

**ESTONIAN NATIONAL USER GROUP
FOR THE TARGET2-SECURITIES PROJECT
(EENUG)**

28 November 2011, 10:00–11:30

Eesti Pank, Tallinn

Minutes of the Meeting

Chairman of the meeting: Kadri Martin
Secretary of the meeting: Tiina Soosalu

Participants at the meeting: Kadri Martin, Viive Sumberg, Tiina Soosalu (Eesti Pank); Marek Pajussaar (Financial Supervision Authority); Kersti Kiop, Kristel Vanasaun (Estonian CSD); Kristiina Kaljurand, Lembit Olev (Ministry of Finance); Jaana Otsasoo, Kärt Mets, Eha Rudi (AS SEB Pank); Elo Tempel, Kristi Kaseväli (AS Swedbank); Anna Krasnova (AS Eesti Krediidipank); Merle Peldes, Helen Kliimask (Danske Bank A/S Estonia branch); Piret Tamm (Marfin Pank Eesti AS)

Agenda of the meeting

1. Overview of the events held and resolutions made
2. Impact of the T2S project on the Estonian market – EENUG impact analysis; further action
3. Agenda of and preparation for the T2S Advisory Group meeting
4. Annual plan for 2012 and review of the priorities
5. Any other business

1. Overview of the events held and decisions taken

Kadri Martin informed EENUG members that the text of the T2S Framework Agreement had been adopted by the ECB Governing Council. One of the most important subjects for Estonia in the agenda of the next T2S Advisory Group meeting is pricing. The Currency Participation Agreement is still under negotiation and will be finalised by the beginning of 2012.

Kristel Vanasaun added that, according to the information available, an estimated 70-80% of the transactions could be settled in Estonia at account allocation price. Transactions between two professional market participants would be conducted at full price. The all-in model would be more feasible but the competitive positioning of Estonia needs further analysis.

Elo Tempel emphasised that we ought not to completely rely on the all-in model, as the model would not allow Estonian banks to compete with Finnish banks.

Kristel Vanasaun added that the Estonian CSD was weighing up the pros and cons, as the initial CoreNet price list was quite expensive. In addition, the Baltic States are preparing to jointly address the European Central Bank, raising concerns about cross-border settlements in T2S.

Resolution:

- a) EENUG members associated with Finnish banks through the banking group will investigate into the transactions concluded in Finland (description of the transaction structure): do professional investors conduct transactions through CCPs and are the transactions FOP?

2. Impact of the T2S project on the Estonian market – EENUG impact analysis; further action

Kadri Martin informed EENUG members that the approval of the impact analysis by EENUG had been delayed – in September, it had been evident that a number of important decisions would be taken, which could change the impact analysis. The impact analysis has been updated and the document will need to be approved in the near future.

Lembit Olev drew attention to major changes in the legal environment and enquired whether the level of detail in the impact analysis should be lowered.

EENUG members also discussed whether the impact analysis should contain information on the time schedule for Estonia's migration to T2S. Kadri Martin told EENUG members that there were three waves of migration, plus a fourth wave for those who failed to migrate in the previous waves for some reason. Early joiners will receive certain benefits – early joiners are not required to pay the accession fee, which amounts to 25% of the service charges for the first year of operation. The time schedule will be prepared by August 2012.

According to Kristel Vanasaun, an additional analysis needs to be performed in order to decide which wave would be the most feasible. In addition, the Estonian CSD needs to prepare a feasibility assessment prior to the signing of the Framework Agreement. The Estonian CSD is waiting for the Ministry of Finance's decision which is required for signing the Framework Agreement.

Kadri Martin added that the selection of the layered model instead of the all-in model would raise concerns regarding settlement finality and legal certainty. The price is the only advantage of the layered model. At the same time, the terms and conditions of the all-in model are better than a year ago.

Kristiina Kaljurand proposed to include the justification for the selection of the model in the impact analysis.

Resolutions:

- a) To make the final changes in the impact analysis and approve the document before the end of the year.
- b) The Estonian CSD will initiate the preparation of the feasibility assessment, engaging EENUG members in the process, where necessary.

3. Agenda of and preparation for the T2S Advisory Group meeting

Kadri Martin informed EENUG members that, alongside pricing, the second issue highly relevant to Estonia was the proposal to be made at the upcoming T2S Advisory Group meeting on the initiative of Finland and Estonia regarding automatic linkage of the securities account and cash account. In the process of preparation of the Framework Agreement, the ECB only adopted the amendment proposals required for the launch of T2S. The automatic linking option was thus initially ignored. At the same time, manual linkage of the accounts involves higher operational risks, stemming from the human factor. In Estonia, a few dozen accounts can be linked in one day. This number is significantly higher in Finland.

The next T2S Advisory Group meeting will also discuss harmonisation, which could be one of EENUG's priorities for the next year. In Estonia, this subject requires the initiative of the Estonian CSD and the Ministry of Finance.

Kristel Vanasaun added that the Ministry of Finance ought to conduct an additional analysis on the settlement of third-pillar pension fund units in T2S, which can currently only be settled domestically, in order to decide whether to enhance their mobility or to exclude them from T2S, similarly to second-pillar pension fund units.

Lembit Olev pointed out that the European Commission's draft securities market infrastructure regulation (EMIR) provides for an exception for units of pension schemes.

Resolution:

- a) The Ministry of Finance will conduct an additional analysis of the issues related to third-pillar pension fund units.

4. Annual plan for 2012 and review of the priorities

Kadri Martin informed EENUG members that ECB was weighing the option of reducing the number of T2S Advisory Group meetings from four to three in 2012. The EENUG annual plan has thus not been completed. The next T2S Advisory Group meeting will probably be held in March 2012.

Resolutions:

- a) An extraordinary EENUG meeting will probably need to be held at the beginning of the year before the T2S Advisory Group meeting.
- b) The priorities for 2012 include harmonisation and feasibility assessment (must be completed for the signing of the Framework Agreement), along with the analysis of the waves of migration. The EENUG's annual plan, together with the persons responsible, will be prepared by Eesti Pank as soon as the T2S Advisory Group meeting schedule is published.

5. Any other business

Kadri Martin informed EENUG members that Eesti Pank was planning changes in the structure of the Estonian Council of Payment System Experts (EMEN) to subject EENUG to EMEN. A higher body will thus be established for EENUG. In addition to T2S issues, this body will discuss issues related to settlements and the establishment of the SEPA forum, as well as collateral management. The EMEN will probably include a representative of the Ministry of Finance.