EUROPEAN CENTRAL BANK
EUROSYSTEM

T2S financial statements for the fiscal year 2022

May 2023

T2S operating statement[1]

Financial results for the fiscal year

(amounts in euro)

	Notes	2022	2021
Revenues		124,579,787	130,723,472
T2S fees charged to customers	1	123,705,887	129,650,032
Other income	2	873,900	1,073,440
Expenses		(117,773,870)	(112,997,538)
Services provided by the 4CB	3	(70,871,754)	(69,678,752)
Services provided by the ECB	3	(3,728,020)	(3,441,748)
Amortisation of T2S platform	4	(40,205,885)	(39,877,038)
Interest charged by NCBs	5	(2,968,212)	-
Net surplus/deficit		**6,805,916**	**17,725,934**

T2S financial situation[1]

Year-end balances

(amounts in euro)

Assets	Notes	2022	2021
T2S platform	6	193,434,552	229,984,260
Current accounts		15,152,638	46,314,889
Accrued income	7	40,554,603	13,241,539
Total assets		**249,141,792**	**289,540,688**

Liabilities	Notes	2022	2021
Pre-financing of T2S by the Eurosystem	8	458,083,413	505,825,396
Other provisions	9	150,000	50,000
Accrued expenses	10	4,601,919	4,164,748
Accumulated deficit		(213,693,539)	(220,499,456)
Total liabilities		**249,141,792**	**289,540,688**

[1] Figures might not add up due to rounding.

Explanatory notes

The notes on the 2022 T2S financial statements provide explanations and additional information about the figures in the T2S operating statement and the T2S financial situation report for 2022.[2]

Notes on the accounting policies

The T2S financial statements have been prepared in accordance with specific accounting policies developed by the Market Infrastructure Board (T2S Board). These policies are based on generally accepted accounting principles.

The T2S financial reporting framework covers standards for the annual T2S operating statement (expense and revenue accounts), the annual T2S financial situation report (asset and liability accounts) and the related disclosures.

T2S platform

Owing to their integral characteristics, both the hardware and software of the T2S system are treated homogenously and represented as a single intangible asset under the position "T2S platform". The latter represents the carrying amount of the T2S platform. The value of the T2S platform is made up of the capitalised development costs paid to the European Central Bank (ECB) and the four service-providing central banks (4CB), capitalised interest incurred during the construction phase, and additional development costs incurred during the operational phase, e.g. for new releases, after deduction of accumulated amortisation amounts and any impairment losses. Impairment tests are taking place annually as of the end of the migration phase (September 2017); impairment losses are recorded when the book value is lower than the asset's expected recoverable amount.[3]

Amortisation

The amortisation method reflects the pattern in which the asset's future economic benefits are expected to be consumed. The method was based on the (expected) proportion of settlement volumes already migrated in T2S during the migration phase (completed in September 2017) and is thereafter based on a linear method from January 2018 to September 2027 (ten years after the end of migration).

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2 For an introduction to, and further information on, the T2S financial statements, please refer to the explanatory note for the fiscal year 2015, which was prepared in parallel with the 2015 T2S financial statements.

3 The recoverable amount of an asset is the greater of its "fair value less costs to sell" and its "value in use".

Pre-financing of T2S by the Eurosystem

This item relates to the amounts owed to the Eurosystem national central banks (NCBs) that have been pre-financing T2S, namely the covered costs incurred for both the development and the operation of T2S. This liability effectively reflects the expectation that the participating central banks will eventually be reimbursed for the development and operational costs included in the T2S pricing envelope (the total amount, including capital cost, to be recovered through fees). The reimbursement will be funded by cash surpluses generated from T2S usage fees paid by T2S customers (central securities depositories (CSDs) and central banks). Reimbursement has begun in the year 2020 as the collected fees exceeded the annual operational expenses.

Operating statement

During the operational phase, the T2S operating statement shows a net surplus or deficit, depending largely on whether the T2S fees are sufficient to cover the T2S operational costs, the amortisation of the T2S platform, impairment losses, if any, and other expenses. A deficit could trigger an extension of the amortisation period and/or a price increase in order to reach full cost recovery within the given cost recovery period. A surplus would make it possible to repay the pre-financing loan given to T2S by the Eurosystem central banks. The yearly surplus/deficit is reflected in the net accumulated surplus/deficit account.

Income/expenses

Income and expense items are recognised once earned/incurred. In the operational phase of T2S, all operational costs are expensed as incurred to the T2S operating statement, while additional development costs (e.g. for new releases) are capitalised to the T2S platform and reported in the T2S financial situation report.

Accrued income and expenses

Procedures are in place to calculate and establish, at each year-end, the costs incurred by T2S but not yet reimbursed to the service providers, as well as income not yet collected but earned in the reporting year.

Post-balance-sheet events

This refers to relevant events that occurred after the reporting period which have a material impact on the reports for that period.

Cost recovery

In 2010 the Governing Council of the ECB decided that T2S would be developed and operated under the principle of full cost recovery. The Market Infrastructure Board (T2S Board) regularly monitors developments that may affect the prospects of cost recovery. The cost recovery target is based on: i) the T2S pricing policy (see Schedule 7 (Pricing) of the T2S Framework Agreement and of the Currency Participation Agreement),[4] ii) a given cost recovery period, iii) the total costs for developing and operating T2S, and iv) the usage of T2S resources which generate revenues for T2S.

While the use of T2S resources is dependent on market dynamics, the Governing Council of the ECB aims to steer costs and adjust pricing in order to ensure that T2S is in a position to recover all, and only, its total costs in the long term.
On 21 June 2018 the Governing Council of the ECB decided to extend the cost recovery period to the end of 2029 and increase the prices as of 2019 in order to ensure full cost recovery.[5] This decision was in response to the need to adjust the T2S pricing policy to the actual volume, cost, and revenue situation (see the announcement for more information).

Notes on the Financial Statements

1 Revenues – T2S fees charged to customers

The account "T2S fees charged to customers" shows the net revenues earned in 2022 by T2S.

The Governing Council of the ECB accepted a proposal by the Advisory Group on Market Infrastructures for Securities and Collateral and decided on 21 June 2018 to increase the delivery-versus-payment (DvP) price from €0.15 to €0.195 per instruction, plus a temporary surcharge of €0.04. The temporary surcharge is dependent on the growth of volumes. The price increase became effective as of 1 January 2019 (see the announcement for more information).

No discounts were applied in the years 2017 to 2022 since the "fee holiday" regime (reduction of the monthly fees by one third) for the 9 CSDs that had signed the contract with the Eurosystem (the T2S Framework Agreement) by 30 April 2012 expired in November 2016. For those CSDs, as well as for the other 13 that had signed the contract by 30 June 2012, the prescribed one-off joining fee[6] was also waived.

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4 Both documents are available on the T2S website, www.t2s.eu, under "For professional use" in the section "Legal documents".

5 See the T2S Framework Agreement, Section 2 (T2S pricing policy) of Schedule 7 (Pricing).

6 See the T2S Framework Agreement, Section 5.9 (One-off joining fee) of Schedule 7 (Pricing).

The T2S fees also include revenues related to the application of the rules and procedures laid down in Article 32(9) and in Section 5.9 of Schedule 7 (Pricing) of the T2S Framework Agreement.

2 Other income

Other income represents funds received and accrued in 2022 with the specific purpose of directly covering the service provider expenses for the regular technical and operational examinations of T2S services by the External Examiner as defined in Article 26.1 of the T2S Framework Agreement. The External Examiner is appointed by the Governing Council of the ECB on the proposal of the CSD Steering Group (CSG) and after consultation with the Non-euro Currencies Steering Group (NECSG).

3 Services provided to T2S

As of its launch in mid-2015, T2S has been incurring annual operational expenditures which are paid to the service providers: to the 4CB for running and maintaining the T2S platform and to the ECB for its coordination activities. The expenditures for 2022 amounted to €74.6 million (2021: €73.1 million).

4 Amortisation

See note 6, *"T2S platform"*.

5 Interest charged by national central banks

T2S owes interest to the Eurosystem NCBs for the loan that has financed both the development of the platform and T2S operations. The Eurosystem (pre-)financing effectively covers the liabilities of T2S vis-à-vis the T2S service providers (i.e. the 4CB and the ECB for its T2S coordination functions).

The interest rate used for the calculation is the annual average rate applied to the ECB's main refinancing operations (MRO rate). The accrued interest is calculated at year-end on the principal amount of the pre-financing of T2S by the Eurosystem.

In 2022 the applicable interest rate was 0.58% (annual average MRO rate) and interest expense accumulated in 2022 amounts to €3.0 million.

6 T2S platform

As at the end of 2022, the T2S asset value comprised: (i) capitalised costs incurred during the development phase up to the launch date, (ii) accumulated amortisation,

(iii) capitalised interest incurred during the development phase, and (iv) additional development costs related to change requests.

The amortisation amount of the T2S platform in 2022 was €40.2 million (2021: €39.9 million). Following completion of the migration phase and after the full volume capacity of contracting CSDs was reached in September 2017, the linear calculation method has been applied for calculating the amortisation since 2018.

Changes to the value of the T2S platform in 2022

(in euro)

Year	Event	Amount
2022	Opening balance	229,984,260
2022	Capitalisation of development costs for Release 6.0 and Release 6.2	3,656,177
2022	Amortisation	(40,205,885)
2022	**T2S platform closing balance**	**193,434,552**

The T2S Board decided to start impairment testing after the end of the migration phase (September 2017) once the information on the full potential of T2S revenues would be available. As at the end of 2022, there was no indication that the T2S platform may be impaired.

7 Accrued income

Accrued income reflects T2S revenue from July to December 2022 and other income not yet billed at year-end 2022. T2S invoicing was suspended temporarily from July to November 2022 following the implementation of T2S Release 6.0. As a consequence, T2S received a portion of the 2022 usage fee income only in January 2023.

8 Pre-financing of T2S by the Eurosystem

The Eurosystem (pre-)financing effectively covers the liabilities of T2S vis-à-vis the T2S service providers (the 4CB and the ECB for its T2S coordination functions).

The balance of the pre-financing of T2S corresponds to the loan that T2S received from the Eurosystem NCBs to cover the costs of developing, running and maintaining the T2S platform, plus the accumulated interest on the loan (see note 5). The cost recovery target corresponds to the full balance of the pre-financing.

Reimbursement of the Eurosystem pre-financing loan started in the year 2020 as the collected fees exceeded the annual operational expenses.

On 31 December 2022, the outstanding loan with the Eurosystem amounted to €458.1 million (2021: €505.8 million).

9 Other provisions

An amount of €100,000.00 was recognised in 2022 for conditional participation fees paid by two CSDs.

10 Accrued expenses

Accrued expenses relate to operational costs of the ECB as a T2S service provider as well as External Examiner expenses incurred in 2022 for which no invoices have been raised by year-end. On 31 December 2022, a total amount of €4.6 million was accrued (2021: €4.2 million).

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For specific terminology please refer to the ECB glossary.

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