



Policy guidance on risk-management standards for designated financial market infrastructures

Standard 2: Governance

Financial Stability and Other Public Interest Considerations

Context

The Bank of Canada adopted the [Principles for Financial Market Infrastructures](#) (PFMIs) into its risk-management standards for designated financial market infrastructures (FMIs) in 2012. This guidance was jointly developed by the Bank of Canada and the Canadian Securities Regulators to provide additional context and clarity on certain aspects of these new standards in the Canadian context.

The PFMIs define governance as the set of relationships between an FMI's owners, board of directors (or equivalent), management, and other relevant parties, including participants, authorities, and other stakeholders (such as participants' customers, other interdependent FMIs, and the broader market). Governance provides the processes through which an organisation sets its objectives, determines the means for achieving those objectives, and monitors performance against those objectives. This note provides supplementary regulatory guidance for Canadian FMIs on their governance arrangements as it relates to supporting relevant public interest considerations.

Public interest considerations in the context of the PFMIs

The PFMIs indicate that FMIs should “explicitly support financial stability and other relevant public interests.” However, there may be circumstances where providing explicit support of relevant public interests conflict with other FMI objectives and therefore require appropriate prioritization and balancing. For example, addressing the potential trade-offs between protecting the participants and the FMI while ensuring the financial stability interests are upheld.

Guidance within the PFMIs

The following text has been extracted directly from the PFMIs. The pertinent information is in bold.

PFMI paragraph 3.2.2: ***Given the importance of FMIs and the fact that their decisions can have widespread impact, affecting multiple financial institutions, markets, and jurisdictions, it is essential for each FMI to place a high priority on the safety and efficiency of its operations and explicitly support financial stability and other relevant public interests. Supporting the public interest is a broad concept that includes, for example, fostering fair and efficient markets.*** For example, in certain over the counter derivatives markets, industry standards and market protocols have been developed to

increase certainty, transparency, and stability in the market. If a CCP in such markets were to diverge from these practices, it could, in some cases, undermine the market's efforts to develop common processes to help reduce uncertainty. An FMI's governance arrangements should also include appropriate consideration of the interests of participants, participants' customers, relevant authorities, and other stakeholders. (...) For all types of FMIs, governance arrangements should provide for fair and open access (see Principle 18 on access and participation requirements) and for effective implementation of recovery or wind-down plans, or resolution.

PFMI paragraph 3.2.8: ***An FMI's board has multiple roles and responsibilities that should be clearly specified. These roles and responsibilities should include*** (a) establishing clear strategic aims for the entity; (b) ensuring effective monitoring of senior management (including selecting its senior managers, setting their objectives, evaluating their performance, and, where appropriate, removing them); (c) establishing appropriate compensation policies (which should be consistent with best practices and based on long-term achievements, in particular, the safety and efficiency of the FMI); (d) establishing and overseeing the risk-management function and material risk decisions; (e) overseeing internal control functions (including ensuring independence and adequate resources); (f) ensuring compliance with all supervisory and oversight requirements; ***(g) ensuring consideration of financial stability and other relevant public interests***; and (h) providing accountability to the owners, participants, and other relevant stakeholders.

The CPMI-IOSCO PFMI Disclosure framework and Assessment methodology provides questions to guide the assessment of the FMI against the PFMI. Questions related to public interest considerations are focused on ensuring that the FMI's objectives are clearly defined, giving a high priority to safety, financial stability and efficiency while also ensuring all other public interest considerations are identified and reflected in the FMI's objectives.

Supplementary Guidance for designated Canadian FMIs

- By definition the PFMI apply to systemically important FMIs, so safety and financial stability objectives should be given a high priority.
- Efficiency is also a high priority that should contribute to (but not supersede) the safety and financial stability objectives.
- Other public interest considerations such as competition and fair and open access should also be considered in the broader safety and financial stability context.
- A framework (objectives, policies and procedures) should be in place for default and other emergency situations. The framework should articulate explicit principles to ensure financial stability and other relevant public interests are considered as part of the decision making process. For example, it should provide guidance on discretionary management decisions, consider the trade-offs between protecting the participants and the FMI while also ensuring the financial

stability interests are upheld, and articulate a communication protocol with the board and regulators.

- Practical questions/approaches to assessing the appropriateness of the framework include:
 - Does the enabling legislation (e.g. the *Canadian Payment Act*), articles of incorporation, corporate by-laws, corporate mission, vision statements, corporate risk statements/frameworks/methodology clearly articulate the objectives and are they appropriately aligned and communicated (transparent)?
 - Do the objectives give appropriate priority to safety, financial stability, efficiency and other public interest considerations?
 - Does the Board structure ensure the right mix of skills/experience and interests are in place to ensure the objectives are clear, appropriately prioritized, achieved and measured?
 - What is the training provided to the Board and management to support the objectives?
 - Do the service offerings and business plans support the objectives?
 - Do the system design, rules, procedures support the objectives?
 - Are the inter-dependencies and key dependencies considered and managed in the context of the broader financial stability objectives? For instance, do problem and default management policies and procedures appropriately provide for consideration of the broader financial stability interests and do they engage the key stakeholders and regulators?
 - Are there procedures in place to get timely engagement of the Board to discuss emerging/current issues, consider scenarios, provide guidance and make decision
 - Does the framework ensure that the broader financial stability issues are considered in any actions relating to a participant suspension?