RESERVE BANK INFORMATION AND TRANSFER SYSTEM

RITS Low Value Feeder Project

Low Value Settlement Service

Member Documentation

Revised Version

June 2011

Table of Revisions

The following table summarises the changes between the November 2010 and June 2011 versions of this document. Changes to text are shown marked up (in ~~blue font strikethrough~~ for deletion and <u>blue font underline</u> for additions) for ease of identification. Updates are shown in <u>blue font underline</u>.

Section	Description
1.3	Update on the industry testing timetable and on consultation with the industry on the migration strategy.
1.4	An updated version of the LVSS: Member Technical Specifications was issued in June 2011. New documents have also been published on the RITS Information Facility. These are the LVSS: FSI Message Usage Standards and LVSS Project Update – June 2011.
2.2	Update on consultation with the industry on message usage standards.
2.4	Replaced a single payment service code for APCS with three codes, as agreed by APCA's MC1 in May 2011 and published in the LVSS: FSI Message Usage Standards.
2.5	Confirmation (in footnote) that FSIs are not required for separate EP&D Record Types.
3.1	Minor clarification regarding the recipients of recall responses.
5.2.5	Minor correction regarding the Transaction Type element of an ESA Statement line.
5.3.3	Removal of reference to a lock time (separate to the start time) of a multilateral run.
6.1	Up to date information on the industry timetable is available in the LVSS Project Update – June 2011.
Appendix	Inserted reference to removal of APCS Tier 1A/1B net debit limits.

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1.   Introduction

1.1   Background

At 9.00 am each day, the Reserve Bank settles a batch of payments in RITS to extinguish the payment obligations created from the previous day's low value clearings. The low value clearing systems settled in this way include the Australian Paper Clearing System (APCS), the Bulk Electronic Clearing System (BECS) and the Consumer Electronic Clearing System (CECS) that are administered by the Australian Payments Clearing Association (APCA). The details of these payment obligations are currently advised to the Reserve Bank using Exchange Summary files. They are collated with other low value obligations (such as Cashcard) for settlement in the 9am Batch.

The Reserve Bank is developing new infrastructure to improve the way that payment obligations arising from low value clearings are advised and settled. The new infrastructure will allow instructions to be delivered directly to RITS for more timely processing. Under the new arrangements, Exchange Summary files will no longer be used to advise the end-of-day multilateral settlement positions for each clearing system. Instead, bilateral obligations will be sent to the RITS Low Value Settlement Service (LVSS) using File Settlement Instructions (FSIs). RITS functionality is also being enhanced to provide improved monitoring and transaction management capabilities as well as the introduction of modern messaging standards.

The migration from Exchange Summaries to FSIs and the use of the LVSS will initially take place without any material change to the next-day 9am settlement arrangements. Settlement instructions sent to RITS as FSIs via the LVSS will continue to settle as part of a multilateral obligation at 9.00 am until alternative (same-day) settlement arrangements are agreed and implemented for appropriate clearing systems. The Reserve Bank will provide detailed information on the business arrangements for migrating to and for using the LVSS for next-day settlement following industry consultation.

The initial migration to FSIs and the use of the LVSS for next-day settlement will help facilitate the eventual move to more frequent (same-day) settlement of low value clearing obligations where suitable. However, at the time of writing, the timing, scope and other business arrangements for same-day settlement in Australia have not been determined. The Reserve Bank will continue to support the industry in developing a same day settlement model for low value payments. This includes work underway analysing the results from the Reserve Bank's recent RTGS and BECS survey.

To use the LVSS, all ESA holders and their agents that currently send payment obligations to the Reserve Bank for settlement in the 9am Batch will be required to change from sending Exchange Summaries to sending FSIs. This is a mandatory requirement.

Each Member will need to make appropriate system modifications to enable it to send FSIs to RITS. For file exchanges in APCS Electronic Presentment and Dishonour (EP&D) and BECS, FSIs are to be sent concurrently with the sending of clearing files to counterparties. Each Member will also need to determine its preferred arrangements for receiving and processing responses and advices concerning the settlement instructions sent to RITS. Once ESA holders commence using the LVSS, they will be able to monitor their low-value payment obligations as they are submitted to RITS throughout the day. This will help in understanding the liquidity that would be required to settle these obligations more frequently during the course of the day.

This paper provides industry participants with details of the settlement arrangements and general operation of the LVSS. It should be read in conjunction with a separate document entitled *Low Value Settlement Service: Member Technical Specifications* which contains the detailed messages specifications and XML schemas used by the LVSS. The

technical document contains the information required by participants to commence the systems development necessary to send instructions to the LVSS and to receive responses and advices from the LVSS. It also provides a guide to populating the FSI using data exchanged in existing clearing and collator files.

The information provided in this document builds on the earlier design work undertaken in consultation with the payments industry. It takes into account the industry's feedback on the design of the LVSS provided from earlier working group discussions and consultation papers (see section 1.4 below). The Reserve Bank welcomes any additional comments from industry participants based on these detailed specifications.

1.2   Purpose and Scope of this Document

The purpose of this document is to provide information to RITS 9am Batch participants to enable the development of the necessary message functionality within their systems to use the LVSS. This capability is mandatory for all current Tier 1 settlement members of clearing systems and by any current Tier 2 members of clearing systems that are considering becoming Tier 1 members[1]. This document provides:

- an outline of the service principles that will apply for the LVSS;

- business flows for LVSS transactions;

- details of the functionality that will be available in RITS for LVSS settlements;

- an overview of Member setup and operational arrangements for the LVSS; and

- an Appendix which sets out the differences between Exchange Summaries and FSIs.

This document does not include detailed information on network or connectivity requirements. The Reserve Bank expects that most Members will already have the necessary connection arrangements in place as a result of existing clearing or Collator arrangements (i.e. COIN or SWIFT).

Members should note that although this document provides an outline of the new functions in RITS for LVSS transaction management, it is not a user guide. User guides and other detailed information regarding RITS-specific setup requirements will be provided to Members in due course.

The Reserve Bank implemented the RITS Low Value Clearing Service (LVCS) in June 2010 to assist the industry with its clearing processes by facilitating the transfer of clearing files between RITS Members that use different networks or file transfer protocols. Details of the LVCS are not included here; further information on this service is available on the RITS Information Facility.

Amendments to the *RITS Regulations and Conditions of Operation* in relation to the LVSS were implemented in June 2010. Definitions of the RITS terms used in this document can be found in the *RITS Regulations and Conditions of Operation*.

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[1] For the purposes of this document, the term "Member" is used to mean Members of RITS who are current, or prospective, direct clearing participants of low value clearing systems and who settle directly across their ESA the interbank obligations arising from these clearings. Prospective Members still have to meet normal APCA clearing system requirements before commencing the use of FSIs for settlement.

1.3   Next Steps and Key Dates

The Reserve Bank expects those Members currently providing settlement data to the Collator to commence planning for this project immediately. This includes tasks such as arranging for the allocation of budget funding, assembling project teams, preparing timetables and securing system resources. Project development should begin as soon as practicable. To assist with initial planning, section 6 of this document summarises the key actions that need to be taken by Members to migrate to the use of FSIs and to the LVSS for settlement.

Institutions should have completed **initial testing** of LVSS messages, including the sending of test FSIs to the RITS Pre-Production Environment, by the **end of 2011**. The RITS Pre-Production environment will become available during the second quarter of 2011 for this initial testing.

June 2011 Update: For up to date information on the industry timetable, please refer to the *LVSS Project Update – June 2011*, available under Projects on the RITS Information Facility.

The Reserve Bank will be in contact with Members in March 2011 to confirm the status of each Member's planning for this project. Subsequent status checkpoints will also be scheduled.

The Reserve Bank will undertake further consultation with APCA and individual Members to determine an appropriate migration strategy and timetable for Members to begin using FSIs in production, expected to be during the course of 2012.

June 2011 Update: The RBA has consulted with the industry via APCA management committees regarding the migration strategy. Please refer to the *LVSS Project Update – June 2011*, available under Projects on the RITS Information Facility.

1.4   Related Documents

The following documents related to the RITS Low Value Feeder project, incorporating the Low Value Clearing Service (LVCS) and the Low Value Settlement Service (LVSS), are available on the RITS Information Facility:

- *Same-day Settlement of Low-value Payments in RITS - Industry Consultation Paper, May 2008*

- *Industry Consultation Paper 2: Network Arrangements, Message Flows and Settlement of Low Value Payments in RITS, January 2009*

- *Industry Consultation Paper 3: Some Initial Design Aspects proposed for the Low Value Feeder, March 2009*

- *Clearing Interconnector Service, Information Paper, June 2009*

- *Overview of Governance Arrangements, December 2009*

- *Payments Network Connectivity: Partner Migration, Information Paper, December 2009*

- *Low Value Network Migration Project: Timetable and Scope, Information Paper, February 2010*

- *Low Value Clearing Service (Clearing Interconnector) Member Documentation, May 2010*

- *Low Value Clearing Service (Clearing Interconnector) User Guide, July 2010*

- *Low Value Settlement Service: Member Technical Specifications, ~~November 2010~~ June 2011*

- *Low Value Settlement Service: FSI Message Usage Standards*

- *Low Value Settlement Service: Project Update* (first issue June 2011)

2.   Service Principles

The ultimate objectives of the LVSS project are to provide Members with the ability to undertake more frequent (same-day) settlements of their low value payment clearing obligations and to decommission the current infrastructure used for the 9am Batch. The new LVSS infrastructure will be used for both next-day and same-day settlement of low value clearings. The Reserve Bank will continue to encourage business migration to same-day settlement for appropriate payment services over a reasonable transition period.

The initial migration will require Members to produce and send FSIs to RITS in place of Exchange Summaries for next-day 9am settlement. It will also require FSIs to be sent for existing BECS same-day government direct entry settlements. A separate FSI must be produced for each bilateral clearing exchange with each exchange partner. This contrasts with the current requirement of a single Exchange Summary produced at the end of the day that aggregates the full day's clearings for all exchange partners. By way of example, in a clearing system with 8 settlement members and 4 agreed exchanges each day, a settlement member will in future need to produce a total of 28 (7x4) FSIs per day. Each of the resulting settlements will be recorded as individual transactions in RITS, but will be settled simultaneously at 9.00 am.

Low value payments will continue to be cleared and settled in accordance with the applicable APCA clearing system regulations and procedures. Appropriate amendments to those rules will be made to cater for the changed settlement arrangements associated with migration to the LVSS.

2.1   Overview of LVSS Settlement

The diagram below illustrates at high level the message flows for the LVSS, as advised to the industry in previous Consultation Papers.

Payments Clearing and LVSS Message Flows
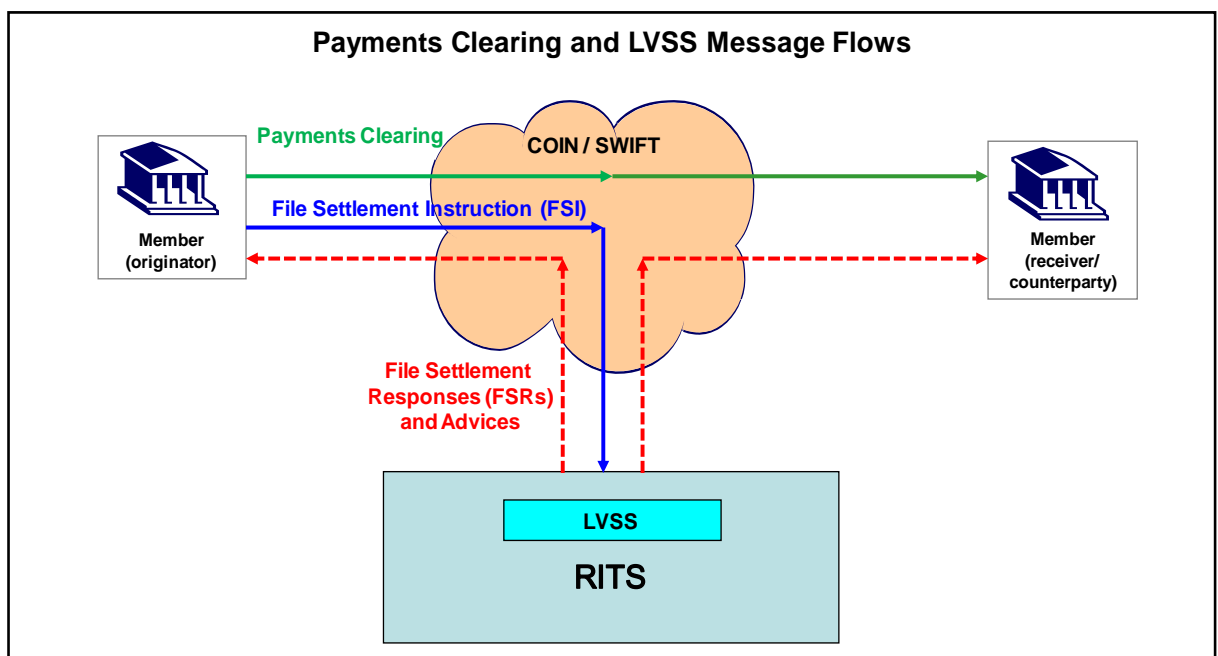
An FSI is required to be sent to RITS to settle the obligation created as a result of a low value payments clearing exchange. For example, this can arise from the exchange of a direct entry file, an electronic cheque presentment file, physically exchanged cheques or from the requirement to settle accrued ATM/EFTPOS obligations.

A Member sends an FSI to RITS over either the COIN or SWIFT FileAct network. Members do not need to use the same communications network as their counterparty. Within RITS, new processing functionality receives the FSI, validates the contents and extracts the information required to create a settlement transaction.

Transactions may be marked for individual settlement testing, in which case they will be tested for settlement on the RITS Queue in the same way that other RTGS transactions are currently tested. Alternatively, the transactions may be marked for settlement testing as part of an LVSS multilateral settlement. (This will be the required treatment for FSIs settled in the 9am Batch.)

Once created, the settlement instruction may be:

- stored for multilateral settlement at 9am the next day (the initial migration for existing deferred settlement clearing systems);

- stored for bilateral (or individual) settlement the next day e.g. government direct entry settlements; or

- placed on the RITS Queue for settlement today (same-day settlement).

Prior to settlement, the originator of the FSI is able to send a file recall instruction (FRI) to RITS to 'recall' the transaction. A recall instruction will be unsuccessful if the FSI had been rejected, had already settled, or had already been recalled. It will also be unsuccessful if the transaction is locked for multilateral settlement (see section 5.3.3).

Members will be able to manage LVSS transactions on the RITS Queue through existing and enhanced RITS functionality. Existing AIF functionality for unsolicited advices and Queue management will also be available for LVSS transactions.

The LVSS will provide Members with a suite of new LVSS advices and responses. With the exception of rejections (which are mandatory), Members may optionally select (in RITS) the advices and responses they would like to receive.

2.2   Scope of LVSS and Migration Requirements

The LVSS will ultimately be used for the settlement of all existing components of the 9am Batch. These components are as follows:

- APCS file and paper exchanges – this includes EP&D and regional exchanges;

- BECS file exchanges – this includes both normal and government direct entry exchanges;

- CECS message exchanges;

- Cashcard Closed User Group settlement; and

- Government Agency sweep settlement.

For the APCA-administered clearing systems, the Reserve Bank will undertake appropriate consultation with APCA and the industry on the changes required to the various clearing system Regulations and Procedures to accommodate the LVSS. This will include seeking to ensure that the industry uses a common approach on the creation of FSIs, the population of its various fields, and the way that settlement transactions are treated in RITS. Separately, the Reserve Bank will discuss future LVSS requirements with both Cashcard (and its members) and those transactional bankers providing services to Australian Government agencies.

<u>June 2011 Update: The Reserve Bank has consulted with the industry via APCA management committees on the agreed industry usage of fields in an FSI. The agreed standards are documented in the LVSS: FSI Message Usage Standards*, June 2011* which is available on the RITS Information Facility</u>.

The use of the LVSS and the sending of FSIs will be mandatory for the 9am Batch components listed above. The timing of the migration may be different for each of these components and will be determined after further consultation with the industry.

2.3   Who Can Participate?

Settlement members of an approved payment service (see section 2.4 below) will be eligible to participate in the LVSS for the settlement of obligations arising from that payment service.

Settlements between a Tier 2 member and its Tier 1 representative are not within the scope of the LVSS migration.

RITS will administer a list of each Member approved to use the LVSS for each payment service, and incoming FSIs will be validated against that list.

2.4   Allowable Payment Services

As various clearing systems and other payment clearing arrangements migrate settlement to the LVSS, they will be entered into RITS as allowable "payment services". Each originator will identify the payment service to which an FSI relates using the payment service codes listed below. An additional descriptive field, the clearing description, is included in the FSI to aid identification of a clearing obligation (for example it could be used to identify an APCS state, time of file exchange, etc).

To assist Members in making initial systems changes, the payment services that are currently expected to use the LVSS, and their codes, are as follows:

Payment Service Code	Payment Service Name
<u>APCE</u> APCS	APCA's Australian Paper Clearing System (incorporates Electronic Presentment and Dishonour (EP&D). and the state-based clearing streams). [Note that different payment service codes could be considered to differentiate EP&D clearings from state-based clearing streams.]
<u>APCR</u>	<u>APCA's Australian Paper Clearing System regional ("for value") exchanges.</u>
<u>APCT</u>	<u>APCA's Australian Paper Clearing System Tier 1A/1B advices.</u>
BECN	APCA's Bulk Electronic Clearing System - normal direct entry files.
BECG	APCA's Bulk Electronic Clearing System - government direct entry files. Reserve Bank payments for GDES settlements will continue to be made when RITS opens to assist in the provision of RTGS liquidity. As now, Agency bankers must continue to pass on funding for Commonwealth Government direct entry payments prior to 8.15 am. As such, these transactions must use the "I"ndividual LVSS Settlement Method.
CECS	APCA's Consumer Electronic Clearing System.
CSHD	Cashcard Closed User Group.

Payment Service Code	Payment Service Name
GABS	Government Agency Balances Sweep.

This list is not exhaustive, and other payment services may be added over time.

2.5   Who sends File Settlement/Recall Instructions?

A clearing participant that sends a clearing file to an exchange partner, or otherwise initiates an outward clearing exchange, will be the party that creates and sends the FSI. Members may build their systems so that the FSI is created and sent to the LVSS as part of their payments clearing processes.

The clearing participant that sends an FSI, or on whose behalf one is sent if using an agent, is the "Originator'" of the FSI. An FSI may only be recalled by its Originator. However, a request to recall the FSI may be sent to the Reserve Bank by the Originator's agent.

Based on current industry clearing arrangements and the items presently included in the 9am Batch settlement, FSIs will need to be created as follows:

Type of Exchange	Number of FSIs
APCS (Originators)	1 FSI for each Tier 1A counterparty (7 at present) for each official EP&D exchange involving a transfer of value (i.e. files A and D in the EP&D cycle as well as files B and E if they contain value items). An FSI will be sent for the total of all outward Record Types that are for value in a single exchange (eg the total of Record Type 1010 representing the value of Electronic Presentment items in an exchange would be sent as an FSI; the FSI for a D transmission would contain the total of Record Type 1011 and 1012 items).[2] 1 FSI for each Tier 1A counterparty for that day's total outward regional paper (for-value) exchanges for each region in which you participate (up to 6). 1 FSI for each Tier 1A/Tier 1B relationship for that day's exchanges.
Normal BECS (Originators)	1 FSI for each Tier 1 counterparty (13 at present) to which you send files in each official exchange (up to 5) and any non-official exchanges (eg BPAY). For institutions that participate in all exchanges, this implies a minimum of 65 FSIs per day. An FSI is not required for null or empty files.

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[2]   A separate FSI for each EP&D Record Type could also be used. EP&D exchanges consist of an Electronic Presentment cycle (Files A, B and C) and an Electronic Dishonour cycle (Files D, E and F). For example, File A contains Electronic Presentment records and File D contains Electronic Dishonour records. APCA's APCS Procedures contain further information on the EP&D cycle.
June 2011 Update: Separate FSIs for each EP&D Record Type are not required.

Type of Exchange	Number of FSIs
Government BECS (Originators)	1 FSI for each Tier 1 counterparty (13 at present) to which you send files in each official exchange (up to 3) and any non-official exchanges. For institutions that participate in all exchanges, this implies a minimum of 39 FSIs per day. An FSI is not required for null or empty files.
CECS	1 FSI for each Direct Settler with each other Direct Settler on a frequency that will be determined in consultation with the industry. The initial expectation is that this will be done on a once a day basis (as now). June 2011 Update: Initial once a day lodgement of obligations has been confirmed.
Cashcard	1 FSI for each Cashcard member with each other Cashcard member on a frequency that will be determined in consultation with Cashcard and its members. The initial expectation is that this will be done by Cashcard (on behalf of its members) on a once a day basis (as now). The Reserve Bank will liaise with Cashcard concerning this requirement. June 2011 Update: Initial once a day lodgement of obligations has been confirmed.
Government Sweeps	1 FSI per day for each transactional banker providing banking services to an agency of the Australian Government.

FSIs may be sent while RITS is open for settlement and during normal clearing hours while RITS is closed for settlement. FSIs sent outside of normal RITS settlement hours will still be accepted and validated by RITS as they are received and relevant responses and advices will be sent. A RITS enquiry showing emerging LVSS settlement obligations will also be available. This will enable originators and counterparties to keep track of the build-up of next-day settlement obligations in RITS as they undertake their overnight clearing activities.

RITS will validate the identity of the file sender (as determined from the SWIFT Distinguished Name or the mailbox/destination credentials for COIN users) against the Originator ID in the FSI or FRI. If the two do not match, the FSI or FRI will be rejected unless it is sent via an approved agency relationship (see section 2.6 below).

2.6   Using an Agent for Delivery of LVSS Messages

Some Members may not wish to directly send their own FSIs and FRIs to RITS (for example, Members that use a courier to exchange clearing files may have no direct COIN connection to the Reserve Bank). Members will be able to use an agent for the delivery of their settlement (and recall) instructions to the Reserve Bank. The appointed agent will automatically receive mandatory reject responses. Members can optionally select the responses and advices they may wish to have routed to their agent.

The agent must have either a COIN connection to the Reserve Bank or be a member of a LVSS SWIFT FileAct Closed User Group.

RITS will maintain a list of approved agency arrangements for the LVSS for each Member by payment service. Incoming FSIs and FRIs will be validated against this list when the originator indicated in the FSI or FRI (i.e. the Member) is not the sender.

Where a Member appoints different agents for different payment services, each agent may only recall FSIs for the payment service for which they were appointed.

2.7   Debit Items or Credit Items or Both?

In low value payments clearing terminology, a **credit item** is an item that is sent by one bank to a second bank for the credit of a customer account at the second bank. A **debit item** is sent by one bank for the debit of a customer account at the second bank. Clearing of cheques are debit items because, in the clearing process, the bank at which the cheque was deposited returns the cheque (or electronic data about it) to the bank of the payer of the cheque in order to debit the payer's account. Direct entry credit items include salary payments and payment of invoices. Direct entry debit items include loan repayments and utility bill payments where a billing organisation has received permission to debit the payment amount from its customer's bank account. Most debit and credit card transactions involve the clearing of debit items between the acquirer and card issuer.

The content of the FSI includes fields for the number and value of credit items, the number and value of debit items and the settlement amount. This provides the capability for FSIs to be used for the settlement of underlying clearing files (or non-file clearing activity) as follows:

- for credit items settlement only (where the debit items number and value would both be zero);

- for debit items settlement only (where the credit items number and value would both be zero);or

- for mixed files/activity, i.e. those including both credit items and debit items.

The business rules for a particular clearing system or other payment service may impose a requirement for separate FSIs to be sent for credit items and for debit items, or may allow FSIs to contain both credit items and debit items, with the settlement amount being the net figure.

2.8   Session Eligibility of LVSS Transactions

The eligibility of LVSS transactions to settle during particular RITS sessions is able to be set at the payment service level. The Reserve Bank will advise the full session eligibility rules that will apply to LVSS transactions in due course. For the initial LVSS implementation, transactions in an eligible payment service that are marked for individual settlement will be eligible to settle in the RITS Morning Settlement Session. Next-day transactions marked for multilateral settlement will be expected to settle in the 9am RITS session.

2.9   New 9am arrangements

As already noted, the initial introduction of the LVSS will cater for both the same-day and next-day settlement of low value clearing obligations in RITS. To facilitate a controlled migration from existing collator processes to the LVSS for 9am settlement, the Reserve Bank will update its existing processes to have the 9am Batch settlement include the following components:

- obligations advised via Exchange Summaries using existing Collator processes (current);

- FSIs lodged for same-day or next-day settlement that have a settlement method of multilateral (new); and

- clearing interest on next-day settlement obligations advised via FSIs which have a settlement method of multilateral (new).

This approach will mean that the net 9am position of each institution (and hence any funding that may be required) will be the same as its current 9am Batch position[3]. This approach facilitates full migration to the use of FSIs over time.

2.10   Clearing Interest

Clearing interest becomes due if the interbank settlement of a clearing obligation occurs on a date which is later than the date that the underlying transactions are required to be processed to customer accounts. A clearing interest adjustment is currently calculated by the Collator based each participant's net overnight position in each clearing system. Interest adjustments are included for settlement in the 9am Batch. A break-up of the net interest amounts for each participant in each clearing system is provided by the Collator and shown in RITS.

In future, RITS will provide similar functionality. It will calculate clearing interest on all next-day settlement obligations submitted via FSIs which are marked for multilateral settlement and due to be settled at 9.00 am. As part of its new 9am settlement process, RITS will identify eligible next-day LVSS transactions and calculate a single bilateral net interest amount between each pair of participants in each payment service. The interest amount will be calculated on the basis of the number of days between the (customer) payment date and the (interbank) settlement date, as indicated in the FSI. The created clearing interest transactions will be incorporated in the multilateral group of transactions being tested for settlement at 9.00 am.

Clearing interest will only be calculated and settled in the new 9.00 am multilateral settlement process. If a next-day LVSS transaction remains in a deferred status at the commencement of the 9.00 am multilateral settlement process, no interest will be calculated. Any next-day LVSS transactions submitted for individual (rather than multilateral) settlement will also not have interest calculated. Clearing interest is not applicable for same-day settlement transactions.

For reconciliation purposes, a new RITS report will be available to Members that provides details of each FSI that was included in the calculation of each clearing interest transaction. This report will be available to view and to download.

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[3]   The Reserve Bank has no objection to the inclusion of FSIs relating to the settlement of the BECS 10.30 pm exchange in this settlement.

2.11   9am Settlement Process Summary Table

The following table provide a high level summary of the current and future arrangements for 9am settlement. The "LVSS 9am settlement process steps (future)" column includes those obligations still advised via the collator process during the migration period.

Timing	Current 9am settlement process steps	LVSS 9am settlement process steps (future)
Clearing files at agreed exchange times and messages throughout the day	Clearing - APCS EP&D file exchanges - APCS regional exchanges - BECS (normal) file exchanges - CECS ATM/EFTPOS messages	Clearing - APCS EP&D file exchanges - APCS regional exchanges - BECS (normal) file exchanges - CECS ATM/EFTPOS messages
Collator files between 7.00 pm and 4.00 am Files containing FSIs sent at time of clearing file exchange. Other FSIs (for non-file exchanges) sent as agreed	Advice of Settlement Obligations Send/receive Collator Advices: - EOD Exchange Summary - Provisional/Final advices - Net Obligations advice - Clearing interest	Advice of Settlement Obligations Send/receive LVSS messages: - Send FSI - Receive responses/advices - View FSI position in RITS And/or Send/receive Collator Advices (to be phased out) - EOD Exchange Summary - Provisional/Final advices - Net Obligations advice - Clearing interest
RITS Morning Settlement Session (currently 7.30 am to 8.45 am)	Locked 9am Batch position shown in RITS.	Locked 9am Batch position shown in RITS.
	9am Funding period	LVSS (FSI) transaction management
		Lock of LVSS transactions
		9am Funding period
8.45 am	9am Settlement Testing period *9am transactions tested against full ESA balance*	Creation of clearing interest for eligible LVSS transactions 9am Settlement Testing period (includes both Collator and LVSS transactions including clearing interest) *9am transactions tested against full ESA balance*
8.45 am to 9.00 am	9am Settlement	9am Settlement

3.   LVSS Messages

3.1   Overview

A suite of new messages has been designed for the LVSS. These messages will be delivered to Members over the COIN or SWIFT FileAct service as files containing XML formatted data.

Instructions are sent from the Member to RITS. There are two types of instruction. These are the File Settlement Instruction (FSI) and the File Recall Instruction (FRI).

Responses are sent from RITS to Members and they provide information on the final status of an FSI or FRI. Members will receive only one response for each FSI or FRI. Reject responses for FSIs and FRIs are mandatory and will be sent to the party that sent the FSI or FRI to the Reserve Bank. This party may be the Originator, or may be the agent used to deliver the LVSS instruction. Reject responses are not sent to the Counterparty. The selection of other (non-reject) responses is optional; these responses are available to both the Originator and Counterparty (except for recall responses which are available only to the Originator).

Advices are sent from RITS to Members and they provide the Originator and the Counterparty with information on an interim state of an FSI. A single FSI may result in receipt of one or more advices in its lifecycle. The selection of advices is optional. All advices are available for selection by the Originator and Counterparty. RITS does not generate advices for recall instructions (FRIs), as there are no interim processing states. Recall instructions are either successful, or they are rejected or cannot be actioned (i.e. 'failed').

A new RITS function will allow Members to select which LVSS responses and advices they wish to receive. Section 4 provides a description of LVSS business flows for instructions, responses and advices for each possible scenario.

3.2   LVSS Responses and Advices

The following table lists each of the responses and advices that will be used for the LVSS and describes their purpose and the circumstances in which they will be sent. Full details of the content of responses and advices (and FSIs and FRIs) are contained in the *LVSS: Member Technical Specifications.*

Name	Description
FSA Accepted	Advises that an FSI was received and successfully validated.
FSA Changed SM	Advises that the Payer in an LVSS transaction has changed the LVSS Settlement Method of a Queued transaction.
FSR Settled	Advises that an FSI was settled.
FSR Rejected	Advises that an FSI was received, but failed validation and was rejected. A reject code and description are given.
FSR Recalled	Advises that an FSI was recalled.
FSR UnsettledEOD	Advises that an FSI was removed from the RITS Queue as unsettled at end of day.
FRR Recalled	Advises that an FRI was successful in recalling the targeted transaction.
FRR Rejected	Advises that an FRI was received, but failed validation and was rejected. A reject code and description are given.

Name	Description
FRR Failed	Advises that an FRI was not successful in recalling the targeted transaction. A reason for the failure is given.

The advices and responses relating to an FSI will contain full details from the FSI, to allow the Counterparty to match an FSI to the underlying clearing file or other clearing obligation.

3.3   Eligibility to Receive LVSS Responses and Advices

Advices and responses are selected at the RITS Member level and NOT in the capacity of Originator or Counterparty.   Members should be aware that if they select to receive a response that is only provided to the Originator of the transaction, they will not receive the response concerning transactions in which they are the Counterparty.

The routing of advices and responses to Senders, Originators and Counterparties will be configured in the Reserve Bank's file transfer interface.   Separate forms for this configuration will be sent to Members in due course. Members that use an agent to deliver their FSIs and FRIs to RITS will be able to specify routing so that advices and responses are sent to that agent, if required. Sufficient information is contained in the file name for the agent to route advices and responses to the appropriate party without having to view the contents of the files.

The following table summarises eligibility to receive responses and advices.

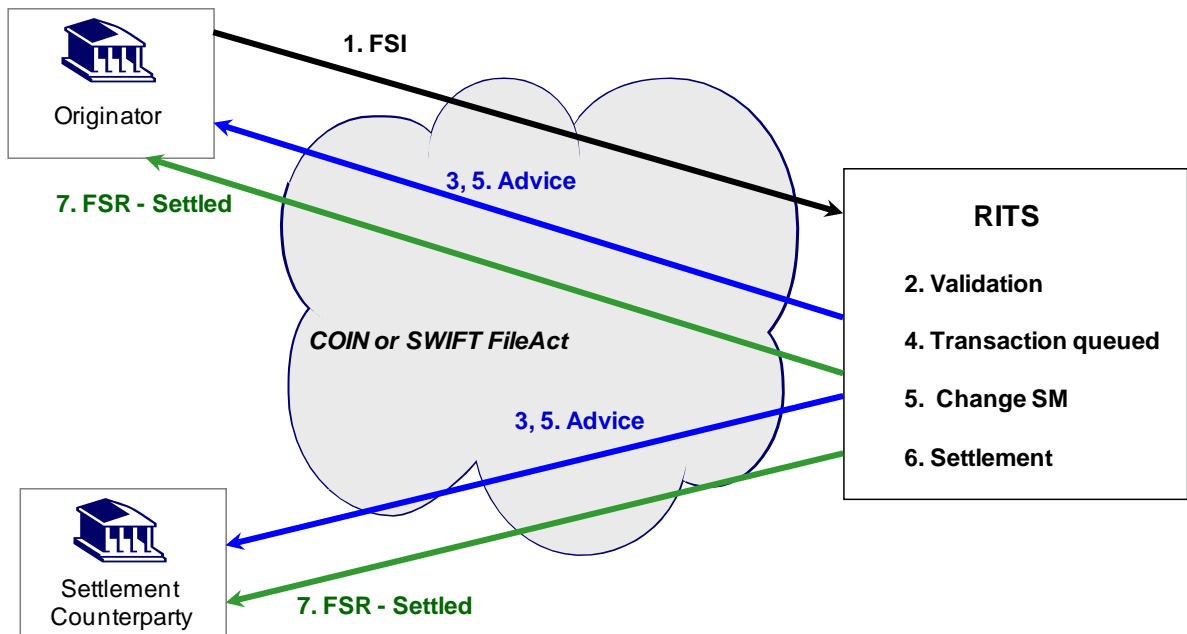| Message	Name	Eligible to Receive	
		Originator	**Counterparty**
Advice	FSA Accepted	✓	✓
Advice	FSA ChangedSM	✓	✓
Response	FSR Settled	✓	✓
Response	FSR Rejected	Mandatory (to Sender)	✘
Response	FSR Recalled	✓	✓
Response	FSR UnsettledEOD	✓	✓
Response	FRR Recalled	✓	✘
Response	FRR Rejected	Mandatory (to Sender)	✘
Response	FRR Failed	✓	✘

4.   LVSS Business and Message Flows

This section shows business flows for the processing of all LVSS messages. Scenarios for successful settlement as well as unsuccessful outcomes are shown, including the recall of an FSI.

A single "cloud" is shown below for messaging via the COIN or SWIFT FileAct because the business flows are generic regardless of the network used. Members can send FSIs and FRIs and receive advices and responses over either network.

Note that SWIFT FileAct Y-Copy business flows are not shown as these are not part of the initial LVSS implementation and that "SM" means LVSS Settlement Method.

4.1   Settled FSI

Ref.	Description of flow or action
1	The Originator (or their agent) sends a File Settlement Instruction (FSI) to RITS. The FSI may be generated as part of the Originator's payments clearing operations.
2	RITS performs technical and business validations on the FSI. The FSI passes validation processing. (If the FSI does not pass validation processing, it is rejected. See section 4.2 for this scenario.)
3	RITS sends File Settlement Advice '1' – Accepted to the Originator and/or Counterparty, **if** this advice has been selected.

Ref.	Description of flow or action
4	If the instruction is received prior to the settlement date, RITS stores the FSI. At RITS opening time on the settlement date, RITS places a settlement instruction created from information extracted from the FSI on the RITS Queue for settlement. If the instruction is received during RITS settlement hours on the settlement date, RITS immediately places a settlement instruction created from information extracted from the FSI on the RITS Queue for settlement.
5	Once the LVSS transaction is on the queue, the Payer may change the LVSS Settlement Method at any time (unless the transaction has been locked for multilateral settlement, in which case a change of Settlement Method from M to I is prohibited). RITS sends a <u>File Settlement Advice '2' - Changed SM </u>if the LVSS Settlement Method is changed from M to I or from I to M. This advice is sent to the Originator and/or Counterparty, **if** this advice has been selected.
6	RITS successfully tests the transaction and it is settled, either as an individual transaction or as part of a multilateral group if the transaction has been marked for multilateral settlement. Postings are made to accounts in RITS.
7	RITS sends a <u>File Settlement Response 'S' - Settled</u> indicating that settlement has occurred to the Originator and/or Counterparty, **if** they have selected this response.

4.2   Rejected FSI

Rejected FSI
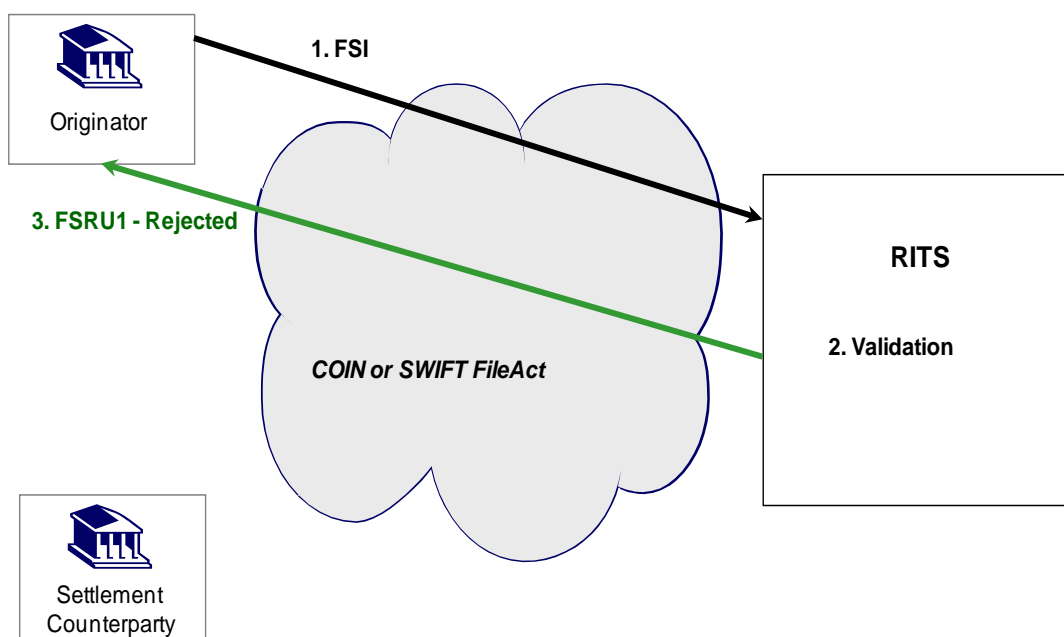
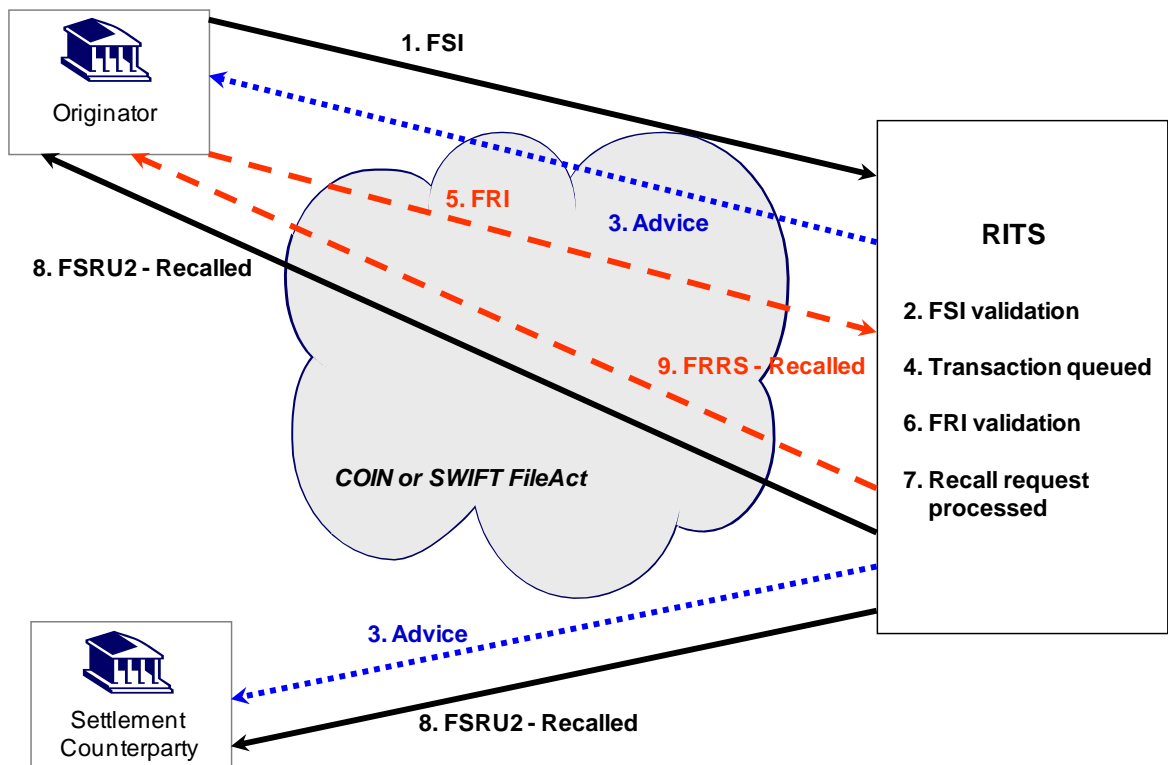| Ref.	Description of flow or action
1	The Originator (or their agent) sends a <u>File Settlement Instruction</u> (FSI) to RITS. The FSI may be generated as part of the Originator's payments clearing operations.
2	RITS performs technical and business validations on the FSI. The FSI does not pass validation processing. (Refer to the *LVSS: Member Technical Specifications* for more information on validations.) The FSI is rejected and a reject code is recorded in RITS. Note: The FSI will be rejected for the first validation failure RITS identifies. As it is possible that an FSI may contain multiple errors, Members are advised to thoroughly check message content when troubleshooting a rejected FSI.
3	RITS will send a <u>File Settlement Response 'U1' - Rejected</u> to the sender of the FSI only. The response includes an error code and description indicating the type of validation failure (refer to the *LVSS: Member Technical Specifications* for a list of error codes and descriptions).

4.3   Recalled FSI

An FSI can only be recalled by the Originator, by sending a File Recall Instruction (FRI) to RITS targeting the FSI. Any unsettled FSI can be recalled, whether it queued or is stored in RITS awaiting the start RITS settlement processing on the settlement date, except for FSIs that are currently locked because they are part of a Multilateral Group. A recall request for a transaction that is locked in a Multilateral Group will be rejected. If settlement testing of the Multilateral Group at the end of the testing period is not successful, payments will be released from the Multilateral Group and will be able to be recalled from that time.   Locking of a multilateral group is described further in section 5.3.3.

When an FSI is successfully recalled, RITS sends responses to the original FSI (to the Originator and Counterparty) and to the recall instruction (to the Originator only).

In the diagram below, flows shown in solid black lines relate to the FSI, while flows shown in dashed red lines relate to the recall instruction (FRI). It is assumed that the LVSS Settlement Method of the transaction is not changed during this payment's lifecycle.
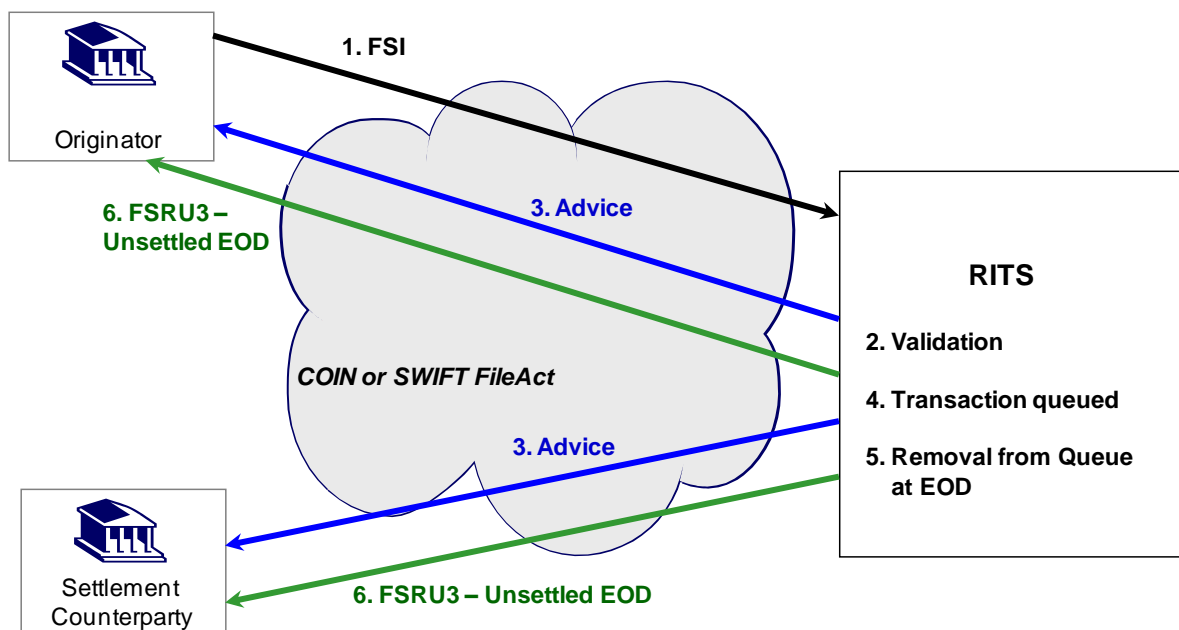
Recalled FSI

Ref.	Description of flow or action
1	The Originator (or their agent) sends a <u>File Settlement Instruction</u> (FSI) to RITS. The FSI may be generated as part of the Originator's payments clearing operations.
2	RITS performs technical and business validations on the FSI. The FSI passes validation processing. (If the FSI does not pass validation processing, it is rejected. See section 4.2.)
3	RITS sends <u>File Settlement Advice '1' – Accepted</u> to the Originator and/or Counterparty, **if** this advice has been selected.
4	If the instruction is received prior to the settlement date, RITS stores the FSI. At RITS opening time on the settlement date, RITS places a settlement instruction created from information extracted from the FSI on the RITS Queue for settlement. If the instruction is received during RITS settlement hours on the settlement date, RITS immediately places a settlement instruction created from information extracted from the FSI on the RITS Queue for settlement.
5	At any time following receipt of an FSI until it is settled or otherwise removed from the Queue, the Originator may request the recall of that FSI. (Note that recall of an FSI is prohibited while the transaction is locked for multilateral settlement.) The Originator (or their agent) sends a <u>File Recall Instruction</u> (FRI) to RITS, targeting the FSI.
6	RITS performs technical and business validations on the FRI. The FRI passes validation processing. (If the FRI does not pass validation processing, it is rejected. See section 4.5 for this scenario.)

Ref.	Description of flow or action
7	The targeted FSI is successfully recalled.
8, 9	RITS sends two responses: • a File Settlement Response 'U2' - Recalled (8) to the Originator and/or Counterparty, **if** they have selected this advice, notifying that the FSI was recalled. • a File Recall Response 'S' – Successfully Recalled (9) to the Originator only, **if** selected, to advise that the FRI was successful (Counterparties do not receive recall responses).

4.4   FSI Unsettled at End of Day

In this example, it is assumed that the LVSS Settlement Method of the queued transaction is not changed during the payment's lifecycle.

FSI Unsettled at End of Day

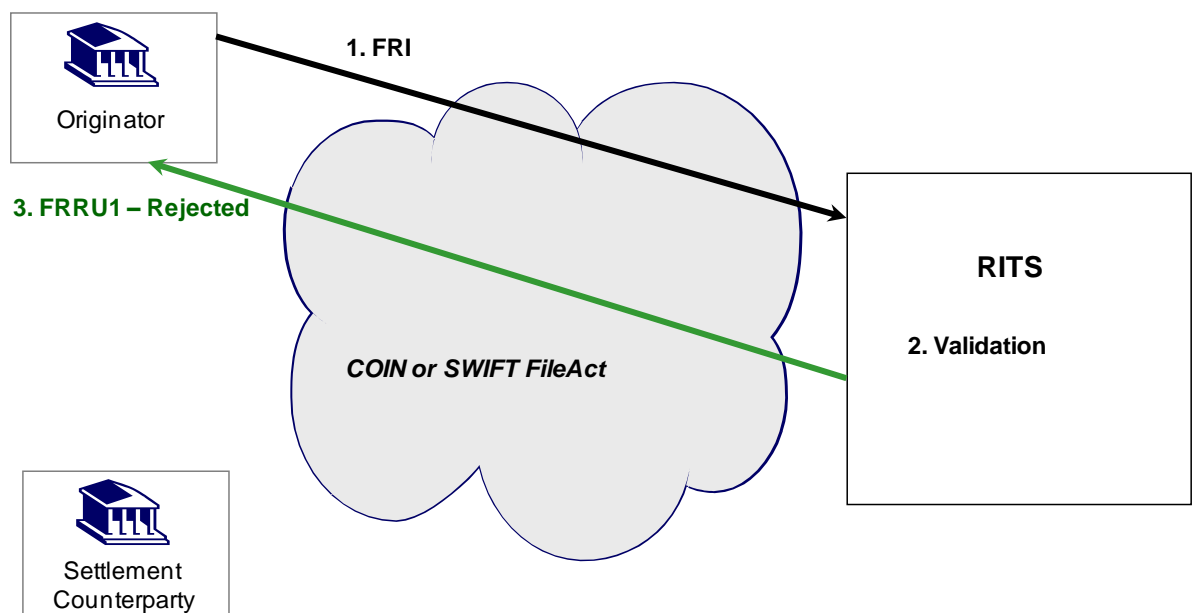| Ref.	Description of flow or action
1	The Originator (or their agent) sends a File Settlement Instruction (FSI) to RITS. The FSI may be generated as part of the Originator's payments clearing operations.
2	RITS performs technical and business validations on the FSI. The FSI passes validation processing. (If the FSI does not pass validation processing, it is rejected. See section 4.2 for this scenario.)

Ref.	Description of flow or action
3	RITS sends <u>File Settlement Advice '1' – Accepted</u> to the Originator and/or Counterparty, **if** this advice has been selected.
4	If the instruction is received prior to the settlement date, RITS stores the FSI. At RITS opening time on the settlement date, RITS places a settlement instruction created from information extracted from the FSI on the RITS Queue for settlement. If the instruction is received during RITS settlement hours on the settlement date, RITS immediately places a settlement instruction created from information extracted from the FSI on the RITS Queue for settlement.
5	If the transaction resulting from the FSI is not evening eligible and has not settled by close of the Settlement Close Session, RITS will remove the transaction from the RITS Queue during the Interim Session. If the transaction resulting from the FSI is evening eligible and has not settled by the close of the Evening Settlement Session, RITS will remove the transaction from the RITS Queue at the end of the Evening Settlement Session.
6	RITS sends <u>File Settlement Response 'U3' – Unsettled EOD</u> to the Originator and/or Counterparty, **if** they have selected this advice.

4.5   Rejected FRI

RITS will reject an FRI if it does not pass validation. In this scenario, RITS rejects the FRI in validation, before assessing the status of the targeted FSI, so the diagram for this business scenario does not show flows for the associated FSI. (When a recall instruction is valid but the recall action cannot be performed, RITS will generate a 'failed' response; see section 4.6.)
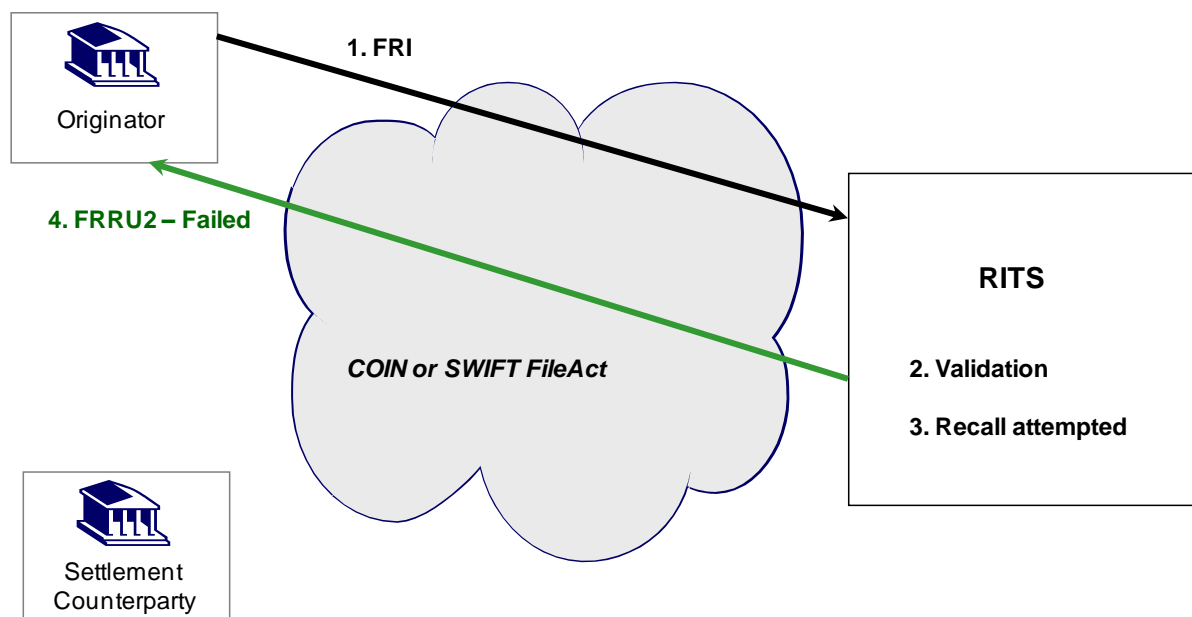
Rejected FRI

Ref.	Description of flow or action
1	The Originator (or their agent) sends a <u>File Recall Instruction</u> (FRI) to RITS, targeting an FSI they originated earlier.
2	RITS performs technical and business validations on the FRI. The FRI does not pass validation processing.
3	RITS will send a <u>File Recall Response 'U1' – Rejected</u> to the sender of the FRI only. The response includes an error code and description indicating the type of validation failure (refer to the *LVSS: Member Technical Specifications* for a list of error codes and descriptions).

4.6   Failed FRI

Where an FRI has been validated but the recall action cannot be performed, RITS will generate a 'failed' response. The recall may not be able to be effected because the underlying FSI was not received by RITS, was rejected by RITS, has already settled, has already been recalled, or is currently locked in a Multilateral Group.

Failed FRI

Flow	Description
1	The Originator (or their agent) sends a <u>File Recall Instruction</u> (FRI) to RITS, targeting an FSI they originated earlier.
2	RITS performs technical and business validations on the FRI. The FRI passes validation processing. (If the FRI does not pass validation processing, it is rejected. See section 4.5 for this scenario.)

Flow	Description
3	RITS attempts to effect the recall, but cannot locate the targeted FSI, or determines that it has already settled, has already been recalled, or is currently locked in a Multilateral Group.
4	RITS will send a <u>File Recall Response 'U2' – Failed</u> to the Originator, **if** they have selected it. The response includes an error code and description indicating why the recall failed (refer to the *LVSS: Member Technical Specifications* for a list of error codes and descriptions).

5.   Operational Arrangements for the LVSS

This section provides an overview of the operation of the LVSS in RITS. The intention of this section is to provide introductory information on LVSS message processing, setup requirements and settlement arrangements in RITS. This is to assist with Members' overall understanding of the new arrangements as they commence their systems development. More detail on these arrangements will be provided to Members in due course.

5.1   Initial Validation and Processing of FSIs and FRIs

5.1.1   Validations

RITS will validate all incoming FSIs and FRIs against the XML Schema (this is technical validation, for example that the Settlement Date field is populated in the specified date format and that mandatory fields are populated) and against RITS business rules (this is business validation, for example that the TRN is unique, or that the Originator ID is for a valid LVSS participant).

The validation process ceases at the first validation failure, and a reject code will be recorded against the instruction by RITS. A reject response, including details of the rejected message, reject code and reason for reject, will be sent to the sender of the instruction.

Where possible, existing RITS reject codes (as used for the Automated Information Facility and in RITS enquiry screens) will be used. However, some LVSS specific reject codes have been created. Refer to the Appendix of the *Low Value Settlement Service: Member Technical Specifications, November 2010* document for a full list of reject codes.

An LVSS advice of accepted will be available for FSIs which pass validation.

5.1.2   Warehoused and Overnight Transactions

The LVSS allows warehousing of future-dated settlement instructions subject to the RITS allowable warehousing period. This is currently allowed for transactions arriving at RITS via some RITS feeders, e.g. SWIFT PDS.

FSIs that arrive at RITS before it closes for settlement that are for settlement on a future RITS business day will be warehoused.

FSIs that arrive at RITS after it closes for settlement in the evening will be processed and stored overnight in RITS awaiting the RITS opening on settlement date. Technically, these are not considered to be warehoused transactions as they did not arrive at RITS during the previous business day.

Members will be able to view information in RITS about warehoused and overnight LVSS transactions.

An FRI can be used to recall a warehoused FSI, a stored overnight FSI or an FSI that is on the RITS Queue (subject to the checks set out in section 4.3).

5.1.3   Application of Statuses and LVSS Settlement Method from FSI

The recording of the ESA, Credit and Cash Account Statuses in RITS is determined by whether the Originator in the FSI is the Payer or Payee.

Where Originator = Payer	Where Originator = Payee
RITS records ESA Status from FSI (if provided).	RITS records ESA Status as Deferred.
RITS records Credit Status from FSI (if provided).	RITS does NOT record Credit Status.
RITS records Cash Account Status from FSI (if provided).	RITS does NOT record Cash Account Status.

RITS will initially use the LVSS Settlement Method from the FSI (if provided) regardless of whether the Originator is the Payer or Payee. The LVSS Settlement Method may subsequently be changed by the Payer either manually or by using the branch override functionality.

5.2   Member LVSS Setup in RITS

This section provides high-level details relating to Member setup in RITS for the LVSS. Further information on setup and detailed user guides on new RITS functionality will be provided to members in due course.

5.2.1   Roles and Functions

New RITS functionality for the LVSS is being built, and Password Administrators will be required to allocate roles to users to enable them to use the new functions. Members will be able to request the RITS Help Desk to set an authorisation on a function.

5.2.2   RITS Branches for Settlement of LVSS Transactions

The FSI contains only the 4-character RITS mnemonic of the two parties to the settlement transaction. However, transactions in RITS require a branch (identified by a 6-digit mnemonic) and cash account. Members that participate in the LVSS will be required to nominate which branches they will use for LVSS transactions. Members will be able to use the same branches/cash accounts for all payment services, or will be able to use different branches/cash accounts for each payment service (including the payment service used for clearing interest postings).

The Reserve Bank recommends that Members set up new branches and new cash accounts for the LVSS in order to minimise the impact on existing RITS arrangements. This will allow Members to separately select override statuses, AIF messages and cash account limits. The new cash accounts will be included in Members' end of day Cashlist Reports, and will be reported in relevant AIF messages such as pre- and post-settlement advices and ESA statements.

The LVSS is different from other services in that it allows an Originator to send an instruction that debits the other Member's ESA (as will be required for FSIs containing only debit items, or where the value of debit items exceeds the value of credit items). The LVSS has therefore been designed to allow Members to manage the outgoing LVSS payments they initiated separately from the outgoing LVSS payments that were initiated by other Members.

Each Member will be required to nominate at least one "Credit Items Branch" and one "Debit Items Branch". Where the Originator nominates that they are the Payer in an FSI (i.e. the FSI represents a clearing file or obligation that contains only credit items, or

where the value of credit items exceeds the value of debit items), the transaction will be recorded against the branches nominated as the Credit Items Branch for *both* parties to the transaction.

Where the Originator nominates that they are the Payee in an FSI (i.e. the FSI represents a clearing file or obligation that contains only debit items, or where the value of debit items exceeds the value of credit items) the transaction will be recorded against the branches nominated as the Debit Items Branch for *both* parties to the transaction.

EXAMPLE

This example involves the following sample setup.

Member	Credit Items Branch	Debit Items Branch
NABL	NABLLC	NABLLD
WPAC	WPACLC	WPACLD

(a) Credit Items FSI Example:

If NABL sends a direct entry file to WPAC where the value of credit items exceeds the value of debit items (therefore NABL must pay the net amount to WPAC), NABL will send an FSI to RITS where:

    Originator = NABL, Counterparty = WPAC, Payer = NABL, Payee = WPAC

RITS will post the following: NABLLC will be debited; WPACLC will be credited.

(b) Debit Items FSI Example:

If NABL sends a direct entry file to WPAC where the value of debit items exceeds the value of credit items (therefore NABL is owed the net amount by WPAC), NABL will send an FSI to RITS where:

    Originator = NABL, Counterparty = WPAC, Payer = WPAC, Payee = NABL

RITS will post the following: WPACLD will be debited, NABLLD will be credited.

This means that, for a particular Member, <u>outgoing payments</u> (i.e. ESA payments) arising from clearing files or obligations that it <u>originated</u> will be recorded in its Credit Items Branch, while <u>outgoing payments</u> arising from clearing files or obligations that it <u>received</u> will be recorded in its Debit Items Branch. This allows different management methods to be used if desired.

<u>Incoming payments</u> for a particular Member (i.e. ESA receipts) arising from clearing files or obligations that it <u>originated</u> will be recorded in its Debit Items Branch, while <u>incoming payments</u> arising from clearing files or obligations that it <u>received</u> will be recorded in its Credit Items Branch. As receipts, these payments do not need to be managed.

5.2.3 Status and LVSS Settlement Method Overrides

Through the use of status and override functionality, Members will be able to retain control over the timing of any debits to their ESAs, except for the 9am settlement. As now, there will be strict controls surrounding the timing of the 9am settlement and RITS will test the obligations due for settlement against the full ESA balance.

5.2.4   Cash Account Limits and Testing

Each LVSS transaction will be posted to a Cash Account of the Payer and a Cash Account of the Payee. The Payer will be able to control settlement at the Cash Account level through the use of Cash Account Limit, Cash Account Sub-Limit and Cash Account Status. Members that do not wish to use cash account limits for transaction management should ensure that Cash Accounts limits processing is turned off for their LVSS Cash Accounts. As noted above, special arrangements will continue to apply in respect to the 9am settlement.

5.2.5   Automated Information Facility and the LVSS

LVSS transactions will be automatically included in ESA Interim and Final Statements delivered via the AIF (MT942 and MT950). The payment service, rather than a feeder system ID, will be populated in the Transaction Type Code element of tag 908 which is part of tag 61 (Statement line).

Members will be able to elect to receive AIF Pre- and Post-Settlement Advices for LVSS transactions. The payment service, rather than a feeder system ID, will be populated in tag 908 (Transaction Type).

Members will be able to use AIF commands to change the ESA, Credit and or Cash Account Status of an LVSS transaction where they are the Payer. Unsolicited Change Status Advices will be sent, where selected, for status changes effected via RITS screens.

Members should note that there is no AIF command to change the LVSS Settlement Method of a queued LVSS transaction. This action must be performed by a RITS user using queued payments management functionality.

Members cannot use an AIF Recall Command to recall an LVSS transaction. Recall of LVSS transactions can only be done via an LVSS File Recall Instruction (FRI). However, if an LVSS transaction is recalled via an FRI, an AIF Unsolicited Recall Advice will be sent (if selected).

5.3   Settlement of LVSS Transactions in RITS

5.3.1   Two Settlement Options[4]

Members will be able to elect to have their LVSS transactions tested and settled either as individual settlement transactions or as part of a multilateral settlement. A new transaction parameter for LVSS transactions called "LVSS Settlement Method" has been created. The LVSS Settlement Method has one of two values: "I" for individual or "M" for multilateral. Each LVSS transaction will be posted individually following successful settlement testing, even if tested for settlement as part of a multilateral group.

When submitting an FSI, the Originator will optionally be able to indicate the LVSS Settlement Method. However, the Payer may set an override LVSS Settlement Method on its relevant branch/Cash Account, allowing it control over this parameter. This is may be used particularly in instances where the Payer is not the Originator of the FSI. If no LVSS Settlement Method is set in the FSI or via an override, a system default LVSS Settlement Method of "I" will be applied. Once an FSI is on the RITS Queue, the LVSS

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[4]   Industry feedback to the RBA concerning migration to the LVSS for settlement of low value clearing obligations indicated that the loss of netting that the 9am Batch provides could have adverse liquidity implications. The RBA has therefore built a new settlement facility in RITS that allows a group of LVSS transactions to be multilaterally offset when being tested for settlement. This effectively means that only the net debit to a party's account(s) (including the ES account and any cash accounts which have limits processing turned on) will need to be funded.

Settlement Method is controlled by the Payer, and may be changed via queued payments management functionality in RITS.

5.3.2   Individual Settlement of LVSS Transactions

A transaction marked with an LVSS Settlement Method of "I" (individual) will be tested as a single transaction on the RITS Queue, like any other RTGS payment. Individual LVSS transactions may be selected by the auto-offset functionality and may be selected for Targeted Bilateral Offset.

LVSS transactions with a LVSS Settlement Method of "I" have no restrictions on changing the ESA, Credit or Cash Account Status and may be recalled at any time prior to settlement.

5.3.3   Multilateral Settlement of LVSS Transactions (including 9am settlement)

This section provides a description of the new multilateral settlement process in RITS. LVSS transactions with an LVSS Settlement Method of "M" are eligible for multilateral settlement.

Multilateral settlement allows groups of LVSS transactions to be settled simultaneously by the RITS Queue, with only the net debit position for an account having to be funded. From the commencement of the industry migration to FSIs, the multilateral settlement process will be used to settle 9am obligations advised via the Collator as well as those advised via FSIs. The new 9am multilateral run will also include calculated clearing interest obligations between participants arising from FSIs, where applicable.

LVSS transactions with a LVSS Settlement Method of "M" are not tested as part of normal queue processing. Instead, at the time(s) nominated for a multilateral run, the Queue will search for all eligible LVSS transactions, "lock" them into a Multilateral Group, and attempt to settle them all as a single multilaterally offsetted group of transactions. An LVSS transaction is eligible for inclusion in a multilateral run if, at the commencement of the multilateral run, the LVSS transaction has a LVSS Settlement Method of "M", and its Cash Account, Credit and ESA statuses are set to either Active or Priority. As now, RITS will treat 9am settlement transactions as priority by testing against the full ESA balance. Once a Multilateral Group is formed, it cannot be added to, or have transactions removed. The locked-in Multilateral Group settlement position allows Members to then determine any funding requirements. Members will then have the period of time until the end of the scheduled testing time of that group to ensure that they have funded their obligation.

The Reserve Bank will enter into RITS a schedule of Multilateral Test times. Each Multilateral Run will have a ~~lock time,~~ start ~~testing~~ time and an end ~~testing~~ time. These times will be available to Members via RITS session times enquiry screens. If a session time is changed, Members will be advised via the RITS Read Message facility.

A multilateral LVSS transaction will only settle if all transactions in the group pass settlement testing simultaneously. Each Group will be tested for a specified period of time (indicated by its start time and end time). If the Group has not settled by the time the end time is reached, the testing will cease and all transactions will be unlocked and released back to the Queue. They may be selected in a subsequent Multilateral Group if they remain eligible.

5.3.4   Multilateral Settlement Monitoring

A new RITS enquiry function will be provided that will summarise each Member's aggregate incoming and outgoing multilateral LVSS transactions, and the net settlement amount. During multilateral testing, the screen will show the amounts that are "locked"

in the Multilateral Group and the net funding requirement, which will not change during the life of that Multilateral Run.

Members whose ESA or Cash Account has failed limit or sub-limit testing in a Multilateral Run will be given information on the RITS enquiry screen detailing the account involved and the type of failure that has occurred. This will allow action to be taken to resolve the issue to enable the Multilateral Group to settle. The Reserve Bank may, at its discretion, determine that payments in a Multilateral Group will not be tested against sub-limits, regardless of whether those payments have active or priority statuses.

5.3.5   LVSS Transaction Management

LVSS transactions on the RITS Queue can be managed by the Payer in a similar manner to other queued RITS transactions. This includes the ability change the ESA, Credit or Cash Account Status or to perform a recall. In addition, the Payer has the ability to amend the LVSS Settlement Method using RITS on-line functionality. Status changes can be made using the AIF or on-line using RITS. Recalls must occur using an FRI.

RITS Members should note that:

- A default ESA status of Deferred will be automatically applied when the Originator of the FSI is not the Payer of ES funds. However, Members may choose to override this default status and make the transactions Active or Priority. The override status is applied when the transaction is placed on the RITS System Queue.

- LVSS transaction management for items included in the 9am settlement will be available from RITS opening on the settlement date. Sufficient time will be provided to allow RITS members to manage these payments using RITS on-line functionality or the AIF. In particular, LVSS transactions arising from debit clearing systems (e.g. APCS) will need to be actively managed if they are placed on the Queue with a deferred status.

- LVSS transaction management for items included in the 9am settlement can only occur up until the lock time for this multilateral settlement. After the lock time, no status changes or recall requests can be performed. The locking of items for the 9am settlement allows RITS Members to have certainty as to their funding requirement. Sufficient time will be provided for the overall multilateral obligation to be funded ahead of the 9am settlement.

6.   Next Steps Guide - what you need to do

This section provides a high-level summary of the key actions that need to be taken by Members (i.e. ESA holders who are current 9am Batch participants) to migrate to the use of FSIs and to the LVSS for settlement. This checklist provides an initial set of tasks that need to be to be included in each Member's migration project plan. This list is not meant to be exhaustive.

6.1   Commence project planning

Members should commence planning for this project immediately. This includes tasks such as arranging for the allocation of budget funding, assembling project teams, preparing timetables and securing system resources. Members should have completed initial testing of LVSS messages, including the sending of test FSIs to the RITS Pre-Production Environment, by the **end of 2011**.

June 2011 Update: For up to date information on the industry timetable, please refer to the ***LVSS Project Update – June 2011***, available under Projects on the RITS Information Facility.

6.2   Be able to create and send FSIs

Members must be able to send File Settlement Instructions (FSIs) to RITS advising their settlement obligations from low value clearing exchanges. FSIs will replace existing Exchange Summaries sent to the Collator.

6.3   Be able to create and send FRIs

Members' systems must be able to send File Recall Instructions (FRIs) to RITS to recall payment instructions.

6.4   Be able to accept and process other responses and advices

Members' systems must be able to receive and process the mandatory File Settlement Response (FSR) for an FSI that has been rejected. Receipt of responses is optional for FSIs that have settled, have been recalled or are unsettled at the end of the day.

Members' systems must be able to receive and process the mandatory File Recall Response (FRR) for an FRI that has been rejected. Receipt of responses is optional for FRIs that have been successful (i.e. have recalled the target FSI), or have failed (i.e. have failed to recall the target FSI).

Members may also optionally receive a File Settlement Advice (FSA) when an FSI passes validation or when a queued FSI has its LVSS Settlement Method changed.

6.5   Provide details of LVSS participation

Members will need to provide information to the Reserve Bank confirming the network they propose to use, the details of which clearing systems they participate in, and any agents they appoint as couriers. Appropriate forms will be provided for this information to be supplied.

6.6   Set up new branches in RITS

Members will need to consider their RITS branch and status override settings for LVSS use.

It is recommended that Members set up at least one new Credit Items Branch and one new Debit Items Branch for the LVSS with new Cash Accounts. Members should set ESA, Credit and LVSS Settlement Method overrides as appropriate.

RITS administrators will need to allocate new roles to users.

More information on this will be provided to Members in due course.

6.7   Assess impact on accounting systems and reconciliation

Members should also consider if changes are required to their internal account posting, reconciliation and general ledger processing in order to accommodate new Cash Accounts and amended settlement arrangements for low value clearings.

Payments Settlements Department
Reserve Bank of Australia

Appendix - Transition from Exchange Summaries to FSIs

This section provides relevant background information on the differences between the use of Exchange Summaries and the use of FSIs for the lodgement of settlement obligations arising from low value clearings. FSIs will replace Exchange Summaries over time regardless of whether the obligation is for same-day or next-day settlement across ESAs.

Members should take into account the following differences in processing arrangements between Exchange Summaries and FSIs as they commence their systems build:

- FSIs will be sent after each file exchange by the originator (or sender) of that file exchange (or the initiator of a non-file exchange). This is unlike Exchange Summaries which are end-of-day advices advised by both the sender and receiver of clearings.

- FSIs contain the settlement obligation for outward exchanges only. This is unlike Exchange Summaries which advise bilateral inward and outward exchange positions.

- As FSIs are for outward exchanges only, they do not include credits in and debits in volume and value information.

- FSIs advise one bilateral settlement position for each outward exchange. Exchange Summaries advise aggregate bilateral end-of-day positions as well as the overall multilateral position for that that clearing system.

- FSIs use Payment Date and Settlement Date whereas Exchange Summaries use only the Exchange Date.

- Exchange Summaries can be sent a number of times up until the cut-off time for that clearing system. Each new Exchange Summary overwrites (replaces) any previously sent. FSIs can only be sent once. However, they can be recalled.

- The Collator process matches obligations advised by both parties – failure to match rules apply if figures are not identical. With FSIs, there is no matching process which compares both inward and outward figures (as FSIs are in respect to outward obligations only). In other words Failure to Match rules are not applicable for settlement obligations advised via FSIs.

- FSIs use the 4-character RITS mnemonic whereas Exchange Summaries use the 6-character RITS mnemonic.

- LVSS responses and advices will available to Members. After full migration to the LVSS has occurred, Provisional Advices, Final Advices and Net Obligation Advices will no longer be applicable as these relate to obligations advised via Exchange Summaries.

- The need for facsimile contingency arrangements for the lodgement of Exchange Summary information will no longer be necessary.

- The net debit limit applied to APCS Tier 1A/1B advices will no longer apply, as the Tier 1B will be able to manage the settlement of its payment obligations in RITS.