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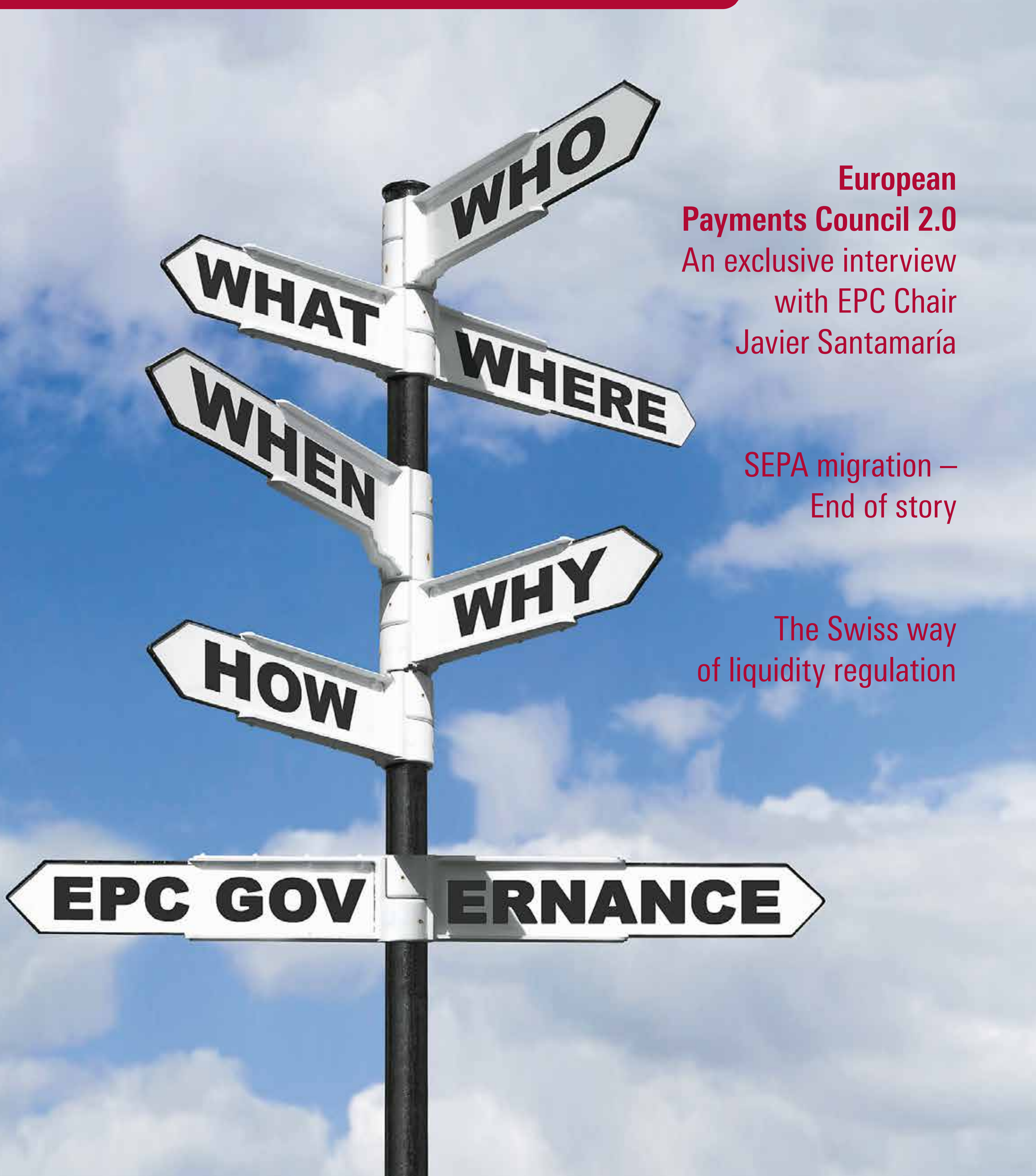

European Payments Council 2.0
An exclusive interview with EPC Chair Javier Santamaría

SEPA migration – End of story

The Swiss way of liquidity regulation

Dear reader,

Nothing is as constant as change. Therefore, it should not be all that surprising that change occurs even in the established and experienced business fields of international banking and payment traffic. Recent, dynamic developments (RIPPLE) are pushing to establish themselves in the market. Non-banking entities (payment service providers) are also reaching for a piece of the payment traffic pie. Increasing numbers of payment schemes are entering the market and former also-rans of the past are suddenly becoming competitors (PayPal). Not all new developments threaten the established schemes, but nevertheless it is worth taking a closer look at them in order to be able to react to them on time. Within the change process, it is also important to recognize which solutions are unsuited to the market and must therefore be withdrawn.

The SEPA migration is completed and the concerns that problems could arise in some countries because market participants would not migrate in time proved to be unfounded in the end. In my opinion, Switzerland played an exemplary role in the SEPA migration, although it is not part of the eurozone and does not have the euro as its currency. I do not share the view of Erik Nooteboom from the EU Commission who, in a recent CLEARIT interview, (Edition 59, May 2014) stated that the advantages of SEPA were only marginal for Swiss banks. SEPA forms the European payments area, which functions on the basis of a uniform rulebook, standards and schemes. This means that every participant will initially profit from gains in efficiency, which should result in lower costs and prices. Although the euro is not the official Swiss currency, the comparably high proportion of SEPA payments within the volume of cross-border euro payments speaks for itself. And despite the few fees still charged by a few correspondent banks, SEPA represents an overall advantage for Switzerland; particularly, but not only, because of its accessibility for SEPA payments from 34 countries. To learn more, read the article reviewing the SEPA migration.

When it comes to SEPA, however, we should not just look back, but also forward. SEPA will continue to live up to its intended role of providing improved, more inexpensive and rapid processing of payment transactions in euro and will standardize payment schemes that, despite SEPA, still exist in some countries, the so-called Additional Optional Services (AOS).

While a new direct debit solution combined with automated e-billing processes (LEON) is being developed in Switzerland, SEPA continues to use conventional direct debit solutions with the SDD Core and SDD B2B products. The SECB introduces its SDD service in this issue of CLEARIT. It will continue to operate this scheme as an interbank direct debit solution according to the parameters of the original SEPA Direct Debit Service jointly developed with SIX Payment Services.

Roland Böff
CEO, SECB Swiss Euro Clearing Bank

European Payments Council 2.0

With SEPA migration in the euro area complete, the EPC adapts its structure to further enhance governance and stakeholder involvement. On the day of decision, EPC Chair Javier Santamaría took his time for an exclusive interview with CLEARIT at the EPC Plenary meeting of 8 October 2014.

CLEARIT: Mr. Santamaría, what is the main objective of the EPC going forward?

Javier Santamaría: The primary task is to manage the SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD) Schemes. The EPC carries out the scheme management function subject to legal and regulatory conditions defined by the EU authorities. The EPC is committed to contributing to safe, reliable, efficient, convenient, economically balanced and sustainable payments, which meet the needs of payment service users and support the goals of competitiveness and innovation in an integrated European economy.

Considering that the EU authorities driving the SEPA process have clarified that migration to harmonized SEPA payment schemes does not conclude this EU integration project, the adjusted EPC structure will also facilitate developing positions on behalf of EPC members, representing payment service providers (PSPs), vis-à-vis the EU institutions, public authorities, international organizations, and the general public on European payment issues as well as on policies, legislation and regulations impacting payments.

When and how did you recognize that the EPC must go through a restructuring process?

It is normal procedure for any organization to review its structure, scope and mission from time to time. The adjustments to the EPC governance structure agreed today ensure that the EPC is best equipped to continue meeting its purpose as one stakeholder group involved in the SEPA process. The new governance model also responds to changes in the institutional SEPA landscape and allows meeting the expectations articulated by the political drivers of the SEPA initiative with regard to the approach to developing non-competitive SEPA solutions.

It is important to keep the following in mind: When the EU governments and EU institutions first launched the SEPA process in the late 1990s, they pursued the further integration of the market for electronic euro payments with a clear division of labor in mind: while the EU authorities focused on creating the legal and regulatory conditions facilitating the transition of millions of payment service users and thousands of providers to harmonized SEPA payment schemes, they requested the banking industry to contribute the expertise and resources required to develop schemes for credit transfers and direct debits.

This approach reflected practices established in the pre-SEPA era at domestic level where national banking communities were primarily responsible for managing local payment schemes.

Fast forward to the present, the main change with regard to the development of harmonized SEPA solutions outside the competitive environment is this: today, the authorities expect that related efforts are the result of multi-stakeholder endeavors involving, essentially, representatives of all impacted parties on the demand, supply and regulatory sides.

With migration to harmonized SEPA payment schemes in the euro area complete, the EPC therefore, resolved in October 2014 to adapt its structure to further enhance governance and stakeholder involvement. The new governance model empowers the organization to efficiently carry out its mission in the post-migration environment.

What's the most important decision agreed upon from your point of view?

In my view, the importance of all decisions taken is reflected in the bottom line. As a result of a thorough review process carried out by all EPC members, the EPC is ready and looks forward to making the next steps in the SEPA process in close dialogue with all stakeholders.

In the past, the EPC was governed by banks only. Third-party providers will now also participate. What do you say to the assertion that the European banks gave in under pressure?

Actually, the EPC was never governed by "banks only". EPC members represent organizations of all sizes and sectors of the European PSP sector. The changes to the EPC governance model have no impact on the membership of entities that are currently members of the EPC, i.e. these entities will continue to be members of the EPC once the revised EPC Charter takes effect.

EPC membership will be open to any legal entity which has received an authorization from a competent EEA authority and is regulated as a payment service provider as defined in the Payment Services Directive; or has received an equivalent authorization from an equivalent competent authority established in another country or territory included within the geographical scope of the SEPA schemes.

EPC membership is also open to a legal entity representing and, directly or indirectly, having PSPs as members, and being established in a country or territory included in the geographical scope of the SEPA schemes, (i.e. banking associations).

Short bio

Javier Santamaría is EPC Chair since June 2012. He has served as a member of its Plenary since the creation of the EPC in 2002. Formerly Head of Operations and Business Services, Javier Santamaría is now Senior Vice President with Banco Santander. He is a member of the Board of the Euro Banking Association, a Director of the SWIFT Board and of the Iberpay Board.

In summary, the changes recently agreed with regard to the EPC governance model have no impact on EPC membership. The EPC continues to represent PSPs.

It is an open secret that there has been friction between the EU Commission and the EPC in the past. What makes you believe that there will be greater harmony in the future?
In 2001, Commissioner Frits Bolkestein, then in charge of the Internal Market and Taxation, stated that the Commission's political objective was exactly that: a modern Single Payments Area for the entire EU where there was no frontier effect for cross-border payments. Therefore the Commission would promote all efforts in this direction. Consequently, the European Commission has been a principal driver of the SEPA process aimed at furthering the integration of the internal market and strengthening the Economic and Monetary Union. The EPC shares the commitment to support and promote the creation of SEPA and therefore, appreciates the continued dialogue with the Commission on the most appropriate steps in that direction.

Former Vice-President of the European Commission Michel Barnier recently reiterated that SEPA was more than just credit transfers and direct debits and that it was also about card payments and could also cover internet and mobile payments. It would contribute to the further harmonization of retail payments in the internal market. Consequently, various regulatory initiatives proposed by the Commission and intended to bring about "SEPA 2.0" are now in the pipeline.

Jean-Claude Juncker, President of the new Commission, stressed that coordinating, presenting and implementing initiatives to enhance the convergence of economic, fiscal and labor market policies between the Member States that share the euro was a principal objective of the new European Commission. The Commission will therefore, continue to play a principal role in the further integration of the euro payments market.

The EPC, (which is not part of the EU institutional framework), suggests that possible duplication of efforts by the Euro Retail Payments Board chaired by the ECB, the Commission and other regulatory bodies be avoided. Whether or not SEPA will deliver on its potential also depends on the EU institutions and governments adhering to a harmonized vision of who should do what to achieve SEPA 2.0.

The EPC looks forward to the continued dialogue with all stakeholders on the most appropriate next steps to ensure an efficient and secure SEPA landscape that responds to market needs.

"SEPA is the brainchild of the public authorities, not PSPs."

Was SEPA invented by EU politicians or was it an idea developed by the European banks?
SEPA is an EU integration initiative pursued by the EU governments and the EU institutions, i.e. the European Commission, the European Parliament, the Council of the EU representing EU governments and the ECB. SEPA compliance requirements that must be met by payment service users and providers are determined by the EU institutions in accordance with their specific competences.

When the EU governments and institutions first launched the SEPA process, the EU authorities expected the banking industry to contribute the resources required to develop European instruments for electronic euro payments. In response to these expectations repeatedly articulated, the European banking sector created the EPC in 2002. The EPC has come through on its commitment to deliver the SEPA payment schemes which help to realize the political SEPA vision. SEPA is the brainchild of the public authorities, not PSPs.

But the standards were developed by the EPC, weren't they?
No, the EPC does not develop standards. The EPC has developed the SCT and SDD Schemes. The SEPA payment schemes as defined in the SCT and SDD Rulebooks contain sets of rules and technical standards defined by standards bodies such as the ISO for the execution of SEPA payment transactions.

Liechtenstein and the EPC

As an EEA member, Liechtenstein has always been for the harmonization of European payment traffic. It is ultimately a matter of anchoring the free flow of capital in payments in order to optimize security, user-friendliness and costs. Liechtenstein joined the EPC in 2010 in order to integrate the special needs of our country into the project.

SEPA has since become a reality, and the SEPA project continues to evolve. On the one hand, there is the migration of niche products, while on the other, the harmonization of the market for card-based payments remains to be completed. Apart from that, global payment traffic is being impacted by powerful shifts in technology: Internet, mobile, P2P, real-time payments and more.

Since payment traffic is very powerfully interactive, solutions are only feasible if everyone gets behind them. This makes it all the more important that the payments industry continues to coordinate and to speak with one voice. For this reason, Liechtenstein has never questioned the justification for the existence of the EPC. Nevertheless, a restructuring process was necessary, in view of the fact that the general conditions and needs of the respective members have changed since it was founded.

The new modularly structured organization enables a flexible membership while distributing the costs more fairly. Countries with a greater volume of transactions now contribute more than countries with less. By the same token, they now have greater rights of co-determination. Furthermore, the decision-making channels have been shortened by the creation of a board, because the plenary meeting must no longer make all the decisions. Countries, based on the number of transactions conducted, which do not have a direct claim for a seat on the board, can form coalitions with other countries.

At the plenary meeting on 8 October 2014, Liechtenstein argued for an option in which there would be more seats on the board for coalitions; however, the motion was only supported by a small minority. At any rate, the new structure as a whole better meets the needs of Liechtenstein and was therefore supported by us.

Johann Wucherer,
Liechtenstein Bankers Association

Simply put, the rulebooks can be regarded as instruction manuals which provide a common understanding among PSPs on how to move funds from account A to account B within SEPA. Strictly and formally speaking, the rulebooks set out the rights and obligations of all institutions bound by their terms, i.e. the scheme participants, (PSPs that have formally adhered to the schemes), and the EPC. The rulebooks bind each scheme participant to comply with their obligations to the EPC and to all other scheme participants pursuant to the rules set out therein. They include mandatory elements that must be observed by all scheme participants as well as optional features.

The EPC is mainly associated with the development of the SCT and SDD schemes – now in force throughout the euro EU member states. That was about nine years ago. What's the EPC's next major intention?

The EPC members will further discuss any potential new initiatives in line with its agreed scope in a next step. With a view to avoid duplication of efforts aimed at creating SEPA 2.0 and taking into consideration that, as mentioned before, the public authorities expect that related efforts are the result of multi-stakeholder endeavors, the EPC will pay close attention to initiatives launched by, in particular, the new Euro Retail Payments Board (ERPB).

In 2010, the European Commission together with the ECB established the SEPA Council, which brought together representatives from both the demand and supply sides, including the EPC, with a view to promoting the realization of an integrated euro retail payments market by ensuring high level stakeholder involvement. On 19 December 2013 the ECB announced the launch of the ERPB, which replaces the SEPA Council. The ERPB will help foster the development of an integrated, innovative and competitive market for retail payments in euro in the EU.

The ECB points out that the ERPB's composition and mandate are broader than those of its predecessor. Seven representatives from the demand side (e.g. consumers, retailers and corporations) and seven from the supply side (banks and payment and e-money institutions) sit on the Board (compared with five each on the SEPA Council). They are joined by five representatives from the euro area national central banks and one representative from the non-euro area EU national central banks (all on a rotating basis). The ERPB is chaired by the ECB. The Commission is invited to join as an observer. The ERPB's work will consist mainly of identifying strategic issues and work priorities (including business practices, requirements and standards) and ensuring they are addressed. The EPC is a member of the ERPB. Following its first meeting on 16 May 2014, the ERPB published a statement setting out its work plan for the period 2014 through 2016.

Can one expect the EPC to develop new schemes for innovative products?

It has to be stressed that SEPA payment products and services offered to the customer are developed by individual PSPs operating in the competitive environment. The development of payment products and services, based on the SEPA schemes, including all product-related features is outside the scope of the EPC. As mentioned before, the EPC will determine any possible new work initiatives in a next step.

You took office in June 2012. What has been your most positive experience since then?

Certainly it has been the gratitude expressed by so many members who have congratulated and thanked me for what we have accomplished. I, in turn, am grateful to all the members who make the EPC viable. It is personally rewarding to serve others and to chair an association that is so valuable to the European banking industry. That is the sentiment I want to keep in my heart.

Interview:
Johann Wucherer, Liechtenstein Bankers Association
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What's new regarding the EPC governance?

The new governance model will become operational in the first quarter of 2015. New bodies to be integrated into the EPC governance model:

Representation of EPC members:

- General Assembly: represents all EPC members. The General Assembly elects the members of the EPC Board.
- EPC Board: has the powers necessary to accomplish the purpose and mission of the EPC, except for the powers that are specifically granted to other bodies of the EPC (e.g. the General Assembly) by law or the Charter.

SEPA scheme management:

- Scheme Participants Assembly: relies on electronic means and is composed of all PSPs that have formally adhered to the SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD) Schemes. It regularly receives information from the Scheme Management Board and endorses the nomination of candidates for the scheme participants' seats on the Scheme Management Board.
- Scheme Management Board: is responsible for performing the administration and evolution of the SCT and SDD Schemes. The Scheme Management Board regularly reports to the EPC Board.

Compliance and Adherence Committee, Appeals Committee, and Scheme Evolution and Maintenance Working Group: support the Scheme Management Board.

Dialogue with payment service users and technology and service providers:

- Scheme End-User Forum: dialogue with representatives of payment service users to date takes place in the EPC's Customer Stakeholder Forum founded in 2007. This cooperation will be further enhanced and formalized with the creation of the new Scheme End-User Forum.
- Scheme Technical Forum: to strengthen the dialogue between the EPC as the SCT and SDD scheme manager and the SEPA-compliant clearing and settlement mechanisms (CSMs), the 'EPC Clearing and Settlement Forum' was created in 2011. The scope of the new Scheme Technical Forum will be expanded to allow the dialogue with CSMs as well as representatives of technology and service providers.
- The Scheme End-User Forum and Scheme Technical Forum are expected to be constituted in the course of the first half of 2015 once amended SEPA Scheme Management Internal Rules (subject to public consultation) take effect.

Independent members of scheme management bodies: Three independent members, (including its Chair), will sit on the Scheme Management Board. The Compliance and Adherence Committee and the Appeals Committee will each include two independent members. Independent members are not employed or otherwise affiliated with a scheme participant; a PSP community represented in the EPC; other service providers or a payment services user group or user association.

SEPA payments: Experiences at the BCV

The Banque Cantonale Vaudoise (BCV) decided back in 2007 to join the circle of banks that generate payment messages according to the SEPA standards. The principle of SEPA-wide reachability demanded high IT investments. Therefore we need a partner and decided to work together with euroSIC/SECB.

The implementation was relatively easy for our bank. In technical terms, it was a matter of integrating the rules that were expected and the SECB's bank clearing number in our system – and that was it. We were ready to start in October 2008.

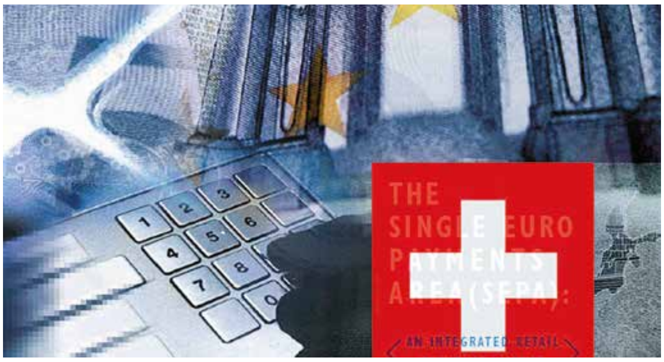
The payment amount limit of EUR 100,000 was set due to the technical standards issued by the EPC, whereby the credit transfer must be credited within a maximum of three days by the creditor's bank. Due to the revision of this standard, which shortens the processing time once a payment is initiated to 24 hours, this limit is currently being reviewed.

The advantages for the team that is in charge of foreign payment traffic is that correspondent research is no longer needed and that a majority of SEPA payments can be carried out automatically with no manual intervention.

And what is the benefit for customers?
SEPA payments offer the following benefits for customers:

- The total amount is transferred in end-to-end payment processing. In other words: At the creditor's bank, the amount is credited that the debtor entered in his payment order;
- Fees are limited to those that may be charged by the debtor's bank or by the creditor's bank;
- The payment processing time is shortened (no financial intermediary);
- The application of the amount and meeting of deadlines are ensured by the parties involved in the payment through limitation of the processing period;
- The management of rejections and returns can be automated by the banks and therefore take place faster for those involved.

One of our original goals was to simplify and standardize the payment path of our payments in the eurozone. Located as it is along the French border, the payment volume



processed by BCV is not insignificant. To motivate our customers to properly format their payments, the decision was made to not charge any transaction fees for payments made through the online banking system, since all the necessary parameters are entered ad hoc.

Payment volume powerfully increased through this channel. It more than tripled between 2009 and 2013 to nearly half a million transactions.

One disadvantage for customers who make a payment from a Swiss account, which was previously pointed out by Erik Nooteboom from the EU Commission in CLEARIT in May 2014, is that some bank charge fees to creditors. The SEPA standard actually stipulates that the charging of fees for those participating in a payment is to be based on the principle of cost sharing, and fee policies are to be left to each individual SEPA bank. In other words: the debtor's bank and the creditor's bank can charge transaction fees. EU directive 2007/64/EC further clarifies the principle of freedom from fee for creditors. For Switzerland, which is not part of the EU/EEA, this directive does not apply and some banks apply the applicable rules to the letter. However, this pertains only to a few banks and it is to be hoped that the practice does not become widespread. Otherwise, SEPA payments will become unattractive for our customers.

The BCV and the SEPA Direct Debit Scheme
The direct debit functionalities proposed by the SEPA Direct Debit Scheme have not yet been implemented at the BCV. The low level of demand by our customers does not justify the introduction; however, we will keep our eye on developments in this field.

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SEPA migration – A review

Following the successful migration in the EU member states within the eurozone in August, now all national credit transfer and direct debit schemes are to be converted to the SEPA schemes to meet the requirements of EU Regulation 260/2012.

The deadline of 31 October 2016 applies for the conversion for EEA financial institutions outside the eurozone. After completion of the SEPA migration, more than 4,600 banks in 34 countries have now replaced their national schemes for the processing of credit transfers and direct debits with SEPA. In other words: more than 4,600 banks in 34 countries within the SEPA are now reachable. Although it is not bound to EU regulations, the Swiss financial center is a SEPA member. This makes Swiss financial institutions equally entitled participants in the SEPA schemes.

The SEPA Direct Debit Scheme is used by few financial institutions in Switzerland because there is apparently little customer demand for cross-border euro direct debits (see the article on page 10). Cross-border payment traffic for customer payments is nevertheless part of the standard range offered by any financial institution. A total of 160 Swiss and Liechtenstein participants are thus far registered participants in the SEPA Credit Transfer Scheme. The statistics, which illustrate the development of transactions and the corresponding volume figures, show that the participating financial institutions appreciate the advantages of SEPA credit transfers.

Advantages of SEPA payments at a glance:

- Reachability for direct customer payments from 34 SEPA countries
- Payments are made directly to the creditor's bank
- Inexpensive
- No amount limit
- Credit must be made within one day at the most after the order is placed, whereas it is entirely conceivable that a payment can be settled and credited on the same day, depending on when it is delivered to the clearing system.

The SECB has experienced that banks have also instructed large value payments to be made as SEPA payments and that these have been received by creditors with no problems. This is due to the short duration of a SEPA payment and in view of the fact that, depending on the time the instruction is placed, settlement in the clearing systems and the credit at the creditor can occur on the same day.

The SEPA rules stipulate that payment amounts are to be credited to the creditor's account without any interbank deduction of fees. Agreements on conditions between the banks and their customers are not impacted by this rule and banks are permitted to charge separate fees. Since cross-border payments from Switzerland are not subject to the EU price regulation, in a few individual cases – numbers trending downwards – fees are nevertheless deducted from the credit transfer amount.

Regardless of the European perspective, the SEPA migration is still to be considered a successful model for the financial centers of Switzerland and Liechtenstein.

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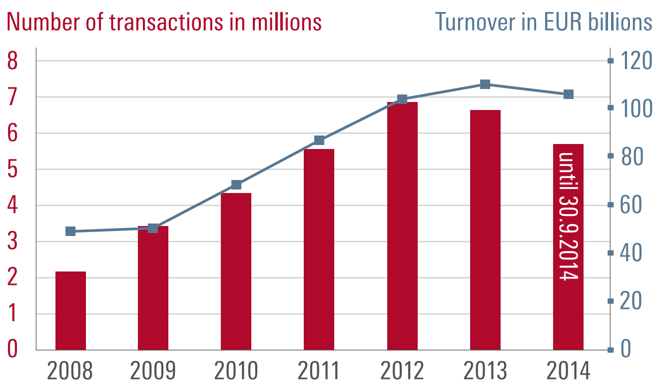
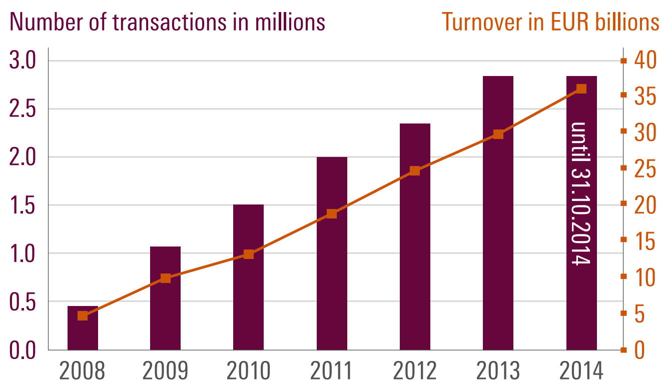


SEPA credit transfers: all transactions processed through clearing systems for CH und LI



SEPA credit transfers via euroSIC/SECB

The SECB's new SEPA direct debit solution

Due to the altered market situation, the SEPA Direct Debit Service that was developed five years ago for the Swiss financial center by SIX Payment Services and SECB Swiss Euro Clearing Bank will be discontinued in October 2016. The reorientation of the service in a format that meets the current and future market requirements will be offered solely by the SECB.

The SECB, as a direct participant in the SEPA Direct Debit Schemes of EBA Clearing, offers indirectly connected Swiss financial institutions an interbank solution for the processing of SEPA core direct debits and SEPA business-to-business direct debits.

SECB SDD Service

The new service supports both the SEPA Core Direct Debit Scheme, including COR1 (a special format with shortened presentation deadlines) and the SEPA Business-to-Business Scheme. Transactions will be processed both for the debtor's bank as well as for the creditor's bank.

General conditions

Registration is required at the EPC for each of the two schemes. Even if a bank is already registered for the SEPA Credit Transfer Scheme, an additional registration must be made, specifically through the National Adherence Support Organization (NASO) responsible for each respective SEPA country. This task is assumed by SIX Interbank Clearing Ltd for Switzerland. An additional registration with the Euro Banking Association (EBA) is necessary to use the COR1 scheme, which takes place through the SECB.

Users of the SECB SDD Service must open and maintain a euro sight deposit account at the SECB. In addition to the account contract, a supplemental agreement must be signed for the processing of SEPA direct debits between the bank and the SECB. Settlement of the direct debit transactions (debits and all related R transactions, e.g. rejects, returns) takes place directly through the sight deposit account at the SECB and not in the euroSIC system. SEPA direct debits are not subject to an amount limit.

The standards for direct debits and the related subsequent messages (R transactions) is ISO 20022 in the respective current version. As the solution offered is used, the SECB expects ISO 20022 messages from the respective bank for the exchanging of direct debit transactions between banks (e.g. pacs.003 collection and payment messages). The SECB solution does not provide for any conversion of customer-to-bank messages (pain.008) to pacs.003.

Since, in many cases, administration of the direct debit mandates exchanged between the debtor and the creditor takes place in the bank's internal application and the verification of the existence and validity of a mandate also occurs there, the SECB solution does not provide for any mandate administration or mandate verification.

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Soon obsolete

The SEPA Direct Debit Service from SIX has been in operation since 2009; 34 banks are currently connected, nine of which are located in Switzerland. The transaction figures – there were 170,000 in October 2014 – are predominantly generated by banks located in EU countries. This is understandable since the SEPA Regulation has been in place there since August 2014. For banks, this means that they may no longer offer any national direct debit schemes.

The SEPA Direct Debit Service was developed and upgraded on an ongoing basis by SIX from the perspective of the Swiss market's relatively small number of transactions in comparison to Europe. The requirements of the market have meanwhile changed so that the service would have had to be upgraded both in technical and functional terms. The decision was made to only offer SEPA direct debits through the SECB as of autumn 2016, in view of the market requirements, the introduction of ISO 20022, and especially the planned new Swiss direct debit solution combined with e-billing, in which SEPA direct debits do not play a role. Existing participants can migrate to the new SECB offer.

New strategy for the SWIFT portfolio

SWIFT resets its strategy every five years to meet the needs of the financial world. This involves elaborating the overall specifications of the SWIFT community as guidelines for development and cooperation in the process of deploying new services. The currently applicable "Strategy 2015" is nearing completion – with strengths ranging from time limits for achieving price reductions in the core business to new fields aimed to master current challenges.

SWIFT has already achieved its goal of sustained, structural price reductions for its users by 50 percent – an entire year earlier than planned. In addition, a range of new services assists users when it comes to meeting current challenges. These include more intensive regulation around the world and the related ever-increasing cost pressure which the banks must meet with greater operative efficiency through standardization and automation. Towards this end, SWIFT is steadily upgrading its services for effective STP, such as with the SWIFTRef master data service or MyStandards, which is aimed at improving the use and maintenance of the internationally applied standards.

En route to "Strategy 2020"

Members and users, along with industry experts around the world, were surveyed and asked for input about the overall specifications for the further development of the services in the next five year period leading up to 2020, which was presented to the SWIFT Board of Directors and Executive Committee. The results are currently being evaluated for presentation of "Strategy 2020" in mid-2015. Switzerland contributed with a dedicated "SWIFT 2020 Consultation Workshop" with the national community, which took place in September 2014. Specific areas were researched during the workshop, with particular emphasis on financial crime compliance and corporates markets, among other things.

Around the globe, criminality including organized financial crime, money laundering, data espionage and new geopolitical conflict demands global solutions. SWIFT shall therefore more powerfully expand the newly developed financial crime compliance market field faster and more comprehensively to meet the needs of the financial world. A strictly protected area shall be defined to provide insight into message data for compliance purposes.

- SWIFT already offers banks relief in terms of costs and internal work with the new compliance services portfolio. These services currently include sanctions screening and testing services, compliance analytics and, as of the end of 2014, the new Know-Your-Customer-Register. This can be used free of charge by banks that provide their own data in 2015.

In the area of corporate markets, the Swiss community welcomes an upgrading of the services in the geographic and mid-tier area: here too, there is a further need for the standardization and automation of the communication between banks and companies. In the process, SWIFT must pay greater attention to the needs of smaller and midsized businesses.

- Market demand for an inexpensive, simple connection to the SWIFT network is met with Alliance Lite2, which has now been further upgraded as "Alliance Lite2 for Business Applications": end-users can receive special business software applications from selected vendors together with the SWIFT connection as a total package.

In the future, SWIFT will also primarily concentrate on the development of its core services. Besides this, however, new market developments and industry trends, such as payments in real time – will be carefully analyzed and appropriate responses towards them will be formulated.

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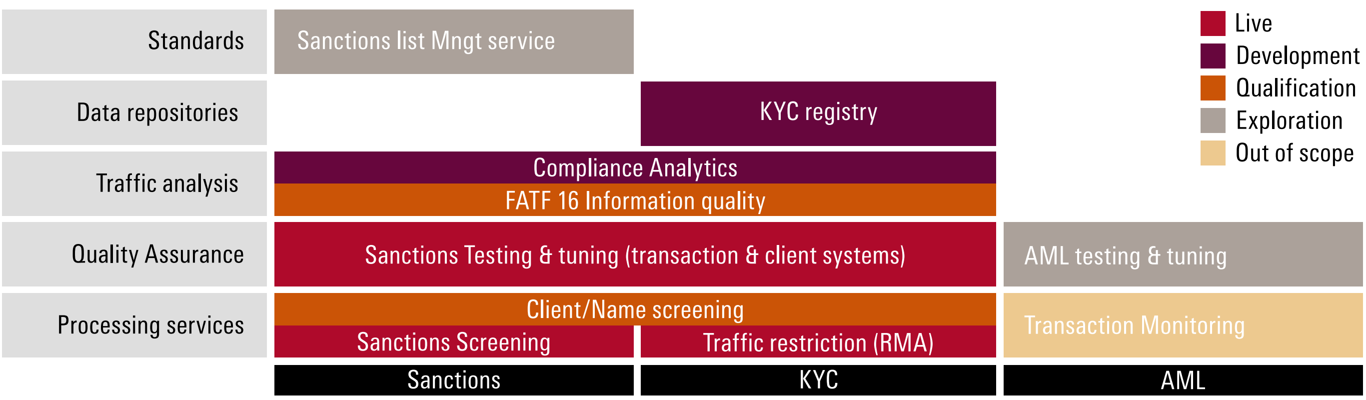


Financial Crime Compliance roadmap

International liquidity regulation in Switzerland

Liquidity risks have long been considered a side issue from a regulatory perspective. The focus was clearly on the regulation of equity. A rethinking has occurred since the financial crisis. This is reflected in the international regulation timetable and, correspondingly, also in the Swiss implementation.

As the first essential step in the adaptation of regulation in Switzerland, the Liquidity Ordinance came into force in January 2013, affecting all banks.

From quantitative to qualitative regulation

The Liquidity Ordinance placed into national law the qualitative minimum standards set on the international level by the "Principles for Sound Liquidity Risk Management and Supervision" of the Basel Committee in September 2008. Determined within a framework in accordance with the proportionality principle, were requirements for risk assessment and management systems, for risk reduction measures, stress tests and an emergency concept.

The quantitative requirements pertaining to the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) will initially be introduced incrementally. The LCR will be introduced starting 2015 – for system relevant banks with a 100% requirement and 60% for all others, which will subsequently be increased by 10% points annually until the requirement also reaches 100% – and the NSFR will be binding as of 2018. Both were put into place upstream to provide for an observation period to be able to identify potential problems through the statistics and to correct them.

The monitoring statistics comprise bank-specific data relating to a bank's cash flows, balance sheet structure and unencumbered assets as well as certain market indicators. In addition to LCR and NSFR, they should facilitate an objective assessment of a bank's liquidity situation.

The LCR and its impacts on the repo market

The LCR presents challenges to Swiss banks in various respects, which were considered as extensively as possible in the supervisory implementation. In Switzerland, there is a problem in that the banks' available liquid assets, which must be reserved to cover potential liquidity outflows, are only available to a limited degree. This is due in particular to the low availability of government bonds in Swiss francs in relation to the size of the financial center. Therefore, the so-called Alternative Liquidity Approaches (ALA) were used in Switzerland. Accordingly, bank outflows in Swiss francs can be covered up to a defined portion with foreign currency assets. Banks which do not hold such assets for operative reasons, can instead, upon application to FINMA, take into account a higher portion of so-called category two assets (e.g. mortgage certificates and corporate bonds with a good rating).

An adjustment mechanism was also introduced for the LCR, which treats short-term transactions against high-quality assets with a maturity below 30 calendar days as if they are non-existent. Since a majority of Swiss repo transactions involve securities and money denominated in different currencies, this adjustment mechanism ensures that a lack of CHF liquidity will not be made worse in the case of repos with foreign currency assets. This would continue to safeguard the function of the Swiss repo market, which proved to be a source of liquidity in the last crisis.

Reporting on intraday liquidity

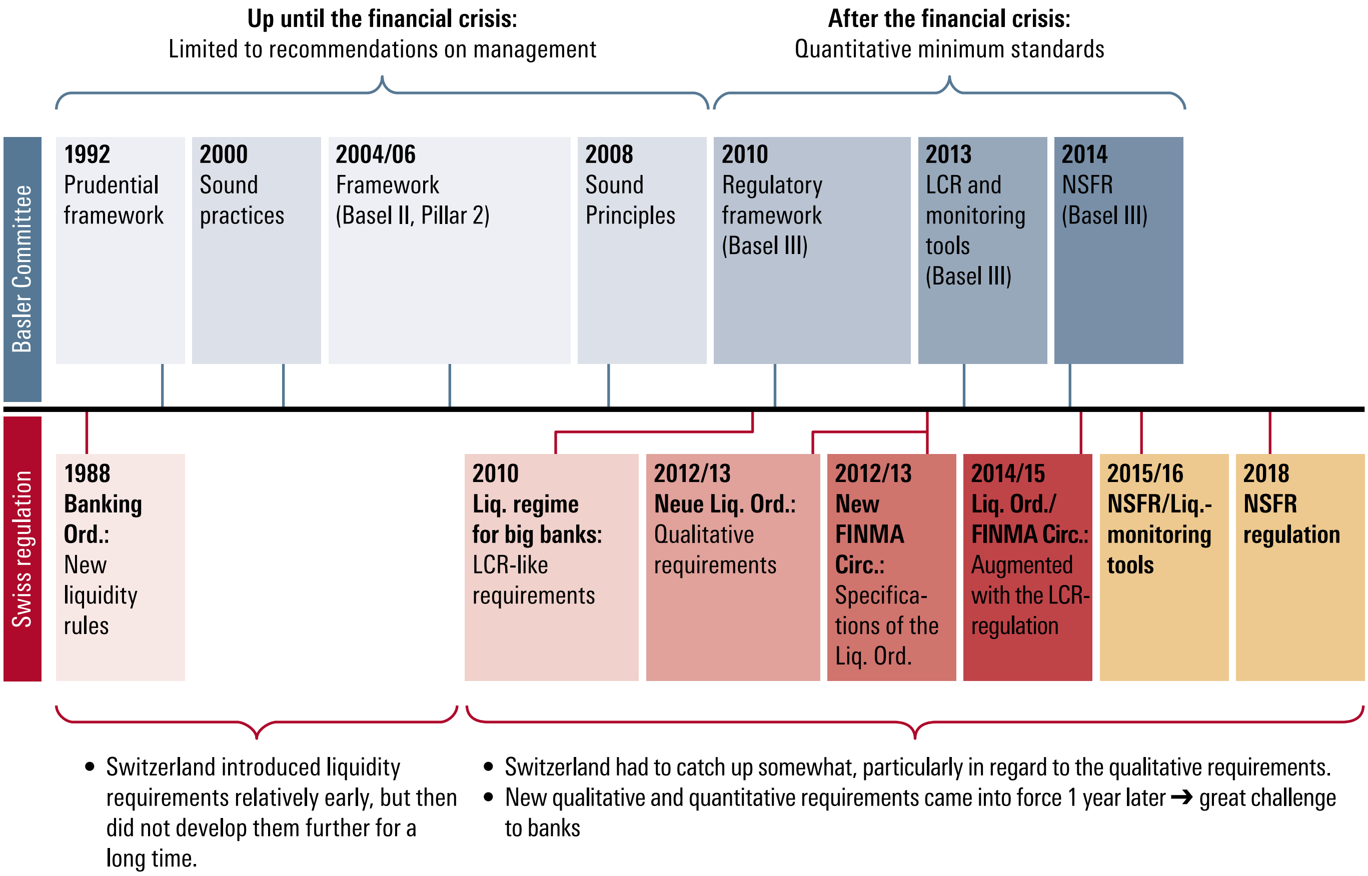
Intraday liquidity management will not be considered in the calibration of the LCR, but is a component of the supplemental observation ratios and the qualitative requirements for liquidity risk management. The qualitative requirements will thus be augmented by the introduction of separate reporting on the intraday liquidity position. The implementation of this is currently planned for the five largest Swiss banks within the scope of a test reporting starting 1 January 2015. The test reporting will be upgraded in the course of 2015 with the compilation of data in consideration of stress scenarios. There are currently no plans to expand reporting to other banks.

The aim of the reporting is a systematic recording of intraday liquidity management and should show a bank's ability to be able to meet its payment and processing obligations in real time under both normal and stress situations. A stress situation can involve the reporting bank itself as well as counterparties and bank customers or the entire financial market.

This reporting is comprised of three main sections, whereby the first section is relevant for all banks required to report. This section includes the intraday payment streams both on a net (i.e. incoming payments are settled against outgoing payments on a minute-by-minute basis) and on a gross basis. Also occurring in this area is the capturing of the available intraday liquidity (e.g. central bank credit balance or collateral with the framework of the SNB liquidity bottleneck financing facility) and the volume of time critical payment obligations.

The second section is relevant for those banks offering correspondent bank activities. It includes reporting of the outgoing payments that were conducted on behalf of correspondent bank customers, as well as any existing credit lines that are made available to such customers on an intraday basis.

National and international liquidity regulation



The third section is aimed at the direct participants of payment and processing systems and contains reporting of the flow of outgoing payments per hour during the clearing day.

While evaluating the compiled data, the focus is especially placed on observing any obvious changes in the intraday liquidity management of a bank and, in a further step, the assessment of a bank's robustness and ability to retain its liquidity positions under various stress scenarios.

As a whole, it is to be noted that while the Swiss implementation is embedded in an international context, the proportionality of the implementation must be viewed at all times.

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Swiss participation in EBICS s.c.r.l.?

The Electronic Banking Internet Communication Standards (EBICS) issue has grown increasingly important in the Swiss financial center in recent years. The interest in this open, secure standard for communication (primary) between business customers and financial institutions is in part demonstrated by the founding of a PaCoS EBICS working group and the increasing number of EBICS-based access channels in Switzerland.

There is a lively exchange between the Swiss financial center and the international EBICS community (EBICS s.c.r.l.). This led to an initial meeting of the EBICS s.c.r.l. technical working group and the Swiss EBICS working group in Zurich. The objective of this meeting was initially for the participants from Germany, France and Switzerland to get to know one another. Once introductions were made, head of the PaCoS EBICS working group, Albert Apolloner, presented the requirements of Swiss financial institutions and challenges pertaining to the implementation of the EBICS.

Harmonization is desirable

A central aspect of the subsequent discussion was the handling of the option of identifying bank-specific order types planned for the EBICS. This is currently handled differently in Germany and France. From a Swiss perspective, harmonization here would be desirable and also urgently needed in the medium term for the use of the EBICS by other financial centers. The initial solution approaches among the Swiss participants in this direction were listened to with interest and also extensively discussed in numerous bilateral conversations during the lunch break that followed.

After lunch, the topic of security was on the agenda. The starting point for this discussion was the paper published

EBICS experts from Germany, France and Switzerland at the Zurich meeting

by the European Central Bank, entitled "Recommendations for the security of Internet payments", which encouraged the use of stronger authentification and hard tokens for the saving of certificates for Internet-based payments. These recommendations were declared binding by the EU regulatory authorities in charge as of 1 February 2015.

The participants agreed that the EBICS standard would basically meet the set requirements today. The participants considered it entirely conceivable that there is still a need for action when it comes to the concrete implementations in Germany and France. For example, in France to use of hard tokens is already legally stipulated for the approval (signature key) of orders in the EBICS model TS. Nevertheless, it is only currently used by only around 20% of EBICS users.

In the next segment of the meeting, Sabine Wenzel, who heads the technical working group, presented the history, organization and duties of EBICS s.c.r.l. The Brussels-based company was founded in June 2010 as a joint venture of the German and the French banking associations, Gesellschaft der Deutschen Kreditwirtschaft and Comité français d'organisation et de normalisation bancaires (CFONB), with the intention to make the communications protocol freely accessible to the entire market.

Central to the duties of the EBICS community is the maintenance and further development of the EBICS standard and the protection of registered trademarks and copyrights. A change request process was defined to foster the further development of the standards by the working group, which regulates the accepting of new requirements, provides for the coordination and evaluation and, upon acceptance, integration into the rulebook.

Change requests from Switzerland?

Change requests can basically be submitted by anyone. They can be compiled and discussed at the biannual meeting of the EBICS working group, where they can also be voted upon. If a change request is approved by the majority of the working group, it will be presented to the Board of Directors of EBICS s.c.r.l. Approved charge requests will be periodically combined and published within the scope of a new EBICS release.

The EBICS working group would, of course, also like to receive change requests from Switzerland in the future. Sited as an example of such a change request, was the proposed harmonization of the identification of bank-specific order types, which was discussed in the morning. At the present time, it looks as though this request may soon be granted. Since the Swiss financial center strives to take on an active role in designing the EBIC standards, a negotiating mandate was recently approved by the SIX Interbank Clearing Ltd Board of Directors for a potential participation in EBICS s.c.r.l.

This would remove all hindrances to the further development of the EBICS standard on the path to a broader international orientation and to increased consideration of the Swiss requirements in the future.

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