

I3

De Nederlandsche Bank

*Oversight of payment and
settlement systems 2013*

March 2014

13

De Nederlandsche Bank

*Oversight of payment and
settlement systems 2013*

March 2014

Contents

1. Introduction	3
2. Oversight: goals and methods	4
3. Oversight: developments in 2013	9
4. Assessment results: large-value payment systems	12
5. Assessment results: securities clearing and settlements systems	14
6. Assessment results: retail payment systems and products	19
7. Business continuity: financial core infrastructure	24
Appendix – Abbreviations used	26

I. Introduction

This oversight 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 annual summaries of its oversight activities since the 2006 reporting year.

The 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 2013, where relevant in collaboration with the Netherlands Authority for the Financial Markets (AFM) and foreign supervisory authorities. Chapter 2 describes the purpose of oversight and the methods used by DNB. It also provides a list of oversight subjects covered in 2013. 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 systems and payments. Finally, Chapter 7 lists the main activities in 2013 connected with the operational crisis management of the Dutch financial sector. The Appendix contains a list of the abbreviations used. The closing date of this report is 1 February 2014.

2. Oversight: goals and methods

Oversight is a form of supervision aimed at increasing the security and efficiency of the 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 risk and the risk of disturbances which can lead to social unrest emanating from payment and settlement systems relevant to the Netherlands.

Oversight of payments and settlement systems is a task that DNB performs both pursuant to sections 4(2) and 3(1)(e) of the Dutch Bank Act 1998 (*Bankwet*) and in accordance with the European System of Central Banks (Article 127(2) of the Treaty on the Functioning of the European Union) which charge DNB and the ESCB respectively with ensuring the smooth operation of payment systems.

From 1 January 2014 oversight of retail payment systems is based in part on the Financial Supervision Act (*Wet op het Financieel Toezicht Afwikkelondernemingen*). DNB is responsible for granting licenses and for supervision of the systemic aspects of retail payment processors. The AFM is responsible for supervision of the conduct-of-business aspects of such payment processors.

Oversight of securities settlement systems is based in part on section 5:30(e) of the Financial Supervision Act (*Wet op het Financieel Toezicht or Wft*) and the resulting authorisations for operating a market or trading platform. This part of the oversight is carried out jointly with the AFM. A second specific basis for oversight of securities settlement systems is the European Regulation EMIR. This came into force in its entirety in respect of oversight of central counterparties on 15 March 2013. For further information about this, see Chapter 3, 'Oversight: developments in 2013'.

Oversight is intended to promote the DNB-wide objectives of financial stability and the smooth operation of the payments system in two ways:

- 1) by avoiding systemic risk, and
- 2) preventing disruptions which could cause social unrest insofar as this results from retail payment systems important for the Netherlands.

The scope of DNB's oversight of securities clearing and settlement systems consists, in principle, of the institutions and systems which provide systemically important clearing and settlement services for the Netherlands, such as central counterparties (CCPs) and the central securities depository (CSD). DNB's oversight of payment systems encompasses institutions, systems and products used by payment systems relevant to the Netherlands. There are also oversight subjects abroad (both in Europe and globally) that are important for the Dutch payment and settlement systems. In such cases the oversight is carried out in cooperation with foreign overseers and supervisory authorities. A subject is deemed important for the Netherlands if disruptions to it would have a direct and negative impact on the Netherlands. Table 2.1 lists an overview of the national and international oversight arrangements in which DNB participates or is the lead overseer.

Table 2.1 National and international oversight arrangements in 2013

Oversight subject	Lead overseer/supervisor	Other overseers/supervisors
Large-value payments		
TARGET ₂	ECB	Eurosystem ncb's
TARGET ₂ -NL	DNB	
EURO ₁	ECB	Eurosystem ncb's
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		
LCH.Clearnet SA	Rotating presidency of regulators of 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	Regulators from Austria, Belgium, Denmark, Finland, Germany, Hungary, Iceland, Sweden and the UK
Euroclear SA	NBB	AFM, DNB and regulators from Belgium, Finland, France, Ireland, the UK and Sweden
Euroclear NL	AFM and DNB	
Euroclear ESES	NBB	AFM, DNB and regulators from Belgium and France
EuroCCP Ltd	FSA	AFM and DNB
Holland Clearing House	AFM and DNB	
Retail payments		
Equens (SE, CSS, CSM and Switch)	DNB	
VISA Europe (VISA and V Pay)	ECB	Eurosystem ncb's
MasterCard Europe (MasterCard and Maestro)	NBB	Other Eurosystem ncb's and the ECB
CCV	DNB	
Currence (Chipknip, Acceptgiro, Incasso, iDEAL)	DNB	
Dutch Payments Association	DNB	
UPSS	DNB	

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

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

Table 2.2 Applicable oversight standards 2013

Oversight subject	Applicable standards in 2013
Large-value payments	
TARGET ₂ , TARGET ₂ -NL, EURO ₁ , CLS	Core Principles for Systemically Important Payment Systems (BIS, 2001), Principles for Financial Market Infrastructures (BIS, 2012)
SWIFT	High Level Expectations (SWIFT)
Securities clearing and settlement	
LCH.Clearnet SA, LCH.Clearnet group Ltd, EMCF, HCH, EuroCCP Ltd, Euroclear SA, Euroclear NL, Euroclear ESES	Recommendations for securities settlement systems and recommendations for central counterparties in the European Union (ESCB & CESR, 2009), EMIR, Principles for Financial Market Infrastructures (BIS, 2012)
Retail payments	
Equens (SE, CSS, CSM and 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	Oversight framework for Card Payment Schemes (ECB, 2008)
CCV	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 (EBC, 2010)
Currence iDEAL	Oversight Framework for Credit Transfer Schemes (ECB, 2010)
Dutch Payments Association	None (light oversight regime)

New standards and primary and secondary legislation became applicable to large-value payments and securities clearing and settlement systems in 2013. These new standards and legislation will be included in the 2014 annual report.

Regular oversight includes monitoring the oversight subject on the basis of reports and conducting periodic interviews with the subject's management and auditors. Progress in implementing recommendations is monitored, as are proposed developments or changes to the institution, product or system. If the oversight object fails to implement recommendations, the supervisory authority may need to take repressive measures by deploying formal enforcement instruments, provided that such deployment at the oversight object in question is permitted by law.

The results of assessments (with the exception of the granting of authorisation) are presented in a table that shows the extent to which the institution, 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:

The oversight tables (see Chapters 4-6) are updated annually to indicate the current level of compliance with the standards or show how the situation has improved or worsened in comparison with previous years. 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.

An institution, 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 may remain operational.

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 first situation relates to oversight subjects which 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 do 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 of greater material importance, it must then comply with the standard and the deficiency must thus be rectified.

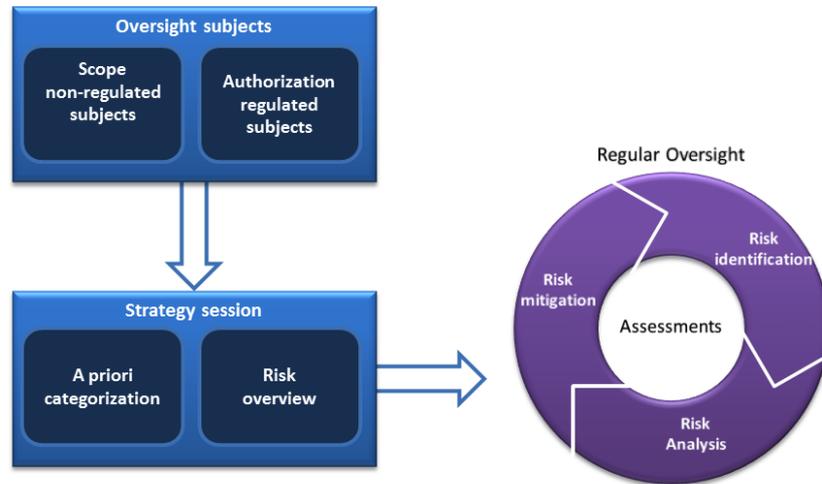
The second – as yet theoretical – situation in which a system becomes or remains operational despite serious deficiencies is where DNB has no powers to compel discontinuation of the activities and the system remains operational despite DNB's objections. Such a situation may arise in areas where DNB has no formal enforcement powers and where informal instruments such as moral suasion prove ineffective.

Preventive oversight is the main instrument by which DNB seeks to achieve its goals in this regard. To ensure that sound use is made of oversight capacity, choices must be made about its deployment. These choices should be clear, verifiable and explicit, thereby ensuring that DNB's attitude to risk is apparent and that the intensity of the oversight can be accounted for both internally and externally. The basis for this is *a priori* classification: the division of oversight subjects into five classes in ascending order of inherent risk. For this purpose inherent risk means:

- 1) the potential systemic risk without consideration of the protection measures actually taken by the subject. Systemic risk can be interpreted here as either inside-to-outside risk (failure of the oversight subject itself) or outside-to-inside risk (bankruptcy of a participant or an external disaster);
- 2) the potential risk of disruptions which could cause social unrest in the retail payment systems without the protection measures actually taken by the subject. DNB defines this risk as the possibility that problems that could be caused to users of the retail payment systems as a result of one or more incidents that jeopardise the proper operation of these systems in circumstances where there is a risk of disruption of public order or public life.

The extent to which oversight capacity is deployed is proportionate to the inherent risk. It follows that the higher the classification of the subject the more capacity

Figure 1 Oversight proces



is assigned to its oversight and the greater the attention it receives. The degree of intensity is then reflected in the conduct of regular oversight (risk analysis, risk assessment and risk mitigation), as presented in Figure 1.

The *a priori* classification is regularly updated. In this way DNB ensures that new developments or technologies are brought within the scope of its oversight in good time.

3. Oversight: developments in 2013

3.1 Financial Supervision Act for Payments Processing Service Providers (Wft Afwikkelondernemingen)

On 1 January 2014 the Financial Supervision Act (*Wet op het Financieel Toezicht or Wft*) was expanded to include supervision of payments processing service providers. The legislator has recognised that the use of electronic payment systems, such as point-of-sale payment by debit card or online banking, has become very widespread in the Netherlands. Dutch society has thus become increasingly dependent on the system of cashless payments. If a single major player in the chain fails, this has consequences for the entire chain. This is why it is essential that electronic retail payment systems are highly available, given that any breakdown of critical links in non-cash payments may cause social unrest. Although there are fall-back options in the event that a certain primary product or channel is unavailable, these alternatives are not entirely equivalent in terms of functionalities or availability.

The undertakings which are now brought within the ambit of the Wft play a major role in the processing of Dutch cashless payments. They arrange for rapid authorisation of debit card payments etc. and for the processing of credit transfers and direct debits. The payments processing service providers have already been partially subject to the voluntary oversight of DNB, sometimes for a relatively long period. The legislator has now provided DNB with enforcement instruments.

Not all undertakings that provide settlement services require an authorisation. The authorisation requirement applies only to those undertakings that process a considerable proportion of Dutch payment transactions and the disruption of whose services could therefore cause social unrest. The legislator has set the limit for the authorisation requirement at 120 million transactions a year. This implies that only a few Payment Processing Service Providers require authorisation.

3.2 EMIR

The European Regulation EMIR entered into force in 2012, and the deadline for applying for authorisation as a central counterparty (CCP) was 15 September 2013. All CCPs active in Europe were obliged to submit an authorisation application to their competent national authority by that date.

DNB has been designated as competent national authority for the Netherlands. This means that DNB will be the body responsible for granting authorisations for CCPs established in the Netherlands. In addition, DNB and the AFM now have enforcement powers at its disposal in relation to CCPs. DNB will be the competent national authority for Dutch CCPs. Two CCPs are located in The Netherlands, being EuroCCP NV and Holland Clearing House. More information on these CCPs can be found in Chapter 5.

Within EMIR, the national competent authority shall also take into account the interests of the CCP participants that might be located in other countries. Article 17 (4) of EMIR therefore states that the national competent authority shall duly consider the opinion of the College.

The decision making process in this College is preferably done on the basis of a joint opinion, but majority voting is also possible. The composition of the College is determined on the basis of Article 18 (2) EMIR. DNB is the chair of the two colleges for the Dutch CCPs. For the internationally active EuroCCP NV the College consist of 20 authorities. DNB is also a member of the following Colleges for foreign CCPs:

1. LCH.Clearnet SA (FR), on the basis of being the supervisor of the Dutch CSD Euroclear Netherlands, which which LCH.Clearnet SA maintains a link;
2. LCH.Clearnet Ltd (UK), on the basis of being the supervisor of EuroCCP NV, with which LCH.Clearnet Ltd is interoperable;
3. Eurex AG (DE), on the basis of being the supervisor of ABN AMRO Bank NV, one of the largest clearing members of Eurex;
4. European Commodity Clearing (DE), on the basis of being the supervisor of ABN AMRO Bank NV, one of the largest clearing members of Eurex;

3.3 CSDR: European legislation for central security depositories

DNB's oversight of Euroclear Netherlands takes place at present on the basis of moral suasion. This is because DNB has no statutory powers to enforce the standards it applies through oversight. This will change with the entry into force of the Central Securities Depository Regulation (CSDR). The CSDR will introduce, among other things, an authorisation requirement and ongoing supervision of CSDs. DNB will implement the CSDR in the Netherlands jointly with the AFM. The CSDR is expected to enter into force on 1 January 2015.

3.4 SEPA oversight

After the European Parliament and the Council adopted SEPA Regulation (EU), on 14 March 2012, in order to establish the Single Euro Payments Area (SEPA)¹ by 1 February 2014 at the latest, on 8 November 2012 De Nederlandsche Bank N.V. (DNB) was designated by Royal Decree², as the competent authority responsible for ensuring compliance with Articles 3, 4, 5, 6 and 9 of the SEPA Regulation with effect from 1 January 2013. This is the responsibility of the Oversight Department of DNB. SEPA oversight is an independent task of DNB, alongside its prudential supervision duties and the provision of support to the SEPA Migration National Forum by DNB's SEPA Programme Office.

The progress of the Dutch banks in carrying out the migration to SEPA was monitored throughout 2013. The large banks were asked to devote extra attention to completing this migration in good time. The banks themselves are responsible for the timely migration, and DNB will, if necessary, exercise its enforcement powers in accordance with the Wft.

On 4 February 2014 the SEPA Regulation was amended such that the banks should be allowed to continue processing payment transactions in national formats until

¹ Regulation (EU) No 260/2012 of the European Parliament and of the council of 14 March 2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009.

² The Royal Decree covers the implementation of EU-regulations in the field of financial markets and amending in this connection the Administrative Fines (Financial Sector) Decree (Implementation of EU regulations (Financial Markets) Decree).

1 August 2014. Only after 1 August can the competent authority monitor compliance with the SEPA Regulation and exercise its powers under the Wft.

3.5 CCV

Following DNB's decision in 2012 to expand the scope of oversight to include, for example, Computercentrum C. van de Velden B.V. (CCV), an oversight framework was agreed with CCV in 2013. This includes information about the manner in which oversight is conducted and the standards which CCV is expected to observe.

3.6 Holland Clearing House N.V.

Holland Clearing House N.V. (HCH) has been the designated central counterparty for derivatives transactions conducted on Dutch trading platform The Order Machine since 2011.

Pursuant to the European Regulation EMIR, HCH requires authorisation to offer CCP clearing services in the Netherlands. HCH submitted its application for authorisation to DNB by 15 September 2013, in accordance with the deadlines specified in EMIR.

In terms of legal form, HCH comprises three clearing members. ABNAMRO Clearing Bank N.V. and Interactive Brokers (U.K.) Ltd. have joined as General Clearing Participants and ABN AMRO Bank N.V. as Direct Clearing Participant. HCH expects further growth in both the number of clearing participants and market share in the near future. With a view to reducing the dependency of HCH regarding ABN AMRO, HCH started structuring a carve-out in 2013. It was agreed with the Netherlands Authority for the Financial Markets (AFM) and DNB that the carve-out will probably not be finalised until after EMIR authorisation has been granted. Furthermore, HCH expanded its activities in 2013. In addition to index options, HCH is currently also authorised to clear index futures.

4. Assessment results: large-value payment systems

TARGET₂

TARGET₂ is the main payment system for settlement of payments in euro. In legal terms TARGET₂ consists of a collection of individual NCB systems of the ECB and the euro area members (together with those of the non-euro countries Bulgaria, Denmark, Lithuania, Poland and Romania). The Dutch component is TARGET₂-NL. TARGET₂ transactions are processed on a common platform known as the Single Shared Platform (SSP). This has been developed jointly by the Bundesbank (Buba), Banca d'Italia (BdI) and Banque de France (BdF), which are also its operators. Formally speaking, the NCBs have outsourced the joint TARGET₂ activities to Buba, BdI and BdF. Oversight of the common platform is carried out by the Working Group on Oversight, with the ECB being the lead overseer. DNB plays an active role in this cooperative oversight arrangement, partly because the Dutch banks are major users of TARGET₂. The TARGET₂-NL activities which have not been outsourced to Buba, BdI and BdF fall within the scope of DNB Oversight. The local features mainly concern matters involving the business relationship with the TARGET₂-NL participants and business continuity management arrangements.

Tabel 4.1 Oversight assesment TARGET₂

Core Principles for Systemically Important Payment Systems	2011	2012	2013
	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

TARGET2-NL

As regards the local features of TARGET2-NL, the business continuity management (BCM) policy was assessed for TARGET2-NL in 2013. This assessment was carried out in the context of DNB's sector-wide BCM assessment of the financial core infrastructure. It was concluded that TARGET2-NL meets the standards of DNB's BCM assessment framework. The issues identified in the previous assessment in 2011 have been rectified in the meantime. For example, improvements were found to have been made to risk management and it was established that BCM policy has adequately been implemented in the operational organisation.

EURO1

EURO1 is a large-value payment system for crossborder and domestic transactions in euro between banks in the European Union. It is managed by the EBA Clearing Company, which was founded by the European Banking Association (EBA). EURO1 was launched at the time of the introduction of the euro and was developed to provide an efficient and profitable infrastructure for large-value interbank payments. Oversight takes place on a cooperative basis, with the ECB as lead overseer.

The follow-up to the 2011 assessment of EURO1 was monitored in 2013. This assessment was based on the oversight standards applicable at that time, namely the Core Principles.

EURO1 adjusted its loss-sharing arrangements in 2013. This change, which basically simplifies the previous arrangement, fits in the series of changes of the tools available for the EURO1 participants to manage their risks and liquidity, implemented in recent years. The change in the loss-sharing arrangement has been assessed by Eurosystem Oversight, with the conclusion that it does not adversely impact on EURO1's compliance with the oversight standards. In 2013 Euro1 compliance on the principle Governance has become fully observed because of its improvements of the risk management function.

Table 4.2 Oversight assessment of EURO1

 Observed	 Not observed
 Broadly observed	 Not applicable
 Partly observed	 Not assessed

Core Principles for Systemically Important Payment Systems	2011	2012	2013
Legal basis			
Understanding of financial risks			
Management of financial risks			
Prompt final settlement			
Multilateral netting systems			
Settlement assets			
Operational reliability			
Efficiency			
Access			
Governance			

5. Assessment results: securities clearing and settlements 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.

Together with the AFM, DNB also oversees the Amsterdam branch of the French CCP LCH.Clearnet SA. For LCH.Clearnet SA, the year 2013 was dominated by its application for authorisation under EMIR. This application was submitted to lead supervisor Banque de France on 15 September 2013. The application was declared to be complete on 27 November 2013 and forwarded to the college of supervisors, which met for the first time on 24 February 2014. DNB is a member of this college by virtue of its responsibility for overseeing CSD Euroclear Netherlands, to which LCH.Clearnet SA is linked.

Table 5.1 Oversight assessment of LCH.Clearnet SA

Recommendations for Central Counterparties	2010	2012	2013
Legal risk	Observed	Observed	Observed
Participation requirements	Observed	Observed	Observed
Management of credit risks	Observed	Observed	Observed
Collateral requirements	Observed	Broadly observed	Broadly observed
Financial resources	Observed	Observed	Observed
Default procedures	Observed	Observed	Observed
Custody risks	Observed	Observed	Observed
Operational reliability	Broadly observed	Observed	Observed
Settlement assets	Observed	Observed	Observed
Physical deliveries	Observed	Observed	Observed
Risks in links between CCPs	Observed	Observed	Observed
Efficiency	Observed	Observed	Observed
Governance	Observed	Observed	Observed
Transparency	Observed	Observed	Observed
Regulation and Oversight	Observed	Observed	Observed

LCH.Clearnet SA was assessed in 2013 in the course of the business continuity management theme. The conclusion of the assessment was that EuroCCP had properly incorporated all requisite BCM processes in its organisation and also tests these processes regularly.

European Multilateral Clearing Facility

In the course of 2013 the Dutch central counterparty EMCF announced its intention of merging with the British central counterparty EuroCCP Ltd. This merger ultimately took place in December 2013 after it had been cleared by DNB and the AFM and by the UK supervisors. Like EMCF, EuroCCP Ltd. clears only securities (i.e. not derivatives), and there is considerable overlap between the customer bases of the two companies. EMCF has been renamed EuroCCP NV as of 1 January 2014, and once all customers and transactions have migrated to the new entity, EuroCCP Ltd. will cease to exist. EuroCCP NV will continue to have its head office in Amsterdam, and DNB will remain the competent supervisor, together with the AFM.

EMCF has applied for authorisation as a CCP under EMIR. This application was submitted on 11 September 2013. The application was declared to be complete on 22 October 2013 and forwarded to the EMCF college of supervisors, which met for the first time on 19 October 2013. This college consists of some 20 supervisors from various European countries. The college is chaired by DNB and will have to decide on whether authorisation is in keeping with EMIR's statutory provisions.

Table 5.2 Oversight assessment of EMCF

Recommendations for Central Counterparties	2011	2012	2013
Legal risk	Observed	Observed	Observed
Participation requirements	Observed	Observed	Observed
Management of credit risks	Observed	Observed	Observed
Collateral requirements	Observed	Observed	Observed
Financial resources	Broadly observed	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	Observed	Observed	Observed
Transparency	Observed	Observed	Observed
Regulation and Oversight	Observed	Observed	Observed

In 2013 DNB performed a number of assessments. The institutions covered by the financial core infrastructure (including EMCF) were the subject of a thematic examination to assess business continuity management in the third quarter of 2013. The conclusion of the assessment was that it had properly incorporated all requisite BCM processes in its organisation and also tests these processes regularly.

EMCF also made various modifications to its fee structure in 2013, after obtaining clearance from DNB and the AFM. As a result of these changes, EMCF is no longer loss-making and it has an improved business model.

Euroclear Netherlands

Euroclear Netherlands (ENL) is the Central Securities Depository (CSD) in the Netherlands, providing settlement, custody and administration services to banks and investments 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 compliance with all recommendations of the Euroclear Securities Settlement System ESES was completed. This was carried out by DNB, NBB and BdF. The results of this assessment of Euroclear Netherlands, adjusted for 2013, are shown in Table 5.3. There are no differences from 2012. An assessment of Euroclear Netherlands for compliance with the new oversight standards will be performed by DNB and the AFM in 2014 in collaboration with the other ESES authorities.

DNB Oversight regularly carries out thematic examinations. A thematic examination to assess the quality of the business continuity management of the financial core infrastructure was carried out in 2013. As ENL is part of the financial core infrastructure it was included in this assessment, which examined whether it meets the required maturity level. 2013 also saw a thematic study of ENL's legal function and whether ENL's system rules comply with the provisions of the Bankruptcy Act (*Faillissementswet*) on the finality of payment instructions. The assessments have not led to adjustment of the finding shown in Table 5.3.

In 2013 DNB and the AFM authorised Euroclear Netherlands to provide two new services. The first is known as the Direct Deposit Service, which enables issuing institutions to deposit securities with ENL other than through the intermediary of an agent. This service implements section 38(2) of the Securities Book-Entry Transfer Act (*Wet Giraal effectenverkeer*). The second is the basic voting service, which sends information about forthcoming meetings of shareholders to the affiliated institutions. The European Market Standards for General Meetings require CSDs to gather information about general meetings and pass it on to the affiliated institutions. The affiliated institutions in turn forward this information to their customers, thereby ensuring that it reaches the ultimate investor.

Table 5.3 Oversight assessment of Euroclear Netherlands

Recommendations for Securities Settlement Systems	2011	2012	2013
	Legal basis	Observed	Observed
Transaction confirmation	Observed	Observed	Observed
Settlement time	Observed	Observed	Observed
Central Counter Party	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	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

EUROCCP LTD

Like EMCF, EuroCCP Ltd clears only securities (i.e. not derivatives), and there is considerable overlap between the customer bases of the two companies. Once all EuroCCP Ltd customers and transactions have migrated to EuroCCP N.V., EuroCCP Ltd. will cease to exist as a CCP. EuroCCP NV will continue to have its head office in Amsterdam, and DNB will remain the competent supervisor, together with the AFM.

EMCF was not fully reassessed in 2013. As EMIR has now entered into force, it is intended that EuroCCF should be assessed for compliance with the EMIR standards from now on. For this transitional stage and pending the outcome of the authorisation process, EuroCCP has therefore been scored again on the ESCB-CESR Recommendations for CCPs.

Table 5.4 Oversight assessment of EuroCCP Ltd

 Observed	 Not observed
 Broadly observed	 Not applicable
 Partly observed	 Not assessed

Recommendations for Central Counterparties	2011	2012	2013
Legal risk			
Participation requirements			
Management of credit risks			
Collateral requirements			
Financial resources			
Default procedures			
Custody risks			
Operational reliability			
Settlement assets			
Physical deliveries			
Risks in links between CCPs			
Efficiency			
Governance			
Transparency			
Regulation and Oversight			

6. Assessment results: retail payment systems and products

Equens SE

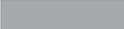
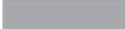
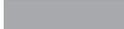
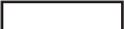
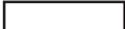
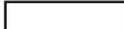
Equens SE processes financial transactions of consumers and businesses that have been effected using payment products. It processes payments not only in the Netherlands but also in various other European countries. Equens processes cashless payments such as credit transfers and direct debits as well as card-based transactions, including the clearing and settlement of these payments. DNB distinguishes between four subjects of oversight at Equens SE: the Clearing and Settlement System (CSS) for clearing domestic payments; the Equens Clearing and Settlement Mechanism (CSM) for clearing SEPA payments; Switch, the central system for the authorisation of electronic card payments; and, lastly, since 2012 Equens SE has itself been classified as an independent subject of oversight. This involves ensuring that the legal structure of the business, the government and the risk management are properly organised.

Table 6.1 Oversight assessment of Equens CSS

Core Principles for Systemically Important Retail Payment Systems	2011	2012	2013
	Legal basis	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	Broadly observed	Observed	Observed
Efficiency	Observed	Observed	Observed
Access	Observed	Observed	Observed
Governance	Observed	Observed	Broadly observed

Table 6.2 Oversight assessment of Equens CSM

 Observed	 Not observed
 Broadly observed	 Not applicable
 Partly observed	 Not assessed

Core Principles for Prominently Important Retail Payment Systems	2011	2012	2013
Legal basis			
Transparency of financial risks			
Management of financial risks			
Prompt final settlement			
Multilateral netting systems			
Settlement assets			
Operational reliability			
Efficiency			
Access			
Governance			

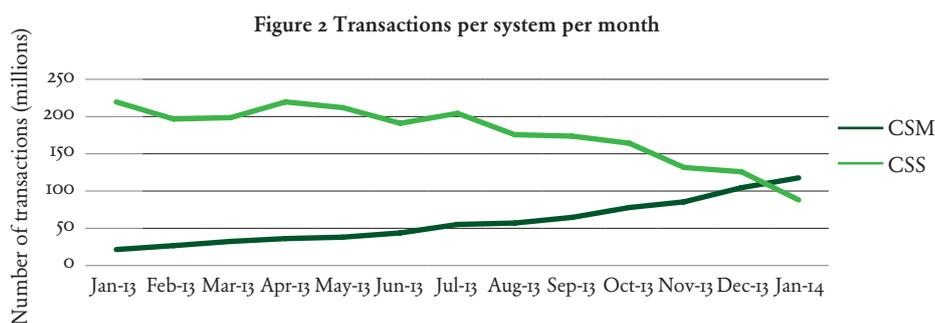
In 2013 new standards became applicable to Equens SE. In consequence, the Core Principles for Systemically Important Retail Payment Systems (CSS and Switch) and the Core Principles for Prominently Important Retail Payment Systems (CSM) have been replaced by the relevant part of the Principles for Financial Market Infrastructures. However, here the compliance with the Core Principles in 2013 is still shown.

From 2014 Equens comes under the Financial Supervision Act for Payments Processing Service Providers (Wft Afwikkelondernemingen) (see Chapter 3).

The processing of Dutch non-SEPA direct debits and credit transfers takes place in the CSS. The CSS fully complies with eight of the ten standards set at European level for systemically important retail payment systems (see Table 6.1). One standard is not applicable. Governance of risk management was the subject of assessment in 2013. Some of the findings of this assessment related to the risk analyses carried out by Equens itself and communication in the event of a disaster. It follows that the CSS does not fully comply with the governance standard.

The migration to SEPA, which will be completed in 2014, also means that the CSS will be phased out in due course. This is because the CSS processes only non-SEPA credit transfers and direct debits. Equens has a different system for SEPA payments, which has been processing credit transfers since as long ago as January 2008. This is known as the Clearing and Settlement Mechanism (CSM). Owing to the growth in the number of SEPA transactions, it is forecasted that the CSM will become the dominant system for Dutch retail payments in 2014 (see Figure 2).

In 2013 DNB's Oversight Department assessed the business continuity management of the CSM, revealing the need for various changes to improve operational reliability. The 'broadly observed' score for governance is related to the findings that emerged from carrying out risk analyses (see also the finding regarding the CSS).



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 payments at POS terminals 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. It is of great importance to the functioning of Dutch society that this procedure – the Switch – provides a high degree of business certainty. 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 of most relevance to it and has been found to comply (see Table 6.3).

iDEAL

iDEAL is a national payment product for online purchases in which the buyer and the retailer uses an online banking application from a payment service provider that is a member of the iDEAL scheme. The buyer makes use of the internet banking application of his payment service provider, and the retailer/internet store

Table 6.3 Oversight assessment of Equens Switch

■ Observed	■ Not observed
■ Broadly observed	■ Not applicable
■ Partly observed	□ Not assessed

Core Principles for Systemically Important Retail Payment Systems	2011	2012	2013
Legal basis	□	□	□
Transparency of financial risks	□	□	□
Management of credit risks	■	■	■
Prompt final settlement	■	■	■
Multilateral netting systems	□	□	□
Settlement assets	■	■	■
Operational reliability	■	■	■
Efficiency	□	□	□
Access	■	■	■
Governance	■	■	■

must support the iDEAL payment standard through its payment service provider. Currence is the legal owner of iDEAL. iDEAL is operational since 2005. Over 142.5 million iDEAL transactions, with a total value of 10.8 billion euro, were processed in 2013. Since its market launch iDEAL has processed over 500 million transactions. Five licence holders and over forty certificate holders accept payment instructions as payment service providers through iDEAL, and account holders of ten Dutch payment service providers can use iDEAL to make payments. In 2012 iDEAL was modified to comply with the new standards for European payments: Single Euro Payments Area (SEPA). Since February 2013 all payments have been made on the basis of the SEPA Credit Transfer (SCT), as a result of which iDEAL has made been ready to facilitate European online payments.

In view of the importance of iDEAL as an online payment product in the Dutch retail payments market, it is the subject of active oversight by DNB. The initial assessment of iDEAL took place in 2007, and there were follow-up assessments in 2008 and 2009. Regular oversight in the following years gave no reason to change the assessment results of iDEAL. As international oversight standards had not yet been introduced at the time, the assessments were carried out by reference to the national standards drawn up by DNB.

As a result of the steady growth in use and hence the ever increasing importance of iDEAL, it was decided early in 2013 to carry out an initial assessment again to check for compliance with the newly available international oversight standards. Another event which prompted the fresh assessment was the DDoS attacks in early 2013. Although the iDEAL scheme does not qualify as a fully-fledged credit transfer scheme, it has nonetheless been decided to use the Oversight Framework for Credit Transfer Schemes for this assessment since these standards seem most appropriate to iDEAL. For this renewed assessment, iDEAL has been checked for compliance with nine standards (see Table 6.5), which largely correspond with the standards of the previous assessments and depart from them only to a limited extent (see Table 6.4).

Table 6.4 Oversight assessment of iDEAL

 Observed	 Not observed
 Broadly observed	 Not applicable
 Partly observed	 Not assessed

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

Table 6.5 Oversight assessment of iDEAL

Oversight Framework for Credit Transfer Schemes	2013
Legal basis	Observed
Transparency	Observed
Security management	Observed
Operational security	Observed
Clearing and settlement	Not applicable
Continuity	Observed
Outsourcing	Broadly observed
Governance	Observed
Financial risks	Not applicable

DNB has concluded that iDEAL complies with six of the nine standards and broadly observes the outsourcing standard (the clearing and settlement standard and the financial risks standard are not applicable). Five findings and recommendations have been made as a result of this new initial assessment and are the subject of agreements with Currence.

7 Business continuity: financial core infrastructure

A thematic examination to assess the Business Continuity Management (BCM) of the Financial Core Infrastructure (FCI) was carried out by DNB and the AFM in 2013. This examination was carried out as a benchmark test to determine whether the institutions reach a predetermined maturity level.

A benchmark was developed for the examination. This was based on current Financial Core Infrastructure standards and assessment frameworks, including the DNB Assessment Framework for Business Continuity Management Financial Core Infrastructure, the CPSS/IOSCO Principles for Financial Market Infrastructures, the ISO Standards for Business Continuity Management Systems – requirements and guidance on human aspects of business continuity, and COBIT. The benchmark was discussed with the sector through the Business Continuity Vital Infrastructure Financial sector Platform (BC VIF) in which the business continuity experts of the institutions of the FCI participate.

The general conclusion of the examination is that the institutions have achieved the maturity level required for this examination. However, some institutions still need to improve in certain respects. The examination did not identify any subjects for which the sector as a whole scored insufficiently. However, a few issues were identified which require specific attention in order to reach a higher maturity level. This concerns the following topics:

BCM versus availability

During the examination it transpired that BCM is often focused on the failure of all or most of the infrastructure (e.g. a datacentre). Disruptions of a more limited nature such as the temporary failure of internet banking are classified together under the heading ‘availability’ and are addressed and managed by other processes and systems at the institutions. In view of the positive results of the present examination into BCM and incidents such as DDoS attacks, it would seem right to shift the focus from BCM in general to availability. In 2014 DNB will carry out a thematic examination on cybercrime at all institutions that are part of the FCI.

Integral testing of the back-up facilities

Institutions are cautious about integral testing of back-up facilities because of the related risks. The international IT Supervisors Group (ITSG – the twenty most important IT supervisors worldwide) is one of the organisations to have concluded that a ‘pull the plug’ test is indeed risky and shall not be required. Nonetheless, it is still necessary to have sufficient certainty that critical business processes can be switched to a different datacentre. A number of institutions have already given thought to this. DNB will identify and assess the possibilities for obtaining certainty about the ability to relocate critical business processes in their entirety.

Relations with external service providers

Institutions often make use of the services of external service providers, also for critical business processes. Analysing dependencies of this kind is a matter that must receive continuing attention not only as regards service providers in the context of outsourcing but also other interested parties and customers (stakeholders in the widest sense of the word).

Appendix – abbreviations used

AFM	Netherlands Authority for the Financial Markets	NCB	National Central Bank
BCM	Business Continuity Management	OTC	Over the Counter
BIS	Bank for International Settlements	PFMI	Principle for Financial Market Infrastructure
CCP	Central Counterparty	RCCP	Recommendations for Central Counterparties
CDS	Credit Default Swaps	RSSS	Recommendations for Securities Settlement Systems
CESR	Committee of European Securities Regulators	RTS	Regulatory Technical Standard
CP	Core Principle	SEPA	Single Euro Payments Area
CPS	Card Payment Scheme	SNB	Swiss National Bank (Schweizerische Nationalbank)
CPSS	Committee on Payment and Settlement Systems (of the BIS)	SSS	Securities Settlement Systems
CSD	Central Securities Depository	TARGET₂	Trans-European Automated Real-time Gross settlement Express Transfer system
CSM	Clearing and Settlement Mechanism	T₂S	TARGET ₂ Securities
CSS	Clearing and Settlement System	TOM	The Order Machine
EBA	European Banking Authority	TR	Trade Repository
ECB	European Central Bank	Wft	Transactieregister Financial Supervision Act
EMCF	European Multilateral Clearing Facility		
EMIR	European Markets Infrastructure Regulation		
EMV	Cooperative arrangement between Europay, MasterCard and Visa		
Equens CSM	Equens Clearing and Settlement Mechanism (SEPA)		
Equens CSS	Equens Clearing and Settlement System (non-SEPA)		
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		
HCH	Holland Clearing House		
IAN	Interbank Authorisation Network		
IOSCO	International Organization of Securities Commissions		
LSE	London Stock Exchange		
MTF	Multilateral Clearing Facility		
NBB	National Bank of Belgium		

