NORGES BANK

FINANCIAL STABILITY

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Your ref.	Our ref.	Oslo,
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PRINCIPLES FOR FINANCIAL MARKET INFRASTRUCTURES- CONSULTATIVE REPORT

This letter contains Norges Bank's comments to the consultative report "Principles for financial market infrastructures", which has been issued by the Committee on Payments and Settlement Systems (CPSS) and the Technical Committee of the International Organization of Securities Commissions (IOSCO). When the new principles are finalised, they will replace the three existing sets of CPSS and CPSS-IOSCO standards for different categories of financial market infrastructures (FMIs).

Norges Bank welcomes the initiative from the CPSS and IOSCO. We agree that robust and efficient FMIs will help to ensure that markets continue to function effectively even in times of crises and are essential prerequisites for financial stability. Overall, we find the report very useful and agree with most of its contents. We have the following comments:

- It would be valuable to us if the report contained some more detailed comments about its recommendations seen in relation to other international recommendations and relevant regulation.

- Not all FMIs are organized in a way that exposes them to credit and liquidity risk from their participants and/or others. The principles should, for the sake of clarity, specify that the advices only apply where the coherent risks exist.

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For example, the Norwegian central securities depository (CSD) is organized in a manner that does not expose it to credit and liquidity risk. Some of the recommendations given in principle 4 (credit risk), principle 7 (liquidity risk) and principle 8 (settlement finality) will thus be of limited relevance for this type of CSD. The Norwegian Securities Register Act §5.1 provide limitations to the business a CSD with license in Norway may undertake. Thus, the CSD cannot undertake banking or central counterparty (CCP) activities, in addition to its CSD activity. For this, specific licences are required.

- Our understanding is that principle 4, 7 and 8 may imply that delays in payment systems based on multilateral net settlement and securities settlement systems based on delivery-versus-payment (DVP) model 2 or 3, should <u>never</u> occur. In our view, such restrictions could become disproportionally costly compared to any efficiency gains.

  Furthermore, we believe that payment systems where a netting may be rejected and then recalculated, can be satisfying with the right premises: The solution should have limited liquidity risk, the participants should not be able to credit their clients before settlement, and efficient routines for calculating a new netting should be in place. On this background, we think the report should elaborate on the right trade-off between efficiency (no delays) and costs.

- Principle 19 (tiered participation arrangements) provides comprehensive recommendations to ensure information about indirect participants. We welcome a separate recommendation on this topic, as well as a clear definition of both direct and indirect participants. Especially, we think it is important that an FMI should review its rules and procedures to ensure that there is clarity about the nature of participation of direct and indirect participants, and, to the extent possible, ensure that there are no legal, contractual or finality ambiguity regarding indirect participants.

Yours sincerely

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