



PFMIs Assessment Recommendations: Main Issues and Forthcoming Agenda

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The assessment and recommendations were positive and consistent with our previous view of the degree of compliance of Chile

- In our opinion, the assessment results and recommendations were favorable and consistent with our view that Chile had a high degree of compliance with international best practices.
- This is especially important because it has historically been difficult to communicate to external evaluators the particular aspects of our legal and regulatory framework that sustain our compliance with international standards. For instance, Chile did not obtain good results in the CPMI–IOSCO monitoring of the implementation of the PFMI (level 1 assessment).



Some recommendations of special interest can be addressed in the short term

1. Provide direct legal basis for the irrevocability and finality of payments and statutory recognition of repos.
2. Develop a policy framework for the oversight of all systemically important payment systems (PS)
3. G20 Agenda for OTC Derivatives
4. Improve governance of infrastructures and increase their market transparency.



Recognition of irrevocability and finality of payments in the Law

- The reports clearly recognize that CBC regulations as well the RTGS system rules contain provisions on irrevocability and finality (chapters III.H.4 and III.H.5 of the Financial Rules Compendium) and that those regulations and rules have a clear legal basis.
- However, the assessment recommended direct legal recognition of the irrevocability and finality of payments and collateral the RTGS to strengthen the legal status of this key principle, to simplify international comparisons, and to reduce some eventual legal risks that could arise if non-banks were allowed to participate in the future.
- Thus, the Ministry of Finance and the Central Bank of Chile, within the framework of the recently enacted Law 20,956 incorporated through an amendment to article 35.8 of the Organic Constitutional Law of the Central Bank the recognition at the level of statutory legislation of irrevocability and finality of transactions performed in accordance with the rules of a regulated or recognized payment system.



Recognition of irrevocability and finality of payments in the Law

- Particularly, the amendment includes the following:
 - ✓ Explicit attribution of the Central Bank of Chile to authorize the creation and regulation of payment systems established in Chile where banks and other financial institutions supervised by SBIF participate.
 - ✓ The possibility for the Central Bank to recognize foreign payment systems where these institutions participate.
 - ✓ The recognition of irrevocability and finality of payments made through the systems recognized by the CBC.
 - ✓ Collateral protection provided to the payment systems recognized by the CBC.
 - ✓ The recognition and protection of loss sharing agreements.
 - The same law also explicitly recognized repo operations in an amendment to the law 18.876



A framework for the oversight of all systemically important payment systems

- The report unambiguously recognizes that, in practice, oversight is regularly conducted. The RTGS System is regulated and supervised by the Central Bank of Chile while Combanc is regulated by the CBC and supervised by the SBIF.

- However, there are some areas of improvement :
 - Oversight should be formalized through an explicit policy.
 - The supervision framework of Combanc must take into consideration its specific features and risk profile as an FMI.
 - In order to comply with this recommendation, the BCCh will create an oversight framework applicable to payment systems of systemic importance and will dictate the general principles on which supervision should be based. This will allow SBIF to define and implement the corresponding supervision.



Although it is not a direct recommendation, the implementation of the G20 Agenda for OTC Derivatives needs to be discussed

In September 2009, G-20 Leaders agreed in Pittsburgh that:

- **All standardized OTC derivatives contracts should be traded on exchanges or electronic trading platforms.** Given that Chile has sufficiently standardized derivatives contracts we must ask ourselves if there is room to advance in this area.
- **Mandatory central clearing.** Should this topic be related to the recognition of CCPs abroad? We must also be careful not to produce a sudden drop in the market due to cost increases.
- **OTC derivatives contracts should be reported to trade repositories.** This must be done jointly with the development of a legislative and regulatory framework for TRs.
- **Non-centrally cleared contracts should be subject to higher capital requirements.** This seems to be feasible in the short term.



It is important to promptly advance in governance within the infrastructures and increase market transparency

- An issue that was present throughout the assessments of all infrastructures was the need to improve and formalize their corporate governance systems. For example, introducing comprehensive governance arrangements should include procedures to review the Board's performance as a whole and of each of its members. Transparency should also be increased with users.
- These issues are of great relevance and should be promptly addressed.
- Because “charity begins at home”, the RTGS system created a Users Committee in 2016 and this year will complete the CPSS-IOSCO Disclosure Framework.



Other recommendations require a broader analysis

1. Evaluate costs vs. benefits of providing FMIs with access to intraday liquidity facilities.
2. Evaluate the incorporation of non-banks participants to the PS considering risk-based criteria.



Evaluate costs vs. benefits of providing FMIs with access to intraday liquidity facilities.

- This recommendation indicates the evaluation of access instead of granting access.
- There is an ongoing international discussion on this issue that will be taken into account at the time of the evaluation.
- Special care must be taken in order not to affect the incentives of CCPs and their participants. We should not end with a system that, as a whole, has less liquidity than before.
- In no case should it be interpreted that access to intraday liquidity implies emergency liquidity assistance.
- In sum, the CBC is willing to carry out the evaluation, and will be especially careful considering all the relevant factors.



Evaluate the incorporation of non-banking participants to the PS considering risk-based criteria.

- An eventual expansion of access requires an amendment to article 55 of the LOC which establishes the institutions for which the Bank may open checking accounts.
- The criteria behind granting access only to banks largely incorporate a risk perspective since these institutions are more tightly regulated and supervised on all relevant risk dimensions (credit, liquidity, operational, and legal)
- Payment systems can be an important channel for contagion of liquidity problems, so there are arguments to be especially careful with the issue of access.
- The CBC will on due course carefully analyze the risks that new prospective participants could pose to the system and if justified, explore options to expand access.
- Indirect participation is an option that could expand access to PS while maintaining risk and compliance costs.



Conclusion

- The assessment's results were favorable and consistent with our view that Chile had a high degree of compliance with international best practices.
- The review also provides a series of useful specific recommendations to improve our degree of compliance with the PFMI.
- As regulator and operator of several infrastructures, these recommendations allow the CBC to define a work agenda for the near future.
- It is important that other regulators and the infrastructure themselves take advantage of these recommendations to advance in closing remaining gaps.
- The payment system is a system and its resilience, efficiency, and evaluation depends on the actions of all involved parties.



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