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CENTRAL BANK OF
TRINIDAD & TOBAGO

Payments System Oversight Report 2010



CONTENTS

	PAGE
EXECUTIVE SUMMARY	3
1. INTRODUCTION	4
2. APPROACH TO PAYMENT SYSTEM OVERSIGHT	4
3. SUMMARY OF ASSESSMENT RESULTS	5

EXECUTIVE SUMMARY

This report presents the results of the assessment of the systemically important payment systems (SIPSs) undertaken in 2010. The benchmark for the assessment is the Basle Core Principles for Systemically Important Payment Systems (Core Principles). All the SIPS were assessed to have maintained their rating of **Broadly Observed** relative to the Core Principles.

A major development since the previous assessment undertaken in 2008 is the improved soundness of the legal framework as a result of the passage of the Financial Institutions Act (FIA), 2008. In Trinidad and Tobago, participants in the country's major SIPS are generally commercial banks which are governed by this new legislation. Issues addressed by the legislation include the removal of the 'zero hour

rule' in insolvency arrangements (contained in the Companies Act), the recognition of netting systems and the protection of collateral arrangements in the instance of insolvency. The FIA also made explicit the powers of the Central Bank (Bank) with regard to the payments system oversight function.

Operators have shown increased appreciation of the need to strengthen their risk management framework and have taken steps to do so. The main areas for continuing improvement across all systems relate to their understanding and effective management of risk as well as the comprehensiveness of documentation.

There were no major incidents in any of the payment systems during 2010.

1. INTRODUCTION

This 2010 *Oversight Report* describes the status of the National Payments System as at the end of 2010. Oversight assessments are conducted every two years on systems deemed to be of systemic importance. Earlier assessment reports were completed for each system individually. As these evaluations have become more routine, the 2010 assessments have been combined into a single report.

2. APPROACH TO PAYMENTS SYSTEM OVERSIGHT

The FIA, 2008 explicitly gives the Bank responsibility for the oversight of payment systems and stipulates that any person wishing to operate an interbank payment system in Trinidad and Tobago must apply to the Bank for a licence.

The benchmark used in these exercises is largely the BIS Core Principles, with some modification for retail systems which are held to be of systemic importance. The main assessment tools used are the following:-

- Questionnaires to Operators and Participants
- Statistics (on volume and value of transactions processed)
- Interviews
- Any other relevant information

Each payment system is assigned one of the following ratings:-

- **Observed** – substantially compliant
- **Broadly Observed** – compliant in most aspects
- **Partly Observed** – compliant in some areas
- **Not Observed** – substantially not compliant

Four payment systems have been identified as systemically important. These are the Real Time Gross Settlement (RTGS) system, *safe-tt*, the Automated Clearing House (ACH), the local debt card system, LINX and the Cheques Clearing

system. Although only the RTGS is a large-value system, the others (retail systems) are considered to be systemically important because of the potential for contagion. This is determined on the basis of the volume and/or value of transactions that are cleared and settled among participants through the system operator (excludes proprietary transactions). This data provides a measure of the potential for disruption from a failure in these systems.

In 2010, the total volume of transactions processed via these SIPS was the equivalent of 29 times the population with a value equivalent to almost 5 times GDP for that year. The RTGS system handled the largest portion of the value processed, followed by the Cheques Clearinghouse then the ACH and LINX systems. With regard to system volume, the major share of transactions was cleared and settled through LINX. This was followed by the Cheques Clearinghouse, then the ACH and finally the RTGS. (Table 1)

Table 1
Volume and Value of Transactions Cleared and Settled Through SIPS, 2010¹

System	Volume (Millions)	Value (\$Billions)
RTGS	0.05	401.34
Cheques	9.65	195.82
ACH	2.89	12.90
LINX ²	25.50	8.79
Total	38.09	618.85
Volume/Population Estimate	28.91	n.a.
Value/GDP at current market prices	n.a.	4.65

Source: Central Bank of Trinidad and Tobago and the Central Statistical Office.

¹These statistics exclude propriety transactions.

²LINX volume and value data include POS and ATM transactions.

The Bank has begun a review of its approach to oversight to take account of the more recent perspectives by the BIS and World Bank. The BIS now proposes a consolidation of the standards held for SIPS, Central Counterparties and Securities Settlement systems, as well as a strengthening of specific standards for risk mitigation through

the implementation of collateral and capital adequacy requirements, with particular emphasis on business, liquidity and credit risks. The World Bank has amended its approach to incorporate the broader perspective of Financial Infrastructure, as opposed to the narrower focus on payment systems. Financial Infrastructure, broadly defined,

comprises all of the underlying foundation for a country's financial system. It includes all institutions, information, technologies, rules and standards that enable financial intermediation through payment and securities settlement systems, remittances, credit reporting, and secured transactions and collateral registries.

3. SUMMARY OF ASSESSMENT RESULTS, 2010

CORE PRINCIPLE	RTGS	CHEQUES CLEARINGS	ACH	LINX
I: The system should have a well-founded legal basis under all relevant jurisdictions.	Broadly Observed	Broadly Observed	Broadly Observed	Observed
II: The system's rules and procedures should enable participants to have a clear understanding of the system's impact on each of the financial risks they incur through participation in it.	Broadly Observed	Partly Observed	Broadly Observed	Broadly Observed
III: The system should have clearly defined procedures for the management of credit risks and liquidity risk which specify the respective responsibilities of system operator and the participants and which provide appropriate incentives to manage and contain those risks.	Broadly Observed	Broadly Observed	Partly Observed	Partly Observed
IV: The system should provide prompt final settlement on the day of value, preferably during the day and at a minimum at the end of the day.	Observed	Partly Observed	Broadly Observed	Not Observed
V: A system in which multilateral netting takes place should, at a minimum, be capable of ensuring the timely completion of daily settlements in the event of an inability to settle by the participants with the largest single settlement obligation.	N/A	Partly Observed	Broadly Observed	Partly Observed
VI: Assets used for settlement should preferably be a claim on the central bank; where other assets are used, they should carry little or no credit risk and little or no liquidity risk.	Observed	Observed	Observed	Partly Observed
VII: The system should ensure a high degree of security and operations reliability and should have contingency arrangements for timely completion of daily processing.	Broadly Observed	Broadly Observed	Partly Observed	Broadly Observed
VIII: The system should provide a means of making payments which is practical for its users and efficient for the economy.	Broadly Observed	Partly Observed	Partly Observed	Broadly Observed
IX: The system should have an objective and publicly disclosed criteria for participation, which permit fair and open access.	Observed	Observed	Observed	Broadly Observed
X: The system's governance arrangements should be effective, accountable and transparent.	Broadly Observed	Broadly Observed	Observed	Partly Observed

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