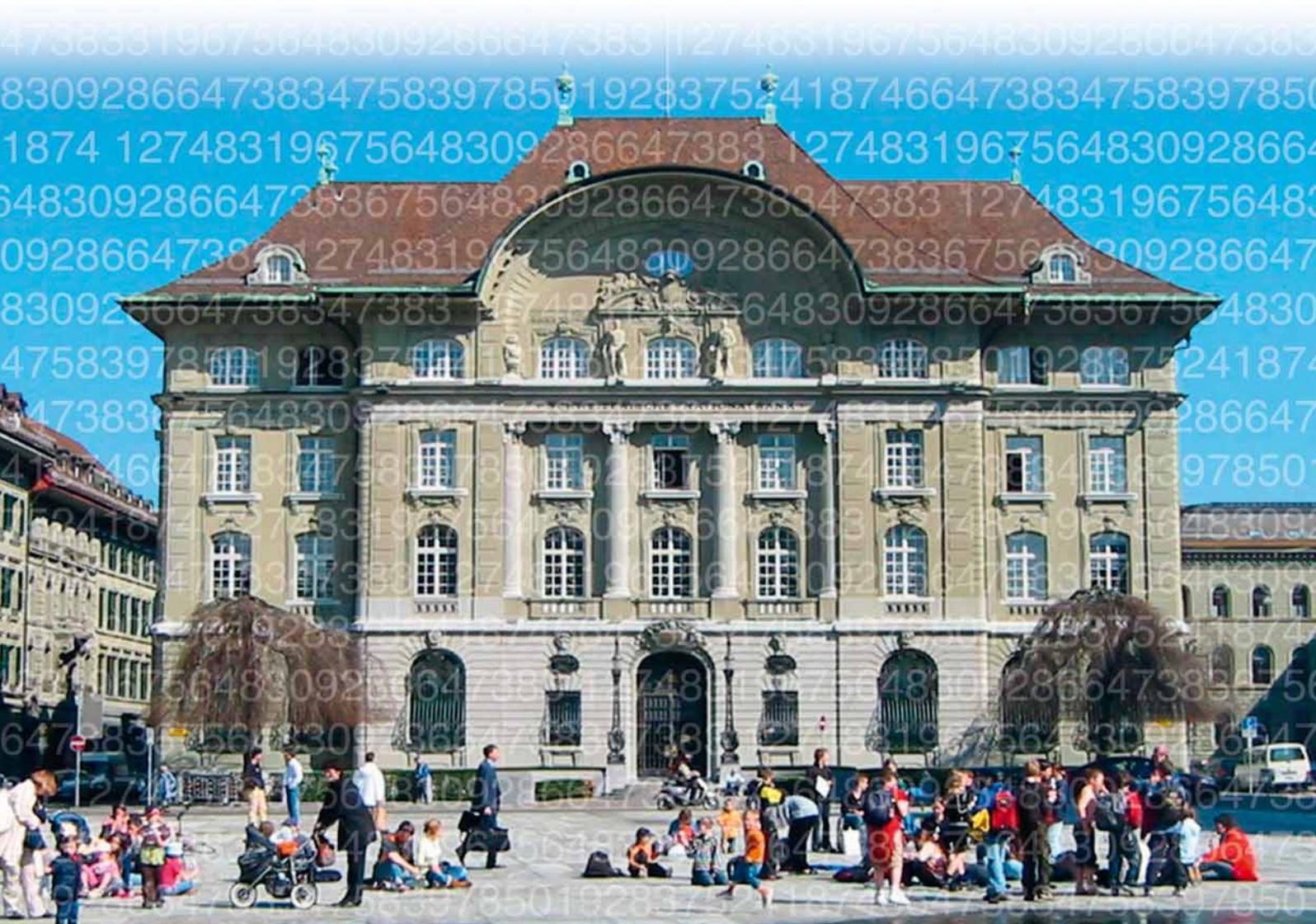


June 2007

ClearIT

The Swiss professional journal for payment traffic



Interview with SECB
CEO-designate

20 years SIC: Licence to clear

Catch as Cash Can

 **Swiss Interbank Clearing**
A Telekurs Group Company

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DEAR READER,

For the payment traffic industry, 2007 is a year of anniversaries and changes. In Switzerland we celebrate the 100th anniversary of our National Bank as well as the 20th operations anniversary of SIC, the interbank payment system in Swiss francs by Swiss Interbank Clearing.

In 1907, the National Bank was primarily focused on creating a uniform payment zone for the Swiss franc, a fact that awakens associations with today's SEPA challenge. «Cash is King» – which still holds true in a world where cash is still the most widely used means of payment (see page 10).

When the SIC system went live in June of 1987, connecting eight banks, it represented a minor revolution: payments were now settled directly and simultaneously with central bank money and were equal to cash. Since then, SIC has undergone tremendous changes and growth and is currently situated in a complex environment, processing more than 310 million transactions per year with a daily volume turnover of approximately 200 billion francs. Since 1997, the Swiss Value Chain – trade, securities processing, payment – has been automated and sequentially integrated. Among other things, it serves as the basis for repo transactions, which, in turn, secure the National Bank monetary policy. More about SIC's success story can be found on page 7.

By now, the euroSIC/SECB construct, too, can look back upon ten intensive and successful years. It has continually advanced and is preparing a timely connection to the SEPA world by January 1, 2008.

Both at Swiss Interbank Clearing and at Swiss Euro Clearing Bank a generational change is currently taking place. In ClearIT 31, Horst Sander's imminent retirement was announced and his successor, Roland Böff, the new CEO, was introduced (see the interview on page 4). By the end of the year, Jörg Auer, current Chairman of the SECB Board, will hand over his baton and get ready for his next endeavors. I want to take this opportunity to sincerely thank both of these esteemed colleagues for their dedicated, solution-oriented and successful cooperation over many years.

And speaking of changes, Martin Frick will be my successor as of July 1, 2007, and, in his new role as CEO, will manage Swiss Interbank Clearing Ltd. as well as becoming a member of the Telekurs Group executive board. This is a choice I'm very pleased with, because Martin Frick has been with Telekurs almost for as long as I have and he is very familiar with payment traffic. With him, Swiss Interbank Clearing will be in good hands. I wish him much success.

It was truly a privilege for me to be part of the Swiss financial center for 16 years as a member of a very dynamic Telekurs, and to have been responsible for the interbank payment traffic for ten years together with the excellent staff of Swiss Interbank Clearing. I am looking forward to staying informed about progress and advances within the finance infrastructure with ClearIT.

Wishing you all the best; much happiness and success. Yours,

André Bamat

A handwritten signature in black ink, appearing to read 'André Bamat', with a large, stylized flourish at the end.

«WE WILL MEET THE SEPA DEMANDS AND REQUIREMENTS»

Roland Böff has been working at SECB Swiss Euro Clearing Bank since the beginning of 2007. He will be taking over the bank management during this year and will contribute to shaping the future of the Swiss interbank payment system, euroSIC. A first encounter.

ClearIT: *You are an established banker, and, at the age of 52, you are embarking on an exciting new venture – managing the SECB Swiss Euro Clearing Bank in Frankfurt. What were the most important motivating factors for this change?*

Roland Böff: There are several reasons behind this decision. One is the appeal of once again being in direct contact with the clients – in this SECB case, with banks – and to be able

«The SECB will be connected to all important euro clearing infrastructures by the time SEPA starts on January 1, 2008.»

to contribute directly to their business development. For many years now, I was more involved in the processing, or, as we now say in Germany, in the back office, where customer contact really is much more limited. On the other hand, I have admired the SECB construct as a terrific idea since I was introduced to it the first time. Incidentally, that

took place back in 1998, even before the euroSIC system actually went operational. Furthermore, I am really excited to now be able to be part of this construct and that, as the new CEO of this bank, I can actively participate in its further development.

The Swiss financial center is part and parcel of the Single Euro Payments Area (SEPA). How do you see the role the SECB plays in this scenario?

It is my personal opinion that the SECB plays an important role here. The SECB/euroSIC connection offers the banks in Switzerland all that's required to reach financial institutions within the SEPA and to be available for payments from the SEPA. The SECB is already connected to some important euro clearing infrastructures and it will be connected to all of them by the time SEPA starts on January 1, 2008. This provides euroSIC participants the opportunity to initiate and/or receive payments to and from the SEPA without needing to be connected directly to the various systems themselves. The service offers euroSIC participants continuous reachability at low costs. Additionally, the combination of the SECB and euroSIC features central functionality, such as a conversion mechanism of existing old formats (A11 or SWIFT MT103) into the SEPA payment mandatory new XML formats. For euroSIC participants, this means that they don't have to change to the XML formats immediately and therefore they retain a certain investment protection for their existing applications, at least while SEPA isn't yet the dominating payment traffic infrastructure.

THE DUTIES OF THE SECB SWISS EURO CLEARING BANK:

- supervises the SIC system,
- provides the participants with sight deposit accounts,
- and steers their liquidity



All in all, I am convinced that the SECB and euroSIC combination will offer the financial institutions a highly attractive yet cost-effective solution.

Mr. Böff, you are an internationally recognized expert on various payment traffic committees and were a decisive contributor to the development of the new generation of payment traffic standards. How will the application of standards in payment traffic develop over the next five to ten years, in your opinion?

First off, thanks for the compliments. But seriously, today, standards are – from my perspective – the essential part in transaction processing within the banks, and not only in payment traffic processing. I have been involved in the development of payment traffic standards – primarily within SWIFT – since 1986 and I assure you: it was never boring. The advancement of these standards during this time span is truly astounding. The term «Straight Through Processing» dominates standardization today, and will certainly

«It is SECB policy to offer attractive fee structures for processing euro payments within Switzerland and across its borders jointly with Swiss Interbank Clearing.»

continue to do so. I personally am of the opinion, though, that standardization has reached a maturity level that should provide an impetus for concerning ourselves internationally more with understanding market practices and aspiring to unify them.

The fees in international payment traffic are crumbling. The SECB is already a pioneer in terms of low-cost cross-border payments. What will the SECB pricing policy look like in the future?

It is SECB policy to offer attractive fee structures for processing euro payments within Switzerland and across its borders jointly with Swiss Interbank Clearing. We know that we have to get better in certain areas. We already have some ideas about that, but, for obvious reasons, I can't discuss them in detail here. Only this much: We will definitely meet the SEPA requirements for low transaction fees. »

INTERVIEW

Likewise, we want to increase euroSIC transaction volumes. This will depend not only on the service quality – which is indisputably high and will remain so – but also on a possibly differentiated, volume-dependent pricing. Our ideas still need verification and approval from the relevant bodies. But we are counting on soon being able to approach euroSIC participants and potential clients with preliminary information.

We keep hearing that the prices for payments are continually being lowered; however, implementing compliance requirements and conditions continually gets more expensive, thus affecting individual transactions. Does this hold true for the SECB, as well?

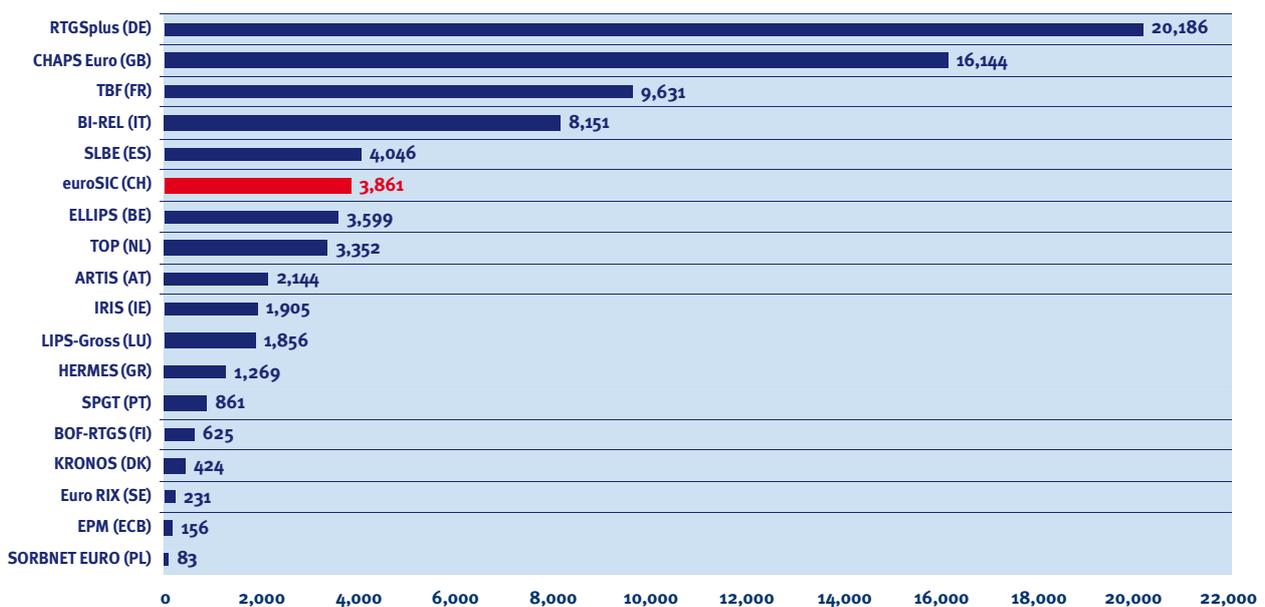
Legislative strictures and requirements from supervisory bodies have to be met, that is true. The SECB will do everything in its power to do this without a price increase for transactions. But, in an earlier question, we spoke about standards. The international credit industry has to work together in the area of compliance, as well, in order to create joint solutions and to avoid the potential of many banks needing to create individual solutions. If that can be done, the fees will remain accordingly low. ■

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

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

euroSIC – IN COMPARISON WITH OTHER RTGS SYSTEMS

Number 6 of the RTGS systems for cross-border euro payments (Ø TRX per day 2006)



Source: ECB



20 YEARS SIC

AND THE SUCCESS STORY GOES ON

«Today, SIC is the center of a complex technical and organizational environment. Not only the interbank payment traffic but also payment transactions to and from Post-Finance flow through this system. The Continuous Linked Settlement (CLS) system was connected to SIC five years ago. Since 1995, SIC has been part of the Swiss Value Chain, the integrated financial market infrastructure of Switzerland – together with the real-time securities settlement system SECOM of SIS and the various trading platforms of SWX/Eurex. The correct functioning of SIC is absolutely crucial for the Swiss financial center and the implementation of monetary policy.» *(Source: Swiss National Bank)*

«Compared to other countries' systems, SIC is today extremely competitive, efficient and secure operating.»

Prof. Dr. Thomas J. Jordan, Member of the Governing Board of the Swiss National Bank (25. April 2007)

«When SIC was started up on June 10, 1987 it was not an evolutionary step, but instead a quantum leap.»

Hans Geiger, Professor at the Institute for Swiss Banking at the University of Zurich (February 2002)

«SIC can really be termed a success story.» *Prof. Dr. Bruno Gehrig, formerly Vice-Chairman of the Swiss National Bank (February 2002)*

«With SIC Switzerland has literally coined the term RTGS long before it became a characteristic feature for all modern clearing systems.»

Stephan Zimmermann, UBS AG, Chairman of the Telekurs Group Board of Directors (August 2002)

«To make changes to their RTGS system CHIPS, the USA require up to 1 1/2 years. In Switzerland all we need is an

«With SIC Switzerland has literally coined the term RTGS.»

AM meeting with all the parties, including the SNB, sitting at the same table. The decisions are noted right then and there. This is very unique indeed.»

Stephan Zimmermann, UBS AG, Chairman of the Telekurs Group Board of Directors.

MARTIN FRICK NEW CEO OF SWISS INTERBANK CLEARING LTD.

On July 1, 2007, Martin Frick will take over leadership of Swiss Interbank Clearing Ltd. from André Bamat, who will retire. Martin Frick, born 1958, is a graduate of the Swiss Federal Institute of Technology, where he studied electrical engineering. After filling various management functions in the field of software development, he has worked at Telekurs since 1992 as Head of Payment Traffic Development, among other positions. He was in charge of Product Management E-Commerce for the former EUROPAY from 1998 - 2000. He has been CEO of Telekurs PayNet Ltd. since 2001.

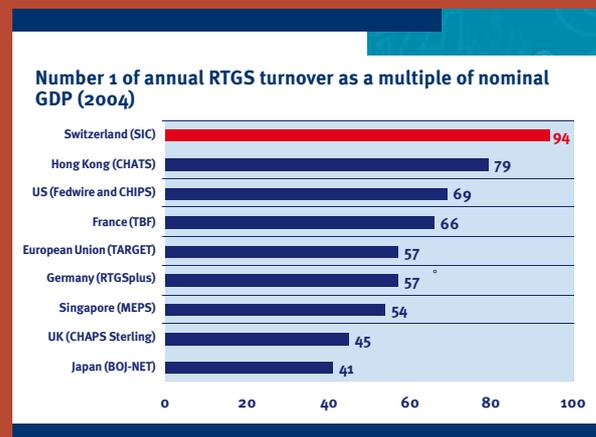
«SIC processes [...] payments with a total value of CHF 180 billion on an average day. This corresponds to more than one third of the Swiss annual gross national product and is clearly a sign of the significance of the financial sector for the Swiss economy.»

Professor Dr. Hans Geiger in his book review «The History of Money Flow – The Development of Payment Traffic with a Focus on Switzerland» (July 2003)

«Quite a number of countries have moved to introduce RTGS systems which mirror a number of features of the SIC system.» *Bruce White, Reserve Bank of New Zealand (March 1998).* ■

Gabriel Juri, Swiss Interbank Clearing Ltd., gabriel.juri@sic.ch

SIC – IN COMPARISON WITH OTHER RTGS SYSTEMS



SINGLE EURO PAYMENTS AREA – THE SWISS FINANCIAL CENTER IS GETTING READY

In April, the European authorities added the final legislative touches to the Europe-wide implementation of the SEPA by passing the Payment Services Directive (PSD). This makes the vision of a single euro payments area more attainable. Preparations are running at full speed in Switzerland, too.

The regulatory policy decision was made this past year to accept Switzerland into the circle of SEPA member countries. For the Swiss financial center, it was already evident at that time that participation by the Swiss banking community was both commercially desirable and economically sensible. The latest findings have shown that the required legal foundations for it are in place as well.

LEGAL REQUIREMENTS FOR PARTICIPATION

Starting January 1, 2008, credit transfers and, presumably, direct debits will be possible in accordance with the standardized SEPA processes obligatory for all participants (EU/EEA countries and Switzerland). In other words, the participating Swiss financial institutions will also have to respect the level playing-field in the euro payments area for their euro payment processing. Beyond that, they are tied to the relevant European Payments Council (EPC) rulebooks: The SEPA Credit Transfer Scheme Rulebook and the SEPA Direct Debit Scheme Rulebook.

Each financial institution is required to sign an adherence agreement, thus committing to the EPC that it will follow the SEPA regulations unconditionally. Furthermore, the EPC requires a legal opinion of each participant that confirms that the institution can indeed meet the requirements of the SEPA schemes.

By request of the Swiss financial center, Swiss Interbank Clearing will be supporting the financial institutions in these administrative questions and facilitate the registration process. Registrations are presumed to start in September 2007.

EFFICIENT LINK-UP WITH SEPA

Swiss Interbank Clearing, as the euroSIC system operator, and the SECB Swiss Euro Clearing Bank, as the manager, will offer the Swiss financial institutions SEPA-compatible payment services from a single source. In doing so, the

«Swiss financial institutions will also have to respect the level playing-field in the euro payments area.»

primary focus is to make it as easy as possible for Swiss banking customers to receive and send SEPA payments and for the financial institutions to be able to process these transactions as simply and cost effectively as possible.



STEP-BY-STEP IMPLEMENTATION IN SWITZERLAND

In this case, a step-by-step process is indicated. Starting on January 1, 2008, euroSIC participant banks are able to receive and send SEPA transfers, regardless of the type of link, be it via remoteGATE or other interfaces.

As of May next year, euroSIC participants will be able to exchange XML messages according to the SEPA transfer protocol, again independent of which interfaces to euroSIC they are using.

In a third step, Swiss Interbank Clearing and SECB will make it possible for euroSIC participants to process SEPA-compatible debits within the framework of the Swiss direct debit procedures LSV⁺ and BDD sometime in 2009.

COMMUNICATION MEASURES

The Payments Committee Switzerland (PaCoS) is the leading entity in Switzerland for issues related to the SEPA integration. In addition to facilitating the national dialogue among the participating parties, it also coordinates the communication activities related to the introduction of the SEPA standards.

At the Swiss Banking Operations Forum on April 25, 2007, attendees had the opportunity to obtain first-hand information about the topic «SEPA and Switzerland.» Recently, on May 21st, there was an information event where more

«Starting on January 1, 2008, euroSIC participant banks are able to receive and send SEPA transfers.»

than hundred interested payment traffic experts from all over Switzerland were able to delve into the subject. Future events of this type are scheduled on June 13 in Geneva and on June 25 in Lugano.

The software providers have their own meetings, where they will be mostly focusing on the technical challenges.

Over the next few months, detailed information about Swiss financial center measures in reference to the SEPA participation will be added to the Swiss Interbank Clearing website www.sic.ch and delivered via circular letters.

During its next meeting in June, the Board of Directors of the Swiss Bankers Association will also address the SEPA topic and develop recommendations for its member institutions. ■

Gabriel Juri
Swiss Interbank Clearing Ltd.
gabriel.juri@sic.ch

CURRENCY IN CIRCULATION AND ITS SUPPLY IN SWITZERLAND

For one hundred years, the right to put Swiss banknotes into circulation has been reserved for the Swiss National Bank. It supplies the economy with high-quality bills that meet even the most stringent security requirements. Currently, the preparations for a new banknote series for Switzerland are running in high gear.

One of the most important responsibilities of the Swiss National Bank is to supply Switzerland with cash in an optimal way; it has to ensure that desired number of bills and coins are in the right place at the right time. At the same

«Consumers and manufacturers generate the demand for bills and coins.»

time, the National Bank is committed to the highest possible security standards whilst ensuring that costs are kept to a minimum. It isn't always easy to find the perfect balance in this situation. Although the current banknotes are still adequately protected against counterfeiting, the Bank must nevertheless strive to remain one step ahead of technological developments.

The first banknotes should be ready for production in 2008 so that they can be put into circulation in 2010. In February 2007, the Swiss National Bank decided that preparations for a new banknote series for Switzerland should be pursued further with the Swiss graphic artist Manuela Pfunder.

THE DEMAND FOR CASH

Consumers and manufacturers generate the demand for bills and coins; the National Bank meets those demands without limitations. Cash is widespread and very popular among consumers due to its practicality and anonymity – it can be used simply and discretely at any time. Banknotes remain the only legal tender without limitations. Of course, cash bears its own set of risks: It can be lost or destroyed.

In Switzerland, the 100 franc note is the most widespread one. It accounts for approximately 30% of all bills in circulation. The 1000 note is the most common denomination in terms of value: With 20 billion CHF, it makes up one half of the total value of banknotes in circulation.

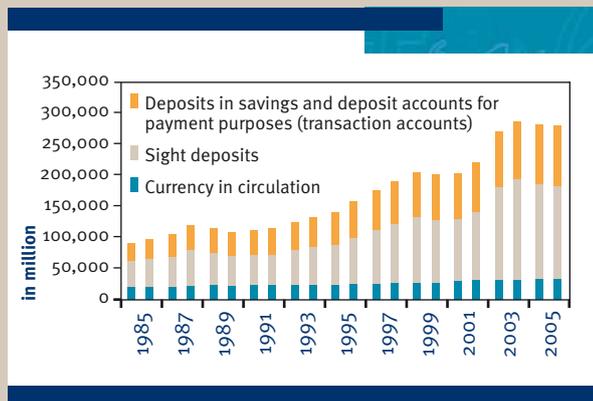
Cash plays an immensely important role in Switzerland. At the end of 2005, every resident owned an average CHF 5,600 in cash. In the USA, average cash on hand is the equivalent of approximately CHF 3,300. Residents of the euro zone generally have cash funds at their disposal of about CHF 2,800, and the British own the equivalent of CHF 1,400. Only the Japanese stockpile more cash than the Swiss – on average, the equivalent of CHF 6,500. However, this international comparison must be interpreted with caution: banknotes circulate not only nationally, but also abroad. According to a 1997 survey, approximately 40% of all the Swiss banknotes were outside of Switzerland. The CHF 1,000 bill is especially popular abroad as a store of value.

Looking at the long-term picture, the amount of banknotes in circulation increases with economic growth, albeit more

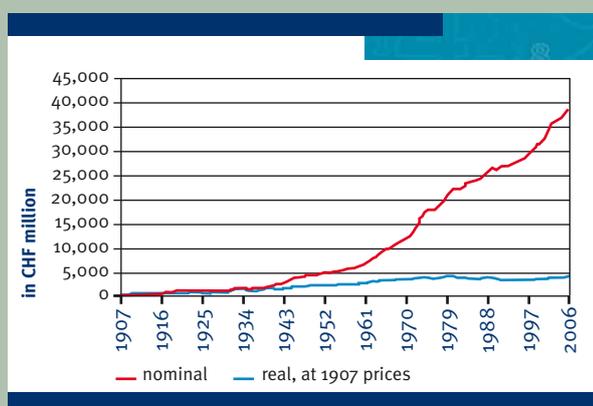
«Only the Japanese stockpile more cash than the Swiss.»

slowly. In 1945, there were 3.5 billion CHF in cash circulation, making up 25% of the nominal gross domestic product (GDP).

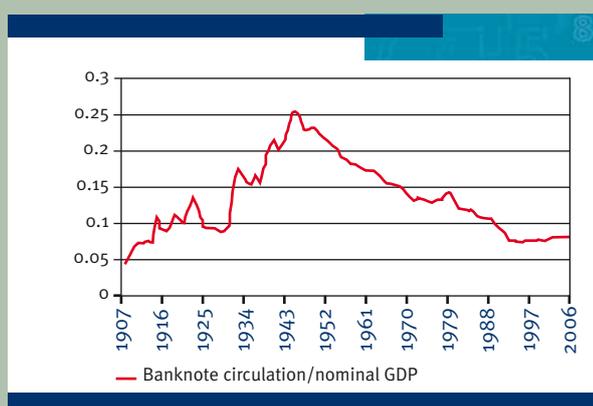
MONEY STOCK M1 AND ITS COMPONENTS



BANKNOTE CIRCULATION 1907 - 2006



THE RATIO BETWEEN BANKNOTE CIRCULATION AND GDP



In 2006, the cash amount was at 38.2 billion CHF, only corresponding to 8% of the GDP. This development can probably most directly be accredited to improvements in payment traffic that allow individual households to execute many transactions electronically. Thus, the development of cash-less payment traffic has a direct impact on the amount of cash in circulation.

ORGANIZING CASH CIRCULATION

In order for the National Bank to be able to meet specific cash demands at any given time, it has developed an elaborate logistical infrastructure. It has a network of locations (two seats and a branch) as well as 16 agencies and 195 correspondents. The latter are usually managed by cantonal or regional banks. The National Bank manages depots at strategic locations in order to guarantee cash supply at any moment, as well as to be prepared for any unexpected incidents. The locations are not only responsible for always providing sufficient cash, but they also ensure that those bills no longer in use are withdrawn from circulation and destroyed, meeting security requirements. Approximately 270 million bank-notes are in circulation. The National Bank adds more than 100 million bills to circula-

«The total number of banknotes in circulation amounts to approximately 270 million.»

tion each year. This confirms that the average life of a bill is about three years. Basically, about the same number of new banknotes is printed as is withdrawn. The issuing institution makes an effort to withdraw as few bills as possible from circulation in order to lower costs. As long as the banknotes are in good condition, they are put back into circulation. Bills circulating in good condition hamper the introduction of counterfeit bills.

It is true that the National Bank is responsible for supplying the cash in circulation, but it was never its goal to replace the efficient distribution systems of banks and the Swiss Post. They take on the role of «retailers», as it were, and supply end users with cash through their tight network of counters and ATMs all over Switzerland. The issuing institution is content to take on the role of «distributor». ■

*Roland Tornare, Head of Cash,
Swiss National Bank, roland.tornare@snb.ch*

FOLLOW THE SUN: CASH MANAGEMENT AT UBS

Those responsible for a bank's global cash management must be capable of summarizing all information comprehensively and in real time. That is the only way capital investments of any kind can be properly managed, market opportunities can be taken advantage of and risks can be limited. A UBS case study.

A global cash management system aims to avoid manual processing of cash positions fed by countless systems. Instead, a global, integrated, real-time overview of all money

«For many financial institutions, cash management is still predominately a manual process even today.»

flows is the goal. Financial institutions can best act – i.e., obtain the best interest rates available – if they can feed the processed transactions into a single cash management tool.

For many financial institutions, cash management is still predominately a manual process even today, one where the back-office staff actively monitors any and all moves in positions, independent of individual business areas or regionally individual accounts.

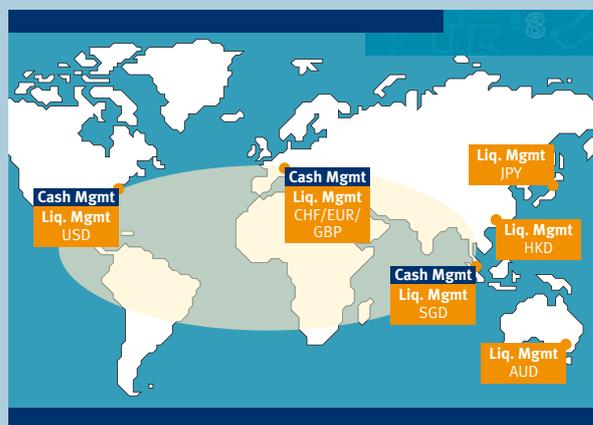
Rarely have individual financial institutions channeled all transaction flows from various business areas (payments, securities, MM/FX) for their cash management through one solely responsible unit. Yet the banks could much better gain control over their diverse systems and hundreds of account types with just such a process.

UBS CASH MANAGEMENT TWO YEARS AGO ...



Source: UBS

... AND IN FUTURE



Source: UBS



THE UBS PROGRAM

For several months now, UBS has been promoting the GCU (Global Cash Utility) program. With GCU, global cash management is developed using a global cash management tool. This will enable UBS to offer its cash management services around the clock («Follow the Sun»).

The program will result in the current seven cash management locations being reduced to three (Europe, USA and Asia). These will ensure the timely withdrawal of the various positions around the clock. Since we are thereby

«A global cash management accounts for a timely withdrawal of the various positions around the clock.»

relying on the respective time zones, this results in considerable opportunities for synergy (e.g., by reducing the number of systems in use) that we want to take advantage of. Additionally, we will be much better able to respond or react faster to short-term changes in local markets.

In the first phase we have – based on the cash management processes of two European locations – implemented a new cash management tool that covers the generic processes of both locations.

In the second phase, we implemented the specific processes for each line of business. This phase was more complex than originally expected, since, for instance, individual limits per business area had to be defined, several hundred accounts had to be verified and varying cut-off times had to be taken into consideration.

In the third and final phase, to be completed by the end of 2007, we will integrate a new location into the tool. Only then can it be determined conclusively whether the «Follow the Sun» model is operationally sound. ■

Armon Gianom
UBS AG, Head GCU Cash Management & CLS
armon.gianom@ubs.com

INTERNET THREATS – FINALLY UNDER CONTROL?

The new version of the Swiss telecommunication law came into effect in April 2007. With the new law in place, spammers and their clients can be prosecuted. Whether the new regulation proves effective in practice, or not, remains to be seen. The fact is that there seem to be no limits to the web-criminals' inventive talents and the number of Internet attacks increases continually.

There might not have been any spectacular phishing attacks lately, but not because they no longer exist – quite the contrary. There has been no discernable decrease in the flood of phishing e-mails.

FROM SPAM TO IMAGE SPAM AND MALWARE

Specialists are estimating a volume of 50 billion spam e-mails for this year. That's approximately 90% of the entire email traffic. Spam filters are reaching their limits. If they are set too low, not all spam e-mails are filtered out. But if the filter is set too high, regular e-mails are lost – a seemingly hopeless situation for the administrators of email servers. In order to reduce spam recognition, spammers have been busy developing new processes. JPEG files containing advertisements are mailed out hidden in image spams, and often they are also infected with malware like Trojans or viruses to trigger unwanted activities on the viewers' computers.

«LOST AND FOUND»

On the U.S. www.stolenidsearch.com company website, it's possible to look up whether confidential data – such as a personal credit card number – has already been stolen by criminals. Tens of thousands of new data sets are entered each month.

GLOBALIZED VIRUSES

Just like their biological counterparts, digital viruses can mutate or be altered. These computer viruses, designed and used for specific attacks, cannot be recognized and fended off by virus scanners. Viruses and virus technologies are being created in multitudes of variants by blended

**«Specialists are estimating
a volume of 50 billion spam e-mails
for this year.»**

threads, forming new attack scenarios. And to make things worse, they can infect a Windows PC from a Windows Pocket PC or Smartphone (crossover viruses). Hence, to a certain degree, the viruses have been 'globalized'.

STANDARDIZING AND PROFESSIONALIZING

Today's cyber criminals are top-notch pros and have a very clear goal: To steal money and information. To this end, they use standardized methods and processes, readily available on the Internet. There have already been reported cases of spammers who can afford to poach specialists from security companies and hire them for their «commercial» activities. The attacks are aimed at individuals or groups of individuals. Linguistically, semantically and syntactically, these attacks – sometimes hidden in fake invoices – are so perfect that even well-versed and savvy users often are unable to recognize an attack as such, and unsuspectingly open the attachments.



Picture: Graphic Design by Panda Software

ANTI-SPAM LAW RULES OF CONDUCT

Nemuk, specializing in online dialogue marketing, has summarized the most important regulations for permitted email marketing (permission marketing) within the framework of the new anti-spam law (www.nemuk.com).

FINANCIAL INSTITUTIONS ARE BETTING ON NEW AUTHENTICATION PROCESSES

PostFinance has been distributing new Postcards with scanners to its clients since March 2007. UBS has been using a similar authentication process for a while. Even US companies like PayPal and e-Bay have been introducing new, hardware-supported systems under the increasing pressure. Raiffeisen Bank Switzerland is testing online banking security systems for use with cell phones. These are all further active steps in the fight for containing Internet crimes. ■

Paul Sutter
Swiss Interbank Clearing Ltd.
paul.sutter@sic.ch

ASIT – WORKING GROUP FOR SECURITY IN IT

The Working Group for Security in IT (ASIT) is the expert committee for IT security of Swiss banks. It is a task force of the Swiss Commission for Standardization in the Finance Industry (SKSF), a committee of the Swiss Bankers Association (SBA), and is composed of experts from various financial institutions.

The ASIT examines products and services offered on the market, influences developments by providers and manufacturers, analyzes new and novel IT security risks, and enacts standards for Switzerland or contributes to the definition of international standards. Analyses and recommendations are made available to institutions and cooperative endeavors or, upon request, to Swiss financial market organizations, and are intended to maintain and support the leading role of Swiss banks in regard to information security.

Go to www.sksf.ch for further information and a list of contacts.

FIRST DESIGNS OF THE NEW SWISS BANKNOTE SERIES.

For further information, see www.snb.ch, Banknotes, New banknotes project.



MASTHEAD

PUBLISHER

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

ORDERING/FEEDBACK

ClearIT@sic.ch

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COUNCIL

André Bamat, Swiss Interbank Clearing Ltd., Christian Bieri, RBA, Armin Brun, PostFinance, Boris Brunner, UBS Ltd., Susanne Eis, SECB, Robert Fluri, SNB, Andreas Galle, Swiss Interbank Clearing Ltd., André Gsponer (Head), Enterprise Services AG, Gabriel Juri, Swiss Interbank Clearing Ltd., Peter Kunz, Credit Suisse, Ueli Strüby, BCV

EDITORIAL TEAM

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

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CONTACTS

Product Management Swiss Interbank Clearing Ltd.
Tel. +41 44 279 47 47,
Customer Service Swiss Euro Clearing Bank GmbH
Tel. +49 69 97 98 98 35

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