

## Introduction by the ISSA CEO Office

### Governance Update

New ISSA Board Member  
Institution

Vice Chairman elect 2018 -  
2020

Changes to the Operating  
Committee

### New ISSA Members

5 new Members have joined  
ISSA since July 2017

### General Meeting Proxy Voting on Distributed Ledger

The CSD Working Group on  
DLT (refer to our Newsletter  
of July 2017) issued Version  
2.1 of their product  
requirements

### Update ISSA Working Groups

- Financial Crime  
Compliance Principles
- Regulatory Impact on  
the Securities Services  
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- Corporate Actions and  
Proxy Voting
- Distributed Ledger  
Technology
- Cyber Security (Fraud)

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about ISSA's activities  
please visit our  
homepage**

[www.issanet.org](http://www.issanet.org)



Dear ISSA Members and interested parties,

On November 28, 2017, Hong Kong Exchanges and Clearing Ltd (HKEx) decided to become a Board Member and Sponsoring Institution of ISSA. Having HKEx – represented by Trevor Spanner, CIO – at Board level, the ties with the region will be strengthened, underlining the importance of key developments in Asia.

There has been a change to the Operating Committee (OC) too. Based on our agreed rotation rules, Irene Mermigidis, Clearstream Banking and REGIS-TR, handed over the Chairperson role to William Hodash, DTCC. The Board thanks Irene for her excellent support provided and is very grateful that Irene continues acting as Clearstream's Representative on the OC. Furthermore Bruce Butterill, Executive Director ACSDA, has taken the role as designate of the CSD community on the Operating Committee. This nomination proves the importance of the CSD community in ISSA, considering that more than 40% of the ISSA Members are CSDs.

Currently four established and one new ISSA Working Groups address topics with great relevance for the entire securities services industry. The Working Group on Cyber Risk has recently been added. At its November meeting, the ISSA Board was able to take note of the significant progress achieved over the past few months. This Newsletter includes up-dates on the work status.

In May 23 – 25, 2018, we will hold our 19<sup>th</sup> ISSA Symposium. Our [website](#) provides you with more detailed information about the key themes and the agenda.

With the year-end approaching fast, we send you our great «Thank You» for your support and interest in ISSA. You all deserve our great respect and appreciation and we are looking forward to working together with you also in the future. Please accept our best wishes for a Merry Christmas and for a healthy and successful 2018!

With best personal regards – ISSA CEO Office

## Governance Update

### ISSA Board

- As of December 1, 2017, Hong Kong Exchanges and Clearing Ltd (HKEx) accepted the invitation as new Board Institution. Trevor Spanner, CIO of HKEx, has been nominated as their Board Representative.
- The ISSA Board approved the nomination of Ulrich Stritzke, Credit Suisse, as its Vice Chairman, effective as of May 2018 (Symposium).

### Operating Committee

- In November, William Hodash, DTCC New York, was appointed Chair of ISSA's Operating Committee succeeding Irene Mermigidis, Clearstream Banking/REGIS-TR, Luxembourg.
- In addition, Jyi-chen Chueh, Standard Chartered Bank, Singapore, was nominated as Vice-Chair of the ISSA Operating Committee.
- The ISSA Board has confirmed Bruce Butterill, Executive Director ACSDA and Business Consultant at DCV Chile, to act as a Representative of the CSDs on the Committee.

We congratulate all delegates at Board and Operating Committee level to their nomination and we wish them all the best in their new roles.

## New Members

Since the last Newsletter in July, the following 4 members have joined our Association:

- DBS Bank Ltd, Singapore
- Abu Dhabi Securities Exchange (ADX), Abu Dhabi
- Handelsbanken, Stockholm, Sweden
- B-Hive, Diegem, Belgium
- SLIB, Paris, France

We welcome these organizations and are looking forward to a fruitful relationship.

*Board of ISSA*

## General Meeting Proxy Voting on Distributed Ledger

With its Newsletter of July 2017, ISSA informed about the CSD Working Group on DLT (Distributed Ledger Technology) that was previously established by a number of CSDs. This group finalized what could be the blueprint to an industry-wide accepted standard for an electronic voting solution using DLT to manage corporations' general meetings.

Meanwhile, this CSD Working Group has revised its original document and included the following features:

- Alignment with the ISO 20022 standard for proxy voting business process
- Support for Argentinian and French markets
- General considerations on data entities storage options on distributed ledgers
- Considerations on segregation of access rights for different participants, including auditors and regulators.

Furthermore, requirements have been adapted to make them applicable for manual paper-based processes in some countries.

The new document «General Meeting Proxy Voting on Distributed Ledger; Product Requirements v2.1; November 2017» is available in the Report Section of the [DLT Working Group Page](#). In line with the Working Group's goals to have their solution being aligned with the existing industry standards like ISO 20022 on both technical and conceptual levels, the document version is accompanied by a [cross-reference table](#).

At its meeting of November 29, 2017, the ISSA Board voted in favor of having the members of the CSD Working Group on DLT continue work under the existing ISSA Working Group on DLT. A new work stream «Definition of Digital Assets and Required Services / Infrastructure» has been established. Refer to the relevant section below.

## Update on ISSA Working Groups

At its recent Workshop, the ISSA Operating Committee decided to officially terminate two Working Groups, however, to periodic-

ally review the need for their potential reactivation based on industry developments. The Working Group on «Collateral Management Best Practices» published two reports in 2014 and 2016, whereas the Working Group on «Inherent Risks within the Global Custody Chain» issued an update report in February of this year. On the other hand, ISSA set up a new Working Group on «Customer Cyber (Fraud) Risks in Securities Processes». ISSA is pleased to provide the following update on its five active Working Groups:

### **Financial Crime Compliance Principles for Securities Custody and Settlement (FCCP)**

As announced in its July 2017 Newsletter, ISSA has established a separate FCCP Implementation Working Group. This group gives the industry the opportunity to discuss challenges / experiences in the implementation of the FCCP. It will also serve as platform to collect changes to the Principles that have or may become necessary.

The Working Group held its inaugural Workshop at the beginning of October 2017. It identified a number of areas of significant interest to the community that go beyond the current remit of the Working Group. It became obvious that some of the Principles are being interpreted differently and that a clarification is recommended. The participants also concluded that ISSA should publish operational guidance in relation to implementing FCCP. The Workshop also offered the opportunity to discuss with the Wolfsberg Group the potential need for a consolidated version of their and ISSA's Due Diligent Questionnaires. As there is no overlap between the two documents, ISSA will work on a second full version of its FCCP Questionnaire to be used by organizations which are not mandated to fill out the Wolfsberg Questionnaire.

A few issues identified by the Workshop were submitted to the ISSA Board which decided at its meeting of November 29, 2017 as follows:

- ISSA will endeavor to support other industry associations in addressing standards for the eligibility of securities and other financial instruments into securities

settlement systems and in providing practical guidance on how to apply recently issued Risk Factor Guidance to the distribution of investment funds.

- As there is a strong demand for operational guidance in relation to implementing the FCCP, ISSA will provide guidance that can be limited to clear-cut minimal standards. ISSA's Newsletter could be an ideal medium to disseminate topic-based solutions respectively guidance to the industry at large.

A follow-up Workshop will be held in February 2018.

### **Regulatory Impact on the Securities Services Chain**

With its November 2017 Newsletter, ISSA announced the release of its «Update Report on Regulatory Developments in the Securities Services Chain». The Report provides an overview of progress made in the various regulatory initiatives and new regulatory trends underway for the securities industry since the publication of ISSA's 2012 Report on «Regulatory Trends and Initiatives Affecting Custodians, Clearers and (I)CSDs; Impacts and Implications». The 2017 Report covers main developments at the international level and provides a large inventory of achievements in the different regions. It addresses most recent changes that will impact the regulatory agenda. The Report concludes with the main challenges for regulators in the near future in view of current priorities.

ISSA will issue a second update Report in the 1<sup>st</sup> half of 2018. Unlike the first one it will not be broken down by geographical regions. It will focus on positive outcomes of regulatory developments, unintended consequences and responses of securities services providers to this new framework. It is envisioned that this second Report will be available in time for the May 2018 Symposium.

### **Corporate Actions and Proxy Voting**

ISSA is about to launch a questionnaire addressed to various securities market infrastructures and industry associations around

the globe in order to solicit details on how beneficial owner information is collected in the various markets. While such information is often of similar nature, the processes put in place, the formats and the categorizations differ. In a first iteration, the survey will focus on bearer instruments.

Such data will be used to create a guide aimed at bringing clarity into the beneficial owners disclosure processes in various countries. The findings of the survey, scheduled to be available in the 2<sup>nd</sup> quarter 2018, should act as a basis to highlight the similarities and differences. This knowledge base will be leveraged in a second step to issue recommendations with the aim to minimize the variety of processes.

The Working Group intends to finalize its draft recommendations and guidelines in time for the May 2018 ISSA Symposium. ISSA already now expresses its thanks to the survey recipients for their timely and comprehensive responses.

## **Distributed Ledger Technology – Principles for Industry-wide Acceptance**

In Summer 2017, the Working Group was re-established and put under the lead of Urs Sauer, SIX Securities Services, Switzerland. Four different work streams were implemented. Their deliverables were identified and coordinated at a Workshop held at the end of September 2017. At its meeting of November 29, 2017, the ISSA Board approved the continuation of the separate «CSD Working Group on DLT» under the auspices of ISSA. It will form a fifth work stream in the ISSA DLT Working Group.

The five work streams address the following topics:

### **Principles of Governance, Adoption and Integration**

A variety of issues is covered by this work stream, such as account-driven principles, participation on the DLT, implications for omnibus accounts, functions covered by DLT, interactions / interoperability, business logic,

data privacy. The ISO TC 307 draft paper on DLT vocabulary is taken as basis for definitions in the ISSA paper.

### **Regulatory Initiatives**

Work focuses on key principles issued by OICV-IOSCO that apply to Financial Market Infrastructures. The paper assesses the regulatory approach and lists by region and jurisdiction regulatory initiatives or developments taken to date. The work stream tries to identify processes that may need regulatory changes due to the use of DLT (e.g. additional data possibly required by regulators).

### **Review of Existing ISSA Principles**

The focus is on those ISSA papers that provide best practices or principles. The aim is to establish the key factors in the nature of DLT that would lead to impacts on the work on principles and best practices previously conducted by ISSA.

### **Information Security**

The work stream is reviewing the core risks to information and data security that DLT systems pose and is focusing on establishing a set of operating principles aimed at safeguarding information held within these systems. A framework is being developed to address issues such as confidentiality, integrity and availability. The principles will, of course, have a strong focus on the securities market model.

### **Definition of Digital Assets and Required Services / Infrastructure**

The CSD Working Group on DLT (refer also to separate article in this Newsletter) will now focus on establishing a basic business framework for working with Digital Assets in the post-trade space. Definitions, classifications, services and post-trade service provider roles will be identified.

The entire Working Group aims to have a first draft report available by the end of January 2018 with a view to finalizing a report in time for the May 2018 ISSA Symposium. DLT will be a focal theme at this event. In coordination with the CEO Office, the Working Group will be preparing the topics to be dealt with during the Symposium breakout sessions.

## **Customer Cyber (Fraud) Risks in Securities Processes**

This recently formed Working Group held its inaugural Workshop at the beginning of October 2017 where it agreed to pursue the work in two distinct streams. The group will look at cyber security through the lens of custody specialists. In addition, Chief Information Security Officers will identify risks and today's mitigation capabilities as well as industry and global frameworks and

then map them to custody. The Working Group will address the mitigation measures for the residual risk of new cyber risks that have emerged. It will also address those issues that are not mitigated so far.

A next Workshop will take place in January 2018, the results of which should be a draft for an interim paper to be distributed as pre-reading material to ISSA Symposium participants. The Workshop will also address the breakout session topics to be foreseen at the Symposium.