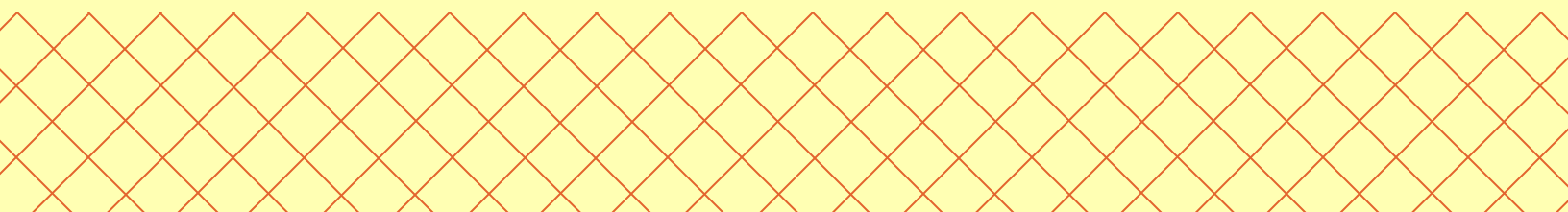


WESTERN HEMISPHERE PAYMENTS AND SECURITIES CLEARANCE  
AND SETTLEMENT INITIATIVE  
CENTRE FOR LATIN AMERICAN MONETARY STUDIES  
THE WORLD BANK

**PAYMENTS AND SECURITIES  
CLEARANCE AND  
SETTLEMENT SYSTEMS  
IN THE DOMINICAN REPUBLIC**

MARCH 2003



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## Foreword

Following a request from the Western Hemisphere Finance Ministers, the World Bank (WB) launched in January 1999 the *Western Hemisphere Payments and Securities Clearance and Settlement Initiative*. The World Bank in partnership with the Centre for Latin American Monetary Studies (CEMLA) leads this initiative. Its objective is to describe and assess the payments systems of the Western Hemisphere with a view to identifying possible improvement measures in their safety, efficiency and integrity. To carry out this mandate an International Advisory Council (IAC) was established in March 1999 comprised of experts in the field from several institutions. In addition to representatives from the WB and CEMLA this Council includes members from the: Bank for International Settlements, Bank of Italy, Bank of Portugal, Bank of Spain, Council of Securities Regulators of the Americas (COSRA), De Nederlandsche Bank, European Central Bank, Federal Reserve Board, Federal Reserve Bank of New York, Inter-American Development Bank, International Monetary Fund, International Organization of Securities Regulators (IOSCO), Securities Commission of Spain, Swiss National Bank and U.S. Securities Commission (SEC).

To assure quality and effectiveness, the Initiative includes two important components. First, all studies are conducted with the active participation of country officials and the project builds on the existing work being undertaken in the respective countries. Second, the Initiative draws on international and national expertise on the subject, through the IAC, to provide guidance, advice and alternatives to current practices.

The Initiative has undertaken a number of activities in order to respond to the Western Hemisphere Finance Ministers' request. These include: the preparation of public reports containing a systematic in-depth description of each country's payments clearance and settlement systems; the delivery of recommendations reports to country authorities on a confidential basis; the organization of IAC meetings to review country studies and provide input for future work; the organization of workshops focusing on issues of particular interest; the creation of a web-page ([www.ipho-whpi.org](http://www.ipho-whpi.org)) to present the outputs of the Initiative and other information of interest in the payments systems area; and the promotion of working groups to ensure a continuation of the project activity.

CEMLA has been acting as Technical Secretariat of the Initiative and is playing a major role in making the process sustainable and capable of extension to all the countries in the Hemisphere. To this end, the Initiative has helped strengthen CEMLA's in-house expertise. Additionally, practitioners in payments and securities clearance and settlement in some countries in the Region have participated in the studies under the Initiative, through CEMLA coordination, and this has contributed to the broadening of knowledge and the transfer of know-how within the Region. The endeavors of the working groups in coordination with CEMLA will maintain the infrastructure created under the Initiative and provide a permanent forum for the countries in the Region to discuss, coordinate, and add a collective impetus to the work in the area of payments and securities clearance and settlement systems.

This Report "Payments and Securities Clearance and Settlement Systems in the Dominican Republic" is one of the public reports in the series and was prepared under the coordination of CEMLA and the World Bank. The *Banco Central de la República Dominicana* also participated actively in its preparation.

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## Acknowledgments

*The mission that prepared this Report visited Santo Domingo in January 2003. José Antonio García (CEMLA and WGPS-LAC\*) coordinated the production of the Report. Other members of the international team were Massimo Cirasino (World Bank), Martina Glaser (Swiss National Bank) and Mario Guadamillas (World Bank). The international team worked in close cooperation with the local team comprising officers of the Central Bank of the Dominican Republic (Banco Central de la República Dominicana, BCRD) and the Securities Commission of the Dominican Republic (Superintendencia de Valores de la República Dominicana). Andrés Julio Espinal (Deputy Manager for Special Projects, BCRD) coordinated the local team, which also included José Manuel Taveras Lay (Comptroller of the BCRD).*

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# 1 ECONOMIC AND FINANCIAL MARKET OVERVIEW

## 1.1 OVERVIEW OF RECENT REFORMS

The approval of several structural reforms during the Nineties set the path for the high economic growth and the price stability the Dominican economy experimented in the last decade.

After 1990, year in which the Dominican economy showed strong evidence of macroeconomic imbalances as a consequence of the indiscipline in the monetary and fiscal areas,<sup>1</sup> stabilization policies were implemented together with various structural reforms. In the first half of the Nineties reforms in the labor, tax and customs areas were approved. Moreover, a modernization process of the banking and insurance rules, through Monetary Board resolutions, started. The overall objective of these initiatives was to make the Dominican financial system compliant with international standards.

In the following years some important laws and reforms were approved, such as:

- Foreign Investment Law: it establishes an equal treatment for national and foreign investors.
- Legal Reform: with this reform a new Supreme Court of Justice was designated and the path for the improvement of justice administration in the country was set.
- Law for the Reform of Public Enterprises: it allows the capitalization and the privatization of the energy sector, the rental of airports and sugar cane processing plants.
- Telecommunications Law: it allows the re-organization of the firms in this sector through a new regulatory body.

Between 2000 and 2002 the Securities Market Law, the Social Security Law and the Monetary and Financial Law were approved, whose implications are described in detail in the following sections.

## 1.2 MACROECONOMIC BACKGROUND

Once the structural reforms were in place and after overcoming the stabilization process, the Dominican economy entered into a path of sustained economic growth and low inflation.

According to the Economic Commission for Latin America and the Caribbean (*Comisión Económica para América Latina y el Caribe*, CEPAL), between 1994 and 2000 the Dominican economy showed the highest average growth rate of the gross domestic product (GDP) in the region: 6.7 percent. This figure represents nearly twice the average of all other countries in the region.

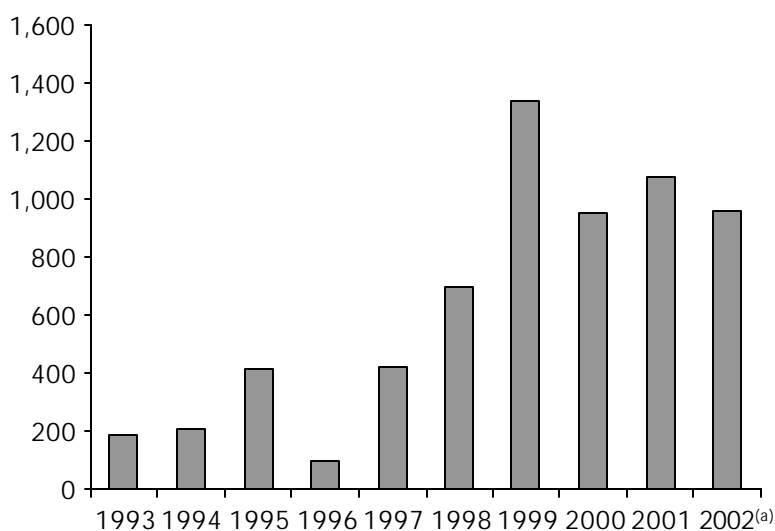
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<sup>1</sup> During the end of the Eighties.

Various factors contributed to this high GDP growth rate. In particular, the political and social climate favored foreign investment, and facilitated substantial investment flows towards various sectors such as construction, trade, telecommunications, hotels, bars and restaurants and manufacturing. These sectors have been the major growth drivers in recent years.

In this regard, the flow of foreign direct investment (FDI) passed from a level of USD 200 million in 1994 to USD 1,200 million in 2001.<sup>2</sup> In this last year FDI grew by 13 percent, while for the rest of the Latin American countries it decreased around 10 percent.

**Chart 1: Foreign Direct Investment 1993-2002**  
(in USD million)



Source: BCRD.

<sup>(a)</sup> Preliminary figure.

The solidity of the macroeconomic foundations of the country allowed it to surpass recent shocks, like the international financial crisis of 1997–1998, a hurricane in 1998, the significant increase in oil prices in 2000, the slowing down of the economy of the United States of America (USA) in 2001 and the impact of the September 11, 2001 events, especially on tourism.

As a result of these policies, in 2001 the Dominican Republic obtained improvements in its sovereign risk ratings. Moody's Investor Services raised it in two grades, while Standard & Poors' did it in one. Another relevant fact was the successful placement in international markets of sovereign bonds of the Dominican Republic for an amount of USD 500 million, only nine days after the terrorist attacks of September 11, 2001 in the USA.

In 2002, despite an unfavorable international environment, the economy grew at a rate of 4.1 percent. The sectors with higher growths were communications, electricity, water and local

<sup>2</sup> Throughout this Report, the USD symbol will be used to represent the dollar of the United States of America and the RD\$ one for the peso of the Dominican Republic.

manufacturing. The sector more closely related to tourism (hotels, bars and restaurants) showed a strong recovery towards the end of the year.

Inflation for 2002 was 10.5 percent, above the 4.4 percent figure for 2001. Despite the restrictive monetary policy implemented by the authorities during the whole year, the price adjustments in electricity and fuels and the effects of the devaluation of the local currency versus the USD that occurred during the last quarter fostered this acceleration of inflation.

Moreover, the combination of weak external demand together with a domestic economy in expansion affected negatively the country's current account of the balance of payments. At the end of 2002, the current account deficit posted a deficit equivalent to 4.1 percent of the GDP, 60 basis points above that of year 2001.

**Table 1: Macroeconomic Indicators<sup>3</sup>**

	1998	1999	2000	2001	2002
Real GDP (Annual growth rate)	7.4	8.0	7.3	3.2	4.1
Unemployment Rate	14.4	13.8	13.9	15.6	16.1
Inflation (annual change of the Consumer Prices Index, in %)	7.8	5.1	9.0	4.4	10.5
Fiscal Deficit (as % of the GDP)	1.1	1.8	1.0	1.9	1.3
Export Growth	6.0	6.8	12.2	-6.4	-1.8
Import Growth	14.6	4.2	16.8	-7.3	1.0
Current Account of the Balance of Payments (as % of the GDP)	-2.1	-2.5	-5.2	-3.5	-4.1
Exchange Rate: pesos/USD (year-end)	15.8	16.0	16.7	17.1	21.5

Source: BCRD.

## 1.3 FINANCIAL SECTOR

### 1.3.1 Historic Evolution and Structure

At the beginning of the decade of the forties, only three banks were operating in a very limited way and all of them belonged to foreigners. Since this moment and until the decade of the Nineties, the Dominican financial system evolved towards a system of specialized intermediaries. In recent years, the financial sector has experimented a partial conversion to a system of universal banking.

In 1941, through the Law 586, the Reserve Bank of the Dominican Republic (*Banco de Reservas de la República Dominicana*) was created.<sup>4</sup> This bank, owned by the Dominican State, is empowered

<sup>3</sup> The following conventions for notation are used for Tables throughout the Report: "n.a." indicates data that are not available; "..." stands for data that are not applicable; "neg" (negligible) indicates where data are very small relative to other relevant data in the table concerned.

<sup>4</sup> Modified on December 17, 1962 by the Law 6163.

to perform banking business in general and to act as a fiscal agent of the Government for its collections and payments, as well as for the internal loans service.

In 1945, through the Law 908, the Agriculture and Mortgage Credit Bank (*Banco de Crédito Agrícola e Hipotecario*) was created.<sup>5</sup> Its basic function consists in granting loans for the development and diversification of the agricultural production.

In 1947, the Central Bank of the Dominican Republic (*Banco Central de la República Dominicana*, BCRD) was created through the Law 1529.<sup>6</sup> The BCRD is the issuing bank of the Dominican currency.

According to the Cheque Law, Law 2859 of 1951,<sup>7</sup> the three foreign-owned commercial banks and the Reserve Bank of the Dominican Republic (here in after the "Reserve Bank") were the only ones authorized to receive sight deposits from the public. They were also authorized to carry out the ordinary businesses of banking firms, including the placement of their own securities or those of other issuers through underwriting.

In 1962, the National Housing Bank and the savings and loans associations for housing were created with the enactment of the Laws 5894 and 5897. In 1966, the Law 292 allowed the creation of financial companies to channel medium and long-term resources that the BCRD was administrating through the Investment Fund for Economic Development (*Fondo de Inversiones para el Desarrollo Económico*, FIDE) and the Special Fund for Tourism Infrastructure (*Fondo Especial para la Infraestructura Turística*, INFRATUR).

In 1971, mortgage banks were created to promote the construction industry, through the financing of urbanization projects and buildings in general. The commercial finance companies appeared in the seventies and the eighties. At one time there were 493 commercial finance companies operating in the country. At present, there are only 77 of these entities still in operation.

The growth experimented by the financial sector was reflected in a growing number of institutions, branches, agencies, volume and diversity of operations. At the end of the eighties and the beginning of the Nineties, this trend was affected by a severe crisis in the sector that caused the bankruptcy of various multiple, development and mortgage banks, but mainly of commercial finance companies.

### 1.3.2 Recent Situation

In order to face the crisis affecting the sector, in the first part of the Nineties the monetary authorities created and implemented a financial reform program.

A Monetary and Financial Code draft was prepared, whose basic contents came into force through various resolutions of the Monetary Board.

<sup>5</sup> At present ruled by the Law 6186 of February 12, 1963, under the denomination of "Agricultural Bank of the Dominican Republic" (*Banco Agrícola de la República Dominicana*).

<sup>6</sup> Modified by the Law number 6142 of December 29, 1962.

<sup>7</sup> Modified by the Law number 62-00 of August 3, 2000.

Important changes in the regulatory framework were introduced through this code, like the liberalization of interest rates, the unification and reduction of the reserve requirement for multiple banks and a more realistic level for the exchange rate.

Later on, various prudential regulations for banking institutions came into force, based on some of the rules and standards issued by the Bank for International Settlements (BIS). The authorities also implemented the Banking Rules for Asset Evaluation (*Normas Bancarias para la Evaluación de Activos*), which require banks and other financial entities to regularly classify their assets according to their risk and to calculate and create adequate allowances or reserves against those risks.

The reform included also the restructuring of the Superintendence of Banks, the supervising entity of the banking sector, and the creation of the multiple-service banks.

These processes set the path for important mergers of financial entities belonging to shareholders with common interests, acquisitions, conversions from one type of financial entity to other(s). Furthermore, it allowed an orderly exit from the market of a significant number of financial entities. From December 1994 to December 2002, the number of financial entities in operation decreased by 45 percent, passing from 271 to 149 entities.

At present, the most important segment of the market is that of multiple-service banks, with a 76.7 percent share of the total of the assets of the financial system, followed by the savings and loans associations with a 15.3 percent share.

## 1.4 CAPITAL MARKETS

The Dominican capital market is still in its first stages of development. There are some government securities in circulation. Only in 1999 the government resumed the issuance of domestic securities in an effort to securitize the debts the public sector had been accumulating since 1984. These securities are assigned directly to the creditors, who for the most part keep them until maturity. Thus, government securities lack a fluid secondary market. By December 2002, the total amount of government securities in circulation was RD\$ 1,999.6 million.

The BCRD also issues short-term certificates. These securities are not issued on a continuous basis but only as a complement of some monetary policy operations. The certificates are purchased for the most part by banks, which keep them until maturity or sell them back to the BCRD to obtain liquidity.

As for the securities issued by private sector entities, at present some short-term commercial paper are traded. Like the government securities, commercial paper issues lack liquidity. The Dominican Republic Stock Exchange (*Bolsa de Valores de la República Dominicana*, BVRD), the only stock exchange in the country, basically performs a transaction registration function. Although the exchange has in place a system for securities trading, this basically occurs over the counter (OTC). Since it started to operate in December of 1991 and until 2002, transactions for a total of RD\$ 62,885.6 million have been executed at the BVRD. Of this total, 99.96 percent corresponds to commercial

paper trades. On the other hand, 75 percent of this aggregated amount was traded in the last two years.

There are 7 brokerage houses that belong to banking institutions. Almost 75 percent of the securities transactions are cross transactions in which both the buyer and the seller are clients of the same brokerage house.

In recent years various laws were approved in an attempt to give new life to the Dominican securities market. In 2000, the Securities Market Law (SML), Law 19-00, was enacted, creating the Superintendence of Securities (*Superintendencia de Valores, SIV*) as the regulatory agency of the securities market.

In 2001, together with the approval of the Social Security Law, Law number 87-01, the Pension Funds Management Firms (*Administradoras de Fondos de Pensiones, AFPs*) were created to manage the new pension system based on individual accounts. At the end of 2002, there were 5 AFPs operating in the country. It is expected that once the new pension system begins with the collection of mandatory contributions in June 2003, the AFPs will start managing a significant amount of long term resources that will contribute to a deeper and more developed securities market.

Finally, the new Monetary and Financial Law (*Ley Monetaria y Financiera, LMF*) enacted in November 2002 allows multiple banks as well as savings and credit banks to participate in securitization processes as originators, securitizers or administrators, as well as to purchase the securities of securitized credit portfolios or other banking assets.<sup>8</sup>

## 1.5 MAJOR TRENDS IN PAYMENT SYSTEMS

Cheques and cash are the most important payment means in the country. The BCRD operates the cheque clearinghouse and administrates the current accounts held by banks and other institutions.

Both retail and large value payments are processed in the cheque clearinghouse, including corporate payments, interbank cash withdrawal transactions, funds transfers and the interbank obligations resulting from other retail payment systems such as credit cards and automated teller machines. Only the multiple banks are direct participants in the cheque clearinghouse. All other financial institutions, such as savings and loans associations, finance companies and the development banks, must hold an account at a multiple bank in order to exchange funds through cheques.

The cheque clearinghouse is partially automated. Recently, the BCRD began using its own on-line communication system with the banks, the On-Line Banking System (*Sistema Bancario en Línea, SBL*), to automate cheque clearance and settlement processes. The processing cycle begins at 9.00 a.m. of T + 1 (the day following the day in which cheques are presented for collection at the windows of multiple banks). Through the SBL, each bank sends an electronic file to the BCRD with the list of the cheques that were received for collection with each of the other participants of the clearinghouse.

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<sup>8</sup> Also, according to the SML these entities can participate in the securities market as issuers and institutional investors.

The electronic clearinghouse module of the system automatically calculates the net multilateral positions and makes the corresponding credits and debits to the current accounts. These credits and debits are not final since banks still have to exchange the physical cheques and produce the returned items. The physical exchange of cheques is made under the responsibility of the banks themselves and it occurs in the premises of the Association of Commercial Banks of the Dominican Republic.

Then, at 3.00 p.m. of T + 1 the banks send through the SBL a new electronic file to the BCRD with the returned items. The electronic clearinghouse module processes this file and generates the final credits and debits to the current accounts, which are made at 4.00 p.m. The accounts of the final beneficiaries are generally credited by T+4. In 2002, the cheque clearinghouse of the BCRD processed 26.6 million cheques for a total gross value of RD\$ 915 billion.

Presently, the multiple banks operate other retail payment instruments at an individual level, without any direct intervention of the BCRD. In recent years payments with credit and debit cards have greatly increased their significance as payment instruments. There are approximately 3 million cards, of which 60 percent are credit cards, for a population of nearly 8 million. In the last five years the total value of card transactions almost doubled, from RD\$ 2,578 million in 1997 to RD\$ 5,002 in 2001. In the country there are two interoperable ATM networks with a total of approximately 1,300 machines.

For some time now the multiple banks have been working on an automated clearinghouse (ACH) project that would enable banks and their customers to make both credit and debit-type payment transactions at the interbank level. At present, the BCRD is working on a resolution through which it will define in detail its role as final settlement agent of the obligations stemming from the ACH and through which it will regulate the participation of this kind of entities in the national financial system.

Regarding cross-border payments, all multiple banks in the country are connected to the network of the Society for Worldwide Interbank Financial Telecommunication (SWIFT), and through this means they issue/receive the cross-border payment instructions of their clients. Regarding interbank forex transactions, there is no centralized clearance and settlement mechanism. Multiple banks do not hold current accounts denominated in any foreign currency at the BCRD.

The Dominican Republic is in its initial phase of reforming its payment systems. For large value payments, the BCRD is currently evaluating the possibility of creating a SWIFT closed users group, considering that every bank of the system is already connected to this network.

## **1.6 MAJOR TRENDS IN SECURITIES CLEARANCE AND SETTLEMENT SYSTEMS**

Currently, the regulatory agencies and the various participants of the securities market are starting operations and the market is still incipient. There are few securities issues in circulation and the secondary market is very small, as, in general, investors hold their securities until maturity.

The SML allows the representation of securities in book-entry form, even if until now no securities issues have been made in a dematerialized form. Therefore, individual physical certificates represent securities traded in the country at present.

At present, there is no centralized securities clearance and settlement system. Each market segment maintains its own trading, clearance and settlement arrangements. Investors generally pay for the securities they buy with cash or cheques and withdraw the physical securities representing from the brokerage house of the selling party.<sup>9</sup>

Nowadays, the BVRD is implementing a central securities depository to perform the custody and administration of the securities object of a public offering. This project is described in more detail in Chapter 6 of this Report.

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<sup>9</sup> As mentioned before, almost 75 percent of trades with securities issued by private sector entities correspond to cross transactions.

## 2 INSTITUTIONAL ASPECTS

### 2.1 GENERAL LEGAL FRAMEWORK

Paragraph III of article 111 of the Constitution of the Dominican Republic states that the regulation of the monetary and banking system of the Nation is assigned to the BCRD, being the Monetary Board its superior organ. According to the Constitution, the regulations issued by the Monetary Board have the same power as laws.

Article 112 of the Constitution indicates that modifications to the legal regime of the currency or banking require the support of two thirds of the members of Congress, both Representatives and Senators, unless the modification is started by the Executive Power responding to a proposal of the Monetary Board or having the approval of the latter.

The national currency is the *peso oro*. As defined in the Constitution of the Republic, the *peso oro* is the only legal currency with full discharging effects for all private and public obligations, in the whole national territory. The issue of currency in the forms of banknotes and coins is an exclusive power of the BCRD and cannot be delegated. The BCRD will determine the amount of banknotes and coins in circulation.

Regarding the exchange regime, this is based on the free conversion of the national currency. The economic agents may execute currency transactions based on the conditions they freely agree on, according to the general contract rules.

In November 2002, a new Monetary and Financial Law was approved (*Ley Monetaria y Financiera*, LMF), which establishes all aspects related to the monetary and exchange regimes of the Nation. According to the LMF, the regulation of the monetary and financial systems aims at maintaining price stability and fostering the normal functioning of the national financial system in a competitive, efficient and free market environment. The latter is to be achieved through the surveillance of the compliance by financial institutions with adequate conditions in the areas of liquidity, solvency and management.

The principles contained in the LMF are applied through regulations issued by the Monetary Board.<sup>10</sup> In this regard, article 81 of the LMF states that the Monetary Board will have up to 18 months after the LMF came into force (*i.e.*, December 3, 2002) to approve and issue the regulations in all matters addressed by this law.

#### 2.1.1 Payments

Article 27 of the LMF states that the payments system, cheques clearance and other payment means are a public service whose exclusive regulator is the Central Bank. As such, the BCRD has to act as the supervisor and final settlement agent of these services. The regulation of the

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<sup>10</sup> Article 1, letter c) of the LMF of 2002.

organization and functioning of the payment systems belongs to the Monetary Board, which must ensure the smooth functioning of payment flows and of the interbank market as its main objectives.

Cheques are ruled by the Cheque Law, Law 2859 of 1951, modified by Law 62-2000 of August 2000. This law contains rules regarding the form and creation of the cheque, the endorsement and the conditions that, if not complied with, make the cheque void. The year 2000 modifications to this law introduced some severe penalties for drawing cheques without funds, including the prohibition of parole for individuals accused of this cause.<sup>11</sup> Article 29 of this law establishes a two-month term for the presentation and payment of the cheque, which is extended to four months for those cheques issued abroad and payable in the Dominican Republic.

Credit cards are regulated by various Resolutions of the Monetary Board. The last of these resolutions was issued in February 1988. They deal with the issuance and the representation of credit cards, and they even regulate advertising to cards holders. Financial entities wishing to issue credit cards only need to notify the date in which they intend to begin offering this service. Non-financial firms require the previous authorization of the Monetary Board.

### **2.1.2 Securities**

The Securities Market Law (SML) of May 8, 2000 is the legal framework in force for the securities market. This law regulates the public offering of securities either in domestic or foreign currency, issuers, stock and commodities exchanges, participating financial institutions as well as any other individuals or firms, national or foreign, participating in the market.

The Regulation implementing the SML was approved through an Executive Power Decree in March 2002. It regulates the basic aspects involved in the development of securities market activities. This Regulation requires that publicly offered securities regulated by the SML include securities representing equities, loans, debts and products, as well as derivatives on securities and products and other securities of any nature.

The Superintendence of Securities (*Superintendencia de Valores, SIV*) is the regulatory agency of the securities market.

### **2.1.3 Derivatives**

The Regulation implementing the SML defines derivatives as those instruments whose value depends on goods or products, and may be traded on a spot or future basis establishing in advance the price of the underlying goods or products. At present, in the Dominican Republic no derivatives are traded, although the SML empowers the SIV to regulate this market when it emerges.

The SML also contains rules for the creation of clearinghouses acting as central counterparties (CCPs) for derivative contracts. Stock exchanges cannot offer this service unless they create these clearinghouses as independent companies.

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<sup>11</sup> Article 66 of the Cheques Law of 2000.

## **2.1.4 Specific Legal Issues Related to Clearance and Settlement**

### **2.1.4.1 Netting**

In the Dominican civil legislation netting is considered as a way to discharge obligations. For this to happen, there must be two debts based on an amount of money or a certain quantity of fungible things of the same species, equally liquid and demandable.

In general, netting is legally valid and it operates directly by law, thereby not being necessary for the parties to explicitly request it to each other or to a third party. The debts are offset from the moment they coexist, up to the amount of the smallest one.

There is no explicit legal base for multilateral netting. However, the LMF states that the Monetary Board, in order to regulate the functioning of the payments system, may establish different sub-systems using the international standards as a reference for this purpose.<sup>12</sup>

### **2.1.4.2 Payment Finality and Zero Hour Rule**

For the various payment systems there are no explicit legal dispositions dealing with payment finality. Moreover, there is no explicit zero hour rule, which voids the transactions already settled and considered final during the day an entity is declared in bankruptcy. For this reason, neither the judicial courts nor the intervening authority can take retroactive actions over the executed transactions.

### **2.1.4.3 Novation**

Novation is regulated by article 1271 and following ones of the Civil Code. It is defined as the act through which an obligation substitutes another previously granted, which is then canceled.

Novation can emerge in three different ways: i) when the debtor contracts a new debt with the creditor substituting the old one, and the old one is then extinguished; ii) when a new debtor substitutes the former one, who is then liberated by the creditor; iii) when, by effect of a new agreement, a new creditor substitutes an old one. The debtor is then liberated from its obligations with the former creditor.

On the other hand, novation has to be explicitly agreed upon. The simple indication by the debtor of a person facing another debt to substitute these debts does not produce novation, nor the simple indication by the creditor of a person that a new person will undertake the creditor position in his place.

### **2.1.4.4 Electronic Documents and Digital Signatures**

In August 2002, a law on electronic trade, documents and digital signatures was approved. This Law does not regulate electronic trade itself, but rather the identification of the individuals or

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<sup>12</sup> As stated before, the regulations issued by the Monetary Board have law power.

entities participating in an electronic trade transaction (*i.e.*, the electronic signature) and it establishes the agencies with legal authority to certify electronic signatures, thereby recognizing the legal validity of the latter.

The principal concepts defined by the law are the following:

- Digital Signature: it is the numeric value attached to a data message and that, by using a known mathematical procedure linked to the key of the initiator and to the message text, guarantees that the initial message was not modified once transmitted.
- Digital Document: it is the digital encoded information over a logic or physical platform, using electronic, photolithographic, optical and other methods, which represent legally relevant actions, facts and data.
- Certification Entity: according to the law, it is the institution authorized to issue certificates regarding digital signatures of individuals, to offer or facilitate the registry services and chronological stamp of the transmission and reception of data messages, as well as to fulfill other functions related to communications based on digital signatures.
- Certificate: it is the digital document issued and digitally signed by a certification entity that unmistakably identifies the originator of a digital document or data message while the certificate is valid. The certificate constitutes legal proof of the fact that this individual or firm is the source and originator of the contents of a digital document or data message.

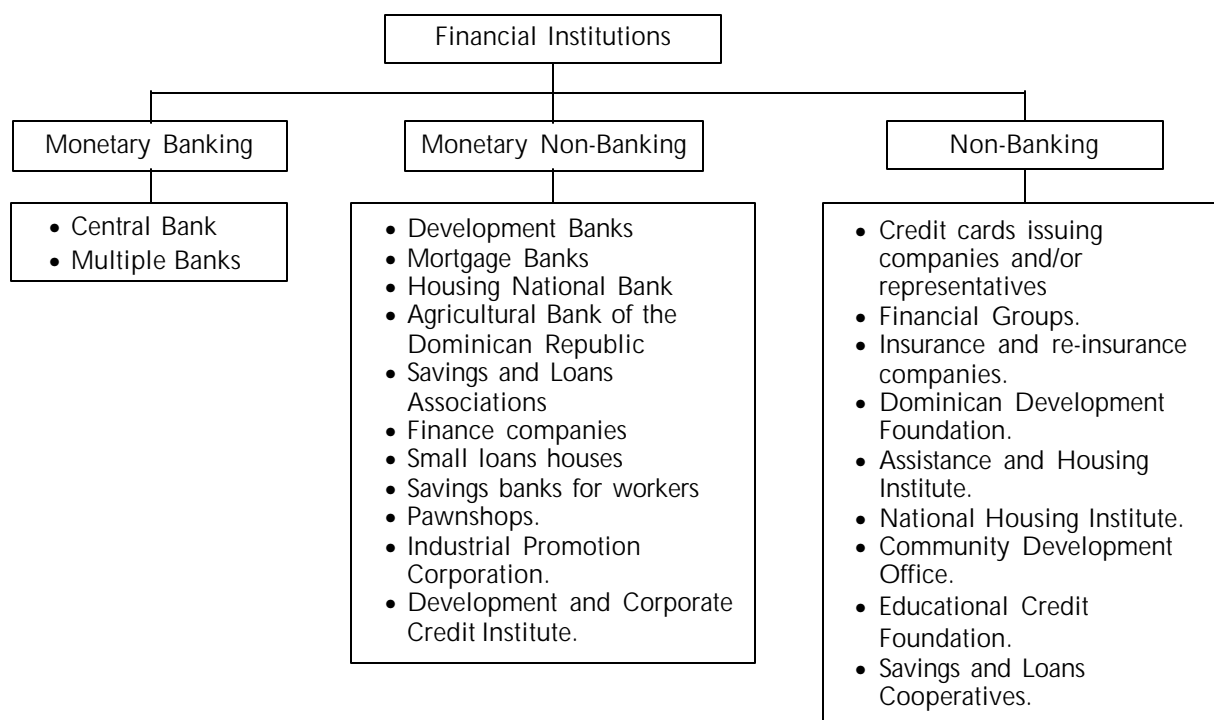
Hence, a digitally signed contract or transaction has the same validity than paper-based documents, as long as the signature complies with the following:

- a. It must be exclusive to the person using it;
- b. It can be verified;
- c. It must be under exclusive control of the person using it;
- d. It must be linked to the digital document or message in a way that, if changed, the signature becomes void; and,
- e. It must comply with the regulations issued by the authorities in this regard.

This law also declares digital documents and data messages acceptable as proofs in a court of law and grants them full discharging power.

## **2.2 THE ROLE OF FINANCIAL INSTITUTIONS: PAYMENTS**

The organic statute of the national financial system is contained in the Constitution of the Dominican Republic and the LMF.

**Figure 1: Structure of the Dominican Financial System**

Source: BCRD.

The LMF establishes in its article 34 the different types of financial entities, which can be of a private or public nature. Multiple banks and the credit entities are stock issuing corporations. The latter may take the specific form of credit and savings bank or credit corporation. On the other hand, the savings and loans associations and the credit and savings cooperatives performing financial intermediation are not stock issuing entities but rather mutual corporations.

### 2.2.1 The Banking Sector

According to article 36 of the LMF, the following are considered financial intermediaries with a stock-issuing structure:

- Multiple banks: entities that can collect sight or current account deposits from the public and execute any operations included in the general list of activities described in the LMF.
- Credit entities: entities whose funding is originated from savings and term deposits, subject to the rules of the Monetary Board and the conditions agreed by the corresponding parties. In no case these entities are entitled to collect sight deposits or offer current accounts to their clients. The credit entities are classified into savings and credit banks and credit corporations, and may execute all the operations indicated in the LMF.

Figure 1 shows the structure of the Dominican financial system as of December 31, 2002. The LMF establishing the previous categories came into force in December 3, 2002. Thus, Figure 1 shows

the current situation, which will change once the financial entities transform themselves to comply with the new law.

Of the entities indicated above, the multiple banks, development banks, mortgage banks, savings and loans associations, the Agricultural Bank of the Dominican Republic and the finance companies have deposits in the BCRD. Only the multiple banks participate in the cheque clearinghouse.

In December 2002, the total number of entities in the financial system was 149, including 14 multiple banks and 15 development banks. Of this total, foreigners own two multiple and two development banks. There are also 4 representative offices of foreign banks in operation, which cannot perform financial intermediation activities.

As per the share in total financial system assets, the most important sub-sector is that of multiple service banks, followed by savings and loans associations. The finance companies sub-sector, despite the relatively large number of entities, represents only 1.8 percent of total financial system assets.

**Table 2: Relative Importance of the Different Types of Entities  
in the Dominican Financial System**  
(year-end 2002)

<i>Entity</i>	<i>Number of Institutions</i>	<i>Assets (in RD\$ million)</i>	<i>Share in Total Financial System Assets (in %)</i>
Multiple Banks	14	202,687	76.7
Savings and Loans Associations	18	40,331	15.3
Development Banks	15	5,549	2.1
Mortgage Banks	1	173	0.1
Finance Companies <sup>(a)</sup>	72	4,914	1.8
Small Loans Houses <sup>(b)</sup>	24	446	0.2
Public Institutions	5	10,132	3.8
<b>TOTAL</b>	<b>149</b>	<b>245,257</b>	<b>100.0</b>

Source: BCRD.

<sup>(a)</sup> The share figure includes 70 finance companies. One of these entities provided information as of June 2002, while the rest provided information as of December 2002.

<sup>(b)</sup> The share figure includes 23 entities that provided information as of December 2002.

Banking system deposits are classified in sight deposits, savings deposits and term deposits. From 1997 to 2001, these grew 142, 112 and 189 percent, respectively. All these deposits reached a total of RD\$ 115,997 million by the end of 2001. Deposits denominated in foreign currencies in savings and term accounts were authorized in 1993, year in which the multiple banks were created. As of December 2002, liabilities denominated in foreign currencies represented 31 percent of the total liabilities of the multiple banks. Deposits comprised almost two thirds of liabilities in foreign currencies. Moreover, financial entities can lend and invest in foreign currency. As of December 2002, 28 percent of the assets of the multiple banks were denominated in foreign currencies.

### **2.2.1.1 Reserve Bank of the Dominican Republic**

The Reserve Bank of the Dominican Republic (*Banco de Reservas de la República Dominicana*) or "Reserve Bank" is a State-owned entity, although with autonomy and own equity.

The principal functions of this institution are to act as fiscal agent of the government for the internal loans service, as depository of all or part of the revenues and public funds of any nature that the Public Treasury receives directly or through other agents acting on its behalf, and as paying agent on behalf of the Government. The Reserve Bank can also act as agent of the BCRD and provide all the services the latter requires for operations in foreign currencies, cross-border payments, funds transfers, securities purchases and sells, payments and cash exchange, banknotes and coins issuances and any other operation related with Central Bank functions.

### **2.2.1.2 National Housing Bank**

The National Housing Bank (*Banco Nacional de la Vivienda*, BNV) is an autonomous banking entity owned by the State. Among other functions, it is in charge of developing the guidelines and regulations for the loans the mutual entities grant to promote the construction and acquisition of houses, entities known as Housing Savings and Loans Associations.

In order to comply with its financing functions, the BNV may issue bonds, securities, mortgage certificates and other securities and obligations at short, medium and long term, as well promissory notes in the country and abroad, denominated in national or foreign currencies, with the approval of the Monetary Board. These securities and the accrued interests have a subsidiary and unlimited guarantee of the Dominican Government.

## **2.2.2 Other Institutions that Provide Payment and Settlement Services**

### **2.2.2.1 ATM Operators**

ATMs are not regulated by any specific resolution or regulation. The LMF only indicates that multiple banks may invest up to 20 percent of their paid-in capital in support and service entities. ATM administrators would be considered under this category. At present, in the country there are two companies administrating ATM networks.

In 1995, the firm "ATH Dominicana", a subsidiary company of ATH Puerto Rico was constituted. ATH Dominicana currently operates the largest ATM network in the country, Red ATH, with a total of 1,143 machines by the end of December 2002. In 2002, Red ATH processed 831,515 balance inquiries and 2.1 million cash withdrawals for a total of RD\$ 2,659.7 million.

There is also the Red BTH, operated by Bancredito, a multiple bank. Red BTH is interoperable with Red ATH. In 2002 Red BTH had 163 ATMs.

### 2.2.2.2 Payment Card Operators

Visa and Mastercard are the major brands for credit and debit cards in the Dominican Republic and most banks are issuing and processing members of these two organizations. Only one bank represents American Express.

There are two companies processing payments made with credit and debit cards, CardNet and VisaNet. CardNet is a subsidiary of ATH Dominicana. A merger process of Red ATH, the ATM network administrator, with CardNet is currently underway. ATH Dominicana is also developing an automated clearinghouse (ACH) that, once in operation, will be integrated in the same single company that will be named *Consortio de Tarjetas Dominicanas, S.A. (CONTADO)*. The other payment card processing company is VisaNet, property of Bancredito.

### 2.2.2.3 Postal Instruments

Payments through postal instruments are not common in the Dominican Republic.

### 2.2.2.4 Remittances

Family remittances are very important in the Dominican Republic. In 2002 they totaled USD 1,939.3 million, representing around 8 percent of the national income and approximately 10 percent of the GDP (see Tables 3 and 4).

**Table 3: Remittances Flows**  
(in USD million)

<i>Year</i>	<i>Amount</i>
1998	1,326.0
1999	1,518.7
2000	1,689.0
2001	1,807.9
2002	1,939.3

*Source: BCRD.*

The USA is the main source of family remittances to the country, representing more than 80 percent of the total. The rest comes mainly from Europe. Approximately 83 percent of these funds are sent to the country through money transfer firms. The latter generally receive USD (or the currency of the country in which the transaction was originated) and pay in pesos to the beneficiaries in the Dominican Republic. Other remittances come into the country through personal deliveries, public and private mail and through multiple banks.

## 2.3 THE ROLE OF FINANCIAL INSTITUTIONS: SECURITIES

### 2.3.1 Securities Market Participants

The main participants in the securities market are the following:

**Table 4: Balance of Payments' Current Account Income**  
(in USD million)

	2001		2002	
	Amount	%	Amount	%
Goods Exports	5,276.3	49.4	5,183.4	48.3
Services Exports	3,110.3	29.1	3,054.6	28.5
Rents	271.2	2.5	300.9	2.8
Current Transfers	2,027.5	19.0	2,188.4	20.4
<i>Family Remittances</i>	<i>1,807.9</i>	<i>16.9</i>	<i>1,939.3</i>	<i>18.1</i>
<b>Total</b>	<b>10,685.3</b>	<b>100.0</b>	<b>10,727.3</b>	<b>100.00</b>
<b>Remittances / Commercial Account Deficit</b>		<b>51.6%</b>		<b>52.4%</b>

Source: BCRD.

- Stock exchanges: they are self-regulatory organizations whose object is to provide the participating brokerage houses all the necessary services in order to carry out securities transactions orderly and on a continuous basis, as well as performing all other securities intermediation activities. In the country there is one stock exchange, the *Bolsa de Valores de la República Dominicana S.A.* (BVRD).
- Commodities Exchange: they are self-regulatory organizations whose sole purpose is to provide their members with the necessary services to effectively commercialize products originated or destined to the farming, agricultural, agro-industrial and mining sectors, including the raw materials required by these sectors as well as securities representing commodities. There is one commodities exchange, the *Bolsa Agroempresarial de la República Dominicana, S.A.*
- Securities Intermediaries: they are the individuals and firms, national or foreign, which regularly perform intermediation activities with securities object of public offering, either in stock exchanges or over-the-counter (OTC). According to the SML, the intermediaries can be: i) brokerage houses: these institutions are members of a stock exchange and may operate both in the stock exchange and in the OTC market; ii) securities agents: intermediaries operating exclusively in the OTC market; iii) securities brokers: the individuals representing brokerage houses in securities trades. Presently there are 20 brokerage house registered in the BVRD; 13 belong to financial groups and only 7 are operative. There are also 14 brokerage houses registered in the commodities exchange. Finally, there are 24 active securities brokers and there are no registered securities agents.
- Central Securities Depositories: they are entities in charge of the custody, transfer, clearance and settlement of the securities traded in the spot market, as well as registering such transactions. The BVRD is currently working to create the first central securities depository (CSD) in the country.
- Risk Rating Agencies: their purpose is to assess and rate the risk of the securities object of public offering. These firms must have a stock structure conforming to the rules of the Commercial Code. Until now, the SIV has not registered any risk rating agency.

- Funds Managers: these are stock companies whose exclusive purpose is the management of mutual and/or pension funds. At present there are no funds management firms in the country.
- Securitization Companies: their purpose is the securitization of assets with limited liquidity. At present, no company of this kind has yet been created.

### 2.3.2 Exchanges

Stock exchanges are self-regulatory organizations, organized as stock companies according to the rules of the Commercial Code, with a minimum subscribed and paid-in capital of RD\$ 15 million, plus 20 percent in form of a legal reserve, in cash and divided in shares of identical value.

The first exchange in the country was the *Bolsa de Valores de Santo Domingo Inc.*, incorporated in February 20, 1989 as a non-for-profit entity. This exchange started its operations in December 1991 with 17 registered brokerage houses. In 1997, as a result of the fact that its activities extended to other cities of the country, it changed its name into *Bolsa de Valores de la República Dominicana Inc.* In 2002, to comply with the new requirements of the SML, the exchange was re-organized into a stock company under the name of *Bolsa de Valores de la República Dominicana S.A.* (BVRD), being its shareholders the 20 existing brokerage houses.

The *Bolsa Agroempresarial de la República Dominicana, S.A.*, the only commodities exchange in the country, is not operating at present time.

### 2.3.3 Securities Clearance and Settlement Institutions

According to the SML, the securities clearance, settlement and custody services must be offered by the securities clearinghouse and the central securities depository (CSD). These entities must have a stock structure in accordance with the Commercial Code of the Dominican Republic.<sup>13</sup> The CSD functions may be provided by stock exchanges if they create an independent company with the sole purpose of offering these services.

Chapter IV.2 of the Regulation implementing the SML states the general rules for CSDs, including their authorization, the custody, transfer and settlement of securities and minimum security standards.

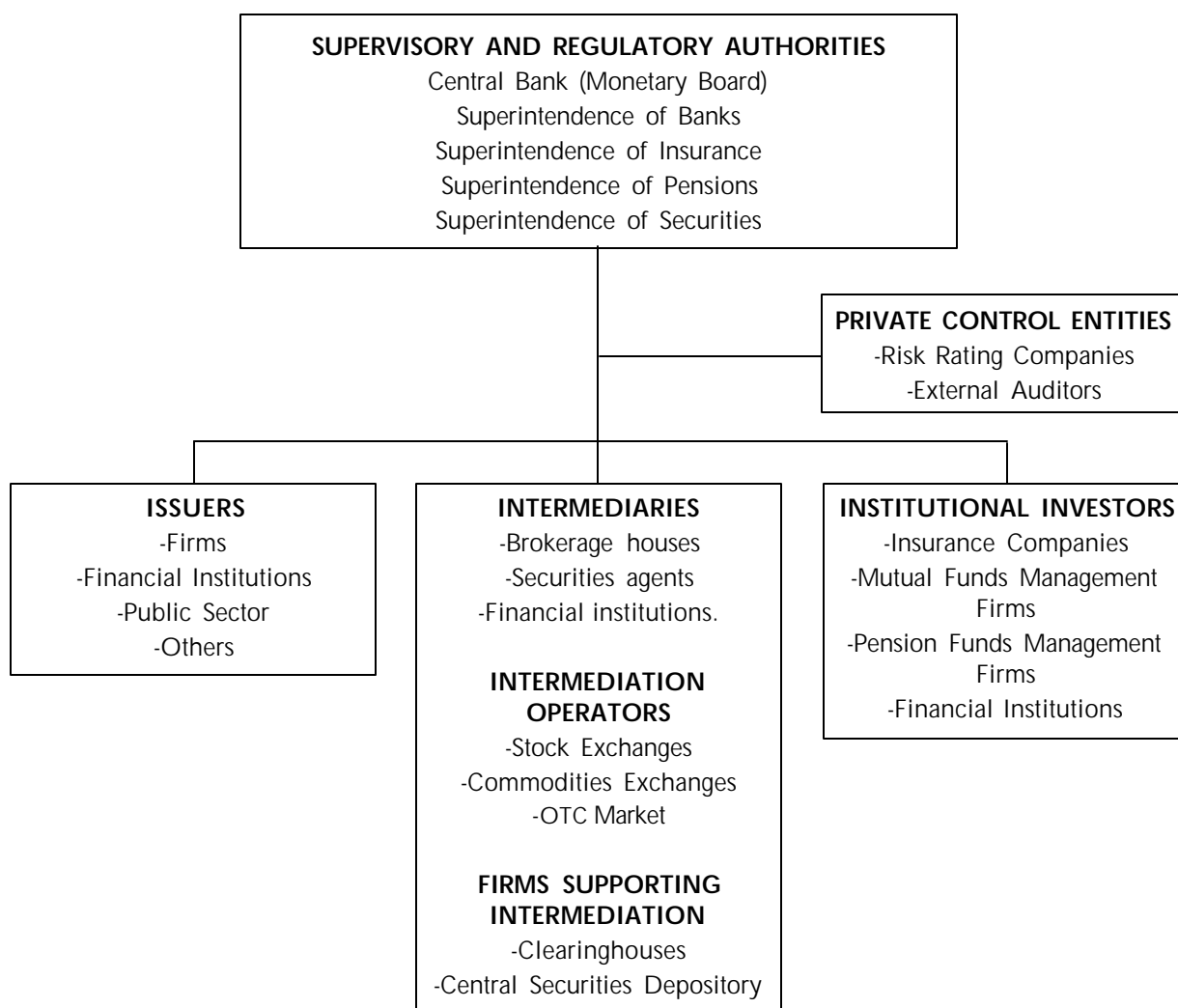
There is no CSD in the Dominican Republic, although the BVRD is currently working to create such an institution, which eventually would be named *Central de Valores Dominicana* (CEVALDOM).

## 2.4 MARKET STRUCTURE AND REGULATION

The Constitution of the Republic states that the regulation of the monetary and banking system of the Nation is assigned to the BCRD, whose superior organ is the Monetary Board. Members of the Monetary Board are designated by the Executive Power.

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<sup>13</sup> Presently the Commercial Code is being reformed.

**Figure 2: Market Structure and Regulation**

Source: BCRD.

## 2.5 THE ROLE OF THE CENTRAL BANK

### 2.5.1 Monetary Policy and Other Functions

In the domestic context the following are the principal functions of the BCRD:

- Execute the monetary, exchange and financial policies according to the Monetary Program and with the instruments the Monetary Board has approved for this purpose.
- Supervise and execute the final settlement of payment systems as well as of the interbank market.

- Issue legal banknotes and coins in the Dominican Republic.
- Promote the liquidity and solvency of the banking system of the Nation. In case financial intermediation entities incur in temporary liquidity deficiencies, the Monetary Board will determine through regulation the circumstances in which the BCRD may grant temporary credit, unless such deficiencies are being caused by solvency problems.
- Collect and produce the statistics of the balance of payments, of the monetary and financial sectors, as well as any other that is necessary to fulfill its functions.

In the international context, the BCRD must create the conditions to maintain the external value and the convertibility of the national currency. Also, the BCRD must efficiently administrate the international reserves of the country, following criteria of safety, liquidity and profitability in order to promote monetary stability and the confidence of the people in the set of macroeconomic policies.

Regarding the monetary policy, this is determined by the Monetary Board with the fundamental objective of maintaining price stability. The monetary program is proposed by the BCRD and, as previously indicated, this institution is also in charge of its implementation. The BCRD Governor is the president of the Monetary Board, which also includes the Minister of Finance, the Banking Superintendent and other 6 members designated by the Executive Power. The Monetary Board must approve the monetary program by December 31 of each year.

Regarding the foreign exchange policy, there is a segmented system consisting in an official market operated by the BCRD and a private one comprising foreign exchange intermediaries. The official segment, receives approximately 10 percent of the currency inflows that are registered in the balance of payments. These inflows come mainly from disbursements of public sector debt or guaranteed by it, the revenues of some services as international telephone calls and international credit cards, and fuel sales to foreign ships. These resources are used mainly to pay the oil imports of the Dominican Oil Refinery and the service of the public external debt.

With the enactment of the LMF in 2002, several changes to the foreign exchange system were approved, such as the introduction of the free convertibility of the Dominican currency, the elimination of differentiated exchange rates and the participation of the BCRD in the forex market at market prices through the foreign exchange desk.<sup>14</sup> The foreign exchange desk is better explained in Chapter 7 of this report.

In the past, the BCRD had been performing functions out of the core objectives of a modern central bank. Hence, among other entities the BCRD was responsible for managing the Dominican Technological Institute (*Instituto Dominicano de Tecnología*, INDOTEC), the Project Development and Financing Department (*Desarrollo y Financiamiento de Proyectos*, DEFINPRO) and even a gold mine, the *Rosario Dominicana*.

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<sup>14</sup> According to the rules currently in force, the BCRD must buy/sell foreign currencies at an exchange rate equal to the buy/sell weighted average of the private market of the previous working day.

In order to focus the functions of the BCRD on its original mission as guarantor of price stability and regulator of the financial system, at the end of year 2000 the Monetary Board approved a Strategic Plan for the 2001–2005 period where the new mission, vision and the strategic objectives of the Institution were established. According to this Plan, the BCRD has started hiring experts to identify the best alternatives for the conversion and independence of those areas not related to the core functions of the central bank.

Based on these consultations, the BCRD already gave a concession to a private sector firm, Placer-Dome, for the exploitation of the *Rosario Dominicana* gold mines. Moreover, the LMF of 2002 stipulated that DEFINPRO and its loans portfolio will have to pass to the National Housing Bank within 6 months after the promulgation of this law.

### 2.5.2 Involvement in the Payments System

As mentioned in Section 2.1.1, article 27 of the LMF states that the payments system, cheque clearing and other payment means are a public service whose exclusive regulator is the Central Bank. As a result, the BCRD acts as the supervisor and final settlement agent of these services, while the Monetary Board is charged with the regulation of the organization and functioning of the payments and clearance systems.

The BCRD is preparing the regulations for payment systems, which are expected to be ready by mid-2004. These regulations will aim at ensuring the smooth functioning and finality of payment flows, taking into consideration the international standards in this matter.

Some of the specific functions of the BCRD in the interbank funds transfer systems are the following:

- Regulate and supervise all the interbank clearing and settlement systems to ensure their stability and safety. The BCRD is thus responsible for protecting the financial system of the consequences of a default of one or more participating institutions over the rest of the participants.
- Be the settlement agent of clearing systems through its reserve accounts.
- Provide interbank settlement services for large value payments.
- Participate either directly or indirectly in the management and operation of retail payment systems. The BCRD is empowered to establish and maintain a clearinghouse for the multiple banks operating in the country.
- Promote the necessary measures to improve the efficiency of payment instruments and clearing mechanisms.

## 2.6 THE ROLE OF THE BANKING SUPERVISORY AUTHORITY

The Superintendencia de Bancos of the Dominican Republic (*Superintendencia de Bancos*, SIB) was created in 1947. Law 183-02 of November 2002 grants it functional autonomy to execute its functions,

namely the supervision of financial intermediation entities, with the fundamental purpose of guaranteeing and promoting the solvency, liquidity and efficiency of the system. The SIB has its headquarters in Santo Domingo and a regional office in Santiago, the second major city of the country.

The SIB controls the banks and other entities performing financial intermediation, as well as the financial groups and the foreign exchange agents. By the end of 2002 there were 149 financial entities, 3 financial groups and 93 foreign exchange agents in the country.

### **2.6.1 Supervision Model**

The SIB permanently performs on site inspections and off site surveillance, according to what established in article 57 of the LMF. It also performs consolidated supervision as mandated by article 58 of the same law.

The on site inspection program includes asset assessments and comprehensive inspections, while for off site surveillance the SIB uses the CAMELS model.<sup>15</sup> Early warning models have been implemented and the system for the presentation, analysis and assessment of information has been fully redesigned.

The SIB applies prudential regulations setting minimum standards on the basis of the recommendations of the Basel Committee on Banking Supervision of the BIS. Among others, the capital adequacy ratio, which establishes a minimum relationship of capital and risk weighted assets, for multiple banks and credit entities cannot be less than 10 percent. The standard suggested by the Basel Committee is 8 percent.

Regarding consolidated supervision, the SIB has signed information exchange agreements with several regulatory agencies of the Region. A similar agreement is currently being proposed between the SIB and other financial system regulators in the Dominican Republic, such as the Superintendence of Insurance and that of Securities.

In December 2002, the authorities implemented a program to strengthen banking regulation and supervision. This program is based on the following four core modules:

- Strengthening of regulation and legal framework.
- Improving the quality of supervisory and control methods.
- Revising the organizational structure of the SIB, including staff matters.
- Developing plans for IT systems.

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<sup>15</sup> CAMELS is the acronym for a bank assessment model created by the banking regulators of the USA. Each letter represents an evaluation aspect: C=Capital, A=Assets, M=Management, E=Earnings, L=Liquidity, S=Sensibility to market risks.

It is intended that with the new model supervision will focus on the risk management process in the supervised entities. This means placing emphasis on practices, procedures, internal control systems, and the effectiveness and efficiency of transaction processing. Some recent improvements are the adaptation of the accounting regime for financial intermediaries to international accounting standards and the updating of the accounting manual for financial institutions.

Regarding information disclosure, in its website<sup>16</sup> the SIB publishes on a monthly basis various quantitative and qualitative data of the financial entities as well as a quarterly bulletin.

### **2.6.2 Payments System Oversight**

Payment system oversight targets the systems (e.g., a funds transfer system) and not the individual participants. Hence, according to the LMF the BCRD is responsible for payment system oversight.

On the other hand, the SIB supervises the behavior of individual participants in payment systems. The LMF also empowers the SIB to supervise other entities connected to banks, including payment services providers.

For these tasks, the SIB has updated its technological platform and it now has an on-line connection with financial entities. The SIB is also developing rules for new products and payment services, in particular for electronic bank activities. It is expected that these rules will cover the prevention of computer viruses, the inadequate use of products and services by clients, and the prevention of reputation, legal, technological, operational and cross-border risks. The SIB is also developing a supervision procedure that will cover the following aspects:

- Verify the existence of an adequate structure to support electronic banking operations.
- Determine the existence of service agreements among financial institutions and their vendors, as well as with their clients.
- Verify the existence of policies and procedures for international electronic banking transactions.
- Verify that rules have been established to regulate the payment of services through electronic payment media.

### **2.6.3 Deposit Insurance**

Article 64 of the LMF creates a Contingency Fund in the BCRD to be solely used for bankruptcies and dissolutions of financial intermediation entities. The Fund will be integrated with compulsory contributions of these entities and other sources. Contributions will be calculated over total deposits, with an annual minimum fee of 0.1 percent to be paid on a quarterly basis. Contributions will cease once the resources in the Fund come to represent 5 percent or more of total system deposits.

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<sup>16</sup> [www.supbanco.gov.do](http://www.supbanco.gov.do)

Resources available in this Fund will guarantee deposits in financial intermediation entities up to an amount of RD\$ 500,000 per depositor.<sup>17</sup>

#### 2.6.4 Anti Money Laundering Measures

The Dominican Republic has joined various agreements and international treaties related to the fight against money laundering. The most relevant are the following:

- The declaration of the Basel Committee for the Banking Supervision of the BIS and the Supervision Practices suggested by these organization (1988).
- The United Nations Convention against illegal drug traffic (1988).
- The Inter-American Convention against Corruption, forcing the subscribing States to sanction asset laundering originated in corruption (1996).
- Kingston Declaration on money laundering (1992).
- The 40 Recommendations of the Financial Action Task Force (FATF), promoting strategies to fight money laundering (1990).
- The Model Regulation for Asset Laundering, prepared by the Inter-American Commission against Drug Abuse (*Comisión Interamericana contra el Abuso de las Drogas*, CICAD) of the Organization of American States (OAS). This Regulation deals mainly with the sanctions for asset laundering, confiscation and the impact of money laundering in the regulated financial system (1999).
- United Nations Convention against the Transnational Organized Delinquency, which obliges the adhering member countries to adopt the necessary mechanisms to promote international cooperation to face asset laundering crimes (2000).

Based on these agreements, in 2002 the Dominican Republic enacted the Law 72-02 that deals with asset laundering stemming from the traffic of illegal drugs and controlled substances and severe infringements.<sup>18</sup> Below are some relevant aspects of this law:

- It establishes the necessary mechanisms for the prevention and detection of asset laundering and defines the actions that can be considered as asset laundering.

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<sup>17</sup> Approximately USD 24,000 by the end of 2002.

<sup>18</sup> The Dominican Republic has been fighting money laundering since 1988. The first legal instrument was the Drugs and Controlled Substances Law of 1998, Law 50-88 modified in 1995 by the Law 17-95 to include specific sanctions for money laundering actions. In 1996, a decree was issued regarding the application of the Law 50-88, by which for all transactions above USD 10,000 the origin and sources of funds must be declared.

- It describes the full process for the confiscation and seizure of the goods that had been acquired with resources stemming from asset laundering.
- It creates the National Committee against Asset Laundering (*Comité Nacional contra el Lavado de Activos*), a body coordinating the efforts of the private and public sectors with powers to recommend and foster policies for the prevention, detection and repression of the asset laundering.

In May 29, 2001 the SIB issued the Resolution number 06-2001 that put into force the Instructions of the “know your client” procedure, which must be applied by all the institutions of the national financial system. With this procedure the authorities are in a better position to timely detect suspicious behaviors of certain banking customers. In case of suspicious behavior, the financial entities must inform the following: client identification, commercial and personal references, origin of revenues or income, links with certain companies, information over the existence of national and foreign bank accounts, credit history and economic activity. In case of firms, the financial entities must also inform their organizational structure, owners, and managers and how they regularly perform their banking transactions.

## 2.7 THE ROLE OF THE SECURITIES REGULATOR

The regulatory agency of the securities market is the Superintendence of Securities (*Superintendencia de Valores*, SIV). The SIV was created by the SML in 2000 and officially started its operations on January 1, 2003. The SIV is an autonomous institution with its own legal statute. Its responsibility and legal function is to promote, regulate and control the securities market, watching at all times for the financial transparency of this market and its operations.

According to the SML, securities object of public offering, their issuers, the stock exchanges and commodities exchange, the participants in the securities market, as well as any other individual or firm, national or foreign, participating in the securities market, are subject to the supervision of the SIV, together with any other activity related to the securities public offering.

Its main specific functions are the following:

- Apply the SML and verify compliance by the supervised entities with this law, with the Regulation implementing it and with all other rules issued by the SIV itself to promote an organized, efficient and transparent securities market.
- Authorize the securities' public offerings, the minimum contents of investment prospects, the creation and functioning of the stock exchanges, securities intermediaries, mutual funds and other securities market participants.
- Organize and maintain the Securities and Products Market Registry (*Registro del Mercado de Valores y Productos*, RMVP) created by the SML.

The supervisory and statutory responsibilities of the SIV are described in further detail in Chapter 8 of this Report.

## 2.8 THE ROLE OF THE PENSIONS REGULATOR

The Superintendence of Pensions (*Superintendencia de Pensiones*, SIPEN) was created by the Law 87-01 of May 2000, to protect the interests of affiliates, to watch over the financial solvency of the Pension Funds Management Firms (*Administradoras de Fondos de Pensiones*, AFPs) and to contribute to the strengthening of the Dominican social security system.

Some of the specific functions of the SIPEN are the following:

- Authorize AFPs and supervise them as per their investments of pensions funds, according to the risks and investment limits issued by the Risk Rating Commission (*Comisión Clasificadora de Riesgos*) and the delivery of the securities under the custody of the BCRD.
- Request the AFPs information of their investments, transactions, securities and others, with the frequency it deems necessary.
- Request the securities issuers and the stock exchange the information it deems necessary.
- Supervise the securities primary and secondary market as per the participation of pension funds, without detriment of the legal responsibilities of other authorities.
- Supervise insurance companies as per life insurance contracts for affiliates and the administration of pensions, with cooperation of the Superintendence of Insurance.
- Supervise the Treasury of the Social Security and the Social Security Fund for Collection and Information (*Patronato de Recaudo e Informática de la Seguridad Social*, PRISS) as per the distribution of contributions for the old age, disability and survival branches.

## 2.9 THE ROLE OF OTHER PRIVATE AND PUBLIC SECTOR ENTITIES

### 2.9.1 Ministry of Finance

Among its principal functions is that of managing the public finances, including the properties, funds, credits, resources and obligations related to these, collect taxes and other national revenues, make government payments and manage the debts and credits of the State. Regarding public debt issues, the Ministry is the entity in charge of issuances, inspection and registration of the corresponding securities. It is also the one that authorizes the payments associated with the public debt.

### 2.9.2 Technical Secretariat of the Presidency

This Secretariat is linked to government payments as one of its objectives is to supervise on an on-going basis, by maintaining financial information flows, the use of resources by autonomous and decentralized public entities, public enterprises and of the central government.

### 2.9.3 National Budget Bureau

This institution is a branch of the Technical Secretariat of the Presidency. Among its objectives, the Bureau has to forecast the annual fiscal revenues and their monthly performance, prepare the annual and the monthly Budgetary Execution of the Central Government, Decentralized and Autonomous Institutions Report, and maintain contacts with all other entities involved with the disbursement of public resources to maintain an adequate inter-institutional coordination.

The Bureau must also prepare and publish the Central Government Revenues Budget and Public Expenditure Law, the Revenues and Expenditures Budget of the Decentralized Sector Institutions, perform any modifications to the budgets approved by the Central Government and prepare the drafts of the transfer and funds appropriation laws.

### 2.9.4 Social Security Treasury

The Social Security Treasury is in charge of the Single Information System and of the collection, distribution and payments processes of everything related to the Dominican Social Security System (*Sistema Dominicano de Seguridad Social, SDSS*).

Some of its specific functions are the following:

- Administrate the Single Information System and keep records on employers and their affiliates and on the beneficiaries of the various financing regimes updated.
- Collect, distribute and allot the resources of the SDSS. The Treasury must prepare a daily report to the National Social Security Council (*Consejo Nacional de la Seguridad Social, CNSS*) and the SIPEN on the funds flow.
- Execute, on behalf of the CNSS, the payments to participating institutions, guaranteeing consistency, transparency, safety, efficiency and equality. Once the AFPs receive the corresponding contributions, they must register them in the personal account of each affiliate and invest them right away.
- Propose to the CNSS initiatives aiming at improving the information, collection, distribution and payment.

To carry out the first three functions at the operational level, the Treasury is considering granting a concession to a private sector entity denominated Social Security Fund for Collection and Information (PRISS).

### 2.9.5 Dominican Republic Commercial Banks Association

The Commercial Banks Association is a private, non-for-profit institution comprising all the multiple banks operating in the Dominican Republic. It was created in January 15, 1979.

Its purpose is to promote cooperation among its associates and to foster closer relationships in search of the following objectives:

- Represent member multiple banks before the institutions and national authorities in any process related to the banking activity.
- Represent the common interests of its associates and, when necessary, publicly express their position in such matters.
- Foster the improvement and coordination of banking practices in the country.
- Develop and maintain a scientific research and information service of banking activities and economic activities in general.
- Organize training courses, conferences, seminars and workshops on economic, banking and financial matters.

#### **2.9.6 Credit Bureaus**

The object of these companies is to provide to the subscribing companies and institutions timely, precise and reliable information on individual and firm credit payment history to assist them in the credit decision making process, thereby contributing to the economic and entrepreneurial development, the democratization of credit and facilitating the enlargement of markets.

In the Dominican Republic there are two entities of this kind, the *Centro de Información Crediticia de Las Américas* (CICLA) and *Datacrédito*, which provide credit reports on individuals and firms through an electronic database. CICLA was established in 1993 and is currently the main source of information on consumer credit with records on more than 3.5 million individuals. It provides information strictly on a reciprocity basis and is partially owned by banks. Datacrédito is an independent firm set up in 1987. It collects and distributes information on more than 6,000 businesses and a small number of individuals mostly focusing on non-bank credit.

The Monetary Board regulates these entities through a Resolution of February 14 1997 in which it established guidelines for the use of this type of information by financial sector institutions.

### 3 PAYMENT MEDIA USED BY NON-FINANCIAL ENTITIES

#### 3.1 CASH

Cash is widely used for small value transactions. The national currency is the *peso oro* and is the only legal tender with full discharging effects for every private and public obligation in the whole national territory. The BCRD is the sole institution that can issue banknotes and coins.

At present, there are seven different denominations for banknotes (RD\$ 10, 20, 50, 100, 500, 1000, 2000) and seven others for coins (RD\$ 5, 1, 0.50, 0.25, 0.10, 0.05 and 0.01). Currency is produced in local printing factories and in foreign coin houses.

Total circulation of pesos at the end of 2002 was RD\$ 24,363.6 million, equivalent to 6.2 percent of the GDP. This ratio has been very stable in the Dominican Republic in recent years.

The BCRD is responsible for satisfying the demand for banknotes and coins representative of the national currency circulating in the country. The demand must be timely satisfied with banknotes and coins in optimal conditions, for which purpose the BCRD must have procedures and processes based on international standards. The BCRD has its headquarters in Santo Domingo and a regional office in the city of Santiago. Both offices provide cash to multiple banks and the public in general. The BCRD does not apply charges for the cash distribution and custody services it provides.

To request cash to the BCRD, banks draw cheques on their reserve accounts with this institution. Presently, the BCRD is studying a project to automate cash withdrawals in order to eliminate current manual processes due to cheque handling.

#### 3.2 PAYMENT MEANS AND INSTRUMENTS OTHER THAN CASH

##### 3.2.1 Cheques

In the last 5 years, the use of the cheque as a payment instrument has increased considerably, almost doubling in terms of volume (see Table 5).

Most issued cheques are of a small value. Nevertheless, the average value of a cheque stands around USD 1,000. The cheques written "on us" (*i.e.* intrabank cheques) correspond basically to cash withdrawals from sight deposit accounts and payment of services. Cheques paid through the clearinghouse basically correspond to commercial transactions, although a large part of the exchanged value stems from cheques drawn by banks themselves in association with liquidity transactions in the interbank market.

**Table 5: Volume and Value of the Operations with Cheques**

	1998	1999	2000	2001	2002
Intrabank Cheques					
Volume (in millions)	29.0	n.a.	n.a.	n.a.	55.7
Value (in RD\$ billion)	665	772	871	1,069	1,181
Cheques Paid through the Clearinghouse					
Volume (in millions)	26.1	26.6	27.1	26.5	26.3
Value (in RD\$ billion)	527	623	753	855	915
<b>Total Value of Paid Cheques (in RD\$ billion)</b>	<b>1,192</b>	<b>1,395</b>	<b>1,624</b>	<b>1,924</b>	<b>2,096</b>

Source: BCRD.

During the 1998–2002 period the total value of paid cheques represented an average of 5.11 times the GDP at current prices.

### 3.2.2 Direct Credits and Debits

At present, direct debits and direct credits can only be made at the intrabank level.

CardNet is developing an automated clearinghouse (ACH) to offer the direct debits service. In this service customers will authorize their banks to periodically debit an account or a credit card for a certain amount, and then credit these funds in the account of a beneficiary, usually a utilities firm (*i.e.*, telephone, energy, water, etc.). In a second stage, the ACH would also offer direct credit services through the same platform.

### 3.2.3 Payment Cards

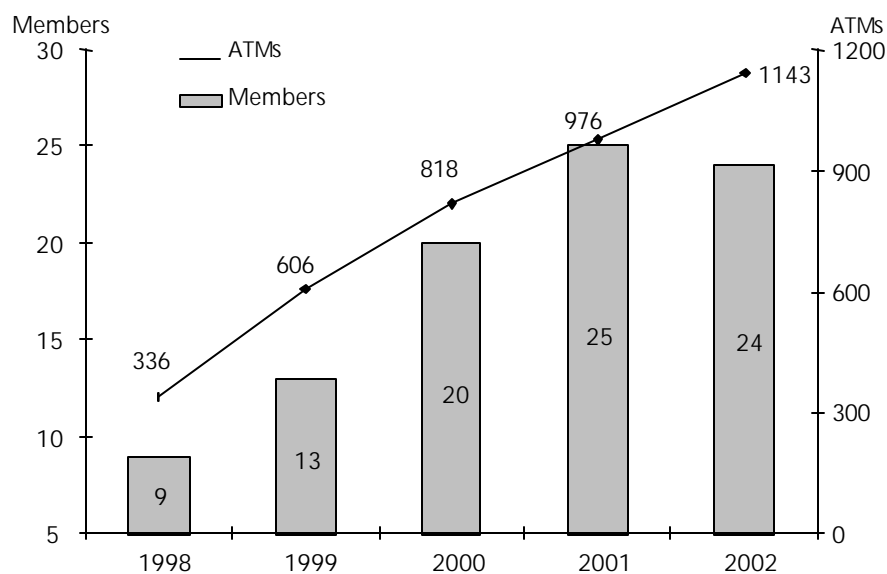
#### 3.2.3.1 Automated Teller Machines (ATMs)

ATH Dominicana was created in 1995. Currently it operates the major ATM network in the country, called "Red ATH". ATH Dominicana started operations in 1996 by linking the ATM systems of 6 multiple banks. By 2002 a total of 25 financial institutions had been integrated into the system, including 10 multiple banks, 11 savings and loans housing associations, two development banks and a non-banking financial entity.

At the international level Red ATH allows the users of debit cards issued by any of the connected institutions to make transactions in any ATM with the ATH, Cirrus, Mastercard, Visa or Plus logo.

By the end of 2002 Red ATH had a total of 1,143 ATMs. Nearly 3 million transactions were made during that year including cash withdrawals and balance inquiries. The ATM front-end operation covers 605 machines, while the back-end one covers the remaining 418.

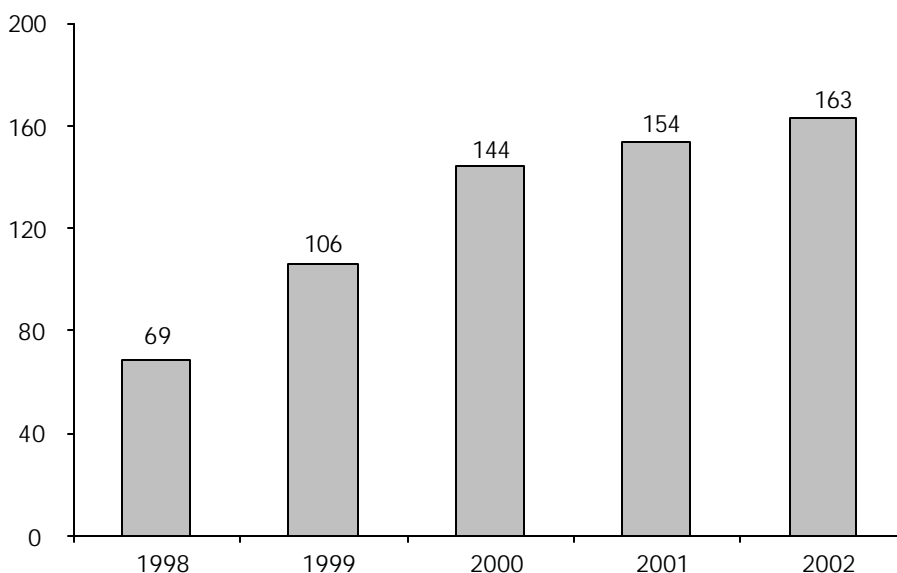
**Chart 2: Number of ATMs and Member Institutions of the ATH network**



Source: ATH Dominicana.

There is also Red BTH, an ATM network operated by Bancredito, a multiple bank. This other network is fully interoperable with Red ATH. In 2002, the BTH Network was operating a total of 163 ATMs. The BTH Network offers cash withdrawal services, balance inquiries, summarized credit card and current account statements, nightly deposits, etc.

**Chart 3: Number of ATMs of the BTH network**



Source: Bancredito (BTH).

### **3.2.3.2 Credit Cards**

In the Dominican Republic, credit cards are issued mainly through the Visa and Mastercard networks. Visa started its operations in the country in 1981 and Mastercard in 1984. In September 2002, out of the total of 1,417,333 issued credit cards, 67.5 percent were Visa. Both companies control also an important share of the debit cards market with Visa Electron and Maestro, respectively.

By the end of 2002, the credit card issuing business was concentrated in 13 institutions, among which there are 9 multiple banks, 3 savings and loans associations and a finance company not regulated by special laws.

During 1997, credit card issuing companies authorized transactions for a total value of RD\$2,578.4 million corresponding to 474,017 cardholders. In 2002 they authorized transactions for a total value of RD\$4,599.2 million for approximated 1.5 million cardholders. The economic active population of the country equals 3.7 million persons. Thus, there are 10 credit cards for every 25 economic active persons.

American Express cards are operated by a multiple bank. By the end of 2002, there were nearly 46,000 cardholders with an average monthly consumption of RD\$55 million.

As of September 2002, credit card issuing firms operated a total of 9,135 EFTPOS terminals. In 1999 and 2001, the corresponding figures were 41,104 and 27,115 terminals, respectively. The decrease is due to the fact that credit card issuing banks transferred the acquiring business to VisaNet and CardNet, which are now in charge of managing, processing and integrating the transactions with merchants. Before this, it was common to find 2 and even 5 EFTPOS terminals of various issuing banks in a single location.

The two ATM operators, Bancredito and ATH Dominicana, own VisaNet and CardNet respectively. Their platforms are partially interoperable. Payments made with all the major card brands can be processed in the CardNet platform, while the VisaNet only accepts those made with Mastercard and Visa.

### **3.2.3.3 Debit Cards**

Debit cards were introduced at the beginning of the Nineties. They are not regulated by any specific resolution or regulation, although they are mentioned in the LMF of 2002.

At the beginning, these cards could only be used to withdraw cash in the ATMs of the issuing bank. Subsequently, an agreement was reached to share ATM networks and to allow for the use of debit cards as payment instruments in commercial locations through EFTPOS terminals.

Table 6 below shows evidence of a growing acceptance of payments with debit cards in the country.

**Table 6: Use of Debit Cards as a Payment Instrument**  
(1998-2002)

	1998	1999	2000	2001	2002
Debit Cards <sup>(a)</sup>	583,000	1,300,000	1,760,000	2,000,000	n.a.
Volume of Transactions	16,478,433	23,687,227	33,106,835	41,741,383	47,144,880
Value of Transactions (in RD\$ million)	2,050.1	2,875.1	3,612.9	4,488.0	5,090.4

Sources: ATH Dominicana and Bancredito (BTH).

<sup>(a)</sup> Estimate.

### 3.2.3.4 Retailer and Prepaid Cards

Retailers such as supermarket chains, warehouses, gift shops, gas stations and electric appliances stores offer deferred payment schemes to their clients through the use of cards issued by the merchants themselves. These cards can only be used within the premises of the issuing merchant.

There are also prepaid cards, mainly in the fixed and mobile telephone sectors. The most important companies offering these cards are Codetel, Tricom, Centennial, Turintel and Orange.

Presently there are no data on these payment instruments.

### 3.2.4 Other Payment Mechanisms

Most multiple banks already have on-line services for their clients to access their current and savings accounts. These services are being offered mainly through the Internet for both individuals and corporations.

Audio-answer services have been growing steadily. Through this service customers may make balance inquiries, funds transfers to other accounts at the same bank and credit card payments.

There is also a tele-payment service. With this service credit card charges for the payment of services like cable TV and electricity are authorized through the telephone.

## 3.3 NON-CASH GOVERNMENT PAYMENTS

In the Dominican Republic, payments of the central government are made through cheques. In recent years, various efforts have been made to use other more efficient payment instruments. In the specific case of payrolls, some public sector institutions are already using credits to bank accounts. The funds may be withdrawn with debit cards or other means. This same mechanism is being promoted to pay government suppliers.

The National Treasury, dependant of the Ministry of Finance, draws cheques on the accounts of the central government in the Reserve Bank,<sup>19</sup> who is the sole depository of fiscal revenues. From an

<sup>19</sup> The Dominican Republic Reserve Bank is the commercial bank of the State. The functions of this institution are described with more detail in Chapter 2.

operational point of view, the process by which a payment obligation is produced and payment itself is the following:

- The institution receiving goods or services executes a fund allocation request to the National Budget Bureau, the ONAPRES.
- The ONAPRES verifies that such activity was actually budgeted, verifies funds availability, approves the allocation and issues a payment order.
- This payment order is then sent to the Republic's General Comptroller who then requests the cheque to the National Treasury.

Regarding revenues, the Customs General Direction, the National Treasury and the Internal Taxes General Direction are the collection bodies in the Dominican Republic. The National Treasury also receives the revenues related to the participation of the State in private sector firms, contributions for social services, other revenues stemming from special laws, as well as for the application of different rates and real estate sales.

### **3.3.1 Central Government Financial Reform**

The central government is implementing a system know as Integrated System for the Control and Financial Management of the Public Sector (*Sistema Integrado de Gestión Financiera y Control del Sector Público*, SIGEF). The purpose of this reform is to transform the activities of the government entities dedicated to the preparation and execution of the budget, including the debt management and control, as well as the accounting and internal control processes.

Regarding government revenues and payments, some of the major elements of the reform are the following:

- To administrate public resources more efficiently, which includes collection, custody and their application to discharge the obligations of the State. The Treasury aims at achieving a balanced budget through the programming of current and accrued obligations considering the evolution of effective revenues. This is to be done with efficient techniques articulating cash management and budget execution, The organization of this treasury subsystem will be developed on the basis of centralized payments and the Unique Account criteria. The Treasury will also incorporate new processes and activities, like designing policies for the investment of cash surplus or policies for short-term indebtedness.
- Operational processing is to be executed in an economic, efficient and effective way, producing timely and reliable information. It is intended to develop an accounting system that integrates the budgetary, balance and income statement accounts to ensure the unique, simultaneous and automatic registration of information in all of the administrative units of the entity generating each payment transaction.

- In the public credit area, a system is being developed to centralize financing activities, control public debt and give efficient attention to the debt service. Guidelines will be set to regulate the conditions for the issuance and placement of government securities, to hire loans, to grant endorsements and guarantees and the restructuring of the existing public debt. The execution of works in which expenses extend for more than one budgetary cycle is also being regulated.

The SIGEF will embrace the whole non-financial public sector. In a first stage, it will only include the central government, and later on it will also include the non-financial autonomous and decentralized organs and institutions. Public enterprises and local governments will be included in the final stage. These reforms will have repercussions in other systems as the one of public purchases of goods and services, the administration of national goods and the financial management of human resources.

## 4 PAYMENTS: INTERBANK EXCHANGE AND SETTLEMENT CIRCUITS

### 4.1 THE REGULATORY FRAMEWORK FOR CLEARING HOUSES

At present, the cheque clearinghouse is ruled by the Regulation approved in the Second Resolution of the Monetary Board, issued on December 6, 2001. Current clearance methods were approved in that Regulation.

For the clearing and settlement of ATM and EFTPOS operations executed through the Red ATH, there is an operational regulation issued by this network. All members of the network must comply with this regulation.

The LMF of 2002 gives the BCRD exclusive powers over cheque clearing and all the other payment means and systems, and establishes that the regulations for the organization and functioning of the same are the responsibility of the Monetary Board. Payment system regulations are being currently drafted by the BCRD.

For the operations of the upcoming ACH, its creator, ATH Dominicana, has been developing an operational regulation based on the rules of the National Automated Clearing House Association (NACHA).<sup>20</sup>

### 4.2 LOW VALUE TRANSFER SYSTEMS

#### 4.2.1 Cheque Clearinghouse

The BCRD clearinghouse was created by the Monetary Board through the Fourth Resolution of September 27, 1956. All multiple banks are clearinghouse members and through it they can clear cheques, drafts, transfer notices and other bills such as promissory notes. Settlement is executed through the reserve accounts the participants hold with the BCRD.

After its creation, as the financial system was expanding and the volume of transactions was increasing, new offices were opened. In 1971 the clearinghouse of Santiago de los Caballeros (North Area) was opened, dividing clearing operations into two jurisdictions according to the location of the banking office receiving the documents for collection. At the end of the eighties and beginning of the Nineties, clearinghouse operations started in La Romana (East Area), Barahona (South Area) and San Francisco de Macorís (Northeast Area), dividing operations into five jurisdictions.

In 2001, the BCRD started a project aimed at centralizing and unifying the processing of all deferred net payment instruments and to settle the resulting obligations in the reserve accounts. Thus, the four

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<sup>20</sup> NACHA regulates ACH transactions in the USA. Its regulations are used worldwide as the basis for the creation of ACH Operational Regulations and for the standards governing transaction exchanges among financial institutions and ACH networks.

regional offices were shut down and nowadays cheque clearance is centralized in the city of Santo Domingo.

The project also embraced several changes to the clearing processes and increased automation of the clearinghouse itself. For example, the transit term for cheques was reduced from 7 to 3 working days, independently of the location in which the cheque is received for collection or the issuing entity.

#### **4.2.1.1 Clearing and Settlement Processes**

All multiple banks are connected to the BCRD through the On Line Banking System (*Sistema Bancario en Línea*, SBL), developed by the BCRD, who also owns it.<sup>21</sup>

At present, the procedure used for clearing and settlement is the following:

- In day T + 1, until 9.00 a.m., banks send the BCRD an electronic file through the SBL with a list of the cheques they received for collection during day T. Banks also send an electronic file with their clearing results with each of the other participants.
- The electronic clearinghouse module performs a multilateral netting process and automatically debits and credits the current accounts of the banks with a multilateral net debit or credit position, respectively. This happens no later than 9.15 a.m.
- Through the SBL, the banks receive information on the outcome of this clearing session. The SBL informs each bank on their multilateral net position with the clearinghouse as well as their bilateral net positions against all other participants.
- The debits and credits already settled at the current accounts are not final, as banks still have to process the returned items. Nevertheless, the funds already credited to a bank are available and may be used with no restrictions from 9:15 a.m.
- For the physical exchange of documents, the banks' representatives meet in the morning of T + 1. The physical exchange is made under the responsibility of the banks themselves at the headquarters of the Dominican Republic Commercial Banks Association. Each bank receives the documents listed in the settlement sheet transmitted by the BCRD through the SBL. At 3.00 p.m. of T + 1 the banks send the BCRD a new file containing the information of the returned cheques.
- The SBL performs a new multilateral netting process on the basis of this last information and then credits and debits the current accounts of the banks once more. These entries are final and take place no later than 4:00 p.m.

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<sup>21</sup> The SBL was originally developed by the BCRD to receive periodical statistical information from the financial institutions.

- The final beneficiaries are credited no later than T + 4.

For clearinghouse settlement and other interbank operations the participants may use a part of the reserve requirements they keep with the BCRD. The reserve requirement is calculated on the basis of a weekly average, and participants must reconstitute the used part to comply with such an average.

#### **4.2.2 ATM Operations Clearing and Settlement**

Interbank obligations resulting from ATM operations and from credit and debit cards systems are settled at commercial banks. As settlement agents, these banks hold current accounts for each of the entities participating in these systems.

Regarding ATM operations, each network calculates daily the multilateral net balances of its members as well as the amount to be charged to the other network. The ATH and the BTH Networks inform their members their multilateral net positions and coordinate settlement through a multiple bank designated as settlement agent. For the most part payments are made through cheques that are cleared at the clearinghouse of the BCRD.

Regarding EFTPOS operations with credit and debit cards, since the processing firms, CardNet and VisaNet, belong to ATH Dominicana and Bancredito which at the same time are the owners of Red ATH and Red BTH, respectively, the interbank obligations are settled in a similar way.

### **4.3 LARGE VALUE TRANSFER SYSTEMS**

In the Dominican Republic the high value payment system comprises funds transfers among financial intermediaries. Such transfers originate mainly in interbank loans made with cheques. These cheques are not processed in the clearinghouse.

The multiple bank making a loan draws a cheque that is delivered physically to the BCRD through a messenger. The Treasury Department of the BCRD revises the documents and proceeds with settlement on a gross basis by charging the account of the creditor and crediting the account of the multiple bank receiving the loan.

Other types of financial institutions also draw cheques that are charge directly to the reserve accounts of multiple banks at the BCRD. An example of the latter would be a savings and loans association trying to comply with reserve requirements, for which purpose it draws a cheque on its account at a multiple bank and sends it physically to the BCRD, which then proceeds with the above-mentioned procedure.

#### **4.3.1 Risk Controls**

The BCRD provides information to financial institutions on reserve account balances at the beginning of each working day. Nevertheless, financial institutions may also check their balance through the phone throughout working hours.

Moreover, the BCRD does not provide intraday liquidity facilities. Participants with liquidity shortages may recur to interbank loans or sell securities issued by the BCRD to the BCRD itself through the Money Desk, which does not operate on a continuous basis.

#### **4.4 CROSS-BORDER PAYMENT SETTLEMENT SYSTEMS**

In the Dominican Republic, most cross-border payments are made through the traditional system of international correspondent banks through the SWIFT network, to which all the multiple banks in the country are connected. There is no centralized or specialized system for cross-border payments. Thus, transactions are settled in a bilateral way.

The BCRD is a member of the Latin American Association for Integration (*Asociación Latinoamericana de Integración*, ALADI), a settlement mechanism for cross-border payments associated with foreign trade that operates through the region's central banks. The functioning of the ALADI system is described in detail in Section 7.5 of this Report.

#### **4.5 MAJOR PROJECTS AND POLICIES BEING IMPLEMENTED**

The BCRD is going through a modernization process of the payments system.

Regarding the cheque clearinghouse, the first improvements took place in February 2002 with the introduction of electronic clearing and settlement through the SBL and the re-definition of the clearing sessions. For the future the BCRD is considering the elimination of physical exchange with the introduction of cheque truncation.

For large value transactions, the BCRD is evaluating the possibility of creating a SWIFT closed users group. This possibility is being assessed owing to the fact that every multiple bank in the country is already connected to this network.

In a first stage, the SWIFT closed users group would enable financial institutions to perform interbank funds transfers electronically. In a second stage the system would also be open to third party funds transfers, the settlement of the various private clearinghouses and to funds transfers stemming from securities market transactions.

On the other hand, ATH Dominicana is developing an ACH to process direct debit and direct credit payment transactions. It is expected that the exchange platform developed for this purpose will also allow the development of new products and the automation of the exchange transactions at the international level in the medium run.

At present, ATH Dominicana has already developed an operational regulation and has implemented a pilot program for the project. For the exchange, clearing and settlement of transactions, the ACH-type Preauthorized Electronic Transactions Service (*Servicio de Transacciones Electrónicas Preautorizadas Tipo ACH*, STEPACH) has been created. This service is ruled by the same procedures and regulations applicable to the cheque clearinghouse of the BCRD.

## 5 SECURITIES: MARKET STRUCTURE AND TRADING

### INSTRUMENTS

#### 5.1 FORMS OF SECURITIES

Articles 141 to 153 of the Regulation for the implementation of the SML indicate that securities traded in the Dominican market can be represented by physical securities or by book entries in a central securities depository (CSD). Physical securities can be converted into book entries or *vice versa* if decided by the issuer.

Regarding the securities representation forms in the Dominican market, the SML also states that the entities offering a CSD service will be able to register the securities that are not represented by physical certificates.<sup>22</sup>

Until today, physical certificates have always represented traded securities.

#### 5.2 TYPES OF SECURITIES

The SML defines a security as “the right or group of rights of economic content, negotiable in the securities market, including shares, bonds, certificates, obligations, letters, certificates representing commodities and instruments resulting from securitizations”. The definition also includes futures and put and call options over securities and commodities.

Commercial papers, bonds, financial certificates, participation certificates, mortgage certificates, mortgage participation certificates, deposit certificates and other banking instruments are traded in the Dominican securities market. At present, only commercial papers are traded in the stock exchange, the BVRD.

Regarding government securities, during the 1984–1998 period the Dominican Government did not make any securities issues. In November 1999, the Bonds Law was enacted with the object of transforming the accrued domestic debts into an orderly medium term debt. This law authorized the issuance of RD\$5,000 million in securities in a six-year span.

#### 5.3 SECURITIES IDENTIFICATION CODE

Participants in the securities market have been using their own coding system so far. As a result, securities have different codes assigned by the stock exchange, the issuers and the intermediaries. Once the Securities and Products Market Registry (*Registro del Mercado de Valores y Productos*,

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<sup>22</sup> Article 77 of the SML.

RMVP) is created, the coding systems will be unified, following the criteria of the International Securities Industry Numbering (ISIN).

#### **5.4 TRANSFER OF OWNERSHIP**

The Regulation for the implementation of the SML states that for securities represented in a book entry form, ownership transfer occurs through book-entry transfers. The record of the transfer to the buyer produces the same effects as the transfer of the physical securities.

The Commercial and Civil Codes are followed for the transfer of ownership in the case of securities represented by physical certificates. The transfer is made through the physical delivery of the securities from the seller to the buyer.

Bonds and shares issued by non-financial entities are issued on a bearer form. Shares issued by financial institutions regulated by the Monetary Board must be issued in a nominative way. In the case of shares, ownership is determined through the registry in the shareholders' books of the issuing company.

#### **5.5 PLEDGE OF SECURITIES AS COLLATERAL**

The Dominican Republic Civil Code includes the ordinary pledge of credit securities, which grants the secured creditor the right to be paid with the realized value of the pledge with privilege and seniority over other creditors in case of a default. In the Dominican banking system pledges with credit securities are common.

Of the securities traded in the BVRD, around 75 percent of the issuances are secured. The pledge is the most used mechanism, although credit lines are also often used as a guarantee. Credit lines may cover from 10 and up to 100 percent of the principal amount and for the most part they may only be used in contingency situations.

#### **5.6 TREATMENT OF LOST, STOLEN OR DESTROYED SECURITIES**

According to the SML, stock exchanges offering CSD services must safeguard and register the securities and they are responsible for the proper conservation of the securities they have formally received in deposit, as well as of any decrease, loss, deterioration, destruction or delay in the restitution of the deposited securities. They are also responsible for mistakes in securities transfer or in settlement transactions.

On the other hand, stock exchanges offering CSD services are not responsible for the authenticity of the deposited securities or of the validity of the transactions such securities stem from. This responsibility falls onto the depositors, who must watch for defects, legitimacy or nullity of the securities or of the transactions originating such securities.

Moreover, the securities intermediaries are responsible for the authenticity and physical integrity of securities to be traded and for the authenticity of the last endorsement, if applicable. Brokerage houses must issue certifications in case of misplacement or loss of the issued securities.

If share certificates are lost, the affected party must notify such loss to the issuer, requesting the cancellation of these certificates and their substitution.<sup>23</sup> An abstract of the notification must be published on a newspaper of national circulation once a week for four consecutive weeks. After ten days of the last publication, if there is no opposition, a new certificate must be issued once the affected party delivers these newspapers, properly certified by the paper's editor. The lost certificates are considered null and in case someone do opposes the company will not deliver the new certificates until the situation is clarified.

For other types of securities, the restitution process is similar to the one just described, with minor variations. The Regulation for the implementation of the SML states that in case a security that must be registered is lost or destroyed, the security must be replaced with a certification issued by the SIV.

## 5.7 LEGAL MATTERS CONCERNING CUSTODY

Article 79 of the SML states for all purposes regarding securities transactions with securities in custody in a CSD, the owner of the securities is whoever is registered as such in the CSD.<sup>24</sup> Based on the latter, authorities believe that in case the CSD goes bankrupt, the assets of the depositors would remain legally protected from any third party claims over the CSD.

## MARKET STRUCTURE AND TRADING SYSTEMS

### 5.8 PRIMARY MARKET

The primary market includes the primary private offerings, primary public offerings and the issuances made by public sector institutions.

A securities public offering is the one directed to the public in general or to specific sectors, through any massive communication media, for the acquisition, alienation or trading of instruments of any nature in the securities market. Securities transactions that do not adjust to this definition are considered private offerings and are not subject to the SML.

The government and BCRD securities issuances do not require the approval of the SIV. However, information on the issued securities must be presented to the latter for their registration in the RMVP.

During 2002, the total amount of primary market issuances made in the BVRD was RD\$65,569,020. All these issuances were made by private sector entities, mainly of the financial system.

Regarding government securities, in 2001 the government took an important step to regularize the situation of public sector creditors by issuing the so-called "Public Debt Recognition Bonds" (*Bonos de Reconocimiento de Deuda Pública*). In June 2002, the total outstanding amount of public sector

<sup>23</sup> Article 36 of the Commercial Code.

<sup>24</sup> Article 79 of the SML.

securities was RD\$2,735.9 million, of which RD\$1,924.4 million were Public Debt Recognition Bonds. The rest is represented by Treasury Certificates of the BCRD, Agricultural Reform Bonds and Hurricane David Bonds, with RD\$718.3, RD\$90.9 and RD\$2.3 million, respectively.

The government is evaluating the possibility of making a new and final issue of Public Debt Recognition Bonds to regularize the public debt accrued in the 1996-2001 period.

## 5.9 SECONDARY MARKET

Currently secondary market activity is very limited. In 2002, the traded amount in the secondary market at the BVRD was RD\$24,776.4 million, equivalent approximately to USD 1,200 million. All trades were made with private sector issuances.

Regarding government securities, these are not actively traded in the secondary market. Owners of these securities generally hold them until maturity.

**Table 7: Securities Traded in the Secondary Market in the Dominican Republic  
Stock Exchange during 2002**  
(in RD\$ million)

	<i>Amount</i>	<i>%</i>
Per instrument type		
<i>Commercial Paper</i>	24,623.5	99.4
<i>USD-denominated Bonds</i>	152.9	0.6
Per maturity <sup>(a)</sup>		
<i>0- 30 days</i>	16,749.9	67.6
<i>31- 60 days</i>	4,539.6	18.3
<i>61- 90 days</i>	2,465.0	9.9
<i>91-180 days</i>	829.8	3.3
<i>181-360 days</i>	256.0	1.0
<i>more than 360 days</i>	1.5	0.0
<b>Total</b>	<b>24,776.4</b>	<b>100.0</b>

Source: BVRD.

<sup>(a)</sup> Includes primary market transactions.

## 5.10 STOCK EXCHANGE TRADING

In the BVRD trades are made directly through brokerage houses. Every one wishing to buy or sell shares, bonds, participation certificates, options and other instruments through the BVRD must recur to a brokerage house to write an order specifying the instruments intended to be purchased or sold.

The BVRD has an electronic system named Interconnected System for Electronic Trading (*Sistema Interconectado de Negociaciones Electrónicas, SINE*), for debt or equities trades. The SINE produces several statistics and allows the BVRD and other authorities to supervise stock exchange activity.

Once brokerage houses agree on a trade, they send the corresponding transaction information to the SINE via modem. Thus, notwithstanding the SINE is available for trading, in practice it is only used as a registry since trading occurs over-the-counter.

On the other hand, nearly 75 percent of trades are crossed transactions in which the same brokerage house undertakes the buy and sell positions of a same transaction as both the selling and buying parties are its clients.

### 5.10.1 Market Sessions

Presently, for the fixed rate and financial intermediation markets in the SINE there is a trading mechanism called "electronic stock exchange". In this mechanism the first step is to enter sell orders. Then, buy orders are entered on the basis of the existing offerings. At the end of the auction, the system allots the instruments to the best bids. However, this facility is not extensively used since, as mentioned before, most trading activity occurs over-the-counter.

On the other hand, even if presently not in use, there is another mechanism called "Special Round" (*Rueda Especial*) for trading securities not listed in the BVRD.

Trading hours at the BVRD are the following, Monday through Friday:

Listed Securities	from 10.00 a.m. to 11.00 a.m.
Non-listed Securities	from 11.00 a.m. to 12.00 a.m.

### 5.10.2 Types of Transactions

Operations are classified as follows, according to their settlement features:

- Today: these operations are settled in the same day trading took place.
- Cash or Ordinary: these are settled the working day following the trade date.
- Fixed Term: settlement is agreed for a future date not exceeding 30 working days.

## 5.11 OVER-THE-COUNTER MARKET

Securities trades occur mainly in the OTC market. The SINE allows the registration of both BNV listed and unlisted securities. Of the total traded amount in the BVRD during 2002, approximately 47 percent corresponded to unlisted securities.

## 5.12 DERIVATIVES TRADING

At present, there is no trading of derivatives in the Dominican financial markets.

## 6 CLEARANCE AND SETTLEMENT CIRCUITS FOR GOVERNMENT AND CORPORATE SECURITIES

### 6.1 ORGANIZATIONS AND INSTITUTIONS

#### 6.1.1 Stock Exchange and Central Securities Depository

At present, there is only one stock exchange operating in the country, the *Bolsa de Valores de la República Dominicana* (BVRD) and there is no central securities depository (CSD). Stock exchanges are authorized to offer the latter service.

### 6.2 SECURITIES REGISTRATION AND CUSTODY PROCEDURES

#### 6.2.1 Registration in the Securities and Products Market Registry

The SML and its Regulation establish that any entity participating in the securities market or in acts and contracts related to this market, as well as the securities issuances object of public offering, must be registered in the RMVP, whose administration corresponds to the SIV.

The Regulation for the implementation of the SML states that the RMVP will have the following sections:

- Securities object of public offering.
- Securities representing products of public offering.
- Generic models of futures and of put and call options contracts.
- The issuers making a public offering, except those that because of their nature are exempt from this requirement.
- Stock exchanges and the securities market intermediaries.
- Clearinghouses.
- Central Securities Depositories.
- Mutual funds and their management firms.
- Securitization companies, as well as the trusts and the securities they issue.
- Risk rating companies.

- External auditors.
- Other securities market participants approved by the SIV:

Currently, the RMVP is being organized for the first time.

## **6.2.2 Registration and Custody of Securities**

Presently, in the Dominican Republic there are no companies offering CSD services. The investors hold securities directly. Brokerage houses may become custodians of these securities if requested by securities holders.

## **6.3 SECURITIES CLEARANCE AND SETTLEMENT PROCESS**

Presently the brokerage houses only trade commercial papers on their own behalf or on behalf of third parties. The cash leg is settled with cheques or cash deposits in the banking account of the selling brokerage house. The securities leg is settled with the delivery of the physical certificates representing the traded securities.

### **6.3.1 Guarantee Schemes**

The SML obliges securities intermediaries to constitute a fully liquid guarantee in order to assure the full and proper fulfillment of all their obligations. This is a general guarantee, *i.e.*, it is not specifically created to assure the settlement of securities transactions.

## **6.4 SECURITIES LENDING**

Regarding the securities clearance and settlement, at present there is no mechanism for securities lending.

## **6.5 INTERNATIONAL LINKS AMONG CLEARANCE AND SETTLEMENT INSTITUTIONS**

There are no connections among the institutions of the Dominican securities market with foreign securities clearance and settlement institutions. Only one private company has placed bonds in the international market and all trades and the corresponding settlement occur overseas.

## **6.6 MAJOR PROJECTS AND POLICIES BEING IMPLEMENTED CONCERNING CUSTODY, CLEARANCE AND SETTLEMENT**

The BVRD is working on the implementation of a CSD, to be named *Central de Valores Dominicana* (CEVALDOM). In a first stage CEVALDOM will be a stock exchange department in which it will perform the custody, administration and settlement of the securities traded in the BVRD.

The main objectives of CEVALDOM are the following:

- Provide the market with more physical and legal safety.
- Help investors with the exercise of their patrimonial rights.
- Perform securities settlements under a delivery versus payment (DVP) scheme, in order to reduce credit risks.

The BVRD expects the CEVALDOM to become operational by mid-2003.

## 7 THE ROLE OF THE CENTRAL BANK IN THE CLEARANCE AND SETTLEMENT SYSTEMS

### 7.1 SETTLEMENT

Financial intermediation institutions hold deposit accounts with the BCRD. Reserve requirements must be deposited in these accounts. The multiple banks also have other current accounts through which they settle payment transactions at the cheque clearinghouse. A portion of the reserve requirements can be used for this last purpose.

For cheque clearinghouse settlement, once the multilateral net resulting from the clearance session are obtained, these are transferred to the Individualized Administration of Accounts (*Manejo Individualizado de Cuentas*, MIC) module of the current accounts system. Once the necessary verifications have been performed, the system automatically executes settlement by crediting or debiting the current accounts of multiple banks according to their multilateral net position versus the clearinghouse.

Other types of credits and debits may be made in the current accounts, like those related to interbank market transactions. These operations are settled with BCRD cheques that do not go through the clearinghouse for clearance and settlement.

### 7.2 RISK CONTROL POLICY

The LMF states that the Monetary Board may establish collateral pools or other guarantee regimes for payment system participants. At present, the only guarantee for eventual defaults is the reserve requirement itself. As mentioned before, only a portion of the reserve requirement is available for settlement. Besides its monetary policy functions, the remaining portion remains as a guarantee in case the portion available for settlement turns out to be insufficient.

Regulations in force for the cheque clearinghouse do not allow shortages or overdrafts in the current accounts for payment system purposes, not even in transitory situations. In case banks face shortfalls in their current accounts they have the following options:

- Transfer from their special reserve accounts (*i.e.* the portion of the reserve requirement that in a first stage is not available for settlement purposes) the necessary funds to cover the shortfall.
- In case the latter is insufficient, banks with shortages must make the necessary deposits in their current account.
- If the latter is still insufficient, if banks with shortages hold Treasury Certificates of the BCRD the latter cancels these certificates up to the amount of the shortage.

- Recur to financing mechanisms established by the Monetary Board. In this case the BCRD acts as lender of last resort.<sup>25</sup>

In case this last mechanism is triggered, the BCRD must immediately inform the Superintendence of Banks. The bank with shortages must participate in the following clearinghouse sessions until the Superintendent limits or prohibits such participation.

## 7.3 MONETARY POLICY AND PAYMENT SYSTEMS

### 7.3.1 Legal Reserve Requirements

Financial intermediation entities are subject to the reserve requirement regime established by the Monetary Board. According to this regime, the entities must keep in the BCRD, or wherever the Monetary Board determines, a portion of the funds they collect from the public in any category or instrument, either in national or foreign currency.<sup>26</sup>

Reserve requirements currently in force are shown in Table 8.

**Table 8: Reserve Requirements**

	<i>Multiple Banks</i>	<i>Savings and Loans Associations</i>	<i>Development Banks</i>	<i>Mortgage Banks</i>	<i>Finance Companies</i>
<i>Sight Deposits</i>	20 % (15 in the BCRD and 5 in cash accounts at the banks)				
<i>Savings in National Currency</i>	20 % (15 in the BCRD and 5 in cash accounts at the banks)	15 % in the BCRD			
<i>Liabilities not represented by Deposits</i>	20 % (15 in the BCRD and 5 in cash accounts at the banks)				
<i>Savings in Foreign Currency</i>	20 %				
<i>Term Deposits and Financial Certificates in National Currency</i>	20 % (15 in the BCRD and 5 in cash accounts at the banks)	15 % in the BCRD	15 % in the BCRD	15 % in the BCRD	15 % in the BCRD
<i>Term Deposits in Foreign Currency</i>	20 %				

Source: BCRD.

<sup>25</sup> Article 35 of the Law 183-02.

<sup>26</sup> Article 16 of the LMF of 2002. The reserve requirement may be extended to other liabilities (e.g. contingencies), if deemed appropriate by the Monetary Board.

### **7.3.2 Intervention Mechanisms in the Money Market**

The BCRD intervenes in the money market through open market operations (OMOs) to adjust banking liquidity to needs of the economy. These operations are executed through the money desk and the foreign exchange desk.

#### **7.3.2.1 Money Desk**

The money desk was created in 2001. Through this mechanism, the BCRD uses banks surpluses to grant short-term loans to other banks with temporary or treasury liquidity shortages.

The BCRD monitors the operations banks make directly among themselves and obtains information on interest rates and of the liquidity needs and surpluses, both at the individual bank level and in a consolidated basis. The interbank interest rate is used by the BCRD as a reference rate for its operations in the money market.

#### Liquidity Intermediation

The multiple banks that after participating in the daily interbank market still have liquidity surpluses can offer these resources to the money desk. With these funds, the BCRD makes loans to other banks with temporary liquidity shortages. This function is known as "liquidity intermediation". Maturity of these loans goes from 1 to 7 days, depending on the requests of the offering banks and those of the demanding banks, in the understanding that maturity mismatches are to be avoided. Once maturity has been set, it cannot be modified (*i.e.* the loan cannot be automatically rolled over).

Multiple banks offering liquidity charge an interest rate equal to the weighted average of the most recent interest rate that has been informed to the BCRD less 200 basis points. Banks requesting liquidity must pay the weighted average of the most recent interest informed to the BCRD plus 200 basis points. The BCRD keeps the interest rate margin as its fee for its intermediation services.

These transactions are collateralized with reserve requirement deposits.

#### Securities Purchases and Sells

Through the money desk the BCRD also buys and sells its own securities for monetary regulation purposes. The Open Markets Committee (*Comité de Mercado Abierto, COMA*) determines the conditions under which the BCRD can buy or sell securities to multiple banks, taking as a reference the situation of banking liquidity and the targets of the Monetary Program.

#### Liquidity Advances

This is the permanent function of the money desk, which the BCRD reserves to satisfy the liquidity needs of banks in extreme situations. Liquidity advances extend from 1 to 7 days, and the maximum

amount would be 30 percent of the capital and reserves of the beneficiary. These facilities may be rolled over up to 3 times in a single month, and the beneficiary banks can pre-pay the loans. If a bank exhausts these limits, it will not be able to use it for the next six months.

The BCRD charges an interest rate equal to the interbank interest rate plus 200 basis points. Also, for each rollover it charges 100 additional basis points over the original rate.

The day the transaction is approved, the beneficiary banks must deliver to the BCRD a promissory note for an amount equal to 1.25 times the amount of the loan.

### **7.3.3 Foreign Exchange Desk**

The foreign exchange desk is used to buy and sell foreign currencies in the private market to maintain exchange rate stability, to influence liquidity and to strengthen the international reserves of the BCRD, in accordance with the targets of the Monetary Program. This desk started operations in November 2001.

#### **7.3.3.1 Operational Rules**

The COMA sets the parameters for trading, defining the daily, weekly or monthly buy and sell targets. It also establishes the minimum and maximum rates (*i.e.* the exchange rate band) for desk operators. Desk trades are made through the phone, e-mail, fax and other electronic media. Multiple banks having a shortfall in their reserve requirement for three consecutive days prior to the desk session cannot participate in that session.

#### **7.3.3.2 Buys and Sells through Auctions**

Trading strategies are communicated each day to the desk operators. The latter contact the authorized multiple banks and inform them on the buy and sell bids.

Participating banks send their bids indicating the amounts they wish to buy or sell and the corresponding rate. Each entity may send one or more bids. Banks may never present bids exceeding 50 percent of the total amount being offered in one auction.

At the end of the desk session, the banks are informed of the allotments, including the allotted amounts and rates.

#### **7.3.3.3 Direct Buys and Sells**

If the BCRD deems convenient to make direct buys and sells of foreign currencies, it may hold the necessary transactions under the most favorable conditions for the BCRD and within the parameters established by the COMA.

Desk operators contact multiple banks as in the previous case. A non-discriminatory approach is used, which consists in distributing the total offering among all the multiple banks according to their

market share, which in turn is calculated over the basis of their volume of transactions with the public during the prior month.

In case a bank is not interested in participating, its share remains available for other banks. The market share criterion is also followed in this case for allotment purposes.

## **7.4 THE ROLE OF THE CENTRAL BANK IN CROSS-BORDER PAYMENTS**

The BCRD makes cross-border payments for various purposes, including servicing the external debt of the public sector, payments related to oil and its derivatives, the import of military equipment, mineral coal for industrial use and diplomatic salaries and expenses, among others. To carry out these transactions the BCRD sends payment messages to its corresponding banks abroad through the SWIFT network.

### **7.4.1 ALADI**

The Dominican Republic is a member country of the Latin American Association for Integration (*Asociación Latinoamericana de Integración, ALADI*), a system for the clearance and settlement of multilateral cross-border payments related to the intra-regional trade of 12 countries: Argentina, Brazil, Bolivia, Chile, Colombia, Dominican Republic, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela. In 1965, the central banks of these countries subscribed the "Reciprocal Payments and Credits Agreement" (*Convenio de Pagos y Créditos Recíprocos*) with the basic objective of reducing the cross-border transfer of foreign currencies among themselves. Through this agreement, members offer system participants the guarantees of convertibility, transferability and reimbursement.

Under the ALADI system, these central banks accept payment documents associated with the intra-regional trade, mainly those related to credit letters denominated in USD. In accordance with the ALADI agreement, the central bank of the country where the export was originated deposits funds, on behalf of the central bank of the importing country, in the commercial bank participating in the foreign trade transaction. Each country's central bank also authorizes its financial institutions to send commercial transactions directly through ALADI as authorized institutions.

These transactions result in net accrued positions in USD among central banks. Every four months the Operations Centre, located in the central bank of Peru, makes a cut-off of multilateral balances among central banks through the Automated System Supporting the ALADI Reciprocal Payments and Credit Agreement (*Sistema Computarizado de Apoyo al Convenio de Pagos y Créditos Recíprocos ALADI, SICAP/ALADI*). Funds are settled in the Federal Reserve Bank of New York, the correspondent bank of all ALADI member central banks.

The SICAP/ALADI allows the automation of the information regarding ALADI transactions as well as others related to the reciprocal relationships among member central banks. It also provides members with information on debits, credits, balances, number and interest calculations, extraordinary settlements, multilateral use of risk margins and authorized institutions tables, both for the current period and historical information.

In the Sixties, nearly a third of all intra-regional foreign trade payments was cleared and settled through ALADI. In these years only some of the member countries were export-oriented and the ALADI agreement contributed to a more efficient use of international reserves. At the end of the seventies this figure increased to nearly 75 percent of total payments and it reached its maximum during the eighties with approximately 90 percent. However, during the Nineties the portion of international foreign trade payments channeled through the ALADI decreased significantly, reaching only 16.6 percent in 1997. The Dominican Republic is the only country that still uses ALADI extensively. Between 1998 and 1999 its payment flows through ALADI increased 57 percent.

#### **7.4.2 Risks Controls**

There are bilateral net debit limits (used credit lines) among counterparties. If a party exceeds this limit, the debtor central bank must make prepayments to reduce the amount and maintain itself within the limit. In recent years, due to the favorable growth of international reserves several central banks have been making prepayments even in those cases in which the maximum debt limits were not exceeded.<sup>27</sup>

Since the end of the Sixties the BCRD has been using the mechanism in accordance with the limits established in the credit lines. Owing to Hurricane David and Storm Frederic, at the end of the seventies, the BCRD was forced to use the prerogatives of the Santo Domingo Agreement Mechanism, a part of the ALADI framework, to face transitory liquidity problems. The Dominican Republic had to import big volumes of goods creating debts that subsequently were re-negotiated.

On the other hand, in order to minimize the risks being undertaken by central banks by guaranteeing operations, in 1997 the ALADI members created the Future Commitments System (*Sistema de Compromisos a Futuro*), by which the operators must indicate in advance the operations they will enter into the system.

### **7.5 PRICING POLICIES**

Until today, the BCRD does not charge the participating banks for the clearing and settlement services it provides. Clearing and settlement direct and indirect costs of the cheque clearinghouse and those of outright payment transactions made by the BCRD are thus fully absorbed by the latter.

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<sup>27</sup> Like that, also the central banks reduce their financial costs if the debt balances are subject to the payment of interests.

## **8 SUPERVISION OF SECURITIES CLEARANCE AND SETTLEMENT SYSTEMS**

### **8.1 SECURITIES REGULATOR SUPERVISORY AND STATUTORY RESPONSIBILITIES**

The Superintendence of Securities (SIV) is empowered by the SML to regulate and supervise stock exchanges, commodities exchanges, brokerage houses, securities agents, the mutual and investment funds and their management firms. It also regulates and supervises securities issuers, risk rating companies, securitization companies and their issues, the firms offering CSD and securities clearinghouse services.

In its regulatory functions, the SIV may issue the general rules it deems necessary for the supervision, inspection and surveillance of all the entities related to the securities market. In its supervisory function, the SIV must verify that securities market institutions operate according to what established in the SML, its Regulation for implementation and the rules issued by the SIV itself, trying to identify and prevent any situations that could endanger their normal functioning.

The SIV may perform on site inspections to securities market participants. Inspections are classified as ordinary, special or investigation visits. The type of inspection will depend on the situation of the market and of the particular intermediaries. To carry out a visit the SIV must previously inform in writing the relevant individual(s) or firm(s).

#### **8.1.1 Responsibility over Stock and Commodities Exchanges**

In order to start operations, stock and commodities exchanges must be previously approved by the SIV.

The SIV must also approve their statutes, regulations, rules, manuals and operational systems, as well any further modifications.

The SIV can temporarily or permanently suspend the operations of stock exchanges, for which purpose it must previously obtain the no-objection from the Monetary Board.

#### **8.1.2 Responsibility over the Central Securities Depository**

The stock exchanges and other companies offering CSD services require the previous authorization of the SIV. They must provide various documents as, for example, their internal regulation, organic structure and the models of the contracts they intend to use with their clients.

On the other hand, these institutions must comply with specific requirements for operations start up. There are also special requirements for the systems and procedures through which securities transfers are to be made.

After receiving SIV approval, they must register themselves in the RMVP.

### **8.1.3 Sanction Capacity**

The SIV can establish qualitative and quantitative administrative sanctions to any individual or firm incurring in offenses. Depending on the seriousness of the infraction, the sanctions may go from the verbal warning, a private written warning, a public written warning, up to the suspension or cancellation of the activities and of the authorization to operate in the securities market.<sup>28</sup>

The SIV will apply its sanction powers independently of the occurrence of felonies and offenses of a penal nature, in which case the ordinary courts of law are responsible for establishing the corresponding sanctions according to what established in the SML.

## **8.2 SELF-REGULATORY ORGANIZATIONS SUPERVISORY AND STATUTORY RESPONSIBILITIES**

### **8.2.1 Stock Exchanges**

The SML states that the SIV may delegate in stock exchanges or commodities exchanges one or more of its supervisory powers over the members of such exchanges (*i.e.*, brokerage houses). Hence, as self-regulatory organizations the exchanges must regulate their activities and those of their associates and aim at achieving full compliance with such rules.

Below are some specific self-regulatory powers of stock exchanges:

- Authorize the representatives of brokerage houses to act as brokers in the trading sessions at the stock exchange.
- Prepare an ethics code to which all the members must adhere.
- Request the SIV to cancel the license of a brokerage house if the latter is not complying with any of the requirements established in the SML, its Regulations, or with the by-laws and regulations issued by the stock exchange itself.

### **8.2.2 Central Securities Depository**

Currently there is no CSD in the country. The SML does not establish self-regulatory powers for these institutions once they are created. Since stock exchanges may provide CSD services, it is unclear right now whether their self-regulatory powers described in the previous section could be extended to the provision of CSD services.

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<sup>28</sup> Previous authorization from the Monetary Board is required to suspend the operations of a stock exchange.



## APPENDIX: STATISTICAL TABLES

The first series (A) are payment and securities clearance and settlement statistics in the Dominican Republic. The second series (B) are more general statistics of the financial system.

Starting 2002, the Working Group on Payment System Issues of Latin America and the Caribbean (WGPI-LAC), has been working on a document on Comparative Statistical Tables on Payments and Securities Clearance and Settlement Systems for the Region's countries. For the latter, the statistical tables of individual countries are being updated periodically and may be reviewed at the WHI's web site: [www.ipho-whpi.org](http://www.ipho-whpi.org).

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**Table A1: Basic Statistical Data\***

	1998	1999	2000	2001	2002
Population (in thousands)	8,175	8,364	8,557	8,755	8,957
GDP (in USD million)	15,878	17,375	19,645	21,407	21,377
GDP per capita (in USD)	1,942.2	2,077.3	2,295.7	2,445.2	2,386.7
Interbank Exchange Rate vs. USD <sup>(a)</sup>					
<i>Year end</i>	15.48	15.92	16.53	16.97	17.76
<i>Year average</i>	15.24	16.02	16.38	16.89	18.53

Source: BCRD.

<sup>(a)</sup> The exchange rate reflects the average buy/sell price in the private and extra-bank markets, including transfers.

**Table A2: Settlement Media Used by Non-banks**  
(in RD\$ million, year-end)

	1998	1999	2000	2001	2002
Notes and Coins issued	15,658.9	23,152.1	19,640.3	21,646.3	24,439.9
<i>held by the public</i>	12,548.4	16,890.1	15,077.0	16,628.6	18,265.8
Transferable deposits in local currency	16,682.0	18,588.6	16,830.5	23,168.3	24,249.4
<i>Households<sup>(a)</sup></i>	13,729.5	14,489.0	12,947.3	16,137.9	16,985.0
Business sector					
<i>Others<sup>(b)</sup></i>	2,952.5	4,099.6	3,883.2	7,030.4	7,264.4
Narrow money supply M1	29,230.4	35,478.7	31,907.5	39,796.9	42,515.2
Transferable deposits in foreign currency	...	...	...	...	...
M2	72,627.3	90,088.4	102,301.9	132,707.5	146,698.9

Source: BCRD.

<sup>(a)</sup> Includes sight deposits of individuals and private sector firms.

<sup>(b)</sup> Sight deposits of government entities (Central Government, other public entities and local governments).

\* The following conventions for notation are used throughout the Statistical Appendix: "n.a." indicates data that are not available; "..." stands for data that are not applicable; "neg" (*i.e.* negligible) indicates where data are very small relative to other relevant data in the table concerned.

**Table A3: Settlement Media Used by Credit/Deposit Taking Institutions**  
(in RD\$ million, year-end)

	1998	1999	2000	2001	2002
Required reserves at the Central Bank					
<i>In local currency</i>	11,325.8	13,415.8	15,660.7	19,451.9	16,747.0
<i>In foreign currency (in USD million)</i>	0.0	62.2	910.0	141.8	170.9
of which, usable for settlement:					
<i>In local currency</i>	11,325.8	13,415.8	15,660.7	19,451.9	16,747.0
<i>In foreign currency (in USD million)</i>	0.0	0.0	0.0	0.0	0.0
Excess reserves at the Central Bank					
<i>In local currency</i>	1,653.1	0.0	1,327.9	1,014.6	2,505.7
<i>In foreign currency (in USD million)</i>	0.0	65.7	94.8	142.2	158.0
Loans granted to financial institutions	0.0	0.0	0.0	0.0	6,582.9
Transferable deposits at other entities	...	...	...	...	...

Source: BCRD.

**Table A4: Institutional Framework**  
(as of end April 2002)

	Number of Institutions	Number of Branches <sup>(a)</sup>	Number of Accounts	Value of Account (in RD\$ million)
Monetary Banking Entities <sup>(b)</sup>	14	662	n.a.	144,313
Multiple Banks	14	662	n.a.	144,313
of which:				
<i>State-owned banks</i>	1	119	n.a.	32,603
<i>National private banks</i>	11	519	n.a.	101,068
<i>Foreign private banks</i>	2	24	n.a.	7,642
Non-Monetary Banking Entities	134	227	n.a.	40,581
of which:				
<i>State-owned</i>	5	32	n.a.	3,056
<i>National private entities</i>	129	194	n.a.	37,430
<i>Foreign private entities</i>	2	1	n.a.	95

Sources: BCRD and Superintendence of Banks.

<sup>(a)</sup> Does not include headquarters.

<sup>(b)</sup> The number of branches stands for "approved" offices. These figures include 81 offices still not opened for service to the public.

**Table A5: Bank Notes and Coins**  
(in RD\$ million, year-end)

	1998	1999	2000	2001	2002
Notes and coins in circulation	15,658.9	23,152.1	19,640.3	21,646.3	24,439.9
<i>of which:</i>					
Total notes issued	15,558.2	23,078.5	19,564.3	21,569.9	24,363.6
Total coins issued	70.7	73.6	76.0	76.4	76.3
Notes and coins held by the public	3,100.5	6,240.9	4,545.8	5,006.3	6,154.5
Notes and coins held outside banks	12,487.7	16,837.6	15,018.5	16,563.6	18,209.1

Source: BCRD.

**Table A6: Cash Dispensers, ATMs and EFTPOS Terminals**  
(year-end)

	1998	1999	2000	2001	2002
<b>Cash dispensers and ATMs</b>					
Number of networks	2	2	2	2	2
Number of terminals	405	712	962	1,130	1,306
Volume of transactions (in millions)	16.5	23.7	33.1	41.7	47.1
Value of transactions (billions of pesos)	n.a.	n.a.	n.a.	n.a.	n.a.
<b>EFTPOS:</b>					
Number of points of sale	n.a.	n.a.	n.a.	n.a.	n.a.
Number of terminals	n.a.	41,104	n.a.	27,115	9,135
Volume of transactions	n.a.	n.a.	n.a.	n.a.	n.a.
Value of transactions	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: ATH Dominicana and Bancredito (BTH).

**Table A7: Number of Payment Cards in Circulation**  
(year-end)

	1998	1999	2000	2001	2002
Cards with a cash function (in thousands)	583,000	1,300,000	1,760,000	2,000,000	n.a.
Cards with a debit/credit function (in thousands)					
<i>of which:</i>					
<i>Debit cards</i> <sup>(a)</sup>	583,000	1,300,000	1,760,000	2,000,000	n.a.
<i>Credit cards</i>	664,009	934,869	875,487	1,234,476	1,459,327
Card with a cheque-guarantee function	...	...	...	...	...
Retailer and fidelity cards	n.a.	n.a.	n.a.	n.a.	n.a.
Stored-value cards	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: ATH Dominicana, Bancredito (BTH) and card issuers.

<sup>(a)</sup> Estimate.

**Table A8: Indicators of Use of Various Cashless Payment Instruments**  
(volume of transactions, in millions)

	1998	1999	2000	2001	2002
Cheques issued <sup>(a)</sup>	55.1	61.6	69.1	74.5	82.0
<i>In local currency</i>	55.1	61.6	69.1	74.5	82.0
<i>In foreign currency</i>	...	...	...	...	...
Payment Cards					
<i>Debit</i>	16.5	23.7	33.1	41.7	47.1
<i>Credit</i>	n.a.	n.a.	n.a.	n.a.	n.a.
Paper-based credit transfers	n.a.	n.a.	n.a.	n.a.	n.a.
Paperless credit transfers	...	...	...	...	...
Direct Debits	...	...	...	...	...
E-money	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: BCRD, ATH Dominicana and Bancredito (BTH).

<sup>(a)</sup> Includes "on us" cheques as well as cheques exchanged at the clearinghouse. For years 1999, 2000 and 2001, the data on cheques are estimates.

**Table A9: Indicators of Use of Various Cashless Payment Instruments**  
(value of transactions, in RD\$ billion)

	1998	1999	2000	2001	2002
Cheques issued <sup>(a)</sup>					
<i>In local currency</i>	1,192	1,395	1,624	1,924	2,096
<i>In foreign currency</i>	...	...	...	...	...
Payment Cards					
<i>Debit</i>	2.1	2.9	3.6	4.5	5.1
<i>Credit</i>	n.a.	n.a.	n.a.	n.a.	5.3
Paper-based credit transfers	n.a.	n.a.	n.a.	n.a.	n.a.
Paperless credit transfers	...	...	...	...	...
Direct Debits	...	...	...	...	...
E-money	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: BCRD, ATH Dominicana and Bancredito (BTH).

<sup>(a)</sup> Includes "on us" cheques as well as cheques exchanged at the clearinghouse.

**Table A10: Payment Instructions Handled by Selected Interbank Transfer Systems**  
(volume of transactions, in millions)

	1998	1999	2000	2001	2002
Cheque clearinghouse	26.1	26.6	27.1	26.5	26.3

Source: BCRD.

**Table A11: Payment Instructions Handled by Selected Interbank Transfer Systems**  
(value of transactions, RD\$ billion)

	1998	1999	2000	2001	2002
Cheque clearinghouse	527	623	753	855	915

Source: BCRD.

**Table A12: Securities and Accounts Registered at the Central Securities Depositories**

At the moment this Report was prepared, there was no Central Securities Depository in operation in the Dominican Republic.

**Table A13: Transfer Instructions Handled by Securities Settlement Systems**  
(volume of transactions)

At the moment this Report was prepared, there was no centralized system for the settlement of securities.

**Table A14: Transfer Instructions Handled by Securities Settlement Systems**  
(value of transactions)

At the moment this Report was prepared, there was no centralized system for the settlement of securities.

**Table A15: Participation in SWIFT by Domestic Institutions**

	1998	1999	2000	2001	2002
Domestic SWIFT users	9	9	10	10	13
<i>Of which:</i>					
Members	6	5	5	5	5
Sub-members	1	1	1	1	1
Participants	2	3	4	4	7
<i>Memo:</i>					
SWIFT users worldwide	6,557	6,797	7,125	7,199	7,431
<i>Of which:</i>					
Members	2,980	2,214	2,288	2,241	2,217
Sub-members	2,720	2,763	2,978	3,027	3,130
Participants	857	1,820	1,859	1,931	2,254

Source: SWIFT.

**Table A16: SWIFT Message Flows To / From Domestic Users**

	1998	1999	2000	2001	2002 <sup>(a)</sup>
Total messages sent	n.a.	n.a.	n.a.	n.a.	n.a.
<i>Of which:</i>					
<i>Category I</i>					
<i>Category II</i>					
Total messages received	n.a.	n.a.	n.a.	n.a.	n.a.
<i>Of which:</i>					
<i>Category I</i>					
<i>Category II</i>					
Total domestic traffic	n.a.	n.a.	n.a.	n.a.	n.a.
<i>Memo:</i> Global SWIFT traffic	937,039,995	1,076,490,597	1,298,668,103	1,533,906,047	1,342,159,454

Source: SWIFT.

<sup>(a)</sup> Data as of September.

**Table B1: Number of Financial Entities**

	1998	1999	2000	2001	2002
Financial system total	187	172	165	156	149
Monetary Banking Entities Total	14	15	15	12	14
<i>Public</i>	1	1	1	1	1
<i>Private</i>	13	14	14	11	13
<i>Domestic</i>	12	13	13	10	12
<i>Foreign</i>	2	2	2	2	2
Non-Monetary Banking Entities Total	173	157	150	144	135
<i>Public</i>	5	5	5	5	5
<i>Private</i>	168	152	145	139	130
<i>Domestic</i>	172	156	149	143	133
<i>Foreign</i>	1	1	1	1	2

Source: Superintendencia of Banks.

**Table B2: Assets**  
(in RD\$ million)

	1998	1999	2000	2001	2002
Financial system total	121,527.5	147,454.1	179,592.9	222,034.7	254,610.7
Monetary Banking Entities Total	88,047.8	106,611.9	132,036.0	164,575.3	194,707.2
<i>Public</i>	19,918.2	23,568.9	26,597.5	33,673.9	44,169.0
<i>Private</i>	68,129.6	83,043.0	105,438.5	130,901.4	150,538.2
<i>Domestic</i>	81,500.2	98,665.1	122,352.7	154,952.6	183,446.6
<i>Foreign</i>	6,547.6	7,946.8	9,683.3	9,622.7	11,260.6
Non-Monetary Banking Entities Total	33,479.7	40,842.2	47,556.9	57,459.4	59,903.5
<i>Public</i>	5,544.2	6,329.2	6,944.1	7,937.6	9,970.5
<i>Private</i>	27,935.5	34,513.0	40,612.8	49,521.8	49,933.0
<i>Domestic</i>	33,467.9	40,832.8	47,547.0	57,448.9	59,783.5
<i>Foreign</i>	11.8	9.5	9.9	10.5	120.0

Source: Superintendencia of Banks.

**Table B3: Deposits**  
(in RD\$ million)

	1998	1999	2000	2001	2002
Financial system total	86,209.1	104,980.5	128,017.1	165,982.3	184,893.7
Monetary Banking Entities Total	63,458.9	76,673.8	95,139.8	125,350.5	144,313.1
<i>Public</i>	12,536.3	14,996.9	18,126.4	24,832.8	32,603.4
<i>Private</i>	50,922.6	61,676.9	77,013.4	100,517.7	111,709.7
<i>Domestic</i>	58,685.3	70,832.5	88,423.9	118,664.4	136,671.5
<i>Foreign</i>	4,773.6	5,841.3	6,715.9	6,686.1	7,641.6
Non-monetary Banking Entities Total	22,750.2	28,306.7	32,877.3	40,631.8	40,580.6
<i>Public</i>	2,197.5	2,224.7	2,322.7	2,728.1	3,056.0
<i>Private</i>	20,552.7	26,082.0	30,554.6	37,903.7	37,524.7
<i>Domestic</i>	22,750.2	28,306.7	32,877.3	40,631.8	40,486.0
<i>Foreign</i>	neg	neg	neg	neg	94.6

Source: Superintendencia of Banks.

**Table B4: Loans**  
(in RD\$ million)

	1998	1999	2000	2001	2002
Financial system total	56,178.6	70,957.1	85,235.4	112,413.5	132,180.7
Monetary Banking Entities Total	50,622.9	64,899.7	78,803.5	105,144.6	124,363.7
<i>Public</i>	9,717.4	13,146.9	15,316.4	20,532.3	25,621.7
<i>Local currency</i>	9,626.5	12,510.0	14,287.8	18,719.8	21,954.7
<i>Foreign currency</i>	90.9	636.9	1,028.6	1,812.5	3,667.0
<i>Private</i>	40,905.5	51,752.8	63,487.1	84,612.3	98,742.0
<i>Local currency</i>	33,664.1	39,783.8	44,387.0	57,969.3	62,384.7
<i>Foreign currency</i>	7,741.4	11,969.0	19,100.1	26,643.0	36,357.3
Non-Monetary Banking Entities Total	5,555.7	6,057.4	6,431.9	7,268.9	7,817.0
<i>Public</i>	2,271.4	2,404.7	2,671.0	3,172.1	3,734.0
<i>Local currency</i>	2,271.4	2,404.7	2,671.0	3,172.1	3,734.0
<i>Foreign currency</i>	...	...	...	...	...
<i>Private</i>	3,284.3	3,652.7	3,761.0	4,096.8	4,083.0
<i>Local currency</i>	3,283.4	3,652.7	3,761.0	4,056.9	4,030.3
<i>Foreign currency</i>	0.9	neg	neg	39.8	52.7

Source: Superintendencia of Banks.

**Table B5: Equity**  
(in RD\$ million)

	1998	1999	2000	2001	2002
Financial system total	9,338.55	11,244.00	13,348.84	16,736.81	19,392.44
Monetary Banking Entities Total	5,818.1	7,214.2	8,733.0	11,457.4	13,890.4
<i>Public</i>	250.0	250.0	250.0	2,000.0	2,000.0
<i>Private</i>	5,568.1	6,964.2	8,483.0	9,457.4	11,890.4
<i>Domestic</i>	5,553.1	6,701.2	8,186.5	10,851.4	13,225.5
<i>Foreign</i>	265.0	513.0	546.5	604.9	664.9
Non-monetary Banking Entities Total	3,520.5	4,029.8	4,615.8	5,279.4	5,502.0
<i>Public</i>	693.3	693.3	693.3	692.6	698.4
<i>Private</i>	2,827.2	3,336.5	3,922.5	4,586.8	4,803.7
<i>Domestic</i>	3,511.7	4,021.0	4,607.0	5,270.6	5,458.9
<i>Foreign</i>	8.8	8.8	8.8	8.8	43.1

Source: Superintendencia of Banks.

**Table B6: Debt Issues Outstanding in International Capital Markets**  
(as of January 2003)

<i>Date of Issue</i>	<i>Issue</i>	<i>Rate (in %)<sup>(a)</sup></i>	<i>Maturity (in years)</i>	<i>Amount (in USD million)</i>	<i>Spread (in basis points)<sup>(b)</sup></i>
30/08/1994	PDI	LIBOR + 81.25	15	191.3	n.a.
30/08/1994	DISC	LIBOR + 81.25	30	328.5	n.a.
20/09/2001	SOVEREIGN 2006	9.50	5	500.0	569 bp
16/01/2003	SOVEREIGN 2013	9.04	10	600.0	493 bp

Source: Bloomberg.

<sup>(a)</sup> Six-month LIBOR rate.

<sup>(b)</sup> Spread versus US Treasuries at the date of issue.

## LIST OF ABBREVIATIONS

ACH	Automated Clearing House
ADRs	American Depository Receipts
AFP	<i>Administradoras de Fondos de Pensiones</i> (Pension Funds Management Firms)
ALADI	<i>Asociación Latinoamericana de Integración</i> (Latin American Association for Integration)
ALALC	<i>Asociación Latinoamericana de Libre Comercio</i> (Latin American Free Trade Association)
ARS	<i>Administradoras de Riesgos de Salud</i> (Health Risks Management Firms)
ATH	<i>A Toda Hora Dominicana, S.A.</i>
ATM	Automated Teller Machine
BCRD	<i>Banco Central de la República Dominicana</i> (Central Bank of the Dominican Republic)
BIS	Bank for International Settlements
BNV	<i>Banco Nacional de la Vivienda</i> (National Housing Bank)
BVRD	<i>Bolsa de Valores de la República Dominicana, S.A.</i> (Dominican Republic Stock Exchange)
CAMELS	Capital, Assets, Management, Earnings, Liquidity, Sensibility to Market Risks
CCP	Central Counterparty
CEPAL	<i>Comisión Económica para América Latina y el Caribe</i> (Economic Commission for Latin America and the Caribbean)
CEVALDOM	<i>Central de Valores Dominicana</i> (Dominican Central Securities Depository)
CICAD	<i>Comisión Interamericana Contra el Abuso de Drogas</i> (Inter-American Commission Against Drug Abuse)
CNSS	<i>Consejo Nacional de Seguridad Social</i> (National Social Security Council)
CODETEL	<i>Compañía Dominicana de Teléfonos</i> (Dominican Telephone Company)
COMA	<i>Comité de Mercado Abierto</i> (Open Markets Committee)
CONTADO	<i>Consortio de Tarjetas Dominicanas, S.A.</i> (Dominican Cards Corporation)
CPI	Consumer Price Index
CPSIPS	Core Principles for Systemically Important Payment Systems
CPSS	Committee on Payment and Settlement Systems
CSD	Central Securities Depository
DEFINPRO	<i>Desarrollo y Financiamiento de Proyectos</i> (Project Development and Financing)
DNS	Deferred Net Settlement

DVP	Delivery versus Payment
EFTPOS	Electronic Funds Transfer at the Point of Sale
FDI	Foreign Direct Investment
FATF	Financial Action Task Force
FIDE	<i>Fondo de Inversiones para el Desarrollo Económico</i> (Investment Fund for Economic Development)
GDP	Gross Domestic Product
IAS	International Accounting Standards
IDSS	<i>Instituto Dominicano de Seguridad Social</i> (Dominican Social Security Institute)
INDOTEC	<i>Instituto Dominicano de Tecnología</i> (Dominican Technological Institute)
INFRATUR	<i>Fondo Especial para la Infraestructura Turística</i> (Special Fund for Tourism Infrastructure)
ISIN	International Securities Industry Numbering
ITBIS	<i>Impuesto a la Transferencia de Bienes Industrializados y de Servicios</i> (Tax on the Transfer of Industrialized Goods and Services)
LMF	<i>Ley Monetaria y Financiera</i> (Monetary and Financial Law)
MIC	<i>Manejo Individualizado de Cuentas</i> (Individualized Administration of Accounts)
NACHA	National Automated Clearing House Association
OAS	Organization of American States
ONAPRES	<i>Oficina Nacional de Presupuesto</i> (National Budget Bureau)
OMOs	Open Market Operations
OTC	Over-the-Counter
POS	Point of Sale
PVP	Payment versus Payment
PRISS	<i>Patronato de Recaudo e Informática de la Seguridad Social</i> (Social Security Fund for Collection and Information)
PROAGRA	<i>Programa de Administración, Gestión y Realización de Activos</i> (Asset Administration, Management and Realization Program)
PSS	<i>Proveedoras de Servicios de Salud</i> (Health Services Suppliers)
RMVP	<i>Registro del Mercado de Valores y Productos</i> (Securities and Products Market Registry)
RNC	<i>Registro Nacional del Contribuyente</i> (National Tax Registry)
RTGS	Real Time Gross Settlement
SBL	<i>Sistema Bancario en Línea</i> (On-line Banking System)

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SDSS	<i>Sistema Dominicano de Seguridad Social</i> (Dominican Social Security System)
SIB	<i>Superintendencia de Bancos</i> (Superintendence of Banks)
SICAP	<i>Sistema Computarizado de Apoyo al Convenio de Pagos y Créditos Recíprocos de ALADI</i> (Automated System Supporting the ALADI Reciprocal Payments and Credits Agreement)
SIGEF	<i>Sistema Integrado de Gestión Financiera y Control del Sector Público</i> (Integrated System for the Control and Financial Management of the Public Sector)
SINE	<i>Sistema Interconectado de Negociaciones Electrónicas</i> (Interconnected System for Electronic Trading)
SIPEN	<i>Superintendencia de Pensiones</i> (Superintendence of Pensions)
SIV	<i>Superintendencia de Valores</i> (Superintendence of Securities)
SML	Securities Market Law
SNS	<i>Seguro Nacional de Salud</i> (National Health Insurance)
STEPACH	<i>Servicio de Transacciones Electrónicas Preautorizadas Tipo ACH</i> (ACH-type Preauthorized Electronic Transactions Service)
STP	Straight Through Processing
SWIFT	Society for Worldwide Interbank Financial Telecommunication
USA	United States of America

## GLOSSARY

In January 2001, the Committee on Payment and Settlement Systems (CPSS) of the Bank for International Settlements (BIS) published a combined glossary for payments and securities clearance and settlement terms. The Glossary can be found on the BIS web site: [www.bis.org](http://www.bis.org). The Western Hemisphere Payments and Securities Clearance and Settlement Initiative (WHI), on the basis of the glossary produced by the CPSS, also produced a uniform glossary of terms in Spanish in order to avoid unnecessary proliferation of terminology and definitions. The latter can be found at the WHI's web site: [www.ipho-whpi.org](http://www.ipho-whpi.org).

Below are some terms not mentioned in that Glossary and/or that are peculiar to the Dominican context:

<i>Originating Institution:</i>	user institution that may send payment files to an ACH, either on its own behalf or on behalf of the originator.
<i>Originator:</i>	customer of an originating institution who uses payment services and produces instructions to be executed by the receiving institution.
<i>Payments System:</i>	the set of payment systems in a country.
<i>Receiving Institution:</i>	user institution that receives from an ACH the payment files containing information on debits or credit to be applied to its customers' accounts.
<i>Receiver:</i>	is the final person or firm who receives a debit or credit in his account, according to the instructions sent by the originating institution.
<i>Securitization:</i>	in general is referred to the process through which the value of an illiquid financial asset is transformed into negotiable securities. The SML of the Dominican Republic defines "securitization" ( <i>titularización</i> ) as the process through which a trust is constituted to support the payment of the rights given to the holders of the issued securities. It also encompasses the transfer of assets to this trust and the issue of the corresponding securities.
<i>Underwriting:</i>	the process through which a financial intermediary, generally a brokerage house or investment bank, that place securities in the market guarantees a minimum price to the issuer of the securities.

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