

EUROPEAN REPO COMMITTEE

Mr. Marc Bayle
European Central Bank
T2S Project Team
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London, 7th April 2008

Dear Marc,

TARGET2-Securities (T2S) Response by the European Repo Committee (ERC) to the User Requirements

The ERC welcomes the T2S project team's initiative to put for consultation the TARGET2-Securities (T2S) User Requirements that will define the features that both CSDs, ICSDs and financial market participants require for settlement in Europe.

For many years, the European repo markets have been suffering from an inadequate euro zone settlement infrastructure. The ERC acknowledges the T2S project as an important step towards a better clearing and settlement European landscape. Although the ERC is generally supportive of the project, specific features important to the repo market, as identified below, should be considered carefully by the T2S Project Team.

Account Structure

As we explained in our letter to the ECB dated September 15, 2006, in the interest of the overall purpose of the T2S proposal, namely to reduce costs and increase efficiency, the ERC argues that users have the maximum benefit if they are required to maintain only one account for all collateral purposes, irrespective of the location of the collateral.

If the T2S proposal is ultimately successful, wholesale customers would clearly start to close down various custody accounts they are forced today to hold across the euro-area domestic markets. Ultimately, each customer would only have one-sub-account with the (i)CSD of his choice. For the repo market, this evolution would drastically decrease the complexity we currently experience with collateral management within the same currency.

Repo Processing in T2S

The ECB has kindly informed us on January 22, 2008 on how Target-2-Securities is expected to 'deal with repos'. The presentation given suggests that Target-2-Securities will accept, both, single messages (relating to both legs of the transaction) and two messages would be acceptable.

As outlined by Roger Moran, chair of the ERC Operations working group, the ERC favours a unique solution whereby two instructions are in separate messages (one with the opening and the other the closing leg of a repo). Indeed this solution provides flexibility as in case of a change to the second leg, e.g. in a rollover situation, processing would be less complex.

We understand that some markets use a unique pair of instructions for closed repo, but this practice remains limited to certain markets and does not bring much advantage. We take note of the "freeze" functionality that would bring the closed repo in line with the first market practise mentioned above. However the ERC expects harmonisation through the creation of T2S, clearly paving the way towards a single solution

Our contribution in this letter focuses exclusively on the practical benefits on the repo financing markets. We assume that most of our member banks will also respond to you separately, probably from a custody point of view. Likewise, ICMA may on behalf of its membership decide to provide comments from a more general point of view. We fully endorse the point of view of ICMA in this matter and will refrain for any further comments at this time. However, if there is further need for specific discussions prior to the decision of the Governing Council in early summer, the ERC is on standby for further talks.

With kind regards.

Yours sincerely



Godfried de Vidts
Chairman
European Repo Committee