

WORKING GROUP ON DISCLOSURE IN SECURITIES SETTLEMENT SYSTEMS

I. Basic Information

A. *What is the name of the SSS?*

The Reserve Bank Information and Transfer System, usually referred to as RITS.

B. *Where and in what time zone is the SSS located?*

RITS is located in Sydney, Australia. The time zone is GMT +10 hours standard, and GMT +11 hours from late October to late March.

C. *What functions does the SSS perform?*

RITS provides depository, matching and settlement functions for trades in Australian Commonwealth Government securities. It also provides facilities for transfers of cash between members (it is the only means by which banks in Australia can transfer settlement cash between themselves and the central bank).

1. *Does the SSS serve as a securities depository and/or provide securities settlement services?*

RITS serves as both a securities depository and provider of securities settlement services.

a) *What types of instruments are eligible for deposit at the SSS (eg debt, equities, warrants, etc)?*

All book-entry securities issued in the Australian domestic market by the Government of the Commonwealth of Australia -- ie Treasury Bonds, Treasury Indexed Bonds, Treasury Adjustable-rate Bonds, and Treasury Notes. All are debt securities denominated in Australian dollars.

b) *What types of instruments are eligible for transfer within the SSS?*

All securities eligible for deposit can be transferred within RITS. RITS also permits transfer of cash between participants; RITS transfers are the only method of transferring settlement cash between banks' accounts at the Reserve Bank.

c) *Please describe whether eligible securities are dematerialised, immobilised or transferred physically.*

All eligible securities are dematerialised.

d) *Does the SSS provide safekeeping for physical certificates?*

Not applicable.

2. *Does the SSS provide cash accounts and/or provide funds transfers in conjunction with securities transfers? If so, in what currencies?*

RITS contains a cash memorandum account for each member, and cash transfers (both those in conjunction with securities transfers and those which are simple cash transfers) occur between these accounts. All cash accounts are in Australian dollars.

3. *Does the SSS provide a trade matching service? Do others provide such services for securities settled at the SSS?*

RITS provides a non-binding trade matching service. All RITS settlements require that both parties enter details of the trade and these must be matched before settlement can be initiated.

4. *Does the SSS provide a trade netting service (as distinct from undertaking the settlement of securities transfers on a net basis?) Do others provide such services for securities settled at the SSS? In either case, what types of netting (bilateral or multilateral), if any, are performed?*

RITS does not provide any trade netting services. All trades are settled gross.

5. *Does the SSS offer a securities lending or borrowing program?*

RITS does not provide a securities lending or borrowing program. There is a well-developed secondary market for lending of Commonwealth Government securities stocks.

6. *Does the SSS provide custodial and/or related services such as the collection of interest, dividends, principal, or of withholding tax reclamations? Which type of services are provided?*

RITS pays out interest and maturity proceeds (as credits to RITS cash accounts) and enables payment to be made for securities at primary issue (by debit to RITS cash accounts). Tax reclamations are deducted from coupons by RITS and remitted to taxation authorities.

7. *Does the SSS act as a central counterparty or principal to transactions with its participants?*

RITS is not a counterparty to any trades.

8. *Other? Please specify.*

RITS provides a facility for participants to transmit bids for Commonwealth Government securities to the Reserve Bank for consideration in the periodic auctions of these securities.

RITS also contains a facility for multilateral batch transfers of settlement cash between banks arising from clearing processes approved by the Australian Payments Clearing Association; this is used at present for the settlement of interbank obligations arising from Australia's equities clearing system, CHESS.

D. What type of organisation is the SSS?

RITS is operated as a business service to the Australian financial market by the Reserve Bank of Australia.

1. Please indicate whether the SSS is a public-sector or private-sector entity.

RITS is wholly owned by Australia's central bank, the Reserve Bank of Australia, which is in turn wholly owned by the Australian Government. RITS is established and operates under the jurisdiction of the state of New South Wales in Australia.

2. Please indicate whether the SSS is organised on a for-profit or a non-profit basis.

RITS is operated on a non-profit basis with the aim of full cost recovery.

3. What is the legal basis for the establishment of the SSS and for securities transfers made through it?

RITS is operated under the powers given to the Reserve Bank under Australia's Reserve Bank of Australia Act. Securities transfers are governed by the Regulations and Conditions of Operation of the system, agreed by all members upon joining.

E. Please describe and provide a diagram outlining the organisational and ownership structure of the SSS.

RITS is organised as a unit of the Business Services area of the Reserve Bank of Australia, managed by the Assistant Governor (Business Services).

Organisational Structure of RITS

Reserve Bank of Australia
(Australia's central bank)

Business Services Group
(Managed by Assistant Governor, Business Services)

RITS

1. *Who are the owners of the SSS?*

See I.D.1 above.

2. *What entity or entities operate the SSS? What functions of the SSS, if any, are outsourced to third parties?*

RITS has two physical components: the communication network through which members connect to the system; and the central core which processes RITS transactions and stores data.

Communication with RITS is achieved over dedicated telecom facilities which are operated by Austraclear Limited, a public company. (Austraclear also operates an SSS for debt securities other than those covered by RITS.) Maintenance of software is provided by Austraclear under contract as is computer processing.

The Reserve Bank of Australia is responsible for the rules and regulations, and is the point of contact with members.

3. *Does the SSS have a Board of Directors?*

No. RITS is the direct responsibility of the Assistant Governor (Business Services) of the Reserve Bank. The Assistant Governor is responsible to the Reserve Bank's Board of Directors for the operation of RITS as well as the other customer-service systems operated by the Bank.

a) *What is its composition?*

Not applicable.

b) *What are its responsibilities?*

Not applicable.

F. Please describe the financial resources of the SSS.

RITS is part of Australia's central bank, and has no separate financial accounting.

1. *Amount of paid-in capital and retained earnings?*

Not applicable.

5.

2. *Guarantees, insurance coverage, or other similar arrangements?*

Not applicable.

3. *Credit lines or letters of credit?*

Not applicable.

4. *Powers to assess participants or equity holders?*

All equity is held by the Reserve Bank of Australia.

G. Please describe whether the SSS or its operator is subject to authorisation, supervision or oversight by an external authority.

RITS is operated by the Reserve Bank of Australia, which is one of the supervisory authorities responsible for Australian financial markets. Like all securities depositories in Australia, it is also subject to oversight by the Australian Securities Commission (the principal corporate supervisor), and the Australian Competition and Consumer Commission (which oversees trade practices).

II. Rules and procedures of the SSS

A. Does the SSS maintain a complete list of the rules and procedures governing the rights and obligations of participants and the duties of the SSS?

Yes. The rules and procedures are set out in the RITS Regulations and Conditions of Operation. Detailed interpretation of procedures is available in the User Guides covering settlement functions, cash transfer functions, and security functions.

1. How can participants obtain a copy of the rules and procedures?

All participants are issued with copies of RITS rules and procedures in loose-leaf form and updates are mailed out as revisions occur. Additional copies are available on request. (On-line publication is presently under review.)

2. Does other documentation provided to participants (eg, user guides) have the same status as the rules and procedures?

User guides are issued together with the Regulations and Conditions of Operation and have the same status, but the user guides deal with details of system procedures and not with rights and obligations.

3. Describe the process for changing rules and procedures, including any need for regulatory approval.

Changes in rules and procedures are required when new facilities are added or there are changes to the operation of RITS to reflect developments in the market environment (such as changes to operating hours). Changes to rules and procedures are drafted by RITS, tested with internal and external legal counsel, and usually discussed with participants. Final approval is required from the Assistant Governor (Business Services) of the Reserve Bank.

a) What authority is required, and how does this differ depending on the type of change involved?

Final approval for all changes is required from the Assistant Governor (Business Services) of the Reserve Bank.

b) How are participants notified of changes in rules and procedures?

When approved, changes are notified by news alerts on RITS terminals and by letters which are mailed out (together with revised pages for participants' reference copies of the rules and procedures) to all participants. These notifications normally occur at least one month before changes come into effect to enable participants to make any necessary preparations. Changes are usually also notified in newsletters mailed out periodically to all participants.

c) *Is there a procedure for participants or others to comment on proposed rules changes?*

While changes are normally finalised after consultation with participants and market, and some participants may be involved in testing of new facilities, there is no set procedure for eliciting comments from participants on draft changes to rules.

RITS maintains a program of consultations with members in which views are sought on a range of matters, including members' comments on existing rules and facilities, and proposals for change to these.

B. Are the rules and procedures binding on the SSS as well as its participants? Under what conditions and on whose authority can written rules and procedures be waived or suspended by the SSS?

Rules and procedures are binding on both RITS and participants. They cannot be waived or overridden.

III. Relationships with participants

A. *Please describe the types of membership offered by the SSS.*

There are three types of member in RITS:

- ¥ ordinary members who are not banksÑ who use RITS to settle securities trades and transfer cash
- ¥ ordinary members who are banksÑ who also use RITS to settle securities trades and transfer cash, but who can choose to transfer both ordinary cash (like other members) and settlement cash
- ¥ bankers -- who participate as guarantors of cash transfers for their client members.

Banks can be both ordinary members and bankers (including to themselves); other institutions can participate only as ordinary members and cannot make or receive transfers of settlement cash.

1. *How do the types differ?*

All ordinary members are subject to the same set of rules and procedures for securities settlements and ordinary cash transfers and hence there is one class of membership. Similarly, all bankers are subject to the same set of rules and procedures; this also applies to the Reserve Bank when it participates as banker to commercial banks.

2. *Within each membership category, are all participants subject to the same rules and procedures? Please describe important exceptions, including both where rules differ across participants and the rationale for different rules.*

All members within each type are subject to the same rules and procedures.

B. *Can participants establish accounts for their customers' assets that are segregated from their own asset accounts at the SSS?*

Members may hold customers' securities or ordinary cash in separate sub-accounts but these are regarded by RITS as part of the member's account.

1. *If so, is this accomplished through a single omnibus customer account or through a multiplicity of accounts and/or sub-accounts?*

There can be multiple sub-accounts within each member's account.

2. *Is the segregation optional or compulsory?*

Segregation into sub-accounts is optional.

3. *Does the fact that a sub-account at the SSS bears the name of a third party give any rights to that third party as a participant under the rules of the system?*

No.

C. Please describe participant requirements for each type of membership.

Ordinary members are required to be eligible to hold Commonwealth Government securities (ie a legally recognised entity other than a trust) and have the necessary banking facilities. Holders of eligible securities do not have to be members; small individual holders typically are not, because they cannot justify the entry and annual fees. Banks must be banker members of the system, as it is the only way in which settlement cash balances can be transferred among themselves.

1. *Are participants required to be domiciled or resident in a particular jurisdiction?*

No. However, where a prospective member is incorporated, the corporation must be carrying on a business within Australia to be eligible for membership. Most foreign-domiciled owners of securities choose to have their securities held by Australian nominee companies.

2. *Are participants required to be subject to a supervisory regime? If so, please describe.*

All bankers in RITS must be licensed in Australia as a bank. There are no such requirements on ordinary members.

3. *Are participants required to hold an equity stake in the SSS?*

No; all equity is held by the Reserve Bank of Australia.

4. *Are there financial, economic, personal, or other requirements (e.g. minimum capital requirements, òfit and properÓ tests)? If so, please describe.*

Members are required to execute a Membership Agreement which is a tripartite agreement between the member, the member's banker, and the RITS operator. Under the agreement, the member's banker agrees to meet all interbank settlement obligations which arise as a result of the member's transactions up to a net limit which is determined by the banker.

D. Does the SSS engage in oversight of its participants to ensure that their actions are in accordance with its rules and procedures? If so, please describe.

Compliance with rules and procedures is monitored continuously by the system. RITS has no external oversight of members.

E. Under what conditions can participants terminate their membership in the SSS? Does this mark the end of all liabilities of the participant? If not, please describe what liabilities could remain.

Participants can terminate their membership of RITS at any time by providing the RITS operator with one month's notice of their intention (RITS may accept a shorter period at its discretion).

Where the participant is a banker, any liabilities for interbank settlement arising from transactions in RITS will remain until settlement takes place (which would normally be at 0900 the morning after termination).

Should any transaction to which a terminated member was a party be subsequently set aside by a court under a zero-hour or preference ruling, the ex-member would bear liability under the ruling. See VI.B.5 below.

F. Under what conditions can the SSS terminate a participant's membership in the SSS?

Membership can be terminated by RITS at any time and for any reason and, under Regulation 3.6, RITS is not required to state any reasons for such termination.

G. Please describe the scope of the SSS's liability to participants, including the standard of liability (negligence, gross negligence, wilful misconduct, strict liability, or other), the force majeure standard, and any limitation to the scope of liability of the SSS (e.g. indirect or consequential damages). Where are these liabilities and their limitations set out (e.g. in statute or contract)?

The liability of RITS is limited in the Regulations to AUD25 million in any one event and excludes any loss due to the conduct of any person or organisation other than RITS (or due to RITS where RITS has relied upon the conduct of any other person) or due to technological failure. Details are set out in the RITS Regulations 2.1-2.5 and 15.4.

IV. Relationships with other SSSs and commercial intermediaries

A. Does the SSS maintain linkages (including sub-custodian or cash correspondent relationships) or other relationships with other SSSs?

RITS has no linkages to other SSSs.

With the implementation of real-time gross settlement (RTGS), which in Australia is scheduled for late 1997, it will become necessary to establish links to other SSSs for the purposes of achieving finality in terms of settlement cash for cash transfers in those systems. These linkages will handle only instructions to transfer settlement cash, and will not carry instructions relating to securities.

1. Please identify each of the other SSSs used and the type of securities transferred via the linkages.

Not applicable.

a) What is the name of the other SSS? Where is it located?

Not applicable.

b) What securities are eligible for transfer via the linkage to the other SSS?

Not applicable.

c) Are transfers of securities made via the linkage to the other SSS limited to only those that are free of payment or are transfers against payment also made via the linkage to the other SSS? If against payment, please describe the timing of the transfers and the corresponding payments.

Not applicable.

d) Does the other SSS provide custody services to the SSS and if so who bears any credit or custody risks?

Not applicable.

B. Does the SSS use securities custodians (other than the other SSSs addressed in the previous question) and/or commercial cash correspondents? Please identify the custodians or cash correspondents used and the duties that each performs.

Nominee companies or custodians can be members of RITS but are subject to the same membership requirements, rules and procedures as other members.

C. Please describe the standards used in approving or reviewing relationships to other SSSs, custodians, or cash correspondents, including any financial or operational requirements or the presence of insurance or public supervision.

Not applicable.

D. Does the SSS advance funds or securities to or on behalf of other intermediaries such as issuing or paying agents? If so, please identify the circumstances in which such exposure could arise.

RITS pays out coupon interest and maturity proceeds to members. Funds are paid out by RITS following receipt of the funds from the Registrar of the securities.

Members are in some cases nominees or custodians who will (presumably) pass the cash disbursements through to the ultimate owners of the securities, but RITS has no special rules or procedures governing this process.

E. Please describe measures in place to protect the SSS and its members against the failure of other SSSs or commercial intermediaries to meet obligations to the SSS, including risk controls, collateral, or alternative sources of funds and securities.

Not applicable.

V. Securities transfers, funds transfers, and linkages between transfers

A. *Please discuss whether and how settlement instructions are matched between participants prior to processing by the SSS.*

Matching of settlement instructions in RITS occurs as follows:

- ¥ trade details are entered (usually on trade date) by both counterparty members and matched by the system;
- ¥ on settlement date, the member selling securities requests settlement when he is ready. RITS checks that the securities are available in the seller's securities account and reserves them for this purpose if they are;
- ¥ RITS then notifies the member buying the securities that settlement is requested. When ready, he confirms the settlement instruction.

Only when this confirmation occurs will RITS process the transfer.

1. *Is matching required for all transactions without exception?*

Yes.

2. *What procedure is used when instructions do not match?*

Both parties are alerted to a mismatch -- the transaction details entered by each party will appear on the screen as unmatched transactions. One or other of the parties will usually amend details to produce a match but if the instructions remain unmatched at end of the day they are deleted by the system.

3. *Are matched settlement instructions binding on participants?*

No. Even after matching has occurred, there is no requirement to settle the transaction. Matched transactions which remain unsettled at the end of the settlement day are deleted by the system.

a) *If so, please describe the consequences of participant failures to meet obligations (eg, forced settlement, penalties, short positions).*

Not applicable.

b) *Please describe whether this is a feature of the SSS's rules or of national law or regulation.*

Not applicable.

c) *Please provide a time-line indicating the points at which matched instructions become binding, as well as any pre-matching process that takes place.*

Not applicable.

B. Are securities transferred within the SSS registered?

Yes.

1. Who is the registrar?

The Reserve Bank of Australia.

2. Is it normal practice to register the securities in the name of the SSS (or its nominee) or in the name of the beneficial owner? Are there instances in which securities housed within the SSS are registered to neither the SSS (or its nominee) nor the beneficial owner?

All securities lodged into the system by members are held in a pool account in the Registry in the name of the Reserve Bank of Australia, which is the legal and beneficial owner of the securities. In return, the Reserve Bank grants to the member a negotiable legal right (technically known as a 'chose in action') which entitles the member to direct the Reserve Bank to redeliver securities of the same description clear of encumbrances. It is these choses in action which are transferred in RITS when settlements occur.

3. If the SSS offers custodial services, will it hold securities registered in the name of the beneficial owner?

In RITS, the securities will be shown in the account of the beneficial owner (or his agent member) but in the Registry the owner will be shown as the Reserve Bank.

4. Under what circumstances does the SSS initiate registration of securities in the buyer's name?

RITS does not initiate registration. A member can initiate registration by exercising any chose in action held in his RITS securities account at any time, if it is unencumbered by mortgage or claim of fraud or default. This will result in the uplift of the securities from RITS and the registration of the securities in the member's name.

5. How long does the registration process typically take? Are participants notified when registration is complete?

Registration (like lodgment) occurs immediately. A registry statement of holdings is issued on request.

6. Can securities be transferred within the SSS before registration in the buyer's name is complete? If so, do the rules and procedures of the SSS provide for an unwind or reversal of such transfers in case of bankruptcy or other events which result in the buyer's name not being entered on the register?

Securities cannot be transferred in RITS unless they are already registered in the name of the Reserve Bank of Australia and the appropriate chose in action has been created. Once an owner

requests uplift and registration for RITS securities, the securities can no longer be transferred in RITS.

C. Please describe how securities transfers are processed within the SSS.

Processing of securities transfers in RITS occurs as follows:

- ¥ first, matching of settlement instructions must occur (see section V.A above);
- ¥ RITS checks that the cash is available in the buyer's cash account and, if so, makes final transfers of both securities and cash and notifies both members that the settlement has completed;
- ¥ if the buyer did not have sufficient cash, he would be notified thus and would have to repeat his confirmation when he had remedied this. The seller would not be notified of the failed attempt.

(When RTGS is in place, and when there is more than one banker involved in the transaction, transactions will be tested to determine whether the paying member's bank has sufficient settlement funds to allow the transaction to settle.)

The securities transfer and the cash transfer are made simultaneously and both are final.

1. *Please indicate whether the transfers are processed as debits and credits to members' accounts or via some other method.*

Securities transfers are made by debits and credits to members' securities accounts in RITS.

2. *On a continuous (real-time) basis, or in one or more batches?*

On a continuous (real-time) basis.

3. *If continuous, during what hours does the processing occur? If in batches, at what time or times is the processing initiated and completed?*

From 0700 to 0845 (for bank members only, and for settlement cash transactions only) and from 0915 to 1630 (for all members and for all transactions). Finish time can be extended at the discretion of the RITS operator.

4. *Do securities settlements occur daily? Please identify securities for which settlement occurs only on specific days of the week or month.*

All securities transfers and cash transfers are settled on the day nominated by the parties who have matched instructions. This can be on any day, but most transactions are settled in accordance with market conventions which provide for rolling settlements on t+3.

D. Please describe whether final funds transfers in conjunction with the SSS are made as debits and credits to balances held at the SSS, at one or more commercial banks, at the central bank, or via some other method.

Funds transfers in RITS are made as debits and credits to members' cash accounts in RITS. Balances in these accounts represent deposits of members with their bankers, and are cleared at end of day by posting to the members' nominated accounts with their bankers (balances can also be cleared intraday, by agreement between the member and his banker).

Each bank member has two cash accounts in RITS. One is used for ordinary cash transfers and the bank member acts as banker himself for these accounts. The second is used for settlement cash transfers and for this the RITS account balance is posted at the end of each day to the member's settlement account at the central bank. Each credit to a RITS settlement cash account is an irrevocable obligation guaranteed by the central bank.

1. *Does the SSS maintain cash accounts for its participants? Are these accounts equivalent to deposit accounts at a commercial or central bank or do they serve only as Òcash memorandumÓ accounts?*

Each member has at least one cash account. Bank members have two: one for settlement cash and one for ordinary cash. These accounts are Òcash memorandumÓ accounts but, as explained above, members' bankers agree as part of the membership agreements to post balances from the cash accounts to members' deposit accounts at the end of the RITS day. Moreover, members can withdraw and deposit cash direct from or to their RITS cash accounts at any time during the day, by arrangement with their bankers.

2. *On what entity (SSS or other) does the participant bear cash deposit risk?*

This risk is borne on the participant's banker, which for an ordinary member is a commercial bank and for bank members is the central bank.

3. *Under what circumstances does the SSS provide credit extensions or advances of funds to its participants and thereby expose itself to credit risk?*

Not applicable. RITS does not advance funds to any participant.

4. *How long can such credit extensions last? How long do they typically last?*

Not applicable.

E. Is the SSS a DVP system? If so, please describe the DVP model used according to the models outlined in the DVP Report (see introduction). Please also provide a diagram indicating the timing of events in the processing of securities and funds transfers in the SSS. Where the SSS provides more than one alternative for settlement processing, please provide a response for each alternative and indicate the relative importance of each alternative.

RITS is a DVP system and is closest to a Model I system in terms of the classification in the DVP report. Final transfer of securities and final transfer of cash occur simultaneously on a trade-by-trade basis.

Sequence of events in processing a transfer

On or prior to settlement date

Party A enters trade details

Party B enters trade details

Details matched

On settlement date

Seller requests settlement

RITS checks availability of securities

If securities available, they are locked and buyer notified of request for settlement

Buyer confirms settlement

RITS checks availability of cash

If cash available, securities and cash are both transferred finally and simultaneously

1. *Are funds transfers and securities transfers processed within the same system or in different systems? If different, how are they linked?*

Both funds transfers and securities transfers are processed in RITS.

- a) *Please describe whether each securities transfer is linked to a specific funds transfer on a trade-by-trade basis or on a net basis or via some other method.*

Each securities transfer is linked to a specific funds transfer on a trade-by-trade basis.

- b) *Does the SSS ÒsplitÓ large transactions into multiple transactions or require participants to do so?*

No. Participants may choose to split settlements for the purpose of keeping within a daylight overdraft cap, but this is at the discretion of the participant.

2. *When do securities transfers and funds transfers become final?*

RITS securities transfers and cash transfers are both irrevocable and final when settlement is completed in real time.

For securities transfers, finality is in terms of central bank obligations to deliver securities from the depository (see V.B.2 above). For settlement cash transfers, finality is also in terms of central bank obligations.

For ordinary cash transfers, finality is in terms of commercial bank obligations. RITS does not guarantee that bankers will meet these obligations. If a bank fails to meet its cash obligation to a member, or vice versa, there is no recourse to the original RITS transactions. If a bank fails to meet its consequent obligations for interbank settlement, other banks will share resulting losses in accordance with the loss-sharing agreement covering such settlement obligations generally and administered by the Australian Payments System Association; there is no recourse to the original RITS cash or securities transfers. (When RTGS is introduced, the final transfer of settlement cash between banks will also occur simultaneously with the transfers of securities and cash between members.)

a) *At what time do securities transfers become final? After what event or events?*

Securities transfers are final once they have been posted to members' securities accounts -- ie at the time when settlement is completed. The events which precede completion of settlement are described in V.A and V.C above.

b) *At what time do funds transfers become final? After what event or events? Does this timing allow for same-day retransfer of funds received in exchange for securities?*

Securities and funds transfers become final at the same time. Funds received in RITS can be retransferred immediately in RITS or withdrawn (with agreement by the member's banker) and used somewhere outside the RITS system.

c) *If final delivery of securities precedes the final transfer of funds, can participants dispose freely of such securities prior to funds finality? If so, what actions will be taken if funds are not received?*

Not applicable. Securities transfers are never made before funds transfers.

d) *If final delivery of funds precedes the final transfer of securities, can participants dispose freely of such funds prior to securities finality? If so, what actions will be taken if securities are not received?*

Not applicable. Funds transfers are never made before securities transfers.

e) *Does the timing of finality differ depending on the type of security transferred or the currency in which payment is to be made? Please describe.*

No. Timing of finality is the same for all transfers.

3. *Please discuss whether participants are notified of securities or funds transfers while they are still provisional, only when they are final, or both.*

There are no provisional transfers of either securities or funds. Participants are notified when transfers are final.

F. Does the SSS itself guarantee funds or securities transfers?

RITS does not guarantee transfers of securities or of funds. The system's design provides simultaneous finality of transfers, so there is no need for RITS to make guarantees.

1. Under what circumstances and at what point are transfers guaranteed by the SSS?

Not applicable.

2. What actions does the guarantee obligate the SSS to make?

Not applicable.

3. Please indicate whether the guarantee is a feature of the SSS's rules and procedures or of national law or regulation.

Not applicable.

VI. Default procedures

A. *Please discuss the events or circumstances that would constitute default of a participant under the rules and procedures of the SSS or that would lead the SSS to make use exceptional settlement arrangements or unwind procedures.*

Failure to complete a due settlement does not constitute default, and there is no penalty in RITS for this. In order to continue as a RITS member, however, it is necessary to maintain the tripartite membership agreement which ensures inter alia that the member's banker guarantees to settle for the member's cash transfers. If a member's banker withdraws this guarantee for whatever reason, the member will have to cease activities in RITS until such time as a new tripartite membership agreement is established. More generally, insolvency would lead to cessation of a member's activities in RITS.

Cessation of activities means that the member would be unable to settle further transactions in RITS but that all transactions settled up to that time (including those earlier on the day of cessation) would stand. RITS contains no provisions for exceptional settlement arrangements or unwinds.

If a mortgagee notifies RITS that a member has defaulted on a mortgage granted by the member over securities within RITS, RITS would prevent any transfer of the subject securities until satisfied that default has or has not occurred or directed by a court to release the securities to either party. The member's other activities need not be affected by this event.

1. *Failure by a participant to meet a test of its solvency under the applicable laws of its jurisdiction?*

No member's transactions may be settled in RITS once it has become insolvent.

2. *Failure to make payments or deliveries of securities within the time specified?*

Failure of a member to settle a trade because of lack of funds would cause the trade to fail on the expected settlement day, and may lead to a claim upon the member by the counterparty, but would not necessarily lead to the default and insolvency of the participant.

Failure of a bank participant to meet interbank settlement obligations arising from RITS by settlement time (0900 hours next day) would mean failure of the bank participant more generally.

3. *To the extent that the rules and procedures grant discretion in the determination of the use of default or other exceptional procedures, please discuss where the authority to exercise such discretion resides and the circumstances in which this authority would be exercised.*

Not applicable.

B. *What procedures are followed by the SSS once it has determined that a default event has occurred or that exceptional settlement arrangements are to be employed?*

In the event of a member's banker withdrawing from the tripartite membership agreement, RITS would immediately suspend the member until such time as a new agreement was established.

In the event that a mortgage default has occurred, RITS would take instruction from the mortgagee regarding the securities subject to the mortgage.

1. *How and at what point are participants notified that this has occurred?*

A default will be notified to RITS by a mortgagee (in the case of a default under a mortgage) or by the national interbank settlement collator (in the event of a default in interbank settlement). In neither case would RITS notify its participants that the default has occurred.

2. *Would the SSS be expected to continue to meet all of its obligations to participants under these circumstances? Please discuss the resources in place to ensure that this would occur (e.g. collateral, participants' fund, insurance, loss-sharing arrangements, etc.).*

Default by a participant would not interrupt settlement in RITS (though it may cause some incomplete transfers involving the defaulting member to fail). There are no provisions to unwind transfers involving that member that have already completed at the time of the default, so all obligations relating to these would be met.

These obligations would not involve RITS, however. The only obligations which would exist would be those of the member's banker to meet interbank settlements arising from the member's completed transfers. The interbank settlement process does not involve any recourse to RITS. Should any failure occur there, a loss-sharing arrangement would be invoked by the Australian Payments Clearing Association under which the loss-sharing contributions by other banks (covering all exposures to the failed bank, not just those arising in RITS) would be made on a timetable set at the discretion of the Reserve Bank.

This risk will be removed for RITS transactions once RTGS is introduced.

3. *Please describe and provide a timeline indicating the order in which these resources would be used as well as the timing of participant notifications and important deadlines (e.g. when the SSS's obligations to participants would be met, when participants would need to cover their loss-sharing obligations).*

Not applicable. There are no RITS resources or notifications involved in a default of a member under a mortgage or of a bank.

4. *Please describe all conditions under which provisional transfers of securities or funds could be unwound by the SSS.*

There are no provisional transfers in RITS and no circumstances under which transfers can be unwound.

a) *How and on what authority would a decision to unwind securities or funds transfers be made by the SSS?*

Not applicable. See VI.B.4 above.

b) *When and how would participants be notified of a decision to unwind provisional securities or funds transfers?*

Not applicable.

c) *How long would participants have to cover any debit positions in their own securities or funds accounts resulting from an unwind?*

Not applicable.

d) *In the event of an unwind, would all transfers be unwound or would only a subset of transfers (e.g. only securities purchases or only those of a subset of participants) be unwound?*

Not applicable.

e) *If only a subset of transfers, what procedure would be followed to determine which transfers and in what order?*

Not applicable.

5. *Can bankruptcy or insolvency be declared retrospectively in the SSS's jurisdiction (e.g., under a zero-hour rule), and could this cause provisional securities or funds transfers to be unwound?*

At present a zero-hour rule would apply to such declarations. However, in this event the RITS transfers involving the failed member would not be unwound. Instead, that member and the counterparties to the transfers would become claimants on each other for new transactions to reverse the completed transfers. Other transactions in RITS would not be affected.

Legislation is proposed as part of the introduction of RTGS that would specifically exempt all transactions in RITS from the risk of being caught under "zero-hour" provisions.

6. *Please describe any circumstances in which transfers of securities or funds that were defined as final in response to question V.E.2 above would ever be unwound.*

There are no such circumstances.

C. *Has a participant in the SSS ever been declared in default or become insolvent?*

There has been no such event.

1. *Have loss-sharing procedures been invoked?*

Not applicable.

2. *Please describe whether any of these defaults or insolvencies resulted in losses for the SSS or its participants and how they were absorbed.*

Not applicable.

VII. Securities overdrafts, securities lending and back-to-back transactions

A. *Is it possible for debit positions (overdrafts) in securities accounts at the SSS to arise?*

Debit positions cannot arise for securities accounts in RITS. Transfers of securities will occur only if (among other requirements) the transfer would leave a nil or credit balance in the seller's securities account.

1. *Under what conditions could such debit positions occur?*

Not applicable.

a) *Do these conditions always result in debit positions in securities accounts rather than failed transactions? If not, please explain the basis for differential treatment by the SSS.*

Not applicable.

b) *Are these situations covered explicitly by the rules and procedures of the SSS?*

Not applicable.

2. *How long can such debit positions last? How long do they typically last?*

Not applicable.

3. *How are debit positions in securities accounts prevented, cured, or managed?*

Debit positions are prevented because a transfer will not settle if doing so would overdraw the seller's securities account.

4. *What procedures would be followed by the SSS in case the debit cannot be cured? (e.g. failure by a participant with a debit balance in a securities account or the securities cannot be found in the market)*

This situation can never arise.

a) *Application of loss-sharing provisions allocating the loss to participants?*

Not applicable.

b) *Absorption of loss by the SSS?*

Not applicable.

a) *Other? Please specify.*

Not applicable.

B. Under what circumstances does the SSS provide for the lending of securities to ensure settlements?

RITS does not lend securities. Participants can usually ensure settlement by borrowing securities from another participant in the stock lending market.

1. *Is the process for lending securities automatic? If not, please describe the procedures used by the SSS to determine whether a securities loan will be made.*

Not applicable.

2. *At what point are participants notified that securities are being lent to them in order to complete their settlements?*

Not applicable.

3. *What securities on deposit at the SSS are eligible for lending? Do participants have the option to make securities available for lending or is it mandatory?*

Not applicable.

4. *Are lent securities identified by the SSS with specific participants as lenders or only with a common pool of securities available for lending? Does the participant whose securities are lent become a principal to the transaction?*

Not applicable.

C. How does the SSS settle back-to-back transactions?

Back-to-back transactions are settled like any other transactions in RITS. A member must settle the inward transfer of securities before the outward transfer (unless, of course, he has a sufficient starting balance of securities to cover the outward transfer).

A facility exists, however, in which back-to-back transactions can be settled automatically if they form links in a closed loop -- ie the same parcel of securities passes from one participant to others and then eventually back to the original seller. Members can nominate settlements for inclusion in loops processing. After the close of business each day, RITS identifies transactions which have been nominated for loops processing and are to be settled the following day. Within this set of transactions, the system identifies closed loops.

At the start of settlement day, RITS deletes any loop settlements which fail the reference price test and calculates each member's net cash positions arising from loops. Bankers are then asked to confirm that they accept the positions of their clients. If and only if all bankers accept the cash positions of their clients, the transactions will be settled. All securities and cash transfers included in loops occur at the same time and are final at that time.

1. *Under what conditions are delivery instructions by participants receiving and redelivering securities on the same day under back-to-back transactions settled for same day value?*

All RITS transfers are settled for same-day value.

- a) *Only if the participant has securities on deposit with the SSS that have been received pursuant to a final securities transfer?*

See VII.C.1 above.

- b) *If the participant has securities on deposit with the SSS that have been received pursuant to a provisional securities transfer?*

Not applicable. There are no provisional transfers in RITS.

- c) *Before securities have been received either provisionally or finally, but when a matched receipt instruction exists for same or greater value? Is such a practice limited to markets where matching is binding?*

Not applicable.

- d) *Before securities have been received either provisionally or finally, but when a third party has promised to deliver to the SSS securities of the same or greater value? Must the provider of the guarantee have itself received the securities through a final transfer? Please describe how the SSS evaluates such promises, and whether they are addressed by the written rules and procedures of the SSS.*

Not applicable.

- e) *Other? Please specify.*

Not applicable.

2. *Please describe limits or controls in place with respect to any of the above arrangements for the settlement of back-to-back transactions, including limits on amounts involved or related to the liquidity of the underlying securities.*

Not applicable.

3. *Under what conditions are payment instructions by participants in the SSS under back-to-back transactions settled for same day value? Can participants use the proceeds of an on-delivery of securities without the need for an extension of credit?*

All cash transfers in RITS are for same-day value. For all transfers, cash received can immediately be used in another transfer so long as the subsequent cash transfer does not infringe the member's cash account limit as set by the member's banker.

VIII. Risk control measures

A. Please describe the roles and responsibilities of those areas of the SSS responsible for risk management and control.

RITS undertakes the following risk management tasks:

- ¥ cash accounts are zeroed daily, forcing reconciliation of cash by members and the system;
- ¥ securities balances are reconciled daily with depository records;
- ¥ statements of securities balances are sent quarterly to each member.

The system permits members to assign two authorisation levels on transfer functions and requires access control by all participants to be reviewed monthly.

Independent external risk assessments were undertaken at establishment (one legal, one operational). Risk management is assessed as part of the annual internal and external audits of the system.

1. Please describe the process for the internal review of risk management policies and procedures.

Risk management policies and procedures are subject to annual internal and external audit -- see below. RITS also operates a program of consultations with members which canvasses, among other things, views on risk management issues. Results of both are assessed by the Assistant Governor (Business Services) of the Reserve Bank, who determines whether any action is required.

2. Is there a risk management policy that addresses the review and approval of new products and services offered by the SSS? At what level of the organisation is the risk management approval given for a new product or service?

All changes to the RITS system, including those to incorporate new products or services, are reviewed by internal audit and internal and external legal advisers and subjected to mandatory testing before implementation. The process for introducing such changes is also governed by a change management policy. Both are designed to manage risks associated with the introduction of new products and services in RITS.

Approval for new products and services is given by the Assistant Governor (Business Services) of the Reserve Bank.

3. Does the SSS have a risk management function with clear independence and authority from operational or marketing functions?

Yes. The audit process, which is central to the risk management function, is independent of RITS.

4. *Does the Board of Directors review risk management policies and procedures? Does the Board have a risk management or audit committee?*

RITS does not have a Board of Directors. Policies for risk management are the responsibility of the Assistant Governor (Business Services) of the Reserve Bank. The Board of the Reserve bank has an audit committee which supervises all aspects of auditing within the Bank, including auditing of RITS.

B. Please describe any internal or external audits or supervisory/regulatory examinations that are performed with respect to the SSS. For each such audit or examination, please address the following questions.

Internal Reserve Bank auditors review RITS on a continuous basis. External audits are conducted annually by the Australian National Audit Office (ANAO).

1. Who performs the audit or examination?

Internal: Reserve Bank auditors.
External: the ANAO.

2. *What is the scope of the audit or examination?*

Internal: Reserve Bank auditors review adequacy and compliance with internal controls.

External: The ANAO:

- a) independently determines the scope of the RITS audit done by internal audit;
- b) assesses internal audit work done and determines its adequacy;
- c) places reliance on internal audit work; and
- d) re-performs testing on a sample of key procedures.

- a) *Please indicate whether and how it addresses the sufficiency of and compliance with internal controls.*

Internal: These are addressed by risk-based analysis of sufficiency and testing for compliance with existing controls.

External: As for internal audit. External audit also addresses the scope of internal audit.

- b) *Please indicate whether and how it addresses the SSS's compliance with its own rules and procedures.*

Internal: Audit includes testing for compliance with existing rules and procedures.

External: As for internal audit. External audit also addresses the scope of internal audit.

3. *What is the frequency of the audit or examination?*

Internal: Annual cycle.
External: Annual.

4. *Are audit or examination reports available for review by participants?*

Internal: No.
External: No.

C. Please discuss whether the SSS has the capacity to value (i.e., mark-to-market) the securities that it holds.

Yes, but market prices must be input by RITS operators.

1. *Please describe how these valuations are used by risk control systems at the SSS.*

RITS contains a reference price for each security lodged in the system. RITS will alert both counterparties to a transaction if the settlement price falls outside a band of five per cent either side of the reference price.

2. *How frequently are securities re-valued?*

Securities are valued against the reference price at every transfer. The reference price is reviewed at least once a day (more often if prices are moving markedly).

3. *What are the sources for security valuations?*

The reference price is the Reserve Bank's estimate of the market yield mid-point at the time it is supplied.

a) *What outside price or data sources are used?*

The Reserve Bank's estimates of mid-points are the only data used. These are sourced directly from the domestic dealing room at the Reserve Bank, which is active in all markets for the securities settled in RITS.

b) *If pricing models are used, please describe how the models are chosen and how the model inputs are obtained.*

Not applicable.

D. Please discuss whether the SSS has a lien on the securities held in or transferred through it.

RITS does not have a lien over securities lodged into the system. Securities in the system can be mortgaged from one member to another, and where this occurs the mortgagor cannot remove the securities until the mortgage is discharged by the mortgagee.

1. *Does the lien apply only to the securities owned by the participants themselves or does it extend to the securities beneficially owned by customers of participants?*

Not applicable.

2. *Under what circumstances and in what manner would such a lien allow the SSS to use the securities?*

Not applicable.

E. Please discuss the circumstances in which the SSS requires collateral to limit or mitigate risks.

RITS does not itself take collateral.

In RITS, a member can establish daylight overdraft facilities with his banker and the banker must inform the system if the facility is to be collateralised. If so, any usage of daylight overdraft to purchase securities is self-collateralised by granting a mortgage to the banker over the securities concerned. Where securities are used in this way to self-collateralise a daylight overdraft, the mortgage can be discharged manually by the mortgagee at any time and is discharged automatically if the securities are sold and the cash proceeds used to discharge the daylight overdraft in the member's RITS cash account.

1. *Does the SSS manage its own collateral system?*

Collateral is managed by participants.

2. *Does the SSS share a collateral system with another SSS or payments system?*

Not applicable.

3. *Can collateral at the SSS be posted and returned on the same day?*

Where collateral is used by participants, it can be posted and returned in real time during the day.

4. *What types of transactions at the SSS involve the use of collateral?*

Any settlement where the buyer of securities uses daylight overdraft in cash to meet all or part of the purchase cost and where the buyer's banker requires the daylight overdraft to be self-collateralising will involve use of collateral, but the SSS is not involved directly.

5. *What are the policies with regard to the type of collateral used or haircuts required?*

No haircut is provided. The settlement price must be within the reference price band; this is accepted as sufficient control.

6. *How are collateral valuation methodologies developed and reviewed?*

The methodology was developed in consultation with prospective members when RITS was in the design stage. Members (both ordinary members and bankers) continue to indicate in the RITS consultation program that they are satisfied with the existing methodology.

7. *To what extent are collateral policies described in the written rules and procedures of the SSS?*

Collateral policies are set out fully in the RITS regulations. They could be amended only by changing the regulations -- see II.A.3 above.

F. Please describe the SSS's use of limits on exposures to monitor or control risks?

Each member contracts with his banker for a limit on the daylight overdraft which the member can use (this can be zero). The member's cash account cannot be overdrawn by more than this limit at any time. The limit can be self-collateralised by the system if required by the banker.

There are no other caps in the system on members or bankers.

1. *Please explain the types of limits used and the exposures to which they apply.*

Limits apply to the daylight overdraft exposures in cash of bankers to their client members in the system.

2. *Do the limits apply to all participants and/or to other SSSs with which the SSS is linked? What are the exceptions to the limits?*

All members are subject to limits on cash accounts, without exception. These limits may be set at zero (ie, no daylight overdraft permitted).

3. *Do limits apply to participants individually or in the aggregate or both?*

Limits apply to each member individually.

4. *Do limits apply to implicit as well as explicit extensions of credit or securities (e.g., when on-deliveries of securities are permitted pursuant to provisional but not final delivery of securities)?*

There are no implicit extensions of credit in RITS.

5. *Does the SSS automatically reject transactions that exceed limits or is compliance determined ex-post?*

RITS automatically rejects transactions that would lead to breaches of limits. All tests are applied in real time.

6. *How are limit policies developed and reviewed?*

The size of each member's limit is negotiated bilaterally between him and his banker. The limit can be self-collateralised if required by the banker, and can be changed at any time but only by the member's banker. The Reserve Bank acts as banker in settlement cash to commercial bank members and does not permit any daylight overdraft in settlement cash.

7. *To what extent are limit policies described in the written rules and procedures of the SSS? Where does additional authority to set or amend limit policies reside?*

The requirement that each member agree a cash account limit with his banker is a central part of the tripartite membership agreement and is fully documented in the RITS regulations. The limit policy can be changed only by changing the RITS Regulations according to the procedures described in **II.A.3** above.

G. Please describe other controls to mitigate or reduce risks at the SSS.

The design of RITS, using real-time finality, was developed to minimise risks.

1. *Do the SSS or its participants have the capacity to monitor participants' accounts continuously during processing?*

Yes. Members' cash account net balances (but not details of individual transactions) can also be monitored by their bankers.

2. *Is there a special risk control regime that the SSS would apply to a participant known to be experiencing financial difficulties?*

No. The member's banker may, at his own discretion, decide to reduce the member's cash limit in such circumstances.

3. *Does the SSS maintain or administer loss-sharing arrangements other than those applicable to events of default and addressed in Section VI above? Are these loss-sharing pools pre-funded by participants?*

The only loss-sharing arrangements associated with RITS are those which apply to general interbank settlement failures and are discussed in Section **VI**.

IX. Operational risks

A. Please provide assessments of the operational reliability of the computer and other systems used by the SSS, including any criteria that the SSS uses internally for this purpose.

The operational reliability of RITS is assessed by system availability, which is regarded as satisfactory by the operator and the participants.

1. *What is the percentage uptime of the systems used by the SSS?*
 - a) *Whole system overall?*
 - b) *Broken down by major components? (eg, communications network, central processing facility)*
 - c) *During critical processing periods?*

The percentage uptime for RITS since its commencement is 99.7%. Figures for major components and sub-periods of the settlement day are not available separately.

2. *Has the SSS experienced major operational problems during the past two years?*

There have been no major operational problems during the past two years.

- a) *Have settlements been delayed, disrupted, or otherwise failed because of operational problems during this period?*

There have been minor interruptions only. Delays to settlements from system operational problems have been small (the longest in the past two years has been one hour).

- b) *Please describe the nature of any such problems.*

There have been no major operational problems during the past two years.

B. Please describe contingency or disaster recovery planning at the SSS.

There is a formal business continuity plan for RITS. The plan was established after a study of operational risks by a risk management consultant, and is reviewed by the internal and external auditors.

1. *Does the SSS have a formal plan for business continuity in place?*

Yes. See above.

2. *Is this plan available for review by participants?*

The detailed plan is not available for participant review, but participants are notified of the broad extent and nature of the back-up and disaster arrangements in the RITS Information Paper (this notification is required under the RITS regulations).

3. *How often is this plan tested? Does this include participation by participants in the SSS?*

There is a quarterly verification of the system which includes the review of the physical and environment aspects of premises and processing facilities, security over data and the physical operation of the system, including back up procedures.

The plan is rehearsed twice a year. There is no participation by members in these tests but Austraclear arranges periodical tests for members' own back-up arrangements; participation by members in these tests is encouraged but is optional.

4. *What are the major elements of the business continuity plan?*

The business continuity plan provides for redundancy in all aspects of the system: the physical equipment; software; data; and the organisational structure of RITS. On the first two, there are two levels of back-up site: one at the main site, and a second at a remote site with separate hardware, power and air conditioning services. For communications hardware, participants can access RITS through alternative links if required. Data are mirrored throughout each day to both back-up sites. On structure, there are nominated managers at the Reserve Bank and, under certain conditions, at Austraclear able to invoke the various elements of the plan.

5. *How long would it take the SSS to resume operations if primary systems become unusable?*

Recovery to the remote site is required to be within 30 minutes of invoking the business continuity plan.

C. What are the key features of the internal controls covering operations and security at the SSS? (eg, change controls or those covering remote access)

In addition to the business continuity plan, RITS has policies in place covering physical security of premises and equipment and electronic security of RITS software and system information. There is also a specific policy for management of changes to system hardware and software.

Access to RITS equipment, software and data is available only to the set of staff identified as requiring access, and to outside staff at certain times as required in performing hardware and software maintenance. Reserve Bank and Austraclear staff from other areas, including those involved in trading securities and cash, do not have physical access to the RITS equipment.

1. *Please describe controls or security procedures in place to ensure that the SSS acts only on authentic settlement instructions from valid participants.*

Members must use two passwords to access the system, one participant specific and one specific to each individual user representing that participant. Each individual user can be enabled or disabled for access to each specific function in the system. Idle terminals are locked out and passwords must be re-entered to regain access to the system from these terminals.

2. *Are internal operational and security controls included in the internal and/or external audits of the SSS?*

Both internal and external audits cover these controls.

3. *Are internal operational and security controls covered by regulatory requirements applicable to the SSS?*

There are no such regulatory requirements.

D. Does the SSS impose minimum operational or performance standards on third parties (e.g., communications providers)?

Standards have been established with the suppliers of the communication network and the application software.

With the implementation of RTGS, it will become necessary to establish links to other SSSs for the purposes of achieving finality in terms of settlement cash for cash transfers in those systems. Operational standards for these links have been developed.

1. *How does the SSS ensure that such standards are met on a continuing basis and what sanctions are available to the SSS if they are not?*

Compliance with agreed standards is monitored by the RITS operator. Suppliers are liable for losses due to failure to meet agreed standards.

2. *How would the SSS allocate losses incurred due to operational problems caused by third-parties?*

Responsibility is established in contracts with the suppliers.