

Overview of the Austraclear New Zealand System

Updated April 2007

1 System structure

The Austraclear system is a real time settlement system which members access from their premises.

Each member has a security account(s) on the system which records the securities “lodged with New Zealand Central Securities Depository Limited” (NZCSD), a custodian, fully owned by the RBNZ. NZCSD becomes the legal owner of the securities on the respective register and holds securities on behalf of the member, the beneficial owner. The inventory of securities held in the depository currently stands at around NZD92 billion.

Each member also has a system cash account. This account is provided by a registered New Zealand bank. The bank providing a system cash account has real time access to set daylight limits (debit caps) on that account.

For a transaction to be settled, both parties must enter relevant details of the transaction and those transaction details must be “matched” by the system before further processing can continue.

All payments, whether for the settlement of securities transactions or just cash transfers, are irrevocable once they are accepted by the System. This is possible because transactions are not accepted by the System unless the paying member has sufficient credit provided by their banker within the System to allow the transaction to be completed. The irrevocable nature of the payment, together with the delivery versus payment (DVP) mechanism for security transactions, means that Austraclear provides a quality securities settlement and cash payment facility of international standards.

[Appendix I](#) gives a pictorial description of the system structure and [Appendix II](#) describes and illustrates a typical trade on Austraclear.

2 System functions

The Austraclear system offers the following functionality:

- Delivery versus Payment (DVP), Real Time Gross Settlement¹ for the following registered security types:
 - Registered Certificates of Deposit
 - Bonds and Treasury Bills
 - Registered Notes
 - Equities

¹ Settlement is in irrevocable bank funds.

- Security transfer between members.
- Cash Transfers - between members.
- FX Confirmations - electronic matching/confirmation of FX trades.
 - For any currency pairs
 - Settlement of any NZD leg
- Electronic Tender Facility
- Host to Host Lite Interface - allows direct transfer of transactions from members' internal systems to the Austraclear system.
- FTP Transaction Status file – provides the member with a regular site update of the status of all external transactions. The file is transferred using FTP protocol. HTH Lite combined with the FTP transaction status file provides a near real time batched STP solution for members.
- Austraclear SWIFT Interface (ASI) – is a full application to application interface, allowing members to adopt an exception based processing approach. The ASI allows members to enter Cash Transactions, Fixed Interest and Equity Trades automatically into Austraclear via SWIFT messages sent over the SWIFT Network, without a user connecting to an Austraclear terminal.

3 Ownership

The Austraclear New Zealand System is operated in New Zealand by the Reserve Bank of New Zealand. The rights and obligations of members to each other and the rights and obligations of the Reserve Bank of New Zealand as operator of the System are governed by a mutual contract entered into by all members. This contract is known as the Austraclear Rules. Copies are available on request from our Home page www.rbnz.govt.nz.

The System has been in operation in New Zealand since June 1990.

4 Membership structure

The Reserve Bank offers three types of membership:

- *Full Member* - access to full system functionality
- *Associate Member* - has limited access to system functionality
 - No branches allowed
 - Unable to trade directly with another Associate Member
 - Allowed no security sub accounts
- *Nominated Trust Member* - access full system functionality

- A Nominated Trust member operates as a branch of a full member. The set up on Austraclear gives legal protection to the assets of the Nominated Trust Member (this membership is available only to entities established under the New Zealand Trustees Act 1956).

5 Fee structure

The fee structure is made up of three parts. A joining fee, an annual subscription and transaction fees. The level of joining fees and annual subscription depend on the extent of functions required and the means of access to the System. This usually requires some discussion to establish the needs of the member. Transaction fees are the same for each membership class.

6 Criteria for membership

The Reserve Bank will favourably consider an application for Austraclear membership from any institution (domestic or foreign), which, in the opinion of the Reserve Bank, is of good standing and has the necessary resources to meet its obligations as a member.

7 Application for membership

Copies of the membership application pack and other background information on Austraclear:

- System Overview
- Membership List
- Fee Structure
- Austraclear Rules and Operating Guidelines

can be obtained through our website www.rbnz.govt.nz, or from Mrs Adrienne Barlow on (0064 4) 471 3629.

We advise an applicant to discuss how to fill in the application pack with Mrs Barlow before sending it to us.

If the applicant meets the membership criteria and has correctly completed the application forms, we can connect them within ten business days.

8 Transaction volumes

Daily transaction numbers vary between 800 and 1200 and the average total value of daily transactions is around NZ\$8 billion.

9 System resilience

Back-up and recovery arrangements are such that even in the most extreme disaster scenario, the maximum system outage would one hour.

10 System summary

The system provides for a secure paperless settlement environment through the electronic transfer of funds and securities. Use of the system reduces members' exposure to both settlement and credit risks. The extent of system usage is highlighted by the statistics given below.

The Austraclear System has:

- 190 members in New Zealand and Australia.
 - 56 Full Members
 - 56 Associate Members
 - 78 Nominated Trust Members
- Around NZD92.5 billion of securities held in the New Zealand Central Securities Depository².
- Around 1,100 transactions per day which equates to around eight billion dollars in daily transaction value.

11 Enquiries

These may be directed to:

Mike Wolyncewicz, Chief Financial Officer
 Financial Services Group (0064 4) 471 3826
 Email – firstname.lastname@rbnz.govt.nz

or

Adrienne Barlow, Manager
 Payment & Settlement Services
 Financial Services Group (0064 4) 471 3629
 Email – firstname.lastname@rbnz.govt.nz

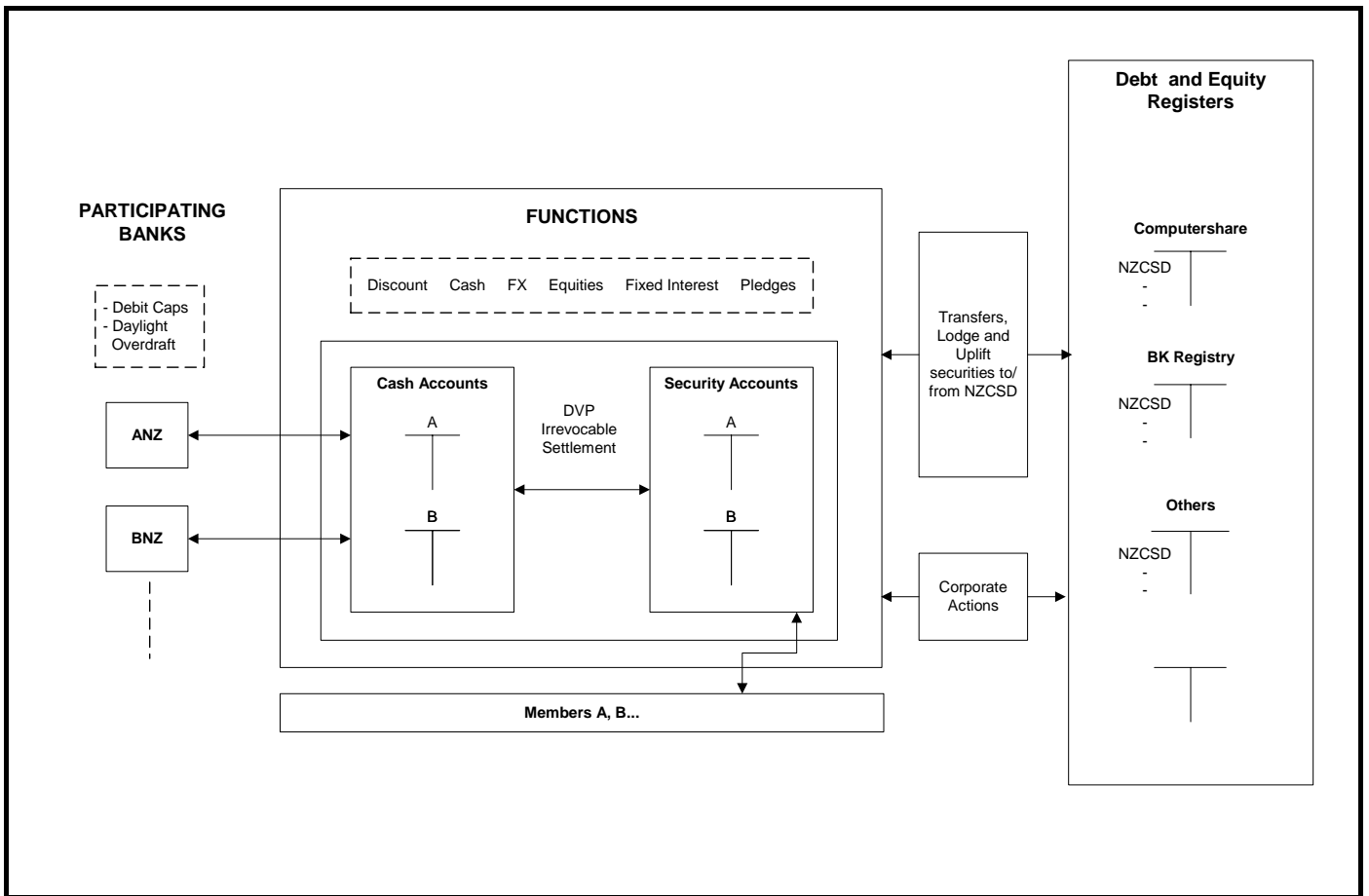
or

Fax for the attention of the above (0064 4) 471 3712

RTGS Help Desk (0064 4) 471 3918

² Fluctuates with share values.

Austraclear New Zealand System



A typical trade on Austraclear

The following steps are typical of the process to settle a transaction on Austraclear using the “autosettle” option when A sells a security to B.

1. *Trade agreed* between Party A and Party B.
2. *Trade input* - both parties input and authorise³ the trade details
3. System matches trade details.
4. (a) *If details don't match*, members have to correct deal details.
 (b) *If deal details match*, then on settlement date, or immediately if same day trade and if:
 - (i) The seller has beneficial ownership of the security within NZCSD.
 - (ii) The buyer has sufficient funds or unutilised limits in their Austraclear bank account;

then

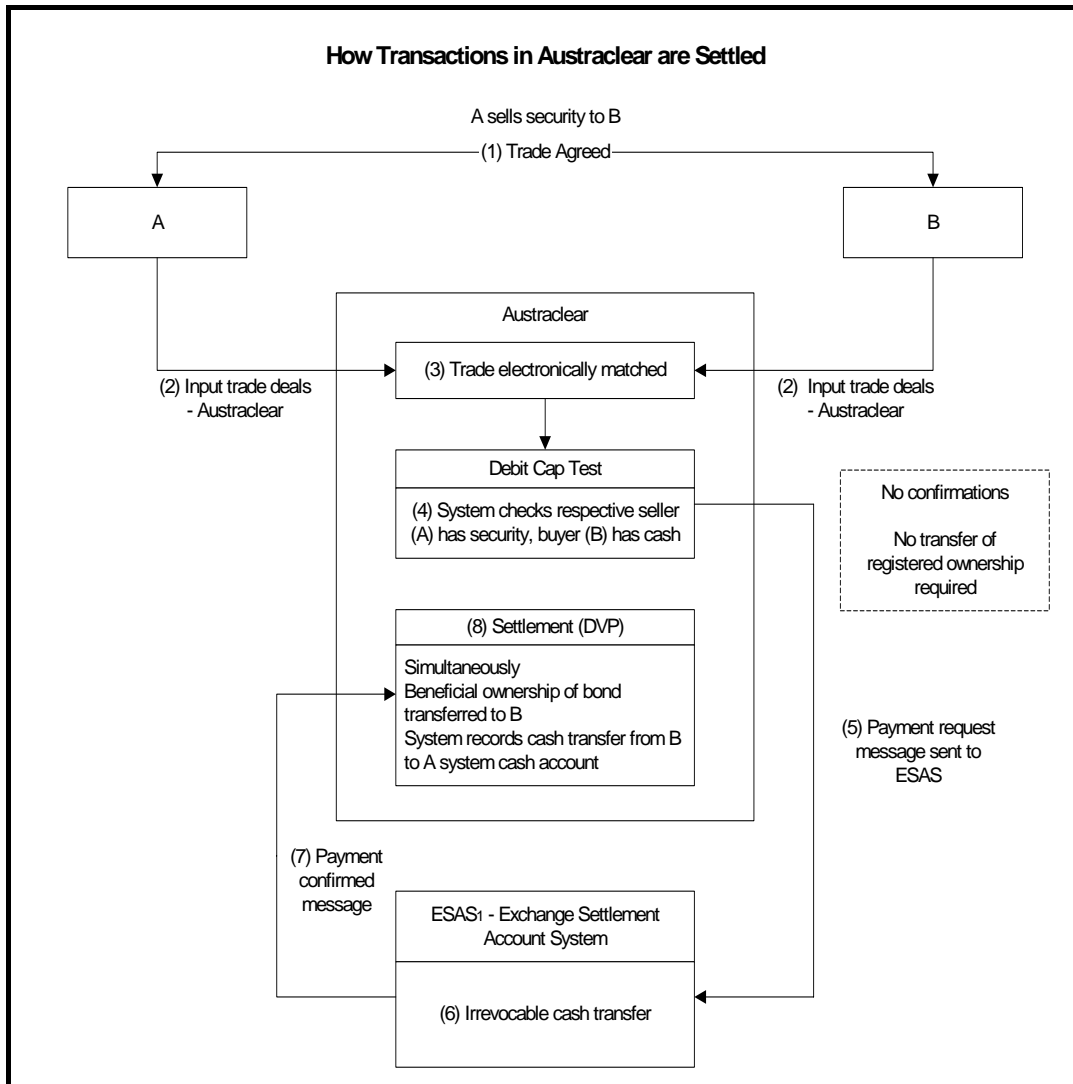
5. Austraclear sends a payment request to ESAS (Exchange Settlement Account system) for B's bank to pay the funds to A's bank ES account held at the RBNZ.
6. The buyer's banker authorises the transfer of funds to the seller's banks.
7. ESAS sends a payment confirmation message to Austraclear to continue payment.
8. Austraclear irrevocably settles the transaction. The security and cash records of the system are updated simultaneously.

If all conditions are not met, the trade will stay pending settlement throughout the day, and settlement will be continually attempted by the system. If the trade is not settled by end of day it is removed from the system overnight.

If the seller holds the security outside NZCSD, then the security will have to be transferred from the seller's name and *lodged* into NZCSD's name to allow the trade to complete. Once the security is lodged into NZCSD's name, the seller will become the beneficial owner of the security once their security account is credited.

Alternatively, if the buyer wants to be the legal owner of the security, ie not as beneficial owner, then once the trade is settled they can *uplift* the security from NZCSD and transfer the ownership into their own name at the security register.

³ Each member sets the number of authorised electronic signatures required.



¹ ESAS is the software system through which funds are irrevocably transferred between registered banks that hold settlement accounts at the Reserve Bank.