



Updates on CPSS Activities

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WHF Annual Payments Week 2007

November 27-30, 2007



Outline

- Elements of background to CPSS activities
- Recent publications
- Current focus



Background

- Good resilience of the global payment and settlement system to recent market turbulences..
- But structural changes underway..
- Which raise issues for central banks



Background

- Good resilience to recent market turbulences
 - a few important systems faced unusual operating conditions:
 - Increased transaction volumes
 - Larger and more frequent margin calls from central counterparties
 - Precautionary demand for central bank liquidity
 - But challenges well met
- Industry efforts and public policies are heading in the right direction: these efforts and policies are paying off



Background

- ..but structural changes are underway eg :
 - Development of global systems
 - Tightening interdependencies among systems nationally and internationally
 - Technological and regulatory innovations
- The global payment and settlement landscape is evolving significantly and rapidly



Background

- ..which raise issues of common interest among central banks
e.g:
 - Are current risk management tools of the stakeholders (systems, participants, service providers) fitted to the globalisation of payments?
 - Is there a need for adjustment and more coordination of CB policies and services to cope with market changes?
 - Is there a need to develop further the dialogue with market participants and other public authorities?
- Importance of International dialogue and cooperation to address those issues



Recent publications

- Progress in reducing Fx settlement risks-July 2007
- New developments in clearing and settlement arrangements for OTC derivatives-March 2007
- General principles for international remittance services-Jan 2007



Current focus

- FX settlement risk
- Infrastructure supporting OTC derivatives markets
- Liquidity and collateral issues related to payment and settlement systems
- Resilience of the global payment and settlement system
- Risk implications of system interdependencies



Resilience of the global payment and settlement system

- Review underway of progress made so far and challenges to address
 - Progress towards higher resilience has been strong
 - Progress needs to be consolidated
- Review underway of the implementation of standards



System interdependencies

- WG preparing a report
- What are interdependencies and why do they matter?
 - Interdependencies arise when the settlement flows, operational processes or risk management procedures of one system are related to those of other systems
 - Interdependencies can simultaneously
 - improve the safety and efficiency of payment and settlement processes
 - Allow financial disruptions to be passed more easily and more quickly across systems, their participants and related markets, accentuating their role in transmitting disruptions (Ferguson report)



System interdependencies

- **Forms of interdependencies**
 - Interdependencies arise from:
 - Direct relationships among systems
 - Indirect relationships among systems due to the activities of financial institutions,
 - “Environmental” factors: the dependence of multiple systems on common third-parties, on common markets, etc
 - Interdependencies reflect multiple activities and purposes:
 - Clearing and settlement channels/arrangements
 - Operational processes and facilities
 - Risk management



System interdependencies

Table 1: Selected examples of interdependencies arising from relationships

Type of Relationship:	Clearing and Settlement	Risk management	General Operations
Form of Interdependencies :			
System-based	CCP and CSD links to LVPS systems for money settlements	Cross-margining between two CCPs	Shared operational resources or facilities between systems under common ownership
Institution-based	Direct and indirect participation of large financial institutions in multiple systems	Provision of back-up liquidity to a system by large financial institutions	Provision of operational services to systems by large financial institutions
Environment-based		Common collateral valuation methodologies for CCPs	Common third-party IT or telecommunications service providers to multiple systems



System interdependencies

- **Factors influencing interdependencies**
 - Four key and interrelated forces and policies
 - The influence of these forces and policies take place in the context of the effort of central banks and other authorities together with market participants to increase efficiency and reduce risks in systems.
 - Central banks have promoted some forms of interdependencies, particularly system-based (eg DVP and PVP links)



System interdependencies

- **Extent of interdependencies**
 - Interdependencies are particularly strong on a domestic basis
 - Focused interdependencies on a cross-border basis
 - CLS-related relationships are well known
 - Widespread reliance on SWIFT
 - But, role of institution-based links currently less clear; may continue to grow in importance going forward



System interdependencies

- **Implications for risks**
 - Specific sources of several risks have been eliminated, or reduced
 - But, new sources of risk have been introduced
 - And, concentration in the sources of risks have been accentuated



System interdependencies

- **Implications for risk transmission**
 - As a result of cross-system risks, and the concentration of risk, disruptions have the potential to spread widely and quickly across multiple systems
 - However, interdependencies can also help dampen disruptions
 - Forecasting the path of a disruption is difficult: many factors are relevant



System interdependencies

- **Challenges for risk management?**
 - Field of vision
 - Operational and liquidity risk management of systems, institutions and service providers at the centre of key interdependencies
 - Testing (BCP, CFP..)
 - Information sharing and coordination