WORKING GROUP ON PAYMENT SYSTEM ISSUES OF LATIN AMERICA AND THE CARIBBEAN
Mexico City, July 21 – 22, 2011

MEETING FOR THE REVIEW OF THE NEW PRINCIPLES FOR FINANCIAL MARKET INFRASTRUCTURES (FMIs)

General Comments

- The Working Group on Payment Systems of Latinamerica and the Caribbean (WGPS-LAC) considers that compliance with the new principles will make FMIs safer and more efficient. However, there is a trade-off between safety and cost, and some of the new requirements will place a significant extra burden on most FMIs. The WGPS-LAC would like to emphasize that requirements that require a considerable extra effort may hinder the development of new or small FMIs and place a heavy load on those that are already striving to comply with international best practices. A mechanism to alleviate the burden could be to include a reasonable timeframe for requiring full compliance with the new Principles, or at least with some of the costliest ones.
- The Consultative Report recognizes that an FMI is interconnected to its participants, other FMIs and other parties, and therefore requires that the FMI ensures that its risk management framework includes the identification and management of risks associated with all such interdependencies. The WGPS-LAC suggest to highlight in the document that the principles are not only a set of good practices for FMIs, but a macro-prudential tool for the authorities given that they serve to the purpose of preventing financial problems and strongly contribute to financial stability.
- The WGPS-LAC believes that the new Principles should encourage dematerialization more emphatically. We feel that, when appropriate, an FMI should offer dematerialization, even though it might not be required that all securities are dematerialized.

Comments on the unresolved issues included in the "Cover Note"

Regarding the unresolved issues included in the “Cover Note” attached to the Consultative Report, our comments are the following:

- Credit and liquidity risk: The WGPS-LAC suggests that a FMI must cover at least the largest participant exposure (option 1). Nevertheless, the WGPS-LAC believes that for those FMIs that could generate global systemic risk it should be required to cover the two largest participants' exposure (option 2).

- Segregation and portability: The WGPS-LAC expresses its preference for CCPs and CSDs to be able to handle individual accounts for its participants' customers and considers that this should be the recommended practice. This requirement, however, does not necessarily would make compulsory for the FMI to mantain an account for all the end-customers.

- General business risk: The WGPS-LAC suggests adopting a quantitative criterion. Ideally an FMI must hold sufficiently liquid net assets to cover 12 months of operating expenses. However, if an FMI has well-defined protocols that the financial authorities find acceptable in place to orderly wind-down or reorganize its operations, the requirement could be reduced to cover a shorter lapse (like 6 months).

- Adoption and implementation: The WGPS-LAC feels that the new requirements that “raise-the-bar” may require at least two or three years for the FMIs to fully comply with. Howevever, in case that a deadline to comply is included in the Principles, the WGPS-LAC proposes that each FMI that considers that it will not be able to meet the deadline will be required to submit to its domestic authorities a well-defined compliance work-plan for those new Principles that are more demanding.