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Dear colleagues,

These are some comments on the draft of “Principles for FMIs”, prepared by the Bank of Russia.

We believe that under the conditions of growth of fictitious capital and financial innovations it is necessary to implement within principles regarding credit and liquidity risks certain regulatory mechanisms (the so called “safety buffer”). In our opinion, it should comprise, first of all, development of parameters of the trading system risk management techniques for central counterparties (CCPs), including transactions’ collateralization standards and price limitations within a business day:

- further tightening of the system’s requirements regarding financial condition of trading system’s participants; taking into account the results of analysis of the financial position of participants (internal ratings of credit quality) in an internal system that would limit business operations of participants, if necessary; implementation of limits on the open positions of borrowers depending on their market risk concentration (the share in the aggregate risk);
- introduction of a quantitative risk standard (ratio) on a single payment liability (a single borrower) depending on the amount of a payment liability and taking into account the size of the margin calls related to a single payment liability;
- collateralization of trades (deposit margin) on a level that is sufficient to complete settlement of transactions that are counter to the default ones, and to cover the central counterparty’s own risks;
- formation of backup sources of instant liquidity (credit limits for a central counterparty in corresponding assets, formation of collective guarantee funds);
- maintenance of the required level of capital adequacy may also be accomplished at the expense of extra capitalization and restructuring of assets in the balance sheets of CCPs.

Recommendations of principle on business risk may need to be improved. As it follows from the explanation to this principle, FMI is supposed to have additional (apart from funds intended to cover other risks) resources to support provision of services and functioning as an FMI within 6, 9 or 12 months after stopping of incoming money flows in case of insolvency.

This requirement can be applicable only to a certain legal entity, its implementation will need establishment of special regimes of insolvency and resolution of an FMI, introduction of substantial changes into legislation on insolvency (bankruptcy). Moreover, the definition of business risk itself, that describes a broad range of events, needs concretization when applied to an FMI.

General comment is that the principles are addressed to five types of financial market infrastructures (FMIs): systemically important payment systems (SIPs), securities settlement systems (SSSs), central securities depositories (CSDs), central counterparties (CCPs) and trade repositories (TRs). While CSDs, CCPs and TRs are, as a rule, separate

legal entities, SIPSs and SSSs are aggregate of legal entities. It may cause certain difficulties with implementing of provisions of the principles, for instance concerning requirements on FMI capital, because it is unclear what should be considered as capital of a payment system. Implementing these provisions to, for instance, operators of payment systems, narrows the scope of the principle and is not always possible. It is proposed to clarify applicability of provisions to certain FMIs or to cover these issues in the assessment methodology.