

SOUTH AFRICAN RESERVE BANK

NATIONAL PAYMENT SYSTEM DEPARTMENT

**STARTER PACK
FOR PARTICIPATION WITHIN THE
NATIONAL PAYMENT SYSTEM (NPS)**

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INTRODUCTION

1. Purpose

The purpose of this document is to provide the reader with a short background on, and a guide to be followed when wanting to participate in, the national payment system (NPS). Categories for participation include non-clearing banks, clearing banks, settlement banks, designated clearing system participants, payment clearing house system operators, system operators or third-party payment service providers.

2. Background

In the late 1980s, the risks emanating from the settlement of payment-related activities increasingly became of particular concern to central banks. The Bank for International Settlements (BIS)¹ gave this issue further prominence when it started publishing reports highlighting the risks associated with the payment system. These reports focused on the discomfort of central banks with the level of credit and liquidity risks to which participants in the payment system were exposed. Consequently, the Committee on Payment and Settlement Systems (CPSS)² at the BIS was established. It has become a trend, especially among the central bank fraternity, for regular attention to be paid to payment systems. This is part of the contribution that central banks make to overall financial system stability.

South Africa embarked on a process of payment system reform and development in the early 1990s. The initial work resulted in the development of *the South African National Payment System Framework and Strategy Document* (the so-called Blue Book) which was first published by the South African Reserve Bank (Reserve Bank) in 1995³. This document was reviewed and published in 2006 as *Vision 2010*⁴, and outlines, *inter alia*, access to the national payment system (NPS).

¹ The BIS is an international organisation that promotes international monetary and financial co-operation, and performs the function of a bank for central banks. For more information on the BIS, go to: www.bis.org.

² The CPSS endeavours to strengthen the international financial market infrastructure through promoting sound and efficient payment and settlement systems. For more information on the CPSS, go to: www.bis.org>Monetary and Financial Stability>Committee on Payment and Settlement Systems.

³ To view the document, go to: www.reservebank.co.za>SARB Activities>Payment & settlement systems>Framework & Strategy>First Edition – November 1995.

⁴ To view the document, go to: www.reservebank.co.za>SARB Activities>Payment & settlement systems>Framework & Strategy>Vision 2010.

3. **What is the National Payment System (NPS)?**

South Africans use various payment instruments to initiate the transfer of claims between them after having used such instruments to purchase goods and services, to make financial investments and to transfer funds from one party to another. These payment instruments include cash, cheques, debit and credit cards, and mechanisms to trigger electronic funds transfers (EFTs). Non-cash payment instruments facilitate the movement of a claim on a financial institution such as a bank of the payer to the bank of the beneficiary. Financial institutions involved need arrangements to transfer such claims in the form of funds among themselves, either on their own behalf or on behalf of their customers. The NPS thus refers to a set of instruments, procedures and rules that allow consumers, businesses and other organisations to transfer funds, usually held in an account at a financial institution to one another. The South African legal framework empowers the Reserve Bank to oversee the NPS with the objective of ensuring its safety and efficiency.

4. **Access to the National Payment System (NPS)⁵**

Firstly, access to the payment system refers to access to payment system services for the public, such as debit card facilities and secondly to access for service providers, including participants, providing payment services. These parties have differing requirements for accessing the payment system. Some need to access the payment system as end-users for transacting purposes, while others need to access the payment system to provide payment services to end-users.

The services that the role-players provide in the payment system include the issuance of payment instruments, processing of payment-related instructions, provision of payment services to third persons, payment clearing and settlement. These services comprise a business process element and use of the payment system infrastructure. The business process element ensures that payment instruments are effective in supporting the circulation of money in the economy. The payment system infrastructure refers to information and communication technology (ICT) products, services and components.

The public (including the corporate sector) has access to approved payment services through many payment instruments and the appropriate infrastructure. All of these

⁵ To view the information, go to: www.reservebank.co.za>SARB Activities>Payment & settlement systems>Framework & Strategy>Vision 2010, Sections 2 and 5.

businesses have established electronic links with their bankers to enable them to issue electronic payment instructions that can be executed without human intervention.

One of the strategic objectives outlined in the Vision 2010 document is to increase the accessibility of the payment system by providing for new types of participants, while maintaining the safety and efficiency of the system.

5. The Payment System Environment

The following diagram (Figure 1) outlines the payment system environment and the layers of access to the system.

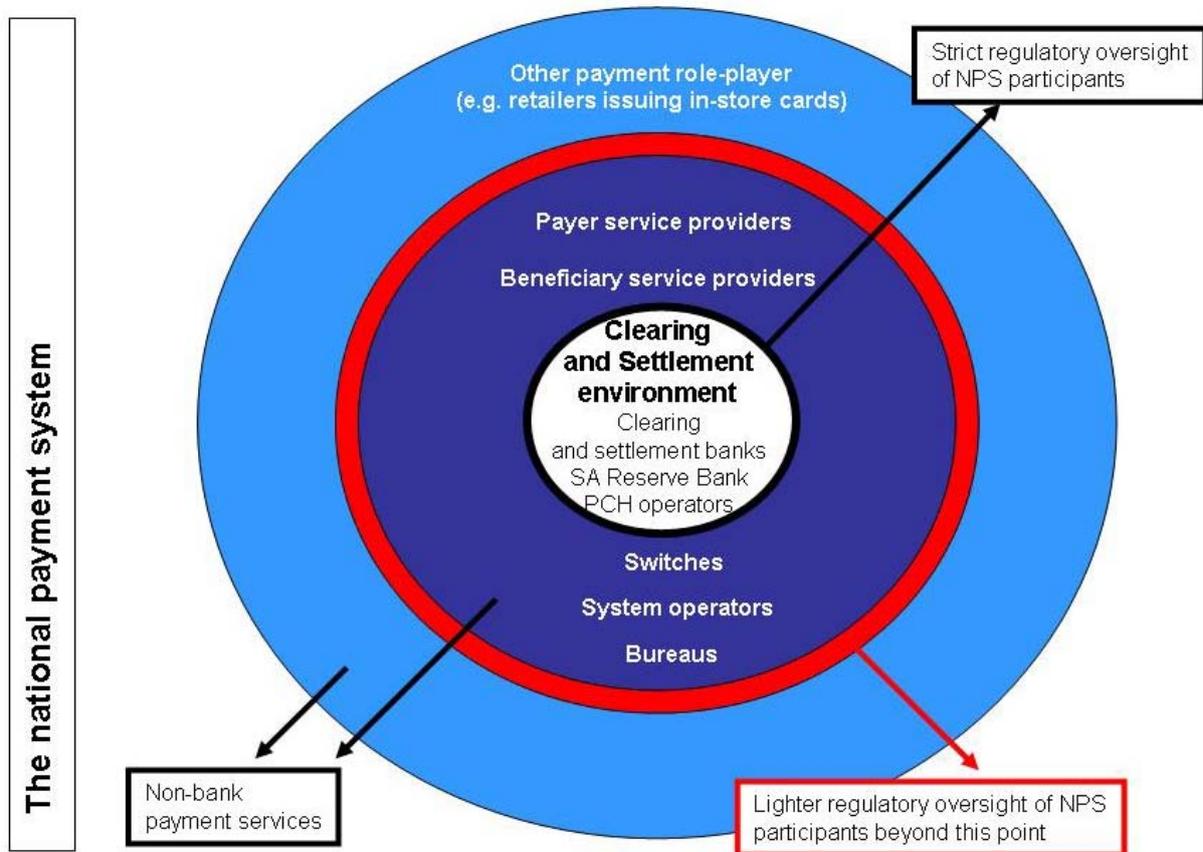


Figure 1: Layers of service provision in the payment system

In the centre of the diagram the settlement and clearing environment of the payment system is depicted. This environment is well organised and regulated. Only clearing and settlement banks are allowed to participate in this domain.

The layers outside this environment are made up of all the other role-players within the payment system that are not clearing or settlement banks. The outer layers are also regulated by the Reserve Bank's National Payment System Department (NPSD), but the further the layer is from the centre, the lighter the regulation by the NPSD. The outer

layers are also regulated by various other regulatory bodies, such as the National Credit Regulator (NCR). The NPSD may increase the regulation of these role-players at anytime.

Figure 2 depicts a high-level view of the payment system network. The various players in the payment system as detailed in sections A to F of this document are shown in brackets.

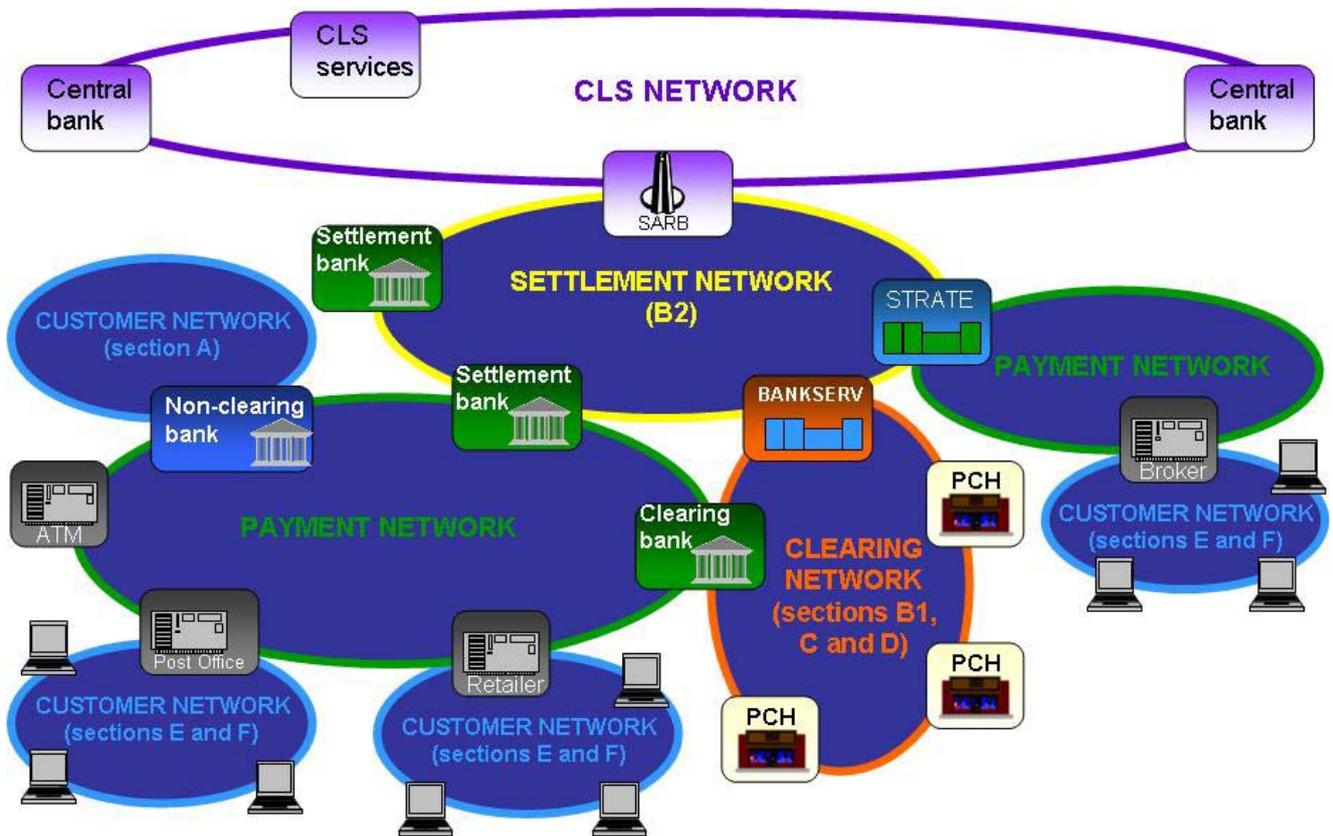


Figure 2: Payment Systems Network

The payment network can be described as the systems and communication mechanisms put in place by commercial banks to provide their customers with the facilities and channels to effect payment. These networks include the bank-owned automated teller machines (ATMs), Internet banking facilities, branch networks and payment instruments. The banking industry has been encouraged to develop payment instruments and systems. These include a variety of payment instruments such as electronic funds transfer (EFT) mechanisms, debit orders, debit cards and credit cards.

The South African National Payment System Framework and Strategy document – 1995 defined ‘clearing’ as “the physical exchange of payment instructions between the payer’s bank and the payee’s bank (or their agents)”. Traditionally, only banks were allowed to participate in the clearing network. As the payment system evolved and became more sophisticated, more non-banks began to participate in the payment system and the

Reserve Bank decided to re-evaluate participation criteria in the clearing environment. Recent changes to the NPS Act allow the Reserve Bank to designate non-bank participants to clear in their own name in the clearing network. Settlement, however, will continue to be the exclusive domain of the settlement system participant banks.

A PCH is a bilateral, legally binding, arrangement entered into by two or more Bank settlement system participants, excluding a designated settlement system operator, governing the clearing of payment instructions to be settled by the Reserve Bank's settlement system participants. Also participating in the clearing domain is the payment clearing house system operators (PCHSOs). A 'PCH system operator' is defined in the NPS Act as a person that clears on behalf of two or more settlement system participants. Payment instructions are sent to the PCH SO through the various payment networks. It is at the PCH SO that the actual clearing takes place. The clearing process includes sorting the instructions and determining the settlement obligations of the participants. These obligations are then submitted to the Reserve Bank for settlement.

The PCH SO that is responsible for the settlement of securities determines the interbank payment obligations arising in the equity and bond markets, which are then settled at the Reserve Bank.

The core of the South African settlement system is the SAMOS system, which is owned and operated by the Reserve Bank. The SAMOS system was introduced on 9 March 1998. SAMOS brought domestic interbank settlement practices in line with international best practice and signalled the start of a new era for payment practices in South Africa. Each settlement system participant has an account at the Reserve Bank from which interbank settlement obligations are settled. Furthermore, the settlement system participants need to lodge collateral at the Reserve Bank, to provide sufficient liquidity and to ensure the smooth functioning of the settlement system. The settlement network provides for settlement participants to settle their interbank obligations finally and irrevocably.

On the highest level of the networks, the link between the domestic and international payment system networks is shown. This is the link between the CLS⁶ system and the SAMOS system, and was implemented to reduce the settlement risk associated with foreign-exchange transactions. The settlement of foreign-exchange transactions between South African rand and that of other foreign currencies settled in the CLS system takes

⁶ CLS Bank operates the largest multi-currency cash settlement system, eliminating settlement risk for over half the world's foreign exchange payment instructions. For more information go to www.cls-group.com

place within this environment. CLS settles both legs of the foreign-exchange transaction simultaneously.

6. Regulatory Structure



Figure 3: Legal foundation of South African payment system

6.1 South African Reserve Bank Act⁷ and National Payment System Act⁸

Section 10 (1) (c) (i) of the South African Reserve Bank Act empowers the Reserve Bank to oversee and regulate the NPS. The National Payment System Act, 1998 (Act No. 78 of 1998 as amended) provides for the management, administration, operation, regulation and supervision of payment, clearing and settlement systems in the Republic of South Africa; and to provide for connected matters.

⁷ To view the South African Reserve Bank Act go to www.reservebank.co.za>SARB Activities>Bank supervision>South African banking legislation>Banks Act>Banks Act, 1990 (as amended)

⁸ To view the NPS Act go to www.reservebank.co.za>SARB Activities>Payment & settlement systems>Legal Framework>NPS Act – No. 78 of 1998: National Payment System Act, 1998 (As amended)

6.2 Banking supervision

Banks are key stakeholders and players in the NPS. Banking supervisors, in the discharge of their responsibility of ensuring a sound and efficient banking system, also have a keen interest in the smooth operation of banks participating in the payment system. In this regard, they will consider risks emanating from participation in the payment system, *inter alia*, credit, liquidity and operational risk.

6.3 National Payment System Department

The NPSD of the Reserve Bank is the overseer and regulator of the NPS. In this role, the department performs; *inter alia*, research and monitoring of developments in the payment system, development of the NPS legal framework and the development of NPS policy. Regulation is effected according to the NPS Act and through the issuance of directives and position papers. In terms of the NPS Act, the Reserve Bank's NPSD grants recognition to a payment system management body that will manage and regulate participation of its members in the clearing and settlement system.

6.4 Payment System Management Body (PSMB)

The main aim of a payment system management body (PSMB) is to organise, manage and regulate participation of its members in the clearing and settlement system. The PSMB that is currently recognised by the Reserve Bank is the Payment Association of South Africa (PASA)⁹. There are rules in place that govern the conduct of PASA members. There is a requirement that prior to admission for a participant to participate in the clearing and settlement environment, such participant shall be expected to be accepted as a member of PASA and also sign the various agreements relating to PCHs in which it wishes to participate.

6.5 Directives and Position papers

In terms of section 12 of the NPS Act, the Reserve Bank may, from time to time, after consultation with the PSMB, issue directives¹⁰ to any person regarding the payment system or the applications of provisions of the NPS Act. These directives shall be issued by the Reserve Bank to stakeholders in the NPS in order to achieve its objective of maintaining the safety and efficiency of the payment system.

⁹ For more information about PASA go to www.pasa.org.za

¹⁰To view the directives issued by the Bank go to www.reservebank.co.za>SARB Activities>Payment & settlement systems>Directives for conduct within the NPS>

Position papers are published by the Reserve Bank in order to state the Reserve Bank's position in respect of specific payment system issues. These documents normally contain approaches, procedures and policy matters that are applicable at a particular time.

7. **Participation by banks in the National Payment System (NPS)**

The Reserve Bank published position paper 01/2007: Bank Models in the NPS¹¹, which outlines various categories of banks, ways in which they may participate in the payment system and growth paths they may elect to follow.

8. **Payment flows in the payment system**

Figure 4 outlines two basic payment flows in the payment system. The first instance (red) starts with the payer who goes to a retailer to purchase goods. Certain retailers are also beneficiary service provider's (BSPs) who facilitate the payment of utility bills. Upon payment, the payment instruction flows from the retailer/BSP to either a system operator (SO) and on to their clearing bank or from the retailer/BSP straight on to their clearing bank. If the payer and retailer bank at the same bank, a simple book entry is passed, in terms of which the payer is debited and the retailer credited. However, if the payer's and retailer's banks are different, the clearing bank forwards the instruction to the payment clearing house system operator (PCH SO), for clearing to take place. The PCH SO, having determined the interbank obligations, forwards the settlement obligations to the Reserve Bank to settle the instruction on the South African Multiple Option Settlement (SAMOS) system, and the details of the payment to the beneficiary's bank. After settlement has taken place, the funds are applied to the beneficiary's account.

The second instance (green) outlines the process whereby a corporate client (CC) forwards an instruction to a payer service provider (PSP) to make multiple payments, such as salaries, on their behalf. Firstly, the PSP receives the funds to be paid over to the beneficiaries from the CC. The PSP then compiles the payment schedules and submits them to its clearing bank. If both the PSP and the beneficiary bank at the same bank, a simple book entry is passed in terms of which the PSP is debited and the beneficiary

¹¹ To view the position papers issued by the Bank, as well as Position paper 01/2007 in its entirety, go to www.reservebank.co.za>SARB Activities>Payment & settlement systems>Position Papers

credited. However, if the PSPs and beneficiary's banks are different, the clearing bank forwards the instruction to the PCH SO for clearing to take place. The PCH SO, having determined the interbank obligations, forwards the settlement obligations to the Reserve Bank to settle the instruction on the SAMOS system, and the details of the payment to the beneficiary's bank. After settlement has taken place, the funds are applied to the beneficiary's account.

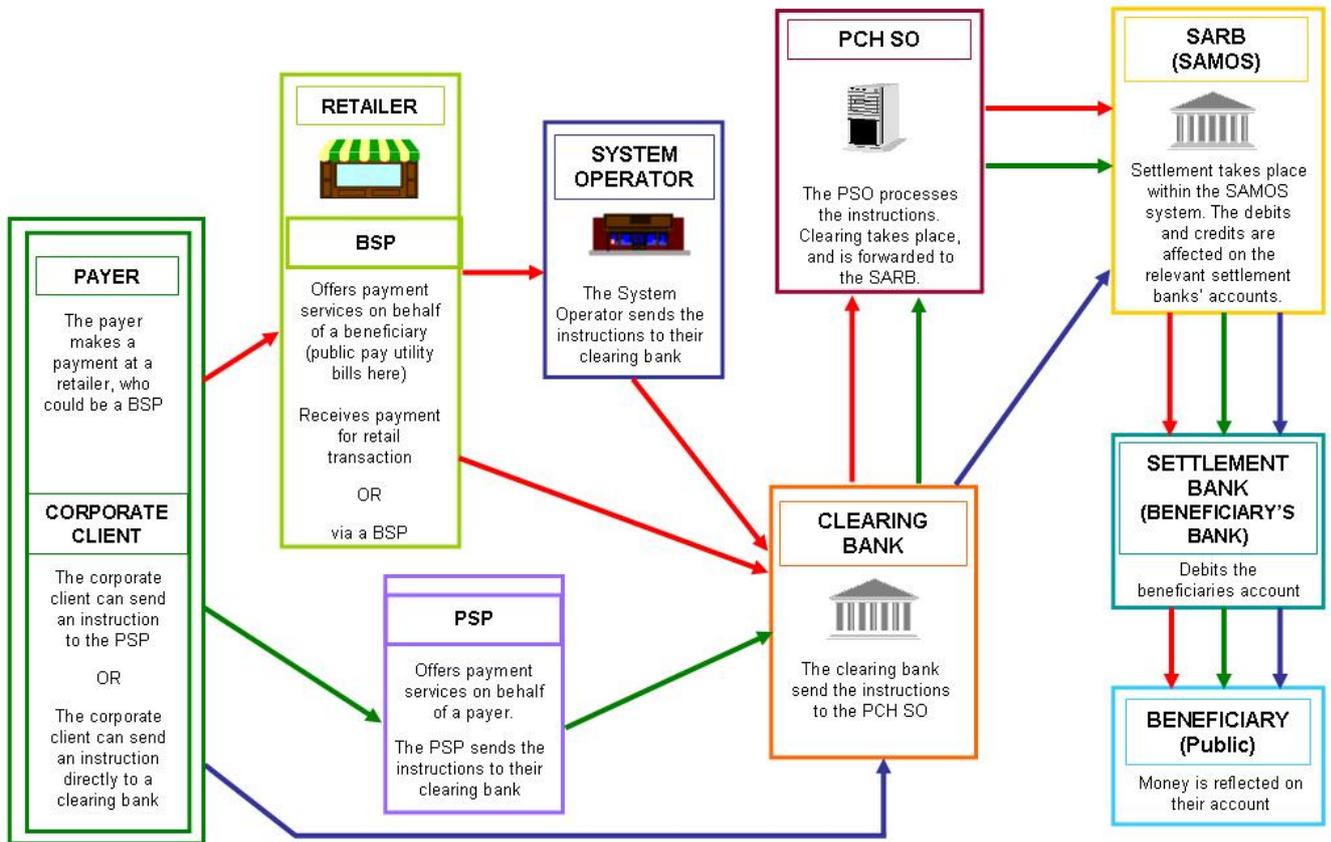


Figure 4: Flow of instructions in the payment system

SECTION A: NON-CLEARING BANK

As documented in the *Bank Models in the National Payment System Position Paper* number 01/2007¹², from a payments perspective, banks can be divided into two categories, namely (1) clearing banks (a bank that is permitted to clear in its own name) and (2) non-clearing banks.

1. Information regarding non-clearing banks

1.1. They are regulated by the Registrar of Banks.

1.2. They are not a settlement system participant as defined in the NPS Act and therefore may not enjoy membership of PASA.

2. Steps to becoming a non-clearing bank

Participants must register to be a recognised bank within the Republic of South Africa.

Description	Reference / Contact
Apply to the Registrar of Banks for authorisation to establish a bank, as contemplated by the provisions of section 12 of the Banks Act, 1990 (Act No. 94 of 1990), read with the regulations relating to banks ¹³ .	www.reservebank.co.za >Bank Supervision Department >South African banking legislation >Select the applicable documentation

¹² To view position paper 01/2007 in its entirety go to www.reservebank.co.za>SARB Activities>Payment & settlement systems>Position Papers

¹³ Applications are to be brought independent from the Office of the Registrar of Banks to avoid conflict of interest. It is therefore recommendable that interested parties consult with the auditing and/or legal fraternity for Reference and Contact as they deem fit, prior to submitting an application for the establishment of a bank.

SECTION B: CLEARING BANK AND BECOMING A SAMOS PARTICIPANT

The *Bank Models in the National Payment System Position Paper* number 01/2007 provides details of subcategories within which a clearing bank could operate.

Prior to starting the process of becoming a clearing bank, interested parties must be sure of what services they want to offer, as that will dictate the PCH Agreements to which they must belong. The type of category the bank falls into will directly establish what PCH agreements they may join.

1. Categories of clearing banks

1.1. Direct clearing (DC)

A bank that provides all or some of the payment services, as defined in *Bank Models in the National Payment System Position Paper* number 01/2007, and which participates in the respective PCHs in its own right.

1.2. Sponsored clearing (SC)

A bank that, in a specific PCH, provides some of the payment services by virtue of an agreement with a direct clearing bank, in terms of which agreement the sponsored clearing bank's settlement obligation within the PCH is fulfilled by the sponsoring bank on behalf of the sponsored clearing bank.

1.3. Mentored clearing (MC)

An entrant bank into a particular PCH will participate as a direct clearer, but will have a contractual arrangement with another direct clearing bank for purposes of guidance, reference and contact when problems are experienced and/or skills that are not available within the entrant bank are required.

1.4. Agency clearing (AC)

Only a direct clearer may conclude an agency arrangement with any other clearing bank in order to provide clearing services to the clients of the other bank via the practice of credit transfers. Facilities are then offered to other clearing banks in order to allow clients of such other clearing banks to make deposits with such banks and to transfer the funds so deposited to the clients' banks. This service must be covered by a specific PCH agreement approved by PASA.

1.5. Technical outsourcing (TO)

Any bank can provide operational facilities to process payments or manage settlements for another participant bank in any PCH (or all PCHs) within any payment stream, or in all payment streams. The participating bank, however, remains the principal for all clearing and settlement agreements into which it enters.

Prior to a participant becoming a clearing bank, it must first register to be a recognised bank within South Africa.

Description	Reference / Contact
Apply to the Registrar of Banks for authorisation to establish a bank, as contemplated by the provisions of section 12 of the Banks Act, 1990 (Act No. 94 of 1990), read with the regulations relating to banks ¹⁴ .	www.reservebank.co.za >Bank Supervision Department >South African banking legislation >Select the applicable documentation

Should a non-clearing bank wish to become a clearing bank, it needs to complete the steps outlined below.

2. Steps to becoming a clearing bank (non SAMOS participant)

No.	Description	Reference / Contact
1	Apply to become a member of PASA in terms of the NPS Act. <ul style="list-style-type: none"> ▪ <i>Provisional membership will be awarded initially where after full membership will be granted should all the criteria be met.</i> 	www.pasa.org.za > About Us > PASA Contact Information
2	Apply for membership to the applicable PCHs, depending on the business model.	www.pasa.org.za > About Us > PASA Contact Information
3	Once provisional PASA membership has been obtained approach other participants regarding trading with them in the various PCHs.	
4	Sign service level agreements (SLAs) with all the relevant PCH System Operators (Bankserv, Visa, MasterCard, etc). <ul style="list-style-type: none"> ▪ <i>Once full PASA membership has been granted, PASA will arrange for the signing of the relevant PCH and PCH system operator/s agreements. All the requirements stipulated therein are legally binding to both parties.</i> 	www.pasa.org.za > About Us > PASA Contact Information
5	Sign PCH (bilateral) agreements with all the participants in the applicable PCHs.	www.pasa.org.za > About Us > PASA Contact Information
6	Inform the Reserve Bank's Bank Supervision department of participation in the various categories of clearing and any agency, sponsorship and/or mentorship arrangements.	www.reservebank.co.za >About Us >Location & contact numbers >Contact Bank Supervision Department

¹⁴ Applications are to be brought independent from the Office of the Registrar of Banks to avoid conflict of interest. It is therefore recommendable that interested parties consult with the auditing and/or legal fraternity for Reference and Contact as they deem fit, prior to submitting an application for the establishment of a bank.

Should a clearing bank wish to become a SAMOS participant (settlement bank) they need to complete the steps outlined below.

3. Steps to becoming a SAMOS participant

No.	Description	Reference / Contact
7	Advise Bank Supervision department of the intention to participate in the SAMOS environment.	www.reservebank.co.za >About Us >Location & contact numbers >Contact Bank Supervision Department
8	<p>Apply to the Head National Payment Department at the Reserve Bank to become a SAMOS participant.</p> <ul style="list-style-type: none"> ▪ <i>Direct participation in SAMOS requires investment in technical infrastructure, staff complement and management.</i> ▪ <i>Advise if an external party is appointed to co-ordinate the SAMOS application.</i> ▪ <i>Advise if an external party is appointed to manage the submission of instructions to the SAMOS system on behalf of the participant.</i> ▪ <i>Advise of the intention to apply for a SWIFT BIC code.</i> 	NPS-CSC@resbank.co.za
9	<p>The Reserve Bank's National Payment System department (NPSD) will set up a meeting with the applicant and the Reserve Bank's Business Systems and Technology department (BSTD).</p> <ul style="list-style-type: none"> ▪ <i>This is to initiate the project and ensure that all parties agree on all the necessary actions.</i> ▪ <i>This is also to establish what the SAMOS infrastructure requirements are:</i> <ul style="list-style-type: none"> ▪ <i>Use of MQ series and the SAMEX application to interface to the SAMOS application via SARBLink, or</i> ▪ <i>Develop a propriety user interface to connect to SAMOS (subject to approval from the Reserve Bank).</i> ▪ <i>The procurement of the required infrastructure may take up to six months.</i> 	NPS-CSC@resbank.co.za
10	Apply for a SAMOS settlement, loan and reserve account from the Financial Markets Department (FMD) at the Reserve Bank.	NPS-CSC@resbank.co.za
11	<p>Join the Society for Worldwide Interbank Financial Telecommunications (SWIFT).</p> <ul style="list-style-type: none"> ▪ <i>SWIFT takes up to five months to process and implement SWIFT BIC codes. There are 4 cut-over months per year.</i> ▪ <i>Apply for SAMOS Closed User Group (MOS)</i> 	NPS-CSC@resbank.co.za
12	<p>Comply with the provisions of the Certification Practice Statement (CPS).</p> <ul style="list-style-type: none"> ▪ <i>Participants using MQ Series must use the services provided by the SAMOS Certification Authority (CA). The SAMOS CA has been established to issue, manage and revoke digital certificates for use by all SAMOS participants. The certificates enable the authentication of the source and provide encryption and decryption of data messages between participants and the Reserve Bank.</i> ▪ <i>Participants that solely use SWIFT message delivery will not require certificates under the CPS (this is not currently available in South Africa).</i> 	NPS-CSC@resbank.co.za

No.	Description	Reference / Contact
13	<p>SAMOS CA registration process.</p> <ul style="list-style-type: none"> ▪ <i>Appoint five security officers for the initial registration.</i> ▪ <i>The Chief Executive Officer (CEO) must send a letter to the Reserve Bank's CA advising and confirming the appointment of the security officers including the participant representative.</i> ▪ <i>The letter must include two certified identity document or passport copies, two passport-size photographs, two specimen signatures.</i> ▪ <i>The CEO, five security officers and participant representative must all complete and sign the letter.</i> 	<p>NPS-CSC@resbank.co.za</p>
14	<p>Install SAMSEC security solution on the SAMEX server.</p> <ul style="list-style-type: none"> ▪ <i>Ensures messages flowing between SARBLink and the participant are authenticated and encrypted.</i> 	<p>NPS-CSC@resbank.co.za</p>
15	<p>Complete SAMEX training at the Reserve Bank.</p>	<p>NPS-CSC@resbank.co.za</p>
17	<p>Complete SWIFT connectivity and systems testing.</p> <ul style="list-style-type: none"> ▪ <i>After the participant has tested the relevant technical infrastructure successfully, the Reserve Bank's BSTD will certify the successful completion and the Reserve Bank's NPSD will advise PASA so that full PASA membership can be obtained by the participant.</i> 	<p>NPS-CSC@resbank.co.za</p>
18	<p>Sign the SAMOS service level agreement (including business continuity planning (BCP) and disaster recovery (DR) arrangements.</p> <ul style="list-style-type: none"> ▪ <i>Once full PASA membership has been granted, PASA will arrange for the signing of the SAMOS service and settlement agreements. All requirements stipulated therein are legally binding on both parties. This coincides with the signing of the other PCH and service agreements referred to in 5 and 6 above.</i> ▪ <i>Redundancy arrangements address failure by one or more of the components that form part of the participant interface infrastructure.</i> ▪ <i>DR facilities make provision for a total loss of access to the primary infrastructure and must be in a different location from the primary site.</i> ▪ <i>Participants are required to have both these arrangements in place, to test them on a regular basis and to advise the NPS customer support centre at NPS-CSC@resbank.co.za of the date and outcome.</i> 	<p>www.pasa.org.za > About Us > PASA Contact Information</p>
19	<p>NPSD advise Bankserv, Financial Services department and Financial Markets department of the successful creation of the institution as a SAMOS participant.</p>	<p>NPS-CSC@resbank.co.za</p>
20	<p>NPSD and PCH SOs notify PASA on the successful take-on of the applicant.</p> <ul style="list-style-type: none"> ▪ <i>This includes that ALL testing has been completed successfully.</i> 	<p>NPS-CSC@resbank.co.za</p>
21	<p>PASA will inform the other PASA members, the PCH SOs and the Reserve Bank of the applicable PCHs that the participant is a member of.</p>	<p>www.pasa.org.za > About Us > PASA Contact Information</p>
22	<p>PASA issues a membership certificate to the participant.</p>	<p>www.pasa.org.za > About Us > PASA Contact Information</p>
23	<p>Participant to ensure that collateral is reserved for SAMOS loans.</p>	<p>NPS-CSC@resbank.co.za</p>

SECTION C: DESIGNATED CLEARING SYSTEM PARTICIPANT

In terms of the National Payment System Act, 1998 (Act No 78 of 1998 as amended) participation in the clearing and settlement domain of the NPS is limited to clearing banks that are registered in terms of the Reserve Banks Act, 1990 (Act No. 94 of 1990 as amended), Mutual Banks Act and Co-operative Banks Act. The Reserve Bank may designate a person, subject to meeting said criteria, to clear payment instructions in its own name in terms of section 4 (2) (d) (i). Such a designated clearing system participant must apply for membership of PASA as only PASA members are able to clear payment instructions in the payment system.

1. Steps to becoming a designated clearing system participant

No.	Description	Reference / Contact
1	Apply to the Reserve Bank’s NPSD for designation as a clearing system participant.	NPSDIRECTIVES@resbank.co.za
2	Apply for PASA membership as a non bank <ul style="list-style-type: none"> ▪ <i>Must be sponsored by a PASA member in settlement.</i> ▪ <i>Follow steps 2 to 6 under Section B par.2.</i> ▪ <i>The sponsoring bank must apply for authorisation to allow such non-bank/designated clearing system participant to clear.</i> 	www.pasa.org.za > About Us > PASA Contact Information
3	Sign service level agreements (SLAs) with all the relevant PCH SOs (Bankserv, Visa, MasterCard, etc). <ul style="list-style-type: none"> ▪ <i>Once full PASA membership has been granted, PASA will arrange for the signing of the relevant PCH and PCH system operator(s) agreements. All the requirements stipulated therein are legally binding to both parties.</i> 	www.pasa.org.za > About Us > PASA Contact Information
4	Sign PCH (bilateral) agreements with all the participants in the applicable PCH’s.	www.pasa.org.za > About Us > PASA Contact Information
5	Sign a sponsoring and mentoring agreement with the sponsoring bank.	

SECTION D: PAYMENT CLEARING HOUSE SYSTEM OPERATOR (PCH SO)

1. What is a payment clearing house system operator (PCH SO)?

A PCH SO is defined in the NPS Act as a person that clears on behalf of two or more settlement system participants. PCH SOs are expected to be authorised by the payment system management body (PSMB) to enable them to offer services to the PCH SO participants in a specific payment system. The criteria used by the PSMB to authorise payment clearing house system operators is maintained by PASA at www.pasa.org.za.

2. Steps to becoming a payment clearing house system operator (PCH SO)

No.	Description	Reference / Contact
1	The PCH SO will be appointed by two or more clearing participants to clear and settle payments on their behalf.	
2	The PCH SO will be appointed by the participants to become a PCH SO to the applicable PCH and act on their behalf, depending on the business model.	www.pasa.org.za > About Us > PASA Contact Information
3	Advise the Head of the Reserve Bank's NPSD of the intention to become a PCH SO. <ul style="list-style-type: none"> ▪ After appointment of the PCH SO by each of the banks, it is referred to PASA Council for authorisation in terms of the NPS Act. ▪ The banks that have appointed the PCH SO will then sign a service agreement with such PCH SO. 	NPSDIRECTIVES@resbank.co.za
4	The Reserve Bank's NPSD will set up a meeting with the applicant and the Reserve Bank's Business Systems and Technology department (BSTD). <ul style="list-style-type: none"> ▪ This is to initiate the project and ensure that all parties agree on all the necessary actions. 	NPS-CSC@resbank.co.za
5	Notify the Reserve Bank's BSTD of the intent and establish what the SAMOS infrastructure requirements are.	NPS-CSC@resbank.co.za
6	Join the Society for Worldwide Interbank Financial Telecommunications (SWIFT). <ul style="list-style-type: none"> ▪ SWIFT takes up to five months to process and implement SWIFT BIC codes and there are four cut-over months per year. 	NPS-CSC@resbank.co.za
7	Complete SWIFT connectivity and systems testing. <ul style="list-style-type: none"> ▪ After the participant has tested the relevant technical infrastructure successfully, the Reserve Bank's BSTD will certify the successful completion and Bank's NPSD will advise PASA so that full PASA membership can be obtained by the participant. 	NPS-CSC@resbank.co.za

No.	Description	Reference / Contact
8	<p>Sign a service level agreement (SLA) (including business continuity planning (BCP) and disaster recovery (DR) arrangements)</p> <ul style="list-style-type: none"> ▪ <i>NPSD will arrange for the signing of the Service level agreement. All requirements stipulated therein are legally binding on both parties.</i> ▪ <i>Redundancy arrangements address failure by one or more of the components that form part of the participant interface infrastructure.</i> ▪ <i>DR facilities make provision for a total loss of access to the primary infrastructure and must be in a different location from the primary site.</i> ▪ <i>Participants are required to have both these arrangements in place, to test them on a regular basis and to advise the NPS customer support centre at NPS-CSC@resbank.co.za of the date and outcome.</i> 	<p>NPS-CSC@resbank.co.za</p>
9	<p>PASA will inform its members and the Reserve Bank that the applicant is registered as a PCH SO.</p>	<p>www.pasa.org.za > About Us > PASA Contact Information</p>
10	<p>NPSD notifies PASA and the industry on the successful take-on of the applicant.</p>	<p>NPS-CSC@resbank.co.za</p>
11	<p>NPSD advise the appropriate internal parties of the successful creation of the institution as a PCH SO.</p>	<p>NPS-CSC@resbank.co.za</p>

SECTION E: SYSTEM OPERATOR (SO)

Parties who are not banks or designated clearing system participants that engage, as part of their normal business, in providing services to two or more persons in respect of payment instructions, including the delivery to and/or receipt of payment instructions from the bank and/or a PCH SO must comply with provisions of Directive No. 2 of 2007 for Conduct within the National Payment System in Respect of System Operators¹⁵, published under General Notice 1111 in *Government Gazette* 30261 on 6 September 2007.

1. Steps to becoming a system operator (SO)

No.	Description	Reference / Contact
1	Apply to PASA for authorisation in terms of the directive and NPS Act. <ul style="list-style-type: none"> ▪ <i>Redundancy arrangements address failure by one or more of the components that form part of the participant interface infrastructure.</i> ▪ <i>DR facilities make provision for a total loss of access to the primary infrastructure and must be in a different location from the primary site.</i> ▪ <i>The links on the environments between the SO, PCH SO and acquiring banks must be in sound working order at all times.</i> 	www.pasa.org.za >PASA authorisation website >Application >System Operator Authorisation
2	Sign service level agreements (SLAs) with all persons to whom services are provided (acquiring banks).	www.pasa.org.za > About Us > PASA Contact Information
3	PASA will update their website and inform the Reserve Bank of any newly authorised SO.	www.pasa.org.za >PASA authorisation website >Application >System Operator Authorisation
4	PASA issues a certificate to the SO.	www.pasa.org.za > About Us > PASA Contact Information

¹⁵ To view the directive go to www.reservebank.co.za>SARB Activities>Payment & settlement systems>Directives for conduct within the NPS>Directive no. 2 of 2007

SECTION F: THIRD PARTY PAYMENT SERVICE PROVIDER (PSP)

Directive No.1 of 2007 for Conduct within the NPS in respect of payments to third parties was published under General Notice 1110 in *Government Gazette* 30261 on 6 September 2007¹⁶.

1. In which ways can payments to third parties be undertaken?

- 1.1. Money or the proceeds of payment instructions are accepted by a person (a beneficiary service provider), as a regular feature of that person's business, from multiple payers on behalf of a beneficiary. An example will be the acceptance of money or proceeds of payment instructions by a retailer or other outlets for payment of utility bills.
- 1.2. Money or the proceeds of payment instructions are accepted by a person (a payment service provider), as a regular feature of that persons business, from a payer to make a payment on behalf of that payer to multiple beneficiaries (payment of salaries on behalf of employers to their employees).

2. Steps to becoming a third-party payment service provider (PSP)

No.	Description	Reference / Contact
1	The PSP must inform its banker of its business regarding third party payment services	
2	The banker of the PSP must advise PASA by way of completing the website registration process on behalf of the PSP.	www.pasa.org.za >PASA authorisation website >Application >System Operator Authorisation
3	Sign agreements with all the clients that are served.	
4	PASA will ensure that the registration information pertaining to the PSP is available on the PASA website.	www.pasa.org.za >PASA authorisation website >Application >System Operator Authorisation

¹⁶ To view the directive go to www.reservebank.co.za>SARB Activities>Payment & settlement systems>Directives for conduct within the NPS

SECTION G: GLOSSARY OF TERMS¹⁷*(non-exhaustive list of terms used within this document as well as within the industry)*

Accounts	A record of the financial transactions affecting the assets, liabilities, income and expenditure. In SAMOS only banks can have accounts.
Acquirer	The entity or entities that hold(s) deposit accounts for card acceptors (merchants) and to which the card acceptor transmits the data relating to the transaction. The acquirer is responsible for the collection of transaction information and settlement with the acceptors.
Authentication	Controls to scramble data to ensure that nobody can view the actual data while it is being sent and to ensure that the receiver of the message receives an exact image of what was submitted by the originator of the message.
Beneficiary service provider	A person who accepts money or the process of payment instructions as a regular feature of their business from multiple payers on behalf of a beneficiary
Bilateral	Two transacting parties.
Bilateral exposure	One party's exposure to another party.
Bilateral netting	An arrangement between two parties to net their bilateral obligations. The obligations covered by the arrangement may arise from financial contracts, transfers or both.
Business continuity	A payment system's arrangements which aim to ensure that it meets agreed service levels even if one or more components of the system fail or if it is affected by an abnormal external event. Include both preventative measures and arrangements to deal with contingencies.
Central securities depository	A facility for holding securities, which enables securities transactions to be processed by book entry. Physical securities may be immobilised by the depository or securities may be dematerialised (i.e. so that they only exist as electronic records).
Certification authority	An entity entrusted with creating and assigning public key certificates.
Clearing	The exchange of payment instructions between the payer's bank and the payee's bank.
Clearing bank	A bank that participates in the clearing of payment instructions between banks.
Clearing participant	A bank, mutual bank, co-operative bank or a branch of a foreign institution, or a designated clearing participant
Clearing, netting and settlement agreements	Written agreements with regard to clearing, netting or settlement, concluded between payment system management body clearing participants, the Reserve Bank's settlement system participants or designated settlement system participants.
Confirmation	The process in which the terms of a trade are verified either by market participants directly or by some central entity.

¹⁷ For a more comprehensive glossary of terms list go to: www.bis.org>BIS home>Monetary & financial stability>Committee on Payment and Settlement Systems>Glossary of Terms.

Counterparty	The opposite party to a financial transaction.
Cross-border settlement	A settlement that takes place in a country other than the country in which one trade counterparty or both are located.
Customer	A buyer, seller or holder of securities and financial instruments that does not participate directly in a system.
Designated clearing system participant	Person designated to clear through the issuance of a directive.
Domestic settlement	A settlement that takes place in the country in which both counterparties to the trade are located.
Domestic trade	A trade between counterparties located in the same country.
Encryption	The use of cryptographic algorithms to encode clear text data into cipher text to prevent unauthorised observation.
Final settlement	Settlement which is irrevocable and unconditional.
Gross settlement system	A transfer system in which the settlement of funds or securities transfer instructions occurs individually (on an instruction by instruction basis).
Hybrid system	A payment system that combines characteristics of RTGS systems and netting systems.
Integrity	The quality of being protected against accidental or fraudulent alteration or of indicating whether or not alteration has occurred.
Issuer	The entity which is obligated on a security or other financial instrument.
Issuing agent	An institution that acts on behalf of the issuer of securities in distributing the securities and in realising the proceeds thereof for the benefit of the issuer.
Key	A unique series of digits used in combination with a cryptographic algorithm.
Large-value payments	Payments, generally of very large amounts, which are mainly exchanged between banks or between participants in the financial markets and usually require urgent and timely settlement.
Market value	The cost that would be incurred or the gain that would be realised if an outstanding contract were replaced at current market prices.
Netting	An agreed offsetting of mutual obligations by trading partners or participants in a system.
Obligation	A duty imposed by contract law. It is also used to describe a security or other financial instrument, such as a bond or promissory note, which contains the issuer's undertaking to pay the owner.
Operating system	That part of the software of a computer system (including chips) that is closely tied to the hardware on which it runs
Payer service provider	A person who accepts money or the proceeds of payment instructions, as a regular feature of that person's business, from a payer to make payments on behalf of that payer to multiple beneficiaries.
Payment Association of South Africa (PASA)	The governing body for all Payment Stream Associations (PSAs).
Payment clearing house system operator	A payment clearing house system operator is the registered company that provides the infrastructure for the functioning of one or more payment clearing houses. In SAMOS messages are received from the PCH SO not the PCH. The PCH SO will have a formal agreement for every payment stream association's settlement

	instructions that it settles through SAMOS.
Payment clearing house (PCH)	An arrangement between two or more PSMB clearing participants and/or Reserve Bank settlement system participants, excluding a designated settlement system operator, governing the clearing or netting of payment instructions between those Reserve Bank settlement system participants.
Payment instruction	An instruction to transfer funds or to make a payment.
Payment finality	When a bank has given a customer confirmation, implicitly or explicitly, that a payment is irreversible and irrevocable.
Payment obligation	An indebtedness that is owed by one PSMB clearing participant and/or settlement system participant to another as a result of the clearing of one or more payment instructions
Payment to third persons	The activities of a beneficiary service provider and a payer service provider as defined.
Real-time gross settlement	The continuous (real-time) settlement of funds or securities transfers individually on an order by order basis (without netting).
Reserve Bank	South African Reserve Bank
South African Multiple Option Settlement (SAMOS) system	SAMOS is part of the NPS. SAMOS provides final and irrevocable settlement of interbank obligations and provides the banks with multiple options to accomplish this.
Settlement	The final and irrevocable discharge of an obligation of one bank in favour of another bank in central bank money.
Transfer	Operationally, the sending (or movement) of funds or securities or of a right relating to funds or securities from one party to another party.

SECTION H: LIST OF ACRONYMS*(non-exhaustive list of acronyms frequently used within the industry)*

ACRONYM	DESCRIPTION
AC	Agency Clearing
ATM	Automated Teller Machine
BCP	Business Continuity Planning
BIC 8	Binary Identification Code (8 digits)
BIC 12	Binary Identification Code (12 digits)
BIS	Bank for International Settlement
BESA	Bond Exchange of South Africa
BME	Bond Market Exchange
BSP	Beneficiary Service Provider
BSTD	South African Reserve Bank Business Systems and Technology Department
CA	Certification Authority
CBL	Concurrent Batch List (Single)
CBPL	Concurrent Batch Processing List (Batched)
CC	Corporate Client
CD	Central Depository
CEO	Chief Executive Officer
CLS	Continuous Linked Settlement
CMA	Common Monetary Area
CPL	Continuous Processing Line
CPS	Certification Practice Statement
CPSS	Committee on Payment and Settlement Systems
CSC	Customer Support Centre
CSD	Central Security Depository
CUG	Closed User Group
DBNT	South African Reserve Bank Debentures
DR	Disaster Recovery
DRP	Disaster Recovery Procedure
DVP	Delivery Versus Payment
EFT	Electronic Funds Transfer
EOD	End of Day
FI	Financial Instrument
FIFO	First In First Out
FMD	South African Reserve Bank Financial Markets Department
FME	Financial Market Exchange
GS	Government Stock
ICT	Information and Communication Technology
IN	Information Notification

ISO	International Standards Organisation
JSE	Johannesburg Stock Exchange
LBB	Land Bank Bill
MC	Mentored Clearing
MOS	SAMOS Closed User Group
MV	Market Value
NCR	National Credit Regulator
NPS	National Payment System
NPSD	South African Reserve Bank National Payment System Department
PASA	Payment Association of South Africa
PCH	Payment Clearing House
PCH PG	Payment Clearing House Participant Group
PG	Participant Group
PI	Payment Instruction
PSA	Payment Stream Association
PSMB	Payment System Management Body
PSP	Payer Service Provider
PCH SO	Payment Clearing House System Operator
RESBANK	South African Reserve Bank
SADC	Southern African Development Community
SAFEX	South African Futures Exchange
SAMEX	SAMOS Front End System
SAMOS	South African Multiple Option Settlement (system)
SARB	South African Reserve Bank
SARBLink	SARBLink Message Exchange
SC	Sponsored Clearing
SCD	Settlement Cycle Date
SI	Settlement Instruction
SLA	Service Level Agreement
SO	System Operator
SOD	Start of Day
SPR	SAMOS Position Refresh
SSPG	SAMOS System Participant Group
STP	Straight Through Processing
STSG	SAMOS Technical Steering Group
STRATE	Share Transactions Totally Electronic
SWIFT	Society for Worldwide Interbank Financial Telecommunications
TB	Treasury Bill
TO	Technical Outsourcing