

Disclosure Regarding Compliance of the Central Depository and Settlement Co. Ltd (CDS) with the Principles for Financial Market Infrastructures (FMIs) issued by CPMI-IOSCO

Responding Institution: Central Depository & Settlement Co. Ltd (CDS)
Authority regulating the CDS: Financial Services Commission (FSC)

The date of this disclosure is 21st July 2017.

This disclosure can also be found at www.stockexchangeofmauritius.com under CDS.

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I. Executive Summary

1.0 Introduction

The Central Depository & Settlement Co. Ltd (CDS) was established by the Stock Exchange of Mauritius (SEM) in 1996 to provide centralized depository, clearing and settlement services for the Mauritian equity and debt markets. The company became operational in January 1997. The setting up of CDS has brought about prompt and efficient clearing and settlement of trades while at the same time reducing some of the inherent risks in the process. The CDS has brought the Mauritian stock market on an equal footing with developed markets as far as the clearing and settlement infrastructure is concerned.

The CDS complies with the international standards on depository, clearing and settlement systems, namely the Principles for Financial Market Infrastructures issued by the Bank for International Settlements and the International Organization of Securities Commission, and the G30 Recommendations.

The CDS qualifies as an Eligible Securities Depository under the US Investment Company Act Rule 17f-7. This rule requires US registered investment companies to hold their securities only in Eligible Securities Depositories to reduce risks associated with offshore investments. The company participates on a regular basis in the Depository Information Gathering Project of the Association of Global Custodians (AGC). The objective of this project is to assist the members of the AGC in meeting their regulatory obligations under the U.S Investment Company Act Rule 17f-7 which sets forth the circumstances under which U.S investment companies may hold securities through the facilities of non-U.S securities depositories. The AGC questionnaire can be viewed on the web site of CDS (www.stockexchangeofmauritius.com).

The CDS is also covered by the Thomas Murray Capital Market Infrastructure Risk Ratings Service. The ratings service of Thomas Murray provides an independent, objective analysis of local post trade capital market controls and procedures. It examines the extent to which each local infrastructure minimises recognised risks and maximises asset safety for investment. Following its annual review, Thomas Murray maintained the private rating of CDS to A+ (low overall risk) in January 2017.

The CDS also offers IT outsourcing services to the Stock Exchange of Mauritius Ltd for the technical management of the automated trading system. The CDS also provides a registry system to registrar and transfer agents, on an application service provider basis.

2.0 Legal & Regulatory Framework

The Securities (Central Depository, Clearing and Settlement) Act 1996 provides the legal framework for the establishment and operations of the CDS.

The Securities (Central Depository, Clearing and Settlement) Act 1996 includes provisions for:

- Depository, clearing and settlement services;
- The development of systems in which securities can be issued and transferred without any certificate
- The Bank of Mauritius to act as the clearing bank for the settlement of funds;

- The establishment and maintenance of a Guarantee Fund;
- Duty of confidentiality as regards information recorded in the CDS system.

The CDS is regulated by the Financial Services Commission under the Securities (Central Depository, Clearing and Settlement) Act 1996, the Securities Act 2005 and the Financial Services Act 2007. The day-to-day activities of the CDS are governed by the CDS Rules and Procedures. The CDS Rules and any amendment thereto are approved by the Financial Services Commission.

3.0 Ownership & Structure

The shareholders of the CDS cover a wide spectrum of companies in the financial sector including the Stock Exchange of Mauritius which holds a majority of 51% of the shares.

The CDS Board of Directors is constituted to ensure the representation of various stakeholders and comprises representatives of:

- The Stock Exchange of Mauritius Ltd (SEM)
- Minority shareholders of CDS
- The Minister of Financial Services, Good Governance and Institutional Reforms
- The Bank of Mauritius

The CDS is organized in three departments, namely: Systems, Operations, and Finance & Administration. The Legal department of the SEM provides in-house legal services to the CDS. The head of each department reports to the Managing Director.

4.0 List of Participants

Investment Dealers

- Associated Brokers Ltd
- AXYS Stockbroking Ltd
- Bramer Securities Ltd
- Capital Market Brokers Ltd
- IPRO Stockbroking Ltd
- LCF Securities Ltd
- MCB Stockbrokers Ltd
- Prime Securities Ltd
- PSG Securities (Mauritius) Ltd
- SBM Securities Ltd
- Swan Securities Ltd

Custodian Banks

- AfrAsia Bank Ltd
- Bank One Limited
- Hong Kong & Shanghai Banking Corporation
- The Mauritius Commercial Bank Ltd
- State Bank of Mauritius Ltd
- Standard Bank (Mauritius) Ltd
- Standard Chartered Bank (Mauritius) Ltd

- Societe Generale Johannesburg Branch

5.0 Risk Management Framework

The ability to identify, monitor, measure and manage risks on an ongoing basis is crucial for a central depository, clearing and settlement organisation. Over the years, the CDS has developed a comprehensive risk management framework to manage the different types of risks that arise in or are borne by a central depository, clearing and settlement organisation, namely: legal risk; credit (counterparty) risk; liquidity risk; systemic risk; general business risk; investment risk; and operational risk. The risk management policies, procedures and systems that are in place at the CDS are set out below.

The main pillars of the risk management framework implemented by the CDS are as follows:

- Clear, transparent and enforceable rules and procedures that are consistent with the Securities (Central Depository, Clearing and Settlement) Act 1996, the Securities Act 2005 and the Financial Services Act 2007
- The Business Conduct Committee
- Capital Adequacy Requirements for Participants
- Settlement on a strict delivery versus payment basis
- Prevention of Settlement Failures and Guarantee Fund Mechanism
- Securities Lending and Borrowing
- System of Internal Controls
- External Audit of the System of Internal Controls
- Internal Audit of Operations and Systems Departments
- Disaster Recovery Plan
- IT Security Audit
- Financial Control
- Investment Committee
- Strong and liquid balance sheet

5.1 Eligible Securities Depository Under Us Investment Company Act

The CDS qualifies as an Eligible Securities Depository under the US Investment Company Act Rule 17f-7. This rule requires US registered investment companies to hold their securities only in Eligible Securities Depositories to reduce risks associated with offshore investments. Rule 17f-7 of the US Investment Company Act sets forth the following six criteria for the determination that a depository is “eligible” to hold assets of a U.S. or Canadian domiciled investment company:

1. Acts as or operates a system for the central handling of securities or equivalent book-entries in the country where it is incorporated, or a transnational system for the central handling of securities or equivalent book-entries;
2. Is regulated by a foreign financial regulatory authority;
3. Holds assets for the custodian that participates in the system on behalf of the fund under safekeeping conditions no less favourable than the conditions that apply to other participants;

4. Maintains records that identify the assets of each participant, and segregate the system's own assets from the assets of participants;
5. Provides periodic reports to its participants with respect to its safekeeping of assets, including notices of transfers to or from any participant's account; and
6. An eligible securities depository must undergo periodic examination by regulatory authorities or independent accountants.

The CDS meets the above six criteria.

5.2 The Business Conduct Committee

Since its inception in 1997 and in accordance with section 1.4 of the CDS Rules, the CDS has set up a Business Conduct Committee (BCC) with the following mandate:

1. Recommend the adoption of a risk management policy to the Board of Directors
2. Monitor the operations relating to risk management issues
 - 2.1 Ensure enforcement of the risk management policy being adopted, at all levels of the organisation
 - 2.2 Ensure compliance with the requirements of Rule 3.8.7 with regard to the review of internal control
3. Monitor the operations relating to the Guarantee Fund
4. Hear complaints from aggrieved Participants who claim to be adversely affected by any decision of CDS with respect to CDS operations in accordance with Rule 2.4
5. Make recommendations to the Board of Directors of CDS with respect to Participation Applications in accordance with Rule 2.2.4 and to Termination in accordance with Rule 2.3.3.

As per section 1.4.2 of the CDS Rules, the Business Conduct Committee is composed of a majority of members who are not members of the Board of CDS, nor Participants or related to Participants, and not employed by a Participant. The quorum for meetings of the Business Conduct Committee is three with at least two independent members.

The Business Conduct Committee which meets on a monthly basis to review and discuss the following issues:

- Financial Resource Requirements returns submitted by Participants
- Statement of assets and liabilities of the Guarantee Fund
- Settlement Limits of Participants
- Internal audit report
- Audited and unaudited accounts of Participants

5.3 Capital Adequacy Requirements For Participants

The CDS has set up capital adequacy requirements for its Participants as a first line of defence against risk. An assessment of the stability and financial health of Participants in the clearing and settlement services provides an important indication of potential trouble. The CDS has implemented a set of rules on conditions for participation called Financial Resource Requirements. These rules require each investment dealer to have sufficient adjusted liquid capital to cover its fixed expenditure base requirements and risk (position, counter party and foreign exchange)

requirements. Investment dealers are required to submit monthly returns so that CDS can monitor compliance with the Financial Resource Requirements (FRR). These returns are analysed by the BCC at its monthly meetings. Copies of the FRR returns are also filed with the Financial Services Commission.

5.4 Delivery Versus Payment

The CDS has eliminated principal risk with respect to transactions effected on the Stock Exchange, by performing the settlement of transactions on a strict delivery versus payment basis. There is no risk that a CDS Participant delivers securities but does not receive payment or vice-versa. Trades executed on the Automated Trading System (SEMATS) are automatically fed into the CDS system and the relevant securities accounts are updated on a real-time basis. On trade day, the seller's securities account shows a Sale-in-Suspense and the traded securities are blocked in this account. The buyer's securities account shows a Purchase-in-Suspense but the securities are not transferred to this account. On settlement date, funds transfer between the seller's and buyer's Participants takes place at a cut-off time on a net basis through the Participants' settlement banks and the Bank of Mauritius. When funds settlement is completed by final and irrevocable transfer in the books of the Bank of Mauritius, the latter sends a confirmation message to CDS which then immediately transfers the securities by debiting the seller's securities account and crediting the buyer's securities account. The securities are delivered to the buyer if and only if the CDS receives confirmation of settlement of the cash leg from the central bank. Conversely, if the buyer makes payment, the delivery of the securities is guaranteed since the securities have already been blocked in the securities account of the seller.

5.5 Guarantee Fund

In accordance with Section 3(8)(a) of the Securities (Central Depository, Clearing and Settlement) Act 1996, the CDS has set up a Guarantee Fund for the purpose of providing an indemnity against any default in respect of payments for or delivery of securities and of obligations of Participants towards CDS. The CDS Guarantee Fund is used to guarantee the settlement of transactions in the event of a default by a Participant. In such a situation, the Guarantee Fund steps into the net settlement mechanism and makes good the obligation of the defaulting Participant. The Guarantee Fund will seize the unpaid securities and sell these back on the market in order to replenish itself. The Guarantee Fund acts as a shock absorber in the event of a settlement failure and thus prevents the market from collapsing through systemic effect. The Guarantee Fund contributes to maintain confidence in the stock market.

It is important to note that to date there has never been any failed trade in the CDS.

The Fund is constituted of cash contributions by investment dealers and CDS, as well as Letters of Credit/Deposits provided by investment dealers. The assets of the Fund are segregated from those of the CDS (separate bank accounts) and are available only for the purpose of the Fund as required by law. The Fund is independently managed by the Business Conduct Committee. The assets of the Fund are invested in low-risk liquid instruments. The size of the Fund as at 30th June 2017 was as follows:

Cash contributions: Rs 34,020,472

Letters of Credit/Deposits submitted by investment dealers: Rs 28,119,000

The Fund can also have recourse to a standby line of credit of Rs 50 M from its bank.

5.6 Risk Controls to Address Funds Settlement Failures

Each investment dealer has a settlement limit that is based on the amount of collateral (cash and letters of credit) submitted to CDS. The minimum amount of the collateral required for an investment dealer is based on the moving average of its cumulative liability over the past 12 months. CDS monitors the settlement obligation of each investment dealer on a daily basis. If at the close of trading, the net cumulative liability (total amount of unsettled obligations over a period of three days) of an investment dealer exceeds its settlement limit, the investment dealer is required to submit additional collateral before being allowed to buy more securities during the next trading session.

During the year 2016–2017, there were 22 cases where the settlement limits of investment dealers were exceeded. In each case, the relevant investment dealer submitted the required collateral on the next business day after the limit was exceeded.

If an investment dealer fails to meet its settlement obligations, the CDS will have recourse to its Letter of Credit and to the Guarantee Fund to meet the investment dealer's obligations and complete the settlement of transactions. The Stock Exchange of Mauritius (SEM) and the Financial Services Commission will be immediately notified of the funds settlement failure.

5.7 Risk Controls to Address Securities Delivery Failures

When an investment dealer places a sell order for a client on the automated trading system (ATS), the system verifies that the client has previously deposited or purchased the securities that it wishes to sell, before accepting the sell order in the order book. However, the ATS allows an investment dealer to place a bulk order without indicating the clients' accounts. After the execution of the bulk order, the investment dealer will then allocate the trades to its clients. The CDS system automatically checks the securities balance each time a trade is allocated to a client's account. In case of insufficient balance in the client's account, the system will not allow the investment dealer to allocate the sale to that client. In such a situation, the trade is automatically posted to the account of the investment dealer that must now deliver the securities. If the investment dealer does not hold the securities, its proprietary account will show a negative balance.

When an investment dealer buys or sells securities for the client of a custodian bank, the transaction is subject to the confirmation of the latter. A situation that may lead to a negative balance in an investment dealer's account is when a custodian bank does not accept a sale that has been allocated to its client's account by the investment dealer. In such a case, the sale is allocated to the proprietary account of the investment dealer and this account will show a negative balance if the investment dealer does not hold the securities that must be delivered.

CDS monitors whether there are any negative balances in the proprietary accounts of investment dealers on a daily basis. Any negative balance in the securities account of an investment dealer must be rectified before 9:00 a.m on T+3 by re-allocating the trade to another client or by borrowing the securities through the securities loan service of CDS.

If the investment dealer still does not have securities in the account at 9:00 a.m on T+3, the trade is temporarily suspended and a buy-in procedure is initiated. The SEM and FSC are immediately notified. The investment dealer is required to make a cash deposit of 50% to CDS and pay a daily fine of 0.20% of the value of the securities (marked to market daily) until the buy-in is completed or the situation is corrected. CDS may abort the buy-in procedure in the following circumstances:

1. The Custodian Bank confirms the trade after T+3, 9:00 a.m and such confirmation is submitted to CDS before T+5, 9:00 a.m.
2. The defaulting investment dealer reports to CDS a loan transaction to settle the trade and the duly completed CDS Loan Forms reach CDS by T+5, 9:00 a.m.

When buy-in is aborted, the original failed trade together with all turnaround trades (see next section) linked to it will be reinstated and will be settled on the next Business Day. In such a situation, CDS will return the cash deposit to the defaulting investment dealer.

When buy-in is completed, notwithstanding whether it is successful or not, the CDS will use the cash deposit to compensate all the buyers involved in each turnaround trade linked to the failed trade, except the buyers involved in the last transaction in each chain of turnaround trades, by paying them an amount equal to 50% of the difference between the price at which they bought the securities and the price at which they subsequently sold the securities.

If after 5 trading sessions the buy-in is unsuccessful, CDS will use the cash deposit to also compensate the buyers in the last transaction in each chain of turnaround trades linked to the failed trade, by paying them an amount equal to 15% of the value of the securities that remain undelivered after the buy-in and CDS will request the SEM to cancel the failed trade together with all turnaround trades linked to it.

5.8 Securities Lending

The securities loan service implemented by CDS allows an investment dealer that faces a potential securities delivery failure consequential to the refusal of a sale by a custodian bank, to borrow the securities from a lender (which can be another Participant or its client) and deliver the securities to the buyer/s. The failure of the trade together with any turnaround trades linked to it would thus be avoided with the execution of the loan transaction.

Even with the implementation of the securities loan service, a securities delivery failure may occur if the investment dealer that faces the failure cannot find a willing lender for the securities. In such situations, the CDS Procedures regarding buy-in and compensation described above are applied.

5.9 Internal Control And Internal Audit

The CDS has implemented a system of internal controls pertaining to:

1. The recording of transactions in securities accounts;
2. The processing of transactions, including clearing and settlement, in accordance with CDS Rules and Procedures; and
3. The integrity and reliability of its data processing facilities.

The system of internal controls is implemented in the Rules and Procedures that govern the day-to-day activities of the CDS and is also integrated in the design of the computer system of CDS. Additional measures have been implemented to ensure the integrity of data and the effectiveness of the internal control system. These measures include the following:

- a) Before any entry is made in the system, strict verifications are carried out against source documents and instructions.
- b) The list of the authorised personnel of registries and CDS participants together with their specimen signatures and the respective powers conferred to them by their company, are kept up-to-date and are referred to when processing transactions relating to the registries and participants.
- c) After posting into the system, verifications are carried out to ensure that balances are correctly updated by new validations or transactions posted. The balances of securities recorded in the system of CDS are reconciled with the figures (balances of securities held in the name of CDS) provided by registries, after the processing of each deposit and withdrawal.
- d) All operations like deposits, withdrawals, transfers, pledges and trade amendments involve at least two CDS staff for control purposes. One person executes the function while the other verifies whether the function has been correctly executed.
- e) A full concurrent audit is carried out to ensure that all transactions are backed up by relevant instructions and source documents.
- f) A series of automated tests are performed by the Systems Department to verify the integrity of the database on a daily basis.

5.10 External Audit of The System Of Internal Controls

The suitability and effectiveness of the system of internal controls are verified by external independent auditors on an annual basis. The external auditors also conduct a full operational audit at the same time. For the year ended 30th June 2017, the auditors, on the basis of the audit tests carried out, concluded that the system of internal controls of the CDS operated effectively and responded properly to the current environment. No exceptions were found by the auditors. The certificate of the auditors is included in the Annual Report.

5.11 Internal Audit of Operations And Systems Departments

The Secretary of the Business Conduct Committee performs monthly internal audits of the functions performed by the Operations and Systems Departments of the CDS. The objective of these internal audits is to verify whether adequate control procedures are in place and also whether the CDS Rules and Procedures are complied with when performing the different functions. The results of these internal audits are reviewed by the Business Conduct Committee. No material exceptions were found by the internal auditor during the year under review.

5.12 IT Security Policy

The CDS ensures that its IT systems are secure (that is, has access controls; is equipped with adequate safeguards to prevent external intrusion; and provides audit trails), reliable and have sufficient capacity to handle expected volume growth. The CDS has implemented an IT Security Policy that defines the responsibilities relating to the management of the IT systems of the CDS and the procedures to be followed by employees of the company as well as by remote users (investment dealers, custodian banks, Financial Services Commission, Bank of Mauritius and registries) when using the IT systems of the company. The IT Security Policy is regularly updated to keep pace with latest developments regarding information security.

The CDS system has industry-standard security features like:

- User and Role Based Access Control (users have accessed to the different functions available in the system based on their respective roles)
- Password controls
- Auditing features at application, operating system and database levels

At the application level, the system maintains the history of all transactions carried out. Every event that changes a balance in a securities account is recorded as a ledger entry. These ledger entries are visible in the client balance inquiry screen giving a complete transaction history. In addition any changes made to investor, security and participant details are logged and are viewable in the form of an audit trail.

The system maintains log files that contain an audit trail of all activities and functions performed on the system as well as transactions processed. These log files are verified on a daily basis.

The Stock Exchange of Mauritius Ltd (SEM) has outsourced its IT function to CDS since January 2001. This includes the technical management of the Automated Trading System (ATS). SEM and CDS have signed an IT Outsourcing Agreement where the service provided by CDS is clearly defined. The objective of the outsourcing is to achieve costs savings and synergies for both companies.

Investment Dealers, the Financial Services Commission and the Bank of Mauritius use the same network and telecommunications lines to access the ATS and CDS systems. Both systems use the same database servers. However, the engine of the Automated Trading System (ATS) runs on three separate servers on the same network.

Software enhancements, modifications and additions are thoroughly tested before implementation in the live environment. A formal Change Management Procedure is in place at CDS.

5.13 IT Security Audit

Independent external auditors with specific expertise in IT security perform a security audit of the IT systems of the CDS and SEM, once every two years. The scope of the security audit is as follows:

- Performing a review of the security policy of SEM and CDS;

- Reviewing the existing network architecture to confirm that it is capable of supporting required security controls;
- Performing a security audit of the network components like routers, firewall, switches etc;
- Performing security audit of the Solaris and Windows servers and databases;
- Conducting internal vulnerability assessment;
- Verifying the VPN and wireless connections;
- Performing non-intrusive external penetration testing;
- Reviewing of Disaster Recovery Planning and
- Verifying workstations on the network of SEM and CDS.

5.14 Disaster Recovery Plan

The CDS has in place a Disaster Recovery Plan (DRP) to cater for various scenarios. The DRP covers both preventive and corrective measures that will enable CDS to deal with various types of disasters that can disrupt normal systems operation. The physical environment includes UPS, backup generator, automatic fire extinguishing system and access control to the computer room. A back up server maintains a mirror image of the database on the main server. In the event of a problem with the main server, the back up server takes over within 10 minutes, without physical intervention at Participants' sites. In the event of a major disaster that causes the CDS site to be unavailable, systems and business operations will be restored at a back up site within 2 hours. Prevention of loss of data is achieved through the implementation of redundant and cyclical backup tapes that are stored both on-site and off-site. Backup to tapes is performed four times a day.

II. Summary of Major Changes since the Last Update of the Disclosure

The following changes have been made on 21st July 2017:

- Statistics on operations updated as at 30th June 2017(section 1.3 in General Background)
- Introduction of Dual-Currency Trading and Settlement (section 1.2.1 in General Background)
- Size of the Guarantee Fund updated as at 30th June 2017 (in Summary Narrative relating to Principles 3, 4 and 7)
- Reserves of CDS updated as 30th June 2017 (in Summary Narrative relating to Principles 4, 7 and 15)
- Total resources available to CDS to cover credit and liquidity risks, updated as at 30th June 2017 (in Summary Narrative relating to Principles 4 and 7)
- Date of last simulation of Disaster Recovery Plan (in Summary Narrative relating to Principle 17)

III. General Background on the CDS

1.0 General Description of CDS and the markets it serves

The CDS performs the clearing and settlement of all transactions that are executed on the Stock Exchange of Mauritius Ltd.

The CDS provides its services within an online computer system with Participants having direct online access to the system. Trades are settled within a rolling T+3 settlement cycle on a strict Delivery versus Payment (DvP) basis. Final and irrevocable transfer of funds occurs through the central bank with same-day funds on settlement date.

1.1 Depository Services

1.1.1 Securities Accounts

Participants open and maintain Securities Accounts. These comprise Clients' Securities Accounts and Participants' (proprietary) Securities Accounts which are segregated from each other. Clients' Securities Accounts are opened through and registered with a Participant. A Client may open accounts with several Participants.

1.1.2 Deposit and Withdrawals

CDS accepts deposits of securities certificates from Clients through Participants. To use the CDS Depository services, the Investor opens a Securities accounts in the CDS system through a Participant. Deposited certificates are forwarded to the registry of the issuer for the confirmation of the authenticity thereof. Clients' Securities Accounts are credited only upon receipt of the written confirmation of the authenticity of the deposited certificates from the registry. This process eliminates the risk of introducing invalid securities in the CDS system. The registry has up to five business days to submit the confirmation to the CDS.

Clients can withdraw securities from the CDS by submitting a request through the relevant Participant. Upon withdrawal, the Client Securities Account is debited and the issuer's registry is instructed to issue a certificate in the name of the client.

1.1.3 Transfers with no Change in Beneficial Ownership

An investor may have more than one account with the same or different participants. The investor can transfer securities among these accounts by making the request to the relevant Participants which then transfer the securities online.

1.1.4 Pledges

The Depository Services also include the recording of pledges in favour of lending institutions with the agreement of both the borrower & the lending institution. The CDS procedures require that both the pledgor (borrower) and the pledgee (lending institution) open accounts in the CDS through their respective Participants. CDS records the pledge in the pledgee's collateral account for the quantity agreed by the different parties and in accordance with the details submitted in the CDS Pledge Form by the parties concerned.

In the records of CDS, a pledgor remains the shareholder of the pledged securities. However, the pledgor cannot avail of these shares unless the pledgee submits the appropriate pledge release instruction in accordance with CDS Procedures.

1.1.5 Dividends & Corporate Actions

Payment of dividends and other corporate actions by an Issuer is performed by the Issuer's registry. The role of the CDS is to provide the Registry with the list of shareholders together with all relevant details as at the record date.

In the events of bonus issue, rights issue, share split and initial public offerings, securities are directly credited to the securities accounts of holders in the CDS. The issuer does not issue certificates to shareholders registered in CDS.

1.1.6 Statement of Accounts and Online Access

CDS provides monthly statement of accounts to all holders of active securities accounts. CDS sends all statement of accounts directly to securities account holders by electronic mail or by post at the physical addresses recorded in the CDS system. Account holders can also view the activity on their CDS accounts in real-time via the Internet.

1.2 Clearing & Settlement Services

By implementing strict delivery versus payment within a rolling T+3 settlement cycle, the CDS has significantly improved the efficiency of the settlement mechanism for the stock market whilst eliminating principal risk. Securities are settled in the CDS system on a gross basis (trade-for-trade processing) while funds are settled on a net basis through the central bank.

Trades executed on the Automated Trading System (SEMATS) are automatically fed into the CDS system and the relevant securities accounts are updated on a real-time basis (purchase-in-suspense, sale-in-suspense). Trade confirmation between investment dealers occurs immediately after trading on T+0. The system provides contract notes, transaction reports, and settlement reports to Participants on trade date itself (T+0).

On trade day, the seller's Securities Account shows a Sale-in-Suspense and the traded securities are not available for further trade. The buyer's Securities Account shows a Purchase-in-Suspense. With the implementation of turnaround trading as from 11th April 2008, securities purchased during a trading session may be subsequently sold during the same session or at any time before the settlement date.

Custodian banks have up to T+2 noon to refuse (online negative affirmation) trades that have been allocated to their clients by investment dealers. A trade that is refused by the custodian bank has to be settled by the investment dealer that effected the trade on the exchange. Investment dealers may re-allocate trades up to T+2 noon. Trades that are confirmed or re-allocated between T+2 noon and T+3 9:00 Hrs are subject to a fine. No confirmation or re-allocation is allowed after T+3 9:00 Hrs.

On settlement date, funds transfer between the seller's and buyer's participants takes place at a cut-off time on a net basis through the participants' settlement banks and the clearing bank

(Central Bank). When funds settlement is completed by final and irrevocable transfer in the books of the central bank, the latter send an XML file to CDS which then immediately transfers the securities by debiting the seller's Securities Account and crediting the buyer's Securities Account. This ensures strict delivery versus payment.

The system maintains a net amount owed to or by the participant in settlement of all trades processed by the system. A single net payment is made to or by the participant in respect of any trading day. For each trading session the net settlement liability of each participant is computed. The system also keeps track of the net cumulative liability of each participant.

1.2.1 Settlement in Foreign Currency

Trades in securities denominated in Mauritian Rupee, USD, Euro, GBP and ZAR are settled in the currency in which the securities are denominated. There are separate net settlement mechanisms for each currency. Investors make and receive payments to their brokers and custodian banks in the currency in which the securities are denominated. For example, an investor who sells a security denominated in USD will receive the settlement amount in USD from its broker or custodian bank on T+3. Similarly an investor who sells a security denominated in USD will need to make payment of the settlement amount in USD to its broker or custodian bank by T+3. In both cases, the settlement amount is not converted in Mauritian Rupee at any point in time during the settlement process.

1.2.2 Dual-Currency Trading and Settlement

In December 2016, SEM and CDS introduced dual-currency trading and settlement for the securities of foreign and global business companies listed on the SEM with the objective of offering investors the option to trade securities that are currently only traded in foreign currency, in MUR as well. At the request of the respective issuers, SEM allows securities that are denominated in foreign currencies, to be traded in the following currencies:

- (i) the primary currency which is the currency in which the security is issued in; and
- (ii) the local currency namely the Mauritian Rupee (MUR).

1.3 Statistics

1.3.1 Operational Reliability

The settlement efficiency of CDS is 100%. There has never been any failed trade in CDS.

There was no systems downtime during the past 5 years.

No exceptions were found by auditors during the past 5 years.

In April - May 2017, PricewaterhouseCoopers conducted a security audit of the IT systems of the CDS and SEM. In their report, the auditors stated that they found that the IT infrastructure of SEM and CDS have been well designed to protect against both internal and external threats. They performed external attacks such as password cracking, denial of service, buffer overflow, user enumeration among others on the web facing application, but were not able to penetrate inside the network or retrieve any information. Their vulnerability assessment and penetration testing did not reveal weaknesses which may lead to the direct compromise of the SEM/CDS IT infrastructure. As part of their review, they also validated that our servers, databases and network equipment are

appropriately configured in line with good practices and proven methods. The report also concluded that the IT security policy and IT contingency plan are well designed and structured to mitigate known security risks, and that the disaster recovery procedures are tested regularly to ensure a timely resumption of services following a major incident or disaster.

1.3.2 Average Aggregate Intraday Exposures to Participants

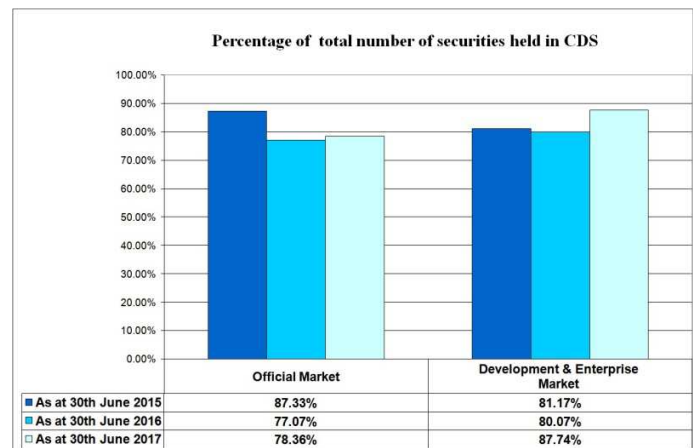
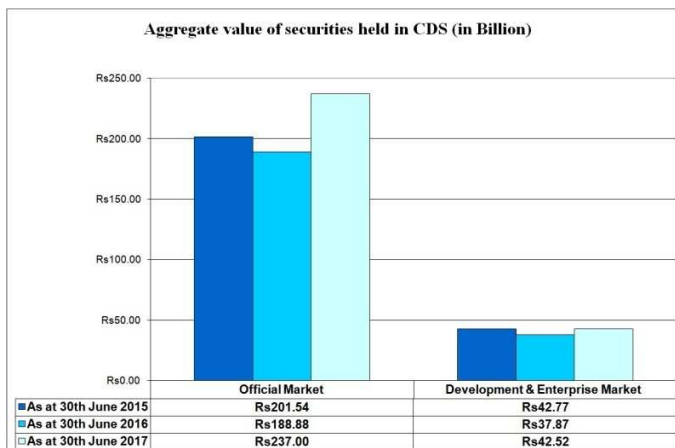
The average daily turnover on the Stock Exchange of Mauritius over the past 3 years is given below. This is the average aggregate intraday exposure of CDS to its participants.

2016-2017 MUR 60,792,003

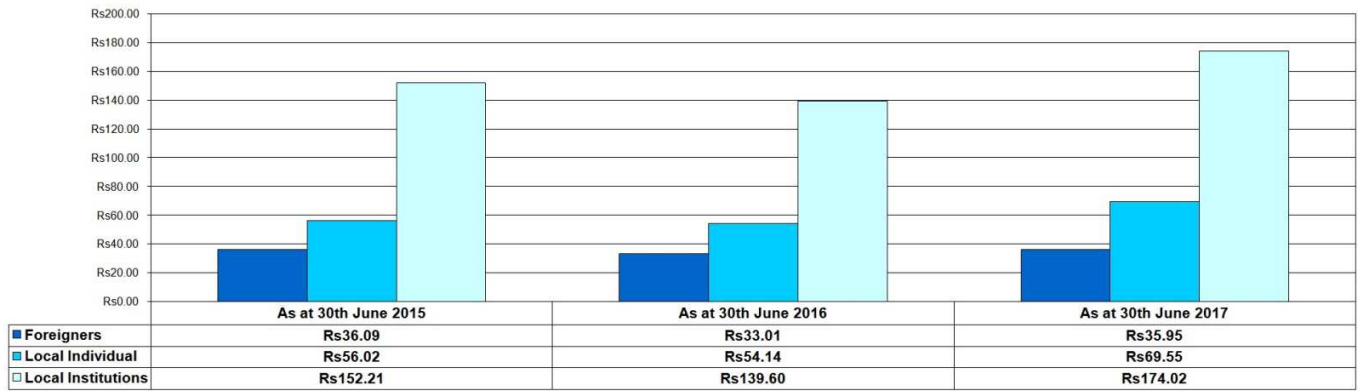
2015-2016 MUR 58,299,182

2014-2015 MUR 89,015,032

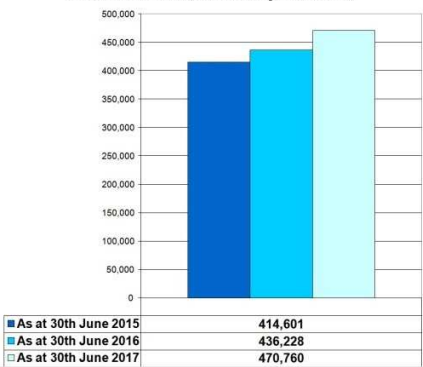
1.3.3 Statistics on Operations



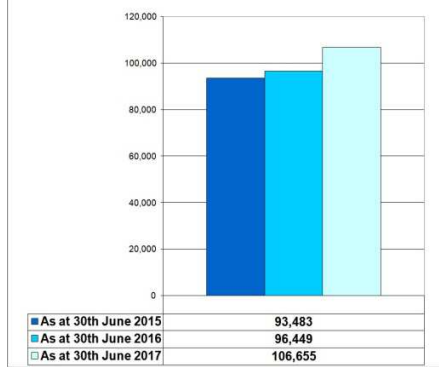
Breakdown of aggregate value held in CDS (in Billion)



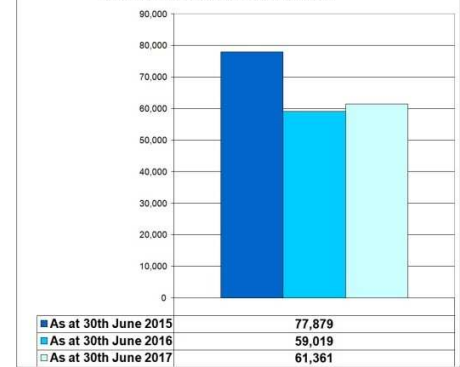
Number of securities accounts opened in CDS

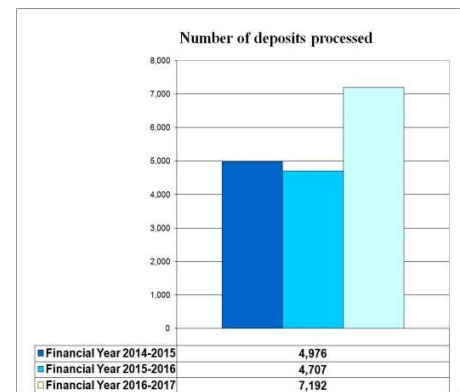
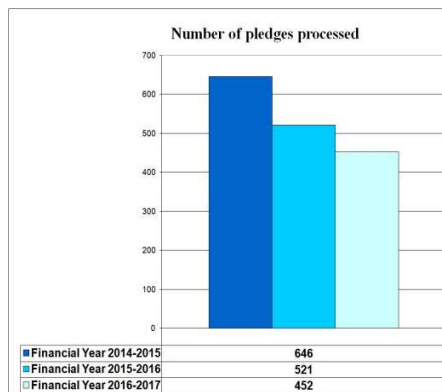
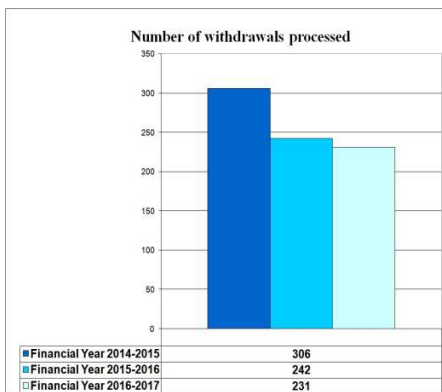
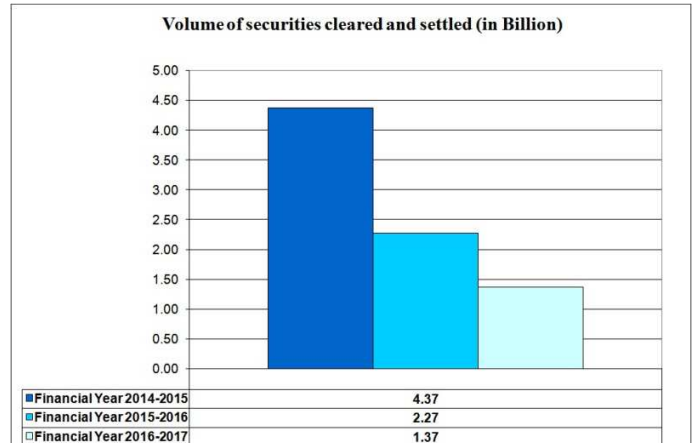
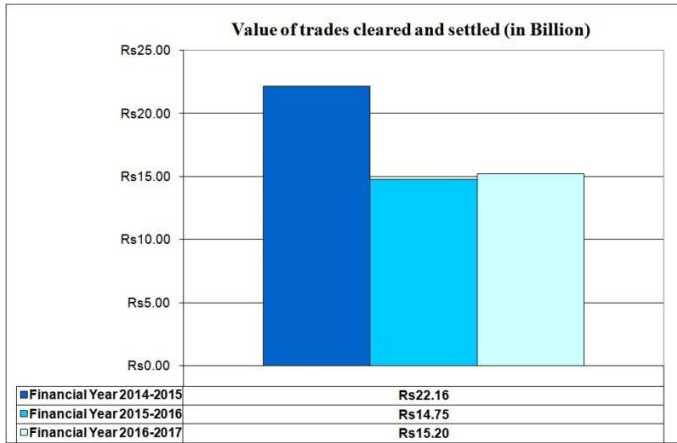
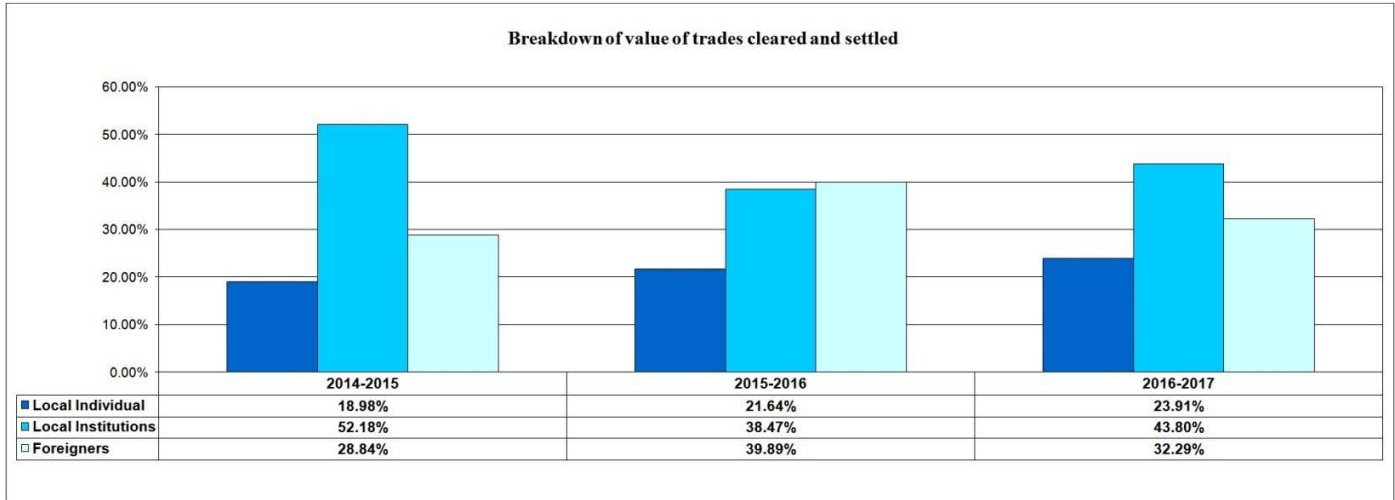


Number of registered clients



Number of trades cleared and settled





2.0 General Organisation of the CDS

2.1 Composition of the Board

The Company has a unitary Board composed of 10 directors as follows:

- 5 directors appointed by the SEM;
- 1 director appointed by the Minister to whom the responsibility of Financial Services is attributed;
- 1 director appointed by the Bank of Mauritius;
- 2 directors appointed by ordinary resolution at the annual meeting of shareholders (and where the SEM is not entitled to vote on any resolution appointing such 2 directors);
- 1 Managing Director.

With the exception of the Managing Director, all directors have a term of office of one year.

A directors' and officers' liability insurance policy has been subscribed to by the Company. This policy provides cover for the risks arising out of acts or omissions of the directors and officers of the Company but excludes claims for any deliberately fraudulent act or omission or any wilful violation of any statute or regulation.

An induction pack is given to new directors to familiarise them with the Company's affairs and operations.

2.2 Board Committees

The Board has constituted the following committees to facilitate efficient decision making and to assist it in the execution of its duties and responsibilities: Audit Committee; Corporate Governance Committee; Remuneration Committee and Investment Committee. The terms of reference of these Committees have been determined and approved by the Board and are posted on the website of the Company. The Corporate Governance Committee also has the responsibilities of a Nomination Committee. A separate Risk Committee has not been set up since the Business Conduct Committee, which was set-up at the inception of CDS, already covers the functions of the Risk Committee. The work done by the Business Conduct Committee is covered in the Risk Management Report.

The main responsibility of the Audit Committee is to assist the Board in discharging its duties relating to the safeguarding of assets, the operation of adequate systems, control processes and the preparation of accurate financial reporting and statements in compliance with all applicable legal requirements and accounting standards.

The Corporate Governance Committee makes recommendations to the Board on all corporate governance measures to be adopted so that the Board remains effective and complies with prevailing corporate governance principles. It also oversees the CSR activities of the Company. The Committee ensures that the reporting requirements with regard to corporate governance, whether in the annual report or on an ongoing basis, are in accordance with the principles of the Code of Corporate Governance.

The Remuneration Committee determines the annual salary increases and the performance bonus of employees of the Company. The Committee makes recommendations to the Board regarding the remuneration of the Managing Director and Non-Executive Directors.

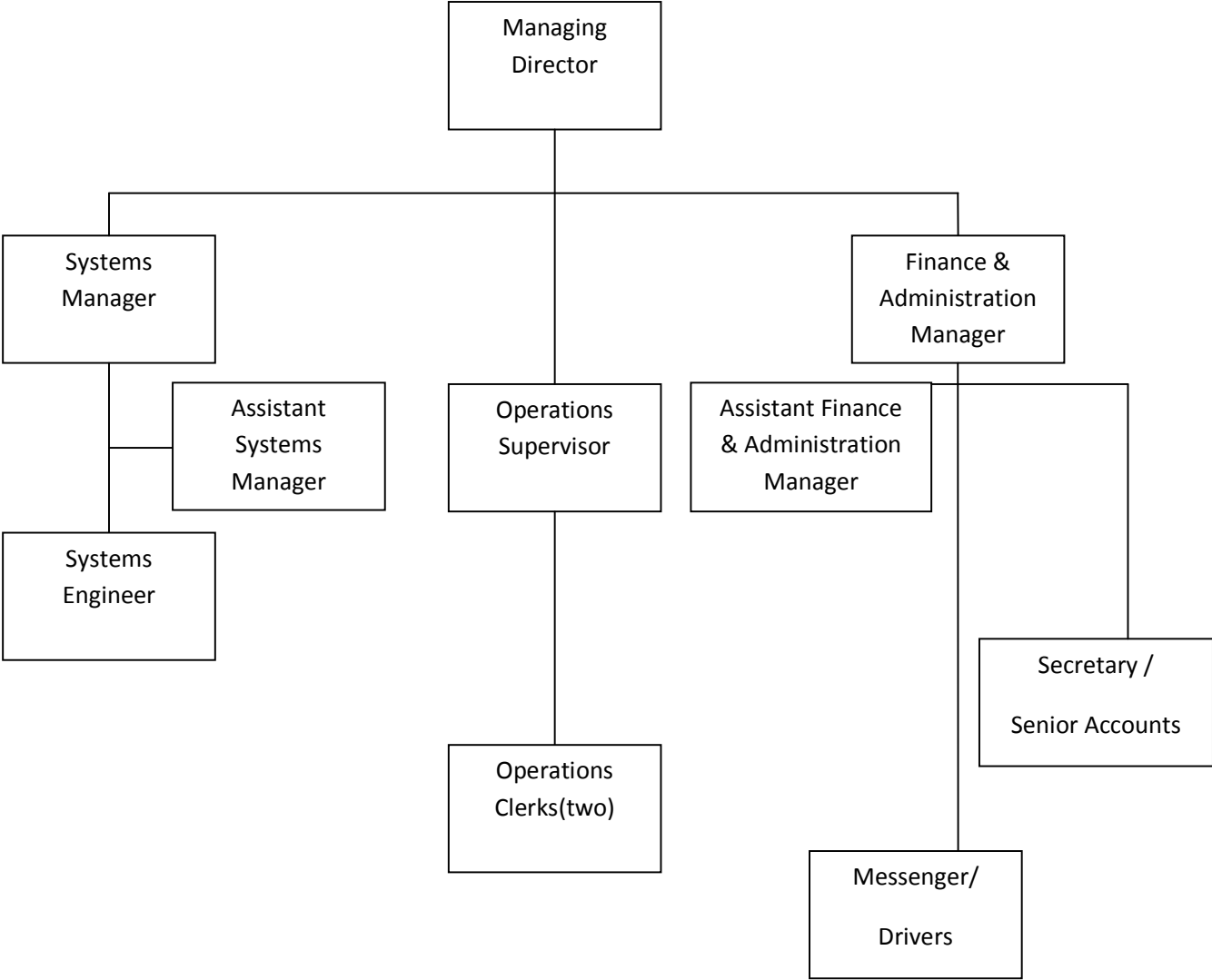
The Investment Committee sets investment guidelines within which funds generated by the Company are invested. Investment decisions are then made by management based on the guidelines. The decisions of management do not need to be approved by the Investment Committee as long as they are within the parameters of the investment guidelines. The Investment Committee is kept informed of the investment decisions taken via electronic mail. Any proposed deviation from the Investment Guidelines must be approved by the Committee.

2.3 Role of Managing Director

The Managing Director performs the following main duties:

- a) Make recommendations to the Board regarding strategic issues;
- b) Oversee management activities and human resources;
- c) Responsible for overall operations, cost control, risk management and development of the company;
- d) Manage legal and regulatory issues;
- e) Responsible for the implementation of Board decisions and policies;
- f) Interact with government and relevant institutions in the financial sector;
- g) Promote the Company on the international scene.

2.4 Organisational Structure



3.0 Legal and Regulatory Framework

The Securities (Central Depository, Clearing and Settlement) Act 1996 provides the legal framework for the establishment and operations of the CDS.

The Securities (Central Depository, Clearing and Settlement) Act 1996 and the Rules of CDS includes provisions for:

- Depository, clearing and settlement services;
- The development of systems in which securities can be issued and transferred without any certificates
- The Bank of Mauritius to act as the clearing bank for the settlement of funds;
- DvP
- Netting
- Settlement finality
- Pledging of securities
- The establishment and maintenance of a Guarantee Fund;
- Duty of confidentiality as regards information recorded in the CDS system.

The CDS is regulated by the Financial Services Commission under the Securities (Central Depository, Clearing and Settlement) Act 1996, the Securities Act 2005 and the Financial Services Act 2007. The day-to-day activities of the CDS are governed by the CDS Rules and Procedures. The CDS Rules and any amendment thereto are approved by the Financial Services Commission. The relevant laws, Rules and Procedures are disclosed on the website of CDS.

The only jurisdiction that is relevant to the activities of CDS is Mauritius.

Shareholders of CDS

Shareholder	Number of shares	Percentage holding
The Stock Exchange of Mauritius Ltd	76,500	51.00%
The Mauritius Commercial Bank Ltd	25,000	16.67%
Rogers and Company Ltd	20,000	13.33%
Promotion & Development Limited	10,000	6.67%
SBM Securities Ltd	5,000	3.33%
Swan General Ltd	5,000	3.33%
United Docks Ltd	2,500	1.67%
Harel Mallac & Co. Ltd	2,500	1.67%
State Investment Corporation Ltd	2,000	1.33%
Automatic Systems Ltd	1,000	0.67%
Mauritius Computing Services Ltd	500	0.33%
	150,000	100%

Any change in the ownership of shares of the Company is subject to restrictions and limitations set out in the Constitution of the Company and must be approved by the Financial Services Commission.

4.0 System Design and Operations

The CDS computer system is designed within a client /server architecture and is implemented using UNIX operating system and Oracle RDBMS running on the main server and a back-up server. The front-end application software runs on client PCs within Windows environment. Comprehensive tests are carried out to ensure that the system is aligned with the Rules and Procedures.

Participants are connected to the CDS via secured leased lines from the national telecommunications operator.

The CDS computer system includes advanced industry-standard security and auditing features. Password control and password ageing functions are implemented for system access control. The system is located at the company's site and the environment includes UPS, backup generator, fire protection, and physical access control to the computer room.

A Disaster Recovery Plan (DRP) is in place to cater for various scenarios. The DRP covers both preventive and corrective measures that will enable CDS to deal with various types of disasters that can disrupt normal systems operation. The back up server maintains a mirror image of the database on the main server. In the event of a problem with the main server, the back up server takes over within 10 minutes, without physical intervention at client sites. In the event of a major disaster site that causes the CDS site to be unavailable, systems and business operations will be restored at a back up site within 2 hours. The DRP is simulated at least three times a year.

Prevention of loss of data in the event of media failures is achieved through the implementation of redundant and cyclical backup tapes that are stored both on-site and off-site.

4.1 Transaction Lifecycle

Trades executed on the Automated Trading System (SEMATS) are automatically fed into the CDS system and the relevant securities accounts are updated on a real-time basis (purchase-in-suspense, sale-in-suspense). Trade confirmation between investment dealers occurs immediately after trading on T+0. The system provides contract notes, transaction reports, and settlement reports to Participants on trade date itself (T+0).

On trade day, the seller's Securities Account shows a Sale-in-Suspense and the traded securities are not available for further trade. The buyer's Securities Account shows a Purchase-in-Suspense. With the implementation of turnaround trading as from 11th April 2008, securities purchased during a trading session may be subsequently sold during the same session or at any time before the settlement date.

Custodian banks have up to T+2 noon to refuse (online negative affirmation) trades that have been allocated to their clients by investment dealers. A trade that is refused by the custodian bank has to be settled by the investment dealer that effected the trade on the exchange. Investment dealers may re-allocate trades up to T+2 noon. Trades that are confirmed or re-allocated between T+2 noon

and T+3 9:00 Hrs are subject to a fine. No confirmation or re-allocation is allowed after T+3 9:00 Hrs.

On settlement date, funds transfer between the seller's and buyer's participants takes place at 12:00 Hrs on a net basis through the participants' settlement banks and the clearing bank (Central Bank). When funds settlement is completed by final and irrevocable transfer in the books of the central bank, the latter send an XML file to CDS which then immediately transfers the securities by debiting the seller's Securities Account and crediting the buyer's Securities Account. This ensures strict delivery versus payment.

4.2 Validation and Checks

The system of internal controls is implemented in the Rules and Procedures that govern the day-to-day activities of the CDS and is also integrated in the design of the computer system of CDS. Additional measures have been implemented to ensure the integrity of data and the effectiveness of the internal control system. These measures include the following:

- a) Before any entry is made in the system, strict verifications are carried out against source documents and instructions.
- b) The list of the authorised personnel of registries and CDS participants together with their specimen signatures and the respective powers conferred to them by their company, are kept up-to-date and are referred to when processing transactions relating to the registries and participants.
- c) After posting into the system, verifications are carried out to ensure that balances are correctly updated by new validations or transactions posted. The balances of securities recorded in the system of CDS are reconciled with the figures (balances of securities held in the name of CDS) provided by registries, after the processing of each deposit and withdrawal.
- d) All operations like deposits, withdrawals, transfers, pledges and trade amendments involve at least two CDS staff for control purposes. One person executes the function while the other verifies whether the function has been correctly executed.
- e) A full concurrent audit is carried out to ensure that all transactions are backed up by relevant instructions and source documents.
- f) A series of automated tests are performed by the Systems Department to verify the integrity of the database on a daily basis.

IV. Principle-by-principle summary narrative disclosure

Principle 1: Legal basis

An FMI should have a well-founded clear, transparent and enforceable legal basis for each aspect of its activities in all relevant jurisdictions.

Summary Narrative

The Securities (Central Depository, Clearing and Settlement) Act 1996 provides the legal framework for the establishment and operations of the CDS.

The Securities (Central Depository, Clearing and Settlement) Act 1996 and the Rules of CDS includes provisions for:

- Depository, clearing and settlement services;
- The development of systems in which securities can be issued and transferred without any certificates
- The Bank of Mauritius to act as the clearing bank for the settlement of funds;
- DvP
- Netting
- Settlement finality
- Pledging of securities
- The establishment and maintenance of a Guarantee Fund;
- Duty of confidentiality as regards information recorded in the CDS system.

The CDS is regulated by the Financial Services Commission under the Securities (Central Depository, Clearing and Settlement) Act 1996, the Securities Act 2005 and the Financial Services Act 2007. The day-to-day activities of the CDS are governed by the CDS Rules and Procedures. The CDS Rules and any amendment thereto are approved by the Financial Services Commission. The relevant laws, Rules and Procedures are disclosed on the website of CDS.

The only jurisdiction that is relevant to the activities of CDS is Mauritius.

Section 3(5) and 10 of the Securities (Central Depository, Clearing and Settlement) Act 1996 provide for dematerialisation of securities and book-entry.

Sections 4.2.7 and 4.2.9 of the CDS Rules provide for netting and settlement finality respectively.

Section 15 of the Securities (Central Depository, Clearing and Settlement) Act 1996 provides for set-off of obligations and realization of assets of an insolvent participant.

All the stakeholders of CDS have a clear understanding of the relevant laws, Rules and Procedures of CDS. Since the start of operations in 1997, there has never been any dispute regarding legal and regulatory provisions. There has also never been any complaints to the regulator nor any litigations.

Section 13 of the Securities (Central Depository, Clearing and Settlement) Act 1996 states that no order shall be made by the Court for rectification of the Depository Register, except where the Court is satisfied that -

- (a) a depositor did not consent to a transfer of the deposited securities; or
- (b) a depositor should not have been registered in the Depository Register as having title to the deposited securities,

it may award damages to the first mentioned depositor or to any person who would have been entitled to have been registered in the Depository Register as having title to the deposited securities, as the case may be, on such terms as the Court thinks equitable or make such other order as the Court thinks fit, including an order for the transfer of deposited securities to such depositor or person

Principle 2: Governance

A FMI should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.

Summary Narrative

The governance arrangements of the CDS are set out in the Constitution of the company and in the Corporate Governance Report that forms part of the Annual Report. The Annual Report is available to the public on the company website.

On page 2 of the Annual Report of CDS it is clearly stated that the objective of the Company is to provide its services in line with the Principles for Financial Market Infrastructures that were issued by the Bank for International Settlements (BIS) and International Organization of Securities Commissions (IOSCO) in April 2012, with particular emphasis on safety, efficiency and financial stability.

On page 19 of the Annual Report, under the section on Dividend, it is stated that the objective of the Company is to provide an acceptable return to its shareholders whilst at the same time continuing to build up its reserves to ensure business continuity and provide a shock absorber to cover the ultimate risk of default in the event that the resources of the Guarantee Fund are exhausted.

The Company has a unitary Board composed of 10 directors as follows:

- 5 directors appointed by the SEM;
- 1 director appointed by the Minister to whom the responsibility of Financial Services is attributed;
- 1 director appointed by the Bank of Mauritius;
- 2 directors appointed by ordinary resolution at the annual meeting of shareholders (and where the SEM is not entitled to vote on any resolution appointing such 2 directors);
- 1 Managing Director.

With the exception of the Managing Director, all directors have a term of office of one year.

The powers and duties of the Board are set out in section 23 of the Constitution of the Company.

23.1 “Powers of the Board

- (a) Subject to any restrictions in the Act or this Constitution, the business and affairs of the Company shall be managed by or under the direction or supervision of the Board.
- (b) The Board shall have all the powers necessary for managing, and for directing and supervising the management of, the business and affairs of the Company except to the extent that this Constitution or the Act expressly requires those powers to be exercised by the Shareholders or any other person.
- (c) The Board shall moreover have all the powers of the Company as expressed in section 27 of the Act and clause 7 of this Constitution, including, but not limited to, the power to purchase and sell property, to borrow money and to mortgage, pledge or create charges on its assets and to issue debentures and other securities, whether outright or as security for any debt, liability, or obligation of the Company or of any third party.”

The Board has adopted a Code of Corporate Behaviour that describes how conflicts of interest are identified and managed.

The Board has constituted the following committees to facilitate efficient decision making and to assist it in the execution of its duties and responsibilities: Audit Committee; Corporate Governance Committee; Remuneration Committee and Investment Committee. The terms of reference of these Committees have been determined and approved by the Board and are posted on the website of the Company. The Corporate Governance Committee also has the responsibilities of a Nomination Committee. A separate Risk Committee has not been set up since the Business Conduct Committee, which was set-up at the inception of CDS, already covers the functions of the Risk Committee. The work done by the Business Conduct Committee is covered in the Risk Management Report.

The main responsibility of the Audit Committee is to assist the Board in discharging its duties relating to the safeguarding of assets, the operation of adequate systems, control processes and the preparation of accurate financial reporting and statements in compliance with all applicable legal requirements and accounting standards.

The Corporate Governance Committee makes recommendations to the Board on all corporate governance measures to be adopted so that the Board remains effective and complies with prevailing corporate governance principles. It also oversees the CSR activities of the Company. The Committee ensures that the reporting requirements with regard to corporate governance, whether in the annual report or on an ongoing basis, are in accordance with the principles of the Code of Corporate Governance.

The Remuneration Committee determines the annual salary increases and the performance bonus of employees of the Company. The Committee makes recommendations to the Board regarding the remuneration of the Managing Director and Non-Executive Directors.

The Investment Committee sets investment guidelines within which funds generated by the Company are invested. Investment decisions are then made by management based on the

guidelines. The decisions of management do not need to be approved by the Investment Committee as long as they are within the parameters of the investment guidelines. The Investment Committee is kept informed of the investment decisions taken via electronic mail. Any proposed deviation from the Investment Guidelines must be approved by the Committee

A survey is conducted among directors on a regular basis to evaluate the effectiveness of the board governance processes and procedures. A Board Self-Evaluation questionnaire which covers the following main areas is used for this purpose:

- Board Meetings
- Board Structure and Composition
- Leadership of the Board
- Board Functions
- Board Committees
- Planning and Objectives
- Risk Assessment
- Human Resources and Succession Planning
- Financial and Operational Reporting
- Compliance and Ethical Framework

The Corporate Governance Committee reviews the blend of skills and experience needed by the CDS so that the Board can discharge its responsibilities effectively and assessed the availability of these skills with respect to the current composition of the Board. The Board consists of 9 non-executive directors of whom 2 are independent. This is disclosed in the Annual Report of the Company.

The role of the Managing Director is set out in the Annual Report. The Managing Director performs the following main duties:

- h) Make recommendations to the Board regarding strategic issues;
- i) Oversee management activities and human resources;
- j) Responsible for overall operations, cost control, risk management and development of the company;
- k) Manage legal and regulatory issues;
- l) Responsible for the implementation of Board decisions and policies;
- m) Interact with government and relevant institutions in the financial sector;
- n) Promote the Company on the international scene.

The duties of the other members of the management team is set out in their Job Description.

The risk management framework is set out in the Annual Report. Since its inception in 1997 and in accordance with section 1.4 of the CDS Rules, the CDS has set up a Business Conduct Committee (BCC) with the following mandate:

2. Recommend the adoption of a risk management policy to the Board of Directors
3. Monitor the operations relating to risk management issues
 - 2.1 Ensure enforcement of the risk management policy being adopted, at all levels of the organisation

2.2 Ensure compliance with the requirements of Rule 3.8.7 with regard to the review of internal control

4. Monitor the operations relating to the Guarantee Fund
5. Hear complaints from aggrieved Participants who claim to be adversely affected by any decision of CDS with respect to CDS operations in accordance with Rule 2.4
6. Make recommendations to the Board of Directors of CDS with respect to Participation Applications in accordance with Rule 2.2.4 and to Termination in accordance with Rule 2.3.3.

The CDS has established a Clearing and Settlement Advisory Committee to review and make recommendations concerning systems design, operational procedures and problems and the introduction of new services, as required by section 27 of the Securities Act 2005.

Principle 3: Framework for the comprehensive management of risks

An FMI should have a sound risk management framework for comprehensively managing legal, credit, liquidity, operational, and other risks.

Summary Narrative

The ability to identify, monitor, measure and manage risks on an ongoing basis is crucial for a central depository, clearing and settlement organisation. Over the years, the CDS has developed a comprehensive risk management framework to manage the different types of risks that arise in or are borne by a central depository, clearing and settlement organisation, namely: legal risk; credit (counterparty) risk; liquidity risk; systemic risk; general business risk; investment risk; and operational risk. The risk management policies, procedures and systems that are in place at the CDS are set out below.

The main pillars of the risk management framework implemented by the CDS are as follows:

- Clear, transparent and enforceable rules and procedures that are consistent with the Securities (Central Depository, Clearing and Settlement) Act 1996, the Securities Act 2005 and the Financial Services Act 2007
- The Business Conduct Committee
- Capital Adequacy Requirements for Participants
- Settlement on a strict delivery versus payment basis
- Prevention of Settlement Failures and Guarantee Fund Mechanism
- Securities Lending and Borrowing
- System of Internal Controls
- External Audit of the System of Internal Controls
- Internal Audit of Operations and Systems Departments
- Disaster Recovery Plan
- IT Security Audit
- Financial Control
- Investment Committee
- Strong and liquid balance sheet

The CDS has set up capital adequacy requirements for its Participants as a first line of defence against risk. An assessment of the stability and financial health of Participants in the clearing and settlement services provides an important indication of potential trouble. The CDS has

implemented a set of rules on conditions for participation called Financial Resource Requirements. These rules require each investment dealer to have sufficient adjusted liquid capital to cover its fixed expenditure base requirements and risk (position, counter party and foreign exchange) requirements. Investment dealers are required to submit monthly returns so that CDS can monitor compliance with the Financial Resource Requirements (FRR). These returns are analysed by the BCC at its monthly meetings. Copies of the FRR returns are also filed with the Financial Services Commission.

In accordance with Section 3(8)(a) of the Securities (Central Depository, Clearing and Settlement) Act 1996, the CDS has set up a Guarantee Fund for the purpose of providing an indemnity against any default in respect of payments for or delivery of securities and of obligations of Participants towards CDS. The CDS Guarantee Fund is used to guarantee the settlement of transactions in the event of a default by a Participant. In such a situation, the Guarantee Fund steps into the net settlement mechanism and makes good the obligation of the defaulting Participant. The Guarantee Fund will seize the unpaid securities and sell these back on the market in order to replenish itself. The Guarantee Fund acts as a shock absorber in the event of a settlement failure and thus prevents the market from collapsing through systemic effect. The Guarantee Fund contributes to maintain confidence in the stock market.

The Fund is constituted of cash contributions by investment dealers and CDS, as well as Letters of Credit/Deposits provided by investment dealers. The assets of the Fund are segregated from those of the CDS (separate bank accounts) and are available only for the purpose of the Fund as required by law. The Fund is independently managed by the Business Conduct Committee. The assets of the Fund are invested in low-risk liquid instruments. The size of the Fund as at 30th June 2017 was as follows:

Cash contributions: Rs 34,020,472

Letters of Credit/Deposits submitted by investment dealers: Rs 28,119,000

The Fund can also have recourse to a standby line of credit of Rs 50 M from its bank.

Each investment dealer has a settlement limit that is based on the amount of collateral (cash and letters of credit) submitted to CDS. The minimum amount of the collateral required for an investment dealer is based on the moving average of its cumulative liability over the past 12 months. CDS monitors the settlement obligation of each investment dealer on a daily basis. If at the close of trading, the net cumulative liability (total amount of unsettled obligations over a period of three days) of an investment dealer exceeds its settlement limit, the investment dealer is required to submit additional collateral before being allowed to buy more securities during the next trading session. CDS provides an online tool to participants to allow them monitor their settlement limits.

If an investment dealer fails to meet its settlement obligations, the CDS will have recourse to its Letter of Credit and to the Guarantee Fund to meet the investment dealer's obligations and complete the settlement of transactions. The Stock Exchange of Mauritius (SEM) and the Financial Services Commission will be immediately notified of the funds settlement failure.

The key entities on which CDS depend to provide its services are the Stock Exchange of Mauritius (SEM) and the Bank of Mauritius (central bank). Trades are executed on the trading system of the

SEM and are automatically fed into the system of CDS. The SEM has outsourced the management of the trading system to the CDS and both the trading system and the CDS system runs on the same network. The IT Policies and Disaster Recovery Plan of the CDS also cover the trading system.

The central bank acts as settlement bank for the transfer of funds. Communications between the payment system of the central bank and the CDS take place via both e-mails and hard copy reports.

The Investment Guidelines of CDS states that notwithstanding any dividend policy of the CDS, the CDS should maintain cash reserves equivalent to at least five years' budgeted expenditure (based on current year budget estimates) to ensure its own business continuity during severe crises and to provide a shock absorber to cover the ultimate risk of default. This amount is invested in low-risk fixed income instruments in Mauritian Rupee. In the event of a default, the liability of CDS is limited to the size of the Guarantee Fund and the reserves of CDS. The hierarchy of claims in the event of a default are set out in the Guarantee Fund Procedures.

Principle 4: : Credit risk - An FMI should effectively measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing and settlement processes. An FMI should maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. In addition, a CCP that is involved in activities with a more complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not limited to, the default of the two largest participants and their affiliates that would potentially cause the largest aggregate credit exposures to the CCP in extreme but plausible market conditions. All other CCPs should maintain, at a minimum, total financial resources sufficient to cover the default of the one participant and its affiliates that would potentially cause the largest aggregate credit exposures to the CCP in extreme but plausible market conditions.

Summary Narrative

The management of credit risk is set out in the CDS Guarantee Fund Procedures in a comprehensive manner. To guarantee settlement, CDS has put in place a series of lines of defence - financial safeguards - that allow it to manage settlement risk.

Risk management requires that CDS:

1. identifies risks (as detailed in section 1.3);
2. take preventive measures to minimise the risk of settlement failure (as detailed in 1.4)
3. put in place a contingency plan - a guarantee mechanism - in the event a Participant fails to honour his settlement obligations (as detailed in 1.5)

The above are described in sections 1.3, 1.4 and 1.5 respectively of the CDS Guarantee Fund Procedures. This document is available on the website of the CDS.

Each investment dealer has a settlement limit that is based on the amount of collateral (cash and letters of credit) submitted to CDS. The minimum amount of the collateral required for an investment dealer is based on the moving average of its cumulative liability over the past 12 months. CDS monitors the settlement obligation of each investment dealer on a daily basis. If at the close of trading, the net cumulative liability (total amount of unsettled obligations over a

period of three days) of an investment dealer exceeds its settlement limit, the investment dealer is required to submit additional collateral before being allowed to buy more securities during the next trading session.

If an investment dealer fails to meet its settlement obligations, the CDS will have recourse to its Letter of Credit and to the Guarantee Fund to meet the investment dealer's obligations and complete the settlement of transactions. The Stock Exchange of Mauritius (SEM) and the Financial Services Commission will be immediately notified of the funds settlement failure.

In accordance with Section 3(8)(a) of the Securities (Central Depository, Clearing and Settlement) Act 1996, the CDS has set up a Guarantee Fund for the purpose of providing an indemnity against any default in respect of payments for or delivery of securities and of obligations of Participants towards CDS. The CDS Guarantee Fund is used to guarantee the settlement of transactions in the event of a default by a Participant. In such a situation, the Guarantee Fund steps into the net settlement mechanism and makes good the obligation of the defaulting Participant. The Guarantee Fund will seize the unpaid securities and sell these back on the market in order to replenish itself. The Guarantee Fund acts as a shock absorber in the event of a settlement failure and thus prevents the market from collapsing through systemic effect. The Guarantee Fund contributes to maintain confidence in the stock market.

It is important to note that to date there has never been any failed trade in the CDS.

The Fund is constituted of cash contributions by investment dealers and CDS, as well as Letters of Credit/Deposits provided by investment dealers. The assets of the Fund are segregated from those of the CDS (separate bank accounts) and are available only for the purpose of the Fund as required by law. The Fund is independently managed by the Business Conduct Committee. The assets of the Fund are invested in low-risk liquid instruments. The size of the Fund as at 30th June 2017 was as follows:

Cash contributions: Rs 34,020,472

Letters of Credit/Deposits submitted by investment dealers: Rs 28,119,000

The Fund can also have recourse to a standby line of credit of Rs 50 M from its bank. This means that the total resources available to the Fund in the event of a default amount to Rs 112.1 M.

As per section 1.5.2 of the Guarantee Fund Procedures, if the resources of the Fund are not sufficient to cover a default, CDS will use its reserves which amounted to Rs 204.5 M as at 30th June 2017.

Therefore, the total resources available to CDS to cover its credit exposure to its participants amounted to Rs 316.6 M as at 30th June 2017. The sufficiency of this amount can be assessed by taking into consideration the following facts:

- the average daily turnover on the market during 2016-2017 was Rs 60.8 M
- the highest settlement obligation of a participant during 2016-2017 was Rs 511.8 M (exceptional transaction in the context of a restructuring)

Principle 5: Collateral - An FMI that requires collateral to manage its or its participants' credit exposure should accept collateral with low credit, liquidity, and market risks. An FMI should also set and enforce appropriately conservative haircuts and concentration limits.

Summary Narrative

The CDS accepts only cash deposits and irrevocable Letters of Credit issued by a bank, as collateral. The Collateral Management System forms part of the core depository, clearing and settlement system of CDS. The amount of collateral required and submitted by each participant is monitored on a daily basis.

Principle 6: Margin - A CCP should cover its credit exposures to its participants for all products through an effective margin system that is risk-based and regularly reviewed.

Summary Narrative

CDS is not a CCP. It has set up a Guarantee Fund and settlement caps for brokers to guarantee the settlement of trades (see response to Principle 4 above).

Principle 7: Liquidity risk - An FMI should effectively measure, monitor and manage its liquidity risk. An FMI should maintain sufficient liquid resources in all relevant currencies to effect same-day and, where appropriate intraday and multiday payment of settlement obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the FMI in extreme but plausible market conditions.

Summary Narrative

In accordance with Section 3(8)(a) of the Securities (Central Depository, Clearing and Settlement) Act 1996, the CDS has set up a Guarantee Fund for the purpose of providing an indemnity against any default in respect of payments for or delivery of securities and of obligations of Participants towards CDS. The CDS Guarantee Fund is used to guarantee the settlement of transactions in the event of a default by a Participant. In such a situation, the Guarantee Fund steps into the net settlement mechanism and makes good the obligation of the defaulting Participant. The Guarantee Fund will seize the unpaid securities and sell these back on the market in order to replenish itself.

The Fund is constituted of cash contributions by investment dealers and CDS, as well as Letters of Credit/Deposits provided by investment dealers. The assets of the Fund are segregated from those of the CDS (separate bank accounts) and are available only for the purpose of the Fund as required by law. The Fund is independently managed by the Business Conduct Committee. The assets of the Fund are invested in low-risk liquid instruments. The size of the Fund as at 30th June 2017 was as follows:

Cash contributions: Rs 34,020,472

Letters of Credit/Deposits submitted by investment dealers: Rs 28,119,000

The Fund can also have recourse to a standby line of credit of Rs 50 M from its bank. This means that the total resources available to the Fund in the event of a default amount to Rs 112.1 M.

The settlement bank of the Guarantee Fund is the Mauritius Commercial Bank Ltd (MCB) which is the largest bank in Mauritius. The assets of the Fund are held only in Savings and Term Deposit accounts at the MCB. The Term Deposit accounts can be encashed at any time before maturity.

As per section 1.5.2 of the Guarantee Fund Procedures, if the resources of the Fund are not sufficient to cover a default CDS will use its reserves which amounted to Rs 204.5 M as at 30th June 2017. The reserves of CDS are invested only in low-risk fixed income instruments (fixed deposits with banks and other deposit taking institutions licensed by the central bank) in accordance with the Investment Guidelines of CDS. The maximum percentage of total funds that can be placed with any one institution is limited to 15%. The Investment Guidelines of CDS states that notwithstanding any dividend policy of the CDS, the CDS should maintain cash reserves equivalent to at least five years' budgeted expenditure (based on current year budget estimates) to ensure its own business continuity during severe crises and to provide a shock absorber to cover the ultimate risk of default.

The total resources available to CDS to cover its credit exposure to its participants amounted to Rs 316.6 M as at 30th June 2017. The sufficiency of this amount can be assessed by taking into consideration the following facts:

- the average daily turnover on the market during 2015 was Rs 60.8 M
- the highest settlement obligation of a participant during 2015 was Rs 511.8 M (exceptional transaction in the context of a restructuring)

The settlement obligations of participants are monitored on a daily basis. The resources available to the Fund and to CDS are also monitored on a daily basis (via online banking etc.)

Principle 8: Settlement finality - An FMI should provide clear and certain final settlement, at a minimum by the end of the value date. Where necessary or preferable, an FMI should provide final settlement intraday or in real time.

Summary Narrative

Section 4.2.7 of the CDS Rules state that upon completion and settlement of the Eligible Securities and payment therefor, the Transaction is final and irrevocable and cannot be unwound. The central bank informs CDS of the completion of the transfer of funds at noon on settlement date. CDS then immediately transfers the securities between the accounts of buyers and sellers. Settlement is final and irrevocable at this point.

Principle 9: Money settlements - An FMI should conduct its money settlements in central bank money where practical and available. If central bank money is not used, an FMI should minimise and strictly control the credit and liquidity risk arising from the use of commercial bank money.

Summary Narrative

Money settlements is conducted in central bank money in accordance with section 3(4) of the Securities (Central Depository, Clearing and Settlement) Act 1996 which states that the clearing bank for the settlement of funds in respect of transactions cleared through the CDS shall be the Bank of Mauritius. The process for the transfer of funds are set out in the CDS Procedures and have been agreed in writing between CDS and the Bank of Mauritius.

Principle 10: Physical deliveries - An FMI should clearly state its obligations with respect to the delivery of physical instruments or commodities and should identify, monitor, and manage the risks associated with such physical deliveries.

Summary Narrative

The CDS does not serve commodity markets. The CDS delivers securities certificates issued by the registry of companies to Participants when an investor withdraws its securities from CDS. Section 6 of the Securities (Central Depository, Clearing and Settlement) Act 1996 states the following:

“6. Withdrawal of security

- (1) A depositor may, in accordance with the rules of, and on application to, the CDS, withdraw a security standing to the credit of that depositor’s security account.

- (2) Where an application for the withdrawal of a deposited security is made under subsection (1) and the appropriate notification and withdrawal documents are received by the issuer or its share registry in accordance with rules of the CDS, the issuer shall by itself, or its share registry, notwithstanding the provisions relating to the issue of certificates under the Companies Act, complete and deliver to the CDS, for forwarding to the participant, all appropriate certificates in connection with the transfer of the securities within 14 days after the date of the receipt by it of the withdrawal documents.”

The withdrawal process and the obligations of CDS with respect to the delivery of certificates are set out in section 5.4 and 9 of the CDS Rules and Procedures, respectively.

Principle 11: Central securities depositories - A CSD should have appropriate rules and procedures to help ensure the integrity of securities issues and minimise and manage the risks associated with the safekeeping and transfer of securities. A CSD should maintain securities in an immobilised or dematerialised form for their transfer by book entry.

Summary Narrative

CDS maintains securities in dematerialized form for their transfer by book-entry. Section 10(1) of the Securities (Central Depository, Clearing and Settlement) Act 1996 states as follows:

“10. Transfer by depository

- (1) Subject to this Act, a transfer of deposited securities between depositors shall be effected, notwithstanding any provision to the contrary in the Companies Act or in any other enactment or in any instrument or in a company’s memorandum or articles of association, by the CDS making an appropriate entry in its Depository Register and shall take effect on the settlement date specified in the rules of the CDS”

The CDS Rules and Procedures set out the internal control measures that are in place to help ensure the integrity of securities issues and manage the risks associated with the safekeeping and transfer of securities. The complete set of rules and procedures are available on the following link: <http://www.stockexchangeofmauritius.com/CDS/legal-and-regulatory-framework>

Certificates that are deposited with CDS are sent to the registry of the issuer for confirmation of the authenticity thereof. Securities accounts are credited only after receipt of the confirmation of authenticity of certificates from the registry. The balance of securities held in CDS are reconciled with the records of the registry each time when securities are deposited with or withdrawn from CDS. The deposit and withdrawal processes are set out in sections 5 and 8 of the Procedures respectively.

Negative balances are not allowed in securities accounts.

Securities accounts are opened in the name of the beneficial owner. Section 3(5)(a)(ii) of the Securities (Central Depository, Clearing and Settlement) Act 1996 states that securities accounts are maintained by the CDS in the names of the depositors so as to reflect the title of the depositors to the deposited securities. Section 5.1.2 of the CDS Rules requires clients' accounts to be segregated from participants' proprietary accounts.

There are no securities accounts registered in the name of CDS. Section 5(1) of the Securities (Central Depository, Clearing and Settlement) Act 1996 protects clients' assets against creditors of CDS.

“5 CDS deemed not to be a member

(1) Notwithstanding any provision of the Companies Act or in any other enactment or in the memorandum or articles of association of a company, where the CDS is named in the register of members of the company or is named in a register of debenture holders or other security holders of any issuer -

(a) the CDS shall be deemed not to be a member of the company; and

(b) the persons named as the depositors in a Depository Register shall, for such period as the deposited securities are entered against their names in the Depository Register, be deemed to be-

(i) members of the company in respect of the amount of deposited securities (relating to the stocks or shares issued by the company) entered against their respective names in the Depository Register; or

(ii) holders of the amount of the issuer's deposited securities (relating to the debentures or any derivatives instruments or other deposited securities but excluding stocks or shares issued by a company) entered against their names in the Depository Register.”

The risk management framework of CDS covers all the activities of CDS. The main other activity performed by CDS is the technical management of the automated trading system of the Stock Exchange of Mauritius Ltd (SEM). The risks are addressed through proper IT Security Policies, audits and in the agreement between SEM and CDS.

Principle 12: Exchange-of-value settlement systems - If an FMI settles transactions that involve the settlement of two linked obligations (for example, securities or foreign exchange transactions), it should eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other.

Summary Narrative

The CDS has eliminated principal risk with respect to transactions effected on the Stock Exchange, by performing the settlement of transactions on a strict delivery versus payment basis. There is no risk that a CDS Participant delivers securities but does not receive payment or vice-versa. Trades executed on the Automated Trading System (SEMATS) are automatically fed into the CDS system and the relevant securities accounts are updated on a real-time basis. On trade day, the seller's securities account shows a Sale-in-Suspense and the traded securities are blocked in this account. The buyer's securities account shows a Purchase-in-Suspense but the securities are not transferred to this account. On settlement date, funds transfer between the seller's and buyer's Participants takes place at a cut-off time on a net basis through the Participants' settlement banks and the Bank of Mauritius. When funds settlement is completed by final and irrevocable transfer in the books of the Bank of Mauritius, the latter sends a confirmation message to CDS which then immediately transfers the securities by debiting the seller's securities account and crediting the buyer's securities account. The securities are delivered to the buyer if and only if the CDS receives confirmation of settlement of the cash leg from the central bank. Conversely, if the buyer makes payment, the delivery of the securities is guaranteed since the securities have already been blocked in the securities account of the seller.

Principle 13: Participant-default rules and procedures - An FMI should have effective and clearly defined rules and procedures to manage a participant default. These rules and procedures should be designed to ensure that the FMI can take timely action to contain losses and liquidity pressures and continue to meet its obligations.

Summary Narrative

The process for managing a participant's default is set out in section 6 of the CDS Rules and the CDS Guarantee Fund Procedures. The Guarantee Fund Procedures provide step-by-step actions that must be taken in the event of a default. For example, in the event of a default, CDS will proceed in the following sequence:

1. It will use the cash available in the bank account of the Guarantee Fund and the standby line of credit to expedite the settlement of transactions by making good the obligations of the defaulting Participant.
2. It will claim under the Additional Letter of Credit or additional cash deposit of the defaulting Participant
3. It will then claim under the Required Letter of Credit of the defaulting Participant
4. It will request the Participant to provide a new Letter of Credit by noon on the next day to reinstate the amount of that Participant's Required Letter of Credit failing which it will be suspended
5. In case the letters of credit are insufficient to cover the default, it will suspend the defaulting Participant, seize the unpaid Securities and move them to a CDS account over which the Participant has no control, and sell those Securities as soon as possible
6. It will provide funds from that Participant's initial contribution and cash contributions by CDS, based on transactions effected by the Participant, to the Guarantee Fund

7. It will then request the defaulting Participant to make payment to replenish its contribution to the Guarantee Fund to the minimum level as set out in section 1.6.2
8. At this point, if necessary, CDS will provide funds from other Participants' initial contributions and cash contributions by CDS, based on transactions effected by the Participants, to the Guarantee Fund on a pro-rata basis
9. It will then use the Required Letters of Credit of other Participants on a pro-rata basis
10. If the failure has still not been corrected CDS will use its reserves

Specimen letters to be used to implement the above mechanism have already been drafted by the management of CDS.

The CDS Rules and Guarantee Fund Procedures are disclosed on the following link: <http://www.stockexchangeofmauritius.com/CDS/legal-and-regulatory-framework>

The sufficiency of the guarantee fund contributions of each participant with respect to its net settlement obligation is monitored by the CDS and the participant on a daily basis.

Principle 14: Segregation and portability - A CCP should have rules and procedures that enable the segregation and portability of positions of a participant's customers and the collateral provided to the CCP with respect to those positions.

Summary Narrative

This principle is applicable to CCPs only and CDS is not a CCP.

Principle 15: General business risk- An FMI should identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialise. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services.

The CDS prepares detailed management accounts on a monthly basis. The management accounts allow CDS to identify, monitor and manage general business risk.

The assets of CDS are invested in strict compliance with the Investment Guidelines that are determined by the Investment Committee. Section 1 of the Investment Guidelines states the following:

“Notwithstanding any dividend policy of the CDS, the CDS should maintain cash reserves equivalent to at least five years' budgeted expenditure (based on current year budget estimates) to ensure its own business continuity during severe crises and to provide a shock absorber to cover the ultimate risk of default. This amount will be invested in low-risk fixed income instruments in Mauritian Rupee. Any surplus may be invested in other instruments subject to the approval of the Investment Committee.”

There are four categories of investments: Government Securities; Deposits at Banks; Deposits at Other Institutions; and Corporate Bonds.

The reserves of CDS as at 30th June 2017 amounted to MUR 204.5 M. The total deposits and cash balances amounted to MUR 202.3 M. The budgeted annual expenditure of CDS for 2017-2018 is around MUR 29 M. This means that CDS had cash reserves equivalent to around 7 years budgeted expenses as at 30th June 2017.

There is no specific plan approved by the Board for raising additional equity but the Constitution of the company provides for the raising of additional equity. Section 8.2(a) of the Constitution states that the Board may issue shares of any class at any time, to any person and in such manner as the Board thinks fit.

Principle 16: Custody and investment risk - An FMI should safeguard its own and its participants' assets and minimise the risk of loss on and delay in access to these assets. An FMI's investments should be in instruments with minimal credit, market, and liquidity risks.

Summary Narrative

The assets of CDS are invested in accordance with the Investment Guidelines that are determined by the Investment Committee. There are four categories of investments: Government Securities; Deposits at Banks; Deposits at Other Institutions; and Corporate Bonds. The banks and deposit taking institutions are regulated by the central bank. Bonds issued by companies are approved by the Financial Services Commission and are subject to the Listing Rules of the Stock Exchange of Mauritius. The CDS does not use the services of custodian banks and all assets are under its direct control and can be accessed at any time.

Principle 17: Operational risk - An FMI should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and fulfilment of the FMI's obligations, including in the event of a wide-scale or major disruption.

The CDS has a comprehensive operational risk management framework which includes the following main elements:

- System of Internal Controls
- External Audit of the System of Internal Controls
- Internal Audit of Operations and Systems Departments
- Information Security Management System (compliant with ISO 27001)
- IT Security Policy
- Disaster Recovery Plan
- Business Continuity Plan
- IT Security Audit

The risk management report is submitted for the approval of the Board on an annual basis. The Managing Director is responsible for the implementation and monitoring of the risk management framework.

System of Internal Controls

The CDS has implemented a system of internal controls pertaining to:

- i. The recording of transactions in securities accounts;
- ii. The processing of transactions, including clearing and settlement, in accordance with CDS Rules and Procedures; and
- iii. The integrity and reliability of its data processing facilities.

The system of internal controls is implemented in the Rules and Procedures that govern the day-to-day activities of the CDS and is also integrated in the design of the computer system of CDS. Additional measures have been implemented to ensure the integrity of data and the effectiveness of the internal control system. These measures include the following:

- (a) Before any entry is made in the system, strict verifications are carried out against source documents and instructions.
- (b) The list of the authorised personnel of registries and CDS participants together with their specimen signatures and the respective powers conferred to them by their company, are kept up-to-date and are referred to when processing transactions relating to the registries and participants.
- (c) After posting into the system, verifications are carried out to ensure that balances are correctly updated by new validations or transactions posted. The balances of securities recorded in the system of CDS are reconciled with the figures (balances of securities held in the name of CDS) provided by registries, after the processing of each deposit and withdrawal.
- (d) All operations like deposits, withdrawals, transfers, pledges and trade amendments involve at least two CDS staff for control purposes. One person executes the function while the other verifies whether the function has been correctly executed.
- (e) A full concurrent audit is carried out to ensure that all transactions are backed up by relevant instructions and source documents.
- (f) A series of automated tests are performed by the Systems Department to verify the integrity of the database on a daily basis.

External Audit of the System of Internal Controls

The suitability and effectiveness of the system of internal controls are verified by external independent auditors on an annual basis. The external auditors also conduct a full operational audit at the same time. For the year ended 30th June 2017, the auditors, on the basis of the audit tests carried out, concluded that the system of internal controls of the CDS operated effectively and

responded properly to the current environment. No exceptions were found by the auditors. The certificate of the auditors is included in the Annual Report.

Internal Audit of Operations and Systems Departments

The Secretary of the Business Conduct Committee performs monthly internal audits of the functions performed by the Operations and Systems Departments of the CDS. The objective of these internal audits is to verify whether adequate control procedures are in place and also whether the CDS Rules and Procedures are complied with when performing the different functions. The results of these internal audits are reviewed by the Business Conduct Committee. No material exceptions were found by the internal auditor during the year under review.

IT Security Policy

The CDS ensures that its IT systems are secure (that is, has access controls; is equipped with adequate safeguards to prevent external intrusion; and provides audit trails), reliable and have sufficient capacity to handle expected volume growth. The CDS has implemented an IT Security Policy that defines the responsibilities relating to the management of the IT systems of the CDS and the procedures to be followed by employees of the company as well as by remote users (investment dealers, custodian banks, Financial Services Commission, Bank of Mauritius and registries) when using the IT systems of the company. The IT Security Policy is regularly updated to keep pace with latest developments regarding information security.

The CDS system has industry-standard security features like:

- User and Role Based Access Control (users have accessed to the different functions available in the system based on their respective roles)
- Password controls
- Auditing features at application, operating system and database levels

At the application level, the system maintains the history of all transactions carried out. Every event that changes a balance in a securities account is recorded as a ledger entry. These ledger entries are visible in the client balance inquiry screen giving a complete transaction history. In addition any changes made to investor, security and participant details are logged and are viewable in the form of an audit trail.

The system maintains log files that contain an audit trail of all activities and functions performed on the system as well as transactions processed. These log files are verified on a daily basis.

The Stock Exchange of Mauritius Ltd (SEM) has outsourced its IT function to CDS since January 2001. This includes the technical management of the Automated Trading System (ATS). SEM and CDS have signed an IT Outsourcing Agreement where the service provided by CDS is clearly defined. The objective of the outsourcing is to achieve costs savings and synergies for both companies.

Investment Dealers, the Financial Services Commission and the Bank of Mauritius use the same network and telecommunications lines to access the ATS and CDS systems. Both systems use the same database servers. However, the engine of the Automated Trading System (ATS) runs on three separate servers on the same network.

Software enhancements, modifications and additions are thoroughly tested before implementation in the live environment. A formal Change Management Procedure is in place at CDS.

IT Security Audit

Independent external auditors with specific expertise in IT security perform a security audit of the IT systems of the CDS and SEM, once every two years. The scope of the security audit is as follows:

- Performing a review of the security policy of SEM and CDS;
- Reviewing the existing network architecture to confirm that it is capable of supporting required security controls;
- Performing a security audit of the network components like routers, firewall, switches etc;
- Performing security audit of the Solaris and Windows servers and databases;
- Conducting internal vulnerability assessment;
- Verifying the VPN and wireless connections;
- Performing non-intrusive external penetration testing;
- Reviewing of Disaster Recovery Planning and
- Verifying workstations on the network of SEM and CDS.

The last IT security audit was conducted in April-May 2017 by PricewaterhouseCoopers Ltd (PwC). In their report, the auditors stated that they found that the IT infrastructure of SEM and CDS have been well designed to protect against both internal and external threats. They performed external attacks such as password cracking, denial of service, buffer overflow, user enumeration among others on the web facing application, but were not able to penetrate inside the network or retrieve any information. Their vulnerability assessment and penetration testing did not reveal weaknesses which may lead to the direct compromise of the SEM/CDS IT infrastructure. As part of their review, they also validated that our servers, databases and network equipment are appropriately configured in line with good practices and proven methods. The report also concluded that the IT security policy and IT contingency plan are well designed and structured to mitigate known security risks, and that the disaster recovery procedures are tested regularly to ensure a timely resumption of services following a major incident or disaster. The auditors also identified a few improvement opportunities which can be incorporated in the current IT environment. The recommendations made by the auditors will be implemented by September 2017.

Business Contingency Plan

The Business Contingency Plan serves as the centralized repository for the information, tasks, and procedures that would be necessary to facilitate the management's decision-making process and its timely response to any disruptive or extended interruption of the department's normal business processes and services. This is especially important if the cause of the interruption is such that a prompt resumption of operations cannot be accomplished by employing only normal daily operating procedures.

The Business Contingency Plan provides a framework for constructing plans to ensure the safety of employees and the resumption of time-sensitive business processes, operations and services in

the event of an emergency (fire, power or communications blackout, cyclone, flood, earthquake, civil disturbance, etc.)

The purpose of this plan is to enable the sustained execution of mission critical processes and Information Technology systems for CDS in the event of a disruptive event that causes these systems to fail minimum production requirements. The Contingency Plan will assess the needs and requirements so that CDS may be prepared to respond to the event in order to efficiently regain operation of the systems that are made inoperable from the event.

The Business Continuity Plan is applicable to all departments of CDS including its users, CDS Information System facilities, SEM/CDS business processes and SEM/CDS corporate LAN and WANs networks.

Disaster Recovery Plan

The CDS has in place a Disaster Recovery Plan (DRP) to cater for various scenarios. The DRP covers both preventive and corrective measures that will enable CDS to deal with various types of disasters that can disrupt normal systems operation. The physical environment includes UPS, backup generator, automatic fire extinguishing system and access control to the computer room. A back up server maintains a mirror image of the database on the main server. In the event of a problem with the main server, the back-up server takes over within 10 minutes, without physical intervention at Participants' sites. In the event of a major disaster that causes the CDS site to be unavailable, systems and business operations will be restored at a back up site within 4 hours. Prevention of loss of data is achieved through the implementation of redundant and cyclical backup tapes that are stored both on-site and off-site. Backup to tapes is performed four times a day.

The DRP is simulated 3 times a year and the last simulation was performed on 27th April 2017. All the key stakeholders (investment dealers, custodian banks, stock exchange etc) participate in the testing of the DRP once annually.

Principle 18: Access and participation requirements - An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.

Summary Narrative

The participation requirements are set out in section 2.1 of the CDS Rules which are public disclosed on the website of CDS. The criteria for participation are objective, risk-based and publicly disclosed. The main provisions are given below.

“Rule 2.1 Applicants

2.1.1 Eligibility. An Entity is eligible to apply for participation in one or more Services if it can be classified as:

a) a “Financial Institution” which is an Investment Dealer, a bank, an insurance company, a collective investment scheme authorized under the Securities Act 2005 and a pension fund incorporated, established or formed pursuant to the laws of Mauritius, (*Amended 11/4/08*)

b) a "Government Institution" which is the Government of Mauritius, the central bank, a local authority, or government agency,

c) a "Foreign Institution" which is an investment dealer trading in securities, a bank, an insurance company, a mutual fund and a pension fund, a government, a central bank, a local authority, or government agency and a central securities clearing house or depository incorporated, established or formed under laws other than the laws of Mauritius, and which are either duly licensed or in good standing with the competent authority and regulated by the laws under which they are formed and, *(Amended 11/4/08)*

d) such other Entity which demonstrates to the Board of Directors that its affairs and capabilities are such that it reasonably expects a material benefit from being a Participant.

2.1.2 Qualifications. (1) An Applicant Financial Institution must be in good standing under the laws pursuant to which it is incorporated, established or formed, and the Applicant and its directors, officers and partners must be duly registered or licensed by and be in good standing with the competent Regulatory Authority;

(2) An Applicant Government Institution must own, manage, control or have custody of Eligible Securities;

(3) An Applicant Foreign Institution must i) own, manage or have custody of Eligible Securities, ii) provide evidence to CDS of its financial stability, and iii) satisfy such other requirements or standards satisfactory to CDS for the protection of CDS and other Participants.

2.1.3 Conditions for Participation

2.1.3.1 Standards. An Applicant and a Participant demonstrates to the satisfaction of CDS, upon request by CDS, that it meets these standards:

a) it has the financial resources to meet its obligations under the CDS Agreement including Rule 6.2;

b) it has adequate personnel, premises, communication and data processing capabilities, books and records enabling it to fulfill its obligations and operational requirements promptly and accurately;

c) it has made appropriate arrangements with a Settlement Bank to effect payment in accordance with the Rules and Procedures and it authorises Settlement Bank to disclose to CDS information regarding the availability of funds to satisfy Participant's obligations under the CDS Agreement;

d) it satisfies such other standards or submits such other documents or information as the Board of Directors may from time to time determine by resolution for a class of Participants or for the use of the Settlement Service, the Depository Service or any other Service made available from time to time and the FSC to be informed forthwith of any such resolution. *(Amended 11/4/08)*

2.1.3.2 Financial Resources Requirements (*Added 30-7-1999*)

- (a) Custodian Banks and Investment Dealers (Government of Mauritius and Bank of Mauritius Securities Segment) shall maintain a minimum qualifying net asset value as set out in the Schedule of Financial Resource Requirements. (*Amended 10/06/2013*)
- (b) For the purposes of Rule 2.1.3.2 (c) - (g), the term Participant excludes Custodian Banks and Investment Dealers (Government of Mauritius and Bank of Mauritius Securities Segment). (*Amended 10/06/2013*)
- (c) No Participant must permit its adjusted liquid capital to be less than the sum of the fixed expenditure base requirements and the risk requirements as set forth in the Schedule of Financial Resource Requirements, other than pursuant to a specific temporary exception granted by the Business Conduct Committee due to unusual circumstances.

The CDS shall, where any such exception is made, forthwith inform the Commission and provide it with reasons for such exception.

The method of computation of the fixed expenditure base requirements, risk requirement and the adjusted liquid capital is set out in the Schedule of Financial Resource Requirements.

- (d) Participant shall furnish such returns and provide such information relating to their financial resources as the CDS may require, within the period specified in the Schedule of Financial Resource Requirements. Copies of the returns should be sent to the Commission as soon as received by CDS.
- (e) Participant notifies CDS immediately in writing if Participant has any indication that it may not meet the financial resources requirements prescribed by this Rule, or that any calculation reflects a deficiency.
- (f) CDS may require any Participant and any specific director, officer, employee or auditor thereof to appear personally before CDS and produce its books and records and answer questions, including questions pertaining to any actual or possible violation of this Rule. The CDS will notify the FSC forthwith when taking such actions. (*Amended 11/4/08*)
- (g) CDS or an external auditor designated by CDS shall conduct on-site inspections of Participants when business conduct irregularities and/or capital shortfalls are detected or suspected. The CDS will notify the FSC forthwith when taking such actions. (*Amended 11/4/08*)

In the event such irregularities and / or capital shortfalls, as the case may be, are confirmed by the inspection, the Participant shall bear all costs associated with the above inspection.

The books of the Participants shall be maintained up to date and be open at all times for on-site inspection by CDS.

- (h) Risk requirements must be established after taking into account such adjustments as the Business Conduct Committee may generally make applicable, and also any special adjustments deemed appropriate in individual cases. The CDS will notify the FSC forthwith when making such adjustments. *(Amended 11/4/08)*
- (i) The Business Conduct Committee has full discretion as to the necessity and sufficiency of special adjustments in any particular case, and its decision shall not be limited by the ordinary margin requirements of the CDS but may take into consideration all factors pertaining to the market with regard to the financial resources or future contracts and the affairs as a whole of the Participant involved.

The CDS shall, where any such adjustment is made, forthwith inform the FSC and provide it with reasons for making such adjustment. *(Amended 11/4/08)*

- (j) Nothing in this Rule shall preclude the FSC to require CDS or any Participant, pursuant to the powers of the FSC under section 18 of the Securities (Central Depository, Clearing and Settlement) Act 1996, to provide it with such document or information as it may require for the purpose of that section. *(Amended 11/4/08)*

The above requirements are tailored to and commensurate with the specific risks faced by CDS. There has never been any complaint from any applicant or existing participants to the effect that the participation requirements are too onerous.

Compliance with the participation requirements is monitored on an on-going basis. Participants are also requirement to submit capital adequacy returns on a monthly basis as per section 2.1.3.2 of the CDS Rules.

As per section 2.3.1(e) of the CDS Rules, ineligibility, loss of qualification or non compliance with standards for Participation constitutes sufficient cause for suspension. The suspension and termination processes are clearly set out in section 2.3 of the Rules.

Principle 19: Tiered participation arrangements- An FMI should identify, monitor, and manage the material risks to the FMI arising from tiered participation arrangements.

Summary Narrative

CDS does not have tiered participation arrangements.

Principle 20: FMI Links - An FMI that establishes a link with one or more FMIs should identify, monitor, and manage link-related risks.

Summary Narrative

CDS does not have links with other FMIs.

Principle 21: Efficiency and effectiveness - An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves.

Summary Narrative

The CDS meets the requirements of participants and the Mauritian stock market in an efficient and effective manner. There is regular consultation with all participants regarding new requirements, changes to rules and procedures, new products etc. A Clearing and Settlement Advisory Committee has also been set-up in accordance with section 27 of the Securities Act 2005. The mandate of the Committee is to review and make recommendations concerning systems design, operational procedures and problems and the introduction of new services.

The transaction fees for normal equity transactions charged by CDS have never been increased since inception. The transaction fees for turnaround trades were reduced by 88% whilst transaction fees for debt transactions were reduced by 88% in December 2013 and January 2014 respectively.

There has never been any complaint from participants or any other stakeholders regarding the services provided by CDS.

The objective of CDS is to have 100% settlement efficiency and no systems downtime. There has never been any failed trade nor any systems downtime since the inception of CDS.

Principle 22: Communication procedures and standards - An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, settlement, and recording.

Summary Narrative

The CDS system runs on a TCP/IP network and is based on open standards like Unix operating system and Oracle database management system. As such, the CDS system can accommodate any internationally accepted communication procedures and standards.

Principle 23: Disclosure of rules and key procedures - An FMI should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the FMI. All relevant rules and key procedures should be publicly disclosed.

Summary Narrative

The CDS has clear and comprehensive rules and procedures that govern all its activities. All the rules and procedures are disclosed on the website of CDS (<http://www.stockexchangeofmauritius.com/CDS/legal-and-regulatory-framework>). The website also provides detailed descriptions regarding systems, operations, risks and fees. The Annual Report which is available on the website provides detailed statistics in operations.

The disclosure regarding the compliance of CDS with the CPSS-IOSCO Principles for FMIs is published on the website of CDS.

Principle 24: Disclosure of market data - A TR should provide timely and accurate data to relevant authorities and the public in line with their respective needs.

Summary Narrative

CDS is not a trade repository.

V. List of publicly available resources

The following resources that may help a reader understand the CDS and its approach to observing each applicable principle is available on <http://www.stockexchangeofmauritius.com/cds> :

- CDS Rules
- CDS Rules - Schedule of Financial Resource Requirements
- CDS Procedures
- CDS Guarantee Fund Procedures
- Securities (Central Depository, Clearing and Settlement) Act 1996
- Annual Report of CDS
- Association of Global Custodians Questionnaire

VI. Compliance Checklist

Key Considerations	<u>Comply</u> YES NO Partial Not Applicable (N/A)	<u>Comments</u>
Principle 1: Legal basis - An FMI should have a well-founded clear, transparent and enforceable legal basis for each aspect of its activities in all relevant jurisdictions.		
1. The legal basis should provide a high degree of certainty for each aspect of an FMI's activities in all relevant jurisdictions.	Yes	
2. An FMI should have rules, procedures and contracts that are clear, understandable, and consistent with relevant laws and regulations.	Yes	
3. An FMI should be able to articulate the legal basis for its activities to relevant authorities, participants and, where relevant, participants' customers, in a clear and understandable way.	Yes	
4. An FMI should have rules, procedures and contracts that are enforceable in all relevant jurisdictions, even when a participant defaults or becomes insolvent. There should be a high degree of certainty that actions taken under such rules and procedures will not be stayed, voided or reversed.	Yes	
5. An FMI conducting business in multiple jurisdictions should identify and mitigate the risks arising from any potential conflicts of laws across jurisdictions.	N/A	
Principle 2: Governance - A FMI should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.		
1. An FMI should have objectives that place a high priority on the safety and efficiency of the FMI and explicitly support financial stability and other relevant public interest considerations.	Yes	
2. An FMI should have documented governance arrangements that provide clear and direct lines of responsibility and accountability. These arrangements should be disclosed to owners, relevant authorities, users, and, at a more general level, the public.	Yes	
3. The roles and responsibilities of an FMI's board of directors (or equivalent) should be clearly specified, and there should be documented processes for its functioning, including processes to identify, address, and manage member conflicts of interest. The board should review both its overall performance and the performance of its individual board members regularly.	Yes	

4. The board should contain suitable members with the appropriate skills and incentives to fulfil its multiple roles. This typically requires the inclusion of non-executive board member(s).	Yes	
5. The roles and responsibilities of management should be clearly specified. An FMI's management should have the appropriate experience, a mix of skills, and the integrity necessary to discharge their responsibilities for the operation and risk management of the FMI.	Yes	
6. The board should establish a clear, documented risk-management framework that includes the FMI's risk-tolerance policy, assigns responsibilities and accountability for risk decisions, and addresses decision making in crises and emergencies. Governance arrangements should ensure that the risk-management and internal control functions have sufficient authority, independence, resources, and access to the board.	Yes	
7. The board should ensure that the FMI's design, rules, overall strategy, and major decisions reflect appropriately the legitimate interests of its direct and indirect participants and other relevant stakeholders. Major decisions should be clearly disclosed to relevant stakeholders and, where there is a broad market impact, the public.	Yes	
Principle 3: Framework for the comprehensive management of risks - An FMI should have a sound risk management framework for comprehensively managing legal, credit, liquidity, operational, and other risks.		
1. An FMI should have risk-management policies, procedures, and systems that enable it to identify, measure, monitor, and manage the range of risks that arise in or borne by the FMI. Risk management frameworks should be subject to periodic review.	Yes	
2. An FMI should provide the incentives to participants and, where relevant, their customers to manage and contain their risks they pose to the FMI.	Yes	
3. An FMI should regularly review the material risks it bears from and poses to other entities (such as other FMIs, settlement banks, liquidity providers, and service providers) as a result of interdependencies and develop appropriate risk-management tools to address these risks.	Yes	
4. An FMI should identify scenarios that may potentially prevent it from being able to provide its critical operations and services as a going concern and assess the effectiveness of a full range of options for recovery or orderly wind-down based on the results of that assessment. Where applicable, an FMI should also provide relevant authorities with the information needed for purposes of resolution planning.	Yes	
Principle 4 : Credit risk - An FMI should effectively measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing and settlement processes. An FMI should maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. In addition, a CCP that is involved in activities with a more complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not limited to, the default of the two largest participants and their affiliates that would potentially cause the largest aggregate credit exposures to the CCP in extreme but plausible market conditions. All other CCPs should maintain, at a minimum, total financial resources sufficient to cover the default of the one participant and its affiliates that would potentially cause the largest aggregate credit exposures to the CCP in extreme but plausible market conditions.		
		CDS is not a CCP.

<p>1. An FMI should establish a robust framework to manage its credit risks exposures to its participants and the credit risks arising from its payment, clearing, and settlement processes. Credit risk may arise from current exposures, potential future exposures, or both.</p>	<p>Yes</p>	
<p>2. An FMI should identify sources of credit risk, routinely measure and monitor credit exposures, and use appropriate risk-management tools to control these risks.</p>	<p>Yes</p>	
<p>3. A payment system, CSD, or SSS should cover its current and, where they exist, potential future exposures to each participant fully with a high degree of confidence using collateral and other equivalent financial resources (see principle 5 on collateral). In the case of a DNS payment system or DNS SSS in which there is no settlement guarantee but where its participants face credit exposures arising from its payment, clearing and settlement processes, such an FMI should maintain, at a minimum, sufficient resources to cover the exposures of the two participants and their affiliates that would create the largest aggregate credit exposure in the system.</p>	<p>Yes</p>	
<p>4. A CCP should cover its current and potential future exposures to each participant fully with a high degree of confidence using margin and other financial resources (see Principle 5 on collateral and Principle 6 on margin). In addition, a CCP that is involved in activities with a more complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not limited to, the default of the two largest participants and their affiliates that would potentially cause the largest aggregate credit exposures to the CCP in extreme but plausible market conditions. All other CCPs should maintain, at a minimum, total financial resources sufficient to cover the default of the one participant and its affiliates that would potentially cause the largest aggregate credit exposures to the CCP in extreme but plausible market conditions. In all cases, a CCP should document its supporting rationale for, and should have appropriate governance arrangements relating to, the amount of the total financial resources.</p>	<p>N/A</p>	
<p>5. A CCP should determine the amount and regularly test the sufficiency of its total financial resources available in the event of a default or multiple defaults in extreme but plausible market conditions through rigorous stress testing. A CCP should have clear procedures to report the results of its stress test to appropriate decision makers at the CCP and to use these results to evaluate the adequacy of and adjust its total financial resources. Stress tests should be performed daily using standard and pre-determined parameters and assumptions. On at least a monthly basis, a CCP should perform a comprehensive and thorough analysis of stress testing scenarios models and underlying parameters and assumptions used to ensure they are appropriate for determining the CCP's required level of default protection in light of current and evolving market conditions. A CCP should perform this analysis of stress testing more frequently when the products cleared or markets served display high volatility, become less liquid, or when the size or concentration of positions held by a CCP's participants increases significantly. A full validation of a CCP's risk management models should be conducted at least annually.</p>	<p>N/A</p>	
<p>6. In conducting stress testing, a CCP should consider the effect of a wide range of relevant stress scenarios in terms of both defaulters' positions and possible price changes in liquidation periods. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions. The stress-testing programme should include "reverse stress tests" aimed at identifying extreme market conditions for which the CCP's financial resources would be insufficient.</p>	<p>N/A</p>	
<p>7. An FMI should establish explicit rules and procedures that address fully any credit losses it may face as a result of any individual or combined default among its participants with respect to any of their obligations to the FMI. These rules and procedures should address how potentially uncovered credit losses would be allocated, including the repayment of any funds an FMI may borrow from liquidity providers. These rules and procedures should also indicate the FMI's process to replenish any financial resources the FMI may employ during a stress event, so that the FMI can continue to operate in a safe and sound manner.</p>	<p>Yes</p>	

Principle 5: Collateral - An FMI that requires collateral to manage its or its participants' credit exposure should accept collateral with low credit, liquidity, and market risks. An FMI should also set and enforce appropriately conservative haircuts and concentration limits.		
1. An FMI should generally limit the assets it (routinely) accepts as collateral to those with low credit, liquidity, and market risk.	Yes	
2. An FMI should establish prudent valuation practices and develop haircuts that are regularly tested and take into account stressed market conditions.	N/A	We accept only cash and letters of credit as collateral
3. In order to reduce the need for procyclical adjustments, an FMI should establish stable and conservative haircuts that are calibrated to include periods of stressed market conditions, to the extent practicable and prudent.	N/A	
4. An FMI should avoid the concentration of holdings of certain assets where this would significantly impair the ability to liquidate such assets quickly without significant adverse price effects.	N/A	
5. An FMI that accepts cross-border collateral should mitigate the risks associated with its use and ensure that the collateral can be used in a timely manner.	N/A	
6. An FMI should use a collateral management system that is well-designed and operationally flexible.	Yes	
Principle 6: Margin - A CCP should cover its credit exposures to its participants for all products through an effective margin system that is risk-based and regularly reviewed.		CDS is not a CCP
1. A CCP should have a margin system that establishes margin levels commensurate with the risks and particular attributes of each product, portfolio, and market it serves..	N/A	
2. A CCP should have a reliable source of timely price data for its margin system. A CCP should also have procedures and sound valuation models for addressing circumstances where pricing data is not readily available or reliable.	N/A	

<p>3. A CCP should adopt initial margin models and parameters that are risk-based and generate margin requirements sufficient to cover potential future exposure to participants in the interval between the last margin collection and the close out of positions following a participant default. Initial margin should meet an established single-tailed confidence level of at least 99 percent with respect to the estimated distribution of future exposure. For a CCP that calculates margin at the portfolio level, this requirement applies to each portfolio's distribution of future exposure. For a CCP that calculates margin at the more granular levels, such as at the subportfolio level or by product, this requirement must be met for the corresponding distributions of future exposure. The model should (a) use a conservative estimate of the time horizons for effective hedging or close out of the particular types of products cleared by the CCP (including in stressed market conditions), (b) have an appropriate method for measuring credit exposure that accounts for relevant product risk factors and portfolio effects across products, and, (c) to the extent practical and prudent, limit the need for destabilising, procyclical changes.</p>	N/A	
<p>4. A CCP should mark participant positions to market and collect variation margin at least daily to limit the build-up of current exposures. A CCP should have the authority and operational capacity to make intraday calls and payments, both scheduled and unscheduled, to participants.</p>	N/A	
<p>5. In calculating margin requirements, a CCP may allow offsets or reductions in required margin across products that it clears or between products that it and another CCP clear, if the risk of one product is significantly and reliably correlated with the risk of the other product. Where two or more CCPs are authorised to offer cross-margining, they must have appropriate safeguards and harmonise their overall risk-management programmes.</p>	N/A	
<p>6. A CCP should analyse and monitor its model performance and overall margin coverage by conducting rigorous daily backtesting and at least monthly, if not more frequent where appropriate, sensitivity analysis. A CCP should regularly conduct an assessment of the theoretical and empirical properties of its margin model for all products it clears. In conducting sensitivity analysis of the model's coverage, a CCP should take into account a wide range of parameters and assumptions that reflect possible market conditions, including the most-volatile periods that have been experienced by the markets it serves and extreme changes in the correlations between prices.</p>	N/A	
<p>7. A CCP should regularly review and validate its margin system.</p>	N/A	
<p>Principle 7: Liquidity risk - An FMI should effectively measure, monitor and manage its liquidity risk. An FMI should maintain sufficient liquid resources in all relevant currencies to effect same-day and, where appropriate intraday and multiday payment of settlement obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the FMI in extreme but plausible market conditions.A10</p>		
<p>1. An FMI should have a robust framework to manage its liquidity risks from its participants, settlement banks, nostro agents, custodian banks, liquidity providers, and other entities.</p>	Yes	
<p>2. An FMI should have effective operational and analytical tools to identify, measure, and monitor its settlement and funding flows on an ongoing and timely basis, including its use of intraday liquidity.</p>	Yes	

<p>3. A payment system or SSS, including one employing a DNS mechanisms, should maintain sufficient liquid resources in all relevant currencies to effect same-day and, where appropriate intraday and multiday payment of settlement obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the FMI in extreme but plausible market conditions.</p>	<p>Yes</p>	
<p>4. A CCP should should maintain sufficient liquid resources in all relevant currencies to settle securities-related payments, make required variation margin payments, and meet other payment obligations on time with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the CCP in extreme but plausible market conditions. In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should consider maintaining additional liquidity resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of two participant and their affiliates that would generate the largest aggregate payment obligation for the CCP in extreme but plausible market conditions.</p>	<p>N/A</p>	
<p>5. For the purpose of meeting its minimum liquid resource requirement, an FMI's qualifying liquid resources in each currency include cash at the central bank of issue and at creditworthy commercial banks, committed lines of credit, committed foreign exchange swaps, and committed repos, as well as highly marketable collateral held in custody and investments that are readily available and convertible into cash with prearranged and highly reliable funding arrangements, even in extreme but plausible market conditions. If an FMI has access to routine credit at the central bank of issue, the FMI may count such access as part of the minimum requirement to the extent it has collateral that is eligible for pledging to (or for conducting other appropriate forms of transactions with) the relevant central bank. All such resources should be available when needed..</p>	<p>Yes</p>	
<p>6. An FMI may supplement its qualifying liquid resources with other forms of liquid resources. If the FMI does so, then these liquid resources should be in the form of assets that are likely to be saleable or acceptable as collateral for lines of credit, swaps, or repos on an ad hoc basis following a default, even if this cannot be reliably prearranged or guaranteed in extreme market conditions. Even if an FMI does not have access to routine central bank credit, it should still take account of what collateral is typically accepted by the relevant central bank, as such assets may be more likely to be liquid in stressed circumstances. An FMI should not assume the availability of emergency central bank credit as a part of its liquidity plan.</p>	<p>Yes</p>	
<p>7. An FMI should obtain a high degree of confidence, through rigorous due diligence, that each provider of its minimum required qualifying liquid resources, whether a participant of the FMI or an external party, has sufficient information to understand and to manage its associated liquidity risks, and that it has the capacity to perform as required under its commitment. Where relevant to assessing a liquidity provider's performance reliability with respect to a particular currency, a liquidity provider's potential access to credit from the central bank of issue may be taken into account. An FMI should regularly test its procedures for accessing its liquid resources at a liquidity provider.</p>	<p>Yes</p>	
<p>8. An FMI with access to central bank accounts, payment services, or securities services should use these services, where practical, to enhance its management of liquidity risk.</p>	<p>Yes</p>	

<p>9. An FMI should determine the amount and regularly test the sufficiency of its liquid resources through rigorous stress testing. An FMI should have clear procedures to report the results of its stress tests to appropriate decision makers at the FMI and to use these results to evaluate the adequacy of and adjust its liquidity risk-management framework. In conducting stress testing, an FMI should consider a wide range of relevant scenarios. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions. Scenarios should also take into account the design and operation of the FMI, include all entities that might pose material liquidity risks to the FMI (such as settlement banks, nostro agents, custodian banks, liquidity providers, and linked FMIs), and where appropriate, cover a multiday period. In all cases, an FMI should document its supporting rationale for, and should have appropriate governance arrangements</p>	<p>Yes</p>	
<p>10. An FMI should establish explicit rules and procedures that enable the FMI to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations on time following any individual or combined default among its participants. These rules and procedures should address unforeseen and potentially uncovered liquidity shortfalls and should aim to avoid unwinding, revoking, or delaying the same-day settlement of payment obligations. These rules and procedures should also indicate the FMI's process to replenish any liquidity resources it may employ during a stress event, so that it can continue to operate in a safe and sound manner.</p>	<p>Yes</p>	
<p>Principle 8: Settlement finality - An FMI should provide clear and certain final settlement, at a minimum by the end of the value date. Where necessary or preferable, an FMI should provide final settlement intraday or in real time.</p>		
<p>1. An FMI's rules and procedures should clearly define the point at which settlement is final.</p>	<p>Yes</p>	
<p>2. An FMI should complete final settlement no later than the end of the value date, and preferably intraday or in real time, to reduce settlement risk. An LVPS or SSS should consider adopting RTGS or multiple-batch processing during the settlement day.</p>	<p>Yes</p>	
<p>3. An FMI should clearly define the point after which unsettled payment, transfer instructions or obligations may not be revoked by a participant.</p>	<p>Yes</p>	
<p>Principle 9: Money settlements - An FMI should conduct its money settlements in central bank money where practical and available. If central bank money is not used, an FMI should minimise and strictly control the credit and liquidity risk arising from the use of commercial bank money.</p>		
<p>1. An FMI should conduct its money settlements in central bank money, where practical and available, to avoid credit and liquidity risks.</p>	<p>Yes</p>	
<p>2. If central bank money is not used, an FMI should conduct its money settlements using a settlement asset with little or no credit or liquidity risk.</p>	<p>N/A</p>	

3. If an FMI settles in commercial bank money, it should monitor, manage, and limit its credit and liquidity risks arising from the commercial settlement banks. In particular, an FMI should establish and monitor adherence to strict criteria for its settlement banks that take account of, among other things, their regulation and supervision, creditworthiness, capitalisation, access to liquidity, and operational reliability. An FMI should also monitor and manage the concentration of credit and liquidity exposures to its commercial settlement banks.	N/A	
4. If an FMI conducts money settlements on its own books, it should minimise and strictly control its credit and liquidity risks.	N/A	
5. If an FMI's legal agreements with any settlement banks should state clearly when transfers on the books of individual settlement banks are expected to occur, that transfers are to be final when effected, and that funds received should be transferable as soon as possible, at a minimum by the end of the day and ideally intraday, in order to enable the FMI and its participants to manage credit and liquidity risks.	Yes	
Principle 10: Physical deliveries - An FMI should clearly state its obligations with respect to the delivery of physical instruments or commodities and should identify, monitor, and manage the risks associated with such physical deliveries.		
1. An FMI's rules should clearly state its obligations with respect to the delivery of physical instruments or commodities.	Yes	Delivery of certificates occur only when there is a withdrawal
2. An FMI should identify, monitor, and manage the risks and costs associated with the storage and delivery of physical instruments or commodities.	Yes	Certificates are delivered to participants on the same day that they are received from the issuer. There is no storage of certificates.
Principle 11: Central securities depositories - A CSD should have appropriate rules and procedures to help ensure the integrity of securities issues and minimise and manage the risks associated with the safekeeping and transfer of securities. A CSD should maintain securities in an immobilised or dematerialised form for their transfer by book entry.		
1. A CSD should have appropriate rules, procedures, and controls including robust accounting practices, to safeguard the interests of securities issuers and holders, prevent the unauthorised creation or deletion of securities, and conduct periodic and at least daily reconciliation of securities issues it maintains.	Yes	
2. A CSD should prohibit overdrafts or debit balances in securities accounts.	Yes	
3. A CSD should maintain securities in an immobilised or dematerialised form for their transfer by book entry. Where appropriate, a CSD should provide incentives to immobilise or dematerialise securities.	Yes	
4. A CSD should protect assets against custody risk through appropriate rules and procedures consistent with its legal framework.	Yes	

5. A CSD should employ a robust system that ensures segregation between the CSD's own assets and the securities of its participants and segregation among the securities of participants. Where supported by the legal framework, the CSD should also support operationally the segregation of securities belonging to a participant's customers on the participant's books and facilitate the transfer of customer holdings.		
6. A CSD should identify, measure, monitor, and manage its risks from other activities that it may perform; additional tools may be necessary in order to address these spillover effects.	Yes	
Principle 12: Exchange-of-value settlement systems - If an FMI settles transactions that involve the settlement of two linked obligations (for example, securities or foreign exchange transactions), it should eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other.		
1. An FMI that is an exchange-of-value settlement system should eliminate principal risk by ensuring that the final settlement of one obligation occurs if and only if the final settlement of the linked obligation also occurs, regardless of whether the FMI settles on a gross or net basis and when finality occurs.	Yes	
Principle 13: Participant-default rules and procedures - An FMI should have effective and clearly defined rules and procedures to manage a participant default. These rules and procedures should be designed to ensure that the FMI can take timely action to contain losses and liquidity pressures and continue to meet its obligations.		
1. An FMI should have default rules and procedures that enable the FMI to continue to meet its obligations in the event of a participant default and that address the replenishment of resources following a default.	Yes	
2. An FMI should be well prepared to implement its default rules and procedures, including any appropriate discretionary procedures provided for in its rules.	Yes	
3. An FMI should publicly disclose key aspects of its default rules and procedures.		
4. An FMI should involve its participants and other stakeholders in the testing and review of the FMI's default procedures, including any close-out procedures. Such testing and review should be conducted at least annually or following material changes to the rules and procedures to ensure that they are practical and effective.	Yes	
Principle 14: Segregation and portability - A CCP should have rules and procedures that enable the segregation and portability of positions of a participant's customers and the collateral provided to the CCP with respect to those positions.		CDS is not a CCP

1. A CCP should, at a minimum, have segregation and portability arrangements that effectively protect a participant's customers' positions and related collateral from the default or insolvency of that participant. If the CCP additionally offers protection of such customer positions and collateral against the concurrent default of the participant and a fellow customer, the CCP should take steps to ensure that such protection is effective.	N/A	
2. A CCP should employ an account structure that enables it readily to identify positions of a participant's customers and to segregate related collateral. A CCP should maintain customer positions and collateral in individual customer accounts or in omnibus customer accounts.	N/A	
3. A CCP should structure its portability arrangements in a way that makes it highly likely that the positions and collateral of a defaulting participant's customers will be transferred to one or more other participants.	N/A	
4. A CCP should disclose its rules, policies, and procedures relating to the segregation and portability of a participant's customers' positions and related collateral. In particular, the CCP should disclose whether customer collateral is protected on an individual or omnibus basis. In addition, a CCP should disclose any constraints, such as legal or operational constraints, that may impair its ability to segregate or port a participant's customers' positions and related collateral.	N/A	
Principle 15: General business risk- An FMI should identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialise. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services.		
1. An FMI should have robust management and control systems to identify, monitor, and manage general business risks, including losses from poor execution of business strategy, negative cash flows, or unexpected and excessively large operating expenses.	Yes	
2. An FMI should hold liquid net assets funded by equity (such as common stock, disclosed reserves, or other retained earnings) so that it can continue operations and services as a going concern if it incurs general business losses. The amount of liquid net assets funded by equity an FMI should hold should be determined by its general business risk profile and the length of time required to achieve a recovery or orderly wind-down, as appropriate, of its critical operations and services if such action is taken.	Yes	
3. An FMI should maintain a viable recovery or orderly wind-down plan and should hold sufficient liquid net assets funded by equity to implement this plan. At a minimum, an FMI should hold liquid net assets funded by equity equal to at least six months of current operating expenses. These assets are in addition to resources held to cover participant defaults or other risks covered under the financial resources principles. However, equity held under international risk-based capital standards can be included where relevant and appropriate to avoid duplicate capital requirements.	Yes	7 years of expenses

4. Assets held to cover general business risk should be of high quality and sufficiently liquid in order to allow the FMI to meet its current and projected operating expenses under a range of scenarios, including in adverse market conditions.	Yes	
5. An FMI should maintain a viable plan for raising additional equity should its equity fall close to or below the amount needed. This plan should be approved by the board of directors and updated regularly.	Partial	There is no specific plan approved by the Board but the Constitution of the company provides for the raising of additional equity. Section 8.2(a) of the Constitution states that the Board may issue shares of any class at any time, to any person and in such manner as the Board thinks fit.
Principle 16: Custody and investment risk - An FMI should safeguard its own and its participants' assets and minimise the risk of loss on and delay in access to these assets. An FMI's investments should be in instruments with minimal credit, market, and liquidity risks.		
1. An FMI should safeguard its own and its participants' assets at supervised and regulated entities that have robust accounting practices, safekeeping procedures, and internal controls that fully protect these assets.	Yes	
2. An FMI should have prompt access to its assets and assets provided by participants, when required.	Yes	
3. An FMI should evaluate and understand its exposures to its custodian banks, taking into account the full scope of its relationships with each.	N/A	CDS does not use the services of custodian banks
4. An FMI's investment strategy should be consistent with its overall risk-management strategy and fully disclosed to its participants, and investments should be secured by, or be claims on, high-quality obligors. These investments should allow for quick liquidation with little, if any, adverse price effect.	Yes	
Principle 17: Operational risk - An FMI should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and fulfilment of the FMI's obligations, including in the event of a wide-scale or major disruption.		

1. An FMI should establish a robust operational risk-management framework with appropriate systems, policies, procedures, and controls to identify, monitor, and manage operational risks.	Yes	
2. An FMI's board of directors should clearly define the roles and responsibilities for addressing operational risk and should endorse the FMI's operational risk-management framework. Systems, operational policies, procedures, and controls should be reviewed, audited, and tested periodically and after significant changes.	Yes	
3. An FMI should have clearly defined operational reliability objectives and should have policies in place that are designed to achieve with those objectives.	Yes	
4. An FMI should ensure that it has scalable capacity adequate to handle increasing stress volumes and to achieve its service-level objectives.	Yes	
5. An FMI should have comprehensive physical and information security policies that address all potential vulnerabilities and threats.	Yes	
5. An FMI should have a business continuity plan that addresses events posing a significant risk of disrupting operations, including events that could cause a wide-scale disruption. The plan should incorporate the use of a secondary site and should ensure that critical information technology (IT) systems can resume operations within two hours following disruptive events. In case of extreme circumstances, settlement should be ensured by the end of the day at the latest. The FMI should plan and carry out a programme of tests of these arrangements.	Yes	
6. An FMI should identify, monitor, and manage the risks that key participants, other FMIs, and service and utility providers might pose to its operations. In addition, an FMI should identify, monitor, and manage the risks its operations might pose to other FMIs.	Yes	Participants, Stock Exchange, Settlement Banks and Bank of Mauritius
Principle 18: Access and participation requirements - An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.		
1. An FMI should allow for fair and open access to its services, including by direct and, where relevant, indirect participants and other FMIs, based on reasonable risk-related participation requirements.	Yes	

2. An FMI's participation requirements should be justified in terms of the safety and efficiency of the FMI and the markets it serves, be tailored to and commensurate with the FMI's specific risks, and be publicly disclosed. Subject to maintaining acceptable risk control standards, an FMI should endeavour to set requirements that have the least-restrictive impact on access that circumstances permit.	Yes	
3. An FMI should monitor compliance with its participation requirements on an ongoing basis and have clearly defined and publicly disclosed procedures for facilitating the suspension and orderly exit of a participant that breaches, or no longer meets, the participation requirements.	Yes	
Principle 19: Tiered participation arrangements- An FMI should identify, monitor, and manage the material risks to the FMI arising from tiered participation arrangements.		CDS does not have tiered participation arrangements
1. An FMI should ensure that its rules, procedures, and agreements allow it to gather basic information about indirect participation in order to identify, monitor, and manage any material risks to the FMI arising from such tiered participation arrangements.	N/A	We do not have indirect participants
2. An FMI should identify material dependencies between direct and indirect participants that might affect the FMI.	N/A	
3. An FMI should identify indirect participants responsible for a significant proportion of transactions processed by the FMI and indirect participants whose transaction volumes or values are large relative to the capacity of the direct participants through which they access the FMI in order to manage the risks arising from these transactions	N/A	
4. An FMI should regularly review risks arising from tiered participation arrangements and should take mitigating action when appropriate.	N/A	
Principle 20: FMI Links - An FMI that establishes a link with one or more FMIs should identify, monitor, and manage link-related risks.		CDS does not have any links with other FMIs
1. Before entering into a link arrangement and on an ongoing basis once the link is established, an FMI should identify, monitor, and manage all potential sources of risk arising from the link arrangement. Link arrangements should be designed such that each FMI is able to observe the other principles in this report.	N/A	
2. A link should have a well-founded legal basis, in the relevant jurisdictions, that supports its design and provides adequate protection to the FMIs involved in the link.	N/A	
3. Linked CSDs should measure, monitor, and manage their credit and liquidity risks arising from each other. Any credit extensions between CSDs should be covered fully with high-quality collateral and be subject to limits.	N/A	
4. Provisional transfers of securities between linked CSDs should be prohibited or, at a minimum, the retransfer of provisional transferred securities should be prohibited prior to the transfer becoming final.	N/A	

5. An investor CSD should only establish a link with an issuer CSD if the arrangement provides a high level of protection for the rights of the investor CSD's participants.	N/A	
6. An investor CSD that uses an intermediary to operate a link with an issuer CSD should measure, monitor, and manage the additional risks (including custody, credit, legal and operational risks) arising from the use of an intermediary.	N/A	
7. Before entering into a link with another CCP, a CCP should identify and assess the potential spillover effects from the default of the linked CCP's. If a link has three or more CCPs, each CCP should identify, assess, and manage the risks of the collective links arrangement.	N/A	
8. Each CCP in a CCP link arrangement should be able to cover, at least on a daily basis, its current and potential future exposures to the linked CCP and its participants, if any, fully with a high degree of confidence without reducing the CCP's ability to fulfil its obligations to its own participants at any time.	N/A	
9. A TR should carefully assess the additional operational risks related to its links to ensure the scalability and reliability of IT and related resources.	N/A	
Principle 21: Efficiency and effectiveness - An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves.		
1. An FMI should be designed to meet the needs of its participants and the markets it serves, in particular, with regard to choice of a clearing and settlement arrangement; operating structure; scope of products cleared, settled or recorded; and use of technology and procedures.	Yes	
2. An FMI should have clearly defined goals and objectives that are measurable and achievable, such as in the areas of minimum service levels, risk-management expectations, and business priorities.	Yes	
3. An FMI should have established mechanisms for the regular review of its efficiency and effectiveness.	Yes	
Principle 22: Communication procedures and standards - An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, settlement, and recording.		

1. An FMI should use, or at a minimum accommodate, internationally accepted communication procedures and standards.	Yes	
Principle 23: Disclosure of rules and key procedures - An FMI should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the FMI. All relevant rules and key procedures should be publicly disclosed.		
1. An FMI should adopt clear and comprehensive rules and procedures that are fully disclosed to participants. Relevant rules and key procedures should also be publicly disclosed.	Yes	
2. An FMI should disclose clear descriptions of the system's design and operations, as well as the FMI's and participants' rights and obligations, so that participants can assess the risks they would incur by participating in the FMI.	Yes	
3. An FMI should provide all necessary and appropriate documentation and training to facilitate participants' understanding of the FMI's rules and procedures and the risks they face from participating in the FMI.	Yes	
4. An FMI should publicly disclose its fees at the level of individual services it offers, as well as its policies on any available discounts. The FMI should provide clear descriptions of priced services for comparability purposes.	Yes	
5. An FMI should complete regularly and disclose publicly responses to the CPSS-IOSCO Disclosure framework for financial market infrastructures. An FMI also should, at a minimum, disclose basic data on transaction volumes and values.	Yes	
Principle 24: Disclosure of market data - A TR should provide timely and accurate data to relevant authorities and the public in line with their respective needs.		CDS is not a Trade Repository
1. A TR should provide data in line with regulatory and industry expectations to relevant authorities and the public, respectively, that is comprehensive and at a level of detail sufficient to enhance market transparency and support other public policy objectives.	N/A	
2. A TR should have effective processes and procedures to provide data to relevant authorities in a timely and appropriate manner to enable them to meet their respective regulatory mandates and legal responsibilities.	N/A	

3. A TR should have robust information systems that provide accurate current and historical data. Data should be provided in a timely manner and in a format that permits it to be easily analysed.

N/A