

PFMI DISCLOSURE REPORT PREPARATION



AMEDA

Africa & Middle East Depositories Association

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Main Topics

- **Introduction**

- PFMI, FMI, Principles outcome

- **Disclosure Report Preparation**

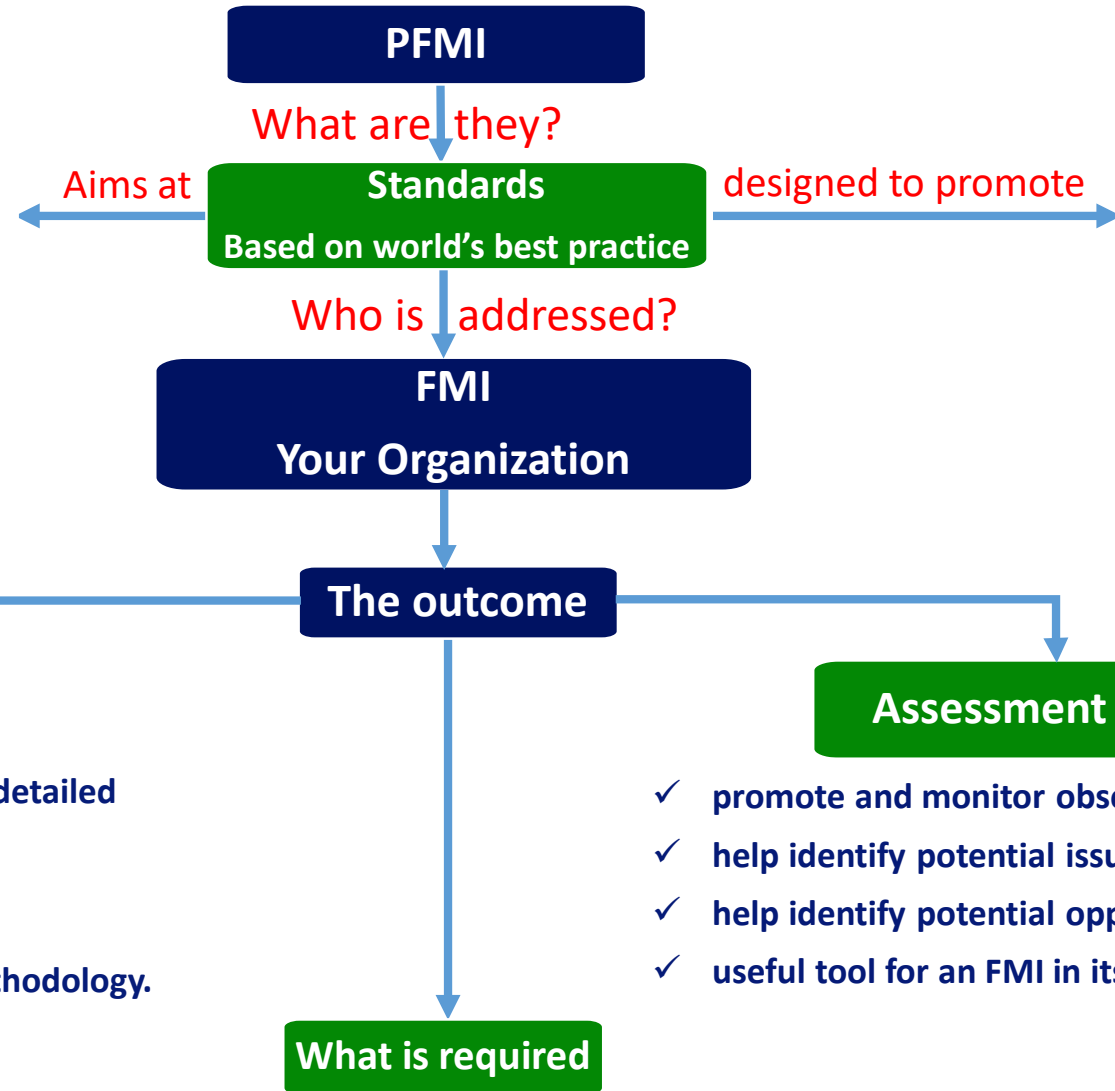
- General instructions for completing the disclosure template
- Examples and application
 - General Organization – principles 1,2 and 3
 - Principle 8: Settlement Finality
 - Principle 11: Central Securities Depositories
 - Principle 13: Participant-default Rules and Procedures

- **Use of The Assessment Methodology**

- General instructions for completing an assessment of the principles
- Guidance on The Assignment of Ratings

Introduction

- ✓ Add more strength to Financial market
- ✓ Foster Financial Stability thus, economy growth
- ✓ ensure a common base level of risk management across FMIs and countries



- Transparency
- Objectivity
- Comparability

- ✓ Expected to provide relevant, accurate and detailed information about FMI operations
- ✓ Standardize FMI disclosure practices
- ✓ Serves as a key input to the assessment methodology.

- ✓ promote and monitor observance of the principles
- ✓ help identify potential issues of concern
- ✓ help identify potential opportunities for improvement.
- ✓ useful tool for an FMI in its decision-making process

- ✓ Complete and publish a disclosure report
- ✓ Conduct an assessment and identify gaps

- ✓ Act in plan to address gaps and shortcomings
- ✓ Review and update reports in an annual bases

The Principles

A quick look

The PFMI provides new
international standards for
Financial Market Infrastructures



FMI principles' applicability

- **Payment Systems (PSs)** - 18 principles
- **Central Securities Depositories (CSDs)** – 15 principles
- **Securities Settlement Systems (SSSs)** – 20 principles
- **Central Counterparties (CCPs)** – 22 principles
- **Trade Repositories (TRs)** – 12 principles

Table 1₁
General applicability of principles to specific types of FMIs

Principle	PSs	CSDs	SSSs	CCPs	TRs
General Organization					
1. Legal basis	•	•	•	•	•
2. Governance	•	•	•	•	•
3. Framework for the comprehensive management of risk	•	•	•	•	•
Credit and Liquidity Risk Management					
4. Credit risk	•		•	•	
5. Collateral	•		•	•	
6. Margin				•	
7. Liquidity risk	•		•	•	
Settlement					
8. Settlement finality	•		•	•	
9. Money settlements	•		•	•	
10. Physical deliveries		•	•	•	
Central Securities Depositories and Exchange-of-Value Settlement Systems					
11. Central securities depositories		•			
12. Exchange-of-value settlement systems	•		•	•	
Default Management					
13. Participant-default rules and procedures	•	•	•	•	
14. Segregation and probability				•	
General Business and Operational Risk Management					
15. General Business risk	•	•	•	•	•
16. Custody and investment risk	•	•	•	•	
17. Operational risk	•	•	•	•	•
Access					
18. Access and participation requirements	•	•	•	•	•
19. Tiered participation arrangements	•	•	•	•	•
20. FMI links		•	•	•	•
Efficiency					
21. Efficiency and effectiveness	•	•	•	•	•
22. Communication procedures and standards	•	•	•	•	•
Transparency					
23. Disclosure of rules, key procedures and market data	•	•	•	•	•
24. Disclosure of market data by trade repositories					•

1 This table depicts the applicability of the principles to each type of FMI as defined in paragraphs 1.10-1.14. If an FMI performs the functions of more than one type of FMI, all of the principles that address the actual functions performed by the particular FMI will apply in practice

DISCLOSURE REPORT

PREPARATION

Disclosure Report template – Annex A

Part 1	Executive summary	key points from the disclosure framework, including a brief overview of the FMI, its participants, its legal and regulatory framework , its primary risks , and key risk management practices
Part 2	Summary of major changes	since the last update of the disclosure
Part 3	General background	<ul style="list-style-type: none">• descriptions of the services and functions and the markets it services• organizational and governance structure• legal and regulatory framework• clear description of operations and System design
Part 4	Principle-by-principle summary narrative disclosure	sufficient details to enable a reader to understand the FMI's approach to observing the principle.

General Instructions for Completing The Disclosure Template



Examples

General Organization

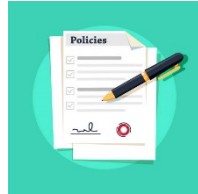
Principle 1: Legal basis An FMI should have a **well-founded**, clear, transparent, and **enforceable legal basis** for each material aspect of its activities in all relevant jurisdictions.

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**.

Principle 3: Framework for the comprehensive management of risks An FMI should have a sound risk-management framework for comprehensively managing **legal, credit, liquidity, operational**, and other risks.

FMI's General Organization

Legal Basis



- Capital Market
- Central Depository and Registry
- FRA Board decree on SGF
- Digital Signature

- Market Regulations
- Policies & Procedures
- Internal controls

- ClearStream
- EDR & GDR

Framework for The Comprehensive Management of Risks

Identify



Assess



Control



Monitor



Improve



Governance

11 BM / 3Yrs



Regular



- Internal Audit
- External Audit

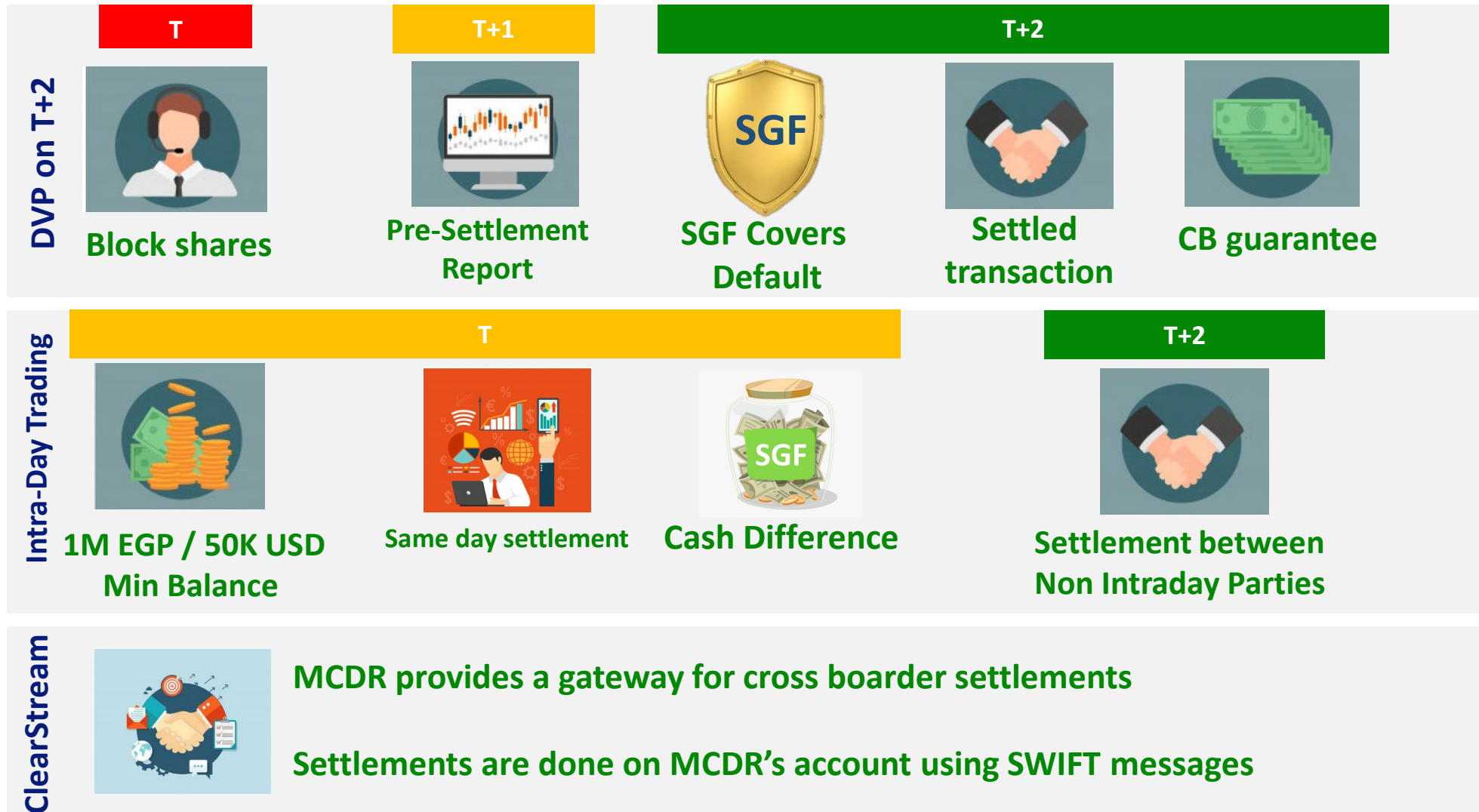
Committees



- Investment
- Audit
- Risk

Principle 8: Settlement Finality

An FMI should provide **clear and certain final settlement** At a minimum by the end of the value date.



Principle 11: Central Securities Depositories

A CSD should have appropriate **rules and procedures** to help ensure the **integrity of securities issues** and minimize and **manage the risks** associated with the safekeeping and transfer of securities. A CSD should maintain securities in an **immobilized** or **dematerialized** form for their transfer by book entry.



Enforced by Law



Immobilized



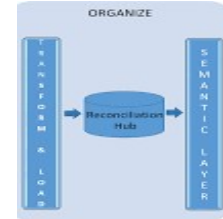
Dematerialized



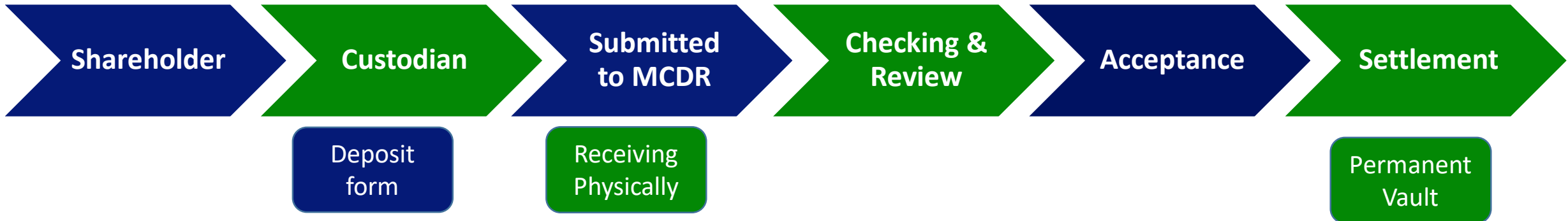
Samples, serials,
stamps of stocks



Segregation of
duties

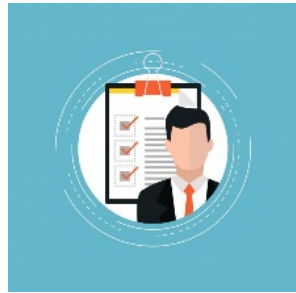


Daily
Reconciliation



Principle 13: Participant-default Rules and Procedures

An FMI should have **effective and clearly defined rules and procedures** to manage a participant default. These rules and procedures should be designed to ensure that the FMI can **take timely action** to **contain losses** and **liquidity pressures** and continue to **meet its obligations**.



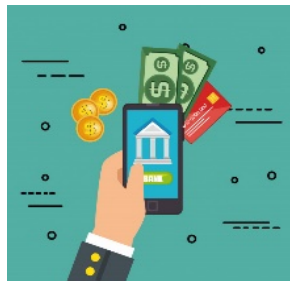
Tight Controls



179 participants



**7 Board members
Market stake holders**



**Highly liquid Investments
& Open lines of credits**



Penalties



Loss sharing



Interests Distribution

Disclosure Report sample

Executive summary

Part 1

- Misr for Central Clearing, Depository & Registry (MCDR) provides clearing and settlement services to the Egyptian securities market. MCDR operates both Clearing and Depository functions , in addition to Securities Guarantee Fund SGF and other services through a single entity
- MCDR acts as central registrar for all Egyptian securities deposited in its custody
- MCDR is holding the shareholders' accounts at the beneficial owner level

Part 2

Summary of major changes

This is the first version of the disclosure report

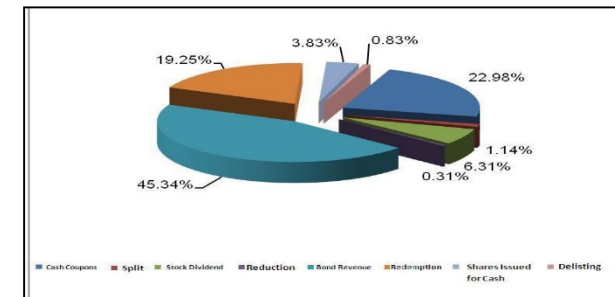
General background

- Incorporated under capital market law and now governed by Central Depository and Registry Law
- MCDR adopts the Settlement model 2 (Net cash – Gross securities)
- Ownership Structure 50% custodians, 45% brokerage and 5% Stock Exchange

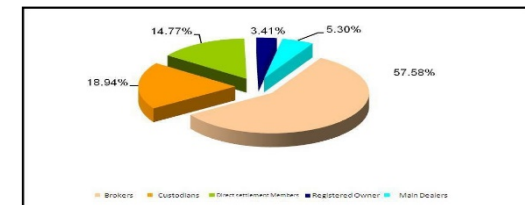
Part 3

- Board members structure 11 persons (3 custodian representatives, 3 brokerage representatives, 1 EGX representative, 4 independent representatives out of which the chairman and the deputy are elected
- Details for Clearing and settlement functions, Fails management controls, central depository and registry services and business continuity arrangements

Corporate actions executed through MCDR



Members Distribution



Part 4 Principle-by-principle summary narrative disclosure

Principle 1: legal basis

An FMI should have a well-founded, transparent and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions

Key considerations 1:

the legal basis should provide a high degree of certainty for each material aspect of an FMIs activities in all relevant jurisdictions

- MCDR's activities and services is governed and controlled throughout: Capital Market Law No. 95 of 1992 and its executive regulations, the Central Depository and Registry Law No. 93 of 2000 and its executive regulations, FRA board decree no. 29 for year 2004 on the SGF, digital signature law no.15 for the year 2004 and its executive regulations and MCDR rules and procedures and internal controls which approved by the market regulator FRA.
This legal and regulatory framework is providing legal certainty for all material aspects of MCDR's activities and service i.e. clearing and settlement, depository and registry rules and procedures,, DVP mechanism, SGF rules and fails management procedures
- MCDR is working in the Egyptian market and governed by its relevant laws, however, MCDR has links with other CSDs, i.e. Lebanon, Kuwait, Abu Dhabi, SIS of Switzerland, and NASDAQ Dubai. MCDR also has an account with Clearstream Banking Luxembourg and Euroclear Bank to facilitate the settlements of any cross border transactions

Key consideration 4:

An FMI should have rules, procedures, and contract that are enforceable in all relevant jurisdictions .There should be a high degree of certainty that actions taken by the FMI under such rules and procedures will not be voided , reversed or subject to stay

- **The central depository and registry law no 93 for year 2000 represent the backbone for MCDR enforceability of its rules and procedures**
- **MCDR' Rules and procedures are subject to a formal review and approval from the market Regulatory FRA,**
- **If MCDR to operate in a different jurisdiction (outside Egypt), all its actions will be backed up by a binding agreements between the involved parties and these agreements will have a legal reference in case of any dispute.**

Principle 11: Central securities depositories

A CSD should have appropriate rules and procedures to help ensure the integrity of securities issues and minimize and manage the risks associated with the safekeeping and transfer of securities. A CSD should maintain securities in an immobilized or dematerialized form for their transfer by book entry.

Key consideration 1:

A CSD should have appropriate rules, procedures, and controls, including robust accounting practices, to safeguard the rights of securities issuers and holders, prevent the unauthorized creation or deletion of securities, and conduct periodic and at least daily reconciliation of securities issues it maintains.

- Rights of securities issuers and shareholders are governed by a very tied set of rules and procedures and controls i.e. articles 2,12,13 and 17 from the Depository and Registry law no.93 for year 2000 and articles 2,3,4 and 8 from its executive regulations in addition to section 1 and 4 from MCDR's rules and procedures book
- The daily reconciliation of securities transfers and balances ensures consistency of records. The controls and procedures related to the access of securities accounts are in place to help mitigate the risk of fraudulent transfer of securities.
- Securities transfers and securities balances are reconciled with direct settlement participant on a daily basis.
- The total issue balances are reconciled on a daily basis. All The reconciliation processes are fully automated. There have been no reported reconciliation breaks

Use Of The Assessment Methodology

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

General Considerations For Conducting The Assessment

1. Determine the appropriate scope

- Which FMIs to assess. (FMI type)
- Which principles to assess.
- Which operations and services to assess.

2. Gather facts

- Develop a general understanding of an FMI's basic business activities, operations and services, processes, rules and procedures.
- Focus more on issues where risk is greatest.
- You may use additional questions when needed.
- What is the FMI's approach for ongoing observing the principle?

3. Develop key conclusions

- Key conclusions will serve as building blocks for assigning a rating.
- Summaries the FMI's practices and achievements.
- Identify any gaps or shortcomings and describe any associated risk.
- An issue of concern is a risk management flaw, a deficiency, or a lack of transparency or effectiveness that needs to be addressed.

4. Assign a rating

- The rating is built on the key conclusions and reflects the assessor's judgment regarding the Type or impact of the risk and other issues associated with each identified gap or shortcoming.

5. Indicate time frame for issues of concern

- Prioritize deficiencies with greater risks, lack of transparency or FMI's effectiveness.
- Set an action plan, discuss it with relevant authorities to set a reasonable time frame.
- Provide recommendations for minor gaps and shortcomings to be resolved as part of the normal course of the business.

6. Prepare the assessment report

- The assessment report should be completed as follows:
 - Section I Executive summary
 - Section II Introduction
 - Section III Overview of the payment, clearing and settlement landscape
 - Section IV Summary assessment
 - Section V Detailed assessment report

Practical market and technical experience

Trained to carry out the assessment

Sufficient knowledge of the FMI



Assessor

Evaluate FMI's rules, legal and regulatory framework and how they are applied and achieved within the FMI's actual practices

Access to Public \ Non-public information, Relevant stakeholders, supervisory, Organizations and Authorities

Guidance On The Assignment Of Ratings

Observed	Any identified gaps and shortcomings are not issues of concern and are minor, manageable and of a nature that the FMI could consider taking them up in the normal course of its business.
Broadly observed	The assessment has identified one or more issues of concern that the FMI should address and follow up on a defined timeline .
Partly observed	The assessment has identified one or more issues of concern that could become serious if not addressed promptly . The FMI should accord a high priority to addressing these issues.
Not observed	The assessment has identified one or more serious issues of concern that warrant immediate action . Therefore, the FMI should accord the highest priority to addressing them
Not applicable	The principle does not apply to the type of FMI being assessed because of the particular legal, institutional, structural or other characteristics of the FMI.

Important points

- **Reflect** conditions at the **time** of the **assessment**
- **Plans for improvement** should be noted but should **not influence the judgments**
- **Note** any **principle** that could **not** be **adequately assessed** (unsatisfied requests for information or meetings).
- A **combination** of a number of **smaller** gaps or shortcomings may form an **issue of concern**.
- Take into account **not only** the **number** of issues **identified** but **also** the **level of concern** they present.

Thank You!

Any Questions?