

COMMENTS ON THE CPSS AND IOSCO REPORT ON PRINCIPLES FOR FINANCIAL MARKET INFRASTRUCTURES

TANZANIA

1.0 General introduction

In Tanzania the FMI consists of the Tanzania Interbank Settlement System (TISS) which is the real time settlement system (achieving DvP) and the Government Securities System (GSS) for securities settlement and depository functions. The below are our comments on the proposed new principles on segregation and portability, tiered participation and general business risk. However, mainly our market consists of financial institutions and institutional investors participating in the securities markets directly without involvement of the CCP.

2.0 Credit risk

The introduction of credit risks a minimum requirement that is “cover one” and “cover two” will have impact to financial institutions using the payment and government securities systems. In nutshell the following are the pros and cons of minimum requirements for credit risks.

2.1 Pros

- 2.1.1 participants and its affiliates will be required to allocate certain amount as default for cushion purpose;

2.2 Cons

- 2.2.1 need to provide additional financial resources to cover the provision of default of one or two participants and its affiliates;

The rationale for deciding which market participant should be subject to “cover one” and another one to “cover two”, the criteria for selection should be well addressed whether it will base on the number of transactions, riskiness and type of the products involved or capital muscles/requirements etc.

Providing one or two of the participants and its affiliates will default need to consider the issue of rating this also needs to be addressed in the principles of credit risk requirements.

In other markets products involved is very limited and the nature of risk cut across all market participants, thus selection of cover one and cover two may be complicated.

3.0 Liquidity risk

This principle requires maintenance of sufficient liquid resources to effect same-day payment obligation. In our opinion, the introduction of liquidity requirement will pose the following pros and cons to FMI.

3.1 Pros

- 3.1.1 ensuring that there is sufficient resources to meet the payment obligation of the respective participant;
- 3.1.2 develop more liquid financial market products .
- 3.1.3 encourage design of more liquid instruments

3.2 Cons

- 3.2.1 this may result to idle resources being kept by participants;
- 3.2.2 denying short term investment of the liquid resources;
- 3.1.1 may increase the tendencies of financial institutions to rely on central bank standby credit facilities (intraday and Lombard facilities);

Potential risk and competitive advantages may arise out of classification of “cover one” and “cover two” among the FMI, in certain markets where products involved are very few and almost all participants deal with the same products. The classification criteria may result in complication and bias opinion.

4.0 General business risk

This refers to the inability of the participants to continue as a going concern. In the going concern we assume that the participant has neither the intention nor the need to liquidate or curtail the scale of its activities drastically in the foreseeable future. The following are pros and cons of this principle:-

4.1 Pros

- 4.1.1 ensuring there is enough resources to run participants operations
- 4.1.2 establishing enough liquid net asset funded by equity of the FMI

4.2 Cons

- 4.2.1 criteria for establishment of the qualitative requirement may pose a challenge and bias;
- 4.2.2 going concern is more of accounting perspective and if we assume that FMI is not a going concern you need to prepare financial statements under alternative basis; finding the criteria for establishing quantitative requirement might not be easy under this assumption;

If the quantitative requirements is established the pro of setting this amount equal to six, nine or twelve months of operating expense is to ensure that there are enough resources to meet any general business risk while on the other hand if the number seem to be too high will encumber or tie up resources which could have been used in other operations.

5.0 Access and interoperability

We strongly echo the idea of establishing fair and open access of FMI services as the way toward evolution of global clearing structure. However, all issues related to legal,

standards and other issues should be carefully considered before the establishment of these principles.