

## New service to measure risk

Richard Greensted - 18 Oct 1999

### Thomas Murray and S&P to assess structure and operational effectiveness of CSDs

Ask 10 custodians to define operational risk and you'll probably get 11 different answers. Probe a little further and you'll discover that each has a unique policy on the extent to which they will assume some or all of this risk.

A few custodians offer indemnities against the failure of their sub-custodian network, although the value of these has never truly been tested; many more simply claim that they have implemented rigorous control procedures that mitigate the possibility of error, fraud and consequential loss.

To be fair, some of the operational risks faced by cross-border investors are beyond the control of their custodians. They can advise clients on dubious business practices, inadequate regulation and sloppy controls, for example, but there may not be an easy way of avoiding these if a client is still keen to invest in that particular market. One of the largest and, to date, least understood of all operational risks is the position and status of the central securities depository (CSD).

CSDs exist in most markets and act as a utility for the central safekeeping of both equities and fixed income securities. These securities can be dematerialised, as is the case with Crest in the UK, or immobilised, as with DTC in the US. The key advantage of a CSD is that it safeguards and records securities held either physically or electronically and may also register ownership of these securities. The CSD also enables securities transactions to be processed by book entry rather than physical transfer, thus substantially reducing the amount of paper in the system. Most CSDs are owned and run by the market, which has made them appear to be beyond reproach.

But just how safe are the CSDs, and what are the risks of leaving your securities with them? These are questions that have been exercising the minds of analysts at Thomas Murray, the specialist custody research, information and consultancy firm. Established in 1994, Thomas Murray already tracks and analyses operational CSDs in more than 96 countries and publishes regular updates on its findings. Now it has linked up with Standard & Poor's, the credit ratings, analysis and research house, to provide a global Depository Review and Risk



**'The Depository and Risk Evaluation Service represents a milestone in cross-industry co-operation'**

Simon Thomas,  
Thomas Murray

Evaluation Service to the global securities services and investment industry.

The new service will assess the structure and operational effectiveness of CSDs, providing much-needed information on protection of assets, risk minimisation and service quality to custodians, brokers, international CSDs like [Euroclear](#) and [Cedel](#), asset managers and investors.

Co-ordinated by Thomas Murray in London, the service will combine its own strong position as a provider of research, evaluation and assessment of global custodians, agent banks and CSDs with the contribution of Standard & Poor's extensive analytical resources and experience in evaluating risk.

Standard & Poor's, a division of The McGraw-Hill Companies, provides independent financial information, analytical services, advice and credit ratings to the world's financial markets. Standard & Poor's maintains credit ratings on more than 220,000 issuers and their financial obligations worldwide. Thomas Murray has conducted custodial evaluation and selection reviews on behalf of institutional investors and global custodians involving invested assets exceeding \$1 trillion (€943bn). These reviews have focused on how best to arrange for investments to be safeguarded and serviced at a global and local market level. Earlier this year it announced a strategic alliance with [The Capital Markets Company](#), the securities operations and technology consulting firm.

[Simon Thomas](#), chief executive officer of Thomas Murray, says: 'The Depository and Risk Evaluation Service meets the growing demand for information on, and evaluation of, the world's depositories. It represents a milestone in cross-industry co-operation - not only will it combine Thomas Murray's research capabilities with Standard & Poor's analytical skills, but it will also draw on the expertise contributed by the industry and other third parties.'

[Clifford Griep](#), executive managing director, Standard & Poor's Financial Institutions Ratings group, adds: 'The service will bring greater transparency to the operations of depositories in many emerging markets, facilitating both capital market development and investor protection.'

It is unlikely that the service will begin and end with CSDs. After all, many of the key non-investment risks lie not within the CSDs but with the custodians themselves. How long will it be before this alliance is offering similar information on the custodians?

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