

The Bank of Russia Payment System

Disclosure Framework

**in accordance with
the “Principles for Financial Market Infrastructures:
Disclosure Framework and Assessment Methodology”**

Introduction

In April 2012 CPSS¹ and IOSCO published the document “Principles for financial market infrastructure»” (PFMIs) that contains new international standards for FMI including systematically important payment systems (SIPS).

The importance of publication of such standards for SIPS was determined by their significant role in the national payment system and the possible enormous negative effect that the failure of such systems may give on financial stability in general.

For carrying out the assessment of FMIs according to the PFMIs CPSS and IOSCO also issued in 2012 the document «Principles for Financial Market Infrastructures: Disclosure Framework and Assessment Methodology», that particularly establishes the standard form and the required content of the assessment report which should be prepared by management of FMI and which describing key information the accordance of the FMI to the PFMIs.

PFMIs requires the SIPS operator to provide relevant authorities, participants and the public with appropriate information. In particular Principle 23 “Disclosure of rules, key procedures, and market data” determines that the disclosed information should provide the participants with adequate information about the potential risks and costs regarding to their participation.

Standardized practice of payment systems information disclosure allows the market participants to evaluate the risks and benefits from their participation in such payment system and to compare different payment systems. At the same time it gives the opportunity to the relevant authority (the Bank of Russia) to carry out the monitoring of payment systems. As a result the disclosure framework may help the payment systems to operate in a safe and sound manner and to provide the financial stability.

The systemically important Bank of Russia Payment System (BRPS) disclosure framework is also prepared in accordance with The Bank of Russia Letter of 14 April, 2014 No 59-T «On compliance with recommendations of the Bank of Russia» and Annex

¹ Renamed as Committee on Payments and Market Infrastructures.

A of the CPSS-IOSCO «Principles for Financial Market Infrastructures: Disclosure Framework and Assessment Methodology».

BRPS disclosure framework is aimed at increasing the transparency of the Bank of Russia activity in the role of payment system operator what will provide the participants, relevant authorities and the public with the better understanding of BRPS operation, the possible risks in it BRPS and BRPS risk management.

I. Executive Summary

The Bank of Russia Payment System (BRPS) is one of key mechanisms in the monetary and fiscal policy implementation in the Russian Federation, which makes the BRPS systemically important, as set forth in Federal law No. 161-FZ of June 27, 2011 “On the National Payment System” (Federal law No. 161-FZ). A substantial share of funds transfers in the national payment system are processed by the BRPS, accounting for 32.1% of the total volume and 85.1 % of the total value (over the period from January 1, 2013 to March 31, 2014²).

Pursuant to the applicable legislation in the Russian Federation, the measures and procedures aimed at ensuring the BRPS safety and risk mitigation are set forth in the Bank of Russia’s regulations and executive documents.

The following typical payment system risks are inherent in the BRPS.

1. Operational risk is associated with the use of IT systems in the BRPS, as well as internal processes implemented by people, etc.
2. Liquidity risk is connected with possible insufficiency of funds in the bank accounts of BRPS participants and, consequently, failure of the Bank of Russia, as the BRPS settlement center, to execute some of payment instructions issued by the participants that may result in the liquidity shortage for the rest of the participants

² The assessment period of the BRPS operation – period that was analyzed by the Bank of Russia to conduct, in 2014, assessment of observance by the BRPS of the Bank of Russia’s recommendations adopted in accordance with the international standards, Principles for Financial Market Infrastructures.

coupled with the subsequent potential failure to execute a substantial number of payment instructions in the BRPS.

3. Credit risk is inherent to the Bank of Russia's activity when it provides intraday credit to the BRPS participants (for transferring funds in excess of the balance available on the BRPS participant account) and extending overnight credits (equivalent to the outstanding intraday credit as of the end of the BRPS business day).

4. Legal risk is associated with the potential legal uncertainty or conflict of laws arising from the Bank of Russia's regulations or other relevant documents governing the BRPS functioning.

During 2013 – 2014, as part of enhancing the legal framework for the BRPS, with due regard to the provisions of Federal law No. 161-FZ that came into effect in 2012, the Bank of Russia issued a series of regulations and other acts specifying certain aspects of the Bank of Russia's activities as the BRPS operator and payment infrastructure service provider.

II. A Summary of the major changes since the last update of the disclosure

Disclosure in accordance with Annex A of the CPSS-IOSCO "Principles for Financial Market Infrastructures: Disclosure Framework and Assessment Methodology" is made by the Bank of Russia for the first time.

III. General Background Information about the BRPS

General information about the BRPS

The number of BRPS customers as of April 1, 2014 accounted for 5.943, of which, 439 Bank of Russia's institutions, 2.569 credit institutions (their branches), 2.935 customers that are not credit institutions (Figure 1).

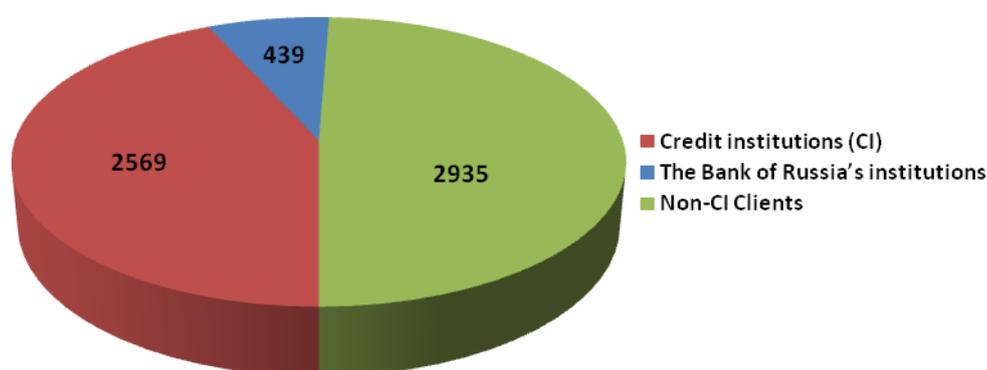


Figure 1. Number of the BRPS customers

Over the period from January 1, 2013 to March 31, 2014, the BRPS processed 1.634,4 million funds transfers with an aggregate value of 1.495,6 trillion rubles, while the year-over-year growth (January 1, 2012 – March 31, 2013) accounted for 5.7% in the volume and 3.6% in the aggregate value of funds transfers respectively (Figure 2). The ratio of the value of funds transfers processed by the BRPS to the GDP in 2013 accounted for 18.3 (in 2012, this ratio accounted for 18.5) (Figure 3). The average daily volume of funds transfers processed by the BRPS increased to 5.3 million transfers over the period from January 1, 2013 to March 31, 2014 (over the period from January 1, 2012 to March 31, 2013, the average daily volume accounted for 5.1 million transfers).

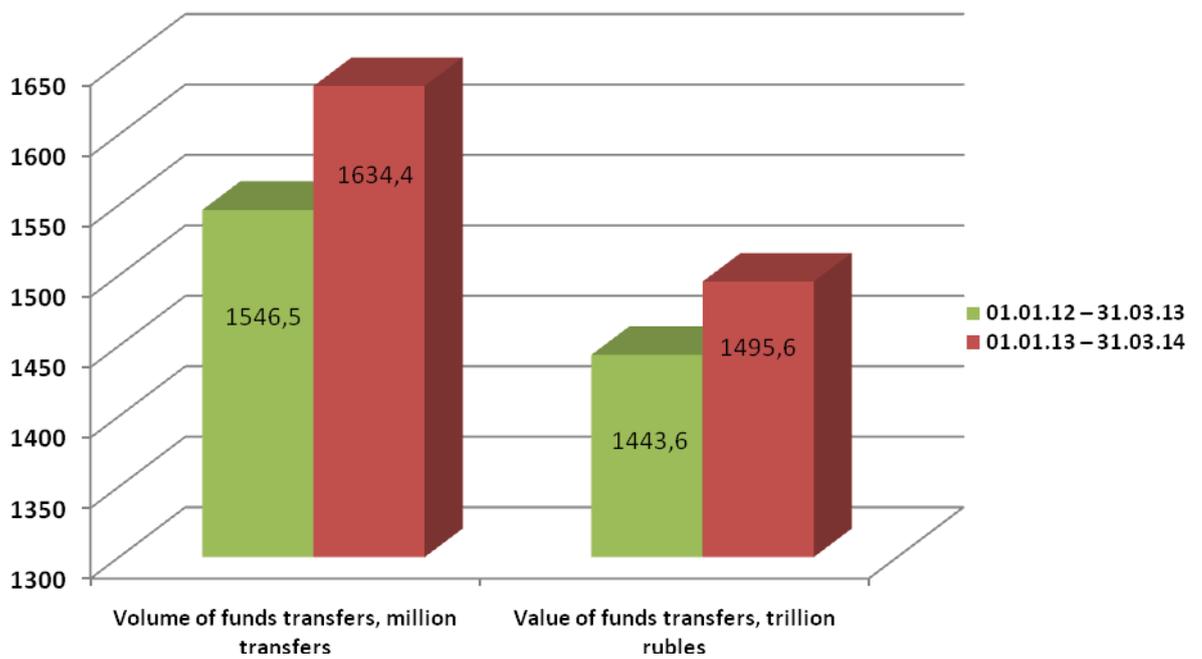


Figure 2. Funds Transfers Processed by the BRPS

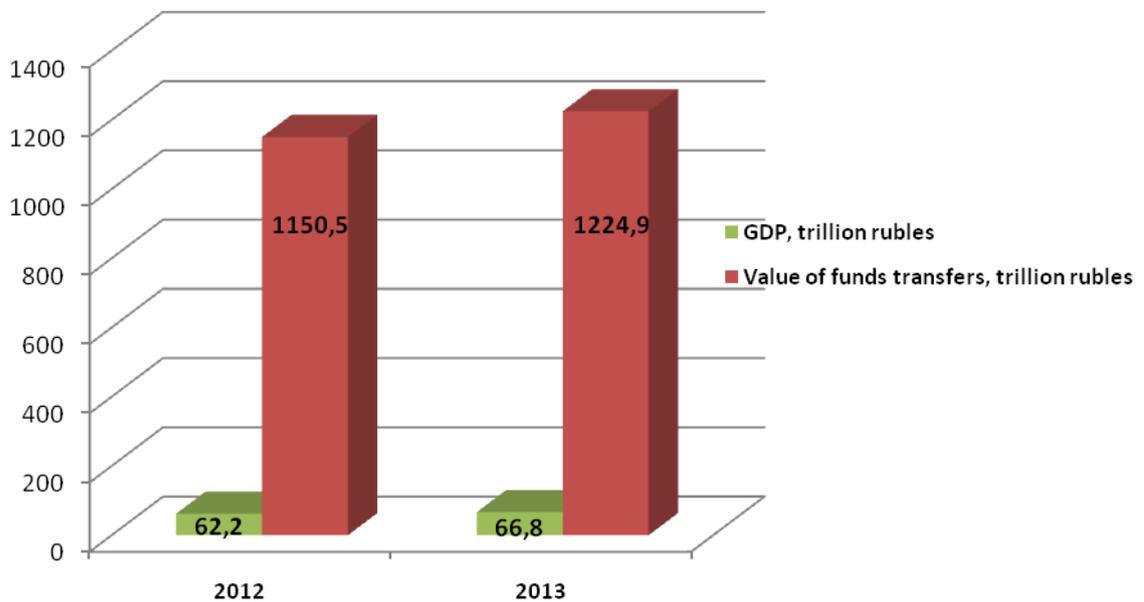


Figure 3. Value of Funds Transfers processed by the BRPS and GDP Value

Overall management of the BRPS

The overall management of the Bank of Russia's activities, including the BRPS management, is vested in Bank of Russia's Board of Directors, which is responsible, among other things, for adopting regulations and other acts governing the BRPS functioning and defining the areas for its further development.

The functions for the direct management of the BRPS are allocated between the federal and regional levels, as well as among the Bank of Russia's structural units.

The functions of the BRPS operator are vested in the National Payment System Department (NPSD) and the General Directorate for Security and Information Protection (GDSIP).

The functions of the payment infrastructure service provider (operational, payment clearing and settlement centers) are performed by the Bank of Russia's structural units.

The Banking Electronic Speedy Payment System (BESP system) is managed at the federal level (including day-to-day management). Regional component is also managed at the federal level by means of development of regulations and the unified soft packages.

Regional components – non-urgent payment services of the system for interregional electronic payments (MER) and the system for intraregional electronic payments (VER) – are managed at the regional level by the Bank of Russia's regional structural units by virtue of the authority vested in them in accordance with the Bank of Russia's regulations and other acts.

The Bank of Russia's regional structural units also take part in BESP system management within the framework of the Bank of Russia's regulations and other acts.

The roles and responsibilities of the Bank of Russia's management with regard to the BRPS management (including day-to-day management) are established by the Bank of

Russia's executive directives, charters governing the activities of the Bank of Russia's structural units and other documents issued by the Bank of Russia.

Legal and Regulatory Framework

Legal, regulatory and other acts issued by the Bank of Russia on the National Payment System (NPS) have been published in the Bank of Russia Bulletin (*Vestnik Banka Rossii*) and made publicly available on the official website of the Bank of Russia³.

The Bank of Russia's regulations specify the provisions for ensuring the BRPS operation, including participation criteria, suspension and termination of participation, non-cash settlements forms employed, order of payment clearing and settlement procedures (including the definition of irrevocability and finality of a funds transfer), the operational timeline for the payment system, order of payment for Bank of Russia's services in BRPS, order of BRPS participant code (number) assignment, order of maintenance of execution of BRPS participants obligations on funds transfer.

The Bank of Russia's regulations disclose definitions, exclude duplication of regulation areas, define the mechanism of BRPS operation and the order of mutual relations between BRPS participants.

Oversight of the BRPS is proceeded by the Bank of Russia in accordance with Federal law No. 161-FZ, the Bank of Russia's Regulation No. 380-P of May 31, 2014 "On the National Payment System Oversight Framework", other regulations and executive documents issued by the Bank of Russia. Assessment of the BRPS compliance with the Bank of Russia's recommendations, in accordance with the Bank of Russia's established order, is implemented by a working group composed of representatives from different structural units of the Bank of Russia (including structural units that are not performing the functions of the BRPS operator).

³ http://cbr.ru/PSystem/?PrtId=regulation_p

The Structure and Functions of the BRPS

Funds transfers in the BRPS are effected through the BESP system on a real-time basis using the urgent-payment service, through the intraregional electronic payment system (VER) and interregional electronic payment system (MER) using the non-urgent payment service, and also with application of post and wire technologies.

Payment instructions are accepted for settlement and settled through the BRPS:

- on a real-time basis – payment instructions are accepted for settlement and settled between 7.00⁴ and 21.00 Moscow time;
- under the discrete regime– funds transfer instructions are processed simultaneously several times during a day (in runs) during the business day – instructions are settled in runs between 5.00 and 23.00 Moscow time;
- under the receipt regime – funds transfer instructions is processed while its receiving – between 7.00 and 21.00 Moscow time.

The following non-cash settlements forms are used in the BRPS: settlements by payment orders, settlements by collection orders, settlements by funds transfers at the payee's request (direct debits).

Funds transfers through the BRPS are effected with the funds available on the accounts opened in the Bank of Russia taking into account the intraday credit and (or) overnight credit provided to credit institutions.

Funds transfers are effected primarily according to the instructions submitted to the Bank of Russia electronically, while paper-based payment instructions may be permitted in certain cases.

The Bank of Russia's regulations determine the procedures for verifying the right to manage funds, integrity control, structural control, control of duplication, control of

⁴ The actual information according to the BRPS operational timeline acting from 29.09.2014 (Bank of Russia's Instruction No. 3323-U "On modification in the appendix 9 to Bank of Russia's Regulation No. 384-P "On the Bank of Russia Payment System" of June 29, 2012" of July 14, 2014).

payment details and verifying that sufficient funds are available in the account when accepting payment instructions for settlement.

Upon defining the payment clearing position, the instructions are executed only if there are sufficient funds available for that. In case there are no sufficient funds available for settlement, instructions are placed in the intraday queue.

Instructions that were not executed during the business day due to insufficient funds will be returned (cancelled) at the end of the given business day, except for the instructions, specified under the applicable legislation in the Russian Federation and the Bank of Russia's regulations, which are placed in the queue of instructions not executed when due.

The originators of instructions may revoke and resend the instructions. The execution of instructions shall be confirmed by the Bank of Russia in compliance with the Bank of Russia's regulations.

IV. Principle-by-principle summary narrative disclosure

Principle 1. Legal basis

A Financial Market Infrastructure (FMI) should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.

Key consideration 1. The legal basis should provide a high degree of certainty for each material aspect of an FMI's activities in all relevant jurisdictions.

The objectives of the Bank of Russia, its functions and authorities with regard to its proprietary payment system stipulate the BRPS operation as one of the key mechanisms for monetary and fiscal policy implementation in the Russian Federation. The Bank of Russia, as the BRPS owner and operator, ensures that the BRPS functions are properly performed. The provisions relevant for ensuring the implementation of the BRPS functions are set forth in the legislation of the Russian Federation, including the Bank of Russia's regulations.

The BRPS is operating under the jurisdiction of the Russian Federation. The Civil Code of the Russian Federation, Federal laws of the Russian Federation, and the Bank of Russia's regulations, issued in accordance with the Federal laws in effect and agreements concluded with the BRPS participants, constitute the legal basis for the BRPS operation.

The Federal law No. 161-FZ has established a basic regulatory framework for the design and operation of payment systems in the Russian Federation, including mandatory requirements to introduce a set of provisions in the payment system rules specifying each material aspect of its activities.

A series of the Bank of Russia's regulations constitute the most detailed component of the legal basis for the BRPS operation providing a high degree of legal certainty for each material aspect of its activities under the jurisdiction of the Russian Federation. Apart from that, the Bank of Russia has issued other documents with a view to ensuring the BRPS operation and management, namely the Bank of Russia's letters expounding the

BRPS operation, standard agreements with the BRPS participants, including bank (correspondent) account (subaccount) agreements, and electronic message exchange agreements. In addition to issuing regulations and other acts, the Bank of Russia makes the information concerning the terms and conditions for the provision of the BRPS services publicly available on the official website of the Bank of Russia.

The BRPS rules define participation criteria, criteria for the suspension and orderly exit of a participant, non-cash settlement forms employed, procedures for effecting funds transfers via the BRPS, orders of payments clearing and settlement procedures (including the definition of irrevocability and finality of a funds transfer), the operational timeline for the BRPS, order of payment for Bank of Russia's services in BRPS, order of BRPS participant code (number) assignment, order of maintenance of execution of BRPS participants obligations on funds transfer. All the material aspects of the BRPS activities are implemented under the jurisdiction of the Russian Federation.

The Bank of Russia's regulations fully and explicitly define the concepts laid down in them, eliminate duplication of the areas subject to regulation, stipulate the procedures for the BRPS operation and interaction among the BRPS participants.

Key consideration 2. An FMI should have rules, procedures and contracts that are clear, understandable and consistent with relevant laws and regulations.

The Bank of Russia, as the BRPS operator, undertakes its activities pursuant to the legislation of the Russian Federation, in accordance with the Bank of Russia's regulations, which are designed, approved and issued under the established procedures set forth by relevant Federal laws and the Bank of Russia's regulations.

The Bank of Russia's regulation stipulates the procedure for preparing and approving the drafts of regulations⁵. The Bank of Russia's drafts of regulations specifying the BRPS rules, upon approval by relevant structural units of the Bank of Russia, are forwarded to

⁵ The Bank of Russia's Regulation No. 519 of September 15, 1997 "On the Procedures for Drafting the Bank of Russia's Regulations and Putting them into Effect".

the Legal Department of the Bank of Russia, which will render its opinion concerning the compliance of the draft with the legislation the Russian Federation and legal drafting methodology and techniques. Where relevant, drafts of regulations are forwarded to the corresponding Russian ministries (departments) (on the coordination), and also in the research and other organizations, to separate representatives of a science and business communities (for expert examination).

Furthermore, the Bank of Russia conducts an anti-corruption assessment of the Bank of Russia's drafts of regulations, renders an opinion about it's findings, while the drafts of regulations are posted on the Bank of Russia's official website and at www.regulation.gov.ru, the website specifically intended for posting information about the preparation of drafts of laws and regulations by federal executive authorities and results of public consultations. The Bank of Russia's draft of regulation, confirmed, among others, Board of Directors of the by the Bank of Russia, is submitted to the Governor of the Bank of Russia for signature and (or) to the Board of Directors of the Bank of Russia for approval.

The Bank of Russia's regulations affecting the rights of legal entities and private individuals are registered in the Ministry of Justice of the Russian Federation, in accordance with the public registration procedures for regulations issued by federal executive authorities, which comprises conducting a legal review of the compliance of the Bank of Russia's regulation with the legislation of the Russian Federation.

Compliance with the rules for drafting a regulation, its promulgation under the established procedure, public registration by the Ministry of Justice of the Russian Federation ensure that the Bank of Russia's regulations are legally binding and enforceable under the jurisdiction of the Russian Federation, therefore, the activities undertaken by the Bank of Russia as the BRPS operator in accordance with the Bank of Russia's regulations will not entail legal risks.

Hence, the requirements imposed on the enactment of the Bank of Russia's regulations ensuring the BRPS operation make it possible to assert that the rules, procedures and

contracts in place within the BRPS are clear, understandable and consistent with the applicable laws in the Russian Federation.

Data supplied by the reports of Bank of Russia's regional branches and analytical subsystem of the BESP system, which provides capabilities to produce daily, monthly, quarterly, half-yearly analytical spreadsheets showing the volume and value of funds transfers not accepted by the BESP system, can be used for evaluating the BRPS procedures as clear and understandable for BRPS customers.

Key consideration 3. An FMI should be able to articulate the legal basis for its activities to relevant authorities, participants, and, where relevant, participants' customers, in a clear and understandable way.

NPS legislation sets out the requirements for the payment system rules and responsibility of the payment system operator to specify the payment system rules⁶. In the meantime, the BRPS rules are stipulated by the Bank of Russia's regulations in accordance with the Federal law No. 161-FZ⁷. Therefore, pursuant to the Federal law No. 161-FZ, the BRPS operator is vested with the right to draft the Bank of Russia's regulations providing the legal basis for its activities.

Compliance with the requirements laid down for developing and approving the Bank of Russia's drafts of regulations ensuring the BRPS operation confirms that the legal basis for the BRPS operation is clear and understandable to relevant competent authorities, the BRPS participants and the BRPS participants' customers.

Pursuant to the NPS law, the BRPS rules are set forth in the Bank of Russia's regulations and are publicly available.

The terms and conditions of standard form contracts concluded by the Bank of Russia with its customers are published in the official journal of the Bank of Russia and made publicly available (terms and conditions of the correspondent account (subaccount) agreement concluded between the Bank of Russia and a credit institution (its branch), the

⁶ Article 20 Federal law No. 161-FZ.

⁷ The Federal law No. 161-FZ, Section 9.

standard form contract for electronic data interchange when transferring funds through the BRPS).

Competent authorities, the BRPS participants, and, where relevant, customers of the BRPS participants can find the Bank of Russia's regulations stipulating the BRPS rules on the official website of the Bank of Russia, in the Bank of Russia Bulletin (*Vestnik Banka Rossii*).

Certain aspects of the BRPS operation (including aspects of interaction of participants and BRPS operator in disputable and extreme situations) are disclosed in the Bank of Russia's internal regulations, which are not subject to official publication in the Bank of Russia Bulletin (*Vestnik Banka Rossii*), in agreements concluded with the BRPS participants and in the Bank of Russia's Letters. Besides that activity concerning maintenance of BRPS smooth operation is defined in the Bank of Russia's internal documents in the form of the separate measures aimed at reduction of a level of risks in BRPS.

Lectures are provided, where relevant, to heads of credit institutions and BRPS customers; along with that, relationships with customers are established and maintained when concluding agreements mentioned above.

Key consideration 4. An FMI should have rules, procedures and contracts that are enforceable in all relevant jurisdictions. There should be a high degree of certainty that actions taken by the FMI under such rules and procedures will not be voided, reversed or subject to stays.

The BRPS is operating under the jurisdiction of the Russian Federation and performs its operations in accordance with the Bank of Russia's regulations adopted pursuant to federal laws and bylaws.

The Bank of Russia's regulations can be challenged in court in accordance with the procedures established for challenging regulations issued by the federal government authorities.

Nevertheless, in the course of the period, which was analyzed during the BRPS's assessment, there were no initiated legal proceedings related to the legal basis for the BRPS operation.

Key consideration 5. A FMI conducting business in multiple jurisdictions should identify and mitigate the risks arising from any potential conflict of laws across jurisdictions.

The BRPS is operating under the jurisdiction of the Russian Federation, which eliminates any potential conflict of laws that may arise if an FMI is conducting business in multiple jurisdictions.

Principle 2. Governance.

An FMI should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.

Key consideration 1. An FMI should have objectives that place a high priority on the safety and efficiency of the FMI and explicitly support financial stability and other relevant public interest considerations.

The BRPS is operated by The Bank of Russia. One of the main Bank of Russia's objective is to ensure stability and develop the national payment system⁸, where the BRPS plays a major role. The Bank of Russia reviews the work it does to meet its objectives in its annual report.

The BRPS plays as an important role in fostering the stability of the banking system in the Russian Federation by the Bank of Russia, supporting and further developing the financial market. In terms of the total volume and value processed by the national payment system, a substantial share of payments is effected through the BRPS.

⁸ Article 3, Federal law No. 86-FZ of July 10, 2002 "On the Central bank of the Russian Federation (Bank of Russia)".

Due to its systemic importance, the efficient and smoothly operating BRPS ensures the stability of the national payment system, and financial stability in the Russian economy. In this regard, the Bank of Russia's objective to ensure the smooth and efficient operation of the BRPS is set forth in federal laws⁹, and documents of the Bank of Russia¹⁰.

Key consideration 2. An FMI should have documented governance arrangements that provide clear and direct lines of responsibility and accountability. These arrangements should be disclosed to owners, relevant authorities, participants, and, at a more general level, the public.

The management and operation of BRPS fall under the governance structure of the Bank of Russia. The Bank of Russia has clear and transparent governance arrangements. The Bank of Russia is governed by the Governor and the Board of Directors. The responsibilities and accountability of the Bank of Russia's management, Board of Directors, National Financial Board, among other things, for the BRPS, as well as management of the BRPS day-to-day operations, are set forth in federal laws¹¹, in Bank of Russia's regulations and other acts. Corresponding documents are brought to the notice of participants and other related parties.

Information about the Bank of Russia's governance arrangements, business units, the allocation of roles and responsibilities among the Bank of Russia's management is disclosed on the official website of the Bank of Russia at (<http://www.cbr.ru/today/>).

Internal regulations and other acts of the Bank of Russia concerning the BRPS operation are also available to relevant business units of the Bank of Russia through the internal electronic document and records management system (EDRMS) of the Bank of Russia. Moreover some necessary internal documents are disclosed to participants and other stakeholders.

⁹ Article 82.2, Federal law No. 86-FZ of July 10, 2002 "On the Central bank of the Russian Federation (Bank of Russia)".

¹⁰ The Conceptual Framework for the Bank of Russia Payment System Development until 2015 (approved by the Board of Directors of the Bank of Russia on July 16, 2010); The National Payment System Development Strategy (approved by the Board of Directors of the Bank of Russia on March 15, 2013).

¹¹ Chapter 3, Federal law No. 86-FZ of July 10, 2002 "On the Central bank of the Russian Federation (Bank of Russia)".

Key consideration 3. The roles and responsibilities of an FMI’s board of directors (or equivalent) should be clearly specified, and there should be documented procedures for its functioning, including procedures to identify, address and manage member conflicts of interest. The board should review both its overall performance and the performance of its individual board members regularly.

The Bank of Russia’s governance arrangements implemented by the Board of directors and management of the Bank of Russia are laid down in general terms in federal laws¹², regulations and other acts of the Bank of Russia and are applicable to the BRPS, similarly to other issues addressed by the Bank of Russia’s Board of directors.

The Board of directors of the Bank of Russia is responsible, among other things, for the overall management of the Bank of Russia’s activities concerning the BRPS functioning, specifically by approving regulations and other acts governing the BRPS functioning and defining the areas for its further development.

Furthermore, there is the National Financial Board, a collegiate body of the Bank of Russia, in place. The Board of Directors and the National Financial Board of the Bank of Russia address the issues related to ensuring stability and developing both the national payment system and the BRPS.

A number of requirements are imposed on the Board members to avoid any potential conflicts of interest. Special committees have been established in the Bank of Russia to identify, address and manage potential conflicts of interest¹³. The Bank of Russia’s regulations and other acts governing the activities aimed at identifying and addressing conflicts of interest are reviewed, where relevant.

¹² Ibid.

¹³ The Bank of Russia’s Regulation No. 396-P of February 21, 2013 “On Commissions for Ensuring Compliance with the Standards of Professional Conduct for the Bank of Russia’s Employees and the Resolution of Conflicts of Interest”.

Key consideration 4. The Board should contain suitable members with the appropriate skills and incentives to fulfill its multiple roles. This typically requires the inclusion of non-executive board members.

Members of the Board of Directors are employed by the Bank of Russia on a full-time basis, appointed by the State Duma for a fixed term of five years, upon proposal by the Governor of the Bank of Russia and approval by the President of the Russian Federation¹⁴.

The Bank of Russia's Board of Directors comprises, among others, Deputy Governors of the Bank of Russia, and heads of the Bank of Russia's business units, who are highly educated professionals having extensive experience in banking, holding academic titles and degrees, and certificates of merit.

Key consideration 5. The roles and responsibilities of management should be clearly specified. An FMI's management should have the appropriate experience, a mix of skills and the integrity necessary to discharge their responsibilities for the operation and risk management of the FMI.

The BRPS governance functions are allocated among the Bank of Russia's business units at the federal and regional levels.

At the federal level, the BRPS operator functions are vested in the two relevant business units in the central office of the Bank of Russia, specifically the NPSD and the GDSIP, while their roles and responsibilities are specified in the respective regulations.

The BRPS management and oversight is implemented by the NPSD, while the BRPS assessment is carried out by the working group made up of representatives from various business units of the Bank of Russia, including those not performing the functions of the BRPS operator, in accordance with the procedures established in the Bank of Russia.

¹⁴ Article 15, Federal law No. 86-FZ of July 10, 2002 "On the Central bank of the Russian Federation (Bank of Russia)".

The part of the BRPS ensuring the transfer of funds within each of the regions (group of regions) in the Russian Federation comprises the regional component of the BRPS. The BRPS regional components are managed at the regional level by the Bank of Russia's regional branches by virtue of the authority vested in them in accordance with the Bank of Russia's regulations and other acts.

The roles and responsibilities of heads of business units responsible for the BRPS operation are specified in the Bank of Russia's regulations and other acts, specifically in the regulations on the Bank of Russia's business units, while the roles and responsibilities of their deputies and other authorized persons are specified by the orders (instructions) on the allocation of professional roles and responsibilities.

The Bank of Russia is pursuing the HR policy ensuring the appointment, to relevant positions, of persons who have the appropriate experience and expertise necessary to discharge the responsibilities vested in them. The Bank of Russia develops standard position descriptions (SPD), among others, for heads of business units responsible for the BRPS operation, approved by the Board of the Bank of Russia.

Key consideration 6. The Board should establish a clear, documented risk-management framework that includes the FMI's risk-tolerance policy, assigns responsibilities and accountability for risk decisions, and addresses decision-making in crises and emergencies. Governance arrangements should ensure that the risk-management and internal control functions have sufficient authority, independence, resources and access to the Board.

The Bank of Russia has established a risk management framework in the BRPS that ensures implementation of a package of measures and techniques for reducing the probability of adverse effects for the smooth functioning of the BRPS, as specified in the National Payment System Law, and aims to mitigate the risks the BRPS and/or its participants may be exposed to. According to the classification of risk management models¹⁵, the risk management model where the payment system operator (the Bank of

¹⁵ Section 2, Article 28, Federal law No. 161-FZ of June 27, 2011 "On the National Payment System Law".

Russia) is individually responsible for the BRPS risk management is applied in the Bank of Russia¹⁶.

The BRPS Risk Management Committee is a standing collegiate body, established in accordance with the Bank of Russia's internal executive documents, that establishes the assessment criteria for the risk management function, carries out the assessment and makes proposals and recommendations based on the results of the risk management assessment in the BRPS.

The Bank of Russia's risk management framework comprises the BRPS Risk Management Committee, and relevant business units of the Bank of Russia's central office performing the functions of the BRPS operator, business units of the Bank of Russia's central office which are responsible for management of corresponding risks problems as well as business units of the Bank of Russia which realize their functions as payment infrastructure service provider in compliance with Bank of Russia's regulation. The roles and responsibilities of persons in charge of risk management are specified in the regulations on the relevant Bank of Russia's business units, as well as job descriptions for relevant experts.

Along with that, the division of NPSD, responsible for the day-to-day operations and monitoring of the BRPS, plays a prominent role in the BRPS risk management framework. The NPSD roles and responsibilities include, among other things, ongoing monitoring of the BRPS operating.

Internal control is implemented in the Bank of Russia pursuant to the Bank of Russia's internal documents specifying the internal control subjects, their accountability, principal aims and objectives, and other relevant issues associated with the internal control setup in the Bank of Russia.

¹⁶ Section 1.4, the Bank of Russia's Regulation No. 384-P of June 29, 2012 "On the Bank of Russia Payment system".

Governance arrangements ensure that, by and large, the risk management and internal control functions have sufficient authority, independence, resources and access to the Bank of Russia's Board.

Key consideration 7. The Board should ensure that the FMI's design, rules, overall strategy, and major decisions reflect appropriately the legitimate interests of its direct and indirect participants and other relevant stakeholders. Major decisions should be clearly disclosed to relevant stakeholders and, where there is a broad market impact, the public.

The BRPS governance arrangements ensure fairly active participation of all stakeholders in the further enhancement of the BRPS operation. With a view to further reflecting the legitimate interests of the BRPS participants and other stakeholders, effective feedback mechanisms are in place among the relevant business units performing the functions of the BRPS operator, participants and other stakeholders in the Bank of Russia.

Therefore, within the remit of special working bodies (committees, working groups) the Bank of Russia's representatives notify the banking community and other stakeholders about the amendments made to the Bank of Russia's regulations and other documents, the decisions taken with regard to technical modifications and other changes to the BRPS.

Furthermore, the Bank of Russia actively cooperates with banking and payments associations (for instance, the non-profit partnership *National Payments Council* and the Association *National Payments Council*), which ensures that relevant up-to-date information about various aspects of the BRPS operation is disclosed to all relevant market participants.

Along with that, all innovations related to the BRPS are set forth in the Bank of Russia's regulations and other documents. Drafts of regulations are made publicly available on the official website of the Bank of Russia with a view to undertaking an anti-corruption assessment and holding public consultations with all stakeholders.

Major decisions taken by the Bank of Russia's Board, which are related to the interests of the payment system participants and other stakeholders, are disclosed in press releases and made publicly available on the Bank of Russia's website.

Furthermore, information on the BRPS is disclosed annually to participants and other stakeholders in the Bank of Russia's reports, made publicly available on the official website of the Bank of Russia, such as the *Annual report, Report on the development of the banking sector and banking supervision, A Brief Overview. The Bank of Russia Payment System*, and in the Bank of Russia's publications, for instance, *Payment and Settlement Systems*.

Principle 3. Framework for the comprehensive management of risks

An FMI should have a sound risk management framework for comprehensively managing legal, credit, liquidity, operational and other risks.

Key consideration 1. An FMI should have risk management policies, procedures and systems that enable it to identify, measure, monitor and manage the range of risks that arise in or are borne by the FMI. Risk management frameworks should be subject to periodic review.

The Bank of Russia's risk management framework comprises the BRPS Risk Management Committee, and relevant business units of the Bank of Russia's central office performing the functions of the BRPS operator, business units of the Bank of Russia's central office which are responsible for management of corresponding risks problems as well as business units of the Bank of Russia which realize their functions as payment infrastructure service provider in compliance with Bank of Russia's regulation.

The procedures for establishing communication between the Bank of Russia's business units and units ensuring the BRPS operation are specified in the Bank of Russia's internal documents (orders, instructions, coordination rules and procedures). Along with that, the Bank of Russia develops relevant regulations and guidelines for establishing communication within the risk management framework, specifically pertaining to the responsibilities of counterparties, the forms and scope of the IT services provided, the

sequence of operations for data processing, ensuring information security and disruptions in the operation of the collective data processing system.

A system of indicators showing the payment system availability is employed for carrying out an assessment of the risk level reached with regard to the potential malfunction in the smooth operation of the BRPS. An internal methodology for the BESP system oversight is employed for analyzing the risks inherent in the BESP system. The methodology includes a set of indicators used for risk assessment, as well as approaches to the analysis of these indicators.

In general in the Bank of Russia are realized the separate measures promoting reduction of negative consequences in directions, connected with typical risks of payment systems: credit risk, risk of liquidity and operational risk.

Key consideration 2: An FMI should provide incentives to participants and, where relevant, their customers to manage and contain the risks they pose to the FMI.

Information interaction between BRPS participants specified in the Bank of Russia regulations¹⁷ makes it possible to timely inform them on the occurrence of the following events related to risks in the BRPS:

- instructions cancelation and its reasons;
- instructions revocation and its reasons (if control results in the BESP is negative);
- liquidity reduction (increase) by the Bank of Russia for direct settlement participants (DSP) settlements in the BESP system and its reasons;
- limits imposed (removed) to participate in the BESP system.

Tariffs for the Bank of Russia services which are the stimulating factor for participants is officially disclosed¹⁸ to BRPS participants. Tariffs provide differentiated fee for the Bank of Russia services given at different moments of a business day, and it allows the best distribution of settlement flows and burden on automated complexes.

¹⁷ Bank of Russia Regulation No. 384-P “On the Bank of Russia Payment System” of June 29, 2012, Bank of Russia Regulation No. 303-P “On the Bank of Russia Real Time Gross Settlement System” of April 25, 2007, Bank of Russia Ordinance No. 1822-U “On the Procedure for Passing Payments and Effectuating Settlements in the Bank of Russia Real Time Gross Settlement System” of April 25, 2007.

¹⁸ Published in Bank of Russia Bulletin No. 73 (1164) of December 18, 2009, and No. 51 (1294) of September 14, 2011.

Besides that, in order to ensure information security by BRPS participants, the Bank of Russia developed and introduced the Bank of Russia standards (obligatory for the Bank of Russia units, BRPS participants, and nonobligatory for other BRPS participants)¹⁹.

Key consideration 3: An FMI should regularly review the material risks it bears from and poses to other entities (such as other FMIs, settlement banks, liquidity providers, and service providers) as a result of interdependencies and develop appropriate risk-management tools to address these risks.

This key consideration cannot be applied to the BRPS as no other entities services have been used during the considered period, and there was no interdependence from other FMIs.

Key consideration 4: An FMI should identify scenarios that may potentially prevent it from being able to provide its critical operations and services as a going concern and assess the effectiveness of a full range of options for recovery or orderly wind-down. An FMI should prepare appropriate plans for its recovery or orderly wind-down based on the results of that assessment. Where applicable, an FMI should also provide relevant authorities with the information needed for purposes of resolution planning.

This key consideration cannot be applied to the BRPS as well as to any other system whose owner and operator is the central bank.

Principle 4: Credit risk

An FMI should effectively measure, monitor, and manage its credit exposure to participants and those arising from its payment, clearing, and settlement processes. An FMI should maintain sufficient financial resources to cover its credit exposure to each

¹⁹ Approved and introduced by Bank of Russia Order No. R-705 of June 21, 2010. Bank of Russia Order No. R-399 of May 17, 2014, approved and introduced new standard STO BR ISBS-1.2-2014 and Assessment Technique for Compliance with its Requirements.

participant fully with a high degree of confidence. In addition, a CCP²⁰ that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two largest participants and their affiliates that would potentially cause the largest aggregate credit exposures to the CCP in extreme but plausible market conditions. All other CCPs should maintain, at a minimum, total financial resources sufficient to cover the default of the one participant and its affiliates that would potentially cause the largest aggregate credit exposures to the CCP in extreme but plausible market conditions.

Key consideration 1: An FMI should establish a robust framework to manage its credit exposures to its participants and the credit risks arising from its payment, clearing, and settlement processes. Credit exposure may arise from current exposures, potential future exposures, or both.

The BRPS design specified in the Bank of Russia regulations²¹ does not stipulate the use of DNS payment system in the BRPS and, therefore, makes it possible to avoid **credit** risk to its participants. Further, there have been no credit risk events registered in the BRPS arising from special aspects of payment, clearing, and settlement processes.

Additionally, it should be noted that the Bank of Russia developed the collateral management system and the system to manage BRPS participant credit limits which serve to avoid credit losses incurred by the Bank of Russia on credits provided to BRPS participants.

Key consideration 2: An FMI should identify sources of credit risk, routinely measure and monitor credit exposures, and use appropriate risk-management tools to control these risks.

²⁰ Central counterparty

²¹ Bank of Russia Regulation No. 384-P “On the Bank of Russia Payment System” of June 29, 2012, Bank of Russia Regulation No. 303-P “On the Bank of Russia Real Time Gross Settlement System” of April 25, 2007, Bank of Russia Ordinance No. 1822-U “On the Procedure for Passing Payments and Effectuating Settlements in the Bank of Russia Real Time Gross Settlement System” of April 25, 2007.

In BRPS there is the possibility to provide banks, BRPS participants with intraday and overnight credits²². Exposure²³ by the Bank of Russia to credit risk from extending intraday/overnight credits arises from current exposure, potential future exposure, or both. The Bank of Russia conditions for extending intraday/overnight credits ensure the level of current credit exposure equal to zero for each provided intraday/overnight credit. Current exposure may arise (exceed zero) in unlikely (during the maturity of an intraday or overnight credit, during an operating day or next day) but possible reduction of collateral value posted by a bank, BRPS participant, to the level insufficient to cover fully the current debt. However, the amount of potential future intraday/overnight exposure depends on possible reduction of collateral value to the level insufficient to cover fully the debt and its liquidation costs during the period of time necessary to its liquidation (in the event of a borrower insolvency (bankruptcy)).

Nevertheless, the use of adjustment ratios (haircuts) individually established for each type of collateral set forth (in the Bank of Russia regulations) by the Bank of Russia should guarantee full coverage of potential future exposures.

Key consideration 3: A payment system or SSS²⁴ should cover its current and, where they exist, potential future exposures to each participant fully with a high degree of confidence using collateral and other equivalent financial resources (see Principle 5 on collateral). In the case of a DNS payment system or DNS SSS in which there is no settlement guarantee but where its participants face credit exposures arising from its payment, clearing, and settlement processes, such an FMI should maintain, at a minimum, sufficient resources to cover the exposures of the two participants and their affiliates that would create the largest aggregate credit exposure in the system.

²² Bank of Russia Regulation No. 236-P “On procedures for extending credits covered with securities pledge (blocking) to credit institutions by the Bank of Russia” of August 4, 2003, Bank of Russia Regulation No. 312-P “On procedures for extending credits covered with assets or guarantees to credit institutions by the Bank of Russia” of November 12, 2007, Bank of Russia Regulation No. 362-P “On procedures for extending credits covered with gold to credit institutions by the Bank of Russia” of November 30, 2010.

²³ ISO GUIDE 73:2009 - Risk management - Vocabulary

²⁴ Securities settlement system

The Bank of Russia provides banks, BRPS participants, with additional liquidity when it extends a secured intraday credit while settling payments from BRPS participant main account which exceed the main account balance, and when it extends a secured overnight credit to a bank, BRPS participant, in the amount of outstanding intraday credit at the end of the day.

Key consideration 4: A CCP should cover its current and potential future exposures to each participant fully with a high degree of confidence using margin and other prefunded financial resources (see Principle 5 on collateral and Principle 6 on margin). In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would potentially cause the largest aggregate credit exposure for the CCP in extreme but plausible market conditions. All other CCPs should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would potentially cause the largest aggregate credit exposure for the CCP in extreme but plausible market conditions. In all cases, a CCP should document its supporting rationale for, and should have appropriate governance arrangements relating to, the amount of total financial resources it maintains.

Not applicable to payment systems.

Key consideration 5: A CCP should determine the amount and regularly test the sufficiency of its total financial resources available in the event of a default or multiple defaults in extreme but plausible market conditions through rigorous stress testing. A CCP should have clear procedures to report the results of its stress tests to appropriate decision makers at the CCP and to use these results to evaluate the adequacy of and adjust its total financial resources. Stress tests should be performed daily using standard and predetermined parameters and assumptions. On at least a monthly basis, a CCP should perform a comprehensive and thorough analysis of

stress testing scenarios, models, and underlying parameters and assumptions used to ensure they are appropriate for determining the CCP's required level of default protection in light of current and evolving market conditions. A CCP should perform this analysis of stress testing more frequently when the products cleared or markets served display high volatility, become less liquid, or when the size or concentration of positions held by a CCP's participants increases significantly. A full validation of a CCP's risk-management model should be performed at least annually.

Not applicable to payment systems.

Key consideration 6. In conducting stress testing, a CCP should consider the effect of a wide range of relevant stress scenarios in terms of both defaulters' positions and possible price changes in liquidation periods. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions.

Not applicable to payment systems.

Key consideration 7. An FMI should establish explicit rules and procedures that address fully any credit losses it may face as a result of any individual or combined default among its participants with respect to any of their obligations to the FMI. These rules and procedures should address how potentially uncovered credit losses would be allocated, including the repayment of any funds an FMI may borrow from liquidity providers. These rules and procedures should also indicate the FMI's process to replenish any financial resources that the FMI may employ during a stress event, so that the FMI can continue to operate in a safe and sound manner.

The Bank of Russia replenishes credit losses it may face as a result of BRPS participants default (improper fulfillment) on any of their overnight credit obligations with amounts

received from the sale of collateral posted by a borrower. The amounts received from the sale of collateral posted by a participant should fully cover credit losses associated with the provided overnight credit incurred by the Bank of Russia.

The Bank of Russia as the BRPS operator don't provide credits without collateral, also within the BRPS, or borrow funds from external liquidity providers for meeting obligation of insolvent BRPS participant.

Principle 5: Collateral

An FMI that requires collateral to manage its or its participants' credit exposure should accept collateral with low credit, liquidity, and market risks. An FMI should also set and enforce appropriately conservative haircuts and concentration limits.

Key consideration 1. An FMI should generally limit the assets it (routinely) accepts as collateral to those with low credit, liquidity, and market risks.

The composition of collateral posted to cover the Bank of Russia credits is established in the legislation of the Russia Federation²⁵ stipulating collaterals which can be acceptable to cover the Bank of Russia credits: gold and other precious metals in standard and weighted bars, foreign currency, promissory notes denominated in Russian or foreign currency and government securities. The Board of Directors approves lists of promissory notes and government securities acceptable as collateral for the Bank of Russia credits. In some cases approved by the Board of Directors some other valuables, apart from the above-mentioned, as well as sureties and bank guarantees can be eligible as collateral to secure the Bank of Russia credits.

The Bank of Russia regulations²⁶ specify requirements to the quality of collateral accepted by the Bank of Russia and also establish procedures for extending credits

²⁵ Article 47 of Federal Law No. 86-FZ "On the Central Bank of the Russian Federation (Bank of Russia)" of July 10, 2002.

²⁶ Bank of Russia Regulation No. 236-P "On procedures for extending credits covered with securities pledge (blocking) to credit institutions by the Bank of Russia" of August 4, 2003, Bank of Russia Regulation No. 312-P "On procedures for extending credits covered with assets or guarantees to credit institutions by the Bank of Russia" of November 12, 2007, Bank of Russia Regulation No. 362-P "On procedures for extending credits covered with

covered with securities pledge (blocking), assets or guarantees, and gold to credit institutions by the Bank of Russia. Specifying requirements to acceptable collateral, the Bank of Russia uses the most conservative approaches which allow to minimize accepted risks: securities accepted as collateral to cover the Bank of Russia intraday and overnight credits should comply with established requirements²⁷, i.e. they should be included into the Bank of Russia Lombard List, registered on the deposit account of the depository nominated by the Bank of Russia, have specify maturity and so on. Requirements to assets (promissory notes, rights to claim under credit agreements, bonds) and gold acceptable to cover the Bank of Russia credits are also established by the Bank of Russia²⁸.

The Bank of Russia monitors the compliance of collateral transferred by banks with established requirements on an ongoing basis, including the Bank of Russia receipt of negative information on financial position of companies, the obligations of which are accepted as collateral for credits provided by the Bank of Russia.

On taking Bank of Russia a decision to provide a credit and setting limits for intraday and overnight credits, the Bank of Russia uses procedures specified in the said regulations and other acts, including verification of compliance with collateral requirements.

Key consideration 2: An FMI should establish prudent valuation practices and develop haircuts that are regularly tested and take into account stressed market conditions.

The sufficiency of collateral is determined by the Bank of Russia to the extent that is necessary to cover both a provided credit (principal amount) and interests paid during the

gold to credit institutions by the Bank of Russia” of November 30, 2010, Order of the Bank of Russia No. OD-355 “On providing credits covered with gold to credit institutions by the Bank of Russia” of May 30, 2011.

²⁷ Section 3.7 of Bank of Russia Regulation No. 236-P “On procedures for extending credits covered with securities pledge (blocking) to credit institutions by the Bank of Russia” of August 4, 2003.

²⁸ Sections 3.4, 3.5 and 3.7 of Bank of Russia Regulation No. 312-P “On procedures for extending credits covered with assets or guarantees to credit institutions by the Bank of Russia” of November 12, 2007; section 3.1 of Bank of Russia Regulation No. 362-P “On procedures for extending credits covered with gold to credit institutions by the Bank of Russia” of November 30, 2010.

credit period. The collateral sufficiency is tested every time while establishing/reestablishing limits for intraday and overnight credit.

Pursuant to general credit agreements²⁹ concluded by the Bank of Russia with credit institutions, collateral is valued by the Bank of Russia based on its market value adjusted by an appropriate adjustment ratio which is calculated based on potential price change/fluctuation (it is based on the balance sheet value for non-marketable assets) and used to calculate the sufficiency of collateral for the Bank of Russia requested/provided credit and the value of accepted collateral. A fixed adjustment ratio is established for collateral in the form of gold³⁰.

Key consideration 3: In order to reduce the need for procyclical adjustments, an FMI should establish stable and conservative haircuts that are calibrated to include periods of stressed market conditions, to the extent practicable and prudent.

The said actions are performed pursuant to the Bank of Russia internal methodology.

Key consideration 4: An FMI should avoid concentrated holdings of certain assets where this would significantly impair the ability to liquidate such assets quickly without significant adverse price effects.

The list of assets (and requirements to them) acceptable as collateral for the Bank of Russia credits is stipulated in the Bank of Russia regulations³¹. Thus, the said assets (if conform to requirements) can be used as collateral for the Bank of Russia credits regardless the concentration of the assets already pledged to the Bank of Russia.

²⁹ Appendix No. 2 to Bank of Russia Regulation No. 236-P “On procedures for extending credits covered with securities pledge (blocking) to credit institutions by the Bank of Russia” of August 4, 2003, Appendix No. 1 to Bank of Russia Regulation No. 312-P “On procedures for extending credits covered with assets or guarantees to credit institutions by the Bank of Russia” of November 12, 2007, Appendix No. 2 to Order of the Bank of Russia No. OD-355 “On providing credits covered with gold to credit institutions by the Bank of Russia” of May 30, 2011.

³⁰ Section 2.2 of Order of the Bank of Russia No. OD-355 “n providing credits covered with gold to credit institutions by the Bank of Russia” of May 30, 2011.

³¹ Regulations and other acts of the Bank of Russia cited in the above footnotes of Principle 5.

Taking into account that only highly marketable collateral is accepted to secure the Bank of Russia credits and that adjustment ratios are used, the Bank of Russia has the ability to liquidate such assets quickly or retain the collateral in the event of a counterparty default.

Key consideration 5: An FMI that accepts cross-border collateral should mitigate the risks associated with its use and ensure that the collateral can be used in a timely manner.

In general, the extension of collateralized credits by the Bank of Russia does not imply the acceptance of cross-border collateral. The only exception is bonds of international financial institutions.

Taking into account an extremely small amount (~1%) of such bonds transferred by credit institutions to secure the Bank of Russia credits, there is no need to mitigate the risks associated with the use of such collateral.

Key consideration 6: An FMI should use a collateral management system that is well-designed and operationally flexible.

Collateral management states established³² requirements to collateral, collateral assessment and reassessment procedures, collateral sufficiency controls, intraday and overnight credit limits calculation, collateral composition changes, adjustment ratio calculation, the process of decisions making in case of unfavorable scenario.

General credit agreements concluded by the Bank of Russia with credit institutions establish rules and procedures on the replenishment of financial resources which the Bank of Russia may employ in the event of participants default.

The centralized liquidity management system ensures procedures automatization of intraday and overnight credit provision including collateral management.

³² Ibidem.

Principle 7: Liquidity risk

An FMI should effectively measure, monitor, and manage its liquidity risk. An FMI should maintain sufficient liquid resources in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the FMI in extreme but plausible market conditions.

Key consideration 1: An FMI should have a robust framework to manage its liquidity risks from its participants, settlement banks, nostro agents, custodian banks, liquidity providers, and other entities.

In the BRPS money transfers are conducted only in Russian rubles (the settlement currency). The settlement asset is funds held in the Bank of Russia's accounts. As the Bank of Russia is the bank of issue of the settlement currency, it is not exposed to the liquidity risk, and the settlement asset is not exposed to default. Furthermore, the Bank of Russia is the only liquidity provider in the BRPS. The Bank of Russia regulations do not provide for the interaction of the Bank of Russia with other FMIs, settlement banks, nostro agents, custodian banks, liquidity providers in order to provide their liquidity to the BRPS.

The Bank of Russia regulations stipulate the BRPS rules and establish procedures for the execution of instructions received from BRPS participants which ensure the execution of instructions on a gross basis. Therefore, in general, both BRPS participants and services functioning as part of the BRPS are exposed to liquidity risk in the form of default (untimely performance) of participant's instructions caused by funds insufficiency on its banking (correspondent) account in the BRPS, including the absence or untimely remittance of its counter payments received from other payment system participants. All this can lead to operations blocking in the BRPS, i.e. the forming of a so called "gridlock". Nevertheless, mechanisms to manage liquidity flows in the BRPS were developed and can be used in the BRPS, and in international practice they are treated as

instruments to reduce and (or) limit liquidity risk and ensure the BRPS smooth functioning.

Key consideration 2: An FMI should have effective operational and analytical tools to identify, measure, and monitor its settlement and funding flows on an ongoing and timely basis, including its use of intraday liquidity.

The BESP system allows a real-time monitoring of the system operations, including checking if instructions of direct settlement participants of the BESP system (DSP) are placed in the intraday queue. Both individual participants and the whole BESP System are monitored. Mechanisms to manage the intraday queue of deferred instructions (bilateral and multilateral offsets, multilateral optimization and cancellation of limits to transfer payments in respect of individual or all DSPs) were developed and can be used in the BESP system.

Revoked time-critical and non-time critical payment instructions in the intraday queue are monitored at the BRPS regional level.

Key consideration 3: A payment system or SSS, including one employing a DNS³³ mechanism, should maintain sufficient liquid resources in all relevant currencies to effect same-day settlement, and where appropriate intraday or multiday settlement, of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate payment obligation in extreme but plausible market conditions.

BRPS participants are exposed to liquidity risk (the risk of unforeseen delays in instructions execution, the risk of revocation of instructions not executed intraday) that threatens other participants (failure to receive counter payments liquidity) and the BRPS overall smooth functioning (delayed payment flows in the system, blocked operations, i.e. “gridlock” caused by shortage of liquidity to execute participants’ instructions in the

³³ Deferred net settlement

intraday queue resulted from non-delivery of their counter payments which are queued as well). In the event of such unlikely but plausible stress scenario in the BRPS, the Bank of Russia may need to take emergency measures, including measures not specified in the Bank of Russia regulations, to replenish the liquidity resources to BRPS participants in order to complete settlements on time and prevent systemic risk.

Key consideration 4: A CCP should maintain sufficient liquid resources in all relevant currencies to settle securities-related payments, make required variation margin payments, and meet other payment obligations on time with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate payment obligation to the CCP in extreme but plausible market conditions.

Not applicable to payment systems.

Key consideration 5: For the purpose of meeting its minimum liquid resource requirement, an FMI's qualifying liquid resources in each currency include cash at the central bank of issue and at creditworthy commercial banks, committed lines of credit, committed foreign exchange swaps, and committed repos, as well as highly marketable collateral held in custody and investments that are readily available and convertible into cash with prearranged and highly reliable funding arrangements, even in extreme but plausible market conditions. If an FMI has access to routine credit at the central bank of issue, the FMI may count such access as part of the minimum requirement to the extent it has collateral that is eligible for pledging to (or for conducting other appropriate forms of transactions with) the relevant central bank. All such resources should be available when needed.

External liquid resources are not used in the BRPS to settle payment obligations in stressed circumstances.

Key consideration 6: An FMI may supplement its qualifying liquid resources with other forms of liquid resources. If the FMI does so, then these liquid resources should be in the form of assets that are likely to be saleable or acceptable as collateral for lines of credit, swaps, or repos on an ad hoc basis following a default, even if this cannot be reliably prearranged or guaranteed in extreme market conditions. Even if an FMI does not have access to routine central bank credit, it should still take account of what collateral is typically accepted by the relevant central bank, as such assets may be more likely to be liquid in stressed circumstances. An FMI should not assume the availability of emergency central bank credit as a part of its liquidity plan.

External liquid resources are not used in the BRPS to complete settlements on time in stressed circumstances.

Key consideration 7: An FMI should obtain a high degree of confidence, through rigorous due diligence, that each provider of its minimum required qualifying liquid resources, whether a participant of the FMI or an external party, has sufficient information to understand and to manage its associated liquidity risks, and that it has the capacity to perform as required under its commitment. Where relevant to assessing a liquidity provider's performance reliability with respect to a particular currency, a liquidity provider's potential access to credit from the central bank of issue may be taken into account. An FMI should regularly test its procedures for accessing its liquid resources at a liquidity provider.

Additional external liquid resources are not used in the BRPS to complete settlements on time in stressed circumstances.

Key consideration 8: An FMI with access to central bank accounts, payment services, or securities services should use these services, where practical, to enhance its management of liquidity risk.

Not applicable to payment systems.

Key consideration 9: An FMI should determine the amount and regularly test the sufficiency of its liquid resources through rigorous stress testing. An FMI should have clear procedures to report the results of its stress tests to appropriate decision makers at the FMI and to use these results to evaluate the adequacy of and adjust its liquidity risk-management framework. In conducting stress testing, an FMI should consider a wide range of relevant scenarios. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions. Scenarios should also take into account the design and operation of the FMI, include all entities that might pose material liquidity risks to the FMI (such as settlement banks, nostro agents, custodian banks, liquidity providers, and linked FMIs), and where appropriate, cover a multiday period. In all cases, an FMI should document its supporting rationale for, and should have appropriate governance arrangements relating to, the amount and form of total liquid resources it maintains.

As BRPS participants are exposed to liquidity risk in the form of unforeseen delays in instructions execution or revocation of instructions not executed intraday, it seems unlikely but plausible that the Bank of Russia may need to take emergency measures, including measures not specified in the Bank of Russia regulations, to replenish the liquidity resources of BRPS participants in order to complete settlements on time and prevent systemic risk.

Key consideration 10: An FMI should establish explicit rules and procedures that enable the FMI to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations on time following any individual or combined default among its participants. These rules and procedures should address unforeseen and potentially uncovered liquidity shortfalls and should aim to avoid unwinding, revoking, or delaying the same-day settlement of payment obligations. These rules and procedures should also indicate the FMI's process to replenish any

liquidity resources it may employ during a stress event, so that it can continue to operate in a safe and sound manner.

In the BRPS instructions are executed with the funds of BRPS participants held in correspondent accounts, including the amount of provided intraday/overnight credits. Therefore, the Bank of Russia, as the BRPS operator, is not exposed to its liquidity risk, and the requirement to hold liquid resources to settle payment obligations under a range of stress scenarios is not applied to the Bank of Russia.

Principle 8: Settlement finality

An FMI should provide clear and certain final settlement, at a minimum by the end of the value date. Where necessary or preferable, an FMI should provide final settlement intraday or in real time.

Key consideration 1: An FMI's rules and procedures should clearly define the point at which settlement is final.

Final settlement within a payment system means an irrevocable and unconditional transfer of funds³⁴.

The irrevocability of a funds transfer within the BRPS is defined by Bank of Russia regulations. A funds transfer made through the BRPS becomes irrevocable after a funds sufficiency check has been passed successfully³⁵.

No funds transfer conditions are determined within the BRPS thus a funds transfer made through the BRPS is unconditional³⁶.

Within the BRPS the point at which settlement is final coincides with the point at which a corresponding funds transfer becomes irrevocable.

³⁴ Section 1 of Letter of the Bank of Russia No. 56-T "On Application of CPSS-BIS Document 'Principles for Financial Market Infrastructures' in terms of settlement finality in important payment systems" of April 4, 2014.

³⁵ Section 4.22 of Bank of Russia Regulation No. 384-P "On the Bank of Russia Payment System" of June 29, 2012.

³⁶ Ibidem.

Final settlement within a payment system also means that it is impossible to declare a funds transfer invalid and that funds transferred through such a payment system are protected against being challenged by third parties, particularly in case of a payment system participant insolvency (bankruptcy)³⁷.

Pursuant to the applicable law a funds transfer made through a payment system in which payment clearing positions are calculated on a net basis cannot be declared invalid³⁸.

The payment clearing position in the BRPS is calculated on a gross basis. Funds transfers through a payment system in which payment clearing positions are calculated on a gross basis can be declared invalid, and funds transferred can be challenged by third parties, particularly in case of a BRPS participant insolvency (bankruptcy)³⁹.

Key consideration 2: An FMI should complete final settlement no later than the end of the value date, and preferably intraday or in real time, to reduce settlement risk. An LVPS⁴⁰ or SSS should consider adopting RTGS or multiple-batch processing during the settlement day.

The irrevocability of a funds transfer and the settlement finality are achieved on the day when a corresponding transfer instruction has been accepted by the BRPS for settlement. Particularly within the BEPS system the irrevocability and the finality are achieved in real time.

Key consideration 3: An FMI should clearly define the point after which unsettled payments, transfer instructions, or other obligations may not be revoked by a participant.

³⁷ Section 1 of Letter of the Bank of Russia No. 56-T “On Application of CPSS-BIS Document ‘Principles for Financial Market Infrastructures’ in terms of settlement finality in important payment systems” of April 4, 2014.

³⁸ Article 28 Chapter 3 of Federal Law No. 40-FZ “On Insolvency (Bankruptcy) of Credit Institutions” of February 25, 1999, provides for the protection of funds transfers set forth in the first paragraph during the period of assessment. The second paragraph of Chapter 3 was added pursuant to Federal Law No. 112-FZ “On Amending the Federal Law ‘On the National Payment System’ and Certain Laws of the Russian Federation” of May 5, 2014.

³⁹ Article 61.4 Chapter III.1 of Federal Law No. 127-FZ “On Insolvency (Bankruptcy)” of October 26, 2002.

⁴⁰ Large-value payment system

A funds transfer made through the BRPS becomes irrevocable after a funds sufficiency check has been passed successfully⁴¹.

A BRPS participant cannot revoke a transfer instruction passing a funds sufficiency check.

Transfer instructions which have not passed a funds sufficiency check successfully are put in an intraday queue to repass the funds sufficiency check before the end of business day when they were submitted. Queued transfer instructions can be revoked by their senders before another sufficiency check begins⁴².

Principle 9: Money settlements

An FMI should conduct its money settlements in central bank money where practical and available. If central bank money is not used, an FMI should minimize and strictly control the credit and liquidity risk arising from the use of commercial bank money.

Key consideration 1: An FMI should conduct its money settlements in central bank money, where practical and available, to avoid credit and liquidity risks.

A funds transfer within the BRPS is made in the currency of the Russian Federation through banking (correspondent) accounts of BRPS participants on the books of the Bank of Russia using BRPS participant's funds, and also intraday and overnight credits, if a participant is allowed to use such credits (money settlements within the BRPS are made in central bank money).

Key consideration 2: If central bank money is not used, an FMI should conduct its money settlements using a settlement asset with little or no credit or liquidity risk.

⁴¹ Section 4.22 of Bank of Russia Regulation No. 384-P "On the Bank of Russia Payment System" of June 29, 2012.

⁴² Section 4.18 of Bank of Russia Regulation No. 384-P "On the Bank of Russia Payment System" of June 29, 2012.

Not applicable as money settlements within the BRPS are conducted in central bank money.

Key consideration 3: If an FMI settles in commercial bank money, it should monitor, manage, and limit its credit and liquidity risks arising from the commercial settlement banks. In particular, an FMI should establish and monitor adherence to strict criteria for its settlement banks that take account of, among other things, their regulation and supervision, creditworthiness, capitalization, access to liquidity, and operational reliability. An FMI should also monitor and manage the concentration of credit and liquidity exposures to its commercial settlement banks.

Not applicable as money settlements within the BRPS are conducted in central bank money.

Key consideration 4: If an FMI conducts money settlements on its own books, it should minimize and strictly control its credit and liquidity risks.

The Bank of Russia faces credit risk from BRPS participants due to extending credits (intraday, overnight) to them for the settlement purposes. These credits are collateralized in order to manage the credit risk. The Bank of Russia accepts securities, other assets, including promissory notes and (or) bonds, and also gold. Securities and other assets, to be used as collateral must satisfy the requirements set out by Bank of Russia regulations⁴³. Moreover, when accepting securities and other assets as a collateral, the Bank of Russia assesses their value by applying adjustment ratios (the ratio value is between 0 and 1) in order to reduce risks caused by potential devaluation of securities and other assets⁴⁴.

⁴³ Bank of Russia Regulation No. 236-P “On procedures for extending credits covered with securities pledge (blocking) to credit institutions by the Bank of Russia” of August 4, 2003, Bank of Russia Regulation No. 312-P “On procedures for extending credits covered with assets or guarantees to credit institutions by the Bank of Russia” of November 12, 2007, Bank of Russia Regulation No. 362-P “On procedures for extending credits covered with gold to credit institutions by the Bank of Russia” of November 30, 2010.

⁴⁴ See Principle 4: Credit Risk and Principle 7: Liquidity Risk to have more information on credit and liquidity risk management of the Bank of Russia, as the BRPS operator.

Key consideration 5: An FMI's legal agreements with any settlement banks should state clearly when transfers on the books of individual settlement banks are expected to occur, that transfers are to be final when effected, and that funds received should be transferable as soon as possible, at a minimum by the end of the day and ideally intraday, in order to enable the FMI and its participants to manage credit and liquidity risks.

Not applicable as money settlements within the BRPS are conducted in central bank money.

Principle 12: Exchange-of-value settlement systems

If an FMI settles transactions that involve the settlement of two linked obligations (for example, securities or foreign exchange transactions), it should eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other.

This Principle is not applied to the BRPS as the BRPS is not an exchange-of-value settlement system.

Principle 13: Participant-default rules and procedures

An FMI should have effective and clearly defined rules and procedures to manage a participant default. These rules and procedures should be designed to ensure that the FMI can take timely action to contain losses and liquidity pressures and continue to meet its obligations.

Key consideration 1: An FMI should have default rules and procedures that enable the FMI to continue to meet its obligations in the event of a participant default and that address the replenishment of resources following a default.

In order to minimize negative impacts on the BRPS and its participants in the event of payment system participant default, regulations and other acts of the Bank of Russia

stipulate a set of procedures and measures which allow the BRPS to operate smoothly in the event of its participant default.

In the BRPS this principle is reviewed in the context of its participants default to provide the payment system with liquidity to conduct fund transfers as well as the failure of credit institutions - BRPS participants to repay provided credits and pay interests on them and also in the context of default of operational obligations when the participant cannot carry out of the obligations owing to occurrence of an operational problem, for example, computer systems failure.

In order to minimize risks caused by BRPS participants default to provide the payment system with liquidity to conduct fund transfers, the design of BRPS guarantees the following instruments.

Accepting its participants' instructions to be executed in the BRPS, the Bank of Russia controls the sufficiency of funds on participants' accounts⁴⁵. Instructions not executed intraday due to the funds insufficiency on BRPS participants accounts are to be revoked/deleted (excluding instructions which are placed in the queue of instructions not executed when due, including instructions to transfer funds to the Bank of Russia, and excluding collection orders of the Bank of Russia to transfer funds to obligatory reserves held with the Bank of Russia)⁴⁶.

Furthermore, the BESP system ensures mechanisms to manage liquidity both by the BRPF operator and its participants. In particular, the Bank of Russia regulations state the possibility to establish settlement priority and limits, centralized queuing of deferred electronic payment messages, procedures to manage intraday queues and procedures to manage participation, using them the operator can completely or partially limit participation in the BRPS which leads to changes in common settlement practice (transfer instructions are sent to but not received from a participant or they are neither sent nor

⁴⁵ Sections 4.4- 4.5 of Bank of Russia Regulation No. 384-P "On the Bank of Russia Payment System" of June 29, 2012.

⁴⁶ Section 4.10. of Bank of Russia Regulation No. 384-P "On the Bank of Russia Payment System" of June 29, 2012.

received)⁴⁷. Information on imposing (cancelling) limits to participate in the BESP system is recorded in the BESP system Participants Directory.

In order to minimize risks of failure of credits institutions, BRPS participants, to meet their obligations to repay provided credits and pay interest on them, the Bank of Russia has the right to make claims on collateral.

The regulations and other acts of the Bank of Russia⁴⁸ specify procedures for extending credits covered with securities pledge (blocking), assets or guarantees and gold to credit institutions by the Bank of Russia, requirements to the quality of collateral acceptable by the Bank of Russia and foreclosure procedures.

If the Bank of Russia covers losses and liquidity insufficiency caused by a participant default, the Bank of Russia which serves as a bank of issue of national currency does not incur significant losses. Therefore, there is no need to maintain financial resources in the event of a participant default, and the Bank of Russia regulations do not specify procedures to replenish financial resources (excluding collateral liquidation procedure).

In cases of an operational default (at technical problems) the participant can take advantage of paper-based technology.

Key consideration 2: An FMI should be well prepared to implement its default rules and procedures, including any appropriate discretionary procedures provided for in its rules.

The Bank of Russia is well prepared to implement its participant default rules and procedures. Participant default rules and procedures are implemented in strict

⁴⁷ Bank of Russia Regulation No. 303-P “On the Bank of Russia Real Time Gross Settlement System” of April 25, 2007.

⁴⁸ Bank of Russia Regulation No. 236-P “On procedures for extending credits covered with securities pledge (blocking) to credit institutions by the Bank of Russia” of August 4, 2003, Bank of Russia Regulation No. 312-P “On procedures for extending credits covered with assets or guarantees to credit institutions by the Bank of Russia” of November 12, 2007, Bank of Russia Regulation No. 362-P “On procedures for extending credits covered with gold to credit institutions by the Bank of Russia” of November 30, 2010, Order of the Bank of Russia No. OD-355 “On providing credits covered with gold to credit institutions by the Bank of Russia” of May 30, 2011.

compliance with regulations and other acts of the Bank of Russia, including which are set forth in key consideration 1 of this Principle.

Key consideration 3: An FMI should publicly disclose key aspects of its default rules and procedures.

Key aspects of BRPS participant default rules and procedures are specified in regulations and other acts of the Bank of Russia which are published in the Bank of Russia Bulletin and made publicly available on the official website of the Bank of Russia.

Key consideration 4: An FMI should involve its participants and other stakeholders in the testing and review of the FMI's default procedures, including any close-out procedures. Such testing and review should be conducted at least annually or following material changes to the rules and procedures to ensure that they are practical and effective.

BRPS participant default rules and procedures do not need any actions performed directly by participants themselves; therefore, the Bank of Russia does not involve them or other stakeholders in the testing and review of the Bank of Russia participant default procedures. Besides, as the Bank of Russia is the operator of the BRPS, the implementation of the BRPS recovery or orderly wind-down is not provided for, thus, relevant procedures are not developed and accordingly not tested.

Principle 15: General business risk

An FMI should identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialize. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services.

The nature of BRPS operations is determined by the Bank of Russia main objectives⁴⁹ which state clearly that pursuit of profit is not an objective of the Bank of Russia activities. The Bank of Russia combined the functions of the operator of the payment system and all payment infrastructure service providers during the assessment of the BRPS functioning.

Based on the above-mentioned, it should be stated that the BRPS is not exposed to general business risk.

Principle 16: Custody and investment risks

An FMI should safeguard its own and its participants' assets and minimize the risk of loss on and delay in access to these assets. An FMI's investments should be in instruments with minimal credit, market, and liquidity risks.

The Bank of Russia, as the BRPS operator, does not invest funds in securities and is not involved in investment activities.

Based on the above-mentioned, it should be stated that the BRPS is not exposed to custody and investment risks.

Principle 17: Operational risk

An FMI should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and fulfillment of the FMI's obligations, including in the event of a wide-scale or major disruption.

Key consideration 1: An FMI should establish a robust operational risk-management framework with appropriate systems, policies, procedures, and controls to identify, monitor, and manage operational risks.

⁴⁹ Article 3 of Federal Law No. 86-FZ "On the Central Bank of the Russian Federation (Bank of Russia)" of July 10, 2002.

The Bank of Russia's business units involved in the BRPS smooth functioning participate in the following activities, including information and physical security, operational reliability and also business continuity, including IT equipment capacity management in the BRPS. Furthermore, the Bank of Russia hires, trains and retains qualified personnel on an ongoing basis.

The Bank of Russia regulations specify operational procedures in the BRPS, including procedures and controls to monitor and also to identify failures, disruptions and deviations from the established benchmarks. Procedures were designed to improve information security in the BRPS. In order to ensure operational reliability and treatment of failure, disruptions and deviation from the established benchmarks in the BRPS, the Bank of Russia documents specify the procedures to monitor and manage disruptions (other functional failures of the Bank of Russia IT system (ITS)).

The Bank of Russia monitors the BESP system operations using parameters controlled in real time and also individual parameters defining the BRPS operational reliability, and it serves to control the payment system status and changing of BRPS operation. For proper operational procedures execution the results of the BESP system tests are reported at least quarterly to the senior management of the Bank of Russia to ensure control.

In general the arrangements implemented by structural units of Bank of Russia promote the minimization of operational risk in BRPS. Operational reliability, continuity of BRPS functioning as well as information and physical safety are supported as separate management components of level of operational risk.

Key consideration 2: An FMI's board of directors should clearly define the roles and responsibilities for addressing operational risk and should endorse the FMI's operational risk-management framework. Systems, operational policies, procedures, and controls should be reviewed, audited, and tested periodically and after significant changes.

The Coordination Board providing for reliable functioning of the Bank of Russia IT System was established in the Bank of Russia pursuant to internal regulatory and administrative documents. Activity of Coordination Board is aimed to maintain a high level of availability of information-telecommunication system services, to increase the efficiency of interaction of informatization divisions of Bank of Russia's structural units at ITS operation. Furthermore, procedures which are carried out by Bank of Russia at occurrence of contingencies and BRPS operations disruptions are determined in Bank of Russia's internal acts. Also underlying IT objects functioning in the frame of the Bank of Russia regional branch test and verify the IT System on an ongoing basis.

Key consideration 3: An FMI should have clearly defined operational reliability objectives and should have policies in place that are designed to achieve those objectives.

The BRPS smooth functioning and continuous access of its participants to funds transfer services are among the key objectives of the BRPS operational reliability. In order to ensure operational reliability, the Bank of Russia established quantitative indicators for benchmarks reflecting the BRPS status. For example, one of the operational reliability indicators is a monthly BRPS availability indicator based on the total duration of BRPS functioning envisaged by its timeline. Indicators reflecting the BESP system functioning (on federal and regional levels) and the intraday queue of deferred instructions are stipulated in the BESP system. Current indicators reflecting the BRPS status do not exceed the benchmarks and if combined with stable availability indicator for several prior periods prove the BRPS operational reliability.

Key consideration 4: An FMI should ensure that it has scalable capacity adequate to handle increasing stress volumes and to achieve its service-level objectives.

The BRPS applies procedures and controls that ensure its operational capacity. Furthermore, the Bank of Russia ensures the ongoing monitoring. The received data allow to detect the deviation of the BRPS indicators from standard indicators of the current intraday conditions with respect to BRPS individual services. Requirements are

specified to ensure information interaction between the Bank of Russia's business units if the BESP system operation is violated, and also procedures are stipulated to manage the BESP system and to ensure cooperation between the Bank of Russia's business units when the indicators reflecting the BESP system status become equal to benchmarks.

The peak operational capacity of hardware and software complex is scheduled at the stage of the system design. Peak capacities are reviewed in the course of the BRPS monitoring and later compared to used capacities. If any threats are detected in the growth of peak capacities which can affect the BRPS ability to cope with operational capacity, the BRPS operational productivity and capacity can be increased, if necessary.

Key consideration 5: An FMI should have comprehensive physical and information security policies that address all potential vulnerabilities and threats.

In the BRPS physical security is treated within the frame of general security policy of the Bank of Russia. Various organizational measures and technical appliances are used to control access to BRPS objects.

Violator models have been developed and applied in the Bank of Russia to develop security system. Physical security is regulated by special internal document of the Bank of Russia and by regulatory documents of the Ministry of Internal Affairs of the Russian Federation. Physical security system is based on national and industry-level security standards and takes into consideration international standards. Information security of the BESP system is guaranteed by the integrity of technological and organizational measures, hardware, software, technical and cryptographic information safeguards which are used pursuant to the requirements of the Russian Federation legislation and the Bank of Russia regulations to ensure information security. In the BRPS requirements to information protection for the Bank of Russia customers are specified in an agreement of exchange.

The exchange of electronic messages and (or) packages of electronic messages between the Bank of Russia and the participants of exchange is based on cryptographic information protection facilities used in the Bank of Russia.

If a direct settlement participant fails to ensure information security and meet the obligations of an agreement of exchange in the course of conducting settlements and transferring payments through the BESS system, such a participant is completely restricted to participate in the BESS system. Internal audit and internal control procedures check regularly the observance of the BRPS rules and procedures by the Bank of Russia's business units, as the payment infrastructure service provider, including its observance of requirements to information security and protection.

The information security is specified in regulations and other acts of the Bank of Russia as well as in a set of documents on standardization, including the following:

- Bank of Russia Standard STO BR ISBS-1.0-2014 'Information Security of Organizations of Banking System of the Russian Federation. General Provisions' (put into effect by Bank of Russia Order No. R-399 of May 17, 2014);
- Bank of Russia Standard STO BR ISBS-1.2-2014 'Information Security of Organizations of Banking System of the Russian Federation. Assessment Technique for Compliance of Information Security of Organizations of Banking System of the Russian Federation with Requirements of STO BR ISBS-1.1-2007 (put into effect by Bank of Russia Order No. R-399 of May 17, 2014);
- Bank of Russia Standard STO BR ISBS-1.1-2007 'Information Security of Organizations of Banking System of the Russian Federation. Information Security Audit (put into effect by Bank of Russia Order No. R-345 of April 28, 2007);
- Bank of Russia Recommendations on Standardization RS BR IBBS-2.6-2014 'Maintenance of Information Security of the Russian Banking System Organizations. Maintaining Information Security in the Life Cycle Phases of Automated Banking Systems' (put into effect by Bank of Russia Order No. R-556 of July 10, 2014);
- Bank of Russia Recommendations on Standardization RS BR IBBS-2.5-2014 'Maintenance of Information Security of the Russian Banking System Organizations. Information Security Incident Management' (put into effect by Bank of Russia Order No. R-400 of May 17, 2014);
- Bank of Russia Recommendations on Standardization RS BR IBBS-2.2-2009 'Maintenance of Information Security of the Russian Banking System Organizations.

Methodology for Assessing the Risks of Information Security Breach’ (put into effect by Bank of Russia Order No. R-1190 of November 11, 2009);

– Bank of Russia Recommendations on Standardization RS BR IBBS-2.0-2007 ‘Maintenance of Information Security of the Russian Banking System Organizations. Recommended Practices for Documentation Related to Information Security Maintenance Accordance with STO BR IBBS-1.0’ (put into effect by Bank of Russia Order No. R-348 of April 28, 2007);

– Bank of Russia Recommendations on Standardization RS BR IBBS-2.1-2007 ‘Maintenance of Information Security of the Russian Banking System Organizations. Guidelines for Self-Assessment of Conformity of Information Security of the Russian Banking System Organisations to Requirements of STO BR IBBS-1.0’ (put into effect by Bank of Russia Order No. R-347 of April 28, 2007).

Methodology for assessing the Bank of Russia critical objects is developed and approved and used for relevant calculation. The standards ensure regular reviews of information security level in credit institutions of the Russian Federation, risks assessment and measures necessary to manage the risks.

Key consideration 6. An FMI should have a business continuity plan that addresses events posing a significant risk of disrupting operations, including events that could cause a wide-scale or major disruption. The plan should incorporate the use of a secondary site and should be designed to ensure that critical information technology (IT) systems can resume operations within two hours following disruptive events. The plan should be designed to enable the FMI to complete settlement by the end of the day of the disruption, even in case of extreme circumstances. The FMI should regularly test these arrangements.

At present business continuity plans and IT services availability plans are under development in the Bank of Russia’s regional branches and data processing divisions. Information security risks threatening the business continuity of the Bank of Russia’s payment system are specified in the regulations⁵⁰ and other acts of the Bank of Russia as

⁵⁰ See key consideration 5.

well as security standards. The Bank of Russia's payment system includes a multilevel system to back up all the BRPS operations. The BRPS operations are recovered with the help of standbys located at a distance of about 100 km in case of a wide-scale or global disruption.

In case of technical or program failures crucial for the Bank of Russia payment system operations (disruptions leading to data loss), the Bank of Russia's divisions, as the payment system service provider, take measures to recover IT system (ITS). The measures may include switching to a standby data processing center, which functions independently from the main center and is located at a maximum distance away from it. The IT system of the Bank of Russia reserves its key elements which are computing facilities, communication channels, software and information resources, the failure of which can stop data processing.

The Bank of Russia has worked out procedures that enable processing of urgent transactions in extreme circumstances. The Bank of Russia's internal regulations ensure the smooth operation of the collective data processing (CDP) system. An ongoing IT services provision is based on data backup of territory-distributional computing centers of collective data processing centers (CDPC CC) as well as their mutual backup and also on online duplication of data necessary to continue data processing in case of the system overloading, CC (CDPC CC) failures or natural disasters. In addition, the Bank of Russia's documents specify the procedures for processing accounting and transaction data, conducting settlement operations and accounting in case of automated systems failure.

Key consideration 7. An FMI should identify, monitor, and manage the risks that key participants, other FMIs, and service and utility providers might pose to its operations. In addition, an FMI should identify, monitor, and manage the risks its operations might pose to other FMIs.

If a potential problem is detected (violation of the contract terms associated with the technical problems of a participant or violation of information security conditions), the operator should manage the participation of corresponding participant in BRPS.

The BRPS operation also requires services provided by telecommunication infrastructure service providers. In order to secure the required level of reliability, backup and duplication are used (at least two providers for one channel).

Principle 18: Access and participation requirements

An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.

Key consideration 1. An FMI should allow for fair and open access to its services, including by direct and, where relevant, indirect participants and other FMIs, based on reasonable risk-related participation requirements.

The BRPS provides the BRPS participants with fair and open access to its services. The list of institutions which are obliged to or can become the BRPS participants, types of participation (direct participation in the BRPS), participation forms (direct and associated participation in the BESP system), and participation requirements (operational, legal, technical and other requirements) are stipulated in the legislation of the Russian Federation and in the Bank of Russia's regulations published in the Bank of Russia Bulletin and on the official website, which guarantees that participants are granted fair and equitable access to the BRPS.

The list of the BRPS participants has been compiled in accordance with the Russian legislation⁵¹ on opening correspondent accounts with the Bank of Russia for each Russian credit institution, the Bank of Russia's responsibilities to conduct monetary policy operations and maintain budget accounts for the Russian budget system and accounts of credit institutions located in regions of the Russian Federation, where payment services

⁵¹Federal law No. 395-1 "On Banks and Banking" of December 2, 1990, and Federal Law No. 86 –FZ "On the Central Bank of the Russian Federation (Bank of Russia)" of July 10, 2002.

are not provided to. The legislation on National Payment System⁵² allows foreign banks, including national banks, to participate in the BRPS. Requirements for foreign banks participation are specified in international agreements (contracts), which are not subject to public disclosure.

Fair and open access to the BRPS services is guaranteed by equal participation type requirements to all Russian credit institutions. The BRPS allows only direct participation. The BESP system within the direct participation provides direct and associated participation forms⁵³. Associated participation in BESP system ensures access to the BESP system via the BRPS at the level of Bank of Russia's regional branches. The Russian Federal Treasury and its regional branches are associated settlement participants in the BESP system. The use of liquidity by participants, the number of services provided, and payment procedures distinguish direct and associated participation in BESP. Credit institutions also have the opportunity to change associated participation form in the BESP system and become direct settlement participants.

Participation requirements are specified in the Bank of Russia's publicly disclosed regulations⁵⁴, included in agreements signed by participants and registered in the reference data used by participants. Issues of the BRPS security, efficiency and risk mitigation are taken into consideration when setting participation requirements regulating the participants' communication and funds transfers within the BRPS.

One of the BRPS participation criteria is that a participant has a (correspondent) bank account with the Bank of Russia. The BRPS participation is ceased upon termination of the account agreement or revocation (cancelation) of a banking license from a credit institution.

No requirements are established for the BRPS participants' financial conditions as, pursuant to the applicable legislation, the Bank of Russia is obliged to open accounts for

⁵²Federal law No. 161-FZ "On the National Payment System" of June 27, 2001, and the Bank of Russia's Regulation No. 384-P "On the Bank of Russia's Payment System" of June 29, 2012.

⁵³The Bank of Russia's Regulation No. 303-P "On the Bank of Russia's Real Time Gross Settlement System" of April 25, 2007.

⁵⁴The Bank of Russia's Regulation No. 384-P "On the Bank of Russia's Payment System" of June 29, 2012.

credit institutions, the Federal Treasury, and its regional divisions as well as to provide them with access to the BRPS. Legal and technical requirements for the BRPS participants are set forth in the Bank of Russia's regulations and also, to some extent, in (correspondent) bank account agreements and electronic message exchange agreements concluded to transfer funds in the BRPS. The agreement provisions, including provisions on the termination of acceptance of electronic messages from the Bank of Russia's customer in case of violation of the agreement terms and conditions, the typical form of the message exchange agreement, including provisions regarding the centralized message exchange, are specified in the Bank of Russia's publicly disclosed regulations brought to the notice of the BRPS participants. The conditions included into account agreements and message exchange agreements are stipulated in the Bank of Russia's letters⁵⁵.

Key consideration 2. An FMI's participation requirements should be justified in terms of the safety and efficiency of the FMI and the markets it serves, be tailored to and commensurate with the FMI's specific risks, and be publicly disclosed. Subject to maintaining acceptable risk control standards, an FMI should endeavor to set requirements that have the least-restrictive impact on access that circumstances permit.

According to the legislative requirements on opening a correspondent account for each credit institution with the Bank of Russia, taking into consideration the BRPS role in making decisions on the inclusion of credit institutions into BRPS list of participants, and due to the fact that there is no indirect participation in the BRPS, the BRPS security, efficiency and risks issues related to a tiered participation structure are not applicable to the BRPS. Thus, inclusion of institutions to the BRPS participants does not depend on the risk of the payment system.

⁵⁵Bank of Russia's letters No. 7-T "On Recommended Contract Conditions for Correspondent Accounts (Subaccounts) Concluded between the Bank of Russia and Credit Institutions (its Branch)" of January 28, 2013, and No. 51-T "On the Form of Message Exchange Contracts for Funds Transfer in the Bank of Russia's Payment System, that is Concluded between the Bank of Russia and its Customer" of March 27, 2013.

BRPS security, efficiency and risk mitigation issues are addressed while setting participation requirements which stipulate participant interaction and funds transfer within the BRPS.

Access in the BRPS for credit institutions, the Russian Federal Treasury, and its regional branches to the services of BRPS regional components is provided mostly by electronic message exchange on communication channels. In some cases the access is provided through removable machine-readable media or hard copies. Participants conclude contracts on electronic message exchange when transferring funds through the BRPS. Along with that, BRPS participants are to comply with requirements for information security when accessing BRPS services through transfer instructions in electronic form.

In the BESP system, credit institutions can choose a form of participation (direct or associated participation) regardless the Bank of Russia requirements to transactions volume and characteristics. In specified cases some participation restrictions are imposed in the BESP system (during such restriction, participant's electronic payment messages to transfer funds in the BESP system are not accepted)⁵⁶. There are no other restrictions on BRPS access established by the Bank of Russia.

Participation types and forms as well as requirements to BRPS participation are publicly disclosed in the Bank of Russia regulations pursuant to legislative requirements and brought to the notice of participants in contracts conditions. When imposing restrictions on access, participants are informed about it through appropriate information in reference databases used by participants (the Russian BIC Directory and the BESP System Participant Directory).

Participants of the same type and form have to meet equal BRPS participation requirements. In the BESP system credit institutions that meet participation requirements are included in the list of associated participants, still they may change their form of participation to direct participants.

⁵⁶Sections 2.13, 2.14 and 2.15 of Bank of Russia's Regulation No. 303-P "On the Real Time Gross Settlement System of the Bank of Russia" of April 25, 2007.

Key consideration 3. An FMI should monitor compliance with its participation requirements on an ongoing basis and have clearly defined and publicly disclosed procedures for facilitating the suspension and orderly exit of a participant that breaches, or no longer meets, the participation requirements.

The Bank of Russia controls compliance with participation requirements in the BRPS, including access requirements to the BESP system services on an ongoing basis. The Bank of Russia's regulations⁵⁷ allow the suspension of a BRPS participant that no longer meets appropriate requirements, as well as restrictions to participate in the BESP system and exclusion from the BESP system. There are no procedures for temporary suspension of BRPS participation, determination and revision of BRPS participation requirements for a simplified access provided by the Bank of Russia.

Prompt and actual information about BRPS participants is brought to the notice of all participants through the Russian BIC Directory in accordance with Bank of Russia's regulations⁵⁸.

The Bank of Russia monitors on an ongoing basis BRPS and BESP system participants' compliance with BRPS participation requirements and provides timely and up-to-date information about BRPS and BESP system participants' compliance with the requirements.

Aspects of monitoring and introduction of procedures of additional control over BRPS and BESP system participants are set forth in Bank of Russia's regulations and contract provisions. They are also disclosed in procedures of BESP participation restrictions, exclusion of a BRPS or BESP system participant that breaches or no longer meets the participation requirements.

⁵⁷Bank of Russia's Regulation No.384-P "On the Bank of Russia's Payment System" of June 29, 2012, and Bank of Russia's Regulation No. 303-P "On the Bank of Russia's Real Time Gross Settlement System" of April 25, 2007.

⁵⁸Bank of Russia's Regulation No. 225-P "On the BIC Directory of the Settlement Participants Conducting Payments through the Bank of Russia's Settlement Network and the Bank of Russia's Cash Centers" of May 06, 2003.

Procedures of participation management, including a BRPS or BESP system participant exclusion, are disclosed in Bank of Russia's published regulations and brought to notice of the participants in contracts provisions, Russian BIC Directory and BESP Participant Directory.

Responsibilities of BESP system participants to disclose information about changes which can affect their compliance with participation requirements are established in the Bank of Russia's regulations and updated in bank account agreements.

As a part of participation management of direct and associated participants in the BESP system participation restrictions for direct and associated participants may be imposed or canceled, and such participants may be excluded from the BESP system participants. Bank of Russia also identified situations, when participation restrictions in the BESP system and cancellation of funds transfer may be introduced.

Exclusion of direct and associated participants from the BESP system participants is conducted by removal of appropriate information from BESP Participant Directory and Russian BIC Directory. Information about imposing or cancellation of participation restrictions as well as about participant exclusion is brought to the notice of BESP system participants.

If a credit institution has its banking license revoked, appropriate information will be included into Russian BIC Directory and published on the Bank of Russia website.

Principle 19: Tiered participation arrangements

An FMI should identify, monitor, and manage the material risks to the FMI arising from tiered participation arrangements.

There is no indirect participation in the BRPS, and that is why this principle cannot be applied to the BRPS.

Principle 21. Efficiency and effectiveness

An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves.

Key consideration 1. An FMI should be designed to meet the needs of its participants and the markets it serves, in particular, with regard to choice of a clearing and settlement arrangement; operating structure; scope of products cleared, settled, or recorded; and use of technology and procedures.

As the BRPS plays a key role in national payment system, as well as in maintaining and developing the Russian banking sector and financial markets, some more strict requirements are imposed on its design to meet the needs of a wide range of BRPS participants, to which number credit institutions are referred, as well as non-credit institutions, including the Russian Federal Treasury, and business units of the Bank of Russia.

In order to analyze and register the needs of participants of the BRPS and of the market as a whole, the Bank of Russia has developed efficient feedback mechanisms between its structural units functioning as the BRPS operator, BRPS participants and other stakeholders. Such mechanisms include:

- establishment of special bodies (committees and working groups) consisting of the Bank of Russia specialists, representatives of the financial market and other stakeholders;
- ongoing cooperation with banking and payment associations, in particular, with non-commercial partnership National Payment Council and National Payment Council association;
- the possibility of taking into consideration the opinions of participants and other stakeholders in the course of developing of Bank of Russia regulations by making appropriate documents available on the Bank of Russia website in order to conduct an anti-corruption inspection.

At present the BRPS design, including clearing and settlement mechanisms, existing procedures, technologies and other aspects, meet the needs of participants and other relevant stakeholders.

To ensure further compliance of the BRPS design with changing participants' needs and to promote its efficiency and effectiveness, the Bank of Russia develops the BRPS on an ongoing basis. This includes the following:

- the transition from the current BRPS settlement systems to a single general settlement system which provides services for urgent and non-urgent payments using all necessary payment instruments;
- an increased range of credit and debit payment instruments, including those digital;
- a developed methodology for assessment and analysis of the BRPS availability and assessment methodology for the BESP services availability;
- access is provided to the BESP system using SWIFT (the BESP-SWIFT gateway has been accepted into service) along with access to the Bank of Russia's communication network.

To promote efficiency of the BRPS functioning from the point of view of recording of BRPS and market participants' needs, the Bank of Russia is going to implement the following measures:

- to implement a single BRPS operation schedule;
- to centralize monitoring and operational BRPS management, among other things through implementation of a single informational and analytical system of the BRPS (IAS of the BRPS);
- to transform existing BRPS settlement systems into a single general settlement system which provides services for urgent and non-urgent settlements;
- to provide customers with the possibility of consolidating their liquidity in the BRPS and implement a real-time centralized liquidity support mechanism for credit institutions;
- to provide BRPS interaction with other settlement systems on financial markets using “delivery versus payment” and “payment versus payment” mechanisms;
- to ensure a throughout processing of payment information, including the development of forms for settlement documents according to international standards and a single client interface.

Key consideration 2. An FMI should have clearly defined goals and objectives that are measurable and achievable, such as in the areas of minimum service levels, risk-management expectations, and business priorities.

General goals and objectives of the BRPS development and promoting its efficiency and effectiveness are stipulated in Federal Law No. 86-FZ dated 10.07.2002 “On the Central Bank of the Russian Federation (Bank of Russia)” and in Bank of Russia’s documents, in particular in the Concept of the Bank of Russia’s Payment System Development till 2015 and in the National Payment System Development Strategy which reflect demands and needs of participants and other stakeholders related to FMIs development both on the national and international levels (including structure, clearing and settlement mechanisms, and applying of technologies and procedures).

Key consideration 3. An FMI should have established mechanisms for the regular review of its efficiency and effectiveness.

Effectiveness and efficiency analysis of the BRPS is conducted on an ongoing basis, quarterly and yearly. Indicators used in analysis procedures are defined during on-line monitoring by gathering, systemization and accumulation of information via informational and analytical systems of the Bank of Russia. The indicators are also defined according to report data provided by regional branches of the Bank of Russia. Based on the monitoring results, Bank of Russia’s authorized business units measure indicators of the BRPS operation, prepare analytical materials and reports on the BRPS functioning to the top-management of the Bank of Russia.

Based on the results of the BESP system quarterly monitoring, a report is prepared. It includes information about the payment system participants, changed parameters and reference details included into the BESP System Participants Directory, as well as information about the BESP system operation, and results of control of indicators reflecting the BESP system operation (number of electronic messages processed by the BESP system, reflection interval in regional branches accounting systems for payments

processed in the BESP system, and amount of time spent by a payment in the intraday queue of deferred payments).

Besides, accessibility is one of indicators reflecting BRPS operation. The quantitative estimation of BRPS accessibility and accessibility of BESP system services is based on the developed methodologies. The BESP system accessibility assessment is updated annually and after revision of reporting data. Values of BRPS accessibility and accessibility of BESP system services coefficients are published annually.

Principle 22: Communication procedures and standards

An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, settlement, and recording.

Key consideration 1. An FMI should use, or at a minimum accommodate, internationally accepted communication procedures and standards.

Communication between Bank of Russia and its customers is exercised mainly through message exchange using the Bank of Russia transport system. Urgent payments via the BESP system can be accomplished by direct participants (DSP) with the help of SWIFT message exchange, an international financial telecommunication system.⁵⁹

DSPs can use additional agreement conditions to manage funds transfer in the BESP system which entitles them to include conditions for SWIFT message exchange.⁶⁰

Message formats used by working with the Bank of Russia's transport system and with SWIFT are defined in publicly available documents: Album of Unified Formats for Electronic Banking Messages (UFEBM)⁶¹ (for electronic message exchange via the Bank of Russia transport system) and Communication Conditions of AS BESP Settlement

⁵⁹ Section 3.5 of Bank of Russia's Regulation No. 303-P "On the Bank of Russia's Real Time Gross Settlement System" of April 25, 2007.

⁶⁰ Section 6 of Annex 1 to Bank of Russia's letter No. 7-T "On Recommended Correspondent Account Contract Conditions (Sub-account) Concluded with the Bank of Russia (its Branch)" of January 28, 2013.

⁶¹ <http://www.cbr.ru/analytics/default.aspx?Prtid=Formats&ch=>

Participants via SWIFTNet⁶² (SWIFT format message exchange for BESP direct participants). Required documents are published on the Bank of Russia's website.

Album of UFEBM were developed to conduct BRPS funds transfers in Russian Rubles in the common format throughout the Russian Federation.

Message formats were developed on the basis of the most widely spread text markup principle (in particular, used in SWIFT). XML language was used for text markup, that's why files with XML charts are a crucial part of this document.

Particularities of SWIFT messages formats used by foreign (national) banks to access the BRPS are defined in account agreements concluded with the Bank of Russia according to their specific transactions.

If a BESP participant needs to accomplish a funds transfer in Russian rubles using SWIFTNet, the SWIFT message will be automatically transformed by the BESP-SWIFT gateway into a message format included into Album of UFEBM. Reverse transformation is also possible.

In order to provide communication between Russian credit institutions and foreign banks for cross-border funds transfer, a special payment instrument, a bank instruction, has been introduced. This instrument enables a program transformation of a UFEBM message to a SWIFT MT202 message and vice versa⁶³.

Principle 23: Disclosure of rules, key procedures, and market data

An FMI should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the FMI. All relevant rules and key procedures should be publicly disclosed.

Key consideration 1. An FMI should adopt clear and comprehensive rules and procedures that are fully disclosed to participants. Relevant rules and key procedures should also be publicly disclosed.

⁶² http://www.cbr.ru/mcirabis/SWIFTNet/pril_swift.pdf

⁶³ Section 3.9 of Bank of Russia's Regulation No. 384-P "On the Bank of Russia's Payment System" of June 29, 2012.

The BRPS has clearly defined rules and procedures that are disclosed to participants. The legislation of the Russian Federation⁶⁴ enables the Bank of Russia to issue regulations and publish them in the official Bank of Russia's Bulletin (Vestnik Banka Rossii) within specified time limits and in line with established procedures. The Bank of Russia also publishes its regulations on its official website.

The NPS legislation obliges the payment system operator to provide free of charge institutions, which intend to participate in the payment system with payment system rules for their preliminary consideration (excluding the cost of making a copy of the payment system rules⁶⁵). The Bank of Russia meets this requirement by publishing the documents in the Bank of Russia's Bulletin (Vestnik Banka Rossii). The Bank of Russia's regulations containing national security information or information subject to restricted distribution shall not be disclosed. The procedure for adoption of Bank of Russia's regulations is stipulated in the Bank of Russia's regulation.⁶⁶

Specific issues of the interaction between the BRPS operator and BRPS participants are disclosed by the Bank of Russia in a correspondent account (subaccount) agreement. Information provision procedures, responsibility for BRPS regulations violation and specific issues of smooth functioning of the BRPS are stipulated in a message exchange agreement.

Thus, the BRPS operator discloses information on the following:

- the Bank of Russia's regulations which state essential aspects of the BRPS functioning are publicly disclosed in the Bank of Russia Bulletin (Vestnik Banka Rossii) and made available on the Bank of Russia's website;
- essential conditions of a correspondent account (subaccount) agreement and conditions of a message exchange agreement are disclosed in the form of Bank of Russia's advisory letters brought by the Bank of Russia's regional branches to the notice

⁶⁴ Federal Law No. 86-FZ "On the Central Bank of the Russian Federation (Bank of Russia)" of July 10, 2002.

⁶⁵ Section 5 Article 20 of the same law.

⁶⁶ Bank of Russia's Regulation No. 519 "On the Procedures for Drafting the Bank of Russia's Regulations and Putting them into Effect" of September 15, 1997.

of BRPS's participants which regulate relations between the BRPS and its participants when conducting funds transfer in the BRPS;

– Bank of Russia's service tariffs are published in the Bank of Russia Bulletin and on the Bank of Russia's official website.

Some aspects of BRPS functioning are stipulated in the Bank of Russia's internal regulations and administrative documents.

Compliance with procedures for a regulation drafting, its publication according to the established rules and state registration by the Ministry of Justice of the Russian Federation ensure the BRPS operator and BRPS participants that the Bank of Russia's regulations are clear and transparent.

The powers and duties of each party participating in funds transfer in the BRPS via the BESP system (urgent transfer service), via intraregional electronic settlement (IES) system and cross-regional electronic settlement (CES) system (non-urgent transfer service) are determined in the Bank of Russia's regulations and contracts.

Data supplied by the analytical subsystem of the BESP system, which provides capabilities to produce daily, monthly, quarterly, half-yearly analytical spreadsheets showing the volume and value of funds transfers not accepted by the BESP system, can be used as a quantitative measure for evaluating the BRPS procedures as clear and understandable. This data can be used for analyzing situations across the entire BESP system, while the BESP system customer relationships are maintained at the regional level.

Key consideration 2. An FMI should disclose clear descriptions of the system's design and operations, as well as the FMI's and participants' rights and obligations, so that participants can assess the risks they would incur by participating in the FMI.

BRPS participants have access to the Bank of Russia's regulations which determine the majority of material aspects of the BRPS performance based on the NPS⁶⁷ legislation. The regulations disclose participation criteria, criteria for temporary suspension and termination of participation, non-cash settlements forms employed, procedures for effecting funds transfers via the BRPS, orders of payments clearing and settlements procedures (including the definition of irrevocability and finality of funds transfer), the operational timeline for the BRPS, order of payment for Bank of Russia's services in BRPS, order of BRPS participant code (number) assignment, order of maintenance of execution of BRPS participants obligations on funds transfer (see Principle 1). Thus, the structure of the BRPS and transactions processed in it are published and available for users concerned.

BRPS participants within the procedures established in the Bank of Russia's regulations⁶⁸ are informed about any amendments in business days, days off, and public holidays, about approval or amendments to the BRPS operation rules.

Key consideration 3. An FMI should provide all necessary and appropriate documentation and training to facilitate participants' understanding of the FMI's rules and procedures and the risks they face from participating in the FMI.

The Bank of Russia publishes its regulations in the Bank of Russia Bulletin (Vestnik Banka Rossii) and on its official website. Terms regulating relations between the Bank of Russia and BRPS participants in the course of funds transfer via the BRPS are included into a correspondent account (subaccount) agreement and a message exchange agreement.

Connecting new participants to the BRPS message exchange, a test message exchange is performed, and a participant receives a set of operating instructions for automated workstation and required software.

⁶⁷ Federal Law No. 161-FZ "On the National payment system" of June 27, 2011.

⁶⁸ Bank of Russia's Regulation No. 384-P "On the Bank of Russia's Payment System" of June 29, 2012, and the Bank of Russia's Instruction No. 2570-U "On the United Formats for Electronic Banking Messages Usage in Electronic Message Exchange between the Bank of Russia and Credit Institutions (Branches) and Other Bank of Russia's Customers" of January 24, 2011.

Despite the fact that BRPS participants are responsible for their insight into regulations determining the BRPS's rules and for their correct understanding of the rules and regulations, the Bank of Russia conducts explanatory work with BRPS participants, particularly while amending regulations which determine the PSBR's rules and also while connecting new participants to the BRPS. If required, the Bank of Russia publishes explanatory letters. In addition, the Bank of Russia takes measures to meet the BRPS participant requests. In case of necessity, lectures for credit institutions managers are organized in the course of meetings between banks representatives and customers of the BRPS regional component. Customer management is also conducted when account agreements are concluded.

The fact that BRPS participants have good understanding of the BRPS rules and procedures is confirmed by a rather small amount of requests for the explanation of the Bank of Russia's regulations, an insignificant number of revoked or deleted payments, and absence of legal claims against the BRPS during the system evaluation conducted by BRPS participants.

As the Bank of Russia (regional branches of the Bank of Russia in regions) is enabled to monitor the behavior of BRPS participants, it detects participants failing to comply with regulation requirements which determine the BRPS rules and conducts necessary work with them. Information on such work is included into an annual report of the Bank of Russia regional branch.

Key consideration 4. An FMI should publicly disclose its fees at the level of individual services it offers as well as its policies on any available discounts. The FMI should provide clear descriptions of priced services for comparability purposes.

According to the NPS legislation⁶⁹, the BRPS rules stipulates payment procedures for fund transfer services and payment infrastructure services which are uniform in the payment system, including discount conditions.

⁶⁹ Subsections 9 and 11 Section 1 Article 20 of Federal Law No. 161-FZ "On the National Payment System" of July 27, 2011.

Order of payment for Bank of Russia's services in BRPS is defined by Bank of Russia's regulation⁷⁰.

The BRPS's service charges are approved by the Board of Directors of the Bank of Russia and publicly disclosed in the Bank of Russia Bulletin (Vestnik Banka Rossii) and on the official Bank of Russia's website. Provisions on fee-based services in the BRPS are included into account agreements.

Services provided to BRPS participants comply with the BRPS's functioning rules. Participants are informed about changes in BRPS's functioning not later than two months before new rules or amendments enter into force by sending electronic messages and making information available in service points of the Bank of Russia participants.

Key consideration 5. An FMI should complete regularly and disclose publicly responses to the CPSS-IOSCO Disclosure framework for financial market infrastructures. An FMI also should, at a minimum, disclose basic data on transaction volumes and values. Along with that, an FMI should disclose basic data on volume and value of transactions.

It is the first time the Bank of Russia has disclosed information in accordance with Annex A to CPSS-IOSCO "Principles for financial market infrastructures: information disclosure and assessment methodology".

One of the sections of the Bank of Russia's website is dedicated to the BRPS, including its characteristics, BRPS participants entry list, volume and values of funds transfers broken down by provided services, and average monthly availability ratios. Disclosed information is published both in Russian and English.

The information on the website is maintained and updated according to internal procedures of the Bank of Russia. Depending on its nature, the information may be updated quarterly or annually.

⁷⁰ Bank of Russia's Regulation No. 419-P "On the pricing scheme for the Bank of Russia's Payment System Services" of April 17, 2014.

The BRPS data is also included into periodical issues of “Statistics on payment, clearing and settlement systems in selected countries” (a statistical application to the Red Book of the Bank of International Settlements) and into “Payment and Settlement Systems” (“Analysis and Statistics” series).