26 April 2007

THE ORGANISATION OF THE FIRST PHASE OF THE TARGET2-SECURITIES PROJECT

This document reflects the decision of the Governing Council of the ECB on the governance arrangements for the TARGET2-Securities (T2S) project. It describes how the T2S project will be organised during the user requirements phase, which will, unless the Governing Council decides otherwise, start on 1 May 2007 and end on 30 April 2008.

1.   The Advisory Group

Mandate:

The Advisory Group (AG) is an advisory body that reports directly to the ECB's decision-making bodies (the Governing Council and the Executive Board) on the T2S project. It is responsible for:

- delivering the first draft of the user requirements to the Governing Council by 30 November 2007;

- summarising the comments made on these user requirements by 30 April 2008;

- providing guidance to the technical groups (TGs) under the general guidance of the Governing Council.

The AG may request guidance from the Governing Council at other points in time during the user requirements phase. The AG may also help the ECB to prepare a new version of the economic impact assessment of the T2S project.

Composition:

In addition to the Chairperson and the Secretary, the AG is composed of experts drawn from three communities: the central banks, the central securities depositories (CSDs) and the users. Each community is equally represented by 14 full members. Additional representatives may attend the AG as observers.

The Chairperson of the AG is a senior manager of the ECB. ***The Secretary of the AG*** is a highly experienced ECB staff member. Both may designate an alternate who could replace them in exceptional circumstances.

The central bank community is composed of one representative from the ECB (in addition to the Chairperson and Secretary) and one from each of the national central banks (NCBs) of the euro area, all of whom are full members[1]. NCBs located outside the euro area may participate as observers if at least one CSD from their country is also participating as a member or as an observer. Furthermore, the four central banks ready to develop and operate T2S (the 3CBPlus) may appoint a representative as observer to reflect their future provider role.

The CSD community is represented by CSDs that are (1) settling all or part of their transactions in euro and are (2) envisaging the possibility of joining T2S in due time.

Full members: Each euro area NCB designates the CSD which represents its country. Since this number will not reach 14, the Nomination Committee may designate additional CSDs as full members, including those from non-euro area countries, on the basis of applications received by the Secretary.

Observers: Remaining CSDs which meet the above conditions may attend the AG as observers if they so wish.

It should be noted in this regard that:
- *CSDs outside the euro area may also be represented in the AG;*
- *it is understood that the Banque centrale du Luxembourg may designate Clearstream Luxembourg as its CSD, even if the latter does not as yet settle in central bank money;*
- *NCBs which operate a CSD themselves cannot designate it as the CSD representing their country. However, they may designate a representative of their CSD as an observer.*

The user community is composed of 14 full members and four observers. It comprises:

- 11 delegates from the major banks active in the securities business in euro, irrespective of their place of incorporation;

- Two delegates from banks in the euro area which mainly use the securities settlement industry to serve their local customers;

- One delegate from a central counterparty (CCP).

The three European credit sector associations are represented by an observer, as well as the Federation of European Securities Exchanges (FESE).

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[1] Additional representatives of the NCBs and CSDs of Member States may participate in the AG as full members as of the date of those countries adopting the euro. Before that date they may attend the AG as observers.

The nomination process:

- Central bank representatives are nominated by the Governor/President of the NCB in accordance with the respective NCB statute;

- CSD representatives are designated by the head of the organisation;

- User representatives are designated by the Nomination Committee, on the basis of applications sent to the Secretary.

Working procedures of the AG:

The decisions of the AG take the form either of advice to the ECB decision-making bodies, or decisions concerning the organisation of the work of the TGs.

Draft recommendations which do not belong in the field of competence of the AG are not accepted by the Chairperson.

In principle, the AG adopts recommendations by way of consensus. However, whenever the AG remains divided, the Chairperson may decide to measure the degree of support for a specific recommendation by asking all the full members of the AG whether they agree or disagree with it.

In case there are several recommendations on the same subject, only those which are supported by at least seven full members of the AG will be presented to the ECB decision-making bodies.

Nature of the participation:

The nominations in the AG are strictly on an individual basis. Members (and observers) cannot be replaced[2], but they may inform the Secretary that they intend to ask another member to express their views on their behalf. No member may represent more than one other member. Notwithstanding, members may designate an alternate who could, in exceptional circumstances, attend the AG as observer in case of absence of the former.

In principle, the AG will meet every two months at the invitation of the Chairperson.

2.   The Technical Groups

The Technical Groups (TGs) are each responsible for preparing one specific aspect of the user requirements. They report to the AG, in accordance with a calendar set up by the Coordination Group.

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[2]   Whenever a person nominated to represent a specific entity has left that entity, his/her membership will cease and a substitute member with adequate expertise shall be nominated when such a situation arises.

The following list of TGs will be established initially:

- TG on T2S scope and schedule;

- TG on T2S lifecycle management and matching;

- TG on T2S settlement functionality;

- TG on T2S static data;

- TG on T2S interfaces and telecommunication;

- TG on T2S non-functional requirements.

The draft mandates of the TGs are set out in the annex to this note. The AG may amend the list of TGs and/or modify their mandate if 60% of the full members agree.

TGs are composed of ten to 15 members, designated by the Nomination Committee on the basis of applications received by the T2S Secretary. Applications should come on behalf of the institution concerned and not on behalf of individuals. The chairpersons of the TGs are designated by the AG and are ideally drawn from their members. TG chairpersons who are not members of the AG may participate as observers in the AG.

Each TG member may designate an alternate to replace them in exceptional circumstances.

In principle, the TGs meet every month.

3.   The Coordination Group

The role of the Coordination Group (CG) is to:

- solve any problems of competence between the TGs, ensuring that there are no gaps or overlaps between them;

- help the Chairperson of the AG to establish the agenda of the AG.

The CG is chaired by the AG Chairperson who is assisted by the Secretary of the AG. In addition to the Chairperson and the Secretary, the CG is composed of the chairpersons of the TGs. At a minimum, the CG must be composed of one representative from the 3CBPlus; one from another euro area NCB; one from the CSDs; and one from the users. If required, the AG can designate additional members of the CG so that the above categories are all represented. All these representatives must be members of the AG.

In principle, the CG meets once a month, either in person or by teleconference.

4.   The National User Groups

The euro area NCBs will set up National User Groups (NUGs), which will comprise the AG members of the country and other stakeholders. Market communities outside the euro area may also set up NUGs.

The purpose of NUGs is to allow a large number of market participants to take part in the discussions concerning T2S in a decentralised way.

TGs and the AG may submit proposals to the NUGs for their comments. The deadline for all comments is in principle three weeks unless the Chairperson of the AG decides otherwise.

NUGs may also send resolutions to the AG for discussion.

5.   The Nomination Committee

The Nomination Committee (NC) is in charge of setting up:

- the list of user representatives in the AG;
- the list of CSD representatives in the AG in addition to those designated by NCBs
- the list of the members of the TGs;

The NC takes its decisions on the basis of applications received by the T2S Secretary. In making their decision, NC members ensure that:

- the individuals chosen have the relevant technical expertise;
- the composition of group members reflects the diversity of the major stakeholders.

The NC is chaired by the Member of the Executive Board of the ECB in charge of securities settlement issues. In addition, it is composed of the Secretary Generals of the three European credit sector associations, the Chairman of the European Central Securities Depositories Association (ECSDA) and the Chairman of the European Association of Central Counterparty Clearing Houses (EACH). The NC may ask for advice from the AG Chairperson and relevant TG chairpersons. In principle, the NC works on a consensus basis. In case consensus proves impossible to reach, the Chairperson of the NC will decide.

6.   The Project Team

Most of the work of the TGs, i.e. the preparation of the user requirements, is prepared by members of the ECB Project Team. Support is provided by a project team comprising Banca d'Italia, Banco de Espana, Banque de France and Deutsche Bundesbank (the 3CBPlus) which are ready to develop and operate T2S. The ECB Project Team comprises experts from central banks, banks and CSDs and is headed by an ECB manager who will act as the **T2S Programme Manager.** In parallel to the preparation of the user

requirements, the 3CBPlus will start the analysis of the input of the TGs in order to prepare the subsequent phases of the project.

7.   Transparency

Because interest in T2S far exceeds purely that of the participants in the AG meeting, arrangements are in place to ensure that a wide range of market participants and authorities can provide input to the AG and can be informed of their deliberations.

As a result, all documentation received or sent by the Chairperson and the Secretary will be published on a dedicated website, except documents of a confidential nature. For example, market participants may submit documents to the AG under condition of non-disclosure. The agenda of the AG and the documents to be discussed by it will be published at least two weeks before the meeting. Comments that are received by the Secretary at least three working days before the meeting will be distributed to the AG members.

Every two months, the ECB Project Team will publish on the T2S website a newsletter summarising progress made.

The ECB will also organise regular information sessions to share information and collect views from market participants and authorities who are interested in the project. Attendance of these meetings is open to all interested parties. In particular, issuers and public authorities (especially the European Parliament, the European Council, the European Commission and the Committee of European Securities Regulators) are invited to participate. Moreover, European Parliament, the European Council, the European Commission and the Committee of European Securities Regulators will receive presentations on the progress of Target2-Securities on a regular basis.

ANNEX: DRAFT MANDATES OF THE T2S TECHNICAL GROUPS

<u>TG on T2S scope and schedule</u>

The TG is invited to further define the following elements:

- Securities categories in the scope of T2S and out of the scope of T2S: types of securities should be defined in detail, including per domestic sub-categories where appropriate.
- Currencies which could be included in the different phases of the Project
- Types of transactions in the scope of T2S/ out of the scope of T2S
- General structure of the T2S operational day, and in particular the timing of the different phases, for example batch net settlement times, real-time gross settlement time structure
- Specific deadlines management rules, for example the definition of CSD interaction-time windows
- Availability of interfaces and structure of operating hours
- Start of day and end of day procedures and in particular the opening of a new settlement day
- Maintenance procedures, archiving, and the setting of recovery points.

<u>TG on T2S Lifecycle Management and Matching</u>

The TG is invited to further define the following elements:

- Matching rules to be applied to the T2S process, and in particular, detailed matching fields requirements per type of instructions, for example on Delivery-against-Payment or on Free of Payment transactions (list is not exhaustive)
- Tolerance levels to be applied per category of transaction. The TG should also define the relevant categories to be considered.
- Processing of trade allegements, and in particular the level of information to be transmitted to the counterparty.
- Cancellation rules per instruction category, for example bilateral or unilateral cancellation.
- Rules for trade enrichment for transparent countries
- Description of an instruction's lifecycle, and in particular rules for rejecting, purging, modifying instructions.
- Full list of instruction types necessary for the processing of the different businesses involved in securities transactions in the scope of T2S as defined by TG Scope and schedule.
- Lifecycle of specific non-settlement related transactions, and in particular payment orders and links to TARGET 2.

TG on T2S Settlement functionality

The TG is invited to further define the following elements:

- Description of the different steps leading to settlement
- Settlement prioritisation rules, and in particular, the detailed definition of the criteria and the sequence defining the priorities of settlement.
- Detailed description of the optimisation settlement mechanisms to be build in T2S, including trade-by-trade optimisation as well as technical netting functionalities
- Detailed definition of auto-collateralisation mechanisms and in particular the interaction with CCBM 2. The TG should detail mechanisms for countries operating in different legal environments, for example repo and pledge countries.
- Detailed description of specific settlement processes, for example of linked transactions or securities issued in a CSD outside of T2S.
- Settlement mechanisms for specific categories of securities in the scope of T2S as defined by the TG Scope and Schedule, for example, and if relevant, settlement process of UCITS, registered shares, physical securities.
- Cross-border settlement between CSDS, both within T2S and between a T2S CSD and a CSD outside of T2S
- Detailed settlement process of non-settlement related transactions, for example primary market activity, custody activity, Lending and Borrowing, Monetary Policy Operations.

TG on T2S Static Data

The TG is invited to further define the following elements:

- Definition of the different roles in the securities market
- Static data structure of participants accounts, and in particular the definition of a common structure allowing CSDs to interact with T2S
- Description of the links with TARGET 2 account structure
- High-level mapping to existing static data structure
- Definition of Access Rights, and in particular those applying to the different participant categories (NCBs, CSDs, Users)
- Definition of the necessary securities static data
- Description of interaction with external static data if relevant, for example with TARGET 2 or CCBM2
- Description of specific data needs, for example in transparent countries if relevant.

TG on T2S Interfaces and Telecommunication

The TG is invited to further define the following elements:

- Interaction between T2S and CSDs for the processing of their settlement instructions, and in particular, the definition of queries and reports needed by the CSDs to service their Users.
- Needs of CSDs for reporting tools for the processing of their value-added services, and in particular the detailed description of the format expected by CSDs, for example on-line queries or file reports.
- Definition of the Users' possibilities to send settlement instructions
- Needs for Users to receive reports or be able to query or download data
- Interaction with CCBM 2
- Interaction with TARGET 2

TG on T2S Non-functional requirements

The TG is invited to further define the following elements:

- Capacity related requirements, and in particular elaborate on peak day and peak hour volumes and consequences on IT capacities.
- Response time expectations, to be detailed in different areas of the system, for example on queries, on providing settlement reports.
- Number of concurrent users and consequences on IT capacities.
- Detailed description of Contingency Plans
- Description of Operational Procedures in contingency situations
- Description of availability, non-repudiation, integrity, recovery time and roll-back requirements
- Description of migration requirements and methodology