COMMITTEE ON PAYMENT AND SETTLEMENT SYSTEMS

BANK FOR INTERNATIONAL SETTLEMENTS

Press release

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CPSS-IOSCO issue new standards for financial market infrastructures

The Committee on Payment and Settlement Systems (CPSS) and the International Organization of Securities Commissions (IOSCO) have today published three documents that promote global efforts to strengthen financial market infrastructures (FMIs):

- a report entitled *Principles for financial market infrastructures*;
- a consultation paper on an *assessment methodology* for these new standards; and
- a consultation paper on a *disclosure framework* for the standards.

New and more demanding international standards for payment, clearing and settlement systems, including central counterparties, have today been issued by the CPSS and IOSCO in a report titled *Principles for financial market infrastructures*. Among other things, the standards will provide important support for the G20 strategy to make the financial system more resilient by making central clearing of standardised OTC derivatives mandatory. CPSS and IOSCO members will strive to adopt the new standards by the end of 2012. Financial market infrastructures (FMIs) are expected to observe the standards as soon as possible.

The new standards (called "principles") replace the three existing sets of international standards set out in the *Core principles for systemically important payment systems* (CPSS, 2001); the *Recommendations for securities settlement systems* (CPSS-IOSCO, 2001); and the *Recommendations for central counterparties* (CPSS-IOSCO, 2004). CPSS and IOSCO have strengthened and harmonised these three sets of standards by raising minimum requirements, providing more detailed guidance and broadening the scope of the standards to cover new risk-management areas and new types of FMIs.

The new principles are designed to ensure that the infrastructure supporting global financial markets is robust and thus well placed to withstand financial shocks. They apply to all systemically important payment systems, central securities depositories, securities settlement systems, central counterparties and trade repositories (collectively “financial market infrastructures”). These FMIs collectively clear, settle and record transactions in financial markets.

"FMIs performed well during the financial crisis and we gained a deeper understanding of their true importance. Robust FMIs help markets to continue functioning even in conditions of great uncertainty, making them a fundamental element of financial stability," said Masamichi Kono, Vice Commissioner for

International Affairs, Financial Services Agency, Japan and Chairman of IOSCO's Technical Committee.

William C Dudley, President, Federal Reserve Bank of New York and a co-chair of the CPSS-IOSCO work on the standards, noted that "Under the new regime of central clearing for standardised OTC derivatives trades, the role of FMIs will become even more important in the future. The principles provide an important safeguard that FMIs will be robust enough to take on this role".

Paul Tucker, Deputy Governor, Financial Stability, Bank of England and CPSS Chairman, added that "With these new principles, authorities have a good basis on which to ensure a safe and stable financial infrastructure. It is essential that authorities adopt the principles, and FMIs observe them, as soon as possible".

Compared with the old standards, the new principles introduce new or more demanding requirements in many important areas including:

- the financial resources and risk management procedures an FMI uses to cope with the default of participants;
- the mitigation of operational risk;
- the links and other interdependencies between FMIs through which operational and financial risks can spread;
- achieving the segregation and portability of customer positions and collateral;
- tiered participation; and
- general business risk.

The steering group that carried out the work on behalf of the CPSS and IOSCO was chaired by William C Dudley (see above), Masamichi Kono (see above; since August 2011) and Kathleen Casey (former Commissioner of the Securities and Exchange Commission (SEC), US; until July 2011). The editorial team that drafted the reports was chaired by Daniela Russo (Director General, European Central Bank) and Jeffrey Mooney (Assistant Director, SEC, US).

The principles were issued for public consultation in March 2011. The finalised principles being issued now have been revised in light of the comments received during that consultation (see http://www.bis.org/publ/cpss94/cacomments.htm)

Consultation about assessment and transparency

At the same time as publishing the finalised principles, CPSS-IOSCO have released two related documents for public consultation.

- One is an assessment methodology that can be used to assess whether an FMI is observing the new principles.
- The other is a disclosure framework that sets out the information an FMI should publish in order to be transparent about the risks of using the FMI.

Comments on these two documents are invited from all interested parties and should be sent by 15 June 2012 (see note 3 below). After the consultation period, the CPSS and IOSCO will review the comments received and publish final versions of the two documents later in 2012.

The CPSS and IOSCO, together with the Financial Stability Board, are also working on guidance for designing resolution regimes for FMIs. This work will be published in the coming months.

Notes

1. The two chairs of the CPSS-IOSCO editorial team (see above) are available to provide briefing on these documents during the course of today:
   - Daniela Russo of the European Central Bank, tel +49 171 222 1441
   - Jeffrey Mooney of the US SEC, tel +1 202 551 5710
2. The documents are on the websites of the Bank for International Settlements (BIS) at http://www.bis.org/publ/cpss101.htm and IOSCO at The documents are on the websites of the Bank for International Settlements (BIS) at http://www.bis.org/publ/cpss101.htm and IOSCO at http://www.iosco.org/library/pubdocs/pdf/IOSCOPD377.pdf.
3. Comments on the assessment methodology and disclosure framework documents should be sent by Friday 15 June 2012 to both the CPSS secretariat (cpss@bis.org) and the IOSCO secretariat (fmi@iosco.org). The comments will be published on the BIS and IOSCO websites unless commentators request otherwise.
4. The Committee on Payment and Settlement Systems (CPSS) serves as a forum for central banks to monitor and analyse developments in payment and settlement arrangements as well as in cross-border and multicurrency settlement schemes. The CPSS secretariat is hosted by the BIS. More information about the CPSS, and all its publications, can be found on the BIS website at www.bis.org/cpss.
5. The International Organisation of Securities Commissions (IOSCO) is an international policy forum for securities regulators. Its Technical Committee, that worked with the CPSS in producing these documents, is a specialised group established by IOSCO's Executive Committee and made up of 18 agencies that regulate some of the world's larger, more developed and internationalised markets. Its objective is to review major regulatory issues related to international securities and futures transactions and to coordinate practical responses to these concerns.
6. The new principles will replace the existing standards for FMIs (see above), which are included in the Financial Stability Board's list of 12 key standards for sound financial systems. These key standards represent minimum requirements for good practice that countries are encouraged to meet or exceed (see http://www.financialstabilityboard.org/cos/key_standards.htm)
7. The disclosure framework and the assessment methodology promote consistent disclosures of information by FMIs and consistent assessments by international financial institutions and national authorities. The assessment methodology is primarily intended for external assessors at the international level, in particular the International Monetary Fund and the World Bank. It also provides a baseline for national authorities to assess observance of the principles by the FMIs under their oversight or supervision and to self-assess the way they discharge their own

responsibilities as regulators, supervisors, and overseers. The assessment methodology was developed by a sub-group chaired by the World Bank and the IMF.