Oversight Framework for Financial Market Infrastructures in Malaysia

Bank Negara Malaysia's Oversight Framework of Financial Market Infrastructures (FMIs)

1. Introduction

FMIs that process payments, securities, derivatives, and other financial transactions play a crucial role in maintaining financial stability. If not managed well, FMIs can pose significant risks and spread significant issues throughout the financial system. This document outlines BNM's approach in overseeing FMIs in Malaysia. It focuses on how BNM ensures that these infrastructures operate in a safe, reliable and efficient manner, and align with international standards to safeguard financial stability.

2. Oversight Objectives

BNM's oversight objective is to ensure the safety, reliability and efficiency of the FMIs. Particularly for Large Value Payment System (LVPS), and Retail Payment Systems (RPS), the focus is to contain systemic risks which may arise from disruptions in its operations and sustaining public confidence on the use of FMIs. Other oversight objectives include to ensure effective preventive and prompt remedial actions to address issues that affect consumers including fraud, and security.

BNM's risk-based oversight activities are directed towards mitigating risks and ensuring that the operations of FMIs are in accordance with relevant laws and regulations and are aligned with international standards such as Principles for Financial Market Infrastructures (PFMI)

3. Compliance with International Standards

FMIs in Malaysia are required to be in compliance with the relevant international standards published by the Committee on Payments and Market Infrastructures (CPMI), particularly, the PFMI. This requirement is outlined as part of supervisory requirements and expectations to the FMI operators, whereby the operators are required to conduct self-assessments against the relevant standards and principles with the objective of identifying and addressing any gaps and risks.

As one of the authorities responsible for overseeing Malaysian FMIs, BNM integrates the PFMI as part of its regulatory and supervisory framework. This also include collaboration with international counterparts to safeguard the stability, security and efficiency of cross border payment linkages, as elaborated above.

4. Regulatory Framework

BNM's power to supervise FMIs is established by the Central Bank of Malaysia Act (CBA) 2009 while the Financial Services Act (FSA) 2013 provides the regulatory framework for FMIs, aligning with the PFMI. A payment system that is determined as a Designated Payment System (DPS) under the FSA 2013, where the failure of such payment system could affect public confidence in the overall payment ecosystem of Malaysia or impact the monetary or financial stability of Malaysia, is considered as an FMI. In determining whether a payment system fits the stated criteria, BNM considers factors such as the volume and value of transactions processed and market share, among others.

The FSA 2013 empowers BNM to specify standards, require submission of information, conduct examinations and issue directives to ensure a safe, efficient, and reliable payment system. Additionally, due to the importance of a DPS, BNM is provided with intervention powers to remove a director, chief executive officer and senior officer, as well as, assume control over its operation, and provide financial assistance under exceptional circumstances.

The FSA 2013 also empowers BNM to issue a certificate of finality to a DPS. This certificate ensures that transactions processed through the system are legally binding and cannot be reversed, even in the event of insolvency.

The following payment systems are designated as DPS:

- Real-Time Electronic Transfer of Funds and Securities (RENTAS) is a Large Value Payment System, and it is operated on a Real-Time Gross Settlement (RTGS) basis. It enables the transfer and settlement of high-value interbank funds and scripless securities transactions, which are essential to the smooth functioning of the economy, financial system and financial markets.
- Real-Time Retail Payments Platform (RPP) is a RPS system that is available 24/7, 365 days a year, which enables instant transfer services for customers of participating financial institutions. RPP currently offers services such as DuitNow Transfer, DuitNow QR, DuitNow Request, DuitNow Online Banking/ Wallets, DuitNow AutoDebit, and DuitNow Cross-Border.
- The National Electronic Cheque Information Clearing System (eSPICK) is an image-based clearing system where the cheque image and magnetic ink character recognition (MICR) code lines are captured and transmitted electronically to facilitate clearing.

Other RPS such as Interbank Giro (IBG), FPX, MyDebit, JomPAY, and Shared ATM Network (SAN) play an important role in supporting specific market or consumer segments. While these systems may not pose systemic risk, their reliability and efficiency are still essential for the economy. These systems are subject to BNM's oversight as an approved payment system, which is proportionate to the risk profiles.

5. FMI Operated by BNM

BNM owns, operates and provides the infrastructure and technology support for RENTAS. The independence of BNM's roles as operator and overseer of RENTAS continues to be preserved through the clear segregation of roles and reporting structure within BNM, in line with international standards.

Operator – Financial Market Infrastructure Department (FMID)
RENTAS is operated by FMID, supported by Digital Technology Infrastructure (DTI) and Cyber Security Department (CSD). These departments are responsible for managing the day-to-day operations of RENTAS, including the technology infrastructure and ensuring timely monitoring, detection, and response to cyber incidents. FMID reports to the Financial Market Infrastructure Committee (FMIC), which is chaired by a BNM Deputy Governor.

Overseer – Payment Services Policy Department (PPD) and Payment Services Supervision Department (JP4)
PPD is responsible for formulating policies and standards that drive improvements in payment services. This includes setting prudential requirements, enhancing risk management, and promoting operational efficiency. PPD also leads strategic initiatives for the transformation and development of a robust and progressive payment landscape.

JP4 is responsible for carrying supervisory activities on RENTAS. RENTAS supervisory framework is largely based on the PFMI, as well as other applicable policy documents issued by BNM. JP4 reports to the Financial Stability Committee (FSC), chaired by the Governor.

BNM applies the same prudential standards and equivalent risk management requirements to RENTAS as it does to other FMIs under its oversight. This ensures consistency and transparency in the oversight approach and portrays the credibility of BNM's oversight functions. By subjecting its own operated systems to the same rigorous requirements, BNM aligns its oversight role with the international best practices and further affirms its commitment to promote the resiliency, safety and efficiency of payment system.

6. Oversight Approach

BNM is responsible for the oversight of the FMIs focusing on ensuring safety and efficiency through adherence to applicable requirements and guidelines. BNM's oversight framework is guided by 3 key principles i.e. risk-based approach, early intervention and remedial of risk, and data-driven supervision.

- **Risk-based approach** - Supervisory activities and resources are allocated based on the level of risk posed by different entities or activities. This ensures that higher-risk areas receive more attention and resources, while lower-risk areas are monitored less intensively.

- **Early intervention** - Proactive measures are taken by supervisors to address potential risks and issues related to FMIs before they escalate into more serious issues. This approach will maintain the stability and soundness of the financial system by identifying and mitigating risks at an early stage.

- **Data driven supervision** - Leveraging data and advanced analytics enhances the oversight and regulation of FMIs. This approach improves the efficiency, effectiveness, and responsiveness of supervision by utilizing the vast amounts of data generated within the financial system.

The supervisory activities on FMIs are then carried out based on the following approach or method:

- **Supervisory cycle** - an ongoing process of monitoring and evaluating FMIs. This cycle includes planning, execution, reporting, and follow-up stages.

- **Supervisory methodology** - techniques and approaches used to assess the compliance and performance of FMIs such as risk-based assessments and thematic reviews. These are performed through desk reviews and on-site examinations.

- **Risk profiling** - involves evaluating the risk levels associated with different FMIs across the payments sector. This process includes assessing factors such as financial soundness, operational resilience, and compliance with regulatory requirements.

- **Supervisory intervention** - actions taken by supervisors to address issues identified during the supervisory cycle by providing guidance and recommendations, to imposing corrective measures.

BNM's supervisory activities on FMIs are continuous and forward-looking, with greater emphasis on the early identification of emerging risk and system-wide issues that may cause a public outcry.

7. Cooperative Oversight

Cooperative oversight is an area pursued to strengthen oversight over established payment linkages either within Malaysia or across jurisdictions. The arrangements for bilateral and multilateral cooperative oversight have been instituted to continuously ensure stability of RENTAS and RPP. The approach is in line Responsibility E[1] of PFMI, which promotes collaboration among authorities to safeguard the safety and efficiency of FMIs by ensuring that risks arising from interlinkages are effectively mitigated.

Bilateral - Domestic

For RENTAS, BNM has established cooperative oversight arrangement with Securities Commission (SC) on the oversight of payment and settlement system for transfer, clearing or settlement of securities and derivatives. The thrust of the cooperative oversight is mainly on sharing of information between the authorities including supervisory approach and practices, as well as issues or risk concerns arising from the operation of FMIs.

Bilateral - International

a. BNM has established formal cooperative oversight arrangements with the Hong Kong Monetary Authority (HKMA) on the oversight of the RENTAS - USD CHATS Payment versus Payment (PvP) and Delivery versus Payment (DvP). The thrusts of the cooperative oversight are as follows:
   - Confidentiality of and reciprocity for any information exchanged between BNM and HKMA; and
   - BNM and HKMA would alert each other in advance on issues of concern and of public relations value or of media interest.

b. In addition, oversight arrangements have been ongoing with relevant central banks that Malaysia has established linkages with for cross border retail payments such as Bank of Thailand, Monetary Authority of Singapore and Bank Indonesia.

Multilateral - International

Multilaterally, BNM has initiated the establishment of cooperative oversight arrangements leveraging on the ASEAN Working Committee on Payment and Settlement System (WC-PSS) platform with the objective of fostering structured sharing of oversight matters, providing venue for capacity building, and addressing challenges in relation to the cross-border payment linkages.

[1] Requires relevant authorities to cooperate domestically and internationally to promote the safety, efficiency and stability of FMI, especially across different jurisdiction.