

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

23 March 2012, 14:00–16:00

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, Tiina Soosalu, Viive Sumberg, Ülle Lukkonen, Kaire Torsus, Viivi Enni, Rea Tänav, Innar Vainre, Mihkel Nõmmela (Eesti Pank); Marek Pajussaar (Financial Supervision Authority); Kersti Kiop, Kristel Vanasaun, Ahto Kink (Estonian CSD); Lembit Olev (Ministry of Finance); Kärt Mets, Eha Rudi, Andres Soosaar (AS SEB Pank); Kristi Kaseväli (AS Swedbank); Anna Krasnova (AS Eesti Krediidipank); Katrin Kruustükk, Kaidi-Ann Tambek (Nordea Bank Finland PLC Estonia branch); 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 (including the Dedicated Info Session on getting ready for cross-CSD settlement)
2. T2S auto-collateralisation procedure and options for Estonia
3. Consultations with the Estonian CSD (possible settlement of third-pillar pension fund units in the T2S environment; solutions for cross-border settlement of Baltic stock exchange transactions)
4. Consultation with T-FAX (Task Force on Adaption to Cross-CSD Settlement in T2S)
5. Agenda of and preparation for the T2S Advisory Group meeting
6. Any other business (future EENUG meetings and information on other events)

1. Overview of the events held (Dedicated Info Session on getting ready for cross-CSD settlement, etc)

Ülle Lukkonen gave an overview of the Dedicated Info Session on getting ready for cross-CSD settlement, held on March 15 in Milan (see also the attached presentations: Cross-CSD settlement facilitated by T2S; CSD Ancillary Services; TFAX “Issue 4”).

Tiina Soosalu gave an overview of the meeting of the T2S project managers of central banks, which focused on the feasibility assessment to be submitted by the central banks and CSDs to the European Central Bank (ECB) by the end of June. The purpose of the feasibility assessment is to analyse the migration option from different aspects (legal, technical, operational), pinpoint potential obstacles and propose measures to overcome them. The assessment must also specify the wave of migration. The ECB will divide the migrators into waves on the basis of the feasibility assessments by the end of August.

Kadri Martin pointed out that the ECB Governing Council had approved the text of the Currency Participation Agreement of non-euro area NCBs. The CSDs have also launched bilateral negotiations with network service providers SWIFT and SIA/Colt to get a price quote for the network service. Kristel Vanasaun added that the three Baltic CSDs had jointly contacted the network service providers to get a discount on joint volumes. Ahto Kink added that the CSDs, especially the major ones, were still interested in introducing various important amendments in the Framework Agreement to be concluded between the Eurosystem and the CSDs. Kadri Martin confirmed that the Eurosystem

had recognised the requests of the CSDs but had decided not to include the amendments in the Framework Agreement¹.

Resolution: to take note of the information

2. T2S auto-collateralisation procedure and options for Estonia

Viive Sumberg gave an introductory overview of the T2S auto-collateralisation option, which also forms a part of the T2S settlement optimisation process and aims at enhancing settlement efficiency within the system, ensuring sufficient liquidity. As only the Eurosystem's eligible securities can serve as collateral, and Estonia has issued no such securities, Estonia can only use cross-border collateral. T2S UR and T2S UDFS describe the process in detail, both from the aspect of liquidity generation and repayment, including transfer of credit to the settlement system TARGET2, if the T2S participant fails to timely repay the liquidity. We must find out whether the banks operating in Estonia are interested in the T2S auto-collateralisation option as well as decide on the methods (repo, pledge) and the regulation on the use of cross-border collateral (links between CSDs, the Correspondent Central Banking Model (CCBM) or another solution which is acceptable to the Eurosystem). Representatives of the Estonian CSD pointed out that the establishment of connections ought to be commercially feasible. Innar Vainre added that the ECB would initiate a consultation in April to determine the number of T2S Dedicated Cash Accounts (DCA) on the markets migrating to T2S. As this issue is highly complicated and has yet to be solved on the euro area level, EENUG members will monitor any development and hold consultations with market participants, if necessary.

Resolution: this issue needs further specification and will be monitored

3. Consultations with the Estonian CSD (possible settlement of third-pillar pension fund units in the T2S environment; solutions for cross-border settlement of Baltic stock exchange transactions)

Kristel Vanasaun informed EENUG members that the Estonian CSD had requested for EENUG's opinion on the cross-border settlement of Baltic stock exchange transactions and the third-pillar pension fund units. Feedback on cross-border settlement will be gathered from the market to determine whether the future solution should allow changing the settlement place and settlement agent. Many market participants in Latvia and Lithuania deem this necessary. The Estonian CSD has received feedback from two banks, who do not consider it necessary at all. Kristel Vanasaun invited other EENUG members to submit their opinions.

As regards pension fund units: pursuant to the eligibility criteria established for CSDs that intend to migrate to T2S, the migrating CSD is obliged to make all securities registered by the CSD on the basis of the International Securities Identification Number (ISIN) available to other CSDs that have migrated to T2S. Making the settlement of the Estonian pension fund units available at T2S is not likely to provide any additional value, while incurring huge additional expenses (as calculated by the Estonian CSD). The EENUG members who provided feedback to the Estonian CSD agree on that the settlement of pension fund units should not be made available in T2S, even though there are differences of opinion with regard to the structure of the register on the national level.

Resolutions:

- i) *The Estonian CSD will prepare a letter to the European Central Bank, explaining the feasibility of the exclusion of pension fund units from T2S.*

¹ The parties to the Framework Agreement are authorised to initiate the amendment of the agreement, but no CSD has signed the agreement at this point.

- ii) *The positions of EENUG members with regard to cross-border settlement of Baltic stock exchange transactions may be submitted to the Estonian CSD until March 26.*

4. Consultation of T-FAX (Task Force on Adaption to Cross-CSD Settlement in T2S).

Kadri Martin reminded EENUG members that the deadline for the T-FAX consultation was April 30.

Resolution: the Estonian CSD will prepare the initial response of the Estonian market and submit it to EENUG for its consideration in the second half of April.

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

Kadri Martin informed EENUG members that the current members of the T2S Advisory Group would meet for the last time. New members of the AG will be appointed on July 1, along with the renewal of the mandate of both the AG and NUGs.

Albeit EENUG has, as a rule, gathered before AG meetings, an extraordinary meeting should be held in April in order for the Estonian CSD to introduce to the market participants and consult on the feasibility assessment prepared by the Estonian CSD.

Kadri Martin also informed EENUG members that she would be appointed representative of Eesti Pank in Brussels for the next three years, starting from September, and that another Eesti Pank staff member would take over the chair of EENUG.

Resolution: to take note of the information