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Committee on Payment and Settlement Systems (CPSS)
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July 29, 2011

Re: Committee on Payment and Settlement Systems (CPSS) and the Technical Committee of the International Organization of Securities Commissions (IOSCO) consultative report on *Principles for Financial Market Infrastructures*

Dear Sir or Madam,

Deutsche Bank welcomes the opportunity to respond to the Committee on Payment and Settlement Systems (CPSS) and the Technical Committee of the International Organization of Securities Commissions (IOSCO) consultative report on *Principles for Financial Market Infrastructures*. We support CPSS and IOSCO's work regarding standards for systemically important payment systems, central securities depositories, securities settlement systems, central counterparties and trade repositories (collectively "FMIs"), and we agree that a single set of standards if adhered to will provide greater consistency in the oversight and regulation of FMIs worldwide.

General comments

- Recent regulatory initiatives governing financial markets have transformed FMIs from elective vehicles used for risk or cost management to mandatory components of financial transactions. FMIs are now preconditions for doing business and their performance is critical for market participants who have no choice but to accept their terms in order to conduct business. This consultation should address the changing role of FMIs.

- FMIs are often profit-driven businesses but have an inherent responsibility to safeguard markets. Given this potential conflict of interest, it will be important to strike the right balance between establishing robust standards for the safeguards of financial market stability and allowing FMIs the opportunity to conduct profitable businesses. Appropriate governance arrangements with representation of relevant stakeholders must exist to manage this potential conflict of interest.
- The central role FMIs will play as risk gatekeepers will result in a concentration of risk among FMIs. The soundness and safety of FMIs is crucial for broader market stability and for markets to function properly. It is essential that robust minimum standards are in place, globally, to ensure FMI soundness and stability.
- Coordination between international regulators as they draft new requirements will promote harmonization and reduce regulatory arbitrage. Consistent standards also enable future work to be carried out regarding mutual recognition of FMIs across jurisdictions.
- We request that CPSS-IOSCO develop standards for the resolution of FMIs in the event of insolvency. Variations across different jurisdictions globally on such an important issue could be very damaging to financial markets during times of stress.
- We recommend that the FMI guidelines provide distinct views for Payments FMIs across all principles, and in particular with regard to interconnectedness. Large-value payments are of particular relevance with regard to interconnectedness as ultimate cash or payments settlement is a core component in any settlement arrangement.
- Lastly, we are concerned that in places the draft principles are less effective than the previously issued principles and recommendations for systemically important payment systems, securities settlement systems and central counterparties. Broadening the scope to include a greater number of financial market infrastructures has in places resulted in more generalized principles which lack specific guidelines.

We are pleased to comment on the principles set forth in the consultative report and appreciate the opportunity to submit our views for your consideration. Where appropriate, we have inserted suggested changes to the report's current language in a **<u>bolded, underlined font</u>**. Please do not hesitate to contact us should you have questions or if we can provide any more detail.

Sincerely yours,

Daniel Trinder
Global Head of Regulatory Policy

Note 1.16. Achieving the public policy objectives

> *...Caution is needed, however, so that excessive competition between FMIs does not lead to a competitive lowering of risk standards.*

FMIs are profit-driven businesses but have an inherent responsibility to safeguard the markets – responsible behaviour on the part of FMIs is the first line of defence in achieving the public policy goals of safety and efficiency.

The above note identifies the conflict that exists between competition and risk standards. Finding the right balance is necessary to promote safety and efficiency, and it is important to consider other policy initiatives underway (such as T2S) which are designed to promote competition between FMIs.

Note 1.26. Interoperability

> *Interoperability is addressed in this report but is not the focus of any specific principle...*

It would be useful if regulators identified what they see as specific risks and what they consider to be appropriate responses to these risks. Further, we suggest coordination with those regulators who have already issued a CCP with approval to interoperate.

Participants' liability to FMIs should be limited so that a participant can appropriately assess its potential exposure to an FMI. Participants should not be exposed to losses that they cannot anticipate or control.

Principle 2. Governance

> *An FMI should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.*

Explanatory note 3.2.5. Governance arrangements

> *…In some cases where an FMI provides services that present a distinct risk profile from its primary function, the FMI may need to separate legally the additional services that it provides…*

Further detail is required regarding what is meant by “distinct risk profile,” “primary function” and “separate legally,” and who would be responsible for making these determinations and mandating legal separation.

Explanatory note 3.2.12. Risk-management governance

> *…A risk committee should be chaired by a sufficiently knowledgeable independent board member and consist of a majority of board members that are independent of management. The committee should also have a clear* ***mandate and operating procedures, which should be publicly disclosed*** ~~***public mandate and operating procedures.***~~

We recommend changing the language as reflected above.

Explanatory note 3.2.13. Model validation

> *…The validation process should be independent of the development, implementation, and operation of the models and their methodologies, and the validation process should be subjected to an independent review of its adequacy and effectiveness…*

Further explanation is required regarding what is meant by “The validation process should be independent…” In particular, clarification is required regarding who will conduct the independent validation, what will be included as validation parameters, who will maintain this process, how the process will be safeguarded. Thoughtful and quantitative analysis should underpin the validation process.

> *…Validation should include (a) an evaluation of the conceptual soundness of (including developmental evidence supporting) the models* ***and an evaluation of whether the appropriate model has been selected to measure the risk in question****, (b) an ongoing monitoring process that includes verification of processes and benchmarking, and (c) an analysis of outcomes that includes backtesting.*

Consideration needs to be given to the impact of using different validation models for calculating derivative positions (for example, Monte Carlo, black scholes, stochastic volatility model, binomial options pricing model, etc). The model chosen can depend on the product and should be appropriate for the parameters that are to be measured.

Principle 3. Framework for the comprehensive management of risks

> *An FMI should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks.*

Key consideration 3

> *An FMI should regularly review the material risks it bears from and poses to other entities (such as **its participants and their customers,** linked FMIs, settlement banks, liquidity providers, or service providers) as a result of interdependencies and develop appropriate risk-management tools to address these risks.*

We recommend changing the language as reflected above.

Explanatory note 3.3.2. Identification of risks

> *…An FMI should also consider other relevant and material risks, such as market (or price) and business risks, as well as risks that do not appear to be significant in isolation, but when combined with other risks become material. **FMIs should consider the impact that different jurisdictions may have on each of the risks identified and how these differences impact global liquidity.** The consequences of these risks may have significant reputational effects on the FMI and may undermine an FMI's financial soundness as well as the stability of the broader financial market…*

In addition to considering how various risks when combined may become material, it is important for FMIs to evaluate the potential impact that differing jurisdictions may have on each of the risks identified, and what impact this could have on global liquidity.

Any risk framework should be sensitive to the products involved. For example, it is important to consider how large OTC unwinds are handled in different jurisdictions, and a clear framework should be in place that can be applied in different regions.

There should also be a clear and consistent process in place for addressing large market events that affect numerous markets across multiple jurisdictions.

Explanatory note 3.3.5. Incentives to manage risks

> *In establishing risk-management policies, procedures, and systems, an FMI should provide the incentives for its participants and other interdependent entities to identify, measure, and manage their own risks…*

We support the idea of providing incentives for participants to manage their risks. However, exposure of participants to the FMIs must be limited and quantifiable. If liability is unlimited, there is less incentive to manage risks properly.

Principle 4. Credit risk

> *An FMI should effectively measure, monitor, and manage its credit risk from participants and from its payment, clearing, and settlement processes. An FMI should maintain sufficient financial*

resources to cover its credit exposure to each participant fully with a high degree of confidence. A CCP should also maintain additional financial resources to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the [one/ two] participant[s] and [its/their] affiliates that would potentially cause the largest aggregate credit exposure[s] in extreme but plausible market conditions.

This principle needs to be quantitative and should not allow for interpretation as this could result in regulatory arbitrage.

The stress scenarios should be clearly defined, tested and evidence-based, and their design should be based on an analysis which ensures they are appropriate.

FMIs need to establish clear and consistent guidelines addressing what will happen, across all jurisdictions, if there is a default.

Participants' liability to FMIs should be limited so that a participant can appropriately assess its potential exposure to an FMI. Participants should not be exposed to losses that they cannot anticipate or control.

CCP membership criteria should be public, standard and non-discriminatory. Relaxing access criteria in order to broaden access will leave the CCP open to additional risk.

We believe that CCPs should publish details of their credit risk management procedures.

Explanatory note 3.4.15. Credit risk in CCPs – use of financial resources

*…These resources could include collateral or margin posted by participants **and** prefunded default arrangements~~, and resources contributed by an FMI~~. **In order to prevent risk accumulation, FMIs should be required to contribute their own funds to the default waterfall.**…*

FMIs should be required to contribute their own funds, on a "pre-funded basis," as part of the default waterfall to incentivise them not to accumulate too much risk. Requiring FMIs to have some "skin in the game" will help deter FMIs from engaging in risky activities.

…For the purposes of this principle, an FMI should not include as "available" to cover credit losses from participant defaults those resources that are needed to cover normal operations or operating losses, or to cover losses from other activities in which it is engaged…

We support the view that funds held to cover credit losses in the event of a participant default should not be used by the FMI as working capital.

There should be clarity that the non-defaulting participants' collateral or margin would not be used to satisfy losses caused by defaulting participants.

Principle 5. Collateral

> *An FMI that requires collateral to manage its or its participants' credit risk should* ~~***accept collateral with***~~ ***require that collateral always have*** *low credit, liquidity, and market risk. An FMI should also set and enforce appropriately conservative haircuts and concentration limits.*

We believe that collateral should always have low credit, liquidity and market risk.

Collateral of members (and members' clients) should be protected and only used as per the waterfall sequencing in the event of clearing member default or FMI default.

We note the following concerns relating to collateral. First, a number of provisions relating to the segregation and protection of client collateral should be extended to similarly protect clearing member collateral. Second, the rules and procedures of the FMI should make clear which assets posted by the clearing members can be used to mutualize losses and which cannot. For example, initial margin posted by the clearing member should not be used to cover losses other than in the event of the default of the posting clearing member. This should be made absolutely clear. Third, the use of assets posted by the clearing members should be limited and specifically spelled out in the rules and procedures. For example, if those assets are used to secure any liquidity arrangements entered into by the FMI, then those arrangements must be disclosed to the clearing members. Fourth, the rules and procedures of the FMI should minimize any delays in return of assets back to the posting clearing member.

Where products are non-fungible, members may find the collateral requirements of clearing on multiple FMIs prohibitive. Members are often required to use different platforms for execution of different products, and therefore must post collateral in several places, increasing the capital demands placed on participants.

Explanatory note 3.5.2. Acceptable collateral

> *…In addition, participants should not be allowed to post their own debt or equity securities, nor bonds or equity of companies closely linked to them as collateral…*

We fully support the statement that companies should not be able to post their own debt or equity securities as collateral, or the debt or equity of companies closely linked to them.

Principle 6. Margin

> *A CCP should cover its credit exposures to its participants for all products through an effective margin system that is risk-based and regularly reviewed.*

Collateral of members (and members' clients) should be protected and only used as per the waterfall sequencing in the event of clearing member default or FMI default.

We note the following concerns relating to collateral. First, a number of provisions relating to the segregation and protection of client collateral should be extended to similarly protect clearing member collateral. Second, the rules and procedures of the FMI should make clear which assets posted by the clearing members can be used to mutualize losses and which cannot. For example, initial margin posted by the clearing member should not be used to cover losses other than in the event of the default of the posting clearing member. This should be made absolutely clear. Third, the use of assets posted by the clearing members should be limited and specifically spelled out in the rules and procedures. For example, if those assets are used to secure any liquidity arrangements entered into by the FMI, then those arrangements must be disclosed to the clearing members. Fourth, the rules and procedures of the FMI should minimize any delays in return of assets back to the posting clearing member.

Explanatory note 3.6.1.

> *…To calculate variation margin, open positions are marked to current market prices and funds are typically ~~**paid**~~ **transferred** to (or received from) a counterparty to settle **or collateralize** any gains or losses on those positions.*

We recommend changing the language as reflected above. Variation margin in the OTC market is used to collateralize unrealized gains or losses, not necessarily as a settlement or realization of gains or losses.

Explanatory note 3.6.3. Margin requirements

> *…Margin requirements need to account for the complexity of the underlying instruments and the availability of timely, high-quality pricing data. For example, **some** OTC derivatives require more conservative margin models because of their complexity and the greater difficulty of obtaining price quotes…*

We fully support the statement that margin requirements need to account for the complexity of the underlying instruments and the availability of timely, high-quality pricing data. However, the ability to obtain prices for different OTC derivatives products varies hugely and they should not be thought of as a homogenous group. For example, some equity derivative products are tied directly to the underlying product and are therefore relatively easy to price, whereas some exotic products are far more difficult to price due to their complex features.

Explanatory note 3.6.11. Variation margin

> *…To the extent permitted by a CCP's rules and supported by law, the CCP should net any gains against any losses and require frequent (at least daily) settlement* ***or collateralization*** *of gains and losses…*

We recommend changing the language as reflected above. Variation margin in the OTC market is used to collateralize unrealized gains or losses, not necessarily as a settlement or realization of gains or losses.

Principle 7. Liquidity risk

> *An FMI should effectively measure, monitor, and manage its liquidity risk. An FMI 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.*

This principle needs to be quantitative and should not allow for interpretation as this could result in regulatory arbitrage.

The stress scenarios should be clearly defined, tested and evidence-based, and their design should be based on an analysis which ensures they are appropriate.

FMIs need to establish clear and consistent guidelines addressing what will happen, across all jurisdictions, if there is a default. An FMI should publish its protocols for liquidity provision in the event of a stress situation or default.

Participants' liability to FMIs should be limited so that a participant can appropriately assess its potential exposure to an FMI. Participants should not be exposed to losses that they cannot anticipate or control.

Explanatory note 3.7.6. Managing liquidity risk

> *…This entails, among other things, that the FMI should have the operational capacity to reroute payments, where feasible, on a timely basis in case of problems with a correspondent bank.*

We question the viability of FMIs rerouting payments to an alternative system (FMI or similar mechanism), from both an operational and liquidity management perspective. We recommend instead that in the event of a problem with regard to payments settlement, the FMI should either store the payments and schedule it for processing at the beginning of the next cycle (i.e. at start of business next morning) or return the payment order to the participant at the end of the cycle (i.e. at the end of the business day).

Explanatory note 3.7.17.

> *…These procedures could involve a funding arrangement between the FMI and its participants, the mutualisation of shortfalls among participants according to a clear**, objective** and transparent formula, or the use of liquidity rationing (for example, reductions in payouts to participants)…*

We recommend changing the language as reflected above.

Principle 8. Settlement finality

> *An FMI should provide clear and certain final settlement, at a minimum, by the end of the value date. **In certain circumstances, it may be necessary to allow a delayed final settlement.** Where necessary or preferable, an FMI should provide final settlement intraday or in real time.*

We agree that, where possible, settlement should be done real time or intraday. However, it is important to recognize that some products may not be able to meet this timeframe.

Principle 11. Central securities depositories

> *A CSD should have appropriate rules and procedures to help ensure the integrity of securities issues and minimise and manage the risks associated with the safekeeping and transfer of securities. A CSD should maintain securities in an immobilised or dematerialised form for their transfer by book entry.*

Explanatory note 3.11.5. Segregation of assets

> *…In addition, a CSD also should support the segregation of securities belonging to a participant's customers on the participant's books by providing appropriate accounts and services and facilitate the portability of customer holdings, should the participant default, to another participant…*

Further detail is required regarding the suggestion that CSDs should "facilitate the portability of customer holdings," in particular regarding the term "portability."

Principle 12. Exchange-of-value settlement systems

If an FMI settles transactions that involve the settlement of two linked obligations (for example, securities or foreign exchange transactions), it should eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other.

This principle will have meaningful implications for certain products which fall under multiple jurisdictions. For example, this principle will have significant impact in the US where, currently, different legs of hybrid products come under different legislation (for example quanto swaps).

Further clarity is needed regarding how the DvP mechanism interacts with margin, capitalization, risk calculations and settlement. In particular, more detail would be helpful on the requirements of the executing broker versus the clearing broker.

Provision needs to be made for tripartite agreements.

Explanatory note 3.12.5. Extension of DvP, DvD, and PvP settlement to customers

An FMI that achieves DvP, DvD, or PvP enables its participants to offer DvP, DvD, or PvP settlement to their customers...

It is unclear how CSDs should facilitate DvP settlement with indirect clients. The institutional business is global in nature involving different time zones and currencies which cannot be processed in DvP beyond direct participants. Such requirements should be deleted as they are not practical and would reduce settlement efficiency and could result in failed settlements.

Principle 13. Participant-default rules and procedures

An FMI should have effective and clearly defined rules and procedures to manage a participant default that ensure that the FMI can take timely action to contain losses and liquidity pressures, and continue to meet its obligations.

We note concern with the language "continue to meet its obligations." A participant needs to have its liability to the FMI be limited and quantifiable. As noted in our comment to Principle 3, participants should have incentives to manage and contain their risks. If liability is unlimited, there is less incentive to manage risks properly.

Explanatory note 3.13.1. Participant-default rules and procedures

> *Participant-default rules and procedures facilitate the continued functioning of an FMI in the event that a participant fails to meet its obligations and help to limit the potential for the effects of a participant's failure to spread to other participants.* ***Members should have limited liability so that they can effectively manage their exposure****…*

Members should have limited liability so that they can effectively manage their exposure.

> *…An FMI may also decide to auction or allocate open positions to its participants.* ***Members should be forced to bid for the portfolios of other members of the CCP****…*

We do not agree that FMIs should have the discretion to allocate open positions to clearing members. A non market-based mechanism, such as forced allocation, presents risks to participants. Instead, we advocate a market solution, such as an auction, where there is a competitive way of establishing the unwind prices. The concern with forced allocation is how the price is established. The price established must be a market price, and not an arbitrary price picked by the FMI.

Members should be forced to bid for the portfolios of other members of the CCP. This would also have the desirable effect of strengthening membership criteria.

Explanatory note 3.13.3. Use and sequencing of financial resources

> *…The application of previously posted collateral should not be subject to prevention, stay, or reversal under applicable law and the rules of the FMI.* ***In order to prevent risk accumulation, FMIs should be required to contribute their own funds to the default waterfall.*** *The rules and procedures should also address the replenishment of resources following a default.*

FMIs should be required to contribute their own funds, on a "pre-funded basis," as part of the default waterfall to incentivise them not to accumulate too much risk. Requiring FMIs to have some "skin in the game" will deter FMIs from engaging in risky activities as they are exposed to potential losses.

We note that different FMIs currently have different default waterfall sequencing. We believe it would be useful for the advantages and disadvantages of different waterfalls to be reviewed.

Where a single default fund is used, consideration should be given to the different risk characteristics of the products covered by the single default fund. Does this introduce contagion risk where one product can bring down other products? Also, if the period of time required to unwind positions is different for the different products, then that raises the question about whether certain products are disadvantaged by the single default fund. For example, if there are losses in a product that can be unwound in a day, then the losses in that product can be crystalized much sooner than a product that takes longer to be unwound. Due to the timing difference, does it mean that losses crystalized earlier have earlier access to the default fund, meaning that losses crystalized later may not have much of a default fund covering those losses?

For those FMIs that use a single default fund for all products, provision should be made so that any call on the default fund is properly allocated to the relevant members. This is to protect all participants from being penalized if one member takes on more risk (either via their behavior or the product type traded).

Explanatory note 3.13.5. Management discretion

> *An FMI's management should be well prepared and have sufficient discretion to implement default procedures in a flexible manner so that the FMI's activities do not lead to additional systemic risks in the market...*

More clarity in needed regarding the level of "discretion" and "flexibility" that the FMI's management is to have to implement default procedures. It is important that discretion and flexibility are exercised conservatively, such that deviations from established rules and procedures and market expectations are kept to a bare minimum. In addition, normal governance procedures should be utilized to the extent time and circumstances permit. It should not be left solely in the hands of the management. Other constituents must be involved to the extent that time and circumstances permit.

Principle 14. Segregation and portability

> *A CCP should have rules and procedures that enable the segregation and portability of positions and collateral belonging to customers of a participant.*

Clearing members should be able to protect their clients' privacy across jurisdictions.

Explanatory note 3.14.7. Customer accounts

> *…Omnibus accounts, however, do require the CCP or direct participant to maintain accurate books in order to promptly ascertain an individual customer's interest to a portion of the collateral…*

The direct participant of a CCP, and not the CCP, should be responsible for maintaining accurate customer records as the relationship with the customer is held by the participant.

Explanatory note 3.14.10.

> *…If the CCP determines that individual customer accounts should be offered, then the CCP should offer them at reasonable cost and in an unrestrictive manner and require direct participants to offer those accounts to their customers at a reasonable cost and in an unrestrictive manner…*

We do not agree with the requirement that direct participants offer individual accounts to customers. This should be a commercial decision.

Explanatory note 3.14.12. Transfer of positions and collateral

> *…A CCP's rules and procedures should require participants to facilitate the transfer of customer positions and collateral upon the customer's request subject to any notice or other contractual requirements. The CCP should obtain the consent of the direct participant to which positions and collateral are ported…*

There should be clarity that a participant should not be forced to accept customer positions that the customer wants to port without that participant's consent.

Explanatory note 3.14.13. Disclosure

> *A CCP should clearly state its segregation and portability arrangements in its rules, policies, and procedures. A CCP's disclosure should be adequate such that customers can clearly understand how much customer protection is provided, how segregation and portability are achieved, and any risks or uncertainties associated with such arrangements…*

Similar disclosure should be provided to the participant with respect to participant's own collateral or margin.

Principle 15. General business risk

> *…This amount should at all times be sufficient to ensure an orderly wind-down or reorganisation of the FMI's critical operations and services over an appropriate time period**, and this capital should be kept separate from funds allocated to cover default.***

FMIs must hold capital to cover the orderly wind down of their business. This should be kept separate from funds allocated to cover default.

Principle 15. Key consideration 3

> *At a minimum, an FMI should hold equity capital at normal times equal to [six, nine, or twelve] months of expenses. An FMI may also need to hold additional equity capital, taking into account its general business risk profile. Capital held under international risk-based capital standards should be included where relevant and appropriate to avoid double regulation.*

This should not apply to Central Securities Depositories (CSD), especially CSDs that predominantly do business in central bank money, as these entities have much lower risk. The potential costs of these requirements could be prohibitive and would not provide certainty against business risk as the funds held would only be an approximation.

Principle 16. Custody and investment risk

> *An FMI should safeguard its assets and minimise the risk of loss or delay in access to those assets, including assets posted by its participants. An FMI's investments should be in instruments with minimal credit, market, and liquidity risks.*

Provision needs to be made for tripartite agreements.

Explanatory note 3.16.3. Use of custodians

> *…An FMI should carefully consider all of its relationships with a particular custodian bank to ensure that its overall risk exposure to an individual custodian remains within acceptable concentration limits…*

We agree that FMIs need to take measures to ensure the safety of assets or other funds they hold on behalf of clients. In most cases, using multiple custodians is already established today. Requirements addressing risk exposures to custodians should recognize that assets (securities) are protected in case of a custodian default though asset segregation rules.

Principle 18. Access and participation requirements

> *An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and* ***~~open access~~*** ***non-discriminatory access****.*

We recommend that the phrase 'open access' be changed to 'non-discriminatory access'. FMI membership criteria should be public, standard and non-discriminatory. Relaxing access criteria in order to broaden access will leave the FMI open to additional risk.

Explanatory note 3.18.5. Risk-based participation requirements

> *…Financial requirements may include reasonable risk-related capital requirements, the ability to contribute to prefunded default arrangements, and appropriate indicators of creditworthiness…*

In terms of financial requirements, consideration should be given to any assessment liabilities and obligations to participate in default auctions. Since these are unfunded commitments, FMIs should take into account similar commitments that participants have to other FMIs. For example, if a participant is a clearing member at multiple clearinghouses with multiple assessment liabilities, then the clearinghouses will need to know and consider this.

Principle 19. Tiered participation arrangements

> *An FMI should, to the extent practicable, identify, understand, and manage the risks to it arising from tiered participation arrangements.*

The risks of indirect participants should be managed by direct participants. FMIs do not hold the information necessary to assess indirect participant risk.

Explanatory note 3.19.8. Limiting indirect participation

> *There are limits to the extent to which an FMI can in practice implement controls affecting direct participants' relationships with their customers...*

FMIs should not implement controls affecting direct participants' relationships with their customers – these relationships should be managed by the direct participants.

FMIs should not encourage a direct participant to permit an institution access based purely on the concern about what that institution might do if it was not allowed access.

Principle 20. FMI links

> *An FMI that establishes a link with one or more FMIs should identify, monitor, and manage link-related risks.*

At a minimum, links between FMIs should be subject to the same requirements as links between FMIs and their participants.

Principle 22. Communications procedures and standards

> *An FMI should use or accommodate the relevant internationally accepted communication procedures and standards in order to facilitate efficient recording, payment, clearing, and settlement across systems.*

CPSS - IOSCO should support more global consistency across standards for RTGS and other large value payments infrastructures (LVPS), especially with respect to Payments FMIs. Currently, while many FMIs for LVPS use the global SWIFT standard – which we think should be the norm across the market – there are some deviations from this standard which prevent international efficiencies and effectiveness.

Principle 23. Disclosure of rules and procedures

> *An FMI should have clear**, objective** and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks they incur by participating in the FMI. All relevant rules and key procedures should be publicly disclosed.*

We recommend changing the language as reflected above.

We would like to see where possible consistency across jurisdictions in rules and procedures.

There should also be procedures in place to avoid / expunge duplicate reports.

Principle 24. Disclosure of market data

> *A TR should provide timely and accurate data to relevant authorities and the public in line with their respective needs.*

Trade repositories should provide timely and accurate data, however trade repository collection requirements should not be additive to the trade and transaction reporting requirements already in effect.

Explanatory note 3.24.4. Information systems

> *…Data should be made available that permits both comparative and historical analysis of the relevant markets. **Disclosure of market data should be standardised (both product and format) so that regulators can analyse across markets**…*

Disclosure of market data should be standardised (both product and format) so that regulators can analyse across markets.