

Market consultation feedback on T2S Economic Impact Analysis

Comments on the proposed methodology

submitted by

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Nbr	Section nbr	Comments on the proposed methodology	Suggested drafting change	Confid. Y/N
1	Executive Summary	<p>The ECB specifies that the aim of the "average cost per settlement instruction" indicator is to focus on a direct comparison between the cost per settlement instruction with T2S and the "current market conditions". On the matter, we'd like to point out that:</p> <p>a) The methodology proposed should be considered to be exclusively aimed at providing a useful indicator to evaluate opportunities for implementing T2S, but it shall not represent, in any way, the methodology used for setting the effective cost per settlement transaction in T2S when the system will be operational;</p> <p>b) This paper should highlight that a correct comparison with the current market conditions (in other words, with the fees charged today by the various national CSDs), apart from considering the proposed indicator, must also take into account the mark-up that CSDs participating in T2S shall apply to the costs paid to T2S for setting the settlement cost charged to their users. We'd like to recall that, although T2S is a not-for-profit system at a central level, its use at a local level is based on a business rationale. Moreover, to avoid competitive disadvantage, we believe that the lowest fee charged in Europe should be the indicator used for the abovementioned comparison, rather than the average fee charged today by CSDs. (As highlighted in the paper titled "Target2-Securities – Economic Feasibility" issued by the ECB on March 8, 2007, which, on page 10, states the following: "Conclusion: As long as a critical mass of CSDs outsource their traffic to T2S, the latter will be able to deliver a fee per transaction lower than the lowest CSD fee today.").</p> <p>The results of applying the methodology proposed to estimate the "average cost per settlement instruction" should already be available throughout this phase, since they are key to monitor users' support to the Project.</p>		N
2	1.1. - Estimated volume of settlement instruction	<p>The basic assumption of the methodology proposed is that all CSDs settling in euro will participate in T2S and, to take into account different participation scenarios, the latter proposes to carry out a sensitivity analysis based on decreasing volumes of settlement. On the matter, it is necessary to highlight that, from a user's point of view, a decrease in volumes of settlement in T2S would produce an increase in transactions settled through CSDs that do not participate in the system, most likely at a cost higher than the one applied within the T2S system. Therefore, when conducting the sensitivity analysis, based on decreasing volumes of participation in T2S, the potential increase in overall settlement costs to users has to be taken into account.</p>		N
3	1.2.3 - Annualised T2S investment costs	<p>Specifically referring to formula (3), which estimates "annualised T2S investment costs", although it expressly states that it shall be possible to use the methodology proposed with respect to different cost of capital levels, we believe that the reasons why this formula refers to a 6% annualized cost should be indicated.</p>		N
4	1.3.2 - Annualised additional CSD costs	<p>Regarding estimated "annualised additional CSD investment costs", which, in light of the methodology proposed, are used to estimate the "average cost per settlement instruction", we think it would be advisable to document and control investment costs of CSDs that are imputable to the item in question, to avoid that costs which do not relate to the system may be included, as, for example, those paid by CSDs which do not pertain to "connecting" to the T2S system.</p>		N
5	2.1.2 - Impact on CSDs	<p>We believe that the benefits to CSDs arising from the development of the functions enabling participation to T2S should be highlighted. The latter may be used for expanding into a new business area (as, for example, the one relating to value-added settlement services) which is currently only provided by custodian banks.</p>		N