

Market consultation feedback on T2S user requirements and annexes

Feedback on T2S User Requirements and Annexes

submitted by

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Nbr	Chapter/ Annex nbr	Page	Line	Topic	Comments	Suggested drafting change	Confidential Y/N
1	C.1			Governance Structure	See covering letter		N
2	C.1	5		Principle 8	Settlement in Central Bank Money is not without costs to non-RTGS/T2 participants. In recent years, we have experienced an increasing shift by agents and payment banks to pass the cost of posting collateral to support central bank money payments back to their clients. These "liquidity charges" are often not factored into the cost of settling a trade (and therefore pricing to a client) and can equate to as much as half of our annual settlement bill (per market). Accepting the benefit that settlement in Central Bank Money can bring to RTGS/T2 members in terms of reducing counterparty and settlement risk, we are beginning to question the requirement to mandate this settlement method.		N
4	C.2	10		Types of Transactions	Merrill Lynch believes that the scope of T2S should be expanded to cover asset-servicing and therefore the management of corporate actions. While T2S is likely to deliver some benefits in relation to cross-border settlement, we feel that the omission of asset servicing greatly reduces the efficiencies that could otherwise be delivered. It is our view, that many of the inefficiencies associated with cross-border settlement stem from the <u>dis-aggregated nature of asset-servicing</u> .	See covering letter for more details	N
5	C.3	4		Settlement Timetable: Maintenance Window	While we recognise the need for a maintenance window, we do not believe this window needs to be 2 hours in duration. We would prefer to see a shorter maintenance window and either an extension to night-time settlement or an earlier start to daytime settlement.		N
6	C.3	16		Deadline for Secured-Money Market	Is a secured-money-market trade the same as an end-of-day financing trade (i.e. DBV within EU)?		N
7	C.3	5		Settlement Timetable: DvP Cut-off	Our preference would be to have real time intra-day settlement available for as long as possible and would therefore challenge the need to stop DvP settlement at 16:00 CET.		N
8	C.3	17	1-4	Deadline for first Night-time Settlement Cycle	Please explain under what circumstances either a CSD or a directly connected T2S party would need to input settlement instructions after the cut-off for the first settlement cycle for night-time settlement? We believe that any instructions submitted after the cut-off should be excluded from batch settlement and validated for daytime settlement.		N
9	C.5	25		Unilateral versus Bilateral Cancellation	Merrill Lynch agrees with this proposal. However, consideration could be given as to whether unsettled but matched transactions older than xx days could unilaterally cancelled.		N
10	C.5	25-26		Cancellation triggered when the length of recycling is reached	Merrill Lynch recognises that the recycling rules (buy-ins etc) of exchanges, MTFs, CCPs are not within its mandate, but believe T2S should be a driver for standardisation and would urge the ECB to push for a market standard on CSD and cross-CSD recycling rules.		N
11	C.5	29		Allegation Facilities for Matching	The chapter makes several references to allegations in the context of matching and instruction management. However, there is almost no clarity as to the timings of when allegation messages would be sent. We would expect to be able to view allegations almost instantaneously. While we don't always see allegations in all markets, we would expect T2S to harmonise practices up to the highest market standard (rather than down to the lowest common denominator).		N
12	C.5	30	2-3	Allegation Facilities for Matching	This requirement states that allegations will only be sent after a delay period; please define the duration (or otherwise) of such a delay.		N
13	C.6			Collateral Management: Auto-Collateralisation	How and when would auto-collateralised repo's get unwound?		N
14	C.7	9		Sequencing	Merrill Lynch broadly agrees with the proposed sequencing order. However, we are not convinced that FoP instructions require a specific schedule within the sequencing process. Our feeling is that where FoP re-balancing needs to occur, this will be done prior to the start of first night-time settlement cycle.		N
15	C.7	10		Night-time Settlement Cycles	Merrill Lynch believes that in order to harmonise the Euro-zone settlement environment, night-time settlement should be a feature of T2S and mandated for all T2S users.		N
16	C.7	10		Night-time Settlement Cycles	In order to maximise night-time settlement, we do not believe there is a requirement to run any more than two batches. The first batch should only run after all instructions have been input and validated for that settlement day. The requirement for a second batch will be determined by the functions that T2S proposes to run at the end of the first batch. Only if there are new instructions to process (presumably all instructions for S will have been included in the first batch) or if there is a fails management function to run (such as auto-borrowing and lending), would a second batch add value.		N
17	C.8	6		Recycling objectives: favouring the settlement of oldest transactions	Merrill Lynch agrees with the proposal to prioritise settlements with the oldest intended settlement date first.		N
18	C.8	16		Partial Settlement Procedures	Merrill Lynch believes that these procedures give rise to an acceptable solution.		N
19	C.9	4		Increases/decreases in funds shares volumes	Merrill Lynch welcomes the availability of this functionality.		N
20	C.12	8		Communication Standard and Protocol	Recognising the importance of working towards the removal of the Giovanni barriers, we are pleased to note the ECB's commitment to work towards this goal (barrier one in this instance), through its recommendation to employ ISO 20022 messaging. Merrill Lynch believes ISO 20022 messaging is the appropriate standard for this initiative.		N
21	C.12	6		Communication Standard and Protocol	Will the Eurosystem provide assurances that it will continue to develop the ISO 20022 service in line with maintenance releases issued by SWIFT?		N
22	C.13	7		Settlement Confirmation	How quickly, after settlement has been completed, will confirmations be sent? We would expect these to be sent <u>instantaneously</u> .		N
23	C.17	6		Access to Data On-Line for 3 Months	While we acknowledge some CSDs make data available for retrieval for up to 3 months, Merrill Lynch would prefer to have data available for a longer period - ideally 6 months.		N
24	C.17	6		Archiving function in T2S	Does the Eurosystem anticipate charging CSDs and other T2S Users for retrieving data from the archive?		N
25	C.17	8		On-line Response Time for Basic Queries	Please clarify what is meant by a "light" instruction.		N
25	C.17	8		On-line Response Time for Complex Queries	We would expect all queries to be resolved within a specified timeframe and therefore request a <u>time-bound proposal for responding to complex queries</u> .		N
26	C.21	6		Testing Environment Calendar	In defining the migration and testing plan, we would urge the ECB to recognise the additional complexities of T2S, over and above those of T2. In this regard, we do not feel that the example given of 5 consecutive testing days would be either sufficient or prudent.		N