COMMENTS ON THE CPSS IOSCO PRINCIPLES FOR FINANCIAL MARKET INFRASTRUCTURES

RESERVE BANK OF ZIMBABWE

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1. COMMENTS ON PRINCIPLES

1.1 Principle 2: Governance

To ensure that the principle covers strategic risk fully we suggest that the statement read

"The FMI should have a clearly defined corporate governance structure that that is acceptable to the respective jurisdiction"

It is our opinion that once strategic risk is fully addressed, all other risks are deemed to be catered for in an effective manner.

It is proposed that the principle should require central banks/ jurisdictions to have an adopted governance standard. Additionally, the principle may need to lay emphasis on the need to strengthen governance arrangements for Central Bank operated payment systems, stock exchanges and security settlement systems, which are generally self-regulated.

1.2 Principle 4 Credit Risk and Principle 7 Liquidity Risk

1.2.1 General Comments

To cover for credit risk, the process must be initiated at the point of entry and covered in the access criteria for CCPs and participants in any FMI. We therefore suggest that this aspect be covered in this principle.

The two principles state that FMIs must have a system for measuring risk and stress testing. Risk measurement and stress testing are not always easy since there are no set standards and criteria. Some jurisdictions may require technical assistance through institutions such as the IMF or World Bank.

1.2.2 Cover Options

We suggest that all three options should be made available in the principle since there are different operating environments prevailing in the countries that are guided by these principles. The option chosen by an FMI will also dependent on how vibrant and diversified the market is.

The three options may be too heavy on the smaller participants/ markets that may find it difficult to raise the collateral required. Situations may arise where participants may fail to raise the required collateral with time due to economic down turns. This may result in loss of confidence when one participant fails to meet the requirement and is booted out of the system.

Implementation of the principle maybe difficult in a segregated, small or emerging market; and it will depend on the products available. It may be necessary to consider stating the value of the cover required as a percentage of the total value settled in a particular FMI.

1.3 Principle 14 – Segregation and Portability

If all information pertaining to customers is kept individually under the CCP, issues of costs to participant customers are of concern. This is also dependent on the robustness of the system used by the CCP. Data integrity issues also come into play. The control measures in place to ensure that customer assets will not be abused by the CCP.

1.4 Principle 17 – Operational Risk – Business continuity

There is need to include actual guideline on the distance of the DR site from the primary site e.g. 10km, 30km etc. In other principles such as Settlement, the standard is very clear. This also has to be clear to avoid any doubts.

2. PROPOSED RESTRUCTURING OF THE PRINCIPLES

2.1 Rearranging the Sections

It is proposed that the Principles be rearranged starting from the general to specific. Rearrangement could entail arranging the sections in the following order:

- General Organisational
- Access,
- Efficiency
- Transparency,
- Settlement,
- General Business and Operational Risk Management,
- Specific risk management and risk mitigation sections,
    - Liquidity risk
    - Credit risk
- and finally, CSD.

It is also proposed that under risk management, liquidity risk could precede credit risk since in reality credit risk normally comes after liquidity risk.

2.2 Reassignment of certain principles to certain sections

In line with the proposed rearranging of the sections above, certain principles will need to be reassigned to new sections. Principle 3 could be moved to general risk management and principles 12, 19 and 20 could be consolidated under risk management as they relate to risk management. Principle 13 and 14 could be moved to risk mitigation as they relate to default management. The restructured principles would appear as follows:

General organisation

Principle 1: Legal Basis

Principle 2: Governance

Access

Principle 18: Access and participation requirements

Efficiency

Principle 21: Efficiency and effectiveness

Principle 22: Communication procedures and standards

Transparency

Principle 23: Disclosure of rules and procedures

Principle 24: Disclosure of market data

Settlement

Principle 8: Settlement finality

Principle 9: Money settlements

General Business and operational risk management

Principle 3: Framework for the comprehensive management of risks

Principle 15: General business risk

Principle 16: Custody and investment risk

Principle 17: Operational risk

Specific Risk management

Principle 7: Liquidity risk

Principle 4: Credit risk

Principle 6: Margin

Principle 10: Physical deliveries

Principle 12: Exchange-of-value settlement systems

Principle 19: Tiered participation arrangements

Principle 20: FMI links

Risk Mitigation procedures

Principle 5: Collateral

Principle 13: Participant-default rules and procedures

Principle 14: Segregation and portability