

WESTERN HEMISPHERE PAYMENTS AND SECURITIES CLEARANCE AND SETTLEMENT INITIATIVE

INICIATIVA DE COMPENSACIÓN Y LIQUIDACIÓN DE PAGOS Y VALORES DEL
HEMISFERIO OCCIDENTAL



Status Report
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1. ORIGIN AND FOUNDATIONS

Payments and securities clearance and settlement systems are essential components of a nation's financial infrastructure and underpin the successful operation of modern integrated financial markets. System failures can result in major disruptions to the smooth operation of these markets, while system weaknesses directly expose market participants to financial risk. This risk must be properly understood and managed in order to protect the financial markets and underlying economies from contagion.

Payments and securities clearance and settlement systems in the Western Hemisphere vary widely in their efficiency, reliability and complexity across countries. In the late 1990s, it was evident that many countries presented the need of upgrading existing arrangements by moving towards more secure and efficient systems, consistent with international standards and best practices.

Such efforts coincided with high-level government support of financial infrastructure reform in the Hemisphere. The Joint Ministerial Statement issued by the **Summit of the Americas, Second Western Hemisphere Finance Ministers' Meeting (Chile, November 1997)**, mentioned as **one of the action points the strengthening of financial markets and called "on the World Bank Group, in conjunction with the International Organization of Securities Regulators (IOSCO), the IADB and other interested parties, to compare existing clearance and settlement systems of Latin American and Caribbean countries to standards of the Bank for International Settlements and to the framework outlined in the IOSCO paper, "Clearing and Settlement in Emerging Markets".** In perspective and based on this review, the Ministers called "on national and regional authorities to implement changes which promote efficient and secure clearance and settlement systems consistent with those standards."

As a result, the World Bank launched in January 1999 the *Western Hemisphere Payments and Securities Clearance and Settlement Initiative (WHI)*. The World Bank leads this Initiative in partnership with the *Centro de Estudios Monetarios Latinoamericanos (CEMLA)*.

2. OBJECTIVES AND ORGANIZATION OF THE INITIATIVE

2.1 Objectives

The objective of the WHI is to strengthen existing payments and securities clearance and settlement systems in the Western Hemisphere and build institutional capacity to sustain their continued development. This is being accomplished by:

- Developing a common framework for the analysis of payments and securities clearance and settlement systems in the Hemisphere.
- Designing and implementing specific technical assistance projects to help entities in the countries to upgrade their clearance and settlement systems to international standards and best practices.
- Hosting regional workshops to raise awareness on the issue and disseminate international standards, best practices and experiences of other countries.
- Working towards the establishment of regional or sub-regional committees for addressing clearance and settlement issues on a continuous basis.

The WHI has taken since the beginning a new approach to the assessment of payment systems. First, the Initiative has stressed since its outset the importance of having a coordinated assessment of both payments and securities clearance and settlement systems. In addition, the Initiative seeks and provides an opportunity for the active participation of representatives from the countries in the Region.

As a result, the WHI is a coordinated effort, and is being supported by institutions inside and outside the Region. Besides the World Bank and CEMLA, other institutions are supportive and heavily involved in the project, such as the Council of Securities Regulators of the Americas (COSRA) and an International Advisory Council (IAC). The IAC comprises highly experienced institutions in issues related to the clearance and settlement of payments and securities. Its main role is to provide a measure of high level quality control and general advice and guidance relating to all Initiative activities.

Finally, a longer-term aim of the Initiative is to create an ongoing cooperative process inside the Region for discussion of related topics. To realize this objective, the Initiative supported the creation of working groups/committees. In December 1999 several members of COSRA created a working party to address common issues relating to securities clearance and settlement. In 2001, the central banks of Latin America and the Caribbean (LAC) and CEMLA established the Working Group on Payment System Issues of Latin America and the Caribbean (WGPS-LAC).

2.2 Organization and Structure

A core team has been formed within the World Bank to manage the project. The team is directly responsible for the implementation of the project. Among its main activities are: 1) Developing a common framework for undertaking the studies; 2) coordinating with CEMLA; 3) organizing country studies by staffing the international team and working out relations with local

authorities; 4) leading field activities and finalizing deliverables; 5) informing the International Advisory Council and organizing its meetings; and 6) disseminating information about the Initiative inside and outside the World Bank.

CEMLA has been acting as the Secretariat for the Initiative' and is committed to making the process sustainable through its extension to all the countries in the Hemisphere. The Initiative, with this purpose in mind, has helped strengthen CEMLA's in-house expertise. The endeavors of the working groups in coordination with CEMLA (and COSRA) will maintain the infrastructure created under the Initiative and will provide a permanent forum for the countries in the Region to discuss, coordinate and add a collective impetus to the work in the area of payments and securities clearance and settlement systems. CEMLA activities include: administration of the Initiative web page¹ in Spanish and English; management of the network of communications within and outside of the project with participants and interested parties; administration of the relevant documentation, in Spanish, English and Portuguese; participation and assistance in country studies, and early preparation of country missions; support for conferences on WHI-relevant topics, organized on its own or sponsored by the Initiative, and support to the regional working group. CEMLA has received support from the Secretariat of the Committee for Payments and Settlement Systems (CPSS) of the Bank for International Settlements in the area of training and secretariat know-how, and is benefiting from that institution's wide experience.

An International Advisory Council (IAC), comprised of experts in the field from several institutions, was established in March 1999. In addition to representatives from the World Bank and CEMLA, this Council includes members from the CPSS and from the Bank of Italy, Bank of Portugal, Bank of Spain, Board of Governors of the Federal Reserve System, Council of Securities Regulators of the Americas (COSRA), *de Nederlandsche Bank*, European Central Bank, Federal Reserve Bank of New York, Inter-American Development Bank, International Monetary Fund, International Organization of Securities Regulators (IOSCO), Securities Commission of Spain, the Swiss National Bank, and the U.S. Securities Commission (SEC). The IAC has been designed as an integral part of the Western Hemisphere project structure and its major objectives are to: 1) Bring to bear international and national expertise on the strategy and content of the Initiative (policy and practice) from institutions with diverse experience; 2) provide advice and guidance on specific payments and securities clearance and settlement issues; 3) help identify appropriate resources for technical assistance and for project support; 4) assure consistency with the most up-to-date thinking on payments and securities clearance and settlement; and 5) provide advice and ideas to encourage the development of a Hemispheric Council on Payments and Securities Settlement Systems.

The organizational features of the Initiative, including, in particular, the partnership between the World Bank and CEMLA and the role of the IAC, help avoid duplication of efforts by various international organizations in the field, enhance coordination, maximize impact, and leverage available expert resources internationally and within the region. In particular, it is clear that the organizational arrangements embedded in the Initiative represent its main strength as it allows access to relevant senior professionals from highly experienced and well regarded institutions.

3. ACTIVITIES OF THE INITIATIVE

The WHI has undertaken a number of activities to respond to the Western Hemisphere Finance Ministers' request. These include:

¹ <http://www.ipho-whpi.org> for the Initiative and <http://www.cemla.org> for the Center.

- The preparation of public reports containing a systematic in-depth description of each country's payments clearance and settlement systems.
- The delivery of recommendations reports to country authorities on a confidential basis, covering practical and strategic suggestions for exploiting improvement opportunities including: 1) short-term improvements, in streamlining rules, procedures and organization of payments operations; and 2) long-term improvements, to ensure that the national payments, clearance and settlement mechanisms satisfy the evolving needs of all sectors of the economy (individuals, retail, industrial and commercial, government, financial markets and international sector) for payments and securities related services.
- The organization of IAC meetings to review country studies and provide input for future work and guidance to the Initiative.
- The development of a common methodology for assessing payments and securities clearance and settlement systems. The Initiative has also developed tools for use in undertaking the country studies that incorporate emerging international standards and best practices.
- The organization of workshops and events focusing on issues of particular interest to practitioners in the Hemisphere.
- The creation of a web page to present the outputs of the Initiative and other information of interest in the payments and securities systems area.
- The promotion of working groups to ensure continuity to the project. This effort is conducted together with CEMLA and COSRA.
- The response to specific requests for technical assistance or project preparation advice by officials in the countries.

3.1 Country Assessments

The WHI undertook a series of 18 country assessments from May 1999 to May 2003. The country assessments, in order of completion, are: Peru, Argentina, Chile, Trinidad and Tobago, El Salvador², Organization of Eastern Caribbean States (OECS), Brazil, Colombia, Mexico³, Costa Rica, Barbados,⁴ The Bahamas,⁵ Jamaica, Ecuador, Venezuela, Netherlands Antilles, Dominican Republic, and Honduras⁶.

The mission work results in a production of a comprehensive Report, prepared by the international team and delivered to the country authorities (central bank and securities regulator) on a confidential basis. During its preparation the document is constantly discussed with country representatives and, generally, preliminary reports in the form of executive summary are presented to the top management of the central bank and the securities regulator at the end of the in-country field work.

The scope of the reports is broad and the systems are assessed taking into account different aspects (legal, risk management, regulatory, IT, efficiency, etc.). The recommendations aim at resolving any identified weaknesses and at exploiting any identified improvement opportunities in the current arrangements. The overall objective being the development of more secure,

² In the case of El Salvador, the WHI work was integrated with the FSAP.

³ In the case of Mexico, the WHI work was integrated with the FSAP.

⁴ In the context of a World Bank technical assistance project.

⁵ In the context of a World Bank technical assistance project.

⁶ In the context of a World Bank technical assistance project.

efficient payments and securities clearance and settlement systems in the country, capable of satisfying the needs of the local and regional markets.

Systems are assessed against emerging international standards and best practices. In particular, payments systems have been assessed for compliance with the CPSS Core Principles for Systemically Important Payment Systems.⁷ Specific tools (available in the web page of the Initiative as working papers) were prepared to guide the assessments and are based on international standards for both payments and securities matters. Tentative terms of reference for the establishment of a domestic payments council have been prepared and adapted to each country's particular situation.

The Report includes action plans for the further reform of the payments and securities settlement systems, where appropriate. In several cases, follow-up activities have been undertaken to discuss the way in which the recommendations might be implemented.

Country Missions are organized in close coordination with the work of the joint International Monetary Fund/ World Bank Financial Sector Assessment Program (FSAP) and with the technical assistance work of the World Bank.

3.2 Public reports

The Initiative has developed a common outline for structuring the public reports.⁸ This is aimed at facilitating cross-country comparisons through the use of a single and integrated approach covering both payments and securities matters. The outline is based on previously well accepted models such as the “Red Books” of the CPSS, the “Blue Books” of the European System of Central Banks and the ISSA reports.⁹ **Public Reports are generally prepared in Spanish and Portuguese. To date, the Reports already available are: Argentina, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Mexico, Peru,¹⁰ Trinidad and Tobago. The reports for Brazil, Dominican Republic, OECS and Venezuela have been produced and will be published in the near future. Reports for the other countries assessed are being prepared.**

3.3 The “Payments Week”

All the activities carried out by the WHI are complemented by an annual event, known as the “Payments Week”, which gathers the regional payments systems authorities and the IAC members to assess WHI progress, discuss the most important issues and trends in the field of payments and securities settlement, and agree upon next steps. In addition to an exchange of information, the “Payments Week” has provided in the past significant training to

⁷ [Http://www.bis.org/publ/cpss34e.htm](http://www.bis.org/publ/cpss34e.htm) . The assessments could only be made against the draft version of the Core Principles which was published in its final form in early 2001.

⁸ As in other similar cases, the WHI Public Reports are now known as “yellow books” from the color of their cover page.

⁹ The WHI Reports have introduced some new elements as compared with other reports in the field. Besides the more comprehensive description of securities settlement systems and related issues, the reports present an introductory chapter with an overview of the economic and financial situation of the country, a brief description of banking supervision and money laundering issues in the Institutional chapter (2), and a focus on cash management and government payments in chapter (3). Two Statistical Annexes are attached to the public report; the first series of tables (A) are statistics on payments and securities clearance and settlement and are completed following a standard model. In some situations the tables incorporated in the reports might differ slightly from the model due to data availability constraints. The second series (B) are more general statistics related to the financial sector.

¹⁰ The Peru Report has been produced in 1999 and updated in 2001.

CEMLA members and it has sponsored a number of research activities discussed during the event.

In the last meeting of the Regional Working Group in Rio de Janeiro, with participation of several IAC members, the Working Group gave the mandate to the WHI Core Team to explore the possibility to hold the event in Europe. This decision serves several current Regional aims, since many countries are in an advanced process of reforming their payments systems and the European experience is seen as an important reference. Furthermore, the Group is willing to express its gratitude to the many IAC European institutions that have participated in country missions and previous IAC meetings in LAC. Finally, holding the event in Europe, from time to time, would facilitate the presence of representatives from other Regions (e.g. Middle East and North Africa) which might be interested in replicating the model of the WHI.

Following this request, *Banca d'Italia* has agreed to host the event from June 16th to June 20th 2003, at their training facilities. Starting in 2003, the format of the Payments' Week has been modified: 3 or 4 topics of common interest are being selected by the WGPS-LAC and will be thoroughly discussed with the view to identifying common areas of regional concern in order to submit to the authorities for their consideration. Representatives from central banks from other regions of the world will attend to study the model of the WHI and the WGPS-LAC to replicate them in their jurisdictions.

3.4 The Working Group on Payment System Issues of LAC

The WGPS-LAC is working hard to consolidate its structure and deliver high quality documents of regional interest. The Group has been meeting twice a year since its foundation (once during the Payments Week) and is completing several important projects. They include: 1) a self assessment exercise of each country's systemically important payment system based on the CPSS Core Principles; 2) a set of comparative statistical tables, based on a common methodology. The Group has also worked on a Payment System Glossary in Spanish in cooperation with the CPSS.

3.5 Reform of settlement systems in Latin American and the Caribbean

Several countries in the region have launched or are in the process of launching major reform of their settlement systems. The WHI has helped to create momentum for the implementation of payments and securities settlement reform throughout the region. The workshops and in-country work have raised the exposure of local institutions to the international debate on relevant issues. In many cases, reform projects have stemmed from the discussion that took place during the assessments of the WHI. In some cases, the World Bank and CEMLA are directly involved in supporting the reform process, also after the end of the WHI mission. **Overall, the landscape of payments and securities settlement arrangements in the LAC Region seems much more efficient and secure in 2003 than when the WHI was launched. The next phase of the WHI should be designed to maintain and improve the achieved results.**

4. NEXT STEPS AND FUTURE STRUCTURE OF THE INITIATIVE

4.1 The "Forum"

The Initiative through the several activities performed has been well received within the LAC region. It has become a regional forum to discuss relevant issues in the field of payments and securities clearance and settlement.

Therefore, **the Initiative should gradually converge into a permanent Forum named Western Hemisphere Payments and Securities Settlement Forum.** In the new scheme, the World Bank's role will evolve from leadership to support of the Initiative's activities. This will represent the achievement of one of the initial objectives of the WHI, namely the creation of capacity within the region to give continuity to the effort. The newly-established Working Groups on Payment Systems Issues of Latin America and the Caribbean (constituted by regional central banks) and on Securities Clearance and Settlement Issues (constituted within COSRA) will give continuity to the discussions on progress and experiences in implementing standards, to perform an educational effort to help raise the general level of awareness of standards among market participants, to promote seminars and cross-country studies. In the new phase, the managing team will comprise CEMLA, as Secretariat of the Working Groups on Payments (central banks) and main liaison with COSRA, the regional local authorities (central banks and securities commissions), eventually through the working groups, and the World Bank (in its new supporting role).

The IAC will continue to operate within the Initiative as per its current terms of reference. Although in the new environment, the role for the IAC appears doomed to shrink, it is proposed that the IAC maintain its current structure at least until completion of all remaining country studies in the LAC region, which would represent the fulfillment of the mandate by the Finance Ministers. In a next step the IAC could assume a different role and even change its composition (for example with the direct involvement only of international institutions/bodies such as the WB, IMF, IADB, IOSCO, CPSS/BIS, etc.)

Also, it seems desirable that both the Working Groups on Payments and the Working Party on Securities have established direct and permanent contacts with similar organizations such as the CPSS, through the respective Secretariats. Especially in the longer term, this would appear as a necessary complementary feature to the Initiative's Core Team reliance on the IAC.

4.2 Extension of the WHI model to other regions

Other regions have expressed interest to replicate the successful model of the WHI to their environments (e.g. Middle East and Northern Africa, COMESA, etc.). The World Bank has been actively involved in these discussions. CEMLA and the Working Groups are likely to be asked to provide advice on this matter. Representatives from central banks of other regions will attend the 2003 Payments Week to study the WHI *modus operandi*.

4.3 Extension of the WHI model to other topics in LAC

The success of the WHI model in LAC stimulated a discussion on the possibility of replicating the model for other topics in the financial sector arena in the LAC Region. Three areas which might be of interest of central banks are: 1) Storage and Treatment of Credit Information (e.g. Credit Bureaus), since these issues have a strong impact on credit access and, therefore, on economic development; 2) Standardization of accounting procedures, since the latter have an impact on transparency and corporate financing; 3) Government Securities markets, since, apart from their implications for monetary and fiscal policies, they are crucial for the development of capital and interbank markets. The World Bank is prepared to discuss the matter with CEMLA and the regional central banks, should authorities be interested.