



Discussion Paper

Financial Claims Scheme for authorised deposit-taking institutions: Proposed requirements for payment, reporting and communications


November 2012

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Preamble

The purpose of this discussion paper is to explain and seek comment on proposals for further implementation of the Financial Claims Scheme (FCS) in respect of locally incorporated authorised deposit-taking institutions. The proposals relate to requirements for FCS payment, reporting and communications, and to the pre-positioning needed to give effect to these requirements. Comments are also sought on draft amendments to *Prudential Standard 910 Financial Claims Scheme* (APS 910), which are intended to implement the proposed FCS requirements. In addition, comments are sought on a draft information paper, which provides guidance to ADIs on matters relating to payment instructions and reporting requirements.

In its capacity as administrator of the FCS, APRA is considering the most cost-effective means by which FCS payments, reporting and communications can be implemented. In doing so, APRA is seeking to balance the need to ensure account-holders' timely access to their FCS protected funds with the need to avoid excessive costs of implementation and ongoing administration.

This discussion paper is available on APRA's website at www.apra.gov.au. Written submissions on this discussion paper, the draft amended APS 910 and the draft information paper should be forwarded to fcpolicy@apra.gov.au by 31 December 2012 and addressed to:

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Executive summary

Prudential Standard APS 910 Financial Claims Scheme (APS 910) came into effect on 1 January 2012 and requires locally incorporated authorised deposit-taking institutions (ADIs) to establish a 'single customer view' (SCV) for balances in accounts protected under the Financial Claims Scheme (FCS). The FCS does not apply to foreign ADIs operating in Australia through a branch.

In consulting on that standard last year, APRA indicated that a further prudential standard (or amended standard) would be developed to implement the FCS payment, reporting and communications requirements.

This discussion paper sets out further proposals for implementation of the FCS. It proposes that ADIs be required to implement the systems needed to ensure that they can:

- generate and transmit payment instructions to a paying agent appointed by APRA;
- generate and disseminate APRA reports to account-holders and other parties in respect of FCS payments;
- facilitate communications with stakeholders; and
- comply with testing, audit and CEO attestation requirements.

The proposals build on the SCV requirements established in 2012 in APS 910. It is intended that the proposed requirements would be implemented by amendments to APS 910. A draft version of APS 910, highlighting the proposed amendments, has been released for consultation with this discussion paper. Also released is a draft information paper, *Financial Claims Scheme for authorised deposit-taking institutions*. This provides guidance and explanations to assist ADIs to comply with the requirements in relation to payment instructions and reporting.

APRA is proposing that ADIs be pre-positioned to generate and transmit to a paying agent payment instructions in respect of electronic funds transfer (EFT) and cheques. These are the payment methods currently proposed where the FCS is implemented through APRA-facilitated payment, as opposed to deposit account transfer or payment via the declared ADI's payment channels.

APRA's consideration of payment options seeks to strike a balance between speed of payment, security of payment and convenience for depositors, while also seeking to minimise compliance and administrative costs and operational risks.

Where a payment approach is taken, EFT is the preferred payment method, given its relative speed, lower cost and greater security. Cheques would be used where account-holders have not provided to the declared ADI details of transaction accounts that they may have with another ADI.

Where possible, APRA will aim to complete payments in respect of most account-holders within seven calendar days of declaration of the FCS. A longer timeframe for payment will be required for prescribed accounts and some other categories of accounts, including those that had been temporarily suspended by the ADI at the time the FCS was declared.

In order to facilitate EFT payments, APRA is proposing that ADIs be required to establish and maintain an electronic facility to enable account-holders to provide the declared ADI with their transaction account details at another ADI.

This facility would need to be available from the time of FCS declaration.

Under the *Banking Act 1959* (Banking Act), APRA is required to provide account-holders and the Australian Taxation Office (ATO) with reports in relation to FCS payments. APRA proposes that ADIs be required to be pre-positioned to generate and disseminate these reports for APRA, drawing on the systems developed for SCV and payment instructions purposes.

Communication with account-holders and other ADI customers will be an important element of the FCS. APRA will have responsibility for providing stakeholders with generic information on the FCS in the event of FCS declaration, including details of the intended payment arrangements. However, it will be necessary for the declared ADI to have the capacity to communicate with its account-holders and other customers efficiently and reliably. Therefore, APRA is proposing to require ADIs to maintain the capacity to respond to enquiries with their account-holders and other customers and to provide them with information on the FCS process.

In order for APRA and ADIs to have confidence that the proposed FCS arrangements will work effectively when needed, APRA plans to require ADIs to regularly test their compliance with the SCV, payment, reporting and communications requirements.

As is the case with the current SCV requirements, APRA is proposing to require ADIs to have the systems and controls that are needed for FCS payment and reporting externally audited on a regular basis. In addition, APRA proposes to require CEOs to attest annually to their ADI's compliance with the FCS requirements.

The discussion paper focuses mainly on the proposed amendments to APS 910. However, the paper also sets out APRA's preliminary thinking on alternative options for providing account-holders with prompt access to their protected accounts, particularly the option of implementing the FCS through the transfer of existing deposit accounts to another ADI. APRA seeks stakeholder views on these alternative options.

Following consideration of submissions received, APRA expects to release the final version of APS 910 by July 2013.

Glossary

Account holder	An entity (as defined in section 960–100 of the <i>Income Tax Assessment Act 1997</i>) that holds in its name, or keeps in its name, (either alone or jointly with another entity) an account or covered financial product with an ADI
ADI	Authorised deposit-taking institution as defined in the <i>Banking Act 1959</i> (Banking Act)
AEST	Australian Eastern Standard Time
AIRR	Annual investment income report
APCA	Australian Payments Clearing Association
APRA	Australian Prudential Regulation Authority
APS 910	<i>Prudential Standard APS 910 Financial Claims Scheme</i>
ATM	Automated teller machine
ATO	Australian Taxation Office
Banking Act	<i>Banking Act 1959</i>
BCC	Business Cost Calculator
BIN	Bank Identification Number used to identify a card issuer
CSV	Comma-separate values
Declared ADI	An ADI specified in a declaration under section 16AD of the Banking Act as an ADI in relation to which Subdivision C of Division 2AA of Part II of the Banking Act applies
EFT	Electronic funds transfer
EFTPOS	Electronic funds transfer at point of sale
Electronic banking	Includes all electronic delivery channels, such as internet banking, phone banking and mobile phone banking
ESA	Exchange settlement account
EOD	End-of-day means 9.00 am AEST on the day following the date on which the Minister’s declaration is made under section 16AD of the Banking Act in relation to an ADI or, for testing purposes, 9.00 am AEST on the day following the date on which APRA requests that the information be generated by an ADI
FCS	Financial Claims Scheme
FCS limit	The limit on payments to an account-holder with a declared ADI applicable under section 16AG of the Banking Act, as prescribed in regulations made under the Banking Act

FCS balance	The aggregate amount an account-holder is entitled to be paid by APRA in respect of protected accounts under Part 2, Division 2AA of the Banking Act, being not more than the FCS limit
IT	Information technology
Liquid funds	Funds that can be used by a person for the purpose of making a financial transaction, with or without a linked or transactional bank account. Liquid funds can include cash, deposit balances in a transaction account or call account, pre-paid or stored value card, virtual card or other emerging mobile payment technologies
PIN	Personal identification number
Prescribed account	An account prescribed under subsection 16AH(5) of the Banking Act
Protected account	An account as defined in subsections 5(1) of the Banking Act
RBA	Reserve Bank of Australia
RBAnet	The RBA's online banking facility available for the secure transfer of payment files
SCV	Single Customer View, as defined in APS 910
TFN	Tax file number

Chapter 1 – Introduction

Background

Commonwealth legislation was enacted on 16 October 2008 to implement the FCS. The FCS provides account-holders of locally incorporated ADIs with timely access to, and protection from loss on, their protected accounts with an ADI that has become insolvent, up to the maximum amount payable under the FCS (FCS limit). The FCS limit is set by regulations made under the Banking Act. Currently, the FCS limit is \$250,000 per account-holder, per ADI.

APRA is responsible for administering the FCS. Under the Banking Act, the responsible Minister may invoke the FCS when APRA has applied to the Federal Court for an ADI to be wound up under section 14F of the Act. APRA may apply for winding up if:

- an ADI statutory manager is in control of the ADI's business; and
- APRA considers that the ADI is insolvent and could not be restored to solvency within a reasonable period.

It is likely that the FCS would only be declared in a situation where other remedies for resolving an ADI's financial difficulties, such as transferring all of its deposits to another ADI or facilitating the recapitalisation of the ADI, are not feasible or cost-effective in the circumstances.

Payments under the FCS, and associated FCS expenses, are funded by way of a Parliamentary appropriation. FCS payments and expenses are recovered against the assets of the ADI in the liquidation process. If the assets of the ADI are insufficient to meet the amounts paid under the FCS, the Government is statutorily empowered to levy the ADI industry to recover the shortfall.

The Banking Act provides APRA with discretion to determine the means and timing by which account-holders are paid or given access to the amounts protected under the FCS.

The target time for FCS payments is not specified in the Banking Act. However, APRA's intention is to provide most account-holders with access to the funds in their protected accounts up to the FCS limit as

soon as possible following the declaration of the FCS. Where possible, APRA is seeking to make payment within seven calendar days of the day on which the FCS declaration is made.

In December 2011, APRA released APS 910, which requires locally incorporated ADIs to establish a SCV for each account-holder, including the aggregate amount of protected account balances in respect of each account-holder, the composition of the account details and contact details for account-holders.

Protected account products that are covered by the FCS include standard deposit accounts, such as cheque accounts, call accounts, and term deposits, as well as a range of prescribed accounts.

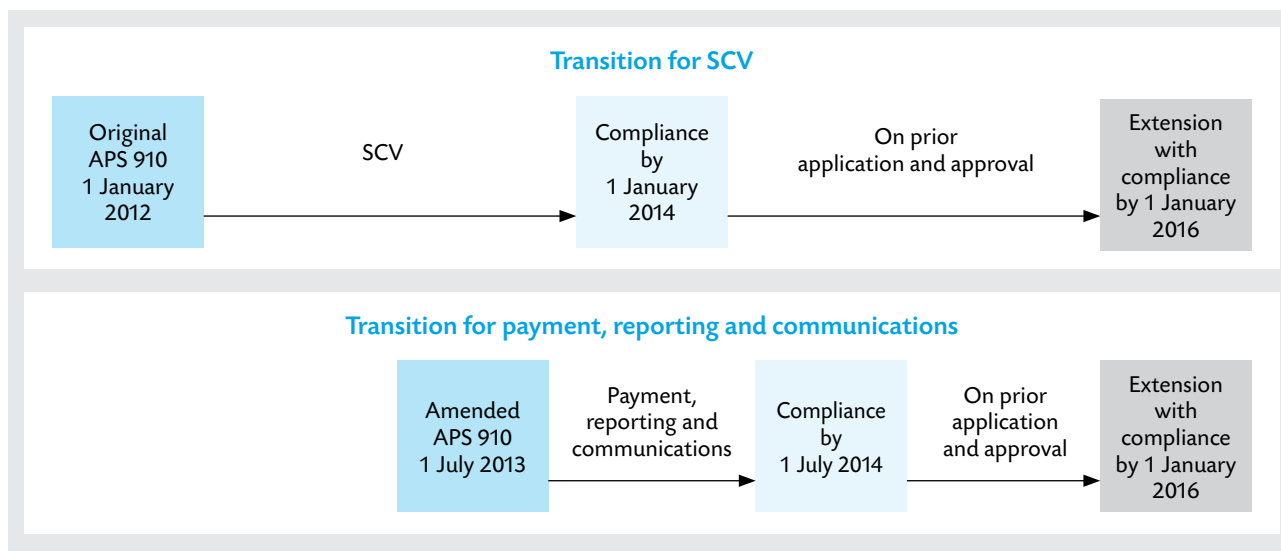
Proposed amendments to APS 910

As set out in this discussion paper, APRA is proposing to amend APS 910 to introduce additional pre-positioning requirements to facilitate the implementation of payment, reporting and communications for the FCS. Under the proposed amended standard, an ADI would be required to establish and maintain systems to:

- generate and transmit payment instructions to the Reserve Bank of Australia (RBA) or another paying agent appointed by APRA;
- establish an electronic facility to enable account-holders to provide the declared ADI with their account details at another ADI to enable EFT payment;
- generate and disseminate APRA reports to account-holders and other parties in respect of FCS payments;
- facilitate communication with account-holders and other customers, including via internet, telephone and call centre arrangements where available;
- comply with testing requirements specified by APRA from time to time; and
- comply with external audit and CEO attestation requirements.

Further details on these proposals are provided in this discussion paper.

Figure 1 – Transition



Transition arrangements

Under transition arrangements in APS 910, ADIs are required to comply with the SCV requirements by 1 January 2014. ADIs with difficulties in meeting the requirements by that date may seek APRA approval for an extended transition period of up to a further two years. All ADIs must therefore comply with the SCV requirements in APS 910 by 1 January 2016 at the latest.

Under the amended APS 910, it is proposed that ADIs will be required to implement the pre-positioning requirements for payment instructions, reporting and communications by 1 July 2014. This proposed timing is based on an assumption, at this stage, that the finalised version of the amended standard will be issued by 1 July 2013. An extended transition period to meet these requirements, up to 1 January 2016, may be approved by APRA on a case-by-case basis (refer Figure 1).

Process and timetable

The key milestones in APRA's implementation of its proposals are set out below:

Early November 2012	Release of FCS consultation package for comment by 31 December 2012
End December 2012	First consultation period closes
March 2013	Release of response paper (if required) for comment by end April 2013
June 2013	Release of final standard
1 July 2013	Amended APS 910 becomes effective
1 January 2014	ADIs required to comply with SCV requirements unless an extended transition period has been granted by APRA
1 July 2014	ADIs required to comply with all other FCS requirements unless an extended transition period has been granted by APRA
1 January 2016	All ADIs to comply with all elements in APS 910

Structure of this paper

This discussion paper provides:

- an overview of the proposed payment options (Chapter 2) and proposals to address some specific issues in relation to payment (Chapter 3);
- more detailed discussion of pre-positioning arrangements for FCS payments (Chapter 4), reporting (Chapter 5), communications (Chapter 6) and testing (Chapter 7);
- details of proposed assurance requirements (Chapter 8); and
- an overview of alternative payment options, on which feedback is also sought (Chapter 9).

Chapter 10 contains a request for information on the cost-benefit impacts of APRA's proposals.

Chapter 2 – Payment options

The Banking Act confers flexibility on APRA to determine the means of payment under the FCS. APRA also has discretion as to the order in which it pays out particular kinds of accounts and whether payments are in single or multiple instalments. For prescribed accounts, such as retirement savings, first home saver and farm management accounts, APRA has a statutory obligation to establish an account of the same kind with another ADI.

For protected accounts that are not prescribed accounts, APRA has considered a range of payment options to facilitate prompt, secure and convenient FCS payment in a situation where transferring the accounts to an existing ADI or to a 'bridge entity' established by the Government for resolution purposes is not possible or cost-effective. As part of this process, APRA has convened several industry workshops, which have included representatives from ADIs, industry associations and relevant government agencies, to evaluate the potential benefits, costs and risks of different payment options. The proposals set out in this paper and in the draft amended APS 910 draw on these consultations with stakeholders.

APRA's consideration of payment options seeks to strike a balance between speed of payment, security of payment and convenience for depositors, while also seeking to minimise compliance and administrative costs and operational risks. In order to achieve this, APRA is proposing to utilise ADIs' existing payment instruments and infrastructures, rather than build new payments structures solely for FCS purposes.

Proposed options

The primary focus of this discussion paper, and the content of the draft amended APS 910, is on two payment options:

- EFT provided by the RBA; and
- cheque drawn on the RBA.

For both these options, APRA is proposing that the declared ADI would have responsibility for preparing and transmitting securely the FCS payment instructions to the RBA (as APRA's paying agent). The

proposed pre-positioning requirements for payment are confined solely to these two payment methods.

EFT would be used where account-holders have provided the declared ADI with transaction account details at another ADI. References to transaction account details in this context throughout this paper are to accounts that have a capacity to receive deposits by EFT, such as transaction accounts or other similar accounts. Cheques would be used to pay account-holders who do not provide the declared ADI with account details at another ADI within a few days of the FCS declaration. In the case of prescribed accounts, the Banking Act requires APRA to establish an account of the same kind at another ADI in the name of the account-holder, and to deposit funds for some or all of the eligible balance in that account.

Possible future options

APRA has also considered other payment options, including via a declared ADI's own payment channels, re-opening the declared ADI's branches to facilitate limited cash withdrawals, and using pre-paid cards. APRA is also considering the potential benefits and costs of achieving FCS outcomes through transferring protected accounts to another ADI, rather than making payments to account-holders.

These options are discussed in Chapter 9. APRA is seeking comment from stakeholders on these alternative payment options.

Subject to the views of stakeholders and further consideration by APRA, pre-positioning requirements to facilitate these or other forms of payment may be considered in future as part of the ongoing refinement of the FCS. However, there is no intention to establish pre-positioning requirements for these potential payment options at this stage.

APRA is mindful of changes in payments technology, including the increasing use of electronic payments methods and the decline of cheques as a payment instrument. As payment technologies change, APRA will review the FCS payment arrangements and the scope for facilitating FCS payment via new payments technology.

Payment method assessment

APRA has assessed the payment options against a number of criteria, including.

- speed of payment;
- administrative costs;
- security of payment;
- ease of process for account-holders;
- operational risks;
- impact on the financial system and confidence; and
- credibility and compatibility with international practice.

Using these criteria, APRA's assessment of the principal advantages and disadvantages of EFT and cheques as the two main payment options (where account transfer is not used) is summarised below.

EFT

EFT has a number of attractions as a payment method.

- Payment by EFT has the ability to provide access to cleared funds relatively quickly, provided that account-holders have a transaction account at another ADI. However, the speed of access depends on how quickly account information at the payee ADI can be obtained from the account-holder. As explained in Chapter 4, APRA is proposing to require ADIs to establish and maintain a facility to enable account-holders to record with the declared ADI their transaction account details at another ADI (once the ADI becomes declared under the FCS) if they wish to have FCS payments made to that alternative account.
- EFT can handle large volumes of transactions quickly and has proven reliability. However, it requires electronic banking channels to be pre-positioned to capture alternative BSB and account numbers. Moreover, it assumes that IT infrastructure and systems are available and were not a factor in an ADI's failure.
- EFT is a secure payment option, provided the ADI's own systems can be used to authorise and authenticate requests for individual account-

holders. A file of FCS payment instructions would be sent to APRA's paying agent, the RBA, for processing via existing clearing systems.

- EFT payment instructions are less complex than other payment options.
- EFT is a convenient means of payment for those account-holders with a transaction account at another ADI.
- EFT transactions have the lowest processing costs.

However, there are some disadvantages with EFT as a payment method.

- EFT relies on an account-holder having a transaction account at another ADI if it is to facilitate prompt payment. Although many account-holders do have transaction accounts in more than one ADI, many do not. For those who do not have, or cannot quickly establish, an alternative account, the only currently available means of payment would be to either pay by cheque drawn on the RBA, or for APRA to establish an account with another ADI on their behalf and make the payment into that account.
- EFT relies on the account-holder providing correct account details for the alternative ADI into which funds are to be deposited. Payments made to an incorrect account can be hard to retract. Returned payments would need to be reconciled and re-processed manually, which would entail cost and considerable delays in making the payments to the account-holders in question.
- Although EFT payments could be made within four business days following the FCS declaration if an account-holder's alternative transaction account details are known at the time of FCS declaration, it does not provide a means of immediate access to liquid funds. APRA is therefore considering possible options to provide more immediate access to liquid funds, as discussed in Chapter 9.
- The use of EFT relies on one-off development costs for pre-positioning new functionality to enable account-holders to provide ADIs with their BSB and transaction account numbers at another ADI.

Cheque

Cheques drawn on the RBA also have some attraction as a means of payment for the FCS.

- Cheques involve a relatively simple payment process and are a reliable, widely used and understood payment instrument.
- They provide the main means of payment where an account-holder does not have a transaction account with another ADI or their account details are not available at the time of FCS declaration.
- Cheques drawn on the RBA are considered a relatively secure option due to the RBA's fraud detection systems.
- Payment by cheque gives the account-holder the option of where to deposit their FCS funds.
- Payment by cheque entails lower pre-positioning costs.

However, payment by cheque has a number of disadvantages that need to be borne in mind in determining a cost-effective means of FCS payment.

- Cheques are not as prompt as EFT as a means of payment. Printing, delivery and processing constraints result in slower access to cleared funds than in the case of EFT.
- Cheques rely on an account-holder having another transaction account in order to deposit the cheque. If an account-holder in a declared ADI needs to open a new account, this would further delay the access to their FCS funds.
- There is a risk of mail interception and fraud. However, this risk is mitigated by the fraud detection systems the RBA has in place. There is also a risk of cheques being posted to an incorrect address.
- There are limits on the maximum number of RBA cheques that can be printed in a given period. This may not prove to be a constraint for the payment of account-holders where the declared ADI is very small, but it would be a significant constraint for medium to larger ADIs.
- Lost, stolen, damaged and misplaced cheques would need to be reconciled and re-requested manually.

- Cheques represent an old payment technology and may be phased out in the longer term once suitable alternatives are introduced. Therefore, cheques may not represent a long-term option for FCS payment.
- Cheques involve higher production and processing costs than EFT. As cheque volumes decline, these processing costs may increase significantly over time.

Having regard to the above considerations, APRA believes it appropriate to use both EFT and cheque as FCS payment options where the transfer of deposit accounts to another ADI is not feasible. Accordingly, APRA proposes to require ADIs to be pre-positioned to enable data to be extracted in a specified format in order for the RBA to effect payment under both methods.

Chapter 3 – Payment issues

Particular technical issues related to FCS payments are discussed in this chapter. Further details and worked examples illustrating the application of the matters discussed are provided in the information paper.

Priority for payment

In relation to account-holders for whom the aggregate account balance for protected accounts exceeds the FCS limit, the Banking Act provides APRA the flexibility to determine the order or apportionment of FCS payment across different categories of protected accounts, up to the FCS limit.

The lowering of the FCS limit from \$1 million to \$250,000 in February 2012 has increased the number of account-holders who may have an aggregate account balance in excess of the FCS limit. In such cases, the means by which the FCS payment is apportioned across an account-holder's different accounts may have significant implications for access to their funds, depending on the types of accounts in which they hold their deposits and whether they have joint accounts with other persons.

Broadly, there are three categories of protected account:

- savings, transaction and call accounts, where the funds can be withdrawn immediately;
- cash management accounts and term deposits, where the funds can only be accessed on a maturity date, or upon giving advance notice of withdrawal; and
- prescribed accounts, such as retirement savings accounts, farm management deposit accounts and first home saver accounts, where the funds may only be used for dedicated purposes consistent with the terms of those accounts.

In relation to the first two categories of protected accounts, APRA would seek to make payments to the majority of account-holders within seven days of the date on which the FCS is declared. For this purpose, cash management and term accounts would be treated as if they were call accounts.

However, in the case of prescribed accounts, APRA cannot pay the funds in those accounts to the account-holder or deposit them into a call or transaction account at another ADI. The Banking Act requires APRA to establish a prescribed account of the same kind at another ADI and deposit the funds relevant to the prescribed account into the new account. Where an account-holder's aggregate balance is in excess of the FCS limit, the Act confers flexibility on APRA as to whether amounts deposited into new prescribed accounts at another ADI are for the full entitlement of the account-holder or a lesser amount.

There are two main methods that could be applied to determine the apportionment of FCS payment across an account-holder's different accounts if the aggregate balance in the accounts exceeds the FCS limit:

- on a *pari passu* basis; or
- by assigning priority to different categories of protected accounts.

For apportionment on a *pari passu* basis, the \$250,000 limit would be allocated *pro rata* across all of an account-holder's protected accounts in proportion to the balance in each account.

Under a prioritised apportionment approach, APRA could assign priority to particular types of accounts for each account-holder.

There are several approaches to prioritisation, including:

- prioritising transaction and call accounts, whereby the amounts in these accounts would be paid out first, followed by cash management and term accounts, and then prescribed accounts, up to the FCS limit;
- prioritising all non-prescribed accounts, such that the balances in these accounts are paid out before any balances in prescribed accounts are transferred into the same kind of account opened by APRA with another ADI; or
- assigning priority to prescribed accounts, then applying the funds on a *pari passu* basis to remaining accounts.

Each approach has different implications, depending on the allocation of an account-holder's aggregate funds across different accounts and the extent to which the accounts involve joint accounts. For example, if an account-holder had most of their deposits in prescribed accounts and the balance in those accounts exceeded the FCS limit, then they would receive no funds via the FCS in respect of their transaction account if prescribed accounts were assigned priority. However, if a *pari passu* approach were applied, they would receive a proportion of the funds in their transaction and term accounts. In contrast, if non-prescribed accounts were assigned priority, then the account-holder would receive the full amount in those accounts, up to the FCS limit, but only a proportion of the amounts in their prescribed accounts.

Subject to the views of stakeholders, APRA is proposing to prioritise the apportionment of the FCS limit to the payment of balances in non-prescribed accounts (that is, call accounts, transaction accounts and term deposits) in order to maximise account-holders' access to their funds.

Where an account-holder's aggregate balance is in excess of the FCS limit, there is flexibility as to whether to prioritise the payment of principal or accrued interest. For example, if the principal amount of the balance were just below the FCS limit and the accrued interest took the total above the limit, there would be a small amount over the FCS limit which would be left to claim in liquidation. In such a situation, a number of options are available for payment:

- the principal could be fully paid out, with accrued interest being paid only up to the FCS limit; or
- the full amount of the accrued interest could be paid out and then the remaining principal up to the limit; or
- the principal and interest could be apportioned on a *pro rata* basis, leaving a small amount of both principal and interest to claim in liquidation.

The allocation between principal and accrued interest has implications for payment outcomes, particularly where an account-holder has both joint accounts and accounts in their own name.

APRA is proposing to adopt the last of the three options (that is, treating principal and interest on a *pro rata* basis), given that, in a liquidation, pre-liquidation interest and principal rank equally in a payout.

Number of payments

APRA has discretion under the Banking Act to determine whether payments to account-holders are made in a single payment or in multiple instalments. This will be determined by APRA on a case-by-case basis. However, given APRA's preference to minimise the complexity and cost associated with the FCS, it is likely that APRA would seek to make only one payment to each account-holder where practicable in respect of their non-prescribed accounts.

Prescribed accounts would be processed once new accounts were established by APRA with another ADI. This is expected to occur after the target seven calendar day period.

End-of-day positions

The definition of end-of-day (EOD) has been amended slightly to clarify the expected time when the declared ADI would finish its processes by adding Australian Eastern Standard Time (AEST) to APS 910. The declared ADI would be expected to start calculating its SCV from EOD balances as soon as the data were available, and not necessarily wait until 9am AEST if this were not required. The timing for the calculation for the SCV has been amended to reflect this, by requiring the SCV to be calculated not later than 48 hours from EOD.

The principles underlying the EOD position calculations in Attachment B of APS 910 remain unchanged. For completeness, additional payment instruments—BPAY®, Visa and MasterCard—have been included in the EOD discussion in Attachment B.

The process for the treatment of various payment instruments to determine final payout amounts is complex. An ADI must ensure consistency in the treatment of payments made between account-holders, both at the ADI (i.e. the treatment of 'on-us' items) and at another ADI, by using the same general principles and requirements as set out in Attachment B.

Chapter 4 – FCS payments

In order to facilitate FCS payment and reporting in accordance with the requirements set out below, ADIs will need to establish and maintain the systems and other resources required. APRA proposes that ADI pre-positioning include:

- implementing FCS electronic banking functionality in the event of an FCS declaration to enable account-holders to provide the declared ADI with alternative BSBs and transaction account numbers to facilitate EFT payments;
- ensuring that any supply and maintenance contracts required for FCS payment processing purposes can be maintained during FCS operations;
- identifying key staff and other resources required for managing FCS payment;
- establishing and maintaining the systems and controls needed to create and transmit payment instructions, drawing on SCV data and alternative account data for EFT payments; and
- implementing enhancements to ADI communication capabilities with account-holders via the declared ADI's internet, telephone and call centre arrangements, where they exist.

This chapter sets out in more detail proposed features and pre-positioning requirements for payment using EFT and cheques.

Alternative ADI account facility

APRA proposes to require all locally incorporated ADIs to establish an FCS data capture mechanism, referred to in this paper as the alternative ADI account facility, to be activated once an FCS is declared. Its purpose is to enable account-holders to provide the declared ADI with details of alternative transaction accounts where they have them at another ADI, so as to facilitate payment by EFT for FCS purposes. APRA's proposals are set out below.

- ADIs will establish and maintain the facility which would be activated once an FCS is declared, to capture alternative ADI BSBs and account numbers for account-holders via available electronic banking channels (such as internet, telephone and mobile banking).

- ADIs will prepare payment instructions in a format provided by APRA in respect of EFT payments, drawing on the SCV data and calculations, and on data from the facility.
- ADIs will need to be able to transmit payment instructions securely to the RBA via RBAnet in accordance with payment instruction requirements specified by APRA. These requirements will be provided to ADIs by APRA on a secure basis. They are not contained in the amended APS 910.
- APRA will process the payments to accounts in other ADIs via the RBA as its paying agent.
- Privacy issues would be addressed by seeking account-holder consent in the facility to authorise the ADI to provide their alternative transaction account details to APRA and the RBA.

It is proposed that the facility would only be activated once the FCS has been declared. ADIs should ensure that the facility has the capacity to be securely accessed and updated by all account-holders with electronic banking access during the period it remains open.

If an account-holder does not have an account at another ADI then they would be advised, as part of the FCS declaration communications process, to open such an account. If alternative account information is not received within three calendar days of the date of FCS declaration, APRA would direct the ADI statutory manager or liquidator to prepare and transmit payment instructions to the RBA for a cheque to be posted to the relevant account-holders.

In order to further enhance the FCS operational arrangements, including payment by RBA cheque and mailing of FCS statements, the facility could also include an option allowing account-holders to provide updated address and contact information. APRA seeks views on this option.

Pre-positioning electronic banking channels

APRA proposes that ADIs be required to pre-position their electronic banking channels to enable account-holders to securely provide their alternative account

details, including through internet banking, telephone banking and mobile banking applications. Where ADIs have a call centre, APRA proposes that they be required to pre-position their call centre functionality to enable account-holders to provide alternative account details securely via the call centre.

EFT payment process

Under the EFT payment method, the declared ADI would be required to generate the EFT payment file and transmit it securely to the RBA, in accordance with the direct credit payment file specification available on request from fcs@apra.gov.au. The RBA would process the payment file from APRA's account as described below using the account details at an alternative ADI obtained from the facility (see Appendix A for more details).

Under this payment method:

- a record of the payment type would be noted on the account-holder statement;
- each account-holder would receive deposits in their nominated alternative transaction account;
- APRA, or the ADI under APRA direction¹, would manage all rejected transactions; and
- the RBA would provide detailed reporting to enable APRA or its delegate to reconcile paid and unpaid EFT transactions.

If the statements to account-holders are to include details of amounts paid under the FCS, including EFT transaction reference numbers, APRA would need to provide the statutory manager or liquidator of the declared ADI with the relevant FCS payments transaction details. This would either require APRA to transmit those data to the ADI for integration into the statements to account-holders using the ADI's systems, or to give the ADI statutory manager or liquidator access to APRA's FCS transaction account details. In either case, there would be a need to integrate the FCS payment transaction details generated by the ADI's own systems for inclusion in statements to account-holders.

¹ Section 16AJ of the Banking Act empowers APRA to require an ADI, an ADI statutory manager, or liquidator appointed to an ADI, to give APRA reasonable assistance in the performance of its functions, and exercise of its powers, in respect of the FCS.

APRA is of the view that the inclusion of FCS transaction details in statements to account-holders would enhance account-holders' ability to understand and reconcile the FCS payments to their accounts. Subject to the views expressed in submissions, APRA is proposing to incorporate FCS transaction details into statements to account-holders.

RBA cheque payment process

Under the RBA cheque payment method, the declared ADI would be required to generate the cheque payment file and transmit it securely to the RBA, in accordance with the cheque payment file specification available on request from fcs@apra.gov.au.

The RBA would print cheques and post them to account-holders. Cheques will only be used where EFT is not a viable payment option for an account-holder (see Appendix A for more details).

Under this payment method:

- a record of the payment type would be noted on the account-holder statement;
- each account-holder would receive a cheque sent to the mailing address, as contained in the SCV or as updated subsequent to FCS declaration;
- APRA, or the ADI under APRA direction, would manage all returned mail, lost, stolen, damaged cheque replacements as well as re-issue cheques when required; and
- the RBA would provide detailed reporting to enable the FCS administration to reconcile presented cheques.

RBA cheques would be printed with a remittance advice that includes limited information regarding payment details. Account-holders would subsequently be provided with a complete statement detailing FCS payments and reconciliation to their accounts in the declared ADI.

Payment in respect of prescribed accounts

In order to make FCS payments on prescribed accounts, APRA would request a report to be generated by the declared ADI for each account type, listing all SCV fields for each account-holder.

APRA would determine which ADIs operate accounts of a similar nature to the prescribed accounts in question and determine with which ADI or ADIs the new accounts will be established. The selection of the new ADI will be made by APRA having regard to several considerations, including:

- which ADIs provide prescribed accounts of the same kind as the ones in the declared ADI;
- the cost of establishing the account;
- the fees associated with the account;
- whether the ADI in question has branches in the area in which the declared ADI operated;
- competition implications; and
- market signalling implications.

Once APRA has established new prescribed accounts with another ADI, APRA would deposit the relevant amounts into the accounts via the RBA, based on reports provided by the declared ADI.

In the process of reporting to account-holders (see later in this paper), the new ADI, in consultation with APRA, would provide account-holders who had prescribed accounts in the declared ADI with the details of their new prescribed accounts.

Exceptions

It is envisaged that immediate payment would not be able to be made in some cases, and that exception processing would be required. Examples where FCS payment may be delayed and require an account-holder to make a claim directly to APRA for payment, include:

- dormant or frozen accounts;
- accounts of deceased persons;
- accounts in respect of invalid or obsolete addresses; and
- accounts with a restricted operating status.

Chapter 5 – Reporting

The Banking Act requires APRA to provide each account-holder with a statement relating to the amounts paid to them under the FCS. The Act also requires APRA to provide a report to the ATO in respect of matters specified in the Act.

Given that the information required for these reports is held by the ADIs, APRA proposes to require ADIs to maintain the capacity to produce the reports on behalf of APRA.

Much of the information required for these reports will be available from the SCV files generated by an ADI. In addition, APRA will request the declared ADI statutory manager or liquidator to obtain other information needed for reporting to account-holders. This will include information on the amounts paid to account-holders, the date on which payment is made and the reference details for the payment (where applicable).

APRA is therefore proposing that ADIs be pre-positioned to have the systems and controls required to ensure that they can generate statements in relation to FCS payments for account-holders, the ATO and APRA. The ADIs must conform with requirements specified by APRA, including being able to:

- produce account-holder statements showing how the FCS balance was calculated and paid;
- prepare summary and transactional detail reports;
- prepare a summary payment data report for the ATO; and
- undertake payment testing with file processing capability confirmation from payment providers on a regular basis (see Chapter 7).

Reporting to account-holders

For the purposes of compliance with subsection 16AHA(2) of the Banking Act, APRA is required to give account-holders, within 14 days after the end of the financial year, a statement about the amounts paid to, or applied for the benefit of, the account-holder in the financial year. The statement must:

- be in the approved form;
- name the account-holder;

- state the tax file number (TFN) if known by APRA;
- state the total of the amounts and the total of the amounts (if any) withheld from the account-holder under the *Taxation Administration Act 1953*²; and
- state the financial year to which the statement relates.

It is envisaged that the account-holder FCS statement would be produced and sent as soon as practicable following the final FCS payment, rather than waiting for the end of the financial year. APRA considers it important that account-holders receive their statements as quickly as practicable.

APRA proposes that FCS statements would be sent to account-holders within 60 days of the FCS payments being made to them (except where subsection 16AHA(2) of the Banking Act requires such statements to be provided earlier). It is proposed that the statutory manager or liquidator of the ADI would be required to prepare and send out the statements on behalf of, and in accordance with directions from, APRA.

Accordingly, APRA proposes that ADIs must maintain the capacity to generate and transmit to APRA, and to any person nominated by APRA, reports to enable APRA to comply with its obligation under subsection 16AHA(2) that the statement to account-holders would contain information relating to:

- the name and address of the account-holder;
- their TFN if held by the ADI;
- the account balances assessed as at end-of-day, including accrued interest net of account-based fees and charges and net of applicable withholding tax, for each account held in the name of the account-holder, or attributable to the account-holder in the case of joint accounts;
- the basis on which interest accruals, account fees and charges have been calculated;
- the aggregate balance of the accounts for that account-holder;

² Withholding tax has been added into the SCV requirements of APS 910 to facilitate compliance with taxation obligations under the Banking Act.

- the FCS limit;
- a description of the FCS amount(s) paid, including the date on which payment is made and any reference details (for example, the ADI-generated cheque number or ADI-generated EFT reference number);
- the amount deposited into a prescribed account established at another ADI (where applicable) and the details relating to that new account (in a separate advice);
- the total amount of taxes withheld (if applicable); and
- the financial year to which the statement relates.

The statement would be sent to the account-holder's postal address using the ADI's existing statement production arrangements.

The report would include reference to any remaining amounts the account-holder has with the ADI, noting that these amounts will be paid out (to the extent funds are available) in the ordinary course of liquidation.

Account-holders would be given the opportunity to seek clarification of the amounts calculated in respect of FCS balances and the amount paid to them.

Reporting to the ATO

For the purposes of compliance with subsection 16AHA(3) of the Banking Act, APRA is required to give the Commissioner of Taxation, within four months after the end of the financial year, a report regarding the amounts paid to, or applied to the benefit of, account-holders during the financial year.

APRA proposes to require the ADI statutory manager or liquidator to generate the required report for APRA, and deliver the required information to the ATO as part of its usual annual investment income reporting (AIIR) process.

That report must contain the following information:

- name of account-holder;
- address of account-holder;

- date of birth of account holder;
- TFN if held by the ADI;
- a description of the payment (as to its character);
- amount of the payment;
- date of the payment;
- amount of tax withheld (if applicable); and
- the financial year to which the payment relates.

The AIIR will need to report both the interest received by the account-holder prior to the declaration date and the accrued interest to be paid as part of the FCS payment. The current AIIR has one investment account data record that captures the interest paid prior to the declaration date.

APRA is seeking views as to whether the AIIR should have:

- a separate FCS investment account data record; and
- additional fields within the current investment account data record to capture the FCS data.

Other reporting requirements

In addition to the above matters, APRA proposes that ADIs may be required to provide APRA with a range of information in relation to the FCS shortly after the time of declaration. The types of reports envisaged include:

- a statistical summary report showing the values and volumes of potential FCS payments;
- EFT payments report, at the time of payment;
- RBA cheque payments report, at the time of payment;
- an exceptions (unable to pay) report listing the payments that are unable to be made, following the completion of EFT and cheque payments; and
- a prescribed account report, after EFT and cheque payments have been made.

The proposed details of these reports are prescribed in APS 910 and further explanation is provided in the information paper.

Statistical summary report

APRA may request an ADI to provide the statistical summary report at any time of testing an SCV file, such as during an FCS simulation, as well as following an FCS declaration.

EFT payments report

The EFT payments report will provide details and reference information for all EFT FCS payments. It will be used to authorise value and release the file into the clearing stream.

The report should be provided in comma-separated values (CSV) format.

RBA cheque payments report

The cheque payments report will provide details and reference information for all cheque FCS payments. It will be used by APRA to authorise the amount to be processed and settled from the FCS Special Account held at the RBA.

The report should be provided in CSV format.

Prescribed account report

This report will be used by APRA to establish a new prescribed account on behalf of an account-holder at another ADI. The report will list all information about the account-holder from the SCV as well as the information regarding the prescribed account.

A separate report is required for each account type; a summary report is also required in CSV format.

Exceptions report and summary

A report is to be produced in respect of all accounts where payment is not able to be made due to exceptional circumstances. The report will provide the details and reference information for account-holders in CSV format.

Chapter 6 – Communications

Effective public communications are critical to keep account-holders informed of the means by which they will be receiving their FCS payments.

APRA will be responsible for generic communications throughout the FCS process via its website, call centre, social media networks and news media statements.

This will include providing information on:

- the FCS, including the types of accounts covered by the FCS, process by which payments are calculated, how and when payments will be made and the nature of the information to be provided to account-holders;
- the actions that account-holders should take to facilitate payment – for example, opening an account at another ADI if they have not already done so, and providing information on account details at another ADI via the alternative ADI account facility available on the declared ADI's website;
- the means by which account-holders may obtain information on the details of their accounts via the declared ADI; and
- the means by which interested parties can make general enquiries in relation to the FCS, via the APRA call centre and email address, and obtain further information via the APRA website.

APRA expects the declared ADI, under the control of the statutory manager or liquidator, to be responsible for communication with its account-holders and other customers. Therefore, APRA proposes that all locally incorporated ADIs be pre-positioned to manage communications with account-holders and other customers via their communications channels, public relations functions and authentication processes.

These channels may include a pre-positioned link to an APRA-hosted webpage, an email address for enquiries, a call centre and pre-recorded telephone messages for phone banking.

APRA expects ADIs to ensure that they maintain the ability to scale up communications capacity to handle high volumes of enquiries in a FCS event. This may require ADIs to establish outsourcing arrangements or other contingencies to enable higher-than-usual volumes of enquiries to be managed.

The ADI's communication with account-holders would include:

- providing account-holders and others with information on the FCS payment timeline and process, using information provided to the ADI by APRA;
- responding to specific questions from account-holders on the FCS process and in relation to their accounts by using information provided to the ADI by APRA; and
- responding to complaints, if any, from account holders.

APRA will supply communications material for ADI web sites, call centres and email facilities in respect of generic FCS communications. ADIs would be expected to develop communications materials, such as prepared scripts, to enable them to respond to specific queries from their customers.

Chapter 7 – Testing

In order to ensure effective operation of the FCS if and when declared, ADIs will be expected to periodically test various components of their FCS pre-positioning to demonstrate compliance with APS 910. This would include testing:

- timely generation of the SCV data file and statistical summary report and the quality and accuracy of data records contained therein;
- the ability to activate the alternative ADI account facility;
- the capacity to generate timely, accurate and complete payment instructions in the prescribed format and transmit them securely to the RBA;
- the ability to generate the required APRA reports on a timely basis; and
- the ability to invoke the required communications arrangements when required.

Demonstration of an ADI's preparedness and ability to deliver the requirements of APS 910 through testing is the primary way APRA will assess compliance with the standard, in addition to the annual CEO attestation and audits. This would be supplemented by periodic on-site assessment of data and relevant systems and controls as part of APRA's regular supervision process.

On request from APRA, an ADI will be required to undertake FCS payment testing through the use of data that conceals the identity of account-holders. Full end-to-end simulation testing may also be conducted by APRA from time to time.

SCV testing

The SCV is the fundamental requirement for aggregating accounts belonging to each unique account-holder and hence ensuring the payment to an account-holder is capped at the FCS limit. As such, a high quality SCV is crucial to the implementation of the FCS pre-positioning requirements.

APRA proposes to require regular testing of the ability to generate the SCV data and statistical summary report to a level consistent with that required in APS 910, and will require transmission of the statistical summary report to APRA.

The phrase 'to the extent practicable' is used in APS 910 in the context of identifying each unique account-holder, for the purposes of making an FCS payment. This recognises that, when using the available data on an account-holder's record to create a SCV, some issues may initially arise with data matching and data quality and these concerns may not be able to be resolved immediately. If deficiencies are identified, enhancements and further testing should be conducted by the ADI. Continuous improvement should enable ADIs to resolve these issues over time to enable correct application of the FCS limit.

Alternative ADI account facility testing

APRA proposes that the ability of ADIs to capture alternative account information via the facility at the time of FCS declaration be periodically tested to ensure functionality, account-holder identification and authorisations, as well as data capture validation, to the extent practicable.

An ADI must ensure that there is sufficient systems capacity to enable all account-holders who wish to use this facility to do so when needed.

Testing of payment instructions

During the initial pre-positioning implementation phase, and then on an on-going basis, APRA proposes to require ADIs to test their capability to generate and transmit to the RBA payment instructions for EFT and cheques.

Through the testing process, ADIs will be expected to create a payment file using the SCV data, merged with the updated data captured via the facility, and to transmit the file to the RBA. For testing purposes, all data in the payment file would be masked to ensure the privacy of the account-holder. The RBA would provide confirmation to both APRA and the ADI as to whether a file was received in a format consistent with FCS requirements.

APRA proposes that payment file transmission and process testing between ADIs and the RBA be coordinated through APRA.

Testing of reporting

In a testing environment, APRA proposes that ADIs provide it with a copy of the SCV statistical summary report when testing is undertaken. In addition, ADIs will be expected to provide reports to APRA in the testing process that set out EFT and cheque summary data.

APRA proposes that at the conclusion of an ADI's full test cycle, the exception reports, prescribed account reports and sample account-holder statement data be sent to APRA for review.

APRA also proposes that ADIs will be tested on their ability to generate reports for account-holders and the ATO, on behalf of APRA, that accord with the requirements set out in APS 910. This would be done on a sample basis. In the case of the report to the ATO, the report would primarily comprise the standard ATO AIIR report.

Testing of communications

The ability to communicate effectively and in a timely manner with account-holders and other customers in the event that an ADI becomes a declared ADI is fundamental to an orderly resolution. An ADI must be able to facilitate communications through all of its usual channels, to provide information on the FCS event and respond to the enquiries of account-holders. ADIs must also be able to record information from account-holders relevant to the preparation of their SCV and payment instructions for FCS payments.

For all communication channels maintained by an ADI, including its website, electronic banking facility and telephone banking facility where such facilities exist, the ADI needs to ensure it has the capacity, either internally or through contingency arrangements, to cope with the increase in demand that is likely if the FCS is declared.

APRA proposes to periodically test an ADI's ability to meet the communication requirements in APS 910 through various means, potentially including FCS declaration simulation exercises.

Chapter 8 – Assurance

CEO attestations

CEO attestations are an important means of ensuring ADI senior management accountability for an ADI's compliance with prudential requirements in relation to the FCS. APRA is therefore proposing to require CEO attestations in relation to the payment, reporting, communications and testing requirements contained in the draft amended APS 910. The proposed CEO attestation requirements build on the attestation provisions already in place in respect of SCV requirements.

The attestations can be included with the ADI's existing attestations required under *Prudential Standard APS 310 Audit and Related Matters* (APS 310).

Audit requirements

APRA also places reliance on external auditors to ascertain the extent to which an ADI complies with relevant elements of prudential standards. In this context, APRA proposes that an ADI ensure that the systems, controls, processes and information used to generate FCS payment instructions and reporting information for the purposes of APS 910 are subject to assurance by an auditor engaged for this purpose. This is to enable the auditor to form an opinion on the accuracy and reliability of the data, payment instructions and reports, and the systems used to generate the data.

The auditor must either be the ADI's appointed auditor or another auditor engaged by the ADI that meets the requirements for an auditor, as set out in APS 310.

The proposed external audit requirements build on the audit provisions already in place in respect of SCV requirements by requiring audit of the processes and controls around the transmission of payment instructions and reporting information.

Under the draft amended APS 910, an ADI must engage an auditor at the end of the final transition period applicable to that ADI to undertake a reasonable assurance audit of the systems and controls relevant to the FCS process. The end of the final transition period is the date on which the ADI in question must comply with all elements in APS 910. Unless APRA has agreed to an extended transition period for a particular ADI, the end of the transition period for ADIs will be 1 July 2014.

The systems subject to audit include the systems used to generate SCV data, to capture alternative ADI account information and to generate FCS payment instructions and reports.

Chapter 9 – Alternative payment options

APRA is mindful that many account-holders will have a need for immediate access to liquid funds following the closure of an ADI. Even though EFT would provide FCS monies to some account-holders reasonably quickly following a FCS declaration, it would still leave account-holders with no access to their funds in the failed ADI for several days. Account-holders will not get access to FCS funds for at least seven days, and probably longer, if they do not already have a transaction account with another ADI at the time of FCS declaration.

Accordingly, APRA is considering a number of alternative options to facilitate prompt access to protected accounts. No requirements for ADI pre-positioning are being proposed for these alternative options at this stage. However, once the amended APS 910 has been finalised, APRA will engage with industry to assess possible options for providing account-holders with quick access to their account balances, potentially including through the transfer of existing deposit accounts to another ADI or payment via the declared ADI's own payment channels.

This chapter briefly outlines APRA's preliminary consideration of options in this area and seeks comment from stakeholders on these options.

Deposit account transfer

APRA is considering the option of effecting the FCS by transferring protected accounts from a declared ADI to another ADI, together with associated payment functionality, data and systems.

Under this option, account-holders would have access to their accounts in the acquiring ADI within a day or two of the declaration of the FCS. The acquiring ADI would operate the relevant systems of the declared ADI until such time as the systems could be integrated into the acquiring ADI's own systems.

This option is often used in other countries, and is the principal method used by the US Federal Deposit Insurance Corporation when a bank fails. Its use in other countries recognises that deposit account transfer has substantial advantages over payment by EFT or cheque. In particular, it provides the fastest means of giving account-holders access to their funds

and preserves their existing direct debit and credit facilities. It is therefore a relatively seamless process for account-holders and minimises inconvenience and disruption.

Current legislation enables deposit accounts and associated systems and data to be transferred from one ADI to another ADI. This can be done via the powers in the *Financial Sector (Business Transfer and Group Restructure) Act 1999*. Although funding is available for the transfer of deposit accounts under section 70C of the Banking Act, this funding is not currently linked to the FCS. Accordingly, the Government has announced an intention to introduce a Bill to amend the Banking Act to enable the FCS funding arrangements to be applied to a deposit account transfer.

In addition to the legal elements, there are a number of operational and IT issues associated the deposit account transfer option. This includes the nature of pre-positioning that would be needed to ensure that the amounts transferred are capped at the FCS limit in a situation where there is a deficiency in assets to fully cover the balances in protected accounts.

APRA is giving consideration to these and other issues as it assesses the costs and benefits of this option.

Facilitating access to transaction accounts via the ADI

Another option to which APRA is giving preliminary consideration is to keep a declared ADI open for a limited period following the FCS declaration, utilising its payment channels for payout. A variant of this option would be for the FCS payments to be made via a 'bridge entity' established by the Government. The bridge entity would assume all of the deposit accounts and associated functionality of the declared ADI.

The Government has announced an intention to facilitate this type of option by enabling the FCS to be declared when an ADI is in statutory management and for FCS payments to be made while an ADI remains in statutory management. This creates the possibility of using an ADI's channels for making some or all FCS payments.

If this option were to be used, it could involve the following steps.

- Upon the FCS declaration, all of the declared ADI's payment channels would be closed in the same way as would occur for any FCS declaration.
 - End-of-day balances would be determined.
 - Once end-of-day balances had been determined, the ADI (or a bridge entity to which deposit accounts and functionality have been transferred) would be re-admitted to the payment system on a limited basis (i.e. solely for the purpose of withdrawals from the ADI and not for inwards payments).
 - Payment channels that could be re-opened for a limited period might include ATMs (both the ADI's own ATMs and its pre-arrangements with account-holder access to other ADIs' ATMs), internet banking and telephone banking. This could be supplemented by re-opening some or all of the ADI's or bridge entity's branches to enable limited cash withdrawals and for the purpose of handling account-holder queries.
 - Account-holders could be permitted to withdraw limited amounts of cash via ATMs, EFTPOS and branches where available, up to the normal daily limits (or potentially lower limits, depending on security and cash supply logistical considerations).
 - Account-holders would be permitted to transfer funds out of their transaction and call accounts into accounts they have in other ADIs, subject to a limit imposed by the ADI or bridge entity on APRA's direction.
 - Following a limited period, the ADI or bridge entity would be withdrawn from the payment system and branches closed. The SCV balance would be re-calculated, following the withdrawal of funds. Remaining amounts would be transmitted into account-holders' alternative ADI transaction accounts (where they have them) or by cheque drawn on the RBA.
- It provides those without ATM cards and internet or telephone banking facilities with the ability to access limited amounts of cash through the branch network.
 - It has the advantage of familiarity to account-holders by enabling them to use the banking tools with which they are familiar.
 - It enables account-holders to pay bills via their internet or telephone banking facility (up to a daily limit), and thereby reduce the disruption and inconvenience that would otherwise flow from the failure of an ADI.
 - It provides the time needed for account-holders to establish transaction accounts with another ADI if they do not already have one, thereby assisting with the subsequent FCS payment via EFT or cheque.

However, APRA is aware of the costs and risks associated with this option.

This option has a number of attractive features.

- It provides account-holders with prompt access to at least a proportion of their funds, both for limited access to cash and for larger amounts via internet and telephone banking transfers.
- If account-holders are to be able to withdraw cash via other ADIs' ATMs, based on the declared ADI's pre-existing arrangements, it would require APRA and the Government to provide certainty to other ADIs that their exposure to the declared ADI under this arrangement is fully secured by FCS funds.
- It would require FCS funds to be credited either to the declared ADI's exchange settlement account (ESA) or bridge entity's ESA at the RBA, or to an ESA under the direct control of APRA from which the declared ADI's or bridge entity's obligations could be met.
- It would require international organisations, such as Visa and MasterCard, to honour the BIN for the declared ADI to ensure that transactions are not blocked on declaration.
- It would require ATM and EFTPOS networks, sub networks and switches to remain open.
- It would require APRA and the statutory manager to be fully satisfied that the ADI's systems and controls are functional and secure, and that the required staff could be retained for the period required. This option could not be used if there were any doubts over the integrity of the declared ADI's systems and controls.

- There are logistical risks associated with supplying cash to ATMs for higher-than-usual withdrawal needs. However, the extent of this issue would depend on the size of the declared ADI, whether it uses the ATMs of other ADIs or just its own ATMs, and the daily limit set for withdrawals.
- There are security and logistical issues associated with re-opening an ADI branch network. APRA and the statutory manager would need to be fully satisfied about the ability to maintain security and the operational integrity of the branch network for this option to be feasible. Costs associated with this would need to be factored into the overall cost/benefit analysis of this option.
- This option would require IT pre-positioning in ADIs to enable limits to be placed on the amount that may be withdrawn on a daily basis for cash purposes (possibly based on existing daily limits), and on the cumulative amount that could be withdrawn from transaction and call accounts. The latter would be essential in order to minimise the risk of over-payments relative to the FCS limit.
- This option would require ADIs to have the capacity to update the SCV balance following the ADI's final withdrawal from the payment system. This may entail additional IT costs.

APRA is interested in the views of all stakeholders on this option and seeks comment on the above benefits and costs/risks, as well as on any other relevant issues stakeholders wish to raise.

Stored value or pre-paid EFT cards

APRA has also considered the option of providing access to liquid funds via stored value or pre-paid EFT cards. These could be made available to account-holders for limited amounts (e.g. the amount held in an account-holder's transaction accounts up to a specified limit). There would be various means of distribution, including through the declared ADI's branch network or by mailing to account-holders.

The quickest means of providing cards to account-holders would be through the declared ADI's branch network. Account-holders would be advised by the ADI and by APRA that account-holders wishing to

access their transaction balance (up to a specified limit) could do so by coming into their nearest branch of the declared ADI. The cards would be credited with the appropriate balance (i.e. the lesser of the actual transaction account balance measured at end-of-day following declaration or the limit specified by APRA) and made available, with a PIN, to the account-holder.

Providing cards via the branch network has the advantage of facilitating quicker access to cards and providing them only to those who request them. It would also be a relatively low-cost delivery option.

However, it also presents a number of risks and costs.

- Opening the branch network for any purpose, including to distribute prepaid cards, could only be done if APRA and the statutory manager were fully satisfied that the declared ADI's branch network could be opened securely, that systems and controls were operationally sound, and that the required staff were available.
- Opening the branches would entail costs (including the costs of obtaining additional security personnel where necessary). This would need to be factored into the cost/benefit analysis of this option.
- Providing prepaid cards to account-holders would be a time-consuming process, requiring the staff to verify the account-holder and their transaction balance, loading the value on to the card, and encoding the card with a preset PIN. If large numbers of account-holders sought to avail themselves of a card, this could create logistical difficulties and also create adverse optics associated with the possibility of queues forming outside branches.
- It would require the amounts credited to the cards to be debited to transaction accounts, and therefore require a recalculation of the SCV. This in turn would delay the payment of residual balances. The period of delay would depend on how many days were allowed for the provision of prepaid cards.
- It would entail IT pre-positioning to ensure that SCVs could be updated and that branches had the capacity to credit funds to the prepaid cards.

Mailing the cards to account-holders has also been considered. However, this entails considerable risks, including the cards being mailed to incorrect addresses, interception and defalcation. It would require separate mailings of PINs, which entails further risks. Moreover, this option would not provide quick access to cash and it would considerably delay the FCS payment process for residual amounts. It would take several days before account-holders could access their cards. For these reasons, APRA is not attracted to this option.

APRA is interested in the views of stakeholders on the prepaid card option.

Emerging payment instruments and technology

The payment instrument landscape is constantly evolving and new payment methods for FCS payments could become viable in the future. APRA will monitor developments and evaluate emerging technologies and trends. Therefore, it is important that the payment pre-positioning design and development not be structured in a way that impedes future payment and reporting enhancements.

Respondents are encouraged to comment on possible current or emerging alternative technologies that could facilitate a payment under the FCS.

Chapter 10 – Cost-benefit analysis information

To improve the quality of regulation, the Australian Government requires all proposals to undergo a preliminary assessment to establish whether it is likely that there will be business compliance costs associated with the proposals. In order to perform a cost-benefit analysis, APRA welcomes information from interested parties.

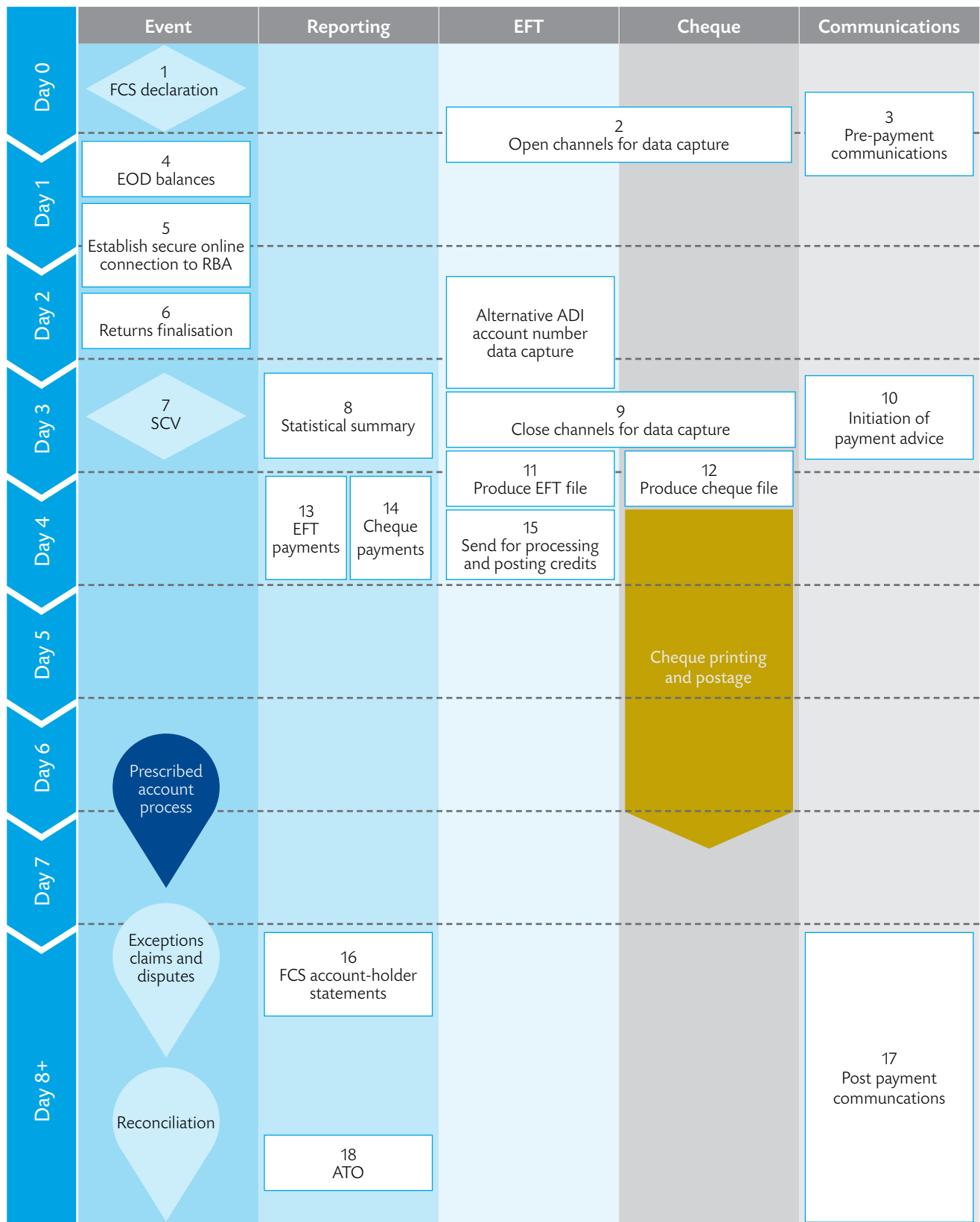
As part of the consultation process, APRA requests respondents to provide an assessment of the impact of the proposed changes and, specifically, any marginal compliance costs that locally incorporated ADIs are likely to face.

Given that APRA's proposed requirements may impose some compliance costs, respondents may also indicate whether there are any other relevant regulations that should be improved or removed to reduce compliance costs. In doing so, please explain what they are and why they need to be improved or removed.

Respondents are requested to use the Business Cost Calculator (BCC) to estimate costs to ensure that the data supplied to APRA can be aggregated and used in an industry-wide assessment. APRA would appreciate being provided with the input parameters to the BCC as well as the final result. The BCC can be accessed at: www.finance.gov.au/obpr/bcc/index.html.

Appendix A – Flowcharts

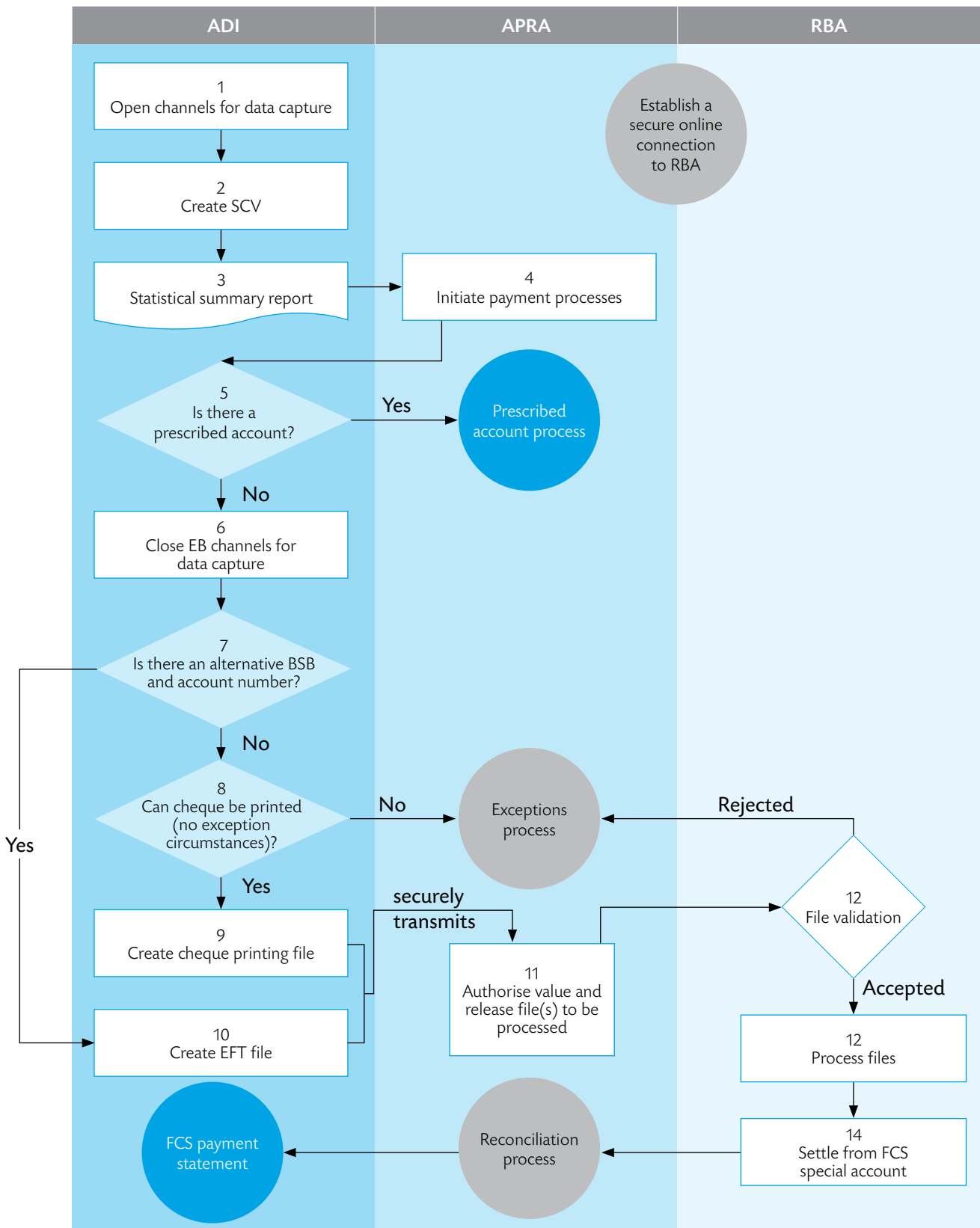
FCS payment and process time line



Step	Action
1	FCS declaration by the Minister.
2	As soon as practical after the declaration, data capture mechanism activated via electronic banking channels. All other electronic banking functionality is disabled. Other channels are opened to facilitate account-holders' requests for updating contact details.
3	Communications will be released via websites and the general media advising ADI customers that: <ul style="list-style-type: none"> • ADI has been declared and FCS will be used to pay account-holders; • the deposit guarantee is in effect for all covered products; • payments will be processed in seven days where possible; and • they should use their ADI's existing electronic banking channels to advise an alternative BSB and account number as this will be the quickest way to access funds.
4	9.00am on Day 1 – Calculation of end-of-day protected account balances. Also on this day ADIs are to bi-laterally exchange returned items e.g. cheque dishonours, returned direct debits and unapplied credits.
5	Establish a secure online connection to the RBA.
6	Finalisation of the status of payments that were already in the system at the time of declaration e.g., receipt of cheque dishonours, returned direct debits and unapplied credits.
7	SCV is created as per APS 910. The scheduling of this event allows for the finalisation of payments in the system at time of declaration.
8	The statistical summary report from the SCV is sent to APRA.
9	24 hours after the SCV has been created, electronic banking channels data capture mechanisms are closed.
10	Communications will be released to advise that payments are starting to be processed. Those account-holders who had advised an alternative BSB and account-number should receive the funds by the next business day. All others will be paid by an RBA cheque.
11	After the electronic banking channels have been closed, the data captured are merged with the SCV data and calculations based on those data used to create an EFT credit file as per RBA EFT file specification and sent to the RBA using RBAnet.
12	For those account-holders who have not supplied an alternative BSB and account number and no exceptions exist, a cheque request as per the RBA cheque file specification will be generated and sent to the RBA using RBAnet.
13	EFT summary and transaction reports (CSV Files) are sent to APRA.
14	A cheque payment summary and transaction report will be sent to APRA as a CSV file.
15	Account-holders receive FCS payment in their alternative accounts.

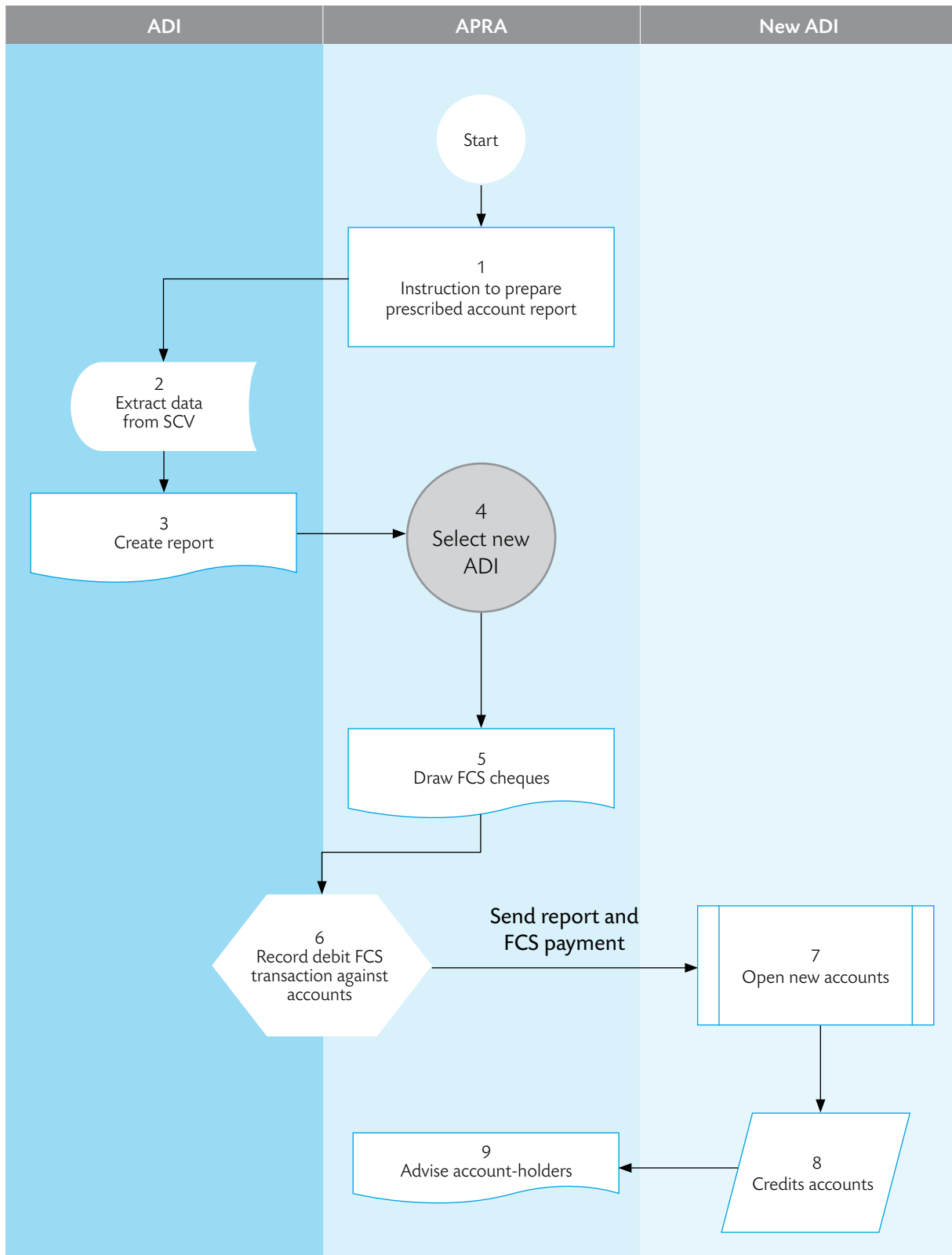
Step	Action
16	Once all possible payments have been processed, the FCS account-holder statements are to be prepared. These will be posted along with any 'exception' notices.
17	<p>Communications will be released via websites and general media advising ADI customers that:</p> <ul style="list-style-type: none"> • all FCS payments have been processed; • if payment is not received within the next seven days then a claim can be lodged via dispute process; and • FCS payment statements will be posted within the next 14 days.
18	AllIR ATO reporting will be generated.

EFT and cheque payment process



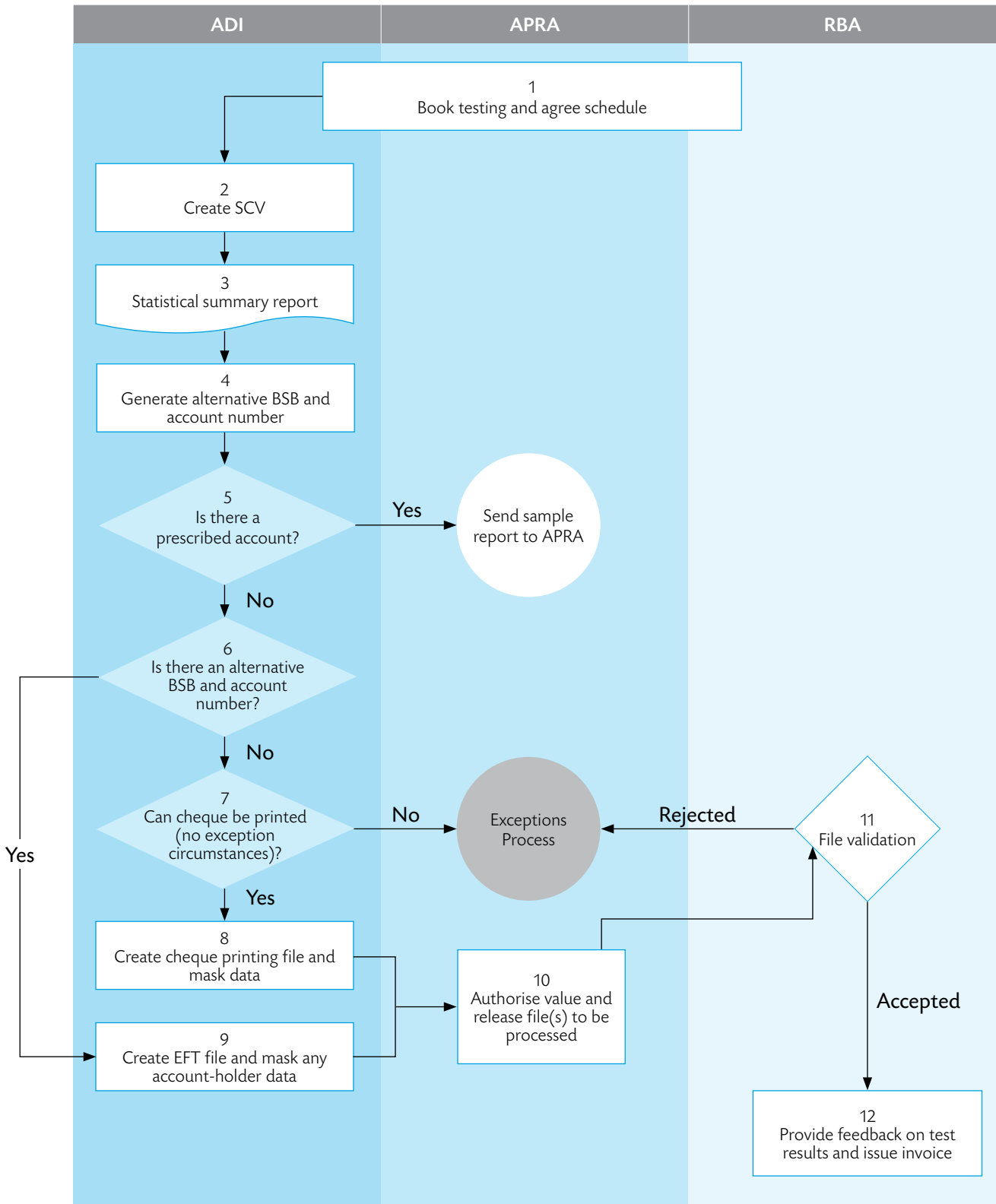
Step	Action
1	FCS data capture facility for electronic banking channels is activated (if available). Account-holders are able to contact failed ADI to advise updates to contact information e.g. new address.
2	SCV is created as per APS 910.
3	Prepare and send statistical summary report to APRA.
4	APRA informs the ADI to initiate the payment process.
5	Prescribed account report is run and sent to APRA to facilitate the prescribed account process.
6	ADI will close all electronic banking data capture channels.
7	Account-holders who provided an alternative BSB and account number will receive an EFT payment.
8	If no exceptional circumstances exist and account-holder has not provided an alternative BSB and account number then a cheque payment will be initiated.
9	Cheque printing file(s) will be securely transmitted to APRA's paying agent, RBA.
10	The data capture file is merged with the payment information from the SCV. The file is sent via a secure transmission to APRA paying agent, RBA.
11	APRA authorises payments and releases the EFT and cheque files for processing.
12	RBA validates the files.
13	Cheque payments are sent for printing and postage. EFT payments are lodged into the APCA clearing stream for interchange.
14	Successful EFT payments are settled via the FCS Special Account at the RBA.

Prescribed accounts process







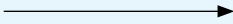
Step	Action
1	The liquidator/statutory manager will create a prescribed account report for each account type.
2	ADI will extract all the data from the SCV for each account-holder.
3	A separate report is prepared for each account type.
4	APRA will select new ADIs to receive the accounts.
5	APRA will manually draw FCS cheques for the value to be credited to the new prescribed accounts.
6	Transactions are recorded against the failed ADI's accounts.
7	APRA opens the new accounts with the new ADIs.
8	The FCS funds are deposited into the new accounts.
9	Account-holder is advised of the new account details.

Payment testing process



Step	Action
1	APRA will liaise with ADIs and RBA to coordinate a file processing test window.
2	SCV is created as per APS 910.
3	Statistical summary report is prepared from the SCV and sent to APRA.
4	BSB and account numbers are generated for the data capture file, either using a test version of the electronic banking capture channel or generating data from the alternative ADI account facility.
5	Prescribed account report is run and sent to APRA.
6	If there is an alternative BSB and account number then an EFT payment will be generated.
7	If no exceptional circumstances exist and there is no alternative BSB and account number, then a cheque payment will be initiated. Maximum of 200,000 records and including a sample of overseas addresses.
8	Cheque printing file(s) will be transmitted to APRA's paying agent, RBA.
9	The data capture file is merged with the payment information from the SCV. The file is sent via a secure transmission to the RBA.
10	APRA checks and releases the files for processing.
11	RBA validates the files.
12	RBA provides feedback on test results to APRA, which in turn will advise the ADI.
Note	All data sent to the RBA must be masked to protect account-holder privacy.

Key

	A process step or activity
	A milestone that triggers a step in the timeline
	Transfer of activities to an alternative process not covered in this discussion paper.
	Transfer of activities to an alternative process covered in this discussion paper.
	Process flow and transfer of responsibility to the next step in the process.
Numbers	Reference the steps in the tables



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