

1 May 2020

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 (MT298), 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.

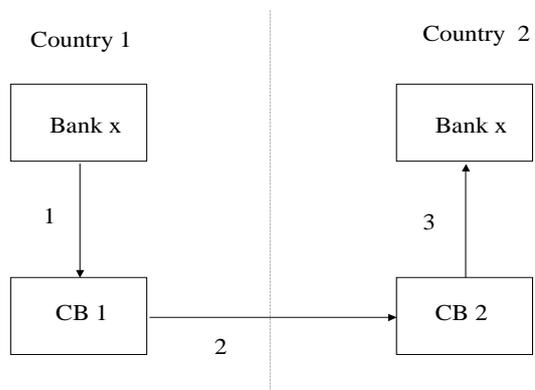
SCP was implemented on 24 March 2003.

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

The principles behind SCP

The participant using SCP is normally either a bank with branches in two different countries, or two banks, typically part of the same Group, which are located in two different countries (third-party pledge). 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.

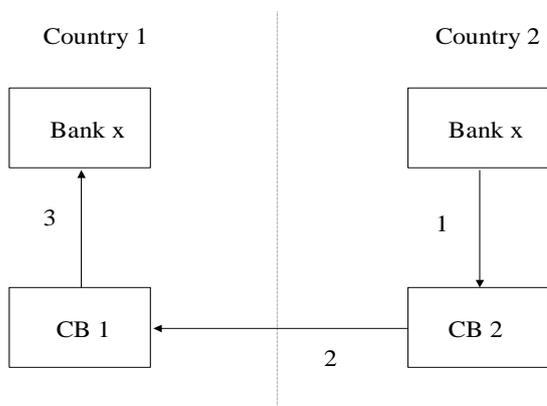
Chart 1: Bank x pledges collateral in Country 1 for loan in Country 2



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

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

Credit at Norges Bank or Sveriges Riksbank

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 Kronos2 (Perago RTGS) 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 a SWIFT message is sent to the central bank to which the account is pledged.

When the collateral is later released upon Danmarks Nationalbank's receipt of a notification from Sveriges Riksbank or Norges Bank of reduction of the account holder's loan, the amount is transferred automatically

from the SCP pledged collateral account back to the participant's current account by Kronos2.

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 and a penalty fee is charged.

Credit at Danmarks Nationalbank

Participants wishing to obtain intra-day credit from Danmarks Nationalbank against collateral under SCP open an SCP loan account at Norges Bank or Sveriges Riksbank that is pledged to Danmarks Nationalbank.

When Danmarks Nationalbank is notified through a SWIFT message from Sveriges Riksbank or Norges Bank that the participant has reserved collateral on a foreign central bank account, the reserved amount is converted to Danish kroner by Kronos2.

The collateral value in Danish Kroner is updated in Kronos2 daily based on a message sent from Danmarks Nationalbank's front-middle-back system and a currency-specific haircut is deducted using the following formula:

Collateral value in Danish kroner = currency deposits pledged as collateral * exchange rate * (1 - currency haircut).

The currency haircuts for both currencies are currently 5 per cent. Danmarks Nationalbank may change the currency haircuts at any time without notice.

Kronos2 registers the value of the account holder's SCP currency deposits in the account holder's collateral list upon Danmarks Nationalbank's receipt of the collateral notification through the SWIFT message from Sveriges Riksbank or Norges Bank.

The account holder may in Kronos2 request the release of SCP currency deposits registered as collateral by Danmarks Nationalbank. The request for release implies that Danmarks Nationalbank is authorised to debit any balance to the account holder's current account (settlement account) and transfer the amount to the current account (loan account) to reduce the account holder's intraday loans.

The release of currency deposits then takes place to the extent that the account holder has covered his loan or the collateral value of other col-

lateral in the account holder's collateral list for intraday loans is sufficient to cover the account holder's outstanding intraday loans.

Simultaneously with the reduction, Kronos2 notifies Sveriges Riksbank or Norges Bank that an equivalent amount may be released from the account holder's currency deposits in Swedish krona or Norwegian kroner pledged as collateral to Danmarks Nationalbank.

The account holder is obliged to redeem intraday loans raised against SCP currency deposits as collateral or replace collateral in SCP currency deposits by other eligible collateral by 3:00 pm on the same banking day.

Each day at 3:00 pm, Danmarks Nationalbank thus reduces the account holder's collateral list by the collateral value of the account holder's collateral in the form of SCP currency deposits.

If, just before 3:00 pm, the sum of the account holder's outstanding intraday loans exceeds the total collateral value of the account holder's other collateral in the collateral list for intraday loans, Danmarks Nationalbank is authorised to debit the account holder's current account (settlement account) with an amount corresponding to the difference and transfer this amount to the account holder's current account (loan account) to reduce the account holder's intraday loans.

If the funds in the current account (settlement account) are insufficient to cover the difference, Danmarks Nationalbank retains collateral for the portion of the SCP currency deposit necessary to ensure full collateral coverage for the account holder's total outstanding exposure to Danmarks Nationalbank.

If, at 4:45 pm, the account holder's outstanding intraday loans still exceed the total collateral value of other collateral pledged by the account holder for intraday loans, Danmarks Nationalbank is entitled, without prior legal action and without notice, to enforce its collateral rights in the currency deposits pledged by the account holder as collateral.

The participants also incur fines if they exceed the deadlines fixed for covering loans or releasing collateral with Danmarks Nationalbank.

Communication between Danmarks Nationalbank and the participants thus takes place in Kronos2, which manages the SCP.

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 including a deed of Pledge. The terms and conditions state that SCP can solely be used for intra-day credit.