

Money market development in Uzbekistan

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frontclear

A financial markets development company

Frontclear Investors

An expanding base of development finance institutions



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Money markets are central to the functioning of financial systems and their ability to support economic growth and poverty reduction.

Why liquid money & swap markets matter

- Liquidity and maturity transformation for banks > undeveloped markets lead to excess liquidity and a lack of long-term finance > **drag on economic growth and poverty alleviation**
- Ability to manage ALM means **more responsible lending to real sector clients** (maturity and currency)
- Allocation of short-term liquidity to the lenders who need it most
- Secured money market (repo) is more stable and inclusive than unsecured
- At market level
 - Setting the benchmark rate
 - Monetary policy transmission
 - Repo is fundamental for liquid government bond
 - Development of derivatives market (IRS: Maturity Transformation and CCS: currency)

Money Market Development – Building Blocks



Expected challenges in Uzbekistan

- ISDA or GMRA enforceability, particularly in the case of a bank's insolvency
- Lack of local government bonds on banks balance sheets as banks report
 - Including due to bonds used in CBU operations
- Custody and title transfer:
 - Frontclear and other foreign parties need bonds on title transfer basis (not pledge)
 - Limitations on opening Depo accounts at UZRVB for foreigners
 - Processes for free of payment bond transfer between custody accounts

Frontclear: Stable and inclusive money markets

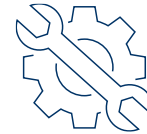
Guarantee transactions



Frontclear unlocks access to global and local interbank markets for EMDC financial institutions by providing credit guarantees to cover counterparty credit and related risks.



Technical Assistance



Frontclear complements its risk bearing capacity with the provision of technical assistance to remove barriers to money market development. Technical assistance is focused on regulatory and legal reform, industry training and financial market infrastructure development – all targeting the development of liquid global and local money markets.

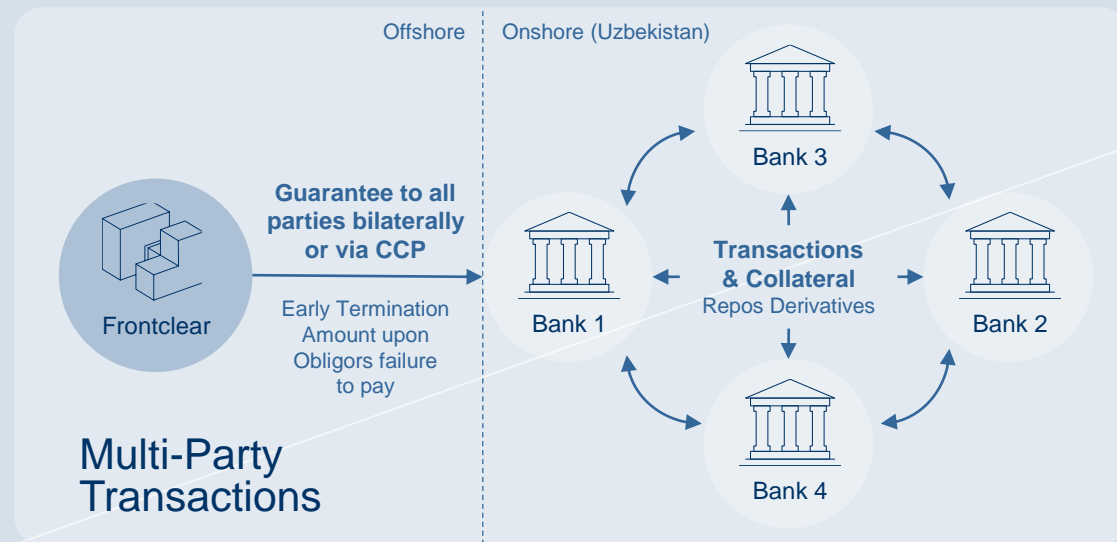
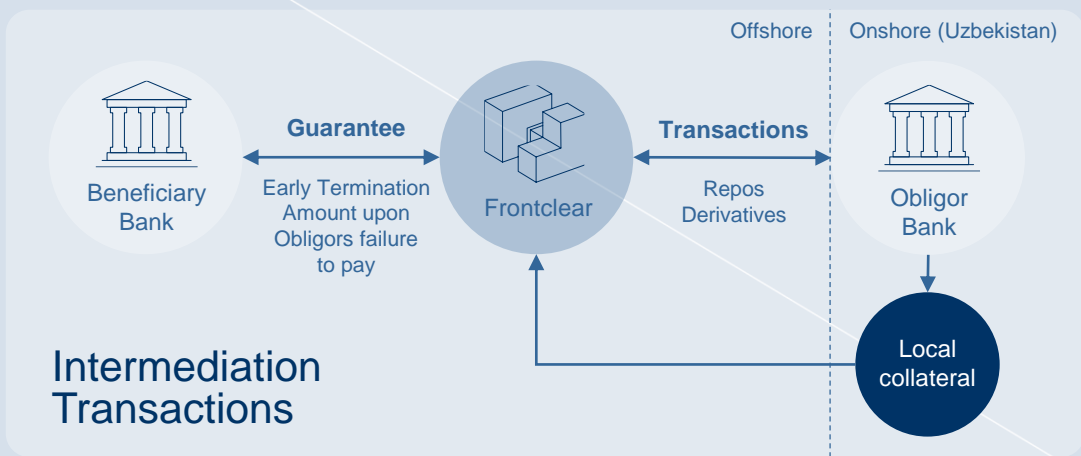
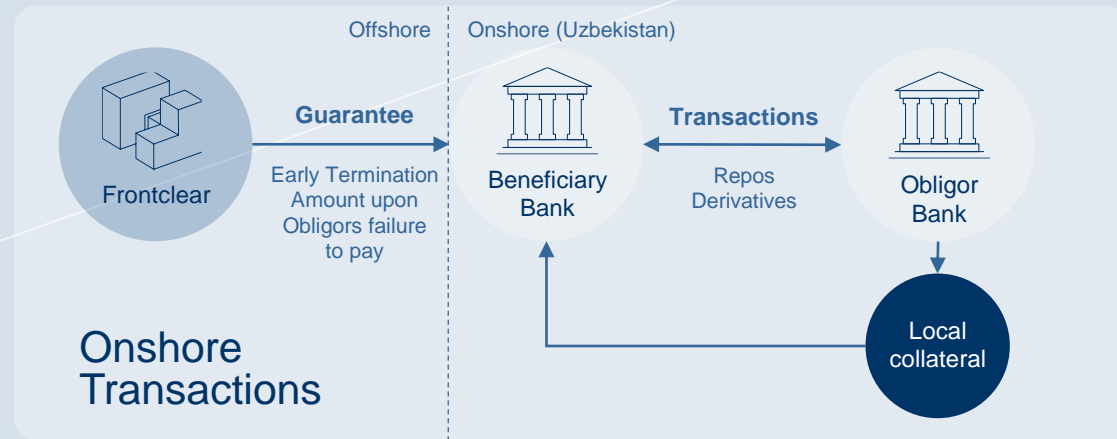
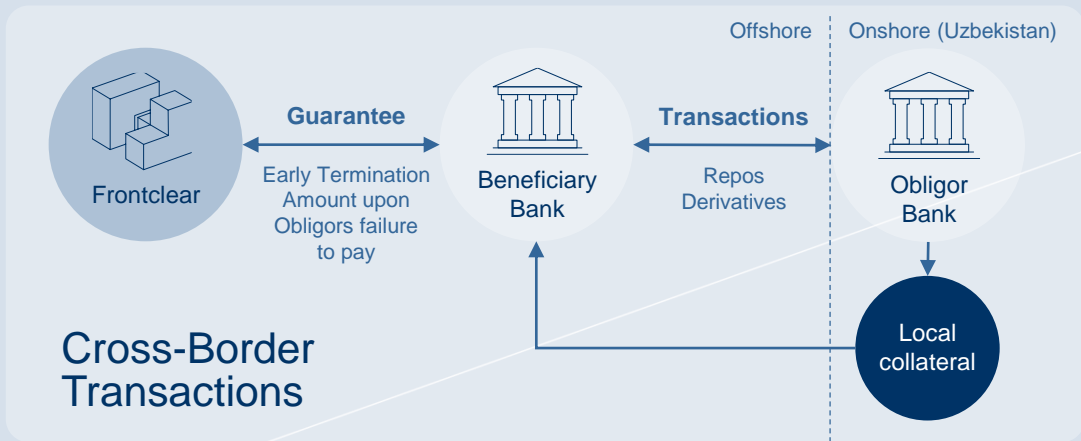


Money market development



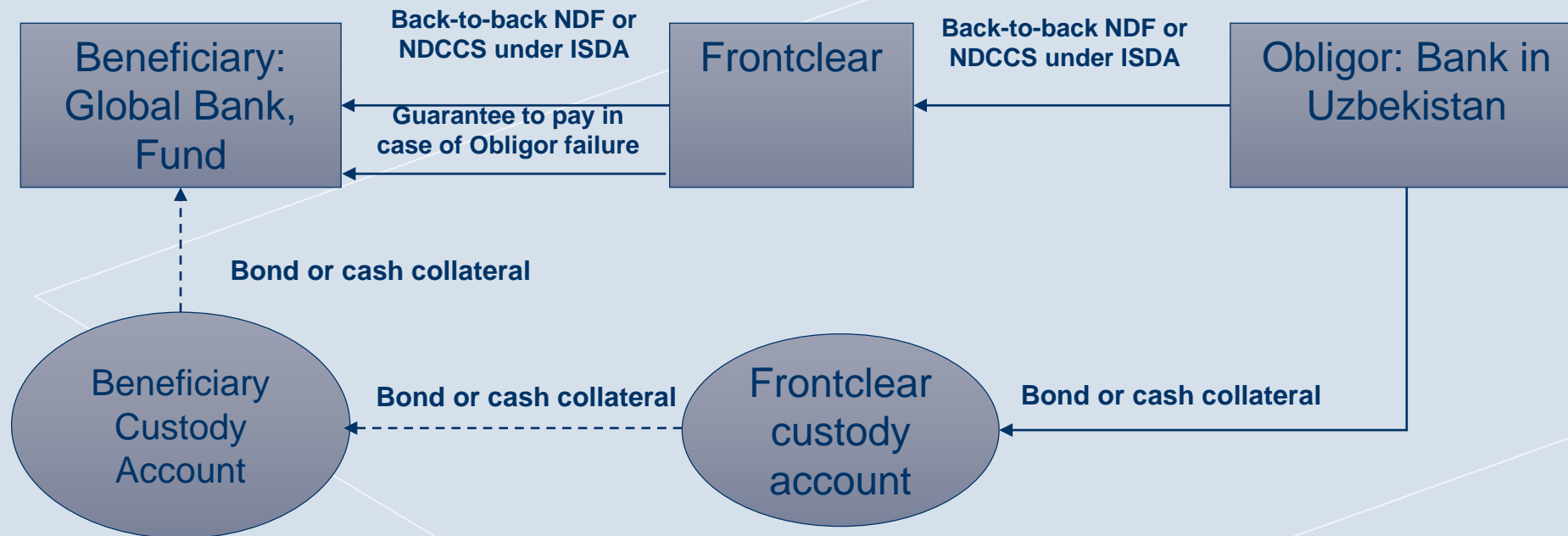
Frontclear is a financial markets development company dedicated to stable and inclusive money markets in Emerging and Developing Countries (EMDCs).

Transaction structures



A likely transaction in Uzbekistan


















Arranging Uzbekistan Som funding



Key terms and conditions structured trades

Eligible obligors	Regulated financial institutions and financial infrastructure providers
Geographic scope	All emerging and frontier economies
Instruments	Local currency repos, cross currency repo, synthetic repo (TRS) Spot FX, Forward FX, FX Swaps, Cross Currency Swaps, Interest rate swaps, NDFs Securities financing transactions
Guarantee	Frontclear guarantees payment of the Early Termination Amount upon close out and failure to pay by the obligor (on pari-passu or first loss basis). Buyer of last resort of collateral in in close out process.
Guarantee max notional	USD 50 million
Guarantee max percentage	Frontclear can guarantee up to 100% of the transaction exposure
Eligible collateral	For repo transactions: Government bills and bonds in hard or local currency For swap transactions (CSA): USD cash, local currency cash, government bills and bonds
Minimum collateral terms	Haircuts determined on case by case basis for repo transactions. CSA terms for derivative trades are maximum weekly valuations, typically zero thresholds, and minimum transfer amounts of USD250k. For wrong way transactions an Independent Amount is usually required.
Eligible documentation	Preference for ISDA, GMRA deviations from ISDA / GMRA triggers additional approval process.
Trade tenors	6 – 18 months, longer tenors on case by case basis

Sample transactions in other countries

 <p>USD 5,000,000</p> <p>Non-deliverable forward transaction (USD cash against Azeri Manat)</p> <p>financed by:  originated and guaranteed by: </p> <p>January 2020</p>	 <p>USD 40,000,000</p> <p>cross-currency repo transaction under a GMRA (USD cash against Ghanaian Cedi T-bonds)</p> <p>financed by:  originated and guaranteed by: </p> <p>December 2019</p>	 <p>AMD 6,600,000,000 (USD 13.5m equivalent)</p> <p>cross-currency repo transaction (AMD cash against Armenian Eurobonds)</p> <p>financed by:  originated and guaranteed by: </p> <p>January 2019</p>	 <p>USD 40,000,000</p> <p>cross-currency total return swap transaction (USD cash against Ghanaian Cedi T-bonds)</p> <p>financed by:  originated and guaranteed by: </p> <p>December 2018</p>
 <p>USD 20,000,000</p> <p>cross-currency swap transaction (USD cash against JPY cash)</p> <p>financed by:  originated and guaranteed by: </p> <p>October 2019</p>	 <p>USD 30,000,000</p> <p>cross-border collateral swap transaction (USD T-bonds against MNT government bonds)</p> <p>financed by:  originated and guaranteed by: </p> <p>July 2018</p>	 <p>USD 50,000,000</p> <p>cross-currency repo transaction (USD cash against NGN T-bills)</p> <p>financed by:   originated and guaranteed by: </p> <p>September 2017</p>	 <p>USD 25,000,000</p> <p>cross-currency repo transaction (USD cash against Kenya infrastructure bonds)</p> <p>financed by:  originated and guaranteed by: </p> <p>March 2016</p>

TA services

Advisory, training and workshops for regulators and industry participants

The Frontclear Technical Assistance Programme (FTAP) builds on locally-driven needs analysis combined with thorough market due diligence to develop a tailored country programme aimed at addressing market development barriers. Country programmes span a wide range of activities including training and capacity building, regulator roundtables and advisory projects on ISDA and GMRA legal enforceability as well as market infrastructure development.

FTAP works closely with global and national expertise and under joint Frontclear/local leadership. For example, in country with central banks, capital markets authorities, bankers' associations and ACIs. Globally through its FTAP Partnership Facility that pools financial and in-kind contributions for the private and not-for-profit sectors.

Financial knowledge 01

Basic offering

- The Repo Product
- Understanding and Implementing GMRA
- Fixed Income Boot Camp
- Deep Dive Derivatives
- Understanding and Implementing ISDA
- Basel II/III – Risk Management

Medior offering

- Recognition and Accounting of Financial Instruments and Derivatives Under IFRS 9
- Collateral Management
- Collateral Management in Bilateral and Centrally Cleared OTC Derivatives
- Mastering Basel III Capital

Legal and regulatory system 02

Roundtables

- regulators

- Addressing country-specific challenges to ISDA and GMRA enforceability
- Remedial planning to clean opinions

Advisory

- legal/regulatory review & reform

- Backstopping local regulatory reform processes
- Detailed review of relevant local regulation relative to ISDA and GMRA enforceability
- Recommendations for reformed language towards clean opinions

Training

- judiciary & legal enforceability

- Supporting commercial judges and arbitration processes

Market infrastructure 03

Advisory

- In-depth reviews of clearing and settlement challenges

Feasibility studies

- Review of the viability of e.g. clearing counterparties or primary dealer structures, including initial structure design

Research

- Multi-country research on key issues in money market infrastructure

Thank you

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