



Thomas Murray Data Services

Klaus M. Loeber
Head of Secretariat
Committee on Payment and Settlement Systems
Basel

and

David Wright
Secretary General
International Organisation of Securities Commissions
Madrid

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CPSS-IOSCO public consultation on assessment methodology for the oversight expectations applicable to critical service providers

Response submitted by email to cpss@bis.org and annexf@iosco.org.

Dear Messrs Loeber and Wright,

The firm of Thomas Murray wishes to thank CPSS and IOSCO for the opportunity to comment on the proposal for a methodology that would flesh out the broad questions raised in Annex F of the Principles for Financial Market Infrastructures ("PFMIs"), published in 2012; and give guidance to regulators as to the key subjects to be aired when reviewing outsource service providers to infrastructures.

Infrastructures are diverse by nature; no two work in quite the same way. They are products of their local marketplaces, often with considerable historical legacies. They have evolved according to local need as it was felt, adding service upon service and reconfiguring for new technologies over the years.

In contrast to the historic local development of infrastructures with all their particularities, IOSCO's work for nearly four decades has introduced elements of commonality and standardisation to the world's regulated marketplaces. This has given essential assistance to the infrastructures as they adapt to their clients' rapid growth in cross-border investment flows. The standards and principles, together with the Multilateral Memorandum of Understanding amongst IOSCO members, are indispensable if the world truly is to get fair, regulated global markets.

Thomas Murray accepts the validity of the regulators' dilemma on this topic: outsourcing critical services does change the nature of institutional vulnerability and risk, so how should the market overseers go about assuring that all will work as expected? Thomas Murray appreciates the CPSS-IOSCO objective of shoring up potential weaknesses in infrastructures when they have recourse to outsourcing for reasons of efficiency.

The firm

Thomas Murray is a private firm registered in the United Kingdom, and founded 20 years ago. It is owned by 80 individual investors; there is no institutional tie of any kind, assuring the independence of viewpoint that is essential for credible analytical and advisory services.

Somewhat unusually, the firm's business is devoted solely to capital markets infrastructure institutions, and its analyses cover 430+ such establishments in more than 80 countries. 75 persons work for the firm, and we endeavour to provide current, detailed information to our clients. The firm's analytical coverage includes central securities depositories, custodians (global, national, and sub-custodian), settlement houses, and registrars, as well as clearing houses.

Thomas Murray believes that this extensive knowledge of financial markets institutions generally may give weight to the comments which follow.

General comments on the current consultation

CPSS-IOSCO proposes a series of detailed questions on the themes of:

- Risk identification and management
- Information security
- Reliability and resilience
- Technology planning
- Communication with users

The firm of Thomas Murray confirms the pertinence of the five categories of questions to be reviewed, and the questions detailed on each of them. When reviewing a depository or a custodian bank or a CCP, we examine these matters and ask questions largely in this form, too.

From the firm's position as independent analyst, we have never gone beyond looking into what the infrastructure does to satisfy itself that its external service provider is meeting these needs in a forthright manner and to the extent reasonably possible. We have not felt that we could go on to contacting these external providers directly for their materials, nor have we had the time or the budget to do so. After considerable reflection, we also came to the conclusion that, ultimately, it was not crucial for our analysis to do so. We tend to think that the responsible party is the infrastructure itself, and we have dug away extensively at its understanding and command of these matters, including where it felt its vulnerabilities are.

However laudable CPSS-IOSCO objectives, we would have some reservations about extending the regulatory perimeter beyond the FMIs: regulators are stretched for resources, and yet more changes are within sight. Can they take on the extra burden of reviewing third-party self-assessments of outsource providers to the FMIs under their remit, and is it even worth their trying to do so? In their oversight of the infrastructure, there might be a risk of duplication or miscommunication if the regulators' questions are raised both with the FMI and its suppliers.

It should prove more practical and effective, in our view, to use these Annex F questions in tightening up oversight of the FMIs themselves. We considered the idea of statutory auditors reporting on these aspects of infrastructure suppliers, but the audit community is, as a rule, reserved or even legally constrained when it comes to providing assurance statements.

Instead, we believe that the FMIs should centralize and be prepared to hand over to their authorities such materials as the audited financial statements of their suppliers; in the audit opinion, there is information on the on-going viability of the entity. Statutory auditors are responsible for testing the business systems as part of the basis for their opinion on the financial statements. Also, in Thomas Murray reviews, we rely on ISAE 3402 and SSAE 16 reports on controls at service organisations. We give less credence to self-assessments; we do review testing of procedures and back-ups, and especially how the back-up would be tested with the FMI to which it is connected.

We think it best that the infrastructures provide evidence to their overseers that they have raised each of these five broad categories of concerns with their providers. They may wish to include many or all of these same questions, as appropriate, in reviewing business ties. In this way, the FMI and its supervisory authority will be satisfied that, to the extent reasonably possible, the provider will provide continuous services to the FMI as contractually agreed.

In the assessment methodology, we do not see much information as regards the periodicity of these reviews. A suggestion would be to have the FMI present its review of these matters with its outside providers as part of its regular inspections, including possible test results that demonstrate that due care is being taken in these five domains. This should be often enough.

Furthermore, we would suggest CPSS-IOSCO use more quantitative questions on this subject. For example in Q 3.8, in addition to "how does the critical service provider ensure the timely resumption of its services in the event of a disruption," we would explicitly ask "how long would it take to resume the services?" Also in Q 2.11, if the critical service providers' information security framework is subject to internal and / or external audit, it would be helpful to ask specifically for the frequency of such audit. Quantitative questions could enhance comparability and provide regulators with more accurate information. If CPSS-IOSCO is not planning to issue another set of quantitative disclosure standards for these third-party service providers, as it has recently done for CCPs, we strongly recommend it request key quantitative data in this single document.

Conclusion

CPSS-IOSCO has raised appropriate concerns. They need to be addressed; responses will provide some additional certainty to the marketplace. CPSS and IOSCO are right to be going down the path of assuring that FMIs provide the reliability that the financial system needs, to the extent possible.

As a matter of practicality and of assuring that financial market infrastructures continue to meet the responsibilities of the positions they have, Thomas Murray recommends that national capital markets authorities see directly with the FMIs how their external service providers are meeting their contractual obligations; and that the authorities limit their search into third-party materials.

With regard to the proposed Annex F questions, the firm suggests adding more quantitative questions to establish a more exact picture.

We remain respectfully yours for questions you may have. Sincerely,



Thomas Krantz
Senior Advisor Capital Markets

CC: Simon Thomas, Jim Micklethwaite, Tim Reucroft, Janet Wynn, Alex Harborne, TM