



# IBOS

International Banking – One Solution

## SIBOS 2011 Toronto Day 4 – Groundhog Day



The Day 4, like the Day 1, agenda covered the routine bases of EBAM, eInvoicing, ISO20022, SEPA, AML. Aren't you supposed to come to Thursday if you were here on Monday? The ticket says it is a four-day event. So rather than dwell on the new content in today's sessions – because there wasn't any – let's take an overview of the week here in Toronto. A lot of initiatives that have been launched, in which SWIFT has laid claim to a market space, and the initiatives aren't flying. And no other initiatives in the same spaces can get the breath to take off. Is that the intention? Why have a Thursday if it is a Groundhog Day of Monday?

Perhaps that is too brutal: 3SKey and MT798 look as if they have legs; TS2 is badly needed to enable banks to use liquidity more effectively.

The message from corporates is a continuing demand for centralization and for harmonized workflow: banks who cannot be part of a solution to that will be burned off. The number of countries that a corporate wants to include in the solution is rising, so banks need to have a solution to that if they want to retain the business they currently have.

eBAM is not moving off the shelves, due to banks not implementing it at their end, and the test customers appear to be Non-Bank Financials like Axa and MetLife, and not corporates.

Bank Payment Obligation makes sense to the corporate who wants to trade on open account and not pay the charges for a Letter of Credit, but only if the fee for the BPO (which is an unconditional and irrevocable guarantee of payment) does not amount to more than the LC charges.



# IBOS

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There are two points there:

1. Basel III treatment of Trade Letter of Credit makes it the same Risk-Weighting as a Stand-by Letter of Credit, which is the same as a loan and the same as a financial guarantee, so the guideline fee should be 1% per annum (4% Tier 1 capital on the nominal with a Return on Capital target of 25%, before expenses). That is a lot more than it is now;
2. If the BPO is a financial guarantee then the Basel III costs will be 1% per annum as well, and that only ends up as not being a lot more than for a Trade Letter of Credit because Basel III takes away the capital discount accorded to Trade Letter of Credit in Basel I and Basel II. Very ironic!

Not the desired outcome for the corporate by some considerable distance.

The SEPA theme surfaced throughout the week and the major points of comment were:

- The Trilogue process between the European Commission, the European Council and the ECON (Economic & Monetary Affairs Committee) will start in September with the aim of finalizing the SMED text for presentation to the European Parliament;
- The banks and the ECON seem to both want a single End Date for both credit transfers and direct debits, and they hope that date will be 2014 (in the current draft the credit transfers date is a year earlier in 2014);
- The language added in the most recent SMED draft giving enhanced protection rights for the debtor consumer under the SEPA Core Direct Debit is seen as extremely troubling and a major add-on to what banks developed for the first launch of the SEPA Core Direct Debit;
- As such the original IT project to implement SEPA Core Direct Debit to start with is by no means adequate to meet the End Date in compliance with the SMED in its current form;



# IBOS

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- High-value payments may be outside the scope of the current draft but this is seen as temporary, with high-value moving to ISO20022 maybe in 2015;
- The structure of Clearing and Settlement – which is decentralized into a number of infrastructures such as Equens, STET, EBA, Iberpay – presents a problem once all euro payments must be settled and completed on D+1, as from 1/1/12:
  - A payment may flow through two or three SEPA-compliant Clearing and Settlement Mechanisms (CSMs);
  - A payment from a savings bank in Spain to a cooperative bank in Germany might flow through Iberpay, EBA and Equens;
  - Even if all three CSMs are interoperable and compliant – as well as the receiving and sending banks – the operational processes of the players in terms of batch processing might preclude the payment's completion by the end of D+1;
  - A decentralised clearing with its interoperability, overseen by EACHA, is all very nice in letting many clearings stay in business but it may not deliver.
- No news on plans of different national communities to specify “Additional Optional Services” to ease their migrations.



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IBOS' analysis of the June draft of the SMED was borne out in several sessions with just one or two differences of emphasis:

1. IBOS put far more stress on the existence of Banking Products that are not Payment Products, and on "niche" Payment Products, inferring that the migration of retail schemes may not migrate as large a portion of total payments or of banking products onto a SEPA basis as imagined;
2. IBOS stated that SMEs may be permitted not to use ISO20022 for their bulk files, but in fact it is only the micro-enterprise subset of SMEs that may get this exemption;
3. In general IBOS anticipates that the derogations available in the SMED will be used as they were in PSD, and that therefore the migration will be more haphazard and drawn out over a longer time until 2016.

IBOS gained some publicity coverage around the SEPA topic by having its recent research paper featured in the SIBOS Daily News publication that is distributed to all delegates and is available on newsstands throughout the convention centre.

The subject of the paper is the interconnection between SEPA and the Euro sovereign debt crisis, and IBOS' work experience student Matthew Gibson was the lead researcher.

The paper is available for download under <http://bit.ly/oTaANG>

There will also be a special IBOS e-letter about it.

So this is the last SIBOS report for the week as we all head home and – as at the Olympics – are called upon to reassemble. In SIBOS' case this is in one year's time and not four, and it will be in Osaka.