



STATE STREET.

2 April 2008

VIA EMAIL

Mr. Jean-Michel Godeffroy
Director General, Payment Systems
European Central Bank
Kaiserstrasse 29
D-60311 Frankfurt am Main
Germany

**RESPONSE TO EUROPEAN CENTRAL BANK'S TARGET2-SECURITIES (T2S)
CONSULTATION ON THE USER REQUIREMENTS DOCUMENT
AND ECONOMIC IMPACT ANALYSIS**

State Street Corporation, headquartered in Boston, U.S.A., specializes in providing institutional investors with investment servicing, investment management and investment research and trading. With \$15.3 trillion in assets under custody and \$2.0 trillion in assets under management as of December 31, 2007 State Street operates in 26 countries and more than 100 markets worldwide. Our European based workforce of over 6,200 employees provides institutional investors with local support and service from our offices in Austria, Belgium, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Poland, Switzerland, and the United Kingdom.

Dear Mr. Godeffroy:

State Street is writing in response to the public consultation launched in December 2007 on the T2S User Requirements Document (URD) and Economic Impact Analysis. We value the considerable efforts undertaken by the European Central Bank and the T2S Project Team in preparing these extensive consultation materials. We also appreciate the European Central Bank's recognition of the importance of industry review at this critical time in the T2S pre-project phase, prior to a decision on moving forward with platform development.

As a major global custodian and local custodian for clients' assets in the United Kingdom, and as an extensive user of local intermediaries and infrastructure utilities in the European markets, State Street is deeply interested in efforts to streamline the European cross-border settlement environment. We actively participate in direct and indirect advocacy efforts with regulatory authorities, infrastructure utilities and other institutions in the region to

ensure that securities market developments encompass end-investor needs, and that they do so in a manner that enhances operational safety and efficiency.

Accordingly, we have endeavored to provide constructive feedback to you in the past during earlier T2S consultation exercises and information sessions, and further welcome this occasion to express our views. State Street's comments reflect our perspective as a global custodian, as well as identifies specific issues and concerns relative to our capacity as local custodian in the United Kingdom. In the attached, we provide to you some specific comments in the following areas:

1. Competitive Effects
2. Economic Impact Analysis
3. Harmonization Opportunities
4. Future Governance

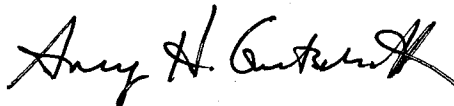
State Street remains optimistic that T2S has the potential to serve the market well, although we believe that further elaboration of both the business case and the role T2S will play in fostering harmonization across the European landscape will be beneficial. We have elaborated on these key points and concerns within our comment letter.

We again thank the European Central Bank for its consideration of State Street's views. Please do not hesitate to contact us should you have any questions.

Sincerely,



Robert Almas
Senior Vice President



Amy Gutschenritter
Senior Vice President

**Response to European Central Bank's Target2-Securities (T2S)
Consultation on the User Requirements Document and Economic Impact Analysis**

1. Comments on Competitive Effects

The URD notes that T2S will create opportunities for central securities depositories (CSDs) and market participants to develop their business in new ways and will reinforce pro-competitive effects. For instance, banks are advised that they will need to reconsider their strategies as customers seek to reduce their number of suppliers, and CSDs are encouraged to explore further expansion into asset servicing. The European Central Bank (ECB) also notes that T2S will not discriminate against different business models adopted by CSDs and market participants.

State Street welcomes the ECB's stated intentions for T2S neutrality. We also acknowledge that T2S will require infrastructures and intermediaries to innovate their business models in order to remain relevant contributors to end-investor needs. However, we would suggest caution in the ECB's encouragement of market infrastructures to invest further in non-traditional lines of business. Certain commercial activities (such as those involving taking credit risks) if undertaken by infrastructure utilities would expose market participants to increased systemic risks and require capabilities which these entities may not currently possess. It will also likely put these entities in competition with their users, distorting the competitive environment in which value-added services are currently performed in the intermediary space.

2. Comments on T2S Economic Impact

Articulating a complete business case

We understand that the ECB intends to keep T2S lean and hence limits the scope of its economic impact analysis by focusing solely on the cost components for running the T2S platform. However, State Street notes that the impact analysis does not incorporate the costs of any add-ons for national specificities, nor does it take into account the costs or benefits resulting from further harmonization efforts beyond the level achieved by the T2S user requirements. In our opinion these costs could be significant and should be considered integral to the business case.

In our experience sizeable market practice changes impart a number of collateral effects to the industry since they do not function in isolation. State Street therefore believes that a comprehensive presentation of the end-to-end economic impact of cross-border securities settlement and related services in a T2S environment is essential for assessing the business case. We ask you to incorporate within the impact analysis, to the fullest extent possible, the costs associated with necessary functionalities that will not be offered by T2S. These include the asset servicing activities that will remain with CSDs and the specific national settlement facilitation procedures that, as a practical matter, cannot be dismantled in the

near term. Without these considerations it will be difficult to evaluate the overall benefits of implementing T2S.

Furthermore, the economic and operational impact of concurrent industry initiatives on the harmonization of market requirements, practices and systems cannot be overlooked or underestimated. In our view, significant expenditures by market infrastructures and participants in these areas should form an integral part of the analysis, as they will affect the ultimate costs paid by users once T2S is launched.

Consideration of intermediary back-office needs

The impact analysis assumes that financial intermediaries will no longer need to maintain multiple interfaces with CSDs and other local entities in a T2S environment. It also contemplates that indirectly connected T2S users will be required to make fewer technical and operational accommodations because they will continue to use existing CSD interfaces.

We believe these assumptions underestimate the need for global custodians to maintain multiple connections with local CSDs and subcustodians post-T2S implementation. We anticipate that various interfaces will be considered necessary, in particular to support effective corporate event and tax-related processing and a number of value-added services that investors demand. It is unlikely that non-local CSDs will have the capacity to provide the same degree of asset servicing expertise and processing timeliness that would be available via a local CSD.

The impact of T2S to indirectly connected users, such as global custodians, is still uncertain. We anticipate that CSD systems redesigns, primarily as a result of the splitting of settlement and asset servicing functionalities, could impose material downstream changes at the intermediary level. Internal systems and process realignments within custodians' operations are likely, as are client service alterations to support investors in the changed environment. We realize that such changes are difficult to quantify at this time, but ask the ECB to appreciate that they may be significant and resource intensive.

Evaluation of T2S connection challenges and risks

The ECB envisions that all CSDs settling in euro will have an interest in T2S participation, but acknowledges that some CSDs may choose not to connect to the platform. The impact analysis notes that in circumstances where a particular CSD decides not to join T2S, its users can arrange other channels to participate.

State Street urges you to explore the potentially significant impact on users in cases where particular CSDs choose not to connect to the platform. Alternate links to T2S may not be operationally viable from a timeliness and cost perspective. Deviations from standardized means of connectivity will impart procedural and cost burdens, as well as increase risks for custodians and investors.

We also note that the consultation materials are not explicit on the economic impact of disruptive effects that may be encountered from T2S platform roll-out delays, possible

CSD migration failures, or phased CSD migration to the T2S environment. We feel these situations warrant a degree of consideration within the analysis.

Specific Concerns for a UK Custodian

As mentioned earlier in our letter, State Street serves as a local custodian for our clients (not for third parties) in the United Kingdom market. In other European markets, including in Ireland, we utilize the services of subcustodians to connect to the local CSDs. As you are aware, the current settlement infrastructure for the United Kingdom and Ireland, Euroclear UK & Ireland (CREST), handles local market and cross-border euro and non-euro settlement activity. In this regard, we have particular interest in fully understanding the operational and cost implications of T2S on existing multi-currency settlement services.

The extent of Euroclear UK & Ireland connectivity and interaction with T2S is unknown at this time, and State Street recognizes that decisions made by the CSD will largely drive the ultimate impact to users. We further acknowledge that T2S will be designed to accommodate settlement in currencies besides euro, but that this will be contingent upon the relevant central bank choosing to support such services.

An area of primary concern for State Street is that current synergy savings can be lost and additional costs incurred through the splitting of the euro and non-euro settlement operations in the United Kingdom and Ireland. Splitting may create considerable issues for participants in these markets resulting from the separation of settlement links and functionality for handling multi-currencies, process adjustments for dealing with stamp duty, and other changes that may be required in procedures and communication interfaces.

The additional process deadlines that may be created at the CSD level within the proposed settlement operational hours of T2S could also impose downstream changes and increase processing risks for users, particularly in relation to corporate actions notification and securities lending. The impact of the introduction of a nighttime settlement cycle or extension of current end-of-day to the proposed T2S timeframe will vary depending on whether or not CSD adjustments will be made just for Irish trades or will include all processed activity.

State Street believes further examination within the impact analysis relative to the unique situation for the United Kingdom and Ireland would be very helpful to market participants. We also suggest that the URD could offer additional clarifications on the procedural complexities of cross-border settlement processing between CSDs participating and not participating in T2S.

3. Comments on further Harmonization Opportunities

The ECB expresses that T2S will facilitate further harmonization in market practices at the European level. We also understand that the T2S Project Team is identifying and reviewing current harmonization initiatives that would facilitate the use of T2S by market participants. Within the URD annexes the ECB publishes some of the initiatives

progressing in the industry, such as Giovannini barrier removal, that could lead to further harmonized practices, including in the areas of corporate actions, tax and law.

State Street fully supports the ECB's recognition of the need for greater harmonization of the European markets and the value of collaborative industry efforts in this area. We ask the ECB to provide further information on how it intends to leverage or coordinate concurrent harmonization initiatives with the usage of T2S. We also encourage the ECB to expand its engagement with industry working groups, infrastructures and relevant authorities to move harmonization initiatives forward.

Additionally, State Street stresses the ongoing need for the ECB to facilitate effective synchronization of the proposed T2S settlement functionality with asset servicing functionalities. For T2S to succeed it must operate effectively within its evolving surroundings.

4. Comments on Future Governance

State Street understands that the Eurosystem has taken the decision to control T2S via its ownership rights, and once T2S is developed it will continue to sustain the open, co-operative culture existing today with market infrastructures and participants. We further understand that in taking this decision the Eurosystem intends to ensure full accountability and transparency of risks, costs and prices so that the market can scrutinize operating and investment efficiency.

State Street appreciates the intention to keep the market involved, but wishes to ensure that Eurosystem ownership rights over T2S do not result in the crowding out of the interests, decisions and voice of market participants. We believe the future governance framework for T2S must preserve a representative number of service providers in the intermediary value chain acting on behalf of end-investor servicing needs. Specifically, global and local custodians play a significant role in the chain of custody supporting European cross-border settlements and related customer servicing activities, and should have a strong voice in shaping strategic priorities, system features, and investment decisions related to T2S pre- and post-implementation. User governance seats (e.g. executive leadership teams, advisory and operating committees, special working groups, etc.) and attendant responsibilities must be fairly distributed among stakeholders in key areas for sustaining T2S in policy development, financial management and operations planning. We would also suggest that the ECB accommodate a public review of any future governance proposals before seeking final approvals from its Governing Council.

State Street is encouraged that T2S will seek to ensure full compliance with the Code of Conduct on price transparency for settlement servicing costs and prices. Additionally, we would have the same transparency expectations with respect to compliance with any developed operating requirements and standards for the T2S platform. We ask you to develop a formal process for reporting to users, regulators, and other market participants on the above transparency measures.

Concluding Remarks

State Street wishes to reaffirm our appreciation for the considerable preparatory work undertaken by the ECB and the T2S Project Team on the pre-project aspects of T2S, and for the transparency and engagement of stakeholders. We again thank you for consideration of State Street's feedback on the URD and Economic Impact Analysis. We remain at your disposal to answer any questions you may have regarding our comments, and would further welcome the opportunity to provide additional commentary as any refinements are made to these documents.