



BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

Introduction to the Application Process

Leading to the Approval of a Payment System

By virtue of article 34 of the Central Bank of Malta Act, no person shall organise, establish, operate or participate in a domestic payment system unless such system is approved and authorised by the Bank.

Payment systems provide channels through which funds may be transferred among credit and other financial institutions to discharge the payment obligations arising in the financial markets and across the entire economy. Furthermore, payment systems allow financial obligations to be settled securely and efficiently between debtors and creditors or between originators and beneficiaries of payments. With regard to the approval of payment systems, CBM Directive No. 13 outlines that a payment system is approved and authorised only if it complies with international standards that are adopted by the Bank from time to time. As part of its oversight function, the Bank is responsible to monitor such systems in order to ensure compliance with the conditions of approval as well as ensuring security and efficiency.

When applying for a payment system, the Bank would expect the promoter or operator of prospective systems to apply for approval and authorisation. Entities considering participation in systems approved by the Bank do not require its consent for participation but the operator would need to ensure that such participant complies with the conditions for participation of the payment system as approved by the Bank.

The Bank shall assess all applications on the basis of internationally established policies and published standards, which focus on the safety, efficiency and accessibility of different systems. The standards are specific to the nature of the system and the assessment process and recommended features take into account the systemic importance of the system in the context of the overall domestic financial system.

Together with the appropriate application form (which can be found below), the Bank would require the applicant to submit the following documentation:

- i. registered name and address of entities promoting or operating the payment system; shareholders' names and Memorandum of Association together with copies of any licences held by the entities listed;
- ii. system rules and operational procedures which make clear all aspects of the system, including eligibility criteria for participants;
- iii. detailed contingency arrangements;
- iv. detailed information regarding the management of risks associated with all aspects of the system; and
- v. for an existing system, statistical information related to the turnover of the system and the level of participation should be included. For new systems a business plan outlining anticipated turnover, participation and growth is required.

For an application to be processed efficiently and in the shortest time possible, it is important that the application is comprehensively prepared on a well-developed and clear proposal. The Bank may require additional documentation or further clarifications on information already submitted with the application.

An applicant is bound to immediately inform the Bank of any material changes in the information submitted to the Bank when such changes occur after an application has been submitted. This obligation remains valid even after a system has been authorised and approved.

Responsibility for the correctness and completeness of all relevant information submitted for the review of the application by the Bank rests with the applicant.

If required, a prospective applicant can contact the CBM Oversight Team at Regulation and Oversight Office¹ to convene a preliminary meeting for advice on the preparation, set-up and practical aspects of submitting an application for approval and authorisation of a payment system.

¹ *Contact Telephone Number:* +356 2550 3603,
Or a generic email address: oversight@centralbankmalta.org

Initially, a draft application form should be submitted. All questions in the Application Form must be duly completed or marked “not applicable” where the applicant believes that a question does not apply. Any supporting documents and materials should be submitted with the draft application form. Once the initial application has been reviewed and any amendments agreed upon by the Bank and the applicant, a final application form duly signed, together with supporting documents incorporating the changes agreed upon should be submitted to the Bank.

After the submission of the final application form together with the relative supporting documentation, the Bank will assess the application against international set standards. Further discussions with the operator may be undertaken to clarify any items, or to supply further documentation, before the approval of the payment system.

Subsequently, the Bank will issue an approval letter for the payment system to operate. The approval will be renewed on a regular basis as part of the oversight review of the approved payment system.

Application Process for Payment Systems

Introduction

Payment systems provide channels through which funds may be transferred among credit institutions and other institutions to discharge the payment obligations arising in the financial markets and across the entire economy. Payment systems allow financial obligations to be settled securely and efficiently between debtors and creditors or between originators and beneficiaries of payments. This function makes payment systems critical to the effective functioning of financial systems worldwide.

When a payment system's role in the economy is very critical, this is regarded as a Systemically Important Payment System (SIPS). As part of the European Central Bank (ECB), the Central Bank of Malta follows the ECB Regulation on SIPS. Therefore, a payment system is regarded as systemically important, if:

- a. it is eligible to be notified as a system pursuant to Settlement Finality Directive (98/26/EC) by a Member State whose currency is the euro or its operator is established in the euro area, including establishment by means of a branch, through which the system is operated; and
- b. at least two of the following occur over a calendar year:
 - i. the total daily average value of euro-denominated payments processed exceeds EUR 10 billion;
 - ii. its market share is at least one of the following:
 - 15 % of total volume of euro-denominated payments,
 - 5 % of total volume of euro-denominated cross-border payments,
 - 75 % of total volume of euro-denominated payments at the level of a Member State whose currency is the euro;

- iii. its cross-border activity (i.e. participants established in a country other than that of the SIPS operator and/or cross border links with other payment systems) involves five or more countries and generates a minimum of 33 % of the total volume of euro-denominated payments processed by that SIPS;
- iv. it is used for the settlement of other FMIs.

In order to avoid any disruptions that a payment system or a participant in a payment system may cause within the financial market, a SIPS must be sufficiently protected against credit, legal, operational and other risks. The Principles for Financial Market Infrastructures (PFMI), issued by the CPMI and the International Organization of Securities Commissions (IOSCO), serve as a guideline for the design and operation of safe and efficient SIPS worldwide.

The Main Elements for a Stable, Secure and Efficient Payment System

A stable and secure payment system should operate in a well-defined legal environment, setting out the rights and obligations, in normal as well as in adverse circumstances, of each party involved in transmitting a payment through the system. The legal environment should cover payment instruments as well as the system itself and all the participants in the payment system, irrespective of their country of incorporation, thereby eliminating the possibility of conflicting bankruptcy and insolvency laws.

The legal and regulatory environment for every SIPS should ensure the finality and irrevocability of all payments made through the system.

A payment system promotes social efficiency through considerable, mostly positive, externalities like the smooth exchange of goods, services and financial assets.

The Role of Central Banks in Oversight of Payment Systems

General

In order to achieve the efficiency and soundness of payment systems, central banks are entrusted with the function of oversight. The main objectives pursued are the maintenance of systemic stability, the promotion of efficiency and the safeguarding of the transmission channel for monetary policy.

A payment system should be subject to effective oversight. The overseer's role should be to:

- ensure the development of rules, regulations and procedures for the system;
- assess and enforce compliance with those rules;
- promote and co-ordinate individual and collective action by the participants;
and
- ensure the smooth functioning of the system and promote its future development.

The overseer should have arrangements in place to ensure co-operation with relevant authorities, domestic and foreign, including the supervising authorities of credit and other institutions that participate in the system. These arrangements should preferably be based on Memoranda of Understanding or similar arrangements which permit the timely exchange of information between different authorities.

So as not to compromise whatever discretionary authority a central bank may have as lender of last resort, central banks do not guarantee, even implicitly, the settlement of payments through an approved payment system. Nor should participants in the system have any grounds to assume that in the event of a serious problem, central banks will automatically provide sufficient funds to complete the daily settlement.

The Central Bank of Malta's Role

Through its oversight function the Central Bank of Malta (“the Bank”) seeks:

- a. to ensure that payment systems are organised and operated in such a way so as not to trigger or spread systemic risk;
- b. to guarantee the efficiency of payment systems;
- c. to guarantee the safety of payment instruments;
- d. to safeguard the essential vehicle for the transmission of monetary policy;
and
- e. to establish a level playing field between market participants.

By virtue of article 34 of the Central Bank of Malta Act, the Bank is legally entrusted with the responsibility to oversee and regulate payment systems. Furthermore, it is also one of the Bank’s objectives to promote and participate in the establishment of a sound and efficient payment system².

The Bank must determine whether a system is a payment system based on the SIPS regulation definition of a payment system – which is the following:

‘payment system’ means a formal arrangement between three or more participants, not counting possible settlement banks, central counterparties, clearing houses or indirect participants, with common rules and standardised arrangements for the execution of transfer orders between the participants;

Payment systems which are not deemed to be systemically important (criteria which is set out in the SIPS regulation) will be required to supply information on an annual basis for the Bank to be able to monitor whether their status has changed.

In order to determine whether a payment system may be classified as a systemically important payment system, the Bank requires statistical information and documentation which will enable it to assess whether that system may be operated in such a manner as to pose systemic risk. This exercise is carried out on a regular

² Article 5 (1)(d) – Central Bank of Malta Act

basis in order to ensure the payment systems' classification. Those payment systems which will not be classified as SIRPS have varied risk profiles. These can be classified into two categories, these being (a) the prominently important retail payment systems (PIRPS) and (b) other retail payment systems (ORPS). In order to classify them, only one factor needs to be taken into account: the market share of the system at euro area country level.

The Bank considers that there is systemic risk where the inability of a participant to meet its obligations in a payment system could cause:

- a. other participants in the payment system to be unable to meet their obligations as they become due;
- b. financial institutions in other parts of the financial system to be unable to meet their obligations as they become due; or
- c. the system's clearing house to become unable to meet its obligations as they become due.

Generally, the Bank would require the applicant to have:

- i. adequate financial resources;
- ii. appropriate default arrangements;
- iii. operating rules of the system³; and
- iv. adequate arrangements for monitoring and enforcing compliance with its rules.

³ These rules should make clear certain aspects of the system, including the point of entry of a payment transfer order into the system and the point after which it cannot be revoked, entry and exit criteria, etc.

More specifically and relying upon the Principles for Financial Market Infrastructures⁴, the Bank intends to apply the following minimum standards to the design and operations of systemically important payment systems:

1. An FMI should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.
2. 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.
3. An FMI should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks.
4. An FMI should effectively measure, monitor, and manage its credit exposure to participants and those arising from its payment, clearing, and settlement processes.
5. An FMI that required collateral to manage its or its participants' credit exposure should accept collateral with low credit, liquidity, and market risks. An FMI should also set and enforce appropriately conservative haircuts and concentration limits.
6. An FMI should effectively measure, monitor, and manage its liquidity risk.
7. 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.
8. 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

⁴ Bank of International Settlement, Committee on Payment and Settlement Systems, April 2012

minimise and strictly control the credit and liquidity risk arising from the use of commercial bank money.

9. If an FMI settles transactions that involve the settlement of two linked obligations, it should eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other.
10. An FMI should have effective and clearly defined rules and procedures to manage a participant default. The rules and procedures should be designed to ensure that the FMI can take timely action to contain losses and liquidity pressures and continue to meet its obligations.
11. An FMI should identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialise.
12. An FMI should safeguard its own and its participants' assets and minimise the risk of loss on and delay in access to those assets. An FMI's investments should be in instruments with minimal credit, market, and liquidity risks.
13. An FMI should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls.
14. An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.
15. An FMI should identify, monitor, and manage the material risks to the FMI arising from tiered participation arrangements.
16. An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves.
17. An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate

efficient payment, clearing, settlement, and recording.

18. 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, fees, and other material costs they incur by participating in the FMI. All rules and key procedures should be publicly disclosed.

It is important to note that payment systems that do not qualify as SIPS will not be required to comply with all the above-mentioned PFMIs.

**Application Form
for Payment Systems**



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Application Form

Introduction

Before a payment system may begin to operate in Malta, such a system **must be authorised by the Bank**. When reviewing a request to approve a payment system to operate in Malta, the Bank shall focus on the safety, efficiency and accessibility of that system and on whether or not that system meets the international requirements for payment systems⁵.

When applying to the Bank for approval and authorisation to operate a payment system, a person shall submit the attached Application Form duly completed. Please read the questions carefully before completing this form. All questions should be answered and the completed form should be signed prior to submission.

Together with the Application Form, the applicant is required to submit to the Bank the following documentation:

1. A detailed contingency plan;
2. Detailed information regarding the management of risks associated with all aspects of the payment system;
3. The operational safety of the products being used;
4. For an existing payment system, any statistical information related to the turnover of the payment system, and also the level of participation;
5. For new systems, a business plan outlining anticipated turnover, expected level of participation and anticipated growth is required.
6. Operating rules of the payment system.

The Bank reserves the right to seek further information and clarifications. If the applicant is in doubt about how any of the questions should be answered, the Oversight Team at the Regulation and Oversight Office should be contacted⁶.

⁵ Bank for International Settlement, Principles for Financial Market Infrastructures

⁶ Contact Telephone Number: +356 2550 3606,

Or a generic email address: oversight@centralbankmalta.org

1. Details of the Payment System

1.1 Name of the Payment System

[Click here to enter text.](#)

1.2 Registered / business address of the Payment System

[Click here to enter text.](#)

Telephone Number [Click here to enter text.](#)

E-mail [Click here to enter text.](#)

1.3 Details of person/company promoting the Payment System (Promoter) in this application. (The name of the natural person submitting this application and his/her contact details should be provided here. This person will be the Bank's contact point regarding this Application). A copy of the authorisation document to represent the other participants in the payment system should also be attached.

Name and surname of person submitting application

[Click here to enter text.](#)

Address

[Click here to enter text.](#)

Telephone Number [Click here to enter text.](#)

E-mail [Click here to enter text.](#)

1.4 List of initial participants in the Payment System. (Please supply addresses, telephone numbers, fax numbers, e-mail addresses, ID Card numbers if individuals, date of registration or incorporation if companies. Please submit a true copy of deed of partnership, Memorandum and Articles of Association, etc, as applicable)

[Click here to enter text.](#)

2. Analysis of Main Features of the Payment System

2.1 Give a brief description of the overall concept of the system, i.e., how the system will function.

[Click here to enter text.](#)

2.2 Submit the operating rules for the payment system.

[Click here to enter text.](#)

2.3 What is the cost structure of the payment system? (entry fee, periodical fee, transaction fee, custody fee)

[Click here to enter text.](#)

2.4 What are the operating hours and days of the payment system?

[Click here to enter text.](#)

2.5 What is the nature of the system? (e.g., RTGS, netting system, clearing house)

[Click here to enter text.](#)

2.6 What is the purpose of the system (e.g., settlement of retail payments, of large-value payments, of securities transactions. Is it card based, network based or a combination of both?)

[Click here to enter text.](#)

2.7 Describe the settlement procedures envisaged for the payment system.

[Click here to enter text.](#)

2.8 Will transactions be traceable and auditable?

[Click here to enter text.](#)

2.9 What will be the typical execution time (customer to customer) of a transaction under normal circumstances?

[Click here to enter text.](#)

2.10 Give a brief description of the technology envisaged for the payment system (e.g., network usage, security features applied, etc.)

[Click here to enter text.](#)

2.11 Give an outline of the risks perceived in the proposed payment system.

[Click here to enter text.](#)

2.12 If the functioning of the system involves collateral (e.g. for central bank credit in RTGS systems or to guarantee final settlement in a net settlement system), what kind of assets are eligible as collateral?

[Click here to enter text.](#)

2.13 How is the quality of the collateral assessed?

[Click here to enter text.](#)

Apart from the information provided above, any other issues identified during the initial discussions held with the Central Bank of Malta will need to be adequately addressed in this application

[Click here to enter text.](#)

Signature

Date

All personal data will be processed in accordance with the General Data Protection Regulation (GDPR).

The information given above will be assessed by the Bank in accordance with the following legal requirements and principles.