

**TARGET 2 SECURITIES “T2S”
GOVERNANCE PROPOSALS
Informal Comments from
European Securities Forum
International Capital Markets Association
London Investment Banking Association
Securities Industry and Financial Markets Association**

Introduction

1. The associations named above (the Associations) welcome the ECB’s open approach to the discussion about governance structures for T2S. In this note we set out some considerations to be taken into account, building on our earlier remarks and drawing on our experience of similar projects and the ICSA principles for the governance of market infrastructures.
2. Our purpose in making these comments and suggestions is to assist the ECB in creating an efficient mechanism for reflecting the views of market users and CSDs in relation to T2S. We recognise that there are certain constraints on the ECB arising from legal and political considerations; we think it is helpful to set out the ideal structure in this note. The primary mechanism will be the Steering Committee, complemented by the work of the technical groups. This note deals first with the Steering Committee (“T2SSC”), setting out general principles and our preferred structure. We deal separately with procedural matters and nominations and finally with other matters, which relate to the role of the co-ordinating committee and the technical groups.
3. At this stage, it is not entirely clear to us whether the T2SSC is an advisory body or a decision-making body; our preference is that the Steering Committee should play a **key role in the decision making process of the project** (and might therefore need to meet more frequently than once a quarter) as this would potentially provide for the required support of the market and the much needed credibility of the T2S project. If this is the case, the inclusion of Central Bank representatives in the Steering Committee makes sense (even if the Governing Council can also draw on advisory bodies like PSCC). We refer to the User-CSD-NCB structure as a “tri-party construct”.

General Recommendations

4. Whether or not there is to be a ‘tri-party’ construct for the T2SSC, we think that the following principles should be respected:
 - a. The objective of the ECB’s intervention – more efficient, competitive European securities markets – must be kept in mind at all times;

- b. The purpose of the governance structure – to provide an efficient mechanism for reflecting the views of market users and CSDs in relation to T2S – must be respected;
 - c. The governance structure should take account of international statements of good practice in relation to the governance of market infrastructures, such as the principles articulated by the International Councils of Securities Associations;
 - d. T2S is a Eurosystem project and it is the responsibility of the Eurosystem to manage the risks; and
 - e. The perception of conflicts of interest can be damaging to the process of building trust and should be eliminated; conflicts which cannot be eliminated must be appropriately managed.
5. Whether or not there is to be a ‘tri-party’ construct for the T2SSC, we think that due weight should be given to the needs of international, wholesale markets. There is a risk that a ‘multi-domestic’ structure based on national central banks, national settlement infrastructure and national user communities will not take account of the needs of international, wholesale markets; at worst, national markets could be actively inimical to international markets (including cross-border European markets). It may be necessary to create an ‘international committee’ for this purpose.

Our preferred structure

6. That said, our preference is that T2SSC should comprise:
- 1 Non-executive chairman
 - 8 CSDs to be selected from among the Eurozone CSDs
 - 6 banks
 - 6 investment firms
 - Up to 3 representatives of other stakeholders (such as trading platforms, CCPs, issuers)
- making a total of 21 plus up to three observers.

Trading platforms and CCPs could be represented efficiently by their respective trade associations FESE and EACH as associate members (with the right to speak but not to vote). Some feel that issuers do not need to be represented as such.

In selecting representatives, due weight should be given to the needs of international, wholesale markets. We recognise that the project managers and the project owners will want to be involved in the Steering Committee’s work. For reasons related to the management of conflicts of interest, we would prefer that the service providers (i.e. the four NCB’s coding the system, plus project management,

legal, and supervisory oversight personnel) would attend as required but would not be members of the Steering Committee. The Chairman would be the representative of the Steering Committee who would exercise the Committee's right of access to the ECB Governing Council.

7. We think it is important to establish 'ground rules' or 'rules of the game'. Members of the T2SSC will serve in a personal capacity as representatives of their sub-sector. We expect the secretariat to be provided by ECB. Representatives should be permitted to nominate a 'nominated adviser' from a trade association to receive papers and provide briefing to that representative. The role of the 'nominated advisers' is to support members so that they can give authoritative views. Trade associations nominated by steering group members should be sent papers at the same time as the rest of the T2SSC. There is no obligation on the part of member of T2SSC to nominate a trade association; nor, having nominated a trade association, to take briefing; nor, having taken briefing, to raise the points briefed. Publication of minutes, promptly, will also help build trust.

Procedural matters and nomination process

8. We also considered whether there should be procedural rules specifying that certain decisions should be taken by majority, super-majority or in some other way. Our expectation is that the group should operate by consensus and that differences of view should be accommodated by drafting round the problem, at least for policy questions. For genuinely 'binary' issues, where the possible solutions are mutually exclusive, we think that the issue should be put to market-wide consultation with a 'majority view' – if a 'majority view' exists. There may also be a category of questions where the deliberations of the T2SSC result in a paper for the ECB Governing Council which will be invited to take a decision based on the considerations outlined in the paper. There should be a mechanism for minority views to be put forward to the Governing Council. The detail of the procedural rules in respect of decisions (consensus, majority etc.) should be determined at a later stage, in particular in view of the logically prior need to define the scope of the duties and the competences of T2SSC.
9. We turn now to the nomination process for the investment firms and banks. As to term lengths, we note that it has been suggested that members of T2SSC will be appointed in the first instance for a term which will come to an end following the ECB's decision whether or not to proceed with the project, expected in April 2008. While this seems sensible, it is likely that continuity will be required if the project proceeds and this should be re-considered in parallel with the second public consultation. We think it is desirable to seek to ensure that a broad range of expertise is represented, including expertise in equity and fixed income markets and in domestic European and international markets. Since banks and securities firms are both guaranteed access to European settlement infrastructure by MiFID, it seems to us that the credit sector associations and the securities associations should nominate market participants to serve on the T2SSC. We think that representation

need not be restricted to employees of the firms; full-time employees of trade associations should also be eligible.

Other matters

10. If there is to be a 'co-ordinating committee' we think that its role will be to ensure that cross-cutting issues from the technical groups are appropriately handled, exercising oversight over the project management cadre for this purpose. Again, prompt publication of the minutes will help to build trust.
11. We have not considered the arrangements for the technical groups in detail; but we think that it is important that they are transparent (publication of agendas and minutes, at least to subscribers); that they take account of input from non-members; and that they are not 'captured' by local or national interests.
12. We remain available to discuss any aspect of this paper in more detail; please contact John Serocold at LIBA in the first instance.

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