



T2S financial statements for the fiscal year 2015

April 2017

T2S operating statement (in €)

	Notes	2015 ¹
Revenues		2,223,942
T2S fees charged to customers	1	2,223,942
Expenses		(49,876,136)
Services provided by the 4CB	2	(41,621,906)
Services provided by the ECB	2	(5,197,790)
Insurance costs and other expenses	3	(987,500)
Amortisation of T2S platform	4	(1,969,171)
Interest charged by NCBs	5	(99,769)
Net Surplus/Deficit		(47,652,194)

T2S financial situation report (in €)

Assets	Notes	2015	2014
T2S platform under construction			368,127,260
T2S platform	6	397,410,774	
Current accounts	7	244,397	
Accounts receivable	8	1,244,609	
Accrued income	9	678,872	
Prepaid expense	10	695,000	
		400,273,652	368,127,260
Liabilities			
Pre-financing of T2S by the Eurosystem	11	408,286,633	349,108,254
Provisions for 4CB expenses	12	13,333,514	
Accrued expense	13	26,305,699	19,019,006
Accumulated deficit		(47,652,194)	
		400,273,652	368,127,260

¹ The figures presented in the operating statement comprise revenues and expenses incurred following the launch of T2S, from 1 July 2015 to 31 December 2015. During the development phase of T2S, all costs were capitalised (see explanatory notes below) and there were no revenues.

Explanatory notes

The notes below provide explanation and additional information about the figures in the T2S operating statement and the T2S financial situation report for 2015. An associated [short explanatory note](#) offers a more general introduction to these financial statements.

Accounting policies

The T2S financial statements have been prepared in accordance with specific accounting policies developed by the T2S Board. These policies are based on generally accepted accounting principles.

The T2S financial reporting framework covers the annual T2S operating statement (expense and revenue accounts), an annual T2S financial situation report (asset and liability accounts) and the related disclosures.

T2S platform

Owing to their integral characteristics, both the hardware and software of the T2S system are treated homogeneously and represented as a single tangible asset under “T2S platform”. The latter represents the year-end value (carrying amount) of the T2S platform, including the capitalised interest incurred during the construction phase and any additional development costs incurred during the operational phase, e.g. for new releases, after deduction of accumulated amortisation amounts and any accumulated impairment losses (if any). An impairment test takes place annually. If an impairment indicator (as defined by the T2S Board) is deemed to have been triggered, impairment losses are recorded only when the book value is lower than the asset’s recoverable amount.

Amortisation

The amortisation method reflects the pattern in which the asset’s future economic benefits are expected to be consumed. The method is based on the (expected) share of settlement volumes in T2S that is proportional to the volumes brought by the respective migration waves from June 2015 to September 2017, and on 100% of the expected volume to be processed in T2S from September 2017 to September 2027 (ten years after the end of migration). The volume estimates are calculated on an annual basis and 100% is considered to have been achieved when all the CSDs that signed the T2S Framework Agreement have connected with and are settling on T2S.

Pre-financing of T2S by the Eurosystem

This item relates to the amounts owed to the national central banks (NCBs) that are pre-financing T2S, namely the costs incurred relating to the development and initial operation of T2S. This liability effectively reflects the expectation that the participating central banks will eventually be reimbursed for the development and running costs included in the T2S pricing envelope (the total amount to be recovered through fees, including capital cost). The reimbursement will be funded by cash surpluses generated from T2S usage fees paid by T2S customers (central securities depositories (CSDs) and NCBs). Reimbursement will begin once the fees collected exceed the annual running expenses.

Operating statement

During the operational phase, the T2S operating statement shows a net surplus or deficit, depending largely on whether the T2S fees are sufficient to cover the T2S running costs, the amortisation of the T2S platform, impairment losses, if any, and other expenses. A deficit could trigger an extension of the amortisation period and/or a price increase in order to reach full cost recovery within the given cost recovery period (see below). No decision will be taken by the Governing Council of the ECB in this respect until 2018, i.e. until the migration phase is completed.² A surplus would make it possible to repay the pre-financing loan given to T2S by the Eurosystem central banks (see above). The yearly surplus/deficit is reflected in the net accumulated surplus/deficit account.

Income/expense

Income and expense items are recognised once earned/incurred. In the operational phase of T2S, all running costs are expensed as incurred to the T2S operating statement, while additional development costs (e.g. for new releases) are capitalised to the T2S platform and reported in the T2S financial situation report.

Accrued income and expenses

Procedures are in place to calculate and establish at each year-end the costs incurred by T2S but not reimbursed to the service providers, as well as income not yet collected but to be recognised in the reporting year.

Post-balance-sheet events

This refers to relevant changes that occurred after the reporting period which have a material impact on the reports for that period.

² See also T2S Framework Agreement, Section 2 (T2S pricing policy) of Schedule 7 (Pricing).

Cost recovery

In 2010 the Governing Council of the ECB decided that T2S would be developed and operated under the principle of full cost recovery. The T2S Board regularly monitors developments that may affect the prospects of cost recovery. The cost recovery target is based on: i) the T2S pricing policy (see Schedule 7 (Pricing) of the T2S Framework Agreement and of the Currency Participation Agreement)³; ii) a given cost recovery period; iii) the total costs for developing and operating T2S; and iv) the usage of T2S resources which generate revenues for T2S.

While the use of T2S resources is dependent on market dynamics, the Governing Council of the ECB aims to steer costs and adjust pricing in order to ensure that T2S is in a position to recover all and only its total costs in the long term. It is envisaged that the current baseline price of 15 euro cent per delivery-versus-payment (DVP) instruction will remain fixed until at least the end of 2018, which is one year after the end of the migration period during which all signatory CSDs move to T2S. Once all signatory CSDs have started generating revenues in T2S, the T2S Board will analyse the relevant factors and advise the Governing Council of the ECB on how best to achieve cost recovery.⁴

1 T2S fees charged to customers

The account “T2S fees charged to customers” shows the net revenues earned in 2015 by T2S. Discounts were applicable in 2015 under the “fee holiday” regime. Two types of fee waiver were applicable for early signatory CSDs in the T2S Framework Agreement, i.e. those that signed the contract with the Eurosystem by 30 June 2012.

1. Waiving of one-off joining fee: the Framework Agreement prescribes the payment of a one-off joining fee equal to 25% of the T2S fees paid by the CSD in its first year of use of T2S.⁵ This one-off joining fee has been waived for the 22 CSDs that had signed the Agreement by 30 June 2012.
2. Reduction of T2S fees during the migration period: in addition to the waiving of the one-off joining fee, nine CSDs that signed the Framework Agreement by 30 April 2012 have received the following fee waivers:
 - (a) for three of the CSDs that migrated in the first wave:
 - (i) waiving of all fees during the first three months of T2S operation, i.e. until the end of September 2015;

³ Both documents are available on the T2S website, www.t2s.eu, under “Legal documents” in the section entitled [Key documents](#).

⁴ See T2S Framework Agreement, Section 2 (T2S pricing policy) of Schedule 7 (Pricing).

⁵ See T2S Framework Agreement, Schedule 7 (Pricing).

- (ii) reduction by one third of all T2S fees thereafter until 28 November 2016;
- (b) for six of the CSDs that migrated in subsequent waves: reduction of all T2S fees by one third from the date of the CSD's migration until 28 November 2016.

Invoices issued automatically by T2S on the first business day of each month are adjusted – using manual billing documents – to reflect the fee holiday regime as well as other adjustments (e.g. incorrect allocation of the T2S service charges).

T2S revenues for 2015

Gross revenues	4,390,581
Discount for fee holiday	(2,166,639)
T2S fees charged to customers	2,223,942

2 Services provided to T2S

As of the launch in mid-2015, T2S incurs annual operational costs which are paid to the service providers: to the 4CB for the running and maintenance of the T2S platform and to the ECB for its coordination activities.

3 Insurance costs and other expenses

According to Article 32 (Liability rules) of the T2S Framework Agreement, *“The Eurosystem shall also be liable to the Contracting CSD for a claim of a Contracting CSD’s customer against the Contracting CSD in connection with T2S Services [...], resulting from the Eurosystem’s gross or ordinary negligence in performing its duties and obligations [...]”* The same article details the scope and limits of such liability.⁶

Upon the request of the Governing Council of the ECB, the T2S Board sought coverage on the insurance market and defined a liability insurance policy for gross negligence in the provision of T2S services. The first policy period covered one year starting from the T2S launch date (22 June 2015), with an annual premium of €1,595,000. The insurance services were managed via a broker to whom the ECB’s T2S team paid €87,500 between the start of the operational phase and the end of 2015. Therefore, the total cost of insurance was €1,682,500, of which €987,500 was expensed in 2015 and €695,000 was deferred to 2016 and appears in the T2S financial situation report as prepaid expenses.

⁶ See also Article 28 (Liability rule) of the Currency Participation Agreement.

4 Amortisation

See note 6 “T2S platform”.

5 Interest charged by national central banks

T2S owes interest to the Eurosystem NCBs for the payments that financed both the development of the platform and the commencement of T2S operations. The Eurosystem (pre-)financing effectively covers the liabilities of T2S vis-à-vis the T2S service providers (the 4CB and the T2S team at the ECB).

Interest is accrued at year-end based on the annual weighted average balance of the pre-financing liability and on the annual average rate applied to the ECB’s main refinancing operations (MRO rate). The accrued interest is compounded at year-end on the principal amount of the pre-financing of T2S by the Eurosystem.

The table below shows the balance of the Eurosystem’s pre-financing of T2S. The increase is due to additional pre-financing payments to allow T2S to pay its operational costs to the service providers, and to the respective increase in interest owed by T2S.

Pre-financing payments for 2015 and respective compound interest

Opening balance as per 1 July 2015 ⁷	393,278,778
Payments for pre-financing	14,908,085
Accumulated interest	99,769
Closing balance	408,286,633 ⁸

6 T2S platform

As at the end of 2015, the T2S asset value encompassed: (i) capitalised costs incurred during the development phase up to the launch date, (ii) accumulated amortisation and (iii) capitalised interest incurred during the construction phase. No additional investment costs were incurred in 2015 after the end of the T2S development phase in June 2015.

The amortised amount for 2015 (€1,969,171) reflects the share of volumes that migrated in the course of 2015, i.e. around 16% of the expected total T2S volumes according to 2016 estimates for 2015 reported volumes.

⁷ 1 July marks the start of the operational phase in accounting terms.

⁸ Figures do not add up due to rounding.

Changes to the value of the T2S platform in 2015

Year	Event	Amount
2014 year-end	T2S platform (under development)	368,127,260
2015	Capitalised expenses	31,252,685
2015	Amortisation	(1,969,171)
2015	T2S platform closing balance	397,410,774

No impairment test was run in 2015. The T2S Board decided to start impairment testing after the end of the migration phase (end-2017), when the information on the full potential of T2S revenues will be available.

7 Current accounts

The year-end current account balance for 2015 amounted to €244,397.

8 Accounts receivable

The accounts receivable balance reflects customer balances outstanding at year-end, which were paid in the course of 2016.

9 Accrued income

Accrued income reflects T2S revenue in December 2015, which had not yet been billed at year-end.

10 Prepaid expense

See note 3 *Insurance costs and other expenses*.

11 Pre-financing of T2S by the Eurosystem

The balance of the pre-financing of T2S corresponds to the loan that T2S received from the Eurosystem to cover the costs of developing, running and maintaining T2S, plus the accumulated interest on the loan (see note 5). The cost recovery target (see above) corresponds to the full balance of the pre-financing.

12 Provisions for 4CB expenses

A provision of €13.3 million is attributable to an expected increase in service provider costs during the migration phase, relating to an increased use of resources for testing and migration activities.

13 Accrued expenses

Accrued expenses relate to operational costs incurred in the second half of 2015 for which no invoice had been received by year-end.

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