



SECDEX Clearing Limited (SECDEX Clearing)

IOSCO Disclosure Document

Date: 25th February 2022

Client Confidential

Document Control

Document Id:	SECDEX IOSCO V2
Document Author:	
Reviewed By:	
Approved By / Date:	
Distribution:	

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Responding institution: SECDEX CLEARING LIMITED
Jurisdiction(s) in which the FMI operates: SEYCHELLES
Authority(ies) regulating, supervising or overseeing the FMI: FINANCIAL SERVICES AUTHORITY,
SEYCHELLES

The date of this disclosure is 25TH FEBRUARY 2022
This disclosure can also be found at <https://www.secdex.net/clearing/>. For further information, please contact info@secdex.net.

1. EXECUTIVE SUMMARY

This document provides an overview of the outcome of SECDEX Clearing's detailed assessment against the principles featured in the CPSS-IOSCO "Principles for Financial Market Infrastructures (FMIs)". Seychelles as a jurisdiction (and its respective FMIs) is committed to comply with the principles and provisions of the CPSS-IOSCO report, as it is an integral part of the G-20's efforts to enhance the stability and integrity of financial markets. Consequently, as part of its compliance obligations, SECDEX Clearing is required to adhere to the requirements of the CPSS-IOSCO disclosure framework – one of the stipulations of this framework is that the outcomes of an FMI's self-assessment should be structured for public disclosure, and it is in this light that this document will be created.

The contents of this document contain details of SECDEX Clearing self-assessment based on how it will structure its operations. Subsequent versions of this document will be published post the completion of successive self-assessments (the frequency of which is dictated by the regulator).

Of the 24 principles that form part of the CPSS-IOSCO "Principles for Financial Market Infrastructures" report, only 20 are considered to be relevant to SECDEX Clearing due to the nature of its proposed operations. Having completed the self-assessment exercise, SECDEX Clearing is rated as "Observed" across 14 of these principles, "Broadly Observed" across 4 of these principles and deemed to be "Partially Observed" in terms of the remaining 2 applicable principles.

As such, SECDEX Clearing is considered to be fully compliant with the requirements put forth by IOSCO for Central Counter Parties (CCPs).

This disclosure document provides a summary of the self-assessment content to highlight how SECDEX Clearing will comply.

2. SUMMARY OF MAJOR CHANGES SINCE THE LAST UPDATE OF THE DISCLOSURE

This is not applicable as this is the first such assessment by SECDEX Clearing.

3. GENERAL BACKGROUND ON THE FMI

General description of the FMI and the markets it serves:

SECDEX Clearing is authorised and licensed by the Seychelles Financial Services Authority to operate a regulated central counterparty (CCP) clearing house to clear trades executed on SECDEX Exchange.

The following table provides a summary of the primary risks identified as being applicable to SECDEX Clearing. These risks and mitigating actions are identified by the Board of Directors of SECDEX Clearing and will be reviewed on a regular basis. Moreover, these risks will be accounted and monitored as part of SECDEX Clearing Risk Management Process.

Risk Event	Risks will be mitigated by the following actions
Systemic risk – Significant geo-political upheavals or macro-economic failures	<p>Ensure methodology used to define size of contributions to default fund is robust and supported by a prudent buffer</p> <p>Stress event scenarios will be used to assess adequacy of default fund and are continually revised</p> <p>Default fund adequacy is regularly monitored and updated quarterly</p>
Credit risk – Margin models fail to account appropriately for counterparty risk in line with SECDEX Clearing risk tolerance as will be approved by SECDEX Clearing board	<p>Conservative margin methodologies (client level netting and high confidence interval) counterbalances concentration risk</p> <p>Credible default waterfall structure assists in mitigating concentration risk</p> <p>Investment policy will be reviewed to ensure diversified access to funds under default scenarios large clearing banks are well capitalised under Basel III, with diversified funding and revenue models</p> <p>Greater participation in clearing process (self-clearing) will be encouraged</p>
Systemic risk – Significant geo-political upheavals or macro-economic failures	<p>Adequacy of current intra-day margining process will be reviewed</p> <p>Regular and robust stress testing regime will be implemented</p> <p>A comprehensive default procedure will be developed in order to enable market-wide fire drills</p>
Credit risk – Margin models fail to account appropriately for counterparty risk in line with SECDEX Clearing risk tolerance as approved by SECDEX Clearing board	<p>Ensure margin models produce a reliable forecast distribution of exposures at both product and client level – regular model validation and back testing will be in place</p>
Credit risk – Potential impact of tail risks not captured within initial margin model	<p>Regular reviews of the appropriateness, accuracy, reliability and resilience of SECDEX Clearing’s margin and stress testing methodologies will be undertaken</p> <p>Both historical and hypothetical scenarios will be applied for stress-testing</p> <p>Conservative buffer will be applied to the default fund quantification</p>

General organization of the FMI:

SECDEX Exchange Limited has appointed SECDEX Clearing Limited as the clearing house to provide clearing and settlement services for SECDEX Exchange's markets.

SECDEX EXCHANGE has appointed SECDEX Clearing:

- as the central counterparty (CCP) in all eligible products traded on SECDEX Exchange's markets; and
- as collecting agent for all booking fees due to SECDEX EXCHANGE on those market transactions.

Legal and regulatory framework:

SECDEX Clearing, a private company, is a wholly-owned subsidiary of the SECDEX GROUP. SECDEX CLEARING is a licensed clearing agency regulated by the Financial Services Authority in Seychelles.

System design and operations:

SECDEX EXCHANGE, a licensed exchange, will run the markets for the above products. The trading platform which will be used by SECDEX EXCHANGE is called ForumMatch. When trades are matched on ForumMatch they will be sent to a system called AvenirClear, which will novate the trades to SECDEX Clearing and allows for the clearing process to be initiated.

Positions down to client level will be aggregated in the EOD batch run and will then run through AvenirClear to calculate the Initial Margin, Variation Margin and booking fees. Amounts will then be aggregated to the Clearing Member level and the margin called for by SECDEX Clearing against the Clearing Member. Clearing Members must balance to SECDEX Clearing before the payments are initiated. Once the Clearing Member has balanced to SECDEX Clearing they will call for payments from the Trading Members who in turn call for the payments from their clients.

4. PRINCIPLE-BY-PRINCIPLE SUMMARY NARRATIVE DISCLOSURE

As previously stated in Section 1 of this document, only 20 of the 24 principles that make up the CPSS-IOSCO “Principles for Financial Market Infrastructures” have been deemed to be applicable to SECDEX Clearing (please see APPENDIX 1, the “CPSS-IOSCO Compliance: Rationale for “Non-applicable” Principles” memo for an explanation of these exclusions).

The following table provides an overview of SECDEX Clearing’s approach to observing the various principles:

Principle-by-principle summary narrative disclosure	
<p>Principle 1 – Legal basis <i>An FMI should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.</i></p>	
Summary narrative	<p>SECDEX Clearing’s operations as a clearing house within Seychelles occurs within a clearly defined and robust legal framework.</p> <p>Entities operating in the Securities sector are licensed under the Securities Act (SA). The SA provides a comprehensive framework enabling entities to operate in full transparency and lists all the requirements/criteria and the prudential norms which need to be followed and the relevant disclosures.</p> <p>The FSA licences Securities Exchanges, Clearing and Settlement Facilities.</p> <p>SECDEX Exchange and SECDEX Clearing, private companies, are wholly-owned subsidiaries of SECDEX Group Limited (“SECDEX”), and both entities are incorporated and licensed in Seychelles by the FSA under the Securities Act. Although SECDEX Clearing is licensed as the appointed clearing house for SECDEX EXCHANGE, it will operate within the regulatory framework of SECDEX Exchange rules with its own rule book associated closely with the exchange rule book and it mandates SECDEX EXCHANGE (in terms of a formal contract) to perform its operating functions, its risk management and clearing services, as well as decision-making regarding the declaration of defaulting participants but with its own Board. This structure is not uncommon as it provides economies of scale with its own governance for each entity. This structure is prevalent in South Africa for example with JSE Clear and JSE.</p>

Principle 2 – Governance

An 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

SECDEX Clearing will operate within a clearly defined and robust (statutory) legal framework, and within a clearly documented and applied corporate governance structure.

SECDEX Clearing is required to adhere to the highest standards of corporate governance, as set out in the group corporate governance policy and the prevailing guidelines.

Overall governance and direction of SECDEX Clearing will rest with its own Board of Directors, which will comprise a mix of SECDEX and SECDEX EXCHANGE executives, clearing member representatives and independent industry experts. The Board will be supported by a Risk Committee and Audit Committee.

SECDEX Clearing's governance framework encompasses a memorandum of incorporation and will have a Committee Terms of Reference, and a Code of Ethics.

Although SECDEX Clearing is licensed as the appointed clearing house for SECDEX EXCHANGE, in practice it will operate as an integrated part of SECDEX EXCHANGE and with the regulatory framework of SECDEX EXCHANGE rules that it aligned to with its own rule book. SECDEX Clearing will mandate SECDEX EXCHANGE (in terms of a formal contract to be put in place) to perform its operating functions, and its risk management and clearing services. This Clearing and Settlement Services Agreement ("CSSA") will provide SECDEX Clearing Board with a degree of control over SECDEX EXCHANGE resources providing the services on which it relies.

Finally, as a wholly-owned subsidiary, SECDEX, SECDEX Clearing will also be subject to the oversight of the SECDEX Board and its Audit Committee.

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	<p>The provision of sound and appropriate risk management is seen as SECDEX Clearing’s primary objective and an overall approach to risk will be adopted into business operations and driven by the Board. SECDEX Clearing will put in place a rigorous governance framework which will start at Board level and extends to operations. SECDEX Clearing will run a comprehensive and unambiguous risk management process to guide business decisions and resource allocation.</p> <p>The overall attitude to risk management will be entrenched in the management of specific areas of risk spanning the business’ operations. Risk management tools, risk triggers and mitigating actions will be implemented in each area of the operation, and aim to highlight and monitor each type of risk applicable to the CCP.</p> <p>On-going risk identification, measurement, management, monitoring and reporting is paramount to SECDEX Clearing’s continued well-being. As such, SECDEX Clearing will adopt a program of regular risk assessment, reporting and policy review to ensure comprehensive capture and management of potential risks to its business.</p>
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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 be limited to, the default of the two participants and their affiliates that would potentially cause the largest aggregate credit exposure to the CCP in extreme but plausible market conditions. All other CCPs should maintain additional financial resources sufficient to cover 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 potentially cause the largest aggregate credit exposure to the CCP in extreme but plausible market conditions.

Summary narrative	<p>As a CCP, SECDEX Clearing has potential exposure to 3 sources of credit risk (which is the risk of losses due to the default of a counterparty) – namely its clearing members, its settlement bank and its investment banks:</p> <p>The largest contributor to SECDEX Clearing’s credit risk will be the counterparty credit risk exposure it has to clearing members, through the clearing and settlement process. Should a clearing member default, SECDEX Clearing</p>
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is responsible for managing all of its open positions. Potential losses could arise from the closing of positions.

SECDEX Clearing will also face credit risk from its settlement bank due to its role in the daily settlement process.

Lastly, all initial margin posted by clearing members will be invested with a range of investment banks - should one of these banks default, SECDEX Clearing also stands to lose the margin deposited with that bank.

To mitigate its counterparty credit risk, SECDEX Clearing will employ stringent clearing member entry requirements (which are specified in the SECDEX Clearing rules), a system of conservative margining and a Risk Waterfall which includes a Default Fund. The size of the Default Fund will be informed by a stress testing regime. These measures will effectively mitigate the risk of a clearing member default.

The credit risk faced from the settlement bank will be mitigated by choosing appropriately well credit rated institutions and having multiple settlement banks.

The credit risk arising from investment banks will be managed through an investment policy, which specifies a minimum credit quality for investment banks and limits the concentration of funds with any one bank.

SECDEX Clearing will use a comprehensive stress testing framework to measure and manage counterparty and liquidity risk on a regular basis.

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

Cash collateral will be one form of collateral used to manage exposures.

Securities, precious metals, e.g. Gold and currency collateral will also be accepted. A full list of eligible collateral is outlined in the SECDEX Clearing Rules.

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	<p>SECDEX Clearing will have 3 types of margin:</p> <p>daily variation margin (mark-to-market or MtM);</p> <p>initial margin calculated using value-at-risk with a 1 day and 2 day holding period (initial margins are calculated per instrument type) – updated at bi-weekly; and</p> <p>Possible intra-day margining in cases of extreme stress.</p> <p>Current exposure is the daily variation margin to be paid and initial margin which is a measure of Potential Future Exposure (PFE). Portfolios will be margined under the SECDEX Clearing portfolio scanning method with offsets implemented for pre-specified groups of instruments only.</p> <p>Margins and risk parameters will very conservative, 99.7% confidence level and 2 day holding period. Margins will be further calculated on an instrument level and offsets are allowed on a client level only.</p> <p>SECDEX Clearing risk will manage down to a client level. Margin will be collected at a client level and paid to SECDEX Clearing. No off-setting will be provided for between a Clearing Member’s clients.</p> <p>Systems, rules and policies will be in place in order to calculate and implement margins and to manage the end-to-end margin collection process. The SECDEX Clearing Risk Committee will be consulted on all margin-related changes after which all changes will be signed-off by the SECDEX Clearing Board and then distributed via market notices and publication to relevant web sites.</p>
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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 settlement of payment 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	<p>The nature of SECDEX Clearing’s daily liquidity flows will be as follows:</p> <p>Clearing members must make or receive net variation margin payments to/from SECDEX Clearing, based on their underlying client’s position movements. These variation margin flows will be processed through SECDEX Clearing’s settlement banks. Any new positions that are entered into or closed will require net initial margin to be paid</p>
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or received by SECDEX Clearing, respectively. This initial margin will be managed by SECDEX Clearing and deposited into investment bank accounts, to be paid out when a position is closed out or used in the case of a default.

As such, SECDEX Clearing's liquidity risk can stem from two sources - the default of a clearing member, or operational issues at any of the four role players in SECDEX Clearing's daily liquidity flows (clearing members, settlement bank, investment banks or SECDEX Clearing itself).

SECDEX Clearing will manage its liquidity risk stemming from different role players as follows:

The liquidity risk stemming from clearing members will be mitigated via the existence of stringent entry requirements to becoming a clearing member

The liquidity risk stemming from SECDEX Clearing's settlement banks will be mitigated through multiple arrangements as a back up

The liquidity risk stemming from investment banks will be governed through SECDEX Clearing's investment guidelines

SECDEX Clearing will monitor liquidity flows through three processes:

SECDEX EXCHANGE Finance department will monitor cash-flows daily

To settlement banks monitor daily messages of payments in and out

SECDEX Clearing's stress testing process will include liquidity risk stress testing, which involves identifying peak historical and possible future liquidity needs

SECDEX Clearing will maintain dedicated liquidity lines with commercial banks to provide for potential liquidity needs.

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

With the drive for further automation and better risk management capabilities (resulting from funds being transferred via central bank funds) SECDEX Clearing will complete steps to:

Obtain protection in terms of payment finality and irrevocability; and

Process the SECDEX Clearing payments in central bank funds to lead to diversity from a settlement bank only model if so agreed by the Central Bank

Although the previous regime provided sufficient clarity regarding the point at which settlement is final, the subsequent move to Central Bank funds could be a significant move, and will improve the sophistication of operations in the market, as well as our overall credibility.

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 risks arising from the use of commercial bank money.

Summary narrative	SECDEX Clearing will use multiple settlement banks with good credit ratings (initially one will be primary and one will be a back up) and intends to subject to approval by Bank of Seychelles to make use of funds provided by the central bank. As such, its money settlements we envisage will eventually be conducted in central bank money.
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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	<p>SECDEX Clearing will be responsible for the facilitation of the delivery process for commodities physical deliveries.</p> <p>Physical delivery procedures are well documented in the clearing rules, and understood by all parties involved in the process. SECDEX Clearing clearly distinguishes the obligations of all participants in its rules, and has put in place mechanisms to ensure that these obligations (be they activity-based or financial) are continually met to the appropriate standards, and that known risks are mitigated effectively.</p>
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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	SECDEX Clearing has created a well-defined, recently refreshed framework of rules for defaults, and these have been supported with documented procedures and clear allocation of responsibilities, so that action could be taken quickly following a well-prepared approach.
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The market will be engaged extensively to review these procedures – all indications are that participants will understand their obligations in a default situation, and feel comfortable that they can comply with these should they ever be required to.

SECDEX Clearing will develop a comprehensive test of the default procedural framework, which included the development of a testing schedule and engagement with all market participants to secure involvement in the test execution (“Fire-drills”).

A default simulation will be conducted at least annually going forward, and will endeavour (where possible) to include contagion considerations for linked markets (i.e. where a default on one of SECDEX Exchange’s markets leads to a subsequent default in one or more of the other markets).

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

SECDEX Clearing will have the unique ability to fully segregate margin, collateral and positions between clearing members, members and their clients, offering far greater flexibility and protection to all levels of market participants.

Segregation and Portability will be tested and it is intended that SECDEX Clearing will be able to act with a great deal of independence when enacting transfers in its market (both in terms of legal authority, as well as from a system capability perspective).

SECDEX Clearing is acutely aware of the role it plays in maintaining the stability of the market, and the appropriate segregation and portability mechanisms to facilitate this.

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.

Summary narrative	<p>One of the key responsibilities for the proposed to be constituted SECDEX Clearing Risk Committee (to be created to provide dedicated focus on the management of SECDEX Clearing -specific risks) will be the ongoing monitoring and mitigation of general business risk. The risk resources of the CCP will work in conjunction with SECDEX Exchange's Compliance and Risk Management head and will be governed by SECDEX Clearing's own Risk Management Framework. As a result, they will be well positioned to defend SECDEX Clearing against any business-risk related threat.</p> <p>The CCP is well aware of the potential for business losses – particularly those outside of the immediate control of SECDEX Clearing – and will ensure that sufficient liquid resources exist to weather situations of extreme distress. These resources will be monitored regularly.</p> <p>SECDEX Clearing will identify and monitor general business risks through a comprehensive risk management framework. The Head of Compliance and Risk Management will be accountable for managing emergent and existing risks. These risks will be reviewed quarterly via the formal risk assessment process.</p>
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Principle 16: Custody and investment risks

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	<p>SECDEX Clearing policy for the investment of funds under management will have the primary aim to minimize the risk exposure in these funds and thereafter maximize the investment income earned on funds invested. All these funds will be administered and managed by SECDEX EXCHANGE on behalf of SECDEX Clearing.</p> <p>The specific selection criteria are that the banks should meet the rating criteria.</p>
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Funds managed by SECDEX Clearing will be invested in a variety of bank accounts spread across a number of banks with a minimum of a "A-1+" or "A- 1" rating, for terms between call and 180 days with a weighted average maturity not exceeding 50 days.

SECDEX EXCHANGE will rely on a recognised credit agency and ratings in order to assess and compute credit limits for the banks used.

SECDEX EXCHANGE will regularly check the banks' ratings to ensure they meet the criteria for eligibility.

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.

Summary narrative

The primary sources of operational risks as per the Risk Assessment Framework, are considered to be:

- Information Technology
- Internal Processes
- People or Management Failure

The Framework will be based on the COSO Risk Assessment Methodology, which is a best practice framework. In light of this, SECDEX Clearing will be satisfied that all applicable sources will be contained within this structure.

SECDEX Clearing considers potential single points of failure to mostly exist in the realm of IT. With this in mind (and in light of the fact that the provision of systems will be outsourced to SECDEX EXCHANGE) processes will be in place to ensure that potential single points of failure are negated via architectural principles, technical implementation and stringent failover and DR testing.

SECDEX Clearing's official Recovery Time Objective (RTO) is less than 2 hours given that the backup system will be in warm standby and with failover invoked as soon as the primary system is down, which is within the KC requirements in the PFMLs which recommend that an FMI should aim to be able to resume operations within 2 hours following a disruptive event; however back-up systems should commence processing immediately.

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	<p>The membership requirements put forward by SECDEX Clearing are transparent and fair, and will enable the introduction and participation of a broad range of market participants. The membership requirements are focussed on ensuring that potential entrants are capable of fulfilling their various obligations, and will not introduce undue stress or risk to the rest of the market.</p> <p>Although enhancements to the monitoring of compliance will be implemented on an ongoing basis, SECDEX Clearing will have good visibility of the activities of its market participants.</p> <p>The participation requirements are contained within the Derivatives Rules and Directives and SECDEX EXCHANGE and SECDEX Clearing rules.</p>
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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	<p>SECDEX Clearing will monitor and record all indirect participants' movements and accounts.</p> <p>In an effort to mitigate risks arising from tiered participation, SECDEX Clearing will take into consideration concentration and large position risk. These risks are further managed through margining procedures.</p> <p>In terms of participation arrangements,, SECDEX Clearing will allow for: Direct Clearing Members who clear for themselves and their clients</p>
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General Clearing Members which clear for themselves and their clients as well as other Trading Members and clients

The Trading Members will also be authorised by SECDEX EXCHANGE

The structure of the market will be: client to Trading Member and Trading Member to Clearing Members. All clients and Trading Members' accounts and positions will be recorded on SECDEX Exchange's systems.

All Derivative Trading and Clearing Members have to apply for membership on SECDEX EXCHANGE and SECDEX EXCHANGE keeps a register of members. The register will be updated whenever a new member is added or an existing member is terminated.

All underlying clients have to be registered down to account-level on SECDEX Exchange's systems.

As mentioned above SECDEX Clearing also monitors for position build-up (large positions) where an add-on margin is called for.

Also, SECDEX EXCHANGE in terms of the Rules can request that a Trading Member reduces their positions.

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

SECDEX Clearing will make a concerted effort to maintain lines of communication with its market participants, so that it can keep track of its developing needs, as well as assess the degree to which its service provision is meeting market requirements and standards. Feedback on the degree to which customers are satisfied is elicited via both formal and informal mechanisms.

In light of its continued focus on customer-centricity, SECDEX Clearing places a high priority on efficiency and effectiveness. As a result, it will actively look for ways in which it can improve its internal operations, and consequently improve the efficiency of its service offering to the market (be it through the automation of manual processes, or in the alignment of processes with global benchmark and standards).

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	SECDEX Clearing will maintain multiple lines of communication with the market, and shares information with participants in a prompt and formalised manner. SECDEX Clearing's systems utilise a globally recognised and accepted messaging standard (namely SWIFT ISO 15022 messages) – and these messages are disseminated on a reputable and established network
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Principle 23: Disclosure of rules, key procedures and market data

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	SECDEX EXCHANGE and SECDEX Clearing have a comprehensive catalogue of proposed policies and procedures, all underpinned by its market-specific "Rules and Directives" – the primary reference document to be used by market participants to determine their rights and obligations. SECDEX EXCHANGE and SECDEX Clearing will ensure that these vital reference documents are available to all parties that require details of the content held therein – where appropriate, this content will be available for public access via SECDEX EXCHANGE and SECDEX Clearing websites, or through contacting SECDEX EXCHANGE and SECDEX Clearing and directly and requesting it.
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APPENDIX 1: CPSS-IOSCO COMPLIANCE - RATIONALE FOR “NON-APPLICABLE” PRINCIPLES

Certain principles featured in the “CPSS-IOSCO Principles for Financial Market Infrastructures” have been deemed as not being relevant to SECDEX Clearing. Of the 24 principles that have been published by IOSCO, only 20 are considered to be pertinent to the CCP, meaning that 4 are viewed as being “non-applicable”.

There are 2 primary reasons for the exclusion of these 4 principles:

Section 1.21 of the “CPSS-IOSCO Principles for Financial Market Infrastructures” states that “*Most principles in this report are applicable to all types of FMIs covered by the report. However, a few principles are only relevant to specific types of FMIs*”. Further to this, “Annex E” of the same document explicitly defines the applicability of the various key considerations to specific types of FMIs. SECDEX Clearing is a CCP, and as such, Annex E specifies that:

Principle 11 (Central Securities Depositories) and Principle 24 (Disclosure of Market Data by Trade Repositories) are not relevant to CCPs, and can therefore be excluded from SECDEX Clearing’s self-assessment.

Due to the nature and design of the clearing and settlement service to be provided by SECDEX Clearing for the derivatives market, 2 of the IOSCO principles have been deemed to be non-applicable because they make assertions about the functions of a CCP that are not true for SECDEX Clearing. The 2 principles to which this applies are:

Principle 12 (Exchange-of-value Settlement Systems)
Principle 20 (FMI links)

The following table provides a summary of the rationale for why the 4 “non-applicable” principles have been given this status:

Principle #	Principle Name	Reason for “Non-applicable” Status
11	Central Securities Depositories	This principle is not applicable to CCPs, in terms of Annex E of the “CPSS-IOSCO Principles for Financial Market Infrastructures” – therefore no responses have been given to these questions
12	Exchange-of-value Settlement Systems	Deemed to be “non-applicable” due to the fact that the question contents only apply to CCPs that clear cash markets (i.e. equities and bonds) and are linked to the CSD – SECDEX Clearing will not clear cash markets and focuses exclusively on derivatives – hence, this principle is not applicable, and no responses have been given to these questions
20	FMI Links	Deemed to be “non-applicable” due to the fact that SECDEX Clearing has no FMI links. The only other FMI in this market is CDS, and SECDEX Clearing has no relationship with the CDS. We have no dependencies on other FMIs, hence, this principle is not applicable, and no responses have been given to these questions.
24	Disclosure of Market Data by Trade Repositories	This principle is not applicable to CCPs, in terms of Annex E of the “CPSS-IOSCO Principles for Financial Market Infrastructures” – therefore no response has been given to these questions

SECDEX Clearing is satisfied that it has applied the correct level of scrutiny to the key considerations and questions related to the 4 principles listed above, and that the rationale for non-applicability stated here is factually correct. As a result, SECDEX Clearing is only required to give detailed responses to 20 of the overall 24 CPSS-IOSCO principles, and these responses were issued to the regulator as part of a comprehensive compliance assessment.

SECDEX CLEARING LIMITED Board of Directors