



28 September 2012

WFC response to the CPSS-IOSCO consultation on the recovery and resolution of financial market infrastructures

Introduction

The WFC is composed of the following five regional CSD associations which together represent around 125 member central securities depositories (CSDs):

- 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)

The WFC welcomes the consultative report on "Recovery and resolution of financial market infrastructures" issued by CPSS-IOSCO on 31 July 2012 and supports the objective of the report, which is to avoid financial instability and/or major disruptions which could be caused by the failure of a financial market infrastructure. Rather than responding to the individual questions raised in the report, this paper provides some joint comments on the CPSS-IOSCO approach from the perspective of central securities depositories across the globe.

We hope that these comments will be taken into account by CPSS and IOSCO in their contribution to the FSB and we stand ready to pursue the discussion with global regulators after the consultation period.

1. Emphasis should be placed on CSD recovery measures

The WFC acknowledges that recovery and resolution plans for all types of financial institutions, including financial market infrastructures (FMIs) and CSDs among them, are important to avoid moral hazard and minimize systemic risk. We especially welcome CPSS-IOSCO's initiative to outline those areas where the resolution framework being proposed by the FSB Key Attributes might not be suited to the particular role and needs of FMIs.

As far as the WFC is aware, there is yet to be a precedent of using resolution tools while maintaining the continuity of critical operations in the CSD space, simply because no CSD has actually failed in recent history. All CSDs maintain a low risk profile and they are structured and regulated in a way which mitigates risk to the greatest extent possible. The likelihood of a CSD running out of capital is



extremely low thanks not only to solid risk management but also to the use of liability caps and comprehensive insurance arrangements used for covering potential losses in case of fraud, operational problems, etc.

As a consequence, the WFC believes that emphasis for CSDs should be placed on the development of solid recovery plans so that resolution tools are even less likely to ever be used in the future.

2. A single set of standards for the recovery and resolution of CSDs

The relationship between the CPSS-IOSCO Principles, the current CPSS-IOSCO consultative report and the FSB Key Attributes has already been acknowledged in the Consultative Paper itself. It is, however, noted in the Consultative Paper that *“the recovery and resolution plans required by the Key Attributes have strong similarities to the recovery and orderly wind-down plans required by the Principles”* thereby suggesting the development of two, separate, plans being required. We believe it is important not only to harmonize the terminology being used more effectively but also to make it clearer that only a single plan is required.

The WFC recommends the adoption of a single set of standards for the recovery and resolution of CSDs by CPSS-IOSCO, which would contain all relevant provisions of the Key Attributes as well as the FMI-specific aspects contained in the Annex of the consultative report. The use of a single set of standards would support a better understanding and awareness of the requirements by CSDs and would greatly facilitate implementation.

About the WFC

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.

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