

Changes to RITS to Facilitate Same-Day Direct Entry Settlement

Information Paper for RITS Members

**Domestic Markets Department
Payments Settlements Department
Reserve Bank of Australia**

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Contents

1.	INTRODUCTION.....	1
2.	GLOSSARY	1
3.	CHANGES TO SETTLEMENT ARRANGEMENTS	2
3.1	9AM SETTLEMENT	2
3.2	BECS SAME-DAY SETTLEMENT SCHEDULE	2
3.3	INTRADAY MULTILATERAL RUN TRANSACTION SELECTION	3
3.4	INTRADAY MULTILATERAL RUN SETTLEMENT TESTING	3
3.5	“INDIVIDUAL” SETTLEMENT METHOD	4
3.6	RESERVE BANK CHANGE OF SETTLEMENT METHOD	4
4.	CHANGES TO SESSIONS TIMES	5
4.1	RITS SESSION TIMES – NORMAL DAYS	5
4.2	RITS SESSION TIMES – NSW BANK/PUBLIC HOLIDAYS	5
4.3	LATE DE TIME	6
4.4	JUNE QUEEN’S BIRTHDAY PUBLIC HOLIDAY	6
4.5	EVENING AGREED ARRANGEMENTS	6
4.6	ESA STATEMENTS, CASHLIST REPORTS AND AIF TIME PERIOD ADVICES	7
5.	EVENING STAFFING REQUIREMENTS.....	8
6.	EXTENSION REQUESTS FOR THE EVENING SETTLEMENT SESSION	8
7.	NEW LIQUIDITY ARRANGEMENTS – OPEN RBA REPO	9
7.1	PROVISION OF LIQUIDITY UNDER OPEN RBA REPO	9
7.2	END OF DAY ESA BALANCE AND OPEN RBA REPO POSITION	9
7.3	RITS FEES ON OPEN RBA REPO TRANSACTIONS	10
7.4	AUSTRACLEAR FEES ON OPEN RBA REPO TRANSACTIONS	10
7.5	TESTING OF OPEN RBA REPOS	10
8.	ESA INTEREST	10
9.	SQUARING UP AT END OF DAY.....	16
10.	OTHER RITS USER INTERFACE CHANGES.....	19
10.1	LVSS TRANSACTION ENQUIRY	19
10.2	ESA QUEUE MANAGEMENT	19
11.	QUESTIONS/CONTACT	20

1. Introduction

Currently direct entry payments are settled on a net deferred basis at 9.00 am on the business day following their exchange. From 25 November 2013, direct entry payments will be able to be settled for same-day value. To accommodate these changes, there will be an extension to daily settlement hours in RITS, and the introduction of new liquidity arrangements.

This paper provides RITS Members with information about changes being introduced in RITS to support same-day settlement of direct entry obligations. These include the introduction of multiple multilateral settlement runs throughout the day, extended session times, changes to evening agreed arrangements, and later availability of ESA Statements and end of day Cashlist Reports. The paper also provides details about new liquidity arrangements being introduced to assist Members in funding their evening direct entry obligations, and changes to RITS screens to assist Members with their end of day cash management activities.

2. Glossary

BECS	APCA's Bulk Electronic Clearing System, for direct entry transactions.
BECG	The LVSS payment service code for Government direct entry files. These obligations settle individually in the Morning Settlement Session.
BECN	The LVSS payment service code for non-Government direct entry files. These obligations will usually settle during the day in Multilateral Runs.
Business Day	A day on which RITS is open for settlement.
ESA	Exchange Settlement Account.
FSI	File Settlement Instruction, the Low Value Settlement Service (LVSS) message sent to RITS to advise an LVSS obligation for settlement, including for direct entry obligations.
Late DE	Non-Government direct entry (payment service BECN) LVSS transactions that the RITS Queue receives after 16:45.
Multilateral Run	Testing for settlement of a group of LVSS obligations with Members needing to fund their multilateral net obligation. These occur at the times shown in section 3.2.
Open RBA Repo	An RBA Repo without a maturity date.

3. Changes to Settlement Arrangements

3.1 9am Settlement

9am Settlement arrangements are unchanged for all low value clearings other than direct entry. As occurs now, eligible obligations for 9am Settlement are selected and locked at 08:15, and settlement testing begins at 08:45 when the Morning Settlement Session closes. The key difference from 25 November 2013 onwards is that most BECN obligations will have settled on the day of exchange and will no longer be included in the next day's 9am Settlement.

All LVSS transactions that are on the RITS Queue with a settlement method of *M* (Multilateral) and no deferred status at 08:15 will be selected for 9am Settlement. This will normally comprise all of the previous day's APCS (cheque), CECS and Cashcard (ATM/EFTPOS), and Government sweeps obligations, as well as the previous day's 22:30 BECN exchange. 9am Settlement will also include any BECN obligations that did not settle on the day of exchange and have been (re)submitted for settlement in the 9am Settlement on the following business day. Government direct entry obligations (payment service BECG) will continue to settle individually prior to 08:15 in the Morning Settlement Session.

3.2 BECS Same-Day Settlement Schedule

Five new intraday Multilateral Runs will be introduced to facilitate multilateral settlement of BECN obligations following the official exchange times. The following table shows the Multilateral Run schedule that will be in place to facilitate same-day settlement of direct entry obligations.

Multilateral Run	Start	End	Clearing Interest Adjustment [*]
MR 1 (9am Settlement)	08:15 ⁺	09:15	Yes
⁺ Settlement testing does not commence until 08:45			
MR 2	10:45	11:15	No
MR 3	13:45	14:15	No
MR 4	16:45	17:14	No
MR 5	19:15	19:45	No
MR 6	21:15	21:45 ^{**}	No

^{*} Clearing interest is not applicable to intraday Multilateral Runs as BECN obligations will be settled on the same day that they are exchanged, so no clearing interest adjustment is due.

^{**} This time is currently being reviewed.

The Reserve Bank has suggested to BECS Intraday Settlement Project Managers that the end time for the final Multilateral Run of the day (MR 6) be brought forward by 15 minutes to allow additional time for management of queued FSIs in the event that the multilateral testing is not successful. This is being considered by the industry. If this suggestion is accepted, the end time will be 21:30.

3.3 Intraday Multilateral Run Transaction Selection

At the scheduled start time of each Multilateral Run, any FSI on the RITS Queue with no deferred status and a settlement method of *M* (multilateral) will be selected and locked for settlement testing in that Multilateral Run. This will normally comprise FSIs for BECN files exchanged since the previous Multilateral Run. However if there are any non-BECN FSIs on the Queue at the time, they may also be selected. Once the group of transactions is selected, it is not possible to defer or recall a selected transaction, or to add an additional transaction to the selected group. This means that a Member's net settlement obligation will be unchanged during the period of settlement testing.

LVSS transactions on the Queue that have a deferred Cash Account, Credit or ESA Status at the start time of a Multilateral Run will not be selected for settlement testing, even if the deferred status is changed while the Multilateral Run is still being tested for settlement. They will remain on the Queue and will be eligible for selection in a subsequent Multilateral Run (if there is another one that day) if all deferred statuses are changed to active or priority.

FSIs that arrive in RITS after the start time of the Multilateral Run in which they were intended for inclusion will not be selected. They will remain on the Queue and may be eligible for selection in a subsequent Multilateral Run (if there is another one that day).

3.4 Intraday Multilateral Run Settlement Testing

Each Member's net settlement figure will represent the multilaterally netted value of all selected LVSS transactions. As soon as post-9am Multilateral Run transactions are selected and settlement positions have been calculated, RITS will commence settlement testing. There is no gap between the selection of transactions and commencement of testing, as occurs between 08:15 and 08:45 for the 9am Settlement.

The net settlement figure being tested against each Member's ESA balance will be visible in RITS, in both the ESA Position and LVSS Multilateral Position Summary screens, as per current functionality.

Settlement testing will continue for up to 30 minutes, until the scheduled end time of the Multilateral Run is reached, unless the obligations settle prior to that time. **Members with a net debit position must ensure they have sufficient funds for settlement during that settlement window.** During normal RTGS settlement hours, Members may wish to set an ESA Sub-limit to assist in ensuring they accumulate and retain sufficient ES funds for settlement while the Multilateral Run is testing.

As occurs for the 9am Settlement, RITS will test a Member's debit position in a Multilateral Run against the Member's whole ESA balance, regardless of whether the underlying LVSS transactions have active or priority ESA Statuses.

The Multilateral Run will only settle if all Members with a net debit position have sufficient funds in their ESAs at the same time. If the Multilateral Run is unable to settle, all transactions will be released from the selected group at the scheduled end time of the Multilateral Run. They will remain on the Queue and may be eligible for selection in a subsequent Multilateral Run (if there is another one that day).

3.5 “Individual” Settlement Method

Members with LVSS transactions that missed selection in a Multilateral Run, or where a Multilateral Run did not settle, that do not wish to wait for the next Multilateral Run may change the Settlement Method of LVSS transactions to which they are payer from *M* (multilateral) to *I* (individual). RITS will then test those transactions for settlement as individual transactions on the Queue, as it would for any other transaction (including possible application of auto-offset). The payer of the transaction controls the Settlement Method, even if they did not input the FSI.

Members should note that if the Settlement Method of an LVSS transaction is *I* (individual), the LVSS transaction will be tested for settlement according to its ESA Status. If the LVSS transaction has an ESA Status of active, the transaction will be tested against the Member’s Active ESA Balance – that is, the amount above the Member’s ESA Sub-Limit. If the Member has a large ESA Sub-Limit, this may prevent the transaction from being settled.

3.6 Reserve Bank Change of Settlement Method

The Reserve Bank is able to bulk change the LVSS Settlement Method of all LVSS transactions on the Queue from *M* to *I*. It is anticipated that this would be used in the event that the final Multilateral Run of the day does not settle, to allow as many FSIs as possible to settle as individual transactions. The BECS Intraday Settlement Project Managers Group has agreed that they wish the Reserve Bank to take this action, and changes to the BECS Procedures to take effect with the introduction of intraday settlement provide that Members “acknowledge and agree” to settlement of transactions as Individual transactions in these circumstances. The RITS Regulations will be amended to provide that Members acknowledge that the Reserve Bank may take this action.

This change will be made at 21:45, providing 15 minutes for settlement testing before the Evening Settlement Session closes at 22:00. The normal RITS settlement testing method will then apply to these transactions. The testing will use the ESA Status of each transaction - testing will be against the paying Member’s ESA Active Balance (ie their ESA balance above their ESA Sub-limit) if the ESA Status is active - and the auto-offset functionality may be triggered.

Members should note that this change of LVSS Settlement Method will affect all LVSS transactions that are on the Queue, whether for BECN or other payment services. If an LVSS transaction on the Queue has a deferred status, the change of LVSS Settlement Method will not alter the status and the transaction will remain not ready for settlement.

4. Changes to Sessions Times

4.1 RITS Session Times – Normal Days

The RITS Evening Settlement Session currently closes at 18:30 AEST/20:30 AEDT. The times at which obligations from the final BECN exchanges (18:30 and 20:45) will need to settle are later than this. An extension of RITS settlement hours will be made to allow same-day settlement of these final two exchanges.

Settlement session arrangements prior to and including the Interim Session at 17:15 will be unchanged.

The RITS Evening Settlement Session will be extended until shortly after the schedule end time of the final Multilateral Run, closing at 22:00 all year. The subsequent Reports Session will start at 22:00 all year and close at 22:30.

Following consultation with industry, the Reserve Bank has established arrangements to maintain the existing hours of operation for the SWIFT PDS and Austraclear Feeder System and allow the interbank cash market to close at its current time.

Currently, the SWIFT PDS closes for input of new MT202s between Evening Agreed banks at 18:05 AEST/20:05 AEDT. Settlement of queued SWIFT transactions can continue until the Evening Settlement Session closes (currently 18:30 AEST/20:30 AEDT). With the extension of the Evening Settlement Session to 22:00, a new process in RITS will delete any unsettled SWIFT payments at 18:30 AEST/20:30 AEDT. This will ensure that existing SWIFT payment processing hours for Members are maintained. RITS will also delete unsettled Austraclear transactions at the same time, allowing the Austraclear System to close at its current time of 18:32 AEST/20:32 AEDT. RITS cash transfers and LVSS transactions will be unaffected by that earlier cut-off and will be eligible to settle until the close of the Evening Settlement Session.

It may be possible for the SWIFT and Austraclear settlement cut-off time to be extended on an individual day, to allow for later settlement of those transactions. Extension requests to the cut-off time will be considered using the criteria currently in place to assess requests for extension of the Evening Settlement Session.

4.2 RITS Session Times – NSW Bank/Public Holidays

RITS currently operates with shortened evening session arrangements on the NSW August Bank Holiday and NSW Labour Day public holiday in October. This is because those days are not good value dates for AUD FX, and hence there is no CLS settlement. On those days, SWIFT payment input for MT202s between Evening Agreed banks cuts off at 16:31, shortly after the 16:30 cut-off for non-Evening Agreed banks and MT103s, and the Evening Settlement Session is shortened to close at 17:35.

With the introduction of same-day settlement of BECS obligations, the Evening Settlement Session will need to remain open on these days until 22:00 to allow settlement of the late direct entry

exchanges. Existing hours of operation for the SWIFT PDS and Austraclear Feeder System and the cash market closing time on those days will be maintained, with the new process to delete unsettled SWIFT and Austraclear transactions occurring at 17:35.

4.3 Late DE Time

The new formula for the calculation of ESA interest (see section 8) includes an adjustment for non-Government direct entry obligations that settled during the evening: “Late DE”. LVSS transactions with a payment service of “BECN” that are received on the RITS Queue after 16:45 are considered to be Late DE.

4.4 June Queen’s Birthday Public Holiday

RITS is open for settlement when banks generally are open in either Sydney or Melbourne, but not on public holidays observed in both Sydney and Melbourne. There is currently one day each year when banks in other States are open and BECS Members exchange direct entry files, but on which RITS is not open for settlement. The Queen’s Birthday holiday in June is not observed on the same day by Western Australia. This situation could also occur on other public holidays, for example if State governments take inconsistent approaches to granting of a public holiday on Monday for a national public holiday date that falls on a weekend.

For same-day settlement of direct entry files to occur on the June public holiday, RITS would need to be open for settlement. The Reserve Bank has consulted with industry on the possible opening of RITS for settlement on the June public holiday and, as there was not broad industry support for opening, the existing arrangements will continue to apply. That is, RITS will only be open for business if banks generally are open in either Sydney or Melbourne, or both.

Obligations for BECS files exchanged on the June public holiday Monday will therefore not be able to settle on a same-day basis. The FSIs for these obligations will need to have a Settlement Date of Tuesday, and should be settled as part of Tuesday’s 9am Settlement, with the clearing interest adjustment applied by RITS.

4.5 Evening Agreed Arrangements

The final two Multilateral Runs will take place during the Evening Settlement Session. Currently, some BECS Members are not Evening Agreed and their queued transactions are removed from the RITS Queue prior to the commencement of the Evening Settlement Session. The Reserve Bank has put arrangements in place to allow these Members to participate in the late settlements of direct entry obligations without having to become Evening Agreed. Members that are not Evening Agreed will continue to be subject to the 16:30 cut-off time for input, and 17:15 close of settlement, for SWIFT payments.

All LVSS transactions with a payment service of “BECN” will automatically be given an Evening Flag, irrespective of the payer’s and the payee’s Evening Agreed status. This means that “BECN” settlement instructions submitted prior to 17:15 will not be deleted from the RITS Queue during the

Interim Session. New “BECN” settlement instructions will be able to be submitted after 17:15, including by/for non-Evening Agreed Members.

The special arrangements regarding “BECN” settlement instructions and the evening flag will not apply to other LVSS transactions. An LVSS transactions with a payment service other than BECN where either the payer or payee is not Evening Agreed and that did not settle prior to or as part of the 9am Settlement will need to be settled before 17:15 or it will be deleted as ‘unsettled at end of day’ during the Interim Session.

4.6 ESA Statements, Cashlist Reports and AIF Time Period Advices

Cashlist Reports and final ESA Statements (MT950 SMT999) are currently generated shortly after the end of the Evening Settlement Session at 18:30 AEST/20:30 AEDT. With the extension of the Evening Settlement Session, these reports/statements will be generated and sent shortly after 22:00 all year.

AIF Time Period advices are currently sent at the commencement of most RITS sessions. This will continue, but the times at which these messages are sent will be different for sessions that commence at a later time under the new arrangements outlined above. The following table provides the current and new times of AIF Time Period Advices that will be sent at a later time from 25 November 2013.

Event	Field 907 Code	Time of Transmission of AIF Time Period Advices	
		Current Time	New Time (all year)
Commencement of Reports Session (and end of Evening Settlement Session)	05	18:30 AEST 20:30 AEDT	22:00
RITS System Queue Processing Complete	08	18:30 AEST 20:30 AEDT	22:00
Commencement of Overnight Enquiry Session (and end of Reports Session)	01	19:00 AEST 21:00 AEDT	22:30

Once the new session times are introduced, no Time Period Advice will be sent at 18:30 AEST/ 20:30 AEDT, as no new session commences at this time, even though it will continue to be the time at which settlement of SWIFT and Austraclear transactions ceases.

5. Evening Staffing Requirements

The current expectation for evening agreed Members is that they have sufficient staff available to monitor and manage their RTGS transactions until 18:30 AEST/20:30 AEDT, which is the end of the Evening Settlement Session (as set out in **RITS Advice 01 2009**). Staff are permitted to go home once all RTGS settlements are completed, rather than waiting 'at desk' until the Evening Settlement Session ends. However, Evening Agreed Members must continue to monitor their ESAs via RITS and maintain a capacity to execute and settle transactions. This expectation and time frame will be maintained when same-day settlement of BECS transactions commences, as this will be the time at which SWIFT and Austraclear settlements cease (refer to section 4.1).

After 18:30 AEST/20:30 AEDT, the only settlements across ESAs will be for BECS obligations, and any RITS cash transfers that Members have bilaterally agreed to allow to settle in the late evening. The RBA expects that Members will have staff monitoring the input of FSIs for direct entry exchanges, and be able to manage those transactions (for example, to be able to recall and reinput an incorrect FSI) until the completion of settlement of direct entry obligations. This will usually be the completion of the final Multilateral Run. However, for FSIs that miss selection in the final Multilateral Run, or if the final Multilateral Run is not able to settle, settlement of BECS obligations as individual transactions may continue until the end of the Evening Settlement Session at 22:00.

6. Extension Requests for the Evening Settlement Session

Once the Evening Settlement Session is extended to close at 22:00 each day, there will be very limited scope to extend this session further. The APCA rules concerning settlement of BECS obligations allow for settlement on a net deferred basis in the 9am Settlement on the following business day, ameliorating concerns about inability to settle a direct entry obligation on a same-day basis.

7. New Liquidity Arrangements – Open RBA Repo

Full details of the new liquidity arrangements are available on the RBA website (www.rba.gov.au) under Market Operations.

7.1 Provision of Liquidity Under Open RBA Repo

Under the new settlement arrangements, the settlement of some direct entry obligations will occur after the close of interbank cash market, which occurs at 18:30 AEST/20:30 AEDT. Members will not be able to initiate intraday liquidity transactions after this time, as the Austraclear System will have closed. ES holders that are Tier 1 (ie direct settling) participants in BECS will need to hold sufficient balances in their ES accounts to be able to meet their direct entry settlement obligations during the evening. To facilitate availability of adequate ES funds, the RBA is altering existing arrangements for the provision of liquidity to ES holders. Members have been notified about these new arrangements, and information is available on the Reserve Bank's website under [Liquidity Facilities](#). This section provides a brief overview only.

From 11 November 2013, some RITS Members will be able to contract RBA Repos without a maturity date; that is, the term of the repo may be 'open'. Such RBA Repos will be called Open RBA Repos. In addition, the RBA has agreed with each Member that is a Tier 1 BECS participant, a minimum Open RBA Repo position that it must maintain. The ES funds received from these repos will assist Tier 1 BECS participants in ensuring that sufficient ES funds are available to meet evening direct entry obligations without active intervention by liquidity managers. Note that, for those ES account holders that are not Tier 1 BECS participants, the minimum required position in Open RBA Repos is zero.

Members have been advised of a maximum amount of Open RBA Repo that they may contract at an interest rate equal to the Reserve Bank's Cash Rate Target. Open RBA Repos that are taken out in excess of this limit will be contracted at a higher interest rate. References in this paper to Open RBA Repo are to those Open RBA Repos that are contracted at the Cash Rate Target, and which are relevant to the calculation of ESA interest and therefore Members' targeting of closing ESA balances.

7.2 End of Day ESA Balance and Open RBA Repo Position

Members that enter into an Open RBA Repo at the Cash Rate Target are expected to maintain a closing ESA balance (adjusted for Late DE) **at least equal to their Open RBA Repo position**. A Member's closing ESA balance (adjusted for Late DE) falling below this level will be considered equivalent to the Member being unable to reverse an intraday RBA Repo and will be reported to APRA in the same way as currently applies for an intraday RBA Repo being taken overnight.

For Members with Tier 1 direct entry settlement obligations, the net value of settled Late DE transactions will be removed from (or added back to) the closing balance of their ESA to determine if it is above or below their Open RBA Repo position. These Members will effectively need to ignore Late DE transactions when squaring up for the day, and new information on the ESA Position screen in RITS will assist with this.

7.3 RITS Fees on Open RBA Repo Transactions

Members using intraday RBA Repo pay the RITS transaction volume fee (currently \$0.75 for a debit or credit to an ESA) on each intraday RBA Repo settlement. The RITS transaction value fee (currently \$0.02 per million dollars of value debited or credited to an ESA) is waived for these transactions. This approach will continue to apply to intraday RBA Repos.

The same practice will apply to Open RBA Repos. Members will pay the RITS transaction volume fee, but not the value fee, on all settlements for Open RBA Repos. This includes the opening of a new repo, any margin or collateral substitution cash transactions, monthly rolls and termination of a repo.

7.4 Austraclear Fees on Open RBA Repo Transactions

Members using intraday RBA Repo pay their own Austraclear trade settlement fees. Where the intraday RBA Repo is performed using the automated facility in the Austraclear System, there is no additional fee. However, where an intraday RBA Repo is settled via the trade settlement functionality, the Member is required to reimburse the trade settlement fees incurred by the Reserve Bank. These are included in the unwind leg. This approach will continue to apply to intraday RBA Repos.

However, for Open RBA Repos, this approach is not practicable, and the Reserve Bank will not seek reimbursement of its Austraclear trade settlement fees. Members will pay their own Austraclear trade settlement fees. This includes the opening of a new repo, any margin or collateral substitution cash transactions, monthly rolls and termination of a repo.

7.5 Testing of Open RBA Repos

The RBA has scheduled testing of Open RBA Repo trading and settlement with ES holders for a three week period commencing 21 October 2013. A test guide has been distributed to relevant Members. It is available on the RITS Information Facility ([Test Guide](#)).

8. ESA Interest

In concert with the introduction of Open RBA Repos, the Reserve Bank will change the way that interest is paid on Exchange Settlement Accounts (ESAs). ESA holders with an Open RBA Repo position (contracted at the Cash Rate Target) will receive interest on offsetting funds in their ESA at the Cash Rate Target, ie the rate paid on the Open RBA Repo and the rate received on the ESA will be the same. However, ESA balances above the level of the Open RBA Repo position will receive the existing ESA interest rate of 25 basis points below the Cash Rate Target. To the extent that a Member's closing ESA balance falls below their Open RBA Repo position, they will incur a penalty of 25 basis points. For Members with direct entry obligations, their ESA balance will be adjusted for their Late DE settlements in determining the rate of interest and any applicable penalties.

Interest will continue to be accrued daily and paid monthly in arrears on the first business day of the following month. As now, ESA interest will be posted to ESAs first thing on the first business day of the following month.

The formula that will be used to calculate daily interest accruals under the new liquidity arrangements has been provided to ESA holders, and is reproduced below. An ES holder's ES interest will depend on their Open RBA Repo position and the amount of Late DE, in addition to their closing ESA balance.

$$\text{Daily ES interest} = (\text{ES} \times \text{cash rate target} + (\text{ES} - \text{OR} - \text{Late DE}) \times p) / 365$$

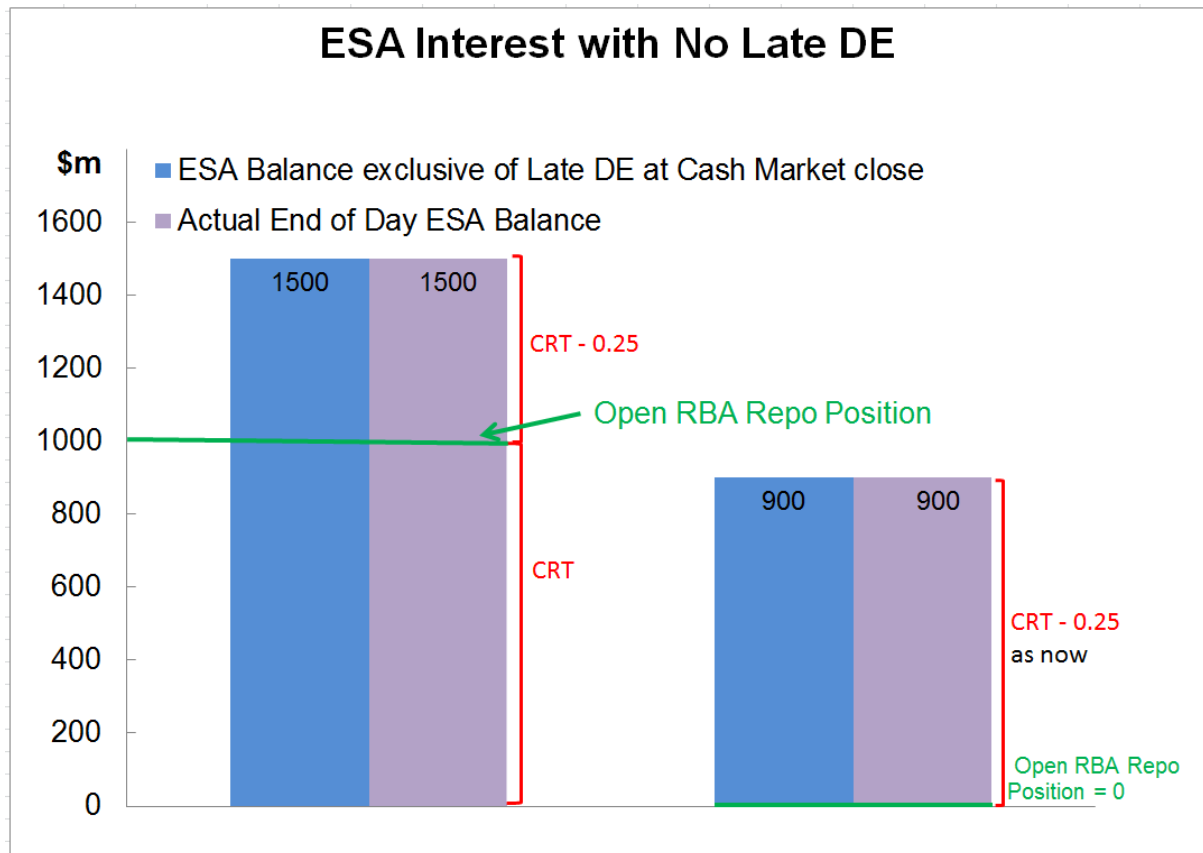
Where:

- ES = *the end-of-day balance of the account holder*
- Cash rate target = *the target for the cash rate as set by the Reserve Bank Board*
- OR = *the starting cash value of all Open RBA Repos contracted at the cash rate target by the account holder*
- Late DE = *the net receipts of the account holder from those direct entry payments arriving on the RITS queue after 4.45 pm (AEST/AEDT). (For those account holders that are not Tier 1 BECS participants, Late DE will always be zero.)*
- p = *-0.0025, if (ES – OR – Late DE) ≥ 0*
- P = *+0.0025, if (ES – OR – Late DE) < 0*

Members will receive interest on their actual closing ESA balance. The rate of interest paid on that balance will depend on their Open RBA Repo position and the amount of Late DE settlements. The Member's interest will be adjusted by the application of a 25 basis point penalty if the Member's closing ESA balance, exclusive of their Late DE, was less than their Open RBA Repo position.

The following diagrams indicate graphically how the ESA interest formula will apply to ESAs in a number of scenarios. The Member's Open RBA Repo position is shown as a green line, and in all but one scenario is \$1,000 million. The first column (blue) shows the Member's ESA balance adjusted for their Late DE settlements. This is effectively the ESA balance that they went home with, ignoring the impact of their Late DE transactions. This balance is expected to be at least equal to the Open RBA Repo position. The second column (purple) shows the Member's actual end of day ESA balance, and therefore includes any Late DE settlements. The diagrams assume there are no late settlements of non-direct entry transactions.

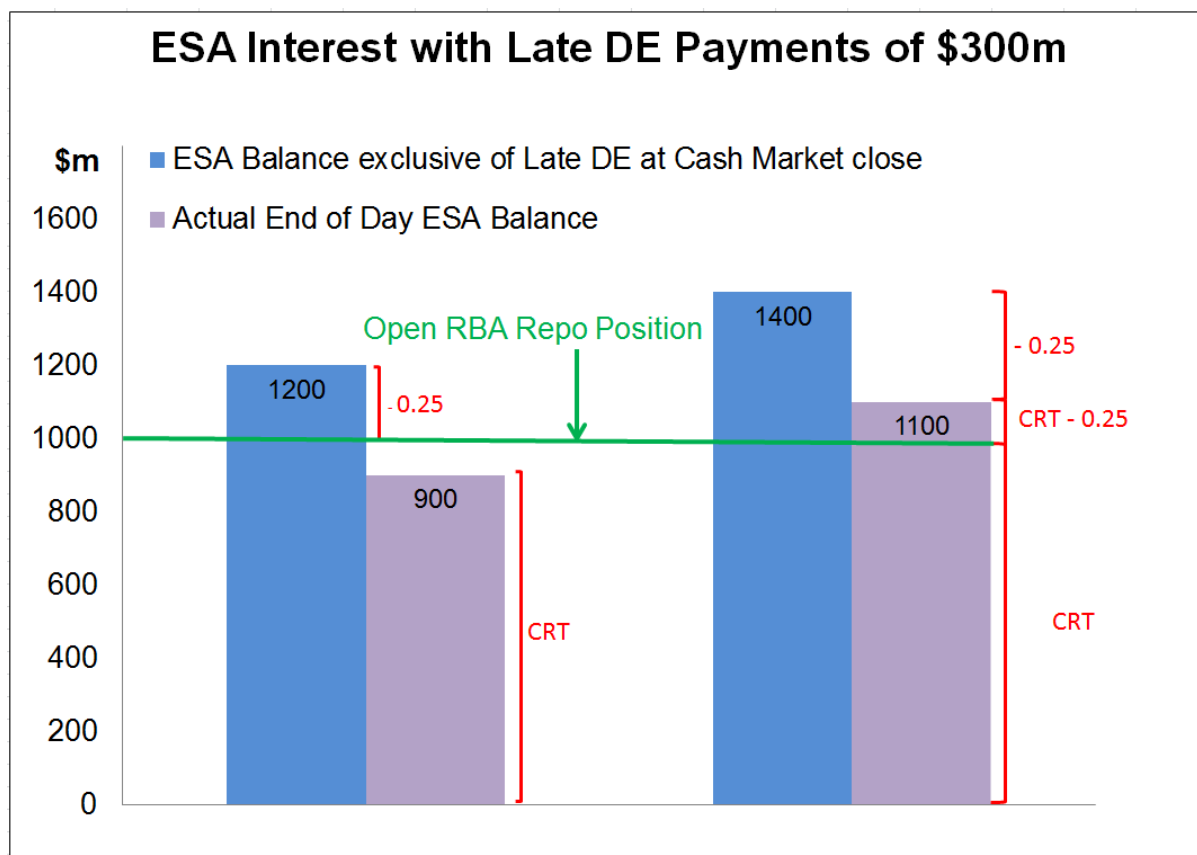
In the first diagram, the Members are not direct entry participants. The first scenario is a Member with an Open RBA Repo position of \$1,000 million. In the second scenario, the Member has no Open RBA Repo position.



In the first scenario above, the Member has an Open RBA Repo position of \$1,000 million and their closing ESA balance was \$500 million above this amount (there is no adjustment as they have no Late DE settlements). In this case, the Member receives interest at the Cash Rate Target on \$1,000 of their closing ESA balance and interest at the Cash Rate Target less 25 basis points on the remaining \$500 million. Effectively, the Member earns a lower rate of interest on the \$500 million of excess funds.

In the second scenario above, the Member has no Open RBA Repo position, and their closing ESA balance was \$900 million. This is \$900 million above their Open RBA Repo position of zero. In this case, the Member receives interest at the Cash Rate Target less 25 basis points on their entire closing ESA Balance of \$900 million. This is the same amount of interest that they would receive today.

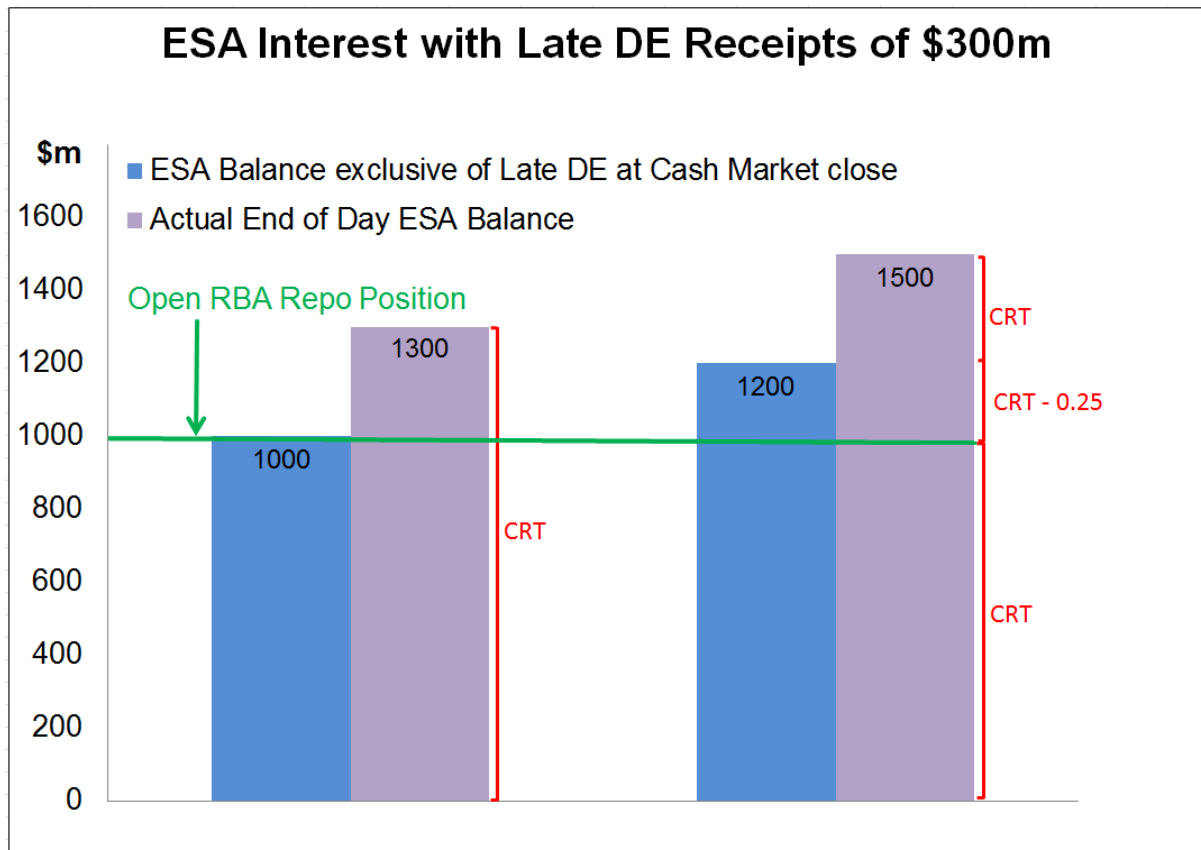
In the second diagram, the Member is **paying** a net of \$300 million in Late DE. In both scenarios, the Member has gone home with an adjusted ESA balance above their Open RBA Repo position.



In the first scenario above, the Member went home with an adjusted ESA balance \$200 million above their Open RBA Repo position, and their Late DE payments meant their actual end of day ESA balance was below their Open RBA Repo position by \$100 million. In this case, the Member receives interest at the Cash Rate Target on their entire end of day ESA balance of \$900 million, but this is adjusted by a penalty of 25 basis points on the \$200 million which is the amount by which the adjusted ESA balance that the Member went home with exceeded their Open RBA Repo position. Effectively, the Member earns the lower rate of interest on \$200 million of excess funds.

In the second scenario above, the Member went home with an adjusted ESA balance \$400 million above their Open RBA Repo position, and their Late DE payments meant their end of day ESA balance was above Open RBA Repo position by \$100 million. In this case, the Member receives interest at the Cash Rate Target on \$1,000 million of their end of day ESA balance and interest at the Cash Rate Target less 25 basis points on the remaining \$100 million. The ESA interest will also be adjusted by a penalty of 25 basis points on the other \$300 million of excess funds. Effectively, the Member earns a lower rate of interest on the \$400 million of excess funds.

In the third diagram, the Member is **receiving** a net of \$300 million in Late DE. In the first scenario, the Member has gone home with an adjusted ESA balance equal to their Open RBA Repo position. In the second scenario, the Member has gone home with an adjusted ESA balance above their Open RBA Repo position.



In the first scenario above, the Member went home with an adjusted ESA balance equal to their Open RBA Repo position, and their Late DE payments meant their end of day ESA balance was above their Open RBA Repo position by \$300 million. In this case, the Member receives interest at the Cash Rate Target on their entire closing ESA balance of \$1,300 million.

In the second scenario above, the Member went home with an adjusted ESA balance \$200 million above their Open RBA Repo position, and their Late DE payments meant their end of day ESA balance was above their Open RBA Repo position by \$500 million. In this case, the Member receives interest at the Cash Rate Target on \$1,300 million of their closing ESA balance and interest at the Cash Rate Target less 25 basis points on the remaining \$200 million. Effectively, the Member earns a lower rate of interest on the \$200 million of excess funds.

Two new enquiry screens will be provided in RITS to display information about ESA interest.

The new ESA Interest Accrued enquiry will allow a Member to query daily ESA interest accruals. The screen includes the details of all components used in the calculation of that daily interest figure (excluding the target cash rate that is available on the RBA's website). The period to be viewed is selected in the filter fields. Data are available for each calendar day for the previous 12 months and in the current month.

ESA Interest Accrued						
Enquiring on member: TONG, Tongs Bank						
Enquiry Filter						
Date From	1	August	2013			
Date To	31	August	2013	Find	Clear	Export <input type="checkbox"/> Excel <input type="checkbox"/>
31 Records found [First Previous] 1 [Next Last]						
Date	End of Day ESA Balance	Open Repo Amount*	Late DE Amount**	ESA Interest Accrued+	Cumulative Interest Accrued	
01-Aug-2013	\$50,516,233.34	\$30,000,000.00	\$1,500,000.00	\$3,329.77	\$3,329.77	
02-Aug-2013	\$41,250,001.12	\$30,000,000.00	\$2,999,663.37	\$2,768.83	\$6,098.60	
03-Aug-2013	\$41,250,001.12	\$30,000,000.00	\$2,999,663.37	\$2,768.83	\$8,867.43	
04-Aug-2013	\$41,250,001.12	\$30,000,000.00	\$2,999,663.37	\$2,768.83	\$11,636.27	
05-Aug-2013	\$43,689,112.52	\$30,000,000.00	\$2,225,876.16	\$2,913.89	\$14,550.16	
06-Aug-2013	\$51,589,688.55	\$30,000,000.00	\$655,003.52	\$3,390.15	\$17,940.31	
07-Aug-2013	\$47,774,563.33	\$30,000,000.00	-\$384,969.77	\$3,147.85	\$21,088.16	
08-Aug-2013	\$48,558,225.99	\$30,000,000.00	\$9,761,502.01	\$3,265.65	\$24,353.81	
09-Aug-2013	\$40,557,212.44	\$30,000,000.00	\$854,588.88	\$2,711.43	\$27,065.25	
10-Aug-2013	\$40,557,212.44	\$30,000,000.00	\$854,588.88	\$2,711.43	\$29,776.68	
11-Aug-2013	\$40,557,212.44	\$30,000,000.00	\$854,588.88	\$2,711.43	\$32,488.12	
12-Aug-2013	\$39,144,297.02	\$30,000,000.00	\$3,304,569.48	\$2,641.12	\$35,129.24	




The new ESA Interest Paid enquiry will allow Members to query the amount of interest posted to their ESA in the previous 12 months.

ESA Interest Paid			
Enquiring on member: CHAM, CHAM 0900 TEST			
Enquiry Filter			
Date From	June	2013	
Date To	August	2013	Find Clear Export <input type="checkbox"/> Excel <input type="checkbox"/>
ESA Interest For	ESA Interest Amount	Payment Date	
Jun-2013	\$24,646,802.29	01-Jul-2013	
Jul-2013	\$7,717,383.98	01-Aug-2013	
Aug-2013	\$9,047,169.64	02-Sep-2013	

9. Squaring Up at End of Day

To assist in the calculation of a Member's expected end of day ESA balance, and determining whether they have a shortfall (and therefore need to seek additional funds, including from the interbank cash market) or a surplus (and therefore have funds available to lend), changes will be made to the ESA Position screen.

Currently, Members "square up" at the end of the day to an ESA balance of at least zero. From 11 November, banks with an Open RBA Repo position will need to target a closing ESA balance each day that is at least equal to their Open RBA Repo position. For those Members with direct entry settlement obligations, the impact of Late DE transactions should be ignored. To assist Members with these activities, the ESA Position screen will be enhanced. An example of the new screen is shown below.

ESA Position 			
ESA Balance			
ESA Balance	\$204,000,000.00	Change ESA Sub-Limit	
ESA Sub-Limit	\$1,000,000.00		
ESA Active Balance	\$203,000,000.00		
		LVSS Multilateral Run (MR)	
		Current LVSS MR Position	\$3,000,000.00
		Projected ESA Position after MR Posting	\$201,000,000.00
Intraday RBA Repos Completed Today		Indicative Position in Open RBA Repos Contracted at Cash Rate Target	
First Leg	\$15,000,000.00	Overnight Position	\$100,000,000.00
Second Leg ¹	\$4,000,000.00	Completed Today ²	\$15,000,000.00
Current Net Position	\$11,000,000.00	Indicative Position	\$115,000,000.00
ESA Position Summary			
Calculated Net ESA Position	\$122,000,000.00	Calculated Net ESA Position (Adjusted for Late DE)	\$119,000,000.00
		Projected ESA Surplus/Shortfall ³	\$4,000,000.00
¹ Figures for outstanding Intraday RBA Repos will be misleading if there are overnight repos carried forward from the previous day. ² The position in RBA Repos contracted at the Cash Rate is indicative only as the settlement consideration for transactions 'Completed Today' may not be the same as the change to the RBA Repo position. ³ 'Calculated Net ESA Position (Adjusted for Late DE)' less 'Indicative Position in RBA Repos Contracted at Cash Rate'.			
Calculated Net ESA Position Details 			
Calculated Net ESA Position Details (Adjusted for Late DE) 			

As now, the **Calculated Net ESA Position** panel shows the Member's current ESA balance, plus any queued inward payments, less any queued outward payments and any outstanding intraday RBA Repo second legs. These figures will include a Member's queued and settled Late DE.

A new **Calculated Net ESA Position (Adjusted for Late DE)** figure takes the Calculated Net ESA Position and removes all settled and queued Late DE transactions. This allows the Member to see their projected closing ESA balance exclusive of Late DE. Members with Open RBA Repo positions are expected to ensure that this figure is at least equal to their Open RBA Repo position when they have finished for the day. This figure will not change as new Late DE transactions arrive on the Queue, nor as queued Late DE transactions settle.

Information about a Member's intraday RBA Repos completed today and Member's Open RBA Repos will be displayed separately (see red and purple boxes in the screen mock-up). RITS will calculate an **Indicative Open RBA Repo Position** that includes any Open RBA Repos taken out or terminated on that day. This will approximate the aggregate value of the first legs of outstanding Open RBA Repo transactions contracted at the cash rate target. Liquidity managers should note that this information is considered as 'indicative' because it may not exactly match the cash value of outstanding Open RBA Repo transactions. Second leg Open RBA Repo transactions may include an interest component as part of the settled transaction. This interest component will be included in the 'Completed Today' figure. For example, if a Member had \$500 million of Open RBA Repo and terminated \$100 million of that, the unwind amount might be \$100.2 million, if interest of \$0.2 million is assumed to have accrued. Upon settlement, the change to the actual Open RBA Repo position is -\$100 million, but the 'Completed Today' amount shown in RITS will be -\$100.2 million, and the Indicative Position would be \$399.8 million, not the correct figure of \$400 million.

To assist with squaring up, the **Indicative Open RBA Repo Position** is subtracted from the **Calculated Net ESA Position (Adjusted for Late DE)** to give a **Projected ESA Surplus/Shortfall**. If this figure is below zero, the Member's adjusted ESA balance is projected to close below the level of its Open RBA Repo. This indicates a funds shortfall. If this figure is above zero, the Member's adjusted ESA balance is projected to close above the level of its Open RBA Repo. This indicates a funds surplus. This projected surplus/shortfall will be inaccurate by the same amount as the Indicative Open RBA Repo Position where second leg Open RBA Repo transactions have occurred during the day.

Expanding the tabs at the bottom of the ESA Position screen outlines the components of the calculation for the **Calculated Net ESA Position** and the **Calculated Net ESA Position (Adjusted for Late DE)**, as shown below. One or both of these panels can be expanded. Members that do not have direct entry obligations will not need to view the **Calculated Net ESA Position (Adjusted for Late DE)** information, as it will be identical to the unadjusted figures available in the **Calculated Net ESA Position** panel. In the example below, the Member has Late DE obligations.

Calculated Net ESA Position Details								
Calculated Net ESA Position	=	ESA Balance	+	Queued In	-	Queued Out	-	Outstanding 2nd leg Intraday RBA Repos
\$122,000,000.00		\$204,000,000.00		\$4,000,000.00		\$75,000,000.00		\$11,000,000.00
(No. of transactions)				71		11		
Calculated Net ESA Position Details (Adjusted for Late DE)								
Calculated Net ESA Position	=	ESA Balance	+	Queued In	-	Queued Out	-	Outstanding 2nd leg Intraday RBA Repos
\$122,000,000.00		\$204,000,000.00		\$4,000,000.00		\$75,000,000.00		\$11,000,000.00
(No. of transactions)				71		11		
Late DE	=	Settled Late DE	+	Queued In Late DE	-	Queued Out Late DE		
\$3,000,000.00		\$1,100,000.00		\$3,800,000.00		\$1,900,000.00		
(No. of transactions)				3		7		
Calculated Net ESA Position (Adjusted for Late DE)	=	Adjusted ESA Balance	+	Adjusted Queued In	-	Adjusted Queued Out	-	Outstanding 2nd leg Intraday RBA Repos
\$119,000,000.00		\$202,900,000.00		\$200,000.00		\$73,100,000.00		\$11,000,000.00
(No. of transactions)				68		4		

10. Other RITS User Interface Changes

10.1 LVSS Transaction Enquiry

The existing LVSS Transaction Enquiry screen allows Members to view individual LVSS transactions. A new enquiry filter – *Multilateral Run Start Time* – will be added to this screen. This filter will allow *Complete* status LVSS transactions to be filtered by the start time of the Multilateral Run in which they settled (see red box in the mock-up below).

The screenshot shows the 'LVSS Transaction Enquiry' interface. At the top, it says 'Enquiring on member: ABCD, Another Banking Corporation'. Below this is the 'Enquiry Filter' section with several dropdown menus: Settlement Date (04-Apr-2013), Own Branch (All), Status (All), Payment Service (All), Other Bank (All), LVSS Settle Method (All), and Direction (Both). A new dropdown menu, 'Multilateral Run Start Time', is highlighted with a red box. Its options are: All, 08:45, 10:45, 13:45, 16:45, 19:15, and 21:15. To the right of the filters are buttons for 'Find', 'Clear', 'Export' (with a checkbox), and 'Excel' (with a dropdown arrow).

10.2 ESA Queue Management

A new role will be introduced that allows a user to be granted access to change the ESA Status of an LVSS transaction, but not the other transactions on the existing Queued Payments Management – ESA/Credit Status/LVSS Settle Method screen. This role could be used to allow staff responsible for direct entry processing to change the ESA Status of FSIs to deferred during the late evening, while ensuring they are not able to alter the ESA Status of other queued payments, such as SWIFT, Austraclear and RITS cash transfer transactions. Users with this new role will be able to view all queued transactions, but the drop down box to select a new ESA Status will only be available for LVSS transactions.

11. Questions/Contact

Questions about the move to same-day settlement of direct entry obligations should be directed to:

Alison Clark
Senior Manager, Business Policy and Services
Payments Settlement Department
clarka@rba.gov.au, 9551 8941

or

Peter Gallagher
Deputy Head Payments Settlements
gallagherp@rba.gov.au, 9551 8902

Questions about the provision of liquidity via Open RBA Repo should be directed to:

Matt Boge
Deputy Head Domestic Markets
bogem@rba.gov.au, 9551 8301

Questions about LVSS or other functionality in RITS should be directed to the RITS Help Desk:

RITS Help Desk
1800 659 360
rits@rba.gov.au