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**GUIDE FOR CONTROLS
(REGULATION ISSUED BY THE BANK OF ITALY'S GOVERNING
BOARD ON 18 SEPTEMBER 2012)**

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1. Introduction

The present guide is a reference for operators in applying the regulation issued by the Governing Board of the Bank of Italy on 18 September containing “Provisions concerning the oversight of retail payment systems” (hereinafter the “Regulation”). In particular, the guide:

- identifies the retail payment systems operating in Italy and their related linkages;
- defines the content and timing of the oversight activity of the Bank of Italy;
- details the procedures whereby retail payment system managers other than the Bank of Italy and payment service providers are required to transmit the information provided for by the Regulation.

SECTION I

Retail payment systems

2. Scope

Annex 1 to this guide contains the list of retail payment systems whose registered and/or business office is in Italy, which fall within the perimeter of the Bank of Italy’s oversight activity as defined in Article 2 of the Regulation. Annex 2 contains the list of linkages to in Article 11.

The lists are published on the Bank of Italy’s website (in the section Markets and Payment systems/Market and payment system oversight/Laws and regulations/the payment system/Implementation of laws) and updated on the basis of operators’ notifications.

3. Information requirements

At the start of operations, managers must send the information referred to in Article 12, paragraph 1, of the Regulation to the Bank of Italy. After checking the information, the Bank of Italy will update the list referred to in Annex 1. Managers are not required to transmit documents and information already sent to the Bank of Italy in compliance with the information requirements established by the Consolidated Law on Banking.

Managers already operating as of the date of publication of this guide must within 30 days send to the Bank of Italy only the information referred to in Article 12, paragraph 1, of the Regulation that has not been supplied previously.

Following the first transmission, the documentation is to be updated annually and on the occasion of significant changes to the architectural, functional, technical and operational, economic or legal profiles of the system managed.

Managers must send the reports on system malfunctions referred to in Article 12, paragraph 2, of the Regulation on a quarterly basis. The reports concern the malfunctions considered serious under the classification referred to in Article 5, paragraph 1, point v). In particular, the reports must indicate the causes of the malfunctions, the impact in operational and economic terms, the organization structures involved, the actions taken to limit the damage, eliminate the malfunction and prevent a repetition of the event.

The cases judged to be the most serious are to be notified to the Bank of Italy, also through informal channels, simultaneously with the notification to the management and the control functions referred to in Article 5, paragraph 2, of the Regulation.

On the cases of malfunction the control function shall draw up the report provided for in Article 5, paragraph 3, which must contain, inter alia, an analysis of the frequency and characteristics of the events and describe the measures taken to store the related information. The first report is to concern the malfunctions that occurred in 2012 and is to be sent by the end of March 2013; the subsequent reports are to follow at yearly intervals.

All the documentation must be transmitted exclusively in electronic format to the e-mail address smp@pec.bancaditalia.it.

With regard to statistical data on system operations, managers included in the list in Annex 1 of this guide shall be deemed to have satisfied the reporting requirement upon transmitting to the Bank of Italy the statistical data envisaged by Annex C4 of the BI-Comp User Guide. For new systems, the Bank of Italy will give instructions for gathering analogous information on: a) daily data broken down by reporting party, settling party and interbank procedure; b) daily data broken down by settling party and counterparty; c) monthly data broken down by settling party, counterparty and interbank procedure.

4. Oversight

Oversight entails an overall assessment of the system conducted every two years and supplemented by specific analysis on the occasion of certain events such as changes to the services offered or significant malfunctions.

The assessment exercise is also to be coordinated with the assessment for the application of oversight standards to retail payment systems planned at the Eurosystem level. During the assessment period, the manager may be invited to interlocutory meeting in order to discuss the results of the analysis.

To ensure a level playing field between operators and comparability of the findings, an assessment procedure has been prepared that highlights the key points to be considered in the course of the assessment (see Annex 3).

The final score is given on a scale of assessment consisting of three possible findings: “fully compliant”, “partially compliant”, “non-compliant”. In the cases of less than full compliance, systems must identify the steps to be taken to overcome the flaws found, without prejudice to the possible imposition of sanctions.

SECTION II

Payment service providers

5. Notification requirements

Article 3 of the Regulation lays down specific notification requirements for payment service providers whose registered and/or business office is in Italy. For this purpose, payment service providers will use the GIAVA application to be made available by the Bank of Italy by the end of 2013.

**LIST OF RETAIL PAYMENT SYSTEMS
WITH REGISTERED AND/OR BUSINESS OFFICES IN ITALY**

EXCHANGE AND/OR CLEARING SYSTEMS

CABI, managed by the Payment Systems Department of the Bank of Italy

Equens SpA, with registered office in Milan

ICBPI, with registered office in Milan

ICCREA Banca, with registered office in Rome

SIA SpA, with registered office in Milan

CLEARING AND SETTLEMENT SYSTEMS

BI-COMP, managed by the Payment Systems Department of the Bank of Italy

LIST OF LINKAGES ESTABLISHED BY RETAIL PAYMENT SYSTEMS WITH REGISTERED AND/OR BUSINESS OFFICES IN ITALY

Of importance at national level

CABI - BICOMP

ICBPI – BICOMP

ICCREA – BICOMP

SIA – BICOMP

CABI - ICBPI – ICCREA – SIA

Of importance in the euro area

CABI/BICOMP - EQUENS SE

CABI/BICOMP - CS.I

CABI/BICOMP – STEP2

ICBPI/BICOMP – EQUENS SE

ICBPI/BICOMP – CS.I

ASSESSMENT PROCEDURE

**Organization
(Article 4)**

Regulatory reference	Key questions
Retail payment system managers shall design the organizational model according to the system's operational complexity.	<ul style="list-style-type: none"> • Bodies responsible for managing the system and their tasks: reasons for choosing the organizational model adopted • Management committees (on matters of payments): tasks and frequency of meetings
They must ensure: i) that the competence of each organizational unit is defined clearly and unambiguously in order to ensure the coordination of functions and reduce possible overlapping roles and conflicts of powers;	<ul style="list-style-type: none"> • Ways for allocating functions and responsibilities within the organizational structure • Mechanisms adopted to ensure coordination of connected functions • Measures adopted to prevent/resolve overlapping of functions and conflicts of interest
ii) that decision-making responsibilities in respect of the main management activities are specifically identified and suitably documented;	<ul style="list-style-type: none"> • Identification of decision-making responsibilities • Transparency of the process
iii) that mechanisms are defined for verifying and measuring the performance of operating units.	<ul style="list-style-type: none"> • Information channels between management and units • Measures to report on the company's situation (e.g. periodic internal reports) and to monitor operating functions (e.g. analytical accounting) • Body empowered to check the adequacy of the IT system • Mechanisms envisaged to eliminate shortcomings or inefficiencies
In order to meet the needs of participants, managers shall consider setting up committees with advisory functions, which shall operate according to rules that are clearly defined and notified to participants.	<ul style="list-style-type: none"> • Procedures for surveying and evaluating the needs of participants in relation to the services provided • Characteristics of the committee (composition, tasks, frequency of meetings) • Transparency towards participants
Where exchange, clearing and/or settlement functions are carried out, in whole or in part, by different managers, coordination of the activities performed must be ensured.	<ul style="list-style-type: none"> • Mechanisms to ensure coordination of activities • Characteristics of coordination

**Effectiveness of controls
(Article 5)**

Regulatory reference	Key questions
Managers shall adopt a control framework that is commensurate with business, legal and operational risks and any other risks that might compromise the system's reliability.	<ul style="list-style-type: none"> • Organization of the internal control function • Organizational arrangements to ensure separation and interaction between control and operating functions
In particular, they shall: i) make sure that the services offered comply with the legislation in force, as well as with internal strategies, regulations and procedures;	<ul style="list-style-type: none"> • Body empowered to verify the compliance of the activity performed with external legislation and internal rules and regulations • Control instruments used (timing and characteristics)
ii) determine the content and the timing of the control bodies' reports to the decision-making bodies;	<ul style="list-style-type: none"> • Characteristics and frequency of reporting by the control function to the decision-making bodies
iii) review – at least once a year – the overall effectiveness of the internal control system;	<ul style="list-style-type: none"> • Procedure for checking the overall effectiveness of the internal control system
iv) draw up each year a control plan concerning the risks associated with performed activity and a priority order of measures to be taken;	<ul style="list-style-type: none"> • Risk analysis document and its characteristics • Characteristic of the processes included in the internal control system • Methods of determining control priorities
v) draw up a classification of malfunctions and decide the content and timing of reports to be submitted by the operating units to the management and control bodies.	<ul style="list-style-type: none"> • Classification of malfunctions • Reports to management/the control function
In the course of everyday operations, managers shall be responsible for i) promptly identifying any malfunctions on the basis of the classification referred to in point v), determining their causes and eliminating them; ii) recording the frequency and characteristics of events and continuously updating the related data; and iii) determining the measures needed to prevent the occurrence of malfunctions.	<ul style="list-style-type: none"> • Malfunction handling and follow-up • Degree of formalization of the internal procedures
In the more serious cases, both the management and the control function must be notified without delay.	<ul style="list-style-type: none"> • Notification procedures for the more serious cases (reports, maximum reporting time, crisis committee where applicable, coordination with other entities involved, reporting to the competent authorities, etc.)
The manager shall submit a yearly report to the Bank of Italy concerning any malfunctions occurring in the course of the previous year.	<p>Contents of the report:</p> <ul style="list-style-type: none"> • Analysis of the frequency and characteristics of the events • Description of the measures taken to store the related information

**Outsourcing
(Article 6)**

Regulatory reference	Key questions
<p>Managers shall assess the efficiency and risk profiles associated with the outsourcing of core functions for the provision of the service. In deciding whether to outsource, managers shall make a cost/benefit analysis of that decision and lay down the criteria to be followed in the choice of provider.</p>	<ul style="list-style-type: none"> • The body responsible and the methods followed for evaluating recourse to the outsourcing of significant parts of activity • Significant aspects considered in the outsourcing contract and arrangements for handling possible disputes • Mechanisms by which compliance is ensured also in the case of the outsourcing of core activities
<p>Furthermore, they shall make sure that the contract sets out: i) the rights, obligations and responsibilities of the parties concerned, including vis-à-vis system participants;</p>	<ul style="list-style-type: none"> • Manner of formalizing the rights and responsibilities of the outsourcer and outsourcee (also vis-à-vis system participants)
<p>ii) the rules governing the service levels and the penalties for failure to comply with them;</p>	<ul style="list-style-type: none"> • Service level indicators in the outsourcing contract • Structure of the penalties
<p>iii) the type of information that the provider is required to provide periodically to the manager;</p>	<ul style="list-style-type: none"> • Characteristics of the reports from the outsourcer to manager
<p>iv) the means by which the manager and the Bank of Italy can access information held by the provider;</p>	<ul style="list-style-type: none"> • Contractual provisions determining the time and substance of the right of access to the data by the manager and the Bank of Italy
<p>v) the alternative measures available to minimize the impact in the event of the provider's bankruptcy and the steps to be taken either to replace the provider or to re-internalize the outsourced activities.</p>	<ul style="list-style-type: none"> • Procedures established in the contract or in company plans to minimize the impact in the event of the termination of the outsourcing contract or the bankruptcy of the outsourcee
<p>Managers must verify compliance with the contract and monitor the activity of the provider in order to guarantee the quality of outsourced services.</p>	<ul style="list-style-type: none"> • Procedures for monitoring outsourcing and keeping the board and the management bodies informed • Management of users' claims, if any

**Business risk
(Article 7)**

Regulatory reference	Key questions
<p>Managers shall periodically draw up and approve a plan to maintain and develop the service – including any linkages with other systems – taking account of the characteristics and situation of the market, system participants’ requirements, and opportunities offered by the new technologies.</p>	<ul style="list-style-type: none"> • Bodies empowered to establish strategies • Characteristics of the system development strategy • Frequency of updates of the general strategic plan (or business plan). Date of the last update/revision • Frequency and characteristics of review of performance with respect to the objectives • Frequency and manner of comparison with the results achieved by the main competitors • Market analysis and assessment of system participants’ needs • Review of the adequacy of business choices with respect to the state of the art of technological innovation in the sector • Frequency of revision of operating procedures in order to adapt them to market changes and to the latest technological advances
<p>Managers shall maintain an economic/financial situation such as to allow the smooth supply of the service and the economic sustainability of the investments needed for the maintenance and development of services.</p>	<ul style="list-style-type: none"> • Manner in which it is ensured that past and expected results will guarantee the financial resources needed to ensure business continuity in compliance with service standards • Manner in which it is ensured that strategic decisions will be duly incorporated in the business plan and yearly budgets • Guiding principles and characteristics of pricing policy and of the internal cost accounting method

**Legal risk
(Article 8)**

Regulatory reference	Key questions
Managers shall ensure that the rules, procedures and contracts relating to system operations be consistent with the applicable legal framework and valid in all the jurisdictions involved.	<ul style="list-style-type: none"> • Characteristics of the process for establishing and updating rules/procedures/contracts for the functioning of the system. Date of last update/revision
Managers shall: i) formulate the terms of supply of the service (including fees and minimum service levels) in a clear and transparent way;	<ul style="list-style-type: none"> • Definition and description of the different phases of the payments handling cycle • Technical and operational requirements for entering orders: communication procedures • Forms of publicity of the price schedule, including the prices of the different settlement channels and of any options which system participants' may elect • Conditions applied to a manager participating in its own system • Manner of notifying service level agreements to participants • Provision of information on the reachability of the system and the channels that may be used by participants to settle payments
ii) describe in the system's operating rules their own responsibilities, those of the participants and those of the parties they use to operate the system;	<p>Description and formalization of the rights and obligations :</p> <ul style="list-style-type: none"> • of the manager (and of possible partners/providers/outsourcers), also vis-à-vis the participants • of the participants towards one another and vis-à-vis the manager
iii) define the moment when the payment order is entered into the system and the conditions for its revocation;	<ul style="list-style-type: none"> • Procedure for identifying the moment of the payment order's entry into the system and the conditions for its revocation
iv) arrange for suitable mechanisms to trace an order through the various phases of the processing cycle.	<ul style="list-style-type: none"> • Instruments for the traceability of orders entered into the system
The system's rules of operation must govern the case of default by a participant, providing for suitable procedures to reduce the possible adverse effects on the system and on the other participants by defining the procedures to be activated, the operating units responsible and the procedures for involving the participants.	<ul style="list-style-type: none"> • Mechanisms adopted to reduce the systemic impact of a participant's default • Level of transparency of the default management procedures • Responsible units • Manner of coordination with the participants and other managers
Managers may process personal data whenever this is necessary in order to prevent, identify and investigate cases of payment fraud. Such data must be processed in accordance with Legislative Decree 196/2003 (Personal Data Protection Code).	<ul style="list-style-type: none"> • Procedures for processing personal data

**Operational risk
(Article 9)**

Regulatory reference	Key questions
<p>Managers shall adopt a framework for managing operational risk in order to prevent: i) the disruption of operations; ii) procedural errors; iii) a reduction in the processing function; and iv) the loss of confidentiality and unauthorized alteration of data.</p>	<ul style="list-style-type: none"> • Characteristics of the operational risk management system • ICT procedures and technical and organizational measures adopted to guarantee data confidentiality, reliability and integrity • Reference standards adopted and conformity with international best practices
<p>To this end, managers must identify a policy for operational risk management that establishes objectives in terms of: a) availability of the system; b) reliability (maximum number of interruptions in a certain period); c) recovery time (maximum time limit for restoration of service in the event of an anomaly); and d) point in time of recovery (the exact time up to which the integrity of consolidated data is guaranteed).</p>	<ul style="list-style-type: none"> • Body responsible for approving and revising the operational risk policy • Characteristics of the operational risk policy • Procedure and frequency of revision of the operational risk policy. Date of latest update/revision • Structuring of the periodic reports to the governing bodies on operational risk policy
<p>Managers shall also set up mechanisms to identify and evaluate risk and implement strategies in response to specific incidents.</p>	<ul style="list-style-type: none"> • Procedures and criteria followed to gather and store the data on operational risks • Organization and structure of the activities of classification, analysis and reporting of operational incidents • Manner of accounting for losses due to operational risks and estimating the potential maximum losses due to malfunctions • Indication of the methods used to ensure that the system's operational capacity is sufficient to provide the services envisaged and to handle processing peaks (technical and organizational redundancy)
<p>Managers must evaluate the risk management framework annually by carrying out self-assessment exercises.</p>	<ul style="list-style-type: none"> • Frequency and methods of carrying out the self-assessment exercise on the quality of the operational risk management system
<p>The operational risk management framework shall also include technical and organizational measures to reduce the likelihood of malfunctions and to limit any related effects.</p>	<ul style="list-style-type: none"> • Identification of the activities whose business continuity must be guaranteed • Risk-mitigation measures adopted to safeguard against possible malfunctions, also in connection with the unavailability of essential public services (utilities) • Description of the scenarios considered in the malfunctions management plan; roles and responsibilities of the persons involved
<p>Managers of systemically important systems must observe the specific rules on business continuity notified by the Bank of Italy.</p>	

**Article 10
(Access)**

Regulatory reference	Key questions
<p>Managers shall set the operational, financial and legal requirements that the participants must satisfy to ensure regular and timely fulfilment of participants' obligations towards the system and towards other participants. These requirements must be objective, non-discriminatory and proportionate and should not inhibit access more than is necessary to safeguard the system against specific risks, such as settlement risk, operational risk and business risk and to protect the financial and operational stability of the payment system.</p>	<ul style="list-style-type: none"> • Body responsible for establishing and managing the criteria of access and exclusion • Characteristics of access and exclusion criteria and control procedures • Procedures for informing participants and the public
<p>The regulations governing access to retail payment systems cannot impose any of the following requirements on payment service providers, payment services users or other payments systems: i) restrictions on effective participation in other payment systems; ii) discrimination between authorized and registered payment service providers in relation to the rights, obligations and prerogatives of participants; and iii) restrictions based on institutional status.</p>	<ul style="list-style-type: none"> • Organizational and procedural safeguards for regulatory compliance
<p>The two preceding paragraphs do not apply to: i) payment systems designated pursuant to Legislative Decree 210/2001; ii) payment systems exclusively made up of payment service providers belonging to a group composed of connected companies linked by capital, where one of the connected companies effectively controls the others; and iii) payment systems in which the same payment system provider 1) acts or can act as a payment service provider for both the payer and the beneficiary and has exclusive responsibility for managing the system and 2) authorizes other payment service providers to participate in the system and the latter do not have the possibility of negotiating fees among themselves in relation to the payment system, although they can establish their own charges for payment service users.</p>	

**Article 11
(Linkages)**

Regulatory reference	Key questions
<p>Managers may establish linkages with other systems to enlarge the range and reach of the services provided. In this case, managers shall come to an agreement with the linked systems as to the mechanisms to be used to exchange relevant information and to take decisions on matters of common interest.</p>	<ul style="list-style-type: none"> • Procedures for exchanging information and taking joint decisions
<p>Managers shall analyse the risks deriving from the linkage and, in particular: a) whether the linked systems are subject to oversight; b) whether there are mechanisms in the linked systems to manage the risks deriving from a participant's default; and c) whether the contractual rules governing the linkage are valid, applicable and compatible with the general rules of system operations. The managers, unlike the central banks, shall ensure that the funds used to settle payments passing through the links are kept separate from the manager's own funds.</p>	<ul style="list-style-type: none"> • Measures envisaged to deal with and manage the risks associated with the malfunctioning of linked systems
<p>The functioning of the link must be monitored and incidents identified, managed and catalogued, ensuring the business continuity of the link.</p>	<ul style="list-style-type: none"> • Frequency and method of analysis of the risks deriving from the links with other infrastructures
<p>With reference to the management of operational risk, the measures described in Article 9 of this Regulation will be applied.</p>	