

Mrs Daniela Russo  
European Central Bank  
Eurotower  
Kaiserstraße 29  
60 311 Frankfurt am Main

ALLEMAGNE

Paris, 29 July 2011

**Subject: Response to the CPSS-IOSCO consultative report on principles for Financial Market Infrastructures**

Dear Madam,

We welcome the opportunity to respond to the CPSS-IOSCO consultative report on principles for Financial Market Infrastructures.

As a general remark, we would like to underline that we agree on most of the new principles introduced by this report.

We would also like to underline that we join and share the position of the FBF, AFTI and AMAFI's regarding payment systems, as defined in their response.

This letter should thus be considered as a supplement and complement to the AFTI and AMAFI's response.

Accordingly, you will find below the summary of our main comments as outlined during the 11 July 2011 meeting.

First of all, we share and join the position of the other participants regarding the need to better clarify the different requirements for different types of FMIs in the report.

As a general remark, we'd like to insist that all CSMs be submitted to the same requirements. Currently, there is a significant difference between the requirements imposed on privately-owned CSMs, and those operated by Central Banks. This difference does not make sense to us, and contradicts the principle of a level playing field.

We would like to see this point addressed in the final version of the report.

As to Principle 2, Governance, we also believe that a clear distinction should be made between the scheme and the infrastructure so that the governance of the scheme is not equated to the governance of the company which operates the system. However, we do not believe that that requires scheme and processor to be distinct legal entities: a clear distinction between the two roles, and a clear and committed governance scheme for each role is, in our opinion, quite sufficient.

In our case, the governance of the company, which operates the system but can also perform other services and activities, is distinct from the governance of the scheme, which gathers and is devoted to the participants to the payment system. The roles and responsibilities of each governing body are clearly defined, and contractually binding. In our view, this provides adequate conformity to the spirit of the governance principle.

In addition, we would like to highlight that our company is dedicated to serving and supporting the public interest. Our primary objective is not to make profits.

Within this context, we do not believe that the new requirements contemplated by the report (see notably the inclusion of independent board member(s)) should all be applied to companies like our, at least until the issue of Central Bank operated CSMs is resolved. Such requirements would only broaden the difference between different type of CSMs.

Secondly, regarding Principle 4, Credit risk, further clarification should be provided as to the application of the concept of "potential future exposure" to payment systems.

Thirdly, regarding Principle 7, Liquidity risk, the report provides for a new requirement according to which a payment system "should maintain sufficient liquid resources to effect same-day and, where appropriate, intraday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of [one/two] participant[s] and [its/their] affiliates that would generate the largest aggregate liquidity need in extreme but plausible market conditions."

The former version of this principle, as specified in the Core principles for systemically important payment system, provided for “cover one” requirement. Accordingly, STET implemented in 2009 a financial safety mechanism which comprises a mutual guarantee fund, i.e. a permanent pool of mutualised collateral that may be used to cover the settlement failure of a direct participant, and individual guarantees which add a “defaulters pay” dimension to the framework through pre-payments brought on an intraday basis. This mechanism was meant to cover the consequences of a default of one participant only.

While we clearly understand the motivation for ensuring that a systematic risk could not occur, we believe that in practice, a difference should be made between FMI based on the total amount of capital at risk. For instance, a HVP system deals with daily capital volumes that far exceeds the capability of a banking community to cover. In our case, though the number of operations is very high, the capital at risk is manageable, and well within the capability of the banking community to handle, should one of their members runs into liquidity difficulties. Insuring against one bank default is a very strong ensurance ; the benefit of moveing to covering two simultaneous bank failures would be feeble indeed, but would entail significant raise in the cost of immobilized capital. Given the strong pressure that European regulator is putting on a downward trend to costs, this does not seem opportune for systems such as ours.

The application of a “cover two” requirement to payment systems whould thus have a significant impact on our company and our participating banks from both an operational and financial perspective.


Fourth, regarding Principle 19, Tiered participation arrangement, the definition of indirect participants which includes “entities that are not bound by the rules of the FMI, but whose transactions are recorded, cleared, or settled by or through the FMI” and which “can be significantly removed from the FMI and its (direct) participants” should be further clarified together with the associated responsibilities for the payment systems.

Our company has defined with direct participants to the system thresholds and measures to monitor the risks that indirect participants, which are expressly declared in the system by direct participants, present to the payment system. But it is the role of direct participants to manage their indirect participants. Moreover there are no such thresholds and measures for indirect participants which are not declared (e.g. corporate clients, final customers). Our company has no knowledge of and thus no control over such indirect participants and we cannot figure at this stage how this could reasonably be done.

Finally, we understood during the meeting that these new principles should be effective by the end of 2012. We should be obliged if you could confirm this deadline.

We look forward to hearing from you and we thank you for your consideration.

Sincerely,

A handwritten signature in blue ink, consisting of a stylized 'J' followed by a series of loops and a long vertical stroke that extends downwards.

Jean-Pic Berry

Chief Executive Officer