

-----Original Message-----

**From:** John Serocold

**Sent:** 31 January 2007 20:44

**To:** Jean\_Michel.Godeffroy@ecb.int

**Cc:** h.sachs.simpson@btinternet.com; anders@reveman.com; Marc.Bayle@ecb.int;  
'Daniela.Russo@ecb.int'

**Subject:** FW: LIBA: T2S governance response

**Importance:** High

Dear Jean-Michel

Thank you for giving us the opportunity to comment on T2S governance. We think this is a crucial aspect of the T2S project. We welcome the ECB's efforts to acknowledge our comments and seek potential solutions and trust that this will continue. We very much welcome your acknowledgement of the ICSA principles as a standard to be met.

In the time available, I have only been able to conduct limited soundings with my members; we want to remain engaged with you on this topic as your thinking develops. Our participation in the process, and in these discussions, should not be misconstrued as unconditional support for the project. We raise five high level points and a number of more detailed comments.

1. Why is user governance important? To obtain and retain the support of those affected by the project. To facilitate a thorough understanding of users' needs. To ensure a focus on efficiency, innovation and the benefits of technical progress. To ensure a continued focus on the need to ensure that European capital markets are efficient, attractive and internationally competitive.
2. How can user involvement be made efficient and representative? By ensuring that all groups with specific, distinct needs are represented. Examples include: broker-dealers, investment banks, securities lending and repo market participants, primary dealers, CCPs, as well as custodians and CSDs. Issuers and investors also have a part to play. The securities industry rather than the payment and credit industries are the principal users. There may well be a role for the European Forum of Securities Associations; we will consider this further.
3. Who should serve on the groups? Members of the groups should be appointed 'a titre personnel'. They should have the power to appoint an alternate, who may be from another firm or a trade association. Members and alternates must have an equal right to receive papers at the same time as their principal and to discuss the issues with selected colleagues. Ex post transparency is also important.
4. What are the ideal outcomes? The user group should be authoritative and clear. It need not proceed by consensus. The needs of retail investors must be borne in mind, though it is unlikely that they will be directly represented.
5. In addition, it is understandable – but mistaken – to seek to restrict the group only to those who are committed to the project. T2S will be convincing in operation only if it succeeds in winning the business of the most demanding users: the heavy users of existing infrastructure, as well as those who could do more if the market infrastructure were improved. Further consideration must be given to the evolution of the governance mechanism as the project develops and enters production.

Our additional, more detailed comments are:

1. The proposed **Eurosystem observer** could give rise to **confidentiality issues** In specific situations the Groups' members might prefer to discuss without the presence of the ECB, e.g. when a common position towards the Eurosystem is to be discussed. A **case by case opt out solution** would be adequate.
2. Regarding sub-item 3 (provision of a manageable process) it is worth mentioning that in case of doubt **quality should override speed**.

3. The installation of an **Advisory Group**, as described under bullet point 3, consisting of representatives of the ECB, CSDs, NCBs and market participants which will have the opportunity to **discuss relevant documents** with the **PSSC** before they take a decision or make advice to the Executive Board and the Governing Council is welcome. Nevertheless some **open issues** remain:
  - a. Market participants' representatives are intended to be designated by the three European credit sector associations. See paragraph 2 'How?' above. It should be noted that interests and expertise of associations' representatives might deviate from those of institutions' representatives. We suggest a possible mechanism for dealing with this in paragraph 3 above.
  - b. An introduction of **technical groups** representing market participants and CSDs is generally welcome. Their functions are not explained in the Working Document. These should be specified.
  - c. A banks' and a CSDs' **High Level Group** to examine in advance documents for the Governing Council and to address views directly to it does **not appear** to be the **appropriate place for CEOs** of these institutions. A lower management level should take this part. Again, the candidates' selection process and the European credit associations' role should be explained; we think there is a role for securities sector associations.
4. We question whether the PSSC is the right mechanism for the link to the ECB.
5. The High level group must have direct access to the most senior governing body; as currently envisaged, this means the Governing Council.

We remain convinced that a thorough consultation would significantly enhance the legitimacy of the project. We would prefer the Governing Council to take a well-grounded decision whether or not to proceed following a public debate, informed by the publication of the papers produced to the Governing Council.

We think that further, careful consideration should be given to the benefits of establishing a separate legal entity to carry out the project and, perhaps, to operate the platform in due course. These are not decisions which can or should be taken at this stage. We should point out that the market did not challenge the idea of ECB ownership/decision making because it was presented as a fait accompli at the tri-party meetings.

It is imperative that T2S does give firms the right level of service at the right price, and that the users' interests are of paramount importance when decisions are taken. If not the risk is liquidity could move outside T2S.

Please do not hesitate to contact me if you would like to discuss this further.

John Serocold  
Director  
London Investment Banking Association  
6 Frederick's Place  
Old Jewry  
London  
EC2R 8BT  
tel: +44 20 7796 3606  
direct: +44 20 7367 5503  
e: [john.serocold@liba.org.uk](mailto:john.serocold@liba.org.uk)

This e-mail is intended for the use of the addressee only. It may contain privileged or confidential information. If you are not the addressee, you may not copy or otherwise use the information. If you receive this e-mail by mistake, please notify us immediately at [liba@liba.org.uk](mailto:liba@liba.org.uk).

