



BANK OF ENGLAND

News release

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Oversight of Payment Systems

The Bank of England has today issued a paper describing its work on the Oversight of Payment Systems. These systems are a vital part of the economic and financial infrastructure. Their efficient functioning contributes to overall economic performance; but they also involve significant exposures and risks for members. That is one reason why central banks have always taken a close interest in their design and operation.

The Bank's general responsibilities in this area were set out most recently in the Memorandum of Understanding agreed in October 1997 between H M Treasury, the Bank and the Financial Services Authority. Following the implementation in the UK a year ago of the EU's Settlement Finality Directive, the Bank became the designating authority for payment systems. The IMF and the G10 Governors, through a task force of the Committee on Payments and Settlement Systems, have also set out codes of good practice in relation to payment systems, including the monitoring of their operations and transparency in reporting on their performance. In addition, the Bank has a direct involvement in the operation of certain key payment systems through its provision of final settlement facilities to the members.

David Clementi, Deputy Governor for Financial Stability, said: "Robust payment systems can make an important contribution to financial stability. The Bank, as in its monetary role, is committed to a policy of transparency in carrying out its systemic oversight of payment systems.

We hope that this paper will promote a better understanding of what the Bank aims – and does not aim – to do in this area."

Notes for Editors

1. The paper provides background information on payment systems in the UK and discusses the nature and scale of the exposures and risks involved. It notes that payment systems can transmit, and sometimes give rise to, systemic risk – that is a risk of disruption spreading throughout the financial system. Even if the amounts transferred through a particular system are too small to raise systemic concerns, the operational failure or malfunction of a system could still cause widespread disruption, especially if there is no ready

alternative means of making payments. This system-wide risk could arise in relation to any widely-used payment system.

2. The intensity of the Bank's oversight is proportionate to its assessment of the systemic or system-wide risks posed by a payments system. The Bank's main objective is to ensure that sufficient weight is given to risk reduction and management in their design and operation.

3. The work on oversight is led in the Financial Stability area of the Bank in its Market Infrastructure Division. The team uses all information available to the Bank directly, including through its provision of settlement services to the banking system, and indirectly through exchanges with other relevant authorities in the United Kingdom and abroad. The Bank does not monitor day-to-day operational aspects of payment systems, or seek to resolve day-to-day operational problems (except where the Bank itself is operationally involved), or get involved in bank-customer issues. The Bank's aim is to establish that operators have taken reasonable steps to ensure the robustness of their systems.

4. The Memorandum of Understanding can be found on the Bank of England web site at www.bankofengland.co.uk/financialstability/mou

The IMF Code of Good Practices on Transparency in Monetary and Financial Policies is available at www.imf.org

5. The task force of the G10 Committee on Payments and Settlement which drafted the code of good practice of payment systems and payment system oversight was chaired by John Trundle, head of the Bank's Market Infrastructure Division.