

Introduction and executive summary

Belgium hosts a number of significant financial market infrastructures (FMIs), custodians, payment service providers, such as payment institutions (PIs) and electronic money institutions (ELMIs), as well as critical service providers (CSPs), some of which also have a systemic relevance internationally. In recent years, the sector has witnessed a steady increase in activity or new institutions entering the field.

The Financial Market Infrastructures and Payment Services Report provides a comprehensive overview of the National Bank of Belgium's (the Bank) oversight and prudential supervision on these systems and institutions headquartered in, or relevant for Belgium.

The Bank considers such disclosure necessary for a number of reasons.

Firstly, as a financial authority, it should be transparent and accountable about its role, towards the financial sector (as main user of FMIs), and towards the public at large (as user of payment services).

Secondly, as the systems and institutions covered in this Report are an important component for underpinning financial markets as well as the real economy, it is particularly relevant for the participants of FMIs and end users of payment services to be aware of the Bank's view on inherent risks and on priorities for risk mitigation. Similarly, as there is wide variety in the regulatory status of these actors (ranging from credit institutions, to payment systems, card payment schemes, central counterparties (CCPs), central security depositories (CSDs), PIs, ELMIs, etc.), it is important for their participants or end users to have a good understanding of the specific regulatory frameworks that apply to each of them. This is also why the Report devotes attention to the Bank's role with respect to retail payments, as it is relevant for stakeholders and end users to be aware of risks and rules stemming from technological innovations and regulatory changes.

Thirdly, Belgium is home to a number of internationally active FMIs or CSPs, which are also systemically-relevant in other jurisdictions. In these cases, the Bank's oversight and prudential supervision is organised through international cooperative arrangements with foreign central banks and/or regulators. These arrangements are described in this Report. However, some of the FMIs or CSPs have such a wide international range of activities that even authorities which are not part of these cooperative arrangements may be interested in understanding the applicable framework, the regulatory approach and the main priorities.

Finally, in reporting on these activities, the Bank is meeting its requirements with respect to authorities' responsibilities, as laid down in the 2012 Principles for FMIs (PFMIs) of the BIS Committee on Payments and Market Infrastructures (CPMI) and the International Organisation of Securities Commissions (IOSCO). PFMI Responsibility C "Disclosure of policies with respect to PFMIs" states: "Central Banks, market regulators and other relevant authorities should clearly define and disclose their regulatory, supervisory and oversight policies with respect to FMIs".

Until last year, the Bank's disclosure on these matters was spread over the Bank's Annual Report and its Financial Stability Report (formerly Review). It is the Bank's intention to concentrate this information from now on in the Financial Market Infrastructures and Payment Services Report, to be published yearly.

The Report provides an overview of the changes in the regulatory environment for FMIs, custodians, PSPs and CSPs, the development of their activities, the Bank's oversight and prudential supervisory approaches, and its main priorities for 2017.

Since the adoption of the "twin peaks" supervision model in April 2011, the Bank has been responsible for both the oversight of FMIs and prudential supervision of the regulated institutions which operate some of them. The Bank's oversight of payment and settlement infrastructures focuses on the safe and efficient functioning of payment, clearing and settlement systems established in, or relevant, for Belgium. Prudential supervision is intended to ensure that the entities operating market infrastructures are financially robust at microprudential level, thus helping to maintain the confidence of the institution's counterparties and promote financial stability.

In the area of securities clearing and settlement, the international regulatory community has put major emphasis on the clearing obligation for over-the-counter (OTC) derivatives. This has further increased the critical role of CCPs in the financial system, and has led to a further strengthening of the regulatory requirements for CCPs. While there is no CCP established in Belgium, the Bank participates in a number of colleges of CCPs which are relevant from a Belgian perspective.

Belgium is home authority for three CSDs, namely Euroclear Belgium, NBB-SSS and Euroclear Bank (an international CSD or ICSD). The CSD Regulation (CSDR) will be a regulatory milestone in this area as it will increase competition, strengthen regulatory standards and at the same time promote a level playing field by harmonising the supervisory approach. The filing for authorisation of Euroclear Bank and Euroclear Belgium under the CSDR is one of the main supervisory priorities for the Bank.

In the payments area, the Bank supervises sixteen PIs and five ELMIs. The future outlook of this industry is very challenging. On the one hand, a lot of (FinTech) innovation continues to take place within the payment services sector and, on the other hand, the revised edition of the Payment Services Directive (PSD2) is to be transposed into Belgian law by 13 January 2018, introducing, amongst other things, new payment services and harmonised security rules. As acquirer and processor of the majority of debit and credit card payment transactions in Belgium, Worldline SA/NV is subject to both oversight and prudential supervision by the Bank. Because of its systemic relevance, Worldline SA/NV is overseen as a critical infrastructure for payments in Belgium. It also has the supervisory licence of PI given its acquiring business.

As lead overseer of Belgium-based messaging provider SWIFT, the Bank works closely together with other central banks. Over the last few years, a major focus of the oversight has been on cyber risk defence at SWIFT. Recent cyber events have indicated the importance of end-to-end security in the transaction chain. SWIFT has launched a comprehensive programme aimed at reinforcing cyber security among its user community, so-called end-point security. SWIFT will further roll out this Customer Security Programme in the course of 2017. The overseers will follow up on its adequacy and the transparency of communications with users on their own security obligations.

Cyber crime has been on an exponential rise in the last decade, a significant part of which has focused specifically on the financial sector, particularly on FMIs and the payment services sector. This underscores the importance of best practices, proper policy measures and regulatory initiatives such as penetration testing and red team exercises as techniques to acquire reasonable assurance on the effectiveness of an organisation's protection, detection, response and recovery capacities, and the need to share information to cooperate with partners in the financial ecosystem.

The current wave of disruptive technologies and start-ups may open up significant opportunities for the financial industry. At the same time, innovations come with their own set of risks and challenges, including the usual operational (information and cyber), third-party, governance, legal and settlement risks. Regulators strive to promote innovation, security and competition in the financial services industry, while guaranteeing financial stability and a level playing field for all the market participants in terms of risk mitigation and oversight through a risk-based approach that is technology-neutral.