

The European Central Bank
Attn: Jean-Michel Godeffroy

Cc:
Suomen Pankki
Riksbanken
Danmarks Nationalbank
Norges Bank

Dear Sirs

T2S Consultation

Nordea warmly supports thorough investigation of the TARGET2-Securities initiative and wishes to contribute with its best effort to ensure the quality, completeness and comprehensiveness of that work. Nordea sees that T2S has a great potential to increase efficiency and harmonisation in the European settlement infrastructure. For this purpose we have used a team consisting of the four major markets that the Bank represents to work on the consultation. This methodology has brought into surface proposals that could be understood differently due to lack of definitions and different backgrounds of the members of the team. Due to this we have commented a high number of proposals in a comprehensive manner.

Nordea has found the T2S Consultation Paper well structured and interesting despite the very tight time schedule for the consultation period. Our comments for the 67 proposals are detailed in the attached document '*T2S Consultation on High Level User Requirements, Nordea comments*'.

However, we would also like to draw your attention to some issues and concerns relating to the General Principles of T2S, as listed in the following:

Even though Nordea understands the need for a strong driver in projects of the size and complexity of T2S, we would have favoured T2S initiative to follow the operational procedures of the private sector, such as public tender offers. We are also of the opinion that as we at this stage can not foresee the future development needs in the securities market infrastructure in Europe, T2S should be built and governed in such a way that it does not prohibit changes in the governance or even privatisation at a later stage, if so decided. This opinion applies also to the way T2S will be built on the bases of T2. This will most likely be the most cost efficient solution but it should be done in a manner that guarantees the possibility to split the systems. Complying fully with the Code of Conduct and especially the separation of financial accounts of T2S support transparency, guarantee efficiency and ensure the possible structural changes for their part.

As it comes to the functionality of T2S there are four issues of utmost importance to Nordea: multi-currency functionality, high level of harmonization, direct technical access to T2S and cost-savings by abolishing of duplicate cost layers; of these the two latter ones are commented in more detail below. Multi-currency functionality is very important to market participants like Nordea, and therefore the possibility to settle other currencies than € should be designed as part of the functionality when drafting the user requirements and scheduled in the same manner as the transition of € countries to T2S will be done. High level of harmonisa-

tion is important to financial efficiency of T2S and it should not be jeopardised by local regulatory actions.

Nordea's main comments on the proposals

As regards the proposals, Nordea's main concern is whether the future T2S set-up will really support the end-investor account structure in a sufficient manner. This is of vital importance for the T2S model to be feasible in the Nordic countries. Our concern has been further elevated by the recent discussions around 'additional functionality modules', the costs of which would possibly be paid only by the users of such modules. We strongly feel that the end-investor account structure cannot be regarded as such an 'additional functionality' in the T2S set-up. Lack of functionality and support for this market model would lead to a need to maintain duplicate set-ups in the end-investor markets, thus increasing costs and making these markets worse-off compared to markets with omnibus-account structure. However, there has to be a level playing field for all of the markets joining the T2S set-up - a view that has been shared also by ECOFIN and accepted by ECB representatives.

Nordea supports direct access to T2S for the participants with no compulsory routing through CSDs leading to duplicate process. Also matching of instructions should take place directly in the T2S Lifecycle Management and Matching module and any additional layers or rules for matching in local CSDs should be avoided. Direct access is important also to ensure minimal delays in instructing to and receiving reporting from T2S.

Harmonisation of market rules and regulations is a key factor for the success of the T2S model. Nordea supports only one set of rules, processes, practices and deadlines that would be commonly drafted and agreed by all CSDs and participants/users in the T2S.

A number of current market initiatives – MiFID and Project Turquoise among others - are expected to change the European securities industry notably already before the launch of T2S in 2013. We recognise that the effects of these market initiatives have been outside the scope of the first feasibility study for T2S. However, in light of this, we would like to point out that it is vital that the new T2S feasibility studies also take these aspects into account and that any effects, such as changes in trading patterns and resulting increase or decrease in expected settlement volumes, are accounted for and analysed properly.

Should you need any assistance regarding any of our comments, please do not hesitate to contact Liisa Jauri.

Yours faithfully,
NORDEA BANK AB (publ)

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