

ISSA – CSD WG

Minutes of Calls August – December 2022,

Participants

Dale Connock – Chair Strate

Colin Parry (Minutes) ISSA

Various other attendees

Agenda

- Discussions on Remote Due Diligence
- Next Steps and AOB

Welcome and Introductions

Discussions

OPENING UP TO FOREIGN INVESTMENT

There are three big drivers in opening up a market to foreign investors:

1. FX availability and rules (including ability to hedge)
2. Global Custodians' presence
3. Investors wanting to be investing

The most successful approach is where the trading venues and the CSD are both approaching foreign investors in a partnership but they do not work in isolation but there is also clarity on the rules and behaviours affecting investors. In particular:

1. Taxation (including speed of refunds)
2. Documentation and AML
3. Liability and responsibility
4. CSD versus trading venues
5. Access to the banking system via Central Bank or creditworthy local correspondents.
6. Ability to easily transfer cash between all arts and repatriate profits.
7. Treatment of Corporate events
8. How does proxy voting work (including ability to influence a decision (free float))
9. Issuer Communications for dividends etc.
10. Legal structure of access to the market is the broker a member of the CSD and their associated services,; liquidity, speed, order execution quality and policies.
11. Registration and paying agent processes
12. Legal background in the country to ensure certainty in the rule of law
13. Help for both entry into the market but also exit from the market.

International Securities Services Association

Lavinia to provide Romanian checklist of changes they made.

REMOTE DUE DILIGENCE – Summary meeting one

Colin read both the AFME and ACG Due Diligence questionnaires. Both good documents and sensible covering numerous areas of valid assessment. ACG more focused on SEC rules and their applicability but no worse for that. CSDR Colin struggled with as written by lawyers rather than practitioners.

It is unlikely that AFME or ACG are going to re-write the DDQs to make it easier for the CSDs so how should we progress?

Dale noted that there is also the PFMI Assessment that CSDs fill in biannually and there had been a project to combine the ACG and PFMI into a “Single Disclosure” document but that had struggle to achieve traction as ACG direct questions and direct answers whereas PFMI requires lengthy detailed explanations with nuance in the answer. ACG can be replied to in a day (with the information to hand) but PFMI is a long exercise.

Perhaps ACG and AFME could merge the DDQ? Could we give impetus to the Single Disclosure? Or would it be better to create a guide to help CSDs fill in the forms? Could we align expectations in that all CSDs agree that they will publish Audited Statements, with the responses to PFMI and ACG DD on their website once financials are audited and only update this base material in the case of a material change? Could the WFC CSD Factbook be an anchor point as 60% of the information is covered?

Next steps & AOB

1. Colin to get Anna’s view on the Single Disclosure (Complete see below)
2. Dale to compare ACG and AFME DD and see whether there is much difference (Complete see below)
3. Colin to talk with Thomas Murray to get a view of how they think the DD can be made more efficient. (Complete see below)

REMOTE DUE DILIGENCE – Summary meeting two

Additional input given that the SWIFT KYC Registry is another source which collects information on a CSD being financial resources, registrations, AML policies and rules, Wolfsburg and ISSA Financial Crime questionnaires. If information missing there is the ability to then ask for its provision.

In addition the CSDR licensing regimes requires even more information such as approaches to: segregation, settlement (finality) revocation of orders, whether holdings are at an individual account level, segregated or omnibus and settle in commercial or central bank money, guarantee and margin approaches, buy-in & exposure management, ISO standards used or local/propriety messages used as well as BCM and resilience.

Further information is required in emerged markets on segregation at local and global level and whether physical signatures are required for transfers. It would be good to create a baseline of what normal would look like to facilitate the conversations with regulators.

The observation was that the WFC site is visible to all, whereas ratings agency, PFMI-IOSCO are between the agencies and the CSD (although the PFMI does encourage publication of Self Assessments)

REMOTE DUE DILIGENCE – Summary meeting three

Anna (ECSDA) the aim of the Single Disclosure agreement is to cover the combined PFMI and AGC questionnaires into one tooling. The documents have different purposes but they have similar questions and these are combined where possible. There are chapters which are unique i.e. ACG particular focus on cyber. (Note: the PFMI also goes

into great detail about Cyber – based on the complementary issuance by CPMI-IOSCO entitled “Guidance on Cyber Resilience for FMIs which is not intended to add to the 24 PFMI but rather augment the existing principles)

The SDT team work for WFC and produce the CSD Factbook also and these use the same provider and platform.

ECSDA very much agrees that the DD burden needs to be reduced and is happy to partner to make this better.

Securities Disclosure challenges are as recognised – ACG for example 73 pages which is only on line and not saved as a Word document..

In addition Thomas Murray engagement leads to a rating for Capital Market which is available to TM clients or the CSD can contact TM and provide a public rating but both these require a detailed response to the TM questions.

ACG and AFME more ticking the right box exercise but not trivial to do. SWIFT KYC Registry has a number of supporting documents and is subject to detailed audit.

The Single Disclosure Tool has an entry and exit point, and reporting can be designed for a firm, including things such as the settlement finality to feed to SWIFT registry and all questionnaires can be extracted into a report (which can be xml to help interoperability). It covers IOSCO information and AGC information. All information is mapped for ACG to PFMI to avoid duplication.

Smaller CSDs (outside Europe) are not using SDT but members to look at the SDT. Anna’s team are the custodians of SDT and happy to present to ISSA and make changes that members want if usage increases.

There is usage especially by the European CSDs but it is used less frequently elsewhere and appears to be declining. There is an annual cost of access which is paid by the WFC members on behalf of their members.

REMOTE DUE DILIGENCE – Summary meeting four

Myriad offer CODUDE which is a collaborative due diligence platform. The aim is to allow the creation of content (answers to DD questions) and exchange of that information by multiple parties. The tool is agnostic to the information’s content. Therefore you can update a standard AFME DD questionnaire and add a propriety questionnaire and he answers in 2022. If in 2023 12 questions (or answers) have changed say 7 AFME and 5 prop then these are the ones highlighted for you to update and focus your efforts on.

In addition the workflow of exchange is captured allowing the commentary to be added and reused. The growing store of the information provided over time allows a history to be created.

REMOTE DUE DILIGENCE – Summary meeting five - ECSDA formal meeting

Highlighted the problem to set the scene with CSDs responding to IOSOC/ACG and AFME questionnaires and CSDs would like one tool, hence Anna had been invited today.

WFC and ECSDA agree that there is value in stream lining disclosures be that for IOSCO, ACG or AFME and what they have sponsored is a one size fits all solution. The Single Disclosure Tool and agreement and want to increase the usage of the tooling.

THE SDT has been running since 2012 for PMFI, and ECSDA has been looking after it for 6 years adding the ACG questionnaire. The ambition is for the tool to do more but this will only happen if the right priorities are delivered

which increases the use of the tool. To that end happy to sponsor adding other disclosures and mapping questions if that drives adoption.

The tool has three mandatory sections (name country etc) and the rest can be chosen. SDT does not address the complexity of the questions nor does it modify them as the accountability for these rest with IOSOC and ACG and deviation would render the tool obsolete. Therefore the users still need expertise and to coordinate the answers between areas within the CSD to create the data set. SDT does not and cannot alleviate this.

The sections for PFMI are based on the principles and therefore free text (as recognised previously by the WG).

If this is the case what are the benefits of using the tool for a domestic CSD and how do we make it more usable? The challenge from the Domestic CSDs is that it appears easier to answer PFMI without using the tool as updates to the questions mean that the whole response must be reviewed.

1. In SDT you only need to change the answer to the questions that change – but review the rest.
2. Acknowledged that the first time the tool is used it is hard to capture all the data.
 - a. PMFI lots of words and
 - b. ACG box ticking
3. The benefits are in subsequent rounds of responding

There are two areas of potential development:

1. Potentially ECSDA members could benefit as the CSDR answers could also be there, this allows comparison between CSD and whether they can interconnect given the answers. They would also be able to benchmark their answers to other CSDs and look to what they may want to change (or keep as a comparative advantage). Interconnection requires a degree of transparency and not giving confidential information on cyber et al but enough information to show resilience. The benefits will drive increased use.
2. AFME not yet mapped as demand not there which maybe chicken and egg issue.

The ACG endorse the use of SDT as meeting their needs. For the PFMI questions these are being issued by local investors and some regulators. ECB are using the tool but less from other regulators – partially as they are less likely to be regulating more than one CSD and hence have a high daily interaction and do not need the comparisons?

40+- CSDs are using the tool. It is free to use for an individual CSD, but all are paying for it through the regional associations paying a fees for SDT. Needs to be pushed by the Associations (and ISSA?) to increase usage and increase surface area covered.

What is the compelling case compared to copying and pasting last year’s answers into Word again? One off exercise with updates. Would a re-write to XML help to allow easy population of the SDT?

Summary of Follow-Up Actions

No.	Action Description	Responsibility	Deadline	Revised status

1	Lavinia to provide Romanian checklist of changes they made.	Lavinia	31/12/22	
2	Colin to talk to Myriad to see if we can get free access and a demonstration	Colin	31/12/22	
3				

Colin Parry, ISSA CEO Office, 13 December 2022