Committee on Payment and Settlement Systems (CPSS)
International Organization of Securities Commissions (IOSCO)

Stockholm, Sweden
2011-07-28

Dear Sirs,

Bankgirocentralen BGC AB (BGC) appreciates the opportunity to comment on the consultative report on Principles for financial market infrastructures (FMI´s) prepared by the Committee on Payment and Settlement Systems (CPSS) and the Technical Committee of the International Organization of Securities Commissions (IOSCO).

BGC´s payment system
BGC is a bank-owned clearing organization and the main infrastructure (payment system) for payments in the Swedish market. Finansinspektionen has granted BGC a license to conduct clearing operations in accordance with the Swedish Securities Market Act (2007:528). In its capacity as a clearing organization BGC provides a clearing and settlement service, which, together with the general payment system the Bankgiro, constitutes BGC´s payment system.

The majority of payment products are cleared and settled on a bilateral gross basis, between two parties. The remainder are cleared and settled on a multilateral net basis, between several participants. All types of payments have one or more predetermined settlement times a day. Payments are settled in SEK or EUR.

In BGC´s payment system central bank money is always used for settlement. The clearing and settlement service handles incoming payments and creates settlement documentation to be sent to the Riksbank´s settlement system (RIX) where the final settlement occurs. The clearing and settlement service is used by the Bankgiro but also by payment products with external owners. For settlement of payments in SEK BGC sends gross positions and multilateral net positions to RIX in the form of settlement documentation. A small number of payment products (MasterCard and ATM) are cleared as multilateral net amounts. The payments are then settled in the participant´s accounts in RIX for payment orders in SEK. For settlement of payments in EUR, each paying bank receives settlement documentation from BGC, subsequently forwarding this to TARGET2, either directly or via its custodian bank.

Comment 1
Principle 15: General business risk
The new general business risk principle would require a FMI to identify, monitor and manage its general business risk and hold sufficiently liquid net assets funded by equity to cover potential general business losses so that it can continue providing services as a going concern. This amount should at all times be sufficient to ensure an orderly wind-down or reorganisation of the FMI's critical operations and services over an appropriate time period.

BGC´s comment: BGC favours using a quantitative method over a qualitative. A quantitative method gains in applying a single set of standards and ease of use. However, the downside to this is a rigid set of rules regardless of the level of risk the FMI is exposed to. Using a qualitative method would be more complex and would result in more arbitrary supervision, with possible interpretations.

BGC views are that before establishing a quantitative requirement for the amount of liquid net assets funded by equity that a FMI should hold to cover general business risk the definition of this quantitative requirement needs to be more specified. In the report there are 3 options proposed, eg. the amount of liquid net assets equal to six, nine or twelve months of operating expenses.

BGC views 6 months of “expenses” as sufficient.

Postadress: 105 19 Stockholm | Besöksadress: Palmfeltsvägen 5A | Webbadress: www.bgc.se | Bankgironr: 160-9908
Styrelsens säte: Stockholm | Växel: 08-725 60 00 | Org.nr: 01-556047-3521 | VAT No. SE556047352101

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In addition the expression “expenses” needs a precise definition regarding what kind of operating costs (liquidity) that needs to be included for being compliant with this principle.

Comment 2
Principle 4: Credit risk
The principle states that an FMI should establish a robust framework to manage the credit risks from its participants and the credit risks involved in its payment, clearing and settlement processes, as well as monitor such risks.

BGC´s comment: BGCs payment systems are designed to eliminate credit and liquidity risks. Central bank money is always used for settlement and thus; BGC is not exposed to such risks from participants in its payment systems. Payment systems that is not exposed to such risks, should not need to establish rules and procedures for monitoring those risks.

Comment 3
Principle 7: Liquidity risk
This principle aims at covering the FMI´s liquidity risk from its participants. To achieve this, an FMI should maintain sufficient liquid resources to effect settlement. Furthermore, an FMI should (point 4) obtain a high degree of confidence through rigorous due diligence that each liquidity provider would have sufficient information to understand and manage the liquidity risks.

BGC´s comment: As stated earlier in this document, BGC is not exposed to any liquidity risks due to the design of its payment systems and to the fact that settlement always is carried out in central bank money. The demand for liquid resources to effect settlement should not be applied to payment systems designed in a way such as BGC´s payment systems.
Regarding the liquidity providers understanding of the liquidity risks, it needs to be clarified to what extent a payment system, such as BGC´s systems, designed not to have any liquidity risk need to comply with this aspect of principle 7. In the Cover note the CPSS and IOSCO request comments on the establishment of a minimum liquidity requirement. Due to the elimination of liquidity risk for BGC in its payment systems, it should be sufficient that each participant is aware of the size of the liquidity they are expected to contribute in the event of the default of the largest participant(s).

Comment 4
Principle 19: Operational risk
The principle concerns a FMI´s potential risks from tiered participation arrangements.

BGC´s comment: In BGCs payment systems it is the direct participant who has an agreement with an indirect participant regarding the tiered participation, who is exposed to the risk arising from this arrangement. Both the direct and the indirect participants are bound by the schemes for the payment systems. It needs to be clarified to what extent, if at all, a payment system that does not have any credit or liquidity risk from tiered arrangements should identify, understand and monitor such risks even from, eg. a financial institution that is a customer of a direct participant.

Kind regards

BANKGIROCENTRALEN BGC AB
Compliance Management

Hillevi Kämpeskog
Compliance and Scheme Manager

Risk Management

Per Löfgren
Risk Manager