

## Feedback to consultation paper

<b>Document Title</b>	<b>T2S Consultation Paper: Principles and High Level Proposals</b>
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<b>Proposal Nr.</b>	<b>Statement</b>	<b>Comment</b>	<b>Institution</b>	<b>Confidential</b>
1	I agree	CSDs should not prevent users having a one to one relationship between the user accounts at the CSDs and the corresponding accounts at T2S. From the perspective of a user having direct access to T2S, it is important that the CSDs accept and produce messaging that uses the T2S account number structure.	The Bank of New York	No
2	I agree		The Bank of New York	No
3	I agree		The Bank of New York	No
4	I agree		The Bank of New York	No
5	I agree		The Bank of New York	No
6	I completely disagree	This proposal says that there shall not be (as currently exists within the Euroclear group, and as currently is being developed on the future Euroclear group ESES and SP platforms) a single operational account covering multiple legal accounts (at different CSDs). This is prima facie a degregation of functionalities for users of Euroclear group CSDs; it is also a missed opportunity to bring benefits to CSD users. It will be necessary to review the operational needs of CSD users that have direct legal accounts at multiple CSDs; there will be a need for operational solutions to the additional complexity in settlement processing resulting from the multiplication of accounts on a single settlement platform (T2S). From the perspective of a CSD user, it is not acceptable that the only solution to such problems be for a CSD user to use one single CSD. (Compared to using multiple CSDs, using a single CSD may increase legal risk for users, and may result in an inadequate custody service for users; it is also the case that a CSD offering intermediary services has a higher risk profile than a CSD that does not offer intermediary services).	The Bank of New York	No

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7	I agree	This proposal is in itself fine. However, it is imperative that users be able to operate omnibus accounts at all CSDs that participate in the T2S platform. There should not be an obligation to segregate per beneficial owner at any CSD. The legal, tax and operational constraints that may force such segregation should be eliminated.	The Bank of New York	No
8	I agree	As currently at many CSDs, issuer agents acting on direct accounts at the CSDs have a significant role both in issuance and in custody operations, it is clearly necessary that issuer agents have specific accounts on T2S. It may well be the case that in its reporting T2S should distinguish between standard settlement and settlement of issuance and custody operations. With relation to issuer agent accounts, it may be helpful if there was a differentiation between corporate issuers and other issuers.	The Bank of New York	No
9	I agree		The Bank of New York	No
10	I agree		The Bank of New York	No
11	I do not agree entirely	Dual sources of reference data may cause complications for users, and may generate the question - in cases of discrepancies - of what is the master record. A separate point is that the boundary between data necessary for "settlement purposes" and other data is not clearly defined; processing of corporate events may well involve processing on T2S (distribution of cash or securities proceeds, transfers of coupons in order to receive entitlements or to elect between options, etc); in consequence, and as a possible example, it may be the case that the securities reference data on T2S should include the identity of the relevant issuer and paying agents.	The Bank of New York	No
12	I do not agree entirely	To cover the issues generated by securities held in more than one CSD, a key principle is the principle of mutual exclusivity of data ownership.	The Bank of New York	No
13	I agree		The Bank of New York	No
14	I agree		The Bank of New York	No
15	I agree		The Bank of New York	No
16	I agree		The Bank of New York	No
17	I agree		The Bank of New York	No

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<b>Proposal Nr.</b>	<b>Statement</b>	<b>Comment</b>	<b>Institution</b>	<b>Confidential</b>
18	I do not agree entirely	This proposal raises a general comment that applies to several of these proposals; the comment is that one area of specific complexity is the arrangements for securities whose issuer CSD is not a T2S participant. There is a risk that by their complexity and cost the specific needs for these securities negatively influence the T2S functionalities for securities for which the issuer CSD is on T2S. This risk should be avoided. Valid considerations in this respect are that the current activity for such securities is of marginal importance, and that there are alternative settlement solutions such as the use of a depository receipt structure. (See the commentary on Proposals 50 and 51 for some additional information on this general point).	The Bank of New York	No
19	I agree		The Bank of New York	No
20	I agree		The Bank of New York	No
21	I agree		The Bank of New York	No
22	I agree		The Bank of New York	No
23	I completely disagree	A harmonised daily settlement timetable would be of benefit to all CSD users. A key point is that if a CSD opts out of night-time settlement then this will have a negative impact on users of other CSDs who wish to settle transactions with a user of that CSD; there may well also be a negative impact on settlement of transactions in all securities for which that CSD is the issuer CSD.	The Bank of New York	No
24	I agree	The principle of a harmonised daily settlement timetable is very important. (Not simply ideally, but also in practice, domestic and internal cross-border deadlines should not differ).	The Bank of New York	No

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25	I do not agree entirely	With relation to settlement deadlines for cross-border settlement with non-participating CSDs, see the above comments on Proposal 18. With relation to securities lending activity, the following points are important : (i) in the event of a settlement failure because a CSD user is short of cash, T2S will offer a centralised facility (namely an auto-collateralisation function); in the event of a settlement failure because a CSD user is short of securities, T2S will apparently not offer such a centralised facility; this is a prima facie anomaly, especially as from a theoretical perspective it is best if automated fail-curing securities lending processing is as close as possible to the core settlement engine; (ii) if T2S does not provide any centralised facility, then it is important that T2S does not grant any privileges to CSDs over CSD users with direct access to T2S in the provision of securities lending services; if T2S does grant such privileges, then this will lead to an inefficient market structure.	The Bank of New York	No
26	I do not agree entirely	T2S will not simply process pure settlement activity (resulting from trade execution), but will also process settlement activity (with CSDs and issuer agents) relating to custody operations. It is important that for such activity, and for all relevant parties, the operating hours (access hours, processing times, etc) be harmonised, and that to the greatest extent possible CSDs and issuer agents follow a common market practice.	The Bank of New York	No
27	I agree		The Bank of New York	No
28	I agree		The Bank of New York	No
29	I agree	The principle of a level playing-field is important. This principle should apply to the interactions between T2S and both CSDs and CSD users with direct access to T2S. Given that settlement eligibility depends in part on the matching process, an example of a possible non-level playing field would be if there were different matching processes (as is set out in Proposal 30).	The Bank of New York	No
30	I completely disagree	Excluding the scenario of one single instructing party (such as a CCP) sending matched instructions to T2S, the proposal that for each CSD there be two separate sets of matching criteria (internal CSD criteria and T2S criteria), and that one of the matching fields be the place of matching is a recipe for generating confusion and mismatches. <b><u>There should be a single matching process.</u></b> It is important to bear in mind that for any single settlement the two counterparties may be users of different (or of the same) CSD, and may (or may not) be instructing T2S directly. Any single CSD user may not necessarily know which CSD the counterparty uses, and whether the counterparty instructs T2S directly.	The Bank of New York	No

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31	I agree	It is very important that the T2S environment allows and encourages CSD and CSD users to match early (as set out in the ECSDA/ESF document).	The Bank of New York	No
32	I completely disagree	(Same comments as for Proposal 30) Excluding the scenario of one single instructing party (such as a CCP) sending matched instructions to T2S, the proposal that for each CSD there be two separate sets of matching criteria (internal CSD criteria and T2S criteria), and that one of the matching fields be the place of matching is a recipe for generating confusion and mismatches. <b><u>There should be a single matching process.</u></b> It is important to bear in mind that for any single settlement the two counterparties may be users of different (or of the same) CSD, and may (or may not) be instructing T2S directly. Any single CSD user may not necessarily know which CSD the counterparty uses, and whether the counterparty instructs T2S directly.	The Bank of New York	No
33	I completely disagree	As stated, the proposal requires that an instruction once matched can be cancelled only bilaterally, and not unilaterally. This is sub-optimal. Even in an environment with a full freeze/unfreeze functionality (as foreseen by the ECSDA/ESF document), bilateral cancellation - compared to unilateral cancellation - still (a) places a heavier operational burden on CSD users, and (b) tends to discourage early matching. (In an environment in which there are restrictions (such as the requirement for bilateral cancellation) on the control that a CSD user has over a settlement instruction, there is an incentive for the CSD user to hold back the instruction (i.e. not send for matching) until the last moment before settlement). It is important that by its design the T2S system creates incentives (and does not create disincentives) for matching as early as possible in the transaction lifecycle (in such a way, mismatches will be indentified as early as possible, and settlement success rates will increase).	The Bank of New York	No
34	I agree	As set out in the commentary to Proposal 30, it is important that there be a single matching process.	The Bank of New York	No
35	I agree	Clearly, enrichment after matching should be possible only for non-matching fields.	The Bank of New York	No
36	I agree		The Bank of New York	No
37	I agree		The Bank of New York	No
38	I agree		The Bank of New York	No

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<b>Proposal Nr.</b>	<b>Statement</b>	<b>Comment</b>	<b>Institution</b>	<b>Confidential</b>
39	I agree	The principle of a common settlement process is important. T2S functionalities should be available to all CSDs and to all CSD users. An important point is that, even if a specific functionality may not appear "useful" today for a specific CSD or its users, T2S will change the structure of how all markets work, so that CSD users may see reasons to start using a new functionality. As a separate point, it should be noted that there may be specific complexities with relation to pledge and repo functionalities (given that a market participant may have an account at only one NCB, but may be a user of more than one CSD).	The Bank of New York	No
40	I agree		The Bank of New York	No
41	I agree		The Bank of New York	No
42	I agree		The Bank of New York	No
43	I agree	The objective of early settlement is an important objective. Early settlement will be a result not simply of technical T2S settlement functionalities; it will also depend on whether the entire mode of functioning of the T2S system (i.e. T2S plus CSDs) generates incentives - and does not generate disincentives - to all market participants to display good behaviour (specifically to send instructions in for matching as early as possible, and to provide resources for settlement as early as possible).	The Bank of New York	No
44	I agree	There may be a need for more than three technical netting runs.	The Bank of New York	No
45	I agree		The Bank of New York	No
46	I agree		The Bank of New York	No
47	I agree	For non-CCP transactions, there are both advantages (higher rates of settlement efficiency) and disadvantages (extra costs at each layer in the custodial chain) in partial settlement. It is important that for non-CCP transactions it be possible to opt in or out of partial settlement at the level of the account in T2S.	The Bank of New York	No
48	I agree	Recycling of pending transactions should take place over a minimum period of several days.	The Bank of New York	No
49	I agree		The Bank of New York	No

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<b>Proposal Nr.</b>	<b>Statement</b>	<b>Comment</b>	<b>Institution</b>	<b>Confidential</b>
50	I do not agree entirely	This proposal is fine for securities for which the issuer CSD is a participant of T2S. Additional complexity and problems start arising as soon as transactions are settled on T2S in securities for which the issuer CSD is not a T2S participant. One example is the need for realignments of security positions at the level of the issuer CSDs. (See the commentary on Proposal 51 for some further discussion on this general point).	The Bank of New York	No
51	I completely disagree	Cross-border settlement links between participating and non-participating CSDs is a corollary of accepting on T2S settlement of transactions in securities for which the issuer CSD is not a T2S participant. Such cross-border settlement links are very complex, as procedures need to be put in place - inter alia - (i) to ensure settlement at the level of the issuer CSD, and (ii) to cover the possibility of unwinding of transactions at the level of the issuer CSD (as, for example, the issuer CSD will not necessarily be designated under the Settlement Finality Directive).	The Bank of New York	No
52	I agree	It is a very positive point that T2S will specifically accept cash instructions relating to asset-servicing, such as market claims (i.e. coupon compensation) and interest payments. It is important that the relevant system paying agents (i.e. the CSDs or the issuer agents with directly-operated accounts on T2S) be able to instruct on T2S all asset-servicing-related cash movements (including dividends, redemptions etc).	The Bank of New York	No
53	I do not agree entirely	The proposal as such is fine. It is important to ensure that the limited read-only access available to CSD users be not too limited, and that it include, for example, deadline data.	The Bank of New York	No
54	I agree		The Bank of New York	No
55	I agree	It is clearly completely understandable that a CSD can grant to a CSD user direct access on T2S only to accounts located on that CSD. It should perhaps be noted that such direct access covers at a minimum not simply the settlement of executed market trades, but also the settlement of transfers related to custody operations.	The Bank of New York	No
56	I agree		The Bank of New York	No

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<b>Proposal Nr.</b>	<b>Statement</b>	<b>Comment</b>	<b>Institution</b>	<b>Confidential</b>
57	I do not agree entirely	The Proposal itself says that interactions necessary for non-settlement processing will be available only for CSDs. However, the second paragraph of the explanatory text suggests that such interactions may also be available, for example, to paying agents. This is clearly contradictory. In this context there are two important points why there may well be arguments for non-CSDs to interact directly with T2S: (i) as set out in the above commentary on Proposal 11, T2S processing will necessarily cover not simply pure settlement processing, but also aspects of non-settlement processing, and for some of these aspects entities other than CSDs (such as issuers or issuer agents) may be instructing T2S directly; (ii) it would in general be more efficient if it were possible for the required information to be available directly.	The Bank of New York	No
58	I agree		The Bank of New York	No
59	I agree	As is set out in international standards, the use of proprietary messaging should be restricted to the strict minimum necessary.	The Bank of New York	No
60	I do not agree entirely	Clearly, this figure should be reviewed in due course so that the capacity of T2S covers the real needs.	The Bank of New York	No
61	I agree		The Bank of New York	No
62	I agree		The Bank of New York	No
63	I agree		The Bank of New York	No
64	I agree	It will be necessary to define clearly the boundary between IT operations support and settlement business support.	The Bank of New York	No
65	I agree	Clearly, T2S needs to allow CSDs to fulfill their regulatory requirements. However, there may well be reasons (such as, for example, class action litigation) why data should be retained for a period that is longer than the minimum period required by regulatory authorities.	The Bank of New York	No
66	I agree	Although a market by market migration does appear to be preferable to migration by asset class, it is important not to underestimate the future complexity of the migration for all market participants, namely CSDs, CSD users and the underlying clients of CSD users. It is important that the migration be very carefully planned and be spread out over time, and that there be a strong emphasis on minimising project risk.	The Bank of New York	No

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<b>Proposal Nr.</b>	<b>Statement</b>	<b>Comment</b>	<b>Institution</b>	<b>Confidential</b>
67	I completely disagree	Although the principle of minimising market impact is of value, this principle should not be an overriding principle; nor should the principle of striking a balance between solutions that limit changes and those that support an efficient centralised platform. The overriding principle should be that harmonisation and standardisation decisions should be taken with the objective of building a logical and thought-through system that brings benefits and maximises efficiency and cost-effectiveness for the European securities market as a whole, and for its participants (CSDs, CSD users, other intermediaries and final investors).	The Bank of New York	No