



中国证券登记结算有限责任公司
China Securities Depository and Clearing Corporation Limited

Comments on CPSS/IOSCO Principles for FMI

Presentation for the 13th ACG Cross
Training Seminar Program

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1. Backgrounds

- Financial crisis
- Based on former 3 Recommendations/Principles
 - Core principles for systemically important payment systems
 - Recommendations for central counterparts
 - Recommendations for securities settlement systems
- To harmonize and reorganize the 3 sets of standards
- Binding force:
From Recommendations to Principles



1. Backgrounds

- Effect/Impact on the present
 - Much more detailed requirements for risk management
 - Responsibilities of regulatory authorities
 - Trade repository (TR) is included in FMI for the first time



2. General Comments

- the comments we collected here are sometimes diverged.
- As a group, we have tried to reflect different views equally. Therefore, there is not necessarily a single view to a single issue.
- There are considerable differences in the way the approach and method is described for achieving each principle (aim).
- There are quite a few areas where more clarifications are needed to better understand and digest the requirement of the new standards.



3. Introduction

1.21 Applicability of the principles to CSDs that do not operate an SSS

- ❑ Certain principles stated in the report would not apply to those CSDs that do not operate an SSS.
- ❑ The list of such principles which would not apply is enclosed.
- ❑ Some members feel that such principles be better more clarified.
- ❑ List of principles which do not apply to CSDs in India: Principle 4 / 5 / 7 / 9 / 10 / 12 / 13)



4. Principle 1 – Legal Basis

- **Principle 1**

An FMI should have a well-founded, clear, transparent, and enforced legal basis for each aspect of its activities in all relevant jurisdictions.

- **3.1.4 / 3.1.10**

Necessity and costs to secure independent legal opinions in case of conflict of laws



4. Principle 1 – Legal Basis

□ **Comments**

- Unfeasible on a practical basis for FMIs to identify and analyze ‘all potential conflicts of laws’, and
- Problematic to ‘obtain reasoned and independent legal opinions and analysis of the enforceability of its choice of law in relevant jurisdictions’ to help achieve legal certainty on conflict of laws issues.
- Some members think a certain amount of flexibility should be allowed here.



5. Principle 3 – Framework for the Comprehensive Management of Risks

□ **Principle 3**

An FMI should have a sound risk-management framework for comprehensively managing legal credit, liquidity, operational, and other risks.

□ **3.3.4.**

Cost and effect of information and risk control system

□ **Comments:**

- There will be differences depending on the nature of business undertaken by each FMI. In addition
- any systemization is going to require close consideration of cost and effect.

6. Principle 4, 7– Credit Risk & Liquidity Risk

□ Principle 4

An FMI should effectively measure, monitor, and manage its credit risk from participants and from its payment, clearing, and settlement processes. An FMI should maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. A CCP should also maintain additional financial resources to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the [one/two] participant[s] and [its/their] affiliates that would potentially cause the largest aggregate credit exposure[s] in extreme but plausible market conditions.

6. Principle 4, 7– Credit Risk & Liquidity Risk

□ Principle 7

An FMI should effectively measure, monitor, and manage its liquidity risk. An FMI should maintain sufficient liquid resources to effect same-day and, where appropriate, intraday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of [one/two] participant[s] and [its/their] affiliates that would generate the largest aggregate liquidity need in extreme but plausible market conditions.



6. Principle 4, 7– Credit Risk & Liquidity Risk

□ **Comments: Largest one or two defaults to CCP**

- The number of defaulting participants is only one dimension
- Some members suggested the amount of the exposure as a result of the participant's default is more important factor.
- Abundance of financial resource for CCP must take into consideration the characteristic and structure of different markets.
- Some members suggested that a CCP should cover one participant with largest exposure as a minimum requirement.
- Different CCPs should determine to adopt “cover one”, “cover two” or “cover more”.



7. Principle 11 – CSDs

□ Principle 11

A CSD should have appropriate rules and procedures to help ensure the integrity of securities issues and minimize and manage the risks associated with the safekeeping and transfer of securities. A CSD should maintain securities in an immobilized or dematerialized form for their transfer by book entry.

□ Comments

- “For those CSDs that would like to engage in CCP business, they should have thorough and resourceful risk control systems” should be added in.
- If the CSD and CCP is the same legal entity and acts as CCP for both securities and derivatives products, the operational processes and risks must be appropriately managed for each key business area.
- CSDs normally don’t engage in CCP business in derivative products. If they do have the advantage of efficiency and low costs in this business, they should engage in CCP business in derivative products through subsidiaries or other forms of separate legal entity.”



8. Principle 13 – Participant-default rules and procedures

□ **Principle 13: Participant-default rules and procedures**

An FMI should have effective and clearly defined rules and procedures to manage a participant default that ensure that the FMI can take timely action to contain losses and liquidity pressures, and continue to meet its obligations.

□ **Comments: Default rules for CSDs with a retail model**

- Some members suggested that each CSD is to determine if default exercise is appropriate and if so, the essential participants for the exercise. The flexibility is necessary as some CSDs allow for participation up to the retail investors or beneficiaries level. It may not be practical or may be impossible to engage these retail participants in default exercise.



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**WE HIGHLY APPRECIATE ALL MEMBERS'
CONTRIBUTIONS !**

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