The comments on the Consultative Report of Principles for FMIs

1. Responsibilities of central banks B and C from existing Core principles for systemically important payment systems require that the central bank should ensure its systems' compliance with the Core Principles, and should oversee compliance of other systems operated by private companies. Responsibilities of central banks, market regulators, and other relevant authorities for financial market infrastructures from proposed Principles for FMIs declares that FMIs should be subject to supervision and oversight by a central bank, market regulator, or other relevant authority (Responsibility A), and the latter authorities should adopt, where relevant, internationally accepted principles for FMIs and apply them consistently (Responsibility D).

   It should be noted that the proposed principles substitute existing similar principles mentioned above to some extend, however, *though Principle D, item 2 says that authorities should ensure that these principles, at a minimum, are applied to all systemically important payment systems, CSDs, SSSs, CCPs, and TRs,* they don't define which of systems are subject to compliance with the Principles, especially the expression 'where relevant' doesn't allow to exactly specify, when and where these principles should be and will be applied by central banks.

   Moreover, it's not clear whether these principles should be applied to prominently important payment systems, if yes, then on which scale.

   Briefly, a/ there is no exact formulation of requirements regarding central bank's responsibilities to compulsorily apply the Principles to own systems, and oversee the systems operated by other entities, and only being *systemically important payment systems ensures that these principles will be applied to them,*

   b/ there is no exact position when and where central bank should apply the Principles and on which scale it's supposed to be done.

   c/ Principles C and A are similar, and therefore they might be combined together.

2. *Principle 3: Framework for the comprehensive management of risks says that an* FMI should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks. And Principles 4,5, and 7 separately say that an FMI should effectively measure, monitor, and manage its credit, liquidity, market risks.

   It seems that there is no need in existence of the Principle 3 when three separate and more detailed principles have precisely been formulated, and vice versa, if exists the principle 3, then there is no need in detailed description of risks in Principles 4,5, and 7, i.e. there is a surplus reiteration.

   In any case, it is better to go into details (principles 4,5, and 7) in comparison with more compact version (Principle 3).

   Please take note that I am familiar with the item 1.19 ***Scope of the principles for FMIs,*** *which says that* ***'****Some principles build upon others and some complement each other****'.***

3. ***Principle 7: liquidity risk***
   The liquidity risk principle requires an FMI to maintain sufficient liquid resources to effect same-day and, where appropriate, intraday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, ***but not be limited to,*** the default of [one/two] participant[s] and [its/their]

affiliates that would generate the largest aggregate liquidity need in extreme but plausible market conditions.

With respect to the establishment of a minimum liquidity requirement that (1) all such FMIs should include in their stress scenarios the inability of the one participant and its affiliates with the largest aggregate payment obligation to settle that obligation (that is, a "cover one" minimum requirement); (2) all such FMIs should include in their stress scenarios the inability of the two participants and their affiliates with the largest aggregate payment obligations to settle those obligations (that is, a "cover two" minimum requirement); or (3) such an FMI should be subject to either the "cover one" or the "cover two" minimum requirement, depending on the particular risk and other characteristics of the payment obligations it settles, ***it seems that introduction of the expressions "cover one" or the "cover two" don't specify the way out of a situation because those 'one' or 'two' are relative in sense of quantity, in other words, the proposed minimum requirement of the "cover one" or the "cover two" is possible to be insufficient for settlement of all obligations within system.***

Moreover, the Principle formulation includes the expression '…but not be limited to…', which, to my mind, excludes the necessity of the further determination of *the "cover one" or the "cover two".*

It's suggested that it would be rational to simply specify that ***'The liquidity risk principle requires an FMI to maintain sufficient liquid resources to effect same-day and, where appropriate, intraday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should ensure the necessary liquidity availability'.***

4. ***Principle 4: Credit risk***

   The point of view or method of approaching concerning the "cover one" or the "cover two" minimum requirements is the same.

5. Although it's noted that the consultative report does not contain an assessment methodology and this, along with the associated requirements with respect to the self assessments and key questions, will accompany the final report, when published, the more essential point is an assessment process to be realized, because possibility of application of some principles without distinct and explicit assessment methodology provokes additional questions and clarification. ***The question what is the assessment methodology is the considerably significant as the Consultative report of Principles for FMIs itself.***