

Oversight of payment and settlement systems 2014

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DeNederlandscheBank

EUROSYSTEEM

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1 Introduction

This brochure describes the scope and exercise of oversight of payment and settlement systems in 2014. Oversight is one of the central bank tasks of De Nederlandsche Bank (DNB) and relates to the safety and efficiency of payment and settlement systems.

Payment systems involve both retail and large-value payments. These are payments between consumers and businesses, and payments between financial institutions, respectively. Securities clearing and settlement systems are dealing with securities and derivatives transactions. All of these components are subject to oversight.

This brochure first discusses the purpose and scope of oversight, before dealing briefly with its statutory framework and methods. Finally, you will find out what oversight means for your organisation. How does oversight work and how will it affect you?

2 Why oversight?

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The two objectives of our oversight are:

- 1 avoiding (infrastructural) systemic risk
- 2 preventing social unrest due to disruptions insofar as this results from retail payment systems important for the Netherlands.

These objectives are in line with DNB's overall mission of promoting financial stability and the smooth operation of payment systems.

As an institution operating in the area of payment and settlement systems, the primary responsibility for the smooth operation of these systems rests with you. You must ensure secure and efficient operational management. As overseers, we monitor that you do so. If we identify any problems or risks, we expect you to solve or mitigate them.

As part of our oversight function, we define **systemic risks** as risks related to the financial infrastructure. Such risks may materialise, for instance, when a crucial payments or settlement system breaks down, or if a participant in such a system is unable to meet its obligations, thereby setting a chain reaction in motion. Such a knock-on effect may adversely affect financial markets and the Netherlands' economic development.

A **disruption** in retail payment systems or products may have significant economic and social ramifications and damage public confidence in payment systems.

3 Which institutions are subject to DNB's oversight?

If you operate in the area of payment or securities transactions, you may be subject to our oversight. Oversight of payment systems concerns payment institutions, systems and products important for the Netherlands, such as payment processing service providers and payment products. Oversight of

securities clearing and settlement systems looks at institutions and systems that handle the clearing and settlement of securities and derivatives transactions that are important for the Netherlands. Examples include central counterparties and central securities depositories.

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A **central counterparty** is positioned between two parties in a transaction, guaranteeing a transaction's performance to those parties. As such, it acts as the counterparty to both the buyer and the seller.

The core services of a **central securities depository** are

- Initial recording of securities in a book-entry system
- Providing and maintaining securities accounts at the top tier level
- Operating a securities settlement system.

A **payment processing service provider** is an institution that provides payment processing services. These include:

- Switching the requests for payment order authorisation
- Authorising those requests on behalf of a payment service provider
- Clearing

Did you know that every payment processing service provider is obliged to report the number of payment transaction services it provided to DNB before 1 March each year? This concerns the number of payment processing services in the preceding calendar year, provided to payment service providers with which the payment processing service provider is not affiliated in a group. If you process more than 120 million transactions a year, you must apply for our authorisation.

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If you are not established in the Netherlands but operate on the Dutch market, you may also be subject to the oversight that we and our national and international counterparts conduct. This is because we are involved in international cooperative oversight alongside various non-Dutch overseers and supervisory authorities. In addition, based on legislation, we conduct (in cooperation with

the Dutch Authority for the Financial Markets) oversight of foreign institutions that operate in the area of payment and settlement transactions in the Netherlands. Table 1-3 lists the national and international oversight arrangements that applied in 2014. The systems and institutions listed in the table are also referred to as oversight objects.

**Table 1 National and international oversight arrangements in 2014
Large-value payments**

Oversight objects	Lead overseer/supervisory authority	Other overseers/supervisory authorities
TARGET2	European Central Bank (ECB)	National central banks (NCBs) in the Eurosystem
TARGET2 - NL	DNB	
Euro 1	ECB	NCBs in the Eurosystem
CLS	Federal Reserve System	Central banks in the G10 and other central banks for the 17 currencies involved
SWIFT	National Bank of Belgium	Central banks in the G10
TARGET2 Securities	ECB	NCBs in the Eurosystem and securities supervisory institutions

**Table 2 National and international oversight arrangements in 2014
Securities clearing and settlement systems**

Oversight objects	Lead overseer/supervisory authority	Other overseers/supervisory authorities
EuroCCP	DNB	Netherlands Authority for the Financial Markets (AFM) and overseers/supervisory authorities in various European countries
Holland Clearing House	DNB	AFM and overseers/supervisory authorities in the UK
LCH.Clearnet SA	Banque de France/Autorité de contrôle prudentiel et de résolution	AFM, DNB and overseers/supervisory authorities in Belgium, France and Portugal
LCH.Clearnet Limited	Bank of England	AFM, DNB and overseers/supervisory authorities in various other countries. In addition, there is a global college of overseers/supervisory authorities from various countries.
Eurex	Bundesanstalt für Finanzdienstleistungsaufsicht	AFM, DNB and overseers/supervisory authorities in various other countries.
Euroclear Nederland	AFM and DNB	
Euroclear ESES	National Bank of Belgium	AFM, DNB and overseers/supervisory authorities in Belgium and France

Table 3 National and international oversight arrangements in 2014
Retail payments

Oversight objects	Lead overseer/supervisory authority	Other overseers/supervisory authorities
Equens SE	DNB	AFM
CCV	DNB	AFM
Mastercard Europe (Mastercard and Maestro)	National Bank of Belgium	Other NCBs in the Eurosystem, ECB and AFM
Mastercard Europe (payment processing service provider)	DNB	AFM
Step2	ECB	NCBs in the Eurosystem
VISA Europe (VISA and V Pay)	ECB	NCBs in the Eurosystem
Currence (Acceptgiro, iDEAL)	DNB	
UPSS	DNB	
European Payment Council (credit transfers and direct debit, in euros)	ECB	NCBs in the Eurosystem

4 What does the statutory framework look like?

Table 4 provides an overview of the statutory framework for our oversight. It lists the laws and

regulations, the authorities competent for oversight and the oversight objects in 2014.

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Table 4 Statutory oversight framework in 2014

Laws and regulations	Competent authority	Oversight object
Bank Act 1998 ■ Section 3(1)(e) ■ Section 4(1)(b)	DNB	All institutions operating in the area of payments systems
Treaty on the functioning of the European Union ■ Article 127(2)	European System of Central Banks (ESCB)	All institutions operating in the area of payments systems
Regulation on oversight requirements for systemically important payment systems	ESCB	Systemically important payment systems
Financial Supervision Act ■ Section 5:27 ■ Section 5:30(e) and the underlying supervisory framework	AFM and DNB	Central counterparties and central securities depositories for stock exchanges or trading platforms
European Market Infrastructure Regulation	DNB and AFM	Central counterparties
Regulation on Central Securities Depositories (since 17 September 2014). Technical standards to follow in the second half of 2015	AFM en DNB	Central securities depositories
Financial Supervision Act ■ Payment processing service providers	DNB and AFM	Payment processing service providers
Financial Supervision Act ■ Section 3.17(2)(e): safeguarding the smooth operation of the payment system (since 1 January 2015; underlying regulation to follow later in 2015)	DNB	Banks, payment institutions, electronic money institutions and payment processing service providers
Single Euro Payments Area Regulation	DNB	Payment service providers, payers and payees

- 12 Besides oversight based on formal, statutory instruments, there is also oversight on a moral suasion basis. We apply moral suasion where we have no statutory powers to enforce oversight principles, mainly in oversight of payment products, such as direct debit and credit transfers.

5 Which standards for oversight apply?

As mentioned above, oversight is based either on legislation or moral suasion. In the case of legislation, assessments are based on relevant laws and underlying standards (see Table 4), whereas in the case of moral suasion, only standards apply. The most commonly used standards are the Principles for Financial Market Infrastructures (the principles)¹. Figure 1 illustrates these principles. The Bank for International Settlement and the International Organization of Securities Commissions collected them from various pre-existing standards in 2012. Your institution only needs to satisfy the principles that apply to your type of institution.

ECB standards are used in oversight of direct debits, credit transfers and card payments. You can read them in the Oversight Framework for Direct Debit Schemes², the Oversight Framework for Credit Transfer Schemes³ and the Oversight Framework for Card Payment Schemes⁴.

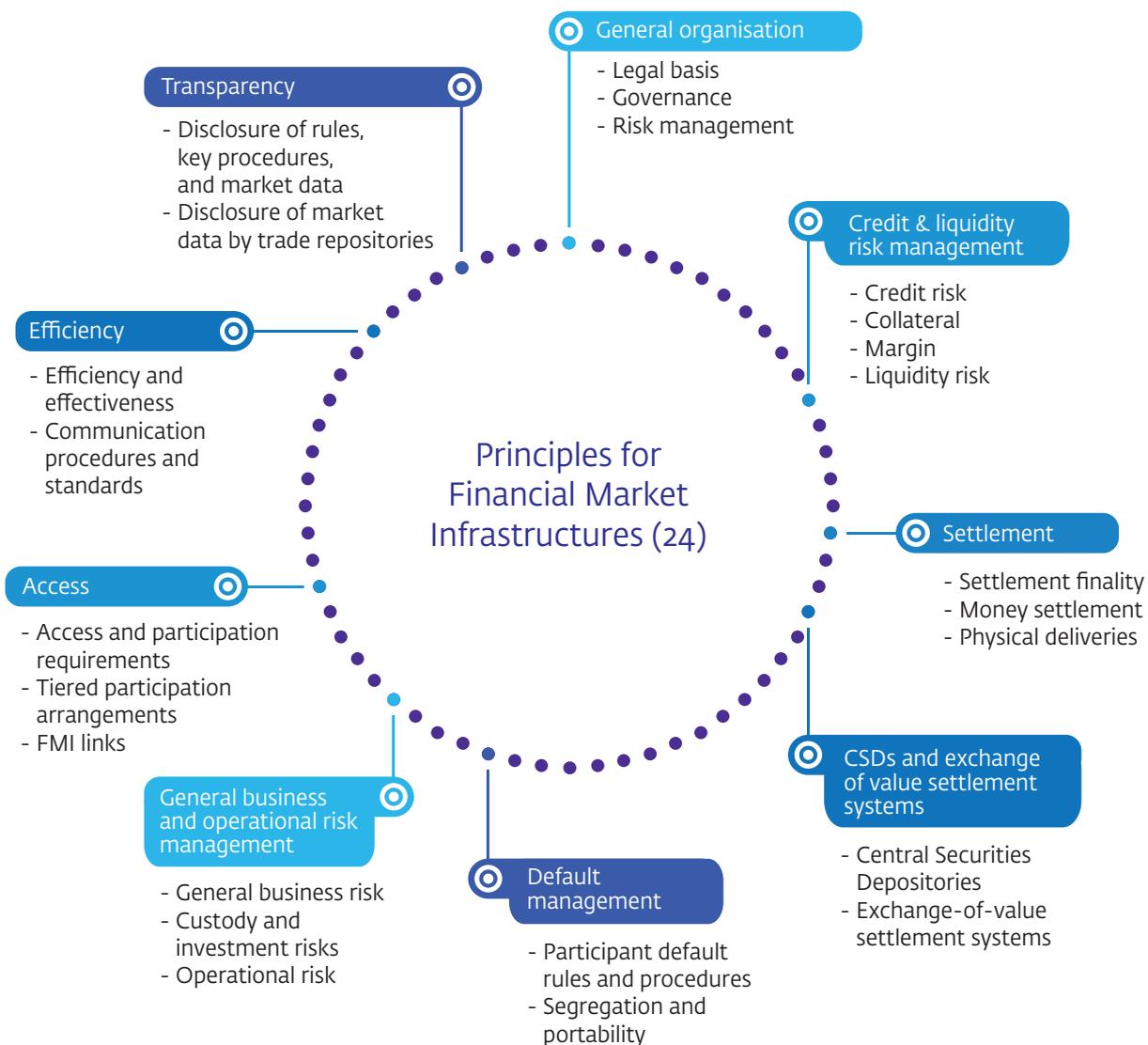
1 <http://www.bis.org/cpmi/publ/d101a.pdf>

2 <https://www.ecb.europa.eu/pub/pdf/other/oversightframeworkdirectdebitschemes2010en.pdf>

3 <https://www.ecb.europa.eu/pub/pdf/other/oversightframeworkcredittransferschemes2010en.pdf>

4 <https://www.ecb.europa.eu/pub/pdf/other/oversightfwcardpaymentss200801en.pdf>

14 Figure 1 Principles for Financial Market Infrastructures



6 How does oversight take place?

We cannot eliminate every single risk, nor do we want to. This is why we focus on the most relevant risks, which are mainly the infrastructural systemic risks and the risk of social unrest due to disruptions. In short, our oversight is risk-based.

To determine the intensity of our oversight for the various oversight objects (see Table 1-3 for a list of oversight objects), we use a classification into various categories. To allocate your institution to one of these categories, we first look at its inherent risks. We then identify measures already taken to mitigate the risks. The residual risk determines the oversight category to which your institution is allocated, and hence the intensity of our oversight.

We identify inherent risks on the basis of:

- Size
- Replaceability
- Interconnectedness (in large-value payments and securities transactions)
- Reputation risk (in retail payments)

The next step we take is performing assessments. They are an important element in our oversight tasks. Our assessments are based on the statutory framework illustrated in Table 4, the principles and other relevant standards. If your institution is assessed, this will be based on the standards that apply to your type of system or product. We may also perform partial assessments. Elements of an assessment could be reviewing how the IT infrastructure is set up, screening board

members and examining your organisation's risk management.

We will let you know in advance if we plan to perform an assessment. Usually, we will ask you to prepare a self-assessment, based on the principles. Using this and other information gathered, we will first check whether you completed the self-assessment in full. We then assess whether you satisfy the relevant requirements, i.e. observed, broadly observed, partly observed or not observed. We will let you know the outcome of our assessment. If you satisfy one or more of the standards that apply to you only broadly, partly or not observed, we will agree a time frame with you within which you must solve or mitigate the shortcomings identified.

Typical occasions for performing an assessment are:

- The application for authorisation
- A new system or product is being developed
- You make a major change, for example to your operational management

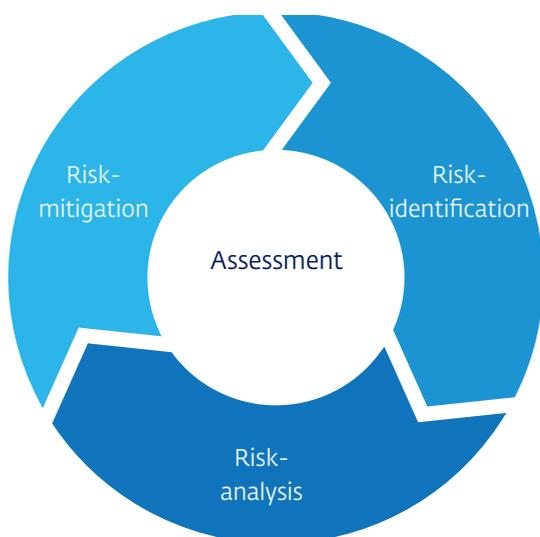
Occasions for performing partial assessments are:

- A thematic assessment
- You make a minor change

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If your institution is subject to our oversight, you will also be subject to our regular oversight activities besides the assessment process. Figure 2 illustrates the steps we take as part of our regular oversight.

Figure 2 Regular oversight



Regular oversight includes monitoring how you addressed the shortcomings we identified, based on your reports, and holding periodic meetings with your management and auditors. We also monitor your progress in following up on our recommendations and assess any changes you make to your organisation. If your institution is subject to statutory oversight, we may decide to apply formal enforcement instruments should the need arise. Fortunately, we have no need to do so very often in practice. In the Netherlands, payment and settlement systems are of a high quality, and market parties are motivated to keep them secure and efficient. Our job is to support them in keeping up the good work.

Find out more? Please feel free to contact us by e-mail at info@dnb.nl or by telephone on +31 800 020 1068.

Abbreviations used

AFM	Netherlands Authority for the Financial Markets (<i>Autoriteit Financiële Markten</i>)
BIS	Bank for International Settlements
CCP	Central Counter Party
CCV	Computercentrum C. van de Velden B.V.
CLS	Continuous Linked Settlement
DNB	De Nederlandsche Bank
ECB	European Central Bank
Euroclear ESES	Euroclear Settlement of Euronext-zone Securities
GiO	Group of 10
LCH.Clearnet	London Clearing House Clearnet
NCB	National Central Bank
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TARGET2	Trans-European Automated Real-Time Gross Settlement Express Transfer
UPSS	Unisys Payment Services & Solutions B.V.

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