



# Resilience in Critical Payments and Settlement Systems

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# Agenda

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- Background
- Integrated nature of the system
- Limitations of traditional approach
- U.S. policy development and response
- Sound practices in the U.S. to support critical markets
- Evolving risks and challenges



# Background

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- Resiliency and business continuity are traditional issues for financial firms
- Y2K, 9/11, and an on-going string of incidents and risks have raised sensitivity
- National and international policies and coordination have grown significantly
- Continuing developments in this area



# Integrated nature of the “system”

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- Interdependencies
  - Geographic and financial concentrations
  - Complex, interrelated business processes and systems
  - Tremendous volumes and values, often managed by “straight-through processing”
- Challenges
  - Individual plans for different stresses/scenarios
    - Long-lasting/regional vs. temporary/local
    - Financial utilities and key firms
  - Compatibility and testing of plans across institutions and markets



# Limitations of traditional approach

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- Primary-backup model
  - Geared to localized firm-specific disruptions
- Inherent dependency on key people
  - Relocating critical staff to backup site
- Emphasizes geographic proximity of back-up
  - Minimize relocation/recovery time



# U.S. policy development and response

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- Consultations with financial market utilities, banks, and securities firms
  - Business continuity objectives
  - Business continuity experience, risks, and risk management
  - Need for consistent guidance to support compatibility of plans and actions
- Sound Practices
  - Interagency Paper on Sound Practices to Strengthen the Resilience of the U.S. Financial System (April 2003)



# Sound Practices in the U.S.

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- Objectives
  - Rapid recovery from wide-scale disruption and loss/inaccessibility of staff
  - High confidence through use or testing
- Critical markets
  - Fed funds, FX, commercial paper
  - Government debt, corporate debt and equities
- Application
  - Large value payment and securities systems
  - Clearance and settlement of material transactions
  - End of day funding
  - Risk management activities
  - Key data and records



# Sound Practices: Main Requirements

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- Identify critical activities
- Determine recovery/resumption objective (e.g., intraday recovery targets)
- Maintain sufficient geographically dispersed resources
- Routinely use or test arrangements





# Central Bank Systems

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- Central bank large-value payment and securities settlement systems
  - Typically crucial to settlements for critical markets and “ancillary systems”
- *Sound Practices* are a key reference point; but central bank systems may need to meet a higher standard



# Evolving Risks and Challenges

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- Telecom and other infrastructure dependencies
- International interdependencies and opportunities
- Information security
- Pandemic risks