



Mr Jean-Michel Godeffroy
European Central Bank
Postfach 16 03 19
D - 60066 Frankfurt-am-Main

Brussels, 29 June 2007

Subject: Response to T2S Consultation Paper: General Principles and High-Level Proposals for the user requirements

Dear Jean-Michel,

On 26 April, The European Central Bank ("ECB") issued a consultation paper called "*T2S Consultation Paper: General Principles and High-Level Proposals for the user requirements*" inviting response from the market by end June 2007.

This letter sets out the thoughts of the Euroclear Group CSDs whom we represent in the Advisory Group and comes in addition to the comments made by ECSDA, which have our full support.

Principles and proposals

Although the principles were not explicitly open for consultation, they form the basis for the proposals defined in the consultation document and drives many aspects of the T2S project. Given that the principles are described as representing decisions already taken by the Governing Council, we find it curious that their full significance has not been indicated before and that, for several of them, there has been no meaningful market discussion. (This is particularly true of the principle relating to direct user access, which represents a fundamental change in the T2S proposal.) We believe that these points will need to be discussed properly before they will be accepted as the basis of the consultation proposals themselves.

In addition, we would also like to expand the list of principles to be discussed to include extra principles which we believe ought to drive the proposals and the set-up of T2S. These are as follows:

- T2S shall offer at least the same level of security as today in the CSDs,
- T2S shall offer at least the same level of efficiency as of today,
- T2S shall not be a constraint for the CSD service evolution,
- The choice of platform or technology should not put a constraint on the type of functionality that T2S should be able to offer and its evolution.

As noted in ECSDA's response, we do find it difficult at this stage to respond in a meaningful way to the proposals themselves as there is insufficient substance in them. Without further detailed clarifications on the "how", it has proved difficult for us to cast a judgment as to whether we agree or disagree with them. In addition, an aspect which we think would be beneficial to the proposal list is some indication of priorities and materiality. Therefore, as far as proposals are concerned, the points which we feel able to comment on at this stage are already included in the ECSDA's response.

Harmonisation and Lean T2S

At this stage, we would like to make a more general observation about the complexity of achieving harmonisation, based on our own experience after the successful conclusion of a three year consultation exercise and early experience of the modus operandi of the Technical Groups. We are, of course, strongly in favour of harmonisation in Europe. Our own experience has demonstrated the value of harmonisation and we hope that our efforts achieved within our Group markets will not be jeopardized by the creation of T2S.

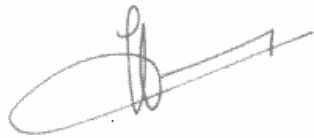
But our experience also demonstrates that harmonisation is a highly complex field, requiring the maximum understanding of the prevailing differences in market practices and requiring the intimate, well-considered engagement of all relevant stakeholders. All this takes time and while that may mean that projects do not necessarily proceed with the speed that project managers might ideally prefer, it is an essential investment in securing the best possible result. We very much fear that the ambitious timeframe set out by the Eurosystem to finalise the user requirements will be insufficient to achieve this. In turn this raises the strong risk that there will be inadequate buy-in from stakeholders (who will feel that they have not had proper opportunity to express their views), that there will be

insufficient credibility or confidence that the right solutions have been identified at the required level of detail and that the work of managing the impact of change will be left to work through only after firm decisions have been taken.

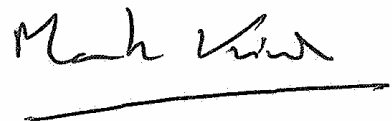
This last point is beginning to become apparent in the concept of a "lean T2S", now being raised in the Technical Groups, by which market "peculiarities" are not incorporated in T2S or incorporated as an optional module paid for by the "peculiar" market. While we can understand the attraction in making the central part of the T2S project more manageable, outsourcing the additional complexities created by T2S to others (mainly CSDs) is not neutral for the feasibility of the project. It is premature to make any comment on these features at this stage but it is essential that the analysis of the projects overall feasibility encompass the end-to-end situation, including how CSDs would handle these additional challenges.

For all these reasons, we see growing risks in the current project structure and timetable arrangements and we strongly urge you and the Governing Council to reconsider the current speed with which the project is being pressed.

Yours sincerely,



Joël Mérére
Euroclear France



Mark Kirby
Euroclear Belgium



Guy Schuermans
Euroclear Nederland



Paul Symons
Euroclear UK & Ireland