

RESERVE BANK INFORMATION AND TRANSFER SYSTEM

RITS Low Value Feeder Project

Overview of Governance Arrangements

December 2009

This note sets out governance and service principles for the operation of the RBA Low Value Feeder Project, for the information of current and prospective Members of RITS (Reserve Bank Information and Transfer System) that may use the services developed in this project.

Background

The RBA Low Value Feeder Project entails the development of functionality in RITS that will be used to provide Members with a Low Value Settlement Service (LVSS) through the Settlement Interconnector and a Low Value Clearing Service (LVCS) through the Clearing Interconnector.

RITS will connect to approved communication networks (at this stage, the APCA COIN, and SWIFT¹) using approved protocols². RITS will accept and process files relating to activity in approved low value clearing systems (for instance, APCA's Bulk Electronic Clearing System if approved).

The LVSS will accept requests for settlement across Exchange Settlement Accounts (ESAs) for the value of items exchanged through approved low value clearing systems. This service will be offered to all eligible holders of ESAs³. All ESA holders are Members of RITS.

The LVCS will be offered by the RBA to RITS Members for use in transmitting electronic data files that relate to clearing activity in the Australian payments system. Detailed information on the operation of the LVCS is provided in the Clearing Interconnector Information Paper issued by the RBA in June 2009.

Infrastructure and Service Standard Principles

The LVSS and the LVCS will use the same RITS infrastructure. The Low Value Feeder Project will leverage off the RBA's existing public policy investment in RITS to provide the industry with services that meet the highest standards of availability, resilience and reliability.

RITS, the RTGS system for Australia, settles \$150-\$200 billion of payments each business day. Significant financial and staff resources are invested to ensure that it meets exceptionally high operational standards. There are fully redundant systems and network connections (i.e. 'two of everything') in place at both its Head Office and its Business Resumption Site, which is located outside of the Sydney CBD. Automated failover is in place where practicable. Data are mirrored between sites in real time.

Production systems rotate between the two RBA sites and there is regular testing of contingency scenarios. These have proven the ability of the RBA to meet its target system recovery times⁴. Operational and support staff are permanently located at each site to ensure continuity of production operations. The RBA ensures

¹ It will connect to other approved industry networks if these emerge.

² Initially SWIFT and the agreed industry default protocol Connect:Direct over IP (CD:IP).

³ All Members operating an ESA and having direct settlement obligations arising from approved clearing systems will be eligible to use this service unless precluded by particular conditions pertaining to their ESA.

⁴ Information is contained in the *RITS Summary of Business Continuity Standards* available on the RBA website. Target failover times between sites are 20 minutes for RITS, 40 minutes for SWIFT for full failover and less than 15 minutes for failover of individual components.

appropriate business, operational and technical staff resources are in place to support all aspects of RITS operations.

Rigorous security arrangements are in place to protect RITS data and systems within the RBA and from external threats. These are the subject of external reviews and regular audits.

The RBA also has a RITS Communications Facility that is used to provide communications to Members via email and SMS messages in the event of an operational incident. This capability is also used to provide APCA's Crisis Communication Facility and will be expanded to provide communications for COIN related incidents managed by the RBA acting as COIN Operational Manager.

The RBA will operate the LVSS and LVCS to the same high standards and service principles as RITS.

By way of background information, the new technical infrastructure for these services has been specified to provide:

- Full redundancy of all systems and network connections at both sites with mirroring of data in real time between sites, and automated failover from the failure of a single component.
- Ability to send and receive files from either site in an active/active configuration (COIN only).
- The network connections for COIN comprise dual 2 megabits per second (Mbps) links (with logical and physical diversity) to each site. These connect to dual Telstra managed routers at each site and deliver the highest level of service and redundancy available from Telstra.
- It is expected that the 2 Mbps capacity of the COIN links will be more than sufficient to meet normal and peak loads. Note that most clearing file exchanges currently are over low speed links of 64 Kbps or lower. COIN link capacity will be upgraded if required.
- The network connections for SWIFT comprise those used for connection to RITS. Namely dual 256 Kbps links provided by two carriers to each site. Link capacity is currently being doubled to 512 Kbps as part of a separate upgrade of RITS infrastructure.

Clearing and Settlement Service Undertakings

The RBA does not enter into specific service level agreements in respect of RITS and will not do so for the LVSS and LVCS. Legal underpinning will be provided by the RITS Regulations and Conditions of Operation (see following section).

The RBA is committed to providing these services to the highest standards of availability, resilience and reliability. As with RITS, this is backed by the reputation of the RBA.

The RBA is mindful that for operational reasons the industry may require an indication of key service metrics, such as file transmission times, notification times etc. These will be provided when available.

- Expected file transmission times will be provided to the industry on completion of RBA performance testing.

- Target failover times will be provided to the industry on completion of the RBA's performance and failover testing.
- Where notifications are required by participants and are not automatically provided by systems, the RBA will undertake (during normal clearing hours) to provide these as soon as practicable and in any case within 30 minutes.
- Supporting operational staff will be present at all times during RITS operational hours (07:30 to 19:00/21:00⁵) for the LVSS and during normal clearing hours (07:30 to 12:30 next day⁶) for the LVCS. A 24 x 7 contact number will be available for each service.

Operational framework for the LVSS

The LVSS will accept properly formatted File Settlement Instructions (FSIs) from authorised ESA holders for the settlement of interbank obligations arising from activities in approved low value clearing systems.

Settlement of FSIs will be on the same basis as other RTGS transactions with the following exceptions:

- The LVSS will accept FSIs from either the payer or payee of settlement funds and will submit them to the System queue for settlement testing.
- FSIs received from payees will be given a default ESA status of deferred. Queue statuses (ESA, credit, cash account) are managed in the same way as for other transactions in RITS.
- FSIs can be settled as individual transactions, or via a new multilateral settlement method. FSIs marked for multilateral settlement will be simultaneously settled as separate transactions along with all other eligible FSIs marked for multilateral settlement at that time. However, only the aggregate value of debits and credits in the FSIs included in the multilateral run will be debited/credited to the ESA of each participant.

Operational framework for the LVCS

The LVCS will accept properly authorised files from properly authorised clearing participants and will send those files to nominated clearing exchange partners.

- The LVCS will only accept file types that have received prior approval from the RBA (i.e. those related to APCA clearing systems and other payments clearing activity).
- The LVCS will only receive files from, and send files to, clearing participants that are approved users of the LVCS.
- The LVCS will exchange files with agents/couriers that are properly authorised to act on behalf of clearing participants (sender and/or recipient).

⁵ 19:00 - Australian Eastern Standard Time (AEST). 21:00 - Australian Eastern Daylight Time (AEDT).

⁶ All times are those in Sydney (AEST, AEDT).

The LVCS will process files it receives based on instructions supplied by the clearing participants and entered into the System prior to commencement of file transfers.

- Any party sending files to the LVCS must specify the file name, type of file and receiving party of each file.
- Any party receiving files from the LVCS will need to specify the file name, type of file and the sending party of each file.
- These details will be recorded by the LVCS and files received by the LVCS will be checked against these records. Any file transfer where the combination of sender and file name is not recognised by the LVCS will not be processed.

The LVCS will only accept files transferred from approved networks. It will **not** receive files from another source, for instance via email (which is a backup method for transfer for some APCA clearing systems).

RITS Regulations and Conditions of Operation

The RITS Regulations and Conditions of Operations ('the Regulations') will be amended to provide the legal underpinnings for the LVSS and LVCS.

The Regulations constitute a valid, binding and enforceable contract between each and every Member and the RBA. The Regulations set out the rights and responsibilities of the RBA and Members and bind the RBA and Members to act in accordance with the Regulations.

Use of the Regulations for the LVSS and LVCS will provide a single consistent legal framework for the market infrastructure payments services provided by the RBA. This is particularly relevant for ESA holders using these services and who are necessarily already Members of RITS. Those institutions will automatically be covered by the Regulations in using the LVSS or LVCS.

Clearing participants needing to use the LVCS (directly or via an agent/courier, see below) that are not Members of RITS will need to become RITS Non-Transaction Members prior to using the service.

Members of RITS that do not have an ESA are Non-Transaction Members. The RITS Regulations currently allow for this category of membership for those institutions that do not operate ESAs but need to be either a dealing counterparty of the RBA in its domestic open market operations or be a RITS Batch Administrator.

Some clearing system participants use agents/couriers for file transmission. If files of such an 'appointing' institution are to be sent to RITS, that institution must be a Member of RITS. In these cases, the appointing institution is the 'sending' institution even though the actual transmission is via an agent/courier. The RITS Regulations will cover transmissions to and from RITS (from the sending and receiving RITS Members) and the RBA as owner and operator of RITS. It is envisaged that a new Exhibit in the Regulations will provide for the appointing institution to nominate an agent/courier. The Member will remain fully responsible for the actions of the agent/courier institution sending or receiving files to/from

RITS on its behalf and must indemnify the RBA from actions and costs arising from the RBA properly acting on authorised instructions from the agent/courier ⁷.

The Regulations place responsibility on the RBA to accept and act on instructions to carry out and record dealings (or respond to commands and enquiries) that have been received in the required format from Members, Feeder Systems and Batch Administrators, in accordance with the Conditions of Operation. The scope of such 'instructions' /'dealings' will be amended as appropriate to encompass file transfer and file settlement instructions in respect of the new low value services.

The Regulations provide certain disclaimers and limitation of liability. Members and prospective Members should refer, in particular, to Regulation 2.

In respect of the LVCS:

- The RBA will not assume any liability if file transfer instructions sent to RITS (in the proper format and authenticated in accordance with the Regulations) are such that a participant sends the wrong file, sends a file twice, or sends a file for one participant incorrectly named such that it is sent to another participant.
- The RBA will not assume any liability for the content of files sent to RITS. Excluding files sent to or received by the RBA in its capacity as a clearing system participant, the RBA will not open files and the content of files will remain confidential. The RBA will not verify that a file that purports to be a particular type of file (for example, a direct entry transaction file) actually is that type of approved file.

It is anticipated that details of the proposed changes to the RITS Regulations for the low value services will be advised in the first quarter of 2010.

PAGallagher/NRMcMillan

Payments Settlement Department
Reserve Bank of Australia
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⁷ This principle underlies the current *Deed of Authority, Release and Indemnity* provided when an agent advises Collator figures to the RBA on behalf of another institution.