

announcement, the award process, or the determination of the award, which will be decided at the sole discretion of the Chairman, based upon the recommendation of the MEC.

Additional information:

The award winner may not claim FMC or MEC endorsement. This award does not constitute an endorsement of a specific product, program or practice by the FMC, MEC, or the U.S. Federal Government.

For more information about the FMC and the Chairman's Earth Day Award, please contact Mary Hoang at 202-521-5733 or visit: http://www.fmc.gov/news/maritime_environmental_issues.aspx.

Rachel Dickon,

Assistant Secretary.

[FR Doc. 2014-00703 Filed 1-15-14; 8:45 am]

BILLING CODE 6730-01-P

FEDERAL RESERVE SYSTEM

Formations of, Acquisitions by, and Mergers of Bank Holding Companies

The companies listed in this notice have applied to the Board for approval, pursuant to the Bank Holding Company Act of 1956 (12 U.S.C. 1841 *et seq.*) (BHC Act), Regulation Y (12 CFR part 225), and all other applicable statutes and regulations to become a bank holding company and/or to acquire the assets or the ownership of, control of, or the power to vote shares of a bank or bank holding company and all of the banks and nonbanking companies owned by the bank holding company, including the companies listed below.

The applications listed below, as well as other related filings required by the Board, are available for immediate inspection at the Federal Reserve Bank indicated. The applications will also be available for inspection at the offices of the Board of Governors. Interested persons may express their views in writing on the standards enumerated in the BHC Act (12 U.S.C. 1842(c)). If the proposal also involves the acquisition of a nonbanking company, the review also includes whether the acquisition of the nonbanking company complies with the standards in section 4 of the BHC Act (12 U.S.C. 1843). Unless otherwise noted, nonbanking activities will be conducted throughout the United States.

Unless otherwise noted, comments regarding each of these applications must be received at the Reserve Bank indicated or the offices of the Board of Governors not later than February 10, 2014.

A. Federal Reserve Bank of New York (Ivan Hurwitz, Vice President) 33

Liberty Street, New York, New York 10045-0001:

1. *The Adirondack Trust Company Employee Stock Ownership Trust*, Saratoga Springs, New York, to acquire an additional 50 shares of 473 Broadway Holding Corporation, and 2,000 additional voting shares of The Adirondack Trust Company, both in Saratoga Springs, New York.

Board of Governors of the Federal Reserve System, January 13, 2014.

Michael J. Lewandowski,

Associate Secretary of the Board.

[FR Doc. 2014-00734 Filed 1-15-14; 8:45 am]

BILLING CODE 6210-01-P

FEDERAL RESERVE SYSTEM

[Docket No. OP-1478]

Policy on Payment System Risk

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Policy statement; request for comment.

SUMMARY: The Board of Governors of the Federal Reserve System (Board) is proposing to revise part I of its *Federal Reserve Policy on Payment System Risk* (PSR policy), which sets forth the Board's views, and related principles and minimum standards, regarding the management of risk in payment, clearing, and settlement systems. These revisions are proposed in light of the *Principles for Financial Market Infrastructures* (PFMI), the international risk-management standards for financial market infrastructures (FMIs) published in 2012.¹ These revisions are also proposed in light of the enhanced supervisory framework for designated financial market utilities as set forth in Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act" or "Act"). In particular, certain revisions are intended to clarify that designated financial market utilities for which the Board is the Supervisory Agency under Title VIII of the Act are required to comply with Regulation HH and not the risk-management or transparency expectations set out in the policy.

The Board is proposing to (1) revise the Board's existing minimum risk-management standards in the PSR policy to reflect the PFMI, which now represents the relevant set of international standards; (2) include all

¹ An FMI is 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.

central securities depositories, securities settlement systems, and central counterparties in the scope of part I of the PSR policy; (3) introduce trade repositories to the scope of part I of the PSR policy; (4) clarify the Board's risk-management expectations for six mutually exclusive categories of FMI; (5) replace the existing self-assessment framework with a broader disclosure expectation; and (6) recognize responsibility E from the PFMI, in addition to other relevant international guidance, as the basis for cooperation with other authorities in regulating, supervising, and overseeing FMIs. The Board also proposes several conforming and technical changes to the introduction, the discussion of risks in payment, clearing, and settlement systems, and part I of the PSR policy.

DATES: Comments are due on or before March 31, 2014.

ADDRESSES: You may submit comments, identified by Docket No. OP-1478, by any of the following methods:

- *Agency Web site:* <http://www.federalreserve.gov>. Follow the instructions for submitting comments at <http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm>.
- *Federal eRulemaking Portal:* <http://www.regulations.gov>. Follow the instructions for submitting comments.
- *Email:* regs.comments@federalreserve.gov. Include the docket number in the subject line of message.
- *Facsimile:* (202) 452-3819 or (202) 452-3102.

• *Mail:* Robert deV. Frierson, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue NW., Washington, DC 20551.

All public comments are available from the Board's Web site at <http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm> as submitted, unless modified for technical reasons. Accordingly, your comments will not be edited to remove any identifying or contact information. Public comments may also be viewed electronically or in paper form in Room MP-500 of the Board's Martin Building (20th and C Streets NW) between 9 a.m. and 5 p.m. on weekdays.

FOR FURTHER INFORMATION CONTACT:

Jennifer A. Lucier, Deputy Associate Director (202) 872-7581, Emily A. Caron, Senior Financial Services Analyst (202) 452-5261, or Kathy C. Wang, Senior Financial Services Analyst (202) 872-4991, Division of Reserve Bank Operations and Payment Systems; Christopher W. Clubb, Special Counsel (202) 452-3904 or Kara L. Handzlik, Counsel (202) 452-3852,

Legal Division; for users of Telecommunications Device for the Deaf (TDD) only, contact (202) 263-4869.

SUPPLEMENTARY INFORMATION:

I. Background

In adopting the PSR policy, the Board's objectives have been to foster the safety and efficiency of payment, clearing, and settlement systems. Part I of the current policy sets forth the Board's views, and related principles and minimum standards, regarding the management of risks in payment, clearing, and settlement systems, including those operated by the Federal Reserve Banks (Reserve Banks).² In setting out its views, the Board seeks to encourage these systems and their primary regulators to take the standards in this policy into consideration in the design, operation, monitoring, and assessment of these systems. The Board is guided by part I when exercising its supervisory and regulatory authority over entities under its jurisdiction, providing accounts and services, participating in cooperative oversight and similar arrangements, and providing Federal Reserve intraday credit to eligible account holders. Part I is not intended to exert or create supervisory or regulatory authority over any particular class of institutions or arrangements where the Board does not have such authority.

Since the early 1980s, the Board has published and periodically revised a series of policies encouraging the reduction and management of risks in payment and securities settlement systems.³ In 1992, the Board issued its first "Policy Statement on Payments System Risk," which provided a comprehensive statement of its previously adopted policies regarding payment system risk reduction, including risk management in private large-dollar funds transfer networks, private delivery-against-payment securities settlement systems, offshore dollar clearing and netting systems, and private small-dollar clearing and settlement systems.⁴ Over time, the Board has updated the PSR policy to reflect the evolution of payment, clearing, and settlement systems that participate in the financial system; incorporate relevant international risk-management standards developed by central banks and market regulators as

the baseline for its expectations; and improve transparency in the systems that are subject to its authority.⁵

Specifically, in 2004, the Board incorporated two key sets of standards into the PSR policy: the Committee on Payment and Settlement Systems (CPSS) report on the *Core Principles for Systemically Important Payment Systems* (CPSIPS), which extended and replaced the Lamfalussy Minimum Standards, and the CPSS and Technical Committee of the International Organization of Securities Commissions (IOSCO) report on *Recommendations for Securities Settlement Systems* (RSSS), which provided risk-management standards for securities settlement systems.⁶ The CPSS and IOSCO built upon the RSSS and developed the *Recommendations for Central Counterparties* (RCCP) in 2004, which provided specific standards for central counterparties; the Board incorporated these standards in its PSR policy in 2007.⁷

In the 2007 revisions, the Board established an expectation for certain payment, clearing, and settlement systems to disclose publicly self-assessments against the standards incorporated in the policy, as appropriate. The Board expected these self-assessments to contain sufficient information to allow users and other stakeholders to identify, understand, and evaluate the risks of using the system's services. In addition to disclosing this information, systems were asked to assign themselves a rating with respect to observance of the

standards. Systems were expected to review and update their self-assessments at least once every two years.

Title VIII of the Dodd-Frank Act. Title VIII of the Dodd-Frank Act established an enhanced supervisory framework for payment, clearing, and settlement systems, defined as financial market utilities under the Act, that are designated by the Financial Stability Oversight Council (Council) as systemically important.⁸ Among other things, Title VIII directs the Board to prescribe, by rule or order, risk-management standards for certain designated financial market utilities, including those for which the Board is the Supervisory Agency, taking into consideration relevant international standards and existing prudential requirements.⁹ In July 2012, the Board adopted by regulation (Regulation HH) risk-management standards based on the CPSIPS, RSSS, and RCCP.¹⁰

CPSS-IOSCO PFMI. In April 2012, CPSS and IOSCO published the PFMI, which updated, harmonized, strengthened, and replaced the existing standards in the CPSIPS, RSSS, and RCCP.¹¹ The PFMI sets forth 24 risk-management and related principles for payment systems that are systemically

⁸ The term "financial market utility" is defined in Title VIII as "any person that manages or operates a multilateral system for the purpose of transferring, clearing, or settling payments, securities, or other financial transactions among financial institutions or between financial institutions and the person" (12 U.S.C. 5462(6)). Financial market utilities are a subset of FMIs. For example, trade repositories are excluded from the definition of a financial market utility.

⁹ The term "Supervisory Agency" is defined in Title VIII as the "Federal agency that has primary jurisdiction over a designated financial market utility under Federal banking, securities, or commodity futures laws" (12 U.S.C. 5462(8)). Currently, the Board is the Supervisory Agency for two financial market utilities that have been designated by the Council—The Clearing House Payments Company, L.L.C., on the basis of its role as operator of the Clearing House Interbank Payments System, and CLS Bank International; these designated financial market utilities are subject to the risk-management standards promulgated by the Board under section 805(a)(1)(A). These standards also apply to any designated financial market utility for which another Federal banking agency is the appropriate Title VIII Supervisory Agency. At this time, there are no designated financial market utilities in this category.

¹⁰ 77 FR 45907 (Aug. 2, 2012).

¹¹ The PFMI is available at <http://www.bis.org/publ/cpss101a.pdf>. In the final rule for Regulation HH, the Board stated that it anticipated reviewing the PFMI, consulting with other appropriate agencies and the Council, and seeking public comment on the adoption of revised standards for designated financial market utilities based on the new international standards. See 77 FR 45907, 45908-09 (Aug. 2, 2012). Concurrent with this proposal, the Board is issuing proposed revisions to Regulation HH that take into consideration the PFMI.

² Part II governs the provision of intraday credit in accounts at the Reserve Banks and sets out the general methods used by the Reserve Banks to control their intraday credit exposures.

³ See 50 FR 21120, (May 22, 1985); 52 FR 29255 (Aug. 6, 1987); 54 FR 26104 and 26092 (June 21, 1989); and 54 FR 26092 (June 21, 1989).

⁴ 57 FR 40455 (Sept. 3, 1992).

⁵ In 1994, the Board incorporated the Lamfalussy Minimum Standards that were set out in the *Report of the Committee on Interbank Netting Schemes of the Central Banks of the Group of Ten Countries*, published by the Bank for International Settlements in November 1990. 59 FR 67534 (Dec. 29, 1994). See the report at <http://www.bis.org/publ/cpss04.pdf>.

⁶ 69 FR 69926 (Dec. 1, 2004). The CPSIPS and RSSS are available at <http://www.bis.org/publ/cpss43.htm> and <http://www.bis.org/publ/cpss46.htm>, respectively. The Federal Reserve participated in the development of the CPSIPS, and the Federal Reserve, the U.S. Securities and Exchange Commission (SEC), and the U.S. Commodity Futures Trading Commission (CFTC) participated in the development of the RSSS. The CPSIPS and RSSS were adopted as part of the Financial Stability Board's (FSB's) Key Standards for Sound Financial Systems, which are widely recognized and endorsed by U.S. authorities as integral to strengthening global financial stability. The FSB is an international forum that was established to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies. The FSB includes the U.S. Department of the Treasury, the Board, and the SEC.

⁷ 72 FR 2518 (Jan. 19, 2007). The RCCP is available at <http://www.bis.org/publ/cpss64.htm>. In addition to the Federal Reserve, the SEC and the CFTC participated in the development of the RCCP. The report was adopted as part of the FSB's Key Standards for Sound Financial Systems.

important, central securities depositories, securities settlement systems, central counterparties, and trade repositories. The report addresses areas such as legal risk, governance, credit and liquidity risks, operational risk, general business risk, and other types of risk. The report also addresses the interdependencies between and among the individual risks, recognizing that attempts to mitigate one type of risk might give rise to another. In some cases, a principle will build upon others or multiple principles will reference a common theme. Therefore, the 24 principles are designed to be applied as a set, and not on a stand-alone basis, because of the significant interaction among the principles.

The 24 principles are organized such that each principle comprises (1) a headline standard, (2) a list of key considerations that further elaborate on the headline standard, and (3) accompanying explanatory notes that discuss the objective and rationale of the principle and provide additional guidance on how the principle may be implemented. Some headline standards and key considerations set out a specific minimum requirement to ensure that a minimum level of risk management is achieved across FMI types and across jurisdictions. The principles, however, do not typically prescribe a specific tool or arrangement to achieve their requirements in recognition that the means to satisfy a given requirement may vary by the type of entity or the market it serves.

The PFMI contains new and heightened requirements and more-extensive guidance for FMIs than did the previous set of international standards, such as providing more-extensive guidance on governance of an FMI and placing greater emphasis on transparency. It also requires that certain FMIs maintain a higher level of financial resources to address credit risk than in the past; it provides a separate set of requirements with respect to liquidity risk; and it contains higher requirements with respect to the type and frequency of testing to assess the sufficiency of financial resources to address both credit and liquidity risks. Additionally, the PFMI sets forth new requirements for FMIs to plan for recovery and orderly wind-down, to manage general business risk, to manage the risks associated with tiered participation, and for central counterparties to have rules and procedures that enable segregation and portability.

In addition to the 24 principles, the PFMI sets out five responsibilities for authorities responsible for effective

regulation, supervision, and oversight of FMIs, including central banks. The five responsibilities call for (A) FMIs to be subject to appropriate and effective regulation, supervision, and oversight, (B) FMI authorities to have the powers and resources necessary to carry out effectively their responsibilities with respect to FMIs, (C) FMI authorities to clearly define and disclose their policies with respect to FMIs, (D) FMI authorities to adopt the PFMI and apply it consistently, and (E) FMI authorities to cooperate with each other, as appropriate, in promoting the safety and efficiency of FMIs.

Overall, the PFMI reflects more than a decade of experience with international standards for FMIs, important lessons from recent financial crises, and other relevant policy work by the international standard-setting bodies. The Federal Reserve, along with the U.S. Securities and Exchange Commission (SEC) and the U.S. Commodity Futures Trading Commission (CFTC), had a significant role in the development of this document. The report also reflects broad market input, including from U.S. FMIs and market participants.¹²

CPSS-IOSCO Disclosure Framework for FMIs. In December 2012, the CPSS and IOSCO followed up on the publication of the PFMI by publishing their report on the *Principles for Financial Market Infrastructures: Disclosure Framework and Assessment Methodology* ("disclosure framework" and "assessment methodology").¹³ The disclosure framework prescribes the form and content of the disclosures expected of FMIs in principle 23 of the PFMI. The assessment methodology provides guidance to assessors for evaluating observance of the 24 principles and five responsibilities set forth in the PFMI. The Federal Reserve, along with the SEC and the CFTC, had a significant role in the development of this document.

II. Discussion of Proposed Policy Changes

The Board is proposing to revise part I of its PSR policy in light of the international risk-management standards in the PFMI. The Board is also revising part I in light of the enhanced supervisory framework for designated

financial market utilities set forth in Title VIII of the Dodd-Frank Act. In particular, certain revisions are intended to clarify that designated financial market utilities that are required to comply with Regulation HH are not also subject to the risk-management or transparency expectations set out in the policy.

The Board requests comments on its proposal to (1) revise the Board's existing minimum risk-management standards in the PSR policy to reflect the PFMI, (2) include all central securities depositories, securities settlement systems, and central counterparties in the scope of part I of the PSR policy, (3) introduce trade repositories to the scope of part I of the PSR policy, (4) clarify the Board's risk-management expectations for six mutually exclusive categories of FMI, (5) replace the existing self-assessment framework with a broader disclosure expectation, and (6) recognize responsibility E from the PFMI, in addition to other relevant international guidance, as the basis for cooperation with other authorities in regulating, supervising, and overseeing FMIs. The Board also proposes several conforming and technical changes to the introduction, the discussion of risks in payment, clearing, settlement systems, and part I of the PSR policy.

The Board proposes that the revised policy become effective when the final version is published in the **Federal Register**. The Board recognizes, however, that several of the expectations in the revised policy are new or heightened and may require additional time to implement, such as up to six months after finalization of the policy.¹⁴ These may include the revised expectations in section I.B.2 on transparency and the expectation to manage risks arising in tiered participation arrangements under principle 19 in the appendix. They may also include certain aspects of principle 3 on framework for the comprehensive management of risks, principle 4 on credit risk, principle 7 on liquidity risk, and principle 15 on general business risk in the appendix.

1. Revise the Board's Existing Minimum Risk-Management Standards in the PSR Policy To Reflect the PFMI

The Board proposes to incorporate the PFMI in part I of the PSR policy by incorporating the headline standards from the 24 principles with no modification as the relevant risk-

¹² The CPSS and IOSCO published a consultative version of the PFMI in March 2011 and received 120 comment letters on that version. All designated financial market utilities, as well as many of their major participants, provided comment on the consultative version.

¹³ The disclosure framework and assessment methodology are available at <http://www.bis.org/publ/cpss106.pdf>.

¹⁴ The Board would monitor implementation with respect to these expectations through the supervisory process.

management standards for all central securities depositories, securities settlement systems, central counterparties, and trade repositories, as well as certain payment systems. This approach is consistent with the Board's past actions to incorporate appropriate international standards for key payment, clearing, and settlement systems into its policy statement. The new headline standards will replace the existing standards from the CPSIPS, RSSS, and RCCP previously set out in sections I.C.1 and I.C.2 of the PSR policy. For readability, the Board is proposing to move the list of headline standards into an appendix to the policy.

The Board believes these standards should be incorporated into part I of the PSR policy because the PFMI establishes an important framework for promoting sound risk management in FMIs, both domestically and internationally. The safety and efficiency of FMIs affect the safety and soundness of U.S. financial institutions and, in many cases, are vital to the financial stability of the United States. The Board has recognized and endorsed the PFMI as integral to strengthening the stability of the broader financial system. In addition, the Financial Stability Board (FSB) has replaced the CPSIPS, RSSS, and RCCP with the PFMI in its Key Standards for Sound Financial Systems.¹⁵ The Basel Committee on Banking Supervision (BCBS) considers the application of the PFMI to be an important factor in determining capital charges for bank exposures to central counterparties related to over-the-counter derivatives, exchange-traded derivatives, and securities financing transactions.¹⁶ Central banks and market regulators around the world are now taking steps to incorporate the PFMI into the legal and supervisory frameworks applicable to FMIs.¹⁷

In a separate, related **Federal Register** notice, the Board proposes to revise concurrently Regulation HH in consideration of the PFMI. The language proposed for the risk-management standards in the PSR policy is different from the language proposed in the revisions to Regulation HH. In the PSR

policy, the Board proposes to maintain its long-standing approach of incorporating the headlines of the international standards with no modification. In implementing the PSR policy, the Board anticipates that it will be guided by the key considerations and explanatory notes of the PFMI. As an enforceable federal regulation, however, the text of Regulation HH requires a greater degree of clarity, so more detail was included in the regulatory text, including concepts from the key considerations and explanatory text of the PFMI.

2. Include all Central Securities Depositories, Securities Settlement Systems, and Central Counterparties in the Scope of Part I of the PSR Policy

Consistent with the scope of the PFMI, the Board proposes to expand the scope of part I of the PSR policy to include all central securities depositories, securities settlement systems, and central counterparties, irrespective of the value or nature of transactions processed by the system. The scope of the current part I of the PSR policy includes only those central securities depositories, securities settlement systems, and central counterparties that expect to settle a daily aggregate gross value of U.S. dollar-denominated transactions exceeding \$5 billion on any day during the next 12 months. The Board believes all of these types of FMIs should be within the scope of the policy because they perform activities that are critical to the functioning of the financial markets or support the transparency of the market they serve. As discussed further below, part I is not intended to exert supervisory or regulatory authority over any particular class of institutions or arrangements where the Board does not have such authority.

The Board also proposes to revise part I of the PSR policy to reflect the functional definitions of "securities settlement system" and "central securities depository" in the PFMI. The current PSR policy is based on the definitions for these terms provided in the RSSS, which defines a securities settlement system as "the full set of institutional arrangements for confirmation, clearance, and settlement of securities trades and safekeeping of securities" and a central securities depository as "an institution for holding securities that enables securities transactions to be processed by means of book entries." For consistency with the PFMI, the Board proposes to revise the policy to define securities settlement system more narrowly as an entity that "enables securities to be transferred and

settled by book entry and allows transfers of securities free of or against payment" and to define a central securities depository as an entity that "provides securities accounts and central safekeeping services."

3. Introduce Trade Repositories Into the Scope of Part I of the PSR Policy

Consistent with the scope of the PFMI, the Board proposes to expand the scope of part I of the PSR policy to include trade repositories. (The Board notes that it does not have any direct supervisory authority over a trade repository at this time.) Trade repositories are entities that maintain a centralized electronic record of transaction data and have emerged as an important type of FMI, especially in the over-the-counter derivatives market. This type of FMI improves market transparency by providing data to relevant authorities and the public in line with their respective information needs. Timely and reliable access to data stored in a trade repository can improve the ability of relevant authorities and the public to identify and evaluate potential risks to the broader financial system. Trade repositories should be expected to manage their risks in a manner consistent with the PFMI to help ensure that these public interest objectives are met.

4. Clarify the Board's Risk-Management Expectations for Six Mutually Exclusive Categories of FMI

The Board proposes revisions to the PSR policy that define six mutually exclusive categories of FMI and set forth separately the Board's risk-management expectations for each category. Five of the proposed categories are set out in section I.B.1 of the revised policy; these are (1) the Fedwire Funds Service and the Fedwire Securities Service (collectively, Fedwire Services); (2) designated financial market utilities for which the Board is the Supervisory Agency under Title VIII of the Dodd-Frank Act; (3) other FMIs that are subject to the Board's supervisory authority under the Federal Reserve Act; (4) all other central securities depositories, securities settlement systems, central counterparties, and trade repositories; and (5) other systemically important offshore and cross-border payment systems. An additional category for other payment systems within the scope of the policy is set out in section I.C of the revised policy. The Board believes the categories are necessary to avoid confusion about how the policy addresses each category of FMI in light

¹⁵ For the FSB's Key Standards for Sound Financial Systems, see http://www.financialstabilityboard.org/cos/key_standards.htm.

¹⁶ See BCBS, *Capital Requirements for Bank Exposures to Central Counterparties*, July 2012, (<http://www.bis.org/publ/bcb227.pdf>) and BCBS, *Capital Treatment of Bank Exposures to Central Counterparties*, consultative document, June 2013 (<http://www.bis.org/publ/bcb253.pdf>).

¹⁷ Progress on implementation as of April 5, 2013, is reflected in CPSS-IOSCO, *Implementation Monitoring of PFMIs—Level 1 Assessment Report*, August 2013 (<http://www.bis.org/publ/cpss111.pdf>).

of the changes to the scope of the policy and the passage of the Dodd-Frank Act. The Board recognizes that other authorities may regulate FMIs within the scope of this policy, and the Board encourages these authorities to adopt policies consistent with the PFMI.

Fedwire Services. The Board proposes a category in the PSR policy for the Fedwire Services. The Board expects that the Fedwire Services meet or exceed the standards set forth in the proposed appendix to the policy. The Board anticipates that it will be guided by the key considerations and explanatory notes in the PFMI, including the guidance on central bank-operated systems, in supervising the Fedwire Services. This expectation is consistent with past practice; the Board has historically recognized the critical role that the Fedwire Services play in the financial system and has required them to meet or exceed the applicable international standards incorporated into the PSR policy.

Consistent with the previous international standards, the PFMI recognizes that flexibility in implementation is warranted for central bank-operated systems to meet the objectives of the standards because of central banks' roles as monetary authorities and liquidity providers. The Board believes that these principles may include principle 2 on governance, principle 3 on the framework for the comprehensive management of risks, principle 4 on credit risk, principle 5 on collateral, principle 7 on liquidity risk, principle 13 on participant-default rules and procedures, principle 15 on general business risk, and principle 18 on access and participation requirements.¹⁸

One example of a principle where the Board proposes to allow flexibility in application for the Fedwire Services is principle 15 on general business risk. A key consideration in principle 15 requires FMIs to maintain viable recovery or orderly wind-down plans that consider general business risk and to hold sufficient liquidity and capital reserves to implement the plans. The Fedwire Services do not face the risk that a business shock would cause the service to wind down in a disorderly manner and disrupt the stability of the financial system. The Federal Reserve, as the central bank, would support a recovery or orderly wind-down of the service, as appropriate to meet public policy objectives. Therefore, the Board proposes not to require the Fedwire Services to develop recovery or orderly

wind-down plans.¹⁹ In order to foster competition with private-sector FMIs, however, the Board proposes to require the Federal Reserve priced services to hold six months of the Fedwire Funds Service's current operating expenses as liquid financial assets and equity on the pro forma balance sheet.^{20 21} This balance sheet is used for imputing costs in the private-sector adjustment factor and, as a result, establishing Fedwire Funds Service fees.²² If it is necessary to impute additional assets and equity, the incremental cost would be incorporated into the pricing of Fedwire Funds Service fees. The Board may reexamine the six-month requirement in light of the final rule for Regulation HH and issues of competitive equity between private-sector systems and the Fedwire Funds Service.²³

Designated financial market utilities for which the Board is the Supervisory Agency under Title VIII of the Dodd-Frank Act. The Board proposes to

¹⁹ The Board also proposes not to require the Fedwire Services to develop recovery or orderly wind-down plans as required under principle 3 on framework for the comprehensive management of risks.

²⁰ As required by the Monetary Control Act of 1980, Board policy has historically required and will continue to require that the Fedwire Services be operated and priced in a manner that fosters competition, improves the efficiency of the payment mechanism, and lowers costs of these services to society. The Board established a set of pricing principles that governs the schedule of fees for the Federal Reserve priced services, including the Fedwire Services, that is consistent with these objectives. (12 U.S.C. 248a(c)(3); http://www.federalreserve.gov/paymentsystems/pfs_principles.htm).

²¹ Consistent with the PFMI, the calculation of these current operating expenses would exclude depreciation and amortization expenses.

²² Federal Reserve priced services fees are set to recover, over the long run, all direct and indirect costs and imputed costs, including financing costs, taxes, and certain other expenses, as well as the return on equity (profit) that would have been earned if a private business provided the services. The imputed costs and imputed profit are collectively referred to as the private-sector adjustment factor. The Board's current method for calculating the private-sector adjustment factor involves developing an estimated Federal Reserve priced services pro forma balance sheet using actual priced services assets and liabilities. The remaining components on the balance sheet, such as equity, are imputed as if these services were provided by a publicly traded firm. The capital structure of imputed equity is derived from the market for publicly traded firms, subject to minimum equity constraints consistent with those required by the Federal Deposit Insurance Corporation for a well-capitalized institution.

²³ The Board does not plan to impose this requirement on the Fedwire Securities Service. There are no competitors to the Fedwire Securities Service that would face such a requirement. Therefore, imposing such a requirement when pricing securities services would artificially increase the cost of these services, inconsistent with the intent of the Monetary Control Act of 1980 that services be provided at the lowest cost to society (see http://www.federalreserve.gov/paymentsystems/pfs_principles.htm).

include a category in the PSR policy for designated financial market utilities for which the Board is the Supervisory Agency under Title VIII of the Dodd-Frank Act. The proposed part I of the PSR policy states explicitly that these FMIs are expected to comply with the risk-management requirements in Regulation HH only. The discussion of this category in the policy is intended to clarify that designated financial market utilities subject to Regulation HH are not within the scope of the risk-management expectations set out in part I of the PSR policy.

Other financial market infrastructures subject to the Board's supervisory authority under the Federal Reserve Act. The Board proposes to include a category for other private-sector FMIs that are subject to the Board's authority. This category would include FMIs that are chartered as state member banks, trust companies, and Edge or agreement corporations, other than those that are designated financial market utilities subject to Regulation HH. The Board expects these FMIs to meet or exceed the standards proposed in the appendix.

All other central securities depositories, securities settlement systems, central counterparties, and trade repositories. The Board proposes to include a category for all other central securities depositories, securities settlement systems, central counterparties, and trade repositories, whether they are located within or outside of the United States, and encourages these FMIs to meet or exceed the standards proposed in the appendix. Consistent with the scope of the PFMI, the Board supports the application of the standards in the appendix to these FMIs, regardless of size, because they perform activities that are critical to market functioning or support the transparency of the market they serve. Where the Board does not have authority over a central securities depository, securities settlement system, central counterparty, or trade repository, the Board will be guided by this policy in its cooperative efforts with other FMI authorities.

Other systemically important offshore and cross-border payment systems. The Board proposes a category for systemically important offshore and cross-border payment systems that are not included in any of the categories above. These systems may be used by U.S. financial institutions, clear or settle U.S. dollars, or have an impact on financial stability, more broadly. The Board encourages these payment systems to meet or exceed the standards proposed in the appendix. The Board will be guided by this policy in its

¹⁸ Relevant references from the explanatory notes of the PFMI include paragraphs 1.23 and 3.2.7 and footnotes 45, 134, and 144.

cooperative efforts with other payment system authorities.

Other payment systems within the scope of the policy. The Board proposes a category in the revised policy for other payment systems that exceed the existing \$5 billion daily transaction threshold (or equivalent) but that are not captured in the categories outlined above and in proposed section I.B.1 on risk management. The Board encourages these payment systems to comply with the general policy expectations previously set forth in section I.B. of the policy (section I.C. in the proposed revised policy).

The current part I of the PSR policy follows an organizational approach that establishes general policy expectations for all payment, clearing, and settlement systems within the scope of the policy and then adds heightened expectations for systemically important systems. In light of the PFMI and Regulation HH, the Board is proposing to modify this approach to clarify its expectations. Under the proposed revisions, the general expectations would now be confined to “other payment systems within the scope of the policy” for purposes of simplicity and clarity. There would be no need to apply separately the general expectations to the other categories of FMIs. The general expectations themselves are consistent in substance with principles 1 through 3 of the PFMI and would remain unchanged.

5. Replace the Existing Self-Assessment Framework With a Broader Disclosure Expectation

The Board proposes to replace the existing self-assessment framework for systemically important systems, as previously set out in section I.C.3, with a broader expectation of public disclosure set out in proposed section I.B.2 on transparency. The Board would expect the FMIs addressed in section I.B.1 that are subject to its authority, except designated financial market utilities that are subject to Regulation HH, to complete the disclosure framework and to disclose their responses to the public.²⁴ The Board also encourages FMIs that are not subject to its authority to disclose their responses to the disclosure framework and will work with the appropriate authorities to promote such disclosures.

The Board believes that comprehensive public disclosures by FMIs will promote increased understanding among participants,

authorities, and the broader public of the activities of an FMI, its risk profile, and its risk-management practices and will thus support sound decisionmaking by FMIs and their stakeholders. Comprehensive disclosures will also facilitate the implementation and ongoing monitoring of observance of the risk-management standards in the appendix. Consequently, comprehensive disclosures are a means to achieve greater stability in the financial system.

The Board believes that the disclosure framework is an appropriate template for these disclosures because it provides an international baseline that will promote consistent disclosures by FMIs around the world. The disclosure framework includes background information on the FMI's function and the market it serves, basic performance statistics for the FMI, and a description of the FMI's organization, legal and regulatory framework, system design, and operations as well as a narrative for each principle that summarizes the FMI's approach to observing the principle. The accompanying assessment methodology provides guiding questions that an FMI may use to guide the content and level of detail of its narrative. Unlike the existing self-assessment framework, however, the Board does not expect the FMI to assign itself a rating of observance for each standard.

Many of the expectations in the existing self-assessment framework with respect to frequency of updates, review and approval, and publication of the disclosure will remain the same. The Board will continue to expect an FMI to update the relevant parts of its disclosure following changes to the FMI or the environment in which it operates that would significantly change the accuracy of its public disclosure. At a minimum, an FMI would be expected to review and update as warranted its disclosure every two years. The Board will continue to expect an FMI's senior management and board of directors to review and approve the FMI's disclosure. Lastly, the Board continues to expect the FMI to make its disclosure readily available to the public, such as by posting it on the FMI's public Web site.

6. Recognize Responsibility E From the PFMI, in Addition to Other Relevant International Guidance, as the Basis for Cooperation With Other Authorities

The Board proposes to incorporate responsibility E from the PFMI in the PSR policy, in addition to existing international guidance, as the basis for its cooperation with other authorities in

the regulation, supervision, and oversight of FMIs. The Board has a long-standing history of cooperation with other authorities. The Board believes that cooperative arrangements among authorities are an effective and practical means to promote effective risk management and transparency by FMIs. As stated in the proposed revisions, where the Board does not have statutory or exclusive authority over an FMI covered by the policy, the Board will be guided in its interactions with other domestic and foreign authorities by international principles on cooperative arrangements for the regulation, supervision, and oversight of FMIs, including responsibility E in the PFMI and part B of the CPSS *Central Bank Oversight of Payment and Settlement Systems* report.²⁵ Accordingly, the Board proposes to create a new section I.D in the PSR policy to highlight and expand the existing discussion in the current policy of cooperation among authorities in regulating, supervising, and overseeing FMIs.

III. Request For Comment

The Board requests comment on the proposed revisions to its PSR policy. Where possible, commenters should provide both quantitative data and detailed analysis in their comments, particularly with respect to suggested alternatives to the proposed revisions. Commenters should also explain the rationale for their suggestions. In particular, the Board requests comment on whether the revisions are sufficiently clear and achieve the Board's intended objectives. The Board also requests comment on the following specific questions:

1. Should the Board incorporate only the headline standards from the PFMI in the PSR policy or should the Board also incorporate key considerations?

2. Has the Board clearly articulated the applicability of the risk-management expectations in the PSR policy to each category and type of FMI?

3. Are there other risk-management expectations that the Board should include in the PSR policy?

4. Should the Board provide specific standards for the Fedwire Services in an appendix to the PSR policy to clarify how the PFMI will be applied to these central bank-operated systems?

5. Is the proposed application of principle 15 in the appendix to the Fedwire Funds Service appropriate? The Board considered the alternative of

²⁴ The Board's proposed revised Regulation HH imposes an equivalent public disclosure requirement.

²⁵ See CPSS, *Central Bank Oversight of Payment and Settlement Systems*, Part B on “Principles for international cooperative oversight,” May 2005, available at <http://www.bis.org/publ/cps68.htm>.

requiring the Fedwire Funds Service to impute holdings of liquid financial assets and equity that are specific to Fedwire Funds Service itself to meet the requirement, but believes that it would likely be difficult to implement in practice. For the case in which an FMI is part of a larger legal entity, are there any reasonable methodologies for determining which of the liquid financial assets and equity held at the legal entity level belong to a particular service line?

6. Are the proposed triggers for reviewing and updating a disclosure appropriate? If not, what other triggers would ensure published disclosures remain accurate?

7. As discussed above, the Board recognizes that certain expectations in the policy may require additional time to implement. Besides those expectations listed above, are there other expectations that may require additional time to implement? Is six months sufficient to implement changes to meet these expectations?

IV. Administrative Law Matters

1. Competitive Impact Analysis

The Board has established procedures for assessing the competitive impact of rule or policy changes that have a substantial impact on payment system participants.²⁶ Under these procedures, the Board will assess whether a change would have a direct and material adverse effect on the ability of other service providers to compete effectively with the Federal Reserve in providing similar services due to differing legal powers or constraints, or due to a dominant market position of the Federal Reserve deriving from such differences. If no reasonable modifications would mitigate the adverse competitive effects, the Board will determine whether the anticipated benefits are significant enough to proceed with the change despite the adverse effects.

The proposed policy revisions provide that Reserve Bank systems will be treated similarly to private-sector systems and thus will have no material adverse effect on the ability of other service providers to compete effectively with the Reserve Banks in providing payment and securities settlement services. As stated above, there are several risk-management standards in the appendix for which flexibility in implementation will be necessary for the Fedwire Services given the Federal Reserve's legal framework and structure

and its roles as monetary authority and liquidity provider. The Board recognizes, however, the critical role that the Fedwire Services play in the financial system and will require them to meet or exceed the applicable international standards incorporated into the PSR policy. Where appropriate to foster competition with private-sector systems, the Board proposes to incorporate the cost of certain requirements into the pricing of Fedwire Services. Furthermore, if the Board determines that its approach to applying the standards in the appendix to the Fedwire Services creates a competitive imbalance between the Fedwire Services and any private-sector competitors that provide similar services, the Board may reexamine the requirements for the Fedwire Services. Therefore, the Board believes the proposed policy will have no material adverse effect on the ability of other service providers to compete effectively with the Reserve Banks in providing payment and securities settlement services.

2. Paperwork Reduction Act Analysis

In accordance with the Paperwork Reduction Act of 1995 (44 U.S.C. 3506; 5 CFR part 1320, Appendix A.1), the Board reviewed the proposed policy under the authority delegated to the Board by the Office of Management and Budget. For purposes of calculating burden under the Paperwork Reduction Act, a "collection of information" involves 10 or more respondents. Any collection of information addressed to all or a substantial majority of an industry is presumed to involve 10 or more respondents (5 CFR 1320.3(c), 1320.3(c)(4)(ii)). The Board estimates there are fewer than 10 respondents, and these respondents do not represent all or a substantial majority of payment, clearing, and settlement systems. Therefore, no collections of information pursuant to the Paperwork Reduction Act are contained in the proposed policy.

V. Federal Reserve Policy On Payment System Risk

Introduction

Risks In Payment, Clearing, Settlement, and Recording Systems

PART I. RISK MANAGEMENT FOR FINANCIAL MARKET INFRASTRUCTURES

A. Scope

B. Policy expectations for certain financial market infrastructures

1. Risk management
 - a. Fedwire Services
 - b. Designated financial market

utilities for which the Board is the Supervisory Agency under Title VIII of the Dodd-Frank Act

- c. Other financial market infrastructures that are subject to the Board's supervisory authority under the Federal Reserve Act
 - d. All other central securities depositories, securities settlement systems, central counterparties, and trade repositories
 - e. Other systemically important offshore and cross-border payment systems
2. Transparency
- C. General policy expectations for other payment systems within the scope of the policy
1. Establishment of a risk-management framework
 - a. Identify risks clearly and set sound risk-management objectives
 - b. Establish sound governance arrangements to oversee the risk-management framework
 - c. Establish clear and appropriate rules and procedures to carry out the risk-management objectives
 - d. Employ the resources necessary to achieve the system's risk-management objectives and implement effectively its rules and procedures
 2. Other considerations for a risk-management framework
- D. Cooperation with other authorities in regulating, supervising, and overseeing financial market infrastructures

PART II. FEDERAL RESERVE INTRADAY CREDIT POLICIES

APPENDIX—CPSS—IOSCO Principles for Financial Market Infrastructures

Introduction

Financial market infrastructures (FMIs) are critical components of the nation's financial system. FMIs are multilateral systems among participating financial institutions, including the system operator, used for the purposes of clearing, settling, or recording payments, securities, derivatives, or other financial transactions.²⁷ FMIs include payment

²⁷ This definition is based on the definition provided in the Committee on Payment and Settlement Systems (CPSS) and Technical Committee of the International Organization of Securities Commissions (IOSCO) report on *Principles for Financial Market Infrastructures* (PFMI), April 2012, available at <http://www.bis.org/publ/cpss101.htm>. Further, an FMI generally embodies one or more of the following characteristics: (1) A multilateral arrangement with three or more participants; (2) a set of rules and procedures, common to all participants, that govern the clearing (comparison and/or netting), settlement, or recording of payments, securities, derivatives, or other financial transactions; (3) a common technical infrastructure for conducting the clearing, settlement, or recording process; and (4) a risk-management or capital structure that takes into

²⁶ These procedures are described in the Board's policy statement "The Federal Reserve in the Payments System," as revised in March 1990 (55 FR 11648 (Mar. 29, 1990)).

systems, central securities depositories, securities settlement systems, central counterparties, and trade repositories. The safety and efficiency of these systems may affect the safety and soundness of U.S. financial institutions and, in many cases, are vital to the financial stability of the United States. Given the importance of FMIs, the Board of Governors of the Federal Reserve System (Board) has developed this policy to set out the Board's views, and related standards, regarding the management of risks that FMIs present to the financial system and to the Federal Reserve Banks (Reserve Banks). In adopting this policy, the Board's objective is to foster the safety and efficiency of payment, clearing, settlement, and recording systems and to promote financial stability, more broadly.

Part I of this policy sets out the Board's views, and related standards, regarding the management of risks in FMIs, including those operated by the Reserve Banks. In setting out its views, the Board seeks to encourage FMIs and their primary regulators to take the standards in this policy into consideration in the design, operation, monitoring, and assessment of these systems. The Board will be guided by this part, in conjunction with relevant laws, regulations, and other Federal Reserve policies, when exercising its supervisory and regulatory authority over FMIs or their participants, providing accounts and services to FMIs, participating in cooperative oversight and similar arrangements for FMIs with other authorities, or providing intraday credit to eligible Federal Reserve account holders. Designated financial market utilities subject to Regulation HH are not subject to the risk-management or transparency expectations set out in this policy.²⁹

Part II of this policy governs the provision of intraday credit or "daylight overdrafts" in accounts at the Reserve Banks and sets out the general methods used by the Reserve Banks to control their intraday credit exposures.³⁰ Under this part, the Board

account the multilateral dependencies inherent in the system.

²⁸ The term "financial institution," as used in this policy, refers to a broad array of organizations that engage in financial activity, including depository institutions, securities dealers, and futures commission merchants.

²⁹ The term "financial market utility" is defined in Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) as "any person that manages or operates a multilateral system for the purpose of transferring, clearing, or settling payments, securities, or other financial transactions among financial institutions or between financial institutions and the person." Trade repositories, which the Dodd-Frank Act defines as providing "facilities for comparison of data respecting the terms of settlement of securities or futures transactions," are not included in the term "financial market utility" (12 U.S.C. 5462). Financial market utilities are, therefore, a subset of the broader set of entities defined as FMIs. Under Title VIII, financial market utilities are designated as systemically important by the Financial Stability Oversight Council. The Board's Regulation HH is discussed in section I.B.1.b below.

³⁰ To assist depository institutions in implementing part II of this policy, the Board has prepared two documents, the *Overview of the Federal Reserve's Payment System Risk Policy*

recognizes that the Federal Reserve has an important role in providing intraday balances and credit to foster the smooth operation of the payment system. The Reserve Banks provide intraday balances by way of supplying temporary, intraday credit to healthy depository institutions, predominantly through collateralized intraday overdrafts.³¹ The Board believes that such a strategy enhances intraday liquidity while controlling risk to the Reserve Banks. Over time, the Board aims to reduce the reliance of the banking industry on uncollateralized intraday credit by providing incentives to collateralize daylight overdrafts. The Board also aims to limit the burden of the policy on healthy depository institutions that use small amounts of intraday credit.

Through this policy, the Board expects financial system participants, including private-sector FMIs and the Reserve Banks, to reduce and control settlement and other systemic risks arising in FMIs, consistent with the smooth operation of the financial system. This policy is also designed to govern the provision of intraday balances and credit while controlling the Reserve Banks' risk by (1) making financial system participants and FMIs aware of the types of basic risk that may arise in the payment, clearing, settlement, or recording process; (2) setting explicit risk-management expectations; (3) promoting appropriate transparency by FMIs to help inform participants and the public; and (4) establishing the policy conditions governing the provision of Federal Reserve intraday credit to eligible account holders. The Board's adoption of this policy in no way diminishes the primary responsibilities of financial system participants to address the risks that may arise through their operation of or participation in FMIs.

RISKS IN PAYMENT, CLEARING, SETTLEMENT, AND RECORDING SYSTEMS

The basic risks in payment, clearing, settlement, and recording systems may include credit risk, liquidity risk, operational risk, and legal risk. In the context of this policy, these risks are defined as follows:³²

- Credit risk: the risk that a counterparty, whether a participant or other entity, will be

(Overview) and the *Guide to the Federal Reserve's Payment System Risk Policy* (Guide), which are available at http://www.federalreserve.gov/paymentsystems/psr_relpolices.htm. The Overview summarizes the Board's policy on the provision of intraday credit, including net debit caps and daylight overdraft fees, and is intended for use by institutions that incur only small amounts of daylight overdrafts. The Guide explains in detail how these policies apply to different institutions and includes procedures for completing a self-assessment and filing a cap resolution, as well as information on other aspects of the policy.

³¹ The term "depository institution," as used in this policy, refers not only to institutions defined as depository institutions in 12 U.S.C. 461(b)(1)(A), but also to U.S. branches and agencies of foreign banking organizations, Edge and agreement corporations, trust companies, and bankers' banks, unless the context indicates a different reading.

³² The definitions of credit risk, liquidity risk, operational risk, and legal risk are consistent with those presented in the PFMI.

unable to meet fully its financial obligations when due, or at any time in the future.

- Liquidity risk: the risk that a counterparty, whether a participant or other entity, will be unable to meet fully its financial obligations when due, although it may be able to do so in the future. An FMI, through its design or operation, may bear or generate liquidity risk in one or more currencies in its payment or settlement process. In this context, liquidity risk may arise between or among the system operator and the participants in the FMI, the system operator and other entities (such as settlement banks, nostro agents, or liquidity providers), the participants in the FMI and other entities, or two or more participants in the FMI.

- Operational risk: the risk that deficiencies in information systems or internal processes, human errors, management failures, or disruptions from external events will result in the reduction, deterioration, or breakdown of services provided by the FMI.³³

- Legal risk: the risk of loss from the unexpected or uncertain application of a law or regulation.

These risks also arise between financial institutions as they clear, settle, and record payments and other financial transactions and must be managed by institutions, both individually and collectively.³⁴

Further, FMIs may increase, shift, concentrate, or otherwise transform risks in unanticipated ways. FMIs, for example, may pose systemic risk to the financial system because the inability of one or more of its participants to perform as expected may cause other participants to be unable to meet their obligations when due. The failure of one or more of an FMI's participants to settle their payments or other financial transactions as expected, in turn, could create credit or liquidity problems for participants and their customers, the system operator, other financial institutions, and the financial market the FMI serves. Thus, such a failure might lead ultimately to a disruption in the financial markets more broadly and undermine public confidence in the nation's financial system.

Mitigating the risks that arise in FMIs is especially important because of the interdependencies such systems inherently create among financial institutions. In many cases, interdependencies are a normal part of an FMI's structure or operations. Although they can facilitate the safety and efficiency of

³³ Operational risk also includes physical threats, such as natural disasters and terrorist attacks, and information security threats, such as cyber attacks. Further, deficiencies in information systems or internal processes include errors or delays in processing, system outages, insufficient capacity, fraud, data loss, and leakage.

³⁴ Several existing regulatory and bank supervision guidelines and policies also are directed at financial institutions' management of the risks posed by interbank payment and settlement activity. For example, the Board's Regulation F (12 CFR Part 206) directs insured depository institutions to establish policies and procedures to avoid excessive exposures to any other depository institution, including exposures that may be generated through the clearing and settlement of payments.

the FMI's payment, clearing, settlement, or recording processes, interdependencies can also present an important source or transmission channel of systemic risk. Disruptions can originate from any of the interdependent entities, including the system operator, the participants in the FMI, and other systems, and can spread quickly and widely across markets if the risks that arise among these parties are not adequately measured, monitored, and managed. For example, interdependencies often create complex and time-sensitive transaction and payment flows that, in combination with an FMI's design, can lead to significant demands for intraday credit or liquidity, on either a regular or an extraordinary basis.

The Board recognizes that the Reserve Banks, as settlement institutions, have an important role in providing intraday balances and credit to foster the smooth operation and timely completion of money settlement processes among financial institutions and between financial institutions and FMIs. To the extent that the Reserve Banks are the source of intraday credit, they may face a risk of loss if such intraday credit is not repaid as planned. In addition, measures taken by Reserve Banks to limit their intraday credit exposures may shift some or all of the associated risks to financial institutions and FMIs.

In addition, mitigating the risks that arise in certain FMIs is critical to the areas of monetary policy and banking supervision. The effective implementation of monetary policy, for example, depends on both the orderly settlement of open market operations and the efficient movement of funds throughout the financial system via the financial markets and the FMIs that support those markets. Likewise, supervisory objectives regarding the safety and soundness of financial institutions must take into account the risks FMIs, both in the United States and abroad, pose to financial institutions that participate directly or indirectly in, or provide settlement, custody, or credit services to, such systems.

PART I. RISK MANAGEMENT FOR FINANCIAL MARKET INFRASTRUCTURES

This part sets out the Board's views, and related standards, regarding the management of risks in FMIs, including those operated by the Reserve Banks. The Board will be guided by this part, in conjunction with relevant laws, regulations, and other Federal Reserve policies, when exercising its authority in (1) supervising the Reserve Banks under the Federal Reserve Act; (2) supervising state member banks, Edge and agreement corporations, and bank holding companies, including the exercise of authority under the Bank Service Company Act, where applicable; (3) carrying out certain of its responsibilities under Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act); (4) setting or reviewing the terms and conditions for the use of Reserve Bank accounts and services; and (5) developing and applying policies for the provision of intraday liquidity to eligible Reserve Bank account holders.³⁵ This part

will also guide the Board, as appropriate, in its interactions and cooperative efforts with other domestic and foreign authorities that have responsibilities for regulating, supervising, or overseeing FMIs within the scope of this part. The Board's adoption of this policy is not intended to exert or create supervisory or regulatory authority over any particular class of institutions or arrangements where the Board does not have such authority.

A. Scope

FMIs within the scope of part I include public- and private-sector payment systems that expect to settle a daily aggregate gross value of U.S. dollar-denominated transactions exceeding \$5 billion on any day during the next 12 months.^{36 37} FMIs within the scope of this part also include all central securities depositories, securities settlement systems, central counterparties, and trade repositories irrespective of the value or nature of the transactions processed by the system.³⁸ These FMIs may be organized, located, or operated within the United States (domestic systems), outside the United States (offshore systems), or both (cross-border systems) and may involve currencies other than the U.S. dollar (non-U.S. dollar systems and multi-currency systems).³⁹ The scope of the policy also includes any payment system based or operated in the United States that engages in the settlement of non-U.S. dollar transactions if that payment system would be otherwise subject to the policy.⁴⁰

Part I does not apply to market infrastructures such as trading exchanges, trade-execution facilities, or multilateral trade-compression systems. This part is also not intended to apply to bilateral payment, clearing, or settlement relationships, where

³⁶ A "payment system" is a set of instruments, procedures, and rules for the transfer of funds between or among participants. Payment systems include, but are not limited to, large-value funds transfer systems, automated clearinghouse systems, check clearinghouses, and credit and debit card settlement systems. The scope of this policy also includes payment-versus-payment settlement systems for foreign exchange transactions.

³⁷ In determining whether it is included in the scope of this policy, a payment system should look at its projected "next" twelve-month period. "Aggregate gross value of U.S. dollar-denominated transactions" refers to the total dollar value of individual U.S. dollar transactions settled in the payment system, which also represents the sum of total U.S. dollar debits (or credits) to all participants before or in absence of any netting of transactions.

³⁸ A "central securities depository" is an entity that provides securities accounts and central safekeeping services. A "securities settlement system" is an entity that enables securities to be transferred and settled by book entry and allows transfers of securities free of or against payment. A "central counterparty" is an entity that interposes itself between counterparties to contracts traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer. A "trade repository" is an entity that maintains a centralized electronic record of transaction data. These definitions are based on those in the PFMI.

³⁹ Non-U.S. dollar systems may be of interest to the Board if they are used by U.S. financial institutions or may have the ability to affect financial stability, more broadly.

⁴⁰ The daily gross value threshold will be calculated on a U.S. dollar equivalent basis.

an FMI is not involved, between financial institutions and their customers, such as traditional correspondent banking and government securities clearing services. The Board believes that these market infrastructures and relationships do not constitute FMIs for purposes of this policy and that risk-management issues associated with these market infrastructures and relationships are more appropriately addressed through other relevant supervisory and regulatory processes.

B. Policy Expectations for Certain Financial Market Infrastructures

This section sets out the Board's views, and related standards, with respect to risk-management and transparency for the Reserve Banks' Fedwire Funds Service and Fedwire Securities Service (collectively, Fedwire Services), designated financial market utilities that are subject to Regulation HH, other FMIs that are subject to the Board's supervisory authority under the Federal Reserve Act, all other central securities depositories, securities settlement systems, central counterparties, and trade repositories, as well as other systemically important offshore and cross-border payment systems. Because these FMIs have the potential to be a source of risk or channel for the transmission of financial shocks across the financial system, or are critical to market transparency in the case of trade repositories, the Board believes these FMIs should have comprehensive risk management as well as a high degree of transparency.

1. Risk Management

Authorities, including central banks, have promoted sound risk-management practices by developing internationally accepted minimum standards that promote the safety and efficiency of FMIs. Specifically, the Committee on Payment and Settlement Systems (CPSS) and Technical Committee of the International Organization of Securities Commissions (IOSCO) report on *Principles for Financial Market Infrastructures* (PFMI) establishes minimum standards for payment systems that are systemically important, central securities depositories, securities settlement systems, central counterparties, and trade repositories in addressing areas such as legal risk, governance, credit and liquidity risks, general business risk, operational risk, and other types of risk.⁴¹ The PFMI reflects broad market input and has been widely recognized, supported, and endorsed by U.S. authorities, including the Federal Reserve, U.S. Securities and Exchange Commission (SEC), and U.S. Commodity Futures Trading Commission (CFTC). These standards are also part of the Financial Stability Board's (FSB's) Key Standards for Sound Financial Systems.⁴²

⁴¹ In addition to these risk-management standards, the PFMI sets out responsibilities for authorities for FMIs, including central banks, in order to provide for effective regulation, supervision, and oversight of FMIs.

⁴² The FSB's Key Standards for Sound Financial Systems are available at http://www.financialstabilityboard.org/cos/key_standards.htm. The FSB is an international forum that was established to develop and promote the

³⁵ 12 U.S.C. 248(j), 12 U.S.C. 5461 *et seq.*

The Board believes that the implementation of the PFMI by the FMIs within the scope of this section will help promote their safety and efficiency in the financial system and foster greater financial stability in the domestic and global economy. Accordingly, the Board has incorporated into the PSR policy principles 1 through 24 from the PFMI, as set forth in the appendix. In addition, the Board's Regulation HH contains risk-management standards that are based on the PFMI for certain designated financial market utilities.⁴³ In applying part I of this policy, the Board will be guided by the key considerations and explanatory notes from the PFMI.⁴⁴

a. Fedwire Services

The Board recognizes the critical role the Reserve Banks' Fedwire Services play in the financial system and requires them to meet or exceed the standards set forth in the appendix to this policy, consistent with the guidance on central bank-operated systems provided in the PFMI and with the requirements in the Monetary Control Act.⁴⁵

b. Designated Financial Market Utilities for Which the Board Is the Supervisory Agency Under Title VIII of the Dodd-Frank Act

The Board's Regulation HH imposes risk-management standards applicable to a designated financial market utility for which the Board is the Supervisory Agency.⁴⁷

implementation of effective regulatory, supervisory and other financial sector policies. The FSB includes the U.S. Department of the Treasury, the Board, and the SEC.

⁴³ Regulation HH (12 C.F.R. Part 234) is available at <http://www.federalreserve.gov/bankinfo/reglisting.htm#HH>.

⁴⁴ The Board will also look to the CPSS-IOSCO *Principles for Financial Market Infrastructures: Disclosure Framework and Assessment Methodology*, which is available at <http://www.bis.org/publ/cpss106.htm>, and other related documents.

⁴⁵ Certain standards may require flexibility in the way they are applied to central bank-operated systems because of central banks' unique role in the financial markets and their public responsibilities. These principles include principle 2 on governance, principle 3 on the framework for the comprehensive management of risks, principle 4 on credit risk, principle 5 on collateral, principle 7 on liquidity risk, principle 13 on participant-default rules and procedures, and principle 15 on general business risk, and principle 18 on access and participation requirements. For instance, the Reserve Banks should refer to part II of this policy for managing their credit risk arising from the provision of intraday credit to users of the Fedwire Services.

⁴⁶ The Monetary Control Act requires that fees be set for Reserve Bank services according to a set of pricing principles established by the Board. In preparing the pricing principles and fee schedules, the Board takes into account the objectives of fostering competition, improving the efficiency of the payment mechanism, and lowering costs of these services to society at large. At the same time, the Board is cognizant of, and concerned with, the continuing Federal Reserve responsibility and necessity for maintaining the integrity and reliability of the payment mechanism and providing an adequate level of service nationwide. (12 U.S.C. 248a(c)(3); http://www.federalreserve.gov/paymentsystems/pfs_principles.htm).

⁴⁷ The term "Supervisory Agency" is defined in Title VIII as the "Federal agency that has primary

risk-management standards in Regulation HH are based on the PFMI. As required under Title VIII of the Dodd-Frank Act, the risk-management standards seek to promote robust risk management, promote safety and soundness, reduce systemic risks, and support the stability of the broader financial system. Designated financial market utilities for which the Board is the Supervisory Agency are required to comply with the risk-management standards in Regulation HH and are not subject to the standards in the appendix.

c. Other Financial Market Infrastructures That Are Subject to the Board's Supervisory Authority Under the Federal Reserve Act

The Board expects all other FMIs that are subject to its supervisory authority under the Federal Reserve Act, including FMIs that are members of the Federal Reserve System, to meet or exceed the risk-management standards in the appendix.

d. All Other Central Securities Depositories, Securities Settlement Systems, Central Counterparties, and Trade Repositories

The Board encourages all other central securities depositories, securities settlement systems, central counterparties, and trade repositories, whether located within or outside the United States, to meet or exceed the risk-management standards in the appendix to this policy. Where the Board does not have authority over a central securities depository, securities settlement system, central counterparty, or trade repository, the Board will be guided by this policy in its cooperative efforts with other FMI authorities.

e. Other Systemically Important Offshore and Cross-Border Payment Systems

The Board encourages systemically important offshore and cross-border payment systems that are not included in any of the categories above to meet or exceed the risk-management standards in the appendix to this policy.⁴⁹ The Board will be guided by this policy in its cooperative efforts with other payment system authorities.

2. Transparency

Transparency helps ensure that relevant information is provided to an FMI's participants, authorities, and the public to inform sound decisionmaking, improve risk management, enable market discipline, and foster confidence in markets more broadly. In particular, public disclosures play a critical role in allowing current and prospective participants, as well as other stakeholders, to understand an FMI's operations and the risks

jurisdiction over a designated financial market utility under Federal banking, securities, or commodity futures laws" (12 U.S.C. 5462(8)). Under Title VIII, the Board must prescribe risk-management standards for designated financial market utilities for which the Board or another Federal banking agency is the appropriate Supervisory Agency (12 U.S.C. 5464(a)).

⁴⁸ The Regulation HH risk-management standards also apply to any designated financial market utility for which another Federal banking agency is the appropriate Title VIII Supervisory Agency.

⁴⁹ These systems may be used by U.S. financial institutions, clear or settle U.S. dollars, or have the ability to affect financial stability, more broadly.

associated with using its services and to manage more effectively their risks with respect to the FMI. The Board believes that FMIs are well-positioned to provide the information necessary to support greater market transparency and to maintain financial stability.

The Board expects an FMI that is subject to its supervisory authority but not subject to Regulation HH, to disclose to its participants information about the risks and costs that they incur by participating in the FMI, consistent with the requirements in principle 23 in the appendix.⁵⁰ At a minimum, the FMI should disclose to its participants overviews of the FMI's system design and operations, rules and key procedures, key highlights of business continuity arrangements, fees and other material costs, aggregate transaction volumes and values, levels of financial resources that can be used to cover participant defaults, and other information that would facilitate its participants' understanding of the FMI and its operations and their evaluation of the risks associated with using that FMI.

In addition, the Board expects such an FMI to complete the disclosure framework set forth in the CPSS-IOSCO *Principles for Financial Market Infrastructures: Disclosure Framework and Assessment Methodology* ("disclosure framework" and "assessment methodology").⁵¹ The disclosure framework establishes the international baseline set of information that all FMIs are expected to disclose publicly and review regularly.⁵² An FMI is encouraged to use the guiding questions in the accompanying assessment methodology to guide the content and level of detail in their disclosures. The Board expects each FMI to make its disclosure readily available to the public, such as by posting it on the FMI's public Web site to achieve maximum transparency.

To ensure each FMI's accountability for the accuracy and completeness of its disclosure, the Board expects the FMI's senior management and board of directors to review and approve each disclosure upon completion. Further, in order for an FMI's disclosure to reflect its current rules, procedures, and operations, the Board expects the FMI to update the relevant parts of its disclosure following changes to the FMI or the environment in which it operates, which would significantly change the accuracy of the statements in its disclosure. At a minimum, the FMI is expected to review and update as warranted its disclosure every two years.

As part of its ongoing oversight of FMIs, the Board will review public disclosures by FMIs subject to its authority to ensure that the Board's policy objectives and

⁵⁰ The Board's Regulation HH imposes an equivalent public disclosure requirement.

⁵¹ See CPSS-IOSCO, *Principles for Financial Market Infrastructures: Disclosure Framework and Assessment Methodology*, December 2012, available at <http://www.bis.org/publ/cpss106.htm>.

⁵² Although the Board expects disclosures to be robust, it does not necessarily expect FMIs to disclose to the public sensitive information that could expose system vulnerabilities or otherwise put the FMI at risk (for example, specific business continuity plans).

expectations are being met.⁵³ Where necessary, the Board will provide feedback to the FMI regarding the content of these disclosures and their effectiveness in achieving the policy objectives discussed above.⁵⁴ The Board acknowledges that FMIs vary in terms of the scope of instruments they settle and markets they serve. It also recognizes that FMIs may operate under different legal and regulatory constraints, charters, and corporate structures. The Board will consider these factors when reviewing the disclosures and in evaluating how an FMI addresses a particular standard. Where the Board does not have statutory or exclusive authority over an FMI, it will be guided by this policy in cooperative efforts with other domestic or foreign authorities to promote comprehensive disclosures by FMIs as a means to achieve greater safety and efficiency in the financial system.

C. General Policy Expectations for Other Payment Systems Within the Scope of the Policy

The Board encourages payment systems within the scope of this policy, but that are not included in any of the categories in section B above, to implement a general risk-management framework appropriate for the risks the payment system poses to the system operator, system participants, and other relevant parties as well as the financial system more broadly.

1. Establishment of a Risk-Management Framework

A risk-management framework is the set of objectives, policies, arrangements, procedures, and resources that a system employs to limit and manage risk. Although there are a number of ways to structure a sound risk-management framework, all frameworks should

- a. identify risks clearly and set sound risk-management objectives;
- b. establish sound governance arrangements to oversee the risk-management framework;
- c. establish clear and appropriate rules and procedures to carry out the risk-management objectives; and
- d. employ the resources necessary to achieve the system's risk-management objectives and implement effectively its rules and procedures.

a. Identify Risks Clearly and Set Sound Risk-Management Objectives

The first element of a sound risk-management framework is the clear identification of all risks that have the potential to arise in or result from the system's settlement process and the

development of clear and transparent objectives regarding the system's tolerance for and management of such risks. System operators should identify the forms of risk present in their system's settlement process as well as the parties posing and bearing each risk. In particular, system operators should identify the risks posed to and borne by them, the system participants, and other key parties such as a system's settlement banks, custody banks, and third-party service providers. System operators should also analyze whether risks might be imposed on other external parties and the financial system more broadly.

In addition, system operators should analyze how risk is transformed or concentrated by the settlement process. System operators should also consider the possibility that attempts to limit one type of risk could lead to an increase in another type of risk. Moreover, system operators should be aware of risks that might be unique to certain instruments, participants, or market practices. Where payment systems have inter-relationships with or dependencies on other FMIs, system operators should also analyze whether and to what extent any cross-system risks exist and who bears them.

Using their clear identification of risks, system operators should establish the risk tolerance of the system, including the levels of risk exposure that are acceptable to the system operator, system participants, and other relevant parties. System operators should then set risk-management objectives that clearly allocate acceptable risks among the relevant parties and set out strategies to manage this risk. Risk-management objectives should be consistent with the objectives of this policy, the system's business purposes, and the type of payment instruments and markets for which the system clears and settles. Risk-management objectives should also be communicated to and understood by both the system operator's staff and system participants.

System operators should reevaluate their risks in conjunction with any major changes in the settlement process or operations, the transactions settled, a system's rules or procedures, or the relevant legal and market environments. System operators should review the risk-management objectives regularly to ensure that they are appropriate for the risks posed by the system, continue to be aligned with the system's purposes, remain consistent with this policy, and are being effectively adhered to by the system operator and participants.

b. Establish Sound Governance Arrangements To Oversee the Risk-Management Framework

Systems should have sound governance arrangements to implement and oversee their risk-management frameworks. The responsibility for sound governance rests with a system operator's board of directors or similar body and with the system operator's senior management. Governance structures and processes should be transparent; enable the establishment of clear risk-management objectives; set and enforce clear lines of responsibility and accountability for achieving these objectives; ensure that there is appropriate oversight of the risk-management process; and enable the effective

use of information reported by the system operator's management, internal auditors, and external auditors to monitor the performance of the risk-management process.⁵⁵ Individuals responsible for governance should be qualified for their positions, understand their responsibilities, and understand their system's risk-management framework. Governance arrangements should also ensure that risk-management information is shared in forms, and at times, that allow individuals responsible for governance to fulfill their duties effectively.

c. Establish Clear and Appropriate Rules and Procedures to Carry Out the Risk-Management Objectives

Systems should have rules and procedures that are appropriate and sufficient to carry out the system's risk-management objectives and that are consistent with its legal framework. Such rules and procedures should specify the respective responsibilities of the system operator, system participants, and other relevant parties. Rules and procedures should establish the key features of a system's settlement and risk-management design and specify clear and transparent crisis management procedures and settlement failure procedures, if applicable.⁵⁶

d. Employ the Resources Necessary To Achieve the System's Risk-Management Objectives and Implement Effectively Its Rules and Procedures

System operators should ensure that the appropriate resources and processes are in place to allow the system to achieve its risk-management objectives and effectively implement its rules and procedures. In particular, the system operator's staff should have the appropriate skills, information, and tools to apply the system's rules and procedures and achieve the system's risk-management objectives. System operators should also ensure that their facilities and contingency arrangements, including any information system resources, are sufficient to meet their risk-management objectives.

2. Other Considerations for a Risk-Management Framework

Payment systems differ widely in form, function, scale, and scope of activities, and these characteristics result in differing combinations and levels of risks. Thus, the exact features of a system's risk-management framework should be tailored to the risks of that system. The specific features of a risk-management framework may entail tradeoffs between efficiency and risk reduction, and payment systems will need to consider these tradeoffs when designing appropriate rules

⁵³ Any review of a disclosure by the Board should not be viewed as an approval or guarantee of the accuracy of an FMI's disclosure. Without the express approval of the Board, an FMI may not state publicly that its disclosure has been reviewed, endorsed, approved, or otherwise not objected to by the Board.

⁵⁴ If the Board materially disagrees with the content of an FMI's disclosure, it will communicate its concerns to the FMI's senior management and possibly to its board of directors, as appropriate. The Board may also discuss its concerns with other relevant authorities, as appropriate.

⁵⁵ The risk-management and internal audit functions should also be independent of those responsible for day-to-day functions.

⁵⁶ Examples of key features that might be specified in a system's rules and procedures are controls to limit participant-based risks, such as membership criteria based on participants' financial and operational health; limits on credit exposures; and the procedures and resources to liquidate collateral. Other examples of key features might be business continuity requirements and loss-allocation procedures.

and procedures. In considering such tradeoffs, however, it is critically important that system operators take into account the costs and risks that may be imposed on all relevant parties, including parties with no direct role in the system. Furthermore, in light of rapidly evolving technologies and risk-management practices, the Board encourages all system operators to consider making risk-management improvements when cost-effective.

To determine whether a system's current or proposed risk-management framework is consistent with this policy, the Board will seek to understand how a system achieves the four elements of a sound risk-management framework set out above. In this context, the Board may seek to obtain information from system operators regarding their risk-management framework, risk-management objectives, rules and procedures, significant legal analyses, general risk analyses, analyses of the credit and liquidity effects of settlement disruptions, business continuity plans, crisis management procedures, and other relevant documentation.⁵⁷ The Board also may seek to obtain data or statistics on system activity on an ad hoc or ongoing basis. All information provided to the Federal Reserve for the purposes of this policy will be handled in accordance with all applicable Federal Reserve policies on information security, confidentiality, and conflicts of interest.

D. Cooperation With Other Authorities in Regulating, Supervising, and Overseeing Financial Market Infrastructures

When the Board does not have statutory or exclusive authority over an FMI covered by this policy, this section will guide the Board, as appropriate, in its interactions with other domestic and foreign authorities to promote effective risk management in and transparency by FMIs. For example, the Federal Reserve may have an interest in the safety and efficiency of FMIs outside the United States that are subject to regulation, supervision, or oversight by another authority but that provide services to financial institutions supervised by the Board or conduct activity that involves the U.S. dollar.⁵⁸ In its interactions with other domestic and foreign authorities, the Board will encourage these authorities to adopt and to apply the internationally accepted principles set forth in the appendix when evaluating the risks posed by and to FMIs

and individual system participants that these authorities regulate, supervise, or oversee.

In working with other authorities, the Board will seek to establish arrangements for effective and practical cooperation that promote sound risk-management outcomes. The Board believes that cooperative arrangements among relevant authorities can be an effective mechanism for, among other things, (1) sharing relevant information concerning the policies, procedures, and operations of an FMI; (2) sharing supervisory views regarding an FMI; (3) discussing and promoting the application of robust risk-management standards; and (4) serving as a forum for effective communication, coordination, and consultation during normal circumstances, as well as periods of market stress.

When establishing such cooperative arrangements, the Board will be guided, as appropriate, by international principles on cooperative arrangements for the regulation, supervision, and oversight of FMIs. In particular, responsibility E in the PFMI addresses domestic and international cooperation among central banks, market regulators, and other relevant authorities and provides guidance to these entities for supporting each other in fulfilling their respective mandates with respect to FMIs. The CPSS report on *Central Bank Oversight of Payment and Settlement Systems* also provides important guidance on international cooperation among central banks.⁵⁹ The Board believes this international guidance provides important frameworks for cooperating and coordinating with other authorities to address risks in domestic, cross-border, multi-currency, and, where appropriate, offshore FMIs.

PART II. FEDERAL RESERVE INTRADAY CREDIT POLICIES

[No change to existing part II of the policy.]

APPENDIX—CPSS-IOSCO Principles for Financial Market Infrastructures

Principle 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.

Principle 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.

Principle 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.

Principle 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. In addition, a central counterparty that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would potentially cause the largest aggregate credit exposure to the central counterparty in extreme but plausible market conditions. All other central counterparties should maintain additional financial resources sufficient to cover 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 potentially cause the largest aggregate credit exposure to the central counterparty in extreme but plausible market conditions.

Principle 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.

Principle 6: Margin

A central counterparty should cover its credit exposures to its participants for all products through an effective margin system that is risk-based and regularly reviewed.

Principle 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.

Principle 8: Settlement Finality

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.

Principle 9: Money Settlements

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.

⁵⁷ To facilitate analysis of settlement disruptions, systems may need to develop the capability to simulate credit and liquidity effects on participants and on the system resulting from one or more participant defaults, or other possible sources of settlement disruption. Such simulations may need to include, if appropriate, the effects of changes in market prices, volatilities, or other factors.

⁵⁸ An FMI may be subject to supervision or oversight by the Board and other authorities, as a result of its legal framework, operating structure (for example, multi-currency or cross-border systems), or participant base. In such cases, the Board will be sensitive to the potential for duplicative or conflicting requirements, oversight gaps, or unnecessary costs and burdens imposed on the FMI.

⁵⁹ See *Central Bank Oversight of Payment and Settlement Systems* (Oversight Report), part B on "Principles for international cooperative oversight," May 2005, available at <http://www.bis.org/publ/cpss68.htm>.

Principle 10: Physical Deliveries

An FMI should clearly state its obligations with respect to the delivery of physical instruments or commodities and should identify, monitor, and manage the risks associated with such physical deliveries.

Principle 11: Central Securities Depositories

A central securities depository should have appropriate rules and procedures to help ensure the integrity of securities issues and minimise and manage the risks associated with the safekeeping and transfer of securities. A central securities depository should maintain securities in an immobilised or dematerialised form for their transfer by book entry.

Principle 12: Exchange-of-Value Settlement Systems

If an FMI settles transactions that involve the settlement of two linked obligations (for example, securities or foreign exchange transactions), it should eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other.

Principle 13: Participant-Default Rules and Procedures

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.

Principle 14: Segregation and Portability

A central counterparty should have rules and procedures that enable the segregation and portability of positions of a participant's customers and the collateral provided to the central counterparty with respect to those positions.

Principle 15: General Business Risk

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.

Principle 16: Custody and Investment Risks

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.

Principle 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.

Principle 18: Access and Participation Requirements

An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.

Principle 19: Tiered Participation Arrangements

An FMI should identify, monitor, and manage the material risks to the FMI arising from tiered participation arrangements.

Principle 20: FMI Links

An FMI that establishes a link with one or more FMIs should identify, monitor, and manage link-related risks.

Principle 21: Efficiency and Effectiveness

An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves.

Principle 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.

Principle 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.

Principle 24: Disclosure of Market Data by Trade Repositories

A trade repository should provide timely and accurate data to relevant authorities and the public in line with their respective needs.

By order of the Board of Governors of the Federal Reserve System, January 10, 2014.

Robert deV. Frierson,
Secretary of the Board.

[FR Doc. 2014-00681 Filed 1-15-14; 8:45 am]

BILLING CODE P

**GENERAL SERVICES
ADMINISTRATION**

[Notice-PBS-2013-04; Docket 2013-0002; Sequence 42]

Notice Pursuant to Executive Order 12600 of Posting Certain GSA Real Property Lease Documents With Private Sector Landlords on GSA's Public Online Portal

AGENCY: Public Buildings Service, Office of Leasing, General Services Administration (GSA).

ACTION: Notice.

SUMMARY: This notice provides submitters notice pursuant to Executive Order 12600 that the GSA, Public Buildings Service, Office of Leasing is complying with the Office of Management and Budget's (OMB) Open Government Directive issued December 8, 2009, as M-10-06, to implement the principles of transparency and openness in government by posting certain GSA real property lease documents with private sector landlords on GSA's public online portal.

DATES: Comments must be received on or before February 18, 2014.

ADDRESSES: Submit comments identified by "Notice-PBS-2013-04", by any of the following methods:

- *Regulations.gov:* <http://www.regulations.gov>. Submit comments via the Federal eRulemaking portal by searching for "Notice-PBS-2013-04". Follow the instructions provided at the "Comment Now" screen. Please include your name, company name (if any), and "Notice-PBS-2013-04" on your attached document.

- *Mail:* General Services Administration, Regulatory Secretariat Division (MVCB), 1800 F Street NW., 2nd Floor, Washington, DC 20405. Notice-PBS-2013-04.

Instructions: Please submit comments only and cite "Notice-PBS-2013-04", in all correspondence related to this notice. All comments received will be posted without change to <http://www.regulations.gov>, including any personal and/or business confidential information provided.

FOR FURTHER INFORMATION CONTACT: Mr. John D. Thomas at 202-501-2454.

SUPPLEMENTARY INFORMATION: [OMB's Open Government Directive issued December 8, 2009, as M-10-06, instructs federal agencies, including GSA, to take specific actions to implement the principles of transparency, participation, and collaboration. More specifically, the directive asks agencies to expand access to information by making it available online in open formats. To comply with this initiative, certain GSA real property lease documents with private sector landlords will be posted on GSA's public online portal, with specific data elements being redacted to protect privacy, personal, and proprietary information as outlined under the Freedom of Information Act (FOIA) and the Privacy Act. As such, this notice describes typical data elements contained in these lease documents and their exemption status under the FOIA statute.]

GSA, the nation's largest public real estate organization, provides workspace