



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

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## Agenda

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

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## 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:**
    - Positions across banks in payment and settlement systems can constitute a source of contagion risk
    - Malfunctioning in settlement systems may affect asset prices and volumes of the trades
    - Systemic risk

## Rationale for co-operation

- **Specific central bank concerns**
  - **Smooth functioning of payment systems is a precondition for**
    - Smooth functioning of uncollateralised and collateralised money markets
    - 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

## Existing framework for co-operation

- **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

RCCP	Issue to address
<b>Legal risk</b>	<ul style="list-style-type: none"> <li>• Consider possibility of minimizing conflict of laws issues through harmonization of key features of legal systems or minimization of the number of applicable laws</li> </ul>
<b>Liquidity risk</b>	<ul style="list-style-type: none"> <li>• Enhance CCP's liquidity resilience in line with other FMIs</li> </ul>
<b>Risks in links</b>	<ul style="list-style-type: none"> <li>• Minimum requirements for horizontal links</li> <li>• Consider issues concerning CCP's links with other FMIs</li> </ul>
<b>Oversight</b>	<ul style="list-style-type: none"> <li>• Clarify the role and responsibilities of the different types of authorities involved: (i) at domestic level; and (ii) at global level</li> <li>• Clarify enforcement of oversight (including resources)</li> </ul>

## Guidance on OTC derivatives: a few examples

RCCP	Issue to address
<b>Margin requirements</b>	<ul style="list-style-type: none"> <li>• Liquidation time horizon</li> <li>• More complex models and methodologies</li> <li>• Specificities of OTC derivatives, e.g. jump-to-default</li> </ul>
<b>Governance</b>	<ul style="list-style-type: none"> <li>• Representation of interested parties (including buy-side)</li> <li>• 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;</li> <li>• Emphasize the importance of adequate market/product expertise of a CCP's decision making body</li> </ul>
<b>Transparency</b>	<ul style="list-style-type: none"> <li>• Service transparency vs. market data transparency</li> <li>• Fee/price transparency</li> <li>• Transparency on segregation of customer positions</li> <li>• Access of indirect participants to relevant information</li> <li>• Transparency vs reporting (see RCCP15)</li> </ul>

## Issues for dialogue with supervisors

Issue	Supervisor concern
<b>1. Initial versus intraday calls for margins</b>	Procyclicality effect of intraday calls for margins
<b>2. Margins and other credit risk control tools</b>	Effectiveness of the tool, in case of exemptions from capital charges
<b>3. Central Bank Money</b>	Minimise risks relating to settlement assets
<b>4. Emergency procedure</b>	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

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

## 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)*