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Banking Operations
DW/DST

Principles for financial market infrastructures, consultative report

Dear Sir/Madam

Switzerland's RTGS system (the SIC system) is operated by SIX Interbank Clearing Ltd on behalf of the Swiss National Bank (SNB). SNB Department III is the client and system manager for the SIC system. SNB Department II, by contrast, has the responsibility for oversight of the SIC system, as a systemically important financial market infrastructure (FMI).

The response by SNB Department III – in its function as client and system manager of the SIC system – to the consultative report on 'Principles for financial market infrastructures' of March 2011, is provided below.

SNB Department II is directly involved in drawing up the principles. Consequently, its response will be made through the relevant bodies.

As operator of the SIC system, SIX Interbank Clearing Ltd will also provide a separate response.

General remarks:

- In principle, we welcome a more thorough oversight of systemically important FMIs.
- However, we consider that combining the principles for systemically important payment systems with those for central securities depositories, securities settlement systems, central counterparties and trade repositories is not an ideal solution. Those systems are not comparable with payments systems, in particular as regards risk. Moreover, the wording of the principles and the explanatory notes does not always clearly indicate which type of system is being referred to.

Detailed remarks on individual principles:

- **Principle 13 (Participant-default rules and procedures):** The extent and purpose of periodic testing (key consideration 4 and 3.13.7) needs to be more precisely specified. We do not regard it as practicable to conduct (periodic) testing of participant-default procedures if this includes system participants. However, we do consider periodic examination of procedures at the FMI itself to be sensible and useful.

- **Principle 15 (General business risk):** We request to clarify this principle with regard to several issues. It is not clear how the required equity should be evaluated in the case of an FMI operating as a subsidiary within a group structure, where other subsidiaries operate in other areas of business. Moreover, specific reference should be made to LVPS systems which are often operated by central banks, at least to some extent. These systems are typically less strongly exposed to competition and financial risk, and, if operated by a central bank, their equity and liquidity are typically not segregated for FMI purposes in the central bank. Consequently, the wording of the text in the principle should provide more guidance on how the principle is to be applied in such cases. With regard to the question raised in key consideration 3 (six, nine or twelve months of expenses), we are of the opinion that the chosen time frame should reflect the plan for an orderly wind-down, reorganisation or recapitalisation, and the time required to implement these plans.

- **Principle 19 (Tiered participation arrangements):** While we agree that it is useful to identify and understand the risks arising from tiered participation arrangements in payment systems, we have strong doubts with regard to the feasibility of FMIs adequately managing these risks. This would require the FMI to interfere in the private relationship between direct and the indirect participants, which is often part of a correspondent banking relationship including a number of other services. Further, enforcing compliance with such requirements may be very difficult, if not impossible, for an FMI. Of course, the FMI could include specific criteria in its participation requirements (as suggested in 3.19.4), but identifying non-compliance and bringing about change would be very challenging for the FMI. The threat of excluding a major participant from the system in the event of non-compliance would probably be an idle one, as the negative consequences of such a move would most likely outweigh the risks arising from the tiered participation arrangement.

  Moreover, the term 'indirect participant' needs to be clarified. The current definition in 3.19.2 could be interpreted as encompassing any paying entity or any recipient of a payment, including the end customer. This would not be feasible. We suggest restricting the definition to institutions which could also qualify as direct participants in the FMI. Furthermore, the revised definition should also be included in the glossary.

Thank you for this opportunity to respond to the report. We hope that our remarks can be taken into account when the principles are being revised.

Yours sincerely
Swiss National Bank

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