

EDITION 15 | November 2002

ClearIT

Information about the Swiss Payment Traffic Systems

15

CLS Will Gain Acceptance

IPNet for SIC and euroSIC

New Body for Euro Payment Traffic Area

DCONTINUOUS LINKED SETTLEMENT (CLS) – A NEW MILESTONE IN INTERNATIONAL PAYMENT TRAFFIC **4**

Joseph De Feo, CEO of CLS Group, talks about the current CLS situation and his outlook. *Peter W. Allsopp*, who was in charge of the BIS report «Settlement Risk in Foreign Exchange Transactions», published in 1996, discusses the CLS risk profile. Representatives of Swiss banks examine the reasons for their participation in CLS either as settlement or third-party members.

SEPA – A UNIFIED EURO PAYMENT TRAFFIC AREA **11**

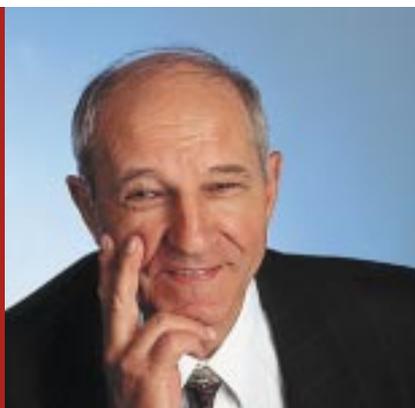
In the future, within SEPA, the cross-border payment traffic should be functioning just as efficiently as the domestic payment traffic within the individual EU countries today. Working toward the goal of realizing the SEPA, the European banks have created a new committee, the European Payments Council (EPC).

DTA/LSV OPERATION CENTER **13**

Services are only as good as the individual human beings providing and supporting them. At varying intervals we will write up some of our staff at Swiss Interbank Clearing. In this issue, meet the people making up the DTA/LSV support.

IPNET FOR SIC AND euroSIC **14**

The TELOS^{net} era is ending. With the introduction of Finance IPNet the SIC and euroSIC network environment is adapted to the new circumstances.



DEAR READERS

CLS, the Continuous Linked Settlement, is a new milestone in international payment traffic and not just in foreign exchange trade, as one might surmise. CLS will significantly affect the Swiss financial center in more ways than one. All the more reason for us to thoroughly explore CLS from various perspectives. To start off this editorial, I will focus my attention on some of the parallels between CLS and SIC.

On our very first SIC clearing day back in June of 1987, approximately twenty financial institutions participated in our services. By now, SIC has more than 320 participants. This includes about sixty companies abroad. During those fifteen years, the system continued to evolve at a remarkable speed. Third-party payment systems were attached, long distance access became a reality, euroSIC (including cross-border payments) was launched, multi-client and multi-currency processing were introduced, and CLS was connected to SIC. All this resulted in an extraordinary capacity, allowing us to process 2.1 million transactions on a peak day and settle payments worth over 45,000 billion CHF per year with ease. Putting it another way: SIC has become a networked, all-around system.

On September 9, 2002, CLS started its CULP (Controlled Unscripted Live Phase) - in seven currencies, with 39 of the 67 shareholder banks, around the clock, around the world. Seven central banks are directly involved; seven national RTGS were adapted and connected. The intraday credit facilities were extended. And, thanks to the Swiss Value Chain, exceptionally efficiently for the Swiss franc. What will someone be able to write about CLS in 15 years, in the year 2017? When looking at the SIC development - toutes proportions gardées - I am assuming that there will be talk of growth, expansion, secondary use, and many other things. But beyond that, there are other striking similarities between SIC and CLS:

- For one thing, the unshakeable consensus about the long-term benefits, the high demands in the planning and start-up phase, the associated high investment costs, the fact that the actual launching date had to be postponed several times, the increasing interdependence between systems, the risk reduction or elimination at the transaction level, as well as the simplification and tightening of the handling processes.
- And the other thing: Operational risks are ever increasing because the networking actually worsens the domino effect. The centralized system becomes the centralized risk factor. In order to take the necessary steps, the connected RTGS require screening for contingency and redundancy capability, and new emergency measures will need to be implemented. That holds true for the central banks involved, as well.

Conclusion: CLS is not simply a new system - CLS rings in a whole new era. Regional dependencies are being replaced by global and multi cultural interdependencies - a most fascinating and demanding challenge for the financial industry.

A handwritten signature in black ink, appearing to read 'André Bamat'.

André Bamat, CEO, Swiss Interbank Clearing Ltd.



Joseph De Feo

JOSEPH DE FEO: «CLS ELIMINATES SETTLEMENT RISK»

ClearIT: Many market participants have welcomed CLS as the answer to the so-called Herstatt risks. Isn't there a chance, though, that while CLS eliminates these risks, it creates other, new problems?

Joseph De Feo: Unfortunately, I cannot answer this question with a simple 'no'. However, it is important to remember that CLS changes the way cross-border transactions have been settled for the last 300 years. A change of this magnitude will always require the market to adjust to these new challenges with new processes and disciplines. We have worked with the market to ensure that the transition to the new CLS world is made as easy as possible. But it is clearly preferable to know the specific risks and to be able to deal with them than to be vulnerable and exposed to them.

After some initial difficulties, such as increasing costs and delays, CLS is now operating. In your opinion, which are the most important effects

CLS will have on the worldwide financial markets in the coming years?

Projects of this magnitude are never easy to realize - just think of the sensitive politics alone. However we are now beginning to see the benefits realized for the market as a whole. CLS will make cross currency transactions safer, quicker and more efficient and eradicate the risk of failure of these transactions. Banks will be able to better manage their liquidity as the system enables them to see which transactions are settling in real time. Operational efficiency will increase, and liquidity flow previously tied up in the settlement process is being freed up.

CLS will significantly lower processing risks. Nonetheless, not every market participant will decide to participate, perhaps due to the required organizational adaptations. What are your plans if you should notice that not enough of the world's foreign

exchange is processed through CLS?

We won't need any such measures. CLS Bank is supported by over 65 of the world's largest global financial institutions, and together they account for a substantial majority of the cross-currency transactions across the globe. Potential third-party customers of our settlement mem-

SHORT BIOGRAPHY

Joseph De Feo is the CEO of CLS Group Holdings and President and CEO of CLS Bank International. Before that he was Director of Group Operations and Technology and member of the group-wide Executive Committee for Barclays Bank, preceded by his activities as Director of Group Systems and Operations for Morgan Grenfell. During his time at Barclays Bank, Mr De Feo belonged to the Group of 20 representatives of leading international banks concerned about the significant settlement risks in worldwide foreign exchange trade. The G20 developed the plan which ultimately resulted in the founding of the CLS Group.

Swiss Interbank Clearing

At last... after resolving complex technical and political challenges, as of September 9th, the risk associated with cross currency settlement across time zones in the FX market has been eliminated in seven of the most important currencies. The Continuous Linked Settlement (CLS) system prevents another «Herstatt» case from ever happening again. Joseph De Feo, CEO, CLS Group, talks about the current CLS situation.

bers are beginning to recognize the benefits of settling through CLS and there will be a number of them starting to settle through CLS settlement members by the end of the year.

Initially transactions will be processed by CLS Bank in 7 currencies; all other currencies will continue to be handled through conventional correspondent banking. How will this affect the foreign exchange trade of the non-CLS currencies?

Six additional currencies have been approved in principle by CLS Bank. This will potentially bring the total number of CLS Bank eligible currencies to 13, representing approximately 85% of the entire worldwide foreign exchange volume. We are continuing to look at how we can expand the number of currencies settled by CLS Bank, and are in close contact with many central banks, some in Eastern Europe. Every new currency has to fulfil the strict criteria set in CLS Bank's rules.

Approximately 20 settlement members want to offer their services as third-party providers. What do you

think of the theory that while CLS significantly lowers settlement risks, the risks end up showing up at some of these settlement members instead?

Actually, that's not likely to happen. I believe that customers of settlement members will carefully select their third-party providers. Settlement Members will apply liquidity management techniques that generate sufficient stability in their own systems. Think about clearing systems like CHAPS with only few direct participants and a multitude of third-party members - this system has proven stable for many years. Not least because of the transparency CLS will provide, the market will recognize potential risks in time and intervene. And if not the market, then certainly the central banks. I'm confident that this will self-regulate over time.

Christian Schwinghammer,
Swiss Interbank Clearing Ltd.,
christian.schwinghammer@sic.ch

André Gsponer,
Enterprise Services AG,
andre.gsponer@eps-ag.ch

CLS BASIC PRINCIPLE

On the trade date, the settling payment instructions of both trading partners to a foreign exchange trade are matched by CLS. CLS Bank holds accounts in the major central banks of the settling currencies, receives and makes payments in central bank funds. By using payment versus payment, CLS Bank will simultaneously provide the settlement of payment instructions with real-time settlement confirmation. Each settlement day, settlement members with instructions due to settle, receive a pay-in schedule detailing the net amounts to be paid to and received from CLS Bank in each currency relating to all instructions to be settled on that value date. Members will be required to follow the schedule by making timed payments over a 5-hour settlement period to CLS Bank. The settlement process will operate continuously during the settlement period, receiving payments from settlement members, settling instructions and paying-out funds to those members that are due to receive payments.

Additional information about CLS can be found at: <http://www.cls-group.com>. CLS is a trade mark of CLS UK Intermediate Holdings Ltd.



Peter W. Allsopp

PETER W. ALLSOPP: «CLS IS ONLY ONE AND NOT THE ONLY POSSIBLE SOLUTION TO ELIMINATE RISK»

In March of 1996, the Bank for International Settlements (BIS) published the report «Settlement Risk in Foreign Exchange Transactions», the so-called Allsopp Report. This report shows the risks in foreign exchange transactions as well as some suggestions for possible solutions – and how these risks can be minimized or avoided altogether. This turned out to be the cornerstone for the CLS system. Shortly after the introduction of CLS, ClearIT had a conversation about this important step with Peter W. Allsopp, at that time chair of that study group.

ClearIT: Many experts think of CLS as the right solution to minimize risks in foreign exchange trade. What are your thoughts about that assessment?

Peter W. Allsopp: Of course the regulators are happy and content that after this long and at times challenging process CLS is now up and running and that with that the risks can

be reduced. As we already mentioned in our report back then, CLS is only one and not the only possible solution to eliminate risks. As far back as 1996 the G10 demanded three important measures:

- Each bank must understand and control their own risks.
- Banking industry must introduce risk-minimizing multi-currency systems.

- The central banks must be actively involved in this process and, if required, introduce appropriate measures.

CLS is also only one part of the solution. It is equally important that the individual banks understand the risks, identify them and are able to manage them. And the central banks are to ensure that this is indeed the

Swiss Interbank Clearing

case. In addition, bilateral agreements will have a great impact on specific situations.

In the beginning, seven currencies are processed through CLS. Later, additional currencies considered high risk in the worldwide foreign exchange are to be added. How does an expansion like that affect the CLS risk profile?

Six additional currencies are about to be included, and I am certain that others will follow, although for many currencies with a low transaction volume the cost of reforming their systems to meet the high CLS standards may never be justified. Of course there will always be trades, even in CLS currencies, that are not settled through CLS; I believe that the higher settlement risks on those trades will increasingly be factored into the market pricing, which may over time make trading in non-CLS currencies, or with counterparties outside the CLS community, less attractive.

A few settlement members are offering their services to other banks as third-party participants. Potentially, that could inadvertently lead to a risk consolidation on just a few settlement members. How high do you judge the risk that the collapse

of one important market participant could affect the entire CLS system?

This problem isn't new to us in England. There are only a few direct participants in CHAPS. It is not like in Switzerland, where all banks are directly linked to the RTGS system. Such a concentration has become a reality for these approximately 20 CHAPS participants. It will be the central banks' responsibility to make sure that the market functions well. It will be difficult for the central bank to stand back if at some time a multi-client Nostro agent or settlement member runs into difficulties. The central banks have to be prepared to consider appropriate emergency scenarios.

Some experts insist that, over time, CLS will have to become a worldwide multi-currency market infrastructure. How do you see CLS' future?

CLS must and will continue to evolve. The risk involved with money market, securities-, and cross-border payments continues to be very high. It will be crucial for this process to enhance efficiency in a mechanism remaining unchanged. The moment security transactions are included the concept will have to be revised considerably. It will be interesting to see how the individual central banks will

behave in this process - and whether we will soon see a «worldwide central bank».

Christian Schwinghammer,
Swiss Interbank Clearing Ltd.,
christian.schwinghammer@sic.ch

André Gsponer,
Enterprise Services AG,
andre.gsponer@eps-ag.ch

SHORT BIOGRAPHY

Peter W. Allsopp is the CEO of Allsopp Consultancy Services in England, and was formerly head of the payment, settlement and clearing systems division at the Bank of England. He was involved with the technical and political aspects of restructuring the British payment system. Mr. Allsopp represented the Bank on the European Monetary Institute's Working Group on EC payment systems, and chaired its task force on the ECU clearing.

He also represented the Bank on the G10 Central Banks' Committee on payment and settlement systems and was closely involved in its work on foreign exchange netting schemes, chairing its Steering Group on settlement risk in foreign exchange transactions - whose report was published by the BIS in March 1996.



CLS – THE SWISS SETTLEMENT MEMBERS’ PERSPECTIVE

Credit Suisse First Boston (CSFB), UBS AG and Zürcher Kantonalbank (ZKB) are directly connected CLS system settlement members. Other Swiss banks interested in this system will have to participate as third-party member using the services of one of these three banks or another, foreign bank. This turns out to be a market segment arduously fought for, since third-party banks are more strongly connected to a settlement member by using their services, than they are currently in correspondence banking. ClearIT has talked about CLS and their respective services with representatives from CSFB, UBS and the ZKB. Below is a summary of these three interviews.

Only four Swiss banks qualified for direct participation in the CLS system due to the strict entry requirements: In addition to CSFB, UBS and the ZKB, only the Bank Julius Baer met the terms of admission. But in contrast to CSFB, UBS and the ZKB, Bank Julius Baer decided to participate as a third-party member (see also article on following page).

The reasons for direct access of the three Swiss CLS members vary from organization to organization.

UBS, one of the largest market participants in foreign exchange trading will definitely participate to ensure secure processing of their own transactions, but also to take precautions against potential pressure by the regulators. Today, already, UBS is directly connected to the clearing systems of four CLS currencies. The bank is very interested in ruling out processing risks, particularly since the credit ratings of their transaction partners are not as strong as their own. Additionally, UBS pursues the strategy of positioning themselves increasingly as service provider for other banks.

CSFB is primarily interested in faster processing of their own transaction volumes. What’s more, it would be difficult to receive

the required limit from another participant. CSFB wants to participate early on in order to be able to become a service provider of the ‘first hour’ once the CLS system is expanded to include other business areas.

For the ZKB it was primarily a strategic decision. Third-party access to CLS via another bank was difficult to imagine for the ZKB. Additionally, by opting for direct participation, the ZKB opened up the possibility of offering their services to other canton banks, and beyond that to selected other banks in the Germanic part of Switzerland.

Services for Third-Parties

While the CLS system is rather complex, the settlement member services are comparable and simple to install. The services are based on SWIFT components, containing the providing of liquidity, cost approximately the same and offer, among other advantages, inquiries and reports via Internet, as

Swiss Interbank Clearing

well as multi-lingual customer services. The three banks place their emphasis somewhat differently from each other: CSFB and UBS are focusing on making CLS processing as effortless and smooth as possible with online reporting and value added services. The ZKB is banking on the short decision making process and their status as a niche player. When considering services for third-parties, Switzerland offers up some advantages in general, specifically in the Germanic part. The Swiss banks are already offering multi-lingual services, speak the same language as their customers in Germany and Austria, and enjoy a higher level of legal security when compared with banks in other countries. Additionally, there are no Austrian banks directly connected to CLS, and many German banks would rather use a foreign partner than a German big bank.

Decision Criteria for Third-Parties

For the mid-term, no Swiss bank will be able to live without CLS. Especially smaller banks can benefit from the many advantages of CLS, compared to today's processing: less liquidity is required for smaller risks, besides lower costs being generated. But especially smaller banks will want to give serious consideration to their respective foreign exchange trade strategy beforehand. For a bank barely involved in the foreign exchange trade an Internet supported trade tool may prove to be sufficient. After deciding to participate in CLS, the most important issues are the choice of a technically well matched product as well as the agreement of both partners about the third-party bank's credit needs.

This year, approximately 10% of the banks active in foreign exchange trading will participate in CLS as «early movers», with about another 40% following suit in 2003.

Effects on Correspondent Banking

CSFB, UBS and the ZKB agree that correspondent banking will change before long. CLS will result in smaller and medium size banks increasingly concentrating on one main partner for all currencies. This, in turn, simplifies the processes, maintaining liquidity, and results in savings. Of the large banks, some will connect with all CLS currencies clearing systems allowing them to offer comprehensive CLS services. However, of the 67 current CLS participants some are already choosing not to offer third-party services. Presumably, even fewer settlement members will be offering such services over the medium term.

All this brings us to the conclusion that CLS will slowly but inevitably change payment traffic as we know it over the next few years.

Our interview partners in alphabetic order:

- Ulrich Hoffmann, UBS AG, Head Payments & Cash Management Services
- Martin Loss, ZKB, Regional Manager International Banking
- Michael Obrist, ZKB, Regional Manager International Banking
- Olaf Ransome, CSFB, Transaction Services & Solutions
- Matthias Stambach, UBS AG, Cash Clearing & CLS Services

Christian Schwinghammer,
Swiss Interbank Clearing Ltd.,
christian.schwinghammer@sic.ch

André Gsponer,
Enterprise Services AG,
andre.gsponer@eps-ag.ch



Ulrich Hoffmann,
UBS: «Over time, no
Swiss bank will be
able to live without
CLS»



Olaf Ransome, CSFB:
«The introduction of
CLS will fundamen-
tally change corre-
spondent banking»



Michael Obrist, ZKB:
«Every bank will want
to be clear about
their foreign
exchange trade stra-
tegy beforehand»



Gérard Berclaz

CLS NOW HAS TO PROVE ITSELF AND START COVERING ADDITIONAL CURRENCIES SOON

Unlike UBS, CSFB and ZKB, Bank Julius Baer has decided not to participate in CLS as a settlement member, but instead as a third-party participant. ClearIT has spoken with Gérard Berclaz, Business Management Trading, about the reasons behind this decision as well as the important factors influencing the choice of the appropriate settlement partner.

ClearIT: Why is Bank Julius Baer participating in CLS as a third-party member, rather than as a settlement member?

Gérard Berclaz: Bank Julius Baer's core business is Private Banking; we are not active in Correspondent Banking. The bank's foreign exchange business is global, the back office centralized in Zurich. The investment for direct participation in CLS would have never paid off. Furthermore, due to our volume, Julius Baer is certainly an interesting and welcome customer for any settlement members, which should affect the prices.

What are decision-making factors in your choice of a settlement member?

Earlier this year, in June, we sent out nine requests for proposal to selected settlement members and subsequently evaluated the offers we received. In doing so, pricing was less of a deciding factor than the following points:

- Legal basis and with it the question of applicable jurisdiction, preferably Swiss or British law
- Cut-off times
- Handling of exceptions
- Cash management services and the related additional effort
- Support, especially 24-hour service and languages spoken by our employees
- Contingency plan
- Data security
- Format and content of the information
- Reporting over the Internet
- Commitment to Bank Julius Baer as an important client

After evaluating these points, there are three banks still in the running. We will do an additional series of extensive evaluations of these three companies. We envision the second quarter of 2003 as the starting point for the participation in CLS.

Which adaptations are required of Bank Julius Baer for this connection?

It is important for us to have to adapt as little as possible in order not to jeopardize the existing processes. Specifically, the adaptation may not lead to our being tied to one particular partner. That's why we are staying away from hard-wired access installation lines and hardware, for example. SWIFT is our communication carrier for all data, and the Internet is considered to be an additional source of information. That's how we stay flexible and can, should the need arise, obtain services from another settlement member.

Christian Schwinghammer,
Swiss Interbank Clearing Ltd.,
christian.schwinghammer@sic.ch

André Gsponer,
Enterprise Services AG,
andre.gsponer@eps-ag.ch



SEPA – A UNIFIED EURO PAYMENT TRAFFIC AREA

Creating a unified euro payment traffic area is the declared goal of the European banks. In the future, within this SEPA (Single Euro Payment Area), the cross-border payment traffic should be functioning just as efficiently as the domestic payment traffic within the individual EU countries today. Working toward the goal of realizing the SEPA, the European banks have created a new committee, the European Payments Council (EPC).

The combination of a single European currency, the changed trade conditions, and the pressure exerted by politics and consumers make the unification of the commercial payment traffic within Europe a pressing issue. With the new EU price regulation passed on November 26th, 2001, the pressure on prices and processes has increased. Each and every player has now been made aware that costs for cross-border payments must be lowered significantly. In order to reach this goal, the consistent use of Straight Through Processing (STP) standards, strategic product planning, and a unified European infrastructure for bulk payments is now being pursued.

SEPA to be Developed in Three Phases.

– Phase 1 (until July 2003) concentrates on optimizing the proces-

ses in cross-border payment traffic based on the existing infrastructures. STP standards such as IBAN and BIC are to be applied and used throughout, all euro transfers covered under the EU price regulation need to have uniform processing modalities developed, and new conventions and infrastructures have to be created for SEPA.

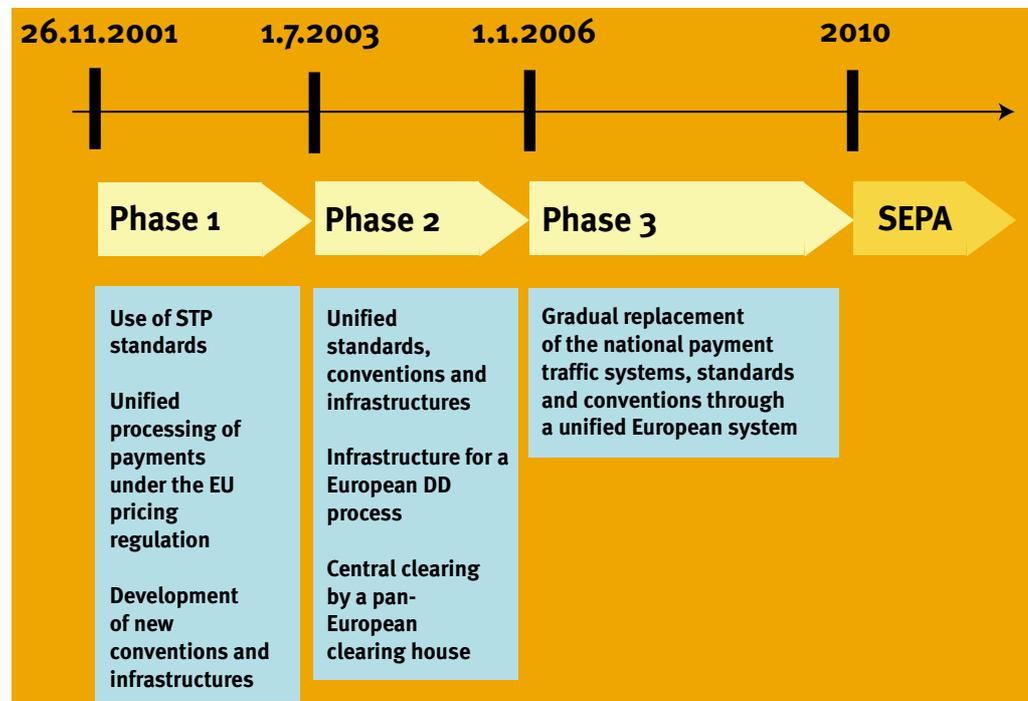
– In Phase 2 (until the end of 2005), the development of the new euro standards, conventions and infrastructures is planned. By mid-2003, STP-capable cross-border transfers and by mid-2005, cross-border direct debit via a pan-European clearing house should be able to be processed. A unified legal framework has to be defined and the legal basis for SEPA needs to be coordinated on the basis of a European agreement.

– In Phase 3 (2006 to 2010), the unified euro payment traffic area will be completed. Gradually, the national payment traffic systems, standards and conventions will be replaced by unified European ones. With the implementation of SEPA the separation between domestic and cross-border payment traffic will become a thing of the past.

European Payments Council

This steering committee is carried by the European banking organizations and supported by the European Central Bank. The EPC is responsible for defining the specific project phases and individual activities, coordinating their realization and supervising their adherence to the scheduled progress. The next months will show whether the EPC can reach these ambitious goals.

Three Phases along the Planned Path to SEPA



The EPC is composed of about 50 representatives from banks and banking organizations. Each EU nation has at least one seat. Countries with a high transaction volume such as Germany and France have several representatives in the EPC. Norway and Switzerland (with Michael Montoya, UBS AG) are also represented. During its first session on June 17, 2002, G. Hartsink, ABN AMRO, was elected as chair, and R. Boursault, Crédit Agricole SA, as vice chair. Their terms of office are two years. The European Savings Bank Group has taken on the responsibility of secretary. The EPC can pass decisions with a 2/3 majority. There

are five sub-committees, each chaired by EPC members. Their areas of responsibility include business requirements, End-to-End-STP, infrastructures, cards and cash.

Ingeborg Schwan,
UBS AG,
ingeborg.schwan@ubs.com

ADDITIONAL INFO

You can find additional articles about this topic in ClearIT no. 12 and 13.

BILATERAL II

The EU pricing regulation (EG 2560/2001) by the European Parliament and the Council provides that cross-border payments within the EU may not be more expensive to customers than domestic payments.

For credit card payments up to EUR 12,500 as well as for cash withdrawals from ATMs, the regulation has been in place since July 1, 2002. For money transfers up to EUR 12,500, the regulation will become effective starting July 1, 2003. In 2006, the area of applicability will be expanded to payments of up to EUR 50,000. Today, it can be assumed that this pricing regulation will also apply to Swiss euro payments once the Bilateral Contracts II between Switzerland and the EU have been signed.

DTA/LSV OPERATION CENTER

Services are only as good as the individual human beings providing and supporting them. We want to introduce you to some of the faces and names 'behind the scenes'. At varying intervals we will write up some of our staff at Swiss Interbank Clearing. In this issue, meet the people making up the DTA/LSV support.

During the first three quarters of 2002, Swiss Interbank Clearing processed a total of over 77 million transactions with a value at over 263 billion CHF via the two payment traffic applications DTA (data carrier exchange) and LSV (direct debit) - without any significant hitches. This is in large part due to the excellent five-member team at our DTA/LSV operation center located on Zurich's bustling West Side. The DTA/LSV operation center is the central hub, contact and coordination address for all banks and clients participating in using our DTA/LSV services plus all the users of the payment transmission software PayCom.

The Most Important Responsibilities

Among the most important responsibilities of the operation center are:

- Customer and bank support over the telephone
- Adjusting, coordinating, and monitoring the authorisation process - in the rare event of a failure or a deadline postponement
- Coordinating the work in the case of settlement difficulties with the SIC system
- Determining why DTA or LSV data can only be processed partially or not at all and subsequently informing the appropriate bank
- Managing DTA/LSV data of all participants in the master data file system
- Coordinating and checking the master data system for DTA and LSV
- Coordinating the work in case of production irregularities
- Supporting the product managers, especially during acceptance testing and release changes.

Try it out for yourself: contact our DTA/LSV operation center whenever you'd like to know something about our DTA or LSV system. Our staff is ready to answer your questions!

Bruno Kudermann,
Swiss Interbank Clearing Ltd.,
bruno.kudermann@sic.ch

ADDITIONAL INFO

Here's how to reach our Swiss Interbank Clearing DTA/LSV operation center - we are open from 8 am until 5 pm:

Tel. +41 1 279 4800

FAX: +41 1 279 4377

Email: dtalsv@sic.ch

You can also find out more about our online system status by looking up www.sic.ch or by calling +41 1 279 4033.

GOOD-BYE TELOS^{net} – HELLO IPNET

According to Moore's law, computer performance and capacity double every 18 months in our fast-lived computer age. But there are a few rare and exceptional infrastructures that lasted beyond industry expectations. When thinking about services like SIC or ATM/Tancomat/EFTPOS, one automatically assumes the most modern of IT platforms. Only insiders know that for these services, TELOS^{net}, a network infrastructure dating back to 1991, is networking the banks with the Telekurs Group.

TELOS^{net} (Telekurs Open System Network), a network infrastructure unique in Switzerland, was developed by Telekurs Services Ltd. and subsequently adapted to the increasing demands step by step. In order to best service the clients of Telekurs Group, the network was set up with three subsidiaries in Basel, Geneva and Lugano. The clients, primarily financial institutions, were connected to the network via these centers, using local rented lines. To date, approximately 450 client access connections have been established. Between the subsidiaries and the main computer centers in Zurich and Wallisellen, several redundant connections were installed to guarantee the required high level of availability of the network.

News of Consequence

No manager of an IT department would probably ever seriously consider abandoning a network that operates as successfully and reliably as TELOS^{net}, unless there were external reasons beyond his control. In 1999 it was announced that the X.25 hardware in use was no longer being produced. As a result, it would also only be maintained or supported by the manufacturer for a few more years. This forced Telekurs Group to replace the reliable TELOS^{net}

with a new network. The concept was moved along swiftly and soon the outlines of this new network had been defined.

From Project to Product

Swiss Interbank Clearing Ltd., SEGAINTERSETTLE AG and Telekurs Services Ltd. decided in August of 2001 to bundle their interests and to offer the Swiss financial market one joint network. That was the starting point for the «Finance IPNet» project, whose mission was this: construction of an Internet protocol (IP)-based network as a replacement for TELOS^{net}.

Finance IPNet must meet the following basic conditions:

- Private TCP/IP network, only accessible to authorized participants
- The Telekurs Group computer centers in Zurich and Wallisellen are opened and developed

- Minimally as efficient as TELOS^{net} where (for instance) availability is concerned
- Well suited for multi carrier operations in order to not be dependent on one provider
- Functions with all services offered by SEGAINTERSETTLE AG and Telekurs Group
- Replaces TELOS^{net} before the end of 2005.

The process during the current year is focused on defining the specifications as well as on completing the appropriate contracts. Simultaneously, the software was adapted and the new hardware ordered and installed. The new network will be ready for its first network testing by the end of 2002 and subsequently for application testing. The productive introduction is planned for April 11, 2003, for SIC and euroSIC. TELOS^{net} will cease its operations by September 30th, 2004. The financial institutions have 18 months for this migration.

Encoding for SIC and euroSIC

Data from SIC and euroSIC are encoded in TELOS^{net} during the transmission on the network level, which is why payment details are not legible within TELOS^{net}. Finance IPNet is structured differently and laid out for multi-carrier operations. As a result, data can no longer be encoded on the network level. The encoding has to be delegated to the applications. Interbank Security (IBASEC) will take over this responsibility for SIC and euroSIC. With that, each message is encoded and bug proof before being input into Finance IPNet.

The new IBASEC release 2.2, scheduled to be out the beginning of 2003, will provide more efficient encoding than has been available up until now with the signing of the messages. Financial institutions wishing to migrate to Finance IPNet will need to install IBASEC 2.2 and be in possession of the appropriate encoding keys. Obviously, the software packages for the communication with SIC and euroSIC also have to be adjusted in order for the interfaces of the financial institutions to be able to use Finance IPNet.

Current Project Status

Swiss Interbank Clearing informed in its newsletter of August 5th, 2002, about the status of the project and the binding deadlines

for the migration. At the same time, the adapted specifications were mailed. At the end of August, the software manufacturers and the operators of proprietary software solutions were informed.

The project plan envisions the following steps:

- By the end of 2002, the order form for the financial institutions will be passed and made available to the institutions.
- At the beginning of 2003, IBASEC 2.2 will be available; the financial institutions can install the new release and begin generating and exchanging encoding keys.
- All renters of a TELOS^{net} connection used for SIC or euroSIC, will be notified by Swiss Interbank Clearing Ltd. and informed about the possible migration date.

With the introduction of Finance IPNet the SIC and euroSIC network environment is adapted to the new circumstances. There is no change for the users in working with the two RTGS systems. Finance IPNet does not generate additional costs or effort for those financial institutions that have transferred their SIC and/or euroSIC communication to third parties, since only the service providers have to adapt their systems.

Marc Flühmann,
Telekurs Services Ltd.,
marc.fluehmann@payserv.ch

Dave Brupbacher,
Swiss Interbank Clearing Ltd.,
dave.brupbacher@sic.ch

ADDITIONAL INFO

Please refer any questions regarding IPNet to the SIC operation center at the following numbers:

Tel. +41 1 279 4200

Fax: +41 1 279 4741

E-Mail: operations@sic.ch



Spirited conversation at sibos 2002 in Geneva: André Bamat, CEO Swiss Interbank Clearing Ltd., and Horst Sander, CEO SECB Swiss Euro Clearing Bank GmbH.

MASTHEAD

PUBLISHER

Swiss Interbank Clearing Ltd., Hardturmstrasse 201,
CH-8021 Zürich, Switzerland

ORDERING/FEEDBACK – clearit@sic.ch

EDITION – No. 15 – November 2002

Published quarterly,

Circulation German (1300 copies), French (400 copies),

English (available in electronic format only on www.sic.ch)

EDITORIAL TEAM

André Bamat, CEO, Swiss Interbank Clearing Ltd., Susanne Eis, SECB Swiss Euro Clearing Bank GmbH, Ruth Furter, Postfinance, André Gsponer, Enterprise Services AG, Beat Härry, Credit Suisse First Boston, Daniel Heller, Swiss National Bank, Bruno Kudermann, Editorial Manager, Swiss Interbank Clearing Ltd., Ulrich Merz, UBS AG, Alex Miescher, RBA-Service, Christian Schwinghammer, Swiss Interbank Clearing Ltd.

TRANSLATION

French: Word + Image, English: HTS

LAYOUT – Mirjam Steiner Advertisement Agency

PRINTER – Telekurs Print Shop

CONTACTS

SIC Operation Center +41 1 279 4200,

Product Management +41 1279 4747,

euroSIC Operation Center +41 1 170 4700,

Product Management +41 1 279 4747,

SECB Operation Center +49 69 97 98 98 0,

Customer Service SECB +49 69 97 98 98 35

Additional information about the Swiss payment traffic systems can be found on the Internet at www.sic.ch or www.secb.de