



صندوق النقد العربي
ARAB MONETARY FUND



مجلس محافظي المصارف المركزية ومؤسسات النقد العربية
COUNCIL OF ARAB CENTRAL BANKS AND
MONETARY AUTHORITIES GOVERNORS

Introductory Note Arab Regional Payment System (ARPS)

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Arab Regional Payment System (ARPS)

Objectives

The Arab Regional Payment System (ARPS) project aims at expanding intra-Arab trade and investment activities by providing a new platform that promote the use of Arab currencies for clearing and settlement of cross-broader payments, while reducing the cost and duration of remittances and payments between Arab countries. The system also seeks to build bridges between Arab countries and their main trading partners, in order to promote trade relations and develop investment activities amongst them.

Background

The implementation of the project is based on a comprehensive economic and financial feasibility study conducted in 2014. It has demonstrated the benefits that the system could generate both economically and financially for the supervisory authorities and for financial institutions, taking into account the volume of cross-border transactions and financial flows between Arab countries. In addition, The Council of Arab Central Banks and Monetary Authorities' Governors, at its meeting in Algeria in 2014, welcomed the study and recommended further studies in order to establish a system in line with international standards.

Standards and Principles

In order to be recognized as "reliable" locally, regionally and internationally, the Arab payment system aims to be in line with international standards. In addition, the system must be highly protected to ensure not only the security of information and transactions, but also the ease of its

implementation. In other words, Arab countries should not make fundamental changes to the automated systems currently in use at the level of each member state as well as enhancing the opportunities for wider participation of Arab financial institutions.

Within this in mind, the system has been designed and aligned with the principles for the financial markets infrastructure of the Bank for International Settlements (PFMI), the international standards against money laundering and the financing of terrorism (AML -CT), United Nations Anti-Terrorist norms. In addition, the Arab payment system has been designed in compliance with the host country's laws and regulations issued by issued by countries whose currencies are used in the system.

ARPS System Design

The project has gone through various stages in which a number of studies and reports have been produced, as well as numerous meetings and workshops have been organized. The design of the system was prepared by the Arab Monetary Fund with support of a specialized consultancy firm, in cooperation with a team composed of representatives of Arab Central Banks and Monetary Authorities along with the participation of experts from the World Bank and the Bank. International Regulations.

The most important feature of the ARPS's Business Model is that it is based on the establishment of an inter-day central clearing and settlement mechanism, taking into account minimum requirements to comply with the payment systems in the Arab countries. The design also complies with relevant international standards and principles. There is flexibility in direct and indirect participation in the system by Central Banks and Commercial Banks according to their interests. In addition, the model will use both Arab and foreign currencies for the payment and settlement of cross-border intra-Arab transactions. Also, and in order to

reduce credit risk, the system will adopt a pre-funding mechanism in its start-up phase, ie, payment transactions via the system require the availability of funds before any money transfer operation. A guarantee mechanism will be developed in a later phase.

The system design document was completed in July 2017.

Implementation Phase

At its meeting on 17 September 2017, in Abu Dhabi (United Arab Emirates), the Council of Arab Central Banks and Monetary Authorities' Governors approved the proposed design of the Arab Regional Payment System. The Council also and proposed the establishment of an independent entity that administers the system and enjoys a legal personality subject to a local agreement with the hosting country. The entity also must comply with all laws and regulations and should enjoy privileges and immunities necessary for the efficient and effective management of the system. ARPS's authorized capital is US \$ 100 million and will be owned by the Arab Monetary Fund, with a possibility- at a later stage- to engage Central and Commercial Banks in the ownership.

The Board of Governors of the Arab Monetary Fund, at its 41st Annual Meeting held in Amman, the Kingdom of Jordan on 10 April 2018, approved the resolution adopted by the Council of Arab Central Banks and Monetary Authorities' Governors on the establishment of the ARPS. The Council emphasized the importance of communication and consultation with the Arab Central Banks and Monetary Authorities with the objective of wider recognition and supports that are needed for such project, reflecting the strategic importance and need of such projects for Arab countries

The Arab Monetary Fund (AMF) takes the necessary steps to establish the legal entity and regulatory framework that would enable the new company to go to the market and begin its operations. A Steering Committee has also been formed at the level of the Central Banks Governors to oversee the implementation of the system.

Implementation Plan

An action plan detailing the activities to be undertaken has been defined and includes seven main workstreams (1) Governance setup, (2) Entity and Organization Setup, (3) Business Design and Development, (4) Legal and Regulatory, (5) System procurement, (6) System design and implementation and (7) Operational Onboarding.

The implementation plan takes into account the formation and preparation of the legal requirements needed for the operation of ARPS and fast-track establishment of the entity in order to begin its operation as soon as possible. The system should also get use and takes advantage of new financial technology and opportunities to offer value added innovative products to Arab banks as well as related international participants.

Governance of the Implementation Phase

The success of the implementation phase consists in consulting all the stakeholders, including the Council of Arab Central Banks and Monetary Authorities' Governors, the coordinators at the level of each Arab Central Bank who will have to participate actively in the project implementation, in close collaboration with experts representing international financial institutions partners such as the IMF, the World Bank and the Bank for International Settlements. In addition, the implementation phase will also engage commercial banks,

financial institutions and exchange houses in the Arab countries that represent the users of the system, in order to develop appropriate services and products that meet their needs and expectations. Consultation with financial service providers at the international level in a long-term is an on-going process as far as the ARPS will eventually be associated and connected with other settlement platforms.

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