



Central Bank of Sudan

Financial Institutions & Systems Wing

Payment Systems Directorate



بنك السودان المركزي

قطاع المؤسسات المالية والنظم

إدارة نظم الدفع

To: CPSS and IOSCO

From: Central Bank of Sudan – Task Force for the Principles for Financial Market Infrastructures.

Subject: Comments on The consultative report on Principles for Financial Market Infrastructures.

Date: Thursday 28 July, 2011

Dear Sirs,
Greetings

In its effort to enhance the concerned Financial Market Infrastructure, the Central Bank of Sudan has formulated a *prelude* Task Force mainly from its Financial Institution and Systems Wing to prepare a roadmap to deal with the new principles. The first task assigned to this team was to participate and comment on the principles especially those highlighted in the cover note.

Although the assigned time for the Task Force was narrow, the Team was able to focus on the Credit as well as the Liquidity Risk principles (4 and 7). Please accept our participation in commenting on these two principles and find attached to these letter our comments.

We would be delighted to participate if any clarifications are requested on these comments.

Thanks and Best Regards.

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رؤيتنا: أن تكون من البنوك المركزية الرائدة على المستوى الإقليمي والدولي في الحفاظ على الاستقرار النقدي والمالي بما يساهم في تحقيق النمو الاقتصادي المستدام ويعزز الثقة العالمية في مصادقنا المصرفية.

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Reference: Principle 4- Credit Risk

Subject: "... An FMI should maintain sufficient financial resources to cover its credit exposures to each participant fully with a high degree of confidence."

Comments and Recommendations:

We would suggest adding the phrase "depending on its design" to the principle, to be read as follows:

"An FMI, depending on its design, should maintain sufficient financial resources ...".

This is to cater for the type and quality of the financial resources to be maintained by each category of the FMI. For Example, it is stated in the key considerations those Payment systems, CSDs or should cover its current exposure, and, potential future exposures to each participant using **collateral and other financial resources**. And for the CCP, it should cover its current and potential future exposures using **margin and other financial resources**.

Subject: A CCP should also maintain additional financial resources to cover a wide range of potential stress scenarios that should include"

1) Credit Risk in Payment systems, CSDs and SSSs

Para. 3.4.5. Managing Credit Risk.

A payment system , CSD, and SSS should cover its current and potential future exposures using a rule, collateral and exceptionally, equity capital (after after deduction of the amount dedicated to cover general business risk

Comments and Recommendations:

While the report specified the type of financial resources that should be used by Payment systems, CSDs and SSSs as illustrated in Para 3.4.5., it does not determine the type and/or the quality of the additional financial resources that should be used by a CCP to cover credit risk. Therefore, for consistency, **we would suggest also specifying or determining the additional financial resources that should be used by a CCP.**

2) Credit Risk in CCPs

Para. 3.4.6 Sources of Credit Risk. ACCP typically faces both current and potential future exposures because it typically holds positions with its participants. **Current exposure arises from fluctuations in the market value of open positions** between the CCP and its partisans.

Comments and Recommendations:

Para 3.4.1. Defines credit risk as " the risk that a counterparty will be unable to meet fully its financial obligations when due or at any time in the future.

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The above definition is likely to contradict the phrase that says exposures arise from fluctuations in the market value of open positions – which is considered as **market risk**.

In case this issue could be considered as a market risk, a number of Paragraphs should be changed accordingly.

Reference: Principle 7- Liquidity Risk

Comments and Recommendations:

1. Principle in general it's ok , but some liquidity management tools & techniques such as :
 - Stress test
 - Modeling
 - Simulation

Are more advanced , and based on the experience of developed countries , thus under-development countries will find it difficult to comply with them within a short period of time, and at the same time their non-compliance will negatively affects their evaluation by international bodies .

For fairness considerations , the situation of these countries should be taken into consideration before issuing the final document of the principles .

2. The principle does not include any liquidity benchmarks.
3. No mention to liquidity management frame work according to Islamic System .
To guarantee the comprehensive approach as well as the flexibility **we recommend** that , these issues should be given the appropriate consideration.

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