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APPENDICES

A. INTERNATIONAL STANDARDS AND PRINCIPLES

A.1 Minimum standards for the Design and Operation of Cross-Border and Multi-Currency Netting and Settlement Schemes (Lamfalussy)⁷²

**Minimum Standards for the Design and Operation
of Cross-Border and Multi-Currency Netting and
Settlement Schemes
(Recommendations of the Committee on Interbank
Netting Schemes, BIS, November 1990)**

- I. Netting schemes should have a well founded legal basis under all relevant jurisdictions.
- II. Netting scheme participants should have a clear understanding of the impact of the particular scheme on each of the financial risks affected by the netting process.
- III. Multilateral netting systems should have clearly-defined procedures for the management of credit risks and liquidity risks which specify the respective responsibilities of the netting provider and the participants. These procedures should also ensure that all parties have both the incentives and the capabilities to manage and contain each of the risks they bear and that limits are placed on the maximum level of credit exposure that can be produced by each participant.
- IV. Multilateral netting systems should, at a minimum, be capable of ensuring the timely completion of daily settlements in the event of an inability to settle by the participant with the largest single net-debit position.
- V. Multilateral netting systems should have objective and publicly-disclosed criteria for admission which permit fair and open access.
- VI. All netting schemes should ensure the operational reliability of technical systems and the availability of back-up facilities capable of completing daily processing requirements.

72. Also referred to as the Lamfalussy Report.

A.2 List of principles from the report on Minimum Common Features for Domestic Payment Systems (European Community)⁷³

List of Principles from the Report on *Minimum Common Features for Domestic Payment Systems* by the Working Group on Payment Systems of EU Central Bank Governors

Principle 1 : Direct access to interbank funds transfer systems

As a rule, only central banks and credit institutions, as defined under the Second Banking Co-ordination Directive, can be admitted as direct participants in funds transfer systems which process third-party payments. As exceptions, certain other bodies authorised to hold accounts for customers may also be, with the approval of the central bank, direct participants in such systems provided that (a) their public nature ensures little risk of failure or (b) they are supervised by a recognised competent authority.

Principle 2 : No discrimination in access

No discrimination can be made between home-based credit institutions and credit institutions licensed in other EU countries which ask to participate in local interbank funds transfer systems, either through their local branches or directly from another Member State (remote access). The applicants, however, may be required to establish that they can meet the relevant legal provisions of the host country. They also have to comply with the necessary technical requirements of the system; these requirements, however, should not be discriminatory.

Principle 3 : Transparency of access criteria

Access criteria to interbank funds transfer systems should be laid down in a public document. This document should also set out procedures for removing a participant from the system. Additional criteria beyond those embodied in Principles 1 and 2 may apply to direct participants. These criteria may include one or more of the following conditions:

- a. adequate financial strength of the institution;
- b. minimum number of transactions;
- c. the payment of an entry fee;
- d. the approval (on technical or creditworthiness grounds) of either the owner/manager of the system or the direct participants; or
- e. the approval of the local central bank (when possible within the legal context of the country).

Principle 4 : Real-time gross-settlement systems

As soon as feasible, every member state should have a real-time gross-settlement system into which as many large-value payments as possible should be channelled. Such systems should settle across accounts at the central bank and have sound legal, technical and prudential features, which are compatible across EC Member States.

73. Working group chaired by T.E. Noël.

Principle 5 : Large-value net-settlement systems

Provided they settle at the central bank, large-value net-settlement systems may continue to operate in parallel with real-time gross-settlement systems but, in the near future, they should (a) settle on the same day as the exchange of the payments instruments; and (b) meet the Lamfalussy standards in full.

Principle 6 : Other interbank funds transfer systems

As a part of their oversight function, EC central banks will access the scale and the nature of the settlement risk in all interbank funds transfer systems operating in their country. While seeking to reduce as far as possible the risks in these systems, EC central banks may adopt, for systems not covered by Principles 4 and 5, a somewhat flexible approach which takes into account the costs and benefits of any envisaged solution. Over time, whenever systems are changed or redesigned, increasingly high standards of risk reduction should be achieved.

Principle 7 : Legal issues

The legal basis of domestic payments should be sound and enforceable. Inconsistencies between domestic and legal systems in the EC which increase risks in payment systems need to be analysed and, as far as possible, reduced. As a first step, where necessary, EC central banks will press for changes to certain aspects of national bankruptcy laws (e.g. 'Zero-hour clause').

Principle 8 : Technical issues

Compatible banking standards and efficient channels of communication between EC payments are desirable and will assist the processing of cross-border payments in the context of the Single Market. They will become increasingly important in view of EMU. EC central banks will support and participate in the efforts made by banking communities in these fields.

Principle 9 : Pricing policies of EC central banks

The pricing policies of EC central banks, in respect of payments systems functions, will aim at the avoidance of any competitive distortion within the context of the Single Market and in preparation for EMU. As a general objective, such policies will aim at the full recovery by the central banks of the costs of these services.

Principle 10 : Operating hours

The overlap between operating hours of the major EC interbank funds transfer systems (and in particular the hours of RTGS systems) is necessary and could be increased in order to facilitate cross-border payments and delivery-versus-payment mechanisms. In this respect and as a preparatory step towards EMU, EC central banks will consider closer co-ordination of the operating hours of their settlement services.

B. NPS GLOSSARY OF TERMS AND ACRONYMS

TERM	ACRONYM	DEFINITION	REFER TO
A			
Accommodation (by the SA Reserve Bank)		In its narrowest sense and in terms of the NPS, accommodation refers to the granting of central bank credit to banks participating in the settlement of interbank obligations. This accommodation can take the form of loans extended against the security of assets of the highest quality. Only banks can obtain accommodation through this mechanism.	Bank
Agent		A person (natural or juristic) who has authority to act on behalf of and legally bind his principal contractually with third parties. When an agent receives money on behalf of his principal, he acts as a conduit, and money paid to an agent is treated as having been paid to the principal. The person paying the money has no right to reclaim it from the agent, but must look to the principal, even if, in fact, the money is still in the hands of the agent.	Principal
B			
Bank		A public company registered as a bank or as a mutual bank in terms of the provisions of the Banks Act, 1990 or the Mutual Banks Act, 1993, respectively.	
Bilateral		Two transacting parties.	
Bilateral Clearing Arrangement		A clearing arrangement between two banks.	Bank, Clearing
Bilateral Exposure Limits		The agreed exposure between two banks.	Bank
Bilateral Netting Arrangement		An agreement between two banks to set off their payment obligations (exposures) against each other for settlement purposes.	Bank, Payment, Settlement
Bill of Exchange		An unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed or determined future time, a certain sum in money to a specified person or his order, or to bearer. (Section 2(1) of the Bills of Exchange Act, Act No. 34 of 1964.)	
Branch of a Foreign Institution (bank)		A branch registered as such in terms of the provisions of section 18A of the Banks Act, 1990, read in conjunction with the Conditions for the Conducting of the Business of a Bank by a Foreign Institution by means of a Branch in the Republic, as published in <i>Government Gazette</i> No. 16356 dated 3 April 1995.	
Bulk Clearing Process		A process whereby high-volume payment instructions are aggregated and interbank settlement obligations are determined.	Payment Instruction, Settlement

TERM	ACRONYM	DEFINITION	REFER TO
C			
Caps		Limits agreed between participating banks on exposures that they are willing to accept from one another in the payment and clearing process. These caps can apply to either debit or credit exposures and to either net or gross positions.	Bank, Clearing
Central Bank Money		Cash (notes and coin) and credit balances held by banks at the central bank.	Bank
Central Bank Settlement System		A central bank system whereby irrevocable interbank settlement is achieved in central bank money.	Central Bank, Money, Settlement
Central Securities Depository	CD	A facility for the safekeeping of immobilised and/or dematerialised securities.	
Cheque		An unconditional written order from one party (the drawer) to another (the drawee, a bank) requiring the drawee to pay a specified sum on demand to the drawer or to a third party specified by the drawer.	Bank
Clearing		The exchange of payment instructions between the payer's bank and the payee's bank (or their agents).	Bank, Payment Instruction
Clearing Bank		A bank that participates in the clearing of payment instructions between banks.	Bank, Clearing, Payment Instruction
Clearing House (Payment Clearing House)	PCH	Any formal arrangement between banks whereby participants exchange payment instructions.	Bank, Payment Instruction
Clearing System		Processes and arrangements whereby banks present and exchange data and/or documents relating to payment instructions.	Bank, Payment Instruction
Collateral (for accommodation purposes)		Acceptable securities provided by banks to the central bank for liquidity purposes.	Accommodation, Bank
Collateral Management System		A system that dynamically utilises securities in the collateralisation process. It also enables banks to monitor and manage the collateral that they provide to the central bank on a real-time basis.	Bank, Collateral
Collecting Bank		A bank that collects value for cheques or other debit instruments on behalf of its clients.	Bank, Cheque
Contagion		The knock-on effects when a participant in the system is unable to settle its obligations.	

TERM	ACRONYM	DEFINITION	REFER TO
Credit Push		A practice whereby the payer initiates the transfer of funds to the payee. Both the payment instruction and the funds described therein move from the bank of the payer/ originator to the bank of the beneficiary or via several other banks as intermediaries and/or more than one credit-transfer system.	Bank, Payment Instruction
Credit Risk		The risk that a bank bears in the event of a counterparty not settling an obligation for full value, either when due or at any time thereafter.	Settlement
Cross-border Transaction		A transaction in which at least one of the parties is located outside the home country.	
Customer Payment-Service Provider	CPSP	A facility or an institution that utilises its own systems to provide payment-related services to its customers. These services include accepting payment instructions and delivering them into the payment system. When a CPSP is not a bank, it acts as a conduit to deliver the payment instruction to a bank.	Bank, Payment Instruction, Payment System
D			
Debit Pull		Payment instructions that require the recipient (or its bank) to collect funds from the remitter, effectively causing the collecting bank to 'pull' the funds through the payment system.	Collecting Bank, Payment System
Delivery-versus-Payment System	DVP	A mechanism in an exchange-for-value settlement system that ensures that the final transfer of the asset occurs if and only if the final transfer of the payment occurs simultaneously.	
E			
Electronic Securities		Securities that exist in an electronic, as opposed to a material, form (referred to as dematerialised securities).	Electronic Securities Register
Electronic Securities Registry	ESR	A facility for the registration of securities on an electronic database.	Electronic Securities
End-users		Businesses and individuals that issue a payment instruction.	Payment Instruction
Entry Criteria		Criteria for participation in a particular payment stream, laid down by PASA, in conjunction with the SA Reserve Bank.	PASA, Payment Stream

TERM	ACRONYM	DEFINITION	REFER TO
F			
Fate		The outcome of the verification and validation of data or information contained in payment and settlement instructions.	Payment Instruction, Settlement Instruction
Finality of Payment		When a bank has given a customer confirmation, implicitly or explicitly, that a payment is irreversible and irrevocable.	Bank, Payment Finality
Finality of Settlement		When the central bank has given confirmation that a settlement is irreversible and irrevocable.	Bank, Settlement
Financial Sponsorship		The acceptance of the settlement obligations of a bank by another bank.	Bank, Settlement
G			
Gross Settlement		Settlement of interbank payments on a settlement-instruction by settlement-instruction basis.	Settlement
I			
Information Linked to Payment	ILP	The electronic relay of remittance information, in parallel with a payment instruction, from the originating party to the beneficiary.	Payment Instruction
Interbank Settlement		Final and irrevocable settlement of interbank obligations over banks' accounts held at the central bank.	Bank, Finality of Settlement
Interday Accommodation		Accommodation to banks bridging two settlement cycles (overnight).	Accommodation
International Payments		See Cross-Border Transaction.	Cross-Border Transaction
Intraday Accommodation		Accommodation for or during a settlement cycle (not exceeding one value day).	Accommodation, Settlement
Intraday Settlement		Settlements that take place within one settlement cycle (within one value day).	Settlement
L			
Lender of Last Resort		A discretionary function performed by the central bank in providing credit facilities to a bank that cannot obtain funds in any other way.	Bank
Liquidity Risk		The risk that a bank will not have sufficient liquidity to meet its settlement obligations (temporary need for funds).	Bank, Settlement

TERM	ACRONYM	DEFINITION	REFER TO
M			
Magnetic Cheque Ink Character Recognition	MICR	A technique, using special machine-readable characters, by which documents, such as cheques, credit transfers and direct debits, are read by machines for electronic processing.	Cheque
Monetary Policy		Consists of decisions (excluding decisions involving the taxation and spending powers of the central government, but possibly including decisions involving its borrowing powers) that are made and implemented by the monetary authorities (i.e. by the central bank, or by the Treasury and the central bank) in their various fields of operations to attain or to help to attain the volume or composition of domestic expenditure and output or, in other ways, certain broad objectives with regard to the country's economy.	
Multilateral		Three or more transacting parties.	
Multilateral Clearing Arrangement		An agreement between three or more banks to clear payment instructions between themselves.	Bank, Clearing, Payment Instruction
Multilateral Monetary Area	MMA	The MMA (previously referred to as the Common Monetary Area (CMA)) refers to the area in which the rand currency is accepted as legal tender.	
Multilateral Netting		An arrangement among three or more parties to off-set their obligations for settlement purposes.	Multilateral, Netting
N			
Net Settlement		The settlement of netted interbank obligations on a multilateral or bilateral basis.	Bilateral, Multilateral, Settlement
Netting		An agreed off-setting of payment obligations.	Bank
NPS Operators		An organisation licenced to provide NPS infrastructural components.	
NPS Participation Agreement		Agreements formalising the participation of banks and customer payment-service providers in the NPS.	Bank, Customer Payment-Service Provider
NPS Settlement Network		The communication infrastructure linking banks and authorised payment clearing houses and depositories to the central bank.	Bank, Clearing House
O			
On-us Transactions		Payment instructions that remain within a single bank (i.e. where the payer and beneficiary, bank at the same institution).	Bank, Payment Instruction

TERM	ACRONYM	DEFINITION	REFER TO
P			
Paying Bank		The bank that has to meet a payment instruction that has been directed to it from a collecting bank.	Bank, Collecting Bank, Payment Instruction
Payment Association of South Africa	PASA	The governing body for all Payment Stream Associations (PSAs).	Payment Stream Association
Payment Finality		See Finality of Payment.	Finality of Payment
Payment Instruction		An order or message instructing the transfer of funds to the order of the payee.	
Payment Instrument		Every instrument that provides a method of exchanging value for money, i.e. notes and coin, paper and electronic payment instructions.	Payment Instruction
Payment Stream		Payment instructions that are homogeneous in terms of their nature, risk and processing requirements and that have the same legal basis, i.e. cheques, credit cards and electronic payments.	Cheque
Payment Stream Association	PSA	A formal association of banks engaged in the acceptance, clearing and/or netting of payment instruments constituting a particular payment stream.	Bank, Clearing, Netting, Payment Instrument, Payment Stream
Payment System		A system that enables payments to be effected.	
Payment-versus-Payment System	PVP	A mechanism in a currency-exchange system that ensures that the final value transfer of one currency occurs only if the final value transfer of another currency occurs simultaneously.	
Prefunding		The provision of funds in the settlement account of a particular bank that would be sufficient to cover the transfer of funds required to satisfy an incoming settlement instruction.	Bank, Settlement Instruction
Principal		A person that legally acts in his own capacity and that obtains the rights and incurs the responsibilities of such an act. A principal also refers to a person that mandates an agent to act legally on his behalf, but where the principal obtains the rights or incurs the responsibilities as a result of the mandated acts of such an agent.	Agent

TERM	ACRONYM	DEFINITION	REFER TO
R			
Real-time Gross Settlement	RTGS	A settlement practice whereby settlement of interbank obligations takes place in real time.	Settlement
Real-time Line		The channel through which real-time settlement takes place.	Settlement
S			
Settlement		Settlement refers to the final and irrevocable discharge of an obligation of one bank in favour of another bank, in central bank money.	Bank, Settlement Finality
Settlement Bank		A bank that has an account for settlement purposes with the central bank.	Bank, Settlement
Settlement Finality		See Finality of Settlement.	Bank, Finality of Settlement
Settlement Instruction		The instruction to the central bank issued by a bank and/ or an authorised (payment) clearing house to effect settlement of payment obligations.	Bank, Clearing House, Settlement
Settlement Risk		The risk that settlement in a transfer system will not take place as expected. This risk may comprise both credit and liquidity risk.	Settlement
South African National Payment System Forum	SANPAY	A national body constituted to represent the interests of all NPS stakeholders.	
Sponsored Bank		A bank that makes use of a financial sponsorship agreement with another bank for settlement purposes.	Bank, Financial Sponsorship
Sponsoring Bank		A bank that accepts the settlement obligation on behalf of a sponsored bank.	Bank, Financial Sponsorship, Settlement, Sponsored Bank
Systemic Risk		The risk that the failure of one participant to meet its contractual obligations could deprive other participants of funds owed to them, resulting in a chain reaction whereby a large number or all of the participants in a settlement system are unable to meet their respective obligations.	

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