

21 May 2008

## **T2S GOVERNANCE DURING THE SPECIFICATION PHASE OF THE TARGET2-SECURITIES PROJECT**

The Governing Council of the ECB has decided on the governance arrangement for the “specification phase”, i.e. for the duration of the development of the General Functional Specifications (GFS), which is expected to last until end 2008 and of a first version of the User Detailed Functional Specifications (UDFS), which is expected by the end of 2009. During the specification phase, the Eurosystem will continue its assessment of possible governance models for the development and operational phase of T2S.

### **T2S GOVERNANCE FOR THE SPECIFICATION PHASE**

The T2S governance arrangement will remain largely unchanged for the specification phase. In that respect, decisions concerning T2S will be taken by the Governing Council. Issues falling within the mandate of the T2S Advisory Group (AG) will be directly submitted by the AG to the ECB’s decision-making bodies – the Executive Board and the Governing Council – for a final decision. In accordance with their mandates, Eurosystem internal committees may advise the ECB’s decision-making bodies on the proposals made by the AG but cannot change them. Matters not covered by the mandate of the AG will be dealt with by Eurosystem internal committees with the final decision being taken by the Governing Council.

### **1. T2S ADVISORY GROUP**

#### **Mandate:**

The AG is an advisory body that reports directly to the ECB’s decision-making bodies on the T2S project. It may request guidance from the Governing Council directly. The AG is established for the duration of the specification phase, which is expected to last until end-2009. The AG is responsible for:

- the review of the GFS and the UDFS to ensure their full compliance with the User Requirements Document (URD);
- supporting the further definition of the legal framework establishing T2S and underpinning the GFS and the UDFS;
- supporting the Eurosystem in further defining the pricing framework;
- implementing and continuing the work on harmonisation in the field of securities settlement related to T2S that began during the user requirements phase.

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The AG may establish sub-groups to support its tasks if it deems this efficient and effective.

### **Composition:**

In addition to the Chairperson and the Secretary, the AG is composed of a number of experts representing three stakeholder groups equally: central banks, CSDs and users. Furthermore, a representative of the European Commission participates in the AG as a full member. Additional representatives with possibly different backgrounds may attend meetings of 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. Each may designate an alternate to substitute for them in exceptional circumstances.

*The central bank stakeholders* are composed of one representative per central bank. Eligible central banks are the ECB, the national central banks (NCBs) of the euro area and each central bank outside the euro area that has requested to have its currency settled in T2S. All central bank representatives are full members.

*The CSD stakeholders* are represented by CSDs that have declared their support of T2S, that are willing to enter into a contractual arrangement with the Eurosystem which is envisaged to be concluded by the end of the first quarter 2009. This contractual arrangement shall include a commitment to use T2S once it is in operation. Those CSDs may include CSDs of the euro area and CSDs outside the euro area that (i) settle all or part of their transactions in euro via T2S or (ii) that settle their national currency via T2S. The degree of support expressed by CSDs will determine whether such CSDs can participate as full members. The number of CSD representatives in the AG shall be equal to the number of central bank representatives. Each CSD shall be represented by at least one member and, with a view to equalising the number of the two stakeholder groups, larger CSDs shall have a higher number of representatives, depending on their settlement volume. The European Central Securities Depositories Association (ECSDA) will then be invited to suggest which CSDs should have more than one representative. The modalities for CSD representation will be determined by the CSDs represented in the AG in co-operation with the AG Chairman.

The number of participants in the *user stakeholder group* is identical to the number in the central bank stakeholder group. The composition of this group shall be as follows:

- at least eleven delegates from major commercial banks active in the securities business in currencies that will be eligible for settlement in T2S, irrespective of their place of incorporation;
- at least two representatives from international investment banks;
- at least two delegates from banks which mainly use the securities settlement industry to serve their local customers;
- at least one representative from a central counterparty (CCP).

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In addition to the full members, the following *observers* – who do not have voting rights – may attend the AG's meetings: one representative of the Committee of European Securities Regulators (CESR), the European Banking Federation (EBF), the European Savings Banks Group (ESBG), the European Association of Co-operative Banks (EACB), the European Securities Services Forum (ESSF) and the Federation of European Securities Exchanges (FESE) respectively. In addition, one representative of the 3CB+ and those CSDs that support T2S and which are operated by NCBs, and all the chairpersons of AG sub-groups may participate as observers. Furthermore, the Chairman of the AG may invite experts on an ad hoc basis to participate in the AG's meetings.

### **The nomination process:**

- central bank representatives are nominated by the governor/president of the central bank in accordance with the central bank's 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;
- observers are nominated by their institution or body. Chairpersons of AG sub-groups are nominated by the Chairman of the AG.

The nomination of the AG members is effective for the duration of the specification phase of T2S. The newly nominated members shall replace the AG members that served during the user requirements phase when their mandate expires in summer 2008.

### **Working procedures of the AG:**

The AG's conclusions take the form of advice to the ECB decision-making bodies. With regards to AG internal matters, in particular with respect to the setting-up and organisation of the sub-groups, the AG may also adopt resolutions, which shall be binding.

The AG shall aim to adopt its resolutions by consensus. However, in the absence of consensus, the Chairperson may decide to assess the degree of support for a specific issue by asking all the full members of the AG whether they agree or disagree with it. The level of support shall be communicated to the ECB's decision-making bodies.

A minority view that is supported by at least seven full members of the AG shall be notified to the Governing Council and the Executive Board. For issues that are of extreme importance, seven full members can request that their minority view be submitted to the ECB's decision-making bodies immediately.

The AG may establish sub-groups to support its work related to (i) the technical implementation of the user requirements, (ii) harmonisation for T2S-related matters, (iii) legal issues related to T2S or (iv)

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any other area where the AG deems specific support necessary. The mandates of such sub-groups shall be defined and adopted by the AG.

The chairpersons and the regular members of the sub-groups will be nominated by the Chairperson of the AG upon application to the Secretary by the respective institutions or bodies.

The AG generally meets once every quarter, or on an ad hoc basis, at the invitation of the Chairperson. The AG shall work in an open and transparent manner and any T2S-related information, except documents of a confidential nature, shall be published on a dedicated T2S website.

By the end of 2008, the AG shall submit a proposal for rules of procedure to the Governing Council of the ECB.

### **Nature of the participation:**

The participants in the AG shall be senior representatives of institutions or bodies active in securities settlement issues. Nominations to the AG shall be on an individual basis. Full members and observers may only be substituted in exceptional circumstances. The Secretary must be informed in advance if a member is to express views on behalf of another member, or if an alternate is to attend a meeting.

Whenever a member of the AG (full member or observer) leaves the entity that has nominated him/her to the AG, his/her membership shall cease and a substitute member with adequate expertise shall be nominated.

## **2. NOMINATION COMMITTEE**

The Nomination Committee (NC) is in charge of nominating the user representatives to the AG. The NC takes decisions on the basis of applications received by the AG's Secretary. The NC is chaired by the ECB's Executive Board member in charge of securities settlement issues. It is composed of the Secretary Generals of the three European credit sector associations, the Chairman of the European Association of Central Counterparty Clearing Houses (EACH) and the Managing Director of the European Securities Services Forum (ESSF). The NC may ask for advice from the AG's Chairperson. The NC shall take decisions by consensus. If no consensus can be reached, the Chairperson of the NC shall take the final decision.

## **3. THE NATIONAL USER GROUPS**

The euro area NCBs will set up National User Groups (NUGs) comprising the AG members of the euro area Member States 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 manner.

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The AG and its sub-structures may submit proposals to the NUGs for their comments. The deadline for all comments shall, in principle, be three weeks after notification of the proposals unless the Chairperson of the AG decides otherwise. NUGs may also send resolutions to the AG for discussion.

### **4. T2S TEAM**

The T2S Team shall support the AG in its work by providing the AG with Secretariat support and by preparing analyses and proposals on issues relevant to the AG. The T2S Team will also be the interlocutor for the 3CB+. It will regularly invite the 3CB+ to meetings to discuss issues of common interest and prepare the assessment of the 3CB+ deliverables. The T2S Team will be the link between the AG and the 3CB+.

### **5. T2S INFO SESSIONS**

In order to satisfy the interested public's need for information, the current T2S Info Sessions shall be continued. Attendance at these meetings is open to all interested parties. An Info Session shall be held every quarter if sufficient information is available justifying the organisation of such a session. Attendees may provide suggestions for discussion by the AG. The Chairman of the AG will decide the most suitable way of addressing such suggestions.