



## BANKING ISSUANCE

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Comptroller of the Currency  
Administrator of National Banks

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Type: Banking Circular

Subject: International Payments Systems Risks

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Replaced - See OCC 2021-48

TO: Chief Executive Officers of All National Banks, Deputy Comptrollers, District Administrators, and All Examining Personnel

### Purpose:

To alert national banks to the risks associated with large dollar payments systems, particularly within the international sector. Management is expected to adopt sound policies and supervisory practices for these activities. This Office recognizes that these risks are more prevalent in larger banks. However, all national banks participating in payments systems, domestic and international, must assess these risks.

### Issue:

The worldwide exchange of financial transactions and information is expanding rapidly. An interlocking network of national and international markets, operating 24 hours a day, supports this activity. This network involves multiple payments, clearing, and settlement systems that handle trillions of dollars daily. In recent years, attention by bankers and regulators has focused on the operational, liquidity, and credit risks of large dollar payments systems. However, this attention mainly addressed national systems such as FEDWIRE and the Clearing House for Interbank Payments (CHIPS). International payments, clearing, and settlement systems also demand a high level of supervision and risk assessment.

Key to each system is the credit quality of its participants and its operational reliability. These vary widely among systems and countries. A weakness in either or both of these attributes can disrupt the system and possibly cause it to fail. This may occur if a creditor in a given system cannot settle, if the support systems cannot operate, or if there is sovereign intervention. A failure in one system could pose a liquidity problem for participants in that system. If the liquidity risk is not contained, for example, through government guarantees or some participant allocation, the crisis can become systemic. The crisis can spread rapidly from participating banks to nonparticipants because of the interlocks between systems and banks.

The underlying risks remain the same for both national and international systems. However, the limited ability to influence policies and controls in international markets increases the degree of risk to national banks.











Operational risks include:

- a) system failure - caused by a breakdown in the hardware and/or software supporting the system. This may result from design defects, insufficient system capacity to handle transaction volumes, or mechanical breakdown, including telecommunications.
- b) system disruption - the system is unavailable to process transactions. This may be caused by system failure, destruction of the facility (natural disasters, fires, terrorism), or operation shutdown (employee actions, business failure, or government action).
- c) system compromise - resulting from fraud, malicious damage to data, or error.

The loss of availability of the payment system from whatever source can adversely affect major participants, their correspondents, markets, and interdependent networks.

Operational risks should be controlled by the banks through a sound system of internal controls including physical security, data security, systems testing, segregation of duties, backup systems, and contingency planning. In addition, a comprehensive audit program to assess risks, adequacy of controls, and compliance with bank policies is essential.

Since most banks are third party participants in international networks, their ability to influence controls is limited. Nevertheless, they must recognize risks to their own business operations and compensate through their own internal controls. In addition, banks should exercise their influence over third party systems to the extent possible to insist upon sound operations for system continuity and integrity.

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