

Note



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CPSS - IOSCO CONSULTATIVE REPORT "RECOVERY AND RESOLUTION FOR FINANCIAL MARKET INFRASTRUCTURES"

The Payments Council is pleased to respond to the above CPSS/IOSCO paper as follows. The Payments Council is the organisation that sets strategy for UK payments. We are the body with responsibility for ensuring that payment services work in the UK. This unique role ensures that we listen to a wide range of stakeholders to drive innovation in payments and implement change so that access to payments meet current and future needs

The Payments Council has three core objectives:

- to have a strategic vision for payments and lead the future development of co-operative payment services in the UK;
- to ensure payment systems are open, accountable and transparent; and
- to ensure the operational efficiency, effectiveness and integrity of payment services in the UK.

The Payments Council works closely with its contracted schemes, for the benefit of the UK payments industry and the users of those services. These include:

- Bacs Payment Schemes Limited
- CHAPS Clearing Company
- Faster Payments Scheme
- LINK Scheme
- Cheque & Credit Clearing Company Limited, and
- Belfast Bankers' Clearing Company Limited.



Response

The paper is similar in intention, although not in structure, to HMT's paper "Financial Sector Resolution: broadening the regime". It is clearly aimed at the UK's payments systems (Bacs, CHAPS, Cheque & Credit (C&CCC), Faster Payments (FPS), LINK and The Belfast Bankers Clearing Co (BBCCL)) as well as a number of other Financial Market Infrastructures. This response deals solely with the payments piece.

CHAPS is an electronic real time high value system; Bacs, FPS and LINK are electronic deferred net settlement (DNS) and C&CCC and BBCCL are the only paper-based systems. All the systems except BBCCL are made up of three main separate but interlinked parts: schemes which set the rules of engagement of the members; infrastructure companies which pass payment messages between payers and receivers and which in the case of Bacs, FPS and LINK is VocaLink; and settlement service provider which is the Bank of England for all except BBCCL. In fact BBCCL, although of major regional significance, is not recognised as systemically important and is not included further in this response. None of the payments schemes takes on credit risk, although, with the exception of CHAPS for whom the application does not apply, they do have in place arrangements to manage the risk of settlement not taking place using funds provided by surviving members.

We know the Bank of England, as overseer of the UK's recognised payments systems, is setting Expectations on the scheme companies of the schemes for which it considers there is systemic risk (CHAPS, Bacs and FPS) to analyse thoroughly the circumstances which could lead to their own demise, and to manage their third party contracts on the same lines. It is possible that schemes may put in their own response to this paper separately. The Bank has regular engagement with the other schemes to gain assurance on the same points. We are also aware that C&CCC will adopt the CPSS/IOSCO Principles and that LINK's governing body has already mandated adoption of the Principles recognising them as best practice.

The CPSS/IOSCO paper speaks of the need for FMIs to undertake recovery and resolution risk assessments. The settlement service provider, being the Bank of England, is regarded as undoubted and is outside the scope of this response. Payments Council considers that the risks of a scheme failing are small. Most are very small value companies, limited by guarantee and owned by their members. LINK is an unincorporated members association. They do not have large-value assets or intellectual property although there is an Expectation raised that they each build up a small operating reserve. Any external threat to funds transfers would need the involvement of either the infrastructure company or a bank



member. In any event it would not be difficult to manage the transition to a new scheme company in a short timescale, with new capital found by the existing shareholders.

But there are two areas of vulnerability:

1. Relations with infrastructure companies. CHAPS uses SWIFT, which is so fundamental to the financial life of the whole world that if any part of SWIFT failed the impact would be felt across large parts of the global financial industry. So the risk to CHAPS would be caught up in the risks to any of the other global systems that use SWIFT. Bacs, FPS and LINK use VocaLink where there is a discernible but very small chance of failure due to issues such as fraud, legal action or computer malfunction. VocaLink is not officially overseen by any authority, but there is protection via the schemes. In the case of the systemic scheme companies, each has an Expectation that they will manage their third party contracts robustly, with adequate powers to mitigate the risks. Bacs and FPS have various rights, in some cases step-in rights, that entitle them to manage aspects of VocaLink's systems. In the case of LINK, there is a formal oversight role through the LINK constitution and contract with VocaLink. LINK also uses VocaLink for the provision of shared services including staff payroll, IT and some premises.
2. Relations with the Payments Council. The schemes are contracted to the Payments Council and, in return, most have their staff employed by UK Payments Administration (the administration company for the Payments Council) and receive some or all of their services from UK Payments Administration. If therefore anything were to happen to UK Payments, the scheme companies' staff would have to be re-employed quickly. None of this is impossible but it needs to be managed seamlessly and with adequate transitional service agreements etc in place.

We believe that the Bank of England are encouraging certain of the schemes to develop plans to ensure no disorderly disruption to essential services This includes responding to the Principle that an FMI should ensure an orderly wind-down of critical operations and services. Because we consider that the failure of a scheme company is remote and if it happened would be easily remedied, and because we consider that the failure of an infrastructure is remote but possibly less easily remedied, we are of the view that, at any rate for the DNS schemes covered by this response, a good route would be to take advantage of the option to transfer to a bridge institution, pending the onward transfer later to another private sector operation. It may be that some schemes may develop additional mitigation plans. Despite the fact that we consider the risk of failure of CHAPS to be remote we are of the view that an appropriate resolution regime with specific legal backing could, in



the end, be a helpful development for that scheme. It has the advantage that it would be covered by specific legislation. Whichever route is chosen, however, the important thing is to achieve a result in which the flow of payments is unbroken. We believe that that result can be achieved with very little change to the current arrangements.

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