



# **The International Agenda for Payment and Settlement Systems\***

## **Regional Payments Week 2013**

Cartagena, Colombia

22 November 2013

Klaus Löber

CPSS Secretariat

Bank for International Settlements



## Outline

- The role of the Committee on Payment and Settlement Systems (CPSS)
- Key challenges in the coming years
- The evolving concept of central bank oversight
- Implementing the Principles for FMIs
- Activities of the CPSS in the field of retail payments
- Outlook



## The Bank for International Settlements (BIS)

*“The mission of the BIS is to serve central banks in their pursuit of monetary and financial stability, to foster international cooperation in those areas and to act as a bank for central banks”*

The world’s oldest international financial institution, established under the Hague Convention of 1930

The BIS pursues its mission by:

- promoting discussion and facilitating collaboration among central banks and with other authorities responsible for promoting financial stability
- conducting research on policy issues confronting central banks and financial supervisory authorities and providing statistics
- hosting committees and secretariats of regulatory bodies
- acting as “bank for central banks”



## The Committee on Payment and Settlement Systems

- ⇒ The CPSS is a standard setting body for payment, clearing and securities settlement systems. It also serves as a forum for central banks to monitor and analyse developments in domestic payment, clearing and settlement systems as well as in cross-border and multicurrency settlement schemes
- Establishment in 1990 by the G10 Governors (preceded by the 1980 **Group of Experts on Payment** and the 1989 **Committee on Interbank Netting Schemes**)
  - Hosted by the BIS in Basel, reporting to the Governors of the Global Economy Meeting (GEM)
  - 25 member central banks
  - Chair: Benoît Coeuré (ECB)



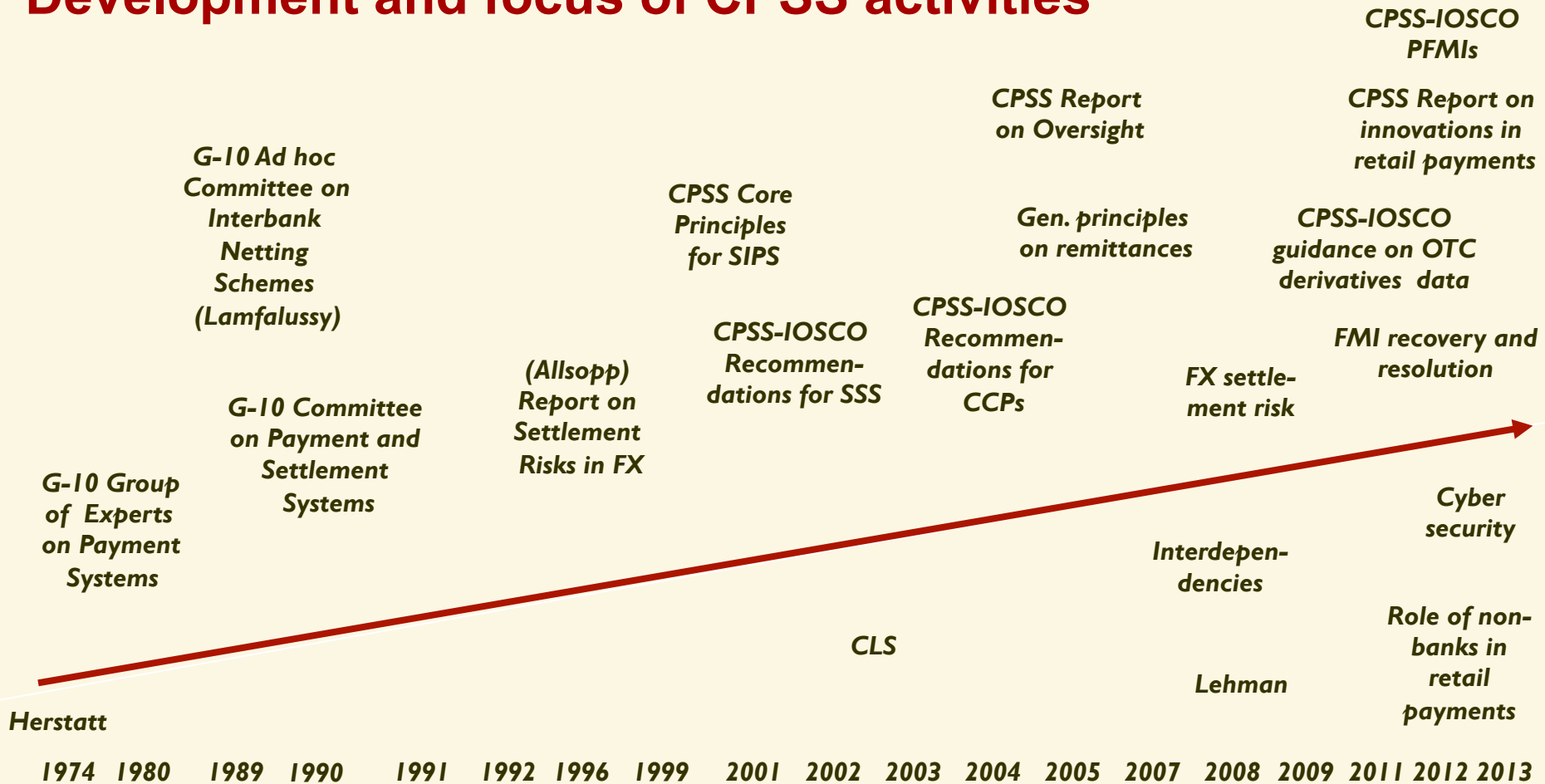
## Role of the committee

Two key functions:

- **Standard Setting** (including setting common policies and recommendations)
  - e.g. *Settlement risk in foreign exchange transactions* (1996)
  - Central bank oversight of payment and settlement systems* (2005)
  - Principles for financial market infrastructures* (2012)**
- **Descriptive/Analytical** (sharing information, carrying out analysis, discussing issues, increasing mutual understanding ...)
  - e.g. *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)**



# Development and focus of CPSS activities





## Top challenges in the next 3 years (CPSS members)

- Evolution of oversight approach
- Prioritisation and resources
- Implementing the Principles for FMIs
- Recovery and resolution
- Cooperative oversight



## The evolving concept of oversight

“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 the objectives and, where necessary, **inducing change**.”

**CPSS report on Oversight of payment and settlement systems, BIS, 2005**

*A central bank task, principally intended to promote the smooth functioning of payment systems and to protect the financial system from possible “domino effects” which may occur when one or more participants in the payment system incur credit or liquidity problems. Payment systems oversight aims at a given system (e.g. a funds transfer system) rather than individual participants*

**Glossary of terms, BIS, March 2003**

*A public policy activity principally intended to promote the safety and efficiency of payment systems and in particular to reduce systemic risk*

**Core principles, BIS, January 2001**





## A “central bank function”

### Central bank **advantages**:

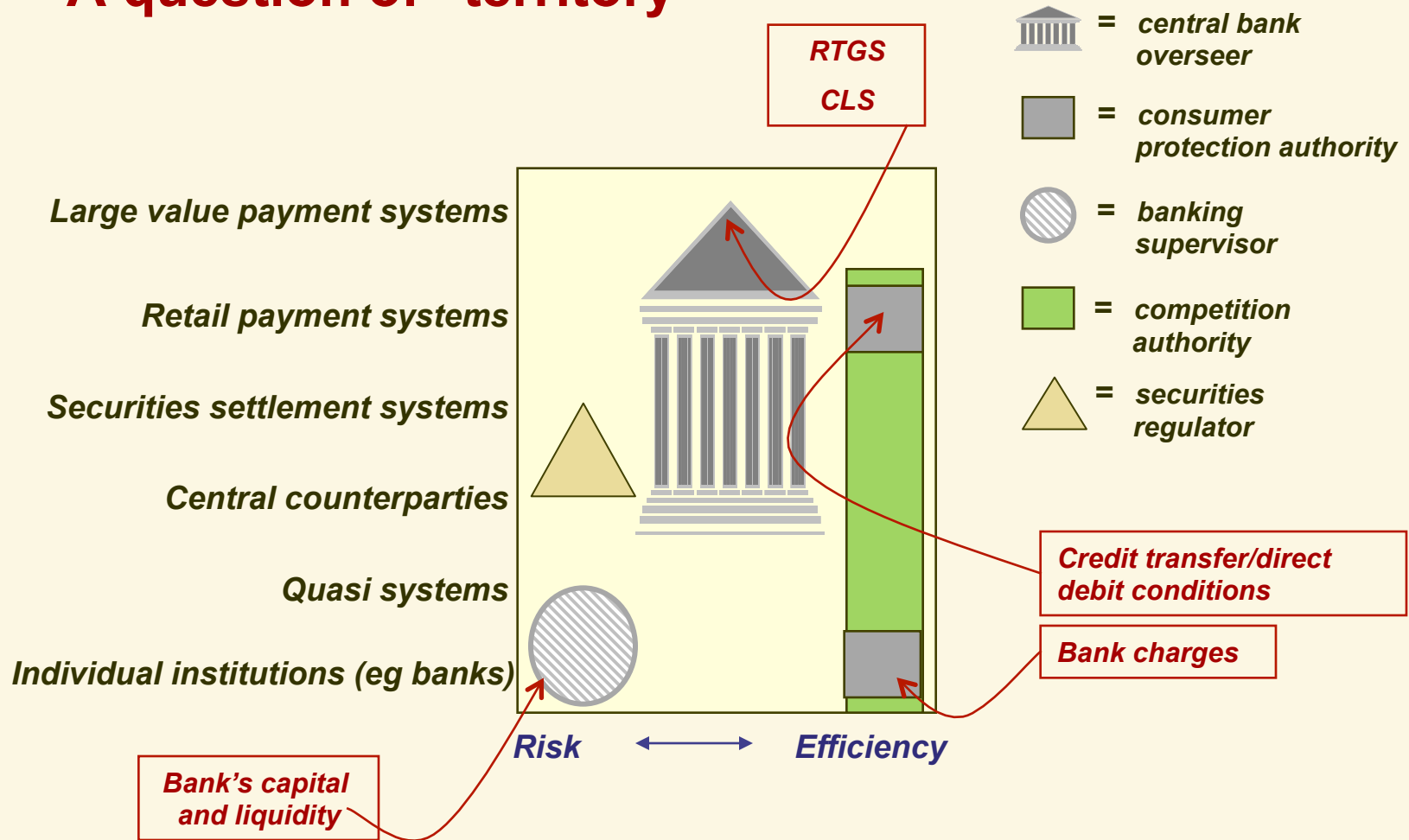
- Expertise and experience
- Operator and user perspective
- Relevance for financial and monetary stability
- Relevance for lender-of-last-resort role

### But some **implications**:

- Regulatory overlap with other authorities (securities regulators, bank supervisors, competition authorities, etc.)
- Potential conflicts of interest
- Moral hazard
- Reputational risk



# A question of “territory”





## Responsibility A: Regulation, supervision and oversight of FMIs

- ⇒ *Typically requires setting out responsibilities, objectives and criteria for determining who the standards apply to*
- ⇒ ***Necessity to clarify roles in case of multiple authorities***

## Responsibility B: Regulatory, supervisory and oversight powers and resources

- ⇒ *Powers could be statutory or non-statutory*
- ⇒ ***Rules based vs. policy based***
- ⇒ *Adequate funding, qualified and experienced personnel - complexity*
- ⇒ ***Organisational structure - separation of functions?***



## Responsibility C: Disclosure of policies with respect to FMIs

- ⇒ *Transparency supports consistency, accountability and effectiveness*
- ⇒ *Typically involves a **public** document setting out the policies (see responsibility A)*
- ⇒ *Explicit reference to international standards/PFMIs needed?*

## Responsibility D: Application of the principles for FMIs

- ⇒ ***Commitment by CPSS and IOSCO members to apply PFMIs***
- ⇒ *Consistency of application (also to central bank operated FMIs)*



## Responsibility E: Cooperation with other authorities

- ⇒ *consider appropriate **cooperative arrangements** (Lamfalussy principles)*
- ⇒ *appoint an authority with primary responsibility*
- ⇒ *assessment of the system as a whole by that authority, in consultation with the other authorities*
- ***Cooperation** may take a variety of forms (bilateral vs. multilateral, MoUs, formal colleges, information sharing arrangements)*
- ⇒ *Notification duty for **cross-border or multicurrency FMIs** (in advance where possible)*
- ⇒ *Role of the **central bank of issue** for settlement and liquidity arrangement in its currency (duty to consider, not to jointly agree - What can be done in case of disagreement, e.g. discourage of use of FMI)?*



## Co-operation

- **Between central banks**

⇒ in the context of cooperative oversight of cross-border and multicurrency systems

- **Between central banks at international level** (i.e. CPSS)

⇒ to define and implement oversight requirements for global infrastructures

- **With securities regulators at international level** (e.g. CPSS-IOSCO)

⇒ to define common standards

- **With other regulators** (MoUs, colleges)

⇒ to reconcile the “infrastructure” and the “institution” perspective

- **With financial stability authorities**

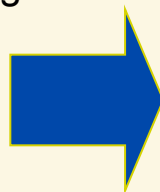
⇒ to foster the macroprudential perspective on systemic risks

- **With resolution authorities**

⇒ to ensure safe and effective resolution of FMI

### *Aim to:*

- *align conflicting objectives*
- *promote consistency of oversight requirements and approaches and avoid duplication and overlaps*
- *access to comprehensive and timely information on factors that may impact on the safety and resilience of infrastructures*
- *clarification of responsibilities and procedures for cooperation among authorities during crisis situations*





## 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 (e.g. CCPs, TRs)
- Provide revised *responsibilities* of relevant authorities in regulating, supervising and overseeing FMIs



## Status of the PFMI

- *Not legally binding* as such but national regulation increasingly based on them (sometimes by way of incorporation) because of:
  - Power of the arguments they contain (“*soft law*”)
  - *Commitment of members* of the relevant bodies (CPSS, IOSCO, FSB) to adopt the principles in the PFMI and put them into effect as soon as possible; FMIs are expected to observe the principles as soon as possible
- 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)
- Subject to *implementation monitoring* by CPSS-IOSCO
- Basis of assessments by IMF and World Bank as part of the financial sector assessment programmes (*FSAPs*)





## Disclosure Framework

- Outlines basic information that an FMI should disclose to increase **transparency** of its governance, risk-management, and operations in order to provide participants, authorities, and the public with a comprehensive understanding of the FMI and to facilitate comparisons across FMIs
  - the FMI's organisation, markets served, and key metrics
  - any recent changes to the FMI's design and services
  - the FMI's approach to or method for observing each of the applicable principles in the PFMI
- **Principle 23 of the PFMI** requires FMIs to complete the Disclosure Framework on a regular basis and disclose their answers publicly
- Prepared in connection with the Assessment Methodology to ensure a consistent framework for disclosure and assessment
- Further work being conducted by CPSS-IOSCO on **additional quantitative disclosures**



## Assessment Methodology

- Provides **guidance for assessing observance** of the 24 principles and 5 responsibilities defined in the PFMI, in particular
  - for determining the scope of an assessment,
  - gathering facts,
  - developing conclusions, and
  - assigning a rating of observance for each principle
- Intended primarily for *external assessors* at the international level, such as the World Bank and the International Monetary Fund
- May also be used by *national authorities*, either as written or as an input to their own methodologies
- Intended to promote objectivity and comparability across assessments of observance in different jurisdictions
- Also to be used by *CPSS-IOSCO* in the **PFMI implementation monitoring**



## Consistency of rules

- Which transactions have a domestic relevance?
  - Who is subject to which jurisdiction (e.g. branch, foreign entity)?
- ⇒ Potential for *overlapping and possibly diverging* national regimes
- ⇒ *Global consistency* of rules would minimise impact
- ⇒ **Consistency**
- *with the PFMI*s
  - *of outcomes*
  - *across jurisdictions*

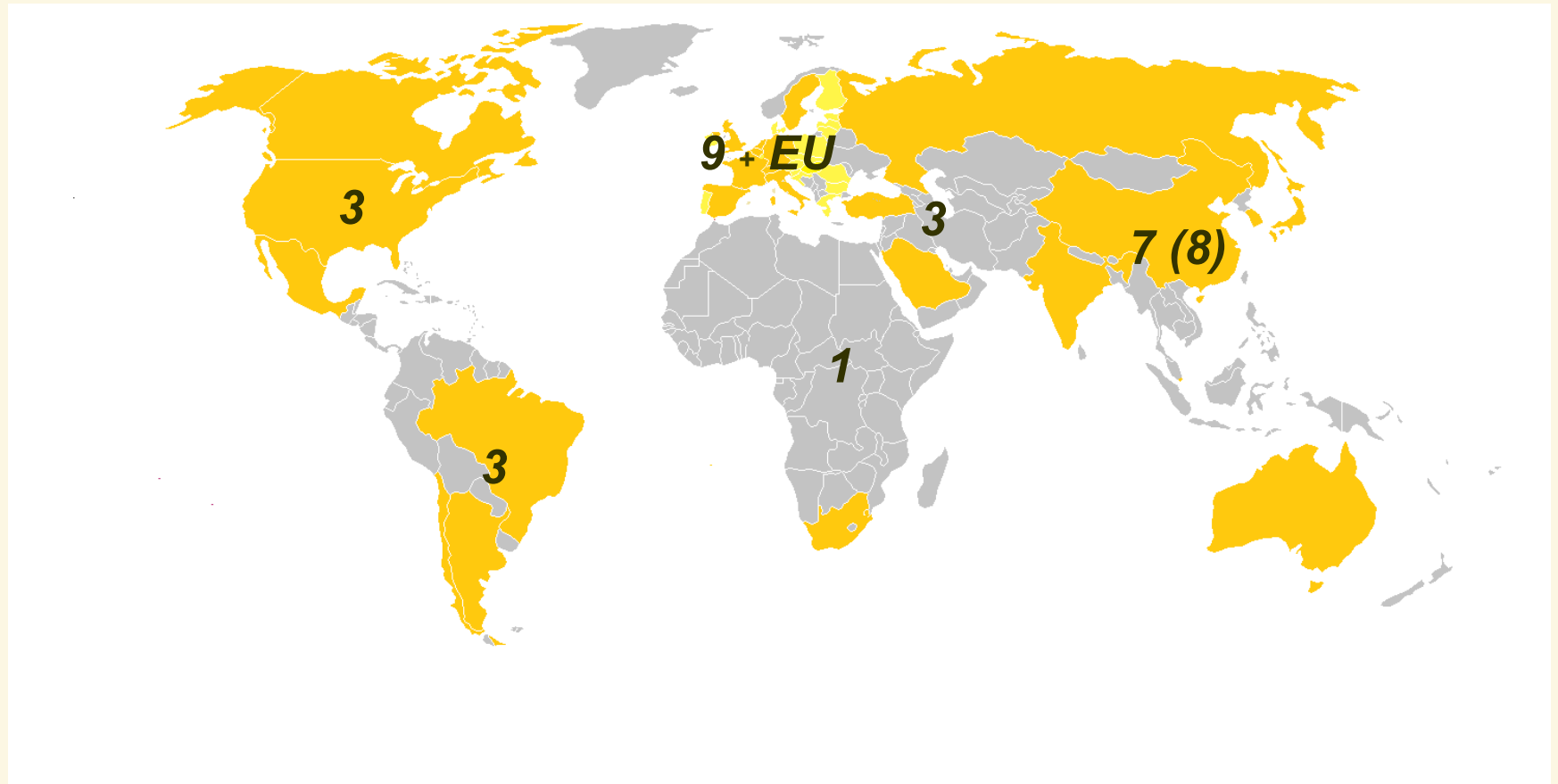


## PFMI Implementation monitoring

- ***Full, timely and consistent implementation of the PFMI*** is fundamental to ensuring the safety, soundness and efficiency of key FMIs and for supporting the resilience of the global financial system
- *CPSS and IOSCO members are committed* to adopt the principles and responsibilities in line with G20 and FSB expectations
- In **April 2013**, CPSS and IOSCO have *started the process* of monitoring implementation of the PFMI
- Reviews are carried out in three stages:
  - **Level 1** - ensuring the ***timely*** implementation
  - **Level 2** - ensuring ***regulatory consistency***
  - **Level 3** - ensuring consistency of ***outcomes***



## Coverage of jurisdictions





## PFMI Implementation monitoring

- **Number of FMIs covered:**

48 Payment Systems

83 CSDs/SSSs

62 CCPs

15 Trade repositories

- **Authorities covered:**

27 Central Banks

31 Regulatory authorities

- **Regulatory frameworks:**

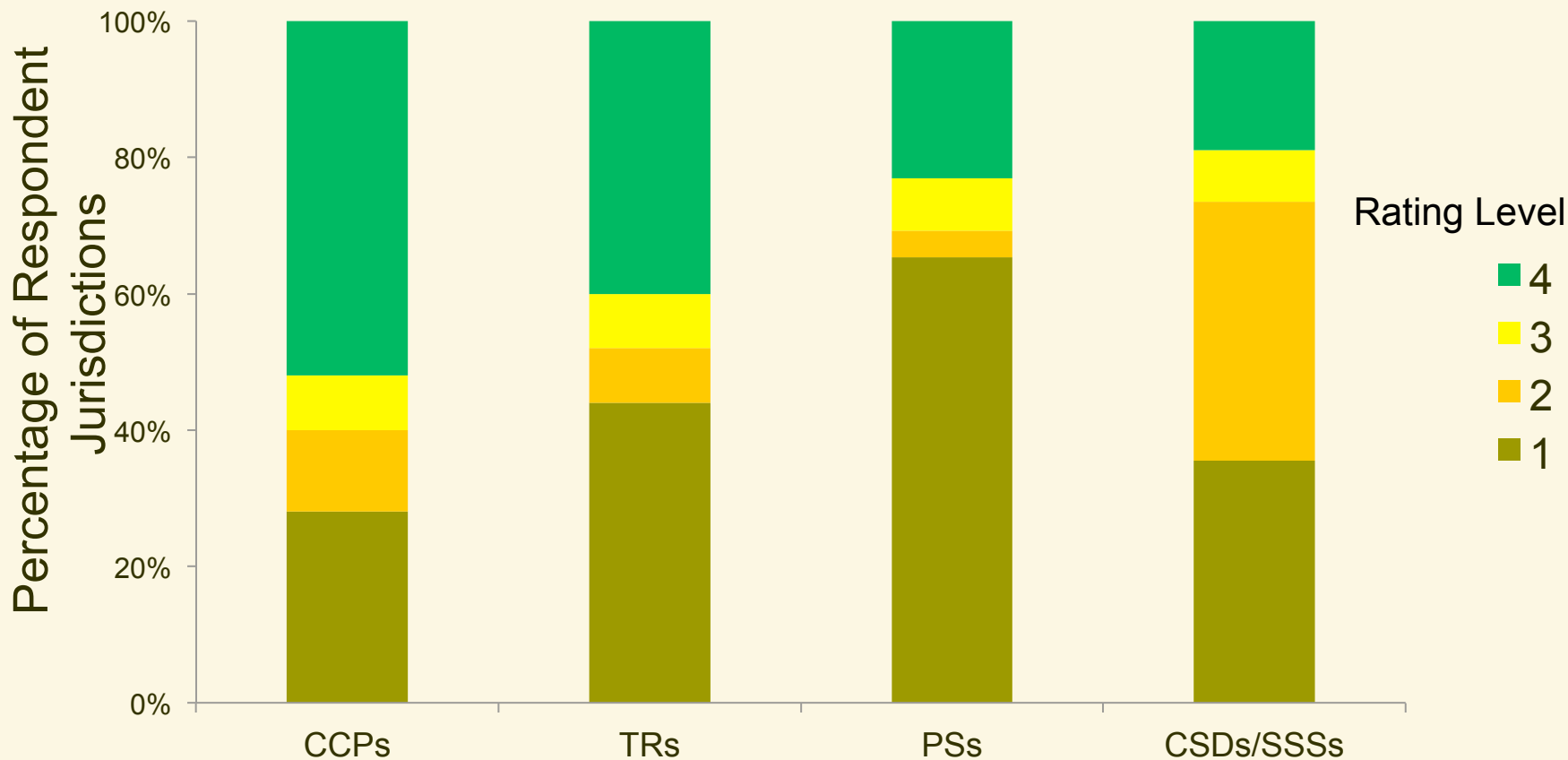
Legislation or regulation (19 jurisdictions)

Guidance and policy statements (13 jurisdictions)

FMI rule book based approaches (6 jurisdictions)



## Country Progress by FMI type (as of April 2013)





## PFMI Implementation monitoring – Level 1

- The *first Level 1 assessment* is finalised
- Results of this assessment were published in **August 2013** on both CPSS and IOSCO websites:

*“As of April 2013, only few jurisdictions have completed the process for all types of FMIs but many are making good progress and expect to be well advanced by the end of the year - given that the PFMI were only issued in April 2012 this represents substantial progress)”*
- Further *update reports* to follow on a regular basis
- Assessments will be complementary to the FSB SCSF assessments and IMF-World Bank FSAPs





## PFMI Implementation monitoring – Further work

- *Level 2 assessments* are scheduled to start by the end of 2013
- Scope:
  - Evaluating the *consistency* of implementation measures in each jurisdiction with the PFMI allowing for *horizontal* comparison
  - Possible *prioritisation* in a first round
    - (i) on CCPs and TRs, given their importance for the successful completion of the G20 commitments regarding central clearing and transparency for derivative products, and
    - (ii) on jurisdictions hosting global CCPs and TRs
- Future *level 3 assessments* may evaluate consistency of outcomes at FMI and authority level



## Recovery of FMIs

- CPSS-IOSCO consultative report published in **July 2012**
- Further work on FMI recovery planning on-going – draft **report** intended to be issued for *consultation in Q3/2013*
- Aim to provide *guidance to FMIs on the development of comprehensive and effective recovery plans* as well as to *supervisors, overseers and resolution authorities* of the FMI
- Guidance could cover:
  - the relationship with the FMI's *risk management* and to *resolution*,
  - the process of *recovery planning*, and general guidance on the content of recovery plans
  - determining an appropriate set of its *recovery tools*



## Resolution of FMIs

- The FSB has been working on *principles for the resolution of systemically important FIs* – the **Key Attributes (KA)** of November 2011, with further work being undertaken on a related **Assessment Methodology (AM)**
- The CPSS-IOSCO **Consultative report** of July 2012 has been looking at resolution tools and further issues to be taken into account for different types of FMIs when putting in place effective resolution regimes for FMIs
- Resulting findings have been provided to the FSB to be included in an **FMI annex to the KA** and **FMI related specifications in the AM**
- This guidance supplements the *Key Attributes* by indicating how particular KAs, or elements of particular KAs, should be interpreted when applying to resolution regimes for FMIs or specific classes of FMI



## Resolution of FMIs

- **Key issues:**
  - *continuity and timely completion* of critical payment, clearing and settlement functions and settlement of obligations due to participants and to any linked FMI (subject to the use of loss allocation powers);
  - continuity of the ‘*delivery versus payment*’ process for settlement and application of the relevant *finality* rules;
  - *continuous access* of participants to the critical functions of the FMI, including to securities or cash accounts held by the FMI;
  - *no disruption in the operation of links* between the FMI in resolution and other FMIs; and
  - preservation of, and continuous processing of and access to, *data stored in a TR*



## **Further *possible* PFMI related activities**

- **Guidance on the Application of PFMI to central bank FMIs**
- **Assessment methodology for Annex F (critical service providers)**
- **New collateral management services and settlement risk**
  - New CPSS working group on new collateral management /collateral transformation services from a settlement risk perspective
- **Further analysis of liquidity risk**
- **Further analysis of cooperative oversight arrangements**
- **Guidance on tiering and segregation models**
- **Update of the market-wide recommendations for securities settlement**



## Key CPSS activities in the field of (retail) payments

### Descriptive reports and statistics

- E.g.: **Red books** (not only retail, but including retail issues)

### Guidelines, principles, best practices

- Few examples in the field or retail: *General Principles for international remittance services (January 2007)*

### Policy and analytical reports

- *Retail payment systems in selected countries: a comparative study (September 1999)*
- *Clearing and settlement arrangements for retail payments in selected countries (September 2000)*
- *Policy issues for central banks in retail payments (March 2003)*
- ***Innovations in retail payments (May 2012)***



## Current work of the CPSS in the field of retail payments

### Report on Innovations in Retail Payments (May 2012):

Stocktaking exercise and analysis, based on a comprehensive survey in which some 122 innovations were reported by 30 central banks (including some non-CPSS central banks)

#### ● Trends:

- Dynamic market, but few innovations have significant impact (so far)
- Most innovations are national (role of ***standardisation?***)
- Speed is gaining importance
- Financial inclusion is a driving force
- Role of non-banks is increasing (***new CPSS working group on the role of non-banks in retail payments***)



## Virtual currencies

- Features:
  - A “currency” (no legal tender, but means of exchange) with an embedded payment mechanism
  - Usually unregulated
  - Issuers / scheme owners are usually non-financial companies
- Concerns:
  - Anonymity and potential for money laundering and criminal activities
  - Shares the vulnerabilities of cash (theft, counterfeit) and adds others (cyber attacks)
  - Opaque procedures for money creation: inherent instability
  - Reputational risk for central banks and other authorities
  - (So far) limited use as a means of exchange due to lack of critical mass
- Until recently, little attention has been devoted to these currencies due to their small size, but this is *rapidly changing (Bitcoin)*





## CPSS work on cyber security

- Part of operational risk considerations (cf. PFMI Principle 17). CPSS has been looking at specific aspects of cyber security (e.g. phishing) in the past
- Increasing threat landscape and sophistication of cyber attacks led CPSS to start analysing the relevance of cyber security issues for FMIs and share information on oversight practices
- In June 2012, the CPSS set up a working group to identify and analyse cyber security issues for FMIs, challenges to ORM and BCPs, and also implication for overseers
- Key preliminary findings:
  - Increasing sophistication of attacks - diversity of goals (fraud, terrorism, etc.)
  - Multiplicity of entry points
  - Attackers can and will breach defences (e.g. attacker is already inside)
  - Disruption can extend beyond expectations (comprehensive data/system integrity breach) - it is difficult to pre-estimate impact
  - Diversity of measures needed (IT, processes, people, communication)



## Future outlook on innovations in retail payments

*Hard to make any prediction, but a few pointers:*

- Technical developments will continue blurring the categories
- E-commerce could be a key driver
- Globally active players may play a leading role
- Innovations to be adopted gradually, but large leaps are possible (especially in countries with less developed payment systems)
- Significant differences between regions are likely to persist
- Security issues will become ever more critical
- *Regulation can be either driver or barrier*



## Issues and challenges for central banks

Varying from country to country, but common issues and challenges persist:

- It is important to ***monitor and assess new developments*** (collection of relevant data, building expertise)
- Formulating and ***communicating in a transparent way*** the objectives, views and research of the central bank vis-à-vis innovations
- Central banks may play a role to foster ***standardisation and interoperability***
- ***Oversight frameworks*** may need to be reviewed
- ***Cooperation*** with other central banks and authorities (at a national and international level) will have to increase
- Need to assess the ***impact of innovations*** on the payment services offered by the central bank, on cash provision and on monetary policy