



Recent Activities of the CPSS

Global Payments Week 2012

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Outline

- The role of the Committee on Payment and Settlement Systems (CPSS)
- Principles and Financial Market Infrastructures (FMI)
 - The new principles
 - Further work
- Other current CPSS initiatives
 - OTC Derivatives
 - Retail and other topics



Role of the committee

The CPSS serves as a forum for central banks to monitor and analyse developments in domestic, cross-border and multicurrency FMI

Two key functions:

- **Standard Setting** (including setting common policies and recommendations)
 - eg. *Principles for financial market infrastructures (2012)*
 - Settlement risk in foreign exchange transactions (1996)*
 - Central bank oversight of payment and settlement systems (2005)*
- **Descriptive/Analytical** (sharing information, carrying out analysis, discussing issues, increasing mutual understanding ...)
 - eg. *Role of central bank money in payment systems (2003)*
 - New developments in large value payment systems (2005)*
 - The interdependencies of payment and settlement systems (2008)*
 - Innovations in retail payments (2012)*



Financial Market Infrastructures (FMIs)

- Facilitate recording, clearing and settlement of monetary and other financial transactions
- Strengthen the markets they serve
- Mitigate systemic risk

⇒ ***FMIs play a critical role in fostering financial stability***

On the other hand, FMIs also concentrate risk – not the least through *interdependencies*.

if this risk is not properly managed, FMIs can be sources of:

- Credit losses
- Liquidity and collateral dislocations
- Financial shocks

⇒ ***FMIs could be major channels through which shocks are transmitted across domestic and international financial markets***

International standards for FMIs have been established over the years to address these risks



Public policy objectives for FMIs

⇒ Main public policy objectives in view of limiting systemic risk and fostering transparency and financial stability:

- **Safety**

Robust management of risks such as: legal, credit, liquidity, general business, operational risks etc.

- **Efficiency**

Best use of resources by financial market infrastructures and their participants in view of performing effectively their functions and the wider market they serve



Experience during the financial crisis

- FMI generally proved resilient to the crisis due to the efforts of last 20 years
 - No materialisation of systemic risk in FMIs
 - Global efforts towards intraday finality were essential: RTGS, DvP and PvP
 - Abnormally high settlement volumes managed during volatility
 - FMIs could cope with the default of a large counterparty
 - Beneficial role of CLS and CCPs were widely acknowledged
- However the recent financial crisis also highlighted i.a.:
 - Significant counterparty credit risk in OTC derivatives markets
 - Severe lack of transparency in the OTC derivatives market and absence of infrastructure to mitigate risk
 - Insufficient (cross-border) information flow
 - Shortcomings in default and liquidity risk management



OTC Derivatives Market Reforms

G20 recommendations - Pittsburgh communiqué of September 2009

- **Trading and Clearing:** All standardised OTC derivative contracts should be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties (CCPs) by end-2012 at the latest
 - **Reporting:** OTC derivative contracts should be reported to trade repositories (TRs)
 - **Non-centrally cleared contracts** should be subject to higher capital requirements
 - The **FSB** and its relevant members should assess regularly implementation and whether it is sufficient to improve transparency in the derivatives markets, mitigate systemic risk, and protect against market abuse
- ***Standard setting bodies should strengthen their risk management standards***



Role of the standards

- CPSS and CPSS-IOSCO standards are increasingly becoming the foundation of FMI related oversight and regulatory activities
- CPSS is recognised by the FSB as one of the 12 major standard setting bodies. The PFMI is among the key standards for sound financial systems
- Compliance of CCPs with the PFMI is a condition for banks to benefit from lower capital requirements (see *Capitalisation of bank exposures to central counterparties, BCBS, 2012*)
- Basis of assessments by IMF and World Bank for FSAPs



New Principles for the Financial Market Infrastructures:

- Replace former three standards with one single, comprehensive set of principles for all FMIs:
CPSIPS (2001), RSSS (2001), RCCP (2004)
- Incorporate the lessons drawn from recent crisis experiences
 - more demanding requirements in many areas
 - new principles that were not or not fully addressed by the existing standards
- Ensure consistency among requirements to different FMIs while reflecting the specific role of certain types of infrastructure (eg CCPs, TRs)
- Provide revised responsibilities of relevant authorities in regulating, supervising and overseeing FMIs

The new principles are designed to be applied holistically because of their significant interaction



FMI covered by the PFMI

- FMI are sophisticated multilateral arrangements among participating financial institutions that handle significant transaction volumes and sizable monetary values
- FMI facilitate the recording, clearing and settling payments, securities, derivatives, or other financial transactions

They are:

- Systemically important payment systems (SIPS)
- Central counterparties (CCP)
- Central securities depositories (CSD)
- Securities settlement systems (SSS)
- Trade repositories (TR) (*newly included*)

They are regarded as systemically important because of the critical roles in the markets they serve



Table 1: General applicability of principles to specific types of FMIs

Principle		Payment systems	CSDs and SSSs*	CCPs	TRs
1: Legal basis	} General organisation	●	●	●	●
2: Governance		●	●	●	●
3: Framework for the comprehensive management of risks		●	●	●	●
4: Credit risk	} Credit and liquidity risk	●	●	●	
5: Collateral		●	●	●	
6: Margin		●	●	●	
7: Liquidity risk		●	●	●	
8: Settlement finality	} Settlement	●	●	●	
9: Money settlements		●	●	●	
10: Physical deliveries			●	●	
11: Central securities depositories			●		
12: Exchange-of-value settlement systems	} CSDs and Exchange Value Settlements	●	●	●	
13: Participant-default procedures		●	●	●	
14: Segregation and portability	} Default Management			●	
15: General business risk		●	●	●	●
16: Custody and investment risk	} General business and operational risk management	●	●	●	
17: Operational risk		●	●	●	●
18: Access and participation requirements		●	●	●	●
19: Tiered participation arrangements	} Access	●	●	●	●
20: FMI links		●	●	●	●
21: Efficiency and effectiveness		●	●	●	●
22: Communication procedures and standards	} Efficiency	●	●	●	●
23: Disclosure of rules and key procedures		●	●	●	●
24: Disclosure of market data	} Transparency				●

* The applicability of certain principles for CSDs and SSSs will vary with the design of the FMI.



Responsibilities of Authorities

- **Responsibility A:** FMIs should be subject to appropriate and effective regulation, supervision, and oversight by a relevant authority
- **Responsibility B:** Authorities should have the powers and resources to carry out effectively their responsibilities in regulating, supervising, and overseeing FMIs
- **Responsibility C:** Authorities should clearly define and disclose their regulatory, supervisory, and oversight policies with respect to FMIs
- **Responsibility D:** Authorities should adopt and consistently apply the PFMI
- **Responsibility E:** Relevant authorities should cooperate, both domestically and internationally, as appropriate, in promoting the safety and efficiency of FMIs



PFMI Timeline

Spring 2009

Review launched

Fall 2009

FSB requesting measures to enhance the resilience of the financial system

March 2011

Publication of consultative report

April 2012

Publication of final principles

June 2012

Consultation on assessment methodology and disclosure framework

End 2012/2013

Finalisation of AM/DF and starting monitoring of implementation

The principles for financial market infrastructures are available at: <http://www.bis.org/publ/cpss94.htm>



PFMI related follow-up work

- ***Assessment methodology and Disclosure framework***
 - *Assessment methodology*: to provide a methodology for assessing observance of PFMI aiming at objectivity and comparability across the assessments of observance of the principles and the responsibilities in different jurisdictions
 - *Disclosure framework*: to assist FMIs in outlining the comprehensive level of disclosure that is expected of them under Principle 23 on disclosure of rules, key procedures, and market data
 - CPSS-IOSCO consultative document published April 2012

- ***Recovery and resolution of FMIs***
 - Following the work undertaken by the FSB in respect of resolution and recovery regimes for financial institutions
 - Outlines the issues to be taken into account for different types of FMIs when putting in place effective recovery plans and resolution regimes consistent with the FSB Principles and Key Attributes
 - CPSS-IOSCO consultative report published in July 2012



OTCD related follow-up work

- ***OTCD Data reporting and aggregation requirements***
 - Laying out minimum data reporting requirements and standardised formats, and the methodology and mechanism for data aggregation on a global basis
 - CPSS-IOSCO paper outlining considerations for data requirements for Trade Repositories published in January 2012

- ***Legal Entity Identifier***
 - Establishing a scheme for the issuance of unique legal entity identifiers
 - FSB report published in June 2012

- ***Access by authorities to trade repository data***
 - Guidance on the level of access by authorities having different mandates (supervision, oversight, financial stability, etc.) to data stored in TRs
 - CPSS-IOSCO task force to prepare further guidance



OTCD related follow-up work

- ***Capital requirements for bank exposures to central counterparties***
 - Introducing the interim framework for determining capital requirements for bank exposures to CCPs via additions and amendments to “Basel II” (indicating that a PFMI compliant CCPs will receive a preferential capital treatment)
 - BCBS document published in July 2012
- ***Margining requirements for non-centrally-cleared derivatives***
 - Laying out a set of high-level principles on margining practices and treatment of collateral, and proposing margin requirements for non-centrally-cleared derivatives with the objectives of reducing systemic risk and promoting central clearing
 - BCBS-IOSCO consultative paper published in June 2012
- ***Coordination of OTCD related regulatory activities***
 - Aiming to address gaps and overlaps of standard setting bodies



Other Current CPSS Initiatives

- **Review of the FX settlement risk guidance**
 - Joint BCBS-CPSS Working Group
 - Aiming to review and update the BCBS's *Supervisory guidance for managing settlement risk in foreign exchange transactions* (September 2000) in order to ensure that foreign exchange transactions risks are properly managed (including liquidity risk and pre-settlement risk)
 - Consultative report published in August 2012
- **Monitoring tools for intraday liquidity management**
 - BCBS-CPSS Working Group
 - Establishing a set of quantitative tools to enable authorities to monitor banks intraday liquidity risk and their ability to meet payment and settlement obligations on a timely basis under both normal and stressed conditions
 - Consultative paper published in July 2012



Other Current CPSS Initiatives

- **Innovations in Retail Payments**

- CPSS Working Group on retail payments
- Review of recent innovations in domestic and international retail payments
- Overview of trends, systemic relevancy of recent innovations, considerations for overseers
- Paper published in May 2012

- **Payment system monitoring indicators**

- A venue for practitioners to discuss current analytical work and future projects
- CPSS sponsored workshops took place in Basel in September 2011 and October 2012
- Expect to hold the next conference in 2013/2014



Other Current CPSS Initiatives

- ***Cyber attacks and FMIs***
 - *Discussion of current threats and emerging trends surrounding the safety of FMIs related to cyber attacks*
 - *Workshop to be organized on this topic*
- ***Redbook***
 - *A description of current payment and settlement systems in member countries*
 - *First volume of the descriptive red book published In September 2011 (second volume to be published soon)*
 - *Regular publication of red book statistics*



What is next?

- Globalisation and regional integration
- Consolidation
- Harmonisation
- Innovation
- Interdependencies
- ...