

GENERAL PRINCIPLES OF T2S

Preamble

The overall objective of T2S is to facilitate post-trading integration by supporting core, borderless and neutral pan-European cash and securities settlement in central bank money so that CSDs can provide their customers with harmonised and commoditised settlement services in an integrated technical environment with cross-border capabilities.

In pursuing this overall objective, T2S aims in particular

- to remain lean and thus limited to those functions required for core settlement purposes;
- to remain neutral in that T2S will not favour or discriminate against specific countries, securities holding models, market infrastructures or groups of market participants, thus ensuring a level playing field;
- to generate economic benefits to the European post-trading industry as a whole by reducing cross-border and, at least in the long run, also domestic settlement cost, back office cost, liquidity and collateral needs as well as fostering competition through the provision of a single pan-European platform for delivery-versus-payment settlement in central bank money. It shall thus promote the welfare of European citizens by contributing to efficient capital markets.
- to overcome fragmentation of the European securities settlement infrastructure, to facilitate, in cooperation with financial market participants, further harmonisation in market practices at the European level in relation to the use of T2S and thus to contribute to overcoming fragmentation of the European post-trading industry.

Principle 1: The Eurosystem shall take on the responsibility of developing and operating T2S by assuming full ownership

In line with the Governing Council's decision of July 2006, T2S is fully owned and operated by the Eurosystem. The Eurosystem is committed to keeping market participants closely involved in a transparent manner, in particular for functional changes to T2S. A governance structure has been set up to achieve this objective.

Principle 2: T2S shall be based on the TARGET2 platform and hence provides the same levels of availability, resilience, recovery time and security as TARGET2

The Governing Council decided that T2S is developed and operated on the TARGET2 platform. Four Eurosystem central banks (the Deutsche Bundesbank, the Banco de España, the Banque de France and the Banca d'Italia, jointly referred to as the 4CB) are ready to develop and operate T2S on TARGET2 via the Single Shared Platform. Use is made of the valuable experience and knowledge that is available in the market. The intention is to exploit synergies and provide an efficient solution to central securities depositories (CSDs) and users. Enhanced liquidity management mechanisms are provided as a result of the proximity between T2S and T2. The existing operational structures and support organisation, business continuity and disaster recovery arrangements shall be reused to the maximum extent possible.

“T2S on T2” must be understood as an open concept that does not impose constraints on the user requirements.

Principle 3: T2S shall not involve the setting-up and operation of a CSD, but instead serves only as a technical solution for providing settlement services to CSDs

T2S is purely an IT settlement solution operated by the Eurosystem and provided to CSDs for the benefit of their customers. Therefore, it neither constitutes a CSD or a securities settlement system in the meaning of Article 2 of Directive 98/26/EC (Settlement Finality Directive) as amended in itself, nor is it intended to become one in the future. The scope of T2S is restricted to settlement, including settlement instructions resulting from corporate actions or portfolio transfer, for example. This therefore excludes the possibility of T2S engaging in any asset-servicing businesses (such as event set-up, computation of benefits and response management of corporate actions).

Principle 4: T2S shall support the participating CSDs in complying with oversight, regulatory and supervisory requirements

T2S is set up in such a way as to allow participating CSDs to comply with the relevant regulatory, supervisory and oversight requirements, as well as to strive for a high degree of harmonisation in meeting those requirements.

Principle 5: The respective CSD customers' securities accounts shall remain legally attributed to the CSD and the respective central bank customers' cash accounts shall remain legally attributed to the central bank.

Each CSD continues to be legally responsible (under their applicable laws) for opening, maintaining and closing the securities accounts of its customers in T2S and, where relevant, those of the clients of these customers as well. The same principle applies for central banks (euro as well as non-euro central banks) in relation to T2S cash accounts. Securities account balances and cash account balances in T2S are available to CSDs, central banks and their customers on a real-time basis.

Principle 6: The T2S settlement service allows CSDs to offer their customers at least the same level of settlement functionality and coverage of assets in a harmonised way

The aim of developing a common technical solution for settlement is to enable CSDs to use T2S to perform their entire settlement processing in a harmonised way. T2S should cover the full functionality needed for such a harmonised service and should enable enhanced liquidity management. If this is not achieved, CSDs will be forced to maintain duplicate settlement infrastructures, with a cost impact through both duplication and reduced economies of scale. The objective of T2S is to provide a level of functionality that frees CSDs from maintaining securities balances on a separate platform or from duplicating processes.

The scope of instruments eligible for T2S shall be all securities that have an International Securities Identifying Number (ISIN) and are held by a CSD operating in T2S.

Principle 7: Securities account balances shall only be changed in T2S

The T2S settlement model requires that the 'finality' of the settlement, in T2S, meaning the unconditionality, irrevocability and enforceability of the settlement processed in T2S, has to be determined by reference only to the accounts located in T2S. This implies the immediate legal value of all debits and credits (i.e. changes) to securities account balances (and, equally, to cash account balances) operated in T2S. The rules of participating CSDs have to be clear that securities account balances will only be changed in T2S. The proprietary aspects, including the completion of the legal transfers of securities, are determined in accordance with the laws of the country that has notified the CSD that has opened the securities account to the European

Commission in accordance with the procedures foreseen under Directive 98/26/EC (Settlement Finality Directive), as amended, or, in the case of a non-EEA country, thus where no notification to the European Commission is provided, the law of the country where the CSD is located.

Principle 8: T2S shall settle exclusively in central bank money

As stated above, T2S is a service for enhancing the efficiency of securities settlement across Europe while at the same time keeping central banks' cash account management within the central banks. Its scope is therefore limited exclusively to central bank money and does not extend to the settlement of commercial bank money.

Principle 9: The primary objective of T2S is to provide efficient settlement services in euro

When setting up T2S, the primary objective of the Eurosystem is to ensure efficient and safe settlement services in euro. The extension of T2S to other currencies is possible and contributes to the wider policy objective of an integrated securities market in Europe (see Principle 10).

Principle 10: T2S shall be technically capable of settling currencies other than the euro

T2S is technically capable of providing settlement not only in euro central bank money but also in non-euro central bank money. T2S handles all currencies in T2S on an equal basis. Currencies other than the euro need to fulfil the eligibility conditions for inclusion in T2S as set out in the T2S Guideline. Non-euro area central banks are expected to adapt to a harmonised, standardised interface.

Principle 11: T2S shall allow users to have direct connectivity

CSDs retain the business and legal relationship with their customers. All securities account balances are available in T2S, irrespective of the choice of connectivity. From a T2S point of view, the connectivity choice refers solely to the way in which users interface with T2S in order to send and maintain settlement instructions and access information services, i.e. use messages, queries and reports as defined in the T2S user requirements. Irrespective of the way in which they connect to T2S, settlement instructions are subject to equal processes within T2S. The connectivity choice is also neutral to CSDs, since all the necessary information, even from directly connected users, is available to CSDs.

Principle 12: CSDs' participation in T2S shall not be mandatory

CSDs' participation in T2S is a business decision on the part of the CSDs and their local market community. When deciding whether or not to join T2S, CSDs are expected to follow the interests of their shareholders and customers.

Principle 13: All CSDs settling in central bank money and fulfilling the access criteria shall be eligible to participate in T2S

All CSDs settling in central bank money in Europe and fulfilling the access criteria for CSDs which are set out in the T2S Guideline are invited to join T2S, regardless of their location inside or outside the euro area. In particular, participating CSDs have to be designated as securities settlement systems and notified in accordance with the Settlement Finality Directive (SFD) as amended in order to benefit from protection under the SFD or have to operate under a legal and regulatory framework that is equivalent to that in force in the European Union. Consequently, transfer orders processed in T2S acquire adequate protection under the relevant laws and rules of the individual CSDs that are designated under the SFD or the equivalent framework.

Principle 14: All CSDs participating in T2S shall have equal access conditions

The criteria for CSDs to access T2S are non-discriminatory and are set out in the T2S Guideline. All participating CSDs have access to all T2S services. A single, transparent and publicly available price list is applied (see also Principle 19 on compliance with the Code of Conduct). In line with European principles of competition, the Eurosystem provides its services to participating CSDs on a non-discriminatory pricing basis (in a similar manner as for other existing Eurosystem infrastructures, such as TARGET2).

Principle 15: All CSDs participating in T2S shall do so under a harmonised contractual arrangement

With reference to their contractual relationship with T2S, all CSDs receive the same service level and are subject to a harmonised contractual arrangement. This means that all CSDs willing to participate in T2S adhere to the same harmonised conditions for T2S's core functions. Specific optional services to be provided to a CSD would need to be covered by a specific contractual

arrangement. Any other CSD willing to use such specific services would also be eligible to apply under the same harmonised conditions for the specific optional services.

Principle 16: All CSDs participating in T2S shall have a calendar of opening days with harmonised opening and closing times for settlement business

The participating CSDs shall adopt the T2S calendar. For settlement of euro, this is the same as the TARGET2 calendar. Settlement in other currencies may deviate from the calendar for euro settlement. Delivery versus payment (DvP) settlement via T2S shall not be possible outside these calendars. Within the T2S calendar, a CSD which closes due to a national holiday needs to provide a minimum level of service (e.g. to allow the realignment of settlement carried out in other CSDs).

The opening and closing times cover daytime and night-time settlement. They are compatible with, though perhaps not identical to, TARGET2 operating hours. T2S provides exact cut-off times within the single T2S operating timetable – different cut-off times might for instance be required for specific operations (DvP notification submission, automatic lending operations, etc.).

Principle 17: T2S settlement rules and procedures shall be common to all participating CSDs

To minimise costs and simplify processes, T2S provides harmonised services to all participating CSDs and aims to harmonise all rules and procedures related to the services it provides. In addition to these harmonised rules and procedures, CSDs may maintain additional national rules and procedures, provided that such rules and procedures do not conflict with those of T2S.

When further harmonisation of post-trading processing in Europe is needed in order to derive full benefits from T2S, the Eurosystem supports the T2S Stakeholders in achieving this.

Principle 18: T2S shall operate on a full cost-recovery and not-for-profit basis

The Eurosystem prices the development and operation of T2S on a full cost-recovery and not-for-profit basis. While delivering a very high level of service in terms of quality, security and availability, T2S also seeks to be as cost-efficient as possible.

Principle 19: T2S services shall be compatible with the principles of the European Code of Conduct for Clearing and Settlement

T2S shall be compatible with the principles of the European Code of Conduct for Clearing and Settlement with regard to price transparency, the unbundling of services and accounting separation. Compatibility of T2S with the Code of Conduct enables CSDs also to remain compliant.