

Overview of the NBB's oversight and supervision of financial market infrastructures for 2011

Since the adoption of the Twin Peaks supervisory model in April 2011, the National Bank of Belgium (the NBB) is in charge of both the oversight of financial market infrastructures and the prudential supervision of the regulated institutions that operate these infrastructures. The central bank's oversight of the payment and settlement infrastructures is motivated by the ultimate policy objective of promoting the safety and efficiency of the financial system as a whole.

The prudential supervision for its part aims at ensuring the robustness of the market infrastructures at micro-level, thus helping to maintain the confidence of the institution's counterparties.

In order to pool expertise and strengthen the synergies between the oversight function and the prudential supervision function, the two functions are performed by the same team.

TABLE 1 FINANCIAL MARKET INFRASTRUCTURES SUBJECT TO THE BANK'S SUPERVISION AND OVERSIGHT

	International college of supervisors / cooperative oversight agreement		The Bank acts as the sole authority
	The Bank acts as the principal authority	The Bank participates under the direction of another principal authority	
Prudential supervision	Bank of New York Mellon SA/NV (BNYM) ⁽¹⁾		Belgian branch of BNYM Payment and electronic money institutions (±15)
Prudential supervision and oversight	Euroclear Belgium (formerly CIK) (EBE) Euroclear SA/NV (ESA)	LCH.Clearnet SA/NV	Euroclear Bank (EB) ⁽²⁾ Atos Worldline ⁽³⁾
Oversight	SWIFT	Target2 Securities (T2S) ⁽³⁾ Target2 (T2) ⁽³⁾ CLS	NBB-SSS Bancontact/Mister Cash ⁽³⁾ CEC/UCV ⁽³⁾ MasterCard Europe ⁽³⁾

Source: NBB.

(1) BNYM SA/NV is the European headquarters of the BNYM group. The Bank is the principal authority in the college of European supervisors.

(2) The Bank works on an ad hoc basis with other central banks concerned.

(3) Peer review by the European System of Central Banks (ESCB).

Many of the infrastructures that are overseen and/or supervised by the NBB have an international dimension; some of them limit their operations to the euro area, others operate worldwide. In line with the principles for cooperative oversight and supervision, the NBB performs the role of lead overseer/supervisor for international infrastructures established in Belgium, such as SWIFT and Euroclear. As a corollary, and under the leadership of the relevant national central bank/supervisor, the NBB plays a role in cooperative oversight and supervision for international infrastructures established outside Belgium, but providing services to Belgium. Table 1 contains an overview of the (cooperative) oversight and/or supervision in which the NBB is involved.

1. Oversight of SWIFT

The NBB acts as lead overseer of the Society for Worldwide Interbank Financial Telecommunication (SWIFT), as the company is incorporated in Belgium. The oversight of

SWIFT is performed in cooperation with the G10 central banks. SWIFT is not a payment system but a key messaging provider for payment and securities settlement infrastructures throughout the world. Central bank oversight of SWIFT is justified in view of its crucial importance for the safety and efficiency of payment and securities settlement systems.

Box 1 provides an overview of the set-up of the international co-operative oversight of SWIFT. In 2011, the G10 central banks decided to expand country representation in the SWIFT Oversight arrangements, by having senior representatives of the G10 and 12 other central banks conducting joint discussions on the SWIFT oversight policy and results in the SWIFT Oversight Forum. The SWIFT Oversight Forum is being set up in 2012.

In 2011, SWIFT provided overseers with an updated version of its self-assessment report regarding the High Level Expectations (HLEs), which constitute the framework for reviewing SWIFT activities that fall within the scope of the

Box 1 – The international co-operative oversight of SWIFT

As lead overseer, the NBB conducts the oversight of SWIFT in cooperation with the other G10 central banks i.e. Bank of Canada, Deutsche Bundesbank, European Central Bank, Banque de France, Banca d'Italia, Bank of Japan, De Nederlandsche Bank, Sveriges Riksbank, Swiss National Bank, Bank of England and the Federal Reserve System (USA), represented by the Federal Reserve Bank of New York and the Board of Governors of the Federal Reserve System.

The NBB monitors SWIFT developments on an on-going basis. It identifies relevant issues through the analysis of documents provided by SWIFT and through discussions with the management. It maintains a continuous relationship with SWIFT, with regular ad hoc meetings, and serves as the G10 central banks' entry point for the cooperative oversight of SWIFT. In that capacity, the NBB chairs the senior policy and technical groups that facilitate the cooperative oversight, provides the secretariat and monitors the follow-up of the decisions taken.

The various SWIFT oversight groups are structured as follows:

- the **SWIFT Cooperative Oversight Group (OG)**, composed of all G10 central banks, the ECB and the chairman of the CPSS, is the forum through which central banks conduct cooperative oversight of SWIFT, and in particular discuss oversight strategy and policies related to SWIFT. It meets twice a year;
- within the OG, the **Executive Group (EG)**, which meets about four times a year, holds discussions with SWIFT's board and management on the central banks' oversight policy, issues of concern, SWIFT's strategy regarding oversight objectives, and the conclusions. The EG supports the NBB in preparing for discussions within the broader OG, and represents the OG in discussions with SWIFT. The EG can communicate recommendations to SWIFT on behalf of the OG. At one of the EG meetings, the annual reporting by SWIFT's external security auditor is discussed. The EG includes the Bank of Japan, the Federal Reserve Board, the Bank of England, the ECB and the NBB;
- at the technical level, the **SWIFT Technical Oversight Group (TG)** has four full-day meetings a year with SWIFT management, internal audit and staff to carry out the groundwork of the oversight. Specialised knowledge is



needed to understand SWIFT's use of computer technology and the associated risks. The TG draws its expertise from the pool of staff available at the cooperating central banks. It reports its findings and recommendations to the OG.

In 2011 the OG agreed to set up the **SWIFT Oversight Forum** in the course of 2012. The SWIFT Oversight Forum is composed of senior overseers from the G10 central banks (OG) and 12 additional central banks. The SWIFT Oversight Forum's objectives are to:

- facilitate a coordinated flow of information about SWIFT oversight conclusions to the Forum participants;
- foster discussions on the oversight policy concerning SWIFT;
- provide input to the OG on priorities in the oversight of SWIFT;
- serve as a communications platform on system interdependencies related to the common use of SWIFT or for communication in case of major contingency situations related to SWIFT.

The central banks of the following countries/territories are joining the G10 central banks in the SWIFT Oversight Forum: Australia, Brazil, China, Hong Kong, India, Korea, Mexico, Russia, Saudi Arabia, Singapore, South Africa and Turkey.

oversight. SWIFT's demonstration of compliance with the HLEs does not reflect the overseers' opinion, but SWIFT's own assessment of how it lives up to the HLEs. Box 2 lists the 5 HLEs for the Oversight of SWIFT. These HLEs provide a common set of expectations for this global messaging company. The overseeing central banks decided to address their security and resilience expectations *directly* to SWIFT, because the company had been identified as a major messaging services provider for correspondent banking activities and for critical payment and securities settlement infrastructures. Oversight expectations centre around security (confidentiality, integrity, availability) and system resilience. The fact that SWIFT is subject to the

overseers' HLEs could lead it to make investments in security and resilience that would not have been envisaged by a company not subject to oversight.

To the extent that technology barriers to competition have been lowered, allowing other companies to start offering services similar to SWIFT's, the specific resilience requirements imposed on SWIFT through the HLEs could place it at a disadvantage compared to its competitors. This level playing field issue has been addressed in the newly proposed CPSS-IOSCO principles for financial market infrastructures which suggest an oversight approach vis-à-vis critical service providers.

Box 2 – The High Level Expectations (HLEs) for the Oversight of SWIFT

HLE 1. Risk identification and management

SWIFT is expected to identify and manage relevant operational and financial risks to its critical services and ensure that its risk management processes are effective.

HLE 2. Information Security

SWIFT is expected to implement appropriate policies and procedures, and devote sufficient resources, to ensure the confidentiality and integrity of information and the availability of its critical services.

HLE 3. Reliability and resilience

Commensurate with its role in the global financial system, SWIFT is expected to implement appropriate policies and procedures, and devote sufficient resources, to ensure that its critical services are available, reliable and resilient



and that business continuity management and disaster recovery plans support the timely resumption of its critical services in the event of an outage.

HLE 4. Technology planning

SWIFT is expected to have in place robust methods to plan for the entire lifecycle of the use of technologies and the selection of technological standards.

HLE 5. Communication with users

SWIFT is expected to be transparent to its users and provide them information that is sufficient to enable users to understand well their role and responsibilities in managing risks related to their use of SWIFT.

In the fourth quarter of 2007, SWIFT announced plans to overhaul its messaging infrastructure, which included setting up a multi-zonal messaging architecture. The new topology permits multiple processing zones, making it possible for intra-zone messages to be kept within their region of origin. This major project to switch to a multi-zonal architecture was split into two phases. In the first stage, two message processing zones were created, namely the European and Trans-Atlantic zones. Country allocation to processing zones was determined in 2008. An additional SWIFT operating centre for the European zone started up in 2009. SWIFT added a command and control capability in Asia, which now allows its operations to be controlled from Asia, Europe or the US. In the second stage of the multi-zonal architecture project, SWIFT is building a new operating centre, replacing one of those currently in use.

One of the major focal points of the oversight activities in 2011 was the monitoring of this multi-zonal architecture project. Aspects reviewed included the resilience features of the new architecture, the organisation of project management, the monitoring of project milestones, the testing strategies, and customer communication plans. Other areas of specific SWIFT oversight attention include cyber defence, IT audit activities, security risk management and enterprise risk management. The next steps in the roll-out of a renewed multi-zonal architecture infrastructure will also be a major oversight focus in the coming year.

A second major project for overseers' review constitutes the renewal by SWIFT of its core application for messaging: FIN. In this multi-year project, SWIFT will renew the FIN application and its underlying technology platform to address long term technology needs while aiming to significantly reduce ongoing operating costs.

Overseers continue to monitor closely SWIFT's financial position, as well as trends in its messaging volumes. SWIFT's FIN messaging traffic, which is the major contributor to the company's revenue, increased by 9.9% in 2011, compared to 7.1% budgeted. This higher than expected growth can in part be attributed to the high market volatility in 2011. SWIFT decided to grant a 16% rebate on 2011 messaging invoices, in addition to the 20% structural price reduction for messaging that came into effect in 2011. Key enablers for these price reductions were a major cost restructuring initiative launched in 2009 that ended in 2011, the establishment of a culture of continuous cost containment, and actual revenues that exceed the budget figure. The review of SWIFT's financial position provided assurance that the price reductions are sustainable over the longer term and compatible with intended investments that are part of the stated SWIFT strategy. SWIFT continues to enjoy a strong financial position, with all investment, including the major multi-zonal architecture project, being funded out of operating cash flow.

New projects initiated by SWIFT under its SWIFT2015 strategy are analysed by overseers to the extent that they have an impact on the critical services of FIN and SWIFTNet that are subject to oversight.

In 2011, SWIFT's Chief Risk Officer (CRO), who was appointed to this new post at SWIFT at the end of 2010, continued the development of an integrated Enterprise Risk Management framework throughout SWIFT, and consulted on risk management guiding principles for steering discussions on the desired risk approach throughout SWIFT. The established framework contributes to fostering risk management discussions between the Board and management of SWIFT and to roll out a consistent approach across all business functions.

2. Oversight of card payment schemes and retail payment systems

Card Payment Schemes (CPS)

In 2010 the assessment reports on the compliance of domestic card payment schemes with the harmonised ESCB standards were finalised and were subjected to a “peer review”. For Belgium, the Bank has assessed the compliance of the Bancontact-MisterCash scheme.

The assessment of international card payment schemes also progressed during the same timeframe. The Bank acts as “lead overseer” of MasterCard Europe which has its head office in Belgium.

The assessment of these domestic and international schemes should result in the presentation by the Eurosystem of a report on the whole sector in Europe in 2012. The major outcomes will be published on an aggregate basis.

In line with customary practice for each assessment exercise, the principal results relating to each of the assessed entities could give rise to recommendations that will be addressed directly to the governance body in charge of the entity concerned. The expectation is that this governance body will then set up an action plan to implement the recommendations or, alternatively, it will demonstrate how it achieves an equivalent risk mitigation in practice by means of satisfactory organisational arrangements.

Retail payment systems

The CEC (Centre for Exchange and Clearing) is the Belgian automated interbank payment netting scheme. The system is owned by the Belgian financial sector but is operated by the NBB, and processes retail payments of various types: credit transfers (in both the national and the SEPA format), credit and debit cards, direct debits, and cheques exchanged between the system’s participants.

Settlement takes place once a day, whereby the net settlement system results in a single multilateral net balance per participant that is then settled (the single balance for each participant is calculated from all the payments which he has sent and received).

Under the risk classification regime used at European level, the CEC is considered a system of major importance that would not, however, generate systemic risk in the event of malfunctioning. Compliance with the standards

applicable to this category of system (the G10 Core Principles⁽¹⁾ I, II, VII, VIII, IX and X) had already been previously assessed. In recent years, the NBB, in its capacity as overseer of the CEC, has reinforced its requirements for financial risk management and has recommended that the system should increase the frequency of the settlement cycles. The objective is to limit the amounts involved if a participant were unable to fulfil his obligations. The introduction of several settlement cycles per day in the CEC, which constitutes a fundamental change for the system, has been submitted for the consent of the system’s owners. The timetable for implementing these multiple settlement cycles is currently being established. This schedule is linked to another major on-going project, namely the migration of the CEC towards a SEPA-compliant automated clearing house.

3. Oversight of securities settlement systems

The NBB exercises its oversight responsibilities regarding securities settlement systems (SSS) vis-à-vis four entities delivering settlement services in Belgium, namely the Euroclear companies (Euroclear SA/NV, Euroclear Bank and Euroclear Belgium) and the NBB-SSS, the settlement system for Belgian government debt and other fixed-term securities.

Oversight of Euroclear SA/NV

Euroclear SA/NV (ESA) is the Belgium-based parent company of the Euroclear group which comprises the International Central Securities Depository (ICSD) Euroclear Bank as well as the national CSDs Euroclear Belgium, Euroclear France, Euroclear Nederland, Euroclear UK & Ireland, Euroclear Sweden and Euroclear Finland.

ESA owns the securities processing platforms and provides various common services to the (I)CSDs. While the oversight/supervision of the (I)CSDs is exercised on an individual basis by each competent authority in accordance with their national regulatory framework, an international cooperative agreement involving the same authorities has been set up for the coordination of the regulatory initiatives relating to the common services delivered by ESA to the CSDs of the group.

The NBB is in charge of coordinating this multilateral cooperation process (see Box 3).

(1) Core principles for systemically important payment systems, BIS (www.bis.org), Basel, January 2001.

Box 3 – The international cooperative oversight and supervision arrangements for Euroclear SA

The cooperative oversight and supervision framework for the Euroclear group entities is structured around ESA. It takes into account the respective competences of the various national authorities involved. This cooperative framework does not replace each authority's competences vis-à-vis the Euroclear entity in its own country (i.e. the (I)CSDs are still supervised and overseen by their respective national supervisors and overseers).

The NBB as lead overseer and lead prudential supervisor coordinates contacts with foreign authorities acting as single point of contact for ESA. An international cooperation scheme has been established regarding the oversight and supervision of ESA in a multilateral Memorandum of Understanding (MoU). The principles in the MoU specifically refer to the need to avoid gaps and duplications in the oversight / supervision as well as an unnecessary burden for ESA. The parties to this MoU are the authorities of the countries where the domestic CSD is part of the Euroclear group:

- Belgium: National Bank of Belgium, Financial Services and Markets Authority;
- France: Banque de France, Autorité des Marchés Financiers;
- The Netherlands: De Nederlandsche Bank, Autoriteit Financiële Markten;
- United Kingdom: Bank of England, Financial Services Authority;
- Sweden: Sveriges Riksbank, Finansinspektionen;
- Finland: Bank of Finland, FIN-FSA.

For Ireland, the Central Bank of Ireland participates in the Technical Committee meetings with observer status.

The scope of the MoU basically concerns, on the one hand, the exchange of information relevant for coordination and cooperation between the authorities in the area of oversight / supervision and, on the other hand, the coordinated assessment of the common services that are provided by ESA to support the activities of the (I)CSDs in the group.

In practical terms, two committees are in charge of the implementation of the cooperation framework.

- First, there is a **High Level Committee (HLC)** composed of senior representatives of the signatory authorities. The mandate of this senior level steering body is to pursue agreement on and implementation of the policies and priorities arising from the coordinated assessment, and to notify and discuss with ESA's Board and Management the recommendations resulting from the assessments, as well as the strategy concerning ESA's common services and other issues.
- In addition, a **Technical Committee (TC)** composed of all the signatory authorities assists the implementation of the agreed policies regarding the coordinated assessment of ESA's common services as defined by the HLC. The TC supports the coordinated assessment of all common functionalities and services of ESA. Ad-hoc working groups may be put in place by the TC in order to address those issues for which specific expertise is required.

Finally, a permanent secretariat, managed by the NBB, provides administrative support for both committees.

In addition, a crisis communication scheme, coordinated by the NBB, has been set up for contacts between the authorities and ESA.

The Belgian authorities are responsible for the enforcement, follow-up and coordination of the implementation of the mutually agreed recommendations, drawn up on a consensus basis and addressed to ESA as a result of the coordinated assessment of the common services.

The overseers and prudential supervisors involved in this cooperative arrangement rely among others on the information provided by Euroclear's Risk Management and Internal Audit division in order to proactively monitor the company's risk profile. The joint regulatory assessment programme includes other relevant issues such as the stability of Euroclear's IT systems, strategic developments and the adequacy of the governance arrangements.

In 2011, the NBB conducted an extensive analysis of Euroclear's incident and crisis management arrangements. This analysis found that Euroclear had a well-organised process to detect, evaluate and resolve incidents.

Since Euroclear decided to abandon its Single Platform project and instead to upgrade the existing local platforms, the authorities of the Euroclear group wanted assurance that each market's needs are duly considered when the investment plan is drawn up. This has been done by analysing both the internal and external governance. Regarding the internal governance, an assessment was conducted on the IT governance and on the various committees at local and at group level that decide on the prioritisation of projects. For the external governance, a questionnaire was sent to the local Euroclear CSDs and selected participants in the Market Advisory Committees (MACs) to ascertain their views on the stakeholder input in Euroclear's decision process and to see whether Euroclear's decisions are adequately communicated and explained to the market.

Oversight of Euroclear Belgium

Euroclear Belgium (EBE), the central securities depository for Belgian shares, operates on the same IT platform "ESES" (Euroclear Settlement for Euronext-zone Securities) as Euroclear France (EF) and Euroclear Nederland (ENL). The governance structure of the three ESES CSDs has also been harmonised (e.g. common CEO). The overseers and supervisors from these three countries have set up a cooperative arrangement for matters related to the ESES CSDs. The authorities have also fine-tuned the ESES crisis communication arrangements, because an IT incident on the common ESES platform will probably affect all three CSDs.

In the first quarter of 2011, the ESES CSDs further integrated their operating arrangements, implementing a more functionally-oriented operations management framework across the ESES CSDs. This adaptation includes the outsourcing of the EBE and ENL settlement services' operations to EF.

The overseers and prudential supervisors from the NBB, together with their Dutch and French equivalents, have continued their regular monitoring of the CSDs' functioning (e.g. analysis of the settlement efficiency/settlement fails, service and IT developments).

Oversight of Euroclear Bank

As an international central securities depository (ICSD), Euroclear Bank (EB) provides settlement and custody services for international securities, bonds, equities and fund instruments. It maintains a network of more than 40 links with domestic markets worldwide.

The Euroclear system operated by EB, together with a selection of market links, has been subjected to an assessment against the standards for use in the Eurosystem credit operations. Furthermore, EB has also been assessed against the ESCB-CESR standards.

Specific attention has been given to liquidity risk management matters, with the aim of further enhancing the existing contingency framework in line with the new requirements to be embedded in the forthcoming new CPSS-IOSCO principles. A comprehensive oversight data reporting project has also been initiated. Its main objective is to develop key risk indicators to analyse data series for banking and business activities, and to devise a pro-active risk monitoring tool to detect early warning signals. The new reporting will also improve the mapping of system interdependencies in the Euroclear system.

In 2011, the NBB embarked on a risk mapping assessment of EB's asset servicing activities. These activities comprise income and redemptions, corporate actions, new issues, proxy voting and tax services.

After a first high-level analysis of the potential impacts and possible solutions in case of a hypothetical long-term IT outage affecting both the active data centre and the two back-up data centres serving the Euroclear Group (I)CSDs, the NBB requested EB in 2011 to conduct a more detailed analysis of EB-specific services, including interdependencies with other market players and infrastructures. The outcome of this analysis should provide further input on EB's ability to perform critical functions even in the very extreme scenario in which all data centres are down for a longer period of time (e.g. a 5-day period). In particular, EB's ability to prioritise systemic transactions, the accessibility of data records, and interaction with relevant counterparties (participants, central banks, depositories, cash correspondents) will be analysed in this respect.

Oversight of NBB-SSS

In 2011 the assessment of the NBB-SSS against the ESCB-CESR recommendations for securities settlement systems was finalised. A schedule for the implementation of the recommendations⁽¹⁾ was agreed with the operator.

As is the case for other CSDs, the operator of NBB-SSS also took part in the negotiations on the development of the TARGET2-Securities (T2S) settlement platform, was acquainted with the T2S platform design and analysed the changes it will require to the NBB-SSS system.

(1) The oversight assessment and recommendations can be consulted at: http://www.nbb.be/doc/ti/AssessmentNBBSSS_CPSS_IOSCO_May2011.pdf

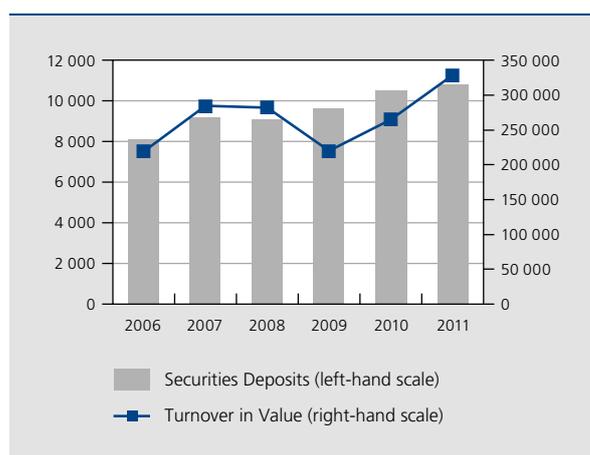
Box 4 – Securities settlement systems in Belgium: key figures on securities deposits and turnover

Three securities settlement systems are established in Belgium: the ICSD Euroclear Bank (EB) and the CSDs NBB-SSS and Euroclear Belgium (EBE). Whereas NBB-SSS and EBE primarily function as depositories for securities issued in Belgium, EB holds securities from more than 40 markets. Apart from size, other differences relate to the type of securities settled or the range of eligible currencies to settle securities against payment. Each system's own characteristics should be taken into account when evaluating the impact of the financial crisis based on key figures on securities deposits and turnover in value.

Most securities held in EB are fixed-income debt securities (e.g. eurobonds, government bonds). At the end of 2011, securities deposits held in EB on behalf of participants amounted to EUR 10.8 trillion, a 3 % rise from EUR 10.5 trillion in 2010. Settlement turnover rose 24 % from EUR 265.8 trillion in 2010 to EUR 328.5 trillion in 2011. As a result, the level of total settlement turnover is above pre-crisis levels again, after dropping in 2009. The average value of transactions processed by EB each day in 2011 is more than EUR 1.2 trillion. EB is a multi-currency system. The bulk of EB settlement turnover is in EUR. Other large settlement currencies include USD and GBP.

EUROCLEAR BANK SECURITIES DEPOSITS & TURNOVER

(in € billion)

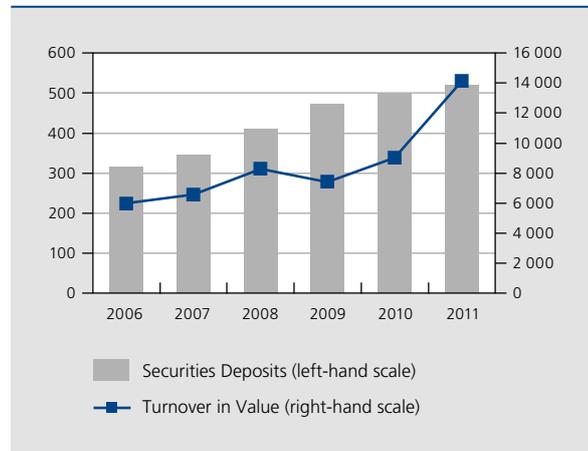


NBB-SSS, the central securities depository for fixed-income Belgian government and corporate debt, has reported a steady rise in securities deposits since 2006 (boosted partly by dematerialisation and new issuance of corporate debt), reaching EUR 521 billion in 2011, 4 % up against 2010. Settlement turnover increased significantly in the course of 2011 to EUR 14.1 trillion (+56 %). This rise is mainly due to the European sovereign debt crisis: the secondary market in Belgian government linear bonds – representing more than 70 % of turnover in NBB-SSS – peaked in 2011 at EUR 10.9 trillion, up from EUR 6.6 trillion in 2010.



NBB-SSS SECURITIES DEPOSITS & TURNOVER

(in € billion)



Unlike EB and NBB-SSS, securities held in EBE are mainly shares. The value of these securities deposits in EBE is reported in market value and is therefore more affected by market volatility. Securities deposits held in EBE on behalf of participants fell by more than 19 % from EUR 162 billion in 2010 to EUR 130 billion in 2011 at year-end. Compared to 2006, before the start of the market turmoil, the value of securities deposits dropped by 50 %. The value of turnover, on the other hand, rose 18 % in 2011 to EUR 588 billion from EUR 498 billion in 2010, and is above pre-crisis levels again.

EUROCLEAR BELGIUM SECURITIES DEPOSITS & TURNOVER

(in € billion)



4. Prudential supervision of the Euroclear group

In 2011, the prudential supervision of the Euroclear group focused in particular on monitoring the restoration of an acceptable profitability for the group, with due regard for

the correct absorption in the financial accounts of both the termination of the Euroclear Single Platform project and the prevailing economic environment.

Because of the systemic nature of the group and its role in financial market stability, there was a particular attention on

the appropriate implementation of the CRD III principles relative to the remuneration policy, that aim to establish a clear and solid alignment of the remuneration of the group's executives with the pursuit of the group's long-term objectives.

The relocation project involving a large-scale staff transfer from EB to a branch to be established in Poland will be reviewed in detail, taking into account the relevant European bank regulations as well as the specific requirements governing strategic decisions in Belgium.

Finally reference should be made to a cooperation agreement relative to the control of clearing and settlement operations outsourced by EBE to Euroclear France, concluded on 1 July 2011 between the Belgian and French authorities (the NBB and the Financial Services and Markets Authority on the one hand, the Banque de France and Autorité des Marchés Financiers on the other) so as to allow the Belgian authorities to continue to control the compliance of EBE with its obligations under Belgian law.

Box 5 – Synergies derived from combining the Oversight and Prudential Supervision of Euroclear

The NBB and the then CBFA had been co-operating for several years already on the Euroclear group.

By housing both the prudential supervision and the oversight of Euroclear (Euroclear Bank (ICSD), Euroclear Belgium, and Euroclear SA) within a single entity at the NBB, synergies can be further developed on the following aspects:

- Collection of Information: optimised assistance to joint meetings, full availability of, and access to, both prudential and oversight information, and removal of any remaining overlapping activities.
- Harmonisation and alignment of supervisory activities, whereby
 - a) duplication of work is avoided and available know-how is used most effectively; this implies, for example, that during prudential on-site reviews, oversight issues can also be analysed.
 - b) integrated (prudential/oversight) teams conduct common analyses on specific topics/risks, in order to take into account the perspective of both approaches;
 - c) oversight or supervision analyses and conclusions are discussed jointly and mutually checked, in order to arrive at analyses and conclusions that integrate both aspects.
- Communication towards the institution: a single view should be communicated from both the oversight and the prudential perspective, with maximum consistency and coherence in the recommendations (each formal request or recommendation to Euroclear indicates the statute under which it is made: prudential supervision or oversight).
- Evolution towards a joint annual action plan with an oversight section and a prudential section, which compares risk analysis from the micro prudential and the systemic risk perspective.

5. Prudential supervision of The Bank of New York Mellon SA (BNYM SA)

In 2009 and 2010 the Bank of New York group completed the first phase of its strategy to strengthen its European presence. Starting from BNYM SA, intra or extra group acquisitions are made, and acquired entities are turned into branches.

In 2011, as part of its strategic reorganisation programme in Europe, the group integrated the German company it acquired in 2010 into its existing German branch, and also opened a new branch in France.

In 2011 the NBB monitored the developments relating to the integration of the acquired entities with an eye on the major risks in clearing, settlement & custody activities, i.e.

operational risk (because of the integration of the IT platforms and applications of the acquired entities), liquidity risk and credit risk.

In advance of the conclusion of this first phase in the reorganisation of the group's presence in Europe, the NBB decided to convene periodic meetings of the regulatory authorities affected by the presence of branches of BNYM SA in their jurisdiction. The objectives of such meetings were on the one hand to prepare for the establishment of a Supervisory College as foreseen by the CRD III directive (as soon as an institution has at least two "significant" branches), and on the other hand to facilitate the information exchange prior to the establishment of this Supervisory College. The actual College was formally set up in the fourth quarter of 2011.

6. Prudential supervision of payment institutions

The provisions of the European Directive of 13 November 2007 on payment services in the internal market (the PSD Directive) allowed legal persons which had started the

activities of payment institutions before 25 December 2007 to continue those activities until 30 April 2011, the deadline for seeking formal authorisation to provide payment services.

Several companies that complied with the requirements have therefore been formally granted authorisation to operate as payment institutions following the analysis of their request and the information provided in support of that request.

Various companies planning to offer services in the area of payments have presented their project to the NBB so as to determine after a preliminary analysis whether the envisaged services would indeed fall within the scope of the PSD Directive. Several companies formally submitted their documentation supporting their authorisation request after such preliminary analysis; some of them were granted authorisation as payment institutions and started operating in 2011.

The development of European standards and guidelines related to various areas that are especially relevant for payment institutions (for instance, the actions to combat money laundering) received particular attention.