
Memories of a payment system reformer

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Financial Infrastructure Week 2011

Rio de Janeiro

Outline

- **The Brazilian Payments System Reform**
 - **History**
 - **Purposes**
 - **The Process**
- **Modernization of The Retail Payments System**
 - **Role and Conduct of Brazilian Central Bank - BCB**
 - **Important Documents**

The Brazilian Payments System Reform

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Main Problems

- The Central Bank assumed private risks partially or even totally
- There was no finality of settlement
- Clearinghouses without risk control mechanisms
- Rules governing payment system were not clear and suitable
- There was a large lag of settlement in the stock exchanges and commodities and futures exchange
- No contingency facilities

Restrictions and Challenges Imposed to the Brazilian Payments System

- Changes in the legal framework towards reducing systemic risk
- Improvement in the risk control procedures
- Currently, the Brazilian Central Bank is not prepared to monitor bank's intraday balances
- The payment system in Brazil is changing its focus from improvements in efficiency and cost reduction to an approach based on reducing credit and liquidity risk
- The development of a Real-Time Gross Settlement (RTGS) still challenges the country

(Presentation at BIS at december, 1997)

Positive aspects

- Automation
- Dematerialization
- Specialized Clearinghouses
- Technological infrastructure
- Cooperation between the Central Bank and the market

Guidelines

- To reinforce the role of the Central Bank
- Reduction of the Central Bank credit risk
- Finality (irrevocable and unconditional payments)
- Understanding of risks that participants bear
- Reduction of the settlement lag
- Adoption of risk reduction mechanisms and adequate contingency facilities by clearinghouses
- Changes in legal framework

The Process

- Board of Directors announced the beginning of Brazilian payment system's restructuring
- Other CB's areas involved in the process: Accounting, IT, Open Market, Foreign Exchange, Legal Department, Banking, Supervision etc.
- Partnership with financial system, clearinghouses and other participants – The Brazilian Payments System Management Committee
- Smooth transition without any contract breakdowns
- Disclosure of the new roles and major policies

Legal and Regulation Basis

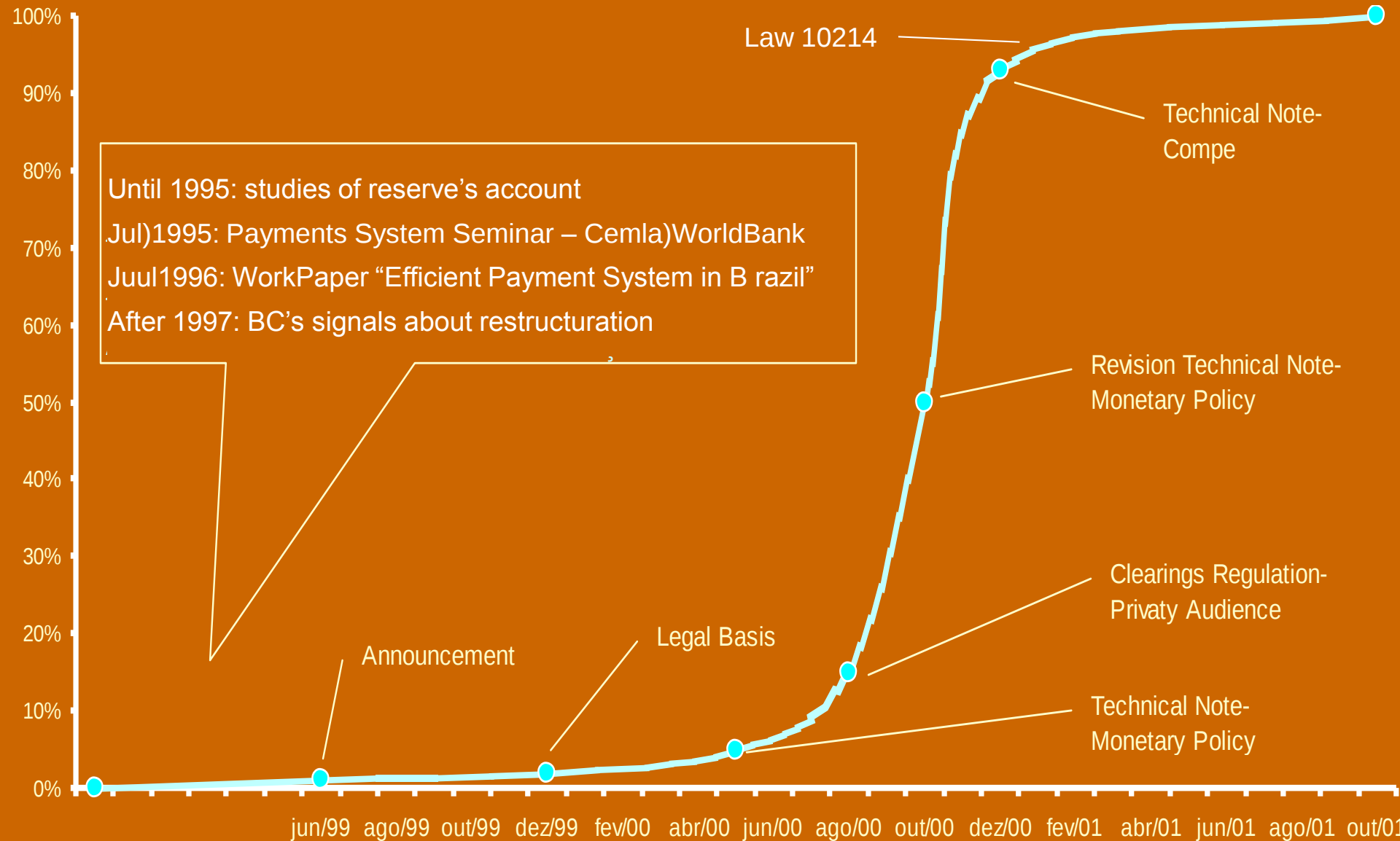
Important Elements

- Legal basis (Law 10,214; March 27th, 2001)
 - Defines the Brazilian payment system
 - Recognizes the clearinghouse multilateral netting
 - Establishes central counterpart and guarantee the certainty of settlement criteria's
 - Sets the enforceability of clearinghouses collateral agreement even in case of participant default
- Regulation basis
 - Central bank as the overseer of the payment system
 - Sets minimum standards of efficiency and security to clearinghouses

Technological Infrastructure

- National Financial System Network (RSFN) - a close, exclusive access, high performance and nationwide network. The owners of RFSN are the banks and the regulator is the Central Bank
- RSFN has a common message standard developed by a partnership between representatives of BCB, bank associations and clearinghouses. The message standard uses the XML syntax
- the RSFN security standard has two main features: digital signature and encryption

Involvement of financial system



The Success – Key factors

- Engagement from the board support from government
- Sound technical basis for the project
- Adequate technical skills BCB's technical staff
- Broad dissemination of objectives
- In depth discussions with the private sector - partnership
- Respect for private initiative
- Taking into consideration the needs of the local market
- Commitment to the deadlines of the project
- Ethical behaviour

Modernization of The Retail Payments System

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The Role of BCB in Retail Payment System

- Establish guiding principles: policies, guidelines and objectives
- Coordinate expectations and investment decisions
- Act as a catalyst among the involved participants and other public authorities
- Promote business governance cooperation on the ATM network and POS network
- Stimulate system investment costs optimization
- Foster cooperation at upstream network and competition at downstream market

Main Documents

- Report on Brazilian Payment System
 - To serve as a starting point for definition of policies and guidelines on the subject
 - Periodical disclosure of information and statistics about the Brazilian Retail Payment System
- Efficiency and costs on retail payment instruments usage
- Cards Directive - 2006/1
- Report on Brazilian Payment Cards Industry

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