

To: CPSS-IOSCO Working Group
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Dear Sirs:

In the due time, we send our comments to the **CPSS/IOSCO Principles for Financial Market Infrastructures (FMIs) document**, a very important report posted for market consultation about four months ago. We understand the effort you have undertaken in defining and establishing the principles for FMIs. As one of the important FMIs in Colombia, we have worked to provide you with our views on this important document, and our suggestions are as follows. We hope our comments are valuable to your efforts.

CPSS/IOSCO Principles for Financial Market Infrastructures (FMIs)

Principle 1: Legal basis

- When settlement depends on the interaction of multiple interlinked systems such as a CSD, CCPs, SSS, transfer agents and registrar and possibly others, there must be legal certainty related to which of those entities is the one giving title to the investor and the impact that has on protection of assets. All of the entities mentioned above perform a critical role, but it is only the interaction between them that gives title to the investor. The need to protect the securities and payment cycle needs to be addressed in a more comprehensive way.
- In some jurisdictions, title is given as soon as the entry is booked on the SSS system, permitting the use of the securities and cash immediately. Could be this the principle or criteria? This would reduce legal uncertainty.
- Applicable Law: It is important to be more precise on how investor assets are protected on links between FMIs for cross-border activity and custody arrangements.
- Nothing has been said in relation to corporate actions. It is very important to protect the investor rights in all jurisdictions. There must be principles addressing the protection of rights derived from corporate actions and corporate events.

Principle 2: Governance

- Important to define the role of external auditors or independent reviews, in particular to the critical risk management process.
- Additional risk categories need to be addressed: Strategic, commercial, reputational, which can be source of systemic risk.
- It is important to include governance issues between boards and management and they related to the Shareholders – General Assembly. Not fully addressed in the document.

Principle 3: Framework for the comprehensive management of risks

- Additional risk categories need to be addressed, namely: strategic, commercial and reputational, all of which can be source of systemic risk.
- It is very important to establish a joint protocol for the risk management of all interdependent FMIs in the market, especially in the area of business continuity. The protocol should allow the industry as a whole to respond effectively to a contingency or disaster event.
- Entities with the capacity to generate a systemic impact on market conditions; such as clearing and settlement banks, must be given an important consideration.
- Registrar and transfer agents are missed or not given appropriate consideration as part of the settlement process. They need to be included and the risk represented to FMIs needs to be addressed.

Principle 4: Credit risk

- CCPs need to have access to Central Bank money in case of a major disruption in the market. Central Banks need to act as a lender of last resort for CCPs. Objective criteria need to be established as a framework for this access.
- Reversals of payments and deliveries on corporate actions could create major credit risk for CSDs and SSS. There is the need to have a protocol for corporate actions whereby payments and deliveries are done on DVP, DVD or PVP basis.

Principle 7: Liquidity risk

- The liquidity cycle within the market needs to be understood. There are interdependencies on liquidity providers that can create a disruption on the liquidity chain. FMIs compete for the same pool of liquidity, therefore a systemic view of liquidity pools needs to be taken. Central Banks play a critical role in addressing this issue.
- Central Banks must be a source of liquidity for FMIs in the market. Facilities such as intraday or overnight repos need to be considered.

Principle 8: Settlement finality

- It is important to consider interdependent and interconnected systems, where a chain of FMIs, registrar and transfer agents are part of processing a single transaction. We need to establish criteria whereby title is given and finality is obtained. Question: How to protect the transaction cycle?
- It should be strongly indicated that settlement payments must be done in central bank funds. FMIs must have access to central banks. Direct access and the possibility to access liquidity by automatic debit within central bank accounts should be provided.
- Cross border settlements: Applicable law and consideration in relation to who is given title to the security in a chain of FMIs, transfers agents and registrars.
- Corporate actions: It is very important to give consideration to the topic for all rights and payments. Impact on all risk categories derived from corporate actions is missing in the document.

Principle 11: Central securities depositories

- Dematerialization must be strongly recommended.
- Central bank access for settlement (DVP, PVP, and DVD) needs to be assured in all jurisdictions.

Principle 12: Exchange-of-value settlement systems

- Same observations related to a chain of FMIs performing a part in the transaction settlement. A criteria or directive needs to be established to assure title on payments and securities.

Principle 15: General business risk

- Additional risk categories need to be addressed: Strategic, commercial and reputational, all of which can be source of systemic risk.

Principle 17: Operational risk

- Additional risk categories need to be addressed: Strategic, commercial and reputational, all of which can be source of systemic risk.
- An industry and market protocol for FMIs contingency and disaster recovery arrangements is strongly suggested. Normally a local industry effort of all FMS's within the market is not considered.
- A systemic view of other participants – transfers agents, registrars, payment and settlement banks, and others in the securities value chain needs to be addressed.

Principle 20 – FMI links

- A rule for priority on payments and securities. DVD, DVP and PVP is strongly recommended

Principle 22: Communications procedures and standards

- A protocol for corporate actions must be strongly suggested. An ISO standards need to be strongly recommended (15022 or 20022) or other standards.
- Issuers must inform FMIs (CSDs, SSS; CCPs) of all corporate actions using a standardized format.