

## BIS Principles

The latest move in payment system arrangements is a BIS report published at the end of 1999. Named after John Trundle, chairman of the BIS working group, it addresses the principles that should apply in payment systems. These principles extend the scope of the Lamfalussy conditions, which only cover netting systems. The Trundle conditions cover all payment systems and can be expected to achieve the same status as the Lamfalussy conditions in the near future. The Trundle conditions are as follows:

- I. The system should have a well-founded legal basis under all relevant jurisdictions.*
- II. The system's rules and procedures should enable participants to have a clear understanding of the system's impact on each of the financial risks they incur through participation in it.*
- III. The system should have clearly defined procedures for the management of credit risks and liquidity risks, which specify the respective responsibilities of the system operator and the participants and which provide appropriate incentives to manage and contain those risks.*
- IV.\* The system should provide prompt final settlement on the day of value, preferably during the day and at a minimum at the end of the day.*
- V.\* A system in which multilateral netting takes place 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 settlement obligation.*
- VI. Assets used for settlement should preferably be a claim on the central bank; where other assets are used, they should carry little or no credit risk.*

*VII. The system should ensure a high degree of security and operational reliability and should have contingency arrangements for timely completion of daily processing.*

*VIII. The system should provide a means of making payments which is practical for its users and efficient for the economy.*

*IX. The system should have objective and publicly disclosed criteria for participation, which permit fair and open access.*

*X. The system's governance arrangements should be effective, accountable and transparent.*

\* Systems should seek to exceed the minima included in these two principles.

### *Central bank areas of responsibility*

The Trundle Report states guidelines for central bank areas of responsibility in applying these principles:

- A. The central bank should define clearly its payment system objectives and should disclose publicly its role and major policies with respect to systemically important payment systems.*
- B. The central bank should ensure that the systems it operates comply with the core principles.*
- C. The central bank should oversee compliance with the core principles by systems it does not operate and it should have the ability to carry out this oversight.*
- D. The central bank, in promoting payment system safety and efficiency through the core principles, should cooperate with other central banks and with any other relevant domestic or foreign authorities.*