

Friday 4th July 2008

Our Ref:

ecb.secretariat@ecb.int

The Secretariat
European Central Bank

Dear Sir/Madam

Response to Target 2 Securities Consultation (T2S)

Computershare (ASX:CPU) welcomes the opportunity to develop and build a dialogue with the European Central Bank and the T2S Project Team about the proposed T2S initiative.

Computershare is a global provider of share registration, employee equity plans, proxy solicitation and other specialised financial, governance and communication services. Many of the world's largest companies employ our services and solutions to manage their relationships with investors, employees, and other stakeholders. Computershare employs over 10,000 employees worldwide. It services more than 14,000 issuers and 100 million shareholder and employee accounts, from its international network spanning 17 countries on five continents. Within Europe, our businesses are located in Austria, Belgium, the Channel Islands, France, Germany, Ireland, Italy, Spain, Switzerland and the UK. For more information, visit www.computershare.com.

Given our significant European and global footprint, and our diverse range of business services, you'll appreciate our clear desire to participate and comment on the development of ECB's proposals to reform European securities settlement for the benefit of all market users. We will continue to review and offer constructive comments on key principles, the conceptual analysis and detailed development plans as they become available.

The T2S Project Team recently asked UK and Irish registrars if they could identify any "show-stoppers" with the T2S conceptual design. We have identified a number of business, legal and operational questions; these we will share with the T2S Project Team. As it relates to the identification of "show-stoppers", we have identified 3 key principles that continue to seriously concern us, even at this early phase of project definition. I will elaborate on these further below.

Before describing these concerns, however, I'd like to comment on a much more philosophical issue where we disagree with the design of T2S.

In our opinion, there is scope to implement a simpler and superior design. While this model is not consistent with some of the principles underpinning the existing design of T2S, we believe that its inherent strengths are such that it should be part of the debate.

It is our view, and I'd suggest the view of our issuer (and investor) stakeholder base, T2S would best position its EU-wide mission critical clearing and settlement functions by forging direct electronic connections to registers of legal ownership maintained on behalf of issuers. This model, which is readily achievable through the combination of modern technology and established legal principles, would deliver very significant business efficiency and cost reductions in the European settlement and

transfer system by removing a very significant layer of intermediated service. These benefits would also flow through to two groups of primary users of the markets: issuers and investors. In contrast, the current T2S design adds an additional level of intermediated service to what is already widely acknowledged to be a cumbersome and costly process. The current T2S design proposal, while looking to work with minimal change in a legal sense, represents, in our view, an arguably retrogressive step, unless it is merely a first step to achieve the over-arching objective of direct connectivity to the fundamental sources of legal ownership – the registers of members.

Given the business and political efforts that will, in any event, have to be brought to bear if ECB's proposed design is to be delivered, we seriously believe that not making as direct a connection as possible to the underlying records of legal ownership would amount to a "missed opportunity" for Europe to provide the highest possible quality of settlement on the securities side.

We urge you to consider this alternative design.

Turning to the current T2S design principles – and excluding our deep philosophical difference of opinion noted above -- we have concerns about 3 key principles with the current design.

1) Access to the T2S "settlement environment" by issuers & registrars.

We are familiar with various clearing and settlement systems in Europe, including Euroclear and Clearstream. The registrar-clearing house environment that we are most active in is CREST, operated by Euroclear UK & Ireland. CREST provides issuers (via issuers' agent registrars) with direct electronic access to the CREST "settlement" environment without intermediation and CREST with direct unintermediated access to issuers' records of ownership. The importance of this structure is it provides the clearing house with efficient and secure operational and legal framework for transferring legal ownership of securities. Such access facilitates transfers of securities between the register and the clearing house, corporate actions processing (e.g. takeovers, rights issues etc), direct visibility and legal recognition of the ownership records maintained by the clearing house, and other critical functions. In turn, issuers receive significant flows of information about ownership and transactions, critical to management of their investor base.

As we understand it, under the proposed design of T2S, issuer/registrar access to the settlement system will be further intermediated through the local clearing house. That is, the issuer (via its agent registrar) will transmit instructions to the local clearing house and the local clearing house will in turn transmit instructions and ownership records to T2S for settlement processing. This appears to be a retrogressive step in market design both generally and from an issuer's perspective, adding cost, complexity, inefficiency and risk to the process.

As noted in our opening comments, we believe the principle of direct connectivity between the settlement environment (in this case, T2S) and registers of members should be preserved so as to avoid any material and negative impacts on business risk, systems efficiency, transparency of share ownership, shareholder engagement, corporate governance, and timely shareholder communications and corporate action management (voting, rights issues, takeovers etc).

We are still grappling with the legal framework proposed to govern T2S, including any potential impact from the EU Clearing and Settlement Legal Certainty Group's legal harmonisation initiatives. The legal principles of ownership and account structures will be of critical importance, especially in such markets where the central clearing systems today deliver legal title (as distinct from beneficial ownership). There cannot be a backward step regarding this legal principle in these markets. This would have a material and negative impact on transparency of ownership, shareholder engagement, corporate governance, shareholder communications and the efficient management of corporate actions. By contrast, we firmly believe it is in issuers and investors best interests for other European markets to develop comparable legal outcomes.

Accordingly, we are concerned to see more information regarding the EU's efforts towards legal harmonisation of clearing and settlement-related matters, the interaction of such initiatives with the principles guiding development of T2S, and the consequential impact on the issuer-investor relationship.

2) Cost vs Benefit for issuers and investors

The business case for T2S may be clear for major secondary market users of European markets (e.g. brokers and custody banks), however, in our view, it is much less clear to us that a robust business case for EU issuers and their investors exists at this time, other than by simple association, i.e. "what's good for the market must indirectly be good for issuers and investors".

In our view, ECB needs to increase the level of engagement with EU issuers to educate them about T2S, its strategic importance, and to demonstrate the material benefits it will deliver to this core segment of the market. If T2S fails to deliver benefits to issuers, and otherwise imposes added cost, it will, in our view, be firmly resisted.

On a related point, we are interested in gaining clarity regarding the manner in which non-EU "foreign" issuers will participate in T2S. There are existing protocols for settling such securities, e.g. Depositary Interests, GDRs and similar securities. We are keen to ensure that these secondary listing structures are preserved for the benefit of issuers seeking to access EU markets, e.g. LSE.

3) Inconsistent market systems

Until it becomes clear that the UK and its EU counterparts will each opt-in and become part of T2S environment, the proposed T2S environment may also have unintended consequences, polarising clearing and settlement markets, and creating new difficulties for participants that do not currently exist. For T2S to achieve its principal objectives, T2S should be an "all or nothing" regime across Europe (and be based on a direct-access-to-register model). Markets such as Ireland (which trades part Euro and part sterling) could otherwise be damaged by a polarised settlement environment. As we understand it, this outcome may occur if the UK opts out.

It is hard for us to envisage how the benefits for a EU-wide settlement system can materialise if a large part of the EU-wide market (e.g. UK) opts out, especially if it creates a more intermediated environment. The Euroclear Group's harmonisation project may also indirectly create confusion and delays in the deployment of T2S (and vice versa) as participants grapple to understand and adjust their business to these competing initiatives.

We know that T2S is still in its early design stages. Other significant policy issues are likely to surface as further information is issued and as the securities and corporate communities deepen their understanding of T2S and its consequential business, technical and legal impacts.

Show-stoppers

So, would we characterise any of the above "show-stoppers"? It is difficult for us to make such a clear statement – and we do not consider it is our role to make such judgments. However, our preliminary view is that the proposed design is overly complex and may not achieve its stated objectives. In our view, a simplified design for T2S would deliver significant savings and settlement reforms.

While Computershare supports the principle for an EU-wide initiative that significantly reduces the cost of settlement, especially if it increases competition for the provision of services, we do not yet have enough information to make a comprehensive assessment of the impact on issuers or registrars. Accordingly, we are not at a stage where we can decide whether we should endorse or oppose the T2S initiative to our stakeholders at this early point in its conceptual development.

We sincerely appreciate the opportunity to convey these important matters to the ECB. We trust this submission will be received in the co-operative spirit in which it is made. We look forward to engaging with ECB and the T2S Project Team on this important European reform as it progresses.

If you have any questions regarding the detail underpinning this submission, please feel free to contact our Head of Global Capital Markets, Mr Paul Conn, on +1-212-805-7154 or by email at paul.conn@computershare.com

Yours faithfully,

A handwritten signature in black ink, appearing to be 'Stuart Crosby', written in a cursive style.

Stuart Crosby
President & CEO
Computershare Limited