EUROPEAN CENTRAL BANK

EUROSYSTEM

REVISION OF THE EUROSYSTEM OVERSIGHT FRAMEWORK FOR PAYMENT SYSTEMS – EXPLANATORY NOTE –

Introduction

In April 2012, the Committee on Payment and Settlement Systems (CPSS) and the Technical Committee of the International Organization of Securities Commissions (IOSCO) published the Principles for financial market infrastructures (PFMIs). The PFMIs are designed to ensure that the infrastructure supporting financial markets is sufficiently robust and thus well placed to withstand potential financial shocks. The PFMIs were adopted by the Governing Council of the ECB in June 2013 as Eurosystem oversight standards for all types of financial market infrastructure (FMI). They replace, in the field of the Eurosystem's oversight of payment systems, the CPSS Core Principles for Systemically Important Payment Systems (BIS, January 2001) and the Business continuity oversight expectations for systemically important payment systems (ECB, June 2006).

To remain consistent with international practice and to take account of the increased integration of retail payment systems (RPSs) in the Single Euro Payments Area (SEPA), the Eurosystem also undertook a comprehensive review of its Oversight standards for euro retail payment systems, which were originally adopted in June 2003.

As a result of the above-mentioned developments, the primary distinction made in the oversight of payment systems by the Eurosystem remains the systemic importance of the system. Thus, the Eurosystem differentiates between systemically important payment systems (SIPS) and non-systemically important payment systems (non-SIPS). This distinction is based on clear quantitative criteria and determines the applicable oversight requirements and the way in which they are enforced. As RPSs are not an homogeneous category in terms of, for example, their size and geographical reach, and thus also not in terms of the risks inherent in them, the Eurosystem continues to maintain a specific oversight framework for RPSs, introducing further differentiation with respect to the applicable oversight requirements.

This note describes the approach of the Eurosystem towards the oversight of payment systems and the manner in which it will organise and conduct such oversight in the years to come.

1. ECB Regulation on oversight requirements for systemically important payment systems

The CPSS-IOSCO recommends implementing the PFMIs to the fullest extent allowed by the national legal and regulatory frameworks. The Eurosystem has therefore decided to implement the principles, as far as SIPS are concerned, in a legally binding manner by means of an ECB Regulation. A draft *ECB*

Regulation on oversight requirements for systemically important payment systems (the SIPS Regulation) was released for public consultation over the summer of 2013. Taking due account of the comments received, the Governing Council adopted the SIPS Regulation on 3 July 2014[1].

The SIPS Regulation implements, and is consistent with, the PFMIs. The requirements defined in the SIPS Regulation are aimed at ensuring efficient management of legal, credit, liquidity, operational, general business, custody, investment and other risks, as well as sound governance arrangements, objective and open access and, last but not least, efficiency and effectiveness of SIPS. The requirements are proportionate to the specific risks and exposures of SIPS. Because of risk considerations, the Eurosystem raised the bar regarding PFMI 9 on "money settlements" and requires SIPS operators settling one-sided payments in euro to ensure that final settlement takes place in central bank money.

The SIPS Regulation applies to all systemically important payment systems in the euro area, i.e. both large-value and retail payment systems, operated by both central banks and private operators. Article 1(3) sets out the criteria for identifying a payment system as a systematically important payment system (SIPS). In more general terms, the relevant factors for classifying payment systems can be described as follows:

a) financial impact: the size of the system and the associated financial risk for its participants and for the financial system as a whole;

b) degree of market penetration: a measure of the relative importance of a system within the domestic and European payment market;

c) cross-border dimension: an indication of the cross border nature of a payment system in terms of extent and size of potential negative repercussions for the euro area in the event of a malfunction;

d) settlement for other FMIs: addresses interdependencies between different FMIs and refers to vertical links between such systems.

On the basis of the criteria laid down in Article 1(3) of the SIPS Regulation, the Governing Council adopted on 13 August the decisions identifying the payment systems that are subject to the Regulation as well as their respective operators and competent authorities. A list of SIPS will be maintained on the ECB's website, reviewed annually and updated after each change. To identify SIPS, data from both the ECB's Statistical Data Warehouse (SDW) and an additional survey among EU central banks for collecting indicators of a payment system's importance are used.

The SIPS Regulation stipulates that a SIPS shall have one year to comply with the requirements of the Regulation from the moment it has been notified of the decision of the Governing Council that it qualifies as a SIPS.

[1] Regulation of the ECB (EU) No 795/2014 of 3 July 2014 on oversight requirements for systemically important payment systems (ECB/2014/28), OJ 217, 23.07.2014, p. 16-30

Finally, it should be noted that SIPS that are considered to be retail payment systems are also subject to the Oversight expectations for links between retail payment systems (see Section 3).

2. Oversight of non-systemically important payment systems

Payment systems that do not meet the criteria defined in Article 1(3) of the SIPS Regulation will not be considered to be of systemic importance and the Regulation does not apply to them. Nonetheless, these systems play, to various degrees, a role with respect to both the safety and efficiency of the financial system and public confidence in the euro. To ensure the safety and efficiency of such systems, the PFMIs, or a sub-set thereof, apply. Non-systemically important payment systems consist of both large value payment systems (LVPSs) and retail payment systems (RPSs).

LVPSs, which normally process a considerable number of high-value payments related to financial market transactions, are subject to all PFMIs addressed to payment systems. The classification of a non-systemically important payment system as an LVPS or an RPS is performed by the respective overseeing central bank, which informs the ECB and the other Eurosystem central banks of its decision and any subsequent changes. The ECB will maintain a list of RPSs and their classification and of non-systemically important LVPS on its website.

To ensure proportionality between the risks inherent in RPSs and the level of requirements, only a selection of PFMIs and related key considerations will be applied to non-systemically important RPSs. Within the group of non-systemically important RPSs, a further distinction is made between “prominently important RPSs” (PIRPS) and “other RPSs” (ORPS) – a differentiation that is similar to the one introduced in 2003. Further details can be found in the Revised oversight framework for retail payment systems.

3. Links between retail payment systems

A link between retail payments systems can be defined as a set of legal and operational arrangements aimed at facilitating the transfer of funds and fulfilment of payment obligations between entities participating in different RPSs. Links may take different forms, but the basic types are “direct”, “indirect” and “relayed” links. In addition to the SIPS Regulation or the PFMIs – depending on the applicability to a specific RPS –, the Oversight expectations for links between retail payment systems (OELRPS)[2] represent another important element of the standards to be applied to RPSs by the Eurosystem. They were published on 29 November 2012 and have now been integrated into the Revised oversight framework for RPSs.

The OELRPSs focus on ensuring the safety and efficiency of the operation of links, which constitute an increasingly important part of the activity of retail payment systems. Retail payment systems that are SIPS have to comply with all OELRPSs while the remaining RPS categories (PIRPS and ORPS) have to comply with a sub-set of expectations and key considerations.

[2] Oversight expectations for links between retail payment systems, 29 November 2012. http://www.ecb.europa.eu/press/pr/date/2012/html/pr121129.en.html

4. Organisations of oversight activities

The basic principles for the organisation of oversight of payment systems by the Eurosystem as laid down in the Eurosystem Oversight Policy Framework, July 2011, are not affected by the changes described in this note.

However, changes have occurred in the retail payments market over the last few years as a result of financial integration, giving RPSs an increasing geographical reach, and this process is likely to continue. The increasing integration among RPSs makes it necessary to enhance the coordination of national oversight arrangements and to increase the common oversight activities.

Therefore, only for the Eurosystem's internal organisation of its oversight activities and not affecting in any way the applicable oversight requirements for a specific payment system, the Eurosystem introduced the notion of "European systemically important retail payment systems" (ESIRPS). Such systems go significantly beyond the scope of interest of any individual central bank and are, by definition, deemed to be of interest to the Eurosystem as a whole. Accordingly, although the oversight activities for an ESIRPS will continue to be directed and coordinated by the competent authority, which is the central bank recognised as the lead overseer under the Eurosystem Oversight Policy Framework, any other Eurosystem central bank could also be involved.

There may also be RPSs which do not qualify as an ESIRPS, but which are of relevance for more than one euro area jurisdiction. In such cases, oversight arrangements would be set up between the lead overseer and the other relevant national central banks. These arrangements should be efficient and effective with the ultimate goal of ensuring consistent and comprehensive oversight.

In any case, there will always be full transparency towards each payment system with respect to the organisational aspects of its oversight by the Eurosystem and/or the involvement of individual Eurosystem central banks.

5. Assessments

In order to assess euro payment systems against relevant standards, the Eurosystem has developed its own assessment methodology, building on one developed by CPSS and IOSCO. The assessment methodology is aimed at ensuring a consistent and harmonised application of the SIPS Regulation and the PFMIs in the conduct of oversight assessments by the Eurosystem. The methodology also contains questions to assess links between RPSs against the OELRPSs. Competent authorities are expected to regularly assess observance of the principles by payment system operators in their respective jurisdictions in connection with their regulatory, supervisory and oversight responsibilities in order to ensure consistent implementation and application of the oversight requirements.