1. The Bank's role in oversight and prudential supervision of financial market infrastructures, custodians, payment service providers and critical service providers

The systems and institutions covered in this report form the backbone of the financial ecosystem, either from a wholesale or a retail market perspective, as they are the critical nodes in the functioning of financial markets and payment services. The Bank has, in its capacity of overseer and supervisor, a broad mandate to regulate and supervise them. In order to provide more insight in these systems and institutions' roles, Section 1.1 provides an overview of the structure and interdependencies between these nodes. The relevant processes and flows between nodes and market participants or retail customers are more explained in detail in the next parts of this report (i.e. Chapters 2, 3 and 4). Section 1.2 explains the Bank's mandate and role in the oversight and prudential supervision of the wide range of systems and institutions, either on a national or international basis.

1.1 Critical nodes in the functioning of financial markets and payment services

Systems and institutions that are the critical nodes in the functioning of financial markets and payment services can in general be put into three categories: (i) securities clearing, settlement and custody, (ii) payments and (iii) critical service providers. Through their activities or services provided to the financial industry, these systems and institutions are interlinked with financial market infrastructures (FMIs), financial institutions and other actors such as merchants or retail customers. These interdependencies, illustrated in chart 1, are further explained below.

Securities clearing, settlement and custody

A trade in a financial instrument is concluded between a buyer and a seller by agreeing the price and the contract terms. Trading can occur on-exchange, i.e. on a centralised platform designed to optimise the price-discovery process and to concentrate market liquidity. Markets can also function bilaterally or on an over-the-counter (OTC) basis, where the counterparties make the bid and accept the offer to conclude contracts directly among themselves. In both cases, buyer or seller are usually banks or investment firms. They could rely on other intermediaries (e.g. brokers) to conduct trades. Trade exchanges such as Euronext Brussels are supervised by securities regulators and are not covered in the report. FMIs and financial institutions that provide securities clearing, settlement and custody services are considered part of the post-trade securities landscape.

Clearing

The clearing of a trade via a central counterparty (CCP) generally means that the CCP becomes the buyer counterparty for the seller and the seller counterparty for the buyer. Both original counterparties to the trade then have a claim on the CCP. The direct participant of a CCP – usually a bank or an investment firm – is called a clearing member. A clearing member may clear not only its own trades via the CCP, but also those of its clients. Whereas there are no CCPs established in Belgium, CCPs in other countries can be systemically important due to their clearing activities for the Belgian securities market.

Settlement

After clearing, the settlement of a trade results in the transfer of cash and/or of a financial instrument between the parties in the books of a central securities depository (CSD). CSDs act in general as the register of securities issued in their domestic market. In the case of international securities, such as Eurobonds, issuers can choose the currency or country of issue. These securities are held in international CSDs (ICSDs) (1). When a CCP has intervened to clear a trade, settlement takes place on the books of (I)CSDs (2) between the buyer and the CCP, and between the seller and the CCP.

Apart from the type of securities, another distinction between CSDs and ICSDs can be made based on the range of securities that they accept and hold in their systems. Whereas CSDs, as a rule, have so far been operating in a rather domestic environment, ICSDs are – by the very nature of their business model – internationally oriented. They aim to provide their participants with a single gateway to access many local foreign markets (i.e. foreign CSDs which act as notary for securities issued in the local foreign market). When (I)CSDs offer their participants access to foreign securities markets, they are considered as "investor (I)CSDs", whereas the foreign (I)CSDs are referred to as "issuer (I)CSDs". There are three (I)CSDs established in Belgium: Euroclear Bank (ICSD), Euroclear Belgium and NBB-SSS (both CSDs) (3). The cash leg of securities settlement takes place either in payment systems operated by central banks (i.e. central bank money, e.g. TARGET2) or on the books of an (I)CSD with banking status providing (multicurrency) cash accounts (i.e. commercial bank money, e.g. Euroclear Bank).

Custody

Financial institutions that facilitate their clients' access to securities investment markets are referred to as custodians. In that capacity of intermediary, custodians can offer their clients safekeeping and settlement services. A local custodian is primarily focusing on serving a single securities market. If a custodian has access to multiple markets, it is considered a global custodian. The Bank of New York-Mellon SA/NV (BNYM SA/NV), established in Belgium, is the global custodian of the BNYM group providing investment services to more than 100 securities markets.

Payments

The payments landscape covers both wholesale (i.e. transactions between institutional investors) and retail payments segments (i.e. transactions between retail customers), and includes payment systems, payment service providers (PSPs) such as payment institutions (PIs) and electronic money institutions (ELMIs), processors for retail payment instruments and card payment schemes.

Payment systems

Payment systems cover both large-value payment systems (LVPS) and retail payment systems (RPS). While LVPS exchange, generally, payments of a very large amount, mainly between banks and other participants in the financial markets, RPS typically handle a large volume of payments of relatively low value such as credit transfers and direct debits. Two payment systems are at the heart of the Belgian payment infrastructure: the Centre for Exchange and Clearing (CEC), which is the domestic retail payment system processing intra-Belgian domestic payments, and TARGET2, the large-value payment system connecting Belgian with other European banks.

(1) In this case, a duopoly exists as there are two ICSDs in the EU which act as "issuer CSD" for Eurobonds; i.e. Euroclear Bank established in Belgium and Clearstream Banking Luxembourg.
(2) The term (I)CSD is used to cover both CSDs and ICSDs.
(3) Bank of New York-Mellon SA/NV indicated that BNYM CSD will not file for a license under the CSD Regulation.

CLS Bank (CLS)[1], a US-based settlement system for foreign exchange (FX) transactions is linked to the RTGS systems operated by central banks of 18 currencies (incl. TARGET2 for EUR) allowing to settle both legs of the FX transaction at the same time. CLS eliminates FX settlement risk whereby – due to time zone differences – one party wires the currency it sold but does not receive the currency it bought from its counterparty.

PIs and ELMIs

Card payments typically involve a "four-party scheme", i.e. cardholder, card issuer, merchant and acquirer. The card of the person who performs the purchase of a transaction with the merchant (cardholder) is issued by an institution (card issuer) which was traditionally always a bank, but can, nowadays, also be a PI or ELMI. The acquirer is in charge of acquiring the transaction on behalf of the merchant (i.e. performing for the merchant all the steps necessary for making the money (paid by the buyer) credited on the account of the merchant). The role of PIs and ELMIs in the retail payments area is multiple; i.e. for card payments transactions, for example, PIs and ELMIs can issue the payment cards to the user and/or acquire the funds of the payment transaction on behalf of the merchant. The acquiring business has gradually become a market whereby, next to banks, PIs play a growing role.

Next to card payments, PIs have a major role in providing money transfers/remittances services (funds transfers) allowing retail customers to transfer cash from Belgium to a third party in different locations around the world and vice versa.

Processors for retail payment instruments

In Belgium, one specific processor provides the underlying network and services for mainly all card payments, which is Worldline SA/NV. After processing card payments, transactions are sent to the Centre for Exchange and Clearing (CEC) for clearing and settlement.

Card payment schemes

The relevant rules and features according to which card payments – either debit or credit – can take place are defined by card payment schemes. The Belgian domestic (debit) card payment scheme is Bancontact. Mastercard Europe (MCE) is an international (credit) card payment scheme established in Belgium.

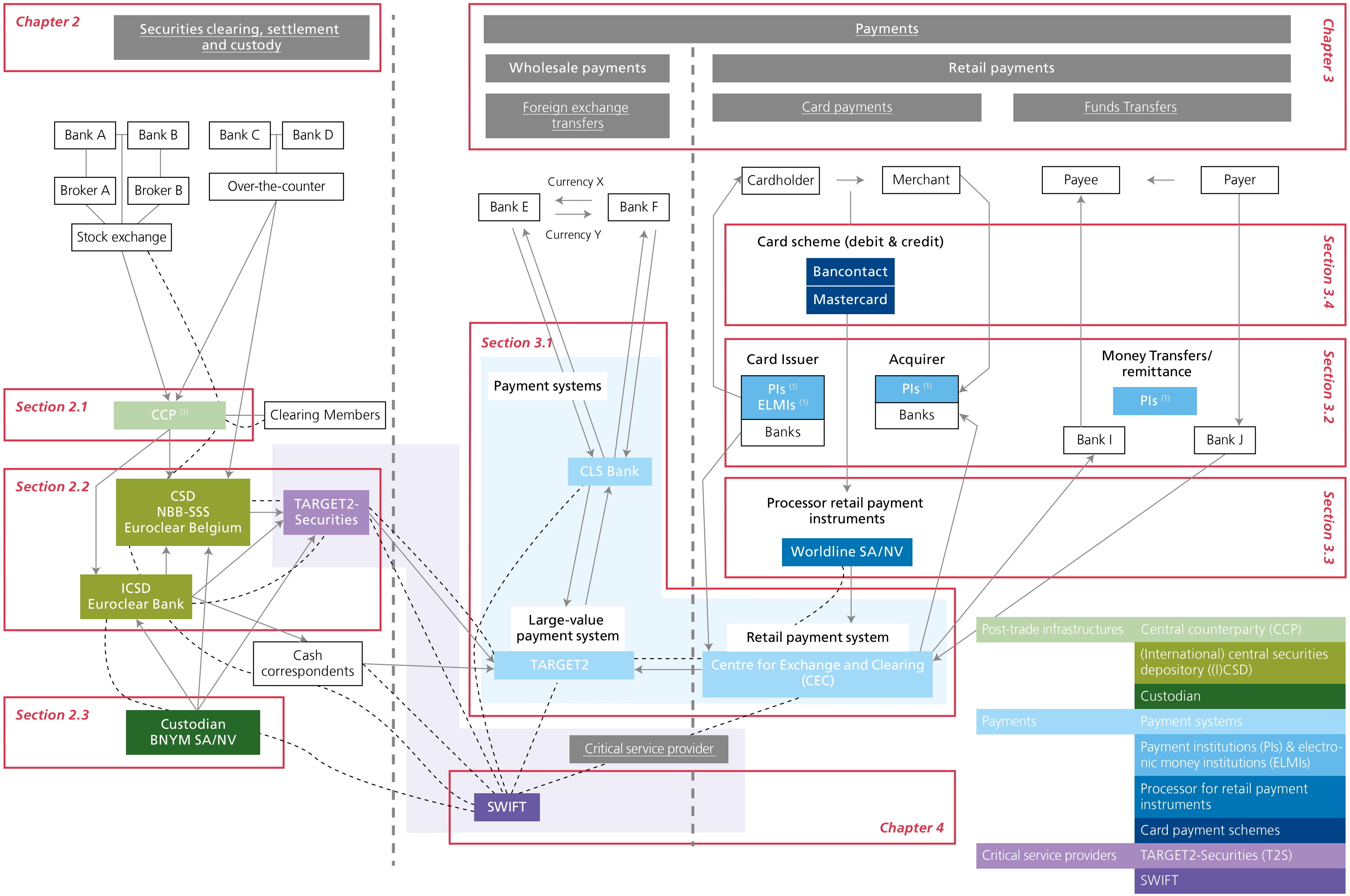
Critical service provider

The report covers two critical service providers (CSPs), i.e. TARGET2-Securities (T2S) and SWIFT[2]. T2S is the common settlement platform for European CSDs that is being rolled out in several migration waves as of 2015. It is covered in the section on securities clearing, settlement and custody. Although SWIFT is neither a payment system nor a settlement system, a large number of systemically important systems depend on it for their daily financial messaging, so that SWIFT itself is of systemic importance.

Chart 1 demonstrates that the FMIs, custodians, PSPs and CSPs covered in this report are underpinning financial markets as well as the real economy by providing clearing, settlement, custody and other services to financial intermediaries, and for retail payments, also to the end user. If designed safely and executed properly, they are instrumental in reducing systemic risks and contagion in case of financial crisis.

(1) Continuous Linked Settlement.
(2) Society for Worldwide Interbank Financial Telecommunication.

CHART 1 INTERLINKAGES THROUGH & BETWEEN FINANCIAL MARKET INFRASTRUCTURES, CUSTODIANS, PAYMENT SERVICE PROVIDERS AND CRITICAL SERVICE PROVIDERS



(1) Individual institutions are listed in Table 1.

1.2 FMIs, custodians, PSPs and CSPs subject to oversight and prudential supervision by the Bank

Having illustrated the critical importance of FMIs, such as payment systems, payment schemes, (I)CSDs, CCPs, as well as of custodians, PSPs and CSPs in the functioning of financial markets and payment services, their central role has also been translated in specific regulatory provisions and requirements aiming to ensure the smooth functioning of financial markets, within and across jurisdictions. The international membership of systems and institutions raise legal risks, in particular in case of insolvency of foreign market participants. Legal certainty about the moment when obligations by the FMI or its participants generated in payment, clearing and settlement processes are discharged (i.e. the point of finality of a transaction) is a crucial element in that respect. In the EU, the Settlement Finality Directive [1], applies to all of the payment, clearing and settlement systems in the EU that are designated as being covered by the Directive, as well as all participants in such systems [2]. The Bank does play an active role in the development of regulatory policies and requirements. In the following chapters, specific sections are devoted to changes in the regulatory framework.

Given their central role and systemic importance, the Bank has a broad mandate to conduct oversight and supervision with respect to the systems and institutions covered in this report.

Based on its Organic Law [3], the Bank is responsible for the oversight of payment and securities settlements systems to ensure that they operate properly and to make certain that they are efficient and sound following applicable international standards such as the April 2012 CPMI-IOSCO Principles for Financial Market Infrastructures (PFMIs) [4]. The Bank oversees securities clearing and settlement systems, payment systems and payment schemes, and critical service providers (CSPs).

Since 2011, the Bank has also been designated as micro-prudential supervisory authority for the supervision of individual financial institutions [5]. These include the operators of clearing and settlement systems, such as CCPs and CSDs, as well as custodians and PSPs like PIs and ELMIs. Institutions that have the status of credit institution are, in that capacity, subject to prudential bank supervision. As of November 2014, a substantial part of the related Bank's prudential responsibilities for credit institutions was transferred to the ECB under the Single Supervisory Mechanism (SSM) Regulation [6]. Less significant institutions (LSIs) remain however under the prudential supervision of the Bank as national competent authority.

For new legislation like the 2012 European Market Infrastructure Regulation (EMIR) [7] and the 2014 CSD Regulation (CSDR) [8], the Bank has been assigned as competent supervisory authority. EMIR and its implementing Regulations set out the clearing obligation and the requirements for CCPs established in the EU. CSDR, on the other hand, introduces prudential requirements on the operation of CSDs in the EU, as well as on banking-type ancillary services provided by those CSDs or designated credit institutions.

Table 1 below provides an overview of the systems and institutions supervised or overseen by the Bank. FMIs, custodians, PSPs and CSPs have been classified according to (i) securities clearing, settlement and custody, (ii) payments and (iii) CSPs to the financial infrastructure. These systems and institutions can be further grouped by: (i) type of regulatory role of the Bank (i.e. prudential supervision, oversight or both) and (ii) its international dimension (the Bank as solo authority, international cooperative arrangement with the Bank as lead or in another role). The international scope of the oversight

(1) Directive 98/26/EC of the European Parliament and of the Council of 19 May 1998 on settlement finality in payment and securities settlement systems, OJ. 11 June 1998, L. 166, 45-50 (http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:31998L0026&from=EN).

(2) For Belgium, designated systems include the payment systems TARGET2-BE, the Belgian component of TARGET2, and CEC, as well as the securities settlement systems NBB-SSS, Euroclear Bank, Euroclear Belgium.

(3) Art. 8, Law of 22 February 1998 establishing the organic statute of the National Bank of Belgium, *Belgian Official Gazette* 28 March 1998, 9.377.

(4) CPMI-IOSCO (2012), Principles for financial market infrastructures, BIS (http://www.bis.org/publ/cpss101a.pdf).

(5) The foundations of the "twin peaks" model were laid by the Law of 2 July 2010 amending the Law of 2 August 2002 on the supervision of the financial sector and financial services, and the Law of 22 February 1998 establishing the Organic Statute of the National Bank of Belgium, and containing miscellaneous provisions, *Belgian Official Gazette*, 28 September 2010, 59.140. See in particular Article 26, § 1, of said Law. The new supervision model was established by the promulgation of the Royal Decree of 3 March 2011 regarding the evolution of the supervisory architecture of the financial sector, *Belgian Official Gazette* 9 March 2011, 15.623. This Royal Decree entered into force on 1 April 2011.

(6) Regulation (EU) No. 1024/2013 of the Council of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions, *OJ*. 29 October 2013, L. 287, 63–89 (http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX: 32013R1024&from=en).

(7) Regulation (EU) No. 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC Derivatives, central counterparties and trade repositories, *OJ*. 27 July 2012, L. 201, 1-59 (http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32012R0648&from=EN).

(8) Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012, *OJ*. 28 August 2014, L. 257, 1-72 (http://publications.europa.eu/en/publication-detail/-/publication/e58428b4-2e81-11e4-8c3c-01aa75ed71a1/language-en).

TABLE 1 THE BANK'S OVERSIGHT AND PRUDENTIAL SUPERVISION OF FINANCIAL MARKET INFRASTRUCTURES, CUSTODIANS, PAYMENT SERVICE PROVIDERS AND CRITICAL SERVICE PROVIDERS

	International supervisory college / cooperative oversight arrangement		NBB solo authority
	NBB lead authority	NBB takes part, other authority is lead	
Prudential supervision		Custodian Bank of New York Mellon SA (BNYM SA/NV)	Custodian BNYM Brussels branch
			Payment Service Providers (PSPs) Payment Institutions (PIs) *Card acquiring and processing: Alpha Card, Alpha Card Merchant Services, Bank Card Company, B+S Payment Europe, Instele, Rent A Terminal, Worldline SA/NV* *Money Remittance: Africash, Belgian Money Corp, Belmoney Transfert, Gold Commodities Forex, HomeSend, Money International, MoneyTrans Payment Services, Munditransfers, Travelex* *Direct Debit: EPBF* *Hybrid: BMCE EuroServices, Cofidis, eDebex, FX4BIZ, Oonex, PAY-NXT, Santander CF Benelux* Electronic Money Institutions (ELMIs) *Buy Way Personal Finance, Fimaser, HPME, Imagor, Ingenico Financial Solutions, Ingenico Payment Services, Loyaltek Payment Systems, Orange Belgium, RES Credit*
Prudential supervision & Oversight	CSD Euroclear Belgium (ESES) ICSD Euroclear Bank SA/NV	CCPs LCH.Clearnet Ltd (UK), ICE Clear Europe (UK) LCH.Clearnet SA (FR), Eurex Clearing AG (DE), EuroCCP (NL), Keler CCP (HU), CC&G (IT)	
	Assimilated settlement institution Euroclear SA/NV (ESA)		Processor for retail payment instruments Worldline SA/NV
Oversight	Critical service provider SWIFT	Critical service provider TARGET2-Securities (T2S) (1)	CSD NBB-SSS
		Payment systems TARGET2 (T2) (1) CLS Bank	Card payment schemes Bancontact (1) MasterCard Europe (1)
			Payment system Centre for Exchange and Clearing (CEC) (1)

Post-trade infrastructures	Securities clearing	Payments	Payment systems
	Securities settlement		Payment institutions & electronic money institutions
	Custody		Processor for retail payment instruments
Critical service providers	TARGET2-Securities		Card payment schemes
	SWIFT		

(1) Peer review in Eurosystem/ESCB.

and supervision reflects the international dimension of the FMIs, custodians, PSPs and CSPs, as well as their systemic relevance for other regulatory authorities.

Custodians such as BNYM SA/NV (including its Brussels branch) and PIs and ELMIs are subject to prudential supervision. Following the SSM criteria for identifying systemically relevant credit institutions (SI) within the euro area, BNYM SA/NV is considered as an SI and falls under direct supervision of the SSM.

CCPs and (I)CSDs are subject to both prudential supervision and oversight. While there is no CCP established in Belgium, following the EMIR Regulation, the Bank takes part as a competent authority in 7 CCP colleges as the CCP is settling in a Belgian CSD or due to the size of Belgian clearing members' contribution to the mutual CCP default fund which is available to the CCP to cover the default of a clearing member (1). Under the CSDR, the Bank has been assigned as the sole competent supervisory authority for Belgian CSDs, and is, as overseer, also considered as relevant authority in the CSDR.

As mentioned above, there are three (I)CSDs in Belgium: Euroclear Bank, Euroclear Belgium and NBB-SSS. Only Euroclear Bank has banking status. Unlike BNYM SA/NV, Euroclear Bank has been qualified as a less significant institution (LSI) (i.e. total assets < € 30 billion) and remains under the direct supervision of the Bank as NCA. As the risk profile of an FMI is fundamentally different from a universal deposit-taking bank, prudential requirements for banks (i.e. Basel III, Capital Requirements Directive, etc.) do not always adequately cover the specific operational and financial risks of FMIs. Other internationally agreed standards for CCPs and (I)CSDs are more adequate to cover such risks (i.e. PFMIs). In the EU framework, these principles have been transposed into European legislation (EMIR and CSDR). The owner of Euroclear Bank, Euroclear SA, provides core services to its Group (I)CSDs, including Euroclear Bank and Euroclear Belgium. In order to bring Euroclear SA within the Bank's supervisory scope, it has been designated as an "assimilated settlement institution" (2).

Apart from (I)CSDs and CCPs, another institution that is subject to both prudential supervision and oversight is Worldline SA/NV, respectively due to its role as acquirer and processor of retail payment instruments.

For those institutions subject to both prudential supervision and oversight (i.e. Euroclear (I)CSDs, CCPs, Worldline SA/NV), the Bank aligns its prudential supervision and oversight approach. Synergies between the Bank's prudential supervision and oversight are explained in box 1.

NBB-SSS, the securities settlement system operated by the Bank, is subject to oversight only. Payment systems (TARGET2, CEC, CLS), card schemes (Bancontact, MasterCard Europe) and CSPs such as SWIFT and TARGET2-Securities are also covered by the Bank's oversight.

For the systems and institutions established in Belgium which are systemically relevant in other jurisdictions' financial markets or for the financial industry as a whole, the Bank has established cooperative arrangements with other authorities. This may involve multilateral cooperative arrangements, in which the Bank acts as lead overseer (i.e. SWIFT, Euroclear Bank). Similarly, the Bank takes part in a number of international cooperative arrangements (BNYM SA/NV, TARGET2, TARGET2-Securities and CLS) in which another national authority acts as lead overseer/supervisor.

(1) The FSMA is assigned, together with the Bank, as national competent authority for CCPs under EMIR.
(2) Art. 23 of the Law of 2 August 2002 on the supervision of the financial sector and financial services and Art. 10, § 7, of the Royal Decree of 26 September 2005 on the legal status of settlement institutions and assimilated institutions.

Box 1 – Oversight and prudential supervision of financial market infrastructures, custodians, payment service providers and critical service providers

The Bank has responsibilities in both oversight and prudential supervision of financial market infrastructures (FMIs), custodians, payment service providers (PSPs), such as payment institutions and electronic money institutions, and critical service providers (CSPs). Oversight and prudential supervision of FMIs differ in a number of areas, ranging from the object of the function, the authority being responsible, the topics covered, as well as the regulatory framework and tools used. At the same time, both oversight and prudential supervision activities, and the framework they are relying on, evolve over time.

Central banks have always had a close interest in the safety and efficiency of payment, clearing and settlement systems. One of the principal functions of central banks is to be the guardian of public confidence in money, and this confidence depends crucially on the ability of economic agents to transmit money and financial instruments smoothly and securely through payment, clearing and settlement systems. These systems must therefore be strong and reliable, available even when the markets around them are in crisis and never themselves be the source of such crisis. The main objectives of oversight are the safety and efficiency of FMIs and it pursues these objectives by monitoring existing and planned systems, assessing them and, where necessary, inducing change. The oversight of FMIs has now come to be generally recognised as a core responsibility of central banks.

The Bank's oversight of payment, clearing and settlement infrastructures is based on Article 8 of its organic law and focuses on the safe and efficient functioning of payment, clearing and settlement services established in, or relevant for Belgium. Although SWIFT is neither a payment, clearing or settlement infrastructure, many of such systems use SWIFT which makes the latter a CSP of systemic importance. SWIFT is therefore subject to a (cooperative) central bank oversight arrangement.

Since the adoption of the 'twin peaks' supervision model in April 2011, the Bank is also responsible for prudential supervision, including of the regulated institutions operating some of these FMIs. Since 2013, the responsibility for prudential supervision of credit institutions in the euro area has been transferred to the Single Supervisory Mechanism (SSM) led by the ECB. Significant institutions, such as Bank of New York Mellon SA/NV are directly supervised by the SSM. For less-significant institutions, the Bank remains the national competent authority.

Some FMIs are subject to both oversight and prudential supervision, typically if an FMI is operated by a bank (as is the case for Euroclear Bank). The oversight activity and prudential supervision are, in such situations, complementary in nature: while the oversight activity focusses on the sound functioning of the settlement system (by assessing compliance with oversight standards), the prudential supervision focusses on the financial soundness of the operator (by assessing compliance with banking regulations).

Another distinction relates to the topics covered by oversight and prudential supervision. One of the main priorities of oversight relates to the prohibition and containment of any transmission of financial or operational risks through an FMI or CSP. Typical areas oversight is focussing on cover the functioning of the system and how its organisation minimises or avoids risks. Examples thereof include settlement finality rules reducing risks linked to the insolvency of participants, delivery versus payment or payment versus payment mechanisms eliminating principal risks and stringent requirements on business continuity plans. Oversight also takes into account risks related to system interdependencies (either via connected systems or participants) that could provoke contagion risks in financial markets. Prudential supervision intends to ensure that institutions, including prudential supervised operators of FMIs, are financially robust at micro-prudential level, thus helping to maintain the trust of the institution's counterparties and, in this way, promoting financial stability. For credit and liquidity risk in particular, oversight looks at intraday credit use and liquidity needs, while banking supervision rules are usually targeting end-of-day positions.

As a consequence of such divergences in scope, oversight and prudential supervision are relying on different frameworks. For oversight, the 2012 Principles for FMIs (PFMIs) of the BIS Committee on Payments and Market Infrastructures (CPMI) and the International Organisation of Securities Commissions (IOSCO) cover payment systems, securities settlement systems, central securities depositories (CSDs), central counterparties (CCPs) and

Trade Repositories. For the implementation of these principles, further clarity and granularity is provided by relevant guidelines such as the CPMI-IOSCO Guidance on cyber resilience for FMIs or forthcoming guidance on resilience and recovery of CCPs. In addition, the CPMI also published, for example, an analytical framework for distributed ledger technology in payment, clearing and settlement. If FMIs have a banking status, or for other types of institutions such as custodians, prudential supervision is based on applicable banking regulation (Capital Requirements Directive, Bank Recovery and Resolution Directive, etc.).

Finally, also the tools to conduct oversight and prudential supervision differ. Oversight is generally based on principles and guidelines designed in international fora (Eurosystem, CPMI, CPMI-IOSCO), pressing FMIs and CSPs into adhering these via central bank moral suasion (so-called "soft law" approach). Prudential supervision on the other hand has laid down its requirements in a formal legal framework translated in EU directives and local laws ("hard law" approach). Over time, central bank oversight has become more formal, following the increasing role of the private sector in providing payment and settlement systems, as well as the growing criticality of these systems' proper functioning. In some cases, oversight also evolves to a hard law approach as illustrated, for example, by the new Belgian law on systemically relevant processors for retail payment instruments.

In order to pool expertise and reinforce the synergies between the oversight function and that of prudential supervision on FMIs, custodians, PSPs and CSPs, these two functions have been integrated into the same department within the Bank.

The PFMIs, which also cover responsibilities of supervisory and other authorities, provide that relevant authorities should cooperate with each other, both domestically and internationally, in promoting the safety and efficiency of FMIs. Domestically, the Bank cooperates with the FSMA which has responsibilities in the supervision of financial markets with regard to conduct of business rules. The implementation of the PFMIs, including the responsibilities of authorities, is being monitored by CPMI and IOSCO (1). With regard to PFMI Responsibility E (i.e. cooperation with other relevant authorities), the Bank has been assessed (November 2015) as "broadly observed" for Euroclear Bank (2). The fact that full compliance was not reached was due to (i) a lack of formalisation of the cooperation modalities with the Luxembourg authorities that was to be extended to a broader scope than the link (the so-called Bridge) between Euroclear Bank and Clearstream Banking Luxembourg, (ii) the fact that not all relevant foreign authorities are formally consulted and (iii) not all relevant central banks of issue are formally invited to provide views during assessments. In response to these recommendations, the Bank started in 2016 a formal multilateral cooperation with the Federal Reserve, Bank of England, Bank of Japan and the European Central Bank (as observer), which are the central banks of issue of the major settlement currencies in Euroclear Bank. Their views of Euroclear Bank's payment and settlement arrangements and its related liquidity risk management procedures are now being considered by the Bank in the context of assessing Euroclear Bank's observance of the PFMIs. As Euroclear Bank has a wide international range of activities, the Bank intends – through this report – to inform other authorities with whom the Bank does not have a formal cooperation but that may be interested in understanding the applicable framework, the regulatory approach and the main supervisory priorities. The extension of the cooperation with the Luxembourg authorities (with the European Central Bank as observer), focusing on the implementation of the PFMIs by both ICSDs, is expected to enter into force on short notice.

(1) Following the publication of the PFMIs, the CPMI and IOSCO agreed to monitor their implementation in 28 jurisdictions with authorities that are members of the Financial Stability Board (FSB) and/or the CPMI and/or the IOSCO. This is done through implementation monitoring assessments which are being conducted at three levels: a Level 1 (L1) assessment of the status of the implementation process, a Level 2 (L2) assessment of the completeness of the implemented framework and its consistency with the PFMIs, and a Level 3 (L3) assessment of the consistency in outcomes of such frameworks.

(2) CPMI-IOSCO (2015), *Assessment and review of application of Responsibilities for authorities*, BIS (http://www.bis.org/cpmi/publ/d139.pdf).