



A Report for CSDs in AMEDA

Progress in Implementing CPMI IOSCO Principles for FMIs

Date: 2 December 2014 (Updated: 5 December 2014)

The report is based on a survey conducted for members of the AMEDA region. The results of the survey are given in the report. The report will enable progress in the implementation of CPMI IOSCO principles to be monitored for the CSD AMEDA members.

AMEDA members should send updates to John Woodhouse to enable their current position to be included in the database and report.

Background

CPMI IOSCO (previously CPSS IOSCO) established a set of principles for FMIs (CSDs SSSs, CCPs, PSs and TRs) to adhere to and promulgated these in April 2014. There were 24 principles of which a number were specific to certain FMIs such as CSDs and there were many that were common to more than one type of FMI.

The FMIs were asked to undertake a review of their operations against the principles that were relevant to them and provide a Disclosure report that would be used as input into the self assessment. The Disclosure report would report on all relevant principles of which each principle contained a number of Key Considerations that the FMI needed to provide information on. The self assessment was to be reviewed by the national supervisory body, usually the national regulator and rated for each principle according to whether the FMI either fully observed, broadly observed, partially observed or did not observe the applicable principle. Where the FMI did not fully observe the principle they were expected to provide an indication of the gap and an Action Plan of how they would achieve full observance.

Since the principles were promulgated in April 2012, a number of FMIs have been working through the various stages towards complying with the principles. Some FMIs have not yet commenced the process. This report examines the FMIs in the AMEDA region and provides an analysis of progress within the region. It also looks at other key FMIs in other regions to provide some comparisons from a global perspective.

Within the AMEDA region, 22 CSDs responded to the survey conducted in October 2014. Only two CSDs from Jordan and Qatar did not respond.

The list of CSDs that responded is given in the appendix.

Outcomes

In its May 2014 update report, CPMI IOSCO expressed a general dissatisfaction with the progress made by CSDs and SSSs in observing the principles. It stated that

“ ... 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.”

Clearly CPMI IOSCO was not happy with progress while noting that there had been substantial improvement. CSDs and SSSs appear to have been slow to examine the principles and prepare their disclosure reports and assessments. As systemically important infrastructure, it would be expected that CSDs and SSSs would adopt the principles more quickly than has been the situation.

In the following sections of this report, we examine the situation for the AMEDA region by examining the areas where FMIs are required to take some action.

1. Disclosure Framework

Requirements:

An FMI is expected to complete and publish a Disclosure Framework report. As part of the Disclosure report, the FMI has to provide evidence of its standing in terms of the principles. This requires it to provide documentation and quantitative information.

For a CSD there are 15 principles that are considered to be applicable while for an SSS there are 20 applicable principles of which 14 principles are common with a CSD. Thus for a CSD that is also an SSS there 21 principles that may apply. However, in many cases not all of the 21 principles will apply to a CSD/SSS; there will be some principles that are not applicable when for example, a CSD/SSS does not have any links with other FMIs or when a CSD does not hold any physical securities and operates a completely dematerialized depository system. In these instances principles 20 (FMI Links) and Principle 10 (Physical Deliveries) will not apply.

The Disclosure report, once completed, should serve as input into the self assessment and then it should be reviewed and updated on a regular basis.

CPMI IOSCO prescribes what is expected in a Disclosure report. It includes:

- an executive summary of the key points from the Disclosure

- a description of the FMI's function and the market it serves
- a comprehensive narrative disclosure for each applicable principle
- a list of publically available resources that may help understand the FMI and its approach to observing the principles.

The FMI is expected to apply the principles on an on-going basis in the operation of their business including:

- when reviewing their performance – this should happen at least every two years
- when assessing or proposing new services
- when proposing changes to risk controls
- when there are material changes to the system or the environment.

An FMI is expected to make its responses to the disclosure framework readily available through generally accessible media, such as the internet.

Observations for AMEDA:

Three CSDs in the AMEDA region have completed the Disclosure report. They are Strate of South Africa, CSCS of Nigeria and Maroclear of Morocco.

- Strate completed its report in June 2013 and published it in April 2014.
- CSCS completed its report in June 2014 but has not yet published it.
- Maroclear completed its report in November 2014 but has not yet published it.

Of the remaining CSDs, six are in the process of preparing a Disclosure report while thirteen have not yet commenced. Two CSDs from Jordan and Qatar have not reported.

CSDs are also expected to update their Disclosure report periodically and at least every two years. Strate is the only CSD from the region that has conducted a review and updated the report. This was undertaken in April 2014, prior to publishing its report. The date of the next review has not yet been determined.

Survey Outcomes for Completion of Disclosure Report

Completed & Published Disclosure Report	Completed but Not Published Disclosure Report	Preparing Disclosure Report	Not Commenced Disclosure Report	Did Not Respond
1	2	6	13	2
Strate (South Africa)	CSCS (Nigeria) Maroclear (Morocco)	Bahrain Bourse CSDB (Botswana) CDS (Mauritius) CSDR (Rwanda) DFM (UAE) MCDR (Egypt)	ADX (Abu Dhabi) Algerie Clearing (Algeria) CDC (Zimbabwe) CSDG (Ghana) CDSC (Kenya) IDC (Iraq) KCC (Kuwait) MCD (Oman) Midclear (Lebanon) MKK (Turkey) PSE (Palestine) Sticodevam (Tunisia) Tadawul (Saudi Arabia)	QCSD (Qatar) SDC (Jordan)

In preparing the Disclosure report, a number of CSDs have indicated that not all the principles will apply to them. For those that operate as a CSD and SSS, there are a maximum of 21 principles that may apply and three principles that definitely do not apply. The three that definitely don't apply are:

- Principle 6 'Margin' – this only applies to CCPs
- Principle 14 'Segregation and Portability' – only applies to CCPs
- Principle 24 'Disclosure of Market Data by Trade Repositories' – only applies to Trade Repositories.

However, there are a number of the remaining 21 principles that may not apply to a CSD, depending on the market arrangements and the CSD operations.

The specific principles that do not apply to various CSDs, as indicated by the CSD are indicated in the following table.

Principles Identified by CSDs as Being ‘Not Applicable’

Principle	CSD	Reason
No 4 – Credit Risk	Maroclear (Morocco) MKK (Turkey) RCSD (Rwanda)	Some see this as relevant to CCPs. Some are not involved in payment process
No 5 - Collateral	Maroclear (Morocco) MKK (Turkey) RCSD (Rwanda) Sticodevam (Tunisia) Strate (South Africa)	Don't hold collateral
No 7 – Liquidity Risk	Maroclear (Morocco) MKK (Turkey) RCSD (Rwanda)	Not involved in payment process. No debit balance allowed.
No 9 – Money Settlement	Maroclear (Morocco) MKK (Turkey)	Does not undertake money settlement
No 10 – Physical Deliveries	CDSB (Botswana) Maroclear (Morocco) RCSD (Rwanda) Sticodevam (Tunisia) Strate (South Africa)	Dematerialised market
No 12 – Exchange-of-value Settlement Systems	MKK (Turkey)	Does not undertake settlement
No 16 – Custody & Investment Risks	RCSD (Rwanda)	Use segregated accounts
No 19 – Tiered Participation Arrangements	CDS (Mauritius) Strate (South Africa)	Beneficial owners are account holders
No 20 – FMI Links	CDS (Mauritius) CDSB (Botswana) Maroclear (Morocco) Sticodevam (Tunisia) Strate (South Africa)	No links exist

2. Quantitative Disclosures

Requirements:

CPMI IOSCO states that the FMI is expected to update its quantitative disclosures **more frequently** than **the summary narrative** disclosure component of the disclosure framework.

Although CPMI IOSCO states that 'An FMI also should, at a minimum, disclose basic data on transaction volumes and values', some FMIs have sought clarification as to what quantitative disclosures are required. In this respect, CPMI and IOSCO are now 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. They have already prepared a detailed and extensive list for CCPs and it is expected that they will also prepare a similar list for CSDs/SSSs most likely in 2015.

In making the quantitative disclosures, FMIs are expected to provide explanatory documentation that enables users to understand and interpret the data correctly.

The quantitative disclosures should be separately published to enable stakeholders, including the general public to evaluate FMIs and to make cross-comparisons.

Observations for AMEDA:

Six CSDs in the AMEDA region make quantitative disclosures on their website. These CSDs have published various data related to their operations, which typically will include data on settlement volumes and values.

The CSDs that publish data are:

- Algerie Clearing
- Iraq Depository Company – data provided monthly
- CDS (Mauritius)
- Maroclear (Morocco) – but does not provide settlement statistics
- CSDR (Rwanda) – data provided quarterly
- Strate (SA) – most data provided quarterly
- Sticodevam (Tunisia) – data published monthly and annual

There doesn't appear to be any consistency in what is published and the frequency of publication. Also there is a lack of explanatory documentation to help readers understand and interpret the data.

Of the 15 CSDs that don't publish any data, only three of these had indicated an intention to publish data in the future.

3. Self Assessment

Requirements:

Using the Disclosure report (including all the publically available resources), the FMI should undertake an assessment as to whether it fully observes the principles or only broadly observes, partially observes or does not observe the principles. The assessment should be reviewed by the supervisory authority and reported on. A summary of the authorities' assessments should be publicly disclosed, where and to the extent consistent with national law and practice.

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

Accordingly, CPMI IOSCO has prescribed what is expected in an Assessment report. It includes:

- a detailed assessment of the FMI's observance of the principles
- a rating of each principle (fully observed, broadly observed , etc)
- a prioritised list of recommendations for any identified issues of concern, other gaps or shortcomings

Observations for AMEDA:

Two CSDs (Strate and Maroclear) have completed an assessment.

Strate's report has been reviewed and commented on by the South African regulator, Financial Services Board and published in April 2014.

Maroclear completed its Assessment report in September 2014 but has not yet published it as discussions are continuing with the regulators, CDVM: Conseil déontologique des valeurs mobilières, Ban Al Maghrib : Central Bank and Direction du trésor et des finances extérieures: Treasury. Maroclear hopes to complete discussions and publish its document by the end of 2014.

In addition two other CSDs have been included in reports that have provided a form of assessment against the principles :

- In respect of Rwanda, a report was prepared in March 2014 by International Securities Consultancy Limited (ISC) arranged by East African Community (EAC) for East African Community partner states in compliance with CPMI IOSCO principles.
- In respect of Saudi Arabia, an assessment was completed for the monitoring arrangement as one of the 28 jurisdictions being monitored by CPMI IOSCO. (Two AMEDA countries are included in the 28 jurisdictions - South Africa is the other one.)

4. Gap Analysis

Requirements:

CPMI IOSCO states that where the FMI does not fully observe the principles, it should take actions to promote full observance.

A Gap Analysis identifies the extent to which the CSD does not fully observe the principles. A full gap analysis would look at each of the key considerations for each principle that is relevant to the CSD and identify where it stands against what is expected of it to fully observe the principle. Once a gap analysis has identified the shortfalls, an Action plan can be developed that provides a course of action over a specified timeframe for the CSD to become compliant by fully observing the principle.

Observations for AMEDA:

Within the AMEDA region, nine CSDs have been undertaking a Gap Analysis, including the two CSDs that completed their Disclosure report. Eight of these CSDs have developed Action Plans.

Usually, it would be expected that the Gap Analysis would be undertaken once the Disclosure report is completed and the Assessment is being undertaken. The Disclosure report would provide information in respect of the CSD's position for each principle and enable a comparison to be undertaken of what the shortfall is against where the CSD should be to fully observe the principle. This would allow a thorough review to be undertaken as it would examine each key consideration for each principle.

What seems to have happened for a number of CSDs in AMEDA is that they have conducted a Gap Analysis before completing the Disclosure framework, possibly because they are aware that there will be shortfalls and they wish to rectify those shortfalls before undertaking an assessment. By taking this approach they would anticipate achieving a better outcome at the time of the assessment. However, although the assessment outcome may be improved, the approach taken will delay the completion of the Disclosure report and the Assessment. It is also unlikely to be as thorough since it is unlikely to have been undertaken against each key consideration.

The following table provides an indication of those CSDs within the AMEDA region that have undertaken a Gap Analysis and developed Action plans.

Completion of Gap Analysis and Action Plans

Gap Analysis Undertaken	Action Plan Developed	No Response
9	8	2
CDSC (Kenya) CSCS (Nigeria) CSDR (Rwanda) DFM (UAE) Maroclear (Morocco) MCD (Oman) MKK (Turkey) Sticodevam (Tunisia) Strate (South Africa) MCDR (Egypt) - planned	CDSC (Kenya) CSCS (Nigeria) CSDR (Rwanda) DFM (UAE) Maroclear (Morocco) MCD (Oman) Sticodevam (Tunisia) Strate (South Africa)	QCSD (Qatar) SDC (Jordan)

5. Legal Issues

Requirements:

There are two key aspects surrounding the legal issues:

First the FMI needs to be certain that there is a sound and clear legal basis in support of its operations. The legal basis as it pertains to the specific laws relating to the CSD and the capital markets and their operation should define the rights and obligations of the FMI, its participants and other relevant parties. If the FMI's operations can be challenged on the basis of an uncertain legal position then the FMI needs to discuss the possibility of getting the law amended with the market regulator.

The second key area that makes up the legal basis relates to the rules, guidelines, procedures and contracts of the FMI. These need to be clear, understandable and consistent with the relevant laws and regulations. They should also be consistent with industry standards and market protocols. Where there is any ambiguity for the FMI, participants and other relevant parties then the rules, procedures, guidelines and contracts should be reviewed and amended.

Observations for AMEDA:

Within AMEDA, a majority of CSDs have been examining the legal position with regard to their operations and while a significant number of CSDs(seven) have found a need to strengthen rules and regulations, many of them consider their current laws, regulations and rules to be adequate

to enable them to fully observe Principle 1 that requires the CSD to have a well-founded, clear, transparent and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions. The CSDs that have found it necessary to update rules and regulations have found it necessary to make changes to the areas that pertain to

- the authority of the CSD
- nominee recognition
- enforcement of netting, and
- DVP settlement.

6. Regulators Role

Requirements:

Regulators have a key role in the assessment of FMIs against the Principles. The CPMI IOSCO report has identified five key responsibilities for regulators:

- 1. FMIs should be subject to appropriate and effective regulation, supervision and oversight by a central bank, market regulator or other relevant authority.
- 2. Central banks, market regulators and other relevant authorities should have the powers and resources to carry out effectively their responsibilities in regulating, supervising and overseeing FMIs.
- 3. Central banks, market regulators and other relevant authorities should clearly define and disclose their regulatory, supervisory and oversight policies with respect to FMIs.
- 4. Central banks, market regulators and other relevant authorities should adopt the CPSS IOSCO Principles for financial market infrastructures and apply them consistently.
- 5. Central banks, market regulators and other relevant authorities should cooperate with each other, both domestically and internationally, as appropriate, in promoting the safety and efficiency of FMIs.

Authorities are expected to regularly assess observance of the principles by FMIs that are deemed to be systemically important in their respective jurisdictions in connection with their regulatory, supervisory and oversight responsibilities to ensure consistent implementation and application of the PFMI. This includes all CSDs and SSSs as they are deemed to be systemically important infrastructure.

CPMI IOSCO has also indicated that the FMI is required to have regular meetings with the relevant supervisory authorities (market regulator) and to communicate the outcome of their findings on the principles as part of their regular dialogue with the regulator.

Observations for AMEDA:

CSDs are expected to have regular meetings with the regulators and discuss progress with implementing the Principles. However within the AMEDA group this is only happening for a minority of CSDs.

The survey revealed that only 10 CSDs are meeting with their regulator on a regular basis and of these a smaller number are discussing progress with implementing the Principles. Of those that indicated they are not meeting the regulator, three of these had indicated that they planned to once they complete their Disclosure report.

Meetings with National Regulators

Meeting with Regulator	Frequency	Last Meeting
10		
Algerie Clearing	As necessary	Oct - 2014
CSDG (Ghana)	As necessary	
CDSC (Kenya)	As necessary	Aug - 2014
CDS (Mauritius)	As necessary	Sept - 2014
CSDR (Rwanda)	6- monthly	July - 2014
DFM (U.A.E.)	As necessary	Sept - 2014
MCD (Oman)	Monthly	Oct - 2014
Sticodevam (Tunisia)	Frequently	Aug - 2014
Strate (S.A.)	Annual	Mar - 2014
Tadawul (Saudi Arabia)	3-6 monthly	June - 2014

7. Comparison with CSDs in Other Regions.

A comparison was made with some CSDs from other regions.

It was found that progress had also been quite slow and that many CSDs had not started the review of their operations against the CPMI IOSCO principles. The reason for this is not always clear although it is recognized that the European CSDs are delaying their review pending the finalization of the European regulations CSD-R.

While it was not possible to survey all CSDs in other regions a selection of CSDs was chosen across the other regions (Europe, Americas, Asia Pacific and Eurasia). Of those surveyed some asked that their information not be revealed and only used in an aggregate way. Others declined to provide any information; a response that is inconsistent with their status as systemically important infrastructural entities.

Outcomes from Other Regions

Completed a Disclosure Report	Published a Disclosure Report	Completed an Assessment	Undertaken a Periodic Review
<u>Americas</u> Brazil (BM&FBOVESPA) USA (DTC) One other <u>Asia Pacific</u> Australia (ASX & Austraclear) Hong Kong (HKMA) India (NSDL) Singapore (CDP) One other <u>Eurasia</u> Russia (NSD) <u>Western Europe</u> Italy (Monte Titoli)	<u>Americas</u> <u>Asia Pacific</u> Australia (ASX & Austraclear) Hong Kong (HKMA) Singapore (CDP) <u>Eurasia</u> <u>Western Europe</u> Italy (Monte Titoli)	<u>Americas</u> Brazil (BM&FBOVESPA) <u>Asia Pacific</u> Singapore (CDP) <u>Eurasia</u> Kazakhstan (KACD) <u>Western Europe</u>	<u>Americas</u> Brazil (BM&FBOVESPA) <u>Asia Pacific</u> India (NSDL) <u>Eurasia</u> <u>Western Europe</u>

Conclusion

CPMI IOSCO expressed a general dissatisfaction with progress by CSDs and SSSs from all regions in complying with CPMI IOSCO Principles for FMIs. This survey has indicated that within the AMEDA region there has been slow progress by the 24 CSDs in implementing the CPMI IOSCO principles. However, given the indications expressed by a number of CSDs, it could be expected that more CSDs will complete their Disclosure Reports and undertake their Assessments over the next 12 months. Consequently it is possible that progress will improve.

It is anticipated that the survey will be repeated in 2015 and the analysis of the other regions be extended to obtain a more accurate indication of the global situation for CSDs and SSSs.

Acknowledgement:

CSD Ratings Ltd would like to thank all CSDs and SSSs that completed and returned the survey questionnaire. The cooperation of CSDs was instrumental in the preparation of this paper. We encourage all CSDs to provide an indication of their progress in future surveys.

Appendix 1.

The CSDs from the AMEDA region that responded to the survey are:

Abu Dhabi – ADX
Algeria – Algerie Clearing
Bahrain – Bahrain Bourse
Botswana - CSDB
Egypt – MCDR
Ghana – CSDG
Iraq – IDC
Kenya – CDSC
Kuwait – KCC
Lebanon –Midclear
Mauritius – CDS
Morocco –Maroclear
Nigeria – CSCS
Oman – MCD
Palestine – PSE
Rwanda –CSDR
Saudi Arabia –Tadawul
South Africa – Strate
Tunisia –Sticodevam
Turkey – MKK
UAE – DFM
Zimbabwe –Chengetdezai Depository Company

Some respondents did not complete the survey form but indicated that they had not commenced work on their Disclosure report.



CSD Ratings Ltd

This report has been prepared by CSD Ratings Ltd

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