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AUSTRALIAN PAYMENTS NETWORK LIMITED

ABN 12 055 136 519

A Company limited by Guarantee

Code Set

for

ISSUERS AND ACQUIRERS COMMUNITY FRAMEWORK

Volume 5 Settlement Code

Commenced 1 July 2015

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ABN 12 055 136 519

Australian Payments Network Limited

Level 23, Tower 3, International Towers Sydney, 300 Barangaroo Avenue, SYDNEY NSW 2000
Telephone: (02) 9216 4888

Code Set for
ISSUERS AND ACQUIRERS COMMUNITY
FRAMEWORK

Volume 5
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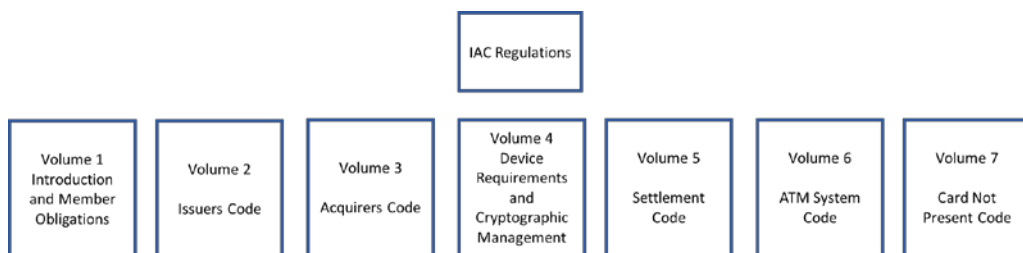
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PART 1 INTRODUCTION, INTERPRETATION AND DEFINITIONS

1.1 Purpose of this Code

The IAC has been established to develop, implement and operate effective standards, policies and procedures to promote the efficiency, security and integrity of Australian Card Payments. These include minimum security standards, interoperability standards and value added services that support how payment cards are used throughout Australia.

These standards and requirements are contained within the IAC Code Set which is structured as follows:



Amended
effective 1.7.19

This volume provides the operational practices and processes for the settlement of all obligations incurred by IA Participants as a result of Interchange Activity arising from the exchange of Settlement Items, being ATM Transactions cleared under the auspices of Volume 6 of the IAC Code Set (the ATM System Code) and EFTPOS Transactions cleared pursuant to the rules prescribed for the EFTPOS Card Payment System by eftpos Payments Australia Limited as the administrator of that system.

1.2 Interpretation

In this IAC Code Set:

- (a) words importing any one gender include the other gender;
- (b) the word 'person' includes a firm, body corporate, an unincorporated association or an authority;
- (c) the singular includes the plural and vice versa;
- (d) unless the contrary intention appears, a reference to a clause, part or annexure is a reference to a clause, part or annexure of the volume of the IAC Code Set in which the reference appears;

- (e) a reference to a statute, code or the Corporations Law (or to a provision of a statute, code or the Corporations Law) means the statute, the code, the Corporations Law or the provisions as modified or amended and in operation for the time being, or any statute, code or provision enacted in lieu thereof and includes any regulation or rule for the time being in force under the statute, the code, the Corporations Law or the provision;
- (f) a reference to a specific time means that time in Sydney unless the context requires otherwise;
- (g) words defined in the Corporations Law have, unless the contrary intention appears, the same meaning in this IAC Code Set;
- (h) words defined in the Regulations have, unless the contrary intention appears, the same meaning in this IAC Code Set;
- (i) this IAC Code Set has been determined by the Management Committee and takes effect on the date specified by the Chief Executive Officer pursuant to Regulation 1.2; and
- (j) headings are inserted for convenience and do not affect the interpretation of this IAC Code Set.

1.3 Definitions

In this IAC Code Set the following words have the following meanings unless the contrary intention appears.

“Acquirer” means a Constitutional Corporation that in connection with a Transaction:

- (a) under arrangement with and on behalf of an Issuer, discharges the obligations owed by that Issuer to the relevant Cardholder; and
- (b) engages in Interchange Activity with that Issuer as a result.

“Acquirer Identification Number” and **“AIN”** The six-digit number assigned by ISO to identify an acquiring Framework Participant (see also IIN, BIN).

“Acquirer Reference Number” [Deleted]

Deleted effective 20.8.18

“AID” means Application ID present in an ICC chip card.

Inserted effective 21.11.17

“Approved Cardholder” means:

Inserted effective 1.1.16

- (a) a customer of an Issuer (or third party represented by an IA Participant) who has been issued with a Card and a PIN by that IA Participant or by a third party represented by the IA Participant; or

- (b) any person who operates an account or has access to an account held with an IA Participant (or third party represented by an IA Participant) who has been issued with a Card and PIN by the IA Participant (or third party represented by an IA Participant).

“**Approved Card Payment System**” has the meaning given in the IAC Regulations.

“**Approved Device**” means a Secure Cryptographic Device that has been evaluated in accordance with clause 3.1 of the IAC Code Set Volume 4 (Device Requirements and Cryptographic Management) which has been approved for use within IAC.

Amended effective 1.1.16

“**Approved Evaluation Facility**” and “**AEF**” means a testing laboratory that has been accredited by the Company to conduct SCD security compliance testing and is listed on the Company’s website as an Approved Evaluation Facility.

Amended effective 1.1.19

“**Approved SPoC Solution**” means a SPoC solution that has been evaluated in accordance with Annexure G of the IAC Code Set Volume 4 (Device Requirements and Cryptographic Management) and approved for use within IAC. All such SPoC solutions must have been approved by PCISSC prior to evaluation by AusPayNet.

Inserted effective 1.1.19

“**AS**” means Australian Standard as published by Standards Australia.

“**ATM**” or “**ATM Terminal**” means an approved electronic device capable of automatically dispensing Cash in response to a Cash withdrawal Transaction initiated by a Cardholder. Other Transactions (initiated by a Card) such as funds transfers, deposits and balance enquiries may also be supported. The device must accept either magnetic stripe Cards or smart (chip) Cards where Transactions are initiated by the Cardholder keying in a Personal Identification Number (PIN). Limited service devices (known as “Cash dispensers”) that only allow for Cash withdrawal are included.

Amended effective 1.1.16

“**ATM Access Regime**” means the access regime imposed by the Reserve Bank of Australia under section 12 of the *Payment Systems (Regulation) Act 1998* by regulatory instrument dated 23 February 2009.

Inserted effective 1.1.16

“**ATM Affiliate**” means an Affiliate which has subscribed to this Code.

Inserted effective 1.1.16

“**ATM Code Committee**” means the committee established by the IAF pursuant to Part 11 of the IAC Regulations.

Inserted effective 1.1.16

“**ATM Direct Charging Date**” means 3 March 2009.

“ATM Framework Participant” means a Constitutional Corporation which pursuant to the IAC Regulations, is a Framework Participant in the IAC, and is a subscriber to this Code pursuant to Part 2, clause 2.2 of the IAC Code Set Volume 6 (ATM System Code) and includes, for the avoidance of doubt, each:

Inserted
effective 1.1.16

- (a) IA Participant;
- (b) ATM Operator Member; and
- (c) ATM Affiliate.

“ATM Interchange” means the exchange of payment instructions for value between Acquirers (whether for itself or on behalf of a third party) and Issuers, via an Interchange Link, as a result of the use of an Issuer’s Card by a Cardholder to generate an ATM Transaction. Interchange arrangements may, but need not, be reciprocal.

Inserted
effective 1.1.16

“ATM Law” means a law of the Commonwealth or of any State or Territory in relation to the operation of ATM Terminals.

Inserted
effective 1.1.16

“ATM Operator Fee” means a fee paid by a Cardholder to the operator of an ATM to effect a Transaction through their Terminal.

“ATM Operator Member” means an Operator Member which has subscribed to this Code.

Inserted
effective 1.1.16

“ATM System” means the network of direct and indirect Interchange Lines, Interchange Links, associated hardware, software and operational procedures that facilitate the transmission, authorisation and reconciliation of ATM Transactions between IA Participants in Australia.

Amended
effective 1.1.16

“ATM Transaction” means, for the purposes of this IAC Code Set, a Cash deposit, a Cash withdrawal, or a balance enquiry effected by a Cardholder at an ATM.

“ATM Transaction Listing” means a listing which complies with the requirements of Part 4, clause 11 of the IAC Code Set Volume 6 (ATM System Code).

Amended
effective 1.1.16

“AusPayNet” means Australian Payments Network Limited.

Inserted
effective
21.11.17

“Australian IC Card” means an IC Card in respect of which the EMV Issuer Country Code data element (tag 5F28) equal to “036” (Australia).

“Authorisation” in relation to a Transaction, means confirmation given by an Issuer that funds will be made available for the benefit of an Acquirer, in accordance with the terms of the relevant Interchange Agreement, to the amount of that Transaction. Except in the circumstances specified in this IAC Code Set, Authorisation is effected online. ‘Authorised’ has a corresponding meaning.

“**Bank Identification Number**” and “**BIN**” means the registered identification number allocated by Standards Australia Limited in accordance with AS 3523 (also known as an Issuer Identification Number (IIN)).

“**Business Day**” means a day on which banks are open for general banking business in Sydney or Melbourne and on which the RITS is operating to process payments.

“**Card**” means any card, device, application or identifier authorised by an Issuer, which is linked to an account or credit facility with the Issuer, for the purpose of effecting a Card Payment.

Amended
effective 1.1.19

“**Cardholder**” means a customer of an Issuer who is issued with a Card and PIN or other authentication method or process.

“**Cardholder Data**” means any information that is stored on, or which appears on, a Card, and includes but it not necessarily limited to:

Inserted
effective 1.1.16

- (a) Primary Account Number;
- (b) Cardholder Name;
- (c) Service Framework; and
- (d) Expiration Date.

“**Card Payment**” means a Transaction under the rules of an Approved Card Payment System which is initiated by a Cardholder using a Card in Australia, irrespective of the infrastructure or network, including as the context requires, ATM Transactions, EFTPOS Transactions, Card-Not-Present Transactions and any adjustments in connection with those Transactions.

Amended
effective 1.1.19

“**Card Payment System**” means, for the purposes of the IAC, the set of functions, procedures, arrangements, rules and devices that enable a Cardholder to effect a Card Payment with a third party other than the Card Issuer. For the avoidance of doubt, a Card Payment System may be a three-party scheme or a four-party scheme.

“**Cash**” means Australian legal tender.

“**Certification**” in relation to an IA Participant means initial certification or re-certification, in either case to the extent required by and in accordance with, Regulation 5.1(b) and Part 3 of the IAC Code Set Volume 1 (Introduction and Member Obligations).

“**Certification Checklist**” means in relation to an Acquirer, a checklist in the form of Annexure B.1 in IAC Code Set Volume 1 (Introduction and Member Obligations) and in relation to an Issuer, a checklist in the form of Annexure B.2 in IAC Code Set Volume 1 (Introduction and Member Obligations).

“Certification Undertakings” means all undertakings and representations given to the Company for the purposes of obtaining Certification.

Inserted effective 1.1.16

“Clearing/Settlement Agent” means a Direct Clearer/Settler that clears and settles on behalf of Issuers and/or Acquirers which are not Direct Clearer/Settlers.

Inserted effective 1.1.16

“Clearing System” means a domestic payments clearing and settlement system established in accordance with the Constitution which is operated by, or under the auspices of, the Company.

“Commencement Date” means, subject to IAC Regulation 1.6(b), 1 July 2015.

“Committee of Management” means the committee constituted under Part 7 of the Regulations.

“Commercial off-the-shelf” and **“COTS”** means a product that is designed for mass-market distribution and can be bought by any civilian entity, i.e. an unrestricted product not solely used by the military.

Inserted effective 1.1.19

“Company” means AusPayNet.

“Compliance Date” means 31 December 2016.

“Compromised Terminal” means a Terminal that has been tampered with for fraudulent purposes.

“Constitution” means the constitution of the Company as amended from time to time.

“Core Code” has the meaning given in the IAC Regulations.

Inserted effective 1.1.16

“Corporations Law” means the Corporations Act 2001 (Cth) and associated subordinate legislation as amended from time to time.

“Counterfeit ATM Transaction” means a fraudulent ATM Transaction initiated with a counterfeit copy of a chip Card.

“Counterfeit ATM Transaction Chargeback Date” [Deleted]

Deleted effective 3.7.17

“Counterfeit ATM Transaction Claim” means a claim by an Issuer under the indemnity in clause 4.5(c) (Liability Shift for Counterfeit ATM Transaction), made in the manner set out in clause 4.6 (Liability Shift Claim Process) of the IAC Code Set Volume 6 (ATM System Code).

Amended effective 3.7.17

“Counterparty” means the IA Participant direct settler (for example, an Issuer) identified in a File Settlement Instruction submitted by an Originator (for example, an Acquirer or Lead Institution), in accordance with this IAC Code Set and the requirements of the RITS Low Value Settlement Service.

“**Credit Items**” includes all credit payment instructions, usually electronically transmitted, which give rise to Interchange Activity, except as may be specifically excluded by the IAC Regulations or this IAC Code Set.

“**CVM**” means Cardholder Verification Method.

Inserted
effective 20.8.18

“**Debit Chip Application**” means domestically issued debit chip application.

“**Debit Items**” includes all debit payment instructions, usually electronically transmitted, which give rise to Interchange Activity, except as may be specifically excluded by the IAC Regulations or this IAC Code Set.

“**Device Approval Applicant**” means:

Amended
effective 1.1.19

- (a) in relation to standard technologies (including SPoC solutions), the Sponsor, Acquirer, Third Party provider, device manufacturer or any third party who submits a device approval application; or
- (b) in relation to non-standard technologies, the Acquirer;

seeking approval of that device in accordance with Part 3 of IAC Code Set Volume 4.

“**Device Approval Process**” means the Device Approval Process published by AusPayNet, as updated from time to time, and a copy of which appears at Annexure G of IAC Code Set Volume 4.

Amended
effective 1.1.19

“**Direct Charge**” means a direct charge applied by an IA Participant under the Direct Charging Rules in Annexure F of IAC Code Set Volume 6 (ATM System Code).

Inserted
effective 1.1.16

“**Direct Clearing/Settlement Arrangements**” means an arrangement between two indirectly connected IA Participants for the purposes of clearing and settlement with each other as Direct Clearer/Settlers.

Inserted
effective 1.1.16

“**Direct Connection**” means a direct communications link between two IA Participants for the purposes of:

Inserted
effective 1.1.16

- (a) exchanging ATM Transaction messages in respect of their own activities as an Issuer or as an Acquirer; and/or
- (b) exchanging ATM Transaction messages on behalf of other Issuers or Acquirers.

“**Direct Settler**” or “**Direct Clearer/Settler**” means:

Inserted
effective 1.1.16

- (a) an Acquirer that is an IA Participant that:
 - (i) clears Items directly; and

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- (ii) settles directly, using its own ESA or using a means approved by the Management Committee,

with an Issuer, or with a representative of an Issuer appointed to settle on behalf of that Issuer for the value of payment obligations arising from Interchange Activities between it and that Issuer;

- (b) an Issuer that is an IA Participant that:

- (i) clears Items directly; and
- (ii) settles directly, using its own ESA,

with an Acquirer, or with a representative of an Acquirer appointed to settle on behalf of that Acquirer for the value of payment obligations arising from Interchange Activities between it and that Acquirer; or

- (c) a body corporate of the kind referred to in Volume 4 of the IAC Regulations, which represents one or more Acquirers or Issuers and, in such capacity, settles directly in accordance with Regulation 11.3(a) for the value of payment obligations arising from the Interchange Activities of those Acquirers or Issuers.

“Disputed Transaction” means an ATM Transaction:

Amended effective 1.1.16

- (a) which the Cardholder denies having initiated; or
- (b) where the ATM Transaction amount is claimed to be incorrect; or
- (c) in respect of which the ATM Operator Fee is claimed to be incorrect.

Inserted effective 1.1.16

Inserted effective 1.1.16

Inserted effective 1.1.16

“Disruptive Event” means any processing, communications or other failure of a technical nature, which affects, or may affect, the ability of any IA Participant to engage in Interchange Activity.

“Double-length Key” means a key of length 128 bits including parity bits or 112 bits excluding parity bits.

“Doubtful ATM Transactions” means those ATM Transactions which appear to have been successfully completed, although the ATM Transaction may not be recorded against the relevant Cardholder account.

Last amended effective 21.11.16

“EFT” means Electronic Funds Transfer.

“EFTPOS” means Electronic Funds Transfer at Point of Sale.

“EFTPOS PED” [Deleted]

Deleted effective 20.8.18

“**EFTPOS Terminal**” means a Terminal for processing EFTPOS Transactions.

Inserted effective
1.1.19

“**EFTPOS Transaction**” means a Transaction conducted at a Merchant’s point of sale using a Terminal

Amended
effective 1.1.19

“**EMV**” means the specifications as published by EMV Co. LLC.

“**EMV@ATM Terminal Standards**” means the standards and requirements set out in Annexure G.

“**EMV Compliant**” in relation to an ATM Terminal means the ATM Terminal is certified by an Approved Evaluation Facility to be compliant with the EMV@ATM Terminal Standards.

“**EMV Phase 1**” means the transition arrangements through which a Transaction is created from the use of an EMV compliant Australian IC Card prior to the migration of the ATM system to full EMV functionality.

Amended
effective 3.7.17

“**EMV Standards**” means:

- (a) in relation to Cards, the standards applicable to the Debit Chip Application loaded on the Card; and
- (b) in relation to ATM Terminals, means the standards set out in the EMV@ATM Terminal Standards.

“**Encapsulating Security Payload**” and “**ESP**” is a member of the IPsec protocol suite providing origin authenticity, integrity, and confidentiality protection of packets in tunnel mode, where the entire original IP packet is encapsulated, with a new packet header added which remains unprotected.

“**Encrypting PIN Pad**” and “**EPP**” means an approved device which is a component of a Terminal that provides secure PIN entry and cryptographic services to that Terminal.

“**ePayments Code**” means the code of conduct administered by the Australian Securities and Investments Commission.

“**Error of Magnitude**” means an error (or a series of errors) of or exceeding \$2 million or such other amount as may be determined from time to time by the Committee of Management.

“**Evaluation Facility**” [Deleted]

Deleted effective
1.1.19

“**Evaluation Report**” means a report prepared by:

Amended
effective 1.1.19

- (a) an Approved Evaluation Facility; or
- (b) a laboratory authorised by the Company for the purpose of a non-standard technology;

in relation to a device approval application.

“**Exchange Settlement Account**” and “**ESA**” means an exchange settlement account, or similar account, maintained by a Framework Participant with the RBA used for, among other things, effecting settlement of inter-institutional payment obligations.

“**Fallback Transaction**” means an ATM Transaction initiated using a chip Card, which is processed and authorized by the Issuer using magnetic stripe data, in the circumstances described in Annexure G.5.1.

Amended
effective
21.11.17

“**File Recall Instruction**” means a file in the format prescribed by the Reserve Bank of Australia and complying with the specifications for the RITS Low Value Settlement Service which can be accessed via a link on the Company’s extranet.

“**File Recall Response**” means a response to a File Recall Instruction, generated by the RITS Low Value Settlement Service.

“**File Settlement Advice**” means an advice in relation to a File Settlement Instruction, generated by the RITS Low Value Settlement Service.

“**File Settlement Instruction**” means a file in the format prescribed by the Reserve Bank and complying with the specifications for the RITS Low Value Settlement Service which can be accessed via a link on the Company’s extranet.

“**File Settlement Response**” means a response to a File Settlement Instruction, generated by the RITS Low Value Settlement Service.

“**Framework Participant**” means a Constitutional Corporation:

- (a) which is deemed to be a Framework Participant pursuant to Regulation 4.4; or
- (b) whose Membership Application has been accepted pursuant to Regulation 4.3(f); and

in each case whose membership has not been terminated pursuant to Regulation 6.5.

“**HMAC**” and “**Hash-based Message Authentication Code**” is a specific construction for calculating a message authentication code (MAC) involving a cryptographic hash function in combination with a secret key. HMACs are formed in conformance with AS2805.4.2 Electronic funds transfer— Requirements for interfaces Information technology -- Security techniques -- Message Authentication Codes (MACs) - Mechanisms using a dedicated hash-function.

“**Hot Card**” means a Card which has been reported by the Cardholder as lost or stolen, or for which there is evidence of fraudulent use.

“**IA Participant**” means a Framework Participant which is either:

- (a) an Issuer; or
- (b) an Acquirer; or
- (c) a body corporate which represents one or more Issuers or Acquirers and, in such capacity, settles directly in accordance with Regulation 11.3(a)(ii) for the value of the payment obligations arising from the Interchange Activities of those Acquirers or Issuers.

“**IAC**” means the Issuers and Acquirers Community constituted by the IAC Regulations.

“**IAC Card Standards**” means the standards for Cards set out in the IAC Code Volume 2 (Issuer Code).

Inserted
effective 1.1.16

“**IAC Code Set**” has the meaning given in the IAC Regulations.

“**IAC Operational Broadcast**” means the form set out in Annexure D to IAC Code Set Volume 1 (Introduction and Member Obligations).

“**IAC Settlement Rules**” means the set of rules and requirements for the settlement of obligations arising as a result of exchange of Items set out in the IAC Code Volume 5 (Settlement Code).

Inserted
effective 1.1.16

“**IAF**” or “**Issuers and Acquirers Forum**” means the governing body for the IAC constituted by Part 7 of the IAC Regulations.

“**IC Card**” and “**ICC**” means a Card that contains an integrated circuit and that conforms to the EMV specifications.

“**Institutional Identifier Change Date**” means one of at least three dates in each calendar year specified by the Committee of Management and notified by the Company to IA Participants prior to the commencement of that calendar year as being the Institutional Identifier Change Dates for that year.

“Interchange” means the exchange of Items for value between Acquirers and Issuers, via an Interchange Link, as a result of the use of an Issuer’s Card by a Cardholder to generate a Transaction. Interchange arrangements may, but need not, be reciprocal.

“Interchange Activity” means:

- (a) the direct or indirect exchange of Items for value between Acquirers and Issuers, as a result of the use of an Issuer’s Card by a Cardholder to generate a Card Payment from facilities owned and/or operated by the Acquirer or a third party. Interchange arrangements may, but need not be, reciprocal; or
- (b) the exchange of Card Payment instructions and related messages between Acquirers and Issuers, pursuant to the rules of an Approved Card Payment System; or
- (c) any other Card-based electronic interchange activities from time to time approved for the purposes of this definition by the IAF.

“Interchange Agreement” means an agreement between an Acquirer and an Issuer that regulates the arrangements relating to Interchange Activity between them.

“Interchange Fee” means a fee charged to one party to an Interchange Activity by the other party to the Interchange Activity for access to its consumer electronic payments facilities.

“Interchange Line” means the physical communications infrastructure that provides the medium over which Interchange Activity is supported. An Interchange Line contains, at a minimum, one Interchange Link.

“Interchange Line Encryption” means encryption of the entire message, with the exception of communication headers and trailers that is being passed across an Interchange Line using, as a minimum, double-length keys and a triple-DES process.

“Interchange Link” means the logical link between an Acquirer and an Issuer which facilitates Interchange Activity between them. Interchange Links are supported physically by an Interchange Line, and are either direct between an Acquirer and Issuer or indirect via a third party intermediary.

“Interchange Link Message Authentication” means calculation and verification of the Message Authentication Code (MAC) that is being passed across an Interchange Link.

“Interchange Link PIN Encryption” means encryption of the PIN in accordance with ISO 9564.1 and IAC Code Set Volume 4 Clause 2.7(d)(i).

Amended
effective
21.11.16

“Interchange Settlement Report” means a report substantially in the form of Annexure A in IAC Code Set Volume 5 (Settlement Code).

“Internet Key Exchange” and **“IKE”** is the protocol used to set up a security association in the IPsec protocol suite.

“ISO” means an international standard as published by the International Standards Organization.

“Issuer” means a Constitutional Corporation which, pursuant to the rules of an Approved Card Payment System, issues a Card to a Cardholder and, in connection with any Card Payment effected using that Card:

- (a) assumes obligations to the relevant Cardholder, which obligations are in the first instance discharged on its behalf by an Acquirer; and
- (b) engages, directly or indirectly, in Interchange Activity with that Acquirer as a result.

“Issuer Identification Number” and **“IIN”** means a six digit number issued by ISO or Standards Australia that identifies the major industry and the card issuer. The IIN also forms the first part of the primary account number on the Card.

“Issuer Sequence Number” means a one or two digit number used at the option of the Issuer to identify a Card which may have the same primary account number as another Card and possible different accessible linked accounts.

“Items” means Credit Items or Debit Items.

“Key Encrypting Key” and **“KEK”** means a key which is used to encipher other keys in transport and which can be used to exchange Session Keys between two systems.

“Key Loading Device/Key Injection Device” and **“KLD/KID”** means a hardware device and its associated software that is used to inject keys into a Terminal.

Amended
effective 29.4.16

“Key Transfer Device” and **“KTD”** means a hardware device that is used to transfer a cryptographic key between devices. Typically KTDs are used to transfer keys from the point of creation to Terminals in the field.

“Lead Institution” means a financial institution responsible for direct settlement of scheme payment obligations.

“Letter of Approval” means a letter, issued by the Company, approving the use of a Secure Cryptographic Device within IAC.

“LVSS” means the RITS Low Value Settlement Service.

“**LVSS BCP Arrangements**” means the contingency plan and associated documents published by the Reserve Bank of Australia for the purposes of the RITS Low Value Settlement Service, and which can be accessed via a link on the Company’s extranet.

“**LVSS Contact**” means the person nominated by a IA Participant as its primary contact for LVSS inquiries, as listed on the Company’s extranet.

“**Merchant**” means a person which:

Amended
effective 1.1.19

- (a) supplies goods or services to a Cardholder; and
- (b) has an agreement with an Acquirer to process and settle Card Payments.

“**Message Authentication Code**” and “**MAC**” means a code, formed using a secret key, appended to a message to detect whether the message has been altered (data integrity) and to provide data origin authentication, MACs are formed in conformance with AS 2805.4.

Amended
effective 20.8.18

“**Nine AM (9am) Settlement**” means the multilateral settlement of obligations arising from previous days’ clearings of low value payments which occurs in RITS at around 9am each business day that RITS is open.

“**NODE**” or “**Node**” means a processing centre such as an Acquirer, an Issuer, or an intermediate network facility.

“**Notice of Standard – Merchant Pricing for Credit, Debit and Prepaid Card Transactions**” is the informative guide referred to in clause 2.1.2 and set out in Annexure F to the IAC Code Set Volume 1 (Introduction and Member Obligations) relating to the notification requirements in the Reserve Bank’s Scheme Rules relating to Merchant Pricing for Credit, Debit and Prepaid Card Transactions (Standard No. 3 of 2016).

Inserted
effective 1.6.17

“**Originator**” means the party (for example an Acquirer direct settler or Lead Institution) which, as a result of either acquiring a Transaction or, in the case of a Lead Institution, by arrangement, is responsible for the submission of a File Settlement Instruction in accordance with this IAC Code Set and the requirements of the RITS Low Value Settlement Service.

“**Operator Member**” has the meaning given in the IAC Regulations.

Inserted
effective 1.1.16

“**Partial Dispense**” means a Transaction that results in an amount of Cash being dispensed from an ATM that is less than the amount requested by the Cardholder.

“**PCISSC**” means the Payment Card Industry Security Standards Council.

Amended
effective 20.8.18

“**PCI Evaluation Report**” means an Evaluation Report, prepared in respect of the requirements set out in PCI PTS published standards. (PCI standards can be found at <https://www.pcisecuritystandards.org>).

Amended
effective 1.1.19

PART 1 INTRODUCTION, INTERPRETATION AND DEFINITIONS

“**PCI Plus Evaluation Report**” means an Evaluation Report, prepared in respect of the PCI Plus Requirements, and if applicable, includes any delta report prepared in respect of the device.

Amended effective 1.1.19

“**PCI Plus Requirements**” means the requirements set out in Annexure B of IAC Code Set Volume 4 (Device Requirements and Cryptographic Management), being requirements for device approval in accordance with AS 2805.14.2 Annexes A, B and D and AS 2805.9, which are determined by the Company to be additional to the requirements of PCI PTS v 3.x.

Last amended effective 1.1.19

“**PCI Points**” means the attack potential calculated in accordance with Appendix B of the Payments Card Industry (PCI) document “PCI PIN Transaction Security Point of Interaction Modular Derived Test Requirements”, version 3.0, 2011.

“**PED**” means a PIN Entry Device.

“**Physically Secure Device**” means a device meeting the requirements specified in AS 2805.14.1 for a physically secure device. Such a device, when operated in its intended manner and environment, cannot be successfully penetrated or manipulated to disclose all or part of any cryptographic key, PIN, or other secret value resident within the device. Penetration of such a device shall cause the automatic and immediate erasure of all PINs, cryptographic keys and other secret values contained within the device.

Amended effective 21.11.16

“**PIN**” means a personal identification number which is either issued by an Issuer, or selected by a Cardholder for the purpose of authenticating the Cardholder by the Issuer of the Card.

“**PIN Entry Device**” and “**PED**” means a component of a Terminal which provides for the secure entry and encryption of PINs in processing a Transaction.

“**POI**” means Point Of Interaction technologies that can be provided to a Merchant to undertake Card Payments. POI technologies include attended and unattended Point of Sale (POS) devices and ATMs.

Inserted effective 1.1.16

“**POS**” means Point of Sale.

Inserted effective 1.1.19

“**Prepaid Card**” means a Card that:

- (a) enables the Prepaid Cardholder to initiate electronic funds transfers up to a specified amount (subject to any other conditions that may apply); and
- (b) draws on funds held by the Prepaid Program Provider or third party by arrangement with the Program Provider (as opposed to funds held by the Prepaid Cardholder).

The definition of a Prepaid Card extends to both single use and reloadable/multiple use Cards.

“**Prepaid Cardholder**” means a person that is in possession of a Prepaid Card.

“Prepaid Program Provider” means either:

- (a) an Issuer that issues a Prepaid Card; or
- (b) a person that issues a Prepaid Card in conjunction with a sponsoring Issuer.

“PVC” means Public Key Verification Code.

Inserted
effective 20.8.18

“Recognised APS” has the meaning given in the Constitution.

“Record of Transaction” has the meaning given in the ePayments Code and IAC Code Set Volume 3 (Acquirer Code).

“Regulations or the **“IAC Regulations”** means the regulations for IAC, as prescribed by the Company.

“Remote Management Solution” and **“RMS”** means a solution comprising both hardware and software which connects to an SCM over a network and provides access to an SCM while it is in a sensitive state.

“Reserve Bank” means the Reserve Bank of Australia.

“Retained Card” in relation to an ATM Transaction, has the meaning given in clause 2.8 of IAC Code Set Volume 6 (ATM System Code).

“RITS” means the Reserve Bank Information and Transfer System.

“RITS Low Value Settlement Service” means the Reserve Bank’s settlement file transfer facility which must be used by:

- (a) each Acquirer and Lead Institution to submit File Settlement Instructions and associated File Recall Instructions; and
- (b) each Acquirer, Lead Institution and Issuer, if it so elects, to receive File Settlement Advices, File Settlement Responses and File Recall Responses.

“RITS Regulations” means the regulations for RITS published by the Reserve Bank of Australia.

“SCD Security Standards” in relation to an SCD, means the standards from time to time published in Part 2 of IAC Code Set Volume 4 (Device Requirements and Cryptographic Management).

Amended
effective 1.1.19

“SCM” means a Security Control Module sometimes referred to as a Hardware Security Module (HSM).

Amended
effective 20.8.18

“**Secretary**” means a person appointed by the Chief Executive Officer to perform the duties of secretary of the IAF under Regulation 7.14.

“**Secure Card Reader PIN**” and “**SCR**” means a physical card reader that has been approved by PCI PTS and is a component of a SPOC Solution.

Inserted effective
1.1.19

“**Secure Cryptographic Device**” and “**SCD**” means a device that provides physically and logically protected cryptographic or PIN handling services and storage e.g., EPP, Terminal, Key Injection Device or hardware security module.

Amended
effective 20.8.18

“**Security Control Module**” and “**SCM**” means a physically and logically protected hardware device that provides an intentionally limited set of secure cryptographic services.

Amended
effective 1.1.19

“**Session Key**” is a generic reference to any one of a group of keys used to protect Transaction level data. Session keys exist between two discrete points within a network (e.g., host-to-host and host-to-terminal).

“**Settlement Items**” means, Items which are either:

- (a) ATM Transactions cleared under the auspices of the IAC Code Set Volume 6 (ATM System Code); or
- (b) EFTPOS Transactions cleared pursuant to the Rules prescribed for the EFTPOS Card Payment System (as defined in those Rules) by the administrator of that system; or
- (c) credit payment instructions referable to a transaction of the type described in paragraphs (a) and (b).

“**Software-based PIN entry on COTS**” and “**SPoC**” means the term Software-based PIN entry on COTS as used in the PCISSC SPoC standards.

Inserted effective
1.1.19

“**Sponsor**” means the Acquirer which, as among all Acquirers for a Terminal, is taken to be the lead Acquirer for that Terminal, with ultimate responsibility for the integrity and security of software and encryption keys for Transactions involving that Terminal.

Amended
effective 20.8.18

“**Standard Interchange Specification**” means the technical specification set out in Annexure A of IAC Code Set Volume 6 (ATM System Code).

Inserted
effective 1.1.16

“Statistically Unique” means an acceptably low statistical probability of an entity being duplicated by either chance or intent. Technically, statistically unique is defined as follows:

“For the generation of n -bit quantities, the probability of two values repeating is less than or equal to the probability of two n -bit random quantities repeating. Thus, an element chosen from a finite set of $2n$ elements is said to be statistically unique if the process that governs the selection of this element provides a guarantee that for any integer $L \leq 2n$ the probability that all of the first L selected elements are different is no smaller than the probability of this happening when the elements are drawn uniformly at random from the set.”

“Tamper-responsive SCM” means a Security Control Module that when operated in its intended manner and environment, will cause the immediate and automatic erasure of all keys and other secret data and all useful residues of such data when subjected to any feasible attack. A Tamper-responsive SCM must comply with the requirements of IAC Code Set Volume 4 (Device Requirements and Cryptographic Management).

“Terminal” means an electronic device which can be used to initiate a Transaction e.g. ATM, UPT or EFTPOS Terminal.

Last amended
effective 1.1.19

“Terminal Identification Number” means the unique identification number assigned by an Acquirer to identify a particular Terminal.

“Terminal Sequence Number” means a number allocated sequentially to each Transaction by the relevant Terminal.

“Third Party Provider” means a body corporate which provides an outsourced facility to a IA Participant for any function involving:

- (a) interchange;
- (b) PIN processing;
- (c) transaction processing;
- (d) key management; or
- (e) any other service which directly or indirectly supports any of the functions described in clauses (a) to (d) above.

“Threshold Requirement” means a requirement under the IAC Regulations or in this IAC Code Set which the IAF determines to be so fundamental to the integrity and safety of Card Payments that compliance is to be enforceable by imposition of a fine under Regulation 6.2, the details of which are published on the Company’s extranet.

“**Track Two Equivalent Data**” means the contents of the EMV data element tag 57. This data element contains the data elements of track two according to AS 3524-2008, excluding start sentinel, end sentinel and Longitudinal Redundancy Check.

“**Transaction**” means an electronic funds transfer, cash withdrawal or other transaction initiated by a Cardholder using a Card which allows for the accessing of available funds held in an account, or a credit facility linked to an account, or account information.

Amended
effective 1.1.19

“**Triple-DES**” means the encryption and decryption of data using a defined compound operation of the DEA-1 encryption and decryption operations. Triple-DES is described in AS2805.5.4.

“**Unattended Device**” means a device intended for principal deployment in a location not subject to the regular day-to-day oversight by a trusted employee of the Acquirer or their trusted agent.

“**Unattended Payment Terminal**” and “**UPT**” means a Terminal intended for deployment in an EFTPOS network without Merchant oversight.

Next page is 2.1

PART 2 SETTLEMENT

This Settlement binds all IA Participants in relation to settlement of obligations incurred as a result of Interchange Activity arising from the exchange of Settlement Items. In this Code a reference to a “Transaction” is to be construed as a reference to such a transaction.

The Company will require a Non-Member Acquirer that wishes to arrange for Non-Member Certification under the IAC Code Set Volume 1 (Introduction and Member Obligations) to confirm that its settlement procedures comply with the requirements of this Part 2.

2.1 General Principles

Value settlement for Transactions processed through an Interchange Link will be performed on each business day in accordance with this Part 2.

2.2 Agreed Cut-off Time

The settlement cut-off time for value Transactions processed through an Interchange Link is to be bilaterally agreed between the respective Issuers and Acquirers. Cut-off times may be agreed bilaterally to be varied from time to time, but parties to Interchange Activity must be given at least one month’s notice of a proposed change.

2.3 Interchange Settlement Reports

2.3.1 *Requirement to Produce Interchange Settlement Reports*

- (a) On each business day, each IA Participant must produce an Interchange Settlement Report which details the total number and amount of value Transactions processed as a result of its Interchange Activity, as at the agreed cut-off times.
- (b) The settlement figure derived from the Interchange Settlement Report is to be incorporated in the separate File Settlement Instructions to be submitted by:
 - (i) each Acquirer, in respect of each Counterparty; and
 - (ii) by each Lead Institution, in respect of each counterparty for scheme advised net settlement obligations;

for the purpose of effecting settlement.

2.3.2 *RITS Low Value Settlement Service Contact – Settlement Issues*

Reserve Bank of Australia RITS Help Desk		
e-mail	Fax	Phone
rits@rba.gov.au	(02) 9551 8063	1800 659 360

2.4 Procedures

2.4.1 *IA Participants may Provisionally Reconcile Obligations*

- (a) IA Participants may bilaterally agree to provisionally reconcile their settlement obligations with Counterparties prior to submission of File Settlement Instructions via the RITS Low Value Settlement Service. Each institution will, if bilaterally agreed, exchange its Interchange Settlement Report with its Counterparty, reconcile the settlement figures, and immediately advise the other institution if the figures cannot be reconciled.
- (b) If IA Participants are unable, or fail, to reconcile settlement positions prior to the final cut-off for provision of settlement instructions via the RITS Low Value Settlement Service, then the parties may bilaterally agree to withhold submission of a File Settlement Instruction until settlement figures are reconciled.
- (c) Each Originator and Counterparty must ensure that its settlement data is recorded accurately by:
 - (i) reviewing settlement figures in RITS before the institution leaves each evening; and
 - (ii) ensuring that the settlement figure in RITS match the settlement amount set out in the File Settlement Instruction submitted by Originators via the RITS Low Value Settlement Service.

2.4.2 *Obligation to Submit File Settlement Instructions to LVSS*

- (a) Each Acquirer direct settler (for itself and each party on whose behalf it settles) must submit a File Settlement Instruction specifying the net amount owed to it by, or payable to, each Counterparty, calculated by reference to the Transaction amounts referable to that Counterparty in the daily Interchange Settlement Report. Where the Acquirer would normally expect a non-zero amount to be referable to a Counterparty, but the amount in the Interchange Settlement Report is zero, the Acquirer must submit a \$0 File Settlement Instruction via the RITS Low Value Settlement Service.

-
- (b) Each Lead Institution must submit a File Settlement Instruction in respect of each Counterparty for scheme-advised net settlement obligations.
 - (c) The final cut-off time for submission of File Settlement Instructions to the RITS Low Value Settlement Service is 4.00 am/est/esst. All Acquirer direct settlers and Lead Institutions must endeavour to submit all File Settlement Instructions to the RITS Low Value Settlement Service by 4.00 am on the day following each business day.

Note: see clause 2.5.6 regarding the obligation to submit File Settlement Instructions for Transactions processed on a weekend or public holiday.

- (d) All valid File Settlement Instructions submitted by Acquirers and Lead Institutions via the RITS Low Value Settlement will be held for Nine AM (9am) Settlement on the settlement date, unless the Originator and Counterparty bilaterally agree to earlier individual settlement or earlier multilateral settlement, if permitted by the rules governing the RITS.

2.4.3 Settlement of Non-IAC Items

- (a) Subject to Regulation 11.3(a) and the regulations and procedures governing any other Clearing System (as defined in the Regulations), an Originator may also submit a File Settlement Instruction for value settlement amounts which relate to payment instructions which are exchanged between IA Participants but which payment instructions are not Settlement Items exchanged under the auspices of the IAC.
- (b) If such value settlement amounts for payment instructions which are exchanged between IA Participants but which are not Settlement Items are incorporated into a File Settlement Instruction with respect to Settlement Items exchanged under the auspices of the IAC, then settlement of such amounts must be performed in accordance with the provisions of the Regulations and this IAC Code Set (including without limitation any provisions applicable when an FTS Event (as defined in clause 3.3 of this Code) occurs as though those payment instructions are Settlement Items exchanged under the auspices of the IAC).

2.4.4 Rejection of File Settlement Instruction

In the event that a File Settlement Instruction is rejected by the RITS Low Value Settlement Service, the Originator must promptly review and rectify all defects in the original File Settlement Instruction and submit a revised File Settlement Instruction. The Originator may notify its Counterparty, by its LVSS Contact, of the estimated timing of submission of the revised File Settlement Instruction.

2.4.5 ***Obligation to Monitor Accruing Settlement Obligation***

Each Originator and Counterparty must monitor its accruing settlement obligations in the RITS Low Value Settlement Service in the period prior to settlement. In the event a Counterparty disputes any value or reference to a number of Transactions in an unsettled File Settlement Instruction submitted by the Originator of that instruction, it will promptly notify the Originator, by its LVSS Contact, and the provisions of clause 2.5 will apply.

2.4.6 ***Recalling File Settlement Instructions***

- (a) Subject to the rules governing RITS, an Originator may recall any File Settlement Instruction using a File Recall Instruction.
- (b) If an Originator submits a File Recall Instruction in respect of a particular File Settlement Instruction, it will promptly notify the relevant LVSS Contact of the Counterparty, and advise the reason for the recall. The Originator must promptly identify the defect or error in the original File Settlement Instruction, or otherwise address the reason for the recall. The Originator must promptly submit a new File Settlement Instruction via the RITS Low Value Settlement Service if a new instruction is required.

2.4.7 ***Carry-over***

- (a) In the event that an Originator is unable to submit a File Settlement Instruction to the RITS Low Value Settlement Service by the final cut-off time, the parties may bilaterally agree that settlement will be carried over to the next business day.
- (b) Settlement for Transactions that have occurred on a Friday will be effected on the following bank business day, usually Monday. All Transactions processed after cut-off on Friday evening up until settlement cut-off on the following Monday evening will be settled on the following bank business day.
- (c) If a public holiday occurs on a Monday, settlement for Friday's Transaction will be effected on the following Tuesday, and settlement for Transactions processed on the Saturday, Sunday, Monday and Tuesday are effected on the following Wednesday morning.

Note: Refer to clause 2.5.6 or variation to normal settlement due to a public holiday or a weekend.

2.5 Disputed Amounts

2.5.1 *Resolution of Disputed Amounts*

- (a) Subject to the rules governing the RITS Low Value Settlement Service, if at any time prior to settlement, a Counterparty disputes any value or amount within a File Settlement Instruction submitted by an Originator, it will promptly notify the Originator. The Originator must review the disputed File Settlement Instruction and, if it identifies any error, promptly:
 - (i) submit a File Recall Instruction to recall that particular File Settlement Instruction; and
 - (ii) submit a corrected File Settlement Instruction if required.
- (b) If for any reason the Originator is unable to recall a File Settlement Instruction in respect of which an error is identified, the error is to be rectified after settlement using the adjustment mechanism set out in clause 2.5.2.
- (c) If the Originator does not admit any error, and the parties are unable to resolve the dispute by 6.00am Sydney time, then settlement will proceed as follows:
 - (i) if the Originator owes a settlement obligation to the Counterparty under the disputed File Settlement Instruction, settlement will proceed on the basis of that instruction; and
 - (ii) if the Counterparty owes a settlement obligation to the Originator under the disputed File Settlement Instruction, the Counterparty may settle, or defer settlement of, the obligation in accordance with the rules and requirements of the RITS Low Value Settlement Service.
 - (iii) In either case, the parties will co-operate in good faith to resolve the dispute expeditiously and settle for the reconciled obligation immediately following resolution. To facilitate resolution, the Originator must supply the following Transaction details within 5 business days:
 - (iv) Suitable records are to be maintained by each institution to record such discrepancies.
- (d) This provision applies without prejudice to the right of any party to invoke the dispute resolution procedures in Part 12 of the Regulations.

The following text is confidential

Note: Contact details for resolution of discrepancies are located on the AusPayNet Extranet.

2.5.2 Adjustments to Settlement Amounts

- (a) All adjustments to settlement amounts caused by any error, whether identified prior to settlement or after settlement, must be accounted for in the manner set out in this clause 2.5.2.
- (b) For each erroneous amount which is an Error of Magnitude, the Originator or Counterparty, whichever first locates the error must notify the other immediately once the details of the error are known. Once an error is agreed by both IA Participants an adjustment (including interest calculated in accordance with clause 2.5.7) must be effected as follows:
 - (i) where the error is not an Error of Magnitude, adjusting payments may be made by including amounts on a File Settlement Instruction;
 - (ii) where the error is an Error of Magnitude, institutions' treasury areas will need to be informed by their clearings areas of the size of the error. Treasury areas will then settle the adjustment in ESA funds (see clause 2.5.7). The transfer of ESA funds will be a treasury-based ESA Cash transfer on RITS.

2.5.3 LVSS Data Available to Institutions

Each IA Participant will be able to view the following information in RITS:

- (a) its final multilateral net position, based on the aggregate values of all File Settlement Instructions submitted pursuant to this Volume 5 (Settlement Code);
- (b) for Nine AM (9am) Settlement, interest adjustment transactions for clearing system interest accrued over the previous day; and
- (c) after computing and making adjustments for (on a multilateral net basis) the cross Clearing System national settlement position for that IA Participant as a consequence of its participation in any Clearing System operating on a multilateral settlement basis (including but not limited to the High Value Clearing System (CS4) if that system is settling on a multilateral basis in fallback mode because settlements cannot occur in real time as a result of some contingency), its final net allocated cross Clearing System settlement figure. On the day of deemed notification the IA Participant must settle its final net allocated cross Clearing System settlement figure.

2.5.4 Back-up

The RITS Low Value Settlement Service will have full redundancy back-up.

2.5.5 *Disabling Events*

Procedures in a disabling event will be determined in consultation with the institutions concerned, the Reserve Bank, and the Company, and will depend on the particular circumstances.

2.5.6 *Variation to Normal Settlement*

- (a) Settlement of Settlement Items will be effected in RITS on each business day. Subject to the following, Acquirers and Lead Institutions must provide File Settlement Instructions to the RITS Low Value Settlement Service on every day that Transactions are processed. For Transactions processed after cut-off on Friday, Saturday, Sunday or a day which is a public holiday in both Sydney and Melbourne, institutions must:
- (i) submit separate File Settlement Instructions for each of those days, or a single File Settlement Instruction for all of those days, covering those Transactions, via the RITS Low Value Settlement Service, by 4.00am est on the day following the next business day in Sydney or Melbourne or both; and
 - (ii) settle for those figures on the second business day after the transactions are processed.
- (b) Clearing system interest will be calculated separately for each day's exchanges.

Note: Refer to clause 2.4.7 for an example of a variation to settlement due to a public holiday or a weekend.

2.5.7 *Interest Adjustment*

- (a) Where settlement in respect of any exchange of any Settlement Item is (for whatever reason) effected on a day other than the day on which that Item is exchanged for value, the Originator of the File Settlement Instruction in which that Item is included and the Counterparty concerned will make an adjustment of interest in respect of that Item between them.
- (b) That interest adjustment is to be calculated at the interest rate (termed the "ESR" by the Reserve Bank) payable by the Reserve Bank on overnight credit balances of Exchange Settlement Accounts held with the Reserve Bank.
- (c) The RITS Low Value Settlement Service will display the net balance owing to or by each institution for each day on which settlement figures are despatched, and display the interest on the net balance owing for the number of days elapsed until the day of settlement using the "ESR" applicable to each of these days during that period.
- (d) Each IA Participant acknowledges that:

- (i) if a settlement obligation is included in the Nine AM (9am) Settlement, RITS will:
 - (A) calculate the interest on the net position between the IA Participant direct settler for the number of days elapsed between the value date of the exchange of the Item and the day of settlement using the “ESR” applicable to each of the days during that period; and
 - (B) automatically generate interest adjustment transactions for the settlement of clearing interest obligations between each IA Participant direct settler and its Counterparties. These interest adjustment entries will be incorporated into the Nine AM (9am) Settlement for each IA Participant; and
- (ii) if the settlement obligation is not included in the Nine AM (9am) Settlement, an adjustment for interest is to be made between the parties concerned by RITS cash transfer, or as bilaterally agreed.

2.5.8 Settlement Contact Points

- (a) The telephone and facsimile numbers to be used to contact the Reserve Bank and the settlement contact points for each IA Participant are located on the AusPayNet Extranet.
- (b) Institutions must notify the Reserve Bank and the Company of any changes in its settlement contact point (including a temporary change) at least one business day prior to the change.
- (c) Each institution is solely responsible for the consequences of any failure by it to notify the Reserve Bank of any change to its settlement contact point in accordance with this clause.
- (d) Respective institutions’ contacts for settlement figures are also located on the AusPayNet Extranet.

2.6 RITS Low Value Settlement Service

- (a) The RITS Low Value Settlement Service facility must be used to submit File Settlement Instructions, File Recall Instructions and to receive responses and advices which IA Participants have elected to receive. Each Acquirer and Lead Institution must establish and maintain contingency arrangements to ensure that File Settlement Instructions and, if necessary, File Recall Instructions, can be manually submitted in RITS during any type of contingency event.

- (b) In the event that member user access to RITS is unavailable such that RITS Low Value Settlement Service instructions cannot be entered, viewed or managed, then affected institutions must immediately contact the RITS Help Desk by telephone and request assistance, and otherwise comply with the requirements set out in the LVSS BCP Arrangements.
- (c) As soon as an applicant is advised by the Secretary that its application for IAC participation, as an Acquirer and direct settler, has been accepted it must contact the RITS Help Desk to arrange testing and implementation of its functional connectivity to the RITS Low Value Settlement Service.
- (d) The business rules and technical specifications for the RITS Low Value Settlement Service and the LVSS BCP Arrangements can be accessed via links on the Company's extranet.
- (e) The specifications for the RITS Low Value Settlement Service can be accessed via a link on the Company's extranet.

Next page is 3.1

PART 3 FAILURE TO SETTLE

3.1 Explanatory Preamble

- (a) This Part 3 provides a set of failure to settle rules (“FTS Rules”) to deal with an FTS Event as defined in clause 3.3 of this Code.
- (b) The FTS Rules apply to all IA Participants.
- (c) The Company has published a set of FTS Guidelines to assist IA Participants in preparing for and dealing with the occurrence of an FTS Event (or Potential FTS Event). IA Participants should ensure that they have a continuing full understanding of the FTS Rules and the FTS Guidelines. The FTS Guidelines, which may be amended from time to time, can be found on the Company’s extranet.
- (d) In this clause 3, the following words have the following meanings unless the context requires otherwise:

“**Defaulter**” means in relation to an FTS Event, the IA Participant which, prior to becoming a Defaulter, fails to discharge obligations incurred by it under or in accordance with:

- (i) the IAC Regulations, the ATM System Code and/or this Code;
- (ii) the regulations and procedures of another Clearing System in its capacity as a framework participant of that other Clearing System;

“**Disabling Event**” means any:

- (i) processing, communications or other failure of a technical nature;
- (ii) inaccessibility (total or partial) of facilities by means of which exchanges are conducted;
- (iii) manifestation of industrial action,

which affects, or may affect, the ability of any IA Participant to participate in the normal and usual extent of Interchange Activities.

“**Failed Settlement**” means, in relation to an FTS Event, the settlement in relation to which that FTS Event occurred.

“**FTS Guidelines**” means the guidelines so titled, which are published on the Company’s extranet.

“**Potential FTS Event**” means any act, matter or thing which with the lapse of time or the fulfilment of any condition would, or would reasonably be likely to, result in an FTS Event.

“Revised Settlement” means, in relation to an FTS Event, the settlement among Survivors following an FTS Event, calculated in accordance with clause 3.9.

“Survivor” means, in relation to an FTS Event, each IA Participant other than the Defaulter.

3.2 Application of Part

This Part 3 applies in connection with the occurrence of any FTS Event or Potential FTS Event.

3.3 FTS Event

An FTS Event occurs where a IA Participant fails to settle for the obligations incurred by it as a result of the exchange of Settlement Items under:

- (a) the IAC Regulations, the IAC Code Set or any other framework; or
- (b) Items under the regulations and the procedures of any other Clearing System which include provisions which:
 - (i) govern the conduct of settlement when a member of that Clearing System (the “Clearing System Defaulter”) fails to settle its settlement obligations under that Clearing System, provided that with respect to the High Value Clearing System (“HVCS”), at the time of such failure to settle, settlement of HVCS payments is prescribed to occur on a deferred net basis; and
 - (ii) provide at least once on each business day for bilateral netting of settlement of amounts owed to or by that Clearing System Defaulter as a result of the exchange of payment instructions in accordance with those regulations and the procedures.

3.4 Deferral of Settlement

If the Reserve Bank or the Company has been notified or otherwise becomes aware of a Potential FTS Event or a Disabling Event, the Company or the Reserve Bank (in each case in consultation with the other) may defer until a later time the time prescribed for any settlement affected or potentially affected by that Potential FTS Event or a Disabling Event.

3.5 Suspension

- (a) If an FTS Event occurs, further exchanges of Settlement Items between the Defaulter and Survivors (but not between Survivors) pursuant to the IAC Regulations and/or the IAC Code Set are automatically suspended.

- (b) Upon the suspension of exchanges between Defaulter and the Survivors under clause 3.5 (a), the membership of the Defaulter in the IAC is also suspended and, subject to the provisions of this clause 3, the provisions of Regulation 6.4 apply as though the automatic suspension under this clause 3.5(b) were a suspension under Regulation 6.3.

3.6 Responsibility for Further Exchanges

Following suspension of exchanges between the Defaulter and the Survivors under clause 3.5 and except as may be required in accordance with Regulation 6.4, Survivors are not responsible for any failure to conduct further exchanges of Settlement Items with the Defaulter or to perform other obligations arising from the exchange of Settlement Items with the Defaulter (excluding any such obligations under this Part 3).

Where following an FTS Event an IA Participant becomes a Defaulter and exchanges with the Defaulter are suspended, then any Settlement Items already exchanged and the subject of a Failed Settlement may be exchanged bilaterally and the obligations arising from such exchanges (and any obligations arising from Settlement Items already exchanged and the subject of the Failed Settlement) may be netted daily between the Defaulter and a Survivor unless the Survivor indicates otherwise. However a Survivor which conducts such exchanges and netting and suffers any liability or loss as a result of such conduct has no recourse to the Company, or to any other Survivor, under the IAC Regulations or the IAC Code Set or the regulations or the procedures for any other Clearing System with respect to that liability or loss.

3.7 Netting with Defaulter

Netting of any amounts owing to the Defaulter by Survivors and by the Defaulter to Survivors in connection with the Failed Settlement is to take place at least once on each business day on a bilateral net basis between the Defaulter and each Survivor at such time and in such manner as the Defaulter and the Survivor determine.

3.8 Cross Clearing System Provisions

At least once on each business day, the amount owed to a Survivor by the Defaulter or by a Survivor to the Defaulter pursuant to clause 3.7 is to be netted with each other bilateral net amount owed to that Survivor by the Defaulter or by that Survivor to the Defaulter in each other Clearing System in which any such bilateral net amount is owed following an FTS Event in that Clearing System. Settlement of the resulting net amount is to take place at such time and in such manner as the Defaulter and Survivor determine.

3.9 Time and Manner of Revised Settlement

- (a) If an FTS Event occurs then on the day of the occurrence of that FTS Event, a multilateral net settlement figure for each Survivor will be recalculated by the Reserve Bank for a Revised Settlement using the settlement figures that were used to calculate the multilateral net settlement positions for the Failed Settlement but excluding all amounts due to or from the Defaulter.
- (b) On the day on which settlement figures are recalculated in accordance with clause 3.9(a), the Reserve Bank will notify each Survivor, via RITS, of the multilateral net amount due to or by that Survivor as part of the Revised Settlement.
- (c) On the day of notification under clause 3.9(b), each Survivor must settle for the revised amount of its settlement obligations (if any) referred to in the notification. This obligation is discharged either on settlement of the Survivor's final net allocated cross Clearing System national settlement position in accordance with clause 2 of this Code or if the Survivor's final net allocated cross Clearing System national settlement position is zero.

3.10 IA Participants' Obligations

To the extent it is legally able to do so, each IA Participant must act in accordance with this Part 3 in the event that an IA Participant is unable to discharge at the prescribed time the obligations incurred as a result of the exchange of Settlement Items in accordance with the IAC Regulations and the IAC Code Set.

3.11 No Effect on Other Clearing Systems

Except as expressly provided, this clause 3 does not apply to, and in no way affects, any rights or obligations arising under the regulations or the procedures for or in respect of the operations of any other Clearing System operated by, or under the auspices of, the Company.

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Annexure A Interchange Settlement Report

Annexure A is Confidential

End