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CONSULTATIVE REPORT ON PRINCIPLES FOR FINANCIAL MARKET INFRASTRUCTURES

Dear Sirs

SIX Interbank Clearing AG, is writing to you in response to the above consultation. We thank the CPSS and IOSCO for launching the consultation on this important issue at this time and for the opportunity of responding to it. We notably appreciate the length of the consultation period, and the opportunity to engage with our national overseer, the Swiss National Bank. While SIX Interbank Clearing is part of a wider infrastructure group (see below), we are replying from the position of an operator of the Swiss RTGS (SIC) on behalf of Swiss National Bank (SNB). SIC has been recognized as a systemically important payment system and is under oversight of the SNB.

SIX Interbank Clearing is part of the SIX Group AG which operates Switzerland's financial market infrastructure and offers on a global scale comprehensive services in the areas of payment transactions, securities trading, clearing and settlement, as well as financial information. The company is owned by its users (150 Swiss and foreign banks) and, with its workforce of approximately 3,800 employees and a presence in 22 countries, generates annual revenues of the equivalent of approximately 1.2 billion Swiss Francs.

We understand the reasons behind the revision of the Principles, but would note, however, that during the recent financial crisis market infrastructures proved themselves to be very resilient. The Principles should be mindful of the need to ensure that market infrastructures do not lose the capacity to support the official sector and the market in general, and indeed to react dynamically to the demands of the market, e.g. through product innovation. In particular, in terms of our general comments, we believe that:

- (i) By being combined, the revised Principles lose the clarity of the separate Core Principles for systemically important Payment Systems, CSD Principles and CCP Recommendation from 2001 and 2004. This is particularly the case for payment systems;
- (ii) They appear to be too CCP-centric, for instance in terms of focussing on participants' clients

- risk, which is inappropriate in the RTGS context;
- (iii) We are hampered, at this juncture, in our analysis by the absence of an Assessment Methodology;
 - (iv) The revised Principles are rather long and detailed. Even so some definitions are not precise enough (e.g. indirect participants).
 - (v) We believe that the “Key Considerations” under each Principle should be viewed as guidance or a guideline, and not as a prescriptive requirement. As a guideline, each Key Consideration could then be subject to a “comply or explain” regime;
 - (vi) We also draw CPSS-IOSCO’s attention to the need to ensure consistency in the global application of the Principles, while at the same time ensuring that the characteristics and features of local markets are taken into account; and
 - (vii) Some of the proposed risk mitigation requirements, in the tired participant risk, in “drilling down” beyond the monitoring of participants, to their clients and the transaction flows over their accounts strike us as excessive, and would carry with them a significant cost of re-engineering systems, processes and enhancing physical resources.

As SIC observes all the applicable core principles of systemically important payment systems, we support in general the revised Principles. However some concerns arises from the following principles:

Principle 15: General Business Risk

We support the requirement that FMIs should be well capitalized to withstand non-financial losses and other capital shortfalls. But it is not clear to us how to evaluate the required equity of a FMI operator in a group structure where the group’s holding company is liable to a certain extent for the group’s legal entities. An explanatory note would be helpful.

The appropriate level for the minimum quantitative liquid net assets or equity should be equivalent the length of time a FMI might require, in the event of closure or wind down, in order to effect an orderly transition to successor arrangements.

Principles 19: Tiered Participation Arrangements

We accept the need for a RTGS operator to monitor the activity over its participants’ accounts, and to safeguard its clients’ assets. However, the extent of drilling down to understanding the principal causes of the participants’ client activity (for instance, the underlying transactions that drive the participants’ payments flows) strikes us as excessive. For two reasons: (i) this will require costly system and process adaptations way beyond the benefit to the RTGS in terms of enhanced risk management; and (ii) we believe that, for the RTGS operator, this would introduce a conflict of interest and competitive distortion, in the sense that we would be able to analyze the participants’ client business in more detail and might be tempted ourselves to offer direct services to that participant’s client. This is undesirable specifically in a correspondent bank relationship.

Considering the above mentioned comments, the term 'indirect participant' should be clarified. The current definition in 3.19.2 could be interpreted as including any originator or receiver of a payment, implying the end-customer. This would be not feasible.

We hope these remarks are of help. If you require any further information at this stage, may we suggest that our Head Compliance & Security, Paul Sutter (contact: paul.sutter@six-group.com or on +41 58 399 4393) would be pleased to assist.

Yours sincerely

SIX Interbank Clearing



Martin Frick
Chief Executive Officer



Paul Sutter
Head Compliance & Security

