedwire Securities Service, which holds securities issued by the US government.
- While there are some differences in ownership and membership criteria, the more important aspects lie in their common features.
- Both are run as not for profit infrastructures. They do not compete with each other, and do not compete with their users. Competition is at the level of financial services intermediaries. There is a large number of service providers on a level playing field, serving investors through differentiation on price, service quality and innovation.

US: Strongest features of CSDs



- Large economies of scale
- Not motivated by profits nor share price
- “User pays” transparency and equitable pricing policy
- Users are free to choose their banks; no concentration of credit risk exposure

T2S – US Experience
April 12, 2007

5

The strongest features of CSDs in the US include:

- Very large economies of scale through specialisation and consolidation.
- A utility business model that is not motivated by profits nor share price.
- A “user pays” transparency and an equitable pricing policy that does not favour one category of users over another.
- Users are free to choose the bank they use to handle cash related to settlement. There is no concentration of credit risk exposure in a CSD that is also a bank.

US: Differences with current situation in Europe



- Homogeneous, market utility business model
- Single regulator, common regulatory framework
- Enabling legislation created unified national market system (*Securities Acts Amendments of 1975*)

The US market structure was born out of different circumstances at a different time

T2S – US Experience
April 12, 2007

6

There are some important differences with the current situation in Europe

- It must be stressed that the US market structure was born out of different circumstances at a different time. However, the US experience may still illuminate certain aspects of market organisation in Europe.
- The CSDs were created several decades ago when the typical business model for CSDs were not-for-profit utilities owned by users. That made consolidation much easier than the diverse business models in Europe today.
- CSDs had to register with a single securities regulator and be subject to common regulations. This common regulatory framework facilitated eventual consolidation of the CSDs.
- Through the Securities Act Amendments of 1975, the US Congress made a firm and clear public policy to create a unified national market.

In conclusion, I would highlight that in Europe today, not only is the political organisation different, many CSDs have transformed into for-profit enterprises.

CSD consolidation in the US has taken nearly 30 years. Hopefully, advancements in technology and the need for a more internationally competitive European Union opens up completely new possibilities, for initiatives such as T2S to achieve efficiencies in a much shorter timeframe in Europe.

Thank you very much for your attention.