

VOLUME 16 | February 2003

ClearIT

Information about the Swiss Payment Traffic Systems

16

The Repo Business: Plenty of Potential

DTA: Data Carrier Exchange Made in Germany

remoteGATE – euroSIC Access Moves Closer
to the Customer

EDITORIAL 3

THE SWISS REPO BUSINESS 4

and the advantages of high volume potential, broad market access, high-level credit security and efficient processing. Bruno Gehrig, Vice-Chairman of the Governing Board of the Swiss National Bank, in conversation about the repo as the basis for monetary policy steering and about the potential and use of this instrument. In addition, background information about the repo market and about the process of repo tenders.

STRAIGHT THROUGH PROCESSING IN PAYMENT TRAFFIC USING MT103 11

The message type MT100 is obsolete. High time for the conversion to MT103 or MT103+. An article by Daniel Wettstein, Chairman SWIFT Switzerland.

DTA (DATA CARRIER EXCHANGE) IN GERMANY 12

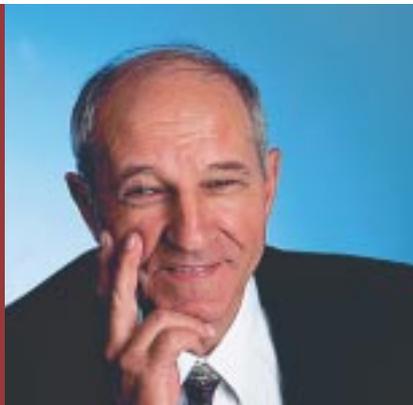
Three of four people living in Germany today execute at least one cashless payment - amounting to approximately 60 million payments per day nationwide... Dirk Schrade of the Deutsche Bundesbank, the German central bank, provides information about the German DTA clearing.

swisseuroGATE – OR HOW TO TRANSFER EUROS QUICKLY AND AFFORDABLY TO SWITZERLAND 14

During the year after the cash currency introduction, euroSIC transactions have increased considerably. This trend of rising transaction numbers in the payment traffic between euroSIC participants and a substantial increase in payments processed via swisseuroGATE validates the euro as an important foreign currency in Switzerland.

remoteGATE CONNECTS THE TWO WORLDS OF SWIFT AND SIC 15

Currently, there are more than 25 remoteGATE accesses operational in six countries, most of them in connection with the mandatory participation in SIC through the CHF repo business. While up to now remoteGATE was predominantly used by foreign banks, some Swiss banks are starting to recognize the potential contained in this type of access.



ESTEEMED READER

The term «repo» is now used as an abbreviation of repurchase agreement, but in fact it originates from «repossessing collateral». The repo business, demanding as it is, plays a major role in payment traffic systems in general and specifically for SIC. The U.S., among other countries, has successfully been using it as a monetary policy instrument since the beginning of the 20th century, while in Switzerland the repo market only started to develop over the past few years, once it became reclassified as a tax-free form of credit. Credit is also the primary focal point on the subject of «Repo and Payment Traffic». The starting up of Continuous Linked Settlement (CLS) will lead to massive liquidity withdrawals between the connected RTGS systems (and beyond). There is a clear consensus about that. While this trend is not noticeable in SIC, with increased use of CLS it is expected to appear during a later phase. Early on, the SIC liquidity taskforce focused on this question intensively. As a special measure, it analyzed and emphasized the relationship of intraday liquidity with the use of repo transactions. It would therefore seem logical - after having focused on CLS in our last magazine - to address the repo business in this issue.

The Swiss financial market is technically well prepared for the processing of repo business transactions. As a form of support, the Swiss Value Chain was implemented in 1999. It uses the concept of delivery versus payment (DVP), three-level trade (SWX/Eurex), security management (SIS) and payment (SIC) in a fully automated and secure process. With the addition of the inexpensive remote access remoteGATE, the Swiss Value Chain is ideally enhanced. The trend towards global «Collateral Centers of Excellence» increasingly leads to international use of such systems. By now, direct or indirect participation of foreign participants in SIC has increased to 82 institutions. These organizations are found primarily in Germany, but also in Great Britain, France, Austria and Luxemburg. Therefore, Professor Gehrige's wish (see Interview) to expand the use of repo business transactions to include more financial institutions outside of Switzerland has already become a partial reality. Attractive infrastructures are available on the «open and fair access» principle. Beyond that, the SIC numbers confirm the progress trend: Between the first and the third quarter of 2002, the repo transactions values in SIC increased by approximately 33%, reaching a 12% share of the total turnover amount. With a CHF 62 million average, the repo transaction volume is now, by far, the largest 'payment' in SIC.

I am hoping you will enjoy your voyage into the world of repo while exploring the pages of this issue of Clear IT.

A handwritten signature in black ink, appearing to read "André Bamat". The signature is stylized and written in a cursive-like font.

André Bamat, CEO, Swiss Interbank Clearing Ltd.



Bruno Gehrig,
Swiss National Bank



BRUNO GEHRIG: «REPO BUSINESS FOSTERS SIGNIFICANT IMPROVEMENTS WITHIN THE LIQUIDITY MANAGEMENT OF THE BANKS»

ClearIT: What has influenced the acceptance of this service by the participants?

Bruno Gehrig: Today the SNB's repo business benefits from a highly standardized process and it is extremely robust from a systemic point of view. There is virtually no credit risk. It finds acceptance among the smaller market participants, too.

By now a circle of repo participants has evolved. What's your opinion on expanding this circle?

I see two main thrusts: For one, I wish that more financial institutions outside of Switzerland would benefit from the opening of the Swiss repo market and obtain their liquidity in Swiss francs through the repo trade with the SNB, regardless of where in

the world they are located. The other, more important, thrust concerns our hope for an expansion of the interbank repo business – the repo trade between business banks.

The repo market offers specific benefits when considering risks in comparison with the currency swap, since the step-by-step processing eliminates the fulfillment risk. The Swiss financial system has theoretically become even more stable. How does this benefit the market in practice?

The daily margin balancing results in there being no remaining exposure in the evening. This reduces the risk in the financial market. As I already mentioned, an expansion of the interbank repo trade would be extremely welcome. To the degree that further

uncovered interbank credits are replaced by covered credits, the system becomes more secure.

The SNB's liquidity control depends in large part on the repo platform today. Isn't relying on a single system somewhat of a risk, in view of the always-existing operational risks?

The Eurex repo platform markedly increases the security of the operation through the use of leading edge technology. Of course, there is the tendency to become dependent on technology, and technology problems can never be entirely avoided. It is therefore crucial to execute targeted emergency tests in order to put all participants into a position where they will be able to manually bridge potential failures or breakdowns. In a

Swiss Interbank Clearing



In April 1998, the market for repos (repurchase agreements) was established in Switzerland. The Swiss National Bank immediately began using repos as a monetary policy instrument. Today, repo transactions serve exclusively as the basis for the monetary policy steering. In the following interview, Professor Dr. Bruno Gehrig, Vice-Chairman of the SNB's Governing Board, provides a tour d'horizon of repo business, and talks about market opening, benefits and risks, and CLS (continuous linked settlement).

technical crisis we still need to be able to execute regulatory operations, repos included.

How is the repo business evolving?

The integration of the treasury and collateral management functions carried out by an increasing number of banks will further promote the level of sophistication in this business. And looking at the high demands of CLS in conjunction with time sensitive pay-ins, we probably will find ourselves with a significant increase in intraday repos.

SIC is well prepared and ready for the high demands

Which challenges do you see for Swiss Interbank Clearing?

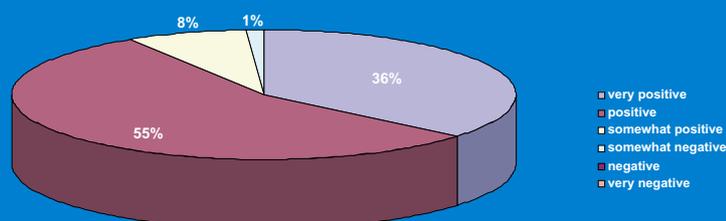
CLS clearly makes higher demands of all participating RTGS systems regarding the intraday liquidity management. Even the smallest failure has a significant, disruptive impact on the entire system, since all participants are affected. It could be a problem concerning a large settlement member or a system related one; every non-settled pay-in slows down the overall process. CLS makes these processes transparent, resulting in each national RTGS system becoming very exposed. An entity with frequent problems becomes conspicuous, loses credibility, and comes under pressure. That's why it's crucial that in the continued development the SIC's functional reliability is yet increased. The replacement of the existing X.25 network at Telekurs Group with the new IP network by the end of 2004 will

SHORT BIOGRAPHY

Prof. Dr. Bruno Gehrig:

After obtaining a degree in economics, and his subsequent teaching activities at the University of Berne, Professor Bruno Gehrig in 1981 changed over into the private sector. In 1992, he returned to teaching and research after ten years, during which he was – among other things – chief executive officer of the Bank Cantrade AG. Also, from 1992-96 he was professor of Banking and Finance at the St. Gallen University. With his nomination to the Governing Board of the SNB in 1996, he took over heading up the Department III, responsible for the monetary policy implementation, foreign exchange reserve assets, payment traffic and IT.

What is your banks attitude toward the repog trade business?



Excerpt from a SNB bank poll in March 2002

result in a yet higher level of operational security.

How does the SIC system compare internationally?

Our SIC is – without any doubt – a success story. When I look at SIC in comparison with the international market, it is – in reference to the number of transactions processed – the largest system world-wide. This is not least because of the fact that (and this is unique) in Switzerland many low value payments are settled using the RTGS system. Of course, we have less volume than say, Fedwire, but relative to the gross domestic product we are at the very top here, too.

Electronic networks by their nature can both channel system crises and/or be at their source. What can SIC do to contribute to a reduction of

potential dangers for the Swiss financial market infrastructure?

Of course we always have this duality: large systems equal potential powder kegs which, in the case of major malfunctions, have more or less severe implications on everybody. On the other hand, these very systems are very highly developed and sophisticated and offer a tremendous amount of security and reliability. It is really rather futile to long for the systemically decentralized world with a sense of nostalgia. Progress doesn't work that way. Today we need large, concentrated systems in a totally globalized world with 24-hr operations. It's easy to foresee that further concentration is inevitable. I am thinking of the securities settlement and of the idea of a common collateral pool where the collateral handling for all currencies is centralized. That might generate a

global machine, too. Or let's take the term «central counterparty» – I believe that economies of scale inevitably lead to concentrations. We have to, and can, live with that if we create the highest reliability and security standards. In this area there is absolutely no room for petty-minded cut backs in quality; that would be virtually deadly. The banking authorities carry a tremendous responsibility in the licensing of such systems.

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Swiss Interbank Clearing

Payment and settlement activity					
Daily averages					
	Number of transactions (in thousands)		Value of transactions (in billions of dollars)		Value of transactions (as a percentage of GDP)
	1999	2000	1999	2000	2000
Canada					
LVTS	12	14	61	69	6.35
Japan					
FXYCS	40	37	248	230	5.05
BOJ-NET	19	19	1,202	1,303	28.59
Switzerland					
SIC	562	593	109	105	43.69
UK					
CHAPS-Sterling	79	86	287	295	31.04
CHAPS-Euro	10	13	142	152	15.99
United States					
Fedwire	408	430	1,363	1,507	15.14
CHIPS	227	237	1,182	1,159	11.64
European Union					
Euro 1	70	98	175	197	3.35
TARGET	168	190	950	1,045	17.78

Source: CPSS 2002

Switzerland, with its SIC system, also holds the lead world-wide in reference to the ratio transaction volume/gross domestic product.

WHAT EXACTLY IS A REPO ?

From a transaction technical perspective, the repo is the sale and simultaneous reflux of securities with varying delivery dates. From a financial point of view, there are two kinds of repo trade:

General collateral repo is a credit for a specific term, for which securities collateral of a particular quality from a defined basket (e.g. Swiss federal bonds) must be submitted.

Special repo is a loan of specifically selected securities for a defined term for which the actual cash value must be deposited as collateral.

Today, the CHF market is almost exclusively a cash-driven general collateral market. Currently Swiss, German, and Austrian federal bonds, German Jumbo Pfandbriefe,

as well as all stocks from the Swiss Market Index (SMI) may be deposited as collateral. To date, as a result of the consistent implementation of the Swiss Value Chain, more than 110 national and foreign banks with a trade volume of above 40 billion CHF have become participants.

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ADDITIONAL INFO

Detailed information about all Eurex repo markets is available on the Internet under: www.eurexrepo.com.

THE REPO MARKET IN CHF SHOWS A STEADY INCREASE IN SIGNIFICANCE

The repurchase agreement (repo) market in CHF first started in the late 1990s and the Swiss National Bank (SNB) was significantly involved in its development from the beginning. Due to a tax on securities transactions, the repo business was not considered an attractive option in Switzerland until 1997. But all that has changed.

The Federal Tax Authorities decided in 1997 to reclassify repo transactions as secured credits and as a result are waiving these tax charges, as long as certain criteria are met. The revision of the National Bank Law that occurred in 1997 – authorizing the SNB to practice the repo business – removed the only remaining hurdle for a CHF repo market.

Today, the SNB uses repo transactions primarily to steer money market interest rates. It also provides the banks covered temporary liquidity in the form of repo auctions on a daily basis. The SNB target interest rate – the three-month Libor – can be influenced by the repo rate and by the assigned liquidity amount(s). As of 1999, the Swiss National Bank offers intraday liquidity via repo trade transactions.

The open repo transactions for monetary policy purposes and the business transactions intended to generate intraday liquidity fluctuate between 20 and 30 billion CHF. Intraday repos contribute to the reduction of the payment processing time in Swiss Interbank Clearing (SIC). They also support the participating banks' refinancing, as they regularly have to provide, among other things, CHF liquidity to the Continuous Linked Settlement system (CLS), the world-wide processing system for foreign exchange transactions.

Optimizing Potential Not Exhausted

Due to the ease with which intraday liquidity may be obtained, inquiries for sight deposit account balances at the end of the day predominantly follow the liquidity required by the Banking Law, whereas the share of inquiries for payment purposes appears marginal. The payment flow in SIC was enhanced with the introduction of intraday repos. It appears as though the interbank payment traffic could be optimized even more if more banks were to require intraday liquidity.

It isn't just the SNB making use of the repo trade either; the banks are using it among themselves, too. The interbank market has grown an average of 80% per year since 1999. Back at the end of November 2002, the outstanding interbank repo funds

were at approximately 20 billion CHF. Nevertheless, the potential to substitute unsecured interbank credits through repo business remains considerable. The significance of using repo transactions to reduce liquidity – and credit risks – will continue to increase. The current lack of trust in the financial market particularly gives rise to the awareness of counter party risks and will increase the demand for secured money market transactions.

Due to the modest size of the CHF financial market, the repo business had been looked upon more like a «club», where trust played a major role. There is significant doubt as to whether the interest spreads between unsecured money market rates and repo rates adequately take credit risk costs into consideration. The price-fluctuation risk in the repo trade, on the other hand, can be managed by the transaction parties using both the daily market evaluation of the securities and the automatic margin balancing.

Based on the securities coverage, risk to transaction parties plays only a subordinate role, and as a result, the number of potential transaction partners can be increased significantly. Banks with lower ratings are faced with potentially higher liquidity risks, which can be reduced by providing appropriate collateral. Especially for smaller banks, collateral management connected with significant information and implementation costs can be a considerable challenge. It's evident that banks stand to benefit significantly from managing collateral even more actively and from applying it in a more profit-conscious fashion.

Banks primarily employ the CHF repo trade for cash management within the short-term arena. Increasingly, however, transactions with longer terms are effected in the interbank market: measured by the outstanding interbank repo balances, the average

Swiss Interbank Clearing



The SNB head office in Zurich is in charge of the repo auctions

residual term climbed from 30 to 45 days since the beginning of the year.

Repos and Money Market Transactions

Repos, being secure instruments, provide an alternative to the money market book claims of the federal government. In addition to being a straightforward money market instrument, the repo busi-

ness is also used in connection with capital market business transactions.

Thus, repo trading makes it possible to increase profit of a securities portfolio by temporarily selling specific special securities in a repo transaction. The cash amount obtained through that sale can be invested in general collateral securities in another repo transaction. The repo rates for such securities lie only about five to ten basis points below the corresponding interest rates for uncovered money market credits, while the repo rates for special securities are significantly lower. In addition, repo transactions allow the financing of securities long positions as well as covering of securities short positions.

The repo business for the purpose of liquidity provision, and specifically the trade strategies described, require the combination of money and securities trade in the trading department of the banks. It's up to the banks to implement this combination of money and securities trade along with the securities lending in a more consistent way.

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REPO AUCTIONS – IMPLEMENTING SWITZERLAND'S MONETARY POLICY

The repo business is Swiss National Bank's (SNB) monetary policy instrument. It combines the benefits of a high volume potential, broad market access, credit security and efficient processing. Day after day, repo auctions are being held at the SNB in order to implement the current monetary policy. We'd like to show you, our reader, what an actual work day looks like for the money market and securities team responsible for the repo business at the SNB.

Tuesday, January 21, 8:30 am, morning meeting

he latest events in the money and securities market are analyzed and discussed at the SNB. The starting point for this is the daily morning prognosis of the banks' liquidity. This prognosis takes, among other things, the banknote circulation, the short-term liabilities vis-à-vis the Confederation, and repo due dates into consideration. There is a relaxed, yet concentrated atmosphere: after all, this is where today's financial market conditions are

being determined. A question surfaces, addressing the assignment of those repos relevant to monetary policies. The assignment quote varies greatly every day; the average is around 30 to 40%. In other words, on average approximately 30 to 40% of the liquidities inquired by the banks are met.

Now it's time to determine the conditions for today's repo auction: the valid repo interest rate and the terms of the money market repos to be assigned. These terms range from a few hours for the very-short-term intraday and overnight repos to several weeks.

*Tuesday, January 21, 9:00 am,
the auction*

The money market and securities team begins to implement the decision about the SNB's current monetary policies. To that end, the approximately 100 financial institutions currently participating in the Swiss frank repo market are advised – via the Eurex repo trade platform, the Reuters or Bloomberg systems and/or the Moneyline Telerate – of the previously determined conditions, repo interest rate and terms. The participants have to act fast if they wish to have liquidity assigned; bidding time runs for ten minutes only!

*Tuesday, January 21, 9:10 am,
Rien ne va plus*

At this point, the SNB communicates the final amount to the individual financial institutions participating in the auction. The assignment occurs proportionally to the requested liquidity amount. The two sides of a repo transaction – the funds side, and the securities side – are exchanged immediately, step by step. This is where the distinctive advantages of the Swiss Value Chain, the electronic connection between the Eurex repo platform, SECOM, the central Swiss securities platform of SegalInterSettle, and the SIC system become immediately evident.

*DTuesday, January 21, 9:30 am,
end of the auction*

The entire liquidity available for this day is assigned. The monetary policy measures for today's business day in

the Swiss financial center have been implemented.

*Tuesday, January 21, 2:30 pm,
Reassessment*

Between 2:30 PM and 3:30 pm, the SNB determines again the banks' level of liquidity within the financial market. Shortly before 3:00 pm, the banks may apply for overnight liquidity via the repo instrument. This permits the SNB to compensate over the short term for possible liquidity outflow from the banking system, so that the overall liquidity still meets the expectation.

Tuesday, January 21, 4:00 pm

The SIC participants may take advantage of a ten-minute window to order intraday credits with tomorrow's due date. At 4:15 pm the SIC system end-of-day processing starts.

If a bank cannot obtain sufficient liquidity from the market to meet their payment obligations in SIC by 4:00 pm, they still have the option to use a Lombard credit from the SNB. The Swiss National Bank regularly sets the Lombard interest rate at 2% above market rate in order to ensure that this credit window (against securities collateral) is only used in cases of emergency.

Tuesday, January 21, 5:00 pm

The next SIC clearing day starts.

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The SNB's head quarter in Zurich

ADDITIONAL INFO

Actually, the day starts a lot earlier for the money market and securities team - long before the repo auction. The SNB uses the repo instrument for more than just the implementation of the daily monetary policy. SIC-participating financial institutions have the option to obtain no-fee liquidity for their payment traffic via the short-term repo instrument. Starting at 7:30 am, SIC participants may order an unlimited supply of short-term liquidity. These intraday repos can be paid back anytime before 2:15 pm, with complete flexibility as to time and increments. With that, the SNB provides an extremely efficient and entirely secure instrument to optimize and ensure a smooth flow of the Swiss franc payment traffic.



Daniel Wettstein, SWIFT Switzerland

STRAIGHT THROUGH PROCESSING IN PAYMENT TRAFFIC WITH MT103

The message type MT100 is definitely withdrawn as of November 2003. Have you changed over to MT103 by now? If not, it's definitely high time!

Around the globe, 50% of the volume has been converted from MT100 to MT103 or MT103+. Compared with some technically very advanced countries, Switzerland with its 64% conversion may be found above the average point, but it is still somewhat lagging behind. Some financial institutions will end up having to put in considerable effort; partly with their software providers, but mostly within their in-house operations departments, in order to make the November 2003 deadline. The experiences from the ISO15022 migration have taught us that in this case, it is in no way productive to wait.

With 140,000 transactions (55% share) daily, the MT100 is the most used message type for Switzerland, too – in the cross-border area, of course. The message type MT103, (incidentally, in general use since November 2000) contributes to the improvement of the straight through processing (STP) capability, thereby reducing operational risks.

Today, the STP capability is crucial to the back office. The savings potential world-wide for STP-capable payments amounts to 5.5 billion USD per year, 80% thereof in the cross-border area. Without STP capability, costs to both sender and recipients arise from the customer interface, in-house routing, the interbank interface, repairs, and – not the least of it – from reporting. While you are able to control your own costs, your counterparts will charge you for lacking STP capability.

This can only mean one thing for your operating center: Convert, as fast as possible because ...

- the MT103 has to run in unison with all applications; extensive testing is therefore indispensable,
- the correspondents «punish» their non-STP-capable suppliers more and more by charging higher and higher «penalties», which

means that submitted MT103s must be accurate right from the start,

- the staff requires training and with the new MT103 it is not just a simple MT100 update,
- new regulatory instructions in the cross-border area must be met; these can only be fulfilled by using the MT103, and
- you will be able to provide better service to your clients on either side of the chain.

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ADDITIONAL INFO

Additional useful tips can be found by going to our Website www.swift.com and clicking on the menu button «Standards». Or you may email your question(s) directly to MT103business@swift.com.

DTA DATA CARRIER EXCHANGE CLEARING IN GERMANY – VOLUME IS WHERE IT'S AT

Statistics tell us that an average of three to four people living in Germany today execute one transaction by transfer per day – which amounts to approximately 60 million payments per day. Often the ordering party and the recipient have their accounts in different banks. How does a payment like that get from an account at one bank to an account at another one?

The cashless payment traffic in Germany today is predominantly comprised of transfers (49%) and direct debits (38%). Only in a very few cases do the banks get to process the payments in house. Generally speaking, the payments have to be routed to one of 2,500 financial institutions in Germany. Over the years, several parallel processes have evolved, reflecting the traditional structure of the decentralized nature of the German financial market:

- Settlement within the transfer account networks,
- Bilateral direct exchange, or
- Use of the EMZ (electronic bulk payment clearing) through the German central bank (Bundesbank).

Even though bulk payment clearing in Germany is not necessarily homogenous, certain commonalities have developed: data-oriented processing, processing between banks without paper trails, use of the DTA (data carrier exchange) format with the BIC as clearing address, and a high level of automation. The binding standards developed between the umbrella organizations certainly contributed to this trend. The rules were registered contractually and codified in numerous interbank agreements, such as

the so-called clearing agreement. The high level of payment processing efficiency is reflected in the low fees for German bank customers in an EU comparison. Bulk payments are not generally forwarded on the same day; rather, the Bundesbank's real-time gross settlement system RTGS^{plus} is used for urgent small payments.

Transfer Account Networks and Bilateral Exchange

For savings banks and credit unions, as well as for big banks, payments can be executed nationally within their own clearing networks. These networks are specifically individualized to the corresponding needs. However, over the past years, a definite trend towards a technical consolidation has been evolving. As a result, the number of computer centers operated in the savings bank and credit union arena has been greatly reduced. Additionally, since both of these networks are their own legal entities, the responsible umbrella institutions (in this case the Landesbanken or the DZ Bank and WGZ Bank) have to be involved in the settlement process for cross-institution payments.

Payments between the transfer networks are generally exchanged

directly and bilaterally over the two main clearing organizations (e.g., for savings banks, the Landesbanken). Approximately 15 to 20 institutions are tied into this process nationally. The individual payments are predominantly exchanged by remote data transfer (DFÜ) using the file transfer process (OFTP). For security reasons, an accompanying receipt is transferred separately, either by fax or by remote data transfer. Generally, the data must reach the recipient no later than the morning cut-off time (e.g., 10:00 am). The appropriate gross settlement amount of the exchanged payments is booked by transfer via RTGS^{plus}. Due to the reciprocal character, no processing fees are incurred in bilateral exchanges.

Active Participation of the Bundesbank

With its electronic bulk payment clearing system (EMZ), the Bundesbank is the connecting link between the various groupings of financial institutions. The EMZ is used whenever there is no alternative processing option. This goes to explain the modest EMZ market share of only 15% – which still corresponds to 8.5 million transactions per day. In particular, payments from small and mid-sized institutions without their own

clearing networks (e.g., Landesbanken) are routed via the EMZ.

This makes the Bundesbank a complementary service provider for the German credit industry trade, providing a competition-neutral, exhaustive service supply, available to all credit institutions nationwide. Through their active participation in the payment sector, they also make regulatory contributions. By developing the EMZ system, the Bundesbank can increase the pressure for innovation within the credit trade, contribute to the reduction of running times, and influence pricing within payment traffic.

The EMZ system has the following important characteristics:

- single-day processing cycle (t+1) with late closing times (8:00 pm/9:00 pm) and deliveries available in the early morning
- extensive share of DFÜ deliveries (over 50%)
- entry of the gross data amounts the day after delivery (t+1)
- affordable, cost covering prices (0,0015 euro per DFÜ service)

The Bundesbank has technically upgraded the EMZ, further develop-

ing and adapting it to the demands within the bilateral payment exchange over the past years. Starting in April 2003, the Bundesbank will be offering a second processing phase. Participants will be able to submit their payments during the night, as well, until 6:00 am. These payments will be processed at the beginning of the day, booked, and delivered immediately. In all probability, by the end of 2003 the EMZ will be capable of processing cross-border payments, as well. The planned tie-in with the EBA STEP2 system makes that possible.

The European Challenge

Due to the increased integration in the European Union, German interbank clearing is faced with considerable challenges. Below are some examples of anticipated developments:

The price and cost pressure will increase due to the EU pricing regulations. This gives rise to the concern that – as in other countries – complicated interbank fee regulations might be established.

According to the SEPA strategy, international standards and processes

will make their arrival over the medium term in the national bulk payment traffic industry. This affects, among other things, the domestic use of IBAN and BIC. The new, XML-based SWIFT message types might also play a role.

Today's great variety of interbank clearing processes in Germany does have the disadvantage of a certain lack of transparency when it comes to terms, for instance. With EBA STEP2, an additional system capable of processing cross-border payments, as well as national payments, is being developed. There is therefore much that speaks for an additional concentration within the German interbank clearing situation. It appears that it would be worthwhile to consider following the example of other countries and introduce one single centralized clearing house in Germany.

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Skyline Frankfurt

swisseuroGATE, THE FAST AND INEXPENSIVE WAY TO GET EUROS TO SWITZERLAND

During the year of the euro introduction, the volume and number of euroSIC transactions increased considerably. The growing number of transactions among euroSIC participants along with the strong increase in the number of payments processed via swisseuroGATE show the important role of the euro as a foreign currency in Switzerland.

In order to receive increased euro liquidity from the EU member countries processing payments in euroSIC, approximately 70% of the participants have registered through the SECB Swiss Euro Clearing Bank GmbH as indirect RTGS^{plus} participants. They are identified with the value added service code RT+ in the SWIFT BIC directory.

The payment flow from the national EU clearing systems to Switzerland via swisseuroGATE, however, is now here near capacity. euroSIC participants repeatedly comment that euro payments to Switzerland are still largely processed via correspondent banks.

That seems unproductive, since there would be ample benefits in using swisseuroGATE, some of which are listed below:

- No additional corresponding account required
- Use of the available infrastructure

(national RTGS systems and TARGET)

- Reasonably priced
- Immediate and irrevocable settlement
- Same-day settlement of transactions received until TARGET cut off at 6:30 pm.

Taking advantage of these benefits is completely painless for any euroSIC participants. The following points comprise our recommendations:

- Inform your correspondent banks of the indirect RTGS^{plus} membership of your financial institution, so that they take this into consideration for the appropriate settlement instructions.
- If your financial institution does not have an indirect RTGS^{plus} membership, you will want to advise your correspondent bank to include the SECB Swiss Euro Clearing Bank (SWIFT BIC SECG-DEFF – German bankcode

52420700) as intermediary bank in the payment messages.

- Advise your corporate clients billing in euro that your financial institution is accessible via swisseuroGATE and, with that, via the national RTGS systems within Euroland. This reference to your indirect RTGS^{plus} participation or your BIC and the SECB German bankcode respectively will contribute here, too, by making use of the swisseuroGATE advantage of a faster payment settlement.

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ADDITIONAL INFO

Detailed information about the formatting of swisseuroGATE payments as well as some price information is available on our Website: www.sic.ch under Cross-Border Guide.

remoteGATE – VIA SWIFT TO euroSIC

One important reason for several smaller and medium-sized Swiss banks not to have become euroSIC participants has to do with the set-up costs for adapting in-house applications and interfaces. However, these financial institutions already have a working interface for the foreign currency payment traffic – and it connects them with SWIFT.

remoteGATE was first introduced as a new option for interfacing with SIC and euroSIC more than eighteen months ago, making the Swiss Interbank Clearing RTGS systems SWIFT compatible. Now, remoteGATE is operational in six countries, with more than 25 interfaces, usually in connection with the mandatory SIC participation through the Swiss franc repo business. While remoteGATE has predominately been used by foreign banks thus far, quite a few Swiss banks are now recognizing some of the potential benefits of this particular access format.

Compatibility

remoteGATE connects the two worlds of SWIFT and SIC, with their differing networks and standards. For a few months now, the regular SWIFT interface (e.g., Alliance) is certainly adequate for participation in euroSIC. A remoteGATE client might send a SWIFT MT103 or 202 to Swiss Interbank Clearing. That order is automatically converted and processed as a euroSIC transaction. Payments be-

tween euroSIC participants are possible, as are cross-border payments. The latter are – through the input of a receiving bank's BIC – transferred automatically via swisseuroGATE (euroSIC access to RTGS^{plus} and TARGET) to each RTGS system within the European Union. Incoming payments are delivered to remoteGATE clients via SWIFT as MT103/202.

Simple Reconciliation

An additional adaptation to the SWIFT world is the reconciliation process. remoteGATE provides an MT950 with detail transactions, thereby making automatic reconciliation, as it is widely practiced in correspondent banking, possible. Cash management is used similarly to the SIC practice. These inquiries are executed via Secure Internet and correspond with the SIC inquiries. Since Swiss Interbank Clearing is supplying the required appropriate security components, the clients really only need an Internet browser. In addition to the well-established benefits of using euroSIC, such as low transaction fees and

short processing times, remoteGATE now also provides inexpensive integration with existing in-house applications and operational processes.

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BALOISE BANK SOBA

As of July 2002, we predominantly process our EUR payment traffic via remoteGATE and euroSIC. Approximately 100 transactions are submitted per average day; around 70 are cross border. Based on the simple integration and adaptation to the SWIFT practices, the conversion from correspondent banking to remoteGATE was possible within a short amount of time. We are able to offer our clients a significant increase in value since we have started to use remoteGATE in combination with the other benefits offered by euroSIC.

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MASTHEAD

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