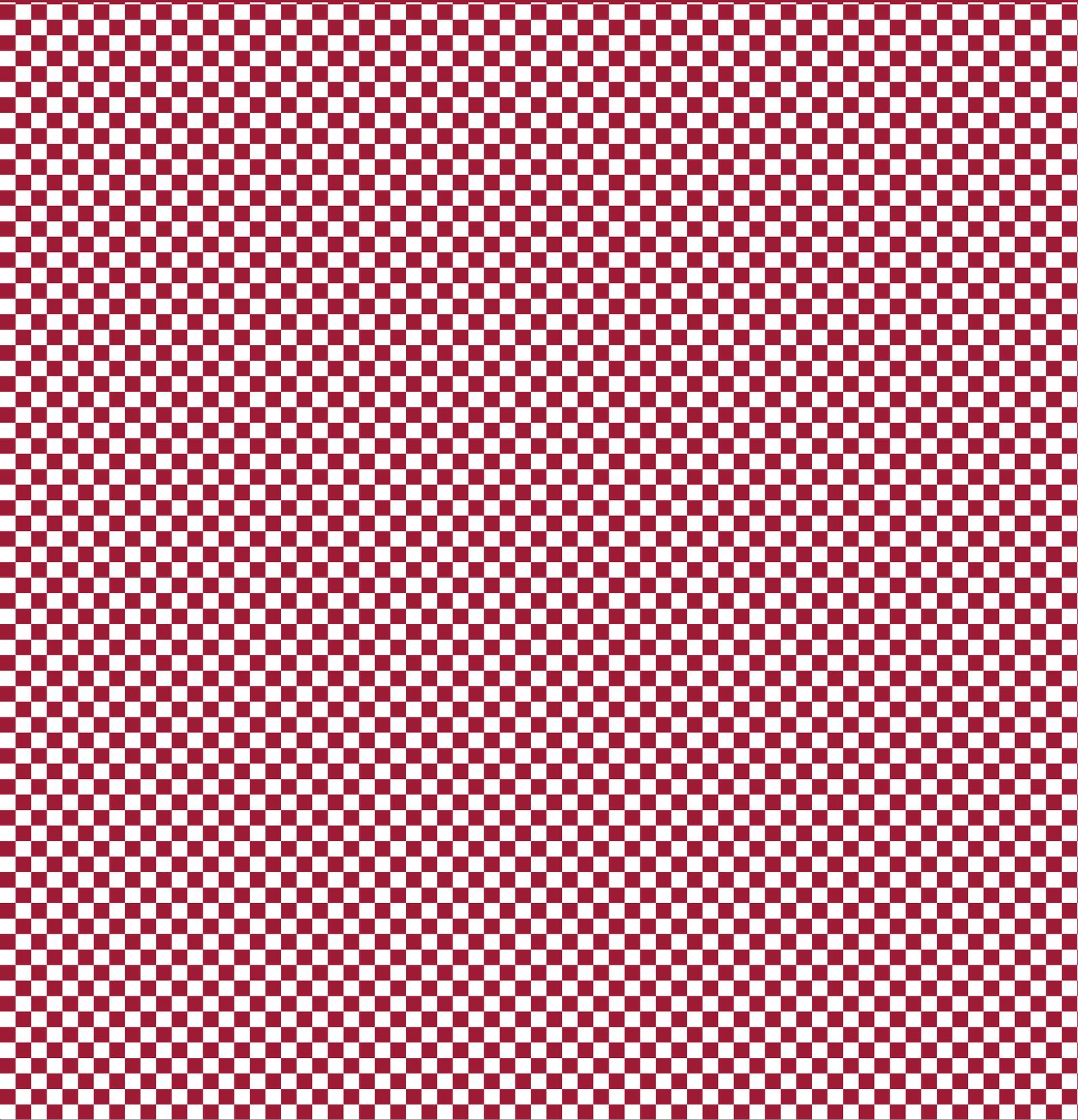


**PAYMENT AND SECURITIES SETTLEMENT SYSTEM OVERSIGHT
CARRIED OUT BY THE BANK OF LATVIA IN 2010**



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Latvijas Banka (Bank of Latvia)
K. Valdemāra iela 2A, Rīga, LV-1050
Tel.: +371 67022300 Fax: +371 67022420
<http://www.bank.lv>
info@bank.lv

ABBREVIATIONS

ALCB – Association of Commercial Banks of Latvia
ATM – an automated teller machine
CPSS – Committee on Payment and Settlement Systems
CPSS-IOSCO – Committee on Payment and Settlement Systems and International Organization of Securities Commissions; CPSS-IOSCO
CRPC – Consumer Rights Protection Centre
DENOS – securities settlement system of the LCD
EC – European Commission
ECB – European Central Bank
ECL – Employers' Confederation of Latvia
EKS – Bank of Latvia Electronic Clearing System
e-money – electronic money
EPC – European Payments Council
ESCB – European System of Central Banks
ESCB-CESR – ESCB and the Committee of European Securities Regulators; CESR¹
EU – European Union
FCMC – Financial and Capital Market Commission
FDL – First Data Latvia Ltd
JSC – joint stock company
LCD – Latvian Central Depository
Ltd – Limited liability company
MPSWG – Money and Payment Systems Working Group of the Republic of Latvia
Euro Project Steering Committee
NSWG – National SEPA Working Group
NUG – National User Group
POS – point of sale
PPS – Postal payment system of SJSC *Latvijas Pasts*
SAMS – Bank of Latvia Interbank Automated Payment System
SEPA – Single Euro Payments Area
SJSC – state joint stock company
SWIFT – an international organisation established by banks to ensure the transmission of interbank financial messages by means of the telecommunications network (Society for Worldwide Interbank Financial Telecommunication)
T2S – TARGET2-Securities
TARGET – Trans-European Automated Real-time Gross Settlement Express Transfer System
TARGET2 – second generation system TARGET2
Treasury – Treasury of the Republic of Latvia
VNS – Bank of Latvia Securities Settlement System

¹ As of 11 January 2011 – the European Securities and Markets Authority (ESMA).

I. PAYMENT SYSTEM OVERSIGHT

In line with international practice, a significant function of the national central bank is the oversight of the national payment system. Performing the payment system oversight, the central bank promotes smooth operation of payment system by monitoring (compiling information on) the current and projected payment systems (interbank payment systems, retail payment systems and payment instruments), assessing them against the "Core Principles for Systemically Important Payment Systems" (hereinafter, the Core Principles) approved by the Committee on Payment and Settlement Systems of the Bank for International Settlement, and inducing changes (if applicable) in order to balance their safety and efficiency. The performance of central banks' oversight functions mainly encompasses the following aspects: moral suasion, communicating its opinion to the public, exploring possibilities offered by the central bank's participation in a specific payment system (enabling a risk-free settlement in central bank money, various types of providing daily liquidity etc.) and cooperation with other institutions.

Pursuant to "The Bank of Latvia's Payment System Policy", in 2010, the Bank of Latvia conducted oversight of systemically important payment systems, retail payment systems and payment instruments, provided advice to the public, cooperated with international institutions in the area of payment oversight and furnished general public with information on the development of Latvia's payment system as well as participated in significant projects related to payment systems.

1. OVERSIGHT OF SYSTEMICALLY IMPORTANT PAYMENT SYSTEMS

In 2010, the Bank of Latvia, in the capacity of an overseer of the systemically important payment systems, performed the day-to-day oversight (including the analysis of statistical data) and assessed systemic risk, applying three indicators for the above purpose: 1) the share of the systems in the respective payment segment; 2) concentration ratio – the share of the five largest participants including the Bank of Latvia in the system and 3) the netting effect ratio (the efficiency of using settlement funds in the system).

1.1 The SAMS

In 2010, the SAMS was the only systemically important system for payments in lats. According to statistical data, the total volume of payments executed via the SAMS recorded an average monthly growth of 0.8%, totalling 193.0 thousand per annum, while the total value of payments rose on average by 0.4% and totalled 166.3 billion lats per annum. In 2010, the SAMS availability ratio was 99.99%. The analysis of systemic risk pointed to a persistently very low probability of systemic risk.

In 2010, the SAMS was the only systemically important payment system for lats payments in Latvia. It continued to ensure real-time gross settlement in lats in the Bank of Latvia monetary policy operations, large-value interbank payments, final settlement or netting of other payment systems operating in Latvia and urgent customer payments.

In order to proceed with the evaluation of liquidity conditions in the system (Core Principle III) and notice the signs of operational risk on a timely basis (Core Principle VII), the following functions of the day-to-day or ongoing oversight were performed in 2010: collection and analysis of the SAMS statistical data and assessment of both the system's availability and incidents, and their impact on other systems was analysed.

Analysis of the system's statistical data

At a monthly frequency, overseers compiled detailed information on the payments executed via the SAMS in the previous month. Statistical data were disseminated on the Bank of Latvia website as well as used for compiling the Bank of Latvia reports.

At the end of 2010, there were 25 participants in the SAMS: the same number as on 1 January 2010, since over the year a new participant, Joint Stock Company Bank SNORAS Latvia branch joined the above system, while one participant, JSC VEF banka ceased to participate in the system. The Bank of Latvia, 20 banks and four branches of foreign banks were the participants in the system. In 2010, the total volume of payments executed via the SAMS recorded an average monthly increase of 0.8% and totalled 193.0 thousand per annum, while the total value grew on average by 0.4% per month, totalling 166.3 billion lats per annum (see Charts 1 and 2). In 2010, the volume of payments executed via the SAMS shrank by 3.6% and value declined by 0.7% year-on-year.

Chart 1
Volume of payments processed in the SAMS
(in thousands)

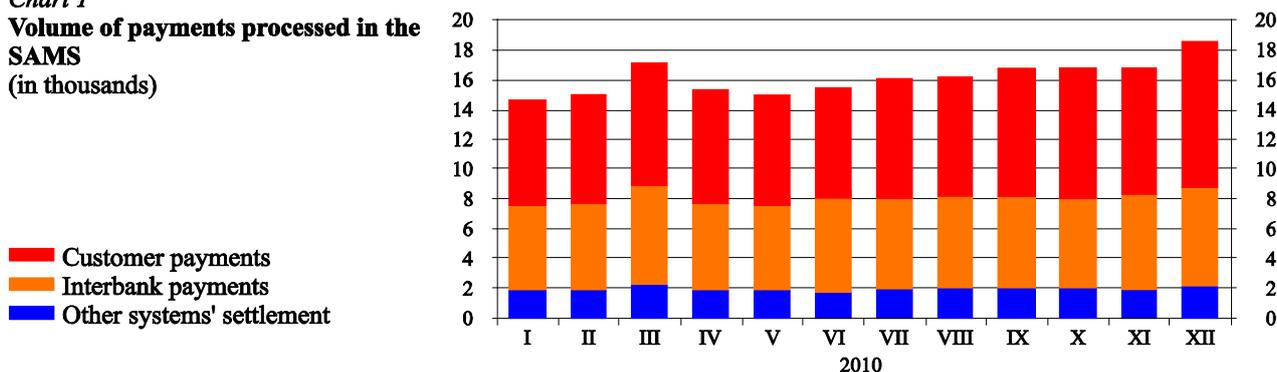
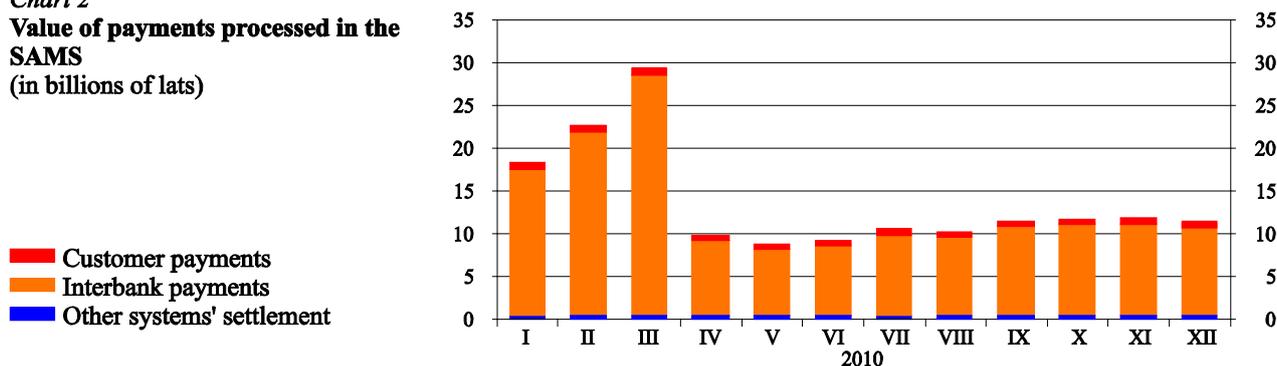


Chart 2
Value of payments processed in the SAMS
(in billions of lats)



As of April 2010, the fall in the value of payments processed in the SAMS was mainly on account of introducing a 7-day deposit facility by the Bank of Latvia, since so far the payments had to be made more frequently due to resorting to the deposit facility with the Bank of Latvia. In March 2010, prior to the above changes, the monthly value of the payments processed in the SAMS reached its historical high (29.4 billion lats).

Five participants in the system initiated the majority of payments processed via the SAMS (in terms of total value), with their share standing at 73.0% in 2010.

The share of interbank payment value in the SAMS amounted to 91.8%, the share of customer payment value was 5.3% while that of interbank and customer payment volume reached 37.9% and 49.9% respectively. In 2010, the SAMS started processing

the final settlement of card payment systems *MasterCard Europe Sprl* and *Visa Europe Services Inc. MasterCard Europe Sprl* and *Visa Europe Services Inc.* only processed via SAMS the final settlement of domestic payments executed by the payment cards which were issued by Latvian banks. The SAMS also enabled final settlement of the securities settlement system LCD, cards payment system FDL and that of the EKS. The share of final settlement of ancillary systems in the SAMS stood at 2.9% and 12.2% in terms of value and volume respectively.

On the basis of the data entered into the incident register, the overseers were promptly notified of the operational problems incurred by the SAMS or its maintenance resources, and the solution thereof. The overseers monitored the problem-solving process and informed Head of the Payment Systems Department of the Bank of Latvia on the impact of operational failures on other systems.

In 2010, the SAMS availability ratio was 99.99% (99.79% in 2009). The system experienced three operational failures and overall, the SAMS was not available for 3 minutes and 5 seconds (4 hours and 48 seconds in 2009). The failures were temporary and related to the SWIFT connection or SWIFT line disruptions and did not cause any discontinuity of the Bank of Latvia's critical processes.

Risk assessment

In 2010 as before, three indicators were analysed to assess systemic risk: 1) the share of the system in the respective payment segment; 2) concentration ratio and 3) the netting effect ratio.

In 2010, 89.0% of all interbank credit transfers initiated in Latvia in lats were made via the SAMS and their share of value amounted to 96.3% (83.8% and 88.2% in 2009 respectively).

In 2010, the volume concentration ratio of the SAMS was 73.0% and the value concentration ratio stood at 81.3% (72.3% and 85.1% in 2009 respectively). Although the value concentration ratio of the SAMS exceeds the limit of 80% stipulated by the ECB, this development does not indicate a probability of any significant domino effect in the system, as one of the system's five largest participants is the Bank of Latvia, which is not exposed to any liquidity and credit risk.

The netting effect ratio of the SAMS characterising the utilisation of settlement funds in the case of gross settlement systems, was 55.0% in 2010 (62.6% in 2009). It was calculated as the ratio of the annual average value of daily payments sent by banks via the SAMS to the daily average balance on the bank accounts with the Bank of Latvia. In 2010, the above amounted to 384.5 million lats and 698.7 million lats. Since the account balance of the Bank of Latvia as the participant in the system may not be reported separately, the payments submitted by the Bank are not taken into account in the calculation. In February and March, the netting effect ratio exceeded 75%.

The netting effect ratio remained low and hence the probability of systemic risk was low. The value of payments executed per day in efficient payment systems may even several times exceed that of funds available on the accounts. Such netting effect ratio may be attributed to the fact that bank deposits held in lats accounts with the Bank of Latvia are used for both effecting payments and fulfilling the minimum reserve requirements stipulated by the Bank of Latvia. Thus the value of funds on these accounts several times exceeds the value required for payment execution.

1.2 TARGET2-Latvija

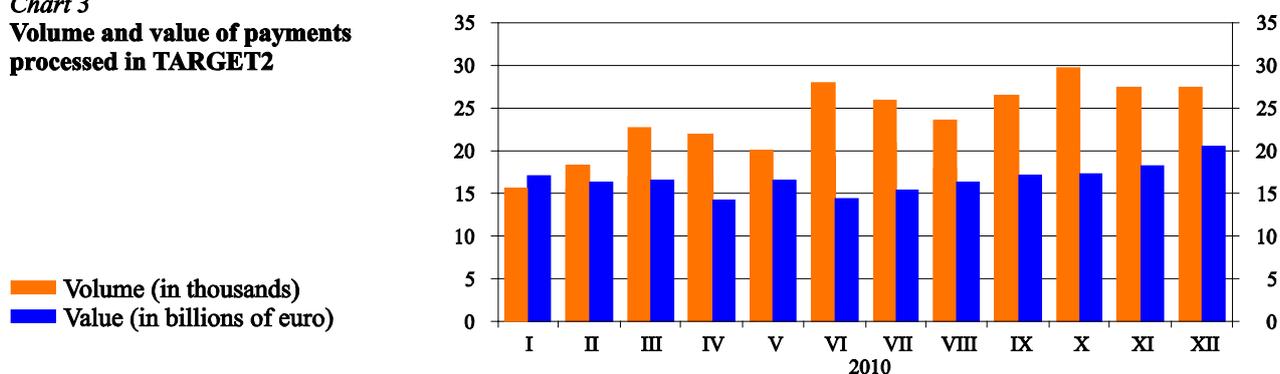
In 2010, TARGET2 was one of the systemically important payment systems processing euro payments in the EU. The Eurosystem performed the oversight of TARGET2. The Bank of Latvia overseers were involved in the oversight of TARGET2 in the capacity of observers and provided data on the operation of TARGET2-Latvija for the oversight purposes. In 2010, the Eurosystem assessed the impact of changes in the new release of TARGET2 on compliance with the Core Principles and stated that the system's assessment remained unchanged. All changes contributed favourably to the containment of liquidity and credit risks and improved compliance of the system with Core Principle III. According to statistical data, the total volume of payments executed via TARGET2-Latvija recorded an average monthly rise of 3.4%, totalling 287.1 thousand per annum, while the total value of payments posted an average monthly increase of 1.3%, reaching 200.0 billion euro per annum overall in 2010.

In 2010, the Bank of Latvia, together with other participants of the ESCB ensured the operation of TARGET2. The Bank of Latvia maintained the operation of TARGET2-Latvija, the component of TARGET2, ensuring mutual payment settlement of the system participants in euro and final settlement of other systems in euro.

On 31 December 2010, TARGET2-Latvija comprised 25 participants (one participant more than on 31 December 2009). 20 banks, three branches of foreign banks, the Treasury and the Bank of Latvia were the participants in the system. JSC *VEF banka* ceased to participate in the system, whereas the JSC *Latvijas Pasta banka* and Joint Stock Company Bank SNORAS Latvia branch joined the system. In 2010, TARGET2-Latvija ensured the final settlement of the Bank of Latvia EKS in euro.

The volume of interbank payments processed in TARGET2-Latvija recorded an average monthly rise of 3.4%, totalling 287.1 thousand per annum, while the total value of payments posted an average monthly increase of 1.3%, reaching 200.0 billion euro per annum overall (see Chart 3). In 2010, the total volume of payments was 69.0% higher and value was 0.2% lower year-on-year.

Chart 3
Volume and value of payments processed in TARGET2



TARGET2-Latvija is a component of TARGET2, and the system's availability ratio is calculated for the whole system. In 2010, the availability ratio of TARGET2 stood at 100% (100% in 2009).

In order to notify the users of incidents in TARGET2 and ensure incident solutions, the ECB published information about the availability of TARGET2 in the TARGET information system, *Reuters* and on the ECB website.

In order to perform additional analysis of TARGET2-Latvija development, in 2010, the Bank of Latvia calculated the concentration ratio and netting effect ratio of TARGET2-Latvija, as in the case of the SAMS and EKS.

Of interbank credit transfers made by Latvian banks in euro, the volume of interbank payments processed in TARGET2-Latvija amounted to 12.4% (28.0 thousand) and their value stood at 38.4% (188.5 billion euro) in 2010 (12.6% and 35.4% in 2009 respectively).

In 2010, the volume concentration ratio of TARGET2-Latvija was 62.7% and the value concentration ratio amounted to 90.7%, hence the concentration ratio was approximately the same as in the previous year. Although the value concentration ratio of TARGET2-Latvija exceeded the limit of 80% stipulated by the ECB, nevertheless, this development did not point to a probability of any significant domino effect in the system, as one of the system's five largest participants was also the Bank of Latvia.

The netting effect ratio of TARGET2-Latvija is calculated as the value of payments sent by all participants in the system, including the Bank of Latvia and Treasury, to TARGET2-Latvija to the average balance on the euro accounts opened in TARGET2-Latvija. In 2010, funds held on accounts were on average used 25.6 times in payments executed via TARGET2-Latvija. Such a relatively high netting effect ratio can be attributed to the fact that banks registered in the Republic of Latvia do not have to fulfill reserve requirements by holding liquidity in the above system. Theoretically, the netting effect ratio also points to a probability of the risk of a domino effect in the system. However, TARGET2-Latvija is only one of the components in TARGET2 system, and its share is smaller than 0.1% both in terms of volume and value, hence a relatively high netting effect ratio in one of TARGET2 components does not point to a risk of domino effect in the whole system of TARGET2.

2. RETAIL PAYMENT SYSTEMS

The Bank of Latvia proceeded with the oversight of four retail payment systems functioning in Latvia, compiling statistical data and analysing the development of the above systems. The performed data analysis suggested that it was not necessary to implement additional measures of risk containment in the systems.

2.1 The EKS

In 2010, the EKS was a systemically prominent retail payment system. In 2010, the monthly rise in the volume of lats payments processed in the EKS was 0.7% on average, totalling 32.8 million per annum, and the monthly increase in total value amounted to 1.7% and totalled 10.5 billion lats per annum. 310.1 thousand payments in the value of 1.5 billion euro were processed in the EKS in euro. The EKS availability ratio stood at 99.63%. The analysis of systemic risk pointed to a minimal probability of systemic risk. The settlement in euro has been executed via the EKS in line with the SEPA requirements as of 9 November 2010, thus the EKS has enabled the banks of Latvia, the Treasury and Bank of Latvia to execute rapid, efficient and secure customer payments in euro not only domestically, but also within the entire SEPA (the EU Member States, Iceland, Liechtenstein, Norway, Switzerland and Monaco). 4.5 thousand banks and economic area comprising 490 million inhabitants may be reached through the EKS.

In 2010, the EKS was a systemically prominent retail payment system and the sole lats clearing (net settlement) system in Latvia for ensuring retail customer credit transfers

among the banks of Latvia. Retail customer credit transfers in euro were also processed via the EKS. The EKS operated according to the principles of ACH (automated clearing house) ensuring automated payment processing of electronically submitted payments and the EKS net position or offsetting settlement each business day in two clearing cycles for the lats (at 10.30 and 15.00) and in three clearing cycles for the euro (at 11.00, 15.30 and 17.00). The EKS net position or offsetting settlement in lats is executed via the SAMS and that in euro via TARGET2-Latvija.

Pursuant to "The Bank of Latvia's Payment System Policy", the Bank of Latvia performed the EKS oversight in line with the Core Principles.

In the first half of 2010, the Bank of Latvia revised the "System Rules for Participation in the EKS" pursuant to the SEPA requirements. On 9 September 2010, the Council of the Bank of Latvia adopted Regulation No 183/3 "System Rules for Participation in the Bank of Latvia Electronic Clearing System", approving the revised Regulation "System Rules for Participation in the EKS" (in effect as of 9 November 2010) and deeming invalid the Regulation No 172/10 "System Rules for Participation in the Bank of Latvia Electronic Clearing System" of 5 November 2009.

On 9 November 2010, the Bank of Latvia implemented new functionality of SEPA for the euro settlement in the EKS, i.e. ensured conformity of the payment messages with UNIFI (ISO20022) XML standard. The EKS enables the banks of Latvia, the Treasury and Bank of Latvia to make rapid, efficient and secure customer payments in euro not only domestically, but also within the entire SEPA (the EU Member States, Iceland, Liechtenstein, Norway, Switzerland and Monaco). 4.5 thousand banks and economic area comprising 490 million inhabitants may be reached through the EKS. In November 2010, the Bank of Latvia, in the capacity of the EKS SEPA operator, was included in the list of the infrastructures compliant with the EPC SEPA Credit Transfer Scheme. The EKS commenced the exchange of euro cross-border credit transfer messages with STEP2, the system of the Euro Banking Association, via the *Deutsche Bundesbank* system SEPA Clearer. The third clearing cycle was introduced in the EKS (at 17.00) for the processing of euro payments, ensuring the cross-border transactions in euro and crediting the customer accounts on a daily basis.

At the end of 2010, the Bank of Latvia updated the EKS SEPA self-assessment in line with the new functionality of the euro settlement in the EKS. The self-assessment has been published on the Bank of Latvia, SEPA Latvija and ECB SEPA websites under the Section dedicated to the infrastructures.

In 2010, a day-to-day or ongoing oversight of the EKS was performed by collecting and analysing the system's statistical data and monitoring the system's operation in order to identify the signs of operational risk (Core Principle VII) on a timely basis.

Analysis of the system's statistical data

At the beginning of each month (similar to the SAMS), the overseers compiled data on the payments executed via the EKS in the previous month. Data were disseminated on the Bank of Latvia website on a monthly basis and the detailed data were used for compiling the Bank of Latvia reports.

At the end of 2010, 20 banks, four branches of foreign banks and the Bank of Latvia participated in the EKS lats settlement. 16 banks, one branch of a foreign bank, the Treasury and the Bank of Latvia participated in the EKS euro settlement.

Total volume of lats payments executed via the EKS recorded a monthly rise of 0.7% on average, totalling 32.8 million in 2010, and the total value posted an average monthly growth of 1.7% and totalled 10.5 billion lats per annum. The average value per payment made in 2010 expanded to 320.92 lats (320.25 lats in 2009). Of all lats payments submitted and processed daily in the EKS, the payments made in lats via the EKS were mainly processed in the first clearing cycle (from 8.30 to 10.30), amounting to 69.9% and 57.0% in terms of volume and value respectively (see Charts 4 and 5).

Chart 4
Volume of lats payments processed in the EKS (in millions)

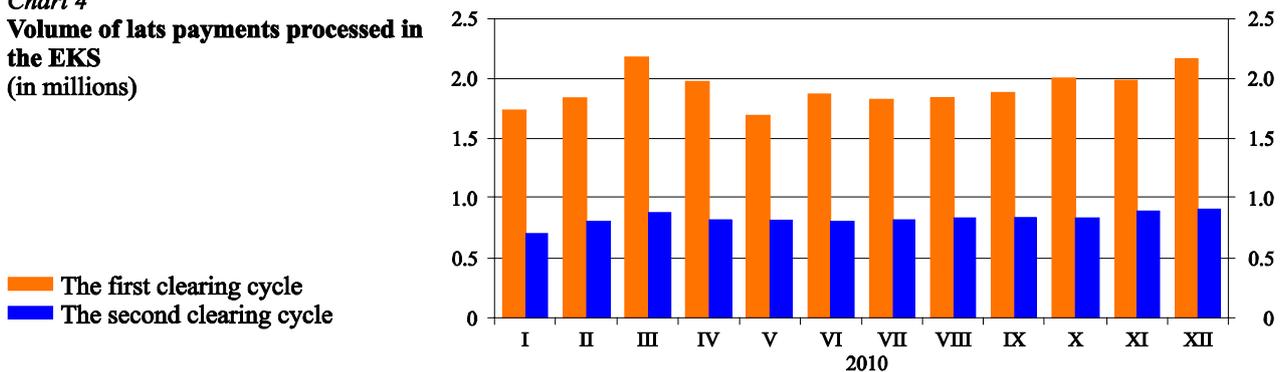
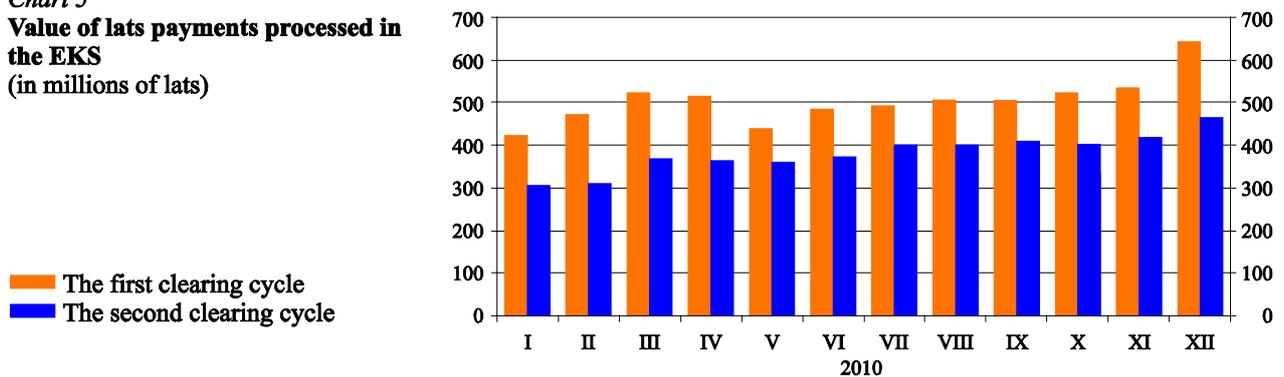
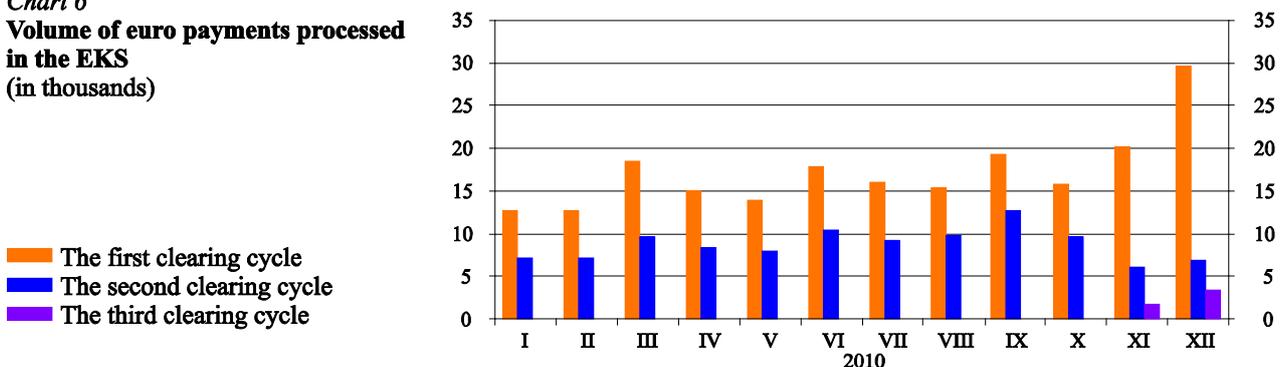


Chart 5
Value of lats payments processed in the EKS (in millions of lats)



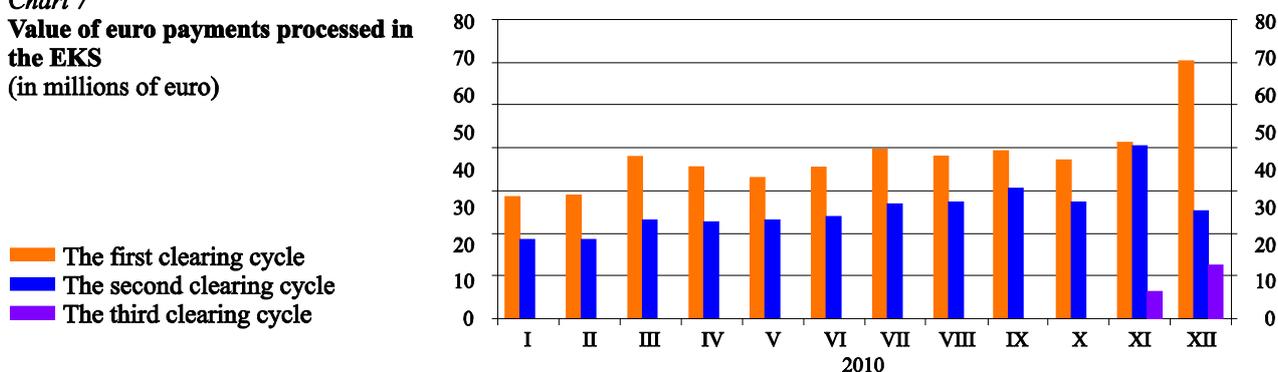
The total volume of payments processed in the EKS in euro increased by 22.8% (to 310.1 thousand) while their total value rose by 17.0% (to 1.5 billion euro; for monthly data see Charts 6 and 7). The average value per payment executed via the EKS in euro stood at 4 995 euro in 2010.

Chart 6
Volume of euro payments processed in the EKS (in thousands)



On the basis of the data entered into the incident register, the overseers were promptly notified of the operational problems incurred by the EKS or its maintenance resources and the solution thereof, and they monitored the problem-solving process accordingly.

Chart 7
Value of euro payments processed in the EKS
 (in millions of euro)



The EKS availability ratio stood at 99.63%, i.e. such a share of the entire EKS net position or offsetting settlement was executed within the stipulated time frame. Overall, four operational disruptions or settlement delays were identified in the system in 2010. In the case of all four settlement delays, the delays in settlement exceeded 30 minutes of the clearing cycle time (all delays were related to the euro settlement) and caused a forced discontinuity of the Bank of Latvia critical processes.

The overseers assessed the impact of an incident on other payment and securities settlement systems in the event of critical incidents. The incidents incurred by the EKS did not result in systemic risk.

Risk assessment

Similar to SAMS, the following three indicators were analysed to identify the probability of systemic risk in the EKS: 1) the share of the system in the respective segment of payments; 2) concentration ratio and 3) the netting effect ratio.

In 2010, of all customer credit transfers executed among the banks in Latvia in lats, 74.8% and 74.9% were handled by the EKS in terms of volume and value respectively (75.1% and 72.8% in 2009 respectively).

In 2010, the volume concentration ratio of the payments made in the EKS in lats decreased to 78.3% and the value concentration ratio declined to 78.2% (79.6% and 79.1% in 2009 respectively).

In 2010, the netting effect ratios of the first and second clearing cycles of payments executed via the EKS in lats (i.e. the system participants' net debit positions as a percentage of the system's average gross transactions value) rose to 27.2% in the first clearing cycle and shrank to 17.8% in the second clearing cycle (27.0% and 20.1% respectively in 2009). The probability of systemic risk increases where the netting effect ratio decreases. In accordance with the ECB requirement, a netting effect ratio below 10% points to a significant risk. Hence the netting effect did not point to a significant risk in 2010. Moreover, in 2010, the net debit positions of payments executed by the EKS participants in lats were minor (0.2% on average) in comparison with the balance on the participant settlement accounts opened with the Bank of Latvia.

Overall, it is concluded that the probability of systemic risk is minimal in the EKS, given the current value of settlement funds.

2.2 The FDL

In 2010, the FDL qualified as a systemically prominent retail payment system. Within the scope of the oversight, the overseers requested the FDL to submit semi-annual data on the processed card transactions. In 2010, the market share of transactions conducted at terminals with bank cards remained broadly unchanged.

Within the scope of the oversight, the overseers requested the FDL to submit semi-annual data on the volume and value of processed card transactions, their breakdown by currency, card issuers, card acquirers, concentration and net settlement positions. The aggregated data were used for monitoring the FDL development with respect to card payments as well as for comparing the above data with those on payment card transactions as submitted by banks. The data submitted by the FDL were not disseminated subject to the principle of confidentiality.

In 2010, the FDL ensured payment card authorisation and calculated the card transaction net positions in lats. The first settlement of the card payment system *MasterCard Europe Sprl* was effected in the SAMS on 6 October 2010, and that of the card payment system *Visa Europe Services Inc.* was effected on 2 December 2010. Thus, the total value of the payments processed by both the above systems per annum was minor in comparison with the value of payments processed by the FDL. Hence the FDL maintained the status of systemically prominent system. As regards international transactions, some Latvian banks had concluded direct agreements with international card scheme centres or they could also execute card payments through parent companies or their payment card authorisation centres. The overseers have analysed the FDL market share in the total Latvian bank transactions effected with bank cards at terminals. In 2010, the market share of FDL remained broadly unchanged year-on-year.

Net position settlement of payments processed via the FDL was executed among banks in the SAMS each business day, while the payments made in Latvia with cards issued outside the country and transactions effected abroad with cards issued in Latvia were settled at the international card scheme centres.

The FDL also enabled the electronic money institutions and issuers of single-purpose cards to conduct the settlement.

2.3 SJSC *Latvijas Pasts*

The SJSC *Latvijas Pasts* (*Latvijas Pasts*) processed 5.0% (11.1 million transactions) of all customer payments (the fourth highest result in Latvia's payment system), however, the value of such transactions amounted to 0.3% only (0.7 billion lats – the 22nd result in Latvia's payment system). The volume of *Latvijas Pasts* customer payments shrank by 21.4% and the value dropped by 14.2% year-on-year.

In 2010, within the scope of the oversight, the overseers requested *Latvijas Pasts* to submit data on payments processed by it in the first and second half of the year. Payment statistics was published on the Bank of Latvia website. The incorporation of *Latvijas Pasts* statistical data into the report on Latvia's payment statistics was agreed with *Latvijas Pasts* in writing.

In 2010, upon terminating the cooperation with JSC *Mono*, *Latvijas Pasts* continued to maintain the network of post offices independently and ensure the provision of payment services. In 2010, *Latvijas Pasts* mainly offered credit transfer services to its customers

and only 0.02% of total volume of payments made by *Latvijas Pasts* customers accounted for direct debit payments. Year-on-year, the total volume of *Latvijas Pasts* customer payments decreased by 21.4% and value shrank by 14.2%. The average value per payment executed in 2010 was 64.85 lats (59.40 lats in 2009).

Latvijas Pasts processed 5.0% (11.1 million transactions) of all customer payments, however, their value only amounted to 0.3% (0.7 billion lats).

At the end of 2010, the accounts of Postal Payment System (PPS) customers were opened in lats only and their volume was 4.8% (238.2 thousand) of all settlement accounts, i.e. those opened by the customers of the Bank of Latvia, Latvian banks and *Latvijas Pasts*. The number of accounts opened in PPS rose by 1.7% since the end of 2009.

In 2010, in addition to cashless payments, 13.7% of all cash deposits and cash withdrawals (11.0 million transactions – the third highest result in the payment system of Latvia) made in the payment system of Latvia were executed via *Latvijas Pasts* in terms of volume and 4.8% (680.0 million lats – the sixth highest result in the payment system of Latvia) – in terms of value.

2.4 JSC *Itella Information*

As in the previous periods, the JSC *Itella Information* was the only company providing infrastructure for interbank direct debit payments in Latvia also in 2010.

In 2010, within the scope of the oversight, the overseers requested the JSC *Itella Information* to submit data on the volume and value of direct debit payments processed in the first half and second half of the year as well as provide information on the number of agreements concluded with banks and companies. The data submitted by JSC *Itella Information* were not disseminated subject to the principle of confidentiality.

In accordance with the risk-based assessment of Latvian payment systems performed in 2009, the overseers invited the JSC *Itella Information* to conduct the self-assessment of the direct debit infrastructure – Automated payment system – against the Core Principles. On 24 August 2010, the overseers convened a meeting with the representatives of JSC *Itella Information* to specify the action plan time-frame and the expected results. It was decided that the JSC *Itella Information* would submit self-assessments regarding the compliance with each Core Principle and overseers would issue preliminary opinion. In view of the fact that the Automated payment system only provides document processing and financial risks are not associated with its operation, it has been decided that the JSC *Itella Information* shall perform its self-assessment only against the Core Principles which do not refer to the containment of financial risks, i.e. regarding the compliance with Core Principles I, II and VII-X.

At the end of 2010, the JSC *Itella Information* submitted to the Bank of Latvia preliminary draft assessments of compliance with all the above Core Principles, and the Bank provided initial comments thereon as well as advised on drafting the above assessment. In 2011, the JSC *Itella Information* intends to complete the self-assessment, and the Bank of Latvia plans to evaluate the above and issue an opinion thereon.

3. PAYMENT INSTRUMENTS

Pursuant to "The Bank of Latvia's Payment System Policy", data on payment instruments used in Latvia in 2010 were compiled and analysed. In 2010, the development of payment instruments was steady and hence it was not necessary to implement the risk containment measures related to the use of payment instruments.

The overseers continued to compile statistical data on payment instruments on the basis of the Council of the Bank of Latvia "Regulation for Compiling 'Credit Institution Payment Statistics Report' " approved on 15 March 2007.

Analysing the data submitted by banks, FDL and issuers of single-purpose retail cards, the overseers monitored the development of payment cards and terminals.

3.1 Development of payment instruments

Statistical data on Latvia's payments were surveyed twice a year. Latvia's payment statistics is compiled on the basis of the data from the "Credit Institution Payment Statistics Report", submitted until 25 July and 25 January by all credit institutions registered in Latvia, also the Bank of Latvia and *Latvijas Pasts* (hereinafter – the payment market participants).

In 2010, total volume and value of customer payment instruments used in Latvia rose by 2.6% (to 222.9 million) and 7.4% (to 262.3 billion lats) respectively.

Of all customer payment instruments, the volume of payments executed in lats was 93.9%, that in euro amounted to 2.8% and in other currencies stood at 3.3% (see Chart 8). In terms of value, the majority of payments (62.2%) were made in other currencies, 19.3% were executed in lats and 18.5% in euro (see Chart 9).

Chart 8
Volume of payments by currency
(2010; in millions)

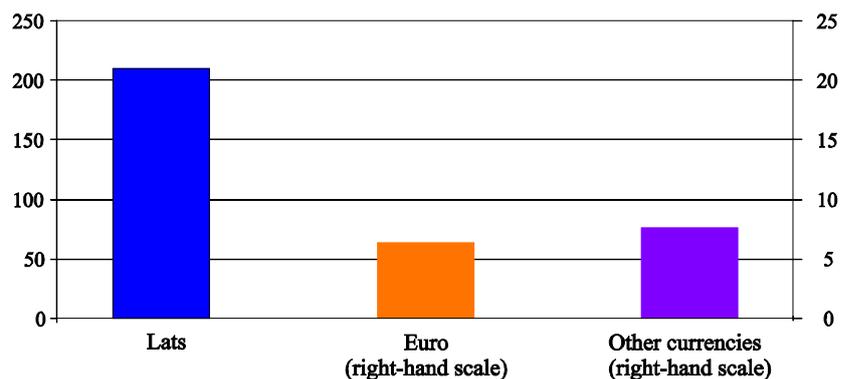
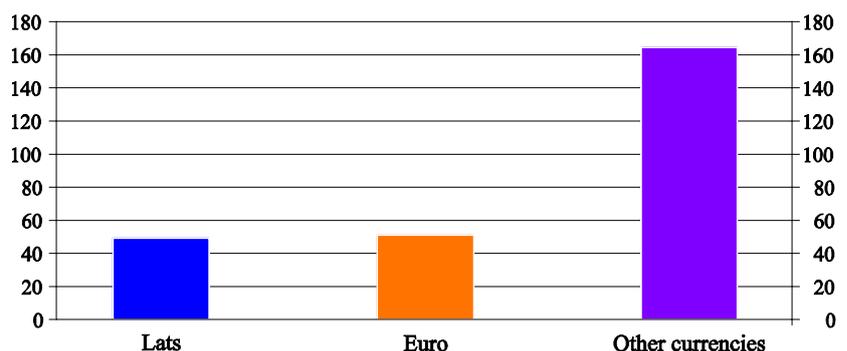


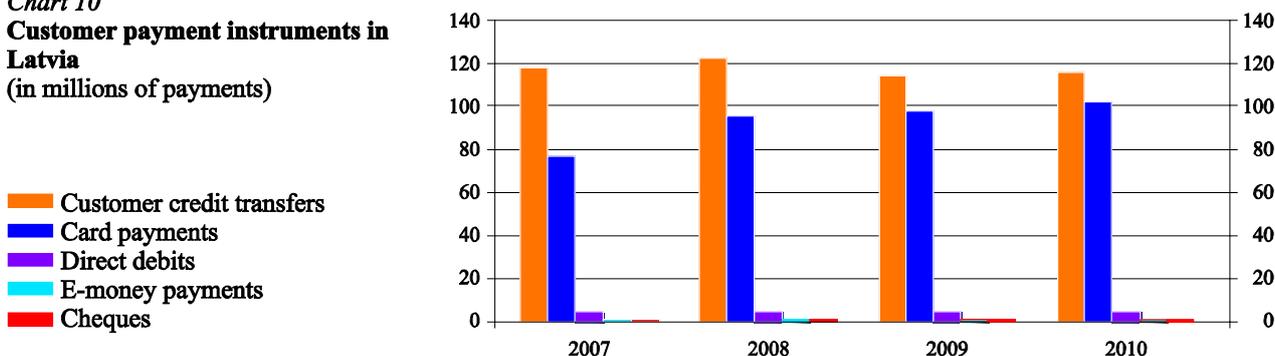
Chart 9
Value of payments by currency
(2010; in billions of lats)



The concentration ratio in the total volume of customer payments executed in lats amounted to 83.7%, while in that executed in euro it was 75.3% and in other currencies – 70.8%. The concentration ratio in the total value of customer payments made in lats comprised 82.0%, while in that of customer payments made in euro and in other currencies it amounted to 61.6% and 72.7% respectively.

Assessing the use of individual payment instruments, customer credit transfers and card payments (51.9% and 45.7% respectively) were used most frequently of all customer payment instruments in Latvia in terms of volume (see Chart 10). In terms of value, customer credit transfers and card payments amounted to 99.4% and 0.5% respectively. Year-on-year, the volume and value of customer credit transfers expanded by 1.3% (to 115.7 million) and 7.4% (to 260.7 billion lats), respectively. The expansion was mainly attributable to a rise in customer credit transfers initiated via the Internet in other currencies (52.4%). The volume of card payments recorded a year-on-year increase of 4.2% (to 101.9 million) and their value grew by 2.3% (to 1.4 billion lats).

Chart 10
Customer payment instruments in Latvia
(in millions of payments)



Payments executed by credit institution customers accounted for the largest share in total customer payments in terms of both volume and value (89.5% (199.5 million) and 98.0% (257.1 billion lats) respectively). The payments made by *Latvijas Pasts* customers amounted to 5.0% (11.1 million) and 0.3% (0.8 billion lats) in terms of volume and value respectively. Payments executed by the Bank of Latvia customers accounted for the rest (most of them were payments effected by the Treasury).

Of credit institution customer payments, card payments accounted for the majority (51.1%; 101.9 million) in 2010. Of the volume of credit institution customer payments, credit transfers amounted to 46.3% (92.3 million), direct debits were 2.1% (4.2 million) and e-money payments stood at 0.5% (1.1 million) in terms of volume. 16.1 thousand cheque payments were also executed.

The concentration ratios for customer credit transfers made in Latvia amounted to 80.6% and 62.0% in terms of volume and value.

At the end of 2010, credit institutions had issued 2.4 million payment cards (52.1 thousand payment cards less than at the end of 2009). At the end of 2010, payment cards were offered by all banks in Latvia, excluding the Joint Stock Company Bank SNORAS Latvia branch. The majority of cards (72.9%) were issued by three banks. As regards the total volume and total value of card payments executed in Latvia, the share of the three banks amounted to 79.0% and 68.8% respectively. 2010. At the end of 2010, 1 361 ATMs were installed in Latvia and 57.9% of them were serviced by three banks. At the end of 2010, 130 ATMs with cash deposit function were installed in Latvia. Three banks serviced 78.4% of the entire 23.9 thousand POS terminals.

In 2010, the Bank of Latvia compiled data on card transactions at terminals. The data on card payments and other transactions at POS terminals and ATMs were reported under this item, recording separately the transactions executed at terminals located in the country with cards issued in the country, transactions executed at terminals located in the country with cards issued outside the country and transactions executed at terminals located outside the country with cards issued in the country.

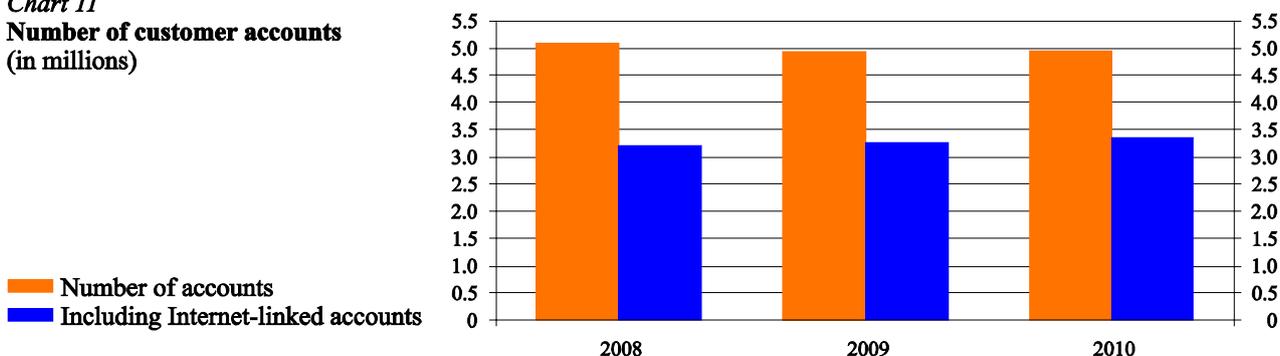
In 2010, 152.5 million transactions were executed at terminals (a year-on-year rise of 2.3%) and their total value reached 5.3 billion lats (3.0% higher year-on-year). Transactions at terminals located in the country with cards issued in the country amounted to 90.8% and 82.2% of the total volume and value respectively, transactions at terminals located in the country with cards issued outside the country were 3.2% and 4.8% respectively and transactions at terminals located outside the country with cards issued in the country stood at 6.0% and 12.9% respectively.

At the end of 2010, all cards issued by banks were co-branded with international card organisations (VISA, MasterCard, American Express etc.). International cards were issued in line with the regulations of the respective card scheme. Card schemes ensured bank compliance with the respective scheme regulations.

At the end of 2010, 4.9 million customer accounts were opened with the credit institutions, the Bank of Latvia and *Latvijas Pasts*, 67.5% (3.3 million) of which were Internet-linked accounts (see Chart 11). Three banks serviced 63.0% of total number of customer accounts opened in Latvia.

Chart 11

**Number of customer accounts
(in millions)**



3.2 E-money

Pursuant to Clause 1 of Section 11.¹ of the Law "On Credit Institutions", 26 electronic money (e-money) institutions, including eight new e-money institutions established in 2010, had informed the Bank of Latvia by the end of 2010 on commencing their operation.

Overseers notified the respective e-money institutions of the regulatory provisions that were applicable to their operation and fell within the Bank of Latvia competence, as well as individually advised them on some issues unclear to e-money institutions.

In 2010, 1.1 million e-money payments in the value of 6.6 million lats were executed.

In 2010, the FCMC drafted amendments to the Law on Payment Services, at the same time also amending the Law "On Credit Institutions" in order to transpose Directive 2009/110/EC of the European Parliament and of the Council of 16 September 2009 on

the taking up, pursuit and prudential supervision of the business of electronic money institutions, amending Directive 2005/60/EC and Directive 2006/48/EC and repealing Directive 2000/46/EC. The above amendments stipulate the registration of e-money institutions with and licensing by the FCMC accordingly; thus the Bank of Latvia will no longer have to maintain the list of e-money institutions. The Bank of Latvia will continue to compile the statistical data on e-money institutions for the oversight purposes. Amendments to the Law on Payment Services shall take effect on 30 April 2011.

3.3 Customer counselling

In 2010, overseers together with the experts of the Bank of Latvia Legal Department advised natural and legal persons and took part in drafting the Bank's replies on various issues pertaining to payments.

Overseers furnished information on SEPA payment statistics, Regulation (EC) No 924/2009 of the European Parliament and of the Council of 16 September 2009 on cross-border payments in the Community, repealing Regulation (EC) No 2560/2001, on the availability of topical information regarding the Sub-group of SEPA Card Framework, SEPA standards, card payment limits and statistics on POS terminals as well as commencement of the operation of e-money institutions and legislation governing their operation.

Overseers participated in the regular surveys conducted by the World Bank, the Bank for International Settlement, EC and Payment and Settlement Systems Committee of the ESCB and engaged in mutual consulting activities together with the participants of the ESCB as well as the overseers from Azerbaijan, Belarus and Macedonia regarding various issues pertaining to payment systems.

Overseers advised several students whose research topic dealt with issues pertaining to payment systems. Overseers, in cooperation with the experts from the Bank of Latvia's Monetary Policy Department, delivered a lecture and conducted a workshop on payment systems to the MA students of Business Administration at the Department of Economics, University of Latvia.

3.4 The ECB study on correspondent banking arrangement

In 2010, Latvian banks provided 1 327 daily correspondent banking services to other banks on average (all incoming and outgoing payment transactions) in the value of 161.0 million lats. Of total average daily volume of transfers executed by all banks in loro accounts, 37.5% of transfers were made in lats, 36.9% were executed in euro and 25.7% in other currencies. At the same time, of total average daily value of transfers effected by all banks in loro accounts, the majority were transfers executed in euro (38.4%), those in other currencies and lats amounted to 37.1% and 24.5% respectively. 45 666 other banking services in the value of 12.1 billion lats were on average daily provided to Latvian banks.

Pursuant to the ECB requirement, in June 2010, the Bank of Latvia compiled data on correspondent banking transactions (all incoming and outgoing transactions) made in the

banks' loro and nostro accounts² (the previous survey was conducted in 2007). 20 banks participated in the survey conducted from 1 March 2010 until 31 March 2010. In addition to the requirement of the ECB to provide data on transactions in euro, the Bank of Latvia also requested the banks to submit data on transactions in lats and other currencies for the oversight purposes.

In order to determine, on the basis of the ECB methodology, the significance of correspondent banking for overall payment service activities, the following bank indicators of transactions in euro were taken into account: the number of correspondent banks, volume and value of transactions (the daily average over the reporting period) and the median³. In view of the contributions of each bank to the specific indicator and based on the frequency in which a bank ranked among the five largest banks, the data on the correspondent banking arrangements of relevant banks were transmitted to the ECB. The total daily average volume of transfers executed by the above five banks in euro in loro accounts amounted to 296 (60.5% of total daily average volume of transfers made by all banks in loro accounts) and value stood at 61.2 million lats (99.0% of total daily average value of transfers made by all banks in loro accounts). The total median value of the above five banks in euro amounted to 209.5 thousand lats (41.6% of total median value of all banks).

The daily average volume of payments made by all Latvian banks in loro accounts in all currencies was 1 327 (18.8% lower than in 2007) and value stood at 161.0 million lats (21.1% higher than in 2007). Higher value is primarily attributable to an almost two-fold increase in correspondent banking transactions made in foreign currencies (including the euro). The daily average volume of payments made in loro accounts in lats declined by 10.8% (to 497) and value fell by 44.7% (to 39.5 million lats). The daily average volume of payments made in loro accounts in euro dropped by 11.7% (to 489), while the value rose 2.1 times (to 61.9 million lats).

The value of transfers made in euro and other currencies amounted to 38.4% and 37.1% of total value of payments respectively, and 24.5% of total value of transfers made in loro accounts were transfers in lats.

The daily average volume of payments made by all Latvian banks in nostro accounts in all currencies was 45 666 (almost double the volume of 2007) and value stood at 12.1 billion lats (3.5 times higher than in 2007). 61.5% of total transfer volume and 76.8% total transfer value were transfers made in foreign currencies (excluding the euro). The volume of transfers effected in euro and lats amounted to 37.5% and 2.5% of total transfer volume respectively and value of transfers stood at 22.9% and 0.3% of total value of transfers.

² Loro accounts – accounts opened by a bank for its correspondent banks subject to the agreement on opening the correspondent account for crediting this account and executing payments on behalf of correspondent banks. Nostro accounts – correspondent accounts of a credit institution opened with the correspondent banks and reporting mutual settlements between the banks and customers.

³ For the purposes of transaction data, the median of the payment value is the medium value of all transactions effected (in euro) over the reporting period.

4. SEPA PROJECT IN LATVIA

SEPA Project is the most important project of the Bank of Latvia's payment system oversight which will be completed with the introduction of euro in Latvia. In 2010, the Bank of Latvia continued its involvement in the above project by steering the National SEPA Working Group and taking part in the SEPA Working Group of the Payment Committee of the ALCB and EU Forum of the National SEPA Coordination Committees organised by the EC, as well as developing the SEPA Project at the Bank of Latvia.

The major goals achieved in the SEPA project were as follows: 1) drafting Version 2.0 of Latvia's National SEPA Plan; 2) elaborating SEPA communication plan; 3) organising SEPA workshops for merchants.

As regards Latvia's payment system, high compliance of payment instruments with the SEPA requirements was achieved at the end of 2010 – 60.6% of all credit transfers effected in Latvia's payment system in euro were SEPA credit transfers, 100% of ATMs, 94.9% of POS terminals, 98.4% debit cards and 99.3% of credit cards were consistent with the SEPA requirements.

To promote integration of Latvia's payment systems into the Single Euro Payments Area encompassing all European Union Member States, Iceland, Liechtenstein, Norway, Switzerland and Monaco, the Bank of Latvia engaged in SEPA Project in the capacity of the payment system overseer. The Bank of Latvia overseers continued to steer the NSWG, coordinating the cooperation among the representatives of the payment market supply side (ALCB, *Latvijas Pasts*, FDL, *JSC Itella Information*, Latvian Information and Communications Technology Association) and representatives of the demand side (the Consumer Rights Protection Centre, Small and Medium-Sized Enterprises and Crafts Consultative Committee, ELC, Treasury, Ministry of Finance of the Republic of Latvia and Bank of Latvia. The representatives of the respective institutions and associations coordinated, within the scope of their competence, the assignments of integration into SEPA. Supervising the activities of the NSWG, the MPSWG reviewed and approved Latvia's National SEPA Plan drafted by the NSWG, as well as the progress reports and proposals for high level SEPA implementation measures for incorporation into Appendix 1 "Action Plan for Introduction of the Single European Currency in Latvia" to the National Euro Changeover Plan".

The goals of SEPA Project accomplished by the overseers in 2010 have been described in Appendix 1 hereto.

5. THE OVERSIGHT PROJECT "THE SOCIAL COSTS OF RETAIL PAYMENT INSTRUMENTS: A EUROPEAN PERSPECTIVE"

In 2010, the Bank of Latvia along with the national central banks of 14 other EU Member States participated in the project launched by the ECB – a survey "The Social Costs of Retail Payment Instruments: a European Perspective". The objective of the project was to identify the social costs related to the use of retail payment instruments (such as cash, payments with credit and debit cards, credit transfers and direct debits).

Overseers engaged in the above project of oversight by coordinating and compiling the respective data in order to promote public awareness of the cost efficiency of different payment instruments. The Cashier's and Money Operations Department and Accounting

Department of the Bank of Latvia were also involved in the data collection. Overseers compiled the data based on the ECB methodology – identified the sample sets of respondents (banks, infrastructure, cash collection companies, retailer and other companies) and organised several meetings with the above respondents in order to provide comprehensive explanation of the project goals and substance and benefits to the general public and the respondents. At the end of 2010, the overseers completed the collection and compilation of data. In 2011, it is planned to perform the analysis of the above data. The ECB plans to release the results of the above research in 2011, as scheduled in the project plan. The tasks accomplished by the overseers within the project "The Social Costs of Retail Payment Instruments: a European Perspective" in 2010 have been described in Appendix 2 hereto.

6. LEGISLATIVE AMENDMENTS IN THE AREA OF PAYMENT SYSTEMS

As of 31 March 2011, the Law on Payment Services stipulates the terms and conditions for ensuring payment services between the customer and bank or other payment service provider, including the rules provided for by the Bank of Latvia "Regulation for Credit Transfers". Hence the Council of the Bank of Latvia deemed the Bank's "Regulation for Credit Transfers" and "Recommendations for Transactions Effected by Means of Electronic Payment Instruments" invalid as of 1 June 2010 and made amendments to the "Regulation for the Use of the IBAN", deleting those regulatory provisions applicable to the customer and bank relations which have been incorporated in the Law on Payment Services.

To establish a framework for credit transfers in Latvia regarding payments in foreign currencies not regulated by the Law on Payment Services, the overseers cooperated with the ALCB and issued opinion on draft regulations developed by the ALCB. Following a meeting of the representatives of the Bank of Latvia and FCMC with the representatives on the draft regulations, it was decided that the ALCB shall revise the above draft regulations and resubmit them to the FCMC and Bank of Latvia for review. At the end of 2010, the ALCB resubmitted the revised draft regulations to the FCMC and Bank of Latvia for review and the overseers issued the opinion anew.

The Bank of Latvia, within the scope of its competence, issued opinion on the draft amendments to the Law on Payment Services developed by the FCMC in order to transpose the requirements of the Directive 2009/110/EC of the European Parliament and of the Council of 16 September 2009 on the taking up, pursuit and prudential supervision of the business of electronic money institutions, amending Directive 2005/60/EC and Directive 2006/48/EC and repealing Directive 2000/46/EC. In accordance with the above amendments, a potentially equal set of requirements will be established both for the payment service providers and e-money institutions offering basically similar services, thus reducing the possibility of discriminating against any institution.

The Bank of Latvia also provided comments on the amendments to the Law "On Settlement Finality in Payment and Financial Instrument Settlement Systems" as proposed by the Ministry of Finance of the Republic of Latvia. The growing number of links between the systems and the need to specify the terminology used respectively contributed to the above amendments. The amendments provide for the introduction of the definition of "interoperable systems" and stipulate that in order to mitigate systemic risk a provision should be made that the operators of the interoperable systems under

their management coordinate the provisions regarding the time of entering the payments and their irrevocability. The above amendments shall take effect on 30 June 2011.

7. COOPERATION WITH THE ECB

In 2010, the overseers along with the representatives of other central banks of the EU Member States continued participation in the ECB working groups dealing with a wide range of issues related to the payment system oversight. At the working group meetings held by the Oversight Working Group (WGO) subordinated to the ECB Payment and Settlement Systems Committee (PSSC) and Payment Systems Policy Working Group (PSPWG), also including the Sub-group developing a long-term strategy for IBAN at the beginning of 2010, the overseers discussed the issues pertaining to the oversight of payment instruments and infrastructures and addressed issues related to the SEPA Project.

8. INFORMATION TO THE PUBLIC

Information on the development of payment instruments and their infrastructure and the Bank of Latvia achievements in the payment system oversight were published in the Bank of Latvia Annual Report, Financial Stability Report and "Payment System Oversight Carried Out by the Bank of Latvia in 2009" as well as on the Bank's website.

II. OVERSIGHT OF THE SECURITIES SETTLEMENT SYSTEMS

The Bank of Latvia compiles data on the securities settlement systems functioning in Latvia and, after establishing their importance, decides on the oversight measures. The Bank of Latvia performs the oversight of each individual payment system to help its participants and institutions ensuring the system operation to get a clear understanding of potential risks related to the respective system and means to reduce such risks.

The Bank of Latvia oversees the securities settlement systems operating in Latvia and the related infrastructure in accordance with the ESCB-CESR recommendations for the securities settlement systems and central counterparties (CCP) and CPSS-IOSCO recommendations, assessing their compliance with these recommendations and requiring the institution enabling the system's operation to take all reasonable measures to achieve full compliance with the said recommendations.

9. OVERSIGHT OF SYSTEMICALLY IMPORTANT SECURITIES SETTLEMENT SYSTEMS

In 2010, the Bank of Latvia performed the oversight of Latvia's securities settlement systems – the VNS and DENOS. The above securities settlement systems were recorded in the EC Registry of Securities Settlement Systems recording all systems identified in the Directive 98/26/EC of the European Parliament and of the Council on settlement finality in payment and securities settlement system.

In 2010, the overseers held two meetings with the operators of the VNS and DENOS systems in order to address the oversight-related issues. The representatives of NASDAQ OMX Riga also took part in the above meetings.

At the meeting convened on 16 March 2010, the overseers notified the system operators of the following issues: the transfer of the function of securities settlement system oversight to the Payment Systems Department of the Bank of Latvia (within its competence), the performance of the assessment in accordance with the ESCB-CESR recommendations, as planned in 2011, the requirement that the daily statistics of DENOS be transmitted to the Bank of Latvia for the performance of day-to-day oversight, the need to enhance the procedure for exchanging the incident-related information and other issues, as well as discussed the drafted legal acts pertaining to securities settlement.

At the meeting held on 2 December, the overseers notified the system operators of new legislation initiatives and changes in the requirements for securities settlement infrastructures in Europe, the planned consolidation of the oversight policies for payment and securities settlement systems, the stipulated amendments to the VNS regulations and deletion of VNS from the EC Registry of Securities Settlement Systems. The representatives of LCD and NASDAQ OMX Riga furnished information on the operation of DENOS and the planned organisational changes of LCD. At the meeting, the LCD representatives and overseers agreed on a common procedure for notification of incidents in DENOS. The overseers invited the LCD to perform the required assessment of the LCD regulations in order to ensure the compliance of the above regulations with the revised Law "On Settlement Finality in Payment and Financial Instrument Settlement Systems" by 1 June 2011.

9.1 DENOS

In 2010, the overseers agreed with the LCD on reporting of daily statistical data on DENOS and updated the procedure for exchanging information on operational failures.

The overseers agreed with the LCD on transmitting the daily statistical data on DENOS to the Bank of Latvia in order to conduct the daily oversight of securities settlement systems more efficiently. The FCMC organised the transmission of data to the Bank of Latvia in view of the fact that the LCD reports statistical data on DENOS to the FCMC on a weekly basis, and to avoid imposing additional reporting burden on the LCD. Hence in 2010, amendments were made to the cooperation agreement signed by the Bank of Latvia and the FCMC, stipulating that the overseers would receive statistical data on DENOS from the FCMC once per week. As of 2011, the overseers may conduct collection and analysis of daily statistical data on DENOS.

In 2010, the overseers also developed and agreed with the LCD the procedure for notifying incidents in DENOS in order to obtain more comprehensive information on potential incidents in DENOS for the purpose of reporting on the incident prevention, their impact on settlements and consequences (including financial consequences) thereof as well as the future activities for prevention of such incidents. On the basis of the provided information, the overseers will be able to analyse the course of incidents and remedial actions as well as conduct analysis of information on incidents, assessing the safety and efficiency of the system's operation. The Bank of Latvia (has been assigned the special status), three central depositories (the Lithuanian Central Depository (*Lietuvos centrinis vertybiniu popieriu depozitoriumas AB*), the Estonian Central Depository (*AS Eesti Väärtpaberikeskus* and *Euroclear Bank*)), one investment brokerage firm and 16 credit institutions (21 participants overall) are the participants in DENOS.

9.2 The VNS

The overseers, in cooperation with the operators of VNS, proposed amendments to the "Regulation for the Securities Settlement System of the Bank of Latvia", revising the explanation that the main objective of VNS is to ensure accounting of the securities collateral and settlements related to the Bank of Latvia monetary policy operations and those of intraday credit operations, and shall not be deemed a securities settlement system. At the end of 2010, outstanding securities recorded in the VNS amounted to 336.8 million lats, of which, the Treasury bills were in the amount of 48.4 million lats, Treasury bonds stood at 285.7 million lats and private sector debt securities were 2.7 million lats.

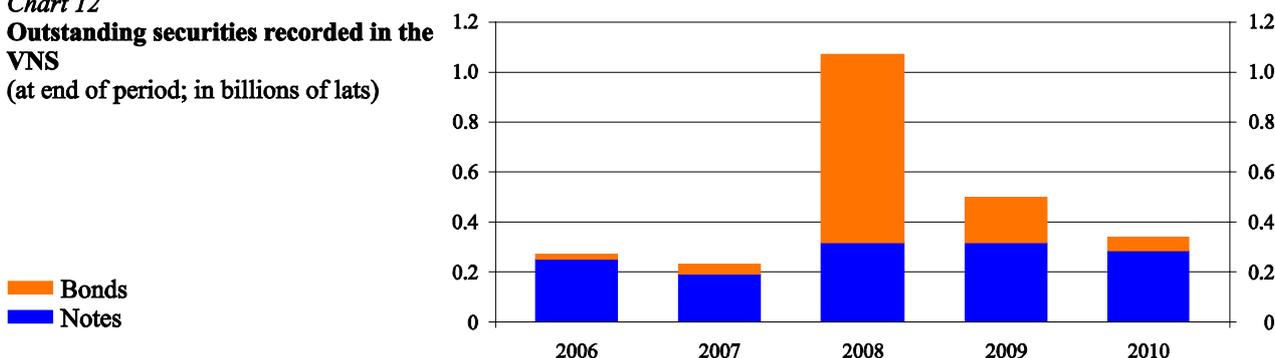
In 2010, the overseers together with the operators of VNS assessed the operation of VNS and concluded that the VNS was inconsistent with the definition of the term "securities settlement system" set out in the Law "On Settlement Finality in Payment and Financial Instrument Settlement Systems", since the participants in VNS cannot execute transfer orders in accordance with the uniform regulations and standardised procedures established among all participants in the system. In the VNS, the securities transfers may only be executed on the account with the Bank of Latvia rather than among all accounts of the participants. The VNS does not perform the functions common to a classical securities settlement system and hence the international recommendations for the securities settlement systems are not applicable to the VNS.

The operation of VNS is equivalent to the accounting system of the second-tier account holders, the principal aim of which is to ensure accounting of the securities collateral and settlements related to the Bank of Latvia monetary policy operations and those of intraday credit operations. The overseers and operators of VNS proposed amendments to Appendix 1 "Regulation for the Securities Settlement System of the Bank of Latvia" to the Council of the Bank of Latvia Regulation No 166/1 "On Participation in the Securities Settlement System of the Bank of Latvia" and delete the VNS from the EC Registry of Securities Settlement Systems. It will not represent risks to the Bank of Latvia monetary operations, because irrespective of whether a collateral is provided to the securities settlement system or the securities accounting system of the Bank of Latvia, the collateral used in transactions upon the performance of the central bank's functions is safeguarded in due course of the Law "On Settlement Finality in Payment and Financial Instrument Settlement Systems". The Board of the Bank of Latvia supported the amendments to the Regulation on 9 December 2010 and the Council of the Bank of Latvia approved the above on 13 January 2011.

The Bank of Latvia, the FCMC which keeps the funds under its management in the VNS, and credit institutions are participants in the VNS. On 26 May, the operation of JSC *VEF banka*, the participant in the VNS, was suspended by the FCMC decision, thus the number of VNS participants decreased by one participant (25 at the end of the year).

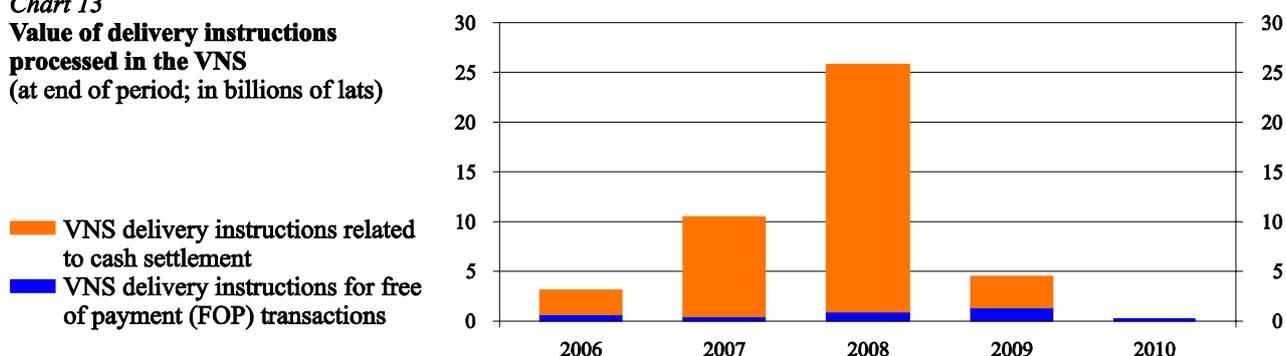
In 2010, the amount of securities recorded in the VNS shrank by 32.7% year-on-year. The above development was due to fact that the banks' liquidity amplified and the need to participate in the Bank of Latvia monetary operations where the securities recorded in the VNS were accepted as collateral for the Bank of Latvia monetary policy instruments minimised. At the end of 2010, outstanding securities recorded in the VNS amounted to 336.8 million lats, of which, the Treasury bills were in the amount of 48.4 million lats, Treasury bonds stood at 285.7 million lats and private sector debt securities were 2.7 million lats. The amount of bonds declined by 9.9% and that of notes shrank by 83.2% year-on-year.

Chart 12
Outstanding securities recorded in the VNS
(at end of period; in billions of lats)



Outstanding securities in the VNS declining, the value of delivery instructions processed by the VNS has fallen substantially. In 2010, the value of delivery instructions for free of payment transactions processed in the VNS was 0.28 billion lats (78.5% lower year-on-year) and that of delivery instructions related to cash settlement amounted to 0.03 billion lats (99.0% less year-on-year; see Chart 13).

Chart 13
Value of delivery instructions
processed in the VNS
(at end of period; in billions of lats)



In 2010, 125 free of payment transactions were executed in the VNS, mainly to or from DENOS, including 80 transfers of short-term debt securities in the value of 78.6 million lats and 32 transfers of long-term debt securities in the value of 28.3 million lats. The VNS experienced no operational failures in 2010.

10. PROJECT "TARGET2-SECURITIES"

T2S is the most significant Bank of Latvia project of VNS to be completed when the Bank of Latvia and LCD join T2S and the above system commences its operation (projected either in 2014 or 2015). In 2010, the Bank of Latvia continued its involvement in T2S project by steering the Latvian T2S User Group along with the LCD, participating in the ECB Working Group on T2S as well as promoting the development of T2S project at the Bank of Latvia.

The major goals regarding the T2S project were as follows: 1) developing the T2S strategy supported by all institutions represented at the Latvian T2S User Group; 2) commencement of drafting the concept for the Bank of Latvia T2S project and assessing the impact of T2S.

To promote integration of Latvia's securities settlement systems into a harmonised process of securities settlement in euro encompassing all European Union Member States as well as Iceland, Norway and Switzerland, the Bank of Latvia engaged in T2S Project in the capacity of the payment system overseer. The implementation of Project will lead to a harmonised settlement of securities transactions and reduction of costs incurred by the securities market participants. The Bank of Latvia and the LCD continued to steer the Latvian T2S User Group by coordinating the cooperation among the representatives of the LCD, Bank of Latvia, FCMC, Treasury and ALCB. The representatives of the respective institutions, within the scope of their competence, coordinated the assignments of implementing the T2S Project.

The goals accomplished by the overseers in the above Project in 2010 have been described in Appendix 3 hereto.

11. LEGISLATIVE AMENDMENTS IN THE AREA OF SECURITIES SETTLEMENT SYSTEMS

In February 2010, the overseers issued opinion on the amendments to the Law "On Financial Collateral", stipulating that financial collateral shall also encompass credit claims. The overseers pointed to a potential legal uncertainty or controversy, with the LCD joining T2S and transferring to the Eurosystem those financial instrument accounts of the participants (the above accounts will be held on the IT platform of the Eurosystem) which are currently de jure held in the LCD and the securities recorded

therein are used or will be used as financial collateral for the financial collateral agreements. The amendments shall take effect on 1 July 2011

In 2010, the overseers provided comments on the amendments to the Law "On Settlement Finality in Payment and Financial Instrument Settlement Systems" proposed by the Ministry of Finance of the Republic of Latvia. The above amendments were made due to a growing number of links between the systems and the need to specify the terminology used respectively. The amendments provide for the definition of "interoperable systems" and stipulate that in order to mitigate systemic risk a provision should be made that the operators of the interoperable systems under their management coordinate the provisions regarding the time of entering the payments into a system and their irrevocability. The amendments are expected to take effect on 30 June 2011.

Amendments were not made to the LCD regulations in 2010.

12. COOPERATION WITH OTHER INSTITUTIONS

12.1 The FCMC

Performing the securities settlement system oversight in accordance with the ESCB-CESR recommendations, close cooperation and information exchange has to be maintained with the supervisory authorities of the securities markets, therefore the Bank of Latvia and FCMC cooperate in addressing the issues of operation and development of the Latvian securities settlement systems.

In 2010, the overseers held three meetings with the FCMC.

At the meeting convened on 11 May, the participants discussed the issue of transmitting the statistical data on DENOS required for the performance of a day-to-day oversight of the securities settlement systems from the FCMC to the Bank of Latvia.

At the meeting held on 9 June, the overseers notified of the performance of DENOS assessment in accordance with the ESCB-CESR recommendations, and the required involvement of FCMC in the above activity planned in the second half of 2011. At the meeting the above parties agreed that the transmission of DENOS statistics shall be arranged for the purpose of providing only the data which the Bank of Latvia needs to fulfil its tasks, and addressed further tasks regarding the technical details of the above data transmission. The parties dealt with topical issues regarding the development of the securities settlement infrastructure in Europe and legislation and other issues.

At the meeting convened on 30 November, the overseers furnished information on the stipulated amendments to the VNS regulations; and the participants also discussed topical issues of the development of the securities settlement infrastructure in Europe, the respective legislation and the T2S Project-related issues.

12.2 The ECB

In 2010, the overseers continued participation in the ECB working groups dealing with a wide range of issues related to the oversight of securities market infrastructure.

The overseers took part in the ECB Working Group of securities experts addressing the issues of the planned legislative changes affecting the securities market infrastructures

of Europe (the regulatory framework provisions for central counterparties and transaction register as well as the repo market infrastructure and post-trade services).

The overseers participated also in the ESCB-CESR working group. The following issues: the planned changes in the CPSS-IOSCO recommendations, the expected EU regulatory framework for central counterparties and transaction register as well as the establishment of the European Securities and Markets Authority.

13. INFORMATION TO THE PUBLIC

Information on the oversight of securities settlement systems performed by the Bank of Latvia was published in the Bank of Latvia Annual Report and Financial Stability Report as well as on the Bank's website. Data on the annual statistics of Latvia's securities settlement systems are available in the ECB Statistical Data Warehouse.

III. THE BANK OF LATVIA PAYMENT AND SECURITIES SETTLEMENT SYSTEM POLICY

It follows from the analysis of the tasks accomplished with respect to the oversight of payment and securities settlement systems in 2010, that oversight activities have been performed in line with the goals and assignments stipulated by "The Bank of Latvia's Payment System Policy" and the "Oversight Policy for the Securities Settlement Systems of Latvia" for each type of the national payment system and securities settlement system (systemically important payment systems, clearing and retail payment systems, securities settlement systems, payment instruments).

In view of the fact that the Payment Systems Department of the Bank of Latvia took over the oversight of securities settlement systems as of 1 April 2010, it drafted "The Bank of Latvia's Payment and Securities Settlement System Policy" with the purpose of consolidating and repealing "The Bank of Latvia's Payment System Policy" approved by the Bank of Latvia Council's Resolution No 89/10 of 13 September 2001 and "Oversight Policy for the Securities Settlement Systems of Latvia" approved by the Bank of Latvia Council's Resolution No 127/3 of 11 May 2006. The draft new policy did not change in substance the former policies on payment systems and oversight of the securities settlement systems, only consolidated them and presented a more comprehensive explanation regarding the performance of the tasks which the law delegates to the Bank of Latvia in the area of payment systems. The Council of the Bank of Latvia approved "The Bank of Latvia's Payment and Securities Settlement System Policy" on 13 January 2011.

APPENDIX 1. THE SEPA PROJECT ASSIGNMENTS ACCOMPLISHED BY THE OVERSEERS

In 2010, the Bank of Latvia overseers continued to steer the National SEPA Working Group (NSWG), coordinating the cooperation between the supply side (the representatives of the ALCB, SJSC *Latvijas Pasts*, FDL, JSC *Itella Information*, Latvian Information and Communications Technology Association) and demand side (the representatives of the Consumer Rights Protection Centre, Small and Medium-Sized Enterprises and Crafts Consultative Committee, ELC, Treasury, Ministry of Finance of the Republic of Latvia and Bank of Latvia) of the payment market. The representatives of the respective institutions and associations coordinated, within the scope of their competence, the current assignments for the integration into SEPA. Performing general supervision of the activities of the NSWG, the MPSWG reviewed and approved Latvia's National SEPA Plan drafted by the NSWG, as well as the progress reports and proposals for high level SEPA implementation measures to be incorporated into Appendix 1 "Action Plan for Introduction of the Single European Currency in Latvia" to the National Euro Changeover Plan".

The overseers monitored the drafting of Version 2.0 of Latvia's National SEPA Plan. On 9 November 2010, the Bank of Latvia payment system the EKS, compliant with the SEPA credit transfer infrastructure, was launched for the settlement in euro, and at the end of 2010, the bank-to-bank domain of the SEPA credit transfer was implemented in the entire payment system of Latvia. Version 2.0 of Latvia's National SEPA Plan was amended by incorporating information on the actions taken by the Treasury in order to introduce the standards of the "customer-to-bank"/"bank-to-customer" domains, extending both the deadline for completing the introduction of SEPA direct debit payments until the end of 2014 and the deadline for implementing the infrastructure of SEPA direct debit payments (the SEPA direct debit system of JSC *Itella Information*) until 1 August 2011, as well as setting the deadline for launching the first domain "cards-to-terminal"; the second domain "terminal-to-acquirer" and the fourth domain "certification" of the SEPA Card Framework at the end of 2012. Proposals for high level SEPA implementation measures for amending Appendix 1 "Action Plan for Introduction of the Single European Currency in Latvia" to Latvia's National Euro Changeover Plan have also been revised in line with the above changes in the time frame and approved by the MPSWG along with Version 2.0 of Latvia's National SEPA Plan on 14 December 2010. In 2010, the overseers drafted Progress Reports No 4 and No 5 of the NSWG for submission to the MPSWG.

To promote the implementation of SEPA payments in the payment system of Latvia, the overseers proceeded with the compilation of SEPA credit transfer indicators and those of SEPA card framework as well as started to compile the indicator of SEPA direct debit payments.

In the second half of 2010, 1 186.2 thousand or 60.6% of credit transfers executed in Latvia's payment system in euro accounted for the SEPA credit transfers.

On 2 November 2010, JSC PrivatBank and JSC UniCredit Bank also launched the SEPA direct debit payments. In accordance with the provided statistics, the bank customers did not execute the SEPA direct debit payments until the end of the year.

The four main indicators of SEPA Card Framework were as follows in Latvia at the end of 2010: 1) 1 361 ATMs of Latvian banks (or 100%) had migrated to *Europay-Master-card-Visa* (EMV) and were compliant with the SEPA requirements; 2) 22.7 thousand

POS terminals (94.9%) had migrated to EMV (an increase of 5.3 percentage points in comparison with the third quarter of 2010), with the large trading companies or chain stores replacing the cash registers and adjusting them to accepting the EMV smart cards; 3) 1 915.2 thousand debit cards (98.4%) were compliant with the EMV Standard and SEPA requirements; and 4) 392.4 thousand credit cards (99.3%) were compliant with the EMV standard and SEPA requirements. At the end of 2010, such achievement was comparable to the best practice of Europe.

The main activities of the SEPA Project carried out by the overseers in 2010

On 14 January 2010, in line with the decision taken by the MPSWG on implementing the SEPA creditor identifier in Latvia, the overseers convened a meeting with the representatives of the Ministry of Justice of the Republic of Latvia, State Revenue Service of the Republic of Latvia, Enterprise Register of the Republic of Latvia, ALCB and ELC. The above meeting resulted in an agreement with all stakeholders about the supplementation of the concept On Uniform Registration of Institutional Units and Economic Operators developed by the Ministry of Justice of the Republic of Latvia in order to provide for an option of assigning the SEPA creditor identifier to the entities registered with the Republic of Latvia Enterprise Register. Given the fact that the concept developed by the Ministry of Justice of the Republic of Latvia was modified in autumn 2010, stipulating that only a register of public authorities and local government institutions rather than a uniform register would be established, the Ministry of Justice of the Republic of Latvia pointed out that the Republic of Latvia Enterprise Register could not maintain the SEPA creditor identifier without amendments to the legislation and additional funding. In line with the report by the NSWG on the above issue presented on 14 December 2010, the MPSWG decided to analyse different alternatives of maintaining the SEPA creditor identifier. In 2011, an opinion on maintaining the database for the SEPA creditor identifier would be requested from the ALCB, Ministry of Justice of the Republic of Latvia, Bank of Latvia, LCD and JSC *Itella Information*, and the issue of maintaining the database for the SEPA creditor identifier would be solved following the receipt of replies from all institutions.

The overseers organised the work of SEPA communication experts in order to develop the SEPA Communication Plan. On 1 March 2010, the overseers, in cooperation with the Public Relations Department of the Bank of Latvia, convened the first meeting in order to discuss the potential structure of the SEPA Communication Plan. On 19 April 2010, the overseers coordinated the second meeting of the communication experts for the purpose of discussing and approving the draft SEPA Communication Plan to be incorporated into Version 2.0 of Latvia's National SEPA Plan. The overseers organised translation of two EPC brochures in Latvian: for merchants and – in cooperation with the ECB – for public authorities.

The overseers coordinated the participation of the following Latvian public authorities in the surveys conducted by the European Commission for public authorities from 19 March until 30 April: the Bank of Latvia, Ministry of Finance of the Republic of Latvia, Treasury, State Social Insurance Agency and State Revenue Service of the Republic of Latvia. A start date for executing the SEPA credit transfers by public authorities (12 November 2010) was recurrently confirmed in the replies, and a commitment to implement the new SEPA standard (ISO 20022 XML) entirely as of the changeover day to the euro was made. Public authorities pointed out that they did not plan to execute the SEPA direct debit payments.

The overseers convened the meetings of the Sub-group of SEPA Card Framework of the NSWG on 29 March 2010 and 25 November 2010, as well as organised four seminars for merchants in cooperation with the Payment Cards Committee of the ALCB and FDL at the Bank of Latvia: on 1 July 2010 – for the representatives of the Latvian Association of Hotels and Restaurants; on 15 September 2010 – for the Latvian Merchant Association; on 30 September 2010 – for the Latvian Association of Fuel Traders and on 26 October 2010 – for the Latvian Association of Pharmacists. The materials of the above seminar and other topical information furnished by the Sub-group of SEPA Card Framework were made available on the SEPA Latvia website (<http://www.sepalatvija.lv>).

On 28 April, the overseers, in cooperation with the experts of the Bank of Latvia Public Relations Department, took part in the meeting of Financial Directors of corporates convened at ELC, and also discussed the role of SEPA in the operation of enterprises. The overseers informed the participants of the above meeting on the progress of the SEPA Project in Latvia.

On 5 May and 22 October, the EC organised the 4th and 5th Forums of the NSWGs. The following issues were discussed at the Forums: the migration process of SEPA core products in each Member State, the validity of direct debit mandates, the SEPA communication issues and stipulation of the SEPA migration end-date in the EU legislation. The representatives of Latvia, along with the representatives of other countries, presented their progress reports on the SEPA Project in Latvia.

The following self-assessments were submitted by: JSC *DnB NORD Banka* (on 19 May), SJSC *Latvijas Hipotēku un zemes banka* (on 25 May), Treasury (on 6 July), JSC SMP Bank (on 8 July) and JSC *SEB banka* (on 10 November) in the capacity of the providers and users of SEPA products, and comments were issued by the overseers thereon. The overseers, in cooperation with the Accounting Department of the Bank of Latvia, updated the self-assessment of the Bank of Latvia as the provider and user of SEPA products until the end of 2010.

From 19 May until 16 August, the overseers prepared a reply of the NSWG regarding the EPC consultation on amendments made to the SEPA Scheme Rulebooks, as well as participated in the meeting of the SEPA Working Group convened by the ALCB on 26 May, at which the EPC proposals were discussed. The overseers furnished information on the changes of the EPC Rulebooks on the SEPA Latvija website.

From 2 June until 23 June, the overseers, in cooperation with the NSWG, prepared a reply regarding the EC public consultation on the EC Working Paper on SEPA migration end-date, expressing the support of NSWG to all proposals put forth in the EC working paper.

On 29 June, the overseers also took part in the debate between the ALCB and ELC about the projected changes in the implementation of the standards of the "customer-to-bank" domain in Latvia. It was decided that, by using version 1.02 of FiDAViSta expected to be launched in September 2010, ISO 11649 Creditor Reference Standard would be available to Latvian companies for the execution of payments in lats and euro as of November 2010.

The overseers organised the supplementing of the national SEPA Latvija website with the SEPA barometer. The SEPA barometer discloses information on the survey of households "The Monetary and Banking System in Latvia" conducted by SIA *Factum* in

May 2010 in order to ascertain the bank customer awareness of SEPA. 37% of respondents were aware of the new euro payment instruments of SEPA. This result has to be deemed rather high at the EU level.

On 25 October, the overseers, in cooperation with the experts of the SEPA Working Group of the ALCB, finalised the description of the structure of SEPA creditor identifier and calculation algorithm. The structure of SEPA creditor identifier was also agreed with the ELC.

On 8 November, the overseers, in cooperation with the International Relations and Communications Department of the Bank of Latvia, conducted a workshop for journalists devoted to the EKS SEPA, at which the representatives of the Payment Systems Department of the Bank of Latvia, the Payments Committee of ALCB and businesses informed the above on compliance of the EKS with the SEPA requirements. The above EKS SEPA workshop was shown on 22 December in the production of the national TV broadcast *Naudas zīmes*.

The overseers ensured the availability of the topical information about the SEPA Project on SEPA Latvija website.

APPENDIX 2. THE TASKS ACCOMPLISHED BY THE OVERSEERS WITHIN THE PROJECT "THE SOCIAL COSTS OF RETAIL PAYMENT INSTRUMENTS: A EUROPEAN PERSPECTIVE"

In 2010, the overseers participated in the project under the auspices of the ECB – a survey "The Social Costs of Retail Payment Instruments: a European Perspective". The ECB launched the above project to enhance the general understanding of the cost efficiency of different payment instruments. Austria, Denmark, Greece, Estonia, Ireland, Italy, Malta, the Netherlands, Portugal, Rumania, Finland, Spain, Hungary and Sweden participated in the above study. The Cashier's and Money Operations Department and Accounting Department of the Bank of Latvia were also involved in the coordination of survey and data collection in Latvia.

The objective of the project was to estimate the social costs related to the use of retail payment instruments (such as cash, payments with credit and debit cards, credit transfers and direct debits), as incurred by the general public, in order to reply to the following questions:

- What are the actual cost elements associated with different payment instruments and incurred along the payment chain by the major stakeholders?
- To what extent do the costs differ across payment instruments and stakeholders?
- What are the differences across euro area countries and what are the possible explanations for the above differences (for example, in logistical efficiency, degree of electronification of payment instruments and scale economy)?
- How do different levels of technology and setups affect the cost of the same type of payment instrument?

The study is expected to furnish information which is of:

- 1) interest to the central banks regarding the social costs and efficiency of payment instruments;
- 2) interest to banks, infrastructures and companies regarding the advantages of payment instruments and their costs.

The national studies on costs conducted by some EU Member States were limited in size, and different methodology was used for the above study until now. A uniform methodology allowing for a comparison of the costs incurred across the EU Member States is the advantage of the study conducted at the European level.

The Bank of Latvia compiled data on banks, infrastructures, cash collection companies, merchants and companies in line with the methodology developed by the ECB. The respondents had to fill in a questionnaire about the accounting issues and customer servicing. The survey of retailers and companies encompassed much simpler issues than that of banks, infrastructures and cash collection companies. The companies were mainly requested to reply to the questions regarding the funds spent on servicing the payment instruments and business hours spent on their processing. The data were compiled for the year 2009.

The sample sets of respondents were selected by the central banks of the EU Member States. At the beginning of 2010, overseers identified the sample sets of respondents (banks, infrastructure, cash collection companies, retailer and other companies) and held several meetings with respondents in order to provide a comprehensive explanation of

the project goals and substance and benefits to the general public and the respondents themselves. It was pointed out at the meetings that all data submitted by the respondents would be confidential and would not be made available to other persons or institutions, excluding the Bank of Latvia. For public communication, only the compiled data will be disseminated without disclosing the replies of individual respondents.

The overseers completed the collection of data at the end of 2010. The data on payment service costs incurred by the Bank of Latvia shall be transmitted to the ECB along with the data on costs incurred by banks, infrastructures, cash collection companies and retailers. The Cashier's and Money Operations Department and Accounting Department of the Bank of Latvia were also involved in the data collection.

The Bank of Latvia shall submit the data compiled in accordance with the specified format to the ECB in the second quarter of 2011, as scheduled in the project plan. The ECB plans to release the results of the above study at the end of 2011.

APPENDIX 3. THE ASSIGNMENTS OF PROJECT "TARGET2-SECURITIES" ACCOMPLISHED BY THE OVERSEERS

To promote integration of Latvia's securities settlement systems into the harmonised process of securities settlement in euro encompassing all Member States of the European Union as well as three non-EU countries, such as Iceland, Norway and Switzerland, the Bank of Latvia engaged in T2S Project in the capacity of the payment system overseer. The implementation of the above Project will lead to a harmonised settlement of securities transactions and reduction of costs incurred by the securities market participants. The Bank of Latvia and the LCD continued to steer the Latvian T2S User Group by coordinating the cooperation among the representatives of the LCD, Bank of Latvia, FCMC, Treasury and ALCB. The representatives of the respective institutions, within the scope of their competence, coordinated the assignments regarding the implementation of T2S Project.

The overseers monitored the development of T2S strategy and commenced drafting the T2S concept and preparing an assessment of T2S impact. The above documents are to be finalised in 2011. According to the T2S strategy, the sole viable accession strategy would be the simultaneous participation of the LCD and the Bank of Latvia in T2S only for the settlements in euro since the launch of T2S operation. A time frame for implementing the above Project, assignments to be accomplished and other material information are presented in T2S strategy.

The following provisions have been incorporated into the time frame of T2S strategy:

- in the third quarter of 2011, the CSDs of the Member States of T2S Project shall take a decision on entering into the Framework Agreement with the Eurosystem and thereafter the T2S Programme Board shall define the respective waves of migration to T2S;
- from 2011 until 2013, all stakeholders will pursue legal, operational and technical activities to ensure their readiness for taking the T2S accession tests;
- from January 2014 until 10 September 2014, the user accession tests of the first migration wave will be conducted;
- from September 2014 until 9 November 2015, three migration waves will be take place;
- as of 9 November 2015, the stabilisation of T2S will commence;
- accession of a country to T2S according to an individual time frame related to the euro changeover date will not be possible in the respective country.

As regards the T2S Project, the major work shall be performed by the LCD to ensure the securities settlement, while the Bank of Latvia shall enable cash settlement for securities transactions.

In 2010, the overseers were engaged in the following key activities of T2S Project.

Four meetings of the Latvian T2S User Group were convened in 2010 (on 16 February, 30 March, 16 April and 26 October).

On 16 February, the Latvian T2S User Group discussed information gained at the meeting of Nordic-Baltic T2S National User Groups on 19 January 2010, debated about different accession scenarios, including the accession with the lats and/or the euro. The FCMC was asked to examine legal impact and define the relevant amendments to be made to the legislation. The above participants debated about the relevant amendments to the Law "On the Financial Instruments Market". The parties agreed on the

development of T2S strategy until the second quarter of 2010, excluding the participation in the above Project with the lats, and discussed the potential division of areas of responsibility among the members of the Latvian T2S User Group regarding the assessment of T2S impact. The LCD urged the representatives of ALCB to gather information on the possible direct participation of banks in T2S.

The issues addressed at the meeting of the ECB T2S Programme Board and National User Groups of non-euro area countries of the Central and Eastern Europe were dealt with, the version 1.0 of T2S strategy was approved and decision that the FCMC, LCD and Bank of Latvia would commence the assessment of T2S impact as of 1 April, was passed at the meeting of the Latvian T2S User Group convened on 30 March. The participants agreed that a representative of ALCB would send the T2S strategy to banks for issuing comments thereon and would convene a meeting of credit institutions at the beginning of April. It was decided that the members of the Latvian T2S User Group would approve T2S strategy internally at each organisation, examine documentation of T2S and present sections of the relevant documentation at the next meetings.

On 16 April, the Bank of Latvia presented the T2S strategy to the Securities Committee of ALCB.

On 5 May, the ALCB expressed support to T2S strategy.

On 12 May, the Payment Systems Department of the Bank of Latvia presented the T2S strategy to the Board of the Bank of Latvia and was assigned a task of discussing the above strategy with the relevant Departments of the Bank of Latvia.

On 1 June, Heads of the Latvian T2S User Group held a meeting with the Treasury and presented T2S strategy therein. The competence and scope of responsibilities assigned to the institutions were addressed at the meeting to enable the Treasury's participation in T2S Project.

On 8 June, the relevant Departments of the Bank of Latvia discussed the T2S strategy.

The FCMC and Treasury expressed support to the T2S strategy by 19 June, and the Board of the Bank of Latvia approved the T2S strategy on 1 July.

On 9 July, the Bank of Latvia made a presentation about the T2S settlement day at the meeting of the Latvian T2S User Group. The updated time frame for implementing T2S was debated at the meeting and it was decided to update information regarding the T2S strategy. The parties agreed that for the next meeting the Bank of Latvia would prepare a presentation about the sections of the document "T2S User Requirements" applicable to cash settlement. The LCD committed to make a presentation about the connectivity requirements. The presentation about T2S was sent to the Council of the Bank of Latvia after the meeting.

On 12 August, the Project application was approved by the Bank of Latvia Board and the Working Group for TARGET2-Securities Project Concept Development (the Bank of Latvia T2S Working Group) was established pursuant to the order issued by the Bank's Board on 12 August 2010 "On the Bank of Latvia's Project TARGET2-Securities". The representatives of the relevant Bank of Latvia Departments, such as the Market Operations Department, Monetary Policy Department, Legal Department, Information Systems Department and Accounting Department, were appointed to the Bank of Latvia T2S Working Group. The Board of the Bank of Latvia delegated to the

Bank of Latvia T2S Working Group the responsibility of developing and submitting to the Bank's Board the Bank of Latvia T2S project concept by 16 December. The assessment of T2S impact should be incorporated into the above project concept, and the Head of the Bank of Latvia T2S Working Group should submit a report on the development of T2S project concept by 1 November.

On 7 September, the first meeting of the Bank of Latvia T2S Working Group was convened. At the above meeting, the Payment Systems Department of the Bank of Latvia presented the T2S project, T2S strategy and tasks to be accomplished. The parties decided to identify initially all the Bank of Latvia regulations related to the T2S Project as well as the respective functions and processes.

On 5 October, the Bank of Latvia T2S Working Group addressed different settlement-related functionalities of T2S, shared up-to-date information about the postponement of T2S Project deadline provided by the T2S Consultative Group and ESCB Payment and Settlement Systems Committee. The parties agreed on the list of the Bank of Latvia regulations, functions and processes related to the above Project and also agreed to assess the impact of T2S on the Bank of Latvia regulations, functions and processes by 22 October.

On 26 October, the Bank of Latvia made presentations at the meeting of the Latvian T2S User Group about the participants in T2S, automated security procedures of T2S and cash balances on T2S dedicated cash account.

On 29 October, the issues related to the liquidity on T2S dedicated cash account, automated security procedures of T2S, cash balance on T2S dedicated cash account and assessment of T2S impact were discussed at the meeting of the Bank of Latvia T2S Working Group.

On 29 October, the Payment Systems Department of the Bank of Latvia reported to the Board of the Bank of Latvia on the development of project concept and presented the modified time frame for implementing the T2S Project. The deadlines for the development of T2S project concept and assessment of T2S impact have been postponed until August 2011 in accordance with the mandate of the Bank's Board.

On 17 November, the Bank of Latvia, performing the functions of a Secretariat of the Latvian T2S User Group, participated in the meeting of the NUG secretaries convened by the ECB.

On 30 November, the Minutes of the Latvian T2S User Group's meetings were published on the ECB T2S website in English.