Cooperation among Central Banks and Securities Supervisors in overseeing Payments and Settlement Systems

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Punta del Este, 19 November 2009

Agenda

• Rationale for Co-operation

• Existing framework for co-operation
  – to set standards
  – to exchange information
  – to enforce oversight / supervision
Rationale for co-operation

• **Common financial stability concerns**
  – Robustness, efficiency and resilience of payment and settlement “infrastructures” (and confidence in them) is essential for financial stability and monetary policy:
    o Positions across banks in payment and settlement systems can constitute a source of contagion risk
    o Malfunctioning in settlement systems may affect asset prices and volumes of the trades
    o Systemic risk

• **Specific central bank concerns**
  – Smooth functioning of payment systems is a precondition for
    o Smooth functioning of uncollateralised and collateralised money markets
    o Efficient and safe execution of monetary policy operations
Existing framework for co-operation

- **Setting standards**
  - CPSS-IOSCO work
    - Recommendations for SSSs
    - Recommendation for CCPs
    - Standards for derivatives (in progress)
    - General review
  - ESCB-CESR work

Existing framework for co-operation

- **Exchange information**
  - On-going information
    - Regulators Forum for derivatives
  - “Emergency” information
    - CPSS teleconference facilities
    - During Lehman crisis some securities supervisors have been invited to attend CLS teleconference
    - MoU
Existing framework for co-operation

- **Enforcing oversight**
  - Joint assessments
    - Specialisation
    - Common team
    - Common on-site inspections
  - Co-ordination on on-going work
    - Exchange information
    - Common on-site inspections

- **Formal/informal co-operation**
  - MoU

- **Domestic and cross-border**
  - Domestically generally defined
  - Cross-border more difficult (work in progress)
Annex: the CPSS-IOSCO work on OTC derivatives

- Main guidance on the current RCCPs
- Other issues for the general review
- Issues for further dialogue between overseers and supervisors
- Other findings of the Working Group
- Next Steps
- Issues for discussion

Other issues for the general review

<table>
<thead>
<tr>
<th>RCCP</th>
<th>Issue to address</th>
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<tbody>
<tr>
<td>Legal risk</td>
<td>• Consider possibility of minimizing conflict of laws issues through harmonization of key features of legal systems or minimization of the number of applicable laws</td>
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<tr>
<td>Liquidity risk</td>
<td>• Enhance CCP’s liquidity resilience in line with other FMIs</td>
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<tr>
<td>Risks in links</td>
<td>• Minimum requirements for horizontal links &lt;br&gt;• Consider issues concerning CCP’s links with other FMIs</td>
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<td>Oversight</td>
<td>• Clarify the role and responsibilities of the different types of authorities involved: (i) at domestic level; and (ii) at global level &lt;br&gt;• Clarify enforcement of oversight (including resources)</td>
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Guidance on OTC derivatives: a few examples

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| Margin requirements           | • Liquidation time horizon  
|                               | • More complex models and methodologies  
|                               | • Specificities of OTC derivatives, e.g. jump-to-default  
| Governance                    | • Representation of interested parties (including buy-side)  
|                               | • Potential conflict of interest between commercial interest and risk management and resolution mechanism in relation to decisions on: (i) eligibility of contracts; (ii) connection to trading venues; (iii) activation of default management procedures; (iv) acceptance of new GCM;  
|                               | • Emphasize the importance of adequate market/product expertise of a CCP’s decision making body  
| Transparency                  | • Service transparency vs. market data transparency  
|                               | • Fee/price transparency  
|                               | • Transparency on segregation of customer positions  
|                               | • Access of indirect participants to relevant information  
|                               | • Transparency vs reporting (see RCCP15)  

Issues for dialogue with supervisors

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<tr>
<th>Issue</th>
<th>Supervisor concern</th>
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| 1. Initial versus intraday calls for margins                        | Procyclicality effect of intraday calls for margins  
| 2. Margins and other credit risk control tools                      | Effectiveness of the tool, in case of exemptions from capital charges  
| 3. Central Bank Money                                               | Minimise risks relating to settlement assets  
| 4. Emergency procedure                                              | CCP’s discretion may have an impact on the obligations of participants in case of a crisis  


Other findings of the Working Group

- **Trade repositories high-level principles**
- **Portfolio compression**
- **OTC versus regulated market**
- **Eligibility of contracts**

Next steps

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<tr>
<th>Date</th>
<th>Event</th>
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<tr>
<td>9th/10th Dec 2009</td>
<td>Informal discussions with industry (CCP12, TRs etc)</td>
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<tr>
<td>21st/22nd Jan 2010</td>
<td>IOSCO TC Meeting</td>
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<tr>
<td>February 2010</td>
<td>Draft consultative paper to CPSS and IOSCO TC for approval</td>
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<tr>
<td>End of March 2010</td>
<td>Publish consultative paper</td>
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<tr>
<td>April 2010</td>
<td>Possible Meeting with the industry to discuss Consultative Report</td>
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<tr>
<td>June 2010</td>
<td>Final Report to CPSS parent committee and IOSCO Technical Committee for approval</td>
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<tr>
<td>Summer 2010</td>
<td>Publish Final Report</td>
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Proposed way forward

- **Prepare two notes:**
  
  - One for public consultation summarising the main guidance for derivatives  
    (*based on the content of slides 3-8, high level expectations for trade repositories and maybe other issues on slide 11*)
  
  - One for the general revision of the standards  
    (*based on the non-bold part of slides 3 - 8, slides 9 and 10*)