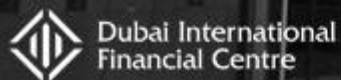


A black and white photograph of a modern skyscraper with a grid-like facade, viewed from a low angle looking up. A blue semi-transparent banner is overlaid on the left side of the image.

**DUBAI INTERNATIONAL  
FINANCIAL CENTRE**

Your gateway to growth.



**RAPID**  
**Payment infrastructure for Sustained  
Economic Growth and International  
Integration in the MENASA region**  
**09 October 2008**

**Dr. Nasser Saidi**  
**Chief Economist DIFC Authority**

A black and white photograph of a wide, paved plaza in front of a modern building. Several palm trees are planted in a row along the side of the plaza. A few people are walking in the distance.

# RAPID Payment infrastructure

- Economic background
- MENASA regional payment systems are underdeveloped
- GCC countries need to develop their payment systems to support economic, monetary and financial integration
- DIFC RAPID



## New Economic & Financial Geography Emerging (1)

- 42 countries spanning the Middle East, North & Eastern Africa, and the Indian Subcontinent
- Population of 2.2 billion people (2007)
- US\$2.5 trillion combined Real GDP (2007)<sup>1</sup>
- Financial wealth of high net worth individuals in the Middle East region is estimated to be growing at 17.6%, surpassing the pace of growth of that in North America, Europe and Asia Pacific.<sup>2</sup>
- Regional wealth invested abroad: \$1.8 trillion
- DIFC Region Total Exports > US\$1.2 trillion (2007)
- DIFC Region Total Imports > US\$1.0 trillion (2007)<sup>1</sup>



## New Economic & Financial Geography Emerging (2)

- Region combined has approximately two thirds of world's proven oil reserves
- GCC oil revenues are currently \$ 1.2 billion per day
- Current account surpluses running at 17% of GDP, much of which is being recycled back into regional economies.
- GCC countries are now 'asset-based' economies
- Region's non-oil sectors are making sizeable contributions to GDP growth: greater diversification
- Increased liquidity resulted in an investment driven boom,
- The total value of projects planned or under development in the Gulf Region exceeds US\$1.8 trillion <sup>3</sup>
- Growing Economic Regionalism: GCC Common market



# Payment System Development Imperative

- Rapid growth of the economies, equity markets and emergence of regional financial centres and specialised exchanges throughout the region underscores the need to build a robust and secure, world-class payment infrastructure to ensure the future growth and stability of the banking & financial systems around the region.
- Majority of MENSAA countries securities settlement system (SSS) and funds transfer (payment) systems are not adequately integrated, both internally and internationally, increasing systemic risk and potential disruption to the payments and settlements systems and the economy as a whole
- High clearing and settlement costs and non-harmonisation of payment rules and standards are acting as a barrier to the development of financial markets, and impeding cross-border clearing & settlement operations
- Sound and efficient payment systems will result in a reduction of systemic and settlement risks and enhancement of financial stability.
- Integrated SSS system compliant with international standards will also promote deeper integration of the region with other economic blocks and financial markets of Europe, the US and Asia.



# GCC Monetary Union and Common Currency

- GMU and increased economic and financial integration will be a major driver of the development of the payment infrastructure and financial markets of the region over the next decade. The objective should be the development of a GCC TARGET-like system.
- Sound and efficient, integrated payment and SSS for the GCC is an essential building block of its financial markets and should be an integral component of a common market and currency.
- A GCC TARGET can provide the opportunity for co-operation and interlinking between GCC countries, followed by the wider community of MENASA countries.
- Strategic objective should be for the GCC common currency to emerge as a global currency, alongside the US\$, Euro, Yen and the emerging Chinese Yuan.
- A strong GCC common currency can become the currency anchor and international reserve asset. By 2025, we forecast that the GCC bloc can become the fifth or sixth largest economic bloc in the global economy, with an even larger share of global assets. With international integration the GCC, with its accumulated international reserves and rapidly growing financial wealth must develop a multi-currency payment and securities settlement system, with secure, sound and efficient infrastructure that can handle large-value, high-volume, and cross-border transactions.



# DIFC: CAPITAL MARKET and PAYMENT SYSTEMS

Regional Investors seeking International Investments

International Issuers seeking Regional Investors

Fills 8 hour gap between Europe and Asia

International Investors seeking Regional Investments

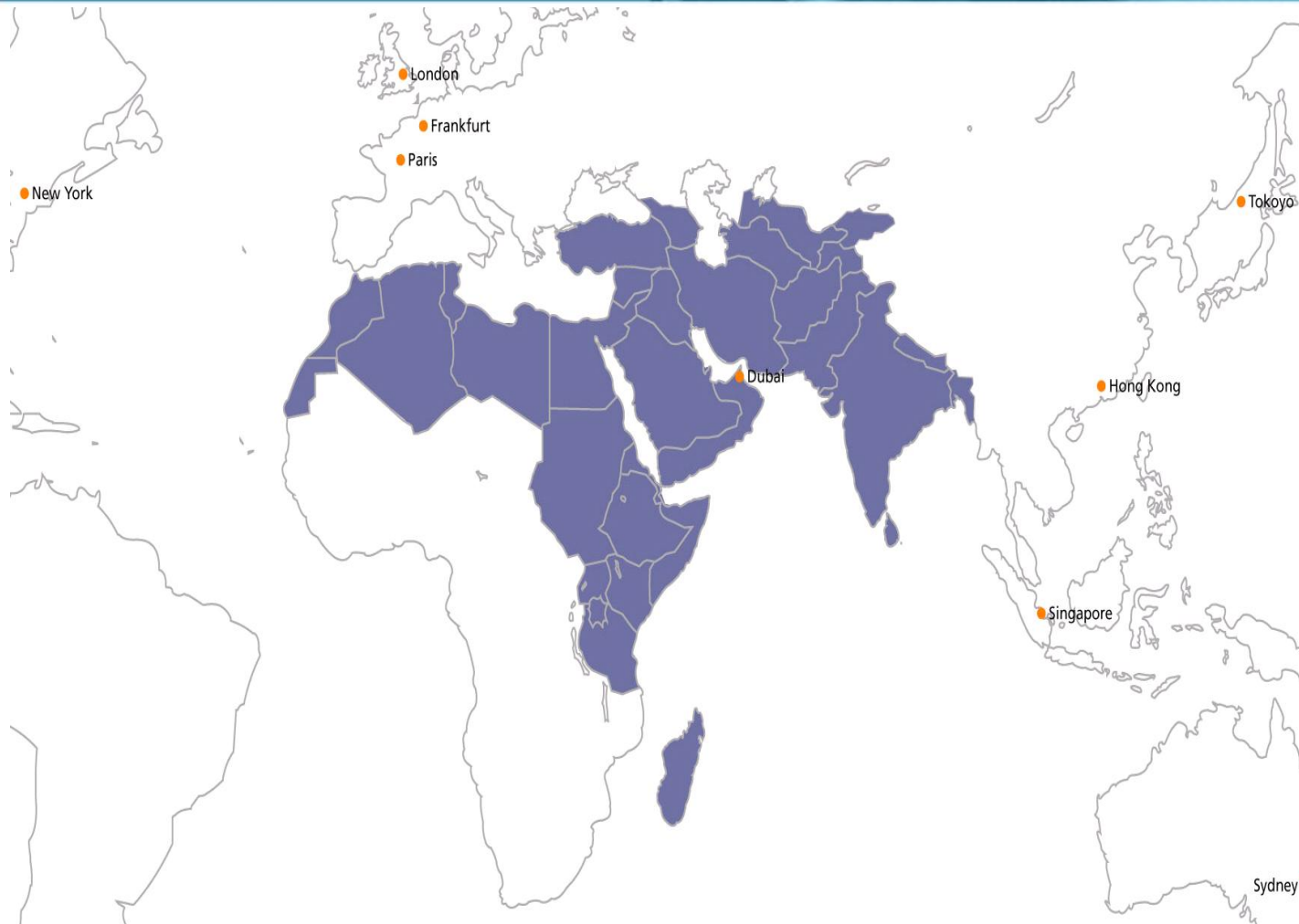
Regional Issuers seeking International Investors

● London  
● Frankfurt  
● Paris

● Dubai

● Tokyo  
● Hong Kong  
● Singapore

# MENASA region needs a sound, secure & efficient payment infrastructure



- **Compliant with internationally accepted standards (BIS)**
  - **Support Economic Development & Regional Integration**
  - **Provide Infrastructure for Emerging Financial Markets**
  - **Link to International Financial Markets**





# Real-time Automated Payments In DIFC (RAPID)

- EUR and USD “offshore” RTGS
- First stage, planned by fourth quarter 2008
- DVP with CSD system
- Later add additional functionalities
- DVP, delivery versus payment, re Repos etc, and
- PVP, payments versus payment, re FX



# RAPID Modeled on HK approach

- HK runs RTGSs in HKD, USD, EUR and CNY
- DVP with its own CSD system
- PVP with other payment systems as well as its own, via “earmarking” for MYR (Malaysian Ringgit)
- In a similar way, DIFC has the objective of facilitating the building of tailored interfaces relevant to GCC & MENASA
- Processing, liquidity etc centered on GCC time zone
- Providing services to MENASA region
- Capability to interoperate with Hong Kong solutions and GCC / China regions



# Settlement Institutions (SIs)

- Commercial bank rather than central bank money per CPSIPS
- Advantage that facilitates interoperation with Hong Kong
- Cooperate re cross-selling of memberships
- “Central bank of issue” (CBI) policy view that a central bank should not settle another countries currency except in special circumstances (e.g. new entrants to EMU)



# Legal & Regulatory framework

- **DIFC authority responsible for policy-making and development of payment systems in the DIFC, acting as payment systems authority**
- **DIFC will be enacting a Payment Systems Settlement Finality Law to ensure finality of payments in RAPID**
- **UAE Central Bank is “lead regulator” of RAPID ensuring compliance with CP SIPS**
- **Various other interested parties**
  - **“Central Banks of Issue” (CBIs: ECB, FRB)**
  - **DFSA, w.r.t. regulation of DIFC-based banks**
- **RAPID will also act as ‘front line regulator’ undertaking day to day supervision**
  - **Interacting with CBIs**
  - **Legal entity established within DIFC reporting to CBUAE**
  - **Document Rules of Operation**

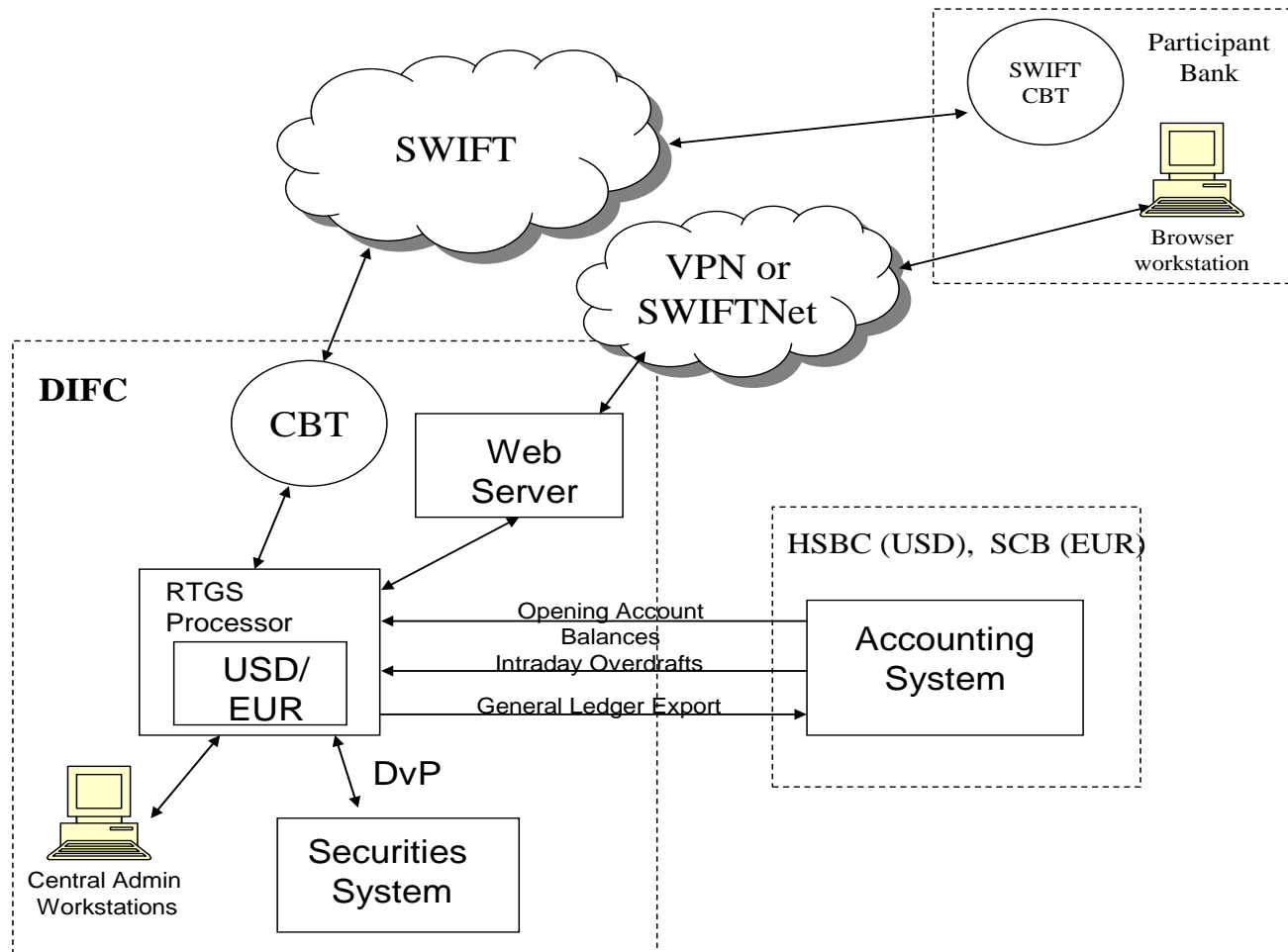


# IT Solution

- LogicaCMG Central Accounting System (CAS) RTGS package:
  - Cost efficient
  - Up to date architecture
- HotScan Anti-Money Laundering Filter
- SWIFT Y-copy:
  - Market standard for RTGS
  - Avoids systemic risk



# Phase 1 - Euro/USD settlements



# Collateral

- Plan not to be 100% collateralized - based on commercial considerations of SIs (similar to HK)
- RAPID will include ability to inject collateral to facilitate liquidity:
  - Cash collateral elsewhere – HK, TARGET, etc
  - Potentially cross currency
  - Prudential securities pledged – like UK model
  - Manual Repo followed by auto Repo
  - Borse Dubai/DFM/DIFX CSD
  - Supplemented with other sources
- Queuing optimization to reduce need for liquidity



# Commercialisation - Roadmap

- RAPID wants to build new products required by DPs and their customers
- Trade finance / commercial payments
- DVP – Repo etc
- PVP with other non-CLS currencies in the region
- DVP etc could offer a wider service to region when single currency is adopted
- Hong Kong
  - Liquidity bridge
  - Cross participation – encourage by pricing structure
- IT vendors – working with to encourage user products
- DIFCA Forums and Workshops
  - Payment Systems & RTGS
  - GCC Common Currency
  - Various workshops on development of debt markets in GCC





# RAPID: Recap

- GCC economic renaissance & structural change
- Capital Markets Development Imperative to sustain economic growth
- Financial Infrastructure: Payments, Securities Markets and Settlement Systems
- GCC Common Market promises to be the kernel of deeper regional integration
- GCC common currency can become a global currency, alongside USD, EUR, JPY and emerging CNY
- First stage to launch offshore USD and EUR RTGS solution from DIFC to be accessible in MENASA and beyond
- Inviting banks to indicate interest to use and participate in working groups to help shape future
- Plans for commercial payments, DVP, PVP, additional currencies



