

**South African Reserve Bank
National Payment System Department**

**Position paper on Common Monetary Area (CMA) Cross-border
Payments**

Position paper number 01/2001

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CMA Cross-border payments

EXECUTIVE SUMMARY

This document outlines the principles to be applied by the clearing banks in South Africa when clearing cross-border payments through the Payment Clearing House (PCH) facilities of the National Payment System (NPS). It is intended that the application of the principles outlined herein will promote the achievement of a legally sound cross-border payment system where the risks involved are effectively managed.

1. INTRODUCTION

The implementation of the strategies contained in the South African NPS Strategy and Framework document (Blue book) is currently being actively pursued by the South African banking industry in conjunction with the Payments Association of South Africa (PASA) and the South African Reserve Bank (SARB).

One of the fundamental principles contained in the Blue book is a requirement that all payment related risks should be identified, quantified and assessed with the purpose of enabling the participants to manage their exposures in the NPS. Coupled to this is the requirement that cross-border practices should be reviewed with the purpose of formalising the South African Rand (ZAR) leg in the NPS and, in the long term, having these practices comply with international best practice.

2. OBJECTIVE

The objective of this position paper is to provide the South African banking industry with a framework enabling them to achieve a legally sound CMA cross-border payment exchange system in which the risks are adequately managed. Additionally the framework is expected to assist in identifying any inappropriate practices within the NPS, eg. the provision of payment services within South Africa by non-South African CMA banks which are not subject to South African banking regulations and supervision.

3. PRINCIPLES

- 3.1 Two of the fundamental principles contained in the Blue book which relate to the CMA cross-border payment exchange issue are :

Risks and exposures are visible - All payment related risks should be identified, assessed and quantified as far as possible. To the extent that the NPS does not control risks, it provides the facilities and information for participants to manage their exposures, and

Participants are liable for the risk that they introduce into the NPS - NPS participants individually, and where applicable, jointly, are responsible for managing the risks that they introduce into the NPS.

- 3.2 The SARB requires South African banks who participate in the clearing of non-South African CMA payment instructions within the South African PCH's to draw up separate CMA clearing (CMAC) agreements, in respect of the clearing of these items, and to make them available to the SARB and PASA on request.
- 3.3 Additionally, the SARB requires that South African banks (CMA Sponsoring banks) have written correspondent arrangements with non-South African CMA banks and make them available to the SARB and PASA on request
- 3.4 To assist the South African banking industry in achieving the objectives of these principles in respect of the CMA cross-border payment exchange system, a series of rules have been drawn up by the SARB in collaboration with the banking industry and PASA, setting out in detail the requirements for attaining a legally sound CMA cross-border payment exchange system in which the risks are effectively managed. This set of rules is attached to this position paper as Annexure A and forms an integral part of this position paper.
- 3.5 To manage the reduction of CMA cross-border risks, the CMA central banks have agreed to appoint a joint oversight committee to oversee the implementation of, and to monitor, various risk reduction arrangements contained in this position paper and relevant Annexure A.

4. COMPLIANCE

The individual clearing banks in the South African banking industry are required to identify issues related to the implementation of the requirements contained in this position paper within three months of the date of issue. Estimated time-frames for the achievement of compliance, per issue, should be provided to the NPS Department of the SARB in the relevant responses.

Each clearing bank will be required annually, as at 31 March, to confirm its CMAC relationships and CMA Correspondent and Sponsorship relationships to PASA and the NPS Department of the SARB.

5. 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 NPSD of the SARB by 2001-11-23

CROSS-BORDER PAYMENTS - COMMON MONETARY AREA (CMA)
RULES FOR APPLICATION BY THE SOUTH AFRICAN BANKING INDUSTRY

2001-10-22

1. OBJECTIVE

The objective of this set of rules is to provide the South African banking industry with a framework enabling them to achieve a legally sound CMA cross-border payment exchange system in which the risks are adequately managed. Additionally the framework is expected to assist in identifying any inappropriate payment practices within the NPS, eg. the provision of payment services within South Africa by non-South African CMA banks which are not subject to South African banking regulations and supervision.

2 CMA CROSS-BORDER PAYMENTS

2.1 Categories

- 2.1.1 Payments made within South Africa, drawn on non-South African CMA banks, using cheques, card payments via Point of Sale (PoS) devices, cash withdrawals at Automatic Teller Machines (ATM's) and Electronic Fund Transfer (EFT) debits.
- 2.1.2 Payments made within non-South African CMA countries, drawn on South African banks, using cheques, card payments via PoS devices, cash withdrawals at ATM's and EFT debits
- 2.1.3 Payments made within South Africa, drawn on South African banks for credit of persons with banking accounts at non-South African CMA banks, using EFT credits, paper credits and S.W.I.F.T. transfers.
- 2.1.4 Payments made within non-South African CMA countries, drawn on non-South African CMA banks for credit of persons with banking accounts at South African banks, using EFT credits, paper credits and S.W.I.F.T. transfers.

2.2 Methods of exchange

- 2.2.1 Directly, i.e. outside any South African Payment Clearing House (PCH), to or from a non-South African CMA bank from or to a South African bank using the internationally accepted practice of correspondent banking, i.e. whereby the two banks, normally situated in different territories, maintain accounts with each other in the required currency, and periodically or whenever necessary, discharge the balance(s) thereon.
- 2.2.2 Directly, i.e. outside any South African PCH, by a South African bank to or from a South African bank that has a correspondent banking relationship with the relevant non-South African CMA bank using the internationally accepted practice of correspondent banking.
- 2.2.3 Through a South African PCH, where the clearing takes place between South African banks and where the South African bank, to or from

which the CMA cross-border payments are cleared within the PCH, acts as correspondent bank for the relevant non-South African CMA bank.

3 RULES TO BE APPLIED

3.1 General Rules

- 3.1.1 Any South African clearing bank may establish a relationship and may exchange payments with any non-South African CMA bank based on the international practice of correspondent banking as foreseen in sections 2.2.1 and 2.2.2 above. However, banks that wish to change their existing payment exchange practice of processing payments via a South African PCH and follow practices as described in the aforementioned sections, may only do so with prior notification to the counter-party non-South African CMA bank and the joint oversight committee.
- 3.1.2 Only direct clearing banks, as defined in the South African Reserve Bank (SARB) National Payment System (NPS) Department position paper no 02/2000, that have established correspondent banking relationships with non-South African CMA banks, may facilitate the clearing of CMA cross-border payments in a South African PCH, as per section 2.2.3 above. These existing correspondent banking relationships, together with the relationship between participating banks in the South African PCH must be formalised in terms of sections 3.2.6 and 3.2.9 herein.
- 3.1.3 South African banks may not facilitate CMA cross-border payments for non-South African CMA banks other than through the methods of exchange outlined in section 2 above.
- 3.1.4 CMA cross-border payments made at PoS devices by means of internationally acceptable payment cards such as Visa or Mastercard cards must be processed as international payments via the aforementioned card associations. Failing this, section 3.3.4 applies.

3.2 Rules to be applied to the exchange of CMA cross-border payments through a South African PCH

- 3.2.1 For purposes of risk management within the NPS, the South African bank that facilitates clearing of CMA cross-border payments in a South African PCH acts as correspondent for the relevant non-South African CMA bank. The South African bank is therefore, as documented in the applicable PCH agreements and the Clearing Rules, responsible for clearing and subsequent settlement of any payment obligations created or receivable by the clearing of the CMA cross-border payments and is effectively “sponsoring” clearing and settlement for the relevant non-

South African CMA bank in the South African PCH. For purposes of identification, such a South African bank will be known as a CMA sponsoring bank.

- 3.2.2 CMA cross-border payments made within South Africa that are drawn on non-South African CMA banks may only be cleared to a CMA Sponsoring bank in any South African PCH, provided it is drawn in ZAR or converted to ZAR, refer to section 3.2.12 herein, before being delivered for clearing as foreseen in section 3.2.6 herein.
- 3.2.3 CMA cross-border payments made within South Africa that are drawn on South African banks for credit of persons with accounts in the books of non-South African CMA banks may be cleared to a CMA sponsoring bank in any South African PCH, provided it is drawn in ZAR or converted to ZAR, refer to section 3.2.12 herein, before being delivered for clearing as foreseen in section 3.2.6 herein.
- 3.2.4 CMA cross-border payments made within non-South African CMA countries that are drawn on South African banks may only be cleared by a CMA Sponsoring bank, in any South African PCH, provided it is drawn in ZAR or converted to ZAR, refer to section 3.2.12 herein, before being delivered for clearing as foreseen in section 3.2.6 herein.
- 3.2.5 CMA cross-border payments, made within non-South African CMA countries, drawn on non-South African CMA banks for credit of persons with banking accounts in the books of South African banks, may only be cleared by a CMA Sponsoring bank in any South African PCH provided it is drawn in ZAR or converted to ZAR, refer to section 3.2.12 herein, before being delivered, for clearing as foreseen in section 3.2.6 herein.
- 3.2.6 Arrangements between South African banks in respect of the clearing of CMA cross-border payments through a South African PCH must be documented in standard, uniform CMA Clearing (CMAC) agreements approved by PASA and the SARB. Such agreements must ensure conformance to South African clearing rules and may not, under any circumstances, override any clauses contained in the South African PCH agreements. It must be clearly recorded in the agreements that, for the purpose of clearing and settlement in terms of that PCH agreement, the CMA Sponsoring bank is acting as correspondent and therefore the non-South African CMA bank has no status in its own right.
- 3.2.7 All payment obligations stemming from the clearing of CMA cross-border payments in a South African PCH must be settled in ZAR through the South African Multiple Option Settlement (SAMOS) system, by or to the CMA sponsoring bank of the relevant non-South African CMA bank.

- 3.2.8 Local payments made within non-South African CMA countries and cross-border payments drawn on or made to banks in non-South African CMA countries may not be cleared in any South African PCH.
- 3.2.9 The correspondent banking relationships between CMA sponsoring banks and the relevant non-South African CMA banks must be entered into contractually and approved by PASA and the SARB. The correspondent contracts with the non-South African CMA banks will require those banks to conform to South African clearing rules, in respect of items cleared through a South African PCH, that are in place from time to time. Such contracts should also provide for the conditions under which immediate suspension of cross-border exchange operations could be initiated.
- 3.2.10 A South African bank may not clear any CMA cross-border payments stemming from any correspondent banking relationship with a non – South African CMA bank, through a South African PCH, without the support of a CMAC agreement as foreseen in section 3.2.6 above.
- 3.2.11 Currency conversions between ZAR and the non-South African CMA country's currency take place in the books of each CMA sponsoring bank. Currency risk, therefore, is the responsibility of the CMA sponsoring bank.
- 3.2.12 Currency risk relating to currency conversions performed by a South African bank in order to deliver CMA cross-border payments for clearing via a South African PCH is the responsibility of that South African bank.
- 3.2.13 Each South African bank is free to manage its CMA cross-border payments on a true correspondent banking basis in terms of the provisions of sections 2.2.1 and 2.2.2 above, provided that such payments do not enter a South African PCH in any form whatsoever.
- 3.2.14 Only one South African bank may act as CMA sponsoring bank, in all South African PCH's, for a specific non-South African CMA bank.
- 3.2.15 All CMA cross-border payments, viz. those cleared in a South African PCH and those cleared in terms of the method of payment described in section 2.2.1 above, must be identified as CMA cross-border payments.
- 3.2.16 South African PCH system operators must provide information relating to CMA cross-border payments separately from information relating to South African payments.
- 3.2.17 Direct clearing banks acting as CMA sponsoring banks must provide information relating to volumes and values of transactions passed under such relationships to the SARB as and when required. As a

minimum standard, such information must be provided for each non-South African CMA country within each South African PCH

- 3.2.18 South African banks are not obliged to accept, within South Africa, any CMA cross-border payment of, or for, any specific or all non-South African CMA banks of a non-South African CMA country. CMAC agreements created in terms of section 3.2.6 above must therefore provide for the immediate suspension of such and agreement as and when deemed necessary.

3.3 Rules for the management of risk

The joint oversight committee which has been appointed by the CMA central banks, in collaboration with the banks involved in the CMA cross-border payment exchange system will, as a minimum, ensure that the following issues are addressed:

- 3.3.1 Item limits per payment cleared through South African PCH's and/or methods of exchange as described in sections 2.2.1 and 2.2.2 above must be agreed and implemented, but may not be larger than item limits imposed for local South African payments.
- 3.3.2 Jurisdiction applicable to each CMA cross-border payment category or method of exchange as defined in section 2. above, must be agreed and documented in those agreements envisaged in sections 3.2.6 and 3.2.9 above.
- 3.3.3 Cancellation arrangements for various situations, including cases of political upheaval, must be agreed and documented in those agreements envisaged in sections 3.2.6 and 3.2.9 above.
- 3.3.4 South African banks that have established relationships with non-South African CMA banks which are different to the arrangements foreseen in this document, will have to rectify such relationships within six months of the date of issue of this position paper, or will have to motivate and request an extension of time or an exemption, from the NPS Department of the SARB.
- 3.3.5 South African banks that create correspondent relationships with non-South African CMA banks in terms of this position paper will arrange these correspondent relationships contractually. Any other subsidiary or management relationship that may also exist between those banks does not in any way alter the need for this contractual arrangement.

- 3.3.6 South African banks that choose to use the method of exchange described in section 2.2.2 above, must settle the related obligations via the South African Multiple Option Settlement (SAMOS) system.