The Lamfalussy conditions

The Lamfalussy Report published by BIS in 1990 marked a turning point in the netting system debate, by stating minimum conditions that such systems need to fulfil in order to describe their risk level as satisfactorily low. The Lamfalussy conditions are now generally acknowledged as a minimum standard that payment systems need to meet. The Lamfalussy conditions are as follows:

I. Netting schemes should have a well-founded legal basis under all relevant jurisdictions.

II. Netting scheme participants should have a clear understanding of the impact of the particular scheme on each of the financial risks affected by the netting process.

III. Multilateral netting systems should have clearly-defined procedures for the management of credit risks and liquidity risks which specify the respective responsibilities of the netting provider and the participants. These procedures should also ensure that all parties have both the incentives and the capabilities to manage and contain each of the risks they bear and that limits are placed on the maximum level of credit exposure that can be produced by each participant.

IV. Multilateral netting systems should, at a minimum, be capable of ensuring the timely completion of daily settlements in the event of an inability to settle by the participant with the largest single net-debit position.

V. Multilateral netting systems should have objective and publicly-disclosed criteria for admission which permit fair and open access.

VI. All netting schemes should ensure the operational reliability of technical systems and the availability of back-up facilities capable of completing daily processing requirements.

The Lamfalussy Report considered it normal for the respective central bank to monitor and/or oversee each country's netting system, on account of its importance in the economy and the central bank's role in payment intermediation, both as a participant in settlements and on general security grounds.