



**To: CPSS-IOSCO Working Group**  
[cpss@bis.org](mailto:cpss@bis.org) and [fmi@iosco.org](mailto:fmi@iosco.org)

**From: Mr. Mohamed Abdel Salam, WFC Chair**  
on behalf of the five regional CSD associations  
(ACG, ACSDA, AECSD, AMEDA, and ECSDA)

July 29, 2011

## **Joint Comments of the World Forum of CSDs to the CPSS-IOSCO Consultative Report: Principles for Financial Market Infrastructures**

The World Forum of Central Securities Depositories (WFC) appreciates this opportunity to contribute to the public consultation on the “Principles for Financial Market Infrastructures” published in March 2011 by the Committee for Payment and Settlement Systems (CPSS) and the Technical Committee of the International Organization of Securities Commissions (IOSCO). The WFC is composed of the following five regional associations which together represent their 125 member organizations worldwide, which are mainly central securities depositories (CSDs) and securities settlement systems (SSSs) serving the world’s capital markets:

- Asia-Pacific CSD Group (ACG)
- Americas’ Central Securities Depositories Association (ACSDA)
- Association of Eurasian Central Securities Depositories (AECSD)
- Africa & Middle East Depositories Association (AMEDA)
- European Central Securities Depositories Association (ECSDA)

We recognize the value of the supervisory dialogue and insights from CPSS-IOSCO national supervisors from a wider group of countries than in the past (G20 nations, expanded from the G10 in the predecessor recommendations) that this report reflects. We welcome thoughtful collaboration of central banks and securities regulators, working together in CPSS-IOSCO to raise operational and risk management standards by defining a series of Principles. In general, we believe these Principles will prove valuable not only to the existing FMIs, but will be likely to provide useful benchmarks to guide new CSDs and SSS organizations, and their supervisors, in other countries in the future.



The WFC, as one collective subset of financial market infrastructures (FMIs), believes that the report shows that while worthwhile to work toward comprehensive principles, supervisors must also be open to the diversity of FMIs' business models and related risks, market roles and stages of development. Seeking to transcend that diversity among our own associations and their memberships, this letter will focus on several key points of consensus and priority.

Meanwhile, supplementing this joint letter, we understand that some of the regional CSD associations and individual regional CSDs will be commenting to CPSS-IOSCO in more detailed responses reflecting their specific situation and perspectives. As well, some of our CSD and SSS members are also CCPs, whose feedback on clearing-related points is being gathered by CCP12, the Global Association of Central Counterparties, and other CCP groups.

**(1) Relevance of each principle among the different types of FMIs should be better defined .**

As noted earlier, we at the WFC understand the appeal of rationalizing a single set of Principles across our industry, but the result is a very complex report. Certain Principles suggested to apply to all FMIs may apply only in varying degrees to each type of FMI or even ultimately to each entity assessed. Further, to avoid undue duplication, we recommend cross-referencing between Principles, where applicable, perhaps with more extensive indexing and footnoting. The duplication of concepts across multiple Principles should be kept to a minimum since this may cause difficulty in focusing on and complying with one underlying "idea." The glossary seems to be missing some key terms references throughout the report, e.g., affiliate and margin, among others.

**(2) The Assessment Methodology should also be subject to public consultation**

The WFC is aware that the Assessment Methodology is scheduled to be released, without CPSS-IOSCO inviting feedback, within the final version of the FMI Principles. However, the WFC believes that CSDs, as well as other interested parties, should have an opportunity to comment on the proposed Assessment Methodology, which in many cases provides guidance as to how the Principles will be interpreted and applied in practice. We would welcome further consultation regarding the Assessment Methodology, and the WFC would offer to coordinate with you on behalf of CSD groups worldwide.

**(3) Annex C should be re-integrated in the FMI principles to provide more clarity**

The WFC believes that the "Selected RSSS market-wide recommendations," which now seem "orphaned" in Annex C, should be integrated into the proposed 24 Principles to avoid confusion and to reinforce the consistency and priority of those Recommendations with the Principles, thus ensuring that FMIs have to implement a single set of Principles. Where these are now included as an afterthought, these recommendations seem to have been given a lesser status than the 24 principles, even though some are the same, and others, such as Trade Confirmation, seem equally relevant to improving risk management.



Similarly, we welcome the inclusion of Section 4.0: “*Responsibilities of central banks, market regulators and other relevant authorities for financial market infrastructures*” but would also like to see that section better integrated into the main report as well.

#### **(4) There are important limitations preventing CSDs to monitor all externalities**

Some of the proposed CPSS-IOSCO Principles require CSDs to monitor externalities on which they have very little visibility. For example, the need for CSDs to systematically assess the risks they pose to other entities would require them to gather a considerable amount of information to which they do not have access today (while potentially raising competition issues and generating additional costs). In addition, there are limits as to how far CSDs can provide incentives for participants to manage their own risks. This is a particular concern in relation to principles 3 (framework for risk management), 5 (collateral) and 19 (tiered participation).

For example, principle 19 on tiered participation seems to have been written mostly with CCPs and payment systems in mind and it is unclear how the concept of “indirect participants” could be applied to CSDs. In practice, many CSDs currently have no control and no visibility on their clients’ clients with the possible exception of a growing number of markets with direct holding or “transparent” systems. Furthermore, the participants in these CSDs might be unable to share such information for competition and legal data confidentiality reasons. Consequently, the WFC recommends that principle 19 should not be imposed on CSDs directly, but that perhaps information on tiered participation arrangements should be disclosed by CSD participants to the relevant regulators.

As a result, the WFC advocates a more moderate and flexible approach on the need to monitor externalities and recalls that, unlike regulators, CSDs do not have a complete visibility of the risks faced by other entities than themselves. More reasonable requirements would not only avoid disproportionate costs and implementation issues, they would also avoid that the use of CSDs (and other infrastructures) by market participants is discouraged because of too strict requirements.

Against this background, the Principles should also recognize the need for regulatory supervisors to monitor the size and importance of FMI-like activities performed outside financial market infrastructures so as to identify any build-up of such activity which would warrant regulatory intervention.

#### **(5) The new CPSS-IOSCO Principles should become a true global standard**

Today, many CSDs across the globe have participated in the CPSS-IOSCO disclosure framework and are regularly assessed against many annual evaluations and surveys as well as the CPSS-IOSCO recommendations for SSSs. The extent to which the CPSS-IOSCO Principles are used by national regulators, however, greatly differs from country to country, with some regulators using the CPSS-IOSCO framework in detail for their assessment of CSDs, while others use a predominantly national framework which is only partly inspired by the global principles.

Going forward, the WFC would like the CPSS-IOSCO Principles to be applied as consistently as possible across the regions, while taking into account the principle of proportionality (so that



principles are interpreted more or less strictly depending on the size, importance and level of interconnectedness of the given infrastructure and the asset classes serviced.). In practice, CSDs often have to comply with overlapping requirements, especially as far as disclosure questionnaires are concerned (e.g. CPSS-IOSCO disclosure framework, ESCB-CESR self-assessment in Europe, questionnaires of national regulators and of private sector bodies such as the Association of Global Custodians). The duplication created by these parallel initiatives remains a concern for many CSDs.

As a result, once the new CPSS-IOSCO Principles are approved, the WFC believes that it should be sufficient for CSDs to publish their assessment report according to the CPSS-IOSCO framework on a regular basis, and that further questionnaires should only be required if additional information or transparency can be justified. The WFC thus encourages regulators and other relevant bodies (CPSS-IOSCO, national regulators, the ECB-ESMA in Europe, the Association of Global Custodians and commercial ratings organizations) to coordinate their approach as much as possible to ensure consistency and avoid unnecessary duplication.

## Background

On April 15, 2011, at the closing of the CSD11 conference in Cape Town, South Africa, the five regional CSD associations announced the formation of the World Forum of CSDs (WFC) in order to further enhance inter-association communications. The WFC provides a forum for regional CSD associations to exchange information, discuss issues of common interest and increase their influence and engagement on cross-regional and global developments.

The Forum has a Board composed of 10 members, namely the Chairs and Vice-Chairs of each of the five regional associations. Mr. Mohamed Abdel Salam of MCDR (Egypt) is currently acting as WFC Chairman with Mr. Yoshinobu Takeuchi of JASDEC (Japan) as Vice-Chair.

**For further information, please contact:** Makoto Sato (JASDEC), WFC Secretary, at [m-sato@jasdec.com](mailto:m-sato@jasdec.com) or your regional contact person  
For ACG: Nishimukai Kazuhiro, ACG Secretary: [k-nishimukai@jasdec.com](mailto:k-nishimukai@jasdec.com)  
For ACSDA: Bruce Butterill, ACSDA Executive Secretary: [bbutterill@acsda.org](mailto:bbutterill@acsda.org)  
For AECSD: Olga Rink, AECSD Secretariat (NSD): [aecsd@aecsd.com](mailto:aecsd@aecsd.com)  
For AMEDA: Riham G. Khedr (MDCR): [riham.g@mcsd.com.eg](mailto:riham.g@mcsd.com.eg)  
For ECSDA: Soraya Belghazi, Secretary General: [info@ecsda.eu](mailto:info@ecsda.eu)