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

Information Paper for RITS Members

August 2024

RESERVE BANK
OF AUSTRALIA

Payments Settlements Department

Version control

Update	Detail
August 2024	Section 4.2.2.: allow emailed authenticated instructions (in addition to fax). Attachment 1: updated to include MX message types.

Contents

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 settle 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.[1]

An ADI may wish to use an agent for all of its RTGS transactions in order to participate in RITS without needing to have the operational capacity or incurring the operational costs of settling through its own ESA. An ADI that settles all of its RTGS payments through an agent may also apply to hold 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[2], but does not necessitate the ESA holder to invest in the operational infrastructure necessary to participate directly 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 Clarification of 'agency' arrangements

For the purposes of this document, the Reserve Bank considers an agency arrangement to include:

- Formal agency arrangements, where an ADI has explicitly appointed another ADI to provide RTGS agency services; and

- Arrangements where an ADI has opened one or more commercial or corporate accounts with another ADI (not necessarily as part of a formal agency relationship), and those accounts can be used to process RTGS payments.

Where the term 'agent' is used in this document, it may refer to either of the above arrangements.

2.2 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 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 (refer to Section 2.3.1). Assessments against the 0.25 per cent threshold are made by the Reserve Bank.

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[1] For more information on tiering in payment systems, refer to: Arculus R, J Hancock & G Moran (2012) 'The Impact of Payment System Design on Tiering Incentives', Research Discussion Paper 2012-06.

[2] For example, some partially active ESA Holders may hold a balance in their ESA to satisfy APRA's High Quality Liquid Asset (HQLA) requirements.

Wholesale RITS RTGS transactions comprise:

- interbank cash transfers in RITS,

- interbank transactions 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

that would settle across an ESA holder's own ESA if it did not use an RTGS agent (whether as part of a formal agency relationship or through a commercial/corporate account).[3]

Currently, settlements through the Fast Settlement Service are not included in the calculation of the 0.25 per cent threshold.

2.3 Monitoring and approvals for RTGS agency arrangements

2.3.1 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 basis,[4] 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.

2.3.2 Approvals of changes to RTGS agency arrangements

- Existing ESA holders that settle all their RTGS transactions across their own ESAs but that wish to convert to a dormant or partially active ESA, or dormant and partially active ESA holders that wish to change the use of their ESA (such as settling some or all of their RTGS transactions across their own 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 ESA applicant that intends to use an agent to settle RTGS transactions must obtain approval from the Reserve Bank as part of the ESA application process.

- An ESA holder that intends to cease settling some or all of its wholesale RITS RTGS transactions through an agent and/or wishes to change their existing agent(s) must provide written notice to the Reserve Bank of the proposed change and provide any details as requested. The ESA Holder must ensure that its existing agency agreement is not terminated unless it has appointed a substitute agent or has received the Reserve Bank's approval to cease using an agent.

- 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. Evidence of the non-objection will need to be provided to 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 an agent settle across the ESA of the agent. The partially active ESA holder's ESA has the branches and cash accounts necessary to

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[3] ESA Holders that are central counterparties are not eligible to use an RTGS agent.

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

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 Reserve Bank to enter transactions into RITS on its behalf.

Partially active ESA holders that are eligible[5] can use the Reserve Bank's *Standing Facilities* as a source of liquidity for ESA settlements. Standing Facility 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.

The dormant ESA is only activated in a 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 the 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 RITS 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.

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[5]   Approvals for partially active ESA holders to use the Standing Facilities are granted on a case-by-case basis by the Reserve Bank's Domestic Markets department.

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 messages[6]. 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.[7]

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 authorisations[8] with the 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.

In sending its ESA Settlement Instructions to the Reserve Bank, the dormant ESA holder would normally use the BIC of the entity that signed the RITS Membership Agreement.[9] 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 method of signing specified on the ESA holder's most recent List of RITS Authorised Signatories form. Note that the ESA holder is not restricted as to what country it can send settlement instructions from.

Example ESA Settlement Instruction SWIFT messages are shown in Attachment 1.

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 must provide ESA Settlement Instructions to the Reserve Bank using authenticated messages. These messages must be signed in accordance with method of signing specified on the ESA holder's most recent RITS Authorised Signatories form and provided to the RITS Help Desk via email (rits@rba.gov.au) or submitted by fax (+ 61 2 9551 8063).

Each ESA Settlement Instruction sent by authenticated message must be include a test key (code) generated by the dormant ESA holder using a spreadsheet provided by the Reserve Bank for this purpose.

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[6] Authenticated messages for the purpose of the annual contingency test can transmitted to the RBA by either email or fax.

[7] Where the Reserve Bank is counterparty to transactions with the dormant ESA holder (e.g. for repo transactions), 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.

[8] Using the Relationship Management Application (RMA).

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

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 Code 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.[10]

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 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 additional conditions for dormant ESA holders also set out rules and indemnities for the provision of ESA Settlement Instructions to the Reserve Bank in a contingency.

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[10] In the case of other transactions in Austraclear (where the Reserve Bank is not the counterparty), trade details will need to be provided to the counterparty separately.

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	Requirement	Description	Comment
	Sender SWIFT BIC		BIC of ESA Holder
	Receiver SWIFT BIC	RSBKAU2S	BIC of Reserve Bank
20	SWIFT TRN		ESA Holder Reference
21	Related Reference		Related Reference
32A	Value Date Currency Code Amount	yymmdd AUD15d	Settlement date Currency is AUD, followed by transaction amount
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's RITS branch code, and SWIFT BIC (if known) 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	

SWIFT Message Type: pacs.009 Financial Institution Credit Transfer

Requirement	Description	Comment
Sender SWIFT BIC		BIC of ESA Holder
Responder DN	ou=xxx,o=rsbkau2s,o=swift	Reserve Bank
Instruction Identification		ESA Holder Reference
End to End Identification		Related Reference
Interbank Settlement Amount, Currency	Ccy="AUD"	Currency is AUD, followed by transaction amount
Interbank Settlement Date	yyyy-mm-dd	Settlement date
Sender's Correspondent	/nnnnn-n (and) 6 digit RITS Code	ES Account number of ESA Holder followed by their RITS branch code
Creditor, Creditor Account	/6 digit RITS Code SWIFT BIC	Receiving ES Account holder's RITS branch code, and SWIFT BIC (if known) If the SWIFT BIC is unknown: 58D: /6 digit RITS Code Name of Beneficiary
Previous Instruction Agent 1, Instruction for Next Agent, Instruction for Creditor Agent	/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	Requirement	Description	Comment
	Sender SWIFT BIC		BIC of ESA Holder
	Receiver SWIFT BIC	RSBKAU2S	BIC of 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	Settlement date
21	Related Reference		Related Reference
32B	Currency Code Amount	AUD15d	Currency is AUD, followed by transaction amount
52A	Ordering Institution	/6 digit RITS Code SWIFT BIC	Paying ES Account holder's RITS branch code, and SWIFT BIC (if known) If the SWIFT BIC is unknown: 52D: /6 digit RITS Code Name of Ordering Institution

SWIFT Message Type: camt.057 Notification to Receive

Requirement	Description	Comment
Sender SWIFT BIC		BIC of ESA Holder
Responder DN	ou=xxx,o=rsbkau2s,o=swift	Reserve Bank
Message Identification		ESA Holder Reference
Account Identification	/nnnnn-n (and) 6 digit RITS Code	ES Account number of ESA Holder followed by their RITS Code
Expected Value Date	yyyy-mm-dd	Settlement date
End to End ID		Related Reference
Currency Amount	Ccy="AUD"	Currency is AUD, followed by transaction amount
Debtor BIC	/6 digit RITS Code SWIFT BIC	Paying ES Account holder's RITS branch code, and SWIFT BIC (if known) If the SWIFT BIC is unknown: 52D: /6 digit RITS Code Name of Ordering Institution