

1. INTRODUCTION

- 1.1 Worldwide, volumes and values of securities market transactions have been increasing over the last few years, just like in payment streams. Since securities are frequently traded in large values, this upward trend can pose systemic shocks to the financial system if it is not supported by sound and efficient clearing and settlement arrangements.
- 1.2 It is in this regard that central banks, in their search for integrity, security and stability of their national payment systems, have extended their interest to the securities market activities. The main justification for this is their continuous search for infrastructure robustness and efficiency that supports financial market activities with the ultimate goal of maintaining financial stability.
- 1.3 Following the worldwide financial crisis triggered by the worldwide fall in prices of equities in 1987, it became evident that weaknesses in securities market systems can have far reaching systemic impacts on the financial system. In response to this crisis, the G30 countries embarked on a number of initiatives designed to strengthen securities settlement systems. These initiatives have culminated in a number of recommendations that have now become widely supported and accepted as international standards for achieving safety, efficiency and soundness in the securities markets.
- 1.4 In particular, the following recommendations have received worldwide support in both developed and developing markets and have become accepted as the de facto standards for securities settlements systems:
 - 1.4.1 **The G30 recommendations on Clearance and Settlement Systems in the World's Securities Markets.** These were the result of consultative processes by central banks, securities regulators and representatives from the IMF and World Bank.
 - 1.4.2 **The BIS Recommendations for Securities Settlement Systems.** These are a product of cooperative efforts between the BIS Committee on Payment and Settlement Systems (CPSS) and the International Organization of Securities Commissions (IOSCO).
- 1.5 A number of private sector bodies such as the International Securities Services Association (ISSA) and the Association of National Numbering Agencies (ANNA) have also contributed significantly to providing guidelines from which countries have been able to craft their securities modernization strategies.

- 1.6 In line with international best practice and using these standards as guidelines, the Reserve Bank of Zimbabwe took a decision in July 2005 to introduce a Central Securities Depository (CSD) system for government securities (stocks, treasury bills and bonds). The implementation of the system is scheduled for completion during the first quarter of 2006.
- 1.7 Apart from helping Zimbabwe take yet another stride in the modernization process, this move will go a long way in addressing some of the challenges inherent in the current book entry system for handling transfers and providing custodial arrangements. These include:
- i. Delays in transaction processing;
 - ii. Compromised risk controls; and
 - iii. System processing limitations.

2 WHAT IS A CENTRAL SECURITIES DEPOSITORY?

- 2.1 The Bank for International Settlement (BIS) defines the CSD as “a facility for holding securities which enables securities transactions to be processed by book entry. Physical securities may be immobilized by the Depository or securities may be dematerialized (i.e. so that they exist only as electronic records). In addition to safekeeping, a CSD may incorporate comparison, clearing and settlement functions.”
- 2.2 The CSD therefore brings efficiency and convenience to investors by facilitating the transfer or pledge of securities without the need for physical movement of paper.

3 HOW THE SYSTEM WILL OPERATE

3.1 Participants

- 3.1.1 Participants in the CSD system will include RBZ and all the financial institutions who are ZETSS participants. The financial institutions will play a custodianship role, i.e. hold securities in the system on behalf of their clients, and on their own behalf. Apart from being a custodian, the RBZ will play the role of system provider and issuer of the securities.

3.2 Custodial Facility

- 3.2.1 The system will keep a register of all issued securities, with details of the issued amount, price, tenure, coupon and maturity payment dates, the registered holders' names, addresses and payment details. The system will also maintain an electronic record of all authorized transactions.

3.3 Types of Securities

- 3.3.1 Securities kept in the system will include Zimbabwe Government Treasury Bills, Zimbabwe Government Local Registered Stocks, RBZ Open Market Operations Bills, RBZ Special Bills, PLARP Bonds and any other securities that may be issued.

3.4 System Features and Benefits

- 3.4.1 Facilitates the creation and issue of securities in accordance with international standards of securities numbering (ISSN).
- 3.4.2 Settles primary and secondary market trades on a delivery versus payment (DVP) basis. DVP ensures that unconditional and irrevocable delivery of securities occurs only if the payment is also irrevocable, thus synchronising settlement of funds with transfer of ownership.
- 3.4.3 Facilitates dynamic management of securities for use in the ZETSS system and other credit extension facilities.
- 3.4.4 Enables automatic payment of interest and maturity proceeds on due dates without the need for beneficiary holders to provide written payment instructions to the RBZ.
- 3.4.5 Leverages on existing infrastructure in order to maximize benefit from SWIFT and ZETSS investment.
- 3.4.6 Empowers participant banks to process their own transactions, monitor their real-time positions, and produce detailed reports, thereby achieving full control of their portfolios.
- 3.4.7 Enhances operational efficiency, as there will be no need for banks to physically deliver transfer instructions to RBZ for processing.

3.5 Trading of Securities

- 3.5.1 The CSD system excludes the securities trading module; hence trading of securities will have to continue being conducted outside the system. However, the module may be incorporated at a later stage in order to enhance integration of the primary and secondary market activities.

4 CONCLUSION

- 4.1 The CSD system marks the birth of yet another product of the cooperative efforts between the RBZ and the financial industry.
- 4.2 An efficient and modern CSD plays an important role in the development and maintenance of domestic and international markets as well as in boosting market and investor confidence.
- 4.3 Financial institutions are expected to take advantage of the DVP feature in the system and promote inter-bank trading since this feature will significantly address the counter-party risk concerns that are currently in existence.
- 4.4 The introduction of the CSD for government securities is just the beginning of a long road to be travelled in the modernization of securities systems in Zimbabwe.
- 4.5 The efforts currently being made by Zimbabwe Stock Exchange (ZSE) to modernize their systems bears testimony to this. As indicated before, the RBZ remains committed to working with ZSE in their reform initiatives. This will however need to be done in a pragmatic way that takes into account the available resources.

Thank You

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