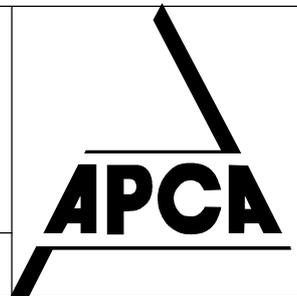


Payments MONITOR



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New compensation rules developed

APCA has developed a single set of rules for calculating compensation when a payment is made on a day other than the day agreed, or is made in error to an account or a person other than agreed. These rules, known as the *Standard Inter-Organisation Compensation Rules*, are capable of being applied in any clearing and settlement system whose participants settle with each other by adjusting their Exchange Settlement Account balances held with the Reserve Bank.

Why were the rules developed?

A range of different rules has existed within the financial industry for calculating compensation when errors were made between clearing participants. Which rules apply depend largely on the nature of the underlying transaction or the method of payment used for the underlying transaction.

For example, compensation for payments made for securities transactions have been calculated according to a set of rules developed by the Australian Treasury Officers' Association in conjunction with Austraclear. Compensation across APCA's clearing systems differed according to whether the transaction was, for example, paid by cheque or paid by direct entry. The Australian Bankers' Association maintained yet another set of rules.

This range of compensation types sometimes led to confusion about which rules should be applied to a given situation, and encouraged affected clearing participants to 'forum shop' for the rules that would be most advantageous to them.

When Real Time Gross Settlement (RTGS) was introduced in Australia in 1998, new rules were needed for compensation relating to erroneous payments settled real-time. APCA decided that this was an appropri-

ate time to develop a single set of rules standardising the approach for calculating compensation, so as to achieve greater simplicity and efficiency across the financial industry.

A standard approach means that the rules can be applied regardless of a payment's original source or ultimate destination whether foreign or domestic, regardless whether the transaction involves RTGS funds or non-RTGS funds, and regardless of the nature of the underlying transaction that gives rise to the payment.

How the rules work

The rationale for the rules is two-fold. First, the non-erring party (and any third party on whose behalf it settles a payment) should be no worse off than if the payment had been processed correctly. This includes recognising that the non-erring party may have had to borrow funds overnight to cover liquidity shortfall. The second rationale for the rules is that there should be a disincentive for clearing organisations to delay settlement.

The rules only apply, with a few exceptions, to claims for a minimum compensation amount of \$1,000 (not including the administration fee), and provided that the claim is made in writing within 90 days.

Compensation is based on the overnight Exchange Settlement Account (ESA) interest rate paid by the Reserve Bank on overnight balances in ESAs. Broadly, if the payer is at fault, compensation is at a rate based on the ESA rate plus 1%; and if the receiver is at fault, compensation is at a rate based on the ESA rate less 0.5%. An administration fee of \$300 is payable by the party in error.

The *Standard Inter-Organisation Compensation Rules* will come into force in APCA's clearing systems (excluding CECS) on 13 June 2001. They will not prevent any APCA clearing participants from agreeing between themselves different

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BECS strategic workshop endorses system's core strengths

'Workshop participants strongly endorsed the idea of making BECS better able to support a wider range of payment types and users'

APCA hosted a one-day workshop on 11 April as part of its broader strategic review of the Bulk Electronic Clearing System (BECS). The workshop provided APCA with important information about the types of payments that BECS might support in the future, and about the needs and preferences of direct entry users.

Workshop participants included representatives from financial institutions providing direct entry services, and private and public sector organisations that use those services. This ensured that there was a wide range of views aired, and it helped clarify areas of common interest.

One important requirement identified by many workshop participants was that the core strengths of BECS should not be weakened. BECS allows for direct entry payments to be processed efficiently, simply and relatively inexpensively, and direct entry providers and users did not want to lose those advantages. Participants also said that BECS should not seek to dupli-

cate functions that already exist in other payments systems, such as settling payments real time.

Workshop participants also strongly endorsed the idea of making BECS better able to support a wider range of payment types and users. This will involve looking at whether there is a role for BECS to play in supporting new payments developments, such as those associated with eCommerce. It will also mean looking at how to service existing payments requirements more efficiently, and by doing this increasing the system's appeal to a broader range of users.

Developing the workshop's key findings will form an ongoing project under the direction of APCA's BECS Management Committee and with the input of the Advisory Council and users, and will help APCA determine the most effective future role and direction for BECS. □

Standard Inter-organisation compensation rules

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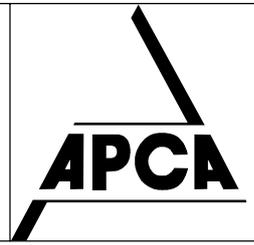
compensation arrangements when a payment has been made in error. However, if a separate agreement can't be reached, then the rules will apply.

The rules do not explicitly apply to other clearing and settlement systems. However, any such systems whose participants settle by adjusting the balances of their ESAs held at the Reserve Bank may adopt the rules to replace any currently in use. As well, participants in clearing systems may use the rules in relation to claims by their customers. □

Processing by account number only

To assist in the efficient processing of real-time payments, amendments are being made to the High Value Clearing System rules to ensure that a sending institution will be responsible if it sends incorrect account number details to a receiving institution which acts on those details when processing a transaction.

In such cases, the receiving institution will be entitled to recourse to the sending institution if it suffers a loss or a claim, whether that loss or claim is made by the originator of the payment, the intended beneficiary, or otherwise. □



A model for imaging and truncation

APCA has been working with members in its paper clearing system (known as the APCS) to see how imaging technology might be used to make the system more efficient. Some APCS members are already using imaging technology in their cheque processing centres.

APCA recently surveyed direct clearer members in the APCS to determine their support for, or concerns about, a proposed image-based business model. Under the proposal, images of paper items that were incomplete or invalid in some respect were to be exchanged on business day one. Where an image was requested by the drawee clearing member, exchange of the image was to occur on business day two.

There was insufficient support for the proposed model for two main reasons:

- the level of costs for the infrastructure, and for development and ongoing operations, and
- the inefficiency of exchanging a large number of images between clearers on day one (ie. those items currently exchanged 'for value').

The survey feedback provided valuable insight into the potential use of imaging technology in the clearing process. While it showed that there are clear benefits in its

use, these are dependent on an efficient business model, and on substantially reducing, if not eliminating, the high volume of 'for value' items exchanged between clearers.

Work on the project to introduce imaging in the clearing process is now proceeding in two main areas. One is to reduce the high volume of 'for value' items in the paper clearing system. This will encompass the inclusion of valid credit items in electronic presentment; establishing system improvements to reduce the volume of invalid/incomplete items currently rejected in the EP process and exchanged 'for value' between clearers; and the inclusion of invalid/incomplete debit and credit items in electronic presentment.

Of items exchanged during May 1999 (the latest figures available), 4.7% were exchanged for value. Debit items (mainly cheques) rejected by the EP process contributed most to this figure (4.5%).

The second area is to assess the feasibility of a business model based around mandatory 'access' to images of items rather than exchange of those items. The drawee clearer would have 'access' to an image of a required item archived with the collecting clearer. 'Access' would be provided across a communications network, which might include the internet. □

'The benefits of using imaging technology depend on an efficient business model, and on substantially reducing the high volume of for-value items being exchanged'

Commonwealth Government Payments in BECS

APCA has amended its BECS Procedures to facilitate efficient competition among BECS direct clearing members tendering for the direct credit business of the Commonwealth Government.

Under changes introduced by the Commonwealth Government, banks may tender for government direct credit business so long as files for those payments are processed in a similar manner to that currently used.

The amendments to the BECS Procedures meet this condition, as they provide for the structuring and processing of Commonwealth direct credit payment files through BECS in the same manner as they are now dealt with under the Reserve Bank of Australia's Government Direct Entry System.

The amendments have been approved in APCA and need to be approved by the Australian Competition and Consumer Commission (ACCC) before they can be put into operation. The ACCC approval process involves a period of consultation with interested stakeholders and it may therefore be several months before the new amendments can become effective. □

When high value doesn't mean high value

APCA's High Value Clearing System (HVCS) is mainly intended for the transmission and real time settlement of large value payments.

However, it can be used for any size of payment where there is a need to have the payment made and settled on the same day. In fact a fairly large number of relatively low value payments are transmitted using the HVCS.

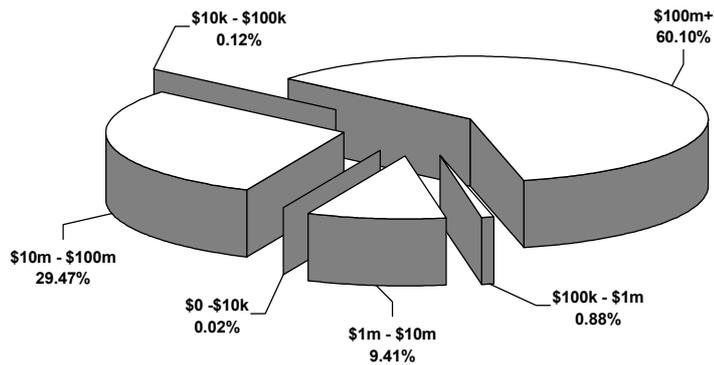
In April 2001, for example, around 315,000 payments were transmitted and settled using the HVCS; 37% of these had a value

of \$10,000 or less. At the same time, it is relatively large value payments that account for a high proportion of value going through the system.

The total value of HVCS payments settled during April was \$1,831 billion with an average value of \$5.8 million. The low-value payments (\$10,000 or less) accounted for only 0.02% of this value. Very large value payments (\$100m+) accounted for 60% of the value. □

April 2001 payments by value

Total value \$1,831,530,978,594
Average value \$5,820,500



April 2001 payments by volume

Total transactions 314,669
Average per day 17,482

