

## PAYMENT AND SETTLEMENT SYSTEMS IN SPAIN

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PAYMENT SYSTEMS DEPARTMENT

## PAYMENT AND SETTLEMENT SYSTEMS IN SPAIN

### AGENDA

- **PAYMENT SYSTEMS IN SPAIN**
  - Banco de España Settlement Service (SLBE)
  - National Electronic Clearing System (SNCE)
  - Role of the Banco de España
  
- **THE SECURITIES INDUSTRY IN SPAIN**
  - The securities settlement infrastructures: main features
  - The Banco de España and the securities settlement systems (SSSs)

## PAYMENT AND SETTLEMENT SYSTEMS IN SPAIN

### Overview

#### PAYMENT SYSTEMS REFORM

#### CURRENT SITUATION

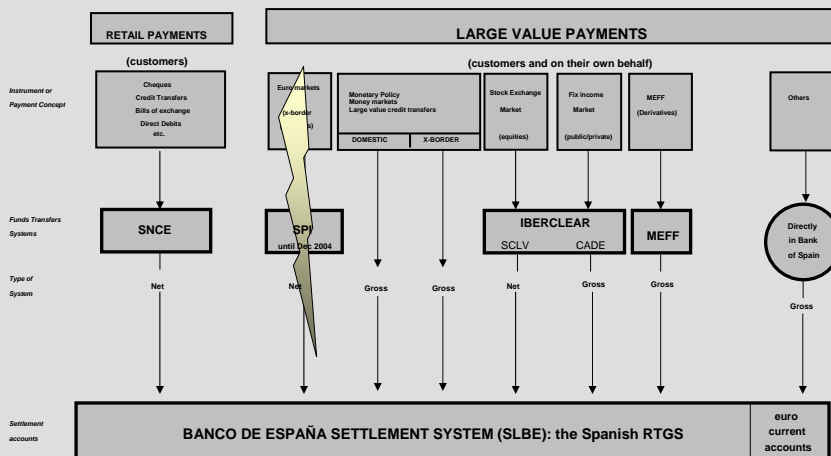
- **Large value payment systems**
  - SLBE: RTGS operated by Banco de España
- **Retail payment systems**
  - SNCE: DNSS managed by Banco de España (Until June 2005)
- **Other systems**
  - “Cuasi-systems” operated by C.I.s

## PAYMENT AND SETTLEMENT SYSTEMS IN SPAIN

### Overview

#### SPANISH INTERBANK PAYMENT SYSTEMS

Situation at February 2005



**BANCO DE ESPAÑA SETTLEMENT SERVICE (SLBE)**

**Basic features**

- Owned and operated by Banco de España
- Large value payment system
- Gross settlement in real time
- Euro denominated transactions, both domestic and cross border
- Designated under the Settlement Finality Law
- Compliant with the Core Principles of the BIS
- Spanish TARGET component

**Participation**

▪ **Types of participants**

- Supervised credit institutions, established in the EEA
- Investment firms
- Organisations providing clearing and settlement services
- Treasury and equivalent bodies of the regional governments
- Public sector bodies authorised to hold accounts for customers

▪ **Forms of participation**

- Direct (184)
- Indirect (36)
- Remote access

**Types of transactions**

- Between participants
- Transactions with Banco de España
  - *Monetary policy operations*
  - *Intraday credit*
  - *Cash management*
- Liquidity transfers
- Settlement of ancillary systems

**Communications and information**

- On-line connection to the Banco de España computer
- Via SWIFT
- File transmission

**Liquidity management facilities**

- Setting up of payment queues
- “Netting” of orders: bilateral and multilateral
- Payment prioritizing
- Liquidity reservation
- Intraday credit
  - *Financing must be cancelled, at the latest, at the closing time*
  - *Unlimited*
  - *Collateralised with eligible assets*
  - *Free of charge*
  - *Two procedures: repo or pledge*

**Technical design**

- Infrastructure
- Physical protection
- Encryption
- Network administration
- Communication

**Business continuity**

**Contingency arrangements**

**SLBE Business day**

- |                      |   |
|----------------------|---|
| <b>07:00</b>         | <b>Opening</b>                            |
|                      | Settlement of the night cycle of CADE     |
|                      | Real time transactions                    |
|                      | Settlement of Ancillary Systems           |
| <b>17:00</b>         | <b>Closing for customer transactions</b>  |
| <b>18:00</b>         | <b>Closing for interbank transactions</b> |
| <b>18:00 – 18:30</b> | <b>Standing facilities</b>                |
| <b>18:00 – 19:00</b> | <b>Night cycle of CADE</b>                |

**SLBE calendar**

NATIONAL ELECTRONIC CLEARING SYSTEM (SNCE)

Basic features

- Spanish retail payment system
- Managed by Banco de España (until June 2005)
- Decentralized structure
- Net Settlement on accounts held at Banco de España
- High level of standardisation
- Different subsystems (each subsystem has its own procedural rules)  
*Cheques, Credit transfers, Direct debits, Bills of exchange, Fuel and travel cheques and Others*

Truncation

- Cheques below the truncation limit are kept by the payee CI (no physical exchange)
- Data are electronically transmitted
- Second level of truncation via image transmission

**Types of participants**

- Credit institutions only
- Banco de España (direct participant)

**Forms of participation**

- **Direct** (25)
  - Participation in the exchange and settlement
  - Minimum requirements in terms of activity
- **Indirect** (202)
  - Participation through direct members

**Operational phases**

- I- Exchange of data** (day d, afternoon / night)
  - Via bilateral electronic links between direct participants
- II- Physical exchange of documents** (day d+1, morning)
  - More than 99% of the transactions are cleared **without** physically exchanging documents.
- III- Clearing** (day d+1, morning)
  - Direct participants send to Banco de España, via computer link, the information on amounts bilaterally exchanged (by subsystem and entity).
  - Banco de España clears the totals received and calculates a single multilateral net balance per direct participant.
- IV- Settlement** (day d+1, morning)
  - Calculated multilateral net balances are settled on the accounts of the direct participants

PAYMENT AND SETTLEMENT SYSTEMS IN SPAIN



SNCE

Some figures

Relative weight of each subsystem

PAYMENT INSTRUMENT	TOTAL	%	TOTAL	%	AVERAGE	TRUNCATION
	TRANSACTIONS	RELATIVE	VALUE	RELATIVE	VALUE	OF DOCUMENTS
Direct debits	783.257.067	65,18%	261.356.650.700	15,65%	334	100% paperless
Credit transfers	256.219.930	21,32%	614.844.190.400	36,82%	2.400	100% paperless
Cheques	112.714.605	9,38%	589.841.472.000	35,33%	5.233	99% truncated
Bills of exchange	37.619.346	3,13%	146.429.197.900	8,77%	3.892	93% truncated
Other cheques	10.880.833	0,91%	507.422.100	0,03%	47	100% paperless
Other settlements	922.484	0,08%	56.718.926.500	3,40%	61.485	30% paperless
<b>TOTAL</b>	<b>1.201.614.265</b>		<b>1.669.697.859.600</b>		<b>1.390</b>	<b>&gt; 99,6%</b>

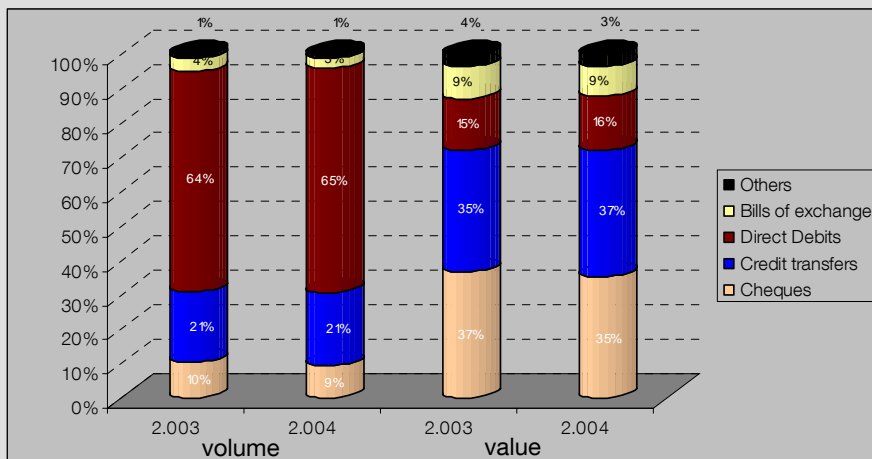
2004. Rate in €

PAYMENT AND SETTLEMENT SYSTEMS IN SPAIN



SNCE

Relative weight of each subsystem

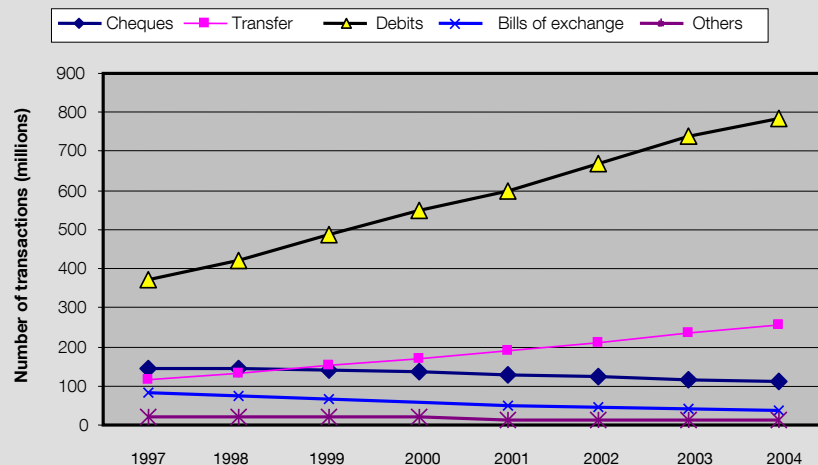




## PAYMENT AND SETTLEMENT SYSTEMS IN SPAIN

SNCE

### Evolution of the utilization of payment instruments



BANCODE ESPAÑA  
PAYMENTS WEEK 2005

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## PAYMENT AND SETTLEMENT SYSTEMS IN SPAIN

Role of the Banco de España

### Traditional interest of central banks in payment systems

Payment systems are a key element in the economic structure of a country.

They are also the essential vehicle for the implementation of monetary policy, which is a basic function of central banks.

A failure of one participant to meet its obligations in a system or a major malfunctioning of the system could undermine the stability of financial institutions and markets.

Besides its financial importance, payment systems have a great influence in real economy, as public confidence in payment instruments favours the economic activity.

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**Involvement of Banco de España in the field of payment systems**

Management of the SLBE

Co-administration of the SNCE

Direct participation of Banco de España in both systems

*On behalf of its customers: mainly the Treasury and other public bodies*

*For its own operations: monetary policy, cash management, etc*

Oversight activities

Catalyst or facilitator role

Consumer protection, including the running of a Complaints Service

**AGENDA**

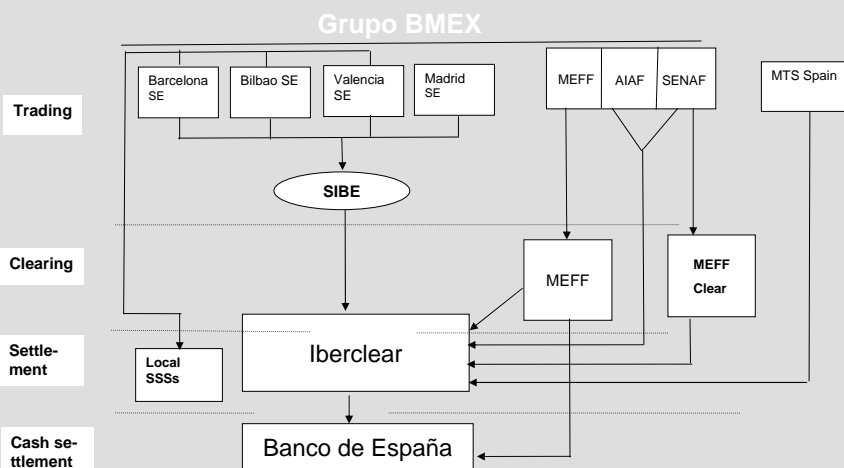
▪ **PAYMENT SYSTEMS IN SPAIN**

- Banco de España Settlement Service (SLBE)
- National Electronic Clearing System (SNCE)
- Role of the Banco de España

▪ **THE SECURITIES INDUSTRY IN SPAIN**

- The securities settlement infrastructures: main features
- The Banco de España and the securities settlement systems (SSSs)

THE SECURITIES SETTLEMENT INFRASTRUCTURES IN SPAIN



The securities clearing and settlement systems (SCSSs):

- CSD: IBERCLEAR. It runs 2 Securities Settlement Systems:
  - CADE
  - SCLV
- 3 Local SSSs for regional Stock Exchanges: Barcelona, Bilbao and Valencia
- MEFF (RF, RV): CCP for derivatives (integrates the trading, clearing and settlement)
- MEFFCLEAR: CCP for bonds (public debt, as from September 2003))

All the Spanish SCSSs follow the interfaced model for the cash settlement

## PAYMENT AND SETTLEMENT SYSTEMS IN SPAIN

The securities settlement infrastructures

### Main features of the Spanish SCSSs:

#### CADE

- **Financial instruments:** public and private debt securities
- **Markets:** SENAF, MTS España, AIAF and OTC transactions of public debt.
- **Real time gross settlement (BIS “DvP model 1”)**
- **Facilities to reduce settlement failure:**
  - Centralized securities lending facility (limited to the technical assistance of the securities lending process - repo)

#### SCLV

- **Financial instruments:** Basically, equities
- **Markets:** Stock Exchange (SIBE) and Latibex
- **Settlement cycle:** D+3. BIS “DvP model 2”, with 2 settlement cycles a day + 2 batch cycles for corporate events.
- **Facilities to reduce settlement failure:**
  - Centralized securities lending facility
  - Guarantee Fund (based on the settlement volume)

## PAYMENT AND SETTLEMENT SYSTEMS IN SPAIN

The securities settlement infrastructures

### LOCAL SSSs:

- SCL Barcelona
  - **Financial instruments:** Basically equities and local government debt
  - **Market:** Barcelona Stock Exchange
  - **Model “DvP 2”** with one settlement cycle and an RTGS for local government securities
- SCL Bilbao and SCL Valencia
  - **Financial instruments:** Basically equities and local government debt
  - **Markets:** Bilbao and Valencia Stock Exchanges
  - **Model “DvP 2”** with one settlement cycle a day

### CENTRAL COUNTERPARTIES:

- MEFF: **one single multilateral batch cycle (including fees, margins, profits and losses, premiums ...)** for derivatives and margins and fees of the CCP for debt securities.

**The role of the Banco de España in relation to the securities industry:**

- 1. Service provider (Payment System): for the settlement of the cash leg of the securities transactions.**
- 2. User of SSSs: instrumentation of the monetary policy and intraday credit operations owing to the need for collateralisation.**
- 3. Guardian of the stability of the financial system.**

**1. As service provider**

**Where:** the cash payment arising from the securities transactions is settled on the cash accounts at the Banco de España (SLBE).

- A legal requirement in Spain.
- Recommendation n° 10 CPSS/IOSCO. Cash settlement assets: “*Assets used to settle the ultimate payment obligations arising from securities transactions should carry little or no credit or liquidity risk. If central bank money is not used.....*”

## PAYMENT AND SETTLEMENT SYSTEMS IN SPAIN

The Banco de España and the SSSs

### ▪ How the Spanish SSSs settle the cash leg:

- “Interfaced model” which requires a continuous interaction between the payment system (SLBE) and the securities settlement systems.
- Settlement procedures:
  - *Real-time settlement on a gross basis*
  - *Standard multilateral settlement (batch mode)*
  - *Simultaneous multilateral settlement (“all-or-nothing basis”)*

## PAYMENT AND SETTLEMENT SYSTEMS IN SPAIN

The Banco de España and the SSSs

### ▪ Who controls the cash settlement orders to the payment system:

- The SSS sends the cash settlement orders (debits and credits) to the payment system of the Banco de España (SLBE).
- Mandated payments: the SSS, on behalf of its participants, is authorised to debit and credit the cash accounts in the SBLE
- The management of the settlement orders is in the hands of the Banco de España as operator of the payment system.
- Participation: the SSS participants may either be direct participants in the SLBE or, in the case they do not have a cash account at the Banco de España, can designate a settlement agent.

## 2. The Banco de España as user of the SSSs

- The Banco de España uses the SSSs to carry out its financing operations: monetary policy and intra-day credit.
  - *the funding operations must adequately be collateralised in order to cover undue risks (eligible assets).*
  - *the Banco de España has securities accounts in the SSSs for the securities delivered as collateral.*
- Also for the management of the own reserves.

- Intra-day credit: credit extended by the central bank for a period of less than one business day. It is given to the RTGS participants for payment system purposes during the session of a business day.
- The credit must be reimbursed during the business day, either through the delivery of the corresponding cash amount or by using the marginal lending facility (overnight credit at a pre-specified interest rate).
- Access to the intra-day credit facilities requires the delivery of adequate collateral, which requires an interaction between the Banco de España and the SSS for the securities eligible as collateral.
- The Banco de España makes use of two collateralisation instruments: pledge and repo

## PAYMENT AND SETTLEMENT SYSTEMS IN SPAIN

The Banco de España and the SSSs

### ▪ PLEDGE (“PRE-DEPOSIT”)

- Entities deliver the collateral assets in favour to the Banco de España:
  - a free-of-payment transfer (FoP) of securities to the account of the Banco de España in the SSS.
  - or immobilisation or blocking of the securities in the SSS (technique used in Spain)
- Once the Banco de España is confirmed that the securities have been delivered, it will credit the amount at the cash account of the relevant entity (after applying the relevant haircut) or the credit line is updated (overdraft).
- Since the securities transfers are FoP, there is no need for interaction on a delivery-versus-payment (DvP) basis between the payment system (SLBE) and the SSS.

## PAYMENT AND SETTLEMENT SYSTEMS IN SPAIN

The Banco de España and the SSSs

### ▪ REPO

- A contract to sell and subsequently repurchase securities at a specified date and price (buy-sell-back transactions).
- It is a delivery-versus-payment (DvP) transaction in which one of the counterparties is the Banco de España.
- Interaction between the SLBE and the SSS is needed → real-time settlement procedure on a gross basis.



## PAYMENT AND SETTLEMENT SYSTEMS IN SPAIN

The Banco de España and the SSSs

### ▪ As entity responsible for the financial stability:

- The central banks have a strong interest in sound, reliable and efficient market infrastructures. A failure of the securities settlement systems may have systemic consequences.
- Contagion risk for the payment systems owing to the interdependency.
- Recommendation n° 18 CPSS/IOSCO. Regulation and oversight:  
***“Securities settlement systems should be subject to transparent and effective regulation and oversight. Central banks and securities regulators should cooperate with each other and with other relevant authorities”***

## PAYMENT AND SETTLEMENT SYSTEMS IN SPAIN

The Banco de España and the SSSs

▪ **Legal framework:** The Banco de España (Eurosystem) has the duty to promote the smooth running of the payment systems and to contribute to the stability of the financial system. (Art. 105.2 of the Consultative Treaty of the European Commission and Art. 3 of the Statute of the European System of Central Banks and the European Central Bank)

### ▪ The smooth running of the settlement systems is essential for:

- a sound currency and to conduct the monetary policy
- the financial markets
- maintaining the financial and banking stability

## PAYMENT AND SETTLEMENT SYSTEMS IN SPAIN

The Banco de España and the SSSs

- Cooperation with the supervisory and regulatory authorities of the securities settlement system, infrastructure providers and entities
- Standards of general application: CPSS/IOSCO Recommendations for the SSSs. Assessment of the systems.
- Additional standards of the Banco de España (as “user”) for the securities settlement systems to avoid any undue risk and to ensure quick and efficient central bank operations.
  - *9 Ecosystem standards for the SSSs which are used in implementing the financing operations. For instance: custody risk, intraday finality, cross-border links, etc...*

Francisco Linares / Jesús Pérez Bonilla

# THANK YOU