



New CPSS-IOSCO Principles for Financial Market Infrastructures: Access and Links

Daniel Heller
Head of CPSS Secretariat

Rio de Janeiro, March 2011



Structure of Presentation

- Fair and open access
 - Current Standards
 - Proposed changes
 - Related Principles
- Links and Interoperability
 - Current standards
 - Proposed changes
- Conclusions



Current Standards

- Core Principles (CP IX):
 - „Any restrictions on access should be objective and based on appropriate risk criteria“.
- Recommendations for SSS (R14)
 - „CSDs and CCPs ...need to establish criteria that balance fairly the benefits of openness against the need to limit participation to those with the necessary expertise, powers and financial resources“.
 - „Unnecessarily restrictive criteria can reduce efficiency and generate risk by concentrating activity“



Proposed changes (background)

- Fair and open access has become for relevant in recent years.
 - Increasingly globalised markets and infrastructures
 - Potential emergence of global CCPs for OTC Derivatives
- Key question: how to balance open access with risk controls (and efficiency)
- Example: Should only global institutions be general clearing members of a global CCP?



Principle 18: Access and participation requirements

- Headline: “An FMI should have objective, risk based, and publicly disclosed criteria for participation, which permit fair and open access”
- Considerations:
 - Access criteria for direct and where relevant indirect participants should risk-based
 - Restrictions should be publicly disclosed and justified in terms of safety and efficiency
 - FMI should monitor compliance and have rules for suspension and exit



Key Elements

- Participation requirements include other FMIs and service providers
 - Cross reference to Principle on links.
- Risk based requirements include.
 - Financial: creditworthiness, capital, ability to prefund default fund etc
 - Operational: ability to use an FMIs services, risk management expertise etc
 - Legal: licenses, legal opinions etc
- Participation requirements should
 - not only be based on size
 - reflect the risk profile of the activity



Related Principles

- Governance (Principle 2):
 - “An FMI’s governance objectives should include appropriate consideration of participants, participants’ customers, relevant authorities, and other stakeholders”
- Tiered participation arrangements (Principle 19)
- FMI links (Principle 20)



For discussion

- “What are fair and open access criteria for a interest rate derivatives CCP that clears the 10 largest currencies”?



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Current Standards I

- Core Principles: not addressed
- Recommendations for SSS: (R19)
 - „linked CSDs must address legal and operational complexities“
 - „Any credit extensions between CSDs should be fully secured by securities, letters of credit or other high-quality collateral and should be subject to limits“.



Current Standards II

- Recommendations for CCPs: (R11)
- „Before entering into a link relationship with another CCP, a CCP should evaluate the potential sources of risks arising from the link“
- Links between CCPs may
 - Present legal and operational risks
 - Create significant credit and liquidity interdependencies
 - Create uncertainties the respective responsibilities of the relevant regulatory and oversight authorities.



Proposed changes (background)

- Links have become more important.
 - Increasingly globalized markets and infrastructures
 - Potential emergence of several local Derivatives CCPs due to mandatory clearing
- Links are one form of access to infrastructures
- Links broaden the range of services available to customers
- Different types of links: CSD-CSD; CCP-CCP, TR-other FMIs



Principle 20: FMI Links

- Headline: “An FMI that establishes a link with one or more FMIs should identify, monitor, and manage link-related risks”
- Considerations:
 - Sound legal basis in relevant jurisdictions
 - No provisional transfers of securities and unsecured credit extension between CSDs (“high quality collateral”)
 - Linked CCPs should identify spillovers and risks of links, and assess and manage these risks.
 - TRs should assess links related risks and ensure scalability and reliability of IT and related resources.



Key Elements I

- Spillovers require strong risk-management controls
 - In the form of additional financial resources
 - Protection of assets in case of default of other CCP
 - Harmonised risk-management frameworks.
- Potential legal issues.
 - Inconsistencies in terms of timing of finality, insolvency laws, enforceability of novation and open offer
 - Issues to be addressed in “links agreements”
- Operational risk
 - Exchange of information
 - Time zone and availability of staff
 - Scalable, secure and reliable processing capacity



Key Elements II

- CSD – CSD Link
 - No provisional transfers
 - Issuer CSD should provide adequate segregation and portability for investor CSD
 - Harmonised risk-management frameworks.
- CCP-CCP Link (more complex than CSD-CSD links)
 - Each CCP should cover its current exposures fully and its potential future exposures with a high degree of confidence without reducing the CCPs ability to fulfill its own obligations at any time.
 - Inter CCP risks should be managed in near real-time, but at least daily.



For discussion

- Should links between CCPs be mandatory in order to foster competition, financial stability and integration?



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Conclusions

- Principles on Access and Links are now considerably longer reflecting their increased relevance
- These principles provide more guidance on what is required for compliance
- Restrictive access will be more difficult
- Risks from links are more prominent.