Comments of the Central Depository & Settlement Co. Ltd (Mauritius) on the CPSS/IOSCO Principles for FMIs

Principle 4: Credit Risk

The principles should also provide for FMIs who manage credit risk through mechanisms other than a CCP but that achieve the same benefits as a CCP. For example, a number of CSDs in smaller markets manage credit risk by having a Guarantee Fund that steps in a net settlement mechanism to make good the obligations of a defaulting participant. The contributions/resources to the Guarantee Fund may come from different sources including participants, the CSD itself and standby line of credits from banks. Empirical evidence shows that there are many small markets that have successfully manage credit risk with such mechanisms. Most of the time, it is not cost-effective to set-up a separate CCP in smaller markets.

For statistical reasons, the coverage of the credit risk should depend on the number of participants in the CSD/CCP. It cannot be one-size-fits all because of the significant opportunity costs that it may represent for smaller CSDs.

Principle 5: Liquidity Risk

For statistical reasons, the coverage of the credit risk should depend on the number of participants in the CSD/CCP. It cannot be one-size-fits all because of the significant opportunity costs that it may represent for smaller CSDs.

Principle 14: Segregation and portability

This principle should also be applicable to CSDs which should be encouraged to have individual accounts because this is less risky for the ultimate investor. Individual accounts also allow regulators to perform market surveillance more effectively and pro-actively prevent money laundering and terrorism financing. Technology has evolved in such a way that CSDs now have sufficient processing power, storage capacity and bandwidth to handle a very large number of accounts.

Principle 15: General business risk

It is important to set a quantitative requirement for the amount of liquid net assets funded by equity than an FMI should hold to cover general business risk to keep the dividend payout ratio of FMI within reasonable limits. When distributing dividends, FMIs should strike the right balance between providing a reasonable return to shareholders whilst ensuring that they have sufficient liquidity to meet their business and credit risks requirements. Taking into consideration the fact that during and after the global crisis the turnover in smaller markets decreased by more 50% the quantitative requirement should be set to 24 months of operating expenses.