

FEDERAL RESERVE SYSTEM

Docket No. OP-1259

Policy on Payments System Risk

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Policy Statement.

SUMMARY: The Board has adopted several revisions to Part I of its Policy on Payments System Risk (PSR policy) addressing risk management in payments and settlement systems. Specifically, the Board has (1) incorporated into the PSR policy the Recommendations for Central Counterparties (Recommendations for CCP) as the Board's minimum standards for central counterparties, (2) clarified the purpose of Part I of the policy and revised its scope with regard to central counterparties, and (3) established an expectation that systemically important systems subject to the Board's authority disclose publicly self-assessments against the Core Principles for Systemically Important Payment Systems (Core Principles), Recommendations for Securities Settlement Systems (Recommendations for SSS), or Recommendations for CCP, as appropriate, demonstrating the extent to which these systems meet the principles or minimum standards.

EFFECTIVE DATE: [INSERT DATE OF PUBLICATION IN THE FEDERAL REGISTER]. The Board expects each systemically important payments and settlement system subject to its authority to complete and publish its initial self-assessment by December 31, 2007.

FOR FURTHER INFORMATION CONTACT: Jeff Stehm, Deputy Associate Director (202/452-2217), Division of Reserve Bank Operations and Payment Systems, or Jennifer Lucier, Financial Services Project Leader (202/872-7581), Division of Reserve Bank Operations and Payment Systems; for the hearing impaired only: Telecommunications Device for the Deaf, 202/263-4869.

SUPPLEMENTARY INFORMATION

I. Background

On June 22, 2006, the Board requested comment on proposed revisions to Part I of the PSR policy, which addresses risk management in payments and settlement systems.¹ The key aspects of the proposal included the (1) incorporation of the Recommendations for CCP as the Board's minimum standards for central counterparties, (2) the clarification of the purpose of Part I of the policy and revisions to its scope with regard to central counterparties, and (3) the establishment of an expectation that systemically important systems subject to the Board's authority disclose publicly self-

¹ 71 FR 36800 (June 28, 2006).

assessments against the Core Principles, the Recommendations for SSS, or the Recommendations for CCP, as appropriate.² The proposed changes did not affect Part II of the PSR policy.

The Board proposed these revisions to update the policy to incorporate new international risk management standards for central counterparties. As discussed in more detail in the proposal, at the time the Board last revised Part I of the policy, the Federal Reserve was working with the CPSS and IOSCO to finalize the Recommendations for CCP.³ These recommendations established minimum standards for central counterparty risk management, operational reliability, efficiency, governance, transparency, and regulation and oversight. At the time it incorporated the Core Principles and Recommendations for SSS into the PSR policy, the Board noted it would review the Recommendations for CCP at a later time and determine whether it would be appropriate to incorporate them into its PSR policy. The Board has considered the comments and is incorporating the Recommendations for CCP into the policy to highlight the importance of central counterparties to the financial markets and to demonstrate the Board's desire to encourage the use of the Recommendations for CCP globally in cooperation with other domestic and foreign financial system authorities. In light of this change, the Board has clarified the purpose of Part I of the policy and revised its scope in order to reflect the important role central counterparties play in the stability of the financial system.

The Board believes that the implementation of the Core Principles and Recommendations for SSS and CCP can help foster global financial stability. The Board further believes that broadening the availability of information concerning a system's risk management controls, governance, and legal framework, for example, can assist users and other interested persons in understanding and assessing systems against internationally accepted principles and minimum standards and in evaluating and managing any risk exposure to a particular system. The policy revisions proposed by the Board in June were designed to meet these objectives. Therefore, the Board is establishing an expectation that systemically important systems subject to its authority disclose publicly self-assessments against the Core Principles, Recommendations for SSS, or Recommendations for CCP, as appropriate, demonstrating the extent to which these systems meet the principles or minimum standards.

² The G-10 central banks' Committee on Payment and Settlement Systems (CPSS) published in 2001 the Core Principles to foster safety and efficiency in the design and operation of systemically important payments systems. The Recommendations for SSS and Recommendations for CCP were developed by the CPSS in conjunction with the Technical Committee of the International Organization of Securities Commissions (IOSCO) in 2001 and 2004, respectively. The Recommendations for SSS set forth minimum standards promoting safety and efficiency in securities settlement systems, while the minimum standards set forth in the Recommendations for CCP focus specifically on central counterparty risk management.

³ Final recommendations were issued in November 2004. In addition to the Federal Reserve, the Securities and Exchange Commission and the Commodity Futures Trading Commission also participated in the development of the Recommendations for CCP. The full report on the Recommendations for CCP is available at <http://www.bis.org/publ/cpss64.htm>.

II. Summary of Comments and Analysis

The Board received four comment letters on the June proposal – two from private-sector payments system operators, one from a credit union, and one from a foreign central bank. Comments generally supported the three key policy revisions proposed by the Board, but varied in response to some of the Board’s specific questions concerning the proposed guidelines for completing self-assessments, namely the content, scope of disclosure, and frequency of review. One commenter requested further clarity on the scope of Part I of the existing policy. The final policy retains all substantive elements of the proposed revisions, except that it will adopt a two-year review period for self-assessments rather than the annual review proposed. In addition, the final policy includes one minor change to clarify that self-assessments may need to be considered in the context of the system’s rules, procedures, and other relevant materials, in order for the reader to gain a full appreciation of any risks associated with a particular system.

Content of Self-Assessments

The Board requested comment on whether the implementation guidelines in the Core Principles and the assessment methodologies accompanying the Recommendations for SSS and CCP provide sufficiently clear and useful frameworks to complete comprehensive and objective self-assessments.⁴ The Board also requested comment on whether self-ratings should be included in self-assessments. These self-ratings would indicate the extent to which a system meets a particular principle or minimum standard, and system operators would be expected to use one of the following assessment categories: observed, broadly observed, partly observed, or non-observed.

None of the comments addressed the sufficiency of the guidance, but three of the four commenters discussed the inclusion of self-ratings. One commenter explicitly supported including ratings. Another stated that systemically important systems should perform periodic self-assessments to ensure they are in compliance with the applicable principles or minimum standards. The third commenter did not explicitly disagree with the inclusion of ratings; however, it did state that in order for self-assessments to be useful it is important that they be comparable across different systems, and noted that the risk of systems assigning subjective ratings “make[s] comparison across systems difficult.” Two commenters did state that the risk that ratings would be overly subjective could be limited by the Federal Reserve’s review of self-assessments.

The Board supports the inclusion of ratings in self-assessments. Where the content of self-assessments is sufficiently detailed to support the rating assigned, we believe the inclusion of ratings can add value to the self-assessment by providing the reader with an overall indication on how well the system meets particular principles or

⁴ The assessment methodologies accompanying the Recommendations for SSS and CCP developed by CPSS and IOSCO provide some structure, referred to as “assessment criteria,” for rating a system against a particular recommendation. The Core Principles include implementation guidelines intended to assist with the interpretation of the principles by providing detailed explanations of each principle and practical examples of how they have been interpreted and implemented.

minimum standards and additional information on how the system views its risk management controls. As stated in the final policy, as part of its ongoing oversight of systemically important payments and settlement systems, the Federal Reserve will review self-assessments published by systems subject to the Board's authority. The purpose of this review is to ensure the Board's policy objectives and expectations are being met, including the expectation that self-assessments are both comprehensive and objective.⁵

The final policy establishes an expectation that a system's senior management and board of directors review and approve the self-assessment upon completion. The Board believes that the accountability of the system's senior management and board of directors for the accuracy and completeness of the assessment will encourage them to publish robust self-assessments with fully supported ratings. The Board also believes that the implementation guidelines for the Core Principles and the assessment methodologies for the Recommendations for SSS and CCP may facilitate greater consistency in the content of self assessments.

The Board is adopting the final policy with language to clarify that self-assessments may need to be considered in the context of supplementary information, such as the system's rules, procedures, organizational documents, or other relevant information, in order for the reader to gain a full appreciation of any risk exposure associated with a particular system.⁶ Self-assessments, including the ratings, are only one resource for financial system participants and other interested persons to consider when evaluating and addressing any risks associated with a particular system.

Scope of Disclosure of Self-Assessments

The Board proposed that a systemically important system make its self-assessment readily available to the public, such as by posting it on the system's public website. All four comment letters expressed support for some degree of disclosure. Three commenters support public disclosure. One commenter stated that in order for the reader to gain a comprehensive understanding of the system to support an evaluation of the system against the applicable standards the self-assessment would have to be read or interpreted against the system's rules and organizational documents. Therefore, this commenter stated that disclosure would be limited to those who have access to this supplementary documentation.

The Board agrees with the proponents of broad disclosure. Public disclosure of self-assessments will enable the Board to meet its objective of improved information availability. If a system has chosen to limit the disclosure of its rules or other documentation to members only, then the onus will be on the system operator to explain pertinent rules or procedures with enough detail to support the reader's independent analysis and understanding of how the system meets a particular principle or minimum standard.

⁵ As stated in the final policy, any review of an assessment by the Federal Reserve should not be viewed as an approval or guarantee of the accuracy of a system's self-assessment.

⁶ These materials may be publicly available or may need to be requested directly from the system.

Frequency of Review of Self-Assessments

The proposed revisions included an expectation that, in order for self-assessments to reflect correctly the system's current rules, procedures, and operations, a systemically important system should update the relevant parts of its self-assessment following material changes to the system or its environment and, at a minimum, review its self-assessment annually to ensure continued accuracy. One commenter recommended that the review period be extended to every three years.

The Board has reconsidered the time period for reviewing self-assessments and is adopting a two-year review period rather than the annual review proposed. This longer review period reduces the burden associated with an annual review while ensuring sufficiently frequent reviews to help ensure assessments remain accurate. A three-year review period may allow an unacceptable accumulation of individual "non-material" changes that could affect the accuracy and usefulness of the assessment. The Board believes that a biennial review addresses the commenter's concern while still achieving the objectives of the policy. The final policy retains the requirement that a system update the relevant parts of its self-assessment if there is a material change to the system or its environment.

Scope of Part I of the Policy

One commenter sought clarification with respect to which systems would be required, and which would be encouraged, to comply with the changes to the policy. The Board believes the existing policy describes sufficiently what types of systems are expected to comply with the Board's general policy expectations. Moreover, the Board communicates directly with systems that it has determined to be systemically important.

With regard to the scope, one commenter stated that it "shares the view of the Board that central counterparties should be within the scope of central bank oversight." While the Board is interested in central counterparties as part of its oversight function, the policy acknowledges that the Board does not have exclusive authority over all payments and settlement systems. Systems organized as central counterparties are often supervised by other federal agencies pursuant to the existing legal framework. In such circumstances, the policy states the Board will work with the other domestic and foreign financial system authorities to promote effective risk management in those systems, as appropriate.

III. Regulatory Flexibility Act Analysis

The Board has determined that the final policy statement would not have a significant economic impact on a substantial number of small entities. The policy would require payments and securities settlement systems to address material risks in their systems. The policy does not apply to smaller systems that do not raise material risks.

IV. Competitive Impact Analysis

The Board has established procedures for assessing the competitive impact of rule or policy changes that have a substantial impact on payments system participants.⁷ Under these procedures, the Board will assess whether a change would have a direct and material adverse effect on the ability of other service providers to compete effectively with the Federal Reserve in providing similar services due to differing legal powers or constraints, or due to a dominant market position of the Federal Reserve deriving from such differences. If no reasonable modifications would mitigate the adverse competitive effects, the Board will determine whether the anticipated benefits are significant enough to proceed with the change despite the adverse effects. The final policy provides that Reserve Bank systems will be treated similarly to private-sector systems and thus will have no material adverse effect on the ability of other service providers to compete effectively with the Federal Reserve Banks in providing payments and securities settlement services.

V. Paperwork Reduction Act

In accordance with the Paperwork Reduction Act of 1995 (44 U.S.C. Ch. 3506; 5 CFR 1320 Appendix A.1), the Board reviewed the policy statement under the authority delegated to the Board by the Office of Management and Budget. The Federal Reserve may not conduct or sponsor, and an organization is not required to respond to, this information collection unless it displays a currently valid OMB control number. An OMB control number will be assigned upon approval of the new information collection.

The collection of information that will be implemented by this notice is found in Part I of the Board's PSR policy. This information is required to evidence compliance with the requirements of the PSR policy. The respondents are systemically important systems, as defined in the PSR policy.

The Board expects that systemically important systems, subject to the Board's authority, to complete initial comprehensive self-assessments and thereafter, review and update self-assessments biennially or as otherwise provided in the PSR policy. The Board also expects that these self-assessments be reviewed and approved by the system's senior management and board of directors. Upon approval and in order to achieve broad disclosure, the systems should publish self-assessments on their public websites. In order to help minimize burden the Board is implementing guidelines to assist system operators in developing self-assessments consistent with the Board's expectations.

None of the commenters discussed the burden estimates for the initial reporting and disclosure requirements associated with this policy statement. The Board continues to believe that the estimated burden for the one-time initial assessment to be 310 hours per system (ranging from 200 to 400 hours). The Board estimates that

⁷ These procedures are described in the Board's policy statement "The Federal Reserve in the Payments System," as revised in March 1990 (55 FR 11648, March 29, 1990).

currently about three private-sector systems are systemically important and subject to the Board's authority; therefore, the total burden to complete the one-time initial self-assessments for systems under the Board's authority is estimated to be 930 hours.

Following the initial assessment, the Board estimates that the burden will decrease for a system to conduct a biennial review and report and disclose updates to its self-assessment. The Board continues to believe the estimated burden for the biennial reviews and updates associated with this policy to be 70 hours per system (ranging from 50 to 100 hours). The total burden for the approximately three private-sector systems under the Board's authority would be an estimated 210 hours (an average of 105 hours per system, per year). The total annual burden for this information collection is estimated to be 1,140 hours.

The Federal Reserve has a continuing interest in the public's opinions of our collections of information. At any time, comments regarding the burden estimate, or any other aspect of this collection of information, including suggestions for reducing the burden, may be sent to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, N.W., Washington, DC 20551; and to the Office of Management and Budget, Paperwork Reduction Project, Washington, DC 20503.

VI. Federal Reserve Policy on Payments System Risk

INTRODUCTION

RISKS IN PAYMENTS AND SETTLEMENT SYSTEMS

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INTRODUCTION

Payments and settlement systems are critical components of the nation's financial system. The smooth functioning of these systems is vital to the financial stability of the U.S. economy. Given the importance of these systems, the Board has developed this policy to address the risks that payments and settlement activity present to the financial system and to the Federal Reserve Banks (Reserve Banks).

In adopting this policy, the Board's objectives are to foster the safety and efficiency of payments and settlement systems. These policy objectives are consistent with (1) the Board's long-standing objectives to promote the integrity, efficiency, and accessibility of the payments mechanism; (2) industry and supervisory methods for risk management; and (3) internationally accepted risk management principles and minimum standards for systemically important payments and settlement systems.¹

Part I of this policy sets out the Board's views, and related principles and minimum standards, regarding the management of risks in payments and settlement systems, including those operated by the Reserve Banks. In setting out its views, the Board seeks to encourage payments and settlement systems, and their primary regulators, to take the principles and minimum standards in this policy into consideration in the design, operation, monitoring, and assessing of these systems. The Board also will be guided by this part, in conjunction with relevant laws and other Federal Reserve policies, when exercising its authority over certain systems or their participants, when providing payment and settlement services to systems, or when providing intraday credit to Federal Reserve account holders.

Part II of this policy governs the provision of intraday or "daylight" overdrafts in accounts at the Reserve Banks and sets out the general methods used by the Reserve Banks to control their intraday credit exposures.² Under this part, the Board expects depository institutions to manage their Federal Reserve accounts effectively and minimize their use of Federal Reserve daylight credit.³ Although some intraday credit

¹ For the Board's long-standing objectives in the payments system, see "The Federal Reserve in the Payments System," September 2001, FRRS 9-1550, available at <http://www.federalreserve.gov/paymentsystems/pricing/frpaysys.htm>.

² To assist depository institutions in implementing this part of the Board's payments system risk policy, the Federal Reserve has prepared two documents, the "Overview of the Federal Reserve's Payments System Risk Policy" and the "Guide to the Federal Reserve's Payments System Risk Policy," which are available on line at www.federalreserve.gov/paymentsystems/PSR or from any Reserve Bank. The "Overview of the Federal Reserve's Payments System Risk Policy" summarizes the Board's policy on the provision of daylight credit, including net debit caps and daylight overdraft fees. The overview is intended for use by institutions that incur only small and infrequent daylight overdrafts. The "Guide to the Federal Reserve's Payments System Risk Policy" explains in detail how these policies apply to different institutions and includes procedures for completing a self-assessment and filing a cap resolution, as well as information on other aspects of the policy.

³ The term "depository institution," as used in this policy, refers not only to institutions defined as depository institutions" in 12 U.S.C. 461(b)(1)(A), but also to U.S. branches and agencies of foreign banking organizations, Edge and agreement corporations, trust companies, and bankers' banks, unless the context indicates a different reading.

may be necessary, the Board expects that, as a result of this policy, relatively few institutions will consistently rely on intraday credit supplied by the Federal Reserve to conduct their business.

Through this policy, the Board expects financial system participants, including the Reserve Banks, to reduce and control settlement and systemic risks arising in payments and settlement systems, consistent with the smooth operation of the financial system. This policy is designed to fulfill that aim by (1) making financial system participants and system operators aware of the types of basic risks that arise in the settlement process and the Board's expectations with regard to risk management, (2) setting explicit risk management expectations for systemically important systems, and (3) establishing the policy conditions governing the provision of Federal Reserve intraday credit to account holders. The Board's adoption of this policy in no way diminishes the primary responsibilities of financial system participants generally and settlement system operators, participants, and Federal Reserve account holders more specifically, to address the risks that may arise through their operation of, or participation in, payments and settlement systems.

RISKS IN PAYMENTS AND SETTLEMENT SYSTEMS

The basic risks in payments and settlement systems are credit risk, liquidity risk, operational risk, and legal risk. In the context of this policy, these risks are defined as follows.⁴

Credit Risk. The risk that a counterparty will not settle an obligation for full value either when due, or anytime thereafter.

Liquidity Risk. The risk that a counterparty will not settle an obligation for full value when due.

Operational Risk. The risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events. This type of risk includes various physical and information security risks.

Legal Risk. The risk of loss because of the unexpected application of a law or regulation or because a contract cannot be enforced.

These risks arise between financial institutions as they settle payments and other financial transactions and must be managed by institutions, both individually and collectively.^{5,6} Multilateral payments and settlement systems, in particular, may

⁴ These definitions of credit risk, liquidity risk, and legal risk are based upon those presented in the Core Principles for Systemically Important Payment Systems (Core Principles) and the Recommendations for Securities Settlement Systems (Recommendations for SSS). The definition of operational risk is based on the Basel Committee on Banking Supervision's "Sound Practices for the Management and Supervision of Operational Risk," available at <http://www.bis.org/publ/bcbs96.htm>. Each of these definitions is largely consistent with those included in the Recommendations for Central Counterparties (Recommendations for CCP).

⁵ The term "financial institution," as used in this policy, includes a broad array of types of organizations that engage in financial activity, including depository institutions and securities dealers.

⁶ Several existing regulatory and bank supervision guidelines and policies also are directed at institutions' management of the risks posed by interbank payments and settlement activity. For example, Federal Reserve Regulation F (12 CFR 206) directs insured depository institutions to establish policies and

increase, shift, concentrate, or otherwise transform risks in unanticipated ways. These systems also may pose systemic risk to the financial system where the inability of a system participant to meet its obligations when due may cause other participants to be unable to meet their obligations when due. The failure of one or more participants to settle their payments or other financial transactions, in turn, could create credit or liquidity problems for other participants, the system operator, or depository institutions. Systemic risk might lead ultimately to a disruption in the financial system more broadly or undermine public confidence in the nation's financial infrastructure.

These risks stem, in part, from the multilateral and time-sensitive credit and liquidity interdependencies among financial institutions. These interdependencies often create complex transaction flows that, in combination with a system's design, can lead to significant demands for intraday credit, either on a regular or extraordinary basis. Some level of intraday credit is appropriate to ensure the smooth functioning of payments and settlement systems. To the extent that financial institutions or the Reserve Banks are the direct or indirect source of such intraday credit, they may face a direct risk of loss if daylight credit is not extinguished as planned. In addition, measures taken by Reserve Banks to limit their intraday credit exposures may shift some or all of the associated risks to private-sector systems.

The smooth functioning of payments and settlement systems is also critical to certain public policy objectives in the areas of monetary policy and banking supervision. The effective implementation of monetary policy, for example, depends on both the orderly settlement of open market operations and the efficient distribution of reserve balances throughout the banking system via the money market and payments system. Likewise, supervisory objectives regarding the safety and soundness of depository institutions must take into account the risks payments and settlement systems pose to depository institutions that participate directly or indirectly in, or provide settlement, custody, or credit services to, such systems.

PART I: RISK MANAGEMENT IN PAYMENTS AND SETTLEMENT SYSTEMS

This part sets out the Board's views regarding the management of risk in payments and settlement systems, including those operated by the Reserve Banks. The Board will be guided by this part, in conjunction with relevant laws and other Federal Reserve policies, when exercising its authority in (1) supervising state member banks, Edge and agreement corporations, bank holding companies, and clearinghouse arrangements, including the exercise of authority under the Bank Service Company Act, where applicable,⁷ (2) setting or reviewing the terms and conditions for the use of Federal Reserve payments and settlement services by system operators and participants, (3) developing and applying policies for the provision of intraday liquidity to Reserve Bank

procedures to avoid excessive exposures to any other depository institutions, including exposures that may be generated through the clearing and settlement of payments.

⁷ 12 U.S.C. 1861 *et seq.*

account holders, and (4) interacting with other domestic and foreign financial system authorities on payments and settlement risk management issues. The Board’s adoption of this policy is not intended to exert or create new supervisory or regulatory authority over any particular class of institutions or arrangements where the Board does not currently have such authority.

Where the Board does not have exclusive authority over systems covered by this policy, it will work with other domestic and foreign financial system authorities to promote effective risk management in payments and settlement systems, as appropriate. The Board encourages other relevant authorities to consider the principles and minimum standards embodied in this policy when evaluating the risks posed by and to payments and settlement systems and individual system participants that they oversee, supervise, or regulate. In working with other financial system authorities, the Board will be guided, as appropriate, by Responsibility D of the Core Principles, Recommendation 18 of the Recommendations for SSS, Recommendation 15 of the Recommendations for CCP, the “Principles for Cooperative Central Bank Oversight of Cross-border and Multi-currency Netting and Settlement Schemes,” and the Principles for International Cooperative Oversight (Part B) of the Committee on Payment and Settlement Systems (CPSS) report, “Central Bank Oversight of Payment and Settlement Systems.”⁸ The Board believes these international principles provide an appropriate framework for cooperating and coordinating with other authorities to address risks in domestic, cross-border, multi-currency, and, where appropriate, offshore payments and settlement systems.

A. Scope

This policy applies to public- and private-sector payments and settlement systems that expect to settle a daily aggregate gross value of U.S. dollar-denominated transactions exceeding \$5 billion on any day during the next 12 months.^{9, 10} For purposes

⁸ Payments and settlement systems within the scope of this policy may be subject to oversight or supervision by multiple public authorities, as a result of the legal framework or the system’s operating structure (e.g., multi-currency or cross-border systems). As such, the Federal Reserve, other central banks, securities regulators, or other financial system authorities may need to find practical ways to cooperate in order to discharge fully their own responsibilities. In some cases, multiple authorities may have responsibility for a multi-currency, cross-border, or other arrangement. In these situations, financial authorities need to be sensitive to the potential for duplicative or conflicting requirements, oversight gaps, or unnecessary costs and burdens imposed on the system. The “Principles for Cooperative Central Bank Oversight and Multi-currency Netting and Settlement Schemes,” published in 1990, are set out in the [“Report of the Committee on Interbank Netting Schemes of the Central Banks of the Group of Ten Countries” \(Lamfalussy Minimum Standards\)](#). The CPSS report, “Central Bank Oversight of Payment and Settlement Systems” (Oversight Report), Part B, “Principles for international cooperative oversight,” published in 2005, provides further information on the practical application of the Lamfalussy Cooperative Oversight Principles. The Lamfalussy Minimum Standards and the Oversight Report are available at <http://www.bis.org/cpss/cpsspubl.htm>.

⁹ The \$5 billion threshold was designed to apply to cash markets and may not be a useful benchmark for settlement systems, such as central counterparties, operating in derivatives markets. The appropriate financial system authorities in derivatives markets may therefore have different benchmarks and standards relevant to such systems.

¹⁰ The ‘next’ twelve-month period is determined by reference to the date a determination is being made as to whether the policy applies to a particular system. Aggregate gross value of U.S dollar-denominated

of this policy, a payments or settlement system is considered to be a multilateral arrangement (three or more participants) among financial institutions for the purposes of clearing, netting, and/or settling payments, securities, or other financial transactions among themselves or between each of them and a central party, such as a system operator or central counterparty.^{11, 12, 13} A system generally embodies one or more of the following characteristics: (1) a set of rules and procedures, common to all participants, that govern the clearing (comparison and/or netting) and settlement of payments, securities, or other financial transactions, (2) a common technical infrastructure for conducting the clearing or settlement process, and (3) a risk management or capital structure where any credit losses are ultimately borne by system participants rather than the system operator, a central counterparty or guarantor, or the system's shareholders.

These systems may be organized, located, or operated within the United States (domestic systems), outside the United States (offshore systems), or both (cross-border systems) and may involve other currencies in addition to the U.S. dollar (multi-currency systems). The policy also applies to any system based or operated in the United States that engages in the settlement of non-U.S. dollar transactions if that system would be otherwise subject to the policy.¹⁴

This policy does not apply to bilateral relationships between financial institutions and their customers, such as traditional correspondent banking, including traditional government securities clearing services. The Board believes that these relationships do not constitute "a system" for purposes of this policy and that relevant safety and soundness issues associated with these relationships are more appropriately addressed through the bank supervisory process.

transactions refers to the total dollar value of individual U.S. dollar transactions settled in the system, which also represents the sum of total U.S. dollar debits (or credits) to all participants prior to or in absence of any netting of transactions.

¹¹ A system includes all of the governance, management, legal, and operational arrangements used to effect settlement as well as the relevant parties to such arrangements, such as the system operator, system participants, and system owners.

¹² The types of systems that may fall within the scope of this policy include, but are not limited to, large-value funds transfer systems, automated clearinghouse (ACH) systems, check clearinghouses, and credit and debit card settlement systems, as well as central counterparties, clearing corporations, and central securities depositories. For purposes of this policy, the system operator manages or directs the operations of the system.

¹³ For the purposes of this policy, a "settlement system" includes a payment-versus-payment settlement system for foreign exchange transactions, a securities settlement system, and a system operating as a central counterparty. The CPSS defines "payment-versus-payment" as "...a foreign exchange settlement system which ensures that a final transfer of one currency occurs if and only if a final transfer of the other currency or currencies takes place." The CPSS and the Technical Committee of the International Organization of Securities Commissions (IOSCO) define a "securities settlement system" as the full set of institutional arrangements for confirmation, clearance, and settlement of securities trades and safekeeping of securities and a "central counterparty" as an entity that interposes itself between counterparties to contracts traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer.

¹⁴ The daily gross value threshold will be calculated on a U.S. dollar equivalent basis.

B. General Policy Expectations

The Board encourages payments and settlement systems within the scope of this policy and expects systems subject to its authority to implement a risk management framework appropriate for the risks the system poses to the system operator, system participants, and other relevant parties as well as the financial system more broadly. A risk management framework is the set of objectives, policies, arrangements, procedures, and resources that a system employs to limit and manage risk. While there are a number of ways to structure a sound risk management framework, all frameworks should

- clearly identify risks and set sound risk management objectives;
- establish sound governance arrangements;
- establish clear and appropriate rules and procedures; and,
- employ the resources necessary to achieve the system’s risk management objectives and implement effectively its rules and procedures.

In addition to establishing a risk management framework that includes these key elements, the Board expects systems subject to its authority that it determines are systemically important to meet the policy expectations set out in Section C (Core Principles, Recommendations for SSS, or Recommendations for CCP, as applicable).

Identify Risks and Set Sound Risk Management Objectives. The first element of a sound risk management framework is the clear identification of all risks that have the potential to arise in or result from the system’s settlement process and the development of clear and transparent objectives regarding the system’s tolerance for and management of such risks.

System operators should identify the forms of risk present in their system’s settlement process as well as the parties posing and bearing each risk. In particular, system operators should identify the risks posed to and borne by themselves, the system participants, and other key parties such as a system’s settlement banks, custody banks, and third-party service providers. System operators should also analyze whether risks might be imposed on other external parties and the financial system more broadly.

In addition, system operators should analyze how risk is transformed or concentrated by the settlement process. System operators should also consider the possibility that attempts to limit one type of risk could lead to an increase in another type of risk. Moreover, system operators should be aware of risks that might be unique to certain instruments, participants, or market practices. System operators should also analyze how risks are correlated among instruments or participants.¹⁵

¹⁵ Where systems have inter-relationships with or dependencies on other systems (e.g., cross-guarantees, cross-collateralization, cross-margining, common operating platforms), system operators should also analyze whether and to what extent any cross-system risks exist and who bears them.

Based upon its clear identification of risks, a system should establish its risk tolerance, including the levels of risk exposure that are acceptable to the system operator, system participants, and other relevant parties. The system operator should then set risk management objectives that clearly allocate acceptable risks among the relevant parties and set out strategies to manage this risk. Risk management objectives should be consistent with the objectives of this policy, the system's business purposes, and the type of instruments and markets for which the system clears and settles. Risk management objectives should also be communicated to and understood by both the system operator's staff and system participants.

System operators should reevaluate their risks in conjunction with any major changes in the settlement process or operations, the instruments or transactions settled, a system's rules or procedures, or the relevant legal and market environments. Systems should revisit their risk management objectives regularly to ensure that they are appropriate for the risks posed by the system, continue to be aligned with the system's purposes, remain consistent with this policy, and are being effectively adhered to by the system operator and participants.

Sound Governance Arrangements. Systems should have sound governance arrangements to implement and oversee their risk management frameworks. The responsibility for sound governance rests with a system operator's board of directors or similar body and with the system operator's senior management. Governance structures and processes should be transparent; enable the establishment of clear risk management objectives; set and enforce clear lines of responsibility and accountability for achieving these objectives; ensure that there is appropriate oversight of the risk management process; and enable the effective use of information reported by the system operator's management, internal auditors, and external auditors to monitor the performance of the risk management process.¹⁶ Individuals responsible for governance should be qualified for their positions, understand their responsibilities, and understand their system's risk management framework. Governance arrangements should also ensure that risk management information is shared in forms, and at times, that allow individuals responsible for governance to fulfill their duties effectively.

Clear and Appropriate Rules and Procedures. Systems should implement rules and procedures that are appropriate and sufficient to carry out the system's risk management objectives and that have a well-founded legal basis. Such rules and procedures should specify the respective responsibilities of the system operator, system participants, and other relevant parties. Rules and procedures should establish the key features of a system's settlement and risk management design and specify clear and transparent crisis management procedures and settlement failure procedures, if applicable.¹⁷

¹⁶ The risk management and internal audit functions should also be independent of those responsible for day-to-day functions.

¹⁷ Examples of key features that might be specified in a system's rules and procedures are controls to limit participant-based risks, such as membership criteria based on participants' financial and operational health, limits on settlement exposures, and the procedures and resources to hedge, margin, or collateralize

Employ Necessary Resources. Systems should ensure that the appropriate resources and processes are in place to allow them to achieve their risk management objectives and effectively implement their rules and procedures. In particular, the system operator's staff should have the appropriate skills, information, and tools to apply the system's rules and procedures and achieve the system's risk management objectives. System operators should also ensure that their facilities and contingency arrangements, including any information system resources, are sufficient to meet their risk management objectives.

The Board recognizes that payments and settlement systems differ widely in terms of form, function, scale, and scope of activities and that these characteristics result in differing combinations and levels of risks. Thus, the exact features of a system's risk management framework should be tailored to the risks of that system. The Board also recognizes that the specific features of a risk management framework may entail trade-offs between efficiency and risk reduction and that payments and settlement systems will need to consider these trade-offs when designing appropriate rules and procedures. In considering such trade-offs, however, it is critically important that systems take into account the costs and risks that may be imposed on all relevant parties, including parties with no direct role in the system. Furthermore, in light of rapidly evolving technologies and risk management practices, the Board encourages all systems to consider periodically making cost-effective risk-management improvements.

To determine whether a system's current or proposed risk management framework is consistent with this policy, the Board will seek to understand how a system achieves the four elements of a sound risk management framework set out above. In this context, it may be necessary for the Board to obtain information from system operators regarding their risk management framework, risk management objectives, rules and procedures, significant legal analyses, general risk analyses, analyses of the credit and liquidity effects of settlement disruptions, business continuity plans, crisis management procedures, and other relevant documentation.¹⁸ It may also be necessary for the Board to obtain data or statistics on system activity on an ad-hoc or ongoing basis. All information provided to the Federal Reserve for the purposes of this policy will be handled in accordance with all applicable Federal Reserve policies on information security, confidentiality, and conflicts of interest.

C. Systemically Important Systems

Financial stability depends, in part, on a robust and well-managed financial infrastructure. If risks are not effectively managed by systemically important systems, these systems have the potential to be a major channel for the transmission of financial shocks across systems and markets. Financial system authorities, including

settlement exposures. Other examples of key features might be business continuity requirements and loss allocation procedures.

¹⁸ To facilitate analysis of settlement disruptions, systems may need to develop the capability to simulate credit and liquidity effects on participants and on the system resulting from one or more participant defaults, or other possible sources of settlement disruption. Such simulations may need to include, if appropriate, the effects of changes in market prices, volatilities, or other factors.

central banks, have promoted sound risk management practices by developing internationally accepted guidelines to encourage the safe design and operation of payments and settlement systems, especially those considered systemically important.

In particular, the Core Principles, Recommendations for SSS, and Recommendations for CCP (the latter two collectively referred to as the CPSS-IOSCO Recommendations) set forth risk management practices for payments systems, securities settlement systems, and central counterparties, respectively.^{19,20} The Federal Reserve collaborated with participating financial system authorities in developing these principles and minimum standards. In addition, the Securities and Exchange Commission and Commodity Futures Trading Commission participated in the development of the CPSS-IOSCO Recommendations. The principles and minimum standards reflect broad input and provide a balanced view of acceptable risk management practices. The Core Principles and Recommendations for SSS are also part of the Financial Stability Forum's Compendium of Standards that have been widely recognized, supported, and endorsed by U.S. authorities as integral to strengthening the stability of the financial system. The Board believes that the implementation of the individual principles and minimum standards by systemically important systems can help promote safety and efficiency in the financial system and foster greater financial stability in domestic and global economies.

Systemically important systems that are subject to the Board's authority are expected to meet the specific risk management principles and minimum standards in this section, as appropriate, and the general expectations of Section B because of their potential to cause major disruptions in the financial system.²¹ To determine whether a system is systemically important for purposes of this policy, the Board may consider, but will not be limited to, one or more of the following factors:²²

¹⁹ The Core Principles were developed by the CPSS; references to "principles" in this policy are to the Core Principles. The Core Principles draw extensively on the previous work of the CPSS, most importantly the Lamfalussy Minimum Standards. The Core Principles extend the Lamfalussy Minimum Standards by adding several principles and broadening the coverage to include systemically important payments systems of all types, including gross settlement systems, net settlement systems, and hybrid systems, operated by either the public or private sector. The Core Principles also address the responsibilities of central banks in applying the Core Principles.

²⁰ The CPSS and IOSCO developed the CPSS-IOSCO Recommendations as minimum standards and are referred to as such in this policy. The full reports on the Core Principles and the CPSS-IOSCO Recommendations are available at <http://www.bis.org/publ/cpss43.htm>, <http://www.bis.org/publ/cpss46.htm>, and <http://www.bis.org/publ/cpss64.htm>.

²¹ Systemically important payments systems are expected to meet the principles listed in Section C.1. Securities settlement systems of systemic importance are expected to meet the minimum standards listed in Section C.2.a., and systemically important central counterparties are expected to meet the minimum standards listed in C.2.b. For a system not subject to its authority, the Board encourages the system and its appropriate financial system authority to consider these principles and minimum standards when designing, operating, monitoring, and assessing the system, as appropriate and applicable.

²² The Board will inform a system subject to its authority if it considers it systemically important and therefore expected to meet the principles or minimum standards in this policy. The Board will also inform such systems if they are expected to exceed any of the principles or minimum standards. The appropriate financial system authorities responsible for supervising or regulating central counterparties are encouraged to inform the central counterparties as to whether they are expected to meet the Recommendations for CCP.

- Whether the system has the potential to create significant liquidity disruptions or dislocations should it fail to perform or settle as expected;
- Whether the system has the potential to create large credit or liquidity exposures relative to participants' financial capacity;
- Whether the system settles a high proportion of large-value or interbank transactions;
- Whether the system settles transactions for important financial markets;²³
- Whether the system provides settlement for other systems; and,
- Whether the system is the only system or one of a very few systems for settlement of a given financial instrument.

Some systemically important systems, however, may present an especially high degree of systemic risk, by virtue of their high volume of large-value transactions or central role in the financial markets. Because all systems are expected to employ a risk management framework that is appropriate for their risks, the Board may expect these systems to exceed the principles and minimum standards set out below. Finally, the Board expects systemically important systems to demonstrate the extent to which they meet the applicable principles or minimum standards by completing self-assessments and disclosing publicly the results of their analyses in a manner consistent with the guidelines set forth in Section C.3.

1. Principles for Systemically Important Payments Systems

1. The system should have a well-founded legal basis under all relevant jurisdictions.
2. 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.
3. 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.
4. 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.

²³ Important financial markets include, but are not limited to, critical markets as defined in the "Interagency Paper on Sound Practices to Strengthen the Resilience of the U.S. Financial System" as the markets for federal funds, foreign exchange, and commercial paper; U.S. government and agency securities; and corporate debt and equity securities. 68 FR 17809 (April 11, 2003).

5. 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.
6. 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.
7. The system should ensure a high degree of security and operational reliability and should have contingency arrangements for timely completion of daily processing.
8. The system should provide a means of making payments which is practical for its users and efficient for the economy.
9. The system should have objective and publicly disclosed criteria for participation, which permit fair and open access.
10. The system's governance arrangements should be effective, accountable and transparent.

2. Minimum Standards for Systemically Important Securities Settlement Systems and Central Counterparties

The CPSS-IOSCO Recommendations apply to the full set of institutional arrangements for confirmation, clearance, and settlement of securities transactions, including those related to market convention and pre-settlement activities. As such, not all of these standards apply to all systems. Moreover, the standards applicable to a particular system also will vary based on the structure of the market and the system's design.

While the Board endorses the CPSS-IOSCO Recommendations in their entirety, its primary interest for purposes of this policy is in those recommendations related to the settlement aspects of financial transactions, including the delivery of securities or other financial instruments against payment, and related risks. The Board expects that systems engaged in the management or conduct of clearing and settling financial transactions to meet the expectations set forth in the applicable set of CPSS-IOSCO Recommendations.

a. Recommendations for Securities Settlement Systems

1. Securities settlement systems should have a well-founded, clear, and transparent legal basis in the relevant jurisdictions.
2. Confirmation of trades between direct market participants should occur as soon as possible after the trade execution, but no later than the trade date (T+0). Where confirmation of trades by indirect market participants (such as institutional

- investors) is required, it should occur as soon as possible after the trade execution, preferably on T+0, but no later than T+1.
3. Rolling settlement should be adopted in all securities markets. Final settlement should occur no later than T+3. The benefits and costs of a settlement cycle shorter than T+3 should be evaluated.
 4. The benefits and costs of a central counterparty should be evaluated. Where such a mechanism is introduced, the central counterparty should rigorously control the risks it assumes.
 5. Securities lending and borrowing (or repurchase agreements and other economically equivalent transactions) should be encouraged as a method for expediting the settlement of securities transactions. Barriers that inhibit the practice of lending securities for this purpose should be removed.
 6. Securities should be immobilized or dematerialized and transferred by book entry in central securities depository to the greatest extent possible.
 7. Central securities depositories should eliminate principal risk linking securities transfers to funds transfers in a way that achieves delivery versus payment.
 8. Final settlement should occur no later than the end of the settlement day. Intraday or real time finality should be provided where necessary to reduce risks.
 9. Central securities depositories that extend intraday credit to participants, including central securities depositories that operate net settlement systems, should institute risk controls that, at a minimum, ensure timely settlement in the event that the participant with the largest payment obligation is unable to settle. The most reliable set of controls is a combination of collateral requirements and limits.
 10. Assets used to settle the ultimate payment obligations arising from securities transaction should carry little or no credit or liquidity risk. If central bank money is not used, steps must be taken to protect central securities depository members from potential losses and liquidity pressures arising from the failure of the cash settlement agent whose assets are used for that purpose.
 11. Sources of operational risk arising in the clearing and settlement process should be identified and minimized through the development of appropriate systems, controls and procedures. Systems should be reliable and secure, and have adequate, scalable capacity. Contingency plans and backup facilities should be established to allow for the timely recovery of operations and completion of the settlement process.

12. Entities holding securities in custody should employ accounting practices and safekeeping procedures that fully protect customers' securities. It is essential that customers' securities be protected against the claims of a custodian's creditors.
13. Governance arrangements for central securities depositories and central counterparties should be designed to fulfill public interest requirement and to promote the objectives of owners and users.
14. Central securities depositories and central counterparties should have objective and publicly disclosed criteria for participation that permit fair and open access.
15. While maintaining safe and secure operations, securities settlement systems should be cost-effective in meeting the requirements of users.
16. Securities settlement systems should use or accommodate the relevant international communication procedures and standards in order to facilitate efficient settlement of cross-border transactions.
17. Central securities depositories and central counterparties should provide market participants with sufficient information for them to identify and evaluate accurately the risks and costs associated with using the central securities depository or central counterparty services.
18. Securities settlement systems should be subject to transparent and effective regulation and oversight. Central banks and securities regulators should cooperate with each other and with other relevant authorities.
19. Central securities depositories that establish links to settle cross-border trades should design and operate such links to reduce effectively the risks associated with cross-border settlement.

b. Recommendations for Central Counterparties

1. A central counterparty should have a well founded, transparent, and enforceable legal framework for each aspect of its activities in all relevant jurisdictions.
2. A central counterparty should require participants to have sufficient financial resources and robust operational capacity to meet obligations arising from participation in the central counterparty. A central counterparty should have procedures in place to monitor that participation requirements are met on an ongoing basis. A central counterparty's participation requirements should be objective, publicly disclosed, and permit fair and open access.
3. A central counterparty should measure its credit exposures to its participants at least once a day. Through margin requirements, other risk control mechanisms, or a combination of both, a central counterparty should limit its exposures to

- potential losses from defaults by its participants in normal market conditions so that the operations of the central counterparty would not be disrupted and non-defaulting participants would not be exposed to losses that they cannot anticipate or control.
4. If a central counterparty relies on margin requirements to limit its credit exposures to participants, those requirements should be sufficient to cover potential exposures in normal market conditions. The models and parameters used in setting margin requirements should be risk-based and reviewed regularly.
 5. A central counterparty should maintain sufficient financial resources to withstand, at a minimum, a default by the participant to which it has the largest exposure in extreme but plausible market conditions.
 6. A central counterparty's default procedures should be clearly stated, and they should ensure that the central counterparty can take timely action to contain losses and liquidity pressures and to continue meeting its obligations. Key aspects of the default procedures should be publicly available.
 7. A central counterparty should hold assets in a manner whereby risk of loss or of delay in its access to them is minimized. Assets invested by a central counterparty should be held in instruments with minimal credit, market, and liquidity risks.
 8. A central counterparty should identify sources of operational risk and minimize them through the development of appropriate systems, controls, and procedures. Systems should be reliable and secure, and have adequate, scalable capacity. Business continuity plans should allow for timely recovery of operations and fulfillment of a central counterparty's obligations.
 9. A central counterparty should employ money settlement arrangements that eliminate or strictly limit its settlement bank risks, that is, its credit and liquidity risks from the use of banks to effect money settlements with its participants. Funds transfers to a central counterparty should be final when effected.
 10. A central counterparty should clearly state its obligations with respect to physical deliveries. The risks from these obligations should be identified and managed.
 11. Central counterparties that establish links either cross-border or domestically to clear trades should evaluate the potential sources of risks that can arise, and ensure that the risks are managed prudently on an ongoing basis. There should be a framework for cooperation and coordination between the relevant regulators and overseers.
 12. While maintaining safe and secure operations, central counterparties should be cost-effective in meeting the requirements of participants.

13. Governance arrangements for a central counterparty should be clear and transparent to fulfill public interest requirements and to support the objectives of owners and participants. In particular, they should promote the effectiveness of a central counterparty's risk management procedures.
14. A central counterparty should provide market participants with sufficient information for them to identify and evaluate accurately the risks and costs associated with using its services.
15. A central counterparty should be subject to transparent and effective regulation and oversight. In both a domestic and an international context, central banks and securities regulators should cooperate with each other and with other relevant authorities.

3. Self-Assessments by Systemically Important Systems

Users and others outside the user community (such as prospective users or other public authorities) commonly are interested in understanding how systemically important payments and settlement systems function in order to manage their risks. At this time, different disclosure practices and requirements for payments and settlement systems have resulted in varying levels of information being disseminated to users and others. Users and other persons may find it difficult to obtain access to sufficient information to understand and assess a particular system's approach to risk management against internationally accepted principles and minimum standards. Broadening the availability of information concerning a system's risk management controls, governance, and legal framework, for example, can facilitate this understanding and analysis and also assist those interested in a system in evaluating and managing any risk exposure.²⁴

The Board believes that the implementation of the applicable principles and minimum standards by systemically important systems can foster greater financial stability in payments and settlement systems. The Board further believes that operators of systemically important systems are well positioned to assess and demonstrate the extent to which they have implemented the principles or minimum standards in this policy. Therefore, in furtherance of its policy objectives, the Board expects systemically important systems subject to its authority to complete comprehensive, objective self-assessments against the applicable principles or minimum standards in this policy and disclose publicly the results of these efforts. Adopting this self-assessment framework, however, does not preclude the Federal Reserve from independently assessing compliance of systemically important systems with relevant rules, regulations, and Federal Reserve policies.

²⁴ The Board considers self-assessments as only one resource for users and other persons to consider when evaluating any risks associated with a particular system. In order to effectively identify and manage risks, a user or other interested person may need to consider other relevant documentation such as the system's rules, operating procedures, or organizational documents. These materials may be publicly available or may need to be requested from the system directly.

The Board expects systemically important systems subject to its authority to complete self-assessments based on the following guidelines. First, systemically important systems are expected to document the basis for their self-assessment and support any conclusions regarding the extent to which they meet a particular principle or minimum standard.²⁵ System operators should use one of the following assessment categories to describe the extent to which the system meets a particular principle or minimum standard: observed, broadly observed, partly observed, or non-observed. The CPSS and CPSS-IOSCO have developed implementation guidelines and assessment methodologies that can assist system operators in structuring their self-assessments and assigning an assessment category. Accordingly, payment system operators are encouraged to consult Section 7 of the Core Principles for guidance when developing their self-assessments and in measuring the extent to which the system meets each principle.²⁶ Likewise system operators for securities settlement systems and central counterparties are encouraged to consult the assessment methodology for the relevant minimum standards for further guidance on each minimum standard and are encouraged to respond to the key questions included therein.²⁷ A system may consult the Board for assistance with respect to the principles and minimum standards and the completion of its assessment. Second, to further ensure system accountability for accuracy and completeness, the Board expects the system's senior management and board of directors to review and approve self-assessments upon completion. Third, to achieve broad disclosure, the system is expected to make its self-assessments readily available to the public, such as by posting the self-assessment on the system's public website. Finally, in order for self-assessments to reflect correctly the system's current rules, procedures, and operations, the Board expects a systemically important system to update the relevant parts of its self-assessment following material changes to the system or its environment. At a minimum, a systemically important system would be expected to review its self-assessment every two years to ensure continued accuracy.

As part of its ongoing oversight of systemically important payments and settlement systems, the Federal Reserve will review published self-assessments by systems subject to the Board's authority to ensure the Board's policy objectives and expectations are being met.²⁸ Where necessary, the Federal Reserve will provide

²⁵ While the Board expects self-assessments to be robust, it does not expect payments and settlement systems to disclose publicly sensitive information that would expose system vulnerabilities or otherwise put the system at risk (e.g., specific business continuity plans).

²⁶ The Core Principles include implementation guidelines and an implementation summary for each principle. The guidelines provide both detailed explanations of each principle and general examples of ways to interpret and implement them.

²⁷ In November 2002, CPSS-IOSCO published an Assessment Methodology for the Recommendations for SSS, which is available at <http://www.bis.org/publ/cpss51.htm>. In November 2004, CPSS-IOSCO published the CCP Recommendations and an Assessment Methodology, which are available at <http://www.bis.org/publ/cpss64.htm>. These assessment methodologies for the CPSS-IOSCO Recommendations include key questions to assist an assessor in determining to what extent a system meets a particular minimum standard.

²⁸ Any review of an assessment by the Federal Reserve should not be viewed as an approval or guarantee of the accuracy of a system's self-assessment. Furthermore, the contents of a review of a self-assessment would be subject to the Board's rules regarding disclosure of confidential supervisory information. Therefore, without the express approval of the Board, a system would not be allowed to state publicly that

feedback to these systems regarding the content of their self-assessments and their effectiveness in achieving the policy objectives discussed above.²⁹ The Board acknowledges that payments and settlement systems vary in terms of the scope of instruments they settle and markets they serve. It also recognizes that systems may operate under different legal and regulatory constraints and within particular market infrastructures or institutional frameworks. The Board will consider these factors when reviewing self-assessments and in evaluating how a systemically important system addresses a particular principle or minimum standard and complies with the policy generally. Where the Board does not have exclusive authority over a systemically important system, it will encourage appropriate domestic or foreign financial system authorities to promote self-assessments by systemically important systems as a means to achieve greater safety and efficiency in the financial system.

By order of the Board of Governors of the Federal Reserve System, January 11, 2007.

Robert deV. Frierson (signed)

Robert deV. Frierson,

Deputy Secretary of the Board

its self-assessment has been reviewed, endorsed, approved, or otherwise not objected to by the Federal Reserve.

²⁹ If the Federal Reserve materially disagrees with the content of a system's self-assessment, it will communicate its concerns to the system's senior management and possibly to its board of directors, as appropriate. The Federal Reserve may also discuss its concerns with other relevant financial system authorities, as appropriate.