

Risk Management in CSDs: Past, Present, and Future

Jim Micklethwaite

Director, Thomas Murray

Post-Trade Counterparty Monitoring



Exchange	<i>Risk Translation</i>	The exchange of cash for securities or vice versa involving a change in risk profile for the participants.
CCP	<i>Risk Concentration</i>	Consolidation of all counterparty risk in the value chain. Guarantees settlement of trades.
CSD	<i>Risk Minimisation</i>	Centralise safekeeping and settlement with the minimum amount of risk.

CPMI-IOSCO PFMI Assessment methodology - April 2012

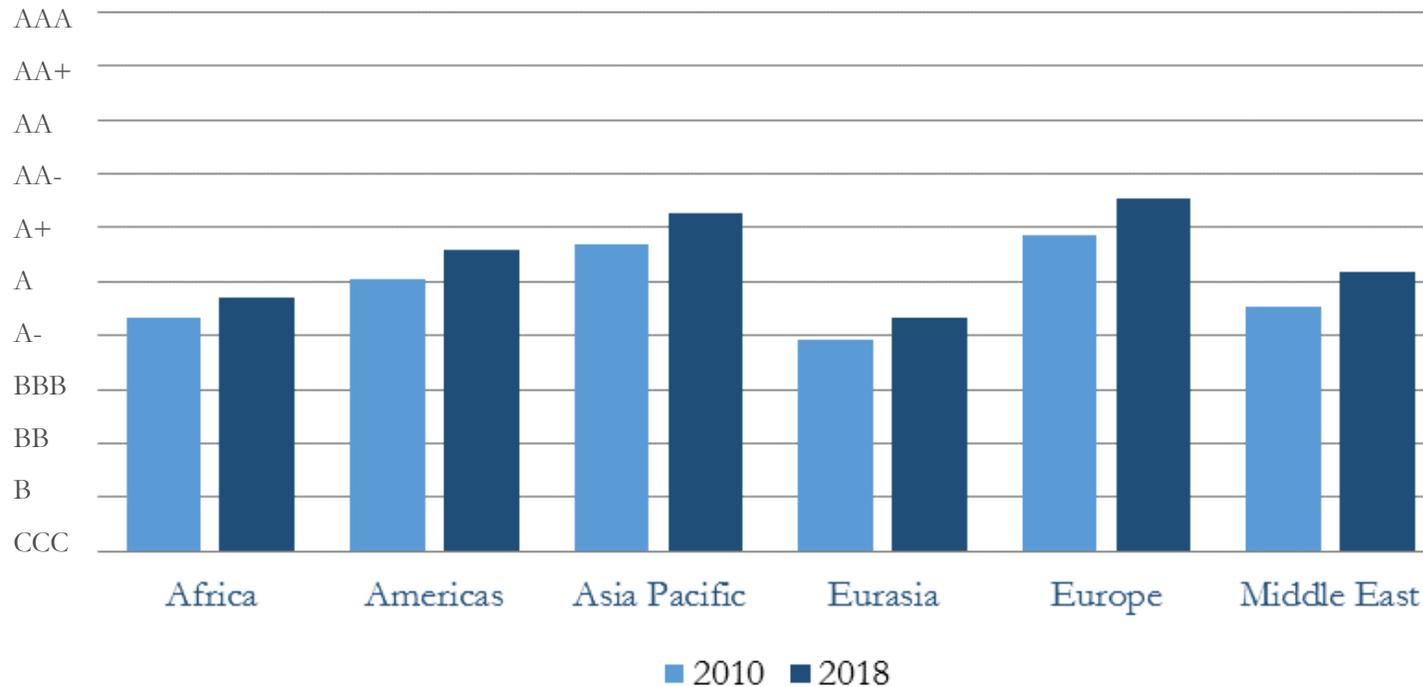
Principle 2: Governance

An FMI should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.

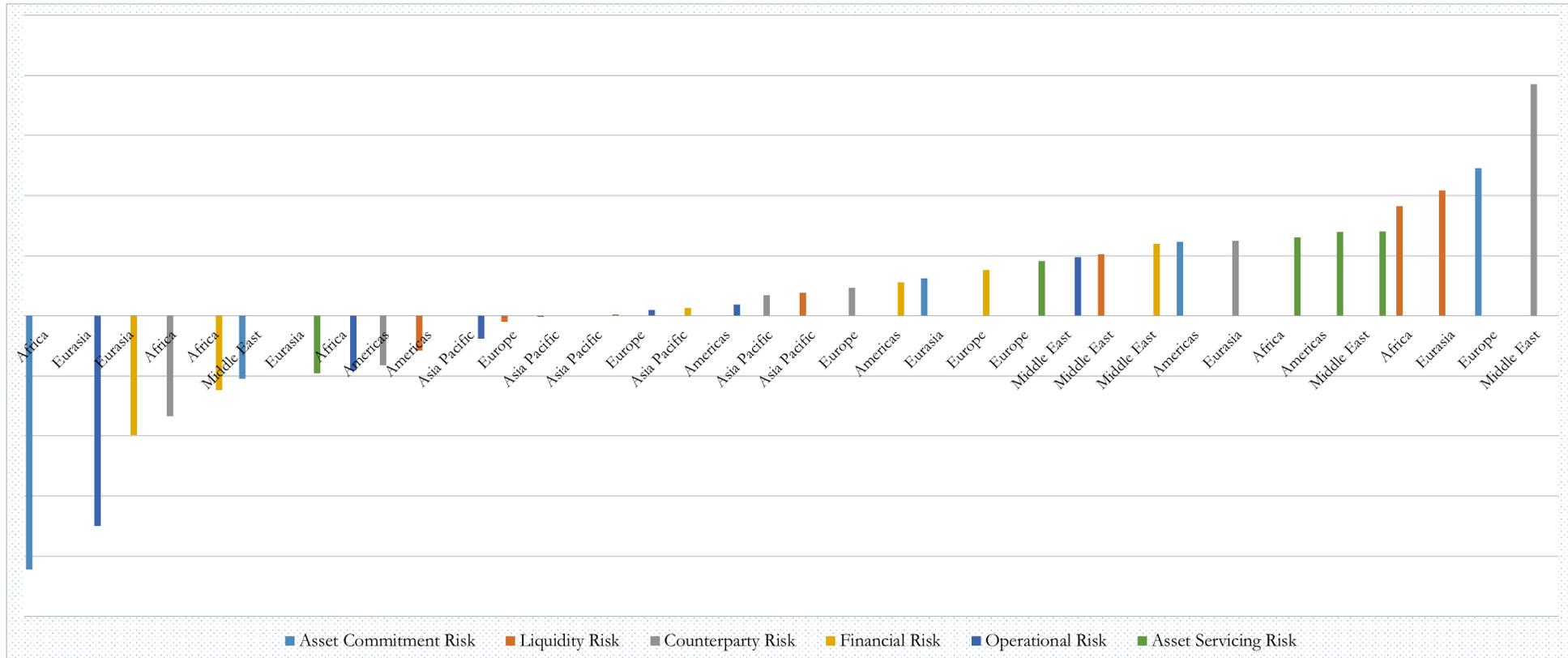
KC 2.1 An FMI should have objectives that place a high priority on the safety and efficiency of the FMI and **explicitly support financial stability** and other relevant public interest considerations.

Type of Risk	Potential Loss to Direct Participant
Settlement Risk	Principal or consequential losses due to poor settlement model or fails management mechanisms
Asset Safety	Principal or consequential losses due to inability or delayed recoverability/portability of assets
Asset Servicing Risks	Consequential losses due to missed or late execution of corporate actions
Financial Risk	Consequential losses due to the inability of market infrastructure to carry on business as usual
Operational Risk	Principal or consequential losses due to breakdowns in controls or due to criminal activity
Governance & Transparency Risk	Consequential losses due to poor management, business decisions that conflict with the interests of their participants, or lack of transparency

Overall Risk



Evolution of CSD Risks: 2010-18



- Settlement
 - Counterparty – DVP and CCPs/guarantees more widely deployed; T+3 – T+2.
 - Liquidity – decline of pre-funding model;
- Asset Safety
 - Dematerialisation – dematerialisation
 - Segregation – Optional BO accounting
 - Legal – stronger insolvency practices post-GFC
- Operational
 - Automation – Manual processing diminishing
 - Disaster Recovery – Secondary sites, back-ups

- Operational
 - Cybersecurity – Hacking and Cyber-warfare
 - New Technology – Project Risks

- Strategic
 - Fintechs – Risk of disintermediation or increased competition
 - Diversification – Non-core competencies
 - Political – Threat to cross-border cooperation

- Financial
 - Depressed trading and IPO volumes – Core revenue
 - Commercial – CSDs competing in commercial markets
 - Regulatory – Cost of compliance to increasing regulation

- Have a Risk Department.
- Risks are transforming from traditional CSD-centric to more general business risks.
- Risk management in CSDs must adapt, be broader and more flexibility.
- Practice latest Enterprise Risk Management techniques.
- Understand the broader ecosystem and the risks it presents.
- Use technology, but.....Blockchain will not solve everything!!



Jim Micklethwaite
Director – Head of Operations
jmicklethwaite@thomasmurray.com