



BANK FOR INTERNATIONAL SETTLEMENTS

Incorporating the PFMI into the PS Oversight Framework

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* Views expressed are those of the author and not necessarily the views of the BIS





Oversight Framework



FMIs and regulatory framework



PFMIs and retail PS



Transparency



CPMI-IOSCO Implementation
monitoring



What is an Oversight Policy Framework?

- The Payment Systems Oversight Policy Framework defines the various policies and drives the activities to be undertaken by the central bank oversight function based on the overarching principles and public policy objectives of the payment system oversight
- Transparency of the Oversight Framework: The Oversight Framework should be stated in a public policy document of the central bank (published on the central bank website)

What does the Oversight Framework cover?



Acceptance of PFMIIs by the overseer

As part of their regulation/oversight responsibilities, national authorities are expected to regularly assess observance of the Principles by FMIs. Authorities are also encouraged to conduct periodic self-assessments of their observance of the Responsibilities.

- Formally include the PFMIIs in the Oversight Framework (central bank website)
- Clarify whether the central bank applies higher than the PFMI requirements for some systems. For example, some central banks might establish higher requirements for systems they operate
- Disclose any additional oversight requirements, clarifications and national specifics regarding the implementation of the PFMIIs
- Develop internal documents regarding various activities of the overseer to implement the PFMIIs
- Decide the rating system

Legal and regulatory framework

- Review of the legal and regulatory framework to identify:
 - Any obstacles for overseeing the systemically important systems (operators, third party service providers); powers to collect information, to conduct inspections, and to induce changes
 - Lack of clarity or legal uncertainty regarding the risk management of the respective systems
- For CSDs, SSSs, CCPs and TRs clarify the role, division of oversight responsibilities and methods of cooperation with other regulatory and oversight authorities (for example, the securities market regulators); a review of the legal and regulatory framework will be necessary.

Which systems should comply with the PFMIIs?

Systemically important payment system

- Large-value payment system: payment delays or disruptions may result in high risks to the financial sector and the economy.
- Low-value (retail) payment systems with high coverage of retail consumers: payment delays or disruptions may result in occurring of systemic risks or loss in confidence in money.
- Other payment systems that serve financial markets or are significant in terms of value. For example, a system for settlement of FX transactions (Vietnam)

All SSSs, CSDs, CCPs and TRs (as per PFMIIs report) for:

- Government bills and bonds
- Central bank securities
- Corporate securities
- Stock exchange and OTC markets traded securities

Criteria for designation of a payment system to comply with PFMI

To decide whether a payment system is systemically important, the central bank can use a combination of criteria, such as:

- Average value of individual payments
- Volumes
- Type of underlying transactions and markets served
- Number of users
- Cross-border connections

Criteria and designated systems to be publicly disclosed

Collection of information

- Statutory powers vs moral suasion
- In the initial stage of designating / licensing a payment system operator
- Requirements for regular reporting by the payment operator to the overseer
- Requirements to system operators for conducting self-assessments and publishing a Disclosure Framework

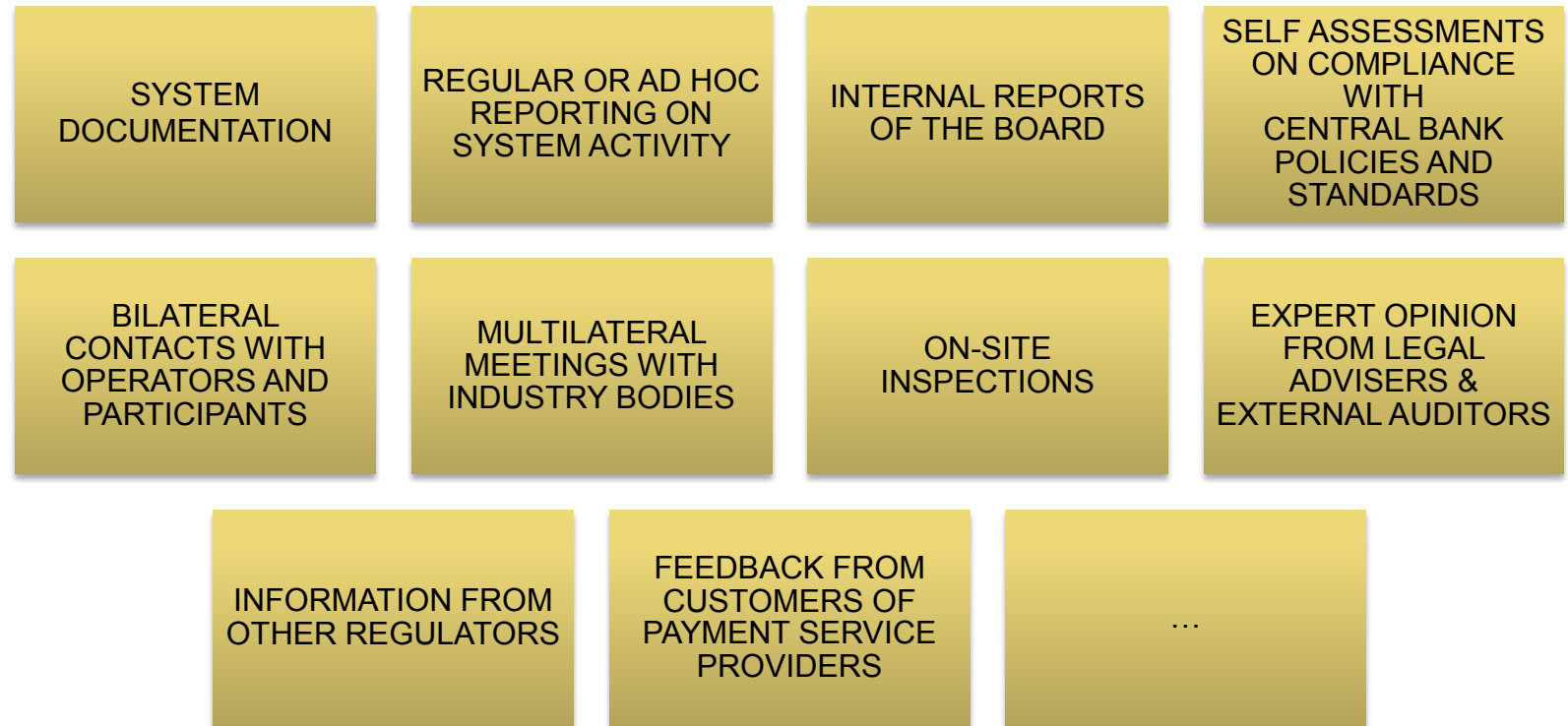
Type of information to be collected

- System rules, services, organisation, governance arrangements, composition of the Board, capital and own funds
- Risk management framework: tools for identification of risks, risk mitigation tools, regularity of review of the risk management framework
- System participants: access criteria, credit exposures, liquidity usage, information about indirect participants
- System performance, service level agreements, incidents, claims and redress procedures, outsourcing
- Statistics
- Business continuity and disaster recovery arrangements

Type of information to be collected

- Recovery tools (capital and liquidity buffers)
- Regularity and results of stress testing: credit, liquidity, operational risk
- Sources of information: system operator (reporting requirements, off-site and on-site inspection), PSP, participants, auditors, public
- Automation of statistics collection and database
- Power to obtain information and to conduct on-site inspections
- Monitoring of developments; research and analysis

Sources of information



Reporting requirements

- Establish rules and develop internal documents regarding type of information to be collected and regularity of reporting by the overseen operators
- Develop data templates and automate the process (on-line templates)
- Regularity of the reporting by the overseen operators
 - Immediately: major disruptions in the operation of systems
 - Daily (volumes, values, incidents, liquidity usage)
 - Monthly (aggregated data)
 - Quarterly
 - Yearly: self-assessments and supporting documents
- Update templates regularly in accordance with market developments

Continuous monitoring and analysis

- System information
 - Payment flows
 - Credit and liquidity risk related information: settlement and payment delays; length of queues; gridlocks; liquidity shortfalls; breaches of credit/debit caps; usage of intraday liquidity, intraday/overnight credit positions recorded in real-time throughout the day, settlement fund positions, time distribution of settlement and intraday credit provisions
- System availability and continuity
 - technical or operational failures, number and duration of incidents, number of payments involved in incidents, back-office problems, analysis of incidents and examine plans for actions
- Spillover to/from ancillary systems

Information systems and database

- Effective monitoring requires an information system on the critical payment system features, activity levels, and analytical measures and reports
- Integrated modules and user-applications for acquiring, processing, storing, and distributing statistical data as well as qualitative information
- Database to contain (high-frequency) time-series data for participants and systems (raw data)
- And analytical data, such as data measures, indicators in their relevant time-series form, for the payment systems and by participant. The system to be able to generate various reports with analytical data

On-site inspections

- Regular and ad-hoc
- Inspection activity to have legal base
- Inspection of providers of outsourced services
- Inspections of banks to be coordinated or conducted together with banking supervisors
- Focus on governance, procedures, management/organisation of payment processes, internal controls of payment processing, risk management, back office activities, contingency planning, contracts with third parties, incidents

Assessments

- Develop internal assessment methodology and templates based on the PFMI Assessment Methodology. Identify Key Considerations (KCs) and questions that are applicable to each FMI.
- Define assessment schedule (regularity) and schedule for inspections
- Regularity of assessments of systemically important systems: once a year or after any material change of system rules.
- Full assessment vs partial assessment. Typically, the first assessment covers all PFMIs. Follow-up assessments could cover selected topics (for example, PFMIs where potential risks have been identified in previous assessments; or triggered by changes in the rules or changes in market conditions)
- Functional approach to assessment of FMIs. It is possible to assess two systems together, when operated by the same operator (eg CSD and SSS).
- Inform the operators about the assessments in a timely manner

Assessment report

- Use of Assessment Methodology (AM)
- For each issue of concern, define requested actions and timeframe
- Regular review of the progress in the implementation of the recommended actions
- Internal report to the central bank Board / senior management with results of the assessments
- Sharing conclusion of assessments with other authorities (legal framework for cooperation and information sharing, MoUs)
- High-level results of assessments (Annual Oversight Report or alike)

Rating framework

- **National authorities** may use the AM rating framework or another rating framework
- in particular when it is legally bound to use a different AM.
- if different rating framework, that framework should be as effective as the AM rating framework for assessing PFMIIs.
- AM rating framework to be used in the context of cross-border cooperative oversight arrangements unless agreed otherwise

Inducing change

- PFMIIs require explicitly that the overseer has clear statutory power to induce change; enforcement powers, powers to impose sanctions
- Define tools to induce changes in the overseen FMIs (eg issuing recommendations, regulations, public statements, imposing sanctions / penalties to operators, suspension and revocation of a license)
- Moral suasion is frequently used by the overseers
- Central banks can influence the systems to comply with PFMIIs through its role as owner, participant in the systems, settlement agent, liquidity provider, or member of the Board of the FMI
- Cooperation with other authorities: banking supervisors, securities markets regulators and overseers abroad

Assessment of responsibilities of the authorities

- Self-assessment by the authorities
- Applies to the oversight framework in general, not a particular system
- Can be conducted by each regulatory authority separately or in a cooperative manner
- Assessment by external assessors, CPMI-IOSCO implementation monitoring, IMF/WB FSAPs, WB assessments as part of technical assistance

Other oversight activities related to PFMI

- Preparing internal analytical reports for the Board
- Public reports (Annual oversight report) and statistics
- Organise “street-wide” business continuity exercises and crisis management tests with the involvement of systems, participants, linked systems and other authorities
- Overseer’s relations with other central bank functions: legal, market operations, accounting, IT
- Relations with other authorities: banking supervision, securities markets regulator and overseers in other countries (forms of cooperation and information sharing - MoUs)

Functional approach to oversight of retail payments

- Oversight should be based on the types of services provided and the types of instruments used
- All retail payment instruments and institutions should fall within the purview of a risk-based oversight approach
- PSPs to be treated consistently and proportionally
- A functional approach would ensure a more level playing field to all providers of payment services

PFMIs and the oversight of retail payment systems

- The overseer could apply a subset of PFMIs to retail payment systems that are not systemically important
- Example: ECB approach. The ECB defines three categories of retail payment systems based on degree of disruption that malfunctioning of these systems could cause to economy:
 - SIRPS (Systemically Important Retail Payment Systems) – all PFMIs are applicable
 - PIRPS (Prominently Important Retail Payment Systems) – only selected PFMIs are applicable
 - ORPS (Other Retail Payment Systems) – only selected PFMIs (less requirements compared to PIRPS)

ECB approach to oversight of RPS

SIRPS

- All PFMIIs apply

PIRPS

- Selected PFMIIs apply
- Principles on credit liquidity risk and collateral are not required for non-SIRPS in the same way as in the PFMIIs

ORPS

- Principles 2, 3, 8, 9, 13, 17, 18, 21, 23 apply
- In addition to principles for credit, liquidity risk and collateral, Principles on Money settlement, General business risk and Communication procedures and standards are not required for ORPS
- In addition, some of the KCs are applicable to PIRPS but not to ORPS



Oversight Framework



Collection of information



Assessments



Inducing changes



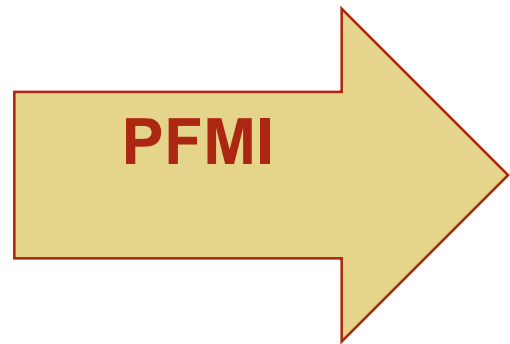
PFMIs and retail PS



CPMI-IOSCO Implementation
monitoring



Why monitor implementation?



- Help ensure safety, efficiency and resilience of FMIs
- Limit systemic risk, foster transparency and financial stability
- Provide support for G20 strategy to enhance resilience of the financial system



- Fundamental to ensure safety, soundness and efficiency of key FMIs
- Supports the resilience of global financial system
- Helps jurisdictions mutually recognise FMIs
- Monitoring informs potential policy guidance

Call for actions

- “Relevant authorities should strive to incorporate the principles and the responsibilities in this report in their legal and regulatory framework by the end of 2012.”

PFMIs paragraph 1.30

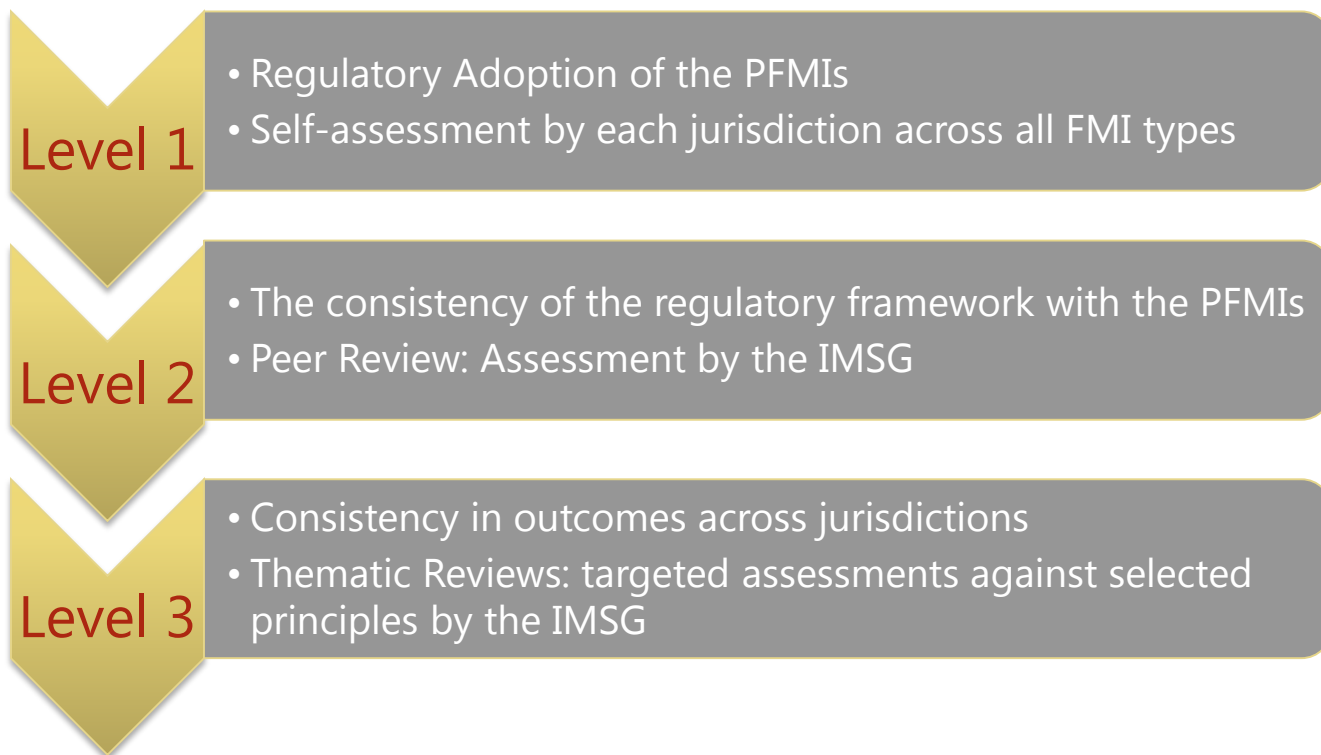
- Following the publication of the PFMIs, CPMI and IOSCO agreed to monitor their implementation in the

28 CPMI member jurisdictions.

- *Commitment of members* of the relevant bodies (CPMI, IOSCO, FSB) to adopt the PFMI and put them into effect as soon as possible; FMIs are expected to observe the principles as soon as possible.

Structure of the assessment

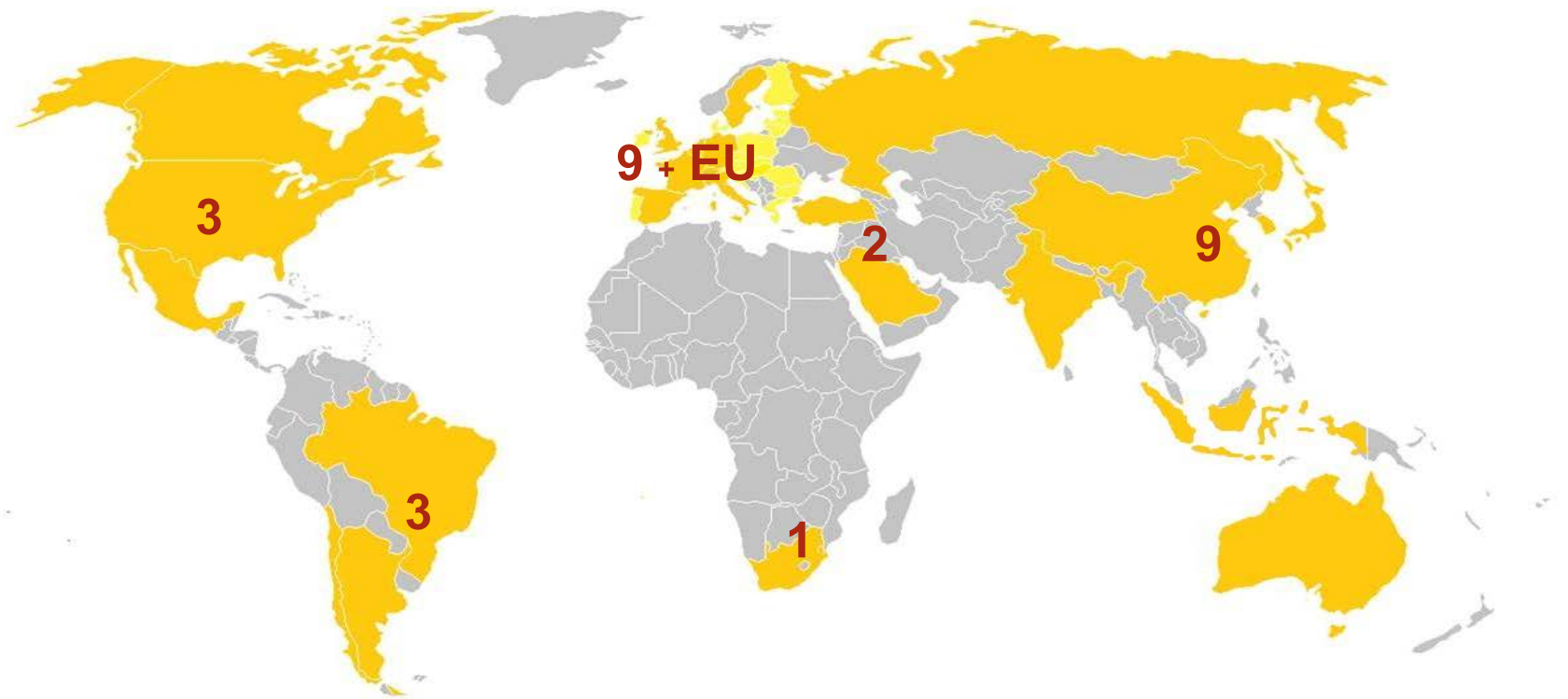
- CPMI-IOSCO began the process of monitoring implementation of the PFMI in April 2013, based on a **Three Level approach**



Structure of the assessment (continued)

	Implementation monitoring
Process	Staged approach: (Level 1) process, (Level 2) content, (Level 3) outcome (ie actual observance status)
Jurisdictions	A group photo: multiple jurisdictions at the same time (horizontal review)
PFMI elements	All (level 1 and 2) or thematic (level 3)
Baseline methodology	IMSG consistency guideline, PFMI AM

Jurisdictional coverage (Level 1)



Introduction and context

- CPMI-IOSCO SG established the Implementation Monitoring Standing Group (IMSG)
 - Representatives from 18 jurisdictions
 - Reflective of CPMI and IOSCO membership, geographic dispersion and range of FMI types
 - Supported by the CPMI and IOSCO Secretariats

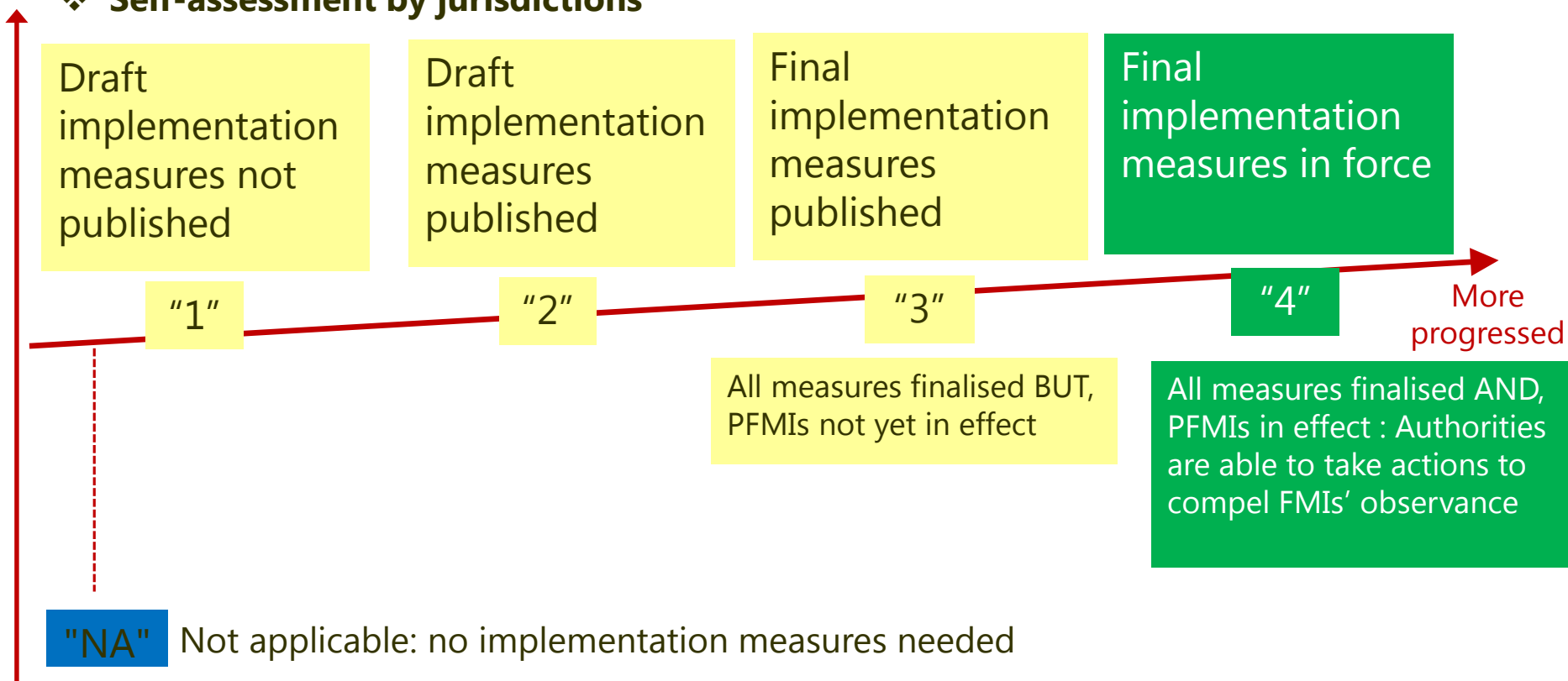
Benefits for Assessed Jurisdictions

- Confirm completeness/consistency
- Highlight potential ambiguity of measures
- Identify gaps in measures
- Facilitate cross-border equivalency decisions

Level 1 assessment of Principles and Responsibilities

- Rating scale to reflect the progress status (Not meant to present gradual progress, but explains the completion of hard factual elements!):

❖ Self-assessment by jurisdictions



The IMSG reviewed ratings for consistency and comparability across jurisdictions

Level 1 Updates

- Approaches to implementation differ:
 - Formal rulemaking by relevant authorities
 - Policy statements based on existing legal basis
 - Revisions to FMIs rulebooks
- Significant progress has been made to date:
 - The vast majority of jurisdictions reported having complete legal capacity for PFMI implementation.
 - Authorities around the world are committed to implement the PFMIs while actively taking necessary steps.
- Regular updates will continue until all jurisdictions achieve a 4 rating across the board
- Last reiteration: July 2017 (<http://www.bis.org/cpmi/publ/d166.pdf>)

Level 2 Assessments

- EU, Japan, US (CCP and TRs)
- Australia, Hong Kong SAR, Singapore (PSs, SSSs/CSDs, CCPs and TRs)

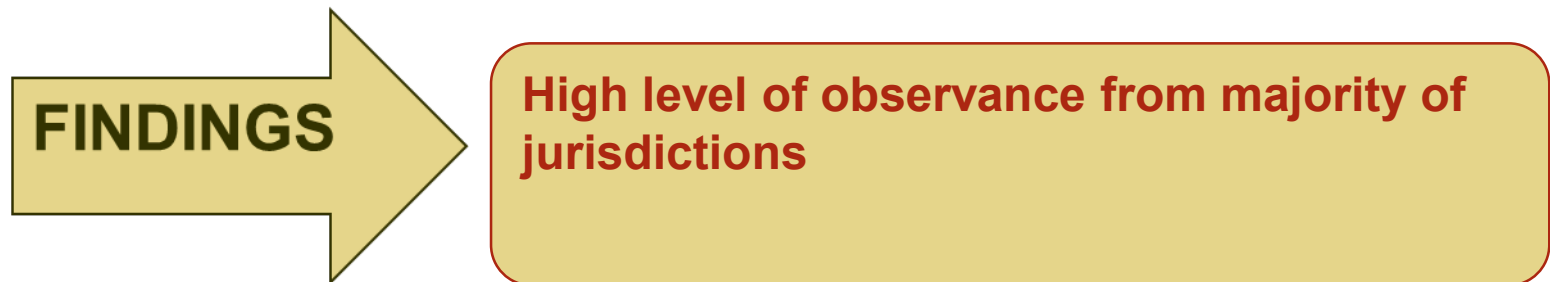


FINDINGS

- Consistent or broadly consistent for majority of Principles
- Progress has been more limited for TRs

Responsibilities Assessments L2/L3

- “Level 2” aims to assess the measures taken by the relevant authority (or authorities) to fulfil the Responsibilities, including its (their) powers and the framework and processes it has in place to meet the requirements under the Responsibilities.
- “Level 3”, by contrast, aims to assess how these measures translate into observed outcomes.
- 28 jurisdiction, peer-review 2015 (<http://www.bis.org/cpmi/publ/d139.pdf>)



Level 3 assessments: a few words on methodology

- Level 3 assessments are peer-benchmarking exercises, rather than supervisory exercises.
- The output of each review will be a single narrative-based report comparing the range of measures taken/outcomes achieved across FMIs and making observations about their broad consistency both with the requirements under the PFMI and with each other.
- In order to keep the scope of the assessments manageable, Level 3 reviews are progressing sequentially on a thematic basis (rather than focusing on all of the Principles and all FMI types at the same time).

Thank you

www.bis.org/cpmi

