



**PAYMENT SYSTEMS  
DESIGNATION FRAMEWORK**

**PAYMENT SYSTEMS DEPARTMENT  
STATE BANK OF PAKISTAN**

# Table of Contents

<b>1. PAYMENT SYSTEMS</b> .....	2
<b>2. NEED FOR PAYMENT SYSTEM DESIGNATION</b> .....	2
<b>3. PAYMENT SYSTEMS DESIGNATION CRITERIA</b> .....	2
<b>4. PROCEDURE FOR PAYMENT SYSTEMS DESIGNATION</b> .....	4
<b>4.1 Designation Process Initiation</b> .....	4
<b>4.2 Designation Notification</b> .....	4
<b>4.3 Designation Implications</b> .....	4
<b>5. POWERS OF THE STATE BANK</b> .....	5
<b>6. SUSPENSION/REVOCAION OF DESIGNATION</b> .....	6
<b>7. INFORMATION SUBMISSION</b> .....	6

## **1. PAYMENT SYSTEMS**

Payment systems are arrangements designed to facilitate or control the transfer of money between financial institutions who participate in the arrangement. Any deficiency in design or disruption in operations of Systemically Important Payment Systems may therefore, threaten the financial stability of the country.

State Bank of Pakistan, under the Payment Systems and Electronic Fund Transfer (PS & EFT) Act 2007, is responsible for regulating the payment and settlement systems in Pakistan. SBP, in this connection, has powers to operate, regulate and inspect Payment and Settlement Systems in Pakistan to promote financial and monetary stability (chapters II, III and IV of PS&EFT Act 2007).

## **2. NEED FOR PAYMENT SYSTEM DESIGNATION**

The Section 4 of PS &EFT Act 2007 empowers State Bank of Pakistan to Designate a Payment System by a written order if it is in public interest. Designated Payment Systems (DPS) are usually Systemically Important Payment Systems (SIPS) and any deficiency in their designs or disruption in their operations can potentially endanger the working of the real economy besides the financial markets. Designating a Payment System will enable SBP to exercise its powers as per the PS&EFT Act 2007.

The “Designated Payment Systems” can include payment systems operated by both the State Bank of Pakistan and private entities. Designation aims at ensuring efficient management of various risks associated with the operations of DPS including but not limited to legal, credit, liquidity, settlement, operational, general business, custody, and other risks. DPS will be subject to comprehensive oversight of the operational and governance arrangements by SBP in order to promote the smooth operation of safe and efficient payment systems.

## **3. PAYMENT SYSTEMS DESIGNATION CRITERIA**

- I. SBP may specify a payment system as Designated Payment System if it is satisfied that:
  - a) The Payment System under consideration can be categorized as Payment System (as defined in Sub Section (zd) of Section 2 of PS &EFT Act 2007) as it is designed to facilitate or control the transfer of money between financial institutions;

- b) The Payment System has been granted final approval as Payment System Operator (PSO) and/ or Payment Service Providers (PSP) under the PSOs/PSPs Rules issued by SBP vide PSD Circular No. 03 of 2014 dated October 23, 2014;
  - c) The Payment System is Systemically Important and any deficiency in design or disruption to its operations could affect the financial stability or public confidence in the Payment and Settlement Systems of Pakistan; and / or
  - d) There is no other alternative Payment System available to public to effect their payments.
- II. In addition to the above, SBP may consider one or more of the following factors for Payment System Designation:
- a) Market share of the payment system;
  - b) Aggregate Settlement Risk based on the volume and value of the transactions that the system processes or is likely to process in future;
  - c) The nature of the transactions that the system processes; or
  - d) Interdependence of other payment systems on this system
- III. In order to conduct an assessment of the Payment System for designation, SBP may call for reports/ data, inspect the premises, equipment, machinery, apparatus, books or other documents, or accounts and transactions relating to the Payment System as mentioned in Sub Section 2 of Section 4 of PS & EFT Act.
- IV. SBP may consider the capacity and capability of an applicant to operate a payment and settlement system.
- V. In assessing whether to designate a specific payment system, SBP may consider the impact of such designation on overall payment systems efficiency, integrity, and reliability.

## 4. PROCEDURE FOR PAYMENT SYSTEMS DESIGNATION

### 4.1 Designation Process Initiation

The process for designation can be initiated by:

**a) The State Bank of Pakistan**

SBP may, notify an operator of the payment system that the system is being considered for designation as mentioned in Section 4 of the PS & EFT Act, 2007.

**b) An operator of a payment system (or any other person) by submitting a written application to the State Bank.**

An operator of Payment System holding final approval granted under PSO/PSP Rules issued by SBP vide PSD Circular No. 03 of 2014 dated October 23, 2014 can apply in writing to SBP for designation if it meets the criteria mentioned in this framework. The applicant should be able to demonstrate in writing the relevance of their payment system with the designation criteria laid out by SBP.

SBP may ask the applicant to provide additional information including verifications from other regulators (domestic as well as international) for matters of particular importance to support the application.

### 4.2 Designation Notification

- a) If SBP considers that a payment system meets the criteria for designation, it may issue designation order in writing under section 4 of the PS&EFT Act 2007.
- b) The designation Order issued to the concerned operator of Designated Payment Systems shall contain the reasons for designating a specific Payment System as per the criteria in this framework.

### 4.3 Designation Implications

- a) Designated Payment System shall be subject to SBP's enhanced oversight.
- b) Designated Payment System shall ensure compliance of global standard of Payment Systems Oversight like Principles for Financial Market Infrastructure (PFMI).

- c) Detailed instructions regarding compliance of applicable international standards will be covered in Payment Systems Oversight Framework.

## **5. POWERS OF THE STATE BANK**

- I. SBP, as empowered under Section 3 of PS & EFT Act 2007, may issue such rules, guidelines, circulars, bye-laws, standards or directions as it may consider appropriate, to which an operator of the designated payment system must comply.
- II. If a designated payment system fails to establish satisfactory governance and operational arrangement as per Section 10 and 11 of PS & EFT Act 2007 than SBP under Section 3 of the PS & EFT Act 2007 may require an operator of the designated payment system to make modification or alteration in its governance and operational arrangement, documents and information submitted by the operator of payment system.
- III. SBP may as defined in Section 23 of PS & EFT Act 2007 “make ‘settlement rules’ to provide the basis on which payment obligations are calculated, netted or settled including rules for the taking of action in the event that a participant is unable or likely to become unable to meet its obligations to the Clearing House, or to the other participants”.
- IV. SBP as defined in Section 4 sub Section 2 of the PS & EFT Act 2007 may inspect the premises, equipment, machinery, apparatus, books or other documents, or accounts and transactions relating to the Payment System.
- V. SBP may if satisfied that an operator of the Designated Payment System is insolvent or likely to become insolvent, start proceedings against it as defined in Section 60 of the PS & EFT Act 2007.
- VI. SBP is also empowered to impose penalties, in case the operator of the Designated Payment System is found in non-compliance of the regulations, rules, or standards issued by SBP from time to time.

## **6. SUSPENSION/REVOCAION OF DESIGNATION**

- I. SBP may suspend/revoke Designation of a Payment System as defined in Section 5 of the PS & EFT Act 2007 if it is satisfied that:
  - a) The Designated Payment System has ceased to operate effectively as a Payment System;
  - b) The operator of the designated system has knowingly furnished information or documents to the State Bank in connection with the designation of the Payment System which is or are false or misleading in any material particular;
  - c) The operator or settlement institution of the Designated Payment System is in the course of being wound up or otherwise dissolved, whether in Pakistan or elsewhere;
  - d) Any of the terms and conditions of the designation or requirements of PS & EFT Act 2007 have been contravened; or
  - e) The State Bank considers that it is in the public interest to revoke the designation.

## **7. INFORMATION SUBMISSION**

- I. The Designated Payment System may be required to regularly provide information on the respective payment system in form of reports and data.
- II. The purpose of the reporting requirement is to provide a transparent mechanism for providing relevant information to participants, SBP, and any other stakeholders besides enabling SBP to effectively oversee the system.

The Framework will be subject to continuous review by the SBP.

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