

Mr Charlie McCreevy  
Member of the European Commission  
Berlaymont – 200, Rue de la Loi  
B – 1049 BRUSSELS

19 May 2006

Dear Mr. McCreevy,

We are pleased to forward to you the executive summary of a study chaired by one of us (Andrew Crockett) on the pricing-related practices of post-trading central providers (CCPs, CSDs and ICSDs) in the main EU countries. This theme was chosen as the priority topic to work on due to its economic importance and its interaction with other issues such as governance and separation of activities. Additional assessments would be required to cover access rights and potential interconnectivity needs and to complete governance and unbundling issues.

This study was conducted by Eurofi and was monitored by a group of representative users of these infrastructures (custodians, investment banks, broker dealers): Bank of New York, BNP Paribas, Citigroup, Crédit Agricole (CACEIS), HSBC, JPMorganChase, Société Générale, Unicredito / HVB / Bank Austria CreditAnstalt.

Please consider this as a market-led contribution to the initiatives you are conducting in this field.

The analyses and recommendations are focused on issues where improvements can be achieved independently of the lifting of the Giovannini barriers, of potential consolidation or inter-connection scenarios that are difficult to anticipate at present, and from the business model of the different providers surveyed. This study complements existing research by highlighting the point of view of users on pricing issues.

The users involved in this study reached a consensus on a certain number of significant conclusions and recommendations related in particular to the level of transparency of central providers and to the users' involvement in pricing decisions which should be of interest for the Commission.

- The main conclusions are that the prices of infrastructure services have not been significantly reduced over the last 5 years despite significant profits made by central providers and despite the partial consolidation of the sector. At present users do not feel they benefit from enough information or leverage to have an impact on the pricing decisions of central providers, nor that their interests are sufficiently represented within the boards. Users also believe it can be argued that the competitive advantage enjoyed by ICSDs in the form of a de facto duopoly regarding infrastructure activities provides an advantage in competitive markets that could impact prices.

Recommendations aim at:

- Improving the level of transparency of central providers concerning pricing-related information for their infrastructure activities: public availability of pricing schedules and pricing policies describing the pricing methodology and articulating the principles of equity between different user segments, disclosure of the breakdown of revenues and costs by main services provided, disclosure of the rebates distribution policy when applicable

Increasing the involvement of users and the clarity of the role of the different stakeholders (management, board, users) in the pricing decision processes.

The report concludes that the majority of the proposals it contains can be implemented technically in the relatively short term. It recognizes however the potential political difficulty of convincing the management of central providers to implement these proposals. These recommendations have at this stage not been shared with the central providers surveyed and Eurofi will propose the study participants to approach the central providers concerned in order to discuss the findings as soon as possible.

In the meantime, the users part of the panel urge the Commission to require that central providers commit to a firm deadline for the implementation of these proposals put forward by Eurofi. A 12 months deadline would appear a reasonable timeframe to implement most of the recommendations.

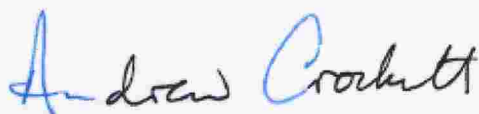
While these recommendations can be classified according to their potential ease of implementation, the panel considers that all of them are important for the achievement of significant progress in the area of pricing practices.

A first progress review involving the Eurofi users committee may be desirable (say at the end of 2006) to make sure that central providers are heading in the right direction.

In addition some users part of our panel believe that legislative action would further encourage progress.

We are at your disposal to comment these findings in further detail and share with you the further courses of action that are to be considered in our opinion.

With our best regards.

Handwritten signature of Andrew Crockett in blue ink.

Andrew Crockett  
President of JPMorgan International

Handwritten signature of Jacques de Larosière in blue ink.

Jacques de Larosière  
Co-President of Eurofi

Copy :

Alexander Schaub, David Wright, Mario Nava, Martin Merlin, Martin Power, Michael Murray