

Case study: Oversight in Switzerland

Martina Glaser
Swiss National Bank

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Structure of Presentation

- ◆ Introduction - Why oversight systems?
- ◆ Present situation - The National Bank Law (1954)
- ◆ The new National Bank Law
- ◆ Ordinance to specify oversight task
- ◆ Conclusions

Introduction - Why oversight systems?

- ◆ Central bank tasks
 - monetary policy
 - financial stability
- ◆ Objectives
 - safety of financial markets infrastructure
 - efficiency of financial markets infrastructure

- ◆ SNB defines oversight as all of its efforts to influence the rules and architecture of payment and securities settlement systems

Present situation - The National Bank Law 1954

- ◆ Role of the SNB includes facilitating payment transactions
- ◆ Private contract with SIC AG
- ◆ Moral suasion
- ◆ SIS SegalInterSettle AG supervised by Federal Banking Commission
- ◆ No supervision of retail payments systems

The new National Bank Law - Roadmap

- ◆ Expert report on the new Law: 16 March 2001
- ◆ Message of the Swiss government: 26 June 2002
- ◆ Public consultation: Autumn 2002
- ◆ Parliament: Spring/Summer 2003
 - ➔ To be enacted on 1 May 2004

- ◆ The new Law assigns explicit responsibilities for the oversight of payment and securities settlement systems
- ◆ The details are specified in an ordinance
- ◆ Public consultation for the ordinance: Summer 2003

The new National Bank Law (1)

- ◆ Art. 5 Tasks

¹The National Bank shall pursue a monetary policy serving the interests of the country as a whole. It shall ensure price stability. In so doing, it shall take due account of the development of the economy.

²Within this framework, it shall have following tasks:

- a) It shall provide the Swiss franc money market with liquidity.
- b) It shall ensure the supply and distribution of cash.
- c) It shall facilitate and secure the operation of cashless payment systems.
- d) It shall manage the currency reserves.
- e) It shall contribute to the stability of the financial system.

The new National Bank Law (2)

- ◆ Art. 15 Duty to provide statistical information

Section 3: Oversight of payment and securities settlement systems

- ◆ Art. 19 Propose and scope of application
 - CHF-Systems with headquarter in Switzerland
 - Non-CHF-Systems with headquarter in Switzerland
 - Systems with headquarter abroad with Swiss participation
 - Excluded: CHF-Systems with headquarter abroad without Swiss participation
- ◆ Art. 20 Features of oversight
- ◆ Art. 21 Cooperation with supervisory and oversight authorities
- ◆ Art. 23 Administrative sanctions

Ordinance for the oversight task (1)

- ◆ Procedure in 3 steps
 - 1) All system providers have the duty to provide on a quarterly basis statistical information on:
 - Value of transactions
 - Volume of transactions
 - Number of direct participants
- Selection of SIPS and potentially SIPS

Ordinance for the oversight task (2)

- 2) Extended duty of information for SIPS and potentially SIPS
 - Type of transactions
 - Type of participants
 - Links to other systems
 - Alternative systems

→ Selection of the systemically important systems

- 3) Minimum requirements for systemically important systems
 - These are heavily based on
 - Core Principles
 - Recommendations for SCSSs

→ Assessment of compliance

Minimum requirements (1)

- ◆ **Legal basis**
 - Contracts are clear, comprehensible and up to date
 - Clear definition of reciprocal rights and duties between system operators and the participants
 - Clear definition of finality
- ◆ **Access criteria**
 - Principle of fair and open access
 - Access criteria based on risk or efficiency considerations
 - Clear rules for suspension or exclusion of participants
- ◆ **Control of credit and liquidity risks**
 - Monitoring and management of credit and liquidity risks through appropriate processes and instruments

Minimum requirements (2)

- ◆ Standards for specific systems
 - Multilateral netting systems and central counterparties should be capable of ensuring the timely completion of daily settlement in the event of an inability to settle by the two participants with the largest single net debit positions
 - Systems for the settlement of mutual obligations (foreign exchange and securities transactions) must eliminate principal risk through PVP or DVP
- ◆ Settlement asset
 - Settlement should be preferably in central bank money
 - Other settlement assets are tolerated given that they are similarly safe in terms of credit and liquidity risk
- ◆ Operational reliability, technical standards
 - High safety in respect to availability, integrity, confidentiality, and traceability
 - Back up system must meet same safety requirements
 - Clear procedures in case of system failures

Minimum requirements (3)

- ◆ Corporate Governance
 - Definition of overall objectives of the company and guidelines for the management
 - Appropriate organizational structure with clear defined tasks, responsibilities, and competencies
 - Appropriate procedures for the implementation and control of the strategy
 - High quality of documentation
 - Appropriate internal control system and risk management,
 - Guarantee of compliance
 - Transparent information policy

Assessment of compliance with minimum requirements

- ◆ Periodical information
 - Annually: business report, current contracts, organizational foundations, list of participants, audit reports
 - Quarterly: statistical data on transactions
 - Monthly: operation statistics (availability of system, technical troubles and failures)
- ◆ Specific information
- ◆ On site inspections
- ◆ Duty to inform on any technical changes, modification of rules, etc.

Administrative sanctions

- ◆ Recommendations
- ◆ Decree
- ◆ Publication of decree
- ◆ Withdrawal of central bank account
- ◆ Sanction possibilities through other supervisory authorities (i.e. Federal Banking Commission)

Conclusions

- ◆ The new National Bank Law assigns explicitly the task of overseeing payment and securities settlement systems to the SNB
 - ◆ With this legal basis oversight will be much more "professional" and consistent
 - ◆ Clear procedure to define the systemically important systems
 - ◆ Clear minimum requirements that must be complied
 - ◆ Legally based sanctions
- ➔ It will be easier to influence the development of financial markets infrastructure in order to maintain the stability of the financial system