



Assessment of FMIs against the PFMIs – Euroystem example

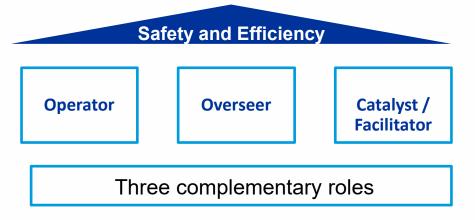
INTERREGIONAL HYBRID WORKSHOP ON CPMI-IOSCO PFMIS, ACCRA

JANUARY 31, 2024

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Legal basis

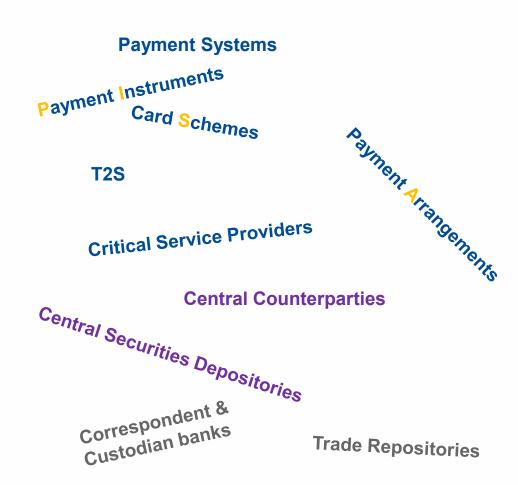
- Article 127(2) Treaty on the Functioning of the EU (TFEU) and Article 3 of the ESCB/ECB Statute: the basic tasks of the [Eurosystem] include the obligation "to promote the smooth operation of payment systems"
- Article 22 of the Statute: "The ECB and NCBs may provide facilities, and the ECB may make regulations, to ensure efficient and sound clearing and payment systems within the Community and with other countries"



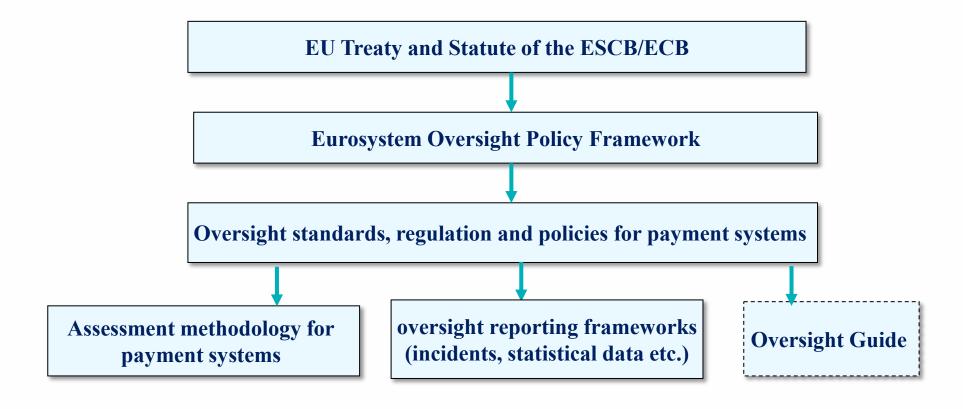


Scope of Eurosystem oversight

- Is determined by the relevant provisions of the Treaty
- However, it may change over time as arrangements for the clearing and settlement of payments and securities/ derivatives evolve
- In some cases (CSDs, CCPs), the Eurosystem has a specific role, alongside National Competent Authorities and other EU authorities, as "Central bank of issue" (EMIR) and/ or "Cash-leg central bank" (CSDR)
- In other cases, the Eurosystem has an interest to cooperate with other competent authorities/ supervisors
- Involves significant EU and international cooperation with other authorities and central banks (MoUs, supervisory colleges, cooperative oversight arrangements, crisis management groups for resolution of CCPs...)



Oversight of payment systems



Eurosystem oversight process

Formulation of the oversight policy stance



- Monitoring and analysing relevant developments (legal, technical, business, environment) and risks
- → Setting standards (binding or non-binding): CPMI-IOSCO PFMIs, SIPS Regulation, Eurosystem Frameworks, CROE etc.
- → Defining a common Eurosystem policy

Collecting and assessing relevant information



- Collection of data/information
- On-site visits/inspections
- •Identification of potential weaknesses//infringements
- → Regular oversight activities
- → Ad-hoc assessments
- → Gap assessments
- → Comprehensive assessments
- → Recommendations or Observations to operators

Enforcement

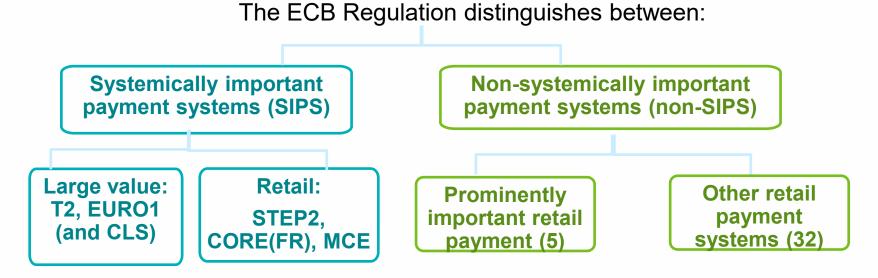
- Corrective measures/sanctions
- Moral suasion
- Voluntary agreements
- Cooperation with other competent authorities
- →Inducing change

Allocation of roles within the Eurosystem

Common Eurosystem oversight policy framework			
Domestic systems	Systems with no domestic anchor		
National Central Bank (NCB)	NCB of the country where the system is <u>legally</u> <u>incorporated</u> unless the Governing Council decides otherwise and assigns the ECB		
Eurosystem coordination of oversight activities to ensure a consistent application of its policy stance throughout the euro area			

^{*}ECB is the lead overseer for all pan-European payment systems (alongside NBB in the case of Mastercard Europe)

Oversight of payment systems



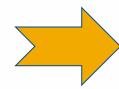
- The distinction is mainly based on criteria related to size, market share, cross-border activity and the provision of settlement services to other financial market infrastructures.
- The classification of euro area payment systems is reviewed annually.
- List of payment systems and their classifications on the ECB website: Payment systems (europa.eu)

Systemically important payment systems (SIPS) Regulation (2014), amended 2017

- Implements for euro area SIPS those Principles of the PFMI applicable to payment systems.
- Covers wholesale and retail payment systems of systemic importance
- Applies to central bank (CB) and private sector-owned systems
- Some exemptions for CB-owned systems (e.g. governance, wind-down plan, collateral and investment risk)
- Changes in 2017 concerned inter alia:
 - Governance: independent director, 3-lines of defence model, Board approvals
 - Credit and liquidity risk: protection of intraday cycles in deferred net settlement systems
 - Operational risk: reference to cyber risk elements deriving from the CPMI-IOSCO Guidance on Cyber Resilience for FMIs to be implemented through more detailed elaboration set up in Cyber Resilience Oversight Expectations (CROE)
 - > Powers of the competent authority: reviews and investigations, on-site inspections

ECB legal acts

- Together with the revised SIPS Regulation, the following ECB Decisions/Legal acts have entered into force:
 - > Decision on the procedural aspects concerning corrective measures for non-compliance;
 - Decision on the methodology for the calculation of sanctions for infringements of the SIPS Regulation;
 - Amending Regulation on the powers of the ECB to impose sanctions.
 - ➤ NEW! Decision on procedural aspects related to the powers of a competent authority (information requirements, external reviews and investigations, on-site inspections).



- (i) Move from moral suasion to legally binding acts
- (ii) The oversight process is now more formalised with greater involvement of legal experts

Classification of systemically important payment systems (SIPS) Regulation (2014)

- The SIPS are identified yearly on the basis of the following factors (at least two of the below have to be met):
 - Financial impact (i.e. total daily average value of euro-denominated payments processed exceeds EUR 10 billion)
 - Degree of market penetration:
 - > 15 % of total volume of euro-denominated payments;
 - > 5 % of total volume of euro-denominated cross-border payments;
 - 75 % of total volume of euro-denominated payments at the level of a euro area Member State
 - Cross-border dimension (e.g. activity in five or more countries and generates a minimum of 33 % of the total volume of euro)
 - Use for the settlement of other FMIs

Non-systemically important payment systems

- Play an important role with respect to both the safety and efficiency of the financial system and public confidence in the euro
- Covered by the Revised oversight framework for retail payment systems (RPS)
 (2016)
- Integrates the Eurosystem's 'Oversight expectations for links between retail payment systems'
- Distinction between Prominently Important RPS (PIRPS) and Other RPS (ORPS), based on market share in volume terms at euro area country level (25% threshold)

 above 25% PIRPS, below 25% ORPS
- Application of a different sub-set (Principles/Key Considerations) of the CPMI-IOSCO PFMI
- <u>Excluded</u> in particular from financial risk management requirements (Principles on credit risk, liquidity risk and collateral) as well as from tiering-related requirements

Revised oversight framework for retail payment systems (2016)

Table 1 Principles

Principles	SIRPS	PIRPS	ORPS	
TOTAL number of principles applied		12	9	
SIPS Regulation	x			
Principle 1: Legal basis		x	×	
Principle 2: Governance		X	×	
Principle 3: Framework for the comprehensive management of risks		x	×	
Principle 4: Credit risk				
Principle 5: Collateral				
Principle 7: Liquidity risk				
Principle 8: Settlement finality		x	×	
Principle 9: Money settlements		x		
Principle 13: Participant-default rules and procedures		x	×	
Principle 15: General business risk		x		
Principle 16: Custody and investment risks				
Principle 17: Operational risk		x	×	
Principle 18: Access and participation requirements		x	×	
Principle 19: Tiered participation arrangements				
Principle 21: Efficiency and effectiveness		x	×	
Principle 22: Communication procedures and standards		x		
Principle 23: Disclosure of rules, key procedures, and market data		x	×	

Continuous oversight activities of payment systems

Evidence based analysis

Ongoing review of statistical data, system performance and incidents, major and minor changes, audit reports etc.

Reporting: Quarterly update for PSOWG/MIPC Annual Oversight Report for GovC

Dialogue with the operator

Bi-annual meeting with senior management, monthly working level bilateral calls and ad-hoc meetings

Reporting: quarterly update for PSOWG/MIPC

Thematic assessments and deep dives

Annual thematic assessment or deep dive on key risk area
Use of independent experts report

Reporting: Oversight Report for GovC

Annual Oversight Programme for forthcoming year

Formal letter to SIPS operator documenting overseers' priorities for forthcoming year. Driven by risk-based considerations, open findings from earlier assessments, change in the oversight framework etc.

Other oversight activities

- Periodic comprehensive assessments of overseen systems
- Monitoring and analysis of legal, technological, and business developments (potentially) and risks affecting payment systems
- Onsite inspections (i.e. an examination taking place at the location of the SIPS operator) and investigations (e.g. examination and analysis of facts, documents, information and events)
- Contribution to the handling of crisis events
 - providing input from systemic risk perspective
 - information sharing among overseers (within Eurosystem and/or internationally) and with other authorities
 - Post-incident phase
- Organisation of market-wide exercises (e.g. UNITAS crisis communication exercise of June 2018)
- Analysis of transaction and participant data (e.g. interdependencies, tiering)

Oversight assessment in practice

Step 1	Determine scope of the assessment
Step 2	Gather facts on each applicable Article/Principle
Step 3	Develop key conclusions for each Article/Principle
Step 4	Assign a rating for each Article/Principle
Step 5	Prepare assessment report
Step 6	Ask system operator to provide an action plan (including time frame) for each identified issue
Step 7	Monitor implementation and take action if needed

Further reading



Oversight chapters in <u>Payments and Market</u> <u>Infrastructures two decades after the start of the</u> <u>European Central Bank</u> (D. Russo, ed.), July 2021



Eurosystem Oversight Report 2020, April 2021



<u>Eurosystem Oversight Policy Framework</u> (Revised 2016) <= currently under review



Thank you;

Questions and discussion