

Domestic CSD Working Group

23 February 2024, On Teams

Meeting Minutes

Participants (in attendance in bold):

Central Securities Clearing System Plc	Haruna	Jalo-Waziri
Central Securities Depository Ghana Limited	Melvina	Amofo
Deposito Central de Valores (DCV)	Javier Andres	Jara Traub
Nasdaq Inc.	Magnus	Asgeirsson
NSDL Group	Rakesh	Mehta
Depozitarul Central S.A.	Lavinia	Gheorghe
Datos Insights	Vinod	Jain
Central Securities Clearing System Plc	Femi	Onifade
Depozitarul Central S.A.	Mirela	Bratu
The Stock Exchange of Thailand	Pichaya	Chomchaiya
Euronext N.V	Henrik	Ohlsen
Strate (Pty) Ltd	Pheona	Härtel
Central Securities Clearing System Plc	Onome	Komolafe
ACSDA	Bruce	Butterill
Central Securities Clearing System Plc	John	Eze
Central Securities Clearing System Plc	Olayemi	
Hong Kong Exchanges and Clearing Limited	Sehinde	Agbeleye
BNY	Alan	Chuen
Macao CSD and Clearing Limited	Christopher	Lam
UBS Group AG	Jiahua	Liu
UBS Group AG	Louise	Colfach
Standard Chartered Bank	Laura	Hale
Hong Kong Exchanges and Clearing Limited	Catherine	Tinavapi
Deutsche Bank AG	Selina	Ng
B3 Brazilian Exchange and OTC	Louis	Jin
Deutsche Börse Group	Ana Paula	Theodoro
CMU	Piotr	Sokol
The Standard Bank of South Africa	James	Fok
UBS Group AG	Sally	Jacques
CSD Kazakhstan	Simon	Davis
Montran	Mikhail	Grishko
	Miguel	Espinoza

Agenda

1. Introductions and welcome
2. Revised CSD opening up the markets to foreign investors.
3. AFME the opening bid on the CSD due diligence.
4. AOB

Introductions and Welcome

Introduction

Colin welcomed everyone on Dale's behalf and started the agenda.

Revised CSD opening up the markets to foreign investors paper discussion

Agreement reached that

1. The name of the paper would be changed to "best practises for a frontier in emerging markets attracting foreign portfolio investment."
2. Frontier Markets (FM) and Emerging Markets (EM) are called EM throughout the document

Comments for discussion, Key Points Addressed, Key Points Addressed

Is this central bank versus commercial bank money?

Dale has promised to get the paper, but has anybody got any key bullets that they think we need to include in that section?

- The bigger concern is risk mitigation, and provided that it is patently clear how risk is being mitigated in terms of settlement funds being available on settlement day then the risk of insolvency of a non-central bank, between settlement days, is managed. Then there is not really any real risk. If there is no real residual risk, then there is no problem, but my guess would be that some of those arrangements will be far more difficult to put in place in frontier and emerging markets.

So I think as all this is to say that if we're able to say what kind of mitigations are needed where commercial bank money is used then we should list them.

Then there should be a clear position to say either you will use central bank money unless for commercial bank money you have XYZ mitigations in place then I think then we've got a solid proposal in that section. Unfortunately, I can't really say which mitigations would work!

They should cover:

- bank insolvency
- the timing should we go into prudential matters
- cover capitalization
- operational risk for example, the connection between the settlement system and the bank .i.e. Will it be able to post to the CSD if something happens with the with the bank in terms of infrastructure connectivity?
- the cost that Commercial Bank involves for settlement and not only for services, compared with the Central Bank.
- and generally, the operational wherewithal of the of the Commercial Bank that is elected to do it because usually in our experience there's a single commercial bank that's authorised and becomes the bank that manages the payments, so it is quite a concentrated risk when it does occur in each market where you don't have central bank money.

Repatriation

Matt was wondering whether there is more we needed to add in there and other examples which we can put in which clarify it. Are there particular countries which won't let you repatriate profits or have restrictions on those or even repatriate your initial investments.

It is not the repatriation rules in terms of what you can or cannot take, but convertibility risk and liquidity. Normally you are allowed to take out the profit of what you brought in and also the capital.

What gets prioritised for FX, which I think is normal in most countries, especially emerging markets and frontier markets from a fiscal policy or monetary policy perspective, rather than being restriction on repatriation of proceeds from securities investments. I don't know if there are any other markets outside of the Africa Middle East region that would say if your money comes in then that's it you can't take it out.

The other thing that we've seen is, for example, delays in any kind of admin required for repatriation, for example tax certificates being issued and that can put off investors – especially if these challenges only become visible at the point in time where investors want to repatriate

The CCP paragraph

One way to reduce the need for a CCP and reduce settlement risk is to shorten the settlement cycle, which I think we agreed?

Yes, FI markets generally can change the settlement cycle. Settlement cycle and needs for CCP should NOT be linked, move to CSD but mention as option with the CCP section. CCP in EM is hard as it is costly, and complex is the main message.

The Chinese repo mitigation and the mechanics of the Chinese market

Asked Jian-Louis and response was:

“A further aspect of CCP design to consider is what products will be covered. Some products do not require a CCP but can have different solutions, such as those seen in cross-currency repurchase transactions in China. Here, the CSD facilitates settlement through a managed ‘Payment after Delivery’ (PVD) and ‘Delivery after Payment’ mechanism, so that the risk can be managed at a clearly defined level. The market is also working towards DVP settlement for this product at a later date. This is an example of a market evolving regarding specific products and finding cost-effective solutions.”

Central banks can operate CSD's

Duplicated so here or the cash section? Reference between the two sections so clear but do not duplicate.

The account operator model and Nominee Structure.

Any good description that already written down for Account Operator models either sales documentation or elsewhere? Catherine suggested the following description.

“Where a broker has clearing membership and a depository account for on-exchange trade settlements in their own name in a domestic jurisdiction. The said broker can appoint a custodian as account operator to operate the depository account on its behalf. Note that the said broker retains the clearing membership and the depository account in their own name in the domestic jurisdiction.”

Nominee account structures we are waiting for Dale was talking to Pilar about a paper she wrote”.

Corporate actions

Very short paragraph what else should we include?

Finishing the Document

Can everyone have a “first principles” read after revisions are sent through? It is much improved but at this stage Colin is word blind!

- Suggestion to add clear recommendation that Custody should only be for entities regulated like Custodians i.e. not B/Ds.
- clearly separating trading and post trade.

Second agenda Item – Due Diligence Questionnaire

One of the pieces of work we did was on the use of generic DDQs for CSD’s and not a good approach. AGC and AFME engaged and agreed to write a CSD only DDQ. Number of conversations with Catherine, Dale and Colin and now have reverted with a draft. 87 pages long but needs a review.

Open discussion before detailed review?

1. we object to 87 pages as a starting point 😊
2. Possibly OK if we have to do it once a year. Fear that multiple updates will be required.
3. Core services seem light compared to many strategy questions?
4. Why are there so many strategy questions?
5. Network management – if domestic CSD not using sub-custodians? Is it in the document rather than the table?
6. Taxation is not a core service, nor cash mgmt. or FATCA.
7. The core services should be market settlement or registry, notary, or central maintenance.
8. Use for Operational resilience proof?
9. Does the concept of centralisation and offshoring apply to depositories, particularly in the frontier emerging markets?
10. Make digital enabled so a Yes/No response format– resulting in fewer questions.

Agreed that people should take an opportunity to go through the document by next call. Then follow up at the next call(s) to go through it line by line.

AOB and Close

Summary of Follow Up Actions

No.	Action Description	Responsibility	Deadline
1.	Dale to provide Pilar document	Dale	30/10/24
2.	Colin to update document	Colin	30/10/24
3.	Catherine to find Account Operator model description	Catherine	30/10/24
4.	Split group into two DDQ and Opening up	Colin	30/10/24