



Bank of Uganda

The National Payment Systems Oversight Policy Framework

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Abbreviations

ACH	Automated Clearing House
AML	Anti-Money Laundering
BIS	Bank for International Settlements
BoU	Bank of Uganda / Central Bank
CFT	Countering Financing of Terrorism
CMA	Capital Markets Authority
COMESA	Common Market for Eastern and Southern Africa
CPSS/CPMI	BIS Committee on Payment and Settlement Systems (since 2014 renamed Committee on Payments and Market Infrastructures)
CSD	Central Securities Depository
E-money	Electronic Money
FMI	Financial Market Infrastructure
IOSCO	International Organization of Securities Commissions
NPS	National Payment Systems
OPF	Oversight Policy Framework
OPS	Other Payment System
PFMI	CPSS-IOSCO Principles for Financial Market Infrastructures
PRPS	Prominent Retail Payment System
PSO	Payment System Operator
PSP	Payment Service Provider
RTGS	Real Time Gross Settlement
SCD	Securities Central Depository
SIPS	Systemically Important Payment System
SSS	Securities Settlement System
UNISS	Uganda National Interbank Settlement System
USE	Uganda Securities Exchange

Foreword

One of the principal functions of a Central Bank is to be the guardian of public confidence in money, and this confidence depends crucially on the ability of the economic agents to transmit money and financial instruments smoothly and securely through the payment and settlement systems. A payment system must therefore be safe and efficient even during times of crisis and this is ensured through effective oversight. Payment systems oversight is therefore one of Bank of Uganda's core functions, closely related to financial and monetary stability.

The national payments system comprises the payment systems, Payment Service Providers (PSPs), Payment System Operators, Payment Instruments and schemes, and the laws, rules, procedures and arrangements which allow the transfer of monetary value within the economy. The role of the Bank of Uganda is to ensure the safety and efficiency of the individual components of the payments ecosystem as well as the financial system as a whole. This includes both the systems operated by the Bank of Uganda and those operated by private sector entities. For the financial market infrastructures used for payment, clearing, settlement and recording of financial market transactions, including for the conduct of the Bank's monetary operations, the Bank of Uganda has adopted the International Organisation of Securities Commissions/ Committee of Payment and Settlement Systems (Committee of Payments and Market infrastructure) Principles for Financial Market Infrastructures, 2012 which shall be applied proportionately. These standards were issued by the Committee on Payment and Settlement Systems of the Bank for International Settlement (BIS) in collaboration with the Technical Committee of the International Organization of Securities Commissions.

This document sets out Bank of Uganda's approach to oversight of payment systems, clarified the Bank's catalytic role and the activities to be undertaken in the conduct of oversight of the national payments systems. By publishing this framework, the Bank seeks to promote transparency and accountability in execution of the oversight mandate.

Michael Atingi-Ego
Governor

1. Introduction

This Oversight Policy Framework document (OPF) is organized into five sections. Section I outlines the legal foundation for oversight; section II presents the Bank of Uganda's (BoU's) oversight objectives and its governing philosophy; section III defines the scope of oversight – the systems, entities, instruments, services and arrangements covered by the framework, and also identifies those that are exempt; section IV describes the oversight activities and applicable standards; section V identifies the main instruments of oversight, and the coordination and cooperation envisaged among relevant regulatory authorities (domestic, regional and international). The final chapter, Section VI, describes how the oversight activities are organized within the BOU.

2.1 Legal Foundation for Oversight

The legal foundation for oversight of the National Payment Systems (NPS) is the National Payment System Act, Cap 59. Section 4 (1) of the Act provides that “*The central bank shall regulate, supervise and oversee the operations of payment systems in order to ensure their safety and efficiency.*”¹ The provisions of the Act are operationalised through the NPS implementing regulations. The legal framework for the NPS also includes laws of general applicability that affect the payment systems and help provide legal certainty to operators, participants and users of the NPS. These include the Electronic Transactions Act (2011) which governs the use, security, facilitation and regulation of electronic communications and transactions; the Computer Misuse Act (2011) which makes provision for the safety and security of electronic transactions and information systems to prevent unlawful access, abuse or misuse; the Contracts Act (2010); the Electronic Signatures Act (2011); the Data Protection and Privacy Act, 2019, the Insolvency Act (2009) and the Anti-Money Laundering Act (2013).

¹ The CPSS Glossary of terms used in payments and settlement systems defines a payment system as: *a set of instruments, procedures, and rules for the transfer of funds between or among participants; the system includes the participants and the entity operating the arrangement*.

2.2 Oversight Philosophy and Objectives

The safety, efficiency and reliability of a particular payment system are the primary responsibility of the owner or operator of the system. However, regulation, supervision, and oversight are needed to ensure that the payment system operators fulfil this responsibility.

Oversight of the NPS is one of the BoU's core functions, which compliments other statutory roles, such as operating critical systems, and providing clearing and settlement facilities. The overarching oversight policy goal is to ensure the safety and efficiency of the NPS. An efficient payment system is one that operates in a practical manner for users; one where the cost is reasonable and processes are timely and simple, so that payment services are convenient, affordable and accessible to all Ugandans. Therefore, in addition to safety, the BoU's oversight activities also focus on aspects that could negatively affect NPS efficiency. This includes establishing infrastructure to achieve integration and interoperability across the payments ecosystem.

The Bank's regulatory and oversight approach also seeks to promote digital innovations given the potential that they hold for economic growth and financial inclusion. Through its oversight the BoU seeks to ensure that the NPS:

- a) Operates smoothly, efficiently, fairly and transparently for participants and users;
- b) Is robust against the risk of transmitting shocks through the economy and supports monetary and financial stability;
- c) Supports the national financial inclusion agenda through wide access and usage of a range of affordable payment services and instruments; and
- d) Continually evolves to achieve the level of technological and institutional development necessary to satisfy the country's payment needs.

The BoU's approach to oversight is guided by the following principles:

Universal: Payment Systems Operators (PSOs) and Payment Service Providers (PSPs) will have to be licensed by the BoU in order to be able to operate in Uganda. Section 6 (1) of the NPSA stipulates that *"A person shall not offer a*

payment service, operate a payment system or issue a payment instrument without a licence issued by the central bank....”.

Risk-based: The BoU will follow a risk-based approach to oversight, which will prioritize critical payment systems and services as well as the different sources of risk, tailor the regulatory measures according to the risks posed and deploy oversight resources proportionately.

Functional: Oversight policies, standards and requirements will be applied consistently to comparable systems, including systems operated by the central bank. Similarly, PSPs including bank and non-bank financial institutions that provide the same services will be subject to the same oversight standards irrespective of their legal nature.

Use of standards: PSOs and PSPs are required to observe relevant standards. Reliance on standards allows systematic and practical implementation of oversight, facilitates, continuous evaluation of compliance and comparison of the assessment results for different licensees.

2.3 Scope of Oversight

The scope of oversight extends to payment, clearing and settlement systems, payment system operators, payment service providers and issuers of payment instruments used for the transfer of monetary value.

a) Payment Systems

The BoU will license all payment systems and classify them according to three categories for the purpose of oversight: Systemically Important Payment Systems (SIPS), Prominent Retail Payment Systems (PRPS) and Other Payment Systems (OPS). Each category will be subject to certain minimum requirements with respect to, inter alia, capital, risk management, governance and reporting to enable their ongoing monitoring in accordance with the risk-based approach. Central bank-operated systems are exempt from the licensing requirement, but are required to comply with other applicable standards and are overseen by the BoU.

Systemically Important Payment Systems – These are systems that pose systemic risk to the entire NPS. They are systems whereby the failure of one participant to meet its obligations in the system can result in other participants

being unable to meet their obligations, with the potential to create financial instability. Upon designation as being systemically important, the SIPS will be subject to a the CPSS-IOSCO Principles for Financial Market Infrastructures (PFMI). The criteria to designate payment systems as “systemically important” include:

- i) the system’s potential to create significant credit and liquidity exposures, or disruptions in the economy, should it fail to perform as expected;
- ii) the aggregate value of payments processed;
- iii) nature of payments effected, that is systems that mainly handle time-critical, high-value payments; and
- iv) systems used for settlement by other systems. The Real-Time Gross Settlement System (RTGS), known as Uganda National Interbank Settlement System (UNISS) and the Automated Clearing House (ACH) are the only SIPS in Uganda at present. Both are owned and operated by BOU. The UNISS is the core of the NPS infrastructure used to settle other payment systems, including the ACH. The ACH is a multilateral net settlement system for checks and electronic funds transfers.

Prominent Retail Payment Systems – These systems are not systemically important but are widely used. They handle large volumes of low value transactions and their failure has the potential to disrupt economic activity and affect public confidence.² Systems that process at least 25 percent of the amounts settled in UNISS are deemed PRPS. In addition to the existing systems as outlined above, the scope shall include any similar retail payment system as may be authorized and designated by the BoU from time to time.

Other payment systems – These are systems that process less than 25 percent of the amounts settled in UNISS.

b) Other Financial Market Infrastructures

The PFMI recognizes five Financial Market Infrastructures (FMIs): SIPS, Central Securities Depositories (CSDs), Securities Settlement Systems (SSS), Central Counterparties (CCPs) and Trade Repositories. (See Annex 2 for definitions.) These systems are used for the clearing, settlement and recording of financial market transactions, providing services vital to a well-functioning financial

² The threshold(s) are determined by the BoU and are subject to periodic review and amendment.

system, the implementation of monetary policy and the exchange of money for goods, services, and financial assets.

Apart from the SIPS, the FMIs in Uganda include:

- i) the BoU operated CSD which handles Government securities and also functions as a SSS.
- ii) the Securities Central Depository (SCD) operated by the Uganda Securities Exchange (USE) for equities, bonds and other private debt. The SCD is governed by the Securities Central Depositories Act (2009), while the BoU's CSD is overseen by the BoU in accordance with the NPS Act, Cap 59.³ Under the SCD Act, security depositories and stock exchanges, are regulated and supervised by the Capital Markets Authority (CMA). The SCD Act specifically excludes '*a depository or clearing system operated by the Bank of Uganda*' from the CMA's remit. Both CSDs and SCDs are FMIs subject to oversight and must comply with the international standards - the PFMI. In view of the system integrations between the two infrastructures, BoU and CMA may consider periodic joint oversight assessments.

c) Payment Service Providers (PSPs)

PSPs require a licence from the BoU to provide payment services. The NPS Act, Cap 59 defines a PSP as '*a person ...licensed to provide a payment service.*' Annex 1 lists the eligible payment services and instruments. The licensing criteria is specified in the NPS Regulations (2021). The criteria includes, for example, prudential and business conduct requirements, such as risk management and transparency rules, minimum capital and fit-and-proper standards.

PSPs are those entities, such as electronic money issuers, that deal directly with merchants or consumers, and process/handle funds or acquire transactions which are normally held in a digital wallet. For the PSPs licensed as e-money issuers, the class of licence reflects not only the nature of the activities, but also the scale of its operations. The guiding principle is that the value of transactions handled, not the number or type of payment activities it carries out determines its size, and by extension, the level of risk. There are three categories of license:

³ The central bank's CSD has functionalities consistent with international norms. In particular it maintains electronic records of authorized transactions, facilitates creation and issuance of Government Securities, enables automatic payment of interest and maturity proceeds on due dates and settles secondary market transactions on a Delivery versus Payment (DvP) basis. It interfaces with both the RTGS and auction systems to receive and process electronic bids for Government of Uganda securities from primary dealers.

large, medium, small, based on certain transaction and float thresholds stipulated in the NPS regulations.

A PSP needs explicit approval for additional services such as cross border transfers and product partnerships with other licensed entities.

d) Payment System operators (PSOs)

Service providers that process funds transfers, aggregation or provide the enabling technology to support funds transfers and do not provide consumer-facing services, are also subject to licensing and oversight as PSOs in accordance with Section 8 of the NPS Act. A PSO is an entity alone or with other entities which is in charge of the operation of a payment system and may include a participant to the system, a settlement agent, a central counter party or a clearing house.

e) Banks and Non-Bank Deposit taking institutions

Banks and non-bank deposit-taking entities licensed under the Financial Institutions Act (FIA), Cap 57 and the Microfinance Deposit taking institutions Act (MDIA), Cap 58 operate payment systems on which banking and payment services are delivered and in respect of which they obtained licences to carry out financial institutions business. These institutions are required to obtain licences for the payment services not provided for under the FIA, or MDIA such as issuance of e-money. In delivering such services, the entities will be required to meet applicable prudential, risk management and oversight requirements as laid out in Part (iv) and (v) of the NPS Act, Cap 59.

Excluded from the framework are electronic payment instruments which are limited, with regard to transfer of value, to a single type of payee or to specific uses. For example closed loop schemes such as reward programs, transportation payment schemes, merchant/department store cards.

f) Third-Party Service Providers

Operational reliability of payment, clearing and settlement systems depends on the continuous and adequate functioning of service providers to whom critical parts of the operations, such as information technology, aggregation and messaging services are contracted. The BoU expects each PSO or PSP to retain full responsibility for any activity that is material to its operation, including

responsibility for ensuring that a third-party service provider has in place robust risk management frameworks and governance practices that adequately anticipate and mitigate risks in accordance with the NPS Act, Cap 59, the Regulations thereunder and the applicable oversight policies and standards.⁴

2.4 Oversight Activities and Standards

a) Oversight Approach

The BoU will license PSOs and PSPs to bring the systems within its regulatory purview and obtain information that becomes the basis for their monitoring and (if necessary) assessment in future. The BoU performs oversight in a three-step process: Authorisation, Monitoring and Assessment and Inducing Change.

i) Authorisation

The BOU is responsible for the authorization or licensing of all payment systems that are operated in Uganda. Before licensing, the BoU must be satisfied that all licensing requirements have been met and that their operations do not pose significant risks to the safety and efficiency of the payment.

The licensing requirements will vary based on the type of payment services provided, with higher capital required for services implying the operation of payment accounts or the issuance/acquiring of payment instruments, and less capital required for the provision of basic funds transfer services or transactions that do not imply operation of payment accounts. These requirements include anti-money laundering/countering financing terrorism (AML/CFT), know-your-customer (KYC), user protection, funds safeguarding and technology risk management requirements. The requirements are applied in a graduated, risk-based manner as the central bank may determine. Prospective entrants unable to satisfy the initial licensing requirements, may also be admitted provisionally under a regulatory sandbox framework as outlined in the National Payment

⁴ For FMIs, Annex F of the PFMI sets out the oversight expectations of critical service providers in terms of risk identification and management, information security management, reliability and resilience, effective technology planning, and communications with users. These expectations may be extended to other payment systems and PSPs as appropriate.

Systems (Sandbox) Regulations, 2021.⁵ Conditional approvals may be issued at the BoU's discretion.

ii) Monitoring and assessment

The BoU applies the PFMI to the SIPS as deemed relevant to each system to identify likely areas of risk and the extent of risk management. For PRPS and other payment systems, not all the PFMI assessment criteria will be adopted in accordance with the lower degree of risk posed. BoU also continuously assess the systems and their levels of risk. In accordance with the risk based approach, the assessment may take the form of self-assessment and or independent assessment. The bank also conducts offsite analysis through daily, weekly, monthly, quarterly and annual returns and onsite assessment through periodic physical visits to the licensees.

iii) Inducing Change

In the event that the monitoring and assessment procedures establish areas of concern, the BoU's objective is to induce change. The PSO or PSP shall be required to rectify the concerns to ensure that policy objectives and standards are met, while ensuring minimal disruption to the participants and the system as a whole. The tools available to BoU to induce change range from moral suasion, negotiated agreements, public statements and statutory powers to enforce oversight decisions.

b) Adoption of the PFMI for FMIs

The BoU has adopted the PFMI as the standards for risk management and oversight for FMIs.⁶ FMIs are the UNISS/RTGS, ACH, CSD and SSS, all of which

⁵ The *NPSA*, Cap 59 Sections 16 – 18 contemplates the operation of a regulatory sandbox. Where prospective PSPs (new applicants) may initially be unable to satisfy the licensing requirements or existing licensees propose to issue a new service, rather than prevent new entities from entering the market and risk stifling innovation and competition, or admit the new entrants and unmitigated new risks, the BoU has set up a legal framework that allows the use of a regulatory sandbox. A regulatory sandbox framework aims to allow fintech startups and other innovators to conduct live experiments in a controlled environment under the regulator's supervision. This gives the regulator time to assess and understand the potential impact, benefits and risks of the new services and evaluate their implications for market efficiency and growth before granting a full license.

⁶ *"Principles for financial market infrastructures"*, April 2012: the report of the Committee on Payment and Settlement Systems of the Bank for International Settlements and the Technical Committee of the International Organization of Securities Commissions, [CPSS-IOSCO]. Note the CPSS was renamed the Committee on Payment and Market Infrastructures (CPMI) in 2014. (Annex 2)

are owned and operated by the BoU. All relevant principles of the PFMI are applied to the SIPS, while a sub-set of the PFMI (select principles and key considerations) is applied to the PRPS and OPS.

FMI and PRPS operators are required to conduct periodic self-assessments against relevant standards. These assessments are subject to independent review by the overseer. System operators will need to provide data and information to enable continuous monitoring of adherence to regulations and policies. Key sources of information include, but are not limited to, official system documents and records, periodic returns, regular or ad-hoc reports, internal reports from Board meetings and internal auditors, on-site visits and inspections, information on operations outsourced to third parties and dialogue with the Board, management, or participants.

c) Adoption of PFMI for FMI oversight

The PFMI incorporates standards for both FMI risk management and the regulator/overseer's conduct of oversight. Adoption of the PFMI requires observance of the standards in both respects. As such, the BoU will undertake periodic assessments of its own fulfilment of the regulatory, supervisory and oversight responsibilities and ensure compliance with the PFMI oversight responsibilities.

2.5 Instruments of Oversight

The BoU's oversight tools are aligned with its statutory powers, for example, the power to license payment systems and PSPs, obtain information, enter into cooperative oversight arrangements, issue binding regulations, impose sanctions and ultimately revoke/withdraw a license.

a) Moral Suasion

Where PSOs or PSPs fail to comply with the regulations and standards, the overseer is responsible for inducing change. Moral suasion involves use of dialogue with the licensed entities to achieve oversight objectives. If moral suasion proves to be ineffective, the BoU will invoke its statutory powers and issue directives to system operators, participants, settlement agents, service providers, and payment institutions; impose sanctions; or revoke the licence issued to the PSO or PSP if warranted.

b) Cooperation with Other Regulators

As permitted by law, the BoU shares information and enters into cooperative arrangements with other regulatory/supervisory/oversight agencies, domestically, regionally and internationally in order to fulfil its mandate. Section 71 of the NPS Act, Cap 59 provides for BoU's cooperation with Government agencies whose functions are relevant to payment systems. A memorandum of understanding (MoU) is already in place with authorities such as the Uganda Communications Commission and the Financial Intelligence Authority. The NPSA provides for cooperation between (BoU/CMA) for all CSDs/SSSs operating in Uganda. For all such arrangements, the Bank ensures the lines of communication are clear and tested periodically to ensure their effectiveness under normal circumstances and during crisis situations.

c) Policy, Research and Development

The BoU continuously ensures that NPS rules and regulations are consistent with its oversight policy objectives and the market developments. It undertakes research to understand and keep abreast of fintech and other NPS-related issues and builds technical capacity to provide essential inputs to their evolution, regulation and oversight. The BoU draws on and adopts, as necessary, guidance from standard-setting bodies such as the CPMI and IOSCO. It also models good practices developed by other central banks with significant experience in the area of oversight to ensure that the oversight approach evolves in line with international best practices and standards.⁷

d) Policy Dialogue

The BoU seeks to promote dialogue with payment system stakeholders, including users with a view to creating consensus for policy choices. The dialogue, which can take place at both formal and informal levels, offers a two-way channel for the overseer to provide participants and the public with information on the Bank's policy position and to develop the policy agenda by using feedback from the market to assess the efficiency, reliability and fairness. This not only allows

⁷ For the FMIs and for the PRPS, the standards are complemented as appropriate, by both current and future guidance from the CPMI and IOSCO. Other standards that affect oversight include the Financial Action Task Force Recommendations (on AML/CFT), as well as the International Organization for Standardization.

consensus-building around policy decisions but effective collaboration on development initiatives.

e) BoU's Catalyst Role

The BoU continues to play the role of catalyst in the development of the NPS, careful not to hamper competition and innovation in an area characterized by continuous technological evolution. In certain circumstances, this may mean determining and communicating overall policy objectives and leaving it up to market players to decide how to achieve them or cooperating with Government to encourage use of electronic payment means. In other cases, the BoU may issue directives to actively promote payment systems usage or strategies to mitigate systemic risk. The adoption of the regulatory sandbox framework and establishment of an innovations unit aligns with the BoU's catalyst role.

f) External Reporting

The BoU regularly reports on NPS developments and publishes its oversight findings in a transparent manner. Among the aspects that are addressed are the following:

- Changes to the regulatory framework;
- Major changes to payment systems' risk management policies and processes;
- The relationship between payment and settlement systems and financial stability;
- Developments in retail and wholesale payment systems and instruments as well as technology and market trends affecting these developments;
- Strategies to foster the safety, efficiency, and accessibility of the payments system over the long term;
- Newly licensed PSOs, PSPs and Issuers of Payment Instruments
- New central bank initiatives to digitize payments.
- Relationship between payment systems and financial inclusion.

This information is prepared quarterly and annually and is published on the Bank's website. It is also included in a chapter of the BoU's annual Annual Report. The reporting of payment system statistics is also presented and kept up to date on the Bank's website.

g) Organizational Arrangements

In order to ensure the effectiveness and independence of the oversight function, and to avoid conflict of interest with respect to the oversight of BoU-operated systems, the Bank established the Payment Systems Oversight and Policy Division (PSOP) as a separate unit within the National Payment Systems Department under the NPS Directorate, dedicated to payments policy and oversight issues. The PSOP division is staffed with suitably qualified personnel who are also exposed to continuous training in the area of oversight. The NPSD reports to the BoU Payment Systems Policy Sub-Committee [PSP-SC], a sub-committee of the Executive Committee. It considers the reports of the PSOP division and other policy matters relevant to national payment systems and related innovations. The committee draws its membership from several central bank functions, such as legal, banking, supervision, financial stability and information technology. The PSP-SC reports to the Financial Stability Committee of Management which subsequently reports to the Financial Stability Committee of the Board.

Annex 1. Eligible Payment Services and Activities

Account issuance: Issuing, maintaining or operating a payment account, e.g. an e-wallet or digital wallet.

E-money issuance (including mobile money): Involves loading funds on an e-money instrument to allow merchant payments, Government payments or transfers between individuals or entities and provide cash-in, cash-out services, including through the use of agents.

Domestic money transfer/remittance services: Funds transfer in local currency within a jurisdiction; including payment gateway services.

Cross-border money transfer/remittance services: Inbound or outbound remittances, delivered in the local currency. This requires prior approval /licence by the Bank of Uganda.

Merchant acquisition: Accepting or processing payment transactions by a service provider, resulting in transfer of funds to the merchant. It may involve use of POS terminals or an online payment gateway.

Annex 2. Glossary

FMI^s Defined

A **payment system** is a set of instruments, procedures and rules for the transfer of funds between or among participants; including the participants and the entity operating the arrangement. A payment system is systemically important where, if the system were insufficiently protected against risk, disruption within it could trigger or transmit further disruptions amongst participants or systemic disruptions in the entire financial sector.

A **central securities depository** (CSD) provides securities accounts, central safekeeping services, and asset services, which may include the administration of corporate actions and redemptions and plays an important role in helping to ensure the integrity of securities issues (that is, ensure that securities are not accidentally or fraudulently created or destroyed or their details changed).

A **securities settlement system** (SSS) enables securities to be transferred and settled by book entry according to a set of predetermined multilateral rules. When transfer is against payment, many systems provide delivery versus payment (DvP), where delivery of the security occurs if and only if payment occurs.

A **central counterparty** (CCP) interposes itself between counterparties to contracts traded in one or more financial market, becoming the buyer to every seller and the seller to every buyer and thereby ensuring the performance of open contracts. CCPs have the potential to significantly reduce risks to participants through the multilateral netting of trades and by imposing more-effective risk controls on all participants.

A **trade repository** is an entity that maintains a centralised electronic record (database) of transaction data.

Annex 3. CPSS-IOSCO Principles for Financial Market Infrastructures (PFMI)

General organisation

Principle 1: Legal basis: An FMI should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.

Principle 2: Governance: An FMI should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.

Principle 3: Framework for the comprehensive management of risks: An FMI should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks.

Credit and liquidity risk management:

Principle 4: Credit risk : An FMI should effectively measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes. An FMI should maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence.

Principle 5: Collateral: An FMI that requires collateral to manage its or its participants' credit exposure should accept collateral with low credit, liquidity, and market risks. An FMI should also set and enforce appropriately conservative haircuts and concentration limits.

Principle 6: Margin: A CCP should cover its credit exposures to its participants for all products through an effective margin system that is risk-based and regularly reviewed.

Principle 7: Liquidity risk: An FMI should effectively measure, monitor, and manage its liquidity risk. An FMI should maintain sufficient liquid resources in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the FMI in extreme but plausible market conditions.

Settlement:

Principle 8: Settlement finality: An FMI should provide clear and certain final settlement, at a minimum by the end of the value date. Where necessary or preferable, an FMI should provide final settlement intraday or in real time.

Principle 9: Money settlements: An FMI should conduct its money settlements in central bank money where practical and available. If central bank money is not used, an FMI should minimise and strictly control the credit and liquidity risk arising from the use of commercial bank money.

Principle 10: Physical deliveries: An FMI should clearly state its obligations with respect to the delivery of physical instruments or commodities and should identify, monitor, and manage the risks associated with such physical deliveries.

Central securities depositories and exchange-of-value settlement systems

Principle 11: Central securities depositories: A CSD should have appropriate rules and procedures to help ensure the integrity of securities issues and minimise and manage the risks associated with the safekeeping and transfer of securities. A CSD should maintain securities in an immobilised or dematerialised form for their transfer by book entry.

Principle 12: Exchange-of-value settlement systems: If an FMI settles transactions that involve the settlement of two linked obligations (for example, securities or foreign exchange transactions), it should eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other.

Default management

Principle 13: Participant-default rules and procedures: An FMI should have effective and clearly defined rules and procedures to manage a participant default. These rules and procedures should be designed to ensure that the FMI can take timely action to contain losses and liquidity pressures and continue to meet its obligations.

Principle 14: Segregation and portability: A CCP should have rules and procedures that enable the segregation and portability of positions of a participant's customers and the collateral provided to the CCP with respect to those positions.

General business and operational risk management

Principle 15: General business risk: An FMI should identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialise. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services.

Principle 16: Custody and investment risks: An FMI should safeguard its own and its participants' assets and minimise the risk of loss on and delay in access to these assets. An FMI's investments should be in instruments with minimal credit, market, and liquidity risks.

Principle 17: Operational risk: An FMI should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and fulfilment of the FMI's obligations, including in the event of a wide-scale or major disruption.

Access

Principle 18: Access and participation requirements: An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.

Principle 19: Tiered participation arrangements: An FMI should identify, monitor, and manage the material risks to the FMI arising from tiered participation arrangements.

Principle 20: FMI links: An FMI that establishes a link with one or more FMIs should identify, monitor, and manage link-related risks.

Efficiency

Principle 21: Efficiency and effectiveness: An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves.

Principle 22: Communication procedures and standards: An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, settlement, and recording.

Transparency

Principle 23: Disclosure of rules, key procedures, and market data: An FMI should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the FMI. All relevant rules and key procedures should be publicly disclosed.

Principle 24: Disclosure of market data by trade repositories: A trade repository should provide timely and accurate data to relevant authorities and the public in line with their respective needs.

Responsibilities of central banks, market regulators and other relevant authorities for financial market infrastructures.

Responsibility A: Regulation, supervision, and oversight of FMIs: FMIs should be subject to appropriate and effective regulation, supervision, and oversight by a central bank, market regulator, or other relevant authority.

Responsibility B: Powers and resources: Central banks, market regulators, and other relevant authorities should have the powers and resources to carry out effectively their responsibilities in regulating, supervising, and overseeing FMIs.

Responsibility C: Disclosure of policies: Central banks, market regulators, and other relevant authorities should clearly define and disclose their regulatory, supervisory, and oversight policies with respect to FMIs.

Responsibility D: Application of the principles for FMIs: Central banks, market regulators, and other relevant authorities should adopt the CPSS-IOSCO Principles for Financial Market Infrastructures and apply them consistently.

Responsibility E: Cooperation with other authorities: Central banks, market regulators, and other relevant authorities should cooperate with each other, both domestically and internationally, as appropriate, in promoting the safety and efficiency of FMIs.