

TARGET2-Securities: No Swiss franc participation

In September, the Swiss National Bank decided to forgo participation by the Swiss franc in the European securities processing system TARGET2-Securities – for now. The decision was preceded by an intensive dialog among the stakeholders.

The European Central Bank (ECB), which is currently developing and will be operating TARGET2-Securities (T2S), is interested in including other processing currencies – outside of the euro – in T2S. This openness toward other currencies is justified by positive economies of scale and a vision of harmonizing the processing landscape beyond the borders of a single European currency. However, after the Bank of England's announcement not to participate in T2S, the ECB will likely have to reduce its vision. If it were to participate, a non-euro central bank would have to transfer central bank funds of its own currency to the ECB by opening corresponding accounts in T2S. These accounts would have to be maintained by the national RTGS system. A franc participation would thereby immediately affect the SIC system.



The franc question revisited

Three years ago, participants in the Swiss market had already evaluated T2S participation, and dismissed it for lack of sufficient apparent benefits. The revised T2S participation criteria for central securities depositories in early 2010 were the reason to re-analyze participation by the franc. Consequently, the Swiss National Bank (SNB) took part in "Currency Participation Agreement" negotiations between the ECB and other non-euro central banks, and participated on the T2S Programme Board, the body responsible for the overall project management. The SNB, in conjunction with SIX Group, has initiated a stakeholders' dialog in order to determine the interest of the Swiss financial center for a franc participation in T2S.

Stakeholders' dialog

The dialog between the SNB, SIX Group, the banks and the Swiss Bankers Association was conducted at the technical

and strategic level. The SNB and SIX SIS informed the banks about the ECB initiative during roundtable discussions. These meetings also offered the opportunity for an exchange about technical implications. Additionally, a total of three high-level meetings were called for the top representatives of these institutions, providing them with a platform for an exchange on the strategic implementation and impact of the franc participation.

No franc participation

The stakeholders' dialog was concluded in August, when it had become apparent that franc participation was not widely supported by the market participants, for the time being. The SNB would only have considered participation if the market had taken a very clear positive stand. Since this condition wasn't met, and the SNB doesn't consider the contractual stipulations for Swiss franc participation ideal, the Governing Board of the SNB decided in September against making the franc available as a processing currency in T2S, for the time being. As a result, the SNB has withdrawn from the contract negotiations and the T2S Programme Board.

This decision notwithstanding, the ECB initiative remains relevant, both for the Swiss Financial Center and the SNB; for the latter, in particular, in view of the processing of monetary repo transactions. But even without franc participation, the question for the Swiss market players of participating in the T2S remains. Hence, the SNB will continue to follow the project with great interest and continue the exchange with the market players. <

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