

Central Depository & Settlement Co. Ltd Mauritius

**Why CDS Mauritius does not need to be a
CCP?**

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- **What is a Central Counterparty (CCP)?**
- **Benefits of a CCP**
- **How CDS achieves the benefits of a CCP**
- **Fundamental Legal Provisions**
- **Protection of Clients' Assets**

What is a CCP?

- Interposes itself between trade counterparties, becoming the buyer to every seller and the seller to every buyer - Novation
- Credit risk of participants substituted by the credit risk of the CCP
- Reduces risks to participants through multilateral netting, collateral management etc.
- Legal basis for netting arrangements – must be enforceable against insolvent participants

Benefits of a CCP

- Effective management of credit, liquidity, legal and operational risks
- Settlement failure avoided in the event of a default of a participant
- Risks moved away from CSD such that clients assets held by the CSD are protected – probability that the CSD becomes insolvent is very low because it does not have to manage credit risk

How CDS Mauritius Achieves the Benefits of a CCP

- Comprehensive risk management framework to address credit, legal, systemic, general business, investment and operational risks
- Preventive measures – settlement caps based on collateral submitted; blocking of securities in the account of seller for delivery on settlement date – No failed trade since inception
- Securities lending to avoid delivery failures
- Multilateral net settlement mechanism but without novation (even for futures)
- Guarantee Fund to make good the obligations of a defaulting participant – rules in place to handle defaults
- Strong and liquid balance sheet

Fundamental Legal Provisions

- Netting arrangement clearly set out in the law
- The CDS may terminate its agreement to clear or settle securities transactions with an insolvent participant
- The CDS may set off obligations between the insolvent participant and the CDS, and if on termination there is a net termination sum owed to the CDS by the insolvent participant, the CDS shall be deemed to be a creditor of the insolvent participant in respect of that net termination sum
- Net obligations cannot be challenged in judicial or administrative insolvency proceedings

Protection of Assets Held in CDS

- The law clearly states that the owners of assets held in CDS are the securities accounts holders (clients)
- Securities accounts are maintained by the CDS in the names of the depositors so as to reflect the title of the depositors to the deposited securities
- Creditors of CDS cannot have access to clients' assets
- In the very unlikely event that CDS becomes insolvent, the list of securities holders will be provided to the issuers – evidence of ownership
- A situation that could make CDS become insolvent, could potentially have the same effect on a CCP – even the CCP does not have unlimited resources

Conclusion

- The setting up of a CCP involves significant costs – may lead to an increase in transaction fees payable by investors
- A CCP that is separate from the CDS would mean that there would be an additional service provider involved in the transaction life-cycle – impact on transaction fees
- The risk management framework set up by CDS together with specific legal provisions allows it to provide benefits that are similar to those of a CCP without additional costs and risks.

Thank You