

The image shows the exterior of the Federal Reserve Bank of New York building, a grand neoclassical structure with a light-colored stone facade. The ground floor features a series of large, arched windows with decorative grilles. Above these, a balcony with a white balustrade runs across the building. An American flag flies from a tall pole in front of the balcony. To the right, a black street lamp stands on the sidewalk. The scene is partially framed by green tree branches at the top.

FEDERAL RESERVE BANK *of* NEW YORK

Committee on Payments and Market Infrastructures (CPMI)

Payment System Policy and Oversight Course
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Important Note

The views expressed in this presentation do not necessarily reflect the views of the Federal Reserve Bank of New York or any other component of the Federal Reserve System.



Recall: How Can Central Banks be Effective Overseers

- **Potential tools of a central bank**
 - **Setting policies/objectives/standards**
 - Dialogue with private sector
 - **Dialogue with other authorities**
 - Voluntary agreements/contracts/MOUs
 - Specific laws and regulations
 - Enforcement sanctions



Agenda

- Overview of the CPMI
- CPMI Activities
 - Analytical and monitoring activities
 - Standard-setting activities and policy work
- Importance of standard-setting and policy work
 - Example: *The Principles for Financial Market Infrastructures (PFMI)*



Overview

The Committee on Payments and Market Infrastructures (CPMI) promotes the safety and efficiency in payment, clearing, settlement and related arrangements, thereby supporting financial stability and the wider economy.

■ Membership

- The CPMI is comprised of representatives from central banks
 - Currently 25 central banks (see Appendix for membership)
- Chairperson directs the work of the CPMI in accordance with its mandate, and is supported by a Secretariat

■ History

- G10 Governors set up a Group of Experts on Payment Systems (1980s)
- Established Committee on Payments and Settlement Systems (CPSS) to continue and extend the activities of the Group (1990)
- Name changed to Committee on Payment and Market Infrastructures (2014)

■ Legal status

- The CPMI does not possess any formal supranational authority
- It relies on the commitment of its members to adopt and consistently apply CPMI standards and recommendations in their respective jurisdictions



CPMI Activities

The CPMI accomplishes its mandate through the following activities:

- Monitoring and analyzing developments to help identify risks for the safety of payment, clearing, and settlement arrangements within its mandate
- Coordinating and cooperating with other financial sector standard setters, central bank bodies and international financial institutions
- Establishing and promoting global standards and recommendations

The CPMI meets about three times per year, serving as a forum and mechanism for information-sharing and cooperation among CPMI members

- The CPMI shares views and experiences with central banks which are not members of the CPMI as well

The CPMI develops and implements a work program annually consistent with these activities.



Analytical and Monitoring Activities

- The CPMI monitors and analyzes developments to help identify risks for the safety and efficiency of payments, clearing and settlement arrangements, as well as resulting risks for the global financial system.

- Examples:
 - Working Group on Repo Market Infrastructure (2010)
 - Identified and analyzed the strengths and weaknesses of various clearing and settlement arrangements through stock-taking exercise
 - Produced report identifying options for strengthening the repo clearing and settlement arrangements

 - TBD: Digital Innovations Working Group (2016)
 - Monitor and analyze developments on digital innovations in the PCS sphere
 - Identify potential risks associated with certain digital innovations
 - Future work yet to be determined



Coordinating and Cooperating with Others

- The CPMI coordinates and cooperates with other financial sector standard setters, central bank bodies and international financial institutions, with the goal of enhancing coordination and consistency of policy development and implementation. Examples include:
 - International Organization of Securities Commissions (IOSCO)
 - Basel Committee on Banking Supervision (BCBS)
 - Committee on the Global Financial System (CGFS)
 - The World Bank and the International Monetary Fund



Standard-Setting Activities and Policy Work

- Establishes and promotes global standards and recommendations, including guidance for their interpretation, where appropriate
 - Monitors the implementation of CPMI standards and recommendations
 - The expectation is that the standards will be fully incorporated into local legal, regulatory and policy frameworks in accordance with each jurisdiction's rule-making process.
- Standard-setting and policy work ... induce change!
- Example: *The Principles for Financial Market Infrastructures (PFMI)*
 - Recovery and cyber
 - CCP risk management



Overview of the PFMI

- In April 2012, the CPSS (now CPMI) and IOSCO published the *Principles for Financial Market Infrastructures (PFMI)*, which harmonized, strengthened, and replaced the existing international standards.
- The PFMI sets forth 24 risk-management and related principles for financial market infrastructures (FMIs)*:
 - systemically important payment systems (PSs);
 - central securities depositories (CSDs);
 - securities settlement systems (SSSs);
 - central counterparties (CCPs); and
 - trade repositories (TRs)
- The PFMI also sets forth five responsibilities for relevant authorities in regulating, supervising, and overseeing FMIs
- Enhance the safety and efficiency in payment, clearing, settlement, and recording arrangements, and more broadly, to limit systemic risk and foster transparency and financial stability.

Adopting the PFMI Domestically

- CPMI and IOSCO members committed to strive to incorporate the PFMI into their respective legal and regulatory frameworks
- In October 2014, the Federal Reserve Board issued revisions to Part 1 of the Payment System Risk (PSR) Policy and amendments to Regulation HH* that are based on and generally consistent with the PFMI
 - **Regulation HH**- an enforceable federal regulation that contains the Board's risk management standards for DFMUs for which the Fed is the Supervisory Agency* under Title VIII of Dodd-Frank (CHIPS and CLS)
 - **Part 1 of the PSR Policy** – a policy statement that sets out the Board's views and related risk-management standards for all other systemically-important FMIs, including DFMUs for which the Fed is not Supervisory Agency

Additional Guidance – Recovery and Cyber

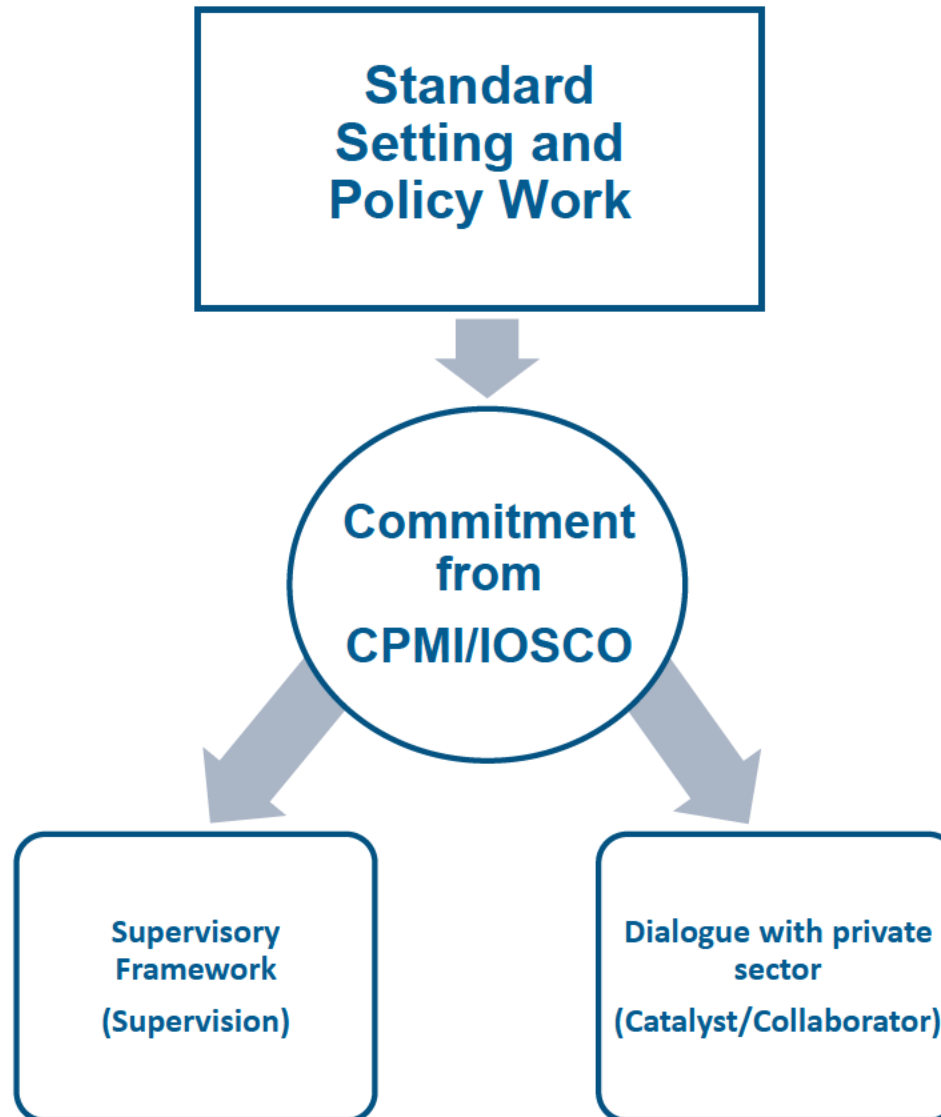
- In October 2014, CPMI and IOSCO published the report on the *Recovery of financial market infrastructures* (in October 2014)
 - Provides guidance to FMIs in developing comprehensive and effective recovery plans
 - FMIs should have a comprehensive and effective recovery plan because the disorderly failure of an FMI could lead to severe systemic disruptions if it causes markets to cease to operate effectively
- CPMI and IOSCO are finalizing report on *Guidance on cyber resilience for financial market infrastructures* (by H2 2016)
 - Provides guidance for FMIs to enhance their cyber resilience
 - This will require a significant strengthening of all FMIs' current recovery capabilities with respect to a cyber attack
- Guidance is not intended to create additional requirements for FMIs, or authorities, beyond those set out in the PFMI, but rather to provide supplemental guidance on observance of the PFMI

CCP Risk-Management Practices

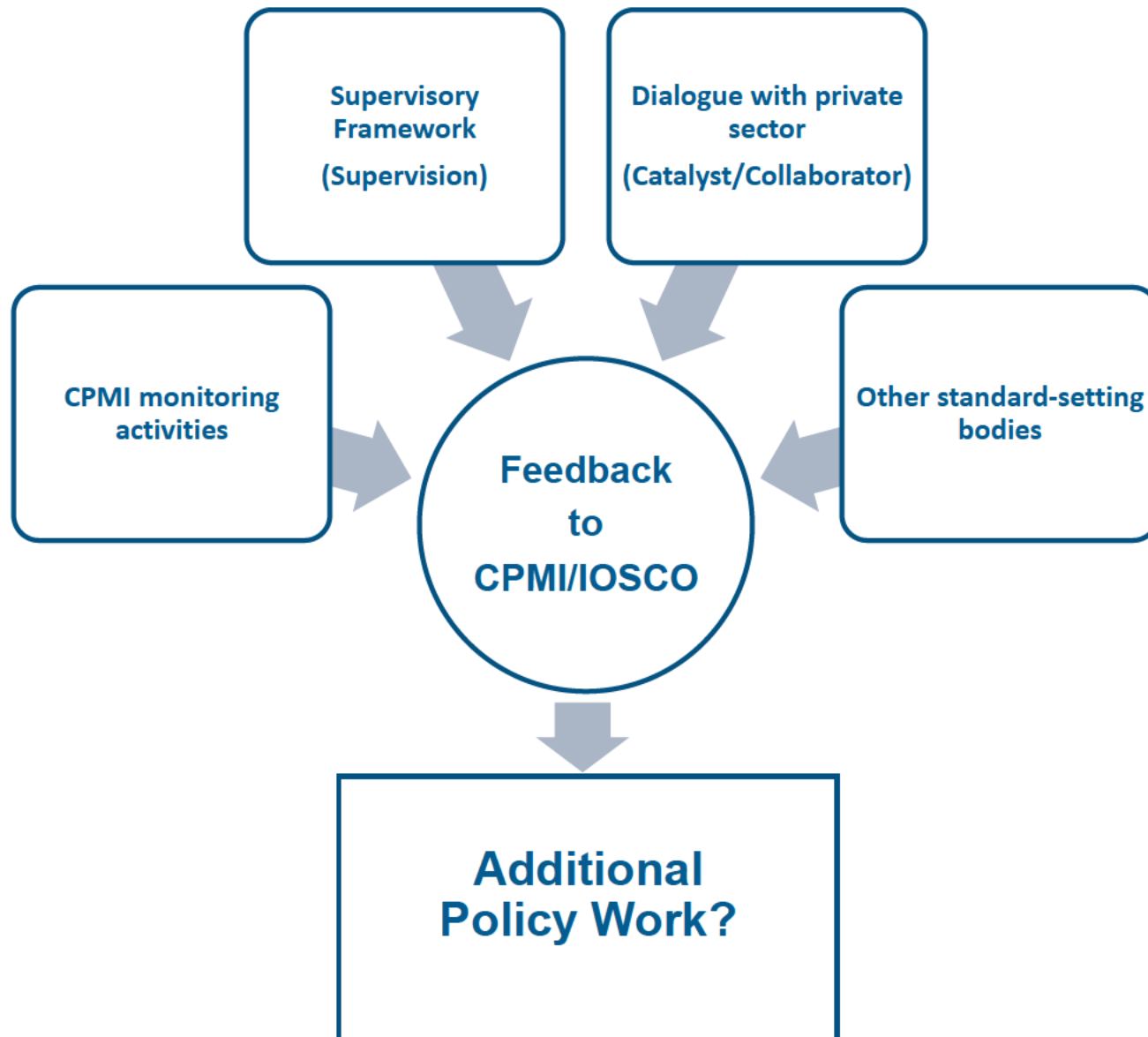
- The CPMI and IOSCO are currently evaluating CCP's current risk-management practices against the PFMI, with an aim to identify any areas where further regulatory guidance/action might be appropriate*
 - The CPMI-IOSCO Policy Standing Group conducted a stock take of the risk-management practices of 34 CCPs located in different jurisdictions
 - The CPMI-IOSCO Implementation Monitoring Standing Group conducted a review of 10 CCPs located in different jurisdictions
- Based on the stock-take and "level 3" assessments, CPMI and IOSCO are identifying certain areas where additional guidance/action may be necessary
 - Governance
 - Risk-management methodologies, such as stress testing and margin
 - Recovery
- Enhance the safety and efficiency in clearing, and more broadly, to limit systemic risk and financial stability.

*The CPMI-IOSCO work is consistent with the *2015 CCP Workplan* agreed to by the FSB, BCBS, CPMI, and IOSCO. Please refer to Appendix for additional information about the *2015 CCP WorkPlan*

Time Horizon ... What's Next?



Time Horizon ... What's Next?



Questions?



Appendix: CPMI Membership

North America

- Board of Governors of the Federal Reserve System
- Federal Reserve Bank of New York
- Bank of Canada
- Bank of Mexico

South America

- Central Bank of Brazil

Europe

- Bank of England
- National Bank of Belgium
- European Central Bank
- Bank of France
- Deutsche Bundesbank
- Bank of Italy
- Netherlands Bank
- Central Bank of the Russian Federation
- Sveriges Riksbank
- Swiss National Bank
- Central Bank of the Republic of Turkey

Asia

- The People's Bank of China
- Hong Kong Monetary Authority
- Reserve Bank of India
- Bank of Japan
- Bank of Korea
- Monetary Authority of Singapore

Africa

- South African Reserve Bank

Australia

- Reserve Bank of Australia

Middle East

- Saudi Arabian Monetary Agency



Appendix: International Standards (pre-PFMI)

- International standards for FMIs have played an important role in the financial markets for more than two decades
 - *Report of the Committee on Interbank Netting Schemes of the Central Banks of the Group of Ten countries (Lamfalussy Report)* (November 1990)
 - *CPSS Core Principles for Systemically Important Payment Systems* (January 2001)
 - *CPSS-IOSCO Recommendations for Securities Settlement Systems* (November 2001)
 - *CPSS-IOSCO Recommendations for Central Counterparties* (November 2004)
- International standards/responsibilities of central banks, market regulators, and other relevant authorities for FMIs similarly have been a long standing practice
 - The principles that guide cooperative oversight, for example, were introduced in 1990 in the Lamfalussy Report
 - The CPSS Report on *Central bank oversight of payment and settlement systems*, published in May 2005, included “Principles for International Cooperative Oversight”

Appendix: The PFMI

The PFMI includes 24 principles in total that have been categorized into 9 broad categories:

<p>General organization</p> <ol style="list-style-type: none"> 1. Legal basis 2. Governance 3. Framework for the comprehensive management of risks 	<p>Credit and liquidity risk management</p> <ol style="list-style-type: none"> 4. Credit risk 5. Collateral 6. Margin 7. Liquidity risk 	<p>Settlement</p> <ol style="list-style-type: none"> 8. Settlement finality 9. Money settlements 10. Physical deliveries
<p>CSDs and exchange-of-value settlement systems</p> <ol style="list-style-type: none"> 11. CSDs 12. Exchange-of-value settlement systems 	<p>Default management</p> <ol style="list-style-type: none"> 13. Participant-default rules and procedures 14. Segregation and portability 	<p>General business and operational risk management</p> <ol style="list-style-type: none"> 15. General business risk 16. Custody and investment risks 17. Operational risk
<p>Access</p> <ol style="list-style-type: none"> 18. Access and participation requirements 19. Tiered participation 20. FMI links 	<p>Efficiency</p> <ol style="list-style-type: none"> 21. Efficiency and effectiveness 22. Communication procedures and standards 	<p>Transparency</p> <ol style="list-style-type: none"> 23. Disclosure of rules, key procedures, and market data 24. Disclosure of market data by TRs

Appendix: Responsibilities of Authorities

- The PFMI outlines 5 responsibilities of authorities for FMIs, which provide guidance for consistent and effective regulation, supervision, and oversight of FMIs
 - Responsibility A states that FMIs should be subject to appropriate and effective regulation, supervision, and oversight by a central bank, market regulator, or other relevant authority
 - Responsibility B states that authorities should have the powers and resources to carry out effectively their responsibilities in regulating, supervising, and overseeing FMIs
 - Responsibility C states that authorities should clearly define and disclose their regulatory, supervisory, and oversight policies with respect to FMIs
 - Responsibility D states that authorities should adopt and consistently apply the PFMI
 - Responsibility E states that relevant authorities should cooperate, both domestically and internationally, in promoting the safety and efficiency of FMIs

Appendix: Summary of 2015 CCP Workplan

Area	Action	Responsible Body
A. CCP resilience	<ul style="list-style-type: none"> Evaluate existing standards on CCP loss absorption capacity and liquidity, including standards for initial margin methodologies and Cover 1/Cover 2 standard, taking into account the implementation of the PFMI. Evaluate stress testing policies and practices of CCPs, and consider the need for, and develop as appropriate, a framework for consistent and comparable stress tests of the adequacy of CCPs' financial resources (including capital) and liquidity arrangements, which could involve supervisory stress tests. 	<ul style="list-style-type: none"> CPMI-IOSCO will serve as the primary forum for this work, regularly interacting with the FSB SRC.
B. CCP recovery	<ul style="list-style-type: none"> Conduct a stock-take of existing CCP recovery mechanisms, including loss allocation tools. Consider the need for, and develop as appropriate, more granular standards or guidance for CCP recovery planning, taking into account the implementation of the requirements in the PFMI and complementing CPMI-IOSCO guidance on recovery. 	<ul style="list-style-type: none"> CPMI-IOSCO will serve as the primary forum for this work, working in close cooperation with the FSB ReSG.
C. CCP resolution	<ul style="list-style-type: none"> Conduct a stock take of existing CCP resolution regimes and resolution planning arrangements. Consider the need for, and develop as appropriate, more granular standards or guidance for CCP resolution planning, resolution strategies and resolution tools, including cross-border coordination and recognition of resolution actions, taking into account the requirements in the FSB <i>Key Attributes</i> and complementing the FSB guidance on FMI resolution. Assess the need for additional prefunded financial resources (including capital) and liquidity arrangements in resolution, and develop a proposal as needed. 	<ul style="list-style-type: none"> ReSG will serve as the primary forum for this work, working in close cooperation with CPMI-IOSCO.
D. Analysis of interdependencies	<ul style="list-style-type: none"> Quantify, where possible, the interconnections between CCPs and clearing members, mapping globally – in terms of both common memberships and common service provision. Analyse potential contagion effects. 	<ul style="list-style-type: none"> Joint <i>ad hoc</i> working group