Recent work of the CPMI *

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* Views expressed are those of the authors and not necessarily those of the BIS or CPMI
The Committee on Payments and Market Infrastructures

**Mandate** (revised September 2014)

To *promote the safety and efficiency of payment, clearing, settlement and related arrangements*, thereby supporting *financial stability* and the *wider economy*

⇒ The CPMI is a global *standard setting body* in the field of payments, clearing and settlement systems and related activities

⇒ It also serves as a *forum for central banks* to *monitor and analyse developments* in large value and retail payment, clearing and settlement arrangements, schemes and instruments both within and across jurisdictions

- Establishment in 1990 as *Committee on Payments and Settlement Systems* (until 1 September 2014)
- Hosted by the Bank for International Settlements in Basel), reporting to the Governors of the Global Economy Meeting
Evolution of CPMI activities

Top CPMI priorities

- Evolution of oversight approach
- Implementing the Principles for Financial Markets Infrastructures (FMIs)
- Cooperative arrangements
- FMI resilience (incl. cyber resilience) and recovery
- (Retail) payment developments
Evolution of central bank oversight

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, May 2005

- Oversight by whom? – Central banks? Other authorities?
- Oversight what for? – Safety and efficiency
- Oversight how? – Monitoring, assessing, inducing change
Increasing complexity

- **Interdependencies**
  - Links
  - Tiering

- **Cross-border**
  - services
  - participation

- Non-banks

- Quasi-systems

_Multiple authorities:_
- Central Banks
- Financial stability bodies
- ...  
  \[ \Rightarrow \text{also cross-border} \]

- Market regulators
- Competition authorities
- Bank supervisors
- Resolution authorities
The PFMIs “ecosystem”

PFMIs (2012)
24 Principles + 5 Responsibilities

Assessment methodology (2012)
Disclosure framework (2012)
Add. quantitative disclosures (2015)
Application of PFMIs to central bank FMI (2015)
Further guidance (tbd)

Recovery and resolution (2014)
Critical service providers (2014)
Recommendations for settlement (forthcoming)
Stress testing frameworks (forthcoming)

Collateral management services (2014)
Reporting, data aggregation, data harmonisation (LEI, UPI, UTI) (2015)
Cyber resilience (2014, 2015)

Implementation monitoring
Status of CPMI standards

- *Not legally binding* as such but national regulation increasingly based on them (sometimes by way of incorporation) because of:
  - Power of the arguments they contain ("soft law")
  - *Commitment of members* of the relevant bodies
  - Compliance of CCPs with the PFMIs is a condition for banks to benefit from lower capital requirements

- Subject to *implementation monitoring* by CPMI-IOSCO (and FSB monitoring, IMF and World Bank FSAPs)
  - Implementation may be rules-based, principles-based or a combination of both
  - Focus on consistency of outcomes at the level of FMIs across jurisdictions
PFMI implementation monitoring

- Full, timely and consistent implementation of the PFMI is fundamental to ensuring the safety, soundness and efficiency of key FMIs and for supporting the resilience of the global financial system
- CPMI and IOSCO members are committed to adopt the principles and responsibilities in line with G20 and FSB expectations
- In April 2013, CPMI and IOSCO started the process of monitoring implementation of the PFMI
- Reviews are carried out in three stages:
  - Level 1 - ensuring the timely implementation
  - Level 2 - ensuring regulatory consistency
  - Level 3 - ensuring consistency of outcomes
Need for new or more stringent standards for FMIs?

FMIs are subject to comprehensive international standards, the CPMI-IOSCO Principles for financial market infrastructures (PFMI), issued in 2012 and subsequent complementary guidance (e.g. on disclosures, recovery, cyber resilience)

- Are the standards being observed?
  - Lags in adopting and enforcing the standards
  - Differences in interpreting the standards
  ⇒ Time, peer pressure/monitoring and more guidance

- Are the standards enough? Are they effective?
  ⇒ Implementation monitoring, market-wide stock-take and analysis of the effects of the measures taken to see if systemic risk has been reduced enough
FMI risk management, recovery and resolution

**FMI Risk management**
- CPMI-IOSCO PFMI (2012)

**FMI Recovery**
- CPMI-IOSCO PFMI plus additional Guidance on FMI recovery (2014)

**FMI Resolution**
- FSB’s “Key attributes of effective resolution regimes”, including an FMI-specific annex (2014)

**Responsibility of the FMI, overseen by the central bank etc**

*Risk management* = “everyday” management of risk by the FMI, including dealing with anticipated problems

*Recovery* = *the extreme end of risk management* – dealing with the most extreme *financial* threats that could threaten its survival

**Responsibility of the resolution authority**

*Resolution* = *an alternative regime to insolvency* - to enable authorities to restore, restructure or wind-down an FMI without severe systemic disruption and without exposing taxpayers to loss
Global TR aggregation and Global Identifiers

• Need to establish *centralised or other mechanisms* to produce and share *global aggregated data* that authorities need to fulfil their mandates and to monitor financial stability (work conducted by FSB jointly with CPMI and IOSCO)
  • legal constraints (secrecy and confidentiality rules)
  • technical issues (standardisation and harmonisation of data)
• Global *Legal Entity Identifier* (LEI) System
  • A global scheme for the issuance of legal entity identifiers that will *uniquely identify parties to financial transactions*
  • The *Regulatory Oversight Committee* (ROC) was established in January 2013 - CPMI is a member of the Executive Committee of the ROC
• Further work by CPMI and IOSCO on *Uniform Product and Transaction Identifiers* is on-going
CPMI work on cyber resilience of FMIs

- In 2012, set up of a CPMI working group to analyse cyber security issues, including representatives from IOSCO and BCBS
- **CPMI report** published in November 2014 - Key findings:
  - Diversity of goals (cyber-activism, fraud, terrorism, etc.)
  - Increasing sophistication of attacks - multiplicity of entry points
  - Disruption can entail comprehensive data/system integrity breach
  - Diversity of measures needed (IT, processes, people, communication) – focus on worst case scenarios and potential quick recovery mechanisms

- In 2014, CPMI and IOSCO set up a joint WG on cyber resilience (including BCBS and IAIS representatives) working on **further guidance**
Guidance on FMI cyber resilience

- Supplemental to the PFMIs
  - Governance (Principle 2)
  - Framework for the comprehensive management of risks (Principle 3)
  - Settlement finality (Principle 8)
  - Operational risk (Principle 17)
  - FMI links (Principle 20)

- Principle-based

⇒ Actions across these guidance categories can be mutually reinforcing and should be considered jointly in order to achieve resilience objectives
Key findings for FMI cyber resilience

- **Board and senior management** attention is critical to a successful cyber resilience strategy
- The ability to **resume operations quickly and safely** after a successful cyber attack is paramount
- FMIs should make use of good quality **threat intelligence and rigorous testing**
- Cyber resilience requires a process of **continuous improvements**
- Cyber resilience cannot be achieved by an FMI alone; it is a **collective endeavour** of the whole ‘eco-system’

⇒ **Data integrity** - growing awareness that it needs to be addressed by FMIs and the industry as a whole - Thus, cyber resilience should **not a point of competition** among FMIs

⇒ FMIs and overseers are convinced that more needs to be done in terms of **cooperation and information sharing** – the financial system is as strong as its weakest link in a world of **interconnectedness and interdependencies**
Disruptive Innovations

Payments systems
- Faster (24/7) payment services
- New access channels (mobile, internet)

Digital payments
- Mobile payments
- Decentralised virtual currency schemes
- E-currencies

Non-bank service providers
- Telecom operators
- IT companies

Payments aspects of financial inclusion

Cross-border payments
- Remittances
- Correspondent banking
- CLS
New CPMI Working Group on Retail Payments

- **Mandate**
  - Look at recent developments in the field of retail payments,
  - Identify those that have the highest potential to affect the wider payment ecosystem, and
  - Analyse potential implications and emerging risks, with a particular emphasis on the implications for central bank functions and policies

- **Areas of interest identified:**
  - **Fast and continuously available retail payment services** (inc. an interplay of these services with mobile/internet payments)
  - **Digital currencies**
  - **Cross-border retail payments**
Fast payments

- Concept of “fast payments” may not be as clear as it sounds

- Speed and continuous service availability are key features, but there are other features that are usually implicit, but necessary
Fast payments

- Increasingly gaining the **attention of central banks** as they are quickly changing the retail payments landscape and bringing about operational and financial issues that need to be managed
  - Dramatically enhancing the *speed and availability of retail payments*
  - Central banks are *backing or leading initiatives* for the implementation or even providing *operational support* (e.g., enhancing RTGS systems)
- Potential areas for further **analysis**:
  - *Definition and classification* of fast payments
  - *Drivers and barriers* to the development of fast payments
  - Implications of fast payments for *efficiency and risk*, and
  - Issues particularly relevant to *central banks*
Digital currencies

- The emergence of digital currencies was noted in previous CPMI reports
- **Analytical report** published in November 2016 to obtain a more in-depth *understanding of developments* in this field and to analyse *implications from a central bank perspective*
- There are two key features of digital currencies:
  - the *assets* themselves, which are typically not a liability of any entity nor backed by a public authority. Currently, such schemes are *not widely used or accepted* and their *likely impact is limited*
  - the technology used, in particular the use of *distributed ledgers*, which allows transactions in the absence of trust between the parties and without the need for intermediaries

  ⇒ This *underlying technology* may have the potential to improve the efficiency of payment and other infrastructure services
Digital currencies

- Potential implications of *interest to central banks* arising from the innovations:
  - Many of the **risks** that are relevant for e-money and other electronic payment instruments are also relevant for digital currencies
  - The development of **distributed ledger technology** is an innovation with potentially broad applications:
    - wider use of distributed ledgers by new entrants or incumbents could have implications extending beyond payments
    - could have an impact on the holding and transfer of securities or on the registration of shares, bonds, derivatives trades and other assets
  - Potential **impact** on central bank monetary policy, money supply, service provision, ...
Cross-border payments

- Although there have been *new developments in cross-border payments*, there are concerns that the market as a whole is not well understood and significant barriers remain to further meet market demands
  - **Need to better understand** the landscape as well as the specific role of central banks and associated issues and challenges
- Potential areas for further **analysis**:
  - Furthering understanding on the cross-border payments landscape and the solutions currently available
  - Furthering understanding of *risk and efficiency* issues of concern to central banks and financial institutions, and
  - Examining the *role of central banks in cross border payments*
Correspondent banking

- CPMI working group to analyse the issue of correspondent banking from a central bank’s perspective with a focus on payment system implications

- A consultative report was published in October 2015

- The report provides some basic definitions (incl. main types of correspondent banking arrangements), summarises recent developments and touches upon the underlying drivers

- The report puts forward recommendations concerning the development, promotion and use of four technical measures
  - if implemented in the payment process, these could reduce some of the costs associated with regulatory compliance
  - however, in isolation, these technical measures will not resolve all issues connected with correspondent banking activities, and
  - the technical measures will not as such help the banks without access to correspondent banking services to gain such access
Correspondent banking

**Four technical recommendations:**

- Use of *know-your-customer (KYC) utilities* (templates and procedures to identify the most appropriate data fields to compile a data set which)
- Increased use of the *Legal Entity Identifier (LEI)*, where possible (including promoting BIC to LEI mapping facilities)
- Use of *information-sharing initiatives* as an information source by default (where they exist and data privacy laws permitting; need for additional clarity on due diligence recommendations for upstream banks (“KYCC”))
- *Improvements in payment messages* (determination whether the Serial method using MT 103 or the Cover method using MT 103 and MT 202 COV is preferable)
Financial inclusion

- CPMI and World Bank *Joint task force on payments aspects of financial inclusion* (PAFI)

- **Consultative report** issued in September 2015
  - Examining demand and supply side factors affecting financial inclusion in the context of payment systems and services
  - Ideally, all individuals and businesses should have access to and be able to use at least one transaction account operated by a regulated payment service provider, to:
    (i) perform most, if not all, of their payment needs
    (ii) safely store some value; and
    (iii) serve as a gateway to other financial services
Financial inclusion

- Seven **guiding principles** designed to assist countries that want to advance financial inclusion in their markets through payments
  (i) *commitment* from public and private sector organisations
  (ii) a **robust legal and regulatory framework** underpinning financial inclusion
  (iii) safe, efficient and widely reachable financial and ICT *infrastructures*
  (iv) *transaction accounts* and payment product offerings that effectively meet a broad range of transaction needs
  (v) *availability* of a broad network of access points and interoperable access channels
  (vi) effective *financial literacy* efforts; and
  (vii) the *leveraging of large-volume and recurrent payment streams*, including remittances, to advance financial inclusion objectives
Outlook for the payments area

- Reaction of the incumbents (such as banks and traditional ACHs) on innovations and new competitors ("second round” effects)
- Impact of digital innovations (especially technical aspects)
- Promotion of cyber resilience
- Leveraging by relevant public bodies on payments aspects of financial inclusion
- Global standardisation (by standard-setters and industry bodies)
- Initiatives to enhance (cross-border) interoperability

⇒ Oversight frameworks to be adapted to the evolving landscape
⇒ Need for cooperation and coordination of central banks and other authorities (at the national and international level)