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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

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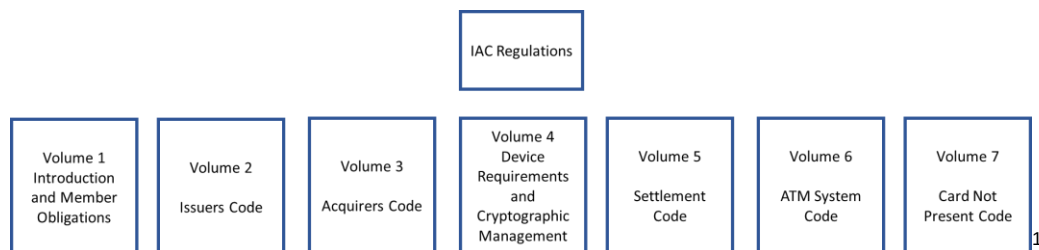
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PART 1 INTRODUCTION, INTERPRETATION AND DEFINITIONS

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:



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

Interpretations are located in a separate document entitled 'Interpretation & Definitions'.

1.3 Definitions

Definitions are located in a separate document entitled 'Interpretation & Definitions'.

The next page is Part 2

¹ Amended effective 1/7/19, version 009 r&p 001.19

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 6.45 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 6.45 am on the day following each business day.²

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 Amended effective 1/1/21, version 012 r&p 002.20

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 6.45am Sydney time, then settlement will proceed as follows:³
- (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:

The following text is confidential

- (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.

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.

³ Amended effective 1/1/21, version 012 r&p 002.20

- (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 6.45am est on the day following the next business day in Sydney or Melbourne or both; and⁴
 - (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

⁴ Amended effective 1/1/21, version 012 r&p 002.20

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 Part 3

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.

Next page is Annexure A

ANNEXURE A Interchange Settlement Report

Annexure A is Confidential

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