



EUROPEAN CENTRAL BANK

EUROSYSTEM

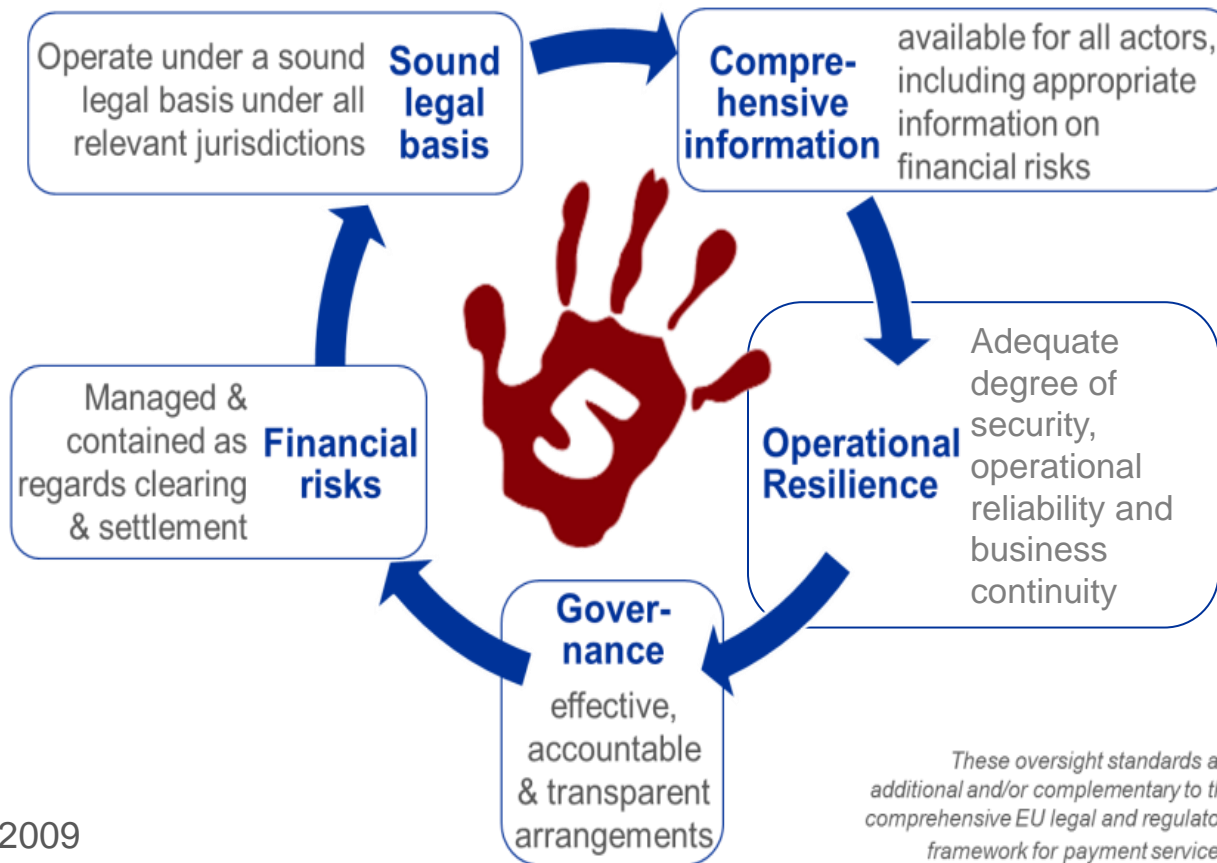
The Eurosystem's oversight framework for payment instruments, schemes and arrangements



09 December 2020

DG Market Infrastructure & Payments

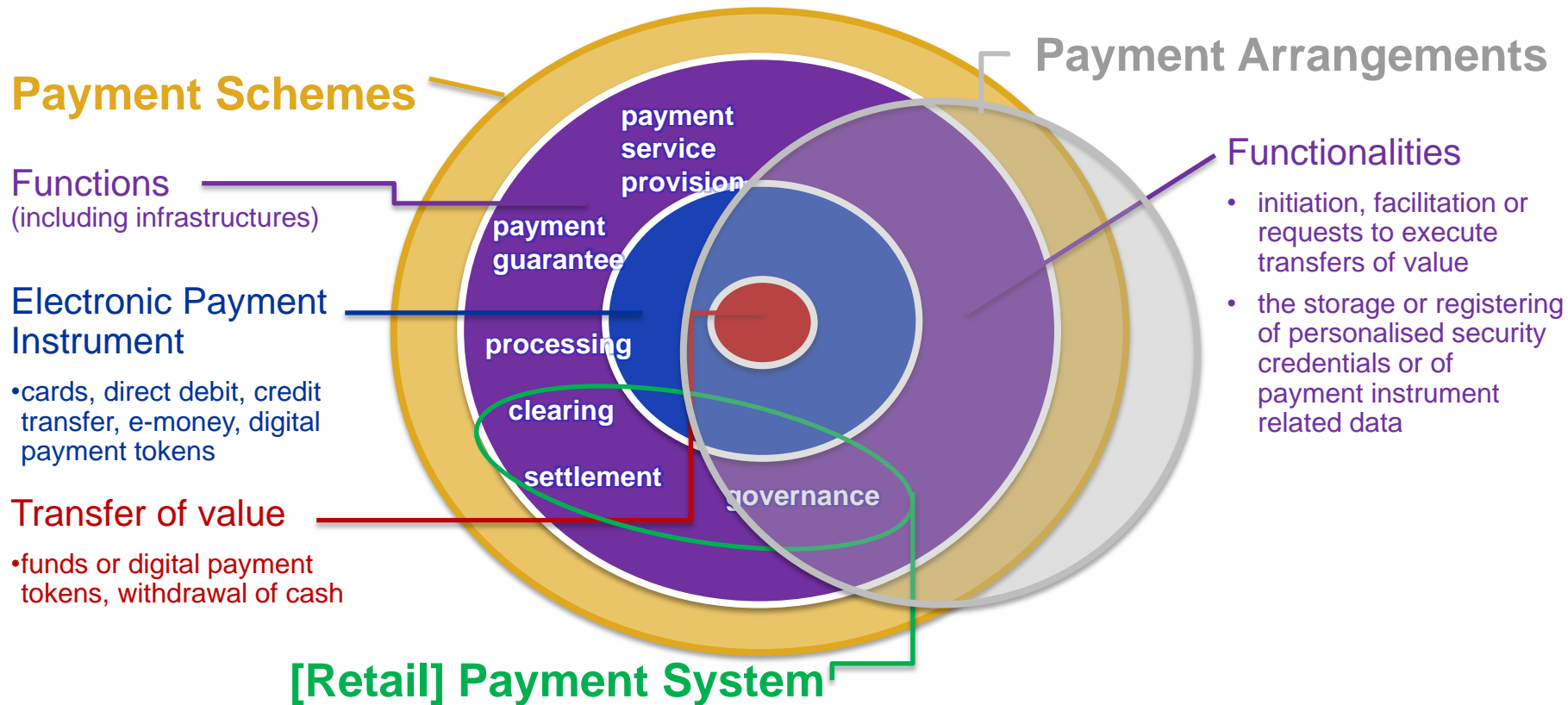
Harmonised Eurosystem oversight standards for payment instruments*



These oversight standards are additional and/or complementary to the comprehensive EU legal and regulatory framework for payment services.

*ECB February 2009

Future oversight approach for payment instruments



A payment instrument is a **personalised device and/or set of procedures** agreed between the **payment service user** and the **payment service provider** used in order to initiate a **transfer of value**.



Some payment instruments:

Prepaid/debit/credit cards, direct debit, credit transfer, e-money, digital payment tokens (a digital representation of value backed by claims or assets recorded elsewhere)

Transfer of value

- *transferring funds or digital payment tokens or*
- *placing or withdrawing cash on/from a user account*

The PISA framework covers **all variants of general purpose electronic payment instruments** (B2B, C2B, instant/standard, virtual/physical...)

**Eurosystem proprietary definition*

Geographical perspective:

Electronic payment instruments offered to end-users that are



- *Denominated in or funded in euro /*
- *Partly or fully **backed by euro** /*
- *Redeemable in euro.*

-> Application is regardless of where the payment scheme /arrangement is located!

A payment scheme is a **set of formal, standardised and common rules** enabling the **transfer of value** between end- users by means of **electronic payment instruments**. It is managed by a **governance body**.

The rules describe procedures and payment scheme functions which enable payers and payees to use or accept electronic payment instruments. Such functions cover at least the governance function of a payment scheme but may also include payment service provision, payment guarantee, processing, clearing and/or settlement.

Set of formal, standardised and common rules:

*A set of rules covering **all material aspects** governing the payment scheme that is **uniform throughout the payment scheme**, irrespective of whether the rules are based on a multilateral agreement, general terms and conditions or standardised bilateral contracts.*

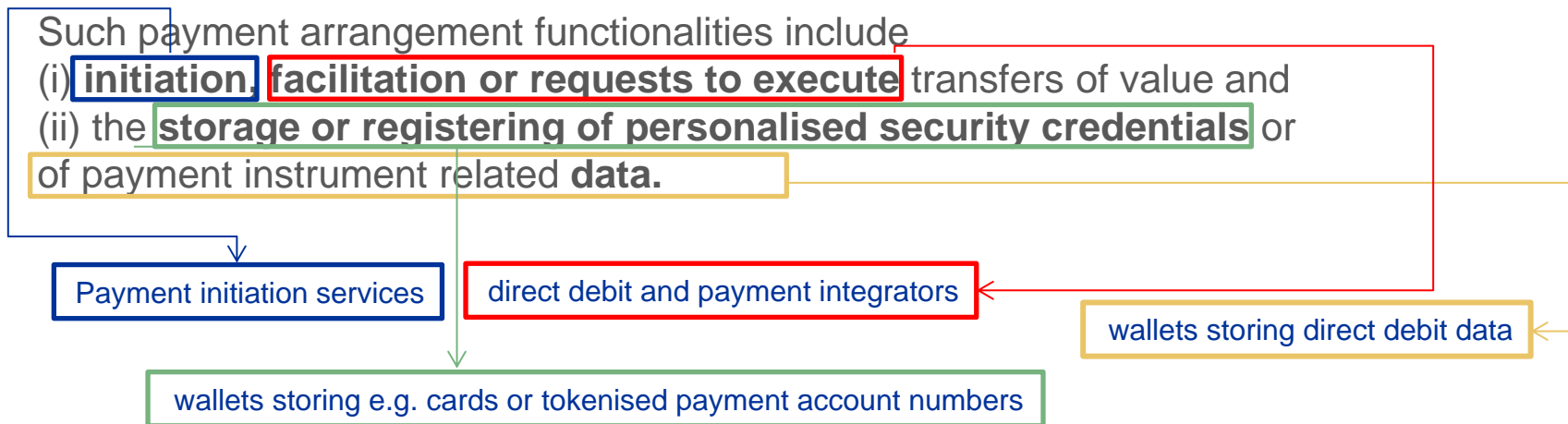
*Eurosystem proprietary definition

Core PISA Definitions - Payment arrangement*

A payment arrangement provides **functionalities supporting end-users** of multiple payment service providers **to use electronic payment instruments**. It is managed by a **governance body** issuing respective rules or terms and conditions.

Such payment arrangement functionalities include

- (i) **initiation**, **facilitation or requests to execute** transfers of value and
- (ii) the **storage or registering of personalised security credentials** or of payment instrument related **data**.



* Eurosystem proprietary definition

The **decision-making entity/ies** responsible for the **governance** of the payment scheme or payment arrangement

Governance of a payment scheme

Function responsible for ensuring the **overall functioning** of the **payment scheme** by

- i. **setting** formal, standardised and common **rules** for **participation** and/or **the use of payment instruments** and
- ii. **effective enforcement.****

Governance of a payment arrangement

Function in charge of **controlling** the **payment arrangement's functionalities** by

- i. **defining** the respective **rules or terms and conditions** as well as ensuring
- ii. **effective enforcement.** **

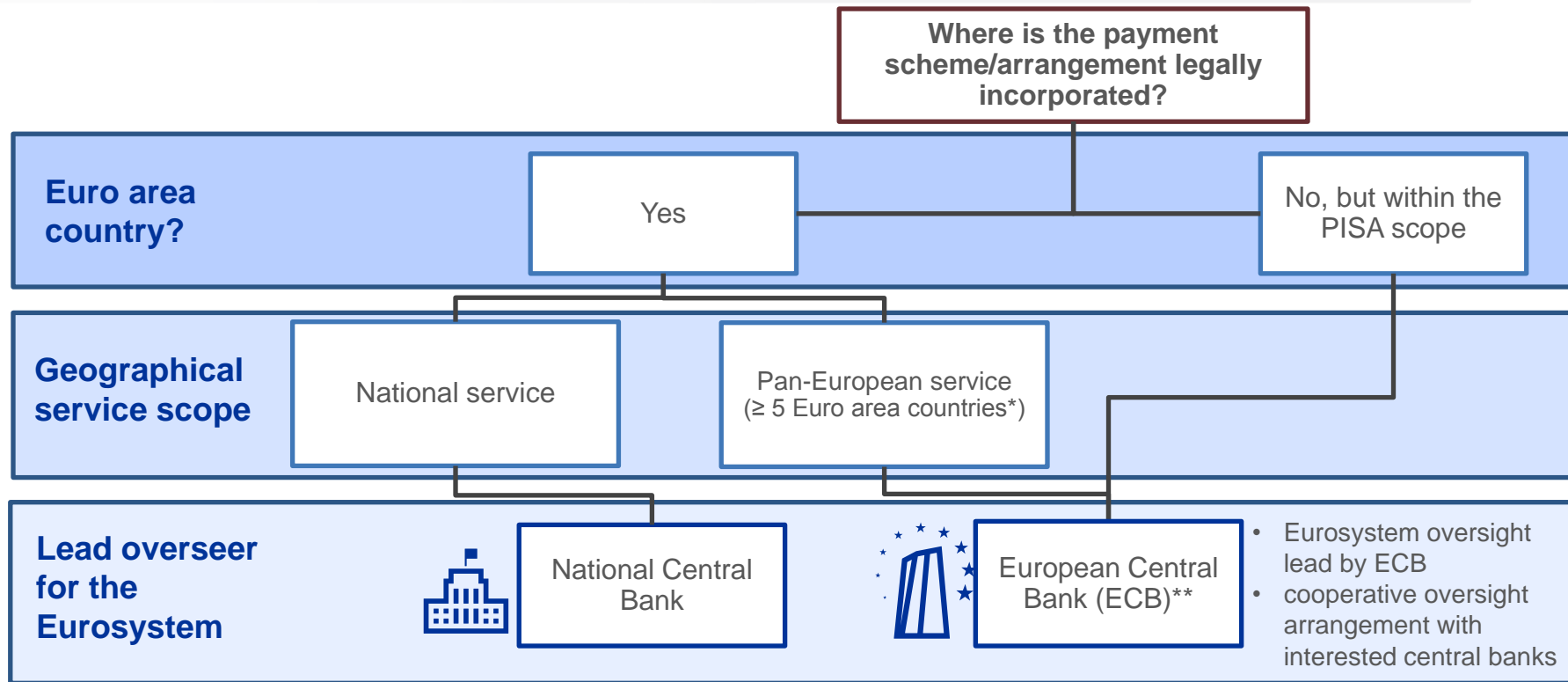
= Addressees of the PISA framework

→ ensure compliance with the oversight expectations

* *Eurosystem proprietary definition*

** *This does not exclude the delegation of responsibilities to other actors.*

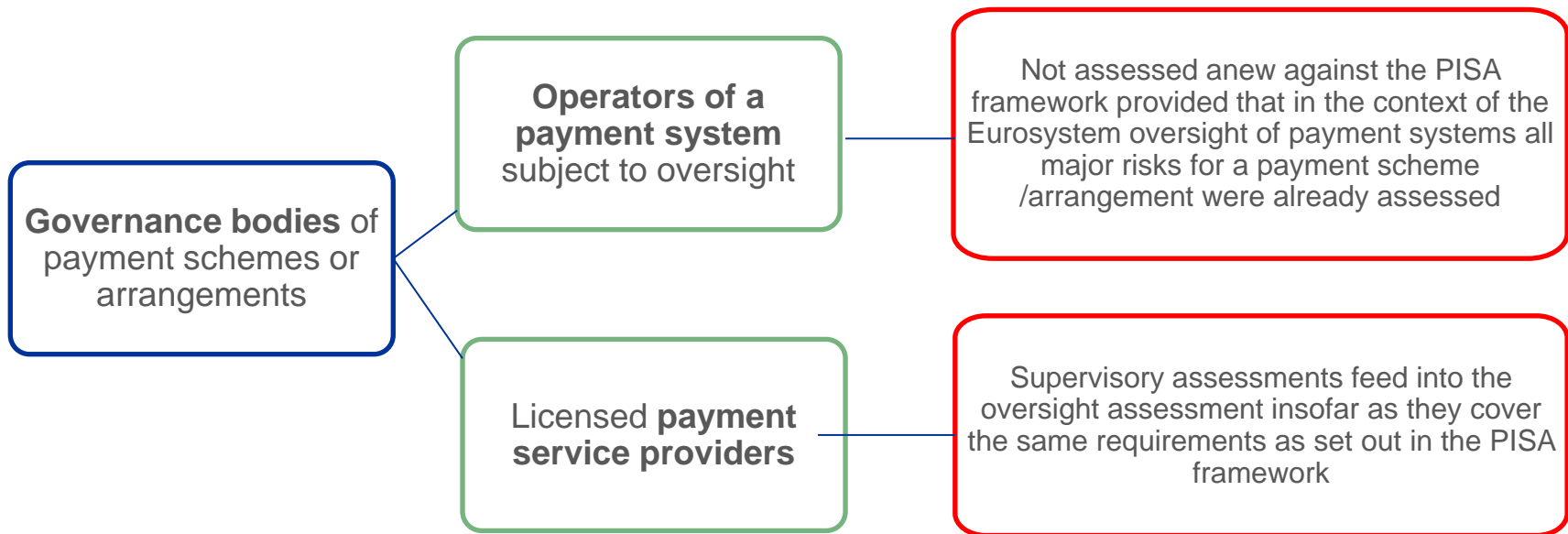
Organisation of oversight activity within the Eurosystem



* For details see Exemption policy

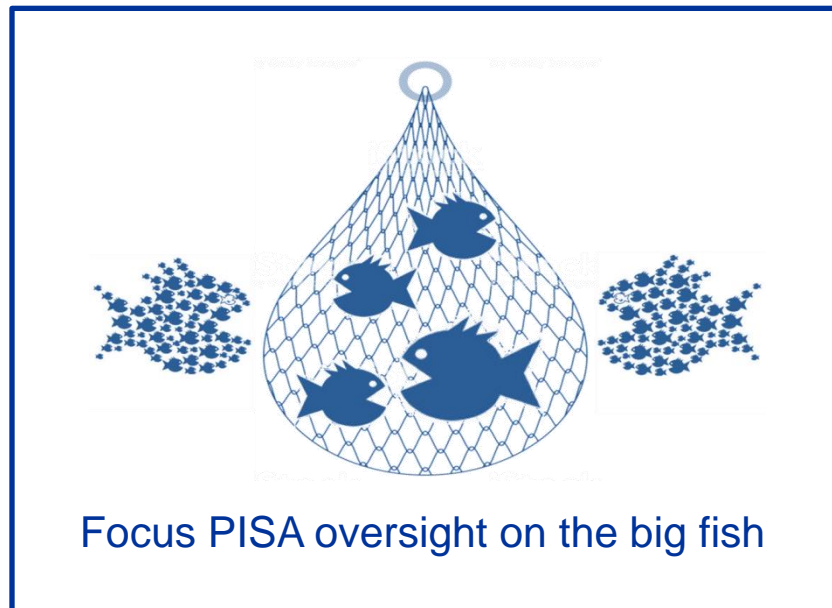
**If there is a traditional oversight or supervisory relationship with a national central bank of at least [three] years, the ECB jointly conducts the lead oversight with the respective NCB

Coordination with oversight or supervisory authorities



→ Provide evidence by sharing relevant oversight or supervisory assessments.

- **Number of users /payment service providers**
- Market penetration (**value, volume**)
- Geographic relevance (**number of Member States**)



Exempted payment schemes /arrangements:

→ **Voluntary application** of the PISA framework & monitoring by the responsible lead overseer

The governance body is expected

- to take necessary and appropriate measures to **mitigate those risks**
- **maintain confidence** in the payment scheme /arrangement and electronic payment instruments used.



PFMI versus the principles applicable to payment schemes/arrangements

Principle		Principles for financial market infrastructures	Principles for payment schemes/arrangements
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.	A payment scheme/arrangement should have a well-founded, clear, transparent and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.
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.	A payment scheme/arrangement should have governance that is clear and transparent, promotes the safety and efficiency of the payment scheme/arrangement, and supports the objectives of relevant stakeholders.
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.	A governance body should have a sound risk management framework for comprehensively managing a payment scheme/arrangement's legal, credit, liquidity, operational and other risks.

PFMI versus the principles applicable to payment schemes/arrangements

Principle	Principles for financial market infrastructures	Principles for payment schemes/arrangements
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. [...]	A payment scheme should effectively measure, monitor and manage its credit exposures to payment service providers and/or end users as well as those arising from its payment, clearing and settlement processes. A payment scheme/arrangement should maintain sufficient financial resources to fully cover its credit exposure to each payment service provider with a high degree of confidence.
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.	A payment scheme that requires collateral to manage its or its payment service providers' credit exposures should accept collateral with low credit, liquidity and market risk.

PFMI versus the principles applicable to payment schemes/arrangements

Principle	Principles for financial market infrastructures	Principles for payment schemes/arrangements
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.	A payment scheme should measure, monitor and manage its liquidity risk effectively. A payment scheme should maintain sufficient liquid resources in all relevant currencies to meet its payment obligations in a timely manner with a high degree of confidence. This should be under a wide range of potential stress scenarios that should include, but not be limited to, the default of the payment service provider and its affiliates that would generate the largest aggregate liquidity obligation for the payment scheme under extreme, but plausible, market conditions.
8	Settlement finality and crediting of end user	
	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.	A payment scheme should define clear rules for final settlement.

PFMI versus the principles applicable to payment schemes/arrangements

Principle	Principles for financial market infrastructures	Principles for payment schemes/arrangements
9 Money settlement	<p>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.</p>	<p>If central bank money is not used for the money settlement of the obligations of the end users or the payment service providers of a payment scheme, the governance body should minimise and strictly control the credit and liquidity risk arising from the use of commercial bank money.</p>
13 Payment service provider default rules and procedures	<p>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.</p>	<p>A payment scheme should have effective and clearly defined rules and procedures for managing the default of a payment service provider. These rules and procedures should be designed to ensure that a payment scheme can take timely action to contain losses and liquidity pressures and, thereby, continue to meet its obligations.</p>
15 General business risk	<p>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.</p>	<p>A payment scheme/arrangement should identify, monitor and manage its general business risk and it should hold sufficient liquid net assets funded by equity to cover potential general business losses. This would allow it to continue operations and provide services as a going concern if such losses were to materialise.</p>

PFMI versus the principles applicable to payment schemes/arrangements

Principle	Principles for financial market infrastructures	Principles for payment schemes/arrangements
16 Custody and investment risk	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.	A payment scheme should safeguard its end users' assets and minimise the risk of losses on these assets or delayed access to them. A payment scheme should invest in instruments that carry minimal credit, market and liquidity risks.
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.	Payment schemes/arrangements, payment services providers and technical service providers should identify the plausible sources of operational risk, whether internal or external, and mitigate impact by implementing 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 the fulfilment of the obligations of the payment scheme/arrangement, the payment services providers or the technical service providers , including in the event of a wide-scale or major disruption.
18 Access and participation requirements	An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.	A payment scheme/arrangement should have objective, risk-based and publicly disclosed criteria for participation, which permit fair and open access.

PFMI versus the principles applicable to payment schemes/arrangements

Principle	Principles for financial market infrastructures	Principles for payment schemes/arrangements
21 Efficiency and effectiveness	An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves.	A payment scheme/arrangement should be efficient and effective in meeting the requirements of the payment service providers, end users and the markets it serves.
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 .	A payment scheme/arrangement should use, or at least accommodate, relevant internationally accepted communication procedures and standards in order to facilitate the efficient transfer of value between end users .
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.	A payment scheme/arrangement should have clear and comprehensive rules and procedures and it should provide sufficient information to enable payment service providers, technical service providers and end users to reach an accurate understanding of the risks, fees and other material costs they incur by participating in/making use of the payment scheme/arrangement. All relevant rules and key procedures should be publicly disclosed, bearing in mind those rules and procedures which, if disclosed, could pose a threat to the security of a scheme or arrangement. The latter should only be disclosed to scheme or arrangement stakeholders on a “need to know” basis.

The Assessment Methodology implementing the PISA framework

ECB



Eurosystem assessment methodology for electronic payment instruments, schemes and arrangements

Draft for public consultation

- Basis: *Revised assessment methodology for payment systems*
- Entails requirements applicable per function and payment instrument
- Considers relevant key considerations from previous assessment guides



The Assessment Methodology implementing the PISA framework

Principle 15: general business risk

Example

A payment scheme/arrangement should identify, monitor and manage its general business risk and it should hold sufficient liquid net assets funded by equity to cover potential general business losses. This would allow it to continue operations and provide services as a going concern if such losses were to materialise

Payment scheme functions	Payment arrangement functions/functionalities	Payment instrument
<input checked="" type="checkbox"/> Governance of a payment scheme <input type="checkbox"/> Service provision <input type="checkbox"/> Payment guarantee <input type="checkbox"/> Processing <input type="checkbox"/> Clearing <input type="checkbox"/> Settlement	<input checked="" type="checkbox"/> Governance of a payment arrangement <input type="checkbox"/> Initiation, facilitation and requests to execute transfers of value <input type="checkbox"/> Storage or registering of personalised security credentials <input type="checkbox"/> Storage of payment instrument-related data	<input checked="" type="checkbox"/> Payment card <input checked="" type="checkbox"/> Credit transfer <input checked="" type="checkbox"/> Direct debit <input checked="" type="checkbox"/> E-money <input checked="" type="checkbox"/> Digital payment token <input checked="" type="checkbox"/> Cash ²¹

Key consideration 1. A payment scheme/arrangement should have robust management and control systems to identify, monitor and manage general business risks, including losses due to poor execution of business strategy, negative cash flows, or unexpected and excessively large operating expenses

How does the payment scheme/arrangement identify its general business risks? What general business risks has the governance body identified?

Response template


RESPONSE TEMPLATE: Public consultation on the draft Eurosystem oversight framework for electronic payment instruments, schemes and arrangements

CONTACT DETAILS (will not be published)	
Name of the organisation	
Name of the contact person	
Email address of the contact person	
Phone number of the contact person	
Type of respondent	<input type="checkbox"/> Authority <input checked="" type="checkbox"/> Scheme or arrangement <input type="checkbox"/> Payment service provider <input type="checkbox"/> Association <input type="checkbox"/> Private individual <input type="checkbox"/> Other
Disclose comments	Yes
Type of scheme or arrangement	
Number of end users at the end of 2019 (in thousands)	
Number of adhering service providers at the end of 2019	
Total volume of euro-denominated transfers of value at the end of 2019 (in millions)	
Total value of euro-denominated transfers or euro equivalent at the end of 2019 (in EUR billions)	
Number of countries in which the payment scheme/arrangement is actively offered to end users (payers and payees) for transfer of value at the end of 2019, or	
Number of countries in which the payment scheme/arrangement is actively offered to payment service providers for transfer of value at the end of 2019	

This part is only for payment schemes and arrangements

For the data definitions see Exemption policy tables 1-5

Geographical scope: Euro area



Response template

No	Comment by	Document	Page	Section	Original Text	Comment	Reasoning
		<i>[Please indicate the document concerned using the drop-down list]</i>		<i>[Please indicate the part concerned using the drop-down list]</i>	<i>[Please provide the text you are commenting on (or indicate a figure or table)]</i>	<i>[Please provide your input]</i>	<i>[Please provide your input]</i>
1							
2							
3							

You are kindly invited to

- add only **issues where you consider a follow-up** is necessary, i.e. no general statements like
 - “We welcome the recommendations.”
 - No introductory statements about your company/association.
- **Make exact references** (document/page/section)
- **Suggest concrete amendments, clarifications or deletions and give a reasoning**
- **Present all comments by issue** (i.e. one separate row for each issue).
- If necessary, replicate the table to provide further comments.

The next steps



Public consultation ongoing until 31.12.2020



Review and finalisation of the PISA framework package by mid 2021



Identify/exempt payment schemes schemes/arrangements



Payment schemes/arrangements have 1 year for implementation



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End of event

Thank you for joining!

9 December 2020



**Deadline public consultation:
31 December 2020**

dl_pisaframework@ecb.europa.eu

Stay informed!



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ECB: market infrastructure and payments

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