

December 12, 2013

Comments on the Consultative Report of the Public Quantitative Disclosure Standards for Central Counterparties

To the CPSS Secretariat,

Below are the comments from the Korea Securities Depository(KSD), the sole central securities depository and the authorized CCP for institutional investors' stock transactions in the Republic of Korea in accordance with the Financial Investment Services and Capital Market Act (the Capital Markets Act) and its Presidential Decree.

We would first like to express our sincere gratitude to you for the efforts that you must have put into the public quantitative disclosure standards for central counterparties. From our perspective, we believe that it is necessary for the CPSS to make the disclosure standards by taking into consideration the circumstance in which institutional investors' stock transactions are made in Korea.

On Margin

As you may know, it seems to be a problem to apply a risk management vehicle employed in derivatives investment like margin in controlling risks for institutional investors' stock transactions.

We think that the margin of institutional investors' stock transactions is similar to that of derivatives in a strict sense. The KSD has put a system of default preparedness in place by setting aside participants' assets equivalent to an assumed amount of liabilities. We regard this as the initial margin. Also, we apply haircuts to the pre-funded default resources such as government bonds, which are regarded as variation margin. If the value of these bonds falls, we use margin-call in order to maintain a certain level of value in variation margin.

On Physical Deliveries

It is reasonable to consider book-entry transfer as physical deliveries (Principle 10) in Korea. For the Capital Markets Act stipulates that the credit into the account book, a legal ledger, has the effect of possession, delivery, and power against a third party (Article 311)

On Disclosure

It is reasonable for a CCP to autonomously disclose quantitative information in consideration of related issues and features. For example, Net Debit Cap could be disclosed on an ad hoc basis as it changes irregularly.

We believe that quantitative disclosure could be made if and when the related CCP information has already been accessible to the public and the disclosure is requested on a reasonable and justifiable basis.

If you have any questions, please feel free to contact us at sk@ksd.or.kr or ljw@ksd.or.kr.

Sincerely yours,

Lee, Seung Kwon,
Team Head
Settlement Management Team
Securities Settlement Department
Korea Securities Depository

Lee, Jeong Wook,
Manager
Settlement Management Team
Securities Settlement Department
Korea Securities Depository