

PRESENTATION TO AMEDA

CSD PROGRESS IN IMPLEMENTING CPMI IOSCO PRINCIPLES

Bahrain

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CSD Ratings Ltd



J W I C



AGENDA

CPMI IOSCO Requirements

Responsibilities of FMIs

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CPMI IOSCO Monitoring

CPMI IOSCO Requirements

CPMI – Committee on Payments and Market Infrastructures
(previously CPSS – Committee on Payments and Settlement Systems)

IOSCO – International Organisation of Securities Commissions

Infrastructure the 24 Principles Apply to:

- CSDs (15 Principles)
- SSSs (20 Principles)
- CCPs (22 Principles)
- Trade Repositories (12 Principles)
- Payment Systems (18 Principles)

- According to CPMI/IOSCO:
 - An SSS enables securities to be transferred and settled by book entry according to a set of predetermined multilateral rules.
 - An SSS may operate independently of, or as part of, a CSD.

- 21 of the 24 Principles apply to a CSD that is also an SSS

- Not applicable to CSDs/SSSs are principles on:
 - (6) Margin (CCP),
 - (14) Segregation and Portability (CCP),
 - (24) Disclosure of Market Data by Trade Repositories (TRs)

What is Required of a CSD for Self Assessment

- Review CSD against the 21 principles relevant to CSDs & SSSs
- Complete and publish a Disclosure report
- Provide evidence – documentation and quantitative information
- Obtain an assessment with a detailed assessment report
- Assessment should indicate whether CSD observes/broadly observes/partly observes/not observes or the principle is not applicable
- Identify gaps or shortcomings with a plan of action to address them.
- Discussion with regulator on assessment, plan of action and legal constraints
- Review and update disclosure report and quantitative disclosure on a regular (annual) basis
- Examine the legal basis and discuss required changes with the regulator.
- Recommended that Establish a compliance function within CSD

Reporting

- Detailed disclosure report required for publishing
- Self assessment report for regulator that provides a road map for addressing gaps
- Annual update to the disclosure report to be published
- Annual update to the detailed self assessment for the regulator (note the regulator has its own set of responsibilities to assess the FMI)

Disclosure Framework

The disclosure framework is an important component of the set of disclosures which, together with key quantitative information, is expected of FMIs.

The disclosure framework serves as a key input to the assessment methodology.

(Clause 1.2 of December 2012 Report 'Disclosure Framework and Assessment Methodology')

Disclosure Report

To contain:

- An executive summary of the key points from the disclosure
- A summary of the major changes since the last update of the disclosure
- A description of the CSD's function and the markets it serves
 - Data and performance statistics on its services and operations
 - A description of the CSD's
 - General organisation
 - Legal and regulatory framework
 - System design and operations
- A comprehensive narrative disclosure for each applicable principle
- A list of publicly available resources that may help understand the CSD and its approach to observing each principle

Detailed Assessment Report

A detailed assessment report is an assessment of the CSD's observance of the PFMI.

In addition to providing a detailed assessment of the observance of the principles it also:

- Provides a rating on each principle (Observed, Broadly Observed, Partly Observed, Not Observed, N/A)
- Provides a prioritised list of recommendations for any identified issues of concern, other gaps or shortcomings

The goal of the assessment methodology is to determine whether and how well an FMI observes the principles and to help identify potential opportunities for improvement.

The report is preferably undertaken by an independent assessor.

Responsibilities of FMIs

Disclosure Framework

Principle 23 'Disclosure of rules, key procedures and market data' outlines what is required by the FMI in its disclosure of its response to the Disclosure framework.

Key Consideration 5 states:

'An FMI should complete regularly and disclose publicly responses to the CPSS-IOSCO Disclosure framework for financial market infrastructures. An FMI also should, at a minimum, disclose basic data on transaction volumes and values.'

Maintaining Compliance - Applying the Principles

- CPMI IOSCO states:
 - FMIs should apply the principles on an ongoing basis in the operation of their business, including
 - when reviewing their own performance,
 - assessing or proposing new services, or
 - proposing changes to risk controls.
 - In order for the disclosures to correctly reflect the FMI's current rules, procedures and operations, the FMI should:
 - Update its responses following material changes to the system or its environment
 - Review its responses **at least every 2 years** (at a minimum) to ensure continued accuracy and usefulness.

Maintaining Compliance – Quantitative Disclosures

Principle 23, Key consideration 5 also refers to the disclosure of basic data on transaction volumes and values. CPMI IOSCO goes on to state that:

- An FMI is expected to update its quantitative disclosure **more frequently** than **the summary narrative** disclosure component of the disclosure framework.

CPMI and IOSCO are developing a separate set of key quantitative information disclosures that particular types of FMIs would be expected to update more frequently than the disclosure framework (Clause 1.3) – undertaken for CCPs – it is expected that they will also clarify for CSDs/SSSs.

CSD / SSS:

The statistical data should be published on the CSD web site on a frequent basis.

- Information on assets under custody
- Settlement statistics (volumes and values)
- Netting statistics, Figures on failed trades, System performance

Maintaining Compliance - Communication

- CPMI IOSCO states:
 - FMIs should communicate the outcome of their findings as part of their regular dialogue with relevant authorities.
 - Data should be accompanied by explanatory documentation that enables the users to understand and interpret the data correctly.

CSD:

The CSD should meet with the regulator on a regular basis (suggested to be at least twice a year) and during the meetings discuss the Disclosure Framework and Assessment including gaps.

Maintaining Compliance - Responsibility

- CPMI IOSCO states:
 - If an FMI does not fully observe the principles, actions should be taken to promote full observance.

CSD:

A gap analysis should be undertaken followed by a road map or action plans to fully comply (fully observe principles) with CPMI IOSCO. The road map should be discussed and agreed with the regulator.

Maintaining Compliance - Publication

- CPMI IOSCO states:
 - An FMI should make its responses to the disclosure framework readily available through generally accessible media, such as the internet
 - In addition to the disclosure framework, an FMI should publish a separate set of key quantitative information to enable stakeholders, including the general public to evaluate FMIs and to make cross-comparisons.
 - The summary of the authorities' assessments should be publicly disclosed, where and to the extent consistent with national law and practice.

CSD:

Publish (on the CSD web site):

1. Disclosure Framework
2. Statistical information and data
3. Summary of assessment report

Regulator's Responsibilities

Authorities for FMIs are expected to regularly assess FMIs that are deemed to be **systemically important**.

All CSDs and SSSs are considered to be systemically important in the jurisdiction where they are located.

Authorities are expected to regularly assess observance of the principles by FMIs in their respective jurisdictions in connection with their regulatory, supervisory and oversight responsibilities to ensure consistent implementation and application of the PFMI.

[Clause 1.9]

Outcomes / Progress

CPSS IOSCO May 2014 Update reported:

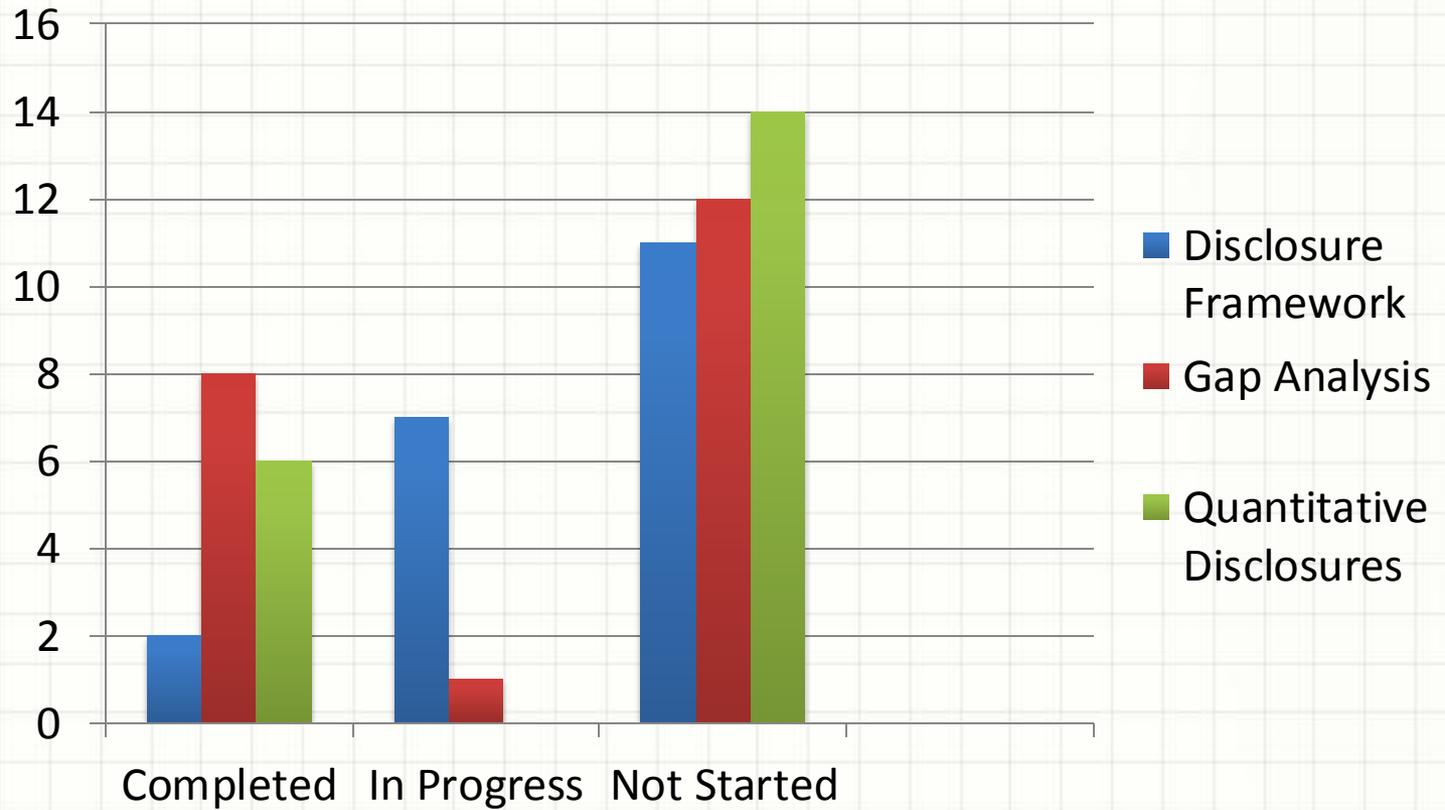
‘... while progress with respect to implementation measures for central securities depositories (CSDs) and securities settlement systems (SSS) has lagged behind other FMI types, there has been substantial improvement in this area.’

General Observations for AMEDA Region

- Progress has been rather slow in completing a Disclosure Framework – only 2 completed and 1 published Assessment report.
- Many have undertaken some form of Gap analysis - about 45% of CSDs that responded to the survey
- Very few provide quantitative disclosures – data provision has long been problematic in that CSDs have not readily published settlement data
- A number of CSDs have identified required changes to rules or regulations
- Little pressure appears to be coming from national regulatory bodies to undertake Disclosure and Assessment reports in a timely manner

What CSDs Comply in AMEDA region?

Requirement	CSD Position
Complete a Disclosure Report	Two CSDs (Strate, CSCS)
Complete an Assessment Report	Two CSDs (Strate, Maroclear) One included in region (Rwanda)
Publish Disclosure Report	One CSD consolidated with Assessment Report (Strate)
Publish Assessment Report	One CSD (Strate)
Publish Quantitative Disclosures	Six CSDs (Algerie Clearing, CDS, Maroclear, Sticodevam, Strate, Rwanda)
Complete periodic review	One CSD (Strate)



Not responding = Jordan, Kuwait, Libya

Observations from Analysis for AMEDA Region

- Gap analysis – Generally it would appear that CSDs are undertaking a Gap Analysis prior to embarking on a Disclosure report or Assessment. They are also trying to implement changes to comply with the principles prior to reporting.
 - 9 CSDs undertaking Gap Analysis includes 2 that have completed Disclosure Framework reports. 8 CSDs undertaking Action Plans from the Gap Analysis.
- Very few CSDs provide quantitative disclosures – data provision has long been a problem for CSDs with little more than financial information provided.
 - 6 CSDs provide data on settlement volumes and values, 14 provide no information and of these only 3 indicated an intention to provide data in the future

Observations from Analysis for AMEDA Region

- Meetings with the national regulators to discuss PFMI's was mixed but there appeared to be growing interest perhaps as a result of CSD initiatives
 - 10 CSDs have meetings with regulators with a further 3 planned when they complete their reports
- A majority of CSDs have been examining the legal position with regard to their operations and many have found a need to strengthen rules and regulations
 - 7 CSDs have identified required changes to rules or regulations
 - Changes focus on the authority of CSD, nominee recognition, enforcement of netting, DVP settlement
- National regulatory bodies have a duty to discuss the PFMI's with CSDs but many have not yet done so

What CSDs Comply in other regions?

Requirement	CSD Position
Complete a Disclosure Report	Singapore CDP Australian ASX Settlement & Austraclear Hong Kong – HKMA CMU Russia – NSD Brazil – BM&FBOVESPA USA - DTC
Complete an Assessment Report	Kazakhstan (KACD) Brazil (BM&FBOVESPA)
Publish Disclosure Report	ASX Settlement & Austraclear Hong Kong – HKMA CMU Singapore - CDP
Complete periodic review	Brazil – BM&FBOVESPA

Differences in Applying Principles

CSDs have not assessed themselves against all of the 21 principles that apply to them.

Principles Not Applied:

1. Principle 4 (Credit) (Maroclear, MKK, RCSD)
2. Principle 5 (Collateral) (Strate, MKK, Maroclear, Sticodevam, RCSD)
3. Principle 6 (Margin) (All CSDs)
4. Principle 7 (Liquidity) (Maroclear, MKK, RCSD)
5. Principle 9 (Money Settlement) (Maroclear, MKK)
6. Principle 10 (Physical) (Strate, Sticodevam, CSDB, RCSD, Maroclear)
7. Principle 12 (DVP) (MKK)
8. Principle 14 (Portability) (All CSDs)
9. Principle 16 (Custody and Investment) (RCSD)
10. Principle 19 (Tiered Participation) (Strate, CDS)
11. Principle 20 (FMI Links) (Strate, Sticodevam, CDS, CSDB, Maroclear)
12. Principle 24 (TRs) (All CSDs)

CPMI IOSCO Monitoring

CPMI IOSCO Monitoring

- CPMI IOSCO Task Force established for monitoring assessments. Monitoring process has 3 levels
 - Level 1. Whether jurisdictions have completed the process of adopting the legislation and other policies implementing the 24 Principles for FMIs
 - Level 2: Whether the adopted measures are complete and consistent with the Principles and Responsibilities.
 - Level 3: Whether there is consistency in the outcomes arising from the implementation of the Principles and Responsibilities.
- Only level 1 addressed by Task Force for 28 Jurisdictions.

CPMI IOSCO Monitoring

- CPMI IOSCO Task Force provided an update to the level 1 assessments implementation monitoring for the PFMI in May 2014
- Level 1 assessments are based on self-assessments by individual jurisdictions on how they have adopted the 24 Principles for FMIs and four of the five Responsibilities for authorities within the regulatory and oversight framework that applies to FMIs.
- There has been significant progress by the 28 participating jurisdictions since the initial Level 1 report in August 2013.
- Progress in implementing PFMI varies and while encouraging progress has been made across all FMI types ... **implementation is less advanced for CSDs and SSSs**
- In parallel with continuing level 1 assessments, CPSS IOSCO are moving to level 2 assessments, initially for CCPs and TRs in Europe, Japan and USA.

CPMI IOSCO Monitoring

The next Level 1 update is planned to start by around end-2014.

CPMI and IOSCO started the first round of Level 2 assessments of principles applying to FMIs in March 2014.

The first round covers CCPs and TRs in 3 jurisdictions in the EU, Japan and US. This is followed by a second round looking at another set of jurisdictions and then a third round with a further set and so forth.

CPMI and IOSCO are planning to have a combined Level 2/Level 3 assessments of the five responsibilities for central banks, market regulators, and other relevant authorities for FMIs outlined in the PFMIs.

Level 3 assessments of Principles are planned for 2015

Following the development of such standards for CCPs, quantitative disclosure standards for other FMI types is being discussed.

Thank You

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Observed	The FMI observes the principle. Any identified gaps and shortcomings are not issues of concern and are minor, manageable and of a nature that the FMI could consider taking up in the normal course of its business.
Broadly Observed	The FMI broadly observes the principle. One or more issues of concern have been identified that the FMI is encouraged to address and follow up to better manage risks or improve operations. The FMI should pursue such improvements in a defined timeline.
Partly Observed	The FMI partly observes the principle. The assessment has identified one or more issues of concern that could become serious if not addressed in a timely manner, The FMI should accord a high priority to address these issues.
Not Observed	The FMI does not observe the principle. The assessment has identified one or more serious issues of concern that warrant immediate action. Therefore the FMI must accord the highest priority to address these issues in a timely manner.
Not Applicable	The principle does not pertain to the type of FMI being assessed because of the particular legal, institutional, structural or other characteristics of the FMI.

Annex B – Systemic Risk

- All CSDs and SSSs are considered to be systemically important in the jurisdiction where they are located.
- FMIs face systemic risk from the default of one or more participants resulting in :
 - FMI unable to complete settlement
 - Participants faced with significant credit and liquidity exposures
 - Results in disruptions that undermine public confidence in safety, soundness and reliability of financial infrastructure
- FMIs transmit disruptions where there are interdependencies amongst FMIs

Annex C - CPMI IOSCO Principles for FMIs

Key	Important	General	Not Applicable
9	7	5	3
1 - Legal	4 – Credit Risk	10 - Physical	6 – Margin (CCP)
2 - Governance	5 - Collateral	18 - Access	14 - Segregation
3 – Risk Management	7 – Liquidity Risk	19 – Tiered Participation	24 – Disclosure of Market Data (TR)
8 – Settlement Finality	15 – General Business Risk	20 – FMI Links	
9 – Money Settlement	16 – Custody & Investment Risk	21 – Efficiency & Effectiveness	
11 - CSDs	22 - Communication		
12 – Exchange of Value (DvP)	23 – Disclosure of Rules		
13 – Participant Default			
17 – Operational Risk			Others in red are often deemed not applicable.

Annex D - Authorities Responsibilities

Authorities may choose to self-assess how effectively they fulfill their responsibilities as regulators, supervisors and overseers.

Authorities are encouraged to conduct periodic self-assessments of their observance of the responsibilities.
[Clause1.11]

Annex E - Disclosure Requirement

In its August 2013 Level 1 Assessment Report, CPSS IOSCO highlighted **the importance of transparency** :

‘Transparency is one of the key elements of the PFMI, and underscores effective oversight.... Transparency is a decisive part of the rating methodology’

Disclosure Promotes Transparency

The disclosure framework is intended to promote a **base level of transparency** for information about FMIs. This transparency is intended to assist participants, authorities and the broader public in better understanding the activities of an FMI, its risk profile and its risk management practices and will thus support sound decision-making by FMIs and their stakeholders. In this way, the disclosure framework will achieve the **greater public policy goal of strengthening financial stability.**

[Clause 1.6]

Annex F - CPMI IOSCO Monitoring – 28

Region	Americas (6)	Asia Pacific (8)	Eurasia (1)	ME/Africa (2)	W. Europe (11)
	Argentina	Australia	Russia	Saudi Arabia	Belgium
	Brazil	China		South Africa	EU
	Chile	Hong Kong			France
	Canada	India			Germany
	Mexico	Japan			Italy
	USA	Korea			Netherlands
		Singapore			Spain
					Sweden
		(Indonesia)			Switzerland
					Turkey
					UK

Annex G – Relevant References

IMF published a number of reports on Singapore on 5 Dec 13:
<http://www.imf.org/external/country/SGP/index.htm>

The assessment and recommendations on CDP-CCP is here:
<http://www.imf.org/external/pubs/ft/scr/2013/cr13345.pdf>