Principles for financial market infrastructures – Executive Summary

The *Principles for financial market infrastructures* (PFMI) are the international standards aimed at ensuring that the infrastructure supporting financial markets is robust enough to withstand financial or operational shocks. This set of principles was issued by the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) in 2012 and is considered one of the key standards for sound financial systems, along with the Basel Core Principles and the Insurance Core Principles, that the international community considers essential to strengthening and preserving financial stability.

The principles apply to all systemically important financial market infrastructures (FMIs), such as:

- payment systems (PS) –sets of instruments, procedures and rules for the transfer of funds between or among participants that include the participants and the entities operating the systems
- central securities depositories (CSDs) – providers of securities accounts, central safekeeping services and asset services that may include the administration of corporate actions and redemptions
- securities settlements systems (SSS) – systems that enable the transfer and settlement of securities by book entry according to a set of predetermined multilateral rules
- central counterparties (CCPs) – parties that interpose themselves between counterparties to contracts traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer and thereby ensuring the performance of open contracts
- trade repositories (TRs) – entities that maintain centralised electronic records of transaction data

The 24 principles in the PFMI are grouped into nine themes. Most of the principles are applicable to all types of FMI. However, as shown in the table, some principles are only relevant to specific types of FMI.

Themes	Principles (applicability)	Short description
General organisation	Principle 1: Legal basis (all)	FMIs should have a well founded, clear, transparent and enforceable legal basis for each material aspect of their activities.
	Principle 2: Governance (all)	FMIs should have governance arrangements that are clear and transparent, promote safety and efficiency and support the stability of the broader financial system.
	Principle 3: Framework for the comprehensive management of risks (all)	FMIs should have a sound framework for comprehensively managing legal, credit, liquidity, operational and other risks.
Credit and liquidity risk management	Principle 4: Credit risk (PS, SSS and CCPs)	FMIs should effectively measure, monitor and manage their credit exposures. FMIs should maintain sufficient financial resources to cover their credit exposure to each participant fully. CCPs should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios.
	Principle 5: Collateral (PS, SSS and CCPs)	FMIs that require collateral to manage their or their participants' credit exposures should accept collateral with low credit, liquidity

		and market risks, as well as set appropriately conservative haircuts and concentration limits.
	Principle 6: Margin (CCPs)	CCPs should cover their credit exposures to their participants for all products through an effective margin system that is risk-based and regularly reviewed.
	Principle 7: Liquidity risk (PS, SSS and CCPs)	FMIs should effectively measure, monitor and manage their liquidity risk. FMIs should maintain sufficient liquid resources in all relevant currencies to effect same-day, and where appropriate, intra-day and multi-day settlement of payment obligations under a wide range of potential stress scenarios.
Settlement	Principle 8: Settlement finality (PS, SSS and CCPs)	FMIs should provide clear and certain final settlement, at a minimum by the end of the value day and, where necessary, intraday or in real time.
	Principle 9: Money settlements (PS, SSS and CCPs)	FMIs should conduct their money settlements in central bank money where practical and available. Otherwise, they should minimise and strictly control the credit and liquidity risk arising from the use of commercial bank money.
	Principle 10: Physical deliveries (CSDs, SSS and CCPs)	FMIs should clearly state their obligations with respect to the delivery of physical instruments or commodities and should identify, monitor and manage the risks associated with such physical deliveries.
Central securities depositories and exchange-of-value settlement systems	Principle 11: Central securities depositories (CSDs)	CSDs should have appropriate rules and procedures to help ensure the integrity of securities issues and minimise and manage the risks associated with the safekeeping and transfer of securities.
	Principle 12: Exchange-of-value settlement systems (PS, SSS and CCPs)	FMIs that settle transactions that involve two linked obligations should eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other.
Default management	Principle 13: Participant-default rules and procedures (PS, CSDs, SSS and CCPs)	FMIs should have effective and clearly defined rules and procedures for managing a participant default that would allow them to take timely action to contain losses and liquidity pressures and continue to meet their obligations.
	Principle 14: Segregation and portability (CCPs)	CCPs should have rules and procedures that enable the segregation and portability of positions of a participant's customers and the collateral provided to CCPs with respect to those positions.
General business and operational risk management	Principle 15: General business risk (all)	FMIs should identify, monitor and manage their general business risk. FMIs should hold sufficient liquid net assets funded by equity to cover potential general business losses so that they can continue their operations and services as a going concern if those losses materialise.
	Principle 16: Custody and investment risk (PS, CSDs, SSS and CCPs)	FMIs should safeguard their own and their participants' assets and minimise the risk of loss on and delay in access to these assets.
	Principle 17: Operational risk (all)	FMIs should identify all possible sources of operational risk and mitigate them through appropriate systems, policies, procedures and controls. Their business continuity management should aim

		for timely recovery of operations even in the event of a major disruption.
Access	Principle 18: Access and participation requirements (all) Principle 19: Tiered participation requirements (all) Principle 20: FMI links (CSDs, SSS, CCPs, TRs)	FMIs should have objective, risk-based and publicly disclosed criteria for participation that permit fair and open access. FMIs should identify, monitor and manage the material risks to the FMI arising from tiered participation arrangements. FMIs that have links with one or more FMIs should identify, monitor and manage link-related risks.
Efficiency	Principle 21: Efficiency and effectiveness (all) Principle 22: Communication procedures and standards (all)	FMIs should be efficient and effective in meeting the requirements of their participants and the market they serve. FMIs should use or accommodate relevant internationally accepted communication procedures and standards to facilitate efficient payment, clearing, settlement and recording.
Transparency	Principle 23: Disclosure of rules, key procedures and market data (all) Principle 24: Disclosure of market data by trade repositories (TRs)	FMIs should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the rules, procedures, risks and costs associated with their participation in FMIs. TRs should provide timely and accurate data to relevant authorities and the public.

The PFMI also require that FMIs be subject to appropriate and effective regulation, supervision and oversight by a central bank, market regulator or other relevant authority.

In this context, central banks, market regulators and other relevant authorities should:

- have the powers and resources to carry out their responsibilities in regulating, supervising and overseeing FMIs effectively
- clearly define and disclose their regulatory, supervisory and oversight policies with respect to FMIs
- adopt the PFMI and apply them consistently
- cooperate with each other, both domestically and internationally, as appropriate, in promoting the safety and efficiency of FMIs

This Executive Summary and related tutorials are also available in FSI Connect, the online learning tool of the Bank for International Settlements.