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European Central Bank  
Secretariat Division  
Kaiserstrasse 29  
D-60311 Frankfurt am Main  
Germany

Brussels, 7 July 2003

Subject: TARGET 2 consultation – Euroclear response

Dear Mrs,

While the Euroclear group is not a direct TARGET user, many of our clients are, and we welcome the opportunity to provide you with our comments on the consultation document on the development of TARGET 2. Our comments are high level, and we abstain from any specific remarks on the model itself, its development or pricing, or on the transition phasing.

First, we welcome any initiative that reduces costs to participants in the cash and securities markets. While TARGET is already a critical vehicle for Central Banks and many private payment systems, the enhancement to an integrated platform promises improved payment deadlines and lower costs.

At the same time however, such integration of domestic payment systems is a substantive undertaking and should leverage existing infrastructures wherever possible. As you know, the payments systems in Europe are run mostly by the Central Banks who have developed efficient technical infrastructures (and legal regimes) linking to the local securities depositories to offer DVP settlement in Central Bank money. These efficient links allow settlement to take place on a single platform intra-day, and net cash positions to be covered or transferred at the end of the day. Similarly, private payment systems such as CLS and EBA also

settle on a single platform and on a book-entry basis with efficient links to TARGET, which should be maintained and leveraged.

In the Euroclear environment, we will combine the functionalities of the links between the different CSDs of the group and their Central Bank payment systems onto a single platform, the "Single Settlement Engine" (SSE). The result for users of the Euroclear System will be that they will continue to be able to settle transactions in Central Bank money for domestic transactions, but also for cross-border transactions within the Group. For example, a UK based buyer settling through his payment bank's relationship with the Bank of England will be able to settle on a DVP basis with a seller in France receiving the cash through his payment bank's relationship with the Banque de France. This process will result in the 5 Central Banks of the group (UK, Ireland, France, Belgium and the Netherlands) having to settle, via TARGET, the resulting long or short positions. Here as well, any improvement in the operations and costs of TARGET will benefit the efficiency of payments resulting from cross-border securities transactions.

As you mention in the consultation paper, TARGET 2 will require substantial time to develop. Indeed, each infrastructure will develop at its own pace, driven by the demands of its user community. It is therefore important to keep General Management and Project Management levels of each of our respective infrastructure developments abreast of each other's respective plans and progress, so that neither development is hampered or slowed down, since this would be a source of additional costs to users and the market as a whole.

You refer to the accessing countries infrastructure needs for the coming years. We fully support your views in this matter, and are also of the view that some common platform development to ease payment flows within that group and towards other payment systems will be valuable for their EU integration.

We trust you are in consent that the above comments are rather general as we are not a direct TARGET user ourselves. But we would very much welcome close liaison over the coming months, especially on the functionalities of the Euroclear Business Model in terms of payment mechanisms.

Sincerely,

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Head of Strategy and Public Affairs  
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