



Remarks by
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Deputy Governor

Launch of TradeClear Uganda

Cocktail Reception

Sheraton Hotel Kampala

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Heads of diplomatic missions

Chief executives of financial institutions

Chief executive officer, Frontclear

President, ACI Uganda (*part of the ACI Financial Markets Association*)

Chairman, UBA Treasurers' Forum

Development partners

Distinguished ladies and gentlemen.

Good evening to you all.

Thank you, Mr Philip Buyskes (CEO, Frontclear), for the invitation to launch the umbrella guarantee facility called TradeClear Uganda. It is a pleasure to speak with like-minded players that share the goal of deepening Uganda's financial markets.

Speaking after a long day, and just before a reception; I plan to keep my remarks short. Briefly, the introduction of TradeClear Uganda is expected to dislodge the logjam of market segmentation in the interbank money market. This umbrella guarantee facility will cover the risk of interbank defaults i.e. if a borrowing bank fails to pay the lender in a secured transaction, Frontclear will stand ready to pay back the funds advanced by the lender. The establishment of a facility like TradeClear in Uganda's money market has been long overdue. We cannot thank Frontclear enough for bringing us to this day.

In the Christian Bible (Luke 5:4–5) Jesus said to Simon, "Take the boat into deep water, and put your nets in the water to catch some fish." And Simon answered, "Master, we worked hard all night trying to catch fish, and we caught nothing. But you say to put the nets in the water, so I will." The Latin phrase "Duc in Altum", for "launch into the deep" captures the gist of Jesus's instructions to Peter as well as the intended impact of TradeClear.

For long, some players in the local interbank money market have been relegated to fishing in shallow waters, while others hauled in the big catches from the deep waters. The existence of counterparty credit limits, which were set at zero in some cases, have constrained the fluid flow of liquidity among banks.

Also, the absence of a legal and regulatory regime for close-out netting held back market development by exposing market players of investors to several risks including settlement, counterparty credit, currency, and default risks, among others. The avoidance of undue risk-taking limited the pool of potential players and investors thereby stunting performance and denying the market large pools of capital.

The stakes of having a shallow financial market are higher than which players are restricted to catching *mukene* (silverfish) on the shallow end and which ones can access *empuuta* (Nile perch) on the deep end. At stake is the very potency of the central bank's monetary policy actions.

The Bank of Uganda embarked on modernizing its monetary policy framework in July 2011 by adopting inflation targeting, from relying on monetary aggregates to achieve price stability. One of the "preconditions" for the adoption of the forward-looking inflation targeting framework is an effective financial system through which the central bank's policy decisions would be transmitted to the economy.

The fact that we are launching an umbrella guarantee facility to help overcome money market segmentation today implies that we undertook inflation targeting although the financial market was not yet fully efficient.

The shallowness of our financial markets was counterbalanced with solid central bank independence, a flexible exchange rate regime, fiscal prudence, sound and well-regulated financial institutions, and a progressive spirit of policy innovation to design solutions for challenges as they arose. Fortunately, the BoU has successfully fostered price stability with the inflation targeting framework despite the incompleteness of the financial system.

Nevertheless, the remaining frictions in the financial system have prevented the smooth and timely adjustment of interest rates in line with the central bank's policy stance to date. Despite the traditional downward stickiness of prices, the extent to which commercial lending rates adjust and reflect policy changes and underlying factors like inflation has been intolerably limited, to put it mildly.

The prevailing market efficiency diminishes the impact of monetary policy by throttling the smooth flow of liquidity across the financial markets and to the real economy. And so, all stakeholders must do whatever it takes to advance market development so that the financial system can effectively serve the real economy with optimal Payment, settlement and transaction services; intermediation; as well as risk transfer and insurance.

It is in the spirit of the concerted advancement of the financial system that BoU and Frontclear undertook to work together by signing a Memorandum of Understanding (MoU) to support the development of the interbank market in Uganda in 2019. The MoU prioritized three key areas i.e., a legal and regulatory review on the enforceability of the International Swaps and Derivatives Agreement (ISDA) and Global Master Repurchase Agreement (GMRA), piloting a money market development framework diagnostic tool, and TradeClear – Frontclear’s umbrella guarantee product in Uganda.

I am happy to say that Frontclear has more than met its obligations as evidenced by several milestones achieved in the agreed mandate. Indeed, Frontclear has also since undertaken to support the development of a bond market governance framework and is also assisting URBRA to facilitate the local pension funds to participate in the secondary bond markets and repos.

Today’s launch of TradeClear Uganda is yet another critical milestone for market development in Uganda. TradeClear aims to professionalize market trading and reduce counterparty credit risk such that all banks across all market segments can maintain access to interbank funding and risk management instruments.

TradeClear introduces standardized ISDA and GMRA contracts between all participating banks, with variation margins exchanged weekly in Ugandan shillings. Together with Frontclear guaranteeing mark-to-market losses upon default by a participating bank combined with the existence of a counter-guarantee by KfW (“AAA-rated” German development bank), counterparty credit risk will be mitigated and trading lines are expected to increase across the market.

In addition, the program has and will continue to be supported by Frontclear’s training and capacity-building efforts, focused on upskilling banks to ensure they can meaningfully participate in the interbank market. With TradeClear centrally providing valuation and margining calculations to all parties, eligible market players will avoid the need to invest in expensive valuation systems of their own, thereby lowering the barrier to participation in the market.

All in all, TradeClear is intended as a practical means of coordinating market development with the long-term goal of establishing local financial infrastructure, such as a Central Clearing Counterparty, once the market is further developed.

It is important to note that TradeClear is not intended to replace existing credit lines in the market but seeks to supplement them and ensure a minimum amount of credit capacity at any given time.

We hope that a meaningful interbank market will develop on the back of TradeClear, and in particular, that a deep and efficient repo market will take off.

Whilst Uganda enjoys a relatively developed swap market, the horizontal repo market remains in its infancy with very few transactions occurring regularly (with roughly 10% of total secondary market trades for the year to May 2022). This compares unfavourably to more advanced markets, where turnover in the repo market can account for as much as 40% of total secondary market activity. Repo markets are critical for the functioning of the financial system as a liquid and deep repo market will improve monetary policy transmission, facilitate depth in the secondary bond market and allow for meaningful interest rate benchmarks to be established.

In the BoU's commitment to the development of Uganda's financial system, we could not have had a better partner than Frontclear. I am especially pleased that TradeClear will facilitate the development of a deeper and more inclusive interbank market where the phrase "Duc in Altum" (launch in the deep) covers the transactions of all players regardless of their inherent size.

Finally, would not be here without the support of our cherished development partners who have generously supported financial market development in Uganda. And just as Rome was not built in a day, the work continues.

Congratulations to the financial institutions that have taken the bold step to join the TradeClear program. As you are aware, participation in the TradeClear program is voluntary and based on the informed assessment and judgement of the participating financial institutions. The benefits of participation will accrue directly to the eligible institutions, to the market through the increased vibrancy of interbank trading, and ultimately to the central bank through the smoother transmission of policy signals to the real economy.

It is now my singular honour and privilege to launch TradeClear Uganda.

Thank you for listening to me.