



Central Bank of Iran

The Role of Central Banks

Agenda



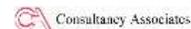
- History of FMI
- Role and obligations of Central Banks
- Relationship between Central Bank and other financial institutions
- Supervision and oversight of payment systems, wholesale and retail
- Role of Central Bank as a catalyst
- Role of Central Bank in interbank settlement
- Relation of Central Bank with other central banks

Approach



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- Firstly...What do central banks do...and what don't they do
- Then I am going to address each of the agenda items by making reference to two time lines
- BIS
- PRW



PRW



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- Who am I and what relevance do I have to the agenda items?
- HSBC
 - ▣ managed international payments in 1990
 - ▣ managed Group Electronic Banking in 1992 ... Hexagon (1987)
- Set up CAL in 1994
- Hong Kong payments strategy 1994-1996
- 50 other central banks since then in Asia, Middle East, Europe, Africa, Americas



Central Banks do...



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- The three basic functions of a central bank are:
- Monetary policy
- Supervision
- Payments system

Monetary Policy



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- Targeting
- exchange rates; interest rates; inflation
- Developing active interbank money market
- Using tools of Money in circulation; government debt; OMO
- Largely influenced by IMF and similar bodies

Supervision



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- Banks;
- non-banks;
- on-site;
- offsite;
- AML;
- Licensing
- Largely influenced by BIS

Payments



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- High Value/Low Volume;
- Low Value/High Volume;
- Electronic money;
- PvP; DvP;
- channels;
- Oversight
- Largely influenced by BIS

Typical central banks do not



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- Participate in commercial banking activities
- Participate in retail payments
- Licence technology
- Treat private banks differently from state controlled banks

Typical central banks do



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- License financial advisors
- Establish rules for compliance officers in banks
- Mandate appointment of compliance officers in banks
- Establish rules for oversight
- Maintain effective dialogue with banks
- Promote innovation in banking services
- Safeguard the interest of the general public

BIS Mission



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- In broad outline, the BIS pursues its mission by:
 - promoting discussion and facilitating collaboration among central banks;
 - supporting dialogue with other authorities that are responsible for promoting financial stability;
 - conducting research on policy issues confronting central banks and financial supervisory authorities;
 - acting as a prime counterparty for central banks in their financial transactions; and
 - serving as an agent or trustee in connection with international financial operations.



BIS (1930s-1973)



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- 1930s to 1940s
 - ▣ Recovering German reparations from WW1
 - ▣ Implementation of Bretton Woods international monetary system, which was based on freely convertible currencies at fixed but adjustable exchange rates.
- 1950s
 - ▣ Convertibility of European currencies pre European Union
- 1960s
 - ▣ Crisis management ... currency problems leading to the end of Bretton Woods in 1973



BIS to 1983



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- 1974
 - ▣ (Collapse of Bankhaus Herstatt)
 - ▣ Basel committee on Banking Regulations and Supervisory Practices
- 1981
 - ▣ First meeting of the Group of Payment System Experts
- 1983
 - ▣ (IOSCO formed ... International Organisation of Securities Commissions)

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BIS to 1990



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- 1987
 - ▣ (Black Monday ... US Stock Market Collapses)
- 1988
 - ▣ Basel Capital Accord agreed (Basel I)
- 1989
 - ▣ Report on Netting Schemes (Angell Report)
- 1990
 - ▣ Report on Interbank Netting Schemes (Lamfalussy Report)
 - ▣ CPSS established

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BIS to 1994



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- 1992
 - ▣ Report on Delivery vs Payment in Securities Settlement systems
- 1993
 - ▣ (ERM Crisis)
 - ▣ Report Central Bank Payment and Settlement with respect to Cross Border and Multi Currency transactions
- 1994
 - ▣ (Hong Kong RTGS)

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Hong Kong Payments System - 1994



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- 1994
- Why?
- No standards for payment systems!
- Discuss with Central Banks of major trading partners (Fed, PBoC, BoJ, BoE, DBB, SNB)
- Discussed with commercial banks and stakeholders inc. Stock Exchange, Futures Exchange, Clearing House, etc
- Discussed with World Bank
- Reported at end 1994
- Already seeing need to interact with other Central Banks and with other financial institutions (re Agenda)

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BIS to 1996



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- 1996
- Joint forum of BCBS, IOSCO, IAIS set up...banking, securities and insurance supervisors
- March ... Report on Settlement Risk in Foreign Exchange Transactions
 - The Allsopp Report
 - Set the scene for CLS Bank
- August ... Report on Security of Electronic Money
- October ... BCBS Report on Supervision of Cross Border Banking
- (December ... Implementation of new clearing and settlement arrangements in Hong Kong)

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Summary to 1996



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- By 1996, we can see the directions being taken by BIS with regard to Payment and Securities Settlement
- Focus on understanding risk
- Settlement of payments and securities inextricably linked
- International nature of settlement systems
- Need for cooperation between central banks

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BIS to 2000



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- 1997
 - ▣ September ... BCBS ... Core Principles for Effective Banking Supervision
 - Includes provisions for relationships with other Central Banks, eg regarding 'foreign' banks ... addresses another Agenda item!
- 1998
 - ▣ July ... opening of Asian representative office in Hong Kong
- 1999
 - ▣ Review the role of Central Banks in Retail Payments
- 2000
 - ▣ Clearing and settlement arrangements for retail payment systems in selected countries

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BIS in 2001...a seminal year



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- January
 - ▣ Core Principles for Systemically Important Payments Systems
- November
 - ▣ CPSS/IOSCO Recommendations for Securities Settlement Systems
- 2002
 - ▣ November ... CPSS/IOSCO Assessment Methodology

We can now see the direction BIS is taking to reduce the risk in the financial system worldwide, both on the payments side and the securities side. This is by defining core principles which are somewhat similar to standards, but not as prescriptive

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The Core Principles

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- Legal Basis
- Understanding financial risk
- Management of financial risks
- Prompt final settlement
- Settlement in multilateral netting systems
- Settlement assets
- Security and operational reliability
- Efficiency
- Access Criteria
- Governance
- Responsibilities of Central Banks
- A ... Disclosure of objectives, role and major policies
- B ... Compliance of Central Bank systems
- C ... Oversight of non-central bank systems
- D ... Cooperation with other authorities

BIS from 2003 to 2004



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- 2003
 - March ... Policy Issues for Central Banks in Retail Payments
 - August ... Role of Central Bank Money in Payments Systems
- (CAL produces payments strategy for CBO; CBL)
- 2004
- (CAL produces payments strategy for CBI)
 - November ... CPSS/IOSCO Recommendations for Central Counterparties

Role of typical central bank in retail payments



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- A CPSS report on retail payments systems in 2003 identified three roles that a Central Bank can adopt in retail payments:
- Operating the clearing & settlement systems (RTGS, ACH, ATM/POS, Cheque Imaging System)
- Overseeing & regulating retail payment systems (ePayment, A/C to A/C transfer, mobile payment)
- Facilitating retail payment development in the country, or as a catalyst

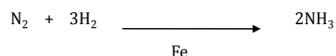


Catalyst



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- Catalytic reaction
- Nitrogen plus Hydrogen to make Ammonia



- This reaction needs Iron for it to take place quickly
- In the central banking context it recognises that Central Banks have no ongoing role in retail banking products or services but, without central bank intervention, those products and services would never develop, eg
 - National ATM/POS switches
 - Mobile banking interconnectivity



- April
 - ▣ Principles for Financial Market Infrastructures
- May
 - ▣ Innovation in Retail Payments
- December
 - ▣ FMI Disclosure Framework and Assessment Methodology

- Clearly, since CPSS and IOSCO started working together in 1992, there has been a developing theme that financial markets cannot be considered by looking separately at each component, but must be viewed holistically.
- Also, markets do not function independently, so they must be considered in the broader domestic and international environment.
- So how do we define a financial market infrastructure?

FMI (Financial Market Infrastructure) Compliance Assessment



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- BIS Published FMI 24 Core Principles in April 2012
 - Combined the 10 core principles for Payment System (CPSIPS) and the IOSCO recommendations for securities settlement
- BIS's Definition of FMI:
 - *"an FMI is 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" ...* quoted from "CPSS-IOSCO – Principles for FMI April 2012"
 - FMI are categorized into:
 - Payment System
 - SSSS
 - CSD
 - Central Counterparty (CCP)
 - Trade Repository (TR)



FMI Compliance Assessment



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- FMIs under control of CBI (operations or oversight or regulations):
 - RTGS System
 - ACH System
 - Shetab (National Cards Switch)
 - Shaparak (PSP & POS payments)
 - Cheque Imaging System (not yet implemented)
 - SSSS (implemented but active use pending for CSD)
 - CSD (planned and not yet implemented)
 - SEPAS (ePurse/mobile money)
- Other FMIs in Iran:
 - Tehran Stock Exchange (TSE)
 - Iranian Merchantile Exchange (IME)
 - OTC Market (Iran farabourse SME Exchange)
 - CSDi (clearing and settlement for TSE, IME, SME)



FMI Compliance Assessment

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- Legal Basis
- Governance
- Risk Management
- Credit Risk
- Collateral
- Margin
- Liquidity Risk
- Settlement Finality
- Money settlement
- Physical Deliveries
- Central Securities Depositories
- Exchange-of-Value Settlement Systems
- Participant Default Rules & Procedures
- Segregation and Portability
- General Business Risk
- Custody and investment risk
- Operational Risk
- Access & Participation
- Tiered Participation Arrangements
- FMI Links
- Efficiency & Effectiveness
- Communication Procedures and Standards
- Disclosure of Rules, Key Procedures, and Market Data
- Disclosure of Market Data by trade repositories

Conclusion



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