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The Banco de España and the Oversight of Payment Systems

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Abstract

One of the functions assigned to the Banco de España (hereafter “the Bank”) is to promote the smooth functioning of the payment systems. The oversight of payment systems is a basic tool for performing this task.

Given the significant reorganisation of the Spanish Payment Systems, it has been considered appropriate to make the public aware of the Bank’s functions and responsibilities in the field of payment systems oversight, even though the systems will not change substantially

This paper focuses on the legal mandate that assigns to the Bank responsibility for payment system systems oversight in Spain and it also details the objectives, scope of application and instruments available to the Bank to perform this task.

This paper was approved by the Executive Commission of the Bank at its session on 14 January 2005. Through its publication, the Bank intends to make its oversight task more explicit and to give the utmost transparency to the implementation of one of its basic functions.

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Introduction

Payment systems¹ are basic to economic and financial activity both at a national and international level. Their orderly functioning is crucial since most transactions of an economy are settled through them. They are also a key infrastructure for monetary policy, the implementation of which requires the efficient processing and settlement of operations. Finally, payment systems are necessary for the sound functioning of financial markets. Financial stability mostly depends on the capacity and effectiveness of payment systems to control the systemic risk that might affect credit institutions. This risk materialises when the failure of one participant to fulfil its obligations in a payment system causes the failure of others, generating a chain that can ultimately collapse the settlement of transactions. Such a series of events may be exacerbated if there is a high degree of interrelation between different payment systems and countries, which would cause the swift spread of any potential failure.

The Spanish financial system has developed enormously in recent last years due to the internationalisation of our economy and to Spain's integration into the European Union. An example of this development is the sizable increase, both in volume and value, of the operations deriving from financial markets and fund transfers among credit institutions worldwide. As indicated, the correct functioning of these types of transactions and of the financial system as a whole depends on the existence of efficient and safe payment systems. This explains the concerns of the Banco de España and other central banks and international organisations for the oversight of their sound functioning and the implementation of measures aimed at ensuring the aforementioned objectives. Furthermore, safeguarding the security of the different payment instruments strengthens public confidence in them and, ultimately, increases the soundness of and confidence in the currency.

Due to the Bank's high level of involvement in the management of certain payment procedures (see Box 1), the oversight of our payment systems has traditionally been an additional aspect of the different activities performed by the Bank in relation to these systems. However, on the occasion of the reform of the Spanish payment systems (analysed elsewhere in this paper), which entails a transfer of tasks to the participant credit institutions, the Bank has decided to make its oversight task more explicit.

BOX 1

Spanish Payment Systems. **Starting situation (December 2004)**

Until December 2004, three payment systems coexisted in Spain, two for large value payments and one for retail payments.

- The Banco de España Settlement System (SLBE) is a large value payment system in euro with real-time gross settlement, meaning that both national and cross-border operations are

¹ The Bank for International Settlement of Basel (BIS) defines a payment system as a set of instruments, procedures and rules for fund transfers among participants operating on it.

settled one by one as they are received in the Bank's computer. It is the Spanish component of the European TARGET² system and is the property of the Bank, which designs, manages, regulates and oversees it. This system settles a wide range of operations, including the settlement of other payment systems.

- The Spanish Interbank Payments Service (SEPI), which ceased functioning in December 2004, was a multilateral clearing system for national and cross-border large value payments in euro. The operations were settled by their net balance at the end of the day in the accounts that the participants hold at the Bank. The system was owned by its participants who, through the public limited company Interbank Payments Service, were in charge of its management and of drafting its regulations. It commenced operating in 1997 under the supervision of the Bank, which approved its rules.
- The National Electronic Clearing System (SNCE) is the interbank clearing and settlement system for retail payments. Although it is equipped with its own structure, the SNCE - supported by an Advisory Commission of the credit institutions- is managed by the Bank, which issues the circulars that regulate it and is in charge of its oversight. The SNCE clears and settles the bilateral operations through six sub-systems: i) current-account cheques and promissory notes; ii) credit transfers; iii) petrol and traveller's cheques; iv) direct debits; v) bills of exchange; and vi) reimbursements of interbank accounts and sundry operations. It works by means of a bilateral electronic interchange of payment information, without any physical exchange of documents (cheques, promissory notes...) in almost every operation. The final positions are settled in the participants' accounts at the Bank.

In parallel, the current trend in the euro area payment systems is characterised by a range of very significant changes whose origins can be found in a generalised increase in competition among institutions and financial markets and in the initiatives of political institutions (the European Commission), monetary authorities (European Central Bank and national central banks) and also credit institutions.

The Spanish payment systems are currently involved in the above-mentioned process of reform, which was agreed by consensus with the credit institutions, and which will lead to a significant reconstruction of these systems (see Box 2). The State budget law for 2005, published in the Spanish Official State Gazette of 28 December 2004, incorporates all the legal amendments needed for this reorganisation. At the same time, some improvements are being made to reduce risks in different payment procedures, to raise their efficiency and to increase the users' participation in their configuration.

² TARGET (Trans-European Automated Real-Time Gross Settlement Express Transfer) is the interbank payment system in euros managed by the European System of Central Banks. It is a decentralised real-time gross settlement system. The system is formed by the fifteen real time gross settlement payment systems of the member states of the European Union as of the date of its coming on stream (January 1999) plus the payment mechanism of the European Central Bank. In order to satisfy cross-border payments, these systems are connected through the Interlinking network.

BOX 2

Spanish Payment Systems Reform

The main reforms of the Spanish payment systems in 2004 were as follows:

- Closure of the Spanish Interbank Payments Service (SEPI). Since December 2004, there are only two systems: one for large value payments (SLBE) and another for retail payments (SNCE). The operations that were processed through the SEPI are routed to the other systems depending on their typology and their amount. They are either processed through the SLBE (arbitrations between residents, securities operations, interbank operations of non-residents and non-resident client operations in excess of 50,000€) or through the SNCE (non-resident client operations under 50,000€, although this type of operation can also be processed through the SLBE on a voluntary basis).
- Reduction of the settlement risk of the Spanish payment system with the settlement through the SLBE of some operations that are currently being processed through the SNCE (credit transfers and cheques over 50,000€ and the resulting balances from payment cards operations).
- Improved efficiency in the processing of credit transfers, through the definition of a new model based on the entry of these payments exclusively based on the account code (CCC or IBAN) that appears in the transfer order. This will allow the entry of this type of orders in a fully automated way, resulting in a better service to clients and the greater efficiency of the system. Complementarily, a convention for the treatment of transfers in euros in Spain will be drawn up, differentiating between normal and urgent operations.
- The necessary legal amendments for the adaptation of the corporate structure of the SPI have been made. This limited company, created by Law 41/1999 for the management of the SEPI, will assume the activities related to the SNCE that are currently performed at the Bank, the Centre for Interbank Co-operation and SPI, S.A. itself. The new company will have an Advisory Technical Committee that will, with the help of specialised working groups, lay down the regulations of the System, which will have to be authorised by the Bank. In this respect, users will be in charge of the definition and management of the system, reserving the oversight function to the Bank.

Further to this reform, the Spanish payment systems will be structured around two major blocks that will have to undergo important functional and organisational changes. On one hand, the SLBE will be the system in charge of processing large value payments. Its management, in line with the trends observed in Europe, will continue to be under the responsibility of the Bank. The SLBE will process a higher number of operations and will offer a better service level, with smaller operating costs, which will allow a reduction in the fees -decided by the Bank in December 2004- charged to users. On the other, the SNCE will be the system for the processing of retail payments and its management is left to the participants. The drawing of large value payments from the SNCE for

processing through the SLBE, along with the introduction of improvements in the processes for the automatic treatment of transfer orders, will provide for the reduction of settlement risk in the formalisation of small-value operations.

Given the significant reorganisation and although the responsibilities of the Bank in the field of payment systems oversight does not change substantially by the reforms briefly described here, it has been considered appropriate to publicise the functions and responsibilities of the Bank as the institution overseeing this activity. This will allow a greater diffusion, to both participants in the systems and the general public, of oversight objectives, the means of achieving them and the results of this activity, which is considered essential for a central bank.

The following sections address the legal mandate of the Bank to implement this function, the existing international standards, oversight objectives, their scope and the instruments available to the Bank for their implementation.

Legal Framework

Payment systems oversight is the responsibility of the Bank by legal imperative. Specifically, article 7 of Law 13/1994 of 1 June 1994 on the Autonomy of the Banco de España establishes as one of the Bank's functions "to promote the smooth functioning of the payment system". Article 16 provides the Bank with the capacity to regulate them. This article has been amended (see Box 3) in the State budget law for 2005 (Law 2/2004), in order to clearly establish that clearing and payment systems oversight is the responsibility of the central bank, authorising it to obtain whatsoever relevant information it considers necessary to assess the efficiency and safety of payment systems and instruments. Moreover, this amendment authorises the Bank to implement or complete the legal acts dictated by the European Central Bank and to incorporate the opportune recommendations of the international organisations involved in the fields of the security and efficiency of instruments and payment systems.

BOX 3

Law 13/1994 of 1 June 1994 on the Autonomy of the Banco de España (amended by Law 2/2004 of 27 December 2004)

Article 16. Payment Systems

1. To promote the sound functioning of payment systems, and in the exercise of its functions as a member of the European System of Central Banks, the Banco de España shall, by means of a Circular, regulate payment clearing and settlement systems. In particular, it may implement or complement the legal acts prescribed by the European Central Bank and include the recommendations of international bodies that constitute principles applicable to the security and efficiency of payment systems and instruments. Where appropriate, it may also manage the related payment clearing and settlement systems.

2. The Banco de España shall oversee the functioning of clearing and payment systems. To that end, it may seek to obtain whatsoever information and documents it deems necessary to assess the efficiency and security of payment systems and instruments both from the payment-system managing entity and from the suppliers of payment services, including those entities providing technological services for such systems and services.
3. Failure to comply with the rules laid down by the Banco de España in point 1 of this article and with the reporting obligation in point 2 of this article, by the entities referred to in said point 2, once the period determined by the Banco de España to amend this situation has elapsed, will constitute an infringement for the purposes of the provisions of article 5.f), of article 4.i), if the failure to report information hampers assessment of the risks inherent in payment systems and instruments, and of article 5.i), respectively, of Law 26/1988 of 28 July 1988 on the Discipline and Intervention of Credit institutions. The references in the aforementioned Law to credit institutions shall be understood to be to the institutions referred to in point 2 of this article.
4. For reasons of prudence, the may suspend application of the decisions adopted by a payment-system managing entity and take the steps it deems appropriate if it considers that such decisions violate the rules in force or are detrimental to the proper development of clearing and settlement processes.

Article 3 of Law 41/1999 of 12 November 1999 on payment and securities settlement systems, known as the Settlement Finality Law³, provided for the "recognition" of a payment system, as to the effects of the aforementioned Law, further to the approval by the Bank of its "general adhesion and functioning rules", designating the issuer Bank as the oversight authority of these systems.

Like the Law of Autonomy of the Banco de España, the Settlement Finality Law has also been amended by the State budget law for 2005. In the new wording of the legislation, the management of the National Electronic Clearing System is assumed by a private company (Spanish Payment Systems Company, S.A.), the former SPI, S.A. Oversight of the system will be performed by the Bank, which will authorise the operational rules prepared by the company's governing bodies. In addition, the system is one of the Spanish payment systems designated under the Law and a provision is included on the finality of the orders processed through the SNCE.

The responsibility of the Bank in payment systems oversight is reinforced by its participation in the European System of Central Banks (ESCB). Thus, as a member of the ESCB, the Bank adheres to the general guidelines of the ECB⁴, whereby the decisions taken by the European bodies in the field of payment systems oversight are applied at the national level.

³ The purpose of this Law is to incorporate Directive 98/26/CE, of the European Parliament and the Council, of 19 May, on the settlement finality of payments and securities settlement systems into the Spanish legal system.

⁴ In 1998 the Law on Autonomy of the Banco de España (Law 12/98 of 28 April 1998) was amended in order to specifically express that "The Bank is an integral part of the European System of Central Banks and shall be subject to the provisions of the Treaty of the European Community and to the Statutes of the ESCB", and that "In the exercise of the functions arising from its status as an integral part of the ESCB, the Bank shall follow the guidelines and instructions emanating from the European Central Bank under the terms of the aforementioned provisions".

Specifically, section 2 of article 105 of the Treaty establishing the European Community and article 3 of the Statute of the European System of Central Banks define the basic functions of the ESCB, and one of them is "to promote the smooth operation of payment systems", ensuring their safety and efficiency, as well as the safety of payment instruments. The Eurosystem⁵ fulfils this oversight function in a co-ordinated way, applying uniform criteria.

International Standards

The existence of generally accepted international standards is the element that rounds off the reference framework for payment systems oversight. In recent years some international organisations, mindful of the importance of these systems, have promoted broad consensus on this matter, which has taken the form of a series of principles for the design of efficient and safe payment systems.

The "**Core Principles for Systemically Important Payment Systems**", published by the Bank for International Settlements in Basel in January 2001⁶, is the most complete initiative in this area. These principles (see Box 4) have become the general guidelines to be followed by systemically important payment systems⁷. These core principles are completed with the responsibilities that central banks must assume in their application.

BOX 4

Core Principles and Central Banks' Responsibilities

Public policy objectives: safety and efficiency
of systemically important payment systems

Core Principles for systemically important payment systems:

- I. The system should have a well-founded legal basis under all relevant jurisdictions.
- II. 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.
- III. 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.

⁵ The Eurosystem is made up of the ECB and the national central banks which adopted the euro currency.

⁶ Accessible under www.bis.org/publ/cpss43es.pdf (Spanish).

⁷ In order to be considered as "systemically important", the correct functioning of the payment systems should be essential for the effectiveness of the financial markets. These systems may transmit their disturbances to the participants and other systems, even internationally. In particular, those systems which present at least one of the following characteristics are considered "systemically important":

- To be the only or main payment system in the country in terms of the total value of processed payments.
- To process fundamentally large value payments.
- To settle the transactions of the financial markets or of other payment systems.

- IV.* 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.
- V.* 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.
- VI. 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.
- VII. The system should ensure a high degree of security and operational reliability and should have contingency arrangements for timely completion of daily processing.
- VIII. The system should provide a means of making payments that is practical for its users and efficient for the economy.
- IX. The system should have objective and publicly disclosed criteria for participation, which permit fair and open access.
- X. The system's governance arrangements should be effective, accountable and transparent.

* The systems should seek to exceed the minima included in these principles.

Responsibilities of the central bank in applying the Core Principles:

- A. The central bank should define clearly its payment system objectives and should disclose publicly its role and major policies with respect to systemically important payment systems.
- B. The central bank should ensure that the systems it operates comply with the core principles.
- C. The central bank should oversee observance with the core principles by systems it does not operate and it should have the ability to carry out this oversight.
- D. The central bank, in promoting payment system safety and efficiency through the core principles, should co-operate with other central banks and with any other relevant domestic or foreign authorities.

The Core Principles were immediately adopted by the ESCB and, accordingly, by the Bank, constituting the main reference used for payment systems oversight ever since. In the context of the Eurosystem, the Core Principles are also being used as a guide for the evaluation of systems that are not of systemic importance. Thus, those procedures that are significant for the sound operation of the real economy, but cannot be catalogued as "systemically important" -normally retail payment systems- need only comply with a sub-group of principles (I, II, VII, VIII, IX and X), although observance of all of them is recommended.

The **“Code of Good Practices on Transparency in Monetary and Financial Policies”**⁸ adopted by the International Monetary Fund (the IMF) in September 1999 is also particularly relevant for the implementation of payment systems oversight. This code recommends

⁸ Accessible under [\[www.imf.org/external/np/mae/mft/code/spa/code2s.pdf\]](http://www.imf.org/external/np/mae/mft/code/spa/code2s.pdf) (Spanish).

transparency in the application of financial policy to central banks, including payment systems oversight. The IMF recommends that oversight functions and responsibilities should be made public, as should their objectives, how they are to be achieved and their results.

Oversight objectives

The Bank is responsible for safeguarding financial stability, which necessarily entails the smooth operation of payment systems. In line with the Law of Autonomy, a basic function of the Bank is “to promote the smooth functioning of the payment system”, which is precisely the main aim of the oversight. In other words, the objective of the oversight of payment systems is to ensure that they have suitable levels of safety and efficiency.

Regarding **security**, oversight must identify and evaluate the inherent risks of a payment system (see Box 5) and verify that it has adequate risk control mechanisms, in order to prevent potential disturbances in these procedures from being transmitted to other systems and markets and, ultimately, jeopardising the integrity of the financial system.

BOX 5

Risks in Payment Systems

The possible risks to which a payment system is exposed can be of a financial, operational or legal nature. The financial risk may be a liquidity or a credit risk. **Liquidity risk** arises when one or several participants cannot meet their payment obligations at the moment of settlement, only later. **Credit risk** occurs when this obligation cannot even be fulfilled at a future date. **Operational risk** takes place when technical failures, human errors or malicious interventions cause deficiencies in the system’s functioning. Finally, **legal risk** consists of the existence of legal gaps that may affect the legal safety of transactions. Depending on the magnitude of the problem originated by any of the previous risks and, mainly, of its capacity to spread, **systemic risk** might materialise.

Oversight in this area is not only relevant when the systems are fully operative; it is also especially important during their design phase. In addition, oversight is a dynamic task due to the frequent innovations -mainly technological- that take place in the area of payment systems and instruments. Periodic evaluations try to detect any possible deficiency as soon as possible in order to adopt the appropriate corrective measures to maintain suitable safety levels⁹.

Efficiency is the other target that payment systems oversight pursues. This basically consists of achieving both the lowest possible cost for and the fastest possible processing of operations. However, other complementary aspects must be considered when pursuing system efficiency, such as the degree of operational reliability, the quality of the services provided to users and the existence of clear and well-known operating rules and transparent and objective access criteria for

⁹ It should be borne in mind that the imposition of excessive security requirements on a certain system could make it too expensive or difficult to be used and, therefore, inefficient.

system participants. The conjunction of these factors ensures a practical system for users and, therefore, for the nation's economy.

The best ways to improve the system's efficiency are based on the standardisation of processes and the application of technical improvements resulting from technological advances. The former consists mainly of the use of common standards and normalisation of payment instruments, as well as their "dematerialisation" - or "truncation" - in order to make for their readier incorporation into the interbank clearing and settlement cycles. Regarding the application of technical advances, the greater use of electronic procedures and the application of new technologies are basic elements for achieving higher levels of efficiency.

However, the immediate or indiscriminate application of technical advances may affect the system's security or represent an excessive cost in terms of adaptation set against the expected efficiency improvement. Therefore, an analysis before implementing them and an evaluation in order to verify the potential benefits for the system are fundamental.

In order to stimulate the innovative capacity of payment systems, the Bank participates in various national and international fora and discussions. By doing so, the Bank not only foments the modernisation of the systems, but also obtains information on new developments. In this respect, the swift development of payment instruments is most notable, where issues like electronic money, the public key infrastructures and the use of open networks are most prominent.

Undoubtedly, a safe and efficient payment system must meet the following requirements:

- A sound legal basis that guarantees the legal safety of transactions.
- Mechanisms to control financial and operational risks that may disturb its functioning.
- It must be workable for its users and inexpensive.

Given these objectives, the Bank's measures to safeguard the payment systems aim to:

- Promote the necessary actions to provide the system with a solid legal basis.
- Delimit and control risks.
- Promote the maximum degree of automation in the processing of operations.
- Promote systems modernisation.
- Foment co-operation between the parties involved, seeking to strike a balance between collaboration and competition.
- Guarantee transparency and equality in participation conditions, by means of establishing clear, public and non-discriminatory access criteria.
- Achieve the maximum transparency in the Bank's policy on payment systems.

Insofar as these objectives are attained, the confidence of participants and, ultimately, of all citizens in the functioning of payment systems will be strengthened.

Scope of Oversight

This paper normally associates the term "oversight" with payment systems. However, it is important to point out that, in line with the definition of a payment system given by the BIS (a set of instruments, procedures and rules for fund transfer between participants), oversight is not

restricted to those payment systems that might be considered “official”: the SLBE, the SNCE and, until the end of 2004, the SPI.

On the contrary, oversight also extends to contractual agreements of a private nature and to those computerised processes which, due to their characteristics or dimensions, are relevant for the stability of the payment system. On one hand, there are the so-called quasi-systems (interbank agreements on correspondent banking or representation in payment systems), which are underpinned by private contracts between credit institutions and used for the clearing and settlement of their clients’ operations. On the other, it is reasonable to consider the clearing and settlement processes for bank card transactions to be a real payment system and, therefore, they should be subject to oversight.

Finally, the scope of oversight also includes certain responsibilities related to the security of payment instruments, including the analysis of the possible impact of innovations such as electronic money, telephone and Internet banking and any other that may arise in the future.

However, the way in which oversight is carried out may vary depending on what is being overseen. This broad understanding of oversight and its implementation is in accordance with that of the Eurosystem and, therefore, it is a common practice in the ESCB.

Finally, with regard to definitions, it seems appropriate to distinguish between “*oversight*” and “*supervision*”. Although there are similarities, each word is usually associated with a different concept. Payment systems and instruments are the subject of oversight, whereas supervision is centred on credit institutions, whether they participate or not in a payment system. The working methodology is also different: oversight tries to verify the correct functioning of payment systems, whereas banking supervision analyses the financial statements and solvency of credit institutions. Oversight, therefore, is dedicated to safeguarding payment systems as a whole, while supervision analyses and inspects credit institutions individually.

Oversight Tools

Having specified the objectives and scope of oversight, it is important to analyse how this function is carried out. The level of use of the tools listed below depends largely on the operational role of the Bank in the management of the systems under its oversight (see Box 6).

BOX 6

Direct Management or Simple Oversight

Payment systems oversight is a basic function for central banks¹⁰, and its implementation takes the form of:

- a) defining principles and rules and ensuring their observance in order to promote the safe and efficient functioning of payment systems, regardless of whether the system is

¹⁰ See the document *Role of the Eurosystem in the field of payment system oversight* (June 2000), accessible under www.ecb.int/pub/pdf/other/paysysoveren.pdf

operated by the central bank itself or by the private sector; and

- b) monitoring developments on payment systems in order to identify the nature and the magnitude of their risks and to ensure the transparency of the rules regulating payment instruments and services.

Sometimes, due to historical reasons and so as better to perform their functions, central banks may directly manage the system, assuming its technical aspects and facilitating settlement and payment services. The fact that a central bank directly manages a certain system reinforces the effectiveness of the tools that are described in this chapter. As a last resort, the provision of payment services could be considered, *per se*, as a tool to obtain a correct and full application of the objectives and criteria used in the oversight of these systems. However, a clear division between management and oversight tasks is required, in order to avoid potential conflicts of interest that may arise due to the fact that both functions are carried out in the same institution.

On the contrary, if systems are managed by the private sector, and depending on the importance conferred to the specific system, central banks usually limit their oversight functions to system monitoring.

Prior approval of rules

Every payment system has a set of rules that regulate its functioning (technical aspects, access criteria for new members, penalty or expulsion in the event of failure, etc.) and establish contingency plans for crisis situations. Within the legal framework described earlier, the Bank must approve the operational rules of Spanish payment systems. Such approval is essential in order for a payment system to “be recognised” as such by the Settlement Finality Law and, consequently, to be subject to the special regime contained in this Law.

Systems Monitoring

The monitoring of a system is carried out from the first stage of its design, with the analysis of its characteristics, procedures and anticipated risk management measures.

Once a system is defined and fully operative, oversight is based on the monitoring of both its functioning on a daily basis and the changes that might take place. Compilation, treatment and subsequent study of the statistical data related to systems and their participants are the basic tools for the analysis and diagnosis of possible deficiencies.

Accordingly, the Bank regularly gathers the information that it considers necessary from both the managers of the systems and other related institutions, thereby ensuring dynamic oversight¹¹. Once the quality of this information is verified, its study allows the swift identification of trends as well as the possible repercussions for the participants and for the system itself.

¹¹ In the case of the SLBE, the management of the system allows the Banco de España to monitor the daily functioning of operations, therefore obtaining complete and real-time information of its situation.

Another important source of information for systems monitoring are the different working groups set up in every payment system and in which the Bank takes part.

Finally, through its Internet website¹², the Bank disseminates a range of information and statistics on payment systems. It thereby tries to give the maximum transparency to oversight, in line with the recommendations of the IMF and, finally, increasing consumers' confidence in payment systems and instruments.

Application of international standards

As mentioned before, the application of international standards is very useful for substantiating the soundness and efficiency of payment systems. The main references are still the Core Principles of the BIS, but supplemented by other internationally agreed principles, first for specifically uncovered areas, and second for those aspects which, due to their importance, are subject to stricter criteria. In relation to the first aspect, it should be emphasised that in the Eurosystem and for systems that are not systemically important, safety objectives have recently been developed in the field of electronic money as well as criteria applicable for retail payment clearing and settlement systems¹³. Considering the second aspect, it is important to mention some work under way for the establishment of more appropriate contingency mechanisms for those systems considered critical.

In order to verify the degree of fulfilment of international standards, systems assessment exercises are conducted, either on a periodic basis or in the event case of significant changes in the system. Considering the results of such exercises and the information obtained with the monitoring of the different systems, some action plans with concrete measures -aimed at detecting possible deficiencies or improving system efficiency or security- are developed.

Co-operation

Co-operation, understood as a tool for achieving the oversight objectives, is twofold. On one hand, there is collaboration with participants through the committees and established working groups which, in addition to providing for the above-mentioned system monitoring, allows for the exchange of views and for reaching consensus on how best to deal with potential deficiencies.

On the other, the Bank actively collaborates with other national and international institutions and authorities. There are two aspects to this kind of co-operation. One relates to information exchange with relevant organisations or with third parties, enabling greater knowledge and making for readier comparison and detection of potential problems to be dealt with in a preventive way. The second, more practical aspect affects day-to-day oversight. Thus, particularly in critical situations for the system participants, co-operation between institutions is very helpful in order to obtain relevant information to react in the event of crisis. This collaboration is essential, considering that the inherent risks of a payment system do not always stem from the system itself; sometimes,

¹² [www.bde.es]

¹³ See *Electronic money system security objectives* [www.ecb.int/pub/pdf/other/emoneysecurity200305en.pdf] and *Oversight standards for euro retail payments* [www.ecb.int/pub/pdf/other/retailpsoversightstandardses.pdf] (Spanish).

the system acts as a transmitter of external risks.

In particular, co-operation with banking supervisors is extremely significant. Thus, a **Memorandum of Understanding** has been signed between the authorities responsible for the oversight of payment systems in the ESCB and the corresponding authorities in charge of banking supervision, with a view to co-operation and information exchange between the two parties¹⁴. This measure ensures the analysis of risks from both the standpoint of the system and of its participants. That means, first, that the risks assumed by credit institutions in their participation in the system are analysed and, further, that the events and the problems of insolvency or lack of liquidity, which could endanger the system, are overseen. Along the same lines, another similar Memorandum has been signed by national central banks and banking supervisors, for the purpose of acting jointly in crisis situations.

Another significant form of co-operation is through the participation of the Bank in several international working groups, mainly the Eurosystem where, besides exchanging opinions and experiences, the actions relating to payment systems oversight by the different central banks are co-ordinated. The Bank also takes part in various initiatives in this field supported by international organisations such as the World Bank, the International Monetary Fund or the Centre for Latin American Monetary Studies (CEMLA).

Conclusions

By legal imperative, the Bank is responsible for the oversight of payment systems in Spain. Its main aim is to promote the safe and efficient functioning of these systems, ensuring that they have a solid legal basis, that they have risk control mechanisms and that they are efficient for the economy.

The scope of oversight is not exclusively restricted to payment systems, but extends to all those procedures and agreements for the clearing and settlement of payments that are considered relevant, as well as to certain aspects relative to the safety of payment instruments. However, depending on the importance of what is being overseen, the means of performing this task and the instruments used may vary.

Thus, the Bank monitors all the aspects relating to oversight, it is empowered to approve the rules of the payment systems and, by and large, it has recourse to institutional co-operation and international standards for the implementation of oversight.

With this paper, the Bank wishes to disseminate its functions and responsibilities as the institution responsible for payment systems oversight, particularly at present now a major reorganisation of Spanish payment systems is under way. In addition, through the dissemination of its oversight objectives, the means of undertaking it and the results thereof, the Bank seeks to give greater transparency to the implementation of this task.

¹⁴ In the Spanish case, both functions are the responsibility of the Banco de España, which has traditionally been allowed to have information to detect possible risk sources.