

## Domestic CSD Working Group

15 Jan 2024, Teams

### Meeting Minutes

Participants: (attendees in bold)

- Lavinia Gheorghe
- **Selina Ng**
- **Ana Paula Theodoro Biachi**
- **Femi Onifade**
- Louis Jin
- **Catherine Tinavapi**
- Melvina Amofo
- **Sally Jacques**
- Onome Komolafe
- Matthew Pallett
- Thomas Small
- **Vinod Jain**
- **Bill Hodash**

### Colin Parry (PMO & Chair)

Apologies:

- Dale Connock (Chair)
- Pheona Härtel

### Agenda

1. Update on CSD DD paper and future work with AFME and AGC
2. Opening up Frontier Markets for large foreign investor base.

### Discussion CSD Due Diligence Paper

Catherine, Dale and Colin have talked to both the AFME DDQ team and the AGC DIGP teams. AFME DDQ team meeting in February and will revert afterwards. Sally is part of the team and will revert but present intent is to create a CSD only DDQ. Call set up for February between all three groups to decide route forward.

It was agreed that we will split the WG into two streams DD and Opening markets so that we can get the right people focused on the right topics.

### Discussion Opening up Frontier Markets for large foreign investor base.

Continuing from the previous discussion the next topic chosen was:

Access to the banking system.

This can be a significant issue for investors although it can be solved in the majority of instances. The issue arises if the documentation exchange is significant. At this point there becomes a noticeable trade off between the desire of the local country to ensure that they know the source of the funds and the data protection laws in the home jurisdiction.

### International Securities Services Association

These concerns particularly arise where the individual's privacy may be compromised and there are anecdotal stories that the invested country is more likely to lose such things such as photo IDs i.e. passports. These stories may not be true but deter investors from other jurisdictions if they exist.

This may be perceived as a higher risk if the Banking and Post Trade systems are not a singular entity. If there are multiple of CSDs and CCPs and a payment system all demanding documentation then it is more likely that investors will be deterred. It is recommended that markets establish Investor IDs which can be use across the infrastructures in a country.

In some emerging markets the requirements are high for personal data. In Nigeria biometric data such as fingerprints of key personnel are required. It is therefore hard for non-residents to access the payments system directly. It is therefore a more complex decision for investors to balance the benefits of ownership versus the needs of the investor and the knowledge of the intermediary.

In respect to Banking there are essentially three choices for an investor, direct with the GC, (which then has the same choices as the investor whether to use) a Correspondent or Central Bank accounts. The choice of which level the investor holds the account is one based on their own risk parameters.

Additionally Central Bank account access may not be possible for foreign investors, but where they are to hold a central bank account it is the investors choice in which method they use to access the payments system. Whichever method is used it needs to be both clear and practical. In this instance the customer's ID is important but a custodian may offer an omnibus account structure which is likely to be less onerous in the documentation requirement than a central bank account.

It has been noted that some markets do not want to attract foreign investment (such as wealthy petrostates) and therefore the KYC is more onerous and that is a country's choice.

If a market wants to welcome foreign investors then the more harmonized to global standards the easier it is for investors to invest. (It has been noted in the ISSA Digital Identity and Onboarding WG that these global standards are not quite as standard as would be liked.)

It was suggested that if gaining access to a market or group of markets it would be useful to have a validated & harmonized Investor Number. In some markets this happens through the FMI which issues the numbers and there can be sub-sets of the number e.g. my account with SB is SBXCP12345 but my account with SC could be SCY16785CP however both are unique to my account. It was also suggested that numbering agencies or FMIs could learn from the processes ANNA utilises to issue ISINs.

### Convertibility

Another aspect of the access to the payments system is the ability to convert the currency to another currency. If the currency has convertibility constraints such as X% of the available foreign reserves are used to pay for food or oil, or is just not convertible then that imposes costs on the investor. These costs are a combination of FX spread on the bid and offer and a liquidity cost, which could be significant if the intended repatriation is large in comparison to daily flows for oil or food.

The WG recommends that the government implements a well-regulated FX market with as few restrictions as it can on the flow of funds. It is recognised that this is a sovereign decision but for foreign capital flows the less restrictions the better. The adoption of the FX Markets Global Code by the country is beneficial.

If the country implements restrictions these should be transparent and remain as static as possible to avoid confusion and clear. i.e. Balance of Payment regulations, country level reserves of FX and prioritization rules for repatriation should all be transparent.

**AOB**

There was none.

**Summary of Follow Up Actions**

No.	Action Description	Responsibility	Deadline
1.	WG to agree who would represent on each stream DD and Opening	All	Next call
2.	The group agreed to review the list of things to be addressed to open up a market to Institutional Foreign Investors and come prepared to talk to their thoughts at the next call	All	Continuing