

**Supporting Statement for the  
Reporting and Disclosure Requirements  
Associated with the Policy on Payments System Risk (PSR Policy)  
(FR 4102; OMB No. 7100-0315)**

**Summary**

The Board of Governors of the Federal Reserve System (Federal Reserve), under delegated authority from the Office of Management and Budget (OMB), proposes to implement the Reporting and Disclosure Requirements Associated with the Policy on Payments System Risk (FR 4102; OMB No. 7100-0315). The Paperwork Reduction Act (PRA) classifies reporting, recordkeeping, or disclosure requirements as information collections.<sup>1</sup>

On June 28, 2006, the Federal Reserve published a notice in the *Federal Register* seeking comment on the proposed information collection contained in the Policy on Payments System Risk (PSR Policy). In addition, as part of the Federal Reserve's continuing efforts to reduce paperwork burden, the Federal Reserve invited comments on the burden associated with the proposed information collection. The comment period ended on September 22, 2006. The Federal Reserve received four comment letters – two from private sector payments system operators, one from a credit union, and one from a foreign central bank; however, none discussed the burden estimate. The respondents are systemically important systems, as defined by the PSR Policy. The total annual burden for this information collection is estimated to be 1,140 hours.

**Background and Justification**

Since the early 1980s, the Federal Reserve has published and periodically revised a series of policies encouraging the reduction and management of risks in payments and securities settlement systems.<sup>2</sup> In 1992, the Federal Reserve issued its PSR Policy which provided a comprehensive statement of its previously adopted policies regarding payments system risk reduction, including risk management in private large-dollar funds transfer networks, private delivery-against-payment securities systems, offshore dollar clearing and netting systems, and private small-dollar clearing and settlement systems.<sup>3</sup>

Simultaneously, the Federal Reserve worked with other central banks and securities regulators to develop standards to strengthen payments and securities settlement infrastructures and to promote financial stability. These efforts initially produced the Lamfalussy Minimum Standards, which were incorporated into the Federal Reserve's PSR Policy in 1994.<sup>4</sup> More recently, this work resulted in the publication of the Core Principles for Systemically Important Payment Systems (Core Principles) and the Recommendations for Securities Settlement Systems (Recommendations for SSS) in

---

<sup>1</sup> 44 U.S.C. § 3501 *et seq.*

<sup>2</sup> See 50 FR 21120, May 22, 1985; 52 FR 29255, August 6, 1987; and 54 FR 26104 and 26092, June 21, 1989.

<sup>3</sup> 57 FR 40455, September 3, 1992.

<sup>4</sup> 59 FR 67534, December 29, 1994. For a full report of these standards see: <http://www.bis.org/publ/cpss04.pdf>

2001, which were incorporated into the Federal Reserve's PSR Policy in 2004.<sup>5</sup> The Core Principles extended and replaced the Lamfalussy Minimum Standards, while the Recommendations for SSS provided, for the first time, explicit standards for securities settlement systems.

In addition to establishing specific principles and standards, the Core Principles and Recommendations for SSS call for central banks to state clearly their roles and policies regarding payments and securities settlement systems, assessing compliance with the Core Principles and Recommendations for SSS when overseeing relevant systems, and coordinate with other authorities in overseeing systems. Moreover, the Core Principles and Recommendations for SSS are intended to apply to systems operated by both central banks and the private sector.

Concurrent with the drafting and adoption of the 2004 policy revisions, the Federal Reserve worked with the Committee on Payment and Settlement Systems (CPSS) of the Central Banks of the Group of Ten countries and the International Organization of Securities Commissions (IOSCO) to finalize the Recommendations for Central Counterparties (Recommendations for CCP).<sup>6</sup> These recommendations established minimum standards for central counterparty risk management, operational reliability, efficiency, governance, transparency, and regulation and oversight. The Recommendations for CCP build upon the Recommendations for SSS and supersede those recommendations where central counterparties are concerned (these two sets of recommendations are collectively referred to as the CPSS-IOSCO Recommendations). At the time it incorporated the Core Principles and Recommendations for SSS into the PSR Policy, the Federal Reserve noted that the CPSS and IOSCO were developing the Recommendations for CCP and that it would review the Recommendations for CCP at a later time and determine whether it would be appropriate to incorporate them into the PSR Policy.

## **Description of Information Collection**

The Federal Reserve adopted several revisions to Part I of its PSR Policy addressing risk management in payments and settlement systems. Specifically, the Federal Reserve (1) incorporated into the PSR Policy the Recommendations for CCP as the Federal Reserve's minimum standards for central counterparties, (2) clarified the purpose of Part I of the policy and revised its scope with regard to central counterparties, and (3) established an expectation that systemically important systems (subject to the Federal Reserve Board's authority) disclose publicly self-assessments against the Core Principles, Recommendations for SSS, or Recommendations for CCP, as appropriate, demonstrating the extent to which these systems meet the principles or minimum standards.

---

<sup>5</sup> The Core Principles were developed by the Committee on Payment and Settlement Systems (CPSS) of the Central Banks of the Group of Ten countries, and Recommendations for SSS were developed by the CPSS in conjunction with the Technical Committee of the International Organization of Securities Commissions (IOSCO). In addition to the Federal Reserve, the Securities and Exchange Commission (SEC) and the Commodity and Futures Trading Commission (CFTC) participated in the development of the Recommendations for SSS.

<sup>6</sup> Final recommendations were issued in November 2004. In addition to the Federal Reserve, the SEC, and the CFTC participated in the development of the Recommendations for CCP.

The Federal Reserve believes that the effective implementation of these principles and minimum standards by systemically important systems can foster greater financial stability in payments and settlement systems. Users and others commonly are interested in understanding how these systems function in order to manage their risks.

In the past, different disclosure practices and requirements for payments and settlement systems resulted in varying levels of information being disseminated to users of the systems and other interested persons. Users and persons outside the user community (such as prospective users or other public authorities) found it difficult to obtain sufficient information to understand and assess a particular system's approach to risk management against internationally accepted principles and minimum standards. Broadening the availability of information concerning a system's risk management controls, governance, and legal framework, for example, could assist those interested in a system in evaluating and managing their risk exposures.

It is the Federal Reserve's opinion that operators of systemically important systems are well-positioned to assess and demonstrate the extent to which they have implemented the principles or minimum standards of the PSR Policy. Therefore, in furtherance of policy objectives, it is expected that systemically important systems subject to Federal Reserve authority complete comprehensive, objective self-assessments against the applicable principles or minimum standards in the PSR Policy and disclose publicly the results of these efforts. Adopting this self-assessment framework, however, does not preclude the Federal Reserve from independently assessing compliance of systemically important systems with relevant rules, regulations, and Federal Reserve policies.

The Federal Reserve expects systemically important systems subject to its authority to complete self-assessments based on the following guidelines.

### **Self-Assessment Review, Approval, and Disclosure**

First, systemically important systems are expected to document the basis for their self-assessment and support any conclusions regarding the extent to which they meet a particular principle or minimum standard.<sup>7</sup> The Federal Reserve notes that the CPSS and CPSS-IOSCO have developed implementation measures and assessment methodologies that can assist system operators in structuring their self-assessments.<sup>8</sup> Accordingly,

---

<sup>7</sup> System operators should use one of the following assessment categories to describe the extent to which the system meets a particular principle or minimum standard: observed, broadly observed, partly observed, or non-observed. The assessment should contain information robust enough to enable users and other interested persons to independently assess the risks associated with the system. The Federal Reserve, however, does not expect payments and settlement systems to disclose publicly sensitive information that would expose system vulnerabilities or otherwise put the system at risk (e.g., specific business continuity plans).

<sup>8</sup> The World Bank and International Monetary Fund have published a handbook of guidance for completing assessments against various international standards, including the Core Principles. See <http://www.imf.org/external/pubs/ft/fsa/eng/index.htm>. In November 2002, CPSS-IOSCO published an Assessment Methodology for the Recommendations for SSS available at <http://www.bis.org/publ/cpss51.htm>. In November 2004, CPSS-IOSCO published the CCP Recommendations and an Assessment Methodology available at

payment system operators are encouraged to consult Section 7 of the Core Principles for guidance when developing their self-assessments and in measuring the extent to which the system meets each principle. Likewise system operators for securities settlement systems and central counterparties are encouraged to consult the assessment methodologies for the relevant minimum standards for further guidance on each minimum standard and are encouraged to respond to the key questions included therein.<sup>9</sup>

Second, to further ensure system accountability for accuracy and completeness, the system's senior management and board of directors are expected to review and approve self-assessments upon completion. Third, to achieve broad disclosure, the system is expected to make its self-assessments readily available to the public, such as by posting the self-assessment on the system's public website. Finally, in order for self-assessments to reflect correctly the system's current rules, procedures, and operations, a systemically important system is expected to update statements in the self-assessment following material changes to the system or its environment. At a minimum, a systemically important system should review its self-assessment biennially to ensure continued accuracy.

### **Time Schedule for Information Collection**

A systemically important system should complete and publish its initial self-assessment by December 31, 2007. Thereafter, review and update the self-assessment biennially or as otherwise provided in the PSR Policy. The assessment must also be reviewed and approved by the system's senior management and board of directors. Upon approval, the self-assessment should be published on the system's public website.

### **Sensitive Questions**

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

### **Consultation Outside the Agency**

On June 28, 2006, the Federal Reserve published a notice in the *Federal Register* (71 FR 36800) requesting public comment for sixty days on implementing the Reporting and Disclosure Requirements Associated with the Policy on Payments System Risk. The comment period for this notice expired on September 22, 2006. Four comment letters were received. On January 19, 2007, the Federal Reserve published a final notice in the *Federal Register* (72 FR 2518)

### **Legal Status**

The Board's Legal Division has determined that the mandatory FR 4102 is authorized by the Federal Reserve Act [12 U.S.C. 248(i) & (j), 342, 248(o), 360, and

---

<http://www.bis.org/publ/cpss64.htm>.

<sup>9</sup> The assessment methodologies for the CPSS-IOSCO Recommendations include key questions to assist an assessor in determining to what extent a system meets a particular minimum standard.

464]. Also, in order to carry out the purposes of the Expedited Funds Availability Act, Pub L. No. 100-86, 101 Stat. 635 (1985) (codified as amended at 12 U.S.C. 4001-4010), the Board is given the authority to “regulate any aspect of the payment system.” 12 U.S.C. 4008(c)(1). Because the self-assessments are to be publicly disclosed and because the Board will not collect any information pursuant to this information collection beyond what is made publicly available, no confidentiality issue arises with regard to the FR 4102.

### Estimate of Respondent Burden

The estimated burden for the one-time initial assessment is 310 hours per system (ranging from 200 to 400 hours). The burden includes: 215 hours for staff to review the requirements and complete the self-assessment; 30 hours for senior management to review and assess that each principle was fully addressed; 50 hours for the board of directors to review and approve the self-assessment; and 15 hours for type-setting and technical editing of the document and preparing the website. Currently there are three private-sector systems that are systemically important and subject to the Board’s authority; therefore, the total burden for systems under the Federal Reserve’s authority is estimated to be 930 hours to complete the initial self-assessments.

Following the initial assessment, the Federal Reserve estimates that the burden will decrease for a system to conduct a biennial review and report and disclose updates to its self-assessment. The estimated burden for the biennial reviews and updates associated with this policy to be 70 hours per system (ranging from 50-100 hours). The burden includes: 25 hours for staff to review the self-assessment and update relevant sections; 15 hours for senior management to review the self-assessment; 25 hours for the board of directors to review and approve the self-assessment; and 5 hours for technical editing and website activities. The estimated burden for the biennial review and report is estimated to be 210 hours (an average of 105 hours per system, per year). The total annual burden for this information collection is estimated to be 1,140 hours; this represents less than 1 percent of the total Federal Reserve System burden.

	<i>Number of respondents</i>	<i>Estimated annual frequency</i>	<i>Estimated response time</i>	<i>Estimated annual burden hours</i>
Initial self-assessment	3	1	310 hours	930
Biennial review and report	3	1	70 hours	210
<i>Total</i>				1,140

The total cost to the public is estimated to be \$70,281 for the requirements associated with the PSR Policy.<sup>10</sup>

<sup>10</sup> Total cost to the public was estimated using the following formula. Percent of staff time, multiplied by annual burden hours, multiplied by hourly rate: 30% - Clerical @ \$25, 45% - Managerial or Technical @ \$55, 15% - Senior Management @ \$100, and 10% - Legal Counsel @ \$144. Hourly rate estimates for each occupational group are averages using data from the Bureau of Labor and Statistics, *Occupational*

## **Estimate of Cost to the Federal Reserve System**

Since the Federal Reserve does not collect any information, the cost to the Federal Reserve System is negligible.