



# **Assessment of FMIs against the PFMIs – Eurosystem example**

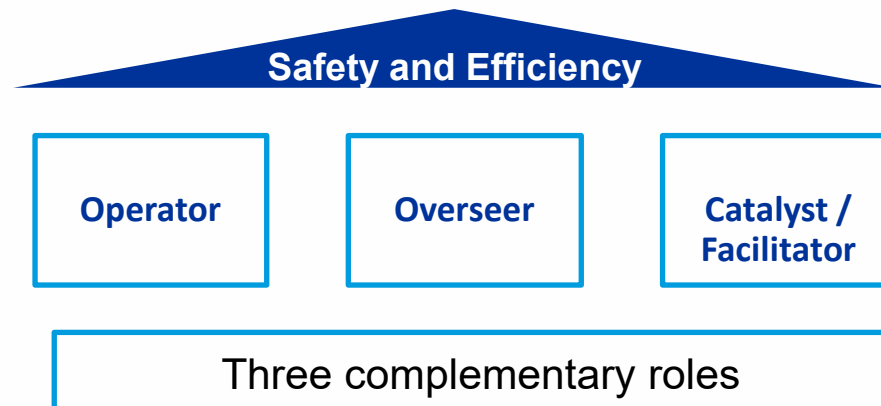
INTERREGIONAL HYBRID WORKSHOP ON CPMI-IOSCO PFMIS, ACCRA

JANUARY 31, 2024

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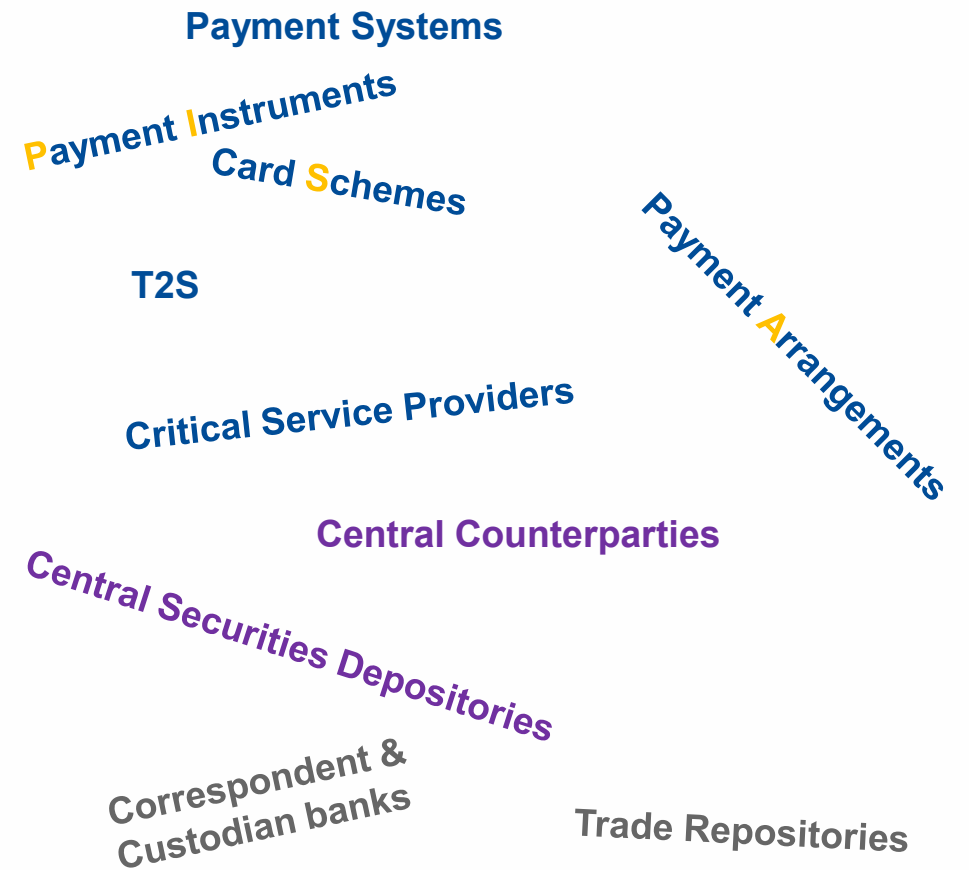
# Legal basis

- 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”

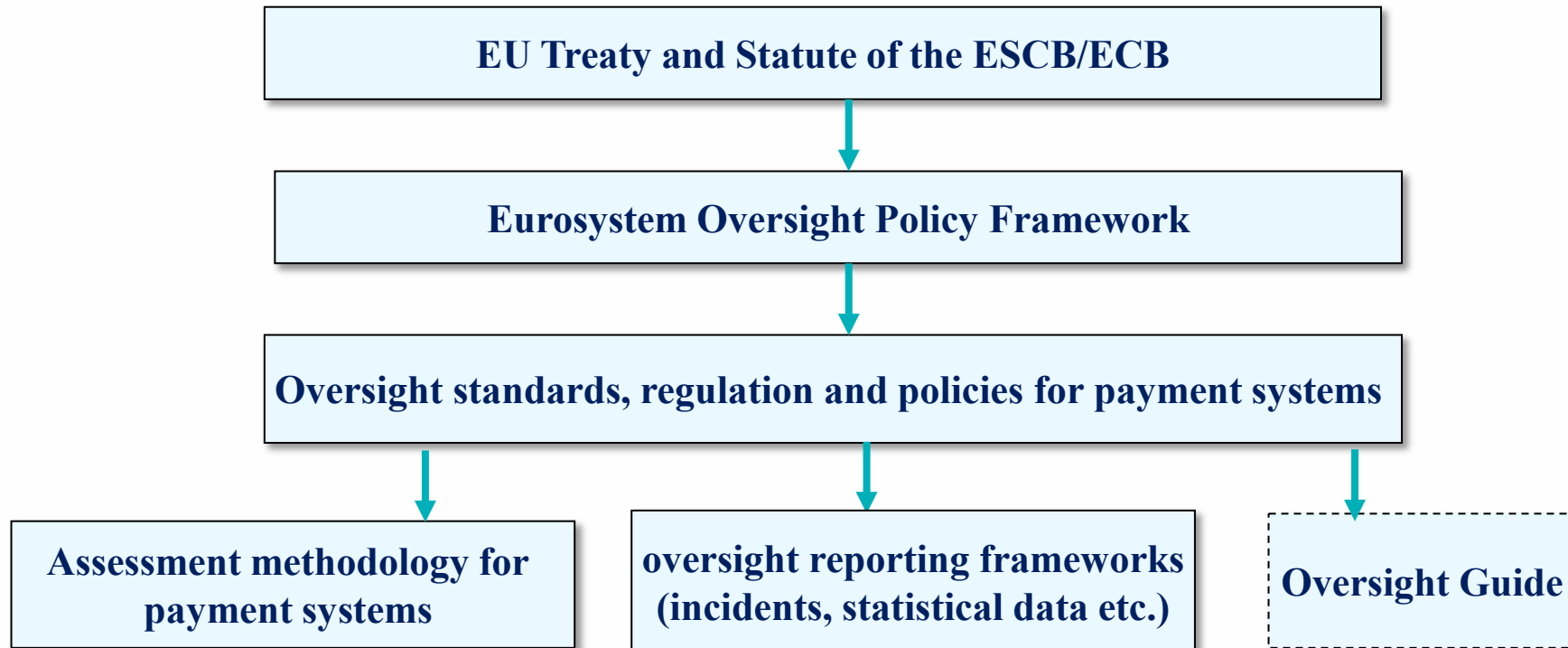


# Scope of Eurosystem oversight

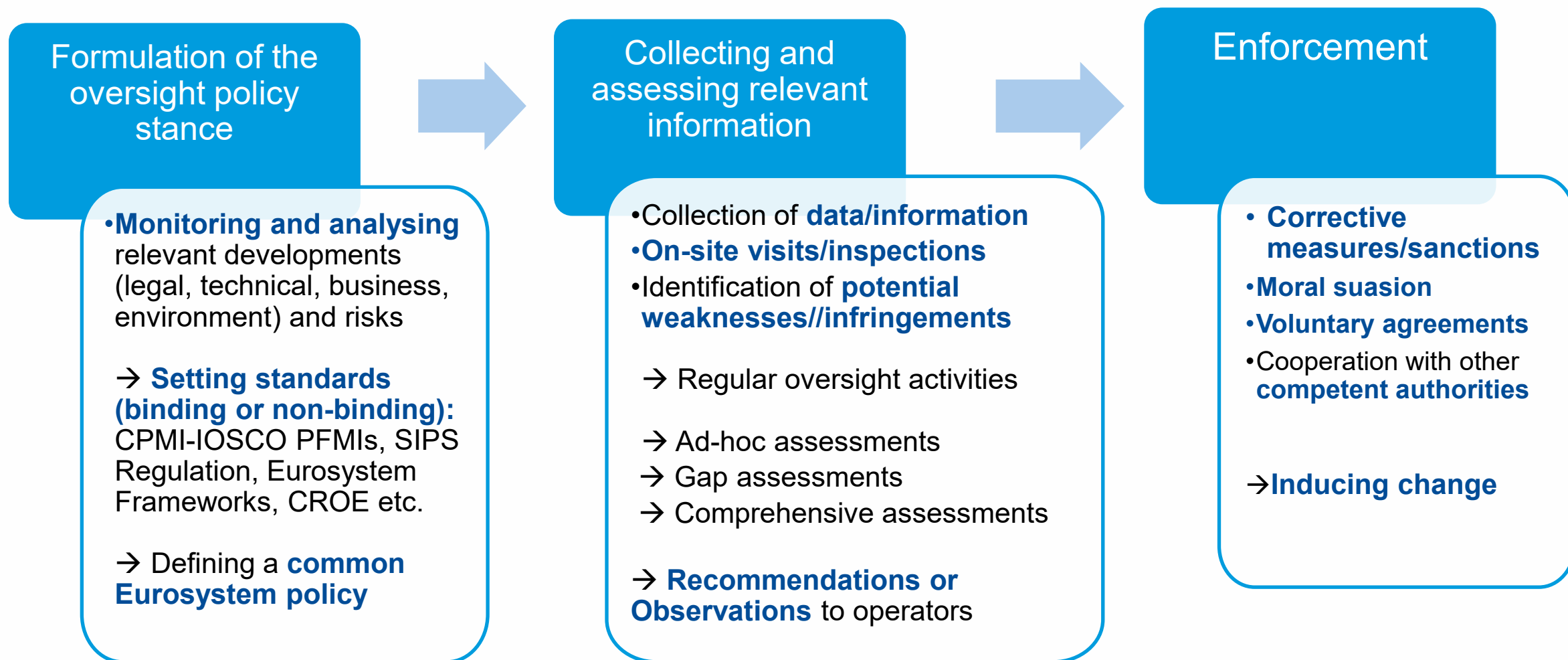
- Is determined by the relevant provisions of the **Treaty**
- However, it **may change over time** as arrangements for the clearing and settlement of payments and securities/ derivatives evolve
- In some cases (CSDs, CCPs), the Eurosystem has a specific role, alongside National Competent Authorities 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...)



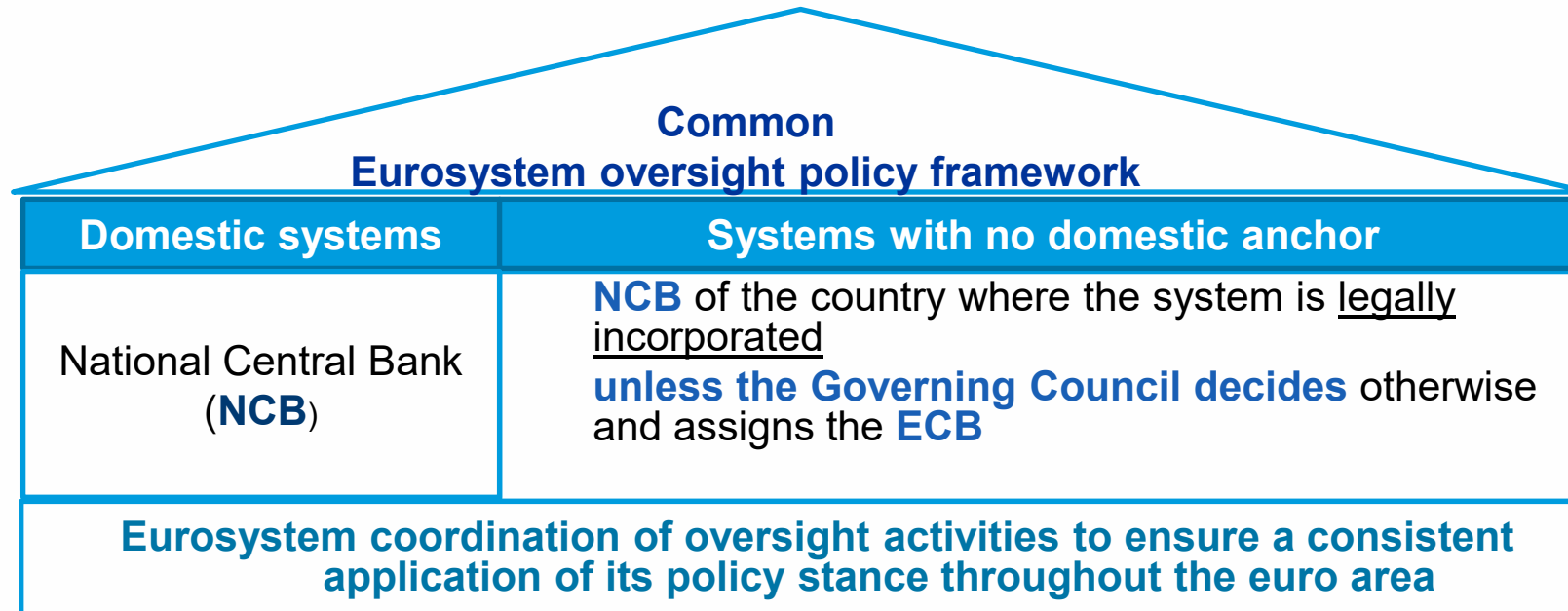
# Oversight of payment systems



# Eurosystem oversight process



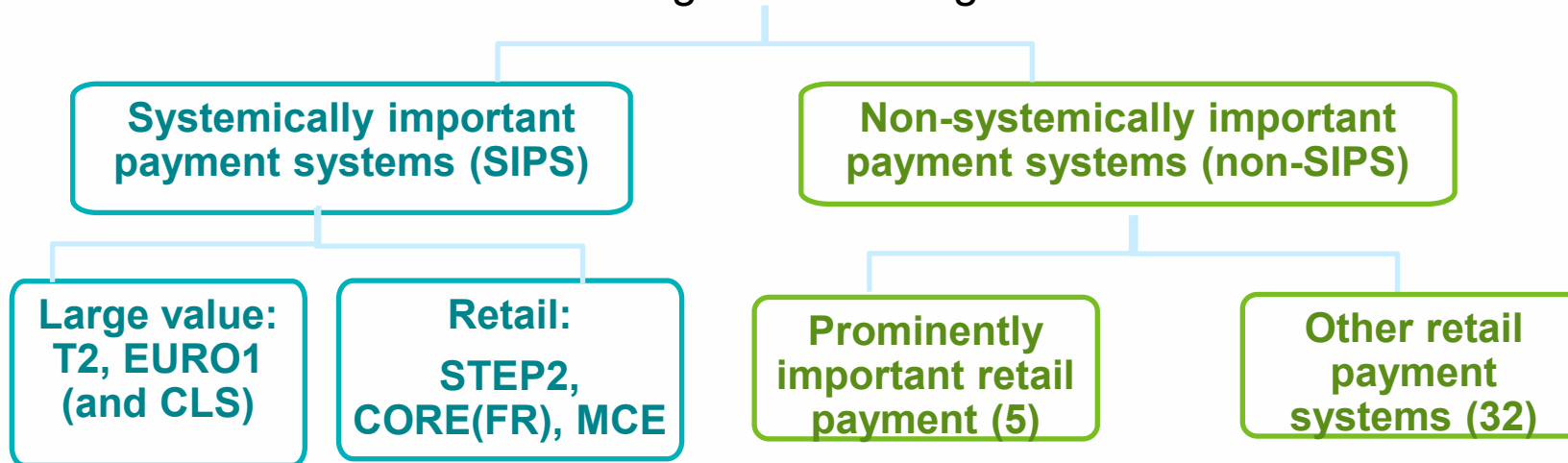
# Allocation of roles within the Eurosystem



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

## Oversight of payment systems

The ECB Regulation distinguishes between:



- 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 \(europa.eu\)](https://www.ecb.europa.eu/paym/payment-systems/)

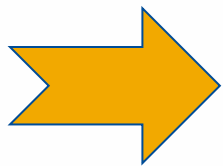
# Systemically important payment systems (SIPS) Regulation (2014), amended 2017

- 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

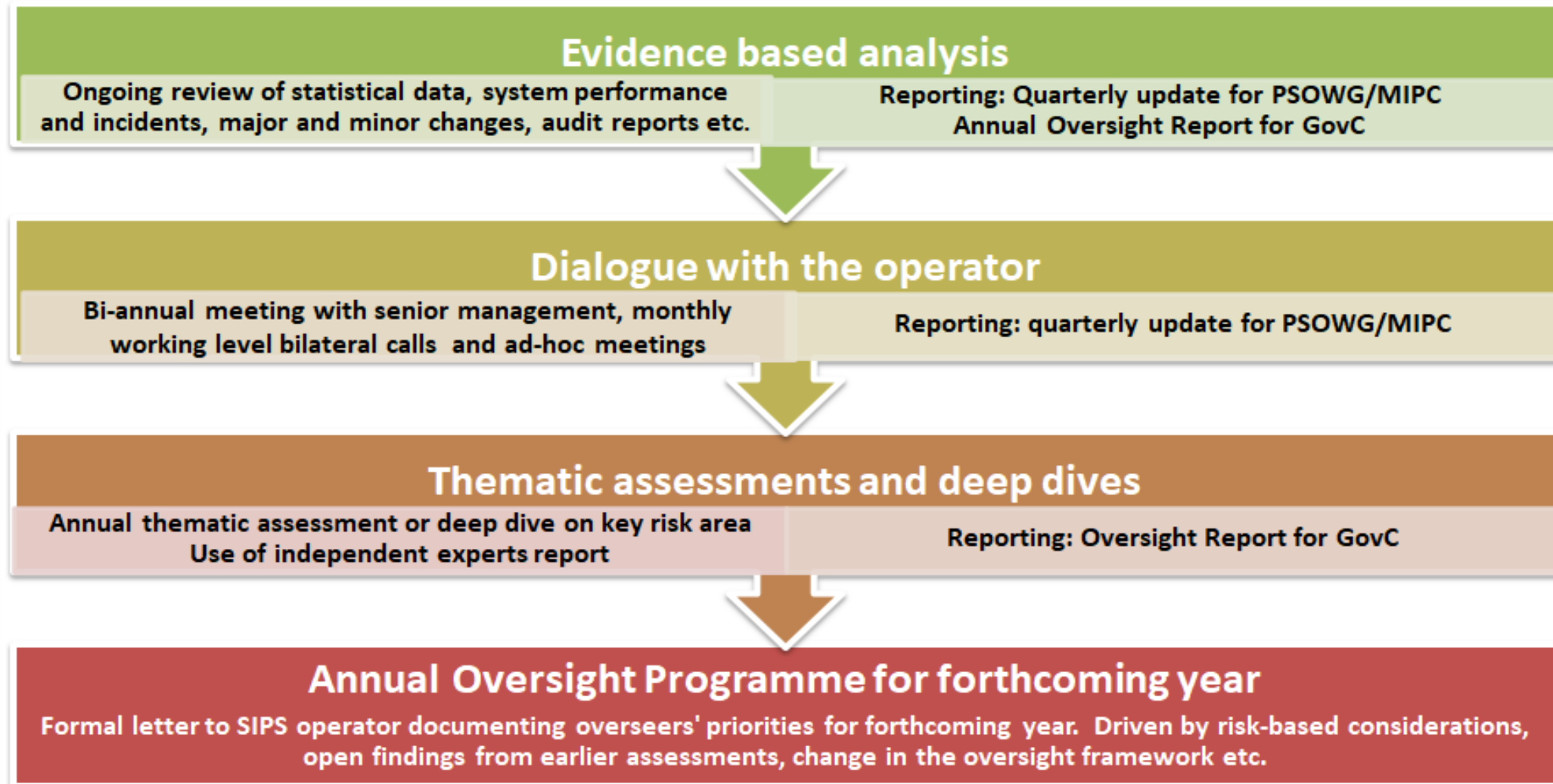
- Play an important role with respect to both the safety and efficiency of the financial system and public confidence in the euro
- Covered by the Revised oversight framework for retail payment systems (RPS) (2016)
- Integrates the Eurosystem's 'Oversight expectations for links between retail payment 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
- Excluded 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	X
Principle 2: Governance		X	X
Principle 3: Framework for the comprehensive management of risks		X	X
Principle 4: Credit risk			
Principle 5: Collateral			
Principle 7: Liquidity risk			
Principle 8: Settlement finality		X	X
Principle 9: Money settlements		X	
Principle 13: Participant-default rules and procedures		X	X
Principle 15: General business risk		X	
Principle 16: Custody and investment risks			
Principle 17: Operational risk		X	X
Principle 18: Access and participation requirements		X	X
Principle 19: Tiered participation arrangements			
Principle 21: Efficiency and effectiveness		X	X
Principle 22: Communication procedures and standards		X	
Principle 23: Disclosure of rules, key procedures, and market data		X	X

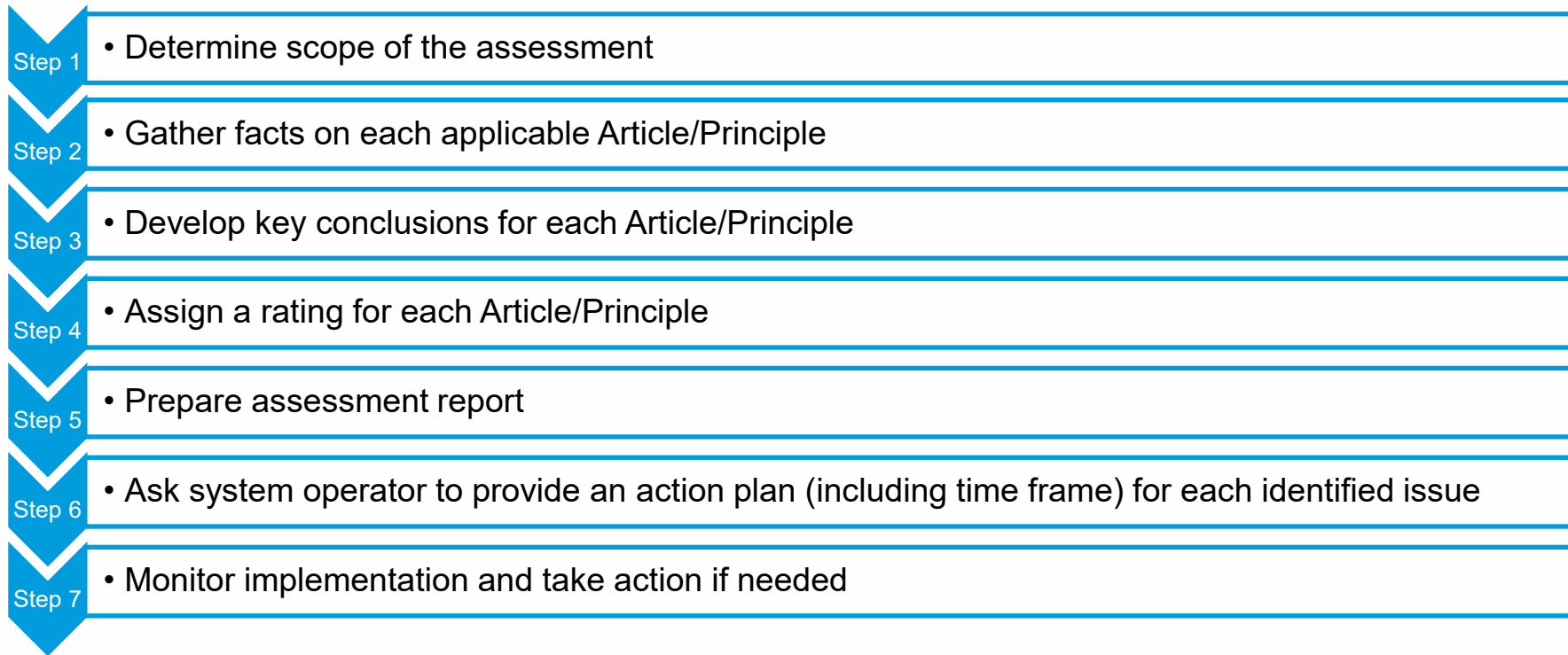
## Continuous oversight activities of payment systems



# 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



# Further reading



Oversight chapters in [Payments and Market Infrastructures two decades after the start of the European Central Bank](#) (D. Russo, ed.), July 2021



[Eurosysteem Oversight Report 2020](#), April 2021



[Eurosysteem Oversight Policy Framework](#) (Revised 2016) **<= currently under review**





**Thank you;**

**Questions and discussion**