
Scandinavian Cash Pool (SCP)

SCP is an automatic system for cross-border pledging of collateral between Denmark, Norway and Sweden. The system was developed in order to facilitate the Scandinavian CLS participants' access to intra-day liquidity in the Scandinavian currencies.

The main principle of SCP is that liquidity raised in one country's central bank can be pledged as collateral for loans from another central bank. The participant pledges collateral by transferring liquidity to a special account that is pledged to the foreign central bank. The latter is informed automatically of the pledged amount in a SWIFT message, and on this basis provides credit to the participant.

SCP is financed by its users, and is open to all account holders in the three Scandinavian central banks.

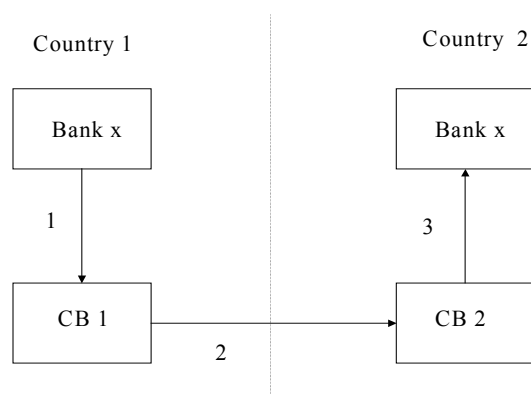
SCP was implemented on 24 March 2003.

The structure of SCP and the rules for use of the system are described below.

The principles behind SCP

The participant using SCP can either be a bank with branches in two different countries, or two banks, typically part of the same Group, that are located in two different countries. In terms of system the two situations are treated identically. In the Charts below describing the principles behind SCP the participant is termed Bank x in both countries.

Chart 1: Bank x pledges collateral in Country 1 for loan in Country 2

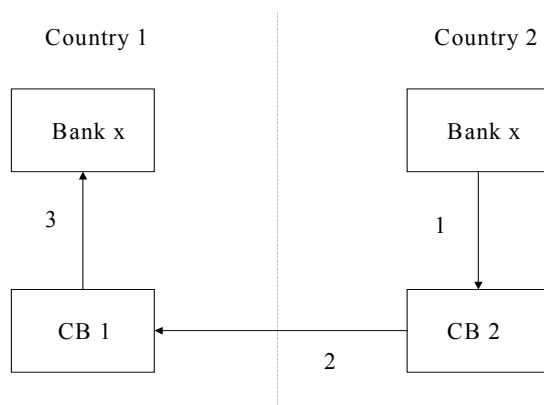


1. Bank x reserves collateral in CB 1 by in the national RTGS system transferring amounts in national currency to account pledged to CB 2.

2. In CB 1 a SWIFT message is generated and sent to CB 2 that an amount in Country 1's currency is pledged as collateral for Bank x's loan in CB 2.
3. CB 2 receives the SWIFT message and converts the reserved currency amount to the national currency. Bank x's access to credit in Country 2's RTGS system is increased by the relevant amount less the haircut, or the amount less the haircut is credited to Bank x's current account in CB 2.

At Danmarks Nationalbank a loan under SCP is paid out directly to the participant's current account. The same is the case in Norway. At Sveriges Riksbank the access to credit is increased as a consequence of the reserved collateral (currency amount) under SCP.

Chart 2: Bank x wishes to release collateral in Country 1



1. Bank x reduces the loan in CB 2 and notifies CB 2 that the collateral reserved in CB 1 is to be released.
2. If the collateral base can be reduced by the required amount the amount is converted to Country 1's currency, and a SWIFT message that the reserved amount can be released is generated and sent to CB 1.
3. CB 1 receives the SWIFT message from CB 2 and releases the stated amount by transferring the amount from the pledged account to Bank x's current account.

Implementation of SCP at Danmarks Nationalbank

Participants wishing to use SCP to pledge collateral in Denmark and achieve intra-day credit in Norway or Sweden open an SCP pledged collateral account at Danmarks Nationalbank and pledge the current balance to the relevant foreign central bank (an SCP pledged collateral account is opened

for each central bank). The collateral is reserved by the participant in Danmarks Nationalbank's RTGS system, KRONOS transacting an ordinary account transfer from the current account to the SCP pledged collateral account. When the amount is credited to the SCP pledged collateral account an automatic advice is sent to the central bank to which the account is pledged. When the collateral is later released the amount is transferred automatically from the SCP pledged collateral account back to the participant's current account.

Participants wishing to obtain intra-day credit from Danmarks Nationalbank against collateral under SCP open an SCP loan account at Danmarks Nationalbank. When Danmarks Nationalbank is notified that the participant has reserved collateral on a foreign central-bank account that is pledged to Danmarks Nationalbank the reserved amount is converted to Danish kroner by Danmarks Nationalbank, and a currency-specific haircut is deducted. The loan is debited to the participant's SCP loan account and credited to the current account. The loan is redeemed and the collateral released by the KRONOS participant transacting an ordinary account transfer from the current account to the SCP loan account. When the amount is credited to the SCP loan account it is converted to foreign currency and the relevant central bank is notified automatically that the collateral can be released.

Communication between Danmarks Nationalbank and the participants thus takes place by the participants transacting ordinary account transfers in KRONOS. The only adjustment to the interface with the participants is that payments concerning SCP are flagged in the KRONOS terminal.

Agreements concerning SCP

Bilateral agreements have been concluded between the central banks concerning SCP. The agreements set out the procedures between the central banks for handling the pledging of collateral and for the realisation of the collateral in the event of breach of the loan conditions.

The participants join SCP by accepting the terms and conditions for the special SCP accounts. The terms and conditions set out obligations and responsibilities for the participant and Danmarks Nationalbank respectively, as well as other terms for participation in SCP. All account holders and participants in the RTGS systems in the three central banks can participate in SCP.

The terms and conditions state that SCP can solely be used for intra-day credit. Loans from Danmarks Nationalbank under SCP must be settled at 2:00 p.m. when, if there is sufficient access to draw on the participant's current account, the loan is covered automatically (transfer to the SCP loan account) and collateral with the foreign central bank is released. The collateral that is the krone deposit to the SCP pledged collateral account

with Danmarks Nationalbank must be released by 2:00 p.m. at the latest. If the collateral has not been released by the end of the day the balance of the SCP pledged collateral account will be included in the compilation of the participant's use of the current-account limits. The participants also incur fines if they exceed the deadlines fixed for covering loans or releasing collateral with Danmarks Nationalbank.

Danmarks Nationalbank protects itself against the foreign-exchange risk on the collateral by calculating a currency haircut of 5 per cent for both SEK and NOK.

Financing of SCP

The development of SCP is financed by the participants. The total cost was estimated in advance at NOK 5 million. Each central bank collects the national development costs from the participants' national representatives. Each participant pays an equal share of the development costs. The Danish share of SCP has cost DKK 1.2 million, and there are currently four participants.

It has been agreed with the participants that a connection fee is charged to new participants. The fee is equivalent to the price they would have paid if they had joined from the start. However, it is taken into account that the value of the system diminishes with its age. Linear depreciation over five years has been chosen. New participants' connection fee is reimbursed to the original participants.

The participants will not be charged a fixed monthly fee for participating in SCP separately. The participants will pay for the use of SCP via their payment for sending transactions in the RTGS systems.