NORGES BANK
INVESTMENT MANAGEMENT

Annex 1: Detailed Response to ESMA Questions

1) Which elements would you propose ESMA to take into account /to form the technical standards on confirmation and allocation between investment firms and their professional clients?

In NBIM's view, ESMA should take into account the following elements when forming the ITS/RTS on confirmation and allocation:

- Timeliness of trading, confirmation and allocation process
- Standardisation and harmonisation of matching criteria, including standard settlement instructions (SSIs)
- Harmonisation of messaging requirements (SWIFT or other) to/from CSDs and between CSD participants

Timeliness in this context entails not only incentivising early instructions, but also accommodating scenarios in which early instruction may not be feasible or practicable (e.g. new security issues, auction trades, cross-border transactions).

Standardisation and harmonisation of matching criteria, including SSIs, should be further developed and extended to instrument types not in widespread use/not supported by industry-standard matching engines such as Omgeo CTM (e.g. repos and buy/sellbacks where the matching process remains manual to a large extent). Concerning SSIs specifically, we encourage the development of an industry standard for maintaining a consolidated and transparent up-to-date SSI repository, which could be made available for all market participants for settlement matching purposes.

SWIFT messaging requirements should be harmonised across all European CSDs (e.g. no market-specific field requirements).

2) In your opinion, are there any exceptions that should be allowed to the rule that no manual intervention occurs in the processing of settlement instructions? If so please highlight them together with an indication of the cost involved if these exceptions are not considered? Do you consider that this requirement should apply differently to investment firms? If so, please explain.

NBIM agrees that manual intervention should be allowed in exceptional circumstances only. As examples, manual intervention may be appropriate in case of wide-ranging broker defaults, protracted and significant technical issues at CSD level, or where the risks associated with the settlement processing of a certain security requires continuous monitoring (e.g. in case of a risk or efficiency scenario in which it would be beneficial for the CSD to manually control the sequencing/order of processing).

3) ESMA welcomes concrete proposals on how the relevant communication procedures and standards could be further defined to ensure STP.

NBIM is neither a CSD nor a direct CSD participant; therefore, it is difficult to make concrete proposals on how communication procedures and standards between CSDs and CSD participants may be developed further. As a general principle, however, we support ESMA's drive towards harmonisation of standards and procedures as we believe standardised messaging (e.g. SWIFT) and established communication procedures will improve STP rates, facilitate peer-to-peer comparisons of both CSDs and CSD participants, and enhance the timeliness and transparency of the reporting back to clients and brokers.

4) Do you share ESMA's view that matching should be compulsory and fields standardised as proposed? If not, please justify your answer and indicate any envisaged exception to this rule. Are there any additional fields that you would suggest ESMA to consider? How should clients' codes be considered?

Standardization of matching fields will support the harmonization of relevant fields between the various CSDs and should be beneficial in terms of achieving higher STP rates. NBIM therefore supports the suggestion that the technical standards should include a minimum set of transaction details to be verified and matched by the CSDs during the settlement process.

The suggested minimum set of fields for matching as proposed in section 18 of the consultation paper appears sensible, and we have no further comments to the proposed fields with the exception of the ISIN code: While ISINs are suitable security identifiers for fixed income securities, for equities sedols tend to be more specific in nature than ISINs and are therefore more appropriate as security identifiers for the equity asset class. In addition, NBIM would propose that SSI matching should be considered for inclusion in the set of matching criteria as we believe this will improve settlement rates.

We would further recommend including client codes as a mandatory matching field. This will increase confidence in the confirmation and allocation process because matching against the client code provides greater assurance of the correct instructions having been identified and matched, particularly in the common scenario where a given client is part of a nominee account with numerous other custodian clients.

5) Do you agree with the above proposals? What kind of disincentives (other than monetary incentives such as discounts on matching fees) might be envisaged and under which product scope?

Given the reduction in settlement cycle from trade date + 3 business days (TD+3) to trade date + 2 business days (TD+2) planned for Q4 2014, the proposed early cut-off of ISD-2 will effectively become end of day on trade date (TD) rather than end of day on trade date + 1 business day (TD+1) as is currently the case. While a substantial part of daily trading volumes (regular trades) are executed early enough in the day to enable same-day instructions to be sent to the CSDs, in our experience a significant part of daily trading volumes take place in the post-trading auctions scheduled after the closure of the stock exchanges (auction trades). Given the late hour at which these auctions take place, and the widespread industry practice of matching both equity and fixed income transactions using industry-standard matching engines such as Omgeo CTM before instructing said transactions to the CSDs, any auction trades that fail to match automatically against the counterparty on TD using Omgeo CTM tend to be investigated and repaired by operations personnel on TD+1 rather than on TD.

Mismatching auction trades would therefore not be instructed to the CSDs until TD+1 (ISD-1), as would any regular trades where the mismatches were not repaired on TD for whatever reason. Common reasons why a mismatching regular trade might not be repaired on TD include the need for operations personnel to investigate further before agreeing to amend the mismatch (e.g. if different brokers apply different rates for the same taxes and charges in the same market), the need to procure and exchange documentation with a new broker (e.g. to document reasons why the client is exempt from a particular tax in a given market), and the need for system or technical changes to take place at either the client or investment firm's side before a repair can be effected.

A third example of trades that frequently fail to be matched and instructed on trade date include cross-border trades where the local market is in a different time zone than the European working hours.

It should also be noted that this voluntary matching in Omgeo CTM enables clients and investment firms to identify mismatches and potential settlement issues before transactions are instructed to the CSDs in the first place, thereby enabling CSDs to reduce the number of cancellations and amendments required later on and effectively increasing the CSDs STP rates.

For these reasons NBIM feels that it would be counterproductive to impose penalties, whether pecuniary or other, on all transactions instructed after close of business on TD (ISD-2). We believe the threat of such penalties would unduly influence how and when trades are executed in the market and, furthermore, that penalties might incentivise clients and investment firms to skip the voluntary matching in Omgeo CTM altogether to ensure all trades reach the CSDs on TD (ISD-2) even if it turns out that the trades later have to be amended or cancelled at the CSD level (effectively, this would move the work of having to investigate and instigate the repair of the trades from clients and investment firms to the CSDs themselves which is probably not the intention). NBIM therefore believes that the deadline of the ISD-2 should be reconsidered.

NBIM fully supports the suggestion that CSDs should inform participants about pending settlement instructions of counterparties (allegements), preferably made available within 30 minutes after each unsuccessful matching attempt as well as at the beginning of ISD. When an allegement is issued to an alleged counterparty, notification that the allegement has been issued should also be provided to the instructing party as this is useful information when following up outstanding trade instructions with counterparties.

6) In your opinion, should CSDs be obliged to offer at least 3 daily settlements/batches per day? Of which duration? Please elaborate providing relevant data to estimate the cost and benefit associated with the different options.

Our preference is RTGS settlement because it reduces counterparty risk in the settlement process. Moreover, the CSD should provide transaction status/settlement updates back to the relevant instructing parties within 30 minutes of any change in transaction status. If a CSD is unable to support RTGS settlement, then 3 daily settlement batches per day lasting at least an hour each would be considered a minimum requirement. Our preference would however be that all CSDs offer 5 settlement batches per day lasting at least an hour each.

7) **In your view, should any of the above measures to facilitate settlement on ISD be mandatory? Please describe any other measure that would be appropriate to be mandated.**

Of the four proposals listed, NBIM's preference is for the first and third option.

- Optimisation algorithms identifying chains of settlement instructions would be useful in managing back-to-back buy and sale transactions, particularly if the CSDs were able to use this information to keep all impacted counterparties notified of the latest status of the failing trade (i.e. if NBIM has bought 100 shares from counterparty A, then subsequently sold the same 100 shares to counterparty B, then rather than having counterparty B chase NBIM and NBIM chase counterparty A for the outstanding delivery, both NBIM and counterparty B would know that the failed settlement of the purchase trade is due to a failed incoming delivery. For confidentiality reasons, only the parties actually involved in a given transaction should know the details of the outstanding trade, including the identity of counterparty A, but impacted third parties such as counterparty B would still benefit from knowing that the source of the problem is not with their trade but with an incoming trade that their counterparty (NBIM in this example) has with another counterparty (counterparty A in this example).
- We are not in favour of imposing partial settlement or splitting of failed settlement instructions into multiple tranches because this facility could conceivably be abused by sellers choosing to prioritise certain counterparties over others when they report their holdings available for delivery. Instead we feel this is best left to be managed between clients and investment firms directly.
- Recycling of settlement instructions by the CSDs in order to settle any failed settlement instructions in a later settlement procedure is sensible; as we understand this proposal, it would enable the CSD to settle a transaction that failed on a prior business day today without requiring a new or amended instruction from the counterparties. This would save work on the part of clients and investment firms and should be implemented.
- Substituting a failed settlement instruction with a number of smaller settlement instructions without first having confirmed the breakdown of the original trade with the instructing party could cause system problems on the part of clients and investment firms, e.g. if the systems were unable to capture, reflect and reconcile the breakdown of the original trade into multiple smaller instructions. We would therefore not recommend pursuing this approach.

We do not have any other suggestions for mandatory settlement system functionalities.

8) **Do you agree with this view? If not please elaborate on how such arrangements could be designed and include the relevant data to estimate the costs and benefits associated with such arrangements. Comments are also welcome on whether ESMA should provide for a framework on lending facilities where offered by CSDs.**

NBIM believes there would be limited value in introducing centralising lending facilities because the trades that fail are typically illiquid securities where the CSD will likely encounter the same problem in sourcing the securities which caused the selling counterparty to fail to deliver them in the first place. Further, securities lending gives rise to additional credit risk for the CSDs. In conclusion, therefore, NBIM supports the view that the CDSs should not be obliged to offer arrangements for the lending and borrowing of securities.

9) **Do you agree with the above monitoring system description? What further elements would you suggest? Please present the appropriate details, notably having in mind the current CSD datasets and possible impact on reporting costs.**

As NBIM is not a direct CSD participant, we are not familiar with the datasets currently available at the CSDs, nor can we comment on reporting costs. However, from our perspective the proposed data fields look appropriate, though we would perhaps suggest distinguishing between DVP and FOP transactions.

NBIM's primary concern, therefore, is not so much the datasets included in the reporting to the CSD participants as the speed and ease with which investors and brokers will be alerted of settlement fails. Ideally NBIM would like to be notified not only of actual settlement fails as of ISD+1, but also of potential fails prior to the final settlement opportunity taking place on ISD. This is because early notification of potential fails would allow us to contact the counterparty in question to proactively attempt to resolve the fail before it materialises.

10) What are your views on the information that participants should receive to monitor fails?

While aggregate market fail data is primarily of interest for the authorities, individual fail information is of obvious interest and use for investors and brokers. Fail information should be available both pre- and post-ISD, Prior to ISD, the main purpose of this information is to prevent settlement failure, As a minimum, NBIM would expect information on settlement fails to include the following information:

- Instruction type codes (i.e. asset class)
- Intended (i.e. contractual) settlement date
- Trade date
- Currency (not for FOP)
- Settlement amount (not for FOP)
- Share quantity (for equities) or nominal amount (for fixed income securities)
- Buy/sell (Deliver/receive for FOP)
- Reason for settlement failure (including common standard/short code)
- ISIN code for fixed income securities, sedol for equities
- The counterparty delivering the securities
- The counterparty receiving the securities
- Client code
- CSD of the counterparty

From a counterparty risk perspective, comprehensive and timely fail reporting is important, and we therefore encourage harmonisation of the related procedures across CSDs.

11) Do you believe the public information should be left to each CSD or local authority to define or disclosed in a standard European format provided by ESMA? How could that format look like?

NBIM would recommend a standardised format to apply for all European CSDs rather than allowing the individual CSDs to define and publish public information in their own format. This as we believe standardisation will facilitate information retrieval for investors and brokers as well as peer-to-peer comparisons of CSDs in different markets. As NIBM is not a CSD participant, we do not have specific preferences or recommendations as concerns the formatting of the public information.

12) What would the cost implication for CSDs to report fails to their competent authorities on a daily basis be?

(No response)

13) CSDR provides that the extension period shall be based on asset type and liquidity. How would you propose those to be considered? Notably, what asset types should be taken into consideration?

For equities, NBIM considers that ESMA's suggested extension period of SD+4 before a buy-in takes place is longer than necessary. Instead, we recommend a simpler approach based on the standard settlement cycle: if the standard settlement cycle is T+2, then CSD participants are expected to deliver their shares and cash on T+2 (ISD). If the seller (aka delivering participant) fails to deliver on time, it has one additional settlement cycle to deliver the shares before a buy-in takes place two days hence on T+4 (ISD+2). The CSD or trading venue then has one settlement cycle to buy in the shares in the market; if the buy-in fails for whatever reason, then the buyer (aka receiving participant) receives cash compensation on T+6 (ISD+4).

We consider this to be a balanced trade-off between shortening the timeframe to deliver (and hence increasing the incentives to deliver on time), while at the same time allowing sufficient time to accommodate securities lending and other issues that may prevent CSD participants from delivering on the intended settlement date (ISD). We further believe that this simple and predictable set-up would reduce or eliminate altogether the need for exceptions to the general rule, which should make it easier to monitor and enforce for the CSDs and trading venues. A final but important point is that the shorter timeframe should also reduce the need for rules regarding naked and covered short sales.

For fixed income securities, NBIM prefers not to differentiate between liquid and illiquid securities as this is not the main driver in deciding whether or not to initiate a buy-in: in our experience, liquid securities will normally be delivered on ISD or shortly thereafter, while for illiquid securities our preference might be to work with the failing counterparty to receive the outstanding securities through partial deliveries as and when they become available. For this reason, NBIM believes that brokers and clients should have the right, but not the obligation, to initiate a buy-in. In our view, fixed income buy-ins should be notified and executed in accordance with the rules established by the International Capital Market Association (ICMA).

14) Do you see the need to specify other minimum requirements for the buy-in mechanism? With regard to the length of the buy-in mechanism, do you have specific suggestions as to the different timelines and in particular would you find a buy-in execution period of 4 business days acceptable for liquid products?

As set out in question 13, for equities we recommend keeping the buy-in timeline and procedure as simple and predictable as possible: The objective should be to create a mechanism with a minimum of rules (and even fewer exceptions to those rules) so that all parties may easily monitor the rules and identify potential issues themselves. We believe the settlement cycle approach we suggested in question 13 will be conducive to meeting this objective, and should greatly reduce the need for the complex notification and monitoring set-up proposed in the discussion paper.

For fixed income securities, buy-ins should be notified and executed in accordance with ICMA's rules which are widely recognized and accepted in the industry. However, in NBIM's view, ESMA should not implement rules that automatically force a CSD to conduct a buy-in if not required by the receiving party. This is because buy-in rules that are too stringent and expensive could hurt the market liquidity in an undesirable way, keeping in mind that many bond markets in Europe already suffer from a lack of sufficient liquidity.

15) Under what circumstances can a buy-in be considered not possible? Would you consider beneficial if the technical standard envisaged a coordination of multiple buy-ins on the same financial instruments? How should this take place?

For equities, we believe company suspension is the only circumstance in which a buy-in would not be possible to execute. In addition, certain shares may be too illiquid for the CSD or trading venue to execute a buy-in in the time frame we propose. For these scenarios, we consider that the receiving party would be adequately compensated through the cash compensation rule we propose in question 17.

For fixed income securities having reached their maturity, buy-ins would not be possible. This may also apply to convertible bonds such as contingent convertible securities if the conversion clauses changing the bonds into equities have been triggered. Lastly, we can envisage scenarios where a given mortgage bond has been converted to such an extent that the total outstanding quantity is lower than the quantity purchased, and hence a buy-in would no longer be possible to execute.

16) In which circumstances would you deem a buy-in to be ineffective?

For equities we are not aware of any circumstances in which a buy-in would be deemed ineffective under the simple settlement cycle approach we propose in question 13.

For repurchasing trades (repos) and reverse repos, we believe buy-ins would be ineffective if the fail applies to the first transaction leg since at any rate the securities are due to be returned as part of the settlement of the second leg. We therefore consider that cash compensation would be more appropriate for failing first legs of repos and reverse repos.

17) Do you agree on the proposed approach? How would you identify the reference price?

For equities NBIM proposes that the cash compensation be calculated as the average price over the previous settlement cycle (e.g. 2 trading days in our example) plus a penalty mark-up of x% (e.g. 5%).

For repurchasing trades we suggest cash compensation be calculated in line with the applicable ICMA standards, typically LIBOR + x% (e.g. 1%). The cash compensation should also take into account how special a bond is trading in the repo-market. The failing receiver of the bond should be allowed to determine the alternative cost of not receiving the bond so that the real cost plus a margin is covered. The principles to determine such an alternative cost should be obtained by asking 3 to 5 dealers for a reference price.

18) Would you agree with ESMA's approach? Would you indicate further or different conditions to be considered for the suspension of the failing participant?

A suspension could have unforeseen and significant consequences on not only the defaulting participant, but also on other market participants (e.g. clients of the defaulting participant and counterparties). In a worst case scenario, suspending an agent from the market could increase systemic risk. We also foresee some challenges and costs associated with the monitoring, information, and implementation of a potential suspension. For instance, given securities lending there may be multiple layers before the actual failing party. We are therefore not in favour of suspending failing participants.

19) Please, indicate your views on the proposed quantitative thresholds (percentages / months).

Suspension should be limited to exceptional cases only. We do not see settlement failure as the type of scenario that would warrant a suspension.

20) What is in your view the settlement information that CSDs need to provide to CCPs and trading venues for the execution of buy-ins? Do you agree with the approach outlined above? If not, please explain what alternative solutions might be used to achieve the same results.

(No response)

21) Would you agree that the above mentioned requirements are appropriate?

NBIM is in favour of low risk in the settlement process and agrees with ESMA that it is important to monitor the settlement internalisers' activity in order to determine the scale of this activity.

22) Would you agree that the elements above and included in Annex I are appropriate? If not, please indicate the reasons or provide ESMA with further elements which you find could be included in the draft RTS, and any further details to justify their inclusion.

(No response)

23) Do you agree that the above mentioned approach is appropriate? If not, please indicate the reasons or provide ESMA with further elements which could be included in the draft ITS.

(No response)

24) Do you see other risks and corresponding mitigating measures? Do CSDs presently have participations in legal persons other than CCPs, TRs and trading venues that should be considered? Would banning CSDs from directly participating in CCPs be advisable, in your view?

NBIM supports initiatives that can reduce systemic risks in the settlement process. One important way to do this is to limit the type of activities a CSD can be involved in. We therefore believe that limiting ownership in other legal entities as well as banning CSDs from directly participating in CCPs is advisable.

25) Do you consider the approach outlined above adequate, in particular as regards the scope and frequency of information provision and the prompt communication of material changes? If not, please indicate the reasons, an appropriate alternative and the associated costs.

(No response)

26) Do you agree with this approach? Please elaborate on any alternative approach illustrating the cost and benefits of it.

(No response)

27) Do the responsibilities and reporting lines of the different key personnel and the audit methods described above appropriately reflect sound and prudent management of the CSD? Do you think there should be further potential conflicts of interest specified? In which circumstances, if any, taking into account potential conflicts of interest between the members of the user committee and the CSD, it would be appropriate not to share the audit report or its findings with the user committee?

(No response)

28) Do you agree with this minimum requirements approach? In case of disagreement, what kind of categories or what precise records listed in Annex III would you delete/add?

The minimum requirements approach seems appropriate; however, it is important to keep the list in the appendix up to date as requirements change over time. The current proposal appears sufficient for now.

29) What are your views on modality for maintaining and making available such records? How does it impact the current costs of record keeping, in particular with reference to the use of the LEI?

NBIM considers it an advantage that the data is searchable and readily available. This should also be a requirement in the corresponding local regulations. NBIM does not have sufficient knowledge of current record-keeping in the relevant jurisdictions to be able to assess the degree of change or associated costs in different jurisdictions.

With respect to the LEI, NBIM would be positive to using this identifier in order to achieve a common standard.

30) Do you agree that the CSD risk analysis performed in order to justify a refusal should include at least the assessment of legal, financial and operational risks? Do you see any other areas of risk that should be required? If so, please provide examples.

(No response)

31) Do you agree that the fixed time frames as outlined above are sufficient and justified? If not, which time frames would you prefer? Please provide reasons to support your answer.

(No response)

32) In your opinion, do the benefits of an extra reconciliation measure consisting in comparing the previous end of day balance with all settlements made during the day and the current end-of-day balance, outweigh the costs? Have you measured such costs? If so, please describe.

NBIM considers that it is best practice for reconciliations to verify that the previous end-of-day balance plus/minus all settlements made throughout the day do indeed match the current end-of-day balance, and hence we are in favour of the extra reconciliation measure as set out in question 32.

33) Do you identify other reconciliation measures that a CSD should take to ensure the integrity of an issue (including as regards corporate actions) and that should be considered? If so, please specify which and add cost/benefit considerations.

(No response)

34) Do you agree with the approach outlined in these two sections? In your opinion, does the use of the double-entry accounting principle give a sufficiently robust basis for avoiding securities overdrafts, debit balances and securities creation, or should the standard also specify other measures?

NBIM recognizes the importance of sound external reconciliation and information exchange between CSDs and registrars, transfer agents and common depositories, respectively, and agrees with ESMA that CSDs should be prohibited from permitting overdrafts, debit balances and securities creation in order to uphold the integrity of the securities issued and safekept at the CSDs. From our perspective double-entry accounting should be sufficient to ensure these prohibitions are adhered to.

35) Is the above definition sufficient or should the standard contain a further specification of operational risk?

(No response)

36) The above proposed risk management framework for operational risk considers the existing CSDs tools and the latest regulatory views. What additional requirements or details do you propose a risk management system for operational risk to include and why? As always do include cost considerations.

(No response)

37) In your opinion, does the above proposal give a sufficiently robust basis for risk identification and risk mitigation, or should the standard also specify other measures? Which and with what associated costs?

(No response)

38) What are your views on the possible requirements for IT systems described above and the potential costs involved for implementing such requirements?

NBIM considers that the ESMA requirements as stated in clauses 165, 166 and 167 cover the essentials when it comes to securing safe operability of IT systems for CSDs. Security, stability, scalability, traceability and confidentiality will be key factors for any CSD, and the proposed text reflects this.

In clause 165, we would propose that ESMA also consider addressing requirements for redundant (parallel) infrastructure sites as well as regular fail over testing between these sites. This is to ensure two important aspects of stable and secure data hosting:

a) That physical data storage is not only done to a single source, and
b) To avoid interruption in terms of server outage.

An additional requirement could be that the redundant infrastructure sites should be hosted in different data centres residing in different geographical locations and that at least one of these locations should be in the EU area. Finally, clause 165 could contain more precise directives on backups and storing of historical data.

Concerning clause 167, we propose that the CSD systems should have the capability to recreate holdings in assets from the underlying transactions (trades, corporate actions, transfers, etc.) at any historical date. This would be valuable in terms of auditing CSD history and could also offer a valuable service to users of CSD services in general.

A CSD system meeting these requirements will be complex and expensive to implement and run. CSDs are however vested with the mandate to process and safeguard financial assets on behalf of investors, and operational failure which could lead to doubt as to who are the true asset owners at any point in time is therefore not acceptable.

39) What elements should be taken into account when considering the adequacy of re-sources, capabilities, functionalities and staffing arrangements of the secondary processing site and a geographic risk profile distinct from that of the primary site?

(No response)

40) In your opinion, will these requirements for CSDs be a good basis for identifying, monitoring and managing the risks that key participants, utility providers and other FMIs pose to the operations of the CSDs? Would you consider other requirements? Which and why?

(No response)

41) Do you agree with the approach outlined above? In particular, do you agree with the approach of not distinguishing between CSDs that do not provide banking services and CSDs that do so?

NBIM supports initiatives that can reduce systemic risks in the settlement process. We are of the view that a CSD that provides banking services incurs higher credit risk than one that does not provide banking services. Therefore, we believe that it is advisable to distinguish between CSDs that do not provide banking services and those that do: More scrutiny should be put on the CSDs that provide banking services. Ideally, central banks should be used for cash handling in relation to the settlement process instead of CSDs and commercial banks.

42) Should ESMA consider other elements to define highly liquid financial instruments, 'prompt access' and concentration limits? If so, which, and why?

The financial crisis illustrated that some "highly liquid financial instruments" can quickly turn illiquid in a crisis. NBIM is in favour of a strict definition of "highly liquid" as well as imposing conservative concentration limits and sound procedures and policies to ensure rapid access to assets in order to mitigate effect of stressed market conditions. NBIM therefore supports ESMA's efforts in this respect.

43) Do you agree that links should be conditioned on the elements mentioned above? Would there be any additional risks that you find should be considered, or a different consideration of the different link types and risks? Please elaborate and present cost and benefit elements supporting your position.

(No response)

44) Do you find the procedures mentioned above adequate to monitor and manage the additional risk arising from the use of intermediaries?

(No response)

45) Do you agree with the elements of the reconciliation method mentioned above? What would the costs be in the particular case of interoperable CSDs?

(No response)

46) Do you agree that DvP settlement through CSD links is practical and feasible in each of the cases mentioned above? If not explain why and what cases you would envisage.

NBIM supports initiatives that can reduce systemic risks in the settlement process. Therefore we believe that all CSD links should permit DvP settlement with no restrictions or delays, where practicable and feasible.

47) Do you agree that the risk analysis performed by the CSD in order to justify a refusal to offer its services to an issuer should at least include legal, financial and operational risks? Do you see any other areas of risk that should be considered? If so, please give examples.

(No response)

48) Do you agree that the time frames as outlined in the procedure above are sufficient and justifiable? If not, which time frames would you prefer? Please provide reasons to support your answer.

(No response)

49) Do you agree that the time frames as outlined in the procedure above are sufficient and justifiable? If not, which time frames would you prefer? Please provide reasons to support your answer.

(No response)

50) Do you believe that the procedure outlined above will work in respect of the many links that will have to be established with respect to TARGET2-Securities?

(No response)

51) Do you agree that the risk analysis performed by the receiving party in order to justify a refusal should include at least legal, financial and operational risks? Do you see any other areas of risk that should be considered? If so, please give examples?

(No response)

52) Do you agree that the time frames as outlined in the procedure above are sufficient and justifiable? If not, which time frames would you prefer? Please provide reasons to support your answer.

(No response)

53) Do you agree with these views? If not, please explain and provide an alternative.

In order to reduce risk in the settlement system, NBIM is of the view that CSDs should perform banking services only to a limited degree. Central banks should be used when possible, alternatively commercial banks with high credit quality.

54) What particular types of evidence are most adequate for the purpose of demonstrating that there are no adverse interconnections and risks stemming from combining together the two activities of securities settlement and cash leg settlement in one entity, or from the designation of a banking entity to conduct cash leg settlement?

NBIM has no views on which kind of evidence should be used, but the third-party banking entities used should be of high credit quality.