

Core principles on sistemically important payment systems

I Legal basis: The system should have a well-founded legal basis under all relevant jurisdictions.

Participants could incur financial risks if the rules and procedures of a system are not clear and enforceable.

II Understanding financial risks: The system's rules and procedures should enable participants to have a clear understanding of the system's impact on each of the financial risks they incur through participation in it.

It has to be clear to participants who will bear which risks and to what extent. This information should be largely provided by the rules and procedures of a system, which should define the rights and obligations of all the parties involved.

III Management of financial risks: The system should have clearly defined procedures for the management of credit risks and liquidity risks, which specify the respective responsibilities of the system operator and the participants and which provide appropriate incentives to manage and contain those risks.

Risk management features (e.g. collateral pools, debit caps) clearly add to the safety of a payment system. However, a balance has to be struck between safety and efficiency. It is therefore clear that safety requirements for retail systems should be different from those for large-value systems, on account of the different degree of risk involved. System operators should consider which risk management tools would be most appropriate for the system they operate.

IV Prompt final settlement: The system should provide prompt final settlement on the day of value, preferably during the day and at a minimum at the end of the day.

In a SIPS, it is important that final settlement, i.e. debiting and crediting of the participants' accounts, occurs on the same day of value, preferably even during the day, so that participants do not incur undue credit risks. Since high-value payments or payments to settle financial market transactions are generally involved, participants urgently need to know, for risk management purposes, that such transactions have been finally settled during or at the end of the day of value.

V Settlement in multilateral netting systems: A system in which multilateral netting takes place should, at a minimum, be capable of ensuring the timely completion of daily settlements in the event of an inability to settle by the participant with the largest single settlement obligation.

As already mentioned under Core Principle III above, a balance has to be struck between safety and efficiency for each payment system. If system providers consider it appropriate not to include risk management features in their retail systems, there is a clear risk that, in the event of a participant being unable to settle, such systems might not be in a position to complete settlement for the day. System operators must consider how their systems can achieve timely settlement to the greatest possible extent in the event of failure.

VI Settlement assets: Assets used for settlement should preferably be a claim on the central bank; where other assets are used, they should carry little or no credit risk and little or no liquidity risk.

Settlement in central bank money does not expose participants in payment systems to credit risk involving default on the part of the settlement agent. Central bank money is therefore the safest asset for settlement.

VII Security and operational reliability: The system should ensure a high degree of security and operational reliability and should have contingency arrangements for timely completion of daily processing.

Just as the financial economy relies on large-value payment systems for the settlement of financial transactions, the real economy is heavily dependent on the availability of retail payment systems. The large value and retail systems should therefore be secure, operationally reliable and have contingency arrangements in place.

VIII Efficiency: The system should provide a means of making payments which is practical for its users and efficient for the economy.

All specified systems should be practical for their users and efficient for the economy. Resources should be used efficiently. A trade-off typically exists between minimising resource costs and achieving other objectives, e.g. safety. Designers of payment systems should economise on resource costs by being practical in the specific circumstances of the system and by taking account of its effects on the economy as a whole. Particular consideration should be given to the implementation of international standards (e.g. SWIFT, BIC, IBAN, IPI) in national retail payment systems to allow for straight-through processing of domestic as well as cross-border transactions.

IX Access criteria: The system should have objective and publicly disclosed criteria for participation, which permit fair and open access.

All systems should have objective and publicly disclosed criteria for participation. Access criteria that encourage competition among participants promote efficient and low-cost payment services. Therefore, access should generally be free and open. However, imposing restrictions on access may be warranted in order to protect participants against undue risks resulting from the participation of other parties.

X Governance: The system's governance arrangements should be effective, accountable and transparent.

The governance arrangements should be effective, accountable and transparent. The governance arrangements provide the structure through which the system's overall objectives are set and attained and through which performance is monitored. Such arrangements should provide proper incentives for management to pursue objectives that are in the interests of the system, its participants and the public more generally. Governance arrangements should ensure accountability to the relevant bodies and be transparent so that all affected parties have access to information applicable to them.

Responsibilities of the central bank in applying the Core Principles

A - The central bank should define clearly its payment system objectives and should disclose publicly its role and major policies with respect to systemically important payment systems.

B - The central bank should ensure that the systems it operates comply with the core principles.

C - The central bank should oversee compliance with the core principles by systems it does not operate and it should have the ability to carry out this oversight.

D - The central bank, in promoting payment system safety and efficiency through the core principles, should co-operate with other central banks and with any other relevant domestic or foreign authorities.