


**EXCHANGE SETTLEMENT ACCOUNTS FOR
BANKS APPROVED TO USE AN RTGS AGENT**

**Summary of Operational and Legal
Arrangements**



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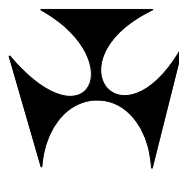


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1. INTRODUCTION

1.1. Document purpose

This Information Paper sets out operational arrangements for the establishment and operation of Exchange Settlement Accounts (ESAs) for banks (and other institutions eligible for an ESA) that have been approved by the Reserve Bank of Australia (RBA) and the Australian Prudential Regulation Authority (APRA) to make their RTGS transactions through an agent, rather than directly through their own ESA.

It is provided for the benefit of existing and prospective banks and other institutions that are eligible for, and wish to avail themselves of, an agency arrangement for RTGS payments.

1.2. Definitions used in this Information Paper

Agent Bank	A bank appointed by an approved Principal Bank to make its RTGS transactions on its behalf, with the approval of APRA.
APRA	Australian Prudential Regulation Authority.
Authorised Signatories	A list provided to the RBA by the Principal Bank, of signatories and their specimen signatures, of those authorised to sign ESA Settlement Instructions and other operational documentation concerning its ESA and RITS.
Austraclear System	The electronic securities settlement and depository system for wholesale CGS and other debt securities. The system is owned and operated by Austraclear Limited, a member of ASX Limited group. The current software for this system is known as Exigo.
Cut-off Point	The share of total RTGS payments, by value, which must not be exceeded, on a consistent basis, by a bank using agency services. In the 26 March 2003 joint Media Release by the RBA and APRA, this was set at 0.25 per cent.
ESA	Exchange Settlement Account. ESAs are accounts with the RBA of banks and other institutions approved by the RBA, for the settlement of payments obligations to each other.
ESA Settlement Instruction	An instruction provided to the RBA by the Principal Bank for any RTGS transaction that it wishes to be effected across its ESA, by the RBA acting on its behalf. The RBA will act on these requests only during an extreme contingency and only at its sole discretion.

Principal Bank	A bank (and other institutions eligible for an ESA) approved by the Reserve Bank and APRA to use an Agent Bank for its RTGS transactions rather than have these settle across the Principal Bank's own ESA.
RBA	Reserve Bank of Australia.
RITS	Reserve Bank Information and Transfer System. The system that is owned and operated by the RBA and facilitates settlement of inter-bank payment obligations, largely on an RTGS basis, across ESAs.
RTGS	Real-time Gross Settlement. Individual settlement, in real time, of inter-bank obligations out of credit funds in the paying bank's ESA.

1.3. Policy background

The policy context for the arrangements in this paper is provided by the joint RBA-APRA Media Release of 26 March 2003, Management of Exchange Settlement Accounts:

In future, banks (and other institutions eligible for an ES account) whose aggregate RTGS transactions are relatively small (defined as less than 0.25 per cent of all RTGS transactions) may make their RTGS transactions through an agent, rather than directly through their ES accounts.

Banks that elect to settle their RTGS transactions through an agent must still maintain an ES account, for use in a contingency.

A bank (and other institutions eligible for an ESA) using an agent for settlement of its RTGS transactions is described in this paper as a Principal Bank, the agent as the Agent Bank.

1.4. Operational context

It is intended that the Principal Bank's ESA would only be used in an extreme contingency, arising from technical or other factors, which seriously compromises the effectiveness of RTGS payments services provided to the Principal Bank by its Agent.

In such circumstances, and subject to the approval of the RBA in each instance, the RBA would perform the required settlement actions on behalf of the Principal Bank, acting in each case on the authenticated ESA Settlement Instructions of the Principal Bank.

1.5. Document scope

This Information Paper describes:

- Eligibility for use of an Agent Bank and the application process with the RBA concerning an ESA and RITS membership.
- Circumstances for use of the Principal Bank's ESA.
- The required operational infrastructure that must be in place ahead of the activation of the Principal Bank's ESA.

As the activation of the ESA may be at extremely short notice, this infrastructure must be in place before the effective date of the banking authority.

- Summary of procedures for providing ESA Settlement Instructions to the RBA.
- RITS legal agreements.

2. USE OF AN AGENT BANK: ELIGIBILITY & RBA APPLICATION

2.1. Eligibility for use of an Agent Bank

In order to be eligible to use an Agent Bank for settlement of any or all of its RTGS transactions, the RTGS transactions of the Principal Bank¹ must, on a consistent basis, account for less than 0.25 per cent of the total value of all RTGS transactions. This figure is referred to as the Cut-off Point.

Assessments against the Cut-off Point will be made by the RBA.

The RBA will approve, in principle, the opening of an ESA for an eligible Principal Bank, subject to approval by APRA of the proposed agency arrangement.

2.2. Application Process – RBA (ESA and RITS)

Applications to use an Agent Bank for RTGS transactions may be made by an existing or prospective bank.

The contact point at the RBA for ESA matters is:

The Senior Manager (Planning & Client Relations)
Payments Settlements Department
Reserve Bank of Australia
Tel (02) 9551 8941
Fax (02) 9551 8063

2.2.1. APRA regulated institutions applying for an ESA

APRA-regulated institutions applying for an ESA will need to submit an application to the RBA that includes the following information:

- Nature and scope of banking business in Australia.
- Operational capacity to operate an ESA
- Projected settlement values arising from the above business for the next three years.
- Name of proposed Agent Bank.

The RBA will advise APRA of the receipt of any such applications.

¹ RTGS transactions of the Principal Bank comprise all transactions that would settle across the ESA of the Principal Bank if it did not use an Agent Bank for RTGS transactions.

These applications will be assessed by the RBA, including against the Cut-off Point on the basis of the projected transaction values. The RBA will advise APRA of the result of this assessment, and its in-principle approval to open an ESA for an eligible Principal Bank.

At the prior request of applicants or on receipt of an application, the RBA will supply copies of appropriate documentation, including legal agreements for membership of RITS, through which ESAs are accessed (refer section 6). These agreements should be signed by the applicant and returned to the RBA. The agreements are then executed by the RBA and the ESA is opened in the name of the Principal Bank.

2.2.2. Institutions making an application to APRA for a banking authority

An institution making an application to APRA for a banking authority will advise APRA, as part of this process, whether it intends to settle its RTGS transactions using its own ESA or wishes to use an Agent Bank for some or all of these transactions.

At an appropriate point, APRA will advise the applicant to contact the RBA regarding an application for an ESA.

An application for an ESA is required by the RBA in all cases. This section details the process for a bank seeking approval from APRA to use an Agent Bank for all of its RTGS transactions. There are wider requirements for a bank wishing to use its own ESA for any or all of its RTGS transactions or batch settlements.

The RBA will ask the applicant to submit an application for an ESA that must include the following information:

- Proposed nature and scope of banking business in Australia and abbreviated business plan.
- Projected settlement values arising from the above business for the next three years.
- Name of proposed Agent Bank.
- Planned start-up date.

The RBA will advise APRA of the receipt of any such applications.

These applications will be assessed by the RBA, including assessment against the Cut-off Point on the basis of the projected transaction values. The RBA will advise APRA of the result of this assessment, and its in-principle approval to open an ESA for an eligible Principal Bank.

At the prior request of applicants or on receipt of an application, the RBA will supply copies of appropriate documentation; including legal agreements for membership of RITS, through which ESAs are accessed (refer section 6). These agreements should be signed by the applicant and returned to the RBA.

On notification from APRA of approval of the agency arrangement and the issuance of a banking authority, and establishment of the necessary operational infrastructure (refer section 4), these agreements will be executed by the RBA and the ESA opened in the name of the Principal Bank.

2.2.3. Existing ESA Holders wishing to use an Agent Bank

An existing ESA holder that currently settles its own RTGS transactions may apply to APRA to use an Agent Bank for any² or all of its RTGS transactions and apply to the RBA to vary the conditions for use of its ESA.

Application may be made concurrently to APRA and the RBA. These institutions will keep each other informed of such approaches.

This section details the application process in respect of the RBA. The RBA's requirements will vary depending on whether a bank wishes to continue using its ESA for any of its RTGS transactions or batch settlements.

The RBA will ask the applicant to submit an application to vary the conditions for the use of its ESA that must include the following information:

- Any proposed changes to the nature or scope of banking business in Australia.
- Projected settlement values for the next three years.
- The expected nature and size (by number, value and type) of any remaining settlements across the ESA and the number and location of requisite back and front office staff.
- Name of proposed Agent Bank.
- Planned date for commencement of the agency arrangement.

The RBA will advise APRA on receipt of any such applications.

These applications will be assessed by the RBA against the Cut-off Point, on the basis of historical and projected transaction values if appropriate. The RBA will also assess the appropriateness of arrangements for any continuing settlement across the ESA. The RBA will advise APRA of the result of this assessment, and its in-principle agreement or otherwise to the changed use of the ESA.

² It is possible that an existing ESA holder making an application to use an Agent Bank may wish to continue to settle some of its RTGS transactions. Should this be the case, the ESA holder would in a contingency affecting its Agent Bank retain the capacity to directly settle RTGS transactions across its own ESA. It would therefore not need the RBA to enter transactions on its behalf. Accordingly the arrangements outlined in this paper for the settlement of transactions by the RBA acting on behalf of a Principal Bank would not apply.

At the prior request of applicants or on receipt of an application, the RBA will supply copies of appropriate documentation and a supplementary legal agreement (refer section 6). This agreement should be signed by the applicant and returned to the RBA.

On notification from APRA of approval of the agency arrangement, and establishment of the necessary operational infrastructure (refer section 4), these agreements will be executed by the RBA.

2.2.4. Reporting arrangements for approved Principal Banks

Each Principal Bank must report to the RBA, either directly or via its Agent Bank, the value of its RTGS transactions settled by its Agent Bank. This reporting will be on a quarterly basis and will comprise all transactions that would settle across the ESA of the Principal Bank if it did not use an Agent Bank for RTGS transactions.

These reports are to be addressed to:

The Senior Manager (Planning & Client Relations)
Payments Settlements Department
Reserve Bank of Australia
GPO Box 3947
SYDNEY NSW 2001

On the basis of this reporting, the RBA will assess the Principal Bank's share of RTGS payments and hence its continued eligibility to use an Agent Bank.

The Principal Bank must also inform the RBA of any change of Agent Bank prior to terminating its agreement with the original Agent Bank. Failure to do so will constitute an Event of Default giving the RBA a right to suspend or terminate the ESA.

Attachment 1 sets out the RBA's reporting requirements in further detail.

2.3. Breach of the eligibility requirements

If the threshold of 0.25 per cent were surpassed on a sustained basis, the RBA would require the Principal Bank to put in place arrangements to settle its RTGS transactions across its own ESA. By way of example, three consecutive quarterly reports might be regarded as "sustained", except in the presence of mitigating circumstances.

If this were to be the case, the Principal Bank should arrange to meet with the RBA to present a plan and indicative timetable for the establishment of its own ESA operations.

3. CIRCUMSTANCES FOR USE OF THE PRINCIPAL BANK'S ESA

The ESA of a Principal Bank that uses an Agent Bank for all its RTGS transactions would only be used in an extreme contingency, arising from technical or other factors.

The RBA would perform necessary RTGS settlement actions in RITS (as cash transfers) on behalf of the Principal Bank, acting in each case on the receipt of properly authenticated ESA Settlement Instructions from the Principal Bank, and at the sole discretion of the RBA.

Transactions involving the movement of stock in the Austraclear System would require separate instructions from the Principal Bank to its custodian in respect of its transactions with either the RBA or other counterparties.³

The Principal Bank would need to undertake all communications with its counterparties and custodian and, depending on circumstances, may also need to establish a commercial account with another bank for settlement of transactions on a net deferred (as opposed to RTGS) basis.

³ Where the RBA is counterparty to transactions with the Principal Bank (i.e. for RBA Repos), there would be a “free of value” transfer of stock in Austraclear between the custodian of the Principal Bank and the RBA, and a cash transfer in RITS between the RBA and the ESA of the Principal Bank. If the RBA were not counterparty, any transfers of stock would be between the Principal Bank’s custodian and the Principal Bank’s counterparty (or their custodian) in Austraclear, and the movement of funds would be between the Principal Bank’s counterparty and the ESA of the Principal Bank.

4. REQUIRED OPERATIONAL INFRASTRUCTURE

Any use of the ESA in a contingency may be required at extremely short notice. To enable this, some operational infrastructure must be in place prior to commencement of the agency arrangement. This section assumes that necessary legal agreements have been executed (refer section 6) and that the approval of APRA has been obtained.

- (a) An ESA would be opened in the name of the Principal Bank. *Not applicable for an existing ESA holder.*
- (b) A bank class membership would be established in RITS in the name of the Principal Bank. *Not applicable for an existing ESA holder.*
- (c) In the case of:
 - i) A new ESA holder, the RBA would establish any necessary branches in RITS. The Principal Bank would not have access to RITS, would not be provided with RITS logon details and no users would be allocated to it.
 - ii) An existing ESA holder ceasing to settle across its ESA, the RBA would close unnecessary branches in RITS and remove all previous users.
- (d) Arrangements would be established for provision of ESA Settlement Instructions to the RBA in the event of a serious contingency (refer section 5). Arrangements for annual testing of these procedures would also be agreed.
- (e) Arrangements would be made for provision to the RBA of a list of RITS Authorised Signatories and contact information. The Principal Bank must keep these up-to-date. The RBA will confirm that they are up-to-date during its routine checks with all Members of RITS.

5. PROVISION OF ESA SETTLEMENT INSTRUCTIONS TO RBA

5.1. Method of providing ESA Settlement Instructions

This section describes how a Principal Bank would provide ESA Settlement Instructions to the RBA for settlement across its ESA in a contingency.

There are two methods, SWIFT messages or authenticated faxes. The choice between these will depend on the method used by the Principal Bank to provide payments instructions to its Agent Bank in the normal course.

An ESA Settlement Instruction must be provided to the RBA for each RTGS transaction that the Principal Bank wishes to settle across its ESA. These will only be acted upon by the RBA after proper authentication.

5.1.1. Principal Banks using SWIFT to send instructions to their Agent Bank

If the usual means of providing RTGS payment instructions from the Principal Bank to its Agent Bank is by means of SWIFT messages, the Principal Bank should provide ESA Settlement Instructions to the RBA by the same means. For this purpose, the Principal Bank must exchange SWIFT authorisations in the Relationship Management Application (RMA) to send and receive messages with the RBA before its ESA is opened. Principal Banks should use the RBA's "commercial" SWIFT address: RSBKAU2S. Examples of SWIFT messages are shown in Attachment 2.

In sending its settlement instructions to the RBA, the Principal Bank should use the BIC of the entity that signed the Supplementary Membership Agreement with the RBA.⁴ Alternatively, it can instruct the RBA to accept settlement instructions from a different BIC. The instruction to accept use of a different BIC must be signed in accordance with the Principal Bank's list of RITS Authorised Signatories and sent to the RBA. Note that the Principal Bank is not restricted in what country it can send settlement instructions from.

5.1.2. Principal Banks not using SWIFT to send instructions to their Agent Bank

If the Principal Bank does not send RTGS payment instructions to its Agent using SWIFT, it will provide ESA Settlement Instructions to the RBA using authenticated faxes. These faxes must be signed in accordance with its list of RITS Authorised Signatories and sent to Settlements, Payments Settlements Department, RBA on (02) 9551 8027.

In addition, a test key must be affixed to payment instructions. This will be generated by a code provided to the Principal Bank in the form of an Excel spreadsheet. This code will assign a value to each field such as settlement date, other bank, amount etc. The test key will be the sum of these values.

⁴ Typically the BIC will be at the 8 digit level, indicating institution, country and region.

5.2. Content of ESA Settlement Instructions

Each ESA Settlement Instruction to the RBA would need to include the following details:

- a) Settlement date.
- b) Amount.
- c) For cash transfers in RITS, the name of the counterparty bank, i.e. the bank from which the Principal Bank is receiving funds or to which it is paying funds, and that bank's RITS identifier.
- d) Whether it is a payment (debit) or a receipt (credit).
- e) In the case of transactions involving the movement of stock in Austraclear where RBA is the counterparty, the code of the Principal Bank's custodian in Austraclear, series ID, yield, deal price and face value, as applicable.
- f) In the case of other transactions in Austraclear (where the RBA is not the counterparty), the code of the Principal Bank's custodian in Austraclear. (There will be a corresponding instruction for the resulting cash transfer in RITS between the RBA and the Principal Bank.)

6 LEGAL ARRANGEMENTS

As ESAs are accessed via RITS, the Principal Bank would need to join RITS and enter into the following RITS agreements with the RBA:

- **Membership Agreement.** This is a standard agreement binding the Principal Bank (“the Member”) to the RITS Regulations, which provide the legal foundation for settlements across RITS. *Existing ESA holders will already be party to this agreement.*
- **Participating Bank Facilities Agreement.** This is a standard agreement covering the provision in RITS of the Exchange Settlement Cash Account and posting of the balance in this account to the actual ESA held in the RBA’s internal accounting system. *Existing ESA holders will already be party to this agreement.*
- **Supplementary Membership Agreement.** This is executed in any case where an ESA is subject to special conditions. A standard form of this agreement has been developed for Principal Banks. The main provisions cover:
 - appointment of the nominated Agent Bank;
 - purpose of ESA (for contingency use only);
 - nature of facilities provided (ESA, RITS etc);
 - use of the ESA (with prior approval of RBA and on instructions of the Principal Bank, and on an RTGS basis);
 - method of ESA Settlement Instruction (SWIFT message or authenticated fax) and required information in such instructions;
 - quarterly reporting to the RBA by the Principal Bank or its Agent Bank of the Principal Bank’s RTGS transactions;
 - acknowledgement that if the Principal Bank’s share of RTGS transactions by value exceeds 0.25 per cent on a consistent basis (as determined by the RBA using the above reporting) then the agency arrangement will be reviewed. If approval for the agency arrangement is withdrawn, the Principal Bank would need to implement full ESA arrangements within 6 months; and
 - indemnity of the RBA against liabilities incurred in respect of its proper exercise of settlement responsibilities, including the acceptance of properly authenticated faxed instructions (should those be used).

ATTACHMENT 1**RTGS AGENCY ARRANGEMENTS
QUARTERLY REPORTING TO THE RESERVE BANK**

Clause 9.1 of the RITS Supplementary Membership Agreement (for banks using an Agent Bank for RTGS payments) provides for quarterly reporting to the Reserve Bank on RTGS transactions settled by the Agent Bank on behalf of the Member (here termed the “Principal Bank”).

These reports are for the three months ending each March, June, September and December and must be sent to the Reserve Bank no later than one month following the end of each reporting period.

These reports may be provided by either the Principal Bank or Agent Bank, as agreed between them, and must be signed by an authorised officer of that Bank.

Reports are to be addressed to:

Senior Manager, Planning & Client Relations
Payments Settlements Department
Reserve Bank of Australia
GPO Box 3947
SYDNEY NSW 2001

This note provides guidance on the completion of these reports.

The following information should be included:

1. Name of the Principal Bank.
2. Name of the Agent Bank.
3. Name, position and contact details of authorised officer signing the report.
4. Period covered (e.g. 1 July – 30 September).

If the report does not cover a full quarter, reflecting the effective commencement date of the agency arrangement, this must be noted.

5. Value of RTGS transactions settled by the Agent Bank on behalf of the Principal Bank during the reporting period.

Only a single total figure for the quarter is required, but if preferred by the reporting party, this figure may be broken down into shorter periods (e.g. months) provided the reporting period is not compromised.

Figures reported must reflect all outgoing RTGS payments settled by the Agent Bank on behalf of the Principal Bank. These include payments made using the SWIFT PDS,

the Austraclear System*, and RITS cash transfers as applicable and those payments that would have settled across the ESA of the Principal Bank by these means in the absence of an RTGS Agency arrangement. This means that reporting should include “intrabank RTGS” payments between the Principal Bank and Agent Bank, and between the Principal Bank and customers of the Agent Bank.

* If the Principal Bank is a Member of the Austraclear System with the Agent Bank as its participating bank, the Austraclear payments of the Principal Bank should be included in this report.

6. Number of RTGS transactions settled on the same basis as item 5.

Reporting of this information is optional. However it would be appreciated, if practicable, to assist in interpretation of the value figures reported under item 5.

Enquiries concerning the quarterly reporting described above should be directed to:

Manager, Settlement & Analysis
Planning & Client Relations
Payments Settlements Department
Telephone (02) 9551 8942

Enquiries concerning the broader arrangements described in this document should be directed to:

Senior Manager
Planning & Client Relations
Payments Settlements Department
Telephone (02) 9551 8941

ESA SETTLEMENT INSTRUCTION TO RBA VIA SWIFT**1. Bank to Bank – Payment by Principal Bank****SWIFT Message Type: MT202 General Financial Institution Transfer**

Tag	Description	Detail	Comments
	Sender SWIFT BIC:		Principal Bank
	Receiver SWIFT BIC:	RSBKAU2S	Reserve Bank
20	SWIFT TRN		Principal Bank Reference
21	Related Reference		Related Reference
32A	Value Date Currency Code Amount	yymmdd AUD15d	As applicable
53B	Sender's Correspondent	/nnnnn-n (and) 6 digit RITS Code	ES Account number of Principal Bank followed by their RITS Code
58A	Beneficiary Institution	/6 digit RITS Code SWIFT BIC	Receiving ES Account Holder If the SWIFT BIC is unknown: 58D: /6 digit RITS Code Name of Beneficiary
72	Sender to Receiver Information	/REC/PLEASE EFFECT RITS //CASH TRANSFER ON OUR //BEHALF	

2. Bank to Bank – Receipt by Principal Bank**SWIFT Message Type: MT210 Notice to Receive**

Tag	Description	Detail	Comments
	Sender SWIFT BIC:		Principal Bank
	Receiver SWIFT BIC:	RSBKAU2S	Reserve Bank
20	SWIFT TRN		Principal Bank Reference
25	Account Identification	/nnnnn-n (and) 6 digit RITS Code	ES Account number of Principal Bank followed by their RITS Code
30	Value Date	yymmdd	
21	Related Reference		Related Reference
32B	Currency Code Amount	AUD15d	As applicable
52A	Ordering Institution	/6 digit RITS Code SWIFT BIC	Paying ES Account Holder If the SWIFT BIC is unknown: 52D: /6 digit RITS Code Name of Ordering Institution