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**From: Mr Mohammed Abdel Salam, WFC Chair**
on behalf of the five regional CSD associations
(ACG, ACSDA, AECSD, AMEDA and ECSDA)

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# Joint WFC Comments on the CPSS-IOSCO PFMI assessment methodology and disclosure framework

This paper represents the contribution of the World Forum of CSDs (WFC) to the CPSS-IOSCO public consultation on the assessment methodology and disclosure framework aimed at facilitating the implementation of the new Principles for financial market infrastructures.

Due to the diversity of CSDs' business models around the globe, this joint paper focuses on those issues of common interest to all associations from a CSD perspective. In addition to this joint letter, some CSDs and individual regional CSD associations will be sending to CPSS-IOSCO their own responses to the public consultation, including more details on their specific situation and concerns.

## (1) General remarks

The WFC understands that the proposed assessment methodology (AM) and disclosure framework (DF) have two different purposes, being addressed to regulators and to infrastructures respectively. However we wonder whether the different formats being proposed (questions in the case of the AM, headings with narrative descriptions in the DF) will not create additional complexity and duplication[1] when complying with the FMI Principles. In particular **we fear that the narrative format being proposed in the new DF will not enhance transparency when compared with the former disclosure framework as it relies entirely on "free text" responses which will make consistency, and therefore comparisons between infrastructures, quite difficult.**

In fact, we believe that a more efficient and transparent solution for FMI disclosures can be achieved by using the AM as a basis for FMI self-assessments, and then possibly removing some AM questions if the related responses include confidential information which should not be made publicly available.

[1] Both the DF and AM templates require FMIs to provide explanations for the key elements and key considerations for each of the Principles, which clearly leads to a duplication between the two.

The question format has at least two advantages over "narrative descriptions" from a disclosure point of view:
(a) It helps achieve more standardized and comparable responses, both across countries and over time (e.g. yes/no questions with subsequent supplementary comments, multiple choice);
(b) It would facilitate efforts to support global convergence of existing disclosure practices, including the Association of Global Custodians (AGC) questionnaire which, in the case of CSDs, contains overlaps with the CPSS-IOSCO framework.

The WFC in no way aims to reduce the scope of the CPSS-IOSCO framework (DF and AM) nor the number of questions to be answered. We would in fact like CPSS-IOSCO to reconsider its decision to impose two different templates (and formats) for the DF and AM, where there was previously a single "self-assessment" template, and possibly to expand the number and range of questions. We acknowledge that the DF and AM have different purposes and that the AM will by nature require more detailed responses, but we also expect that a number of national regulators will require CSDs to complete the AM questions as part of annual "self-assessments", which will in large part duplicate with the annual DF exercise, thus creating an additional burden on CSDs without any clear benefits in terms of transparency.

**The WFC therefore suggests:**

**- either a redrafting of the proposed DF in such a way that it would become a subset of the AM and would be translated into question format** so as to better "match" the structure of the AM template (for example, questions of the AM to be used for the DF could be tagged in a certain way while questions aimed for assessors only would not be tagged; it is also possible to envisage that in certain cases the responses provided in the DF will be shorter and less detailed than the ones provided to assessors);

**- or to allow FMIs to use the AM questions as a basis for their annual disclosure exercise (rather than the DF template currently being proposed)**, especially if they are required to complete self-assessments by their national regulators and provided that they disclose the same level of information as they would under the proposed DF;

**- and that the AM should provide a greater number of specific questions to guide responses and define metrics to be supplied by FMIs**, which would be valuable to the disclosure exercise.

## (2) The assessment methodology

The AM foresees that *"FMIs may have to conduct formal periodic full or partial self-assessments of observance of the principles"*. Many CSDs currently perform such self-assessments based on the CPSS-IOSCO framework but are concerned that in the future they will need to duplicate the work if they are asked to use both the AM as a basis for self-assessments and the DF. Given that the objective in all cases is to obtain evidence of the level of the FMI compliance with the CPSS-IOSCO Principles, the AM and DF documents should clearly state that **FMIs should be requested to provide self-assessments <u>either</u> based on the AM <u>or</u> on the DF** (see our comments in the "General remarks" above).

Furthermore, we assume that when FMIs undertake self-assessments, these will be based on the AM or on equally effective guidelines for supervision developed by national authorities. In the latter case, it is important to avoid situations where an FMI would necessarily undertake assessments based on national guidelines and also based on the AM, simply because national authorities have developed guidelines for supervisory assessments which, although inspired by the AM, differ from the AM template used by external assessors at the international level (e.g. IMF, World Bank).

As regards the rating framework, the WFC believes that it plays an important role to ensure consistent implementation across jurisdictions. However, **the effectiveness of the ratings will be reduced if national authorities opt to use a different rating system.**

Furthermore, because each market is at a different stage of development, in cases where CSDs are not conforming identically with respect to FMI Principles, we can expect a wide range of effects in terms of the impact of non-conformance on each market, the degree to which a response is necessary, and the speed with which action needs to be taken. Accordingly, regardless of which entity is the assessor (e.g. external assessors at the international level such as the World Bank and the IMF, national authorities, or the FMIs themselves), ratings and timeframe for addressing each identified concern under FMI Principles need to take into account not only the degree of conformance with each principle but also broad consideration of the overall circumstances and stage of market development.

In this regard, it would greatly benefit the entire process if there was:
(1) guidance provided as to the nature of the evidentiary information likely to be required by an assessor in support of declarations by the FMI, and;
(2) a process of disclosure and consultation in connection with the FMIs adopted by the assessors to facilitate understanding of how the FMI has been rated, and the steps that should be taken to address any shortcomings identified in the review process.

Given the additional requirements contained in the PFMI compared to the former SSS recommendations, we also suggest that **a review mechanism be established** in order to assess whether all Principles are working in practice, and which key considerations might need to be adjusted in light of the experience gained in the first years of implementation.

## (3) The disclosure framework

The DF requires respondents to *"indicate the extent to which each response is relevant to each FMI category"*. As most CSDs operate a securities settlement system (SSS) as part of their core business, responses to the DF should be considered to cover both the CSD and the SSS (e.g. governance, legal basis…), unless otherwise specified.

Regarding section II. B of the DF template on "key metrics", the WFC suggests that, in case CSDs are expected to provide basic figures such as the volume and value of transactions they have settled in a given year, as well as the value of assets held in custody at year end, they should be encouraged to use a harmonized methodology, to ensure comparability of disclosure reports. For example, **CPSS-IOSCO might consider whether to recommend that CSDs disclose a few basic indicators based on the "Red Book" methodology developed by the CPSS.**

Furthermore, we note that for some key elements, it could be difficult for FMIs to provide comprehensive responses to the DF without releasing confidential information (even though FMIs should be careful not to disclose confidential information as per clause 3(9) of the DF document).

Since the Principles will be used for the first time by regulators in 2012 and given that the publication of disclosure reports based on the new AM or DF template will require substantial work from FMIs, **the WFC suggests that CSDs and other FMIs should be expected to publish their first disclosure report on the new CPSS-IOSCO Principles as of the fiscal year starting in 2013.**

Finally, the WFC would like to draw CPSS-IOSCO's attention to the benefits to be gained from the harmonization of disclosure requirements of CSDs at a global level. Indeed, CSDs are not only expected to publish a yearly (or biannual) disclosure report based on the CPSS-IOSCO framework, but in many cases they also have to fill in other disclosure questionnaires such as that of the Association of Global Custodians (AGC), whose contents overlaps with the CPSS-IOSCO disclosure requirements to a great extent.

The existence of parallel questionnaires and disclosure requirements represents a considerable administrative burden for CSDs, especially for smaller institutions. **While it is not the WFC's intention to reduce the level of disclosure being provided or the number and scope of questions being asked, we strongly believe that the replacement of overlapping requirements by a single global annual disclosure questionnaire on CSDs would considerably enhance market transparency as well as the quality (rather than the quantity) of the information provided.** The adoption of a new CPSS-IOSCO DF represents a unique opportunity to streamline the production of disclosure reports by CSDs through the consolidation of existing questionnaires. If such consolidation does not happen now, the risk is that FMIs, and CSDs in particular, will continue having to deal with multiple questionnaires for the next decade.

The WFC and AGC have initiated joint efforts to pursue harmonization of disclosure, believing that in doing so, the overall process will be improved and transparency enhanced. The WFC and AGC are committed to these efforts, confident that they are in the best interest of all concerned. We recognize however, that concluding these efforts to maximum affect requires the cooperation and consideration of CPSS-IOSCO as these efforts will certainly not be concluded in advance of the June 15 deadline for comments.

## About the WFC

Launched in April 2011 at the CSD11 conference in Cape Town, South Africa, the World Forum of CSDs (WFC) provides a forum for regional CSD associations to exchange information, discuss issues of common interest and increase their influence and engagement on cross-regional and global developments.

It is composed of the following five regional CSD associations which together represent around 125 member CSDs:

- Asia - Pacific CSD Group (ACG)
- Americas' Central Securities Depositories Association (ACSDA)
- Association of Eurasian Central Securities Depositories (AECSD)
- Africa & Middle East Depositories Association (AMEDA)
- European Central Securities Depositories Association (ECSDA)

The Forum has a Board composed of 10 members, namely the Chairs and Vice-Chairs of each of the five regional associations. Mr. Mohamed Abdel Salam of MCDR (Egypt) is currently acting as WFC Chairman with Mr. Yoshinobu Takeuchi of JASDEC (Japan) as Vice-Chair.

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