

Payment Clearing and Settlement Act (PCSA): An Update on Activities

During 1997, the Bank, with the approval of the Minister of Finance, obtained information from those clearing and settlement arrangements currently operating in Canada that might be subject to the PCSA. One system, the Debt Clearing Service (DCS), operated by The Canadian Depository for Securities Ltd. (CDS), was judged to have the potential to pose systemic risk if not properly risk-proofed, and this system was designated under Part I of the PCSA early in 1998. Since the Bank has engaged in an informal oversight of this system for a number of years, the designation will not result in any significant changes to the risk-containment arrangements of the DCS system. But designation does provide system participants with greater legal certainty that, in the event of a failure of one of the participants, all participant obligations will settle as anticipated in the system's settlement rules and procedures.

As part of its oversight of the DCS, the Bank agreed in principle in 1997 to risk-containment mechanisms that would permit the inclusion of provincial government securities as well as private sector debt and equity in the system. (Previously, only Government of Canada securities transactions had been settled on the DCS.) The introduction of some of these securities is expected in the late summer of 1998. In addition, in anticipation of the introduction of the LVTS in mid-1998, the Bank, the CDS, and DCS participants have agreed to a mechanism that will minimize the amount of collateral needed to settle DCS transactions on the LVTS, while ensuring the integrity of the risk-containment arrangements in the DCS. The Bank also agreed to play a key role in facilitating the transfer of surplus balances from the DCS to the LVTS and vice versa. Both of these latter measures are intended to promote the efficiency of these systems while maintaining robust systemic risk controls.

The Bank has also held discussions concerning appropriate systemic risk controls with participants and operators of systems designed to clear and settle large-value foreign exchange transactions. The Bank and other central banks in the G-10 countries are co-operating to oversee these cross-border multi-currency clearing and settlement systems. Under international arrangements and the PCSA, the Bank of Canada has a responsibility to satisfy itself that the procedures to be used to settle Canadian dollar transactions are appropriate.