Strengthening Securities Settlement through Inclusion of Government Securities

CDS® 2010

Mark Weseluck
Chief Business Development Officer

ACSDA General Assembly – Tampa

March 10 – 12 , 2010

CDS Case Study: Federal Government Securities

- In the late 1980s, when Government of Canada paper was ready to move to an electronic clearing and settlement system, it was decided to use CDS rather than have the Bank of Canada build an entirely discrete new system.
- Cost savings
- Made higher grade collateral available at CDS

Long-term Benefit:

- Made a unified securities settlement service leveraging CDS's long experience to best serve financial intermediaries in both public and private sector securities
- Ongoing cooperation between central depository and central bank

Federal Government Securities at CDS

- In 1989, Bank of Canada joined CDS as a custodian participant
  - Government of Canada (GOC) market bonds became eligible for deposit
- Following agreement on risk management efforts between central bank and CDS, CDS's first debt clearing service was launched in 1994 with introduction of GOC marketable bonds
- Federal *Payment Clearing and Settlement Act* (PCSA), passed in July 1996, gives Bank of Canada oversight of major clearing and settlement systems in Canada to control systemic risk
- Governor of Bank of Canada has designated 3 settlement systems as systemically important: CDSX, the Large Value Transfer System (LVTS) and CAD leg of CLS Bank
- PCSA provisions reinforce legal enforceability of netting in designated systems, provided immunity from legal stays and other legal challenges, including in the event of a participant default

Federal Government Securities at CDS

- GOC Treasury Bills introduced as first money market instruments in CDS in 1996, with real-time settlement
- CDS's risk containment model implemented in 1997, allowing for eligibility of other money market instruments
- Large Value Transfer System (LVTS) introduced by the Canadian Payments Association (CPA) in 1999 to provide finality and irrevocability of payments, including end-of-day securities settlement payments
  - CPA is also a not-for-profit, member-owned utility
- CDSX, introduced in 2003, allowed money market, debt and equity securities to be settled in real-time on a common platform
- In 2009, FINet succeeded DetNet as CCP service for federal and provincial government debt

Roles of Bank of Canada at CDS today

- Full participant of CDS
  - Able to effect settlements
  - Able to make payments to CDS
- Acts as issuing agent of GOC securities
  - Maintains register reflecting CDS's nominee name as registered holder
  - Effects deposits of positions following auctions
  - Makes entitlement payments and redemptions through CDS
- Supported and facilitated dematerialization of federal government securities
- Bank co-ordinates oversight of CDSX with Ontario Securities Commission and the Quebec Authorité des marchés financiers
- Operates CDSX settlement account and acts as settlement agent for CDS in LVTS for payment obligations in CDSX

Lessons Learned

- “It is worth noting the value for both parties—the central securities depositories and the (central bank) regulator—of maintaining a close relationship. If the regulator understands the concerns of the system’s operator and its participants and if they understand the regulator’s concerns, it is more likely that arrangements satisfactory to both sides can be developed.

  “This does not mean that the two sides will always agree on everything. After all, the private sector and the public sector have a somewhat different focus in approaching the various issues that arise in the design, development, and operation of CSDs. And, as discussed earlier, there will frequently be a trade-off between risk-proofing and costs of operation. Nonetheless, in Canada, outcomes have been achieved that provide a high level of safety at reasonable cost.”

  Charles Freedman, Deputy Governor, Bank of Canada

  speaking at CSD5 in 1999