



CENTRAL BANK OF  
TRINIDAD & TOBAGO

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# PAYMENTS SYSTEM OVERSIGHT REPORT 2012



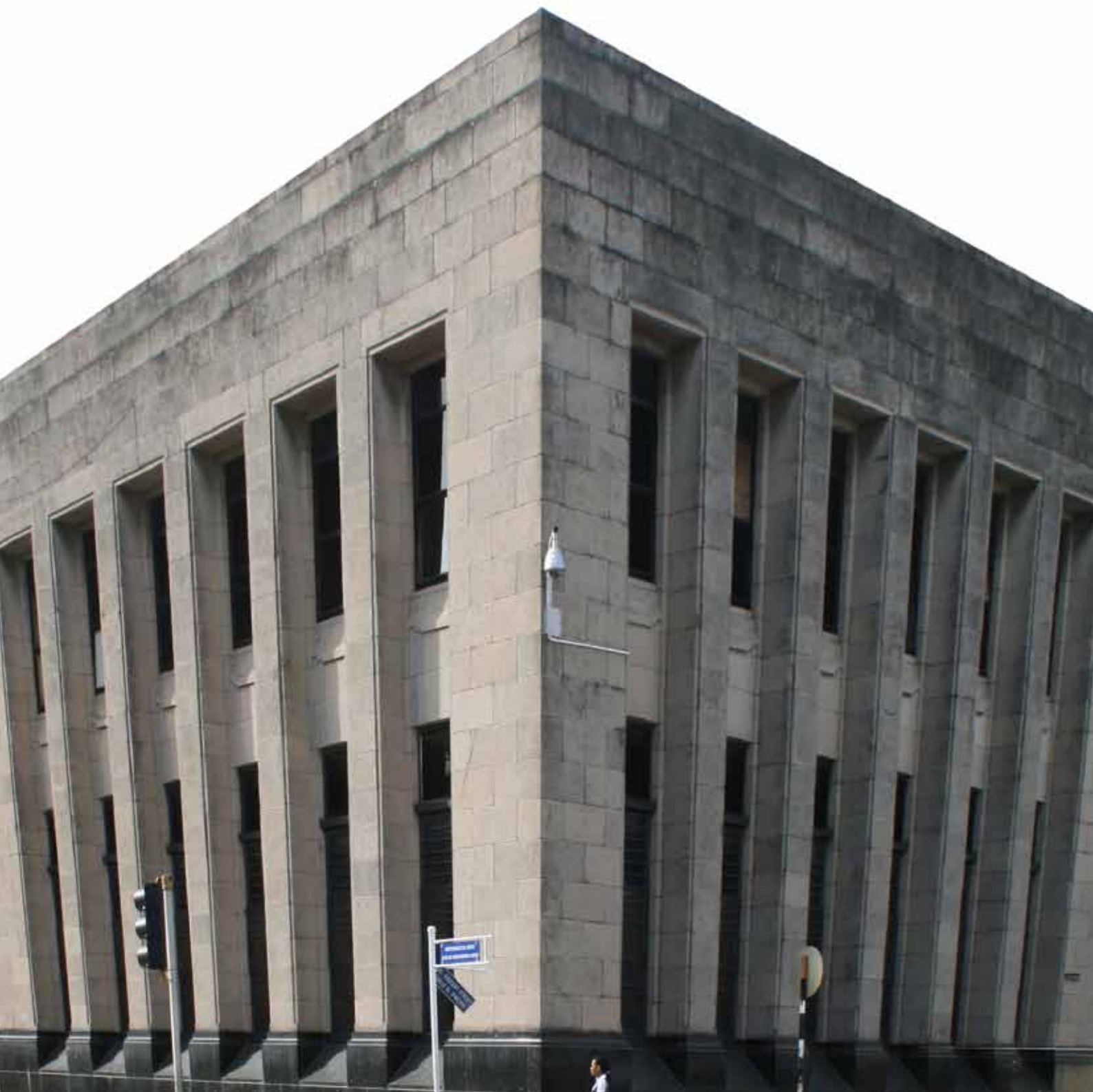
PAYMENTS SYSTEM  
OVERSIGHT REPORT  
2012



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## EXECUTIVE SUMMARY

This report presents the results of the assessment of the Systemically Important Payment Systems (SIPSs) undertaken in 2012. The benchmark for the assessment is the BIS Core Principles for Systemically Important Payment Systems (Core Principles). All the SIPS were assessed to have maintained their ratings of **Broadly Observed** relative to the Core Principles.

A major development since the previous assessment undertaken in 2010 is the strengthening of the legal framework as a result of the issuance of four major payment system guidelines. The Bank has issued a number of Guidelines (as opposed to Regulations) for two main reasons. Firstly, this gives the Bank the opportunity to assess the effectiveness and completeness of the measures before embodying them in the law; and secondly, it allows time to incorporate the newly emerging international standards by the Bank for International Settlements. It is expected participants would adhere to these Guidelines as they provide standards of good and safe conduct.

Work is ongoing in terms of the development of a more comprehensive understanding of other aspects of payment system risk as well as improved documentation and the strengthening of governance arrangements by directors and senior management.

There were no major incidents in any of the payment systems during 2012.

## 1. INTRODUCTION

This 2012 Oversight Report describes the status of the National Payments System as at the end of 2012. Oversight assessments are conducted every two years on systems deemed to be of systemic importance. Earlier assessment reports were completed for each system individually; however, since 2010 assessments have been combined into a single report.

The next section discusses the Bank's approach to oversight of domestic payments system followed by two appendices. Appendix 1 presents a summary of the assessment results for all SIPS, while Appendix 2 identifies the Core Principles.

## 2. APPROACH TO PAYMENTS SYSTEM OVERSIGHT

The FIA, 2008 explicitly gives the Bank responsibility for the oversight of payment systems and stipulates that any person wishing to operate an interbank payment system in Trinidad and Tobago must apply to the Bank for a licence. The Bank is currently reviewing its Oversight Policy document published in 2006 however it continues to carry out the bi-annual assessment of Systemically Important Payment Systems (SIPS).

The benchmark used in these exercises is largely the BIS Core Principles, with some modification for retail systems which are held to be of systemic importance.

The main assessment tools used are the following:-

- Questionnaires to Operators and Participants
- Statistics ( on volume and value of transactions processed)
- Interviews
- Any other relevant information

Each payment system is assigned one of the following ratings:-

- **Observed** – substantially compliant
- **Broadly Observed** – compliant in most aspects
- **Partly Observed** – compliant in some areas
- **Not Observed** – substantially not compliant

Four payment systems have been identified as having systemic importance. These are, the Real Time Gross Settlement (RTGS) system, the Automated Clearing House (ACH), the local debit card system, and the Cheques Clearing system. While only the RTGS is a wholesale system, the others are considered to be systemically important retail systems because of the potential for contagion. In reference to payments data, what is perhaps most meaningful, in assessing the systemic importance of any system, is the volume and value of the transactions that are cleared and settled among participants through the system operator. This data provides a measure of an individual system's potential for disruption as this represents the total of participant gross settlement liabilities. Proprietary transactions which only impact the individual participants are perhaps less relevant for this purpose.

In 2012, the total volume of transactions processed via these systems was the equivalent of 32 times the population with a value equivalent to almost 5 times that of GDP for the year. The RTGS system handled the largest portion of the value processed, followed by the Cheques Clearing system then the ACH and Debit Card systems. With regard to system volume, the major share of transactions was cleared and settled through Debit Card system. This was followed by the Cheques Clearinghouse, then the ACH and finally the RTGS.

**Table 1**  
**Value and Volume of Transactions Cleared**  
**and Settled Through SIPS, 2012**

System	Value (\$Billions)	Volume (Millions)
RTGS	492.41	0.05
Cheques	232.20	9.73
ACH	18.19	3.41
DEBIT CARD	10.84	29.02
Volume/Population Estimate	n/a	31.75
Value/GDP	4.99	n/a

Source: Central Bank of Trinidad and Tobago



The Bank has begun a review of its approach to oversight to take account of the more recent perspectives by the BIS and World Bank. The BIS now proposes a consolidation of the standards held for SIPS, Central Counterparties, Trade Repositories, and Securities Settlement systems, as well as a strengthening of specific standards for risk mitigation through the implementation of collateral and capital adequacy requirements, with particular emphasis on business, liquidity and credit risks. The World Bank has amended its approach to incorporate the broader perspective of Financial Infrastructure, as opposed to the narrower focus on payment systems. Financial Infrastructure, broadly defined, comprises all of the underlying foundation for a country's financial system. It includes all institutions, information, technologies, rules and standards that enable financial intermediation through payment and securities settlement systems, remittances, credit reporting, secured transactions and collateral registries.



## **APPENDICES**

## APPENDIX I

### SUMMARY OF ASSESSMENT RESULTS

#### 2012

CORE PRINCIPLE	RTGS	CHEQUES CLEARINGS	ACH	DEBIT CARD
I	Broadly Observed	Broadly Observed	Observed	Observed
II	Broadly Observed	Partly Observed	Broadly Observed	Broadly Observed
III	Broadly Observed	Broadly Observed	Partly Observed	Broadly Observed
IV	Observed	Partly Observed	Broadly Observed	Not Observed
V	N/A	Partly Observed	Broadly Observed	Broadly Observed
VI	Observed	Observed	Observed	Broadly Observed
VII	Broadly Observed	Broadly Observed	Broadly Observed	Broadly Observed
VIII	Broadly Observed	Partly Observed	Broadly Observed	Broadly Observed
IX	Observed	Observed	Observed	Broadly Observed
X	Broadly Observed	Broadly Observed	Observed	Partly Observed

## APPENDIX II

### Core Principles for Systemically Important Payment Systems

***Core Principle I – The system should have a well-founded legal basis under all relevant jurisdictions.***

This principle examines (a) the adequacy and completeness of the legal basis, (b) the enforceability of rights and obligations arising from participation in the system and (c) the clarity of irrevocability and finality and the availability of legal opinions.

***Core Principle II – The system’s rules and procedures should enable participants to have a clear understanding of the system’s impact on each of the financial risks they incur through participation in it.***

This principle seeks to address the clarity and availability of the system’s rules and procedures by examining (a) the understanding of the system’s impact on financial risks and the strength of the rules in addressing these risks, (b) the participants’ rights and obligations, (c) the discretionary powers of the system’s operator and (d) the handling of abnormal situations.

***Core Principle III – 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.***

This principle seeks to determine (a) the management of credit risk between participants and (b) the arrangements for liquidity risk.

***Core Principle IV – 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.***

This principle seeks to determine the timing of the settlement of the system’s transactions in order to assess the risks associated with this process.

***Core Principle V – 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.***

## APPENDIX II (continued)

This principle examines the ability of the multilateral netting system to withstand the failure of the largest single net debtor to the system.

***Core Principle VI – 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.***

***Core Principle VII – the system should ensure a high degree of security and operational reliability and should have contingency arrangements for timely completion of daily processing.***

This principle examines if there (a) exists a security policy, (b) exists a risk analysis methodology, (c) exists the execution of regular audits, (d) the application of change management procedures, (e) the availability of sufficient well trained staff and (f) the establishment of business continuity arrangements.

***Core Principle VIII – The system should provide a means of making payments which is practical for its users and efficient for the economy.***

This principle seeks to assess (a) the business objective including the balance between the system's capacity and the demand for it, (b) the existence of a pricing policy and a cost methodology and (d) the level of cost efficiency.

***Core Principle IX – The system should have an objective and publicly disclosed criteria for participation, which permit fair and open access.***

The focus of this core principle is on (a) the access criteria, (b) their fairness and public availability and (c) on the justification for any limitations restricting access to the system.

***Core Principle X – The system's governance arrangements should be effective, accountable and transparent.***

This core principle examines (a) the transparency of the system's organisation including the accountability of management for the performance of the system and (b) the decision-making process.

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