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Subject: TARGET2-Securities Future Pricing Principles

Dear Jean-Michel,

Following the last Advisory Group meeting on 3-4 March 2008 during which the future pricing principles of TARGET2-Securities were discussed, the EACB would like to stress its general standpoint as far as the issue of pricing is concerned:

First, since TARGET2-Securities is a public sector initiative of the Eurosystem to provide an infrastructure for the settlement of securities in Europe, a strong pricing principle should be **neutrality**, i.e. that the prices should enable a fair competition between CSDs, without favouring one business model over another.

Second, the EACB is confident that all euro area CSDs will join T2S and therefore expects the Eurosystem to benefit from economies of scale which will allow it to charge CSDs an average settlement fee which will be substantially lower than the current CSD prices. This assumption is the basis for the support of cooperative banks to the project. However, the EACB would like to stress that, although it will no longer differentiate between domestic and cross-border transactions within T2S countries, **the future T2S pricing scheme should not result in a higher cost for domestic settlement**. Indeed, T2S has the potential to improve efficiencies and reduce costs not only in relation to large-value cross-border transactions, but also at the level of domestic players.

Third, the EACB thinks that another key principle of the T2S future pricing policy should be to create **incentives for innovation and further efficiencies**. Indeed, considering the time horizon of the project, it is important not to prejudge of future evolutions at this stage.

Finally, in relation to the Code of Conduct for market infrastructures, the EACB welcomes the intention of the Eurosystem to apply the Code provisions on **price transparency** to the operation of T2S, in addition to the Eurosystem pricing principles. Such transparency is expected to benefit users in terms of increased visibility on costs and harmonisation of settlement prices across asset classes.



I trust that you will take the above principles into consideration in future discussions on T2S pricing and I remain at your disposal should you have any questions.

Yours sincerely,

Hervé Guider
General Manager