Oversight of Payments and Securities Settlement Systems by Central Banks in Latin America and the Caribbean

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• **Objective**
  - diagnose the practices of oversight of payment and securities settlement systems throughout the Region

• **Survey**
  - questionnaires were sent to selected countries
  - 33 countries in Latin America and the Caribbean
  - 19 CBs Members of the Western Hemisphere Payments and Securities Settlement Forum
  - 15 CBs answered the questionnaires
• The structure of the questionnaire

I. Basic information
II. The basis of oversight responsibilities
III. Determining the scope of oversight
IV. Oversight standards
V. Systemic importance
VI. Transparency
VII. Monitoring
VIII. Assessment
IX. Inducing changes
X. Organization of the oversight function
XI. International cooperation
XII. Cooperation with other institutions
• **Methodology**
  
  • in order to obtain more precise information, questions should have been answered with the greatest detail possible;
  
  • comments were expected, even for questions with multiple choices;
  
  • for questions with multiple choices, more than one alternative should have been checked if that contributes to clarity;
  
  • the answers were classified into 3 categories:

  - observed
  - non-observed
  - non-informed
Oversight of payment and settlement systems is a central bank function whereby the objectives of safety and efficiency are promoted by monitoring existing and planned systems, assessing them against these objectives and, where necessary, inducing change.

(Central bank oversight of payment and settlement systems, BIS, 2005)
## I – Basic Information

<table>
<thead>
<tr>
<th></th>
<th>Number of Systems</th>
<th></th>
<th>Number of Transactions</th>
<th>Turnover</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>most frequent</td>
<td>maximum</td>
<td>minimum</td>
<td>average</td>
<td>maximum</td>
<td>minimum</td>
<td>average</td>
</tr>
<tr>
<td>RTGS</td>
<td>1</td>
<td>5</td>
<td>1</td>
<td>39.407</td>
<td>423.092</td>
<td>42</td>
<td>18.842</td>
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<tr>
<td>Retail</td>
<td>3</td>
<td>4</td>
<td>1</td>
<td>2.563.567</td>
<td>29.108.763</td>
<td>47</td>
<td>638</td>
</tr>
<tr>
<td>Securities</td>
<td>2</td>
<td>6</td>
<td>0</td>
<td>38.455</td>
<td>408.864</td>
<td>0</td>
<td>13.145</td>
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<tr>
<td>Foreign currency</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>704</td>
<td>2.468</td>
<td>0</td>
<td>3.751</td>
</tr>
<tr>
<td>Derivatives</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>28.735</td>
<td>28.735</td>
<td>28.735</td>
<td>1</td>
</tr>
<tr>
<td>Global</td>
<td>5</td>
<td>13</td>
<td>1</td>
<td>2.482.632</td>
<td>29.799.189</td>
<td>1.075</td>
<td>24.610</td>
</tr>
</tbody>
</table>
II – The basis of oversight responsibilities

- The exercise of the function of oversight
  - Formal mandate for
  - Hierarchical level of the mandate

![Bar chart showing percentages for payments systems and securities settlement systems.]

- Payments systems
  - 93% (legal)
  - 47% (infralegal)

- Securities settlement systems
  - 93% (legal)
  - 40% (infralegal)
II – The basis of oversight responsibilities

- **Powers granted to the Central Bank**

  - request the information it considers relevant: 100%
  - require the implementation of changes deemed appropriate by the CB: 100%
  - verify compliance with the provisions laid down by the Central Bank: 93%
  - authorize the operation of the payment and securities settlement systems: 87%
  - issue regulations: 80%
  - approve in advance any relevant changes: 80%
  - approve systems internal regulations: 67%
  - establish principles and standards: 67%
  - apply sanctions: 67%
II – The basis of oversight responsibilities

- Objectives pursued by the CB in exercising the oversight

- Promotion of efficiency: 100%
- Ensuring the safety of the system: 100%
- Mitigation of systemic risk: 100%
- Ensuring the credibility of the money and the use of payment instruments: 80%
- Consumer protection: 73%
- Prevention of anticompetitive practices: 60%
- Prevention of money laundering: 40%
III – Determining the scope of oversight

- Systems and participants subject to the oversight by the Central Bank

- System for interbank transfer of funds: 100%
- Securities, derivatives, and foreign exchange settlement system: 67%
- Payment schemes: 47%
- Central securities depository: 40%
- Communication and information technology service provider: 40%
- Custodian bank: 33%
- Central counterparties: 27%
- Correspondent bank: 20%
- International remittances: 20%
- Quasi-system: 13%
III – Determining the scope of oversight

- Criteria used by the Central Bank

- Systemic importance: 80%
- Average daily turnover: 47%
- Market share of the payment instrument: 40%
- Type of payment instrument or securities settled by the system: 40%
- All systems, without distinction, are overseen: 27%
- Existence of only one system for payment instrument or securities settlement: 20%
IV – Oversight standards

- Standards adopted by the Central Bank

- Core Principles for Systemically Important Payment Systems (BIS, 2001) - 100%
- Recommendations for Securities Settlement Systems (BIS, 2001) - 73%
- Central Bank Oversight of Payment and Settlement Systems (CPSS, 2005) - 40%
- Recommendations for Central Counterparties (BIS, 2004) - 27%
IV – Oversight standards

Consistency on the adoption of standards in private and CB operated systems

Publication of the standards by the Central Bank

- Observed: 73%
- Non-observed: 27%

- Published: 47%
- Non-published: 53%
V – Systemic importance

- Criteria used to determine the systemic importance

- 53% of the Central Banks subject systemically important payment systems to a special regulatory or oversight arrangement
V – Systemic importance

• Special requirements

- Safeguard mechanisms: 33%
- Settlement in CB money: 27%
- Contingency and recovery plans: 20%
- Central counterparty: 13%
- PVP/DVP: 13%
- Minimum shareholders’ equity required: 7%
- Minimum system availability: 7%
V – Systemic importance

- Systems considered systemically important

- Electronic transfers: 73%
- Federal public bonds: 53%
- Paper instruments: 53%
- Private bonds: 47%
- Electronic credit orders: 40%
- Stocks: 33%
- Electronic debit orders: 33%
- State and local public bonds: 33%
- Foreign currencies: 33%
- Payment cards: 13%
- Derivatives: 7%
VI – Transparency

• How the CB discloses its policies

- regulations issued: 67%
- technical documents or other publications: 40%
- studies: 33%
- CB’s view (opinion): 33%
• Aspects of oversight that are published by the CB

- established goals (objectives) 67%
- minimum standards and requirements 67%
- oversight scope and criteria 60%
Sources of information used by the Central Bank

- Bilateral contacts: 100%
- System official documentation: 93%
- Public information: 87%
- Database sent by the system: 87%
- Meetings: 80%
- Regular or special reports on the system: 73%
- Legal opinions or external auditors reports: 73%
- Information from other public or regulatory authority: 67%
- Self-assessment: 67%
- On-site inspections: 60%
- Internal reports made by committees or internal auditors: 60%
- Individual participants’ relationship with payment and securities settlement system

- participant acts as settlement bank to the system: 53%
- participant issues guarantees used by the system: 40%
- participant acts as custodian to the system: 27%
- participant grants credit line to the system: 27%
VIII – Assessment

• The main aspects considered on the CB periodical assessments of the overseen systems vis-à-vis the adopted standards

- operational risk: 73%
- liquidity risk: 67%
- credit risk: 67%
- settlement risk: 67%
- legal risk: 67%
- systemic risk: 67%
- transparency: 60%
- efficiency: 53%
- access: 47%
- interdependencies between local systems: 40%
- procedures and patterns of communication: 40%
- governance: 33%
- connection risk between cross-border systems: 13%
- pre-settlement risk: 13%
- custody risk: 7%
- investment risk: 0%
VIII – Assessment

• Kind of oversight report – considering content and frequency

- special report on oversight: 53%
- report on financial stability or bank supervision: 47%
- report on CB activities: 47%
**IX – Inducing changes**

- The main tools used by the CB for inducing necessary changes in payment and securities settlement systems

<table>
<thead>
<tr>
<th>Tool</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>cooperation with other authorities</td>
<td>93%</td>
</tr>
<tr>
<td>moral suasion</td>
<td>93%</td>
</tr>
<tr>
<td>formal participation in the system’s governance</td>
<td>53%</td>
</tr>
<tr>
<td>enforcement and sanctions</td>
<td>53%</td>
</tr>
<tr>
<td>voluntary agreements and contracts</td>
<td>53%</td>
</tr>
<tr>
<td>public statements on the oversight policy</td>
<td>47%</td>
</tr>
<tr>
<td>statutory power to require changes</td>
<td>47%</td>
</tr>
</tbody>
</table>
X – Organization of the oversight function

- Oversight team
  - number of people
    - most frequent: 4
    - maximum: 24 [without exclusive dedication]
  - position in the organizational chart (hierarchical level)
    - most frequent: III
    - highest: II
    - lowest: VI
X – Organization of the oversight function

Oversight team & Operation team (CB system)

- Non-informed: 46%
- Different directorate: 7%
- Same directorate: 20%
- Same department: 7%

Existence of internal or external audit

- Observed: 53%
- Non-observed: 47%
• Oversight of cross-border payment or securities settlement system
XI – International cooperation

- Implementation of international cooperative oversight of cross-border connections

- Formalized: 13%
- With well-defined roles and attributions: 13%
- With establishment of common standards and goals: 13%
Cooperation or advice from international institutions in the payments area

- World Bank: 67%
- IMF: 40%
- Other CBs: 33%
- Cemla: 27%
- Conselho Monetário Centroamericano: 13%
- BIS: 13%
- IOSCO: 0%
• Other public authorities involved in the regulation or oversight of the payment and securities settlement systems

• Implementation of the cooperation
Concluding remarks

- Central Banks usually have formal mandate for oversight function
- A formal oversight framework is still in development in the region
- Foreign exchange and derivative systems are usually not overseen by CBs in the region
- Although systemic importance should still be considered the most relevant criteria for determining the scope of oversight, the CBs also consider a growing number of other aspects
- More types of institution are overseen by CBs, but the main focus is the large value transfer systems
- The most common sources for structuring the oversight function are BIS publications, especially the *Core Principles*
Concluding remarks

• Oversight standards for private and central bank operated systems are usually adopted in a not equivalent way
  – little number of personnel involved
  – functions carried out in the same department – second highest hierarchical level
• CBs generally disclose their oversight policies through regulations and technical documents
• Several sources of information are used by CBs for the oversight
• Operational risk is the main aspect considered on the CBs’ periodical assessments of the overseen systems
• Cooperation with banking supervisors and international institutions is significantly observed
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