

Core Principles for Systemically Important Payment Systems

The Core Principles deal with the legal basis for the operation of a payment system, the management of financial and operational risks in a payment system, payment system efficiency from the point of view of participants, the terms for participating in a payment system and payment system governance, and are condensed into the following ten principles:

1. The system should have a wellfounded legal basis under all relevant jurisdictions.
2. The system's rules and procedures should enable participants to have a clear understanding of the system impact on each of the financial risks they incur through participation in it.
3. 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.
4. 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.
5. 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 participants with the largest single settlement obligation.
6. 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.
7. The system should ensure a high degree of security and operational reliability, and should have contingency arrangements for timely completion of daily processing.
8. The system should provide a means of making payments which is practical for its users and efficient for the economy.
9. The system should have objective and publicly disclosed criteria for participation, which permit fair and open access.
10. The system's governance arrangements should be effective, accountable and transparent.

In addition to the Core Principles regarding the design and operation of payment systems, the following responsibilities of central banks, which serve as an oversight framework, are also provided:

- A. The central bank should define clearly its payment system objectives and should disclose publicly its role and major policies with respect to systemically important payment systems¹.
- B. The central bank should ensure that the systems it operates comply with the Core Principles.
- C. 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.
- D. The central bank, in promoting payment system safety and efficiency through the Core Principles, should cooperate with other central banks and with any other relevant domestic or foreign authorities.

¹ This responsibility of central banks relates to their objectives, role and major policies regarding payment systems. To achieve its objectives, a central bank has various roles with respect to payment systems, such as the role of owner or operator and overseer of operations and settlement institution. It also serves as a catalyst for the promotion of private initiatives in the banking sector. Private payment systems operators, their participants and other users or interested parties must be familiar with and understand the central bank's role, responsibilities, objectives and measures in relation to payment systems. This enables these subjects to operate in a predictable environment, and also enables them to act in accordance with the objectives and policy of the central bank.