

Initial thoughts on the revised CPSS- IOSCO principles for CSDs



ECSDA

European Central Securities
Depositories Association

Paul Symons, Chair of ECSDA WG2

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Agenda

1. Better differentiating between FMI types
2. Ensuring consistency with other initiatives
3. CSDs' role in monitoring externalities
4. The notion of indirect participants in CSDs
5. Other issues for discussion

1) Different FMI types

ECSDA understands the rationale for a single set of standards across FMIs. However:

- ➔ In practice, some principles apply to ***different degrees*** to each FMI type.
- ➔ **The differences between payment systems, CCPs, CSDs and TRs could be more clearly recognised within each principle.**

Unlike CCPs, CSDs will not be mandated to become more “systemically important” in the future. Their different risk profile (lower than CCPs) must be reflected in the principles.
- ➔ The “remaining” RSSSs could be merged in to the new principles for more clarity.

2) Consistency with other initiatives



ECSDA believes that the FMI principles should be **the single, global reference** for CSD oversight and supervision.



ESCB-CESR recommendations should no longer be required on top of CPSS-IOSCO principles.



Coordination is needed with other bodies (ESMA, AGC etc.) to avoid overlapping questionnaires and requirements.



The future EU legislation on CSDs should be fully consistent with the new CPSS-IOSCO principles

We should avoid a “regulatory arbitrage” between the two Cf. future ESMA technical standards, to be elaborated in cooperation with the ESCB

3) Monitoring externalities

The new principles seem to require FMIs to monitor and control externalities on which they have very little visibility, for example:

Principle #3:
Risk
framework

Need to assess the **risks “posed to” other entities** in addition to own risks

Principle #5:
Collateral

Difficulty to fully eliminate **“wrong way risk”** in practice

4) Indirect participants

Principle # 19: Tiered participation

Competition & data confidentiality issues when requesting **information on clients' clients**

- No equivalent to "GCMs" in CSDs
- CSDs would need to ask their users to communicate the identity of their own clients.
- Most CSDs do not have the tools (legally, regulatory or operationally) to gather such information today.
- Users might not want to share such information with CSDs, both for competition and data confidentiality reasons.



Regulators have a role to play and are better placed than CSDs to request users to disclose client information.

5) Other issues for discussion



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**Principle 9 on
“money
settlements”**

No reference to how FMIs should “minimise and strictly control the credit and liquidity risk” arising from the use of CoBM, and how regulators will assess this.

RSSS refer to rec.# 10 on settlement assets and rec.# 9 on credit risk

→ Should Principle 9 not make the link to Principles 4, 5 and 7?

**Principle 15
and FMI
resolution
regimes**

Reference to an “orderly wind down” of FMIs: discussion is still ongoing on a potential resolution regime, made difficult by the systemic nature of FMIs

→ FMIs should be involved in further discussing this issue with CPSS-IOSCO and relevant regulators

5) Other issues for discussion

Assessment methodology

Will there be a public consultation on the revised methodology before it is released in early 2012?

Timeline for implementation

- Assessment methodology only known in early 2012
- CSD legislation & accompanying technical standards unlikely to be adopted before end 2012



***2012 deadline appears unrealistic.
Timeline for implementation needs to take into account upcoming EU standards***

Contact

ECSDA Office

Rond-Point Schuman 6, bte 5

1040 Brussels

BELGIUM

Ph. +32 2 234 63 14

info@ecsda.eu

www.ecsda.eu



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