

Risk arising for CSDs facilitating Foreign Investors and their Mitigating Factors

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In the name of Allah

Contents

■ Counterparty Risk

■ Transparency and Control Risks

■ Regulatory Risk





1

Counterparty Risk



Introduction

- CSDI, central custodian
- Some financial institution such as investment banks and portfolio managers provide Custodian services in Iran capital market
- Custody services
 - Asset Management
 - Corporate Action collection
 - Safekeeping & Reporting
 - Banking Services
 - Fund services



Risks Associated with Counterparty

Risk
sectors

1

Capital Inadequacy

- Low paid-up capital
- Low liquidity in operation

2

Loss of sufficient and upgraded infrastructure

- Deficient Registration and recovery of account holders information
- Weak reporting to Stakeholders
- Obsolete IT systems

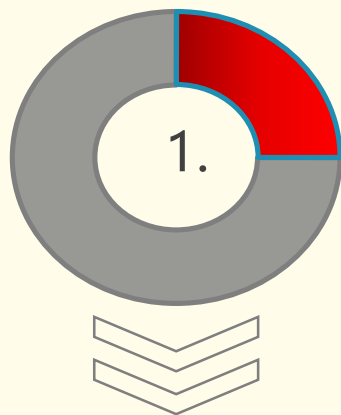
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Not enough guarantees

- wrong Collateral haircut calculation
- Inefficient Collateral mark to market

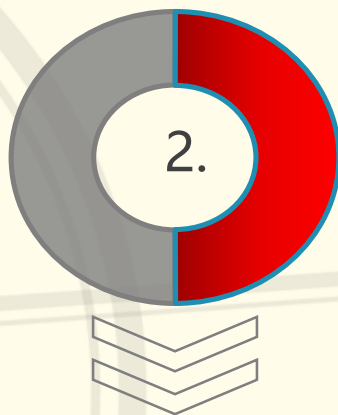


Mitigating Actions



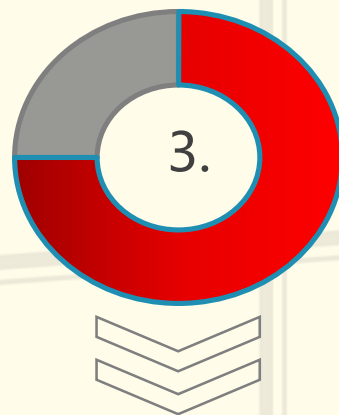
Regulations

- Capital adequacy regulation
- Article 36 of Iran capital market rule



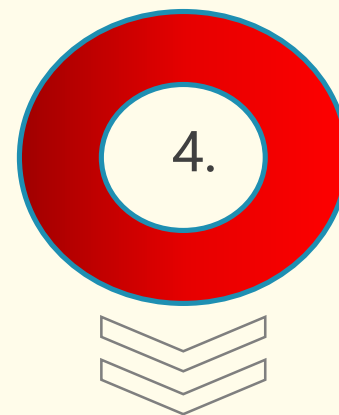
Support Settlement banks

- SGF
- Clearing members annual guarantees



Sub-custodian due diligence

- Liquidity
- Balance sheet
- Technology processes



Credit Limit

- Limit on clearing house credit members



2

Transparency and Control Risks



Transparency Importance

Transparency:

the disclosure of all information that will ensure the proper accountability of institutions to their boards, investors, shareholders, regulators and other stakeholders.

Benefits:

Fights fraud and corruption

Improves market efficiency

Investor protection



Transparency factors

Disclosure requirements

Publications:

- Annual Report
- Required Licenses by Securities & Exchange Organisation

Transparency

Transparency practices

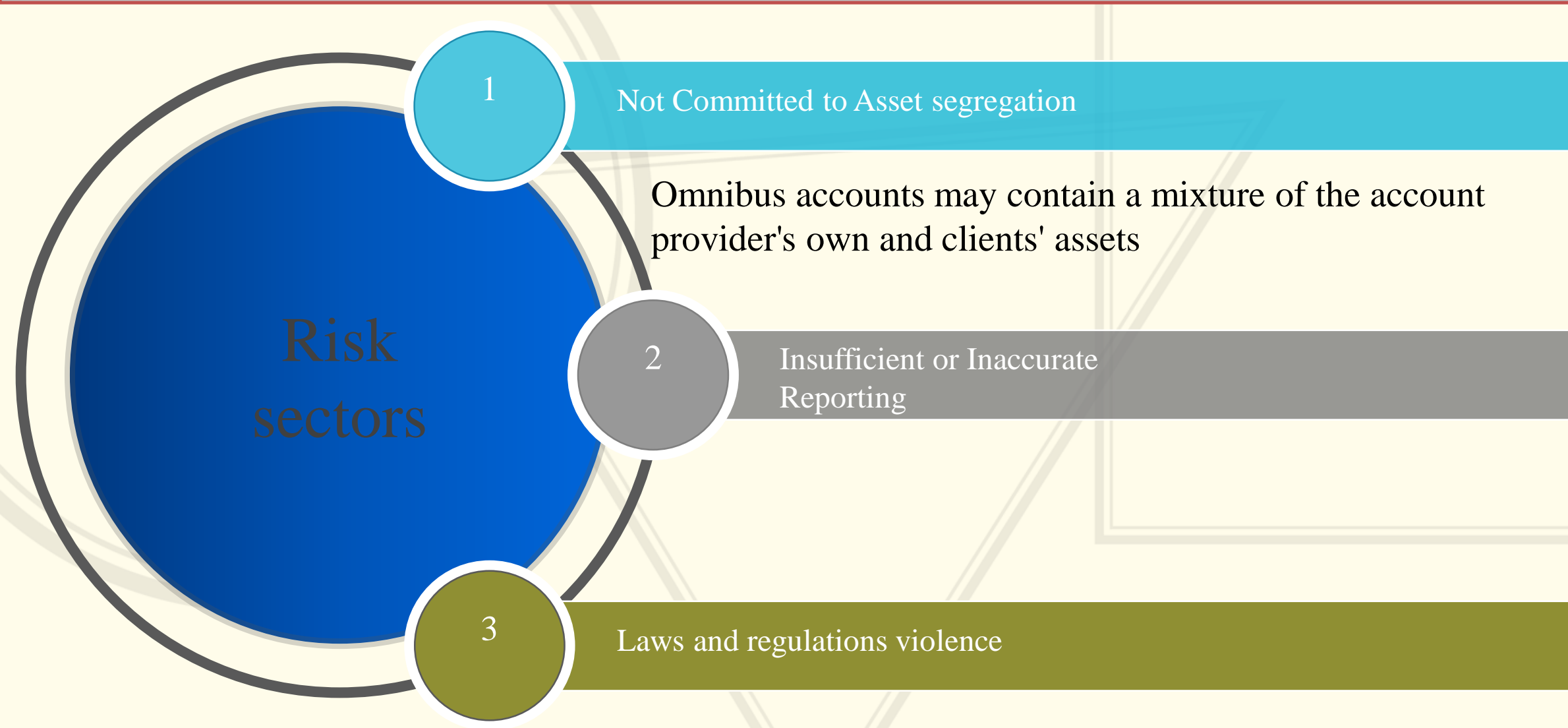
- Information on their performance
- compliance with latest SEO rules

Accountability arrangements & mechanisms

- Formally accountable to the legislative or executive branch of SEO
- Continuous Contact to SEO legal affair department

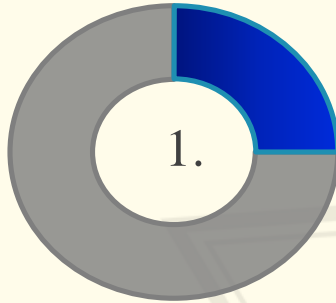


Risks Associated with Transparency



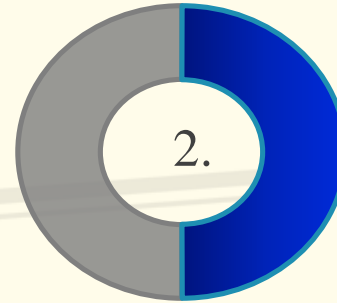


Mitigating Actions



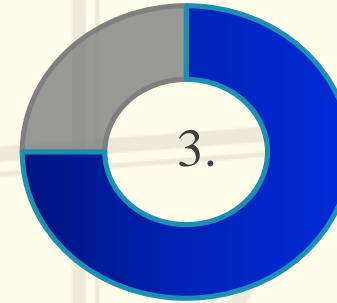
Supervision on reporting

- Periodic and regular Data dissemination



Asset segregation

- Based on regulations omnibus accounts are ring fenced from sub-custodians's other activities, so they are financially secure



Set Limitations and caps for trading

- Based on regulations, custodians must perform caps and restrictions

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3

Regulatory Risk

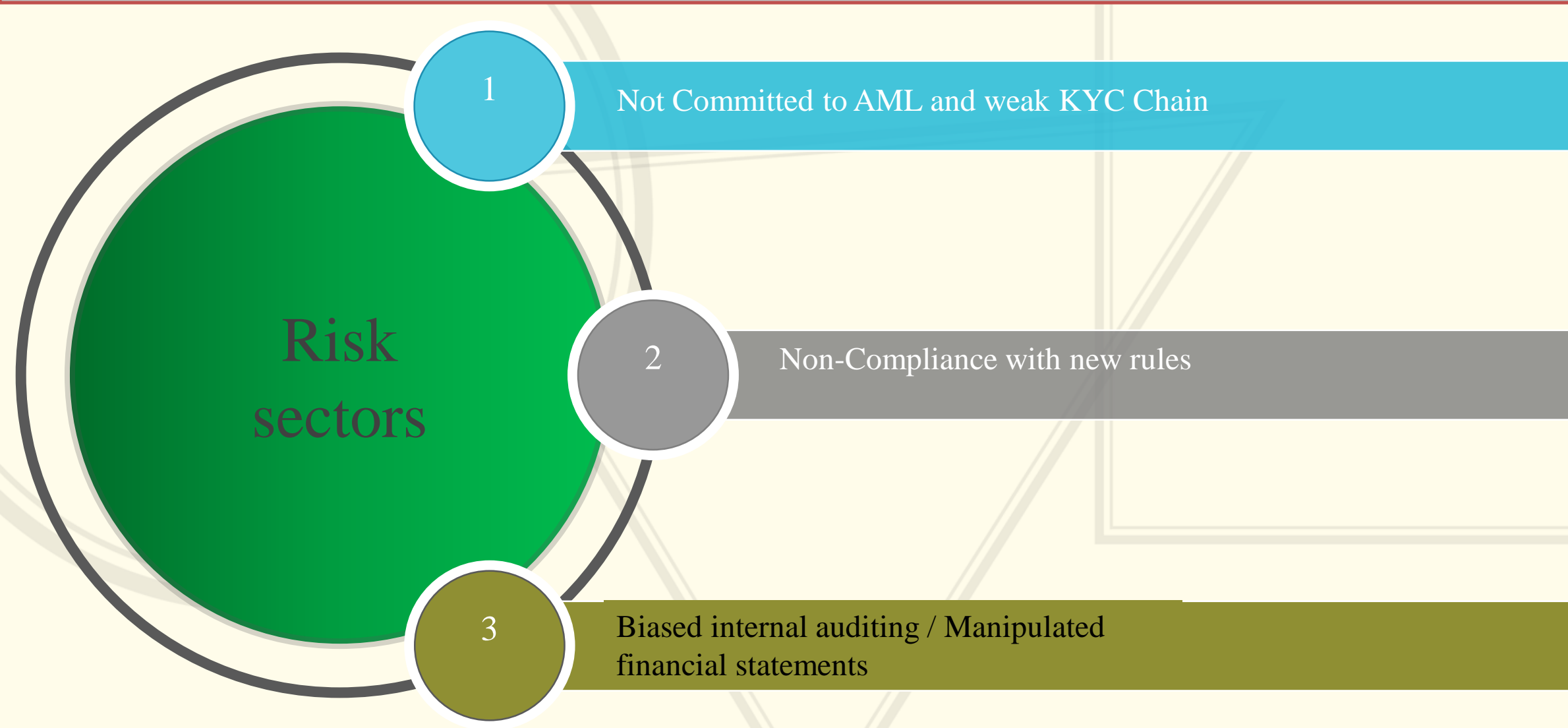


Depository system

- A system in which securities of an investor are held by depository on behalf in an Electronic Form.
- Depository facilitates holding of securities in the electronic form and enables securities transactions to be processed by book entry by a Depository.
- In the depository system, securities are held in depository accounts, which is more or less similar to holding funds in bank accounts.
- Transfer of ownership of securities is done through simple account transfers.
- Due to eliminate loss, damage, fraud and theft, all depository actions in CSDI are Demat.
- Dematerialization is the process of eliminating paper certificates from the securities processing cycle and replacing them with electronic records.

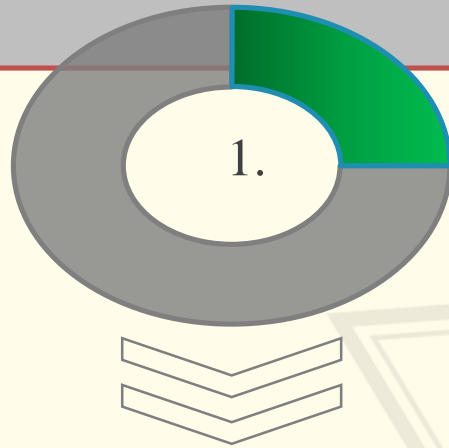


Risks Associated with Regulatory



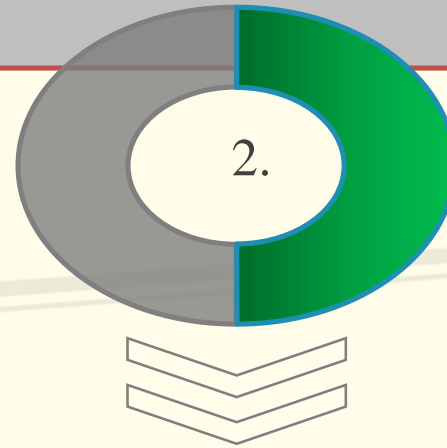


Mitigating Actions



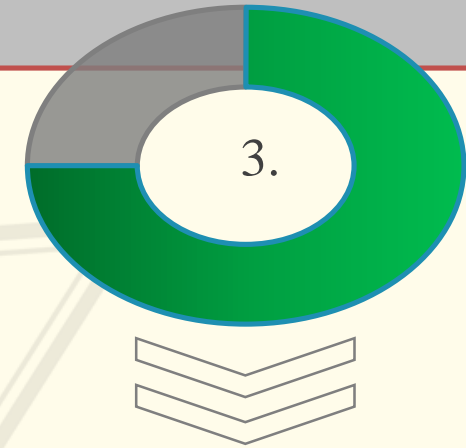
IT solution

- “SEJAM” System comprehensive customer information registration system to electronize and automate the process of collecting and managing customer information. The goal of designing this system is obtaining a comprehensive system for recording customer information in the capital market.



Regulation Approach

- AML Regulation
- KYC Chain Directives



Limitations and caps for trading

- Based on regulations, custodians must perform caps and restrictions

Friendship with others is half of the wisdom

Thank You For Your Attention

