



**REPUBLIC OF ALBANIA
BANK OF ALBANIA
SUPERVISORY COUNCIL**

DECISION

No. 37, dated 2.05.2018

**ON
APPROVAL OF DOCUMENT “OVERSIGHT POLICY ON PAYMENT AND
SETTLEMENT SYSTEMS”**

In accordance with and pursuant to Article 43, letter “c” of Law No. 8269, dated 23.12.1997 “On the Bank of Albania”, as amended, Articles 8 and 15 of Law No. 133/2013, dated 29.04.2013 “On the payment system”, upon the proposal of the Payment Systems and Accounting and Finance Department, the Supervisory Council of the Bank of Albania,

DECIDED:

1. To approve the document “Oversight policy on payment and settlement systems”, attached to this Decision.
2. The Payment Systems, Accounting and Finance Department is responsible for the implementation of this decision.
3. The entry into force of this decision abrogates decision No. 32, dated 30.04.2014 of the Supervisory Council of Bank of Albania “Approval of Oversight Policy Document for Payment and Settlement Systems”.
4. The Governor's Office shall be responsible for publishing this decision in the official journal of the Republic of Albania and the Research Department shall be responsible for publishing this decision in the Official Bulletin of the Bank of Albania.

This decision shall enter into force immediately.

SECRETARY

Elvis Çibuku

CHAIRMAN

Gent Sejko

Bank of Albania Document
“Oversight Policy on Payment and Settlement Systems”

"Oversight of payment and settlement systems is a central bank function whereby the objectives of safety and efficiency are promoted by monitoring existing and planned systems, assessing them against these objectives and, where necessary, inducing change."

Definition by “Central Bank Oversight of Payment and Settlement Systems” report, prepared by the Committee on Payment and Settlement Systems (CPSS) at the Bank for International Settlements (BIS), May 2005.

Contents

I. INTRODUCTION.....	4
II. PAYMENTS SYSTEM OVERSIGHT RESPONSIBILITIES	5
1. LEGAL BASIS.....	5
2. OVERSIGHT ROLE.....	6
3. OVERSIGHT OBJECTIVES.....	7
III. SCOPE OF OVERSIGHT.....	8
1. PAYMENT SYSTEMS.....	9
2. PAYMENT INSTRUMENTS AND PAYMENT SERVICES	11
3. SECURITIES SETTLEMENT SYSTEMS AND CENTRAL COUNTERPARTIES	11
4. PARTICIPANTS AND SUB-PARTICIPANTS OF ALL ABOVE LISTED SYSTEMS	12
5. THIRD-PARTY SERVICE PROVIDERS AND TRADE REPOSITORIES.....	12
6. CORRESPONDENT AND CUSTODIAN BANKS	12
IV. OVERSIGHT TOOLS AND METHODOLOGY.....	13
1. TOOLS.....	13
2. METHODOLOGY.....	14
V. COOPERATION/COORDINATION WITH OTHER AUTHORITIES.....	14
Appendix 1- Main reference documents for performing the oversight of important elements of Payment and Settlement Systems	16
Appendix 2 – Principles for Financial Market Infrastructures (FMI) BIS 2012	18
Appendix 3- The matrix of the principles applicability in different types of financial market infrastructure.	21
Appendix 4- The matrix of the principles applicability in accordance to the system classification	22

I. INTRODUCTION

A safe and efficient payment system is of fundamental importance for economic and financial activities and is essential for transmitting monetary policies and safeguarding financial stability. Moreover, ensuring a high level of security for different payment instruments reinforces public confidence in the domestic currency.

In this context, the central bank's main objectives of monetary and financial stability are closely related to the role it plays in the field of payment systems. The payment system – which includes the Financial Market Infrastructures (FMI) for payment, security and derivative transactions – along with financial markets and institutions, are the main components of the financial system. A reliable and stable infrastructure for payment, clearing and settlement arrangements is a key condition for the smooth functioning of the financial system and trade between economic agents.

The Bank of Albania has always played a significant role in the design and operation of payment systems as an operator, overseer and catalyst. Following the international financial crisis in 2008, many countries worldwide decided to strengthen their powers with regard to the oversight and control of payment systems and financial markets. In this context, with a view to further consolidating its role as overseer of the Albanian payments system, Bank of Albania, among others, is taking concrete actions to make its responsibilities and activities transparent, clear and visible to the overseen entities and the public, in general.

The structure and focus of this document are partially based on ECB document “Eurosystem Oversight Policy Framework (2016)”.

The purpose of this document is to make clear clarify the public on:

- a) the oversight objectives on payment and settlement systems;
- b) the scope of application of the oversight function as performed by the Bank of Albania;
- c) the activities carried out by the Bank of Albania to meet its oversight objectives;
- d) the oversight standards to be applied in accordance with the relevance of each overseen entity;
- e) the oversight methodology applied by the Bank of Albania; and
- f) Bank of Albania's cooperation with other institutions/authorities.

In this document, the term "payment and settlement systems" is used as a generalized definition for the two systems: payment systems and securities settlement systems. When deemed necessary, this document distinguishes between the two systems. Since payment

instruments are an integral part of the payment systems, they are included in the definition of the Central Bank payments system oversight.

II. PAYMENTS SYSTEM OVERSIGHT RESPONSIBILITIES

1. LEGAL BASIS

The Bank of Albania has the legal obligation “to promote and support the smooth operation of payment systems” as this is one of its secondary objectives and main tasks as laid out in Law No. 8269, dated 23.12.1997 "On the Bank of Albania", as amended (hereinafter the Law on the Bank), Law No. 9662, dated 18.12.2006 "On banks in the Republic of Albania", as amended (hereinafter the Banking Law); and Law No. 133/2013, dated 29.04.2013 "On the payment system" (hereinafter the Payment System Law). The Payment System Law, in particular, thoroughly covers the oversight of payment and settlement system, including payment instruments. This Law, along with Bank of Albania by-laws, sets out clear rules governing the licensing, regulation and inspection.

Article 3/2

Bank of Albania, in accordance with its primary objective and based on the domestic banking market, promotes and supports the development of the foreign exchange regime and system, domestic financial market, payment system, and assists in improving monetary and crediting conditions to support economic stability and development of the country.

Article 3/4, letter (dh)

One of the main tasks of the Bank of Albania is to promote the smooth operation of payments system.

Article 21

1. Bank of Albania, in cooperation with other banks, has the right to set rules and procedures for payment instruments used as means of payments, and telegraph and electronic funds transfer services.
2. Bank of Albania organises and executes the settlement of payment instruments used as means of payment.
3. Bank of Albania has the right to offer clearing payments and securities services.
4. Bank of Albania oversees the payments system in the Republic of Albania directly, or through agencies or interbank entities established for this purpose. Bank of Albania facilitates the execution of payments and settlements efficiently between banks and payment services

Law “On banks in Republic of Albania”

Article 129, letters 1 and 6: Electronic payment systems

1. Bank of Albania and banks or branches of foreign banks can participate in electronic payment systems, in accordance with this Article and other regulations adopted in pursuance thereof.
2. The activity of payment systems and their participants is governed by regulations issued by the Bank, and agreements between the Bank of Albania and entities conducting banking activities in the Republic of Albania.

Article 8: Oversight and regulation of systems

1. Bank of Albania regulates and supervises licensed systems, and adopts regulations for this purpose.
2. Bank of Albania may impose standards and other requirements on operators, systems, participants and sub-participants.
3. Bank of Albania and the Albanian Financial Supervision Authority, upon a bilateral agreement, shall specify the role of each institution, with regard to the regulation, oversight and inspection of the securities settlement system and the securities clearing house.

Article 9: Inspection competence of the Bank of Albania

1. With a view to ensure compliance with this Law and the subsidiary legislation issued in its pursuance, the staff of the Bank of Albania, as well as other qualified persons appointed by it, may visit the offices of the systems, operators, participants and sub-participants, to examine such accounts, books, documents and other records, to obtain such information and data from them, and to take such other actions that the Bank of Albania may deem necessary or advisable.
2. Operators, participants and sub-participants shall provide the Bank of Albania with accounts, books, documents and other records required by this Law or the subsidiary legislation issued in pursuance thereof, or any additional information and records as the Bank of Albania deems necessary or advisable.

Article 15: Regulation and supervision of payment instruments

1. Review to ensure their safety, soundness and efficiency, the Bank of Albania may regulate and oversee the issuance and use of payment instruments, as part of the domestic payment system.
2. The provisions of this Law shall apply to such regulation and oversight where appropriate.

2. OVERSIGHT ROLE

To promote safety¹ and efficiency² of the payments system, the Bank of Albania applies three approaches, which are not mutually exclusive but complement one another:

- a) *Operator*. As the direct operator of payment systems in the Republic of Albania, the Bank of Albania has adequate tools to determine the systems' safety and efficiency levels.
- b) *Overseer*. Even though the primary responsibility for the system's efficiency and safety rests with its operator (whether a private entity or the Bank of Albania), the Bank of Albania plays a vital role in ensuring that the systems and their infrastructures comply with the applicable oversight standards. In order to achieve this, Bank of Albania carries out the oversight activities described within this policy document, and laid out in the Albanian legislation pertaining to payment and settlement systems.
- c) *Catalyst or facilitator*. The Bank of Albania, in its catalyst or facilitator role, constantly works to support the development of payment and financial markets with the purpose of increasing the efficiency and reliability of these markets and their infrastructures. To achieve this, the Bank of Albania uses its expertise in the field of payment systems and shares it with the market players through regular consultations

¹ **Safety** is the management of all types of risks that may have an adverse impact on the regular functioning of payment systems.

² **Efficiency** is the ability of a system to provide services that are practical for users and beneficial for the financial markets and the whole economy.

and coordinated meetings with representatives of the private and public sector. The National Payments Committee and its chairing by the Bank of Albania is an example for the above. In light of new developments in the payments system and aiming to achieve its medium-term objectives, the Bank of Albania intends to improve the structure and role of the National Payments Committee. Moreover, Bank of Albania fosters the developments in the Albanian payments area through publications and different studies.

As regards oversight activities, the role of the Bank of Albania in relation to the payment and settlement systems takes the following main directions:

- a) monitoring the developments in the payment and settlement systems to evaluate the range of risks systems may be exposed to and the level of efficiency potentially achievable. To this end, Bank of Albania engages in targeted research on new developments in the payments system infrastructure;
- b) defining oversight principles and standards for the safe and efficient design and operation of payment and settlement systems. These standards allow for a transparent approach, while ensuring a level playing field among all overseen systems;
- c) analyzing data and information on the systems' activity gained through reports, on-site/off-site inspections, and regular and/or ad-hoc meetings with the system operators;
- d) assessing the compliance of the systems managed by the Bank itself and those managed by private operators with these principles and standards;
- e) conducting follow-up activities further to the system assessment;
- f) improving the transparency of rules, agreements, services, and terms and conditions related to the safety of payment instruments.

3. OVERSIGHT OBJECTIVES

The oversight function shall aim to:

- a) safeguard the payment system safety, by asking the overseen entities to identify risks and take the needed precautions to avoid flaws in the design and operation of systems. In particular, it is important to ensure:
 - completeness of the legal and regulatory framework that should clearly define, *inter alia*, the operational rules that enable continuous and smooth functioning of these systems; and,
 - correct management - and minimization - of legal, liquidity, credit and operational risks stemming from the use of payment and settlement systems for the participants and other interconnected systems within the country or abroad.
- b) achieve a satisfactory efficiency level of the payments system by promoting:
 - payment system development, in line with the financial market evolution and the global economic integration, and in response to the needs of participants and users, more generally,
 - automation in the use and processing of payment instruments,

- interoperability with other systems (particularly relevant for large-value payment systems),
- a transparent pricing structure for payment services that reflects the costs for their provision,
- full transparency of the operating rules of payment and settlement systems, as well as of the rights and obligations of system participants and users,
- use of common standards for payment instruments and services. This enables broad usage to exploit network effects, while ensuring a high degree of safety.

The Bank of Albania, following the international best practices, translates its oversight objectives into specific standards and requirements that the Albanian payment systems should comply with. The intensity in the application of oversight standards varies according to the importance of the overseen entities.

III. SCOPE OF OVERSIGHT

The scope of Bank of Albania's oversight is guided by its objectives of promoting the safety and efficiency of the payments system. Within these boundaries, the scope and intensity of oversight may change over time as the financial market infrastructure evolves to take into account all elements that may impair the smooth functioning of the payments system.

The following scope of application is defined in line with the international best practices identifying the different types of entities and instruments that are of interest to the oversight function.

Oversight of payment and settlement systems by the Bank of Albania applies to:

- a) payment , that:
 - are owned and operated by the Bank of Albania,
 - are owned and operated by a private entity and carry out the settlement of funds and securities either through accounts at the Bank of Albania (settlement in central bank money) or through commercial bank accounts (settlement in commercial bank money),
- b) security settlement systems and central counterparties (in cooperation with the Albanian Financial Supervisory Authority);
- c) payment systems' elements that are considered important by Bank of Albania;
- d) participants and sub-participants of the systems;
- e) service providers (as third-party) or subcontractors who provide critical operational services for the systems, such as IT infrastructure;
- f) payment instruments;
- g) correspondent and custodian banks;

1. PAYMENT SYSTEMS

Large-value payment systems are considered to be the basis of financial market infrastructure in an economy, as such they pose a particular importance to the stability of the market and to the economic activity in general. On the other hand, small value systems are widely used for payments between individuals and businesses. In this context, although many of the small value systems are not systemic important, they play an essential role in the security and efficiency of the financial system as a whole as well as citizens' confidence in the local currency.

Following the first paragraph, the oversight process of the payment systems is extremely important for maintaining the security, efficiency and sustainability of these systems. However, based on the best international practices the intensity and the supervisory principles in place, should be applied proportionally to their activity and the risks inherited in maintaining a balance between security and development in terms of efficiency.

Under this condition, Bank of Albania in order to define the oversight principles in different system, with reference to the European Central Bank practices, classifies the systems in accordance to the systemic importance they present (see the following information box). Based on the classification of payment systems, Bank of Albania will apply to the systemic payment systems the principles set out in the European Central Bank Regulation (ECB / 2014/28) "On Surveillance Requirements for Systems of Systemic Importance"³ which are implemented by Bank of Albania through sub-legal⁴ acts which apply to the law "On Payment System".

On the other hand, for non-systemic importance systems, which are mainly low value systems, Bank of Albania, based on the supervisory policies for small value ECB⁵ systems, will implement some of the principles of the International Banking Regulation, "Principles for Financial Infrastructure" (2012) according to Annex 4 of this document and the regulations of the Bank of Albania.

Information space. The criteria of classification of payment systems in accordance with the systemic importance.

The importance of a payment system is assessed based on quantitative and qualitative indicators dictating the size of market activity, concentration of this activity on the market in which it operates, the importance of the activity in terms of the cross-border activity, and settlement services that the system provides for the infrastructure of other financial markets.

Specifically, for a system to be classified as a systematically important system it should:

- 1) implement the settlement principle and it should be established under the definitions of the law "On the Payments System" in relation to payments systems and the clearing houses.

³ https://www.ecb.europa.eu/ecb/legal/pdf/oj_jol_2014_217_r_0006_en_txt.pdf

⁴ Regulation 82/2015, dated 04.11.2015 "On the licensing, regulation and supervision of payment system operators and payment clearing houses", and the manual "On the supervision of payment systems operated by the Bank of Albania" approved by the First Deputy Governor no. 2078, dated 26.04.2017

⁵ https://www.ecb.europa.eu/pub/pdf/other/Revised_oversight_framework_for_retail_payment_systems.pdf

2) complete at least two of the following criteria within a calendar year:

- The average daily value of the processed payments should be over ALL 1,300 billion or the equivalent of this amount in foreign currency;
- The activity of the system in the market in which it operates meets the following conditions:

in the case of systems operating at a trans boundary level, their activity in a common currency is widely used at a common market level and meets one of the following criteria:

- occupy at least 15% of the total volume of payments on a common market level (such as the European Union),
- occupies at least 5% of the total volume of cross-border payments in this market,
- occupies at least 75% of the total volume of payments in the country in which it operates;

in the case of systems operating within the territory of the Republic of Albania their activity occupies at least 75% of the market:

- Its cross-border activity (eg participants in a country other than that of the system operator and / or cross-border links with other payment systems) includes five or more European Union countries and generates a minimum of 33% of the total volume of payments in the common currency processed by the system;
- used for repaying positions created by other financial markets infrastructure.

It is worth pointing out that, in line with the ECB policy, a high value payment should respect the supervisory principles of systemically important systems, regardless of its classification. On the other hand, when a payment system does not meet the above criteria, but its activity occupies 25% or more of the market in which it operates, is classified as "Significant Small Value Settlement Systems" meanwhile systems which do not meet any of these criteria are classified as "Other Payment Systems".

In Albania operate two payment systems, which are administered, regulated and supervised by the Bank of Albania:

- 1) **AIPS** (Albanian Interbank Payment System) is a real-time gross settlement system (RTGS), which executes all inter-bank payments of great value.
- 2) **AECH** (small value clearing system, up to 1.5 million ALL) - is an electronic clearing system that enables: a) the exchange of payment instruction files among the participants; b) the calculation of net multilateral positions; and c) sending a net settlement instruction to AIPS.

On the other hand, with the liberalization of the payment systems market with the adoption of the law "On the Payments System", the supervisory function spectrum of Bank of Albania extends to the private payment system operators. In this context, based on the above criteria, Bank of Albania with the purpose of overseeing these systems will be focused on the classification of the systems in accordance to their systemic importance.

Moreover, in order to efficiently oversight the payment system and to increase the transparency in this process, Bank of Albania will perform the relevant tasks in order to classify the underlying systems and will publish the results.

2. PAYMENT INSTRUMENTS AND PAYMENT SERVICES

Payment instruments (*paper-based* and *electronic*) in Albania include, but are not limited to: payment cards (debit and credit), credit transfers, direct debits and cheques. Based on Article 5 of Law “On the payment system”, Bank of Albania may regulate and oversee the issuance and use of payment instruments, as part of the national payments system, with a view to ensuring their safety, soundness and efficiency.

Under these conditions, it is worth noting that, although the risks involved in the use of payment instruments are not considered systemically important to the payments system, their safety and efficiency are relevant for maintaining confidence in the domestic currency and promoting an efficient economy. The smooth functioning of payment instruments facilitates commercial activity and, thereby, welfare. Bank of Albania's Regulation “On electronic payment instruments”⁶ defines transparency standards toward consumers in relation to conditions, rules and procedures for payments made using electronic payment instruments in the Republic of Albania.

Furthermore, based on its medium-term strategy, the Bank of Albania aims to create proper infrastructures and adapt payment instrument schemes, from a regulatory and technical point of view, to the rules and principles set out for payment instruments in the framework of the SEPA project. The oversight standards for the SEPA payment instruments, developed by the Eurosystem, will, therefore, serve as a guideline for Bank of Albania’s oversight function.

It is important to emphasize that the above mentioned principles will be considered complementary to the Directive (EU) 2015/2366 "On Payment Services in the Internal Market" and Directive 2009/110 / EC "On Electronic Money" for which the Bank of Albania is undertaking further steps within the approximation process.

To apply the supervision of the payment instruments, in line with the European Union level, the co-operation between the supervisors of banking and non-bank financial institutions with the oversight of the payment systems is crucial. In order to enhance this co-operation, Bank of Albania is intensifying the coordination of the activities of these two functions.

3. SECURITIES SETTLEMENT SYSTEMS AND CENTRAL COUNTERPARTIES

Securities Settlement Systems (SSSs), Central Counterparties (CCPs), Central Securities Depositories (CSD) and Trade Repositories (TR) are key components of the financial system. The licensing and oversight of SSSs and CCPs are a competence of the Bank of Albania, in close cooperation with the Albanian Financial Supervisory Authority (AFSA).

According to Article 21 of the Law “On the Bank of Albania”, the Bank of Albania has a central role in the clearing and settlement of securities transactions, with a view to increasing

⁶ Regulation “On electronic payment instruments” approved by Supervisory Council decision No. 11, dated 06.02.2008, as amended.

efficiency and reducing risks. With the approval of the Law “On the payment system”, the Bank of Albania, in cooperation with the Albanian Financial Supervisory Authority, was mandated to regulate, license and oversee the securities settlement and clearing systems, implying also the CCPs⁷. Under these conditions, the Bank of Albania, in cooperation with the Albanian Financial Supervisory Authority, regulates, oversees, supervises and inspects (on and off-site) the SSSs and CCPs. The basis for the establishment of the regulatory framework for the regulation and oversight of these public and private operators by the Bank of Albania will be Bank for International Settlements Principles for Financial Market Infrastructures, April 2012, and future reviews to this document.

4. PARTICIPANTS AND SUB-PARTICIPANTS OF ALL ABOVE LISTED SYSTEMS

Based on Article 8, paragraph 2 of Law “On the payment system”, Bank of Albania may, in addition to the system's operators, also impose standards and other additional requirements on participants and sub-participants of the systems when they are considered as crucial for the system’s activity. The establishment of standards and requirements on participants and sub-participants seeks to preserve reliability, safety and efficiency of payment and settlement systems. According to Law “On the payment system”, participant means the Bank of Albania, a foreign central bank, a commercial bank, a financial institution, a foreign institution similar to banks and financial institutions, a settlement agent, an operator, a domestic or international public authority, or a system. While, sub-participant is a legal person with a contractual relationship with a participant in a system executing transfer orders, enabling it to pass transfer orders through the system.

5. THIRD-PARTY SERVICE PROVIDERS AND TRADE REPOSITORIES

Payment and settlement systems may contract out or “outsource” part of their operations, such as the IT infrastructure, to a third-party service provider, that plays a crucial role in the regular functioning of such systems. In this context, Bank of Albania's key principle is that “*the system retains full responsibility for any outsourced activity that is relevant to the system’s operation*”, including responsibility for ensuring that the service provider complies with the oversight policy of the central bank (indirect oversight model).

Direct oversight activities by the Bank of Albania towards third-party service providers - such as trade repositories – may be justified by their importance in the market; this could be the case of third-party service providers supplying core services to several systemically important systems. The decision by the Bank of Albania to apply the “direct oversight” model will be taken and justified on a case-by-case basis.

6. CORRESPONDENT AND CUSTODIAN BANKS

A correspondent bank is a financial institution that provides services on behalf of another, equal or unequal, financial institution. They are used by domestic banks in order to service

⁷ According to Article 5, letter “r” of the Law “On the payment system”, the definition of the clearing house also provides

transactions initiated in foreign currency, and act as a domestic bank's agent abroad. They allow payment settlement across state and currency borders.

A custodian bank is a financial institution that holds securities for their customers and provides related services.

The international experience highlights the importance of such institutions in the payment and settlement arrangements in the economy as well as the risks they bear (such as financial and operational risks due to concentration of payment and settlement flows in few large banks, or the credit and liquidity risk borne by a single bank when acting as payment and settlement system). In this context, the interest of central banks in monitoring these risks has been intensified.

IV. OVERSIGHT TOOLS AND METHODOLOGY

1. TOOLS

Bank of Albania has the responsibility and obligation to oversee all different aspects that attain the regular functioning of the payment and settlement systems and Financial Market Infrastructures within the Republic of Albania. Bank of Albania carries out its role in the development and oversight of payment systems in line with the international best practices.

The Payment Systems and Accounting and Finance Department intends to intensify its cooperation with the Supervision Department to achieve an accurate, fair and transparent oversight of payment systems. More specifically, taking into account that the scope of application of payments system oversight encompasses system participants and sub-participants (banks and non-bank financial institutions), correspondent and custodian banks, as well as payment services provided by banks and non-bank financial institutions, cooperation between these two functions is of special importance. It is, however, worth to note that payments system oversight of the above listed institutions is performed on the systems and risks relating to their operation, in the context of the importance and safety of these systems. Whereas banking supervision relates to the exercise of this function on the institution (bank or non-bank) and related risks connected to the functioning of institutions' operations, in general.

Taking into account the importance of inter-institutional cooperation, it is necessary for the Bank of Albania and the Albanian Financial Supervisory Authority to closely cooperate in the field of regulation, oversight and inspection of securities settlement systems and securities clearing houses. On the one hand, exposure to risks of necessary infrastructures for the clearing and settlement of securities affects directly the safety and efficiency of payment and settlement systems (if we take into account the fact that the execution of a securities transaction is always connected to a cash operation) and, on the other hand, affects the trading, registration, identification and execution of securities transactions. The coordination of actions between the two authorities is, therefore, of special importance with a view to accomplishing their functions efficiently.

Bank of Albania performs oversight of payments system by using the following tools:

- a) *defining and setting standards for licensing and oversight* – the domestic regulatory framework comprises both national and international standards, and recommendations adopted by the Bank of Albania;
- b) *discussion with the operator* in case of major changes to the system design and operational regulations, *and agreements on the way forward*. In particular, the Bank of Albania preliminarily verifies the compliance of the proposed changes with the oversight standards. Once such changes are implemented, the Bank of Albania carries out a fully-fledged impact assessment;
- c) *accessing information* (public and confidential) – Bank of Albania has the legal right to request information and/or to conduct inspections at the overseen entities' premises to:
 - (a) obtain the needed information and data; (b) examine accounts, books, documents and other records; (c) take actions the Bank of Albania may deem necessary or advisable;
- d) *application of sanctions and/or limitations of activity* – Bank of Albania has the legal right to impose sanctions, fines, recommendations, suspension orders, license revocation etc., in line with its oversight purposes.

2. METHODOLOGY

Bank of Albania performs payment systems oversight through three phases: (i) monitoring, (ii) assessment and, (iii) inducing change. In each of these phases, the Bank of Albania focuses on potential risks posed by the design and operation of the system and acts to eliminate or mitigate such risks, while promoting its efficiency.

Monitoring. In order to perform effective oversight, the Bank of Albania needs to understand the features and functioning of the overseen payment and settlement systems. To this end, the Bank of Albania wants to acquire a comprehensive set of information, of quantitative and qualitative nature. Sources of information are, inter alia, official system documentation, regular or ad hoc reports on system activity, and system internal reports (e.g. internal audit reports). Moreover, on-site or off-site inspection, as well as bilateral or multilateral meetings may be important tools to acquire a complete picture.

Assessment. It is the second phase of oversight activity on payment and settlement systems. It aims to evaluate overseen systems. When the assessment process is over, conclusions are drawn about the system's compliance with the oversight policies requirements and the applicable standards.

Stimulation of changes. Following the assessment, Bank of Albania takes action and induces changes when it finds that payment and settlement systems do not have a sufficient degree of safety and efficiency. In order to induce changes, Bank of Albania has at its disposal a set of tools, ranging from moral suasion to sanctions or license revocation. The actual form of intervention will depend on the concrete circumstances, evaluated on a case-by-case basis.

V. COOPERATION/COORDINATION WITH OTHER AUTHORITIES

Cooperation/coordination is an important tool to ensure an effective oversight whenever an overseen entity is controlled by different authorities (e.g. a CPP that is also supervised as a bank) or when an overseen entity provides payment services in different jurisdictions. A close cooperation/coordination between interested authorities is essential in contributing to an overall risk reduction strategy and in helping to promote financial system stability.

To this end, the establishment of a cooperation framework between central banks and/or other authorities - both at the national and international level – could prove useful. Cooperation arrangements may take different forms such as the signing of MoUs or ad hoc agreements. Likewise, their scope may go from a mere provision of information to an active involvement in the oversight activities. Details of the cooperation, e.g. confidentiality issues, should be agreed according to the specific circumstances.

Against this background, the exchange of information between the authority entrusted with the payment system oversight function and the authority responsible for the regulation and supervision of the financial market is key to ensure the soundness and stability of the Albanian payment and settlement systems.

Inter-institutional cooperation is laid out in Article 3 of the Law “On the payment system” and more specifically as follows: *“The Bank of Albania, in performing its tasks laid down in this Law, may cooperate with any domestic and/or foreign authority in order to exchange information, coordinate activities, or other cooperation agreements as it deems necessary”*.

To meet its legal responsibilities, Bank of Albania:

- a) *at the internal level*, ensures the coordination of the activities of its internal units that operate in the fields of payment systems, banking supervision and information technology, thus contributing to the overall risk reduction strategy of the Albanian financial system;
- b) *at the national level*, signs bilateral agreements with institutions it cooperates in overseeing financial market infrastructures, such as the Albanian Financial Supervisory Authority; *At the national level*, signs MoUs that lay down procedures and principles for regulatory cooperation in the field of banking supervision and payments system oversight, *Memorandum of Understanding* between the Bank of Albania and the Albanian Financial Supervisory Authority.
- c) *at the international level*, signed Memoranda of Understanding (MoUs), which define the procedures and principles for regulatory co-operation in the field of oversight of payment systems

Appendix 1- Main reference documents for performing the oversight of important elements of Payment and Settlement Systems

Payment Systems (PS)	Payment instruments (PI)	Securities Settlement Systems and Central Counterparties	Correspondent and custodian banks	Payment Service Providers
European Union principles and standards				
<p>1. Regulation of the European Central Bank (EU) Nr. 795/2014 3 June 2014 "The Request for Supervision of the Systems with Systematic Importance</p> <p>2. Revised structure for the supervision of small value systems (ECB, February 2016)</p> <p>3. The Eurosystem's oversight policy framework (ECB 2016)</p>	<p>1. The balanced approach of the supervision of the payment instruments (ECB, February 2009)</p> <p><u>-the payment card scheme:</u></p> <p>1. Oversight structure for payment card schemes - Standards, ECB, January 2008.</p> <p>2. The manual of the card schemes evaluation (ECB, February 2015)</p> <p><u>- the schemes of credit transfer and direct debit:</u></p> <p>1. Oversight Structure for Direct Debit Schemes, ECB, October 2010</p> <p>- Supervision structure for credit transfer schemes, ECB, October 2010:</p> <p>1. The manual of the evaluation of credit transfer schemes compared to the Supervision Standards, ECB, November 2014.</p> <p>2. The manual for evaluating the direct debit schemes compared to the Supervision Standards, ECB, November 2014</p> <p>E-money</p> <p>1. the report of ECB on electronic payment, August 1998</p> <p>2. the objectives for the security of the electronic payment systems, August 1998</p>	<p>1. The principles CPSS-IOSCO for the infrastructure of the financial market (April 2012).</p> <p>2. The Eurosystem's oversight policy framework (ECB 2016)</p>	<p>1. The Eurosystem's oversight policy framework (ECB 2016)</p>	<p>1. Principles for Financial Market Infrastructures (BIS 2012)</p> <p>2.The Eurosystem's oversight policy framework (ECB 2016)</p>

Bank of Albania legal and regulatory basis

<p>1. Law No. 133/2013, dated 29.04.2013 “On the payment system”</p> <p>2. Law No. 8269, dated 23.12.1997 “On the Bank of Albania”, as amended</p> <p>3. Law No. 9662, dated 18.12.2006 “On banks in the Republic of Albania”, as amended</p> <p>4. Regulation No. 148, dated 05.11.1998 “On payment system and instruments”</p> <p>5. Regulation No. 53, dated 26.09.2007 “On the functioning of Albanian Interbank Payments System – AIPS”, as amended</p> <p>6. Regulation No. 55, dated 15.10.2007 “On the functioning of Albanian Electronic Clearing House - AECH”;</p> <p>7. Regulation No. 82/2015, dated 04.11.2015 “On the licensing, regulation and oversight of the national card payment schemes operators”;</p> <p>8. Manual “On the Supervision of the Payment Systems operated by the Bank of Albania” approved by the First Deputy Governor no.2078, dated 26.04.2017</p>	<p>1. Law No. 133/2013, dated 29.04.2013 “On the payment system”</p> <p>2. Regulation No. 148, dated 05.11.1998 “On payment system and instruments”</p> <p>3. Regulation No. 11, dated 06.02.2008 “On electronic payment instruments”, as amended</p> <p>4. Law No. 3702, dated 08.07.1963 “On cheques”, as amended</p> <p>5. Order Prot. No. 44, dated 09.01.2014 "On approving the methodology “On reporting payment instruments”</p> <p>6. Regulation No. 28, dated 30.03.2005 “On oversight of e-banking transactions”</p> <p>7. Regulation No. 42, dated 26.06.2013 “On the licensing, regulation and oversight of the national card payment schemes operators”</p>	<p>1. Law No. 133/2013, dated 29.04.2013 “On the payment system”</p> <p>2. Law No. 9879, dated 21.02.2008 “On securities”</p> <p>3. Regulation No. 61, dated 29.07.2009 “On securities transactions between banks and functioning of securities registration system”</p> <p>4. Regulation No. 83, dated 15.11.2006 “On the organization of cheques clearing at the Bank of Albania”</p>	<p>1. Law No. 133/2013, dated 29.04.2013 “On the payment system”</p> <p>2. Law No. 8269, dated 23.12.1997 “On the Bank of Albania”, as amended</p>	<p>1. Law No. 33/2013, dated 29.04.2013 “On the payment system”</p> <p>2. Regulation No. 82/2015, dated 04.11.2015 “On the licensing, regulation and oversight of the national card payment schemes operators”;</p>
--	---	---	--	---

Appendix 2 – Principles for Financial Market Infrastructures (FMI) BIS 2012

Principle 1: Legal basis

An FMI should have a well-founded, clear, transparent, and enforceable legal basis for each 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 risk from participants and 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. A CCP should also maintain additional financial resources to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the [one/two] participant[s] and [its/their] affiliates that would potentially cause the largest aggregate credit exposure[s] in extreme but plausible market conditions.

Principle 5: Collateral

An FMI that requires collateral to manage its or its participants' credit risk should accept collateral with low credit, liquidity, and market risk. An FMI should also set and enforce appropriately conservative haircuts and concentration limits.

Principle 6: Margin

A CCP 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, for all the currencies in use, to effect same-day and, where appropriate, intraday 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 [one/two] participant[s] and [its/their] affiliates that would generate the largest aggregate liquidity need 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 minimize and strictly control the credit and liquidity risk arising from the use of commercial bank money.

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 CSD should have appropriate rules and procedures to help ensure the integrity of securities issues and minimize and manage the risks associated with the safekeeping and transfer of securities. A CSD should maintain securities in an immobilized or dematerialized 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 that 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 CCP should have rules and procedures that enable the segregation and portability of positions and collateral belonging to customers of a participant.

Principle 15: General business risk

An FMI should identify, monitor, and manage its general business risk and hold sufficiently liquid net assets funded by equity to cover potential general business losses so that it can continue providing services as a going concern. This amount should at all times be sufficient to ensure an orderly wind-down or reorganization of the FMI's critical operations and services over an appropriate time period.

Principle 16: Custody and investment risk

An FMI should safeguard its assets and minimize the risk of loss or delay in access to those assets, including assets posted by its participants. An FMI's investments should be in instruments with minimal credit, market, and liquidity risks.

Principle 17: Operational risk

An FMI should identify all plausible sources of operational risk, both internal and external, and minimize their impact through the deployment of appropriate systems, controls, and procedures. Systems should ensure a high degree of security and operational reliability, and have adequate, scalable capacity. Business continuity plans should aim for timely recovery of operations and fulfillment of the FMI's obligations, including in the event of a wide-scale 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, to the extent practicable, identify, understand, and manage the risks to it 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: Communications procedures and standards

An FMI should use or accommodate the relevant internationally accepted communication procedures and standards in order to facilitate efficient recording, payment, clearing, and settlement across systems.

Principle 23: Disclosure of rules and key procedures

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 they incur by participating in the FMI. All relevant rules and key procedures should be publicly disclosed.

Principle 24: Disclosure of market data

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

Appendix 3- The matrix of the principles applicability in different types of financial market infrastructure.

Principle	PS*	CSD*	SSS*	CCP*	TR*
1. Legal Basis	✓	✓	✓	✓	✓
2. Governance	✓	✓	✓	✓	✓
3. Framework for the comprehensive management of risks	✓	✓	✓	✓	✓
4. Credit risk	✓		✓	✓	
5. Collateral	✓		✓	✓	
6. Margin				✓	
7. Liquidity risk	✓		✓	✓	
8. Settlement finality	✓		✓	✓	
9. Money settlements	✓		✓	✓	
10. Physical deliveries		✓	✓	✓	
11. Central securities depositories		✓			
12. Exchange-of-value settlement systems	✓		✓	✓	
13. Participant-default rules and procedures	✓	✓	✓	✓	
14. Segregation and portability				✓	
15. General business risk	✓	✓	✓	✓	✓
16. Custody and investment risk	✓	✓	✓	✓	
17. Operational risk	✓	✓	✓	✓	✓
18. Access and participation requirements	✓	✓	✓	✓	✓
19. Tiered participation arrangements	✓	✓	✓	✓	✓
20. FMI links		✓	✓	✓	✓
21. Efficiency and effectiveness	✓	✓	✓	✓	✓
22. Communications procedures and standards	✓	✓	✓	✓	✓
23. Disclosure of rules and key procedures	✓	✓	✓	✓	✓
24. Disclosure of market data					✓

Source: CPSS-IOSCO – Principles for financial market infrastructures – April 2012

***PS- Payment System**

CSD- Central Security Depository

SSS- Security Settlement System

CCP- Central Counterparty

TR- Trading Repository

Appendix 4- The matrix of the principles applicability in accordance to the system classification

Principle	SIRPS (17)	PIRPS (12)	ORPS (9)
The European Union regulation “On the Requirements for the Surveillance of Systemic Important Systems”	✓		
1. Legal Basis		✓	✓
2. Governance		✓	✓
3. Framework for the comprehensive management of risks		✓	✓
4. Credit risk			
5. Collateral			
7. Liquidity risk			
8. Settlement finality		✓	✓
9. Money settlements		✓	
13. Participant-default rules and procedures		✓	✓
15. General business risk		✓	
16. Custody and investment risk			
17. Operational risk		✓	✓
18. Access and participation requirements		✓	✓
19. Tiered participation arrangements			
21. Efficiency and effectiveness		✓	✓
22. Communications procedures and standards		✓	
23. Disclosure of rules and key procedures		✓	✓

