

Oversight Framework for Payments and Financial Settlement Systems



Contents

Introduction.....	3
Purpose.....	3
Legal Framework	3
Oversight Objectives	4
Oversight Scope.....	4
A. Payment Systems.....	4
B. Trade Repositories.....	5
C. Payment Instruments	5
D. Critical Infrastructure Providers.....	6
E. Co-operative Oversight.....	6
Oversight Approach	6
Applicability of PFMIs.....	6
Obligations of the payment and financial settlement infrastructure.....	7

Introduction

Financial Market Infrastructure (FMIs) are defined as “A multilateral system among participating institutions, including the operator of the system, used for the purposes of clearing, settling or recording payments, securities, derivatives or other financial transactions.” payment and financial settlement thus provides infrastructure to real economy and financial markets through which financial transactions are processed, cleared and settled among the participants. The safety and efficiency of the FMIs is critical for the smooth functioning of the financial markets and any deficiencies in the governance and operational arrangement or in the design of these systems can directly impact the financial and economic stability of the country.

Purpose

The purpose of this document is to define and describe the payment and financial settlement oversight framework under which SAMA will carry out its oversight responsibility to:

- Support SAMA’s financial stability responsibility in the Kingdom of Saudi Arabia (KSA).
- Ensure the safety and efficiency of the Infrastructures in scope with a view of controlling the main types of risks that can arise, with a particular focus on the systemic risk implications.
- Comply with the Principles for Financial Market Infrastructure (PFMI) issued by the CPMI-IOSCO in April 2012.
- Align with SAMA strategy to “fulfil national and international commitments and obligations.

Legal Framework

SAMA is the sole competent authority for Payment Systems (PS) and Trade Repository (TR) and carries out its regulatory, supervisory and oversight responsibilities in accordance with its powers pursuant to:

- The Charter of the Saudi Arabian Monetary Agency (SAMA) issued by Royal Decree No 23 dated 23/5/1377H (1957).
- The Banking Control Law issued by Royal Decree No M/5 dated 22/2/1386H (11/06/1966
- Key rules, regulations, and circulars issued by SAMA in the PS area include:
 - Circular on Regulatory Rules, Procedures, Instructions for Payment Systems in the Kingdom of Saudi Arabia (Decision No. 361000028764 issued by H.E. Governor dated 11/6/1436H .

- The Policy Statement issued in August 2013, which formalized the implementation of Principles for FMIs.
- Regulatory Rules for the Prepaid Payment Service in the Kingdom of Saudi Arabia, March 2012
- Council of Minister's Resolution No.226 (dated 02/05/1440H)¹, SAMA's role as supervisory authority for the operation and regulation of payment systems and services has been confirmed.

Oversight Objectives

The key objectives of SAMA's Oversight Policy, stemming from its role as operator, overseer and catalyst are to:

- a) Promote the safety and efficiency of the payment and financial settlement and related activities,
- b) Ensure strong focus on managing systemic risk within the payment and financial settlement landscape, and to
- c) Contribute to enhancing transparency and competition, to support the effective and efficient functioning of payment and financial settlement systems

Oversight Scope

The oversight scope refers to the different types of payment and financial systems and settlement infrastructures like Payment Systems, Securities Settlement Systems (SSS), Central Counter Parties (CCP), Central Depository Companies (CDC) and Trade Repositories (TR) that will either be subject to SAMA's direct oversight or will be overseen in coordination with other regulators like Capital Markets Authority. Further, SAMA in order to ensure the smooth functioning of the payment and financial settlement will also oversee the payment instruments, critical infrastructure providers. Consequently SAMA's oversight scope will cover the following:

A. Payment Systems

Payment Systems are an integral part of the Financial Market Infrastructure, enabling retail, wholesale, capital, money and foreign exchange markets to discharge their payment obligations. In order to prioritize its oversight function and focus on systemically important payment systems SAMA vide its regulation titled "Criteria for Systemically Important Payment Systems in Kingdom of Saudi Arabia" dated January 2015 has directed that a system which meets any one, or combination of, the following criteria will be classified as a systemically important system:

- a) Any system handling interbank or customer payments which could pose a risk to financial stability.

- b) The principal payment system in terms of the aggregate daily volume and value of payments
- c) Any system used to effect settlement in other systemically important FMIs
- d) Any system, which is central to the payments infrastructure and our customer confidence due to number and type of participants, market penetration and lack of alternatives available.

Based on the above criteria, three PS have been designated as Systemically Important Payment Systems (SIPS) namely:

- 1) SARIE (Saudi Arabian Riyal Interbank Express) is the is the Real Time Gross Settlement (RTGS) system that transfers fund in Saudi Riyal within the kingdom of Saudi Arabia and through which all transfers to beneficiaries of all categories pass. In addition, SARIE provides settlement services to other payment systems to which it is linked. These include Automated Clearing Houses (ACH), an electronic cheque clearing system; the Saudi Payments Network (MADA), which links all ATM and EFTPOS terminals, the Electronic Securities System (TADAWUL); and also the electronic Bill Presentment & Payment (SADAD).
- 2) MADA (formerly known as “SPAN”) is the national ATM and Points of Sale network that connecting all Saudi banks and providing a common service point to the customer and allows them electronically access to their funds with any bank, anywhere in the Kingdom, around the clock.
- 3) The electronic Bill Presentment & Payment (SADAD) is the national electronic bill payment system allows individuals and businesses to pay bills via bank branches, ATMs, online and phone banking.

B. Trade Repositories

Trade repositories are centralize collection, storage and disseminations of trades and transactions data primarily related to derivatives and thus ensure the transparency of information to relevant stakeholders. The trade repository known as SATR in the Kingdom is operated and hosted by SAMA and with the introduction of derivatives trading in the Kingdom the operations of the SATR in line with PFMI will become more critical.

C. Payment Instruments

The safety and efficiency of payment instruments can also impact public’s confidence and perception about the payment systems in KSA. SAMA, therefore, in order to ensure the public trust and compliance with the different regulatory direction issued from time to time will oversee the payment instruments in the Kingdom.

D. Critical Infrastructure Providers

Critical Infrastructure Providers (CIP) enable FMI's to operate their systems reliably and efficiently by providing services related to their IT Systems, Messaging and Telecommunication Networks. The oversight expectation applicable to CIPs therefore include but not limited to having a formal risk identification and management framework, appropriate information security policies and procedures and high levels of reliability and resilience.

E. Co-operative Oversight

Central Counter Parties (CCPs), Securities Settlement Systems and Central Securities Depositories (CSD) are FMIs primarily related to the securities and derivatives markets. The primary regulator of CCPs, SSS and CSDs is the Capital Markets Authority (CMA) in KSA. However, as these FMIs require access to the account held by SAMA in order to effect the payment legs of securities or derivatives transactions and are important source payment systems participants' liquidity in some cases, therefore, SAMA has an inherent interest to ensure that these FMI are safe and efficient.

SAMA and CMA therefore in order to formalize their roles and responsibilities i.e. SAMA as Banking Supervisor and Payment Systems Overseer and CMA as Securities and Derivatives market regulator has signed a Memorandum of Agreement (MOA) to ensure a formal legal and regulatory cooperation and coordination framework for the oversight of CCPs, SSS and CSDs.

Oversight Approach

SAMA being a member of Committee on Payments and Market Infrastructure (CPMI) was involved in the development of CPSS-IOSCO Principles for Financial Market Infrastructure (PFMIs). These Principles are international standards and provide baseline for effective risk management in the operations of FMIs. SAMA has committed to fulfill its responsibilities under the PFMIs wherein central banks have been made responsible to adopt and apply the CPSS-IOSCO Principles for Financial Market Infrastructures for the regulation, supervision and oversight of payments and financial settlement systems. It was in this context that SAMA vide its circular letter date 08/10/1434H has made the implementation of PFMIs mandatory. Consequently, SAMA's oversight approach will be as follows:

Applicability of PFMIs

1. All Principles related to Payment Systems will be applicable on the SIPS i.e. SARIE, SADAD and mada. Further PFMIs applicability on the SAMA's owned and

operated systems will be in line with BIS guidance on “Application of the Principles for financial market infrastructures to central bank FMIs” issued in August 2015.

2. For CCPs, SSS and CSD, SAMA will exercise its oversight functions and implement the contents of the Memorandum of Agreement(MOA) in cooperation with the Capital Market Authority for applicability of PFMI on these FMIs.

In addition to the PFMIs, SAMA may also mandate the compliance of other CPMI and IOSCO guidelines related to FMIs (e.g. Guidance on cyber resilience for financial market infrastructures)

Obligations of the payment and financial settlement infrastructure

The primary responsibility for ensuring the safety and efficiency of the payment and financial settlement infrastructure lies with the owners and operators of the infrastructure. In order to ensure this, payment and financial settlement infrastructure in line with PFMIs (Principle 23) are required to assess themselves against the PFMI at least once a year or as mandated by SAMA from time to time. Payment and financial settlement infrastructures are also required to disclose publicly responses to PFMI in line with CPSS-IOSCO Disclosure Framework for Financial Market Infrastructures.

By complying with the Principles, the payment and financial settlement infrastructure should be able to demonstrate that:

1. Infrastructures operated by them are safe and efficient.
2. They have proper procedures in place for identifying and managing risks specifically focusing on credit, liquidity, settlement, and operational risk in their respective business activities;
3. They are complying with the relevant SAMA rules and regulations and any additional requirements issued by SAMA from time to time.
4. They have sufficient MIS to provide relevant information or documents as required by SAMA from time to time.

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