COMMITTEE ON PAYMENT AND SETTLEMENT SYSTEMS

BANK FOR INTERNATIONAL SETTLEMENTS

OICV-IOSCO

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Cover note to final report and two consultative documents

1 Publication of the final *Principles for financial market infrastructures* report

The Committee on Payment and Settlement Systems (CPSS) and the Technical Committee of the International Organization of Securities Commissions (IOSCO) are publishing the final version of their new *Principles for financial market infrastructures* (PFMI report). The PFMI report replaces the CPSS and IOSCO's previous standards for systemically important payment systems, central securities depositories, securities settlement systems (SSSs), central counterparties (CCPs) and trade repositories (TRs) (collectively FMIs), namely:

- *Core principles for systemically important payment systems* (CPSIPS), issued in 2001;
- *Recommendations for securities settlement systems* (RSSS), also issued in 2001; and
- *Recommendations for central counterparties* (RCCP), issued in 2004.

In March 2011, CPSS and IOSCO published a draft version of the new principles in a consultative document. CPSS and IOSCO received 120 comment letters on the consultative document. The comments were detailed and constructive and were generally supportive of the principles. However some noted various areas for potential improvement, including greater clarity in some areas and more specificity on the application of the principles to certain types of FMI. CPSS and IOSCO paid careful consideration to the comments in finalising the PFMI report. The comments were also helpful in reaching a decision on the approach to be adopted for those aspects of the principles where the consultative document contained options (ie principles 4, 7 and 15).

Also published is a *Summary note* which provides an overview of the PFMI report.

The PFMI report harmonises and, where appropriate, strengthens the previous international standards. It also incorporates additional detailed guidance for over-the-counter (OTC) derivatives CCPs and TRs.[1] In general, these new standards are expressed as broad

[1] In May 2010, CPSS and IOSCO published *Guidance on the application of 2004 CPSS-IOSCO recommendations for central counterparties to OTC derivatives* and *Recommendations for trade repositories in OTC derivatives markets*.

principles in recognition of FMIs' differing organisations, functions and designs and the range of ways potentially available in relation to some issues to achieve a particular result. In some cases, however, the PFMI report does incorporate a specific quantitative minimum requirement (such as in the credit, liquidity and general business risk principles) to ensure a common base level of risk management across FMIs and countries. In addition to the new principles themselves, the PFMI report also outlines the general responsibilities of relevant authorities for FMIs in implementing these standards. CPSS and IOSCO members will strive to adopt the new principles by the end of 2012 and put them into effect as soon as possible. FMIs are expected to observe the principles as soon as possible.

2 Publication of an assessment methodology and disclosure framework for public consultation

CPSS and IOSCO are also publishing for public comment the *Assessment methodology for the principles for FMIs and the responsibilities of authorities* and the *Disclosure framework for financial market infrastructures*. CPSS and IOSCO request comments on the proposed assessment methodology and disclosure framework by 15 June 2012. After the consultation period, CPSS and IOSCO will review all comments received on the assessment methodology and disclosure framework and publish final versions of the documents later in 2012.

A Assessment methodology

(i) Objective of the assessment methodology

The assessment methodology's objective is to provide a framework for assessing an FMI's observance of each of the 24 principles and the relevant authorities' observance of each of the five responsibilities. The assessment methodology is therefore a tool to promote the implementation and ongoing observance of the principles and responsibilities and to help ensure objectivity and comparability across all relevant jurisdictions.

The assessment methodology is primarily intended for external assessors at the international level and, in particular, international financial institutions such as the World Bank and International Monetary Fund (IMF). It also provides a baseline for national authorities to assess FMIs under their oversight/supervision. National authorities should use the assessment methodology in its current format or develop an equally effective methodology for their national oversight/supervision processes.

(ii) Background

The assessment methodology draws from the methodologies that were developed for the CPSIPS, the RSSS and the RCCP, taking into account the lessons drawn from the use of the existing approaches. The assessment methodology was developed by a sub-group chaired by the World Bank and the IMF, the members of which were experienced experts who have collectively performed numerous assessments through the IMF-WB Financial Sector Assessment Programme (FSAP) and other diagnostics of FMIs as external assessors and as overseers of national and international systems. The assessment methodology was developed in parallel with and as an adjunct to the PFMI report. Accordingly, the assessment methodology and final principles should be taken as closely related and supporting documents. The assessment methodology therefore avoids repetition of the detail contained in the principles and responsibilities. Any elaborating commentary is intended to help explicate practical considerations that arise when performing assessments, not to amend or expand upon the principles and responsibilities.

(iii) Structure of the assessment methodology

The assessment methodology describes the five steps involved in an assessment against the PFMI report. These steps are: (1) determining the appropriate scope of an assessment; (2) gathering facts useful to evaluate the key considerations; (3) developing key conclusions by key considerations; (4) assigning a rating category to each principle or responsibility; and (5) indicating an appropriate timeframe for addressing each identified issue of concern, including a discussion on priorities.

The assessment methodology also provides assessment report templates for assessing an FMI against the 24 principles and authorities against the five responsibilities (Appendices 1 and 2, respectively) as well as supporting questions for assessing observance with the principles and responsibilities (Appendices 3 and 4, respectively).

(iv) Request for comments on the proposed assessment methodology

CPSS and IOSCO request comment on the proposed assessment methodology and in particular on the following points:

- Is the assessment methodology appropriately comprehensive? If not, how should the assessment methodology be improved?
- Is the assessment methodology sufficiently clear (including on the guidance provided to deal with different types of FMIs)? If not, how can the assessment methodology be improved to ensure it is clearer?
- Does the assessment methodology include an appropriate level of detail? If not, what changes should be made?

B Disclosure framework

(i) Objective of the disclosure framework

Principle 23, "Disclosure of rules and key procedures" requires an FMI to publicly disclose sufficient information to participants and prospective participants so that they can understand the system's design and operations, their rights and obligations, and the fees and risks from participating in the system. Information that should be publicly disclosed extends beyond all relevant rules and key procedures and includes other explanatory material to help promote a better understanding of the FMI's operations and its impact on participants and the market it serves.

The proposed disclosure framework is designed to assist FMIs in providing the consistent and comprehensive disclosure that is expected of them under Principle 23. FMIs are expected to provide responses that are thorough and at an appropriate level of detail to achieve the following broad objectives:

(1) improve the transparency of FMI governance and operating and risk management structure in order to inform market participants, current and prospective users and authorities (and facilitate comparisons among FMIs);

(2) provide the public with a comprehensive understanding of the FMI, its role in the market it serves and the range of its relationships, interdependencies and interactions (eg description of key links, key service providers, and participants); and

(3) provide substantive descriptions of key rules, risks, policies, procedures and controls on a principle-by-principle basis.

(ii) Background

The proposed disclosure framework draws on the requirements set out in the RSSS and RCCP where SSSs and CCPs were required to complete and disclose the answers to the

key questions (or, for SSSs, to alternatively fill out the CPSS-IOSCO *Disclosure framework for securities settlement systems*) and to periodically review the accuracy and completeness of the information provided. With this background and taking into account the wider requirements set by the PFMI report, CPSS and IOSCO supported adapting the approach for disclosure to reconcile the trade-off between level of comparability and burden for the FMI. In this regard, instead of asking for a reply for each of the questions set in the assessment methodology, the proposed disclosure framework asks for a narrative description per key consideration covering the key elements identified by the assessment methodology to ensure a consistent approach across FMIs.

(iii) Suggested approach to the disclosure framework

A template for completing the disclosure framework is attached as an annex to the framework to help ensure that all FMIs disclose comprehensive and objective information in a similar structure, to further the reader's understanding of a particular FMI and facilitate comparability across FMIs. The disclosures should be complete and accurate on an on-going basis in order to be useful to participants and other stakeholders. FMIs should ensure that participants are provided with up-to-date information by regularly reviewing the information provided in the disclosure framework and updating answers as soon as possible after significant changes. A comprehensive review of the answers should be performed periodically (at least every two years) to ensure continued accuracy, except in case of a material change in an FMI's design and risk management in which case the update should be conducted before. To enable market participants to more easily detect changes and updates to the FMIs design and services, a specific section on changes since the last disclosure is part of the disclosure template.

In addition to the proposed disclosure framework, CPSS and IOSCO are developing a set of key quantitative information to be provided by FMIs to enable stakeholders, including the general public, to evaluate and facilitate cross-comparison of the systemic importance of FMIs in the market(s) they serve as well at the risks they might bring to these markets and the costs and risks associated with becoming a member. Given its nature, this information would need to be updated more frequently than that of the present disclosure framework to ensure it accurately reflects the situation of the FMIs.

(iv) Request for comments on the proposed disclosure framework

CPSS and IOSCO request comment on the proposed assessment methodology and in particular on the following points:

- Is the disclosure framework appropriately comprehensive? If not, how should the disclosure framework be improved?
- Is the disclosure framework sufficiently clear? If not, how can the disclosure framework be improved to ensure it is clearer?
- Does the disclosure framework include an appropriate level of detail concerning quantitative and qualitative disclosure requirements? If not, what changes should be made?