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Letter and response

To: ECB, Secretariat and Language Services
From: ABI
Date: 2 October 2002
Subject: Response from the Associazione Bancaria Italiana to the consultation on oversight standards for euro retail payment systems

Consultation of the Eurosystem on the “Oversight standards for euro retail payment systems”

Please find attached the response from the Italian banking system to the consultation of the Eurosystem on the oversight principles for euro retail payment systems.

Encl. RC
SP1275

Response to the consultation of the Eurosystem on the “Oversight standards for euro retail payment systems”

1 Introduction

On 8 July this year, the Eurosystem launched a public consultation on the document entitled “Oversight standards for euro retail payment systems”. In this document, the Eurosystem proposes the application of six of the ten “Core Principles for systemically important payment systems” (SIPs), which were adopted by the Governing Council of the ECB in 2001 for euro SIPs, i.e. wholesale payment systems, and to some retail payment systems, in accordance with the suggestions provided by each national central bank. The Banca d’Italia indicated that the only Italian retail system which is obliged to observe these six Core Principles is BI-COMP.

The Eurosystem asks for suggestions and views on the above document by 30 September 2002, in particular on: a) the systems which should be subjected to the six Core Principles; b) whether other principles should be added to those already identified and; c) whether the application of the six proposed principles would help to ease difficulties experienced in the systems mentioned by the national central banks.

Rather than providing very precise responses to these three questions, the present note suggests and discusses ideas and general considerations which the Eurosystem will be able to take into account in future activities on the topic with a view to finalising a precise stance.

2 General considerations

The objective – pursued by the Eurosystem with the six new oversight principles – of strengthening the security and efficiency of retail payment systems is fully shared by the Italian banking system. Thus it is in favour of the proposal for imposing compliance with essential minimum criteria which all payment systems, including those which are not systemically important, must observe.

In view of the growing activity in the private sector to create a single European area for retail payments, the enforcement of homogeneous criteria by the central banks for all euro payment systems is of crucial importance, as it leads to the establishment of a level playing-field for all participants. In this context, one might ask why some central banks in the euro area define the retail payment systems in their countries as SIPs, while other central banks do not regard the systems in their countries as

systemically important. In the light of the criteria outlined in the report on the Core Principles and the data published in the supplement to the Blue Book, singling out the peculiarities of the SIPS retail payment systems, as compared with non-SIPS retail payment systems, is not easy. A close public examination of the aspects taken into consideration by the various central banks of the Eurosystem, such as the present consultation on the oversight principles defined at the euro area level, would increase the transparency of the Eurosystem's policy, for the benefit of the market participants, who would thus have an overview of the policies of the overseers.

Finally, the awareness of the participants with regard to the policies of the overseers and the fairness of the regulatory framework is of particular importance in view of the realisation of a pan-European ACH (automated clearing house) for retail payments, and ultimately, for the effective realisation of a single payments area.

3 Systems concerned

The systems which will have to observe the new oversight standards are those which provide settlement services. In the light of the objective mentioned in the document regarding the need to ensure public confidence in payment systems and in the currency in general, one might ask why the attention of the overseers focuses solely on settlement systems and not on the exchange phase or retail systems as well, which the citizens regard as essential and the reliability and management system of which probably have a major impact on the level of confidence of those same citizens in the payment system.

Similarly, on a wider plain, it should be noted that there are, as everybody knows, payment procedures which are settled through systems different to those considered in this proposal and which are definitely not important systemically, but which, in the event of being subjected to any serious shocks, could trigger problems for many economic agents, having large negative repercussions on the economy as a whole. The document refers to the correspondent banking agreements and the quasi-systems. In the light of the need for a level playing-field for the various market participants and in order to foster safe and efficient channels, a thorough examination – in collaboration with the market participants – would be useful of the minimum criteria for efficiency and security required to avoid regulatory differences, on the one hand, and any excessive regulation of payment flows, on the other.

A further public consultation would certainly be welcome if a proposal is made to apply the Core Principles, or some of them, to systems different to those currently under review.

4 The chosen standards

We have no comments on the choice of the standards. With regard to their nature, they have general features and can be applied to any retail payment system. We agree with the definition of Standards III, IV and VI as “desirable”, but not obligatory.

In view of the realisation of a single area for euro retail payments, we have confidence in a harmonised interpretation and application of the six standards identified for all euro retail payment systems in the countries belonging to European Economic and Monetary Union.

If, as suggested above, the application of the Core Principles, or some of them, were to be extended to exchange procedures, or to correspondent banking agreements, a further analysis would appear necessary in order to assess the way in which these same principles could be applied. On the other hand, in the past the central banks have used and reinterpreted the standards defined in the Lamfalussy report, which were originally meant for multi-currency netting schemes, in order to assess the security of payment systems which did not have these features.

As already indicated in the previous section, a public consultation would be desirable even if the Core Principles, or some of them, were to be redrafted.

5 Potential difficulties of application

As mentioned in the introduction, the Banca d'Italia said that BI-COMP is the only system affected by the new oversight arrangements.

First, there do not seem to be any problems regarding their application bearing in mind the statements made in the document which says that “to satisfy Core Principle VII, the level of security, the operational reliability and the contingency arrangements for non-SIPs do not necessarily have to be identical to those of SIPs. The relevant overseer does, however, have to ensure that non-SIPs meet the particular Core Principle in the respective circumstances in full”.

In this respect, in the light of current international developments with regard to the establishment of a pan-European ACH, thoughts are currently being given, in the Italian banking system and in collaboration with the Banca d'Italia, to the future of national clearing. These circumstances should be considered when assessing the congruity of the system with the proposed standards. Taking into account such thoughts and with a view to striking a healthy balance between efficiency and security, it

should be borne in mind that a strict application of these standards – the need for which is moreover underlined in the report on the Core Principles – can only be achieved at a later stage.