

NBP

Narodowy Bank Polski

Payment system oversight



for settlement participants by the central bank) or in commercial bank money (through cash accounts maintained by the commercial bank). An entity operating a securities settlement system may also act as a bank performing the cash settlement, as long as it is authorised to maintain cash accounts.

The settlement of transactions may take place with a simultaneous delivery of financial instruments against payment (delivery versus payment, DvP) or without payment (free of payment, FoP). This depends on whether the delivery of financial instruments is associated with a simultaneous execution of the payment for the delivered instruments through the settlement system.

In the case of a free of payment delivery, the settlement consists in the transfer of financial instruments between accounts of counterparties to the transaction. In the case of a delivery versus payment, the settlement in the scope of financial instruments is linked with the simultaneous cash settlement, i.e. debiting of the cash account of the purchaser of the financial instruments and crediting the cash account of the seller of those instruments.

The liabilities arising from the transaction may be redeemed on the day of concluding the transaction or on another day indicated as the settlement day. The settlement deadline usually arises from the standard settlement cycle adopted on a given market or defined under legal regulations. In Poland, the deadline for payment of liabilities arising from transactions concluded on the regulated market currently amounts to two days (T+2). In the case of other transactions, the settlement deadline is not standardised.

Current clearing and settlement infrastructure of financial instruments trading in Poland

The securities clearing and settlement systems in Poland may be operated by authorised entities only. Those entities include:

- NBP (the central bank) which operates a settlement system for treasury bills and money bills – SKARBNET4,
- KDPW SA (central securities depository) which operates a securities settlement system for the settlement of transactions in financial instruments concluded on the regulated market and OTC,
- KDPW_CCP SA – a clearing house of CCP type⁸ which operates two transaction settlement systems – one for the organised trading and the other for the non-organised trading,
- IRGiT SA – a clearing house and a settlement house within which the IRGiT SRF system of transaction clearing and settlement operates (this system has not started its operating activity yet).

In accordance with the Polish and European Union's legal provisions, other clearing and settlement infrastructures may also operate on the market in Poland (on condition that they are granted the relevant authorisations). They may include, for example, central securities depositories from other member states of the EU, authorised to operate, *inter alia*, securities settlement systems, and CCPs.

In Poland, the majority of transactions in financial instruments is settled in securities settlement system operated by KDPW SA. The associated cash settlement takes place in the large-value payment systems operated by NBP, i.e. in the SORBNET2 system in the case of transactions in PLN or in the TARGET2-NBP system in relation to transactions in EUR. In the case of other currencies, the cash settlement is performed in commercial bank money.

⁸ CCP (central counterparty) is a specific type of a clearing house. A CCP-type clearing house centralises the risk management process of counterparty risk and credit risk arising from transactions which have been already accepted for clearing. For that purpose it performs clearing of transactions using variety of legally defined mechanisms, allowing for systemic reduction of the risk of counterparties' inability to fulfil obligations arising from already concluded transactions.

The second securities settlement system functioning in Poland is SKARBNET4. It is a system operated by NBP, servicing transactions in treasury bills issued by the Minister of Finance and money bills issued by NBP. The cash settlement associated with those transactions is performed in SORBNET2 payment system operated by NBP.

Moreover, IRGiT SA has been granted the authorisation to operate a settlement house and a clearing house. It has created its own securities clearing and settlement system which, however, has not launched its operating activity yet.

Oversight powers of the President of NBP

The main supervision authority (including the prudential supervision authority) in relation to securities clearing and settlement systems and entities operating such systems is the Polish Financial Supervision Authority (excluding systems operated by NBP, which are not subject to supervision by the PFSA). The role of the President of NBP in this matter is auxiliary and consists in systemic assessment of the functioning of the aforementioned systems and entities in terms of efficiency, safety and compliance with the provisions of the Polish law. For this purpose, the President of NBP uses the following oversight instruments:

1. issuing (on the request of the PFSA as the competent supervision authority) opinions regarding, *inter alia*, the granting of authorisations to operate clearing houses and settlement houses, as well as the approval of the rules of KDPW, the subsidiary to which KDPW SA delegated the performance of activities related to certain tasks (currently – KDPW_CCP SA), clearing houses and settlement houses,
2. cooperation with the PFSA in granting authorisations to CCPs and central securities depositories and in an on-going oversight of those entities,

3. powers in the scope of collecting statistical data and information related to clearing and settlement performed in individual systems as well as information concerning incidents occurring in those systems (i.e. which may potentially disrupt their proper functioning),

4. instruments relying on the central bank authority (moral suasion).

On the basis of information acquired on its own account and as a result of the supervisory cooperation with the PFSA, within the scope of its oversight the President of NBP also performs own oversight analyses for the needs of an on-going monitoring of the aforementioned systems and entities.

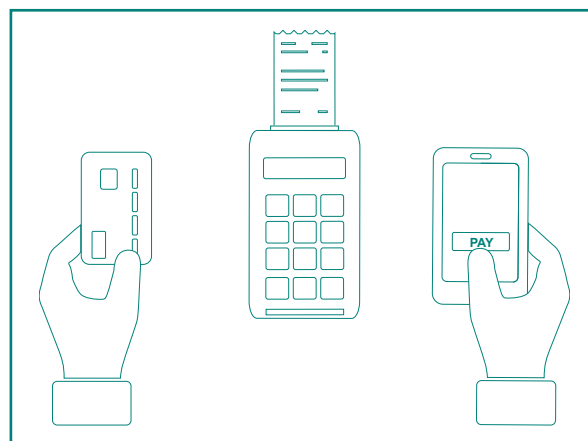
National payment institutions providing the acquiring service

Definition of the acquiring service

The **acquiring service** consists in accepting and processing payment transactions using the payer's payment instrument, with the aim of transferring the funds to the recipient⁹. In particular, this service consists in processing the authorisation and transmitting payment orders to the payment card issuer or payment systems.

The *acquiring service* is provided by the **acquirer** on behalf of the **merchant**, i.e. an entity acting as the recipient of funds under the agreement concluded between the aforementioned entities. This service may be performed using the point of sale terminals in bricks-and-mortar shops as well as online shops with a use of either internet browsers or applications.

In order to pay for goods or services, the merchant initiates a payment transaction with the payer's payment instrument, e.g. a payment card or a mobile payment instrument, entering the transaction data into the electronic device (usually the point of sale terminal). Entering the transaction data into the electronic device enables the merchant to communicate with the acquirer, who performs further activities required to execute the transfer of



funds on behalf of the merchant under *the acquiring service*. Subsequently, thanks to the exchange of messages between the clearing bank, the payment organisation, the banks maintaining the payer's and merchant's accounts and the relevant payment system, the clearing is performed, followed by the money settlement. The merchant and the payer receive confirmation of the payment, including the data of the payment transaction.

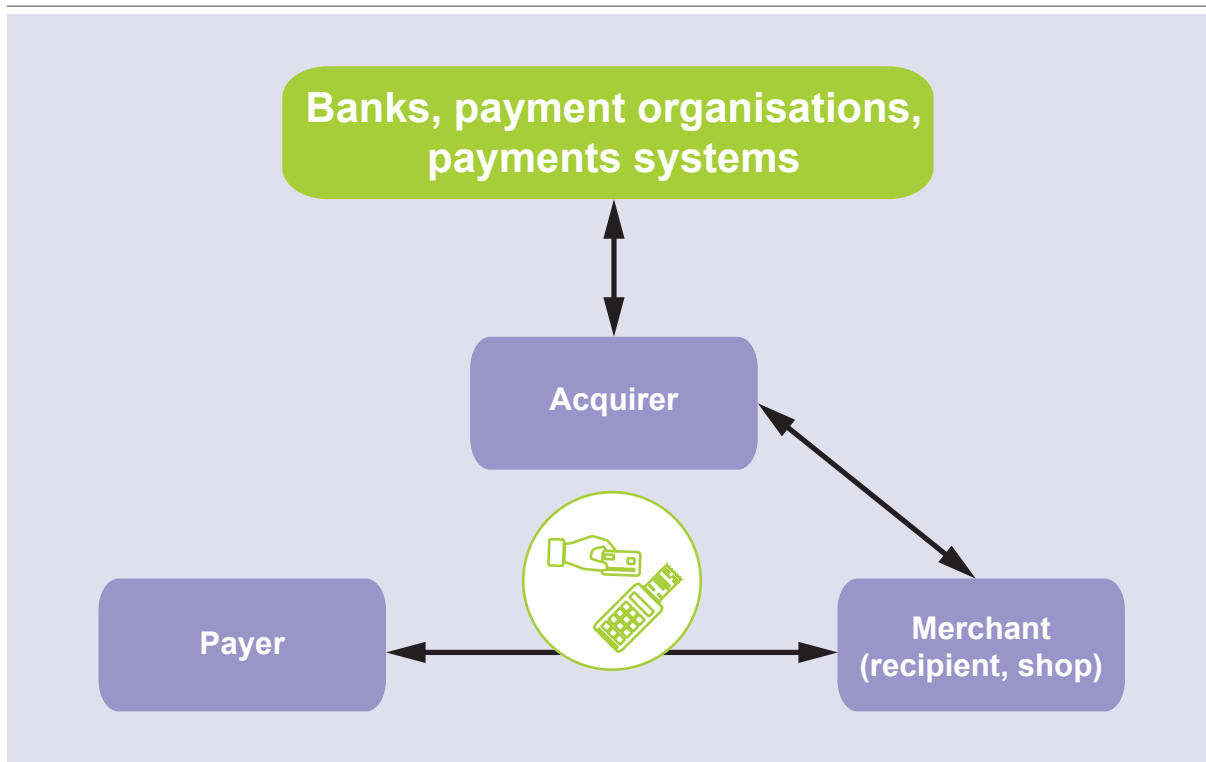
Oversight powers of the President of NBP

The President of NBP participates in the Polish Financial Supervision Authority's supervision of national payment institutions that provide *the acquiring service* by issuing opinions submitted to the PFSA concerning the granting of authorisation to provide payment services comprising this service. The granting of the authorisation by the PFSA to conduct activity in the capacity of the national payment institution, comprising the provision of the aforementioned service, requires an application for the prior opinion of the President of NBP.

The assessment of the provision of the acquiring service is performed by the President of NBP in

⁹ Pursuant to Article 4(44) of Directive of the European Parliament and of the Council (EU) 2015/2366 of 25 November 2015 on payment services in the internal market, *acquiring of payment transactions* means a payment service provided by a payment service provider contracting with a payee to accept and process payment transactions, which results in a transfer of funds to the payee. In accordance with the definition contained in Article 3(5) of the Payment Services Act of 19 August 2011, *acquiring* shall be understood as payment service facilitating the execution of payment transactions, initiated by the merchant or through it, using the payer's payment instrument, in particular processing the authorisation, providing the payer's or merchant's payment orders to the payment card issuer or payment systems, with the aim of transferring the due funds to the merchant, with the exception of activities entailing clearing and settling it within the scope of the payment system in the understanding of the Settlement Finality Act.

The *acquiring* service process



accordance with the criterion of efficiency, safety and compliance with the provisions of the Polish law. The provisions of the national law and the generally accepted international standards serve as a benchmark in the assessment of payment systems.

Moreover, the President of NBP is authorised to collect statistical data related to the activity of acquirers.

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