

SOUTH AFRICAN RESERVE BANK  
NATIONAL PAYMENT SYSTEM DEPARTMENT

**INFORMATION PAPER  
NPS 05**

**SAME DAY SQUARE-OFF IN  
THE SOUTH AFRICAN MULTIPLE OPTION SETTLEMENT (SAMOS) SYSTEM**

**Information Paper: NPS 05**

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## 1. INTRODUCTION

The purpose of this document is to outline the SA Reserve Bank's position on Same Day Square-off of the South African Multiple Option Settlement (SAMOS) system. Same Day Square-off of SAMOS, is the alignment of the opening and closing of the SAMOS settlement cycle date with the start / close of a calendar day. In the context of the above statement, a SAMOS settlement cycle date for a specific settlement date should start at 00h00 of the calendar date and end at 24h00 of that specific calendar date. When Same Day Square-off is implemented, a calendar date and a settlement cycle date (SCD) will be the same date except in the case of Sundays and Public Holidays which are non-settlement cycle days and thus would form extensions of the preceding SCD. Since settlement would not be allowed during Sundays or public holidays, any transactions processed by Payment Clearing House (PCH) System Operators on these days would only be submitted by the PCH System Operators and settled in the SAMOS system in the next valid SCD.

Furthermore, the implementation of Same Day Square-off will accomplish the following important objectives:

1. Compliance with principle IV of the BIS Core Principles for Systemically Important Payment Systems which relates to settlement occurring on the intended day of value;
2. The requirement for settlement of foreign exchange transactions in the Continuous Linked Settlement (CLS) System commencing at 07:00 CET, once the Rand is implemented as a CLS settlement currency.

## 2. BACKGROUND

When the SAMOS system was initially implemented, the settlement schedule was set such that a settlement cycle date would close at 09h30 on the next calendar date. Using an example to illustrate, a settlement cycle date, Tuesday 5 March 2002 would commence at 09h31 on calendar date 5 March 2002 and close at 09h30 on calendar date 6 March 2002. At that stage the PCH batches, although received by the SA Reserve Bank in the evening of the SCD, were only settled at 07:00 the following morning.

The successful implementation of item limits in the retail payment streams by the industry made it possible to consider Same Day Settlement of payment obligations, due to the reduction in values which had occurred in the batch settlements. The value of batch settlements had reduced to approximately 8% of the total settlement value.

The SA Reserve Bank and the SAMOS participants agreed that as from 7 May 2002, all obligations including the PCH batches would settle by 24h00 on the day they were received. In addition the settlement schedule was adjusted such that any settlement cycle date would close at 08h30 on the next calendar date. Using an example to illustrate, a settlement cycle date, Tuesday 5 March 2002 would commence at 08h31 on calendar date 5 March 2002 and close at 08h30 on calendar date 6 March 2002. Currently, the settlement schedule is still set as outlined in the aforementioned example.

### 3. PRINCIPLES

In order to introduce Same Day Square-off, the following principles have been agreed to between the SA Reserve Bank and the banking industry:

- 3.1 Prior to adjustment of the SAMOS Settlement schedule to adhere to the Same Day Square-off objective as outlined in the introduction, the SAMOS application will have to be changed to accept only real-time line (RTL) retail batch transactions for settlement after the close of the normal operational hours (Figures 1 & 2: Night Window). Besides the RTL retail batch transactions, only registering of scheduled instructions & batches, processing of administration instructions, reports and collateral instructions shall be undertaken in the Night Window;
- 3.2 The SAMOS system will calculate any interest payable on debit balances at the start of the respective weekday/Saturday Night Windows (Figures 1 + 2: Night Window). The monitoring of the participants' Reserve Accounts and Liquid Asset Requirements averaging, will be based on the applicable balances as at the start of the Night Window;
- 3.3 The industry proposed that the settlement of retail batches would occur as soon as the obligations of the parties involved have been determined. For example, the Electronic Funds Transfer (EFT) batches may be split into dated transactions and Same Day Soonest Value (SSV) transactions. Dated transactions can then be settled early in the settlement cycle date with SSV batches being settled at agreed times throughout the day;
- 3.4 The RTL retail batch settlements will be settled across participants' RTL accounts between 17h00 and 24h00. This will result in participants' settlements accounts being overdrawn or in credit at the end of the settlement cycle date. Interest owing to/by participants as a result of the RTL retail batch settlements, will be calculated by Bankserv and processed against participants' settlement accounts at a time agreed to by the Settlement System Participant Group. RTL retail batch settlement exceptions in the SAMOS system will be managed by the SA Reserve Bank;

- 3.5 During a weekday Square-off Position Window, participants will be provided with an opportunity to square-off their settlement account balances in the Position Window. Banks will enter into Interbank borrowing and lending in this window. Any activity relating to Tax & Loan transactions must be communicated to the market before the start of the Position Window. Participants who carry a long position into the Night Window will not be paid any interest on such long positions, while participants that go into the Night Window in short positions will be charged interest on such short positions, at a rate to be determined by the SA Reserve Bank;
- 3.6 On a weekday the final REPO process will be moved from the current morning Position Window to the afternoon Position Window (Refer to the Position Window times in Figure 1 Weekday + Figure 2 Saturday).
- 3.7 On a Saturday, square-off of the system will take place in the morning. Participants will be provided with an opportunity to square-off their positions. The final square-off REPO process will take place in the Position Window. Participants who carry a long position into the Night Window will not be paid any interest on such long positions, while participants that go into the Night Window in a short position will be charged interest on such short positions, at rate to be determined by the SA Reserve Bank. On Saturdays where government bonds mature or large interest and dividend payments are due, banks will be provided with an opportunity to make use of the REPO facility if required;
- 3.8 In order to facilitate the required money market position, which includes the flows to and from the SA Reserve Bank, relating to Tax and Loan payments and inter bank lending between South African banks and cross-border (Common Monetary Area) banks, the following will be effected:
- Tax and Loan Accounts:
    - Relevant government departments will be advised of the revised arrangements;
    - Late requests for transfers will be effected in the next settlement cycle date;
  - Common Monetary Area (CMA) settlements:
    - CMA banks will be advised of the revised arrangements;
    - Late settlements will be effected in the next settlement cycle date, exclusive of interest.

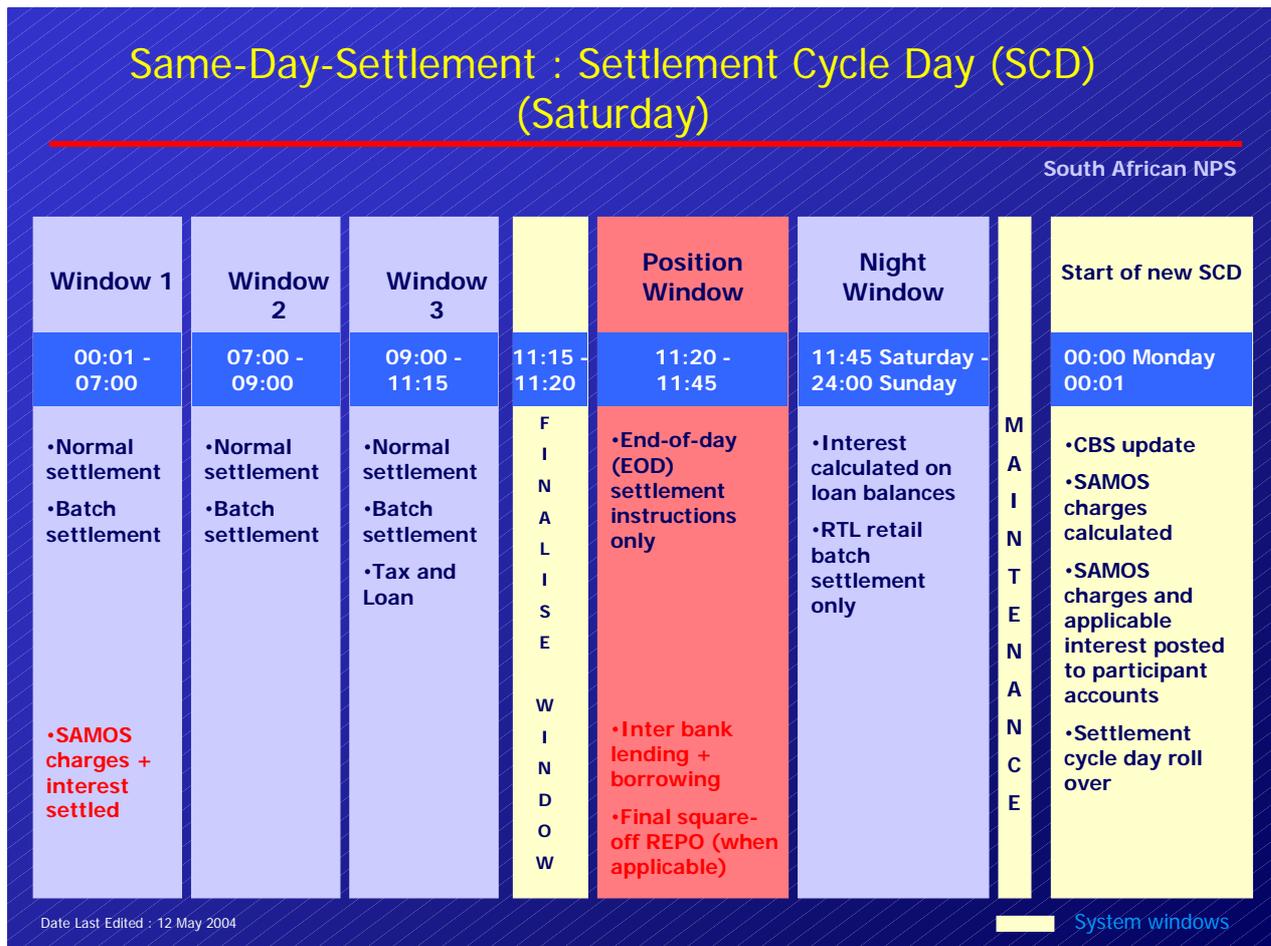
#### **4. ADDITIONAL PRINCIPLES**

- 4.1 The SAMOS settlement schedule will be changed to enable Same Day Square-off after all relevant issues outlined above have been implemented (Refer to Figure 1 Weekday + Figure 2 Saturday);
- 4.2 The industry should endeavour to further reduce values in the retail batch streams. This may include intermittent intra-day settlement of retail payment streams.

Figure 1 : Same-day Settlement Schedule - Weekday

Same-Day-Settlement : Settlement Cycle Day (SCD) (Weekday)						
South African NPS						
Window 1	Window 2	Window 3		Position Window	Night Window	Start of new SCD
00:01 - 07:00	07:00 - 12:00	12:00 - 16:15	16:15 - 16:20	16:20 - 17:00	17:00 - 24:00	00:00 - 00:01
<ul style="list-style-type: none"> <li>•Normal settlement</li> <li>•Batch settlement</li> </ul> <p>•SAMOS charges + interest settled</p>	<ul style="list-style-type: none"> <li>•Normal settlement</li> <li>•Batch settlement</li> <li>•CLS settlement</li> </ul>	<ul style="list-style-type: none"> <li>•Normal settlement</li> <li>•Batch settlement</li> <li>•CLS settlement</li> </ul> <p>•Main REPO (Wednesdays only : 12h00)</p> <p>•CPD</p> <p>•Tax + Loan</p>	F I N A L I S E  W I N D O W	<ul style="list-style-type: none"> <li>•End-of-day (EOD) settlement instructions only</li> <li>•Inter bank lending + borrowing</li> <li>•Final square-off REPO (when applicable)</li> </ul>	<ul style="list-style-type: none"> <li>•Interest calculated on loan balances</li> <li>•RTL retail batch settlement only</li> </ul>	M A I N T E N A N C E  <ul style="list-style-type: none"> <li>•CBS update</li> <li>•SAMOS charges calculated</li> <li>•SAMOS charges and applicable interest posted to participant accounts</li> <li>•Settlement cycle day roll over</li> </ul>
Date Last Edited : 14 May 2004						System windows

Figure 2 : Same-day Settlement Schedule - Saturday



## **ACKNOWLEDGEMENT OF RECEIPT**

Two additional copies of this position paper are enclosed for the use of your institution's independent auditors. The attached acknowledgement of receipt duly completed and signed by both the chief executive officer of the institution and the said auditors should be returned to the National Payment System Department at the SA Reserve Bank at the earliest convenience of the aforementioned signatories.

**D C Mitchell**  
**HEAD: NATIONAL PAYMENT SYSTEM DEPARTMENT**

**ACKNOWLEDGEMENT OF RECEIPT**

I acknowledge receipt of Position Paper NPS 01/2004. Copies have been handed to the undermentioned auditors of this institution:

**NAME OF AUDITOR**

**AUDITOR'S SIGNATURE**

1. \_\_\_\_\_

\_\_\_\_\_

2. \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_  
DATE

\_\_\_\_\_  
CHIEF EXECUTIVE OFFICER

**NAME OF BANK**

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**PLEASE RETURN TO:**

The National Payment System Department  
P O Box 427  
PRETORIA  
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