

CIRCULAR



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To: Clearing Members

5/98

No:

Real Time Gross Settlement

The purpose of this circular is to provide a brief background on Real Time Gross Settlement (RTGS) and to request that Clearing Members undertake appropriate arrangements so that all margin cashflows with SFECH can be transacted for immediate settlement under a RTGS environment.

Background Information

As you would be aware the Reserve Bank of Australia (RBA), to achieve the fundamental objectives of substantially reducing systemic risk along with the need to adopt international best practice, intend to implement "realtime" settlement of high value payments by April 1998.

At present banks can make unrestricted payments throughout the day with final settlement based on net obligations not occurring until the next business day when the banks exchange settlement accounts are debited or credited.

This deferring of net settlement (DNS) does not address the potential exposures of a bank at any time within a day and leaves the payment system open to systemic risk in the event of a bank failing.

SFECH Implications

Although RTGS will be in production during April 1998 some market practises and banking costs are yet to be finalised. Nevertheless the participation of RTGS and implications for SFECH and Clearing Members need to be addressed.

The implementation of RTGS will introduce risk management benefits for SFECH by removing SFECH's settlement risk once Austraclear payments are confirmed with irrevocable cleared funds being obtained. This occurs as Austraclear will directly feed into the realtime settlement system and cashflows (both payments owed to SFECH and those made by SFECH to Clearing Members) will be immediately debited from the payer's bank account and credited to the payee's bank account.

RTGS will enable Austraclear settlement limits set by SFECH for non-bank Members to be abolished as all cashflows will effectively be cleared funds.

The intention of all SFECH cashflows to occur for immediate settlement under an RTGS environment should be noted and discussed held with your relevant bank so that appropriate arrangements such as debit caps within Austraclear are in place and bank charges if any are negotiated to ensure a smooth transition to RTGS.

Those Clearing Members with a positive liquidity profile ie. generally receive funds prior to payments will be in a more favourable position under RTGS.

To extend the benefit of cleared funds, theoretically the payment deadline could be brought forward. Although ideal from a SFECH risk management viewpoint, costs in terms of administration and the need for immediate liquidity by Clearing Members will need to be investigated post RTGS.

Investment Implications

At present the investment strategy of SFECH is linked closely with the 11AM cash market and a competitive return is achieved. The impact of RTGS on this market and the potential development of an intraday cash market is not categorically known. Developments will be monitored and although no major changes are anticipated there is the possibility of an increase in the volatility of the 11AM rate in the short term.

New Zealand RTGS

The Reserve Bank of New Zealand is also looking to implement RTGS within the New Zealand payment system. They are currently under the final 'live testing' phase and expect to complete the introduction by February 1998.

It is the intention that all margin cashflows in relation to the NZFOE market will occur through ANZ Austraclear and participate in RTGS for immediate settlement.

The implications for SFECH and relevant Clearing Members are minimal as New Zealand Austraclear are already operating under a 'debit cap' infrastructure and payments are not processed over these limits.

Despite the minimal implications contact should be made with your relevant bank if clearing the NZFOE market to ensure appropriate arrangements are in place and that existing debit caps are satisfactory.

Please contact the undersigned on Ph (02) 9256 0585 with any comments or queries in this matter.

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Risk Manager

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