GUIDANCE NOTE: REAL TIME GROSS SETTLEMENT

| 1 | CHESS RTGS OVERVIEW for Participants and Banks | .1 |
|--------|--|----|
| 1.1 | Background | .1 |
| 1.2 | What is RTGS Settlement? | .1 |
| 1.3 | Parties in RTGS | .1 |
| 1.3.1 | RTGS Open to Participants and Banks | |
| 1.3.2 | CHESS as Feeder System to RITS | .1 |
| 1.4 | Two CHESS DvP Settlement Types: RTGS and Net Batch | 2 |
| 1.5 | Principles of RTGS Settlement | 2 |
| 1.5.1 | DvP Settlement Occurs in CHESS | |
| 1.5.2 | Interbank and Intrabank Settlement (what goes to RITS) | 3 |
| 1.5.3 | Value Thresholds | 3 |
| 1.5.4 | Impact on Batch and Impact of Batch on RTGS Processing | 4 |
| 1.5.5 | Timing/Prioritising of Transactions: Authorisation and "Ready to Settle" | 4 |
| 1.5.6 | Treatment of Failed Transactions | - |
| 1.5.7 | Archived Information | - |
| 1.6 | Stages of the CHESS RTGS Settlement Process | 6 |
| 1.6.1 | Creation of Scheduled RTGS Settlement Instruction | |
| 1.6.2 | Testing of Scheduled Transactions | 7 |
| 1.6.3 | Transaction is Sent to RITS | 8 |
| 1.6.4 | Testing in RITS | 9 |
| 1.6.5 | RITS Transfers Funds, Makes Postings to Accounts in RITS | 0 |
| 1.6.6 | RITS Sends Advice to CHESS | |
| 1.6.7 | Transfer of Financial Products Completed in CHESS | |
| 1.6.8 | CHESS Advises Participants that Settlement Has Been Completed | |
| 1.7 | Secuties Reservation and "Unreservation" in RTGS | |
| 1.7.1 | Reservation | |
| 1.7.2 | Unreservation | |
| 1.8 | Corporate Actions | _ |
| 1.8.1 | Corporate Actions and Financial Products Reservation | 13 |
| 1.8.2 | Diary Adjustments | 13 |
| 1.9 | Information Available to Banks About Participants' RTGS Transactions | - |
| 1.9.1 | Information Available to Banks in CHESS | 4 |
| 1.9.2 | Information Banks Receive via the AIF Facility | |
| 1.9.3 | Information Available to Banks via RITS | 4 |
| 1.10 | Ceasing RTGS Business | 15 |
| 1.10.1 | Participant or Bank Initiated Ceasing of RTGS Business | ۱5 |
| 1.10.2 | Ceasing of RTGS Business via ASTC Suspension of Payment Facility or Participant Cancellation | 15 |
| 2 | CHESS RTGS information for Banks1 | |
| 2.1 | Introduction | |
| 2.2 | Assumptions Concerning Bank Management of Client Participant | 6 |
| 2.2.1 | When a Client Participant is Set Up in CHESS for RTGS Transacting | 6 |
| 2.2.2 | During Sponsorship of a Client Participant | 6 |

| 2.3 | Functionality in RITS Unchanged; Existing AIF Messages Used | |
|----------------|--|----|
| 2.4 | Net Position Record Settings and Cash Subrecord Settings | |
| 2.4.1 | Net Position Record Settings | |
| 2.4.2 | Cash Subrecord Settings | |
| 2.4.3 | Default Settings Can Be Prepared in Bank's System for Insertion in CHESS Message | |
| 2.5 | Bank Credit Approval Across All Cash Subrecords | |
| 2.6 | CHESS-RTGS Transactions in RITS | |
| 2.6.1 | CHESS-RTGS Branch and Cash Account Details | - |
| 2.6.2 | Viewing CHESS-RTGS transactions in RITS | - |
| 2.6.3 | Bank Viewing Privileges in RITS | - |
| 2.6.4 | What a Bank will View for Intrabank Transactions | |
| 2.7 | Setting Up AIF Arrangements in CHESS and RITS | |
| 2.7.1 | Pre-Settlement Advices | |
| 2.7.2 | Post-Settlement Advices | |
| 3 | Net Position Record (NPR) and Cash Subrecord (CSR) | |
| | Background | |
| 3.1 | Purpose of Net Position Record, Debit Cap (on a NPR), and Cash Subrecord | |
| 3.1.1 3.1.2 | Diagram: Relationship of UIC, Payment Facility, Net Position Record, and Cash Subrecord | |
| | Principles of Relationship of Net Position Record to Cash Subrecord | - |
| 3.1.3 | Cash Subrecords and Net Position Records Commence the Day at Zero | |
| 3.1.4 3.1.5 | Broker Account Structure | |
| 3.1.5 3.1.6 | Default Cash Subrecords, Exclusion Markers on Cash Subrecords | |
| 3.1.7 | Account Confidentiality and "Blind" Account Designators | - |
| 3.1.8 | How CHESS Marks the NPR/CSR in Settlement of a Transaction | - |
| 3.1.9 | Allowable Changes to Net Position Records and Cash Subrecords and Processing Times | - |
| | Creating a Net Position Record | |
| 3.2 3.2.1 | Purpose | - |
| 3.2.2 | Process Overview | |
| 3.2.3 | Debit Cap Related and Other Details Supplied | |
| 3.2.4 | Procedure to Create a Net Position Record | |
| | Changing a Net Position Record Attribute (Banks Only) | - |
| 3.3 3.3.1 | Purpose | - |
| 3.3.2 | Process Overview | |
| 3.3.3 | Timing of Bank Change to Debit Cap in Relation to Transaction Processing | |
| 3.3.4 | Procedure to Change A Net Position Record's Attribute/s | |
| 3.3.5 | Procedure to Request Change of Debit Cap Activity on All Net Position Records for a Bank | |
| 3.4 | Removing a Net Position Record (Participants Only) | |
| 3.4.1 | Purpose | |
| 3.4.2 | Procedure to Remove a Net Position Record | |
| 3.5 | Creating a Cash Subrecord | |
| 3.5.1 | Purpose | |
| 3.5.2 | Process Overview | |
| 3.5.3 | Details Supplied | |
| 3.5.4 | Cash Subrecord Type and Default Cash Subrecords | |
| 3.5.5 | Excluding a Cash Subrecord from Debit Cap Consideration | |
| 3.5.6 | Cash Account Identifier and Cash Subrecord ID | |
| 3.5.7 | Procedure to Create a Cash Subrecord | |
| 3.6 | Changing Cash Subrecord Attributes | 34 |

| 3.6.1 | Purpose | |
|-------|---|----|
| 3.6.2 | Process Overview | |
| 3.6.3 | Change of Cash Subrecord and Effect on Default Settings | |
| 3.6.4 | Procedure to Change RITS Related Settings for a Cash Subrecord (Bank Only) | |
| 3.6.5 | Procedure to Change Cash Subrecord Attributes (Participants Only) | |
| 3.7 | Removing a Cash Subrecord (Participants Only) | |
| 3.7.1 | Purpose Procedure to Remove a Cash Subrecord | |
| 3.7.2 | | |
| 4 | Creating an RTGS Settlement Instruction | |
| 4.1 | Purpose | |
| 4.2 | Scheduling Transaction for Settlement: Authorisation and "Ready to Settle" | |
| 4.3 | Process Overview | |
| 4.4 | Procedure to Create an RTGS Settlement Instruction | |
| 5 | Changing Attributes of an RTGS Settlement Instruction | |
| 5.1 | Single-Sided Change: Maintain an RTGS Settlement Instruction | |
| 5.1.1 | Purpose | |
| 5.1.2 | Process Overview | |
| 5.1.3 | Procedure to Maintain an RTGS Settlement Instruction | |
| 5.2 | Dual-Entry Change of RTGS Settlement Instruction | |
| 5.2.1 | Purpose | |
| 5.2.2 | Process Overview | |
| 5.2.3 | Procedure to Change an RTGS Settlement Instruction | |
| 5.3 | Cancelling a Change Request to an RTGS Settlement Instruction | |
| 5.3.1 | Purpose Process Overview | |
| 5.3.2 | Process Overview Procedure to Cancel a Settlement Instruction Change Request | • |
| 5.3.3 | | |
| 6 | Authorising an RTGS Settlement Instruction for Settlement | |
| 6.1 | Authorisation and "Ready to Settle" | |
| 6.2 | Purpose | |
| 6.3 | Process Overview | |
| 6.4 | Procedure to Authorise an RTGS Settlement Instruction for Settlement | |
| 7 | Cancelling an RTGS Settlement Instruction | |
| 7.1 | Purpose | 50 |
| 7.2 | Process Overview | 50 |
| 7.3 | Procedure to Cancel an RTGS Settlement Instruction | |
| 7·4 | Procedure to Remove a Cancellation Request | - |
| 8 | Change of Settlement Type | |
| 8.1 | Purpose | |
| 8.1.1 | Net to RTGS, and RTGS to Net | |
| 8.1.2 | What is Allowed or Disallowed | |
| 8.2 | Process Overview | |
| 8.3 | Cut-Off Times for Change of Settlement Type | P |
| 8.4 | Settlement Date | |
| • | | |

| 8.4.1 | Default Settlement Date Where Participant Does Not Specify a Date | |
|--|--|---------------|
| 8.4.2 | Impact of Settlement Date | |
| 8.4.3 | Selected Examples of Settlement Date | 56 |
| 8.5 | Procedure to Change Settlement Type | 57 |
| 8.6 | Procedure to Remove Change Settlement Type Request | |
| 9 | Reporting | |
| 9.1 | Summary of RTGS Reporting Available | |
| 9.1.1 | Demand Reporting Provided on Cash Subrecord Totals and Details Only | |
| 9.1.2 | Net Position Record and Cash Subrecord Settings | 59 |
| 9.1.3 | RTGS Settlement Instructions | 60 |
| 9.1.4 | Transaction Status | |
| 9.1.5 | Cash Subrecord or Net Position Record History | 60 |
| 9.2 | Cash Subrecord Totals (CST) | 60 |
| 9.3 | Cash Subrecord Details (CSD) | 61 |
| 10 | RTGS Glossary | |
| | | |
| 11 | Appendices | - |
| | Appendices | |
| 11 | - | 66 |
| 11 11.1 | Appendices Impact of Transactions on Net Position Record | 66 |
| 11 11.1 11.1.1 | Appendices Impact of Transactions on Net Position Record Update Net Position Record: Example 1 | 66 |
| 11 11.1 11.1.1 11.1.2 | Appendices Impact of Transactions on Net Position Record Update Net Position Record: Example 1 Update Net Position Record: Example 2 | |
| 11 11.1 11.1.1 11.1.2 11.2 | Appendices Impact of Transactions on Net Position Record Update Net Position Record: Example 1 Update Net Position Record: Example 2 Effect of Debit Cap Limit on Transaction Processing | |
| 11 11.1 11.1.1 11.1.2 11.2 11.2.1 | Appendices Impact of Transactions on Net Position Record Update Net Position Record: Example 1 Update Net Position Record: Example 2 Effect of Debit Cap Limit on Transaction Processing Example 1: Bank Change of Debit Cap Limit | |
| 11 11.1 11.1.1 11.1.2 11.2 11.2.1 11.2.2 | Appendices.Impact of Transactions on Net Position Record.Update Net Position Record: Example 1Update Net Position Record: Example 2Effect of Debit Cap Limit on Transaction Processing.Example 1: Bank Change of Debit Cap Limit.Example 2: Transaction Not Processed Where Debit Cap Limit Exceeded | |
| 11 11.1 11.1.1 11.1.2 11.2 11.2.1 11.2.2 11.3 | Appendices. Impact of Transactions on Net Position Record. Update Net Position Record: Example 1 Update Net Position Record: Example 2 Effect of Debit Cap Limit on Transaction Processing. Example 1: Bank Change of Debit Cap Limit. Example 2: Transaction Not Processed Where Debit Cap Limit Exceeded Intrabank Settlements Effected in CHESS (as Recognised RTGS System) | |
| 11 11.1 11.1.1 11.2 11.2 11.2.1 11.2.2 11.3 11.4 | Appendices.Impact of Transactions on Net Position Record.Update Net Position Record: Example 1.Update Net Position Record: Example 2.Effect of Debit Cap Limit on Transaction Processing.Example 1: Bank Change of Debit Cap Limit.Example 2: Transaction Not Processed Where Debit Cap Limit ExceededIntrabank Settlements Effected in CHESS (as Recognised RTGS System).AIF Messages and CHESS RTGS Transactions. | |
| 11 11.1 11.1.1 11.2 11.2 11.2.1 11.2.2 11.3 11.4 11.5 | Appendices.Impact of Transactions on Net Position Record.Update Net Position Record: Example 1.Update Net Position Record: Example 2.Effect of Debit Cap Limit on Transaction Processing.Example 1: Bank Change of Debit Cap Limit.Example 2: Transaction Not Processed Where Debit Cap Limit ExceededIntrabank Settlements Effected in CHESS (as Recognised RTGS System)AIF Messages and CHESS RTGS Transactions.Reporting Parameters and Procedure for Requesting a Report.PrinciplesAvailability. | |
| 11 11.1 11.1.1 11.1.2 11.2 11.2.1 11.2.2 11.3 11.4 11.5 11.5.1 | Appendices. Impact of Transactions on Net Position Record. Update Net Position Record: Example 1. Update Net Position Record: Example 2. Effect of Debit Cap Limit on Transaction Processing. Example 1: Bank Change of Debit Cap Limit. Example 2: Transaction Not Processed Where Debit Cap Limit Exceeded Intrabank Settlements Effected in CHESS (as Recognised RTGS System) AIF Messages and CHESS RTGS Transactions. Reporting Parameters and Procedure for Requesting a Report Principles Availability Timing and Frequency | |
| 11 11.1 11.1.2 11.2 11.2 11.2.1 11.2.2 11.3 11.4 11.5 11.5.1 11.5.2 | Appendices. Impact of Transactions on Net Position Record. Update Net Position Record: Example 1. Update Net Position Record: Example 2. Effect of Debit Cap Limit on Transaction Processing. Example 1: Bank Change of Debit Cap Limit. Example 2: Transaction Not Processed Where Debit Cap Limit Exceeded Intrabank Settlements Effected in CHESS (as Recognised RTGS System) AIF Messages and CHESS RTGS Transactions. Reporting Parameters and Procedure for Requesting a Report. Principles Availability. | |

This document is available online in Adobe Portable Document Format (PDF) at: <u>www.asxonline.com</u> > Participants > Library > Manuals

Context of this Document

This Guidance Note must be read in the context of the ASTC Settlement Rules.

Any terms explicitly defined in the ASTC Settlement Rules and used in the Participants Procedure Guide should be interpreted according to the definition given in ASTC Settlement Rules.

Change History

لين

| Versio n | Date | Description of changes |
|-------------|-------------|---|
| 3.3 | May 2005 | No changes made to this section |
| 3.2 | August 2004 | Changes to some CHESS message names, as detailed in ASTC bulletin P2004/256. |
| 3.1 | May 2004 | Terminology changes arising from changes to the <i>Corporations Act</i> and rules changes arising from the implementation of the <i>Financial Services Reform Act</i> . |

1 CHESS RTGS OVERVIEW FOR PARTICIPANTS AND BANKS

1.1 Background

In June 1998, the Reserve Bank of Australia (RBA) implemented Real Time Gross Settlement (RTGS) for high value interbank payments in the Australian payments system, with the purpose of achieving finality of payments and enhancing stability in the financial markets. As a consequence, the basic principles regarding payments and the way in which financial product settlements can be completed have changed.

1.2 What is RTGS Settlement?

RTGS settlement in CHESS means that transactions can be settled "line-by-line" continuously on a "gross" and irrevocable Delivery versus Payment (DvP) basis in "real time".

CHESS RTGS service allows participants the option of DvP settlement of equity transactions (typically of high value) on a line-by-line basis within CHESS, instead of having to settle non-DvP (Financial Products transferred in CHESS while funds are transferred outside CHESS), or be constrained by the timing requirements of once-daily net batch settlement processing.

1.3 Parties in RTGS

1.3.1 RTGS Open to Participants and Banks

CHESS RTGS service is open to all participants in CHESS, and all payment providers in CHESS. (Note that in these RTGS procedures, payment providers who wish to sponsor participants for RTGS transacting are referred to as "Banks".)

No new classes of participant or payment provider have been created in relation to CHESS RTGS.

Only participants may submit RTGS settlement instructions, requests to modify or cancel RTGS settlement instructions, and receive detailed reporting. Banks may submit requests relating to the set-up and maintenance of Participant Net Position Records and Cash Subrecords, and may receive limited reporting. Participants may also submit maintenance requests concerning Cash Subrecords.

Refer to the remainder of these procedures and the glossary of terms for more information on Net Position Record and Cash Subrecord structures, and set-up and maintenance requests.

1.3.2 CHESS as Feeder System to RITS

Participants submit RTGS settlement instructions to CHESS in a similar manner to the submission of dual entry settlement notifications for the net batch. In order to

complete settlement for most kinds of RTGS transactions, CHESS must send a funds approval request (for the settlement instruction) across an interface which links CHESS to the Reserve Bank Information and Transfer System (RITS).

RITS accepts transactions from "feeder systems" like CHESS in order to settle them in RITS and then advise the feeder that settlement has been completed.

1.4 Two CHESS DvP Settlement Types: RTGS and Net Batch

CHESS RTGS service will run separate from, and parallel to, CHESS net batch processing.

Settlement through Net Batch

- Delivery versus Payment (DvP)
- Settles settlement instructions scheduled for today's, or a future date's, batch on a net basis
- Occurs once daily at a set time
- Suitable and efficient for highvolume, routine settlement of equities transactions

- Settlement through CHESS RTGS
- Delivery versus Payment (DvP)
- Settles settlement instructions scheduled for today, or a future date, on a per-transaction basis ("line-by-line")
- Can occur continuously anytime during CHESS RTGS Business Day*, at participants" discretion
- Suitable for low-volume, high value equities transactions where timing is critical**

* Participants will be able to settle on an RTGS basis at any time during the CHESS RTGS Settlement Day except for two brief periods of approximately 20 minutes each at the beginning and at the end of net batch processing, so that holding balances may be determined, and then calculated for settlement. The CHESS RTGS Business Day is 9:15 am - 4:25 pm every business day. See below in this procedures supplement for further detail.

** The RTGS service will apply only to financial products and those financial products that are approved for RTGS, and there will be no minimum or maximum value threshold for transactions.

1.5 Principles of RTGS Settlement

In general terms, CHESS RTGS principles are consistent with market conventions established through business practices of other feeder systems.

1.5.1 DvP Settlement Occurs in CHESS

The responsibility for providing DvP in the CHESS RTGS service resides in CHESS, as it does for net batch settlement, even though CHESS interfaces with RITS to provide the CHESS RTGS service.

CHESS uses RITS to complete the "P" side of DvP settlement: CHESS "reserves" financial products for a given RTGS transaction, and then, upon advice from RITS that the payments side of settlement has been effected for that transaction, CHESS updates its own funds records for the participants and transfers the financial products from seller to buyer - the "D" side of DvP. CHESS then advises both counterparties that DvP settlement has been effected in CHESS.

1.5.2 Interbank and Intrabank Settlement (what goes to RITS)

CHESS distinguishes between an intrabank transaction (a transaction in which the counterparties are serviced by the same bank) and an interbank transaction (a transaction in which the counterparties are serviced by different banks).¹ While DvP settlement is achieved in CHESS and the end result to participants is the same, not all transactions are sent to RITS for processing.

The following RTGS transactions are sent to RITS for processing:

- all interbank transactions, regardless of the bank's Pre-Settlement and Post-Settlement Advice settings
- intrabank transactions for which the paying bank (i.e. the buying participant's bank) has indicated a requirement for a Pre-Settlement Advice, and/or for which the paying bank or the receiving bank has indicated a requirement for a Post-Settlement Advice.

The following RTGS transaction is not sent to RITS for processing because all settlement processing is completed in CHESS:

• an intrabank transaction for which the bank has selected credit management via debit cap and for which neither the paying or receiving Bank has indicated that they require advices.

Refer below in this RTGS procedures supplement for more detailed information on Pre-Settlement and Post-Settlement Advices.

1.5.3 Value Thresholds

There is no minimum or maximum value threshold for CHESS RTGS transactions. However, ASTC reserves the right to determine whether such thresholds should apply for certain classes of financial product or transaction types at a later stage, dependent upon operational experience.

¹ From a Bank's perspective: an interbank transaction is one where a transaction between two counterparties results in a cash movement from one Bank's Exchange Settlement Account (ESA) to another. An intrabank transaction is between two counterparties banking with the same Bank. Intrabank AIF transactions must be sent to RITS in order for Pre-Settlement and Post-settlement Advices to be forwarded to the Paying Bank. Refer below in this document for more information on the AIF (Automated Information Facility), and Pre-Settlement and Post-Settlement Advices.

1.5.4 Impact on Batch and Impact of Batch on RTGS Processing

RTGS processing will be suspended for a short period at the start of net batch settlement processing, to enable the calculation and reservation of the financial products required for net batch settlement. CHESS RTGS transactions cannot access financial products required for the day's batch.

1.5.5 Timing/Prioritising of Transactions: Authorisation and "Ready to Settle"

CHESS RTGS allows each counterparty participant to an RTGS transaction to determine whether they wish the transaction to settle immediately on Settlement Date or wish to "trigger" it to settle on Settlement Date with an authorisation message. This facility allows participants a mechanism by which they may time settlement of the transaction during the CHESS RTGS Business Day, and provides for an additional level of authority within their operations, should this be required.

1.5.6 Treatment of Failed Transactions

At 4:25 pm, the end of the CHESS RTGS Business Day, CHESS will no longer accept RTGS settlement instructions for today's Settlement Date. CHESS will continue to send queued transactions to RITS until 4:30 pm. At 5:00 pm, CHESS initiates a stream of Recall Requests to RITS to clear the RITS Funds Queue of transactions sent by CHESS during the day which remain unsettled. These recalled transactions are treated as failed transactions. CHESS likewise clears its internal queue of transactions which have not settled.

Unlike net batch processing, should funds be unavailable for an RTGS transaction, there is no adverse effect on other transactions being settled that day. Therefore, participants are not suspended from CHESS participation for unavailability of funds for an RTGS transaction.

However, participants should be aware that in the event of suspension from CHESS participation, if the participant is not able to settle in the net batch, they will also not be able to settle RTGS: in other words, a suspension results in suspension from both settlement types.

An RTGS transaction is considered to "fail" RTGS settlement if by the end of the CHESS RTGS Business Day on Settlement Date, the transaction did not settle because:

- funds were unavailable (buyer fails)
- units were unavailable (seller fails)
- either or both counterparties had selected authorisation as required on the settlement instruction, and then did not send an authorisation message on Settlement Date (participant/s which did not submit their authorisation/s will fail)

Unmatched transactions are "housekept" off the system at end of day, and do not attract fail treatment.

Where a transaction fails settlement, CHESS sends both participants a 124 Rescheduled Settlement Instruction message. CHESS also sends a 544 Levy Notification message to each participant who has failed on that transaction. Note that it is possible for both participants to fail on one transaction.

Important note: The quantum of the RTGS fail fee is zero for the initial implementation. Where the fail fee is zero, CHESS does not send the 544 Levy Notification message. ASTC reserves the right to change the quantum in future. Participants should note that in the event of a change to the quantum, they will receive the Levy Notification if they have failed on the transaction.

1.5.7 Archived Information

CHESS will retain RTGS transaction details for the same archiving period as applies to non-RTGS transactions.

CHESS will not store any records of transactions impacting on a Cash Subrecord after it is "wiped" to zero at end-of-day (following Period "C" reporting on movements for the day; see "Reporting" in this supplement for more information). Participants must keep records in their own systems if they will require access to Cash Subrecord data for previous business days.

1.6 Stages of the CHESS RTGS Settlement Process

This diagram presents an overview of CHESS RTGS settlement. Descriptions of key stages in RTGS settlement follow below.



1.6.1 Creation of Scheduled RTGS Settlement Instruction

Two participants create a CHESS RTGS settlement instruction, scheduling it to settle for a future Settlement Date or for today's Settlement Date. An RTGS settlement instruction may be created via matched RTGS Settlement Notifications or via matched Change Settlement Type requests to switch an already scheduled net batch settlement instruction to RTGS settlement.

At the time a RTGS settlement instruction is created, each participant determines whether they wish to authorise the transaction for settlement, or whether from their side, the transaction will be "ready to settle" on Settlement Date.

- 1.6.2 Testing of Scheduled Transactions
- 1.6.2.1 Testing Processing in the CHESS Queue

CHESS tests each queued transaction for funds availability and financial products availability.

The transaction must then satisfy both of the following conditions. If either or both of the conditions are not satisfied, the transaction remains queued in CHESS and is retested within a short period, when CHESS rechecks queued transactions from the top down in time priority order. Each transaction which passes the test continues to be processed.

The conditions are:

• Does the seller have a sufficient available quantity of the financial product required to satisfy the transaction obligation (including cum entitlement balance if applicable)?

And

- Where the buyer has a active debit cap, is the amount required to satisfy the obligation within the debit cap limit? **Or**
- The buyer does not have an active debit cap. (If the debit cap is not used, CHESS determines that the transaction is to be managed via the AIF.)

| 1.6.2.2 | Financial Product and Funds Management for a Successfully Tested Transaction |
|---------|--|
|---------|--|

| Transaction | Financial Product management in CHESS | Funds management in CHESS |
|---|--|---|
| Settled in CHESS only intrabank transaction for which no RITS-generated advices are required (as set by the bank at the Cash Subrecord level), and for which debit cap credit management applies (as set by the Bank at the Net Position Record to which the Cash Subrecord is attached) | CHESS transfers financial products without reserving them. (Reservation is not necessary, because CHESS processing is not contingent upon approval from RITS.) | CHESS makes a credit posting to the seller's Cash Subrecord and a debit posting to the buyer's Cash Subrecord. (Postings are finalised without a "pending" state, because CHESS processing is not contingent upon approval from RITS.) |
| Sent to RITS before completion of settlement in CHESS interbank transactions intrabank transactions for which one or more RITS-generated advice is required | CHESS reserves the seller's financial products, pending the settlement response. | Pending debit is 'shadow-marked" (that is, deducted from the balance, but still to be finalised) in the buyer Participant's Cash Subrecord and Net Position Record, and the transaction is sent to RITS for testing/approvals. * Where the buyer's sponsoring bank elects to use AIF credit management, the transaction would not be tested against a debit cap. |

* Pending credits are not shadow marked; they are only credited to totals when they have been confirmed by RITS approval, and have had status changed to "Accepted".

1.6.3 Transaction is Sent to RITS

Once tested (assuming the transaction must be sent to RITS), CHESS prepares the RTGS transaction as an RTGS Settlement Request to RITS.

CHESS updates the transaction with the following Credit Status and ESA Status settings, as specified by the participant's bank when Net Position Records and Cash Subrecords are first set up. (Refer later in these RTGS supplementary procedures for more information on Credit Status and ESA Status.)

| Transaction | Credit Status (client credit) | Cash Status (Bank cash acct in RITS) | ESA Status (liquidity) |
|-----------------------|--|--|--|
| Intrabank - debit cap | A or D Default is A if not specified | А | A or D Default is A if not specified |
| Intrabank - AIF | A or D Default is A if not specified | А | A or D Default is A if not specified |
| Interbank - debit cap | A or D Default is A if not specified | A | A or D Default is A if not specified |
| Interbank - AIF | A or D Default is A if not specified | A | A or D Default is A if not specified |

Note: "A" = Active, and "D" = Deferred

CHESS updates the transaction with information about Pre-Settlement Advice requirements, as supplied by the paying bank. CHESS also recognises whether the paying and/or receiving bank have requested a Post-Settlement Advice.

At the same time that CHESS transmits the Settlement Request to RITS, CHESS sends both counterparty participants an indicative advice, the 752 Requesting Funds Approval message (participants should retain such periodic transaction advices in order to be able to enquire in their own systems on the transaction's progress). CHESS also sends the seller the 754 RTGS Settlement Movement message to indicate that financial products have been reserved for the RTGS transaction.

1.6.4 Testing in RITS

In RITS, the RTGS System Queue (sometimes referred to more colloquially as the "RITS funds queue") tests transactions sent by the CHESS RTGS "feeder" system. The RTGS System Queue will perform the same checks on CHESS-RTGS transactions as for other feeder systems to RITS.

RITS checks the Credit Status and ESA Status settings on the transaction (as set up by the bank previously on the Participant's Cash Subrecord), and compares them to settings the bank has applied in RITS. The RTGS System Queue testing also checks what Pre-Settlement and Post-Settlement advice requirements the paying and receiving banks have indicated at CHESS level, and compares these to settings in RITS for unsolicited advices. Wherever both sets of indicators indicate that a Pre-Settlement Advice is required by the paying bank, RITS sends the Pre-Settlement Advice.

Most likely, the sponsoring bank will have set controls in CHESS and in RITS to ensure that the transaction will remain unsettled on the RTGS System Queue in a *deferred* Credit Status. Once in RITS, a Pre-Settlement Advice (selected at both "feeder" and RITS level) is sent to the bank to make a credit (and/or an ESA liquidity allocation) decision. When satisfied, the bank will send a command advice to RITS to change the *deferred* Credit Status to *active* or *priority*, to allow it to be tested for settlement.

1.6.5 RITS Transfers Funds, Makes Postings to Accounts in RITS

RITS will process CHESS RTGS transactions in the same manner as transactions from existing feeder systems. Transactions will be sent to the RTGS System Queue for settlement processing where the following will occur:

- The Cash Account Status, Credit Status and ESA Status will be tested to ensure there is no status of *Deferred*. The Paying Bank may control these statuses from within RITS or via the AIF. The Cash Account Status sent by CHESS will always be *Active*. The ESA and Credit Status sent by CHESS may be either *Deferred* or *Active*. Facilities will be available in CHESS for these statuses to be set by Banks as a default setting for each of their clients. Once a transaction is on the RTGS System Queue, there will be no ability to alter the status from CHESS, except to recall the transaction;
- The paying bank's CHESS-RTGS Cash Account balance will be tested against the Cash Account Limit, if applicable. If "No Limit" is selected, the System will ignore this test;
- RITS will test (for interbank transactions only) that the paying bank has sufficient ESA funds prior to permitting settlement; and

Upon settlement, RITS will simultaneously:

- for interbank transactions, move ESA funds between the ESAs of the paying and receiving banks;
- move funds between the CHESS-RTGS Cash Accounts of the paying and receiving banks;
- send out AIF Post Settlement Advices (if required), and
- send an RTGS Settlement Response to CHESS to make the appropriate financial products and cash account adjustments in that system.

1.6.6 RITS Sends Advice to CHESS

Once RITS has completed ESA transfers and postings to the banks' Cash Accounts in RITS - or just postings to Cash Accounts where the transaction was intrabank - RITS sends CHESS an advice that the funds processing has been completed. This message is a Settlement Response sent from RITS to CHESS.

1.6.7 Transfer of Financial Products Completed in CHESS

Settlement processing is then completed at the CHESS level when CHESS:

- updates CHESS Cash Subrecords and Net Position Records to indicate that all pending debit or credit postings are finalised (note that it is only at this stage that a credit posting is added to the Cash Subrecord balance and is taken into consideration for the debit cap on the Net Position Record); and
- transfers financial products from seller to buyer.

For either intrabank or interbank transactions, regardless of whether credit management was achieved by debit cap limit or advices via AIF, DvP settlement is achieved in CHESS.

1.6.8 CHESS Advises Participants that Settlement Has Been Completed

CHESS then advises the counterparty participants of successful settlement.

Both the buyer and seller receive:

- 756 RTGS Funds Movement message, and
- 754 RTGS Settlement Movement message, indicating that financial products have been transferred.

CHESS does not advise banks of successful settlement. As a market standard, feeder systems do not provide banks with transaction level advice. However, banks receive transaction level advices of participant settlements via receipt of AIF advices from RITS.

Should the transaction not have been settled at RITS, participants receive the following (see information in this RTGS supplement on failed transactions for further details):

Both buyer and seller receive:

• 124 Rescheduled Settlement Instruction message

Seller also receives:

• 754 RTGS Settlement Movement message, indicating that financial products relating to the RTGS transaction have been unreserved

Movement Type on the RTGS Settlement Movement message indicates whether:

- Financial products have been reserved for the RTGS settlement instruction pending successful funds movement at RITS;
- Financial products have been transferred following successful settlement; or
- Financial products have been unreserved due to unsuccessful funds movement at RITS resulting from participant initiated cancellation, CHESS initiated recall, or End of Day RTGS settlement failure of the scheduled settlement instruction.

1.7 Secuties Reservation and "Unreservation" in RTGS

1.7.1 Reservation

Reservation of financial product for an RTGS transaction means CHESS recognises that a certain quantity of units is set aside. A reserved set of financial products has the following properties:

- can be used only for the related RTGS transaction and no other CHESS function or other RTGS transaction
- is smaller than or equal to **one** holding of **one** financial product, i.e. all of a BHP holding under a Holder record (HIN), or part of a BHP holding under a Holder record (HIN)

Either when the financial products are reserved or when CHESS transfers the financial products in order to complete a successful settlement, financial products movements for the RTGS transactions do not impact on any other financial products in the holding or the Holder record.

1.7.2 Unreservation

Unreservation of financial products for an RTGS transaction means that a certain quantity of units which had been set aside to satisfy the transaction must now be released into the total pool of financial products in the holding. Unreservation of one transaction's financial products does *not* have the effect of unreserving any other transaction's financial products.

Unreservation occurs in the event of a participant-initiated cancellation or CHESS initiated recall where the transaction has already progressed to RITS (and therefore CHESS has reserved financial products). Note that at 5:00 pm, CHESS recalls all unsettled transactions from RITS and processes them as failed transactions in CHESS. (CHESS also treats as fails any unsettled transactions remaining in CHESS.)

1.8 Corporate Actions

1.8.1 Corporate Actions and Financial Products Reservation

Financial product reservation for RTGS takes into consideration whether the financial products being reserved is subject to a corporate action. The principles for corporate actions which are outlined in PPG Section 11 also apply to RTGS transactions.

| If the financial products being reserved | Then |
|--|--|
| is for an ex transaction | only (the appropriate number of units of) the financial product is reserved in order to ensure that when the RTGS transaction is settled, the cum entitlement balance is not affected. |
| is for a cum transaction | (the appropriate number of units of) the financial product is reserved, as well as the equivalent cum entitlement balance associated with the reserved units. |

1.8.2 Diary Adjustments

Where accrued obligations (accruals) are created by CHESS for an RTGS transaction which was subject to a corporate action and has failed to settle, the new accrual adjustment transactions default to net batch settlement for the next allowable Settlement Date. (This Settlement Date may not be for some time if the financial product is marked as a "deferred delivery" financial prodcut.) CHESS applies the payment facility associated with the HIN specified on the parent transaction. Therefore, both participants and their sponsoring banks should be aware that they must be prepared to honour net batch obligations arising as a result of scheduled accruals pointing to the same payment facility as that of the Net Position Record associated with the parent RTGS transaction.

All other principles concerning corporate actions as articulated in *PPG* Section 14, "Diary Adjustments", apply.

1.9 Information Available to Banks About Participants' RTGS Transactions

1.9.1 Information Available to Banks in CHESS

A bank sponsoring a participant for RTGS settlement can obtain the following information from CHESS about the participant:

Account balance for each Cash Subrecord under a participant's Net Position Record (to facilitate bank postings at end-of-day, particularly for debit cap clients, but also available intraday)

1.9.2 Information Banks Receive via the AIF Facility

The paying bank, i.e. the bank for the buying participant, can elect to receive Pre-Settlement Advice/s from RITS via the Automated Information Facility (AIF). The receiving bank, i.e. the bank for the selling participant in a transaction cannot receive Pre-Settlement Advices.

Each Pre-Settlement advice contains: transaction type to indicate that the transaction comes from CHESS-RTGS, a unique Transaction ID, the buying participant's Cash Subrecord identifier, the amount, the time received on RITS System Queue, and ESA Status, Credit Status, and Cash Status.

A paying bank and/or a receiving bank may elect to receive Post-Settlement Advices via AIF. Each Post-Settlement advice contains: transaction type to indicate that the transaction comes from CHESS-RTGS, a unique Transaction ID, paying Bank ID (in a credit advice sent to the receiving bank), receiving Bank ID (in a debit advice sent to the paying Bank), buying participant's Cash Subrecord identifier (debit advice), selling Participant's Cash Subrecord identifier (credit advice), amount, the time settled on the RITS System Queue, and resulting CHESS RTGS Cash Account and ESA balances in RITS for that bank.

1.9.3 Information Available to Banks via RITS

Information available to the paying bank via a RITS terminal: CHESS UIC for the paying participant (buyer), participant's Cash Subrecord identifier, receiving bank identifier. The paying bank cannot view any information on the receiving participant.

Information available to the receiving Bank via a RITS terminal: CHESS UIC for receiving participant (seller), participant's Cash Subrecord identifier, paying bank identifier. The receiving bank cannot view any information on the paying participant.

1.10 Ceasing RTGS Business

1.10.1 Participant or Bank Initiated Ceasing of RTGS Business

A Participant may not use the CHESS RTGS service without a sponsoring bank. If a Participant wishes to change banks, the participant cannot "unlink" a CHESS Cash Subrecord or a Net Position Record from one bank and "link" it to another. (Current CHESS payment facility functionality allows an existing payment facility to be changed to a different bank.) A participant may cease conducting RTGS business with one bank and commence RTGS business, and the establishment of a new Net Position Record (and new Cash Subrecord/s), with another bank, if they so choose. The participant must organise with the "old" bank to either render the "old" Net Position Record/s inactive via bank change functionality, or advise Settlement Operations in writing that the Net Position Record is no longer required and is not going to be required in future, such that CHESS may remove it from its records.

A bank will not be able to cancel a participant's Net Position Record, or a CHESS Cash Subrecord. However, the bank may decide to:

- (AIF) refuse to approve funds required for a buy,
- (debit cap) change the participant's debit cap limit to zero, so the participant may only operate out of credit funds, or
- render the Net Position Record itself inactive, so no RTGS business for that participant may be conducted through it (effected by CHESS after the active RTGS business day has concluded, so as to complete business on existing records for that day).
- 1.10.2 Ceasing of RTGS Business via ASTC Suspension of Payment Facility or Participant Cancellation

Should ASTC determine, for regulatory reasons, that a participant's payment facility must be suspended (as per the ASTC Settlement Rules and existing functionality), such suspension will result in a suspension of the participant's ability to use their Net Position Record, and their CHESS Cash Subrecord/s. As suspension of a payment facility is effected in order to suspend the participant from participation in CHESS, the participant's suspension must apply to all CHESS functions, including access to the CHESS RTGS service.

Participant cancellation of a payment facility, typically for operational reasons on the part of the participant, results in a cancellation of the Net Position Record and its Cash Subrecord/s.

2 CHESS RTGS INFORMATION FOR BANKS

2.1 Introduction

This topic contains information primarily applicable to a bank sponsoring a client participant for the CHESS RTGS service. It contains some information about RITS in relation to CHESS as a feeder system, but is not intended as a detailed guide on the use of RITS or the Automated Information Facility (AIF).

2.2 Assumptions Concerning Bank Management of Client Participant

Settlement Operations presumes that banks will have considered their credit and liquidity management requirements concerning the use of either debit caps in CHESS, or the use of advices via AIF. Settlement Operations further presumes that the Bank and the client participant will have discussed and agreed mutual requirements in detail.

2.2.1 When a Client Participant is Set Up in CHESS for RTGS Transacting

Structures in CHESS such as Net Position Record and Cash Subrecord are set up in CHESS in order for the bank's client participant to transact via CHESS RTGS. The set-up process involves a participant's submission to CHESS of a request to set up a given entity, and this request is either authorised or rejected by the bank.

Banks and participants must therefore consider the following prior to set-up:

- whether a debit cap will be actively used or inactive for a given Net Position Record; and what debit cap limit will be applied
- what Cash Subrecords must be set up; whether each will be a default or a nominated Cash Subrecord and whether it will be marked as excluded from debit cap consideration; and if a default, whether buy, sell, or common (i.e. operating as the default for both buy and sell)
- (if AIF is used for transactions targeting a Net Position Record) what Pre-Settlement Advices, Post-Settlement Advices, and Statuses will the bank require on each Cash Subrecord
- 2.2.2 During Sponsorship of a Client Participant

A bank must monitor client participants' transactions adequately so that it may determine when/if it is necessary to change debit cap, advice, or status attributes.

Important: If a bank changes credit management for a Net Position Record from debit cap managed to AIF managed (i.e. the bank renders the debit cap "inactive"), the bank must also change Credit Status accordingly in CHESS, or override the feeder level setting via the RITS status override function. (Credit Status is typically "Active" because the debit cap has been "active". Once the debit cap is "inactive", the Bank would wish to change Credit Status to "Deferred".) Banks should likewise consider

the impact of a credit management change on their standing Pre-Settlement and Post-Settlement Advice requirements.

2.3 Functionality in RITS Unchanged; Existing AIF Messages Used

The existing terminal functionality for banks in RITS will remain unchanged with the addition of the CHESS RTGS service as a feeder system to RITS. CHESS RTGS transactions will be recorded in the same manner as for other existing feeder systems. The following existing AIF SWIFT messages will be used:

- Pre-Settlement Advice (credit level) MT198 SMT028,
- Pre-Settlement Advice (ESA level) MT198 SMT029,
- Post-Settlement Advice (debit) MT198 SMT036, and
- Post-Settlement Advice (credit) MT198 SMT037.

The only change to the above messages will be the inclusion of a new transaction type for CHESS RTGS transactions - "CHESR". Banks' systems will identify Pre- and Post-Settlement Advices as relating to CHESS RTGS by this "CHESR" transaction type.

2.4 Net Position Record Settings and Cash Subrecord Settings

2.4.1 Net Position Record Settings

The following is set at Net Position Record level:

- whether debit cap is active or inactive
- debit cap limit
- whether Net Position Record is active

Where a Net Position Record's debit cap is "inactive", the bank may optionally provide a fallback debit cap limit. This will save the bank having to load debit cap limits for all client participants within a short space of time should there be a requirement to move to fallback procedures. A value of "inactive" keeps the debit cap limit from being actively applied. Should the bank not supply a fallback amount, CHESS will apply a default of zero, meaning the client may only operate out of credit funds should the debit cap become activated.

2.4.2 Cash Subrecord Settings

The following is set at Cash Subrecord level:

- Pre-Settlement Advice ESA level
- Pre-Settlement Advice Credit level
- Post-Settlement Advice
- Credit Status
- ESA Status

If a bank wishes to receive Pre-Settlement advices for a client participant, it must set a "Yes" value in CHESS for the appropriate Cash Subrecord/s associated with that participant. CHESS will pass this value to RITS in order to advise the RBA to send the Pre-Settlement advice. In addition, the bank must set up the UNSOLAD function in RITS accordingly.

To receive Post-Settlement Advices for all transactions (i.e. interbank and intrabank transactions), the bank must indicate that this is required in CHESS so that CHESS may ensure that all transactions targeting the selected Cash Subrecord/s are sent to RITS. In CHESS, banks will specify a single set of Participant advice settings to cater for both the scenarios where the bank is receiving funds (receiving bank can only get Post-Settlement Advice from RITS), and where the bank is paying funds (paying bank can get Pre-Settlement Advice - Credit level and Pre-Settlement Advice - ESA level, as well as Post-Settlement Advice). This set of advice settings pertains to all transactions, both interbank and intrabank.

In addition, the requirement must be further specified in the UNSOLAD function in RITS. See below in this topic for more detailed information.

Banks may set Credit Status and ESA Status to "Deferred" or "Active", as they currently do in other feeder systems. The third status, Cash Status, is automatically set to "Active".

2.4.3 Default Settings Can Be Prepared in Bank's System for Insertion in CHESS Message

If a bank wishes to supply the same settings for a number of Cash Subrecords under a Net Position Record, or for a number of Net Position Records, the bank should set default criteria in their own system in order to "load" messaging to CHESS with the appropriate details.

2.5 Bank Credit Approval Across All Cash Subrecords

Where a bank uses the AIF for a participant's credit management, the bank will receive transaction information which pertains only to the Cash Subrecord used for the transaction. However, the bank will need to obtain information about the participant's position *across all* CHESS Cash Subrecords for credit approval, i.e. information available at Net Position Record level.

As AIF banks currently have functionality to check a client's total position across a number of accounts, it is advised that AIF banks adapt existing functionality to consolidate the position across all the participant's CHESS Cash Subrecords (given that AIF banks receive information about all interbank *and* intrabank transactions where AIF is used).

Alternatively, AIF banks can receive intraday totals reporting from CHESS on the Cash Subrecords for a Net Position Record; these balances taken together provide a total position across Cash Subrecords. However, retrieving this information from their own systems via the AIF may be more efficient for banks.

2.6 CHESS-RTGS Transactions in RITS

The same viewing and records-keeping facilities that occur for other feeder systems in RITS will be available for CHESS RTGS transactions. These are outlined in this section.

2.6.1 CHESS-RTGS Branch and Cash Account Details

All banks will be set up with a new RITS branch to record the processing of CHESS-RTGS transactions, e.g. BANKC1 – CHESS-RTGS Feeder branch. The cash account of this branch will record all settled CHESS-RTGS transactions. Paying and receiving banks in a settled CHESS-RTGS transaction may view them in CASHENQ in the "C1" branch. Each bank may nominate the bank account number to be used. This account number may be different or the same as the CHESS Batch bank account number.

2.6.2 Viewing CHESS-RTGS transactions in RITS

CHESS participants performing CHESS RTGS transactions in CHESS may not view them in RITS. Only the paying and receiving banks may view CHESS-RTGS transactions in RITS.

The paying and receiving banks may view settled CHESS-RTGS transactions in RITS using the following RITS functions:

- CASHENQ (Cash Enquiry) and ARCASHQ (Archive Cash Enquiry) using the "C1" branch. The new transaction types identifying the CHESS-RTGS transactions will be "CHPAY" and "CHREC";
- ESCASHQ (ESA Enquiry), ARESCASHQ (Archive ESA Enquiry), BSETQ (Banks" Settled Transaction Enquiry) and ARBSETQ (Archive Banks" Settled Transaction Enquiry) using the "2E" ESA Management branch in RITS. To search for CHESS-RTGS transactions in the statement, the new Transaction Source will be "C". Transactions will be identified by "CHPAY" and "CHREC"; and
- TRANSENQ (Transaction Enquiry) and ARTRANSQ (Archive Transaction Enquiry) in the "C1" branch. Recalled transactions will also appear here. To search for CHESS-RTGS transactions in TRANSENQ, type or scroll through to "CHESR" in the selection field named "Type". Transactions listed will be identified by "CHPAY" and "CHREC".

Paying and Receiving Banks in RITS will typically view CHESS RTGS transactions on the RTGS System Queue using ESQM and ESQMQ (ESA Queue Maintenance and Enquiry) in the "2E" branch. To search for CHESS-RTGS transactions on the System Queue, type "C" in the selection field called 'source". Transactions will be identified by "CHESR". Other RTGS System Queue enquiry functions include:

• QM and QMQ (Queue Maintenance and Enquiry) in the "C1" branch i.e. the CHESS-RTGS branch in RITS. To search for CHESS-RTGS transactions on the System Queue, type "C" (for CHESS-RTGS) in the selection field called 'source". Transactions will be identified by "CHPAY" and "CHREC"; or

• CRQM and CRQMQ (Credit Status Queue Maintenance and Enquiry) in the Participating Bank branch, e.g. "2B" or "3B" in RITS. To search for CHESS-RTGS transactions on the System Queue, type "C" (for CHESS-RTGS) in the selection field called 'source". Transactions will be identified by "CHESR".

2.6.3 Bank Viewing Privileges in RITS

As with other transaction classes, the details of CHESS transactions available for viewing in RITS by the Paying Bank and the Receiving Bank differ. The viewing rules for CHESS-RTGS transactions are identical to those used for transactions of other feeder systems. The following dot points serve only to highlight the viewing rules:

- a Paying Bank will be able to view, via a RITS terminal, the Paying CHESS Client mnemonic from that system (this will be the CHESS Participant UIC), its Bank account and the Receiving Bank but not the Receiving CHESS Client;
- a Receiving Bank will be able to view the Receiving CHESS Client mnemonic, Bank account and Paying Bank but not the Paying CHESS Client;
- the RTGS System Queue viewing rules will apply to CHESS-RTGS transactions in the same manner as for transactions of other feeder systems; and
- ESA statements printed or downloaded from RITS will display the Bank's CHESS Client mnemonic for CHESS transactions rather than displaying the "Cı" branch as the client. This has proved to be helpful for reconciliation.

Importantly, the counterparties in RITS for a CHESS RTGS transaction remain the Paying and Receiving Banks. SWIFT ESA statements will show CHESS Client Cash Subrecord details by BSB and Bank account number.

2.6.4 What a Bank will View for Intrabank Transactions

Intrabank CHESS-RTGS transactions that are passed to RITS will be tested against the CHESS RTGS Cash Account Limit. Upon settlement, the CHESS RTGS Cash Account in RITS will be simultaneously credited (first in order) and debited (second in order), and the balance will change accordingly (as occurs for intrabank transactions of existing feeder systems which are displayed in CASHENQ). In BSETQ (Banks' Settled Transaction Enquiry), the balance of these intrabank transactions will contain the previous transaction's balance for both the debit and credit entries. The associated archive functions and reports will follow the respective formats for all of the aforementioned functions.

2.7 Setting Up AIF Arrangements in CHESS and RITS

The arrangements for a Bank to set up AIF messages are outlined below.

2.7.1 Pre-Settlement Advices

To receive Pre-Settlement Advices for CHESS-RTGS transactions, a Bank must perform **both** of the following actions:

- In RITS, the Bank must use the function UNSOLAD (Select Unsolicited Advices) to select Pre-Settlement Advices for CHESS-RTGS; <u>and</u>
- In CHESS, the Bank will nominate the CHESS clients (based on Cash Subrecord number, not UIC for the CHESS Participant) for which it requires Pre-Settlement Advices. Two Pre-Settlement advice flags, Credit level and ESA level, will be included in each CHESS Settlement Request sent by CHESS to RITS. For each flag:

If the flag is "Yes", a Pre-settlement Advice (Credit and/or ESA Levels) will be generated by RITS and forwarded to the Paying Bank.

If the flag is "No", no Pre-settlement Advice will be sent.

2.7.2 Post-Settlement Advices

All requests for Post-Settlement Advices will be controlled from UNSOLAD in RITS and not from within CHESS. Paying and Receiving Banks will not be able to elect to receive Post-Settlement Advices for individual CHESS clients using UNSOLAD: they will receive Post-Settlement advices for CHESS-RTGS transactions for all or no CHESS-RTGS clients.

Using UNSOLAD at the CHESS-RTGS Cash Account Level i.e. for **all** CHESS transactions, a Bank may separately elect to receive the following four types Post-Settlement Advices:

- all intrabank CHESS Payments (Debit);
- all intrabank CHESS Payments (Credit);
- all interbank CHESS Payments (Debit); and
- all interbank CHESS Payments (Credit).

3 NET POSITION RECORD (NPR) AND CASH SUBRECORD (CSR)

3.1 Background

3.1.1 Purpose of Net Position Record, Debit Cap (on a NPR), and Cash Subrecord

Each CHESS Participant using the RTGS service must create at least one CHESS Net Position Record. The Net Position Record is an RTGS-specific structure in CHESS which tracks the funds component of CHESS RTGS transactions; i.e. it records transaction amounts, the amount "reserved" for a transaction, and provides a running balance.

The debit cap is an RTGS-specific structure which may be active or inactive on a Net Position Record. The debit cap limit is the amount which the net total of a Participant's pending and finalised debits, and finalised credits, for transactions targeting a Cash Subrecord associated with that Net Position Record, is not allowed to exceed.

Banks may apply a debit cap limit to a Net Position Record, or elect to render the debit cap inactive and use the Automated Information Facility (AIF) to perform credit management. A Bank may change an inactive debit cap to active, and vice versa, intraday. A Bank can set an active debit cap limit to zero (zero is a valid value). A debit cap limit of zero means the Participant's transaction obligations may not fall into a debit amount. Debit caps operate on an unsecured basis.

A Participant may have more than one Net Position Record, with either the same or different Banks. A Participant may have one Net Position Record managed through the AIF, and another managed by debit cap, depending on the Bank's facilities for that Participant.

The Net Position Record is associated in CHESS with a Participant's payment facility, an existing CHESS structure which is used for settlement of the daily CHESS batch.

Attached to a Participant's Net Position Record are one or more Cash Subrecords, which are CHESS records which refer to accounts sponsored by a Bank for the purpose of RTGS settlement. All Cash Subrecords under a single Net Position Record would be sponsored by the same Bank. The CHESS Cash Subrecord, **not** the Net Position Record or the payment facility ID, is specified on settlement requests passed across the CHESS-RITS interface.

3.1.2

Diagram: Relationship of UIC, Payment Facility, Net Position Record, and Cash Subrecord

This diagram shows the relationship of Net Position Record to Cash Subrecord, within the existing framework of the Participant's UIC and payment facility.

Participant UIC



3.1.3

Principles of Relationship of Net Position Record to Cash Subrecord

The following principles describe the relationships between Participant, Bank, CHESS Net Position Record, debit cap, and Cash Subrecord:

- The debit cap is an attribute of a Net Position Record (NPR) not a Participant, a payment facility, nor a Cash Subrecord. The debit cap may specify a limit or be designated as having "null limit", i.e. the debit cap is inactive. However, the Bank may nominate a specific amount limit, whether the debit cap is active or inactive. Zero is a valid value for a debit cap limit, and is the default amount which CHESS applies where the debit cap limit is not specified.
- There can be only 1 debit cap for a Net Position Record.

- A Net Position Record and its associated Cash Subrecords relates to only 1 payment facility (for one Participant).
- A Participant may have more than one NPR/payment facility arrangement, with either the same Bank or different Bank(s). However, each NPR must be associated with an active payment facility. As per the individual Banks' determinations, each of these NPRs may or may not have an active debit cap. A Participant may therefore, for example, have a NPR-payment facility arrangement for which credit is managed via AIF, and other/s for which credit is managed via debit cap.
- There is no "umbrella" client credit management, including overall debit limiting, in CHESS for a Participant across **all** their NPRs.
- 3.1.4 Cash Subrecords and Net Position Records Commence the Day at Zero

The balance of each Cash Subrecord and Net Position Record will revert to zero by the beginning of each settlement day, as final balances on the previous day will have been removed.

CHESS assumes Banks have by this time posted to Participants' actual Bank accounts.

3.1.5 Participant Account Structure

Special regulations regarding use of accounts apply to Participants. The diagram below shows the account structure for a Participant who is required under the Corporations Act to maintain a trust account. As a result of this account structure, the Net Position Record must sit at payment facility level in order to record the full picture of incoming and outgoing funds movements.

Participants have obligations under the Corporations Act and the ASX Market Rules to separate client money and Participant's funds, in order to ensure that clients' money cannot be used by the Participant in the event of a default to pay the Participant's debts.)



3.1.6 Default Cash Subrecords, Exclusion Markers on Cash Subrecords

To assist Participants to manage their Cash Subrecords in a manner appropriate to their account structure, CHESS allows a Cash Subrecord to be nominated as a default Cash Subrecord which will be targeted for buy transactions only, sell transactions only, or both (common default).

If no Cash Subrecord number is supplied by the Participant in a submitted settlement instruction and an appropriate default Cash Subrecord has been set up, CHESS will add the default value to the transaction before passing it to RITS. (If no Cash Subrecord is supplied and there is no appropriate default Cash Subrecord set up, CHESS rejects the request.)

Additionally, a Cash Subrecord may be nominated as excluded from debit cap consideration. While credit or debit amounts targeting this Cash Subrecord will affect the Cash Subrecord's balance, they will not affect the amount of credit available with regard to the debit cap limit on the associated Net Position Record.

While ASTC allows the above facilities in CHESS to provide a flexible service appropriate to different Participants' business requirements, it is the responsibility of the Participant to manage their Cash Subrecord structure in an appropriate manner, especially where a Participant's obligations under the Corporation Act are concerned. ASTC takes no responsibility for the proper management of a Participant's Cash Subrecords.

Refer later in this RTGS procedures supplement for more detail on nominating a default Cash Subrecord at time of set-up or as a maintenance activity.

3.1.7 Account Confidentiality and "Blind" Account Designators

In order to assist Participants and Banks to preserve account confidentiality, CHESS offers the option of designating Cash Subrecords with "blind" designators, e.g. instead of nominating actual account numbers, the Participant can nominate, for example, "Broker1" and "Broker2" with BSB. The use of blind designators would, however, require Participants and their Banks to maintain translation tables which associate a blind designator with an actual account number.

3.1.8 How CHESS Marks the NPR/CSR in Settlement of a Transaction

All amounts for transactions which have been sent to RITS in settlement processing will be recorded on the Cash Subrecord as either "pending"; i.e. waiting on approvals and completion of settlement, or "accepted", i.e. settled.

The key principle behind CHESS's marking of NPR/CSR is that amounts to be debited for a buy are **always** debited when the transaction is "pending". Credits, on the other hand, are only recorded when the transaction has been "accepted", as funds cannot be guaranteed while the transaction is still "pending".

See the Appendices to this procedures supplement for detailed examples showing the impact of transactions on NPR/CSR.

3.1.9 Allowable Changes to Net Position Records and Cash Subrecords and Processing Times

The table below describes which changes are allowed to Net Position Records and Cash Subrecords, whether they may be initiated by Participants and Banks, and what time the request is processed by CHESS.

Note that all allowable changes may be submitted and are processed from Start of Day until End of Day, except for change of Net Position Record Activity.

Refer to the External Interface Specification (EIS) for definitions of CHESS Start of Day and End of Day, as well as RTGS related times. (Note that where specific time are indicated below, it is Sydney time.)

| Entity | User | Change Allowed | When the request can be submitted to CHESS | When CHESS will process the request |
|------------------------|-------------|--|--|---|
| Net Position Record | Bank | debit cap activity debit cap limit | At any time from Start of Day until End of Day | Within scheduled time after receipt at any time from Start of Day until End of Day |
| | | Net Position Record activity | Only between end of the CHESS RTGS Business Day (4:25 pm) and End of Day (7:00 pm) | Within scheduled time after receipt, only between end of the CHESS RTGS Business Day (4:25 pm) and End of Day. |
| | Participant | (None) | | |
| Cash Subrecord | Bank | Settings for Pre- Settlement and Post-Settlement Advices Settings for Statuses | At any time from Start of Day until End of Day | Within scheduled time after receipt at any time from Start of Day until End of Day |
| | Participant | Default Cash Subrecord/s Cash Subrecord included or excluded from debit cap consideration | At any time from Start of Day until End of Day | Within scheduled time after receipt at any time from Start of Day until End of Day |

Note: Requests submitted after End of Day will be queued for processing on the next business day.

3.2 Creating a Net Position Record

3.2.1 Purpose

The purpose of this function is to allow a Participant to submit a request to CHESS to set up a new Net Position Record at CHESS for the purpose of settling via RTGS.

The smooth operation of this function relies on arrangements between the Participant and the Bank having been agreed before submission of the initial flow in this suite.

3.2.2 Process Overview

CHESS passes the request to the nominated Bank, which then either advises CHESS that the request has been authorised or rejects the request. CHESS then establishes the Net Position Record at CHESS with the attributes supplied by the Participant (via their request) and the Bank (via their authorisation), and generates confirmation advices back to the Bank and Participant. Within CHESS, records for payment facility and Bank are updated with the Net Position Record details.

3.2.3 Debit Cap Related and Other Details Supplied

Participant supplies:

Debit cap limit, Debit cap active or inactive (CHESS assumes that Net Position Record is active when the Net Position Record is set up.)

Bank rejects or authorises set-up based on details supplied by Participant. If authorising, Bank supplies: BIC

Whether the debit cap limit is active or inactive, the debit cap limit is optionally completed. If it is not completed and debit cap is changed from inactive to active, the default amount is zero. This means that the Participant can only settle out of a credit amount in the Net Position Record balance measured against the debit cap; i.e. the Participant cannot incur a debit obligation. Zero is also a valid amount should the Bank and Participant wish to specify this amount.

3.2.4 Procedure to Create a Net Position Record

3.2.4.1 When a Participant wishes to start conducting RTGS business, the Participant and Sponsoring Bank first agree on business requirements. Then the Participant sends a request to CHESS to set up a Net Position Record. Based on requirements agreed between the Participant and Bank, the Participant indicates whether the debit cap is to be active or inactive, and, for either active or inactive use, what the debit cap limit is.

- 3.2.4.2 CHESS passes the request to the nominated Bank, and advises the Participant that the request was received and passed to the Bank for authorisation.
- 3.2.4.3 The Bank checks whether the Net Position Record details supplied by the Participant are correct and appropriate to agreed business requirements. The Sponsoring Bank then either authorises the Participant's request and supplies its details in the authorisation, or rejects the Participant's request.

3.2.4.4 Where the Bank has authorised the request:

CHESS creates the Net Position Record (which may occur intraday), associating it with the nominated Payment Facility, and advises the Participant and Bank that the request has been effected. Note that the advice to the Bank is the same for an authorisation as for a rejection.

Where the Bank has rejected the request:

CHESS does not create the Net Position Record, and advises the Participant and Bank that the request has been rejected. Note that the advice to the Bank is the same for an authorisation as for a rejection.

| Section | Mess | age Number and Description | Sender | Recipient |
|---------|------|---|-------------|-------------|
| 3.2.4.1 | 341 | Create Net Position Request | Participant | CHESS |
| 3.2.4.2 | 342 | Create Net Position Authorisation Request | CHESS | Bank |
| 3.2.4.2 | 344 | Accepted Create Net Position Request | CHESS | Participant |
| 3.2.4.3 | 343 | Create Net Position Authorisation | Bank | CHESS |
| 3.2.4.3 | 345 | Create Net Position Rejection | Bank | CHESS |
| 3.2.4.4 | 340 | Effected Create Net Position | CHESS | Participant |
| 3.2.4.4 | 346 | Applied Create Net Position Response | CHESS | Bank |
| 3.2.4.4 | 348 | Rejected Create Net Position | CHESS | Participant |

Message Reference Table

3.3 Changing a Net Position Record Attribute (Banks Only)

3.3.1 Purpose

The purpose of this function is to allow a Bank to submit a request to CHESS to modify the following Net Position Record attributes:

- Net Position Record live use
- Debit cap live use
- Debit cap limit

It is assumed that for normal client Participant maintenance, a Bank would only need to exercise this function for a single Net Position Record at a time. For a single Net Position Record, more than one change can be selected on a request.

A Bank may need to activate all debit caps on all client Participants' Net Position Records, in the event their AIF connection is not working but they are able to communicate with RITS and otherwise conduct business.

A Participant may not make changes to a Net Position Record's attributes.

3.3.2 Process Overview

A Bank submits a request to CHESS which is processed. No authorisation from the client Participant is required.

- A Bank may change a debit cap activity intraday.
- A Bank may change a debit cap limit intraday.
- A Bank may **not** change Net Position Record activity intraday. A Bank may only submit a request to change Net Position Record activity between end of day for the CHESS RTGS Business Day (i.e. 4:25 pm) and End of Day (7:00 pm). A request received by CHESS during this interval will be processed.
- 3.3.3 Timing of Bank Change to Debit Cap in Relation to Transaction Processing

In order for settlement instructions to be passed to RITS for funds checks, they must first pass queue testing checks at CHESS level. If queue testing is successful for the transaction, CHESS reserves the financial products, updates the Net Position Record, and passes the transaction to RITS. Prior to successful queue testing, where a Bank has advised CHESS of any change to the Net Position Record parameters, CHESS will accept the change in relation to the transaction. CHESS cannot, however, apply the change to the transaction once financial products have been reserved for the transaction and it has been sent to RITS (both actions will occur simultaneously in CHESS), as processing has been deemed to have commenced and cannot be interrupted. Parameters in place as of financial products reservation are the parameters which apply to the transaction.

Banks must be prepared to honour obligations arising from such transactions.

- 3.3.4 Procedure to Change A Net Position Record's Attribute/s
- 3.3.4.1 A Bank decides for business reasons to activate or inactivate a client Participant's Net Position Record; or to change a debit cap limit; or to activate or inactivate a debit cap on a Net Position Record. The Bank submits a request to CHESS to change the attribute/s concerned.

Important note: Where a Bank wishes to activate or inactivate a Net Position Record, no other attribute may be changed on the same request. However, a change to debit cap activity and debit cap limit may be included on the same request. Change to debit cap activity and debit cap limit may be submitted during the active RTGS Business Day and will be effected by CHESS once the request is processed. Change to Net Position Record activity may only be submitted after the close of the RTGS Business Day (that is, received by CHESS by 4:25 pm for submission of Participant requests) and the standard CHESS End of Day (that is, 7:00 pm).

3.3.4.2 CHESS changes the selected attribute/s as requested. CHESS then advises the Bank that the change was effected, and notifies the Participant of the change.

Message Reference Table

| Section | Mess | Message Number and Description | | Recipient |
|---------|------|--|-------|-------------|
| 3.3.4.1 | 371 | Change Net Position Attributes Request | Bank | CHESS |
| 3.3.4.2 | 374 | Change Net Position Attributes Confirmation | CHESS | Bank |
| 3.3.4.2 | 372 | Changed Net Position Attributes Notification | CHESS | Participant |

- 3.3.5 Procedure to Request Change of Debit Cap Activity on All Net Position Records for a Bank
- 3.3.5.1 A Bank determines that all Net Position Records' debit caps must be activated across all client Participants.
- 3.3.5.2 The Bank sends Settlement Operations a signed letter on letterhead indicating that they require all debit caps to be activated, and the urgency of this request. (Note: If required, functionality may be developed in a later release for a Bank to activate all debit caps via CHESS messages.) Banks should be aware that, once activated, debit caps will operate with the limits specified at the time the Net Position Record was set up (or the limit will default to zero if no limit has been specified).
- 3.3.5.3 Settlement Administration activates all debit caps.

3.4 Removing a Net Position Record (Participants Only)

3.4.1 Purpose

A Participant may cease conducting RTGS business with a Bank, or cease conducting business through a particular Net Position Record with a Bank. The Participant may simply leave the Net Position Record in place and not use it. However, the Participant may determine that they wish to remove the Net Position Record permanently. This procedure allows the Participant to request removal of the Net Position Record from CHESS.

- 3.4.2 Procedure to Remove a Net Position Record
- 3.4.2.1 A Participant determines for business reasons to cease conducting RTGS business using this Net Position Record, and that they wish the Record removed from CHESS. CHESS does not facilitate any discussions between the Participant and the Bank which precede this decision.
- 3.4.3.2 The Participant sends Settlement Operations a signed letter on letterhead indicating that the Net Position Record associated with the nominated payment facility is to be removed, and the desired date for removal. (Note: If required, functionality may be developed in a later release to remove these structures via CHESS messages.)
- 3.4.3.3 Settlement Operations removes the Net Position Record from CHESS.

3.5 Creating a Cash Subrecord

3.5.1 Purpose

This procedure creates a Cash Subrecord and associates it with an established Net Position Record. A Participant must have at least 1 Cash Subrecord to settle transactions via CHESS RTGS.

3.5.2 Process Overview

CHESS passes the request to the nominated Bank, which then either advises CHESS that the request has been authorised or rejects the request. CHESS then establishes the Cash Subrecord at CHESS with the attributes supplied by the Participant (via their request) and the Bank (via their authorisation), and generates confirmation advices back to the Bank and Participant. Within CHESS, records for payment facility, Net Position Record, and Bank are updated with the details.
3.5.3 Details Supplied

Participant supplies:

- Cash Subrecord ID
- Cash Subrecord Type, i.e. whether the Cash Subrecord is a default sell, default buy, common default, or nominated account
- whether the Cash Subrecord is included or excluded from debit cap consideration

The Cash Subrecord ID can be same as an actual account number, but can be a "blind" account identifier, as agreed between Participant and Bank, e.g. Brokerı, Broker2. However, the Cash Subrecord ID must include the BSB.

Bank rejects or authorises set-up based on details supplied by Participant.

If authorising, Bank supplies:

- whether Pre-Settlement advice (ESA level), and/or Pre-Settlement advice (Credit level), and/or Post-Settlement advice are required
- ESA Status
- Credit Status

Banks should be aware that they should supply Status and Pre-Settlement Advice and Post-Settlement Advice values that match settings in RITS.

3.5.4 Cash Subrecord Type and Default Cash Subrecords

Cash Subrecord Type identifies whether the Cash Subrecord is one of the following:

- the default Cash Subrecord which CHESS will apply as the default for all buy RTGS transactions for that Net Position Record
- the default Cash Subrecord which CHESS will apply as the default for all sell RTGS transactions for that Net Position Record
- a "common" default Cash Subrecord, which CHESS will apply as the default for all buy and sell transactions
- a nominated Cash Subrecord

A Cash Subrecord must be identified at set-up as one of the above Types. A maximum of one sell default type Cash Subrecord and one buy default type Cash Subrecord (or one common default) can be nominated for a given Net Position Record.

3.5.5 Excluding a Cash Subrecord from Debit Cap Consideration

Identifies whether the Cash Subrecord is included or excluded from RTGS debit cap consideration when credit and debit amounts on transactions targeting this Cash Subrecord are added to available credit. Exclusion of a Cash Subrecord from debit cap consideration only applies where the debit cap is active. 3.5.6 Cash Account Identifier and Cash Subrecord ID

The Cash Subrecord ID is a value which stands in a 1-to-1 relationship to an actual account maintained for the Participant by the sponsoring Bank. This value is only used in Participant messaging with CHESS once, when the Cash Subrecord is set up.

The Cash Account Identifier is a value which stands for the 35-character Cash Subrecord ID, and is only used in RTGS related Participant messaging with CHESS once the Cash Subrecord is set up. (Cash Account Identifier is the account reference used between the Participant and CHESS. Cash Subrecord ID is the account reference used between the Bank and CHESS.) This value allows for additional financial product in internal Participant handling.

The Cash Account Identifier is unique to a payment facility; therefore, the Payment Facility ID is always required wherever the Cash Account Identifier is supplied.

- 3.5.7 Procedure to Create a Cash Subrecord
- 3.5.7.1 When a Participant wishes to start conducting RTGS business, the Participant and sponsoring Bank first agree on business requirements. These requirements would include specifications for Cash Subrecord/s. Then the Participant sends a request to CHESS to set up a Cash Subrecord. (Note that one request must be submitted per Cash Subrecord required, and a Net Position Record must exist for association with the Cash Subrecord to be created.) Based on requirements agreed between the Participant and Bank, the Participant indicates whether the Cash Subrecord is to be a type of default Cash Subrecord and whether it shall be excluded from debit cap consideration on the Net Position Record with which it is associated.
- 3.5.7.2 CHESS passes the request to the nominated Bank, and advises the Participant that the request was received and passed to the Bank for authorisation.
- 3.5.7.3 The Bank checks whether the Cash Subrecord details supplied by the Participant are correct and appropriate to agreed business requirements. The Sponsoring Bank then either authorises the Participant's request, supplying its details concerning Pre-Settlement and Post-Settlement Advice requirements and Status settings in the authorisation; or rejects the Participant's request.

3.5.7.4 Where the Bank has authorised the request:

CHESS creates the Cash Subrecord, linking it to the Net Position Record associated with the nominated payment facility, and advises the Participant and Bank that the request has been effected. Note that the advice to the Bank is the same for an authorisation as for a rejection.

Where the Bank has rejected the request:

CHESS does not create the Cash Subrecord, and advises the Participant and Bank that the request has been rejected.

Message Reference Table

| Section | Mess | age Number and Description | Sender | Recipient |
|---------|------|---|-------------|-------------|
| 3.5.7.1 | 351 | Create Cash Subrecord Request | Participant | CHESS |
| 3.5.7.2 | 352 | Create Cash Subrecord Authorisation Request | CHESS | Bank |
| 3.5.7.2 | 354 | Accepted Create Cash Subrecord Request | CHESS | Participant |
| 3.5.7.3 | 353 | Create Cash Subrecord Authorisation | Bank | CHESS |
| 3.5.7.3 | 357 | Create Cash Subrecord Rejection | Bank | CHESS |
| 3.5.7.4 | 356 | Effected Create Cash Subrecord | CHESS | Participant |
| 3.5.7.4 | 358 | Applied Create Cash Subrecord Response | CHESS | Bank |
| 3.5.7.4 | 360 | Rejected Create Cash Subrecord | CHESS | Participant |

3.6 Changing Cash Subrecord Attributes

3.6.1 Purpose

This set of functions allows:

- a **Bank** to change the following RITS-related settings for an existing Cash Subrecord:
 - ESA Status
 - Credit Status
 - Pre-Settlement Advice Credit level
 - Pre-Settlement Advice ESA level
 - Post-Settlement Advice
- a **Participant** to change the following for an existing Cash Subrecord:
 - the default which applies to the Cash Subrecord (Cash Subrecord Type)
 - whether the Cash Subrecord is included in or excluded from debit cap consideration (Debit Cap Exclusion Flag)

A Participant cannot change RITS-related settings. Likewise, a Bank cannot change Cash Subrecord default or debit cap exclusion parameters.

3.6.2 Process Overview

A Bank advises CHESS that it wishes to change settings for a Cash Subrecord. CHESS makes the changes and advises the Bank. The Participant is not advised.

A Participant advises CHESS that it wishes to change parameters for a Cash Subrecord. The Change Cash Subrecord request requires authorisation by the Participant's Bank. The Participant is advised if the Change Cash Subrecord request has been passed to the Bank for authorisation or has been rejected by CHESS. If accepted by CHESS, the details of the Cash Subrecord requirements are passed to the Bank. The request is then held at CHESS until a response is received from the Bank.

3.6.3 Change of Cash Subrecord and Effect on Default Settings

A Participant may decide for business reasons that they want to change which Cash Subrecord they are using as the default sell, default buy, or common default Cash Subrecord. The Participant may wish to substitute a new or existing Cash Subrecord for the existing default Cash Subrecord.

- If the Participant wishes to **substitute a new Cash Subrecord**, they should create the new Cash Subrecord (via the 351 Create Cash Subrecord request message) and indicate the default value required.
- If the Participant wishes to **substitute an existing Cash Subrecord**, they should submit a change request (via the 375 Participant Change Cash Subrecord Attributes Request message) which indicates the new default value to be associated with the specified Cash Subrecord.

In either scenario, CHESS will substitute the new or existing Cash Subrecord for the Cash Subrecord currently resident in the database slot it keeps for the specified default against that Net Position Record. This process has the effect of 'stripping" the default setting from the previous Cash Subrecord and rendering it equivalent to a "nominated" Cash Subrecord.

Participants should be mindful that where a default Cash Subrecord is changed, outstanding RTGS transactions which point to a default will now point to a different Cash Subrecord occupying the default 'slot". For each affected RTGS transaction, Participants may wish to change the Cash Subrecord supplied (493 Maintain RTGS Instruction Request), or cancel the transaction (483 RTGS Notification Cancellation Request).

- 3.6.4 Procedure to Change RITS Related Settings for a Cash Subrecord (Bank Only)
- 3.6.4.1 A Bank decides for business reasons to change ESA or Credit Status settings; and/or to change advice selections for Pre-Settlement Advices or Post-Settlement Advice. The Bank submits a request to CHESS to change the attribute/s concerned.
- 3.6.4.2 CHESS changes the selected attribute/s as requested. CHESS then advises the Bank that the change was effected.

Message Reference Table

| Section | Message Number and Description | | Sender | Recipient |
|---------|--------------------------------|---|--------|-----------|
| 3.6.4.1 | 373 | Bank Change Cash Subrecord Attributes Request | Bank | CHESS |

| Section | Message Number and Description | Sender | Recipient |
|---------|---|--------|-----------|
| 3.6.4.2 | 376 Bank Change Cash Subrecord Attributes Confirmation | CHESS | Bank |

3.6.5 Procedure to Change Cash Subrecord Attributes (Participants Only)

3.6.5.1 A Participant decides for business reasons to change attributes for an existing Cash Subrecord, i.e. whether the Cash Subrecord is a default sell, a default buy, a common default, or a nominated (non-default) Cash Subrecord; and/or whether the Cash Subrecord is excluded from debit cap consideration. The Participant submits a request to CHESS to change the attribute/s concerned.

If a Cash Subrecord designated as a common default is changed, for example, to a buy default, then that Cash Subrecord no longer acts as the sell default also: transactions which are sells must specify a Cash Subrecord (via use of the Cash Account Identifier) or the transaction would be rejected.

- 3.6.5.2 CHESS passes the request to the nominated Bank, and advises the Participant that the request was received and passed to the Bank for authorisation.
- 3.6.5.3 The Bank checks whether the change Cash Subrecord details supplied by the Participant are acceptable. The Sponsoring Bank then either authorises the Participant's request, or rejects the Participant's request.

3.6.5.4 Where the Bank has authorised the request:

CHESS changes the Cash Subrecord attribute, and advises the Participant and Bank that the request has been effected. Note that the advice to the Bank is the same for an authorisation as for a rejection.

Where the Bank has rejected the request:

CHESS does not change the Cash Subrecord attribute, and advises the Participant and Bank that the request has been rejected. Note that the advice to the Bank is the same for an authorisation as for a rejection.

| Section | Mess | age Number and Description | Sender | Recipient |
|---------|------|---|-------------|-------------|
| 3.6.5.1 | 375 | Participant Change Cash Subrecord Attributes | Participant | CHESS |
| 3.6.5.2 | 380 | Participant Change Cash Subrecord Attributes Authorisation Request | CHESS | Bank |
| 3.6.5.2 | 378 | Accepted Participant Change Cash Subrecord Attributes | CHESS | Participant |
| 3.6.5.3 | 377 | Participant Change Cash Subrecord Attributes Authorisation | Bank | CHESS |

Message Reference Table

| Section | Messa | Message Number and Description | | Recipient |
|---------|-------|---|-------|-------------|
| 3.6.5.3 | 379 | Participant Change Cash Subrecord Attributes Rejection | Bank | CHESS |
| 3.6.5.4 | 382 | Effected Participant Change Cash Subrecord Attributes | CHESS | Participant |
| 3.6.5.4 | 384 | Applied Participant Change Cash Subrecord Attributes | CHESS | Bank |
| 3.6.5.4 | 386 | Rejected Participant Change Cash Subrecord Attributes | CHESS | Participant |

3.7 Removing a Cash Subrecord (Participants Only)

3.7.1 Purpose

A Participant which does not wish to use a particular Cash Subrecord for RTGS settlement may simply refrain from nominating this Cash Subrecord in RTGS transactions or using it as a default Cash Subrecord. If, however, for administrative reasons, a Participant wishes to permanently remove a Cash Subrecord from a Net Position Record, they must make a request in writing to Settlement Operations identifying the Cash Subrecord and the Net Position Record from which it is to be removed.

A sponsoring Bank may not request the removal of a Cash Subrecord from a client Participant's Net Position Record.

Note: Just as when a Participant has a HIN removed, it is advised that the Participant a) ensures they have organised another Cash Subrecord as required default/s before requesting removal, and b) considers whether there are any outstanding RTGS settlement instructions targeting the to-be-removed Cash Subrecord. If so, they should either change the Cash Subrecord on those transactions, or cancel them (i.e. the default on the transaction would now point to whichever Cash Subrecord has been specified as the new buy or sell default).

- 3.7.2 Procedure to Remove a Cash Subrecord
- 3.7.2.1 A Participant determines for business reasons to cease conducting RTGS business using this Cash Subrecord, and that they wish the Record removed from CHESS. CHESS does not facilitate any discussions between the Participant and the Bank which precede this decision.
- 3.7.2.2 The Participant sends Settlement Operations a signed letter on letterhead indicating that the Cash Subrecord associated with the nominated payment facility is to be

removed, and the desired date for removal. (Note: If required, functionality may be developed in a later release to remove these structures via CHESS messages.)

3.7.2.3 Settlement Operations removes the Cash Subrecord from CHESS.

4 CREATING AN RTGS SETTLEMENT INSTRUCTION

4.1 Purpose

The purpose of this function is to allow two Participants to submit matched settlement instruction information to ASTC in order to create an RTGS settlement transaction for settlement on a specified date. Free-of-value RTGS transactions are not allowed.

The following value transactions are allowed:

- market Broker-Broker (transactions are monitored by Settlement Operations for compliance reasons)
- market Broker Non market Participant
- market Non-market Participant Non-market Participant
- off-market Broker Broker
- off-market Broker- Non-market Participant
- off-market Non-market Participant Non-market Participant

Refer to the *External Interface Specification (EIS)* document for details of matchable criteria, and Trade Date is requirements.

4.2 Scheduling Transaction for Settlement: Authorisation and "Ready to Settle"

When each Participant submits the RTGS Dual Entry Notification, they may each optionally determine whether or not authorisation is required; i.e. should Schedule Transaction for Settlement is "yes" or "no".

Schedule Transaction for Settlement is not a matchable attribute. Either one of the counterparties, or both, may select authorisation as required for their own operational purposes. For each Participant, if authorisation is indicated as required on the RTGS Dual Entry Notification, the Participant must then submit an authorisation instruction to CHESS before or on Settlement Date for the transaction to be "ready to settle", i.e. to commence active RTGS settlement processing. A transaction will not be considered "ready to settle" if there are any outstanding authorisations required. If authorisation/s from one or both parties is/are still required by the end of the CHESS RTGS Business Day, the transaction will be considered a failed transaction and will be rescheduled by CHESS, and is subject to fail fees. (Where fail fees are applied, each counterparty which has failed to submit a required authorisation message will be penalised. Therefore, if both parties have indicated they wish to authorise, and neither submits their authorisation messaging, fail fees will be applicable to both parties.)

If Schedule Transaction for Settlement is not completed, the default value is "yes", i.e. no authorisation is required and the transaction will be "ready to settle" on Settlement Date.

Refer below in this RTGS supplementary procedures document for detailed information about authorisation messaging.

4.3 Process Overview

Once a Dual Entry Notification is submitted, it is flagged as unmatched and the counterparty is advised of the details. If a match is made, the instruction is scheduled for settlement.

4.4 Procedure to Create an RTGS Settlement Instruction

- 4.4.1 A Participant determines that a transaction in a approved financial product is to settle with a counterparty Participant via CHESS.
- 4.4.2 Relevant details of the transaction are submitted to CHESS in the form of a settlement notification message. Foreign-to-foreign ownership restrictions apply as for a 101 Dual Entry Settlement Notification (refer to Section 2.2.2 in the PPG).

The Participant may optionally decide to indicate on the settlement notification that the transaction may be scheduled for settlement on the Settlement Date, or that the transaction should not be scheduled for settlement on Settlement Date and instead would require the Participant to submit an RTGS Authorised Scheduled Settlement Instruction request. (If a value is not specified, the CHESS default action is to schedule the transaction as "ready to settle" on Settlement Date.) Cash Account Identifier may optionally be supplied, or the Participant may rely on default settings.

A Participant's settlement notification may nominate the HIN of a CHESS holding which will be the deliverer or receiver of financial products at the time the transaction is settled. If no HIN is specified, the deliverer or receiver holding will default to a settlement clearing holding identified in the Participant's standing details. (refer Section 3.7 - Standing HINs). The Participant may submit a message to change the settlement HIN after the settlement notification has been matched.

A Participant who operates a settlement holding moves financial products between other holdings and the settlement holding using Subregister movement transactions (refer to Section 8.3 in the PPG).

Unlike Settlement Amount for net batch settlement instructions, the Settlement Amount for an RTGS Dual Entry Notification is not verified within a tolerance limit. The Settlement Amounts specified by each party must match exactly or CHESS rejects the transaction.

A settlement date and a trade date must be specified for value market transactions. For off-market value transactions, the trade date is not allowed but the settlement date must be specified.

The Participant should note that both the HIN and Cash Account Identifier which are used for the transaction must relate to the same payment facility.

- 4.4.3 CHESS validates the settlement notification to the extent that it can. If the notification is invalid, CHESS generates a rejection message to the Participant.
- 4.4.4 If the settlement notification is valid, CHESS checks to determine if a matching transaction has already been submitted by the settlement counterparty.

| 4.4.5 | During the experiod of a corporate action, each transaction being matched has a "having for each transaction being matched has a |
|-------|--|
| | "basis of movement" (cum or ex) for each current corporate action. These basis of movement designations must match for the transaction to be matched. Each basis of |
| | movement is determined by CHESS as being either the default allocated by CHESS or |
| | the override basis of movement in the transaction. CHESS rejects on initiation |
| | settlement instructions where the settlement date lies outside the underlying ex |
| | period if an override basis of movement is specified. However Participants can later |
| | reschedule a settlement instruction with an Override Basis of Movement beyond the record date. In this case, CHESS diary adjusts the outstanding cum transaction. |
| | |

4.4.6 If the settlement instruction notified by the Participant does not match a previously submitted settlement notification from the counterparty, CHESS responds to the Participant with a message indicating that the notification has been accepted but is presently unmatched.

CHESS also generates an unmatched settlement notification message to the counterparty.

- 4.4.7 If the settlement notification notified by the Participant matches a settlement notification notified by the counterparty, CHESS responds to the Participant and the counterparty with a message acknowledging that the transaction is scheduled for settlement. Where neither Participant has indicated that authorisation is required, i.e. that the transaction is not to be scheduled for settlement on Settlement Date, both Participants receive an RTGS Instruction Ready to Settle Advice.
- 4.4.8 The Participant must monitor the status of settlement notifications which result in an "unmatched" response. If CHESS gives that response it implies that either the counterparty has not yet submitted its corresponding settlement instruction, or that it has submitted its version of the instruction but the versions do not match. In the latter case, unless the mismatch is on the counterparty identifier, the Participant will itself have already received an unmatched settlement notification message on the basis of the counterparties' notification to CHESS. CHESS itself cannot resolve these differences. Counterparties must resolve differences between themselves.
- 4.4.9 An unmatched settlement notification cannot be corrected but must be cancelled and a new transaction created.
- 4.4.10 A settlement notification that has been matched can only be cancelled by both the Participant and its counterparty submitting matching RTGS cancellation request messages to CHESS.
- 4.4.11 An unmatched RTGS cancellation request may be removed from the system by the Participant who submitted it.
- 4.4.12 Settlement date, amount, security code, number of units and other values may be changed by agreement between the counterparties. Part-settlement is not available on RTGS transactions.
- 4.4.13 Settlement notifications for a given settlement day will be accepted as valid (subject to matching and CHESS processing) up to the end of the CHESS RTGS Business Day on the Settlement Date.

Message Reference Table

| Section | Mess | Message Number and Description | | Recipient |
|---------|------|---|-------------|-------------|
| 4.4.2 | 481 | RTGS Dual Entry Notification | Participant | CHESS |
| 4.4.6 | 484 | Unmatched RTGS Dual Entry Request | CHESS | Participant |
| 4.4.6 | 482 | Unmatched RTGS Dual Entry Notification | CHESS | Participant |
| 4.4.7 | 166 | Scheduled Dual Entry Settlement Instruction | CHESS | Participant |
| 4.4.7 | 500 | RTGS Instruction Ready to Settle Advice | CHESS | Participant |

5 CHANGING ATTRIBUTES OF AN RTGS SETTLEMENT INSTRUCTION

There are two kinds of requests to change attributes of an RTGS settlement instruction:

- "single-sided" change requests one party requests a change to nonmatchable details appropriate to their operations only
- "double-sided" change requests a matchable request for a change to transaction related details

If the target transaction has not already had financial products reserved/been passed to RITS for settlement*, the change is made to the target settlement instruction.

* (or, for intrabank debit cap transactions where no RITS advices are required, if the transaction has not already settled in CHESS)

5.1 Single-Sided Change: Maintain an RTGS Settlement Instruction

5.1.1 Purpose

The purpose of this function is to allow a Participant to make changes to a scheduled RTGS settlement instruction which relate to 'single sided" aspects of the settlement instruction: i.e. information which is not matchable and should not be reported to the counterparty, such as HIN and Cash Subrecord. (This message is similar in function to the existing 125 message for changes to net batch settlement instructions.)

The Participant can use this function to request maintenance to the following transaction details:

- HIN
- Cash Account Identifier
- Schedule Transaction for Settlement (only allowable value is "no", i.e. the Participant can apply an authorisation requirement)

A maintenance request may not be cancelled.

Note that this function is not applicable to net batch settlement instructions.

5.1.2 Process Overview

A Participant submits the Maintain RTGS Instruction Request. CHESS validates the request, makes the changes, and updates the Participant.

- 5.1.3 Procedure to Maintain an RTGS Settlement Instruction
- 5.1.3.1The Participant records the change to single-sided transaction details (i.e. HIN, Cash
Account Identifier, Schedule Transaction for Settlement) and instructs CHESS.
CHESS validates the transaction.

- 5.1.3.2 If valid, CHESS amends the requested detail and confirms the amendment. The Participant processes the change to completion.
- 5.1.3.3 If invalid, CHESS rejects the amendment. The Participant records the rejection and takes appropriate steps to rectify the error.

Message Reference Table

| Section | Mess | age Number and Description | Sender | Recipient |
|---------|------|-----------------------------------|-------------|-------------|
| 5.1.3.1 | 493 | Maintain RTGS Instruction Request | Participant | CHESS |
| 5.1.3.2 | 446 | Updated RTGS Instruction | CHESS | Participant |
| 5.1.3.3 | 518 | Rejected Transaction | CHESS | Participant |

5.2 Dual-Entry Change of RTGS Settlement Instruction

5.2.1 Purpose

The purpose of this function is to allow two Participants who have scheduled an RTGS settlement instruction to make changes to transaction-related details. As both parties must agree to the change/s, this change request is matchable.

Participants may decide to change:

- Security Code
- Settlement Amount
- Settlement Date
- Settlement Instruction Status

5.2.2 Process Overview

Once a change request is submitted, it is flagged as unmatched and the counterparty is advised of the details. If a match is made and the target transaction has not already had financial products reserved/been passed to RITS for settlement*, the change is made to the target settlement instruction.

* (or, for intrabank debit cap transactions where no RITS advices are required, if the transaction has not already settled in CHESS)

- 5.2.3 Procedure to Change an RTGS Settlement Instruction
- 5.2.3.1 For dual entry transactions, the Participant negotiates the change in the settlement instruction with the other CHESS Participant. CHESS does not facilitate this agreement process. Settlement details able to be changed comprise Security Code, Transaction Basis, Settlement Amount, Settlement Date, Override Basis of

Movement, Unit Quantity, Guaranteed Foreign Indicator and Settlement Instruction Status (i.e. from Suspended to Scheduled).

If Participants change the override basis of movement, **all** overrides that are to apply **must** be specified, not just those changing.

For financial products subject to foreign ownership restrictions (refer to Section 2.1.8 in the PPG): Participants have the choice of changing an obligation either to or from a foreign to foreign allocation (by adding or deleting the Guaranteed Foreign Indicator).

- 5.2.3.2 The Participant checks that the original instruction has been matched by CHESS, records the change in settlement details and notifies CHESS.
- 5.2.3.3 CHESS validates the transaction and if valid attempts to match the Target Transaction ID of the update instruction with the Target Transaction ID of the update instruction from the counterparty. If these match, CHESS applies the same matching principles outlined in PPG Section 8.1.2 ??? to the changed details.

For financial products subject to foreign ownership restrictions:

If any obligation is to be changed **to** a foreign to foreign allocation, the HIN the obligation references must be changed to a foreign designated HIN (refer to Section 5 in the PPG). For delivering obligations, the HIN must be changed to a foreign HIN **before** the Change Settlement Instruction Request is sent. If this does not occur, the Change Settlement Instruction Request will be rejected.

If a delivering obligation is to be changed **from** a foreign to foreign allocation to one that does not require certainty of registration, the HIN must be changed to a foreign HIN **after** the Change Settlement Instruction Request is sent. If this does not occur, the request to change the HIN will be rejected.

- 5.2.3.4 If the instruction cannot be matched, CHESS stores the instruction and confirms receipt. The Participant records the acknowledgment. CHESS also advises the other party to the settlement.
- 5.2.3.5 When a match has been achieved CHESS amends the settlement details on the transaction and advises the Participants.
- 5.2.3.6 The Participant internally processes the change to completion.
- 5.2.3.7 If CHESS is unable to match the change instructions prior to settlement date the transaction settles on the original date on the original basis. CHESS removes the unmatched Change Settlement Instruction Request via housekeeping (refer to Section 10.3 ??? in the PPG)

Message Reference Table

| Section | Mess | Message Number and Description | | Recipient |
|---------|------|---|-------------|-------------|
| 5.2.3.2 | 489 | Change RTGS Instruction Request | Participant | CHESS |
| 5.2.3.3 | 518 | Rejected Transaction | CHESS | Participant |
| 5.2.3.3 | 493 | Maintain RTGS Instruction Request | Participant | CHESS |
| 5.2.3.4 | 478 | Unmatched Change RTGS Instruction Request | CHESS | Participant |
| 5.2.3.4 | 480 | Requested RTGS Instruction Change | CHESS | Participant |
| 5.2.3.5 | 128 | Adjusted Settlement Instruction | CHESS | Participant |
| 5.2.3.7 | 442 | Cancelled Change RTGS Instruction Request | CHESS | Participant |

5.3 Cancelling a Change Request to an RTGS Settlement Instruction

5.3.1 Purpose

The purpose of this function is to allow the Participant who had requested the change to settlement details on an RTGS settlement instruction to cancel the request. Cancellation of a request is only allowed before the counterparty Participant has matched the underlying RTGS settlement instruction to be cancelled.

5.3.2 Process Overview

The requesting Participant attempts to remove their cancellation request. CHESS either removes the cancellation request and advises the Participant, or proceeds with the cancellation.

- 5.3.3 Procedure to Cancel a Settlement Instruction Change Request
- 5.3.3.1 The Participant checks that CHESS has not matched the instruction to change the settlement details, internally records the cancellation and advises CHESS.
- 5.3.3.2 CHESS verifies that the update instruction has not been matched, cancels the change and confirms cancellation. The Participant processes the cancellation to completion. CHESS also advises the other Participant of the cancellation.
- 5.3.3.3 If the update transaction has been matched, CHESS rejects the cancellation. The Participant records the rejection and takes appropriate steps to rectify the error.

Message Reference Table

| Section | Mess | age Number and Description | Sender | Recipient |
|---------|------|--|-------------|-------------|
| 5.3.3.1 | 491 | Change RTGS Instruction Cancellation Request | Participant | CHESS |
| 5.3.3.2 | 442 | Cancelled Change RTGS Instruction Request | CHESS | Participant |
| 5.3.3.3 | 518 | Rejected Transaction | CHESS | Participant |

6 AUTHORISING AN RTGS SETTLEMENT INSTRUCTION FOR SETTLEMENT

6.1 Authorisation and "Ready to Settle"

CHESS RTGS provides the facility for a Participant submitting an RTGS dual entry notification to indicate upon submission whether they require the settlement instruction to enter active RTGS processing immediately upon Settlement Date, or do not wish the transaction to be scheduled for settlement until they submit an authorisation message. Each Participant must determine at the time they submit the RTGS dual entry notification whether they require authorisation, based on their own operational requirements. (The requirement for authorisation is not a matchable criterion on the RTGS dual entry notification.)

Once all required authorisation messages have been submitted, the transaction is "ready to settle". Where an RTGS settlement instruction has been scheduled for a future Settlement Date, an authorisation message may be submitted on any date prior to Settlement Date, as well as on Settlement Date.

6.2 Purpose

This function allows a Participant to authorise a scheduled RTGS settlement instruction on which Schedule Transaction for Settlement was selected as "no" at the time the RTGS dual entry notification was submitted.

6.3 Process Overview

Each Participant who had requested authorisation as required on the underlying settlement instruction submits their authorisation. Where only one Participant has requested authorisation, the transaction is made "ready to settle" upon receipt of this authorisation. Where both Participants have requested authorisation, CHESS sends the first Participant to authorise a confirmation advice; once the second Participant authorises, the underlying transaction becomes "ready to settle".

6.4 Procedure to Authorise an RTGS Settlement Instruction for Settlement

6.4.1 The Participant determines, for operational reasons, that it is time to authorise an RTGS settlement instruction so that it is "ready to settle" on Settlement Date. The Participant sends an authorisation request to CHESS. If all required authorisation request/s is/are sent to CHESS prior to Settlement Date, the transaction will be treated as "ready to settle" immediately at start of the CHESS RTGS Business Day on the Settlement Date. If all required authorisation request/s is/are sent to CHESS on Settlement Date, then the transaction is treated as "ready to settle" on Settlement Date. Date.

- 6.4.2 Where only one of the two Participants has indicated at the time of submission of their RTGS Dual Entry Notification that the transaction would require authorising in order to settle (i.e. Schedule Transaction for Settlement was "no"), upon receipt of the Participant's authorisation request, CHESS sends both Participants an RTGS Instruction Ready to Settle Advice. The transaction is now ready to settle.
- 6.4.3 Where both Participants have indicated, at the time of submission of their RTGS Dual Entry Notification, that the transaction would require authorising in order to settle (i.e. Schedule Transaction for Settlement was "no"), CHESS sends the first Participant who authorises a confirmation that the authorisation has been received and processed. A Participant can assume upon receipt of this confirmation that theirs was the first received of two required authorisations, and that authorisation from the other Participant therefore remains outstanding.
- 6.4.4 Where the second of the two Participants who had required authorisation on the underlying RTGS settlement instruction submits their authorisation request, CHESS sends both Participants the RTGS Instruction Ready to Settle Advice. (Where neither Participant had indicated that authorisation was required at the time they submitted RTGS dual entry notifications, CHESS sends both Participants the RTGS Instruction Ready to Settle Advice at the same time as the advice to indicate that the transaction has been scheduled for settlement.)

Message Reference Table

| Section | Messa | age Number and Description | Sender | Recipient |
|---------|-------|---|-------------|-------------|
| 6.4.1 | 495 | Authorise Scheduled RTGS Instruction | Participant | CHESS |
| 6.4.2 | 500 | RTGS Instruction Ready to Settle Advice | CHESS | Participant |
| 6.4.3 | 476 | Authorise RTGS Instruction | CHESS | Participant |
| 6.4.4 | 500 | RTGS Instruction Ready to Settle Advice | CHESS | Participant |

7 CANCELLING AN RTGS SETTLEMENT INSTRUCTION

7.1 Purpose

This function allows a Participant to request the cancellation of a dual entry RTGS settlement instruction which is either unmatched, or has been scheduled for settlement.

The Participant who sent the settlement instruction notification would request cancellation if they have completed details in error, or if both parties decided not to proceed with the (scheduled) transaction.

In the case where the target settlement instruction is erroneous and a Participant wishes to cancel it, it is unlikely that the counterparty will match it, as its details will be incorrect. The Participant has the option of sending another, correct, settlement instruction which will then be matched by the counterparty, and then cancelling the incorrect transaction at a later time. If the target settlement instruction has matched, on the other hand, it is scheduled, and cancellation requests must be matched for CHESS to effect cancellation.

7.2 Process Overview

Where the target settlement instruction has not yet been matched and therefore scheduled, CHESS cancels the settlement instruction upon receipt of a single-sided request.

Where the target settlement instruction is scheduled, counterparties must submit dual entry cancellation requests which are matched by CHESS. Once matched, CHESS attempts to locate the settlement instruction and cancel it. If the transaction is still in CHESS, CHESS cancels it and advises both Participants. If the settlement instruction has passed processing checkpoints in CHESS and has progressed to RITS, CHESS sends a request for RITS to recall the settlement instruction, and advises Participants accordingly. RITS then advises CHESS whether the settlement instruction was able to be recalled. CHESS advises both Participants.

Where the cancellation request has not yet matched, the Participant may submit a request to remove the cancellation and allow the underlying settlement instruction to proceed to settlement. However, if the cancellation request has already matched, the cancellation will proceed.

7.3 Procedure to Cancel an RTGS Settlement Instruction

- 7.3.1 The Participant records the cancellation and instructs CHESS with a message appropriate to the transaction to be cancelled.
- 7.3.2 For unmatched RTGS settlement instructions, the originating Participant can cancel at any time prior to matching or prior to CHESS housekeeping by submitting a cancellation request. If the cancellation request is valid, CHESS responds to both

Participants with a message acknowledging that the cancellation has been effected. If the request is invalid, a rejection message is sent to the submitting Participant.

7.3.3 A matched RTGS settlement instruction can only be cancelled by both the Participant and its counterparty submitting matching cancellation request messages to CHESS, before the transaction has settled on the Settlement Date. (Where a transaction has passed queue testing in CHESS, i.e. the point at which CHESS checks financial products and funds availability, and has subsequently been sent to RITS, CHESS sends a message to RITS to attempt to retrieve the target transaction.)

Note: Intrabank transactions which target a Cash Subrecord for which no Pre-Settlement or Post-Settlement advices have been selected by the paying Bank (i.e. the buying Participant's Bank) or the receiving Bank (i.e. the selling Participant's Bank), and which relate to a Net Position Record with an active debit cap limit, are settled solely in CHESS and are not sent to RITS. Where a cancellation is required (and the transaction has not yet been settled in CHESS), these transactions are cancelled in CHESS.

- 7.3.4 CHESS responds to the Participant which submits a dual entry cancellation request message with one of the following:
 - a cancelled settlement instruction message, if a match is available and the original scheduled settlement instruction can be cancelled directly in CHESS;
 - an unmatched RTGS instruction cancellation request message, if CHESS has no record of a matching cancellation request from the counterparty;
 - a rejected transaction message, if the cancellation request fails validation; or
 - an advice to indicate that CHESS is checking the Reserve Bank's funds queue in RITS, if the target transaction is no longer in CHESS and has progressed to RITS.

CHESS notifies the counterparty of the cancellation action by way of:

- a cancelled settlement instruction message, if a match is available and the original scheduled settlement instruction can be cancelled directly;
- an unmatched cancellation request message, if CHESS has no record of a matching cancellation request from the counterparty; or
- an advice to indicate that CHESS is checking the Reserve Bank's funds queue in RITS, if the target transaction is no longer in CHESS and has progressed to RITS.

If a match is not achieved in time to prevent settlement, CHESS does not process the cancellation request. CHESS removes the cancellation request with housekeeping messages (refer to Section 10.3 in the PPG).

7.3.5 Where the Participant has been advised that the RITS funds queue must be checked, CHESS sends a Recall Request to RITS. (Recall Request messaging occurs between CHESS and RITS only. There is therefore no *EIS* message involved.) RITS checks its funds queue, and if it is able to remove the target settlement instruction from the funds queue, it deletes the transaction and advises CHESS of a successful Recall via a Recall Response message to CHESS. 7.3.6 CHESS completes cancellation processing and sends the Participant an advice to indicate that the cancellation was successful.

If RITS was unable to recall the target transaction, CHESS sends both Participants a rejected transaction advice, as the cancellation could not be effected.

Participants should note that receipt of a Cancelled Settlement Instruction advice where they have already received a Checking RBA Funds Queue advice (i.e. where the transaction had progressed to RITS and had to be recalled from RITS's funds queue) would mean that they will also receive an advice from CHESS to indicate unreservation of financial products.

| Messa | age Number and Description | Sender | Recipient | | | |
|-------|--|--|---|--|--|--|
| 483 | RTGS Notification Cancellation Request | Participant | CHESS | | | |
| 116 | Cancelled Settlement Instruction | CHESS | Participant | | | |
| 518 | Rejected Transaction | CHESS | Participant | | | |
| 485 | RTGS Dual Entry Cancellation Request | Participant | CHESS | | | |
| 116 | Cancelled Settlement Instruction | CHESS | Participant | | | |
| 490 | Unmatched RTGS Instruction Cancellation Request | CHESS | Participant | | | |
| 518 | Rejected Transaction | CHESS | Participant | | | |
| 496 | Checking RBA Funds Queue Advice | CHESS | Participant | | | |
| 116 | Cancelled Settlement Instruction | CHESS | Participant | | | |
| 518 | Rejected Transaction | CHESS | Participant | | | |
| 754 | RTGS Settlement Movement | CHESS | Participant | | | |
| | 483 116 518 485 116 490 518 496 116 518 | 116Cancelled Settlement Instruction518Rejected Transaction485RTGS Dual Entry Cancellation Request116Cancelled Settlement Instruction490Unmatched RTGS Instruction Cancellation Request518Rejected Transaction496Checking RBA Funds Queue Advice116Cancelled Settlement Instruction518Rejected Transaction496Settlement Instruction518Rejected Transaction | 483RTGS Notification Cancellation RequestParticipant116Cancelled Settlement InstructionCHESS518Rejected TransactionCHESS485RTGS Dual Entry Cancellation RequestParticipant116Cancelled Settlement InstructionCHESS490Unmatched RTGS Instruction Cancellation RequestCHESS518Rejected TransactionCHESS518Rejected TransactionCHESS496Checking RBA Funds Queue AdviceCHESS116Cancelled Settlement InstructionCHESS518Rejected TransactionCHESS116Cancelled Settlement InstructionCHESS116Settlement InstructionCHESS116Cancelled Settlement InstructionCHESS116Settlement InstructionCHESS116Settlement InstructionCHESS116Settlement InstructionCHESS117Settlement InstructionCHESS118Rejected TransactionCHESS119Settlement InstructionCHESS110Settlement InstructionCHESS111Settlement InstructionCHESS112Settlement InstructionCHESS113Rejected TransactionCHESS | | | |

Message Reference Table

7.4 Procedure to Remove a Cancellation Request

7.4.1 The Participant records the removal of a cancellation request and instructs CHESS.

- 7.4.2 If the original cancellation request is unmatched, CHESS removes the cancellation request and confirms the removal. Both Participants are advised of the removal of the cancellation request. The Participant records confirmation of the cancellation request removal.
- 7.4.3 If the original cancellation has already been matched by the counterparty, CHESS rejects the removal request and advises the Participant. The Participant may need to contact the counterparty to resolve the status of the transaction.

Message Reference Table

| Section | Messa | age Number and Description | Sender | Recipient |
|---------|-------|---|-------------|-------------|
| 7.4.1 | 487 | RTGS Dual Entry Cancellation Removal | Participant | CHESS |
| 7.4.2 | 492 | Removed RTGS Instruction Cancellation Request | CHESS | Participant |
| 7.4.3 | 518 | Rejected Transaction | CHESS | Participant |

8 CHANGE OF SETTLEMENT TYPE

8.1 Purpose

8.1.1 Net to RTGS, and RTGS to Net

Change of settlement type is used to change a net batch settlement instruction to RTGS settlement type, and to change an RTGS settlement instruction to net batch settlement type.

All market Broker-Broker settlement instructions begin as trades processed through SEATS, about which the counterparties are informed via (existing) 164 messages. Scheduled settlement instructions between participants default to the net batch settlement type. Therefore, for a Broker-Broker transaction to be able to be settled RTGS, the transaction must be 'switched" to the RTGS settlement type.

Participants whose transaction fails to settle in the net batch may decide that they wish to settle the transaction the same day, via RTGS. In order to do this, the Participants must change settlement type from net batch to RTGS.

Participants may also wish to change a settlement instruction from RTGS to net, as appropriate to their business.

8.1.2 What is Allowed or Disallowed

Change of settlement type between net batch and RTGS settlement types is allowed for all settlement instructions with the following exceptions and conditions:

- Broker-Broker RTGS transactions (i.e. those which are the result of a switch net-to-RTGS) may be switched back to net batch processing, but will not be included in the creation of Net Broker Obligations (NBOs) for that Settlement Date.
- Once a transaction has been incorporated into an NBO, change to RTGS settlement type is disallowed.
- Foreign Markets settlement transactions are only processed in the net batch. A change of settlement type net to RTGS for these transactions is disallowed.
- RTGS NBP-NBP off-market transactions with value must be processed in RTGS settlement. A change of settlement type RTGS to net for these transactions is disallowed.

There is no limit to the number of times a transaction may have its settlement type changed, where not disallowed with regard to constraints indicated above.

8.2 Process Overview

Change of settlement type requests are dual entry and require matching.

8.3 Cut-Off Times for Change of Settlement Type

When a transaction's settlement type is being changed on Settlement Date, changing settlement type is contingent upon CHESS transaction queuing for the net batch. The net batch queue is always privileged. Therefore, if requests are not submitted in time for the transaction to be added to the net batch queue (where destination is net batch settlement for today's Settlement Date) or removed from the net batch queue (where destination is RTGS and existing Settlement Date is today) by the 10:30 cut-off, the switch cannot be effected.

Additionally, for all Broker-Broker market transactions for which a change of settlement type net-to-RTGS is requested, the deadline of end-of-day on T+1 applies. This deadline is required because once a transaction has been included in the delivery netting process, it cannot be changed to RTGS settlement type.

For a change from RTGS settlement type to net batch settlement type, if a match is made and the target transaction has already had financial products reserved/been passed to RITS for settlement*, the change cannot be made to the target settlement instruction.

* (or, for intrabank debit cap transactions where no RITS advices are required, if the transaction has not already settled in CHESS)

Refer below to the manner in which a new Settlement Date is determined for a transaction which has had its settlement type changed.

8.4 Settlement Date

8.4.1 Default Settlement Date Where Participant Does Not Specify a Date

The change of settlement type request optionally allows Participants to alter the Settlement Date of a transaction.

Where the Participant does not specify a Settlement Date, the existing Settlement Date is applied as the default Settlement Date in the destination settlement system.

8.4.2 Impact of Settlement Date

The table below explains how the Settlement Date for a transaction which has been switched between settlement types is determined.

This table applies whether the change of settlement type is performed net-to-RTGS, or RTGS-to-net, and whether or not a transaction has failed settlement in the origin settlement system.

| Settlement Date specified on change request? | Settlement Date | Destination system open or closed? | Then the new Settlement Date* is |
|---|--|---|---|
| switch request does not specify a Settlement Date | Default Settlement Date, i.e. existing | open on the default Settlement Date | the default Settlement Date. |
| | Settlement Date in the origin settlement system | closed on the default Settlement Date | the first business day following the day on which the destination settlement system was closed |
| switch request specifies a Settlement Date | Today's date | open | Today's date. |
| | | closed | N/A. CHESS rejects the switch request. |
| | future date | open | the future date. |
| | | closed; i.e. a non- settlement date | N/A. CHESS rejects the switch request. |

* as advised on the 448 Adjusted Settlement Type message

8.4.3 Selected Examples of Settlement Date

 Two Participants previously scheduled an RTGS transaction for settlement. On Settlement Date, the Participants submit change of settlement type requests to switch the transaction from RTGS to net. They do not specify a new Settlement Date. These requests match after 10:30 batch cut-off.

Result:

CHESS will apply a new Settlement Date of tomorrow's date - because the default Settlement Date would have been today, but as the batch had already commenced, net processing for the day is deemed "closed". Note that, in this scenario, if the Participants had specified today's date as Settlement Date instead of allowing the default to be applied, CHESS would have rejected the change request.

2. A net batch transaction has failed to settle in today's net batch. At 2:30 pm, the counterparty Participants decide to request that the transaction must be switched net-to-RTGS so that they may still be able to settle today. On the matched settlement type change requests, the Participants specify today's date as Settlement Date.

Result:

As the transaction would be a failed net batch settlement instruction, CHESS would reschedule it for tomorrow's net batch, i.e. with a Settlement Date of tomorrow's date. In order to settle the transaction as RTGS on today's date, the counterparties would have to specify the Settlement Date as today's date.

CHESS will then apply a new Settlement Date of today's date and enter the transaction into RTGS processing, as the RTGS settlement system is "open". Note that if either or both counterparties decide that authorisation of the RTGS transaction is required to settle (i.e. Schedule Transaction for Settlement is "no"), the transaction will await authorisation/s before being able to settle.

8.5 Procedure to Change Settlement Type

- 8.5.1 The Participant determines that they need to change the transaction's current settlement type. (The Participant negotiates this change with the other CHESS Participant. CHESS does not facilitate this agreement process.) Details able to be changed comprise Settlement Date and HIN for the buyer or seller. RTGS applicable fields may be supplied if the transaction is being changed to RTGS settlement type. Net applicable fields may be supplied if the transaction is being changed to net settlement type. If fields relevant to the destination settlement system are not supplied, CHESS uses default settings for these fields.
- 8.5.2 The Participant checks that the original settlement instruction has been matched by CHESS, records the change in settlement details and notifies CHESS of the request to change settlement type.
- 8.5.3 CHESS validates the request to change settlement type and, if valid, attempts to match the Target Transaction ID of the update instruction with the Target Transaction ID of the update instruction from the counterparty.
- 8.5.4 If the instruction cannot be matched, CHESS stores the instruction and confirms receipt. The Participant records the acknowledgment. CHESS also advises the other party to the settlement. If the request is received after a cut-off time (see information above about cut-off times), or with a specified Settlement Date for which the destination settlement type is closed, CHESS rejects the request and advises the submitting party only.
- 8.5.5 When a match has been achieved, CHESS amends the settlement type and any change to details on the transaction and advises both Participants.
- 8.5.6 If the counterparty Participant's settlement type change request is submitted to CHESS after a cut-off time (i.e. the scenario where Pi's request was received by CHESS before a cut-off, but P2's was received after) or when the destination settlement type is closed, CHESS will not be able to match the request. Instead, where the Settlement Date is specified as today's date, CHESS rejects the request. Where the Settlement Date is a future date or is not specified, CHESS sends this counterparty Participant (P2) the Unmatched Change Settlement Type Request to acknowledge receipt of the request, and the Requested Settlement Type Change is sent to the other Participant (P1) to provide details of the change request which indicates an acceptable Settlement Date.
- 8.5.7 The Participant internally processes the change to completion.

8.5.8 If CHESS is unable to match the change instructions prior to Settlement Date, the transaction settles on the original date in the origin settlement system. CHESS removes the unmatched Change Settlement Type Request via housekeeping.

Message Reference Table

| Section | Mess | age Number and Description | Sender | Recipient |
|---------|------|--|-------------|-------------|
| 8.5.2 | 497 | Settlement Type Change Request | Participant | CHESS |
| 8.5.4 | 444 | Unmatched Change Settlement Type Request | CHESS | Participant |
| 8.5.4 | 410 | Requested Settlement Type Change | CHESS | Participant |
| 8.5.4 | 518 | Rejected Transaction | CHESS | Participant |
| 8.5.5 | 448 | Adjusted Settlement Type | CHESS | Participant |
| 8.5.6 | 518 | Rejected Transaction | CHESS | Participant |
| 8.5.6 | 444 | Unmatched Change Settlement Type Request | CHESS | Participant |
| 8.5.6 | 410 | Requested Settlement Type Change | CHESS | Participant |
| 8.5.8 | 116 | Cancelled Settlement Instruction | CHESS | Participant |

8.6 Procedure to Remove Change Settlement Type Request

- 8.6.1 The Participant records the removal of a change settlement type request and instructs CHESS.
- 8.6.2 If the original change settlement type request is unmatched, CHESS removes the request and confirms the removal. Both Participants are advised of the removal of the request. The Participant records confirmation of the request removal.
- 8.6.3 If the original settlement type change request has already been matched by the counterparty, CHESS rejects the removal request and advises the Participant. The Participant may need to contact the counterparty to resolve the status of the transaction.

| Section | Mess | age Number and Description | Sender | Recipient |
|---------|------|---|-------------|-------------|
| 8.6.1 | 441 | Cancel Settlement Type Change Request | Participant | CHESS |
| 8.6.2 | 450 | Cancelled Request to Change Settlement Type | CHESS | Participant |
| 8.6.3 | 518 | Rejected Transaction | CHESS | Participant |

Message Reference Table

9 REPORTING

9.1 Summary of RTGS Reporting Available

9.1.1 Demand Reporting Provided on Cash Subrecord Totals and Details Only

Demand RTGS reporting is provided on Cash Subrecord totals (available to Participants and Banks, intraday and during Period C); and Cash Subrecord details (available to Participants only, Period C only).

For selection of Period C, the report is produced immediately following completion of CHESS RTGS processing for the day. The report will become available approximately after 5:00 pm, contingent upon processing volumes.

Refer to the Appendix for information on usage of reporting parameters, and procedures for requesting a report and cancellation of a report request.

Note: "Demand" refers to reporting supplied by CHESS as requested by the user. Demand reporting includes one-off reporting and reporting via standing report request. Demand reporting is distinct from "routine" reporting, which refers to the information which CHESS provides routinely in the course of messaging. Users are advised to retain routinely supplied information so that they may create reports in their systems appropriate to their business needs. See the Appendix for more information on reporting principles.

9.1.2 Net Position Record and Cash Subrecord Settings

It is assumed that Participant and Bank systems will retain records of debit cap limits and settings both at Cash Subrecord and Net Position Record level, as this information will not be reported on by CHESS via demand reporting.

Banks may wish to report within their own systems on the following bankdetermined Net Position Record and Cash Subrecord settings:

- Debit cap activity flag
- Net Position Record activity flag
- Debit cap limit
- Client's Cash Subrecord default settings and exclusion flags, per Net Position Record
- Pre-Settlement Advice (Credit)
- Pre-Settlement Advice (ESA)
- Post-Settlement Advice
- Credit Status
- ESA Status

Participants may wish to report within their own systems on the following attributes:

- Debit cap activity flag
- Net Position Record activity flag
- Debit cap limit
- Cash Subrecord IDs and associated Cash Account Identifiers
- Cash Subrecord default settings and exclusion flags, per Net Position Record

9.1.3 RTGS Settlement Instructions

Existing CHESS reporting will include RTGS settlement instructions. Participants may need to make modifications in their systems if they require RTGS settlement instructions to be isolated.

9.1.4 Transaction Status

Participants routinely receive advices from CHESS at key stages of RTGS settlement processing. It is expected that Participants will use these advices to build a facility in their own systems which they can enquire upon should they wish to determine where an RTGS settlement instruction is in its processing. Therefore CHESS will not be providing any demand transaction status reporting.

Banks will not receive demand transaction status reporting, as it is a market convention that transaction level detail is not available through feeder systems.

9.1.5 Cash Subrecord or Net Position Record History

CHESS does not retain nor provide demand reporting on any transactions against any previous days' Cash Subrecord movements. CHESS purges the Cash Subrecord and Net Position Records each day after completing reporting, so that all balances may begin the next day with zero. Participants should retain such history records in their own systems if they require these details.

9.2 Cash Subrecord Totals (CST)

Provides the balance of each Cash Subrecord under the nominated payment facility. "Balance" in reference to a Cash Subrecord means the total of confirmed incomings (i.e. receipts of funds for sales) and outgoings (i.e. payments for purchases) which have targeted that Cash Subrecord. No pending debits (or credits) are taken into consideration when the Balance is calculated. Where a Bank or Participant requires a balance pertaining to the Net Position Record, they should add together balances for all Cash Subrecords under the Net Position Record.

This demand report may be required by Banks in Period C to provide an "end-of-day" balance on each Cash Subrecord for a Participant client in order to make end-of-day posting to the corresponding actual account. Banks may require this report during the day where a Participant whose credit has been managed by debit cap has requested the bank to provide funds intraday following real time settlement. (With

debit cap credit management, the Bank would not receive per-transaction advices via the AIF facility, and would therefore need to rely on CHESS reporting.) The Bank could then verify a Participant's intraday balance.

- Access: Available to Participants and Banks.
- Selection Parameters: (for a standing report) Reporting Start Date, Reporting End Date; Payment Facility Parameter; Processing Frequency ("OO" for an one-off report or "DL" for a standing report), Processing Period, As at Date (Defaults to current date)
- Available Processing Period: During the day on demand (leave Processing Period field blank), and Period "C"
- **Report output:** The report will be provided as a CHESS output, the Cash Subrecord Totals (616 message) report. Note that a Cash Subrecord cannot be specified on the Reporting Request (503 message). Therefore, a 616 message is sent for each Cash Subrecord associated with the nominated payment facility. If the Payment Facility Parameter is left blank and the user requesting the report is a Participant, all Cash Subrecords for all of the Participant's payment facilities will be reported on. If the Payment Facility Parameter is left blank and the user requesting the report is a Bank, all Cash Subrecords for all payment facilities for all of the Bank's Participant clients will be reported on.

9.3 Cash Subrecord Details (CSD)

Provides details of transactions targeting all Cash Subrecords under a Net Position Record. (Note that the financial product side of transaction details, e.g. HIN, is not provided in this report. If Participants require this information, it is suggested that they utilise information which they may have stored in their systems relevant to the financial products associated with transactions.)

Access: Available only to Participants.

- Selection Parameters: (for a standing report) Reporting Start Date, Reporting End Date; Payment Facility Parameter; Processing Frequency ("OO" for an one-off report or "DL" for a standing report), Processing Period, As at Date (Defaults to current date)
- Available Processing Period: Period "C" only
- **Report output:** The report will be provided as a CHESS output, the Cash Subrecord Details (614 message) report. Additionally for each Cash Subrecord reported, a Cash Subrecord (616 message) will be provided. Note that a Cash Subrecord cannot be specified on the Reporting Request (503 message). Therefore, a 614 message is sent for each transaction targeting each Cash Subrecord associated with the Net Position Record linked to the nominated payment facility. If the Payment Facility Parameter is left blank, all transactions for all Cash Subrecords for all of the Participant's payment facilities will be reported on.

Note: Where no RTGS transactions have been registered within the reporting period, no report will be returned to the Participant.

10 RTGS GLOSSARY

| Automated Information Facility (AIF) | The facility provided by RITS that handles SWIFT message-based commands, enquiries and Unsolicited Advices tranmitted between RITS and its members. In relation to CHESS RTGS settlement, the AIF is used when RITS sends the Paying Bank a Pre-Settlement Advice (ESA and/or Credit Level), or sends the Paying or Receiving Bank a Post-Settlement Advice. |
|---|---|
| Austraclear | Austraclear Limited is a company that owns and operates the Austraclear Feeder system. Austraclear ("Fintracs") is a financial products settlement system owned and operated by Austraclear Limited. Debt instruments other than Commonwealth Government securities are settled in Austraclear. |
| Bank | For the purposes of this RTGS Guidelines and Procedures supplement document, a Bank is defined as a CHESS Payment Provider who sponsors a client Participant to settle RTGS via the CHESS RTGS feeder system to RITS. |
| BIC | Bank Identification Code, used to identify a Bank within a SWIFT message. This value is used by CHESS when submitting Settlement Requests to RITS for RTGS settlement. |
| Cash Account | RITS members have at least one Cash Account, kept at RITS, to record the cash position arising from value transactions. This account is distinct from a Participant's Cash Subrecord (for which the 'shorthand" term "Cash Account Identifier" is also used). |
| Client | A client is a Participant customer of a Bank that is sponsored by that Bank to make payments for RTGS transactions. Banks will make credit decisions prior to approving client payments. Participants are the only clients CHESS allows to settle RTGS via the CHESS RTGS feeder system. As CHESS Participants who wish to conduct RTGS business through CHESS must therefore be sponsored by a Bank, this RTGS Guidelines and Procedures supplement frequently refers to a Bank's "client Participant". |

| CHESS RTGS Settlement Day | The CHESS RTGS Settlement Day spans 9:15 am to 4:25 pm on every business day (Sydney time). Refer to the <i>External Interface</i> <i>Specification (EIS)</i> for details of the RTGS timetable, and how it fits into other CHESS daily processing times. |
|--------------------------------------|--|
| Daily Settlement Session | This RITS settlement session operates from 9.15 am to 4.30 pm (Sydney time) during which Feeder System transactions are accepted onto the RTGS System Queue for settlement processing. CHESS will send RTGS Settlement Requests successfully tested in CHESS, and Recall Requests, to RITS until 4:30. Transactions unsettled after 4.30 pm may remain on the Queue and will be tested for settlement until the end of the Settlement Close Session. Note that the RITS Daily Settlement Session is different from, but clearly related to, the CHESS RTGS Settlement Day. |
| DvP | Delivery versus Payment, i.e. the financial product element and cash element in a transaction are transferred simultaneously. |
| Exchange Settlement Account (ESA) | An account at the Reserve Bank of Australia used for the settlement of "interbank" obligations. |
| Feeder System | A system, other than RITS, which routes value transactions to RITS for settlement, for example, Austraclear, the SWIFT Payments Delivery System, and CHESS. |
| Paying Bank | In a transaction, the buying Participant's Bank, i.e. the Bank which, in RITS, will be paying funds. |
| Receiving Bank | In a transaction, the selling Participant's Bank, i.e. the Bank which, in RITS, will be receiving funds. |
| RITS | RITS is the Reserve Bank Information and Transfer System. It is Australia's Real-Time Gross Settlement system and a financial products settlement system for CGS. It is owned and operated by the Reserve Bank of Australia. |
| Real-Time Gross Settlement (RTGS) | RTGS is the facility provided in RITS that effects the testing and settlement of interbank payments across ESAs at the Reserve Bank. It ensures that no transaction (whether from RITS, CHESS, Austraclear or the SWIFT PDS) will proceed unless the Paying Bank has sufficient credit funds in its ESA. |

| Settlement, Settled | For interbank transactions at RITS, Settlement occurs when ESAs have been debited and credited. For non-interbank transactions, Settlement occurs when the transaction is deemed "completed" under the regulations of RITS and CHESS. |
|---------------------------------------|---|
| Settlement Date | The Settlement Date is that date counterparties to a transaction have agreed to exchange cash and/or financial products. |
| SWIFT | SWIFT is the Society for Worldwide Interbank Financial Telecommunication. It is owned by the international banking community and provides communication services and automated financial data processing. |
| SWIFT PDS Feeder System | The SWIFT Payment Delivery System is the delivery system for banks sending SWIFT Payments to the RITS and its RTGS System Queue using the SWIFT FIN-Copy service. |
| Transaction Reference Number (TRN) | This is the unique ID assigned by the sender of messages sent over the SWIFT network. CHESS allocates TRNs to Settlement Requests and Recall Requests which are sent to RITS. CHESS keeps a record of which TRN relates to which Tran ID in CHESS. |
| Transaction ID | This is the unique ID assigned to a transaction within CHESS. Tran IDs are used for RTGS transactions in the same manner as they are used for net batch transactions. |
| Unsecured Cash Limit | The amount (if any) by which a Participating Bank has authorised its Participant's Cash Account (Net Position Record for CHESS-RTGS) to go into debit without a Bank Mortgage being taken. |

11 APPENDICES

11.1 Impact of Transactions on Net Position Record

The examples below indicate the impact of a series of transactions on a given day on the Net Position Record.

These examples thus do not provide a definitive physical definition of what will display on Participant systems. The columns represent likely entities and are shown to indicate how individual transaction lines roll up to the totals of Account balance and Available credit. (Such information may also include columns for the Pending acceptance debit record, as its per-transaction figures roll up to the Reserved funds total.) It remains the Participant's business decision to determine what information they require in their own systems.

11.1.1 Update Net Position Record: Example 1

This table shows example transaction movements on a Participant's Net Position Record which has a debit cap limit of \$10m. Starting totals are at zero.

| Tx ID | Туре | Amount | Timestamp (time in or time at update) | Status | Account balance | Available credit | Reserved funds |
|-------|------|--------|---|---------------------------|--------------------|---------------------|-------------------|
| 1 | Buy | ım | 0930 | Pending acceptanc e | - 1M | 9m | ım |
| 2 | Buy | 2m | 0940 | Pending acceptanc e | - 3m | 7m | 3m |
| 3 | Buy | 3m | 0950 | Pending acceptanc e | - 6m | 4m | 6m |
| 4 | Buy | 4m | 0955 | Pending acceptanc e | - 10M | 0 | 10 m |
| 5 | Sell | 5m | 1000 | Pending acceptanc e | - 10m* | 0 | 10M |
| 5 | Sell | 5m | 1001 | Accepted | - 5m | 5m | 10M |
| 3 | Buy | 3m | 1015 | Accepted** | - 5m | 5m | 7m |
| | | | | Current position | - 5m | 5m | 7m |

* Note that the transaction amount for a sell is not added to either total while it has a status of "pending acceptance". Only when the transaction has a status of "Accepted" is the amount added.

**A buy has already been 'shadow" debited from the totals, i.e. the transaction is "Pending acceptance" and the amount is deducted from Account balance (and available credit where a debit cap applies). The buy does not therefore need to be rededucted from totals. The fact that the transaction has settled is indicated by the change of status from "Pending acceptance" to "Accepted".

11.1.2 Update Net Position Record: Example 2

This table shows example transaction movements on a Participant's Net Position Record where some Cash Subrecords are marked as excluded from debit cap consideration.

Starting totals are at zero. Debit cap limit is \$20m.

Notes:

- On a Net Position Record which has an inactive debit cap, "Available credit against debit cap" would not be measured.
- This example also shows the result on totals of a cancelled transaction.

| Tx ID | Туре | Amount | Timestamp (time in or time at update) | Status | NPR balance | Avail credit (against debit cap) | Resvd funds* |
|-------|---|--------|--|-------------------------------|-----------------|--|-----------------|
| 1 | Buy | ım | 0930 | Pending acceptance | - 1M | 19m | ım |
| 2 | Buy | 2m | 0940 | Pending acceptance | - 3m | 17m | 3m |
| 3 | Buy | 3m | 0950 | Pending acceptance | - 6m | 14m | 6m |
| 4 | Buy | 4m | 0955 | Pending acceptance | - 10M | 10M | 10 m |
| 5 | Sell - excluded account (excl. From debit cap) | 5m | 1000 | P ending acceptance | - 10 m * | 10 m | 10 m |
| 6 | Buy | 2m | 1001 | Pending acceptance | - 12M | 8m | 12M |
| 7 | Sell | 3m | 1003 | Pending acceptance | - 12M | 8m | 12M |

| 5 | Sell - excluded account | 5m | 1005 | Accepted | - 7m | 8m | 12M |
|---|-------------------------------|----|------|---------------------|------|-------------|-----|
| 7 | Sell | 3m | 1010 | Accepted | -4m | 11 m | 4m |
| 3 | Buy | 3m | 1015 | Cancelled | -1m | 14m | ım |
| | | | | Current position | -1M | 14m | ım |

• Accepted debits are subtracted from Reserved Funds, as this value is a total of all pending debits only.

11.2 Effect of Debit Cap Limit on Transaction Processing

The examples below show how a debit cap limit affects processing of a transaction. Net Position Record values are shown in simple terms in order to highlight effect of debit cap: account balance and available credit only are shown, not reserved funds. See above in this Appendix for more detailed information on Net Position Record values and how they are affected by transaction funds movements.

11.2.1 Example 1: Bank Change of Debit Cap Limit

Assumptions: Debit Cap of \$50 million on "Client A", and financial products and funds are both available. Note that "B" = balance, and "AC" = available credit.

| Step | Funds | Net Position Record - Client A | Net Position Record - counterparty |
|------|----------------------------|--|------------------------------------|
| 1 | Transaction 1 | CHESS "reserves" \$15m in Client A's Net | CHESS does not add \$15m to |
| | entered. Client A's | Position Record. | counterparty's Net Position |
| | payment: \$15m. | Where debit cap is marked against | Record at this stage. |
| | Counterparty to | limit: | (Previous total) |
| | receive \$15m. | B: - \$15m | |
| | | (AC: \$50m - 15m =\$35m) | |
| 2 | RTGS settlement | CHESS "accepts" \$15m debit against | CHESS adds \$15m "credit" to |
| | confirmation received | Client A's Net Position Record. | counterparty's Net Position |
| | from RITS for | B: Remains same | Record. |
| | Transaction 1. | | B: add + \$15m |
| 3 | Transaction 2 | CHESS does not add \$5m to Net | CHESS "reserves" \$5m against the |
| | entered. Client A to | Position Record at this stage. | counterparty's Net Position |
| | receive \$5m. | B: Remains same | Record. |
| | Counterparty to pay | | B: add - \$5m |
| | \$5m. | | |
| 4 | RTGS settlement | CHESS adds \$5m "credit" to Client A's | CHESS "accepts" \$5 million debit |
| | confirmation received | Net Position Record. | against counterparty's Net |
| | from RITS for | Where debit cap is marked against | Position Record. |
| | Transaction 2. | limit: | |
| | | B: - \$10m | |
| | | (AC: \$35m + 5m = \$40m) | |
| | es to Client A's Debit Cap | | l . |
| 5 | Bank messages to | CHESS: | |
| | CHESS to change | checks against debit cap limit | |
| | Client A's debit cap | changes debit cap limit | |
| | limit to \$5 m (i.e. < | advises Bank, client of change | |
| | credit extended to | Debit cap limit reduced from \$50m to | |
| | client, which is \$10m) | \$5m | |
| | | B: - \$10m | |
| | | (AC: \$-5m - client now requires | |
| | | incoming amount of \$5m to break even) | |
| | | Credit currently extended = \$10m. | |
| | | Bank must honour \$10m already | |
| | | extended, but client cannot now for | |
| | | remainder of day have any outgoings | |
| | | which would mean credit extended is | |
| | | greater than \$5m. | |

11.2.2 Example 2: Transaction Not Processed Where Debit Cap Limit Exceeded

Assumptions:Debit Cap of \$50 million for Client A; financial products are available. Note that "**B**" = balance, and "**AC**" = available credit.

| Step | Funds | Net Position Record - Client A | Net Position Record - counterparty |
|------|---|---|---|
| 1 | Transaction 1 entered. Client A's payment: \$15m. Counterparty A to receive \$15m. | CHESS "reserves" \$15m in Net Position Record. Where debit cap is marked against limit: B: - \$15m (AC: \$50m - \$15m =\$35m) | CHESS does not add \$15m to Counterparty A's Net Position Record at this stage. (Previous total) |
| 2 | Transaction 2 entered. Client A will receive \$10 million. Counterparty B to pay \$10m. | CHESS does not add \$10m to Net Position Record at this stage. Remains same | CHESS "reserves" \$10 million against Counterparty B's Net Position Record. - \$10m |
| 3 | Transaction 3 entered. Client A's payment: \$20m. Counterparty C to receive \$20m. | CHESS "reserves" \$20m in Net Position Record. Where debit cap is marked against limit: B: - \$35m (AC: \$35m - \$20m =\$15m) | CHESS does not add \$20m to Counterparty C's Net Position Record at this stage. (Previous total) |
| 4 | Transaction 4 entered. Client A's payment: \$15 m. Counterparty D to receive \$15m. | CHESS "reserves" \$15m in Net Position Record. Where debit cap is marked against limit: B: - \$50m (AC: \$15m - 15m = \$0m) | CHESS does not add \$15m to Counterparty D's Net Position Record at this stage. (Previous total) |
| 5 | Transaction 5 entered. Client A's payment: \$10 million. Counterparty E to receive \$10m. | CHESS holds transaction in queue; transaction does not proceed to be processed, as this payment would exceed debit cap limit. Remains same. Note: If Client A had "null limit" instead of a debit cap limit, CHESS would proceed to "reserve" funds in the Net Position Record. | |
| 6 | RTGS settlement confirmation received from RITS for Transaction 2. | CHESS adds \$10m "credit" to Net Position Record scoreboard. B: - \$40m (AC: \$0m + 10m = \$10m) | CHESS "confirms" \$10m obligation against Counterparty B's Net Position Record. |
| 7 | | CHESS "reserves" funds in Client A's Net Position Record for Transaction 5, which has been waiting in the CHESS queue because payment had exceeded the debit cap on its first "round" check. Where debit cap, is marked against limit: B: - \$50m (AC: \$10m -10m = \$0m) | CHESS does not add \$10m to Counterparty E's Net Position Record at this stage. (Previous total) |

| 8 | RTGS settlement | CHESS "confirms" payments against Net | CHESS adds the following |
|---|---------------------------|---------------------------------------|------------------------------|
| | confirmation received | Position Record scoreboard. | "credit" to counterparty Net |
| | from RITS for | Remains same | Position Record balances: |
| | Transactions 1, 3, 4, and | | Counterparty A: + \$15m |
| | 5. | | Counterparty C: + \$20m |
| | | | Counterparty D: +\$15m |
| | | | Counterparty E: +\$10m |

11.3 Intrabank Settlements Effected in CHESS (as Recognised RTGS System)

While all interbank transactions are sent by CHESS to RITS for credit and liquidity checking and funds transfer via posting to RITS Cash Accounts and ESAs, non-AIF intrabank transactions will not be sent to RITS and will be settled only at CHESS.

On a given transaction, CHESS indicates whether RBA advices are required (as per Bank setting), and provides details of both Banks.

| Intrabank transaction | | | Treatment for settlement | | | | |
|-----------------------|-----|---------------|--------------------------|-----------------|-------------------------------|---|---|
| Debit cap | AIF | Pre advice | Post advice | Sent to RBA? | CHESS receives from RBA | Funds side of transaction occurs in | Financial Product transfer occurs in |
| √ | | | | No | N/A | CHESS Net Position Record only | CHESS |
| • | | • | | Yes | Settlement Advice | CHESS Net Position Record only Debit & credit recorded in RITS CHESS-RTGS Cash Account. | CHESS |
| • | | | • | Yes | Settlement Advice | CHESS Net Position Record only Debit & credit recorded in RITS CHESS-RTGS Cash Account. | CHESS |
| • | | • | • | Yes | Settlement Advice | CHESS Net Position Record only Debit & credit recorded in RITS CHESS-RTGS Cash Account. | CHESS |
| | • | | | Yes | Settlement Advice | CHESS Net Position Record only Debit & credit recorded in RITS CHESS-RTGS Cash Account. | CHESS |
| | • | 1 | | Yes | Settlement Advice | CHESS Net Position Record only Debit & credit recorded in RITS CHESS-RTGS Cash Account. | CHESS |

| ✓ | | ✓ | Yes | Settlement Advice | CHESS Net Position Record only Debit & credit recorded in RITS CHESS-RTGS Cash Account. | CHESS |
|---|---|---|-----|----------------------|---|-------|
| ~ | ✓ | ~ | Yes | Settlement Advice | CHESS Net Position Record only Debit & credit recorded in RITS CHESS-RTGS Cash Account. | CHESS |

11.4 AIF Messages and CHESS RTGS Transactions

AIF messages are transmitted between RITS and AIF Banks. The AIF messages that may refer to CHESS-RTGS transactions are summarised in the following table. All are Message Type MT198 with varying Sub-Message types.

The introduction of CHESS RTGS will not result in new Sub-Message types being created for transmission between RITS and Banks via the AIF.

| Sub –Message Type | Description |
|-------------------|---|
| SMT003 | Unsolicited Recall advice |
| SMT004 | Change ESA Status Report |
| SMT005 | Change ESA Status Response |
| SMT006 | Change ESA Status advice |
| SMT007 | Change Credit Status Request |
| SMToo8 | Change Credit Status Response |
| SMT009 | Change Credit Status Response |
| SMT028 | RITS Pre-settlement advice (Credit Level) |
| SMT029 | RITS Pre-settlement advice (ESA Level) |
| SMT031 | Change ESA and Credit Status Request |
| SMT032 | Change ESA and Credit Status Response |
| SMT036 | Post-settlement advice (Debit) |
| SMT037 | Post-settlement advice (Credit) |
| SMT038 | Unsettled Transaction end-of-day advice |

11.5 Reporting Parameters and Procedure for Requesting a Report

This Appendix item is an extract from Section 16 of the *Procedure Guidelines -Participants* manual, modified to refer both to Participants and Banks. Reporting parameter information and procedures are identical to those in the *PPG*.

11.5.1 Principles

All operational reporting from CHESS to users is delivered **routinely** in the form of electronic messages rather than hard copy. The messages generated by CHESS contain the data content of reports. Processes for formatting such data for presentation on screens or in hard copy form are the responsibility of users.

Some CHESS reporting messages to users are generated routinely as the result of the system processing or rejecting transactions. CHESS also advises all changes in status, during the transaction life cycle.

When CHESS routinely creates a reporting message for transmission to a user, effectively the message is placed in a file awaiting collection by the user's computer system. The timing of collections is under the control of the user's system. It is a requirement that users collect their messages regularly to enable fulfilment of their contractual obligations under the ASTC Settlement Rules.

In addition to the **routine** reporting generated automatically by CHESS as transactions are processed, **demand** reporting facilities are provided, whereby users can request reports. In most cases, demand reports constitute an aggregation of reporting messages that have previously been transmitted to users through routine transaction reporting. Such reports are delivered as a stream of messages. Given the comprehensive transaction-based reporting provided routinely it is anticipated that demand reporting will be mainly used for reconciliation.

A **demand** report is requested by a message which optionally specifies report selection parameters. Reports may be requested for delivery on a "once off" basis, or scheduled for delivery periodically (standing request).

Demand report request messages will be subject to validation checking, but there are few reasons for rejection of a request. However it should be noted failure to nominate selection parameters will result in all of a Participant's transactions of a particular type held by CHESS being reported, and this may generate a high volume of messages from CHESS.

A standing demand report request that has been lodged with CHESS may be cancelled. CHESS automatically cancels standing reports when a Subregister is archived.

Information provided by CHESS is restricted to that which the requesting user is authorised to access.

CHESS demand reporting is available only to CHESS users. Users should utilise their own systems to provide CHESS report information to third parties (including auditors).

11.5.2 Availability

To ensure that the processing of transactions does not delay scheduled CHESS processing, it is necessary to restrict certain reporting requests from being initiated close to critical processing times. The restriction is confined to reporting requests as these requests have the potential to absorb significant CHESS processing resources.

To achieve this restriction two reporting characteristics have been introduced.

Firstly, processing periods have been established throughout the CHESS business day. Processing periods identify the period after which a reporting request is to be actioned. CHESS reporting for a specified processing period is performed:

- after the completion of processing for all transactions received prior to the processing period cut-off; and
- after all CHESS processes associated with the processing period cut-off are completed.

Note that the term "processing period" has the same meaning as the term "reporting point" mentioned in the ASTC Settlement Rules.

Secondly, a reporting category is assigned to every reporting request transmitted to CHESS. These categories are based upon an assessment by CHESS of the report type and the accompanying parameters. The reporting category is used to determine whether a report request can be processed immediately or whether it can only be initiated at a specific period. CHESS users submitting a report request are encouraged to nominate a processing period to suit their need for information. If no processing period is entered, CHESS assesses whether the request can be satisfied immediately. If not, then the request is rejected back to the user.

11.5.3 Timing and Frequency

CHESS users may nominate the timing and frequency of demand reports by completing the following fields on the reporting request message.

Processing Frequency allows users to specify how often a report request must be actioned. Entry into this field is mandatory. Available options comprise:

- OO One Off;
- DL Daily;
- WK Weekly;
- FO Fortnightly;
- ML Monthly; and
- YR Yearly.

Processing Point allows users to nominate:

- the day of the week;
- the day of the month; or
- the "end-of-month" of the year;

when a standing report request should be actioned. Entry into this field is dependent upon the entry made into the Processing Frequency field.

| • | Processing | Range of |
|---|------------|---------------------------|
| • | Frequency | Values |
| • | 00 | n/a |
| • | DL | n/a |
| • | WK | MO (Monday) |
| • | | to FR (Friday) |
| • | FO | MO (Monday) |
| • | | to FR (Friday) |
| • | ML | 01 thru 31 (day) |
| • | YR | 01 thru 12 (end-of-month) |

Processing Period allows users to nominate the period for the reporting request to be processed. Entry into this field is optional, if no entry is made CHESS assesses whether the request can be processed immediately.

- Blank Immediate
- E End of Day

Reporting Start Date allows users to nominate the first date from when a standing report request is to be actioned. Entry into this field is optional with a default of the current date applied.

CHESS maintains a period of history in the system for reporting purposes. Any data older than this is archived. Requests with a start date prior to the history held in the system are rejected.

Participants requiring historical reports from archived data should complete a "Report Request From Archival Storage" form (Appendix V) and submit it to Settlement Administration. Reports from archived data are supplied as hard copy or on tape but not as CHESS messages. An administration fee applies to these requests.

Reporting End Date allows users to nominate the date when a standing report request will lapse. Entry into this field is optional with a default of high values applied.

- 11.5.4 Procedure to Request a Report
- 11.5.4.1 The Participant determines the report type required, selection parameters and frequency for a report request.
- 11.5.4.2 The Participant transmits the report request to CHESS and CHESS acknowledges receipt of the request or rejects an invalid request.
- 11.5.4.3 If a standing request, CHESS stores request details.

- 11.5.4.4 CHESS generates the reporting messages required either immediately or at a later processing period. The reporting messages carry the Transaction ID of the reporting request as the "Origin Transaction ID". CHESS suffixes the messages resulting from a reporting request with an end-of-reporting message. This message signifies that a reporting request transmitted by the Participant has been processed to completion, and all resulting messages have been sent to the requester.
- 11.5.4.5 The Participant internally processes the messages received and if required generates a hard copy report.

Message Reference Table

| Section | Mess | age Number and Description | Sender | Recipient |
|----------|------|----------------------------|-------------|-------------|
| 11.5.4.2 | 503 | Reporting Request | Participant | CHESS |
| 11.5.4.2 | 526 | Accepted Reporting Request | CHESS | Participant |
| 11.5.4.2 | 518 | Rejected Transaction | CHESS | Participant |
| 11.5.4.4 | 538 | End of Reporting | CHESS | Participant |

- 11.5.5 Procedure to Cancel a Reporting Request
- 11.5.5.1 The Participant identifies the report request to be cancelled.
- 11.5.5.2 The Participant ensures the report request is still current and internally records the cancel request.
- 11.5.5.3 The Participant transmits a message to CHESS requesting cancellation of the report request.
- 11.5.5.4If the cancellation request is valid, CHESS acknowledges cancellation of the report to
the Participant. If the request is invalid, CHESS responds with a rejection message.
- 11.5.5.5 The Participant internally records completion.

Message Reference Table

| Section | Mess | age Number and Description | Sender | Recipient |
|----------|------|--------------------------------|-------------|-------------|
| 11.5.5.3 | 505 | Reporting Request Cancellation | Participant | CHESS |
| 11.5.5.4 | 530 | Cancelled Reporting Request | CHESS | Participant |
| 11.5.5.4 | 518 | Rejected Transaction | CHESS | Participant |

This page is intentionally blank.