



BANCO CENTRAL DO BRASIL

**Oversight of Payments and
Securities Settlement Systems by Central Banks in
Latin America and the Caribbean**

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Amsterdam

Payments Week – October, 2010

Introduction

- **Objective**
 - diagnose the practices of oversight of payment and securities settlement systems throughout the Region
- **Survey**
 - questionnaires were sent to selected countries
 - 33 countries in Latin America and the Caribbean
 - 19 CBs Members of the Western Hemisphere Payments and Securities Settlement Forum
 - 15 CBs answered the questionnaires

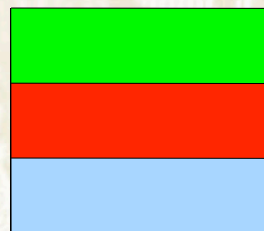
Introduction

- **The structure of the questionnaire**
 - I. Basic information
 - II. The basis of oversight responsibilities
 - III. Determining the scope of oversight
 - IV. Oversight standards
 - V. Systemic importance
 - VI. Transparency
 - VII. Monitoring
 - VIII. Assessment
 - IX. Inducing changes
 - X. Organization of the oversight function
 - XI. International cooperation
 - XII. Cooperation with other institutions

Introduction

- **Methodology**

- in order to obtain more precise information, questions should have been answered with the greatest detail possible;
- comments were expected, even for questions with multiple choices;
- for questions with multiple choices, more than one alternative should have been checked if that contributes to clarity;
- the answers were classified into 3 categories:



observed
non-observed
non-informed

Introduction

Oversight of payment and settlement systems is a central bank function whereby the objectives of safety and efficiency are promoted by monitoring existing and planned systems, assessing them against these objectives and, where necessary, inducing change

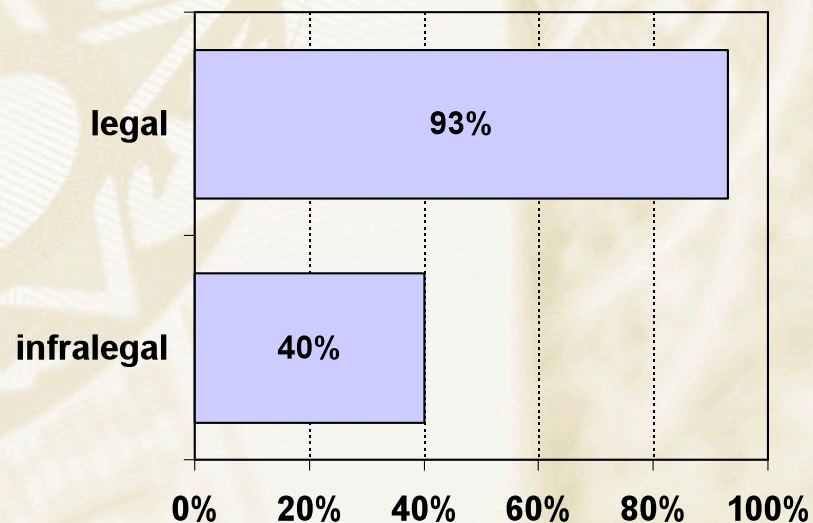
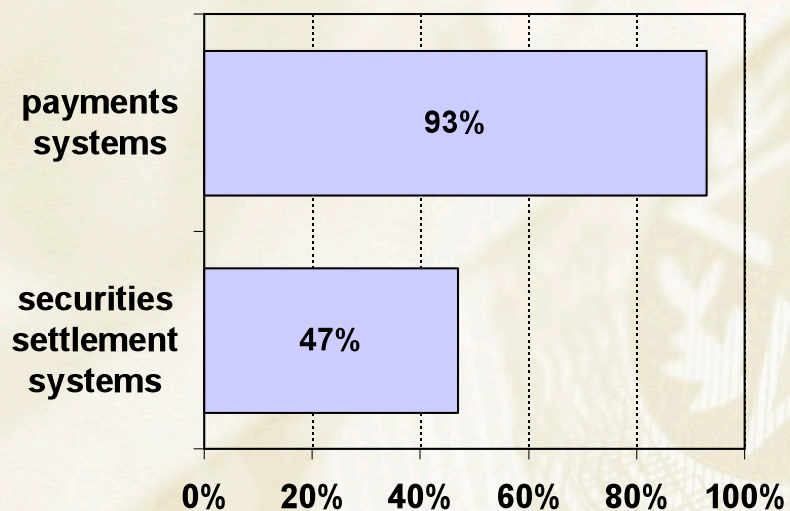
(Central bank oversight of payment and settlement systems, BIS, 2005)

I – Basic Information

| | Number of Systems | | | Number of Transactions (daily average) | | | Turnover (daily average – in US\$ million) | | |
|------------------|-------------------|---------|---------|-------------------------------------------|------------|---------|-----------------------------------------------|---------|---------|
| | most frequent | maximum | minimum | average | maximum | minimum | average | maximum | minimum |
| RTGS | 1 | 5 | 1 | 39.407 | 423.092 | 42 | 18.842 | 242.273 | 4 |
| Retail | 3 | 4 | 1 | 2.563.567 | 29.108.763 | 47 | 638 | 4.536 | 1 |
| Securities | 2 | 6 | 0 | 38.455 | 408.864 | 0 | 13.145 | 165.346 | 0 |
| Foreign currency | 0 | 1 | 0 | 704 | 2.468 | 0 | 3.751 | 15.000 | 0 |
| Derivatives | 0 | 1 | 0 | 28.735 | 28.735 | 28.735 | 1 | 1 | 1 |
| Global | 5 | 13 | 1 | 2.482.632 | 29.799.189 | 1.075 | 24.610 | 254.992 | 26 |

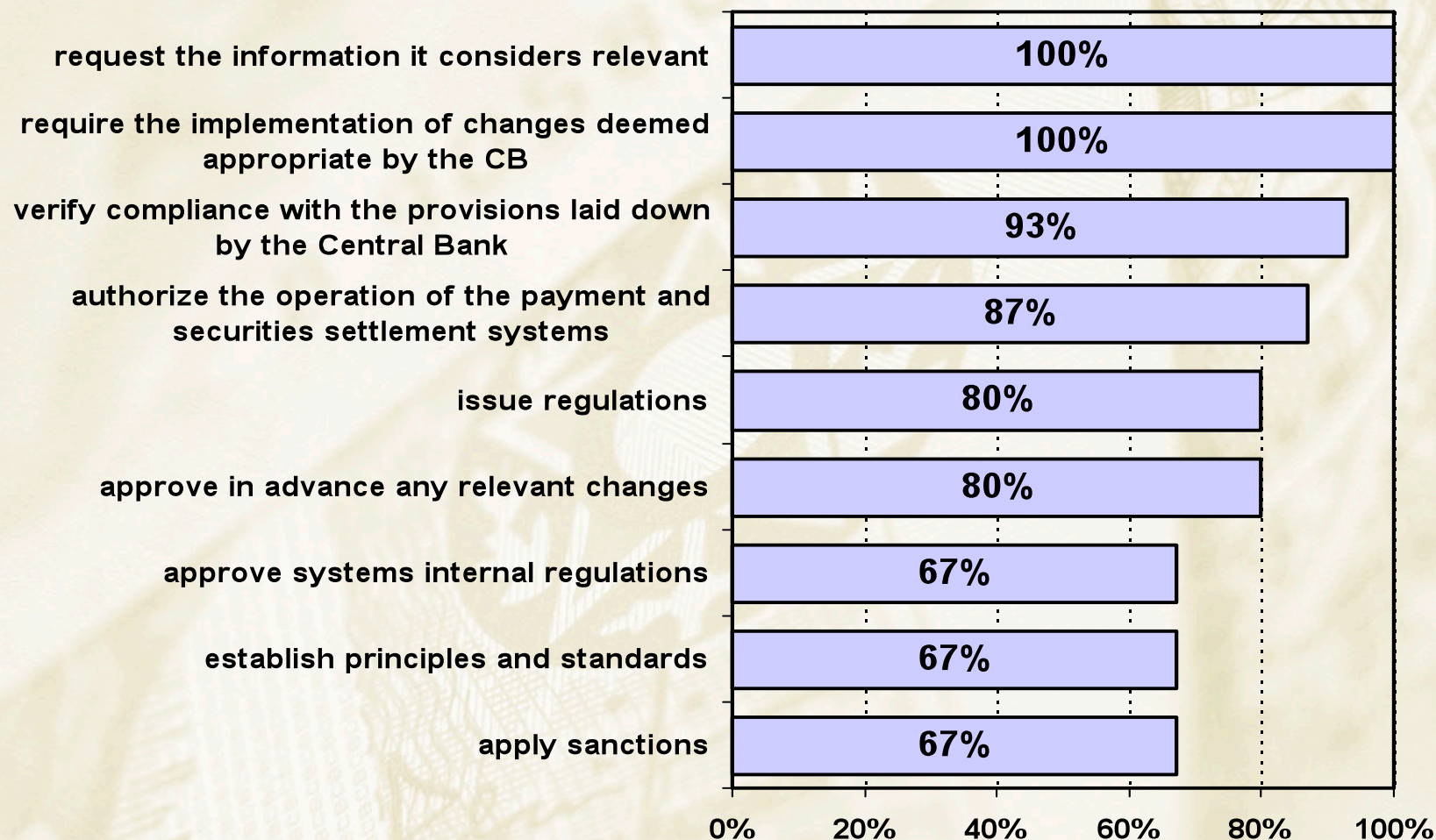
II – The basis of oversight responsibilities

- The exercise of the function of oversight
 - Formal mandate for
 - Hierarchical level of the mandate



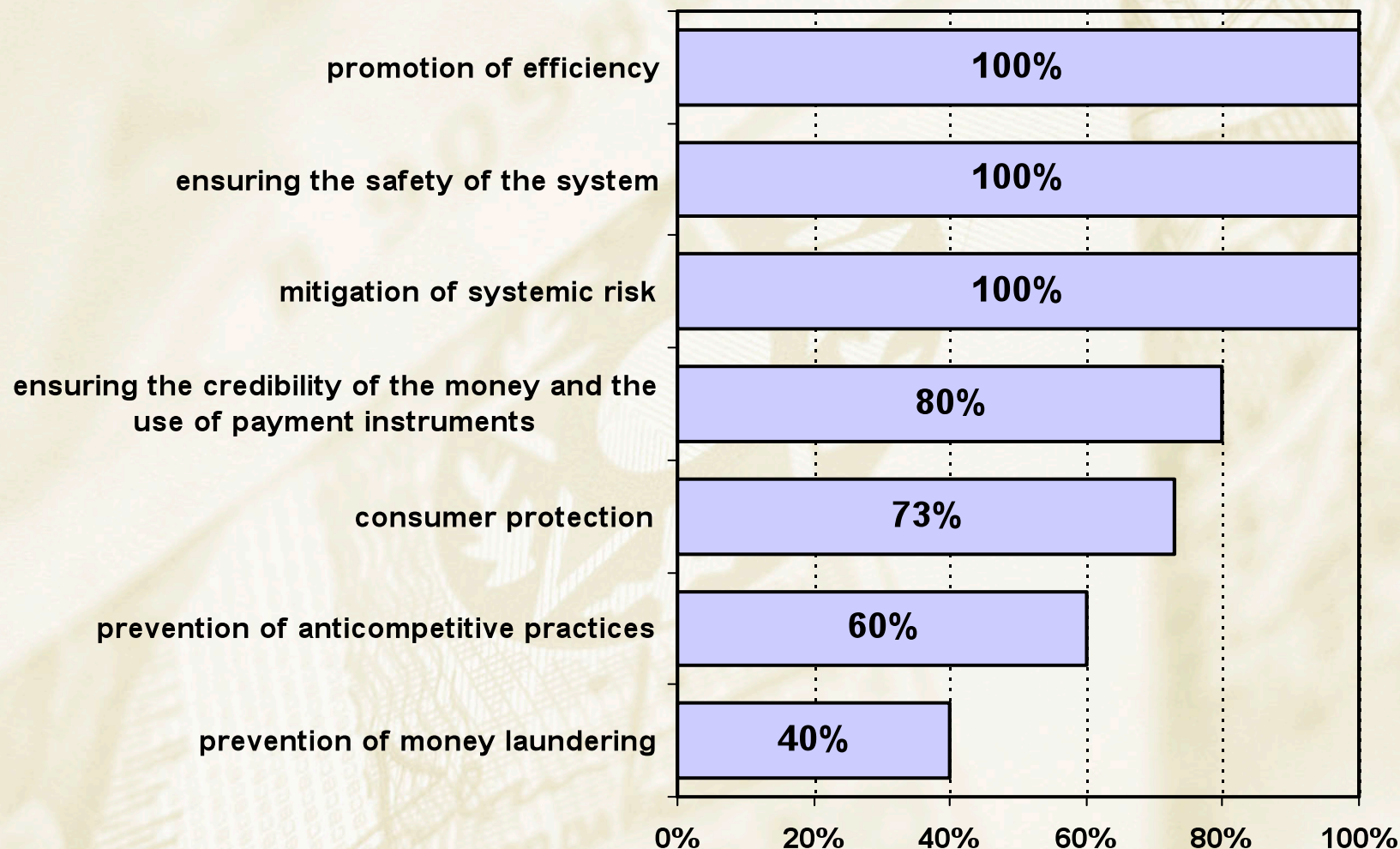
II – The basis of oversight responsibilities

- Powers granted to the Central Bank**



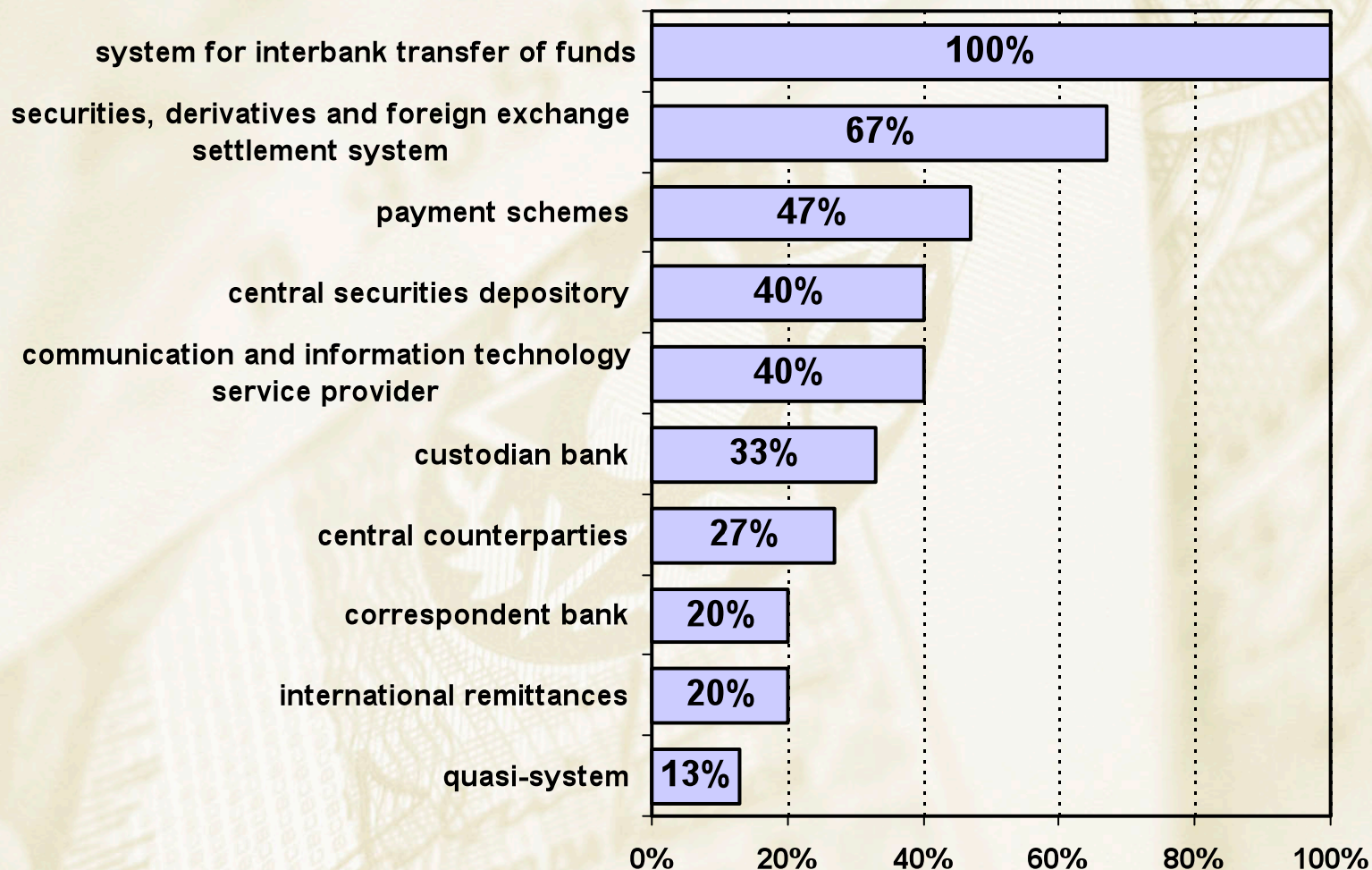
II – The basis of oversight responsibilities

- Objectives pursued by the CB in exercising the oversight



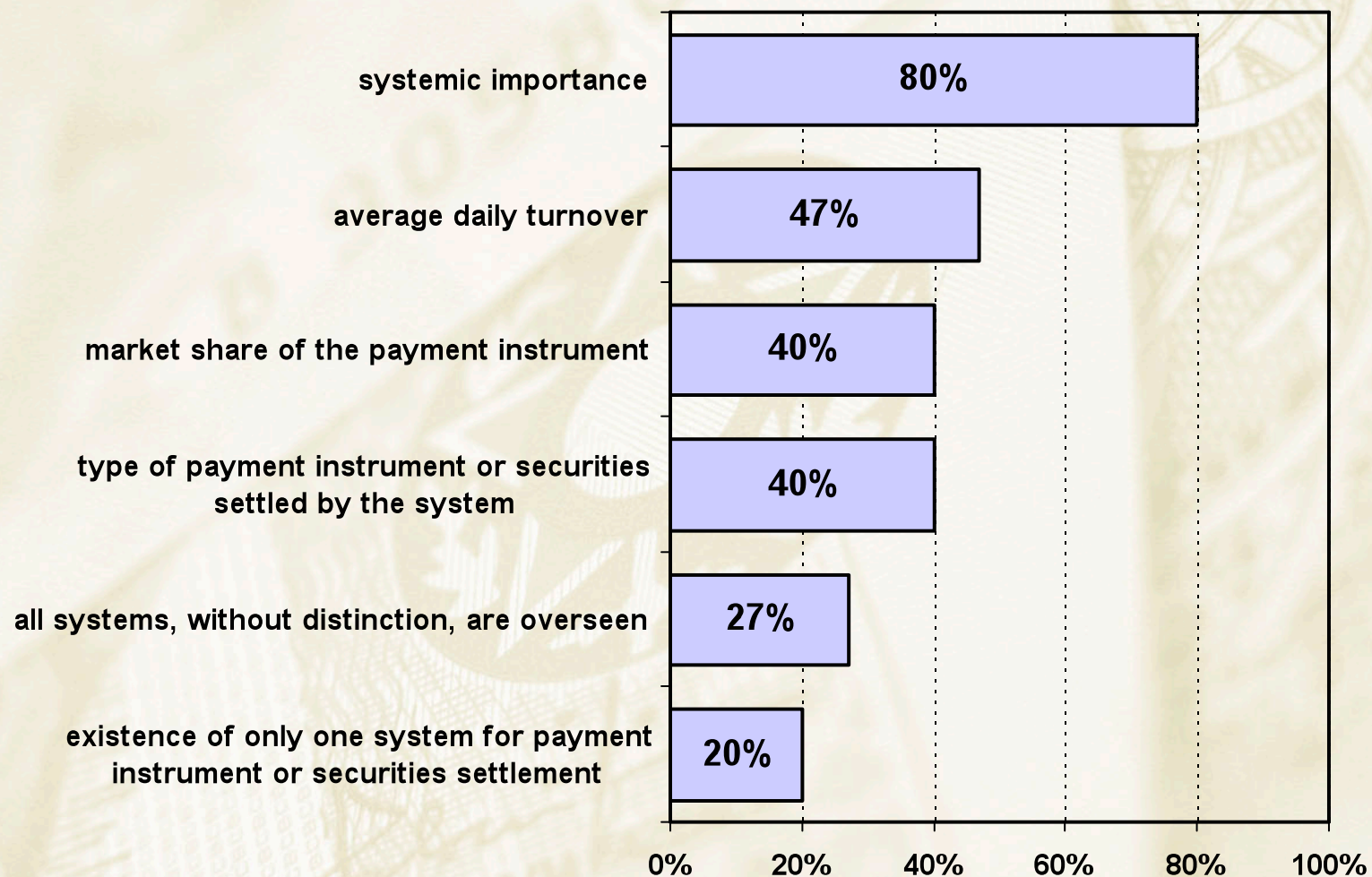
III – Determining the scope of oversight

- Systems and participants subject to the oversight by the Central Bank



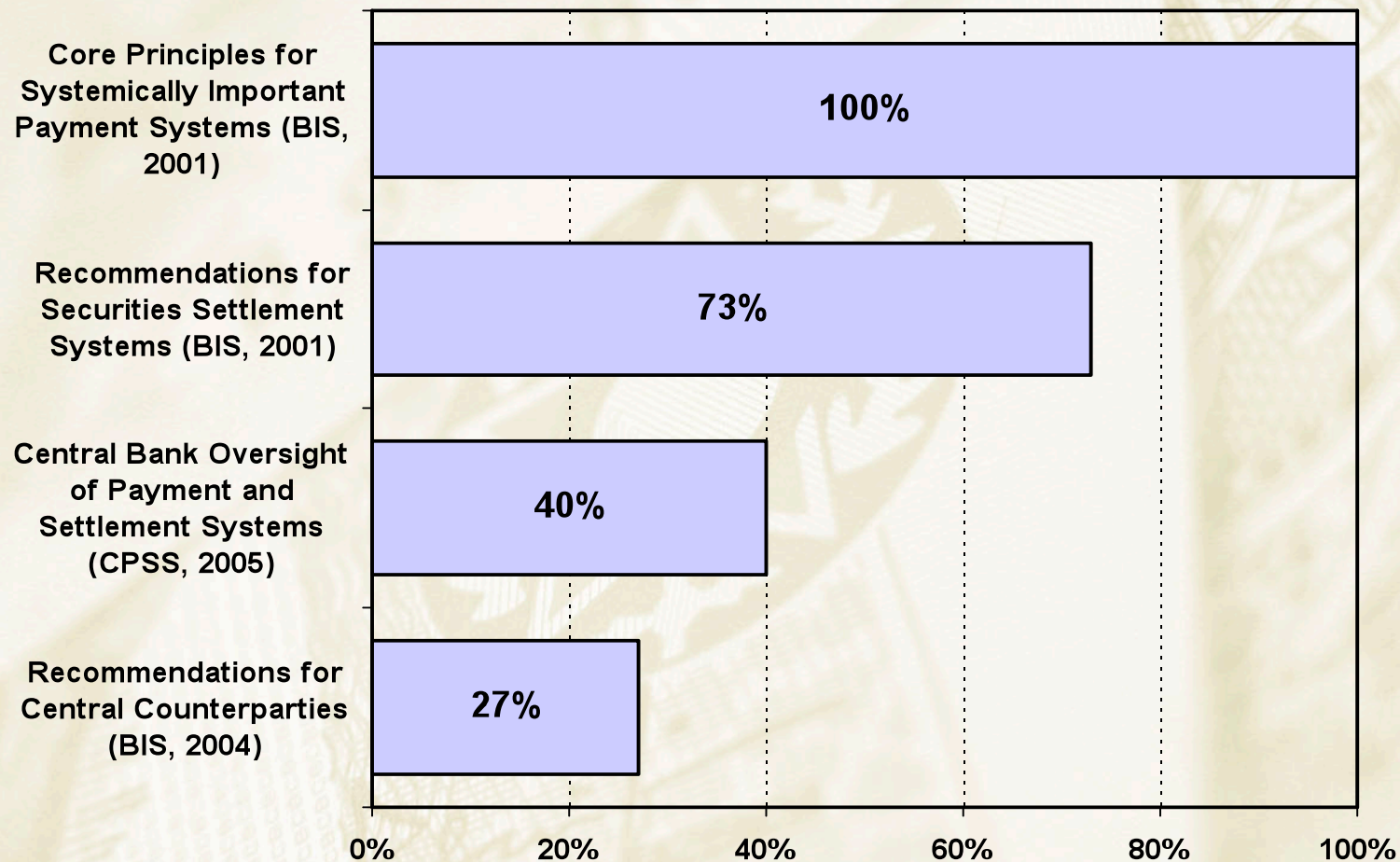
III – Determining the scope of oversight

- Criteria used by the Central Bank



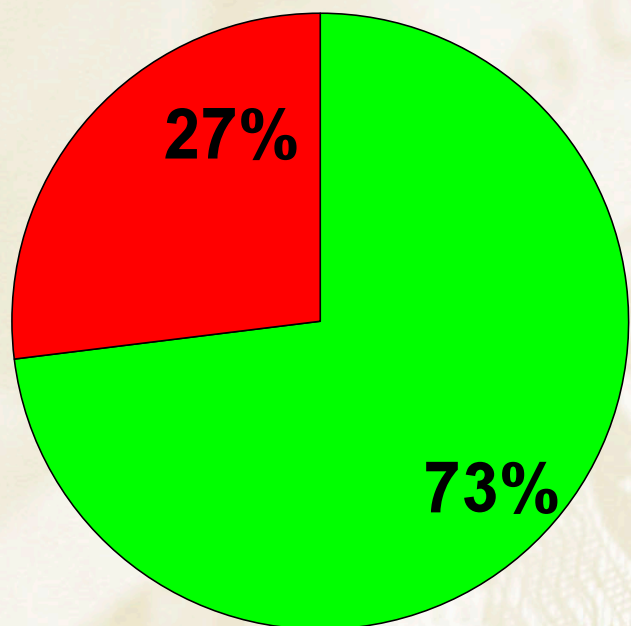
IV – Oversight standards

- Standards adopted by the Central Bank

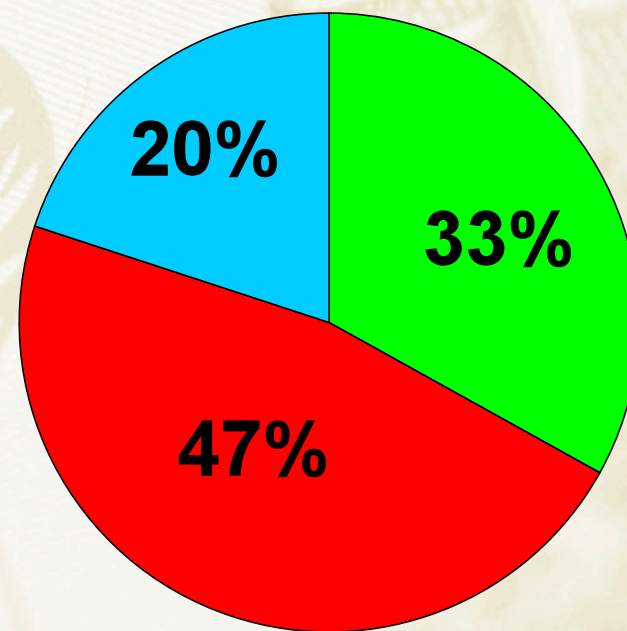


IV – Oversight standards

Consistency on the adoption of standards in private and CB operated systems



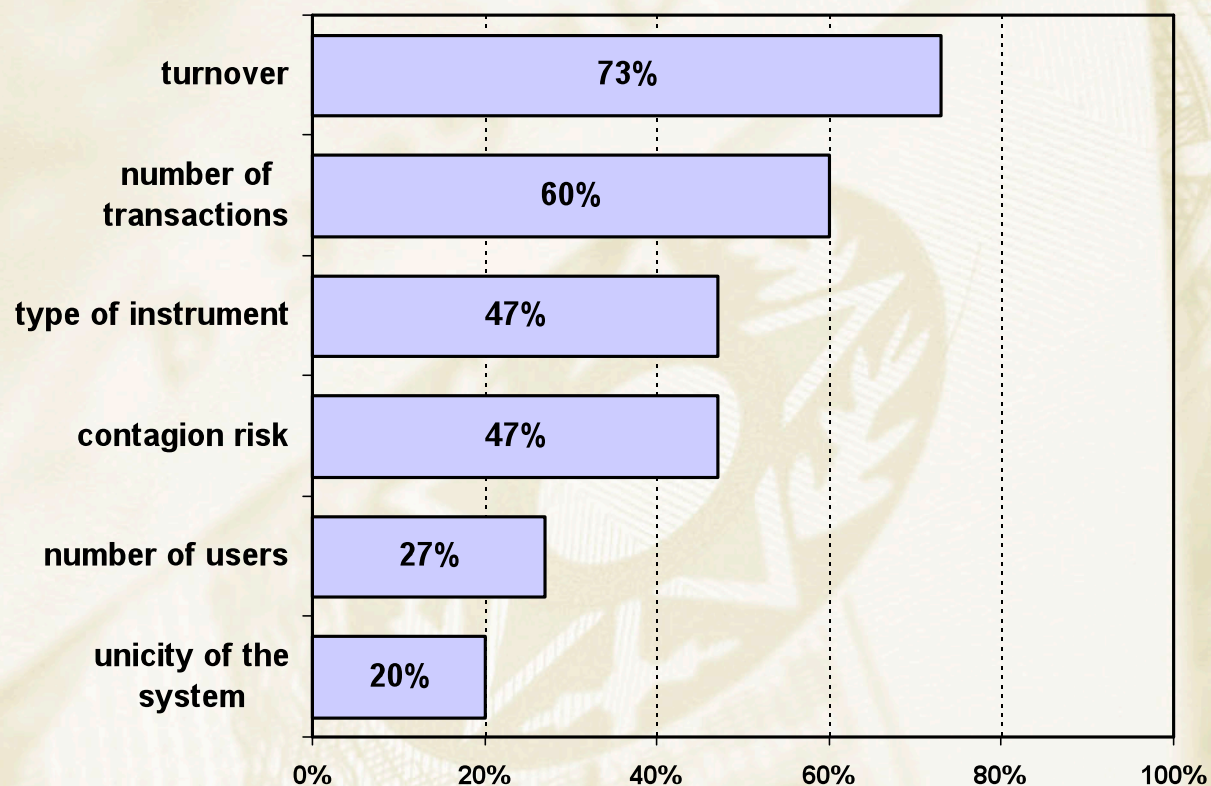
Publication of the standards by the Central Bank



■ Observed ■ Non-observed ■ Non-informed

V – Systemic importance

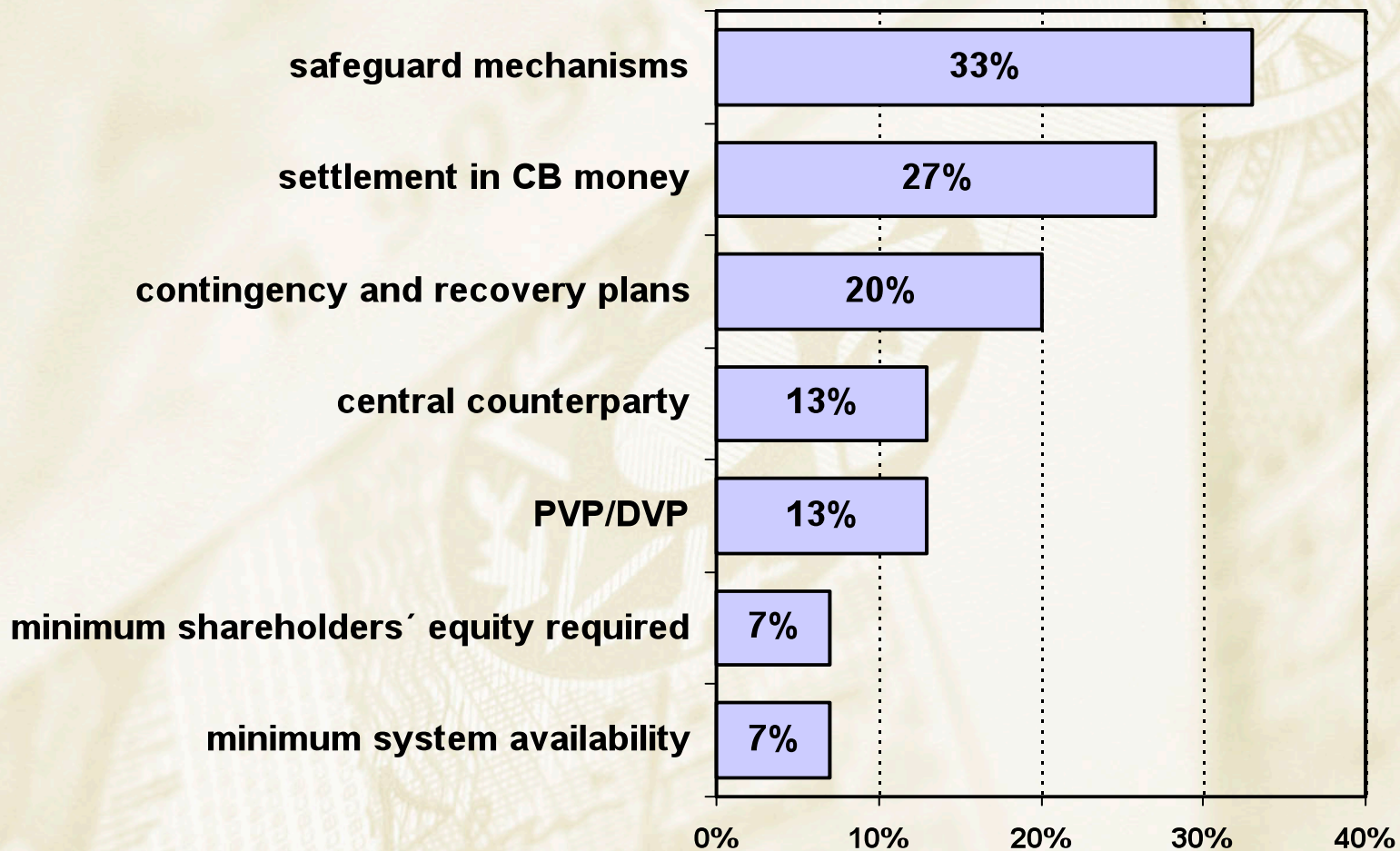
- Criteria used to determine the systemic importance



- 53% of the Central Banks subject systemically important payment systems to a special regulatory or oversight arrangement

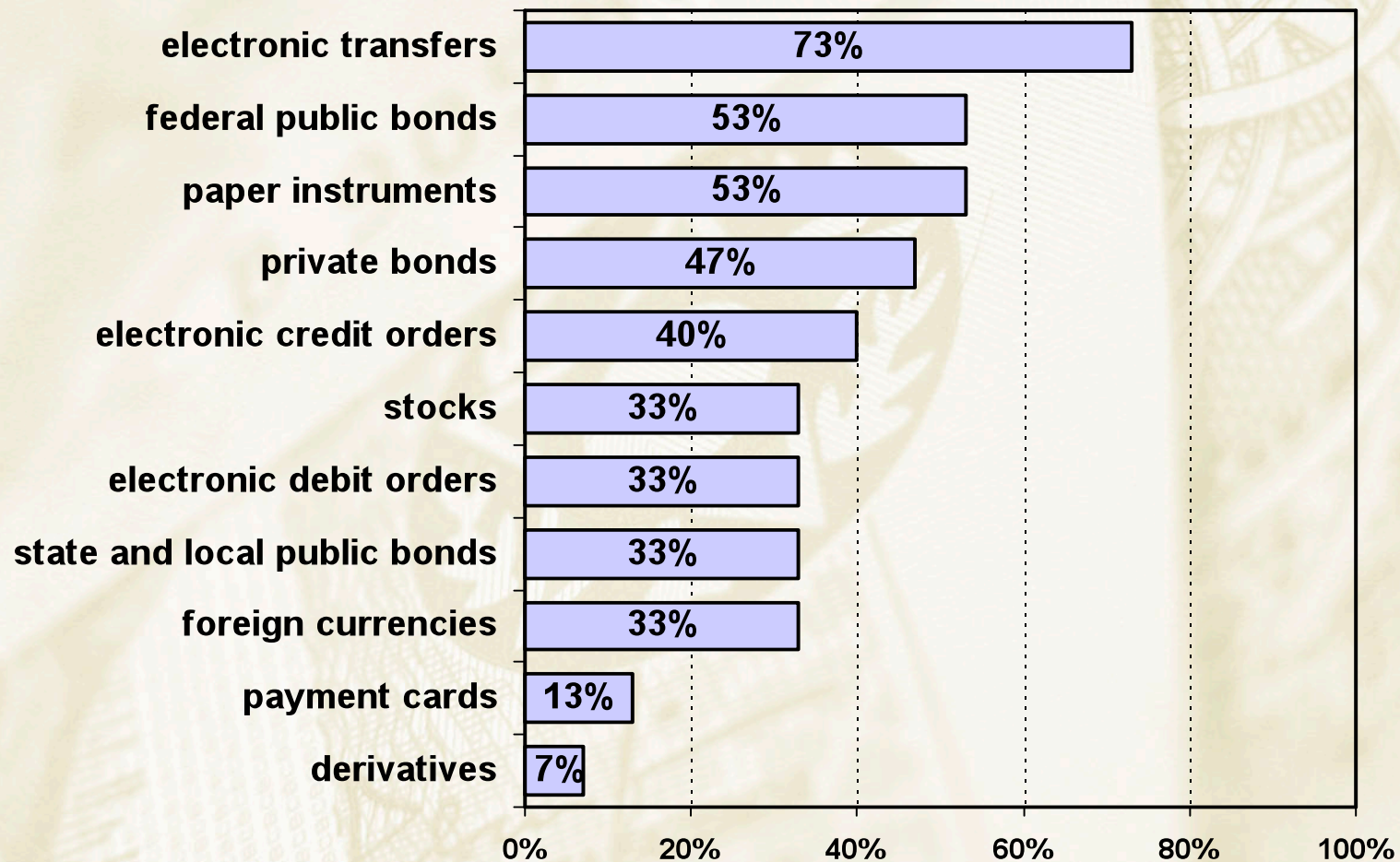
V – Systemic importance

- Special requirements



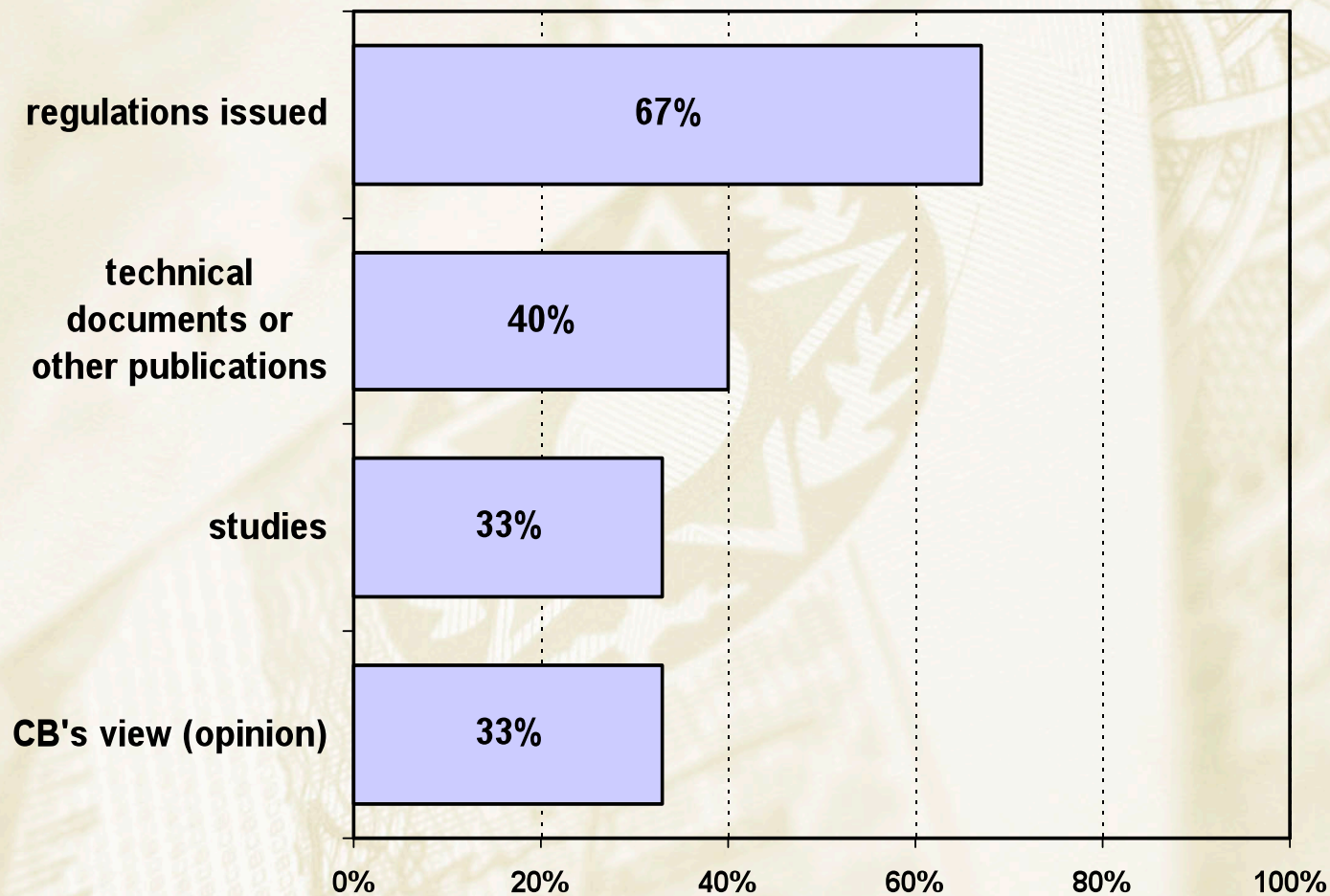
V – Systemic importance

- Systems considered systemically important



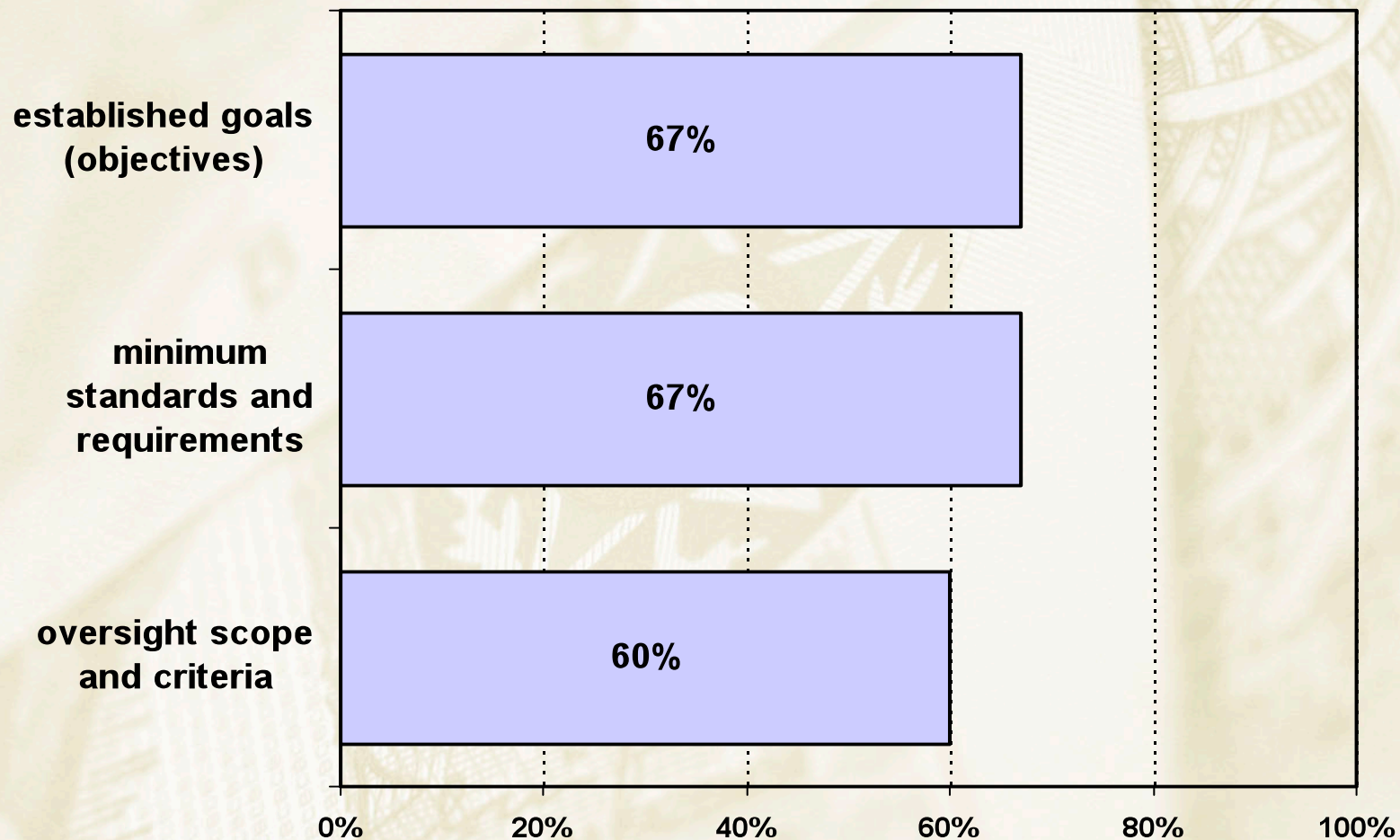
VI – Transparency

- **How the CB discloses its policies**



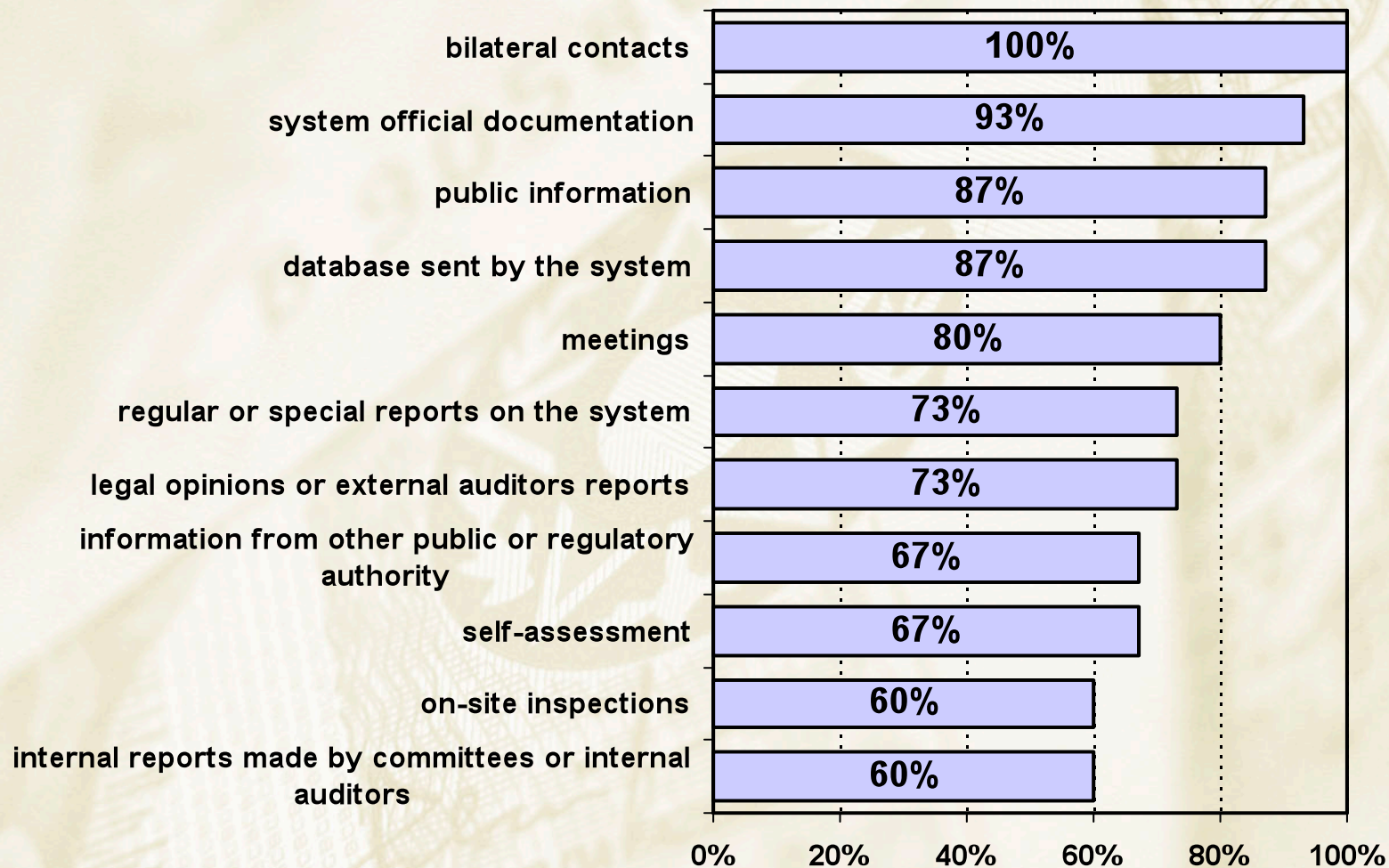
VI – Transparency

- Aspects of oversight that are published by the CB



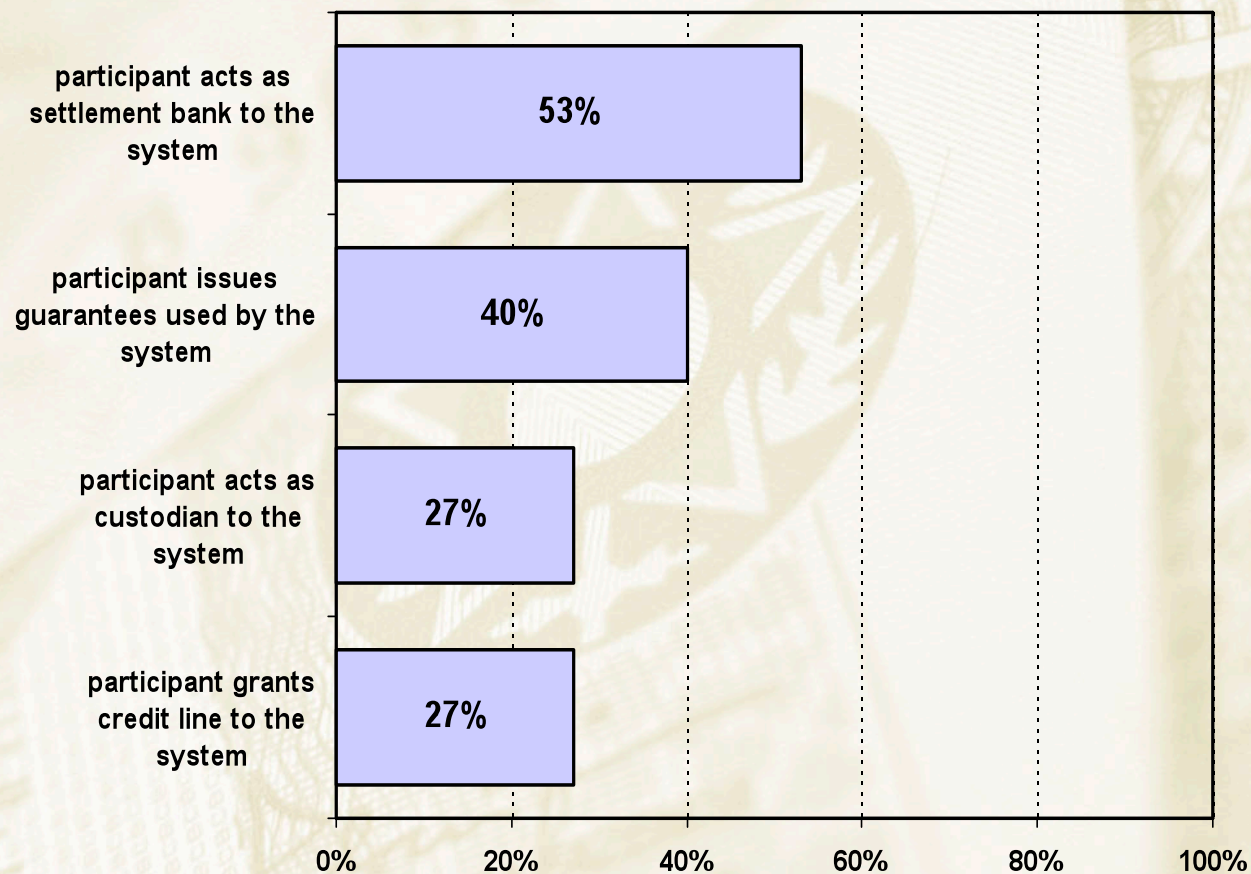
VII – Monitoring

- Sources of information used by the Central Bank



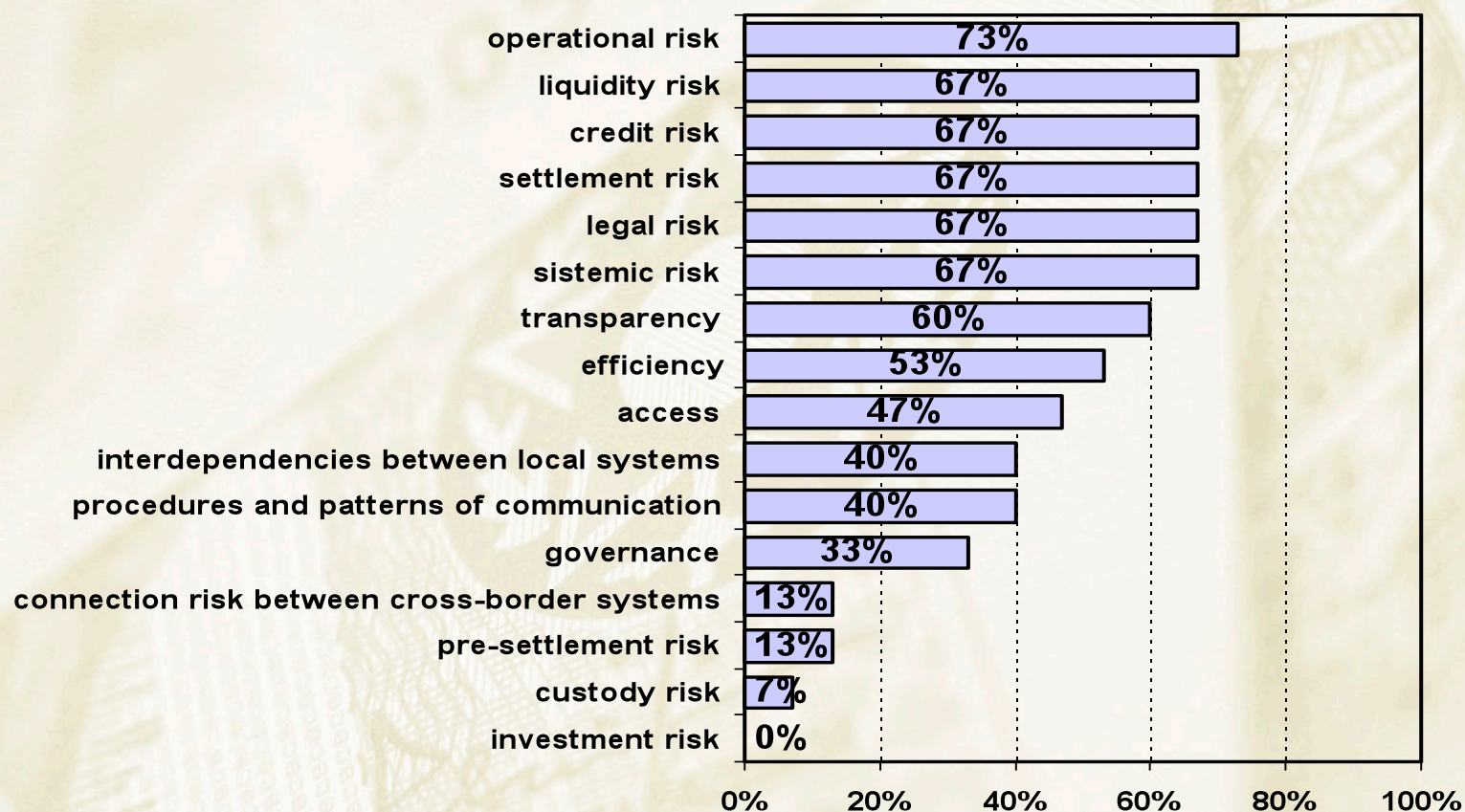
VII – Monitoring

- Individual participants' relationship with payment and securities settlement system



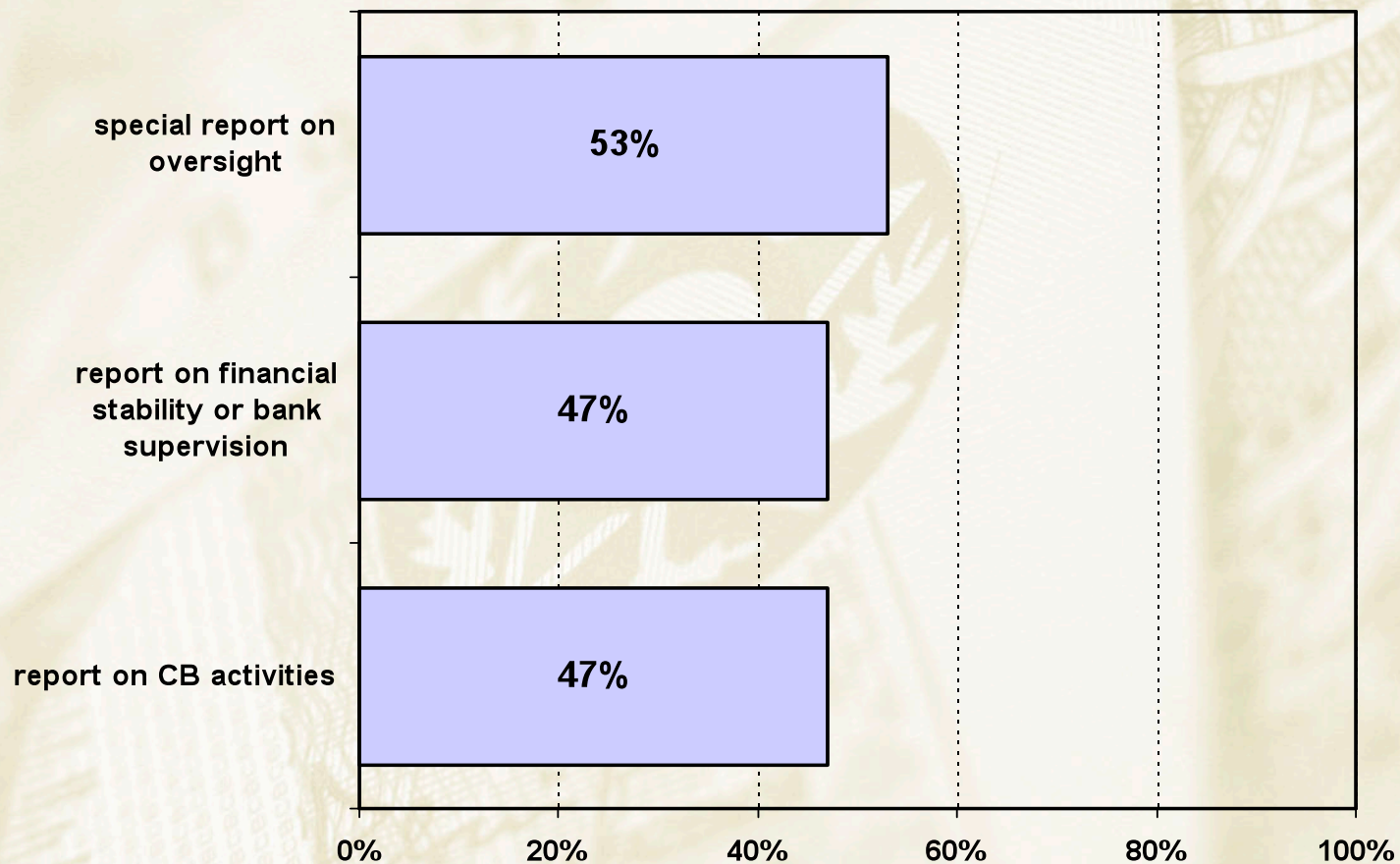
VIII – Assessment

- The main aspects considered on the CB periodical assessments of the overseen systems vis-à-vis the adopted standards



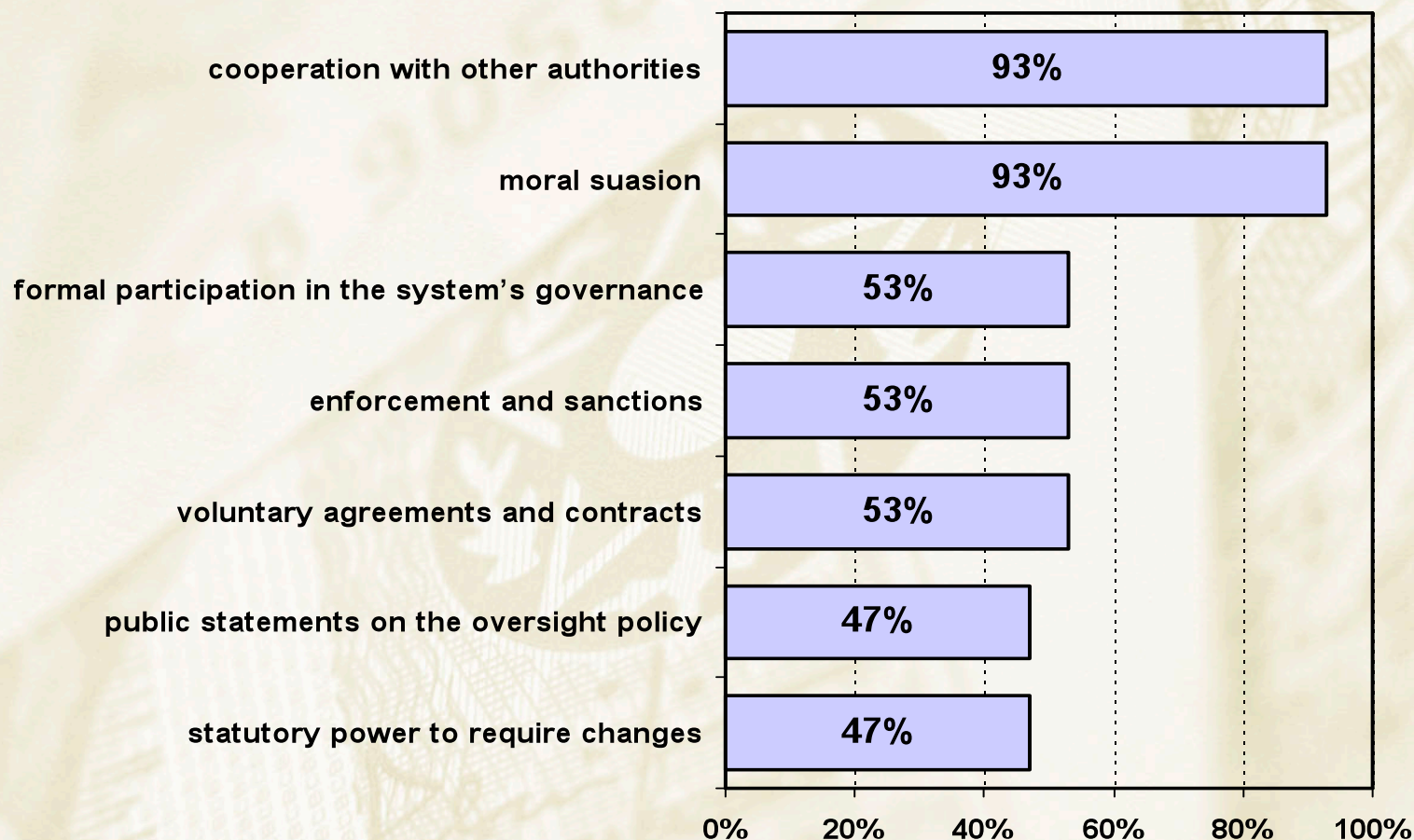
VIII – Assessment

- Kind of oversight report – considering content and frequency



IX – Inducing changes

- The main tools used by the CB for inducing necessary changes in payment and securities settlement systems



X – Organization of the oversight function

- **Oversight team**

- number of people

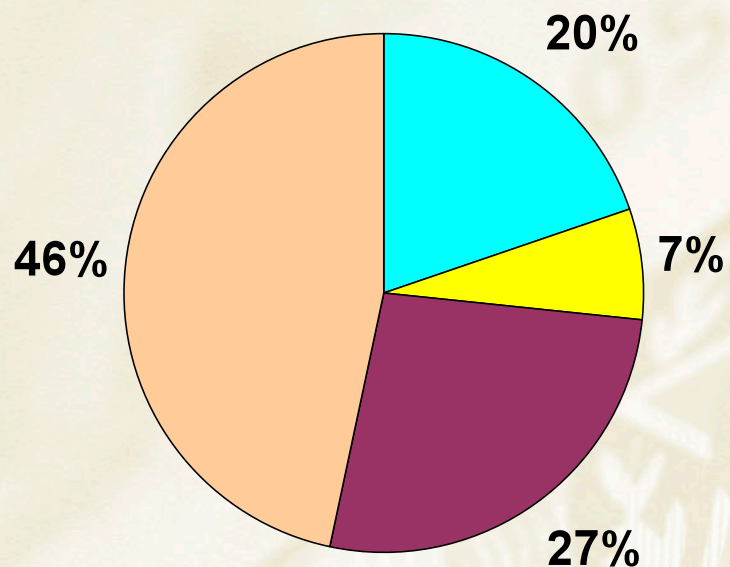
- most frequent: 4
 - maximum: 24 [without exclusive dedication]

- position in the organizational chart (hierarchical level)

- most frequent: III
 - highest: II
 - lowest: VI

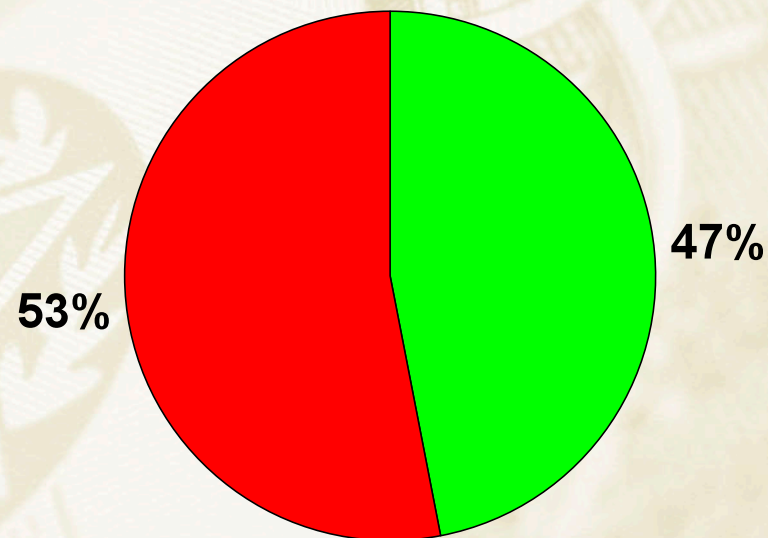
X – Organization of the oversight function

Oversight team & Operation team
(CB system)



- Non-informed
- Different directorate
- Same directorate
- Same department

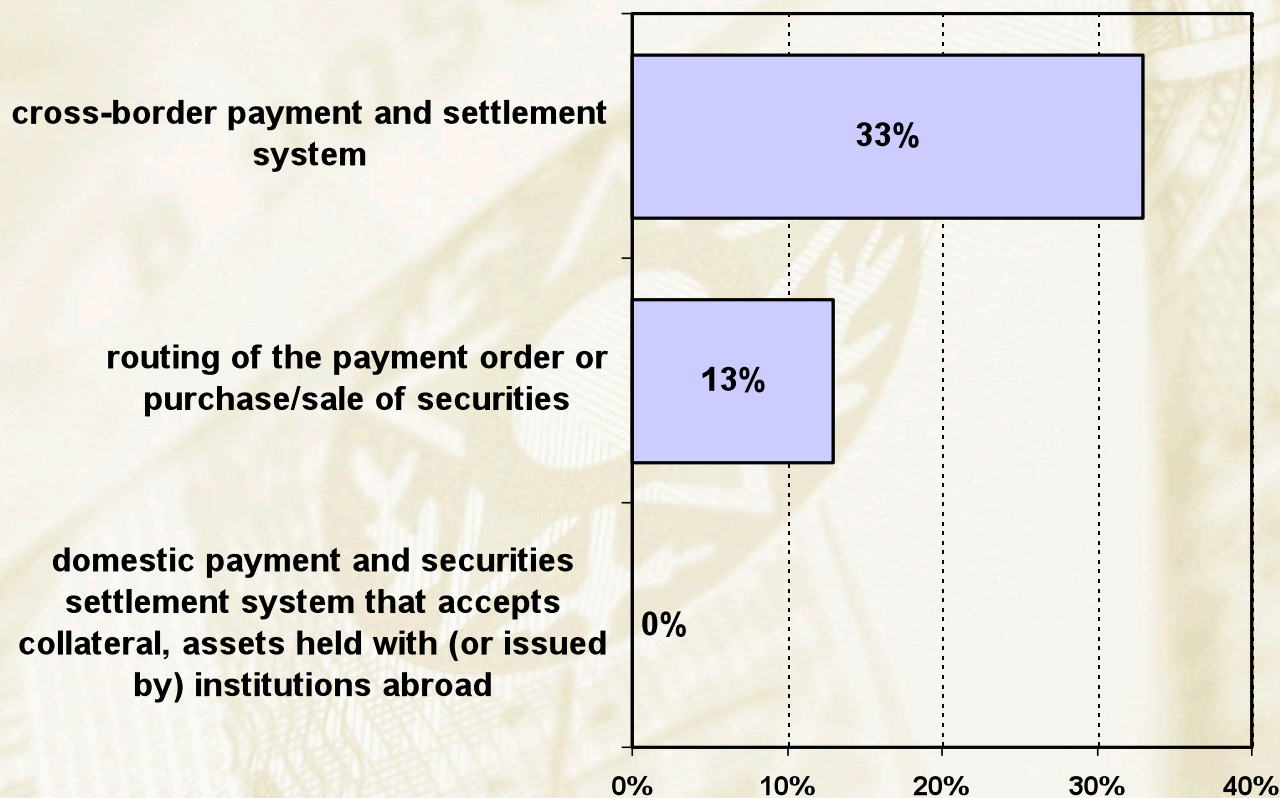
Existence of internal or external
audit



- Observed
- Non-observed

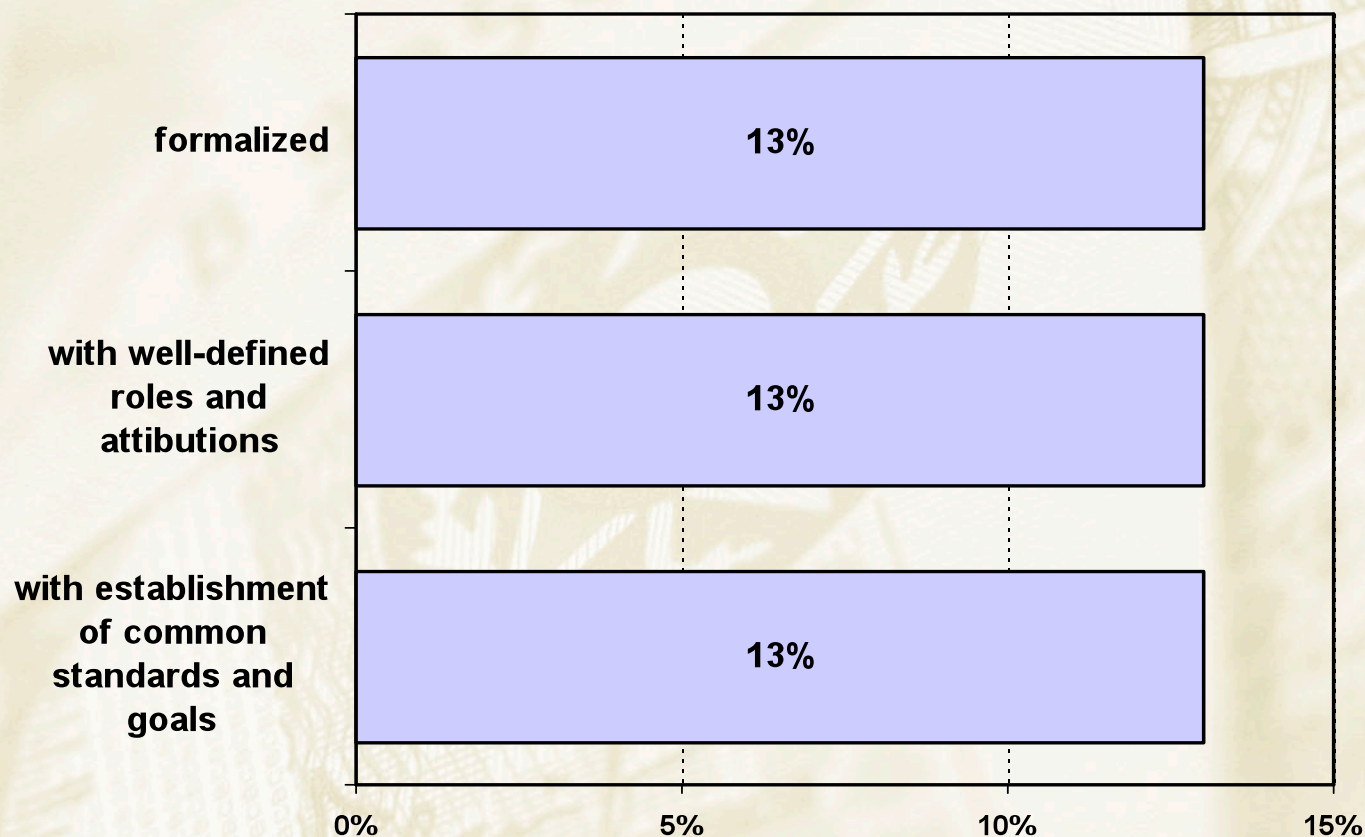
XI – International cooperation

- Oversight of cross-border payment or securities settlement system



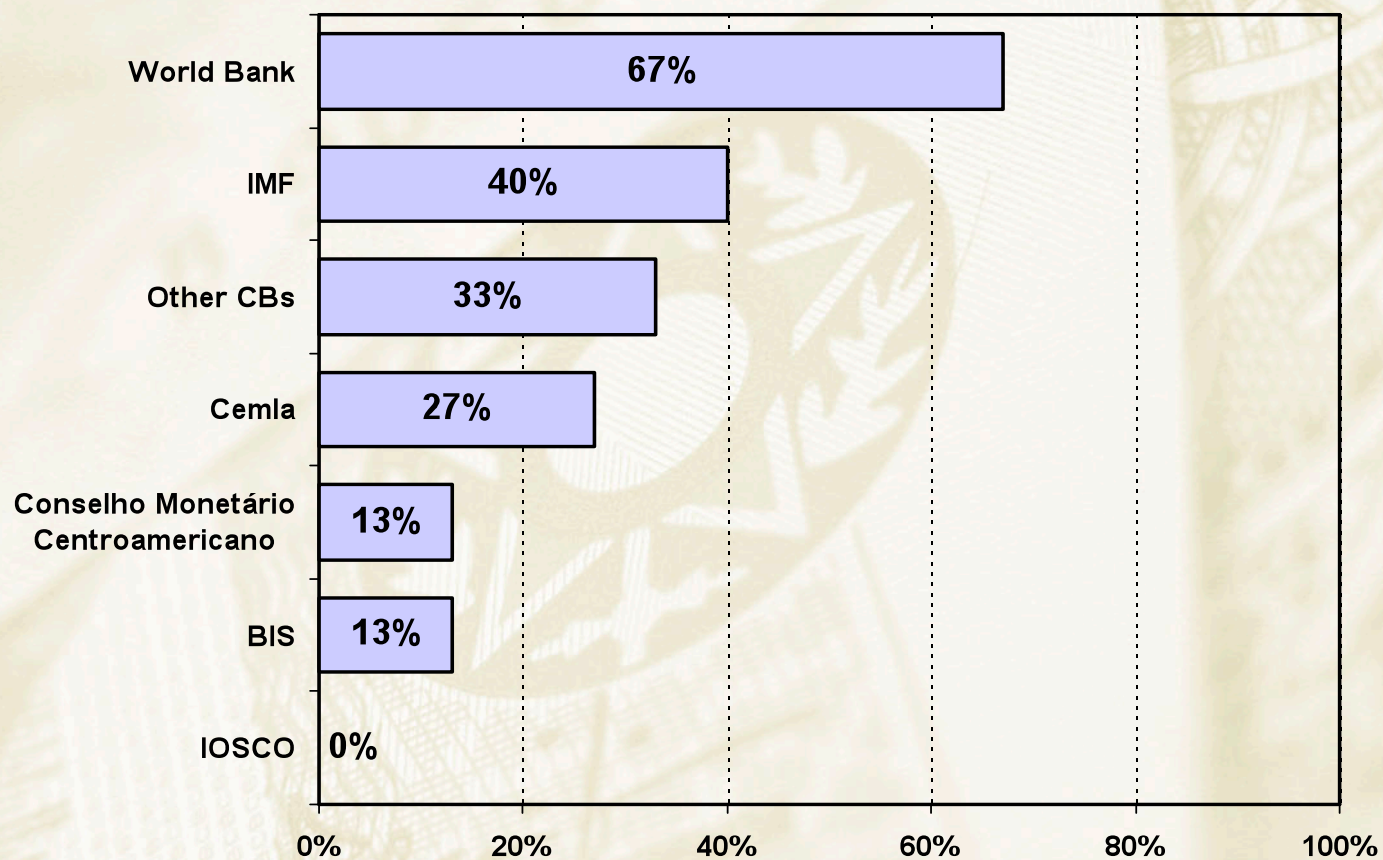
XI – International cooperation

- **Implementation of international cooperative oversight of cross-border connections**



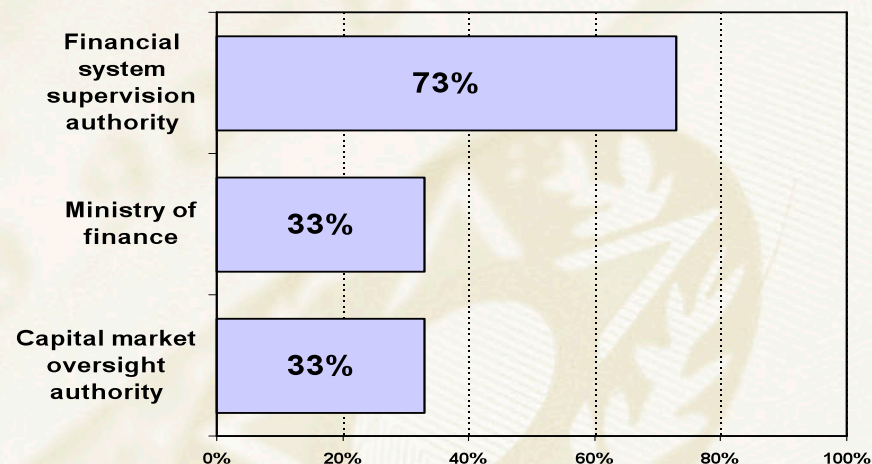
XI – International cooperation

- Cooperation or advice from international institutions in the payments area

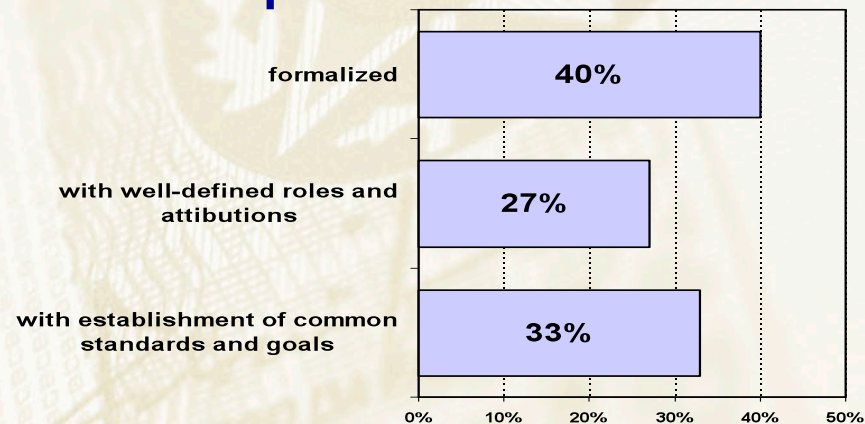


XII – Cooperation with other institutions

- Other public authorities involved in the regulation or oversight of the payment and securities settlement systems



- Implementation of the cooperation



Concluding remarks

- **Central Banks usually have formal mandate for oversight function**
- **A formal oversight framework is still in development in the region**
- **Foreign exchange and derivative systems are usually not overseen by CBs in the region**
- **Although systemic importance should still be considered the most relevant criteria for determining the scope of oversight, the CBs also consider a growing number of other aspects**
- **More types of institution are overseen by CBs, but the main focus is the large value transfer systems**
- **The most common sources for structuring the oversight function are BIS publications, especially the *Core Principles***

Concluding remarks

- **Oversight standards for private and central bank operated systems are usually adopted in a not equivalent way**
 - little number of personnel involved
 - functions carried out in the same department – second highest hierarchical level
- **CBs generally disclose their oversight policies through regulations and technical documents**
- **Several sources of information are used by CBs for the oversight**
- **Operational risk is the main aspect considered on the CBs' periodical assessments of the overseen systems**
- **Cooperation with banking supervisors and international institutions is significantly observed**



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