

1 April 2008

Unrestricted**T2S user requirements documentation - FIN NUG comments**

The Finnish T2S user Group (FIN NUG) appreciates the opportunity to provide comments on the vast user requirements documentation (URD). In many cases FIN NUG's remarks address more generally the needs of direct holding countries. These remarks do not require participants applying indirect holding procedures to change their operations, which results in a level playing field on European markets.

We would like to raise the following main issues for your consideration. Not all of them are strictly related to the URD but are, due to their importance, nevertheless worth attention also in this context. Our detailed comments can be found attached in the templates provided, in which comments most crucial to the functioning of the Finnish market have been highlighted.

Efficient, fair and transparent governance structure is vital for appropriate design of T2S. In the operational phase the structure must ensure that T2S will be continuously able to provide adequate services in an efficient manner for the market. A separate legal entity would be the most suitable solution in our view. If defined appropriately, it would allow the relevant stakeholders to participate adequately to the operations and development of T2S, thereby striking an appropriate balance between the market needs and the Eurosystem's constraints.

Pricing is one of the decisive factors when considering whether to participate to T2S, and thereby whether T2S will gain general market acceptance. The FIN NUG has already expressed its views on this issue via a letter to Mr. Godeffroy, dated 14 March 2008 (attached). The main issues expressed are:

- i) the basis for cost recovery must be transparent and cross-subsidisation between TARGET2 and T2S must be eliminated; and
- ii) the pricing of T2S should not present competitive advantage to any particular national market, CSD market model or big players.

It is of utmost importance that the T2S service, including pricing, complies fully with ECOFIN's statement that T2S "should enable both direct and indirect holdings of securities in T2S, with the same efficiency and costs". This entails that direct holding markets should face a transaction fee per trade rather than per individual booking.

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Markets based on a direct holding structure require more information to be stored in T2S accounts, typically required by national laws, than in the case of indirect holding structure. For efficiency reasons the market has also developed a variety of roles for different actors. In order to fulfil the principle of the ECOFIN mentioned above, T2S has to provide adequate facilities also in these respects. For example, the solution of free-format-fields for inclusion of data necessary for direct holding markets is worthy of further analysis, but more detailed information must be provided before a final evaluation can be made by the User Group.

The URD does not provide a clear and consequent description of the envisaged IT architecture and its components. In fact, it would seem to us that the T2S platform shall provide a set of settlement related services to the customers' premises. In technical terms and to ensure security it should imply that the envisaged solution covers T2S servers and workstations at the customer's site.

Finally, it can be concluded that T2S should conform to national legal and regulatory requirements. For these issues, please, see the attached note entitled "Finnish legal requirements for T2S".

We appreciate the enormous effort invested in the URD by the T2S team and the lawyers. Particularly, we are grateful for the genuine interest the ECB team has demonstrated in the direct holding model and for the numerous bilateral meetings and discussions we have had during the spring. We look forward to continuing this fruitful co-operation.

Enclosures

FIN NUG's detailed comments
Letter to Mr. Godeffroy, entitled "T2S FIN NUG views regarding pricing principles", dated 14 March 2008
Note entitled "Finnish legal requirements for T2S"