

Annex 1

CODE OF PRACTICE ABOUT THE OPERATION OF RECOGNISED PAYMENT SYSTEMS

Powers exercised

- A. This code of practice is published under section 189 of the Banking Act 2009.
- B. A failure to comply with this code will constitute a “compliance failure” under section 196 of the Banking Act 2009, which can result in the imposition of a sanction under section 198 to 200 of the Banking Act 2009 (financial penalty, management disqualification, and in certain specified circumstances, a closure order). It can also involve publication of the details of the compliance failure and any sanction imposed (section 197 of the Banking Act 2009).

Commencement

- C. This code of practice comes into force on 21 June 2018

Citation

- D. This code of practice may be cited as the Bank of England Recognised Payment Systems Code of Practice.

21 June 2017

PART 1: GOVERNANCE

1 APPLICATION AND DEFINITIONS

- 1.1 This code of practice applies to a *RPSO* that is not operated by a recognised clearing house or a central securities depository unless 1.2 applies.
- 1.2 The Bank of England may notify a *RPSO* that this code shall not apply to it where:
 - (1) The *RPSO* is not incorporated in the UK; and
 - (2) The Bank of England considers that:
 - (a) the *RPSO* is subject to a domestic supervisory or oversight regime that has the objective of protecting and enhancing financial stability and which implements the Committee for Payment and Market Infrastructure and the International Organization of Securities Commissions ‘Principles for financial market infrastructures’; and
 - (b) arrangements in place for international cooperation enable it to discharge its statutory requirements and supervisory functions in respect of the *RPSO*.
- 1.3 The following definitions shall apply:

board

means a *RPSO*'s body or bodies which are appointed in accordance with national law, which are empowered to set a *RPSO*'s strategy, objectives and overall direction,

and which oversee and monitor executive decision-making, and include the persons who effectively direct the business of a *RPSO*.

executive

means the senior management of a *RPSO* who are responsible for and accountable to the *board* for the day-to-day management of the *RPSO*.

RPSO

means a recognised payment system operator that is the operator of a payment system specified by order as a recognised payment system under section 184 of the Banking Act 2009.

2 SYSTEMIC RISK MANAGER

- 2.1 A *RPSO* must perform the function of a systemic risk manager, including by having objectives that support financial stability.
- 2.2 A *RPSO* must establish and maintain a clear internal control and risk management framework that:
- (1) includes the *RPSO*'s risk-tolerance policy;
 - (2) assigns responsibilities and accountability for risk decisions; and
 - (3) addresses decision making in crises and emergencies.
- 2.3 In relation to a *RPSO*'s function and obligations in this chapter, the *board* must:
- (1) ensure that it has sufficient understanding of the risks to the end-to-end flow of payments across the payment system;
 - (2) ensure that it receives appropriate information;
 - (3) have sufficient oversight as to how a *RPSO* performs this function; and
 - (4) approve and periodically review the risk management framework to ensure that it is fit for purpose.

3 GOVERNANCE ARRANGEMENTS

- 3.1 A *RPSO* must have governance arrangements that:
- (1) are clear and transparent; and
 - (2) promote the safety and efficiency of the payment system.
- 3.2 In relation to a *RPSO* the governance arrangements must include:
- (1) a description of:

- (a) the roles, responsibilities and lines of accountability of the *board* and *executive*;
 - (b) the functioning of the *board*;
 - (c) the ownership structure;
 - (d) the means by which the *RPSO* is financed; and
 - (e) the strategy of the *RPSO*;
- (2) the mechanisms for regular review of its efficiency and effectiveness;
- (3) the design of risk management, internal control and audit functions, including a description of how these functions have adequate authority, independence, resources and access to the *board*;
- (4) the procedures for:
- (a) the appointment of *board* members and the *executive*; and
 - (b) the recruitment, induction and training arrangements for the *board*; and
- (5) the policy regarding the term of appointment for the *board*.
- 3.3 In this chapter references to the *board* include the *board* and its sub-committees except where 3.2(5) applies.

4 COMPOSITION OF THE BOARD

- 4.1 A *RPSO* shall ensure that the members of the *board*:
- (1) are of sufficiently good repute;
 - (2) possess sufficient knowledge, skills and experience to perform the role for which they are appointed;
 - (3) act with honesty and integrity; and
 - (4) commit sufficient time to perform their functions in the *RPSO*.
- 4.2 The composition of the *board* must be appropriately balanced in order to facilitate the *board* carrying out its duties in an independent manner and must:
- (1) collectively possess:
 - (a) adequate knowledge and skills; and
 - (b) a broad range of experiences
 to understand the payment system, including the main risks and controls; and
 - (2) have an appropriate combination of executive and non-executive directors including a substantial and effective number of independent non-executive directors.

- 4.3 In this chapter references to the *board* includes the *board* and its sub-committees except where 4.2(2) applies.

5 THE EXECUTIVE

- 5.1 The *board* must ensure that the members of the *executive* of a *RPSO*:
- (1) possess appropriate skills and experience necessary to discharge their responsibilities for the operation and risk management of the payment system;
 - (2) act with honesty, integrity and due skill, care and diligence; and
 - (3) provide it with appropriate information and support to discharge the *board's* responsibilities effectively.

6 CONFLICT OF INTEREST

- 6.1 The *board* must have in place a policy and procedure to identify, address and manage conflicts of interest.

7 PERFORMANCE MANAGEMENT

- 7.1 The *board* must review its overall performance, and the performance of its individual members at least annually.
- 7.2 A *RPSO* must:
- (1) ensure that the effectiveness of the *board* is assessed independently on a regular basis; and
 - (2) have procedures for ensuring and assessing the performance management of the *executive*.
- 7.3 In this chapter references to the *board* includes the *board* and its sub-committees.

8 RECORDS

- 8.1 A *RPSO* shall ensure that the objectives, risk management framework, governance arrangements, policies and procedures in chapters 2, 3, 6, and 7 are:
- (1) documented in writing;
 - (2) approved by the *board*; and

(3) reconsidered from time to time by the *board* to ensure they remain fit for purpose.

9 TRANSITIONAL PROVISIONS

9.1 This code of practice shall not apply for the first twelve months after a payment system becomes a *RPSO*.