

OUTLINE GUIDE TO MEMBERSHIP OF IRISH RETAIL ELECTRONIC PAYMENTS CLEARING COMPANY LIMITED (*IRISH PAPER CLEARING COMPANY LIMITED*)

Part 1 – Background

The Irish Retail Electronic Payments Clearing Company Limited (the Company) is the operator of a system for the exchange and clearance of electronic debit and credit payment items attributable to its member institutions. (*The Irish Paper Clearing Company Limited (the Company) is the operator of a system for the exchange and clearance of debit and credit paper payment instruments attributable to its member institutions.*) The resulting aggregate interbank payments are settled across member settlement accounts maintained with the Central Bank and Financial Services Authority of Ireland (CBFSAI). The Company is regulated by CBFSAI under the Central Bank Act, 1997.

This Outline Guide provides summary information on the procedure that would apply in processing an application for either indirect or direct membership of the Company (respectively defined in the Company's Articles of Association as 'associate' and 'ordinary' membership). Indirect members use the facilities of a direct member acting as their clearing agent.

The detailed rules and provisions regarding membership are set out in the Company's **Articles of Association**¹ and **Rules for Membership** documents, although Part 3 of this Outline Guide contains some additional guidance in relation to the access criteria. The full text of the rules and provisions regarding the clearings conducted either by or under the auspices of the Company are set out in its **Rules for Clearing**.

An applicant for direct membership of the Company would be expected to pay any reasonable 'impact costs' by way of a levy to the company to cover the expenses of existing members associated with their having to accommodate a new clearing member. These would include, for example, project management costs and changes required to computer hardware and software. In this regard, the Company has, as required by its Rules for Membership, adopted certain **Fair and Equitable Principles** that apply, as a common base standard, to the calculation by existing members of these 'impact costs'.

The full texts of the Articles of Association, Rules for Membership, Fair and Equitable Principles and Rules for Clearing are available to applicant institutions on request. Each of these documents are in a form as approved by the CBFSAI as Regulator of the companies.

The Guide is without prejudice to the precise terms of the above documents.

PART 2 - MEMBERSHIP PROCEDURES

(a) Indirect (or Associate) Membership

To become an indirect member in the clearing system, an applicant must:

- *be a credit institution;*
- *enter into a formal agency arrangement with a direct member who will act as its agent;*
- *agree to be bound by the company's memorandum and articles of association, membership rules, clearing rules etc.;*
- *pay any appropriate share of the company's administration/operational costs.*

¹ The Company is incorporated under the Irish Companies Acts as a company limited by guarantee, and its Articles of Association is drafted accordingly; as the Company does not have a share capital, new members are not required to subscribe or pay for shares in the capital of the Company.

The Board of the Company will determine the extent, if any, of the charge arising under the last bullet point above. However, no such charge has been imposed on the indirect members of the Company in this regard to date.

Banks interested in applying for indirect membership of the Irish clearing system can approach any of the current direct participants in this regard, with a view to entering into an agency relationship appropriate to their particular needs.

(b) Direct (or Ordinary) Membership

To become a direct member in the clearing system, an applicant must:

- *be a credit institution;*
- *have a settlement account with CBFSAI;*
- *demonstrate that it has the resources (both financial and technical) and the expertise necessary to participate in the clearing process;*
- *pay any reasonable impact costs by way of a levy to the Company to cover the expenses of existing members associated with their having to accommodate a new clearing member;*
- *pay its share of the company's administration/operational costs;*
- *agree to be bound by the company's memorandum and articles of association, membership rules, clearing rules etc;*
- *execute any necessary legal agreements or undertakings.*

The extent of the impact costs referred to at point 6 above would be determined by existing members in consultation with CBFSAI (see Step 5 below).

The Company's **Rules for Membership** provide that an applicant for direct membership will be admitted to such membership at a mutually agreeable time and after a suitable preparatory period. The intention in this regard is to allow sufficient time for the applicant, and for the company's existing direct members, to plan for, and accommodate, entry to direct membership and participation in the clearing system.

The procedural steps involved in processing an application for direct membership by the Company are summarised below. The procedures do not include a timetable, as prevailing circumstances will dictate the pace at which any application for direct membership is progressed by all of the parties involved.

Procedural Steps

Step 1:

The applicant should submit a written application for membership of the Company, accompanied by the required supporting documentation, i.e. an outline of the applicant's plans for entry into and participation in the clearing system and all relevant information required under each of the access criteria headings. Although the Company does not charge an entry fee to a new member, an applicant will at this stage be asked to pay an administration fee to cover the cost of processing their application. The Company will then notify CBFSAI, and each of the existing ordinary members, of receipt of the application.

Step 2:

The Company will review the application and liaise with the applicant in order to obtain any additional information required to commence processing the application. The Company will then appoint a Technical Sub-Committee, consisting of suitably qualified staff drawn from relevant business areas within existing ordinary members' organisations, to co-ordinate the progression of the more technical aspects of the application.

Step 3:

Following preliminary discussions with the Company's Technical Sub-Committee, the applicant will be asked to submit a Technical & Operating Plan to the Company and to liaise with the Technical Sub-Committee in this regard. The purpose of this Technical & Operating Plan is to provide the Company, and also the existing ordinary members, with the information that they will require in order to facilitate the integration of the applicant into the clearing system. The timescale for completion of this assessment will be dependent on the information submitted by the applicant and the extent to which this needs to be evaluated and elaborated. The Technical Sub-Committee will notify the Board of the Company when this work has sufficiently progressed to move to the next stage of the process, which will involve detailed bi-lateral discussions between each existing ordinary member and the applicant.

Step 4:

The membership application process will of necessity involve an applicant having bilateral contacts with each existing member to discuss systems and operational link-up. As this process may involve the disclosure to an applicant of operational or technical information that is not in the public domain or is commercially sensitive, existing members may require an applicant to enter into a non-disclosure undertaking or agreement in this regard. Subject to the signing of any required non-disclosure undertaking(s) between the applicant and the existing ordinary members, the applicant and each ordinary member will engage in bi-lateral discussions on systems connectivity and associated technical issues. Any difficulties encountered will be referred to the Technical Sub-Committee for evaluation and resolution.

Step 5:

Arising from Steps 3 and 4 above, each existing ordinary member will conduct an exercise to determine broadly the level of its impact costs in accordance with the Company's **Fair and Equitable Principles** document, and then notify these costs to CBFSAI, the payment systems regulator, for its consideration. The Fair & Equitable Principles document contains a full description of the procedures surrounding the calculation of impact costs.

Once CBFSAI has received, reviewed and agreed the impact costs of each existing member, it will inform the Company of the amount that it will be permitted to levy on the new applicant in this regard. It should be noted that this levy is *payable to the Company rather than directly to the existing ordinary members*. Once the Company has been notified by CBFSAI of the permissible impact costs figure, it will notify the applicant accordingly.

It should, however, be noted that a final determination of the actual amount of impact costs can only be made once an existing member has received requisite technical information from an applicant, and an evaluation of what is required to facilitate an applicant's participation has been conducted.

In relation to impact costs generally, the Company's Fair & Equitable Principles require that each member's internal auditor and its director on the Board of the Company confirm their institution's impact costs, having first verified these costs against the Fair & Equitable Principles themselves and the circumstances specific to that member.

Step 6:

Following receipt of notification from the Company of the amount payable (under step 5 above), the applicant should provide a written confirmation to the Company that it will pay the required amount as and when requested to do so.

Step 7:

Following receipt of the confirmation under step 6 above, the Technical Sub-Committee will progress the application and report as necessary to the Board of the Company.

Step 8:

Having regard to the access criteria that must be met by any applicant for ordinary membership of the Company (see Section 3 of this document), the Board of the Company will decide whether or not to accept the application for ordinary membership, and notify both the applicant and CBFSAI as regulator of the Board's decision.

Step 9:

(a) If the decision of the Board is to accept the applicant as an ordinary member of the Company, the applicant will at this point commence testing of system interconnectivity and clearing operations with the existing ordinary members in advance of the agreed live start date. Unless previously paid, the applicant will also pay to the Company the amount of the levy described under Step 5 above. The amount paid by an applicant to the Company by way of levy may be applied by the Company in such manner, and for such purposes, as its Board shall determine, provided that (unless otherwise permitted by the payment systems regulator, CBFSAI) no onward payment may be made by or on behalf of the Company to existing ordinary members in direct re-imbusement of their individual impact costs in relation to the application concerned.

(b) If the decision of the Board is not to accept the applicant as an ordinary member, or to accept the applicant as an ordinary member only subject to conditions that are unacceptable to the applicant, then under the Company's Rules for Membership the applicant may – within a two-month timeframe – refer the matter to CBFSAI for review. If, following this review, the applicant is admitted to ordinary membership of the Company, the same procedures regarding payment of the impact costs levy as noted in Step 9(a) above will apply.

Step 10

The final preparations for the applicant becoming an ordinary member of the Company will now begin. The applicant will have to nominate a director to the Board of the Company, and will also have to satisfy any other outstanding membership conditions; in particular, the applicant must execute, and undertake to remain party to, any necessary bilateral and/or multi-lateral settlement agreements, as well as undertaking to be bound by the Company's Articles of Association and all of its rules and requirements. Once the board of the Company is in a position to confirm to all existing ordinary members that all necessary preconditions have been satisfied, the Company's clearings will include the applicant as an ordinary member with effect from the agreed start date.

If any applicant is not satisfied with any aspect of the handling of its application for direct membership, the problem should be referred in the first instance to the Company's Board. If this does not produce a satisfactory resolution, the applicant can ask the payment systems regulator, CBFSAI, to intervene in the process. Likewise, any existing direct member may also appeal matters giving rise to concern to the CBFSAI for decision.

PART 3 – ACCESS CRITERIA NOTES

In terms of what evidence may be required to vouch compliance with the Company's access criteria, some additional guidance is provided below.

“Credit Institution”

The applicant should furnish to the Company a certified copy of a letter from CBFSAI or, if applicable, from a competent authority in another EU member state, confirming that the applicant is authorised to carry on banking business and to provide money transmission services in the State.

“Settlement Account”

The applicant should furnish to the Company a certified copy of a letter from CBFSAI confirming that the applicant has opened a settlement account with CBFSAI. Alternatively, the applicant may furnish to the Company a certified copy of a letter from CBFSAI confirming that

the applicant has applied to open such a settlement account, with confirmation of the opening of the settlement account to follow in due course.

“Settlement Commitments”

It is a matter for the applicant, in the first instance, to determine how it wishes to demonstrate that it has (and will continue to have) the ability, both from a financial and a technical standpoint, to honour the settlement commitments in respect of clearing transactions to which it will be party as an ordinary member. An initial broad summary is all that is required at the time of the application for membership, as this criterion will be assessed subsequently in more detail by the Company’s Technical Sub-Committee and also by each ordinary member.

The applicant should provide the Company with copies of its last three years’ audited accounts, and also with those of any relevant parent or banking group (where accounts are prepared only on a consolidated basis) of which the applicant forms part. Particulars of the ownership structure of the applicant should also be provided. Other relevant information might include any available international rating particulars concerning the applicant, and any parent or banking group of which it is part.

“Expertise and Resources”

It is a matter for the applicant, in the first instance, to determine how it wishes to demonstrate that it has (and will continue to have) an appropriate level of experience, expertise, personnel and resources to enable it to participate as an ordinary member in the payment system operated by the Company.

An initial broad summary is all that is required at the time of the application for membership, with brief particulars under the four headings of experience, expertise, personnel and resources. This criterion will be assessed subsequently in more detail by the Technical Sub-Committee appointed for such purposes, and also on a bilateral basis with each ordinary member. With regard to the latter, the applicant will need to discuss individual link-up and transmission particulars with each of the other ordinary members, in order to take account of any differences in their respective systems and procedures.

If, at the time of its application for ordinary membership of the Company, an applicant is currently an indirect member of the clearing system through an agency arrangement with an existing ordinary member, this should be stated in the application.

“Compliance with Rules for Clearings and Standards”

It is a matter for the applicant, in the first instance, to determine how it wishes to demonstrate that it will be able to comply on an ongoing basis with the Company’s **Rules for Clearing** and related standards.

An initial broad summary is all that is required at the time of the application, in the form of a brief commentary as to the applicant’s ability to comply with all of the rules and standards, noting any potential problem areas and specifying any necessary remedial actions. This criterion will be assessed subsequently in more detail by the Technical Sub-Committee appointed for such purposes in liaison with the applicant.

“Technical and Operating Plan”

The Technical Sub-Committee already referred to above will advise the applicant in detail as to what ideally should be included in their Technical and Operating Plan, and at what stage this plan should be submitted to the Company. The timing in this regard will be dependent on the progress made in technical discussions between the applicant, the Technical Sub-Committee and individual existing ordinary members. In general terms, the Technical and

Operating Plan will have to provide the existing ordinary members with sufficient detail in relation to the applicant's internal systems to facilitate the establishment of the necessary bi-lateral links between all clearing participants.

September 2004