REVIEW OF CPSS-IOSCO ASSESSMENT METHODOLOGIES FOR PAYMENT AND SECURITIES SETTLEMENT SYSTEMS

Activity Completion Report

August 2011

Summary of the Project

The Committee on Payment and Settlement Systems (CPSS) and the International Organization of Securities Commissions (IOSCO) initiated in February 2010 a comprehensive review of their existing standards and related assessment methodologies for financial market infrastructures (FMIs) including payment systems, securities settlement systems (SSSs), and central counterparties (CCPs). As part of this review, the World Bank (WB) was asked to facilitate a review of the assessment methodology among those experts who have assessed infrastructures against these standards over the past years.

To this end, the Bank asked the International Monetary Fund (IMF) to be closely associated with the task and assembled an ad hoc Sub-Group on Assessment Methodologies (Sub-Group), coordinated by the Payment Systems Development Group (PSDG), and composed of experienced experts who have collectively performed numerous assessments through the IMF-WB Financial Sector Assessment Program (FSAP) and other diagnostics of payment systems, SSSs, and CCPs as external assessors and overseers of national and international systems.

The Sub-Group review includes the CPSS Core Principles for Systemically Important Payment Systems (CPSIPS), the CPSS-IOSCO Recommendations for Securities Settlement Systems (RSSS) and the CPSS-IOSCO Recommendations for Central Counterparties (RCCP). The outcomes of the Sub-Group’s review of the assessment methodologies were presented to the Editorial Team and the Steering Group for the CPSS-IOSCO Review of Standards in July 2010. The “Report on Assessment Methodologies” highlights the shortcomings as well as the strengths identified and encountered in the use of each assessment methodology, which were brought to the attention of the Sub-Group by its members through ad-hoc discussions and written contributions.¹

¹This report is a follow-up of the “Note on Assessment Methodology” (the Note), which provided an initial update on the Sub-Group’s work, including the plan of action and general approach, and obtained validation with the governance of the broader standards revision exercise.
Following the guidance received by the drafting sub-group, the Editorial Team (ET) for the CPSS-IOSCO Review of Standards drafted new standards – “Principles for Financial Market Infrastructures – Consultative Report” (FMIs report). The report contains revised standards that harmonize and, in some cases, strengthen the existing international standards and recommendations for systemically important payment systems, SSSs and central securities depositories (CSDs), CCPs, and trade repositories (TRs). Along with the new standards, the report provides a framework that regulators and overseers can use in exercising their responsibilities for the safety and efficiency of FMIs, and International Financial Institutions (IFIs) such as the World Bank and the IMF can refer to in the context of formal assessment exercises.

In the light of the new principles, and based on the work of the Sub-Group, the Sub-Group was requested to investigate possible alternative approaches to the assessment methodology, and in particular to consider whether the methodology should continue to “rate” the level of compliance with each standard, or focus on the “level of urgency” of issues that need to be fixed in order for the FMI to properly meet the international standards.

In July 2011, the Sub-Group co-chairs presented to the ET a draft “Assessment Methodology for Principles for FMIs and Responsibilities for Authorities”, which provides an assessment methodology (AM) for assessing the observance of the 24 Principles and 5 Responsibilities as defined in the CPSS/IOSCO Report on Principles for Financial Market Infrastructures. The AM is intended as a reference at the international level for external assessors, in particular by the international financial institutions (IFIs), and also provides a possible model on which authorities can develop domestic AMs to assess their FMIs and self-assess the way they discharge their responsibilities as regulators, supervisors, and overseers.

The World Bank – through the Payment Systems Development Group (PSDG) – is the leading institution in payment and securities settlement system assessment and implementation worldwide. In recent years, the PSDG has led and contributed to several standard setting initiatives, such as the General Principles for International Remittances (2007), the General Guidance for National Payment Systems Development (2006), and the Core Principles for Systemically Important Payment Systems (2001), among others. The PSDG participates in the World Bank-IMF Financial Sector Assessment Program (FSAP). The World Bank will continue to play this important role in the context of the new standards.

**Strategic Objective**

The FMIs report emphasizes the need for a concerted effort to implement the Principles. While primary responsibility for implementation lies with the designers, owners, and operators of FMIs, the report stresses the need for central banks, securities regulators, and

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2 Available at www.bis.org.
other relevant national authorities to promote implementation by undertaking self-assessments of whether FMIIs in their jurisdiction have implemented the Principles and by identifying steps necessary for completing implementation where initially the Principles are not fully observed. All CPSS and IOSCO members intend to apply the updated standards to the relevant FMIIs in their jurisdictions to the fullest extent possible.

Activities

Conferences and meetings

Conference calls were regularly held to facilitate the exchange of views and opinions, and to collect comments and drafting suggestions from the Group’s members.

In person meetings were held in Miami, FL (January, 18-19 2011), Rio de Janeiro, Brazil (March 16, 2011, in the context of the World Bank/IFC Financial Infrastructure Week), and Rome, Italy -Washington DC (June 7, 2011).

The Group’s chair also participated in the meetings of the Editorial Team.

Deliverables

1. **Note on Assessment Methodologies – June 2010**

   The purpose of this Note was to provide an initial update on the activities of the Assessment Methodologies Sub-Group, and to validate with the governance of the broader standards revision exercise the Sub-Group’s scope of work, plan of action, and general approach to identifying and analyzing issues. The SG approach was to analyze and evaluate each methodology supporting the Core Principles and Recommendations, identifying issues that had arisen during their use in FSAPs and other diagnostic tools and possible commonalities and synergies across them (“overarching issues” in the Note). In particular, the Note identified a sub-set of the Core Principles and Recommendations which, as written, did not provide the clarity needed to support operationally meaningful assessments, and provided an early snapshot of the specific items that needed special attention. The Note also highlighted the positive elements of the methodologies, which were deemed worth keeping. The SG analysis took full advantage of the members’ practical experience in applying the methodologies in the field. The Note and the feedback received by the Editorial Team served as a basis for the “Report on Assessment Methodologies” (see below).


   Based on the Note (see above) and feedback from the Editorial Team, the Sub-Group formalized its review of the Assessment Methodologies in the July 2011 Report. First, the Report lists and analyzes five overarching considerations which the Group
considered a “staging post” for improving the CPSS-IOSCO assessment methodologies. These overarching considerations included: 1) clarity regarding the performance baseline; 2) balance in the use of rules-based and risk-based methodologies; 3) clarity regarding the needs of the different users of the assessment methodologies; 4) clarity about the scope of assessments including system interdependencies; and 5) evaluation of methodology scoring. In its focus on overarching considerations and more general issues, the Report also used specific examples taken from the members’ field experience to illustrate specific potential revisions and technical refinements to the methodologies. Finally, while an evaluation of the Core Principles and Recommendations was not within the scope of Sub-Group’s work, at the same time the Report identified a handful of standards which posed challenges in terms of developing and then applying methodologies, because the intent of the standards and their implied practical results were not clearly evident. Such principles were “flagged” for those reviewing the standards.