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ClearIT

Information about the Swiss Payment Traffic Systems

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TARGET2 sets new benchmarks for EU payment traffic

Business Continuity Financial Center Switzerland

New Interbank business compliance application

Swiss Interbank Clearing
A Telekurs Group Company

Inhalt

DEAR READER

Realpolitik

Payment traffic landscapes are characterized by pragmatic procedures. Thus, to create a single payments area, the EU banks have begun a consolidation phase by putting in place the first elements of a European payment traffic architecture within the parameters of the SEPA initiative. Starting in 2007, TARGET2 will provide the EU with a community platform, replacing the national RTGS systems.

At its introduction, the euro was predicted varying monetary policy fates. The forecasted outcomes ranged from the view that the euro was a flash in the pan to the converse – that it would replace the remaining national currencies. Realistically, it could be assumed that the euro would prevail and that its significance would exceed that of the detached national currencies. TARGET, the network of national payment traffic systems, was the logical consequence of that belief. This objective point of view was adopted by the Swiss financial center, as well – and rightfully so, as is evident today. Consequently, the euroSIC system was developed. This enabled the banks in Switzerland to participate indirectly in RTGS^{plus} and TARGET.

What is next from the Swiss perspective? And how is Switzerland to proceed? Certain requirements will have to be met in order to realize the SEPA vision. First, a leading panel or body equipped with the necessary authority needs to advance the SEPA roadmap as a project. The European Payments Council (EPC) has taken on this responsibility. Secondly, European standards are needed to prevent compartmentalization of the national markets. This refers to the phasing out of national «standards». Thirdly, joint-processing systems would make European efficiency increases possible. TARGET2 for high value payments and STEP2 for bulk payments are resulting expressions thereof. Swiss banks would apparently benefit from the direct connection of SECB Swiss Euro Clearing Bank GmbH to TARGET2.

Accordingly, the type of active participation Switzerland chooses pertaining to these changes, as well as how the country can align itself at the various levels, will significantly shape its future efficiency. As discussed in the most recent ClearIT issue, the necessary structures are in place in the form of the Swiss Interbank Clearing Ltd. Board of Directors and the Swiss Payments Council (SPC). However, the deciding factor will once again be the pragmatic course of action.

Dr. Romeo Lacher,
Credit Suisse, Member of the Executive Board,
Chairman of the Board of Directors of Swiss Interbank Clearing Ltd.

TARGET2 INCREASES EU PAYMENT TRAFFIC EFFICIENCY

ClearIT: How much will the European payment traffic systems change mid-term, and how would you describe the new forces?

Dr Hans-Jürgen Friederich: Alterations in the TARGET2 structure can certainly be seen as evidence of the evolution of European payment traffic systems. This applies to a more thorough synchronization – especially as it applies to processing techniques – and to the consolidation of the technical infrastructure, but it also concerns the improvement of services, since TARGET2 is aligned with the best European payment systems. However, especially here, the parallels between individual and bulk payment traffic should not be overemphasized. TARGET2 is a single platform of the European Central Banks' System for RTGS payments in the EU. Here, the potential for high value payments is in the realm of up to 500,000 transactions per day. On the other hand, the potential in bulk payment traffic lies at more than 100 million payments per day.

The driving force fostering development of the European payment traffic system is primarily of a political nature: To create a single euro payments area (SEPA). Beyond that, business and economic forces – heightened cost sensitivity resulting from increased competition – are making their impact. And thirdly, a structural component of this process is consolidation within the banking sector, resulting in some institutions becoming processing specialists. The key word here is transaction bank.

What basic differences are there between the interlinking TARGET system as we know it today and TARGET2?

Today's TARGET is organized on the basic «one country, one system» principle: Each country has its own RTGS system replete with very specific characteristics. These systems communicate with each other via SWIFT. Each national RTGS system connected with TARGET includes an interlinking component. And the concept of minimal harmonization, as it exists in TARGET today, is becoming apparent in this interlinking component, which only applies to cross-border payments: Same processes, same standards, same prices, but only for cross-border processing. TARGET2, on the other hand, is designed as a single shared platform for all countries. Here, maximum harmonization is literally aspired to, because that's what will make the TARGET2 package uniform for all European credit institutions. Beyond that, this single shared platform will also offer optional additional modules that may be used by individual national banks.

Where do you see the main TARGET2 benefits for the European banks?

Let me make one thing very clear: TARGET has met the original expectations. It was implemented quickly and easily under the conditions back then, before the introduction of the euro and with many countries already operating their own national RTGS system. Moreover, it created the basis for the implementation of an EU-wide monetary policy, thereby contributing to the establishment of a uniform European money market. It has, without a doubt, also contributed significantly to efficiency improvements in cross-border payment traffic. TARGET in its current format enjoys a high level of acceptance and is the payment system with the highest volume of transactions in the EU. However, the disadvantages of this interlinking system are becoming increasingly evident over time. It generates high costs for the EU central banks as a whole, since each EU country is required to maintain its national RTGS system regardless of transaction volume. Furthermore, the system is very complex and leaves room for improvement when it comes to availability. The EU-wide standardization is limited strictly to cross-border payments – other standardized services are not available. Including the new EU countries would further raise TARGET's already-considerable complexity.

Dr Hans-Jürgen Friederich: «I still consider euroSIC an innovative and successful concept for connecting Swiss financial institutions to the euro circulation.»

How much will the European payment traffic systems change with the introduction of TARGET2? What opportunities and/or risks lie in store for the Swiss financial market place? ClearIT talked with Dr Hans-Jürgen Friederich of the Deutsche Bundesbank.

TARGET2, on the other hand, will roughly halve the costs for the EU central banks overall, at decidedly improved performance levels and technical harmonization. Among other things, EU-wide liquidity management will be introduced. Combining the payment flows into a single system will greatly improve efficiency and lead to enhanced interplay with other payment and settlement systems. And, last but not least, the emergency provisions for TARGET2 redefine the benchmark.

In what way will TARGET2 generate a new European payment traffic standard?

TARGET2 is being developed for the market participants and in close coordination with them. Technically, therefore, the development will be based on what has been established in those markets and will compell these standards to be implemented on a national level. This means that SWIFT FIN data formats are being applied to the payment traffic. However, SWIFT XML structures will be employed for the information and steering components.
Beyond that, the conceptual design of TARGET2 will certainly be generating some new benchmarks. It will foster both the principle of highly efficient settling in secure and liquid central bank funds and open and simple access for credit institutions of all sizes.

How does the access concept look for the ten new EU countries, and how

will future new EU membership candidates be introduced to TARGET2?

Currently, only the integration of the new member states that joined the EU within the past year is being considered. Introducing potential new EU member countries such as Bulgaria or Turkey to TARGET2 is currently not at the center of attention. The ten countries that recently joined are subject to the «no compulsion – no prohibition» motto: While these countries are entitled to connect to TARGET, they aren't subjected to any pressure to join TARGET, as long as their national economies haven't switched to the euro. However, complex solutions, such as the connection of new countries to the existing TARGET system, should be avoided, if possible. Remote access, or the use of correspondence banking relationships with central banks (TARGET components of other national banks) linked to TARGET, are the alternatives in linking with existing systems.
The current situation includes one country, Poland, which is becoming an immediate participant in TARGET through the development of its own RTGS system and by using a (central bank-) correspondence relationship for cross-border payments. Another country, Slovenia, is using the remote access option, specifically to the German RTGS^{plus} system. The other countries will become TARGET participants after joining the Monetary Union or with the start-up of TARGET2. In those cases where TARGET2 is not operational at the time a country joins the monetary union, an interim solution will be employed.

What opportunities and risks are inherent in TARGET2 for the Swiss financial center, and for euroSIC in particular?

I still consider euroSIC, with the Swiss Euro Clearing Bank (SECB) as the correspondence bank within the Eurozone, an innovative and successful concept for connecting Swiss financial institutions to the euro circulation. The system could be adopted in similar form by other EU countries that haven't joined the monetary union as yet. Currently, approximately 120 Swiss financial institutions are participating indirectly in TARGET via SECB/euroSIC, and it looks as if the current TARGET access admissions criteria will remain in place. Which is to say that the positions taken vis-à-vis Switzerland by the EU central banks have not been relaxed due to the lack of EU/EMU status. This, in turn, translates to TARGET2 not allowing Swiss financial institutions any direct access options; hence, nothing will change in the status quo as it pertains to euroSIC and the SECB. However, the SECB with euroSIC in the background – and with that, the Swiss financial institutions – will nonetheless benefit from the enhanced TARGET2 capacity. It might be possible that the SECB, due to the increased significance of TARGET2, takes over an expanded settlement/agent function for the settlement of additional systems (especially securities systems).

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

SHORT BIOGRAPHY

Dr Hans-Jürgen Friederich is the Head of the Department of Payment Systems, Account Management, Trades Settlement, Securities Deposits at the Central Office of the Deutsche Bundesbank. Following an apprenticeship at a bank and university studies which he completed with a doctorate, Dr Friederich briefly worked in the commercial banking sector before joining the Deutsche Bundesbank as a career civil servant. During his years at the Bundesbank he has held various positions and functions, mainly connected with organisation and payments systems. This includes collaborating with the banking industry and with other central banks at the G-10 and EU levels. He is the Bundesbank's representative in the CPSS - Committee on Payment and Settlement Systems at the Bank for International Settlement and in the PSSC, the corresponding Committee of the European central banks working at the European Central Bank.

AN OVERVIEW OF THE CURRENT ORGANISATION OF THE EUROPEAN PAYMENTS COUNCIL (EPC)

The membership base of the EPC expanded with the accession of 10 new countries to the European Union. This enlargement, coupled with the past experience of the work organisation since June 2002, necessitated the set-up of an institutional framework for the EPC as well as the reorganisation of the Working Groups.

The EPC members signed a Charter in June 2004 which established the EPC as an «International Not-for Profit Association» (INPA) under Belgian Law.

At the same time, the Working Groups were restructured to enable them to focus more clearly on the realisation of the «Single Euro Payments Area» (SEPA).

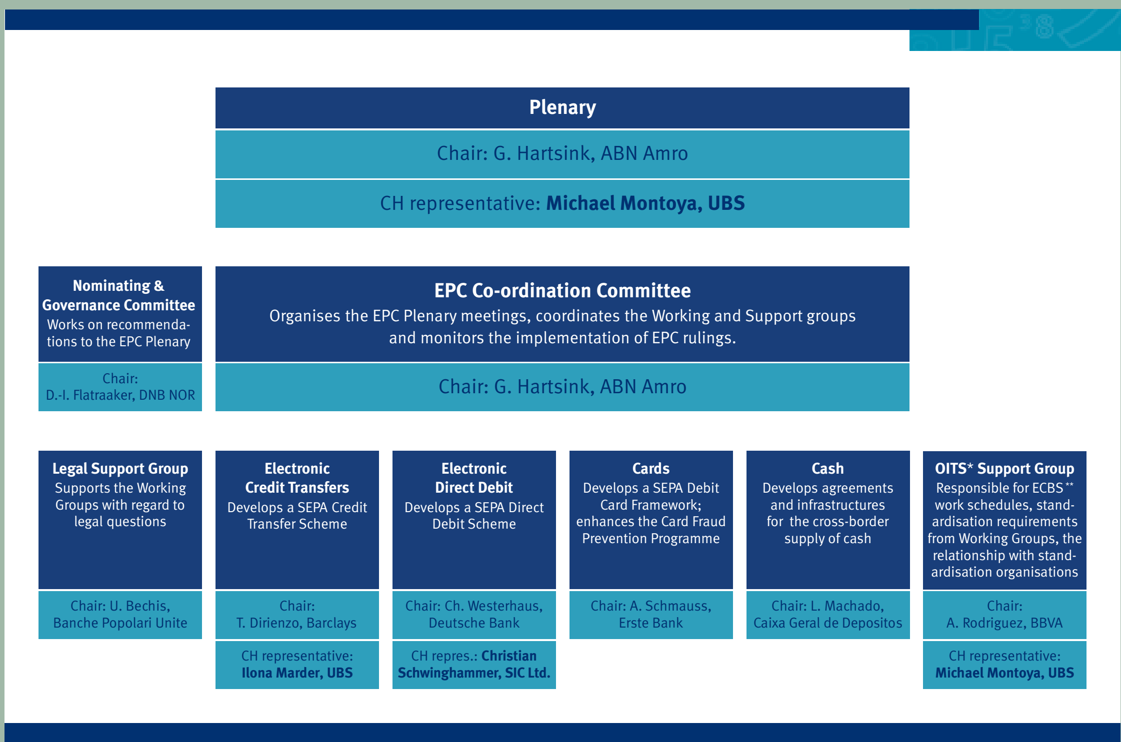
All proposals which need to be approved are presented to the EPC Plenary. This makes the EPC Plenary, which is comprised of representatives from all EU member states, the ultimate decision-making body.

The EPC road map, as well as the Electronic Direct Debit Working Group, will be introduced in the next edition of ClearIT.

Jacqueline Mansch,
UBS AG,
jacqueline.mansch@ubs.com

Ilona Marder,
UBS AG,
ilona.marder@ubs.com

ORGANISATION OF THE EUROPEAN PAYMENTS COUNCIL (EPC)



Operations, Infrastructure and Technology Standards
** *European Committee for Banking Standards*

Source: EPC/UBS

OBTAINING DOCUMENTATION – A CHALLENGE FOR THE BANKS

In November 2002, the Wolfsberg Group, an association of twelve leading financial institutions from around the world, defined their principles in the abatement of money laundering in the banking industry. One of the included topics focused on the centralization of basic interbank business documentation.

In addition to corporate, private and retail customers, banks, too, are clients of globally active financial institutions such as the UBS. The interbank business is subject to the «know your customer» (KYC) principle, as well. Therefore, basic documentation, such as banking licenses and excerpts from trade registers, must be available to counterparties.

Originally, this process was met by skepticism from the banks, since, from the beginning, they had been used to correspondence banking relationships created quickly and without unnecessary bureaucracy via electronic media (SWIFT/Telex). Such bilateral exchanges and the verification of KYC basic documentation (see chart) turned out to be laborious and involved data acquisition.

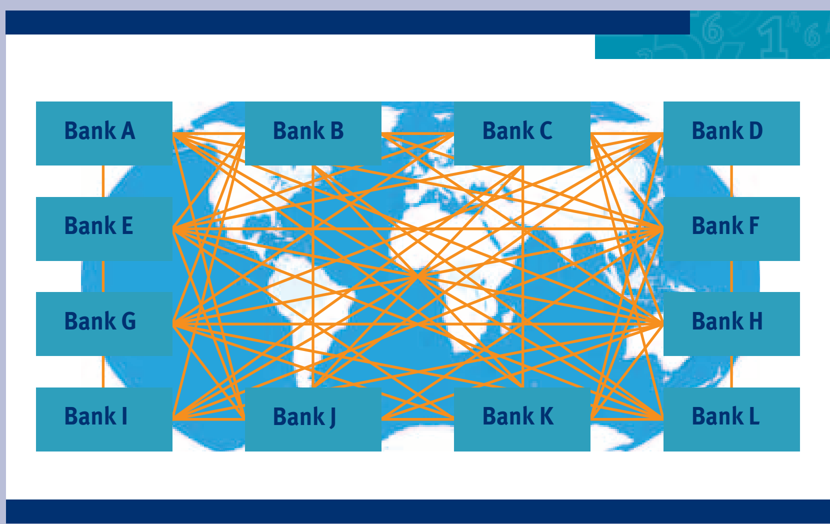
«Due Diligence Repository» – an efficient solution

The idea of maintaining the basic documentation at a central Due Diligence Repository or International Registry was therefore supported by all the banks. Emphasis was put on pursuing and developing a more efficient and secure process for initializing and updating the relationship. The central registry principle is simple enough: Documentation was no longer exchanged bilaterally, but was submitted to the central registry where any interested bank would have access to verify the pertinent data.

Benefit for the banks

A professional operator for the registry was found – The Bankers' Almanac, a well known provider of information platforms within the banking environment. Centrally submitting basic documentation furthers the banks' efforts to increase efficiency

OBTAINING DOCUMENTATION BEFORE ...



Source: UBS Ltd.

by streamlining processes. Beyond that, the banks are supported in their efforts to save costs, since only inquiries are charged a fee, while submitting information remains free of charge. Even small and medium-sized banks from emerging markets are receiving an interesting added value: They are able to make a name for themselves as internationally active financial institutions. The only requirement the banks must fulfill is to regularly update their documents so they stay current.

Those banks originally contacted by the Bankers' Almanac submitted their basic documentation without delay. The Wolfsberg group is committed to convincing their client banks of the benefits of this very promising solution in order to generate as broad an information base as possible. At the same time, the group also reminds the banks that the central registry can only serve in a support function and cannot replace the financial institution's mandatory compliance process.

The central registry concept is yet another example of how the banks are adept at developing efficient and practical solutions. And it doesn't hurt that the regulatory authorities have responded positively.

Marcel Müller,
UBS AG, Global Services,
marcel-1.mueller@ubs.com

DOCUMENTS TO BE SUBMITTED TO THE INTERNATIONAL REGISTRY

- **Reply to the standard anti-money laundering questionnaire**
- **Paper about the internal processes concerned with preventing money laundering**
- **Annual report**
- **Copies of the corresponding licenses**
- **Copies of the corresponding corporate governance documents**
- **CVs of members of the board of directors and the management**
- **List of owners with more than 10% votes**

… AND AFTER THE INTRODUCTION OF THE DUE DILIGENCE REPOSITORY

Source: UBS Ltd.

LINKS

- **www.bankersalmanac.com/addcon/home/duedm.htm.**
- **www.wolfsberg-principles.com**

MONOCULTURE POSES A DANGER FOR PAYMENT TRAFFIC

The Y2K, the 9/11 terrorism attacks and the Swiss payment traffic network disturbances this past June all have one thing in common: the risk of mistakes in central, standardized information and communication systems impacting the stability of the entire (financial) world.

The 9/11 attacks in New York, resulting in the tragic deaths of innocent men, women, and children, pointed out the vulnerability of the processing structures of the global financial market and the dramatic effects on communications. For a long time prior to 9/11, the terrorists prepared for the attacks in New York thoroughly, diligently and under cover.

An attack on important components of the information and communication systems could be planned the same way, with the system's total collapse as its goal.

Monoculture versus diversity

As long as we maintain varying systems and technologies, the impacts of disturbances and terrorist acts remain within limits. However, we live in a globalized world. Efficiency and standardization are the current top priorities. At the same time, we must be cognizant of the fact that providers of important components within the IT and communication infrastructure have reached market shares of over 50%. The desktop computers of the heavily networked financial industry are predominately based on the same operating system. We process an ever-increasing number of business transactions via the Internet or central providers. What is mandatory in terms of operations can be disastrous when it comes to system stability and reliability.

We are familiar with the issues of monocultures and their negative ramifications from the agriculture industry. Similar issues hold true for IT. Redundancies alone are insufficient. Computer centers that incorporate double or even triple redundancy, or the high security protection of centralized infrastructure installations, cannot protect us from the crippling of a system when the same operating software with the same problems and weaknesses is used. Imagine that the central system is

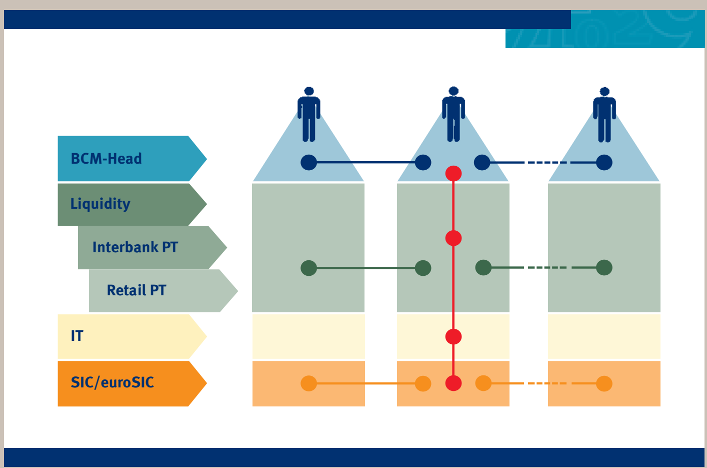
Just as monoculture is harmful in agriculture, so is it in an IT commerce economy.
Source: PhotoCase.de

working, but no one is able to connect!
We live in a highly technical (financial) world and must be able to rely on working infrastructures. Can we really do that? It is well worth it to at least ponder certain dangers and envision possible and appropriate measures. The counterpoint to monoculture is diversification – the intentional multiplicity of individual technical components, processes and software modules. Such a strategy contradicts the popular paradigm, since it is exceptionally costly and cannot, in all probability, be financed.
The components and processes that are essential for the continued existence of the company and/or to protect the clients when potential disaster strikes must be clearly defined. It is incumbent upon those with corporate responsibilities to evaluate diversification measures in future projects within these areas.

Business Continuity Financial Center Switzerland

In the aftermath of the 9/11 attacks, the financial industry has come face to face with the fact that it is painfully vulnerable. Procedures for securing the operations and continued existence of the company are being examined the world over, and existing measures are being refined. Regulators such as the US central bank FED have issued recommendations and directives. According to risk evaluations, Switzerland is not particularly vulnerable to such attacks, but there is still room for improvement.
In the InfoSurance foundation, the private and public sector have been in close cooperation since 1999, focusing on recognizing IT risks, sensitizing decision makers and users, and recognizing and controlling dangers early. The «Business Continuity Financial Center Switzerland» working group, headed by Prof. Niklaus Blattner of the Swiss National Bank, examined and assessed the Business Continuity Plans (BCP) of the preeminent central financial market infrastructures and the main participants therein. The first issue centers on the physical loss of important infrastructure facilities. Specific BCP policies for Switzerland were developed. The «Interbank Alarm and Crises Organization» was created to manage failure-related issues. These measures are intended to increase the stability of the entire Swiss financial center, should a significant incident occur.
In the case of a failure – or worse, a crisis – communication among all parties affected is of paramount significance. In Switzerland, we have traditionally relied on the parties involved being connected via a solid network. For years, the SIC/euroSIC system emergency task force has been in existence, consisting of the major financial institutions and the provider (Telekurs Group) under the direction of the National Bank. The partial network breakdown on June 30, 2004, was the most recent occurrence that this task force was called upon to handle. The «Interbank Alarm and Crises Organization» focuses on problems affecting the entire financial center. Each institution is individually responsible for taking the necessary precautions within its own organization. In addition to interbank payment traffic (SIC/euroSIC), retail traffic, liquidity providing and top management have recently been included, as well. In case of an emergency, the individuals in charge of these various segments can connect quickly, exchanging information, coordinating appropriate measures

BCP FINANCE SECTOR



BCP: Business Continuity Planning; BCM: Business Continuity Management; PT: payment traffic

Source: SNB

The Interbank Alarm and Crises Organization is made up of individuals responsible by sector or business area (horizontally): SIC/euroSIC, IT, retail and/or interbank payment traffic, liquidity managers and the BCP persons in charge at the top level. Each individual organization is responsible for the internal (vertical) escalation. Depending on the situation, persons responsible can be networked on several levels.

and ensuring communication with the public. The experts who are members of this network know and trust each other. Emergency manuals are of secondary significance. At this time, the inclusion of additional partners from the telecom, electrical/gas and software industries is in process.

While there may be no reason to panic, we cannot simply sit back, either. Recent telecom industry failures – both in Switzerland and abroad – should serve as warnings. At the latest Swiss Commission for Financial Standardization fall conference, a discussion covering this topic was started and deserves additional in-depth attention.

Daniel Wettstein,
Swiss National Bank,
daniel.wettstein@snb.ch

In his function as Head of Banking Operations at the National Bank and of the emergency taskforce SIC/euroSIC, Daniel Wettstein takes part in the Project Team BCP Swiss Financial Center. He is also responsible for running the Alarm and Crises Organization.

SWISS BANKING OPERATIONS FORUM

The «Swiss Banking Operations Forum», supported by a number of sponsors, organizes top-flight seminars in Switzerland pertaining to payment traffic. These events are held at least biannually and their purpose is to convey first hand information specifically for operations executives of Swiss banks. Determining contents and coordination of the seminars is handled by the sponsors, consisting of the Swiss Bankers' Association (SBA), Swiss Payments Council (SPC), Swiss Commission for Financial Standardization (SCFS), Telekurs Group and SWIFT Switzerland. The events are under the stewardship of the SBA.

During the year 2005, these two one-day seminars are planned:

- **Wednesday, June 15, 2005: The Redesign of the National and International Payment Traffic System.**
  Location: Either Zurich or Basel.
  Various topics are being prepared, including «International Infrastructure» with speakers from the EU addressing SEPA and TARGET2; a «Segment on Switzerland» with presentations about Business Continuity Planning, Fraud Prevention, Phishing and Spoofing; and IBAN, «Electronic Bill Presentment and Payment» (EBPP) with speeches about PayNet and some of the European systems, as well as about a payment traffic consumer evaluation.

- **Friday, November 11, 2005: Current Developments in Payment Traffic.**
  Location: Grünenhof, Zurich.
  The topics are: «What's current and what's new with Continuous Linked Settlement», and Swiss Interbank Clearing, SWX, SegaInterSettle, Basel II, SWIFT standardization (RMG 20022), as well as an international segment, presumably about PayPal and Visa Direct.

The SBA will provide timely and detailed seminar information by circulars and invitation.

THE EBPP BREAKTHROUGH TAKES TIME

For the last several months, Orange clients have been able to pay their bills via PayNet and yellowbill. Despite a comprehensive customer information campaign to the more than 800,000 Orange subscribers who pay their bills monthly, this payment method is catching on rather slowly. The delayed acceptance by customers can be compared to the slow introduction of e-banking a few years ago.

From Orange's point of view as one of Switzerland's largest billers, EBPP (Electronic Bill Presentment and Payment) is an ideal solution. Electronic invoicing has the tremendous benefit that production, materials and mailing costs are significantly lower than with the traditional paper invoicing process. Besides, this innovative invoice processing method fits perfectly into Orange's strategy in the EBPP and its efforts toward a sustainable environmental management system.

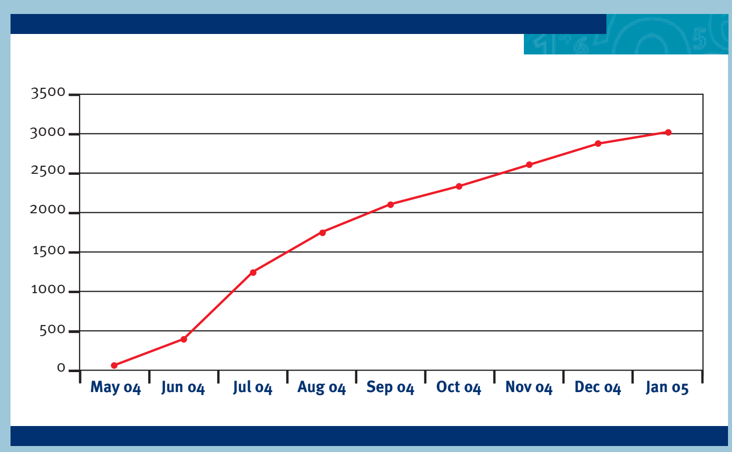
After a few start-up glitches and technical difficulties, both PayNet and yellowbill perform reliably, reducing customer complaints to practically nil. Today's customer inquiries generally revolve around registration or handling of the software. Once a subscriber has registered, both channels are reliable and enjoy a high level of user acceptance.

Use is increasing rather slowly

In spite of the adoption of several means of communication, only roughly 3,000 Orange customers are using PayNet and just over 4,000 are using yellowbill for electronic bill payment, which corresponds to less than one percent of the monthly subscribers. In particular, Orange attributes this to the mandatory registration, the still-prevailing security concerns in connection with e-banking and to the low number of other billers and banks supporting EBPP.

Orange's experiences demonstrate that numerous clients will only switch to EBPP when enough billers support this payment method. It follows that in order to offer EBPP to their clients, both PayNet and yellowbill will need to convince additional organizations to use their respective platforms.

Another obstacle is the banks: Even though a continually increasing number of institutions are working with PayNet, many important banks are not yet participating. PayNet is therefore required to intensify its efforts here, too. At the same time, banks should more actively offer PayNet to their own clients. The same holds true for the Post's yellowbill. The fact that electronic signatures are not yet implemented aggravates the situation in the business customer area.



Source: orange

Orange is convinced of the viability of EBPP and is counting on a considerable increase in users during this year. In order to create a breakthrough for this payment method, Orange has planned to distribute additional customer information and to hold promotions.

Christian Schwab,
Orange, Project Manager Revenue Assurance and Finance Operations,
christian.schwab@orange.ch

PAYNET FROM THE UBS PERSPECTIVE

Initially, a bank is only involved in the payment end of an EBPP system. However, it follows logically that the bank would also be involved in the presentment of the invoice for payment, since an invoice to be paid must first be submitted, and it makes sense for that to happen at the e-banking portal.

The bank's expectations were focused first on an attractive e-banking function that reduced the bank customers' efforts. Now, however, practically all elements that made bill paying a cumbersome experience have been omitted – the time consuming visit to the post office, bundling and adding up individual invoices, mailing the receipts and copying lengthy reference numbers.

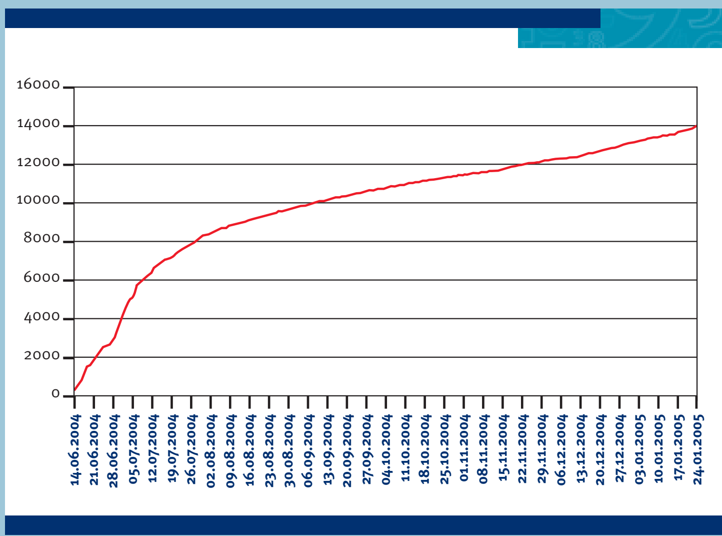
Second, due to the data quality of PayNet bills, clarifications at the bank can be avoided altogether. Throughout the entire bill processing, the reference data remains unchangeable, thus removing the potential for entry errors.

And finally, at the core of the bank's expectations lies the fact that PayNet offers a service providing high quality at reasonable prices. Beyond that, the transition from hard copy invoice mailing to the electronic path must be an easy one. It goes without saying that only when the majority of their invoices can be paid this way will a significant number of clients start using this option.

The development

Within the first weeks after the launch, UBS registered a comparatively steep increase in the registration curve. After the first euphoria, the number of new participants leveled out. The steep increase was more than likely due to the newness factor, as well as being a result of intensive marketing efforts. An in-house e-mail to all UBS employees brought the first peak. The second push was the result of targeted mailings to active UBS e-banking customers.

ACCUMULATED NUMBER OF PAYNET REGISTRATIONS



Source: UBS

The leveling-out is caused by the stagnation in the number of billers, which hinders increased popularity and results in fewer new users for the time being.

What will it take for EBPP to be a success?

For the launch to be successful, it was of paramount importance to involve major national PayNet billing participants such as telecommunications companies. This start-up phase is considered completed as of the end of 2004. During the next phase of popularization of this service, it is crucial to bring on board a multitude of regional billers. The mix of invoices payable via PayNet per average household should be raised to more than 50%. This requires a massively increased marketing effort and additional measures by banks and billers in order to inform the customers of the additional options available. Appropriate efforts have already been initiated, paving the way to making the PayNet solutions a successful component of Swiss bill paying services in the near future.

Rolf Neukom,
UBS AG,
rolf-za.neukom@ubs.com

NEW CONTRACTUAL ASPECTS OF THE DIRECT DEBIT PROCESS

The LSV direct debit redesign is already having the anticipated effects – some in the legal realm. In order to ensure a successful and productive LSV+ launch on November 11, 2005, adapting the contracts is part and parcel of the updates, as are the technical and organizational changes.

The DTA and LSV service contracts (between the bank and Swiss Interbank Clearing Ltd.) as well as the participation conditions for LSV (between the creditor and his bank) in particular were revised for LSV+. Due to the one-year parallel operation of the old and the new direct debit process, the contracts pertaining to the current process remain in effect until the services are discontinued.

Service contract changes

Due to the cessation of the central data carrier exchange (DTA) processing, all respective references have been removed from the new LSV+ service contract. The new option of processing LSV transactions in euro is reflected in the contractual requirement for participating banks in euroSIC that wish to also offer their clients the LSV+ system in that currency.

In addition to the responsibilities defined for Swiss Interbank Clearing Ltd. (SIC Ltd.), LSV+ amends the responsibilities of the creditor's financial institution and those of the debtor's bank. Previously, the debtor's bank was not required to sign the service contract. The new service contract specifies the contractual partners' duties, which echoes the newly created option for the creditor's bank to submit LSV data to SIC Ltd. (which previously could be done directly only by the creditor): SIC Ltd. is obligated to accept LSV data from the creditor's bank. The creditor's financial institution – if it submits the LSV data to SIC Ltd. – must check the legitimacy of the creditor as well as the validity and plausibility of the LSV data and, if necessary, verify the customer limits.

One main purpose of LSV+ is the ability to avoid all returns for reasons other than debtor objection; e.g., lack of funds, debit authorization or account relation. This is achieved by the debtor's bank's new obligation to initiate the timely payment to the creditor's bank, provided that a debit authorization of the debtor is available and that sufficient funds are in his account.

Participation requirements

The new LSV+ participation requirements are characterized by the fact that LSV without right of objection is no longer mentioned. In LSV+, each LSV transaction is subject to the right of objection. The specific period, within which a return is possible, is newly 68 calendar days from the credit value date. This allows the banks to forego sending out a separate debit advice for each LSV transaction. Instead, the debtor may be notified by other means such as a monthly account statement for instance. The right of objection for the debtor remains at 30 days from the notification date.

Claudia Scandaglia,
Legal Services, UBS AG,
claudia.scandaglia@ubs.com

INFO

The text of the new LSV+ service contract will be published in spring 2005 as an addendum to the Technical Rules and Regulations «Payment System Applications». All participating banks will receive the new contract for signature in May 2005. The «Participation Requirements» are contained in «LSV+ Instructions for Creditors» and will be published and available for download on the Swiss Interbank Clearing Ltd. (www.sic.ch) homepage in March 2005.

The anniversary brochure of the Telekurs Group can be ordered on www.telekurs.com.

MASTHEAD

PUBLISHER
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COUNCIL
André Bamat, CEO, Swiss Interbank Clearing Ltd., Christian Bieri, RBA, Armin Brun, PostFinance, Susanne Eis, SECB, Andreas Galle, Swiss Interbank Clearing Ltd., André Gsponer (Leader), Enterprise Services AG, Gabriel Juri, Swiss Interbank Clearing Ltd., Peter Kunz, Credit Suisse, Michael Montoya, UBS AG, Ueli Strüby, BCV, Andy Sturm, SNB

EDITORIAL TEAM
André Gsponer, Enterprise Services AG, Andreas Galle, Gabriel Juri (Leader) and Christian Schwinghammer, Swiss Interbank Clearing Ltd.

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CONTACTS
SIC Operation Center +41 44 279 4200,
euroSIC Operation Center +41 44 279 4700,
Product Management +41 44 279 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.