



# BANGKO SENTRAL NG PILIPINAS

## OFFICE OF THE GOVERNOR

**CIRCULAR NO. 1126**  
Series of 2021

**Subject: Adoption of the Principles for Financial Market Infrastructures (PFMI)**

The Monetary Board, in its Resolution No. 1132 dated 26 August 2021, approved the adoption of the PFMI pursuant to Circular No. 1089 dated 07 July 2020 or the Payment System Oversight Framework (PSOF), and Republic Act (R.A.) No. 11127 or the National Payment Systems Act (NPSA), and the related amendments to the Manual of Regulations for Payment Systems (MORPS).

**Section 1.** The following section shall be created in the MORPS:

**504 Adoption of the Principles for Financial Market Infrastructures (PFMI)<sup>1</sup>**

**Policy Statement.** In line with the thrust of ensuring the safety, efficiency, and reliability of the national payment system (NPS), the Bangko Sentral shall require the adoption of the PFMI standard by the designated payment systems (DPS), pursuant to the Payment System Oversight Framework (PSOF), and the National Payment Systems Act (NPSA). In cases involving non-payment system financial market infrastructures (FMIs) and cross-border payment systems, adoption of the PFMI may be subject of cooperative arrangements<sup>2</sup> with other regulatory authorities.

**Scope.** The mandatory adoption of the PFMI standard shall be required for DPS, including its participants<sup>3</sup>, to the extent of the role/s being performed by said participants in the DPS. Aligned with this, the Bangko Sentral shall use the PFMI assessment methodology to determine the observance of relevant principles by the DPS as well as identify possible risks and induce changes in the NPS. For non-designated payment systems, the Bangko Sentral may utilize applicable key considerations under relevant principles of said Standard to assess the practices in the design and operations of said payment systems. For cross-border payment system, in case the requirements under Bangko Sentral regulations or PFMI are not applied by the foreign overseer/authority in its home jurisdiction, said regulations or principles may still be required by the Bangko Sentral as deemed necessary and consistent with the authority granted to the Bangko Sentral over its registered and licensed institutions. The coordination

<sup>1</sup> International standards for FMIs, i.e., payment systems, central securities depositories, securities settlement systems, central counterparties and trade repositories, issued by the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO).

<sup>2</sup> Section 9 of the NPSA - Coordination with Other Government Agencies and Foreign Regulators; and as provided in the PSOF.

<sup>3</sup> As defined under the NPSA, participants include operator, issuer, service provider or any person involved in the payment system other than the end-user.

with foreign regulators shall aim to facilitate safe, efficient, and reliable cross-border payment transactions.<sup>4</sup>

**Definition of Terms.** For purposes of this policy issuance, the terms defined under Section 4 of R.A. No. 11127 and Section 101 PSOF, shall apply.

**Relevant Principles.** The PFMI is a set of international standards designed to strengthen FMIs and make them more resilient to financial crises, and participant defaults. In general, while the standards are principles-based, said standards incorporate, in some cases, specific minimum requirements to achieve the same base level of risk management across different FMIs and countries.<sup>5</sup>

While the PFMI consists of twenty-four (24) principles, the required adoption by the DPS shall at a minimum extend to principles relevant to payment systems in the country, as provided in Appendix 1. These principles shall be applied holistically and not on a stand-alone basis given that some principles are built upon others while some complement others. The Principles are classified into eight (8) broad categories, namely:

1. *General organization* – Principles under this category provide guidance on how the DPS shall generally be organized to establish a strong foundation for the comprehensive management of risks in the DPS. This covers principles on legal basis, governance, and risk management framework.
2. *Credit and liquidity risk management* – Principles under this category provide standards to support a high degree of confidence that the DPS will be able to operate and serve as a source of financial stability even under stressful conditions.
3. *Settlement* – Principles under this category require the DPS to address issues on settlement risk and finality of DPS transactions.
4. *Default management* – This principle requires the adoption of appropriate policies, rules, and procedures in the DPS to manage default of participant/s.
5. *General business risk and operational risk management* – Principles under this category are designed to: (1) protect participants and the financial system from the risk that a DPS could suddenly cease operations as a result of business losses unrelated to participant defaults; and (2) strengthen the requirements on operational reliability and resilience.
6. *Access* – Principles under this category address management of risks posed by alternative access arrangements and the need for fair and open access to the DPS.
7. *Efficiency* – Principles under this category enable the DPS to be efficient and effective in meeting the requirements of its participants and the market it serves.
8. *Transparency* – Principles under this category require that relevant information shall be provided to the participants of the DPS, the authorities, and the public to enable informed and sound decision making as well as foster confidence in the market it serves.

<sup>4</sup> As provided under cooperative oversight section of the PSOF.

<sup>5</sup> PFMI, Bank for International Settlements (BIS) and IOSCO, 2012.

**Adoption by DPS.** The adoption of the applicable principles by the DPS shall depend on whether it is designated as a systemically important payment system (SIPS) or prominently important payment system (PIPS). Appendix 1 provides which principles shall be adopted by a SIPS or PIPS.<sup>6</sup>

**Critical Service Providers (CSPs).** In certain cases, the operational reliability of a DPS may be dependent on the performance of service providers that are critical to its operations, such as information technology and messaging providers. In this respect, the Bangko Sentral sets forth the following expectations<sup>7</sup> to be met by CSPs:

1. *Risk identification and management* – A CSP is expected to identify and manage relevant operational and financial risks to its critical services and ensure that its risk management processes are effective.
2. *Information Security* – A CSP is expected to implement and maintain appropriate policies and procedures, and devote sufficient resources to ensure the confidentiality and integrity of information and the availability of its critical services in order to fulfill the terms of its relationship with the Operator of a Designated Payment System (ODPS)<sup>8</sup> or the DPS.
3. *Reliability and resilience* – A CSP is expected to implement appropriate policies and procedures, and devote sufficient resources to ensure that its critical services are available, reliable and resilient. Its business continuity management and disaster recovery plans should therefore support the timely resumption of its critical services in the event of an outage so that the service provided fulfills the terms of its agreement with the ODPS/DPS.
4. *Technology planning* – The CSP 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.
5. *Communication with users* – A CSP is expected to be transparent to its users and provide them sufficient information to enable users to understand clearly their roles and responsibilities in managing risks related to their use of a CSP.

The contracting party<sup>9</sup>, the DPS or the ODPS, shall be responsible for ensuring that the CSP meets the above-cited expectations and that operations of the CSP shall be held to the same standards as if the services were provided by the DPS or ODPS itself. The Bangko Sentral, however, is not precluded from directly engaging with and exercising its oversight function over the CSP in accordance with the PSOF.

**Assessment by the Bangko Sentral.** The Bangko Sentral shall adopt the PFMI assessment methodology (AM) to evaluate the observance of the relevant principles by a DPS as well as identify possible risks and induce changes in the

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<sup>6</sup> The guidelines on the designation of a payment system are provided under the PSOF.

<sup>7</sup> Adopted from Annex F of the PFMI, BIS and IOSCO, 2012.

<sup>8</sup> Role of and requirements for an Operator of a Designated Payment System (ODPS) are provided in the PSOF.

<sup>9</sup> The contracting party may either be the ODPS or the DPS through its appropriate governance body (i.e., payment system management body such as the Philippine Payments Management, Inc.).

NPS. In performing the PFMI assessment, the Bangko Sentral shall utilize the pertinent AM's rating scale as laid out in Appendix 2.

***Enforcement Action.*** The Bangko Sentral may deploy enforcement actions to ensure compliance with the provisions of this Section and bring about timely corrective actions. Any violation of this Section shall subject the DPS, its participants and/or their directors, officers, and/or employees to the sanctions set forth in Sections 36 and 37 of R.A. No. 7653, as amended<sup>10</sup>, and Sections 19 and 20 of R.A. No. 11127, as appropriate.

**Section 2.** This Circular shall take effect fifteen (15) calendar days following its publication either in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD:



**BENJAMIN E. DIOKNO**  
Governor

14 September 2021

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<sup>10</sup> Sections 18 and 19 of R.A. No. 11211, An Act Amending the New Central Bank Act.

**Applicability of Principles for Financial Market Infrastructures (PFMI)<sup>1</sup>  
to Designated Payment Systems<sup>2</sup> (DPS)**

Principle	SIPS <sup>3</sup>	PIPS <sup>4</sup>
<b>General Organization</b>		
<i>Principle No. 1 – Legal Basis</i> A DPS should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.	✓	✓
<i>Principle No. 2 – Governance</i> A DPS should have governance arrangements that are clear and transparent, promote the safety and efficiency of the DPS, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.	✓	✓
<i>Principle No. 3 – Framework for the comprehensive management of risks</i> A DPS should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks.	✓	✓
<b>Credit &amp; Liquidity Risk Management</b>		
<i>Principle No. 4 – Credit risk</i> A DPS should effectively measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes.	✓	
<i>Principle No. 5 – Collateral</i> A DPS that requires collateral to manage its or its participants' credit exposure should accept collateral with low credit, liquidity, and market risks. A DPS should also set and enforce appropriately conservative haircuts and concentration limits.	✓	
<i>Principle No. 7 – Liquidity risk</i> A DPS should effectively measure, monitor, and manage its liquidity risk. A DPS should maintain sufficient liquid resources in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation in the DPS in extreme but plausible market conditions.	✓	

<sup>1</sup> International standards for financial market infrastructures, i.e., payment systems, central securities depositories, securities settlement systems, central counterparties and trade repositories, issued by the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) in April 2012.

<sup>2</sup> A payment system may be designated by the Bangko Sentral either as a: (1) Systemically Important Payment System (SIPS), or (2) Prominently Important Payment System (PIPS) pursuant to the Payment System Oversight Framework and the National Payment Systems Act.

<sup>3</sup> Principles for mandatory adoption of Systemically Important Payment System (SIPS).

<sup>4</sup> Principles for mandatory adoption of Prominently Important Payment System (PIPS). Key considerations for principles not requiring mandatory adoption may be considered by the Bangko Sentral in holistically assessing the principles for mandatory adoption.



Principle	SIPS <sup>3</sup>	PIPS <sup>4</sup>
<b>Settlement</b>		
<i>Principle No. 8 – Settlement Finality</i> A DPS should provide clear and certain final settlement, at a minimum by the end of the value date.	✓	✓
<i>Principle No. 9 – Money Settlements</i> A DPS should conduct its money settlements in central bank money where practical and available.	✓	✓
<i>Principle No. 12 – Exchange-of-value settlement systems</i> If a DPS settles transactions that involve the settlement of two linked obligations (for example, securities or foreign exchange transactions), it should eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other.	✓	
<b>Default Management</b>		
<i>Principle No. 13 – Participant-default rules and procedures</i> A DPS should have effective and clearly defined rules and procedures to manage a participant default.	✓	✓
<b>General Business &amp; Operational Risk Management</b>		
<i>Principle No. 15 – General business risk</i> A DPS participant 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 materialize.	✓	✓
<i>Principle No. 16 – Custody and investment risks</i> A DPS should safeguard its own and its participants' assets and minimize the risk of loss on and delay in access to these assets.	✓	✓
<i>Principle No. 17 – Operational risk</i> A DPS 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.	✓	✓
<b>Access</b>		
<i>Principle No. 18 – Access and participation requirements</i> A DPS should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.	✓	✓
<i>Principle No. 19 – Tiered participation arrangements</i> A DPS should identify, monitor, and manage the material risks to the DPS arising from tiered participation arrangements.	✓	✓
<b>Efficiency</b>		
<i>Principle No. 21 – Efficiency and Effectiveness</i> A DPS should be efficient and effective in meeting the requirements of its participants and the markets it serves.	✓	✓
<i>Principle No. 22 – Communication procedures and standards</i> A DPS should use, or at a minimum accommodate, relevant internationally accepted communication procedures and	✓	✓

Principle	SIPS <sup>3</sup>	PIPS <sup>4</sup>
standards in order to facilitate efficient payment, clearing, settlement, and recording.		
<b>Transparency</b>		
<i>Principle No. 23 - Disclosure of rules, key procedures, and market data</i> A DPS 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 DPS. All relevant rules and key procedures should be publicly disclosed.	✓	✓
<b>Total No. of Principles</b>	<b>18</b>	<b>14</b>

### BANGKO SENTRAL Assessment Methodology and Rating Framework

The Bangko Sentral shall adopt the PFMI assessment methodology<sup>1</sup> (AM) to evaluate the observance of the relevant principles by a designated payment system (DPS) as well as identify possible risks and induce changes in the national payment system (NPS). In line with this, the Bangko Sentral shall also utilize the pertinent AM's rating scale and language in communicating the assessment against the relevant principles identified in Appendix 1:

Rating Scale <sup>2</sup>	Description
Observed	The DPS observes the principle. Any identified gaps and shortcomings are not issues of concern and are minor, manageable, and of a nature that the DPS could consider taking up in the normal course of its business.
Broadly Observed	The DPS broadly observes the principle. One or more issues of concern have been identified that the DPS is enjoined to address and follow up to better manage risks or improve operations. The DPS should pursue such improvements in a defined timeline.
Partly Observed	The DPS partly observes the principle. The assessment has identified one or more issues of concern that could become serious if not addressed in a timely manner. The DPS should accord a high priority to address these issues.
Not Observed	The DPS does not observe the principle. The assessment has identified one or more serious issues of concern that warrant immediate action. Therefore, the DPS must accord the highest priority to address these issues in a timely manner.
Not Applicable	The principle does not pertain to the type of DPS being assessed because of the particular legal, institutional, structural, or other characteristics of the DPS.

<sup>1</sup> As set forth in the Principles for Financial Market Infrastructures, Bank for International Settlements (BIS) and IOSCO, 2012.

<sup>2</sup> The rating scale is built on the gravity and urgency to remedy identified "issues of concern." For the purpose of this scale, an "issue of concern" is a risk management flaw, a deficiency or lack of transparency or effectiveness that needs to be addressed.