



## Memorandum of Understanding between the Central Banks of Sweden and Finland on Co-operation in the Oversight of the Central Securities Depositories VPC AB and Suomen Arvopaperikeskus Oy.

### Introduction

Both Sveriges Riksbank, the central bank of Sweden, and Suomen Pankki, the central bank of Finland, undertake the task of promoting financial stability in their national markets. Both central banks deem that the oversight of clearing and settlement systems is vital for maintaining financial stability. Central banks have a particular interest in the oversight of central securities depositories and securities settlement systems (hereafter together referred to as CSDs) because they provide services which are necessary for the implementation of monetary policy and they settle securities transactions whose value and importance to financial market participants make them crucial for financial stability. Therefore, it is important to have a broad picture of the developments potentially affecting the functioning of CSDs.

The oversight environment has however been changed by the deepening integration of the clearing and settlement infrastructure in the two countries. In particular, since 2004, VPC AB, the Swedish CSD, has owned all of the shares in the Finnish CSD, Suomen Arvopaperikeskus Oy. (The Swedish CSD and the Finnish CSD are jointly referred to as the CSD Group). Despite the group structure, the Swedish and Finnish CSDs will continue to be run as separate legal entities which are regulated at the national level. Each national authority has a clear responsibility for overseeing the CSD licensed in its country. However, several areas of importance in the oversight of the systems, such as governance, business strategy and access to the system will be decided and implemented jointly within the CSD Group. For this reason, even though the entities will be subject to their existing regulatory framework, special co-operation between the two central banks in the oversight of the CSD Group is needed so that each can fulfil its responsibilities effectively and efficiently.

### Legal Nature

This MoU is a statement of principles and intent but is not legally binding. It does not affect or bypass the powers of the central banks or their international undertakings or agreements on co-operation.

The central banks will keep confidential, to the extent permitted by laws rules or regulations, any information exchanged under this MoU. The exchange of information, which is classified as secret by the central bank providing the information, may only take place to the extent that such information is treated as secret by the receiving central bank.

## ■ General Principles

The purpose of this MoU is to provide a framework for an efficient working relationship between the Riksbank and Suomen Pankki in the field of oversight of the CSD Group and any related activity that may materially affect the clearing, settlement or registrar functions provided in the two countries. Developments in this area have implications for the central banks in the pursuance of their respective overall financial stability and policy functions. Hence, the MoU complements existing co-operation arrangements between the two central banks and between domestic authorities.

As a basis for their oversight activities both central banks look to international best practice and accepted international recommendations and standards for securities settlement systems. Both central banks participated in the ESCB-CESR group's work adapting these to produce the Standards for Clearing and Settlement in the European Union. The central banks will employ these standards when they have been endorsed by both central banks.

### Central bank responsibilities in the field of clearing and settlement

In the field of clearing and settlement, the two central banks have similar responsibilities and objectives. The Riksbank is charged with working toward the safety and efficiency of the payment system in its broadest connotation. Likewise, Suomen Pankki is charged with the reliability and efficiency of the payment system and the overall financial system.

The duties and functions of Suomen Pankki also include i. a. participating in the development of the payment system and financial markets. This means that Suomen Pankki can have an interest in parts of the financial market which are outside of the Riksbank's area of interest. Therefore the central banks recognise that their powers, duties and functions which are or may be exercised in the context of oversight differ and that each must act in a manner which is compatible with the regulatory objectives set out in its statutes.

### Scope

This MoU covers co-operation between the Riksbank and Suomen Pankki in the oversight of the CSD Group regarding those parts of its routines, procedures and documentation which are common to the two countries. The MoU recognises that the integration of the two CSDs is a continuing process, both in terms of business activities and technical systems. This means that the oversight co-operation must be flexible to follow this process. The two CSDs may ultimately employ the same technical platform; in this case, the areas of common interest will become broader and more critical to the oversight activities of the respective central banks.

Co-operation according to this MoU entails that the two central banks will share information, analysis and when necessary co-ordinate their information to the public but will take decisions about central bank actions individually and according to each central bank's normal decision process. This MoU covers the central banks' oversight responsibilities while any operational contacts that they may have with the relevant financial infrastructure providers remain outside of its scope.

## ■ Objectives

This MoU aims to increase the effectiveness of each central bank's oversight of its domestic CSD by structuring an exchange of information and co-operation in those parts of the CSDs' operations which are common. By fostering co-operation, it will also contribute to the consistency of oversight for the CSD Group as a whole.

In addition, this MoU aims to reduce the burden on the CSD Group by co-ordinating information requests to the institutions to the extent appropriate and by avoiding duplication of oversight work.

The MoU also recognises that the rules and procedures of the two CSDs regulate the functioning of domestic securities markets as allowed by each national legislative framework. The MoU should not in any way hinder the effectiveness of this self-regulation nor interfere with any domestic regulatory arrangements to monitor it.

## Central bank roles

Those responsibilities and tasks which each central bank has been assigned will in no way be circumscribed by this MoU. Central banks will however work to co-ordinate their activities where such co-ordination is deemed necessary or beneficial. The central banks' relations to their national CSD will thus not be affected by the MoU. Sveriges Riksbank is designated as co-ordinator in relation to VPC AB. Suomen Pankki is designated as co-ordinator in relation to Suomen Arvopaperikeskus Oy.

To fulfil this function the co-ordinating central bank will act as the channel for information of common interest to and from the institution, organise the regular contacts with the institution established by the MoU, co-ordinate common assessments, organise the central banks' activities in face of a crisis and co-ordinate other joint activities as needed.

## Activities envisioned

The major activities connected with the central bank co-operation are

- to produce an annual plan for co-operation which includes a specification of those areas of the CSDs' operations, which are of common interest, and those standards where assessments need to be co-ordinated;
- to maintain an updated information book covering the legal and operational structure, the technical platform, business activities and capital structure of each of the CSDs and the group as a whole, and
- to produce a summary of the activities undertaken jointly during the year.

The central banks agree to exchange timely information relating to those areas specified as being of common interest in the annual plan.

The central banks agree to co-operate in the assessment of those areas specified as being of common interest in any international or European assessments of the CSDs. They will consult each other in the context of assessments of the relevant systems in the European or international forums.

■ The central banks will co-operate in the event of a disturbance in one of the CSDs. This co-operation entails

- informing the other central bank should one central bank identify a disturbance or potential disturbance in the clearing and settlement infrastructure which has cross-border implications,
- organising information, including that for any relevant international authorities, and
- co-ordinating contacts with the institution in question.

The central banks will uphold their readiness for managing disturbances in a financial infrastructure provider or other disruptions materially impacting it, by discussing crisis management at meetings at least once a year.

## Procedures

These procedures are set out to provide a framework for future co-operation and are the least which the central banks can do to meet the conditions of the MoU.

The central banks will meet at least twice a year. The management of the CSD Group will be present at at least one meeting.

The central banks will each appoint one contact person to

- approve the plan for activities to fulfil this MoU,
- represent the central bank should a disturbance arise, and
- receive the summary of the activities undertaken to fulfil this MoU.

In the items of common interest, each central bank will inform the other of any activities or relevant assessments or policy initiatives as appropriate in a timely manner.

## Entry into Effect

This MoU will enter into effect when signed by both parties.

Stockholm      January 2006  
For Sveriges Riksbank

Helsinki      January 2006  
For Suomen Pankki

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Lars Nyberg  
Deputy Governor

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Matti Louekoski  
Deputy Governor