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Comments on the CPSS-IOSCO Consultative Report *"Assessment methodology for the principles for FMIs and the responsibilities of authorities"*

The Japanese Banks' Payment Clearing Network (Zengin-Net) is a general incorporated association set up by the Japanese Bankers Association to operate domestic retail fund transfers system. Zengin-Net operates Zengin System which handles customer credit transfer advises among its participants (most of the deposit-taking financial institutions in Japan) with a daily average of 5 million transactions, amounting to 11trillion JPY. It also clears funds arising from the above transactions among its participants through book transfers between their Bank of Japan accounts. Zengin-Net is the only Fund Clearing Agency licensed by the Japanese Government under the Payment Services Act.

Zengin-Net wishes to express its appreciation for the opportunity to comment on the consultative report "Assessment methodology for the principles for FMIs and the responsibilities of authorities" released on April 16th by the Committee on Payment and Settlement Systems, and the Technical Committee of the International Organization of Securities Commissions. Zengin-Net hopes that its comments below will help you to prepare the final document with more clarity.

Comments:

The assessment methodology (AM) "1.0 Introduction" states that any elaborating commentary is not to amend or expand upon those discussions of the principles that are contained in the PFMI Report. Also, "1.1. Use of the Assessment Methodology" states that national authorities should use the AM as it is or take it into consideration when developing equally effective methodologies for their national supervision and oversight processes.

Therefore, descriptions in the AM shall be kept within requirements written in the PFMI reports. With that context, Zengin-Net wishes to raise the three points below to be taken into consideration. All comments are regarding the Questions in appendix 3. "Questions by key consideration for the principles for FMIs"

1. Q.2.1.2: How is the FMI's performance in meeting its objectives assessed?
(Regarding Principle 2: Governance KE 1. Identification of the FMI's objectives.)

Comment:
It seems that there is no explicit requirement in Principle 2 of the PFMI report to which this question is addressing. Although explanatory note 3.2.1 of the PFMI report states "Governance provides the processes through which an organisation sets its objectives, determines the means for achieving those objectives, and monitors performance against those objectives", it is not clear that this sentence provides a basis for requiring assessment of performance against the objectives. If this sentence does not provide the basis, what does provide the basis?
In general, objectives are not suitable for practical performance assessments, as such objectives tend to be high-level abstract goals.

Suggested Change:
Delete Q2.1.2, as Q2.1.1 covers the question related to KE1.

2. Q.17.5.3: How, and to what extent, do the FMI's change-management and project-management policies and processes ensure that changes and major projects do not affect the physical security of the system?
(Regarding Principle 17: Operational risk, KC 17.5-KE 1. Physical security policies)
Q.17.5.6: How, and to what extent, do the FMI's change-management and project-management policies and processes ensure that changes and major projects do not affect the information security of the system?
(Regarding Principle 17: Operational risk, KC 17.5-KE 2. Information security policies)

Comment:
The above questions are about change-management. However, it is not obvious which part of the PFMI report provides the basis for the questions. If it is based on 3.17.12 of the report, "These policies, standards, practices, and controls should include the identification, assessment, and management of security threats and vulnerabilities for the purpose of implementing appropriate safeguards into its systems," these questions are irrelevant because the section 3.17.12 is the requirement/ expectation in the design phase of physical and information security, but does not relate to the change management.
As questions about change management are written in Q17.1.6 based on 3.17.8 of the PFMI report, the above questions should be integrated into Q17.1.6.

Suggested Change:

Delete Q17.5.3 and Q17.5.6. Amend Q17.1.6 as needed.

3. Q.23.4.1: What fee and other material cost information on its pricing (i.e. services and associated fees and discounts) does the FMI publicly disclose?
(Regarding Principle 23: Disclosure of rules, key procedures, and market data, KC23.4-KE 1. Public disclosure of service fees and discounts.)

Comment:

Although the PFMI report requires fee information to be publicly disclosed, other material cost information is out of scope. Additionally, "Disclosure framework for financial market infrastructures" defines readers of disclosure as (1) current and prospective participants, (2) other market participants, (3) authorities, (4) general public, but there are no specific guidelines regarding the scope of each disclosure item. Moreover, while notes in the general instructions state that "An FMI should be careful not to disclose confidential information in its response", there is no definition of confidential information.

Considering the above, Q23.4.1, the question, whether fees are publicly disclosed, is appropriate, but the remaining part of the question about material cost information is not because it is out of the scope of the PFMI report. Moreover, it will contradict the requirement not to disclose confidential information considering that the cost information could be regarded as confidential information by the FMI in certain cases.

Suggested Change:

Amend Q23.4.1 to exclude other material cost information from publicly disclosure items from the question.

(END)