

FEDERAL RESERVE BANK  
OF CHICAGO

MICHAEL H. MOSKOW

President and Chief Executive Officer

March 17, 2000

Committee on Payment and Settlement Systems  
Bank for International Settlements  
CH-4002 Basel  
Switzerland

Re: **Core Principles for Systemically Important Payment Systems**

Dear Committee Members:

On behalf of the Federal Reserve Bank of Chicago (the “Bank”), I am pleased to have this opportunity to comment on the Report of the Task Force on Payment System Principles and Practices entitled *Core Principles for Systemically Important Payment Systems* (the “Report”). The Report represents a significant step toward assuring that systemically important payment systems are designed, operated and overseen in a manner that is consistent with the public interest.

The Bank supports the Committee’s recognition that economic efficiency is an important public policy objective and the explicit incorporation of that objective in the core principles. In addition, we believe that the Committee’s decision to invite comments from all interested parties is likely to result in further improvements to the core principles and promote the international consensus needed to strengthen the world’s financial markets and payments infrastructure.

We note that the Committee has sought comments regarding a number of important public policy issues, including the major criteria for identifying those systems that should be subject to the core principles. This issue is of particular interest to the Bank, since a number of leading securities, futures and options markets, as well as clearing and payment arrangements for those markets, are located in the Seventh Federal Reserve District.

The Report defines the term “payment system” to include those systems that “. . . are the means by which funds are transferred between banks. . . .” (Report §1.1). However, the Report also notes that other types of systems might be considered “systemically important payment systems” to which the core principles should be applied. The Report explains that:

[t]he focus of this report is on payment systems, that is systems that provide for the transfer of funds. The most direct application is for systems which involve only funds transfers, but the principles can also apply to the payments aspects of systemically important systems in which transfers of other financial assets, such as securities, and related transfers of funds are both settled. (Report §1.7) (emphasis added).

According to the Report, such systems may be considered “systemically important” if they “. . . could trigger or transmit systemic disruptions in the financial area because of the size or nature of individual payments which they handle or because of the aggregate value of the payments processed.” (Report §3.2). In short, systemically important payment systems “. . . are a major channel by which shocks can be transmitted across domestic and international financial systems and markets.” (Report §1.1).

The Bank agrees that it is appropriate to consider the extent to which systems other than those for the transfer of funds between banks may play a role in the generation or transmission of systemic shocks. In particular, we agree that it is appropriate for the Committee to recognize the systemic importance of arrangements for settling securities and “other types of financial assets.” In considering how broadly to apply the core principles, however, the Committee should take account of the regulatory and competitive environments in which securities settlement systems, as well as arrangements for settling futures, options and other kinds of contracts or financial assets, currently operate.

The desirability of harmonizing risk regulation across various types of markets and intermediaries is a prima facie consideration in favor of making the core principles broadly applicable. If that is to be done, however, care should be taken to ensure that benign practices and arrangements, whether traditional or innovative, will be judged according to their actual merits in the particular market contexts where their permissibility will be in question.

Accordingly, the Bank believes that the Committee should give further attention to the ways in which systems other than those for the transfer of funds between banks might be affected if they were subject to the core principles. We think that the Committee’s joint study with the International Organization of Securities Commissions (“IOSCO”) will be beneficial for that reason and we hope that the Committee will seek other opportunities to discuss the core principles with parties whose interests may not be represented within IOSCO.

Committee on Payment and Settlement Systems  
March 17, 2000  
Page 3

The Bank is looking forward to the development and release of the second part of the Report, which we understand will offer recommendations concerning the proper interpretation and practical application of the core principles in different contexts. We hope that the Committee will find our general comments useful in preparing those recommendations. If the Committee has any questions regarding the Bank's comments, I invite you to contact Bill Bergman at (312) 322-2532 or Robert Steigerwald at (312) 322-2414. We intend to continue studying the core principles and would be pleased to share the results of our study with the Committee.

We appreciate the Committee's work to promote international consensus regarding sound principles for the design and operation of systemically important payment systems and we especially appreciate the opportunity to provide our comments to the Committee.

Sincerely,