

I2

De Nederlandsche Bank

*Oversight of payment and
settlement systems 2012*

February 2013

I2

De Nederlandsche Bank

*Oversight of payment and
settlement systems 2012*

February 2013

Contents

1. Introduction	3
2. Oversight: goals and methods	4
3. Oversight: developments in 2012	8
4. Assessment results: large-value payment systems	12
5. Assessment results: securities clearing and settlement systems	15
6. Assessment results: retail payment systems and products	23
Appendix – abbreviations used	27

I. Introduction

This report describes the activities of De Nederlandsche Bank (DNB) in discharging its responsibility for the oversight of payment and settlement systems. The international Committee on Payment and Settlement Systems (CPSS) sets standards for the transparency of the oversight function of central banks as described in the 2005 CPSS report on oversight: *‘Central banks should set out publicly their oversight policies, including the policy requirements or standards for systems and the criteria for determining which systems these apply to’* (see www.bis.org/publ/cpss68.pdf). DNB ensures that it meets this requirement effectively by publishing the assessment criteria and the results of its assessments. DNB has published a summary of its oversight activities since the 2006 reporting year.

This report describes the degree to which payment and settlement systems in the Netherlands comply with national and international oversight standards. The results are based on oversight activities performed by DNB in 2012, where relevant in conjunction with the Netherlands Authority for the Financial Markets (AFM) and foreign regulatory authorities. Chapter 2 describes the purpose of oversight and the methods used. It also gives a list of oversight subjects covered in 2012. Chapter 3 outlines the latest developments in relation to oversight. Chapters 4, 5 and 6 discuss the results of the assessments, divided into three main oversight categories: large-value payments, securities clearing and settlement systems, and retail payment systems and products. The Appendix contains a list of the abbreviations used. The closing date of this report is 1 February 2013.

2. Oversight: goals and methods

Oversight is a form of supervision aimed at increasing the security and efficiency of payment and settlement systems. For DNB this encompasses all payment systems, payment products and securities clearing and settlement systems that are systemically important for the Netherlands. Oversight is intended to mitigate systemic risks and the risk of social unrest emanating from the relevant Dutch payment and settlement systems. Oversight of payments is a task that DNB performs both pursuant to Sections 4(2) and 3(1)(e) of the Dutch Bank Act 1998 and in accordance with the European System of Central Banks (the Treaty on the Functioning of the European Union, Article 127(2)), which charge DNB and the ESCB respectively with ensuring the smooth operation of payment systems. Oversight of securities settlement system is based in part on Section 5:30(e) of the Dutch Financial Supervision Act (*Wet op het financieel toezicht* / Wft) and the derived licences for operating a market or trading platform. This oversight is carried out jointly with the AFM.

DNB is responsible for oversight of all payment systems and payment products that are of significance for Dutch large-value and retail payments. The oversight of securities clearing and settlement systems encompasses oversight of all systems providing securities clearing and settlement services that are systemically important for the Netherlands. DNB participates in the cooperative oversight of relevant international systems. Table 2.1 summarises the national and international oversight arrangements in which DNB participates.

Table 2.1 National and international oversight arrangements 2012

Oversight subject	Lead overseer/regulator	Other overseers/regulators
Large-value payments		
TARGET ₂	ECB	Eurosystem NCBs
TARGET ₂ .NL	DNB	
EURO ₁	ECB	Eurosystem NCBs
CLS	Federal Reserve	G10 central banks and other central banks of the 17 currencies concerned
SWIFT	NBB	Other G10 central banks
Securities clearing and settlement systems		
LCH.Clearnet SA	Rotating presidency of regulators from Euronext countries	AFM, DNB and regulators from Belgium, France and Portugal
LCH.Clearnet Group Ltd	Autorité de Contrôle Prudenciel	AFM, DNB and regulators from Belgium, France, Portugal and the UK
EMCF	AFM and DNB	FSA and regulators from Denmark, Finland, Hungary, Sweden and Switzerland
Euroclear NL	AFM and DNB	
Euroclear (ESES)	NBB	AFM, DNB and regulators from Belgium and France
EuroCCP	FSA	AFM and DNB
ECC	BaFin	Bundesbank, AFM and DNB
Holland Clearing House	AFM and DNB	
Retail payments		
Equens (SE, CSS, CSM en Switch)	DNB	
VISA Europe (VISA en V Pay)	ECB	Eurosystem NCBs
MasterCard Europe (MasterCard and Maestro)	NBB	Other Eurosystem NCBs and ECB
CCV	DNB	
Currence (Chipknip, Acceptgiro, Incasso, iDEAL)	DNB	
Dutch Payments Association	DNB	
NVB (<i>Spoedopdracht</i>)	DNB	
UPSS	DNB	

Additional business continuity requirements apply to all oversight subjects that are part of the financial core infrastructure (Business Continuity Management (Financial Core Infrastructure) Assessment Framework, DNB, 2011).

Oversight takes the form of assessments and regular oversight activities. Assessments are carried out when a new system or product is introduced or undergoes a major change. The oversight subject is fully assessed against all standards that apply for that system or product (see summary in Table 2.2). Partial assessments are also possible, for example in the event of minor changes to a product or system.

Regular oversight includes monitoring on the basis of reports as well as periodic interviews with the management and auditors concerned. Progress in implementing recommendations is monitored, as are proposed developments or changes to the product or system.

Table 2.2 Applicable oversight standards 2012

Oversight subject	Applicable standards in 2012
Large-value payments	
TARGET ₂ , TARGET ₂ .NL, EURO ₁ , CLS SWIFT	Core Principles for Systemically Important Payment Systems (BIS, 2001) High Level Expectations (SWIFT)
Securities clearing and settlement systems	
LCH.Clearent SA, LCH.Clearent group Ltd., EMCF, HCH, EuroCCP, ECC, Euroclear NL, Euroclear (ESES)	Recommendations for securities settlement systems and recommendations for central counterparties in the European Union (ESCB & CESR, 2009)
Retail payments	
Equens SE, CSS, CSM, Switch	Terms of reference for the oversight assessment of euro systemically and prominently important payment systems against the core principles (ECB, 2007)
VISA, V Pay, MasterCard, Maestro CCV	Oversight framework for Card Payment Schemes (ECB, 2008) None (not yet available)
Currence Chipknip	None (not yet available)
Currence Acceptgiro	Oversight Framework for Credit Transfer Schemes (ECB, 2010)
Currence Incasso	Oversight Framework for Direct Debit Schemes (ECB, 2010)
Currence iDEAL	Recommendations for payment products (<i>Aanbevelingen voor betaal- producten</i>) (DNB, 2006)
NVB (<i>Spoedopdracht</i>), UPSS	None (light oversight regime)
Dutch Payments Association	None (not yet available)

New oversight standards became available in April 2012. These will be applied by DNB in 2013 (see section 3.1).

The results of assessments are presented in a table that shows the extent to which the product or system meets all the standards at the time of the assessment. The scoring system used is in keeping with international standards and is as follows:

Table Legend

Colour	Meaning	Explanation
	Observed	Meets all requirements
	Broadly observed	There are minor deficiencies, which have a limited impact on the security and efficiency of the system
	Partly observed	There are serious deficiencies for which measures are being taken in the short term
	Not observed	There are serious deficiencies for which no measures are planned in the short term
	Not applicable	
	Not assessed	Initial assessment against this standard has not yet taken place

The oversight tables (see chapters 4-6) are updated annually to indicate the current level of compliance with the standards or show where improvements have been identified. This updating is based on information from the regular oversight and any follow-up assessments. The table therefore describes the level of compliance of each product or system with all standards, even if a full assessment has not been carried out in the past year.

A system or product that is only partially compliant (orange block) or not compliant (red block) with one or more of the standards should, in principle, be barred until the deficiencies have been rectified. However, there are two situations in which a partially compliant or non-compliant system or product can remain operational.

The first situation relates to oversight subjects that are not (or not yet) of material importance (i.e. the potential systemic risk or risk of social unrest posed by the subject is still very small), but require approval by the overseer before they can become operational. This prior approval may nonetheless be issued in such a case so that the system can be initiated. The decision to allow a system to start in such cases depends on several factors, including the type of standard not observed and how fast the system is expected to grow. One condition is that if the system becomes more significant, it must comply with the standard and the deficiency must thus be rectified.

The second – as yet theoretical – situation in which a system becomes or remains operational despite serious deficiencies is where DNB has no powers to compel discontinuation of the activities and the system continues despite DNB's objections. Such a situation could arise in areas where DNB has no formal enforcement framework and where informal instruments such as moral suasion prove ineffective. A national law formalising the oversight of financial settlement services has been in preparation for some years. It is expected to become law on 1 January 2014 as part of the Financial Supervision Act (*Wet op het financieel toezicht*). By creating the opportunity to impose sanctions this will reinforce the existing oversight of most payment systems.

3. Oversight: developments in 2012

3.1 New CPSS-IOSCO oversight standards

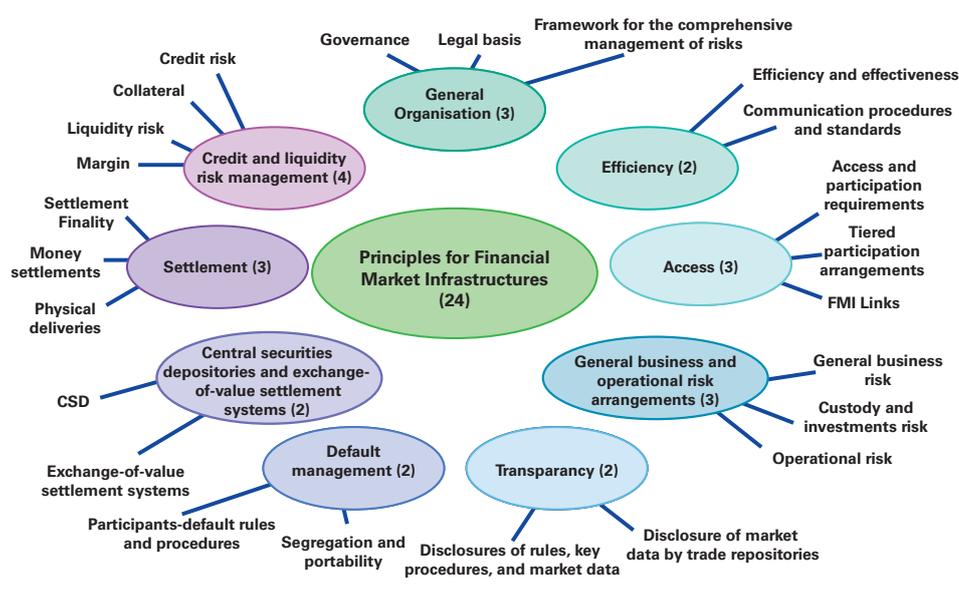
In April 2012 new oversight standards were published which will be applied by DNB with effect from 2013. The new standards are an updated and harmonised version of the standards drawn up in the previous decade (see Figure 3.1). They are intended to make systemically important subjects of oversight better able to withstand a financial crisis, thereby mitigating systemic risks.

The new standards apply to systemically important payment systems (such as TARGET₂), central securities depositories and securities settlement systems (e.g. Euroclear Netherlands), central counterparties (e.g. EMCF) and trade repositories. This group of oversight subjects is referred to by the generic term Financial Market Infrastructure (FMI). The standards also describe guidelines for CCPs that clear over-the-counter (OTC) derivatives.

The oversight standards have been developed by the Committee on Payment and Settlement Systems (CPSS), together with the Technical Committee of the International Organisations of Securities Commissions (IOSCO). The standards are referred to as the CPSS-IOSCO Principles for Financial Market Infrastructures (PFMIs).

The 24 principles have been grouped into nine categories, which contain all important elements that contribute to the safe and efficient design and functioning of FMIs. The standards are for the most part principle-based. This means that the

Figure 3.1 24 CPSS-IOSCO Oversight standards for FMIs



various FMIs are free to comply with the different standards in various ways. In a few cases the standards contain specific requirements in order to achieve a common minimum level of risk management.

The new standards also relate to relatively new FMIs such as trade repositories. Some new requirements have been drawn up and the risk management requirements have been tightened up. For example, certain FMIs are required to keep higher buffers in order to be able to cope with credit and liquidity risks. Moreover, additional requirements are imposed in respect of governance, more emphasis is placed on transparency, and specific requirements have been formulated for the risks associated with a tiered participation in FMIs.

In addition to the 24 principles there are also five standards (responsibilities) with which authorities of countries are required to comply. These standards provide that the authorities are responsible for ensuring effective regulation, supervision and oversight. The principles and responsibilities are consistent with G20 and Financial Stability Board (FSB) strategies.

FMIs are required to comply with the new standards as soon as possible. In 2013, DNB will use the new PFMI in its assessments. DNB's own oversight function must also be carried out in keeping with the five responsibilities; this will be assessed by the International Monetary Fund.

3.2 EMIR

The European Markets Infrastructure Regulation (EMIR) entered into force in Europe on 16 August 2012. The purpose of EMIR is to increase the transparency of the OTC derivatives trading and mitigate the risks involved. It also aims to ensure that OTC derivatives should, wherever possible, be cleared through central counterparties (CCPs). The Regulation contains provisions governing derivatives contracts and uniform provisions for the implementation of the activities of CCPs and trade repositories (TRs). EMIR will become the statutory supervision framework applied in the Netherlands for the supervision of CCPs.

The requirements listed in EMIR are elaborated in the Regulatory Technical Standards (RTS), which form the level 2 text. The RTS will come into force 15 March 2013. The intention is that all European CCPs have half a year in which to submit an application for authorisation under EMIR to their supervisory authority. It has been agreed with the Ministry of Finance that DNB should be designated as the competent authority and the body responsible for granting authorisations in the case of CCPs. The most relevant elements for the oversight of CCPs are the organisational requirements, the risk management of CCPs and interoperability between CCPs. The Netherlands Authority for the Financial Markets (AFM) is designated as the competent authority in respect of ESMA, cooperation with ESMA and conduct-of-business supervision of CCPs.

Besides requirements for the risk management of CCPs, EMIR also introduces an obligation for parties to OTC contracts to exchange margin (i.e. collateral) bilaterally. It is intended that the CCP margin requirements should be lower than the bilateral margin requirements (see 3.3).

3.3 Bilateral margin requirements

The Working Group on Margining Requirements (a joint working group consisting of members of among others the CPSS and the Basel Committee on Banking Supervision) establishes standards for the exchange of margin for trades not cleared through a CCP. This concerns OTC trades that are cleared non-centrally (i.e. bilaterally between two parties). These bilateral margin requirements are expected to have a major impact on demand for eligible collateral. Previously, the parties to non-centrally cleared trades in most instances either posted no collateral or insufficient collateral or posted collateral too late. This will change under the new rules, which in most instances will very likely cause demand for high-quality collateral to rise sharply. Problems may arise due to the shortage of certain types of collateral, because demand for eligible collateral will also increase as a consequence of Basel III. To better gauge this impact and, where necessary, modify the proposed requirements, the working group has not only carried out a market consultation but also conducted a quantitative impact assessment among the main players worldwide. Some Dutch parties also participated in this study and indicated that these new requirements would significantly boost their need for additional collateral. For the time being, the new margin requirements will not be introduced by law, but will instead take the form of recommendations while compliance will be checked by means of prudential supervision. The implementation will take place using a phase-in period.

3.4 Expansion of the scope of oversight

In 2012, DNB decided to expand the scope of oversight to include two new oversight subjects, namely the Computer Centrum C. van de Velden (CCV) and the Dutch Payments Association. This decision was taken in view of the growing importance of these organisations to the Dutch retail payment system.

In recent years CCV has captured a position in the market for the online processing of electronic point-of-sale payments. In a POS transaction the payment terminal in the shop contacts CCV, which passes the request for authorisation of the payment to the cardholder's bank. In the case of Maestro payments, for example, CCV sends the authorisation request to Mastercard. In 2011, CCV processed over 185 million authorisations, which was substantially more than in 2010 when fewer than 130 million authorisation requests were processed. A further increase to over 200 million authorisations is expected in 2012. This amounts to almost 10% of all Dutch online retail payment transactions. In view of CCV's increased importance to the retail payment system and its expected further growth in the near future, it was decided that CCV should be placed under oversight. This was discussed with CCV in the course of 2012.

The Dutch Payments Association, which was established at the end of 2011, organises on behalf of banks, payments institutions and electronic money institutions their collective tasks in matters relating to infrastructure, standards and joint product characteristics within the national payment system. As a result, the Association serves as a primary contact for DNB Oversight in matters relating to the oversight of their responsibilities. In consultation with the Dutch Payments Association a start was made in 2012 on the introduction of oversight of activities that come under the governance of the Payments Association. In these consultations the Association indicated what activities would be given priority. DNB Oversight has drawn up a proposal for an oversight framework indicating the applicable national and international oversight standards. The agreement for the oversight framework will be signed by the Dutch Payments Association and DNB in 2013.

3.5 Secure Pay Forum

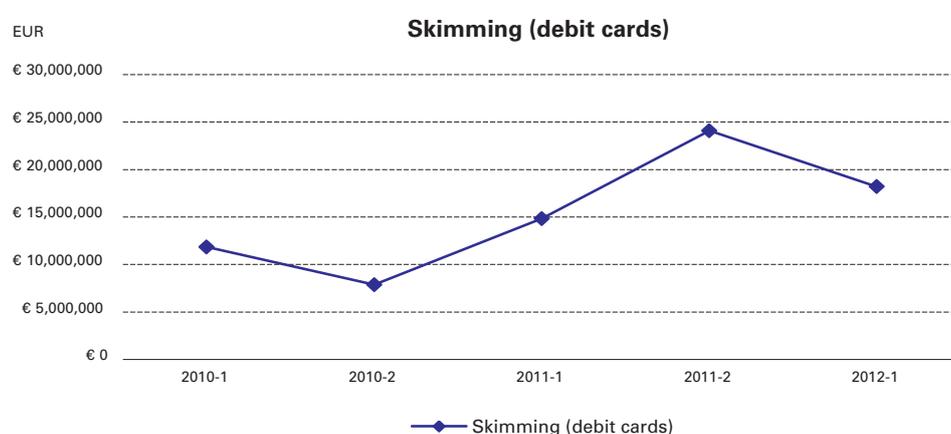
The European Forum on the Security of Retail Payments (the SecuRe Pay Forum) was set up at the start of 2011 as a voluntary body for consultation between European supervisory authorities and overseers for the purpose of drafting minimum security requirements for retail payments. The first report drawn up by the Secure Pay Forum is entitled 'Recommendations for the security of internet payments'. This report contains recommendations for minimum security requirements for online banking and for online card payments (card not present). It is intended that the recommendations should be applied by European supervisory authorities and overseers when making their assessments. The results of a public consultation completed in 2012 have been incorporated in the report. The ECB released this report on 31 January 2013.

3.6 Card skimming fraud

Card skimming is the theft and copying of debit card data by criminals who scan the magnetic strip of the card to discover the PIN. They then make a copy of the card and use it to withdraw cash abroad.

Graph 3.1 shows that in the first half of 2012 the losses caused by skimming fell for the first time since 2010. The total losses amounted to approximately € 18 million. This is 24% lower than in the second half of 2011. The financial cost of skimming is relatively limited in relation to the transaction volumes, but is nonetheless undesirable from a social perspective in view of the reputational risk.

Graph 3.1 Losses from card skimming in the Netherlands



Source: NVB

4. Assessment results: large-value payment systems

TARGET₂

TARGET₂ is the main system for interbank payments in euros. It has been in use since 2008 and consists in legal terms of a collection of payment systems operated by the 17 NCBs in the euro area, plus the ECB and the central banks of a number of other EU countries such as Bulgaria, Denmark, Latvia, Lithuania and Poland. The Dutch system is designated TARGET₂-NL. TARGET₂ transactions are processed on a common platform. The NCBs have formally outsourced this task to the NCBs of Germany, France and Italy, which have built and operate this common platform. The rate of monthly availability of TARGET₂ has been 100% in 2012.

The annual software release in 2012 consisted of only a few minor technical modifications. In consultation with the banks it was decided that the modifications be made but the test procedure be restricted. This means that the costs of the normal full test procedures for both the operator and the banks were saved. In view of the nature of the modifications Eurosystem Oversight agreed to this request, taking into account that the customary test procedures for the changes already implemented will be carried out at the time of the release in 2013.

Table 4.1 Oversight assessment of TARGET₂

Core Principles for Systemically Important Payment Systems	2010	2011	2012
	Legal basis	Observed	Observed
Understanding of financial risks	Observed	Observed	Observed
Management of financial risks	Observed	Observed	Observed
Prompt final settlement	Observed	Observed	Observed
Multilateral netting systems	Not applicable	Not applicable	Not applicable
Settlement assets	Observed	Observed	Observed
Operational reliability	Observed	Observed	Observed
Efficiency	Observed	Observed	Observed
Access	Observed	Observed	Observed
Governance	Observed	Observed	Observed

Eurosystem Oversight has assessed whether the procedures for guaranteed availability of liquidity for Contingency Module (CM) payments in TARGET2 are adequate. The event that directly prompted the assessment was an incident on 25 July 2011, which revealed uncertainty about this aspect. This was the first major incident since the introduction of TARGET2. It concerned a software failure which necessitated the activation of the Contingency Module in order to allow very critical payments to be processed. The general conclusion of the Eurosystem Oversight evaluation of the handling of the incident was positive.

As collateral management has been assigned to the NCBs, the assessment of this management has been carried out at national level. Oversight has assessed the modified procedures as adequate.

TARGET2-NL

In 2012, DNB's Oversight Department assessed the Business Continuity Management (BCM) of TARGET2-NL. This interim assessment showed that the recommendations had been diligently implemented and that TARGET2-NL now fully complies with all requirements of the BCM Assessment Framework, only in respect of the Management & Maintenance section is the assessment 'broadly observed'. In the follow-up to the recommendations DNB has developed a service to enable the banks to reserve part of their collateral. This ensures that they have sufficient collateral (and hence liquidity) in the event of a crisis situation in which payments have to be processed in TARGET2's Contingency Module.

EURO1

EURO1 is a large-value payment system for cross-border and domestic transactions in euros between banks in the European Union. It is managed by EBA Clearing

Table 4.2 Oversight assessment of EURO1

Core Principles for Systemically Important Payment Systems	2011	2012
	Legal basis	Observed
Understanding of financial risks	Observed	Observed
Management of financial risks	Observed	Observed
Prompt final settlement	Observed	Observed
Multilateral netting systems	Observed	Observed
Settlement assets	Observed	Observed
Operational reliability	Observed	Observed
Efficiency	Observed	Observed
Access	Observed	Observed
Governance	Broadly observed	Broadly observed

Company, which was founded by the European Banking Association (EBA). EURO_I was launched at the time of the introduction of the euro and was developed to provide an efficient and secure infrastructure for large-value interbank payments. Oversight takes place on a cooperative basis, with the ECB as lead overseer.

In recent years, in consultation with the affiliated banks, EBA Clearing has made numerous modifications to the risk management and liquidity management instruments available to the EURO_I participants. These modifications make it possible to respond better and more quickly to changes in counterparty exposures. In this context the obligatory bilateral credit limits were reduced further in 2012 from two million to one million euros. The Oversight Department has concluded that this modification does not have any consequences for the EURO_I risk profile.

5. Assessment results: securities clearing and settlement systems

LCH.Clearnet SA

LCH.Clearnet SA is the Central Counterparty (CCP) for transactions executed on the Euronext stock and derivatives exchanges, including Euronext Amsterdam. It also acts as the central counterparty for bond and repo transactions.

In 2011/2012, the joint supervisory authorities carried out a full assessment for compliance with the ESCB-CESR Recommendations. This was completed in April 2012.

LCH.Clearnet SA's score for recommendation 4, margin requirements, is 'broadly observed'. This score was awarded because the backtesting method was reviewed during the assessment and no alternative method was actually available. It was also noted that the process of intraday margin calls was manual to a large extent

Table 5.1 Oversight assessment of LCH.Clearnet SA

Recommendations for Central Counterparties	2010	2012
Legal risk	Observed	Observed
Participation requirements	Observed	Observed
Management of credit risks	Observed	Observed
Collateral requirements	Observed	Broadly observed
Financial resources	Observed	Observed
Default procedures	Observed	Observed
Custody risks	Observed	Observed
Operational reliability	Broadly observed	Observed
Settlement assets	Observed	Observed
Physical deliveries	Observed	Observed
Risks in links between CCPs	Observed	Observed
Efficiency	Observed	Observed
Governance	Observed	Observed
Transparency	Observed	Observed
Regulation and oversight	Observed	Observed

and therefore prone to error (while also being time-consuming). This process was improved in the course of 2012. Back tests were carried out monthly at the end of 2012.

LCH.Clearnet SA scores better for operational reliability than in the previous assessment. It has taken measures to improve operational reliability, for example by opening a new data centre whose risk profile is better than that of its predecessor (danger of flooding from the River Seine) and by launching the Universal Clearing System (UCS) which has a larger capacity than the old system. The level of availability of the UCS Cash System used in the Netherlands was 100% in 2012. It therefore complies with the standard of 98.5% set by LCH.Clearnet SA itself.

In 2011, the Dutch and Belgian authorities initially refrained from expressing a view on compliance with recommendation 13 – Governance – because the organisation was in a state of flux. As a consequence of the takeover by the London Stock Exchange (LSE) and the reorganisation, DNB and the AFM had to assess governance again in the course of 2012. As part of the approval of the acquisition by the LSE, LCH.Clearnet SA complied with the recommendation on governance at the end of 2012.

An important development for LCH.Clearnet SA related to the contract for the clearing of equities and derivatives. In 2010, NYSE Euronext terminated this contract with effect from the end of 2012, stating that it wished to develop a clearinghouse itself. NYSE Euronext accounts for 60-70% of the total volumes within LCH.Clearnet SA. In 2012, NYSE Euronext renewed the contract for the clearing of equities by LCH.Clearnet SA for some six years. The contract for the clearing of derivatives is due to expire in 2014.

LCH.Clearnet Group Ltd.

LCH.Clearnet SA forms part of the LCH.Clearnet Group Ltd and is a sister company of LCH.Clearnet Ltd. The sister company carries out clearing for the London Stock Exchange (LSE) and others and is also the world's largest player (under the name Swapclear) in the clearing of over-the-counter (OTC) interest rate swaps.

The cancellation of the clearing contract by NYSE Euronext and the proposed merger between Deutsche Börse and NYSE Euronext in 2011 set in motion a process of strategic review at LCH.Clearnet. This resulted in a major project by the name of Transformation and in the acquisition of the Group by the LSE.

The acquisition of the LCH.Clearnet Group Ltd by the LSE has been assessed by both the separate supervisory authorities of the two CCPs and by the competition authorities. DNB and the AFM together assessed the new governance arrangements and concluded that they have no objection on these grounds to the acquisition by the LSE. DNB and the AFM concluded an agreement with the LSE in which the latter undertakes not to do anything that would prevent LCH.Clearnet SA from complying with the recommendations. This agreement was concluded in the absence of a statutory framework for the oversight of CCPs and will end once LCH.Clearnet SA has an EMIR authorisation.

European Multilateral Clearing Facility

European Multilateral Clearing Facility (EMCF) is a Dutch organisation that acts as a central counterparty (CCP). EMCF was not fully assessed in 2012 for com-

Table 5.2 Oversight assessment of EMCF

Recommendations for Central Counterparties	2010	2011	2012
	Legal risk	Observed	Observed
Participation requirements	Observed	Observed	Observed
Management of credit risks	Observed	Observed	Observed
Collateral requirements	Observed	Observed	Observed
Financial resources	Broadly observed	Broadly observed	Observed
Default procedures	Observed	Observed	Observed
Custody risks	Broadly observed	Broadly observed	Broadly observed
Operational reliability	Observed	Observed	Observed
Settlement assets	Broadly observed	Broadly observed	Broadly observed
Physical deliveries	Broadly observed	Broadly observed	Broadly observed
Risks in links between CCPs	Not applicable	Observed	Observed
Efficiency	Observed	Observed	Observed
Governance	Broadly observed	Observed	Observed
Transparency	Observed	Observed	Observed
Regulation and oversight	Observed	Observed	Observed

pliance with all recommendations for CCPs; however, certain areas were assessed in response to requests for approval of system modifications by EMCF. In comparison to 2011, EMCF now fully complies to the principle Financial Resources.

EMCF observes the following three recommendations only broadly: custody risks, money settlements and physical deliveries. Its scores on these recommendations are partly due to its dependence on ABN AMRO Clearing Bank. Other points for action previously identified by the Oversight Department have now largely been resolved. Although EMCF is taking further steps to improve the assessment results, it should be noted that full compliance with the recommendations does not seem feasible in the short term, partly due to the settlement model used by EMCF.

A point of attention is that the admission rules of the various CSDs differ widely and do not all facilitate the admission of a CCP. Following the introduction of the CSD Regulation, it is expected that the admission rules of CSDs will be harmonised and that admission will be restricted only on the grounds of risk. Authorised European CCPs will then be able to join CSDs in Europe without limitation. The problem of EMCF's (non) admission to certain CSDs could possibly be solved by future European CSD legislation.

In January 2012, EMCF became interoperable with three other CCPs, namely EuroCCP, LCH.Clearnet Ltd. and SIX X-clear, for transactions on the Chi-X and BATS trading platforms. This interoperability was expanded further in the course of the year and now also includes the Burgundy and Turquoise platforms.

In order to reduce EMCF's dependence on commercial banks for its liquidity, the possibility of intraday credit in central bank money has been arranged in consultation with EMCF. The securities that EMCF has deposited in its collateral TARGET2 account at DNB will serve as collateral for any (exceptional) liquidity requirements it may have. The intention is for EMCF ultimately to have sufficient resources in its TARGET2 account for the financing of its regular settlements. This is already the case for settlements in Scandinavia.

In addition, EMCF expanded its collateral project further in 2012 in order to change the manner of collecting margin requirements from a pledge-based system to a system based on transfer of ownership. All EMCF participants operate on this basis as of 26 October 2012. EMCF will use these moneys as liquidity to help fund settlements and thus become less dependent on its liquidity providers such as ABN AMRO Bank.

As a consequence of the ESCB-CESR assessment in 2011, DNB and AFM asked EMCF to configure the risk framework in such a way that no shortfalls could occur, even in the event of extreme stress scenarios. EMCF has resolved this by incorporating extra margin buffers. DNB and AFM regard this as a solution for the identified deficiency in the risk framework.

EMCF is expected to apply in 2013 for authorisation as a CCP under the new EMIR regime. Such an application will trigger a full-scale assessment of whether EMCF is in compliance with the requirements of EMIR. This assessment will be carried out by a college to be established jointly and consisting of national and international supervisory authorities. This college will be managed for EMCF by DNB in cooperation with AFM.

Euroclear Netherlands

Euroclear Netherlands (ENL) is the Central Securities Depository (CSD) in the Netherlands, providing settlement, custody and administration services to banks and investment institutions. In 2009 Euroclear Netherlands and the Euroclear CSDs in Belgium and France launched a new securities settlement system known as Euroclear Settlement for Euronext-zone Securities (ESES). Since then, ESES has settled transactions on the Belgian, French and Dutch Euronext exchanges and over-the-counter trades on a single technical platform, thereby eliminating the difference between domestic and cross-border securities transactions between these three countries. In 2010 an assessment of all recommendations of the Euroclear Securities Settlement System (ESES) was completed. This was carried out by DNB, NBB and Banque de France. The results of this assessment of Euroclear Netherlands, modified for 2012, are shown in Table 5.3. There are no differences from 2011.

At the request of the Dutch and Belgian regulatory authorities Euroclear has made a proposal for the introduction in the Netherlands and Belgium of a system of penalties for causing settlement fails (a fail occurs where one or more transactions are not settled on the expected settlement date). The main cause of fails is that insufficient securities are available in the settlement account. In brief, the proposal is that a conditional penalty scheme should be introduced. The scheme is based on the existing French model and would have been introduced if the market does not manage to raise the three-month average rate of settlement efficiency above a given threshold value in September, October and November 2012. The AFM and DNB have agreed to this proposal subject to a number of conditions. Some of these conditions are that the threshold value should be 98%, that incentives for increasing efficiency should continue to exist even after November 2012 (through the introduc-

Table 5.3 Oversight assessment of Euroclear Netherlands

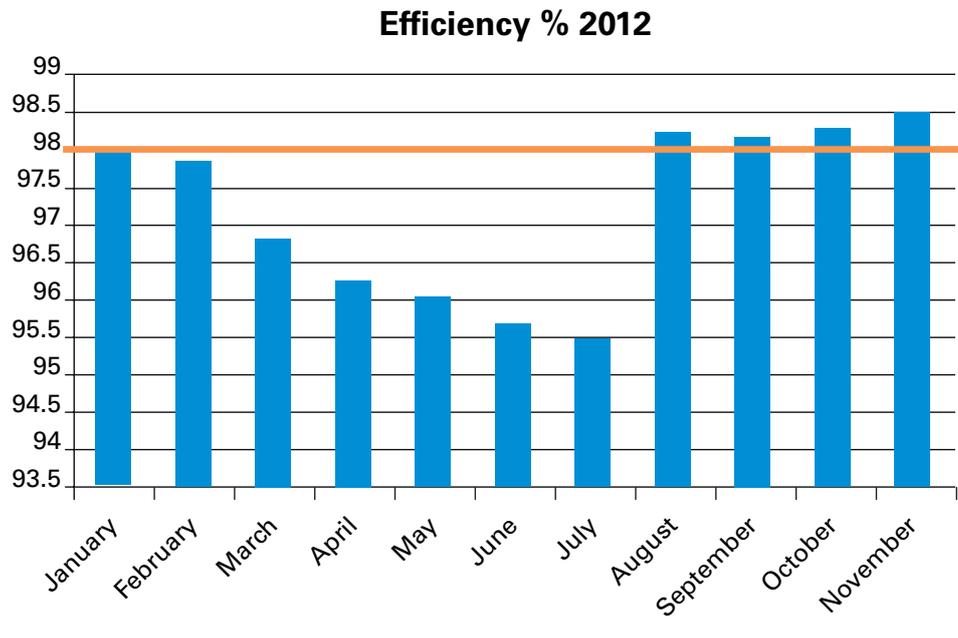
Recommendations for Securities Settlement Systems	Oversight assessment		
	2010	2011	2012
Legal basis	Observed	Observed	Observed
Transaction confirmation	Observed	Observed	Observed
Settlement time	Observed	Observed	Observed
Central counterparties	Not applicable	Not applicable	Not applicable
Securities lending	Observed	Observed	Observed
Dematerialisation	Observed	Observed	Observed
Delivery versus Payment	Observed	Observed	Observed
Settlement finality	Observed	Observed	Observed
Credit risks	Observed	Observed	Observed
Settlement assets	Observed	Observed	Observed
Operational reliability	Observed	Observed	Observed
Ownership protection	Observed	Observed	Observed
Governance	Observed	Observed	Observed
Access	Broadly observed	Observed	Observed
Efficiency	Observed	Observed	Observed
Communication standards	Observed	Observed	Observed
Transparency	Observed	Observed	Observed
Regulation and oversight	Observed	Observed	Observed
Links between CSDs	Observed	Observed	Observed

tion of the penalty scheme if the threshold value is exceeded in subsequent months) and that clear agreements should be made about how the proceeds generated by the penalties should be used. Given the improved efficiency figures, the conditional penalty scheme seems to be proving effective for now.

Graph 5.4 shows the rate of settlement efficiency in the period from 1 January 2012 to 1 November 2012. The penalty scheme was announced in July, and Euroclear held talks with the parties mainly responsible for fails. Actual measurements were started on 1 September 2012. From September until November the actual settlement efficiency was above the 98% threshold.

Euroclear Netherlands (ENL) has decided to participate in Target2-Securities (T2S). ENL has therefore requested the AFM and DNB for consent to sign the Framework Agreement. By signing this agreement CSDs are obliged to participate in T2S. The AFM and DNB have decided to divide the assessment of ENL's participation in T2S into two parts: 1. the signing of the Framework Agreement, and 2. the actual connection to T2S (and the modifications to the rules and systems necessitated by this). During the assessment of the signing of the Framework Agreement the AFM and DNB focused on any fundamental objections and risks of participation. The

Graph 5.1 Settlement efficiency



assessment did not reveal any fundamental objections and risks. The AFM and DNB have granted consent for the signing of the Framework Agreement. The actual connection will be assessed at a later date.

In 2012, the AFM and DNB granted consent for a reconciliation service. This service will enable third parties to make use of the same data as ENL when providing issuer services. Such services may involve, for example, the payment of dividends or the provision of proxy voting services. When providing such services an agent could, for example, compare his results with ENL's administration.

EuroCCP

In 2010, the AFM and DNB carried out an initial assessment of EuroCCP, based on the CPSS-IOSCO standards for CCPs. The initial assessment showed that EuroCCP observed nine, and broadly observed five, of the fourteen standards (see Table 5.4). From 2012 the recommendation concerning risks in links between CCPs is applicable.

EuroCCP has drawn up plans to mitigate the risks in respect of the standards that are not yet fully observed. The AFM, DNB and the FSA have made agreements about coordinating the supervision of EuroCCP in an MoU and an accompanying letter agreement.

Table 5.4 Oversight assessment of EuroCCP

Recommendations for Central Counterparties	2010	2011	2012
Legal risk	Broadly observed	Broadly observed	Broadly observed
Participation requirements	Observed	Observed	Observed
Management of credit risks	Observed	Observed	Observed
Collateral requirements	Observed	Observed	Observed
Financial resources	Broadly observed	Broadly observed	Broadly observed
Default procedures	Observed	Observed	Observed
Custody risks	Broadly observed	Broadly observed	Broadly observed
Operational reliability	Observed	Observed	Observed
Settlement assets	Broadly observed	Broadly observed	Broadly observed
Physical deliveries	Broadly observed	Broadly observed	Broadly observed
Risks in links between CCPs	Not applicable	Not applicable	Not assessed
Efficiency	Observed	Observed	Observed
Governance	Observed	Observed	Observed
Transparency	Observed	Observed	Observed
Regulation and oversight	Observed	Observed	Observed

In January 2012, EuroCCP became interoperable with three other CCPs, namely EMCF, LCH.Clearnet Ltd. and SIX X-clear, for transactions on the Chi-X and BATS trading platforms. This interoperability was expanded further in the course of the year and now also includes the Burgundy and Turquoise platforms.

European Commodity Clearing

In 2011, DNB and the AFM, in cooperation with BaFin, carried out a full assessment of ECC on the basis of the ESCB-CESR Recommendations for Central Counterparties. ECC complies with 14 of the 15 standards (see Table 5.5) and broadly observes standard 6, default procedures. ECC can fully comply with this standard by testing its procedures at regular intervals.

Table 5.5 Oversight assessment of ECC

Recommendations for Central Counterparties	2011	2012
Legal risk	Observed	Observed
Participation requirements	Observed	Observed
Management of credit risks	Observed	Observed
Collateral requirements	Observed	Observed
Financial resources	Observed	Observed
Default procedures	Broadly observed	Broadly observed
Custody risks	Observed	Observed
Operational reliability	Observed	Observed
Settlement assets	Observed	Observed
Physical deliveries	Observed	Observed
Risks in links between CCPs	Observed	Observed
Efficiency	Observed	Observed
Governance	Observed	Observed
Transparency	Observed	Observed
Regulation and oversight	Observed	Observed

6. Assessment results: retail payment systems and products

Equens SE

Equens SE processes financial transactions of consumers and businesses that have been effected using payment products. Equens processes Dutch payments, but it also has a substantial market share in for instance Italy. It processes cashless payments such as credit transfers and direct debits as well as card-based transactions, including the clearing and settlement of these payments. DNB distinguishes four separate subjects of oversight within Equens: the Clearing and Settlement System (CSS) for clearing domestic payments; the Equens Clearing and Settlement Mechanism (CSM) for clearing SEPA payments; the Switch, the central system for the authorisation of electronic card payments; and since 2012 Equens SE has also been classified as an independent subject of oversight. This involves ensuring that the legal structure of the business, the governance and the risk management are properly organised.

The processing of Dutch direct debits and credit transfers takes place in CSS. CSS fully complies with nine of the ten standards set at European level for retail payment systems that are systemically important (see Table 6.1). One standard is not

Table 6.1 Oversight assessment of Equens CSS

Core Principles for Systemically Important Retail Payment Systems	Oversight assessment		
	2010	2011	2012
Legal basis	Observed	Observed	Observed
Transparency of financial risks	Observed	Observed	Observed
Management of financial risks	Observed	Observed	Observed
Prompt final settlement	Observed	Observed	Observed
Multilateral netting systems	Not applicable	Not applicable	Not applicable
Settlement assets	Observed	Observed	Observed
Operational reliability	Observed	Broadly observed	Observed
Efficiency	Observed	Observed	Observed
Access	Observed	Observed	Observed
Governance	Observed	Observed	Observed

applicable. Earlier identified deficiencies in the field of operational reliability (business continuity) of CSS have been mitigated through implemented system changes. These changes led to full compliance with the principle operational reliability.

The migration to SEPA products, which will be completed in the coming years, also means that CSS will be phased out. This is because CSS processes only domestic credit transfers and direct debits. Equens has a different system for SEPA payments. This system, which has processed SEPA credit transfers since January 2008, is known as the Clearing and Settlement Mechanism (CSM) and will be one of the systems used for Dutch retail payments. Oversight assessed this system in 2011 for compliance with the standards that will apply after the migration to SEPA products is completed. This resulted in various findings of a legal nature relating to shortcomings in the governance of the system (see Table 6.2). Equens has now rectified these shortcomings and the CSM is now in full compliance with the standards that will apply once the migration from the CSS to CSM has been completed.

Table 6.2 Oversight assessment of Equens CSM

Core Principles for Prominently Important Retail Payment Systems	2011	2012
	Legal basis	Broadly observed
Transparency of financial risks	Observed	Observed
Management of financial risks	Not assessed	Not assessed
Prompt final settlement	Not assessed	Not assessed
Multilateral netting systems	Not applicable	Not applicable
Settlement assets	Not assessed	Not assessed
Operational reliability	Observed	Observed
Efficiency	Observed	Observed
Access	Observed	Observed
Governance	Broadly observed	Observed

Equens SE also plays an important role in the processing of debit card payments. It handles some 90% of all Dutch payments made using a PIN as the means of identification. These include cash withdrawals from ATMs and POS terminal payments in shops. The retailer's payment terminal contacts Equens, which arranges for the authorisation request to be passed to the customer's bank and for the result to be returned to the payment terminal. The high degree of business certainty offered by this function – the Switch – is of great social importance. After all, if the system breaks down completely, transactions using PIN are no longer possible in most shops. The Switch has been assessed for compliance with the core principles that are most relevant for it and found to comply (see Table 6.3).

Table 6.3 Oversight assessment of Switch Equens

Core Principles for Systemically Important Retail Payment Systems	2010	2011	2012
	Legal basis	Not assessed	Not assessed
Transparency of financial risks	Not assessed	Not assessed	Not assessed
Management of financial risks	Not applicable	Not applicable	Not applicable
Prompt final settlement	Not applicable	Not applicable	Not applicable
Multilateral netting systems	Not assessed	Not assessed	Not assessed
Settlement assets	Not applicable	Not applicable	Not applicable
Operational reliability	Observed	Observed	Observed
Efficiency	Not assessed	Not assessed	Not assessed
Access	Observed	Observed	Observed
Governance	Broadly observed	Observed	Observed

iDEAL

iDEAL is a national payment product for online purchases in which the originator of the payment uses an online banking application from a Dutch bank. The online retailer and the bank must support the iDEAL payment standard. The legal owner of iDEAL is Currence. iDEAL has been operational since 2005. In 2012 117 million iDEAL transactions were processed, a growth of 25% with respect to 2011. The total number of transactions since the market introduction (October 2005) is 373 million.

Six Dutch banks currently accept payment instructions via iDEAL and customers of ten Dutch banks can use iDEAL to make payments. In 2012, iDEAL was adjusted in accordance with the new standards for European payments: Single European Payments Area (SEPA). With this iDEAL has been made ready to facilitate European online payments.

In view of the importance of iDEAL as an interbank payment product in the Dutch retail payments system, DNB conducts active oversight of the product. DNB has concluded that iDEAL satisfies all relevant standards (see Table 6.4).

The initial assessment of iDEAL took place in 2007 and there were follow-up assessments in 2008 and 2009. As international oversight standards had still not been introduced, this assessment was carried out by reference to national standards drawn up by DNB. Although iDEAL has grown steadily since then, there have been no significant changes. These did not provide any grounds for adjusting the assessment results.

In view of the adjustments made to iDEAL to bring it into line with the SEPA standard and the introduction of international oversight standards for retail payment products, a further assessment of iDEAL will be made in 2013. This assessment will be based on a reviewed assessment standard based on the assessment standard for SEPA Credit Transfer (SCT).

Table 6.4 Oversight assessment of iDEAL

 Observed	 Not observed
 Broadly observed	 Not applicable
 Partly observed	 Not assessed

Recommendations for Payment Products	2010	2011	2012
Legal structure			
Solid financial position			
Outsourcing			
Legislation and regulations			
Product conditions			
Risk spreading			
Risk analysis			
Periodic review of risk analysis			
Security and continuity			
Integrity and governance			

The monthly availability rate of iDEAL is published by Currence. The average availability (prime time) was 99.9% for online stores (acquiring side) and 99.4% for the customers (banks on the issuing side) in the past year.

Appendix – abbreviations used

AFM	Netherlands Authority for the Financial Markets <i>(Autoriteit Financiële Markten)</i>	HCH	Holland Clearing House
BCM	Business Continuity Management	IAN	Interbank Authorisation Network
BIS	Bank for International Settlements	IOSCO	International Organization of Securities Commissions
CCP	Central Counterparty	IRS	Interest Rate Swaps
CCV	Computer Centrum C. van de Velden	LSE	London Stock Exchange
CDS	Credit Default Swaps	MTF	Multilateral Trading Facility
CESR	Committee of European Securities Regulators	NBB	National Bank of Belgium <i>(Nationale Bank van België)</i>
CLS	Continuous Linked Settlement	NCB	National Central Bank
CP	Core Principle	NVB	Dutch Banking Association <i>(Nederlandse Vereniging van Banken)</i>
CPS	Card Payment Scheme	OTC	Over the Counter
CPSS	Committee on Payment and Settlement Systems (of the BIS)	PFMI	Principle for Financial Market Infrastructure
CSD	Central Securities Depository	RCCP	Recommendations for Central Counterparties
CSM	Clearing and Settlement Mechanism	RSSS	Recommendations for Securities Settlement Systems
CSS	Clearing and Settlement System	RTS	Regulatory Technical Standard
EBA	European Banking Authority	SEPA	Single Euro Payments Area
EC	European Commission	SNB	Swiss National Bank <i>(Schweizerische Nationalbank)</i>
ECB	European Central Bank	SSS	Securities Settlement Systems
EMCF	European Multilateral Clearing Facility	TARGET2	Trans-European Automated Real-time Gross settlement Express Transfer system
EMIR	European Markets Infrastructure Regulation	T2S	TARGET2 Securities
EMV	Cooperative arrangement between Europay, MasterCard and Visa	TOM	The Order Machine
EPC	European Payments Council	TR	Trade Repository
Equens CSM	Equens Clearing and Settlement Mechanism (SEPA)	UCS	Universal Clearing System
Equens CSS	Equens Clearing and Settlement System (non-SEPA)	Wft	Dutch Financial Supervision Act <i>(Wet op het financieel toezicht)</i>
ESES	Euroclear Settlement of Euronext-zone Securities		
ESCB	European System of Central Banks		
FMI	Financial Market Infrastructure		
FSA	Financial Services Authority		
FSC	Financial Services Committee		

