



EUROPEAN CENTRAL BANK

EUROSYSTEM

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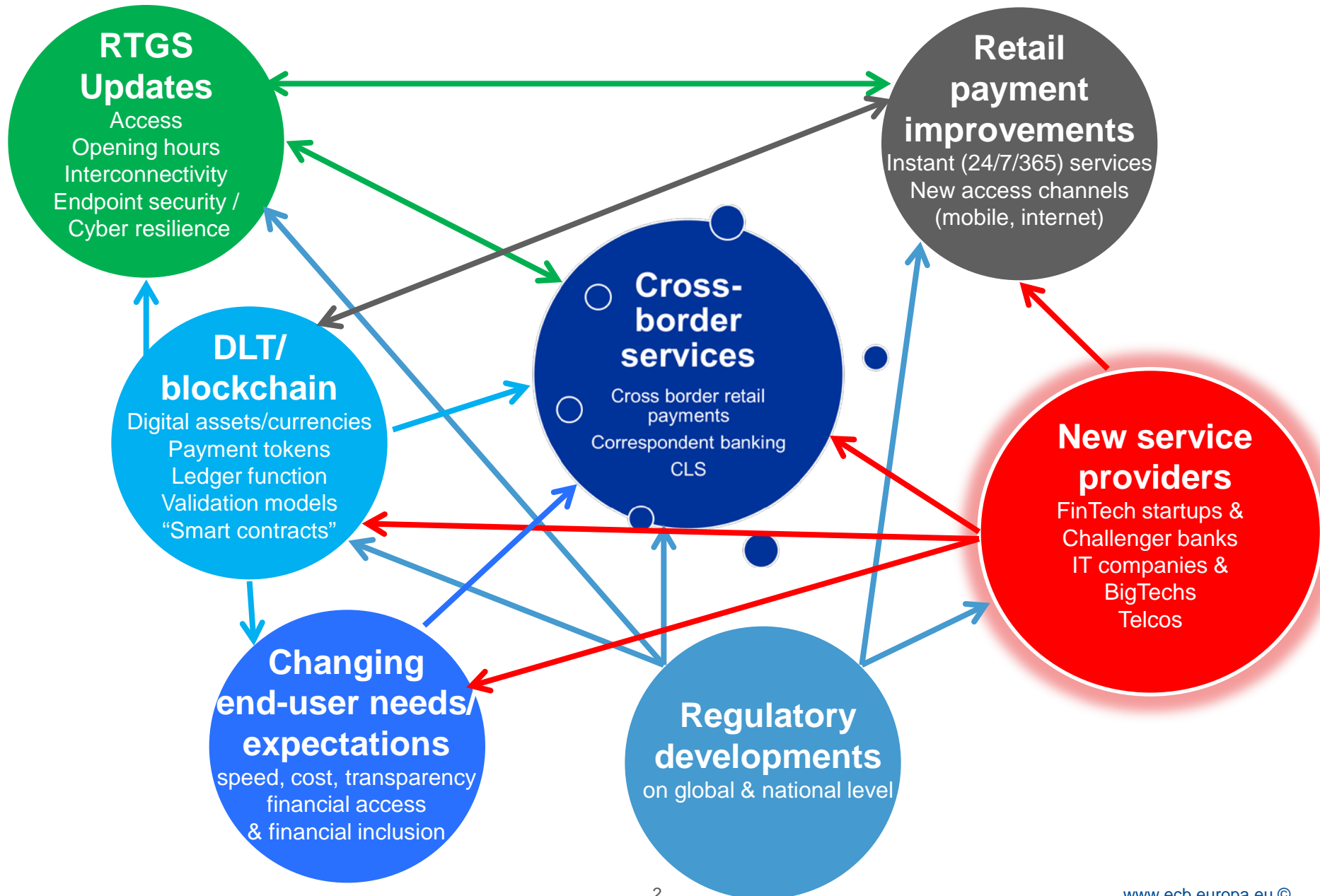
Non-bank finance - a central bank/oversight perspective

Non-Bank Finance and Financial
Intermediation

Naples, 18-19 June 2019

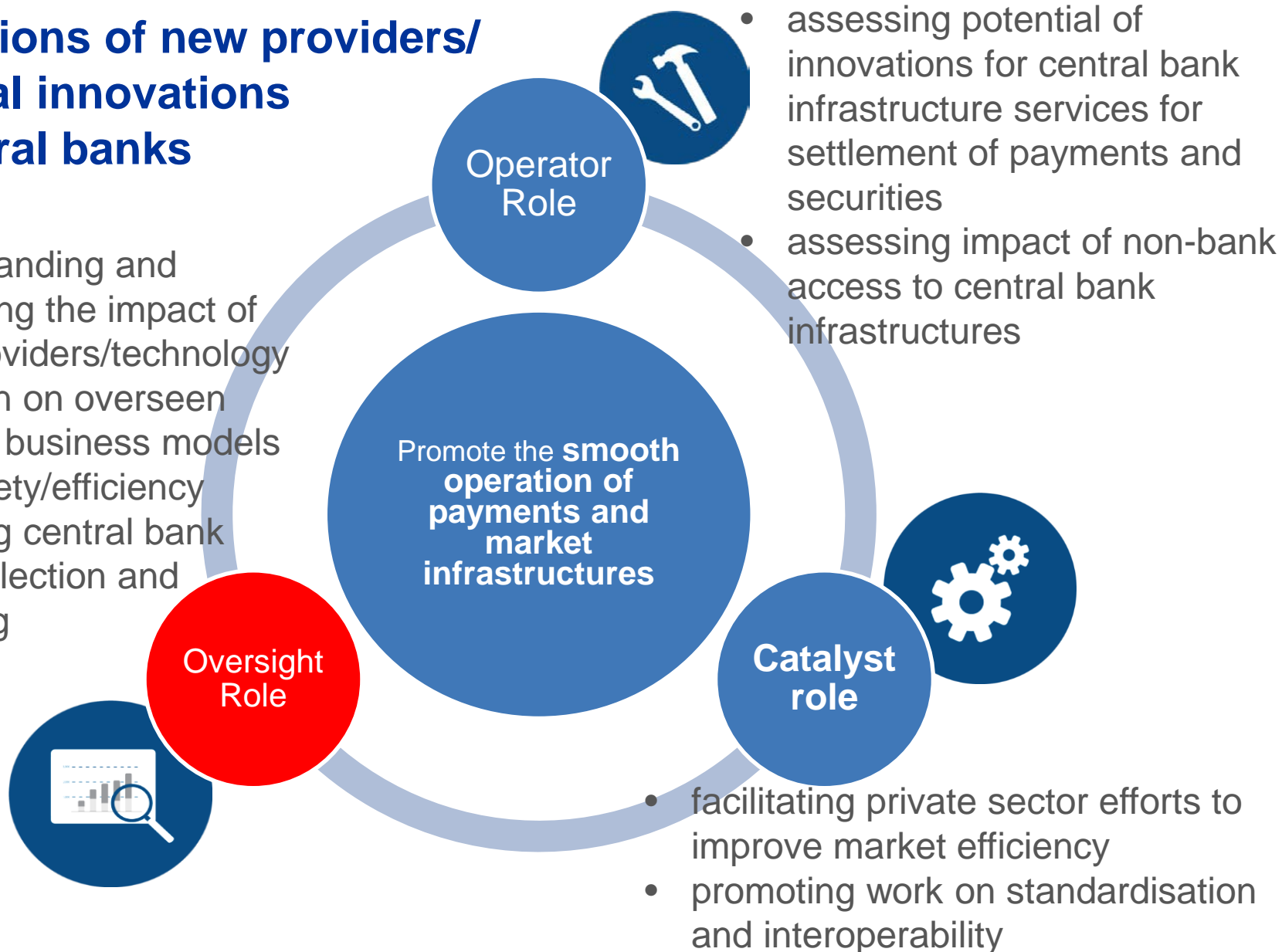
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Many trends in payments are driven by non-traditional banks



Implications of new providers/ technical innovations for central banks

- understanding and assessing the impact of new providers/technology adoption on overseen entities' business models and safety/efficiency
- adapting central bank data collection and handling





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- a central
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perspective**

1**Implications for overseers****2****Work of standard setting bodies****3****Conclusions**

New providers & technological innovation - points of attention for overseers

Technological neutrality

- neither impose nor discriminate in favour of the use of a particular technology/provider

Proportionality

- requirements may vary in proportion to the risk brought into the system

Consistency

- of outcomes, with global standards, across jurisdictions

Subject of oversight

- operator / governance authority of the system / scheme

Co-operation of authorities

- at domestic and cross-border level

Technological neutrality

- **Challenge of distributed ledger technology: oversight principles and FMI regulation predate DLT**
 - Centralised systems and centralised governance under a responsible operator are two premises on which regulation and oversight is conducted today
 - The use of new technologies might create new sources of risks that are not yet included in the scope of existing oversight principles
- **Particular areas of concern:**
 - Legal basis: legal underpinning for services that avoid relying on a central party
 - Governance: allocation of responsibilities and decision making
 - Settlement finality: accommodation of consensus based settlement that is probabilistic
 - Operational risk: scalability, latency, cyber-resilience

Consistency

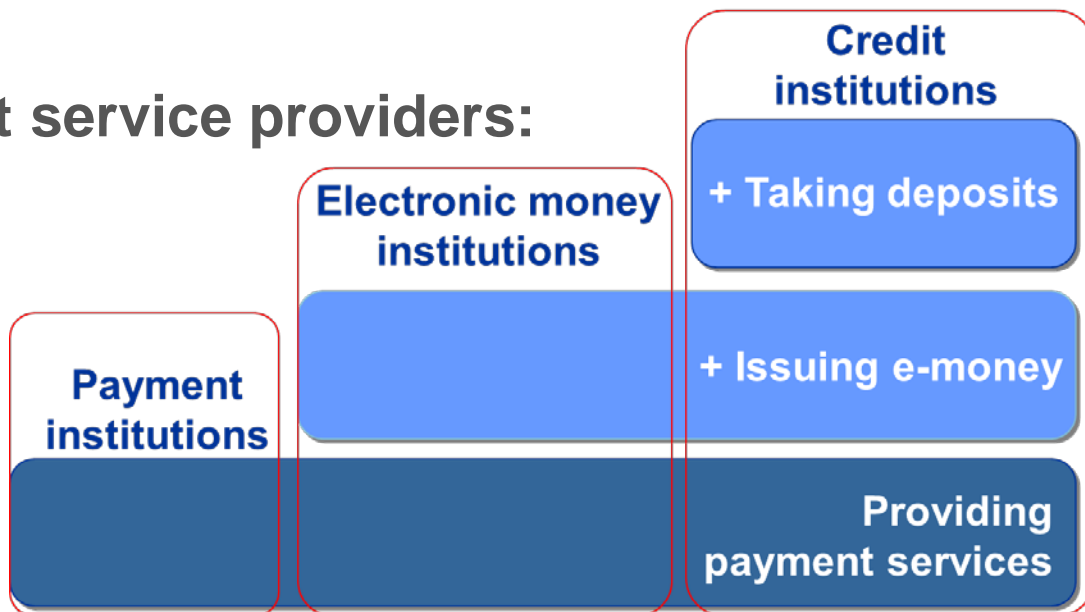
- *Consistency of outcomes*
 - *Consistency with global standards*
 - *Consistency across jurisdictions*
-
- Important where systems, markets or jurisdictions are in competition with each other
 - Central banks should indicate criteria for “comparability” (e.g. types of instruments, value, types of participants, risk attributes)
 - Consistency also needed where a central bank operates a system itself to avoid competition issues and conflict of interests (e.g. by organisational separation)

Proportionality & subject of oversight

Different type of payment systems / schemes:

- Systemically important payment systems
- Non-systemically important large-value payment systems
- Prominently important retail payment systems
- Other retail payment systems
- Payment instruments/schemes

Different type of payment service providers:



Diverging licensing criteria depending on risk

- **Align** conflicting **objectives**
- Promote **consistency** of regulatory requirements and approaches and avoid duplication
- **Access to comprehensive and timely information** on factors that may impact on the safety and resilience of infrastructures, institutions or markets
- Ex-ante **clarification of responsibilities and procedures** for cooperation among authorities during crisis situations

Arrangements can take many forms (e.g. based on *mutually consistent regulation, bilateral or multilateral treaties or MoUs*), i.a.:

- **Information-sharing arrangements**
- **Allocation of responsibilities** (*home/host supervision, lead overseer, etc.*)
- **Colleges** (*supervisors/overseer/others; national/regional/global; single entity/group*)
- Crisis management and resolution groups

- Effective cooperation can help to avoid the possibility of gaps, duplication or inconsistencies in the oversight of multicurrency/offshore FMIs

Central bank oversight of payment and settlement systems, May 2005

PFMI Responsibility E

- Relevant authorities should cooperate with each other in fulfilling their respective mandates with respect to FMIs
 - both domestically and internationally
 - to foster efficient and effective communication and consultation in order to support each other
- Cooperation needs to be effective in normal circumstances
- Cooperation should be adequately flexible to facilitate effective communication, consultation, or coordination, as appropriate, during periods of market stress, crisis situations, and the potential recovery, wind-down, or resolution of an FMI



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CPMI Working Group on Digital Innovations and Currencies

- Established in **February 2016** to assess the :
 - ***potential impact on the financial market infrastructure***
 - ***potential impact on central bank functions***



Development of an **analytical framework** (February 2017) to understand and analyse the implications of innovative technology for payments, clearing and settlement



CPMI-Markets Committee joint report on **central bank digital currencies** (March 2018)

Further work underway, including on ***wholesale digital currencies***, ***legal aspects*** and ***cross-border issues***

Analytical framework for DLT in payment, clearing & settlement

- Guidance on **understanding the arrangement (scope)**
 - Functionality and nature of the arrangement
 - Key factors for an effective implementation
- Potential implications for **efficiency, safety and the broader financial markets**



Efficiency	Safety
Speed of end-to-end settlement Costs of processing Reconciliation (speed, transparency) Credit and liquidity management Automated contract tools	Operational and security risk Settlement issues Legal risk Governance Data management and protection
Broader financial market implications	
Connectivity issues and standards development Financial market architecture (actors, markets, regulators) Broader financial market risks (micro- and macro-level)	

Focus of global regulatory standard-setting bodies

- BCBS, CGFS, CPMI, FSB, IAIS, IOSCO, and Markets Committee have established dedicated fintech workgroups/work programmes
 - focus on stocktaking efforts of relevant fintech and identification of material risks arising from fintech
- ***Sectoral and cross-sectoral analysis and evaluation***
 - ***security*** and ***operational (cyber) resilience*** of products and services
 - ***regulatory compliance*** (AML / TF), ***privacy*** and ***data secrecy***
 - impact on ***regulated services and entities***
 - impact on ***financial intermediation*** and market architecture
 - wider impact on ***financial stability***
- ***Assessment of need for global regulatory guidance***
- ***Information sharing and coordination*** between global standard-setting bodies to avoid inconsistent policy views across committees



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Conclusions

MONITOR

1

The ECB monitors innovation to safeguard the payment system against fragmentation and new risks

2

UNDERSTAND

Central banks need to understand technological innovations and new business models to assess its impact, being mindful of hype



EXPLORE

3

The ECB explores ways to take advantage of innovation in the fulfilment of its mandate, both via internal experimentation and by leveraging collaboration with market stakeholders and other public authorities

4

COOPERATE

Further need for cooperation and coordination of central banks and regulatory authorities (at the national and international level)

Conclusions

EVALUATE

1

Need to evaluate the suitability of oversight standards as regards market developments

2

RETHINK

Possible need to rethink certain concepts (settlement finality, DvP, liquidity risk management)

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INNOVATE

3

RegTech solutions could enable contemporary monitoring of new arrangements and facilitate oversight activities

4

BALANCE

Avoid creating a competitive advantage for disrupters compared to traditional infrastructures by applying less stringent standards



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