

High-value Payments System

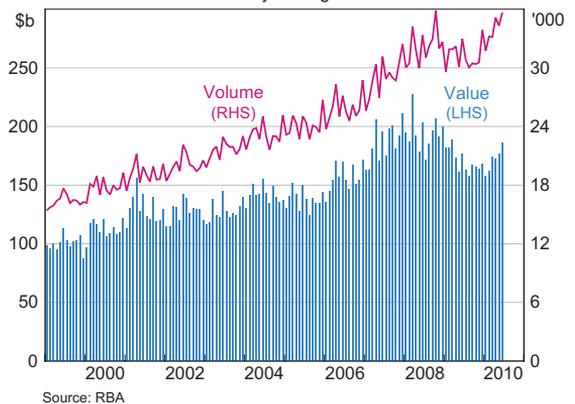
Australia's high-value payments system is the Reserve Bank Information and Transfer System (RITS), owned and operated by the Reserve Bank. RITS is a real-time gross settlement (RTGS) system in which settlement of transactions occurs, one by one, in real-time across Exchange Settlement (ES) accounts held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

The number of transactions settled through the RTGS system increased over 2009/10, reversing the decline that occurred over the previous year following the market turbulence of late 2008 (Graph 14). Growth in the value of transactions has not been as strong, with the daily average value of transactions settled in June 2010 still 8 per cent below the levels of mid 2008.

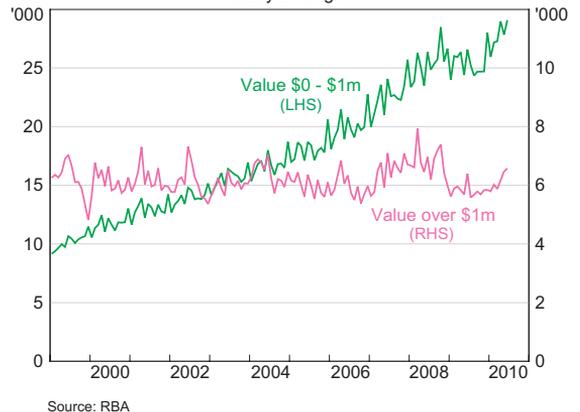
Although specifically designed for the settlement of high-value payments, the RTGS system also settles a significant number of small-to-medium sized payments. In fact, all the growth in the number of transactions over the past decade has been in payments under \$1 million (Graph 15). The number of both small-to-medium (under \$1 million) and large-sized payments declined during the market turbulence, although the number of large-sized payments fell by more and has not recovered to the same extent as the number of small-to-medium sized payments over 2009/10.

Equity transaction-related payments are settled across ES accounts once per day on a net basis. The average daily value of participants' cash settlement obligations in this batch in 2009/10 was \$508 million, down by 18 per cent from 2008/09, reflecting increased netting efficiency within the batch.

Graph 14
RTGS Transactions
Daily average



Graph 15
Number of RTGS Transactions
Daily average



RTGS system liquidity – as measured by the sum of opening ES balances and intraday repurchase agreements – increased during the market turmoil of 2008/09 and, although below its late 2008 peak, remains at a high level. This increased liquidity has allowed payments to be made earlier in the day. On average, half of each day's payments by value were completed by 1.45pm during 2009/10, an hour earlier than in 2006/07.

RTGS payments account for around 90 per cent of the value of interbank settlements. The remaining 10 per cent occur on a deferred net basis and are related to retail payment systems. Interbank obligations arising from retail payment systems are settled across ES accounts in the daily 9am batch. In 2009/10, the daily average of total participants' obligations in the 9am batch was approximately \$1.8 billion, unchanged from the previous year.

RITS Self-assessment

The Board has responsibility for the safety and stability of the payments system in Australia. An important part of this is ensuring that Australia's systemically important payment system – RITS – meets the *Core Principles for Systemically Important Payment Systems* (Core Principles) developed by the Bank for International Settlements' Committee on Payment and Settlement Systems (CPSS). The Bank therefore periodically conducts self-assessments of RITS. The latest self-assessment was conducted in 2009; this updated an assessment undertaken in 2005.

The Core Principles include 10 principles relating to the minimisation and management of financial and operational risks in payment systems, the efficiency of payment systems and the effectiveness of their governance arrangements. The Core Principles also outline the responsibilities of central banks in applying the principles (Box A).

Since the previous self-assessment of RITS was undertaken in 2005, a number of changes to RITS had been implemented in response to market and technological developments, and the evolution of international best practice. These changes included upgrades to the RITS operating system and hardware, and enhancements to business continuity and security arrangements, as well as the implementation of targeted bilateral offset functionality, a tool that assists participants in managing credit exposures to clients while minimising liquidity needs. The 2009 self-assessment concluded that RITS met all of the Core Principles and that the Reserve Bank met the responsibilities of central banks in applying the Core Principles. Nevertheless, it was noted that work at the Reserve Bank was ongoing to ensure that RITS continues to meet the Core Principles and international best practice. In late 2009, regular rotation of RITS production operations between the primary and backup sites commenced – strengthening the operational reliability of the system. Work is underway, in conjunction with APCA, to allow direct credit and debit transactions, which are currently settled on a net deferred basis, to be settled on a same-day basis, thus reducing credit and operational risks.

Box A

The Core Principles and Central Bank Responsibilities

Core Principles for Systemically Important Payment Systems

- I. The system should have a well-founded legal basis under all relevant jurisdictions.
- II. The system's rules and procedures should enable participants to have a clear understanding of the system's impact on each of the financial risks they incur through participation in it.
- III. The system should have clearly defined procedures for the management of credit risks and liquidity risks, which specify the respective responsibilities of the system operator and the participants and which provide appropriate incentives to manage and contain those risks.
- IV.* The system should provide prompt final settlement on the day of value, preferably during the day and at a minimum at the end of the day.
- V.* A system in which multilateral netting takes place should, at a minimum, be capable of ensuring the timely completion of daily settlements in the event of an inability to settle by the participant with the largest single settlement obligation.
- VI. Assets used for settlement should preferably be a claim on the central bank; where other assets are used, they should carry little or no credit risk and little or no liquidity risk.
- VII. The system should ensure a high degree of security and operational reliability and should have contingency arrangements for timely completion of daily processing.
- VIII. The system should provide a means of making payments which is practical for its users and efficient for the economy.
- IX. The system should have objective and publicly disclosed criteria for participation, which permit fair and open access.
- X. The system's governance arrangements should be effective, accountable and transparent.

* Systems should seek to exceed the minima included in these two Core Principles.

Responsibilities of the Central Bank in Applying the Core Principles

- A. The central bank should define clearly its payment system objectives and should disclose publicly its role and major policies with respect to systemically important payment systems.
- B. The central bank should ensure that the systems it operates comply with the Core Principles.
- C. The central bank should oversee compliance with the Core Principles by systems it does not operate and it should have the ability to carry out this oversight.
- D. The central bank, in promoting payment system safety and efficiency through the Core Principles, should co-operate with other central banks and with any other relevant domestic or foreign authorities.

