

A panoramic view of a city skyline at dusk or dawn, featuring a large domed building on the left and several modern skyscrapers on the right.

CSD Capitalisation

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Agenda

- Background
- Capitalisation Standards
- Statistics on CPMI-IOSCO Principle
- TM Methodology to Determine Capital Levels

Background

Not for profit CSDs

- These CSDs used to maintain a relatively stable level of capital to be able to support operations and future investments and rebate back to participants any excess profit

For-profit CSDs

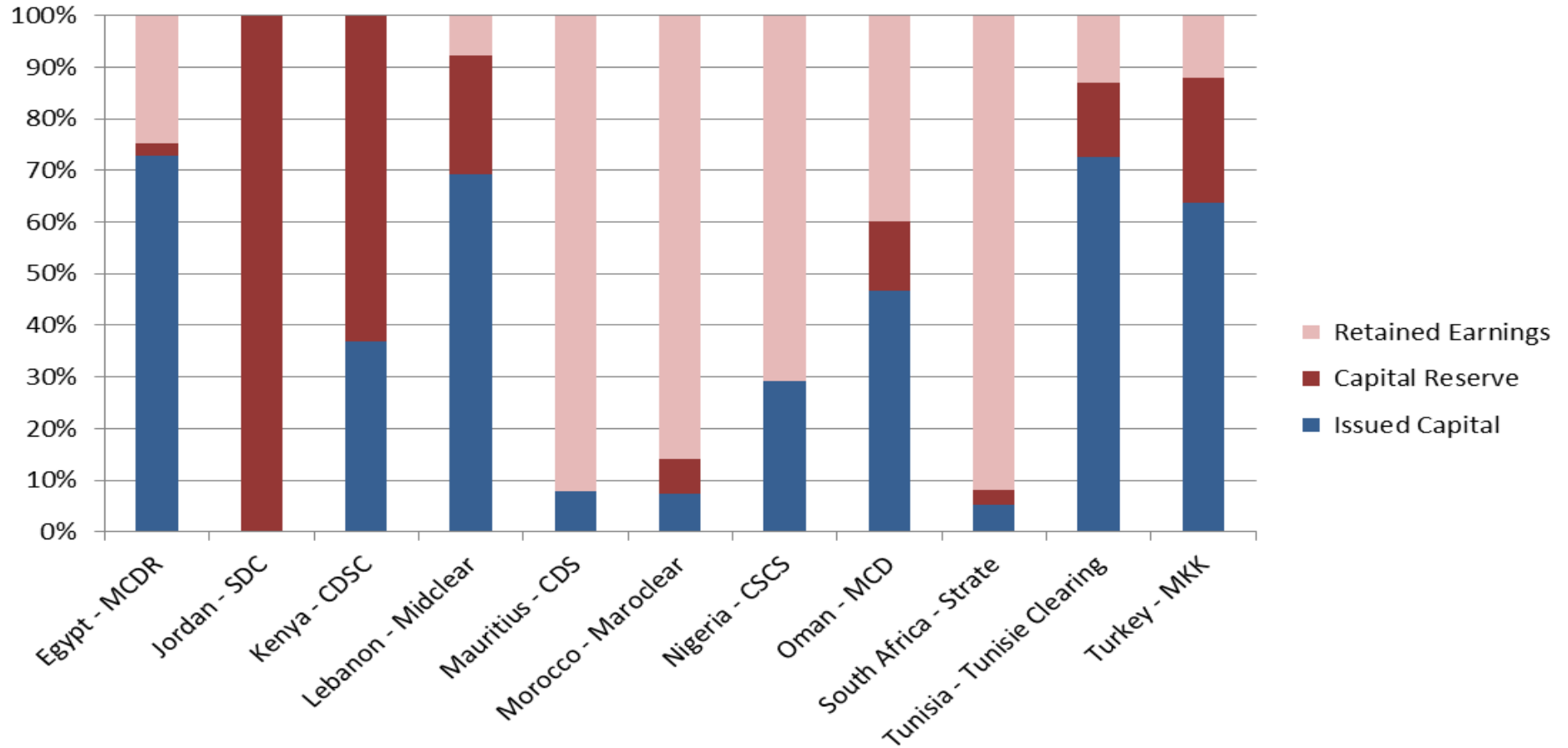
- Similarly, for profit CSDs were under pressure by shareholders to maximise dividend payments and minimise reserves. Some of them, actually paid 100% of dividends (e.g DCV Chile)

Adverse market conditions

- The market in Egypt in 2011 was closed for over a month badly affecting the revenue of MCDR.
- The Greek market was also closed for days in 2015 impacting ATHEXCSD's profits and revenues

Capitalisation Standards

Capital Split





Capitalisation Standards

What are the known regulations/standards related to CSD capitalisation?

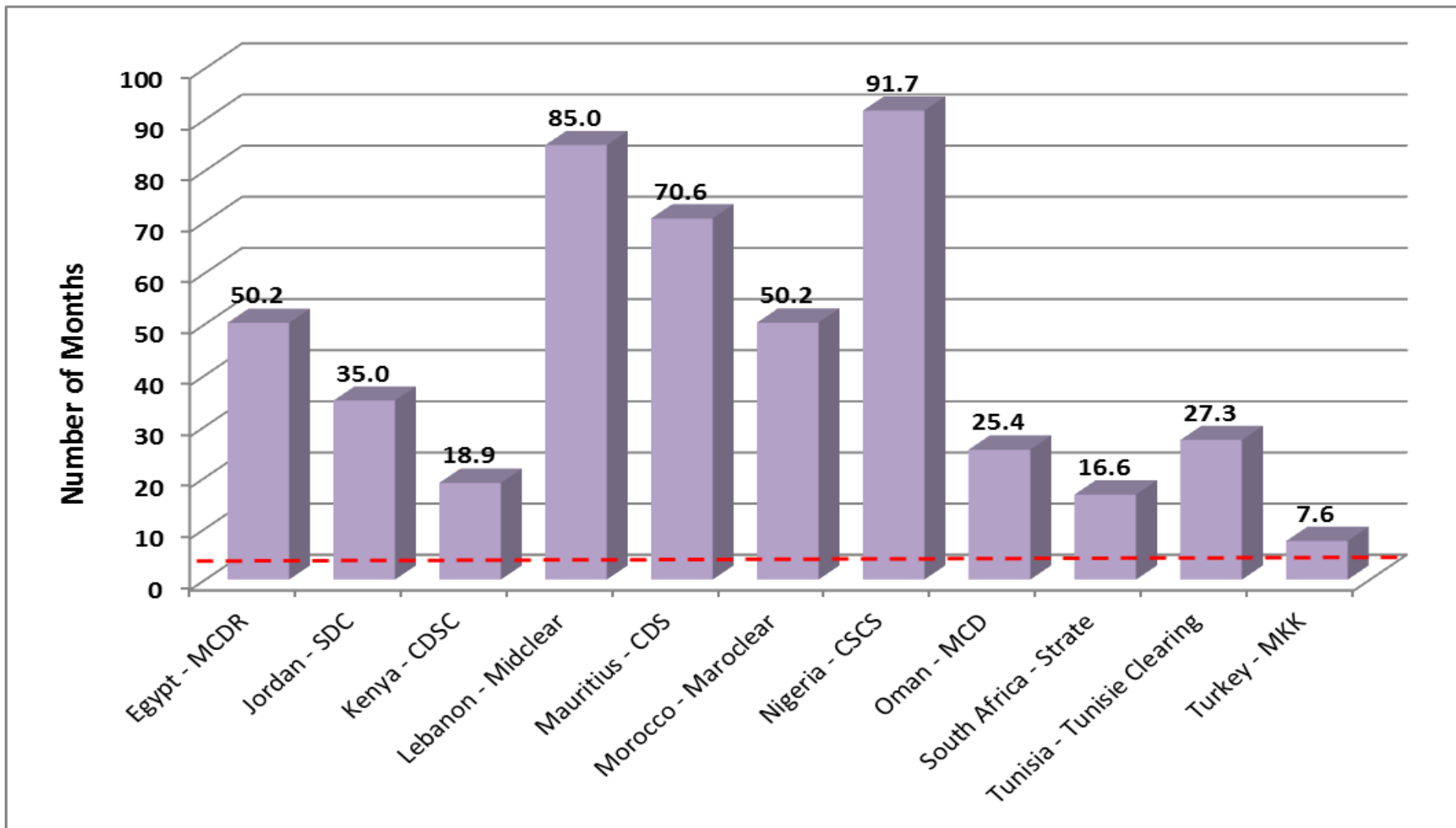
- **CPMI-IOSCO PFMI - Principle 15**
 - *A CSD should have a capital level enough to cover any General Business losses.*
 - *A CSD should have a capital level of at least 6 months of current operating expenses to cover any recovery or wind-down.*

Capitalisation Standards

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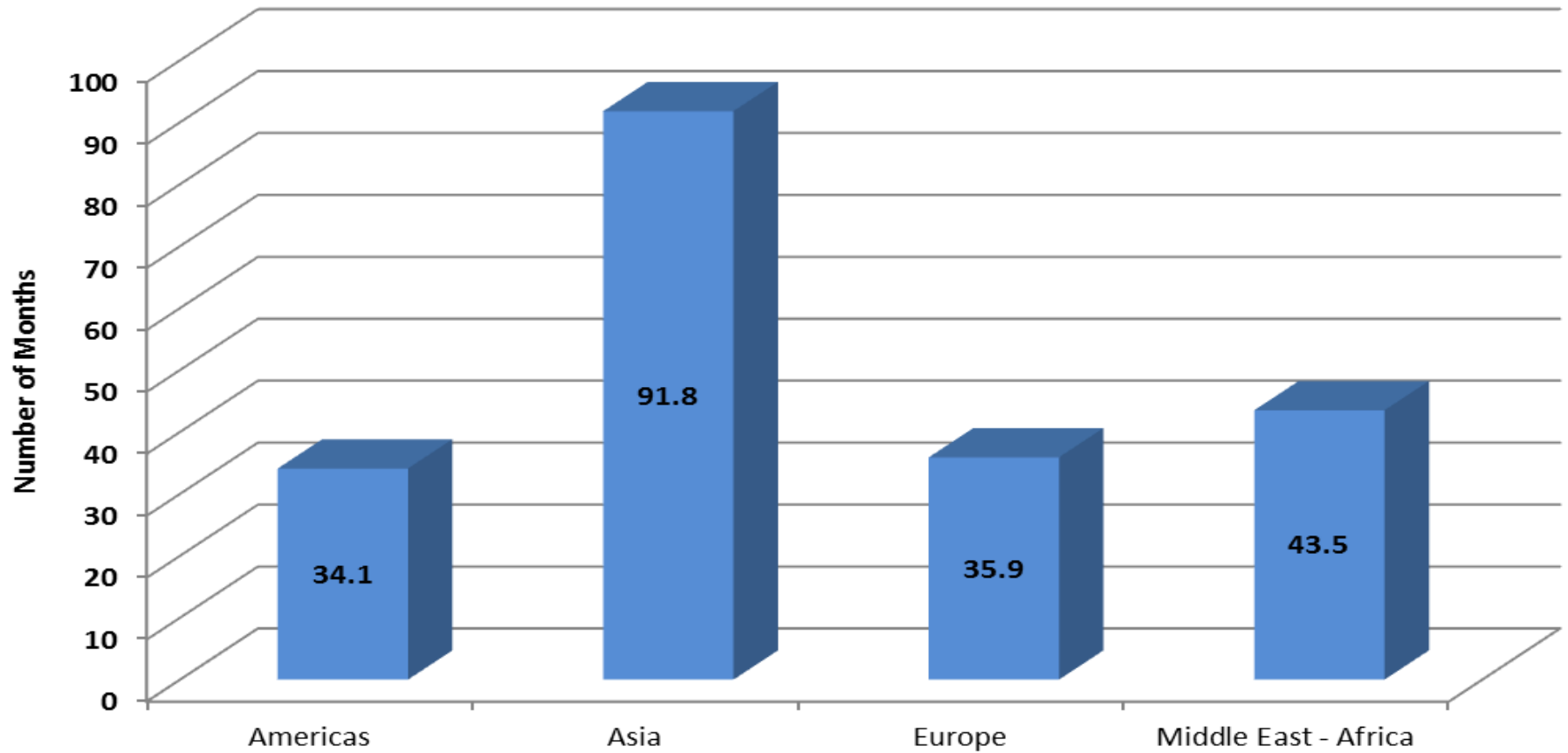
- **European CSD Regulation - Article 47**
 - Capital, together with retained earnings and reserves of a CSD, shall be proportional to the risks stemming from the activities of the CSD. It shall be at all times sufficient to:
 - (a) ensure that the CSD is adequately protected against operational, legal, custody, investment and business risks so that the CSD can continue to provide services as a going concern;
 - (b) ensure an **orderly winding-down or restructuring** of the CSD's activities over an appropriate time span of **at least six months** under a range of stress scenarios.

Liquid Net Assets vs Operational Expenses



Liquid Net Assets vs Operational Expenses

Average Ratio per Region



TM Methodology

How to determine Capital level for CSDs?

- **Methodology adapted from BASEL III for banks using Risk Weighted Assets (RWA).**
- **Comparison between 30 CSDs and various Stress Scenarios to determine what “ratio” will be equivalent to each rating.**

$$\text{Ratio} = \frac{\text{Capital}}{\text{RWA}}$$

- **The RWA approach enables to determine Capital levels based on the size of the CSD and the potential risk it bears.**

TM Methodology

How to calculate RWA for CSDs?





Thank You