



PERCIVAL



**MERITS OF A NATIONAL
CSD
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ABOUT THE PRESENTER

Mark Mantock

Academic

- BA (Econ), MSc (Info. Systems), FCMA, CGMA

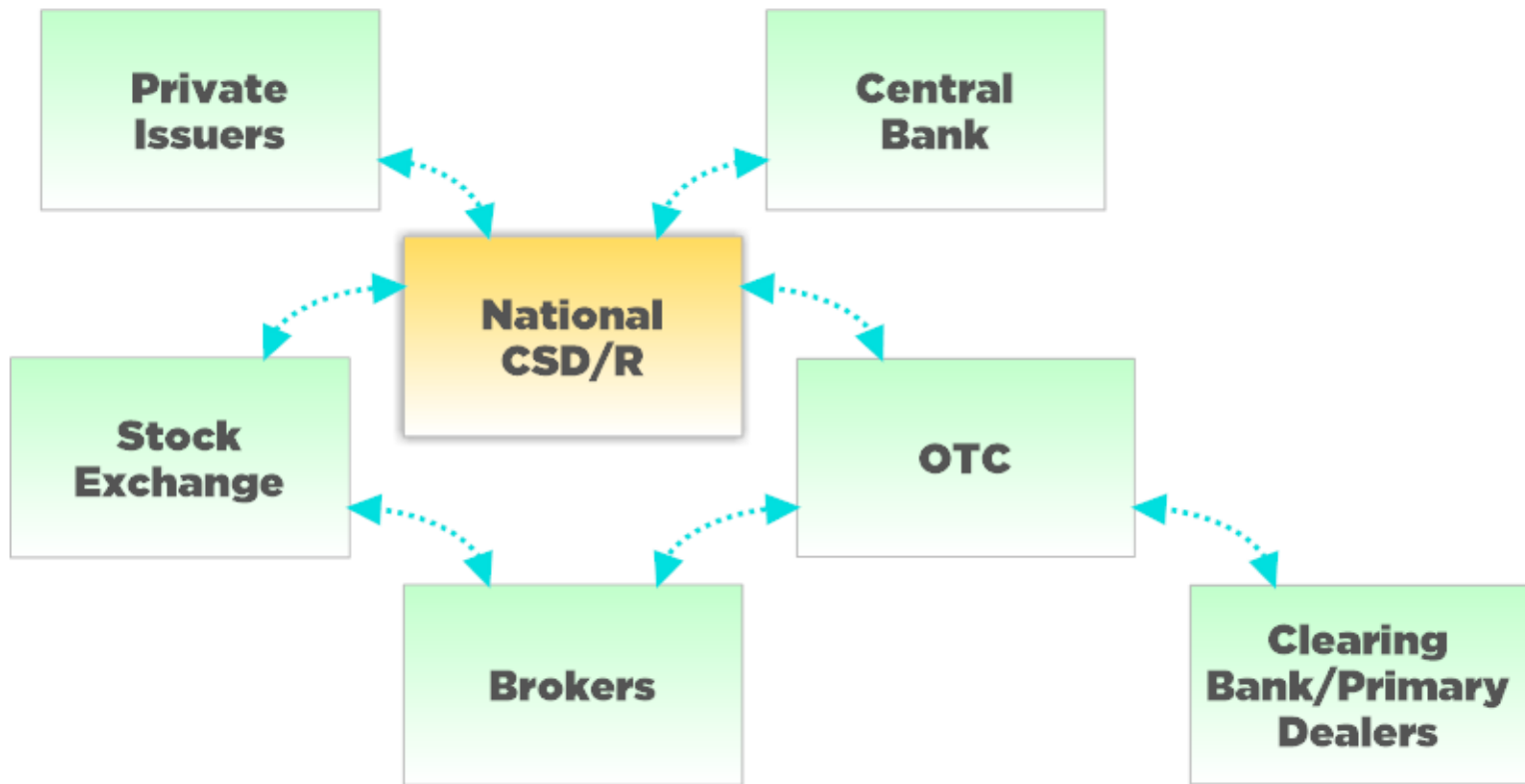
Business Experience

- Deloitte Touche Ross
- Royal Bank of Canada
- Bank of Tokyo Mitsubishi
- Credit Suisse First Boston (VP & Project Manager, Global Financial Systems)

Part-time Lecturer

- Corporate Finance, Managerial Accounting, Financial Accounting at SKEMA Business School and the University of Nice, South of France.

NATIONAL CSD/R DIAGRAM



FUNCTIONALITY COMPARISON

Registry Function Stock Exchange

- Many emerging markets combine the role of CSD with a beneficial level Registry, thereby creating a CSDR for all types of instrument.

Registry Function Central Bank

- Central Bank CSDs are often called Government Securities Registry System where individual holders are recorded in a CSDR type system

FUNCTIONALITY COMPARISON

Asset Types Stock Exchange

- All asset types including equity and fixed income and some forms of basic derivatives

Asset Types Central Bank

- Government or Central Bank Fixed Income

FUNCTIONALITY COMPARISON

Stock Exchange Clearing and Settlement

- Participants are typically brokers whose liquidity accounts are held in a separate settlement bank; often the Central Bank

Central Bank Clearing and Settlement

- Clearing Banks directly maintain their liquidity in the Central Bank

FUNCTIONALITY COMPARISON

Stock Exchange Settlement Discipline

- Most Equity CSDs use BIS Model 2

Central Bank Settlement Discipline

- Central Bank CSDs may use BIS models 1, 2 or 3

FUNCTIONALITY COMPARISON

Stock Exchange Trading

- Trades are executed on one or more stock exchanges in a heavily regulated market and settled directly in the CSD. Trading volumes can be high. OTC activity may be supported

Central Bank Trading

- The market is usually OTC and trades are agreed directly between participants who enter their instructions to settle directly in the CSD. Trading is usually low volume but high value

FUNCTIONALITY COMPARISON

Stock Exchange Connections and Messaging

- A proprietary protocol, or FIX interface links the automated Trading System to the CSD SWIFT messages may be used for OTC instructions by participants or for cross border settlement between CSDs

Central Bank Connections and Messaging

- SWIFT Messages used by participants and the Central Bank. Commonly SWIFT ISO 15022 but moving towards ISO 20022

FUNCTIONALITY COMPARISON

Stock Exchange Corporate Events

- A wide variety of corporate events are supported which include Fixed Income related

Central Bank Corporate Events

- Fixed Income related events only

FUNCTIONALITY COMPARISON

Stock Exchange Primary Markets

- Different types of IPO and fixed income issuance are supported

Central Bank Primary Markets

- Central Bank primary market auctions, limited to primary dealers conducted in line with Central Bank rules

ECONOMIC CASE AND BENEFITS

- Duplication of IT infrastructure
- Duplication of operational costs
- More difficult to build an effective CCP environment
- More difficult to meet international BIS and IOSCO standards

ECONOMIC CASE AND BENEFITS

- Lower operational costs
- Higher efficiency
- Lower fees
- Better use of collateral by participants

HISTORICAL REASONS FOR 2 CSDs

- Normally central bank precedes stock exchange
- Logistical
- Cultural
- Resistance to change

ISSUES FOR EMERGING MARKETS

- Scarcity of financial resources
- Scarcity of IT skills and IT professionals
- Lack of robust financial market infrastructure
- Insufficient financial planning

ISSUES FOR DECISION MAKERS

Software: purchase or in-house development?

- Carry out quantitative and qualitative cost analysis
- Is the solution flexible enough?
- If purchase,
 - Can we avoid hidden costs of 'vendor lock-in'?
 - Will solution empower users?
 - Will vendor provide knowledge transfer?
- If in-house development,
 - Do we have the right IT skills?

DEPEND CSD/R

- User empowerment
- Knowledge transfer
- Lower implementation and operational costs
- Same CSD/R team with over 20 years experience
- Additional revenue streams (VAS for settlement participants to include issuers, banks, pledgees, escrow agents, as well as investors)
- Faster implementation

MALTA AND TRINIDAD & TOBAGO

DEPEND users

- MALTA STOCK EXCHANGE – NATIONAL CSD
 - Started operations in 1991, with 36 government bonds and 3 private listed stocks.
- TRINIDAD AND TOBAGO CENTRAL DEPOSITORY
 - Handle secondary market and settlement services for government securities
 - System integrated with central bank's own registry system

FUTURE TRENDS

- Many countries are planning to merge:
 - post trade processing of all market instruments
 - into single CSD infrastructure.

Questions

End of presentation

Thank you!