

Federal Reserve System

§ 234.4

defined in paragraph (d) of this section) that the Financial Stability Oversight Council has designated under section 804 of the Dodd-Frank Act (12 U.S.C. 5463).

(d) *Financial market utility* has the same meaning as the term defined in section 803(6) of the Dodd-Frank Act (12 U.S.C. 5462(6)).

(e) *Payment system* means a set of payment instructions, procedures, and rules for the transfer of funds among system participants.

(f) *Supervisory Agency* has the same meaning as the term is defined in section 803(8) of the Dodd-Frank Act (12 U.S.C. 5462(8)).

§ 234.3 Standards for payment systems.

(a) A designated financial market utility that is designated on the basis of its role as the operator of a payment system must implement rules, procedures, or operations designed to ensure that it meets or exceeds the following risk-management standards with respect to the payment, clearing, and settlement activities of that payment system:

(1) The payment system has a well-founded legal basis under all relevant jurisdictions.

(2) The payment system's rules and procedures enable participants to have a clear understanding of the payment system's impact on each of the financial risks they incur through participation in it.

(3) The payment system has clearly defined procedures for the management of credit risks and liquidity risks, which specify the respective responsibilities of the payment system operator and the participants and which provide appropriate incentives to manage and contain those risks.

(4) The payment system provides prompt final settlement on the day of value, during the day and at a minimum at the end of the day.

(5) A payment system in which multilateral netting takes place is, at a minimum, 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.

(6) Assets used for settlement are a claim on the central bank or other as-

sets that carry little or no credit risk and little or no liquidity risk.

(7) The payment system ensures a high degree of security and operational reliability and has contingency arrangements for timely completion of daily processing.

(8) The payment system provides a means of making payments that is practical for its users and efficient for the economy.

(9) The payment system has objective and publicly disclosed criteria for participation, which permit fair and open access.

(10) The payment system's governance arrangements are effective, accountable, and transparent.

(b) The Board, by order, may apply heightened risk-management standards to a particular designated financial market utility in accordance with the risks presented by that designated financial market utility. The Board, by order, may waive the application of a standard or standards to a particular designated financial market utility where the risks presented by or the design of that designated financial market utility would make the application of the standard or standards inappropriate.

§ 234.4 Standards for central securities depositories and central counterparties.

(a) A designated financial market utility that is designated on the basis of its role as a central securities depository or a central counterparty must implement rules, procedures, or operations designed to ensure that it meets or exceeds the following risk-management standards with respect to the payment, clearing, and settlement activities of that central securities depository or central counterparty:

(1) The central securities depository or central counterparty has a well-founded, transparent, and enforceable legal framework for each aspect of its activities in all relevant jurisdictions.

(2) The central securities depository or central counterparty requires participants to have sufficient financial resources and robust operational capacity to meet obligations arising from participation in the central securities depository or central counterparty.