

# Core Principles for Systemically Important Payments

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# Core Principles for SIPS

- Public Policy Objectives: Safety & Efficiency
- BIS (Committee Payment Systems) + Central Banks+ IMF + WB developed 10 core principles for SIPS
- Important for Emerging Markets to apply international standards: provides efficiency benchmarks and gives confidence to users

*Principle I: The system should have a well founded legal basis under all relevant jurisdictions*

- **completeness and reliability of framework legislation**
- **enforceability of laws and contracts**
- **clarity of timing of final settlement**
- **legal recognition of netting arrangements**
- **relevant provisions of banking and Central Bank laws**

*Principle II: 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*

- **be clear, comprehensive and up-to-date**
- **explain the system's design, risk management procedures, legal basis and role of the parties**
- **set out procedures and timetables for abnormal situations**

*Principle III: 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 these risks*

- **Tools for managing credit risks**
- **Tools for managing liquidity risks**
- **General Tools**
- **Incentives to manage these risks**

***Principle IV: 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***

- **Clarity in the rules and procedures about the revocability of the payment**
- **A defined and legally effective moment of final settlement**
- **Ensuring that operating hours and the settlement processes are strictly enforced**

***Principle V: 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***

- **Additional financial resources must be available to meet this contingency**
- **The amount of these resources must be determined appropriately**
- **Alternatively, other system designs (e.g. RTGS) must be explored**

***Principle VI: 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***

**If assets other than a CB's claim are used, it should be checked:**

- the creditworthiness of the issuer**
- how readily the asset can be transferred into others**
- size and duration of exposures of the issuer**

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

- **General**
- **Security**
- **Operational reliability**
- **Business continuity**

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

- **General: Define objectives; Identify user needs and constraints; Identify system choices and benefits; Determine social and private costs; Develop decision choices**
- **Analytical Framework: Identify efficiency and safety requirements; Evaluate costs; Identify resources; Determine practical and safety constraints**
- **Methods: Cost-Benefits or other structured analysis; involvement of participants and/or users in discussions; Methodology for data collection and analysis; Identify data sources**

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

- **Access criteria should be justified in terms of both safety and efficiency**
- **Exit criteria**

***Principle X: The system's governance arrangements should be effective, accountable and transparent***

- Major decisions should be made after consultation with interested parties
- The systems consistently attains projected financial results
- The system delivers payment services that satisfy customer needs
- The system complies with the other 9 principles

# Group of Thirty Recommendations for Clearance and Settlement Systems

1. By 1990 all comparisons of trades between direct market participants (that is, brokers, broker/dealers and other members) should be accomplished T+1.
2. By 1992 indirect market participants (such as institutional investors or counter parties that are not broker/dealers) should be members of a trade comparison system that achieves positive affirmation of trade details.
3. Each country should have in place by 1992 an effective and fully developed central securities depository, organized and managed to encourage the broadest possible industry participation (directly and indirectly).
4. Each country should study its market volumes and participation to determine whether a trade netting system would be beneficial in terms of reducing risk and promoting efficiency. Where a netting system is appropriate, it should be implemented by 1992.
5. Delivery versus payment (DVP) should be employed as the method for settling all securities transactions. A DVP system should be in place by 1992.

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6. Payments associated with the settlement of securities transactions and the servicing of securities portfolios should be made consistent across all instruments and markets by adopting the same-day funds conventions.
7. A “rolling settling” system should be adopted by all markets. Final settlement should occur on T+3 by 1992. As an interim target final settlement should occur on T+5 by 1990 except where it hinders the achievement of T+3 by 1992.
8. Securities lending and borrowing should be encouraged as a method of expediting the settlement of securities transactions. Existing regulatory and taxation barriers that inhibit the practice of lending securities should be removed by 1990.
9. Each country should adopt the standard for securities messages developed by the International Organisation of Standardisation (ISO Standard 7775). In particular, countries should adopt ISIN Standard 6166, at least for cross-border transactions. These standards should be universally applied by 1992