

SEGA Services in Repo Business

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Ladies and Gentlemen

I shall first briefly outline SEGA's business activity before giving you a description of the repo settlement system.

SEGA, a joint venture of the Swiss banks and consequently of the Swiss financial centre, was established as a Swiss custodian and securities clearing organisation.

The heart of SEGA is the **SEGA COM**munication system SECOM which was put into operation in 1993 and has been continuously upgraded ever since. SECOM links up approximately 350 banks, 125 share registers of companies listed on the stock exchange, the Swiss Exchange and the Swiss Interbank Clearing system operated by the Swiss National Bank. Communication is real-time and around the clock - doubtless an unparalleled novelty anywhere in the world.

Currently, the value of securities on deposit runs to approximately 1,500 billion Swiss francs. Roughly 50,000 stock market transactions totalling 8 billion Swiss francs are cleared daily via this efficient *Real-Time-Gross-Settlement system*.

Thanks to the *SECOM-SIC link*, since 1995 every transaction has been settled on a genuine delivery vs. payment basis: SECOM checks the securities side, and SIC verifies the money side. Irrevocable and final settlement takes place only if both parties are sufficiently covered. With this mechanism we are able to completely eliminate the settlement risk.

The implementation of the *online link to the Swiss Stock Exchange* in 1996 completed Switzerland's trading and settlement network. The Swiss stock exchange system automatically transmits a delivery instruction for each trade, thus making any further instruction of a party to a trade unnecessary. Thanks to the fully

automatic processing of transactions banks can exploit the benefits of the straight-through processing mode.

It is only obvious that SEGA as a typical securities clearing company will in future offer facilities for the settlement of money market transactions such as the repo. Thanks to our leading-edge settlement platform, we can guarantee the smooth and reliable processing of transactions on a "securities versus cash" or "cash versus securities" basis. The motivation for a transaction is irrelevant to us. In other words, we do not distinguish between stock market transactions and cash management operations (a repo transaction).

Nevertheless, I wish to point out to you a few details which require our full attention. SEGA played a central role in finding solutions to problems. A first set of services will be introduced next Monday. The complete facilities will be available at the end of September 1998:

- For each opening transaction, SECOM automatically generates a closing transaction on the basis of the information supplied in the opening transaction.
- *Structured securities baskets* guarantee the settlement of *standardized* products mentioned by Mr Gehrig earlier on. The securities serving as collateral are selected according to specific quality criteria.
- *Risk management* by SECOM for repo transactions during the entire term is of special significance. If the market value of a security serving as collateral declines and exceeds the variation margins which have been established individually between banks, SECOM automatically generates a *margin call* for the transfer of additional collateral in the form of securities or cash. On the other hand, unused collateral due to price rises will automatically be retransferred.
- A special facility is available in SECOM ensuring that delivered securities which are reclaimed are automatically replaced by securities of the same quality.

- If a party which is required to supply additional collateral defaults, the cash provider may, for the purpose of *risk containment*, use a special transaction to immediately close all pending repo transactions.

The reason why we consider the outlined modes of functioning especially interesting is that the services have only to be developed once in SECOM and can then be made centrally available to all SEGA participants. Thanks to the reduction of development expenses Switzerland as a financial centre has a competitive advantage in terms of cost. On the other hand, the development of this central new service enables small and medium-sized banks to participate for the first time in repo business.

We did not confine our efforts to the development of the aforementioned services. We also upgraded our PC system in an attempt to offer all banks a low-cost link to SEGA for the settlement of their repo transactions.

We are convinced that we have paved the way in Switzerland for the development of a highly efficient repo market with an international reputation.