



CPSS principles for effective oversight

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Agenda

- The case of Brazil
- Comentarios realizados por la Región de América Latina y el Caribe

The Case of Brazil

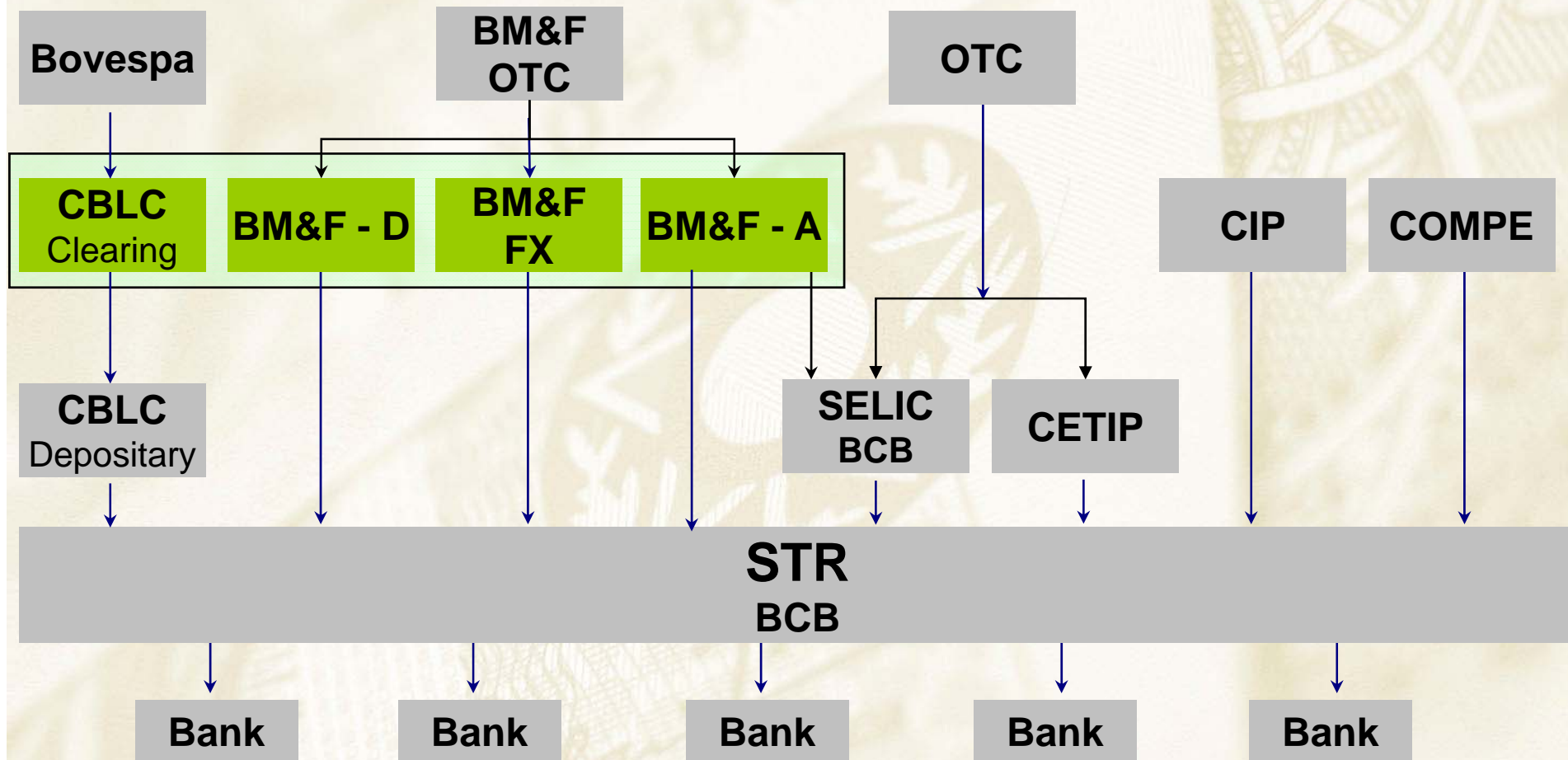
- Introduction
- Systemically Important Payment Systems
- Oversight Tools
- Current developments

Introduction

Oversight objectives

- The BCB has an interest in the smooth functioning of payment systems and instruments
- Oversight aims at
 - preventing systemic risk
 - promoting efficiency of payment systems and instruments
 - safeguarding the transmission channel for monetary policy
- Scopus
 - SIPS
 - Settlements systems
 - Retail payments systems

Brazilian Payment and Settlement Systems

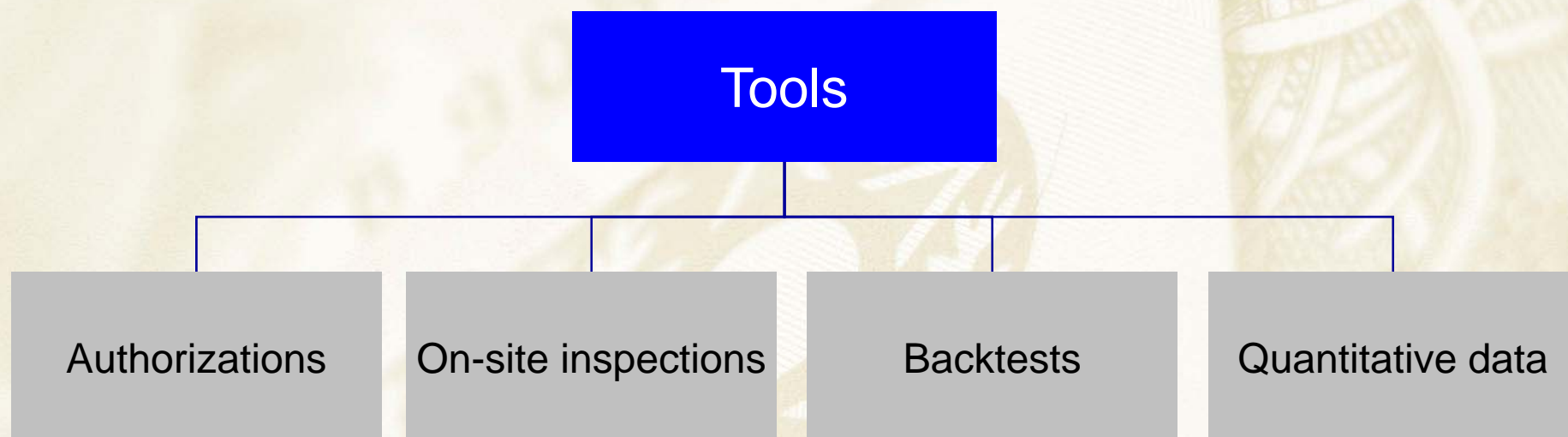


Systemically Important Payment Systems (SIPS)

- Use of *Core Principles for Systemically Important Payment Systems* as a guide for national payment system development
- Quantitative criteria for classification of SIPS
 - Value of individual transaction
 - Value of daily turnover
- Legislation and facilities for mitigating risk

Risk	Legislation and devices
Legal risk	Specific legislation supporting: finality, netting, collateralized transaction etc
Liquidity risk	Intraday repurchase agreements (government bonds)
Credit risk	Use of central bank money
Intraday finality	Real-time gross settlement system (STR)

Oversight Tools – Overview



Oversight Tools – Authorizations

Must be submitted for the authorization of the Banco Central do Brasil

- The creation of new payment and settlement systems

- Any change in existing payment and settlement systems involving the following aspects:
 - The safety and integrity of the payment and settlement system
 - The procedures for settling securities and derivatives operations or fund's transfer
 - The credit and liquidity risk management

Objective:

Verify the compliance with principles and the legal framework of payment and settlement systems

Oversight Tools – On-site Inspection

- Partnership with the banking supervision team (BCB)
- Focused on the IT systems responsible for the risk management, clearing and settlement processes
- Auditing of:
 - Internal controls
 - Information security procedures
 - Business continuity planning
 - Third-party services providers

Oversight Tools – Backtests – Objectives

- **Assessment of credit and liquidity risk management procedures for the central counterparties**

Counterparty credit risk

- Risk of loss from a participant's default

Liquidity risk

- Risk faced by clearing as it must fulfill its payment obligations to non-defaulting participants on schedule

Oversight Tools – Backtests – Description

Backtest Credit Risk

Simulate the costs associated with the close-out of default participant's portfolio at prevailing market prices

Calculate the risk (cost) not covered by the default participant collateral

Compare this risk with the total CCP's financial resources

Backtest Liquidity Risk

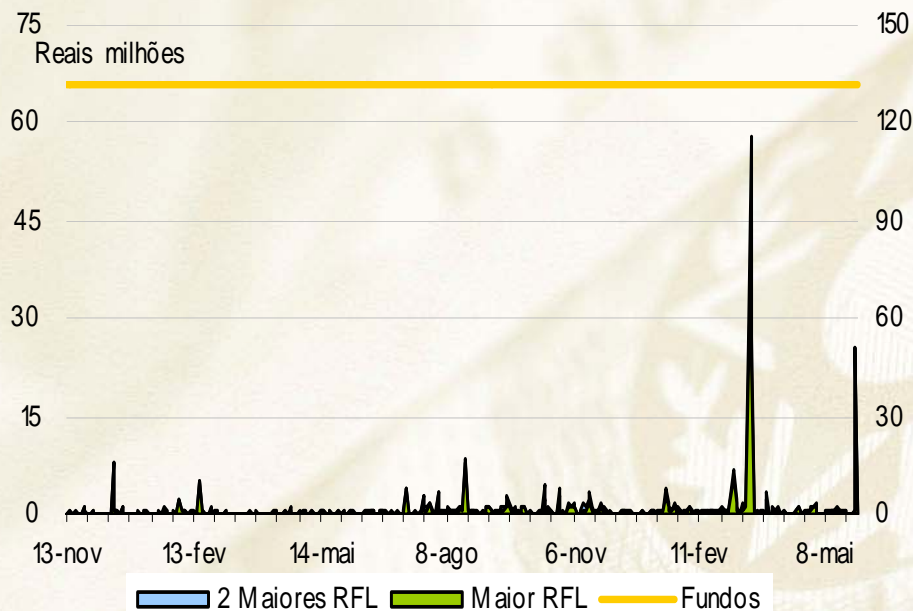
Calculate the total amount of CCP's liquid financial resources and credit lines

Calculate the highest debit position among the participants

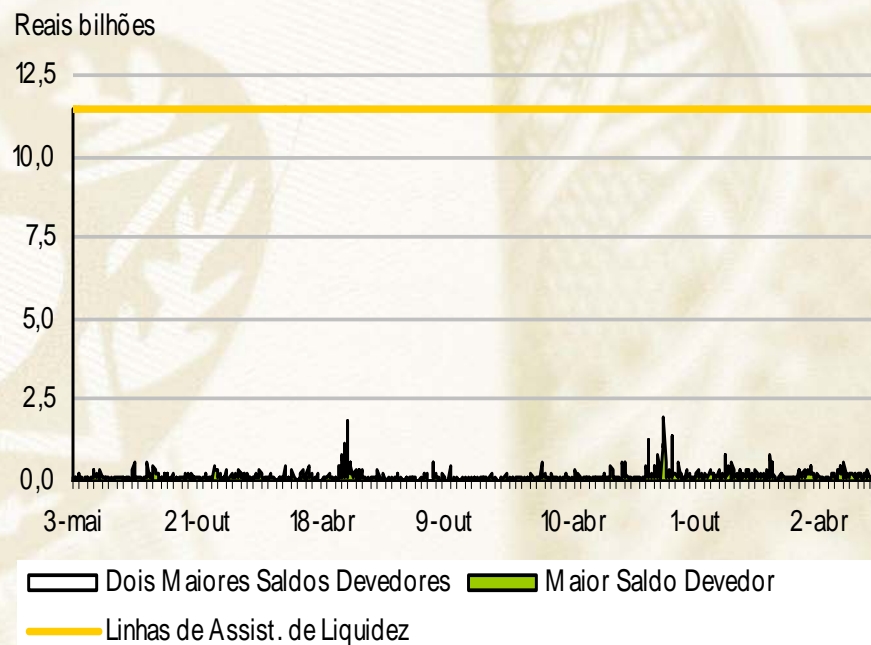
Compare the highest debit position against CCP's liquid resources and credit lines

Oversight Tools – Backtests – Examples

Backtest Counterparty Credit Risk



Backtest Liquidity Risk



R\$/USD: 1,73

Oversight Tools – Quantitative Data

- **General data:** volume and value of payments and operations, intraday payments profile, etc
- **Efficiency:** netting ratio, average queue time of payments (RTGS), etc
- **Operational risk:** ratios of operational reliability, operational failures statistics, etc.

Oversight Tools – Oversight Report – Example



- Bulletin – Monthly Report

- Financial Stability Report – Half-year (in BCB – Website)

Current developments

- Operational Risk – Business Continuity Management
 - Development of an assessment framework for Business Continuity Plans
 - Tests results review
- Operational Reliability
 - Development of operational reliability ratios for the main macro processes of a deferred net settlement system
 - acceptance
 - clearing
 - settlement
- Improvement of regulatory framework



Principios para una supervisión efectiva

- Temas críticos para la Región:
 - Fundamento legal para la vigilancia.
 - Alcance institucional de la vigilancia.
 - Colaboración entre las distintas autoridades.
 - Alcance de la función de vigilancia.
 - Sistemas de pago de importancia sistémica o mas amplio para incluir al pagos de bajo valor



Principios para una supervisión efectiva

- **Solicitud de la región:**
 - Colaboración del BIS a través de la publicación de un documento que dicte pautas específicas sobre la implementación de la función de vigilancia, el alcance institucional del Banco Central y la coordinación entre los distintos organismos reguladores



Gracias

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