Principles for financial market infrastructures – consultative report (March 2011)

Comments

The consultative report entitled ***Principles for financial market infrastructures*** issued by the BIS-CPSS and IOSCO was circulated to the commercial banks in Saudi Arabia for review and comments. The banks welcomed the opportunity to review the report and provide their responses. Below we have given a summary of the comments received from financial institutions. This is in addition to comments that SAMA provided during committee meetings and the various feedback comments provided throughout the period of the production of this report.

- The principles propounded in the consultative report are sound and would reduce various risks when implemented effectively. The guidelines aim to ensure safety and security of payment and settlement systems across the globe

- The document is well thought out and lays out principles for managing the financial market infrastructure. Application of these principles will further augment and strengthen the controls and processes that financial institutions have in place. However, this paper spells out the broad high level principles; the challenge will be in the development and implementation of policies and procedures that will embody these principles and objectives. Considering there will be potential legal aspects to be addressed to ensure the desired effectiveness it is suggested that the first stage of implementation should Q1 2013 with a final implementation target of 3 to 5 years

- It is suggested that the document should also include a section on the implementation of an Early Warning System within FMIs that would require the development of relevant triggers to identify potential risks that have a higher probability of becoming a reality in the short to medium term

- In relation to

    - Principle 4-Credit Risk; it is suggested that any risk mitigation mechanism should be placed to net out any margin/collateral in the system.

    - Principle 5-Collateral; it is proposed that the collateral should be an investment grade security with acceptable haircuts and concentration limits

- Principle 14-Segregation and portability; segregation can help eliminate any potential errors/fraud and leads to good reputation of the organisation and improved controls and efficiency

- Principle 17-Operational Risk; it is proposed that before entering into a link relationship with another CCP, a CCP should be required to evaluate the potential risks arising from the link

- If the FMI is expected to hold additional financial/liquidity resources in case any one participant is in default, it will not be surprising if the FMI passes the additional costs to the banking industry/capital markets players. The banking industry/capital markets players need to be consulted on any proposal to reflect the additional cost to the market players

- It is recommended that a full review of the new principles be undertaken at the end of the first year of implementation. This will enable all interested parties (regulators, financial institutions and the operators of the FMIs) to provide detailed comments based on practical experience. It would also allow those countries who do not currently operate a CCP and who decide to introduce a CCP to provide more meaningful comments based on their own experience.