

# Do Norwegian payment systems satisfy the new BIS recommendations?

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**A long-standing concern of central banks has been the risks in payment systems. One concern has been that the systems are organised so that one participant's financial problems could spread to other participants, and that the problems could intensify to the extent that they threaten financial stability. Under the Act of 1999 relating to Payment Systems, Norges Bank is responsible for authorising and supervising systemically important payment systems. A thorough analysis of the risks associated with the systems is a key element in evaluating the applications for authorisation. In this connection, Norges Bank evaluated whether the systems satisfy the most recent recommendations of the Group of Ten Committee on Payment and Settlement Systems under the Bank for International Settlement (BIS).**

## 1 Introduction

Efficient payment systems are important for the development of a modern economy. These systems make it possible to effect payments for goods and services in a secure and efficient manner, and are thus a precondition for efficient credit and financial markets. IT developments have increased the speed and reduced the costs associated with processing payment transactions. This has paved the way for increased turnover in financial markets. However, as a result of increased speed and turnover, the adverse effects of a system's failure may also be greater. If the systems do not have an appropriate structure, participation in the systems may entail substantial risk for financial institutions, and the disruption may spread to different parts of financial markets or to other participating institutions.

Central banks have a long tradition in the oversight of payment systems. Over the last 10-15 years, a clear understanding has been gained as to the risks that may be associated with participation in such systems, and central banks have intensified their efforts to shed light on the risks and to contain them. Most central banks have a responsibility under the law to promote more efficient payment systems. Efficiency in the payment system normally means in this context that payment transactions are carried out rapidly and safely at a low cost. As a rule, a trade-off must be made between these three main considerations. Even though most central banks have primary responsibility for ensuring efficiency, there are very few that have a legal basis to intervene directly to influence the structure of the system. The Norwegian Act of 1999 relating to Payment Systems gives Norges Bank the authority to authorise and supervise interbank systems, which make up the core of the payment system.

As the importance of these systems is now widely recognised, international organisations working in this field have also been focusing on risk in this area over many years, culminating in a set of international recommendations on standards to reduce risk. Among the most important are two reports from the BIS G10 Committee on Payment and Settlement Systems (CPSS). The first

report (the Lamfalussy Report, BIS 1990) included six recommendations for multicurrency netting systems. In 2001 a new report was published with core principles for systemically important payment systems (BIS 2001). The principles are referred to as the Trundle requirements or the BIS core principles. The core principles are further discussed in an article in *Economic Bulletin* 2/2000 (Lund and Watne 2000). In 1998 the EU adopted, partly as a result of the BIS work, the Settlement Finality Directive to strengthen the legal basis for the systems. The Norwegian Act relating to Payment Systems is based on international recommendations and implements the above EU directive in Norwegian law.

The most recent BIS report also includes four recommendations on how central banks should follow up the implementation of the recommended core principles. This article is structured to reflect these recommendations. Section 2 provides a brief overview of Norges Bank's role in the payment systems and the aims of its work in this field. A new role for the Bank is authorisation and supervision, and the first applications for authorisation have recently been approved. Section 3 presents the main elements in evaluating authorisation applications and provides an overview of the systems that have been authorised and which have been granted exemptions from the authorisation requirement. Section 4 presents the authorised systems and Norges Bank's own settlement system in relation to the BIS core principles. Section 5 concludes with a description of the cooperation and division of responsibilities between Norges Bank and the Banking, Insurance and Securities Commission in this field, and lists of Norges Bank's most important international contacts in this area.

## 2 Norges Bank's tasks, role and objectives in the field of payment systems

The first BIS recommendation is that the central bank should define clearly its payment system objectives and

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should disclose publicly its role and major policies with respect to systemically important payment systems. This section describes Norges Bank's objectives and most important functions and roles with respect to the Norwegian payment system. Norges Bank is responsible for ensuring appropriate framework conditions and the stable operation of a well-functioning payment system, in its role as licensing and supervisory authority for interbank systems, as supreme settlement bank in the Norwegian payment system and as issuer and distributor of Norwegian banknotes and coin.

The overriding objective of Norges Bank's work in the area is to promote robust and efficient payment systems. Normally, a trade-off must be made between safety and robustness, on the one hand, and cost-effectiveness on the other. An important part of the work is to find solutions for organising the Norwegian payment system in a way that yields an optimal trade-off between these considerations. The formal framework for Norges Bank's responsibilities for payment systems and the financial infrastructure is set out in the Act on Norges Bank and the Monetary System and the Act relating to Payment Systems.

Under the Act on Norges Bank and the Monetary System, Norges Bank shall promote an efficient payment system domestically as well as vis-à-vis other countries. In order to accomplish this task, Norges Bank collects and compares statistics on developments in and the use of different payment services as a basis for its analysis and assessments of the risks and efficiency of the Norwegian payment system. The aim of the assessments is to promote a safe and a efficient payment system.

Under the Act relating to Payment Systems, Norges Bank is given responsibility for the authorisation and supervision of Norwegian interbank systems, which are systems for settlement and clearing of transactions between credit institutions. Such systems are encompassed by the authorisation requirement to the extent they are of importance for financial stability. Authorised systems are subject to supervision, and if necessary Norges Bank may require changes to the systems. Section 3 below provides further details concerning the object of the Act, the authorisation arrangement and the guidelines applying to Norges Bank as licensing authority.

Like most other central banks, Norges Bank is the central settlement bank in the Norwegian payment system. All banks in Norway have an account in Norges Bank, and the banks' business or transactions arising from payment orders from the banks' customers can be settled by transfers between these accounts. The primary merits of a system where the central bank acts as settlement bank are that these settlements do not imply any credit risk and that central bank money is highly liquid. This reduces the risk borne by participants in cases of financial unrest, thereby bolstering financial stability. The design of the settlement system is also of importance for the conduct of monetary policy. As settlement bank, Norges Bank

shall provide a safe means of settlement for the efficient execution of settlements and lay the basis for effective implementation of monetary policy. Norges Bank also carries out securities settlement at broker level.

Under the Norges Bank Act, the Bank has the sole right and obligation to issue Norwegian banknotes and coin. This role covers the actual production of banknotes and coin, the distribution of new ones and the redemption and destruction of defective and expired notes and coin. Norges Bank is also responsible for taking deposits/surplus holdings from banks and placing these in the banks' accounts in Norges Bank and supplying and recording banknotes and coins to banks when needed. Norges Bank shall maintain public confidence in Norwegian banknotes and coin and through its activity in the area of cash handling shall lay the basis for efficient distribution and handling of cash.

### 3 Authorisation procedures with respect to Norwegian interbank systems

The second BIS recommendation to central banks is that the central bank should ensure that the systems it operates comply with the core principles. The third recommendation is that the central bank should oversee compliance with the core principles by systems it does not operate and it should have the ability to carry out this oversight.

Norges Bank has used the international recommendations as guidance in its work on designing and reducing risk in its own settlement system for some time. A concrete assessment of whether this system complies with the ten BIS core principles is provided in section 4. The new Act relating to Payment Systems provides Norges Bank with instruments for supervising the systems that are not operated by the central bank, and the basis for imposing any changes deemed necessary to comply with the object of the Act and thereby also the BIS core principles. This section describes Norges Bank's authorisation procedures for payment systems and provides an overview of the systems that have been authorised and those that have been granted exemptions from the authorisation requirement. In addition to Norges Bank's settlement system, section 4 also assesses whether the authorised systems outside Norges Bank comply with the core principles.

#### *The Act relating to Payment Systems and authorisation procedures*

The Act of 17 December 1999 no. 95 relating to Payment Systems, etc. came into force on 14 April 2000. As mentioned, the Act gives Norges Bank responsibility for the authorisation and supervision of interbank systems in Norway. The purpose of the Act is to ensure that interbank systems are organised to secure financial stability.

Interbank system means a system based on common rules for clearing, settlement or transfer of funds between credit institutions. Interbank systems in operation at the time of entry into force of the Act had to apply for authorisation by the end of 2000, while new systems must be authorised before establishment and operation.

Norges Bank may grant exemptions to the authorisation requirement for systems whose operations are limited to the extent that they are assumed to have no significant effect on financial stability. Such systems will not be subject to supervision under the Payment Systems Act. Under the Act, the Banking, Insurance and Securities Commission is responsible for elements such as safety, efficiency and coordination of the parts of the payment system that directly affect customers. Hence, Norges Bank is not responsible for these aspects.

The Payment Systems Act is a framework act that gives Norges Bank the authority to lay down further requirements with respect to the systems within the scope of the Act. In preparing the legislation, it was emphasised that the authorisation arrangement is to complement and not replace the banking industry's self-regulation of the payment system. Even if a system is subject to authorisation and supervision, responsibility for operation of the system lies with the operator of the individual system. The Act does not set out concrete requirements as to detailed design of the systems. For example, there is a requirement stipulating that there shall be one operator responsible for the system, but the operator's organisational structure is not specified. Furthermore, the Act specifies a number of elements that shall be agreed between participants, but there are no requirements as to the concrete content of the contractual clauses. Norges Bank's responsibility for authorisation is thus limited to evaluating the systems in relation to the purpose of the Act, including whether the organisation and agreements promote the objects clause. If this is not the case, changes may be required by law. The operator is responsible for ensuring that the operation and development of the system falls within the scope of the Act, and any significant changes shall be notified to Norges Bank before they are implemented.

Norges Bank received a total of 7 applications, of which 3 were for authorisation and 4 for exemptions from the authorisation requirement. The first step of the authorisation procedures was to determine which systems were subject to the authorisation requirement, and which systems could be exempted from the requirement. The evaluation was essentially based on the size of the system in terms of number of participants, the size of the participating banks and the turnover in the system.

For the systems that were perceived as being so important for financial stability that they should be subject to public supervision, the next step was to conduct a comprehensive assessment of the risk level in the system. Applicants were required to register the exposures that arose

between participants in the system in a representative month and enclose this data in the application. On the basis of the exposures registered, Norges Bank conducted an analysis of the consequences for other participants should a liquidity or solvency failure occur at the worst possible time with respect to the largest exposure to the other participants.

The analysis included an assessment of both liquidity and credit risk. An indication of liquidity risk was the estimated consequences for a participant's liquidity situation of an expected settlement not occurring at the expected time. An indication of credit risk was an analysis of the consequences for participants' solvency should such a maximum inflow be considered to be lost, i.e. the extent to which such a loss would reduce capital.

The analysis showed that no exposures in the registration period were of an order that would give rise to systemic risk as a result of liquidity or solvency failure on the part of a participant. It should be noted that the exposures were registered in an approximately normal period. It is assumed that substantially larger exposure could arise in the event of financial unrest or if the systems are exposed to extreme strains. In the two latter cases, exposures between participants are likely to be substantially larger than indicated in our analysis. However, the systems are equipped to handle situations involving default on the part of a participant, which reduces the risk to which other participants are exposed.

An example of such risk-reduction mechanisms is legal protection of agreements between participants that allow clearing and settlement to be executed even if insolvency proceedings are instituted against one of the participants. For banks in Norway, this means being placed under public administration. In systems with such agreements, exposures between insolvent participants will in most cases be reduced, as participants normally have both incoming and outgoing transactions with each other, and because the agreement ensures that it is the difference that shall be settled. Other examples of risk-reduction mechanisms are unwinding solutions, which is a feature of some systems, and routines ensuring that the payee is not credited before settlement between the payer bank and the receiving bank is effected. Delayed crediting limits the participating banks' credit risk in the system, thereby reducing the risk of losses. A third example is credit assessment procedures and surveillance of the participants' liquidity situation, operations and accounts.

On the whole, the design of the approved interbank systems is not considered to carry any systemic risk in the event of liquidity or solvency failure on the part of participants. This implies that there is no risk of disruptions spreading through the systems, between different segments of financial markets or between participating institutions should, for example, a participant be affected by liquidity or solvency failure.

## Approved systems and systems exempted from the authorisation requirement

On the basis of the review of the organisation of the systems, the analysis of the risk level and an assessment of the systems' ability to handle liquidity or solvency problems, Norges Bank decided on 14 March 2001 to authorise the operation of two interbank systems, while four systems were exempted from the authorisation requirement. The systems subject to authorisation are the banking industry's joint clearing system (Norwegian Interbank Clearing System - NICS) and the settlement and clearing system for Union Bank of Norway. On 6 June 2001, Norges Bank authorised Den norske Bank to establish and operate a planned settlement system for smaller banks. Norges Bank considers these systems to be of such substantial importance to the financial sector and the payment system in general that they should be subject to public authorisation and supervision. NICS processes the bulk of the large financial transaction between financial institutions and foreign sectors, and estimates interbank positions resulting from payments using giros, bankcards, etc. Union Bank of Norway settles payment transactions between the vast majority of Norwegian savings banks. The DnB system is due to be established within the second half of 2001 and will compete with the established clearing banks to provide clearing services for smaller banks. In its evaluation of applications for authorisation, Norges Bank has placed emphasis on whether the systems satisfy international recommendations.

Norges Bank may grant exemptions to the authorisation requirement for systems whose operations are limited to the extent that they are assumed to have no significant effect on financial stability, including on efficiency and general confidence in the overall Norwegian payment system. In concrete terms, few participants, low

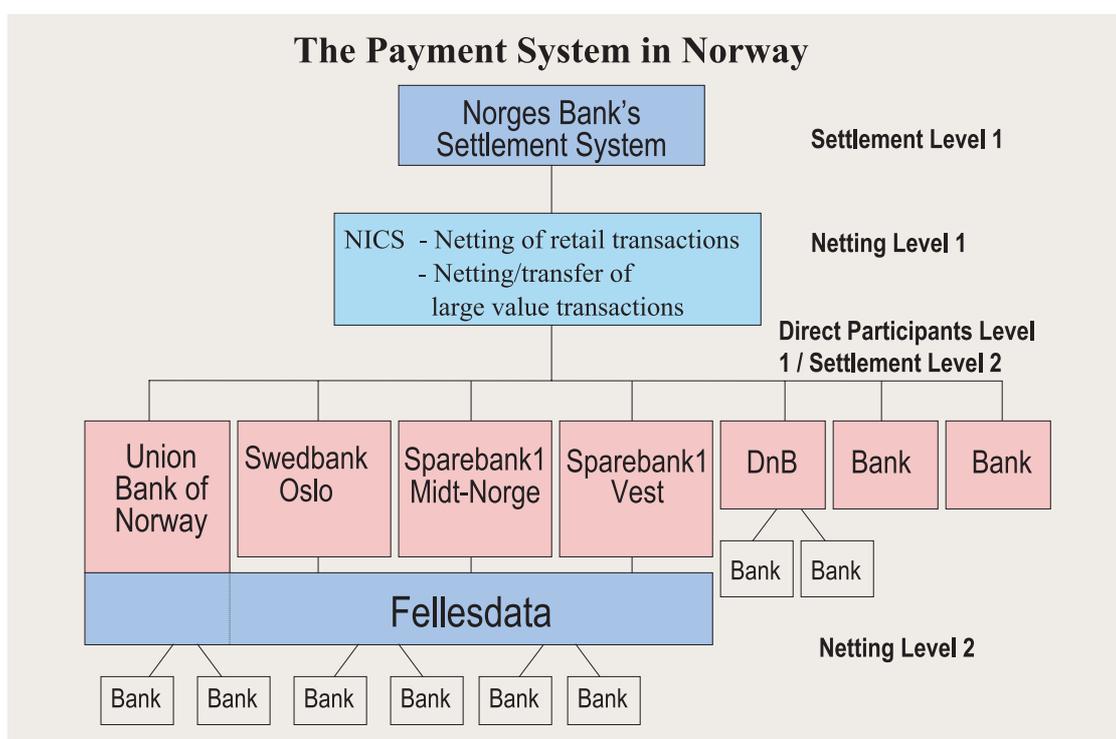
turnover and low risk would imply exemption (see Lund and Watne, 2000). Norges Bank decided to exempt the settlement systems of Swedbank Oslo, Sparebank1 Midt-Norge and Sparebank1 Vest from the authorisation requirement. In addition, the EDB Fellesdata AS clearing system for estimating positions for the aforementioned settlement system was exempted from the authorisation requirement. The exemptions imply no assessment of these systems' qualities or risk, or of their organisation in relation to the principles underlying the law.

A change in the scale of these systems could have implications for financial stability. If so, Norges Bank will reconsider authorisation.

## 4 Norwegian payment systems satisfy the BIS core principles

As mentioned, the BIS recommends that systemically important interbank systems should observe the ten core principles. Norges Bank considers the banking industry's joint clearing system - NICS - and the central bank's own settlement system to be payment systems of particular importance for financial stability in Norway. Furthermore, the interbank systems in Den norske Bank and Union Bank of Norway are considered to be of substantial importance for financial stability and the efficiency of the payment system, and should also be subject to public supervision. These systems should accordingly satisfy international recommendations, including the BIS core principles.

The presentation below is based on the evaluations applied in connection with the authorisation of the systems, and Norges Bank's evaluation of its own settlement system. The bulk of the settlement positions between the banks estimated in NICS are settled in Norges Bank. A smaller



portion is settled in Union Bank of Norway or in the settlement systems that are exempted from the authorisation requirement. The interbank systems in NICS and Norges Bank are partly integrated in technical terms. As a result, the organisation of Norges Bank's settlement system could have an influence on risk for banks participating in NICS, and the reverse. Normally, the development and implementation of risk-reducing measures for the two systems will be coordinated. In many cases, the systems can be evaluated together in relation to the core principles.

### *I The system should have a well-founded legal basis under all relevant jurisdictions*

Norwegian payment systems are governed by both private and official rules that have been considerably refined in recent years, partly through the adoption of the Act relating to Payment Systems and the Act relating to Financial Agreements. The Act relating to Payment Systems transposes the EU Settlement Finality Directive into Norwegian law and is also based on international recommendations. The Act requires that interbank systems include their rules in agreements with participants, and permits participants to agree that settlement and clearing can be executed even when a participant is placed under public administration. On the whole, Norway has made considerable regulatory progress in the field of payment systems compared with other countries. Norges Bank considers that Norwegian payment systems have a well-founded legal basis in line with the BIS principles.

### *II Participants are to have a clear understanding of the system's impact on each of the financial risks they incur through participation in it.*

Participation in the important systems is subject to agreements between participants and the operator. These agreements specify the rights and obligations associated with participation, and the systems' arrangements for handling situations with operating problems or liquidity or solvency failure. For this reason among others, banks must have an understanding of the financial risks associated with participation. This principle is thus satisfied.

### *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.*

NICS and Norges Bank have collaborated on the development of an information interface that provides the banks with access to real time information about the liquidity situation of their settlement accounts in Norges Bank. Similar information systems are also in place in Union Bank of Norway and will be part of the system in Den norske Bank. For transactions to be settled in Norges Bank, liquidity must be available on the account at the time of settlement, and a cover control is made before settlement. Furthermore, banks participating in RTGS have laid down guidelines for coordinated submission of transactions for settlement, which reduces participants' liquidity risk.

The agreements for participation in Norges Bank's settlement systems and NICS and in the systems in Den norske Bank and Union Bank of Norway stipulate the rights and obligation associated with participation in connection with the settlement. The systems have procedures and arrangements for handling and limiting the risk a participant imposes on other participants or the system. Norges Bank considers this principle to be satisfied.

### *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.<sup>2)</sup>*

In the Norwegian payment systems, for all practical purposes the day of value coincides with the settlement day. Settlement transactions that are carried out by transfers between participants' settlement accounts, including transactions that are settled through the day in real time, are settled with finality. All settlement systems in Norway satisfy principle IV.

### *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.<sup>2)</sup>*

Of the four interbank systems that are evaluated in this connection, netting is only executed in NICS and Union Bank of Norway's system. Both systems are organised to handle situations with insufficient funds or insolvency. They are either subject to agreements providing for legal protection, which also ensure the execution of settlement and netting in the event of insolvency, or provide for reversal of a settlement with a participant that does not have sufficient funds to cover his position or is insolvent. The reversal solution means that transactions from

<sup>2)</sup> Systemically important payment systems should seek to exceed the minima in principles IV and V.

the relevant participant are withdrawn before a further netting round takes place. In order to avoid credit risk in relation to the problem banks in this situation, the main rule is that the payee is not credited before the interbank settlement is finalised.

Norges Bank finds that the procedures and arrangements in systemically important payment systems in Norway are satisfactory in terms of ensuring that settlement is carried out also in cases where one or several participants with the largest single settlement obligations are unable to settle. This principle is thus satisfied.

*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.*

The bulk of the turnover in NICS is settled through transfers over the largest banks' accounts in Norges Bank. Union Bank of Norway is the settlement bank in its interbank system, and Den norske Bank will be the settlement bank in its planned system. Claims on central banks are not shrouded with credit and liquidity risk, while in principle there could be some risk of this type associated with deposits in private settlement banks. The risk linked to settlement in the form of claims on Union Bank of Norway and Den norske Bank is in practice of no importance. Norges Bank considers that this principle is satisfied.

*VII The system should ensure a high degree of security and operational reliability and should have contingency arrangements for timely completion of daily processing.*

Norges Bank is the operator for its own settlement system, including contingency arrangements that ensure that daily settlements are executed even if the ordinary system should fail to function. Both NICS and Union Bank of Norway have concluded agreements with other enterprises to operate their systems. These systems also feature contingency solutions that ensure operation, settlement and clearing should the ordinary system fail to function. DnB intends to operate its own system, which will be subject to the contingency plan requirements in the Payment Systems Act. Norges Bank finds that the systems' contingency solutions satisfy core principle VII.

*VIII The system should provide a means of making payments, which is practical for its users and efficient for the economy.*

An efficient payment solution should be based on an appropriate balance between cost-effectiveness, speed and security. It may be difficult to determine whether a solution represents an appropriate balance between these elements. Norges Bank's analyses show that the liquidity and credit risk in the systems is manageable. The systems have procedures for following up disruptions with a view to finding a defined goal for operational stability. Moreover, today's competition for payment and settlement services should be sufficient to generate the incentives necessary to provide cost-effective payment solutions. Compared with other countries, the Norwegian payment system has come far, for example with respect to the development and use of cost-effective electronic services. Against this background, Norges Bank finds that the payment solutions in the Norwegian payment systems are efficient and practical.

*IX The system should have objective and publicly disclosed criteria for participation, which permit fair and open access.*

Under the Payment Systems Act, credit institutions that are authorised to engage in business in this country have the right to become members of interbank systems and to participate in accordance with established rates and on ordinary commercial terms. The Act also requires that the systems shall suspend a participant if continued participation threatens financial stability. Norges Bank evaluated the systems' participation and suspension criteria in connection with the authorisation procedure, and considers that the criteria satisfy core principle IX.

*X The system's governance arrangements should be effective, accountable and transparent.*

The Payment Systems Act stipulates that interbank systems shall appoint an operator, and that the system shall be organised and operated efficiently, safely and in accordance with the purpose of the Act. In evaluating the applications for authorisation, Norges Bank has assessed the organisation of the systems and found that the organisation of authorised systems satisfies core principle X.

## 5 Norges Bank cooperates with other central banks and relevant domestic and foreign authorities in the field of payment systems

The fourth BIS recommendation is that central banks shall cooperate with each other and other relevant domestic and foreign institutions in the work on implementing the

core principles. In the following, a description is provided of the cooperation and division of responsibility between Norges Bank and the Banking, Insurance and Securities Commission, followed by a brief overview of cooperation with other central banks with respect to the follow-up of the BIS recommendations and other aspects of payment systems.

### *Relationship with the Banking, Insurance and Securities Commission*

The Payment Systems Act delegated responsibility to both Norges Bank and the Banking, Insurance and Securities Commission. This division of responsibility has given rise to the need for a further clarification of the division of responsibility and for procedures for cooperation and exchange of information between the institutions. The following areas in particular require clarification:

#### *1) The linkage between interbank systems and systems for payment services*

In view of the Act's definition and the division of the payment systems, further clarification of the system concepts is needed. As mentioned, Norges Bank is responsible for authorising and supervising the interbank systems, which are systems that are based on common rules for clearing, settlement and the transfer of funds between credit institutions. The Banking, Insurance and Securities Commission has been assigned responsibility for systems for payment services, which are based on standard terms for the transfer of funds between customer accounts in banks or financial undertakings when the transfer involves the use of payments cards, numerical codes or other forms of independent user identification issued to an undefined group.

It may be difficult to draw a clear dividing line between an interbank system and a system for payment services. As a rule, these system elements will be interdependent, and in some cases integrated in the same IT system. Against the background of the Act's purpose, assessments of the risks in the systems have been a key element of Norges Bank's evaluation of the application for authorisation. A salient feature of participation in a payment system is the credit risk that arises if a participating bank undertakes an obligation to transfer payments to its customers before the bank itself has received settlement. The risk in the system may then stem from sources outside the clearing house or the settlement bank, for example if the banks act as payment intermediaries. In Norway, this applies in particular to payment card systems, where the card user's bank is obliged to pay the user site's bank as soon as the card is accepted by the payment terminal and before the interbank settlement has been completed. There are also other types of payment transfers, which involve substantially larger amounts than card payments, where crediting takes place before settlement.

Assessments of the interbank systems have included an evaluation of the systems' agreements and procedures for commitments arising between participating banks, also where the commitments arise when bank customers initiate the payment order. This part of the system will normally be perceived as lying outside the interbank system. As these conditions could have implications for the risks in the interbank system, Norges Bank must take them into account when evaluating the authorisation of these systems. The central bank's intervention provisions under its supervisory responsibility must also apply to these conditions, and this is consistent with the monitoring responsibility for the systems for payment services assigned to the Banking, Insurance and Securities Commission.

#### *2) Supervisory responsibility for securities settlement systems*

Chapter 4 of the Payment Systems Act stipulates that systems can agree that clearing and settlement shall also be executed if one of the participating banks is under insolvency proceedings. The Banking, Insurance and Securities Commission is responsible for approving *securities settlement systems* that are subject to these provisions. Securities settlement system means a system based on common rules for clearing, settlement or the transfer of financial instruments. The wording of the Act and the preparatory work do not provide a clear answer as to whether the system for settling the cash leg of the security trades shall be defined as an interbank system or as part of a securities settlement system. The risks in the securities settlement systems depend partly on the linkage between the settlement of securities and funds. A lack of clarity may also arise if a system has to deal with two authorities with shared responsibility for what could be perceived as one and the same activity.

In the interest of clarity and effective supervision, the Banking, Insurance and Securities Commission and Norges Bank have agreed that "cash clearing associated with security settlement systems" shall also be included in "securities clearing and settlement systems". This means that the cash settlement systems, where settlement takes place outside of Norges Bank, are subject to the supervision of the Banking, Insurance and Securities Commission. The Ministry of Finance has been informed of this interpretation.

Securities settlement is currently executed at broker level in Norges Bank's settlement system. Norges Bank primarily performs its task of securing financial stability by organising clearing and settlement of securities transactions in its capacity as settlement bank. Securities settlement in Norges Bank is exempt from the approval arrangement in the Banking, Insurance and Securities Commission and is not encompassed by the division of responsibility that follows from the interpretation in this paragraph.

The Securities Registration Bill provides for new solutions with other settlement banks and institutions that engage in the registration of securities. However, it is highly unlikely that the establishment of such settlement systems outside Norges Bank will have any significant implications for financial stability, at least in the short term. If such systems develop to the extent that they could have implications for financial stability, the question of how Norges Bank is to fulfil its responsibility in this area will be reassessed.

### 3) Supervision of operational risk

As described above, systemically important payment systems according to BIS core principle 7 shall be equipped with contingency solutions that ensure the execution of daily settlements should the ordinary system fail to function. Norges Bank and the Banking, Insurance and Securities Commission are, with different legal bases, responsible for supervising the operational risk of important payment systems, and there is a need for cooperation in this area. Under the Payment Systems Act, the operator for interbank systems is required to indicate in the application for authorisation the procedures in place for securing continued technical operation, for example in the event of operational failure. Norges Bank's supervision of approved systems also applies to the operator's follow-up of the operational risk in the system.

However, the IT regulation of the Banking, Insurance and Securities Commission also applies to interbank systems authorised by Norges Bank under the Payment Systems Act. The regulation includes provisions requiring plans for activities necessary to re-establish and perform IT functions should ordinary systems fail to function as a result of a catastrophe. The Banking, Insurance and Securities Commission has its own procedure for inspections and reporting with respect to IT conditions under these provisions.

Norges Bank and the Banking, Insurance and Securities Commission will inform each other of planned follow-up measures with respect to the systems for which both institutions have a supervisory responsibility. In addition, supervisory reports of importance to the execution of authority by other institutions with regard to operational risk will be exchanged.

### 4) Notification of suspension or insolvency proceeding

Under the Payment Systems Act, the operator is obliged to submit suspension cases to the extent possible to Norges Bank before a final decision is taken. Norges Bank shall notify the EFTA Surveillance Authority (ESA) of the institution of insolvency proceedings against participants in systems that have approved agreements on legal protection and security for clearing and settlement agreements.

In the light of the two institutions' responsibility for the financial sector and financial stability, procedures for Norges Bank and the Banking, Insurance and Securities Commission regarding notification and contingency plans in the event of solvency difficulties have already been established. These procedures will also be applied if an interbank system is considering the suspension of a participant.

### Cooperation with Nordic and Baltic central banks

In 1998-1999, Norges Bank participated with the Banking, Insurance and Securities Commission in a Nordic working group appointed by the Nordic Ministerial Council to prepare a joint Nordic implementation of Council Directive 98/26/EC on settlement finality in payment and securities settlement systems.

The Nordic and Baltic central banks subsequently introduced an arrangement with annual meetings and seminars on payment systems issues, where interpretation questions relating to the follow-up of the BIS report on "Core Principles for Systemically Important Payment Systems" have been an important topic. Norges Bank also has frequent bilateral meetings with Nordic central banks in particular, but also with other central banks, to discuss developments in payment and settlement systems, including how the systems should be designed to satisfy international requirements and recommendations.

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