Australia’s RTGS System

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Reserve Bank of Australia
RITS

- The Reserve Bank Information and Transfer System
- Began operation in 1998
- Operated by the RBA
- Currently processes around $160 billion in value, and 25,000 in volume per day
What may be unusual

- Two Boards
- Participation
- CLS Settlement
- Liquidity
- Formality of Failure To Settle Arrangements
- Pricing
RBA Boards

• Main Board determines monetary policy and general operation of the RBA

• Payments System Board determines the Bank’s payments system policy to promote:
  – Competition
  – Efficiency
  – Stability
Participation

- Originally, all banks required to settle as direct participants using own ESA

- ESA Access policy set by PSB:
  - “an actual or prospective provider of third-party payment services with a need to settle clearing obligations with other providers”

- From 2003, indirect participation by banks permitted for participants with volume less than 0.25% of RTGS transactions
RITS Settlement

• RTGS of transactions for:
  1. Securities transactions settled through Austraclear
  2. The domestic currency leg of FX transactions and large corporate payments through SWIFT PDS
  3. Money market transactions through RITS

• Interbank transfers in respect of multilateral net settlement of:
  1. Low value transactions (cheque, direct entry, ATM & EFTPOS) – at 9am each day
  2. Equities (ASX)
RITS Transaction Volume
Settled by time, 2005

Source: RBA
Value Settled by System

Daily average

<table>
<thead>
<tr>
<th>Year</th>
<th>SWIFT</th>
<th>RITS</th>
<th>Austraclear</th>
<th>Liquidity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td>2002</td>
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<tr>
<td>2006</td>
<td></td>
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</tr>
</tbody>
</table>

Source: RBA
Failure to Settle

- Approved real-time gross settlement (RTGS) system in terms of the *Payment Systems and Netting Act 1998*
- Approved multilateral netting arrangement in terms of the *Payment Systems and Netting Act 1998* for settlement of APCA clearing streams (9am batch)
- Clearing system rules set out procedures to apply in the event of the failure of a participant
Failure to Settle

- Low value arrangements recast multilateral net positions to exclude a defaulter
- Where RITS is unavailable, high value payments only settle on by bilaterally agreement as deferred net
  - Industry holiday
Pricing

• Current policy is full cost recovery, achieved by a flat per transaction price of $0.88 for both sender and recipient
Volume Settled

Daily average

Source: RBA
<table>
<thead>
<tr>
<th>Country</th>
<th>Entry fee</th>
<th>Ongoing membership fee</th>
<th>Type of transaction fee (US$)</th>
<th>Average volume ‘000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
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<td>Flat</td>
<td>Value/Time</td>
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<tr>
<td>Denmark</td>
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<td>United States</td>
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</tbody>
</table>
Total Value Settled 2004
USD trillions*

* Average exchange rate for 2004
Sources: CPSS; RBA
Value by Institution
Daily average 2005

Source: RBA
Volume by Institution

Daily average 2005

Source: RBA
Volume Settled by Transaction Value

Average daily

$0 to $1m

Over $1m

Source: RBA
Pricing

- Relatively small number of transactions
- Relatively high per transaction fees
- Concentrated industry
- Volume driven by low value transactions
Pricing

- **Degree of cost recovery?**
  - full cost recovery or subsidy

- **How?**
  - marginal pricing
  - average pricing
  - fixed joining/ongoing membership fees
  - per transaction fees – flat, or dependent on volume, value or time of settlement
<table>
<thead>
<tr>
<th>Transaction Size $</th>
<th>Cumulative volume per cent of total</th>
<th>Cumulative value per cent of total</th>
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</thead>
<tbody>
<tr>
<td>0 - 5 000</td>
<td>30</td>
<td>0.0</td>
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<tr>
<td>5 000 - 25 000</td>
<td>46</td>
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<td>25 000 - 100 000</td>
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<td>100 000 - 1 000 000</td>
<td>75</td>
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<tr>
<td>More than 1 000 000</td>
<td>100</td>
<td>100</td>
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</table>
Pricing

• A large number of very small transactions
  – Could migrate to direct entry
Pricing

• Is migration of low value to a relatively riskier system a concern?
  • Probably not

• Is RTGS a public good?
  • Probably