

Exchange Settlement Accounts for ESA Holders Eligible to use an RTGS Agent

Information Paper for RITS Members

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**RESERVE BANK
OF AUSTRALIA**

Payments Settlements Department

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1. Introduction

Authorised Deposit-taking Institutions (ADIs) whose average daily aggregate wholesale RITS real-time gross settlement (RTGS) transactions comprise less than 0.25 per cent of total wholesale RITS RTGS transactions may make some or all of their RTGS transactions through an agent, rather than directly across their own Exchange Settlement Accounts (ESAs). The RTGS agency policy is set out in the Reserve Bank's [Exchange Settlement Account Policy](#). The policy aims to achieve a balance between the benefits to RTGS participants of using an agency arrangement and the risks associated with tiering of settlements in the payments system.

An ADI may wish to use an agent for all of its RTGS transactions in order to participate in RTGS without needing to have the operational capacity and incurring the operational costs of settling through its own ESA. An ADI that makes all of its RTGS payments through an agent may also choose to maintain a 'dormant' ESA that would only be used in a contingency that results in the agent being unable to settle RTGS transactions on behalf of the dormant ESA holder.

Alternatively, an ADI may wish to use an agent for some RTGS transactions but settle other RTGS transactions through its own ESA. These are referred to as 'partially active' ESA holders. This arrangement allows the ESA holder to have control over some of its transactions, and to hold a balance in its ESA, but does not necessitate the ESA holder to invest in the operational infrastructure necessary to directly participate in all types of RTGS payments.

This paper outlines the eligibility criteria for using an RTGS agent, approvals for certain changes to agency arrangements, and the operational and contingency arrangements for dormant and partially active ESA holders.

2. Eligibility and Monitoring

2.1 Eligibility for Use of an RTGS Agent

An ADI may settle some or all of its RTGS obligations through an agent (rather than directly across its own ESA) if it is not a central counterparty and if the daily average of its wholesale RITS RTGS transactions consistently accounts for less than 0.25 per cent of the total value of all wholesale RITS RTGS transactions. Wholesale RITS RTGS transactions comprise interbank cash transfers in RITS, interbank cash transfers arising from the Austraclear securities settlement system (e.g. the interbank settlement of wholesale debt securities and money market transactions) and payments made using the SWIFT Payment Delivery System and that would settle across an ESA holder's own ESA if it did not use an RTGS agent. Currently, settlements through the Fast Settlement Service are not included in the calculation of the 0.25 per cent threshold. Assessments against the 0.25 per cent threshold are made by the Reserve Bank.

ESA holders that are central counterparties are not eligible to use an RTGS agent.

2.2 Monitoring and Approvals for RTGS Agency Arrangements

2.2.1 Monitoring of RTGS Agency Arrangements

The Reserve Bank monitors RTGS transactions being settled by ADIs via an agent. On the basis of this monitoring, the Reserve Bank assesses an ADI's share of wholesale RITS RTGS payments and hence its continued eligibility to use an RTGS agent. If an ADI's wholesale RITS RTGS transactions exceed the

threshold of 0.25 per cent of total wholesale RITS RTGS transactions on a sustained basis¹, the Reserve Bank will require the ADI to put in place arrangements to settle all of its wholesale RITS RTGS transactions across its own ESA (that is, to apply to hold an ESA or fully activate its ESA). The ADI would then meet with the Reserve Bank to present a plan and indicative timetable to establish its own ESA operations.

2.2.2 Approvals of Changes to RTGS Agency Arrangements

- Existing ESA holders that settle all their transactions across their own ESAs but that wish to convert to a dormant or partially active ESA, or dormant/partially active ESA holders that wish to change the use of their ESA, must submit a separate application to the Reserve Bank to do so. The application process is similar to that for initial ESA applications.
- An ADI that intends to cease settling some or all of its wholesale RITS RTGS transactions through an agent must seek a statement of non-objection from APRA and must apply to the RBA to establish an ESA or modify the use of its existing ESA.
- Dormant or partially active ESA holders that wish to change their existing agents must inform the Reserve Bank of the proposed change and provide any details as requested.
- An ESA holder that intends to act as an agent for RTGS payments for the first time must seek prior approval from APRA (in the form of a non-objection) and from the Reserve Bank.

3. Operational and Contingency Arrangements – Partially Active ESA Holders

A partially active ESA holder has an active ESA in RITS. The RTGS transactions that the partially active ESA holder enters on its own behalf settle across this ESA; transactions that are settled by the agent settle across the ESA of the agent. The partially active ESA holder's ESA has the branches and cash accounts necessary to effect settlement, and the ESA holder has users who are given login credentials and are able to access the RITS user interface to input, manage and monitor transactions across its ESA.

Partially active ESA holders must meet all the operational requirements for ESA holders operating their own ESAs as outlined in the [Exchange Settlement Account Policy](#) and as otherwise advised by the Reserve Bank (including, for example, having sufficient staff to monitor settlement activity across the ESA). Partially active ESA holders must also comply with the Reserve Bank's business continuity standards for RITS Members.

Partially active ESA holders operate their own ESAs and are therefore responsible for any contingency payments. That is, in a contingency affecting its RTGS agent, a partially active ESA holder is expected to have the capacity to directly settle transactions across its own ESA, and (unlike a dormant ESA holder) would not need the RBA to enter transactions into RITS on its behalf.

Partially active ESA holders that are eligible can use the Reserve Bank's [Standing Facilities](#) as a source of liquidity for ESA settlements. Standing Facilities repos must settle across the ESA holder's own ESA, and not through the ESA of the RTGS agent(s).

4. Operational and Contingency Arrangements – Dormant ESA Holders

An ESA holder that does not settle any of its own transactions but holds an ESA as a contingency arrangement has a dormant ESA – that is, an ESA is created in RITS but remains inactive. A dormant ESA holder does not have access to its ESA.

¹ By way of example, three consecutive quarterly reports might be regarded as 'sustained', except in the presence of mitigating circumstances.

The dormant ESA is only activated in an contingency, arising from technical or other factors that lead to the RTGS agent being unable to settle transactions on the dormant ESA holder's behalf. In such circumstances, and subject to the approval of the Reserve Bank in each instance, the Reserve Bank would perform the required settlement actions in RITS (as cash transfers) on behalf of the dormant ESA holder, across the dormant ESA holder's own ESA. The Reserve Bank would only act in each case on the ESA holder's authenticated ESA Settlement Instructions, and at its sole discretion.

In the event that the ESA is activated in a contingency, the dormant ESA holder would need to undertake all communications with its counterparties and (if applicable) its Austraclear custodian or participating bank and, depending on circumstances, may also need to establish a commercial account with another ESA holder for settlement of transactions on a net deferred (as opposed to RTGS) basis.

Dormant ESA holders cannot use the Reserve Bank's [Standing Facilities](#) to access liquidity, except when the ESA is activated in the event of a contingency.

4.1 Required Operational Infrastructure

To enable a dormant ESA to be used at short notice in a contingency, the dormant ESAs that are maintained in RITS are set up with the branches and cash accounts that are necessary to enable settlement in a contingency. However, dormant ESA holders do not have users and are not provided with RITS login details, so they have no access to RITS.

To be able to send ESA Settlement Instructions to the Reserve Bank in a contingency (refer to section 4.2), dormant ESA holders must ensure that they maintain RITS Authorised Signatories and that contact information provided to the Reserve Bank is kept up to date. The Reserve Bank will confirm that these details are up to date during its routine checks with all Members of RITS.

4.2 Provision of ESA Settlement Instructions to the Reserve Bank

Dormant ESA holders must establish arrangements for provision of ESA Settlement Instructions to the Reserve Bank in the event of a contingency. Dormant ESA holders are required to test the procedures for providing contingency ESA Settlement Instructions to the Reserve Bank on an annual basis.

There are two methods by which a dormant ESA holder may provide ESA Settlement Instructions to the Reserve Bank for settlement across its ESA in a contingency: SWIFT messages and authenticated faxes. A separate ESA Settlement Instruction must be provided to the Reserve Bank for each RTGS transaction that the ESA holder wishes to settle across its ESA. Instructions will only be acted upon by the Reserve Bank after proper authentication.

Transactions involving the movement of stock in the Austraclear System would require separate instructions from the ESA holder to its custodian in respect of its transactions with either the Reserve Bank or other counterparties.²

4.2.1 Dormant ESA holders using SWIFT to send instructions to their agents

If the dormant ESA holder's usual means of providing RTGS payment instructions to its agent is by means of SWIFT messages, the ESA holder should provide ESA Settlement Instructions to the Reserve Bank by the same means. For this purpose, the dormant ESA holder must exchange SWIFT authorisations³ with the

² Where the Reserve Bank is counterparty to transactions with the dormant ESA holder (i.e. for Standing Facility Repos), there would be a 'free of value' transfer of stock in Austraclear between the ESA holder or its custodian and the Reserve Bank, and a cash transfer in RITS from the Reserve Bank to the dormant ESA holder. If the Reserve Bank were not a counterparty, any transfers of stock would be between the dormant ESA holder or its custodian and the counterparty, and the movement of funds would be between the counterparty and the dormant ESA holder.

³ Using the Relationship Management Application (RMA).

Reserve Bank before its ESA is opened, using the Reserve Bank's SWIFT address: RSBKAU2S, or such other address as notified by the Reserve Bank. Example ESA Settlement Instruction SWIFT messages are shown in Attachment 1.

In sending its ESA Settlement Instructions to the Reserve Bank, the dormant ESA holder should use the BIC of the entity that signed the RITS Membership Agreement.⁴ Alternatively, it can instruct the Reserve Bank to accept Settlement Instructions from a different BIC. The instruction to accept use of a different BIC must be signed in accordance with the ESA holder's list of RITS Authorised Signatories. Note that the ESA holder is not restricted as to what country it can send settlement instructions from.

4.2.2 Dormant ESA holders not using SWIFT to send instructions to their agents

If the dormant ESA holder does not send RTGS payment instructions to its agent using SWIFT, it will provide ESA Settlement Instructions to the Reserve Bank using authenticated faxes. These faxes must be signed in accordance with the ESA holder's list of RITS Authorised Signatories and sent to Settlements, Payments Settlements Department, Reserve Bank of Australia on + 61 2 9551 8027.

In addition, a test key must be affixed to each fax. This will be generated by a code provided to the dormant ESA holder in the form of an Excel spreadsheet. This code will assign a value to each field such as settlement date, other bank, amount etc. The test key will be the sum of these values.

4.2.3 Content of ESA Settlement Instructions

Each ESA settlement instruction to the Reserve Bank must include the following details:

- Settlement date.
- Amount.
- The name and RITS identifier of the counterparty (i.e. the ESA holder from which the dormant ESA holder is receiving funds or to which it is paying funds).
- Whether it is a payment (debit) or a receipt (credit) for the dormant ESA holder.
- In the case of transactions involving the movement of stock in Austraclear where the Reserve Bank is the counterparty, the code of the ESA holder or its custodian in Austraclear, series ID, yield, deal price and face value, as applicable.
- In the case of other transactions in Austraclear (where the Reserve Bank is not the counterparty), the code of the ESA holder's custodian in Austraclear. (There will be a corresponding instruction from the ESA holder to the Reserve Bank for the resulting cash transfer in RITS to the counterparty.)

5. Legal Arrangements

All ESA holders are required to sign a RITS Membership Agreement which binds them to the terms of the [RITS Regulations](#). The RITS Regulations contain a form of RITS Membership Agreement in Annexure E. The Membership Agreements of dormant and partially active ESA holders contain additional conditions of membership relating to the agency arrangements in Attachment A to the agreement. The conditions of dormant ESA holders also set out the rules and indemnities for the provision of ESA Settlement Instructions to the Reserve Bank in a contingency.

⁴ Typically the BIC will be at the 8 digit level, indicating institution, country and region.

ATTACHMENT 1

ESA Settlement Instruction to RBA via SWIFT

1. Bank to Bank – Payment by Dormant ESA Holder

SWIFT Message Type: MT202 General Financial Institution Transfer

Tag	Description	Detail	Comments
	Sender SWIFT BIC:		ESA Holder
	Receiver SWIFT BIC:	RSBKAU2S	Reserve Bank
20	SWIFT TRN		ESA Holder Reference
21	Related Reference		Related Reference
32A	Value Date Currency Code Amount	yymmdd AUD15d	As applicable
53B	Sender's Correspondent	/nnnnn-n (and) 6 digit RITS Code	ES Account number of ESA Holder followed by their RITS Code
58A	Beneficiary Institution	/6 digit RITS Code SWIFT BIC	Receiving ES Account holder If the SWIFT BIC is unknown: 58D: /6 digit RITS Code Name of Beneficiary
72	Sender to Receiver Information	//REC/PLEASE EFFECT RITS //CASH TRANSFER ON OUR //BEHALF	

2. Bank to Bank – Receipt by Dormant ESA Holder

SWIFT Message Type: MT210 Notice to Receive

Tag	Description	Detail	Comments
	Sender SWIFT BIC:		ESA Holder
	Receiver SWIFT BIC:	RSBKAU2S	Reserve Bank
20	SWIFT TRN		ESA Holder Reference
25	Account Identification	/nnnnn-n (and) 6 digit RITS Code	ES Account number of ESA Holder followed by their RITS Code
30	Value Date	yymmdd	
21	Related Reference		Related Reference
32B	Currency Code Amount	AUD15d	As applicable
52A	Ordering Institution	/6 digit RITS Code SWIFT BIC	Paying ES Account holder If the SWIFT BIC is unknown: 52D: /6 digit RITS Code Name of Ordering Institution