14 March 2008

Unrestricted

T2S FIN NUG VIEWS REGARDING PRICING PRINCIPLES

Dear Jean-Michel,

In the conclusions of the TARGET2-Securities Advisory Group March 2008 meeting National User Groups were invited to analyse requirements for T2S pricing principles and provide proposals, by 15 March. The Finnish User Group discussed the issue on 13 March and concluded that the pricing principles should be based on a fair allocation of costs and competition neutrality.

Against this background, the NUG wishes to express the following expectations.

1. The basis for cost recovery must be transparent. Risk of cross-subsidization between TARGET2 and TARGET2-Securities (T2S) must be eliminated fully as far as normal circumstances are concerned.

2. The pricing of T2S itself should not give competitive advantage to any particular national market or CSD market model, ie the transaction price must be the same to all CSDs.

From the Finnish perspective it is of utmost importance that the T2S service comply fully with ECOFIN statement that T2S "should enable both direct and indirect holdings of securities in T2S, with the same efficiency and costs". The above entails direct holding markets facing a transaction fee per trade rather than per individual booking. This follows the same principle as the one applied in the AG meeting to cross-CSD transactions when relayed link arrangements would be used.

3. Moreover, the pricing scheme should not be constructed so that big players are given a competitive advantage over smaller ones. We think that, in principle, a volume discount policy fits very poorly in a public service such as T2S. If such discounts are applied in the marketplace it should be up to the decision of the particular CSD and thus not an issue for T2S service provision.

4. Cost components should be classified into variable and fixed very clearly and, preferably, before CSD commitment is required, especially if the pricing structure would resemble the current dual structure of TARGET2.

5. In more general terms, one should be able to gain a reasonably firm and profound understanding on the various kinds of pricing components that the Eurosystem may finally adopt. In addition to settlement of transactions, what in fact does the chargeable service in T2S constitute?

14 March 2008

Unrestricted

Although the general principle should be that, for example, pricing of reporting reflects resource utilisation of each query certain predefined reports and queries, which support users in achieving a high settlement rate, should be included in the fixed fee component.

In the particular case of direct holding systems, high costs per transaction and charges for specific frequent actions such as opening and closing of securities accounts, corporate action processing and standard reports would make participation in T2S very difficult from an economic point of view. Similarly, direct holding markets are quite sensitive to the pricing of the number of accounts held centrally. The same applies to the cost of communication between T2S and the remaining CSD systems which cannot entirely be considered a fixed cost component.

6. Finally, it is evident that markets have become much more cost/price sensitive than before mostly due to the introduction of the Code of Conduct as well as increased consolidation and public awareness. It is the view of the FIN NUG that the T2S fulfils its purpose only if its introduction brings about a decrease in costs to end-investors. Therefore, the future T2S pricing scheme should not result in a higher cost for domestic settlement or in the settlement of low value transactions. We are of the opinion that it is important to understand that skewed pricing could destroy even a technically sound and politically desirable business case. The FIN NUG feels that it may be useful to test various pricing models with users after the fixing of the main principles.

I hope these considerations will be of use when preparing an elaborated proposal for the next AG meeting.

Yours sincerely,

Kari Korhonen
For the Finnish T2S User Group