



# **OVERSIGHT FRAMEWORK FOR PAYMENT AND SECURITIES SETTLEMENT SYSTEMS**

**PAYMENT SYSTEMS AND FINANCIAL  
TECHNOLOGIES DEPARTMENT**

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# Oversight Framework for Payment and Securities Settlement Systems

## Payment and Securities Settlement Systems and Objectives of the Central Bank of the Republic of Turkey

Payment and securities settlement systems have great importance for financial institutions and markets, business enterprises, households, public institutions and central banks with respect to their functions and their position in the economy. Payment and securities settlement systems are also crucial for financial stability because of the volume and value of transactions and the role of these transactions in financial markets and the real economy.

**A payment system/securities settlement system** is defined as “the structure that has common rules and provides the infrastructure required for the clearing and settlement transactions carried out in order to realize **fund/securities** transfers arising from transfer orders among three or more participants” within the Law on Payment and Securities Settlement Systems, Payment Services and Electronic Money Institutions that entered into force by promulgation in the Official Gazette No. 28690, dated 27/06/2013.

The Central Bank of the Republic of Turkey (CBRT) has important duties and powers concerning payment and securities settlement systems (systems) operating in Turkey. In parallel with the importance of payment and securities settlement systems and the relevant international practices and standards, the CBRT's [main objective](#) regarding these systems has been determined as “**ensuring the safe, uninterrupted, efficient and effective functioning of the systems**”.

### Roles of the CBRT

The activities performed by the CBRT in order to achieve the objective mentioned above can be categorized under five main titles according to the characteristics of payment systems and their importance for the economy:

- 1- System operator: In almost all countries, central banks establish and operate the systems which they use to conduct monetary policy and which are critically important for the economy. In Turkey, the Interbank Turkish Lira Transfer System, the Turkish Lira Transfer System between Customers, the Electronic Securities Transfer System and the Instant and Continuous Transfer of Funds (FAST) System, which are vital for the smooth functioning of both financial markets and the real economy, have been established and are still being operated by the CBRT.
- 2- Settlement institution: In some cases, central banks even do not operate the systems themselves, they could still support those systems with various activities in order to mitigate the risks arising from the systems. Providing account and infrastructure required for the settlement operations of the systems, which they do not operate by the central banks, can be viewed as an example of the central bank function in this respect. Accordingly, the CBRT provides settlement account services to the Interbank Card Center and Bileşim Financial Technologies and Payment Systems Inc in order to ensure smooth functioning of their settlement operations.
- 3- Liquidity provider: Central banks are the exclusive providers of national currencies. In this context, it is a common practice for a central bank to provide liquidity for a participant faced with a liquidity problem within a payment or securities settlement system in line with the pre-determined requirements.
- 4- In this context, the CBRT provides various liquidity facilities such as intra-day liquidity, late liquidity and overnight liquidity for the banks operating in Turkey as per the Banking Law No. 5411.
- 5- Regulation and oversight authority: In virtue of the importance of payment and securities settlement systems for financial institutions, financial markets, business enterprises, public institutions and central banks' monetary policy practices, central banks regulate and oversee the systems in order to ensure their uninterrupted and effective functioning. Therefore, the CBRT has

been assigned as the primary authority responsible for regulating and overseeing the payment and securities settlement systems in Turkey.

- 6- Other roles: Instead of taking a direct action, sometimes central banks may guide the systems indirectly by methods such as consulting, leading or participating in the system as a participant depending on the characteristics and the importance level of the systems.

## Legal Framework for the Systems

It is crucial that payment and securities settlement systems have a sound legal infrastructure to avoid any legal problems in this area and to ensure the smooth functioning of systems.

The key regulations, which constitute the legal framework of payment and securities settlement systems in Turkey, and which are taken into account by the CBRT while performing activities regarding those systems, can be summarized as follows:

- [Law on Payment and Securities Settlement Systems, Payment Services and Electronic Money Institutions No. 6493 \(Payment Systems Law\)](#)
  - [Regulation on Operations of Payment and Securities Settlement Systems \(Regulation on Operations\)](#)
  - [Regulation on Oversight of Payment and Securities Settlement Systems \(Regulation on Oversight\)](#)
  - [Communiqué on Information Systems Used in Payment and Securities Settlement Systems](#)
- [Law on the Central Bank of the Republic of Turkey No. 1211 \(CBRT Law\)](#)

Other regulations that can be considered as a part of the legal framework on this area comprise the laws and secondary regulations given below:

- [Capital Market Law No. 6362](#)
  - [General Regulation on the Establishment and Operating Principles of Central Clearing and Settlement Institutions](#)
- [Bank Cards and Credit Cards Law No. 5464](#)
  - [Regulation on Bank Cards and Credit Cards](#)
  - [Communiqué on the Principles and Business Processes to be Considered in Information Systems Management at Information Exchange, Clearing and Settlement Institutions and on Audit of Information Systems](#)
- Cheque Law No. 5941
  - Regulation on Interbank Clearing House

## Oversight

Oversight activities include monitoring the harmonization of payment and securities settlement systems with national and international regulations and standards on a regular basis and inducing changes in these systems when necessary so as to ensure the safe, uninterrupted, efficient and effective functioning of the systems.

Oversight of the systems operating in Turkey is one of the important duties of the CBRT.

## Legal Basis of CBRT's Oversight Activities

The following articles from the CBRT Law No. 1211 and Payment Systems Law No. 6493 constitute the legal basis (at law level) of the oversight activities conducted by the CBRT:

### The CBRT Law No. 1211:

Article 4-(3) *The fundamental duties and powers of the Bank shall be as follows: .... (I/f) to regulate the volume and circulation of the Turkish Lira, to establish payment, securities transfer and settlement systems, to ensure the uninterrupted operation and oversight of the systems established and to be established and to make necessary regulations, to determine the methods and instruments including electronic environment that shall be used for payments*

Article 22-(1) *The duties and powers of the Board shall be as follows:... (e) to take decision on the establishment of payment, securities transfer and settlement systems under the conditions that shall promote their soundness and effectiveness, to determine the procedures and principles of payment methods and instruments, to make the regulations regarding the oversight of clearing houses*

### The Payment Systems Law No. 6493:

Article 4-(3) *The Bank has the right to make the necessary regulations to ensure smooth and uninterrupted operation of the systems.*

Article 8-(1) *The Bank is authorized to oversee the systems established or to be established in order to ensure their uninterrupted operation.(Added by Law No. 7192 of November 12, 2019) The oversight power of the Bank shall apply to all parties whose operations are closely related to the functioning of the system, such as the system operator, system participants, the settlement institution, other interlinked systems and outsourcing institutions.*

(2) *(As amended by Law No. 7192 of November 12, 2019) If it deems necessary, the Bank may request instantly and on a transaction basis all types of records, information and documents related to all transactions carried out by the institutions subject to its oversight activities. The institutions subject to the Bank's oversight activities are obliged to submit all types of records, information and documents to the Bank, even if they are confidential, with respect to the procedures and principles to be determined by the Bank, and make them available for the Bank's oversight.*

(3) *The procedures and principles regarding the oversight of the system shall be set in the regulation to be issued by the Bank.*

(4) *(Added by Law No. 7192 of November 12, 2019) The Bank may be a shareholder of any systematically important system operators established and to be established in order to ensure an uninterrupted operation of the systems.*

Pursuant to the powers included in the provisions of above mentioned Law articles, the procedures and principles regarding the CBRT's oversight activities are determined within the Regulation on the Oversight of the Payment and Securities Settlement Systems (Regulation on Oversight).

## **Scope of Oversight**

The CBRT is authorized to carry out oversight activities related to all payment and securities settlement systems in Turkey as per the provisions of the Payment Systems Law No. 6493 and the Regulation on Oversight.

Pursuant to the second paragraph of Article 5 of the Regulation on Oversight, the oversight activities to be conducted by the CBRT regarding payment and securities settlement systems shall cover all parties whose activities are closely related to the operation of the system such as system operators, system participants, settlement institutions, inter-linked systems and outsourcing service providers.

Meanwhile, payment and securities settlement systems can be classified under different significance levels according to their key features, nature of operations they execute, the markets affected by these operations, the composition of their participants and other issues such as their roles in the economy; and different standards and principles can be determined for systems under different categories.

Thus, pursuant to the third paragraph of Article 5 of the Regulation on Oversight, as part of its oversight activities, the CBRT is authorized to classify systems according to their significance levels and to set different standards and principles for systems in different categories.

In this context, the CBRT classifies the payment and securities settlement systems operating in Turkey into three categories with respect to the features of their operations, annual value and volume of the transactions, connections with other systems and the risks that they may pose to economy and financial stability in general.

All systems in Turkey are obliged to comply with the provisions of the Regulation on Operations of Payment and Securities Settlement Systems regardless of the category under which they are classified by the CBRT. However, the CBRT prescribes different implementations for systems under different categories regarding international standards.

The CBRT classifies systems according to the following factors:

**i. Critically Important Systems**

All securities settlement systems operating in Turkey are classified in the “critically important systems” category regardless of any other properties.

As for payment systems, a payment system is categorized in the “critically important systems” category if it fulfills at least two of the following criteria;

- a) It is a payment system through which time-critical large-value payments are being processed.
- b) The daily average of total value of payments processed in the system during a calendar year is at least 10 billion Turkish Liras.
- c) A disruption in the operation of the system may lead to serious problems in the daily economic activities of financial institutions, the real sector or households.
- d) The system is used for the settlement of payments conducted in other payment or securities settlement systems categorized under “critically important systems” or “important systems”.

**ii. Important Systems**

The payment systems operating in Turkey which are not categorized under the “critically important systems” category but deemed by the CBRT to possess at least one of the following criteria are classified as “important systems”.

- a) The daily average of total value of payments processed in the system during a calendar year is at least 1 billion Turkish Liras.
- b) The number of payments processed in the system during a calendar year constitutes at least 25 percent of the total number of payments processed in all payment systems in Turkey.
- c) A disruption in the operation of the system may lead to serious problems in the daily economic activities of financial institutions, the real sector or households.

**iii. Important Systems on a Limited Scale**

Other payment systems which are not classified under the “critically important systems” category or the “important systems” category are classified in this category. The term “Important systems on a limited scale” does not mean that these systems are insignificant, but intends to express the relatively higher importance of the other two categories.

## **Stages of Oversight Activities**

The oversight activities performed by the CBRT regarding payment and securities settlement systems comprise three main stages in conformity with international practices and standards:

## **1- Monitoring**

The first stage of oversight involves gathering required information within the scope of monitoring the systems and system participants. The CBRT mainly uses the following methods in order to collect information on the issues that may effect the safe, uninterrupted, efficient and effective functioning of the systems:

- Information and documents on the operation and design of the system and the statistical data on transactions processed within the system, which are publicly announced by the system operator, are factors that can be used during the oversight process in order to learn about the system and gain an insight about the volume of transactions.
- The official internal documents about the rules and procedures of the system are important references that may contain significant information on the operation, basic activities and organization of the system.
- The CBRT requires system operators to submit reports based on the format, scope and frequency determined by the CBRT. Reporting can be made through notification of important events in the system or sharing statistical information or answering questionnaires, sent by the CBRT to the system operator, which include questions on some core issues. Information and documents gathered at the reporting stage will be used by the CBRT for further assessments regarding the system operator.
- The results of the self-assessment, which is mandatorily exercised at least once a year by the system operator pursuant to the Regulation on Oversight, provide important information and documents for oversight activities of the CBRT.
- Article 5 of the Regulation on Oversight authorizes the CBRT to exercise on-site visits as part of its oversight activities. Information and documents obtained during on-site visits of the CBRT provide important inputs for the assessment of the system operator.
- Different authorities have different mandates related to various issues on payment and securities settlement systems. Therefore, information collected by other authorities on a system as a result of their activities regarding the system operator and their views on that system are considered as important inputs for the CBRT's oversight activities.

## **2- Assessment**

After the monitoring stage, the second stage of oversight is assessment of the system by using the collected information towards the ultimate objective of achieving safe, uninterrupted, efficient and effective functioning of the systems.

Key considerations that the CBRT will take into account during the assessment activities can be classified under two main titles:

*i) National Regulations:*

The main issues that the payment and securities settlement systems shall comply with during their operations have been set forth in the Regulation on Operations of Payment and Securities Settlement Systems. Regardless of their category, all systems except the ones operated by the CBRT are required to comply with the provisions in the Regulation.

Moreover, paragraph 6 of Article 5 of the Regulation on Oversight of Payment and Securities Settlement Systems lists the following issues that the CBRT shall particularly consider during its oversight activities:

- a) The system operator shall not be in breach of the Law and other relevant legislations,
- b) The system operator shall not go beyond the scope of the operation license,
- c) The system operator shall not carry out any activities that may endanger the system's security, soundness and stability,

- ç) The operation of the system shall not lead to a situation that will jeopardize the stability of the financial system,
- d) The system operator shall have an efficient risk management framework,
- e) There shall be no misstatements in the reportings made to the Bank,
- f) There shall be sufficient collateral, credit and guarantee mechanisms,
- g) The credit, liquidity, market and legal risks of assets provided by participants to the system pursuant to Article 23 of the Regulation on Operations of Payment and Securities Settlement Systems shall be low,
- h) The system operator shall take no actions in conflict with system rules,
- i) Tests regarding appropriateness and applicability of business continuity plans and their implementation shall be carried out regularly,
- j) The information systems and technological infrastructure shall be adequate and secure,
- k) System operator's financial structure shall be sustainable.

Furthermore, procedures and principles regarding general provisions pertaining to information systems management, data security management, security vulnerabilities and violations, audit trails, identity authentication, access control and non-repudiation, information systems risk management, information systems operation, information systems continuity plan, outsourcing for information systems and other related issues, which the system operators shall obey with respect to information systems they use while carrying out their activities, are determined in the Communique on Information Systems Used in Payment and Securities Settlement Systems.

ii) *International Standards:*

One of the CBRT's objectives and policies regarding the payment and securities settlement systems is "to ensure that the systems operate in compliance with the "Principles for Financial Market Infrastructures"<sup>1</sup> issued jointly by the Committee on Payment and Settlement Systems (CPSS<sup>2</sup>) and the International Organization of Securities Commissions (IOSCO)". Accordingly, the CBRT expects the systems to comply with these principles and will take these principles into account for the assessments which will be made during oversight activities.

In the document prepared jointly by the CPMI and IOSCO 24 principles for financial market infrastructures (FMI) and 5 basic responsibilities for regulatory and supervisory authorities have been determined. A summary of the relevant principles with which the payment and securities settlement systems operating in Turkey are expected to comply according to their categories is presented below:

**Legal Basis** (Principle No: 1): A financial market infrastructure (FMI) should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.

**Governance** (Principle No: 2): 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.

**Framework for the comprehensive management of risks** (Principle No: 3): An FMI should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks.

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<sup>1</sup> For more detailed information on the Principles for Financial Market Infrastructures: Committee on Payment and Settlement Systems, Bank for International Settlements – Technical Committee of the International Organization of Securities Commissions. (2012). "Principles For Financial Market Infrastructures", (<http://www.bis.org/publ/cpss101a.pdf>).

<sup>2</sup> The Committee on Payment and Settlement Systems-CPSS has been renamed as the Committee on Payments and Market Infrastructures-CPMI as of 1 September 2014.

**Credit Risk** (Principle No: 4): 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.

**Collateral** (Principle No: 5): 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.

**Liquidity risk** (Principle No: 7): 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.

**Settlement finality** (Principle No: 8): 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.

**Money settlements** (Principle No: 9): 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.

**Physical deliveries** (Principle No: 10): 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.

**Exchange-of-value settlement systems** (Principle No: 12): 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.

**Participant-default rules and procedures** (Principle No: 13): 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.

**General business risk** (Principle No: 15): 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.

**Custody and investment risks** (Principle No: 16): 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.

**Operational risk** (Principle No: 17): 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.

**Access and participation requirements** (Principle No: 18): An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.



**Tiered participation arrangements** (Principle No: 19): An FMI should identify, monitor, and manage the material risks to the FMI arising from tiered participation arrangements.

**FMI Links** (Principle No: 20): An FMI that establishes a link with one or more FMIs should identify, monitor, and manage link-related risks.

**Efficiency and effectiveness** (Principle No: 21): An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves.

**Communication procedures and standards** (Principle No: 22): 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.

**Disclosure of rules, key procedures, and market data** (Principle No: 23): 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.

Principles applied to the systems, that fall into the scope of the CBRT's oversight activities, are shown in Table 1 (Detailed execution table regarding the key considerations (KC) about the Principles for FMIs is given in Annex 1).

As it is seen, securities settlement systems are classified in the "critically important systems" category without any distinction. The CBRT expects securities settlement systems operating in Turkey to comply with all applicable principles determined in the aforementioned CPMI-IOSCO Report for securities settlement systems and designs its oversight activities accordingly.

CPMI and IOSCO expect the principles they issued regarding Financial Market Infrastructures (FMIs) to be applied for systemically important payment systems. However, application of these principles for relatively less important payment systems within the same scope and manner may lead to some problems in practice. In this context, in parallel with the assessment method classifying payment systems into three different categories, payment systems in different categories are expected to implement the above mentioned principles within different scopes.

Payment systems in the "critically important systems" category are expected to fully comply with all applicable principles determined in the CPMI-IOSCO PFMI Report for systemically important payment systems.

**Table 1. Execution Area of the Principles**

| <b>Execution Area of the Principles for FMIs - (CPMI - IOSCO)</b> |                                     |                                      |                           |  |
|---|-------------------------------------|--------------------------------------|---------------------------|--|
|   | <b>Securities Settlement System</b> | <b>Payment System</b>                |                           |  |
|   |                                     | Critically Important Payment Systems | Important Payment Systems | Important Payment Systems on a Limited Scale |
| <b>1- Legal Basis</b>   | <b>X</b>                            | <b>X</b>                             | <b>X</b>                  | <b>X</b>                                     |
| <b>2- Governance</b>  | <b>X</b>                            | <b>X</b>                             | <b>/</b>                  | <b>/</b>                                     |
| <b>3- Framework for the Comprehensive Management of Risks</b>     | <b>X</b>                            | <b>X</b>                             | <b>/</b>                  | <b>/</b>                                     |
| <b>4- Credit Risk</b>   | <b>X</b>                            | <b>X</b>                             | <b>/</b>                  | <b>/</b>                                     |
| <b>5- Collateral</b>  | <b>X</b>                            | <b>X</b>                             | <b>/</b>                  | <b>/</b>                                     |
| <b>7- Liquidity Risk</b>  | <b>X</b>                            | <b>X</b>                             | <b>/</b>                  | <b>/</b>                                     |
| <b>8- Settlement Finality</b>                                     | <b>X</b>                            | <b>X</b>                             | <b>X</b>                  | <b>X</b>                                     |
| <b>9- Money Settlements</b>                                       | <b>X</b>                            | <b>X</b>                             | <b>X</b>                  | <b>/</b>                                     |
| <b>10- Physical Deliveries</b>                                    | <b>X</b>                            | <b>O</b>                             | <b>O</b>                  | <b>O</b>                                     |
| <b>12- Exchange of Value Settlement Systems</b>                   | <b>X</b>                            | <b>X</b>                             | <b>X</b>                  | <b>X</b>                                     |
| <b>13- Participant Default Rules and Procedures</b>               | <b>X</b>                            | <b>X</b>                             | <b>X</b>                  | <b>/</b>                                     |
| <b>15- General Business Risk</b>                                  | <b>X</b>                            | <b>X</b>                             | <b>X</b>                  | <b>X</b>                                     |
| <b>16- Custody and Investment Risk</b>                            | <b>X</b>                            | <b>X</b>                             | <b>X</b>                  | <b>X</b>                                     |
| <b>17- Operational Risk</b>                                       | <b>X</b>                            | <b>X</b>                             | <b>X</b>                  | <b>X</b>                                     |
| <b>18- Access and Participation Requirements</b>                  | <b>X</b>                            | <b>X</b>                             | <b>X</b>                  | <b>X</b>                                     |
| <b>19- Tiered Participation Arrangements</b>                      | <b>X</b>                            | <b>X</b>                             | <b>X</b>                  | <b>X</b>                                     |
| <b>20- FMI Links</b>  | <b>X</b>                            | <b>O</b>                             | <b>O</b>                  | <b>O</b>                                     |
| <b>21- Efficiency and Effectiveness</b>                           | <b>X</b>                            | <b>X</b>                             | <b>X</b>                  | <b>X</b>                                     |
| <b>22- Communication Procedures and Standards</b>                 | <b>X</b>                            | <b>X</b>                             | <b>X</b>                  | <b>O</b>                                     |
| <b>23- Disclosure of Rules, Key Procedures and Market Data</b>    | <b>X</b>                            | <b>X</b>                             | <b>X</b>                  | <b>X</b>                                     |
|   | <b>X:</b>                           | <b>Applied</b>                       |                           |  |
|   | <b>/:</b>                           | <b>Partially applied</b>             |                           |  |
|   | <b>O:</b>                           | <b>Not applied</b>                   |                           |  |

Source: CPMI – BIS, IOSCO

Payment systems in the “Important systems” category are required to totally comply with the principles “Legal basis”, “Settlement finality”, “Money settlement”, “Exchange of value settlement systems”, “Participant default rules and procedures”, “General business risk”, “Custody and investment risk”, “Operational risk”, “Access and participation requirements”, “Tiered participation arrangements”, “Efficiency and effectiveness”, “Communication procedures and standards”, and “Disclosure of rules, key procedures and market data”. Payments systems in this category are required to partially comply with the principles “Governance”, “Framework for the comprehensive management of risks”, “Credit risk”, “Collateral” and “Liquidity risk”. These systems are not expected to comply with the “Physical deliveries” and “FMI links” principles.

Payment systems in the “Important systems on a limited scale” category are required to totally comply with the principles “Legal basis”, “Settlement finality”, “Exchange of value settlement systems”, “General business risk”, “Custody and investment risk”, “Operational risk”, “Access and participation requirements”, “Tiered participation arrangements”, “Efficiency and effectiveness” and “Disclosure of rules, key procedures and market data”. The systems in this category are expected to partially comply with the principles “Governance”, “Framework for the comprehensive management of risks”, “Credit risk”, “Collateral”, “Liquidity risk”, “Money settlement” and “Participant default rules and procedures”. These systems are not expected to comply with the “Physical deliveries”, “FMI links” and “Communication procedures and standards” principles.

### **3- Inducing Change**

In case of detection of any deficiency or problem as a result of the assessment of a system in the light of information collected during monitoring activities and within the scope of the objective of achieving safe, uninterrupted, efficient and effective functioning of systems, the CBRT shall take action to ensure that the system operator eliminates the deficiency or problem.

Pursuant to the second paragraph of Article 9 of the Payment Systems Law No. 6493, in case the system operator acts beyond the scope of the operation license, acts contrary to the Payment Systems Law and the regulations issued pursuant to this Law, jeopardizes the security, soundness and stability of the system, no longer meets the requirements specified in Article 5 of the Payment System Law, ceases to cooperate during the oversight of the system, does not begin operations within one year after acquiring the operation license, clearly renounces its operation license or terminates system activities, obtains the operation license through misstatements and non-factual documents, violates the third paragraph of Article 23 of the Payment System Law, or in case the CBRT decides that the stability of the financial system could be endangered if the system operator continues operating the system, the CBRT is authorized to take the measures listed below according to the severity of the violation:

- a) Granting a reasonable period of time for the system operator to remove the violation,
- b) Requesting from the system operator to take necessary measures approved by the CBRT in order to ensure the realization of settlement,
- c) Requesting from the system operator to dismiss the participants from the system who do not fulfill their obligations pursuant to the Payment Systems Law,
- ç) Withdrawing the operation license of the system operator or temporarily suspending the operation license granted to the system operator until the detected violation is removed,
- d) Temporarily taking over the management of the system operator with the purpose of avoiding systemic risks that could threaten the financial stability.

Moreover, pursuant to the first paragraph of Article 27 of the Payment Systems Law, the CBRT has the power to impose an administrative fine on the system operators who violate the provisions of the Payment Systems Law, the regulations and decisions issued pursuant to this Law, and which are not subject to a separate criminal sanction in the text of the Law.

The aforementioned powers have been restated in Article 11 of the Regulation on Oversight.

Besides the methods mentioned above, the CBRT can also induce change on a system via moral suasion in the bilateral meetings with the representatives of the system operator.

## **Cooperation on Oversight Activities**

Pursuant to the Payment Systems Law, the authorities of the Capital Markets Board of Turkey and the Banking Regulation and Supervision Agency arising from other regulations pertaining to payment and securities settlement systems are reserved.

Accordingly, the cooperation among the CBRT, the Capital Markets Board of Turkey and the Banking Regulation and Supervision Agency are set forth in Article 28 of the Regulation on Operations of Payment and Securities Settlement Systems that took effect pursuant to the Payment Systems Law.

Furthermore, issues regarding the systemic risks that might spread over the whole financial system are discussed at the Financial Stability and Development Committee. The Committee is chaired by the Minister of Treasury and Finance and is composed of the Governor of the CBRT, the Chairman of the Banking Regulation and Supervision Agency, the Chairman of the Capital Markets Board of Turkey and the Chairman of the Savings Deposit Insurance Fund. Key issues regarding payment and securities settlement systems are also put on the agenda of the Committee and this provides an important contribution for cooperation among the relevant authorities.

Meanwhile, when necessary, the CBRT carries out activities with foreign authorities and international organizations regarding the oversight of the international systems or critical service providers which might have significant influence on payment and securities settlement systems operating in Turkey and on participants of these systems.

## Self-assessment

As mentioned above, the results of the “self-assessment”, by which the system operator assesses its compliance level with certain rules and standards, will be used as an input by the CBRT during oversight activities.

Hence, pursuant to Article 8 of the Regulation on Oversight of Payment and Securities Settlement Systems, which entered into force by promulgation in the Official Gazette No:29044, dated 28.6.2014, the system operator shall carry out a self-assessment of its system at least once a year and share the self-assessment report with the CBRT.

The self-assessment shall be carried out based on the principles specified for the category under which the system is classified as per the table above.

The report, prepared by the system operator following the self-assessment pursuant to the Regulation on Oversight, provides an input for the CBRT’s oversight activities, however it is not binding in terms of the CBRT’s evaluations regarding the system.

## ANNEX – 1

| Execution Area of National Regulations and the Principles for Financial Market Infrastructures - (CPMI - IOSCO)* |                              |                                      |   |   |
|--|------------------------------|--------------------------------------|---|---|
|  | Securities Settlement System | Payment System                       |   |   |
|  |                              | Critically Important Payment Systems | Important Payment Systems   | Important Payment Systems on a Limited Scale  |
| <b>I - Regulation on Operations</b>  | X                            | X                                    | X   | X   |
| <b>II - Regulation on Oversight</b>  | X                            | X                                    | X   | X   |
| <b>III - Communique on Information Systems</b>   | X                            | X                                    | X   | X   |
| <b>IV - Principles for Financial Market Infrastructures</b>  |                              |                                      |   |   |
| <b>1- Legal Basis</b>  | <b>X</b>                     | <b>X</b>                             | <b>X</b>  | <b>X</b>  |
| KC-1:  | x                            | x                                    | x   | x   |
| KC-2:  | x                            | x                                    | x   | x   |
| KC-3:  | x                            | x                                    | x   | x   |
| KC-4:  | x                            | x                                    | x   | x   |
| KC-5:  | x                            | x                                    | x   | x   |
| <b>2- Governance</b>   | <b>X</b>                     | <b>X</b>                             | /   | /   |
| KC-1:  | x                            | x                                    | x   | O   |
| KC-2:  | x                            | x                                    | x   | x   |
| KC-3:  | x                            | x                                    | x   | x   |
| KC-4:  | x                            | x                                    | The rule of having an independent board member among non-executive board members is not applied.  | The rule of having an independent board member among non-executive board members is not applied.  |
| KC-5:  | x                            | x                                    | x   | x   |
| KC-6:  | x                            | x                                    | x   | x   |
| KC-7:  | x                            | x                                    | x   | x   |
| <b>3- Framework for the Comprehensive Management of Risks</b>  | <b>X</b>                     | <b>X</b>                             | /   | /   |
| KC-1:  | x                            | x                                    | x   | x   |
| KC-2:  | x                            | x                                    | x   | O   |
| KC-3:  | x                            | x                                    | x   | x   |
| KC-4:  | x                            | x                                    | The provisions relating to resolution are not applied.  | The provisions relating to resolution are not applied.  |
| <b>4- Credit Risk</b>  | <b>X</b>                     | <b>X</b>                             | /   | /   |
| KC-1:  | x                            | x                                    | x   | x   |
| KC-2:  | x                            | x                                    | x   | x   |
| KC-3:  | x                            | x                                    | The provisions relating to minimum amount of sources held concerning credit risk are not applied. | The provisions relating to minimum amount of sources held concerning credit risk are not applied. |
| KC-7:  | x                            | x                                    | x   | x   |
| <b>5- Collateral</b>   | <b>X</b>                     | <b>X</b>                             | /   | /   |
| KC-1:  | x                            | x                                    | x   | x   |
| KC-2:  | x                            | x                                    | x   | x   |
| KC-3:  | x                            | x                                    | x   | x   |
| KC-4:  | x                            | x                                    | O   | O   |
| KC-5:  | x                            | x                                    | x   | x   |
| KC-6:  | x                            | x                                    | x   | x   |
| <b>7- Liquidity Risk</b>   | <b>X</b>                     | <b>X</b>                             | /   | /   |
| KC-1:  | x                            | x                                    | x   | x   |
| KC-2:  | x                            | x                                    | x   | x   |
| KC-3:  | x                            | x                                    | The provisions relating to minimum amount of required liquid assets are not applied.              | The provisions relating to minimum amount of required liquid assets are not applied.              |
| KC-5:  | x                            | x                                    | x   | x   |
| KC-6:  | x                            | x                                    | x   | x   |
| KC-7:  | x                            | x                                    | x   | x   |
| KC-8:  | x                            | x                                    | x   | x   |
| KC-9:  | x                            | x                                    | The provision relating to minimum frequency of stress tests is not applied.                       | The provision relating to minimum frequency of stress tests is not applied.                       |
| KC-10:   | x                            | x                                    | x   | x   |

|  |          |          |          |          |
|--|----------|----------|----------|----------|
| <b>8- Settlement Finality</b>                                  | <b>X</b> | <b>X</b> | <b>X</b> | <b>X</b> |
| KC-1:  | x        | x        | x        | x        |
| KC-2:  | x        | x        | x        | x        |
| KC-3:  | x        | x        | x        | x        |
| <b>9- Money Settlements</b>                                    | <b>X</b> | <b>X</b> | <b>X</b> | <b>/</b> |
| KC-1:  | x        | x        | x        | O        |
| KC-2:  | x        | x        | x        | x        |
| KC-3:  | x        | x        | x        | O        |
| KC-4:  | x        | x        | x        | x        |
| KC-5:  | x        | x        | x        | x        |
| <b>10- Physical Deliveries</b>                                 | <b>X</b> | <b>O</b> | <b>O</b> | <b>O</b> |
| KC-1:  | x        | O        | O        | O        |
| KC-2:  | x        | O        | O        | O        |
| <b>12- Exchange of Value Settlement Systems</b>                | <b>X</b> | <b>X</b> | <b>X</b> | <b>X</b> |
| KC-1:  | x        | x        | x        | x        |
| <b>13- Participant Default Rules and Procedures</b>            | <b>X</b> | <b>X</b> | <b>X</b> | <b>/</b> |
| KC-1:  | x        | x        | x        | x        |
| KC-2:  | x        | x        | x        | x        |
| KC-3:  | x        | x        | x        | x        |
| KC-4:  | x        | x        | x        | O        |
| <b>15- General Business Risk</b>                               | <b>X</b> | <b>X</b> | <b>X</b> | <b>X</b> |
| KC-1:  | x        | x        | x        | x        |
| KC-2:  | x        | x        | x        | x        |
| KC-3:  | x        | x        | x        | x        |
| KC-4:  | x        | x        | x        | x        |
| KC-5:  | x        | x        | x        | x        |
| <b>16- Custody and Investment Risk</b>                         | <b>X</b> | <b>X</b> | <b>X</b> | <b>X</b> |
| KC-1:  | x        | x        | x        | x        |
| KC-2:  | x        | x        | x        | x        |
| KC-3:  | x        | x        | x        | x        |
| KC-4:  | x        | x        | x        | x        |
| <b>17- Operational Risk</b>                                    | <b>X</b> | <b>X</b> | <b>X</b> | <b>X</b> |
| KC-1:  | x        | x        | x        | x        |
| KC-2:  | x        | x        | x        | x        |
| KC-3:  | x        | x        | x        | x        |
| KC-4:  | x        | x        | x        | x        |
| KC-5:  | x        | x        | x        | x        |
| KC-6:  | x        | x        | x        | x        |
| KC-7:  | x        | x        | x        | x        |
| <b>18- Access and Participation Requirements</b>               | <b>X</b> | <b>X</b> | <b>X</b> | <b>X</b> |
| KC-1:  | x        | x        | x        | x        |
| KC-2:  | x        | x        | x        | x        |
| KC-3:  | x        | x        | x        | x        |
| <b>19- Tiered Participation Arrangements</b>                   | <b>X</b> | <b>X</b> | <b>X</b> | <b>X</b> |
| KC-1:  | x        | x        | x        | x        |
| KC-2:  | x        | x        | x        | x        |
| KC-3:  | x        | x        | x        | x        |
| KC-4:  | x        | x        | x        | x        |
| <b>20- FMI Links</b>   | <b>X</b> | <b>O</b> | <b>O</b> | <b>O</b> |
| KC-1:  | x        | O        | O        | O        |
| KC-2:  | x        | O        | O        | O        |
| KC-3:  | x        | O        | O        | O        |
| KC-4:  | x        | O        | O        | O        |
| KC-5:  | x        | O        | O        | O        |
| KC-6:  | x        | O        | O        | O        |
| KC-7:  | x        | O        | O        | O        |
| KC-8:  | x        | O        | O        | O        |
| KC-9:  | x        | O        | O        | O        |
| <b>21- Efficiency and Effectiveness</b>                        | <b>X</b> | <b>X</b> | <b>X</b> | <b>X</b> |
| KC-1:  | x        | x        | x        | x        |
| KC-2:  | x        | x        | x        | x        |
| KC-3:  | x        | x        | x        | x        |
| <b>22- Communication Procedures and Standards</b>              | <b>X</b> | <b>X</b> | <b>X</b> | <b>O</b> |
| KC-1:  | x        | x        | x        | O        |
| <b>23- Disclosure of Rules, Key Procedures and Market Data</b> | <b>X</b> | <b>X</b> | <b>X</b> | <b>X</b> |
| KC-1:  | x        | x        | x        | x        |
| KC-2:  | x        | x        | x        | x        |
| KC-3:  | x        | x        | x        | x        |
| KC-4:  | x        | x        | x        | x        |
| KC-5:  | x        | x        | x        | x        |
| <b>X: Applied</b>  |          |          |          |          |
| <b>/: Partially applied</b>                                    |          |          |          |          |
| <b>O: Not applied</b>  |          |          |          |          |

\* Detailed explanation of the key considerations (KC) is available in the report at <http://www.bis.org/publ/cpss101a.pdf>.