



RITS

INFORMATION PAPER

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**RITS REGULATIONS AND CONDITIONS OF
OPERATION**

SUPERSEDED

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This paper outlines how the RITS Regulations and Conditions of Operation govern the participation of RITS Members in the System. In the event of a discrepancy between the information in this Information Paper and the RITS Regulations and Conditions of Operation, the RITS Regulations and Conditions of Operation will prevail.

1. OVERVIEW

RITS is Australia's interbank settlement system. Settlement takes place across RITS on a real-time gross settlement (RTGS) and batch basis. RTGS ensures that payments between Banks will only proceed to settlement where the paying Bank has sufficient credit funds in its Exchange Settlement Account (ESA) at the Reserve Bank of Australia (Reserve Bank).

Around 85 per cent of the value of interbank payments in Australia is settled on an RTGS basis. This includes cash payments entered and settled directly through RITS as well as transactions submitted by external Feeder Systems including:

- Austraclear – an electronic depository and securities settlement system; and
- the SWIFT Payment Delivery System (SWIFT PDS) - a closed user group of banks for sending payments to RITS using the SWIFT FIN Copy service.

Low-value clearings arising from cheques, credit and debit cards, and some bulk electronic payments are settled across RITS as a multilaterally netted obligation the business day after exchange at approximately 9.00am (the "9am Settlement"). Most bulk electronic payments are settled across RITS as a multilaterally netted obligation on the business day of exchange in one of five intra-day multilateral settlements. Obligations arising in the Australian Securities Exchange's CHESS system are settled in RITS in one multilateral batch around lunch time each day.

RITS provides a service to transfer files associated with low-value clearing activity (the "Low Value Clearing Service") between RITS Members. The RITS Regulations govern the operation of this service. The RITS Regulations also govern the operation of the "Low Value Settlement Service", which allows files to be sent to RITS containing settlement instructions related to low value clearings.

RITS provides a Bank or Other ESA Holder with facilities to monitor and manage settlement across its ESA. This is done using the RITS user interface or the RITS Automated Information Facility (AIF), a SWIFT closed user group using the SWIFT FIN service.

RITS Members include banks and other eligible institutions approved by the Reserve Bank to hold ESAs at the Reserve Bank.

The RITS Regulations form a contract between RITS Members and the Reserve Bank and both RITS Members and the Reserve Bank are bound to comply with the RITS Regulations and Conditions of Operation.

The RITS Regulations govern the operation of the System and how Members participate in the System. They also set out the key obligations of RITS Members and the Reserve Bank. The Conditions of Operation contain operational provisions for the System.



RITS**2. OUTLINE OF REGULATIONS**

Regulation 1 provides definitions of the terms used in the RITS Regulations and Conditions of Operation, and some other interpretation matters.

Regulation 2 binds Members to act in accordance with the RITS Regulations and Conditions of Operation, and provides that the Regulations constitute a valid, binding and enforceable contract between each and every Member and the Reserve Bank. It contains several disclaimers and limitations of liability.

Regulation 3 sets out arrangements for applications for membership, payment of fees and membership agreements.

Regulation 4 sets out arrangements for suspension, termination and resignation of membership.

Regulation 5 sets out the rights and obligations of the Reserve Bank, including acting on instructions received and variation of the operational timetable.

Regulation 6 sets out the rights and obligations of Members and Participating Banks.

Regulation 7 sets out arrangements for access to RITS and security, including the use of digital certificates.

Regulation 8 governs the entry of transactions into RITS.

Regulation 9 governs the operation of the Low Value Settlement Service.

Regulation 10 governs the operation of the SWIFT PDS feeder system.

Regulation 11 governs the operation of the Austraclear feeder system.

Regulation 12 governs the operation of the CHESSE feeder system.

Regulation 13 allows the Reserve Bank to approve new feeder systems.

Regulation 14 provides that reciprocal purchase transactions between Members and the Reserve Bank are governed by the TBMA/ISMA Global Master Repurchase Agreement as amended by Exhibit A to the Regulations.

Regulation 15 provides that RBA Repos between Members and the Reserve Bank are governed by the TBMA/ISMA Global Master Repurchase Agreement as amended by Exhibit B to the Regulations.

Regulation 16 provides that Members that are Authorised Deposit-taking Institutions (ADIs) or Banks or OEHS may bid for the lodgement of RBA Term Deposits, which are offered by periodic tender.

Regulation 17 sets out the cash accounts (including Exchange Settlement Cash Accounts, referred to as ESCAs) that different types of Members may have and the arrangements for settlement of transactions across cash accounts and ESCAs and management of limits and sub-limits. Regulation 17 also outlines arrangements for the provision of a daily cash list report.

Regulation 18 describes nominated branches and nominated accounts and arrangements for the posting of daily cash account balances to Nominated Accounts.

Regulation 19 concerns the creation of payment obligations and their extinguishment via entries in Cash Accounts and ESCAs.

Regulation 20 governs settlement and provides that settlement of interbank cash elements occurs via the crediting and debiting of amounts to ESCAs.



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Regulation 21 outlines arrangements for Members and Participating Banks to advise the Reserve Bank that they wish a transaction to be settled, and outlines arrangements for settlement of the 9am Settlement.

Regulation 22 provides that transactions will be sent to the System Queue for settlement, and that transactions may be tested and settled in any order. Regulation 22 also outlines the tests that a transaction must meet in order to be settled by the System Queue and describes how updates to transactions will be applied by the System Queue. Regulation 22 sets out arrangements for ESA holders to become evening agreed.

Regulation 23 sets out failure to settle arrangements, including suspension of Participating Banks.

Regulation 24 provides that Members may send commands and enquiries and receive responses and advices via the System's Automated Information Facility.

Regulation 25 governs the operation of the Low Value Clearing Service.

Regulation 26 covers miscellaneous matters such as amendment of the Regulations, notices given under the regulations and governing law (New South Wales).

SUPERSEDED



3. KEY CONCEPTS

3.1 Types of Members

There are two main types of participants in RITS: Non-Transaction Members and institutions that hold an ESA with the Reserve Bank (namely Banks and other institutions referred to as Other ESA Holders or OEHs).

Non-Transaction Members do not have an ESA, and do not directly settle transactions in the System. They are Members because they are counterparties to the Reserve Bank in its open market operations, or Batch Administrators.

ESA holders may undertake those activities, but they may also enter transactions into the System for settlement in their own right.

Both types of participants are referred to as Members in the Regulations.

The Regulations also refer to Participating Banks. A Participating Bank is a Member who is also an ESA holder. However, the term Participating Bank refers to the Member's role as a provider of services to branches and cash accounts. The Reserve Bank performs the role of Participating Bank to ESA holders in relation to their Exchange Settlement Cash Accounts.

3.2 Branches

Each ESA holder must have two or more branches. Different branches are used for different types of activity; some are mandatory and others are optional.

In the System, branches are identified by a six digit mnemonic. The first four digits identify the Member, and the fifth and sixth identify the branch.

Non-Transaction Members do not require a branch unless they are a Batch Administrator.

ESA holders have two mandatory branches and others branches are mandatory for certain types of activity. They may have other optional branches. Mandatory branches for all ESA holders are the ESA branch and the Participating Bank branch. There is also a mandatory branch for participants in each of the Austraclear, SWIFT PDS and CHES feeder systems.

Each branch must have at least one Cash Account, except the Participating Bank branch which has no Cash Account. Cash Accounts do not need to be unique for each branch; several branches can "share" the same Cash Account. In addition, trading branches can have more than one Cash Account.

3.3 Cash Accounts

Nominated Accounts are bank accounts held outside of the System to which net activity in the System is posted on a daily basis.

Settlement activity in the System is recorded in Cash Accounts. These are not bank accounts, but rather "scorecard" records of transaction amounts. Transactions are entered into the System for settlement across a particular branch and Cash Account. When settlement of a transaction occurs, the Cash Element is credited and debited to the relevant Cash Accounts. These credits and debits represent final settlement at the Cash Account level within the System.



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At the end of each day, the net activity in each Cash Account is posted by the Participating Bank to the Nominated Account.

The Exchange Settlement branch has a special Cash Account called an Exchange Settlement Cash Account (ESCA). The nominated account for the ESCA is the ESA held with the Reserve Bank of Australia. The Reserve Bank is the Participating Bank for this Cash Account.

Cash Account balances are reset to zero at the beginning of each day.

3.4 Cash Elements and Interbank Cash Elements

Each interbank transaction is settled at two levels: the Cash Account level and the ESCA level. At the Cash Account level, the transaction amount is debited and credited to the relevant Cash Accounts of the payer and receiver – this is termed the Cash Element of the transaction.

At the ESCA level, the transaction is debited and credited to the ESCAs of the paying ESA holder and receiving ESA holder – this is termed the Interbank Cash Element.

Intrabank transactions – that is, transactions where the paying ESA holder and receiving ESA holder are the same – have no Interbank Cash Element. There is no debit or credit to an ESCA. The transaction is only recorded in the relevant Cash Accounts.

3.5 Transactions and Settlement Transactions

All dealings of RITS Members reported to the System are called Transactions. Settlement Transactions are further defined as Transactions that are tested for settlement by the System Queue. Transactions that are not Settlement Transactions previously included Commonwealth Government Securities (CGS) trades where the cash element was settled separately to the security element (refer section 3.8).

3.6 Sessions

The RITS operating day is divided into a number of sessions. Different activities are allowed in each of these sessions. The Conditions of Operation set out the standard opening and closing times of each session and the types of transactions that are eligible for entry into the System and for settlement in each session.

The Reserve Bank may vary these operating times on any given day if required for operational reasons.

3.7 Evening Agreed Bank or OEH

ESA holders that wish to be eligible to settle certain transactions in the final settlement session of the day (the Evening Settlement Session) must nominate to become an “Evening Agreed Bank or OEH” and have that nomination accepted by the Reserve Bank. These transactions are termed Evening Eligible Transactions, and are set out in the Conditions of Operation.

3.8 Commonwealth Government Securities (CGS)

Between August 1991 and February 2002, RITS provided an electronic depository and settlement service for CGS. In February 2002, all CGS were uplifted from RITS and lodged in Austraclear.

Between October 1993 and October 2006, RITS provided for the collection and processing of tender bids for the issue of CGS. These are now conducted by the Australian Office of Financial Management (AOFM) using the AOFM Tender System.



4. SETTLEMENT

4.1 Settlement

RITS operates on a Real-Time Gross Settlement (RTGS) basis and a Batch Settlement basis.

Although Settlement Transactions may be grouped or offset when tested for settlement, each RTGS payment is settled individually and all aspects of the payment process are completed at the same time. Settlement of payments is final and irrevocable in that the receiving bank has received good funds and the paying bank is not able to recall the payment. The irrevocability of payments is achieved by requiring all payments to be prefunded with Exchange Settlement funds held in banks' ESCAs in the System.

RTGS Transactions arising outside the System are delivered for settlement through payment delivery systems known as RTGS feeder systems. These are the SWIFT Payment Delivery System (SWIFT PDS), the Austraclear System, and the CHES-RTGS feeder system for selected equities transactions (as at December 2013, this has not been used).

For Batch Settlement, all payments in a Batch settle at the same time, and all elements must be pre-funded by Exchange Settlement funds. If one payment in a Batch cannot settle due to a shortfall in Exchange Settlement funds, then all other elements cannot settle. Most settlement obligations arising from the low-value clearing systems, for paper, electronic payments and plastic card transactions are settled on a multilateral net basis as a Multilateral Settlement Group, which is a batch that is netted within RITS. If one payment in a Multilateral Settlement Group cannot settle due to a shortfall in Exchange Settlement funds, then all elements in the Multilateral Settlement Group cannot settle. Equities transactions in CHES that are not settled via the CHES-RTGS feeder system are settled as a Batch. Other Batches may be submitted by a Batch Administrator approved by the Reserve Bank.

4.2 Protection from "Zero Hour" Rule

The *Payment Systems and Netting Act 1998* allows the Reserve Bank to protect transactions in payment systems which settle on an RTGS basis from the potential application of the "zero-hour rule". Under this "rule", a court-ordered liquidation is deemed to commence from the first moment of time on the day the court order was granted. The application of this rule could result in payments made by a failed institution between midnight and the time the court order was made being declared invalid. This would have undermined the irrevocable nature of RTGS payments and may have created severe liquidity, and potentially systemic, problems in the payments system.

RITS is an approved RTGS system under Part 2, section 9 of the *Payment Systems and Netting Act 1998* and, accordingly, has the benefit of that protection.

4.3 System Queue

The System Queue is the name for the process in the system that records, tests and settles transactions. The operation of the System Queue is determined from time to time by the Reserve Bank having regard to the interests of the System.

All transactions that involve the transfer of cash between Members are recorded on the System Queue and are subject to a number of tests which they must pass for settlement to proceed.



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Transactions are generally tested in the order in which they are recorded on the System Queue, but the Regulations provide that Transactions may be tested (and settled) in any order. Transactions which pass all tests will be settled. Transactions which fail a test and are not able to be settled at that time will remain on the System Queue and will be retested later.

The main System Queue tests are:

- (a) Is the payment eligible to settle at this time according to the session rules?
- (b) Does the ESA holder wish for settlement to proceed at this time? (If the Transaction has a Settlement Status of “deferred”, it fails this test.)
- (c) Does the Cash Account have enough funds available for Settlement?
- (d) Does the paying ESA holder have enough funds in its ESCA for Settlement?
- (e) If the answer to (d) is no, are there any offsetting payments due to the bank (from the receiving ESA holder) which would provide sufficient funds for Settlement to proceed?
- (f) If the Settlement Transaction is part of a Multilateral Settlement Group, do all Settlement Transactions in the same Multilateral Settlement Group simultaneously satisfy (a), (b), (c) and (d)?
- (g) If the Settlement Transaction is selected and confirmed for a Targeted Bilateral Offset, do all the Settlement Transactions in the Targeted Bilateral Offset simultaneously satisfy (a), (b), (c) and (d)?
- (h) If the Settlement Transaction is part of a Batch, do all Settlement Transactions in the Batch simultaneously satisfy (a), (b), (c) and (d)?

If a Transaction passes all of these tests, it will be settled. If a Transaction fails a test it will remain on the System Queue and be retested later. The System Queue proceeds to the next Transaction and tests it and so on to the bottom of the Queue. When the final Transaction on the System Queue has been tested, the System Queue returns to the top of the System Queue and starts again. This method is called “next-down looping”.

4.4 Auto Offset

The Auto-Offset facility is a feature that allows Exchange Settlement funds in the System to be utilised more efficiently to assist settlement of interbank payments. The facility applies to a Settlement Transaction only if the Settlement Transaction is not part of a Batch, and is not selected for settlement using Multilateral Settlement Method or Targeted Bilateral Offset. Under the Auto-Offset facility, the System will automatically search the System Queue for offsetting payments from the receiving bank. If the payments between the two ESA holders can be offset and settled simultaneously without any limits being breached, the System will do so automatically.

The facility will normally be activated where an interbank payment which has been approved for settlement by the paying ESA holder has been queued unsettled for one minute or more because of insufficient Exchange Settlement funds. The one minute parameter can be varied by the Reserve Bank, depending on the performance of the System Queue.



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4.5 Targeted Bilateral Offset

The Targeted Bilateral Offset is a function that allows two Members (other than Non-Transaction Members) to select transactions to be included in a bilateral offset arrangement and to achieve the simultaneous settlement of these transactions. Batch transactions, transactions with a Multilateral Settlement Method, RBA Repos and intrabank payments are not eligible for inclusion in a Targeted Bilateral Offset.

4.6 Settlement Status

The readiness of a Transaction to be tested for settlement is indicated by its Settlement Status. The Regulations and Conditions of Operation refer to the Settlement Status assigned by the paying Member –the Cash Account status – and the Settlement Status assigned by the paying Member’s Participating Bank –the credit status and the ESA status. The Regulations provide that the Paying Member and its Participating Bank may change a Transaction’s Settlement Status by means of a Command. This involves changing the Cash Account status, credit status and ESA status of a Transaction in the queue management, credit queue management and exchange settlement queue management functions in RITS, or via Automated Information Facility message. Each Settlement Status may have one of three values – deferred, active or priority – that allow Members, and their Participating Banks, to determine the timing of settlement of their Transactions.

4.7 Cash Account and ESCA Limits

Each Cash Account has a Cash Account limit set by the Participating Bank (referred to as the Maximum Cash Limit). This limit is the amount to which the Cash Account may be taken into debit with the settlement of transactions. The System will not settle any transaction that would take a Cash Account into debit (or further into debit) greater than the Maximum Cash Limit. The Maximum Cash Limit may be set at zero, meaning the Cash Account cannot be taken into debit.

The Member may set a Cash Account sub-limit, reserving a tranche of funds for the settlement of transactions given a Cash Account Settlement Status of “priority”. Transactions with a “priority” status are tested against Member’s full Cash Account balance and any available credit limit (including funds up to the value of the sub-limit). Transactions with a cash account Settlement Status of “active” are tested against any Cash Account funds or available credit limit in excess of the Cash Account sub-limit.

Each ESCA has an ESCA limit, set by the Reserve Bank as Participating Bank for ESCAs. This limit is zero, meaning that ESCAs may not be taken into debit.

The ESA holder may set an ESA sub-limit on its ESCA, reserving a tranche of funds for the settlement of transactions given an ESA Settlement Status of “priority”. Transactions with a “priority” status are tested against an ESA holder’s full ESA balance (including funds up to the value of the sub-limit). Transactions with an ESA Settlement Status of “active” are tested against any Exchange Settlement funds in excess of the ESA sub-limit.



5. TRANSACTIONS WITH THE RBA

5.1 Reciprocal Purchase Transactions

The Reserve Bank enters into Reciprocal Purchase Transactions with Members and Participating Banks. These transactions are entered into the Austraclear System. By virtue of Regulation 14, Members entering into a Reciprocal Purchase Transaction with the Reserve Bank will be governed by the TBMA/ISMA Global Master Repurchase Agreement (2000 Version), as amended by the terms set out in Exhibit A to the Regulations.

5.2 RBA Repo

ESA holders (unless precluded by special terms and conditions relating to an individual institution's ESA) can use a special type of Reciprocal Purchase Transaction to raise liquidity from the Reserve Bank to assist with settlement – termed RBA Repos. An RBA Repo may be contracted for an intra-day term, or may be contracted with no set reversal date, in which case they are referred to as Open RBA Repos.

RBA Repos that are not Open RBA Repos have a second leg settlement date the same as the first leg settlement date. These RBA Repos must be reversed on the same day that they are entered into. Reversal is effected manually at the discretion of the ESA holder. RBA Repos to be reversed are placed on the System Queue and are subject to the normal System Queue tests. If an RBA Repo is not able to be reversed on the day it is initiated, the ESA holder must contact the Reserve Bank and is subject to an overnight interest penalty.

Open RBA Repos do not have a repurchase date agreed at the time they are effected (ie. their term is open), and are terminable on demand.

All RBA Repos are initiated in the Austraclear System. A special facility exists in the Austraclear System for RBA Repos that are not Open RBA Repos in some securities to be effected unilaterally by the ESA holder. Other RBA Repos and Open RBA Repos are entered into the Austraclear System for settlement only after contact with the Reserve Bank's dealing room.

The Reserve Bank will, at the completion of the first leg of the RBA Repo, credit the ESCA of the bank selling securities with the amount of the purchase price.

The Reserve Bank determines from time to time what securities it will accept for the purposes of reciprocal purchase transactions and RBA Repo transactions. These are termed Approved Securities and are detailed in the Conditions of Operation.

All RBA Repos are governed by Regulation 15. Regulation 15 states that RBA Repos are governed by the TBMA/ISMA Global Master Repurchase Agreement (2000 Version), as amended by the terms set out in Exhibit B to the Regulations. Exhibit B incorporates the amendments in Exhibit A, so that effectively the terms of RBA Repos are subject to the amendments in Exhibit A and Exhibit B.

The Reserve Bank has received legal advice that the standard form RBA Repo agreement should not incur a



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liability for stamp duty in any State or Territory of Australia.¹

5.3 Global Master Repurchase Agreement

Reciprocal Purchase Transactions and RBA Repos entered into with the Reserve Bank are governed by the 2000 TBMA/ISMA Global Master Repurchase Agreement as amended by the terms of Exhibit A and Exhibit B respectively. Reciprocal Purchase Transactions and RBA Repos entered into before 1 August 2008 (previously the TBMA/ISMA Changeover Date), were governed by the 1995 PSA/ISMA Global Master Repurchase Agreement as amended by the terms of Exhibit A and Exhibit B respectively at that time in force.

5.4 RBA Term Deposits

The Reserve Bank may offer, via a tender process, a Term Deposit Facility that allows successful bidders to deposit funds with the Reserve Bank for a specified period of time. The facility is available to all RITS Members that are ADIs or hold an ESA, unless precluded by particular conditions on an individual RITS Membership.

All RBA Term Deposits are governed by Regulation 16.

5.5 US Dollar and Chinese Yuan Term Repos

The Reserve Bank may offer, via a tender process, US Dollar and Chinese Yuan liquidity to eligible RITS Members for an agreed term against the provision to the Bank of eligible Australian dollar securities under repurchase agreement. The facility is available to all RITS Members, unless precluded by particular conditions on an individual RITS Membership, and subject to additional eligibility criteria set out on the Reserve Bank's website.

All US Dollar and Chinese Yuan Term Repos are governed by the 2000 TBMA/ISMA Global Master Repurchase Agreement as amended by the terms of Exhibit A.

¹ This section was repealed from the Corporations Act by the Financial Services Reform Act 2001 (Cwlth).