

**OVERSIGHT POLICY**  
**FOR THE PAYMENT AND SETTLEMENTS SYSTEM**  
**IN THE EASTERN CARIBBEAN CURRENCY UNION**



**EASTERN CARIBBEAN CENTRAL BANK**  
**SAINT KITTS**

## Circulation Sheet



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**Prepared by:** Consultant, Arthur Dimas and Jeanette Simon – Senior Examiner

**Reviewed by:** Gillian Skerrett – Deputy Director

**Comments by:** The World Bank

**Authorised by:** Schwabach Caines - Acting Director

**Department Name:** Financial Sector Supervision Department

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## **TABLE OF CONTENTS**

- 1. INTRODUCTION**
- 2. AUTHORITY TO OVERSEE THE PAYMENT AND SETTLEMENTS SYSTEM**
- 3. THE PAYMENT AND SETTLEMENTS SYSTEM LANDSCAPE IN THE ECCU**
- 4. THE OVERSIGHT RESPONSIBILITIES AND OBJECTIVES OF THE ECCB**
- 5. GUIDING PRINCIPLES FOR OVERSIGHT**
- 6. OVERSIGHT ACTIVITIES**
- 7. SCOPE OF OVERSIGHT**
- 8. RISKS IN PAYMENT AND SETTLEMENTS SYSTEMS**
- 9. OVERSIGHT APPROACH**
- 10. DESIGNATION AND CRITERIA FOR THE DESIGNATION OF PAYMENT AND SETTLEMENTS SYSTEMS IN THE ECCU**
- 11. COOPERATIVE OVERSIGHT**
- 12. CONCLUSION**
- 13. APPENDIX**
- 14. ANNEXES**
  - a. Annex A: ECCB Framework for Payment and Settlements Systems Oversight**
  - b. Annex B: The CPMI, BIS General Principles for Oversight (May 2005)**
  - c. Annex C: CPSS-IOSCO Principles for Financial Market Infrastructures**
  - d. Annex D: Responsibilities of central banks, market regulators, and other relevant authorities for financial market infrastructures**
  - e. Annex E: Risks in Payment and Settlements Systems**
  - f. Annex F: Designation criteria for payment systems in the ECCU**

## 1. INTRODUCTION

This Payment System Oversight Policy (the Policy) was developed to support the overarching objective of a safe, efficient, inclusive payment and settlements system and to provide the framework within which those objectives will be accomplished. This Policy is a component of the Eastern Caribbean Central Bank's (ECCB/Bank) strategic objective to modernise and develop the Eastern Caribbean Currency Union Payment System (ECCUPS). The Policy was developed through the parameters of international standards and best practices, including the Committee on Payment and Settlement Systems *Central Bank Oversight of Payment and Settlement Systems*, Bank for International Settlements (BIS) Committee for Payment and Settlement Systems (CPSS) *General Guidance for National Payment System Development*, the CPSS and International Organization of Securities Commissions (IOSCO) *Principles for Financial Market Infrastructures (PFMIs)*, the CPSS-World Bank *General Principles for International Remittance Services* and the Committee on Payment, and Market Infrastructures (CPMI) - *World Bank report on Payment Aspects of Financial Inclusion*.

Payment and settlements systems facilitate the transfer of funds between participants in the system and provide the channels through which funds may be transferred among credit institutions and other institutions, to discharge the payment obligations arising in the financial markets and across the entire economy. Payment systems are critical to the effective functioning of financial systems worldwide. To minimise disruptions, it is important that payment systems be sufficiently protected against risks such as credit, legal and operational risks, while their ability to withstand shocks that may arise in the domestic or international financial markets is strengthened.

According to the BIS Core Principles for Systematically Important Payment Systems (SIPS), “*payment system oversight is a public policy activity principally intended to promote the safety and efficiency of payment systems and to reduce*

*systemic risk*”. A robust oversight regime should allow for the efficient functioning of payment systems, safe, secure and timely completion of financial transactions, and therefore contribute positively to economic performance and financial stability. The Bank’s responsibility to oversee the payment system is therefore inextricably linked to its financial stability mandate.

The dynamic developments in digital payments have underscored the urgency and necessity for a documented oversight policy, as these types of payments are gaining wider acceptance in economies worldwide and the Eastern Caribbean Currency Union (ECCU) is moving forward in that direction. Their rapid diffusion and growth potential have been largely shaped by many factors including increased deployments worldwide, mobile phone penetration, increased delivery channels and market demand for convenient, faster and more economical means of payments. Such innovations present oversight challenges in protecting consumers and the payment system, bolstering the case to strengthen risk controls, improve oversight arrangements and to continuously assess and mitigate potential risks.

The objectives and methods outlined in this Policy will aim to foster an environment which encourages innovative and digitized payment services that are aligned with ongoing financial inclusion programmes.

The development of an effective oversight framework will help maintain ECCUPS stability and by extension, public confidence. This is particularly relevant across the ECCU, where digital payment methods are seen as a major tool for facilitating financial inclusion. This will necessitate cooperative oversight between ECCB and other regulatory agencies such as the Single Regulatory Units (SRUs), telecommunications regulators and consumer protection agencies.

Finally, this Policy establishes the responsibilities, objectives, guiding principles, standards, scope, approach, activities and tools which will govern the oversight of payments, payment services and infrastructural arrangements for Financial Market Infrastructures (FMIs), other payment systems and payment service

providers in the ECCU. It encompasses the essential components of oversight, outlines the role of ECCB and establishes a framework which takes into consideration the characteristics of and priorities for the ECCU.

## **2. AUTHORITY TO OVERSEE THE PAYMENT AND SETTLEMENTS SYSTEM**

The authority is expressed in the Payment Systems Act – Part II *Authority of the Central Bank*, Section 3(3); and the ECCB has been granted oversight authority in the ECCB Agreement (as amended) – Part II, Section 3(2)(f). In addition, the Payment System and Services Act (PSSA), 2023 will also express the ECCB's authority to regulate, monitor and oversee the payment and settlements system.

## **3. THE PAYMENT AND SETTLEMENTS SYSTEM LANDSCAPE IN THE ECCU**

The payment and settlements landscape includes the entire matrix of institutional and infrastructural arrangements for initiating and processing payments and securities transactions. The payment and settlements system in the ECCU comprise the following:

### ***a) Large-Value Payment System (LVPS)***

LVPS usually handle large value, high priority items and are typically owned and operated by central banks, using their own Real-Time Gross Settlement (RTGS) System or an equivalent. In the ECCU, the RTGS System is wholly owned and operated by the ECCB.

The ECCB serves as banker to the commercial banks in the ECCU, as well as ECCU member governments. The ECCB, via the RTGS System, settles large-value interbank and customer-initiated payments on a real-time, gross basis in the XCD-denominated accounts maintained at the Bank. The ECCB uses SWIFT as its primary communication standard to facilitate the processing of payments.

## ***b) Retail Payment Systems***

Retail Payment Systems may be privately owned and operated and in contrast to large value payment systems, handle large volumes of low value payments such as cheques, direct debits, direct deposits and card payment transactions. Retail payments are cleared and settled using either a gross or a multilateral deferred net settlement (DNS) arrangement.

Retail payment systems in the ECCU include the Eastern Caribbean Automated Clearing House (ECACH) and the Caribbean Credit Card Corporation (4Cs).

### ***i. Eastern Caribbean Automated Clearing House***

The ECACH is owned by the Eastern Caribbean Automated Clearing House Services Incorporated (ECACHSI) and was jointly established by the ECCB and the commercial banks in the ECCU. Since the commencement of operations in 2014, the ECACH has enhanced the efficiency of cheque clearing, particularly inter-island cheques and more recently Electronic Funds Transfers.

Cheque clearing is facilitated through cheque-truncation using the ANSI X9.100-187 standard and Electronic Funds Transfers are facilitated using a modified version of the NACHA PPD standard. Settlement for ECACH payments takes place in central bank money.

### ***ii. Caribbean Credit Card Corporation***

Caribbean Credit Card Corporation Ltd (4Cs) is a limited liability company incorporated in Antigua and Barbuda, jointly owned by commercial banks in the ECCU. 4Cs is a professional service organisation based in Saint Christopher (St Kitts). The company undertakes merchant and Automated Teller Machine (ATM) card transaction processing for the indigenous banks and credit unions in the ECCU and other entities in the wider Caribbean, manages a credit card portfolio and operates the ECACH.

Card payments are facilitated through VISA and MasterCard and settlement takes place in commercial bank money.



### ***iii. DCash***

In March 2021, the Bank launched its retail Central Bank Digital Currency (CBDC), DCash, as a large-scale pilot, which facilitates funds transfers and the payment for goods and services across the ECCU. During the current phase of the pilot, the ECCB is focused on market penetration across the ECCU member countries.

### ***c) The Eastern Caribbean Central Securities Depository***

The Eastern Caribbean Central Securities Depository (ECCSD) is the sole Securities Settlement System and Central Securities Depository, established to facilitate the trading, settlement and safekeeping of dematerialised government and corporate securities in the ECCU<sup>1</sup>.

## **4. THE OVERSIGHT RESPONSIBILITIES AND OBJECTIVES OF THE ECCB**

The main oversight responsibilities of the ECCB are:

- a) Safety of payment instruments and payment systems;
- b) Efficiency in payment arrangements;
- c) Protection of consumers; and
- d) Promotion of financial inclusion: consumers and other market participants.

In fulfilling its oversight responsibilities, the ECCB will also:

- a) Continuously assess risks in the payment system and ensure mitigating controls are implemented to reduce exposure to systemic risks in particular;
- b) Foster safety and efficiency of payment systems through adequate system design;
- c) Encourage fair and open access to payment systems for market participants;
- d) Promote public interest through the adoption and use of digital payment system products and services and the promulgation of consumer awareness and protection programmes;

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<sup>1</sup> Eastern Caribbean Central Securities Depository (ECCSD) is regulated by the Eastern Caribbean Securities Regulatory Commission (ECSRC).

- e) Ensure that payment system providers and participants conduct their operations in a fair and transparent manner, with full disclosure and with well-established avenues for consumer recourse; and
- f) Ensure that payment systems are operated in line with relevant legislation, regulations, international best practices and standards.

## 5. GUIDING PRINCIPLES FOR OVERSIGHT

The ECCB's payment systems oversight activities will be guided by the following key principles:

- a) **Transparency:** Oversight policies and standards will be published. These policies will outline the Bank's oversight responsibilities including its objectives and how it intends to achieve these objectives. It will also identify requirements and standards that FMIs, other payment systems and payment service providers must comply with.

Transparency will allow FMIs, payment system operators, payment service providers and participants to better understand and comply with policy requirements and standards. It will also provide the basis for assessing the Bank's effectiveness in fulfilling its oversight responsibilities.

- b) **Cognisance of International Standards:** Relevant internationally recognised standards shall be adopted for payment systems oversight activities.
- c) **Effective Powers and Capacity:** The Bank will exercise the powers conferred under the Payment System Act 2008 (the Act) to obtain relevant information and induce change as necessary, on a regular basis and in particular, in instances where the system is not prudently designed or managed. As far as practicable, the Bank will maintain open dialogue with FMIs, other payment systems and payment systems providers to deepen relationships and garner trust. Moral suasion will be leveraged as one of the

tools at the Bank's disposal to induce change. The ECCB will, however, utilise its statutory powers when there is a need for prompt response from market participants.

The Bank will ensure that the Oversight function is adequately staffed, with suitably qualified personnel with the requisite skills and experience.

- d) **Consistency:** Oversight standards will be applied consistently across comparable payment systems.
- e) **Cooperation with Other Authorities:** Cooperate with other regulatory authorities, both domestically and internationally, to foster efficient and effective communication and consultation to support each other in fulfilling its respective mandates, with respect to the regulation, supervision and oversight of payment and settlement systems.

## 6. OVERSIGHT ACTIVITIES

In the fulfilment of its responsibilities under the Act, the Bank will organise the oversight function around the following core activities:

- a) **Monitoring:** Monitoring is an ongoing activity that is intended to generate different reports to help improve the understanding of the operations and design of a payment and settlements system, as well as its interdependencies in the ecosystem and impact on overall financial stability.

The Bank may use the following sources of information for monitoring purposes:

- i. Official system documentation, rules, business continuity plan, participant and service provider contracts;
- ii. Oversight meetings;
- iii. Internal reports including *HelpDesk* reports, board meetings and internal auditor;

- iv. Self-assessments against CPSS-IOSCO PFMIIs and Central Bank policies;
- v. On-site inspections;
- vi. Regulatory reports;
- vii. Expert opinions from legal advisers and external auditors;
- viii. Information from other regulators, if applicable; and
- ix. Client feedback.

#### ***a) Off-site Monitoring***

Off-site monitoring will be conducted on an ongoing basis. The Bank shall establish regulatory reporting forms for the periodic collection of certain types of information on a FMI's operations, at a frequency, depending on urgency of the information to be reported; ad hoc, monthly, quarterly, annually or biennially.

#### ***Incident Reporting and Management***

The ECCB considers the timely receipt of relevant information as being fundamental to its effectiveness in oversight, particularly when incidents occur that severely impact the payment system and payment system providers and operators. Where applicable, payment system providers should observe protocols that have been established for notifying and reporting on incidents.

The receipt of an Incident Report from a payment system service provider or market intelligence will trigger a response from the ECCB. In its analysis of the information, the ECCB shall assess the overall scale and impact. Incidents may be classified as “*severe*”, “*critical*” or “*minor*” and will be based on the evaluation of the impact and consequences of the risk event. If an incident is assessed to be “*reportable*”, the ECCB will examine the action plan that the payment system provider or operator has, or intends to implement, to restore normal operations and prevent the recurrence of similar incidents.

The ECCB may recommend further action or issue directives as deemed necessary. The oversight team shall prepare reports on the incident and take follow-up action in accordance with established protocols. The ECCB will also convene meetings

periodically with system operators or whenever circumstances may require, to exchange information and to discuss operational matters with particular focus on sources of risks, specific incidents and related responses.

### ***b) On-site Inspections***

The ECCB is empowered under the Act, to obtain relevant information from and to conduct on-site inspections on a FMI's operations. The Bank shall also exercise its powers to obtain information from system participants. The frequency of on-site inspections will be based on the risk profile of the payment system, however, on-site inspections will be conducted every year. Findings from the on-site inspections will be managed and monitored through the off-site monitoring framework.

### ***c) Assessing***

At a minimum, the ECCB shall conduct assessments of designated payment systems against the CPSS-IOSCO PFMI (Annex C) and any other specified standards issued by the Bank, payment system legislations, regulations and policies. The information obtained will be analysed by the Bank, with particular attention accorded to the identification of risks and shortcomings in the design and operation of the payment and settlements system. The information will also be used to establish policies and implement standards to support efficiency and safety objectives.

### ***d) Licensing***

The ECCB will license FMIs, other payment systems operators and payment service providers, in accordance with the provisions set out in the Act and ERPS Regulations. Within the regulatory purview of the ECCB, licensees will be subject to various reporting requirements that will enable the ECCB's oversight.

### ***e) Inducing Change***

If the Bank has assessed that the FMI's, other payment system's or payment service provider's payment and settlement arrangements are not in accordance with

legislation, regulations, policy requirements or standards, the Bank may take the necessary steps to induce change. The Bank may leverage any of the following tools to induce change, including the use of:

- i. *Moral suasion*: The effectiveness of the Bank in persuading the FMI, other payment system or payment service provider to take corrective action. The Bank must ensure that monitoring activities generate the quality of information that is necessary to clearly articulate the basis for the change;
- ii. *Public statements*: The Bank will publish its oversight policies and standards as a means of reinforcing market discipline and creating awareness amongst users. Users will be better positioned to formulate judgements about a FMI's safety and efficiency, when oversight policies and standards are publicly available. For the same reason, the Bank may also publish its assessment of a FMI, other payment system or payment service provider; while not typically used, the Bank may leverage this power to induce change;
- iii. *Voluntary agreements*: Voluntary agreements such as memoranda of understanding, may be established between the Bank and the system;
- iv. *Participation in systems*: The Bank may exert influence over the operation of a system under the following circumstances; shareholding votes as a part-owner, access to proprietary information as a system participant or as established in the Rules for that system. The Bank will ensure that any conflict of interest that may arise out of these arrangements is managed.
- v. *Cooperation with other authorities*: Leveraging cooperative arrangements with other regulators may be used to induce change.

- vi. *Statutory power to require change:* The Bank may exercise its powers under the Act to require systems to comply with oversight requirements; the power to request information, conduct on-site inspections, issue a license to operate, issue a *cease and desist* order and suspend or revoke membership in a system.
- vii. *Enforcement and sanctions:* In the event that a system fails to comply with the orders issued, the Bank may pursue legal action through the courts.

## 7. SCOPE OF OVERSIGHT

The scope of oversight shall include the large value and the retail payment systems, and shall encompass the following:

**a) *Payment Systems:*** International best practices divide payment systems according to their systemic importance and the likely impact that failure in their operations may have on the payment system - Systemically Important Payment Systems (SIPS) and Systemically Important Retail Payment Systems (SIRPS).

The RTGS System is deemed to be systemically important and has been designated. The ECACH and 4Cs have been assessed and categorised to be Systemically Important Retail Payment Systems (SIRPS) in the ECCU and have therefore been designated by the ECCB.

In its role as catalyst, the ECCB must take the necessary actions to encourage innovations and developments of these types of systems. Should other payment systems be established in the ECCU, such as a national switch, they may be subject to oversight and will be assessed in accordance with international standards and best practices.

**b) *Payment Service Providers:*** These include all entities engaged in facilitating the transfer of funds on behalf of its clients or itself, for example; commercial banks and digital wallet service providers. The ECCB is leading the charge for greater financial inclusion and thus, alongside its responsibility as the

overseer of payment systems, makes it necessary to include technologically innovative payment instruments within the scope of the oversight of payment service providers. Special attention will be given to fintech developments, as advancements in technology have the potential to transform the provision of financial services, spurring the development of new business models, applications, processes and products in the ECCU.

The Payment System and Services Bill empowers the ECCB to regulate and oversee fintech-related activities. Section 21 outlines the provisions for financial innovation oversight and states that *ECCB shall monitor emerging and innovative payment systems and technologies.*

Inherent in fintech developments are growing risks that have prompted the need for a more robust and well-defined oversight framework. As observed in other markets, fintechs often leverage the name, resources and access to well-established financial firms to deliver their technology products and services to a growing consumer pool. The ECCB will therefore need to oversee the delivery of such services, usage, as well as innovations, having regard to the following:

- i. Ensuring regulatory compliance of services delivered and effective risk mitigation controls.
- ii. Regular and effective dialogue with service providers and relevant stakeholders.
- iii. Efficiency of services and monitoring of usage.
- iv. Security of issuance frameworks including its cyber-resilience, tracking of technical incidents and fraud analysis, innovation and emerging risks.
- v. Customer complaints and redress.

**c) *Payment instruments:*** The ongoing payment system reforms establish the regulatory and oversight framework and will contribute to the development of the wholesale and retail payments market and digital payment services throughout the ECCU. The ECCB's oversight is necessary to ensure that these instruments are issued in compliance with safety and efficiency requirements, at a minimum. Non-



cash payment instruments in the ECCU comprise paper-based and electronic instruments that facilitate the transfer of funds. Examples of these instruments include: SWIFT<sup>2</sup>, cheques, EFT, debit and credit cards, mobile money among others. For the purposes of financial inclusion, the Bank shall also assess ubiquity and access to payment instruments.

**d) *Third-party Service Providers:*** FMIs, other payment systems and payment service providers may outsource aspects of their day to day operations to third-party service providers. In instances where material functions have been outsourced, FMIs, other payment systems and payment service providers shall retain full responsibility and accountability for compliance with oversight requirements. The Bank will periodically examine such arrangements to confirm the following:

- i. A contract is in place to govern the provision of services including the supply of information to the overseer upon request;
- ii. The outsourcing party has an effective mechanism in place for monitoring performance; and
- iii. The FMI, other payment system or payment service provider maintains independent business continuity arrangements.

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<sup>2</sup> *Society for Worldwide Interbank Financial Telecommunications – a global member-owned cooperative that functions as a messaging system that is used to send and receive information, primarily money transfer instructions.*

## 8. RISKS IN PAYMENTS AND SETTLEMENT SYSTEMS

Payment system risks must be identified, evaluated, contained or mitigated and monitored, as the result of failure could reverberate beyond the system to the economy at large and the wider financial system. The oversight function must therefore ensure that all risks that have been identified, measured and are adequately managed by the responsible stakeholders.

The following broad categories of payment system risks will be continuously monitored:

- a) *Credit risk*:** The risk that a counterparty, whether a participant or other entity, will be unable to fully meet its financial obligations either when due or at any time in the future.
- b) *Liquidity risk*:** The risk that a counterparty, whether a participant or other entity, will have insufficient funds to meet its financial obligations as and when expected, although it may be able to do so at some time in the future.
- c) *Legal risk*:** The risk of the unexpected application of a law or regulation, usually resulting in a loss. Legal risk can also arise if the application of relevant laws and regulations is uncertain.
- d) *Operational risk*:** The risk that deficiencies in information systems or internal processes, human errors, management failures, or disruptions from external events will result in the reduction, deterioration, or breakdown of services provided by a FMI, other payment systems and payment service providers.
- e) *General Business risk*:** The risk that are related to the administration and operation of a FMI, other payment system or payment service provider, as a business enterprise, excluding those related to the default of a participant or another entity such as a settlement bank, global custodian or another FMI. A failure to manage general business risk could result in a disruption of the operations of a FMI's, other payment system or payment service provider.

**f) *Systemic risk*:** The inability of an FMI or one or more of its system participants to perform as expected and could cause other participants to be unable to meet their obligations when due. The inability of the FMI to complete settlement could have significant adverse effects on the market it serves and the broader economy.

**g) *Custody and Investment risk*:** Custody Risk is the risk of loss of assets held in custody in the event of a custodian's insolvency, negligence, fraud, poor administration or inadequate recordkeeping. Investment risk is the risk of loss faced by a FMI, other payment system or payment service provider, when it invests its own or its participants' resources such as collateral.

These risks must be understood and identified by payment system operators and participants, so that appropriate risk mitigation controls can be assessed, implemented and monitored over time for effectiveness. In monitoring FMIs, other payment systems and payment service providers, the Bank will also consider the impact of these risks in the broader context of the financial system, given the interconnectedness that exists amongst systems and its participants.

### ***Risk Management Framework***

The ECCB will focus on ensuring that FMIs, other payment systems and payment service providers have a well-documented, board-approved and effective risk management and governance framework in place, for the mitigation of risks (**defined in Annex E**) to prevent failure of the payment system and systemic disturbances. At a minimum, the risk management framework should comprise the following components:

- i. Adequate financial, technological and human resources for carrying out the activities.
- ii. Clearly defined organisational goals and objectives.
- iii. Clearly defined process in place for the identification and management of risks.

- iv. Sound governance arrangements for the payment system or service providers.
- v. Clear and appropriate rules and procedures which will specify the duties/responsibilities and rights of all stakeholders in the risk management process.
- vi. Accurate and timely submission of management and regulatory reports.
- vii. Testing and periodic maintenance of a documented and board-approved business continuity plan and arrangements that address events that may pose significant risk of disruptions to operations.

## **9. OVERSIGHT APPROACH**

The ECCB will pursue a risk-based approach in the oversight of payment and settlement systems. Consequently, all systems will be accorded the appropriate level of oversight attention based on their systemic importance and areas of greatest risk.

Risk-based oversight is a proactive framework that allocates resources based on the risk profile of a payment system. The ECCB will assess and classify payment systems based on systemic importance, with the objective of focusing oversight activities and resources on the systems that pose the greatest or significant risk to the stability of the payment system.

The overarching risk management framework for the ECCU will entail the following components for each payment and settlements system, payment service provider, instrument, scheme or activity that is identified to be of significance:

- a) Clear risk-management objectives including timely identification, recording, monitoring, controlling and reporting of identified risks.
- b) Ensuring sound governance arrangements.
- c) Ensuring clear and appropriate rules and procedures which will specify the duties/responsibilities and rights of all stakeholders.

- d) Ensuring adequacy of financial, technological and human resources for carrying out activities.
- e) Timely and accurate submission of regulatory reports and other information for analysis by ECCB.
- f) Co-ordination and execution of periodic assessments including on-site assessments.
- g) Focus on potential threats including money laundering, terrorist financing and cyber-attacks.
- h) Inducing change as necessary.

**10. DESIGNATION AND CRITERIA FOR THE DESIGNATION OF PAYMENT AND SETTLEMENTS SYSTEMS IN THE ECCU**

The PSSA, 2023 will empower the ECCB to designate payment systems. A designated payment system is one that ECCB intends to oversee, using specialised criteria under Part 5 of the PSSA, 2023.

The CPMI defines systemically important payment systems as “*a payment system which has the potential to trigger or transmit systemic disruptions; this includes, among other things, systems that are the sole payment system in a jurisdiction or the principal system in terms of the aggregate value of payments and systems that mainly handle time-critical, high-value payments or settle payments used to effect settlement in other FMIs*”. For this reason, the ECCB will issue guidelines for the designation of payment and settlements systems in accordance with Part 5 of the Act.

The ECCB will accord all systems with the appropriate level of oversight, commensurate with risk that they bring to bear on the ECCUPS. Priority will therefore be given to systems that process, clear or settle payments which, individually or cumulatively, are of large value and consequently present substantial risk in the event of settlement or operational failure.

Systems will be assessed according to the designation criteria and classified in order of potential risk and systemic importance as follows<sup>3</sup> (***refer Table 1 in the Appendix***):

- a) FMIs/Systemically Important Payments Systems (SIPS).
- b) Systemically Important Retail Payment Systems (SIRPS).
- c) Prominently Important Retail Payment Systems.
- d) Other Retail Payment Systems.

While the prioritisation of FMIs/SIPS in the ECCU may be viewed in the context of a single financial space, a closer examination at the national level may also be required. An assessment of the likely dependencies of domestic economies on certain payment systems will be necessary, in order to inform oversight activities and focus.

### ***Adoption of CPSS IOSCO Principles for Financial Market Infrastructures***

The CPSS IOSCO Principles for Financial Market Infrastructures (the Principles) were adopted in 2018, as the international standard that payment systems in the ECCU are required to observe. FMIs/SIPS will be subject to more stringent oversight standards and will be required to observe the eighteen (18) applicable *Principles*. Payment and settlements systems that pose less risk will be accorded priority in proportion to the level of risk they pose to the financial system and will be subject to less stringent standards. In this regard, Prominently Important Retail Payment Systems for example, will be required to comply with only a sub-set of the Principles or applicable *Key Considerations*, or none as in the case of Other Retail Payment Systems.

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<sup>3</sup> European Central Bank. Revised oversight framework for retail payment systems), ECCB classifies retail payments according to the risks: (i) Systemically Important Retail Payment System (SIRPS) and will be assessment according to the PFMI, (ii) Non - SIRPS which have varied risk profiles that are define in its legal framework. The Euro system has identified two categories of non-SIRPS: prominently important retail payment systems (PIRPS) and other retail payment systems (ORPS).

### ***Issuing Regulations and Establishing Standards***

The underlying objective of oversight is to ensure the safety, reliability and efficiency in the operation of payment and settlements systems. These objectives may be achieved through the issuance of regulations and standards. Regulations provide the framework within which FMIs, other payment system operators and payment service providers will be expected to operate and set out the penalties for non-compliance. Oversight standards are the benchmarks which FMIs, other payment system operators and payment service providers will be required to aspire to and against which they will be assessed for safety and efficiency on an ongoing basis.

## **11. COOPERATIVE OVERSIGHT**

Circumstances may arise where certain segments of the domestic market may rely on payment and settlement services from abroad or vice versa. Conversely, systems operating within the financial space may provide such services to other FMIs that are not under the regulatory purview of the Central Bank or vice versa; for example, SWIFT in the case of cross-border interdependencies and the supply of payment services to the CSD, in the case of the latter.

Cognizant of the objectives of promoting and maintaining, safe and efficient payments and settlement arrangements, it is reasonable to expect that authorities would take an interest in the operations of such entities, to the extent that negative externalities arising from those arrangements may impact its financial system. The Bank will therefore endeavor to establish and maintain cooperative arrangements with relevant central banks, regulators or other authorities. Cooperation will serve to complement the ECCB's oversight activities, which may be facilitated through mutual assistance or other form of support.

The following factors will influence the relevance of a system to the Bank:

- i. Whether the system supplies critical services to the domestic market;
- ii. Value and volume of transactions it processes in the domestic currency;

- iii. Financial or operational interdependencies between operations abroad and domestic operations.

In order to foster effective and efficient cooperation, the Bank will consider the following when establishing cooperative arrangements:

- i. Agreement regarding which authority will assume primary responsibility for the cooperative arrangement;
- ii. Establishment of the channel through which normal communication will flow and exchange of information;
- iii. The periodic comprehensive assessment of the design and operation of the system against agreed policies and standards will be conducted, taking into account the interest of other parties; and
- iv. Inducing change as necessary.

Cooperative arrangements may be formal or informal and must be adequately agile to foster effective and efficient communication, particularly during periods of market stress. The former is typically guided by a mutually established bilateral or multi-lateral memorandum of understanding amongst parties. The latter may include ad hoc arrangements and regular communication. The Bank will therefore exercise flexibility in selecting a suitable framework for cooperation.

## **12. CONCLUSION**

The ECCB has a statutory responsibility for regulating, monitoring and inducing change in the payment and settlements system in the ECCU and by virtue of this, must manage the system in a manner that supports the overarching financial stability objective.

Oversight is dynamic in nature and involves various stakeholders and cross cutting issues that transcend payment system safety and efficiency. The ECCB's role as overseer and catalyst in the payment and settlements system is to nurture a competitive environment that is safe, fair and efficient within which payment



service providers and system participants can operate. This oversight policy acknowledges the risks inherent in payment systems and therefore articulates how the ECCB intends to conduct oversight activities so that industry stakeholders will be well equipped to mitigate risk and strengthen their resilience.

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## APPENDIX

**TABLE 1**

Payment System Landscape in the ECCU				
Categories of Payment Systems	Classifications of Payment Systems based on Systemic Importance			
	SIPS	SIRPS	PIRPS	Other
Large Value Payment System RTGS	*			
Retail Payment Systems ECACH		*		
Credit and Debit Card Clearing System		*		
Digital Wallet Service Providers				*

## ANNEX A

### ECCB FRAMEWORK FOR PAYMENT AND SETTLEMENTS SYSTEM OVERSIGHT

ECCB Role	<ul style="list-style-type: none"><li>• Develop policies, standards, rules and guidelines for operation of payment systems</li><li>• Assess and enforce compliance with legislation, regulations, standards, rules and guidelines</li><li>• Promote inclusion, safety and efficiency in the payment system,</li><li>• Encourage the development of payment systems in ECCU</li><li>• Foster cooperation and collaboration between the payment system stakeholders; domestic and international</li></ul>
ECCB Objectives	<p><b>Financial stability</b></p> <ul style="list-style-type: none"><li>• Development of a safe, efficient and reliable payment system</li><li>• Consumer protection and inclusion</li><li>• Prevention of market or criminal abuse (money laundering, fraud, etc.)</li><li>• Integration and interoperability of payment systems</li><li>• Competitive market conditions</li><li>• Risk control</li><li>• Ensure sound legal foundation governing all payment systems and services</li></ul>

Scope of Oversight		Principles
<ul style="list-style-type: none"> <li>• Payment system services providers (PSSP), system participants, customers</li> <li>• Payment services</li> <li>• Payment instruments</li> <li>• Technical infrastructures Contracts, agreements and system rules and procedures</li> <li>• Third Party Processors and critical service providers</li> </ul>	<ul style="list-style-type: none"> <li>• Legislation,</li> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>• Transparency</li> <li>• International standards</li> <li>• Effective powers and capacity</li> <li>• Consistency</li> <li>• Cooperation with other authorities</li> </ul>

**ANNEX B**

**THE CPMI, BIS GENERAL PRINCIPLES FOR OVERSIGHT**

**(MAY 2005)**

	General Oversight Principle	Explanation
A	Transparency	Central Banks should set out publicly their oversight policies, including the policy requirements or standards for systems and the criteria for determining which systems these apply to.
B	International Standards	Central Banks should adopt, where relevant, internationally recognized standards for payment, clearing and settlement systems.
C	Effective Powers and Capacity	Central Banks should have the powers and capacity to carry out their oversight responsibilities effectively.
D	Consistency	Oversight standards should be applied consistently to comparable payment and settlement systems, including systems operated by the Central Bank.
E	Cooperation with other Authorities	Central Banks, in promoting the safety and efficiency of payment and settlement systems, should cooperate with other relevant central banks and authorities.

## ANNEX C

### CPSS-IOSCO PRINCIPLES FOR FINANCIAL MARKET INFRASTRUCTURES

*The Principles that are denoted by an asterisk (\*) shall apply to all systemically important payment systems.*

<b>General organization</b>  1. Legal basis * 2. Governance * 3. Framework for the comprehensive management of risks *	<b>Credit and liquidity risk management</b>  4. Credit risk * 5. Collateral * 6. Margin 7. Liquidity Risk *	<b>Settlement</b>  8. Settlement finality * 9. Money settlements * 10. Physical deliveries
<b>Centralized securities depositories &amp; exchange-of-value securities settlement systems</b>  11. Central Securities Depositories 12. Exchange-of-value settlement systems *	<b>Default Management</b>  13. Participant-default rules and procedures * 14. Segregation and portability	<b>General Business &amp; Operational Risk Management</b>  15. General business risk * 16. Custody and investment risks * 17. Operational risk *
<b>Access</b>  18. Access and participation requirements * 19. Tiered participation arrangements * 20. FMI links	<b>Efficiency</b>  21. Efficiency and effectiveness * 22. Communication procedures and standards *	<b>Transparency</b>  23. Disclosure of rules, key procedures, and market data * 24. Disclosure of market data by trade repositories

**ANNEX D**  
**RESPONSIBILITIES OF CENTRAL BANKS, MARKET REGULATORS,  
AND OTHER RELEVANT AUTHORITIES**  
**FOR FINANCIAL MARKET INFRASTRUCTURES**

**Responsibility A:** *Regulation, supervision, and oversight of FMIs*

**Responsibility B:** *Regulatory, supervisory, and oversight powers and resources*

**Responsibility C:** *Disclosure of policies with respect to FMIs*

**Responsibility D:** *Application of the principles for FMIs*

**Responsibility E:** *Cooperation with other authorities*

## **ANNEX E**

### **RISKS IN PAYMENT AND SETTLEMENTS SYSTEMS**

Credit Risk	The risk that a counterparty, whether a participant or other entity, will be unable to fully meet its financial obligations either when due or at any time in the future.
Custody Risk	Custody Risk is the risk of loss of assets held in custody in the event of a custodian's insolvency, negligence, fraud, poor administration or inadequate recordkeeping
General Business Risk	The risk that are related to the administration and operation of an FMI, other payment system or payment service provider, as a business enterprise, excluding those related to the default of a participant or another entity, such as a settlement bank, global custodian or another FMI. A failure to manage general business risk could result in a disruption of the operations of an FMI's, other payment system or payment service provider.
Legal Risk	the risk of the unexpected application of a law or regulation, usually resulting in a loss. Legal risk can also arise if the application of relevant laws and regulations is uncertain.
Liquidity Risk	The risk that a counterparty, whether a participant or other entity, will have insufficient funds to meet its financial obligations as and when expected, although it may be able to do so at some time in the future.
Money Creation Risk	Refers to the risk associated with electronic money in which additional value is manufactured/created on the system without being backed by a bank corresponding actual cash holding.
Operational Risk	The risk that deficiencies in information systems or internal processes, human errors, management failures, or disruptions from external events will result in the reduction, deterioration, or breakdown of services provided by an FMI, other payment systems and payment service providers.
Pre-settlement Risk	The risks which may arise prior to the beginning of the settlement process.



Replacement-cost Risk	The risk of loss of unrealized gains on unsettled transactions with a counterparty. The resulting exposure is the cost of replacing the original transaction at current market prices.
Strategic risk	<p>Strategic risk is current and prospective risk to capital arising from adverse business decisions, improper implementation of decisions or lack of responsiveness to industry changes. This risk is a function of the compatibility of the institution's goals, business strategies and resources deployed to accomplish these goals, and the quality of implementation.</p> <p>The institution's internal characteristics must be evaluated against the impact of economic, technological, competitive, regulatory, and other environmental changes.</p>
Systemic Risk	The inability of an FMI or one or more of its system participants to perform as expected and could cause other participants to be unable to meet their obligations when due. The inability of the FMI to complete settlement could have significant adverse effects on the market it serves and the broader economy.
Technology Risk/Information Technology Risk	A type of business risk – the potential for any technology failure to disrupt a business; information security incidents, cyber-attacks, password theft and service outages.