

Jean-Michel Godeffroy
European Central Bank

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Subject: Comments on the T2S User Requirements Document.

Dear Jean Michel,

In the name of the Banco de España, I would like to make the following comments on the T2S User Requirements Document:

FAILS MANAGEMENT

In the Chapter 3 of the Users Requirements (T2S.03.260), two options for fails management are proposed within the T2S deadlines: - a specific deadline in the local system of the CSD requiring this fails management or - two different global deadlines for receiving DvP instructions for same day settlement, one for the T2S parties and one for the CSD.

In relation to this subject, Banco de España completely agrees with the letter sent by the Spanish NUG and also fully supports the option 2, considering that this provides more advantages in the European context.

I would like to stress two aspects mentioned by the Spanish NUG, which are particularly relevant from a central bank perspective:

- Concerning competition and level playing field issues, the option 1 does not respect the "level playing field" and put in a competitive disadvantage the CSDs with fails management mechanisms. Although the option 2 is not completely satisfactory, it does not harm the competitiveness of those CSDs with fails management tools and contributes to create a "level playing field".
- Regarding financial stability issues, the option 2 encourages CSDs to establish fails management tools, which overall increases the efficiency and decrease the risks. Besides, the establishment of a harmonized deadline is more appropriate for financial stability (avoiding downward harmonization) and implies more simplicity for the European context.

I would also like to underline the importance of being coherent with the international standards, in particular, Recommendation 5 CPSS-IOSCO "*Securities lending and borrowing should be encouraged as a method for expediting the settlement of securities transactions*"; and the ESCB-CESR standard 5, which seems to be more stringent than the international recommendation.

In this context, the fact-finding exercise on settlement fails (PSSC/2006/559) carried out within the ESCB, shows that despite of the low average fail rate in Europe, the harmful consequences of settlement fails explained in this exercise are sufficient to justify the establishment of appropriate measures in this respect.

I should remark that, although the fails management issue has an important technical component that must be addressed in the T2S User Requirements, it has also important implications on public policy issues (control risks and financial stability) that should be addressed by the relevant authorities (regulators and overseers).

NIGHT TIME SETTLEMENT AND LIQUIDITY MONITORING

The T2S User Requirements Document tackles in depth the issue of collateralization of credit operations by NCBs as far as auto-collateralisation is concerned. Apart from this, I miss the coverage of other credit operations to inject liquidity for other purposes than T2S (payments).

In this context, it would be advisable to foresee a time window at the beginning of the night cycle for monetary policy operations (substitution of collateral) and for the provision of intraday credit. In the latter case, counterparties could ask for additional liquidity for T2 purposes to be used at the start of the following day.

With regard to liquidity monitoring, there is the possibility of checking on-line the balance position of the participants' accounts on an individual basis in T2. It would be suitable as well for T2S dedicated cash accounts widening the scope to the securities accounts held in the registering CSD. The NCBs need to be able to control any credit at any time in order to fulfil properly their duties. In my view an aggregated view is not sufficient, for which liquidity monitoring is needed on an individual basis.

MULTILATERAL SETTLEMENT

Lastly, I would like to point out that the settlement of multilateral instructions without CCP intervention should not be discriminated in order to safeguard the same level of service. For this reason this type of settlement in T2S must be allowed.

Kind regards,

Susana Núñez