



# PaymentsMonitor

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## APCA implements new FTS rules

Most of the settlement risk in Australia's payment system was eliminated by the implementation of real time gross settlement (RTGS) in 1998. Nevertheless transactions between APCA's members arising out of paper-based (mainly cheques), direct entry and consumer electronic payments still result in substantial value being settled next day. This deferred multilateral net settlement carries with it settlement risk. APCA has developed failure to settle (FTS) rules to address this risk.

The FTS rules were finalised this year and submitted to the Reserve Bank (RBA) for approvals under the Payment Systems and Netting (PS&N) Act and the Cheques Act. They received the necessary approvals and came into effect on 20 August 2004.

The FTS rules, in conjunction with the PS&N Act, will protect multilateral netting and will, with the support of the Cheques Act, result in the deemed dishonour of unsettled cheques drawn on a 'failed financial institution'. The rules will result in a defaulting institution being taken out of the multilateral settlement. The multilateral settlement will be recast and settled. This will allow the day to begin.

Survivors will deal separately and bilaterally with the defaulter, with the benefits of deemed dishonour and the ability to net bilateral positions across clearing systems.

The twin objectives of the new rules are to allow the payment system to resume operating effectively after an FTS event and, so far as possible, to prevent contagion by protecting survivors' positions.

The main elements of the new FTS rules are as follows:

- If a member fails to settle its obligations in any one or more relevant clearing systems (ie, in the APCS, BECS, CECS and/or in HVCS), an FTS event is taken to occur in all relevant clearing systems. A default in such case is only taken to occur in the HVCS if at the time of the FTS event the HVCS is in 'fall back' mode and settlements are occurring on a deferred net basis rather than as normal in real time.
- Each member is required to notify the RBA if it becomes aware of a 'potential FTS event', in relation to itself or any other member. APCA must then notify all members of the potential FTS event.
- The RBA or APCA (each in consultation with the other) may defer settlement to allow time for settlement to be completed satisfactorily.
- If an FTS event actually occurs, exchanges with the defaulter and the defaulter's membership of all relevant systems is suspended. The defaulter is taken out of the multilateral net settlement. The multilateral settlement is recast and proceeds only with the survivors' settlement figures included. This enables an orderly and quick settlement among survivors.

(continued overleaf)

**APCA implements new FTS rules**  
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- Each survivor will subsequently settle obligations with the defaulter on a bilateral basis. The FTS rules are not prescriptive as to how such bilateral settlements are to occur. The intention is to give survivors and the defaulter flexibility in how they deal individually with each other. At the same time, so far as possible, the rules ensure that the bilateral net settlement positions across clearing systems between each survivor and the defaulter are protected by the PS&N Act.
- All unsettled cheques drawn on the defaulter are taken to be dishonoured by virtue of Section 70A of the Cheques Act if the defaulter is a "failed financial institution" within the meaning of the Cheques Act.
- In accordance with the PS&N Act, at least once each day the amounts owed to a survivor by the defaulter or owed by a survivor to a defaulter are netted bilaterally across all the payments within each system and then also netted across all the relevant systems in which the survivor and the defaulter have a settlement position in relation to each other. Since the Act does not require settlement (as distinct from netting) to occur each day, neither do the FTS rules.
- Each survivor settles with the defaulter on a bilateral net basis. ▲



Left to right: Peter Smith (APCA CEO) and Rick Crethar (PwC Partner) pictured at the meeting where they signed the agreement for new ACDES audit arrangements.

## New audit arrangements for ACDES

APCA recently reviewed and repositioned the strategy for auditing ACDES members' cash holdings at cash carrier depots.

Under a Deed between Australian Cash Distribution and Exchange System (ACDES) members and the Reserve Bank, an external auditor or auditors review cash holdings and related operating procedures in carrier depots on a continuing basis. Because the current engagement with the auditors is subject to review in November 2004, ACDES members initiated a project to review the audit strategy and audit arrangements with the objectives of meeting stringent risk management criteria while achieving cost savings.

As part of the project, tenders were called for audit services. Tenderers were asked to bid on supplying existing services, as well as optionally providing more innovative services that continued to cover risk adequately, but showed cost benefits.

ACDES members have accepted the PricewaterhouseCoopers' (PwC) tender. This will mean that PwC will conduct the reviews of the three cash carriers used by ACDES members as from 16 November 2004. The revised audit arrangements are expected to deliver significant cost savings to ACDES members. ▲

## CECS update

APCA's Consumer Electronic Clearing System (CECS) arrangements were first authorised by the Australian Competition and Consumer Commission (ACCC) in August 2000. This authorisation was due to expire on 7 September 2003. Shortly before this, on 27 August 2003, the ACCC granted interim authorisation pending consideration of APCA's application for reauthorisation.

### The ACCC issued a draft determination proposing to reauthorise the CECS arrangements on 22 July 2004.

In issuing this draft determination the ACCC considered 'that appropriate minimum mandatory standards and procedures can ensure the integrity and security of transactions generated within the ATM and EFTPOS networks and can constitute a significant public benefit'. Moreover the ACCC considered 'that collectively setting and maintaining appropriate minimum standards for processing and settlement of ATM and EFTPOS transactions provide efficiency benefits'.

At the same time the ACCC noted that in its view there was 'a need for an effective access regime that would lower barriers to entry for prospective acquirers and issuers'.

The ACCC was right to distinguish between the CECS arrangements and access. The CECS arrangements apply between acquirers and issuers but do not govern who can become acquirers and issuers. The CECS arrangements provide significant public benefit. They protect the integrity and security of EFTPOS and ATM interchanges and produce gains in efficiency.

On the question of access, APCA is continuing its work to develop equitable access rules. A first draft of detailed rules will be available shortly and will be considered by the EFTPOS Access Working Group and subsequently by the CECS Management Committee and the APCA Board. The 'designation' of EFTPOS by the Reserve Bank on 9 September may affect the regulatory oversight of any EFTPOS access regime. This remains to be worked through in APCA forums and with the Reserve Bank. ▲

## EMV workshop

APCA is holding an exploratory industry workshop, hosted by the Reserve Bank, on the topic of EMV.

EMV (from Europay, MasterCard and Visa) is a specification for interaction between chip cards and terminals. In a number of countries, migration from current magnetic stripe cards to EMV cards is already underway. In the Asia-Pacific region, for example, Japan, South Korea, Taiwan and Malaysia are moving to EMV based chip cards.

Some industry representatives are concerned that moves to EMV in other countries (particularly in Asia) may cause the migration of some fraud to Australia, which would be an easier target as a non-EMV environment. The card schemes (Visa / MasterCard) have also introduced a timetable of mandates in relation to credit card acquirers and issuers, providing for liability shifts to those that are not EMV compliant.

### The workshop, which is being held at the instigation of the CECS Advisory Council, will consider a number of EMV issues. These include the business drivers and timeframe for introducing EMV in Australia and the benefits of the industry having a uniform approach to implementing EMV for both debit and credit transactions.

The workshop's participants will comprise representatives from CECS members, CECS Advisory Council members (including representatives of retailers), the card schemes, the Reserve Bank and perhaps Treasury and other relevant government agencies. The EMV workshop will be held in Sydney on 28 October 2004. ▲

# Payments statistics

	Source	2000	2001	2002	2003	2004
<b>Number of payment transactions and ATM withdrawals</b>						
<b>Business day average for month of May – millions of items</b>						
Cheques	APCA	3.1	2.7	2.5	2.3	<b>2.2</b>
Direct entry credits	APCA	2.3	2.7	2.7	2.9	<b>3.2</b>
Direct entry debits	APCA	0.9	1.1	1.2	1.3	<b>1.5</b>
<b>Monthly total for May – millions of items</b>						
ATM withdrawals	APCA	48.4	64.0	65.4	62.7(b)	<b>63.5</b>
EFTPOS (a)	RBA	52.0	57.5	69.4	75.1(b)	<b>81.6</b>
Credit cards (a)	RBA	61.9	67.8	84.0(b)	85.0(b)	<b>93.9</b>
<b>Value of payment transactions and ATM withdrawals</b>						
<b>Business day average for month of May – \$ billions</b>						
Cheques	APCA	9.7	8.3	7.6	7.2	<b>7.1</b>
Direct entry credits	APCA	6.5	9.1	10.3	11.2	<b>13.7</b>
Direct entry debits	APCA	5.0	7.0	8.1	8.6	<b>10.5</b>
HVCS transactions (c)	RBA	72.6(d)	83.2(d)	80.9(d)	85.7(d)	<b>99.8(d)</b>
<b>Monthly total for May – \$ billions</b>						
ATM withdrawals	APCA	7.3	9.4	11.0	11.1	<b>10.9</b>
EFTPOS (a)	RBA	3.1	3.5	4.3	3.9	<b>4.7</b>
Credit cards (a)	RBA	7.0	8.0	11.2	11.7	<b>12.8</b>
<b>Number of accounts/cards</b>						
<b>Monthly total as at end of May in millions</b>						
Customer payment accounts	APCA	27.1	32.7	28.1	29.4	<b>32.4</b>
Debit cards	APCA	17.8	19.4	19.7	20.6	<b>19.6</b>
Credit & multifunction cards	APCA	13.2	15.6	16.7	18.5	<b>21.8</b>
<b>Number of ATM and EFTPOS terminals</b>						
<b>As at end of June</b>						
ATMs (e)	APCA	11,819	13,289	16,398	20,339(b)	<b>21,550</b>
EFTPOS (e)	APCA	333,739	375,883	415,167	433,640	<b>465,754</b>

## Notes

- (a) Figures for 2004 and those indicated as 'revised' were taken from figures published in the July 2004 issue of the Reserve Bank of Australia *Bulletin* Table C1 and Table C2 (EFTPOS purchases). Other figures are from earlier issues of the *Bulletin* but may not be comparable with those published in July 2004 or earlier. See Explanatory Notes in Reserve Bank *Bulletin* for definitions and coverage.
- (b) These figures have been revised.

- (c) HVCS figures are values exchanged and do not include 'own items' (ie. intra-bank items). Note also that a full picture of RTGS transactions would require HVCS transactions to be supplemented by RITS transactions that are not captured in these figures.
- (d) From Reserve Bank figures showing Real-time Gross Settlement Statistics each month, (Table C.4 of the Reserve Bank of Australia *Bulletin*). APCA HVCS transactions figures are taken from the SWIFT PDS column of Table C.4.

- (e) Figures for 2004 and 2003 include limited service terminals and *white label* terminals. EFTPOS terminals prior to 2003 have been adjusted to include limited service terminals and *white label* terminals. ATM terminals prior to 2003 have been adjusted to include limited service terminals only, so there is a break in the ATM figures between 2002 and 2003.