

## THE ASSOCIATION OF GLOBAL CUSTODIANS

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3 May 2013

### Via Electronic Transmission

Soraya Belghazi  
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Secretary General - European Central Securities Depositories Association

### Re: WFC Single Disclosure Project

Dear Soraya,

I am pleased to reply on behalf of the Association of Global Custodians (AGC)<sup>1</sup> to your letter of 4 April 2013. The AGC values the opportunity to partner with the World Forum of CSDs in its efforts to streamline the overlapping activities and resources required to complete the annual AGC DIGP questionnaire process and the new CPSS-IOSCO disclosure framework. As you are aware, the DIGP process was developed for the purposes of enabling AGC members to meet regulatory obligations pursuant to US SEC Rule 17f-7 and we have undertaken efforts over time to work with CSDs on establishing the least burdensome and most efficient methods for gathering necessary information on a global scale. Our commitment to collaborate with the WFC on its Single Disclosure Project is a vital and welcome continuation of these efforts.

Members have reviewed the comments in your letter regarding the WFC's intentions with the Single Disclosure Project and the format of the prepared sample disclosure file. At this time we offer the following initial observations and points for your further consideration:

### **Collaboration between WFC and AGC:**

The AGC is fully supportive of the WFC's leadership efforts to implement a collaborative structure for meeting the disclosure needs under both the CPSS-IOSCO disclosure requirements and the AGC DIGP questionnaire process. Careful implementation and maintenance of the Single Disclosure Project will be beneficial for all parties involved. Over time we are optimistic that the AGC will be able to diminish its direct role as a depository

<sup>1</sup> The Association is an informal group of eleven global custodian banks that are major providers of securities custody and related asset-servicing functions to institutional cross-border investors worldwide. The Association primarily seeks to address regulatory and market structure issues that are of common interest to global custody banks, including undertaking an annual questionnaire process to gather information concerning central securities depositories as part of its members' efforts to prepare analyses required under US SEC Rule 17f-7. The members of the Association are listed on the letterhead above.

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information gatherer once the vast majority of disclosure forms are being updated and accessible through the WFC's framework.

Members welcome the WFC's invitation to involve the AGC throughout the project's development stages. We are committed to having representatives available at regular intervals to consult with the WFC. Through effective cooperation we can ensure that the most productive solutions for fulfilling disclosure needs are implemented.

### **Question format in disclosure forms:**

We understand that the aim of the Single Disclosure Project is to eliminate duplication of efforts by consolidating questions in the AGC questionnaire and CPSS-IOSCO disclosure framework to the extent possible. The AGC has developed and refined its complete set of DIGP questions over time so as to have sufficient facts collected about the operations and servicing environment of each CSD. Therefore, we welcome your confirmation that it is not the WFC's intention to modify the contents of the AGC questionnaire in any material way, although we appreciate that some of the questions may need to be altered somewhat to support multiple disclosure needs. In fact, the consolidation of the AGC and CPSS-IOSCO disclosure requirements will likely result in further enhancements to the information currently available to global custodians and this will be a positive development.

We have reviewed the limited set of questions in your sample disclosure form covering CSD participation requirements. Members are generally comfortable with the methodology taken to merge the AGC and CPSS-IOSCO questions. In particular, we find that the mapping references to the AGC question numbers for each category in the form will be extremely beneficial to members as we work to adjust to the new format.

We realize that the merging of questions will be a time consuming process and in some cases may be difficult to achieve. The AGC would welcome the opportunity to undertake further reviews of the draft disclosure form as it develops as members may be able to offer further input or feedback on the design of particular questions.

### **Accessibility of completed disclosure forms:**

The WFC notes that it intends to centralize the collection of completed disclosure forms from CSDs and that it will forward them on to the AGC in a standardized format as soon as they become available. Ideally, the WFC would consider developing a central database that could provide for 1) centralized form input by CSDs, 2) the safekeeping of completed forms, and 3) public access (or at least designated access to approved parties) to the completed forms. This would relieve some of the WFC's administrative burdens of sending large files back and forth between CSDs and the AGC. As an interim step, all CSDs could be encouraged by the WFC to publicly disclose their completed forms on their own websites and the WFC can then coordinate a respective reference document identifying the links to the disclosures on the relevant CSD websites.

The AGC members and its Secretariat, Baker & McKenzie, LLP, have applied considerable resources in designing, building and refining its intranet site which houses all the current DIGP questionnaire responses. We would be pleased to discuss our experiences with the WFC on this topic if you feel that would be useful.

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### **Timing of Content Updates from CSDs:**

CPSS-IOSCO expects financial market infrastructure (FMI) entities to review their disclosures at least every two years (and with every major change), whereas the DIGP has been developed as an annual process with standardized completion dates. DIGP has been implemented this way since Rule 17f-7 requires that global custodians monitor the custody risks associated with CSDs "on a continuing basis" and "promptly notify" their investment company clients of any material changes. While AGC members use a variety of methods to monitor depositories, as a practical matter Rule 17f-7 requires that members have a procedure in place to make sure that their information is current and accurate. Accuracy can only be assured if CSDs are active participants in the update process. For these reasons, we would consider at least annual updating by CSDs of the WFC's disclosure forms to be a necessity. Ideally the updating by CSDs would also occur during a designated time period each year so that AGC members can plan their annual reviews and relevant client communications in a predictable manner. Additionally, it would be helpful if completed disclosure forms are time-stamped so that the age of the provided information can be ascertained.

Finally, as this type of information gathering is a dynamic process the WFC should consider to what extent it will be feasible to approach near real-time updates to the disclosure forms in the future. As an preliminary step it could be beneficial to encourage CSDs to provide interim updates to their disclosure forms (or other relevant alerts) in circumstances where they undergo any material changes in between annual disclosures.

### **Requests for Modifications to disclosure form questions over time:**

The AGC has modified the DIGP questionnaire from time to time, and these modifications have been primarily for the purpose of further streamlining the number of questions, clarifying certain questions, or incorporating comments received from participating CSDs. It is possible that periodic adjustments of this nature will be needed in the future as well, either driven by the needs of the WFC or the AGC, given the new disclosure format. As you suggest it will make sense to establish a process between AGC and WFC to coordinate and review the implementation of such changes.

### **CSD follow-ups and coordination efforts with non-responding CSDs:**

Each year that we conduct the DIGP process there are some CSDs that choose not to participate. In other cases a response may be provided but is either incomplete or some answers remain unclear. AGC members devote a fair amount of time in following up with non-responding CSDs and/or inquiring about unclear or incomplete responses, both through the AGC and as individual institutions. The WFC should consider to what extent it plans to engage with and encourage CSDs to ensure responses are provided and are submitted in complete form, including responses to the questions in the disclosure form that map to the DIGP questions.

We do believe that WFC's central collection efforts and the consolidation work being done on the disclosure form may assist with encouraging CSD participation, inclusive of CSDs that have been reluctant to complete the DIGP questionnaire in the past. In any case, it will be important for CSDs to understand that if they choose not to participate in the WFC's Single Disclosure Project the AGC must follow up with them to request completion of the AGC questionnaire

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instead. The AGC and WFC will need to establish a suitable process for identifying non-responding CSDs and circumstances that require further action steps by the AGC.

**Coordination efforts with CSDs that are not WFC members:**

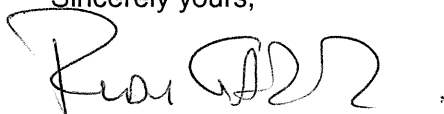
As part of the annual DIGP process the AGC also sends questionnaires to entities operating as CSDs that are likely not participants in the WFC and its regional associations. In particular, in a number of markets the central bank will operate as CSD for government securities and such entities fall within scope of our Rule 17f-7 analysis obligations. It would be beneficial if all designated CSDs follow a consistent disclosure process, regardless of their membership in the CSD associations, in order to avoid the added complexities of having mixed information gathering processes. We would inquire whether the WFC has considered this matter and if there are any plans to engage with central bank depositories on the Single Disclosure Project.

**Start-up timeframe for the disclosure form process:**

We understand from your letter that the WFC plans to have the Single Disclosure Framework ready for 2014. Therefore the AGC expects to continue its usual process for the annual DIGP cycle commencing later this year, and will focus on coordinating the necessary process changes for the cycle beginning in 2014. As always, we will appreciate the support provided by the regional associations in encouraging CSD participation as we start up the annual DIGP questionnaire process in the next few months.

The AGC looks forward to engaging further with the WFC on the Single Disclosure Project and thanks you for the opportunity to provide these preliminary comments. Members stand ready to provide supplemental feedback as appropriate and to arrange meetings with you to discuss these topics in greater depth.

Sincerely yours,



Rudy Gadenz  
AGC Chair-Elect

cc: Bruce Butterill, ACSDA Executive Director  
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