



31 December 2009

Oversight of Payment Systems

The Bank of England today assumes statutory responsibility for oversight of payment systems under Part 5 of the Banking Act 2009. As provided for under Section 188 of the Act, the Bank is publishing, with the approval of HM Treasury, the Principles that will constitute a core element of the statutory oversight regime.

The Bank is adopting 14 Principles: the ten internationally accepted Core Principles published by the BIS Committee on Payment and Settlement Systems (CPSS), which have provided a basis for the Bank's non-statutory oversight up to now; and four additional Principles that supplement the CPSS Core Principles and address issues that are particularly important in the context of UK payment systems. These Principles have been adopted following a period of consultation between 28 September and 30 October 2009. A summary of the responses to this consultation is also published today.

The 14 Principles are as follows:

Principle I. The system should have a well-founded legal basis under all relevant jurisdictions.

Principle II. The system's rules and procedures should enable participants to have a clear understanding of the system's impact on each of the financial risks they incur through participation in it.

Principle III. The system should have clearly defined procedures for the management of credit risks and liquidity risks, which specify the respective responsibilities of the system operator and the participants and which provide appropriate incentives to manage and contain those risks.

Principle IV. The system should provide prompt final settlement on the day of value, preferably during the day and at a minimum at the end of the day.

Principle V. A system in which multilateral netting takes place should, at a minimum, be capable of ensuring the timely completion of daily settlements in the event of an inability to settle by the participant with the largest single settlement obligation.

Principle VI. Assets used for settlement should preferably be a claim on the central bank; where other assets are used, they should carry little or no credit risk and little or no liquidity risk.

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

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

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

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

Principle XI. The system should manage its business risks so that its users can rely on continuity of its services.

Principle XII. The system should regularly review the risks it bears from, and poses to, other infrastructures as a result of interdependencies, and implement controls adequate to manage those risks.

Principle XIII. The system should understand and manage risks that are brought to the system as a result of participants' relationships with indirect participants.

Principle XIV. The system should manage its outsourced relationships prudently, ensuring that contractual and risk management arrangements are clear, appropriate and robust.

Notes to Editors

1. The Banking Act 2009 (the Act) put the Bank of England's Financial Stability objective into statute. Part 5 of the Act puts the Bank's oversight of payment systems onto a statutory footing. Certain provisions, allowing the Bank to gather information and HM Treasury to 'recognise' systems for oversight, came into force on 4 August 2009. The remaining provisions come into force today.

2. Under the statutory regime, payment systems which meet the criteria set out in the Act (section 185(1)) may be recognised by HM Treasury and brought within the Bank's oversight regime under Part 5 of the Act. Further information about the recognition process can be found in HM Treasury's guidance note on recognition, "*The recognition process for inter-bank payment systems: a guidance note*". Payment systems that are not recognised will not be subject to the statutory oversight regime.

3. The Bank's oversight of interbank payment systems is concerned with the overall robustness and resilience of the financial system, and the extent to which interbank payment systems could threaten financial stability through disruption and contagion. The Bank does not have consumer protection responsibilities - these lie with the FSA, the Office of Fair Trading and other public bodies.

4. Under section 188(1) of the Act, the Bank may publish principles to which the operators of recognised interbank payment systems are to have regard in operating their systems. Under section 188(2), the Bank must obtain the approval of HM Treasury before publishing principles.

5. The Core Principles for Systemically-Important Payment Systems were published by the Committee on Payment and Settlement Systems (CPSS) in January 2001, and have been widely adopted by central banks in their oversight of payment systems.

6. In September 2009, the Bank published a paper explaining how it intends to fulfil its payment systems oversight responsibilities under Part 5 of the Banking Act 2009 and consulting on draft Principles for recognised interbank payment systems. Copies of the September consultation paper are available on the Bank's website: <http://www.bankofengland.co.uk/publications/other/financialstability/oips/index.htm>, from the Payments & Infrastructure Division, Bank of England, Threadneedle Street, EC2R 8AH, and by telephone 020 7601 4629 or fax 020 7601 3217.

7. A summary of submissions to the Bank on the consultation paper is available on the Bank's website: http://webarchive.nationalarchives.gov.uk/20100114080129/http://www.bankofengland.co.uk/financialstability/role/risk_reduction/payment_systems_oversight/pdf/oips-response.pdf from the Payments & Infrastructure Division, Bank of England, Threadneedle Street, EC2R 8AH, and by telephone 020 7601 4629 or fax 020 7601 3217.