



BANK OF ENGLAND

News release

Press Office

Threadneedle Street

London EC2R 8AH

T 020 7601 4411

F 020 7601 5460

press@bankofengland.co.uk

www.bankofengland.co.uk

26 January 2012

Towards a new architecture for payment arrangements – speech by Chris Salmon

In a speech delivered at the BAFT-IFSA Global Annual Meeting on 24 January 2012, Chris Salmon, Executive Director for Banking Services and Chief Cashier, describes how the financial crisis has influenced the perspective of financial stability policymakers towards payment operations. He argues that this will impact upon banks in two main ways: first, authorities are likely to place more attention on the overall network of payment operations within a financial system; and second, in the context of resolution plans, authorities are likely to ask more questions about the internal organisation of firms' operations. Chris Salmon concludes by encouraging those in the transactions banking world to consider the attitudes of financial stability authorities and the broader regulatory back-drop when developing their medium-term planning.

In terms of the overall network, Chris Salmon focuses on the pattern of direct and indirect participation in payment systems and highlights some of the risks of systems which have a disproportionately high level of indirect participation.

Following comments from a speech in July, Chris Salmon reiterates the Bank's view that an increase in direct participation in CHAPS would be good for UK financial stability. He provides an update on the Bank's work to achieve this including the fact that one large indirect participant has formally committed to join and a second is moving towards a similar formal decision. "If all the banks we have talked to in this round of discussions were to join CHAPS...payment flows made by indirect participants would account for less than 40% of the total, making substantial inroads into our tiering problem." Chris Salmon also outlines a number of other ways in which the overall payment systems network could be made more robust.

Chris Salmon goes on to consider the impact of the work of the Financial Stability Board (FSB) on the orderly resolution of financial institutions on the payments world. Salmon believes it is unlikely that the internal organisation of payments will be unaffected as and when large firms address the organisational issues which the FSB has identified. Resolution authorities will also want to understand how customers will be able to continue making and receiving payments following a resolution.

ENDS

Notes to Editors

1. The payments map comprises a central hub, the system and its direct members, with many spokes reflecting agency relationships between the direct and indirect participants. The relative importance of the 'hub' and the 'spokes' for a payments network is typically summarised through a 'tiering' statistic: the ratio of direct participants to all banks that make payments via the system. In highly tiered systems the 'spokes' are relatively important (and the statistic low in value), with the opposite true when most participants are direct members of the core scheme. (Taken from page 4 of the speech.)
2. CHAPS is a high value payment systems. The CHAPS payment system is designed for making instant, high-value sterling transfers. Typically, members of the public will initiate payment using CHAPS only rarely, for example when buying a house. Financial institutions will make many large CHAPS transactions daily, regularly settling inter-bank loans worth hundreds of millions of pounds.