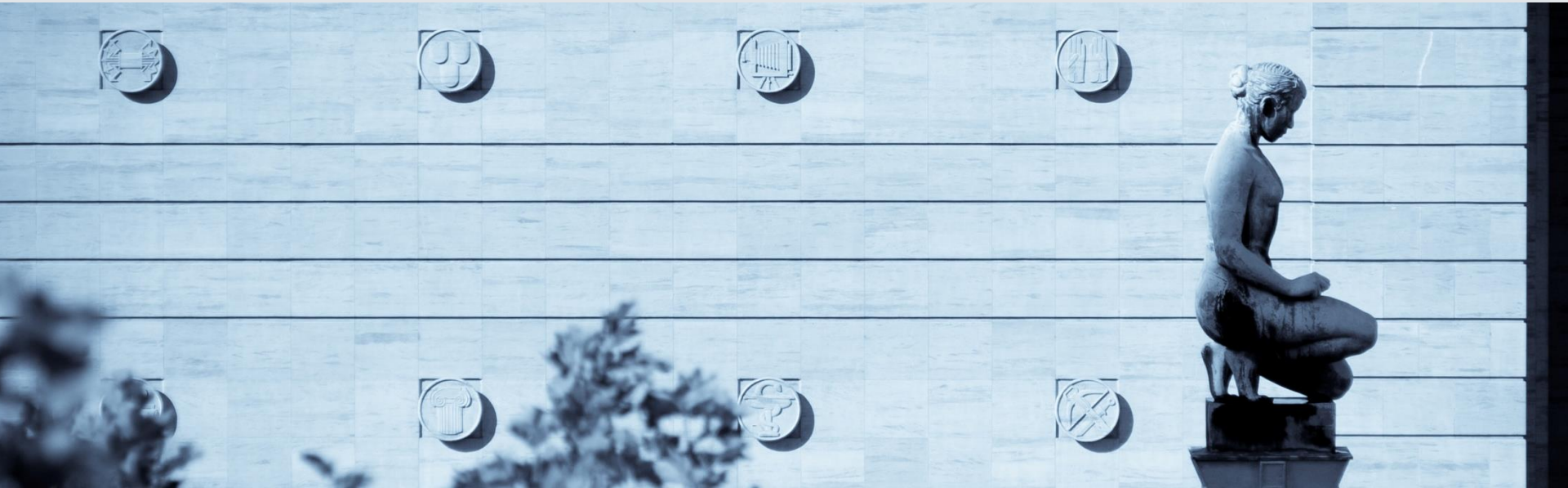


Recent trends in central bank oversight and non-banks prudential supervision

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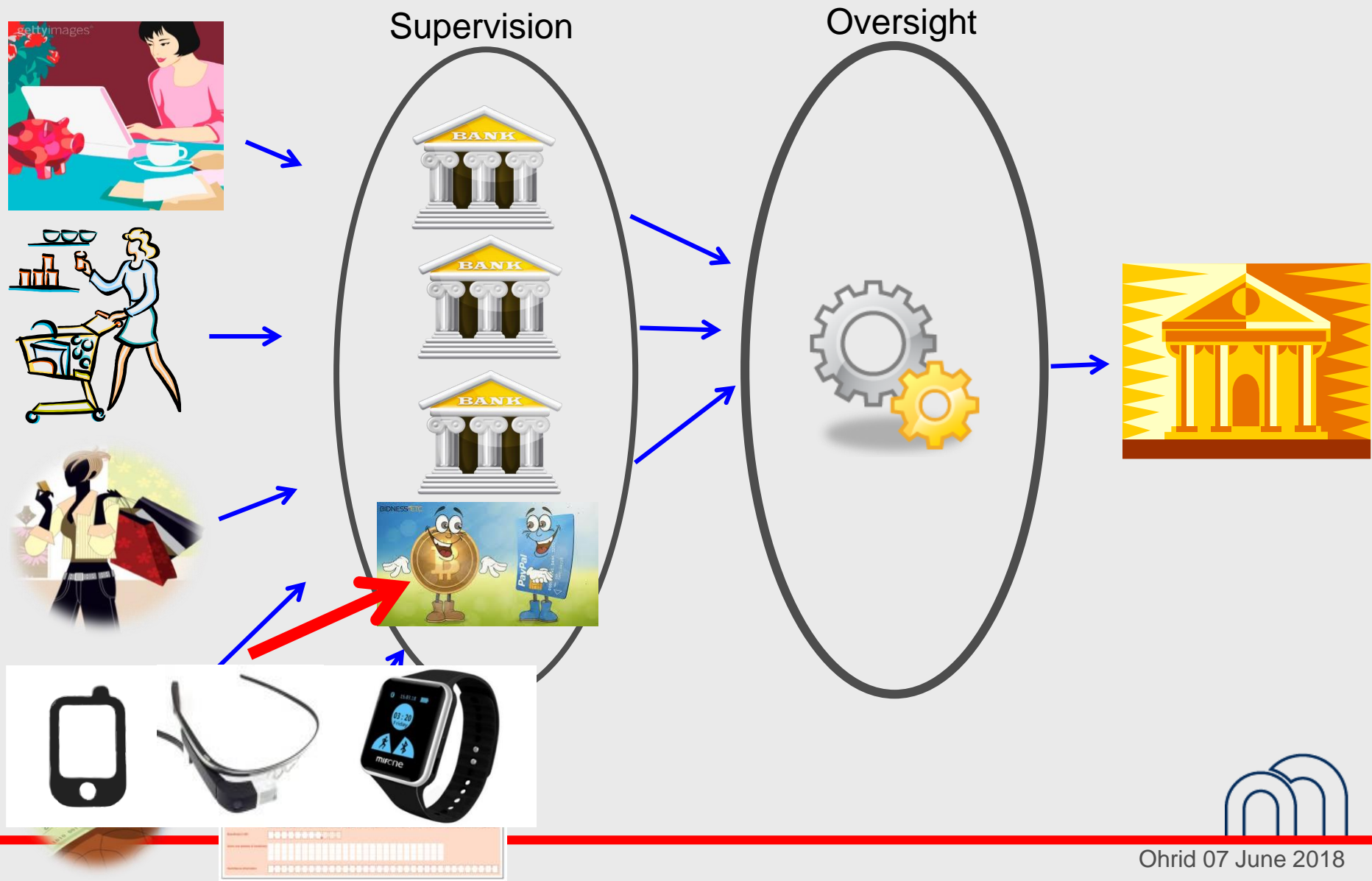
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Agenda

- ▶ Oversight versus Prudential supervision
- ▶ Roles of Central banks
- ▶ Oversight trends
 - Cooperation Oversight-Prudential Supervision
- ▶ Future oversight challenges



Prudential Supervision versus Oversight



Comparison Supervision - Oversight

▶ Prudential supervision

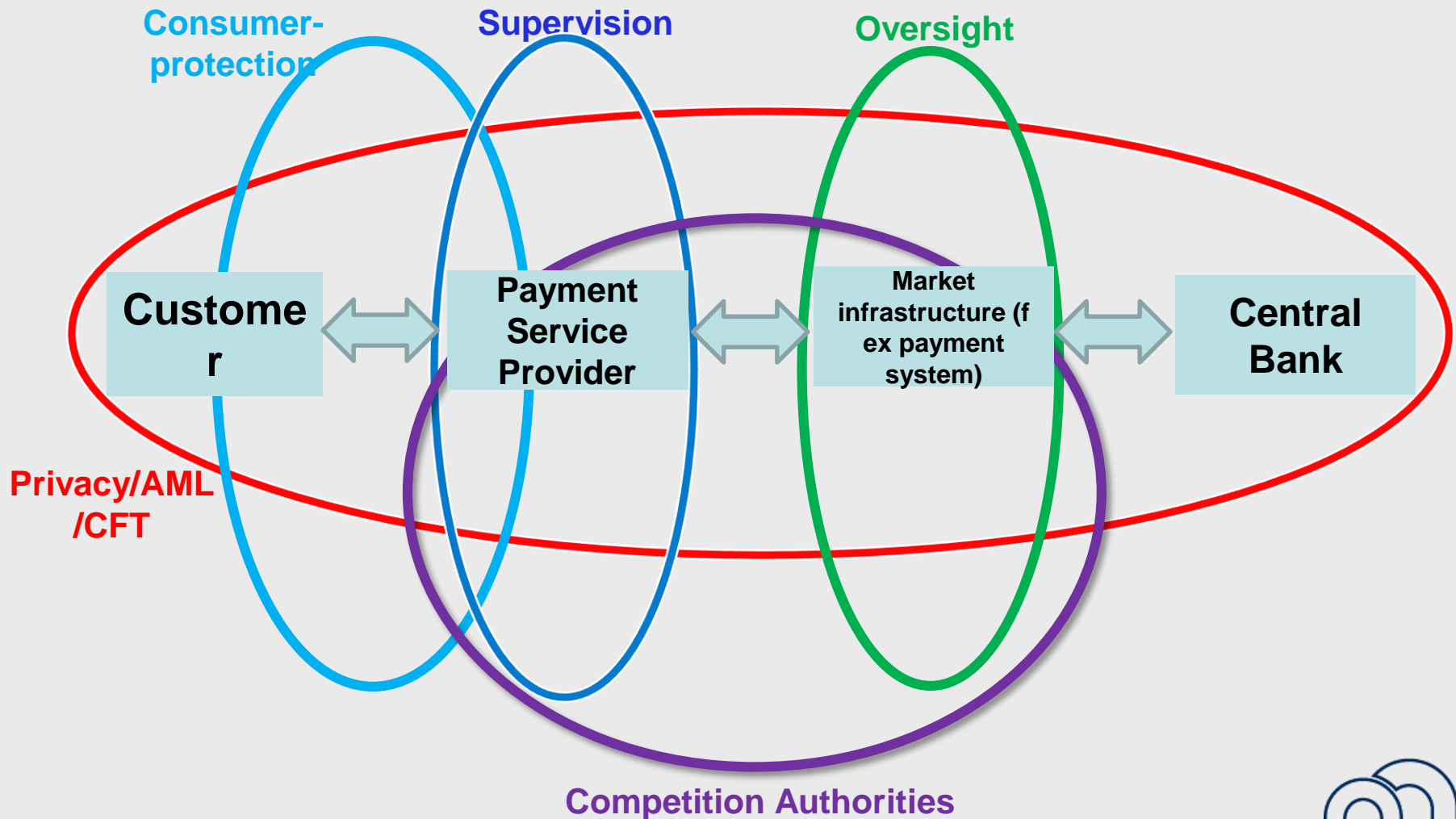
- looks at institutions individually & macro-level
- prudent management /risk control/solvency
- extensive regulatory control
- entails detailed examination of individual institutions
- carried out by a central bank or dedicated authority

▶ Oversight

- looks at systems (and instruments and schemes)
- smooth functioning of systems
- mainly of moral suasion on the basis of principles
- entails examination of design of and operation of systems
- carried out by central bank



Roles of Various Public Authorities



Potential roles for a central bank

- ▶ **Overseer** of Financial Market Infrastructures (FMI)
- ▶ **Operator** of payment systems & securities settlement systems
 - User/participant
 - Liquidity/credit provider (intraday, overnight)
- ▶ **Policy** maker
 - Catalyst for change, f.e.
 - The introduction and implementation of SEPA was guided and monitored by Eurosystem/ECB
 - Active role of ECB/Eurosystem in facilitating instant payments
- ▶ Prudential supervisor. What has changed since PSD 1 & 2?
 - Scope enlarged from credit institutions to PSP's (PSD1)
 - New services connecting non-banks with banks (PSD2)
 - New services connecting non-banks to banks' FMI's (PSD2)



Oversight of Payments

- ▶ Oversight of payment systems
 - ▶ Oversight of card payment schemes
 - ▶ Oversight of payment transaction processors
 - ▶ Oversight of other payment instruments
-
- ▶ The borderline between those entities & concepts will become more and more blurred due to technical complexity (technological integration)
 - F. ex. The visibility of (embedded) payments.



Role of central banks

	Systems	CPS	Operators PSP	Instruments
Operator	X			
Overseer	X	x	x	x
Policy maker	X	x		x
Prudential supervisor			x	

- ▶ An appropriate oversight/prudential framework for each table entry?
- ▶ Some market players may be put under several regimes
- ▶ Organisation within the central bank



Future Eurosystem work for oversight

- ▶ Streamline, harmonise, merge oversight frameworks
- ▶ Align further PFMI principles with oversight frameworks
- ▶ Update assessment guides and expectations according to new evolutions in the market
- ▶ Ensure consistency with prudential regulatory frameworks and practices



Oversight trends

- ▶ Shift from moral suasion towards law based oversight due to globalisation of activities of systems, schemes, PSP's, service providers
 - SIPS Regulation
 - Netherlands: law on clearing & settlement entities
 - Belgium: law on Oversight of Payment Processors
 - France: specific oversight requirements for card payments
 - EMSSO objectives have become obsolete due to prudential framework for electronic money
- ▶ Future challenges.
 - ▶ How to address global players with activities in a jurisdiction without any presence in that jurisdiction
 - ▶ How to address solutions based on the DLT/Blockchain technology



Cooperation oversight and prudential supervision

- ▶ Securepay: Forum on the Security of Retail Payments
 - Cooperation between ECB/ESCB and EBA
 - Developed the Regulatory Technical Standards (EBA/RTS) for Strong Customer Authentication and Common (SCA) and Common and Secure Communication (CSC) for level2 of PSD2
- ▶ Incident reporting
 - Oversight: Setting up an incident reporting mechanism for payment systems/schemes
 - Setting up of an incident reporting mechanism for payment service providers (PSD2)
 - The frameworks are being streamlined



Cooperation oversight and prudential supervision

▶ Fraud reporting

- Oversight: Review of the Payment statistics regulation
- EBA Guidelines (GL) on fraud statistics (linked with RTS/SCA) setting up a collection of fraud statistics for payment service providers (PSD2)
- The frameworks are being streamlined



Future challenges for oversight and prudential supervision

- ▶ Access of non-banks in payment systems
 - Non-banks accessing ASPSP's payment account may also want to access payment systems
 - Review SFD?
- ▶ Instant/fast payment schemes
 - Credit risk
 - Liquidity risk
 - Operational risks (fraud risk)
- ▶ Interchange Fee Regulation (IFR)
 - Article 7 on Unbundling of payment card scheme functionality with the operational unit function
 - Unbundling on the level of Decision making, accounting and organisation



Future challenges for oversight and prudential supervision

- ▶ Virtual Currencies/Crypto assets: oversee and/or regulate?
 - Complexity to oversee & regulate due to its decentralized cross border set-up without an accountable governance arrangement
 - 5AMLD will bring VC exchanges and wallet providers within the scope of the EU anti-money laundering legislation
 - Only a limited number of financial institutions that engage in VC activities. More and more “private” DLT solutions.
 - What do regulators do?
 - LU: two platforms (Bitstamp and bitFlye) have received an authorisation as payment institutions (PI) from CSSF
 - UK FCA indicated that a few other authorised firms use VCs as an ‘intermediate’ currency to facilitate international money remittance, as a ‘payments rail’ (i.e., as a channel for fast and cost-effective transfer of national currencies).



Future challenges for oversight and prudential supervision

▶ Cyber Security

- Crucial for payment systems/operators and PSP's
- BIS (CPMI-IOSCO) guidance on cyber resilience for Financial Market Infrastructures (issued in June 2016)
- Eurosystem building and establishing a resilience strategy
 - Surveys
 - CROE Cyber Resilience Oversight Expectations
 - TIBER-EU (European red team testing framework)

▶ Cloud computing

- ▶ Entails major operational risks for payment systems/operators and PSP's
- ▶ How far shall we go bearing in mind an even level playing field
- ▶ EBA establishing guidelines



Key challenges

- ▶ Streamline existing oversight frameworks to cope with market evolutions
- ▶ Monitor and assess Instant payments schemes
- ▶ Monitor Virtual Currencies/Crypto-assets and, if need be, regulate
- ▶ Adopt standards and monitor cyber security and cloud computing
- ▶ Strong cooperation is needed with other international regulators and standard setters (EC, ESA's, WB, IMF, BIS)

