

# WESTERN HEMISPHERE PAYMENTS AND SECURITIES SETTLEMENT FORUM



## GLOBAL PAYMENTS WEEK 2014

New York, September 25 - 26, 2014

### Executive Summary

#### **Committee on Payments and Market Infrastructures (CPMI) activities report and future agenda**

*Klaus Loeber, CPMI, BIS*

This session was dedicated to update on the Committee on Payments and Market Infrastructures (CPMI for its abbreviation) renewed role in providing guidance on payments, clearing and settlement systems and other relevant developments in the field of market infrastructures. It was also highlighted the role of the Committee as a cooperation forum for central banks on issues related to the oversight, policy development and operational aspects the payments and market infrastructures. The CPMI Head of Secretariat, Mr. Klaus Loeber, stressed the following challenges for the Committee over the next years:

- 1) Implementation of the Principles for Financial Market Infrastructures (PFMI). There is a commitment of the CPMI, IOSCO and FSB members to adopt and implement, at the earliest possible. Compliance with the PFMI is a condition for financial system participants to benefit from lower capital requirements (see capitalization of bank exposures to central counterparties, BCBS, 2012). In order to monitor the level of compliance, in April 2013, the CPMI and IOSCO began a 3-level monitoring assessment of the implementation process, as follows: Level 1 – ensures timely implementation, Level 2 – ensures regulatory consistency, and Level 3 – ensures coherent results.
- 2) Recovery and resolution of FMI. In October, 2014 and after the public consultation process the CPMI and IOSCO published a report on the importance of having mechanisms for recovery and resolution of financial infrastructures that provide critical services for the economy report. The aim of this report is to provide guidance on oversight and regulation to the FMI and the authorities on the development of comprehensive and effective recovery plans for FMI. Recovery and resolution plans should cover at least i) interaction among the FMI risk management areas and their resolution process, ii) recovery planning process, and general guidance on the content of recovery plans, and iii) determination of an appropriate recovery toolkit. Furthermore, the CPMI and IOSCO are preparing an annex with further specification on Key Attributes of Effective Resolution Regimes for Financial Institutions. It was stressed that there are other recovery and resolution processes related reports, such as the PMFI's Annex C which enumerates recommendations for securities settlement systems, as well as a CPMI report on collateral management mechanisms from the settlement risk perspective. Finally, the CPMI established a working group on November 2012 (IOSCO and BCBS) to identify and analyze FMI cyber security issues, challenges on operational risks, and the implications for overseers.
- 3) Retail payments developments. Based on the Report on Innovations published on May 2012, the Committee has devoted major attention to the retail payments space. This report is based on over 120 retail payments worldwide innovation analysis, (involving 30 central banks, including some that are not members of CPMI). After this report, CPMI organized another working group for analyzing the role of non-banks in retail payments service provision, this document was published on September 2014. Additionally, on November 2013 the CPMI and the World Bank launched a joint working group on Payment Aspects of Financial Inclusion (PAFI) with the involvement of 14 CPMI central banks and a group of international institutions (African Development Bank, CEMLA, EBRD, IDB, IMF), having as its main task to provide overall guidance

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on different aspects of payment systems and services regarding financial inclusion, including i) legal framework, ii) access, interoperability, supply and demand perspectives, iii) payment infrastructure design and management, iv) consumer protection, v) consumer awareness and financial literacy, among others aspects. Finally, it was mentioned that the CPMI is considering updating the Glossary of terms and definitions as well as the framework for the Red Book and its statistics.

### Key aspects for the implementation of the Principles for Financial Market Infrastructures from the WGPS-LAC perspective

#### **A. International experience**

*Emily Caron, FRB, Daniela Russo, ECB, Joaquín Bernal, BanRep, Rogerio Lucca, BCB*

This session helped to outline key issues on ongoing projects and actions, by several international authorities, to implement the PMFI. These actions include policy position changes and fundamental reforms on regulations. The challenges of implementing the PMFI were identified, as well as, actions and multiples efforts to tackle those challenges. The latter involve several approaches and tools to achieve significant changes in regulation, control and general operation of the main financial market infrastructures at national and regional level, highlighting among other topics the role of cooperation and coordination between authorities in both domestic and international financial regulation levels; emergence and control of interdependencies as a new source of financial risks; harmonization, standardization and interoperability among infrastructures and national, regional and international participants; existence and proper functioning of recovery and resolution processes on systemically important financial infrastructure; communication and interaction with the industry in order to facilitate the Principles implementation; and new and greater authorities' responsibilities, in general.

#### **B. CPMI and WB objectives and expectations. International organizations perspective**

*Massimo Cirasino, BM, Klaus Loeber, BIS*

This session brought light on some of the challenges faced by central banks for self-assessment and in the preparation for major international evaluations in accordance with the PFMI. Relevance about the definition of systemic importance for a FMI and the scope of the assessment seemed to be relevant for central banks due to FMI heterogeneity in their organization, function and design, which implies a challenge for evaluators to determine the assessment scope vis-à-vis activities or functions of a FMI. This is special relevant for multiple FMI belong to the same legal person, or when one FMI performs multiple functions, or when clearing and settlement processes are independent of each other. On the other side, it was mentioned that evaluation of authorities' responsibilities must be carried out at jurisdictional level (especially concerning cooperation among those to promote safety and efficiency of FMI) and not at regulatory /supervisory level on individual basis, in order to verify responsibilities compliance within the jurisdiction and identify potential legal gaps or overlaps. Finally, it was stressed the importance for central banks to use the Principles as a tool to strengthen their capacities and mechanisms to ensure efficiency and reliability of FMI.

#### **C. Recent developments in Latin America and the Caribbean**

*Francisco Linares, BdE, Julio Pando, BCRA*

This session served to present outcomes of the work carried out by the Working Group on Payment System Issues of Latin America and the Caribbean's within the frame of the Payments Forum. It is noteworthy the finalization and forthcoming publication of the document "CPSS-IOSCO Principles: A Latin American and Caribbean approach of the implications and challenges ahead" which includes a WGPS-LAC perspective regarding novelties and implications of PMFI for authorities and for FMI of the region. This report also outlines a set of regional actions to be developed by central banks members of the WGPS-LAC to support the PMFI implementation within their respective jurisdictions. These actions would be additional to those at national level according with implementation action plans of the Principles by the respective authorities. The WGPS-LAC work streams to support PFMI implementation refer to: a) regional analysis of the applicable legal basis, authorities' responsibilities and degree of cooperation, and interdependencies of existing FMI at national and regional level; b) developing common criteria to guide the assessment of efficiency and

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effectiveness of FMI; c) developing guidelines for a comprehensive risk management framework for financial infrastructures; d) identify guidelines on information to be included in the Disclosure Framework; e) elaborate a catalog of procedures and communication standards that can be considered as "internationally accepted"; f) recommendations or best practices on consultation processes led by authorities; g) survey on use and existence of physical deliveries in settlement systems; h) survey on tiered and indirect participation at payment and settlement systems in the Region; and i) a general call for Latin American and Caribbean central banks Governors on the new responsibilities with the implementation of the Principles.

### Financial Inclusion and the role of payment systems

#### **A. Regional Task on Assessment of Principal Aspects for Payment Systems and Financial Inclusion**

*Jorge Xavier, BCU*

This session was devoted to report on the results of the preliminary survey on "The Role of Payment Systems and Services on Financial Inclusion" conducted by and among the Working Subgroup on Financial Inclusion central banks. As part of the main findings, it was highlighted the importance that payment services have as a gateway to promote financial inclusion in the Subgroup's countries. It was also found that there is significant progress in regulatory, operational and commercial issues related to payments and financial inclusion. Finally, it was stressed the importance of having a broader survey that includes all countries in the Region to assess possible actions at common level to support the WGPS-LAC central banks in the development of their retail payment systems and services to promote financial inclusion.

#### **B. CPMI-WB Task Force on Payment Aspects of Financial Inclusion**

*Marc Hollanders, BIS, Lois Quinn, BM*

This session was centered in the ongoing work of the CPMI-WB Task Force on Payments Aspects of Financial Inclusion (PAFI). This international working group aims to provide orientation to financial authorities and in particular, to payments and market infrastructure authorities concerning issues related to financial inclusion in the light of the difficulties encountered by various relevant authorities which confront challenges developing a balanced and proportional environment in payment systems and services that promote financial inclusion and access, by means of leveraging technology and innovation available in the market.

### Regional integration of financial infrastructures on Latin America and the Caribbean

*Fabiola Herrera, BCRD, José Antonio García, BM*

This session was focused on discussions among Region's central banks about main issues of implementation, operation, evaluation and adaptation of regional financial infrastructure connectivity schemes, in accordance with the G-25 Guidelines issued by the World Bank in May 2014. The exchange emphasized on rational and foundations to launch a project of this nature and the level of involvement from central banks. It was also emphasized the key role of having a common understanding of needs, features and market expectations to decided which integration model is appropriate to the region. In that sense, the central banks, highlighted the long term benefits of establishing regional payment systems and schemes as the missing piece to complement baseline and market research (business case) that is needed to launch sustainable project.

The discussion of the session addressed risks and barriers that an integration project may face, and the importance of communication and cooperation between the public and private sectors to keep aligned incentives and objectives of the regional integration of financial infrastructures. The main conclusion of this session is related to responsibility of Latin America and the Caribbean's central banks to participate in the discussion, design, planning, implementation and ongoing evaluation of the regional integration in a directly and actively manner, due to their role in strengthening financial systems and economies of the region.