

Domestic CSD Working Group

16 December 2024, On Teams

Meeting Minutes

Participants (in attendance in bold):

| Firm Name | First Name | Last Name |
|--|-----------------|-----------------|
| Americas' Central Securities Depositories Association ACSDA | Bruce | Butterill |
| B3 Brazilian Exchange and OTC | Ana Paula | Theodoro |
| BNY | Christopher | Lam |
| BNY | Paul | De Liedekerke |
| Central Securities Clearing System Plc | Haruna | Jalo-Waziri |
| Central Securities Clearing System Plc | Femi | Onifade |
| Central Securities Clearing System Plc | Onome | Komolafe |
| Central Securities Clearing System Plc | John | Eze |
| Central Securities Clearing System Plc | Olayemi Sehinde | Agbeleye |
| Central Securities Depository Ghana Limited | Melvina | Amofo |
| Central Securities Depository Ghana Limited | Faustina | Coleman-Forson |
| Central Securities Depository Joint-Stock Company Kazakhstan | Mikhail | Grishko |
| Datos Insights | Vinod | Jain |
| Deposito Central de Valores (DCV) | Javier Andres | Jara Traub |
| Depozitarul Central S.A. | Lavinia | Gheorghe |
| Depozitarul Central S.A. | Mirela | Bratu |
| Deutsche Bank AG | Louis | Jin |
| Deutsche Börse Group | Piotr | Sokol |
| Euronext N.V | Henrik | Ohlsen |
| Egyptian Central Security Depository | Ahmed | Marzouk |
| Egyptian Central Security Depository | Sohayla | Ezzat |
| Egyptian Central Security Depository | Tarek | Khorshid |
| Hong Kong Exchanges and Clearing Limited | Richard | Shum |
| Hong Kong Exchanges and Clearing Limited | Alan | Chuen |
| ISSA | Suresh | Gopal |
| ISSA | Colin | Parry |
| Macao Central Securities Depository and Clearing Limited | Jiahua | Liu |
| Montran | Miguel | Espinoza |
| Nasdaq Inc. | Magnus | Asgeirsson |
| NSDL Group | Rakesh | Mehta |
| Standard Chartered Bank | Catherine | Tinavapi |
| Strate (Pty) Ltd | Dale | Connock |
| Strate (Pty) Ltd | Pheona | Härtel |

| Firm Name | First Name | Last Name |
|-----------------------------------|------------|------------|
| The Standard Bank of South Africa | Sally | Jacques |
| The Stock Exchange of Thailand | Pichaya | Chomchaiya |
| UBS Group AG | Louise | Colfach |
| UBS Group AG | Laura | Hale |
| UBS Group AG | Simon | Davis |

Agenda

1. Welcome and Introductions
2. Announcement of new co-chair
3. Domestic CSD Topics for 2025
4. Update on Best Practices for Frontier & Emerging Markets Attracting Foreign Portfolio Investment Paper
5. Update AFME Due Diligence Questionnaire

Welcome & Introductions

Suresh welcomed the new members from Egyptian Central Security Depository (ECSD). The 3 representatives were Ahmed Marzouk (Head of International Relations and Client Relationship Management), Sohayla Ezzat (Client Relations Executive) and Tarik Khorsid (Chief Operating Officer) Following a brief introduction of themselves, Ahmed provided a brief introduction of ECSD – Established in 2021, ECSD is responsible for the depository settlement clearing of the government debt instruments in the Egyptian market. It is a jointly owned Egyptian company with 70% ownership by the Central Bank of Egypt and 30% by the Ministry of Finance. ECSD went live in 2 phases. Phase 1 involved the launch and the migration of government bonds from the previous CSD (MCDR) to ECSD. Phase 2 was migration of treasury bills from the Central Bank of Egypt to ECSD. This was later followed by general introduction from the other WG members at the meeting.

Appointment of New Co-Chair in 2025

Suresh announced to the WG that Femi Onifade has agreed to replace Dale Connock and will join Catherine Tinavapi as co-chair of the Domestic CSD WG.

Domestic CSD Topics for 2025

Suresh shared the proposed list of priorities with the WG with a proposed order of ranking. Suresh reminded the group that this was merely a proposed order of ranking and invited the WG to share their views on the order of priorities.

Catherine then reminded the WG that its primary objective was to research and work through some of the key challenges faced by the CSDs – to consider how these challenges impact the CSD in respective local markets and also in context of the international interactions as part of BAU activities and provide some suggested guidance to the industry on how to best deal with these nuanced challenges and regulations.

Catherine suggested that the WG members consider this when setting the 2025 WG priorities and to be prepared to challenge some of the generalised perspectives assumed by the industry in relation to CSDs.

In addition, Femi reminded the WG members to review the list of proposed topics and encouraged them to suggest additional topics. Femi suggested that the WG members consider the issues and challenges that they may currently be grappling within their respective markets and consider bringing them to this WG for consideration if they believe it would be interesting for the WG to consider and evaluate these issues and challenges. Finally, Femi asked the WG members to provide additional context to the items if the WG member thinks that it may be relevant. Ahmed agreed with the approach and stated that the ECSD may have some other topics to add to the list. Suresh reminded the WG members that if there were any other topics for consideration, they could send it to him via email and he will include them in the list.

Below is a summary of the discussions of the items on the shared list.

1. Managing Change from a CSD Perspective - Establishing a recommended framework to effect change

Catherine proposed that “Managing Change from a CSD Perspective - Establishing a recommended framework to effect change” be considered to the 1st priority for 2025. Her reasoning for this is that in terms of industry change within the local post trade environment, the CSD itself is quite integral to the orchestration of change from a rules perspective, from a systems perspective and from a process perspective without disrupting operations and creating unintended consequences. Catherine proposed that the WG would investigate the approaches taken by CSD and produce a paper that suggest a framework on how to manage the change. Catherine invited the WG participants to provide feedback.

Miguel shared that based on his experience working with CSD in upgrading/replacing their systems he said that CSDs would benefit from adopting best practice in managing change especially in areas such project management, communication and stakeholder management.

2. Interfaces Practices Custodians to CSD

Miguel suggested that the CSD leverage the outcomes of the review of ISO2022 currently being undertaken by another WG in order to ensure alignment in this WG’s proposal on this topic. Miguel added that based on his experience that is merit in developing more standardised interfaces as many custodians are still utilising customised interfaces due to legacy platform constraints.

3. Mutualised Market Solutions (Technology Driven Solution) - DD, Registry, etc

Catherine suggested that this is an often-discussed topic within the industry. These discussions are driven by cost considerations in relation to managing and maintaining system and software used in provisioning registry and depository services. Hence, the discussion relates to the potential of mutualising technologies – what is the feasibility and sustainability of this proposal and if so, what are the potential models for consideration etc. Miguel agreed that it was an interesting topic and added that in his current role he has been in many discussions with various association and CSD across the globe about this topic. There are a number of different ideas being contemplated and key consideration are regulatory support and data management. Miguel shared with the WG that some current working examples in Africa, Caribbean and Latin America.

Miguel suggested that another consideration for this topic is to consider centralising settlement of different assets or at least having to have a mutual solution within a single country. This is often driven by liquidity considerations. An example shared was a solution that was implemented in Georgia where 2 CSDs (a private CSD and government CSD) are working under a single solution, with each CSD managing their respective services and functionalities, enabling their participants to obtain a comprehensive perspective of their liquidity position via a single central system. Miguel concluded by stating that he agrees that this is relevant topic for consideration.

4. Practicality of a 2 hour recovery window for resumption of service given the severity of Cyber-attacks.

Miguel stated this is a relevant topic for consideration especially in Europe where there is significant legal implications. There is increased emphasis of resilience that is now extending beyond the CSD itself and includes the vendors servicing the CSDs. As the regulations evolve in different jurisdictions, it maybe worthwhile to evaluate the practicalities of these proposed changes.

5. Blurring of the lines between the CSD and Custodian

As proposed by James Fok, there seem to be a number of factors driving investors to want to reduce the layers of intermediation in their cross-border securities holding chain, including:

- Credit risks,
- Secular cost pressures on asset managers,
- Sanctions risks (highlighted most recently by Russia in 2022) and
- Rise of digital securities offerings making it more technologically feasible.

This has long-term implications for CSDs, given that we are seeing more demand to open accounts directly with CSDs. Over time, this could lead to an expansion in the range of services offered by CSDs and a greater blurring of the lines between CSDs and custody banks.

Miguel shared that he has seen a number of CSDs providing services directly to individuals or to even legal or physical entities and necessarily custody related. These services related to provision of aggregated disperse data and information pertaining to the market.

6. Monetising Data for Small Market Depositories

Based on Miguel's feedback above, Catherine suggested to the WG that this topic be combined with item 5 above. Sally concurred and suggested that item 8, be also incorporated with items 5 & 6. WG concurred with this suggestion

7. Restructuring and the winddown of a CSD

The WG agreed to leave this topic on its own after considering to this with items 1 and 4.

8. Pressure from the regulators to reduce costs, open up to competition while supplying the same if not better services and capabilities to the market

Please see 6 above.

9. Delayed Settlement

In response Catherine's question regarding the relevance of this topic in the current environment where accelerated settlement is contemplated by the industry, Colin clarified that this is a carry-over item from 2024, and relates to need to offer delayed settlement for OTC transactions rather than exchange driven transactions (moving towards accelerated settlement solutions). With the advent of T+1 settlement cycles, challenges arise with FX availability, liquidity, etc, and consequently how do we maintained against the optionality around extending that out to T + 2 or or maybe T + 3.

Miguel commented that given that ISSA already has a WG looking accelerated settlement, that labelling this topic as Delayed Settlement may not be appropriate. Hence, he suggested WG consider changing the tittle of the topic to "Employing Different Settlement Cycles for OTC or Allowing OTC Flexibility".

Tarek added that the ECSD can share their experience with their offering of different settlement cycles for its debt instruments. ECSD gives its clients who are operating in different time zones the flexibility to select the settlement cycles that best fits their time zone and aligns with geographic location of their back offices located in order to facilitate effective communication and conduct of back-office activities.

Based on the feedback of the WG members., Catherine agreed this remains a relevant topic and further consideration will need to be given to be given to the impact of settlement compression.

Catherine closed the discussion by stating that per Ahmed's suggestion we will leave the list open for any new topics and finalised the ranking at the next call after the WG members have given the items further consideration.

Proposed list of white paper topics for 2025 in order of suggested priority:

| No. | Proposed Topics for White Papers |
|-----|--|
| 1 | Managing Change from a CSD Perspective - Establishing a recommended framework to effect change |
| 2 | Interfaces Practices Custodians to CSDs – looking at whether these could be more standardised. |
| 3 | Mutualised Market Solutions (Technology Driven Solution) - DD, Registry, etc |
| 4 | Practicality of a 2 hour recovery window for resumption of service given the severity of Cyber-attacks. |
| 5 | Blurring of the lines between the CSD and Custodian (to include) - Monetising Data for Small Market Depositories - Pressure from the regulators to reduce cost, open up competition while supplying the same if not better services and capabilities to the market |
| 6 | Restructuring and the winddown of a CSD |
| 7 | Delayed Settlement. |

Update on Best practices for Frontier & Emerging Markets Attracting Foreign Portfolio Investment Paper

Suresh informed the group that the paper was published in December 2024 and requested that the WG assist with promoting and increasing the visibility the paper within their respective constituent. Catherine suggested that the WG members follow the ISSA page and like the publications when they are release to help promote the WG papers.

Update AFME Due Diligence Questionnaire

Suresh informed the WG that the WG feedback on the AFME DDQ has been sent to AFME and they have responded to the WG's comments. A call was schedule on 11 Feb to discuss the feedback. Colin, Catherine, Femi and Suresh will represent ISSA CSD WG in that call.

In the interim, Suresh was to share AFME responses with the CSD WG members.

The WG members reinforced that this an important initiative for CSDs given the effort required to complete these requests and the frequency in which they are required to do produce these DDQs for custodians and their underlying clients.

Summary of 11 Feb Call

Alan Cemeron, Pablo Garcia and Peter Tomlinson represented AFME, whilst Catherine, Colin and Suresh represented ISSA. They explained the AFME the effort required to complete these DDQs and significant number of requests that our member CSDs receive from custodians. Given the resource constraints within domestic CSDs, our members were seeking a more streamlined and efficient way of providing the information to the custodians.

The proposal to have the custodian retrieve the information from CSD website and the request to make substantive changes to the DDQ were rejected as possible solutions by AFME. A few questions were removed during the discussion but only a third of the questions were reviewed in 1 hour. Colin acknowledged the need to provide the requested information to custodians and suggested that these DDQ request be limited to just 1 annual response by each CSD. Alan Cameron agreed to take this back to the AFME network managers for a decision.

A follow-up discussion will be held once AFME had discussed this proposal and if required, continue the walk through of the other comments in the AFME DDQ.

Summary of Follow Up Actions

| No. | Action Description | Responsibility | Deadline |
|-----|-----------------------------|----------------|-----------|
| 1. | Share AFME Feedback with WG | Suresh | 12/2/2025 |
| 2. | Revised 2025 Priority List | Suresh | 28/2/2025 |
| 3. | | | |
| 4. | | | |