

# **LVSS Industry Forum**

## **Summary of Discussion Points**

Hosted by RBA and APCA, at Reserve Bank of Australia, 65 Martin Place, Sydney

30 November 2011, 10:00 am to 12:40 pm

### **1. Opening and welcome**

The RBA welcomed participants to the third LVSS industry forum. The intention of these meetings was to discuss various aspects of the project and to provide Members with the opportunity to exchange information on areas of common interest. The RBA advised that industry testing and the application of operational rules would be the main discussion topics at this forum.

The RBA mentioned that RITS LVSS functionality is being delivered in 3 phases:

1. LVSS message functionality - released 30 April 2011
2. LVSS 9am Batch functionality - released 11 November 2011
3. LVSS manual entry functionality – scheduled for Feb 2012 in Pre-Production

Since the last forum, the RBA has provided a project update to the industry, confirmed the BECS timetable, and advised details of the four LVSS test phases, as follows:

1. Testing with the RBA
2. Testing in small Member groups
3. Settlement reconciliation testing using Production data
4. Full-day end-to-end process testing

The RBA also advised that Phase 1 of the Test Program (including detailed test cases) was released to the industry on 21 November 2011.

The RBA noted that LVSS training sessions had been conducted in the previous week – two in Sydney, and one each in Melbourne and Brisbane. These had been well received.

Members were also reminded that they should keep the RBA regularly informed of their progress in meeting the LVSS timetable.

### **2. APCA's Regulation and Procedures – update**

APCA reported that its clearing system members have approved LVSS changes to BECS and CECS regulations and procedures. APCS approval is expected to be completed in the first quarter of 2012. The approvals allow APCA management to make minor amendments, for example, for consistency across clearing systems and to insert the start date.

APCA is in the process of ensuring the updated rules have consistency across all three clearing streams (as far as possible). APCA advised that the finalised rules should be available to Members soon.

### **3. Industry Timetable – APCS and CECS**

The RBA requested industry feedback on the timing of the APCS and CECS migrations (as raised in the RBA letter of 26 October concerning the industry timetable). The RBA noted

that some Members had requested that there be a gap between the BECS migration and the commencement of industry testing for the following migration. The RBA advised that it considered this to be a reasonable request and that it was willing to accommodate a minor shift to the final completion date of a month or so, but any significant delay that pushed completion of the project into 2012 would be unacceptable.

Members discussed the length of any gap between the BECS migration and the commencement of testing for the next clearing system.

Some Members noted that they did not want to see the CECS migration date move forward; another participant noted that a late August implementation would be problematic for them due to year end.

Members also generally agreed that it was in their interests for all migrations to be completed by the end of October (or early November) at the latest to avoid any end-of-year change freeze periods.

After some discussion, the general consensus on the migration order for each of the clearing streams was confirmed as being BECS, CECS/CSHD and then APCS. The timing of CECS/CSHD would not change (currently August), but APCS would move to later and have a targeted completion date of around Sept/Oct 2012.

It was also agreed that there should ideally be around a 2 week contingency period between the completion of industry testing and a migration taking place. This would allow for any issues to be addressed as necessary. It was noted that this contingency window could probably be reduced with each migration.

The RBA undertook to summarise this feedback, liaise with APCA as necessary, and to formally advise Members of the agreed timetable changes.

#### **4. Industry LVSS testing**

##### 4 (a) - LVSS Test Framework

This framework was distributed in October after feedback from the previous forum was taken into account.

Testing is split into 4 phases:

1. Standalone testing with RBA (using counterparties RBV1/RBV2). The detailed Test Program for these tests was distributed to Members on 21 November 2011.

Industry testing for BECS is now split into 3 distinct phases:

2. Member testing in small groups of no more than 3-4 Members. This testing will involve the creation and sending of FSIs and may include the exchange and reconciliation of clearings as agreed between group Members. The Phase 2 test program will be developed with APCA with the RBA providing a list of minimum test cases that need to be included in this testing. This list would be a subset of the Phase 1 test cases. Groups may agree to conduct additional test cases, for example BCP testing.
3. Industry-wide production settlement reconciliation testing. This test phase has a narrow scope that is focussed on testing production clearing file data (this may be only the DE summary file, not the individual transaction records, depending on Member processes) and settlement data from a selected historical production day. The objective of this testing is for every Member to create FSIs that sum to their outward BECS exchange summary data.

4. Industry-wide end-to-end testing. This test phase is to simulate all processes for a normal production day using test data.

The RBA advised participants that they should begin to form their groups for Phase 2 and to notify the RBA and APCA of their chosen partners. The RBA and APCA will assist in this process as required.

Some Members questioned the practicalities of the end-to-end testing phase. An alternative approach to separately test specific components of the cycle was suggested with each component having a defined starting point. It was recognised that this approach would not enable Members to test their new processes on a 'real time' full day basis. It was also noted that clearing data will be difficult to organise for CECS. These comments will be taken into account as part of the preparation of industry test requirements.

The proposed timing of daily testing was also discussed. The RBA noted that the 9am settlement can be scheduled to occur later in the day if necessary to allow time for all FSIs to be submitted to RITS and managed prior to settlement. The RBA also advised that, if required, FSI lodgement times could be compressed so that they occur in regular business hours.

It was also noted that negative or exception testing is expected to be minimal in phases 2 to 4 as most of this testing should be completed by Members in phase 1.

#### 4 (b) - Phase 1 Test Cases

The RBA mentioned that a few Members have already commenced some aspects of their Phase 1 testing. The RBA reminded Members that it will co-ordinate Phase 1 testing.

The full test plan, including test cases with expected results, was issued on 21 November. It was acknowledged that these were RITS-centric tests focussed on a minimum mandatory level of testing of FSI/FRI entry and validations, receipt of LVSS advices/responses and AIF unsolicited advices and reconciliation. Members could determine their own level of required testing over and above the tests required by the RBA. The exchange of clearing files is not mandatory for any of these tests, but may be requested if required.

The RBA also mentioned that Members may perform test with another Member during Phase 1 if bilaterally agreed.

#### 4 (c) - Timing of formation of Industry Groups for BECS Testing

The RBA advised that Phase 2 testing will involve groups of 3 to 4 Members. Members are free to organise their own groups. If required, the RBA and APCA can assist with the group formation. For those Members who act as an agent for another Member, both Members will be in the same group. Members were requested to advise APCA and the RBA of their group arrangements by 16 December 2011.

An important point to note in forming groups was the extent that Members might wish to exchange clearing files in Phase 2, and if so, if the method of exchange (e.g. existing systems and links used for testing, or email).

WPAC will test BECS BPAY FSIs with all Members during Phase 2 and will advise other Members of the likely test date in due course.

#### 4 (d) - APCA's role in the planning and conduct of test phases 2 to 4

Mike Forey (APCA) sought the feedback on the level of participation/engagement that Members would like to see from APCA as this would help in their planning and resourcing for this task. Members all confirmed that they would like to see APCA play a significant co-ordination and administration role during the industry testing period.

It was agreed that APCA would assist Members with the co-ordination of test case development for phases 2-4. APCA will also ensure to the extent possible that the tests are conducted in accordance with all relevant APCA rules.

As part of this discussion, Members noted the need for:

- Entry/exit criteria for each test phase.
- Governance and guidance on the agreed processes
- Management and co-ordination of test groups and test phases
- Regular status updates showing the progress of all Members against the test schedule
- Issue management and escalation processes
- Full transparency during the test phases
- Clear certification requirements

Mike noted he would be seeking APCA Board endorsement for this. He requested that forum participants advise their respective APCA Board members of this desired level of APCA involvement prior to the APCA Board meeting next week.

#### 4 (e) - Reporting arrangements and member issues

The RBA noted that it expected to be immediately advised by Members if testing revealed any defects that would require a period of rectification, especially when this could potentially and adversely impact other Members and the timetable.

Westpac noted that their merger with St George will occur in Quarter 1, 2012 and that data for production reconciliation will only be available post the planned 12 February 2012 implementation.

Some Members noted that they would like to understand the governance aspects for industry testing and that the roles of the RBA and APCA would need to be clearly defined. This included enquiry handling, status updates and escalation processes. The RBA advised it is likely that APCA will maintain a log of industry testing issues and that Members will be expected to report issues of substance that arise from their testing. It was agreed these issues need to be covered as part of the preparation for industry testing.

### **5. LVSS Industry Questions and Discussion issues**

#### 5 (a) - Handling and resolution of errors/settlement differences

Members noted their preference to use current operational arrangements for the management of issues that occur outside normal business hours. When an overnight issue arises, technical staff will use escalation procedures as necessary. Issues relating to settlement differences are likely to be deferred until the following business morning (depending on the magnitude of the difference or other bilaterally agreed arrangements).

Members noted that current CECS processing usually involved the handling (on a daily basis) of small settlement differences. APCA confirmed that, under the CECS rules, Members can bilaterally agree on reconciliation and tolerance processes.

The RBA noted that if a payment is deferred on the RITS queue awaiting the resolution of a reconciliation issue, the payer needs to inform the payee (this is an APCA rule). If a 'deferred' payment misses the 9am multilateral settlement, Members have the option to:

- Change the Settlement Method to 'I' and the ESA status to A or P to settle the payment outside of the 9am Settlement. The clearing interest due would need to be settled separately (by RITS cash transfer).
- Recall the payment and manually enter an FSI or RITS cash transfer for the correct amount (which may include the clearing interest adjustment).
- Leave the payment on the RITS queue with a 'deferred' status and manually enter an FSI or RITS cash transfer for the correct amount which may include the clearing interest adjustment (the deferred payment will be removed from the RITS queue at end of day as 'unsettled').

Members noted they would like to see consistency in the handling of settlement differences. APCA advised that the rules are deliberately drafted to provide some flexibility on the procedures to be used for the resolution of settlement differences. It was agreed that the actual application of the rules should be monitored to assess whether or not these arrangements prove to be satisfactory.

#### 5 (b) - BCP arrangements

The RBA noted that Members can enter a manual FSI in the same broad timeframe as the sending of a clearing file, if the FSI cannot be automatically sent. In a contingency, Members suggested using the cut-off time currently defined by the National Collator for both normal and BCP arrangements (i.e. around 11pm). It was also stated that further industry discussion might be required on this issue to ensure that participants acted uniformly if these circumstances were to arise.

The decision to manually enter FSIs will generally be based on the nature of the problem and the likely recovery time. Members indicated that they would prefer to allow time for problem resolution including restart or failover of systems before committing to the manual FSI entry option. This was considered to be OK in the current next day 9am settlement environment as long as communication with other Members on the likely timing had taken place.

#### 5 (c) - Use of Settlement Method/Override

The RBA explained that if the optional Settlement Method field was not included in the FSI sent by a Member, and if there was no override set on the related cash account of the payer, then RITS would apply a default of 'I' (for individual settlement). As multilateral settlement is the likely form of settlement required by Members for all payment services other than BECG (government direct entry), it was recommended that Members take this into account when they setup their RITS LVSS cash account arrangements.

#### 5 (d) - Clearing File Reference

Members agreed that appending an internal reference number in the Clearing File Reference field could potentially be problematic to receivers as it could affect their automated reconciliation processes.

### **6. Discussion of other industry issues**

No other additional issues were raised. The next meeting will be arranged for February.