Monte Titoli
London Stock Exchange Group

PRELIMINARY EVALUATIONS

ADAPTATION PROCESS TO T2S

VERSION 1.0
30 SEPTEMBER 2009

Sommario

1. Executive summary 2
2. Background and assumptions 2
3. Project organization 3
3.1. Internal Project Organization 3
3.2. External Project Organization 4
3.3. Project Organization Chart 4
3.4. Project structures description 5
3.4.1. Subgroups scope, members and delivery list 5
3.4.2. Committees scope, members and schedule 7
3.5. Links with ECB T2S Organization (current and future) 8
4. Activities in progress 9
5. Considerations about planning 10
6. Main issues on project management 11

1. Executive summary

This document provides a general description of the envisaged adaptation process by which Monte Titoli (MT) will join Target 2 Securities (T2S) with the aim to fulfill the provisions of the Memorandum of Understanding (MoU) signed with the Eurosystem.

It outlines how MT is organizing for managing such process, provides an update of the activities carried out so far (in particular in order to keep the Italian market community fully involved) and highlights what the potential issues could be.

A specific project structure has been created in order to follow all the different areas of the T2S project and a process of recruitment will be completed only after the signature of the contractual agreement.

A preliminary analysis of the impacts has been completed and shared with the Italian community but it must be considered a first attempt that will require further review and details in the coming months.

Finally the document provides an initial list of potential issues that could negatively impact the timeline of the project has been identified.

At this regard a key aspect refers to the timeline. Based on a preliminary assessment the current T2S timeline seems extremely tough and without the needed contingency period.

2. Background and assumptions

On 16 July 2009, MT signed the MoU for T2S with the Eurosystem.

Clause 4.2.2 of the MoU requires that each signatory CSD has to:

- carry out an assessment of the impact of T2S on its current systems and processes
- inform the Eurosystem on findings that may have an impact on the T2S project
- provide the Eurosystem by 30 September 2009 with a general description of the envisaged adaptation process by which its community would join T2S

Although this document intends to satisfy those provisions, it is necessary to point out that:

- Some aspects that could deeply affect the functional framework (eligibility conditions for CSDs, pricing structure, connectivity costs) are still under discussion
- The level of information available from the technical point of view does not allow an in-depth analysis of the impacts

Consequently all the evaluations and considerations that follow, must be assumed absolutely preliminary and potentially subject to further modifications once it is achieved more clarity.

3. Project organization

MT is defining a dedicated project organization having the aim to manage the adoption of the new European settlement platform T2S, in accordance with the specification and timeline approved by Eurosystem.

The adoption of T2S settlement services will be a big change in MT service models, software platforms and technical infrastructure. Therefore, a strong project team, with adequate human and economic resources, will be put in place as soon as the contractual agreement is signed.

Regarding the project organization, there are two workstreams:

- The **Internal Project Organization**, composed by MT skilled managers and specialists, has the aim to manage the development process internally, activating and coordinating the overall company structure during the project.
- The **External Project Organization**, composed by MT and users representatives, has the aim to coordinate the service operational and technical changes with our use**rs.**

3.1. Internal Project Organization

MT has already appointed the Sponsor and the Project Manager of the T2S project:

- The **Sponsor** is Paolo Cittadini, General Manager of MT
- The **Project Manager** is Paolo Carabelli, Head of New Business Department

The Sponsor and the Project Manager are supported by the **T2S Steering Committee**, that include all MT top managers and officials. The Steering Committee meets every month and has the aim to monitor the overall advance of the T2S project, discussing and solving the main issues.

The Project Manager coordinates a **Project Team**, that include all managers and specialists directly involved in the project. The Project Team is the task force assigned to the T2S Project development and will be the core of all project activities.

Due the dimension and complexity of this project, the Project Team is structured in four subgroups. Every subgroup cover a specific area of competence and know-how:

- The **Functional Specification Subgroup**, composed by business experts and analysts, that will define the functional changes in our services due to T2S adoption.
- The **Application Development Subgroup**, composed by application platforms experts, that will define the changes in our software and in the technical documentation for the users (message layouts and communications protocols),
- The **Operation Subgroup**, composed by experts in settlement and custody operations, that will define the new operation rules for settlement and custody services.
- The **Legal and Customer Subgroup**, composed by legal and customer management experts, that will contribute in the definition of the new legal and contractual framework required by T2S adoption.

Having the aim to well coordinate the subgroups activities, the Project Manager is assisted by the **T2S Project Committee**, that include the head of every subgroup and the Directors of Operation and New Business Division.

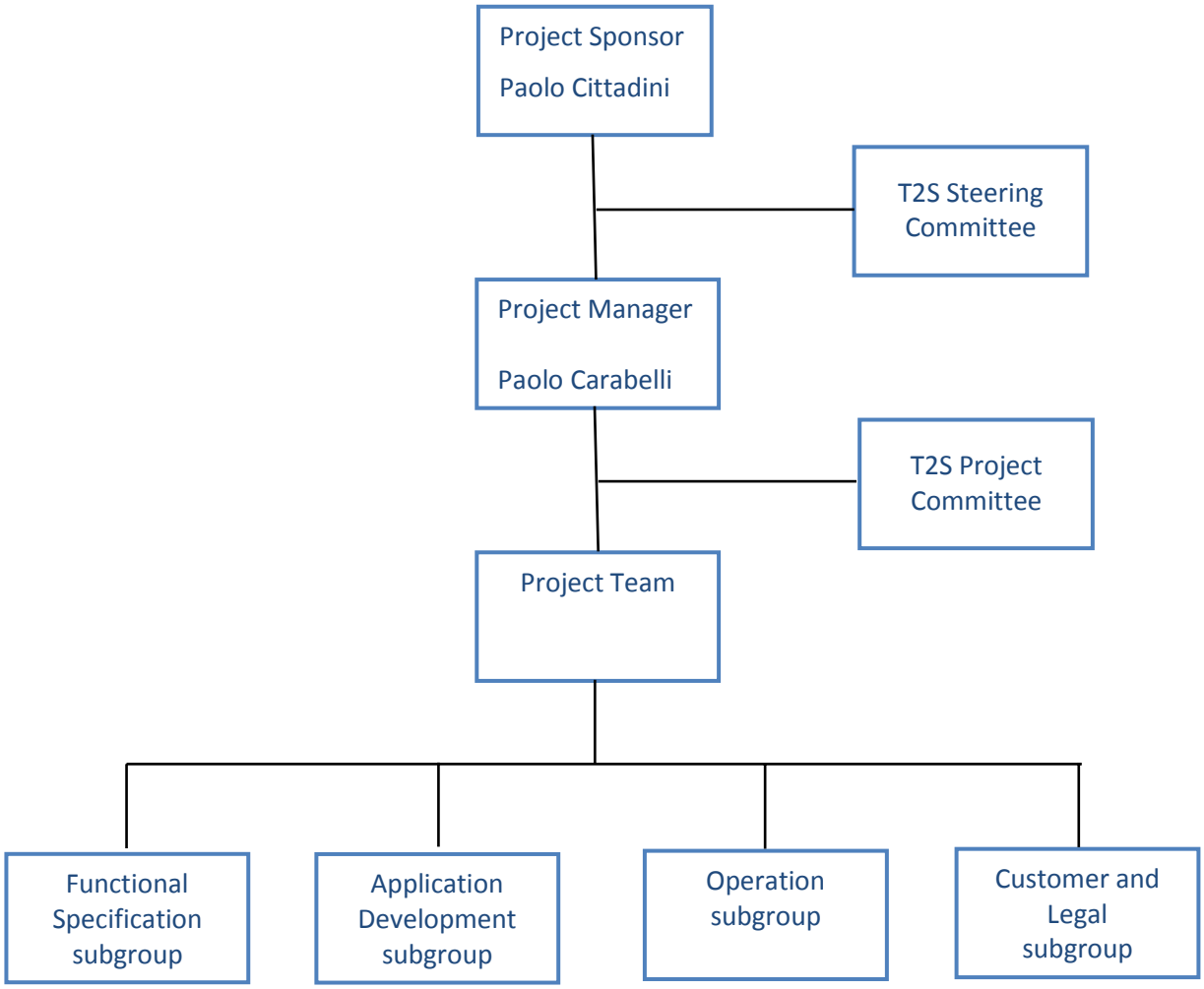
3.2. External Project Organization

The T2S Project Manager and Project Team members will cooperate closely with the Italian T2S NUG in order to perform well planned and managed transition to T2S.

The T2S NUG will involve all interested actors of the Italian financial community.

In this framework, specific technical subgroups, composed by MT experts and Users representatives, could be organized during the project lifecycle. These subgroups will discuss and analyze all impacts (functional, technical and operational) on the services provided by MT due T2S adoption.

3.3. Project Organization Chart



3.4. Project structures description

3.4.1. Subgroups scope, members and delivery list

FUNCTIONAL SPECIFICATION SUBGROUP
Scope Define the functional changes in our services due to T2S adoption using the documentation provided by 4CB Project Team (GFS and UDFS)
Members Head of Subgroup: Head of Project Development Dept Other members: business analysts experts in settlement and custody services
Delivery • Feedback and clarification on GFS/UDFS working with 4CB Project Team (4CB interface needed) • Functional specification of changes in settlement and custody services, to be provided to other subgroups and ICT providers involved in the software development process. • Guidance on application development, testing activities and operational changes.

APPICATION DEVELOPMENT SUBGROUP
Scope Design and supervise the changing of application platform, coordinating the activities of ICT providers and producing the related technical documentation.
Members Head of Subgroup: Head of Application and System Design Dept Other members: experts in MT settlement and custody platforms
Delivery • Technical specification of user interfaces (RNI, SWIFT and other protocols). • User Test plan and test case. • Data model and technical specification for ICT providers.

OPERATION SUBGROUP
Scope Define the changes in settlement and custody operational rules, also analyzing the impact on internal organization structure
Members Head of Subgroup: Head of Settlement Division Other members: experts in settlement e custody operations.
Delivery • Updated Settlement and Custody user manuals. • New Operational rules and Timetable. • Organization changes in all operational aspects (settlement e custody operation, static data management, Help desk, security) • T2S Service Levels (also for Disaster Recovery)

CUSTOMER AND LEGAL SUBGROUP
Scope Supervise the contractual arrangement with the users and the ECB.
Members Head of Subgroup: Head of Customer Management Division Other members: experts in customer relationship and legal affairs.
Delivery • Updated contractual form for direct and indirect users • Assistance in T2S contract finalization • Changes to MT's Rules Book

3.4.2. Committees scope, members and schedule

T2S STEERING COMMITTEE
Scope Assist the Sponsor and the Project Manager, monitoring the overall advance of the T2S project and discussing and solving the main issues.
Members Committee chairperson: T2S Project Sponsor Other members: T2S Project Manager, all MT Heads of Division, Heads of involved Departments, members of the ECB T2S Subgroups.
Schedule Usually every month

T2S PROJECT COMMITTEE
Scope Assist the Project Manager in the guidance of the project.
Members Committee chairperson: T2S Project Manager Other members: Heads of subgroups, Operations Director, New Business Director, Risk Manager
Schedule At least every two weeks

3.5. Links with ECB T2S Organization (current and future)

4. Activities in progress

MT is currently focusing its action on three main directions:

1) Definition of the interaction mode with T2S
2) Adaptation of the existing services and functionalities to T2S
3) Involvement of the market community

Regarding point 1) the outcome of the evaluations carried out has been so far oriented towards a model which foresaw complete outsourcing in T2S of:

- All of the securities accounts
- The whole settlement process

However a new evaluation of such model is possible depending on the results of the review which is currently ongoing regarding the eligibility conditions for CSDs in T2S (in particular the possibility to keep some securities accounts locally) that will be established in the next months

In parallel, it has also been completed the analysis at point 2), which has led to a very preliminary assessment of the changes to the existing services provided by MT.

The outcome of the assessment has been recapped in two high level documents. The first (*attachment 1*) outlines for each business areas (pre-settlement, settlement and custody), all the functions available having an external interaction with our participants. Each function is further detailed into the elementary processes where a general indication of the potential changes due to T2S has been identified.

In addition, a table of the interactions among participants, MT and T2S (*attachment 2*) has been drawn aiming at showing the new timings, deadlines and high-level processing in MT.

Both documents have to be considered absolutely preliminary above all because the T2S technical documentation currently available (the URD and the GFS) does not provide the level of details that could allow a deeper investigation

As far as the point 3) is concerned, MT has already started to share some initial thoughts regarding the adaptation process in T2S with the national community in two different meetings of the Italian NUG (held on 30 July and 10 September).

The main guidelines that MT intends to follow for the integration in T2S were presented in those occasions (see *attachment 3*). In addition the documentation mentioned at point 2) was distributed in order to allow users to carry out a similar evaluation for their internal systems.

5. Considerations about planning

In order to define a plan with a certain soundness, at least, the following documentation is necessary:

- User Detailed Functional Specifications (UDFS)
- Messages documentation and protocols
- Migration strategy

Nevertheless based on our previous experience acquired with the Target 2 (T2) project and taking into account the preliminary evaluations of the impacts due to T2S, some general considerations can be done.

The following table reports the actual time that each phases took for T2 project:

			ELAPSED
PHASES	**INPUT**	**OUTPUT**	**T2**
Functional Analysis	• User Requirement (URD) • General Functional Specification (GFS) • User Detailed Functional Specifications (UDFS) • Data Model • T2S Messages documentation	• Functional specification • Detailed Impact analysis • Service guide and technical documentation for Customer • Test Plan	8 m
Technical Analysis	• Functional specification • Service guide and technical documentation • Data Model	• Technical Specification	6 m
Development and Unit Test	• Technical Specification • Detailed test plan	• Detail test results	13 m
T2S User Test	• Test plan	• Testing approval	9 m

Considering that the changes due to T2 were limited to the payment applications side in our system while T2S will invest the whole processing infrastructure, it is quite evident that for T2S a significant amount of additional time should be foreseen.

Although the first three phases could have a certain degree of overlapping and therefore the global elapsed could be reduced, it appears evident that it will be quite challenging to comply with the timeline and deadlines already defined for T2S.

Moreover since we have understood that in the current T2S planning the contingency available is extremely limited, it is necessary to point out that the lack of an appropriate '*time reserve*' will be another important factor that could affect the timeline, above all because the project is still at the initial stage.

6. Main issues on project management

In order to facilitate the project goals achievement, it is important to take care of some issues:

- The T2S URD has to be closed and frozen as soon as possible, avoiding to introduce major changes
- The UDFS document is necessary to start our functional analysis phase and the consequent development activities. The current delivery date (End of September 2010) for the first version of the UDFS seems too late to permit MT to meet the present go live date (June 2013) .
- The ongoing standardization process on Corporate Actions could produce additional requirements.
- The CCBM2 project, whose launch is planned before T2S, could conflict with the T2S project in terms of resource usage and test phase overlapping.

Moreover since GFS and UDFS need to be analyzed and understood well, a good support from ECB experts will be useful. A Support Desk provided by ECB could help a lot during the project development.