Japan Securities Depository Center, Inc. (JASDEC)
JASDEC DVP Clearing Corporation (JDCC)
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Committee on Payment and Settlement Systems
International Organization of Securities Commissions

Comments on the CPSS/IOSCO Consultative report, "Assessment methodology for the principles for FMIs and the responsibilities of authorities", and "Disclosure framework for financial market infrastructures"

1. Introduction

Japan Securities Depository Center, Incorporated (JASDEC) is an institution authorized by the Prime Minister and the Minister of Justice to undertake book-entry transfer business under Act on Transfer of Bonds, Shares, etc. JASDEC was established as a non-profit foundation in 1984, and in 2002 became a joint stock corporation. JASDEC's book-entry transfer system currently includes stocks, commercial paper, corporate bonds and investment trusts, and the organization also handles such activities as custody services for foreign stocks, etc. and pre-settlement matching.

JASDEC DVP Clearing Corporation (JDCC) is a clearing house for transactions in financial products, authorized by the Prime Minister under the Financial Instruments and Exchange Act. Since May 17, 2004 JDCC has functioned as a financial products clearing institution to undertake clearing services for DVP settlement services for non-exchange transaction deliveries handled by JASDEC.[1]

This document contains our comments on the CPSS/IOSCO Consultative report, "Assessment methodology for the principles for FMIs and the responsibilities of authorities" and "Disclosure framework for financial market infrastructures", released on April 16, 2012. We would like to express our gratitude for being given the opportunity to participate in the consulting process.

At JASDEC and JDCC, we greatly respect the continuous efforts being made by CPSS-IOSCO to contribute to financial market stability. We hope that the methodology for using the Assessment Methodology and Disclosure Framework will be made clear through this consultation, and that as a result the "Principles for financial market infrastructures" will be introduced in an appropriate format.

[1] JDCC is a wholly owned subsidiary of JASDEC.

2. Comments

(1) Role of FMI in Assessment Methodology, and involvement of FMI in assessment process

The role of FMIs in AM (Assessment Methodology) is not clear.

Although in the middle section of page 2 it states that, "This AM is primarily intended for external assessors at the international level" and "National authorities should use this AM as it is or take it into consideration when developing equally effective methodologies", there is nothing here about FMIs. In the "Co-chairs' summary note" it says with regard to FMIs that, "The assessment methodology may also be used by FMIs for purposes of self-assessments of observance of the principles", but we would like the role of FMIs also to be noted clearly in the section on AM.

Moreover, it is not clearly defined how FMIs should be involved in the AM assessment process. We want to see clarification of FMI involvement, covering matters such as whether, when an FMI is being assessed, there will be an exchange of information and opinions between the assessor and the FMI, or if instead the assessment will be based on a self-assessment furnished in advance by the FMI.

(2) Involvement of FMIs in ratings

The role of FMIs in ratings is not clear.

In reports produced by FMIs in line with the "Disclosure framework", there is no requirement for a rating. Conversely, within the AM it states that, "Where consistent with national practice, FMIs should use this rating scheme". Further, even with regard to national authorities, there is no obligatory rating scheme recorded in the AM, and alternatives are deemed permissible. (National authorities may choose to use the AM rating scheme or may choose to use another rating scheme.)

Accordingly, we would like to see clarification of who undertakes ratings, how FMIs are involved in the rating process, and in what circumstances the AM rating scheme should be used.

(3) Elimination of duplicated processes

In cases where national authorities develop independent assessment principles with the same effect as the AM, FMIs are deemed to be respecting the principles if they undertake self-assessments in line with the independent principles of the authorities. However, in cases where an FMI is assessed separately by an international external assessment body in accordance with the AM, there is a possibility that the FMI may be required to produce an additional self-assessment report, even if the national principles and the AM have been made consistent. Accordingly, in cases of duplication like this, we

would like the AM to clearly state that, because the FMI is under the jurisdiction of the national authority and has no direct relationship with the external assessor, rather than the FMI responding, the external assessors and the national authority should coordinate activities to avoid duplication of processes.

ENDS

For further information please contact:

Japan Securities Depository Center, Inc.
Corporate Planning Department
Tel: +81-3-3661-0739
E-mail: sougou_kikaku@jasdec.com

JASDEC DVP Clearing Corporation
Department of Business Administration
Tel: +81-3-3661-0181
Email: jdcc@jasdec.com