

Oversight of High-value Payment Systems

Reserve Bank Information and Transfer System

Australia's high-value payments system is the Reserve Bank Information and Transfer System (RITS), owned and operated by the Reserve Bank. RITS is a real-time gross settlement (RTGS) system in which most transactions are settled, one by one, in real-time across Exchange Settlement (ES) accounts held at the Reserve Bank. RITS also settles batches of payments.

A key element of the Board's responsibility for the safety and stability of the payments system in Australia is oversight of RITS. An important part of this is for the Board to satisfy itself that RITS meets the Core Principles for Systemically Important Payment Systems (Core Principles) developed by the Committee on Payment and Settlement Systems (CPSS). To this end, the Reserve Bank periodically conducts self-assessments of RITS, which are subject to review by the Board, with any material changes occurring between assessments being reported to the Board. The latest self-assessment was conducted in 2009. The Board is satisfied that RITS meets all of the Core Principles and, more generally, operates in a way that meets international best practice.

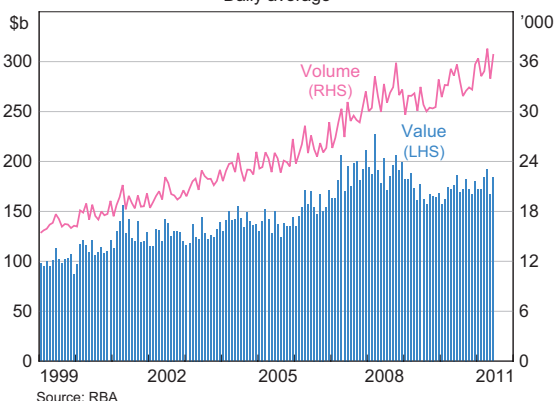
The number of transactions settled on an RTGS basis increased over 2010/11, continuing the trend that was disrupted by the market turbulence in 2008 and 2009 (Graph 15). Daily average transaction values have increased over the past year, but remain below those seen in 2008.

Settlement of payments associated with ASX equity transactions occurs across ES accounts once per day on a net basis. The average daily value of participants' cash settlement obligations in this batch in 2010/11 was \$486 million, down by 4.7 per cent from 2009/10.

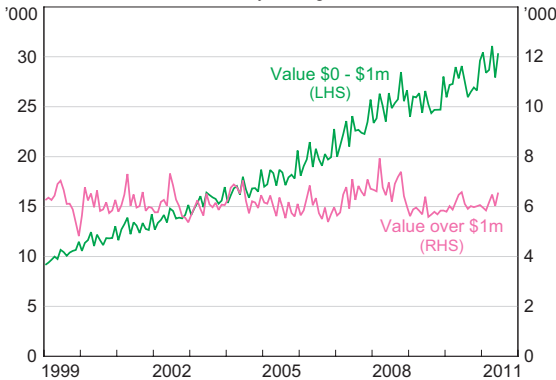
Although specifically designed for the settlement of high-value payments, RITS also settles a significant number of small-to-medium sized payments. In fact, most of the growth in the number of transactions over the past decade has been in payments under \$1 million (Graph 16). As a proportion of total value settled in the system, however, these transactions remain very small.

Liquidity in RITS – as measured by the sum of opening ES balances and intraday repurchase agreements – was lower in 2010/11, although it has remained at high levels since the market turmoil of 2008 and 2009 (Graph 17). This increased liquidity is one of a number of factors that has allowed payments to

Graph 15
RTGS Transactions
Daily average



Graph 16
Number of RTGS Transactions
 Daily average



Source: RBA

Graph 17
Liquidity in RITS
 Daily average



Source: RBA

be made earlier in the day. On average, half of each day's payments by value were completed by 1.45 pm during 2010/11, unchanged from the previous year but an hour earlier than occurred in 2006/07.

RTGS payments account for around 90 per cent of the value of interbank settlements, with payments settled on a deferred net basis – related to retail payment systems – accounting for the remainder. Interbank obligations arising from retail payment systems are settled across ES accounts in the daily 9.00 am batch. In 2010/11, the average size of the 9.00 am batch (i.e. the sum of credit and debit positions) was \$3.8 billion, slightly higher than the previous year.

Exchange Settlement Accounts

The Board has ongoing responsibility for the Reserve Bank's policy on access to ES accounts. These accounts provide a means for ultimate settlement of interbank obligations via the exchange of a settlement asset – a deposit held with the Reserve Bank – that carries no credit risk.

Under current policy, to be eligible to hold an ES account an institution must be a provider of third-party (customer) payment services with a need to settle clearing obligations with other providers, and able to demonstrate that it has the liquidity to meet settlement obligations under routine conditions, during seasonal peaks and under periods of stress. In

general, applicants must be current or prospective members of a payments clearing arrangement or operate a clearing house arrangement. ES accounts are provided solely for settlement of obligations from the clearing process. An institution may be subject to collateral requirements as a condition of holding an ES account; this will depend on several factors, such as whether it is subject to supervision by the Australian Prudential Regulation Authority (APRA), the nature of its operations and the extent of its payments experience.

At present, all APRA-licensed banks are required to have an ES account. Other Authorised Deposit-taking Institutions can apply to have an ES account under the general policy outlined above. However, any entity that accounts for less than 0.25 per cent of all RTGS payments may elect to settle RTGS payments using another ES account holder as an agent.

A full list of ES account holders is available on the Reserve Bank's website.¹⁶

¹⁶ Available at <<http://www.rba.gov.au/payments-system/rits/membership/membership-list.html>>.

Oversight of Continuous Linked Settlement (CLS) Bank

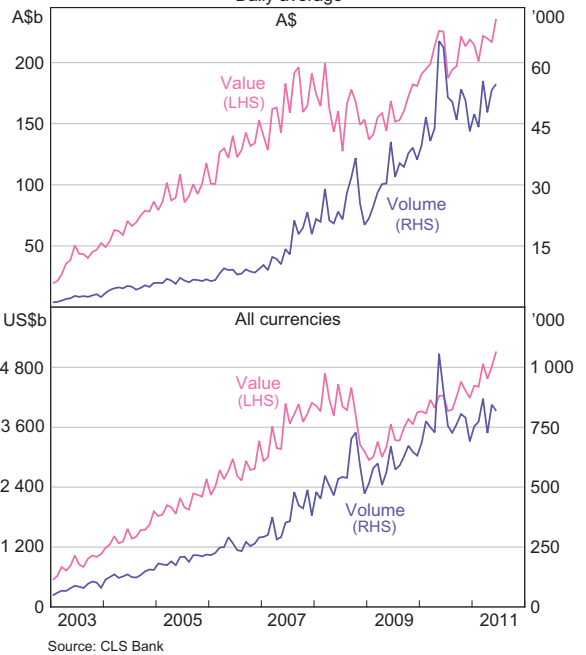
CLS Bank provides a mechanism for settling foreign exchange transactions on a payment-versus-payment basis, thereby eliminating foreign exchange settlement risk. There are 17 currencies eligible for settlement in CLS, including the Australian dollar. CLS also settles some one-sided payments related to non-deliverable forwards and credit derivatives, and offers an aggregation service that compresses large volumes of low-value foreign exchange trades for settlement.¹⁷

CLS is chartered in the United States and regulated and supervised by the Federal Reserve System. The Federal Reserve also co-ordinates the CLS Oversight Committee, which provides for co-operative oversight by the central banks of the currencies that settle in CLS. As CLS settles transactions involving the Australian dollar, the Reserve Bank is represented on this committee.

CLS is an important financial market infrastructure for the Australian financial system. It settled an average of \$211.6 billion of foreign exchange transactions involving the Australian dollar each day in 2010/11 (top panel of Graph 18). CLS settlement members fund their short positions arising from Australian dollar settlements by paying into CLS's ES account in RITS. These funds are then paid out to those settlement members with long positions in Australian dollars. The value of these payments in RITS is a fraction of the gross value of transactions involving the Australian dollar settled by CLS, however, because they reflect each settlement member's net position.

Across all currencies, the value of settlements in CLS has grown strongly since the financial market dislocation of late 2008 (bottom panel of Graph 18). The average daily value settled in 2010/11 was US\$4.4 trillion.

Graph 18
CLS Settlement
Daily average



¹⁷ The aggregation service works by bundling together into one transaction all buy sides and sell sides in a particular currency pair between two counterparties over an agreed period of time.

