AFW2 –AFE – AFS INTERREGIONAL HYBRID WORKSHOP

Observance of CPSS – IOSCO Principles for Financial Market Infrastructures and Cyber Resilience of FMI
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PRINCIPLES 11 & 12

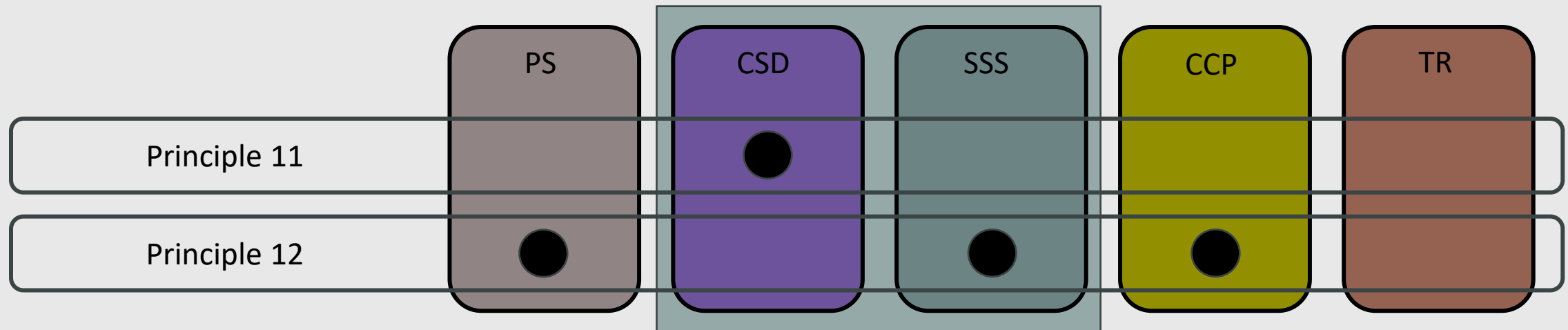CSD and Exchange-of-Value settlement systems

Broad vs Narrow definitions

	PS	CSD	SSS	CCP	TR
Principle 11		●			
Principle 12	●		●	●	

The PFMI provides functional definitions for each type of FMI. In certain cases, however, one entity may perform multiple functions. It is therefore, quite common, to find a single entity merging CSD and SSS functions, in particular such that it is difficult to separate these out from one another

The Continuum....from Trading to Record-keeping

EXECUTION Buyer and Seller enter into legally binding agreement

CLEARING Steps to ensure / facilitate settlement (includes validations as well as netting calculations etc)

SETTLEMENT The actual exchange of money for securities (ideally on a DvP basis). Finality / Irrevocability assured

REGISTER The practice of keeping records of ownership. Asset servicing (dividends & interest payments)

Principle 11
Central Securities Depository

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

Principle 11
Central Securities Depository

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 unauthorised creation or deletion of securities, ……

A CSD should ……..conduct periodic and at least daily reconciliation of securities issues it maintains

"Today's reconciliation is ready - 50% of our numbers are real, 50% are made up."
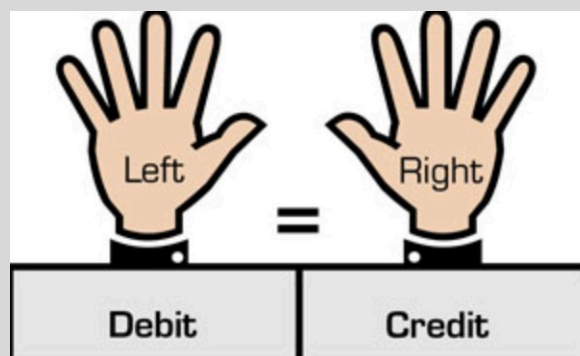
Principle 11
Central Securities Depository

Key consideration 2

A CSD should prohibit overdrafts and
debit balances in securities accounts

Issued Share Capital

Sum of individual holdings

Principle 11
Central Securities Depository

Key consideration 3

A CSD should maintain securities in an immobilised or dematerialised form for their transfer by book entry. Where appropriate a CSD should provide incentives to immobilise or dematerialise securities.

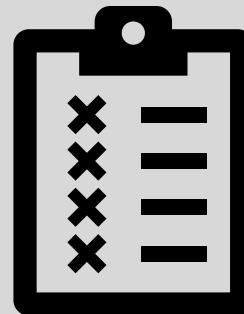*Immobilisation*   *Dematerialisation*

Principle 11
Central Securities Depository

Key consideration 4

A CSD should protect assets against custody risk through appropriate rules and procedures consistent with its legal framework.

- Misuse
- Fraud
- Poor Administration
- Inadequate recordkeeping.
- Failure to protect the interests of the owner
- CSD insolvency (including claims from the CSDs creditors

Principle 11
Central Securities Depository

Key consideration 5

A CSD should employ a robust system that ensures segregation between the CSD's own assets and the securities of its participants and segregation among the securities of participants. Where supported by the legal framework, the CSD should also support operationally the segregation of securities belonging to a participant's customers on the participant's books and facilitate the transfer of customer holdings.
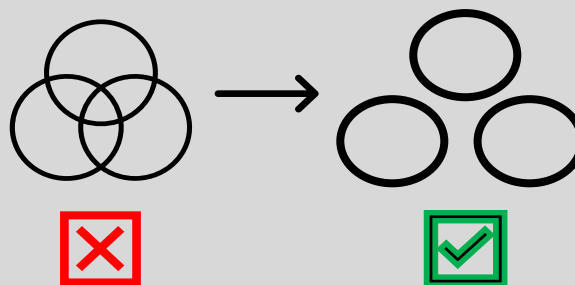
Principle 11
Central Securities Depository

Key consideration 6

A CSD should identify, measure, monitor and manage its risks from other activities that it may perform, additional tools may be necessary in order to address these risks.

What you cannot measure
you cannot monitor
and
you cannot manage!

Principle 12
Exchange-of-value Settlement systems

If an FMI settles transactions that involve the settlement of two linked obligations (for example, securities or foreign exchange transactions), it should eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other

Principle 12
Exchange-of-value Settlement systems

The management of
Principal risks

Key consideration 1

"IF, AND ONLY IF...."

An FMI that is an exchange-of-value settlement system should eliminate principal risk by ensuring that the final settlement of one obligation occurs if, and only if, the final settlement of the linked obligation also occurs, regardless of whether the FMI settles on a gross or net basis and when finality occurs.

CSD / SSS and PS linkages not considered an FMI link but rather a DvP system

Important to understand the operational and legal constructs (including the settlement model(s) being used)

BIS models 1, 2 and/or 3

DvP, DvD, PvP,