



■ Assessment of Bankgirocentralen BGC AB's payment system 2009

This assessment has been prepared in accordance with the current agreement between the Riksbank and the Swedish Financial Supervisory Authority (Finansinspektionen) on cooperation regarding financial stability. The authorities have cooperated in the planning of the direction of the assessment and in the collection and review of the information provided by BGC. Both the Riksbank and Finansinspektionen support the conclusions of the assessment.

In Sweden, Bankgirocentralen BGC AB (BGC), is the main intermediary of retail payments between the banks. The Riksbank and Finansinspektionen have therefore assessed BGC's payment system for compliance with the Bank for International Settlements' Core Principles for Systemically Important Payment Systems (CPSIPS). CPSIPS is an international standard that consists of ten principles with which systemically important payment systems should comply.

Due to the changes that will take place in conjunction with the outsourcing of large portions of BGC's operations to Vocalink, the Riksbank and Finansinspektionen have decided not to assess BGC in accordance with Core Principles VII and VIII in the assessment for 2009.

Assessment and recommendations

The assessment of the Riksbank and of Finansinspektionen is that BGC's payment system fully complies with all principles, in accordance with the list below.

Assessment	Core Principle with this assessment
Observed	I, II, III, IV, V, VI, IX and X
Broadly observed	-
Partly observed	-
Not observed	-
Not applicable	



Bank-owned clearing organisation

BGC is a bank-owned clearing organisation, established in 1959. Through BGC's payment system, retail payments, mainly credit transfers and transfers between accounts, are made between the banks in Sweden. The majority of these payments are cleared and settled on a bilateral gross basis, that is to say, between two participants; the remainder are cleared and settled on a multilateral net basis, that is to say, between several participants. All types of payment have one or more predetermined settlement times a day. Payments are settled in SEK or EUR.

Legal status and supervision

Finansinspektionen has granted BGC a licence to conduct clearing operations in accordance with the Swedish Securities Market Act (SFS 2007:528). Accordingly, BGC is supervised by Finansinspektionen. BGC's settlement system has been approved by Finansinspektionen in consultation with the Riksbank and notified to the European Commission in accordance with the provisions of the Swedish Act on Systems for Settlement of Obligations on the Financial Market (SFS 1999:1309), which is based on the Settlement Finality Directive.

Ownership structure

Bankgirocentralen BGC AB is a wholly owned subsidiary of BGC Holding AB, which is owned by SEB (33.1%), Swedbank (29.2%), Svenska Handelsbanken (25.4%), Nordea (10.0%), Danske Bank (1.7%), Skandiabanken (0.3%), Ålandsbanken (0.2%) and Länsförsäkringar Bank (0.1%). In February 2009, Kaupthing Bank was acquired by Ålandsbanken, which thereby gained control of Kaupthing Bank's participating interest in BGC Holding AB.

Participants

BGC's payment system is an open system, implying that all banks in Sweden that meet the participation requirements are able to join the system. In addition to these banks, the Swedish National Debt Office is also a direct participant in BGC's payment system. At the end of 2009, BGC's payment system had 20 direct participants and 77 indirect participants. Similarly, BGC's clearing and settlement system is open to all parties complying with the participation requirements.

Operations

BGC's payment system is formed of a technical system platform where Bankgiro products and a number of other payment products are, in turn, processed. The payment products also utilise external payment systems, i.e. systems outside BGC's payment system. In addition to this, BGC also provides a clearing and settlement system. The various external payment systems and payment products that are not Bankgiro products are subject to their own regulatory frameworks. BGC's primary activities pertain to the operation, administration and development of BGC's payment system and associated payment products. The clearing and settlement system is a function provided by BGC for all external payment systems and payment products. In addition to various payment products and services concerning the mediation of payments, BGC also offers electronic invoicing and e-identification services.

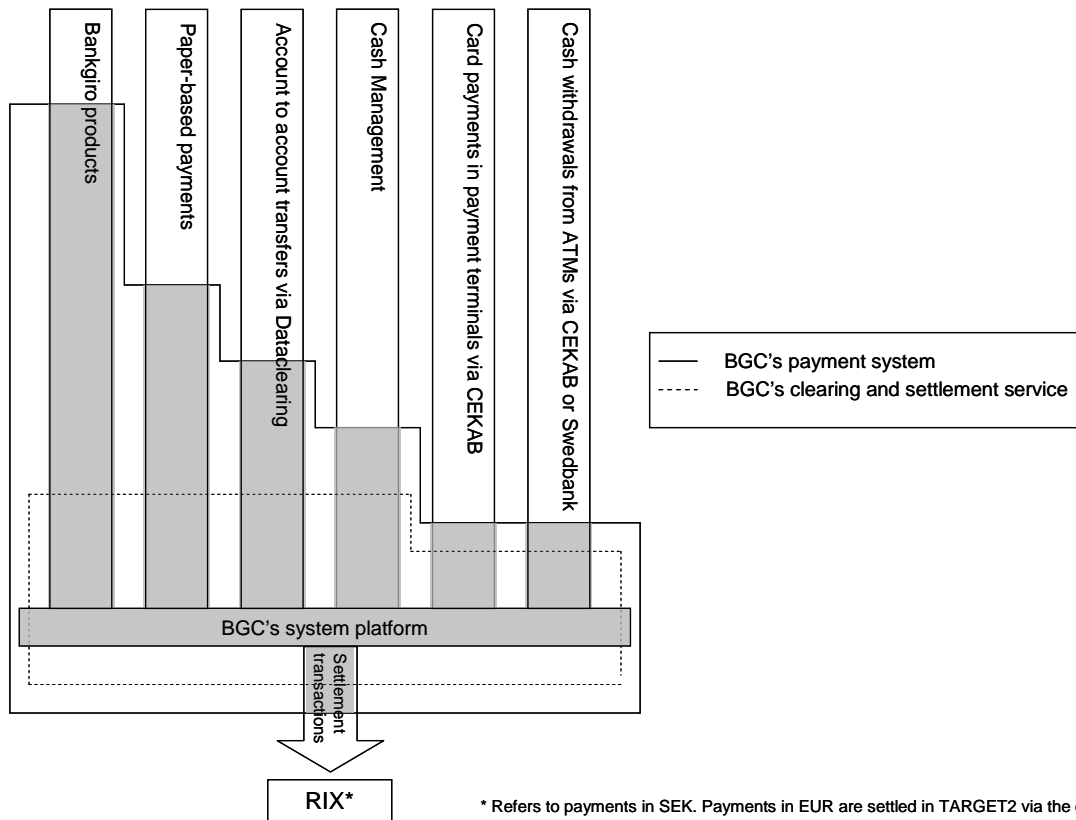


Figure 1: BGC's payment system

Figure 1 is a simplified illustration of the degree to which various payment products utilise BGC's payment system, including clearing and settlement services. The white portions of the bars in Figure 1 represent those portions of the payment products processed in any external payment system. As regards Bankgiro products, this refers to such products as payments via Internet banks, supplier payments and direct debits that are processed in the banks' systems before being transferred to BGC's payment system. BGC's payment system is responsible for the mediation of payments from each external payment system to the Riksbank's settlement system, RIX, where the final settlement of the transactions takes place. For a more in-depth description of the flow of payments in BGC's payment system, refer to Appendix 1.

The Bankgiro products

Bankgiro products are utilised in a number of different payment situations in the retail payment market. A few examples of Bankgiro products include direct debit, supplier payments, salaries and Bankgiro deposits. The aim of these products is to offer the banks and their customers services for payments in Sweden.

As regards Bankgiro products, BGC is responsible for authorisation, clearing and creating documentation for settlement, and for payment information to the sending and receiving banks. In addition, BGC offers payment information to the payer and payment recipient for most of the Bankgiro products. However, the banks are responsible for the authorisation of payments via Internet



bank, while Privatgirot, on behalf of the banks, is responsible for the authorisation of paper-based Bankgiro products.

BGC's *authorisation* of payment orders issued and received via Bankgiro products includes the control of the authenticity of the orders and the creation of supporting documentation for the participants. This is to enable them to control the presence of sufficient funds in the payers' accounts in a so-called cover check. *Clearing*, the compilation of participants' obligations under these payment orders, is carried out via gross transactions, and thus no dependency exists between the participants. In *settlement*, BGC creates gross positions in settlement documentation, following which payments are settled in the participants' accounts in the Riksbank's settlement system, RIX, for payment orders in SEK. As regards payment orders in EUR, each paying bank receives settlement documentation from BGC, subsequently forwarding this documentation to the ECB's settlement system, TARGET2, either directly or via its custodian bank. BGC is subsequently responsible for matching and confirming that the settlement has been effected. In addition to this, BGC's clearing and settlement system provides the clearing and information system with information regarding the participants' settlement totals and settlement status. This enables the participants to follow their positions and thus their liquidity requirements in real time. The various Bankgiro products have one or more predetermined settlement times per day (see Principle IV).

BGC's other payment mediation services

BGC provides clearing and settlement services for certain payment products that are not Bankgiro products. A common feature of these payment products is that authorisation and, in some cases, portions of the clearing are carried out in external payment systems for which BGC is not responsible. These payment products are included in this assessment as the products are highly dependent upon the functionality of BGC's clearing and settlement services.

Account to account transfers via Dataclearing

The Dataclearing system (DCL) is a so-called mass transaction system that is mainly used for account to account transfers that do not use Bankgiro numbers. DCL consists of rules, regulations, and format standards and is aimed at achieving a rational, rapid and secure system for account-to-account transfers. This system includes the notification of credit entries, salary transfers, telephone transfers, cheques, bank money orders and bank drafts, as well as any corrections to such transactions. The system used for DCL is based on the exchange by participants of standardised information regarding client transactions, enabling such transactions to be conducted between the banks. Participants sign a multilateral agreement regarding the types of transaction to be exchanged with the corresponding participants in DCL. It is also presumed that all participants are direct or indirect members of the Riksbank's settlement system, RIX, although they need not be participants in the Bankgiro system.

Since its start in 1975, BGC has been responsible for the operation and administration of the system on behalf of the system owner, the Swedish Bankers' Association (Svenska Bankföreningen). The participants in DCL enter into a business agreement to ensure that banks with operations in Sweden are able to obtain basic transaction services from other banks on behalf of their clients.

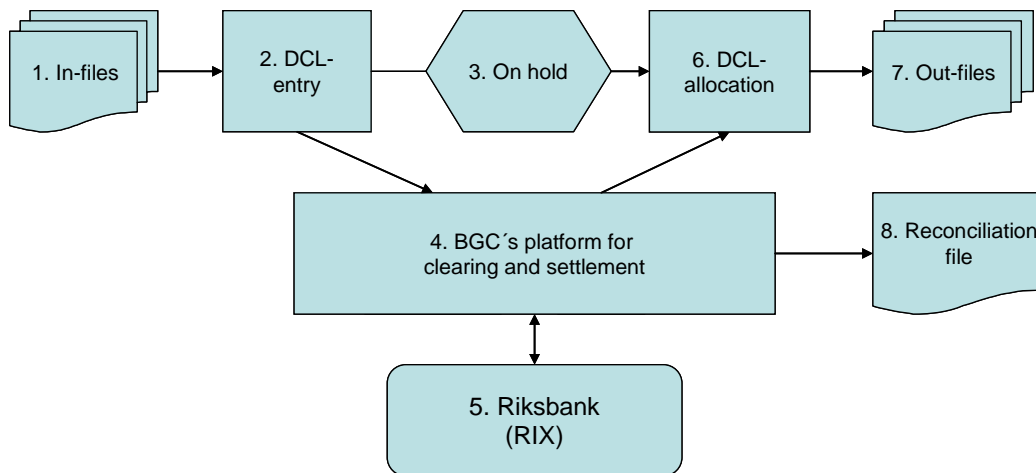


Figure 2: Dataclearing's flow

Transactions for DCL are processed by BGC's system platform and, subsequently, by the Riksbank's settlement system, RIX, where the final settlement takes place four times per day. The flow in DCL takes place in the following manner:

- 1) Issuing participants in DCL submit in-files with unique in-file identification.
- 2) These files are entered into the DCL system, following which a receipt file is issued to inform the sender that the in-file has been received.
- 3) The transactions approved for entry into DCL are placed on hold and recalculated as debit and credit totals. Following this, DCL supplies debit and credit totals to BGC's system for clearing and settlement.
- 4) BGC's system calculates the net amount of the debit and credit transactions for each participant.
- 5) The transactions are then forwarded to RIX for settlement.
- 6) In the DCL allocation, the settled debit and credit transactions are matched with the approved debit and credit totals placed on hold and the allocation and delivery of settled transactions takes place to the receiving participants.
- 7) Delivery to receiving participants takes place either on an ongoing basis, following which the newly-settled debit/credit files are released from settlement, or by way of the collected issuance of all settled transactions for the day. In conjunction with this, BGC allocates a unique out-file identification.
- 8) Once per banking day, BGC issues a reconciliation file to each participant. This file is of a general nature and, in addition to information regarding DCL payments, includes information regarding the other products utilising BGC's clearing and settlement service and payment system. As DCL has several settlement times per day, it is possible for a client to make an account-to-account transfer which both debits the issuer and credits the recipient on the same day.

Form payments via Privatgirot

Privatgirot is a supplier of paper-based payment services, with the primary assignment of scanning, interpreting and verifying paper-based documents. Privatgirot is owned by BancTec AB and is supervised by Finansinspektionen .

The private giro service provides Swedish banking clients with the possibility of making payments with the use of forms. The giro service is sold under various names, such as Privatgirot, SEB Betalservice, Girobetalning, Skandiagirot and ICA Brevgirot. The services BG Direkt and Skattegirot can be added to this list. Bankgirot and PlusGiro payments made at a bank office are sent to Privatgirot AB for payment. Such Bankgirot payments are credited to the recipient on the same day that Privatgirot

processes the order. PlusGiro payments are credited to the recipient on the banking day following that on which Privatgirot processes the order.

Each year, Privatgirot produces and mediates approximately 95 million paper-based payments and 13 million electronic payments. The electronic payments consist of Internet payments from ICA Banken and Länsförsäkringar Bank.

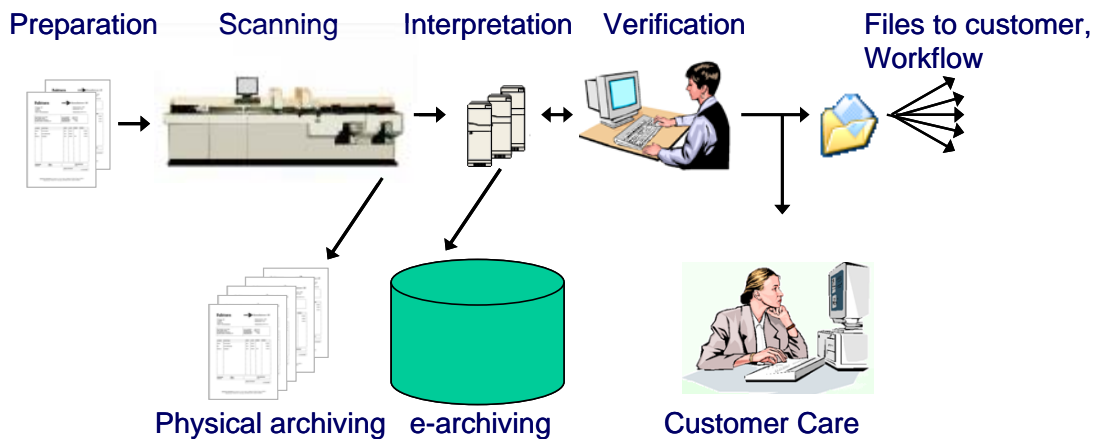


Figure 3: Document scanning flow

As can be seen from Figure 3, Privatgirot initially focuses on preparing incoming documentation by opening, scanning and archiving it. Following this, the contents are interpreted and the interpreted data and images are stored. The OCR interpretation degree amounts to 99 per cent. The next phase is the verification of the interpreted data and the interpretation of any data not processed in the previous control. Privatgirot then sends the payment orders on to BGC in the form of data files. BGC then manages the clearing and production of settlement documentation for these payment orders in a manner corresponding to that used for electronic payments.

Withdrawals from cash dispensers via CEKAB and Swedbank

The company *CEKAB* carries out the authorisation and clearing of cash withdrawals from ATMs connected to *CEKAB*. BGC receives a summary from *CEKAB* of each participant's total debt to and total claims from other participants. BGC also receives a similar summary from *Swedbank*, based on withdrawals from ATMs. After registering this documentation, the BGC system calculates each participant's net debt to or net claim from other participants in the respective flows. Accordingly, the clearing of these flows takes the form of multilateral netting and not bilateral gross. BGC then forwards the settlement documentation to RIX, where the respective participant's net debt or net claim in respect of other participants in the respective flows is settled via BGC's RIX account.

Card payments in payment terminals via CEKAB

CEKAB also conducts the authorisation of card payments for MasterCard. The initial clearing of these payments takes place via MasterCard's international network. From MasterCard, BGC receives a summary of each participant's total debt and total claim on other participants, in a similar manner to that in which equivalent information is received from *CEKAB* and *Swedbank*. After registering this documentation, the BGC system calculates each participant's net debt or net claim on other participants in the MasterCard flow. All net flows are aggregated to a net amount per participant and thereby cleared in the form of multilateral netting. BGC then sends the settlement documentation to RIX, where the respective participant's net debt or net claim in respect of other participants in the MasterCard flow is settled via BGC's RIX account.



Cash management

■ When old banknotes and coins are delivered to the Riksbank and new banknotes and coins are supplied from the Riksbank, and when banks buy and sell cash among themselves, debts and claims arise between the banks and in relation to the Riksbank. BGC supplies the banks and the Riksbank with a special cash management product which contributes to the settlement of these debts and claims. Information concerning the payment orders is sent to BGC several times a day, after which BGC clears and then sends on the settlement documentation to RIX, where the payments are settled.

A summary in table form is provided in Appendix 1. This summary shows which party is responsible for what in the payment products/flows described above.

Clearing and settlement

The estimation of settlement documentation is carried out in BGC's payment system, either as bilateral gross settlement or as multilateral net settlement.

The majority of the payment products mediated via BGC are cleared and settled as gross amounts via the participants' accounts in the Riksbank's settlement system, RIX. For transactions to be settled in RIX, the settlement documentation is forwarded directly to the settlement institution (the proxy method). In the proxy method, the participant provides BGC with the authority to forward settlement transactions to the settlement institution on behalf of the participant.

A small number of payment products (MasterCard and ATM) are cleared as multilateral net amounts. These are subsequently settled in the RIX system according to the principle "in their entirety or not at all", also known as "concurrent batch". This implies that the entire multilateral flow is only settled if all participants have sufficient liquidity at the settlement time. If, on the other hand, one or several participants in the multilateral flow cannot fulfil their payment obligations, none of the participants' transactions in the multilateral flow are settled. There are predetermined settlement times for each payment product and, for certain payment products, there are several settlement times per day (see CP IV).

The settlement of payments in RIX is based on gross settlement in real time. This means that payments are settled immediately, one by one, on the condition that the payer has sufficient liquid funds/money in its account. If this is not the case, the payment is placed in a queue until sufficient liquid funds have been obtained. In order for settlement to proceed smoothly, the participants have the opportunity to cover their liquidity requirements against approved collateral by borrowing from the Riksbank during the day.

As regards payment orders in EUR, each paying bank receives settlement documentation from BGC (the paying bank method), subsequently forwarding this documentation to ECB's settlement system, TARGET2, either directly or via its custodian bank. BGC and the receiving bank are notified when TARGET2 has effected the transfer. BGC is subsequently responsible for matching and confirming that the settlement of the payment order in EUR has been effected.

Failure of settlement

The term *ordinary settlement period* refers to the period of time starting at the planned settlement time and finishing thirty minutes later. If a participant fails to contribute sufficient liquid funds during the ordinary settlement period, an *escalation period* is initiated. The escalation period finishes when the settlement transactions are cancelled or settled by a transfer of liquid funds to the account. For the bilateral flow, settlement transactions are cancelled upon closure of the settlement institution. For the multilateral flow, these transactions are cancelled at the final contractual settlement time, i.e. 15.00, or at the point in time at which a participant is considered to have defaulted. In such a case,

the escalation period turns into a *failure management period*, which is the period of time in which default procedures are applied, in accordance with failure management of SEK or EUR.

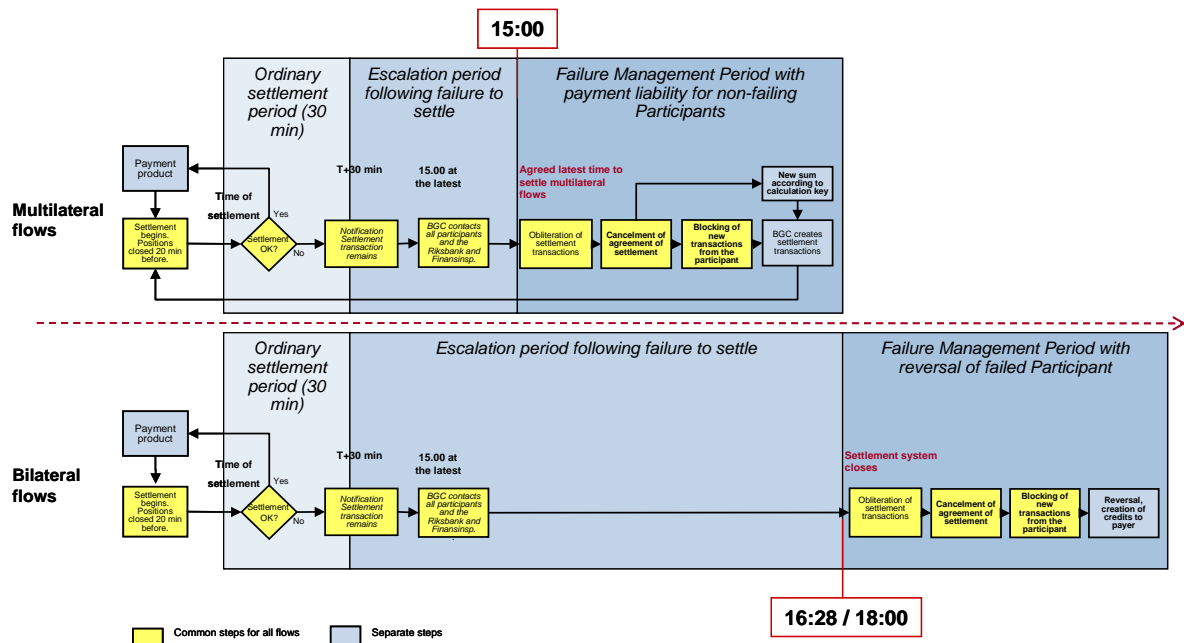


Figure 4: Multilateral and bilateral settlement flows

Handling of defaults for bilateral flows

Payment products cleared bilaterally in gross have an ordinary settlement period of 30 minutes. If it has not been possible to effect a settlement during the 30 minutes of the ordinary settlement period, an escalation period is initiated, which lasts until such settlement has been confirmed, the settlement institution closes or BGC is informed that a default has occurred. During this period, the participant may contribute sufficient funds to enable settlement to be effected. Failure to do so on the part of the participant implies that the participant is considered to have defaulted.

If a default is identified, the settlement transactions are cancelled at the settlement institution and the participant's settlement agreement is revoked. In conjunction with this, BGC blocks all incoming, unregistered transactions to or from the defaulting participant within 120 minutes. *Reversal* is applied to any registered transactions belonging to the defaulting participant that cannot be settled according to ordinary routines. This means that transactions that could not be settled are removed from the clearing and settlement system and that defaulting participants are provided with the opportunity to recredit funds to the accounts of previously charged clients. All stages in default management are implemented on day 1, that is to say on the same day that the participant defaults.

Handling of defaults for multilateral flows

As regards ordinary settlement periods, the same stages of treatment are applied to payment products cleared multilaterally in net as are applied to products cleared bilaterally in gross. For multilateral flows, clearing calculations are made in external payment systems for which BGC is not the principal. These are then forwarded to BGC, which sets up settlement transactions. An obligation to pay then arises for each participant towards the collective group of participants in the pre-system.

In multilateral settlement, settlement transactions are processed as one unit and can only be settled “in their entirety or not at all”.

An escalation period is also introduced here, in the event that a participant fails to settle in time. Unlike with the bilateral flows, the escalation period here is concluded at a contractual final payment time, falling at 15.00. After this time, default management is applied, with blocking and revocation of the agreement, together with a new attempt at settlement, with responsibility to pay for non-defaulting participants. This is implemented through the calculation by BGC of the non-defaulting participants' share of amounts on the basis of a previously determined model. This model is based on the proportion of the flow provided by each participant. A participant with a greater proportion of the flow takes a greater proportion of the loss and vice versa.

Subsequently, each remaining participant pays in its initial portion of the multilateral flow, in addition to the calculated proportion that the participant is liable to pay for the defaulting participant's settlement total. The flow is processed in a separate settlement round that is only utilised in default management. In the event that a participant is unable to implement the extra settlement, this participant will also be considered to be defaulting, with a further default management consequently being initiated until RIX closes. Following this, no further recalculations will be made, with the settlement documentation, instead, being returned to the appropriate pre-system.

Payment statistics

The number of payments implemented in BGC's payment system is increasing, but at a rate well below that of previous years. In 2009, a total of 802 million payment transactions were mediated through BGC's payment system, an increase of approximately 4 per cent compared with 2008. This figure can be compared to the average increase of 10 per cent for the period 2003–2009.

The number of payments implemented via Bankgiro products increased by an average of 13 per cent per year during the period 2003–2009. Payments via Dataclearing increased by an average of approximately 5 per cent per year during the equivalent period. The number of payments via Privatgirot has thus remained relatively constant over the same period. The diagram indicates that the number of payments from Privatgirot and Dataclearing is relatively low compared with those mediated via Bankgiro products.

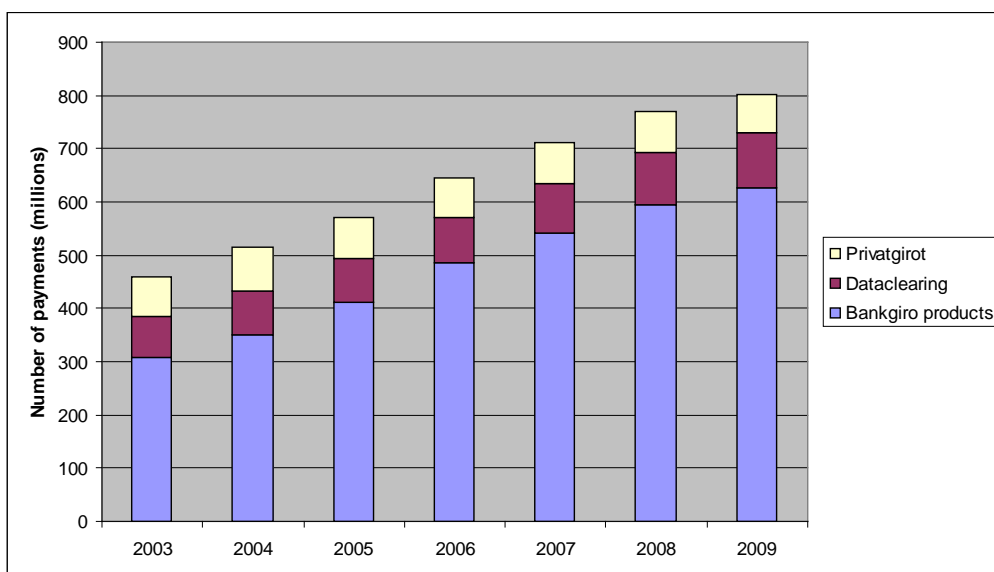


Diagram 1: Number of payments mediated through BGC's payment system 2003-2009

The total value of the payments processed through BGC's payment system during 2009 amounted to SEK 9 192 billion. This was a decrease of 2 per cent compared with 2008 and, considering the increased volume of payments, implies that the average amount per payment has decreased by approximately 10 per cent compared with the previous year. According to BGC, this major decrease is primarily due to lower production and consumption due to the less favourable economic climate.

Diagram 2 indicates that the value of payments via Bankgiro products and Dataclearing has increased by an average of approximately 11 and 9 per cent, respectively, per year during the period 2003–2009. The value of the payments processed by Privatgirot is declining every year and has declined by a total of approximately 55 per cent during the equivalent period. The diagram also indicates that Bankgiro products constitute the greatest value, followed by Dataclearing, and that Privatgirot's portion of the total value is very small.

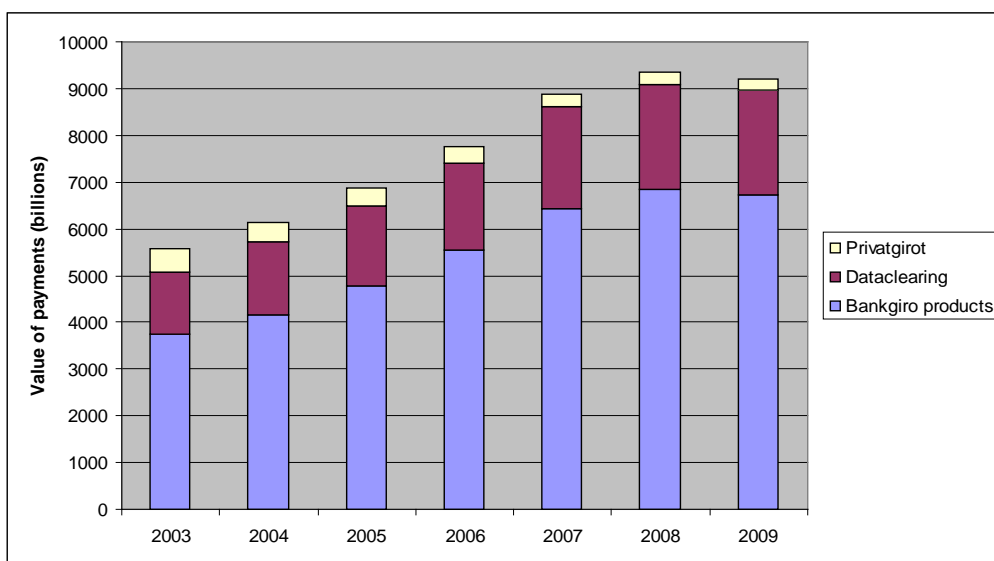


Diagram 2: Value of payments mediated through BGC's payment system 2003–2009

Development

Developments in 2009

During 2009, the focus has been upon the project of transferring BGC's payment platform to VocaLink. Consequently, the number of other changes has deliberately been kept at a low level, with those implemented being aimed at facilitating the changeover to VocaLink.

The following products have been retired during the year: Automatic Checking GI+ and Automatic Checking LM, in addition to payment reporting in EDIFACT format.

Outsourcing of operations to VocaLink

In autumn 2007, BGC decided to start strategic cooperation, mainly concerning BGC's payment system, with VocaLink in the UK, whose activities include operating the British retail payment system, BACS. The objectives of this cooperation are to offer Bankgiro products at a lower price and to meet market demand for new payment products. BGC will retain its current role in relation to the banks, their clients, and authorities.

On 15 May 2008, BGC and VocaLink signed a Master Services Agreement (MSA) to regulate the outsourcing of BGC's payment system to VocaLink. In its capacity as supplier, VocaLink will manage



the IT operations of BGC's payment system. The programme for the transfer of the Bankgiro products to VocaLink's platform started on 8 May 2008.

Stage One, with start of operations in February 2010, includes new direct debit and issuer payments, together with general joint functions for clearing and settlement, cover checks and crediting documentation. Stage Two, with start of operations during the first six months of 2011, includes the remaining products in BGC's payment system and Dataclearing.

BGC and VocaLink have also signed an Alliance Agreement to regulate any further existing possibilities for collaboration, such as the joint development of products and/or the sale, on each company's market, of the other company's products.

In order to ensure the quality of the cooperation with VocaLink, the Scandium project has been initiated. Within the framework of this project, a number of milestones have been identified as being important for the cooperation as a whole. The project's most important managerial group is the Executive Steering Committee. This group meets on a quarterly basis and focuses on nine critical milestones in the project. The group also focuses on the overall cooperation between BGC and VocaLink and the future cooperation in accordance with the Alliance Agreement.

Dataclearing, with the Swedish Bankers' Association as system owner and BGC as supplier, is affected by this cooperation, as it requires a new technical platform to maintain current levels of functionality. In 2009, BGC and the Swedish Bankers' Association signed an agreement to develop the functionality of Dataclearing on VocaLink's platform and for the operation and administration of the new system. The start of operations of Dataclearing will probably take place in conjunction with Stage Two, once all Bankgiro products are up and running with VocaLink. This is estimated to take place during the first six months of 2011.

Work in 2009 and subsequent years

The work on the programme for the transfer of the Bankgiro products and Dataclearing has been carried out continuously during 2009, but delays have led to the postponement of milestones. As a consequence of this, the start of operations on VocaLink's platform, which should have taken place in two stages in May and November 2009, has been postponed. The postponement of Stage One is due to the failure of BGC and VocaLink to attain the level of quality required by the project for further progression to the next milestone.

In advance of each start of operations, both a test phase and a phase of parallel processing are planned into the programme. The parallel processing will be conducted using both the old portions of BGC's payment system and the new portions. The parallel processing is conducted in order to check that all portions of the new system are functioning and producing comparable results.

Following the programme's final date for the start of operations, the "Operation" phase will be implemented. This is the phase in which BGC purchases a service from VocaLink. During the Operation phase, the services will be regulated by the Service Level Agreements (SLA) included in the MSA. In addition, BGC has a set of agreements and contracts to secure the operation of BGC's system with VocaLink.

The rules in the MSA regarding operations will be applied in conjunction with the transfer of the first products in February 2010. As of this point in time, the operation of BGC's payment system will be conducted by VocaLink, at the same time as the project work in Scandium will continue until all operations have been transferred.

The relationship between BGC and Privatgirot and other pre-systems of BGC's payment system will not be affected by the transfer of IT operations to VocaLink. However, a few minor file layout changes will probably be needed for a couple of the Bankgiro products that are processed through Privatgirot. Work on safeguarding any change requirements has been carried out during the autumn



■ together with VocaLink. The major difference for payments processed by Privatgirot will take place when they arrive at BGC, which will forward them to VocaLink for further processing, instead of to BGC's clearing and settlement system, as before.

SEPA

SEPA stands for Single Euro Payments Area and is a project with the objective of creating a common retail payment market for all non-cash electronic payments in EUR. The aim of SEPA is to ensure that trans-national payments in EUR, within the Euro area, do not entail a greater cost for the consumer than equivalent national payments. This harmonisation is expected to lead to greater competition between the various banks of Europe. On the whole, SEPA regulates three payment services, these being account transfers (SEPA Credit Transfer), direct debits (SEPA Direct Debit) and cards (SEPA Cards Framework). On 1 January 2008, SEPA Credit Transfers were introduced. For Sweden's part, these affect cross-border payments denominated in EUR. SEPA Direct Debit started on 1 November 2009, but, as there is no direct debit service in Sweden for payments denominated in EUR, direct debiting in Sweden is not affected.

The concept behind SEPA is that it should be possible to execute account transfers to another bank in Europe in the same uncomplicated and cost-effective manner as would be the case, for example, between accounts in two Swedish banks. Companies in all EU countries should be able to debit an account in the country of origin by direct debit. The prerequisite for the implementation of account transfers and direct debits in this manner is that the bank account numbers and bank address are stated in IBAN format and as a BIC address, respectively. These abbreviations stand for International Bank Account Number and Bank Identifier Code, respectively, and are based on an international standard.

As SEPA will only have an effect on payments made in EUR, no national payments in Sweden will be affected, generally speaking. Payments that will be affected will be those made in EUR between Sweden and one of the EMU countries, or vice versa. BGC's payment system handles payments in SEK and domestic EUR payments. However, no cross-border payments are handled by this system. In other words, the initial impact of SEPA on BGC will be very slight.

The Payment Services Directive

By 1 November 2009, the national legislations of all countries within the EU/EES, together with Switzerland, should have implemented the so-called PSD, Payment Services Directive. The PSD, which is an EU directive, will be incorporated into Swedish legislation through the Swedish Payment Services Directive. However, the implementation of the Directive has been delayed in Sweden and will not enter into force until the second six months of 2010, at earliest.

This Directive is aimed at harmonising the legislation surrounding payments across Europe, but also at strengthening consumer protection regarding payments in SEK and EUR. It also forms a step towards the harmonisation of the payment market that SEPA aims to achieve. BGC will be affected by having to meet new requirements as regards its direct debit function. As supplier to the banks, BGC's services must otherwise comply with the forthcoming Swedish Payment Services Act. The Swedish Payment Services Directive will regulate the direct debit payers' right to request repayment of incorrectly executed direct debits.

For BGC, the delayed implementation of the Directive will entail a certain amount of problems, further complicated by the transfer to VocaLink. Repayments for direct debit payers will be handled manually from the date on which the law enters into force until the final start of operations, to take place during the first six months of 2011. This manual processing entails increased costs and increased risks for the stability of the payment system. These risks and costs will enter the payment system as a result of the delayed legislation.

Method

■ The assessment is based on questions presented to BGC by the Riksbank and Finansinspektionen. These questions have been formulated using the Core Principles for Systemically Important Payment Systems as a starting point.

The international standard Core Principles for Systemically Important Payment Systems (CPSIPS) has been produced by the central banks of the G10 countries within the framework of the Bank for International Settlements (BIS). The principles consist of ten security and efficiency recommendations with which systemically important payment systems are expected to comply. These principles are the generally accepted criteria applied in evaluating such systems and they are used by central banks all over the world.

The Principles have mainly been developed for large-value payment systems. They can, however, also be applied to retail payment systems that are extensively used and where there are few alternative systems. Another important aspect is the risk that, should the system crash, confidence in the payment system as a whole may be seriously damaged. The criterion that “the system is to be used extensively” and the condition that “few alternative systems are available” are fulfilled by BGC’s payment system, as is the statement that it may “damage confidence in the payment system as a whole”.

The Core Principles that have been assessed are I, II, III, IV, V, VI, IX and X. Due to the changes to take place in conjunction with the outsourcing of major portions of BGC’s operations to VocaLink, the Riksbank and Finansinspektionen have decided not to assess BGC according to Core Principles VII and VIII in the assessment for 2009.

The payment system will be assessed in depth after the changes have been implemented, which, according to BGC’s current plan, should be during the first six months of 2011. The compliance of BGC’s payment systems with the Core Principles in accordance with which they are assessed is the current focus of the ongoing oversight and supervision conducted by the Riksbank and Finansinspektionen, in addition to the work of this assessment. The Riksbank and Finansinspektionen are also following the Scandium project by examining monthly reports and participating in quarterly meetings.



Core Principle I

“The system should have a well founded legal basis under all relevant jurisdictions.”

Assessment

The Riksbank and Finansinspektionen assess that CP I is observed.

Considerations

The Swedish Securities Market Act (SFS 2007:528) (VpML) specifies the regulations governing BGC's operations as a clearing organisation in general. The Swedish Act on Systems for Settlement of Obligations on the Financial Market (SFS 1999:1309) includes provisions regulating the point in time at which a payment order may no longer be revoked, which is defined as the point in time at which it is entered into the system. BGC's Settlement Agreement and routine description include regulations detailing the point in time at which a payment order will be considered to have been entered into the system and thus cannot be revoked, either by participants or by a third party. The provisions of the Swedish Act on Systems for Settlement of Obligations on the Financial Market, together with BGC's Settlement Agreement and routine description, respectively provide clarity for participants in the system as regards the point in time at which a payment order may or may not be withdrawn.

The provisions of the Swedish Act on Systems for Settlement of Obligations on the Financial Market and BGC's Settlement Agreement stipulate that Swedish law is to be applied to the system. The definition and determination of jurisdiction enables the participants to understand with which country's regulations they are to comply.

In the assessment of the Riksbank and Finansinspektionen, Swedish legislation provides an adequate basis for the operations undertaken by BGC.

Description

National legislation

The Swedish Securities Market Act (SFS 2007:528) (VpML)

BGC has been granted permission by Finansinspektionen to conduct clearing operations in accordance with the VpML and is, thereby, under the supervision of the authority. This Act is based on Directive 2004/39/EC of the European Parliament and the European Council on markets in financial instruments (MiFID).

In accordance with this Act, BGC must conduct its operations honestly, fairly and professionally and must apply the principles of free access and neutrality. This implies that each party fulfilling the conditions presented in the VpML and BGC's participant requirements for clearing services or the Bankgiro system may participate in that system. BGC is thereby also obliged to apply its regulations in a uniform manner towards all participants.

BGC must have appropriate rules for the way in which clearing operations are conducted. This is to be controlled both during the authorisation process and as a part of the current supervision. Finansinspektionen exercises supervision of whether BGC is conducting its operations in accordance with the VpML, other statutory instruments regulating the company's operations, the company's articles of association, statutes or rules and internal instructions which are based on legislation governing BGC's operations. BGC also has a statutory obligation to disclose information to Finansinspektionen.



As a part of its supervision, Finansinspektionen may conduct on-site inspections, appoint one or more auditors to participate, together with other auditors, in the audit of BGC and convene the board of directors. Finansinspektionen may also request the board of directors to convene an extraordinary general meeting.

In addition to these powers, Finansinspektionen conducts current supervision of BGC, including such elements as regular supervisory meetings, at which operations, organisation and organisational changes, financial development, new products, operating situation, systems issues, disruptions etc are addressed.

The Swedish Act on Systems for the Settlement of Obligations on the Financial Market (SFS 1999:1309)

BGC's settlement system has been approved by Finansinspektionen in consultation with the Riksbank and notified to the European Commission in accordance with the Swedish Act on Systems for the Settlement of Obligations on the Financial Market. This Act is based on Directive 1998/26/EC of the European Parliament and the European Council concerning payment and securities settlement systems ("the Settlement Finality Directive").

A settlement system shall have satisfactory joint rules and standardised arrangements to execute payment orders. The settlement system shall also include rules stating that Swedish law is applicable to the system.

According to the Swedish Act on Systems for the Settlement of Obligations on the Financial Market, payment orders remain applicable to third parties even if a collective bankruptcy proceeding has been initiated as regards a participant in a notified settlement system. This assumes that such an order has been entered into the system before the announcement of the decision to initiate bankruptcy proceedings. A payment order may not be revoked by a participant in a notified settlement system or by a third party after the time stipulated in the system's rules.

Participants in the system must be able to feel confident that no other participant or external party can prevent the settlement of a payment order. The Swedish Act on Systems for the Settlement of Obligations on the Financial Market does not regulate the validity of the underlying transaction. As the Act does not regulate underlying transactions, but only regulates circumstances on the system level, it cannot be excluded that a participant or third party, such as a receiver, may have the right to revoke or otherwise prevent a transaction from reaching the final recipient, even if revocation of a payment order is no longer possible under the system's rules. However, such a revocation may not lead to the prevention of a settlement in the system, although a subsequent reversal of the settlement may be implemented. It is, therefore, the settlement in the system that is to be protected, rather than the transaction as such.

The agreement on BGC's clearing and settlement service, with pertaining appendix/routine description, stipulates when a payment order is considered to have been entered into BGC's payment system and when such a payment order can no longer be revoked.

The Swedish Financial Instruments Trading Act (SFS 1991:980) (LHF)

The LHF stipulates that the settlement of obligations between two or more participants in a notified settlement system applies to bankrupts and their creditors if such settlement has been made in accordance with the rules of the system. These rules are to be examined by the authority in each country with responsibility for the examination and notification of settlement systems. In Sweden, this authority is Finansinspektionen. This provision of the LHF also applies to the system operated by BGC.



The Bankgiro regulations

■ The Bankgiro regulations consist of bilateral agreements between BGC and the participating banks. The basic terms and conditions are laid down in the Bankgiro's Main Agreement. Terms and conditions for clearing and settlement in Bankgiro products are covered in the agreement on BGC's clearing and settlement (the Settlement Agreement). In addition, there are special product agreements, operational agreements and service agreements. The Settlement Agreement and other regulatory agreements stipulate that these are to be interpreted and applied in accordance with Swedish law.

The agreements have been drawn up in consultation with the participants, mainly Swedish banks, several of which are part-owners of BGC. The agreements are available to the participants. The Bankgiro's participation requirements are available on BGC's website (www.bgc.se).

BGC acts as sub-contractor to the banks for the payment services provided and, accordingly, does not have any contractual relationship with the private individuals or companies using its payments services.

BGC's regulations for other payment products

BGC also manages payment products which are not Bankgiro products and where authorisation and, in some cases, portions of the clearing are carried out in external payment systems. For these payment products, the contractual relationship between BGC and the user mainly consists of the operational agreement and the settlement agreement. In addition, the user and the external party which is product/system owner also sign a separate agreement that regulates the respective payment product.

Settlement

The payment orders mediated via BGC are settled either in the Riksbank's settlement system, RIX, or via the ECB's settlement system, TARGET 2, depending on whether the payment is denominated in SEK or EUR. RIX has been assessed in accordance with CPSIPS and has been deemed to satisfy the principle of a well-founded legal basis.



Core Principle II

■ “The system’s rules and procedures should enable participants to have a clear understanding of the system’s impact on each of the financial risks they incur through participation in it.”

Assessment

The Riksbank and Finansinspektionen assess that CP II is observed.

Considerations

The Settlement Agreement, with associated appendix/routine description, describes the prerequisites for the process of clearing and the procedure to be followed when a participant demonstrates a lack of liquidity. One risk factor in the settlement of multilateral flows arises due to the fact that such settlement is processed in accordance with the ‘concurrent batch’ principle. This implies that the entire multilateral flow is only settled if all participants have sufficient liquidity at the settlement time. Should this not be the case, and should the participant lacking liquidity be unable to generate any, that party shall be considered to have defaulted. The remaining, non-defaulting participants subsequently assume payment liability for the defaulting participant’s share. This is regulated in an appendix to the Settlement Agreement, the routine description.

In April 2009, BGC carried out an exercise in which different types of disruptions to payment mediation were simulated. The objective of the exercise was to gain an understanding of the practical consequences of the Settlement Agreement for both BGC and the participants. BGC plans another such exercise.

During the year, BGC has also held meetings with the participants in the clearing service to ensure that these understand the significance of the agreements and functioning procedures and are aware of the system and their obligations to it. The objective has also been to raise awareness of the risk that problems may spread to other participants in the event of lack of compliance with rules and regulations regarding matters such as format and timing. BGC also wished to raise awareness of compliance and risk issues in the system, particularly in the clearing service.

In conjunction with the admission of new participants, BGC has carried out a review of the rules and regulations with the admitted participant.

In order to ensure that the participants fulfil the participation requirements and also that they are implementing those changes determined by BGC, such as changes to agreements, BGC carries out an annual review of the Bankgiro’s participation requirements by requesting a written certificate from each bank. The participants also have a disclosure obligation towards BGC if, for example, events affecting the participant requirements should occur.

BGC’s agreements are constructed in such a clear manner as to qualify participants to understand the financial risks arising from participation in the Bankgiro system or in BGC’s clearing and settlement service.

Description

The Bankgiro regulations

The Bankgiro regulations are constructed around the so-called Main Agreement, as signed by all participants (see Figure 5). This specifies the parties’ basic obligations and rights.

A number of ‘underlying’ agreements are linked to the Main Agreement, such as the Product Agreement, the Maintenance Agreement, the Service Agreement and an agreement covering BGC’s

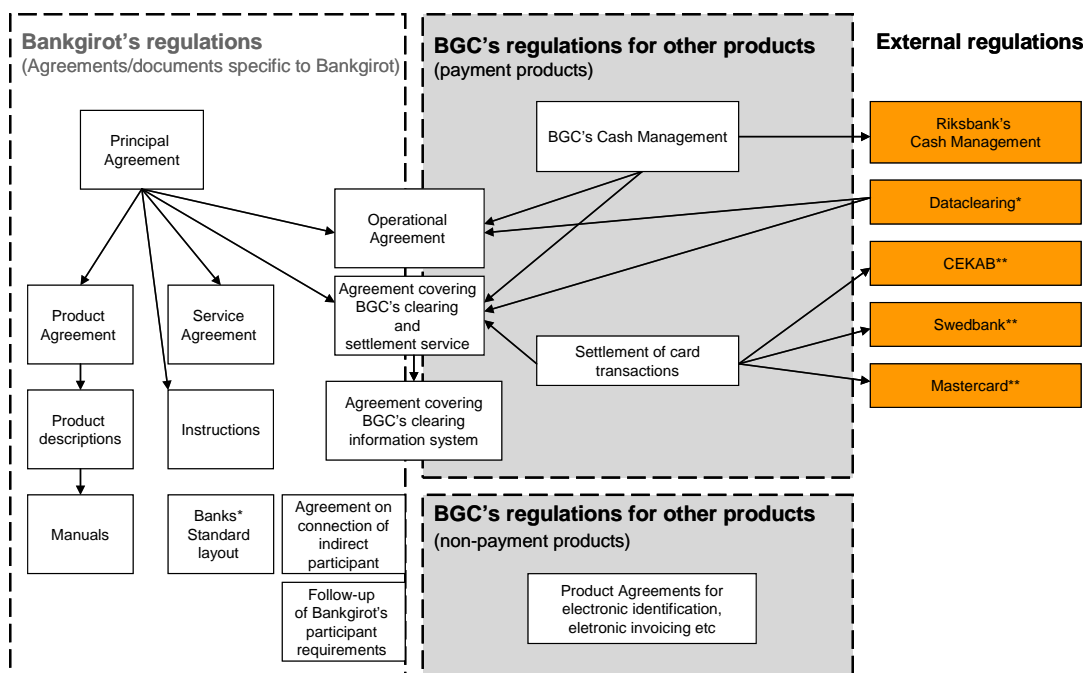
clearing and settlement service (the Settlement Agreement). To use the BGC clearing and settlement service, the participant is additionally required to have signed an agreement on the clearing information system. Those participants who have user members (indirect participants) are also required to have an agreement on membership of indirect participants. In addition, there are product descriptions, user handbooks and instructions.

The Product Agreement specifies the Bankgiro products utilised by each participant. The Maintenance Agreement states delivery times, quality, emergency routines, follow-up, etc. The Service Agreement specifies the level of service, such as response times and the content of various services. The Settlement Agreement describes how clearing and settlement will occur under normal circumstances or in the event of disruptions, and the allocation of responsibility in the event of disruptions or default. The wording of the Settlement Agreement and the other regulatory agreements are the same for all participants. Differences due to the participants' specific requirements are regulated in appendices.

The areas of the Bankgiro's regulations of which participants require knowledge in order to judge the financial risks they incur through participation in the Bankgiro system are the Settlement Agreement with routine description, the Main Agreement and the Product Agreement, including the product descriptions. If there are conflicts between the Main Agreement and the Settlement Agreement, the Settlement Agreement takes precedence. The Main Agreement was marginally updated in 2009 with the aim of further clarifying the parties' responsibilities.

Participants in the Bankgiro or in BGC's clearing service acting as clearing agents for an indirect clearing participant do so at their own risk and are responsible to BGC and other participants for such an indirect participant's actions or failure to act.

In the event of serious disturbances, there is an emergency plan for each Bankgiro product, which forms the basis of internal prioritising between different flows.



* In addition to Operational and Settlement Agreements, participants sign an agreement with the "product owner" of the Dataclearing; the Swedish Bankers' Association

** Agreement between system/product owner and participating banks

Figure 5: Outline of regulatory framework



BGC's regulations for other payment products

■ BGC's clearing and settlement service is also used for a number of payment products for which authorisation as well as, in certain cases, portions of the clearing are conducted in external payment systems (see figure 5). As regards these payment products, the contractual relationship between BGC and the user primarily consists of the Operational Agreement and the Settlement Agreement. In addition, the user and the party which is product/system owner sign a separate agreement that regulates the respective payment products.

In the event of settlement failure in bilateral and multilateral flows, refer to the section "Clearing and settlement".

BGC's regulations for other products

BGC also offers a number of other, non-payment products, such as electronic identification and electronic invoices. Electronic invoices can be utilised via the same channels of communication as the company's files to and from the Bankgiro. With the aid of electronic invoices, private individuals can pay bills quickly and easily via their Internet bank, while companies can both issue and receive such invoices.

External regulations

Apart from BGC's own regulations, there also exist external regulations for those products for which authorisation and, in certain cases, clearing are conducted in external payment systems, for example Dataclearing. In these cases, in addition to Operational and Settlement Agreements, the participant also signs agreements with the product owner of Dataclearing, the Swedish Bankers' Association.

Core Principle III

■ “The system should have clearly defined procedures for the management of credit risks and liquidity risks, which specify the respective responsibilities of the system operator and the participants and which provide appropriate incentives to manage and contain those risks.”

Assessment

The Riksbank and Finansinspektionen assess that CP III is observed.

Considerations

Even though the payment flows via the BGC usually constitute a relatively small part of the banks' total flows, the Settlement Agreement provides an incentive for the participants to be cautious in their liquidity management. The Agreement explicitly requires participants to have sufficient liquidity in their RIX accounts. Participants can see the gross amounts they are to pay and receive in the obligatory clearing information system, CIS, at least 15 minutes before the agreed settlement time. Should the participant fail to make this liquidity available, an escalation period is initiated, followed by a failure management period. The Settlement Agreement thereby allows a participant who cannot meet its obligations due to liquidity problems a limited amount of time to complete settlement (see CP II).

If the participant cannot fulfil its obligations, the consequences may be serious, as the participant's Settlement Agreement is then automatically revoked. Without the Settlement Agreement, the participant no longer has the right to participate in BGC's clearing and settlement service. Consequently, participants cannot effect payments on behalf of themselves or their clients via the Bankgiro or for other flows covered by the Settlement Agreement, such as, for example, Dataclearing, ATM and MasterCard.

As major portions of the flow are settled using the bilateral gross amount method, and as failure management routines have been established, credit risks are of a highly limited nature. The RIX system also provides liquidity-saving and effective settlement by means of a function that continually searches for transactions for settlement, as well as also providing the possibility of reserving liquidity for a specific settlement, thus contributing to a low liquidity risk.

Description

The greater portion of the payment products mediated by BGC is cleared using the bilateral gross amount method and settled through the participant's account in the Riksbank's settlement system, RIX, if in SEK, or, alternatively, through its custodial bank in the ECB's settlement system, TARGET 2, if in EUR. The RIX system also provides the possibility of conducting settlement in a resource-efficient manner in which participants need not provide more liquidity than necessary. If a participant is unable to fulfil its obligations within the specified period of time, a failure management period is initiated. This procedure is implemented during day one – that is to say, on the same day that the participant defaults.

A small number of payment products (Master Card and ATM) are cleared using the multilateral net amount method according to the principle 'in its entirety or not at all' and are settled via the BGC's account in RIX. If a participant is unable to fulfil its obligations within the specified period of time, a failure management period is initiated. The Settlement Agreement includes regulations specifying the allocation of losses in this type of situation. This procedure is also implemented during day one – that is to say, on the same day that the participant defaults. For more in-depth information on the default management routines mentioned above, refer to the introductory section and the chapter “Clearing and Settlement”.

Core Principle IV

“The system should provide prompt final settlement on the day of value, preferably during the day and at a minimum at the end of the day.”

Assessment

The Riksbank and Finansinspektionen assess that CP IV is observed.

Considerations

CP IV requires that settlement be made on the same day as the system has received and accepted the payment order for settlement. The definition of an accepted order is one that has been approved by the system’s risk management mechanisms. In situations where the system applies risk management mechanisms prior to the settlement day, for instance for pre-debited payment orders, CP IV concedes that the minimum requirement for settlement on the same day applies from the opening of the system on the actual settlement day.

BGC implements clearing and settlement for the bilateral and multilateral flow on day 1, i.e. the same day that the payment order receives a positive response to a coverage checking inquiry. Pre-debited payments are cleared and settled no later than on the day following coverage checking and approval by one of the external payment systems. Any defaults are also handled on day 1, in accordance with the established default management routine. All types of payment product that are processed through BGC thus meet the demand for settlement on the same day as the payment is received and registered for settlement. This is an important precondition for maintaining a low level of liquidity and credit risk in the system.

Description

Payment flows mediated through BGC are settled at least once a day. The number of daily settlement rounds for the different payment products is stated below. If settlement is in EUR and/or as multilateral net settlement, this is stated in brackets. If there are no brackets, this indicates bilateral gross settlement in SEK.

Once per day:

Bankgiro payments (supplier payments, salaries, direct debits, etc.)
 Bankgiro payments (EUR) (supplier payments)
 Bankomat (multilateral net)
 MasterCard (multilateral net)
 ATMs (formerly Minuten) (multilateral net)

Three times per day:

Bankgiro payments (form payments via Privatgirot)
 Bankgiro payments (Internet bank payments)
 Bankgiro payments (EUR) (Internet bank payments)

Four times per day:

Bankgiro payments (issuer payments)
 Bankgiro payments (EUR) (issuer payments)
 Dataclearing



Five times per day:

■ BGC's cash handling product, which also has a sixth settlement point and is only intended for transactions in which the Riksbank is the paying party.

Settlement

The settlement times for the various payment products are evenly distributed throughout the day between 07.15 and 16.20.

Payment products that are cleared on a bilateral gross basis are settled via the participants' account in the Riksbank's settlement system, RIX, in the case of SEK, or either directly or via the participant's custodian bank to the ECB's settlement system, TARGET2, in the case of EUR. Payment products that are cleared on a multilateral net basis are settled via BGC's RIX account – for participants with net debts, liquid funds are transferred to BGC's RIX account and, at the agreed settlement time, settlement is effected in its entirety in accordance with the principle 'in its entirety or not at all'.

Cover check

Prior to settlement, a cover check is conducted for most of the payment products, in which BGC sends debiting data to the payers' banks to check that the payers have sufficient funds in their accounts. During the cover check, the participant has the possibility of stopping the entire payment order or certain individual payments. The remaining payment products are 'pre-debited' and thus do not require any special cover check prior to settlement.

Latest transfer time

The latest transfer time to BGC is defined per payment product. Payment products for which BGC conducts both a cover check and debiting are delivered between 17.00 and 23.00 at latest, one banking day before the settlement day. Wage payments are an exception. For these, the order must have been received by BGC no later than 19.00, two banking days before the settlement day. On the settlement day, BGC conducts cover checks, clearing and settlement of all payments.

Pre-debited payment products are cover checked and approved by one of the external payment systems one banking day before the settlement day. On the settlement day, the payments are processed by BGC's clearing and settlement service. For certain pre-debited payment products, it is also possible to conduct both cover checks and settlement on the same day, i.e. on the settlement day.

Default management of bilateral gross settlement

All stages in default management are implemented on day 1, that is to say on the same day that the participant defaults. For more in-depth information regarding the default management routines of bilateral gross settlement, refer to the introductory section and the chapter "Clearing and Settlement".

Core Principle V

“A system in which multilateral netting takes place should, at a minimum, be capable of ensuring the timely completion of daily settlements in the event of an inability to settle by the participant with the largest single settlement obligation.”

Assessment

The Riksbank and Finansinspektionen assess that CP V is observed.

Considerations

Default management for the multilateral net flow is handled on day 1. This implies that BGC can provide liquidity and thereby conclude the settlement of the flow by no later than the end of the settlement day. This procedure is in compliance with CP V, the minimum requirement of which is that systems handling multilateral net flows are to complete settlement on day 1, even if the largest participant defaults.

The multilateral flows (MasterCard and ATM) increased strongly from a previously low level between 2007 and 2008. During one weekend with a high volume of transactions, turnover increased by approximately 20%, from a total amount of approximately SEK 1 billion in 2007 to approximately SEK 1.2 billion in 2008. The flow from the participant with the greatest net liability as regards card transactions from Europay/Mastercard has increased by a factor of more than six, from SEK 76 million to SEK 468 million, during an equivalent period. During 2009, the total level of multilateral flows fell back to the level prevailing in 2007. The flow from the participant with the largest net debt as regards card transactions has also decreased, but, nevertheless, remains on a high level, SEK 389 million. The probable reason for these slightly declining levels is decreased production and consumption due to the current economic climate. In light of the increased flow, BGC should consider whether a more secure arrangement for multilateral net settlement should be set up, so as to safeguard settlement even in the event of the default of the largest participant.

Description

The settlement of the multilateral flows (MasterCard and ATM) is carried out via BGC's RIX account. Participants who have a net debt in relation to other participants in the flow pay to BGC's RIX account. Those participants having a net claim in relation to other participants in the flow receive payment from BGC.

If a participant is unable to meet its obligations, an agreed default management routine is applied. In this, the remaining participants share the defaulting participant's debt in accordance with an agreed procedure. A more in-depth description of this routine is presented in the introductory section, under the chapter “Clearing and Settlement”.

It is important to mention that no pool of collateral exists to secure settlement. Neither do there exist any limits for the gross positions of the participants towards one another. This means that, regardless of the amount of the defaulting participant's debt, the other participants in the multilateral flow are assumed to be able to contribute the missing liquidity.



Core Principle VI

■ “Assets used for settlement should preferably be a claim on the central bank; where other assets are used, they should carry little or no credit risk and little or no liquidity risk.”

Assessment

The Riksbank and Finansinspektionen assess that CP VI is observed.

Considerations

Assets utilised for settlement are claims on the Riksbank or European Central Bank (ECB).

Description

All of BGC's payment products are settled in central bank money. Payments are settled via the Riksbank's settlement system, RIX, or via the ECB's settlement system, Target 2.

Core Principle IX

“The system should have objective and publicly disclosed criteria for participation, which permit fair and open access.”

Assessment

The Riksbank and Finansinspektionen assess that CP IX is observed.

Considerations

BGC's operations as a clearing organisation are regulated by the VpML. According to this Act, a clearing organisation must apply the principles of free access and neutrality. Potential participants who are denied access to the system may appeal to the Swedish Competition Authority. There is thus a regulatory framework supporting “open and fair access”, as well as an instance to which complaints can be made regarding disparity. BGC has never denied access to BGC's payment system to any party fulfilling the participation requirements.

BGC is legally obligated to treat all participants equally. This work is performed by various working groups, who report directly to BGC's board of directors if deficiencies in competition are suspected. BGC has produced *Competition Guidelines for Customer Consultation within the Bankgiro System*, a work instruction used in every form of cooperation between BGC and the banks participating in the Bankgiro system.

The fulfilment by a participant of the participation requirements forms a condition for entry into BGC's payment system, the Bankgiro. After having been admitted, a participant must fulfil the participation requirements on an ongoing basis. The participant has the obligation of informing BGC if this should not occur. BGC also performs an annual follow-up of the participants by requesting a written certificate from each bank.

Description

Participation in BGC's payment system, the Bankgiro, can take different forms. There are direct and indirect participants. A direct participant is a bank that is directly connected to the Bankgiro, while an indirect participant is a bank that is connected via a direct participant. An indirect participant receives information on participation requirements from its representative, the direct participant. When deciding whether to apply for direct or indirect participation, the bank, as a rule, maintains contact with BGC. At the end of 2009, the Bankgiro had 20 direct participants and 77 indirect participants.

The indirect participant signs an agreement with the direct participant who, in turn, signs an agreement on indirect connection with BGC. The direct participant is responsible for the indirect participant as regards BGC and other participants. Expenses for participation in Bankgiro are only paid by direct participants. The direct participant, in turn, debits the indirect participant.

A direct participant can, in turn, be a direct or indirect *clearing participant* in the clearing and settlement service. A direct clearing participant is a RIX participant and thus performs settlement via its own RIX account, while an indirect clearing participant performs settlement via the RIX account of a direct clearing participant.

Participation requirements

■ In order to become a direct participant in BGC's payment system, the Bankgiro, an institution must continually meet the following requirements:

- it is authorised to conduct banking operations in Sweden,
- it has equity of at least EUR 5 million or equivalent,
- it complies with the capital adequacy rules for credit institutions and securities firms,
- it is under the supervision of Finansinspektionen or of an equivalent authority,
- it signs and constantly complies with Bankgiro's Main Agreement, Settlement Agreement, Operating Agreement, Service Agreement and Product Agreement (for the Bankgiro products that the bank wishes to use), and otherwise observes Bankgiro's regulations,
- it has a technical connection to BGC in accordance with BGC's standards and instructions,
- it is admitted to participate in the RIX system directly or via another participant, and
- it is able to perform daily clearing and settlement in SEK and EUR in accordance with BGC's Settlement Agreement and routines.

The requirements for becoming an indirect participant in the Bankgiro are somewhat simpler. A summary of the participation requirements in the Bankgiro is available on BGC's website (www.bgc.se).

In the case of those payment products that are not Bankgiro products, BGC does not stipulate any special requirements for participation, over and above the requirements specified by the VpML. Special requirements may exist in agreements with owners of external payment systems such as, for example, CEKAB.

Entry and withdrawal

Entry into BGC's payment system is granted by BGC's board of directors. Upon entry, the new participant pays for resources expended by BGC. This fee is to cover BGC's costs for connection, including the adjustment of BGC's own systems. No fixed entry fee or annual fee exists. However, as of 2010, an annual fee will be charged.

Withdrawal or exclusion from the Bankgiro can be done by giving notice of termination of the Main Agreement.



Core Principle X

“The system’s governance arrangements should be effective, accountable and transparent.”

Assessment

The Riksbank and Finansinspektionen assess that CP X is observed.

Considerations

As a limited liability company, BGC is subject to both provisions on association and accounting regulations that control the company’s governance and responsibility. Internal rules and routines also affect the assessment of this principle. The company’s management and governance, as well as its structure, are transparent in that the information is clear and easily available. The owners actively exercise their ownership through their participation in the Board of Directors.

In the evaluation, no studies have been made of how BGC actually manages different matters. Only the organisational conditions have been examined.

Description

Bankgirocentralen BGC AB is a wholly owned subsidiary of BGC Holding AB, which is owned by SEB (33.1%), Swedbank (29.2%), Svenska Handelsbanken (25.4%), Nordea (10.0%), Danske Bank (1.7%), Skandiabanken (0.3%), Ålandsbanken (0.2%) and Länsförsäkringar Bank (0.1%). The BGC companies are governed in accordance with the Swedish Companies Act (SFS 2005:551), the articles of association and other applicable laws and regulations.

Finansinspektionen has granted BGC a licence to conduct clearing operations in accordance with the VpML. BGC’s system has been approved by Finansinspektionen, in consultation with the Riksbank, and has been notified to the European Commission in accordance with the Swedish Act on Systems for the Settlement of Obligations on the Financial Market (see CP I).

BGC’s board of directors

BGC’s board of directors is appointed by the general meeting of shareholders, i.e. the owners. The board of directors appoints a managing director. In accordance with the Swedish Companies Act, the board of directors each year adopts a written set of rules of procedure as regards its work. The board of directors also prepares a set of written instructions specifying the division of duties between the board of directors and the managing director. When voting, each member of the board has one vote, and decisions are taken by a simple majority. At present, the board includes representatives of Danske Bank, Länsförsäkringar Bank, SEB, Svenska Handelsbanken and Swedbank.

Information on the members of the board and the company management is available on BGC’s website. Detailed information on ownership, operations and auditor’s reports can also be found in the Group’s Annual Reports which can be ordered from BGC or downloaded from BGC’s website.

Consultation

In order to prevent and manage any conflicts of interest, there exists an internal handbook on competition law that has been produced by external legal experts on behalf of BGC. There are also special instructions on how consultation between BGC and the banks should be conducted in matters relating to the Bankgiro.



■ The design of existing and new Bankgiro products is decided by BGC following consultation with the participants. Consultation takes place partly in separate meetings and partly in multilateral forums. All participants are invited to attend these forums and to present their views.

The following forums exist for the Bankgiro. BGC convenes and presides at all these forums, and also sets the agenda and takes the minutes.

The Bankgiro customer and market forum: This is a forum that addresses the Bankgiro's strategic orientation and the extent of any new development or further development of the Bankgiro's products and services. It furthermore addresses BGC's marketing of the Bankgiro and its products. The forum has three to four regular meetings per year.

The product council: This forum addresses the functionality of a specific payment product or group of payment products. The forum has three to four regular meetings per year.

Bank working groups: These are temporary forums that exist during development projects to deal with issues specific to a particular project and to act as a channel for BGC's information to the banks and vice versa.

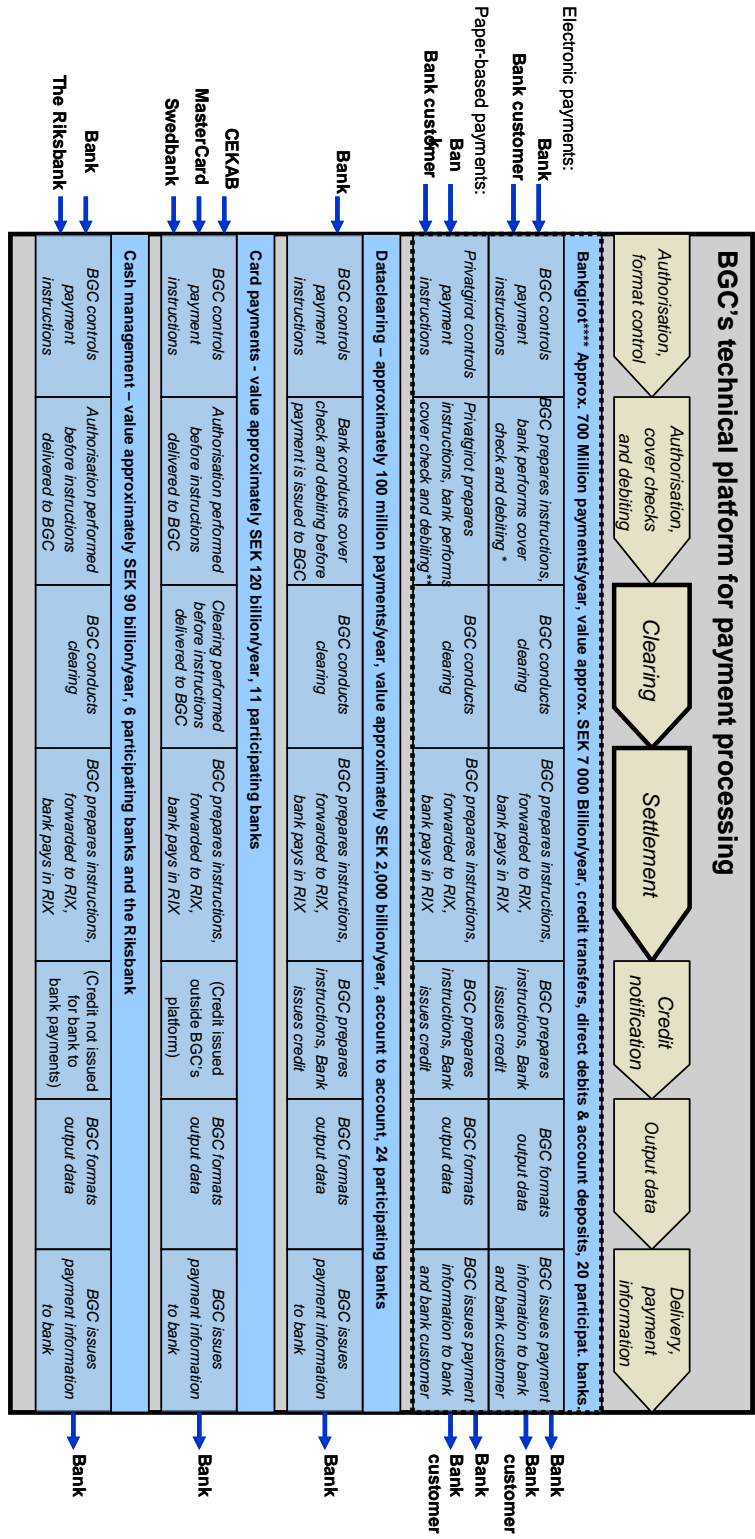
In addition, BGC has a forum for handling issues of common interest relating to BGC's clearing and settlement functions in SEK and EUR.

BGC's governance arrangements

The Board of Directors of BGC is ultimately responsible for governance in accordance with the provisions of the Swedish Companies Act.

The Swedish Financial Supervisory Authority supervises BGC in accordance with the provisions of the VpML. Finansinspektionen has also issued general guidelines regarding governance and control of financial undertakings, FFFS 2005:1, with which BGC complies.

Appendix 1: BGC's technical platform for payment mediation



* Does not apply to Internet bank payments delivered to BGC after cover check and debiting.
 ** Applies to payments from companies. So-called domestic payments are delivered to Privately after cover check and debiting.
 *** The clearing and settlement function is regulated in the agreement covering BGC's clearing and settlement service, as regards RIX participants.
 **** Bankgirot has special regulations with a Main Agreement and Product Agreement, among others. The agreement covering BGC's clearing and settlement service is also included.