

Domestic CSD Working Group

15 July 2024, Teams

Meeting Minutes

Participants (in attendance in bold):

- **Colin Parry (PMO)**
- **Dale Connock (Chair)**
- **Lavinia Gheorghe**
- **Selina Ng**
- Ana Paula Theodoro Biachi
- **Femi Onifade**
- Louis Jin
- **Catherine Tinavapi**
- Melvina Amofo
- **Sally Jacques**
- **Onome Komolafe**
- Matthew Pallett
- **Vinod Jain**
- Pheona Härtel
- **Miguel Espinoza**
- **James Fok – Executive Sponsor**

Agenda

1. Opening up Frontier Markets for large foreign investor base.

Discussion Opening up Frontier Markets for large foreign investor base.

Introduction

Thank you for the edits received - the vast majority have improved the telling of the facts and have been accepted. This meeting will focus on those that have been identified for discussion.

Thank you to James Fok for his review as our Executive Sponsor from ISSA. His e-mail raised a number of points for further discussion:

Points 1 & 2 accepted

Point 3 discussion.

Agreed that the issue of liquidity in the local currency is an important aspect that needs to be covered as it can often lie at the root of many challenges in the settlement system, particularly when trying to encourage the foreign investor base. Liquidity of the local currency is also an issue. How can an investor access the market if it is not actively traded? Smaller domestic CSD only settle in local currency, but would multi-currency settlement increase liquidity – but introduce different risks?

CSDs do not operate in isolation but need to consider what services they offer and if not available elsewhere in a market it is hard to attract investment. Collateral management by the CSD can help. Can the country's CB offer local currency swap services to help manage the risks in the case of a default at the CSD? CSD may need to consider and provide services that are needed.

The supply of credit was also more widely considered.

The discussion covered the definition of CSD and SSS, and while a CSD offers (potentially) many services (Registrar, transfer agent etc) a SSS generally offers only the Securities Settlement System. These entities do not, usually, extend credit due to their specific risk profiles. There can be other market participants who do offer credit – banks etc, and how that partnership is constructed needs explaining. Should a CSD or SSS elect to provide credit facilities, then the risk management and rules need to be different, and in keeping with the PFMI, fully understood and appropriately mitigated.

Point 4 expand on CB v CoB money agreed to add pro's and cons using PFMI document (Dale to find). Paper should not be prescriptive but ensure the risks of each are managed. It is likely that the flows will be maximised if the SSS interoperates with the Central Bank in real time and the balances are held there.

Point 5 on technology is accepted and point 6 On Accounts directly at the CSD with an account operator model should be expanded. WG agreed that they are seeing some of the foreigners looking for and almost insisting on the ability to open direct accounts from the remote perspective and things like that.

Discussed the need for elaboration on account structures, including retail and nominee structures. Plan to include detailed information and leverage existing work by an ACSDA members – Dale to find.

Consolidation of Stocks and Bonds

Recommended to do so making operations commercially viable and consolidating infrastructures in smaller markets. Outcome: Agreed on the benefits of consolidated infrastructure for efficiency and cost reduction. For the CSD operator themselves, the more instruments they're able to operate, the better. And then for investors and participants, there is a cost in trying to connect at a meaningful level with various infrastructures. And then from a regulator perspective, there is a cost in trying to administer and manage more than one depository infrastructure in a market
Contra point: the local regulators want competition

Liquidity and Fragmentation in Market Infrastructures in relation to Bonds and Stocks

Emphasized the liquidity challenges and risks of fragmented infrastructures, especially in regard to collateral pools and commercial bank money. The HKMA has recently done some work on the Hong Kong market and the stock and bond connect channels. And a very conservative estimate that the fact that you don't have a consolidated CSD infrastructure in the Hong Kong market means that they're losing about 1 1/2 billion U.S. dollars of netting per day between stocks and bonds.

In addition, there are settlement optimization techniques that can be used and are relevant only based on the volumes that you process, such as partial settlement, Auto-collateralisation and other techniques. Not netting where you need volumes to improve efficiency and velocity.

Outcome: Decided to expand on the liquidity issues and advocate for consolidated CSD infrastructures, emphasise as it is an esoteric topic that doesn't come intuitively.

Colin to reach out to Femi and CSDL and NSDL for a view.

Documentation Requirements and Market Rules

UBO disclosures. We saw in Botswana when if a country is grey listed that regulations can be quite blunt and maybe don't address some of the kind of issues in terms of KYC and how this is usually done when there's a sub custodial and a global custodian. So there needs to be consideration to how the investors are vetted prior to entering into the value chain.

Other rules and legal requirements such as Documentation. Catherine to the review the whole document and revert if anything is missed.

We should reference work that's been done by the index providers i.e. FTSE and MSCI in the "quality of market" assessment for the stock exchanges. And one of the things that they're picking up there is saying in markets where you have notarization/ consularization. They're looking at markets where these kinds of documents need to be refreshed on a periodic basis. So, for instance you submit a notarized document today for the purposes of opening a depository account, and then after a short period you are, again, required to refresh these. They will consider it to be a market that is restricted for entry.

Clarity of the owner of a rule. If several market regulators are active in a market who actually owns a specific rule and who can be educated about the impact.

Re: Access to banking systems it was suggested:

- to use real examples like the WEAMU region's harmonized account numbering system. Colin agreed to refine the documentation and rules sections with practical examples, with further input from Catherine
- to Improve the introduction

In respect of CSDs chapter it was recommended to focus on regulatory protections rather than the structure of CSDs.

- o Proposed that central bank depositories should adhere to the same rules as other depositories to ensure uniform regulatory compliance. Example of Rwanda CSD not adhering to same rules as other CSDs may have to if operating within the country, main thing is that these rules should be equivalent. The paper should also reference PFMI here – just because a CSD is inside a CB, does not mean it can bypass the principles (and so too the legislation) that governs the commercially operated CSD.

In respect of user groups – agreed valid but move from fees section into a client section with aim of efficiency and happiness!

AOB and Close

There was none.

Summary of Follow Up Actions

No.	Action Description	Responsibility	Deadline
1.	Dale to dig out the two papers to reference	Dale	31/7/24
2.	Catherine to review other rules and documentation after reading the whole thing to see what I missed.	Catherine	31/7/24
3.	Catherine to send potential wording on CB operating CSDs adhering to the same rules	Catherine	31/7/24
4.	Colin to incorporate changes into the next draft	Colin	14/8/24