Committee on Payments and Market Infrastructures

Board of the International Organization of Securities Commissions

Application of the *Principles for financial market infrastructures* to central bank FMIs

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1 This note provides guidance on how the *Principles for financial market infrastructures* (PFMI) applies to FMIs that are owned and operated by central banks. It develops what is stated in paragraph 1.23 of the PFMI and further clarifies the interaction between the PFMI and central bank policies.

2 The most common form of central bank FMI is an RTGS payment system but central banks in some cases own and operate other types of FMI. As stated in paragraph 1.23 of the PFMI:

> "In general, the principles are applicable to FMIs operated by central banks, as well as those operated by the private sector. Central banks should apply the same standards to their FMIs as those that are applicable to similar private-sector FMIs. However, there are exceptional cases where the principles are applied differently to FMIs operated by central banks due to requirements in relevant law, regulation, or policy. For example, central banks may have separate public policy objectives and responsibilities for monetary and liquidity policies that take precedence. Such exceptional cases are referenced in (a) Principle 2 on governance, (b) Principle 4 on credit risk, (c) Principle 5 on collateral, (d) Principle 15 on general business risk, and (e) Principle 18 on access and participation requirements. In some cases, FMIs operated by central banks may be required by the relevant legislative framework or by a central bank's public policy objectives to exceed the requirements of one or more principles."

3 A few exceptional cases where the PFMI may be applied differently are:

- where an FMI is operated as an internal function of the central bank, *Principle 2, Key Considerations 3 and 4* on governance are not intended to constrain the composition of the central bank's governing body or that body's roles and responsibilities;
- where a central bank owns and operates an FMI as one of the services which the central bank has undertaken to provide, the central bank's ability to ensure continuity of operations of the FMI as necessary in extreme financial circumstances means that the requirements to prepare recovery and orderly wind-down plans do not apply; however, if a central bank were to decide to terminate the service, it should then plan for this to happen in a transparent and orderly manner. In addition, since intervention by a resolution authority is not relevant, requirements to support resolution planning or intervention by a resolution authority in the operation or ownership of the FMI do not apply (*Principle 3, Key Consideration 4*);
- the requirement to hold ring-fenced liquid net assets funded by equity to cover business risk and support a recovery or wind-down plan (*Principle 15, Key Considerations 2 to 4*) does not apply to central bank FMIs given a central bank's inherent financial soundness. Similarly, the requirement to maintain a plan to raise additional equity (*Key Consideration 5*) does not apply.

4 Moreover, regardless of the form of any central bank involvement in FMIs, nothing in the PFMI is intended to constrain central bank policies on:

- to whom it is prepared to offer central bank accounts and on what terms (cf Principle 18);
- provision of credit by the central bank, or the terms of or limits on such provision (cf Principle 4);
- what it accepts as eligible collateral in its lending operations (cf Principle 5);
- maintaining financial stability including managing participant defaults (cf Principle 13);
- its investment strategy (including that for reserve management) or the disclosure of that strategy (cf Principle 16);
- its choices on implementation of monetary policy.