

Oversight of Systemically Important Systems

José Antonio Marciano

Annual Payments Week – 2008

Vienna

September 9-12,2008

Agenda

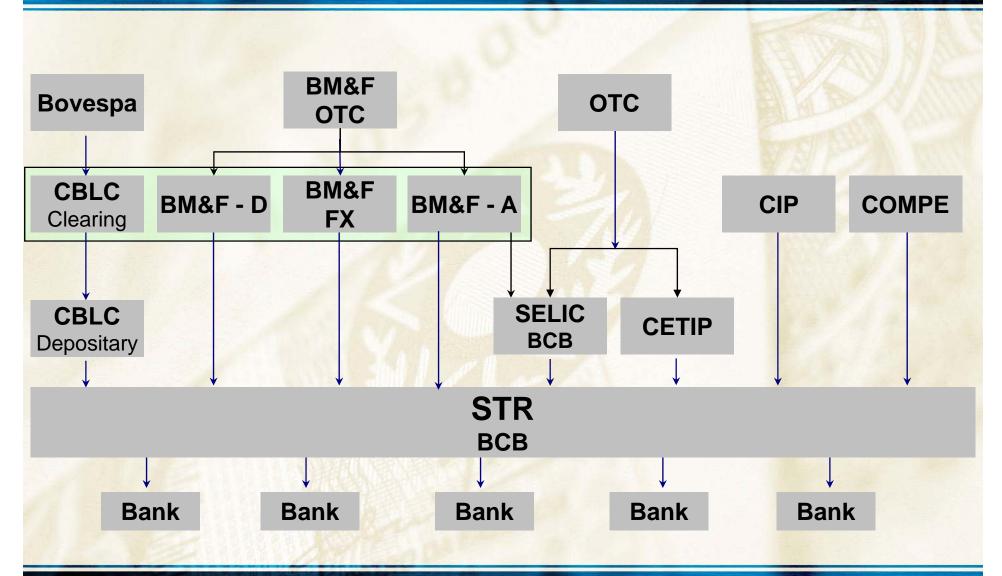
- Introduction
- Systemically Important Payment Systems
- Oversight Tools
- Current developments

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

Introduction – Brazilian Payment and Settlement Systems

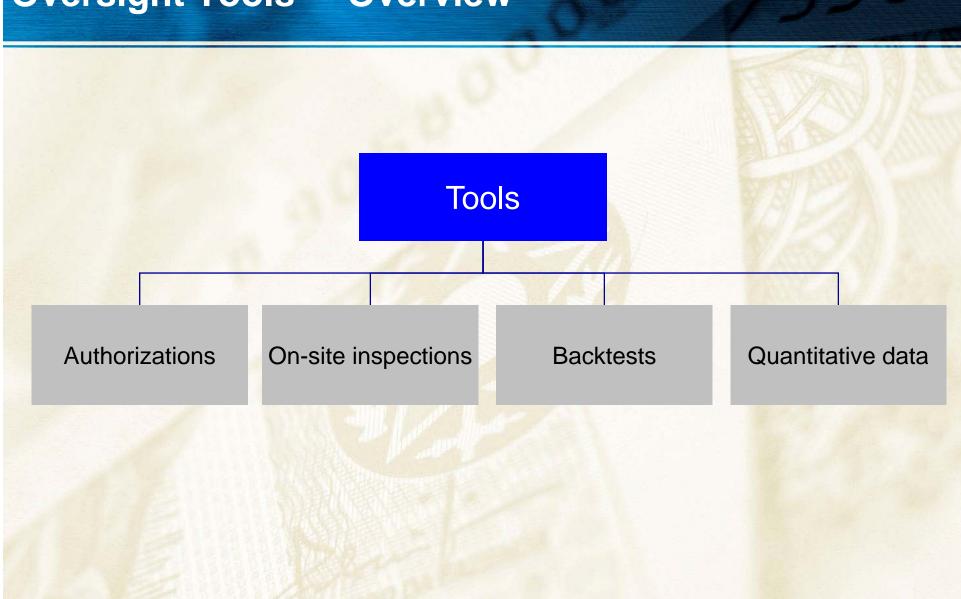


Systemically Important Payment Systems (SIPS)

- 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 settlment 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
- 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

Liquidity risk

Risk of loss from a participant's default

 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

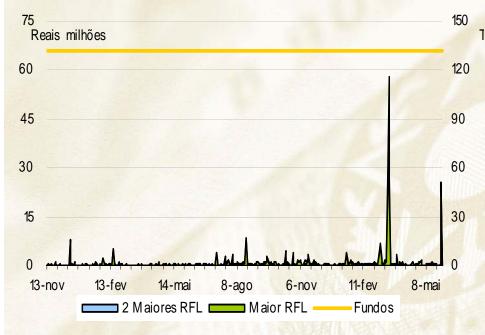
Calculate the total amount of CCP's liquid financial resources and credit lines

Calculate the highest debit position among the participants

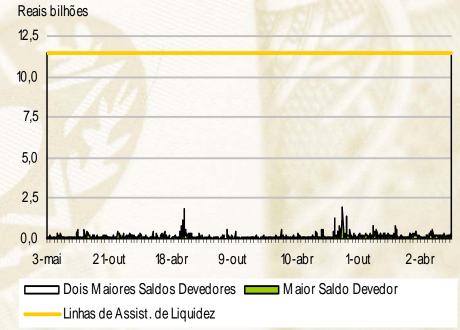
Compare the highest debit position against CCP's liquid resources and credit lines

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



Câmara de Ativos da BM&F

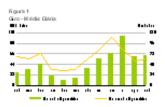
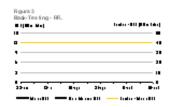


Tabela 1 - Detahamentop or tipo de operação

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|------------------------------|------|-----|-----|-----|------|--|
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IAMA - In beauty





O vidor e volume de operações negociadas na Climande Ativas da BMMEF presentaram socialções no terceio trimeste de 2007, alcançando a midia dáma de RS63 bilhões e 60 operações em setembro, respectivamente. Destaca-se o volume de negociação ocorido em julho, quando a média distria de operações alcanças o valorde RS102 bilhões.

A modalidade de operações "Compromissodas com Listro Genérico", principal modalidade de operação utilizadam a câmina, movimentas em media R-800 l bilhões no tenceiro trimistre, um atminito de 167% em edição no segundo trimistre de 2007.

Obserou se mudarçamad subsução do votura de operações resistadas com intermediações se no transstre antesior, o maior volume de operações com intermediaçõe se por meio de ordem telestrator, nesse trimestre o maior volume de operações com intermediaçõe se por meio de registro.

Tabela 2 - Detalhamento por tipo de interme diação

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O poderde conpensação da câmara mantevese entre 95% e 93% durante o trimestre (Figura 2). Destaca-se que no mês emque houve maior volume

Back tisting

Os resultados que sentidos nos relatirios de back avaira permitiem ávaliar se os mecanismos de genericamento de risco da Charan são eficaças. A amilise da Figura 3 indicaque os fundos criados para cobar o risco de credito (valores de RFL) seman sufcientes para suportar os riscos gendos pelas participantes.

No que concerne no risco de liquidez, observa-se que na linhas de rassidircia seman su ficientes para a objetituadas data maiores possibles develoras individuais aptindas no trimestre (Figura 4). A maior

3º Trimestre 2007 | Informativo do SPS | 1

- Bulletin Monthly Report
- Financial Stability Report Half-year

Current developments – I

Backtests improvements

Financial Risks

Credit risk

Liquidity risk

Normal market conditions

Stressed market conditions

Compliance with RCCP 3, 4 and 5

Current developments – II

Operational Risk

Business Continuity Management

- Development of an assessment framework for Business Continuity Plans
- Tests results review

Operational Reliability



- acceptance
- clearing
- settlement



Current developments – III

Improvement of regulatory framework

Regulation Improvements

Governance

- Segregation of risk management and non-risk management areas
- Ownership limits

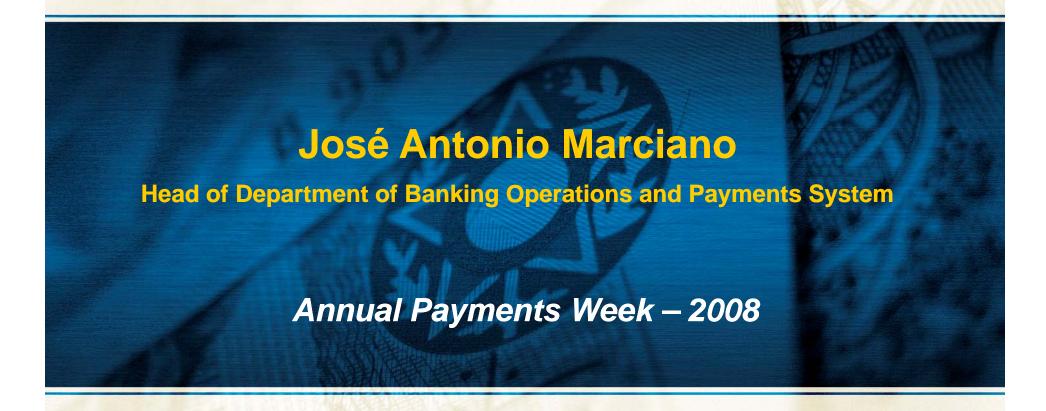
Business continuity management

- Minimum requirements
- Accountability

Recommendations

 Update to international best practices





jose.marciano@bcb.gov.br