# Principles for Financial Markets Infrastructures (FMIs). July 2012.

The IOSCO Technical Committee and the Committee on Payment and Settlement Systems – CPSS – have published a set of Principles for Financial Markets Infrastructures (hereinafter PFMIs). Financial Markets Infrastructures (hereinafter FMIs) are organisations, sometimes made up of several institutions offering at least one of the following services: settlement, clearance, registration and storage of financial transactions (sales in cash in installments, etc.) in financial instruments. The principles refer to 5 different categories: Payment Systems (hereinafter PSs), Central Securities Depositories (hereinafter CSDs), Securities Settlement Systems (hereinafter SSSs), Central Counterparties (hereinafter CCPs) and Trade Repositories (hereinafter TRs).

The principles seek to increase the safety and efficiency of services provided by the FMIs, limit systemic risk and enhance transparency and financial stability; to that end, they seek to harmonise and strengthen existing international standards and recommendations. The principles apply to all those FMIs that are systemically important according to their national authorities; systemic importance is assumed in the jurisdiction where the headquarters of the FMI is located, otherwise the competent authority must publish the reasons for not considering it systemic. Most of the principles apply to all types of FMIs while some only apply to specific kinds; for example, since the TRs have no credit or liquidity risk, the principles regarding such risk do not apply. Annex E contains a matrix with the applicability of the key considerations for specific types of FMIs. Each principle is divided into one or a number of considerations (key considerations) and several explanatory notes which must be taken into account to determine each FMI's compliance with it.

**Principle 1: Legal basis**. An FMI must have a solid, clear, transparent legal basis which is applicable to every material aspect of its activities in all relevant jurisdictions and identify risks arising from possible conflicts of laws.

**Principle 2: Government**. An FMI will have clear and transparent governance agreements that promote the safety and efficiency of the FMI and the financial system. The Board, the management body, will have clearly-identified functions and responsibilities and those people assigned to them will have the necessary qualifications and experience.

**Principle 3: Framework for overall risk management**. An FMI will have a prudent framework for the overall management of the legal, credit, liquidity, operational and other risks, it will identify the scenarios that would potentially prevent it from carrying out operations and services, and will evaluate the recovery or closing options.

**Principle 4: Credit risk.** This applies to PSs, SSSs and CCPs, who will measure, monitor and effectively manage the participants' credit risk exposure and their payment processing, settlement and clearance having to this end a sufficient level of financial resources (guarantees or other equivalent financial resources). The CCPs with a risk profile which more complex or systemic importance will have sufficient additional resources to cover potential stress scenarios (including, but not limited to, the failure of two or more participants and their affiliates which could potentially cause greater aggregate exposure added in extreme but possible market conditions), for the rest of the CCPs, it is enough to cover the failure of one participant.

**Principle 5: Guarantees.** Applies to PSs, SSSs and CCPs who, when applying for guarantees to manage their own credit exposure or that of their participants, will set limits on asset classes (low credit risk, liquidity and market) and concentration (assets of same class).

**Principle 6: Deposit guarantee**. Applicable only to PCC which shall adopt initial guarantee and at least daily variable guarantee models, and will have the operational capacity to make applications and intraday payment guarantees, whether scheduled or not, to the participants.

**Principle 7: Liquidity risk.** Applies to PSs, SSSs and CCPs who will have sufficient liquid resources in all relevant currencies to make payment the same day, intraday and several days later in potential stress scenarios (failure of a participant);

**Principle 8: Purpose of clearance**. This applies to PSs, SSSs and CCPs, who will provide the final clear and true clearance, at least at the end of the value date and, when necessary or preferable, intraday or in real time.

**Principle 9: Settlement in cash**. This applies to PSs, SSSs and CCPs, which shall make the settlements in the central bank currency where practical and feasible and, if the latter were not used, in commercial bank money with little or no credit risk or liquidity.

**Principle 10: Physical deliveries**. This applies to CSDs, SSSs, and CCPs, which must clearly state their obligations regarding the handover of physical instruments or commodities and must identify, monitor and manage the risks associated with such physical handovers.

**Principle 11: Central Securities Depositories**. CSDs, which must have rules and procedures regarding the integrity of securities issues and the minimisation and management of risks associated with custody and transfer of securities; they shall use a system of segregation of their own securities and those of their participants and among the latter.

**Principle 12: Exchange-of-value settlements systems**. These apply to PSs, SSSs and CCPs that settle a transaction which involves two linked obligations and must eliminate the principal risk by making the final settlement of one obligation conditional on that of the other.

**Principle 13: Rules and procedures in participant failures**. This applies to all FMIs except RTs and shall be designed to ensure that the FMI takes prompt action to contain losses and liquidity pressures and to continue to function.

**Principle 14: Segregation and portability.** This applies only to PCCs, which will allow segregation and mobility (transfer) of the positions of the clients, participants and guarantees provided by an account system (individual or omnibus) that allows it to identify the positions of the clients of the participants and related guarantees.

**Principle 15: General business risk**. An FMI must identify, monitor and manage this risk by maintaining enough net liquid assets (such as securities, available reserves or undistributed profits) (equal to at least 6 months of current operating expenses) to cover the potential losses and to ensure the continuity of the business.

**Principle 16: Custody and investment risk**. It applies to all the FMIs (except the TRs); the custody risk consists of the FMI minimising the risk of loss and delay in accessing their own assets and those of their participants, and the investment risk consists of acquiring instruments with minimal credit, market and liquidity risks.

**Principle 17: Operational risk**. An FMI must identify its possible internal and external sources and mitigate its impact by using the appropriate controls, systems and procedures which ensure a high degree of security and operational reliability and which have appropriate and expandable capacity; it must have a business continuity plan which can take up operations within two hours of the interruption event.

**Principle 18: Access and participation requirements**. An FMI must have objective participation criteria, based on risk and publicly disseminated, which allow fair and open access to all possible participants. Participants may be direct, indirect or other FMIs.

**Principle 19: Tiered participation agreements**. Tiered participation arrangements allow broader access to the FMI, which that will identify, monitor and manage the derived material risks.

**Principle 20: FMI links.** This does not apply to SPs, the link with one or more FMIs entails identifying, monitoring and management of risks associated with such links.

**Principle 21: Efficiency and effectiveness**. An FMI must be efficient (performance of its functions) and effective (achieving its objectives) and take into account the needs of its participants and the markets they serve.

**Principle 22: Communication procedure and standards**. An FMI must take into account relevant procedures and internationally-accepted standards to facilitate the efficiency of its services.

**Principle 23: Disclosure of rules, key procedures and market data**. An FMI will have clear and comprehensive rules and procedures to allow participants to have accurate knowledge of the risks and costs, and shall provide public information regarding the operating system, rights and obligations of participants and transaction volumes and prices.

**Principle 24: Disclosure of market data by the TR**. The TRs should provide accurate data in a timely manner to relevant authorities and to the public with sufficient degree of detail to support the transparency of the markets.

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